TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

BOARD OF TRUSTEES MEETING

MARCH 25, 2011

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MINUTES OF THE
BOARD OF TRUSTEES MEETING
DECEMBER 10, 2010

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, December 10, 2010 at 10:00 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; Tre Hargett, Secretary of State; Commissioner Deborah Story, Department of Human Resources; Ms. Jill Bachus, Director of TCRS; Ms. Traci Jefferson, Mr. Sammy Jobe, Mr. Michael Barker, Mr. Al Laney, Mr. Ken Wilber, Mr. Bill Kemp, Mr. David Seivers, Mr. Tommie Pendergrass, Mr. Dennis Carroll and Mr. Erick Huth.

Approval of the September 24, 2010 Minutes of the Board of Trustees

On a motion by Mr. Kemp and seconded by Mr. Laney, the minutes of the September 24, 2010 TCRS Board of Trustees meeting were unanimously approved.

Conflict of Interest Policy

Chairman Lillard introduced Ms. Jill Bachus to review the conflict of interest policy.
Ms. Bachus mentioned the code of conduct information was distributed at the last board meeting for review. Material was provided for members to review and sign. Ms. Bachus noted the conflict of interest policy, which includes the code of conduct, will be signed annually.

Board of Trustees Committee Reports

Chairman Lillard recognized Mr. Michael Barker to provide the audit committee report.
Mr. Barker mentioned Ms. Bachus reviewed the development and implementation of legislation. Ms. Bachus also gave the committee an update on Concord. Ms. Wood discussed the process of reporting fraud. No action was taken.

Chairman Lillard recognized Ms. Bachus to provide an update from the administrative committee. Ms. Bachus reviewed the code of conduct and provided the committee an update on Concord. Ms. Bachus mentioned no new entities were joining TCRS for participation. No action was taken.

Chairman Lillard reviewed the investment committee report. Chairman Lillard mentioned the committee reviewed the investment policy. Mr. Pete Keliuotis, from Strategic Investment Solutions, reviewed the Executive Summary. No action was taken.

Investment Policy

Chairman Lillard introduced Mr. Michael Brakebill to review the proposed changes to the investment policy.

Mr. Brakebill discussed the process that led to the development of the proposed investment policy. The changes are the result of a year-long effort beginning December 2009 with the Treasurer directing staff to research methodologies to improve the strategic performance of the pension fund.

Staff conducted research and a series of conference calls during the spring of 2010 with the Treasurer and Strategic Investment Solutions (SIS) during which potential changes were evaluated. Many options were evaluated by utilizing SIS's risk modeling capability and staff then began communicating proposals to the Investment Advisory Council (IAC), the Investment Committee (IC), the TCRS Board of Trustees, and the Legislative Council on Pensions and Insurance.

Mr. Brakebill then moved his discussion to address the specific changes in the investment policy. These policy changes seek to improve the return of the fund by approximately ½% per year, which would be an increase in performance of $150 million.

The first change is to include an allocation of 5% to Canadian stocks. This change increases the equity allocation of the fund, which increases the expected return of the portfolio. This change also improves the diversification of the fund and adds commodity sensitive exposure to the portfolio.

The second significant change is to transition the benchmark of the domestic fixed income portfolio from the Citigroup Broad Investment Grade (BIG) Index to the Citigroup Large Pension Fund Index (LPF). The BIG benchmark has a very short duration and a very low expected return. The large amount of short duration assets induces a significant amount of risk relative the cash flow demands of the pension funds. Moving the duration higher, increases the long-term expected return of the pension fund and improves the matching of the portfolio to the actual liabilities.

Less significant changes to the plan include the elimination of the allocation to international fixed income and the addition of a securities lending program. Other changes include improvements to the tools staff can utilize for risk control and an update of the private equity section of the policy. The private equity section was developed prior to staff gaining experience in implementation, so those changes represent an effort to incorporate the lessons learned in developing the program over the past three years.

On a motion by Mr. Barker and seconded by Mr. Huth, the Board unanimously approved the changes to the investment policy.

Investment Report

Mr. Brakebill began by reviewing the investment performance report, and noted there is a typographical error in the board materials. The performance of the fund found on page 5 of the report should indicate 7.9% for the quarter and not -7.9%. The one-year return was at 8.9% and the ten-year return is a low 3.6%, but appears to be improving. The portfolio lagged the benchmark by 0.45% for the trailing quarter due to the under-weight in stocks, but has exceeded the allocation index return by 0.43% for the trailing one-year period. Tactical asset allocation was a negative contributor of 0.72% for the quarter, while the Domestic Fixed Income portfolio added 0.73%. TCRS beat 70% of peers for the trailing three-year period.

Mr. Brakebill then moved to the Key Initiatives and discussed the actions staff was taking to transition to the new policy portfolio. Purchases continue for the Canadian portfolio and it has grown to over $600 million as of this date. The fixed income team is preparing for their transition which will occur throughout the first half of 2011. Mr. Brakebill noted the successful

hire of Thomas Kim to the fixed income team. Mr. Brakebill also discussed that staff was working to update the incentive compensation plan to increase its relevance.

Concord System

Ms. Bachus announced a contract has been awarded to Deloitte Consulting, LLP. The contract became effective December 1, 2010. Ms. Bachus explained the process of how the system will be installed.

Other Business

Ms. Bachus discussed upcoming training sessions for Board members. Ms. Bachus mentioned the history and funding of TCRS will be discussed at the training session immediately after the Board meeting. Ms. Bachus reviewed future topics of upcoming training sessions.

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. Jobe and seconded by Ms. Story the Board unanimously approved TCRS Board of Trustees meeting be adjourned.

With no other business, the Board of Trustees adjourned at 10:40 a.m. on December 10, 2010

Respectfully Submitted,

Jill Bachus

Jill Bachus
Board of Trustees, TCRS

STATISTICAL REPORTS

ANALYSIS OF MEMBERS ACTIVELY CONTRIBUTING

	3/31/3007	3/31/2008	3/31/2009	3/31/2010	6/30/2010	9/30/2010	12/31/2010
Group I Members:							
(State & Higher Ed.)	61,793	62,685	59,245	58,998	58,601	58,167	58,160
Teachers	74,956	76,646	77,877	78,618	78,593	79,283	79,404
General Employees of Polisubs	77,602	79,193	80,994	80,736	81,601	80,789	80,805
General Assembly	120	123	124	121	126	128	124
County Officials	3	3	3	3	3	2	2
PSC							
County Judges	1	1	1	1	1	1	1
Attorneys General	592	640	638	641	639	630	634
Total Group I	215,248	219,473	219,059	219,300	219,564	219,000	219,130
Group II & Prior Class:							
Wildlife Officers	12	11	9	8	6	6	4
Highway Patrol	28	25	13	9	8	8	7
Firemen & Policemen-Political Subdivisions	59	45	37	35	34	26	25
Total Group II & Prior Class	99	81	59	52	48	40	36
Group III and Prior Class:							
State Judges	2	2	2	2	2	2	2
County Judges	-	-	-				
Attorneys General	5	5	5	5	5	5	5
County Officials	12	12	10	10	9	5	5
Total Group III & Prior Class	19	19	17	17	16	12	12
Group IV							
State Judges			177	182	182	183	183
Total Membership Contributing to TCRS	215,366	219,573	219,135	219,369	219,810	219,235	219,361
Teachers Contributing to ORP	11,478	11,469	11,461	11,461	11,506	11,540	11,580
Grand Totals	226,844	231,042	230,596	230,830	231,316	230,775	230,941

