

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 28, 2012

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 28, 2012**

TABLE OF CONTENTS

Minutes of the Board of Trustees	3
Committee Minutes	
Administrative Committee	9
Audit Committee	13
Investment Committee	17
Investment Policy Changes	19
TCRS Board of Trustee Appointment	47
Statistical Reports	
Active Member Statistics	51
Retired Payroll Statistics	52
Refund Activity and Expenditures	54
Prior Service Activity	56
Disability Retirement Report	
Disability Statistical Report	59
Approved for Disability	61
Disapproved for Disability	66
TCRS Financial Report	71

**MINUTES OF THE
BOARD OF TRUSTEES MEETING
JUNE 29, 2012**

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

COMMITTEE MINUTES

Minutes of the Administrative Committee

The Administrative Committee of the Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, June 29, 2012 at 9:00 a.m. The meeting was held in Room 29 of the Legislative Plaza with Director Jill Bachus presiding.

The following members were present: Jill Bachus, Director of TCRS, Mr. Dennis Carroll, Ms. Traci Jefferson, Mr. Bill Kemp, Mr. Alfred Laney, Ms. Patsy Moore, and Mr. Tommie Pendergrass.

Concord Update

Ms. Bachus introduced Mr. Fred Marshall, TCRS Assistant Director for Concord, to provide an update on the Concord project. Mr. Marshall informed the committee that Phase 4 – Imaging, has been in production for approximately three months and the module has been well accepted by employees who enjoy the ability to have instant access to documents.

Mr. Marshall indicated that the design of Phase 5 – Retired Payroll is almost complete and construction has begun. The major work items that are still in process are data conversion, bridging information between our legacy systems and Concord, and interface designs between third parties and Concord. The project is also working on test scripts for Phase 5 to ensure that the retired payroll module works as expected. Mr. Marshall also discussed design for Phase 6 - Active Members and Employer Reporting is underway. According to Mr. Marshall, the purpose of the design documents is to let the developers know how the system should look and work. Mr. Marshall indicated that changes have been made to the design process based on lessons learned during the design of Phase 5. The intent is to focus on design of two or three processes at a time. Mr. Marshall also mentioned that the Concord project has begun contacting employers to discuss the new Employer Reporting process.

Multiple Beneficiaries

Ms. Bachus introduced Mr. Jamie Wayman, Assistant Director of TCRS to provide an update on how TCRS has designed the Concord system to process benefit calculations for members who select multiple beneficiaries at retirement. Mr. Wayman mentioned that under current law, a member may only designate one beneficiary at retirement. In 2008, legislation was enacted that would allow a member to select multiple beneficiaries at retirement and elect a survivorship option. The effective date of the legislation was delayed until Concord could accommodate the option and the Treasurer approved the change. Mr. Wayman outlined two methods for performing the calculation. In both methods, the maximum benefit would be allocated based on the number of beneficiaries designated by the member. Under the first method, each benefit would be actuarially reduced based on the member's and beneficiary's age at retirement. This method would result in each beneficiary receiving a different amount based on the ages of the member and beneficiary. For the second method an average of the beneficiaries' ages would be

used to determine the benefit amount. Under this method each beneficiary would receive an equal amount upon the death of the member. Mr. Wayman informed the committee that TCRS had designed the calculation in Concord under method two, whereby each beneficiary receives an equal amount.

All Electronic Payments

Mr. Wayman discussed payment methods for retired members receiving monthly benefits from TCRS. Mr. Wayman indicated that 96.6% of TCRS retired members receive TCRS benefits by direct deposit with the remainder being paid by check. Mr. Wayman discussed the costs of issuing a check which includes the cost of the check stock, envelopes, postage, and the cost of staff to reconcile payments and process stolen, lost, and forged checks.

Mr. Wayman emphasized that in designing Concord TCRS was looking for the most efficient and secure method for making benefit payments. The TCRS preferred method for making payments continues to be through the use of direct deposit. Mr. Wayman indicated that the alternative to paper checks for making benefit payments will now be issuing a debit card to the member. Once a month, TCRS will deposit funds into the account associated with the debit card. TCRS would use a vendor already under contract with the state to provide the debit cards. This program is similar to payments made by other state agencies for benefits such as unemployment compensation. Mr. Wayman informed the committee that TCRS will begin making payment by debit card with the March 2013 monthly payroll. Similarly, beginning in March 2013, the Social Security Administration will no longer issue checks and instead will use debit cards for payments. The administrative committee made a recommendation to the Board of Trustees to adopt the payment of retirement benefits by debit cards to those retired members receiving a check.

Projected Mortality

Ms. Bachus discussed the use of projected mortality tables to value the new local government plans enacted during the recent legislative session. Ms. Bachus indicated the actuarial assumptions for the current TCRS plan uses mortality tables that do not project improvement in mortality. Due to advances in medicine and healthier lifestyles, TCRS members are living longer. As a result, an increase in the employer contribution rate is typically included at each actuarial valuation. By using mortality tables which project increased longevity, we can alleviate the regular increase in employer contribution rates since mortality will be prefunded. Ms. Bachus indicated we were not recommending a change to the projected mortality tables for the current plan due the large increase in cost, but that it just made sense to use these tables when starting a new plan. The administrative committee made a recommendation to the Board of Trustees to utilize projected mortality tables for actuarial purposes in the new local government plans.

Retirement Application Update

Mr. Wayman provided an update on the number of retirement applications TCRS has received. Mr. Wayman mentioned that last year TCRS processed approximately 7,200 retirement applications. Since July 1, 2011, TCRS has received 7,516 retirement applications through June 15. Based on the current volume of applications received, Mr. Wayman indicated that TCRS will process between 7,800 and 8,000 retirement applications this year.

Adjournment

With no other business, the Administrative Committee of the Board of Trustees adjourned at 9:55 a.m. on June 29, 2012.

Respectfully Submitted,

A handwritten signature in cursive script that reads "James E. Wayman".

James E. Wayman
Assistant Director, TCRS

Approved:

Jill Bachus
Administrative Committee Chair

**AUDIT COMMITTEE MEETING MINUTES
OF TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)
June 29, 2012**

The Audit Committee of the Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, June 29, 2012, at 8:00 a.m. The meeting was held in Legislative Plaza, Room 30, with Chairman Michael Barker presiding.

The following members were present: Chairman Michael Barker, Mayor Ken Wilber, Tennessee Municipal League; and Commissioner Rebecca Hunter, Tennessee Department of Human Resources.

Others present were: Mr. David Lillard, Jr., Treasurer; Ms. Janice Cunningham, Chief of Staff; Mr. Andy Furlong, Director of Internal Audit; Ms. Jill Bachus, Director of TCRS; Ms. Suzanne Smotherman, Concord Audit Manager; Ms. Stacey Jackson, Internal Auditor; Ms. Doreen Zientar, Internal Auditor; Mr. Andy McArthur, Internal Auditor; Patsy Moore, West Tennessee Teacher; Mr. Tommie Pendergrass, Department of Financial Institutions; Alfred Laney, Retired State Employee; and Rick Tharp, Deloitte Project Associate, Concord Project team.

Members not present: Secretary of State Tre Hargett and Mr. Erick Huth, Middle Tennessee Teacher

Approval of the March 30, 2012 Minutes of the Audit Committee

The meeting was called to order. Chairman Barker asked if any changes were needed to the minutes of the prior meeting. Commissioner Hunter questioned a reference to the "Counter Committee". It was decided that "counter" should be removed from the 'Other Business' section. Mayor Wilber motioned to accept the minutes subject to the discussed revision and Commissioner Hunter seconded the motion. The minutes of the March 29, 2012 Audit Committee meeting were unanimously approved as revised.

Introduction of Andy McArthur, Internal Auditor I

Mr. Furlong introduced Mr. McArthur as the new Internal Auditor for the Treasury Department and gave a brief bio of Mr. McArthur's background and accomplishments.

Concord Audit Log Presentation

Mr. Rick Tharp presented a brief overview of the Audit Log portion of the new Concord system. The Audit Log allows internal audit to track certain transactions within Concord. Mr. Tharp is testing each part of the Audit Log during development of the system. Ms. Smotherman will complete User Acceptance Testing. Audit Log phase 5 will go live in the winter of 2013.

Discuss Financial Integrity Act Report

Mr. Furlong discussed the Financial Integrity Act Report with the Committee. The report is due to the Comptroller of Treasury and Commissioner of Finance and Administration by December 31st of every year. In the absence of an Internal Audit Director at that time, Treasury submitted the report late. No significant deficiencies were noted and internal controls are in place and effective.

Discuss Internal Audit Reports

Mr. Furlong discussed two internal audit reports that were presented to the Audit Committee: Check Shredding Review and Commission Sharing Agreement Review. The Check Shredding Review recommended that check shredding activities be documented but determined that adequate controls are in place otherwise. The Commission Sharing Agreements Review provides an evaluation of the agreements to split commissions among brokers that provide research and those that execute trades. No issues were found.

Review Audit Committee Charter

Mr. Furlong stated the Audit Committee Charter should be periodically reviewed and updated. There were no suggestions for changes.

Commissioner Hunter motioned to keep the Charter as it is and Mayor Wilber seconded the motion. It was a unanimous decision among the Committee.

Discuss Optional Quadrennial Audit

Chairman Barker stated that there is a provision that allows the Audit Committee to request an independent audit every four years. Treasurer Lillard explained that State Audit's annual audit covers a broad scope and an independent audit could cost approximately \$200,000. He suggested that every four years the minutes should reflect whether the Audit Committee wants an independent audit conducted or not.

Commissioner Hunter motioned that an optional quadrennial audit is not necessary based on State Audit's annual audit of the department and Treasury's internal audit division. Mayor Wilber seconded the motion and the committee agreed unanimously.

Discuss Comptroller's Hotline

Mr. Furlong indicated that the Audit Committee Charter states a process must be in place for the Audit Committee to be informed about any reports of fraud or abuse. In the past it was assumed that the Comptroller's Hotline satisfied that requirement. Further investigation revealed that the Comptroller's office does not inform the Audit Committee directly of any reports. Typically, the Comptroller's office handles claims internally or notifies the appropriate Executive Director of the department. Treasurer Lillard mentioned an email hotline could be established so emails will be sent directly to the Chairman of the Audit Committee and the Board of Trustees. Mr. Furlong fielded several questions. Treasurer Lillard suggested setting up a meeting with the Comptroller's office before the next audit committee meeting to discuss what can be accomplished from a procedural standpoint.

