

**REAL ESTATE INVESTMENT ADVISOR  
QUESTIONNAIRE**

**STATE OF TENNESSEE  
TENNESSEE CONSOLIDATED RETIREMENT  
SYSTEM**

August 22, 2008

RFS #309.01-129

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**State of Tennessee  
Tennessee Consolidated Retirement System  
Real Estate Investment Advisor Questionnaire**

**RFS #309.01-129**

**SECTION A: STATEMENT OF INTENT AND BACKGROUND INFORMATION**

1. Statement of Intent. The Tennessee Consolidated Retirement System (“TCRS”), a division of the Department of Treasury of the State of Tennessee, intends to secure contracts for qualified real estate investment advisors (“Advisors”) to source, acquire and manage a portfolio of low risk equity real estate investments (“Portfolio”). The purpose of this Questionnaire is to define TCRS’ minimum requirements, solicit responses, and gain adequate information to evaluate the services Advisors have to offer.

TCRS will seek Advisors to source, evaluate, acquire, manage and dispose of low risk, unleveraged operating and substantially leased office, retail, industrial and multifamily real estate investments (“Core Properties” or “Core”). These investments will be made in accordance with the TCRS Investment Policy as set forth in *The Tennessee Consolidated Retirement System Organizational Structure and General Overview-Investment Policy, Objectives and Criteria* (“TCRS Policy”), and other applicable policies and procedures adopted by the TCRS Board of Trustees, and the statutes governing TCRS. A copy of the TCRS Policy, including provisions applicable to real estate, are included herein as Attachment A to the *Pro Forma Contract* (Exhibit A to this Questionnaire). The applicable statutes which apply to TCRS can be found in Tennessee Code Annotated, Title 8, Chapter 37, Part 1 and Tennessee Code Annotated, Section 35-3-117. Copies of these provisions can be found at [www.michie.com](http://www.michie.com) and by clicking on “Tennessee Code”. TCRS intends to secure contracts for three (3) to eight (8) qualified Advisors, each of which shall manage real estate investments as a non-discretionary separate account. No specific allocation will be dedicated to any Advisor selected by TCRS.

2. TCRS. TCRS is a public employee retirement system covering teachers, state employees, higher education employees and local government employees. Currently, TCRS has total plan assets of approximately \$32 billion with a current targeted allocation of no more than seven percent (7%) to real estate. The expectation is to increase the real estate allocation to 10% over the mid-to-long term. The Portfolio is currently invested to 4.5% of the total plan assets.

The Plan is a qualified plan under Section 401(a) of the Internal Revenue Code. The current statutes governing TCRS investments (i.e., Tennessee Code Annotated, Title 8, Chapter 37, Part 1 and Tennessee Code Annotated, Section 35-3-117) can be accessed from the website noted above.

3. Contact Prohibited. Contact with employees or officials of the State of Tennessee including, but not limited to, TCRS staff and the TCRS Board of Trustees regarding this Questionnaire is prohibited except as initiated by TCRS staff. Any questions, requests for information, or clarifications should be directed to TCRS' current real estate consultant, The Townsend Group ("Townsend" or "Consultant"). Mr. Anthony Frammartino, Principal of Townsend, will be responsible for coordinating questions and requests between Advisors and TCRS. *Any contact, except as authorized above, will disqualify a firm from consideration.*
4. Real Estate Consultant for TCRS. Townsend, as the real estate consultant to TCRS, will assist TCRS in the establishment of objectives, benchmarks, and performance evaluations. Performance measurement will be prepared on a quarterly basis and will reflect current quarter and accumulated returns. The real estate consultant's performance measurement system will be the official method for determining performance. It should be noted that TCRS' current general investment consultant is Strategic Investment Solutions, Inc.
5. Current Real Estate Portfolio. TCRS began its real estate investment program in mid-1999. As of June 30, 2008, TCRS had acquired a total of thirty-three (33) real estate properties with an aggregate market value of over \$1.4 billion spread across its five existing Advisors as well as two (2) current commitments to industrial open end commingled funds. No further commitments to commingled vehicles are contemplated. The Portfolio is invested in office, multifamily, and retail properties, with locations in cities such as Boston, Atlanta, Chicago, San Diego, Dallas, Fort Worth, Seattle, and Washington DC.
6. Permissible Real Estate Investments. The TCRS Policy approved by the TCRS Board of Trustees authorizes the plan to make investments in Core properties (80%-100% of the real estate Portfolio). The TCRS Policy defines Core Properties as operating and substantially leased (i.e., 80% or greater leased at time of acquisition) institutional quality, well-located assets in the traditional property types of office, apartment, retail, and industrial ("Core Properties").

The intention is to develop and manage a Portfolio of relatively low risk Core Properties which is diversified by property type, location (economic and geographic) and investment Advisor. The investments made to date are typically unleveraged or with very low levels of leverage, but TCRS will consider the use of leverage for new investments where the use of leverage offers either (i) preferred access to potential investments not attractive to current leveraged buyers (e.g., properties with above market existing debt where TCRS can underwrite the refinancing or payoff within a reasonable period of time), or (ii) greater access to co-investment partners.

7. Permissible Investment Structures. Core Properties may be acquired through Co-Investments with comparable institutional investors or comparable strategy commingled

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funds sponsored by the Advisor (“Co-Investments”) or a separate account where TCRS is the only institutional investor (“Direct Investments”). TCRS prefers to make a substantial majority of its real estate investments, in particular its Core Properties, primarily through Direct Investments presented by selected Advisors. Though TCRS will invest predominantly in Core assets, 20% of the allocation may be utilized more opportunistically in search of higher return/risk investments.

All investments will be non-discretionary (i.e., TCRS will retain the control of its rights with respect to acquisition, disposition and other major asset management and financing decisions). TCRS expects that it will maintain control over its acquisition, disposition and any financing decisions with respect to any real estate investment. As stated in TCRS’ Real Estate Investment Guidelines, which are included herein as Attachment D to the *Pro Forma* Contract (Exhibit A of this Questionnaire), TCRS will maintain control over its selection of legal counsel and will have control over other investment decisions such as approval rights with respect to annual budgets, selection of appraisers, and the selection of property management and leasing service providers, among others.

In a Co-Investment, TCRS may achieve control by investing at least 50% of the required capital or by the negotiation of certain rights in the investment documentation. TCRS may consider investing in a minority position in a given real estate investment, but it is anticipated that TCRS will achieve at least parity, if not control, over any major decisions with its co-investor(s).

TCRS may hold title to real assets directly and/or through title holding corporations, including organizations described in Section 501(c)(25) of the Internal Revenue Code, or limited liability companies.

The purpose of this Questionnaire is to identify qualified firms to source, acquire and manage Core Properties.

8. Asset Allocation. TCRS investment staff will allocate assets to each of the Advisors on a transactional basis. The Advisors will not have a prespecified allocation to invest on behalf of TCRS. The allocation to each Advisor is ultimately constrained to 40% of the total real estate allocation for risk management purposes.
9. Statutory Restrictions. TCRS cannot acquire real estate located in the State of Tennessee unless such acquisition is in the shares or interests of a regulated investment company, mutual fund, common trust fund, investment partnership, real estate investment trust, or similar organizations or vehicles which are commingled and investment determinations as to which real estate assets to purchase or acquire are made by the investment sponsor or investment manager, or persons other than TCRS. All investments must be made in accordance with the laws, policies and objectives governing TCRS. Moreover, TCRS may

not acquire assets which, at the time of investment, exceed more than 5% of the market value of the total assets of the plan.

10. Prudent Investor Rule. Pursuant to Tennessee Code Annotated, Section 35-3-117, a potential Advisor (“Proposer”) must manage the real estate investment Portfolio 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 TCRS 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 TCRS. The Advisor must agree to discharge its duties with respect to TCRS solely in the interest of the beneficiaries and members of the retirement system.
11. Investment Division Code of Ethics and Standards of Professional Conduct. The mission of the Treasury Department is to provide superior service to constituents in a cost effective manner through qualified personnel while maintaining the highest ethical standards. Attachment B to the *Pro Forma* Contract (Exhibit A of this Questionnaire) reflects the Department’s Code of Ethics and Standards of Professional Conduct for the staff and employees of TCRS.

**SECTION B: MINIMUM QUALIFICATIONS & PROPOSAL SUBMISSION INSTRUCTIONS**

1. Minimum Qualifications. The following is a list of the minimum qualifications that a Proposer must meet or exceed as of June 30, 2008 in order for TCRS to accept that Proposer’s response to this Questionnaire. All proposals submitted in response to this Questionnaire must contain a written statement as to the Proposer’s ability to meet the minimum qualifications. Such written statement must be made in the Proposer’s transmittal letter that accompanies the proposal as discussed in Section B.10 below. If a Proposer cannot agree to and abide by each item listed, the Proposer’s Questionnaire response will be considered **non-responsive** and will **not** be evaluated.
  - a. The Advisor must be a registered investment advisor under the Investment Advisor Act of 1940 or exempt from registration (Attach Form ADV [Parts I and II] or a disclosure of the nature of the exemption as “**Appendix A**” to your proposal).
  - b. The senior members of the Advisor’s investment team to be responsible for the TCRS relationship must have a minimum of five (5) year’s institutional real estate investment management or advisory experience.
  - c. The Advisor must have no less than \$1 billion in total (taxable and tax exempt) equity real estate gross assets under management.
  - d. The Advisor must have no less than \$750 million in tax exempt Core and Non-Core

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- Properties equity real estate net assets under management.
- e. The Advisor must have no less than \$500 million in tax exempt Core and Non-Core Properties equity real estate net assets under management in separate accounts.
  - f. The Advisor must have no less than \$500 million in tax exempt Core Properties net assets under management in at least two of the traditional property types (office, industrial, retail and multifamily).
  - g. The Advisor must have prior experience in providing separate account real estate investment advisory services to pension plans comparable to TCRS, as measured by a minimum of one (1) tax exempt public pension plan separate account client with total plan assets in excess of \$10 billion.
2. Contact Concerning Questionnaire. The sole point of contact for this Questionnaire shall be:

Mr. Anthony Frammartino  
Principal  
The Townsend Group  
1500 West Third Street, Suite 410  
Cleveland, Ohio 44113  
Phone: (216) 781-9090  
Fax: (216) 781-1407  
E-mail: [anthony@townsendgroup.com](mailto:anthony@townsendgroup.com)

After the Questionnaire has been issued, Advisors are prohibited from communicating with any employee or official of the State of Tennessee including, but not limited to, TCRS staff regarding the Questionnaire unless TCRS specifically requests the communication. Advisor representatives should not contact any employee or official of the State of Tennessee to explain, amplify, or discuss their proposals.

TCRS reserves the right to contact any Advisor for clarification after proposals are opened.

Advisors submitting correspondence by fax should provide telephone notification of each fax transmission.

Each Proposer shall assume the risk of the method of dispatching any communication or proposal pursuant to this Questionnaire. Neither the Consultant nor TCRS assumes any responsibility for delays or delivery failures resulting from the method of dispatch. Actual or electronic “postmarking” of a communication or proposal pursuant to this Questionnaire by a deadline date shall not substitute for actual receipt of a communication or proposal by the Consultant.

3. Letter of Intent. Potential Proposers should submit to the Consultant a letter of intent to respond to this Questionnaire by no later than the date and time specified in the Schedule of Events (Section B.16 of this Questionnaire below). Letters of intent may be sent by mail, hand delivery, e-mail or fax. A letter of intent is not a prerequisite for submission of a proposal, nor does it obligate a firm to eventually submit a proposal; however, it is necessary to ensure receipt of addenda and amendments to the Questionnaire, including any amendments to the form of the *Pro Forma* Contract (as defined in Section B.6 below), and written responses to any questions submitted in accordance with the terms of this Questionnaire. The letter of intent should indicate the name and mailing address, fax number and e-mail address of the person within the firm's organization to whom correspondence should be sent.
4. Questions. Should a firm find discrepancies in or omissions from the questions or specifications, or should there be doubt as to their meaning, the firm may direct written questions to the Consultant as identified above. All written questions about this Questionnaire must be submitted on firm letterhead. All written questions must also identify the Questionnaire section and page number for each question submitted. Written questions may be sent by mail, hand delivery, e-mail or fax and must be received no later than the Written Comments Deadline specified in the Schedule of Events (Section B.16 of this Questionnaire below). TCRS shall only be bound by written responses to written questions concerning this Questionnaire. Any oral communications shall be considered unofficial and non-binding with regard to this Questionnaire.

The Consultant will convey written responses to all written inquiries received by the Written Comments Deadline detailed in the Schedule of Events (Section B.16 of this Questionnaire) to all firms that submitted a letter of intent. The Consultant (with TCRS' approval) reserves the right to determine, at its sole discretion, the method of conveying official responses and communications pursuant to this Questionnaire (*e.g.*, written, facsimile, electronic mail, or Internet posting). These responses will be included in the Questionnaire thereby as an amendment. Names of firms submitting questions will not be disclosed in the written responses conveyed.

5. Amendments to Questionnaire. As indicated above, the written responses to any written inquiries filed with the Consultant in accordance with the Schedule of Events shall be included in the Questionnaire as an amendment.

TCRS reserves the right to further amend this Questionnaire in writing at any time.

Amendments will be sent to all firms who have filed a letter of intent by the due date listed in the Schedule of Events. Firms shall respond to the final written Questionnaire and any exhibits, attachments, or amendments. If significant amendments occur, TCRS may extend the proposal due date through an amendment to this Questionnaire.

6. Pro Forma Contract. The *Pro Forma* Contract delineating the scope of services that TCRS expects the Advisor to provide is attached as **Exhibit A**. Responses should be structured to



satisfy, at a minimum, the requirements of the *Pro Forma* Contract. The *Pro Forma* Contract details TCRS' required:

- Scope of Services and Deliverables in Section A;
- Contract Period in Section B;
- Payment Terms in Section C;
- Standard Terms and Conditions in Section D; and
- Special Terms and Conditions in Section E.

The *Pro Forma* Contract substantially represents the contract document that the Proposer selected by TCRS MUST agree to and sign.

However, TCRS reserves the right, at its sole discretion, to add terms and conditions or to revise *Pro Forma* Contract requirements in TCRS' best interests subsequent to this Questionnaire process. No such terms and conditions or revision of contract requirements shall materially affect the basis of proposal evaluations or negatively impact the competitive nature of this Questionnaire process.

**Each Proposer must carefully review this Questionnaire and all attachments, including but not limited to the *Pro Forma* Contract. If a Proposer has an exception to the scope of services, is unable to provide a listed service, or objects to (or desires to add to) any of the terms and conditions listed here or in the *Pro Forma* Contract, the exception or addition must be made in writing and received by the Consultant no later than the Written Comments Deadline detailed in the Schedule of Events (Section B.16 of this Questionnaire).**

Protests based on any objection shall be considered waived and invalid if these comments and/or objections have not been brought to the attention of the Consultant, in writing, by the Written Comments Deadline.

If a proposal offers services in addition to those required by and described in this Questionnaire, the additional services may be added to the contract before contract signing at the sole discretion of TCRS. Notwithstanding the foregoing, a Proposer shall not propose any additional cost amount(s) or rate(s) for additional services.

**NOTICE: The Proposer's Cost Proposal shall record only the proposed cost as required in this Questionnaire and shall not record any other rates, amounts, or information. If a Proposer fails to submit a Cost Proposal as required, TCRS shall determine the proposal to be non-responsive and shall reject the proposal.**

The Proposers with the apparent best-evaluated proposals must sign and return the contract drawn by TCRS pursuant to this Questionnaire no later than the Contract Signature Deadline date detailed in the Schedule of Events. If a Proposer fails to provide the signed contract by the deadline, TCRS may determine that the Proposer is non-responsive to the terms of this Questionnaire and reject the proposal.

7. Assignment and Subcontracting. TCRS intends to obtain real estate investment advisory services described herein from the Proposer. For purposes of this Questionnaire, TCRS does not consider a Proposer's engagement of firms (third parties) to provide environment assessment or engineering assessments (e.g., structural, roofs, mechanical systems) or legal or title services for potential new investments to be subcontracting. Other than as set forth above, the Proposer may not subcontract, transfer, or assign any portion of its scope of services under the proposed *Pro Forma* Contract without prior, written approval from TCRS. Each subcontractor must be approved in writing by TCRS and the substitution of one subcontractor for another may be made only at the discretion of TCRS and with prior, written approval from TCRS.

The Proposer must clearly identify in its Proposal any such subcontracts intended, the scope of work to be subcontracted, and the name and qualifications of the subcontractor. All subcontractors and subcontracts must be approved in writing by TCRS. Notwithstanding the use of approved subcontractors, the Proposer, if awarded a contract under this Questionnaire, shall be the prime contractor and responsible for all work performed. TCRS reserves the right to refuse, at its sole discretion, any subcontractors or any personnel provided by the prime contractor or its subcontractors.

At the time of acquisition of an investment, TCRS will bear the cost for the title and survey and for the third party services of attorneys (including any real estate tax research professionals), property condition consultants, and environmental consultants. In the event the Proposer engages an affiliate or third party to perform any other services in connection therewith including, but not limited to, an accounting firm or management firm to provide lease reviews, prepare lease abstracts or review historical operating expenses and/or preparing the first year operating budget in connection with proposed investments, the Proposer shall solely bear the costs of such services and TCRS will not pay nor reimburse the Proposer for such costs.

8. Independent Price Determination. No Proposer may be considered for contract award if the price in the proposal was not arrived at independently without collusion, consultation, communication, or agreement as to any matter relating to such price with any other company or with any competitor. In addition, any firm submitting a proposal is prohibited from submitting more than one proposal or submitting multiple proposals in different forms — e.g. as the prime contractor in one proposal and as a subcontractor in another proposal. Multiple proposals will result in the disqualification of the Proposer. Should any such action stated above be detected at any time during the contract, the contract shall be deemed null and void.
9. Format of Proposal. Responses must be submitted in the order that the items appear in the Questionnaire. *Responses should state the question from the Questionnaire before stating the Proposer's response to the question.*

Responses should be prepared simply and economically, providing a straightforward, concise description of the company's capabilities to perform real estate investment advisory services. Certain questions have space limits that will be strictly enforced.

