

CONTRACT #2
RFS # 308.01-11909
FA # 09-25121
Edison # 1850

Treasury Department
Investments

VENDOR:
The Townsend Group, Inc.

STATE OF TENNESSEE



DAVID H. LILLARD, JR.
STATE TREASURER

TREASURY DEPARTMENT

615.741.2956
David.Lillard@tn.gov

STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0225

Sender's telephone: 615.532.3067
Sender's email: Courtney.Holliday@tn.gov

MEMORANDUM

TO: Fiscal Review Committee

THROUGH: Christy Allen, Assistant Treasurer
Legal, Compliance and Audit

FROM: Courtney Holliday, Assistant General Counsel

DATE: June 10, 2013

SUBJECT: **The Townsend Group, Inc. Contract Amendment**

This memorandum details the terms of the Department of Treasury's ("Department") contract amendment with the Townsend Group, Inc. ("Townsend") that is before the Fiscal Review Committee as well as the justification for this noncompetitive amendment.

The contract between the Department and Townsend provides that Townsend will continue to provide investment management services relative to the Tennessee Consolidated Retirement System's ("TCRS") real estate portfolio. Townsend currently assists the Department in selecting external real estate separate account advisors who identify properties which meet TCRS criteria and assists with the management and administration of the real estate investments of TCRS. Townsend also provides quarterly updates on the performance of the external managers. The specific duties contained in the contract are as follows:

The Contractor shall provide services regarding the TCRS's real estate program by performing the following:

- a. Review of Real Estate Investment Policy, Guidelines, Procedures and Asset Allocation. At the State's request, the Contractor shall conduct a review of the real estate investment policy, guidelines, procedures and asset allocation developed by the Retirement System with the context of the then current market conditions and

the Retirement System's real estate investment performance. The Contractor shall advise the State of any recommended changes to the investment policy, guidelines, procedures or asset allocation as a result of such review, and shall, at the State's request, reduce any such recommendations to a written report for the State's consideration in accordance with T.C.A. §8-37-104(a)(9).

- b. Real Estate Performance Review Services. Currently, the State has engaged five (5) real estate investment advisors who are responsible for locating, on behalf of the State, real estate investments for potential acquisition by the Retirement System. On a quarterly basis, Townsend shall provide written evaluation reports of the real estate investment performance of each real estate investment advisor acquired by the State and of each individual real estate investment holding. In addition, Townsend assists the State in the ongoing evaluation of the performance of the advisors.
- c. Selection of Additional External Investment Advisors. At the State's request, Townsend provides analysis of and assists the State in acquiring any additional external real estate investment advisors desired by the State. At the direction of the State, Townsend prepares and/or issues a request for information and questionnaires to entities who are in the business of providing real estate investment advisory services.
- d. Meetings. Townsend is available on a quarterly basis to meet with appropriate State personnel, committees, boards and commissions to explain reports and to discuss any matter in connection with the real estate services it provides. Such meetings may also include a discussion on the state of the major real estate markets in the United States and how any anticipated changes in a market/region may impact the Retirement System's existing real estate investments or future investments in that market/region.

The justification for a noncompetitive amendment to this contract is that extending the contract with Townsend will allow the Department to utilize Townsend's understanding of the history of TCRS real estate investments and the long-range investment philosophy implemented by TCRS in selecting external real estate advisors for the program. The current contracts with all of TCRS's external real estate advisors expire November 30, 2013. Townsend's experience and knowledge of the selection process will be invaluable to assist the Department in identifying and evaluating potential external real estate advisors prior to the expiration date of the current contracts. Additionally, real estate investments are long-term investments that may not yield growth for a portfolio for many years. Accordingly, the scope of services that Townsend provides makes continuity crucial for TCRS to adequately build a real estate portfolio that is designed to yield growth over a long-term period. Townsend has assisted TCRS in its recent initiative to invest in real estate funds, and this initiative is expected to continue for at least the next five to ten years. Townsend provides data and due diligence reviews that allow TCRS to proceed with this initiative, and it is a leader in the industry in providing such data. The one (1) year amendment would allow Townsend to continue to assist the Department in selecting real estate advisors and implementing investment initiatives.

The request is submitted less than 60 days before the effective date of the amendment due to an internal oversight. The Department was timely in submitting the non-competitive amendment request and rule exception request for the Central Procurement Office, and had such requests approved. However, the Department mistakenly did not submit the request to the Fiscal Review Committee at the time.

Supplemental Documentation Required for
Fiscal Review Committee

*Contact Name:	Courtney Holliday	*Contact Phone:	532-3067		
*Original Contract Number:	09-25121-00	*Original RFS Number:	308.01-119-09		
Edison Contract Number: <i>(if applicable)</i>	1850	Edison RFS Number: <i>(if applicable)</i>			
*Original Contract Begin Date:	July 1, 2008	*Current End Date:	June 30, 2013		
Current Request Amendment Number: <i>(if applicable)</i>	1				
Proposed Amendment Effective Date: <i>(if applicable)</i>	July 1, 2013				
*Department Submitting:	Treasury Department				
*Division:	Investments				
*Date Submitted:	June 10, 2013				
*Submitted Within Sixty (60) days:					
<i>If not, explain:</i>	Submitted late due to internal oversight				
*Contract Vendor Name:	The Townsend Group, Inc.				
*Current Maximum Liability:	\$625,000				
*Current Contract Allocation by Fiscal Year: (as Shown on Most Current Fully Executed Contract Summary Sheet)					
FY:2009	FY:2010	FY:2011	FY:2012	FY:2013	FY
\$125,000	\$125,000	\$125,000	\$125,000	\$125,000	\$
*Current Total Expenditures by Fiscal Year of Contract: (attach backup documentation from STARS or FDAS report)					
FY:2009	FY:2010	FY:2011	FY:2012	FY:2013	FY
\$125,000	\$125,000	\$125,000	\$125,000	\$125,000	\$
IF Contract Allocation has been greater than Contract Expenditures, please give the reasons and explain where surplus funds were spent:			N/A		
IF surplus funds have been carried forward, please give the reasons and provide the authority for the carry forward provision:			N/A		
IF Contract Expenditures exceeded Contract Allocation, please give the reasons and explain how funding was acquired to pay the overage:			N/A		
*Contract Funding	State:	\$625,000	Federal:		

Supplemental Documentation Required for
Fiscal Review Committee

Source/Amount				

Interdepartmental:		<i>Other:</i>	
If “ <i>other</i> ” please define:			
Dates of All Previous Amendments or Revisions: <i>(if applicable)</i>	Brief Description of Actions in Previous Amendments or Revisions: <i>(if applicable)</i>		
Method of Original Award: <i>(if applicable)</i>	Non-Competitive Contract		
*What were the projected costs of the service for the entire term of the contract prior to contract award?	\$625,000 (for 5 year contract)		

Supplemental Documentation Required for
Fiscal Review Committee

Planned expenditures by fiscal year by deliverable. Add rows as necessary to indicate all estimated contract expenditures.					
Deliverable description:	FY: 2014	FY:	FY:	FY:	FY:
Real Estate investment consulting services in connection with the Retirement System's real estate investment program	\$125,000				
Proposed savings to be realized per fiscal year by entering into this contract. If amendment to an existing contract, please indicate the proposed savings to be realized by the amendment. Add rows as necessary to define all potential savings per deliverable.					
Deliverable description:	FY: 2014	FY:	FY:	FY:	FY:
Real Estate consulting services	Training cost of using new vendor to assist in selecting new real estate advisors prior to their November 2013 contract expiration; potential additional fees from re-negotiation with new vendor				
Comparison of cost per fiscal year of obtaining this service through the proposed contract or amendment vs. other options. List other options available (including other vendors), cost of other options, and source of information for comparison of other options (e.g. catalog, Web site). Add rows as necessary to indicate price differentials between contract deliverables.					
Proposed Vendor Cost: (name of vendor)	FY:	FY:	FY:	FY:	FY:
N/A	Current contractor is the leader in, and one of the only vendors providing				

Supplemental Documentation Required for
Fiscal Review Committee

	the full portfolio of consulting, due diligence, and data reviews.				
Other Vendor Cost: (name of vendor)	FY:	FY:	FY:	FY:	FY:
N/A					
Other Vendor Cost: (name of vendor)	FY:	FY:	FY:	FY:	FY:
N/A					

Search Results

View All												
First 1-18 of 18 Last												
Business Unit	Voucher ID	Invoice Number	Gross Invoice Amount	Payment Amount	Invoice Date	Short Vendor Name	Vendor ID	Name 1	Voucher Style	Related Voucher	Entry Status	Voucher Source
30901	00001014	6383	31250	31250	12/30/2008	THE TOWNSE-001	0000018815	The Townsend Group	Regular	(blank)	Postable	Online
30901	00002404	6500	31250	31250	03/31/2009	THE TOWNSE-001	0000018815	The Townsend Group	Regular	(blank)	Postable	Online
30901	00004744	6607	31250	31250	06/30/2009	THE TOWNSE-001	0000018815	The Townsend Group	Regular	(blank)	Postable	Online
30901	00008011	6722	31250	31250	09/30/2009	THE TOWNSE-001	0000018815	The Townsend Group	Regular	(blank)	Postable	Online
30901	00009784	6837	31250	31250	12/30/2009	THE TOWNSE-001	0000018815	The Townsend Group	Regular	(blank)	Postable	Online
30901	00012626	6941	31250	31250	03/31/2010	THE TOWNSE-001	0000018815	The Townsend Group	Regular	(blank)	Postable	Online
30901	00014059	7049	31250	31250	06/30/2010	THE TOWNSE-001	0000018815	The Townsend Group	Regular	(blank)	Postable	Online
30901	0001644	7161	31250	31250	09/30/2010	THE TOWNSE-	000001881	The Townsend	Regular	(blank)	Postabl	Online

	7				0	001	5	Group			e	
30901	00018844	7283	31250	31250	12/30/2010	THE TOWNSE-001	0000018815	The Townsend Group	Regular	(blank)	Postabl e	Online
30901	00021244	7406	31250	31250	03/31/2011	THE TOWNSE-001	0000018815	The Townsend Group	Regular	(blank)	Postabl e	Online
30901	00023246	7532	31250	31250	06/30/2011	THE TOWNSE-001	0000018815	The Townsend Group	Regular	(blank)	Postabl e	Online
30901	00026421	7720	31250	31250	09/30/2011	THE TOWNSE-001	0000018815	The Townsend Group	Regular	(blank)	Postabl e	Online
30901	00029148	7955	31250	31250	12/30/2011	THE TOWNSE-001	0000018815	The Townsend Group	Regular	(blank)	Postabl e	Online
30901	00031142	8097	31250	31250	03/31/2012	THE TOWNSE-001	0000018815	The Townsend Group	Regular	(blank)	Postabl e	Online
30901	00032384	8244	31250	31250	06/30/2012	THE TOWNSE-001	0000018815	The Townsend Group	Regular	(blank)	Postabl e	Online
30901	00035690	8414	31250	31250	09/30/2012	THE TOWNSE-001	0000018815	The Townsend Group	Regular	(blank)	Postabl e	Online
30901	00038067	8533	31250	31250	12/30/2012	THE TOWNSE-001	0000018815	The Townsend Group	Regular	(blank)	Postabl e	Online
30901	00040209	8704	31250	31250	03/31/2013	THE TOWNSE-001	0000018815	The Townsend Group	Regular	(blank)	Postabl e	Online

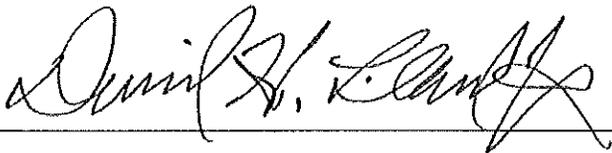
Rule Exception Request

Route completed request, as one file in PDF format, via e-mail attachment sent to: Agsprrs.Agsprsr@state.tn.us

<p>APPROVED</p>  <p>COMMISSIONER OF FINANCE & ADMINISTRATION. <i>CPD</i></p>

Request Tracking #	30901-22314	
1. Contract #	09-25121-00	
2. Service Caption	The Contractor performs real estate investment consulting services requested by the State in connection with the Retirement System and serves as an advisor to the State in the operation of the Retirement System's real estate investment program.	
3. Contractor	The Townsend Group, Inc.	
4. Contract Period <i>(with ALL options to extend exercised)</i>	72 months	
5. Contract Maximum Liability <i>(with ALL options to extend exercised)</i>	\$ 750,000.00	
6. Rule <i>(for which the exception is requested)</i>	<input type="checkbox"/> 0620-3-3-.03(2)(a) OR 0620-3-3-.05 requiring compliance with relevant model guidelines (only if required by oversight authorities) <input type="checkbox"/> 0620-3-3-.05(5) requiring the prescribed Nondiscrimination contract provision <input checked="" type="checkbox"/> 0620-3-3-.07(5) prohibiting a contract term greater than five (5) years <input type="checkbox"/> 0620-3-3-.07(8) prohibiting a contract with a former state employee in within six (6) months of termination <input type="checkbox"/> 0620-3-3-.07(22) requiring contractor travel reimbursement in accordance with state travel regulations <input type="checkbox"/> OTHER <i>(cite the relevant rule below)</i>	

Request Tracking #	30901-22314
7. Explanation of Rule Exception Requested	<p>Tenn. Code Ann. §8-37-114 provides that the Board of Trustees is expressly authorized to contract for investment management services for the retirement system's real estate portfolios. Current law further provides that any contract for investment management services shall be procured in a manner prescribed by the Board, and that personal services, professional services, consultant services, and management of the real estate portfolios may be procured in such manner as prescribed by the Board without regard to the requirements of §12-4-109, if the Board determines that such services are necessary or desirable to the efficient administration of the retirement system's investment program. Through the Board's investment policy dated October 31, 2012, it indicates that the Treasurer, the Treasury Department's Chief Investment Officer for the Tennessee Consolidated Retirement System ("TCRS") and the Department's investment staff shall develop the processes for engaging investment management services. Toward that end, the Department is the process of developing and refining the processes for the procurement of these services in the future.</p> <p>The Department contracts with Townsend Group for investment management services relative to the retirement system's real estate portfolio. Under the current contract, the Contractor assists the Department in selecting external real estate separate account advisors who identify properties which meet TCRS criteria and assists with the management and administration of the real estate investments for the Tennessee Consolidated Retirement System ("TCRS"). The Contractor also provides quarterly updates on the performance of the external managers. The contract with Townsend Group expires June 30, 2013.</p> <p>The Department requests to extend the current contract with Townsend until June 30, 2014, making the total contract term greater than five (5) years. Extending the contract term for one (1) year with the current Contractor for real estate investment consultant services will allow the Department to maintain invaluable continuity as it develops processes for future procurement of investment management services. Additionally, the current contracts with all of TCRS's external real estate advisors expire November 30, 2013. The understanding the Contractor has of the history of TCRS real estate investments as well as of the long-range investment philosophy implemented by TCRS, as well as its past experience in the selection process, would be invaluable to assist the Department in identifying and evaluating potential external real estate advisors prior to the expiration date of the current contracts. Townsend contributed materially in the development of the process employed by TCRS in 2008 to select the external managers, and was a substantial contributor to the success of that process. The experience of the current Contractor during the selection process would be unmatched by that of a Contractor just introduced to TCRS's philosophy and investments.</p> <p>Generally, real estate investments are long-term investments with a long horizon that may not yield growth for a portfolio for many years, and the TCRS real estate investments are no exception to the general long-term duration of real estate investments. The scope of investment consulting services provided by the Contractor makes continuity invaluable for TCRS to adequately build a real estate portfolio designed to produce gains over the course of several years. In addition to selecting investment advisors, the Contractor reviews and has historically assisted in the development of real estate investment policy, guidelines, procedures and asset allocation to maximize the performance of the TCRS real estate portfolio. The Contractor has already begun to assist in the implementation of a recent initiative to invest in real estate funds, an initiative that is expected to continue for at least the next five to ten years. The Contractor provides data and due diligence reviews that allow TCRS to proceed with this initiative, and they are a leader in the industry in providing such data. The one (1) year amendment would allow the Contractor to continue to assist the Department with these initiatives and their implementation.</p>
8. Justification	See # 7.

Request Tracking #	30901-22314
Agency Head Signature and Date <i>(contracting agency head or authorized signatory)</i>  state treasurer April 17, 2013	

Signature by DL 4/16/13

Non-Competitive Amendment Request

NOT required for a contract with a federal, Tennessee, or Tennessee local government entity or a grant.