Discuss Internal Audit Policies and Procedures

Mr. Furlong stated that upon his arrival to the Treasury department he noticed that Internal Audit's policies and procedures were out of date. He and his staff amended the policies and procedures to make them more current and removed redundant information. The policies and procedures were included in the meeting materials.

Private Equity Disclosure

Chairman Barker explained that anyone who has contact with someone who could influence the decision making of private equity investments must be disclosed to the audit committee. A listing of those individuals and their companies was provided with the meeting materials. There was no further discussion concerning the disclosures.

Other Business

Ms. Bachus informed the committee that the retiree portion of Concord will go live in the winter of 2013 and the active employee portion will go live a year after. The document imaging system is now in place and staff is adjusting to working with electronic files. Ms. Bachus also relayed to the committee that a record number of retirement applications, approximately eight thousand, are expected for the year. Ms. Bachus fielded several other questions regarding the Concord system.

Treasurer Lillard commended Ms. Bachus and her staff for their work with the Concord system.

Adjournment

Chairman Barker stated that if there were no additional items to be discussed, the meeting could be adjourned. Mayor Wilber motioned to adjourn the meeting and Commissioner Hunter seconded the motion. Chairman Barker thanked the members of the Audit Committee and adjourned the meeting.

Respectfully Submitted,



**Andy Furlong,
Director of Internal Audit**

Approved:

**Michael Barker
Chairman of the Audit Committee**

**Minutes of the Meeting of the Investment Committee of the TCRS Board of Trustees
March 30, 2012**

The Investment Committee of the TCRS Board of Trustees ("Investment Committee") met at 9:00 a.m. on March 30, 2012 in Hearing Room 31 of Tennessee Legislative Plaza. Members of the Investment Committee participating were the Honorable David H. Lillard, Jr., State Treasurer; the Honorable Tre Hargett, Secretary of State; Mr. Greg Elliott and Mr. David Seivers. Also in attendance were Mr. Bill Abney, Assistant Treasurer, Mr. Michael Brakebill, Chief Investment Officer, Mr. Andy Palmer, Deputy Chief Investment Officer, Mr. Peter Katseff, Director of Real Estate, Mr. Tim McClure, Director of Cash Management, Mr. Lamar Villere, Director of Private Equity, Mr. Michael Keeler, Director of Equities, and Mr. Matthew Haitas, Real Estate Analyst. Mr. Peter Keliuotis and Mr. Rich Dabrowski of Strategic Investment Solutions, as well as Mr. Matthew Haitas, Real Estate Analyst were also present.

Treasurer Lillard chaired the meeting and called the meeting to order. The minutes of the November 18, 2011 and February 15, 2012 meetings were presented for discussion. Secretary Hargett made a motion for approval of the minutes and Mr. Seivers seconded a motion to approve the minutes. The motion was approved by voice vote.

Mr. Katseff was asked to introduce the proposed investment by TCRS in The Avery on Southwestern, an apartment community in Dallas, Texas. The transaction had been proposed by TA Associates, a Real Estate Investment Advisor engaged by TCRS.

Mr. Katseff stated that the primary attribute of the proposed investment was the high end urban finishes, which will appeal to the primary renter demographic, at a relatively low price per unit. In addition, the property is located in a good location surrounded by some of the most prestigious neighborhoods in Dallas, a city whose economy has performed extremely well since the end of the great recession. Mr. Katseff further noted that the property is situated in close proximity to strong retail centers and many large employers. He also stated that the greatest risk to this investment is the impact of new development. However, this risk is mitigated by the price to be paid by TCRS which is estimated to be below the cost to build a comparable property.

Treasurer Hargett made a motion to approve this investment by TCRS. The motion was seconded by Mr. Elliott and unanimously approved.

Mr. Brakebill provided an update to a previous disclosure he had made to the Investment Committee in the fall of 2010. He stated that he has continued to serve on the Investment Committee of the Tennessee Valley Authority Retirement System (TVAR) as a paid, non-voting member and noted that he had found it to be a valuable experience. He thanked the Investment Committee for their continued support in that endeavor. Treasurer Lillard stated his support for Mr. Brakebill's continued presence on the TVAR Committee, but noted that the continuation in this role was at the will of the Treasurer.

study, expected returns have declined, which is best illustrated by the drop in the core bond yields from 5.3% to 2.2% during this period. Therefore, SIS now has a 7.0% expected return for the TCRS portfolio, a decline of 50 basis points from September 2007.

Mr. Keliuotis explained that asset allocation is the single largest driver of long-term performance, highlighting the importance of the asset-liability study. In the study, SIS will attempt to determine the appropriate asset allocation for TCRS that maximizes its returns for a certain level of risk. He noted that the new initiatives discussed by Mr. Brakebill are expected to add an additional 20 basis points to the expected return of the portfolio while adding a small amount of additional risks.

Treasurer Lillard asked Mr. Dabrowski of SIS to introduce himself. Mr. Dabrowski introduced himself and stated that he was excited to work with TCRS.

The members of the Investment Committee had no additional questions and the meeting of the Investment Committee was adjourned.

Respectfully Submitted,

Michael Brakebill
Chief Investment Officer

APPROVED:

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

**Minutes of the Meeting of the Investment Committee of the TCRS Board of Trustees
May 11, 2012**

The Investment Committee of the TCRS Board of Trustees ("Investment Committee") met at 8:30 a.m. on May 11, 2012 in the office of The Honorable David H. Lillard, Jr., State Treasurer. The Honorable David H. Lillard, Jr., State Treasurer; and Mr. Greg Elliott were present in person. The Honorable Tre Hargett, Secretary of State, and Mr. David Seivers participated in the meeting by telephone. The Honorable Mark Emkes, Commissioner of Finance and Administration was unable to attend the meeting. Also in attendance were Mr. Bill Abney, Assistant Treasurer, Justin Wilson, State Comptroller, Mr. Rick Newton, Mr. Michael Brakebill, Chief Investment Officer, Mr. Andy Palmer, Deputy Chief Investment Officer, Mr. Peter Katseff, Director of Real Estate, and Mr. Matthew Haitas, Real Estate Analyst. Mrs. Sheila Ryan of Cambridge Associates, TCRS's Private Equity Consultant, participated by telephone.

The Treasurer began the meeting by reading the Resolution for a Conference Call Meeting. He noted that the purpose of this meeting is to consider action on several real estate transactions and several private equity transactions. The law allows the Investment Committee to meet by telephone conference call upon a determination by the Committee that the matters to be considered at this meeting require timely action by the body, that physical presence by all members is not possible within the period of time requiring actions and the participation by some members by telephone is, therefore, necessary. If the Committee makes such a determination, any member participating in a meeting by telephone is deemed present in person at the meeting for purposes of quorum requirement and voting.

Due to the importance and need for timely action of the matter to be considered at this meeting, Treasurer Lillard moved that the Committee find that the telephone participation in this meeting by some Committee members is necessary. Mr. Seivers seconded the motion and the motion was unanimously approved by the committee.

Mr. Brakebill was asked to introduce the proposed investment by TCRS in four new private equity funds. He began by presenting the proposed investment in Oaktree Opportunities Fund IX, a \$4 billion distressed debt fund. TCRS has commitments to Oaktree VIII (A&B) and Oaktree PPIP Private Fund. TCRS staff recommended making a \$50 million commitment to this fund. Mr. Brakebill noted that TCRS has been pleased with its partnership with Oaktree and the performance of the investments in its earlier funds. He noted that Oaktree had recently taken itself public, which does create certain additional risks. However, Mr. Brakebill noted that both TCRS and Cambridge Associates, TCRS's private equity consultant, believe this risk is mitigated by the expertise and strength of Oaktree as a general partner. Treasurer Lillard shared similar concerns about the potential conflict of interest between the limited partners of the funds and the shareholders of the publicly traded general partner.

David Seivers made a motion to approve the investment in Oaktree Opportunities Fund IX by TCRS. The motion was seconded by Treasurer Lillard and unanimously approved.

obligations to private equity during the recent financial crises. Treasurer Lillard noted that the private equity target was recently increased to a maximum allocation of 10% with a target of 8%. However, strategic lending will consist of 5% leaving a 3% allocation to traditional private equity. Mr. Brakebill added that the majority of funds who experienced liquidity crunches were significantly less liquid than TCRS is today. Those funds would have had 15% to 30% allocation to private equity in addition to larger annual required distributions. Sheila Ryan added that Cambridge Associates works closely with TCRS to analyze the effects on commitments from different economic scenarios.

Peter Katseff was asked to introduce the three proposed real estate investments by TCRS. He began by introducing the proposed investment by TCRS in an Apartment Community in Houston, Texas built in 2007. The transaction had been proposed by UBS, a Real Estate Investment Advisor engaged by TCRS. The proposed investment has been reviewed and approved by Mr. Katseff.

Mr. Katseff and Mr. Haitas visited the property and the competition. Mr. Katseff noted that the property is located in an excellent location surrounded by some of the most prestigious neighborhoods in Houston, a city whose economy has performed extremely well since the end of the great recession. It is located near several large employers and within walking distance to strong national retailers. While construction of new apartments is a potential long-term threat to this property, that risk is mitigated by the purchase price being significantly less than the estimated cost to build new apartments in a comparable location.

David Seivers made a motion to approve the investment by TCRS. The motion was seconded by Secretary Hargett and unanimously approved.

Mr. Katseff introduced the proposed investment by TCRS in two Student Housing Communities. The transaction has been proposed by Clarion, a Real Estate Investment Advisor engaged by TCRS. The proposed investment has been reviewed and approved by Mr. Katseff.

Mr. Katseff and Mr. Haitas visited both properties, met with the operator and performed a significant level of due diligence with the operator. Mr. Katseff noted that this was a new type of investment for TCRS. However, he noted that several large institutional investors are investing in this space including the University of California, CalPERS, CalSTRS, and the State of Wisconsin Investment Board (SWIB). Mr. Katseff has a long standing relationship with senior management at Heitman and reached out to the firm to discuss investing in student housing. Heitman, a separate account real estate advisor to institutional investors with over \$21.9 billion in private real estate under management, has been investing in student housing for its institutional clients since 2002 with great success. Further, there are two publicly traded REITS with a market cap in excess of \$1 Billion dedicated solely to the investment in private student housing.

