

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
MARCH 30, 2012

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**MINUTES OF THE
BOARD OF TRUSTEES MEETING
NOVEMBER 18, 2011**

The Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, November 18, 2011 at 10:15 a.m. The meeting was held in Room 16 of the Legislative Plaza with Chairman David Lillard presiding.

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

Approval of the September 30, 2011 Minutes of the Board of Trustees

On a motion by Commissioner Emkes and seconded by Mr. Huth, the minutes of the September 30, 2011 TCRS Board of Trustees meeting were unanimously approved.

Board of Trustees Committee Report

Chairman Lillard recognized Mr. Barker to provide the audit committee report. Mr. Barker mentioned the audit committee reviewed the GASB rules and Ms. Bachus provided an update on Concord. The audit committee also discussed the local government meetings that were held during the month of October. Ms. Bachus provided an overview on procedures for laws pertaining to TCRS that make their way through legislation. Chairman Lillard gave an update on employer reporting and compliance issues with local government units. No action was taken.

Chairman Lillard recognized Ms. Bachus to provide the administrative committee report. Ms. Bachus reported the administrative committee was updated on the Concord project. The committee was also given a preview of the actuarial report. Ms. Bachus mentioned the committee discussed employers participation eligibility in TCRS. No action was taken.

Chairman Lillard provided the investment committee update. Chairman Lillard mentioned Mr. Brakebill gave a brief summary of an investment report and discussed future strategic initiatives. No action was taken.

Investment Report

Chairman Lillard introduced Mr. Michael Brakebill, Chief Investment Officer, to review the investment report.

Mr. Brakebill reviewed the preliminary investment performance for the first quarter of the 2012 fiscal year. Mr. Brakebill stated that performance reports for the quarter were not available for the board meeting because the meeting occurred very early in the quarterly cycle. However, preliminary reports indicate that the fund lost approximately 6% for the quarter which is regrettable, but a result that also beat 97% of comparable pension funds for the year. The portfolio also has outperformed 87% of comparable funds for the trailing year.

The fund was under-weighted in stocks throughout the quarter and staff has purchased stock throughout the quarter to re-balance, but the portfolio is still slightly under-weighted in equities as of the board meeting date.

On the operational side, Mr. Brakebill noted that TCRS has hired a new equity portfolio manager. Additionally, there have been a number of interesting private equity funds being proposed recently which resulted in frequent travel for due diligence meetings. Finally, staff has been working on Strategic Initiatives and will discuss these with the board in future meetings.

Actuarial Valuation Report

Chairman Lillard introduced Mr. Justin Thacker from Bryan, Pendleton, Swats and McAllister to review the actuarial valuation report. Mr. Thacker introduced additional staff members, Ms. Jennifer Butler and Mr. Tim Lavander. Mr. Thacker began by mentioning how information is collected every other year to provide valuation data for the pension fund to set contribution rates. For purposes of the valuation, data and assets values as of July 1, 2011 were collected. The purpose of the valuation is to examine the financial health of the plan and to determine contribution rates which will go in effect July 1, 2012.

Mr. Thacker reviewed the active membership numbers as compared to previous years. The state employee group has declined since 2009 while the teacher group has continued to grow. Political subdivisions have basically remained flat. Next, Mr. Thacker reviewed the numbers of retired member. Mr. Thacker also reviewed retiree trends.

Next Mr. Thacker reviewed the valuation asset method. The valuation asset method uses a smoothing device to limit contribution volatility. It phases-in investment earnings or losses over a ten year period. The actuarial value of assets is used to determine contribution rates and funded status.

The contribution rate is determined by combining the normal cost with a portion of the amortization of the unfunded accrued liability. The unfunded accrued liability was reestablished in 2009. Local government will be allowed to reestablish the unfunded accrued liability and amortize up to 30 years to manage contribution rate increases. Mr. Thacker reviewed items that would impact future contribution rates. Each local government is unique in their characteristics of employees and demographics. Mr. Thacker mentioned the estimated new entrant contribution rate for teachers is 8% and 11% for state. The GASB has proposed new disclosure requirements that could impact financial statements.

A motion was made by Mr. Kemp to approve the results of the actuarial study effective July 1, 2012 and the related employer contribution rates for the state employee and teacher groups. The motion also allowed the flexibility for staff to work with local governments who have an accrued liability to utilize amortization periods not to exceed 30 years. The motion was seconded by Mr. Barker and the Board unanimously approved the actuarial valuation study.

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. Barker, the Board unanimously approved the TCRS Board of Trustees meeting be adjourned.

With no other business, the Board of Trustees adjourned at 11:30 a.m. on November 18, 2011.

Respectfully Submitted,

A handwritten signature in cursive script that reads "Jill Bachus".

Jill Bachus
Board of Trustees, TCRS

COMMITTEE MINUTES

Minutes of the Administrative Committee

The Administrative Committee of the Board of Trustees of the Tennessee Consolidated Retirement System met on Friday, November 18, 2011 at 9:00 a.m. The meeting was held in Room 16 of the Legislative Plaza with Director Jill Bachus presiding.

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

Concord Update

Ms. Bachus introduced Mr. Fred Marshall, Assistant Director of Concord, to provide an update on the Concord project. Mr. Marshall informed the committee that the Phase 4 – Imaging, implementation date has been pushed back to February 2012, a one month delay. The implementation date was moved back at the request of OIR to set up a separate environment for the Concord FileNet system. Mr. Marshall indicated the delay will benefit TCRS as it will allow extra time for the installation of the modules and custom components that Deloitte uses for the system. The delay will not impact the overall implementation schedule for Concord. Testing and training plans are being created and reviewed as the Concord team prepares for the implementation of Imaging.

Mr. Marshall indicated that Phase 5 - Retired Payroll, has entered the design phase and that the As-Is and To-Be session for Phase 6 - Active Members and Employer Reporting has begun. Mr. Marshall informed the committee that the second Concord Newsletter will be issued after the Thanksgiving holidays. The newsletter will address questions received from a survey previously sent to Treasury employees. Mr. Marshall also informed the committee that the newsletter would include information regarding training for Phase 4 implementation as well as introduce Concord coaches. The Concord coaches are non-managerial TCRS staff members who will assist employees with the change from the current system to Concord. Finally, Mr. Marshall discussed that the Concord coaches' responsibilities include continuing the communication process to staff and helping to identify a resolve potential issues.

Actuarial Valuation

Ms. Bachus next introduced Justin Thacker with Bryan, Pendleton, Swats and McAllister to discuss the results of the July 1, 2011 TCRS actuarial valuation. Mr. Thacker discussed the purpose of the actuarial valuation which is to determine contribution rates for the two year period beginning July 1, 2012 and to examine the financial health of the plan. He reviewed some of the demographic information for active members noting that the number of active state employees continues to decrease. Mr. Thacker also noted that even though each group participating in TCRS is approximately the same size, the liability associated with the teachers group is greater than the other groups participating in TCRS due in part to higher teacher salaries.

