

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 26, 2019

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
SEPTEMBER 26, 2019**

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**MINUTES OF THE
BOARD OF TRUSTEES MEETING
JUNE 28, 2019**

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Minutes of the TCRS Board of Trustees Meeting on June 28, 2019

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, June 28, 2019 at 10:08 a.m. The meeting was held in House Hearing Room III of the Cordell Hull Building with Chairman David Lillard presiding.

Chairman Lillard asked Mr. Wayman to conduct an attendance roll call. The following members were present: Chairman David Lillard, State Treasurer; Mr. Jamie Wayman, Director of TCRS; Mr. Tre Hargett, Secretary of State; Ms. Deborah Tate, Administrative Director of the Courts; Commissioner Stuart McWhorter, Department of Finance and Administration; Mr. Michael Barker, Mr. Bob Wormsley, Mr. Paul Varble, Mr. Ed Taylor, Mr. Alfred Laney, Ms. Patsy Moore, Mr. Timothy Ellis, Mr. Bill Kemp and Mr. Kevin Fielden.

TCRS Board of Trustees Appointments

Chairman Lillard mentioned that Mr. Kevin Fielden, Mr. Paul Varble, and Mr. Ed Taylor terms expired June 30, 2019.

Approval of the March 29, 2019 Minutes of the Board of Trustees

On a motion by Ms. Tate and seconded by Mr. Laney, the minutes of the March 29, 2019 TCRS Board of Trustees meeting were unanimously approved.

Board of Trustees Committee Reports

Chairman Lillard recognized Mr. Wayman to review the administrative committee report. Mr. Wayman mentioned there are five political subdivisions seeking participation into TCRS. He mentioned that Ms. Ashley Nabors provided an update on new petitions for participation into retirement as well as transfers. She also provided statistics on customer service. Ms. Erica Nale provided an update on retirement applications being processed. TCRS has received 2,500 applications within the quarter which is above average.

Chairman Lillard recognized Mr. Baker to review the administrative committee report. Mr. Baker mentioned the audit committee approved minutes from the March meeting. Mr. Earle Pierce provided a report on various audit activities. The committee also reviewed the audit plan that was approved for 2019-2020 and there were no reports from the Comptroller's Hotline. Mr. Baker reviewed a report that was shared by Chairman Lillard from Pew Charitable Trust. Mr. Baker noted from the report that Tennessee, Wisconsin and South Dakota are the states with the best funded pension plan that successfully weathered the recession for two reasons: they made full actuarial contributions in good financial times and bad and they followed sound risk management policies that allow them to weather the volatility of investment and other risks. Information was provided to the members for review.

Chairman Lillard provided the investment committee report. Chairman Lillard mentioned the committee authorized a disposition transaction and they received reports from various individuals involved in our investment functions.

Investment Report

Chairman Lillard called on Mr. Michael Brakebill to give an overview of the Investment Report. Mr. Brakebill reviewed the Verus quarterly report, beginning with an economic update that highlighted forecasted 2019 GDP growth and noted that trade negotiations between the US and China had resumed. Mr. Brakebill then noted that key economic data points are generally in line with a solid outlook for economic growth.

Mr. Brakebill discussed the ten-year market returns, noting the significance of being ten years since the absolute bottom of the financial crisis. Strong recovery can be seen across US equities, which has produced a 16.0% 10-year return while international stocks have not had the same rate of recovery. Mr. Brakebill continued by noting the limited growth across fixed income index returns. As of March 31, 2019, the total portfolio produced a 9.9% 10-year return, a 6.8% 5-year return, an 8.5% 3-year return, and a 4.6% 1-year return.

Mr. Brakebill then noted the strong rebound in performance during the quarter. While the December quarter was challenging, a significant rebound occurred in March with the total fund appreciating by 7.5% and adding \$4.3 billion to the fund net of benefit payments in the quarter. He mentioned the large-cap equity overlay program added 24 basis points over the 1-year period and stated external international equity managers are performing well. The total fund's US fixed income portfolio produced a 6.4% return over the 10-year period, compared to the fixed income aggregate index of 3.8%. Mr. Brakebill then highlighted real estate performance, noting long-term returns have been strong, with the 5-year return producing a 10.2% return. He then discussed the strong returns for private equity, up 16.7% over the trailing 1-year return. Mr. Brakebill then reviewed the strategic lending portfolio, noting the portfolio is performing in line with expectations.

Mr. Derrick Dagnan then gave an overview of staff projects that were completed during the fiscal year including the addition of four new portfolios, improved liquidity analysis and monitoring processes, incentive compensation plan update, a renewal of the master custodian contract and an update to the investment policy. Asset class specific projects completed include the selection of a fixed income analytics system and renewal of the real estate consultant contract, along with the addition of secondary sale capabilities for alternative assets.

Ms. Deborah Taylor-Tate raised a question around the lower real estate returns in the shorter time horizons compared to higher returns for longer time periods. Mr. Brakebill replied that we are investing in a high valuation environment which means forward looking returns are likely to be modest across nearly all portfolios compared to their respective ten-year return. The real estate portfolio, over the long term, is expected to return 5-7% but has enjoyed a tailwind since the financial crisis. Ms. Taylor-Tate also thanked the members of TCRS as the Pew Charitable Trust recently mentioned in an article that TCRS' high funding ratio is a result of maintaining quality investment policies including risk and cost, in addition to making 100% of required contributions to the plan. The Treasurer replied that it is the result of a team effort from all members of TCRS, involving wise decision making and a legislature that understands the importance of the financial health of the plan.

Political Subdivision Petitioning for Membership in TCRS

Chairman Lillard introduced Mr. Wayman to review political subdivisions seeking participation into TCRS. Mr. Wayman reviewed the request for participation into TCRS for the City of Celina, City of Eagleville, City of South Fulton, South Giles Utility District and Upper Cumberland Local Workforce Development Board, Inc. Mr. Wayman mentioned the City of Celina, City of Eagleville and City of South Fulton selected to participate in the hybrid plan without cost control. The employer rate for City of Celina and South Fulton is 1.1% of payroll with employees contributing 5%. City of Eagleville elected not to have employees contribute and their rate is 5.9%. South Giles Utility District and Upper Cumberland Local Workforce Development Board, Inc. selected the legacy define benefit plan and they elected to have their employees contribute 5% and the employer rate for both is 6.5%. Mr. Wayman mentioned the administrative committee recommended for all entities seeking participation into TCRS to be approved going into effect July 1, 2019.

On a motion by Mr. Wayman and seconded by Mr. Wormsley, the Board unanimously approved the request for participation into TCRS for the City of Celina, City of Eagleville, City of South Fulton, South Giles Utility District and Upper Cumberland Local Workforce Development Board, Inc.

Other Business

Chairman Lillard announced future meetings. He reminded Board members that a Board educational session will take place after the meeting.

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. Kemp 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 10:48 a.m. on June 28, 2019.

Respectfully Submitted,

/s/Jamie Wayman
Jamie Wayman
Director, TCRS

Approved:

David H. Lillard, Jr.
Chairman of the Board

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COMMITTEE MINUTES

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Minutes of the Administrative Committee

June 28, 2019

The Administrative Committee of the Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, June 28, 2019 at 9:00 a.m. The meeting was held in Conference Room D, Eighth Floor Cordell Hull Building, with Director Jamie Wayman presiding.

The following members were present: Mr. Paul Varble, Mr. Alfred Laney, Mr. Kevin Fielden, Ms. Patsy Moore, and Ms. Deborah Taylor Tate.

Approval of the March 29, 2019 Minutes of the TCRS Administrative Committee

On a motion by Mr. Varble and seconded by Ms. Tate, the minutes of the March 29, 2019, TCRS Administrative Committee meeting were unanimously approved.

New Board Members

Mr. Wayman shared with the Committee that there would be new Board members introduced at the next Board meeting and that this was the last meeting for several members of the board. He discussed with the Committee that this would be the last meeting for Mr. Varble, Mr. Fielden, Ms. Vickie Burton and Mr. Ed Taylor. Ms. Burton and Mr. Taylor elected not to seek re-election and Mr. Wendell Cheek and Ms. Paula Shaw were elected as the state employee representative from the May 2019 election. Mr. Fielden chose not to pursue reappointment as the East Tennessee teacher representative. Mr. Varble is required to step down as the public officer position is required to switch between a firefighter and police officer every three years. Mr. Wayman discussed the appointment process for all positions on the Board.

Political Subdivision Update

Mr. Wayman introduced Mr. Joe Walker, Manager of Employer Participation, to discuss five employers seeking participation in TCRS.

The City of Celina seeks participation effective July 1, 2019 in the Local Government Hybrid Plan without Cost Controls. Employees will contribute 5% of salary to the TCRS defined benefit portion of the plan, and the initial employer rate to the TCRS defined benefit portion will be 1.1%. City of Celina will not offer the plan to part-time employees, and it will provide cost of living adjustments. City of Celina will not allow employees to establish prior service.

The City of Eagleville seeks participation effective July 1, 2019 in the Local Government Hybrid Plan without Cost Controls. Employees will contribute 0% of salary to the TCRS defined benefit portion of the plan, and the initial employer rate to the TCRS defined benefit portion will be 5.9%. City of Eagleville will not offer the plan to part-time employees, and it will provide cost of living adjustments. City of Eagleville will not allow employees to establish prior service.

The City of South Fulton seeks participation effective July 1, 2019 in the Local Government Hybrid Plan without Cost Controls. Employees will contribute 5% of salary to the TCRS defined benefit portion of the plan, and the initial employer rate to the TCRS defined benefit portion will be 1.1%. City of South Fulton will not offer the plan to part-time employees, and it will provide cost of living adjustments. City of South Fulton will not allow employees to establish prior service. South Fulton previously withdrew from TCRS July 1, 2000 and are re-entering the plan, the law states an employer who has withdrawn and later returns

to TCRS cannot withdraw again at a future date. Mr. Wayman explained that the law allows them to transfer plans within TCRS, but cannot withdraw in the future.

South Giles Utility District seeks participation effective July 1, 2019 in the Regular Defined Benefit Plan. Employees will contribute 5% of salary to the TCRS defined benefit portion of the plan, and the initial employer rate to the TCRS defined benefit portion will be 6.5%. South Giles Utility District will not offer the plan to part-time employees, and it will provide cost of living adjustments. South Giles Utility District will not allow employees to establish prior service.

Upper Cumberland Local Workforce Development Board seeks participation effective July 1, 2019 in the Regular Defined Benefit Plan. Employees will contribute 5% of salary to the TCRS defined benefit portion of the plan, and the initial employer rate to the TCRS defined benefit portion will be 6.5%. Upper Cumberland Local Workforce Development Board will not offer the plan to part-time employees, and it will provide cost of living adjustments. South Giles Utility District will not allow employees to establish prior service.

Mr. Drew Freeman, Director of Outreach, explained that their team talks to each entity about their cost and participation options. Mr. Wayman explained that there is not initial liability when the employer does not offer prior service and additional conversation was had about the law which requires to pay their contributions and ability for TCRS to withhold state-shared taxes in the event an employer didn't pay their contributions.

On a motion by Mr. Varble and seconded by Ms. Tate, the Administrative Committee unanimously recommended to the Board of Trustees that all five entities be allowed entry to TCRS.

Operations Update

Ms. Ashley Nabors, Assistant Treasurer of Financial Empowerment, introduced Mr. Freeman to discuss the plans which have transferred membership within TCRS in 2019. The plans transferring in 2009 are Brentwood, Johnson City Energy Authority and Cookeville. Mr. Fielden asked about the ability for an entity to transfer from a hybrid plan back to the legacy plan and Mr. Wayman explained that would be an option. Ms. Nabors then discussed the number of phone calls and meetings with participants and employers during the period January 1 to March 31, 2019. Over 50,000 member phone calls were answered and 376 group meetings for members were held during the time period, and there were approximately 7,500 attendees at the meetings. Ms. Nabors also provided a summary for the seven employer summits held to present contribution rates and a summary of participation in the deferred compensation program.