Mr. Katseff stated that one community is under construction and being built with high end finishes including granite countertops and stainless steel appliances. The community will offer several amenities including a fitness room, a resort style pool, a

**Minutes of the Meeting of the Investment Committee of the TCRS Board of Trustees
June 21, 2012**

The Investment Committee of the TCRS Board of Trustees ("Investment Committee") met at 3:00 p.m. on June 21, 2012 in the office of The Honorable David H. Lillard, Jr., State Treasurer. A quorum of the Investment committee participated in the meeting which included The Honorable David H. Lillard, Jr., State Treasurer, Mr. David Seivers, and Mr. Greg Elliott. The Honorable Mark Emkes, Commissioner of Finance and Administration, and The Honorable Tre Hargett, Secretary of State, were unable to attend the meeting. Mr. Rick Newton, representing the Department of Finance and Administration, attended in the absence of Commissioner Emkes. Also in attendance were Mr. Bill Abney, Assistant Treasurer, Mr. Michael Brakebill, Chief Investment Officer, Mr. Andrew Palmer, Deputy Chief Investment Officer, Mr. Peter Katseff, Director of Real Estate, Mr. Ken McDowell, Senior Real Estate Portfolio Manager, and Mr. Matthew Haitas, Real Estate Analyst.

Peter Katseff and Ken McDowell were asked to introduce the proposed real estate investments by TCRS in Parmer Business Park in Austin, Texas. The transaction had been proposed by RREEF, a Real Estate Investment Advisor engaged by TCRS.

Mr. Katseff began by giving an overview of Austin, Texas. Austin has experienced strong employment growth since the end of the great recession and continues to add jobs every month with over 18,300 new jobs being added in 2011 or a 2.3% increase from 2010. In particular, Austin is benefitting from strong growth in the technology industry, which is expanding in Austin due to its lower cost of doing business and highly educated labor force. He noted that Apple currently has 3,000 employees in Austin and has announced plans to expand its employee base to 7,000 employees.

Ken McDowell provided an overview of the Northwest submarket where Parmer Business Park is located. He noted that the overall Austin office market experienced 1.8 million square feet of absorption in 2011. The Northwest submarket accounted for 1.2 million square feet of that absorption or over 60% despite accounting for only 38% of its inventory.

Mr. McDowell stated that Parmer Business Park is a 256,737 square foot Class A single-story office park. The property was built in 2000 and 2001 and consists of six buildings on a 28.6 acre site. The property is 100% leased to predominantly credit tenants including Apple, Oracle and Zimmer Spine.

Both Greg Elliot and David Seivers asked questions regarding future occupancy and the likelihood of Apple vacating the space. Mr. Katseff stated that that the TCRS base case assumed an equal likelihood that Apple exercises an early termination as any of the other tenants vacate at the end of their leases. He noted that it is extremely difficult to know the plans of tenants, but tenant interviews during due diligence may help to garner additional information.

Mr. McDowell provided additional insight into the attractiveness of Parmer Business Park to office tenants. He noted that tenants are attracted to Parmer Business Park

**Minutes of the Meeting of the Investment Committee of the TCRS Board of Trustees
July 19, 2012**

The Investment Committee of the TCRS Board of Trustees ("Investment Committee") met at 2:00 p.m. on July 19, 2012 in the office of The Honorable David H. Lillard, Jr., State Treasurer. A quorum of the Investment committee participated in the meeting which included The Honorable David H. Lillard, Jr., State Treasurer, The Honorable Mark Emkes, Commissioner of Finance and Administration, Mr. David Seivers, and Mr. Greg Elliott. The Honorable Tre Hargett, Secretary of State, was unable to attend the meeting. Also in attendance were Mr. Justin Wilson, Comptroller of the Treasury, Mr. Rick Newton, Ms. Janice Cunningham, Mr. Peter Katseff, Director of Real Estate, Mr. Ken McDowell, Senior Real Estate Portfolio Manager, and Mr. Matthew Haitas, Real Estate Analyst. Mr. Michael Brakebill, Chief Investment Officer, and Ishika Bansal from The Townsend Group, TCRS's Real Estate Consultant, participated by telephone.

Peter Katseff was asked to introduce the proposed real estate investment by TCRS in Oak Park Place in Chicago, Illinois. The transaction had been proposed by Cornerstone, a Real Estate Investment Advisor engaged by TCRS.

Oak Park Place is a Class-A 204-unit six and 14-story luxury mid-rise apartment complex located in Chicago, IL in the suburb of Oak Park, one of the oldest suburbs in Chicago and located eight miles from downtown Chicago. Oak Park is known for its significant barriers to new development due to limited development sites and local opposition to multifamily development. Access to downtown is provided by the Chicago Transit Authority's Green line or the Metra commuter rail system.

Oak Park Place's units feature high-end finishes including granite countertops, stainless steel appliances, nine and ten foot ceilings, and floor-to-ceiling windows. The ground floor of the building is occupied by a Trader Joe's grocery store, which provides an additional amenity to the residents. Other amenities include a green roof garden with an outdoor rooftop terrace as well as an indoor fitness center. The property is further enhanced by the ability of residents to walk to public transportation, many different national retailers, restaurants, coffee shops, and a public park and tennis club located across the street from the property.

Mr. Katseff noted that that Oak Park Place is an expensive transaction on a per unit basis and more expensive on a per unit basis than the typical community in the TCRS apartment portfolio (suburban, three-story, no elevator). However, it is difficult to add new supply in Oak Park and the in place rents support the acquisition price.

David Seivers referred to the Investment Summary that stated that the current property managers had not managed the property to its full potential. He asked why that had occurred. Mr. Katseff noted that current owners, whose expertise is apartment development and not property management, had installed their own property managers to manage the property. He noted that the inability for the property to reach its full income potential was most likely due to an inexperienced leasing team with a strategy to fully lease the property as soon as possible (rather than achieving the highest rents over a longer leasing period).

INVESTMENT POLICY CHANGES

THE TENNESSEE CONSOLIDATED RETIREMENT SYSTEM INVESTMENT POLICY

ORGANIZATIONAL STRUCTURE AND GENERAL OVERVIEW

The Tennessee Consolidated Retirement System (TCRS) represents the pension plan for state employees, teachers, higher education employees, local government employees, and employees of other entities authorized to participate in TCRS. TCRS was established by state statute in 1972. The governing statute is found in Tennessee Code Annotated Section 8-34-101, et seq.

Formatted: Body Text1

Final authority for investing and reinvesting the assets of the Tennessee Consolidated Retirement System (System) is subject to approval of the System's Board of Trustees (Board). T.C.A., Section 8-37-104 (a). Implementation of investment policy established by the Board is hereby delegated to the State Treasurer (Treasurer) who shall put such policy into effect. T.C.A., Section 8-37-110. Assets shall be invested subject to all the terms, conditions, limitations, and restrictions imposed by the laws of the State of Tennessee upon domestic life insurance companies in the making and disposing of their investments or as otherwise provided by state law. T.C.A., Section 8-37-104 (a). If the Board has issued other directions further limiting such investments, the assets shall be invested according to the criteria established by the Board.

Formatted: Body Text1

Treasurer

Formatted: No underline

The Treasurer shall implement this Investment Policy established by the Board and shall have the full power to invest and reinvest TCRS funds on behalf of the Board. T.C.A. Section 8-37-110(b). In implementing this Investment Policy, the Treasurer may delegate certain responsibilities to the Chief Investment Officer and Investment Staff.

Legal Counsel

Formatted: No underline

The State Attorney General or an assistant designated by him shall represent the Board in all matters. In all cases where the interests of the System require additional counsel to the Attorney General, the Chairman of the Board, with approval of the Attorney General, is authorized to employ such additional counsel. T.C.A., Section 8-34-308. With respect to investment matters requiring legal counsel, the Treasurer may approve the assignment of legal counsel upon the recommendation of the Assistant Treasurer for Legal Compliance and Internal Audit.

Formatted: Subhead 1, Level 1, Line spacing: single

Formatted: Font: 10.5 pt, Not Bold, No underline

Investment Committee

The Board of Trustees shall create an Investment Committee consisting of five members. Three of the members shall be the Treasurer, the Secretary of State and the Commissioner of Finance and Administration. The two remaining members shall be members of the Board of Trustees, who have demonstrable investment experience, business experience, educational background, or investment oversight experience, and will be elected by the Board of Trustees.

Formatted: Body Text1

Formatted: Body Text1

Investment Advisory Council

Effective September 30, 2011

Investment Policy draft 9.14.12.v1

Each member of the investment staff shall act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims.

Formatted: Font: 10 pt

Reporting

Investment Staff shall provide a detailed written review of investment activity at Board and Council meetings. This shall include a review of the purchases and sales over the period under review, a portfolio summary, a review of current investment policy, and other reports as requested.

Formatted: Font: Book Antiqua, 10 pt

Formatted: Font: 10 pt

Formatted: Body Text1

Formatted: Font: Book Antiqua

Investment Policy draft 9.14.12.v1

Roles of the Board

Reviews and, if appropriate, authorizes requests by the CIO and Treasurer to engage investment services. Delegates to Staff the authority to identify and retain qualified external investment managers, advisors, and consultants.

Formatted: Body Text1

Reviews and approves the processes employed by Staff in the selection and engagement of investment managers, advisors, and consultants.

Reviews and monitors the investment performance of the investment advisors selected by Staff.

Roles of the Treasurer, CIO and Staff

Evaluates the needs of the Division to achieve its risk-adjusted return objectives and, if appropriate, presents recommendations to obtain authorization to the TCRS Board of Trustees to engage investment management services in order to achieve these objectives.

Formatted: Body Text1

Develops the processes for engaging investment management services. Upon approval by the TCRS Board of Trustees, manages investment consulting and advisory relationships.

Selects, engages, and manages investment consulting and advisory relationships, consistent with the processes approved by the TCRS Board of Trustees.

Master Custodian Financial Institution

The Treasurer may engage the services of a master custodian financial institution to hold in trust the financial assets of TCRS and to process trade transactions. The Board delegates to the Treasurer the responsibility to determine the duties and responsibilities of the master custodian financial institution with such enumerated in contractual agreement. Engagement of the Custodian shall be subject to the Tennessee State procurement process which includes competitive and non-competitive procurement processes.