Failure to observe these limits may result in a disqualification for consideration. Emphasis should be placed on clarity of content and responsiveness to the questions.

Any response received that does not meet the Questionnaire Instructions may be considered non-responsive and will not be given further consideration.

All costs incurred by Proposers in responding to this Questionnaire shall be borne by the Proposer. Neither the proposals nor the materials submitted with the proposals will be returned.

10. Letter of Transmittal. All proposals submitted in response to this Questionnaire must be accompanied by a transmittal letter. This transmittal letter must include the firm name, address and telephone/fax numbers, e-mail address, the name of the person the Consultant should contact regarding the proposal, and the title or position which the signer of the cover letter holds in the firm. The transmittal letter must contain a statement as to whether the Proposing firm meets the minimum qualifications described in Section B.1 above. The transmittal letter must be signed with an original signature by an individual in the proposing firm who can legally bind the firm, and the transmittal letter must state this explicitly. The transmittal letter must further state that the signatory of the letter has read the Proposing firm's proposal, attests to the accuracy of all information provided therein, and that the proposal is valid for five (5) months subsequent to the date of opening. The transmittal letter must also contain a statement from the Proposer that its proposal constitutes a commitment to provide all services as defined in the *Pro Forma* Contract Scope of Services for the total contract period and confirmation that the Proposer must comply with all of the provisions in this Questionnaire and shall accept all terms and conditions set out in the *Pro Forma* Contract.

11. Submission of Proposal.

The Proposer is to deliver four (4) sealed copies of its proposal, in the form and detail specified in this Questionnaire, to the Consultant at the address set forth in Section B.2 above. In addition to hard copies, each Proposer must also supply a copy of the text of its Proposal on a diskette in a Word format and performance and other similar requested information in its Proposal on a diskette in Excel format.

Proposals should be mailed using certified or registered mail with return receipt requested, sent by overnight delivery service, or hand delivered to the address indicated above. Faxed or e-mailed proposals will **NOT** be accepted. Proposals must be submitted and received no later than the Proposal Deadline time and date detained in the Schedule of Events (Section B.16 of this Questionnaire below). It is the Proposer's sole responsibility to ensure that its proposal is submitted before the due date and time. Proposals received after the due date and time will not be accepted.

Each proposal and all materials submitted in response to this Questionnaire shall become the property of the State of Tennessee. Selection or rejection of a proposal does not affect this right. All proposal information, including detailed price and cost information, shall be held in confidence during the evaluation process. Notwithstanding, a list of actual

Proposers submitting timely proposals may be available to the public, upon request, directly after proposals are opened.

Upon completion of the evaluation of proposals, indicated by public release of an Evaluation Notice, the proposals and associated materials shall be open for review by the public in accordance with *Tennessee Code Annotated*, Section 10-7-504(a)(7). By submitting a proposal, the Proposer acknowledges and accepts that the full proposal contents and associated documents shall become open to public inspection.

12. Proposal Amendment and Rules for Withdrawal.

A Proposer may withdraw a submitted proposal at any time up to the Proposal Deadline time and date detailed in the Schedule of Events. To do so, a Proposer must submit a written request for its withdrawal to the Consultant. The request for withdrawal must be signed with an original signature by an individual in the firm who can legally bind the company, and the written request must state this explicitly. The written request must be mailed or hand delivered to the Consultant. The Consultant will acknowledge receipt of the request in writing. After withdrawing a previously submitted proposal, a Proposer may submit another proposal at anytime up to the Proposal Deadline.

TCRS will not accept any amendments, revisions, or alterations to proposals after the proposal due date unless formally requested, in writing, by TCRS.

13. Clarification, or Rejection of Proposals. TCRS reserves the right, at its sole discretion, to request clarification or corrections to proposals, to reject any and all proposals, to cancel and reissue this Questionnaire, or to cancel the Questionnaire in its entirety. TCRS reserves the right, at its sole discretion, to waive a proposal's variances from full compliance with this Questionnaire. If TCRS waives minor variances in a proposal, such waiver shall not modify the Questionnaire requirements or excuse the Proposer from full compliance with the Questionnaire. Notwithstanding any minor variance, TCRS may hold any Proposer to strict compliance with the Questionnaire.

If TCRS determines that a Proposer has provided, for consideration in this Questionnaire process or subsequent contract negotiations, incorrect information that the Proposer knew or should have known was materially incorrect, that proposal shall be determined non-responsive and shall be rejected.

14. Selection Process. The selection process under this Questionnaire will be as follows:

A. *Consultant Review of Non-Qualifying Proposals.*

First, the Consultant will evaluate each proposal submitted in response to this Questionnaire to determine if it was submitted in accordance with the requirements set forth in the Questionnaire, including whether the proposal meets all the Mandatory Requirements set forth in Section C below. All non-qualifying proposals will be

rejected at this time. Qualifying proposals shall be considered through the protocol described in the balance of this Paragraph 14, below.

*B. Consultant Semi-Finalist Selection.*

The Consultant will evaluate the proposals and recommend semifinalists for TCRS' consideration as discussed in Paragraph 14.C below. During this phase, the Consultant shall assign points to each proposal (in accordance with the system described below), tallying scores for each submitted proposal.

**1. Performance History: 14 points.**

This evaluation criterion will include the historical performance of the firm's overall investments and for its Core Properties, as measured by its cumulative and annual performance compared to the NCREIF Property Index over multiple time periods and risk adjusted return measures such as Sharpe ratio, Information ratio and standard deviation of such returns relative to the universe of respondents.

**2. Personnel: 14 points.**

This evaluation criterion will include the depth, experience and stability of the senior personnel and the experience and tenure of acquisition, asset management and Portfolio management professionals, including the experience and qualifications of the Portfolio manager(s) to be responsible for the TCRS account; and back-up procedures for providing services to TCRS in the absence of the Portfolio manager(s). This criterion will also include the quality of client references for the firm and key personnel.

**3. Assets under management, clients and potential Co-Investment partners: 9 points.**

This evaluation criterion will include the quantity, investment style (Core, Non-Core, etc.) and type (tax exempt, separate accounts, Co-Investment) of the firms' assets under management; the diversification (property type and location) of the firm's assets; the stability of the assets under management. It also will include the total number and dollar amount of tax exempt clients; the stability of the firm's client base; the total number and dollar amount of tax exempt clients with capital available for Co-Investment with TCRS; and the firm's experience in sourcing, structuring and managing Co-Investment relationships.

**4. Organization and management of the firm: 9 points.**

This evaluation criteria will include the organization and management of the firm, including any recent or expected significant developments and the expected financial stability of the firm; the similarity of a firm's clients to TCRS; and any adverse organizational issues, such as the existence of litigation or other investigations; and the existence of financial problems.

**5. Investment process and approach: 4 points.**

This evaluation criterion will include the investment management process and approach, including any documented acquisition, underwriting and asset and property management procedures; Portfolio construction methodology; risk management policies and procedures; recent transaction experience of the firm consistent with the TCRS strategy; the amount of other client capital available for investment which may be similar to the strategy being implemented by TCRS; the process by which potential investments are allocated among the firm's clients and whether any client (s) have any preference or advantage over other clients. It will also include the Proposer's ability to implement a transition plan within approximately forty-five (45) calendar days or less prior to December 1, 2008, the anticipated contract start date. TCRS currently retains five (5) separate account managers that manage in excess of \$1.4 billion across twenty-four (24) real estate investments. TCRS reserves the right to reallocate all (or portions) of this capital between any renewed or potentially new managers at its discretion.

**6. Interviews by Consultant: 14 points.**

The Consultant will conduct interviews with prospective Advisors in accordance with the Schedule of Events (Section B.16 of this Questionnaire). Advisor interviews will be conducted onsite at the Consultant's office in Cleveland, Ohio. This evaluation criterion will include the presentation made by the proposing firm to the Consultant during the interview.

**7. Fees: 36 points.**

After the interviews are completed, the Consultant will review the fee portion of the proposals. This evaluation criterion will include the total cost of performing investment advisory services as measured by the Proposer's fee proposal. The fee evaluation score shall be determined using the following formula:

$$\frac{\text{Lowest Cost Proposal}}{\text{Fee Proposal Being Evaluated}} \times 36 = \text{Points for Proposal Being Evaluated}$$

(Maximum Fee Score)

“Lowest Cost Proposal” is defined as the difference between the Gross of Fee IRR and the Net of Fee IRR in basis points as shown in **Appendix K – Fee Model Example**,

The Consultant shall then submit the top eight (8) scoring proposers as semi-finalists to TCRS for comprehensive review. If less than eight (8) proposers submit a qualifying proposal, the Consultant shall submit all such proposers as semi-finalist to TCRS for review.

C. *TCRS Finalist Selections*. Interviews by TCRS: 20 points

TCRS (through an Evaluation Committee) will interview each of the finalists at TCRS’ headquarters in Nashville, Tennessee according to the Schedule of Events. The Committee will make independent assessments based on the finalist interviews which will be augmented further by (but without prior knowledge of) the Proposers’ fee proposals and the Consultant’s independent ratings of the aforementioned evaluation criteria. The Evaluation Committee will be comprised of three (3) to four (4) Tennessee state employees, a majority of which are expected to be members of TCRS staff, including its Director of Real Estate. The selection process shall proceed as follows:

- I. After the interviews are conducted by TCRS, each member of the Evaluation Committee will independently grade each of the finalists. All grades will then be independently transmitted to Townsend.
- II. Collectively, and prior to the receipt of any scoring results (from Townsend, the Cost Proposal, or otherwise), the Evaluation Committee will determine the number of Advisors to be selected to manage TCRS’ separate accounts. A minimum of three (3) Advisors up to a maximum of eight (8) Advisors will be selected. The degree of diversity in the strategies proposed shall play an influential role in the number of Advisors selected. By way of example, in the event that a majority (or all) finalists offer a differentiated, diverse set of platforms which TCRS estimates would be accretive to its Portfolio, then a greater number of Advisors from the permissible range of three (3) to 8 (eight) may be chosen. If, on the other hand, finalists possess substantially similar platforms, then fewer Advisors from the permissible range may be chosen. The evaluation committee shall thus share joint discretion over what constitutes the ideal number of Advisors to be included in the Portfolio.

15. Effective Date and Term of Contract.

TCRS intends to enter into a contract with an expected effective period of five (5) years commencing on December 1, 2008 and ending on November 30, 2013.

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16. Schedule of Events. The following Schedule of Events represents TCRS' best estimate of the schedule that will be followed. Unless otherwise specified, the time of day for the following events will be between 8:00 a.m. and 4:30 p.m., EST.

<b>EVENT</b>	<b>TIME</b>	<b>DATE</b>
1. Questionnaire Issued		<b>August 22, 2008</b>
2. Letters of Intent and Written Comments Deadline	<b>3:00 p.m.</b>	<b>August 29, 2008</b>
3. TCRS Responds to Written Comments		<b>September 5, 2008</b>
4. Proposal Deadline	<b>3:00 p.m.</b>	<b>September 19, 2008</b>
5. Notification of Consultant Interview Time		<b>October 3, 2008</b>
6. Interviews by Consultant		<b>October 13 – October 16, 2008</b>
7. Notification of TCRS Interview Time		<b>October 17, 2008</b>
8. Interviews by TCRS		<b>October 22, 2008 – October 24, 2008</b>
9. TCRS Issues Evaluation Notice	<b>2:00 p.m.</b>	<b>October 27, 2008</b>
10. Contract Signature Deadline		<b>November 7, 2008</b>
11. Contract Start Date		<b>December 1, 2008</b>

Note: TCRS reserves the right to adjust this schedule as it deems necessary, at its sole discretion.

**SECTION C: MANDATORY REQUIREMENTS**

The following is a list of the minimum items needed in order for TCRS to accept a proposal as responsive. If each item listed is not provided, the proposal will be considered non-responsive and will not be evaluated.

- 1. One letter of transmittal.** The letter is to accompany the Proposal and is to contain all information requested in Section B.10 above.



2. **Information showing that the Proposer meets the minimum qualifications for all Proposers as outlined in Section B.1 above.** Your proposal should provide amounts or years, as the case may be, that shows how the Proposer meets each minimum qualification. This information is to be attached to the letter of transmittal.
3. **Four copies of the Proposal.** Each copy is to be complete and is to contain all requested samples and documents in the order requested. In addition to hard copies, each Proposer must supply one (1) copy of the text of its proposal on a diskette in a Word format and performance information and other similar appendix information in its proposal on a diskette in Excel format.

**SECTION D: ORGANIZATION AND MANAGEMENT**

1. Please provide the following information:

Office Location	Functions Performed	# of Personnel

2. Please give a brief history of the firm (100 words or less). Please indicate the following:

	Year
Established:	
Managing U.S. Tax Exempt Accounts:	
Managing Real Estate Separate Accounts:	
Registered as Investment Advisor under 1940 Act with SEC:	

3. Briefly (200 words or less) describe the structure of the firm’s ownership and specific details with regard to any affiliated companies or joint ventures and attach an Organization Chart of Ownership Structure which diagrams the interrelationships between parent-subsiary, affiliate, or joint venture entities, if any. The chart should be attached to your proposal and labeled “**Appendix B – Organization Chart of Ownership Structure**”.
4. List your firm’s lines of business and approximate percentage contributions of each business to your firm’s total revenues. If you are an affiliate or subsidiary of an

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- organization, what percentage of parent firm's total revenues does your subsidiary or affiliate generate?
5. Indicate the percentage of ownership of firm by current active employees, and the number of employees participating in such ownership. If applicable, what other persons or entities hold ownership interests?
  6. Provide details on the financial performance and condition of the firm during the past five years. Has your firm (or division) generated a profit in each of the last five years of operations? Most recent annual reports will be acceptable, but any recent material changes should be included.
  7. Describe briefly (250 words or less) the plans for future growth of your firm (assets under management, expansion of services). Do you currently have any plans, at any stage of development, to acquire or merge with another entity?
  8. Over the past five years, has your organization or any officer, director or principal been involved in any business litigation or other legal proceedings related to your investment activities? If so, provide a brief explanation and indicate the current status.
  9. Over the past five years, has your firm been the subject of an audit, censure, fine, inquiry or administrative action by the SEC, IRS, or DOL? If so, provide a brief explanation and indicate the current status.
  10. Provide a copy of your most recent ADV (Parts I and II) on file with the Securities and Exchange Commission, or provide a disclosure of the nature of the filing exemption. The form or disclosure should be attached to your proposal and labeled "**Appendix A**".
  11. Briefly (200 words or less) indicate your firm's business interruption plans in the event of a loss of your principal place of business due to natural or manmade causes, including back up systems for data and other records, office space and other technology needed to operate your business.
  12. Does your firm or its parent or other affiliates co-invest its capital with clients in direct or pooled fund investments? If so, what is the typical size of your firm's Co-Investment (as a percentage of the net equity invested) and how is that Co-Investment typically structured? Please describe the material terms and conditions applicable to any Co-Investment with clients made by your firm, including exit mechanisms, termination rights and how your firm proposes to manage any potential conflicts of interest raised by Co-Investment.
  13. Insurance Coverage.

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- a. Does your firm have a Fidelity Bond (may be referred to as Employee Dishonesty or Comprehensive Crime insurance)? Who is the carrier and what is the amount of coverage?
  
- b. Does your firm have an Errors and Omissions (Professional) Liability insurance policy? Who is (are) the carrier(s) and what is the amount of coverage per occurrence?

**SECTION E: PERSONNEL**

- 1. Provide a list, in the form of **Appendix C – Senior Staff Biographical Information**, which is attached to this Questionnaire below, of all principal officers, senior management personnel and members of your firm’s Investment Committee (by whatever name), and provide the biographical information indicated on said Appendix. The list should be attached to your proposal and labeled “**Appendix C – Senior Staff Biographical Information**”.
  
- 2. Identify the key personnel who would be responsible for the TCRS relationship and their roles in the account, including the percentage of each person’s time that would be dedicated to the TCRS relationship. Use the following format:

Function	Name	Title	Years Experience
Portfolio Manager	Jane Doe	SVP	24
Asst. Portfolio Manager	John Doe	VP	12
Asset Manager	Jim Doe	VP	13

- 3. Provide the number and total market value for **all** accounts currently managed or serviced by these personnel, and indicate their roles/duties for such other accounts, and the estimated percentage of time dedicated to these other accounts. Be specific and note if those accounts are actively investing capital or divesting assets. How much time will each person dedicate to the TCRS account?

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Name	# of Accounts	Total Market Value (TMV, \$)	Roles/Duties for Such Other Accounts	% of time allocated to Other Accounts	Actively Investing Capital? (Y/N)	Actively Divesting Assets? (Y/N)
Jane Doe				20%	Y	Y
John Doe						
Jim Doe						

Attach a narrative biography of each key person identified above. Each biography must address all the information requested in **Appendix D – Proposed TCRS Account Personnel Biographies**, which is included in this Questionnaire below. The biographies should be attached to your proposal and labeled “**Appendix D - Proposed TCRS Account Personnel Biographies**”.

- Provide an organizational chart of your firm’s personnel. The chart should be attached to your proposal and labeled “**Appendix E – Organizational Chart of Firm’s Personnel**”.
- List the number of professionals involved in real estate investment management, by category, in the format indicated below. Note any professionals that may be counted in more than one category but do not double count any such individuals.

Function	# of Professionals	Change over last 12 months
Acquisitions	5	1
Dispositions	5	(2)
Asset Management	0	0
Portfolio Management	0	0
Financing	0	0
Research	0	0
Property Management	0	0
Legal	0	0
Accounting	0	0
Architecture/Engineer	0	0
Other	0	0
<b>TOTAL</b>	10	(1)

- What is the average number of accounts per Portfolio manager? Are Portfolio managers limited to a finite number of accounts and market value of those accounts for which they can be responsible? What are those limits?

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- 7. What is the average number of accounts and properties per asset manager? Are asset managers limited to a finite number of accounts and/or properties and/or market value of those accounts or properties for which they can be responsible? What are those limits?
- 8. Describe your firm’s compensation and incentive system for key investment management professionals. Indicate how such compensation or other programs in place is structured to retain key investment staff. Do you have plans to extend ownership to any or additional employees? Please be detailed and specific in describing your programs.
- 9. Describe your firm’s backup procedures in the event the key investment professionals assigned to the TCRS account should leave.
- 10. Indicate annual professional turnover in the format below.