Route a completed request, as one file in PDF format, via e-mail attachment sent to: Agsprs.Agsprs@state.tn.us

APPROVED

Jessica Robertson

COMMISSIONER OF FINANCE & ADMINISTRATION *CPO*

Request Tracking #	30901-22314	
1. Procuring Agency	Department of Treasury	
2. Contractor	The Townsend Group, Inc.	
3. Contract #	09-25121-00	
4. Proposed Amendment #	1	
5. Edlson ID #	1850	
6. Contract Begin Date	July 1, 2008	
7. Current Contract End Date - with ALL options to extend exercised	June 30, 2013	
8. Proposed Contract End Date - with ALL options to extend exercised	June 30, 2014	
9. Current Maximum Contract Cost - with ALL options to extend exercised	\$ 625,000.00	
10. Proposed Maximum Contract Cost - with ALL options to extend exercised	\$ 750,000.00	
11. Office for Information Resources Endorsement - information technology service (N/A to THDA)	<input checked="" type="checkbox"/> Not Applicable <input type="checkbox"/> Attached	
12. eHealth Initiative Support - health-related professional, pharmaceutical, laboratory, or imaging	<input checked="" type="checkbox"/> Not Applicable <input type="checkbox"/> Attached	
13. Human Resources Support - state employee training service	<input checked="" type="checkbox"/> Not Applicable <input type="checkbox"/> Attached	
14. Explanation Need for the Proposed Amendment		
<p>Current law (Tenn. Code Ann. 8-37-114) authorizes the Board of Trustees to contract for investment management services for the retirement system's real estate portfolios and to procure personal services, professional services, consultant services, and management of the real estate portfolios in a manner prescribed by the Board without regard to the requirements of Tenn. Code Ann. 12-4-109. Pursuant to the Board's investment policy, the Treasurer, the Treasury Department's Chief Investment Officer for the Tennessee Consolidated Retirement System ("TCRS") and the Department's investment staff develop the processes for procuring investment management services. The Department is</p>		

Request Tracking #	30901-22314
<p>currently working to develop and refine the process used for procurement of such services.</p> <p>At this time, the Department contracts with Townsend Group for investment management services relative to the retirement system's real estate portfolio. The proposed amendment would allow Townsend to provide these services for an additional year, until June 30, 2014. The investment management services Townsend provides include assistance in selection of external real estate separate account advisors and evaluation of the managers' performance on a quarterly basis. The current contracts with all of TCRS's external real estate separate account advisors expire on November 30, 2013. The current Contractor's knowledge and understanding of TCRS's real estate investments and long-range investment policy would be invaluable in the upcoming selection process and would provide for continuity that would be disrupted were the Department to select a new Contractor in close proximity to the advisor selection process. Because real estate investments tend to be long-term investments with a long horizon, the maintaining continuity with the current Contractor would be invaluable for TCRS in building its real estate portfolio. The current Contractor is one of the few in its field that provides consulting services in selecting real estate advisors, and it is a leader in providing data and due diligence reviews for assistance in making real estate investments. Additionally, the assistance of the current experienced Contractor is important as the Department develops and refines its processes for procuring investment management services in the future. Amending the current Contract to expire on June 30, 2014, would allow the Department to maintain valuable continuity and benefit from the current Contractor's expertise.</p>	
<p>15. Name & Address of the Contractor's Principal Owner(s) <i>- NOT required for a TN state education institution</i></p> <p>Anthony Frammartino, Principal; The Townsend Group, Inc.; 1660 West Second Street, Suite 450; Cleveland, Ohio 44113.</p>	
<p>16. Evidence Contractor's Experience & Length Of Experience Providing the Service</p> <p>The Contractor is one of the leading global providers of real estate and real estate asset services. The Contractor has been assisting and advising global investors since 1996, and in that capacity has provided the following services to its clients: strategic planning; investment evaluation; specialized products; monitoring and reporting as well as legal and administration. The Contractor has been providing real estate investment consulting services to the State of Tennessee since 2008.</p>	
<p>17. Efforts to Identify Reasonable, Competitive, Procurement Alternatives</p> <p>There are no other reasonable, competitive procurement alternatives that can be pursued that will provide consistency and continuity in the real estate consultant services already provided by the Contractor while allowing the State to develop and refine procedures for selecting future Contractors for investment consulting services.</p>	
<p>18. Justification <i>- specifically explain why non-competitive negotiation is in the best interest of the state</i></p> <p>See # 14.</p>	
<p>Agency Head Signature and Date <i>- MUST be signed by the ACTUAL agency head as detailed on the current Signature Certification. Signature by an authorized signatory is acceptable only in documented exigent circumstances</i></p> <p> State Treasurer April 17, 2013</p>	

Approved for signature by CA 441413



CONTRACT AMENDMENT

Agency Tracking # 30901-22314	Edison ID 1850	Contract # 09-25121-00	Amendment # 1		
Contractor Legal Entity Name The Townsend Group, Inc.			Edison Vendor ID 18815		
Amendment Purpose & Effect(s) Extend the current contract to June 30, 2014.					
Amendment Changes Contract End Date: <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO		End Date: June 30, 2014			
TOTAL Contract Amount INCREASE or DECREASE per this Amendment (zero if N/A):			\$ 125,000.00		
Funding —					
FY	State	Federal	Interdepartmental	Other	TOTAL Contract Amount
2009	\$125,000.00				\$125,000.00
2010	\$125,000.00				\$125,000.00
2011	\$125,000.00				\$125,000.00
2012	\$125,000.00				\$125,000.00
2013	\$125,000.00				\$125,000.00
2014	\$125,000.00				\$125,000.00
TOTAL:	\$750,000.00				\$750,000.00
American Recovery and Reinvestment Act (ARRA) Funding: <input type="checkbox"/> YES <input checked="" type="checkbox"/> NO					
Budget Officer Confirmation: There is a balance in the appropriation from which obligations hereunder are required to be paid that is not already encumbered to pay other obligations.			<i>OCR USE</i>		
Speed Chart (optional)		Account Code (optional)			

**AMENDMENT 1
OF CONTRACT 09-25121-00**

This Amendment is made and entered by and between the State of Tennessee, Department of Treasury, hereinafter referred to as the "State" and The Townsend Group, Inc., hereinafter referred to as the "Contractor/Grantee." It is mutually understood and agreed by and between said, undersigned contracting parties that the subject contract is hereby amended as follows:

Amendment Section(s) — B. (Contract Term), C.1. (Maximum Liability); C.3. (Payment Methodology)

Amendment Detail

1. Contract section B is deleted in its entirety and replaced with the following:

B. CONTRACT TERM:

This Contract shall be effective for the period commencing on July 1, 2008 and ending on June 30, 2014. The State shall have no obligation for services rendered by the Contractor which are not performed within the specified period.

2. Contract section C.1. is deleted in its entirety and replaced with the following:

- C.1. Maximum Liability. In no event shall the maximum liability of the State under this Contract exceed seven hundred fifty thousand dollars (\$750,000). The payment rates in Section C.3. shall constitute the entire compensation due the Contractor for the Service and all of the Contractor's obligations hereunder regardless of the difficulty, materials or equipment required. The payment rates include, but are not limited to, all applicable taxes, fees, overheads, and all other direct and indirect costs incurred or to be incurred by the Contractor.

The Contractor is not entitled to be paid the maximum liability for any period under the Contract or any extensions of the Contract for work not requested by the State. The maximum liability represents available funds for payment to the Contractor and does not guarantee payment of any such funds to the Contractor under this Contract unless the State requests work and the Contractor performs said work. In which case, the Contractor shall be paid in accordance with the payment rates detailed in Section C.3. The State is under no obligation to request work from the Contractor in any specific dollar amounts or to request any work at all from the Contractor during any period of this Contract.

3. Contract section C.3. is deleted in its entirety and replaced with the following:

- C.3. Payment Methodology. The Contractor shall be compensated based on the payment rates herein for units of service authorized by the State in a total amount not to exceed the Contract Maximum Liability established in Section C.1.

- a. The Contractor's compensation shall be contingent upon the satisfactory completion of units, milestones, or increments of service defined in Section A.
- b. The Contractor shall be compensated for said units, milestones, or increments of service based upon the following payment rates:

Service Description	Amount (per compensable increment)
For services performed from July 1, 2008 through June 30, 2009	\$31,250 per quarter
For services performed from July 1, 2009 through June 30, 2010	\$31,250 per quarter
For services performed from July 1, 2010 through June 30, 2011	\$31,250 per quarter
For services performed from July 1, 2011 through June 30, 2012	\$31,250 per quarter
For services performed from July 1, 2012 through June 30, 2013	\$31,250 per quarter
For services performed from July 1, 2013 through June 30, 2014	\$31,250 per quarter

Required Approvals. The State is not bound by this Amendment until it is signed by the contract parties and approved by appropriate officials in accordance with applicable Tennessee laws and regulations (depending upon the specifics of this contract, said officials may include, but are not limited to, the Commissioner of Finance and Administration, the Commissioner of Human Resources, and the Comptroller of the Treasury).

Amendment Effective Date. The revisions set forth herein shall be effective July 1, 2013. All other terms and conditions of this Contract not expressly amended herein shall remain in full force and effect.

IN WITNESS WHEREOF,

THE TOWNSEND GROUP, INC.:

SIGNATURE

DATE

ANTHONY FRAMMARTINO, PRINCIPAL

TENNESSEE DEPARTMENT OF TREASURY:

DAVID H. LILLARD, JR., STATE TREASURER

DATE

CONTRACT SUMMARY SHEET

021908

RFS # 309.01 — 119 — 09	Contract # FA- 09-25/21-00
State Agency Tennessee Treasury Department	State Agency Division Tennessee Consolidated Retirement System
Contractor Name The Townsend Group, Inc.	Contractor ID # (FEIN or SSN) <input type="checkbox"/> C- or <input checked="" type="checkbox"/> V- 34-1537656

Service Description
The Contractor will provide real estate investment consultant services to the State in connection with the Tennessee Consolidated Retirement System. The money for these services will come from the investment earnings of the Retirement System.

Contract Begin Date July 1, 2008	Contract End Date June 30, 2013	SUBRECIPIENT or VENDOR? Vendor	CFDA #
--	---	--	---------------

Mark Each TRUE Statement

Contractor is on STARS Contractor's Form W-9 is on file in Accounts

Allotment Code	Cost Center	Object Code	Fund	Funding Grant Code	Funding Subgrant Code
309.01	88	82B	50		
FY	State	Federal	Interdepartmental	Other	TOTAL Contract Amount
2009				\$125,000	\$125,000
2010				\$125,000	\$125,000
2011				\$125,000	\$125,000
2012				\$125,000	\$125,000
2013				\$125,000	\$125,000
TOTAL:				\$625,000	\$625,000

COPIES RELEASED
 JUN 26 2008
 TO ACCOUNTS

— COMPLETE FOR AMENDMENTS ONLY —			State Agency Fiscal Contact & Telephone #
FY	Base Contract & Prior Amendments	THIS Amendment ONLY	Mary Roberts-Krause, General Counsel 10 th Floor, Andrew Jackson Building 253-3855
			State Agency Budget Officer Approval <i>Mary Roberts-Krause</i>
			Funding Certification (certification, required by T.C.A. § 9-4-5113, that there is a balance in the appropriation from which the obligated expenditure is required to be paid that is not otherwise encumbered to pay obligations previously incurred)
TOTAL:			JUN 11 2008
End Date:			

RECEIVED
 JUN 20 AM 11:20
 OFFICE OF
 PROCUREMENT SERVICES

Contractor Ownership (complete for ALL base contracts— N/A to amendments or delegated authorities)

African American Person w/ Disability Hispanic Small Business
 Asian Female Native American NOT Minority/Disadvantaged Other

Contractor Selection Method (complete for ALL base contracts— N/A to amendments or delegated authorities)

RFP Competitive Negotiation * Alternative Competitive Method *
 Non-Competitive Negotiation * Negotiation w/ Government (ID, GG, GU) Other *

*** Procurement Process Summary** (complete for selection by Non-Competitive Negotiation, Competitive Negotiation, OR Alternative Method)

OCR
JUN 10 2008
RECEIVED

**CONTRACT
BETWEEN THE STATE OF TENNESSEE,
DEPARTMENT OF TREASURY
AND
THE TOWNSEND GROUP, INC.**

This Contract, by and between the State of Tennessee, Department of Treasury, hereinafter referred to as the "State" and The Townsend Group, Inc., hereinafter referred to as the "Contractor," is for the provision of real estate investment consultant services to the State in connection with the Tennessee Consolidated Retirement System, as further defined in the "SCOPE OF SERVICES."

The Contractor is a for-profit corporation.

Contractor Federal Employer Identification or Social Security Number: 34-1537656
Contractor Place of Incorporation or Organization: State of Ohio

WITNESSETH:

WHEREAS, the Tennessee General Assembly enacted Chapter 814, Public Acts of 1972 which created the Tennessee Consolidated Retirement System, hereinafter referred to as the "Retirement System", and placed the same under the management of a Board of Trustees; and

WHEREAS, the power of investing assets of the Retirement System is subject to the provisions of Tennessee Code Annotated, Title 8, Chapter 37, Part 1, and to the approval by the Board of Trustees which has full power to hold, purchase, sell, assign, transfer, or dispose of any of the securities or investments in which the Retirement System's funds have been invested as well as of the proceeds of such investments and any moneys belonging to the Retirement System; and

WHEREAS, the Tennessee General Assembly enacted Section 9, Chapter 219, Public Acts of 1997 which authorizes the Board of Trustees to establish an investment policy to authorize the System to acquire, hold and convey real property for investment purposes. Such acquisitions may be direct, with or without partners, or in a commingled pool; and

WHEREAS, in order to facilitate such real property investment holdings by the Retirement System, the Board of Trustees is desirous of obtaining consulting services from a third party who is familiar with the current real estate investment market; and

WHEREAS, the Contractor is an entity familiar with the current real estate investment market and desires to provide real estate investment consulting services on behalf of the State in accordance with this Contract and the law.

NOW, THEREFORE, in consideration of the premises and the mutual promises herein contained, the parties have agreed and do hereby enter into this Contract according to the provisions set out herein:

A. SCOPE OF SERVICES:

- A.1. The Contractor shall provide all service and deliverables as required, described, and detailed by this Scope of Services and shall meet all service and delivery timelines specified in the Scope of Services section or elsewhere in this Contract.
- A.2. Duties and Extent of Professional Services. The Contractor shall perform real estate investment consulting services requested by the State in connection with the Retirement System and shall be, in general, an advisor to the State in the operation of the Retirement System's real estate investment program. Specifically, such services shall include the following:
 - a. Review of Real Estate Investment Policy, Guidelines, Procedures and Asset Allocation. At the State's request, the Contractor shall conduct a review of the real estate investment policy, guidelines, procedures and asset allocation developed by the Retirement System within the context of the then current market conditions and the Retirement System's real estate investment performance. Said investment policy, guidelines, procedures and asset allocation are attached hereto as Contract Attachment A. The Contractor shall advise the State of any recommended changes to the investment

policy, guidelines, procedures or asset allocation as a result of such review, and shall, at the State's request, reduce any such recommendations to a written report for the State's consideration. Any such recommended changes must meet the terms, conditions and limitations contained in Tennessee Code Annotated, Section 8-37-104(a)(9).

- b. Real Estate Performance Review Services. Currently, the State has engaged five (5) real estate investment advisors who are responsible for locating on behalf of the State real estate investments for potential acquisition by the Retirement System. On a quarterly basis, the Contractor shall provide written evaluation reports of the real estate investment performance of each real estate investment advisor acquired by the State and of each individual real estate investment holding. Said reports shall identify whether the Retirement System's investment holdings are within asset ranges, that performance is consistent with the investment objectives and policies, and that the investment advisors are performing consistently within applicable industry standards. In addition, the Contractor shall assist State staff in the ongoing evaluation of the performance of the advisors. Such assistance shall include, but shall not be limited to, any evaluation requests by the State on the criteria being used by the advisors at the time of an acquisition or a disposition of a real estate investment. The real estate investment advisors engaged by the State are listed in Contract Attachment B to this Contract. The State shall notify the Contractor in writing of any change to Contract Attachment B.
- c. Selection of Additional External Investment Advisors. At the State's request, the Contractor shall provide analysis of and assist the State in acquiring any additional external real estate investment advisors desired by the State. Such advisors shall be responsible for locating on behalf of the State real estate investments for potential acquisition by the Retirement System. At the direction of the State, the Contractor shall prepare and/or issue a request for information and/or questionnaire to entities who are in the business of providing real estate investment advisory services. The purpose of such request for information or questionnaire shall be to define the advisory services needed by the State, to solicit proposals for the provision of such services and to gain adequate information by which the State may evaluate the services offered by Proposers. If requested by the State, the Contractor shall review the proposals and recommend a certain number of real estate investment advisors for consideration by the State. The State shall make the final decision in the selection of any such real estate investment advisor. The Contractor understands and agrees that it shall not be eligible for consideration as an external real estate investment advisor hereunder.
- d. Meetings. The Contractor shall be available on a quarterly basis to meet with appropriate State personnel, committees, boards and commissions at the State's facilities in Nashville to explain the reports described in Sections A.2.a. and A.2.b. above, or to discuss any other matter in connection with the services being performed by the Contractor hereunder. Such meetings may also include a discussion on the state of the major real estate markets in the United States and how any anticipated changes in a market/region may impact the Retirement System's existing real estate investments or future investments in that market/region.

A.3. Reliance on Real Estate Director. The Contractor may rely upon instructions received from the Retirement System's Real Estate Director, or persons authorized by the Director to act for the System.

A.4. Statutes Incorporated by Reference. The Contractor shall comply with all state and federal laws pertaining to investments of the Retirement System's assets, and all such laws are incorporated herein by reference.

