

**Minutes of the Meeting of the Investment Committee  
August 28, 2018**

The Investment Committee of the Tennessee Consolidated Retirement System (TCRS) met on August 28, 2018 in the State Capitol. The Honorable David H. Lillard, Jr., State Treasurer, called the meeting to order at 1:00 PM. Investment Committee members in attendance included: Treasurer Lillard; Honorable Tre Hargett, Secretary of State; Bill Kemp, Sumner County Clerk; Bob Wormsley, President/CEO of Local Government Insurance Pool. Additional attendees included: Keith Boring, Director of Policy & Research; William Wood, Comptroller's Office; Michael Brakebill, Chief Investment Officer; Derrick Dagnan, Deputy Chief Investment Officer; Daniel Crews, Director of Private Equity; Grant Leslie, Senior Portfolio Manager; Carrie Green, Senior Portfolio Manager; Jeff Dunn, Senior Portfolio Manager; Andrew Messer, Investment Risk & Compliance Analyst; Austin Monsrud, Junior Investment Analyst

Treasurer Lillard began the meeting by calling on Mr. Jeff Dunn to present a strategic lending transaction for approval. Mr. Dunn recommended an allocation of \$100 million to Falko Regional Aircraft Opportunities Fund II. Mr. Dunn outlined the strategy which involves purchasing and maintaining regional aircraft that are in turn leased to airlines. The management team was established at BAE Systems and has been working in regional aircraft leasing together for over twenty-five years. Mr. Dunn noted that the General Partner is a portfolio company in one of Fortress Investment Group's funds however at the end of that funds life, ownership is expected to be transferred back to the GP.

The Treasurer then noted his legal experience with aircraft leasing, agreeing with Mr. Dunn's sentiment toward the strategy, particularly the competitive advantage of Falko's in-house maintenance team. Mr. Dunn discussed the depth of experience and scope of services that Falko delivers as an investment manager that includes significant operational resources and capabilities.

Mr. Wormsley motioned to approve the transaction which was seconded by Treasurer Lillard. The motion was approved unanimously by voice vote.

The Treasurer then asked Mr. Derrick Dagnan to provide an update on the strategic lending portfolio. Mr. Dagnan stated that staff recently reviewed performance and will update the Investment Committee at the September meeting. With several interesting commitments over the past eighteen months, Mr. Dagnan expressed that the team is excited for the new strategies to roll out.

The Treasurer then called on Mr. Daniel Crews to review the private equity portfolio and present a transaction for approval. Mr. Crews began by notifying the Investment Committee of a recent \$35 million commitment to Foundation Capital IX, describing the firm as a blue chip manager and stating that the committee will be formally notified at the September meeting. Mr. Crews continued with an overview of the program, highlighting that it recently passed \$1 billion in distributions. Another accolade for the portfolio is that it now constitutes 5% of plan assets.

Mr. Daniel Crews then proposed a \$150 million commitment to Freeman Spogli Equity Partners VIII. Mr. Crews described the strategy as consumer focused with a seasoned team and investor

friendly terms. He highlighted the generational diversity of the team which includes two partners each in their 30's, 40's, 50's, & 60's. This strengthens comfort in the firm's continuity, both at the strategic and cultural levels. One concern Mr. Crews mentioned was that this commitment would be the second consumer specialist investment in the last twelve months with the other being Roark Capital Group. Staff feels confident in both managers ability to successfully execute their strategies.

Treasurer Lillard then motioned to approve the transaction which was seconded by Mr. Wormsley. The motion was approved unanimously by voice vote.

The Treasurer then called upon Mr. Grant Leslie to present another private equity transaction for approval. Mr. Leslie recommended a \$200 million commitment to Hellman and Friedman IX, an existing relationship in the private equity portfolio that has performed very well on both an absolute and relative basis. Mr. Leslie stated that Hellman and Friedman consistently exemplifies its stated mission of being the best large cap buyout firm in the world. Hellman and Friedman focuses on high EBITDA margins, quality growth, and strong management teams in the software, finance, industrial, and energy industries. The Treasurer queried Mr. Leslie regarding the firm's financial statement transparency, to which Mr. Leslie replied that Hellman and Friedman has first rate financial reporting standards.

Mr. Kemp then motioned to approve the transaction which was seconded by Secretary Hargett. The motion was approved unanimously by voice vote.

Mr. Grant Leslie then proposed a \$100 million commitment to Triton Fund V which is another existing relationship. Mr. Leslie described the strategy as value oriented with a European industrial sector focus. This is an area that is currently under-allocated in the fund. Concerns that Mr. Leslie mentioned were Triton's proliferation of investment products since the commitment to Triton Fund IV and turnover among upper management. However, Mr. Leslie assured the Investment Committee that diligent monitoring continues, with annual visits to the firms New York and London offices and that the team is confident in Tritons ability to continue to perform well.

Treasurer Lillard motioned to approve the transaction which was seconded by Mr. Kemp. The motion was approved unanimously by voice vote.

The Treasurer then asked Mr. Michael Brakebill to update the Investment Committee on the fund and markets. Mr. Brakebill began by stating that the returns for the plan are up around 1.5% since the beginning of the fiscal year and 3% year-to-date which bring its valuation to \$51.1 billion. Mr. Brakebill mentioned that fiscal year numbers are nearly finalized and that the plan is expected to post a one year return of 8.19% which is 79 basis points above the benchmark. However, with a larger allocation to fixed income securities, the plan may have underperformed peers. Mr. Brakebill notified the committee that \$1.6 billion in assets has been successfully transitioned to new international equity managers and the real estate manager transition is complete as well. Mr. Brakebill then concluded by announcing one staff member passed Level II and three staff members passed Level III of the CFA exams this summer.

The Treasurer then adjourned the meeting at 1:52 pm.

Respectfully submitted,

**/s/Michael Brakebill**  
**Michael Brakebill**  
**Chief Investment Officer**

APPROVED:

**/s/David H. Lillard, Jr.**  
**David H. Lillard, Jr.**  
**Chairman of the Board**