Formatted: Body Text1

Proxy Voting

It is the general policy to vote proxies in a manner which will provide the best ultimate value to the shareholders of that entity. The Chief Investment Officer will develop and maintain a proxy voting policy, and review such policy annually with the Council. In voting all proxies, the investment staff will:

Formatted: Font: Times New Roman

Formatted: Body Text1

1. Analyze the economic consequences of the options presented to them as shareholders, and select the option most likely to protect and enhance the value of the System's assets.
2. Document the votes (and other actions and decisions) along with the reasons for taking the action chosen. This includes maintaining a record of all attempts to solicit proxies, from outside or inside the organization.

Effective September 30, 2011

5

INVESTMENT POLICY AND OBJECTIVES

Formatted: Font: Times New Roman

Key Objective

Formatted: Body Text1

Achieving superior risk adjusted returns is the primary objective for the Fund. Achieving the primary goal will provide the liquidity needed by the System to pay beneficiaries, preserve principal value over a long-term basis, and insure the actuarial soundness of the plan.

- Control risk by proper diversification of asset classes
- Exceed the actuarial assumption on a long-term basis
- Exceed the return of the composite benchmark of the target weighting of the asset classes

Investment Return

Formatted: Font: Times New Roman

Formatted: Body Text1

The System's assets should be managed actively to attain, within acceptable risk limitations, a return on assets that will meet beneficiary payments as required. Return shall include both current income and capital appreciation. The investments of the System shall be diversified so as to minimize the risk of large losses, unless under particular circumstances it is clearly prudent not to do so. The total return objective of the system shall be to exceed the returns as set out under the "Performance Measurement" section of this policy.

Liquidity for System Beneficiary Payment

Formatted: Font: Times New Roman

Formatted: Body Text1

Contributions and Investment income appear sufficient to meet beneficiary payments for the foreseeable future. Continual review of the System should be conducted to assure that investments providing income for liquidity needs are purchased as the System matures.

Investment Policy draft 9.14.12.v1

The Fund's overall annualized total return should exceed the return available from a policy of investing in an index fund of the following:

Asset Class	Index	Weight
Domestic Stocks	S&P 1500	35.13%
Canadian Stocks	S&P/TSX 60 Index	5.1%
International Stocks	MSCI EAFE Investable Market Index (IMI)	45.13%
Emerging Market Stocks	MSCI EFM Adjusted*	5%
Domestic Bonds	Citigroup Large Pension Fund Index†	26.25%
Inflation Indexed Bonds	Citigroup TIPS Index	8.1%
International Bonds	Citigroup Non-U.S. G-5 Govt. Bond Index	0%
Traditional Private Equity	S&P 500 + 3%	3%
Private Equity Strategic Lending	Strategic Lending Benchmark** S&P 500 + 3%	35%
Real Estate	NCREIF Property Index	7%
Short-term Securities	91-Day U.S. Treasury Bills	1%
	TOTAL	100%

* To facilitate proper evaluation of the Emerging Market Stocks portfolio transition, the Domestic Bond benchmark will change in increments. On December 31, 2010 the benchmark MSCI Emerging Markets Index returns will be 40% Citigroup Broad Investment Grade. On March 31, 2011 the benchmark, adjusted to exclude countries based on the country screening methodology developed.

**Benchmark will be 50% Citigroup Broad Investment Grade/Barclay's High Yield 2% Constrained Index and 50% Citigroup Large Pension Fund Index. Finally, on June 30, 2011 the benchmark will be 100% Citigroup Large Pension Fund Index. Credit Suisse Leveraged Loan Index.

†† effective as of December 31, 2012

To accurately compare portfolio performance when significant changes in allocations occur in illiquid asset classes, the total fund performance will be calculated on an "as-allocated" basis. The "as-allocated" calculation will use the actual percentages invested in the illiquid asset classes of real estate and private equity instead of the long-term target weights.

The Total Fund should rank in the upper 50 percentile compared to the results of other similarly managed public fund portfolios measured over rolling five-year periods.

Rebalancing

Should an asset class fall below the minimum percentage or exceed the maximum percentage, the CIO is expected to rebalance the portfolio to bring the asset class within the minimum / maximum range within 90 days.

Effective September 30, 2011

9

INVESTMENT CRITERIA

Formatted: Font: Times New Roman

Formatted: Body Text1

Both the Board and the Investment Staff are aware of the desirability of investing within the State of Tennessee whenever quality, risk, diversification and potential return are equal to or greater than that available on like investments outside the state. The Investment Staff should encourage and be receptive to Tennessee financial proposals. However, both the Board and the Investment Staff are aware of the fiduciary responsibility of investing pension assets and should not make any investment based solely on its location in Tennessee when quality, risk, diversification, or potential return are sacrificed. See T.C.A., Section 35-3-117(b). Further, the Board will not approve, and staff is not authorized to engage in, investment proposals designed to benefit special political, social, or economic subgroups within or external to the System's beneficiaries unless they clearly meet all fiduciary standards of investing.

In determining compliance with the percentage limitations of this policy, the assets of the System shall be valued at their market value. Accordingly, an investment may be made on any given day provided such investment does not cause any applicable limitation prescribed in this policy to be exceeded on such day. T.C.A., Section 8-37-104(b).

Common, Preferred Stock and Convertible Bonds

Formatted: Font: Times New Roman

Formatted: Body Text1

Growth is important to the System to attain a return that will allow for greater participant benefits and/or lower employer funding requirements. Equity investments will be used to seek this growth through potential dividend and capital appreciation. The System will limit its investment in common and preferred stock to 75% of the System's total assets. T.C.A., Section 8-37-104(a)(1). Convertible bonds, equity exchange traded funds, stock options, and stock index futures will also be counted as an equity investment and included in this limitation. The System's stock portfolio shall be managed by the Investment Staff to obtain a superior return. The stock of smaller, emerging companies, including new issues, should be an integral part of the total portfolio. Not more than 4.99% of the outstanding shares of any one issuer shall be purchased. Any stock purchase which does not meet the statutory definition for domestic life insurance companies shall be considered purchased under the basket clause as permitted by statute.

Notes, Bonds, and Mortgages

Formatted: Font: Times New Roman

Formatted: Body Text1

Public issues of notes and bonds shall make up the majority of fixed income investments. It will be necessary to actively manage this sector of the portfolio in times of volatile interest rate swings to either shorten the average maturity to protect principal value or lengthen maturities to lock up a long-term stream of income. The only issues subject for purchase are investment grade bonds (four highest ratings) as rated by one of the recognized rating agencies. Issues of any agency of the federal government or any entity with the express or implied backing of the U. S. Treasury shall be considered as holding the highest possible rating. The total sum invested in notes and bonds and other fixed income securities exceeding one (1) year shall not exceed 75% of the total funds of the System. Government Bond futures, Federal Funds futures, Eurodollar futures, interest rate swaps, credit default and credit default index swaps will also be counted as a Fixed Income investment and included in this limitation. T.C.A., Section 8-37-104(a)(2).

Effective September 30, 2011

11

Investment Policy draft 9.14.12.v1

5. Transactions will be conducted through only a few of the highest quality domestic money center banks and domestic brokerage firms. The criteria to be used in selecting such banks and brokerage firms should include, but should not be limited to, their experience and expertise in the financial futures market.
6. A transaction record shall be maintained which contains the following:
 - a) The amount of contracts purchased and the reason therefor.
 - b) The amount of contracts sold and the reason therefor.
7. Investment Staff shall submit a quarterly report to the Board specifying the transactions during the previous quarter. The report shall summarize the strategies employed, the investment performance of those strategies, and potential strategies for the present quarter. Each report shall list the banks and brokerage firms authorized to conduct financial futures transactions with the System. T.C.A., Section 8-37-104(a)(7).

Equity Futures

Investment Staff may purchase or sell stock index futures contracts for the purpose of making asset allocation changes in a more efficient and cost effective manner, and to improve liquidity. In addition, options on those instruments may be employed to achieve risk management objectives.

Such futures contracts shall be subject to the following terms and conditions:

1. The Investment Staff will not enter into equity futures transactions for the purpose of speculative leveraging, as defined in Tenn. Code Ann. 88-37-104(a)(7)
2. The total notional amount of the System's equity financial futures contract obligations should not exceed 10% of the market value of the System's total assets. Position sizes will be measured by notional amounts. Options will be measured in their notional equivalents.
3. The sum total of the domestic and international equity portfolios, together with the value of any stock index futures contract obligations should be within the asset allocation range for each of domestic and international equity securities, respectively. While stock index futures contracts are outstanding, the Investment Staff shall maintain a comparison of the System's equity asset allocation against its invested position including futures contracts.
4. The System may use cash and obligations of the U.S. government or any of its agencies to meet the variation margin requirement.
5. Financial futures contracts may be utilized given the contracts are appropriate for the required portfolio management result. Indications of appropriateness include correlation with the underlying market, similar market coverage and similar sector coverage.
6. Transactions will be conducted through only a few of the highest quality domestic money center banks and domestic brokerage firms. The criteria to be used in selecting such banks and brokerage firms should include, but should not be limited to, their experience and expertise in the financial futures market.

Formatted: Font: Times New Roman

Formatted: Font: Times New Roman

Formatted: Body Text1

Formatted: Body Text1

Effective September 30, 2011

13

Investment Policy draft 9.14.12.v1

should be marked to market each business day so that the aggregate market value of the collateral allocated to all then outstanding loans to a single security firm or bank equals 102% of the market value of such loans and the interest accrued thereon. If at any time the aggregate market value of the securities collateral allocated to all then outstanding loans to a single security firm or bank is less than 100% of the market value of such loans, more collateral should be requested. Cash received as collateral may be invested by or on behalf of the System in any investment instrument in which the System's assets may be directly invested. Such cash may also be invested in short-term investment funds provided the portfolio of such funds contains only those investment instruments in which the System's assets may be directly invested. The Treasurer, through securities lending agreements, may further restrict the collateral requirement outlined in this policy. T.C.A., Section 8-37-104(a)(6).

Securities lending agreements entered into shall be reviewed, commented upon, and approved as to form and legality by the Attorney General and Reporter.