RETIRED PAYROLL STATISTICS DECEMBER 31, 2010

	AMOUNT	# OF RETIREES
STATE EMPLOYEES	40,029,853.55	37,779
STATE PAID JUDGES	840,680.33	167
COUNTY PAID JUDGES	384,049.43	129
ATTORNEY GENERALS	739,707.49	272
COUNTY OFFICIALS	440,001.45	252
PUBLIC SERVICE COMMISSIONERS	8,197.46	5
POLITICAL SUBDIVISIONS	19,562,326.68	31,245
TEACHERS	70,739,486.80	38,988
LOCAL TEACHERS	3,772,361.02	2,289
GOVERNORS AND WIDOWS	28,390.00	5
AGED STATE EMPLOYEES	127.35	1
AGED TEACHERS	4,304.88	30
TOTAL	**$136,549,486.44**	**111,162**

RETIRED PAYROLL
July 1, 2010
THROUGH
DECEMBER 31, 2010

	AMOUNT	# OF RETIREES
STATE EMPLOYEES	238,664,791.92	37,779
STATE PAID JUDGES	5,087,547.61	167
COUNTY PAID JUDGES	2,341,681.13	129
ATTORNEY GENERALS	4,436,370.32	272
COUNTY OFFICIALS	2,601,739.65	252
PUBLIC SERVICE COMMISSIONERS	49,184.76	5
POLITICAL SUBDIVISIONS	116,696,728.68	31,245
TEACHERS	426,730,884.06	38,988
LOCAL TEACHERS	22,807,237.09	2,289
GOVERNORS AND WIDOWS	170,340.00	5
AGED STATE EMPLOYEES	764.10	1
AGED TEACHERS	26,351.75	30
TOTAL	**$819,613,621.07**	**111,162**

NOTE: NINETY-FIVE PERCENT (95%) OF THE RETIREES ARE ON DIRECT DEPOSIT.

NUMBER OF MEMBERS REFUNDED

Month	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
July	532	829	507	1,149	450	894	499
August	397	544	481	675	308	612	406
September	702	515	546	566	316	494	431
October	390	424	454	609	411	369	379
November	373	316	440	492	353	320	293
December	278	320	318	234	257	256	276
January	401	305	408	450	332	257	
February	339	389	333	308	310	242	
March	360	329	342	316	291	278	
April	287	823	365	308	311	687	
May	291	694	323	619	217	385	
June	374	428	313	843	340	360	
TOTAL	4,724	5,916	4,830	6,569	3,896	5,154	2,284

REFUND EXPENDITURES
2010-11 FISCAL YEAR

MONTH	MEMBER'S CONTRIBUTIONS	414(H) CONTRIBUTIONS	MEMBER'S INTEREST	EMPLOYER CONTRIBUTIONS	DEATH PAYMENTS	TOTAL
July	108,610.45	2,940,927.94	1,122,968.59	176,910.15	796,126.22	$5,145,543.35
August	86,564.24	2,243,866.53	870,768.62	84,074.45	491,598.24	$3,776,872.08
September	50,942.67	2,755,585.65	762,280.58	81,345.16	375,192.12	$4,025,346.18
October	114,128.91	2,067,333.77	704,711.37	97,951.59	405,392.54	$3,389,518.18
November	78,895.55	1,742,461.50	596,107.03	51,724.73	341,127.28	$2,810,316.09
December	30,895.39	1,351,269.94	400,946.28	48,714.26	124,269.67	$1,956,095.54
January						
February						
March						
April						
May						
June						
TOTAL	470,037.21	13,101,445.33	4,457,782.47	540,720.34	2,533,706.07	$21,103,691.42

PRIOR SERVICE ACTIVITY
October 1, 2010 through December 31, 2010

State:

Type of Service	No of Members	Years of Service		Amount
Backpayment	26	29	$	59,098
Military	22	51		8,249
Redeposit	7	28		91,637
Totals	55	108	$	158,985

Teachers:

Type of Service	No of Members	Years of Service		Amount
Backpayment	10	6	$	51,694
Military	11	25		-
Redeposit	15	76		257,523
Totals	36	107	$	309,217

Higher Education:

Type of Service	No of Members	Years of Service		Amount
Backpayment	32	15	$	88
Military	9	19		-
Redeposit	2	16		91,583
Totals	43	50	$	91,670

Political Subdivisions:

Type of Service	No of Members	Years of Service		Amount
Backpayment	146	188	$	66,476
Military	18	39		-
Redeposit	10	39		99,577
Totals	174	266	$	166,054

Grand Totals:

Type of Service	No of Members	Years of Service		Amount
Backpayment	214	238	$	177,356
Military	60	134		8,249
Redeposit	34	159		540,321
Totals	308	531	$	725,926

DISABILITY RETIREMENT REPORT

Disability Statistical Report

Second Quarter 10-11

Disability Applications Received	October		34
	November		30
	December		32
		TOTAL	96
Initial Claims Approved	October		23
	November		32
	December		29
		TOTAL	84
Initial Claims Disapproved	October		8
	November		11
	December		6
		TOTAL	25

Initial Claims Approved after Reconsideration	10
Initial Claims Disapproved after Reconsideration	7
Re-Evaluation Claims Approved	66
Re-Evaluation claims Disapproved	0
Cases Referred to Vocational Rehabilitation	0