Next, Mr. Thacker reviewed the methodology in valuing the assets including smoothing investment gains/losses over a ten year period which is subject to a 20% corridor so that assets do not get too far away from market value. He explained the employer contribution rate is made up of the normal cost, which is the cost of current service, plus amortization of the Unfunded Accrued Liability. For 2011, the amortization periods for the Unfunded Accrued Liability were adjusted for the teacher and state groups to 6 and 9 years, respectively, in order to keep the employer contribution rate flat. Mr. Thacker indicated that TCRS was 91.5% funded at July 1, 2011 compared to 89.9% at July 1, 2009 on an actuarial value of assets basis. Based on the market value of assets, TCRS is 84.0% funded at July 1, 2011 compared to 75.0% at July 1, 2009. Mr. Thacker mentioned that most pension plans are below 70% funded on a market value of assets basis. As a result of the July 1, 2011 actuarial valuation, the employer contribution rates effective July 1, 2012 will be 8.88% for teachers and 15.14% for state employees. The presentation ended with Mr. Thacker discussing future factors that will affect employer rates going forward. These factors include the recognition of the remaining net investment losses, investment returns, short-term salary growth, mortality improvements, size of state government, and new GASB disclosure requirements.

Adjournment

With no other business, the Administrative Committee of the Board of Trustees adjourned at 9:55 a.m. on November 18, 2011.

Respectfully Submitted,



Jill Bachus
Administrative Committee Chair

**AUDIT COMMITTEE MEETING MINUTES
OF TENNESSEE CONSOLIDATED RETIREMENT SYSTEM (TCRS)
November 18, 2011**

The Audit Committee of the Board of the Tennessee Consolidated Retirement System met on Friday, November 18, 2011, at 8:00 a.m. The meeting was held in the Legislative Plaza, Room 16 with Chairman Michael Barker presiding.

The following members were present: Chairman Michael Barker, Mr. Ken Wilbur, Mr. Tre Hargett, and Mr. Erick Huth.

Others present were: Mr. David Lillard, Jr., Treasurer; Ms. Janice Cunningham, Chief of Staff; Mr. Brian Derrick, Director of Internal Audit; Ms. Jill Bachus, Director of TCRS; Mr. Steve Curry, Assistant Treasurer; and Ms. Stacey Jackson, Internal Auditor.

Members not present: Ms. Rebecca Hunter

Approval of the September 30, 2011 Minutes of the Audit Committee

Chairman Barker asked if any changes needed to be made to the minutes. No changes to the minutes were noted. Mayor Wilbur motioned to accept the minutes and Secretary Hargett seconded the motion. The minutes of the September 30, 2011 Audit Committee meeting were unanimously approved.

Review Significant Accounting and Reporting Standards - Update

Mr. Curry updated on the committee on the progress of the new proposed GASB standard mentioned in the September 30, 2011 meeting. A copy of Treasury's response was supplied to the committee. The response stressed the need for pension expense to be recognized as a long-term expense.

Ms. Bachus added that several other states and organizations have also submitted responses to the GASB concerning the proposed standard.

Chairman Barker inquired about the progress about the State Auditors auditing TCRS and Treasury. Mr. Derrick indicated they will not meet their initial deadline of November 18, 2011 but should wrap up fieldwork soon. There have no mention of any findings or weaknesses.

Ms. Bachus indicated that TCRS is on schedule to submit the TCRS Annual Report to GFOA due by December 31, 2011.

TCRS Local Government Meetings - Update

Chairman Barker asked for an update on the TCRS meetings for Local Governments. Treasurer Lillard informed the committee that TCRS has conducted meeting all over the state that included Ms. Bachus, Kaci Lantz, Manger of Deferred Compensation, and Laurie Lee, Director of Benefits Administration. A couple hundred people have attended so far.

Ms. Bachus indicated the TCRS is current in processing retirement applications. The back-log is obsolete.

Concord Project Update

Ms. Bachus informed the committee the imaging phase of Concord implementation will now be in March 2012. The next phase, retired payroll, will roll out in September 2012. The active employee/ employer reporting phase will be implemented in September 2013 and the “As Is” process has now began.

Ms. Bachus fielded several other questions regarding the Concord project and its progress.

Understanding the TCRS Legislative Process

Ms. Bachus explained to the committee the process it takes to pass legislation related to TCRS. Information from TCRS is submitted for a bill and is then seen by the Council on Pensions and Insurance. The Council gives a recommendation on the bill and passes to other committees. If the bill is passed, procedures are followed to inform all affected TCRS staff and to make any system or written policy changes.

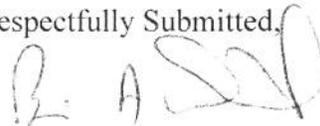
Employer Report/ Compliance Initiative

Treasurer Lillard expressed his recent concern of employers reporting employees that are not legally allowed to participate in TCRS. He will talk to the Comptroller about auditing TCRS participating employers.

Adjournment

Chairman Barker indicated that if there were no additional items, the meeting could be adjourned. Mr. Huth motioned to adjourn the meeting and Secretary Hargett seconded the motion. Chairman Barker thanked the members of the Audit Committee and adjourned the meeting.

Respectfully Submitted,



Brian A. Derrick,
Director of Internal Audit

**Minutes of the Meeting of the Investment Committee of the TCRS Board of Trustees
November 18, 2011**

The Investment Committee of the TCRS Board of Trustees ("Investment Committee") met at 9:00 a.m. on November 18, 2011 in Hearing Room 31 of Tennessee Legislative Plaza. Members of the Investment Committee participating were the Honorable David H. Lillard, Jr., State Treasurer; the Honorable Tre Hargett, Secretary of State; Mark Emkes, Director of Finance and Administration; Greg Elliot and David Seivers. Also in attendance were Mr. Bill Abney, Assistant Treasurer, Ms. Janice Cunningham, Chief of Staff, Mr. Michael Brakebill, Chief Investment Officer, Mr. Peter Katseff, Director of Real Estate, Mr. Tim McClure, Director of Cash Management, Mr. Michael Keeler, Director of Equities, Mr. Andrew Palmer, Deputy Chief Investment Officer, and Mr. Matthew Haitas, Real Estate Analyst.

Treasurer Lillard chaired the meeting and called the meeting to order.

The minutes of the September 30, 2011 Investment Committee meetings were presented for discussion and approval. Mr. Hargett moved for approval with Mr. Elliott as second. The motion passed unanimously by voice vote.

Mr. Brakebill provided an update on Private Equity as Mr. Lamar Villere, Director of Private Equity, was unavailable to attend the meeting. Mr. Brakebill stated that he and Mr. Villere had recently met with several Private Equity Funds throughout the country. Most notably, they recently attended the institutional limited partners conference in New York City where they met with ten funds. In addition, they traveled to Boston and San Francisco to meet more funds. Mr. Brakebill noted that, as of November 17, 2011, TCRS had contributed \$120 million in Private Equity investments. In addition, he expects the \$50 million commitment to Denham Commodity Partners Fund VI LP to close within a few days. Mr. Brakebill further noted that it appeared that several Venture Capital Funds would be closing in early 2012. However, TCRS is targeting investing in a number of these Venture Capital Funds in the next few months before they close.

Mr. Katseff provided an update on the Real Estate portfolio of TCRS. He reported that since the previous meeting, due diligence had been completed on both of the two Southern California apartments that were potential co-investments by TCRS. One of the apartment complexes closed on November 2nd. However, TCRS did not close on the other apartment complex because of issues identified during due diligence that did not meet TCRS' standards. Mr. Katseff reported that one of TCRS' real estate advisors recently presented a presentation on investing in student housing apartments. Mr. Katseff noted that this may be a potential new property investment for TCRS and returns may be as much as 100 basis points higher than standard apartment investments without much more perceived risk. Mr. Elliot and Mr. Hargett asked if these investments provided higher rents and higher maintenance expenses. Mr. Katseff stated that rents are typically higher than conventional apartments and that maintenance is not as high as one might expect. Mr. Emkes asked if these student housing complexes are located off campus and if they are known for being poorly constructed. Mr. Katseff stated they will be off campus but TCRS would only invest in

complexes located near the edge of campus that are within walking distance of campus. Further, he noted that he shares the concern of poor construction and that TCRS would not acquire any complexes that had not been properly constructed and maintained.