Standby Note Purchase Agreement

The System may enter into contracts to serve as a standby note purchaser for the Tennessee State School Bond Authority, the Tennessee State Funding Board and the Tennessee Local Development Authority provided said contracts contain the following provisions:

1. The System receives an annual commission, representing a fair market value fee, for serving as the standby note purchaser.
2. Fees established for providing the standby note purchasing service will be reviewed annually and adjusted as appropriate.
3. If called upon to purchase such notes, the System receives a market rate of return exceeding the prime rate.

T.C.A., Section 8-37-104(a)(8).

Formatted: Font: Times New Roman

Formatted: Body Text1

Effective September 30, 2011

15

Real Estate

An amount not to exceed 10% of the market value of the total TCRS portfolio may be invested in real estate. The real estate investment portfolio of TCRS may include investments in direct real estate investments, commingled funds, group trusts, real estate operating companies ("REOCs"), partnerships, corporations, limited liability companies ("LLCs") or other collective investment vehicles or pooled investments as well as REITs (private or public). At the time of acquisition, the minimum investment size for an individual property is \$5.0 million, unless the investment is part of an accumulation strategy of multiple properties in a given market or sub-market. The maximum investment size in any one property shall be limited to one-half of one percent (0.5%) of the market value of TCRS's total assets.

Formatted: Font: Times New Roman

Formatted: Font: Times New Roman, Underline

TCRS shall invest primarily in substantially leased (i.e., 80% or greater leased at time of acquisition) institutional quality, well-located assets in the traditional property types: office, apartment, retail, and industrial. To avoid concentrations within certain property types and to ensure prudent diversification over the longer time periods, no investment may be made which would cause, at the time of acquisition, the market value of TCRS holdings in any single traditional property type to exceed 40% of the market value of the greater of TCRS's real estate target allocation or the total value of real estate invested.

Formatted: Body Text1

TCRS shall limit real estate investments such that at the time of acquisition, no more than 2% of the market value of TCRS's total assets shall be invested in any single Standard Metropolitan Statistical Area ("SMSA"). All investments shall be limited to properties located in the United States excluding de minimis positions held within commingled funds. In any event, TCRS cannot acquire real estate located in the State of Tennessee unless such acquisition is in the shares or interests of a regulated investment company, mutual fund, common trust fund, real estate investment trust, or similar organizations or vehicles which are commingled and investment determinations as to which real estate assets to purchase or acquire are made by the investment sponsor or investment manager, or persons other than TCRS.

Formatted: Body Text1

Real estate investment advisors are to be utilized by TCRS to locate, evaluate, acquire, manage and dispose of separate account direct real estate investments. TCRS shall limit its exposure to any single Advisor to mitigate potential advisor or firm specific risk. No Advisor, at the time of an acquisition, shall be permitted to manage more than 40% of the market value of the greater of TCRS's real estate target allocation or the total value of real estate invested.

TCRS may own such investments in its own name or, to the extent permitted by law, through title holding entities, and may transfer real estate properties from direct ownership to a title holding entity, or from a title holding entity to direct ownership, during the course of the holding period of the investment.

Formatted: Body Text1

The Director of Real Estate shall develop comprehensive real estate investment guidelines (Real Estate Guidelines) that shall be approved/reviewed by the Chief Investment Officer and approved by the Treasurer.

Transactions to acquire and dispose of direct real estate properties are subject to approval of the Investment Committee of the Board of Trustees. ~~The Investment Committee will not consider any acquisitions or dispositions until the Investment Advisory Council has reviewed the transaction and submitted its advice.~~ Transactions involving a market value of less than \$30

Effective September 30, 2014

17

Investment Policy draft 9.14.12.v1

Conduct due diligence on individual investment opportunities and negotiates terms and conditions.

Report the status of all investment activities to the Investment Advisory Council and the Investment Committee.

c. Roles of the Consultant(s)

The Consultant(s) provides a key oversight and monitoring role.

In conjunction with Staff, reviews the process for the selection and engagement of Managers for approval by the Board.

Assist Staff with developing the investment strategy, policies, and procedures to implement the private equity investment program.

Prepare investment performance reports.

Provide the Board and Staff with relevant, reliable, and timely research and information.

Provide objective advice to Staff, the Investment Advisory Council, the Investment Committee, and the Board.

Provide non-exclusive investment sourcing and servicing role for individual investments.

Source and evaluate prospective investments and their prepared offering materials on an as-needed basis.

Assist the Staff in conducting due diligence on prospective investments and in negotiating terms and conditions.

d. Roles of the Investment Advisory Committee

Review investment activities and advise the Board on investment policy as it relates to private equity.

2. Disclosure process. A disclosure process will document and disclose to the audit committee of the Board on a quarterly basis the names of any persons or entities who bring specific private equity investment proposals to any Retirement System employee or Board member who has a role in determining whether Retirement System assets should be invested in the private equity investment. For the purposes of this investment policy, "bringing a specific private equity investment proposal," does not include casual meetings or telephone calls of a general nature. "Bringing a specific private equity proposal," for the purposes of this disclosure process means direct personal contact by someone intending to solicit funding for a specific private equity investment fund or transaction. This direct contact will typically include a discussion

Formatted: Body Text1

Formatted: Body Text1

Formatted: Font: Not Bold

Formatted: Font: Book Antiqua, 10.5 pt

Formatted: Indent: Left: 0.5"

Effective September 30, 2011

19

Investment Policy draft 9.14.12.v1

United States. This risk will be mitigated by monitoring the underlying portfolio investments by geography. It is anticipated that TCRS will employ a global approach to private equity investing, with a substantial portion of investments domiciled or operating outside the US.

32. Process for Selecting, Managing and Disposing of Investments:

a. Staff will utilize the Consultants(s) to develop strategy, calculate investment performance, assist with legal review, determine that a proposed investment complies with TCRS standards, and prepare quarterly investment reports.

b. The Consultants(s) will also assist in the sourcing and selection of funds and negotiation of terms and conditions. Investments will only be made after recommendations of Consultant(s) and Staff, and will be consistent with the policies of the Board.

c. ~~Types of private equity investments: Private Equity investments shall be limited to include domestic and international venture capital, corporate buyouts, mezzanine and distressed debt, special situations, and secondary opportunities, and co-investments funds. Private equity investment vehicles may include, but are not limited to, limited partnerships, private placements, co-investments, funds-of-funds, and commingled funds. The foregoing investments and investment vehicles are listed as examples only and not for the purpose of limitation.~~

d. ~~Length of contractual obligations: traditional private equity investments may involve periods of time of up to ten years or more from initial commitment to final liquidation. The investment horizon of the underlying investments and market trends are among the factors to be considered when considering the length of the contract.~~

e. The Director of Private Equity shall develop comprehensive Private Equity investment policies, procedures, and guidelines that shall be approved/recommended by the Chief Investment Officer and approved by the Treasurer.

f. Commitments and transactions to acquire and dispose of private equity are subject to approval of the Investment Committee of the Board. Commitments and transactions involving a market value of less than \$30 million may be recommended by the CIO and approved by the CIO and Treasurer after notification of the Investment Committee. Manager terminations, mandate reductions, or sales of fund interests may be completed after a review and recommendation by the CIO and approval by the Treasurer. Any such terminations, mandate reductions or sales of fund interests will subsequently be reported to the Investment Committee during the next scheduled meeting.

III. Policies Specific to Strategic Lending

The objective of the portfolio is to be opportunistic and to focus on non-investment grade fixed income strategies. The size, strategies and implementation vehicles utilized will change in response to market opportunities. The fund will primarily utilize the skills and experience of external parties, however, staff may also implement internal strategies.

Formatted: List Paragraph, Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Indent at: 0.5"

Formatted: Font: Not Bold

Formatted: List Paragraph, Indent: Left: 0", First line: 0", Tab stops: Not at 0"

Formatted: List Paragraph, Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Indent at: 0.5", Tab stops: 0.73", Left + Not at 0"

Formatted: Font color: Custom Color(37,37,37))

Formatted: List Paragraph, Left, Indent: Left: 0", Tab stops: Not at 0.25" + 0.5" + 0.73"

Formatted: Body Text1

Formatted: Body Text1

Formatted: Font: Not Bold

Investment Policy draft 9.14.12.v1

- d. Length of contractual obligations. Strategic lending investments may involve contracts of various time periods, ranging from, for example, the contract period similar to that of traditional private equity, to contracts with a manager to invest funds in for a specific time period, to investments in more liquid assets for even shorter periods. The investment horizon of the underlying investments and market trends are among the factors to be considered when considering the lengths of contracts.
- e. Staff shall develop comprehensive Strategic Lending investment guidelines that shall be recommended by the Chief Investment Officer and approved by the Treasurer.
- f. Commitments and transactions are subject to approval of the Investment Committee of the Board except that:
- (i) Commitments and transactions involving a value of less than \$30 million may be recommended by the CIO and approved by the Treasurer after notification of the Investment Committee;
- (ii) Staff may utilize internal strategies and tactics to obtain exposures and to provide liquidity and flexibility. Internally managed strategies may be implemented upon written recommendation of the CIO and approval of the Treasurer. An example of such as strategies would be the purchase of ETFs with an appropriate objective to obtain tactical exposure. Any such transactions will subsequently be reported to the Investment Committee during the next scheduled meeting; and
- (iii) Staff has discretion to raise, lower, or terminate investments or commitments with existing relationships, subject to the terms of the investment contract, and further subject to such guidelines as the Treasurer may require. Any such transactions described in (i) or (ii) above will subsequently be reported to the Investment Committee during the next scheduled meeting.

3. Limitation of Authority. The authority to enter into commitments to make strategic lending investments shall expire on December 31, 2017; however, such expiration shall not affect commitments to invest in strategic lending entered into prior to December 31, 2017, nor shall it affect investments made subsequent to December 31, 2017, pursuant to those commitments.

THE BOARD OF TRUSTEES OF THE TENNESSEE CONSOLIDATED RETIREMENT SYSTEM ADOPTED THIS REVISED POLICY AT ITS BOARD MEETING ON SEPTEMBER 30, 2011. September 28, 2012.

