



State of Tennessee

DAVID H. LILLARD, JR.
STATE TREASURER615.741.2956
David.Lillard@tn.govTREASURY DEPARTMENT
STATE CAPITOL
Nashville, Tennessee 37243-0225

December 13, 2023

Dear Members of the Tennessee Consolidated Retirement System:

It is my pleasure to submit this annual financial report of the Tennessee Consolidated Retirement System. This is the thirty-sixth consecutive year that the financial report is being submitted to the Government Finance Officers Association for review. All previous reports have received the Certificate of Achievement for Excellence in Financial Reporting.

Administration: TCRS manages the plan to secure the financial future of its more than 585,000 active, inactive and retired members. TCRS remains financially strong and well-funded. TCRS has been recognized as one of the top three best-funded pension plan in the country. TCRS paid a total of \$3.12 billion to our 156,738 retired members in fiscal year 2023, over 92% of whom remain in Tennessee. Members are provided comprehensive financial education and retirement counseling at no additional cost to the member. Information about the TCRS pension plans can be found at treasury.tn.gov/tcrs.

Investments: The return on investments during the fiscal year ended June 30, 2023 was 6.66%, slightly under the plan's assumed rate of return of 6.75%. A conservative, highly diversified portfolio minimized the risks. The five and ten-year returns were 7.82% and 8.08%, respectively, both exceeding the actuarially required rate of return.

Financial Soundness of the Plan: TCRS is considered one of the best-funded public pension plans in the nation. All three national ratings agencies: S&P, Moody's, and Fitch, recognize Tennessee for fully funding its annual actuarially determined contribution every year since 1972.

The General Assembly, the Board of Trustees and the TCRS staff have worked diligently to provide the best possible management of the system, invest the system assets in a prudent manner without undue risk, fund the system on an actuarially-strong basis and provide the best possible services to the members in the system.

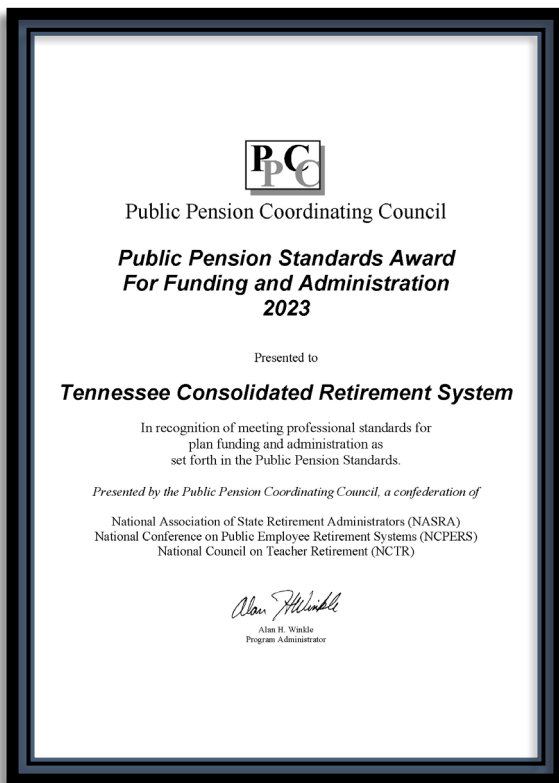
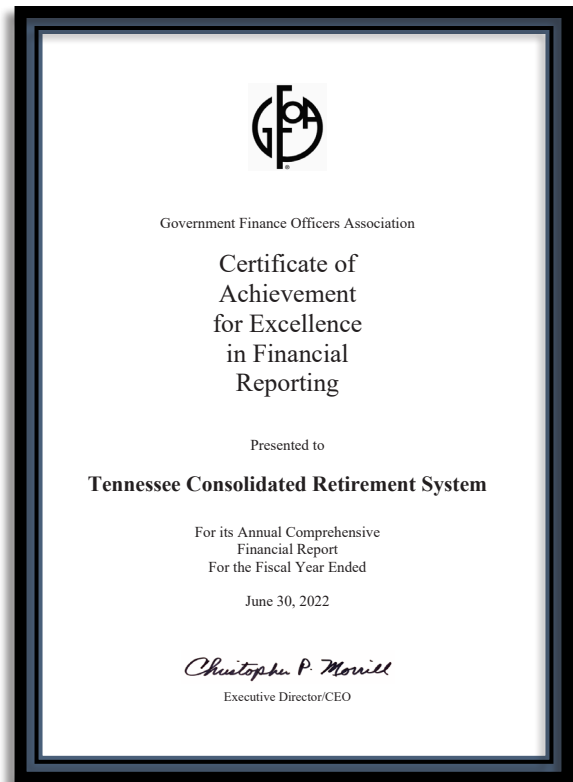
Sincerely,

David H. Lillard, Jr., State Treasurer
Chairman of the Board



**CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE
IN FINANCIAL REPORTING**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Tennessee Consolidated Retirement System (TCRS) for our Annual Comprehensive Financial Report for the fiscal year ended June 30, 2022. This was the 35th consecutive year that TCRS has achieved this prestigious award.



