

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: 615.253.6150
Sender's email: Alison.Cleaves@tn.gov

MEMORANDUM

TO: Fiscal Review Committee

FROM: Alison Cleaves,
Legal Services Director

DATE: August 30, 2017

SUBJECT: Amendment Requests for International Manager Contracts

Attached please find for your consideration nine (9) amendment requests relative to the Tennessee Consolidated Retirement System's ("TCRS") contracts with international equity managers. Eight (8) of the nine contracts will require either an increase or decrease in the contract maximum liability; the contractors are as follows: Walter Scott and Partners Limited; FIAM, LLC; American Century Global Investment Management, Inc.; TT International; State Street Global Advisors Trust Company; PanAgora Asset Management, Inc.; Marathon Asset Management, LLP; and Baring International Investment Limited. One (1) of the contracts requires a reduction in the contractor's fees, and that contractor is Mondrian Investment Partners. The TCRS is managed and administered by the Department of Treasury staff. This management and administration includes the investment of TCRS assets on behalf of plan participants. All of TCRS plan assets are managed internally by Department of Treasury investment division employees, with the exception of international equities that are managed by contractors at the direction of the investments division employees. Because some of the contractors have outperformed expectations, the Department of Treasury is seeking to amend those contracts to increase maximum liability. For those contracts in which it is anticipated that the maximum liability will not be met or exceeded prior to the conclusion of the contracts, the Department is seeking to reduce the maximum liability so it is more accurately reflected in the contract.

The following international equity manager contracts need to be amended to adjust maximum liability:

Walter Scott and Partners Limited – decrease maximum liability by \$1,746,275.48;
FIAM, LLC- increase maximum liability by \$1,820,000.00;
American Century Global Investment Management, Inc.- decrease maximum liability by \$737,814.38;

TT International- increase maximum liability by \$300,000.00;
State Street Global Advisors Trust Company – decrease maximum liability by \$2,000,000.00;
PanAgora Asset Management, Inc. – increase maximum liability by \$2,200,000.00;
Marathon Asset Management, LLP- increase maximum liability by \$6,300,000.00; and
Baring International Investment Limited- decrease maximum liability by \$3,460,000.00.

Additionally, TCRS's contract with Mondrian Investment Partners will need to be amended to adjust its fees under its contract. Amendment A to Mondrian's contract, which contains its fees, is being amended to include a basis point fee for assets managed by Mondrian over \$500 million, which will reduce the fee charge for assets of this size. The tiered fee approach contained in Mondrian's original Attachment A did not contemplate managing assets over \$500 million.

Supplemental Documentation Required for
Fiscal Review Committee

*Contact Name:	Alison Cleaves	*Contact Phone:	(615) 253-6150		
*Presenter's name(s):	David, H. Lillard, Jr.				
Edison Contract Number: <i>(if applicable)</i>	FA-09-26990	RFS Number: <i>(if applicable)</i>			
*Original or Proposed Contract Begin Date:	January 2, 2009	*Current or Proposed End Date:	January 1, 2019		
Current Request Amendment Number: <i>(if applicable)</i>	2				
Proposed Amendment Effective Date: <i>(if applicable)</i>	October 15, 2017				
*Department Submitting:	Department of Treasury				
*Division:	Investments				
*Date Submitted:	August 15, 2017				
*Submitted Within Sixty (60) days:	Yes				
<i>If not, explain:</i>	N/A				
*Contract Vendor Name:	American Century Global Investment Management, Inc.				
*Current or Proposed Maximum Liability:	\$16,737,814.38 (current); \$16,000,000.00 (proposed)				
*Estimated Total Spend for Commodities:	See Excel Spreadsheet				
*Current or Proposed 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: 2014
\$272,461,39	\$1,040,14 6.12	\$1,296,876 .74	\$1,238,117.5 1	\$1,396,910 .18	\$1,663,200.0 0
FY:2015	FY:2016	FY:2017	FY:2018	FY:2019	
\$1,829,520.00	\$2,012,47 2.00	\$2,213,719 .20	\$2,435,091.1 2	\$1,339,300 .12	
*Current Total Expenditures by Fiscal Year of Contract: (attach backup documentation from Edison)					
FY:2009	FY:2010	FY:2011	FY:2012	FY:2013	FY:2014
\$106,488.76	\$942,229. 88	\$1,203,082 .87	\$1,285,766.1 7	\$1,347,227 .64	\$1,130,115.3 8
FY:2015	FY:2016	FY:2017			
\$2,086,086.80	\$2,088,81 8.64	\$1,899,444 .34			
IF Contract Allocation has been greater than Contract Expenditures, please give the			Surplus funds are being addressed through this amendment request to reduce maximum liability to align with actual		

Supplemental Documentation Required for
Fiscal Review Committee

reasons and explain where surplus funds were spent:	costs.		
IF surplus funds have been carried forward, please give the reasons and provide the authority for the carry forward provision:	See above.		
IF Contract Expenditures exceeded Contract Allocation, please give the reasons and explain how funding was acquired to pay the overage:	N/A.		
*Contract Funding Source/Amount:			
State:		Federal:	
<i>Interdepartmental:</i>		<i>Other:</i>	\$16,737,814.38
If “ <i>other</i> ” please define:	Tennessee Consolidated Retirement System participant earnings		
If “ <i>interdepartmental</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>		
Amendment 1 dated January 1, 2014	Extended the term, adjusted maximum liability and added a regulatory provision.		
Method of Original Award: <i>(if applicable)</i>	Alternative Competitive Procurement Method		
*What were the projected costs of the service for the entire term of the contract prior to contract award? How was this cost determined?			
*List number of other potential vendors who could provide this good or service; efforts to identify other competitive procurement alternatives; and the reason(s) a sole-source contract is in the best interest of the State.			

Amendment Request

This request form is not required for amendments to grant contracts. Route a completed request, as one file in PDF format, via e-mail attachment sent to: Agsprs.Agsprs@tn.gov

APPROVED

CHIEF PROCUREMENT OFFICER

DATE

Agency request tracking #	309.01-126-09	
1. Procuring Agency	Tennessee Consolidated Retirement System	
2. Contractor	American Century Global Investment Management, Inc.	
3. Edison contract ID #	FA-09-26990	
4. Proposed amendment #	2	
5. Contract's Original Effective Date	January 2, 2009	
6. Current end date	January 1, 2014	
7. Proposed end date	January 1, 2014	
8. Current Maximum Liability or Estimated Liability	\$ 16,737,814.38	
9. Proposed Maximum Liability or Estimated Liability	\$ 16,000,000.00	
10. Strategic Technology Solutions Pre-Approval Endorsement Request – information technology service (N/A to THDA)	<input checked="" type="checkbox"/> Not Applicable <input type="checkbox"/> Attached	
11. eHealth Pre-Approval Endorsement Request – health-related professional, pharmaceutical, laboratory, or imaging	<input checked="" type="checkbox"/> Not Applicable <input type="checkbox"/> Attached	
12. Human Resources Pre-Approval Endorsement Request – state employee training service	<input checked="" type="checkbox"/> Not Applicable <input type="checkbox"/> Attached	
13. Explain why the proposed amendment is needed	<p>The Tennessee Consolidated Retirement System (“TCRS”) is seeking approval to amend its contract with American Century Global Investment Management, Inc. (“American Century”) to decrease the contract’s maximum liability by \$737,814.38. American Century is one (1) of thirteen (13) international equity managers utilized by TCRS to trade its international equities for the retirement system trust fund. In anticipation of the contract’s end date, the Department of Treasury investments staff determined that there is an excess in maximum liability relative to this contract and would like to adjust the maximum liability to reflect the accurate contract cost for this service.</p>	

Agency request tracking #	309.01-126-09
14. If the amendment involves a change in Scope, describe efforts to identify reasonable, competitive, procurement alternatives to amending the contract. The amendment does not involve a change in the scope of services.	
Signature of Agency head or authorized designee, title of signatory, and date (the authorized designee may sign his or her own name if indicated on the Signature Certification and Authorization document)	

**AMENDMENT 2
OF CONTRACT FA-09-26990**

This Amendment is made and entered by and between the State of Tennessee, Tennessee Consolidated Retirement System, hereinafter referred to as the "State" and American Century Investment Management, Inc. hereinafter referred to as the "Contractor." For good and valuable consideration, the sufficiency of which is hereby acknowledged, it is mutually understood and agreed by and between said, undersigned contracting parties that the subject contract is hereby amended as follows:

Section C.1. in the Contract is amended by deleting the language and numbers "sixteen million seven hundred thirty-seven thousand eight hundred fourteen dollars and thirty-eight cents (\$16,737,814.38)" and replacing it with the language and numbers "sixteen million dollars (\$16,000,000.00)".

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 October 15, 2017. All other terms and conditions of this Contract not expressly amended herein shall remain in full force and effect.

IN WITNESS WHEREOF,

AMERICAN CENTURY INVESTMENT MANAGMENT, INC.:

SIGNATURE

DATE

PRINTED NAME AND TITLE OF SIGNATORY (above)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM:

DAVID H. LILLARD, JR., STATE TREASURER

DATE

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6-3 of
#758

REQUEST: ALTERNATIVE PROCUREMENT METHOD

<p>APPROVED</p> <p><i>John G. Margum</i></p> <p>Comptroller of the Treasury</p> <p>Date: 7-25-08</p>	<p>RECEIVED</p> <p>2008 JUL 17 PM 1:57</p> <p><i>M.D. Goetz</i></p> <p>COMPTROLLER'S OFFICE MANAGEMENT SERVICES</p> <p>Commissioner of Finance & Administration</p> <p>Date: JUL 17 2008</p>
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1) RFS #	309.01-126
2) State Agency Name	Treasury Department
3) Service Caption :	International Equity Investment Management
4) Contract Start Date : (attached explanation required if date is < 60 days after F&A receipt)	October 1, 2008
5) Contract End Date IF <u>all</u> Options to Extend the Contract are Exercised :	September 30, 2018
6) Total Maximum Cost IF <u>all</u> Options to Extend the Contract are Exercised :	\$30,000,000 per contract (This is an estimate in that the amount will be based on the winning vendor's proposal). Further, the actual fees paid to the winning vendor will depend on the investment performance of the vendor and will be paid from the investment earnings of the Tennessee Consolidated Retirement System's funds as authorized by T.C.A. § 8-37-111.
7) Description of Service to be Acquired :	The services to be acquired are the utilization of external investment management firms who will invest and otherwise manage the Tennessee Consolidated Retirement System's international equity portfolio as authorized by Tennessee Code Annotated, Section 8-37-114.
8) Justification for Using an Alternative Procurement Method Rather Than an RFP :	In 1995, the Tennessee General Assembly enacted Tennessee Code Annotated, Section 8-37-114, which authorizes the Tennessee Consolidated Retirement System to contract with external managers for the investment of its international securities, and to provide for the powers, duties, functions and compensation for any investment managers so engaged. Section 8-37-114 further provides that any contract for such investment management services shall be procured in the manner prescribed by the Board of Trustees of the Retirement System. Section 8-37-114 also provides that the procurement method may include the requirement that the Retirement System's investment consultant (Strategic Investment Solutions, Inc.) initially evaluate and make recommendations regarding proposals submitted by such investment managers. As a consequence of this provision, the contract between the Retirement System and its investment consultant provides that at the Retirement System's request, the consultant shall provide analysis of and assist the Retirement System in acquiring any external international investment managers desired by the Retirement System. It further provides that at the direction of the Retirement System, the consultant shall prepare and/or issue a questionnaire to entities that are in the business of providing international stock portfolio management for the purpose of defining the international investment services needed by the Retirement System, to solicit proposals for the provision of such services and to gain adequate information by which the Retirement System may evaluate the services offered by proposers. The contract further states that if requested by the Retirement System, the consultant shall review the proposals and recommend a certain number of international investment managers for consideration by the Retirement System.

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Since 1995, the Retirement System has procured the requisite international equity investment management services pursuant to the alternative procurement process as authorized in Section 8-37-114 and as outlined in this request. The use of such alternative process has resulted in the selection of investment managers that have provided good to excellent investment performance for the Retirement System's international equity portfolio.