B. CONTRACT TERM:

This Contract shall be effective for the period commencing on July 1, 2008 and ending on June 30, 2013. The State shall have no obligation for services rendered by the Contractor which are not performed within the specified period.

C. PAYMENT TERMS AND CONDITIONS:

C.1. Maximum Liability. In no event shall the maximum liability of the State under this Contract exceed six hundred twenty-five thousand dollars (\$625,000). The payment rates in Section C.3 shall constitute the entire compensation due the Contractor for the Service and all of the Contractor's obligations hereunder regardless of the difficulty, materials or equipment required. The payment rates include, but are not limited to, all applicable taxes, fees, overheads, and all other direct and indirect costs incurred or to be incurred by the Contractor.

The Contractor is not entitled to be paid the maximum liability for any period under the Contract or any extensions of the Contract for work not requested by the State. The maximum liability represents available funds for payment to the Contractor and does not guarantee payment of any such funds to the Contractor under this Contract unless the State requests work and the Contractor performs said work. In which case, the Contractor shall be paid in accordance with the payment rates detailed in Section C.3. The State is under no obligation to request work from the Contractor in any specific dollar amounts or to request any work at all from the Contractor during any period of this Contract.

C.2. Compensation Firm. The payment rates and the maximum liability of the State under this Contract are firm for the duration of the Contract and are not subject to escalation for any reason unless amended.

C.3. Payment Methodology. The Contractor shall be compensated based on the payment rates herein for units of service authorized by the State in a total amount not to exceed the Contract Maximum Liability established in Section C.1.

- a. The Contractor's compensation shall be contingent upon the satisfactory completion of units, milestones, or increments of service defined in Section A.
- b. The Contractor shall be compensated for said units, milestones, or increments of service based upon the following payment rates:

Service Description	Amount (per compensable increment)
For services performed from July 1, 2008 through June 30, 2009	\$31,250 per quarter
For services performed from July 1, 2009 through June 30, 2010	\$31,250 per quarter
For services performed from July 1, 2010 through June 30, 2011	\$31,250 per quarter
For services performed from July 1, 2011 through June 30, 2012	\$31,250 per quarter
For services performed from July 1, 2012 through June 30, 2013	\$31,250 per quarter

C.4. Travel Compensation. The Contractor shall not be compensated or reimbursed for travel, meals, or lodging.

C.5. Invoice Requirements. The Contractor shall invoice the State only for completed increments of service and for the amount stipulated in Section C.3, above, and as required below prior to any payment.

- a. The Contractor shall submit invoices on a quarterly basis (namely, on October 1st, December 31st, April 1st, and June 30th), with all necessary supporting documentation, to:

Tennessee Treasury Department
Division of Accounting
9th Floor, Andrew Jackson State Office Building
500 Deaderick Street
Nashville, Tennessee 37243

- b. The Contractor agrees that each invoice submitted shall clearly and accurately (all calculations must be extended and totaled correctly) detail the following required information.
- (1) Invoice/Reference Number (assigned by the Contractor);
 - (2) Invoice Date;
 - (3) Invoice Period (period to which all invoiced charges are applicable);
 - (4) Contract Number (assigned by the State to this Contract);
 - (5) Account Name: Tennessee Treasury Department, Tennessee Consolidated Retirement System;
 - (6) Account/Customer Number (uniquely assigned by the Contractor to the above-referenced Account Name);
 - (7) Contractor Name;
 - (8) Contractor Federal Employer Identification Number or Social Security Number (as referenced in this Contract);
 - (9) Contractor Contact (name, phone, and/or fax for the individual to contact with billing questions);
 - (10) Contractor Remittance Address;
 - (11) Complete Itemization of Charges, which shall detail the following:
 - i. Service or Milestone Description (including name /title as applicable) of each service invoiced;
 - ii. Number of Completed Units, Increments, Hours, or Days as applicable, of each service invoiced;
 - iii. Applicable Payment Rate (as stipulated in Section C.3.) of each service invoiced;
 - iv. Amount Due by Service; and
 - v. Total Amount Due for the invoice period.
- c. The Contractor understands and agrees that an invoice to the State under this Contract shall:
- (1) include only charges for service described in Contract Section A and in accordance with payment terms and conditions set forth in Contract Section C;
 - (2) not include any future work but will only be submitted for completed service; and
 - (3) not include sales tax or shipping charges.
- d. The Contractor agrees that timeframe for payment (and any discounts) begins when the State is in receipt of each invoice meeting the minimum requirements above.
- e. The Contractor shall complete and sign a "Substitute W-9 Form" provided to the Contractor by the State. The taxpayer identification number contained in the Substitute W-9 submitted to the State shall agree to the Federal Employer Identification Number or Social Security Number referenced in this Contract for the Contractor. The Contractor shall not invoice the State for services until the State has received this completed form.
- C.6. Payment of Invoice. The payment of the invoice by the State shall not prejudice the State's right to object to or question any invoice or matter in relation thereto. Such payment by the State shall neither be construed as acceptance of any part of the work or service provided nor as an approval of any of the amounts invoiced therein.
- C.7. Invoice Reductions. The Contractor's invoice shall be subject to reduction for amounts included in any invoice or payment theretofore made which are determined by the State, on the basis of audits conducted in accordance with the terms of this Contract, not to constitute proper remuneration for compensable services.
- C.8. Deductions. The State reserves the right to deduct from amounts which are or shall become due and payable to the Contractor under this or any Contract between the Contractor and the State of Tennessee any amounts which are or shall become due and payable to the State of Tennessee by the Contractor.

C.9. Automatic Deposits. The Contractor shall complete and sign an "Authorization Agreement for Automatic Deposit (ACH Credits) Form." This form shall be provided to the Contractor by the State. Once this form has been completed and submitted to the State by the Contractor all payments to the Contractor, under this or any other Contract the Contractor has with the State of Tennessee shall be made by Automated Clearing House (ACH). The Contractor shall not invoice the State for services until the Contractor has completed this form and submitted it to the State.

D. STANDARD TERMS AND CONDITIONS:

- D.1. Required Approvals. The State is not bound by this Contract until it is approved by the appropriate State officials in accordance with applicable Tennessee State laws and regulations.
- D.2. Modification and Amendment. This Contract may be modified only by a written amendment executed by all parties hereto and approved by the appropriate Tennessee State officials in accordance with applicable Tennessee State laws and regulations.
- D.3. Termination for Convenience. The State may terminate this Contract without cause for any reason. Said termination shall not be deemed a Breach of Contract by the State. The State shall give the Contractor at least thirty (30) days written notice before the effective termination date. The Contractor shall be entitled to receive compensation for satisfactory, authorized service completed as of the termination date, but in no event shall the State be liable to the Contractor for compensation for any service which has not been rendered. Upon such termination, the Contractor shall have no right to any actual general, special, incidental, consequential, or any other damages whatsoever of any description or amount.
- D.4. Termination for Cause. If the Contractor fails to properly perform its obligations under this Contract in a timely or proper manner, or if the Contractor violates any terms of this Contract, the State shall have the right to immediately terminate the Contract and withhold payments in excess of fair compensation for completed services. Notwithstanding the above, the Contractor shall not be relieved of liability to the State for damages sustained by virtue of any breach of this Contract by the Contractor.
- D.5. Subcontracting. The Contractor shall not assign this Contract or enter into a subcontract for any of the services performed under this Contract without obtaining the prior written approval of the State. If such subcontracts are approved by the State, they shall contain, at a minimum, sections of this Contract below pertaining to "Conflicts of Interest," "Nondiscrimination," and "Records" (as identified by the section headings). Notwithstanding any use of approved subcontractors, the Contractor shall be the prime contractor and shall be responsible for all work performed.
- D.6. Conflicts of Interest. The Contractor warrants that no part of the total Contract Amount shall be paid directly or indirectly to an employee or official of the State of Tennessee as wages, compensation, or gifts in exchange for acting as an officer, agent, employee, subcontractor, or consultant to the Contractor in connection with any work contemplated or performed relative to this Contract.
- D.7. Nondiscrimination. The Contractor hereby agrees, warrants, and assures that no person shall be excluded from participation in, be denied benefits of, or be otherwise subjected to discrimination in the performance of this Contract or in the employment practices of the Contractor on the grounds of disability, age, race, color, religion, sex, national origin, or any other classification protected by Federal, Tennessee State constitutional, or statutory law. The Contractor shall, upon request, show proof of such nondiscrimination and shall post in conspicuous places, available to all employees and applicants, notices of nondiscrimination.
- D.8. Prohibition of Illegal Immigrants. The requirements of Public Acts of 2006, Chapter Number 878, of the state of Tennessee, addressing the use of illegal immigrants in the performance of any Contract to supply goods or services to the state of Tennessee, shall be a material provision of this Contract, a breach of which shall be grounds for monetary and other penalties, up to and including termination of this Contract.

- a. The Contractor hereby attests, certifies, warrants, and assures that the Contractor shall not knowingly utilize the services of an illegal immigrant in the performance of this Contract and shall not knowingly utilize the services of any subcontractor who will utilize the services of an illegal immigrant in the performance of this Contract. The Contractor shall reaffirm this attestation, in writing, by submitting to the State a completed and signed copy of the document at Attachment C, hereto, semi-annually during the period of this Contract. Such attestations shall be maintained by the Contractor and made available to state officials upon request.
 - b. Prior to the use of any subcontractor in the performance of this Contract, and semi-annually thereafter, during the period of this Contract, the Contractor shall obtain and retain a current, written attestation that the subcontractor shall not knowingly utilize the services of an illegal immigrant to perform work relative to this Contract and shall not knowingly utilize the services of any subcontractor who will utilize the services of an illegal immigrant to perform work relative to this Contract. Attestations obtained from such subcontractors shall be maintained by the Contractor and made available to state officials upon request.
 - c. The Contractor shall maintain records for all personnel used in the performance of this Contract. Said records shall be subject to review and random inspection at any reasonable time upon reasonable notice by the State.
 - d. The Contractor understands and agrees that failure to comply with this section will be subject to the sanctions of Public Chapter 878 of 2006 for acts or omissions occurring after its effective date. This law requires the Commissioner of Finance and Administration to prohibit a contractor from contracting with, or submitting an offer, proposal, or bid to contract with the State of Tennessee to supply goods or services for a period of one year after a contractor is discovered to have knowingly used the services of illegal immigrants during the performance of this Contract.
 - e. For purposes of this Contract, "illegal immigrant" shall be defined as any person who is not either a United States citizen, a Lawful Permanent Resident, or a person whose physical presence in the United States is authorized or allowed by the federal Department of Homeland Security and who, under federal immigration laws and/or regulations, is authorized to be employed in the U.S. or is otherwise authorized to provide services under the Contract.
- D.9. Records. The Contractor shall maintain documentation for all charges under this Contract. The books, records, and documents of the Contractor, insofar as they relate to work performed or money received under this Contract, shall be maintained for a period of three (3) full years from the date of the final payment and shall be subject to audit at any reasonable time and upon reasonable notice by the State, the Comptroller of the Treasury, or their duly appointed representatives. The financial statements shall be prepared in accordance with generally accepted accounting principles.
- D.10. Monitoring. The Contractor's activities conducted and records maintained pursuant to this Contract shall be subject to monitoring and evaluation by the State, the Comptroller of the Treasury, or their duly appointed representatives.
- D.11. Progress Reports. The Contractor shall submit brief, periodic, progress reports to the State as requested.
- D.12. Strict Performance. Failure by any party to this Contract to insist in any one or more cases upon the strict performance of any of the terms, covenants, conditions, or provisions of this Contract shall not be construed as a waiver or relinquishment of any such term, covenant, condition, or provision. No term or condition of this Contract shall be held to be waived, modified, or deleted except by a written amendment signed by the parties hereto.

D.13. Independent Contractor. The parties hereto, in the performance of this Contract, shall not act as employees, partners, joint venturers, or associates of one another. It is expressly acknowledged by the parties hereto that such parties are independent contracting entities and that nothing in this Contract shall be construed to create an employer/employee relationship or to allow either to exercise control or direction over the manner or method by which the other transacts its business affairs or provides its usual services. The employees or agents of one party shall not be deemed or construed to be the employees or agents of the other party for any purpose whatsoever.

The Contractor, being an independent contractor and not an employee of the State, agrees to carry adequate public liability and other appropriate forms of insurance, including adequate public liability and other appropriate forms of insurance on the Contractor's employees, and to pay all applicable taxes incident to this Contract.

D.14. State Liability. The State shall have no liability except as specifically provided in this Contract.

D.15. Force Majeure. The obligations of the parties to this Contract are subject to prevention by causes beyond the parties' control that could not be avoided by the exercise of due care including, but not limited to, acts of God, natural disasters, riots, wars, epidemics or any other similar cause.

D.16. State and Federal Compliance. The Contractor shall comply with all applicable State and Federal laws and regulations in the performance of this Contract.

D.17. Governing Law. This Contract shall be governed by and construed in accordance with the laws of the State of Tennessee. The Contractor agrees that it will be subject to the exclusive jurisdiction of the courts of the State of Tennessee in actions that may arise under this Contract. The Contractor acknowledges and agrees that any rights or claims against the State of Tennessee or its employees hereunder, and any remedies arising therefrom, shall be subject to and limited to those rights and remedies, if any, available under *Tennessee Code Annotated*, Sections 9-8-101 through 9-8-407.

D.18. Completeness. This Contract is complete and contains the entire understanding between the parties relating to the subject matter contained herein, including all the terms and conditions of the parties' agreement. This Contract supersedes any and all prior understandings, representations, negotiations, and agreements between the parties relating hereto, whether written or oral.

D.19. Severability. If any terms and conditions of this Contract are held to be invalid or unenforceable as a matter of law, the other terms and conditions hereof shall not be affected thereby and shall remain in full force and effect. To this end, the terms and conditions of this Contract are declared severable.

D.20. Headings. Section headings of this Contract are for reference purposes only and shall not be construed as part of this Contract.

E. SPECIAL TERMS AND CONDITIONS:

E.1. Conflicting Terms and Conditions. Should any of these special terms and conditions conflict with any other terms and conditions of this Contract, these special terms and conditions shall control.

E.2. Communications and Contacts. All instructions, notices, consents, demands, or other communications required or contemplated by this Contract shall be in writing and shall be made by certified, first class mail, return receipt requested and postage prepaid, by overnight courier service with an asset tracking system, or by EMAIL or facsimile transmission with recipient confirmation. Any such communications, regardless of method of transmission, shall be addressed to the respective party at the appropriate mailing address, facsimile number, or EMAIL address as set forth below or to that of such other party or address, as may be hereafter specified by written notice.

The State:

Peter Katseff, Director of Real Estate
Tennessee Consolidated Retirement System
1160 Andrew Jackson State Office Building
500 Deaderick Street
Nashville, Tennessee 37243
peter.katseff@state.tn.us
Telephone # (615) 532-1160
FAX # (615) 734-6447

The Contractor:

Anthony Frammartino, Principal
The Townsend Group, Inc.
1660 West Second Street, Suite 450
Cleveland, Ohio 44113
Anthony@townsendgroup.com
Telephone # (216) 781-9090
FAX # (216) 781-1407

All instructions, notices, consents, demands, or other communications shall be considered effectively given upon receipt or recipient confirmation as may be required.

- E.3. Subject to Funds Availability. The Contract is subject to the appropriation and availability of State and/or Federal funds. In the event that the funds are not appropriated or are otherwise unavailable, the State reserves the right to terminate the Contract upon written notice to the Contractor. Said termination shall not be deemed a breach of Contract by the State. Upon receipt of the written notice, the Contractor shall cease all work associated with the Contract. Should such an event occur, the Contractor shall be entitled to compensation for all satisfactory and authorized services completed as of the termination date. Upon such termination, the Contractor shall have no right to recover from the State any actual, general, special, incidental, consequential, or any other damages whatsoever of any description or amount.
- E.4. Tennessee Consolidated Retirement System. The Contractor acknowledges and understands that, subject to statutory exceptions contained in *Tennessee Code Annotated*, Section 8-36-801, *et. seq.*, the law governing the Tennessee Consolidated Retirement System (TCRS), provides that if a retired member of TCRS, or of any superseded system administered by TCRS, or of any local retirement fund established pursuant to *Tennessee Code Annotated*, Title 8, Chapter 35, Part 3 accepts state employment, the member's retirement allowance is suspended during the period of the employment. Accordingly and notwithstanding any provision of this Contract to the contrary, the Contractor agrees that if it is later determined that the true nature of the working relationship between the Contractor and the State under this Contract is that of "employee/employer" and not that of an independent contractor, the Contractor may be required to repay to TCRS the amount of retirement benefits the Contractor received from TCRS during the period of this Contract.
- E.5. Incorporation of Additional Documents. Included in this Contract by reference are the following documents:
- a. The Contract document and its attachments
 - b. All Clarifications and addenda made to the Contractor's Proposal
 - c. The Request for Proposal and its associated amendments
 - d. Technical Specifications provided to the Contractor

e. The Contractor's Proposal

In the event of a discrepancy or ambiguity regarding the Contractor's duties, responsibilities, and performance under this Contract, these documents shall govern in order of precedence detailed above.