Mr. Brakebill provided an update on the recent performance and current positioning of the TCRS portfolio. He noted that there had been no changes in the positioning of the portfolio since the previous Investment Committee meeting. Mr. Brakebill distributed a preliminary review of the performance for quarter ending and twelve months ending September 30, 2011. He reported that the portfolio generated an absolute return of -6.07% for the quarter and 4.09% for the most recent twelve months. The portfolio outperformed its index by 43 basis points for the quarter and 108 basis points for the most recent twelve months. Mr. Brakebill noted that the median return of TCRS' peers was 2.91% for the quarter and 2.37% for the most recent twelve months. Finally, he reported that TCRS' returns placed it in the top 3% of peer portfolios for the quarter and top 13% of peer portfolios for the most recent twelve months.

Mr. Brakebill reviewed the performance of some individual asset classes. He noted that Domestic Equities had outperformed the S&P 1500 by 39 basis points for the quarter and 182 basis points for the most recent twelve months. Fixed Income achieved a very strong 8.49% return for the quarter and 11.56% return for the most recent twelve months. While it did underperform the LPF benchmark due to the continued transition to from the BIG to the LPF index, it considerably outperformed the median peer return of 1.69% for the quarter and 4.17% for the most recent twelve months. Mr. Brakebill noted that Real Estate trailed its benchmark, the NCREIF index, but has outperformed the median peer return over the one, three, five, and ten year time horizons.

Mr. Brakebill concluded his update by noting that the portfolio's overall conservative bias had contributed to a strong outperformance over the last quarter and most recent twelve months. Mr. Elliot asked if the conservative bias put the fund at a disadvantage if risky assets tend to outperform over time. Mr. Brakebill stated that there is room to potentially add risk to the portfolio, however during times of financial stress having a conservative portfolio prevents managers from being forced into selling at inopportune times. Mr. Emkes asked if the fund had any direct exposure to Europe. Mr. Brakebill noted that 10% of equities are allocated to Europe. Further, Mr. Palmer noted that the only European sovereign debt the TCRS owns is German bonds and the corporate bond portfolio owns a small amount of European corporate debt. Finally, Mr. Brakebill reported that TCRS did own Olympus, the Japanese camera firm that is currently embroiled in a corporate scandal, through one of its international managers, American Century, but all 81,000 shares were sold on November 11th.

Mr. Brakebill moved on to present the 2012 strategic initiatives for the TCRS portfolio and distributed a PowerPoint presentation on the topic. After providing an overview of the difficulty of meeting the actuarial return in the current economic environment and noting the changes made in fiscal year 2011, Mr. Brakebill highlighted some of the potential changes that could be made to the portfolio going forward. He noted that staff was researching the possibilities of broadening the fixed income portfolio by developing a "strategic lending" portfolio, investing in riskier real estate assets and expanding the global equities portfolio to include emerging market equities. Further, he noted that over

the next few years staff would continue to monitor and research new asset classes and new portfolio strategies such as hedge funds and risk parity portfolios. Mr. Brakebill explained how these changes could impact the returns and risk by walking through three potential TCRS portfolios including the “current” portfolio, a “transition” portfolio with the addition of strategic lending, long bonds and global equities and a “pie in the sky” portfolio, which is the “transition” portfolio with 20% leverage.

Mr. Palmer provided additional details on the potential addition of “strategic lending” to the fixed income portfolio. Mr. Palmer noted that a 5% allocation to strategic lending is projected to improve the total return of the TCRS portfolio by 10 basis points or \$33 million per year. He stated that the strategic lending portfolio could include investments in high yield bonds, bank loans, mezzanine debt, direct lending, distressed debt and real estate lending. Further, Mr. Palmer noted that the purpose and strategy of strategic lending is to be opportunistic by providing financing with attractive returns where other lending entities such as banks are unable or unwilling to provide financing.

Mr. Brakebill provided further details on the possible addition of riskier real estate and increasing the portfolio’s allocation to global equities. Mr. Brakebill noted that the current real estate portfolio consists of low risk real estate assets known as “core” real estate. The current real estate policy allows for 20% of the portfolio to be invested in riskier real estate or “non-core” real estate. TCRS staff is researching ways to invest in this type of real estate through the use of separate accounts with current advisors and investments in commingled funds. TCRS staff continues to research and monitor the impact of an increased allocation to global equities but has so far concluded that benefits are primarily derived from the inclusion of emerging markets. Mr. Brakebill noted that TCRS was invested in emerging markets prior to divesting from those assets in the early 2000’s and since that time emerging markets had significantly outperformed developed markets. Mr. Emkes stated that he believes there are significant opportunities in emerging markets. Many members of the committee agreed there were significant political risks to investing in emerging markets and some particular markets had more risks than others. Mr. Brakebill stated that staff would continue to monitor emerging markets.

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

APPROVED:

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

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

The Investment Committee of the TCRS Board of Trustees ("Investment Committee") met at 9 a.m. on February 15, 2012 in the G-11 conference room on the ground floor of the State Capitol. Members of the Investment Committee in attendance were the Honorable David H. Lillard, Jr., State Treasurer; the Honorable Tre Hargett, Secretary of State; Honorable Mark Emkes, Commissioner of Finance; Mr. Greg Elliot, and Mr. David Seivers. Mr. Bill Abney, Assistant Treasurer, Mr. Michael Brakebill, Chief Investment Officer, Mr. Peter Katseff, Director of Real Estate, Mr. Andy Palmer, Deputy Chief Investment Officer, Mr. Ken McDowell, Senior Real Estate Portfolio Manager and Mr. Matthew Haitas, Real Estate Analyst were also present. Mrs. Roberta Waxman-Lenz from The Townsend Group, TCRS's real estate consultant, joined the meeting by telephone.

Treasurer Lillard chaired the meeting and called the meeting to order.

Mr. Brakebill opened the meeting by stating that TCRS continues to study new strategies to increase the returns of the fund by adding additional risk. He noted that new real estate strategies have been discussed with the investment committee in the past and staff has developed a plan to execute the strategy.

Mr. Katseff provided an overview of the real estate program, while explaining some potential changes that Staff is exploring. These changes may include increasing discretion in the transaction process and accepting more leverage in order to gain access to more transactions. He further noted that staff is exploring entering joint ventures with developers to build real estate to hold in the portfolio long term. Finally, he noted that Staff may utilize open and closed end commingled funds to gain exposure to core and non-core real estate.

Mr. Elliot asked Mr. Katseff about the use of leverage and the additional risks of using it. Mr. Katseff noted that commingled funds and joint ventures typically use leverage, and that leverage was the "price of admission" to gain exposure to institutional quality real estate using these investment vehicles. Mr. McDowell noted that the return volatility increases exponentially as the amount of debt increases. He gave the example that a portfolio with 50% debt would double its return volatility, and a portfolio that uses 75% debt would quadruple its return volatility.