As of June 30, 2008 (6.30.08)	Professionals Gained	Professionals Lost	Total Professionals at Year End
2007	1	2	12
2006			
2005			
2004			
2003			

- 11. Have any senior personnel (including, but not limited to partners, principals, shareholders and senior management professionals) left the firm in the last three years? If so, please indicate when and why. (For personnel who have left, indicate job titles and years with the firm and indicate the person or persons who replaced them.)
- 12. Provide a chart reflecting the percentage of the Proposer’s workforce by race and sex, a brief description of the Proposer’s program to utilize minority-owned vendors, and a brief description of any programs the Proposer has that encourages minority participation with the Proposer’s company.
- 13. Describe, in complete detail, the names, roles and responsibilities of any dedicated, inhouse, or third-party professional compensated by Proposer, including but not limited to: legal professionals, appraisers, environmental engineers, Mechanical Electrical Plumbing (MEP) engineers, architects, lighting or landscape consultants, project managers, interior designers, structural engineers, or any other professional relationship maintained by the Proposer, regardless of the form of contract through which Proposer employs or retains such professionals.
- 14. With respect to in-house legal professionals retained by Proposer, please describe to what extent such professionals oversee and manage third-party legal service providers.

**SECTION F: ASSETS UNDER MANAGEMENT**

1. Please provide the total amount of assets under management for the account types and historical periods in the format of **Appendix F-1**, which is included in this Questionnaire below. This information should be attached to your proposal and labeled “**Appendix F-1 – Assets Under Management (All Types)**”
2. Please provide the property type and location diversification of all **Core** assets under management in both *gross and net* asset values as of June 30, 2008 (as defined in **Appendix F-2**) in the format of **Appendix F-2(A) and Appendix F-2(B), Core Assets Under Management (Property Type and Location)**, which are included in this Questionnaire. This information should be attached to your proposal and labeled “**Appendix F-2(A) and Appendix F-2(B) – Core Assets Under Management (Property Type and Location)**”.
3. Please provide the property type and location diversification of total assets under management (property type and location) in both *gross and net* asset values as of June 30, 2008 in the format of **Appendix F-3(A) and Appendix F-3(B), Total Assets Under Management (Property Type and Location)**, which is included in this Questionnaire below. This information should be attached to your proposal and labeled “**Appendix F-3(A) and Appendix F-3(B), Total Assets Under Management (Property Type and Location)**”.

**SECTION G: CLIENTS AND POTENTIAL CO-INVESTMENT PARTNERS**

1. List all tax-exempt clients and supply the information shown in **Appendix G-1 – Tax Exempt List of Clients**, which is included in this Questionnaire. Provide the investment strategy currently pursued for each client. The list should be attached to your proposal and labeled “**Appendix G-1 – Tax Exempt List of Clients**”.
2. List all Core tax exempt separate account clients gained and lost for each year since January 1, 1998 as of June 30, 2008 and supply the information shown in **Appendix G-2** of this Questionnaire below. Specify the investment strategy (Core, Enhanced Return or High Return) being implemented for each new client. This information should be attached to your proposal and labeled “**Appendix G-2 – Tax Exempt Core Separate Account Clients Gained and Lost**”.
3. It is a goal of TCRS to invest using both Co-Investment and Direct Investment structures with the primary emphasis on Direct Investment structures. TCRS may desire a Co-Investment structure for larger transactions (in excess of \$50 million to \$100 million in equity invested), and it prefers to co-invest with one or two other institutional investors. However, TCRS has no single definition of an acceptable institutional co-investor.

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TCRS has co-invested with insurance company general accounts, and it has considered public or corporate pension funds with similar investment objectives to it. TCRS will also consider as comparable co-investors certain types of commingled funds, provided they share TCRS investment objectives for creating a relatively low risk portfolio of traditional property types that are diversified on a national basis with limited leverage and for which the holding period is from five to ten years.

All Co-Investments and Direct Investments will be non-discretionary (i.e., TCRS will retain the control of its rights with respect to acquisition, disposition and other major asset management and financing decisions). TCRS will maintain control over its selection of legal counsel and will have control over other investment decisions such as approval rights with respect to annual budgets, selection of appraisers, and the selection of property management and leasing service providers, among others.

To that end, provide a list of all of your existing tax-exempt clients which invest using a Co-Investment structure, including the information as shown in **Appendix G-3 – Co-Investment Tax Exempt List of Clients**, which is attached to this Questionnaire below. Please highlight any clients you believe may be interested in co-investing with TCRS in Core Properties on a non-discretionary basis. Please address any other suggestions on how your firm may help TCRS implement a co-investing program, including any success your firm has in implementing such suggestions. The information should be attached to your proposal and labeled “**Appendix G-3 – Co-Investment Tax Exempt List of Clients**”.

- 4. Briefly (500 words or less) describe your firm’s experience in structuring Co-Investment programs with pension plans. Please be specific and include client names, assets invested in Co-Investment structures, minimum and maximum ownership percentages required, property types and investment vehicles used (limited partnerships, limited liability companies, etc.), amount of leverage used, etc.
- 5. Provide details on the number, name, type of account and the asset value of institutional client relationships terminated in the past five years, if any, with reasons for the termination.

Name	Account Type	Asset Value	Reason

- 6. Provide the name, address, phone number, contact name and title for three tax-exempt clients to whom your firm currently is providing real estate investment management

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services. One reference should be from a large state pension fund; one reference should be from a tax exempt investor which has co-invested with other firm clients; and one reference should be from a tax exempt client for which you manage a non-discretionary separate account relationship.

Name	Contact	Title	Address	Phone Number
Large State Pension Fund	John Doe	SVP		
Tax Exempt Investor				
Tax Exempt Client, Non-Discretionary				

**SECTION H: INVESTMENT STRATEGY, PROCESS AND APPROACH**

1. Provide an overview of your firm’s investment management process, including the objective, approach, and strategy. Include a brief (300 words or less) description of your organizational approach and procedures relative to new investments, including how you develop a proposed strategy, your sourcing and underwriting procedures, and the internal review and approval process. What market anomalies or inefficiencies are you trying to capture? Why do you believe this philosophy will be successful in the future? Provide evidence or research that supports this belief.
2. Describe your firm’s approach to developing a strategy for constructing a Core Portfolio in the context of a multiple advisor Portfolio such as TCRS. TCRS will require the advisors to prepare annual Advisor Investment Plans describing how the Advisor will invest in this diversified Core strategy on behalf of TCRS, including specific investment criteria to be developed by the advisor with input from TCRS. Please be aware that TCRS has adopted property type and location guidelines that are expected to apply across the total Core separate account Portfolio.

In preparing your response to this question, please address what your firm believes are the best Core investment strategies today consistent with the parameters described in Section A of this Questionnaire above, the TCRS Policy, the TCRS Real Estate Investment Guidelines, and the TCRS Real Estate Investment Plan (which are attached to the *Pro Forma* Contract as Attachments A, D, and E). In your response, clearly identify and briefly describe the specific Core property types and subtypes your firm sees as most attractive today on a risk-adjusted return basis. Include target markets, allocation ranges by NCREIF region, investment criteria, sub-type (i.e., suburban office, neighborhood center, etc.), and expected initial going in and ten year unleveraged total returns for new investments made in the current environment.

Explain how these opportunities are consistent with your firm’s prior investment experience, capabilities and expertise.



3. Describe what circumstances or market conditions would favor your strategy. When can it be expected to be out of favor or unrewarded versus the NCREIF Property Index (“NPI”) benchmark? If the current environment is not favorable for a particular property type, in your opinion, how would you advise TCRS with respect to the implementation of its Core program mandate? Should it wait? If so, for how long? How will you know whether the time or market conditions are correct? Should it access such property type(s) through non-traditional means? If so, provide details of such non-traditional means?
4. Assuming TCRS has a minimum of \$1 billion to invest in new real estate allocations to Core properties, over what time frame would you recommend investing this capital given current and expected market conditions for all four traditional property types?
5. Briefly (300 words or less) describe your acquisition process, including sourcing for Core Properties and for Co-Investments. Do you use local operators, property managers or other third party firms to source new investments? If so, how are such firms compensated for providing such sourcing? What role does such firm, if any, play in underwriting the proposed investment it sourced? Does the sourcing process differ for Co-Investments?
6. TCRS currently retains five (5) separate account managers that manage in excess of \$1.4 billion across twenty-four (24) real estate investments. TCRS reserves the right to reallocate all (or portions) of this capital between any renewed or potentially new managers at its discretion. As both a legal matter and as a matter of process, please describe your approach to ensuring an efficient transfer of TCRS’ currently owned properties within approximately a forty-five (45) calendar day period or less prior to the commencement of the contract, assuming that you are awarded such a mandate.
7. Describe the techniques used to identify and control overall Portfolio risk, especially for a Core Portfolio. What limits or constraints do you establish, if any? What efforts are made to ensure that the Portfolio is in line with client guidelines?
8. Describe the risk/return characteristics your firm uses for analyzing and underwriting appropriate pricing for a Core Portfolio.
9. Provide your firm’s transaction history, including the information requested in the format of **Appendix H**, which is attached to this Questionnaire below. The history should be attached to your proposal and labeled “**Appendix H – Transaction History**”. Your transaction history should include the total number of purchase transactions accomplished since January 1, 1998. Specifically indicate for the transactions listed on **Appendix H – Transaction History** the number sourced directly or through brokers or other third parties for which a fee or other compensation was paid by either the buyer or seller. Please separately identify and present all Co-Investment transactions listed on your transaction history.

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10. Describe your firm’s and/or management team’s competitive advantage over other investment management firms with respect to creating a Core Portfolio for TCRS.
11. Specify the total amount of capital committed to your firm but uninvested and available for investment from all clients (including commingled funds sponsored by your firm) in the following format:

Client	Client Total Assets Managed	Total Capital Available (Uninvested & Available to Invest)	Strategy (Core, Enhanced Return, High Return, Public REITS)	Discretionary or Non-Discretionary?	Co-Investment Permitted?
	\$1,000,000,000				
	\$1,000,000,000				
	\$1,000,000,000				
	\$1,000,000,000				
	\$1,000,000,000				

If you have no specific allocation committed to your firm to invest from any client, please supply the total capital invested for such client in each year since 2003.

12. Briefly (200 words or less) describe how potential investments are allocated among your clients and if any clients or funds have preference or priority. If any clients or funds listed in response to Question 11 above have similar or overlapping investment strategies, please indicate specifically how any allocations have been resolved. In addition, please indicate (i) if you currently report to clients the results of your firm’s allocation process, on an annual or other periodic basis; and (ii) if you would be willing to provide such an allocation report to TCRS on an periodic basis.

**SECTION I: ASSET AND PROPERTY MANAGEMENT PROCESS AND APPROACH**

1. Briefly (300 words or less) describe your firm’s asset management approach and process, including the annual investment planning and budgeting process.
2. Briefly (200 words or less) describe your internal and external valuation processes. How are appraisal firms selected? Do you require a MAI designated appraiser? How often are internal valuations conducted? Describe any circumstance where you would book your internal valuation for an asset at the same time an external valuation is performed by an MAI.
3. Describe the hold/sell analysis and process for the investments which you manage, including the process, the timing and the factors you evaluate. Is the process documented? If so, attach to your proposal a recent example of a hold/sell analysis your firm has prepared and label the same as “**Appendix I – Hold/Sell Analysis**”.

4. Briefly (200 words or less) describe your firm's property management approach and philosophy, i.e., whether your firm provides direct or supervisory property management and leasing services or engages third parties to provide such services.
  - a. If your firm or affiliate provides property management and/or leasing services, please provide the following information:
    - i. Have you ever fired your firm or its affiliate as the property manager or leasing agent? Please explain why.
    - ii. Do you acquire properties only in markets in which you have property management capabilities?
    - iii. How do you determine and demonstrate your fees for property management and leasing services are competitive with similarly qualified non-affiliated service providers?
    - iv. How do you manage and disclose potential conflicts when providing property management and/or leasing services (e.g., managing multiple buildings in the same market or submarket for different clients).
    - v. In the event your firm or affiliate also provides leasing services, does your firm provide tenant representation? If so, how are those functions handled and potential conflicts of interest avoided?
  - b. If your firm does not have an in-house property management capability, describe how your firm would select a property management firm (such as any minimum qualifications, your interview and due diligence process, including any checklists developed for this purpose) and supervise a property manager for any new acquisitions.
5. Briefly (200 words or less) describe how your firm competitively bids contracts to ensure services are obtained at the lowest costs consistent with market services.

**SECTION J: RESEARCH**

1. Describe your firm's research capabilities and its organization, including the number of full and part time research staff and their resumes, areas of specialization or function, and role, if any, she or he would play in the TCRS account. The resume should include past employers, title and function, years with the firm, professional affiliates and education credentials and background and experience.

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2. Because most firms access data from the same sources, please provide specific examples of how your research differentiates your firm from the competitors' research. Provide specific, quantifiable examples of how your research benefits your clients.
3. How is research applied in the investment process, and specifically, in planning for new investments and in the property and market underwriting for new investments? Does your firm use third parties to provide it with market studies or analysis of comparable leases or sales, or otherwise supplement your in-house research?
4. Does the research function have a voting seat on the investment committee? Can it veto any proposed investments?
5. What aspects of your firm's research efforts do you consider unique?

### SECTION K: PERFORMANCE HISTORY

Utilizing AIMR methodology, provide as **Appendix J** your firm's *unleveraged* quarterly performance from January 1, 2003 to June 30, 2008 for your firm's Core separate account composite, Core commingled fund composite, and overall Core firm composite.

The specified form will be supplied electronically to each firm and can be obtained by sending a written request by e-mail to Anthony Frammartino at the Townsend Group at [anthony@townsendgroup.com](mailto:anthony@townsendgroup.com). Please state if your returns comply with AIMR Performance Presentation Standards, noting and explaining any non-compliant items. The specified format for submitting performance data will be supplied by Townsend in the e-mail and you must also submit your performance data via e-mail at the e-mail address specified above by no later than the Proposal Deadline Date specified in the Schedule of Events (Section B.16 of this Questionnaire above). In addition to the electronic copy of the performance data, your data also must be supplied on a diskette with your proposal. The diskette version will only be used as proof of on time completion in the event that the transmission of the electronic version fails. In the event that an electronic transmission failure occurs, an e-mail version must be resubmitted.

**SECTION L: FEES**

Describe in detail the proposed fee structure that you would utilize for a \$500 million non-discretionary individually managed account under the proposed contract where TCRS will not pay any fees or other charges upon termination of the contract. While the following asks for annualized fees, note that asset management fees are paid quarterly. Currently, TCRS’ real estate portfolio is comprised of thirty-three (33) investments with an aggregate market value of over \$1.4 billion spread across its five (5) existing Advisors and two (2) commitments to industrial open end commingled funds. There is an expected increase in TCRS’ real estate allocation to 10% of total plan assets over the mid-to-long term. Please provide the following in a separate and sealed envelope marked “**Section L, Fees.**”

1. A non-incentive based fee schedule for providing the services described in the proposed contract, for a non-discretionary individually managed account, including any discounts applied for public funds, **assuming that TCRS will NOT pay any fees upon termination of the contract.** In order to facilitate comparisons, please respond by quoting your fees in the following manner (all values in tables are for illustrative purposes only):

- a. *Acquisition Fees/Sourcing New Assets (per investment)*

New Investment	
Fee (basis points; "bps")	Cash to Seller
10	First \$20 million
10	Next \$15 million
5	Next \$15 million
5	Above \$50 million

- b. *Asset Management Fees (Portfolio level)*

Fee Percentage (% of Cash to Seller)	Aggregate Cash to Seller
75.00%	Up to \$50 million
70.00%	\$51 million to \$100 million
65.00%	\$101 million to \$150 million
50.00%	\$151 million to \$200 million
45.00%	Above \$201 million

For purposes of your fee proposal, “**Cash to Seller**” is defined as the net cash paid to the seller of an investment, **excluding:** any adjustments at closing, closing costs (including legal fees), capital reserves, the gross amount of any leverage incurred, and advisory fees.

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“**Aggregate Cash to Seller**” is the cumulative total of Cash to Seller for all investments in the account.

c. *Disposition Fees (per investment)*

Fee (bps)	Net Sales Proceeds
10	First \$20 million
10	Next \$15 million
5	Next \$15 million
5	Above \$50 million

For purposes of your fee proposal, “Net Sales Proceeds” is defined as the net proceeds from the sale of an investment or part of any investment **less**: brokerage commissions, closing costs, the gross amount of any leverage paid off or assumed by the buyer, and marketing expenses.

2. Attached is **Appendix K – Fee Model Example**. **Appendix K** provides an example of TCRS’ grading process and is for informational purposes only.

TCRS reserves the right to select the proposed fee structure most compatible with its objectives. In this Questionnaire, **all** partially completed exhibits, forms, charts (including the split in fee break points illustrated above) have been provided for illustrative purposes only and thus do not represent the final judgment of TCRS. They should not be relied upon as indicators (tacit or otherwise) in any form of TCRS’ judgment. All final fee proposals are contingent on the judgment of Proposer and shall be subject to the sole and absolute approval of TCRS.

### **SECTION M: TAKE-OVER FEES**

To the extent that TCRS, under its sole and absolute discretion, reallocates all or portions of its capital among existing or new managers, a transition plan involving the take-over of assets will be necessary. No acquisition fee shall be associated with take-over assets. Take-over asset management fees should be markedly lower than asset management fees proposed in **Section L above**. Please provide in the same format as demonstrated by the tables below, your proposal for Take-Over Fees and Take-Over Disposition Fees. **Section M** will not constitute a graded portion of the Questionnaire.