E.6. Prohibited Advertising. The Contractor shall not refer to this Contract or the Contractor's relationship with the State hereunder in commercial advertising in such a manner as to state or imply that the Contractor or the Contractor's services are endorsed. It is expressly understood and agreed that the obligations set forth in this section shall survive the termination of this Contract in perpetuity.

E.7. Confidentiality of Records. Strict standards of confidentiality of records shall be maintained in accordance with the law. All material and information, regardless of form, medium or method of communication, provided to the Contractor by the State or acquired by the Contractor on behalf of the State shall be regarded as confidential information in accordance with the provisions of State law and ethical standards and shall not be disclosed, and all necessary steps shall be taken by the Contractor to safeguard the confidentiality of such material or information in conformance with State law and ethical standards.

The Contractor will be deemed to have satisfied its obligations under this section by exercising the same level of care to preserve the confidentiality of the State's information as the Contractor exercises to protect its own confidential information so long as such standard of care does not violate the applicable provisions of the first paragraph of this section.

The Contractor's obligations under this section do not apply to information in the public domain; entering the public domain but not from a breach by the Contractor of this Contract; previously possessed by the Contractor without written obligations to the State to protect it; acquired by the Contractor without written restrictions against disclosure from a third party which, to the Contractor's knowledge, is free to disclose the information; independently developed by the Contractor without the use of the State's information; or, disclosed by the State to others without restrictions against disclosure.

It is expressly understood and agreed the obligations set forth in this section shall survive the termination of this Contract.

E.8. Contractor Commitment to Diversity. The Contractor shall comply with and make reasonable business efforts to exceed the commitment to diversity represented by the Contractor's proposal responding to RFP-309.01-119 (Attachment 6.3, Section B, Item B.13.) and resulting in this Contract.

The Contractor shall assist the State in monitoring the Contractor's performance of this commitment by providing, as requested, a quarterly report of participation in the performance of this Contract by small business enterprises and businesses owned by minorities, women, and persons with a disability. Such reports shall be provided to the state of Tennessee Governor's Office of Business Diversity Enterprise in form and substance as required by said office

E.9. Procurement of External Real Estate Advisors. In the event the State elects to acquire additional external real estate investment advisors under Section A.2.c. above, the Contractor shall promptly advise the State of any indirect interest it may have in any individual, association, corporation, or product which may be so acquired by the State. The Contractor shall have no direct interest in any individual, associate, corporation, or product which may be so acquired by the State. "Direct interest" means any contract with the Contractor itself or with any business in which the Contractor is the sole proprietor, a partner, or the entity having the controlling interest, i.e., largest number of outstanding shares owned by any single individual or corporation. "Indirect interest" means any contract in which the Contractor is interested but not directly so.

IN WITNESS WHEREOF:

THE TOWNSEND GROUP, INC:



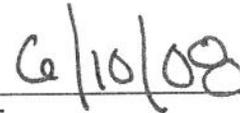
CONTRACTOR SIGNATURE

DATE May 28, 2008

Anthony Frammartino, Principal

PRINTED NAME AND TITLE OF CONTRACTOR SIGNATORY (above)

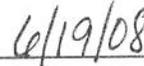
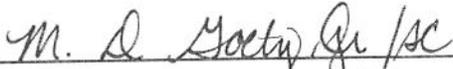
DEPARTMENT OF TREASURY:



DALE SIMS, STATE TREASURER

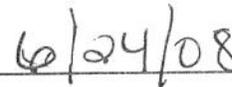
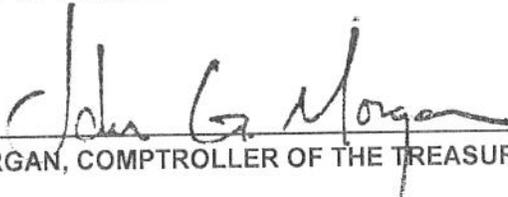
DATE

APPROVED:



M. D. GOETZ, JR., COMMISSIONER
DEPARTMENT OF FINANCE AND ADMINISTRATION

DATE



JOHN G. MORGAN, COMPTROLLER OF THE TREASURY

DATE

**THE TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
INVESTMENT POLICY**

ORGANIZATIONAL STRUCTURE AND GENERAL OVERVIEW

The Tennessee Consolidated Retirement System (TCRS) represents the pension plan for state employees, teachers, higher education employees, local government employees, and employees of other entities authorized to participate in TCRS. TCRS was established by state statute in 1972. The governing statute is found in Tennessee Code Annotated 8-34-101, et seq.

Final authority for investing and reinvesting the assets of the Tennessee Consolidated Retirement System (System) is vested in the System's Board of Trustees (Board). T.C.A., Section 8-37-104(a). Implementation of investment policy established by the Board is hereby delegated to the State Treasurer (Treasurer) who shall put such policy into effect. T.C.A., Section 8-37-110. Assets shall be invested subject to all the terms, conditions, limitations, and restrictions imposed by the laws of the State of Tennessee upon domestic life insurance companies in the making and disposing of their investments or as otherwise provided by state law. T.C.A., Section 8-37-104(a). If the Board has issued other directions further limiting such investments, the assets shall be invested according to the criteria established by the Board.

Mission Statement

The mission of the Tennessee Consolidated Retirement System is to provide superior services to constituents in a cost-effective manner through qualified personnel while maintaining the highest ethical standards. The assets of TCRS are invested solely in the interest of plan participants and beneficiaries for the exclusive purpose of providing the statutory retirement and other benefits to plan participants and beneficiaries.

Legal Counsel

The State Attorney General or an assistant designated by him shall be the legal advisor to the Board in all matters. In all cases where the interests of the System require additional counsel to the Attorney General, the Chairman of the Board, with approval of the Attorney General, is authorized to employ such additional counsel. T.C.A., Section 8-34-308.

Investment Advisory Council

The Treasurer shall nominate, with the advice and consent of the Board, an Investment Advisory Council (IAC), consisting of up to seven persons who have experience as investment portfolio managers, economists, or investment advisors to work with the Treasurer's investment staff, T.C.A., Section 8-37-108, to advise the Board on investment policy, T.C.A., Section 8-37-109.

The Council will assist the Treasurer, Chief Investment Officer and Investment Staff by providing advice and recommendations on the most appropriate short, intermediate and long-term investment strategy. At each meeting of the Council, the previous meetings' recommendations will be reviewed and reinforced or changed as agreed upon by the Council Members.

Chief Investment Officer (CIO)

The Chief Investment Officer for the System's assets will assume the necessary authority, as granted by the Treasurer, to effectively manage the Investment Staff. He shall report to and consult with the Council in formal, scheduled meetings and informally as needed.

The Chief Investment Officer shall:

1. Have executive responsibility and authority, as delegated by the Treasurer, for the management of the assets of the System in keeping with such guidelines and policies as approved by the Board and such applicable laws of the State of Tennessee.
2. Prepare and submit reports, as required, to the Treasurer, the Council, and the Board to document investment activities.
3. Report to and consult with the Treasurer on administrative, organizational and investment activities.
4. Work with the Council on development and implementation of an appropriate investment strategy.
5. Work jointly with the Council to develop long-term economic and investment projections.
6. File with the Treasurer a disclosure statement as prescribed by the Treasurer each year in December.

Investment Staff

The Treasurer, in consultation with the Chief Investment Officer, shall maintain an Investment Staff to effectively manage all assets of the System. The Treasurer may delegate to the Chief Investment Officer and such staff the power to invest and reinvest the System's assets within criteria established by the Board. T.C.A., Section 8-37-105. Investment Staff will perform their duties in compliance with the Chartered Financial Analyst Institute's Code of Ethics and Standards of Professional Conduct. Each member of the Investment Staff shall file with the Treasurer a disclosure statement as prescribed by the Treasurer each year in December.

Each member of the investment staff shall act with the same care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a similar capacity and familiar with those matters would use in the conduct of a similar enterprise with similar aims.

Reporting

The Investment Staff shall provide a detailed written review of investment activity at Board and Council meetings. This shall include a review of the purchases and sales over the period under review, a portfolio summary, a review of current investment policy, and other reports as requested.

Internal Controls

The CIO shall maintain a system of internal controls to safeguard the assets of the System. Such controls shall include, but not limited to, assurance that financial assets are held in trust at a third party custodial financial institution, and that an independent consultant or master custodial financial institution calculate investment performance independent from the internal records of TCRS.

The Treasury department's accounting division and internal audit division shall report to an executive management employee other than the CIO.

Brokerage Firms

All brokerage firms (for stock and all other securities) shall be selected for use according to their financial standing, execution capabilities, underwriting capabilities, research capabilities, price and other services provided to the System.

Consultants

The Treasurer in conjunction with the CIO may engage the services of investment consultants as necessary to manage the assets of TCRS. The Board delegates to the Treasurer the responsibility to determine the duties and responsibilities of the consultant with such enumerated in a contractual agreement.

External Managers and Advisors

The Treasurer in conjunction with the CIO may engage the services of investment professionals to actively manage the international stock portfolio and the real estate portfolio. The Board delegates to the Treasurer the responsibility to determine the duties and responsibilities of investment professionals with such enumerated in a contractual agreement.

Master Custodian Financial Institution

The Treasurer in conjunction with the CIO may engage the services of a master custodian financial institution to hold in trust the financial assets of TCRS and to process trade transactions. The Board delegates to the Treasurer the responsibility to determine the duties and responsibilities of the master custodian financial institution with such enumerated in contractual agreement.

Proxy Voting

It is the general policy to vote proxies in a manner which will provide the best ultimate value to the shareholders of that entity. The Chief Investment Officer will develop and maintain a proxy voting policy, and review such policy annually with the Council. In voting all proxies, the investment staff will:

1. Analyze the economic consequences of the options presented to them as shareholders, and select the option most likely to protect and enhance the value of the System's assets.
2. Document the votes (and other actions and decisions) along with the reasons for taking the action chosen. This includes maintaining a record of all attempts to solicit proxies, from outside or inside the organization.
3. The Chief Investment Officer should consult with the Council on any particularly difficult proxy questions.

Commission Dollar Arrangements

The Treasurer is hereby given approval and is authorized to obtain investment research services permitted by Section 28(e) which amends the Securities and Exchange Laws of 1934 through use of commission dollars; provided, however, that best execution of all trades shall continue to be the overriding principle in determining the broker to be used in executing any transaction. The Treasurer shall annually disclose to the Board significant provisions of each commission dollar arrangement existing on June 30 of each year. The Treasurer shall, within a reasonable period of time, disclose to the Board any new commission dollar arrangement entered into as well as other information requested. Only those research goods and services which directly enhance the investment decision-making process and which do not have a non-investment capability shall be eligible for procurement through commission dollar arrangements. Goods and services specifically permitted include performance evaluation services, securities pricing services, quotation and trading information services and analytical databases as well as technical publications which directly enhance the investment decision-making process.

No good or service may be procured through commission dollar arrangements if such good or service benefits an employee in an individual capacity. Goods and services specifically prohibited from procurement through use of commission dollar arrangements include direct telephone lines to brokerage firms, personal computers or other office equipment, payment of travel related expenses and payment of cost of attending seminars, classes or other investment training activities. The Treasurer shall develop and implement a structured review and approval process to ensure that commission dollar arrangements entered into pursuant to this policy comply with the

provisions stated herein. Any commission dollar arrangement in which commission commitment is made by the System shall be evidenced by a written agreement which specifies the nature and extent of the commission commitment as well as other significant provisions of the arrangement.

INVESTMENT POLICY AND OBJECTIVES

Preservation of principal value is the primary objective in managing the System's assets. Within acceptable risk levels, achieving a superior return (both income and appreciation) is the second objective for the Fund. A third objective is to provide the liquidity needed by the System to pay beneficiaries in a timely manner. These objectives are adopted to seek actuarial soundness of the plan in order to meet benefit obligations.

Preservation of Principal Value

Recognizing that potential investment return is proportionate to the amount of risk taken, investment in high quality assets shall be favored over those more risky investments that, if successful, can pay a higher return. In addition to limiting investments to higher quality financial assets, a diversified portfolio shall be maintained to further reduce exposure to loss. Although the risk parameters imposed by state law shall be followed, the Investment Staff may choose to further restrict the financial criteria, depending on the overall state of the economy and upon advice of the Council.

Investment Return

The System's assets should be managed actively to attain, within acceptable risk limitations, a return on assets that will meet beneficiary payments as required. Return shall include both current income and capital appreciation. The investments of the System shall be diversified so as to minimize the risk of large losses, unless under particular circumstances it is clearly prudent not to do so. The total return objective of the system shall be to exceed the returns as set out under the "Performance Measurement" section of this policy.

Liquidity for System Beneficiary Payment

It appears that contributions to the Fund will be sufficient to meet beneficiary payments for some time. Continual review of the System should be conducted to assure that investments providing income for liquidity needs are purchased as the System matures.

Asset Allocation

Allocation Range

The chief investment officer is permitted to make investments within the following ranges:

<u>Asset Class</u>	<u>Minimum</u>	<u>Maximum</u>
Domestic Stocks	20%	50%
Domestic Bonds	20%	60%
Inflation Indexed Bonds	0%	15%
Short-term Securities	0%	10%
International Bonds	0%	10%
International Stocks	5%	25%
Real Estate	0%	5%

Rebalancing

Should an asset class fall below the minimum percentage or exceed the maximum percentage, the chief investment officer is expected to rebalance the portfolio to bring the asset class within the minimum / maximum range within 90 days.

Performance Measurement

To provide the Investment Staff and the Board with guidance as to investment performance expectations, the following performance measurement standards are established. These standards are to act as guides in determining whether the Fund and individual asset classes are achieving their long term goals, both in relationship to the System's peer group of other public funds and the marketplace in general. In recognition of the System's long-term perspective, these standards are to be measured through use of a five-year rolling average. This serves to reinforce the System's bias against investment decisions designed to show short-term gain at the expense of long term performance.

Total Fund Performance Measurement Standards

This set of standards is designed to measure the performance of the Fund in total, including the impact that state law, investment policy restrictions and asset allocation decisions may have on the performance of the Fund. Given the current state law, investment policy and asset allocation parameters, the following standards are considered reasonable expectations for the total Fund:

The Fund's overall annualized total return should exceed the return available from a policy of investing in an index fund of the following:

<u>Asset Class</u>	<u>Index</u>	<u>Weight</u>
Domestic Stocks	S&P 1500	35%
Domestic Bonds	Citigroup Broad Investment Grade Index	35%
Inflation Indexed Bonds	Citigroup TIPS Index	5%
Short-term Securities	91-Day U.S. Treasury Bills	3%
International Bonds	Citigroup Non-U.S. G-5 Govt. Bond Index	3%
International Stocks	MSCI EAFE	15%
Real Estate	NCREIF Property Index	4%
	TOTAL	100%

The Total Fund should rank in the upper 50 percentile compared to the results of other similarly managed public fund portfolios measured over rolling five-year periods.

Asset Class Performance Measurement Standards

Each asset class is currently actively managed by the System. Since an alternative to active management exists in the form of index funds, it is proper to measure the System's performance against the most appropriate index for each asset class to determine the "value added" over time by active management. As asset classes change, indices should be reviewed to ensure that proper comparisons are being made. The above indices provide for appropriate comparison to the System's current asset classes.

INVESTMENT CRITERIA

Both the Board and the Investment Staff are aware of the desirability of investing within the State of Tennessee whenever quality, risk, diversification and potential return are equal to or greater than that available on like investments outside the state. The Investment Staff should encourage and be receptive to Tennessee financial proposals. However, both the Board and the Investment Staff are aware of the fiduciary responsibility of investing pension assets and should not make any investment based solely on its location in Tennessee when quality, risk, diversification, or potential return are sacrificed. T.C.A., Section 35-3-117(b). Further, the Board will not approve investment proposals designed to benefit special political, social, or economic subgroups within or external to the System's beneficiaries unless they clearly meet all fiduciary standards of investing.

In determining compliance with the percentage limitations of this policy, the assets of the System shall be valued at their market value. Accordingly, an investment may be made on any given day provided such investment does not cause any applicable limitation prescribed in this policy to be exceeded on such day. T.C.A., Section 8-37-104(b).

Common, Preferred Stock and Convertible Bonds

Growth is important to the System to attain a return that will allow for greater participant benefits and/or lower state funding requirements. Equity investments will be used to seek this growth through potential dividend increases and capital appreciation. The System will limit its investment in common and preferred stock to 75% of the System's total assets. T.C.A., Section 8-37-104(a)(1). Convertible bonds also will be counted as an equity investment and included in this limitation. The System's stock portfolio shall be actively managed by the Investment Staff to obtain a superior return. The stock of smaller, emerging companies, including new issues, should be an integral part of the total portfolio. Not more than 4.99% of the outstanding shares of any one issuer shall be purchased. Any stock purchase which does not meet the statutory definition for domestic life insurance companies shall be considered purchased under the basket clause as permitted by statute.