9) Proposed Alternative Procurement Procedures & Contractor Selection Criteria:

First, the consultant will prepare for the Retirement System's approval a questionnaire to entities that are in the business of providing international stock portfolio management for the purpose of defining the international investment services needed by the Retirement System, to solicit proposals for the provision of such services and to gain adequate information by which the Retirement System may evaluate the services offered by proposers. The questionnaire will welcome proposals to manage the following international equity investment mandates: Broad EAFE, Concentrated EAFE, Small Cap EAFE and EAFE Regional Subsets. Proposing firms will be required to identify each mandate for which a proposal is being made and must meet or exceed the following mandatory requirements in order for that manager's questionnaire response to be accepted:

1. Broad EAFE

- a) Mandate Style
 - i) Mid-Large Cap OR Large Cap OR All Cap; and
 - ii) Core OR Growth OR Value; and
 - iii) Number of holdings > 50 securities
- b) Live track record of at least five (5) years
- c) Assets under Management (AUM)
 - i) Product Institutional AUM > or = \$1 B, and
 - ii) At least two (2) institutional separate accounts > or = \$50 mm
- d) Performance
 - i) Annualized tracking error versus stated benchmark > 1%, and
 - ii) Annualized excess return versus stated benchmark > 0%

2. EAFE Regional Subsets (Europe and Asia Pacific)

- a) Mandate Style
 - i) Mid-Large Cap OR Large Cap OR All Cap; and
 - ii) Core OR Growth OR Value, and
 - iii) Pan European OR Pacific Basin (no UK- or Japan-only; no Europe ex-UK or Pacific Basin ex-Japan)
- b) Live track record of at least 5 years
- c) Assets under Management (AUM)
 - i) Product AUM > or = \$500 mm; and
 - ii) Product Institutional AUM > or = \$250 mm; and
 - iii) At least one (1) institutional separate account > or = \$50 mm
- d) Performance
 - i) Annualized excess return versus stated benchmark > 0%

3. Concentrated EAFE

- a) Mandate Style
 - i) Mid-Large Cap OR Large Cap OR All Cap; and
 - ii) Core OR Growth OR Value; and
 - iii) Number of holdings of approximately 50 securities or less
- b) Live track record of at least five (5) years
- c) Assets under Management (AUM)
 - i) Product AUM >= \$1 B
 - ii) Product Institutional AUM >= \$500 mm
 - iii) At least one (1) institutional separate account >= \$50 mm

c) Performance

- i) Annualized excess return versus stated benchmark > 0%

4. Small Cap EAFE

a) Mandate Style

- i) Micro Cap OR Small Cap OR Small-Mid Cap, and
- ii) Core OR Growth OR Value

b) Live track record of at least three (3) years

c) Assets under Management (AUM)

- i) Product AUM >= \$500 mm; and
- ii) Product Institutional AUM > or = \$250 mm

d) Performance

- i) Annualized excess return versus stated benchmark > 0%

The Consultant will then evaluate each proposal submitted in response to the questionnaire to determine if it meets the mandatory requirements set forth above. All non-qualifying proposals will be considered non-responsive and will not be evaluated. The Consultant will then perform an evaluation of the questionnaire responses that incorporates a combination of quantitative and qualitative analysis. The quantitative criteria that will be applied are:

- Consistent above-median performance versus an appropriate peer group over various time periods
- Consistent excess returns versus the stated benchmark over various time periods
- Attractive risk/reward characteristics over longer time periods
- Critical mass of assets to minimize business risk
- Portfolio characteristics diversification/concentration
- Style (returns- and holdings-based analysis)

The qualitative assessment will involve the following areas:

- Ownership Structure and Succession Plans
- Compensation Structures for Investment Professionals
- Investment Philosophy and Process
- Team Organization, Depth and Experience
- Risk Management Tools and Process
- Composite Construction Practices and CFA Institute GIPS Compliance
- Legal and Regulatory Issues
- Operations/Back Office Systems and Procedures
- Business Practices and Potential Conflicts of Interest
- Available Fee Structure and "Most Favored Nation" Clauses
- Product Focus and New Products in Incubation
- Client Focus – Retail vs. Institutional
- Workforce Diversification and Employment Policies
- Insurance Coverage (e.g. Errors & Omissions) and Usage

Questionnaires that demonstrate manager excellence in responding to changing market environments beyond that which may be attributed to style or fortuitous factor exposure and which are competitive to all other questionnaire responses will be deemed semi-finalists and forwarded by the consultant to the Retirement System for further evaluation. An evaluation committee/team that will be composed of three to eight Tennessee state employees, a majority of which are expected to be members of the Retirement System's investment staff will independently evaluate the finalists based on the questionnaire responses. The State will make the final decision in the selection of any such investment manager.

10) Documentation of Office for Information Resources Endorsement :
(required only if the subject service involves information technology, N/A to THDA requests)

select one:



Documentation Not Applicable to this Request



Documentation Attached to this Request

11) Documentation of Department of Personnel Endorsement :
(required only if the subject service involves training for state employees)

select one:



Documentation Not Applicable to this Request



Documentation Attached to this Request

REQUESTING AGENCY HEAD SIGNATURE & DATE :
(must be signed & dated by the procuring agency head or authorized signatory)

Dale Lims EH

7/16/08

Agency Head Signature

Date



STATE OF TENNESSEE
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
502 DEADERICK STREET
NASHVILLE, TENNESSEE 37243-0201

DALE SIMS
STATE TREASURER

JILL BACHUS
DIRECTOR

MEMORANDUM

TO: Sylvia Chunn
Office of Contracts Review

FROM: Mary Roberts-Krause *MRK*
General Counsel

DATE: November 6, 2008

RE: *Legal Counsel Recommendation for Revisions to Model FA Contract – RFP #309.01-126*

Pursuant to the policies of the Office of Contracts Review, this memorandum is to serve as my recommendation for inclusion of the following provisions to the Model Contract in the pro forma contract contained in RFP #309.01-126.

E.5 Representations and Covenants of the Contractor. The Contractor represents and warrants that (1) it has no interest and shall not acquire any interest, direct or indirect, which would conflict in any manner or degree with the performance of services under this Contract; (2) with respect to the Account, it shall not engage in transactions with either itself, including any affiliates or parent companies, except upon the prior written approval of the Retirement System; (3) it is duly authorized to execute and deliver this Contract, and to perform its obligations hereunder and has taken all necessary action to authorize such execution, delivery and performance; (4) the person signing this Contract on its behalf is duly authorized to do so on its behalf; (5) it has obtained all authorizations of any governmental body required in connection with this Contract and the transactions hereunder and such authorizations are in full force and effect; and (6) the execution, delivery and performance of this Contract will not violate any law, ordinance, charter, by-law or rule applicable to it or any agreement by which it is bound or by which any of its assets are affected. The Contractor shall promptly notify the Retirement System in writing if any of the above representations change or cease to be true and correct in all respects.

E.6, Confidentiality and Publicity. The Contractor shall treat as confidential all proprietary information and materials affecting the Account. Except as otherwise required by law, the Contractor further undertakes not to release any materials to third parties without the Retirement System's prior written

November 6, 2008

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permission. The Contractor agrees that all reports, studies, analyses, specifications, recommendations and all other materials of whatsoever nature, prepared by the Contractor specifically for use under this Contract or furnished to the Contractor by the Retirement System for use under this Contract, are to be considered confidential, and that the Contractor will neither publish, circulate nor use any of the foregoing, except in the performance of its work under this Contract or except as otherwise required by law. The Contractor agrees that it will not issue any news releases to the public press or any publication wholly or partly related to its work under this Contract without first obtaining the prior written consent of the Retirement System. The Contractor further agrees that it will not make speeches, engage in public appearances, publish articles or otherwise publicize its work under this Contract without prior written approval of the Retirement System. This Paragraph is not intended to prevent the Contractor from advertising the fact that the Contractor performed or performs the services hereunder on behalf of the Retirement System.

If you have any questions concerning this matter, please do not hesitate to call me at 253-3855.

REQUEST FOR RULE 0620-3-3-.05 EXCEPTION TO DELETE OR REVISE REQUIRED CONTRACT LANGUAGE

NOTE: Approval of a rule exception is NOT required to delete or revise contract language as permitted by model language policy instructions.

APPROVED

MD Goetz JTB
11/6/08

Commissioner of Finance & Administration

Date:

RFS # 309 01-126-09

INFORMATION ABOUT THE EXCEPTION(S) REQUESTED

SPECIFIC MODEL POLICY APPLICABLE TO THIS REQUEST :

FA-Type, Fee-for-Service Contract Model Policy

EXACT TEXT OF SUBJECT, REQUIRED CONTRACT PROVISION :

Item (1) No similar required contract provision.

Item (2) 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.

EXACT TEXT OF PROPOSED, CONTRACT LANGUAGE : (proposed language to replace that detailed above)

Item (1) C.4. Reduction in Compensation. The Contractor represents and warrants that the fees set forth in Section C.3 above are no greater than the fees charged by the Contractor for its other ERISA or other U.S. public retirement fund clients where: (i) assets under management are substantially identical in investment style and investment program to the Retirement System; (ii) total assets under management are comparable to the market value of the assets in the Account; and (iii) the fee arrangement in question was not agreed with the other ERISA or U.S. public retirement fund client prior to the date on which the Contractor and the Retirement System entered into this Contract. If, during the term of this Contract, the Contractor enters into a fee schedule that is lower than the fee hereunder for its other ERISA or U.S. public retirement fund clients for a class of assets and with an investment program substantially identical to that hereunder, and with a market value comparable to that of the Account, Section C.3 shall be deemed automatically amended to substitute said reduced fees in place of the fees provided in Section C.3 for the remainder of this Contract.

Item (2) Wire Transfer. The payment of compensation to the Contractor hereunder shall be made via wire transfer in immediately available funds pursuant to federal wire transfer instructions given to the Retirement System by the Contractor.

JUSTIFICATION : (compelling rationale for and validation of request to delete or revise required contract language)

Item (1) The clause is known as a most favored nation clause, and is common among public pension plan investment manager contracts. The clause is to the advantage of the Tennessee Consolidated Retirement System in that it ensures that the Retirement System pays no more than the lowest fees the international equity manager charges to its other retirement fund clients of similar size and with similar assets under management.

Item (2) The vast majority of our international investment managers are located in foreign countries. We cannot make

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By OCR at 3:35 pm, Nov 06, 2008

international ACH payments.

INFORMATION REGARDING THE APPLICABLE CONTRACT

CONTRACTOR :	Baring International Investment Limited; GE Asset Management Incorporated; Marathon Asset Management LLP; PanAgora Asset Management, Inc.; SG Asset Management (Singapore) Ltd.; TT International; Walter Scott & Partners Limited; American Century Investments; and Pyramis Global Advisors	
SERVICE INVOLVED :	Supervise and manage the Tennessee Consolidated Retirement System's international equity investment portfolio.	
BEGIN DATE :	October 15, 2008	
END DATE (including ALL options for term extension) :	September 30, 2018	
MAXIMUM LIABILITY (including ALL options for term extension) :	Average amount would be approximately \$30,000,000 per contract (This is an estimate in that the actual fees paid to the vendor will depend on the investment performance of the vendor). The fees will be paid from the investment earnings of the Tennessee Consolidated Retirement System as authorized by T.C.A. § 8-37-111.	
AGENCY HEAD REQUEST SIGNATURE: (signed by the procuring agency head or authorized signatory).		
	SIGNATURE DATE:	November 6, 2008

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REQUEST: RULE EXCEPTION

APPROVED

Commissioner of Finance & Administration
Date: JUL 17 2008

RFS #	309.01 — 126 — 09
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INFORMATION ABOUT THE EXCEPTION(S) REQUESTED

SUBJECT RULE NUMBER(S) :

Rule 0620-3-3-.07(5) for an exception permitting a contract term that could be greater than five (5) years.

DESCRIPTION OF EXCEPTION(S) :

The Tennessee Consolidated Retirement System seeks a rule exception to permit an initial five-year contract for investment management services for the System's international equity portfolio with the right, at the Retirement System discretion, to extend the contract for an additional five (5) years period.

JUSTIFICATION : (compelling rationale for and validation of rule exception request)

In 1995, the Tennessee General Assembly enacted Tennessee Code Annotated, Section 8-37-114, which authorizes the Tennessee Consolidated Retirement System to contract with external managers for the investment of its international securities, and to provide for the powers, duties, functions and compensation for any investment managers so engaged. A contract for such services that lasts less than ten (10) years is neither feasible nor practicable and, in fact, could be detrimental to retirement assets. Management of assets for a pension is a unique process. The termination of external international investment managers at an arbitrary time frame is not conducive to good asset management. Investment managers have total discretion as to the stocks they buy and sell. A new manager will construct a different portfolio with many stocks being sold and new stocks purchased. Portfolio turnover other than for unsatisfactory performance is normally detrimental to investment performance due to several factors. A few of these factors are that (1) buying and selling numerous stocks at a time could have an adverse impact on the market, and (2) the Retirement System would have to pay commissions to brokers for the securities being bought and sold.

Due to the nature of managing a portfolio for a pension plan, it can be detrimental to the performance of the pension fund to change managers within less than two investment cycles (within less than ten (10) years). Preferably, external managers should be terminated for failure to meet the objectives established for the firm. Here, the Retirement System's internal investment staff receives a quarterly investment performance report on each manager from an independent investment consultant. This report compares the manager's performance to peers and to benchmarks. The report contains detailed information which explains performance as it relates to stock selection, sector selection, country selection and currency. The report also distinguishes between different investment styles, such as value, growth, growth at a reasonable price and etc. The Retirement System's internal investment staff continually monitors each manager on performance and adherence to investment style. The contract will contain a thirty-day termination for convenience clause which allows staff to terminate the contract for unsatisfactory performance or for concern in turnover of the firm's investment staff.

