

**Minutes of the Meeting of the Investment Committee of the TCRS Board of Trustees
March 28, 2014**

The Investment Committee ("Investment Committee") of the Tennessee Consolidated Retirement System ("TCRS") Board of Trustees met at 9:00 A.M. on March 28, 2014 in Room K on the 3rd Floor of the Snodgrass Tower. The Honorable David H. Lillard, Jr., State Treasurer; The Honorable Tre Hargett, Secretary of State; Mr. Bill Kemp, Sumner County Clerk; Honorable Larry Martin, Commissioner of the Department of Finance and Administration; and Mr. Bob Wormsley, Local Government Insurance Pool were present. Additional attendees included Mr. Bill Abney, Assistant to the Treasurer for Investments; Mr. Michael Barker, Board of Trustees Member; Mr. Keith Boring, Director of Policy & Research; Mr. Michael Brakebill, Chief Investment Officer; Mr. Daniel Crews, Director of Private Equity; Mr. Derrick Dagnan, Senior Portfolio Manager; Mr. Andrew Furlong, Internal Audit; Mr. Matt Haitas, Real Estate Analyst; Mr. Arthur Henderson, Senior Portfolio Manager; Mr. Michael Keeler, Director of Equities; Mr. Pete Keliuotis, Managing Director, Strategic Investment Solutions; Mr. Andy McArthur, Internal Audit; Mr. Tim McClure, Director of Cash & Administration; Mr. Rick Newton, Department of Finance and Administration; Mr. Andrew Palmer, Deputy Chief Investment Officer; Mr. JP Rachmaninoff, Director of Real Estate; and Ms. Jennifer Selliers, Compliance Officer.

Treasurer Lillard chaired the meeting and called the meeting to order at 10:00 a.m. He began by asking Michael Brakebill to introduce JP Rachmaninoff, who has recently joined TCRS as Director of Real Estate. Mr. Brakebill described Mr. Rachmaninoff's background and indicated he was excited that TCRS has been able to hire such a highly qualified executive. Mr. Lillard welcomed Mr. Rachmaninoff and then asked Daniel Crews to present the two investments up for consideration – Deerfield Private Design Fund III, L.P. and Strategic Partners VI, L.P.

Mr. Crews began by discussing the proposed \$60 million investment in Deerfield Private Design Fund III, L.P. (Deerfield), which is a private equity fund specializing on making investments in illiquid health care companies. Mr. Crews provided background on Deerfield, indicating that the firm has a strong track record as a hedge fund and as a private equity fund focused on four health care verticals -- services, med-technology, biotechnology and pharmaceuticals. Mr. Hargett made a motion for approval. Mr. Kemp seconded and the motion was unanimously approved. Mr. Lillard asked Mr. Crews to present the second investment proposal.

Mr. Crews next presented the proposed \$100 million investment in Strategic Partners VI, L.P. (Strategic Partners), which is a private equity fund focused on making investments in secondaries – transactions in which a Limited Partner sells a private equity interest. Strategic Partners was founded in 2007 and was previously part of the Credit Suisse Alternatives group but was sold to Blackstone in 2012. Mr. Crews noted that this investment will generate immediate returns and will help TCRS manage the j-curve by being participating in a fund already producing cash flows. Mr. Brakebill noted that the group had

done a tremendous amount of due diligence on secondary funds and believed Strategic Partners would be a good opportunity for TCRS. Treasurer Lillard asked if there were any question and then made a motion to approve. Mr. Wormsley seconded the motion, and the investment was unanimously approved. Treasurer Lillard then asked Mr. Brakebill to provide a discussion on the performance of the portfolio.

Mr. Brakebill then introduced Pete Keliuotis from Strategic Investment Solutions (SIS) who provided a review of the fund's investment performance as of December 31, 2013, which was detailed in the Investment Report and in the SIS quarterly performance report. Mr. Keliuotis began by saying that the fund benefitted from improving economic fundamentals in the U.S. and Europe. He did mention that emerging markets, specifically China, Brazil and Russia, remains a concern as economic growth slows in those areas. He also noted that markets continue to watch the actions of the Federal Reserve closely as tapering of quantitative easing continues.

From an asset allocation standpoint, Mr. Keliuotis mentioned that during the quarter the allocation to U.S. Equities was 36.5%, 3.5% higher than its target. However, he explained that much of this variance was due to pending investments in Real Estate, Private Equity and Strategic Lending which would be funded out of U.S. Equities and, to a lesser extent, U.S. Fixed Income.