Notes, Bonds, and Mortgages

Public issues of notes and bonds shall make up the majority of fixed income investments. It will be necessary to actively manage this sector of the portfolio in times of volatile interest rate swings to either shorten the average maturity to protect principal value or lengthen maturities to lock up a long-term stream of income. The only issues subject for purchase are investment grade bonds (four highest ratings) as rated by one of the recognized rating agencies. Issues of any agency of the federal government or any entity with the express or implied backing of the U. S. Treasury shall be considered as holding the highest possible rating. The total sum invested in notes and bonds and other fixed income securities exceeding one (1) year shall not exceed seventy-five percent (75%) of the total funds of the System. T.C.A., Section 8-37-104(a)(2).

Private Placements

Any debt issues purchased which do not have an active secondary market shall be thoroughly researched from a credit standpoint and shall be viewed by the Investment Staff as having the credit quality equivalent of an AA rating on a publicly traded issue. Not more than 15% of the total fixed income portfolio shall be placed in private placements. Private placements may be considered for purchase when they yield a return over equivalent quality public issues that are sufficient to compensate for their lack of marketability. Except in the case of notes purchased by the System pursuant to standby note purchase agreements wherein the System receives a market rate of return, tax exempt securities of any state are not considered a prudent investment for the System.

Stock Options

Call options may be written on stock positions owned by the System. Options should not be written on more than 10% of the total stock portfolio. Options may not be purchased but positions can be closed out. Rules and Regulations of the State of Tennessee, Chapter 0780-1-32.

Bond Futures

The Investment Staff may write call options on U.S. Treasury bond futures, provided such options are not written on more than 10% of the total assets in the System's portfolio. T.C.A., Section 56-3-303(a)(15).

Domestic Stock Index Futures

The System may purchase or sell domestic stock index futures contracts for the purpose of making asset allocation changes in a more efficient and cost effective manner, and to improve liquidity. Such futures contracts shall be subject to the following terms and conditions:

1. The Investment Staff will not enter into futures transactions for the purpose of speculative leveraging. Speculative leveraging is defined as buying financial futures where the amount of the contract obligation is an amount greater than the market value of the System's cash and short-term securities.
2. The total amount of the System's financial futures contract obligation should not exceed five percent (5%) of the market value of the System's total assets.
3. The sum total of the domestic equity portfolio together with the value of the stock index futures contract obligation should be within the asset allocation range for domestic equity securities. While stock index futures contracts are outstanding, the Investment Staff shall maintain a comparison of the System's equity asset allocation against its invested position including futures contracts.
4. The System may use cash and obligations of the U.S. government or any of its agencies to meet the variation margin requirement.
5. The only stock indexes upon which financial futures contracts may be written are as follows: S&P 600 Index, S&P 500 Index, S&P Midcap 400, and Russell 2000 Index.
6. Futures transactions will be conducted with only a few of the highest quality domestic money center banks and domestic brokerage firms. The criteria to be used in selecting such banks and brokerage firms should include, but should not be limited to, their experience and expertise in the financial futures market.
7. A transaction record shall be maintained which contains the following:
 - a) The amount of stock index futures contracts purchased and the reason therefor.
 - b) The amount of stock index futures contracts sold and the reason therefor.
8. The Investment Staff shall submit a quarterly financial futures report to the Board. This report will describe with specificity the financial futures transactions during the previous quarter. The report shall summarize the investment strategies employed during the period reviewed and the proposed strategy for the present quarter. Each report shall list the banks and brokerage firms authorized to conduct financial futures transactions with the System. T.C.A., Section 8-37-104(a)(7).

Short-term Investments

All monies waiting to be placed in a more permanent investment should be actively managed to obtain the best return available. Yield should be sacrificed for safety in short-term investments, and thus only the highest quality short-term debt issues should be purchased. These investments can include both publicly and privately negotiated short-term borrowing agreements. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper. Rating modifiers (+, -) should not be considered when determining the highest rated tier. A minimum of two ratings is required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch. Commercial paper cannot have a remaining maturity of more than 180 days from the date of purchase. The maximum amount of a specific corporation's commercial paper that can be purchased is \$100 million, but commercial paper maturing on the next business day shall not apply to this limit. A credit analysis report shall be prepared on a corporation before the corporation's commercial paper can be acquired. A credit analysis report should include a company profile, business description, financial profile, rating information, strengths and opportunities, weaknesses and threats, and an outlook and recommendation.

Securities Lending

Both debt and equity securities may be loaned for a fee to a select few of the highest quality securities firms and banks. Loans shall be limited so that the total amount of the securities lent does not exceed 30% of the market value of the total assets in the System's portfolio. Eligible collateral shall be required for each loan. For purposes of this provision, eligible collateral means:

1. Bonds, notes, and treasury bills of the United States or other obligations guaranteed as to principal and interest by the United States or any of its agencies;
2. Obligations guaranteed as to principal and interest by the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Student Loan Marketing Association and other United States government sponsored corporations or enterprises; and
3. Cash.

Securities received as collateral shall have a market value of at least 102% of the market value of the security loaned. Cash received as collateral shall have a value of at least 100% of the market value of the security loaned. Collateral should be closely monitored. Securities collateral should be marked to market each business day so that the aggregate market value of the collateral allocated to all then outstanding loans to a single security firm or bank equals 102% of the market value of such loans and the interest accrued thereon. If at any time the aggregate market value of the securities collateral allocated to all then outstanding loans to a single security firm or bank is less than 100% of the market value of such loans, more collateral should be requested. Cash received as collateral may be invested by or on behalf of the System in any investment instrument in which the System's assets may be directly invested. Such cash may also be invested in short-term investment funds provided the portfolio of such funds contains only those investment instruments in which the System's assets may be directly invested. The Treasurer, through securities lending agreements, may further restrict the collateral requirement outlined in this policy. Securities lending agreements entered into shall be reviewed, commented upon, and approved as to form and legality by the Attorney General and Reporter. T.C.A., Section 8-37-104(a)(6).

Standby Note Purchase Agreement

The System may enter into contracts to serve as a standby note purchaser for the Tennessee State School Bond Authority, the Tennessee State Funding Board and the Tennessee Local Development Authority provided said contracts contain the following provisions:

1. The System receives an annual commission representing a fair market value fee, adjusted for any additional cost incurred by the state agency due to the System serving as the standby note purchaser.

2. If called upon to purchase such notes, the System receives a market rate of return exceeding the prime rate.

T.C.A., Section 8-37-104(a)(8).

International Investments

An amount not to exceed 25% of the System's total assets may be invested in the international markets of those countries included in the Morgan Stanley Capital International (MSCI) EAFE index for developed markets excluding any emerging market countries. Such securities must be actively traded in a public market and be of the same kinds, classes and investment grades otherwise eligible for investment. T.C.A., Section 8-37-104(a)(3).

Foreign Currency Hedging

The System may engage in forward contracts to hedge the foreign currency exposure of the fund under the following guidelines:

1. The overall strategy will be a tactical defense designed to reduce risk and protect the System's international portfolio from a strong dollar.
2. The foreign currency exposure will be hedged by selling and purchasing currency using only forward contracts.
3. The allowable currencies for hedging purposes are limited to the currencies of those countries authorized pursuant to this policy.
4. Portfolio currencies may be hedged no more than 80% of international portfolio exposure for any given currency based on market value.
5. Portfolio currencies may be sold for U.S. dollars only and not for another portfolio currency.
6. Hedging will be conducted through the System's custodial bank and a few of the highest quality money center banks and brokerage firms. T.C.A., Section 8-37-104(a)(5).

Canadian Investments

The System may purchase Canadian securities which are actively traded in a public market provided they are substantially of the same kinds, classes and investment grades as those otherwise eligible for investment. Such investments shall not be subject to the restriction imposed on international investments.

Real Estate

An amount not to exceed 5% of the market value of the total TCRS portfolio may be invested in real estate. The real estate investment portfolio of TCRS may include investments in direct real estate investments, commingled funds, group trusts, real estate operating companies ("REOCs"), partnerships, corporations, limited liability companies ("LLCs") or other collective investment vehicles or pooled investments as well as REIT's (private or public). At the time of acquisition, the minimum investment size for an individual property is \$5.0 million, unless the investment is part of an accumulation strategy of multiple properties in a given market or sub-market. The maximum investment size in any one property shall be limited to one-half of one percent (0.5%) of the market value of TCRS' total assets.

TCRS shall invest primarily in substantially leased (i.e., 80% or greater leased at time of acquisition) institutional quality, well-located assets in the traditional property types: office, apartment, retail, and industrial. To avoid concentrations within certain property types and to ensure prudent diversification over the longer time periods,

no investment may be made which would cause, at the time of acquisition, the market value of TCRS holdings in any single traditional property type to exceed 2.0% of the market value of TCRS' total assets.

TCRS shall limit real estate investments such that at the time of acquisition, no more than 1.0% of the market value of TCRS' total assets shall be invested in any single Standard Metropolitan Statistical Area ("SMSA"). All investments shall be limited to properties located in the United States. In any event, TCRS cannot acquire real estate located in the State of Tennessee unless such acquisition is in the shares or interests of a regulated investment company, mutual fund, common trust fund, investment partnership, real estate investment trust, or similar organizations or vehicles which are commingled and investment determinations as to which real estate assets to purchase or acquire are made by the investment sponsor or investment manager, or persons other than TCRS.

Real estate investment advisors (Advisor) are to be utilized by TCRS to locate, evaluate, acquire, manage and dispose of separate account direct real estate investments. TCRS shall limit its exposure to any single Advisor to mitigate potential advisor or firm specific risk. No Advisor, at the time of an acquisition, shall be permitted to asset manage more than 2.0% of the market value of TCRS' total assets.

TCRS may own such investments in its own name or, to the extent permitted by law, through title holding entities, and may transfer real estate properties from direct ownership to a title holding entity, or from a title holding entity to direct ownership, during the course of the holding period of the investment.

The Director of Real Estate shall develop comprehensive real estate investment guidelines (Real Estate Guidelines) that shall be approved by the Chief Investment Officer and the Treasurer.

Transactions to acquire and dispose of direct real estate properties are subject to approval of the investment committee of the Board of Trustees. The investment committee will not consider any acquisitions or dispositions until the Investment Advisory Council has reviewed the transaction and submitted its advice.

T.C.A, Section 8-37-104(a)(9).

THE BOARD OF TRUSTEES OF THE TENNESSEE CONSOLIDATED RETIREMENT SYSTEM ADOPTED THIS REVISED POLICY AT ITS BOARD MEETING ON JUNE 30, 2006.

**DALE SIMS, CHAIRMAN
BOARD OF TRUSTEES
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**

TENNESSEE CONSOLIDATED
RETIREMENT SYSTEM

REAL ESTATE INVESTMENT GUIDELINES

Revised October 2004

Approved by:

Dale Sims, *State Treasurer*

Tom Milne, *TCRS Chief Investment Officer*

REAL ESTATE INVESTMENT GUIDELINES
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Exhibit A—Investment Registration Form

I. INTRODUCTION.

These Real Estate Investment Guidelines ("Guidelines") are one of several documents that guide the planning, implementation and monitoring of the Tennessee Consolidated Retirement System's ("TCRS") real estate investment program. These documents include these Guidelines, the Investment Policy ("Investment Policy"), and the Annual Investment Plan. In addition, the real estate portfolio will be reviewed and monitored quarterly through the Performance Measurement Report.

The Investment Policy sets forth long-term objectives and policies for investment and management of the asset class of real estate. The objectives, benchmark returns and risk management policies are applicable to equity oriented investments in real estate.

These Guidelines contain procedures and guidelines for reviewing, selecting and overseeing real estate investment advisors; reviewing and analyzing acquisition and disposition proposals; overseeing the asset management of the portfolio; and reviewing the performance of the investments made on behalf of TCRS. Staff and Consultant will update the Guidelines periodically, and any modification or amendment to the Guidelines shall be reviewed and administered by the Treasurer. In the event of any conflict between these Guidelines and the Real Estate Investment Policy, the Real Estate Investment Policy shall prevail.

The Investment Plan is the tactical plan designed to implement the Investment Policy and Guidelines. The Investment Plan will contain specific investment recommendations for the ensuing year to govern the investment activity of the real estate portfolio. The Investment Plan will be reviewed and updated at least annually. The Investment Plan will be in compliance with the Investment Policy and the Guidelines and will be reviewed and approved by the Treasurer. In the event of any conflict between the Investment Plan and the Investment Policy, the Investment Policy shall prevail.

Reference: Tennessee Code Annotated Section 8-37-104(a) (9).

II. DEFINITIONS.

The following definitions are used hereafter with respect to participants involved in TCRS:

<u>Term</u>	<u>Definition</u>
TCRS	The Tennessee Consolidated Retirement System
Board	The Board of Trustees of TCRS, including its Investment Committee. The Investment Committee is comprised of members of the Board. The Board is ultimately responsible for the approval of the establishment of real estate investment policy.
Treasurer	The State Treasurer of Tennessee, to whom the implementation of the Investment Policy has been delegated by the Board.
IAC	The Investment Advisory Council ("IAC") will assist the Treasurer and Staff by providing advice and comment on the most appropriate short, intermediate and long-term real estate investment strategy for TCRS.

Assistant to the Treasurer	The Assistant to the Treasurer, who is responsible for overseeing the administration and management of TCRS.
Staff	Staff is comprised of the Chief Investment Officer ("CIO"), Director of Real Estate ("DRE") and such other staff maintained to effectively manage the assets of TCRS. Staff is responsible on a day-to-day basis for the management of System's investment activities, including those related to real estate, as further defined in these Guidelines.
Advisor(s)	Real estate investment advisors selected to locate, evaluate, acquire, manage and dispose of real estate investments for TCRS.
Consultant	A firm with substantial experience in providing institutional real estate consulting services selected by the Treasurer to assist TCRS in the establishment of objectives, policies, and procedures for TCRS and with the ongoing performance reporting and supervision of the Advisors in connection with TCRS.

III. DELEGATION OF RESPONSIBILITIES.

Clear lines of responsibility and accountability will be required of all participants in TCRS's separate account equity real estate program. The separate account equity real estate program shall be implemented and monitored through the coordinated efforts of the Board of Trustees, including its Investment Committee; the Treasurer; the Investment Advisory Committee; Staff; the Consultant; and Advisors. Delegation of the major responsibilities for each participant is reviewed below.

Board of Trustees: The Investment Committee of the Board, assisted by the advice of the IAC, Staff and Consultant, shall (i) establish real estate portfolio objectives and policies; (ii) approve the Investment Policy and any revisions thereto; (iii) approve all proposed acquisitions and dispositions of real estate investments; (iv) review the performance of the real estate asset class and its compliance with the real estate portfolio objectives and policies as stated in the Investment Policy; and (v) complete or cause to be completed any other activities necessary to oversee and monitor TCRS's real estate investments.

Treasurer: The implementation of the Investment Policy has been delegated by the Board to the Treasurer. The Treasurer may delegate to the Chief Investment Officer and such Investment Staff the power to invest and reinvest TCRS's assets.

Investment Advisory Council: The IAC will assist the Treasurer, Chief Investment Officer and Investment Staff by providing advice and comment on the most appropriate short, intermediate and long-term investment strategy. Among other items, the IAC may provide its advice and comment regarding: (i) the real estate portfolio objectives and policies; (ii) the Guidelines and any modifications thereto; (iii) the Investment Plan, including any revisions thereto; (iv) all proposed acquisitions and dispositions of real estate investments. The IAC shall review the performance of the real estate asset class on a periodic basis.

Staff: The CIO shall manage TCRS's Staff and report to and consult with the Treasurer and IAC on investment activities, the development and implementation of an appropriate real estate investment strategy, and manage the assets of TCRS. The DRE shall have

primary responsibility for the day-to-day management of TCRS's real estate program. Staff shall:

- i. Conduct, with the assistance of the Consultant, all professional searches or evaluations (e.g., investment Advisors.), or oversee the Consultant perform said searches or evaluations;
- ii. select and engage professionals as approved by the Treasurer, including the Consultant and Investment Advisors, and negotiate all agreements for the engagement thereof;
- iii. prepare or oversee the Consultant's preparation of the Real Estate Investment Policy, Guidelines and Investment Plan as described below;
- iv. review the Advisor Investment Plans;
- v. review, approve and present, to the IAC and the Investment Committee, real estate investments and dispositions and other major actions;
- vi. conduct site inspections of all proposed investments to ensure compliance with the Advisor Investment Plan, Investment Plan and representations made by the Advisor in the Investment Summary (as defined below);
- vii. review the Budget and Management Plans prepared by Advisors;
- viii. conduct periodic site inspections of properties acquired on behalf of TCRS at the direction of the Chief Investment Officer; and
- ix. perform the following functions as follows:
Staff shall also (i) prepare funding procedures and coordinate the receipt and distribution of capital to or from the Advisors with respect to acquisitions, dispositions and the funding of existing property operations; (ii) monitor the closing process in consultation, as required, with Advisors or counsel engaged by the Advisors and/or TCRS, for acquisitions, financings or refinancings, and other capital transactions between Advisors and TCRS; and (iii) complete any other activities required by the Board and those specifically delegated to Staff in the Real Estate Investment Policy, Guidelines, the Investment Plan or other applicable documents or agreements.