APPROVED FOR DISABILITY
SECOND QUARTER
2010-2011

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	YES	YES	56	TEACHER	TEACHER	25	$41,405	A	$1,314	NIDDM/NEUROPATHY/DDD/BACK AND L-HIP PAIN/RADICULOPATHY
ORD.	NO	NO	57	POL SUB	LABORER	10	$24,729	A	$389	DM II W/PERIPHERAL NEUROPATHY, CA OF LIVER & GALL BLADDER
ORD.	NO	NO	53	STATE	DATA ANALYST	7	$55,959	A	$914	BIPOLAR D/O, MAJOR DEPRESSION
ORD.	NO	NO	44	POL SUB	BOOK KEEPER	19	$22,118	B	$460	METASTATIC LUNG CA
SS-ORD	NO	NO	56	STATE	EXECUTIVE AIDE	10	$23,428	A	$403	OVARIAN CANCER/ HTN/ DEPRESSION
ORD.	NO	YES	57	TEACHER	TEACHER	15	$36,227	D	$573	DEPRESSION/ SJOGRENS DISEASE/ MORBID OBESITY/ DIABETES
ORD.	YES	NO	41	STATE	CONSERVATION WORKER	5	$17,060	A	$403	CHRONIC BACK PAIN
ORD.	NO	NO	56	TEACHER	TEACHER	21	$49,735	A	$1,277	AORTIC STENOSIS/ DDD/ FIBROMYALGIA/ MORBID OBESITY
ORD.	YES	NO	49	STATE	CLERK II	6	$14,365	B	$266	CHRONIC ISCHEMIC HEART DX, CHF, COPD, GERD, CAD S/P PTCA
ORD.	YES	NO	51	TEACHER	TEACHER	28	$45,008	A	$1,519	CVA, DM, HTN, DEPRESSION
ORD.	NO	NO	52	TEACHER	VISUAL ART TEACHER	13	$48,447	A	$1,144	PARAPLEGIA
SS-ORD	NO	NO	52	STATE	CASE MANAGER	18	$37,019	A	$874	TRANSVERSE MYELITIS/ LBP
ORD.	NO	NO	57	POL SUB	SECRETARY/BOOKKEEPER	8	$14,600	A	$206	OSTEOGENESIS IMPERFECTA W/SCOLIOSIS
ORD.	NO	NO	59	POL SUB	TEACHER	20	$42,638	A	$1,040	ETOH/ MAJOR DEPRESSION, RECURRENT
ORD.	NO	NO	56	TEACHER	TEACHER	10	$40,854	B	$586	CHRONIC BACK PAIN/ S/P FUSION
ORD.	NO	NO	58	TEACHER	TEACHER	27	$44,772	A	$1,436	CAD/ CHF/ DIABETES/OSA

APPROVED FOR DISABILITY
SECOND QUARTER
2010-2011

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	NO	NO	53	STATE	ACCOUNTANT TECH	16	$27,950	A	$660	METASTATIC PANCREATIC CANCER
ORD.	YES	YES	52	STATE	ADMIN SECRETARY	8	$29,133	A	$564	MOOD DISORDER
ORD.	NO	NO	55	POL SUB	CUSTODIAN	12	$36,935	B	$617	CARDIOMYOPATHY
ORD.	NO	NO	54	TEACHER	TEACHER	24	$44,076	A	$1,271	DDD/ NECK, BACK AND SPINE SURGERIES
SS-ORD	YES	NO	52	STATE	SECRETARY	17	$24,526	B	$520	MALIGNANT NEOPLASM OF THE KIDNEY
ORD.	NO	NO	53	POL SUB	CUSTODIAN	8	$13,760	A	$264	STAGE IIA INVASIVE DUCAL CARCINOMA
ORD.	YES	NO	35	STATE	HWY MAINT WKR	12	$23,084	A	$545	METASTATIC MELANOMA
ORD.	YES	YES	46	STATE	SUPERVISOR I	20	$30,185	A	$742	HTN, IDDM, COPD, DDD, LUMBAR FUSION, ANXIETY, DEPRESSION
ORD.	YES	YES	42	POL SUB	POLICE OFFICER	6	$22,784	B	$185	TORTICOLLIS/ PTSD/ DEPRESSION/ PANIC ATTACKS/ NECK & SHOULDER PAIN
ORD.	NO	NO	55	TEACHER	TEACHER	16	$51,203	B	$1,053	MS
ORD.	NO	NO	54	STATE	CHILD DAY CARE ASSESSOR	23	$28,867	A	$252	CAD/ ANGINA/COPD/ HTN/ FIBROMYALGIA
ORD.	NO	NO	52	STATE	CORRECTIONS	25	$38,811	A	$1,161	DDD/DJD/ SHOULDER PAIN/ NECK AND BACK PAIN
ORD.	NO	NO	55	POL SUB	COOK	11	$11,928	B	$199	ASTHMA/COPD
SS-ORD	YES	NO	48	TEACHER	TEACHER	23	$53,371	A	$1,465	S/P CVA/ HEART DISEASE
ORD.	NO	NO	50	STATE	CUSTODIAN	22	$21,040	B	$494	CARDIOMYOPATHY/ HTN
ORD.	YES	NO	43	STATE	COORDINATOR	15	$37,735	B	$779	RA, OSTEOPOROSIS, DVT, SOB

APPROVED FOR DISABILITY
SECOND QUARTER
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Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	YES	NO	36	TEACHER	TEACHER	14	$52,988	A	$1,251	BRAIN CANCER, SEIZURES, HA'S, AND DEPRESSION
ORD.	NO	NO	58	POL SUB	DISPATCHER	7	$43,715	B	$420	EMPHYSEMA/ CHRONIC RESPIRATORY FAILURE
SS-ORD	NO	NO	59	STATE	ADMIN SECRETARY	9	$33,724	A	$398	METASTATIC COLON CANCER
SS-ORD	NO	NO	56	POL SUB	CIRCUIT COURT CLERK	16	$54,616	A	$1,290	SPINAL DYSPLASIA. SPINAL BIFIDA
ORD.	YES	NO	52	TEACHER	RESOURCE TEACHER	24	$60,419	A	$1,737	LIVER CANCER
INACT.	NO	YES	43	STATE	RN	6	$32,975	B	$26	ORTHRODESIS OF RIGHT ANKLE/ MORBID OBESITY
SS-ORD	YES	NO	39	POL SUB	DEPUTY CLERK	10	$22,393	A	$529	MAJOR DEPRESSION/ PSYCHOSIS/ TRIGEMINAL NEURALGIA
ORD.	YES	NO	36	TEACHER	TEACHER	12	$48,951	A	$1,156	LUPUS/ CHRONIC ANEMIA
ORD.	NO	NO	58	POL SUB	BUS DRIVER	17	$15,288	A	$352	RA/OA/CAD/EMPHYSEMA/OSA/DDD/DEPRESSION
ORD.	NO	NO	57	STATE	GMS CRAFT WORKER	20	$41,796	A	$995	S/P LUMBAR FUSION X3
ORD.	NO	NO	58	STATE	RESEARCH TECH II	18	$28,804	A	$680	PARKINSON'S DISEASE
INACT.	NO	NO	54	STATE	CORRECTION OFFICER	20	$28,080	B	$423	PTSD/ DDD/ COPD
ORD.	NO	NO	55	POL SUB	RECORDS CLERK	7	$37,130	D	$497	RA/SJOGRENS SYNDROME
ORD.	NO	NO	57	TEACHER	TEACHER	28	$45,729	A	$1,548	PARKINSON'S DISEASE
ORD.	NO	NO	53	TEACHER	TEACHER	26	$61,859	B	$1,610	HISTOPLASMOSIS/ LEGALLY BLIND
ORD.	NO	NO	54	POL SUB	CUSTODIAN	5	$15,664	A	$208	BILATERAL OA OF KNEES