Effective September 30, 2011

23

Formatted: Font: Bold

Formatted: Body Text1, Indent: Left: 0", Hanging: 0.5"

Formatted: Font: Times New Roman

Formatted: Font: Times New Roman, Underline

Formatted: Centered

**TCRS BOARD OF TRUSTEE
APPOINTMENTS**

STATE OF TENNESSEE
HOUSE OF REPRESENTATIVES



BETH HARWELL
SPEAKER OF THE HOUSE

July 19, 2012

Harold W. Morrison
504 Glenleigh Court
Nashville, TN 37221

Re: Tennessee Consolidated Retirement System Board of Trustees

Dear Mr. Morrison:

As Speaker of the House of Representatives acting pursuant to Tennessee Code Annotated, § 8-34-302, I am appointing you to serve as the Middle Tennessee teacher representative on the Tennessee Consolidated Retirement System Board of Trustees. Your term commences immediately and will expire on June 30, 2015.

I am forwarding a copy of this letter to Director, Jill Bachus, CPA. Ms. Bachus' office will be contacting you in the near future regarding this appointment.

I am confident that you will perform the duties of office with the high standard of professionalism, dedication and integrity that the citizens of Tennessee deserve and expect of their public servants.

Best Wishes,

A handwritten signature in cursive script that reads "Beth Harwell".

Speaker Beth Harwell

cc: ✓ Jill Bachus, CPA, Director - TCRS
Lt. Gov. Ron Ramsey
Cody York, 8th Floor, Snodgrass Tower
Jeremy Harrell, G-7 State Capitol Bldg.
Scott Gilmer
Connie Ridley
Joseph A. Barnes
Tammy Letzler

STATISTICAL REPORTS

ANALYSIS OF MEMBERS ACTIVELY CONTRIBUTING

	6/30/2009	6/30/2010	6/30/2011	9/30/2011	12/31/2011	3/31/2012	6/30/2012
Group I Members:							
(State & Higher Ed.)	58,940	58,601	57,592	56,536	56,656	56,466	56,566
Teachers	78,550	78,593	79,583	78,940	78,865	78,814	78,613
General Employees of Polisubs	80,376	81,601	81,751	80,239	80,167	80,761	80,784
General Assembly	122	126	127	128	129	129	129
County Officials	3	3	2	2	2	2	2
PSC							
County Judges	1	1	1	1	1	1	1
Attorneys General	635	639	635	640	644	644	648
Total Group I	218,809	219,564	219,691	216,486	216,464	216,817	216,743
Group II & Prior Class:							
Wildlife Officers	9	6	3	3	2	2	2
Highway Patrol	11	8	6	3	3	3	3
Firemen & Policemen- Political Subdivisions	36	34	21	18	17	17	16
Total Group II & Prior Class	56	48	30	24	22	22	21
Group III and Prior Class:							
State Judges	2	2	2	2	2	2	2
County Judges	-						
Attorneys General	6	5	5	5	5	5	5
County Officials	10	9	5	5	5	5	5
Total Group III & Prior Class	18	16	12	12	12	12	12
Group IV							
State Judges	182	182	181	182	181	181	182
Total Membership							
Contributing to TCRS	218,883	219,810	219,914	216,704	216,679	217,032	216,958
Teachers Contributing to ORP	11,388	11,506	11,562	11,575	11,570	11,601	11,575
Grand Totals	230,271	231,316	231,476	228,279	228,249	228,633	228,533

**RETIRED PAYROLL
STATISTICS
June 30, 2012**

	<u>AMOUNT</u>	<u>RETIREES</u>
STATE EMPLOYEES	44,029,859.09	40101
STATE PAID JUDGES	815,649.72	162
COUNTY PAID JUDGES	356,471.63	117
ATTORNEY GENERALS	780,262.06	290
COUNTY OFFICIALS	413,600.56	232
PUBLIC SERVICE COMMISSIONERS	8,325.18	5
POLITICAL SUBDIVISIONS	21,756,624.19	33496
TEACHERS	78,723,474.75	42162
LOCAL TEACHERS	3,611,932.57	2151
GOVERNORS AND WIDOWS	28,830.00	5
AGED STATE EMPLOYEES	129.26	1
AGED TEACHERS	2,602.96	20
TOTAL	<u>\$150,527,761.97</u>	<u>118,742</u>

RETIRED PAYROLL
July 1, 2011
THROUGH
June 30, 2012

	<u>AMOUNT</u>	<u># OF RETIREES</u>
STATE EMPLOYEES	516,390,733.80	40101
STATE PAID JUDGES	9,996,163.13	162
COUNTY PAID JUDGES	4,442,216.28	117
ATTORNEY GENERALS	9,333,489.25	290
COUNTY OFFICIALS	5,002,817.56	232
PUBLIC SERVICE COMMISSIONERS	99,902.16	5
POLITICAL SUBDIVISIONS	254,031,068.49	33496
TEACHERS	919,974,236.17	42162
LOCAL TEACHERS	44,404,032.30	2151
GOVERNORS AND WIDOWS	345,975.03	5
AGED STATE EMPLOYEES	1,554.12	1
AGED TEACHERS	<u>35,468.74</u>	<u>20</u>
TOTAL	\$1,764,057,657.03	118,742

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

NUMBER OF MEMBERS REFUNDED

<u>Month</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
July	829	507	1,149	450	894	499	496
August	544	481	675	308	612	406	466
September	515	546	566	316	494	431	447
October	424	454	609	411	369	379	383
November	316	440	492	353	320	293	364
December	320	318	234	257	256	276	257
January	305	408	450	332	257	307	348
February	389	333	308	310	242	265	312
March	329	342	316	291	278	299	262
April	823	365	308	311	687	277	346
May	694	323	619	217	385	662	329
June	428	313	843	340	360	406	339
TOTAL	<u>5,916</u>	<u>4,830</u>	<u>6,569</u>	<u>3,896</u>	<u>5,154</u>	<u>4,500</u>	<u>4,349</u>

**REFUND EXPENDITURES
2011-12 FISCAL YEAR**

MONTH	MEMBER'S CONTRIBUTIONS	414(H) CONTRIBUTIONS	MEMBER'S INTEREST	EMPLOYER CONTRIBUTIONS	DEATH PAYMENTS	TOTAL
July	200,835.21	2,533,305.90	764,576.14	91,237.94	223,114.97	\$3,813,070.16
August	122,857.54	2,965,717.47	887,671.53	69,132.41	592,205.39	\$4,637,584.34
September	98,169.01	2,717,030.83	740,314.59	15,574.01	356,481.85	\$3,927,570.29
October	60,190.24	2,650,819.23	972,726.16	164,521.62	758,624.20	\$4,606,881.45
November	62,236.58	1,886,049.31	614,070.78	61,549.03	164,580.09	\$2,788,485.79
December	65,069.32	1,514,728.33	686,845.76	168,963.26	598,590.57	\$3,034,197.24
January	96,160.54	2,119,064.92	715,730.27	88,530.92	277,140.17	\$3,296,626.82
February	73,932.42	1,940,322.67	721,120.95	53,169.81	446,289.58	\$3,234,835.43
March	67,800.45	1,790,953.37	784,176.26	158,896.14	649,032.01	\$3,450,858.23
April	107,813.15	2,309,912.50	945,791.15	71,058.26	739,583.20	\$4,174,158.26
May	79,491.49	2,026,215.04	924,536.33	181,272.45	526,878.80	\$3,738,394.11
June	78,094.53	2,428,445.36	1,084,769.46	73,690.07	806,366.61	\$4,471,366.03
TOTAL	1,112,650.48	26,882,564.93	9,842,329.38	1,197,595.92	6,138,887.44	\$45,174,028.15

PRIOR SERVICE ACTIVITY
April 1, 2012 through June 30, 2012

State:	<u>Type of Service</u>	<u>No of Members</u>	<u>Years of Service</u>	<u>Amount</u>
	Backpayment	27	17	\$ 78,278
	Military	23	46	-
	Redeposit	11	70	297,200
	Totals	61	133	\$ 375,479

Teachers:	<u>Type of Service</u>	<u>No of Members</u>	<u>Years of Service</u>	<u>Amount</u>
	Backpayment	16	7	\$ 181,406
	Military	9	15	1,815
	Redeposit	32	145	496,627
	Totals	57	167	\$ 679,849

Higher Education:	<u>Type of Service</u>	<u>No of Members</u>	<u>Years of Service</u>	<u>Amount</u>
	Backpayment	39	40	\$ 13,036
	Military	4	6	-
	Redeposit	5	11	34,351
	Totals	48	57	\$ 47,387

Political Subdivisions:	<u>Type of Service</u>	<u>No of Members</u>	<u>Years of Service</u>	<u>Amount</u>
	Backpayment	117	175	\$ 160,740
	Military	13	26	-
	Redeposit	13	69	140,408
	Totals	143	270	\$ 301,147

Grand Totals:	<u>Type of Service</u>	<u>No of Members</u>	<u>Years of Service</u>	<u>Amount</u>
	Backpayment	199	239	\$ 433,460
	Military	49	93	1,815
	Redeposit	61	295	968,586
	Totals	309	627	\$ 1,403,862

DISABILITY RETIREMENT REPORT

Disability Statistical Report

Fourth Quarter 11-12

Disability Applications Received	April	46
	May	33
	June	<u>27</u>
	TOTAL	106
Initial Claims Approved	April	28
	May	18
	June	<u>26</u>
	TOTAL	72
Initial Claims Disapproved	April	06
	May	09
	June	<u>06</u>
	TOTAL	21
Initial Claims Approved after Reconsideration		09
Initial Claims Disapproved after Reconsideration		04
Re-Evaluation Claims Approved		31
Re-Evaluation claims Disapproved		4
Cases Referred to Vocational Rehabilitation		0

