

**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. Sievers 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.

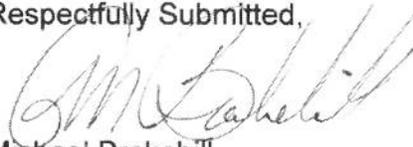
Mr. Brakebill next presented the proposed changes to the TCRS Investment Policy. He noted that the changes could be classified into three categories. The changes are either editorial, legal changes, or changes to enact the new asset allocation. Mr. Brakebill covered all of the proposed changes. Some 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.

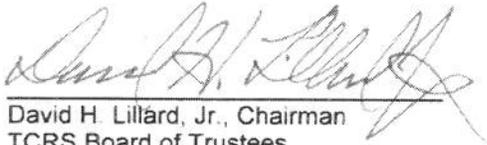
The members of the Investment Committee had no additional questions and the meeting of the Investment Committee was adjourned.

Respectfully Submitted,



Michael Brakebill
Chief Investment Officer

APPROVED:



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