

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
DECEMBER 7, 2012

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TABLE OF CONTENTS

Minutes of the Board of Trustees	3
Committee Minutes	
Administrative Committee	9
Audit Committee	11
Investment Committee	15
TCRS Board of Trustee Appointment	25
Statistical Reports	
Active Member Statistics	29
Retired Payroll Statistics	30
Refund Activity and Expenditures	32
Prior Service Activity	34
Disability Retirement Report	
Disability Statistical Report	37
Approved for Disability	39
Disapproved for Disability	43
TCRS Financial Report	49

**MINUTES OF THE
BOARD OF TRUSTEES MEETING
SEPTEMBER 28, 2012**

Minutes of the TCRS Board of Trustees meeting on September 28, 2012

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, September 28, 2012 at 10:05 a.m. The meeting was held in the Nashville Room of the William R. Snodgrass/TN Tower with Chairman David Lillard presiding.

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

Board of Trustees Appointment

Chairman Lillard introduced Mr. Harold Morrison a new member to the Board. Mr. Morrison is the middle Tennessee teacher representative and will serve a three-year term. Chairman Lillard administered the Oath of Office prior to the meeting.

Approval of the June 29, 2012 Minutes of the Board of Trustees

On a motion by Mr. Wilber and seconded by Mr. Elliott, the minutes of the June 29, 2012 TCRS Board of Trustees meeting were unanimously approved.

Committee Reports

Chairman Lillard introduced Mr. Barker to review the audit committee report. Mr. Barker stated the audit committee reviewed the annual audit from the Comptroller of the Treasury and the internal audit report. The audit committee discussed the Treasury Property Standard and Professional Conduct and Control Culture. The committee also discussed a reporting mechanism for a member or public to express concerns to the audit committee. Mr. Barker mentioned there has been ways to report in the past through the Comptroller's office but after discussion with the Treasurer, he indicated the need to be sure that information is routed to the appropriate location. The audit committee gave approval for the Director of Internal Audit to approve the reporting mechanism. Mr. Barker mentioned the audit committee reviewed the private equity disclosure report. Ms. Bachus provided the audit committee an update on the Concord system.

Chairman Lillard introduced Ms. Bachus to review the administrative committee. Ms. Bachus mentioned Mr. Fred Marshall provided the administrative committee with an update on the Concord system noting the imaging portion was implemented in March 2012. The payroll phase is scheduled for implementation in February or March 2013. The final phase, active member and employer reporting, is scheduled for late 2013 or early 2014. Ms. Bachus mentioned a new user interface would be used in the Concord system. The interface will make the experience for active and retired members more intuitive. Ms. Bachus also stated the Actuarial Experience Study will be presented to the Board in March 2013.

Chairman Lillard updated the Board on the investment committee meeting. The investment committee reviewed performance of the fund and final version of the Asset-Liability study. Chairman Lillard mentioned the investment committee reviewed and adopted changes to the investment policy.

Audit Committee Appointment

Mr. Barker recommended Mr. Tommie Pendergrass be appointed to the audit committee. Mr. Erick Huth's term expired June 30, 2012.

The motion was seconded by Mr. Hargett, and the Board approved the appointment of Mr. Pendergrass to the audit committee with Comptroller Wilson abstaining.

Investment Report

Chairman Lillard introduced Mr. Michael Brakebill to review the investment report. Mr. Brakebill provided a review of the performance of the portfolio. He noted that TCRS had returned 5.6% for the 2012 fiscal year and that this return placed TCRS in the 98th percentile of its peers. The portfolio also outperformed its benchmark by 0.7%. Further, he noted that most pension funds had seen a return of between 0% and 3% during the same period.

Mr. Brakebill provided some additional portfolio and department updates. He noted that the fund is becoming increasingly sophisticated and, as an example, the key initiatives underway include investing in non-core real estate, implementing a strategic lending allocation, and emerging market equities. Additionally, staff has been traveling overseas and around the country and will continue to do so into the future to visit current and potential external managers. Mr. Brakebill added that there could be one or two new hires in the coming months to replace departing employees and to support the additional work load from the new investing programs.

Mr. Brakebill provided an update on the implementation of the securities lending program. He stated that a firm had been selected after conducting interviews and the implementation process is close to being finalized. Mr. Brakebill stated that staff was currently implementing a change in the way the fund obtains exposure to small cap equities. Historically, the fund invested in Russell 2000 futures with an underlying cash portfolio. However, the Russell 2000 performance has deviated from the S&P 600 which is the benchmark for small cap stocks. Therefore, staff has begun accumulating an S&P 600 portfolio to better reflect the returns of its benchmark.

Mr. Brakebill concluded his comments by providing a disclosure that he would begin serving in an additional role with the Tennessee Valley Authority Retirement System. Mr. Brakebill currently serves on the investment committee of the Tennessee Valley Authority Retirement system (TVAR) as a non-voting member. In addition to this role, Mr. Brakebill will be serving as a non-voting Investment Committee member on the TVA Nuclear Decommissioning Trust Fund.

Mr. Pete Keliuotis of Strategic Investment Solutions was asked to provide a review of TCRS's recent performance and asset allocation as well as an overview of the Asset-Liability study that

SIS completed for TCRS. Mr. Keliuotis stated that TCRS asset allocation was close to target at the close of the quarter ending June 30, 2012. The fund is underweight to international equities, real estate and private equity. He noted that it was strong year for the fund with a 5.6% annual return. He reiterated Mr. Brakebill's comments that this was a very good return relative to peer pension funds. He stated that most of TCRS's peers earned below a 3% annual return. The year was dominated by a risk-off environment that caused volatility in equities and interest rates to fall. He noted that domestic equities generated 0.5% of alpha, while the Canada fund struggled due to concerns about the energy sector and a strengthening dollar. Mr. Keliuotis noted that fixed income performed very well as the yield curve dropped and duration sensitive securities outperformed.

Mr. Keliuotis moved on to the presentation of the Asset-Liability Modeling study that was performed by SIS. Mr. Keliuotis provided an initial presentation to the Investment Committee in March. He directed the members of the Board of Trustees to page eight of the presentation. He noted that the "median normal" was used as the targeted asset allocation. This new allocation will include the addition of a 5% allocation to emerging market equities, an addition of a 5% allocation to strategic lending and a reduction in the allocation to treasury inflation protected securities from 8% to 4%. He noted that this allocation was determined by the historical risk tolerance of TCRS and the models prepared by SIS that suggested that additional allocations to riskier assets would increase the risk level to an undesired level.

Investment Policy

Mr. Brakebill next presented the proposed changes to the TCRS Investment Policy. He noted that the changes could be classified into three categories. The changes are either editorial, changes that improved the policy's compliance with the legal code, or changes to enact the new asset allocation. Mr. Brakebill covered all of the proposed changes. Some of the editorial and legal changes included a change in the role of the Investment Advisory Council, the requirement of additional reporting to the Council of Pensions and Insurance and the specific internal controls that are overseen by the internal auditors. Mr. Brakebill noted that the internal controls are not new, but that it is the first time it has been explicitly noted in the investment policy.

Many of the additions in the policy were added to allow investments in new asset classes in emerging market equities and strategic lending and to govern how these investments would be made. The table for the target allocations was edited to represent these additions. In addition, language was added to require a consultant for strategic lending. Mr. Brakebill stated that the consultant would be working with staff to develop guidelines for the strategic lending program. Mr. Brakebill added that there was an additional amendment to the policy that had been distributed to members of the Investment Committee. This amendment to section 2.f.(ii) on page 21 requires the written approval of the Treasurer to make changes to strategic lending investments or commitments. Mr. Brakebill concluded by noting that the new asset allocation to strategic lending would include a sunset provision in 2017.