INFORMATION REGARDING THE APPLICABLE CONTRACT

CONTRACTOR :	TBD
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SERVICE INVOLVED :	The services to be acquired are the utilization of external investment management firms who will invest and otherwise manage the Tennessee Consolidated Retirement System's international equity portfolio as authorized by Tennessee Code Annotated, Section 8-37-114.
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BEGIN DATE :	October 1, 2008
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END DATE (including ALL options for term extension) :	September 30, 2018
MAXIMUM LIABILITY (including ALL options for term extension) :	\$30,000,000 per contract (This is an estimate in that the amount will be based on the winning vendor's proposal). Further, the actual fees paid to the winning vendor will depend on the investment performance of the vendor and will be paid from the investment earnings of the Tennessee Consolidated Retirement System's funds as authorized by T.C.A. § 8-37-111.
AGENCY HEAD REQUEST SIGNATURE: (signed by the procuring agency head or authorized signatory)	
	SIGNATURE DATE: Dale Sims # 7/16/08

From: Mary Roberts-Krause
To: Chunn, Sylvia
Date: 11/7/2008 10:08 AM
Subject: Explanation for not including the VBP language in international investment manager contracts

Sylvia: The VBP language was not included in the international investment manager contracts because at the time the questionnaire and pro forma contract were issued, the language was not required. The language became mandatory after August 26, 2008. However, the questionnaire (which included the pro forma contract) was issued to the public on July 25, 2008. If you have any questions or need any additional information, please do not hesitate to e-mail or call me. My telephone number is 253-3855. Thanks! Mary Krause

List of Service Providers Solicited

Firm	Address 1	Address 2	City, State, Zip	Primary Contact	Title	Email Address
American Century Investments	666 Third Avenue	23rd Floor	New York, NY 10017	Joel Brous	Vice President, Account Executive	jwb@americancentury.com
Dimensional Fund Advisors LP	1299 Ocean Avenue		Santa Monica, CA 90401	Carol Wardlaw	Vice President	Carol.Wardlaw@dimensional.com
Harris Associates L.P.	Two North LaSalle	Suite 500	Chicago, IL 60602	Keith D. Watson	Director, Marketing and Client Relations	kwatson@harrisassoc.com
Lazard International Small Cap Equity	30 Rocketteller Plaza		New York, NY 10112	Mr. Tony J. Dole, Jr.	Managing Director	Tony.Dole@lazard.com
Mondrian Investment Partners Limited ("Mondriani")	Two Commerce Square	3810	Philadelphia, PA 19103	Todd Ritterhouse	Senior Vice President	Todd.Ritterhouse@mondrian.com
Pictet Asset Management Ltd	1800 McGill College Ave	Suite 2900	Montreal, QC H3A 3J6	Douglas Balleine	Vice President	dballeine@pictet.com
Principal Global Investors, LLC	801 Grand Avenue		Des Moines, Iowa 50392-0678	Eric Lareau	Director, Institutional Advisory Services	Lareau.eric@principal.com
Pyramis Global Advisors, LLC	53 State Street		Boston, Ma. 02109	Gerard Branka	SVP Sales Relationship Manager	Gerard.Branks@FMFI.Com
Schroder Investment Management	875 Third Avenue		New York, NY 10022	Christopher E. Cook	Institutional Business Development Director	chris.cook@us.schroders.com
Slate Street Global Advisors	Slate Street Financial Center	One Lincoln Street	Boston, MA 02111	Mike Brown	Vice President, Consultant Liaison	mike_brown@ssga.com
Victory Capital Management Inc.	127 Public Square		Cleveland, OH 44114-1306	Jack J. Calcagno	Managing Director, Public Funds	Jack_J_Calcagno@VictoryConnect.com
Waller Scott & Partners Limited	One Charlotte Square, Edinburgh, EH2 4DZ, Scotland, UK			Dr. Kenneth J. Lyall	Chairman	kl@wallerscott.com
Martin Currie Inc.	1350 Avenue of the Americas	Suite 3010	New York, NY 10019	Dan Miland	Vice president North American client services & dniland@martincurrie.com	
Artisan Partners	875 East Wisconsin Avenue	Suite 800	Milwaukee, WI 53202	Robert Paulson	Institutional Client Services	

CONTRACT SUMMARY SHEET

021908

RFS #	Contract #
309.01—126—09	FA-
State Agency	State Agency Division
Tennessee Treasury Department	Tennessee Consolidated Retirement System
Contractor Name	Contractor ID # (FEIN or SSN)
American Century Global Investment Management, Inc.	<input type="checkbox"/> C- or <input checked="" type="checkbox"/> V- XXXXXXXXXX

Service Description

The Contractor will supervise and manage the Tennessee Consolidated Retirement System's international equity investment portfolio. *The money for these services comes from the investment earnings of the Tennessee Consolidated Retirement System.*

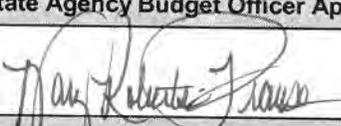
Contract Begin Date	Contract End Date	SUBRECIPIENT or VENDOR?	CFDA #
January 2, 2009	January 1, 2014	Vendor	

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	829	50		

FY	State	Federal	Interdepartmental	Other	TOTAL Contract Amount
2009				\$1,053,000	\$1,053,000
2010				\$2,106,000	\$2,106,000
2011				\$2,106,000	\$2,106,000
2012				\$2,106,000	\$2,106,000
2013				\$2,106,000	\$2,106,000
2014				\$1,053,000	\$1,053,000
TOTAL:				\$10,530,000	\$10,530,000

— 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
			
			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:			
End Date:			

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

<input type="checkbox"/> African American	<input type="checkbox"/> Person w/ Disability	<input type="checkbox"/> Hispanic	<input type="checkbox"/> Small Business	<input type="checkbox"/> Government
<input type="checkbox"/> Asian	<input type="checkbox"/> Female	<input type="checkbox"/> Native American	<input checked="" type="checkbox"/> NOT Minority/Disadvantaged	<input type="checkbox"/> Other

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

<input type="checkbox"/> RFP	<input type="checkbox"/> Competitive Negotiation *	<input checked="" type="checkbox"/> Alternative Competitive Method *
<input type="checkbox"/> Non-Competitive Negotiation *	<input type="checkbox"/> Negotiation w/ Government (ID, GG, GU)	<input type="checkbox"/> Other *

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

A questionnaire was sent to all entities that are in the business of providing international stock portfolio management for the purpose of defining the international investment services needed by the Retirement System. The search questionnaire was also posted on the OCR's web site and advertised in *Pensions & Investments*. The questionnaire welcomed proposals to manage the following international equity investment mandates: Concentrated EAFE, and EAFE Small Cap. Proposing firms were required to identify each mandate for which a proposal was being made and were required to meet or exceed the following mandatory requirements in order for that manager's questionnaire response to be accepted:

1. Concentrated EAFE

- a) Mandate Style
 - i) Mid-Large Cap OR Large Cap OR All Cap; and
 - ii) Core OR Growth OR Value; and
 - iii) Number of holdings of approximately 50 securities or less
- b) Live track record of at least five (5) years
- c) Assets under Management (AUM)
 - i) Product AUM \geq \$1 B; and
 - ii) Product Institutional AUM \geq \$500 mm
 - iii) At least one (1) institutional separate account \geq \$50 mm
- d) Performance
 - i) Annualized excess return versus stated benchmark $> 0\%$.

2. Small Cap EAFE

- a) Mandate Style
 - i) Micro Cap OR Small Cap OR Small-Mid Cap; and
 - ii) Core OR Growth OR Value
- b) Live track record of at least three (3) years
- c) Assets under Management (AUM)
 - i) Product AUM \geq \$500 mm; and
 - ii) Product Institutional AUM \geq \$250 mm
- d) Performance
 - i) Annualized excess return versus stated benchmark $> 0\%$.

We received eleven (11) proposals for the Small Cap EAFE and five (5) proposals for the Concentrated EAFE. The selection process under this Questionnaire was as follows:

Non-Qualifying Responses

TCRS' Consultant evaluated each proposal to determine if it was submitted in accordance with the requirements set forth in this Questionnaire, including whether the response met all of the applicable mandatory requirements set forth above.

Semi-Finalist Selection.

The Consultant performed an evaluation of the Questionnaire responses and Proposers that incorporated a combination of quantitative and qualitative analysis. The quantitative criteria applied included:

- Consistent above-median performance versus an appropriate peer group over various time periods
- Consistent excess returns versus the stated benchmark over various time periods
- Attractive risk/reward characteristics over longer time periods
- Critical mass of assets to minimize business risk
- Portfolio characteristics diversification/concentration
- Style (returns- and holdings-based analysis)

The qualitative assessment included the following areas:

- Ownership Structure and Succession Plans
- Compensation Structures for Investment Professionals
- Investment Philosophy and Process
- Team Organization, Depth and Experience
- Risk Management Tools and Process
- Composite Construction Practices and CFA Institute GIPS Compliance
- Legal and Regulatory Issues
- Operations/Back Office Systems and Procedures
- Business Practices and Potential Conflicts of Interest
- Fee Structure
- Product Focus and New Products in Incubation
- Client Focus – Retail vs. Institutional
- Workforce Diversification and Employment Policies
- Insurance Coverage (e.g., Errors & Omissions) and Usage

A summary of the above evaluations for the proposing managers is attached hereto. Questionnaire responses that demonstrated manager excellence in responding to changing market environments beyond that which may be attributed to style or fortuitous factor exposure and which were competitive to all other questionnaire responses were deemed semi-finalists and forwarded to TCRS for further evaluation. The number of such firms forwarded to TCRS totaled eight (8).

Finalist Selection

The proposals for the eight (8) selected finalists were evaluated by an Evaluation Committee comprised of five Tennessee state employees, a majority of which were members of TCRS' investment staff. The Evaluation Committee independently evaluated the proposed products within the following main areas:

- Investment process including asset mis-pricing hypotheses, proprietary methods and operational discipline.

- Strategy uniqueness and fit with other semi-finalists.
- Cost

Firms that were selected to be finalists were also invited to make presentations in Nashville, Tennessee. Evaluators individually ranked the finalists from which the final selections were made. A copy of the evaluator summary ranking is attached hereto. Three firms were selected as follows:

Walter Scott & Partners Limited – mandate – Concentrated EAFE
American Century Global Investment Management, Inc. – mandate – Small Cap EAFE
Pyramis Global Advisors, LLC – mandate – Small Cap EAFE

Category	Firm	Product	Fees (bps)	Ownership Structure	Product AUM (# of Clients)	Public Plan AUM (# of Clients)	Separate Account AUM (# of Clients)	General Approach	Components of Alpha	Size/Style Biases	EM Exposure	Holdings Range	Turnover Range
Concentrated EAFE Value	Arisan Partners	International Value	56.2	Majority owned by the founders Andrew & Carlene Ziegler, and employees (detailed breakdown not provided)	3218 (15)	37 (1)	1441 (14)	Fundamental, bottom-up value; seek firms selling at a significant discount to intrinsic value	70% stock selection 15% sector/industry 15% region/country	Small cap & value	Up to 20%	40-60	20-60%
Concentrated EAFE Core Value	Lazard	International Strategic Equity ex-EM	71.7	80% owned by Lazard Group, a publicly-traded firm, with the remaining 20% held by current & former employees	1658 (42)	281 (7)	1658 (42)	Fundamental, bottom-up relative value, "best ideas" portfolio that leverages the research of the entire INT Equity group	80% stock selection 10% region/country 10% sector/industry	Small cap & Value	None	25-40	70-90%
Concentrated EAFE Core Growth	Haitim Currie	EAFE EX-EM	46.7	75% owned by employees, 25% by outside investors	4890 (20)	714 (3)	4786 (14)	Fundamental, bottom-up OARP	Mostly stock selection, but no breakdown provided	Small cap & Growth	Up to 10% (supplied track record for an EAFE ex-EM 5/2)	45-80	80-100%
Concentrated EAFE Value	Mondashi	Large Cap Concentrated International Equity	41.7	61% owned by 70 senior employees, 39% by Hellman & Friedman (HQ of Delaware Int'l Advisors & name change in 2004)	387 (16)	242 (4)	3940 (13)	Fundamental, bottom-up value for stock selection (key valuation tool is DCF); top-down inflation-adjusted DDIT used for country allocation overlay	60% stock selection 40% region/country & currency combined Minimal from sector/industry	Large cap & value	Up to 10% 5-10% contribution to alpha	30-40	10-20%
Concentrated EAFE Core Growth	Walter Scott	International Equity	33.8	Wholly-owned subsidiary of BNY Mellon	10365 (59)	3810 (8)	8402 (53)	Fundamental, bottom-up GAV ("Growth At the Right Valuation")	100% stock selection	Growth	Up to 10%	40-60	5-15%
Small Cap EAFE Growth	American Century	International Small-Cap	77.9	41% Stowers Family 41% Phoenix Chase 15% employees/other	2567 (13)	298 (2)	835 (6)	Fundamental, bottom-up growth	Mostly stock selection, but no breakdown provided	SM cap & Growth	Up to 30%	80-120	150-200%
Small Cap EAFE Value	DFA	International Small Value	67.5	Majority-owned by current employees	8384 (60)	563 (17)	557	Quantitative, bottom-up model that uses size & value factors (Fama/French) along with a momentum screen	Mostly stock selection, but no breakdown provided	Small cap (even smaller than the index) & Value	None	2,000-2,500	10-20%

