

Minutes of the TCRS Board of Trustees meeting on December 7, 2012

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, December 7, 2012 at 9:35 a.m. The meeting was held in Room 30 of the Legislative Plaza with Chairman David Lillard presiding.

Chairman Lillard asked Ms. Bachus to conduct an attendance roll call. The following members were present: Chairman David Lillard, State Treasurer; Commissioner Mark Emkes, Department of Finance and Administration; Commissioner Rebecca Hunter, Department of Human Resources; Ms. Jill Bachus, Director of TCRS; Ms. Libby Sykes, Administrative Director of the Courts; Mr. Michael Barker, Mr. Al Laney, Ms. Patsy Moore, Mr. Bill Kemp, Ms. Traci Jefferson, and Mr. Harold Morrison

Approval of the September 28, 2012 Minutes of the Board of Trustees

On a motion by Commissioner Emkes and seconded by Mr. Laney, the minutes of the September 28, 2012 TCRS Board of Trustees meeting were unanimously approved.

Board of Trustees Committee Report

Chairman Lillard recognized Mr. Barker to provide the audit committee report. Mr. Barker noted the minutes from the September 28, 2012 audit committee meeting were not approved due to a quorum issue. The audit committee reviewed the adequacy of internal controls of management and reviewed recommendations from Treasury internal audit on privacy changes to the employee handbook. Mr. Andy Furlong provided an update on a conference he attended with the Association of Public Pension Fund Auditors. Mr. Lamar Villere reviewed the private equity contact list with the committee. Chairman Lillard reviewed on going activity related to security issues. Ms. Jill Bachus gave an update on Concord.

Chairman Lillard recognized Ms. Bachus to provide the administrative committee report. Ms. Bachus mentioned the Field Services division updated the administrative committee on local governments joining TCRS. The administrative committee discussed the upcoming election for state employee representatives to the TCRS Board of Trustees. In addition, Ms. Bachus mentioned the administrative committee was provided an update on Concord.

Chairman Lillard mentioned the investment committee did not meet, but that the committee will soon hold a telephone conference call.

Investment Report

Mr. Pete Keliuotis of Strategic Investment Solutions (SIS) was asked to provide a review of TCRS's recent investment performance. He noted that both fixed income and equities performed well during the quarter primarily due to increased central bank liquidity around the world. He stated that TCRS delivered a return of 5.0% for the quarter and 18.1% for the year. This return beat the allocation index by 0.4% and 0.5% for the quarter and year respectively.

Mr. Keliuotis reviewed the performance of each asset class. He noted that the North American Equities Portfolio and Fixed Income Portfolio both delivered strong relative performance. The International Equities Portfolio continues to outperform its index. He noted that this portfolio is entirely managed by external managers. SIS and TCRS staff continues to be pleased with all the external managers, but have shared some concerns regarding TT International. He noted that TT International is currently resolving some staffing issues that should allow for its performance to return in the near future. He added that the Real Estate Portfolio delivered a strong absolute return. Finally, Mr. Keliuotis noted that the Private Equity Portfolio is still young and the performance measurement continues to be far less meaningful than for the other asset classes.

Mr. Brakebill addressed the recent key initiatives for the fund. He noted that the most important initiative has been the implementation of the changes to the asset allocation of the fund. The changes included the creation of the strategic lending program, the implementation of a non-core real estate program and the creation of the emerging market equities program. He noted that these changes were reviewed and approved by the Council of Pensions and Insurance on October 31, 2012.

Mr. Brakebill noted several additional initiatives underway. The Strategic Lending Consultant was selected and staff is working with the consultant to develop the strategy for the portfolio. Mr. Lamar Villere, the Director of Private Equity, continues his work to build up the private equity program. Mr. Brakebill noted that private equity is different from other asset classes in that investors cannot choose when to invest in different funds as the timing of investments is primarily determined by when funds are open for investment. Mr. Brakebill briefly addressed the tactical allocation of the fund by noting that the fund remains neutral in its tactical allocation. He noted that staff saw few reasons to be significantly overweight or underweight to any specific asset class pending the implementation of the new portfolio targets. Mr. Brakebill added that the fund recently changed the method of gaining exposure to small cap equities. Previously the fund used Russell 2000 futures contracts with an underlying cash position. The fund has completed the transition to investing in an S&P 600 based index fund.

Mr. Brakebill made a few additional announcements. He noted that staff was involved in the rating agency reviews. A group of the investment staff recently reviewed investment strategies of the Missouri Public Employees (MOSERS) pension fund and presented for discussion with the entire investments staff. Finally, he noted that staff was researching Master Limited Partnerships (MLPs).

Commissioner Mark Emkes asked about the outlook for European equities and whether it was appropriate to be investing in Europe at the present time. Mr. Brakebill noted that there is a mixed consensus among investors. While many believe European equities have too much pessimism built into the price, other investors continue to believe the European economy faces greater challenges going forward. Mr. Brakebill noted that European equities are cheaper than North American Equities and appear to be pricing in the additional economic risks associated with that economy. He noted that the fund had \$4.8 billion in international equity investments at the end of the quarter and that about 65% of those investments are in Europe.

Other Business

Chairman Lillard announced that Mr. Laney was reappointed by the Governor to the TCRS Board of Trustees. Chairman Lillard also mentioned a summary of the proposed new plan options for State employees and teachers will be presented to the Board in January.

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 Commissioner Emkes and seconded by Mr. Barker and Mr. Laney, the Board unanimously approved the TCRS Board of Trustees meeting be adjourned.

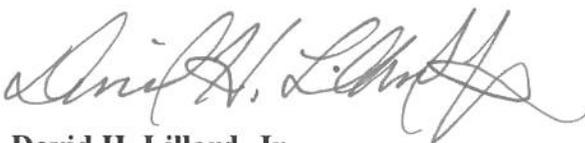
With no other business, the Board of Trustees adjourned at 10:10 a.m. on December 7, 2012.

Respectfully Submitted,



**Jill Bachus
Director, TCRS**

Approved:



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