Next Ms. Erica Nale, Assistant Director of TCRS, shared an update on TCRS operations. Ms. Nale discussed TCRS is receiving approximately 50% of retirement application online and is further refining the process based on feedback from both staff and members. Additional online services are set to be rolled out later this year as TCRS continues to provide more services to members. Next, Ms. Nale mentioned during this quarter TCRS received approximately 2,500 retirement applications, which is slightly above average, 6,700 requests to change address or tax information, and processed more than 6,000 notifications of deceased members. Ms. Nale discussed the new contracts and Requests for Proposals being prepared in relation to the actuary and the death match process. Finally, Ms. Nale discussed the cost of living adjustment (COLA) of 1.9% that would be effective July 1, 2019. Mr. Varble asked about the difference in TCRS compared to

federal COLA adjustments. Mr. Wayman explained that the calculations are separate and based on different time frames.

Mr. Wayman added that goals of online retirement is to move to 100% online processing of retirement application by the end of 2019. Mr. Wayman also mentioned that TCRS is also exploring enhancements to the security of the self-service functionality based on conversation with other state pension plans.

Other Business

Adjournment

With no other business, the Administrative Committee of the Board of Trustees adjourned at 9:49 a.m. on June 28, 2019.

Respectfully Submitted,

/S/Erica Nale

Erica Nale

Assistant Director, TCRS

Approved:

James E. Wayman

Administrative Committee Chair

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**AUDIT COMMITTEE MEETING MINUTES
OF TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)
June 28, 2019**

The Tennessee Consolidated Retirement System (TCRS) Audit Committee for the Board of Trustees met on Friday, June 28, 2019. The meeting began at 8:00 a.m. in the Cordell Hull Building, Conference Room C.

The following members were present:

- Chairman Michael Barker
- Ed Taylor, TCRS Board Member
- Tre Hargett, Secretary of State
- Tim Ellis, Goodlettsville City Manager

Others present were:

- David H. Lillard, Jr., TN State Treasurer
- Earle Pierce, Director of Internal Audit, TN Dept. of Treasury
- Jennifer Selliers, Director of Internal Compliance, TN Dept. of Treasury
- Alison Cleaves, Assistant Treasurer, Legal, Compliance & Audit, TN Dept. of Treasury
- Jamie Wayman, Director of TCRS
- David Clock, ACL Auditor
- David Shipley, Internal Audit Data Analyst
- Allison Ullein, Internal Auditor I

Call Meeting to Order

Chairman Barker called the meeting to order and welcomed Tim Ellis, Goodlettsville City Manager as a new member of the audit committee. Mr. Barker presented the minutes from the March 29, 2019 Audit Committee meeting for approval. Ed Taylor motioned to accept the minutes as presented and Tim Ellis seconded the motion. The minutes were unanimously approved from the March 2019 Audit Committee meeting.

Internal Audit Results

Earle Pierce presented the final results for the 2018 GASB internal audit. Discussion included an explanation of audit objectives, issues and trends in the results over a three-year period. Secretary Hargett asked for some detail on the common exceptions. Mr. Pierce explained some of the exceptions were caused by the system misreporting members as either active when they are retired or vice versa, misapplication of COLA on retired/disabled members and data issues identified included over/understated member compensation issues in Concord. Jamie Wayman noted the compensations issues were not eligible for inclusion in the actuary calculations because the compensation had not been posted to the member accounts. Processes are in place now to identify members with passed/pending salary to eliminate these entries when the salary

has already posted for these members. Overall, the total exceptions were low ranging from .07% to .20% of the total results. Mr. Pierce informed the Committee the results will be shared with State Audit. He further explained the work Internal Audit does on this project provides costs savings to the Comptroller's office because they rely on the internal audit results at the plan level and do not have to perform these audits at the local level for all participating plan employers.

Mr. Pierce also reviewed data analytic audits for duplicate payments, duplicate persons and death overpayments. The review included discussion of the project charts illustrating the results and efforts by TCRS to collect overpayments. For duplicate payments, Jamie Wayman explained members look to TCRS for their benefit amounts and do not realize they may be receiving a duplicate benefit. Mr. Wayman provided further detail on the different circumstances which occur depending on whether it has been three or more years between when a member returns to work and then retires again. The Concord system will re-start a member's original benefit if it has been less than three years. Mr. Wayman asked for clarification on the charts for the months or quarters with no results. Mr. Pierce explained for the months or quarters with no results posted, in most cases, those are months where there were no exceptions. In other cases, the results may have not been finalized for inclusion in the charts.

Current Projects for TCRS

Mr. Pierce reviewed a list of current TCRS audit projects as well as those in the planning phase.

Fiscal Year 2019 Annual Audit Report and Fiscal Year 2020 Audit Plan

Mr. Pierce reviewed Internal Audit's annual report of audit work completed in fiscal year 2019 and the fiscal year 2020 audit plan. This included a discussion of the high and moderate risk audits outlined in the 2020 plan. Mr. Pierce introduced current and new audit staff to the committee and briefly discussed their backgrounds.

Overpayments Identified in 2018

Mr. Pierce informed the Committee of a list benefit overpayments identified by TCRS management in 2018. TCRS Director Jamie Wayman provided background on the genesis of each overpayment as well as TCRS's efforts to obtain repayments. Two of the overpayments were the result of staff processing errors while using previous computer systems. The current Concord system is programmed so, if the original beneficiary is changed, the new beneficiary is only entitled to receive the deceased, retired member's last monthly payment. Continuing benefit payments will not occur. This system feature has been tested several times.

Comptroller's Hotline

Mr. Pierce informed the Committee there were no hotline submissions related to TCRS received by the Comptroller's office since the previous Audit Committee meeting in March 2019.

Current Internal Audit Article

Mr. Pierce discussed the article entitled “The 5 C’s That Should Be Keeping Boards (and Auditors) Awake at Night”. Mr. Pierce summarized the five areas for the committee. Mr. Taylor spoke about the issue of cybersecurity and its impact on all organizations. Mr. Pierce mentioned TCRS’s efforts to implement multifactor authentication for mytcrs.com. Mr. Wayman provided some additional details and benefits of the project to the Committee. Mr. Taylor spoke about the system in place at the University of Tennessee.

Other Business

Treasurer Lillard spoke about implementation of the Concord system starting in 2009. This includes challenges of using it to support the hybrid plan. Mr. Wayman and Treasurer spoke about the latest system build and the functionality now available to support the retirement system. Mr. Wayman estimated the system is now approximately 98% functional. Treasurer mentioned the issues with human error and efforts underway to automate as many retirement functions as possible. This includes engaging TCRS’s vendor Deloitte to assist with this automation initiative. Treasurer Lillard referenced the earlier discussion on overpayments noting the audit processes in place now, along with efforts in Financial Strategies, resulted in discovery of the overpayments. He mentioned more errors may be discovered in the future as a result of these data analytic processes. Chairman Barker noted the previous computer systems and the leadership of Mr. Wayman and TCRS to continue to work on modernizing systems for better results. Treasurer Lillard seconded Chairman Barker’s comments noting the changes and improvements in Internal Audit since he started in 2009 including their expanded scope of work. Treasurer Lillard briefly discussed a Pew Charitable Trust article he shared with the Committee noting Tennessee as one of three of the best funded pension plans in the country.

Adjournment

Secretary Hargett motioned to adjourn and Tim Ellis seconded the motion. The motion to adjourn was unanimously approved. The meeting adjourned at approximately 8:52 a.m.

Meeting minutes documented by

Earle Pierce, CPA, CIA, CRMA
Director of Internal Audit
Tennessee Department of Treasury

Approved by:

Michael Barker
Chairman of the Audit Committee

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Minutes of the Meeting of the Investment Committee
June 28, 2019

The Investment Committee of the Tennessee Consolidated Retirement System (TCRS) met on June 28, 2019 in the Cordell Hull Building. The Honorable David H. Lillard, Jr., State Treasurer, called the meeting to order at 9:00 AM. Investment Committee members in attendance included: Honorable David H. Lillard, Jr., State Treasurer; Honorable Tre Hargett, Secretary of State; Honorable Stuart McWhorter, Commissioner of the Department of Finance and Administration; Mr. Bill Kemp, Sumner County Clerk; Mr. Bob Wormsley, President/CEO of Local Government Insurance Pool. Additional attendees included: Michael Brakebill, Chief Investment Officer; Derrick Dagnan, Deputy Chief Investment Officer; Daniel Crews, Director of Private Equity; Carrie Green, Director of Equities; JP Rachmaninoff, Director of Real Estate; Matthew Haitas, Senior Portfolio Manager; Thomas Kim, Director of Fixed Income; Jennifer Selliers, Director of Compliance; Katherine Kreuser, Investments Intern, Savana Ortiz, Investments Intern; Logan Brinkley, Compliance Intern; Earle Pierce, Director of Internal Audit; Tim McClure, Assistant Chief Investment Officer and Director of Cash Management; Desiree Jablonski, Portfolio Manager; Austin Monsrud, Junior Investment Analyst.

Treasurer Lillard began the meeting by asking Mr. JP Rachmaninoff to present a real estate transaction for approval.

Mr. Rachmaninoff recommended the sale of Waltham Woods, an office property located in suburban Boston, noting the positive and negative aspects of the property, the historical financial performance of the property, and the future outlook for the property. Commissioner McWhorter requested additional details on the return profile of the property and Secretary Hargett asked about expectations for the sales price in comparison to the minimum sales price from underwriting. Mr. Rachmaninoff stated that bids are expected to exceed the minimum sales price for the property, which would result in a positive return. However, this total return is likely to be lower than the original expectations at underwriting. Mr. Bill Kemp then motioned to approve the disposition, which was seconded by Secretary Hargett. The recommendation to sell the real estate property was approved unanimously by voice vote.

The Treasurer then asked Mr. Rachmaninoff to present the real estate performance overview and market outlook.

Mr. Rachmaninoff began by stating the real estate portfolio is primarily core investments at 85%, 10% non-core (value add and opportunistic), and 5% REITS. The overall portfolio has outperformed its benchmark over the 1-, 3-, and 5-year time periods. The core real estate portfolio underperformed the index over the 1-year period, but added value over longer time periods. This was primarily due to asset transfers that occurred following the separate account advisor search in 2018. Commissioner McWhorter asked about the process and duration of the separate account advisor search and subsequent transition. Mr. Rachmaninoff replied that the search began on January 1, 2018, concluding on June 30, 2018 with a thirty day transition period following the selections. The non-core real estate portfolio has outperformed compared to the non-core index across all time periods reported. Mr. Rachmaninoff also highlighted the creation of a REIT allocation, which added 63 basis points in excess return over the 1-year period. Mr. Brakebill noted that the REIT portfolio is a unique strategy for TCRS compared to peers. Mr. Rachmaninoff provided a review of portfolio diversification by property type and region. Mr. Wormsley recalled past investments made in mall properties and mall fund strategies and asked for a comparison of investment performance. Mr. Rachmaninoff stated that mall investments have underperformed the benchmark due to the retail environment; however, the portfolio has enjoyed positive relative

performance resulting from a strategic 400 basis point underweighting to the sector. Secretary Hargett then noted that value added and opportunistic fund investments outperformed individual properties and questioned if this may be due to the increased diversification. Mr. Matthew Haitas explained that the General Partners of fund investments have a larger appetite for risk through the use of leverage and staff utilizes less leverage. Mr. Rachmaninoff then asked Mr. Haitas to provide an overview of the REIT strategy. He began by stating the REIT strategy was implemented in March 2018 and has produced strong returns. He then provided an overview of yield spreads compared to real estate and core fixed income returns. Mr. Haitas noted the portfolio's REIT exposure would be tactically increased or decreased depending on public and private market conditions.