Category	Firm	Product	Fees (bps)	Ownership Structure	Product AUM (# of Clients)	Public Plan AUM (# of Clients)	Separate Account AUM (# of Clients)	General Approach	Components of Alpha	Size/Style Biases	EM Exposure	Holdings Range	Turnover Range
Small Cap EAFE, Core Value	Horris	International Small Cap Equity	100.0	Wholly owned subsidiary of Natixis	1540 (5)	378 (1)	748 (4)	Fundamental, bottom-up relative value	Mostly stock selection, but no breakdown provided	Value	Yes (no upper limit provided) Large international contribution to alpha	35-65	35-50%
Small Cap EAFE, Core Value	Lazard	International Small Cap Equity	71.7	90% owned by Lazard Group, a publicly-traded firm, with the remaining 20% held by current & former employees	1527 (21)	446 (4)	917 (18)	Fundamental, bottom-up relative value	80% stock selection 10% region/country 10% sector/industry	Mid/ Large cap & Value	None	60-80	20-50%
Small Cap EAFE, Value	Mondrian	International Small Cap	69.2	61% owned by 70 senior employees; 39% by William & Friedman (MBO of DeWaves Int'l Advisors & name change in 2004)	1202 (10)	390 (3)	1055 (9)	Fundamental, bottom-up value for stock selection (key valuation tool is DDM); top-down inflation-adjusted DDM used for country allocation priority	75% stock selection 15% region/country 5% sector/industry 5% currency	Mid Cap & Value	Yes (no upper limit provided, RFP answer was unclear)	70-120	20-30%
Small Cap EAFE, Core Growth	Pictet	EAFE	65.0	100% owned by 7 partners	2216 (20)	640 (9)	1952 (9)	Fundamental, bottom-up GARP	80% security selection 10% region/country 10% sector/industry	Growth	Yes, although exposure has been minimal	100-150	80-160%
Small Cap EAFE, Core Growth	Principal	International Small Cap Equity	74.2	Wholly owned subsidiary of Principal Financial Group	2389 (6)	275 (2)	1036 (4)	Fundamental, bottom-up, implemented using a quantitative ranking process	90% stock selection 5% region/country 5% sector/industry	Growth	Only South Korea	150-250	100-125%
Small Cap EAFE, Core	Pyramis	Select International Small Cap	80.0	Wholly owned subsidiaries of Fidelity/FMR (15% owned by employees; 43% by the Conrad Johnson III family)	687 (16)	231 (3)	481 (3)	Fundamental, bottom-up, relies heavily on internal analyst stock rankings	Almost entirely stock selection	Growth	None	150-200	70-85%
Small Cap EAFE, Core Growth	Schroders	International Small Companies	95.0	Wholly owned subsidiary of Schroders PLC, a publicly-traded firm w/ c. 7% employee ownership	3253 (8)	283 (1)	299 (1)	Fundamental, bottom-up GARP w/ top-down regional/country allocation priority	80% stock selection 20% region/country	Growth	Only South Korea	200-250	20-50%
Small Cap EAFE, Core	SSGA	Small Cap International Alpha	73.3	Wholly owned subsidiary of State Street Corp, a publicly-traded firm w/ less than 1% employee ownership	998 (17)	345 (14)	674 (6)	Quantitative, bottom-up model that uses value, growth & earnings quality factors	100% stock selection	None	Only South Korea	200-400	60-120%
Small Cap EAFE, Core Growth	Victory	International Small Cap	87.5	Wholly owned subsidiary of Viker Corp, a publicly-traded firm	541 (14)	200 (3)	382 (10)	Fundamental, bottom-up GARP looking for firms with proprietary products/services & franchise value	Mostly stock selection, but no breakdown provided	Mid cap & Growth	Only South Korea	60-80	80-120%

Category	Firm	Product	Fees (bps)	Ownership Structure	Product AUM (# of Clients)	Public Plan AUM (# of Clients)	Separate Account AUM (# of Clients)	General Approach	Components of Alpha	Size/Style Biases	EM Exposure	Holdings Range	Turnover Range
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(1) Portfolio sizes used for fee calculations: Regional EAFE: Pacific Basin (\$600 mm); Regional EAFE: Europe (\$1,400 mm); Broad EAFE (\$1,000 mm); Concentrated EAFE (\$300 mm); Small Cap EAFE (\$300 MM)

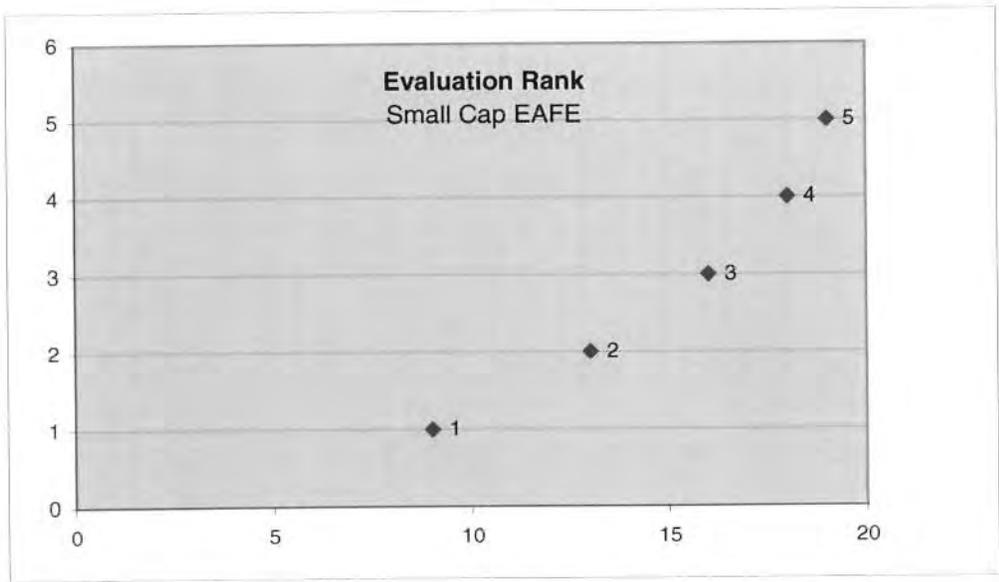
Category	Firm	Product	Pros.	Cons	Recommend Interview?
Concentrated EAFE Value	Artisan Partners	International Value	Majority owned by employees; low personnel turnover; PMs Samia & Doreen have been working together since inception of the strategy; strong performance (downside capture); relatively low turnover; longest term relative returns (downside capture); although recent performance has been weak (especially the past year)	Closely held by the two founders who have stepped back from day to-day involvement; AUM is almost entirely retail, only 1 public plan client; the firm is a mostly sub-advised mutual funds; substantial int'l equity client AUM; significant turnover at the MD/Director level; proposed product, vast majority of AUM in 2008; although not in the strategies; small team (3 PMs, 4 analysts); believe they manage both int'l & global strategies; variable compensation only to AUM/revenues, not product performance; value style not the best fit for TCRS needs; EM exposure has made a significant contribution to alpha vs. EAFE; do not currently manage any EAFE-only accounts; little use of risk management systems/tools; no separate risk management group; high stated fees; legal/regulatory issues related to market timing on its International Fund (also made a claim to E&O insurance for the legal fees)	No
Concentrated EAFE Core Value	Lazard	International Strategic Equity ex-EM	Large firm w/ global scale & deep resources; strategy AUM is nearly 100% int'l w/ a few and several public plan clients; very int'l equity team (49 senior staff/PMs, 59 analysts); stable investment team; albeit small, independent risk management team; relative performance has been decent w/ much of the excess returns coming in down years (6 of 2001-2002, 2007-present)	Value style not the best fit for TCRS needs; sub-optimal ownership structure (sub of Lazard Group, a public firm w/ c. 20% employee ownership); significant turnover at the MD/Director level; substantial int'l equity client/AUM losses in each of the past 5 years; although the proposed product has not been affected; investment team for the proposed product is very small (3 PMs, 1 analyst) and manage several additional strategies; high stated fees; consistently overweight Europe ex-UK; modest exposure to off-benchmark securities; only 10% of strategy accounts/AUM are in the composite; claim that they have no legal/regulatory issues that materially affect their business	No
Concentrated EAFE Core Growth	Martin Currie	EAFE ex-EM	Good ownership structure; mostly employee-owned (which makes the partial sale in 2007) a significant public plan & 8% AUM in proposed product; incl. NYC (cash) & 8% AUM in both proposed product & other int'l equity products; small number of very large style a good fit for TCRS needs; independent risk management team; decent long term relative performance	Moderate turnover among sector analysts over the past 3 years; fees are somewhat high, especially for smaller accounts; claims made to E&O but no details provided; substantial small/mid cap accounts; AUM in the composite; relative performance & 1-year return very weak	Yes
Concentrated EAFE Value	Hindman	Large Cap Concentrated International Equity	Good ownership structure (61% employees, 39% Hellman & Freeman); firm is exclusively focused on int'l equity & fixed income strategies; significant public plan & 1/3 AUM in both proposed product and other int'l equity products (small number of very large \$'s); steady AUM growth except for large loss in 2005 due to Delaware replacing Hindman as sub-advisor on 3 mutual funds with an internal team; very large & stable int'l equity team; only 1 departure since 2000 (Fieger Kitson retired in 2007); well-articulated strategy & process; focused on capital preservation; moderate fees; solid relative performance over longer trading periods; although ICF been up and down looking at calendar years and somewhat weak for 2007 and 2008 YTD	Value style not the best fit for TCRS needs; ex-EM variant has only one client and was included in Mar 08; use of one AUM for all stocks seems a bit inflexible; moderate EM exposure in standard strategy; although it has not made a very significant contribution to alpha.	Yes
Concentrated EAFE Core Growth	Walker Scott	International Equity	Incompliant (in regional though, not EAFE); very stable & experienced investment team; only 1 senior investment pro departure; significant public plan & 8% AUM in proposed product; firm's investment should most growth coming in DC space; very low fees; relative performance has been very solid; 2003 only enough patch really	Sub-optimal ownership structure (wholly-owned sub of BNY Mellon, no employee ownership); sparsely client/AUM dependent proposed product; group organized by region, not sector/industry; fairly unsophisticated risk mgmt process & systems; high composite dispersion; operations systems could use an upgrade	Yes
Small Cap EAFE Growth	American Century	International Small Mid Cap	Two large public plan \$'s (SWFE is one) but proposed product AUM, like the rest of the firm's products, is still mostly retail mutual funds; the two co-founders are experienced; have long tenure with the firm; and have been managing this strategy together since 1998; included strategy & process; performance has been outstanding since 2004 (and seen then it was just relative returns that were bad, although the 90% return in 1999 does skew the numbers somewhat)	Sub-optimal ownership structure (closely held by Stowers Family & firm), although there is some employee ownership; CEO & CIO both departed in 2007; significant turnover at the MD/Director level; efforts, still new, needed to get the fund not their dried & better; proposed product has had the most impact in 4 or 5 years since 2002; investment team for proposed product somewhat small (2 PMs, 5 analysts) given universe size; EM exposure has contributed significantly to performance; high stated fees; heavy mid cap & growth bias would need to be taken into account; proposed benchmark is the ACWI ex-US (Mid Cap Growth) high turnover	Yes
Small Cap EAFE Value	DFA	International Small Value	Significant public plan AUM, but majority of AUM in proposed product (93%) is in the mutual fund; senior PM group is stable & experienced; but junior PM group is much less so; focus on minimizing transaction costs; stated fees are reasonable, although they are much higher than the broad EAFE product for some EM assets; very low turnover, especially for a small cap strategy; no EM exposure; well-articulated strategy & process; almost 100% like performance has been outstanding; included the benchmark in only one year (2005) and depicting strong relative performance in down years	Partly employee-owned, but unclear what the ownership structure actually is; need to dig through the ADV to find out; majority of AUM (and AUM growth) is in mutual funds; clarity in proposed product might be an issue as AUM is approaching \$3 B; not one is 100% dedicated to this strategy; very non-predictable strategy based on fama/French size-value research plus a momentum screen; significant value bias would need to be taken into account	Yes