On motion by Commissioner Emkes and seconded by Mr. Barker, the Board unanimously approved changes to the Investment Policy.

Other Business

Chairman Lillard summarized to the Board a new 529 College Savings program called TN Stars. The program will be administered by the Treasury Department.

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

With no other business, the Board of Trustees adjourned at 11:10 a.m. on September 28, 2012.

Respectfully Submitted,



**Jill Bachus
Director, TCRS**

Approved:

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

COMMITTEE MINUTES

Minutes of the Administrative Committee

The Administrative Committee of the Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, September 28, 2012 at 9:00 a.m. The meeting was held in the Marshall Room of the Tennessee Tower with Director Jill Bachus presiding.

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

Ms. Bachus welcomed Mr. Harold Morrison to the Board of Trustees as the new teacher representing Middle Tennessee.

Concord Update

Ms. Bachus introduced Mr. Fred Marshall, TCRS Assistant Director for Concord, to provide an update on the Concord project. Mr. Marshall informed the committee that construction for the line of business (LOB) application and member self-service for Phase 5 – Retired Payroll has been completed. The work is focused on data conversion, bridging information from CRIS to Concord, and bridging information from Concord back to TRACS. In addition, Mr. Marshall indicated Deloitte has begun system testing, planning user acceptance testing, and training. Mr. Marshall noted that user acceptance testing will last 5 to 6 weeks and will be performed by TCRS staff. The testing will focus on each process and function in Phase 5 and will also focus on making sure the system performs functions properly. Mr. Marshall mentioned Phase 5 is anticipated to go live in March 2013.

Mr. Marshall indicated that the design of Phase 6 – Active Members and Employer Reporting is in the design phase. He emphasized that Phase 6 is more complex than Phase 5 since this phase includes employer reporting, member maintenance, benefit estimates, service purchases, and the retirement application and benefit calculation modules. Mr. Marshall indicated all design documents for Phase 6 processes will go through two state reviews. He noted that several of the processes have been through the first state review and that meetings are held weekly to update the team on the status of each design document. He mentioned the recent design discussions have involved how to administer the new employer plans, storing information regarding local governments participating in the state's defined contribution plan, and integration between the LOB and Work Manager. Mr. Marshall also informed the committee about the approval of the new user interface in Concord. All screens designed for Phase 6 will include the new user interface and Phase 5 functions will be updated. Mr. Marshall stated the benefits of the new user interface include being more user-friendly and more efficient than the previous version.

Mr. Marshall provided an update on the Employer Outreach efforts. He mentioned that Amanda Staggs had recently joined the Concord team to serve as the Employer Outreach lead. Amanda has been focusing on contacting employers regarding interest in joining the employer focus groups.

Experience Study

Ms. Bachus informed the committee that an experience study is currently being performed on TCRS. The purpose of the experience study is to determine whether the assumptions used in the actuarial valuation are reflective of the actual experience of the plan. Ms. Bachus mentioned that the results of the experience study would be used to determine whether any of our assumptions need to be changed for the July 1, 2013 actuarial valuation. She indicated that we expect the results of the experience study to be presented to the Board of Trustees at the March 2013 board meeting.

Other Business

Ms. Bachus presented a schedule of retirements for fiscal year 2008 through fiscal year 2012. She mentioned the number of retirements we are processing continue to increase. The total for fiscal year 2012 may still increase due to continued processing of June retirement applications. Ms. Bachus also made the committee aware that TCRS recently had to relocate away from the Andrew Jackson Building for a couple of days due to electrical issues. TCRS was able to answer member and retiree phone calls from another state office building.

Adjournment

With no other business, the Administrative Committee of the Board of Trustees adjourned at 9:40 a.m. on September 28, 2012.

Respectfully Submitted,



James E. Wayman
Assistant Director, TCRS

Approved:

Jill Bachus
Administrative Committee Chair

**AUDIT COMMITTEE MEETING MINUTES
OF TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)
September 28, 2012**

The Audit Committee of the Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, September 28, 2012, at 8:00 a.m. The meeting was held in the Tennessee Tower, Davidson Room, with Chairman Michael Barker presiding.

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

Others present were: Mr. David Lillard, Jr., Treasurer; Ms. Janice Cunningham, Chief of Staff; Mr. Andy Furlong, Director of Internal Audit; Ms. Jill Bachus, Director of TCRS; Ms. Alison Cleaves, General Counsel; and Mr. Andy McArthur, Internal Auditor.

Approval of the June 29, 2012 Minutes of the Audit Committee

The meeting was called to order. Chairman Barker asked if any changes were needed to the minutes of the prior meeting. No changes were suggested. Mayor Wilber motioned to accept the minutes and Commissioner Hunter seconded the motion. The minutes of the June 29, 2012 Audit Committee meeting were unanimously approved.

Scope of the annual audit performed by the Comptroller of the Treasury

Mr. Furlong drew the committee's attention to the engagement letter contained in the meeting packet. Mr. Furlong explained the content of the engagement letter. Chairman Barker noted that Treasurer Lillard signed the engagement letter and asked the Treasurer if he had any questions or comments. The Treasurer had no questions or comments.

Mayor Wilber asked about the new GASB pension reporting standards. The Treasurer confirmed that the new standards were released and will change the way pension liabilities will be reported on the state's Comprehensive Annual Financial Report for the fiscal year ending June 30, 2014. Local governments will have to comply with the Ruling by 2015.

Discuss Internal Audit Report – PII and PHI

Mr. McArthur gave a brief review of the "PII and PHI" internal audit report. The committee discussed the future possibilities of transitioning from paper documents to storing documents electronically. The Treasurer noted that the Secretary of State is currently being positioned to lead a statewide effort to "go paperless". Secretary Hargett mentioned some of the main concerns and challenges surrounding a transition to a paperless system.

The Treasurer stated that he had requested the PII/PHI report in response to reports of other entities failing to secure PII and/or PHI and the resulting consequences. The committee discussed risk of loss and inaccessibility of files kept in obsolete formats, such as floppy disks.

The Treasurer stated that the flash drive accessibility of all computers in the Treasury has been disabled.

Ms. Bachus stated that Concord will use member numbers instead of social security numbers. The Treasurer added that the Treasury began a conscious effort to reduce the number of times social security numbers appear on outgoing documents.

Review the Treasury Department's Standards of Professional Conduct

Mr. Furlong gave a brief review of the Treasury Departments Standards of Professional Conduct and the Investment Division's Code of Ethics and Standards of Professional Conduct. The Treasurer described the process involved with the annual review of the Investment Division personnel's individual investment holdings.

Discuss the Control Culture and Tone as set by Top Management

Mr. Furlong defined "tone at the top" and included an article in the meeting packet that addresses matters concerning management's influence on organizational culture. Mr. Furlong and Commissioner Hunter agree that from their previous positions, outside of the Treasury, they observed the Treasury employees as having exemplary ethics at all levels. Chairman Barker commended the Treasurer for setting high ethical standards within the Treasury through leading by example.

Discuss Reporting Mechanism for Complaints to Audit Committee

Mr. Furlong reported that the audit committee charter requires that a mechanism be in place that assures complaints concerning accounting, internal controls, auditing, fraud, waste or abuse are reported to the audit committee. Mr. Furlong discussed the issue with some employees in the Comptroller's office. The employees stated that complaints directed to their fraud hotline were not always reported to the audit committee. Mr. Furlong recommended that the Treasury provide information for reporting complaints on its internet and intranet sites.

