

Minutes of the TCRS Board of Trustees meeting on June 29, 2012

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, June 29, 2012 at 10:07 a.m. The meeting was held in Room 30 of the Legislative Plaza with Chairman David Lillard presiding.

Chairman Lillard asked Ms. Bachus to conduct an attendance roll call. The following members were present: Chairman David Lillard, State Treasurer; Mr. Tre Hargett, Secretary of State; Mr. Justin Wilson, Comptroller to the Treasury; Commissioner Rebecca Hunter, Department of Human Resources; Ms. Jill Bachus, Director of TCRS; Mr. Michael Barker, Mr. Al Laney, Mr. Ken Wilber, Mr. Tommie Pendergrass, Ms. Patsy Moore, Mr. Bill Kemp, and Ms. Traci Jefferson.

Approval of the March 30, 2012 Minutes of the Board of Trustees

On a motion by Mr. Kemp and seconded by Mr. Laney, the minutes of the March 30, 2012 TCRS Board of Trustees meeting were unanimously approved.

Board of Trustees Committee Report

Chairman Lillard recognized Mr. Barker to provide the audit committee report. Mr. Barker mentioned to the Board that Mr. Wilber was elected President of the Tennessee Municipal League. Mr. Barker introduced Mr. Andy McArthur, a new staff member in the internal audit division. A status update was given on the Concord Audit Log. The audit committee discussed the financial integrity act and the internal audit report. Mr. Barker mentioned the audit committee reviewed and approved the existing audit committee charter. There was a recommendation from the audit committee to not authorize or recommend to the Board to approve an optional quadrennial audit because no audit exceptions have been noted for the past several years. The audit committee also reviewed the private equity disclosure.

Mr. Barker made a motion to approve the audit charter. The motion was seconded by Mr. Wilber and the board unanimously approved the audit charter.

Chairman Lillard recognized Ms. Bachus to provide the administrative committee report. Ms. Bachus mentioned Mr. Fred Marshall provided an update on Concord. The administrative committee reviewed operational changes to TCRS. Ms. Bachus discussed local government options and how they will be implemented by an employer. An update on retirement applications currently being processed was also provided.

Chairman Lillard mentioned the investment committee did not meet.

Investment Advisory Council Appointments

Chairman Lillard stated that Mr. Fred Crown's term on the Investment Advisory Council expires June 30, 2012. Mr. Crown was nominated and has agreed to serve another term upon approval from the Board.

On a motion by Mr. Wilson and seconded by Ms. Hunter, the Board unanimously approved Mr. Crown's reappointment to serve another term on the Investment Advisory Council.

Chairman Lillard noted that Ms. Carol Womack was nominated for a new appointment to the Investment Advisory Council. Ms. Womack has agreed to serve a three year term upon approval from the Board.

On a motion by Mr. Wilson, and seconded by Mr. Barker, the Board unanimously approved Ms. Womack's appointment to serve on the Investment Advisory Council.

Investment Report

Chairman Lillard introduced Mr. Michael Brakebill, Chief Investment Officer, to review the investment report. Mr. Brakebill reviewed the investment performance illustrated in the Investment Report for March 31, 2012. He noted that the TCRS portfolio produced a 7.0% return for the quarter and 8.3% return for the year. The one-year return was better than 98% of TCRS's peers. Mr. Brakebill also provided commentary on the global economic outlook. He stated that the three pillars of global economic growth (the U.S. economy, the European economy, and the Asian Economy) are showing signs of weakness. He noted that as a result, the general consensus investment thesis is there will now be slower growth for longer than previously expected.

Mr. Brakebill next reviewed the 2012 Asset Liability Study Summary. The study and summary were prepared by SIS, TCRS's consultant. Mr. Brakebill walked through the key points of the summary. He noted that SIS provides an expected return and risk for each asset class that is investible by TCRS. SIS uses historical data as well as the Capital Asset Pricing Model to project expected returns and risk levels of different asset classes. This information is used to project overall portfolio returns under asset allocations with different risk levels.

Mr. Brakebill moved from the review of the portfolio to an update of the fiscal year 2012 strategic initiatives. Mr. Brakebill introduced Mr. Andrew Palmer, Deputy Chief Investment Officer; Mr. Peter Katseff, Director of Real Estate; Mr. Ken McDowell, Senior Real Estate Portfolio Manager; and Mr. Kushal Gupta, Senior Quantitative Equity Analyst, to provide updates for their respective areas.