The Treasurer then called on Mr. Michael Brakebill to review the TCRS portfolio. Mr. Brakebill highlighted that the TCRS portfolio has produced a 7.5% return resulting in \$4.3 billion of growth over the three month period ending March 31, 2019. This time period represented a dramatic uptick from a significant low period that occurred on December 24, 2018, three months prior. Mr. Brakebill also noted the 10-year annualized return of 9.9%, pointing out this represents ten years since the lowest point of the financial crisis that occurred in March 2009. Mr. Brakebill then asked Mr. Derrick Dagnan to provide a key initiatives update.

Mr. Dagnan began by providing notification of investment activity approvals that have been approved by the Treasurer since the March 29, 2019 TCRS Board of Trustees Investment Committee meeting. For Private Equity, Treasurer Lillard approved a \$30 million commitment to Drive Capital Fund III and a \$40 million commitment to Drive Capital Overdrive Fund I on April 1, 2019 as well as a secondary purchase that would increase commitments to General Catalyst IX by \$25 million to the approved \$90 million commitment on May 6, 2019. For Real Estate, Treasurer Lillard approved the acquisition of a \$61.4 million in an apartment complex near Miami, Florida on June 17, 2019, and also approved the disposition process for a St. Petersburg, Florida apartment complex and two industrial properties in Chicago, Illinois on May 29, 2019.

Mr. Dagnan then provided updates on TCRS key initiatives. Regarding personnel, two summer interns have joined Treasury Investments, Katherine Kreuser and Savana Ortiz. Desiree Jablonski also joined the private equity investment team as a portfolio manager. Mr. Dagnan discussed the implementation of three new internal investment portfolios. In addition, Staff completed two vendor review and selection processes related to master custodian and real estate consultant services.

Seeing no further comments, Treasurer Lillard adjourned the meeting at 10:00 AM.

Respectfully submitted,

/s/Michael Brakebill
Michael Brakebill
Chief Investment Officer

APPROVED:

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

**POLITICAL SUBDIVISIONS
SEEKING MEMBERSHIP**

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**Political Subdivisions Beginning Participation
in the Tennessee Consolidated Retirement System
October 1, 2019**

Political Subdivision	Amount of Service		ER Rate	EE Rate	Accrued Liability	Part Time Coverage	Cost of Living	Number of Employees
	Employer	Employee						

Tazewell-New Tazewell Fire Dept.	0	0	6.50%	5.00%	\$0	Exclude	Include	1
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Regular Defined Benefit Plan

Meetings:

- April 2019 Outreach staff explained initial employer costs and participating procedures to the governing body.
- July 2019 Governing body and joint venture partners passed participation resolutions
- October 2019 Will explain reporting procedures to payroll officer.

Note:

The Tazewell-New Tazewell Fire Department is a joint venture between those two cities.

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Tennessee Consolidated
Retirement System
(Joint Venture)

A RESOLUTION to authorize a joint venture's participation in the Tennessee Consolidated Retirement System in accordance with Tennessee Code Annotated, Title 8, Chapters 34 - 37.

WHEREAS, Tennessee Code Annotated, Section 8-35-201 provides that any governing body of a joint venture between one or more political subdivisions of this State may by resolution authorize the employees of the joint venture to participate in the Tennessee Consolidated Retirement System ("TCRS") subject to the approval of the TCRS Board of Trustees, provided that each political subdivision of the State which is represented in the joint venture passes a resolution guaranteeing the payment of its prorated share of any outstanding liability so incurred by the participation; and

WHEREAS, the Tazewell-New Tazewell Fire Department ("Joint Venture") desires to participate in TCRS under the provisions of state law, and under the following terms and conditions:

- A. TYPE PLAN. (CHECK BOX 1 OR BOX 2 OR BOX 3 OR BOX 4) The Joint Venture adopts the following type plan.
- (1) Regular Defined Benefit Plan.
 - (2) Alternate Defined Benefit Plan.
 - (3) Local Government Hybrid Plan (If this Plan is chosen, the Joint Venture MUST also maintain a defined contribution plan on behalf of its employees and pass the attached resolution that describes the type of defined contribution plan the Joint Venture will adopt. The defined contribution plan could provide for employer contributions of 0% to up to 7% of its employees' salaries).
 - (4) State Employee and Teacher Hybrid Plan (If this Plan is chosen, the Joint Venture MUST also maintain a defined contribution plan on behalf of its employees whereby the Joint Venture makes a mandatory employer contribution on behalf of each of its employees participating in the Hybrid Plan equal to 5% of the respective employee's salary subject to the cost controls and unfunded liability controls of the Hybrid Plan. The Joint Venture must also pass the attached resolution that describes the type of defined contribution plan the Joint Venture will adopt).
- B. ASSUMPTION OF EMPLOYEE CONTRIBUTIONS. (CHECK BOX 1 OR BOX 2 OR BOX 3 - IF THE STATE EMPLOYEE AND TEACHER HYBRID PLAN IS SELECTED ABOVE, NO EMPLOYEE CONTRIBUTIONS MAY BE ASSUMED AND BOX 1 MUST BE CHECKED) The Joint Venture shall:
- (1) NOT assume any employee contributions.
 - (2) ASSUME 2.5% of its employees' contributions.
 - (3) ASSUME 5.0% of its employees' contributions.
-
- C. COST-OF-LIVING INCREASES FOR RETIREES. (CHECK BOX 1 OR BOX 2 - IF EITHER THE LOCAL GOVERNMENT, OR THE STATE EMPLOYEE AND TEACHER HYBRID PLAN IS SELECTED ABOVE, COST-OF-LIVING INCREASES FOR RETIREES MUST BE GIVEN, SUBJECT TO ANY APPLICABLE COST CONTROLS AND UNFUNDED LIABILITY CONTROLS AND BOX 2 MUST BE CHECKED) The Joint Venture shall:
- (1) NOT provide cost-of-living increases for its retirees.
 - (2) PROVIDE cost-of-living increases for its retirees.
- D. ELIGIBILITY OF PART-TIME EMPLOYEES. (CHECK BOX 1 OR BOX 2) The Joint Venture shall:
- (1) NOT allow its part-time employees to participate in TCRS.
 - (2) ALLOW its part-time employees to participate in TCRS.
- E. PRIOR SERVICE. (CHECK AND COMPLETE BOX 1 OR BOX 2 OR BOX 3 OR BOX 4 OR BOX 5 - CAUTION: IF THE STATE EMPLOYEE AND TEACHER HYBRID PLAN IS SELECTED ABOVE AND IF BOX 3 BELOW IS NOT CHOSEN, THE EMPLOYER CONTRIBUTION COULD EXCEED 4% THEREBY CAUSING THE COST CONTROLS AND UNFUNDED LIABILITY CONTROLS TO AUTOMATICALLY APPLY. ACCORDINGLY, PRIOR SERVICE IS NOT RECOMMENDED). For each employee employed with the Joint Venture on the effective date of the Joint Venture's participation in TCRS, the Joint Venture shall:
- (1) Purchase ALL years of prior service credit on behalf of its employees.
 - (2) Purchase NO years of prior service credit on behalf of its employees, but shall accept the unfunded liability should its employees establish ALL years of prior service.

- (3) NOT allow its employees to establish any prior service credit with the Joint Venture
- (4) Purchase _____ years of prior service credit on behalf of its employees and accept the unfunded liability should its employees establish an additional _____ years of prior service credit.
- (5) Purchase _____ years of prior service credit on behalf of its employees and no additional prior service credit may be established, and

F. MAXIMUM UNFUNDED LIABILITY. (COMPLETE THIS ITEM F ONLY IF THE STATE EMPLOYEE AND TEACHER HYBRID PLAN IS SELECTED ABOVE). For purposes of the cost control provisions of Tennessee Code Annotated, Section 8-36-922(d), the Joint Venture defines "maximum unfunded liability" to mean an unfunded liability of no greater than _____ N/A: and

WHEREAS, the liability for participation and costs of administration shall be the sole responsibility of the Joint Venture and the public entities that are represented in the Joint Venture, and not the State of Tennessee; and

WHEREAS, the Joint Venture has passed a budget amendment appropriating the funds necessary to meet such liability and the same is attached hereto; and

WHEREAS, the effective date of participation shall be on _____ October 1, 2019 _____ or on such later date as determined by the TCRS Board of Trustees, and the initial employer contribution rate shall be 6.5% which is based on the estimated lump sum accrued liability of \$-0-.

NOW, THEREFORE, BE IT RESOLVED That the _____ Tazewell-New Tazewell Fire Department Committee _____ of the
(Name of Governing Body)

_____ Tazewell-New Tazewell Fire Department _____ hereby authorizes all its employees in all its departments or
(Name of Joint Venture)
instrumentalities to become eligible to participate in TCRS in accordance with the above terms and conditions subject to the approval of the TCRS Board of Trustees. It is acknowledged and understood that pursuant to Tennessee Code Annotated, Section 8-35-111 the Joint Venture shall not make employer contributions to any other retirement or deferred compensation plans on behalf of any employee who participates in TCRS pursuant to this Resolution wherein the total combined employer contributions to such plans exceed 3% of the employee's salary, unless the Hybrid Plan is adopted by the Joint Venture for such employee. In which case, the Joint Venture may make employer contributions to the defined contribution plan component of the Hybrid Plan and to any one or more additional tax deferred compensation or retirement plans provided that the total combined employer contributions to such plans on behalf of an employee shall not exceed 7% of the employee's salary.

STATE OF TENNESSEE
COUNTY OF CLAIBORNE

I, Samuel M. Duncan _____, clerk of the

Tazewell-New Tazewell Fire Department Committee of the _____ Tazewell-New Tazewell Fire Department,
(Name of Governing Body) (Name of Joint Venture)

do hereby certify that this is a true and exact copy of the foregoing Resolution that was approved and adopted in accordance with applicable law at a meeting held on the 9 day of July, 2019, the original of which is on file in this office.

IN WITNESS WHEREOF, I have hereunto set my hand, and the seal of the _____ Tazewell-New Tazewell Fire Department _____
(Name of Joint Venture)



Linda Stilson
As Clerk of the Board, as aforesaid

RESOLUTION #257
A RESOLUTION TO AUTHORIZE A JOINT VENTURE'S
PARTICIPATION IN THE TENNESSEE CONSOLIDATED
RETIREMENT SYSTEM IN ACCORDANCE WITH
TENNESSEE CODE ANNOTATED, TITLE 8, CHAPTERS 34-37.