APPROVED FOR DISABILITY
SECOND QUARTER
2010-2011

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
SS-ORD	YES	NO	49	POL SUB	SANITATION WORKER	26	$36,726	B	$912	CHF/OBESITY/DDD/BACK PAIN/SOB/COPD/SLEEP APNEA
ORD.	YES	YES	49	STATE	ADMIN ASSISTANT	9	$26,382	A	$623	FIBROMYALGIA/OA OF HIPS/CHRONIC PAIN
ORD.	YES	NO	34	TEACHER	TEACHER	10	$34,143	A	$806	PARANOID SCHIZOPHRENIA/ MAJOR DEPRESSION
ORD.	NO	NO	58	STATE	COORDINATOR	14	$32,704	A	$579	COPD
ORD.	NO	NO	58	POL SUB	CUSTODIAN	23	$28,747	D	$637	METASTATIC COLON CANCER
ORD.	NO	NO	58	POL SUB	POLICE LT	14	$35,406	A	$662	LUNG CANCER/HEART DISEASE
ORD.	NO	NO	53	STATE	SECRETARY	17	$35,242	A	$832	CHRONIC MIGRAINE HEAD ACHES
ORD.	YES	NO	50	POL SUB	TEACHER'S ASSISTANT	7	$13,059	A	$259	DDD/RADICULOPATHY
ORD.	NO	NO	54	POL SUB	COMPUTER OPERATIONS	24	$39,665	A	$1,128	DDD/ SPINAL STENOSIS
ORD.	YES	NO	36	POL SUB	COMMUNICATIONS SUPV	19	$55,915	A	$1,320	RA/ INTERSTITIAL LUNG DISEASE/MITRAL VALVE CARDIAC DISEASE
ORD.	NO	NO	56	STATE	ACCT CLERK	13	$18,682	B	$330	RECURRENT BRAIN TUMOR
ORD.	NO	NO	50	STATE	CLINIC DIRECTOR	17	$79,479	D	$1,774	DDD/ S/P MULTIPLE LAMINECTOMIES/ D/P KNEE SURGERY
ORD.	YES	NO	48	STATE	PSYCH TECH	8	$23,048	A	$544	TYPE II DM/ NEUROPATHY
INACT.	NO	YES	48	POL SUB	CORRECTIONS OFFICER	7	$26,830	A	$54	LUMBAR DD W/ NEUROPATHY, CHRONIC BACK PAIN
ORD.	NO	NO	57	TEACHER	TEACHER	9	$35,069	D	$354	WEAKNESS, DYSPHASIA, DILATED CARDIOMYOPATHY, DM II, OSA
ORD.	NO	NO	55	STATE	DEV TECH	24	$25,475	A	$727	DDD/ COPD/ DIABETES/ GERD

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Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	NO	NO	53	STATE	SURGICAL TECH	20	$34,456	B	$735	METASTATIC OVARIAN CANCER
ORD.	NO	NO	54	STATE	CASE MANAGER	9	$35,510	A	$653	S/P STROKE
ORD.	NO	NO	51	POL SUB	FOOD SERVICE	20	$19,143	B	$415	TYPE II DIABETES/ ANKLE FRACTURE
ORD.	NO	NO	55	STATE	CORRECTIONAL OFFICER	20	$34,817	D	$745	S/P CVA
ORD.	NO	NO	57	POL SUB	CIRCUIT COURT CLERK	15	$58,824	A	$1,300	CROHN'S DISEASE/CHRONIC BACK PAIN S/P MULTIPLE SURGERIES
ORD.	NO	NO	56	STATE	MAINTENANCE WORKER	13	$26,094	A	$531	DDD, CHRONIC PAIN, S/P BACK SURGERY
ORD.	NO	NO	55	STATE	ADMINISTRATOR	24	$58,091	D	$1,383	IDDM/DIABETIC NEUROPATHY
ORD.	NO	NO	55	POL SUB	KITCHEN HELPER	9	$11,725	A	$197	SQUAMOUS CELL CARCINOMA STAGE IV
ORD.	YES	YES	49	POL SUB	SECRETARY	26	$40,197	A	$1,250	MOYAMOYA DISEASE/CEREBROVASCULAR DISEASE
ORD.	YES	NO	47	STATE	HEAVY EQUIP OPERATOR	21	$24,889	C	$582	HEPATITIS C W/CIRRHOSIS OF LIVER/LIVER CA
SS-ORD	NO	NO	57	STATE	PSYCH TECH	9	$28,596	A	$410	CVA/L-SIDED HEMIPARESIS
ORD.	YES	NO	47	TEACHER	TEACHER	10	$38,154	B	$812	METASTATIC BREAST CANCER
ORD.	NO	NO	58	STATE	SECRETARY	21	$33,464	A	$843	CVA/HTN/DM/DEPRESSION
ORD.	NO	NO	56	TEACHER	READING SPECIALIST	17	$41,546	A	$981	DIABETIC RETINOPATHY
ORD.	NO	NO	55	POL SUB	BACKHOE OPERATOR	19	$24,590	A	$580	COPD W/HYPOXIA, O2 THERAPY, TRACHEAL STENOSIS, ASHD, OBESITY
ORD.	NO	NO	54	POL SUB	COURT CLERK	26	$101,223	E	$3,129	CHARCOT MARIE TOOTH POLYNEUROPATHY/HTN/GERD/HYPERCHOLESTEROLEMIA

APPROVED FOR DISABILITY
SECOND QUARTER
2010-2011

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	YES	NO	55	STATE	CLERK III	8	$19,325	B	$249	FIBROMYALGIA/LUMBAR RADICULOPATHY/BIPOLAR DISORDER/GAD
ORD.	NO	YES	56	STATE	CASE MANAGER	5	$34,816	A	$424	DEPRESSION/ UVEITIS/ HTN/ GERD/ OA/ FIBROMYALGIA
ORD.	YES	NO	51	TEACHER	TEACHER	13	$46,263	A	$1,092	RA/FELTYS SYNDROME
ORD.	NO	NO	54	POL SUB	HOUSEKEEPER	7	$24,832	A	$369	DJD, POORLY CONTROLLED DM II, FIBROMYALGIA, OBESITY, DEPRESSION