**APPROVED FOR DISABILITY
FOURTH QUARTER
2011-2012**

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt. Mo. Ben.	Disability Summary
ORD.	YES	NO	37	POL SUB	VAN DRIVER	9	\$23,247	B	BI-POLAR D/O, & PANIC D/O
ORD.	NO	NO	59	POL SUB	CUSTODIAN	9	\$17,833	A	CAD, CABG X 2, CERVICAL & SHOULDER PAIN, & DDD
ORD.	YES	NO	42	POL SUB	COMMUNICATION SPECIALIST II	13	\$38,908	C	FIBROMYALGIA, CAD, PVD, OA, ANXIETY & DEPRESSION
ORD.	NO	NO	55	STATE	EMPLOYMENT COUNSELOR	8	\$29,231	D	INCLUSION BODY MYOSITIS
ORD.	NO	NO	59	TEACHER	ASSISTANT PRINCIPAL	8	\$77,944	A	LARGE B-CELL LYMPHOMA, S/P CHEMOTHERAPY
SS-ORD	NO	NO	59	STATE	SECURITY GUARD	23	\$44,295	D	METASTATIC GASTRIC CANCER
ORD.	NO	NO	53	STATE	LICENSE EXAMINER	6	\$22,407	A	SEVERE COPD & ASTHMA
ORD.	YES	NO	44	TEACHER	TEACHER	10	\$45,875	A	DJD-R KNEE, S/P L-KNEE REPLACEMENT, & SEVERE DEPRESSION
SS-ORD	NO	NO	60	POL SUB	NURSE	5	\$36,015	A	BREAST CA, LYMPHEDEMA, DM, HTN, OA, & SLEEP APNEA
ORD.	NO	NO	54	STATE	ADMINISTRATIVE ASSISTANT	22	\$31,200	A	DIABETIC POLYNEUROPATHY, CERVICAL DISK DISEASE, S/P FUSION
ORD.	YES	YES	49	STATE	PSYCH TECH	8	\$25,236	A	CHRONIC BACK PAIN, OBESITY, CHF, & AORTIC VALVE REPLACEMENT
ORD.	NO	NO	54	TEACHER	TEACHER	10	\$40,964	D	METASTATIC OVARIAN CANCER
ORD.	YES	NO	49	STATE	INFORMATION SPECIALIST III	11	\$45,485	A	SEVERE DEPRESSION W/SUICIDAL TENDENCIES, ECT, & MEDICATION FAILURE
ORD.	YES	NO	37	STATE	PSYCH TECH	5	\$19,308	B	SCHIZOAFFECTIVE D/O
ORD.	YES	NO	42	TEACHER	TEACHER	18	\$55,829	A	FIBROMYALGIA, PLANTAR FASCITIS, ANXIETY & DEPRESSION

**APPROVED FOR DISABILITY
FOURTH QUARTER
2011-2012**

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	YES	YES	34	POL SUB	DEPUTY CLERK	12	\$27,504	C	\$631	LUPUS, MS, VON WILLEBRAND DISEASE, S/P PULMONARY EMBOLISM
ORD.	YES	NO	38	STATE	CORRECTIONS OFFICER	12	\$26,726	A	\$631	ANKYLOSING SPONDYLITIS, BILATERAL SHOULDER & TOTAL HIP SURGERIES
ORD.	NO	NO	58	POL SUB	LPN	6	\$41,116	A	\$486	SEVERE COPD, & O2 DEPENDENT
INACT.	NO	NO	53	STATE	CASE MANAGER	20	\$32,463	A	\$522	CVA, AUTOIMMUNE HEPETITIS, CIRRHOSIS, SPLENOMEGALLY, & PORTAL THROMBOSIS
ORD.	YES	YES	46	TEACHER	TEACHER	15	\$42,686	A	\$1,039	SYSTEMIC LUPUS ERTHEMATOSUS, DM, & CHRONIC MIGRAIN HA'S
ORD.	YES	NO	53	TEACHER	TEACHER	16	\$46,697	E	\$1,029	BI-POLAR D/O, PTSD, & ANXIETY
ORD.	NO	NO	58	STATE	CASE MANAGER II	11	\$36,060	A	\$633	UNCONTROLLED DM, OA, CAD, & DVT
ORD.	NO	NO	59	STATE	CONSERVATION WORKER II	9	\$22,326	B	\$229	CVA
ORD.	NO	YES	56	TEACHER	TEACHER	20	\$46,335	A	\$1,136	CVA
SS-ORD	NO	NO	58	STATE	ELIGIBILITY COUNSELOR II	24	\$36,714	B	\$919	COLON CANCER, CIRRHOSIS, CHRONIC RENAL FAILURE, DM, & CHRONIC PAIN
SS-ORD	NO	NO	56	STATE	DEV TECH	7	\$26,324	A	\$332	DDD OF SPINE, FIBROMYALGIA, & HTN
ORD.	NO	NO	54	POL SUB	BOOKKEEPER	11	\$23,230	D	\$428	DJD OF LUMBAR & CERVICAL SPINE
ACC.	YES	NO	51	POL SUB	SERGEANT	15	\$30,126	D	\$738	CERVICAL FUSION S/P GUN SHOT WOUND TO BACK
ORD.	YES	NO	48	STATE	SECURITY OFFICER	7	\$24,007	A	\$556	SEIZURE D/O, CVA, & TRAUMATIC BRAIN INJURY
SS-ORD	YES	NO	47	POL SUB	SECRETARY	15	\$30,956	A	\$731	VERTIGO WITH SYNCOPÉ

**APPROVED FOR DISABILITY
FOURTH QUARTER
2011-2012**

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	YES	NO	34	TEACHER	TEACHER	8	\$37,854	A	\$894	MAJOR DEPRESSION, ANXIETY D/O, AGORAPHOBIA, ADHD, & MEMORY PROBLEMS
SS-ORD	YES	NO	38	STATE	SERGEANT	17	\$32,931	A	\$778	MS
ORD.	YES	NO	38	POL SUB	SANITATION/TRUCK DRIVER	8	\$18,780	B	\$413	CHRONIC PAIN OF SHOULDER, KNEE, & ANKLE, S/P SURGERY, & DEPRESSION
SS-ORD	YES	NO	39	TEACHER	TEACHER	10	\$39,601	D	\$860	ESRD, DIALYSIS, BERGER'S DISEASE, HTN, & GOUT
ORD.	NO	NO	54	TEACHER	TEACHER	13	\$61,223	D	\$1,207	ESRD, DIALYSIS, IDDM, HTN, & PVD
ORD.	NO	NO	57	TEACHER	TEACHER	21	\$56,362	A	\$1,437	DEEP VEIN THROMBOSIS, SLEEP APNEA, & OA
ORD.	NO	NO	57	STATE	ADMINISTRATIVE SECRETARY	8	\$26,855	A	\$357	MS
ORD.	YES	NO	47	STATE	STATE TROOPER	12	\$40,101	A	\$946	PTSD
SS-ORD	YES	NO	51	TEACHER	TEACHER	20	\$39,440	B	\$885	MALIGNANT NEOPLASM OF LIVER, & BREAST CANCER
ORD.	YES	NO	40	POL SUB	TEACHER'S AIDE	5	\$12,858	A	\$304	DM, RETINOPATHY, POLYNEUROPATHY, & CAD
ORD.	NO	NO	56	STATE	PRESS OPERATOR	12	\$36,242	D	\$563	PAD WITH LEG AMPUTATION
ORD.	NO	YES	54	TEACHER	TEACHER	21	\$55,608	A	\$1,412	BREAST CANCER, & CVA
ORD.	YES	NO	50	STATE	PROCUREMENT OFFICER II	19	\$30,425	A	\$719	METASTATIC LUNG CANCER, & DMII WITH NEUROPATHIES
ORD.	NO	NO	54	TEACHER	TEACHER	28	\$51,394	A	\$1,700	CVA, FACIAL NUMBNESS, MIGRAINE HA'S, SLURRED SPEECH, & COGNITIVE PROBLEMS
INACT.	NO	NO	54	STATE	CLERK	16	\$28,919	A	\$399	DJD , OA, S/P ROTATOR CUFF REPAIR, DM II, & CAD

**APPROVED FOR DISABILITY
FOURTH QUARTER
2011-2012**

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	YES	NO	54	POL SUB	HOUSEKEEPER	12	\$20,693	A	\$446	CVA
ORD.	YES	NO	48	STATE	COMPUTER OPERATOR	11	\$28,728	A	\$679	COPD, & DM I
ORD.	NO	NO	59	POL SUB	TRUCK DRIVER	9	\$24,784	A	\$310	METASTATIC LUNG CANCER
ORD.	NO	YES	58	POL SUB	HEAD COOK	18	\$19,056	A	\$446	ANXIETY, DEPRESSION, & DEMENTIA
ORD.	YES	YES	46	STATE	PROBATION & PAROLE OFFICER	6	\$28,959	A	\$670	S/P BILATERAL HIP REPLACEMENTS, SPINAL STENOSIS, & CHRONIC ANEMIA
ORD.	YES	NO	48	POL SUB	ACCOUNTING CLERK	16	\$42,099	D	\$891	RHEUMATOID ARTHRITIS, DDD, CHRONIC PAIN, & DECREASED ROM
ORD.	YES	NO	51	TEACHER	TEACHER	27	\$47,082	B	\$1,412	METASTIC BREAST CANCER
ORD.	YES	NO	47	TEACHER	TEACHER	22	\$44,265	A	\$1,198	SJORGENS SYNDROME & ARTHRITIS
ORD.	NO	NO	59	POL SUB	CERTIFIED NURSING ASSISTANT	9	\$49,488	A	\$619	COLORECTAL CANCER
ORD.	NO	NO	57	POL SUB	DEPUTY SHERIFF	16	\$41,044	A	\$913	CERVICAL & LUMBAR DISC DISEASE, CERVICAL FRACTURE, & DIABETIC PERIPHERAL NEUROPATHY
ORD.	YES	NO	50	TEACHER	PRINCIPAL	16	\$83,729	D	\$1,858	BREAST CANCER, DM, & SEVERE DEPRESSION
ORD.	NO	NO	53	STATE	ADMINISTRATIVE ASSISTANT	18	\$30,736	A	\$726	SUBARACHNOID HEMORRHAGE
ORD.	YES	YES	50	TEACHER	TEACHER	15	\$37,792	A	\$893	S/P SHOULDER SURGERY, S/P LUMBAR FUSION, DDD, & L-SPINE RADICULOPATHY
ACC.	YES	YES	44	POL SUB	LIGHT EQUIPMENT OPERATOR	15	\$23,170	D	\$934	ULNAR ENTRAPMENT, & LUMBAR DDD
SS-ORD	NO	NO	55	STATE	INTERVIEWER	25	\$36,232	A	\$1,088	S/P CVA, BILATERAL LEG PAIN, HEADACHES, & UNCONTROLLED DM