Tennessee Consolidated Retirement System (Joint Venture – Political Subdivision)

WHEREAS, Tennessee Code Annotated, Section 8-35-201 provides that any governing body of a joint venture between one or more political subdivisions of this State may by resolution authorize the employees of the joint venture to participate in the Tennessee Consolidated Retirement System ("TCRS") subject to the approval of the TCRS Board of Trustees; provided that each political subdivision of the State which is represented in the joint venture passes a resolution guaranteeing the payment of its prorated share of any outstanding liability so incurred by the participation; and

WHEREAS, the governing body of the Tazewell-New Tazewell Fire Department ("Joint Venture") has passed a resolution
(Name of Joint Venture)
authorizing its employees to become members of TCRS under the provisions of state law, and under the following terms and conditions:

- A. TYPE PLAN. (CHECK BOX 1 OR BOX 2 OR BOX 3 OR BOX 4). The Joint Venture adopts the following type plan:
- (1) Regular Defined Benefit Plan.
 - (2) Alternate Defined Benefit Plan.
 - (3) Local Government Hybrid Plan (If this Plan is chosen, the Joint Venture MUST also maintain a defined contribution plan on behalf of its employees and pass the attached resolution that describes the type of defined contribution plan the Joint Venture will adopt. The defined contribution plan could provide for employer contributions of 0% to up to 7% of its employees' salaries).
 - (4) State Employee and Teacher Hybrid Plan (If this Plan is chosen, the Joint Venture MUST also maintain a defined contribution plan on behalf of its employees whereby the Joint Venture makes a mandatory employer contribution on behalf of each of its employees participating in the Hybrid Plan equal to 5% of the respective employee's salary subject to the cost controls and unfunded liability controls of the Hybrid Plan. The Joint Venture must also pass the attached resolution that describes the type of defined contribution plan the Joint Venture will adopt).
- B. ASSUMPTION OF EMPLOYEE CONTRIBUTIONS. (CHECK BOX 1 OR BOX 2 OR BOX 3 - IF THE STATE EMPLOYEE AND TEACHER HYBRID PLAN IS SELECTED ABOVE, NO EMPLOYEE CONTRIBUTIONS MAY BE ASSUMED AND BOX 1 MUST BE CHECKED). The Joint Venture shall:
- (1) NOT assume any employee contributions.
 - (2) ASSUME 2.5% of its employees' contributions.
 - (3) ASSUME 5.0% of its employees' contributions.
- C. COST-OF-LIVING INCREASES FOR RETIREES. (CHECK BOX 1 OR BOX 2 - IF EITHER THE LOCAL GOVERNMENT, OR THE STATE EMPLOYEE AND TEACHER HYBRID PLAN IS SELECTED ABOVE, COST-OF-LIVING INCREASES FOR RETIREES MUST BE GIVEN, SUBJECT TO ANY APPLICABLE COST CONTROLS AND UNFUNDED LIABILITY CONTROLS AND BOX 2 MUST BE CHECKED). The Joint Venture shall:
- (1) NOT provide cost-of-living increases for its retirees.
 - (2) PROVIDE cost-of-living increases for its retirees.
- D. ELIGIBILITY OF PART-TIME EMPLOYEES. (CHECK BOX 1 OR BOX 2). The Joint Venture shall:
- (1) NOT allow its part-time employees to participate in TCRS.
 - (2) ALLOW its part-time employees to participate in TCRS.
- E. PRIOR SERVICE. (CHECK AND COMPLETE BOX 1 OR BOX 2 OR BOX 3 OR BOX 4 OR BOX 5 - CAUTION: IF THE STATE EMPLOYEE AND TEACHER HYBRID PLAN IS SELECTED ABOVE AND IF BOX 3 BELOW IS NOT CHOSEN, THE EMPLOYER CONTRIBUTION COULD EXCEED 4% THEREBY CAUSING THE COST CONTROLS AND UNFUNDED LIABILITY CONTROLS TO AUTOMATICALLY APPLY. ACCORDINGLY, PRIOR SERVICE IS NOT RECOMMENDED). For each employee employed with the Joint Venture on the effective date of the Joint Venture's participation in TCRS, the Joint Venture shall:

- (1) [] Purchase ALL years of prior service credit on behalf of its employees.
- (2) [] Purchase NO years of prior service credit on behalf of its employees, but shall accept the unfunded liability should its employees establish ALL years of prior service.
- (3) [X] NOT allow its employees to establish any prior service credit with the Joint Venture.
- (4) [] Purchase _____ years of prior service credit on behalf of its employees and accept the unfunded liability should its employees establish an additional _____ years of prior service credit.
- (5) [] Purchase _____ years of prior service credit on behalf of its employees and no additional prior service credit may be established; and

F. MAXIMUM UNFUNDED LIABILITY. (COMPLETE THIS ITEM F ONLY IF THE STATE EMPLOYEE AND TEACHER HYBRID PLAN IS SELECTED ABOVE). For purposes of the cost control provisions of Tennessee Code Annotated, Section 8-36-922(d), the Joint Venture defines "maximum unfunded liability" to mean an unfunded liability of no greater than \$-0-.

WHEREAS, the effective date of participation shall be on October 1, 2019, or on such later date as determined by the TCRS Board of Trustees, and the initial employer contribution rate will be 6.5 %, which is based on the estimated lump sum accrued liability of \$-0-; and

WHEREAS, the Town of Tazewell is represented in such Joint Venture and desires to allow all the employees of the Joint Venture to participate in TCRS under the above terms and conditions, or under such other terms and conditions the governing body of the Joint Venture may adopt pursuant to the laws governing TCRS; provided, however, this governing body must approve by resolution any such action that would increase the liabilities of either the Joint Venture or the Political Subdivision; and

WHEREAS, the liability for participation and costs of administration shall be the sole responsibility of the Joint Venture and all public entities responsible for the direct funding of the Joint Venture and not the State of Tennessee; and

WHEREAS, the Joint Venture has passed a budget amendment appropriating the funds necessary to meet such liability and the same is attached hereto.

NOW, THEREFORE, BE IT RESOLVED That the Board of Mayor and Alderman of the Town of Tazewell hereby authorizes all the employees of the Joint Venture to become eligible to participate in TCRS in accordance with the above terms and conditions subject to the approval of the TCRS Board of Trustees, and hereby guarantees the payment of its prorated share of any outstanding liability so incurred by the above-referenced action of the Joint Venture. It is acknowledged and understood that pursuant to Tennessee Code Annotated, Section 8-35-111 neither the Joint Venture nor the Political Subdivision shall make employer contributions to any other retirement or deferred compensation plans on behalf of any employee who participates in TCRS pursuant to this Resolution wherein the total combined employer contributions to such plans exceed 3% of the employee's salary, unless the Local Government Hybrid Plan or the State Employee and Teacher Hybrid Plan is adopted by the Joint Venture for such employee. If either the Local Government Hybrid Plan or the State Employee and Teacher Hybrid Plan is adopted by the Joint Venture, the Joint Venture or the Political Subdivision may make employer contributions to the defined contribution plan component of that Plan and to any one or more additional tax deferred compensation or retirement plans on behalf of such employee provided that the total combined employer contributions to such plans on behalf of the employee does not exceed 7% of the employee's salary.

STATE OF TENNESSEE
 COUNTY OF CLAIRBORNE

I, Robin Ruiz, clerk of the Board of Mayor and Alderman of the

Town of Tazewell, Tennessee do hereby certify that this is a true and exact copy of the foregoing Resolution that was approved and adopted in accordance with applicable law at a meeting held on the 9th day of July, 2019, the original of which is on file in this office.

IN WITNESS WHEREOF, I have hereunto set my hand, and the seal of the Town of Tazewell.
 (Name of Political Subdivision)

Robin Ruiz
 As Clerk of the Board, as aforesaid

Seal

Tennessee Consolidated Retirement System
(Joint Venture – Political Subdivision)

A RESOLUTION to authorize a joint venture's participation in the Tennessee Consolidated Retirement System in accordance with Tennessee Code Annotated, Title 8, Chapters 34 – 37.

WHEREAS, Tennessee Code Annotated, Section 8-35-201 provides that any governing body of a joint venture between one or more political subdivisions of this State may by resolution authorize the employees of the joint venture to participate in the Tennessee Consolidated Retirement System ("TCRS") subject to the approval of the TCRS Board of Trustees; provided that each political subdivision of the State which is represented in the joint venture passes a resolution guaranteeing the payment of its prorated share of any outstanding liability so incurred by the participation; and

WHEREAS, the governing body of the Tazewell-New Tazewell Fire Department ("Joint Venture") has passed a resolution (Name of Joint Venture) authorizing its employees to become members of TCRS under the provisions of state law, and under the following terms and conditions:

- A. TYPE PLAN. (CHECK BOX 1 OR BOX 2 OR BOX 3 OR BOX 4) The Joint Venture adopts the following type plan:
- (1) Regular Defined Benefit Plan.
 - (2) Alternate Defined Benefit Plan.
 - (3) Local Government Hybrid Plan (If this Plan is chosen, the Joint Venture MUST also maintain a defined contribution plan on behalf of its employees and pass the attached resolution that describes the type of defined contribution plan the Joint Venture will adopt. The defined contribution plan could provide for employer contributions of 0% to up to 7% of its employees' salaries).
 - (4) State Employee and Teacher Hybrid Plan (If this Plan is chosen, the Joint Venture MUST also maintain a defined contribution plan on behalf of its employees whereby the Joint Venture makes a mandatory employer contribution on behalf of each of its employees participating in the Hybrid Plan equal to 5% of the respective employee's salary subject to the cost controls and unfunded liability controls of the Hybrid Plan. The Joint Venture must also pass the attached resolution that describes the type of defined contribution plan the Joint Venture will adopt).
- B. ASSUMPTION OF EMPLOYEE CONTRIBUTIONS. (CHECK BOX 1 OR BOX 2 OR BOX 3 - IF THE STATE EMPLOYEE AND TEACHER HYBRID PLAN IS SELECTED ABOVE, NO EMPLOYEE CONTRIBUTIONS MAY BE ASSUMED AND BOX 1 MUST BE CHECKED). The Joint Venture shall:
- (1) NOT assume any employee contributions.
 - (2) ASSUME 2.5% of its employees' contributions.
 - (3) ASSUME 5.0% of its employees' contributions.
-
- C. COST-OF-LIVING INCREASES FOR RETIREES. (CHECK BOX 1 OR BOX 2 - IF EITHER THE LOCAL GOVERNMENT, OR THE STATE EMPLOYEE AND TEACHER HYBRID PLAN IS SELECTED ABOVE, COST-OF-LIVING INCREASES FOR RETIREES MUST BE GIVEN, SUBJECT TO ANY APPLICABLE COST CONTROLS AND UNFUNDED LIABILITY CONTROLS AND BOX 2 MUST BE CHECKED). The Joint Venture shall:
- (1) NOT provide cost-of-living increases for its retirees.
 - (2) PROVIDE cost-of-living increases for its retirees.
- D. ELIGIBILITY OF PART-TIME EMPLOYEES. (CHECK BOX 1 OR BOX 2) The Joint Venture shall:
- (1) NOT allow its part-time employees to participate in TCRS.
 - (2) ALLOW its part-time employees to participate in TCRS.
- E. PRIOR SERVICE. (CHECK AND COMPLETE BOX 1 OR BOX 2 OR BOX 3 OR BOX 4 OR BOX 5 - CAUTION: IF THE STATE EMPLOYEE AND TEACHER HYBRID PLAN IS SELECTED ABOVE AND IF BOX 3 BELOW IS NOT CHOSEN, THE EMPLOYER CONTRIBUTION COULD EXCEED 4% THEREBY CAUSING THE COST CONTROLS AND UNFUNDED LIABILITY CONTROLS TO AUTOMATICALLY APPLY. ACCORDINGLY, PRIOR SERVICE IS NOT RECOMMENDED). For each employee employed with the Joint Venture on the effective date of the Joint Venture's participation in TCRS, the Joint Venture shall:
- (1) Purchase ALL years of prior service credit on behalf of its employees.
 - (2) Purchase NO years of prior service credit on behalf of its employees, but shall accept the unfunded liability should its employees establish ALL years of prior service.
 - (3) NOT allow its employees to establish any prior service credit with the Joint Venture.
 - (4) Purchase _____ years of prior service credit on behalf of its employees and accept the unfunded liability should its employees establish an additional _____ years of prior service credit.

(5) [] Purchase _____ years of prior service credit on behalf of its employees and no additional prior service credit may be established, and

F. MAXIMUM UNFUNDED LIABILITY. (COMPLETE THIS ITEM F ONLY IF THE STATE EMPLOYEE AND TEACHER HYBRID PLAN IS SELECTED ABOVE). For purposes of the cost control provisions of Tennessee Code Annotated, Section 8-36-922(d), the Joint Venture defines "maximum unfunded liability" to mean an unfunded liability of no greater than N/A.