Secretary Hargett motioned to approve the recommendation to include reporting information on the Treasury's internet and intranet sites. Commissioner Hunter seconded. The recommendation was unanimously approved.

Review Private Equity Disclosures

The committee reviewed the quarterly report containing a list of Treasury staff's contacts with individuals in the private equity industry. The committee is only required to be aware of the contacts. No action is necessary.

Other Business

Ms. Bachus gave an update on the development of Concord. As parts of the system are completed, progress to complete implementation of the system will proceed more rapidly. The

payroll segment of the system is scheduled to go live in February of 2013. Testing on the payroll segment of the system will begin within the next two months. Retirees still receiving paper checks will begin receiving debit cards soon if they don't change to direct deposit. Despite many resources being dedicated to the transition to Concord and an increase of retirement applications, TCRS is maintaining its normal operations in a timely manner.

Chairman Barker commended the TCRS counseling staff for providing excellent service to the TCRS members.

The Treasurer stressed the need to develop contingency plans to continue operations in the event of regular office space becoming inaccessible. The Treasurer has initialized a plan to get all documents in the Treasury scanned to facilitate Treasury staff's ability to access those documents when working from remote sites. This effort was prompted by the loss of electrical power experienced in the Andrew Jackson Building during the first week of September 2012. The Treasurer also expressed concern about the outdated electrical systems in the Andrew Jackson Building. He is discussing updating the building utilities with other officials.

Adjournment

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

Respectfully Submitted,



**Andy Furlong,
Director of Internal Audit**

Approved:

**Michael Barker
Chairman of the Audit Committee**

**Minutes of the Meeting of the Investment Committee of the TCRS Board of Trustees
September 28, 2012**

The Investment Committee of the TCRS Board of Trustees ("Investment Committee") met at 9:00 a.m. on September 28, 2012 in the Robertson room of the Tennessee Tower. Members of the Investment Committee participating were the Honorable David H. Lillard, Jr., State Treasurer; the Honorable Tre Hargett, Secretary of State; Mr. Greg Elliott and Mr. David Seivers. Mr. Rick Newton, representing the Department of Finance and Administration, attended in the absence of Commissioner Emkes. Also in attendance were Mr. Justin Wilson, State Comptroller, Ms. Janice Cunningham, Chief of Staff to the Treasurer, Ms. Alison Cleaves, Assistant General Counsel, Mr. Bill Abney, Assistant Treasurer, Mr. Michael Brakebill, Chief Investment Officer, Mr. Andy Palmer, Deputy Chief Investment Officer, Mr. Peter Katseff, Director of Real Estate, Mr. Lamar Villere, Director of Private Equity, Mr. Michael Keeler, Director of Equities, and Mr. Matthew Haitas, Real Estate Analyst. Mr. Peter Keliuotis and Mr. Rich Dabrowski of Strategic Investment Solutions ("SIS") were also present.

Treasurer Lillard chaired the meeting and called the meeting to order. The minutes of the March 30, 2012, May 11, 2012, June 21, 2012, and July 19, 2012 meetings were presented for discussion. Mr. Seivers made a motion for approval of the minutes and Secretary Hargett seconded a motion to approve the minutes. The motion was approved by voice vote.

Mr. Brakebill provided a review of the performance of the portfolio. He noted that TCRS had returned 5.6% for the 2012 fiscal year. He noted that this return placed TCRS in the 98th percentile of its peers. The portfolio also outperformed its benchmark by 0.7%. Further, he noted that most pension funds had seen a return of between 0% and 3% during the same period.

Mr. Brakebill provided some additional updates. He noted that, with the key initiatives underway including investing in non-core real estate, strategic lending, and emerging market equities, the fund is becoming increasingly sophisticated. Staff has been traveling overseas and around the country and will continue to do so into the future to visit current and potential external managers. Mr. Brakebill added that there could be one or two new hires in the coming months to replace departing employees and to support the additional work load from the new investing programs. Mr. Brakebill provided an update on the implementation of the securities lending program. He stated that a firm had been selected after conducting interviews and the implementation process is close to being finalized. Mr. Brakebill stated that staff was currently implementing a change in the way the fund obtains exposure to small cap equities. Historically, the fund invested in Russell 2000 futures with an underlying cash portfolio. However, the Russell 2000 performance is known to deviate from the funds benchmark, the S&P 600. Therefore, staff has begun accumulating an S&P 600 cash position to better reflect the returns of its benchmark. He also noted that staff continues to explore new investments including master limited partnerships. Master limited partnerships provide high yields and have performed well during the past few years as investors

have shown a preference for income. Mr. Brakebill concluded his comments by providing a disclosure that he would begin serving in an additional role. Mr. Brakebill currently serves on the investment committee of the Tennessee Valley Authority (TVA) as a non-voting member. In addition to this role, Mr. Brakebill will be serving as an advisor to the nuclear decommission trust fund of TVA.

Mr. Pete Keliuotis of Strategic Investment Solutions was asked to provide a review of TCRS's recent performance and asset allocation as well as an overview of the Asset-Liability study that SIS completed for TCRS. Mr. Keliuotis stated that TCRS asset allocation was close to target at the close of the quarter ending June 30, 2012. The fund is underweight to international equities, real estate and private equity. He noted that it was strong year for the fund with a 5.6% annual return. He reiterated Mr. Brakebill's comments that this was a very strong return. He stated that most of TCRS's peers earned below a 3% annual return. The year was dominated by a risk-off environment that caused volatility in equities and interest rates to fall. He noted that domestic equities generated 0.5% of alpha, while the Canada fund struggled due to concerns about the energy sector and a strengthening dollar. Mr. Keliuotis noted that fixed income performed very well as the yield curve dropped and duration sensitive securities outperformed.

Mr. Keliuotis moved on to the presentation of the Asset-Liability study that was performed by SIS. Mr. Keliuotis provided an initial presentation to the Investment Committee in March. He directed the members of the Investment Committee to page eight of the presentation. He noted that the "median normal" was used as the targeted asset allocation. This new allocation will include the addition of a 5% allocation to emerging market equities, an addition of a 5% allocation to strategic lending and a reduction in the allocation to treasury inflation protected securities from 8% to 4%. He noted that this allocation was determined by the historical risk tolerance of TCRS and the models prepared by SIS that suggested that additional allocations to riskier assets would increase the risk level to an undesired level.

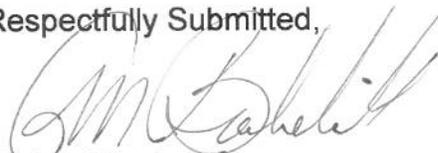
Mr. Brakebill next presented the proposed changes to the TCRS Investment Policy. He noted that the changes could be classified into three categories. The changes are either editorial, legal changes, or changes to enact the new asset allocation. Mr. Brakebill covered all of the proposed changes. Some of the editorial and legal changes included a change in the role of the Investment Advisory Council, the requirement of additional reporting to the Council of Pensions and Insurance and the specific internal controls that are overseen by the internal auditors. Mr. Brakebill noted that the internal controls are not new, but that it is the first time it has been explicitly noted in the investment policy. Many of the additions in the policy were added to allow investments in new asset classes in emerging market equities and strategic lending and to govern how these investments would be made. The table for the target allocations was edited to represent these additions. In addition, language was added to require a consultant for strategic lending. Mr. Brakebill stated that the consultant would be working with staff to develop guidelines for the strategic lending program. Mr. Brakebill added that there was an additional amendment to the policy that had been distributed to members of the

Investment Committee. This amendment to section 2.f.(ii) on page 21 requires the written approval of the Treasurer to make changes to strategic lending investments or commitments. Mr. Brakebill concluded by noting that the new asset allocation to strategic lending would include a sunset provision in 2017.