- E. Consultant:** Consultant shall assist Staff in: (i) conducting professional searches or evaluations (e.g., investment Advisors); (ii) revising the Investment Policy; (iii) drafting the Guidelines; (iv) drafting the Investment Plan; and (v) providing quarterly Performance Measurement Reports.

Consultant shall review the Investment Policy, Guidelines and Investment Plan periodically and recommend revisions to the same to reflect changes in the capital markets, real estate markets and the equity real estate portfolio of TCRS. Consultant shall provide periodic reviews of the real estate and capital markets and quarterly Performance Measurement Reports as described below.

- F. Advisors:** The Advisors shall (i) prepare Advisor Investment Plan(s) to be submitted to Staff; (ii) source, locate and propose for acquisition real estate investments in accordance with the policies, procedures and criteria adopted by the Board; (iii) prepare Investment Summaries to be submitted to Staff; (iv) assist Staff in preparing funding procedures for new investments, ongoing capital expenditures and dispositions; (v) prepare Budget and Management Plans to be submitted to Staff; (vi) prepare Annual Reports to be submitted to Staff and Board; (vii) meet with Staff for the Annual Oversight Reviews and Quarterly Reviews and meet with the Board for Annual Reviews at the discretion of the Board; (viii) recommend the disposition of real estate assets in accordance with the policies, procedures and criteria adopted by the Board; (ix) oversee the management, leasing and operations of all real estate assets they acquire for TCRS; (x) provide an Annual Disposition Review for each asset in the Advisor's separate account; (xi) establish and adhere to financial control and reporting policies consistent with Real Estate Information Standards promulgated by the National Association of Real Estate Investment Managers ("NAREIM"), the National Council of Real Estate Investment Fiduciaries ("NCREIF"), and Pension Real Estate Association ("PREA"), and the Real Estate Presentation Standards prepared by the Association of Investment Management Research ("AIMR"), each as amended from time to time; and (xii) provide performance measurement data in the form and substance as requested by TCRS, Staff and Consultant.

The Advisors shall acquire and manage real estate investments on behalf of TCRS in accordance with the Investment Policy, Guidelines, Investment Plan, Budget and Management Plan, the Advisor Investment Plan and any other program documentation developed by Staff and approved by the Board. The Advisor shall provide TCRS with such information as may be required to properly monitor the Advisor and its investments, including complying with the procedures set forth herein.

IV. REAL ESTATE PORTFOLIO OBJECTIVES AND RISK MANAGEMENT POLICIES.

The role of real estate is to diversify TCRS's total investment portfolio and supplement the total return of the portfolio, which is comprised predominately of fixed income and equity assets. Real estate is expected to provide competitive, stable risk adjusted returns relative to other asset classes. A secondary role of real estate is to provide an inflation hedge.

- A. Investment Philosophy:** TCRS will make decisions regarding the real estate portfolio which conform to the following guidelines: (i) maximize long term total cash returns; (ii) achieve a total return competitive with other asset classes; and (iii) maintain a broad diversification of assets. Controlling risk in the real estate portfolio is equally as important as seeking higher returns.
- B. Investment Categories:** Traditionally, equity real estate investments have been categorized by the risk and return features of the underlying real estate assets. TCRS recognizes three investment categories: Core investments (operating and substantially leased properties); Non-core investments (all other types of investments); and publicly traded real estate investment trusts ("REITs"). The Core and Non-core investment categories are private market investments, and possess different return and risk attributes than the publicly-traded REITs. These categories are defined below:
- i. Private Core ("Core") Investments:** TCRS regards these investments as operating and substantially leased (i.e., 80% or greater leased at time of

acquisition) institutional quality, well located assets in the traditional property types: office, apartment, retail, and industrial. These properties generally offer relatively high current income returns and as a result a greater predictability of returns. The income component typically represents a majority of the expected total return of Core investments. These investments are of comparatively low risk and provide a stable foundation for the TCRS real estate portfolio.

ii. **Non-Core ("Non-core") Investments:** TCRS broadly defines non-core assets to cover a variety of risk and return relationships, property types and investment vehicles. Non-core investments offer TCRS the opportunity to obtain higher risk adjusted returns arising from the relatively inefficient real estate markets or real estate capital market imbalances. Non-core investments generally possess higher risk and expected return attributes than Core investments, although the range can be from relatively low risk leveraged Core real estate to highly speculative development.

Risk attributes which may be present include higher property level risk (leasing, renovation, development or repositioning required); a degree of business or operating risk (e.g., hotels, senior housing or investments in real estate operating companies); or non-traditional formats or properties (e.g., distressed assets or private to public market arbitrage activities).

iii. **Public Market REITs:** The public market equity component consists of REITs and other real estate related companies that are publicly traded (collectively referred to as "REITs"). Public REITs currently do not provide the same diversification or inflation hedging attributes of private equity real estate. However, public REITs do provide the potential for greater flexibility due to greater liquidity than private equity real estate. In addition, public REITs may provide a vehicle for TCRS to gain exposure to (i) Core property types which may not be available to TCRS under the Investment Policy (e.g., large Central Business District office buildings and regional malls, which is due to their size and correspondingly large purchase price), (ii) other non-traditional property types, or (iii) otherwise complement the Portfolio.

C. **Targeted Portfolio Composition:** TCRS maintains that all percentages and limits herein are based on the total real estate allocation. The real estate allocation currently is limited such that no investment may be acquired which would, at the time of acquisition, cause the market value of the total real estate investments to exceed 5% of the market value of the total TCRS assets. Core investments shall comprise from 80% to 100% of the total real estate allocation in order to create a portfolio comprised of relatively stable, low risk, income-producing investments. Non-Core Investments and Public REITs may comprise from 0% to 20% of the total real estate allocation.

If market conditions warrant, TCRS may make Non-core real estate investments to enhance the real estate portfolio's expected returns or its diversification. TCRS expects it will make most Non-Core Investments in some form of pooled investment vehicle, where TCRS is one of multiple investors in the vehicle, and it should expect to pay greater fees and have less control than it would have over its separate accounts. However, TCRS will trade off these attributes to obtain greater diversification, which is a particularly important risk management tool in higher risk investing. Permissible forms of pooled fund vehicles include private REITs, limited liability companies, limited partnerships and other vehicles as permitted under Tennessee law. As with Core separate account real estate investments, investments in Non-Core properties or pooled funds will be subject to review and comment of the IAC.

- D. Co-Investments and Direct Investments:** TCRS prefers to invest utilizing separate account investment structures (rather than commingled fund account structures) because of the greater control separate accounts provide over the decisions in connection with the ownership of the underlying real estate assets. Such investments may be made through co-investments with comparable institutional investors ("Co-Investments") or a separate account where TCRS is the only institutional investor ("Direct Investments"). All Co-Investments and Direct Investments will be non-discretionary (i.e., TCRS will retain the control of its rights with respect to acquisition, disposition and other major asset management and financing decisions).
- E. Public REITs:** TCRS may invest in public REITs up to 1.0% of the market value of TCRS' total assets, measured at the time of acquisition. It is anticipated TCRS will invest in public REITs to obtain exposure to certain property types or operators that complement Co-Investments or Direct Investments. TCRS may also invest in public REITs that exhibit attractive pricing relative to comparable private Core Co-Investments or Direct Investments.
- F. Benchmark Returns:** For new acquisitions, Core real estate investments are to be underwritten to provide a total return equal to 200 to 400 basis points above ten (10) year Treasury securities measured over rolling five (5) year periods. Non-core investments should provide expected returns in the range of 75 to 400 basis points higher than Core investments, and should provide returns commensurate with the risks.

The portfolio benchmark is the NCREIF Property Index. However, to better match the evolving composition of the TCRS portfolio as it is invested over time, each property type in the TCRS portfolio will be measured against the NCREIF Property Index sub-index for the same property type (office, multifamily, retail and industrial). TCRS will measure each property type performance relative to the NCREIF Property sub-index.

A secondary portfolio benchmark has been established, which is a customized NCREIF Property Index which has been reweighted to match the property type composition of the TCRS real estate portfolio. Currently, the secondary benchmark is comprised of the NCREIF Property Index Office, Apartment, Industrial and Retail sub-indices to reflect the composition of the TCRS real estate portfolio. This secondary benchmark may be revised from time to time to more closely track the portfolio characteristics of the TCRS real estate portfolio.

- G. Compliance with Laws:** TCRS will only consider investments that comply fully with all applicable federal, state and local laws and regulations, including all applicable environmental laws and regulations.
- H. Investment Advisory Services:** All investments shall be analyzed and due diligence performed, managed and disposed of, if necessary, by a qualified Advisor which has an established, successful record of providing advisory services to institutions and is deemed able to deliver similar services in the future. Although TCRS as a state pension plan is not subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), it is the intent of TCRS that an Advisor shall act as a "fiduciary" to TCRS as that term is defined in Section 3(21)A of ERISA and as that term is otherwise judicially interpreted, and shall discharge its duties to TCRS accordingly. An Advisor's acquisition, management and disposition of real estate investments will be guided by the "prudent expert" standard, which shall be the standard of care required of

Advisors and set forth in real estate investment advisory contracts with TCRS. An equity real estate investment shall be made only if said investment was evaluated and recommended by an Advisor.

Unless otherwise determined by the Board and/or Staff, an Advisor shall exhibit the following characteristics:

- a) is registered as an investment advisor under the Investment Advisor Act of 1940, or is exempt from registration under the regulations promulgated thereunder;
- b) the responsible personnel of such Advisor shall have at least five (5) years of institutional real estate experience;
- c) has a minimum of \$250 million of institutional real estate assets under management;
- d) no single client (including any affiliates) shall control or have authority over more than fifty percent (50%) of the market value of the Advisor's total net assets under management at the time of selection and approval by TCRS;
- e) has a proven and verifiable record of competitive performance returns; and
- f) has a proven and verifiable record of well-articulated and executed real estate investment strategies.

I. Property Management.

Direct or supervisory property management is acceptable. TCRS shall favor Advisors having clearly articulated and successfully implemented property management strategies. The objective is to ensure the most qualified property management services are provided to each TCRS real estate investment given its location and property type. In addition, the fees paid by TCRS for property management services (to a third party or an affiliate) shall be at a rate consistent with the markets rates for comparable property management firms in that market for properties of like kind and quality. All property management agreements will contain a clause that permits TCRS to terminate without cause upon no more than thirty (30) calendar days' notice.

V. ADVISOR PROCUREMENT PROCEDURES

TCRS may make equity real estate investments through separate account investment structures either through co-investments with other comparable institutional investors with similar investment objectives ("Co-Investments") or a separate account where TCRS is the only institutional investor ("Direct Investments"). All such real estate investments will be sourced, evaluated, managed and disposed of by qualified real estate investment advisors meeting the requirements set forth in these Guidelines.

The Co-Investment and Direct Investment separate account Advisor procurement procedure is as follows:

- A. Staff and Consultant shall establish qualification criteria for new or additional investment Advisors.

- B. Consultant shall screen its database and other available sources to identify Advisor candidates exhibiting qualities consistent with the qualification criteria. Consultant shall provide to DRE a preliminary listing of all Advisor candidates exhibiting such qualities consistent with the approved criteria.
- C. If determined to be necessary, Consultant shall prepare and the DRE shall review a questionnaire to further define Advisor capabilities specific to the qualification criteria. The DRE, with the assistance of the Consultant, shall take into consideration, among other factors, the nature of the strategy to be implemented and its complexity and the size of the universe of qualified candidates that meet the criteria established above.
- D. Staff, with the assistance of Consultant, shall establish evaluation areas and the respective weighing factors. Staff and Consultant shall review and evaluate each candidate and any response to any questionnaire relative to each evaluation area, including objective and subjective criteria. Presentations by the finalist candidates may be required, at Staff's discretion.
- E. The Consultant shall prepare a written report summarizing its analysis recommending one or more Advisors and deliver such report to the Assistant to the Treasurer, CIO and DRE and any other persons designated to review potential Advisors.
- F. The DRE shall visit preferred candidates to complete final operations due diligence and selection of one or more Advisors. The DRE shall share his findings with the Assistant to the Treasurer and CIO.
- G. The DRE, Assistant to the Treasurer and CIO shall jointly select one or more Advisors to be recommended to the Treasurer for engagement by TCRS.
- H. After its selection, the Advisor shall prepare an Advisor Investment Plan consistent with the investment strategy articulated in the investment criteria established as part of the search or in the Investment Plan.

VI. INVESTMENT MANAGEMENT PROCEDURES FOR SEPARATE ACCOUNTS.

The following procedures shall apply to all Co-Investment and Direct Investment separate accounts that invest on behalf of TCRS.

A. Investment Procedures.

- 1) *Advisor Investment Plan.* For each separate account, the Advisor shall prepare, and Staff shall review and approve, an annual investment plan (a "Advisor Investment Plan") setting forth the general and specific criteria for its investment allocation or approach, including all material terms relating to co-investment with other comparable institutional investors. The investment criteria shall be consistent with the Real Estate Investment Policy and the Investment Plan pursuant to which the Advisor was selected and shall include diversification criteria and risk/return expectations.

Each Advisor Investment Plan shall be updated at least annually to account for the dynamics of the real estate and capital markets and TCRS's real estate investments.

- 2) *Identification of Preliminary Investment Opportunities.* Each Advisor shall provide in writing (including via telecopy) an Investment Registration Form

identifying to Staff a prospective investment opportunity. The Advisors shall use the Investment Registration Form, substantially in the form of **Exhibit A** attached hereto, unless otherwise directed by Staff. The Investment Registration Form shall include such information as may be determined by Staff from time to time.

This information shall be used by the DRE to make a preliminary determination as to the compliance of the proposed investment with the Real Estate Investment Policy, Investment Plan and Advisor Investment Plan. Following the receipt of the Investment Registration Form, the DRE shall notify the Advisor, not later than five business days, of its preliminary review and determination as to whether such prospective investment complies with all applicable requirements. The notification to the Advisor may be made verbally or by any electronic means (such as e-mail) at the discretion of the DRE. If the proposed investment is accepted by the DRE, it shall be registered in the registration log maintained by the DRE.

An Advisor shall have no more than 12 prospective investments registered with Staff at any one time. Upon the registration of a prospective investment opportunity by the DRE, the Advisor for whom the investment opportunity has been registered has the exclusive right to pursue the investment opportunity on behalf of TCRS, for a period not in excess of one hundred eighty (180) days from date of registration, unless otherwise directed by Staff. However, in certain circumstances it may be in the best interests of TCRS to pursue a potential investment opportunity through a different Advisor than the one who registered the prospective investment. The DRE may redirect any prospective investment opportunity from the Advisor that registered the prospective investment to another Advisor at any time and for any reason. The DRE shall update the registration log on a periodic basis.

- 3) *Investment Summary.* Advisors shall source potential acquisitions for TCRS based upon the parameters set forth in the Investment Policy, Investment Plan and Advisor Investment Plan. Upon identifying a potential investment for TCRS, the Advisor shall provide Staff with an Investment Summary which shall provide such information to evaluate the proposed investment relative to the Investment Policy, Investment Plan, Advisor Investment Plan and such other investment criteria as has been established for the respective Advisor. The Investment Summary identifies the salient investment characteristics of a proposed investment and the preliminary underwriting of the proposed investment by the Advisor. The DRE anticipates that most Investment Summaries typically will be between 20 to 40 pages in length.

The DRE and Advisor jointly prepare an Investment Summary suitable for presentation to the IAC and Investment Committee.

The Investment Summary shall include the following:

- a. a description of the transaction, including the proposed investment structure (including terms relating to any co-investors in a particular transaction), ownership percentages, recommended pricing, projected timeline and an exit strategy for the proposed investment;
- b. a description of the seller, including, to the extent available, financial information and prior experience in the market, property type and investment cycle;
- c. a location map, photographs, site plan, and description of the improvements;

- d. a detailed location review, including a description of the immediate subject area, the surrounding market and the subject's competitive position in such market, competitive properties, any proposed development, and sales and rental comparables;
 - e. a comprehensive financial due diligence evaluation of the proposed investment, including cash flow projections for a ten (10) year holding period, including disclosure of all assumptions utilized in the cash flow analysis, and a sensitivity analysis showing the most likely case, most reasonable optimistic case and worst case scenarios and a separate scenario incorporating an economic downside scenario;
 - f. a metropolitan market overview, including relevant economic and demographic data;
 - g. a lease expiration schedule for at least the next five (5) years, and longer if material leases extend beyond five (5) years;
 - h. except with respect to multifamily investments, a list of major tenants (e.g., tenants that represent 10% or more of the space of the proposed property) and, to the extent available, a summary and report by the Advisor of the creditworthiness and likelihood of retention in the property, for any tenant that occupies more than 10% of the property; and
 - i. any other information required under the Investment Advisory Agreement.
- 4) *Staff Review.* The DRE shall undertake the following review of each proposed investment:
- a. Evaluate the consistency of the proposed investment with the Investment Policy, Investment Plan and investment guidelines prepared for the Advisor as part of the Advisor Investment Plan;
 - b. Review and evaluate the due diligence evaluation of the proposed investment, including compliance with the Investment Policy and Guidelines, prior to closing the investment;
 - c. Identify any potential conflicts of interest, and confirm any such potential conflicts are fully disclosed in the Investment Summary;
 - d. Evaluate the reasonableness of the assumptions used by the Advisor to project performance of the proposed investment, and provide comments to the Advisor on the assumptions prior to the Investment Summary being finalized;
 - e. Perform a site inspection of the property to confirm the accuracy of the oral and written representations made by the Advisor with respect to the proposed investment; and
 - f. Identify any material issues attendant to the proposed investment. After a review of the Investment Summary, the DRE will decide to pursue or reject the proposed investment. Staff shall maintain a log of all investments proposed by Advisors and registered by Staff in accordance with the registration procedure. At the time a proposed investment is no longer being

considered by TCRS, the DRE shall update the investment log with the reason for non-consideration.