Category	Firm	Product	Pros	Cons	Recommend Interview?
Small Cap EAFE: Core Value	Harris	International Small Cap Equity	Only 1 public plan client, but it is a large S/A. CFO, Head PM and Dir of Research are all very experienced and have been with the firm 12+ years, but the 4 analysts have all joined within the past 3-4 years, other than being hired in 2004 because their mutual fund fees were too high, no legal/regulatory issues.	Sub-optimal ownership structure (sub of Haysco); more than 50% of proposed product AUM is a mutual fund. Firm has been steadily losing AUM since 2005 and that trend has now spread to the int'l equity products since 2007 (although the proposed product has not been affected yet). Int'l equity team is somewhat small (3 senior, 4 analysts) and they manage both small & large cap strategies. One person (senior manager) including Samira & O'Keefe who left for Aflac in 2002. Some overlap in responsibilities for a small cap strategy. Investment process is pretty straight forward. Variables with no distinguishing characteristics; moderate, up and down relative performance and recent results have been very weak (historically had 1 really great year in 2001). EM exposure has made a significant contribution to alpha. VERY high fees, no breaks for large accounts either.	No
Small Cap EAFE: Core Value	Lazard	International Small Cap Equity	Large firm w/ global scale & deep resources. Significant public plan & S/A AUM, although the accounts are rather small (only 1 > \$25 mm). Very large int'l equity team (49 seniors; staff/PMs, 59 analysts); independent risk management team; no consistent pattern of positive excess returns, although relative performance has generally been good in down years.	Sub-optimal ownership structure (sub of Lazard Group, a public firm, w/ c. 20% employee ownership); significant turnover at the PM/Director level. Substantial int'l equity client/AUM losses in each of the past 5 years, and 3 of 5 years for the proposed product; investment team for the proposed product is very small (1 lead PM, 3 PM/analysts) and manage several additional strategies, somewhat high stated fees, consistently overweight Europe ex-UK; significant exposure to off-benchmark securities (63% at 6/30/08); substantial fees on large cap bids (c. 30% small cap stocks); claim that they have no legal/regulatory issues that "materially affect" their business.	No
Small Cap EAFE: Value	Hondrian	International Small Cap	Good ownership structure (61% employees, 39% Hellman & Friedman); firm is exclusively focused on int'l equity & fixed income strategies; significant public plan & S/A AUM in both proposed product and other int'l equity products (small number of very large S/A); steady AUM growth in proposed product; very large & stable int'l equity team; only 1 departure since 2000 (Roger Nelson retired in 2007); well-articulated strategy & process; focused on capital preservation; low turnover.	Use of one DDM by all assets creates a bit inflexible, unclear how much EM exposure has contributed to alpha (and how much is mostly in line with the benchmark through 2005 (alpha is roughly year-to-year), but has been very good since then - which period is representative?	Yes
Small Cap EAFE: Core Growth	Pictet	EAFE	Very large firm w/ global scale & deep resources; somewhat optimal ownership structure; although the are only 3 partners, significant AUM and consistent risk mgmt group; reasonable fees; relative performance has been strong over long-term, although this makes the year-to-year volatility.	Equity & Fixed CDS, both left within the past 2 years after joining the firm in 2006. 3 PMs and 1 analyst have left the int'l equity group since 2006. Majority of proposed product AUM is sub-advised mutual funds, very solid AUM growth for firm & int'l equity, although not much in the proposed product; high turnover, cash returns are not included in composite performance (per their website).	No
Small Cap EAFE: Core Growth	Principal	International Small Cap Equity	Large & experienced int'l equity team of PMs & analysts, low personnel turnover, 2 lead PMs have each been w/ the firm for 10+ years, Quant ranking model (implemented in 2002) used to narrow universe, then fundamental research takes over (Use info, not really a pro); tight risk controls (substantial improvements made in 2002); solid & consistent relative performance, high IR; reasonable fees.	Sub-optimal ownership structure (public firm, only 2% employee ownership); very diversified firm; asset management only 15% of firm's revenues, relying on acquisition strategy to grow fixed income (stable book); high stated fees; client-proposed product (although they are large S/A & S); sub-advised DC plan commingled fund is > 50% of AUM; no AUM growth in proposed product.	No
Small Cap EAFE: Core	Pyramis	Select International Small Cap	Very large firm w/ global scale & deep resources; decent ownership structure - Pyramis is wholly-owned by FHR, which is majority owned by employees; very large group of PMs & analysts, although the quoted figures include FHR people; PM group for the proposed product has been stable; tight risk controls designed to isolate stock specific risk; reasonable fees but no breaks for large accounts, long track record of solid, steady relative performance (underperformed in 1998 & 2001, both by ~ 3% & high IR.	Pyramis HQ moving to RI from Boston in 9/08, possible disruption to staff; 3 person board (none independent); int'l equity loss substantial (items/AUM in 2006 & 2007, although the proposed product was mostly insulated, very low AUM in proposed product, although it is 100% international, different firms than Select International, substantial turnover among analysts; a couple of regulatory drags, but none directly related to Pyramis; debt and/or the questions about finances and claims made to insurance policies.	Yes
Small Cap EAFE: Core Growth	Schroders	International Small Companies	Very large firm w/ global scale & deep resources, very large int'l equity manager (c. \$150 B); large (70+) regional analyst group spread around the globe; good local-market expertise; int'l small cap team is large at 5 PMs & 14 analysts; relative performance has been good, although there is not a clear pattern of being able to add value; low turnover.	Sub-optimal ownership structure (public firm, 40% owned by Schroders family and only 7% by employees); moderate amount of turnover among senior staff; significant turnover among the int'l small cap team, both PMs & analysts; lost both the Japan & Pac basin ex-Japan PMs in 2007; only 1 public plan client & 1 S/A in proposed product; vast majority of AUM is mutual funds; not much client/AUM growth in proposed product; only roughly 25% of strategy AUM is in the composite (navigating starts in 2002/2003); very mediocre claims to insurance; high stated fees & no breaks for large accounts.	No
Small Cap EAFE: Core	SSgF	Small Cap International	Very large firm (largest asset manager) w/ global scale & deep resources; significant public plan AUM in proposed product; although these are mostly small accounts, large analyst team (76); distributed globally; team managed by 30-person quant team; very good risk controls & systems, separate risk mgmt group; performance has been very good and steady, high IR and hasn't had a recent downturn like the corresponding large cap product; reasonable fees.	Sub-optimal ownership structure (public firm w/ only 2.3% employee ownership); very diversified asset management accounts for only 23% of revenues, some senior staff turnover & CEO group was restructured in 2007; only 6 S/A in proposed product; large majority of AUM is in commingled & mutual fund; very large inflows in 2004-2006; massive outflows YTD; 9 members of the global quant team (all PMs & some very senior) left at the end of 2007; significant strategy AUM missing from composite; not 3PC-egalitarian (example as a bank); sent to 10-K for legal/regulatory issues, although there are obviously lawsuits arising related to their enhanced cash strategies.	No
Small Cap EAFE: Core Growth	Victory	International Small Cap	Stable investment team (lithed out of Frudarchy Global Advisors/Franklin Templeton in 2005); 5 of 7 current team members worked together at Frudarchy, well-articulated strategy & process; robust risk management framework; long-term relative performance has been very good, although very inconsistent; 2003-2004 was a bad period; 2005-2007 very good; YTD 2008 very bad.	Sub-optimal ownership structure (sub of KeyCorp), some turnover among very senior staff in past 3 years; low int'l equity & proposed product AUM (apparently not many accounts came over with the team in 2006), although they have been with several institutions recently; int'l equity is a tiny fraction of the firm's total AUM; high stated fees; some legal issues but none deemed "material".	Yes

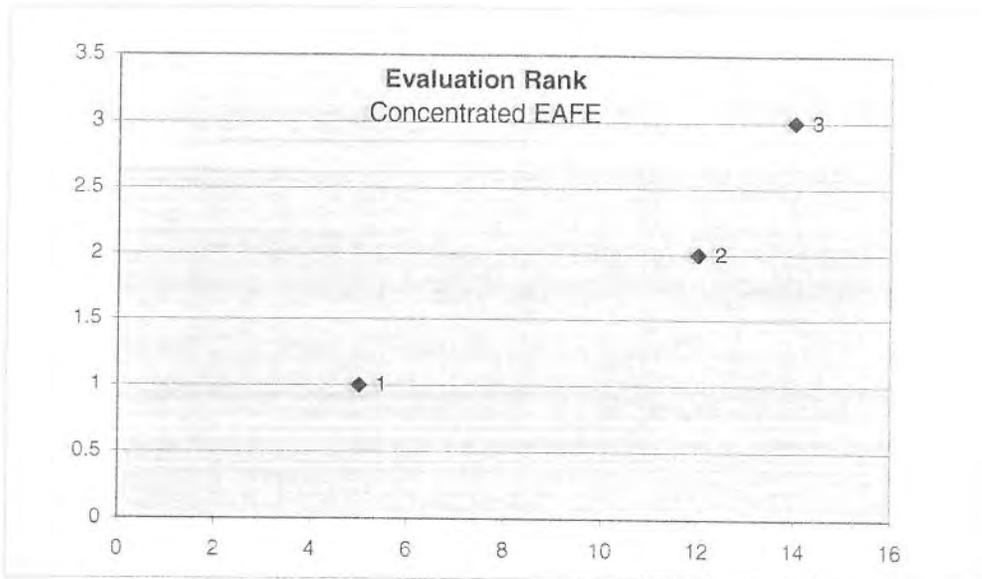
Category	Firm	Product	Pros	Cons	Recommend Interview?
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(1) Portfolio areas used for fee calculations: sequential EAFE, Pacific Basin (\$500 m/m)

Evaluator Manager	MB 1	FW 2	MH 3	RW 4	MK 5	Sum	Rank
Amer. Century	5	1	1	2	4	13	2
Victory Cap.	3	3	3	4	3	16	3
Pyramis	1	4	2	1	1	9	1
Dimensional	4	5	5	3	2	19	5
Mondrian	2	2	4	5	5	18	4
Correlation	0.30	0.30	0.90	0.70	0.30		



Evaluator	MB	FW	MH	RW	MK	Sum	Rank
Manager	1	2	3	4	5		
Martin Currie	3	3	3	3	2	14	3
Walter Scott	1	1	1	1	1	5	1
Mondrian	3	2	2	2	3	12	2
Correlation	0.75	1.00	1.00	1.00	0.50		



**CONTRACT
BETWEEN THE STATE OF TENNESSEE,
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
AND
AMERICAN CENTURY GLOBAL INVESTMENT MANAGEMENT, INC.**

This Contract, by and between the State of Tennessee, Tennessee Consolidated Retirement System, hereinafter referred to as the "Retirement System" and American Century Global Investment Management, Inc., hereinafter referred to as the "Contractor," is for the provision of international equity investment management services to the 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: 20-2036524

Contractor Place of Incorporation or Organization: State of Delaware

WITNESSETH:

WHEREAS, the Tennessee General Assembly enacted Chapter 814, Public Acts of 1972 which created 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 Chapter 164, Public Acts of 1995 which authorizes the Board of Trustees to contract for investment management services for the Retirement System's international equity portfolios and to provide for the powers, duties, functions and compensation of any investment managers so engaged; and

WHEREAS, the Board of Trustees is desirous of engaging investment managers pursuant to said Chapter; and

WHEREAS, the Contractor is an investment manager and desires to provide investment management services on behalf of the Retirement System 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. Appointment. The Retirement System appoints the Contractor to supervise and manage its international equity investment portfolio, designated as the Account and described in Attachment A hereto. The Contractor accepts the appointment and agrees to invest and reinvest the Account under the terms and conditions of this Contract. The investment performance of the Account shall be measured against the Index described in Attachment A hereto.
- A.3. Account Content. The Account shall include such cash and securities as shall be allocated to the Contractor by the Retirement System, all assets acquired as earnings thereon, proceeds therefrom or in substitution therefor. The Retirement System may, at its sole discretion and upon notification to the Contractor, add, transfer or remove assets from the Account. Following such transfer or removal, the Contractor shall have no authority to act with respect to assets

transferred or removed. The Contractor shall have no investment or other responsibility or authority with respect to those assets owned by the Retirement System which are not part of the Account.

A.4. Incorporation of Documents. In addition to Attachment A as described in Paragraph A. 2 above, the following Attachments are hereby incorporated into this Contract as though fully set forth herein:

- a. Attachment B - The Tennessee Consolidated Retirement System Organizational Structure and General Overview - Investment Policy, Objectives and Criteria;
- b. Attachment C - Investment Division Code of Ethics and Standards of Professional Conduct;
- c. Attachment D - Tennessee Treasury Department Standards of Professional Conduct; and
- d. Attachment E - Proxy Voting Guidelines.

The Retirement System may, at its sole discretion, revise said Attachments from time to time by providing the Contractor a written copy of such revisions.

A.5. General Responsibility of Contractor. The Contractor acknowledges receipt of Attachment B "The Tennessee Consolidated Retirement System Organizational Structure and General Overview - Investment Policy, Objectives and Criteria", Attachment C "Investment Division Code of Ethics and Standards of Professional Conduct", Attachment D "Tennessee Treasury Department Standards of Professional Conduct", and Attachment E "Proxy Voting Guidelines" from the Retirement System. The Contractor agrees to manage the Retirement System's Account in conformity and in compliance with the criteria, guidelines and procedures set forth in said Attachments as in effect from time to time and in compliance with Tennessee Code Annotated, Title 8, Chapter 37, Part 1. The Contractor agrees to perform its duties under this Contract in a prompt, professional and prudent manner and in accordance with the standard of care described in Section A.7 of this Contract. Unless otherwise expressly provided in this Contract, the authority granted the Contractor under this Contract may be exercised by it without further notice, consent or approval by the Retirement System. Except as is expressly provided in this Contract, the Contractor may not delegate to any party its authority to manage the Account.

A.6. Account Asset Procedures.