Treasurer Lillard stated that it has been very difficult to find real estate transactions to invest in the separate accounts as well as for TCRS to meet its overall expected return of 7.5%. He noted that TCRS staff is continually exploring how to increase deal flow and increase returns. Treasurer Lillard stated that the use of leverage may be necessary to achieve these goals.

Mr. Brakebill noted that the goal is not to lever the existing portfolio but to gain exposure to non-core assets that may require the use of leverage because they are encumbered by a loan or they are acquired by a fund that uses leverage.

Mr. McDowell brought attention to the importance of the real estate pacing model as a "road map" for achieving TCRS' portfolio allocation goal of investing 7% of the Fund's assets in real estate over a five-year investment period, with a goal of 80% core and 20% non-core real estate exposure by year-end 2016. He noted that the pacing model is a dynamic model that will change as economic and market conditions change. Mr. McDowell stated that for the current calendar year 2012, Staff plans on investing in four closed-end non-core commingled funds, of which the Bristol Value II fund was the first, with an average commitment of between \$25 million and \$30 million each, and two open-end non-core commingled funds with investments of between \$60 million and \$70 million each. For core investments, Staff plans on investing in two open-end core commingled funds, as well as continuing investments with TCRS' separate accounts.

Mr. McDowell explained the commingled fund investment process, noting the filtering, preliminary due diligence, and final due diligence phases, followed up by the fund closing process. It was noted that Staff would rely, in part, on TCRS' real estate consultant, The Townsend Group, during the filtering phase, utilizing its extensive fund database and underwriting capabilities to filter the universe of real estate commingled funds for those suitable for inclusion into TCRS' real estate portfolio. Mr. McDowell presented the proposed investment in Bristol Value II, a closed end commingled fund focusing on non-core real estate investment. This investment has been recommended by The Townsend Group, TCRS's real estate consultant. He began by explaining TCRS's process for investing in commingled funds. The process includes filtering and selecting suitable investments for further analysis with the help of Townsend, then Staff performs preliminary due diligence including reviewing fund materials and site visits, and finally Staff performs final due diligence, which includes legal review and reference checks.

Mr. McDowell stated that staff recommends a \$25 million commitment to Bristol Value II. The fund will have a ten-year life, with an initial five-year investment period. It will invest in multiple property types, with the exception of industrial properties, with a focus on under managed and distressed real estate.

Mr. McDowell noted that he is very familiar with the fund sponsor, the Bristol Group, and, in particular, the two partners, Jim Curtis and Jeff Kott. Mr. McDowell periodically underwrote acquisitions with the Bristol Group staff during his tenure at the Ohio Public Employee's Retirement System (OPERS), for whom the Bristol Group managed a separate account. He noted that The Bristol Group's performance had been exceptional.

As part of the due diligence process, Mr. McDowell noted that there was an initial Real Estate Committee meeting to review the investment in Bristol Value II, followed by a visit from The Bristol Group to TCRS and finally a visit to The Bristol Group's office in San Francisco that included Mr. Brakebill, Mr. Abney and Mr. McDowell.

Mrs. Waxman-Lenz stated that The Townsend Group has a database of over 300 commingled funds of which only fifteen funds make it onto a list of recommended funds by The Townsend Group. She noted that Bristol Value II is on the list because of their strong track record and strong team.

Commissioner Emkes asked the age of the primary partners. Mr. Katseff stated that Jeff Curtis, the main partner, is 58 years old. He noted that this was his greatest concern and the greatest risk to investment in Bristol Value II. Mrs. Waxman-Lenz stated that The Townsend Group shared this concern but noted that The Bristol Group is developing a succession plan to address this issue.

Mr. Brakebill stated that during the office visit TCRS staff spent most of the time with the junior staff, comprising of real estate investment professionals between the ages of 30 and 45. He also noted that he felt confident in their abilities, even though they were not at the same level as Mr. Curtis's abilities. Mr. Brakebill further noted that the structure of Bristol Value II is similar to other Private Equity transactions approved by the Investment Committee. As with Private Equity, TCRS will commit capital to Bristol Value II and the Bristol managers will draw down the committed capital by investing in non-core real estate over a five-year investment period followed by a five-year disposition period.

Mr. Elliott asked if this investment would be classified as a Private Equity investment and be included in the Private Equity allocation. Mr. Brakebill stated that this investment would be classified as a Real Estate investment and included in its allocation. He noted that while this is a new type of investment for the real estate program, the law and guidelines have always allowed investment in these types of real estate vehicles.

Commissioner Emkes made a motion to approve the investment by TCRS in Bristol Value II. The motion was seconded by Mr. Elliot and unanimously approved.

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

APPROVED:

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

**OPTIONAL RETIREMENT
PROGRAM**

Optional Retirement Plan (ORP)

Contributions for the Year <i>Description: New deposits for the 12 months ended 12/31/2011</i>	ING	VALIC	TIAA CREF	Total
TN State Board of Regents System	\$ 6,723,363.06	\$ 7,470,427.80	\$ 28,806,192.11	\$42,999,983
University of Tennessee System	<u>\$ 8,259,133.33</u>	<u>\$ 5,992,253.86</u>	<u>\$ 27,919,589.26</u>	<u>\$42,170,976</u>
Total Contributions Received	<u>\$ 14,982,496.39</u>	<u>\$ 13,462,681.66</u>	<u>\$ 56,725,781.37</u>	<u>\$85,170,959</u>
Active Participant Count for the Year <i>Description: Individual lives with Active deposits to their account for the year ended 12/31/2011</i>	ING	VALIC	TIAA CREF	
TN State Board of Regents System	1,341	1,364	4,551	
University of Tennessee System	<u>1,360</u>	<u>1,055</u>	<u>3,943</u>	
Total Active Participants	<u>2,701</u>	<u>2,419</u>	<u>8,494</u>	

Optional Retirement Plan (ORP)

TN ORP Asset Balances <i>Description: Total Assets for the Year Ended 12/31/2011</i>	ING	VALIC	TIAA CREF	Total
TN State Board of Regents System	\$ 69,965,830.63	\$ 100,630,266.59	\$ 761,642,600.20	\$932,238,697
University of Tennessee System	<u>\$ 112,462,560.71</u>	<u>\$ 91,130,479.10</u>	<u>\$ 1,285,318,871.07</u>	<u>\$1,488,911,911</u>
Total TN ORP Asset Balances	<u>\$ 182,428,391.34</u>	<u>\$ 191,760,745.69</u>	<u>\$ 2,046,961,471.27</u>	<u>\$2,421,150,608</u>
ORP Total Participants <i>Description: Total TN ORP Participant's with account as of 12/31/2012</i>	ING	VALIC	TIAA CREF	
TN State Board of Regents System	1,660	2,370	12,478	
University of Tennessee System	<u>2,391</u>	<u>2,246</u>	<u>13,994</u>	
Total Participants	<u>4,051</u>	<u>4,616</u>	<u>26,472</u>	