WHEREAS, the effective date of participation shall be on October 1, 2019 or on such later date as determined by the TCRS Board of Trustees, and the initial employer contribution rate will be 6.5%, which is based on the estimated lump sum accrued liability of \$-0-, and

WHEREAS, the Town of New Tazewell is represented in such Joint Venture and desires to allow all the employees of the Joint Venture to participate in TCRS under the above terms and conditions, or under such other terms and conditions the governing body of the Joint Venture may adopt pursuant to the laws governing TCRS; provided, however, this governing body must approve by resolution any such action that would increase the liabilities of either the Joint Venture or the Political Subdivision; and

WHEREAS, the liability for participation and costs of administration shall be the sole responsibility of the Joint Venture and all public entities responsible for the direct funding of the Joint Venture and not the State of Tennessee; and

WHEREAS, the Joint Venture has passed a budget amendment appropriating the funds necessary to meet such liability and the same is attached hereto.

NOW, THEREFORE, BE IT RESOLVED That the Board of Mayor and Alderman of the Town of New Tazewell hereby authorizes all the employees of the Joint Venture to become eligible to participate in TCRS in accordance with the above terms and conditions subject to the approval of the TCRS Board of Trustees, and hereby guarantees the payment of its prorated share of any outstanding liability so incurred by the above-referenced action of the Joint Venture. It is acknowledged and understood that pursuant to Tennessee Code Annotated, Section 8-35-111 neither the Joint Venture nor the Political Subdivision shall make employer contributions to any other retirement or deferred compensation plans on behalf of any employee who participates in TCRS pursuant to this Resolution wherein the total combined employer contributions to such plans exceed 3% of the employee's salary, unless the Local Government Hybrid Plan or the State Employee and Teacher Hybrid Plan is adopted by the Joint Venture for such employee. If either the Local Government Hybrid Plan or the State Employee and Teacher Hybrid Plan is adopted by the Joint Venture, the Joint Venture or the Political Subdivision may make employer contributions to the defined contribution plan component of that Plan and to any one or more additional tax deferred compensation or retirement plans on behalf of such employee provided that the total combined employer contributions to such plans on behalf of the employee does not exceed 7% of the employee's salary.

STATE OF TENNESSEE
COUNTY OF CLAIBORNE

I, Greg H. Beeber, clerk of the Board of Mayor and Alderman of the

Town of New Tazewell, Tennessee do hereby certify that this is a true and exact copy of the foregoing.
(Name of Political Subdivision)

Resolution that was approved and adopted in accordance with applicable law at a meeting held on the 9 day of

July, 2019, the original of which is on file in this office

IN WITNESS WHEREOF, I have hereunto set my hand, and the seal of the Town of New Tazewell
(Name of Political Subdivision)



Linda Stilson
As Clerk of the Board, as aforesaid

STATISTICAL REPORTS

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ANALYSIS OF MEMBERS ACTIVELY CONTRIBUTING

	6/30/2017	9/30/2017	12/31/2017	3/31/2018	6/30/2018	9/30/2018	12/31/2018	3/31/2019	6/30/2019
Group I Members:									
(State & Higher Ed.)	41,731	40,996	40,674	38,617	37,974	37,057	36,509	35,779	35,084
Highway Patrol	704	692	685	679	668	634	627	621	608
Wildlife Officers	186	183	187	183	180	179	176	171	170
Teachers	58,365	58,202	58,306	56,800	55,712	54,935	53,833	53,513	52,397
General Employees of Polisubs	73,897	74,966	76,301	73,732	73,484	73,239	73,053	73,139	72,735
Firemen & Policemen	7,350	7,476	7,617	7,480	7,659	7,712	7,940	8,012	8,208
General Assembly	96	94	92	87	89	93	80	81	79
County Officials	2	2	2	2	2	1	1	1	1
Board Members	382	378	382	370	373	368	419	410	411
County Judges	12	11	10	8	7	6	6	6	6
Attorney: ...	493	489	488	468	468	461	457	455	608
Total Group I	183,218	183,489	184,744	178,426	176,616	174,685	173,101	172,188	170,307
Group II & Prior Class:									
Wildlife Officers									
Highway Patrol									
Firemen & Policemen- Political Subdivisions	10	10	9	8	8	8	8	8	8
Total Group II & Prior Class	10	10	9	8	8	8	8	8	8
Group III and Prior Class:									
State Judges	1	1	1	1	1	1	-		
County Judges	1	0	0						
Attorneys General	1	0	1	1	1	1	1	1	1
County Officials	2	2	2	2	2	2	1	1	1
Total Group III & Prior Class	5	3	4	4	4	4	2	2	2
Group IV									
State Judges	113	111	109	111	112	111	114	112	112
State & Teacher Hybrid Plan									
State	14,869	15,929	17,543	17,407	17,797	18,991	19,742	20,551	20,794
General Assembly	27	28	28	29	30	30	48	48	50
Teacher	15,681	19,099	20,751	19,931	19,601	22,936	23,049	23,420	23,091
Attorneys General, Judges	35	36	37	42	41	41	47	48	48
Political Subdivisions	1,244	1,620	1,996	2,052	2,243	2,572	2,917	3,132	3,252
Public Safety	222	222	296	306	309	374	350	352	351
Alcoa	43	43	42	40	40	39	0	0	0
Local Government Plans									
Alternate DB	36	40	45	48	49	51	54	58	59
Hybrid Plan W/O Cost Control	267	292	320	371	413	472	492	614	629
Total Membership									
Contributing to TCRS	215,770	220,922	225,924	218,763	217,251	220,191	219,800	220,411	218,581
Teachers Contributing to ORP	8,638	8,387	8,213	8,028	8,219	8,054	7,860	7,743	7,649
Grand Totals	224,408	229,309	234,137	226,791	225,470	228,245	227,660	228,154	226,230

**RETIRED PAYROLL
STATISTICS
June 30, 2019**

	<u>AMOUNT</u>	<u># OF RETIREES</u>
STATE EMPLOYEES	67,952,352.80	48,141
STATE PAID JUDGES	1,053,887.28	216
COUNTY PAID JUDGES	233,242.99	61
ATTORNEY GENERALS	963,636.21	238
COUNTY OFFICIALS	314,073.72	138
PUBLIC SERVICE COMMISSIONERS	7,626.75	4
POLITICAL SUBDIVISIONS	37,210,107.93	41,513
TEACHERS	111,470,852.88	51,969
LOCAL TEACHERS	2,999,464.88	1,526
GOVERNORS AND WIDOWS	28,309.75	4
AGED TEACHERS	224.81	2
OTHERS	<u>308,251.16</u>	<u>125</u>
TOTAL	\$222,542,031.16	143,937

**RETIRED PAYROLL
STATISTICS
April 1, 2019
through
June 30, 2019**

	<u>AMOUNT</u>	<u># OF RETIREES</u>
STATE EMPLOYEES	\$203,421,362.67	48,141
STATE PAID JUDGES	\$3,209,041.45	216
COUNTY PAID JUDGES	\$699,728.97	61
ATTORNEY GENERALS	\$2,895,607.27	238
COUNTY OFFICIALS	\$950,577.72	138
PUBLIC SERVICE COMMISSIONERS	\$22,880.25	4
POLITICAL SUBDIVISIONS	\$111,040,162.00	41,513
TEACHERS	\$331,208,562.79	51,969
LOCAL TEACHERS	\$9,026,456.49	1,526
GOVERNORS AND WIDOWS	\$84,929.25	4
AGED TEACHERS	\$674.43	2
OTHERS	<u>\$894,870.66</u>	<u>125</u>
TOTAL	\$663,454,853.95	143,937

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

NUMBER OF MEMBERS REFUNDED

<u>Month</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	<u>2017-18</u>	<u>2018-19</u>
July	475	516	613	512	417	451	479
August	471	782	820	403	425	458	581
September	394	457	586	522	458	343	426
October	375	378	483	364	379	468	433
November	319	314	244	359	321	313	389
December	241	276	338	326	344	373	283
January	338	402	322	386	308	324	481
February	335	310	238	351	380	404	263
March	253	284	331	355	354	332	301
April	311	424	338	347	405	284	317
May	274	866	247	332	347	305	387
June	336	674	383	336	352	328	345
TOTAL	<u>4,122</u>	<u>5,683</u>	<u>4,943</u>	<u>4,593</u>	<u>4,490</u>	<u>4,383</u>	<u>4,685</u>

**REFUND EXPENDITURES
2018-2019 FISCAL YEAR**

MONTH	MEMBER'S CONTRIBUTIONS	414(H) CONTRIBUTIONS	MEMBER'S INTEREST	EMPLOYER CONTRIBUTIONS	DEATH PAYMENTS	TOTAL
July	\$ 97,834.52	\$ 3,104,492.08	\$ 1,022,607.73	\$ 2,265.71	\$ 353,712.40	\$4,580,912.44
August	36,787.48	3,599,652.88	1,290,180.74	8,037.05	383,958.37	\$5,318,616.52
September	88,736.08	2,917,396.43	1,068,085.04	31,101.58	687,802.92	\$4,793,122.05
October	60,068.91	3,714,682.69	1,272,714.76	52,596.79	576,648.58	\$5,676,711.73
November	43,958.12	2,077,038.61	846,533.35	58,194.12	453,913.77	\$3,479,637.97
December	27,656.33	1,994,752.34	618,832.13	39,264.66	294,516.98	\$2,975,022.44
January	6,692.76	2,855,271.57	843,867.53	20,455.81	327,563.64	\$4,053,851.31
February	14,894.37	1,635,787.40	483,131.82	1,434.62	99,134.92	\$2,234,383.13
March	55,066.43	1,590,722.28	584,338.88	30,732.33	449,498.31	\$2,710,358.23
April	40,504.99	2,614,468.70	1,614,395.03	318,879.01	1,399,950.13	\$5,988,197.86
May	85,589.53	2,112,012.72	876,194.97	56,436.98	379,158.59	\$3,509,392.79
June	92,579.66	2,272,608.22	845,330.50	12,280.63	62,518.47	\$3,285,317.48
TOTAL	\$ 650,369.18	\$ 30,488,885.92	\$ 11,366,212.48	\$ 631,679.29	\$ 5,468,377.08	\$ 48,605,523.95

PRIOR SERVICE ACTIVITY
April 1, 2019 through June 30, 2019

Legacy State:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	1	3	\$19,763
	Military	-	-	-
	Redeposit	<u>2</u>	<u>2</u>	<u>\$14,283</u>
	Totals	<u>3</u>	<u>5</u>	<u>\$34,046</u>

Legacy Teachers:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	7	9	\$29,351
	Military	-	-	-
	Redeposit	<u>10</u>	<u>65</u>	<u>\$234,109</u>
	Totals	<u>17</u>	<u>74</u>	<u>\$263,460</u>

Legacy Higher Education:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	9	49	\$445,197
	Military	-	-	-
	Redeposit	-	-	-
	Totals	<u>9</u>	<u>49</u>	<u>\$445,197</u>

Legacy Political Subdivisions:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	38	27	\$64,560
	Military	-	-	-
	Redeposit	<u>14</u>	<u>83</u>	<u>\$227,495</u>
	Totals	<u>52</u>	<u>110</u>	<u>\$292,055</u>

Hybrid Higher Education:

Type of Service	No of Members	Years of Service	Amount
Backpayment	-	-	-
Military	-	-	-
Redeposit	-	-	-
Totals	-	-	-

Hybrid Teachers:

Type of Service	No of Members	Years of Service	Amount
Backpayment	3	2	\$4,754
Military	-	-	-
Redeposit	-	-	-
Totals	<u>3</u>	<u>2</u>	<u>\$4,754</u>

Hybrid Political Subdivisions:

Type of Service	No of Members	Years of Service	Amount
Backpayment	45	601	\$2,376,442
Military	-	-	-
Redeposit	-	-	-
Totals	<u>45</u>	<u>601</u>	<u>\$2,376,442</u>

Hybrid State:

Type of Service	No of Members	Years of Service	Amount
Backpayment	-	-	-
Military	<u>1</u>	<u>4</u>	-
Redeposit	-	-	-
Totals	<u>1</u>	<u>4</u>	-