Secretary Hargett made a motion for approval of the changes to the Investment Policy and Mr. Sievers seconded a motion to approve the changes. The motion was approved by voice vote.

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

Respectfully Submitted,



Michael Brakebill
Chief Investment Officer

APPROVED:

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

**Minutes of the Meeting of the Investment Committee of the TCRS Board of Trustees
October 18, 2012**

The Investment Committee of the TCRS Board of Trustees ("Investment Committee") met at 9:00 a.m. on October 18, 2012 in the Bedford Room of the William R. Snodgrass Tennessee Tower. A quorum of the Investment committee participated in the meeting which included The Honorable David H. Lillard, Jr., State Treasurer, The Honorable Tre Hargett, Secretary of State, and Mr. Greg Elliott. Mr. David Seivers participated in the meeting by telephone. Mr. Rick Newton, representing the Department of Finance and Administration, attended in the absence of Commissioner Mark Emkes and Mr. Keith Borings, representing the Office of Comptroller of the Treasury, attended in the absence of Comptroller Justin Wilson. Also in attendance were Ms. Janice Cunningham, Mr. Michael Brakebill, Chief Investment Officer, Mr. Andy Palmer, Deputy Chief Investment Officer, Mr. Peter Katseff, Director of Real Estate, and Mr. Matthew Haitas, Real Estate Analyst.

Peter Katseff was asked to introduce the proposed real estate investments by TCRS in an office building in San Francisco, California. The transaction had been proposed by Clarion Partners, a Real Estate Investment Advisor engaged by TCRS.

Mr. Katseff began by reviewing the risks of an earthquake at the property and the insurance coverage on the property. Mr. Katseff stated that the redevelopment of the property in 1991 was done to standards very near current construction standards and current codes for withstanding earthquakes in San Francisco. Clarion Partners, the real estate advisor on the transaction, will not acquire buildings with a high probable maximum loss and seismic expected loss.

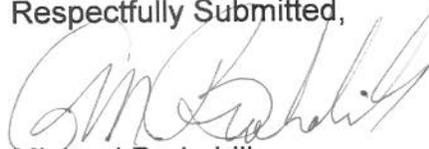
The proposed acquisition is a Class A-, 15-story, 256,985 square foot LEED certified office tower located in San Francisco's North Financial District. It is 93.5% leased to 18 tenants (13 office and 5 retail). Its location in the North Financial District of San Francisco has traditionally been popular amongst financial firms and law firms. However, this location has become increasingly attractive to media and technology tenants that have traditionally chosen to locate on the Peninsula or in Silicon Valley. These tenants are choosing to locate offices in downtown San Francisco in order to attract young workers, who want to live and work in the city's vibrant 24/7 "live/work/play" environment.

Mr. Katseff noted that this was a rare opportunity for TCRS to acquire an office building located in a "Central Business" location in one of the "gateway" office markets. This opportunity is available for two reasons. First, the property is encumbered by a large mortgage loan with an above-market interest rate, which limited competition in acquiring the property. Second, the property is smaller in size and price than most assets in this market. Typically, TCRS would be unable to acquire similar assets without a joint venture partner due to the size of the investment.

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

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

Respectfully Submitted,

A handwritten signature in cursive script, appearing to read "Michael Brakebill".

Michael Brakebill
Chief Investment Officer

APPROVED:

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

**Minutes of the Meeting of the Investment Committee of the TCRS Board of Trustees
November 15, 2012**

The Investment Committee of the TCRS Board of Trustees ("Investment Committee") met at 8:00 a.m. on November 15, 2012 in the Bedford Room of the William R. Snodgrass Tennessee Tower. A quorum of the Investment committee participated in the meeting which included The Honorable David H. Lillard, Jr., State Treasurer, The Honorable Mark Emkes, Commissioner of the Department Finance and Administration, and Mr. David Seivers. The Honorable Tre Hargett, Secretary of State, and Mr. David Seivers participated in the meeting by telephone. Also in attendance were Ms. Janice Cunningham, Chief of Staff of the Treasurer, Mr. Bill Abney, Mr. Rick Newton, Mr. Andy Palmer, Deputy Chief Investment Officer, Mr. Peter Katseff, Director of Real Estate, Mr. Ken McDowell, Senior Real Estate Portfolio Manager, and Mr. Matthew Haitas, Real Estate Analyst.

Peter Katseff was asked to introduce the proposed real estate investments by TCRS in a student housing community at the University of South Florida in Tampa, Florida. The transaction had been proposed by RREEF, a Real Estate Investment Advisor engaged by TCRS.

The proposed acquisition is a Class A student housing community located one block north of the University of South Florida campus in Tampa, Florida. The University of South Florida is part of the State University System of Florida and one of the largest public universities in the United States with more than 47,000 students. The community consists of 206 units and 734 beds.

Mr. Katseff noted that the proposed acquisitions shared similar characteristics to the student housing community at the University of Arizona that was previously approved by the Investment Committee but was not acquired by TCRS. Mr. Katseff stated that in addition to sharing similar characteristics, this acquisition had qualities that made it a potentially better investment than the University of Arizona property including a lower per unit purchase price, a location with closer proximity to campus and a smaller existing development pipeline to provide new competition.

David Seivers asked if there was a risk of the University building on-campus dorms to compete with this property. Mr. Katseff noted that this is always a key question and concern when contemplating investments in student housing. He stated that it was unlikely that the University would be building new dorms in the near future, since it lacks available sites on campus.

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

Ken McDowell was asked to introduce the proposed real estate investment by TCRS in the Covenant Apartment Fund VII. Mr. McDowell noted that Covenant Capital was established in 2001. Since its founding, Covenant has been employing the same value-

add investment strategy for all six of its previous funds. Covenant Apartment Fund VII will have the same strategy of acquiring garden apartments located in the Southeast and Mid-Atlantic regions of the United States. The typical acquisition is an older property, selling at a deep discount to replacement cost, that offers the ability to increase its income through an upgrade program.

David Seivers asked how long the fund intends to hold the properties. Mr. McDowell noted that the term of the fund is eight years with two one-year extensions with the approval of the majority of LP investors. He noted that it is rare to see the life of the fund extended and it is typically because it will benefit investors. Peter Katseff mentioned that for a fund of this type, a holding period of a specific investment tends to be five years or less.

Treasurer Lillard stated that an additional disclosure needed to be made to the Investment Committee. Bill Abney then distributed a memo noting that (i) several partners of the Covenant firm had disclosed in TCRS's manager questionnaire that they made political contributions in 2010 to Tennessee's Governor and two State legislators; (ii) that the SEC's "pay to play" rules prohibit advisors from providing services for compensation to a government client for two years after the advisor or principals make political contributions; and (iii) Covenant has taken the position that these contributions were not subject to the SEC "pay to play" rules, since Covenant Capital is not required to be registered as an investment advisor with the SEC.

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

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

Respectfully Submitted,



Michael Brakebill
Chief Investment Officer

APPROVED:

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

**TCRS BOARD OF TRUSTEE
APPOINTMENTS**



BILL HASLAM
GOVERNOR
STATE OF TENNESSEE

October 10, 2012

Mr. Alfred W. Laney
264 Sailboat Drive
Nashville, Tennessee 37217-3917

Dear Al:

Today, it is my distinct pleasure to confirm your appointment to the Tennessee Consolidated Retirement System Board of Trustees as a retired employee member. In the thorough, aggressive search for candidates, your individual characteristics and professional qualifications were exceptional among the number of nominees who expressed interest. This appointment is effective July 1, 2012 and runs through June 30, 2015.