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- a. *Take-Over Investment, Annual Asset Management Fee (per investment)*

Take-over Investment	
Fee (basis points; "bps")	Cash to Seller
5	First \$20 million
5	Next \$15 million
3	Next \$15 million
3	Above \$50 million

- b. *Take-Over Disposition Fee (per investment)*

Fee (bps)	Net Sales Proceeds
10	First \$20 million
10	Next \$15 million
5	Next \$15 million
5	Above \$50 million

The proposal for take-over asset management and disposition fees shall be submitted in its own sealed envelope, separate from the fee information requested by TCRS in **Section L**, and shall be marked "**Section M--Take-Over Fees.**" TCRS will only review proposals for take-over fees once the selection of its Advisors has been completed and if such review is deemed necessary by TCRS. The take-over assignments, if any are awarded, shall be heavily based on the Advisors response to **Section M**, as well as based on responses to other sections of the Questionnaire, and may be subject to further comment or review by TCRS and/or Consultant.

### SECTION N: LIST OF REQUESTED APPENDICES

Appendix A	Form ACV (Part I and II) or disclose nature of registration exemption
Appendix B	Organization Chart of Ownership Structure
Appendix C	Senior Staff Biographical Information ( <i>Template provided below</i> )
Appendix D	Proposed TCRS Account Personnel Biographies ( <i>Template provided below</i> )
Appendix E	Organizational Chart of Firm's Personnel
Appendix F-1	Assets Under Management (All Types) ( <i>Template provided below</i> )
Appendix F-2(A) & Appendix F-2(B)	Core Assets Under Management (Property Type and Location) ( <i>Template provided below</i> )

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- Appendix F-3(A) & Appendix F-3(B) Total Assets Under Management (Property Type and Location) (*Template provided below*)
- Appendix G-1 Tax Exempt List of Clients (*Template provided below*)
- Appendix G-2 Tax Exempt Core Separate Account Clients Gained and Lost (*Template provided below*)
- Appendix G-3 Co-Investment Tax Exempt List of Clients (*Template provided below*)
- Appendix H Transaction History (*Template provided below*)
- Appendix I Hold/Sell Analysis
- Appendix J Performance Data (*The specified form must be obtained from the Consultant in the manner provided in Section K of this Questionnaire above*)
- Appendix K Fee Model Example (*For Informational Purposes Only*)





**Appendix D**

**PROPOSED TCRS ACCOUNT PERSONNEL BIOGRAPHIES  
(See Section E.3 of Questionnaire)**

Please supply the following information for each key person who would be responsible for the TCRS relationship:

**I. Current Firm (include employment date).**

- a. Title and Corporate Responsibilities (200 words or less).
- b. Current Client Responsibilities, including:
  - i. Number of clients.
  - ii. Role for each client.
  - iii. Percentage of time dedicated to each client account or corporate responsibilities.
- c. Transactional Experience. Please describe prior experience, including the following information:
  - i. Core Properties: please describe prior experience in acquiring and managing (direct or supervisory) Core (operating and substantially leased) properties, including the number, dollar amount and the time periods in which such properties were acquired/managed.
- d. Property Type Experience.

Please supply the total number and dollar amount of transactions underwritten and assets managed identified above by property type:

	Number of Transactions	Dollar Amount
Office		\$10,000,000
Retail		\$10,000,000
Industrial		\$10,000,000
Multifamily		\$10,000,000
Other		\$10,000,000

**II. Prior Experience.**

Please identify prior experience at all predecessor firms and briefly (500 words or less) provide:

- a. Title, years employed and corporate responsibilities;
- b. Transaction experience as set forth above; and
- c. Property type experience as set forth above.

**III. Education.**

Please briefly provide:

- a. Graduate: Degree, School, Year Graduated, any honors, etc.
- b. Undergraduate: Degree, School, Year Graduated, any honors, etc.

**IV. Professional Designations.**

Provide any relevant designations earned (CPA, CFA, CPM, etc.) or licenses held.

**APPENDIX F-1  
ASSETS UNDER MANAGEMENT (ALL TYPES)  
(See Section F.1 of Questionnaire)**

Classification	As of 06/30/08	As of 12/31/07	As of 12/31/06	As of 12/31/05	As of 12/31/04	As of 12/31/03
Total real estate taxable gross assets under management (all products)						
Total real estate tax-exempt gross assets under management (all products)						
Total equity real estate tax-exempt gross assets under management (e.g. no CMBS, REITs, etc)						
Total equity real estate tax-exempt net assets under management (e.g. no CMBS, REITs, etc)						
Total equity tax exempt gross Core real estate assets under management*						
Total equity tax exempt net Core real estate assets under management*						
Total equity tax exempt gross Core real estate assets managed in separate accounts*						
Total equity tax exempt net Core real estate assets managed in separate accounts**						
Total net Enhanced Return real estate assets under management**						
Total net High Return real estate assets under management***						
Total Public Pension Plan real estate net assets under management						
Total tax exempt real estate net assets managed in separate accounts						

\* “Core” real estate assets are defined as operating and substantially leased office, retail, industrial and multifamily properties utilizing no or little leverage (under 30%).

\*\* “Enhanced Return” real estate assets are defined as assets which take on moderate additional risk from one or more of the following sources: leasing; redevelopment; exposure to non-traditional property types; the use of moderate leverage (under 50%).

\*\*\* “High Return” real estate assets are defined as investments which take on considerable additional risk in order to achieve a higher return (15% and above). Typical sources of risk are: development; land investing; operating company investing; international investing; distressed properties or debt; and high leverage (unlimited).

**APPENDIX F-2(A)**

**CORE ASSETS UNDER MANAGEMENT  
(PROPERTY TYPE AND LOCATION)  
(See Section F.2 of Questionnaire)**

Core Assets Under Management (\$ in millions, gross) As of 6/30/08						Other (please describe)
NCREIF Region Classification	Office	Retail	Industrial	Multifamily		
Northeast	\$100	\$100	\$100	\$100	\$100	
Mideast						
East North Central						
West North Central						
Southeast						
Southwest						
Mountain						
Pacific						
Other						
<b>Total</b>	<b>\$100</b>	<b>\$100</b>	<b>\$100</b>	<b>\$100</b>	<b>\$100</b>	

**APPENDIX F-2(B)**

**CORE ASSETS UNDER MANAGEMENT  
(PROPERTY TYPE AND LOCATION)  
(See Section F.2 of Questionnaire)**

Core Assets Under Management (\$ in millions, Net) As of 6/30/08						Other (please describe)
NCREIF Region Classification	Office	Retail	Industrial	Multifamily		
Northeast	\$100	\$100	\$100	\$100	\$100	
Mideast						
East North Central						
West North Central						
Southeast						
Southwest						
Mountain						
Pacific						
Other						
<b>Total</b>	<b>\$100</b>	<b>\$100</b>	<b>\$100</b>	<b>\$100</b>	<b>\$100</b>	



**APPENDIX G-1**

**TAX EXEMPT LIST OF CLIENTS  
(See Section G.1 of Questionnaire)**

Client	Inception Date of Relationship	Type of Plan? (Public, Corporate, Other)	Investment Strategy	Potential for Co-Investment?	Client's 6/30/08 Net Asset Value





**APPENDIX G-2**  
**TAX EXEMPT CORE SEPARATE ACCOUNT CLIENTS GAINED AND LOST**  
**(See Section G.2 of Questionnaire)**

**GAINED**

Year	Client	Type of Plan? (Public, Corporate, Other)	Investment Strategy	Client's 6/30/08 Net Asset Value
As of 6/30/08				
2007				
2006				
2005				
2004				
2003				

**LOST**

Year	Client	Type of Plan? (Public, Corporate, Other)	Investment Strategy	Client's 6/30/08 Net Asset Value
As of 6/30/08				
2007				
2006				
2005				
2004				
2003				



**APPENDIX H**  
**Transaction History**  
(See Section H.9 of Questionnaire)

<b>Acquisition History: Non-Co-Investments</b>									
Property Type	Property Size (NRA or units)	Acquisition Date	Acquisition Price	Investment Structure	Source (Direct or Broker)	Location (City/State)	Client/Fund	Investment Strategy (Core, value, etc.)	IRR to date (not pro forma)
Subtotal Office									
Subtotal Retail									
Subtotal Industrial									
Subtotal Multifamily									
Total									

<b>Acquisition History: Co-Investments</b>										
Property Type	Property Size (NRA or units)	Acquisition Date	Acquisition Price	Investment Structure	Source (Direct or Broker)	Location (City/State)	Client/Fund and Ownership %	Co-Investors and Ownership %	Investment Strategy (Core, value, etc.)	IRR to date (not pro forma)
Subtotal Office										
Subtotal Retail										
Subtotal Industrial										
Subtotal Multifamily										
Total										

## Appendix K Fee Model Example (See Section L of Questionnaire)

End of Year	0	1	2	3	4	5	6	7	8	9	10
<b>Acquisitions</b>											
Asset Pool A	\$ 50,000,000	\$ 60,000,000	\$ 40,000,000								
Asset Pool B	\$ 50,000,000	\$ 70,000,000	\$ 50,000,000								
Asset Pool C	\$ 60,000,000	\$ 70,000,000	\$ 50,000,000								
<b>Total Contributions (Cash to Seller) For Year</b>	<b>\$ (160,000,000)</b>	<b>\$ (200,000,000)</b>	<b>\$ (140,000,000)</b>								
<b>Aggregate Cash to Seller</b>	<b>\$ (160,000,000)</b>	<b>\$ (360,000,000)</b>	<b>\$ (500,000,000)</b>	<b>\$ (500,000,000)</b>	<b>\$ (500,000,000)</b>	<b>\$ (500,000,000)</b>	<b>\$ (500,000,000)</b>	<b>\$ (500,000,000)</b>	<b>\$ (500,000,000)</b>	<b>\$ (340,000,000)</b>	<b>\$ (140,000,000)</b>
<b>Dispositions</b>											
Asset Pool A									\$ 60,500,000	\$ 72,600,000	\$ 48,400,000
Asset Pool B									\$ 60,500,000	\$ 84,700,000	\$ 60,500,000
Asset Pool C									\$ 72,600,000	\$ 84,700,000	\$ 60,500,000
<b>Total Distributions (Net Sales Proceeds) For Year</b>									<b>\$ 193,600,000</b>	<b>\$ 242,000,000</b>	<b>\$ 169,400,000</b>
(A and B) Operating Income	\$ -	\$ 9,600,000	\$ 21,984,000	\$ 31,263,360	\$ 32,513,894	\$ 33,814,450	\$ 35,167,028	\$ 36,573,709	\$ 38,036,658	\$ 25,038,124	\$ 15,875,649
(E) Capital Expenditures	\$ -	\$ (480,000)	\$ (1,099,200)	\$ (1,563,168)	\$ (1,625,695)	\$ (1,690,723)	\$ (1,758,351)	\$ (1,828,685)	\$ (1,901,833)	\$ (1,251,906)	\$ (793,782)
Operating Cash Flows	\$ -	\$ 9,120,000	\$ 20,884,800	\$ 29,700,192	\$ 30,888,200	\$ 32,123,728	\$ 33,408,677	\$ 34,745,024	\$ 36,134,825	\$ 23,786,218	\$ 15,081,867
Net Cash Flows before Fees	\$ (160,000,000)	\$ (190,880,000)	\$ (119,115,200)	\$ 29,700,192	\$ 30,888,200	\$ 32,123,728	\$ 33,408,677	\$ 34,745,024	\$ 229,734,825	\$ 265,786,218	\$ 184,481,867
(G) Acquisition Fees	\$ (480,000)	\$ (600,000)	\$ (420,000)								
(H) Asset Management Fees	\$ (1,080,000)	\$ (1,500,000)	\$ (1,500,000)	\$ (1,500,000)	\$ (1,500,000)	\$ (1,500,000)	\$ (1,500,000)	\$ (1,500,000)	\$ (1,500,000)	\$ (1,020,000)	\$ (420,000)
(I) Disposition Fees									\$ (580,800)	\$ (726,000)	\$ (508,200)
<b>Total Fees</b>	<b>\$ (480,000)</b>	<b>\$ (1,680,000)</b>	<b>\$ (1,920,000)</b>	<b>\$ (1,500,000)</b>	<b>\$ (1,500,000)</b>	<b>\$ (1,500,000)</b>	<b>\$ (1,500,000)</b>	<b>\$ (1,500,000)</b>	<b>\$ (2,080,800)</b>	<b>\$ (1,746,000)</b>	<b>\$ (928,200)</b>
Net Cash Flow after Fees	\$ (160,480,000)	\$ (192,560,000)	\$ (121,035,200)	\$ 28,200,192	\$ 29,388,200	\$ 30,623,728	\$ 31,908,677	\$ 33,245,024	\$ 227,654,025	\$ 264,040,218	\$ 183,553,667
Gross-of-Fee IRR	8.45%										
Net-of-Fee IRR	8.07%										

- A NOI Growth Rate 4.00%
- B Cap Rate 6.00%
- C Annual Inflation 3.00%
- D Leverage 0.00%
- E Cap Ex as % Operating Income 5.00%
- F Cumulative Holding Period Capital Appreciation (2% per annum) 21.00%
- G Acquisition Fees 0.30%
- H Asset Management Fees 0.30%
- I Disposition Fees 0.30%

1. The purpose of the appendix is to demonstrate how fees will be calculated.
2. All assumptions within questionnaire will be inputted by Townsend using the model above demonstrating hypothetical \$500M portfolio.
3. Model Assumes 8-Year individual asset holding period.
4. All calculations are based on cash to seller and using end of period methodology.
5. Model assumes no leverage
6. PLEASE NOTE RESPONDENTS ARE NOT TO ENTER ANYTHING INTO MODEL
7. ALL NUMBERS IN MODEL ARE FOR ILLUSTRATIVE PURPOSES ONLY

**EXHIBIT A**

**PRO FORMA CONTRACT**

**The *pro forma* contract detailed in this attachment contains some “blanks” (signified by descriptions in capital letters) that will be completed with appropriate information in the final contract resulting from this Questionnaire.**

**CONTRACT  
BETWEEN THE STATE OF TENNESSEE,  
TENNESSEE CONSOLIDATED RETIREMENT SYSTEM**

**AND  
CONTRACTOR NAME**

This Contract, by and between the State of Tennessee, Tennessee Consolidated Retirement System, hereinafter referred to as the “Retirement System” and CONTRACTOR LEGAL ENTITY NAME, hereinafter referred to as the “Contractor,” is for the provision of real estate investment advisory services to the Retirement System, as further defined in the "SCOPE OF SERVICES."

The Contractor is A/AN INDIVIDUAL, FOR-PROFIT CORPORATION, NON-PROFIT CORPORATION, SPECIAL PURPOSE CORPORATION OR ASSOCIATION, PARTNERSHIP, JOINT VENTURE, OR LIMITED LIABILITY COMPANY.  
Contractor Federal Employer Identification or Social Security Number: ID NUMBER  
Contractor Place of Incorporation or Organization: LOCATION

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

WHEREAS, the Board of Trustees approved such a real estate investment policy on November 23, 1998. The intention of the policy is to construct a portfolio of relatively low risk core properties which is diversified by property type and by location (economic and geographic); and

WHEREAS, to acquire such real property investment holdings by the Retirement System, the Board of Trustees is desirous of engaging real estate investment advisors to source, evaluate, acquire, manage and dispose of low risk, operating and substantially leased office, retail, industrial and multifamily real estate investments; and

WHEREAS, the Contractor is a real estate investment advisor and desires to provide real estate investment acquisition and 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. General Responsibility of Contractor. The Contractor acknowledges receipt of Attachment A "The Tennessee Consolidated Retirement System Organizational Structure and General Overview - Investment Policy, Objectives and Criteria"; Attachment B "Investment Division Code of Ethics and Standards of Professional Conduct"; Attachment C "Tennessee Treasury Department Standards of Professional Conduct"; Attachment D "Real Estate Investment Guidelines"; and Attachment E "Real Estate Investment Plan" 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.5.b 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.3. Duties and Extent of Professional Services. The Contractor shall source, evaluate, acquire, manage and dispose of low risk, operating and substantially leased office, retail, industrial and multifamily real estate investments (individually a "Property" and collectively "Properties"). These investments shall be made in accordance with the statutes governing the Retirement System, the Retirement System's Real Estate Investment Policy, which is attached hereto as Attachment A, the 2008 Advisor Investment Plan referenced below, which is to be prepared by the Contractor following its selection by the Retirement System, and incorporated by reference herein, and other applicable policies and procedures adopted by the Retirement System. The Retirement System will consider the use of leverage in the current interest rate environment for new investments where the use of leverage offers either (i) preferred access to potential investments not attractive to current leveraged buyers (e.g., properties with above market existing debt where the Retirement System can underwrite the refinancing or payoff within a reasonable period of time), or (ii) greater access to co-investment partners. The Contractor shall manage any real estate investments acquired by the Retirement System pursuant to this Contract as a non-discretionary separate account ("the Account"). The Contractor shall not have a prespecified allocation to invest on behalf of the Retirement System. Allocation of assets to the Contractor shall be made on a transactional basis. Specifically, the services described in this Paragraph shall include:

- a. General Real Estate Services. The Contractor shall act as the investment manager for the Retirement System in connection with the assets of the Account, and shall have the authority, subject to the written consent of the Retirement System, to acquire, manage, or dispose of Retirement System Properties, and to perform, in accordance with the Real Estate Investment Guidelines attached as Attachment D, the day-to-day investment and administrative operations of the Account, including, but not limited to the following:
- (1) to prepare and submit annually to the Retirement System an Advisor Investment Plan setting forth the specific proposed investment criteria for Properties to be acquired on behalf of the Retirement System, which criteria shall be in compliance with the Real Estate Investment Policy and the Real Estate Investment Plan, as the same may be amended from time to time.
  - (2) to recommend Properties for acquisition or disposition for the Account, and, subject to the Retirement System's written approval, to negotiate and close the acquisition or disposition of Properties, and to perform all acts necessary or appropriate to effectuate the foregoing, including the engagement or hiring of professionals to provide services in connection therewith, and the execution of documents as investment manager and attorney-in-fact;
  - (3) to perform, or to hire third parties to perform, services necessary or appropriate for the management, operation, and leasing of the Properties in the Account in a manner consistent with first class institutional grade properties, including the development and implementation of a leasing program, the selection and supervision of a property manager and/or all on-site personnel, the preparation and periodic review of operating budgets and project occupancy analysis reports, the oversight of repairs and improvements, and collection of rentals, and the performance of any other functions generally associated with the management, operation, and leasing of real properties; *provided, however,* the Retirement System reserves the right to approve the engagement or retention of any vendor, including affiliates, selected by the Contractor for any services to be provided with respect to any Property or the Account;
  - (4) to employ or retain agents, accountants, bookkeepers, architects, engineers and consultants, including any firm or corporation to which the Contractor may from time to time be associated, in connection with the acquisition, management, leasing or disposition of Properties and to pay the reasonable fees for such agents, accountants, bookkeepers, architects, engineers and consultants as expenses of the particular Property or the Account, as the case may be; *provided, however,* the Contractor shall provide advance written notice to the Retirement System of its intent to employ or retain any affiliate or other firm to which the Contractor or its affiliates have an association, including a description of the costs and expenses thereof, and the Retirement System provides its written approval of such engagement, and the costs and expenses of such services are provided at prevailing market rates and upon terms which are competitive in the metropolitan area where the Property is located and are at least as favorable to the Retirement System as are generally available in arm's length transactions between unrelated parties. In the event the Contractor engages an affiliate or third party, including but not limited to, an accounting firm or management firm to provide lease reviews, prepare

lease abstracts or review historical operating expenses and/or preparing the first year operating budget in connection with proposed investments, the Contractor shall solely bear the costs of such services and the Retirement System shall not pay nor reimburse the Contractor for such costs;