Grand Totals:

Type of Service	No of Members	Years of Service	Amount
Backpayment	103	691	\$2,940,067
Military	1	4	-
Redeposit	<u>26</u>	<u>150</u>	<u>\$475,887</u>
Totals	<u>130</u>	<u>845</u>	<u>\$3,415,954</u>

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DISABILITY RETIREMENT REPORT

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TCRS BOARD REPORT: FOURTH QUARTER 2019

Reconsiderations & Re-Evaluations

Initial Claim	73
Re-Evaluation	15
Reconsideration	<u>1</u>
Total Cases Reviewed	89

Disability Claim Summary

Disability Application Type

Ordinary	73
Inactive	11
Accidental	<u>5</u>
Total	89

Health Claim

Physical	73
Mental	<u>16</u>
Total	89

Approvals and Denials

Approval	74
Denial	<u>15</u>
Total	89

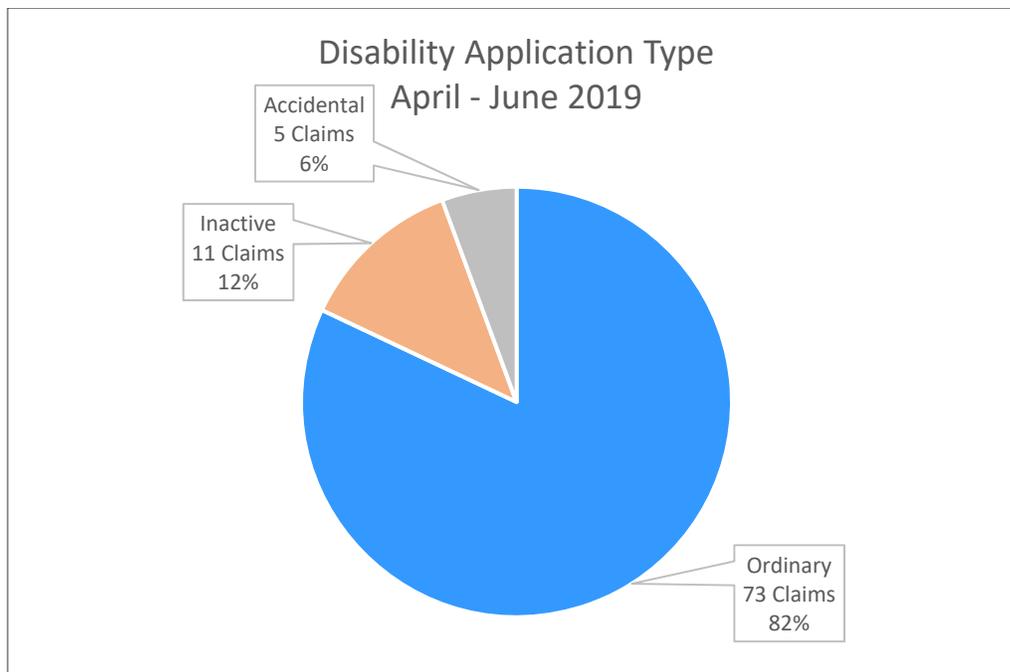
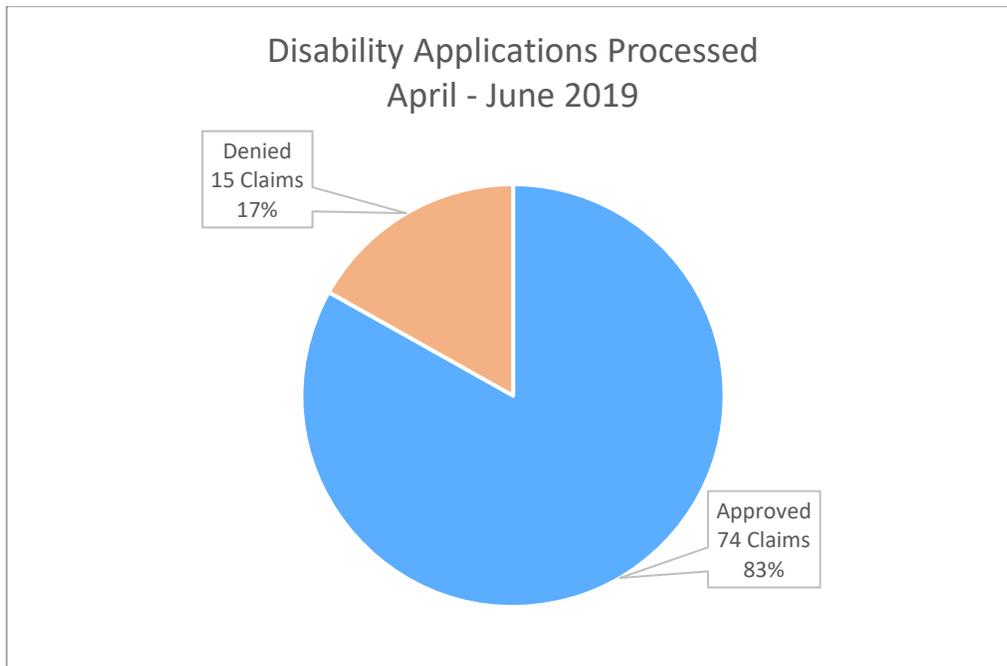
Denial Reasons

Capable of light work	7
Capable of sedentary work	6
No work limitations	<u>2</u>
Disability Claim Summary	15

Average Age of Applicants

Lowest Age	34
Highest Age	60
Average Age	51

TCRS BOARD REPORT: FOURTH QUARTER 2019



TCRS BOARD REPORT: FOURTH QUARTER 2019

Back/ spinal/Lumbar radiculopathy/Spinal Stenosis	17
Osteoarthritis/Rheumatoid Arthritis	9
Cancers	6
Major Depressive Disorder	8
Bipolar Disorder	4
Neurological Disorders/ALS/MS/Auto Immune	7
Wrist & Elbow pain/Neck pain/Shoulder/arm/knee pain	5
Heart/Stroke	5
Seizures	2
Hip injury	3
Meniere's Disease	2
COPD/ Gold Stage III	3
Multiple Sclerosis	2
Dermatomyositis	1
Huntington's Chorea	1
Charcot Foot	1
Migraine	1
Diabetic Peripheral Neuropathy	1
End Stage Renal Disease	2
Ulcerative Colitis	1
Abdominal Hernia with multiple surgeries	1
Post-Traumatic Stress Disorder	4
Schizophrenia	1
CVA	2
Total	89

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FINANCIAL STATEMENTS

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TENNESSEE RETIREE GROUP TRUST
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2019

ASSETS

Cash and cash equivalents	\$	27,554,667.85
Cash collateral for securities on loan		3,724,074,030.00
Receivables		
Investment income receivable		216,478,709.37
Derivative instruments receivable		7,260,135.70
Investments sold		243,227,105.04
Total receivables		<u>466,965,950.11</u>
Investments at fair value		
Government securities		9,447,133,524.32
Corporate securities		6,512,317,428.92
Corporate stocks		25,338,101,226.39
Strategic lending		2,786,908,693.58
Private equities		3,297,475,827.82
Real estate		5,008,394,180.18
Total investments		<u>52,390,330,881.21</u>
TOTAL ASSETS		56,608,925,529.17

LIABILITIES AND NET POSITION

LIABILITIES

Investments purchased		639,203,111.77
Other investments payables		14,288,497.15
Derivative instrument payable		7,260,135.71
Cash collateral for securities on loan		3,724,074,030.00
TOTAL LIABILITIES		<u><u>4,384,825,774.63</u></u>

**NET POSITION HELD IN TRUST FOR
POOL PARTICIPANTS**

\$ 52,224,099,754.54

See Accompanying Notes to the Financial Statements

UNAUDITED

**TENNESSEE RETIREE GROUP TRUST
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE PERIOD ENDED JUNE 30, 2019**

OPERATIONS

INVESTMENT INCOME

Net appreciation in fair value of investments	\$ 2,455,672,540.56
Income on securities	1,320,317,161.15
Total investment income	<u>3,775,989,701.71</u>
Less: investment expense	133,427,160.56
Net income (loss) from investing activities	<u>3,642,562,541.15</u>

Securities lending activities

Securities lending income	120,578,587.72
Less: securities lending expense	97,990,322.02
Net income from securities lending activities	<u>22,588,265.70</u>

NET INVESTMENT INCOME 3,665,150,806.85

CAPITAL SHARE TRANSACTIONS

Net shares sold	1,561,714,737.20
Net shares redeemed	2,723,856,053.37
TOTAL DECREASE FROM CAPITAL SHARE TRANSACTIONS	<u>(1,162,141,316.17)</u>

NET INCREASE IN FIDUCIARY NET POSITION 2,503,009,490.68

NET POSITION RESTRICTED FOR PARTICIPANTS

NET POSITION, BEGINNING OF PERIOD \$ 49,721,090,263.86

NET POSITION, END OF PERIOD \$ 52,224,099,754.54

See Accompanying Notes to the Financial Statements

UNAUDITED

Tennessee Retiree Group Trust
Notes to Financial Statements
June 30, 2019

A: Summary of Significant Accounting Policies

Reporting entity: The Tennessee Retiree Group Trust (TRGT) is an external investment pool sponsored by the State of Tennessee. The external portion of the TRGT consists of funds belonging to entities outside of the State of Tennessee Financial Reporting Entity, and has been included as a separate investment trust fund in the *Tennessee Comprehensive Annual Financial Report*. The internal portion, consisting of funds belonging to the State and its component units, has been included in the various participating funds and component units in the *Tennessee Comprehensive Annual Financial Report*.

Measurement focus and basis of accounting: The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) 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 the accrual method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred regardless of the timing of related cash flows.

Cash and cash equivalents: Cash and cash equivalents includes cash and short-term investments with a maturity date within three months of the acquisition date. Cash management pools are included as cash. Cash received that cannot be immediately invested in securities, or that is needed for operations, is invested in either the State Pooled Investment Fund sponsored by the State of Tennessee and administered by the State Treasurer or in the State Street Government Money Market Fund, a short-term, open-end mutual fund under the contractual arrangement for master custody services.

Method used to report investments and participant shares: The TRGT is not registered with the Securities and Exchange Commission (SEC) as an investment company. The State of Tennessee has not obtained a credit quality rating for the TRGT from a nationally recognized credit ratings agency. The fair value of investment positions in the TRGT is determined daily based on the fair value of the pool's underlying portfolio. Furthermore, the State had not obtained or provided any legally binding guarantees to support the value of participant shares during the fiscal year. There are no restrictions on the sale or redemption of shares.

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments and interest and dividend income. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis.

The fair value of assets of the TRGT held at June 30, 2019 represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants

B: Deposits and Investments

Statutory Authority: The Tennessee Retiree Group Trust (TRGT) was established in 2015 by a statutory enactment of the Tennessee General Assembly. The provisions of the TRGT are codified in *Tennessee Code Annotated (TCA)* Title 8, Chapters 34-37. Pursuant to this statute the Tennessee Consolidated Retirement System (TCRS) and its board of directors with the State Treasurer (Treasurer) as custodian, authorized by TCA 8-37-104 adopted this group trust for the purpose of pooling funds of TRGT with other assets in the custody of the Treasurer, solely for investment purposes. The assets invested consist exclusively of assets of exempt pension and profit sharing trusts and individual retirement accounts, custodial accounts, retirement income accounts, governmental plans and tax-exempt trusts under the Internal Revenue Code of 1986 and Rev. Rul. 81-100, as modified by Rev. Ruls. 2004-67, 2008-40 and 2011-1 (referred to herein as "Retirement Assets"). The Custodian shall be responsible for the managing and directing the investment of the Group Trust Funds in the same manner as it invests funds of the TCRS.