- a. Custodian. Neither the Contractor nor any parent, subsidiary or related firm of the Contractor shall take possession of or handle any cash, securities or other indicia of ownership of the assets in the Account. It is the intention of the parties that the sole responsibility for safekeeping of the assets in the Account and the consummation of all purchases, sales and deliveries of investments made pursuant to the Contractor's direction shall rest with a Custodian designated by the Retirement System. Title to all assets in the Account shall be held in the name of the "Tennessee Consolidated Retirement System" except that, for convenience in buying, selling and exchanging the assets, title may be in the name of a nominee designated by the Custodian. All indicia of ownership of the assets shall be held by the Custodian.
- b. Procedures. Notwithstanding any provision of this Contract to the contrary, all instructions for the sale, purchase or deposit in connection with any plan of reorganization, recapitalization or other like plan, or exchange, of stocks or bonds, or other securities or investment for the Account shall be given to the Custodian by the Contractor. The Contractor shall apprise the Custodian and the Retirement System of all sales and purchases of securities no later than the next business day following trade date. Except upon the prior written approval of the Retirement System, the Contractor shall have no authority to instruct the Custodian to perform any additional functions which would impose an administrative cost upon the Retirement System. Attached hereto as Appendix 1 is the name of the Custodian currently designated by the Retirement System. Said Appendix shall be valid until revoked or amended by further written notice from the Retirement System.

- c. Allocation of Brokerage. When the Contractor places orders for the purchase or sale of securities for the Account, the Contractor may allocate such transactions to such brokers and dealers for execution on such markets at such prices and at such commission rates as in the good faith judgment of the Contractor will be in the best interest of the Account; provided, however, the Contractor shall select brokers in accordance with Attachment B "The Tennessee Consolidated Retirement System Organizational Structure and General Overview - Investment Policy, Objectives and Criteria", and shall not select brokers which are related to the Contractor through shared ownership or control. The Contractor is authorized to engage in soft dollars activities falling within Section 28(e) of the Securities Exchange Act of 1934 provided such activities are in accordance with Attachment B "The Tennessee Consolidated Retirement System Organizational Structure and General Overview - Investment Policy, Objectives and Criteria" and in accordance with pages 36 and 37 of the Contractor's Proposal, which pages are incorporated herein by reference as though fully set forth herein. The Retirement System reserves the right to enter into agreements with brokers/dealers to recapture commissions or to direct brokerage commissions, in which case any research products and services generated by such commissions are the property of the Retirement System and its members.
- d. Proxies. The Retirement System delegates the right and authority to the Contractor to vote and act upon all proxies with respect to securities in which the Account may be invested. In voting and acting upon such proxies, the Contractor shall comply with the Proxy Voting Guidelines, which are attached hereto as Attachment E and which may be amended from time to time pursuant to Section A.4 of this Contract. Notwithstanding the foregoing, the Retirement System reserves the right to instruct the Contractor on a case-by-case basis on how to vote a particular proxy. The Contractor shall keep accurate records of all proxies voted by the Contractor in sufficient detail to enable the Retirement System to review the Contractor's voting procedures and the votes cast by the Contractor in specific cases.
- e. Securities Lending. The Contractor acknowledges that the Retirement System may operate, at its option, a securities lending program whereby the Retirement System, on its behalf or through another entity, will lend its securities to borrowers selected by the Retirement System in exchange for collateral approved by the System. In the event the Retirement System elects to operate a securities lending program, the Contractor agrees to notify the Custodian of trades by trade date, and to comply with such other written procedures as may be mutually agreed to by the parties concerning the recall of any loan of securities.
- f. Approval of Certain Purchases. The Retirement System is precluded by its Investment Policy from purchasing more than 4.99 % of the outstanding shares of any one issuer. To ensure compliance with this provision, the Contractor agrees to obtain the approval of the Retirement System prior to purchasing 2% or more of the outstanding shares of any one issuer.

A.7. Warranties and Acknowledgments.

- a. Registration of Contractor. The Contractor warrants that it is registered under the Investment Advisers Act of 1940, or is exempt from such registration, and that it will notify the Retirement System in writing within ten (10) calendar days of the occurrence of any event that has caused or may cause this representation to be untrue or the occurrence of any other adverse action by the Securities and Exchange Commission affecting the Contractor or any person associated with the Contractor.
- b. Fiduciary Status. The Contractor holds itself out as an expert in the handling of investments of large trust funds. The Contractor further acknowledges that it has a fiduciary relationship to the Retirement System and has fiduciary duties with regard to the services it will provide under this Contract, including the services it will provide with respect to the Account. The Contractor accepts its appointment as such fiduciary, and specifically agrees that in performing its duties hereunder that it shall act not in regard to speculation but with the care, skill, prudence and diligence under the circumstances then prevailing, specifically including, but not by way of limitation, the general economic conditions, and the anticipated needs of the Account and its beneficiaries, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like

aims to attain the goals of the Retirement System as determined from Attachment B attached hereto. The Contractor agrees to discharge its duties with respect to the Account solely in the interest of the beneficiaries and members of the Retirement System.

- c. Compliance with Laws. The Contractor hereby represents and warrants to the Retirement System that it shall comply with all State, local, foreign, and federal laws and regulations applicable to its activities and obligations under this Contract and that it shall obtain, at its expense, all licenses, permits, insurance, and governmental approvals, if any, necessary to the performance of its obligations under this Contract.

A.8. Insurance

- a. Type Insurance. The Contractor shall maintain in full force and effect the insurance coverage described in page 42 of the Contractor's Proposal, which page is incorporated herein by reference as though fully set forth herein. Said levels of coverage shall not be less than the amount stated on said page. All costs of premiums and payment of deductibles for such insurance will be paid by the Contractor and not the Retirement System. The Contractor shall notify the Retirement System of any claim received from its issuer pertaining to the Retirement System. The maintenance of such insurance shall in no way be construed to otherwise limit the liability of the Contractor hereunder.
- b. Notification of Change. The Contractor shall notify the Retirement System of any material change in, or cancellation of, the policies. For purposes of this Paragraph, a "material change" shall include, but shall not be limited to, a reduction in the levels of coverage, the elimination of a type of coverage, or the transition to another insurance carrier. If at any time during the period of this Contract insurance as required is not in effect, the Retirement System shall have the following options: (1) obtain insurance providing coverage equal to that required above, the cost of such insurance shall be payable by the Contractor immediately; or (2) terminate this Contract in accordance with Section D.4 below.

A.9. Reports and Meetings.

- a. Reports.
 - (1) The Retirement System shall furnish monthly asset statements to the Contractor depicting the current market value, the number of units being held and the description of each asset being held in the Account. The Contractor shall reconcile the asset statement and provide the Retirement System with a list of discrepancies within ten (10) business days from the date of receipt of such listing.
 - (2) The Contractor shall promptly notify the Retirement System in writing (i) if any of the representations in Section A.7 and Section E.5 hereof shall cease to be true at any time during the term of this Contract, (ii) of any change in the Contractor's directors, senior officers, or other employees who exercise investment discretion with respect to the Account, (iii) of any other material change in the Contractor's business or corporate organization or ability or potential ability to perform hereunder, (iv) of any lawsuit threatened or filed against the Contractor in which investments in the Account are at issue, in which charges of fiduciary misconduct are alleged or which may, if proven, materially impair the ability of the Contractor to perform under this Contract, or (v) of any material adverse change or threatened change in the Contractor's financial condition.
 - (3) Upon the Retirement System's request, the Contractor shall provide reports containing such information as the Retirement System may reasonably request.
- b. Meetings. Upon the Retirement System's request, the Contractor agrees to have a representative familiar with the Account attend periodic meetings of the Board of Trustees of the Retirement System and such other appropriate boards, committees, and commissions at the Retirement System's facilities, or at some other agreed upon location at such times as directed by the Retirement System. The Retirement System may call upon the Contractor to report to any such board, committee or commission on matters which represent significant

changes in economic forecasts, investment outlook, industry emphasis and any other matters of a general or specific nature as the Retirement System may reasonably request.

B. CONTRACT TERM:

- B.1. Term. This Contract shall be effective for the period commencing on January 2, 2009 and ending on January 1, 2014. The Retirement System shall have no obligation for services rendered by the Contractor which are not performed within the specified period.
- B.2. Term Extension. The Retirement System reserves the right to extend this Contract for an additional five (5) years period, provided that such an extension of the contract term is effected prior to the current, contract expiration date by means of an amendment to the Contract. If the extension of the Contract necessitates additional funding beyond that which was included in the original Contract, the increase in the Retirement System's maximum liability will also be effected through an amendment to the Contract, and shall be based upon payment rates provided for in the original Contract.

C. PAYMENT TERMS AND CONDITIONS:

- C.1. Maximum Liability. In no event shall the maximum liability of the Retirement System under this Contract exceed ten million five hundred thirty thousand dollars (\$10,530,000). 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 Retirement System. 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 Retirement System 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 Retirement System 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 Retirement System 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 Retirement System 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 on a quarterly basis, in arrears, based on the net asset value of the Account. The fee shall be calculated on a monthly basis equal to one-twelfth (1/12) of the annual basis point fee multiplied by the net asset value of the Account at month end including a pro rata adjustment for capital injections and withdrawals. The annual basis point fee shall be 65.

The net asset value of the securities held in the Account shall be determined solely by the Retirement System. Fees shall not be paid on those assets invested in cash or cash equivalents when such represents more than fifteen percent (15%) of the net asset value of the Account at each month's end.

- C.4. Reduction in Compensation. The Contractor represents and warrants that the fees set forth in Section C.3 above are no greater than the fees charged by the Contractor for its other ERISA or

other U.S. public retirement fund clients where: (i) assets under management are substantially identical in investment style and investment program to the Retirement System; (ii) total assets under management are comparable to the market value of the assets in the Account; and (iii) the fee arrangement in question was not agreed with the other ERISA or U.S. public retirement fund client prior to the date on which the Contractor and the Retirement System entered into this Contract. If, during the term of this Contract, the Contractor enters into a fee schedule that is lower than the fee hereunder for its other ERISA or U.S. public retirement fund clients for a class of assets and with an investment program substantially identical to that hereunder, and with a market value comparable to that of the Account, Section C.3 shall be deemed automatically amended to substitute said reduced fees in place of the fees provided in Section C.3 for the remainder of this Contract.

C.5. Travel Compensation. The Contractor shall not be compensated or reimbursed for travel, meals, or lodging.

C.6. Invoice Requirements. The Contractor shall invoice the Retirement System 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 no more often than quarterly, with all necessary supporting documentation, to:

Tennessee Treasury Department
Division of Accounting
9th Floor, Andrew Jackson State Office Building
502 Deaderick Street
Nashville, Tennessee 37243-0206

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 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 Retirement System 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 Retirement System. The taxpayer identification number contained in the Substitute W-9 submitted to the Retirement System 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 Retirement System for services until the Retirement System has received this completed form.
- C.7. Payment of Invoice. The payment of the invoice by the Retirement System shall not prejudice the Retirement System's right to object to or question any invoice or matter in relation thereto. Such payment by the Retirement System 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.8. 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 Retirement System, on the basis of audits conducted in accordance with the terms of this Contract, not to constitute proper remuneration for compensable services.
- C.9. Deductions. The Retirement System 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.10. Wire Transfer. The payment of compensation to the Contractor hereunder shall be made via wire transfer in immediately available funds pursuant to federal wire transfer instructions given to the Retirement System by the Contractor.
- D. STANDARD TERMS AND CONDITIONS:**
- D.1. Required Approvals. The Retirement System 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 Retirement System may terminate this Contract without cause for any reason. Said termination shall not be deemed a Breach of Contract by the Retirement System. The Retirement System 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 Retirement System 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 Retirement System shall have the right to terminate the Contract and withhold payments in excess of fair compensation for completed services.