- (5) to obtain and maintain liability and casualty insurance for the Retirement System Properties in amounts and in such types as are customarily obtained for similar types of properties by institutional investors, including, if appropriate, earthquake, flood and other disaster type insurance, together with insurance in amounts and against such risks as the Contractor deems appropriate to adequately protect the Retirement System from costs or liabilities associated with any assets in the Account;
  - (6) to establish, with the written approval of the Retirement System, (i) one or more corporations wholly owned by the Retirement System (which shall be exempt from taxation under Section 501(a) of the Internal Revenue Code of 1986 ("Code") by virtue of being described in either Section 501(c)(2) or (c)(25) of the Code) to take title to all or some of the properties which have been or which otherwise would be acquired directly by the Retirement System, and/or (ii) such other entities as may be appropriate to take title to one or more Properties;
  - (7) to obtain an appraisal not more than three years from the date of acquisition of each Property held in the Account for the purpose of determining the fair market value thereof, by an independent outside appraiser who has received the Member Appraisal Institute (MAI) designation (or any successor organization) and the selection of whom has been approved by the Retirement System; provided, however, that the Retirement System may direct the Contractor to obtain such an appraisal at any other time;
  - (8) to perform an annual internal valuation of each Property held in the Account for periods in which the independent outside appraisal is not obtained;
  - (9) to cause to be prepared and filed tax returns for each Retirement System Property; and
  - (10) to perform the duties and functions set forth for investment advisors generally under the Real Estate Investment Guidelines, including the development of annual advisor investment plans, budget and management plans, and the submission of such reports and information as set forth therein, including compliance with the ***Real Estate Information Standards 2003*** published by the Pension Real Estate Association, the National Council of Real Estate Fiduciaries and the National Association of Real Estate Investment Managers, as may be amended from time to time, and to provide performance reporting data to the Retirement System's then current real estate investment consultant.
- b. Limitations on Authority. The foregoing grant of authority notwithstanding, the Contractor shall have no authority to undertake any of the following actions or exercise any of the following powers without prior written approval of the Retirement System:



- (1) to borrow money or other property and, for the purpose of securing the repayment thereof, to pledge, mortgage or encumber any Property held in the Account, or to purchase, take and hold Property subject to mortgages or other liens;
- (2) to create, by grant or otherwise, easements and servitudes with respect to any Properties;
- (3) to grant or acquire an option for the purchase, sale, lease, exchange or conveyance of any Property or to grant, sell, transfer, exchange or convey any interest in any Properties;
- (4) to make loans, whether secured or unsecured, in connection with any Properties or to foreclose, to reduce the rate of interest, to consent to the extension of any mortgage on any Properties, or to accept a deed in lieu of foreclosure;
- (5) to join in any voluntary partition of any Properties; and
- (6) to initiate or settle any litigation, claim, cause of action or other proceeding (other than commencing litigation with respect to the collection of rent and other amounts due by tenants under leases and other agreements in effect for any Property), whether judicial or regulatory, including without limitation, bankruptcy, reorganization, insolvency or other proceeding for the protection of debtors, or to submit a deed in lieu of foreclosure, or consent to any of the foregoing, except as provided in the Real Estate Investment Policy.

c. Property Management and Leasing. Property management and leasing services for one or more Retirement System Properties may be provided by the Contractor through the engagement of its affiliate(s), provided (i) the Contractor provides advance written notice to the Retirement System of the intent to engage any affiliate, including a description of the costs and expenses thereof, and the Retirement System provides its written approval of such engagement, and (ii) the costs and expenses of such services are provided at prevailing market rates and upon terms which are competitive in the metropolitan area where the Property is located and are at least as favorable to the Retirement System as are generally available in arm's length transactions between unrelated parties. The Contractor agrees it shall provide to the Retirement System evidence, in the form requested by the Retirement System, of prevailing market rates and terms in any metropolitan area for any services to be provided by an affiliate. In the event the Contractor engages an affiliate or third party, including but not limited to, an accounting firm or management firm to provide lease reviews, prepare lease abstracts or review historical operating expenses and/or preparing the first year operating budget in connection with proposed investments, the Contractor shall solely bear the costs of such services and the Retirement System shall not pay nor reimburse the Contractor for such costs.

A.4. Account Asset Procedures. Unless otherwise directed by the Retirement System, the Contractor shall have the authority to maintain custody and possession of the assets of the Account, including any instruments evidencing the ownership of investments in the Account that the Contractor shall deem useful and appropriate in the management of the assets of the Account. Such assets of the Account may include, but are not limited to, deeds, leases, certificates, title policies, assignments, legal opinions, bills of sale and indemnities. Title to all assets in the

Account shall be held in the name of the "Tennessee Consolidated Retirement System" or an approved title holding entity formed for such purpose. The Contractor or its agents shall have the authority to appoint a third party to receive any rent, mortgage or other payment normally incident to the day-to-day management of the Properties in the Account and to pay expenses normally incident to the day-to-day management thereof. The Contractor or third party manager may establish bank accounts in the name of the Retirement System to hold such payments, including reasonable amounts retained as operating reserves. The Contractor shall notify the Retirement System in writing of the name and address of any financial institution wherein such a bank account has been established. Cash not deemed necessary or appropriate for asset management purposes or for Property reserves shall be remitted periodically, no less frequently than monthly, from such accounts by the Contractor to the Retirement System. The transfer shall be made through the State Trust of Tennessee; Transit Routing Number 064000266; Attention: Real Estate Investment Portfolio Manager. The Contractor shall remit to the Retirement System such further amounts from such accounts as it may be instructed from time to time by the Retirement System. Notwithstanding any provision of this Contract to the contrary, all instructions for the sale, purchase or deposit in connection with any acquisition, management, operation or disposition of a Property or other investments for the Account shall be given to the Retirement System by the Contractor. The Contractor shall apprise the Retirement System of all sales, purchases or deposits in connection with the acquisition, management, operation or disposition of any Property at least three (3) business days in advance of required funding.

A.5. Warranties and Acknowledgments.

- a. Registration of Contractor. The Contractor warrants that it is a registered investment advisor under the Investment Advisors Act of 1940 or 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 in Properties for large trust funds. The Contractor further acknowledges that it has a fiduciary relationship to the Retirement System and it shall act as "fiduciary" to the Retirement System as that term is defined in Section 3(21)A of Employee Retirement Income Security Act of 1974, as amended from time to time ("ERISA"), although such statute is not applicable to the Retirement System, and as that term is otherwise judicially interpreted under ERISA or the laws of the State of Tennessee, and it shall discharge its duties to the Retirement System accordingly 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 A 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.6. Insurance.

- a. Type Insurance. The Contractor shall maintain in full force and effect a fidelity bond which is not less than the amount stated on pages [PAGE NUMBERS FROM SUCCESSFUL PROPOSAL WHICH RESPOND TO SECTION D.13 OF THE QUESTIONNAIRE] of the Contractor's Proposal, and errors and omissions coverage on a per occurrence basis in an amount not less than the amounts stated in said pages. 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 coverage. 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.7. Reports and Meetings.

- a. Reports.
  - (1) Monthly Reports. The Contractor shall provide a monthly report concerning the Properties to the Retirement System within twenty (20) calendar days after the close of each month. The report may be prepared by the property manager and shall include an income statement and a brief discussion of significant variances for the prior month. The report shall also briefly update, to the extent appropriate, the leasing status of each Property. The content of the report shall be consistent with the requirements of the Real Estate Investment Guidelines and such other direction as may be provided by the Retirement System from time to time.
  - (2) Quarterly Reports. Within forty-five (45) calendar days after the end of each calendar quarter, the Contractor shall provide a Quarterly Report containing the following information for each investment in a Property: (i) income statement and balance sheets; (ii) a re-forecast of any material changes in budgeted items set forth in the current Budget and Management Plan, if necessary; (iii) summary market update, including

supply, demand, vacancy and occupancy rates for the market and submarket and recently completed comparable sales and leases for each Property; and (iv) performance reporting for each Property and the portfolio as a whole (income, appreciation, total gross, total net).

(3) Annual Reports. Within sixty (60) calendar days after the close of each calendar year, the Contractor shall provide the Retirement System with an annual report (the "Annual Report") containing the information set forth in the Real Estate Investment Guidelines. The Annual Report shall also include audited financial statements for the Retirement System real estate portfolio asset managed by the Contractor for the fiscal year, prepared by a nationally recognized certified public accounting firm approved by the Retirement System.

(4) Other Reports. The Contractor shall promptly notify the Retirement System in writing (i) if any of the representations in Section A.5 and Section E.9 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. 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:**

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

**C. PAYMENT TERMS AND CONDITIONS:**

C.1. Maximum Liability. In no event shall the maximum liability of the Retirement System under this Contract exceed WRITTEN DOLLAR AMOUNT (\$NUMBER). 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 for said units, milestones, or increments of service based upon the following payment rates:

<b>Service Description</b>	<b>Amount</b> (per compensable increment)
Acquisition of Property	NUMBER OF BASIS POINTS of Cash to Seller* (One -Time Fee Per Acquisition)
Asset Management	PERCENTAGE %of Current Cash Invested** (Quarterly Fee Per Property)
Disposition of Property	NUMBER OF BASIS POINTS of Net Sales Proceeds*** (One-Time Fee Per Disposition)

- c. Notwithstanding the above fees, if the Contractor, at the Retirement System's direction, takes over the management of a current investment of the Retirement System that was acquired by another real estate investment advisor on behalf of the Retirement System, the Contractor shall be compensated based upon the following payment rates for such investment in lieu of the payment rates provided above:

<b>Service Description</b>	<b>Amount</b> (per compensable increment)
Asset Management	PERCENTAGE % of Current

	Cash Invested** (Quarterly Fee Per Property)
Disposition of Property	NUMBER OF BASIS POINTS of Net Sales Proceeds*** (One-Time Fee Per Disposition)

\* "Cash to Seller" is the net cash paid by the Retirement System to the seller of an investment, **excluding:** any adjustments at closing, closing costs (including legal fees), capital reserves, the gross amount of the Retirement System's allocation of any leverage incurred, and advisory fees.

\*\* "Current Cash Invested" is the cumulative total of Cash to Seller for all investments in the Account as reduced by any investments that have been sold. The reduction is based upon the Cash to Seller at the time of acquisition for the properties that have been sold.

\*\*\* "Net Sales Proceeds" is the net proceeds from the sale of an investment or part of any investment **less:** brokerage commissions, closing costs, the gross amount of the Retirement System's allocation of any leverage paid off or assumed by the buyer, and marketing expenses.

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

C.5. Invoice Requirements. The Contractor shall invoice the 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. Invoices for fees related to the acquisition of a Property shall be submitted upon the completion of an acquisition, invoices for a fees related to the disposition of a Property shall be submitted upon the completion of a disposition, and invoices for asset management fees shall be submitted within thirty (30) days of the end of each calendar quarter during the period the Property is held in the Account. Such invoices shall be submitted to:

Tennessee Treasury Department  
 Division of Accounting  
 9<sup>th</sup> 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 Retirement System 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 Retirement System 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.6. 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.7. Invoice Reductions. The Contractor's invoice shall be subject to reduction for amounts included in any invoice or payment theretofore made which are determined by the 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.8. Deductions. The State reserves the right to deduct from amounts which are or shall become due and payable to the Contractor under this or any Contract

between the Contractor and the State of Tennessee any amounts which are or shall become due and payable to the State of Tennessee by the Contractor.

- C.9. Automatic Deposits. The Contractor shall complete and sign an "Authorization Agreement for Automatic Deposit (ACH Credits) Form." This form shall be provided to the Contractor by the Retirement System. Once this form has been completed and submitted to the Retirement System 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 Retirement System for services until the Contractor has completed this form and submitted it to the Retirement System.

**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 immediately terminate the Contract and withhold payments in excess of fair compensation for completed services. Notwithstanding the above, the Contractor shall not be relieved of liability to the 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:

Peter Katseff, Director of Real Estate  
Tennessee Consolidated Retirement System  
11<sup>th</sup> Floor, Andrew Jackson State Office Building  
502 Deaderick Street  
Nashville, Tennessee 37243-0209  
peter.katseff@state.tn.us  
Telephone # (615) 532-1160  
FAX # (615) 770-7432  
The Contractor:

NAME & TITLE OF CONTRACTOR CONTACT PERSON

CONTRACTOR NAME  
ADDRESS  
EMAIL ADDRESS  
Telephone # NUMBER  
FAX # NUMBER

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 Retirement System 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 Retirement System 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. Prohibited Advertising. The Contractor shall not refer to this Contract or the Contractor's relationship with the Retirement System hereunder in commercial advertising in such a manner as to state or imply that the Contractor or the Contractor's services are endorsed. This provision is not intended to prevent the Contractor from advertising the fact that the Contractor performed the services hereunder on behalf of the Retirement System.
- E.6. Confidentiality and Publicity. The Contractor shall treat as confidential all proprietary information and materials affecting the Account. 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 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. 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. It is expressly understood and agreed the obligations set forth in this section shall survive the termination of this Contract.

- 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 1, 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. 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.9. Back-Up Procedures and Disaster Recovery. The Contractor shall maintain business interruption plans in the event of a loss of the Contractor's principal place of business due to natural or manmade causes pursuant to Page [PAGE NUMBERS FROM SUCCESSFUL PROPOSAL WHICH RESPOND TO SECTION D.11 OF THE QUESTIONNAIRE] of the Contractor's Proposal, including back up systems for data and other records, office space and other technology needed to perform the services hereunder. The Contractor shall resume services hereunder within seventy-two (72) hours of the disaster or malfunction. The Contractor shall provide notification of an incident to the Retirement System within two (2) hours after the beginning of operation of the Contractor's Emergency Operations Command Post.
- E.10. On-Site Visits. 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.
- E.11. Provision of Similar Services. The Contractor shall remain free to provide to other persons services similar to the services to be provided to the Retirement System under this Contract.

E.12. 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:**

**CONTRACTOR LEGAL ENTITY NAME:**

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**CONTRACTOR SIGNATURE**

**DATE**

---

**PRINTED NAME AND TITLE OF CONTRACTOR SIGNATORY (above)**

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM:**

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

**APPROVED:**

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

**DATE**

---

**JOHN G. MORGAN, COMPTROLLER OF THE TREASURY      DATE**

## **ATTACHMENT A**

### **THE TENNESSEE CONSOLIDATED RETIREMENT SYSTEM INVESTMENT POLICY ORGANIZATIONAL STRUCTURE AND GENERAL OVERVIEW**

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

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

#### **Mission Statement**

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

#### **Legal Counsel**

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

#### **Investment Advisory Council**

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

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

#### **Chief Investment Officer (CIO)**

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



The Chief Investment Officer shall:

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

### **Investment Staff**

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

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

### **Reporting**

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

### **Internal Controls**

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

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

### **Brokerage Firms**

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

### **Consultants**

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

### **External Managers and Advisors**

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

### **Master Custodian Financial Institution**

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

### **Proxy Voting**

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

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

### **Commission Dollar Arrangements**

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

procurement through commission dollar arrangements. Goods and services specifically permitted include performance evaluation services, securities pricing services, quotation and trading information services and analytical databases as well as technical publications which directly enhance the investment decision-making process.

No good or service may be procured through commission dollar arrangements if such good or service benefits an employee in an individual capacity. Goods and services specifically prohibited from procurement through use of commission dollar arrangements include direct telephone lines to brokerage firms, personal computers or other office equipment, payment of travel related expenses and payment of cost of attending seminars, classes or other investment training activities. The Treasurer shall develop and implement a structured review and approval process to ensure that commission dollar arrangements entered into pursuant to this policy comply with the provisions stated herein. Any commission dollar arrangement in which commission commitment is made by the System shall be evidenced by a written agreement which specifies the nature and extent of the commission commitment as well as other significant provisions of the arrangement.

## **INVESTMENT POLICY AND OBJECTIVES**

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

### **Preservation of Principal Value**

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

### **Investment Return**

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

### **Liquidity for System Beneficiary Payment**

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

### **Asset Allocation** ***Allocation Range***

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

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

### ***Rebalancing***

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

### **Performance Measurement**

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

### ***Total Fund Performance Measurement Standards***

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

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

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

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

### ***Asset Class Performance Measurement Standards***

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

### **INVESTMENT CRITERIA**

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

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

### **Common, Preferred Stock and Convertible Bonds**

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

### **Notes, Bonds, and Mortgages**

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

### **Private Placements**

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

### **Stock Options**

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

### **Bond Futures**

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

### **Domestic Stock Index Futures**

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

1. The Investment Staff will not enter into futures transactions for the purpose of speculative leveraging. Speculative leveraging is defined as buying financial futures where the amount of the contract obligation is an amount greater than the market value of the System's cash and short-term securities.
2. The total amount of the System's financial futures contract obligation should not exceed five percent (5%) of the market value of the System's total assets.
3. The sum total of the domestic equity portfolio together with the value of the stock index futures contract obligation should be within the asset allocation range for domestic equity securities. While stock index futures contracts are outstanding, the Investment Staff shall maintain a comparison of the System's equity asset allocation against its invested position including futures contracts.
4. The System may use cash and obligations of the U.S. government or any of its agencies to meet the variation margin requirement.
5. The only stock indexes upon which financial futures contracts may be written are as follows: S&P 600 Index, S&P 500 Index, S&P Midcap 400, and Russell 2000 Index.
6. Futures transactions will be conducted with only a few of the highest quality domestic money center banks and domestic brokerage firms. The criteria to be used in selecting such banks and brokerage firms should include, but should not be limited to, their experience and expertise in the financial futures market.