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The TRGT is authorized to invest in securities in accordance with the investment policy of the TCRS. That policy allows the Trust 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 trust.
- 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 trust.
- c. Within the restrictions in (a) and (b) above, 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. However upon action of the TCRS Board of Trustees with subsequent approval by the Council on Pensions and Insurance, limit has been authorized at an amount not to exceed twenty-five percent (25 percent).
- 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 alternative assets shall not exceed forty percent (40 percent) of the market value of total assets.

State statute also authorizes the TRGT to invest in forward contracts to hedge its foreign currency exposure and to purchase or sell domestic equity 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 ten percent (10 percent) of the market value of the TRGT's total assets. Position sizes will be measured by notional amounts. Options will be measured in their notional equivalents.

Investment policy: The TRGT investment authority is established pursuant to Tennessee Code Annotated Title 8, Chapter 37. The statute provides the Board of Trustees with the responsibility to establish the investment policy of the TRGT. The investment policy may be amended by the Board. The TRGT assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided by the TCRS.

Securities Lending: The TRGT is authorized to engage in securities lending agreements by TCA 8-37-104(a)(6) with the terms established in the investment policy whereby TRGT loans securities to brokers and dealers (borrower) and in turn, TRGT receives collateral as either cash or securities. TRGT pays the borrower interest on the collateral received and invests the collateral with the goal of earning a higher yield than the interest rate paid to the borrower. Loans are limited to no more than thirty percent (30%) of the market value of the total assets in the TRGT portfolio and provided further that such loans are secured by collateral. Securities received as collateral hereunder shall have a market value equal to at least one hundred two percent (102%) of the market value of the loaned domestic security or one hundred five percent (105%) of any foreign security. Cash received as collateral shall equal at least one hundred percent (100%) of the market value of the loaned securities and may be invested by or on behalf of the TRGT in any instrument the TRGT may be directly invested. Cash Collateral is held in the TRGT name and is not subject to custodial credit risk. During the year there were no violations of legal or contractual provisions by the TRGT.

The TRGT securities lending program is managed by a third party lending agent, Deutsche Bank AG. The TRGT may loan any debt or equity securities which is owned by TRGT. Our securities lending agent manages the average maturities of securities on loan against the average maturities of securities on collateral invested. The maturity gap has a limit of 33 days. This is monitored by investment staff on a periodic basis to ensure compliance.

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The TRGT securities lending program is managed by a third party lending agent, Deutsche Bank AG. The TRGT may loan any debt or equity securities which is owned by TRGT. At June 30, 2019, the TRGT had market value of securities on loan totaling \$3,607,255,781 and received \$3,724,074,030 in collateral.

The TRGT has the ability to sell the collateral securities only in the case of a borrower default.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit quality distribution for the TRGT's investments in fixed income securities at year end is included in the schedule below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale. The State Pooled Investment Fund has not obtained a credit quality rating from a nationally recognized credit ratings agency.

TRGT's investment policy specifies that bond issues subject for purchase are investment grade bonds rated by one of the Nationally Recognized Statistical Rating Organizations (NRSROs). There is no requirement to divest an asset if it is downgraded after purchase. For short-term investments, the investment policy provides for the purchase of only the highest quality debt issues. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch. The investment policy also requires preparation of a credit analysis report on the corporation prior to purchasing commercial paper.

As noted below, the TRGT does not utilize its own bank accounts but invests in the State Pooled Investment Fund for its operating cash purposes. Required risk disclosures relative to the State Pooled Investment Fund are presented in the State Pooled Investment Fund Report. That report is available on the state's website at <http://www.tn.gov/treasury/>.

Interest Rate Risk: Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The investment policy for the TRGT states that the maturity of its debt securities may range from short-term instruments, including investments in the State Pooled Investment Fund, to long-term bonds, with consideration of liquidity needs. However, the policy does not specifically address limits on investment maturities. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price.

Asset-Backed Securities: The TRGT invests in various collateralized mortgage obligations (CMOs) which are mortgage-backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages and could therefore be more sensitive to prepayments by mortgagees as a result of a decline in interest rates.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The investment policy limits the asset allocation for international investments to twenty-five percent of total assets.

Custodial Credit Risk: Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the TRGT deposits may not be returned to TRGT. The TRGT does not have an explicit policy with regards to Custodial Credit Risk for deposits. At June 30, 2019 the TRGT had uninsured and uncollateralized cash deposits of foreign currency held by our master custodian, State Street Bank, in State Street's name. These deposits were used for investments pending settlement.

Derivatives:

Futures - The TRGT 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 futures hedge losses (gains) produced by any deviation from the TRGT target 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.

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Foreign Currency Forward Contracts - The international securities expose the TRGT to potential losses due to a possible rise in the value of the US dollar. The TRGT 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. Foreign currency forward contracts expose the TRGT 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.

Mortgages - The TRGT is authorized to invest in To Be Announced (TBA) mortgage backed securities similar to the foreign currency forward contracts. The TRGT enters into agreements to purchase pools of mortgage backed securities prior to the actual security being identified. The TRGT 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 TRGT 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.

Options - The TRGT is authorized to enter into option contracts and any income earned on option contracts has been included in investment income in the financial statements.

The fair values of foreign currency forward contracts are estimated based on the present value of their estimated future cash flows. Futures, Options and TBA mortgage backed securities are exchange traded and their price is based on quoted market prices at year end. It is the TRGT 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.

Alternative Investments: The TRGT has investments in strategic lending, private equity funds and real estate. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. Title to real property invested in by TRGT is held by real estate investment holding companies.

Commitments:

Standby Commercial Paper Purchase Agreement: The TRGT 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 TRGT receives an annual fee of 25 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, 40 basis points during times when either Moody's or Standard and Poor's has assigned ratings of Aa and AA respectively, or 55 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 TRGT would be called upon to purchase the commercial paper, the TRGT 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.

Alternative Investments: The TRGT had unfunded commitments in private equity, strategic lending, and real estate commitments at the end of the period.

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**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENT OF FIDUCIARY NET POSITION
AS OF JUNE 30, 2019**

ASSETS

Cash and Cash Equivalents	\$24,548,499.27
Cash collateral for securities on loan	3,709,108,783.03

Receivables

Member receivable	32,124,856.65
Employer receivable	78,268,889.27

Total receivables	110,393,745.92
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Investments, at fair value	
Tennessee Retiree Group Trust	52,012,392,796.59
Capital Assets (net)	16,892,344.45

TOTAL ASSETS	55,873,336,169.26
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LIABILITIES

Accounts payable

Death benefits and refunds payable	3,334,372.49
Federal withholding payable	17,146,347.21
Retiree insurance premium payable	9,186,625.60
Other	0.00

Cash collateral for securities on loan	3,709,108,783.03
TOTAL LIABILITIES	3,738,776,128.33

NET POSITION RESTRICTED FOR PENSIONS	\$52,134,560,040.93
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See Accompanying Notes to the Financial Statements

UNAUDITED

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019**

ADDITIONS	
Contributions	
Member contributions	\$360,046,452.76
Employer contributions	1,101,918,053.86
Other contributions	2,478,763.08
Total contributions	<u>1,464,443,269.70</u>
Investment income	
Total investment income	3,691,544,722.03
Less: Investment expense	(58,468,800.03)
Net income (loss) from investing activities	<u>3,633,075,922.00</u>
Securities lending activities	
Securities lending income	120,094,040.87
Less: securities lending expense	(97,596,546.45)
Net income from securities lending activities	<u>22,497,494.42</u>
Net investment income	<u>3,655,573,416.42</u>
TOTAL ADDITIONS	<u>5,120,016,686.12</u>
DEDUCTIONS	
Annuity benefits	2,639,940,917.98
Death benefits	5,478,252.07
Refunds	42,759,555.63
Administrative expenses	19,874,342.44
TOTAL DEDUCTIONS	<u>2,708,053,068.12</u>
NET INCREASE	2,411,963,618.00
NET POSITION RESTRICTED FOR PENSIONS	
BEGINNING OF YEAR	<u>49,722,596,422.93</u>
END OF YEAR	<u><u>\$52,134,560,040.93</u></u>

See Accompanying Notes to the Financial Statements

UNAUDITED

Tennessee Consolidated Retirement System
Notes to Financial Statements
June 30, 2019

The Tennessee Consolidated Retirement System (TCRS) is a public employee retirement system comprised of defined benefit pension plans covering Tennessee state employees, employees of the state's higher education systems, teachers, and employees of political subdivisions in Tennessee. The TCRS was established in 1972 by a statutory enactment of the Tennessee General Assembly. The provisions of the TCRS are codified in *Tennessee Code Annotated* Title 8, Chapters 34-37. In accordance with Tennessee Code Annotated Title 8, Chapter 34, Section 202, all funds invested, securities, cash, and other property of the TCRS are held in trust and can be expended only for the purposes of the trust. Although the assets for all pension plans within the TCRS are commingled for investment purposes, the assets of each separate plan may legally be used only for the payment of benefits to the members of that plan and for its administration, in accordance with the terms of the plan.

A: Summary of Significant Accounting Policies

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 a pension trust fund in the *Tennessee Comprehensive Annual Financial Report*.

Measurement focus and basis of accounting: The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) 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 the accrual method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred regardless of the timing of related cash flows.

Plan member and employer contributions are recognized in the period of time for which they are due, in accordance with legal provisions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Cash and cash equivalents: Cash and cash equivalents includes cash, short-term investments with a maturity date within three months of the acquisition date, cash management pools, and cash invested in a short-term, open-end mutual fund under the contractual arrangement for master custody services. Cash received by the TCRS, that cannot be invested immediately in securities or is needed for operations, is invested in the State Pooled Investment Fund sponsored by the State of Tennessee and administered by the State Treasurer.

Method used to value investments: Assets of the TCRS are invested in the Tennessee Retiree Group Trust (TRGT). As of June 30, 2019, the TCRS owns 99.59 percent of the investments in the TRGT. The TRGT is not registered with the Securities and Exchange Commission (SEC) as an investment company. The State of Tennessee has not obtained a credit quality rating for the TRGT from a nationally recognized credit ratings agency. The fair value of investment positions in the TRGT is determined daily based on the fair value of the pool's underlying portfolio. Furthermore, the State had not obtained or provided any legally binding guarantees to support the value of participant shares during the fiscal year. There are no restrictions on the sale or redemption of shares.

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments and interest and dividend income. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis.

The fair value of assets of the TRGT held at June 30, 2019 represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

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Capital assets: Capital assets consist of internally generated computer software, reported at historical cost less any applicable amortization. Capital assets are defined by the state as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of two years. The computer software was valued at \$16.9 million at June 30, 2019 and is being amortized using the straight line method over the ten year estimated life of the system.

B: Plan Descriptions

Plan administration: The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS.

At June 30, 2019, there were three defined benefit pension plans within the TCRS. The Public Employee Retirement Plan is an agent, multiple-employer defined benefit pension plan for state government employees and for political subdivisions electing to participate in the TCRS. The Teacher Legacy Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan for teachers of local education agencies (LEAs). The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by LEAs after June 30, 2014. The Teacher Retirement Plan is a separate cost sharing, multiple employer defined benefit pension plan.

The general administration and responsibility for proper operation of the TCRS plans are vested in a 20 member Board of Trustees, consisting of 18 voting members and two non-voting members. The Board has nine ex-officio members, two of whom are non-voting. The seven voting ex-officio members are the State Treasurer, Secretary of State, Comptroller of the Treasury, Commissioner of Finance and Administration, Commissioner of Human Resources, Director of the TCRS, and the Administrative Director of the Courts. The two non-voting ex-officio members are the chair and vice-chair of the Legislative Council on Pensions and Insurance.

Three active teacher members, one from each grand division of the state, and a retired teacher member are selected for three year terms by the Speaker of the House of Representatives and the Speaker of the Senate. Two active state employee members, who are from departments other than those represented by ex-officio members, are elected by state employees for three year terms. A board member is appointed for a two year term by each of the following organizations: Tennessee County Services, Tennessee Municipal League, and the Tennessee County Officials Association. Two members, a public safety employee and a retired state employee, are appointed by the Governor for two year terms. All members must be vested members of the TCRS, except for ex-officio members.