PUBLIC PENSION STANDARDS AWARD

The Tennessee Consolidated Retirement System (TCRS) was awarded a Public Pension Standards Award for our Annual Comprehensive Financial Report for the fiscal year ended June 30, 2022. This prestigious award was presented by the Public Pension Coordinating Council, a confederation of the National Association of State Retirement Administrators (NASRA), the National Conference on Public Employee Retirement Systems (NCPERS), and the National Council on Teacher Retirement (NCTR). TCRS received the award in recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.



Tennessee Consolidated Retirement System
A program of the Tennessee Treasury Department

David H. Lillard, Jr.
State Treasurer

Jamie Wayman
Director

December 13, 2023

Board of Trustees
Tennessee Consolidated Retirement System
Nashville, TN 37243

Ladies and Gentlemen:

We are pleased to present to you the Tennessee Consolidated Retirement System (TCRS) annual comprehensive financial report for the fiscal year ended June 30, 2023. Responsibility for the accuracy of the data and the fairness and completeness of this presentation, including all disclosures, rests with the management of TCRS. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to provide a precise representation of the financial position and results of operations of the system.

This report has been prepared in accordance with generally accepted accounting principles as promulgated or adopted by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. Specific accounting treatments are detailed in the Notes to the Financial Statements found in the Financial Section of this report. Management is responsible for establishing and maintaining internal controls for TCRS. The accounting systems are designed to include internal controls to provide reasonable assurances regarding safekeeping of assets and the reliability of financial records. These internal controls have been created to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. The concept of reasonable assurance recognizes that first, the cost of a control should not exceed the benefits likely derived, and second, the valuation of the cost and benefits requires estimates and judgments by management. By statute, the Comptroller of the Treasury serves as the independent auditor for the system.

For additional discussion regarding financial information, please review Management's Discussion and Analysis located in the Financial Section of this report.

PROFILE OF TCRS

TCRS was established in 1972 with the consolidation of seven separate retirement systems for state employees, public higher education institution employees, public school teachers and employees of political subdivisions electing to participate in TCRS. The State of Tennessee is responsible for the pension benefits of state employees and higher education employees and funds a significant portion of the retirement liability for teachers through the Basic Education Program. Each of the 603 participating political subdivisions is responsible for the pension benefits of its employees. TCRS is a qualified pension plan under Section 401(a) of the Internal Revenue Code. As such, the system is exempt from federal income taxation on its investment earnings. Since January 1, 1987, member contributions have been tax deferred under Section 414(h) of the Internal Revenue Code.

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TCRS was established as a retirement program for the public employees of Tennessee. A variety of services are provided for the membership including: investing assets; counseling of rights and benefits; publishing newsletters, booklets, pamphlets and financial statements; processing deductions for retiree insurance programs and federal income tax; calculating death, disability and retirement benefits; and processing refund and prior service requests.

ECONOMIC CONDITION

Funding of TCRS is provided through employee and employer contributions plus earnings from the invested assets. A standard actuarial “advanced funding” method is used to provide for the accumulation of assets to fund the cost of retirement, disability and death benefits provided by the system. The funding objective of TCRS is being met as the state and political subdivisions continue to make contributions to the plan at the rates established by the Board of Trustees. The Board is utilizing a strong actuarial method and has adopted reasonable actuarial assumptions for the determination of the appropriate employer contribution rates.

An actuarial valuation of TCRS is performed by an independent actuarial firm annually to determine the funding requirements for the employers participating in TCRS. As of June 30, 2022, the latest valuation date, the legacy plan had the following funded ratios on a fair value basis: state employees, 93.80%; K-12 teachers, 104.42%; and political subdivisions in aggregate 99.60%. As of June 30, 2022, the hybrid retirement plan had the following funded ratios on a fair value basis: state employees, 104.81% and K-12 teachers, 104.55%. Experience studies are performed on a quadrennial basis. The results of the June 30, 2020 experience study have been incorporated into the June 30, 2021 actuarial valuation which produced employer contribution rates for the period July 1, 2022-June 30, 2023. The Tennessee General Assembly and Governor appropriated a \$350 million extraordinary contribution to the State and Higher Education Legacy Pension Plan in fiscal year 2023, above the actuarially determined contributions. This is the second extraordinary contribution made to improve the funding of the liabilities for benefits already earned and promised to members; \$250 million was appropriated in fiscal year 2022.