DISAPPROVED FOR DISABILITY
SECOND QUARTER
2010-2011

Type	Re-C	Age	Employer-Generic	Position	SVC	Disability Summary	Reason Denied
ORD.	NO	45	STATE	HWY MAINTENANCE WORKER I	8	CHRONIC BRONCHITIS, COPD	CAP SEDENTARY TO LIGHT WRA
ORD.	NO	47	POL SUB	JAIL SUPERVISOR	7	PTSD/ ANXIETY/ DEPRESSION	LIMITED TO LIGHT DUTY
ORD.	NO	45	TEACHER	TEACHER	14	PTSD, DEPRESSION, MORBID OBESITY, DJD	CAP OF SEDENTARY TO LIGHT WORK
ORD.	YES	55	POL SUB	DEPUTY CLERK	17	OA/CAD/HTN/DEPRESSION/FIBROMYALGIA/DIVERTICULITIS	APPROVED INACTIVE, BUT NOT ELIGIBLE DUE TO AGE
ORD.	NO	53	STATE	CORRECTIONAL OFFICER	11	UNSPECIFIED ARTHROPATHY OF THE R-ANKLE AND FOOT	CAP OF SEDENTARY TO LIGHT WORK
ORD.	NO	46	POL SUB	BUILDING ENGINEER	17	S/P ACHILLES TENDON REPAIR/ TARSEL TUNNEL SYNDROME	CAPABLE OF SEDENTARY WORK
ORD.	NO	40	STATE	CORRECTIONAL OFFICER	11	R-KNEE CHONDYLE DEFECT, R-KNEE CHONDROMALACIA PATELLA W/CHRONIC R-KNEE PAIN	CAP OF SEDENTARY TO LIGHT WORK
ORD.	NO	47	STATE	DETECTIVE/SERGEANT	25	DDD/CHRONIC BACK PAIN/L-HAND & WRIST WEAKNESS/DEPRESSION	CAP OF SEDENTARY TO LIGHT WORK
ORD.	NO	51	STATE	FUNCTION SUPPORT	26	FIBROMYALGIA/HTN/CHRONIC FATIGUE	CAP OF SEDENTARY TO MEDIUM WORK
INACT.	YES	48	STATE	POLICE OFFICER	19	ANXIETY/DEPRESSION/NARCOTIC ABUSE/S/P SURGERY FOR AORTIC ANEURYSM	CAP OF SEDENTARY TO LIGHT WORK & NON-COMPLIANCE W/TREATMENT
INACT.	NO	54	STATE	OCC THERAPY TECH	12	KNEE PAIN/ OA/ OBESITY	CAPABLE OF LIGHT WORK
ACC.	NO	53	STATE	DEPUTY SHERIFF	20	DJD CERVICAL AND LUMBAR SPINE	CAP SEDENTARY TO LIGHT WORK

DISAPPROVED FOR DISABILITY
SECOND QUARTER
2010-2011

Type	Re-C	Age	Employer-Generic	Position	SVC	Disability Summary	Reason Denied
ORD.	NO	51	POL SUB	MECHANIC'S HELPER	27	GOUT, HEAT EXHAUSTION	INSUFFICIENT MEDICAL DOCUMENTATION
ORD.	YES	51	STATE	TRAINING SPECIALIST	24	DEPRESSION/MIGRAINE HA'S/BACK PAIN/R-SHOULDER PAIN/TENDONITIS	CAP OF LIGHT TO MEDIUM WORK
ORD.	YES	51	STATE	TRAINING SPECIALIST	24	DEPRESSION/MIGRAINE HA'S/BACK PAIN/R-SHOULDER PAIN/TENDONITIS	APPEARS CAP OF WORK IF NOT CARING FOR DEPENDENT PARENT

FINANCIAL STATEMENTS

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENT OF PLAN NET ASSETS
AS OF DECEMBER 31, 2010

ASSETS		
Cash and cash equivalents	$	425,217,152.76
Receivables		
Member receivable		966,974.05
Employer receivable		827,107.56
Accrued interest receivable		101,829,008.15
Accrued dividends receivable		33,546,429.76
Real estate income receivable		74,517.73
Investments sold		481,126,761.63
Total receivables		618,370,798.88
Investments, at fair value		
Short-term securities		128,152,343.56
Government securities		8,885,757,880.37
Corporate securities		5,455,125,105.51
Corporate stocks		16,388,062,320.28
Private Equities		48,144,801.00
Real estate		1,070,086,630.09
Total investments		31,975,329,080.81
TOTAL ASSETS		33,018,917,032.45
LIABILITIES		
Retired payroll payable		5,518,563.33
Retiree insurance premium payable		6,399,048.85
Accounts payable		304,857.54
Investments purchased		939,752,676.51
Other investment payables		3,034,500.00
TOTAL LIABILITIES		955,009,646.23
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	$	32,063,907,386.22

See Accompanying Notes to the Financial Statements

UNAUDITED

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENT OF CHANGES IN PLAN NET ASSETS
JULY 1, 2010 THROUGH DECEMBER 31, 2010

ADDITIONS	
Contributions	
Member contributions	$97,443,105.10
Employer contributions	409,195,319.40
Total contributions	506,638,424.50
Investment income	
Net Appreciation in fair value of investments	3,378,322,789.46
Interest	282,026,601.26
Dividends	141,333,391.73
Real Estate income, net of operating expenses	32,893,646.13
Total investment income	3,834,576,428.58
Less: Investment expense	(9,000,463.82)
Net investment income	3,825,575,964.76
TOTAL ADDITIONS	4,332,214,389.26
DEDUCTIONS	
Annuity benefits	
Retirement benefits	672,426,561.29
Cost of living	146,724,453.22
Death benefits	2,665,404.83
Refunds	17,077,785.13
Administrative expenses	3,607,889.37
TOTAL DEDUCTIONS	842,502,093.84
NET INCREASE	3,489,712,295.42
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
JULY 1, 2010	28,574,195,090.80
DECEMBER 31, 2010	$32,063,907,386.22

See Accompanying Notes to the Financial Statements

UNAUDITED

Tennessee Consolidated Retirement System
Notes to the Financial Statements
December 31, 2010

The Tennessee Consolidated Retirement System (TCRS) administers two defined benefit pension plans - State Employees, Teachers and Higher Education Employees Pension Plan (SETHEEPP) and Political Subdivisions Pension Plan (PSPP). Although the assets of the plans are commingled for investment purposes, each plan's assets may be used only for the payment of benefits to members of that plan, in accordance with the terms of the plan.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. **Reporting Entity** - The TCRS is included in the State of Tennessee Financial Reporting Entity. Because of the state's fiduciary responsibility, the TCRS has been included as pension trust funds in the *Tennessee Comprehensive Annual Financial Report*.

2. **Measurement Focus and Basis of Accounting** - The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

   Plan member contributions are recognized in the period of time for which the contributions are assessed. Plan employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

3. **Cash and Cash Equivalents** - Cash and cash equivalents by definition, includes cash and short-term investments with a maturity date within three months of the acquisition date. The state's accounting policy regarding the definition of cash and cash equivalents includes cash management pools as cash. Cash received by the TCRS that cannot be invested immediately in securities, or that is needed for operations, is invested in the State Pooled Investment Fund sponsored by the State of Tennessee and administered by the State Treasurer. The classification of cash and cash equivalents also includes cash invested in a short-term, open-end mutual fund under the contractual arrangement for master custody services.

4. **Method Used to Value Investments** - Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is determined at least every three years by qualified independent appraisers who are members of the Appraisal Institute and internally by real estate advisors for those years when independent appraisals are not performed. The fair value of investments in private equities is determined quarterly by the independent private equity managers with a more intensive review being performed at the end of each calendar year end. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis. Real estate transactions are recorded in the financial statements at the time of closing.

B. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

At July 1, 2009, the date of the latest actuarial valuation, the membership of each plan consisted of the following:

	SETHEEPP	PSPP
Retirees and beneficiaries currently receiving benefits	76,955	30,920
Terminated members entitled to but not receiving benefits	21,577	8,823
Current active members	136,147	78,803
Total	234,679	118,546
Number of participating employers	140	482

State Employees, Teachers and Higher Education Employees Pension Plan

Plan Description - SETHEEPP is a cost-sharing, multiple employer defined benefit pension plan that covers the employees of the state, teachers with Local Education Agencies (LEA's) and higher education employees. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Compounded cost of living adjustments (COLA) are provided each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year except that (a) no COLA is granted if the CPI is less than one-half percent; (b) a COLA of 1 percent will be granted if the CPI increases between one-half percent and one percent; (c) the maximum annual COLA is capped at three percent. Benefit provisions are established by state statute found in Title Eight, Chapters 34 through 37 of the *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly. Ad hoc increases may only be authorized by the General Assembly. Public safety officers receive an additional supplemental benefit that is paid from age 60 to age 62.

Superseded Systems and Certain Employment Classifications - Members of superseded systems that became members of the TCRS at consolidation in 1972, have their rights preserved to the benefits of the superseded system, if the benefit from the superseded plan exceeds that provided by the Group 1 (teachers and general employees) TCRS formula. Likewise, public safety employees and officials of TCRS Groups 2, 3 and 4 are entitled to the benefits of those formulas, if better than the Group 1 benefits.

Contributions and Reserves - Effective July 1, 1981, the plan became noncontributory for most state and higher education employees. The contribution rate for teachers is five percent of gross salary. The employers contribute a set percentage of their payrolls, determined by an actuarial valuation. *Tennessee Code Annotated* Title Eight, Chapter 37 provides that the contribution rates be established and may be amended by the Board of Trustees of the TCRS. The administrative

budget for the plan is approved through the state of Tennessee's annual budget process. Funding for the administrative budget is included in employer contributions.

The net assets of the plan are legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve.

Political Subdivisions Pension Plan

Plan Description - PSPP is an agent multiple-employer defined benefit pension plan that covers the employees of participating political subdivisions of the state of Tennessee. Employee class differentiations are not made under PSPP. The TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan prior to July 1, 1979 are vested after four years of service. Members joining on or after July 1, 1979 are vested upon completion of 10 years of service, unless five years vesting is authorized by resolution of the chief governing body. Cost of living adjustments (COLA) are the same as provided by SETHEEPP except that the local government may elect (a) to provide no COLA benefits or (b) to provide COLA benefits under a non-compounding basis rather than the compounded basis applicable under SETHEEPP. Benefit provisions are established and amended by state statute. Pursuant to Article Two, Section 24 of the *Constitution of the State of Tennessee*, the state cannot mandate costs on local governments. Any benefit improvement may be adopted by the governing body of a governmental entity participating in the TCRS.

Contributions and Reserves - Political subdivisions may elect contributory or noncontributory retirement for their employees. The contribution rate for contributory employees of political subdivisions is five percent of gross salary. The employers contribute a set percentage of their payrolls, equal to at least, the percentage determined by an actuarial valuation. State statute provides that the contribution rates be established and may be amended by the Board of Trustees of the TCRS. The administrative budget for the plan is approved through the state's annual budget process. Funding for the administrative budget is included in employer contributions.

The net assets of the plan are legally required to be reserved in two accounts, the Member Reserve and the Employer Reserve. The Member Reserve represents the accumulation of employee contributions plus interest. The Employer Reserve represents the accumulation of employer contributions, investment income and transfers from the Member Reserve for retiring members. Benefit payments and interest credited to the members' accounts are reductions to the Employer Reserve.

C. DEPOSITS AND INVESTMENTS

State statute authorizes the TCRS to maintain cash, not exceeding ten percent of the total amount of funds in the retirement system, on deposit in one or more banks, savings and loan associations or trust companies that are qualified as state depositories. The TCRS does not utilize its own bank accounts but invests in the State Pooled Investment Fund for the initial deposit of funds and for its operating cash needs. The State Pooled Investment Fund is authorized by state statute to invest funds in accordance with policy guidelines approved by the Funding Board of the State of Tennessee. The current resolution of that board gives the Treasurer authority to invest in collateralized certificates of deposit in authorized state depositories, prime commercial paper, prime bankers' acceptances, certain repurchase agreements and various U.S. Treasury and Agency obligations. The State Pooled Investment Fund is also authorized to enter into securities lending agreements in which U.S. Government Securities may be loaned for a fee. The loaned securities are transferred to the borrower by the custodial agent upon simultaneous receipt of collateral securities.

State statute also authorizes the TCRS to invest in bonds, debentures, preferred stock and common stock, real estate and in other good and solvent securities subject to the approval of the Board of Trustees, but further subject to the following statutory restrictions and provisions:

a. The total sum invested in common and preferred stocks shall not exceed seventy-five percent (75 percent) of the total of the funds of the retirement system.

b. The total sum invested in notes and bonds or other fixed income securities exceeding one year in maturity shall not exceed seventy-five percent (75 percent) of the total funds of the retirement system.

c. Within the restrictions in (a) and (b) above, an amount not to exceed fifteen percent (15 percent) of the total of the funds of the retirement system may be invested in securities of the same kinds, classes, and investment grades as those otherwise eligible for investment in various approved foreign countries, provided that such percentage may be increased by the board with the subsequent approval of the council on pensions and insurance.

d. Within the restrictions in (a) and (b) above, funds may be invested in Canadian securities which are substantially of the same kinds, classes and investment grades as those otherwise eligible for investment.

e. The total amount of securities loaned under a securities lending program cannot exceed thirty percent (30 percent) of total assets.

f. The total sum invested in real estate shall not exceed ten percent (10 percent) of the market value of total assets.

g. The total sum invested in private equities shall not exceed five percent (5 percent) of the market value of total assets.

State statute also authorizes the TCRS to invest in forward contracts to hedge its foreign currency exposure and to purchase or sell domestic stock index futures contracts for the purpose of asset allocation relating to the domestic equity portfolio. The total amount of the financial futures contract obligation shall not exceed five percent (5 percent) of the market value of total assets.

Title to real property invested in by the TCRS is held by real estate investment holding companies.