7. A transaction record shall be maintained which contains the following:

- a) The amount of stock index futures contracts purchased and the reason therefor.
- b) The amount of stock index futures contracts sold and the reason therefor.

8. The Investment Staff shall submit a quarterly financial futures report to the Board. This report will describe with specificity the financial futures transactions during the previous quarter. The report shall summarize the investment strategies employed during the period reviewed and the proposed strategy for the present quarter. Each report shall list the banks and brokerage firms authorized to conduct financial futures transactions with the System. T.C.A., Section 8-37-104(a)(7).

### **Short-term Investments**

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

### **Securities Lending**

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

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

Securities received as collateral shall have a market value of at least 102% of the market value of the security loaned. Cash received as collateral shall have a value of at least 100% of the market value of the security loaned. Collateral should be closely monitored. Securities collateral should be marked to market each business day so that the aggregate market value of the collateral allocated to all then outstanding loans to a single security firm or bank equals 102% of the market value of such loans and the interest accrued thereon. If at any time the aggregate market value of the securities collateral allocated to all then

outstanding loans to a single security firm or bank is less than 100% of the market value of such loans, more collateral should be requested. Cash received as collateral may be invested by or on behalf of the System in any investment instrument in which the System's assets may be directly invested. Such cash may also be invested in short-term investment funds provided the portfolio of such funds contains only those investment instruments in which the System's assets may be directly invested. The Treasurer, through securities lending agreements, may further restrict the collateral requirement outlined in this policy. Securities lending agreements entered into shall be reviewed, commented upon, and approved as to form and legality by the Attorney General and Reporter. T.C.A., Section 8-37-104(a)(6).

### **Standby Note Purchase Agreement**

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

1. The System receives an annual commission representing a fair market value fee, adjusted for any additional cost incurred by the state agency due to the System serving as the standby note purchaser.
2. If called upon to purchase such notes, the System receives a market rate of return exceeding the prime rate.

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

### **International Investments**

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

### **Foreign Currency Hedging**

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

1. The overall strategy will be a tactical defense designed to reduce risk and protect the System's international portfolio from a strong dollar.
2. The foreign currency exposure will be hedged by selling and purchasing currency using only forward contracts.
3. The allowable currencies for hedging purposes are limited to the currencies of those countries authorized pursuant to this policy.
4. Portfolio currencies may be hedged no more than 80% of international portfolio exposure for any given currency based on market value.
5. Portfolio currencies may be sold for U.S. dollars only and not for another portfolio currency.



6. Hedging will be conducted through the System's custodial bank and a few of the highest quality money center banks and brokerage firms. T.C.A., Section 8-37-104(a)(5).

### **Canadian Investments**

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

### **Real Estate**

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

TCRS shall invest primarily in substantially leased (i.e., 80% or greater leased at time of acquisition) institutional quality, well-located assets in the traditional property types: office, apartment, retail, and industrial. To avoid concentrations within certain property types and to ensure prudent diversification over the longer time periods, no investment may be made which would cause, at the time of acquisition, the market value of TCRS holdings in any single traditional property type to exceed 2.0% of the market value of TCRS' total assets.

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

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

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

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

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

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

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

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

## ATTACHMENT B

### 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

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**ATTACHMENT C**  
**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 D**  
**TENNESSEE CONSOLIDATED**  
**RETIREMENT SYSTEM**

**REAL ESTATE INVESTMENT GUIDELINES**

Revised October 2004

Approved by:

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Dale Sims, *State Treasurer*

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Tom Milne, *TCRS Chief Investment Officer*

## Real Estate Investment Guidelines

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**Exhibit A—Investment Registration Form**

## **I. INTRODUCTION.**

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

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

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

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

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

## II. DEFINITIONS.

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

<u>Term</u>	<u>Definition</u>
TCRS	The Tennessee Consolidated Retirement System
Board	The Board of Trustees of TCRS, including its Investment Committee. The Investment Committee is comprised of members of the Board. The Board is ultimately responsible for the approval of the establishment of real estate investment policy.
Treasurer	The State Treasurer of Tennessee, to whom the implementation of the Investment Policy has been delegated by the Board.
IAC	The Investment Advisory Council (“IAC”) will assist the Treasurer and Staff by providing advice and comment on the most appropriate short, intermediate and long-term real estate investment strategy for TCRS.
Assistant to the Treasurer	The Assistant to the Treasurer, who is responsible for overseeing the administration and management of TCRS.
Staff	Staff is comprised of the Chief Investment Officer (“CIO”), Director of Real Estate (“DRE”) and such other staff maintained to effectively manage the assets of TCRS. Staff is responsible on a day-to-day basis for the management of System’s investment activities, including those related to real estate, as further defined in these Guidelines.
Advisor(s)	Real estate investment advisors selected to locate, evaluate, acquire, manage and dispose of real estate investments for TCRS.
Consultant	A firm with substantial experience in providing institutional real estate consulting services selected by the Treasurer to assist TCRS in the establishment of objectives, policies, and procedures for TCRS and with the ongoing performance reporting and supervision of the Advisors in connection with TCRS.

### **III. Delegation of Responsibilities.**

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

- A. Board of Trustees:** The Investment Committee of the Board, assisted by the advice of the IAC, Staff and Consultant, shall (i) establish real estate portfolio objectives and policies; (ii) approve the Investment Policy and any revisions thereto; (iii) approve all proposed acquisitions and dispositions of real estate investments; (iv) review the performance of the real estate asset class and its compliance with the real estate portfolio objectives and policies as stated in the Investment Policy; and (v) complete or cause to be completed any other activities necessary to oversee and monitor TCRS's real estate investments.
  
- B. Treasurer:** The implementation of the Investment Policy has been delegated by the Board to the Treasurer. The Treasurer may delegate to the Chief Investment Officer and such Investment Staff the power to invest and reinvest TCRS's assets.
  
- C. Investment Advisory Council:** The IAC will assist the Treasurer, Chief Investment Officer and Investment Staff by providing advice and comment on the most appropriate short, intermediate and long-term investment strategy. Among other items, the IAC may provide its advice and comment regarding: (i) the real estate portfolio objectives and policies; (ii) the Guidelines and any modifications thereto; (iii) the Investment Plan, including any revisions thereto; (iv) all proposed acquisitions and dispositions of real estate investments. The IAC shall review the performance of the real estate asset class on a periodic basis.
  
- D. Staff:** The CIO shall manage TCRS's Staff and report to and consult with the Treasurer and IAC on investment activities, the development and implementation of an appropriate real estate investment strategy, and manage the assets of TCRS. The DRE shall have primary responsibility for the day-to-day management of TCRS's real estate program. Staff shall:
  - i. conduct, with the assistance of the Consultant, all professional searches or evaluations (e.g., investment Advisors.), or oversee the Consultant perform said searches or evaluations;

- ii. select and engage professionals as approved by the Treasurer, including the Consultant and Investment Advisors, and negotiate all agreements for the engagement thereof;
- iii. prepare or oversee the Consultant's preparation of the Real Estate Investment Policy, Guidelines and Investment Plan as described below;
- iv. review the Advisor Investment Plans;
- v. review, approve and present, to the IAC and the Investment Committee, real estate investments and dispositions and other major actions;
- vi. conduct site inspections of all proposed investments to ensure compliance with the Advisor Investment Plan, Investment Plan and representations made by the Advisor in the Investment Summary (as defined below);
- vii. review the Budget and Management Plans prepared by Advisors;
- viii. conduct periodic site inspections of properties acquired on behalf of TCRS at the direction of the Chief Investment Officer; and
- ix. perform the following functions as follows:

Staff shall also (i) prepare funding procedures and coordinate the receipt and distribution of capital to or from the Advisors with respect to acquisitions, dispositions and the funding of existing property operations; (ii) monitor the closing process in consultation, as required, with Advisors or counsel engaged by the Advisors and/or TCRS, for acquisitions, financings or refinancings, and other capital transactions between Advisors and TCRS; and (iii) complete any other activities required by the Board and those specifically delegated to Staff in the Real Estate Investment Policy, Guidelines, the Investment Plan or other applicable documents or agreements.

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

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

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

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

#### **IV. REAL ESTATE PORTFOLIO OBJECTIVES AND RISK MANAGEMENT POLICIES.**

The role of real estate is to diversify TCRS's total investment portfolio and supplement the total return of the portfolio, which is comprised predominately of fixed income and equity assets. Real estate is expected to



provide competitive, stable risk adjusted returns relative to other asset classes. A secondary role of real estate is to provide an inflation hedge.

**A. Investment Philosophy:** TCRS will make decisions regarding the real estate portfolio which conform to the following guidelines: (i) maximize long term total cash returns; (ii) achieve a total return competitive with other asset classes; and (iii) maintain a broad diversification of assets. Controlling risk in the real estate portfolio is equally as important as seeking higher returns.

**B. Investment Categories:** Traditionally, equity real estate investments have been categorized by the risk and return features of the underlying real estate assets. TCRS recognizes three investment categories: Core investments (operating and substantially leased properties); Non-core investments (all other types of investments); and publicly traded real estate investment trusts (“REITs”). The Core and Non-core investment categories are private market investments, and possess different return and risk attributes than the publicly-traded REITs. These categories are defined below:

**i. Private Core (“Core”) Investments:** TCRS regards these investments as operating and substantially leased (i.e., 80% or greater leased at time of acquisition) institutional quality, well located assets in the traditional property types: office, apartment, retail, and industrial. These properties generally offer relatively high current income returns and as a result a greater predictability of returns. The income component typically represents a majority of the expected total return of Core investments. These investments are of comparatively low risk and provide a stable foundation for the TCRS real estate portfolio.

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

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

- iii. Public Market REITs:** The public market equity component consists of REITs and other real estate related companies that are publicly traded (collectively referred to as “REITs”). Public REITs currently do not provide the same diversification or inflation hedging attributes of private equity real estate. However, public REITs do provide the potential for greater flexibility due to greater liquidity than private equity real estate. In addition, public REITs may provide a vehicle for TCRS to gain exposure to (i) Core property types which may not be available to TCRS under the Investment Policy (e.g., large Central Business District office buildings and regional malls, which is due to their size and correspondingly large purchase price), (ii) other non-traditional property types, or (iii) otherwise complement the Portfolio.
- C. Targeted Portfolio Composition:** TCRS maintains that all percentages and limits herein are based on the total real estate allocation. The real estate allocation currently is limited such that no investment may be acquired which would, at the time of acquisition, cause the market value of the total real estate investments to exceed 5% of the market value of the total TCRS assets. Core investments shall comprise from 80% to 100% of the total real estate allocation in order to create a portfolio comprised of relatively stable, low risk, income-producing investments. Non-Core Investments and Public REITs may comprise from 0% to 20% of the total real estate allocation.

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

- D. Co-Investments and Direct Investments:** TCRS prefers to invest utilizing separate account investment structures (rather than commingled fund account structures) because of the greater control separate accounts provide over the decisions in connection with the ownership of the underlying real estate assets. Such investments

may be made through co-investments with comparable institutional investors (“Co-Investments”) or a separate account where TCRS is the only institutional investor (“Direct Investments”). All Co-Investments and Direct Investments will be non-discretionary (i.e., TCRS will retain the control of its rights with respect to acquisition, disposition and other major asset management and financing decisions).

- E. Public REITs:** TCRS may invest in public REITs up to 1.0% of the market value of TCRS’ total assets, measured at the time of acquisition. It is anticipated TCRS will invest in public REITs to obtain exposure to certain property types or operators that complement Co-Investments or Direct Investments. TCRS may also invest in public REITs that exhibit attractive pricing relative to comparable private Core Co-Investments or Direct Investments.
- F. Benchmark Returns:** For new acquisitions, Core real estate investments are to be underwritten to provide a total return equal to 200 to 400 basis points above ten (10) year Treasury securities measured over rolling five (5) year periods. Non-core investments should provide expected returns in the range of 75 to 400 basis points higher than Core investments, and should provide returns commensurate with the risks.

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

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

- G. Compliance with Laws:** TCRS will only consider investments that comply fully with all applicable federal, state and local laws and regulations, including all applicable environmental laws and regulations.

**H. Investment Advisory Services:** All investments shall be analyzed and due diligence performed, managed and disposed of, if necessary, by a qualified Advisor which has an established, successful record of providing advisory services to institutions and is deemed able to deliver similar services in the future. Although TCRS as a state pension plan is not subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), it is the intent of TCRS that an Advisor shall act as a “fiduciary” to TCRS as that term is defined in Section 3(21)A of ERISA and as that term is otherwise judicially interpreted, and shall discharge its duties to TCRS accordingly. An Advisor's acquisition, management and disposition of real estate investments will be guided by the "prudent expert" standard, which shall be the standard of care required of Advisors and set forth in real estate investment advisory contracts with TCRS. An equity real estate investment shall be made only if said investment was evaluated and recommended by an Advisor.

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

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

**I. Property Management.**

Direct or supervisory property management is acceptable. TCRS shall favor Advisors having clearly articulated and successfully implemented property management strategies. The objective is to ensure the most qualified property management services are provided to each TCRS real estate

investment given its location and property type. In addition, the fees paid by TCRS for property management services (to a third party or an affiliate) shall be at a rate consistent with the markets rates for comparable property management firms in that market for properties of like kind and quality. All property management agreements will contain a clause that permits TCRS to terminate without cause upon no more than thirty (30) calendar days' notice.

## **V. ADVISOR PROCUREMENT PROCEDURES**

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

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

- A. Staff and Consultant shall establish qualification criteria for new or additional investment Advisors.
- B. Consultant shall screen its database and other available sources to identify Advisor candidates exhibiting qualities consistent with the qualification criteria. Consultant shall provide to DRE a preliminary listing of all Advisor candidates exhibiting such qualities consistent with the approved criteria.
- C. If determined to be necessary, Consultant shall prepare and the DRE shall review a questionnaire to further define Advisor capabilities specific to the qualification criteria. The DRE, with the assistance of the Consultant, shall take into consideration, among other factors, the nature of the strategy to be implemented and its complexity and the size of the universe of qualified candidates that meet the criteria established above.
- D. Staff, with the assistance of Consultant, shall establish evaluation areas and the respective weighing factors. Staff and Consultant shall review and evaluate each candidate and any response to any questionnaire relative to each evaluation area, including objective and subjective criteria. Presentations by the finalist candidates may be required, at Staff's discretion.
- E. The Consultant shall prepare a written report summarizing its analysis recommending one or more Advisors and deliver such

report to the Assistant to the Treasurer, CIO and DRE and any other persons designated to review potential Advisors.

- F. The DRE shall visit preferred candidates to complete final operations due diligence and selection of one or more Advisors. The DRE shall share his findings with the Assistant to the Treasurer and CIO.
- G. The DRE, Assistant to the Treasurer and CIO shall jointly select one or more Advisors to be recommended to the Treasurer for engagement by TCRS.
- H. After its selection, the Advisor shall prepare an Advisor Investment Plan consistent with the investment strategy articulated in the investment criteria established as part of the search or in the Investment Plan.

## VI. INVESTMENT MANAGEMENT PROCEDURES FOR SEPARATE ACCOUNTS.

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

### A. Investment Procedures.

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

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

- 2) *Identification of Preliminary Investment Opportunities.* Each Advisor shall provide in writing (including via telecopy) an Investment Registration Form identifying to Staff a prospective investment opportunity. The Advisors shall use the Investment Registration Form, substantially in the form of **Exhibit A** attached hereto, unless otherwise directed by Staff. The Investment Registration Form shall include such information as may be determined by Staff from time to time.

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

An Advisor shall have no more than 12 prospective investments registered with Staff at any one time. Upon the registration of a prospective investment opportunity by the DRE, the Advisor for whom the investment opportunity has been registered has the exclusive right to pursue the investment opportunity on behalf of

TCRS, for a period not in excess of one hundred eighty (180) days from date of registration, unless otherwise directed by Staff. However, in certain circumstances it may be in the best interests of TCRS to pursue a potential investment opportunity through a different Advisor than the one who registered the prospective investment. The DRE may redirect any prospective investment opportunity from the Advisor that registered the prospective investment to another Advisor at any time and for any reason. The DRE shall update the registration log on a periodic basis.

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

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

The Investment Summary shall include the following:

- a. a description of the transaction, including the proposed investment structure (including terms relating to any co-investors in a particular transaction), ownership percentages, recommended pricing, projected timeline and an exit strategy for the proposed investment;
- b. a description of the seller, including, to the extent available, financial information and prior experience in the market, property type and investment cycle;
- c. a location map, photographs, site plan, and description of the improvements;
- d. a detailed location review, including a description of the immediate subject area, the surrounding market and the subject's competitive position in such market, competitive properties, any proposed development, and sales and rental comparables;



- e. a comprehensive financial due diligence evaluation of the proposed investment, including cash flow projections for a ten (10) year holding period, including disclosure of all assumptions utilized in the cash flow analysis, and a sensitivity analysis showing the most likely case, most reasonable optimistic case and worst case scenarios and a separate scenario incorporating an economic downside scenario;
  - f. a metropolitan market overview, including relevant economic and demographic data;
  - g. a lease expiration schedule for at least the next five (5) years, and longer if material leases extend beyond five (5) years;
  - h. except with respect to multifamily investments, a list of major tenants (e.g., tenants that represent 10% or more of the space of the proposed property) and, to the extent available, a summary and report by the Advisor of the creditworthiness and likelihood of retention in the property, for any tenant that occupies more than 10% of the property; and
  - i. any other information required under the Investment Advisory Agreement.
- 4) *Staff Review.* The DRE shall undertake the following review of each proposed investment:
- a. Evaluate the consistency of the proposed investment with the Investment Policy, Investment Plan and investment guidelines prepared for the Advisor as part of the Advisor Investment Plan;
  - b. Review and evaluate the due diligence evaluation of the proposed investment, including compliance with the Investment Policy and Guidelines, prior to closing the investment;
  - c. Identify any potential conflicts of interest, and confirm any such potential conflicts are fully disclosed in the Investment Summary;
  - d. Evaluate the reasonableness of the assumptions used by the Advisor to project performance of the proposed investment, and provide comments to the Advisor on the assumptions prior to the Investment Summary being finalized;

- e. Perform a site inspection of the property to confirm the accuracy of the oral and written representations made by the Advisor with respect to the proposed investment; and
- f. Identify any material issues attendant to the proposed investment.