STATISTICAL REPORTS

ANALYSIS OF MEMBERS ACTIVELY CONTRIBUTING

	6/30/2007	6/30/2008	6/30/2009	6/30/2010	3/31/2011	6/30/2011	9/30/2011	12/31/2011
Group I Members:								
(State & Higher Ed.)	62,046	62,987	58,940	58,601	57,720	57,592	56,536	56,656
Teachers	74,666	76,926	78,550	78,593	79,441	79,583	78,940	78,865
General Employees of Polisubs	77,716	80,079	80,376	81,601	81,427	81,751	80,239	80,167
General Assembly	121	124	122	126	127	127	128	129
County Officials	3	3	3	3	2	2	2	2
PSC								
County Judges	1	1	1	1	1	1	1	1
Attorneys General	588	634	635	639	634	635	640	644
Total Group I	215,322	220,936	218,809	219,564	219,352	219,691	216,486	216,464
Group II & Prior Class:								
Wildlife Officers	11	10	9	6	3	3	3	2
Highway Patrol	28	25	11	8	7	6	3	3
Firemen & Policemen- Political Subdivisions	58	45	36	34	23	21	18	17
Total Group II & Prior Class	97	80	56	48	33	30	24	22
Group III and Prior Class:								
State Judges	2	2	2	2	2	2	2	2
County Judges	-	-	-	-	-	-	-	-
Attorneys General	5	5	6	5	5	5	5	5
County Officials	12	12	10	9	5	5	5	5
Total Group III & Prior Class	19	19	18	16	12	12	12	12
Group IV								
State Judges		182	182	182	181	181	182	181
Total Membership								
Contributing to TCRS	215,438	221,035	218,883	219,810	219,578	219,914	216,704	216,679
Teachers Contributing to ORP	11,455	11,501	11,388	11,506	11,568	11,562	11,575	11,570
Grand Totals	226,893	232,536	230,271	231,316	231,146	231,476	228,279	228,249

**RETIRED PAYROLL
STATISTICS
December 31, 2011**

	<u>AMOUNT</u>	<u># OF RETIREES</u>
STATE EMPLOYEES	42,948,201.19	39332
STATE PAID JUDGES	818,957.13	165
COUNTY PAID JUDGES	369,148.27	121
ATTORNEY GENERALS	776,866.49	289
COUNTY OFFICIALS	428,848.72	239
PUBLIC SERVICE COMMISSIONERS	8,325.18	5
POLITICAL SUBDIVISIONS	20,942,040.44	32731
TEACHERS	76,158,261.16	41025
LOCAL TEACHERS	3,719,317.61	2215
GOVERNORS AND WIDOWS	28,830.00	5
AGED STATE EMPLOYEES	129.26	1
AGED TEACHERS	<u>3,067.70</u>	<u>23</u>
TOTAL	\$146,201,993.15	116,151

RETIRED PAYROLL
July 1, 2011
THROUGH
December 31, 2011

	<u>AMOUNT</u>	<u># OF RETIREES</u>
STATE EMPLOYEES	255,863,324.33	39332
STATE PAID JUDGES	5,050,312.37	165
COUNTY PAID JUDGES	2,248,341.19	121
ATTORNEY GENERALS	4,649,506.05	289
COUNTY OFFICIALS	2,544,119.03	239
PUBLIC SERVICE COMMISSIONERS	49,951.08	5
POLITICAL SUBDIVISIONS	125,462,262.64	32731
TEACHERS	459,373,974.01	41025
LOCAL TEACHERS	22,500,984.24	2215
GOVERNORS AND WIDOWS	172,990.03	5
AGED STATE EMPLOYEES	777.56	1
AGED TEACHERS	19,277.88	23
TOTAL	\$877,935,820.41	116,151

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

**REFUND EXPENDITURES
2011-12 FISCAL YEAR**

MONTH	MEMBER'S CONTRIBUTIONS	414(H) CONTRIBUTIONS	MEMBER'S INTEREST	EMPLOYER CONTRIBUTIONS	DEATH PAYMENTS	TOTAL
July	200,835.21	2,533,305.90	764,576.14	91,237.94	223,114.97	\$3,813,070.16
August	122,857.54	2,965,717.47	887,671.53	69,132.41	592,205.39	\$4,637,584.34
September	98,169.01	2,717,030.83	740,314.59	15,574.01	356,481.85	\$3,927,570.29
October	60,190.24	2,650,819.23	972,726.16	164,521.62	758,624.20	\$4,606,881.45
November	62,236.58	1,886,049.31	614,070.78	61,549.03	164,580.09	\$2,788,485.79
December	65,069.32	1,514,728.33	686,845.76	168,963.26	598,590.57	\$3,034,197.24
January						
February						
March						
April						
May						
June						
TOTAL	609,357.90	14,267,651.07	4,666,204.96	570,978.27	2,693,597.07	\$22,807,789.27

NUMBER OF MEMBERS REFUNDED

<u>Month</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
July	829	507	1,149	450	894	499	496
August	544	481	675	308	612	406	466
September	515	546	566	316	494	431	447
October	424	454	609	411	369	379	383
November	316	440	492	353	320	293	364
December	320	318	234	257	256	276	257
January	305	408	450	332	257	307	
February	389	333	308	310	242	265	
March	329	342	316	291	278	299	
April	823	365	308	311	687	277	
May	694	323	619	217	385	662	
June	428	313	843	340	360	406	
TOTAL	<u>5,916</u>	<u>4,830</u>	<u>6,569</u>	<u>3,896</u>	<u>5,154</u>	<u>4,500</u>	<u>2,413</u>

PRIOR SERVICE ACTIVITY
September 1, 2011 through December 31, 2011

State:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	25	32	\$ 115,542
	Military	16	28	-
	Redeposit	9	28	58,396
	Totals	50	88	\$ 173,938

Teachers:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	12	3	\$ 137,361
	Military	7	16	-
	Redeposit	26	92	271,689
	Totals	45	111	\$ 409,051

Higher Education:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	54	36	\$ 16,914
	Military	4	11	-
	Redeposit	1	3	125
	Totals	59	50	\$ 17,039

Political Subdivisions:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	103	107	\$ 68,580
	Military	18	38	-
	Redeposit	12	53	113,173
	Totals	133	198	\$ 181,753

Grand Totals:	Type of Service	No of Members	Years of Service	Amount
	Backpayment	194	178	\$ 338,398
	Military	45	93	-
	Redeposit	48	176	443,383
	Totals	287	447	\$ 781,781

DISABILITY RETIREMENT REPORT

Disability Statistical Report

Second Quarter 11-12

Disability Applications Received	October	40
	November	23
	December	<u>28</u>
	TOTAL	91
Initial Claims Approved	October	23
	November	29
	December	<u>27</u>
	TOTAL	79
Initial Claims Disapproved	October	7
	November	7
	December	<u>8</u>
	TOTAL	22
Initial Claims Approved after Reconsideration		11
Initial Claims Disapproved after Reconsideration		11
Re-Evaluation Claims Approved		58
Re-Evaluation claims Disapproved		0
Cases Referred to Vocational Rehabilitation		0