The TCRS is invested in the Tennessee Retiree Group Trust (TRGT). The TRGT portfolio is diversified among domestic and international stocks and bonds, real estate, private equity and short-term securities. A diversified portfolio is used to manage risk and to minimize significant exposure to unpredictable events. Staff consults with the TCRS general consultant periodically to determine the optimal, long-term mix of assets to best meet the plan’s investment objectives. TCRS has adopted a conservative investment strategy that has yielded excellent returns with a low level of risks.

Because TCRS is a well-funded pension plan, volatility in investment income will cause employer contribution rates to fluctuate. Investment strategies have been adopted that somewhat reduce, but do not eliminate, this volatility. The investment market outlook continues to create significant challenges in meeting the 6.75% investment return assumed by TCRS. A premium will continue to be placed on security selection.

The current TCRS Investment Policy can be found at <https://treasury.tn.gov/Retirement/Boards-and-Governance/Reporting-and-Investment-Policies>. TCRS pension funds represent 99% of the TRGT. For fiscal year 2023, the TRGT investments provided a 6.66% rate of return. The annualized rate of return was 8.89%, 7.82%, and 8.08% over the trailing three, five, and ten years, respectively. For further information on investments of TRGT, please refer to the TRGT Financial Statements at <https://treasury.tn.gov/Explore-Your-TN-Treasury/About-the-Treasury/Department-Reports>.

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AWARDS AND ACKNOWLEDGMENTS

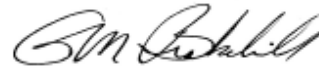
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Tennessee Consolidated Retirement System for its annual comprehensive financial report for the fiscal year that ended June 30, 2022. This was the 35th consecutive year that the System has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized annual comprehensive financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements. The GFOA Certificate of Achievement is valid for a period of one year only. We believe that our current annual comprehensive financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

TCRS is also the recipient of the Public Pension Principles Achievement Award. This program, administered by the Public Pension Coordinating Council, recognizes the professional achievements of public employee retirement systems.

The dedicated effort of the Treasury Department team to assemble the information contained in this publication is hereby acknowledged with our sincerest appreciation. The report will be provided to state legislators, members of the Board of Trustees, state officials, participating employers and other interested parties.

A handwritten signature in cursive script that reads "Jamie Wayman".

Jamie Wayman
TCRS Director

A handwritten signature in cursive script that reads "Michael Brakebill".

Michael Brakebill
Chief Investment Officer



ADMINISTRATION

The State Treasurer is a constitutional officer elected every two years by a joint session of the General Assembly. He serves as the Chief Executive Officer of the Treasury Department, a part of the legislative branch of state government. The administration and operation of the Tennessee Consolidated Retirement System are among the primary responsibilities of the State Treasurer. In order to meet the statutory requirements and fiduciary responsibilities of administering TCRS, the Treasurer appoints two executive officers: the Director of TCRS and the Chief Investment Officer.

The Director of TCRS is responsible for the daily operation of the retirement system which includes providing counseling services for the active and retired members; issuance of payments to retired members, disabled members, beneficiaries of deceased members and refunds to terminated employees; enrollment of members; maintenance of member account balances and records; establishment of service credit and issuance of various publications to inform members of their rights and benefits.

The Chief Investment Officer is responsible for the investment and oversight of TCRS assets in accordance with statutory guidelines and the investment policies and strategies established by the Board of Trustees.

Other divisions within the Treasury Department, which support the operations of TCRS, include Information Systems, Accounting, Management Services, Financial Empowerment, Internal Audit, Financial Strategies and Analysis, Human Resources, and Communications. Through these divisions, data processing services, accounting services, records maintenance, control reviews and personnel services are provided.

The administrative budget of TCRS is subject to approval by the General Assembly and is part of the overall annual budget process of the State of Tennessee. Funding for the operation of TCRS is provided by three sources. The State of Tennessee is responsible for the operational cost associated with state employees and higher education employees. Local education agencies are responsible for the operational cost related to K-12 teachers. Political subdivisions are responsible for the operational cost associated with their employees.