I consider it very important to ensure that Tennessee's boards and commissions are filled with the most dedicated and qualified citizens. I believe that your participation is certain to leave a positive impact on this board and the work it does.

Thank you for your interest in state government and for your willingness to serve your fellow citizens of Tennessee in this way. Please accept my very best wishes. I look forward to working with you and all Tennesseans to make our great state an even better place to live, work, and raise a family.

Warmest regards,

A handwritten signature in cursive script that reads "Bill Haslam" followed by a horizontal line.

Bill Haslam

BH:bm

STATISTICAL REPORTS

ANALYSIS OF MEMBERS ACTIVELY CONTRIBUTING

	3/31/2008	3/31/2009	3/31/2010	3/31/2011	3/31/2012	6/30/2012	9/30/2012
Group I Members:							
(State & Higher Ed.)	62,685	59,245	58,998	57,720	56,466	56,566	55,824
Teachers	76,646	77,877	78,618	79,441	78,814	78,613	78,159
General Employees of Polisubs	79,193	80,994	80,736	81,427	80,761	80,784	78,934
General Assembly	123	124	121	127	129	129	128
County Officials	3	3	3	2	2	2	2
PSC							
County Judges	1	1	1	1	1	1	1
Attorneys General	640	638	641	634	644	648	649
Total Group I	219,473	219,059	219,300	219,352	216,817	216,743	213,697
Group II & Prior Class:							
Wildlife Officers	11	9	8	3	2	2	2
Highway Patrol	25	13	9	7	3	3	3
Firemen & Policemen- Political Subdivisions	45	37	35	23	17	16	13
Total Group II & Prior Class	81	59	52	33	22	21	18
Group III and Prior Class:							
State Judges	2	2	2	2	2	2	2
County Judges	-	-	-	-	-	-	-
Attorneys General	5	5	5	5	5	5	4
County Officials	12	10	10	5	5	5	4
Total Group III & Prior Class	19	17	17	12	12	12	10
Group IV							
State Judges		177	182	181	181	182	182
Total Membership							
Contributing to TCRS	219,573	219,135	219,369	219,578	217,032	216,958	213,907
Teachers Contributing to ORP	11,469	11,461	11,461	11,568	11,601	11,575	11,546
Grand Totals	231,042	230,596	230,830	231,146	228,633	228,533	225,453

**RETIRED PAYROLL
STATISTICS
September 30, 2012**

	<u>AMOUNT</u>	<u># OF RETIREES</u>
STATE EMPLOYEES	46,361,802.66	40969
STATE PAID JUDGES	818,164.26	162
COUNTY PAID JUDGES	363,353.03	117
ATTORNEY GENERALS	831,723.69	298
COUNTY OFFICIALS	414,188.84	229
PUBLIC SERVICE COMMISSIONERS	8,584.44	5
POLITICAL SUBDIVISIONS	23,080,511.88	34317
TEACHERS	83,669,144.78	43172
LOCAL TEACHERS	3,693,695.62	2133
GOVERNORS AND WIDOWS	29,726.00	5
AGED STATE EMPLOYEES	133.14	1
AGED TEACHERS	<u>2,655.84</u>	<u>19</u>
TOTAL	\$159,273,684.18	121,427

RETIRED PAYROLL
July 1, 2012
THROUGH
September 30, 2012

	<u>AMOUNT</u>	<u># OF RETIREES</u>
STATE EMPLOYEES	138,795,111.26	40969
STATE PAID JUDGES	2,497,891.06	162
COUNTY PAID JUDGES	1,092,813.01	117
ATTORNEY GENERALS	2,446,219.47	298
COUNTY OFFICIALS	1,240,381.56	229
PUBLIC SERVICE COMMISSIONERS	25,753.32	5
POLITICAL SUBDIVISIONS	68,962,104.87	34317
TEACHERS	251,404,163.85	43172
LOCAL TEACHERS	11,143,196.91	2133
GOVERNORS AND WIDOWS	89,183.00	5
AGED STATE EMPLOYEES	400.42	1
AGED TEACHERS	<u>7,986.52</u>	<u>19</u>
TOTAL	\$477,705,205.25	121,427

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

**REFUND EXPENDITURES
2012-2013 FISCAL YEAR**

MONTH	MEMBER'S CONTRIBUTIONS	414(H) CONTRIBUTIONS	MEMBER'S INTEREST	EMPLOYER CONTRIBUTIONS	DEATH PAYMENTS	TOTAL
July	134,678.69	3,059,661.14	1,178,615.17	238,005.97	435,162.47	\$5,046,123.44
August	76,587.36	3,065,117.07	1,042,827.14	154,778.94	641,110.86	\$4,980,421.37
September	50,365.81	3,156,811.65	1,076,996.01	23,606.09	363,877.97	\$4,671,657.53
October						
November						
December						
January						
February						
March						
April						
May						
June						
TOTAL	261,631.86	9,281,589.86	3,298,438.32	416,391.00	1,440,151.30	\$14,698,202.34

NUMBER OF MEMBERS REFUNDED

<u>Month</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>	<u>2012-13</u>
July	507	1,149	450	894	499	496	475
August	481	675	308	612	406	466	471
September	546	566	316	494	431	447	394
October	454	609	411	369	379	383	
November	440	492	353	320	293	364	
December	318	234	257	256	276	257	
January	408	450	332	257	307	348	
February	333	308	310	242	265	312	
March	342	316	291	278	299	262	
April	365	308	311	687	277	346	
May	323	619	217	385	662	329	
June	313	843	340	360	406	339	
TOTAL	<u>4,830</u>	<u>6,569</u>	<u>3,896</u>	<u>5,154</u>	<u>4,500</u>	<u>4,349</u>	<u>1,340</u>

PRIOR SERVICE ACTIVITY
July 1, 2012 through September 30, 2012

State:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	23	31	\$ 249,476
	Military	23	53	-
	Redeposit	4	11	17,148
	Totals	50	95	\$ 266,624

Teachers:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	6	5	\$ 55,829
	Military	6	12	-
	Redeposit	8	45	151,100
	Totals	20	62	\$ 206,929

Higher Education:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	45	34	\$ 20,308
	Military	11	30	-
	Redeposit	2	6	11,438
	Totals	58	70	\$ 31,746

Political Subdivisions:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	117	127	\$ 166,066
	Military	23	38	21,281
	Redeposit	8	35	34,042
	Totals	148	200	\$ 221,388

Grand Totals:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	191	197	\$ 491,680
	Military	63	133	21,281
	Redeposit	22	97	213,728
	Totals	276	427	\$ 726,688

DISABILITY RETIREMENT REPORT

Disability Statistical Report

First Quarter 12-13

Disability Applications Received	July	36
	August	32
	September	<u>29</u>
	TOTAL	97
Initial Claims Approved	July	22
	August	14
	September	<u>21</u>
	TOTAL	58
Initial Claims Disapproved	July	11
	August	7
	September	<u>7</u>
	TOTAL	25
Initial Claims Approved after Reconsideration		5
Initial Claims Disapproved after Reconsideration		5
Re-Evaluation Claims Approved		44
Re-Evaluation claims Disapproved		0
Cases Referred to Vocational Rehabilitation		0