Mr. Keliuotis indicated that the fund generated a quarterly return of 4.66%, a 1-year return of 12.87%, and a 3-year return of 10.13%. North American Equity has been a strong driver of performance, rising 9.54% in the quarter and 29.06% and 14.81% over the 1- and 3-year period, respectively. International Equity rose 5.60%, 19.46% and 8.64% on a quarterly, 1-year and 3-year basis. With respect to Fixed Income, Mr. Keliuotis noted that the long duration posture of the portfolio, which has been deliberate, hurt the fund's absolute performance of -0.28% for the quarter and -4.46% for the 1-year, but on a relative basis, outperformed its benchmark by 0.56% and 1.53%, respectively. Mr. Keliuotis concluded his remarks by pointing out that Real Estate, Private Equity and Strategic Lending generated positive absolute returns during the quarter, up 1.64%, 3.31% and 2.91%, respectively.

Mr. Brakebill asked if there were any questions and then moved the discussion to other portfolio-related issues. He pointed out that in March 9, 2009 the fund totaled \$22 billion before the outflow of \$3 billion of net benefits. Today, the fund totals \$41 billion. While this is an impressive recovery, Mr. Brakebill noted that the future performance outlook is less certain with more tepid expected return levels.

Mr. Brakebill moved this discussion to personnel changes. He again welcomed JP Rachmaninoff and thanked Mr. Haitas for all his hard work on the Real Estate Fund during this interim period. Mr. Brakebill mentioned that Daniel Crews had been promoted to Director of Private Equity. On a sadder note, he noted the Jesse Picunko, who worked on

the Fixed Income team, had recently announced that he would be leaving TCRS for personal reasons.

Mr. Brakebill reflected on the amount of due diligence that the group has done over the last few months. Since the start of the fiscal year, the group has been involved in 29 transactions totaling \$2.5 billion in commitments that have closed or are in process in the areas of Real Estate, Private Equity and Strategic Lending. Mr. Brakebill indicated that the group had also started Securities Lending and that it is now contributing to the fund, which he expects to build over time.

Mr. Brakebill turned the discussion to Emerging Markets ETFs. He mentioned that one of the key issues with the Emerging Market ETFs involves the size of the holdings that the group has in certain indexes. Specifically, the group wants to avoid any unnecessary risk that may occur when owning concentrated ETF positions. To that end, the group has had a series of discussions with its portfolio consultant, SIS, on ways to mitigate this risk. The group continues to evaluate this issue and hopes to propose more formal protocols with respect to ETF ownership concentration in the future.

Mr. Brakebill discussed portfolio allocation since the beginning of the calendar year. He noted that the group has sold \$300 million of U.S. equities and has brought down the overweight in stocks to 0.5%. The group is overweight U.S. equities and underweight Emerging Market equities. The group lowered its exposure to Inflation Hedged bonds (TIPS) in order to fund the group's Strategic Lending portfolio. Mr. Brakebill then asked Mr. Palmer to discuss the Strategic Lending effort.

Mr. Palmer noted the extent of the due diligence efforts and legal requirements to get the Strategic Lending portfolio underway. He indicated that the group is looking for ways to streamline the pipeline process going forward. He indicated that the group was in the process of closing on a number of investments and expects the Strategic Lending allocation to rise considerably over the next few quarters.

Mr. Lillard asked how the group is thinking about the fixed income portfolio given the Federal Reserve's move to normalize interest rates. Mr. Palmer indicated that the Treasury curve will continue to flatten and that there are enough global deflationary pressures that will prevent rates from moving up a lot. Mr. Palmer said he remains comfortable with the diversification and the long duration of the portfolio. He indicated that the group's Strategic Lending investments should help bolster performance.

Mr. Brakebill mentioned that there is little doubt in the marketplace that the Federal Reserve will remove quantitative easing gradually over the course of the year. The only question remains how quickly the tightening will occur at the end of the tapering of quantitative easing.

Treasurer Lillard asked if there was any additional business to be discussed. There were

no further comments, so Treasurer Lillard made a motion to adjourn. That motion was seconded and unanimously approved. The meeting of the Investment Committee was adjourned at 9:50 a.m.

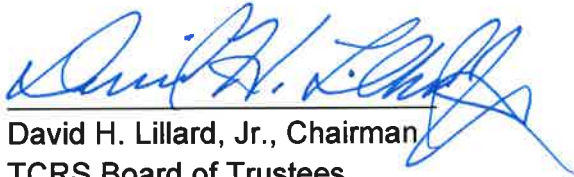
Respectfully submitted,



Michael Brakebill

Chief Investment Officer

APPROVED:



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