MISSION

The mission of the TCRS is to provide superior services to constituents in a cost-effective manner through qualified personnel while maintaining the highest ethical standards. The mission is accomplished by TCRS in cooperation with the Board of Trustees, the Council on Pensions and the TCRS membership through the following objectives:

- ❖ **Exemplary Service** — To provide accurate, courteous and prompt service to members of TCRS.
- ❖ **Benefit Standards** — To provide retirement coverage through TCRS, Social Security and personal savings vehicles which will allow public employees to maintain their standard of living after retirement.
- ❖ **Funding Standards** — To provide for the long-term funding of TCRS on an actuarial basis which will ensure that sufficient assets will be accumulated to pay the statutory benefits of current and future retirees.
- ❖ **Staffing** — To attract and retain professional, highly-trained staff in an atmosphere conducive to innovation, challenges and a high level of performance.
- ❖ **Research** — To continuously perform studies on pension issues and to compare the TCRS plan with other public and private pension systems.
- ❖ **Management** — To manage by leading, planning, organizing and controlling the operation of TCRS in a cost-effective manner for the benefit of members and Tennessee taxpayers utilizing personnel, technology and capital efficiently while providing the highest level of service.
- ❖ **Ethical Standards** — To maintain the highest ethical standards.
- ❖ **Investment Return** — To obtain the highest available return on investments consistent with the preservation of principal while maintaining sufficient liquidity to react to the changing environment and to pay benefits when due.



THE COUNCIL ON PENSIONS

Created as a legislative oversight committee, the Council on Pensions develops, recommends and establishes pension and retirement standards and maintains a progressive state policy on retirement.

The Council periodically reviews Tennessee's retirement provisions and recommends changes in state law as deemed necessary. Since its creation, the Council has continuously performed studies and comparisons of other pension systems, including those of other states, private industry and the federal government's Social Security program. All proposed legislation affecting Tennessee's retirement laws must be reviewed by the Council before the legislature may take action. The Council is authorized to prepare and propose amendments which are then forwarded to the standing committees. Information regarding the actuarial cost or impact of proposed legislation is provided by the Council to the other members of the legislature. The staff of TCRS also serves as staff to the Council.

The voting membership of the Council consists of the Speaker of each house of the General Assembly; the officers of the House and the Senate Committees on Finance, Ways and Means; and three additional members of each finance committee. The Speaker of the Senate may designate a member of the Senate and the Speaker of the House of Representatives may designate a member of the House to serve as alternates to vote or otherwise act at Council meetings in absence of the respective speaker. Nonvoting members include the Commissioner of Human Resources, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the State Treasurer and the Director of TCRS.

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NON-VOTING MEMBERS



David H. Lillard, Jr.
State Treasurer



Jamie Wayman
TCRS Director



Jason Mumpower
Comptroller of the Treasury



Juan Williams
*Commissioner of
Human Resources*



Jim Bryson
*Commissioner of
Finance and Administration*

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VOTING MEMBERS - SENATORS



**Senator
Bo Watson**
*Council Vice-Chair
Finance, Ways and Means Chair*



**Lieutenant Governor
Randy McNally**
Speaker of the Senate



**Senator
Adam Lowe**
Speaker's Designee



**Senator
Joey Hensley**
*Finance, Ways and Means
Second Vice-Chair*



**Senator
John Stevens**
*Finance, Ways and Means
First Vice-Chair*



**Senator
Page Walley**



**Senator
Dawn White**



**Senator
Jeff Yarbrow**

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VOTING MEMBERS - REPRESENTATIVES



**Representative
Patsy Hazlewood**
*Council Chair
Finance, Ways and Means Chair*



**Speaker
Cameron Sexton**
Speaker of the House



**Representative
Charlie Baum**
*Finance, Ways and
Means Vice-Chair*



**Representative
Karen D. Camper**



**Representative
David B. Hawk**



**Representative
Gary Hicks**
*Finance, Ways and Means
Sub-Committee Chair*



**Representative
Sam Whitson**



**Representative
Ryan Williams**



THE BOARD OF TRUSTEES

The Tennessee Consolidated Retirement System Board of Trustees is responsible for the general administration and proper operation of TCRS within the requirements and provisions of state statute (T.C.A., Title 8, Chapters 34-37). The 20-member Board meets quarterly and is subject to the call of the chair for special meetings. Nine voting members constitute a quorum and nine affirmative votes are needed for decision making.