**APPROVED FOR DISABILITY
FIRST QUARTER
2012-2013**

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
INACT.	NO	NO	46	STATE	CORRECTIONAL OFFICER	133	\$20,055	A	\$98	S/P LUMBAR FUSION W/RADICULOPATHY, DM II W/NEUROPATHY, & COPD
ORD.	NO	NO	53	POL SUB	CUSTODIAN	93	\$19,532	D	\$251	CLUB FOOT & HIP PAIN
SS-ORD.	NO	NO	55	POL SUB	MECHANIC	84	\$33,634	B	\$403	CHARCOTT FOOT & DM I
ORD.	YES	NO	34	STATE	CASE MANAGER II	83	\$34,450	A	\$814	CRANITOMY W/MENINGIOMA RESECTION
ORD.	YES	YES	47	TEACHER	TEACHER	142	\$44,679	D	\$942	MAJOR DEPRESSION & MIGRAINE HEADACHES
ORD.	NO	YES	53	STATE	CHILD SUPPORT SPECIALIST	134	\$25,862	E	\$543	SMALL CELL LYMPHOCTIC LYMPHOMA, CHRONIC LEUKEMIA, & DEPRESSION
ORD.	NO	NO	56	POL SUB	FOOD SERVICE WORKER	244	\$14,325	A	\$344	CERVICAL DISC DISEASE, HTN, LUPUS, & OBESITY
ORD.	YES	NO	50	POL SUB	CUSTODIAN	182	\$25,707	A	\$607	RA, INFLAMMATORY ARTHRITIS, DECREASED ROM, CHRONIC PAIN & WEAKNESS
ORD.	YES	NO	50	STATE	PROGRAM SPECIALIST	124	\$30,888	A	\$730	RA, SEVERE OBESITY, CHRONIC RENAL INSUFFICIENCY, DM II, & OSA
ORD.	NO	NO	58	POL SUB	TRUCK DRIVER	204	\$29,071	B	\$532	ESRD, DIALYSIS, COPD, CAD, & HTN
ORD.	NO	NO	55	TEACHER	INFORMATION SYSTEMS	92	\$50,366	B	\$626	RENAL DISEASE, DM, COMPLICATIONS FROM KIDNEY TRANSPLANT, & SLEEP APNEA
ORD.	NO	NO	58	STATE	RN III	89	\$18,555	A	\$219	CHF, UNCONTROLLED HTN, DJD, DDD, CHRONIC PAIN, & MORBID OBESITY
ORD.	YES	NO	42	TEACHER	COUNSELOR	64	\$41,387	A	\$978	NEURO & PULMONARY SARCOIDOSIS, HNP, & DEPRESSION
ORD.	YES	NO	49	POL SUB	HVY EQUIP OPERATOR	62	\$32,834	D	\$538	MEMORY LOSS, PERIPHERAL VESTIBULOPATHY, TINNITIS, HEARING LOSS, & ANXIETY
ORD.	NO	NO	57	STATE	CUSTODIAN	190	\$20,036	A	\$438	POST LAMINECTOMY SYNDROME, DDD, & CHRONIC LOW BACK PAIN

**APPROVED FOR DISABILITY
FIRST QUARTER
2012-2013**

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	NO	NO	53	POL SUB	BUILDING MAINTENANCE WORKER	253	\$30,984	A	\$772	CONGESTIVE HEART FAILURE, COPD, & SLEEP APNEA
ORD.	YES	NO	51	STATE	MEAL SUPERVISOR	135	\$24,535	A	\$580	CHRONIC BACK PAIN, ARTHRITIS, & CVA
SS-ORD.	YES	NO	44	TEACHER	TEACHER	192	\$48,393	A	\$1,143	DOUBLE LUNG TRANSPLANT
ORD.	NO	NO	60	STATE	ANESTHESIA TECH	174	\$24,923	B	\$397	CIRRHOSIS OF THE LIVER, & HEPATOCELLULAR CARCINOMA
ORD.	NO	NO	59	POL SUB	COMPUTER TECH	91	\$30,002	A	\$354	ESOPHAGEAL CANCER, PULMONARY EMBOLISM, & DEEP VEIN THROMBOSIS
ORD.	NO	NO	55	STATE	BOILER OPERATOR	322	\$30,010	A	\$951	CARDIOMYOPATHY, & CAD
ORD.	YES	YES	48	STATE	HWY MAINTENANCE WORKER II	90	\$20,987	A	\$479	LUMBAR DISC HERNIATION, LUMBAR RADICULOPATHY, SPONDYLOSIS, & DDD
ORD.	YES	NO	42	TEACHER	TEACHER	200	\$55,588	B	\$1,212	METASTATIC COLON CANCER
ORD.	YES	NO	39	POL SUB	SHERIFF	157	\$28,345	A	\$670	PTSD, & SEIZURES
ORD.	NO	NO	56	STATE	PARKING COORDINATOR	191	\$59,076	B	\$1,183	ACUTE MI, CABG X2, CHF, PACEMAKER, RAYNAUD'S DISEASE, & DM
ORD.	NO	YES	59	POL SUB	CAFETERIA WORKER	148	\$11,606	A	\$189	MOOD D/O, BIPOLAR II D/O, ANXIETY, PANIC ATTACKS, DEPRESSION, ARTHRITIS, & IBS
ACC.	NO	NO	53	TEACHER	TEACHING ASSISTANT	267	\$18,064	D	\$720	PTSD, DEPRESSIVE D/O, PANIC D/O, & CHRONIC PAIN
ORD.	YES	YES	41	STATE	STOREKEEPER II	95	\$24,333	B	\$530	IDDM, NEUROPATHY, CHRON'S DISEASE, & MIGRAINE HA'S
ORD.	YES	NO	49	STATE	CORRECTIONAL OFFICER	294	\$37,668	A	\$1,090	UNCONTROLLED DM I W/NEUROPATHY, & FLUCTUATING GLUCOSE LEVELS
ORD.	NO	NO	52	STATE	PROBATION AND PAROLE OFFICER II	115	\$31,941	D	\$557	SHORT TERM MEMORY LOSS, DM II, MORBID OBESITY, & SLEEP APNEA

**APPROVED FOR DISABILITY
FIRST QUARTER
2012-2013**

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
SS-ORD.	NO	NO	52	STATE	CORRECTIONAL OFFICER	136	\$27,031	A	\$601	COPD, & MYCOBACTERIUM AVIUM INTRACELLULARE
ORD.	NO	NO	55	STATE	MAINTANANCE WORKER II	124	\$24,833	A	\$462	CHRONIC BACK PAIN, & ATRIAL FIBRILATION, S/P PACEMAKER IMPLANT
ORD.	NO	NO	53	STATE	LPN	257	\$37,222	B	\$831	STAGE III BREAST CANCER
ORD.	NO	NO	51	TEACHER	TEACHER	234	\$49,427	B	\$1,087	STAGE IV GLIOBLASTOMA
ORD.	YES	NO	51	TEACHER	TEACHING ASSISTANT	186	\$18,058	A	\$426	UTERINE SARCOMA, & IMPAIRED COGNITION
ORD.	NO	NO	58	POL SUB	POLICE OFFICER	281	\$41,896	C	\$1,098	CERVICAL NECK PAIN, FACET ARTHROPATHY, LUMBAGO, & LUMBAR SPONDYLOSIS
ORD.	NO	NO	57	STATE	CUSTODIAN	82	\$19,253	A	\$227	DDD, DJD, RADICULOPATHY, CHRONIC PAIN, & R-CARPAL TUNNEL SYNDROME
ORD.	NO	NO	56	TEACHER	TEACHER'S ASSISTANT	76	\$10,056	A	\$122	CHF, CAD, DM, & SLEEP APNEA
ORD.	NO	NO	52	STATE	CORPORAL	320	\$36,634	A	\$1,154	STAGE IV INTESTINAL CANCER (GIST), DM, & CIRRHOSIS
ORD.	NO	YES	53	STATE	DRIVER'S LICENSE EXAMINER	270	\$28,503	A	\$758	DYSTONIA
ORD.	YES	NO	34	TEACHER	TEACHER	99	\$42,916	B	\$984	SYSTEMIC LUPUS, ANEMIA, LEUKOPENIA, THROMBOSIS, & ARTHRITIS
ORD.	YES	NO	50	STATE	SAFETY INSPECTOR II	317	\$36,503	A	\$1,139	LUMBAR SPINE HNP W/STENOSIS, OA OF KNEES, & CAD W/STENTS
ORD.	YES	NO	50	POL SUB	CUSTODIAN	128	\$11,487	D	\$244	RA, & LUMBAR DISC DISEASE
ORD.	YES	NO	35	STATE	ASSISTANT ATTORNEY GENERAL	70	\$52,224	A	\$1,234	LUMBAR & THORACIC COMPRESSION FRACTURE, & CHRONIC PAIN
ORD.	YES	NO	42	TEACHER	TEACHER	167	\$37,337	A	\$882	MULTIPLE SCLEROSIS & DEPRESSION