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

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	NO	NO	54	STATE	CASE MANAGER IV	27	\$48,862.40	A	\$1,592.07	S/P CVA, TTP, ANEMIA, HTN, & LUPUS
ORD.	NO	NO	58	POL SUB	NUTRITION MANAGER	10	\$22,910.52	A	\$317.99	PARKINSON'S DISEASE
ORD.	NO	YES	52	STATE	SECRETARY	25	\$28,578.12	A	\$869.26	S/P CERVICAL FUSION, HA'S, FIBROMYALGIA, & DEPRESSION
ORD.	NO	NO	53	POL SUB	SENIOR POLICE OFFICER	18	\$55,076.28	D	\$1,091.16	GASTRIC CARCINOMA
ORD.	NO	NO	54	POL SUB	LABORER	10	\$24,838.93	A	\$146.74	GLAUCOMA
ORD.	NO	NO	52	TEACHER	TEACHER	5	\$43,241.16	A	\$715.10	BACK FOOT PAIN W/RADICULOPATHY, ACHILLES TENDONITIS, & OA OF L-FOOT
ORD.	YES	NO	38	TEACHER	TEACHER	12	\$57,361.83	D	\$1,251.64	IDIOPATHIC PULMONARY HTN, SOB, & FATIGUE
ORD.	NO	NO	56	POL SUB	CUSTODIAN	8	\$16,226.52	A	\$238.00	CAD, S/P MI
ORD.	NO	NO	56	STATE	SUPERVISOR	26	\$36,818.40	A	\$1,156.15	SPINE FRACTURE, & CHRONIC PAIN
ORD.	NO	NO	58	STATE	OFFICE ASSISTANT	15	\$25,363.44	A	\$524.31	S/P CVA, DM, NEUROPATHY, & CAD
SS-ORD.	NO	NO	50	POL SUB	CUSTODIAN	22	\$19,467.36	A	\$525.07	METASTATIC GASTRIC CANCER
ORD.	NO	NO	59	STATE	ACCOUNTING TECH II	22	\$33,407.16	D	\$751.07	COPD, NEUROPATHY, GASTROPARSIS, & CAD
ORD.	NO	NO	54	STATE	CAD OPERATOR	18	\$40,021.32	A	\$945.50	SEVERE COPD, DM, & HTN
ORD.	NO	NO	53	STATE	ADMINISTRATIVE ASSISTANT	8	\$28,934.78	A	\$518.38	ESRD, & CAD
ORD.	NO	NO	55	POL SUB	SANITATION DRIVER	14	\$34,046.40	B	\$696.67	DDD, CERVICAL STENOSIS, FAILED BACK SYNDROME, & CHRONIC NECK PAIN

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

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	YES	NO	42	STATE	YOUTH CENTER SUPERVISOR	6	\$24,828.00	A	\$586.56	DDD WRADICULOPATHY, PSORATIC ARTHRITIS, & FIBROMYALGIA
ORD.	YES	NO	50	TEACHER	TEACHER	14	\$51,360.24	A	\$1,213.37	FIBROMYALGIA; DECREASED ROM, & CHRONIC PAIN
ORD.	NO	NO	52	STATE	EMPLOYMENT SPECIALIST	7	\$25,462.74	A	\$463.70	CVA, MEMORY LOSS, & FATIGUE
INACT.	NO	NO	45	STATE	EA II	8	\$13,601.28	D	\$27.32	CHRONIC BACK PAIN, HTN, CHRONIC RENAL DISEASE, & OBESITY
ORD.	YES	NO	43	TEACHER	TEACHER	6	\$29,866.08	A	\$705.58	ADDISON'S DISEASE, ADRENOMYELONEUROPATHY, & BEHAVIOR CHANGES
ORD.	YES	NO	45	POL SUB	LABORER	7	\$23,770.09	B	\$494.63	MORBID OBESITY, DM, DIABETIC ULCERS, & INABILITY TO AMBULATE
SS-ORD.	NO	YES	54	STATE	REGISTERED NURSE II	25	\$44,327.82	A	\$1,343.95	S/P LAP BAND SURGERY, & FIBROMYALGIA
ORD.	NO	NO	52	POL SUB	CITY RECORDER	17	\$39,954.72	A	\$943.92	PROGRESSIVE PARKINSON'S DISEASE
ORD.	YES	NO	43	POL SUB	TEACHER'S ASSISTANT	12	\$14,721.36	E	\$343.06	FAILED FOOT SURGERY, & SPASTIC GAIT W/FOOT DROP
SS-INAC.	NO	NO	46	STATE	SECRETARY	7	\$17,517.00	A	\$32.53	BI-POLAR DISORDER, PTSD, DEPRESSION, FIBROMYALGIA, & NARCOLEPSY
ORD.	YES	YES	44	TEACHER	TEACHER	14	\$38,853.24	D	\$838.78	RA
ORD.	YES	NO	45	STATE	COUNSLOR/COORDINATOR	12	\$43,082.76	A	\$1,017.82	SJOGREN'S SYNDROME, RA, LUPUS, FIBROMYALGIA, HTN, CAD, & DEPRESSION
SS-ORD.	YES	NO	50	STATE	OFFICE ASSISTANT	7	\$23,722.08	A	\$504.39	METASTATIC BREAST CANCER
ORD.	YES	NO	51	POL SUB	BACK HOE OPERATOR	18	\$25,900.56	A	\$611.89	OA, RA, & DM
ORD.	YES	NO	43	STATE	DEV TECH	24	\$35,505.36	A	\$1,006.57	PULMONARY EMBOLISM, & LUMBAR RADICULOPATHY W/FOOT DROP

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

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	YES	YES	51	STATE	SECRETARY	10	\$20,521.79	A	\$505.42	S/P CERVICAL FUSION
SS-ORD.	NO	NO	57	POL SUB	TRUCK DRIVER	10	\$29,217.96	A	\$427.31	CERVICAL RADICULOPATHY, & CHRONIC PAIN
SS-ORD.	NO	NO	56	STATE	PLUMBER	6	\$37,347.60	D	\$383.16	MACULAR DEGENERATION, COPD, CROHN'S DISEASE, DJD, & ULCERATIVE COLITIS
ORD.	NO	NO	53	STATE	ACCOUNTING TECH I	8	\$22,542.96	A	\$432.71	SEVERE PVD, PERIPHERAL NEUROPATHY, & PAIN IN LEGS
ORD.	YES	YES	36	STATE	OFFICER	13	\$26,581.32	A	\$627.98	L-KNEE ANTHROPATHY, DM II, OSA, & MORBID OBESITY >460 LBS
INACT.	NO	YES	52	STATE	CLERK II	17	\$19,704.48	A	\$252.09	HTN, CHF, CARDIOMEGALY, OA OF KNEES, DM, CAD, DEPRESSION, & MORBID OBESITY
ORD.	YES	NO	49	TEACHER	TEACHER	10	\$38,664.85	B	\$823.85	SARCOIDOSIS, CHF, CARDIOMYOPATHY, OA, FIBROMYALGIA, JOINT PAIN, & DEPRESSION
ORD.	YES	NO	46	STATE	HR MANAGER	18	\$45,861.12	A	\$1,083.47	RA, SJOJGREN'S SYNDROME, FIBROMYALGIA, HTN, & GLAUCOMA
ORD.	NO	NO	58	POL SUB	BUS DRIVER	17	\$14,959.68	A	\$349.00	COPD, PAD, BILATERAL KNEE OA, & ROTATOR CUFF ISSUES
ORD.	NO	YES	59	POL SUB	WAREHOUSE MANAGER	6	\$16,539.33	A	\$217.07	RECURRENT BACK PAIN, S/P LAMINECTOMY
SS-ACC.	NO	NO	61	STATE	MAINTENANCE/ GROUNDS WORKER	8	\$19,082.58	A	\$250.45	LUMBAR SPINE SPRAIN, & DDD
ORD.	NO	YES	54	STATE	FIRE FIGHTER	28	\$57,664.32	A	\$1,964.00	HEPATITIS C, MUSCLE/JOINT PAIN, & DEPRESSION
SS-ORD.	YES	NO	36	STATE	CORRECTIONAL OFFICER	16	\$30,403.56	A	\$718.28	S/P LAMINECTOMY, & KNEE PAIN
ORD.	NO	NO	50	POL SUB	JANITOR	6	\$15,142.53	A	\$302.58	S/P CVA, HTN, & DM II
ORD.	YES	NO	34	STATE	ELIGIBILITY COUNSELOR	11	\$30,168.20	A	\$712.72	S/P CVA