The Board consists of nine ex-officio members, nine representatives of the active TCRS membership and two representatives for retirees. Ex-officio members include the chair and vice-chair of the Legislative Council on Pensions (as nonvoting members), the Commissioner of Human Resources, the Commissioner of Finance and Administration, the Comptroller of the Treasury, the Secretary of State and the Administrative Director of the Courts. In addition, the State Treasurer sits as Chair of the Board and the Director of TCRS serves as Secretary.

Employee representation consists of three teachers, one from each grand division of the state; two state employees from departments other than those represented by ex-officio members; one public safety officer and three representatives of local governments. Retiree representation includes a retired teacher and a retired state employee.

Three teachers and one retired teacher are selected for three-year terms by the Speaker of the Senate and the Speaker of the House of Representatives. State employees elect two representatives who also serve three-year terms.

One representative is appointed for a two-year term by each of the following organizations: The Tennessee County Services Association, the Tennessee Municipal League and the Tennessee County Officials Association. The public safety representative and the state retiree representative are appointed by the Governor. All employee representatives must be vested members of TCRS.

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EX-OFFICIO MEMBERS



David H. Lillard, Jr.
State Treasurer



Jamie Wayman
TCRS Director



Tre Hargett
Secretary of State



Jason Mumpower
Comptroller of the Treasury



**Representative
Patsy Hazlewood**
*Council Chair
Non-Voting*



**Senator
Bo Watson**
*Council Vice-Chair
Non-Voting*



Juan Williams
*Commissioner of
Human Resources*



Jim Bryson
*Commissioner of
Finance and Administration*



Michelle Long
*Administrative Director
of the Courts*

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ELECTED OR APPOINTED MEMBERS



Michael Barker
Retired Teacher



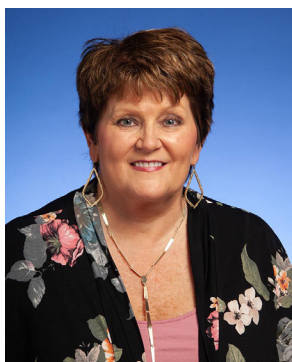
Mike Cox
State Employee
Term Expires:
June 30, 2025



Tim Ellis
Tennessee
Municipal League
Term Expires: June 30, 2023



Dr. Kim Lackey Fisher
East Tennessee Teacher
Term Expires:
June 30, 2025



Patsy Moore
West Tennessee Teacher
Term Expires:
June 30, 2023



Mark Stanfill
State Employee
Term Expires:
June 30, 2025



Gayle VanHooser
Tennessee County
Officials Association
Term Expires:
June 30, 2023



Robert Wormsley
Tennessee County
Services Association
Term Expires: June 30, 2023

Vacant
Middle Tennessee Teacher

Vacant
Public Safety

Vacant
Retired State Employee



PROFESSIONAL CONSULTANTS

Independent professional consultants are appointed by the Board of Trustees to advise the Board and the TCRS staff on investment, medical and actuarial issues. Service fees related to investment professionals may be found on pages 65-67.

GENERAL INVESTMENT CONSULTANT

An investment consultant is employed to assist in the long-term financial planning process, to evaluate various investment strategies, to measure investment performance, to determine whether the system's objectives are being met, to research investment proposals regarding the use of new asset classes or variations of existing asset classes and to provide investment information on various issues which may arise.

Mark Brubaker
Verus
San Francisco, California

PRIVATE EQUITY AND STRATEGIC LENDING CONSULTANT

Thomas Martin
Aksia
San Diego, California

Mike Krems
Aksia
San Diego, California

REAL ESTATE INVESTMENT CONSULTANT AND ADVISORS

The real estate consultant provides general market advice relative to real estate, measures performance of real estate properties, assists in the formulation of policy and assists in the selection of real estate advisors.

Martin Rosenberg
The Townsend Group
Cleveland, Ohio

The real estate investment advisors identify prospective real estate transactions and provide asset management services.

Alec Burleigh
AEW Capital Management L.P.
Boston, Massachusetts

Chris Conklin
RREEF America LLC
Chicago, Illinois

Tony Ferrante
Heitman
Chicago, Illinois

Preston Meyer
J.P. Morgan Investment Management, Inc.
New York, New York

Christine M. Mullis
L&B Realty Advisors, LLP
Dallas, Texas

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**INTERNATIONAL EQUITY INVESTMENT MANAGERS**

The international equity investment managers are responsible for purchasing stock of companies domiciled in foreign countries as set out in the investment policy.