Mr. Palmer began by reviewing the strategic lending initiative. He stated that the goal of the initiative is to expand TCRS's ability to lend to new groups of entities to improve returns. The new types of investments will include bank loans, high yield debt, direct lending, real estate lending, securitized products, mezzanine lending and distressed debt. Mr. Palmer concluded by reviewing the timeline for initiating the strategic lending program.

Mr. Katseff and Mr. McDowell reviewed the non-core real estate initiative. Mr. Katseff noted that the real estate program has always had a 20% allocation to non-core real estate since inception of the program. While TCRS will look to allocate 20% of the real estate portfolio to non-core real estate primarily through commingled fund investments, there would be no change to the policy of acquiring core real estate through separate account advisors. Mr. Katseff noted that TCRS has historically invested in commingled funds and is currently invested in two open-end industrial funds. Mr. McDowell added that TCRS recently made a new \$25 million commitment to a closed-end non-core fund. In addition, he stated that staff was currently underwriting two additional closed-end non-core commingled fund investments.

Mr. Gupta reviewed the emerging market equities initiative. He noted that TCRS would be implementing a portfolio of emerging market equities that excluded investment in countries deemed to be unsuitable for investment. Staff has deemed countries with high levels of corruption and low levels of democracy unsuitable. Mr. Gupta noted that staff would be using the Economist Magazine's Democracy Index and the Transparency International's Corruption Perceptions Index to eliminate countries considered corrupt and autocratic. Finally, Mr. Gupta noted that the pace of implementation of the investment into emerging market equities would be similar to the implementation of the investment in Canadian equities over the last two years.

Changes for TCRS

Chairman Lillard introduced Mr. Jamie Wayman, Assistant Director of TCRS, to discuss operational changes in TCRS. Mr. Wayman described to the Board the normal procedures of how a retiree would select one person as their beneficiary. Legislation was enacted in 2008 that would allow a member to select multiple beneficiaries at retirement, but an implementation delay was included in the legislation until TCRS had a system that could handle the calculation for multiple beneficiaries and upon approval of the Treasurer.

Next, Mr. Wayman mentioned changes for payment to retiree's pension benefits by direct deposit or a debit card. In the future, TCRS will process payments electronically. Information was sent to retirees notifying them of the changes becoming effective March 2013. If TCRS does not receive information for direct deposit, retirees will receive a debit card in the mail. Mr. Wayman asked for the Board approval on the use of a debit card.

On a motion by Mr. Wilson and seconded by Mr. Barker, the Board unanimously approved that electronic payments could be made by either direct deposit or debit card.

Local Government Plans

Ms. Bachus gave a brief review of the new local government plans. Ms. Bachus mentioned the actuary suggested the use of projected mortality in the new plans. TCRS utilizes current death rates rather than projecting mortality improvements. As a result, the contribution rates continually experience upward pressure because of retirees living longer. Due to prior service and various factors, using projected mortality in the current plan is expensive. However, adopting the projected mortality assumption for new plans is optimal timing. It is expected the

change will add less than .75% to the contribution rate and diminishes future contribution rate fluctuations related to mortality changes.

Ms. Bachus mentioned the administrative committee recommended adopting the use of the projected mortality assumption for the new local government plan and extended a motion. The motion was seconded by Mr. Hargett, the Board unanimously approved the use of projected mortality in the new local government plans.

Legislation Update

Ms. Bachus gave a brief summary of the bills that passed this session. Material was provided to Board members for review.

Other Business

Chairman Lillard mentioned the PEW and the Fitch Ratings Report were distributed to the Board members for review. Ms. Bachus mentioned the experience study is currently being conducted by the actuary and is expected to be presented to the Board in Spring 2013.

Adjournment

Chairman Lillard announced the completion of the business at hand and asked if there was any other business to come before the Board.

On a motion by Mr. Wilson and seconded by Mr. Barker, the Board unanimously approved the TCRS Board of Trustees meeting be adjourned.

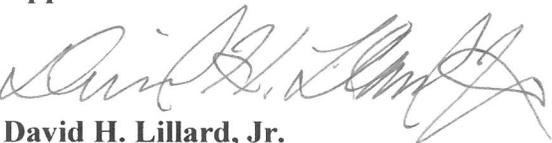
With no other business, the Board of Trustees adjourned at 11:40 a.m. on June 29, 2012.

Respectfully Submitted,



**Jill Bachus
Director, TCRS**

Approved:



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