**APPROVED FOR DISABILITY
FIRST QUARTER
2012-2013**

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	NO	NO	59	POL SUB	BUILDING MAINTENANCE WORKER	69	\$24,547	A	\$322	COPD, EMPHYSEMA, & BRONCHITIS
ORD.	NO	NO	56	TEACHER	TEACHER	333	\$46,902	A	\$1,537	MEMORY LOSS & DEPRESSION
ORD.	YES	NO	50	TEACHER	TEACHER	171	\$37,852	A	\$894	METASTATIC OVARIAN CANCER
ORD.	YES	NO	50	POL SUB	WASTE WATER TECH	60	\$32,362	A	\$548	METASTATIC PROSTATE CANCER
ORD.	YES	NO	45	POL SUB	CUSTODIAN	131	\$24,603	A	\$581	SARCADOSIS, SOB, BRONCHITIS, ULCERS, & OBESITY
ORD.	NO	NO	58	TEACHER	TEACHER	291	\$52,738	A	\$1,511	SYSTEMIC LUPUS, FIBROMYALGIA, & OA
ORD.	NO	NO	57	POL SUB	BUS DRIVER	272	\$39,456	A	\$1,056	END STAGE OA OF BOTH KNEES, & DM II
ORD.	YES	NO	51	POL SUB	CUSTODIAN	194	\$25,467	A	\$602	BULGING DISCS, CERVICAL SPONDYLOSIS, & OA
ORD.	YES	NO	39	TEACHER	TEACHER	140	\$30,320	B	\$391	METASTATIC BREAST CANCER
SS-ORD.	NO	NO	59	STATE	SERVICE COUNSELOR	158	\$33,440	B	\$467	ALS
SS-INACT.	NO	NO	49	STATE	COOK	61	\$17,458	A	\$12	PSORIATIC ARTHRITIS, SOB ON EXCERTION, DM II, & LUPUS
ORD.	NO	NO	59	STATE	INFRASTRUCTURE MANAGER	91	\$54,778	B	\$554	AMYOTROPHIC LATERAL SCLEROSIS

**DISAPPROVED FOR DISABILITY
FIRST QUARTER
2012-2013**

Type	Re-C	Age	Employer	Position	SVC	Disability Summary	Reason Denied
ORD.	NO	39	STATE	WORK PARTICIPATION COORDINATOR	5	S/P SQUAMOUS CELL CARCINOMA W/HOARSENESS	CAP MED WRA
ORD.	NO	54	TEACHER	TEACHER	13	OSTEOARTHRITIS, & ADULT TETHERED CORD SYNDROME	CAP LGT WRA
ORD.	NO	53	TEACHER	TEACHER	29	HIP & LUMBAR PAIN	LACK OF CURRENT RECORDS
ORD.	NO	54	STATE	OFFICER	9	R-TOTAL KNEE REPLACEMENT, PAIN, & DEPRESSION	CAP LGT WRA
ORD.	YES	48	STATE	HWY MAINTENANCE WORKER II	7	LUMBAR DISC HERNIATION, LUMBAR RADICULOPATHY, SPONDYLOSIS, & DDD	CAP MED TO LGT WRA
ORD.	NO	32	STATE	OFFICER	9	PTSD, HA'S, NON-EPILEPTIC SEIZURES, & ANXIETY	CAP LGT TO HEAVY WRA
ORD.	NO	53	POL SUB	CUSTODIAN	25	CHRONIC FATIGUE SYNDROME, & FIBROMYALGIA	CAP SED WRA
ORD.	NO	53	POL SUB	CUSTODIAN	25	CHRONIC FATIGUE SYNDROME, & FIBROMYALGIA	SYMPTOMS IMPROVING, CAP SED WRA
ORD.	YES	56	TEACHER	TEACHER	17	NARCOLEPSY, & DM II	CONDITION NOT TOTALLY DISABLING
ORD.	NO	53	TEACHER	TEACHER	8	PERIPHERAL NEUROPATHIES SECONDARY TO BREAST CANCER TREATMENT	CAP SED WRA

**DISAPPROVED FOR DISABILITY
FIRST QUARTER
2012-2013**

Type	Re-C	Age	Employer	Position	SVC	Disability Summary	Reason Denied
ORD.	NO	48	STATE	RESPIRATORY THERAPIST	19	BRAIN ANEURYSM, LUPUS, & HTN	CONDITION NOT TOTALLY DISABLING
ORD.	NO	45	STATE	HWY MAINTENANCE WORKER I	13	MAJOR DEPRESSION, GENERALIZED ANXIETY, & DDD	CAP LGT WRA
ORD.	NO	38	STATE	ELIGIBILITY COUNSELOR	9	MIGRAINE HA'S, DEPRESSION & ANXIETY	CONDITION NOT TOTALLY DISABLING
ORD.	NO	38	STATE	CARE GIVER	10	FIBROMYALGIA, & OSTEOPOROSIS	CAP SED TO MED WRA
ORD.	YES	49	POL SUB	TEACHING ASSISTANT	18	FIBROMYALGIA, OBESITY, GERD, & IBS	CAP SED WRA
INACT.	NO	49	POL SUB	JANITOR	10	METASTATIC BREAST CANCER IN REMISSION	CAP LGT TO MED WRA
ORD.	NO	49	STATE	DRIVER'S LICENSE EXAMINER	22	PANIC D/O, BI-POLAR D/O, & ANEURYSM	CAP OF WORKING
ORD.	NO	45	POL SUB	CAFETERIA MANAGER	13	DISPLACEMENT OF CERVICAL INTERVERTEBRAL DISC, & CERVICALGIA	CAP SED WRA
ACC.	NO	58	STATE	COUNSELOR III	22	HNP, L-ARM CERVICAL RADICULOPATHY, S/P FUSION, DDD, & CHRONIC LBP	CAP SED WRA
ORD.	NO	55	TEACHER	TEACHER	27	HEPATITIS C, R-UPPER QUADRANT PAIN, PAD, & DEPRESSION	INSUFFICIENT MEDICAL DOCUMENTATION, CAP SED WRA