Justin Atkinson
Walter Scott & Partners, Ltd.
Edinburgh, Scotland, UK

Melville Bucher
Martin Currie Investment Management
Edinburgh, Scotland, UK

Leona Yang
TimesSquare Capital Management
New York, New York

James Bolante
Fiera Capital
Boston, Massachusetts

Vanessa DeMeo
PanAgora Asset Management, Inc.
Boston, Massachusetts

Jill Farrell
American Century Investments
Kansas City, Missouri

Ben Kottler
Marathon Asset Management
London, England

Thomas Leventhorpe
J.P. Morgan Asset Management
New York, New York

Chris Moore
WCM Asset Management
Laguna Beach, California

Rebecca Norman
Kabouter Management
Chicago, Illinois

Brett Peven
Pzena Investment Management
New York, New York

Todd Rittenhouse
Mondrian Investment Partners
Philadelphia, Pennsylvania

Adam Waclawsky
Acadian Asset Management
Boston, Massachusetts

MASTER CUSTODIAN BANK

The Master Custodian bank settles all financial investment transactions and provides custody services for TCRS assets.

William Claxton
State Street Corporation
Boston, Massachusetts

THE MEDICAL ADVISORS

The Tennessee Consolidated Retirement System contracts with the University of Massachusetts Medical School (UMass) to serve as the Medical Advisor. UMass Medical School evaluates applications for disability retirement to determine whether the applicants are totally and permanently disabled and unable to engage in gainful employment. Additionally, UMass Medical School reviews medical data submitted by disabled retirees who are subject to periodic evaluation.

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CONSULTING ACTUARY

An independent consulting firm performs an actuarial valuation every year to determine the funding status of the TCRS and recommend employer contribution rates. The actuary also conducts an experience study every four years to evaluate and adjust actuarial assumptions and methods.

Justin Thacker
USI Consulting Actuaries
Brentwood, Tennessee

OTHER PROFESSIONAL SERVICES

State statute provides that the state Attorney General and Reporter will be the legal advisor of the Board and that the Office of the Comptroller of the Treasury will conduct an annual audit of the TCRS. These officers are as follows:

Jonathan Skrmetti
Attorney General/Reporter
Nashville, Tennessee

Jason Mumpower
Comptroller of the Treasury
Nashville, Tennessee



TREASURER’S OFFICE

State Treasurer David H. Lillard, Jr., JD, LLM
 Chief Operating Officer Mary Jo Price, JD
 Communications Director Shelli King
 Chief of Staff..... Roy West
 Executive Assistant to the Treasurer Heather Szczepczenski

TCRS INVESTMENTS

Chief Investment Officer Michael Brakebill, CFA, CAIA
 Deputy Chief Investment Officer Thomas Kim, CFA
 Private Equity Director Daniel Crews, CFA
 Strategic Lending Director Jeff Dunn, CFA
 Director of Investment Operations..... Kevin Gentry, CPA, CIA, CISA, CGMA
 Equity Director Carrie Green, CFA
 Fixed Income Director Markus Klar, CFA, FRM
 Real Estate Director..... J.P. Rachmaninoff, CPA

RETIREMENT ADMINISTRATION

TCRS Director Jamie Wayman, CPA, CEBS
 TCRS Deputy Director Sara Queirolo, CPA
 TCRS Assistant Director for Financial Operations..... Chad Leake, CPA
 TCRS Assistant Director of Retirement Policy and Compliance..... Victoria Knab, CPA
 TCRS Associate Assistant Director of Member Services. Sarah Simpson, CEBS
 Administrator of Old Age and Survivors Insurance Alison Cleaves, JD
 Director of Outreach..... Drew Freeman
 Director of Employer Reporting and Customer Service..... Altovisse Robertson

TREASURY DIVISIONS

Deputy Treasurer, Support Services Rick DuBray, CPA
 Assistant Treasurer, Financial Empowerment Ashley Nabors
 Assistant Treasurer, Legal, Compliance and Audit Alison Cleaves, JD
 Assistant Treasurer, Program Services..... Steve Summerall, ARM, CEBS
 Director of Compliance Jonathan Schwartz
 Director of Deferred Compensation..... Hunter Bethea
 Director of Accounting Brian Derrick, CPA
 Deputy Director of Accounting Connie Gibson, CPA
 Director of Management Services Kerry Hartley, CPA

*The Treasurer is housed on the 1st floor of the State Capitol Building.
 Divisions are housed in the Andrew Jackson Building.*



ORGANIZATIONAL CHART