- a. The Retirement System will provide notification of termination for cause in writing. This notice will: (1) specify in reasonable detail the nature of the breach; (2) provide the Contractor with an opportunity to cure, which must be requested in writing no less than 10 days from the date of the Termination Notice; and (3) shall specify the effective date of termination in the event the Contractor fails to correct the breach. The Contractor must present the Retirement System with a written request detailing the efforts it will take to resolve the problem and the time period for such resolution. This opportunity to "cure" shall not apply to circumstances in which the Contractor intentionally withholds its services or otherwise refuses to perform. The Retirement System will not consider a request to cure contract performance where there have been repeated problems with respect to identical or similar issues, or if a cure period would cause a delay that would impair the effectiveness of Retirement System operations. In circumstances where an opportunity to cure is not available, termination will be effective immediately.
 - b. Notwithstanding the foregoing, the Contractor shall not be relieved of liability to the Retirement System 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 Retirement System. If such subcontracts are approved by the Retirement System, 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 Retirement System a completed and signed copy of the document at Attachment F, 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 Retirement System.
 - 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 Retirement System, 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 Retirement System, the Comptroller of the Treasury, or their duly appointed representatives.
- D.11. Progress Reports. The Contractor shall submit brief, periodic, progress reports to the Retirement System 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 Retirement System, 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. Retirement System Liability. The Retirement System 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 Retirement System:

Michael Brakebill, Chief Investment Officer
 Tennessee Consolidated Retirement System
 11th Floor, Andrew Jackson State Office Building
 502 Deaderick Street
 Nashville, Tennessee 37243-0209
 michael.brakebill@state.tn.us
 Telephone # (615) 532-1157
 FAX # (615) 770-7423

The Contractor:

Janet A. Nash, Esq.
 American Century Global Investment Management, Inc.
 4500 Main Street, 9th Floor
 Kansas City, Missouri 64111

janel_nash@americancentury.com
Telephone # (816) 340-7480
FAX # (816) 340-4964

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

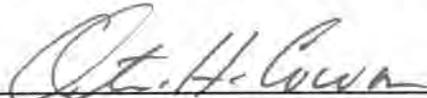
- E.3. Subject to Funds Availability. The Contract is subject to the appropriation and availability of State and/or Federal funds. In the event that the funds are not appropriated or are otherwise unavailable, the State reserves the right to terminate the Contract upon written notice to the Contractor. Said termination shall not be deemed a breach of Contract by the Retirement System. 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 Retirement System 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. Representations and Covenants of the Contractor. The Contractor represents and warrants that (1) it has no interest and shall not acquire any interest, direct or indirect, which would conflict in any manner or degree with the performance of services under this Contract; (2) with respect to the Account, it shall not engage in transactions with either itself, including any affiliates or parent companies, except upon the prior written approval of the Retirement System; (3) it is duly authorized to execute and deliver this Contract, and to perform its obligations hereunder and has taken all necessary action to authorize such execution, delivery and performance; (4) the person signing this Contract on its behalf is duly authorized to do so on its behalf; (5) it has obtained all authorizations of any governmental body required in connection with this Contract and the transactions hereunder and such authorizations are in full force and effect; and (6) the execution, delivery and performance of this Contract will not violate any law, ordinance, charter, by-law or rule applicable to it or any agreement by which it is bound or by which any of its assets are affected. The Contractor shall promptly notify the Retirement System in writing if any of the above representations change or cease to be true and correct in all respects.
- E.6. Confidentiality and Publicity. The Contractor shall treat as confidential all proprietary information and materials affecting the Account. Except as otherwise required by law, the Contractor further undertakes not to release any materials to third parties without the Retirement System's prior written permission. The Contractor agrees that all reports, studies, analyses, specifications, recommendations and all other materials of whatsoever nature, prepared by the Contractor specifically for use under this Contract or furnished to the Contractor by the Retirement System for use under this Contract, are to be considered confidential, and that the Contractor will neither publish, circulate nor use any of the foregoing, except in the performance of its work under this Contract or except as otherwise required by law. The Contractor agrees that it will not issue any news releases to the public press or any publication wholly or partly related to its work under this Contract without first obtaining the prior written consent of the Retirement System. The Contractor further agrees that it will not make speeches, engage in public appearances, publish articles or otherwise publicize its work under this Contract without prior written approval of the Retirement System. This Paragraph is not intended to prevent the Contractor from advertising

the fact that the Contractor performed or performs the services hereunder on behalf of the Retirement System.

- E.7. Authorized Individuals. Each party hereto has provided the other party hereto with a list identifying the individuals from whom the other party is authorized to accept any notices, requests, demands, or other advice which may be given hereunder by the party providing such list. Said lists, which are attached hereto as Attachment G, shall be valid until revoked or amended by further written notice. The parties hereto shall only be entitled to rely on notices, requests, demands, or other advice given by such individuals.
- E.8. On-Site Visits. At any reasonable time and upon reasonable notice by the Retirement System, the Retirement System or its duly appointed representatives shall be entitled to visit the Contractor's operational headquarters or other offices where the Account is serviced and to examine all records pertaining to the Account, and to make reasonable requests for copies of such records. The travel expenses associated with any such visit shall be borne by the Retirement System or its duly appointed representatives.
- E.9. Transition of Services Upon Termination. Upon the natural expiration of this Contract or in the event of its termination for any reason, the Contractor shall transfer in accordance with the Retirement System's instructions all records and other property of the Retirement System to whomever the Retirement System may designate in writing to the Contractor. The Contractor agrees to cooperate with the Retirement System, and any subsequent contractor selected by the Retirement System to perform the services hereunder, in the transition and conversion of such services. The Contractor shall remain liable to the Retirement System under this Contract for any acts or omissions occurring on or prior to the date on which all property of the Retirement System and all services hereunder have been successfully transferred or converted in accordance with this Paragraph.

IN WITNESS WHEREOF:

AMERICAN CENTURY GLOBAL INVESTMENT MANAGEMENT, INC.:



CONTRACTOR SIGNATURE

December 15, 2008

DATE

Otis H. Cowan, Vice President

PRINTED NAME AND TITLE OF CONTRACTOR SIGNATORY (above)

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM:



DALE SIMS, STATE TREASURER & CHAIR OF THE
BOARD OF TRUSTEES OF THE TENNESSEE
CONSOLIDATED RETIREMENT SYSTEM

12/17/08

DATE

APPROVED:

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

DATE

JOHN G. MORGAN, COMPTROLLER OF THE
TREASURY

DATE

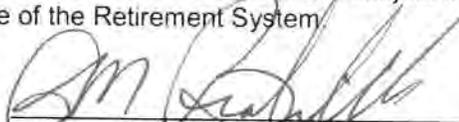
**ATTACHMENT A
ACCOUNT CONTENT**

Pursuant to Section A.2 of the Contract between the State of Tennessee, Tennessee Consolidated Retirement System, hereinafter referred to as the "Retirement System", and American Century Global Investment Management, Inc., hereinafter referred to as the "Contractor", the Retirement System appointed the Contractor to supervise and manage its international equity investment portfolio, designated as the Account. For purposes of the Contract, "international" shall mean those countries defined by the MSCI EAFE Investable Market Index, plus Canada.

The Retirement System shall allocate such cash and securities as shall be determined at the sole discretion of the Retirement System for investment and reinvestment by the Contractor in the above described countries and in accordance with the above-referenced Contract. In addition to such allocation, the Account shall consist of all assets acquired as earnings thereon, proceeds therefrom or in substitution therefor. The Retirement System may, at its sole discretion and upon notification to the Contractor, add, transfer or remove assets from the Account. Following such transfer or removal, the Contractor shall have no authority to act with respect to assets transferred or removed. The Contractor shall have no investment or other responsibility or authority with respect to those assets owned by the Retirement System which are not part of the Account. The investment performance of the Account shall be measured against the MSCI EAFE Small Cap Net Index as published by MSCI Barra.

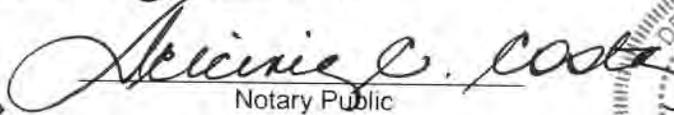
The Contractor may only invest assets of the Account in common stock, preferred stock, convertible bonds, and depository receipts. The Contractor may write covered call options on stock positions and engage in forward contracts to hedge the foreign currency exposure of the Account. Said investment vehicles are the only vehicles the Contractor may employ and the same must be done under the terms and conditions contained in Attachment B "Tennessee Consolidated Retirement System Organizational Structure and General Overview - Investment Policy, Objectives and Criteria" and in compliance with Tennessee Code Annotated, Title 8, Chapter 37, Part 1.

This Attachment A supersedes any prior Attachment A relative to the subject matter contained herein and will be valid until further written notice of the Retirement System.


Michael Brakebill, Chief Investment Officer

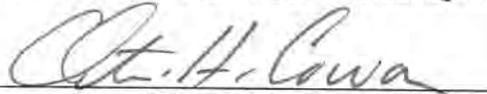
STATE OF TENNESSEE
COUNTY OF DAVIDSON

Sworn and subscribed to me on this the 17th day of Dec, 2008.

My Commission Expires 3-21-09

Notary Public



RECEIPT AND ACCEPTANCE
American Century Global Investment Management, Inc.

By: 
(Signature)

Date: December 15, 2008

Otis H. Cowan, Vice President
(Typed or Printed Name and Title)

ATTACHMENT B

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:

Asset Class	Index	Weight
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.

T CRS shall limit real estate investments such that at the time of acquisition, no more than 1.0% of the market value of T CRS' 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, T CRS 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 T CRS.

Real estate investment advisors (Advisor) are to be utilized by T CRS to locate, evaluate, acquire, manage and dispose of separate account direct real estate investments. T CRS 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 T CRS' total assets.

T CRS 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**

ATTACHMENT C

INVESTMENT DIVISION CODE OF ETHICS AND STANDARDS OF PROFESSIONAL CONDUCT

INTRODUCTION

The mission of the Treasury Department, as developed by department employees in 1991, is to provide superior service to constituents in a cost effective manner through qualified personnel **while maintaining the highest ethical standards**. Recognizing that investment division employees are fiduciaries for system members and state taxpayers, the Treasury Department adopts the Investment Division Code of Ethics and Standards of Professional Conduct for the benefit of system members and state taxpayers. This document is produced to emphasize the high ethical standards expected of Treasury Department employees as described in our mission statement. Every Investment Division employee is obligated to conduct themselves with utmost integrity, professionalism and ethical behavior.

In any cases of doubt as to whether an action may be in violation of Investment Division policy of ethics and standards of professional conduct, an investment division employee should seek the advice of the State Treasurer, the Chief Investment Officer, the Director of Retirement, or the Executive Assistant to the State Treasurer for guidance. Such guidance should be sought prior to the action in question.

If any situation or action occurs which an employee is in doubt as to whether the situation or action should be disclosed, then the Investment Division employee should seek advice of the State Treasurer, the Chief Investment Officer, the Director of Retirement, or the Executive Assistant to the State Treasurer as to whether disclosure is required.

GIFTS

No investment division employee shall accept any lodging, airfare, membership, service, loan, promise of future benefits, or payment of any kind from any firm the Treasury Department does business with or may potentially do business with. An Investment Division employee may not accept any gift or entertainment from firms which do business or may potentially do business on behalf of the Treasury Department which might adversely affect or influence his or her judgment in the performance of official duties. Gifts are prohibited except for diminutive gifts such as coffee mugs, envelope openers, calendars, etc. which are defined as items estimated to cost less than \$20 with minimum resale value. Perishable food items may be accepted if made available in the office to all employees in the department and consumed in the office. Diminutive gifts and perishable food items should not be received on so frequent a basis as to lead a reasonable person to believe that an investment employee is using his office for personal gain. Under no circumstance shall an employee seek, request or ask for any gift, entertainment, lodging, airfare, membership, service, loan, promise of future benefit or payment of any kind from any firm the Treasury Department does business with or may potentially do business with.

Meals and Modest Entertainment

The Treasury Department recognizes that networking and information gathering in the investment industry may occur at meal meetings and entertainment settings. Business meetings in the investment industry are routinely conducted on a meal time schedule, mostly for the convenience of a broker/analyst/vendor, allowing them to gather several clients together for one meeting in each city, rather than conducting numerous small meetings. Also, travel itineraries tend to produce meetings at the mealtime hours. Reasonable breakfast, lunch and dinner meetings and modest entertainment are permitted, provided such meetings are working meetings where information, research, projections, analysis or opinions are provided on economic, business, governmental and

investment data which directly relates to the investment industry.

All breakfast, lunch, and dinner meetings and modest entertainment must be disclosed on the Treasury Department DAYPLAN program prior to such meetings, if possible. Any items not disclosed prior to such meetings should be recorded immediately upon returning to the office. Moreover, all conferences, conventions, and travel must be disclosed on the DAYPLAN program.

Extravagant entertainment events such as post season playoffs, major sporting events, Olympic events, or events of a significant nature are prohibited.

Meals and modest entertainment should not be accepted on so frequent a basis as to lead a reasonable person to believe that an employee is using his office for personal gain. Under no circumstance shall an employee seek, request, or ask for any meal or modest entertainment permitted under this section from any firm which does business or may potentially do business with the Treasury Department.

PERSONAL TRADING

Investment Division employees are obligated to conduct their personal securities transactions in a manner that does not conflict with the Investment Division's business and fiduciary responsibilities. The primary responsibility of Investment Division employees is to place the interests of the Investment Division above their own and to conduct their personal securities transactions in a manner which does not interfere with the Investment Division's portfolio transactions or create an actual or potential conflict of interest with the retirement system.

The purchase of an initial public offering of equity securities for which no public market in the same or similar securities of that issuer has previously existed is prohibited. An exception is permitted where an employee has an existing right to purchase a security based on his or her status, for a significant period of time, as a depositor or policy holder. Whenever such a transaction is executed, it should be disclosed on the monthly personal trading report.

All personal trades must be cleared in advance by the appropriate portfolio managers. On the day an Investment Division employee wishes to trade a security, he or she must first contact the appropriate portfolio managers for clearance. The portfolio manager shall not provide clearance for such trades if the security is being acquired or sold by the Investment Division. The Investment Division must have completed its acquisition or disposition of a security before any personal trades can be made. In all cases, the Investment Division's execution of trades must take priority over personal trades.

Disclosure of Personal Trades and Holdings

Each month, Investment Division employees shall disclose in writing on the prescribed form the previous month's personal securities trades. Such disclosure shall be made directly to the director of TCRS or if the director is unavailable, to the executive assistant to the Treasurer. It is the intent that these monthly reports remain confidential. However, since this is a public document subject to the Open Records Act, the Treasury Department will honor any request by Tennessee citizens to review such documents. Investment staff will be advised of any request for the documents prior to releasing the document. Prior to hiring an Investment Division employee, such employee should disclose all brokers/brokerage relationships. The annual statement of investment disclosure should include a list of all broker/brokerage relationships and security holdings during the year being reported. Disclosure is not required for mutual funds accounts, the state's 401(k) plan, the state's 457 plan, real estate holdings, partnership interest or any type securities in which the state is prohibited from owning.