**DISAPPROVED FOR DISABILITY
FIRST QUARTER
2012-2013**

Type	Re-C	Age	Employer	Position	SVC	Disability Summary	Reason Denied
INACT.	NO	42	POL SUB	UTILITY REPAIRMAN	9	BI-POLAR D/O	INSUFFICIENT MEDICAL DOCUMENTATION
ORD.	NO	49	POL SUB	AUTOMOTIVE ASSISTANT	24	SICKLE CELL ANEMIA	CONDITION NOT TOTALLY DISABLING
ORD.	NO	46	TEACHER	TEACHER	12	JOINT PAIN, DJD, BILATERAL TOTAL HIP REPLACEMENT, R-TOTAL KNEE REPLACEMENT, & SEVERE DEGENERATIVE ARTHRITIS	INSUFFICIENT MEDICAL DOCUMENTATION, CAP SED WRA
ORD.	NO	58	TEACHER	TEACHER	6	CERVICAL STENOSIS, ARTHRITIS, BILATERAL CTS, & BI-POLAR D/O	CAP LGT TO MED WRA
ORD.	NO	48	HIGHER ED	PROFESSOR	6	POLYCYTHEMIA, & DEEP VEIN THROMBOSIS	CAP LGT WRA, MBR'S DRS DON'T SUPPORT

FINANCIAL STATEMENTS

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

ASSETS	
Cash and cash equivalents	\$705,563,218.88
<hr/>	
Receivables	
Member receivable	700,194.32
Employer receivable	988,764.68
Accrued interest receivable	89,649,561.45
Accrued dividends receivable	63,002,754.05
Real estate income receivable	832,731.48
Investments sold	717,638,704.37
Total receivables	<u>872,812,710.35</u>
Investments, at fair value	
Short-term securities	31,976,819.66
Government securities	8,819,422,576.94
Corporate securities	5,305,819,787.88
Corporate stocks	20,217,078,224.44
Private Equities	206,383,185.00
Real estate	1,399,566,203.40
Total investments	<u>35,980,246,797.32</u>
Capital Assets, at cost	
Software in Development	9,749,457.84
Computer System, net of depreciation	1,677,480.25
Total Capital Assets	<u>11,426,938.09</u>
TOTAL ASSETS	<u><u>37,570,049,664.64</u></u>
LIABILITIES	
Retired payroll payable	4,942,512.09
Retiree insurance premium payable	7,309,619.18
Accounts payable	119,445.61
Investments purchased	1,227,208,859.68
Other investment payables	1,221,400.00
TOTAL LIABILITIES	<u><u>1,240,801,836.56</u></u>
NET ASSETS HELD IN TRUST FOR PENSION	
BENEFITS	<u><u>\$ 36,329,247,828.08</u></u>

See Accompanying Notes to the Financial Statements

UNAUDITED

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

ADDITIONS	
Contributions	
Member contributions	\$30,386,842.64
Employer contributions	162,208,140.37
Total contributions	<u>192,594,983.01</u>
Investment income	
Net Appreciation in fair value of investments	1,483,111,686.97
Interest	122,299,931.29
Dividends	111,875,974.63
Real Estate income, net of operating expenses	150,584.00
Total investment income	<u>1,717,438,176.89</u>
Less: Investment expense	(1,646,658.64)
Net investment income	<u>1,715,791,518.25</u>
TOTAL ADDITIONS	<u>1,908,386,501.26</u>
DEDUCTIONS	
Annuity benefits	
Retirement benefits	390,319,457.39
Cost of living	86,549,305.39
Death benefits	1,363,492.65
Refunds	10,956,485.24
Administrative expenses	2,722,904.20
TOTAL DEDUCTIONS	<u>491,911,644.87</u>
NET INCREASE	1,416,474,856.39
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	
JULY 1, 2012	34,912,772,971.69
SEPTEMBER 30, 2012	<u>\$36,329,247,828.08</u>

See Accompanying Notes to the Financial Statements

UNAUDITED

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

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. **Reporting Entity** - The TCRS is included in the State of Tennessee Financial Reporting Entity. Because of the state's fiduciary responsibility, the TCRS has been included as pension trust funds in the *Tennessee Comprehensive Annual Financial Report*.
2. **Measurement Focus and Basis of Accounting** - The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

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

3. **Cash and Cash Equivalents** - Cash and cash equivalents by definition, includes cash and short-term investments with a maturity date within three months of the acquisition date. The state's accounting policy regarding the definition of cash and cash equivalents includes cash management pools as cash. Cash received by the TCRS that cannot be invested immediately in securities, or that is needed for operations, is invested in the State Pooled Investment Fund sponsored by the State of Tennessee and administered by the State Treasurer. The classification of cash and cash equivalents also includes cash invested in a short-term, open-end mutual fund under the contractual arrangement for master custody services.
4. **Method Used to Value Assets and Investments** - Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is determined at least every three years by qualified independent appraisers who are members of the Appraisal Institute and internally by real estate advisors for those years when independent appraisals are not performed. The fair value of investments in private equities is determined quarterly by the independent private equity managers with a more intensive review being performed at the end of each calendar year end. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis. Real estate transactions are recorded in the financial statements at the time of closing. Software in development has been reported at historical cost as a capitalized asset in accordance with GASB 51.

UNAUDITED

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

B. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

At July 1, 2011, the date of the latest actuarial valuation, the membership of each plan consisted of the following:

	SETHEEPP	PSPP
Retirees and beneficiaries currently receiving benefits	83,041	33,544
Terminated members entitled to but not receiving benefits	22,867	9,758
Current active members	<u>135,588</u>	<u>79,488</u>
Total	241,496	122,790
Number of participating employers	140	482

State Employees, Teachers and Higher Education Employees Pension Plan

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

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

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

UNAUDITED

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

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

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

Political Subdivisions Pension Plan

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

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

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

UNAUDITED

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

C. DEPOSITS AND INVESTMENTS

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

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

- a. The total sum invested in common and preferred stocks shall not exceed seventy-five percent (75 percent) of the total of the funds of the retirement system.
- b. The total sum invested in notes and bonds or other fixed income securities exceeding one year in maturity shall not exceed seventy-five percent (75 percent) of the total funds of the retirement system.
- c. Within the restrictions in (a) and (b) above, an amount not to exceed fifteen percent (15 percent) of the total of the funds of the retirement system may be invested in securities of the same kinds, classes, and investment grades as those otherwise eligible for investment in various approved foreign countries, provided that such percentage may be increased by the board with the subsequent approval of the council on pensions and insurance.
- d. Within the restrictions in (a) and (b) above, funds may be invested in Canadian securities which are substantially of the same kinds, classes and investment grades as those otherwise eligible for investment.
- e. The total amount of securities loaned under a securities lending program cannot exceed thirty percent (30 percent) of total assets.
- f. The total sum invested in real estate shall not exceed ten percent (10 percent) of the market value of total assets.
- g. The total sum invested in private equities shall not exceed five percent (5 percent) of the market value of total assets.

UNAUDITED

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

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

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

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

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

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

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

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

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

The TCRS is authorized to enter into option contracts and any income earned on option contracts has been included as investment income on the statement.

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

D. COMMITMENTS

Standby Commercial Paper Purchase Agreement - The TCRS has agreed to serve as standby commercial paper purchaser for commercial paper issued by the Funding Board of the State of Tennessee. By serving as a standby commercial paper purchaser, the TCRS receives an annual fee of 60 basis points on the \$350 million maximum issuance under this agreement during times when both Moody's and Standard and Poor's investment ratings assigned to the State of Tennessee's general obligation bonds are Aaa and AAA respectively, 80 basis points during times when either Moody's or Standard and Poor's has assigned ratings of Aa and AA respectively, or 105 basis points during times when either Moody's or Standard and Poor's has assigned ratings lower than Aa and AA respectively. In the unlikely event that the TCRS would be called upon to purchase the commercial paper, the TCRS would receive interest at a rate equal to prime plus 75 basis points during the first 30 consecutive days, plus an additional 50 basis points for each consecutive 30 days thereafter, up to a maximum rate allowed by state law.