As of June 30, 2010, the TCRS had the following investments:

Investments
(Expressed in Thousands)

Investment Type	Fair Value as of June 30, 2010	U.S. Treasury/ Agency (1)	Credit Quality Ratings									
			AAA	AA	A	BBB	BB	B	CCC	CC	A1(3)	(2) Not Rated
Debt Investments												
U.S. Govt. Treasuries, Notes, Bonds	$ 1,280,095	$ 1,270,056	$10,039									
U.S. Govt. Inflation Indexed	2,331,362	2,331,362										
U.S. Govt. Agencies	449,980											$449,980
U.S Govt. Asset Backed	141,172	141,172										
Municipal Bonds	104,066			$42,709	$61,357							
Govt Mortgage-Backed	3,227,126	511,824										2,715,302
Corporate Mortgage-Backed	454,043		383,543	51,718	18,782							
Corporate CMO's	410,479		63,468				18,065	90,299	217,956	$11,783		8,908
Corporate Bonds	3,480,681		103,873	403,578	1,057,367	1,717,864	142,240	33,999		414		21,346
Corporate Asset-Backed	959,443		656,144	142,133	43,677	65,621			15,580			36,288
Non-U.S. Govt./Sovereign	1,108,361		441,896	595,060								71,405
Short-Term Commercial Paper	251,101										251,101	
Short-Term Agencies	160,997											160,997
Total Debt Investments	$ 14,358,906	$ 4,254,414	$ 1,658,963	$ 1,235,198	$ 1,181,183	$ 1,783,485	$ 160,305	$ 124,298	$ 233,536	$ 12,197	$ 251,101	$ 3,464,226
Other Investments												
U.S. Equity	$ 8,780,486											
Non-U.S. Equity	4,179,865											
Derivatives	4,264											
Real Estate	973,245											
Private Equities	26,613											
Commingled Money Market Funds	(204)											
Total Other Investments	$ 13,964,269											
Total Investments	$ 28,323,175											
Less: Short-Term Investments Classified as Cash Equivalents on the Statements of Plan Net Assets	(411,893)											
Total Investments as Shown on Statements of Plan Net Assets	$ 27,911,282											

(1) Includes obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government and are not considered to have credit risk.

(2) Includes securities that are implicitly guaranteed by the U.S. government, but are not rated by Standard and Poor's or Moody's.

(3) A1 is the highest rating category for commercial paper

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the TCRS' investments in fixed income securities as of June 30, 2010 are included in the above schedule. Securities are rated using Standard and Poor's and/or Moody's and are presented above using the Standard and Poor's rating scale. The State Pooled Investment Fund has not obtained a credit quality rating from a nationally recognized credit ratings agency.

The TCRS' investment policy specifies that bond issues subject for purchase are investment grade bonds rated in the four highest ratings by one of the recognized rating agencies. In addition, the policy states that private placements that do not have an active secondary market shall be thoroughly researched from a credit standpoint and shall be viewed by TCRS' investment staff as having the credit quality rating equivalent of an AA rating on a publicly traded issue. For short-term investments, the TCRS' investment policy provides for the purchase of only the highest quality debt issues. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch. The investment policy also requires preparation of a credit analysis report on the corporation prior to purchasing commercial paper.

As noted above, the TCRS does not utilize its own bank accounts but invests in the State Pooled Investment Fund for its operating cash purposes. Required risk disclosures relative to the State Pooled Investment Fund are presented in the *State of Tennessee Treasurer's Report*. That report is available on the state's website at http://www.tn.gov/treasury/ or by calling (615) 741-2956.

Concentration of Credit Risk - A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations. The TCRS had the following investment amounts and percentages of plan net assets, in organizations representing five percent or more of plan net assets, excluding those organizations whose issues are explicitly guaranteed by the United States government, and investments in mutual funds, external investment pools, and other pooled investments:

	June 30, 2010	
Issuer Organization	**Fair Value**	**Percentage**
Federal National Mortgage Assoc.	$1,989,031,439	6.96%

The TCRS' investment policy limits the maximum amount of a specific corporation's commercial paper that can be purchased to $100 million. There are no specific investment policies that limit investment in any one issuer.

Interest Rate Risk - Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The TCRS' investment policy does not specifically address limits on investment maturities. The fixed income portfolio, however, is benchmarked against the Citigroup Broad Investment Grade Index and tends to have a duration within a range around that index. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price. The TCRS had the following investments and effective duration at June 30, 2010

Debt Investments

(Expressed in Thousands)
At June 30, 2010

Investment Type	Fair Value as of June 30, 2010	Effective Duration (years)
Debt Investments		
Government Agencies	$ 526,862	5.29
Government Bonds	2,287,577	7.03
Government Inflation Indexed	2,331,362	4.13
Government Mortgage-Backed	3,227,126	1.93
Government Asset-Backed	141,172	5.75
Municipal Bonds	118,024	9.00
Corporate Collateralized Mortgage Obligations (CMO)	410,479	3.44
Corporate Mortgage Backed	454,043	2.31
Corporate Asset Backed Securities	959,443	0.55
Corporate Bonds	3,480,681	5.32
Guaranteed Fixed Income	10,039	0.25
Short-Term Commercial Paper	251,101	0.02
Short-Term Agencies	160,997	0.02
Total Debt Investments	$14,358,906	4.05

Asset-Backed Securities - The TCRS invests in various collateralized mortgage obligations (CMOs) which are mortgage-backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages and could therefore be more sensitive to prepayments by mortgagees as a result of a decline in interest rates. The fair value of CMOs at June 30, 2010 was $864,521,465 of which $510,179,228 were CMOs that are generally more sensitive to interest rate changes.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The TCRS' investment policy limits the asset allocation for international investments to twenty-five percent of total assets. The TCRS' exposure to foreign currency risk at June 30, 2010 was as follows:

Foreign Currency-Denominated Investments

(Expressed in Thousands)

Currency	Total Fair Value June 30, 2010	Fixed Income	Equity	Cash
Australian Dollar	$ 211,803	$ 13,958	$ 195,247	$ 2,598
British Pound Sterling	854,109	105,779	746,819	1,511
Canadian Dollar	377,014	118,842	257,339	833
Danish Krone	57,646		57,479	167
Euro Currency	1,144,340	263,623	853,859	26,858
Hong Kong Dollar	116,389		115,557	832
Japanese Yen	1,445,642	595,061	851,743	(1,162)
New Zealand Dollar	5,809		5,809	
Norwegian Krone	56,697	11,098	45,273	326
Singapore Dollar	58,583		57,470	1,113
Swedish Krona	67,405		67,393	12
Swiss Franc	241,077		240,991	86
Total	$ 4,636,514	$ 1,108,361	$ 3,494,979	$ 33,174

Derivatives - The TCRS may buy or sell fixed income and equity index futures contracts for the purposes of making asset allocation changes in an efficient and cost effective manner and to improve liquidity. Gains (losses) on equity index futures hedge losses (gains) produced by any deviation from the TCRS' target equity allocation. The gains and losses resulting from daily fluctuations in the fair value of the outstanding futures contract are settled daily, on the following day, and a receivable or payable is established for any unsettled gain or loss as of the financial statement date. At June 30, 2010, the TCRS was under contract for fixed income and equity index futures and the resulting payable is reflected in the financial statements at fair value.

