

**Minutes of the Meeting of the Investment Committee of the TCRS Board of Trustees**  
**June 4, 2015**

The Investment Committee (“Investment Committee”) of the Tennessee Consolidated Retirement System (“TCRS”) Board of Trustees met at 9:00 a.m. on June 4, 2015 in Room G11 on the Ground Floor of the State Capital Building. The Honorable David H. Lillard, Jr., State Treasurer, called the meeting to order at 9:03 a.m. Investment Committee members in attendance included Treasurer David Lillard; Mr. Bill Kemp, Sumner County Clerk; and Secretary Tre Hargett. Additional attendees included Michael Brakebill, Chief Investment Officer; Andrew Palmer, Deputy Chief Investment Officer; JP Rachmaninoff, Director of Real Estate; Daniel Toomey, Portfolio Manager; Derrick Dagnan, Senior Portfolio Manager; Grant Leslie, Senior Portfolio Manager; Carrie Green, Portfolio Manager; Keith Boring, Director of Policy & Research; Shelli King, Communications Director, Treasurer’s Office, and Jennifer Selliers, Compliance Officer.

Treasurer Lillard opened the meeting by noting there were no minutes to be approved and suggested moving directly to the day’s business beginning with private equity.

Ms. Green provided a review of the private equity team’s recommendation to invest \$75 million in Ardian’s new fund ASF VII, L.P. TCRS invested \$75 million into Ardian’s ASF VI, L.P. in 2013. Ardian was spun out of French insurance giant AXA in 1996 and in October 2013 underwent a management buyout and is now an independent fund. The firm has a broad integrated platform which gives it an information advantage when sourcing stakes in existing private equity funds. Ms. Green noted a few potential areas of concern include the use of additional leverage at the GP level, the market size vs. the amount of capital being deployed and manager commitment is relatively low. She concluded Ardian’s previous strong performance, lengthy experience as a secondaries manager, information advantage over sellers and competitive terms to LPs supports TCRS making a \$75 million investment into ASF VII, L.P. Upon a motion by Mr. Hargett and seconded by Chairman Lillard, the proposed investment was unanimously approved.

Mr. Leslie then reviewed a recommendation to invest \$100 million in TA Associates’ TA XII. TCRS committed \$44.3 million to TA Associates’ prior fund in 2009. TA Associates was organized in Boston in 1968 and today employs a total staff of 135 in five offices around the world. TA’s strategy focuses on investing in rapidly growing, profitable companies that post revenue and EBITDA growth in excess of 15%. TA employs relatively low leverage while focusing on companies in five industries with technology (46% of invested capital) and consumer (23% of invested capital) being the two largest. Mr. Leslie noted positively, 6% of capital in the fund is being contributed by management and investments are likely to be made over a 4-5 year time horizon with no more than 40% of committed capital deployed in any 12-month period. Chairman Lillard called for questions and when it was evident none were forthcoming, Mr. Kemp motioned to approve and Chairman Lillard seconded and the investment was unanimously approved.

The discussion then moved to a potential investment in the Strategic Lending portfolio. Mr. Dagnan reviewed his recommendation to invest \$100 million, with authorization to increase to \$500 million, with Waterfall Asset Management. Waterfall was founded in 2005 by Tom Capassee and Jack Ross, who both have extensive experience in the ABS securitization market dating back to their time at Merrill Lynch in the 1980s. Mr. Dagnan recommended TCRS pursue

a separate account investment which will invest alongside two similar ABS strategies (Eden and Victoria). The Eden strategy underwrites new issue ABS deals and trades ABS structures in the secondary market. The Victoria strategy is higher risk/higher reward and targets secondary trading of non-performing and re-performing real estate and commercial loans. The separate account investment will be heavily weighted towards the lower risk Eden strategy. The return profile for Waterfall is very different from a typical high yield bond portfolio demonstrating lower volatility, lower correlation and better monthly returns. Mr. Dagnan expects this investment to constitute a core piece of the Strategic Lending portfolio over time. He then answered questions raised by the Investment Committee members regarding the weighting of this investment within the overall TCRS portfolio and the composition of fellow institutional investors in Waterfall. Chairman Lillard made a motion to approve and was seconded by Mr. Kemp and the investment was unanimously approved.

Mr. Rachmaninoff then reviewed the proposed acquisition of Avery Row apartments located in Arlington, VA, which had been previously approved by the Treasurer on May 21, 2015. Mr. Rachmaninoff explained that since the proposed acquisition was below \$75 million, there was no requirement for the Investment Committee to take any action and that he was presenting the material this morning to keep the Investment Committee informed, but was happy to respond to any questions. He mentioned that as a result of due diligence since the 21<sup>st</sup> of May, TCRS' adviser had negotiated a reduction in the purchase price. He then outlined the rationale for the investment as a means to enhance the overall quality of the TCRS multi-family portfolio and described some of the positive features of the property including: access to transportation, high quality finishes, 100% covered parking, and amenities not found in many of the competitive set. Chairman Lillard thanked Mr. Rachmaninoff for his remarks.

Chairman Lillard then informed the group Deputy CIO Palmer had accepted the CIO position for the State of Maryland and thanked him for his nine years of outstanding service to the State of Tennessee.

Mr. Brakebill then updated the group with the news TorreyCove Capital Partners won the recent RFP for Private Equity and Strategic Lending consulting services. Mr. Brakebill then discussed the overall market and noted recent performance has been somewhat muted relative to a year ago.

Treasurer Lillard subsequently adjourned the meeting at 9:35 a.m.

Respectfully submitted,



Michael Brakebill  
Chief Investment Officer

APPROVED:



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