Disclosure Requirement of Securities Held by Family Members

An Investment Division employee is required to disclose trades and holdings of family members where a pecuniary interest exists or where the Investment Division employee has control over the trading activities in a security account. Pecuniary interest means the opportunity, directly or

indirectly, to profit or share in any profit derived from a transaction in a security.

Family members regarded as having pecuniary interest in, and therefore as the beneficial owner of, securities held are any child, step-child, grandchild, parent, step-parent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law sharing the same household. Adoptive relationships are included for purposes of determining whether securities are held by a member of a person's immediate family.

PROFESSIONAL ETHICS AND CONDUCT

Chartered Financial Analysts (CFAs) shall adhere to the Code of Ethics and the Standards of Professional Conduct as published by the Association of Investment Management and Research (AIMR). Investment employees not participating in the AIMR program shall take the self-administered ethics exam annually or when renewed, whichever occurs first.

Every Investment Division employee shall be provided with a copy of the following:

- (1) Investment Division Code of Ethics and Standards of Professional Conduct,
- (2) Tennessee Treasury Department Standards of Professional Conduct, and
- (3) Investment Policy as adopted by the Board of Trustees.

Communication of Policy

Prior to the annual statement of investment disclosure filing each year, the Treasurer, Chief Investment Officer, or the Director of Retirement shall meet with Investment Division employees to review and discuss the above referenced documents.

Sanctions

Investment division employees serve at the direction and pleasure of the State Treasurer. Any employee who violates this policy shall be subject to disciplinary action by the State Treasurer which may range from verbal reprimand to dismissal.

Effective Date

This policy shall become effective January 1, 1995 and shall remain in effect until amended.

Dale Sims, State Treasurer

ATTACHMENT D
TENNESSEE TREASURY DEPARTMENT
STANDARDS OF PROFESSIONAL CONDUCT

The mission of the Treasury Department, as developed by department employees in 2004, is to be a leader by providing exceptional service to our customers honestly, efficiently, and effectively. It is the obligation of every employee of the department to conduct themselves with the utmost integrity, professionalism and ethical behavior in relations with all clients of the department, be they members of the public, fellow employees, or vendors providing services for the department.

In any cases of doubt as to whether an action may be in violation of these standards of professional conduct, an employee should seek the advice of their supervisor, director, the personnel director, or the Treasurer. Such advice should be sought prior to the action in question.

Treasury employees should strive to abide by the following core values:

- **Impeccable Honesty** – We will develop relationships and interact with one another and with our customers in a manner that fosters and encourages trust. We will maintain the highest ethical and professional standards in everything that we do.
- **Mutual Respect** – We will treat everyone equitably and with honor. We will communicate in a manner, which promotes open dialogue with our customers, within the department, and with our peers in state government.
- **Continuous Improvement** – We will continually challenge ourselves to improve the level of service that we provide by being innovative, collaborative, creative, and efficient. We will work to be the best at what we do.
- **Shared Accountability** – We will work as a team and will purposely strive to leverage the strengths and overcome the weaknesses of each team member. We will accept responsibility individually and collectively for the service that we provide to our customers.
- **Exceptional Service** – We will be innovative in how we provide service to our customers and in how we do our work. We will be relentless in our pursuit of quality and excellence in everything that we do. We will focus not only on solving customers' problems but also anticipating their needs.
- **Exemplary Leadership** – We will be visionary leaders and positive role models for our peers. We strive to be highly respected both inside and outside state government.

Each employee, in performing his or her duties and responsibilities, should apply the following standards of conduct:

A Treasury Department Employee Should

- conduct all state business responsibilities in a fair manner and be honest in all business negotiations;
- strive to provide the highest quality of performance and counsel;
- attempt to avoid any activity which may be interpreted as a **conflict of interest** * by others and, if the activity is not reasonably avoidable, disclose the activity to their supervisor;
- be responsible for maintaining their competence to fulfill the responsibilities of their position;
- maintain confidentiality of information so designated which is received or maintained by the department;
- comply with standards of conduct for professions, as applicable (i.e., CPA, CFA, Attorneys);
- exercise prudence and integrity in the management of resources in their custody;
- consult with their supervisor or director if they have questions about these standards of conduct;
- communicate to appropriate members of management, any actions that may be violations of the law, this Standards of Conduct, or actions which may be conflicts of interest; and
- *review the Treasury policies and procedures at a minimum annually and immediately notify their supervisor any time a potential **conflict of interest** * arises.*

No Treasury Department Employee Should

- utilize any property or resources of the department for personal gain;
- falsify or fail to record proper entries on any books or records of the department;
- knowingly be a party to, or condone, any illegal activity.

- make potential business referrals of department customers (such as retirees, claimants, etc.) to relatives or close business associates;
- authorize payment on behalf of the department of any amount, or for any purpose, other than that specifically disclosed in the original request for payment and owed by the department;
- directly or indirectly seek or accept gifts (as defined below), money, travel, lodging, association memberships or property that would influence or appear to influence the conduct of their duties;
- engage in or conduct outside activities of financial or personal interest that may conflict with the impartial and objective execution of departmental business activities;
- sell or provide goods or services to the department;
- utilize the services of relatives or close personal associates for departmental business without disclosing such relationships to management prior to such services being rendered;
- engage in activities involving dishonesty, fraud, deceit or misrepresentation;
- engage in outside employment with any providers of supplies or services to the department; or
- engage in outside employment that would interfere with or hamper expected performance with the department.

Members of Management of the Department Are Responsible for

- communicating these standards of conduct to their coworkers;
- monitoring and encouraging compliance with these standards; and
- *providing written documentation of any reported potential **conflict of interest** * to Internal Audit.*

Employees of the Investment Division Must Also

- adhere to the Investment Division Code of Ethics and Standards of Professional Conduct;
 - file a Statement of Disclosure of Personal Securities Trades monthly;
 - file a Statement of Interest Disclosure annually; and
 - file a Statement of Brokerage Relationships and Personal Security Holdings annually.
- A **conflict of interest** is a situation where an employee, family member, or close personal friend or associate is in a position to derive a benefit, directly or indirectly, from an action which conflicts substantially, or appears to conflict substantially, with the employee's duties or responsibilities.

Family member is defined as spouse, children, stepchildren, siblings, parents, grandparents, grandchildren, stepparents, foster parents and parents-in-law.

Gifts

No employee shall solicit or accept, directly or indirectly, any gift including but not limited to any gratuity, service, favor, entertainment, lodging, transportation, loan, loan guarantee or any other thing of monetary value, from any person or entity that:

- Has, or is seeking to obtain, contractual or other business or financial relations with the Treasury Department; or
- Conducts operations or activities that are regulated by the Treasury Department; or
- Has interests that may be substantially affected by the performance or nonperformance of the employee's official duties.

Unsolicited meals of reasonable value and modest entertainment accepted on an infrequent basis are excluded from the prohibition of accepting gifts. Employees must disclose any gifts, meals and entertainment to their division director. * Disclosure of unsolicited diminutive gifts, activities offered in connection with a conference or seminar, or perishable food items made available to all department employees is not required.

Unsolicited diminutive gifts, such as coffee mugs, envelope openers, calendars, etc. which are defined as items estimated to cost less than \$20 with minimum resale value, are acceptable. Activities (meals, refreshments, modest entertainment) offered in connection with a conference or seminar are also excluded from the prohibition of gifts. Perishable food items may be accepted if made available in the office to all employees in the department and consumed in the office. Diminutive gifts and perishable food items should not be received on so frequent a basis as to lead a reasonable person to believe that a Treasury employee is using his office for personal gain. **Employees**

charged with procurement responsibilities should review statutes and rules related to purchasing before accepting any gift.

Notwithstanding any of the above, acceptance or solicitation of gifts from a lobbyist or a person employing a lobbyist in the State of Tennessee is prohibited. An employee is responsible for asking whether the person offering the gift is or employs a lobbyist in the State of Tennessee. The exceptions to gifts by lobbyists provided by Tennessee Code Annotated 3-6-114 apply to this policy. An employee should contact the Treasury Department General Counsel if there are any questions about a specific situation.

Treasury employees are to disclose any gifts, meals or entertainment received on their division's spreadsheet located at F:/shared/public/disclosure. The director has the responsibility for reviewing these disclosures on a monthly basis. The division of internal audit shall periodically review the disclosures to determine compliance with the Standards of Professional Conduct.

Disciplinary action for violation of this policy may involve immediate termination of employment or may include counseling, changes in work assignments, a written warning, reprimand or suspension. The degree and kind of action is at the discretion of the Treasurer.

*This disclosure is applicable to employees outside of the Investment Division. Investment Division employees should continue to disclose their meals and entertainment as required by the Investment Division Code of Ethics and Standards of Professional Conduct.

ATTACHMENT E

PROXY VOTING GUIDELINES

		<u>DESCRIPTION</u>	<u>POSITION</u>
1.1	Appointment of Auditors	Appointment of auditors recommended by management or outside directors. An issue of concern exists where the same firm has audited the company for excessively long periods. Another issue of concern is when there is frequent turnover of auditors.	Generally support.
1.2	Election of Directors	Management proposals which provide for the annual election of directors or establishment of staggered terms and "classified boards." A "classified board" is one in which directors are divided into separate classes, with directors in each class elected to overlapping terms. In a typical classified board, a third of the directors are elected annually and, therefore, each director serves a three year term.	Support annual election of directors.
1.21	Cumulative Voting	Cumulative voting is a method of stockholder voting which gives minority stockholders a voice on the Board of Directors. Each stockholder has the number of votes that equals the number of shares that he owns multiplied by the number of directors to be elected.	Evaluate on a case-by-case basis; generally support.
		<u>DESCRIPTION</u>	<u>POSITION</u>
1.3	Executive and Director Compensation	Compensation plans must contain adequate disclosure pertaining to a) compensation and b) correlation of compensation and performance. This information will aid in evaluating the earnings of directors and management, and to provide for a measure of accountability of those who make company decisions.	Evaluate on a case-by-case basis; generally support.
1.31	Golden Parachute	A Golden Parachute is a contract between a top executive and his firm which provides lucrative benefits in case the company is taken over.	Evaluate on a case-by-case basis; generally opposed.

1.4 Confidential
Ballot

Confidential balloting requires all proxies, ballots and voting tabulations that identify shareholders to be kept confidential.

Support.

Anti-Takeover
Proposals

Anti-takeover charters and bylaw amendments have been proposed by the management of large companies in an effort to thwart corporate raiders. These proposals must be approved by shareholders. Once approved, they make it more difficult to oust incumbent management through either a proxy fight or a tender offer. The most popular type of anti-takeover proposals include:

Evaluate on a case-by-case basis; generally oppose.

	<u>DESCRIPTION</u>	<u>POSITION</u>
1.51	Anti-Greenmail provision seeks to prevent the payment of "greenmail" to an unsolicited purchaser of the company. "Greenmail" is the payment of a premium price for the stock of selected shareholders without the opportunity for all shareholders to participate in the repurchase program.	Support.
1.52	Re-incorporation proposals to another state are most frequently motivated by considerations of anti-takeover protection or cost savings where cost savings are the sole issue.	Evaluate on a case-by-case basis.
1.53	Blank Check Preferred proposals are for authorization of a class of preferred stock for which voting rights are not established in advance, but are left to the discretion of the board of directors on a when issued basis. This type of proposal transfers authority from shareholders to the board and creates a possible entrenchment device.	Evaluate on a case-by-case basis; generally oppose.

2.0 NON-ECONOMIC ISSUES

DESCRIPTION

Unless the long-term economic impact on shareholder value can be demonstrated to the satisfaction of the TCRS, the Board will most likely oppose those resolutions that propose to impose sanctions on the products or behavior of the corporations, as long as such products, behavior or policies are not in conflict with other TCRS statements of principle.

POSITION

Evaluate on a case-by-case basis; generally oppose.

APPENDIX 1

Pursuant to Section A.6 b. of the Contract between the State of Tennessee, Tennessee Consolidated Retirement System, hereinafter referred to as the "Retirement System", and American Century Global Investment Management, Inc., hereinafter referred to as the "Contractor", the Retirement System has designated the following entity as its Custodian:

The Northern Trust Company
50 S. LaSalle Street
Chicago, Illinois 60603

This designation shall be valid until revoked or amended by further written notice from the Retirement System.

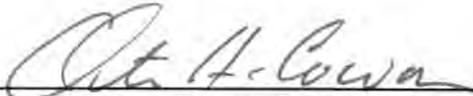
12/17/08
Date Effective

Dale Sims
Dale Sims, State Treasurer &
Chair of the Board of Trustees

ATTESTATION RE PERSONNEL USED IN CONTRACT PERFORMANCE

SUBJECT CONTRACT NUMBER:	
CONTRACTOR LEGAL ENTITY NAME:	American Century Global Investment Management, Inc.
FEDERAL EMPLOYER IDENTIFICATION NUMBER: (or Social Security Number)	44-30040487 

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.

OHS H. Cowan, Vice President

PRINTED NAME AND TITLE OF SIGNATORY

December 15, 2008

DATE OF ATTESTATION