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

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	NO	NO	57	POL SUB	TEACHER'S ASSISTANT	19	\$13,204.44	A	\$311.95	SLEEP APNEA, DJD OF KNEES, & SEVERE DEPRESSION
ORD.	NO	NO	56	STATE	HWY WORKER II	14	\$23,005.80	A	\$498.22	DM II W/RETINOPATHY, HTN, S/P CVA, & DJD OF KNEES
ORD.	NO	NO	56	POL SUB	EMT IV	9	\$43,295.28	B	\$600.08	CVA
ORD.	NO	NO	55	POL SUB	PAYROLL CLERK	15	\$26,381.64	A	\$612.88	RA, OA, & FIBROMYALGIA
ORD.	NO	NO	56	STATE	NURSE'S CONSULTANT	5	\$40,801.44	A	\$481.97	BI-POLAR DISORDER W/PSYCHOSIS, ANXIETY, & OBESITY
ORD.	NO	NO	58	STATE	ACCOUNTING TECH I	19	\$27,808.61	A	\$656.98	KYPHOSIS, THORACIC FRACTURE, PSEUDOARTHROSIS, SCOLIOSIS, & CHRONIC PAIN
ORD.	NO	NO	51	POL SUB	DEPUTY SHERIFF	19	\$42,957.84	A	\$1,014.87	ESRD
ORD.	NO	NO	53	POL SUB	TEACHER'S ASSISTANT	5	\$13,610.28	A	\$204.98	PULMONARY HYPERTENSION, SOB, & CAD
ORD.	YES	NO	51	POL SUB	DIRECTOR	5	\$56,957.81	B	\$853.63	CLASS III CAD W/CHRONIC ANGINA, SOB, POOR ENERGY, S/P MULTIPLE STENTS
ORD.	YES	YES	49	POL SUB	SERVICE LINEMAN	25	\$94,278.48	A	\$3,054.35	TBI, MULTIPLE FRACTURES, MINIMAL USE OF L-UE, BLIND IN L-EYE, & DEAF IN L-EAR
ORD.	YES	NO	40	POL SUB	SANITATION WORKER	19	\$24,476.40	A	\$578.25	MAJOR DEPRESSION, SCHIZOPHRENIA W/PSYCHOSIS, & ENCEPHALOPATHY
ORD.	NO	NO	41	POL SUB	SECRETARY	13	\$37,346.16	A	\$882.30	SICKLE CELL ANEMIA, PULMONARY HYPERTENSION, NEUROPATHY, & CHF
SS-ORD.	NO	NO	54	POL SUB	EQUIPMENT OPERATOR	25	\$35,889.44	A	\$1,084.59	COPD, PULMONARY EMBOLISM, RESPIRATORY FAILURE, OSA, & ROTATOR CUFF TEAR
SS-ORD.	NO	NO	60	POL SUB	LABORER	11	\$23,174.51	A	\$347.25	NIDDM, CAD, DDD, & NEUROPATHY
ORD.	NO	NO	56	STATE	ANALYST	23	\$59,905.66	B	\$1,429.87	ADENOCARCINOMA OF THE ESOPHAGUS

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

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	NO	NO	55	TEACHER	TEACHER	19	\$44,877.40	B	\$809.60	GRADE III ANAPLASTIC ASTROCYTOMA
ORD.	NO	NO	56	STATE	HOSPITALITY ASSISTANT	16	\$27,445.80	B	\$564.53	AUTOIMMUNE HEPATITIS, CHRONIC FATIGUE, OA, & COPD
ORD.	NO	NO	54	STATE	STORE MANAGER	20	\$33,442.68	A	\$816.42	STAGE IV METASTATIC ADENOCARCINOMA
ORD.	YES	NO	46	POL SUB	SECRETARY	22	\$29,343.55	D	\$708.67	REFRACTORY MIGRAINES, HEMICEPHALGIA, POLYCYSTIC KIDNEY DISEASE, & HTN
ORD.	NO	NO	53	POL SUB	BUS DRIVER	13	\$10,910.40	A	\$256.68	RA, DECREASED ROM, FMS, PTSD, & DEPRESSION
SS-ORD.	NO	NO	54	STATE	HWY WORKER I	8	\$20,840.07	B	\$294.05	CHF, PULMONARY INSUFFICIENCY S/P AORTIC & MITRAL VALVE REPLACEMENT
ORD.	YES	YES	44	STATE	ACCOUNTING TECH I	12	\$29,646.60	A	\$700.40	COPD, SOB, & ASTHMA
SS-ORD.	YES	NO	47	POL SUB	LIEUTENANT	26	\$46,590.38	A	\$1,444.67	HEART TRANSPLANT, & CHRONIC PAIN
SS-ORD.	YES	NO	43	STATE	ELIGIBILITY COUNSELOR	15	\$39,675.19	A	\$937.31	RA, DEPRESSION, & ANXIETY
ORD.	NO	YES	55	POL SUB	FAMILY RESOURCE SPECIALIST	14	\$18,094.43	B	\$361.23	DDD OF THE NECK/SHOULDER, & BACK PAIN
ORD.	YES	NO	44	POL SUB	CUSTODIAN	5	\$20,639.64	A	\$487.60	IDDM, CAD, HYPERLIPIDEMIA, HTN, OBESITY, & CHRONIC BACK PAIN
ORD.	YES	NO	48	TEACHER	TEACHER	20	\$62,678.28	A	\$1,537.25	SEVERE OA, FMS, S/P MULTIPLE SURGERIES, & BILATERAL CARPAL TUNNEL RELEASE
ORD.	YES	NO	48	POL SUB	SCHOOL COUNSELOR	26	\$64,477.00	A	\$2,032.00	RECURRENT PANCREATIC CANCER
ACC.	YES	NO	39	POL SUB	SHERIFF	19	\$65,995.68	A	\$2,713.02	TRAUMATIC BRAIN INJURY, PTSD, ADJUSTMENT D/O W/ANXIETY & DEPRESSION
SS-ORD.	YES	NO	52	POL SUB	SUPPLY CLERK	15	\$37,668.12	A	\$889.90	MULTIPLE MYELOMA

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

Type	Re-E	Re-C	Age	Employer	Position	Svc	AFC	Opt.	Mo. Ben.	Disability Summary
ORD.	YES	NO	49	STATE	PROGRAM COORDINATOR	6	\$34,027.47	A	\$720.15	STAGE III BREAST CANCER
ORD.	NO	NO	52	TEACHER	TEACHER	8	\$50,992.56	D	\$832.52	METASTATIC PANCREATIC CANCER
ORD.	NO	NO	54	TEACHER	TEACHER	15	\$42,900.60	D	\$882.78	MS, WEAKNESS, GAIT INSTABILITY, & COGNITIVE DECLINE
ORD.	NO	NO	52	STATE	ELIGIBILITY COUNSELOR	9	\$32,660.40	A	\$649.43	PTSD, FIBROMYALGIA, CHRONIC ANXIETY, DEPRESSION, & DJD