After a review of the Investment Summary, the DRE will decide to pursue or reject the proposed investment. Staff shall maintain a log of all investments proposed by Advisors and registered by Staff in accordance with the registration procedure. At the time a proposed investment is no longer being considered by TCRS, the DRE shall update the investment log with the reason for non-consideration.

If the DRE decides to pursue the proposal, the DRE will review the proposed investment with the CIO. If the CIO concurs, Staff will direct the Advisor to supply to Staff an Investment Summary (reflecting any comments from the DRE during the course of his review), containing the salient terms of the proposed investment. Staff will submit the Investment Summary with a brief written summary of its review to the IAC. The IAC will meet to provide advice and comment upon the information contained in the Investment Summary. Subsequent to the meeting of the IAC, Staff will present the proposed investment to the Investment Committee to request final approval. A summary of comments from the IAC and the Investment Committee meetings will be kept in the property file. Staff will develop and modify as appropriate a standard form of Investment Summary to provide consistency of format in the presentation of all real estate investments presented by Advisors.

5) *General Due Diligence Policies.* Each Advisor shall comply with the following requirements relative to environmental, structural, appraisal and legal due diligence matters. The reports shall be prepared for TCRS as the client.

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

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

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

- b. Engineering/Structural Matters. The Advisor shall conduct, or engage third party professionals to conduct, appropriate engineering or structural reports to evaluate potential investments. Such reports or studies shall be conducted by a qualified engineering or structural engineering firm selected by the Advisor. Upon completion of the engineering or structural reports or its equivalent, the Advisor shall prepare and submit to the DRE a memorandum summarizing the engineering and structural conditions of the proposed investment and any required capital expenditures or remedial actions.
- 6) *Recommendation to Proceed.* Following the approval of the Investment Committee, the Advisor shall submit to the DRE various reports summarizing the final financial and other terms and conditions of the proposed investment and the due diligence investigation, together with a recommendation to proceed with the proposed investment upon the terms and conditions described therein. The reports may include the following items:
- a. A memorandum reviewing the results of the environmental due diligence completed with respect to the proposed investment and addressing any issues raised therein, as set forth in Section 5.a. above;
  - b. An updated memorandum reviewing the results of the engineering or structural reports completed with respect to the proposed investment and addressing any issues raised therein, as set forth in Section 5.b. above;
  - c. An updated pro forma projection incorporating any changes to the financial terms and conditions of the proposed investment and the results of the Advisor's due diligence investigation.

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

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

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

documentation that was requested by the DRE. The Advisor has the responsibility to prepare a summary of the transaction that will be delivered to counsel, who will bind the summary in the opening section of the closing book.

- c. TCRS retains the right to condition the payment of any acquisition fee to the Advisor for closing the proposed investment upon the delivery of both the FIP and the bound closing books, as required in sections a. and b. above.

10) *Funding and Bank Accounts.* Prior to closing, property bank accounts must be opened by the Advisor. The Advisor shall supply to the Staff the account names, account numbers, types of account, bank names and locations of the accounts. Staff will be responsible for creating the appropriate accounting and funding records to tracking and recording all capital and other financial information for each closed investment.

11) *Maintain Corporate Record Books.* On an on-going basis, the Advisors shall be responsible for maintaining and updating corporate record books for any title holding entity and other corporate entity, that TCRS has an interest in, created in connection with an acquisition of real estate by TCRS, in order to ensure the observation of corporate formalities in an effort to preserve limited liability. This includes documentation necessary for any corporation, limited liability company, or other entity formed for the purpose of owning and holding title to the Direct or Co-Investments or an entity formed for the purpose of owning an interest in a title holding entity, all of which shall be beneficially owned by the TCRS. The Advisors will supply upon request by TCRS copies of all resolutions, actions in lieu of a meeting and other corporate documentation prepared to observe corporate formalities.

## **B. Asset Management Procedures**

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

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

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

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

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

- 2) *Annual Report and Oversight Review*: Within sixty (60) calendar days after the close of each calendar year, each Advisor shall provide the Board and Staff with an annual report (the "Annual Report") that is anticipated to contain the following information with respect to each Co-Investment or Direct Investment managed and for the portfolio of properties managed:
  - a. a current performance summary, including an investment summary, income summary, summary of investment performance and a funded and allocated investment summary;
  - b. an investment description for each investment, including the date of acquisition, acquisition cost, current property value, leasing status, lease expirations for current year;

- c. comparative performance for the prior year, comparing actual performance against pro forma and the prior year's budget, and noting any material variances;
- d. a budget for the current year (which may be updated from the Budget and Management Plan previously delivered);
- e. a brief market overview for each property;
- f. key accomplishments in the prior year and key issues to be addressed and resolved in the current year; and
- g. leasing status and lease expirations for current year.

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

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

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



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

asset/portfolio managers. The information flow shall be relative to the property condition, market conditions and trends, occupancy and related matters, leasing and tenant relations.

- c. Expenditures: The Advisor shall determine or review and approve all operating and capital expenditures of each managed property. For each Co-Investment and Direct Investment, the Advisor shall monitor the same for compliance with the Budget and Management Plan. Absent an emergency, any operating expenditures in excess of the budgeted amount by ten percent (10%) shall be subject to prior approval of Staff. Capital expenditures in excess of the budgeted amount by ten percent (10%) shall be subject to prior approval of Staff.
- d. Property Maintenance: Each Advisor shall take all reasonable steps necessary or appropriate to ensure each Co-Investment or Direct Investment is properly maintained in an operating condition consistent with institutional industry standards.

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

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

Each Advisor shall maintain complete and accurate records of all transactions related to managed properties, including receipts and all correspondence relating thereto on such forms as TCRS may reasonably require. In addition, and where requested by Staff,

originals of the documents generated during the course of the due diligence process (including, without limitation, copies of documents referred to in the Investment Summary; executed investment closing documentation; all leases for more than 10% of the space of any property; loan agreements, including notes and mortgages; any due diligence studies or reports (e.g., environmental and engineering); survey; property management agreements and such other documents as Staff may identify from time to time. Within 90 days of the closing of an investment, the Advisors shall provide to TCRS with complete transaction binders or books containing all the relevant documentation relating to the investment, including but not limited to the information described above, and such other documentation customary in closing binders.

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

- g. Appraisals and Valuations: Generally, all Co-Investments and Direct Investments shall be valued by a qualified independent appraiser(s) with the professional designation of Member of the Appraisal Institute (“MAI”), or its equivalent, at regular intervals, not less frequently than every three years. Appraiser selection will be determined or approved by TCRS based on organizational qualifications, capabilities, personnel, references and resources. Appraisers shall be rotated as determined by Staff.

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

- h. Insurance: Advisors shall be responsible to ensure that appropriate types and levels of property and liability insurance is maintained at all times. In addition, each Advisor shall maintain and keep in force at all times, at its own expense, errors and omissions insurance coverage which names TCRS as an insured,

and shall maintain (and/or require each property manager to maintain) fidelity bonds or comparable other forms of insurance to provide loss protection in the event of employee theft, dishonesty or fraud.

- i. Diligence: Each Advisor shall remain informed of competitive market conditions relative to managed properties and assure the same maintains a competitive position in the applicable geographic locale.
  - j. Significant Events: Each Advisor shall notify Staff in writing of any investigation, examination or other proceedings involving any managed property or a tenant thereof commenced by a regulatory agency or of any action, suit or other legal proceeding commenced against the Advisor or the owner of the property. The Advisor shall provide such notice within a reasonable period of time but in no event more than thirty (30) calendar days after Advisor's awareness of it. Advisors shall also provide notice to Staff of material events not projected in the Budget and Management Plan. Any notice shall be in writing and shall describe the event and the reasons therefore.
- 6) *Dispositions*. The following sections describe the disposition process for the real estate program. During the early years of the construction of the TCRS portfolio, it is expected that few (or no) properties recently acquired will be recommended for sale. Accordingly, for the first three years of each Advisor's relationship, each Advisor may do the annual disposition review in a summary form. Following the conclusion of the third year, each Advisor shall prepare the following items:

- a. Annual Disposition Review: Advisors of Co-Investment and Direct Investment separate accounts shall provide an annual disposition analysis of each asset under management, setting forth the Advisor's opinion as to the prudence of selling or retaining each investment and the reasons therefore. The disposition analysis shall include long and short-term hold/sell scenarios that incorporate an opportunity cost analysis. The disposition analysis shall be included in the Budget and Management Plan.

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

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

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

ii) *Strategic Evaluation:*

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

iii) *Opportunity Cost Analysis:*

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

points in time at an investment's then projected Disposition Value.

- iv) *Reinvestment Opportunities:* If the Advisor recommends to sell or dispose of any investment, the disposition review shall include an analysis of available real estate investment opportunities for the proceeds of such disposition, consistent with the applicable investment criteria set forth in the Real Estate Investment Policy, Investment Plan and Advisor Investment Plan, if any, including an estimate of the costs and time required to effectuate such investment.
  - a) Unsolicited Offers: The Advisor shall notify Staff of any unsolicited offer to purchase an asset of TCRS in excess of its Disposition Value. The Advisor shall prepare and submit to Staff a written disposition analysis of the asset using the offered amount as the Disposition Value.
  - b) Disposition Procedures and Reinvestment of Proceeds: In the event a Advisor recommends the sale or other disposition of any investment under management, the following procedures shall be utilized in managing the disposition process and the reinvestment of net sales proceeds:
    - i) The Advisor shall recommend, if appropriate, the retention of a qualified independent real estate broker to assist in such sale. No broker shall be engaged, however, without the prior verbal approval of Staff (such approval including a review of the proposed fee or compensation to be paid to such real estate broker).
    - ii) Advisor shall develop and Staff shall review the marketing strategy for the investment.
    - iii) Advisor shall negotiate with potential purchasers, and in consultation with counsel, prepare appropriate sale documentation.
    - iv) If requested by Staff, the Advisor shall assist TCRS in the reinvestment of the net cash

proceeds from the sale in such real estate investments consistent with the investment criteria set forth in the Investment Policy, Investment Plan and Advisor Investment Plan. However, Staff, in its sole discretion, may elect not to utilize the Advisor for reinvestment of such proceeds for any reason, including, but not limited to, as a result of the annual review of the Advisor's performance.

### **C. Accounting and Financial Controls.**

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

- 1) *Portfolio Financial Controls:* The Advisor's financial control and portfolio administration systems shall meet the following objectives:
  - a. Cash Management: The Advisor shall provide strict control over cash transactions and balances and will seek to ensure all excess funds are continually invested in accordance with its management agreement and any other governing documents approved by Staff. The Advisor shall maintain property accounts in a manner that will provide the liquidity needed to meet day-to-day obligations while maximizing returns. All monies shall be held and invested in FDIC insured accounts, or such other accounts as may be approved by Staff from time to time. The cash balances shall be segregated by client and property, unless otherwise determined by Staff. The segregation of accounts is required to ensure that no commingling of funds between Advisor's clients or TCRS's separate property investments exists. The Advisor's control system, which oversees TCRS's cash management system, shall be reviewed periodically by Staff to ensure it is cost-effective, maximizes income on deposits and safeguards cash balances.
  - b. Financial Control: The Advisor shall have an internal control system that protects assets, detects errors and seeks to ensure the reliability and validity of information generated by the accounting system. The internal controls shall be reviewed upon request of Staff to ensure conformity with generally accepted accounting principals (GAAP). The Advisor shall maintain a fidelity bond as set forth in Section V.B.5.h. above.

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

#### **D. PERFORMANCE MEASUREMENT REPORT.**

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

Within three business (3) days prior to end of each quarter, Consultant shall forward to each Advisor a Performance Measurement Questionnaire.



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

## **VII. INVESTMENT MANAGEMENT PROCEDURES FOR POOLED FUNDS.**

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

### **A. Investment Guidelines**

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

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

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

### **B. Pooled Fund Review Process**

- 1) *Screening the Universe*: Selection of investment candidates for consideration by TCRS shall be the primary responsibility of the DRE, with assistance and support provided by the Consultant. From

time to time, or in accordance with any Annual Investment Plan that calls for deploying capital into pooled funds, the Consultant shall supply information relative to the universe of prospective pooled fund opportunities consistent with the investment goals and objectives of the TCRS program. The Consultant will supply such information and related documentation to the DRE, using such filters as appropriate for the type of investment sought (e.g., investment risk, property type, investment structure, etc.).

The DRE will conduct an initial screening of suitable offerings from a universe identified by the Consultant's databases, drawing upon the DRE and Consultant's meetings with fund sponsors and their agents, and established relationships. The DRE will preliminarily screen the documents pertinent to an investment opportunity, including the offering memorandum, and identify possible issues. The DRE and/or Consultant may meet with the investment manager or sponsor to discuss the proposed pooled fund investment.

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

- 2) *Due diligence process:* After identifying potential candidates, the DRE will perform extensive due diligence on potential pooled fund offerings, including, but not limited to, the following criteria (for each item, the DRE has the option of relying solely on due diligence previously preformed by the Consultant):
  - a. Investment performance of previous funds, which the DRE may obtain from the fund sponsor and seek confirmation from the Consultant;
  - b. The quality, stability, depth and experience of investment professionals;
  - c. A clearly defined and maintained investment strategy during the investment period;
  - d. Fund co-investment by the general partner, affiliate or fund sponsor, which promotes the alignment of sponsor's interests with the investors' interests;
  - e. Adequacy of operational and reporting systems and personnel;
  - f. Terms and conditions of the fund, including but not limited to fees, promoted interests, key man provisions and removal and/or replacement of the general partner by the limited partners;

- g. Clearly defined due diligence procedures for sourcing, underwriting and closing investments and for exiting such investments within the time frame of the fund life;
- h. Client base and references;
- i. Ability to aggregate TCRS capital with other clients of the Consultant to allow the negotiation of preferred fees and other terms that benefit TCRS.

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

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

The DRE shall present the Pooled Fund Summary to the CIO for review and approval to proceed further. If the proposed pooled fund investment is approved by the CIO, the proposed investment shall be presented to the IAC and Investment Committee.

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

counsel will further identify issues and discuss and resolve these with the DRE.

Exhibit A

**Tennessee Consolidated Retirement System  
INVESTMENT REGISTRATION FORM**

**Advisor:  
Project ID#:**

**Submitted By:  
Date:**

---

**Project Name:**

**Location:**

**Property Type:**

**Size:**

**Property Description:**

**Year Built:**

**Type of Construction:**

**Investment Structure:**

**Co-Investor(s):**

**Total Investment Amount:**

**Estimated Returns & Fees:**

**Owner/Seller:**

**Tenants (>10%):**

**Variations from Policy, Investment Plan or Advisor Investment Plan:**

**Allocation History:**

**Comments:**

# ATTACHMENT E



## TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

### 2008 Real Estate Investment Plan

#### I. INTRODUCTION

This Real Estate Investment Plan sets forth the investment objectives for the real estate portfolio (the "Portfolio") of the Tennessee Consolidated Retirement System ("TCRS") for the period ended December 31, 2008. It is the tactical implementation of the Real Estate Investment Policy ("Real Estate Investment Policy") adopted by the Board of Trustees ("Board") of TCRS. As such, the purpose is to establish the Portfolio initiatives necessary to achieve the objectives in the Real Estate Investment Policy.

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

#### II. SUMMARY OF PORTFOLIO OBJECTIVES

##### A. Portfolio Objectives and Risk Management Guidelines

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

This Real Estate Investment Plan continues to implement a low risk strategy that emphasizes investments in operating and substantially leased office, retail, industrial and multifamily properties ("Core" real estate investments). Core investments may be made through co-investments with comparable institutional investors with similar objectives ("Co-Investments") or separate accounts where only TCRS owns the underlying real estate investment ("Direct Investments"). TCRS has made select industrial investments, solely in commingled funds, which are expected to enhance the performance of the Portfolio over time by improving its diversification and higher expected returns arising from discrete value creation activities.

The Real Estate Investment Policy contains risk management policies utilized in achieving the TCRS real estate portfolio objectives. The material risk management

policies are summarized, along with the return and allocation targets, in the table below:



Category	Criteria
Real Estate Allocation	Maximum 5% of the market value of the total plan assets of TCRS (measured at the time of acquisition)
Return Targets	A total return, at the time of acquisition of approximately 200 to 400 basis points in excess of the, then current, ten-year treasury yield.
Risk Parameters	Core investments (operating and substantially leased properties in major property types). Select Core-Plus/Enhanced Return investments may be considered in the future for inclusion in a well diversified portfolio.
Investment Vehicles	Co-investments with comparable institutional investors or direct ownership through non-discretionary separate accounts sourced by registered investment advisors. Commingled funds may be utilized in the real estate investing program to accomplish specific goals and objectives (e.g., for acquiring industrial exposure).
Property Type Diversification	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 (office, retail, industrial or multifamily) to exceed 2.0% of the market value of TCRS' total assets.
Location Diversification	At the time of acquisition, no more than 1.0% of the market value of TCRS' total assets shall be invested in any single Standard Metropolitan Statistical Area ("SMSA"). Investments to enhance economic and geographic diversification.
Investment Advisor	No Separate Account Advisor ("IMA"), at the time of an acquisition, shall be permitted to asset manage more than 2.0% of the market value of TCRS' total assets.

