

**Minutes of the Meeting of the Investment Committee of the TCRS Board of Trustees  
March 27, 2015**

The Investment Committee ("Investment Committee") of the Tennessee Consolidated Retirement System ("TCRS") Board of Trustees met at 9:00 a.m. on March 27, 2015, in Room P on the 3<sup>rd</sup> Floor of the William R. Snodgrass Tennessee Tower. The Honorable David H. Lillard, Jr., State Treasurer, called the meeting to order at 9:13 AM. Investment Committee members in attendance included Treasurer David Lillard; Mr. Bill Kemp, Sumner County Clerk; and Mr. Bob Wormsley, Local Government Insurance Pool. Additional attendees included Michael Brakebill, Chief Investment Officer; Andrew Palmer, Deputy Chief Investment Officer; JP Rachmaninoff, Director of Real Estate; Matthew Haitas, Real Estate Analyst; Daniel Toomey, Portfolio Manager; Derrick Dagnan, Senior Portfolio Manager; Daniel Crews, Director of Private Equity; Michael Keeler, Director of Equities; Rhonda Myers; Keith Boring, Director of Policy & Research; Richard Newton, F&A Division of Budget; Michael Barker, TCRS Board of Trustees; Shelli King, Communications Director, Treasurer's Office; and Barry Dennis and Patrick Thomas, Strategic Investment Solutions.

Treasurer Lillard opened the meeting by seeking approval for the minutes from the Investment Committee meetings on December 12, 2014, and February 10, 2015. On a motion by Treasurer Lillard seconded by Mr. Wormsley, the aforementioned minutes were unanimously approved.

Mr. Crews then provided a review of his recommendation to invest \$35 million in Institutional Venture Partners (IVP) XV, L.P. The fund's total size is \$1.4 billion and its strategy is late stage venture capital and growth equity for businesses in the consumer and enterprise technology spaces that have successfully cleared many of the relatively higher risks associated with early stage operations. TCRS previously committed \$20 million to IVP XIV on June 14, 2012. Major successes include Seagate, Netflix, Kayak, Zynga, Twitter and DropBox. Investment concerns include frothy valuations currently in the late stage private markets. The reason to keep investing with IVP is to maintain access to late-stage investments through a proven manager with a blue chip brand, good long term track record and a quality management team. IVP is anticipating a final closing for the fund on April 21, 2015. Upon a motion by Chairman Lillard seconded by Mr. Kemp, the proposed investment was unanimously approved.

Mr. Rachmaninoff then provided the committee with a recommendation to approve a \$50 million commitment to Carlyle Realty Partners Fund VII, L.P. Mr. Rachmaninoff indicated that this would be TCRS's second opportunistic fund investment within the non-core portfolio. He explained the management team have worked together since the Real Estate specialty was added in 1997 and that there was strong alignment of interest between the Fund sponsor and the LPs, due to the significant Carlyle employee co-investment. In addition, the prior Carlyle sponsored RE funds have all produced attractive returns, especially when compared to their peers of similar vintages. Upon a motion by Mr. Wormsley seconded by Mr. Kemp, the proposed investment was unanimously approved.

Mr. Rachmaninoff then introduced Mr. Haitas who presented the committee with a recommendation to approve the sale of a TCRS owned apartment community in Raleigh, North Carolina. Mr. Haitas provided reasons for the sale recommendation, including the Staff's goal to rebalance the TCRS apartment portfolio more towards urban assets from suburban assets. Upon a motion by Chairman Lillard seconded by Mr. Kemp, the recommendation was unanimously approved.

Chairman Lillard then congratulated Mr. Brakebill and the entire Staff for being recognized as the best public pension plan in the country in 2015 by Markets Media.

Mr. Brakebill then transitioned the discussion to the Investment Policy. Mr. Brakebill explained that the proposed Policy was rewritten with the focus on complying with recent regulatory and legal changes. Mr. Brakebill reviewed a few small changes to the Policy in the areas of compliance and auditing. He noted Jennifer Selliers, TCRS's compliance officer, has been spearheading this effort. He noted that there were a small number of changes that were important to consider. The first change was boosting, from \$30 million to \$75 million, the dollar limit of real estate and private equity investments that can be approved by the Treasurer without prior approval by the Investment Committee. The change is meant to address the administrative cost and time required of board members while reducing approval times in the case of time sensitive opportunities. The second change Mr. Brakebill discussed was raising the cap on non-core real estate investments. The new maximum limit has been increased from 20% to 30% of the target real estate portfolio weight but the target allocation will remain 20%. Changes to the Investment Policy concerning derivatives were recommended as a result of Dodd-Frank legislation. Finally, the Policy provides for the Treasurer to have the authority to approve alternative procurement processes for service providers. Chairman Lillard asked for a recommendation to move to approve and it was offered by Mr. Kemp and seconded by Chairman Lillard and the motion was approved.

Mr. Brakebill then requested for Mr. Dennis to make comments regarding his firm's evaluation of TCRS' investment performance and a discussion of the process his firm employs for Asset Liability studies. Mr. Dennis began his comments by noting the importance of good asset allocation which he asserted will account for more than 90% of investment returns over the next 10 years. He believes TCRS is getting the maximum return for the risk it is taking. He posited TCRS is using an "endowment lite" model which is a blend of the Traditional Asset Allocation model which recommends exposure to public stock and bond markets and the Endowment Model, made famous by Yale's David Swensen, with its high allocation to illiquid and complex investments in the areas of private equity, venture capital and real assets. Mr. Dennis went on to review TCRS's performance relative to its peers and in the context of recent market returns.

Mr. Dennis then introduced Mr. Thomas who reviewed fourth quarter market results and highlighted several key themes which impacted performance including the 50% price decline in oil as the Saudis rejected their historical role as the swing producer, the Federal Reserve's attempt to telegraph a future interest rate hike and the need for higher rates going forward. Mr. Thomas noted TCRS had an extremely impressive calendar 2014, especially in light of a very difficult year for active managers, and posted a return of 8.76%. The return for the fund was in the top 5% of public peer plans which is even more impressive because TCRS has very low fees and the comparison is made on a "gross of fees" basis.

Mr. Brakebill then discussed the overall market and recent performance noting that on a historical basis, stocks, bonds, real estate and cash were all expensive and as a result future returns are expected to be lower than in the recent past. However, he also noted periods of richly valued securities can last longer than the market expects and we have witnessed much more extreme valuations in the past leaving the door open for what is considered expensive today to become even more so.

Treasurer Lillard subsequently adjourned the meeting at 10:14 a.m.

Respectfully submitted,



Michael Brakebill  
Chief Investment Officer

APPROVED:



David H. Lillard, Jr. Chairman  
TCRS Board of Trustees