The international securities expose the TCRS to potential losses due to a possible rise in the value of the US dollar. The TCRS investment managers can reduce foreign currency exposure by selling foreign currency forward contracts, at agreed terms and for future settlement, usually within a year. The manager will reverse the contract by buying the foreign currency before the settlement date. A gain (loss) on this transaction pair will hedge a loss (gain) on the currency movement of the international security. The TCRS can sell up to 80% of its foreign currency exposure into US dollars. Forward currency forward contracts expose the TCRS to foreign currency risk as they are

denominated in foreign currency. Any unrealized gain on foreign currency forward contracts has been reflected in the financial statements as an investment. The notional amount of the foreign currency forward contracts has been reflected in the financial statements as a receivable and a payable. Any unrealized loss on foreign currency forward contracts has been included in the payable established for the contracts.

The TCRS is authorized to invest in To Be Announced (TBA) mortgage backed securities similar to the foreign currency forward contracts. The TCRS enters into agreements to purchase pools of mortgage backed securities prior to the actual security being identified. The TCRS will roll this agreement prior to settlement date to avoid taking delivery of the security. Any unrealized gain on TBA mortgage backed securities has been reflected in the financial statements as an investment. Any unrealized loss on TBA mortgage backed securities has been included in the payable established for the mortgages. The notional amounts of these agreements have been included in the financial statements as a receivable and a payable. The TCRS invests in these derivatives to adjust its exposure to mortgage coupon risk and to replicate the return on mortgage backed securities portfolios without actually purchasing the security.

The TCRS is authorized to enter into option contracts and any income earned on option contracts has been included as investment income on the statement. The TCRS did have option contract activity during the year ending June 30, 2010; however, there were no option contracts outstanding at June 30, 2010.

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2010, classified by type, and the changes in fair value of such derivative instruments for the year ended as reported in the financial statements are as follows:

Derivative Summary

(Expressed in Thousands)

	Changes in Fair Value		Fair Value at June 30, 2010			
	Financial Statement Classification	Amount	Financial Statement Classification	Amount	Notional Amount	Currency
Foreign Currency Forward Contracts		$ 2,575		$ 2,575	99,000	CAD
		185		185	19,030	EUR
		73		73	8,270	GBP
		(536)		(536)	6,287,850	JPY
	Investment Income	$ 2,297	Derivative Instruments	$ 2,297		
Futures Contracts	Investment Income	$ (23,484)	Derivative Instruments Payable	$ (3,364)	$105,747	
TBA Mortgage Backed Securities	Investment Income	$ 1,967	Derivative Instruments	$ 1,967	$474,634	

The fair values of foreign currency forward contracts are estimated based on the present value of their estimated future cash flows. Futures contracts and TBA mortgage backed securities are exchange traded and their price is based on quoted market prices at year end. It is the TCRS policy to conduct derivative transactions through the custodian bank and high quality money center banks or brokerage firms. The credit risk of foreign currency forward contracts is managed by limiting the term of the forward contracts and restricting the trading to high quality banks. The credit risk of futures contracts is managed by maintaining a daily variation margin.

D. COMMITMENTS

Standby Commercial Paper Purchase Agreement - The TCRS has agreed to serve as standby commercial paper purchaser for commercial paper issued by the Funding Board of the State of Tennessee. By serving as a standby commercial paper purchaser, the TCRS receives an annual fee of 75 basis points on the $350 million maximum issuance under this agreement during times when both Moody's and Standard and Poor's investment ratings assigned to the State of Tennessee's general obligation bonds are Aaa and AAA respectively, 80 basis points during times when either Moody's or Standard and Poor's has assigned ratings of Aa and AA respectively, or 95 basis points during times when either Moody's or Standard and Poor's has assigned ratings lower than Aa and AA respectively. In the unlikely event that the TCRS would be called upon to purchase the commercial paper, the TCRS would receive interest at a rate equal to prime plus 75 basis points during the first 30 consecutive days, plus an additional 50 basis points for each consecutive 30 days thereafter, up to a maximum rate allowed by state law.

E. FUNDED STATUS AND FUNDING PROGRESS

The funded status of each plan as of July 1, 2009, the most recent actuarial valuation date, is as follows:

Schedules of Funding Progress
(Expressed in Thousands)

	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SETHEEPP	$ 26,335,199	$ 29,054,966	$ 2,719,767	90.64%	$ 6,054,528	44.92%
PSPP	$ 5,304,455	$ 6,143,775	$ 839,320	86.34%	$ 2,282,082	36.78%

The TCRS uses the Frozen Entry Age actuarial cost method to calculate the annual required contribution (ARC). Effective July 1, 2009, the TCRS reestablished unfunded accrued liabilities for all groups.

The required schedule of funding progress immediately following the notes to the financial statements is intended to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Additional information as of the latest actuarial valuation follows:

	SETHEEPP	PSPP
Valuation Date	July 1, 2009	July 1, 2009
Actuarial cost method	Frozen Entry Age	Frozen Entry Age
Amortization method	Level Dollar	Level Dollar
Remaining amortization period	20 years closed period	(1) closed period
Asset valuation method	5-year moving market average FYE on or before June 30, 2007	5-year moving market average FYE on or before June 30, 2007
	10-year Moving Market Average for FYE ending after June 30, 2007	10-year Moving Market Average for FYE ending after June 30, 2007
Actuarial assumptions:		
Investment rate of return	7.50%	7.50%
Projected salary increases	4.75% (2)	4.75% (2)
Included inflation at	3.00%	3.00%
Cost-of-living adjustments	2.50%	2.50%
Increase in Social Security wage base	3.50%	3.50%

(1) The length of the amortization period varies by political subdivision, not to exceed 30 years

(2) Uniform rate that approximates the effect of a graded salary scale.

Schedules of Funding Progress
Expressed in Thousands

	Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) Frozen Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
SETHEEPP	7/1/2007	$ 26,214,995	$ 27,240,151	$ 1,025,156	96.24%	$ 5,742,866	17.85%
	7/1/2009	$ 26,335,199	$ 29,054,966	$ 2,719,767	90.64%	$ 6,054,528	44.92%
PSPP	7/1/2007	$ 4,897,974	$ 5,475,620	$ 577,646	89.45%	$ 2,081,964	27.75%
	7/1/2009	$ 5,304,455	$ 6,143,775	$ 839,320	86.34%	$ 2,282,082	36.78%

The schedule of funding progress is intended to present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Schedules of Employer Contributions
Expressed in Thousands

	SETHEEPP		PSPP	
Year Ended June 30	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
2010	$577,077	100.00%	$258,215	100.00%
2009	583,985	100.00%	252,926	100.00%
2008	593,412	100.00%	244,847	100.00%
2007	562,729	100.00%	231,699	100.00%
2006	474,879	100.00%	191,000	100.00%
2005	448,154	100.00%	181,096	100.00%

An actuarial valuation of the TCRS is performed every two years with the next valuation scheduled to be effective July 1, 2011.