## B. Existing Portfolio Composition

TCRS began its real estate investment program in mid-1999. As of December 31, 2007, the Fund had acquired a total of forty-one properties, of which ten have been or are in the final process of being sold. TCRS has also committed to two open-end commingled funds specializing in industrial investments. The five separate account real estate advisors are ING Clarion Partners ("ING Clarion"), JP Morgan Fleming Investment Management ("JP Morgan"), TA Realty Associates ("TA Realty"), Principal Real Estate Investors, a subsidiary of Principal Financial Group ("Principal") and Cornerstone Real Estate Advisors ("Cornerstone"). All five firms were engaged to implement non-discretionary separate account programs. Additionally, TCRS has committed \$100 million to the ING Clarion Lion Industrial Trust (current market value of the investment has grown to \$137 million) and \$50 million to AMB Institutional Alliance Fund III (current

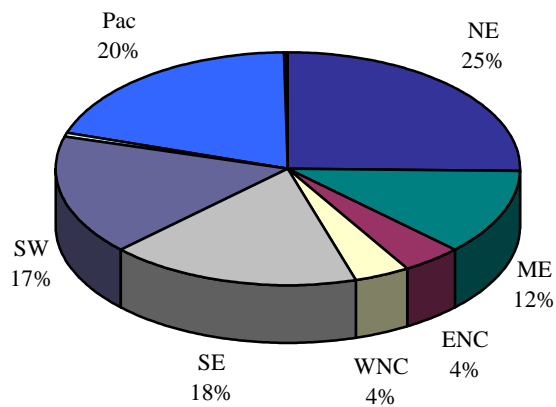
market value of the investment has grown to \$54 million) (“AMB III”), also focused on industrial properties.

The total market value, of the 33 existing properties (Fountain Glen consists of thirteen distinct properties) and two commingled funds as of December 31, is \$1.3 billion, or approximately 3.9% of TCRS assets. As of December 31, 2007, the TCRS real estate portfolio consisted of the following investments:

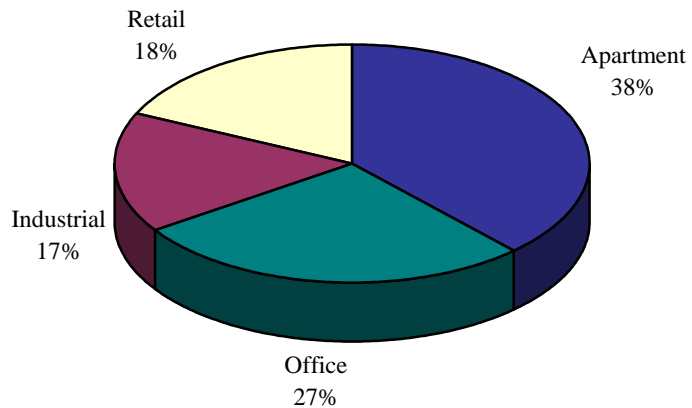
	Date Acquired	Market Value	Location	NCREIF Region	Type
Waltham Woods	4/26/2000	\$78,650,000	Waltham, MA	East	Office
Tyson's Executive Plaza II	8/1/2000	40,400,000	McLean, VA	East	Office
Courtyard at Carmel Mountain Ranch	6/10/2004	52,200,000	San Diego, CA	West	Retail
West Port Colony	6/29/2004	32,400,000	St. Petersburg, FL	South	Apartment
Surprise Town Center	7/6/2006	66,052,335	Surprise, AZ	West	Retail
Central Park Marketplace	11/13/2006	69,100,000	Fredericksburg, VA	East	Retail
Verizon Tower	9/26/2007	53,850,000	Falls Church, VA	East	Office
Rivermark Village	11/14/2007	91,860,000	Santa Clara, CA	West	Retail
Eastgate Office Center	12/6/2007	41,625,700	Bellevue, WA	West	Office
<b>Clarion I.M.A.</b>		<b>\$526,138,035</b>			
Heights of Cityview	8/1/2002	28,200,000	Fort Worth, TX	South	Apartment
Spring Valley Business Park	12/13/2005	43,750,000	Concordville, PA	East	Office
Centre Park Portfolio	4/13/2006	90,236,000	West Palm Beach, FL	South	Office
Trails at Rock Creek	2/2/2007	52,000,000	Houston, TX	South	Apartment
Promenade at Bolingbrook North	7/9/2007	33,825,505	Chicago, IL	Midwest	Retail
<b>TA Associates Realty I.M.A.</b>		<b>\$248,011,505</b>			
City Place at Westport	10/12/2005	37,600,000	Kansas City, MO	Midwest	Apartment
Chateau Plaza	12/12/2005	33,600,000	Dallas, TX	South	Office
Courtney Estates	2/1/2006	37,000,000	Raleigh, NC	South	Apartment
FountainGlen (13 Apartment Portfolio)	4/27/2006	174,388,965	Greater Los Angeles	West	Apartment
<b>JP Morgan I.M.A.</b>		<b>\$282,588,965</b>			
Avalon Apartments	1/5/2006	37,000,000	Hull, MA	East	Apartment
<b>Cornerstone I.M.A.</b>		<b>\$37,000,000</b>			
<i>Commingled Funds</i>					
<b>ING Clarion Lion Industrial Trust</b>	<b>1/4/2005</b>	<b>\$143,109,076</b>	NA	NA	Industrial
<b>AMB Institutional Alliance Fund III</b>	<b>7/6/2006</b>	<b>\$54,975,793</b>	NA	NA	Industrial
<b>TCRS Real Estate (as of 12/31/2007)</b>		<b>\$1,291,823,374</b>			

The portfolio is generally well diversified by property type, geographic location and Investment Advisor, as shown below. While the geographic diversification chart shows diversification by National Council of Real Estate Fiduciaries (“NCREIF”) region, at the current time TCRS is in compliance with the Standard Metropolitan Statistical Area (“SMSA”) diversification requirement, as no SMSA exceeds the 20% limitation. In addition, the charts show the diversification based upon the actual invested dollars; the Policy, however, measures these on the full allocation to real estate. The TCRS Portfolio complies with the applicable diversification parameters in the Policy.

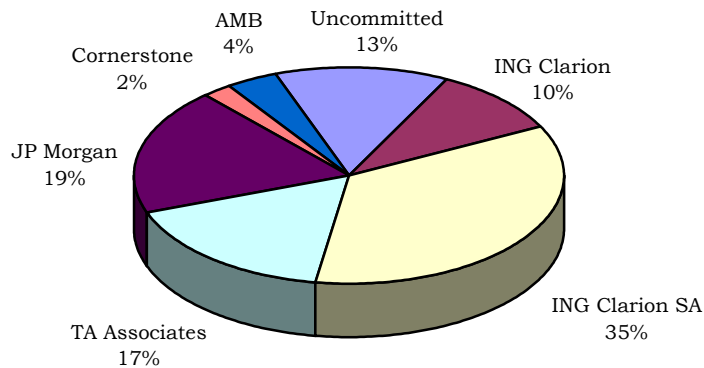
**Geographic Diversification**



**Property Type Diversification**



### Manager Diversification



The information noted above includes several recently approved and pending acquisitions and dispositions. **The TCRS program fully complies with the diversification requirements by Investment Advisor.**

## C. Real Estate Advisor Profiles and Strategies

TCRS has a group of capable, qualified investment advisors that provide a full range of investment services (acquisitions, all traditional property types, national capabilities). In the 2008 Investment Plan, TCRS continues to refine its planning initiatives to take greater advantage of unique Advisor capabilities and create more clearly defined roles. The goal is to allow TCRS to achieve its real estate objectives yet to hold each Advisor accountable for its relative contribution to accomplishing the 2008 Investment Plan. Thus, each Advisor Investment Plan will identify discreet roles, investment initiatives, focused target markets and expected dollar amount transaction volumes for each of its Advisors. The majority of investments made to date have been un-leveraged, but TCRS will consider the use of leverage in the current interest rate environment for new investments where the use of leverage offers either (i) preferred access to potential investments not attractive to current leveraged buyers (e.g., properties with above market existing debt (high interest rate) that may be prepaid without penalty or become due during the anticipated holding period (typically ten years)), or (ii) greater access to co-investment partners. TCRS will consider using leverage up to approximately 50% loan to value ratio for Direct Investments and Co-Investments, and possibly higher levels on a case by case basis.

### I. INVESTMENT OBJECTIVES

#### A. Market Conditions

As the Fund's real estate consultant, Townsend has prepared a review of the economic and real estate market conditions expected in 2008. It is set forth as **Exhibit A**.

## **B. Impact of Market Climate on Accomplishing Investment Objectives**

TCRS is targeting markets for new investment activity in this 2008 Investment Plan which reflect a focus of activity on metropolitan markets that are both deep with suitable investment opportunities and represent an enhancement of the existing location (and economic) diversification of the portfolio.

The real estate markets today are currently in a period of dislocation driven by capital market factors. Transaction activity over the second half of 2007 slowed significantly from prior levels due to the distress in the credit market and the inability to finance some transactions. The former positive spread from leveraging real estate properties is no longer prevalent (i.e. interest rates are at parity or even higher than the income yields from investing in properties) making debt dilutive to real estate investors in some instances on a current pay scenario. The size and quality of properties targeted by TCRS can still be financed as opposed to larger transactions. Additionally, since debt is less accretive, a large number of potential acquirers are no longer competing for these same investments. In a turnaround from recent years, all-cash buyers, such as TCRS are in an advantageous position.

The result is that more and higher quality investment options should be available to Tennessee in 2008 compared to the last three to five years. Expected returns should be higher going-in and over the holding period of the investment as well. Pricing is difficult to determine at this time due to the slowing of transactions, however, the general consensus holds that most markets have corrected from ten to fifteen percent. Higher quality markets such as those targeted by TCRS have not seen the same correction as tertiary markets but nonetheless may have softened from zero to five percent depending on property type and submarket location.

Over the longer term, the direction of the real estate markets will be driven by the overall state of the economy as future real estate performance will likely be driven by underlying property fundamentals as opposed to capital market events. Real estate performance should remain strong given the strength in the underlying property fundamentals, notably in office and industrial, as well as the continued low interest rate environment. Assuming the growth continues; potential losses in value due to widening cap rates may be mitigated by growth in net operating income.

There will be significant discretion required on behalf of TCRS Staff and Consultant in 2008 with regard to committing to new investments and determining values of existing ones. Real estate officers need to consider the future direction of interest rates and other capital market events to a greater

extent within their portfolios. The potential effect on real estate pricing and the ultimate impact on property performance can be greatly influenced by these volatile capital market forces. For instance, let us assume a property acquired with debt. If rates go down in the future, and debt is secured on new acquisitions at currently higher, yet still accretive rates, then a real estate officer must evaluate whether to mark debt to market which generates a paper loss on a real estate equity position.

### **C. Investment Guidelines**

The primary investment objective under this Investment Plan is to direct the investment activities of the Advisors to pursue Core real estate investments for TCRS. The Advisors will pursue investment opportunities for TCRS using a non-discretionary separate account investment structure. Under the prior 4.0% target, TCRS would have no additional money to commit to new real estate investments in 2008. However, the ability to target the allocation to 4.5% creates capacity for approximately \$140 million of additional investment in the real estate asset class in 2008. The actual gross investment activity may be larger than this due to the reinvestment of net proceeds from any potential property sales, of which up to three are being evaluated at this point. This number could also be more or less depending on the growth in total TCRS plan assets. The real estate investing program is currently limited to 5.0% of the total plan assets, which is at the low end of both clients of The Townsend Group and most institutional real estate investors that have increased allocations to alternative asset classes to drive outperformance at the plan level. The average real estate investor has an approximate 8% to 10% allocation to the asset class. Townsend clients range from 3% to 15% with an average real estate allocation of about 9%.

Other key guidelines applicable to the Advisors in the 2008 Investment Plan are as follows:

- 1. Advisors to seek up to \$140 million of quality Core investments.* The Advisors will seek institutional quality private Core real estate investments that are operating and substantially (80%) leased at the time of acquisition. Institutional quality investments are properties of high quality design and construction and are in a competitive position within the immediate market area of such investment, and are expected to provide long-term stable income returns.

Core real estate investments will be in the traditional institutional categories of office, multifamily, industrial and retail property types. Given the current portfolio composition of predominantly multifamily and office properties, and limited exposure to retail and industrial properties, the Advisors will seek new investments in all property types but will concentrate on finding appropriate retail and industrial properties. In any event, the advisors will work with TCRS Staff and

seek to deploy capital into an improving environment for real estate investments. With only \$140 million remaining in capacity, the impetus is placed on being particularly selective with the remaining investment activity. Though TCRS is relatively underweighted to the West region, TCRS will not seek to invest in California (barring some *extremely* compelling reason to do so) due to its current investment exposure within the state amounting to in excess of 20% of the portfolio. This is not a material concern as California represents 25% of the NCREIF National Property Index (NPI) and 71% of the NPI Western region.

Several of the Advisors will seek appropriate retail and industrial properties for TCRS in 2008, as in 2007, but new investment will be dependant upon suitable pricing and investment opportunities. Townsend notes that both property types have been a challenge to buy on an attractive basis for the last several years, as strong capital market demand existed for all property types industrial and retail investments are perceived to be lower in risk and somewhat defensive in posture. This was especially true when retail was outperforming a couple of years ago. The Advisors will consider both property types on a Direct and Co-Investment basis as in 2007.

There may be an opportunity to invest in “for-rent” multifamily especially in major markets that are supply constrained. Buying opportunities may present themselves in the form of condos coming back to market as for-rent product. However, TCRS does not intend to target broken condo deals. Furthermore, the significant overhang of condos in many of TCRS’ preferred markets calls future rental growth into question. The focus remains on buying well in this environment and on selecting markets with high spreads in cost to own versus rent. TCRS is fully weighted to the apartment sector.

The Advisors will approach new office investments on an extremely selective basis as pricing has increased and compressed investment yields significantly over the past year. Most office investments have been priced for perfection with aggressive rental growth assumptions based on the continuance of a strong, job-producing economy. There is more concern in making those assumptions today than at the outset of the prior Investment Plan. In general, both office and multifamily properties will need to offer compelling investment attributes in order to be acquired during the year.

2. *Targeted Locations.* Core investments may be located throughout the United States in major metropolitan areas. The Advisors will focus on stable and diversified economic markets with appropriate supply and demand balance, or demonstrable evidence of projected growth in demand and constraints on supply.

3. *Investment Size.* The investment size will focus on the range of \$20 million to \$75 million equity per investment, but can be larger in compliance with the Policy. For investments above \$100 million in equity, TCRS will typically seek a Co-Investment structure. As noted above, TCRS will consider acquiring new investments in 2008 using up to approximately 50% leverage for Co-Investments and Direct Investments that utilize a joint venture structure. On a case by case basis, TCRS will consider acquiring properties with a higher level of existing indebtedness, but such instances will only be undertaken when appropriate and the analysis from the Advisor justifies the acquisition. It is important to note that only the net equity amount (i.e. Gross Assets-Debt) will count towards the real estate allocation.
4. *Investment Structure.* The preferred form of ownership of the underlying properties will be Co-Investment or Direct Investment, through any legally permissible investment vehicles. Select Advisors will focus much of their efforts for TCRS in 2008 on making new Co-Investment transactions, at least initially. Other Advisors will focus primarily on Direct Investments, with a secondary emphasis on making new Co-Investments.
5. *Return Target/Portfolio Benchmark.* TCRS real estate investments must provide a total return equal to 200 to 400 basis points above ten (10) year Treasury securities measured at the time of investment approval. However, the official plan benchmark is to surpass the NPI.

The NPI is the ubiquitous benchmark for institutional real estate investors. The index is comprised of approximately 5,600 properties totaling \$300 billion dollars in market value. Despite its widespread use, the NPI has inherent faults that must be considered in evaluating relative performance to the index. A few include:

- *Appraisal Based Index:* Value changes of the underlying properties accrue to the index based on periodic appraisals that are impacted by timing differences of property appraisals, subjective assumptions and methodologies utilized by different appraisers, and varying and often conflicting motivations of property owners seeking the appraisals. A good example of this phenomenon might be to look at the transaction based index of NCREIF and MIT at this time. This index tracks sales of existing properties within the NPI. Whereas the NPI showed 2.2% appreciation in the Third Quarter of 2007, actual recent sales of properties in the index would indicate value losses of approximately 2.5%. It is just to say that there can be differences that arise from what is actually occurring in the market and the performance of the NPI which tends to smooth this “noise” over short to intermediate periods.



- *Non-Investable:* The NPI is not an investable index and cannot be replicated in a passive manner such as other indices. It is impossible to replicate the ownership of specific properties in the index, and furthermore, investing in properties is not a passive endeavor. Real estate inherently requires active property management and entrepreneurial skills.
- *Property Life Cycle Risk:* The index includes a broader definition of Core investments than what TCRS contemplates. For example, 60% or greater leased properties are included in the index. TCRS, and most Core investors, target 80% or greater levels of occupancy at purchase. The implication of this is that higher quality properties command a premium due to their inherently lower risk. Returns from these properties will be lower when acquired in an appreciating market such as what we saw recently but should outperform when lesser quality properties suffer disproportionately in a market downturn.
- *Small Subset of Investable Universe:* The NPI consists of \$300 billion of property investments in the U.S. representing approximately 5% of the \$6 trillion market.

#### **D. Advisor Investment Plans**

The Advisors will prepare 2008 Advisor Investment Plans for submission to TCRS Staff for review and approval, in compliance with the Policy and the Real Estate Investment Guidelines. The Advisor Investment Plans will encompass 12 months in scope. The 2008 Advisor Investment Plans shall set forth the general and specific criteria for each Advisor, including targeted property types, investment markets, potential co-investors and other investment criteria for implementing this Investment Plan. The 2008 Advisor Investment Plans shall also identify all material terms relating to co-investment with other comparable institutional investors.

The investment criteria shall be consistent with the Real Estate Investment Policy and this Investment Plan and shall include diversification criteria and risk/return expectations.

**ATTACHMENT F**

**ATTESTATION RE PERSONNEL USED IN CONTRACT PERFORMANCE**

<b>SUBJECT CONTRACT NUMBER:</b>	
<b>CONTRACTOR LEGAL ENTITY NAME:</b>	
<b>FEDERAL EMPLOYER IDENTIFICATION NUMBER:</b> (or Social Security Number)	

**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.**

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**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.

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**PRINTED NAME AND TITLE OF SIGNATORY**

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**DATE OF ATTESTATION**