- g. If the DRE decides to pursue the proposal, the DRE will review the proposed investment with the CIO. If the CIO concurs, Staff will direct the Advisor to supply to Staff an Investment Summary (reflecting any comments from the DRE during the course of his review), containing the salient terms of the proposed investment. Staff will submit the Investment Summary with a brief written summary of its review to the IAC. The IAC will meet to provide advice and comment upon the information contained in the Investment Summary. Subsequent to the meeting of the IAC, Staff will present the proposed investment to the Investment Committee to request final approval. A summary of comments from the IAC and the Investment Committee meetings will be kept in the property file. Staff will develop and modify as appropriate a standard form of Investment Summary to provide consistency of format in the presentation of all real estate investments presented by Advisors.
- 5) *General Due Diligence Policies.* Each Advisor shall comply with the following requirements relative to environmental, structural, appraisal and legal due diligence matters. The reports shall be prepared for TCRS as the client.

- a. Environmental Matters. TCRS will only consider investments that fully comply with all local, state and federal governmental regulations regarding acceptable levels of exposure to contaminants that have or may potentially impair public safety. The Advisor, on behalf of TCRS, must obtain environmental or engineering reports and certifications which either attest to the absence of asbestos, toxic wastes and or other hazardous waste materials at the site or, where such contaminants are present, evidence that the contaminants have been contained and are being managed or remediated in accordance with all local, state, federal government statutes, laws, regulations and standards.

The Advisor must obtain an environmental Phase I site assessment or its equivalent prepared by a certified environmental firm. Upon completion of the environmental Phase I site assessment or its equivalent, the Advisor shall prepare and submit to the DRE a memorandum summarizing the environmental conditions of the proposed investment and any required remedial actions.

Additional investigations must be performed if recommended by the Phase I report. The information found in the additional investigation shall be accompanied by a detailed remediation work plan, if applicable.

- b. Engineering/Structural Matters. The Advisor shall conduct, or engage third party professionals to conduct, appropriate engineering or structural reports to evaluate potential investments. Such reports or studies shall be conducted by a qualified engineering or structural engineering firm selected by the Advisor. Upon completion of the engineering or structural reports or its equivalent, the Advisor shall prepare and submit to the DRE a memorandum summarizing the engineering and structural conditions of the proposed investment and any required capital expenditures or remedial actions.

- 6) *Recommendation to Proceed.* Following the approval of the Investment Committee, the Advisor shall submit to the DRE various reports summarizing the final financial and other terms and conditions of the proposed investment and the due diligence investigation, together with a recommendation to proceed with the proposed investment upon the terms and conditions described therein. The reports may include the following items:
- a. A memorandum reviewing the results of the environmental due diligence completed with respect to the proposed investment and addressing any issues raised therein, as set forth in Section 5.a. above;
 - b. An updated memorandum reviewing the results of the engineering or structural reports completed with respect to the proposed investment and addressing any issues raised therein, as set forth in Section 5.b. above;
 - c. An updated pro forma projection incorporating any changes to the financial terms and conditions of the proposed investment and the results of the Advisor's due diligence investigation.

Based upon the updated information presented by the Advisor, the DRE shall authorize the Advisor to proceed to release any contingencies and close the proposed investment.

- 7) *Final Underwriting of the Proposed Investment.* Following the approval of the DRE, the Advisor shall complete all due diligence matters and the negotiations of the documentation of the transaction. The Advisor shall deliver its final review of the proposed investment, including a cover letter that reviews the material terms of the investment and any material changes in the terms; the ownership structure; title matters; the evaluation of the due diligence completed by the structural engineer and the environmental engineer, together with any recommended actions; updated cash flow projections to reflect the pro forma financial performance, and any changes to the risks inherent in the proposed investment. The cover letter shall also include a recommendation to proceed with the proposed investments on the terms summarized.
- 8) *Closing of Investments.* Following the review and approval of the Investment Committee of a proposed investment, Staff shall be responsible for the oversight of the closing of the investment. The DRE shall review all final due diligence completed by the Advisor and any final terms and conditions for material changes from the preliminary due diligence evaluation presented in the Investment Summary and the final review of the proposed transaction. Staff shall also have responsibility to ensure the final investment is in full compliance with the Investment Policy, Investment Plan and Advisor Investment Plan.
- 9) *Post-Closing Deliverables.* As soon as practical following the closing, the Advisor shall prepare and send to Staff a Final Investment Package (FIP) setting forth its final review and terms and conditions of the investment. The FIP shall consist of the following:
- a. A final, complete investment package updating the Investment Summary with the final results of the Advisors due diligence and underwriting of the proposed investment, including, but not limited to, any preliminary information or analysis contained in the Investment Summary, a summary and analysis of third party due diligence reports (environmental, engineering, structural, title), and a discussion of any material issues or risks identified as a result of such evaluations. It is

anticipated that the FIP will include the following information not typically available at the time of the preparation of the Investment Summary or the letter update presented as part of Section VI.A.7. above:

- i. a complete financial summary including a current rent roll (except for multifamily investments), the current budget for the year, and, to the extent available, a historical review of three or more years of income, expenses and operations and an analysis of historical operating expenses;
 - ii. an updated list of major tenants (e.g., tenants that represent 10% or more of the space of the proposed property, except for multifamily) and, to the extent available, credit reports or other financial information on the major tenants and the Advisor's assessment of the likelihood of retention in the property for any tenant that occupies more than 10% of the property;
 - iii. a review and analysis of comparable transactions, including land sale comparables, sales competitive properties within the market (or submarket) and market rent comparables;
 - iv. a recommendation for property management and leasing firm(s) and the proposed compensation to be paid for these services, including a market survey of at least three (3) competitive firms, the defined scope of services and the proposed compensation quoted by each firm for the defined scope of services;
 - v. disclosure of any related party fees or compensation to be paid as part of the acquisition transaction or any related financing;
 - vi. a replacement cost estimate;
 - vii. a calendar year projection of performance and related cash flows that matches the underwriting assumptions, but converted to a calendar year basis to facilitate comparisons to future budget periods; and
 - viii. any additional information requested by Staff, the Investment Committee, or Board as a result of the review and approval of the proposed investment.
- b. Within 90 days following the closing of an investment, the Advisor shall supply to the Staff a complete, bound closing book containing the final documentation of the investment including copies of all legal documentation, copies of the title holding documents (as well as all related documents), if any, and other documentation that was requested by the DRE. The Advisor has the responsibility to prepare a summary of the transaction that will be delivered to counsel, who will bind the summary in the opening section of the closing book.
- c. TCRS retains the right to condition the payment of any acquisition fee to the Advisor for closing the proposed investment upon the delivery of both the FIP and the bound closing books, as required in sections a. and b. above.

- 10) *Funding and Bank Accounts.* Prior to closing, property bank accounts must be opened by the Advisor. The Advisor shall supply to the Staff the account names, account numbers, types of account, bank names and locations of the accounts. Staff will be responsible for creating the appropriate accounting and funding records to tracking and recording all capital and other financial information for each closed investment.
- 11) *Maintain Corporate Record Books.* On an on-going basis, the Advisors shall be responsible for maintaining and updating corporate record books for any title holding entity and other corporate entity, that TCRS has an interest in, created in connection with an acquisition of real estate by TCRS, in order to ensure the observation of corporate formalities in an effort to preserve limited liability. This includes documentation necessary for any corporation, limited liability company, or other entity formed for the purpose of owning and holding title to the Direct or Co-Investments or an entity formed for the purpose of owning an interest in a title holding entity, all of which shall be beneficially owned by the TCRS. The Advisors will supply upon request by TCRS copies of all resolutions, actions in lieu of a meeting and other corporate documentation prepared to observe corporate formalities.

B. Asset Management Procedures

Asset management refers to all activities relating to the operations of the real estate investments and the timely and accurate reporting of the results of those operations. Advisors are directly accountable for asset management responsibilities described herein.

This section also designates certain property level responsibilities that the Advisor may perform through its affiliated property management subsidiary or cause to happen through a contractual arrangement with a third party property management firm. Specific responsibilities, compensation and reimbursements for property management will be covered under a separate agreement to be entered into by the Advisor with such affiliate or third party firm.

- 1) *Budget and Management Plan:* Not less than sixty (60) calendar days prior to the end of the calendar year, each Advisor of a separate account shall submit to Staff a Budget and Management Plan for the upcoming year for each Co-Investment and Direct Investment and the Advisor's entire portfolio. Not less than thirty (30) calendar days prior to the end of the calendar year, if necessary, Staff will consult with the Advisor personnel directly responsible for portfolio and asset management for a review and approval of each Budget and Management Plan. The Staff consultation may be in writing or may be verbal (e.g., telephonic). Any disapproval of a Budget and Management Plan or specific line items shall be communicated to the Advisor in writing.

The Budget and Management Plan is anticipated to include a narrative strategy for the ensuing year (including leasing goals and major capital expenditures) and an estimated income and cash flow statement for the ensuing year. The budget shall include gross revenues, expenses, percentage rent, additional interest, property management fees, net operating income, tenant improvements, leasing commissions, capital expenditures, cash flow before and after debt service and asset management fees; and itemization of third-party financial liens against the property. The budget shall include a comparison to the prior year budget and actual performance and note any significant variances from the prior year's actual performance. The Budget and Management Plan shall include the annual disposition review as described below.

The Advisor shall notify Staff in writing within a reasonable time of its occurrence of any significant event that may occur with respect to an investment that was not projected in the Budget and Management Plan. Management decisions consistent with the approved budget items are delegated to the Advisor.

- 2) *Annual Report and Oversight Review:* Within sixty (60) calendar days after the close of each calendar year, each Advisor shall provide the Board and Staff with an annual report (the "Annual Report") that is anticipated to contain the following information with respect to each Co-Investment or Direct Investment managed and for the portfolio of properties managed:
 - a. a current performance summary, including an investment summary, income summary, summary of investment performance and a funded and allocated investment summary;
 - b. an investment description for each investment, including the date of acquisition, acquisition cost, current property value, leasing status, lease expirations for current year;
 - c. comparative performance for the prior year, comparing actual performance against pro forma and the prior year's budget, and noting any material variances;
 - d. a budget for the current year (which may be updated from the Budget and Management Plan previously delivered);
 - e. a brief market overview for each property;
 - f. key accomplishments in the prior year and key issues to be addressed and resolved in the current year; and
 - g. leasing status and lease expirations for current year.

In addition to the Annual Report, the Advisor shall deliver to the Staff audited financial statements for the TCRS real estate portfolio assets managed by the Advisor for the entire fiscal year, prepared by a nationally recognized certified public accounting firm selected by the Advisor and subject to approval by Staff. For properties that are held for less than a full year, no audited financial statements are required. TCRS expects delivery of the audited financial statements within 90 days of the end of the fiscal year.

Not more than ninety (90) calendar days subsequent to the close of each calendar year, the Advisors for Co-Investment and Direct Investment separate accounts may meet, at the request of the DRE, with Staff to review the actual performance of each property for the prior year and compare same to the budget for that period and to the budget for the current year.

- 3) *Quarterly Reviews:* Upon request of the DRE, the Advisors shall review with Staff the performance of the properties in the Advisor's account and compliance with the current Budget and Management Plan. The review for the Fourth Quarter of any year shall be held concurrently with the annual oversight meeting for that year, if such meeting is requested by the DRE. It is anticipated that the DRE will inspect one or more real estate assets managed by each Advisor at least once during any three (3) year period, unless the DRE determines otherwise, and more frequently as conditions may suggest. Any visit to the

Advisor or site inspection may be conducted during a scheduled Quarterly Review or at the mutual convenience of the DRE and the Advisor.

- 4) *Reporting Requirements:* In addition to the reports described above, the Advisors shall supply the following reports to TCRS:
 - a. Monthly Reports. The Advisors shall provide a monthly report to Staff within twenty (20) calendar days after the close of each month. The report may be prepared by the property manager and shall include an income statement. Other than for multifamily properties, the report should also briefly update, to the extent appropriate, the leasing status of each property.
 - b. Quarterly Reports. Within forty-five (45) calendar days after the end of each calendar quarter, the Advisor shall provide a Quarterly Report containing the following information for each Co-Investment or Direct Investment: (i) income statement and balance sheets; (ii) a re-forecast of any material changes in budgeted items set forth in the current Budget and Management Plan, if necessary; (iii) summary market update, including supply, demand, vacancy and occupancy rates for the market and submarket and any recently completed comparable sales and leases for each property; and (iv) performance reporting for each property and the portfolio as a whole (income, appreciation, total gross, total net). The quarterly report shall also include a copy of the current insurance certificates for each Property and a copy of the bank statement for the end of the quarter.
- 5) *Operations:* The Advisor shall manage or contract with a third party such that each Co-Investment or Direct Investment acquired for TCRS will be managed to enhance TCRS's investment in the property. The Advisor is responsible for conducting or supervising the following services with respect to each Co-Investment or Direct Investment:
 - a. Services: The Advisor is responsible for hiring and supervising all third party independent contractors responsible for property management and maintenance including any property manager (subject to review by Staff), leasing agent, technical advisor, engineer, broker, escrow agent, builder, developer, and other persons or entities as it deems necessary or desirable for the proper operation and maintenance of the property.
 - b. Leasing: The Advisor is to supervise all leasing and occupancy matters with respect to the managed property. The Annual Budget and Management Plan shall establish leasing guidelines and parameters for each real estate investment. The Advisor without any further Staff approval may execute leases within the approved guidelines. All leases that materially depart from the leasing guidelines (i.e., by more than 10%) shall be approved by Staff prior to execution by the Advisor. The Advisor shall establish systems to provide for efficient and effective information flow between on-site property managers and asset/portfolio managers. The information flow shall be relative to the property condition, market conditions and trends, occupancy and related matters, leasing and tenant relations.
 - c. Expenditures: The Advisor shall determine or review and approve all operating and capital expenditures of each managed property. For each Co-Investment and Direct Investment, the Advisor shall monitor the same for compliance with the Budget and Management Plan. Absent an emergency, any operating expenditures in excess of the budgeted amount by ten percent (10%) shall be subject to prior approval of Staff. Capital expenditures in excess

of the budgeted amount by ten percent (10%) shall be subject to prior approval of Staff.

- d. Property Maintenance: Each Advisor shall take all reasonable steps necessary or appropriate to ensure each Co-Investment or Direct Investment is properly maintained in an operating condition consistent with institutional industry standards.

Advisors shall ensure that property maintenance is consistent with the Budget and Management Plan and the capital and operating budgets specified therein.

- e. Short-Term Cash and Systems Deposit: All sums received from rents, lease charges or otherwise received from the managed property, shall be deposited and disbursed only to pay approved expenditures in compliance with the Budget and Management Plan. Short-term cash management and distributions back to TCRS shall be made in accordance with procedures established with Staff or as set forth in Investment Advisory and/or Property Management Agreements for the Advisors.
- f. Books and Records: Each Advisor shall maintain books of account with correct entries of all receipts and expenditures incident to the management of each Co-Investment or Direct Investment and the performance of the applicable advisory agreement with TCRS. The books of account, together with all records, correspondence, files and other documents, or complete duplicates thereof, shall be maintained in a fire proof vault on site at the property and all such documents and records shall remain the property of TCRS and shall at all times be open to the inspection of TCRS or its representatives.

Each Advisor shall maintain complete and accurate records of all transactions related to managed properties, including receipts and all correspondence relating thereto on such forms as TCRS may reasonably require. In addition, and where requested by Staff, originals of the documents generated during the course of the due diligence process (including, without limitation, copies of documents referred to in the Investment Summary; executed investment closing documentation; all leases for more than 10% of the space of any property; loan agreements, including notes and mortgages; any due diligence studies or reports (e.g., environmental and engineering); survey; property management agreements and such other documents as Staff may identify from time to time. Within 90 days of the closing of an investment, the Advisors shall provide to TCRS with complete transaction binders or books containing all the relevant documentation relating to the investment, including but not limited to the information described above, and such other documentation customary in closing binders.

Each Advisor shall make its accounting personnel available to assist TCRS's auditors in the preparation of all financial statements required or desired to be prepared or filed by TCRS. Each Advisor shall bear the costs associated with the retention and duplication, if necessary, of such records at the request of TCRS.