**APPROVED FOR DISABILITY
FOURTH QUARTER
2011-2012**

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	YES	NO	49	STATE	TROOPER	23	\$53,170	A	\$1,466	CIRRHOSIS OF THE LIVER, & WILSON'S DISEASE
ORD.	NO	NO	55	POL SUB	SPECIAL EDUCATION ASSISTANT	19	\$9,564	A	\$226	FIBROMYALGIA, CHRONIC PAIN, FATIGUE, MENIER'S DISEASE, & SEIZURES
ORD.	YES	NO	53	TEACHER	TEACHER	25	\$46,823	A	\$1,406	SCHIZOAFFECTIVE D/O, & DEPRESSION
ORD.	NO	NO	53	STATE	FAMILY SERVICES WORKER	24	\$48,069	D	\$1,215	HEPATITIS, & CIRRHOSIS OF THE LIVER
ORD.	NO	NO	53	STATE	ELIGIBILITY COUNSELOR II	21	\$36,467	A	\$923	ASTHMA, COPD, LUMBAR DISC DISEASE, & SEVERE DEPRESSION
ORD.	YES	NO	48	POL SUB	ACCOUNTING CLERK	23	\$50,215	A	\$1,364	MENIERE'S DISEASE, & MINOR HEARING LOSS
SS-ORD	YES	NO	48	POL SUB	COMMUNICATIONS OFFICER	11	\$39,719	A	\$938	ESRD, & DM II
ORD.	YES	NO	47	STATE	CLERK	9	\$19,854	A	\$469	CAD, OSA, COPD, DDD, DM, & DEPRESSION
SS-ORD	NO	NO	59	STATE	HIGHWAY WORKER I	16	\$33,278	D	\$602	COPD, DDD, & SPINAL STENOSIS
SS-ORD	YES	NO	51	TEACHER	TEACHER	18	\$53,621	A	\$1,267	RA, FIBROMYALGIA, CHRONIC PAIN, IBS, CHRONIC CYSTITIS, & RAYNAUDS DISEASE
ORD.	YES	YES	49	STATE	COMPUTER LAB TECH	10	\$37,087	A	\$876	DM WITH DIABETIC NEUROPATHY, CHRONIC KIDNEY DISEASE, & ULCERS OF LOWER EXTREMITIES
SS-ORD	NO	NO	58	STATE	CUSTODIAN	25	\$23,105	B	\$578	CVA, CAD, HTN, DM, & ATHEROSCLEROSIS

**DISAPPROVED FOR DISABILITY
FOURTH QUARTER
2011-2012**

Type	Re-C	Age	Employer	Position	SVC	Disability Summary	Reason Denied
ORD.	NO	54	TEACHER	TEACHER	23	ANXIETY, & HTN	INSUFFICIENT MEDICAL DOCUMENTATION
ORD.	NO	46	TEACHER	TEACHER	11	MAJOR DEPRESSION, & MIGRAINE HEADACHES	MEMBER HAS ADEQUATE MENTAL FUNCTIONING
ORD.	YES	48	STATE	CHILD SUPPORT SPECIALIST	10	SMALL CELL LYMPHOCYTIC LYMPHOMA, CHRONIC LEUKEMIA, & DEPRESSION	MEMBER'S PHYSICIAN STATES SHE CAN WORK
ORD.	NO	44	POL SUB	EDUCATIONAL ASSISTANT	7	FIBROMYALGIA, CHRONIC FATIGUE, & MIGRAINE HEADACHES	CAP OF SED-LGT WRA; INSUFFICIENT MEDICAL DOCUMENTATION
ORD.	YES	49	STATE	PSYCH TECH	8	CHRONIC BACK PAIN, OBESITY, AORTIC VALVE REPLACEMENT, & CHF	CAP OF SED-MED WRA
ORD.	NO	34	POL SUB	DEPUTY CLERK	12	VON WILLEBRAND DISEASE, S/P PULMONARY EMBOLISM, MS, & SLE	INCOMPLETE MEDICAL RECORDS
ORD.	NO	45	POL SUB	SPECIAL ED ASSISTANT	12	DDD, HNP, BI-POLAR D/O, & ADHD	CAP OF SEDENTARY WRA
ACC.	NO	42	STATE	CORRECTIONAL OFFICER	16	LUMBARACRAL RADICULOPATHY, & REFLEX SYMPATHETIC DYSTROPHY	RESTRICTED TO LGT DUTY
ORD.	NO	59	POL SUB	CAFETERIA WORKER	12	OA OF KNEES, & DEPRESSION	CAP OF SED WRA
ORD.	NO	56	TEACHER	TEACHER	20	COPD, OSA, ASTHMA, DM, & HEART ARRHYTHMIA	INCOMPLETE MEDICAL RECORDS
ORD.	YES	48	POL SUB	POLICE LIEUTENANT	19	CAD, STENT PLACEMENT, & PTSD	CAP OF SED WRA
ORD.	YES	50	POL SUB	FOOD SERVICE WORKER	12	CHRONIC BACK PAIN, RADICULOPATHY, & HNP	INSUFFICIENT MEDICAL DOCUMENTATION, CAP OF SED WRA

**DISAPPROVED FOR DISABILITY
FOURTH QUARTER
2011-2012**

Type	Re-C	Age	Employer	Position	SVC	Disability Summary	Reason Denied
ORD.	NO	43	STATE	SAFETY EXAMINER	5	DDD, & A-V MALFORMATION OF THE THORACIC SPINE ARTERY	LACKING MEDICAL RECORDS FROM ALL DOCTORS
ORD.	NO	56	TEACHER	TEACHER	17	NARCOLEPSY, & DM II	MEDICAL RECORDS DON'T SUPPORT TOTAL DISABILITY
ORD.	YES	58	TEACHER	TEACHER	13	DJD, & ULNAR NEUROPATHY	MBR'S DOCTOR RATES DISABILITY AS MILD
ORD.	NO	55	STATE	MICROBIOLOGIST II	8	SEVERE ASTHMA WITH OCCUPATIONAL COMPONENT	MBR SHOULD AVOID NOXIOUS ODORS, CAP OF SED WRA
ORD.	YES	50	POL SUB	TEACHING ASSISTANT	18	FIBROMYALGIA, OBESITY, GERD, & IBS	CAP OF SED WRA
ORD.	NO	52	STATE	DRIVER'S LICENSE EXAMINER	220	MYOSPASTIC DYSTONIA, FACIAL PAIN, & TMJ	CAP OF SED WRA
ORD.	NO	50	TEACHER	TEACHER	15	S/P SHOULDER SURGERY, S/P LUMBAR FUSION, DDD, & L-SPINE RADICULOPATHY	CAP OF SED WRA
ACC.	NO	62	STATE	HIGHWAY WORKER	2	BACK INJURY, & DDD	INSUFFICIENT MEDICAL DOCUMENTATION, CAP OF LGT WRK
ORD.	NO	59	STATE	ADMINISTRATIVE SERVICES ASSISTANT	9	PRIMARY BILIARY CIRRHOSIS, HEPATITIS, & IBS	INSUFFICIENT MEDICAL DOCUMENTATION

FINANCIAL STATEMENTS

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENT OF PLAN NET ASSETS
AS OF JUNE 30, 2012

ASSETS	
Cash and cash equivalents	\$458,492,228.98
<hr/>	
Receivables	
Member receivable	27,314,391.02
Employer receivable	78,962,114.73
Accrued interest receivable	97,730,455.43
Accrued dividends receivable	52,246,323.54
Real estate income receivable	832,731.48
Investments sold	501,779,201.97
Total receivables	<hr/> 758,865,218.17 <hr/>
Investments, at fair value	
Government securities	8,513,548,262.29
Corporate securities	5,694,911,779.41
Corporate stocks	18,864,899,007.63
Private Equities	173,948,681.00
Real estate	1,349,052,197.26
Total investments	<hr/> 34,596,359,927.59 <hr/>
Capital Assets, at cost	
Software in Development	9,749,457.84
Computer System, net of depreciation	1,677,480.25
Total Capital Assets	<hr/> 11,426,938.09 <hr/>
TOTAL ASSETS	<hr/> 35,825,144,312.83 <hr/>
LIABILITIES	
Retired payroll payable	5,262,312.89
Retiree insurance premium payable	6,954,247.97
Accounts payable	11,365,893.85
Investments purchased	882,352,003.43
TOTAL LIABILITIES	<hr/> 905,934,458.14 <hr/>
NET ASSETS HELD IN TRUST FOR PENSION	
BENEFITS	<hr/> \$ 34,919,209,854.69 <hr/>

See Accompanying Notes to the Financial Statements

UNAUDITED

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENT OF CHANGES IN PLAN NET ASSETS
JULY 1, 2011 THROUGH JUNE 30, 2012

ADDITIONS	
Contributions	
Member contributions	\$263,755,561.67
Employer contributions	1,002,719,688.14
Total contributions	<u>1,266,475,249.81</u>
Investment income	
Net Appreciation in fair value of investments	825,382,205.09
Interest	506,159,944.21
Dividends	431,300,952.81
Real Estate income, net of operating expenses	69,615,578.19
Total investment income	<u>1,832,458,680.30</u>
Less: Investment expense	(25,949,041.58)
Net investment income	<u>1,806,509,638.72</u>
TOTAL ADDITIONS	<u>3,072,984,888.53</u>
DEDUCTIONS	
Annuity benefits	
Retirement benefits	1,461,141,566.03
Cost of living	302,464,014.84
Death benefits	6,204,206.94
Refunds	40,091,552.50
Administrative expenses	7,123,593.94
Depreciation Expense	43,012.31
TOTAL DEDUCTIONS	<u>1,817,067,946.56</u>
NET INCREASE	1,255,916,941.97
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
JULY 1, 2011	33,663,292,912.72
JUNE 30, 2012	<u>\$34,919,209,854.69</u>

See Accompanying Notes to the Financial Statements

UNAUDITED

Tennessee Consolidated Retirement System
Notes to the Financial Statements
June 30, 2012

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 Assets and 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. Software in development has been reported at historical cost as a capitalized asset in accordance with GASB 51.

Tennessee Consolidated Retirement System
Notes to the Financial Statements
June 30, 2012

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	<u>136,147</u>	<u>78,803</u>
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.

Tennessee Consolidated Retirement System
Notes to the Financial Statements
June 30, 2012

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.

Tennessee Consolidated Retirement System
Notes to the Financial Statements
June 30, 2012

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.

Tennessee Consolidated Retirement System
Notes to the Financial Statements
June 30, 2012

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.

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.

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 mortgages as a result of a decline in interest rates.

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. 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.

Tennessee Consolidated Retirement System
Notes to the Financial Statements
June 30, 2012

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 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 60 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 105 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.