Benefits provided: The TCRS provides retirement, disability, and death benefits. The benefits of the TCRS are established by state law (Tennessee Code Annotated, Title 8, Chapters 34-37). In general, the benefits may be amended prospectively by the General Assembly for employees becoming members of the TCRS after June 30, 2014. Amendments of benefits for employees becoming members before July 1, 2014 can be restricted by precedent established by the Tennessee Supreme Court.

Teacher Legacy Pension Plan

Members of the Teacher Legacy Pension Plan are eligible to retire at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Plan members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent.

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Teacher Retirement Plan

Members of the Teacher Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 where age and years of service total 90. Plan members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. The Teacher Retirement Plan includes provisions to control employer contributions and unfunded liabilities. As such, plan provisions are automatically changed when employer contributions and unfunded liabilities exceed statutory limits.

Public Employee Retirement Plan

For state employees, there are two major tiers of benefits and eligibility requirements. State employees becoming members before July 1, 2014 are eligible to retire at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. State employees becoming members after June 30, 2014 are eligible to retire at age 65 with five years of service or pursuant to the rule of 90 where age and years of service total 90. Plan members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic COLAs after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the CPI during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. There are additional classes of employees that include state judges, elected members of the general assembly, and public safety officers which have different benefit structures and eligibility requirements. These classifications represent an immaterial percentage of the state employee membership.

For political subdivision employees, there are various tiers of benefits and eligibility requirements. Each political subdivision adopts the benefit structure that the entity provides to its employees. Unreduced service retirement benefits are determined using a multiplier of the member's highest 5 consecutive year average compensation multiplied by the member's years of service credit. Plan members are eligible for service related disability benefits regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria. If adopted as a benefit provision by the political subdivision, member and beneficiary annuitants are entitled to automatic COLAs after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the CPI during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. There are additional classes of employees, local judges, elected officials, and public safety officers, which may have different benefit structures and eligibility requirements. These classifications represent an immaterial percentage of the political subdivisions' membership.

Contributions: Pursuant to *Tennessee Code Annotated* Title 8, Chapter 37, the Board of Trustees adopted an actuarially determined contribution (ADC) for each participating employer, as recommended by an independent actuary following an actuarial valuation.

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For the Teacher Legacy Pension Plan, LEAs are required by statute to contribute the ADC. The ADC is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, the unfunded accrued liability, and the cost of administration. Teachers are required by statute to contribute 5 percent of salary. For the period ending June 30, 2019, the required ADC for LEAs was 10.46 percent of covered-employee payroll.

For the Teacher Retirement Plan, LEAs are required by statute to contribute greater of the ADC or 4 percent. The ADC is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, the unfunded accrued liability, and the cost of administration. Teachers are required by statute to contribute 5 percent of salary. For the period ending June 30, 2019, the required ADC for LEAs was 1.94 percent of covered-employee payroll while actual contributions were 4 percent of covered-employee payroll.

For the Public Employee Retirement Plan, each governmental entity is required by statute to contribute the ADC except that the contribution rate for state employees hired after June 30, 2014 is the greater of the ADC or 4 percent. The ADC is the estimated amount necessary to finance the costs of benefits earned by plan members during the plan year, the unfunded accrued liability, and the cost of administration. For the year ended June 30, 2019, the required ADC varied for each participating employer, with approximately ninety-six percent of all employer rates less than twenty (20) percent and contributions from these same employers accounting for over ninety percent of the contributions for this plan. By statute, state employees hired before July 1, 2014 are noncontributory while employees hired after June 30, 2014 contribute 5 percent of salary. As adopted by the governmental entity, political subdivision employees may be noncontributory, contribute 2.5 percent of salary, or contribute 5 percent of salary.

Reserves: The statute governing the Teacher Retirement Plan and certain employers in the Public Employee Retirement Plan provide for a minimum employer contribution rate of 4 percent. The statute further provides that the amount of the employer contributions in excess of the actuarially determined contribution rate is deposited into a stabilization reserve for each plan. The statute may be amended by the Tennessee General Assembly. Assets in the stabilization reserve are commingled for investment purposes and receive a pro rata share of investment earnings. The amount in the stabilization reserve is not considered in calculating the actuarially determined employer contribution rate for each plan. The statute provides that the assets in the stabilization reserve will be utilized should the actuarially determined contribution rate exceed 4 percent. In such case, the required employer contribution in excess of 4 percent will be transferred from the stabilization reserve to the account of the Teachers Retirement Plan or certain Public Employee Retirement Plan employers. By statute, the Board of Trustees may adopt a policy to suspend the deposits into the stabilization reserve in any given year when the stabilization reserve reaches a certain level that is determined by the Board. If deposits are suspended, then the employer contribution will be the actuarially determined contribution rate for that year rather than the higher 4 percent. The Board has not adopted a policy at this time.

C: Deposits and Investments

Statutory Authority: The Tennessee Retiree Group Trust (TRGT) was established in 2015 by a statutory enactment of the Tennessee General Assembly. The provisions of the TRGT are codified in *Tennessee Code Annotated (TCA)* Title 8, Chapters 34-37. Pursuant to this statute the Tennessee Consolidated Retirement System (TCRS) and its board of directors with the State Treasurer (Treasurer) as custodian, authorized by TCA 8-37-104 adopted this group trust for the purpose of pooling funds of TRGT with other assets in the custody of the Treasurer, solely for investment purposes. The assets invested consist exclusively of assets of exempt pension and profit sharing trusts and individual retirement accounts, custodial accounts, retirement income accounts, governmental plans and tax-exempt trusts under the Internal Revenue Code of 1986 and Rev. Rul. 81-100, as modified by Rev. Ruls. 2004-67, 2008-40 and 2011-1 (referred to herein as “Retirement Assets”). The Custodian shall be responsible for the managing and directing the investment of the Group Trust Funds in the same manner as it invests funds of the TCRS. As of June 30, 2019, the TCRS owns 99.59 percent of the investments in the TRGT.

The TRGT is authorized to invest in securities in accordance with the investment policy of the TCRS. That policy allows the Trust 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 trust.

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- 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 trust.
- c. Within the restrictions in (a) and (b) above, an amount not to exceed twenty-five percent (25 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 ten percent (10 percent) of the market value of total assets.

State statute also authorizes the TRGT to invest in forward contracts to hedge its foreign currency exposure and to purchase or sell domestic equity 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 ten percent (10 percent) of the market value of the TRGT's total assets. Gross exposure to approved fixed income financial instruments will be limited to ten percent (10 percent) of the market value of the Trust's total assets for risk mitigating positions and 10 percent (10 percent) for risk positions. Position sizes will be measured by notional amounts. Options will be measured in their notional equivalents.

Investment policy: The TRGT investment authority is established pursuant to Tennessee Code Annotated Title 8, Chapter 37. The statute provides the Board of Trustees with the responsibility to establish the investment policy of the TRGT. The investment policy may be amended by the Board. The TRGT assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided by the TCRS.

Securities Lending: The TRGT is authorized to invest in securities lending investments by TCA 8-37-104(a)(6) with the terms established in the investment policy whereby TRGT loans securities to brokers and dealers (borrower) and in turn, TRGT receives collateral as either cash or securities. TRGT pays the borrower interest on the collateral received and invests the collateral with the goal of earning a higher yield than the interest rate paid to the borrower. Loans are limited to no more than thirty percent (30%) of the market value of the total assets in the TRGT portfolio and provided further that such loans are secured by collateral. Securities received as collateral hereunder shall have a market value equal to at least one hundred two percent (102%) of the market value of the loaned domestic security or one hundred five percent (105%) of any foreign security. Cash received as collateral shall equal at least one hundred percent (100%) of the market value of the loaned securities and may be invested by or on behalf of the TRGT in any instrument the TRGT may be directly invested. Cash Collateral is held in the TRGT name and is not subject to custodial credit risk. During the year there were no violations of legal or contractual provisions by the TRGT.

The TRGT securities lending program is managed by a third party lending agent, Deutsche Bank AG. The TRGT may loan any debt or equity securities which is owned by TRGT. At June 30, 2019, the TRGT had market value of securities on loan totaling \$3,607,255,781 and received \$3,724,074,030 in collateral.

The TCRS has the ability to sell the collateral securities only in the case of a borrower default.

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Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit quality distribution for the TRGT's investments in fixed income securities at year end is included in the schedule below. Securities are rated using Standard and Poor's and/or Moody's and are presented below using the Standard and Poor's rating scale. The State Pooled Investment Fund has not obtained a credit quality rating from a nationally recognized credit ratings agency.

TRGT's investment policy specifies that bond issues subject for purchase are investment grade bonds rated by one of the Nationally Recognized Statistical Rating Organizations (NRSROs). There is no requirement to divest an asset if it is downgraded after purchase. For short-term investments, the investment policy provides for the purchase of only the highest quality debt issues. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch. The investment policy also requires preparation of a credit analysis report on the corporation prior to purchasing commercial paper.

As noted below, the TRGT does not utilize its own bank accounts but invests in the State Pooled Investment Fund for its operating cash purposes. Required risk disclosures relative to the State Pooled Investment Fund are presented in the State Pooled Investment Fund Report. That report is available on the state's website at <http://www.tn.gov/treasury/>.

Interest Rate Risk: Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The investment policy for the TRGT states that the maturity of its debt securities may range from short-term instruments, including investments in the State Pooled Investment Fund, to long-term bonds, with consideration of liquidity needs. However, the policy does not specifically address limits on investment maturities. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price.

Asset-Backed Securities: The TRGT invests in various collateralized mortgage obligations (CMOs) which are mortgage-backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages and could therefore be more sensitive to prepayments by mortgagees as a result of a decline in interest rates.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The investment policy limits the asset allocation for international investments to twenty-five percent of total assets.

Custodial Credit Risk: Custodial Credit Risk for deposits is the risk that in the event of a bank failure, the TRGT deposits may not be returned to TRGT. The TRGT does not have an explicit policy with regards to Custodial Credit Risk for deposits. At June 30, 2019, the TRGT had uninsured and uncollateralized cash deposits of foreign currency held by our master custodian, State Street Bank, in State Street's name. These deposits were used for investments pending settlement.

Derivatives:

Futures - The TRGT 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 futures hedge losses (gains) produced by any deviation from the TRGT target 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.

Foreign Currency Forward Contracts - The international securities expose the TRGT to potential losses due to a possible rise in the value of the US dollar. The TRGT 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 TRGT can sell

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up to 80% of its foreign currency exposure into US dollars. Foreign 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.

Mortgages - The TRGT is authorized to invest in To Be Announced (TBA) mortgage backed securities similar to the foreign currency forward contracts. The TRGT enters into agreements to purchase pools of mortgage backed securities prior to the actual security being identified. The TRGT 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 TRGT 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.

Options - The TRGT is authorized to enter into option contracts and any income earned on option contracts has been included in investment income in the financial statements.

The fair values of foreign currency forward contracts are estimated based on the present value of their estimated future cash flows. Futures, Options and TBA mortgage backed securities are exchange traded and their price is based on quoted market prices. It is the TRGT 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.

Alternative Investments: The TRGT has investments in strategic lending, private equity funds and real estate. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. Title to real property invested in by TRGT is held by real estate investment holding companies.

Commitments:

Standby Commercial Paper Purchase Agreement: The TRGT 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 TRGT receives an annual fee of 25 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, 40 basis points during times when either Moody's or Standard and Poor's has assigned ratings of Aa and AA respectively, or 55 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 TRGT would be called upon to purchase the commercial paper, the TRGT 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.

Alternative Investments: The TRGT had unfunded commitments in private equity, strategic lending, and real estate commitments at the end of the period.