- g. Appraisals and Valuations: Generally, all Co-Investments and Direct Investments shall be valued by a qualified independent appraiser(s) with the professional designation of Member of the Appraisal Institute ("MAI"), or its equivalent, at regular intervals, not less frequently than every three years.

Appraiser selection will be determined or approved by TCRS based on organizational qualifications, capabilities, personnel, references and resources. Appraisers shall be rotated as determined by Staff.

No appraisals will be required for any Co-Investment or Direct Investment prior to acquisition. A complete narrative independent appraisal of each Co-Investment or Direct Investment shall be prepared not later than three (3) years, and may be less than every three years, from the acquisition date, and every three years thereafter on the anniversary date thereof. The DRE may require an external appraisal on any property sooner than the next triennial date, at its discretion. Advisors will internally estimate the market value in those years independent appraisals are not performed. The Advisor's valuation will be used for performance measurement purposes.

- h. Insurance: Advisors shall be responsible to ensure that appropriate types and levels of property and liability insurance is maintained at all times. In addition, each Advisor shall maintain and keep in force at all times, at its own expense, errors and omissions insurance coverage which names TCRS as an insured, and shall maintain (and/or require each property manager to maintain) fidelity bonds or comparable other forms of insurance to provide loss protection in the event of employee theft, dishonesty or fraud.
 - i. Diligence: Each Advisor shall remain informed of competitive market conditions relative to managed properties and assure the same maintains a competitive position in the applicable geographic locale.
 - j. Significant Events: Each Advisor shall notify Staff in writing of any investigation, examination or other proceedings involving any managed property or a tenant thereof commenced by a regulatory agency or of any action, suit or other legal proceeding commenced against the Advisor or the owner of the property. The Advisor shall provide such notice within a reasonable period of time but in no event more than thirty (30) calendar days after Advisor's awareness of it. Advisors shall also provide notice to Staff of material events not projected in the Budget and Management Plan. Any notice shall be in writing and shall describe the event and the reasons therefore.
- 6) *Dispositions*. The following sections describe the disposition process for the real estate program. During the early years of the construction of the TCRS portfolio, it is expected that few (or no) properties recently acquired will be recommended for sale. Accordingly, for the first three years of each Advisor's relationship, each Advisor may do the annual disposition review in a summary form. Following the conclusion of the third year, each Advisor shall prepare the following items:
- a. Annual Disposition Review: Advisors of Co-Investment and Direct Investment separate accounts shall provide an annual disposition analysis of each asset under management, setting forth the Advisor's opinion as to the prudence of selling or retaining each investment and the reasons therefore. The disposition analysis shall include long and short-term hold/sell scenarios that incorporate an opportunity cost analysis. The disposition analysis shall be included in the Budget and Management Plan.

The disposition analysis is anticipated to contain, in addition to any other requirements set forth in any Investment Advisory Agreement, the following information:

- i) *Reasonableness of Valuation; Liquidity*: Review of the ability, given market conditions, to divest or liquidate each asset, and

determination of the current market value of each asset, i.e., the value at which an asset can be sold within a reasonable time (the "Disposition Value"). This analysis shall include a discussion of material assumptions on which any recommendation is based, including terms and conditions of any projected disposition and the estimated time frame within which such a disposition could be effected.

ii) *Strategic Evaluation:*

- a) Review of the original investment objectives relating to each investment and a variance analysis with the actual performance.
- b) Review of the compliance (e.g., projected returns) of an investment with the Real Estate Investment Policy, the Investment Plan and Advisor Investment Plan.
- c) Review of market trends relevant to the investment, including investment market conditions (such as comparable sales, capitalization rates, discount rates and growth rates, among other conditions) and the investment's competitive advantages and disadvantages in its market.

iii) *Opportunity Cost Analysis:*

- a) Review of each investment's total rate of return, net of advisor fees, based on the most recent market valuation.
- b) Review of each investment's projected short term (one to three years) and long-term (greater than three years) rates of return, net of advisor fees, based on the most recent market valuation.
- c) Review of an investment's actual internal rate of return since inception, assuming a sale at the Disposition Value.
- d) Review of an investment's actual internal rate of return since inception, assuming a sale at future points in time at an investment's then projected Disposition Value.

iv) *Reinvestment Opportunities:* If the Advisor recommends to sell or dispose of any investment, the disposition review shall include an analysis of available real estate investment opportunities for the proceeds of such disposition, consistent with the applicable investment criteria set forth in the Real Estate Investment Policy, Investment Plan and Advisor Investment Plan, if any, including an estimate of the costs and time required to effectuate such investment.

- a) Unsolicited Offers: The Advisor shall notify Staff of any unsolicited offer to purchase an asset of TCRS in excess of its Disposition Value. The Advisor shall prepare and

submit to Staff a written disposition analysis of the asset using the offered amount as the Disposition Value.

- b) Disposition Procedures and Reinvestment of Proceeds: In the event a Advisor recommends the sale or other disposition of any investment under management, the following procedures shall be utilized in managing the disposition process and the reinvestment of net sales proceeds:
- i) The Advisor shall recommend, if appropriate, the retention of a qualified independent real estate broker to assist in such sale. No broker shall be engaged, however, without the prior verbal approval of Staff (such approval including a review of the proposed fee or compensation to be paid to such real estate broker).
 - ii) Advisor shall develop and Staff shall review the marketing strategy for the investment.
 - iii) Advisor shall negotiate with potential purchasers, and in consultation with counsel, prepare appropriate sale documentation.
 - iv) If requested by Staff, the Advisor shall assist TCRS in the reinvestment of the net cash proceeds from the sale in such real estate investments consistent with the investment criteria set forth in the Investment Policy, Investment Plan and Advisor Investment Plan. However, Staff, in its sole discretion, may elect not to utilize the Advisor for reinvestment of such proceeds for any reason, including, but not limited to, as a result of the annual review of the Advisor's performance.

C. **Accounting and Financial Controls.**

The following policies apply to the accounting, financial control and reporting requirements for all Co-Investment and Direct Investment separate accounts. These policies are outlined herein to maintain consistency and accountability for the investments managed by Advisors on behalf of TCRS. These policies are to be followed by the Advisor and shall be amended as required by TCRS.

- 1) *Portfolio Financial Controls:* The Advisor's financial control and portfolio administration systems shall meet the following objectives:
 - a. Cash Management: The Advisor shall provide strict control over cash transactions and balances and will seek to ensure all excess funds are continually invested in accordance with its management agreement and any other governing documents approved by Staff. The Advisor shall maintain property accounts in a manner that will provide the liquidity needed to meet day-to-day obligations while maximizing returns. All monies shall be held and invested in FDIC insured accounts, or such other accounts as may be approved by Staff from time to time. The cash balances shall be segregated by client and property, unless otherwise determined by Staff. The segregation of accounts is required to ensure that no commingling of funds between Advisor's clients or TCRS's separate property investments exists. The Advisor's control system,

which oversees TCRS's cash management system, shall be reviewed periodically by Staff to ensure it is cost-effective, maximizes income on deposits and safeguards cash balances.

- b. Financial Control: The Advisor shall have an internal control system that protects assets, detects errors and seeks to ensure the reliability and validity of information generated by the accounting system. The internal controls shall be reviewed upon request of Staff to ensure conformity with generally accepted accounting principals (GAAP). The Advisor shall maintain a fidelity bond as set forth in Section V.B.5.h. above.
- 2) Accounting Policies: The Advisors shall comply with the accounting and reporting requirements set forth in the Real Estate Information Standards jointly prepared by NCREIF, NAREIM and PREA, as may be amended from time to time, and the AIMR Presentation Standards, as may be amended from time to time.
 - 3) Reporting Requirements: Unless previously addressed herein, the Advisors shall comply with the following reporting requirements:
 - a. Financial Statements: On a quarterly basis, the Advisors shall provide TCRS with combined financial statements for the entire portfolio and separate financial statements for each property in the portfolio. Audited financial statements shall be prepared annually by a nationally recognized auditing firm selected by the Advisor, subject to approval by Staff, and such audited financial statements shall include any property if so requested by TCRS. The cost of the annual audit and preparation of financial statements shall be allocated to the individual properties to the extent permitted given existing investment structures (e.g., partnerships may not permit TCRS's allocation of portfolio audit fees).
 - b. Budgets: The Advisors shall provide TCRS with the Budget and Management Plans and the Annual Report consistent in form and content with the requirements set forth herein. Any subsequent amendment to the operating and capital improvement budgets and the reasons therefore shall be communicated to TCRS in a timely manner.
 - c. Other Information: Each Advisor shall maintain complete and accurate books and records of the portfolio and each investment therein at all times. Each Advisor shall provide the TCRS and its representatives access to all such books and records upon reasonable notice. Each Advisor shall also maintain and furnish other reports, information and records requested by the TCRS relating to its real estate investments.

D. Performance Measurement Report.

A comprehensive reporting and evaluation system addressing each investment, Advisor and portfolio shall be prepared by the Consultant on a quarterly basis and presented to Staff quarterly. The Consultant shall provide such information as may be required to enable TCRS to administer its investments and Advisors.

Within three business (3) days prior to end of each quarter, Consultant shall forward to each Advisor a Performance Measurement Questionnaire. The Advisor shall forward its responses to the questionnaire within forty-five (45) calendar days following the last day of each quarter. Consultant shall prepare and forward to TCRS a Performance Measurement Report within ninety (90) calendar days following the last day of each quarter.

VII. INVESTMENT MANAGEMENT PROCEDURES FOR POOLED FUNDS.

The following procedures shall apply to all investments made in pooled or commingled funds, or vehicles where TCRS is one of many investors. The search related activity to be conducted in accordance with these procedures shall be completed in compliance with the Investment Policy and the annual Investment Plan, as each may be adopted and amended from time to time.

A. Investment Guidelines

The Investment Policy sets forth the primary investment guidelines and risk management policies that apply to the TCRS real estate program. All such investment guidelines and risk management policies apply to any commingled fund investments made pursuant to these Guidelines.

Certain additional investment guidelines specific to investing in commingled funds are set forth in this policy and apply to all investments made pursuant to this policy. These are set forth below.

- 1) *Investment Size*: The maximum amount of total capital TCRS may commit to each pooled fund at the time of the final closing is 0.5% of the total TCRS plan assets. There is no minimum size of investment; TCRS notes that many real estate commingled funds impose minimum investment amounts.
- 2) *Sponsor Co-investment*: TCRS prefers to invest in pooled funds where the capital commitment of the fund sponsor (or parent or related entity of a fund sponsor) or general partner represents a significant commitment in relation to the financial circumstances of the fund sponsor and its key personnel.
- 3) *Permissible investment vehicles*: TCRS may utilize any of the following types of vehicles in implementing its real estate strategy: private limited partnerships; private limited liability companies; private real estate investment trusts (REITs); and group trusts. Other forms of commingled investment vehicles may be utilized in the future if such vehicles provide limited liability protections similar to the foregoing vehicles and are permitted under Tennessee law. TCRS may also participate in secondary offerings or purchase commingled fund interests from other investors on the secondary market.

B. Pooled Fund Review Process

- 1) *Screening the Universe*: Selection of investment candidates for consideration by TCRS shall be the primary responsibility of the DRE, with assistance and support provided by the Consultant. From time to time, or in accordance with any Annual Investment Plan that calls for deploying capital into pooled funds, the Consultant shall supply information relative to the universe of prospective pooled fund opportunities consistent with the investment goals and objectives of the TCRS program. The Consultant will supply such information and related documentation to the DRE, using such filters as appropriate for the type of investment sought (e.g., investment risk, property type, investment structure, etc.).

The DRE will conduct an initial screening of suitable offerings from a universe identified by the Consultant's databases, drawing upon the DRE and Consultant's meetings with fund sponsors and their agents, and established

relationships. The DRE will preliminarily screen the documents pertinent to an investment opportunity, including the offering memorandum, and identify possible issues. The DRE and/or Consultant may meet with the investment manager or sponsor to discuss the proposed pooled fund investment.

The initial screen will focus on the identification of potential investment candidates that clearly meet TCRS Investment Policy and real estate investment strategy, and conform to the diversification and other risk management policies set forth in the Investment Policy and these Guidelines, and consistent with any capital allocations set forth in the annual Investment Plan.

- 2) *Due diligence process:* After identifying potential candidates, the DRE will perform extensive due diligence on potential pooled fund offerings, including, but not limited to, the following criteria (for each item, the DRE has the option of relying solely on due diligence previously performed by the Consultant):
 - a. Investment performance of previous funds, which the DRE may obtain from the fund sponsor and seek confirmation from the Consultant;
 - b. The quality, stability, depth and experience of investment professionals;
 - c. A clearly defined and maintained investment strategy during the investment period;
 - d. Fund co-investment by the general partner, affiliate or fund sponsor, which promotes the alignment of sponsor's interests with the investors' interests;
 - e. Adequacy of operational and reporting systems and personnel;
 - f. Terms and conditions of the fund, including but not limited to fees, promoted interests, key man provisions and removal and/or replacement of the general partner by the limited partners;
 - g. Clearly defined due diligence procedures for sourcing, underwriting and closing investments and for exiting such investments within the time frame of the fund life;
 - h. Client base and references;
 - i. Ability to aggregate TCRS capital with other clients of the Consultant to allow the negotiation of preferred fees and other terms that benefit TCRS.

The DRE may discuss the investment opportunity with the Consultant, and presentations and meetings between Staff and the investment manager or sponsor will be arranged as necessary to address issues and questions.

If the DRE and Consultant's due diligence efforts are favorable, the DRE shall prepare a brief written summary which shall provide such information to evaluate the proposed investment relative to the Investment Policy, Investment Plan and these Investment Guidelines. The Pooled Fund Summary is anticipated to identify the salient investment characteristics of a proposed pooled fund investment and focus upon the criteria noted above. The DRE anticipates that most Pooled Fund Summaries typically will be between 3 to 6 pages in length.

The DRE shall present the Pooled Fund Summary to the CIO for review and approval to proceed further. If the proposed pooled fund investment is

approved by the CIO, the proposed investment shall be presented to the IAC and Investment Committee.

- 3) *Consultant review:* If requested by the DRE, the Consultant will prepare and submit to the DRE a written recommendation advocating approval or disapproval of the proposed investment, its compliance with the Investment Policy, Annual Investment Plan and current real estate program strategy, and any recommendations for amendment or contingencies to be resolved prior to final investment.
- 4) *Review process:* If the DRE and Consultant's due diligence efforts are favorable, a written recommendation to invest in the pooled fund will be presented to the IAC and Investment Committee.
- 5) *Final due diligence and documentation:* Upon approval of a proposed pooled fund investment by the Investment Committee, the DRE may conduct a due diligence visit with the firm to complete final due diligence and review all appropriate documentation. Legal counsel will be furnished investment documents for those investments approved by the Investment Committee, and legal counsel will further identify issues and discuss and resolve these with the DRE.

[http://ttgsq/clientsportal/documentlibrary/TCRS/Strategic and Investment Plans/2004/Updated Investment Guidelines Final 10-29-04](http://ttgsq/clientsportal/documentlibrary/TCRS/StrategicandInvestmentPlans/2004/UpdatedInvestmentGuidelinesFinal10-29-04)

Exhibit A

**Tennessee Consolidated Retirement System
INVESTMENT REGISTRATION FORM**

Advisor:
Project ID#:

Submitted By:
Date:

Project Name:

Location:

Property Type:

Size:

Property Description:

Year Built:

Type of Construction:

Investment Structure:

Co-Investor(s):

Total Investment Amount:

Estimated Returns & Fees:

Owner/Seller:

Tenants (>10%):

Variances from Policy, Investment Plan or Advisor Investment Plan:

Allocation History:

Comments:

**REAL ESTATE INVESTMENT ADVISORS
ENGAGED BY THE TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**

Cornerstone Real Estate Advisors, Inc.

J.P. Morgan Investment Management Inc.

Clarion Partners, LLC

Principal Real Estate Investors, LLC

TA Associates Realty

ATTESTATION RE PERSONNEL USED IN CONTRACT PERFORMANCE

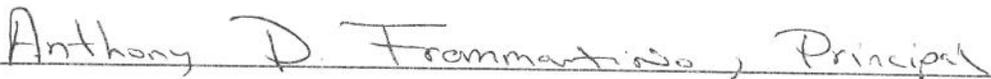
SUBJECT CONTRACT NUMBER:	
CONTRACTOR LEGAL ENTITY NAME:	The Townsend Group, Inc.
FEDERAL EMPLOYER IDENTIFICATION NUMBER: (or Social Security Number)	34-1537656

The Contractor, identified above, does hereby attest, certify, warrant, and assure that the Contractor shall not knowingly utilize the services of an illegal immigrant in the performance of this Contract and shall not knowingly utilize the services of any subcontractor who will utilize the services of an illegal immigrant in the performance of this Contract.

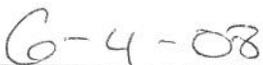


CONTRACTOR SIGNATURE

NOTICE: This attestation MUST be signed by an individual empowered to contractually bind the Contractor. If said individual is not the chief executive or president, this document shall attach evidence showing the individual's authority to contractually bind the Contractor.



PRINTED NAME AND TITLE OF SIGNATORY



DATE OF ATTESTATION