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

Type	Re-C	Age	Employer	Position	SVC	Disability Summary	Reason Denied
ORD.	YES	46	STATE	HWY MAINTENANCE	8	CHRONIC BRONCHITIS, COPD	CAP SED WRA
ORD.	NO	58	TEACHER	TEACHER	16	MENIERE'S DISEASE, DM II W/NEUROPATHY, HTN, OA, AND LOW BACK PAIN	CAP LGT WRA
ORD.	NO	58	TEACHER	TEACHER	9	MYESTHENIA GRAVIS, DIPLOPIA, TREMORS, FATIGUE, MUSCLE WEAKNESS	INSUFFICIENT MED DOCS, CAP SED WRA
ORD.	YES	48	STATE	CHILD SUPPORT SPECIALIST	10	SMALL CELL LYMPHOCYTIC LYMPHOMA, CHRONIC LEUKEMIA, DEPRESSION	MBR'S PHYSICIAN STATES SHE CAN CONTINUE WORKING
ORD.	YES	48	STATE	CHILD SUPPORT SPECIALIST	10	SMALL CELL LYMPHOCYTIC LYMPHOMA, CHRONIC LEUKEMIA, DEPRESSION	MBR'S PHYSICIAN STATES SHE CAN CONTINUE WORKING
ORD.	YES	49	STATE	PSYCH TECH	8	CHROIC BACK PAIN, OBESITY, AORTIC VALVE REPLACEMENT, CHF	CAP SED WRA
ORD.	NO	36	POL SUB	MAPPING CO-ORDINATOR	9	CHIARA MALFORMATION, FAILED SURGERY	INSUFFICIENT MED DOCS
ORD.	YES	54	STATE	REGISTERED NURSE II	25	S/P LAP BAND SURGERY, FIBROMYALGIA	INSUFFICIENT MED DOCS
ORD.	NO	45	TEACHER	TEACHER	15	SYSTEMIC LUPUS ERYTHEMATOSUS, DM, CHRONIC MIGRAINE HA'S	INSUFFICIENT MED DOCS
ORD.	NO	49	STATE	PROGRAM MANAGER	24	FIBROMYALGIA, S/P CERVICAL FUSION, DEPRESSION	CAP SED TO LGT WRA
ORD.	NO	54	POL SUB	LIBRARY ASSISTANT	16	CORONARY ARTHROSCLEROSIS, S/P MI, CABG	CAP SED WRA
ORD.	NO	48	POL SUB	LIEUTENANT	19	CAD, STENT PLACEMENT	CAP LGT WRA

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

Type	Re-C	Age	Employer	Position	SVC	Disability Summary	Reason Denied
ORD.	YES	49	POL SUB	FOOD SERVICE	11	CHRONIC BACK PAIN, RADICULOPATHY, HNP	CAP SED TO LGT WRA
ORD.	YES	50	POL SUB	MAINTENANCE	16	DJD, HTN, DDD, COPD	CAP SED WRA
ORD.	YES	48	STATE	HWY MAINTENANCE	7	S/P TORN ANEURYSM, S/P REPAIR TORN MENISCIS, TRIGEMINAL NEURALGIA	CAP SED WRA
ORD.	YES	46	POL SUB	PUBLIC SAFETY OFFICER	17	LOW BACK PAIN, HTN, ANXIETY, MILD WEAKNESS	CAP SED WRA
ORD.	NO	50	POL SUB	TEACHING ASST	18	FIBROMYALGIA, OBESITY, DEPRESSION, GERD	CAP SED WRA
ORD.	NO	46	STATE	RESOURCE SUPPORT	5	S/P CERVICAL FUSION, ANXIETY & DEPRESSION	CAP LGT WRA
ORD.	NO	44	STATE	ACCOUNT TECH	12	COPD, SOB	CAP SED WRA
ORD.	YES	55	POL SUB	FAMILY RESOURCE SPECIALIST	14	DDD OF THE NECK AND SHOULDER	CAP SED WRA
ORD.	NO	56	STATE	VETERAN'S BENEFIT REPRESENTATIVE	13	AVASCULAR MIGRAINES, CAD, DM, OBESITY	INSUFFICIENT MED DOCS
ORD.	YES	35	TEACHER	TEACHER	6	SPASMOTIC DYSPHONIA	CAP OF OTHER WORK

FINANCIAL STATEMENTS

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENT OF PLAN NET ASSETS
AS OF DECEMBER 31, 2011

ASSETS

Cash and cash equivalents	\$629,893,666.18
<hr/>	
Receivables	
Member receivable	417,103.88
Employer receivable	907,359.29
Accrued interest receivable	95,444,280.17
Accrued dividends receivable	44,420,553.92
Real estate income receivable	281,081.99
Investments sold	168,026,231.45
<hr/>	
Total receivables	309,496,610.70
<hr/>	
Investments, at fair value	
Government securities	8,222,940,605.31
Corporate securities	5,372,860,445.44
Corporate stocks	17,782,834,563.48
Private Equities	132,575,192.00
Real estate	1,234,499,046.52
Total investments	32,745,709,852.75
<hr/>	
Capital Assets, at cost	
Intangible Asset	1,896,671.07
<hr/>	
TOTAL ASSETS	33,686,996,800.70
<hr/>	
LIABILITIES	
Retired payroll payable	5,571,660.96
Retiree insurance premium payable	6,980,543.49
Accounts payable	481,301.28
Investments purchased	563,413,410.39
Other investment payables	1,666,000.00
TOTAL LIABILITIES	578,112,916.12
<hr/>	
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$ 33,108,883,884.58
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See Accompanying Notes to the Financial Statements

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TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATEMENT OF CHANGES IN PLAN NET ASSETS
JULY 1, 2011 THROUGH DECEMBER 31, 2011

ADDITIONS

Contributions		
Member contributions		\$99,728,623.37
Employer contributions		414,057,749.59
Total contributions		513,786,372.96
Investment income		
Net Depreciation in fair value of investments		(630,420,617.53)
Interest		256,311,841.32
Dividends		187,138,762.11
Real Estate income, net of operating expenses		32,603,017.74
Total investment income (loss)		(154,366,996.36)
Less: Investment expense		(10,281,793.85)
Net investment income		(164,648,790.21)
TOTAL ADDITIONS		349,137,582.75

DEDUCTIONS

Annuity benefits		
Retirement benefits		724,319,339.97
Cost of living		152,850,508.53
Death benefits		2,570,651.91
Refunds		18,643,484.02
Administrative expenses		5,162,626.46
TOTAL DEDUCTIONS		903,546,610.89

NET DECREASE		(554,409,028.14)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
JULY 1, 2011		33,663,292,912.72
DECEMBER 31, 2011		\$33,108,883,884.58

See Accompanying Notes to the Financial Statements

UNAUDITED

Tennessee Consolidated Retirement System
Notes to the Financial Statements
December 31, 2011

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
December 31, 2011

B. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

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

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

State Employees, Teachers and Higher Education Employees Pension Plan

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

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

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

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Tennessee Consolidated Retirement System
Notes to the Financial Statements
December 31, 2011

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.

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Tennessee Consolidated Retirement System
Notes to the Financial Statements
December 31, 2011

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.

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Tennessee Consolidated Retirement System
Notes to the Financial Statements
December 31, 2011

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.

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

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

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

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

	June 30, 2011	
Issuer Organization	Fair Value	Percentage
Federal National Mortgage Assoc.	\$2,029,898,227	6.03%

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Tennessee Consolidated Retirement System
Notes to the Financial Statements
December 31, 2011

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

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

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

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.

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

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Tennessee Consolidated Retirement System
Notes to the Financial Statements
December 31, 2011

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.

