TENNESSEE COMPTROLLER OF THE TREASURY

FINANCIAL AND COMPLIANCE AUDIT REPORT

Department of the Treasury
Tennessee Consolidated Retirement System

For the Year Ended June 30, 2021

Jason E. Mumpower
Comptroller of the Treasury

DIVISION OF STATE AUDIT

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TENNESSEE COMPTROLLER OF THE TREASURY

Tennessee Comptroller of the Treasury

Jason E. Mumpower
Comptroller

February 24, 2022

Members of the General Assembly
Members of the Board of Trustees
The Honorable David H. Lillard, Jr., Treasurer

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Consolidated Retirement System for the year ended June 30, 2021. You will note from the independent auditor's report that an unmodified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit

21/066

Audit Report

Tennessee Consolidated Retirement System

For the Year Ended June 30, 2021

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Opinion on the Financial Statements

The opinion on the financial statements is unmodified.

Audit Findings

The audit report contains no findings.

TENNESSEE COMPTROLLER OF THE TREASURY

JASON E. MUMPOWER
Comptroller

Independent Auditor's Report

Members of the General Assembly
Members of the Board of Trustees
The Honorable David H. Lillard, Jr., Treasurer

Report on the Financial Statements

We have audited the accompanying financial statements of the Tennessee Consolidated Retirement System, a component unit of the State of Tennessee, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Tennessee Consolidated Retirement System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles

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used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. Tennessee statutes, in addition to audit responsibilities, entrust certain other responsibilities to the Comptroller of the Treasury. Those responsibilities include serving as a member of the board of trustees of the Tennessee Consolidated Retirement System. We do not believe that the Comptroller's service in this capacity affected our ability to conduct an independent audit of the Tennessee Consolidated Retirement System.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Tennessee Consolidated Retirement System as of June 30, 2021, and the changes in fiduciary net position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note A, the financial statements present only the Tennessee Consolidated Retirement System's pension trust funds and do not purport to, and do not, present fairly the financial position of the State of Tennessee as of June 30, 2021, and the changes in its financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of changes in net pension liability, the schedules of net pension liability, the schedules of pension plan contributions, and the schedule of investment returns be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2021, on our consideration of the Tennessee Consolidated Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Tennessee Consolidated Retirement System's internal control over financial reporting and compliance.

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 9, 2021

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
Management's Discussion and Analysis

The management of the Tennessee Consolidated Retirement System (TCRS) provides this discussion and analysis as an overview of the TCRS' financial activities for the fiscal year ended June 30, 2021. This section should be read in conjunction with the Independent Auditor's Report, the audited financial statements, and the accompanying notes. The financial statements, notes, and this discussion are the responsibility of management.

Financial Highlights

- The net position for the TCRS plans (total assets minus total liabilities) at June 30, 2021, was $65.5 billion, increasing $12.1 billion (22.7%) from the plan net position at June 30, 2020. The net position is restricted for future benefit obligations. This increase in plan net position is mainly due to an increase in net investment income.
- Net investment income for fiscal year 2021 was $13.6 billion. During fiscal year 2021, the TCRS received a time-weighted rate of return on its portfolio of 25.6%, compared to 4.94% for fiscal year 2020.
- Contribution revenue for fiscal year 2021 totaled $1.5 billion, representing a decrease of 0.4% compared to fiscal year 2020.
- Total benefits and refunds paid for fiscal year 2021 were $2.9 billion, representing an increase of 4.1% over fiscal year 2020 total benefits and refunds paid of $2.8 billion. The growth is primarily due to the retiring members' benefits exceeding the benefits of long-term retired members whose benefits ceased due to death. Additionally, a 2.3% cost-of-living adjustment was given in July 2020.
- Total administrative expenses for fiscal year 2021 were $19.8 million, representing an increase of 3.2% from fiscal year 2020 administrative expenses of $19.2 million.

Overview of the Financial Statements

The TCRS financial statements consist of the statement of fiduciary net position, the statement of changes in fiduciary net position, and the notes to the financial statements. In addition, required supplementary information and the notes to the required supplementary information are presented, which includes this management's discussion and analysis. These financial statements, notes to the financial statements, and required supplementary information were prepared in accordance with GASB Statement No. 67, *Financial Reporting for Pension Plans*. Collectively, this information presents the combined net position held in trust for pensions for each of the plans administered by TCRS as of June 30, 2021.

The statement of fiduciary net position and the statement of changes in fiduciary net position report information about the fiduciary net position (total assets in excess of total liabilities) as of the end of the fiscal year and the changes in the fiduciary net position during the fiscal year. These statements include all assets and liabilities using the accrual basis of accounting. Under the accrual basis of accounting, the current year's revenues and expenses are included in the financial activity, regardless of when cash is received or paid. The difference between the total assets and total liabilities on the statement of fiduciary net position, or net position restricted for pensions, provides a measurement of the financial position of the TCRS as of the end of the fiscal year. The statement of changes in fiduciary net position provides information on the activities that caused the financial position to change during the fiscal year. Over time, increases or decreases in the fiduciary net position of the TCRS are one indicator of whether the system's financial health is improving or deteriorating.

The notes to the financial statements are essential to the reader's understanding of the financial statements and provide additional information regarding the TCRS, such as descriptions of the plans administered by the TCRS, including contribution and benefit provisions, and information about the accounting policies and investment activities.

Analysis of Assets, Liabilities, and Plan Net Position

At June 30, 2021, the TCRS had a net position (total assets in excess of total liabilities) of $65.5 billion, an increase of $12.1 billion (22.7%) from $53.3 billion at June 30, 2020. The assets of the TCRS consist primarily of investments. Condensed financial information comparing the TCRS' fiduciary net position for the past two fiscal years follows:

Fiduciary Net Position

	June 30, 2021	June 30, 2020	Increase (Decrease) Amount	Percentage Change
ASSETS				
Cash and cash equivalents	$ 24,211,870	$ 24,305,039	$ (93,169)	(0.4%)
Cash collateral for securities on loan	3,130,122,292	1,761,910,539	1,368,211,753	77.7%
Member and employer receivables	114,400,094	108,359,508	6,040,586	5.6%
Investments	65,363,262,412	53,232,946,150	12,130,316,262	22.8%
Capital assets	9,464,569	13,178,457	(3,713,887)	(28.2%)
TOTAL ASSETS	68,641,461,237	55,140,699,693	13,500,761,544	24.5%
LIABILITIES				
Death benefits, refunds, and other payables	30,549,380	29,235,566	1,313,814	4.5%
Cash collateral for securities on loan	3,130,122,292	1,761,910,539	1,369,211,753	77.7%
TOTAL LIABILITIES	3,160,671,672	1,791,146,105	1,369,525,567	24.5%
NET POSITION RESTRICTED FOR PENSIONS	$ 65,480,789,565	$ 53,349,553,588	$12,131,235,977	22.7%

Analysis of Revenues and Expenses

Contribution rates for fiscal year 2021 remained steady but a significant change in the investment markets resulted in growth of the fund for fiscal year 2021. Gross investment income for fiscal year 2021 increased $11.0 billion (426.2%) from fiscal year 2020.

Investment expenses for fiscal year 2021 totaled $69 million for a 36.0% decrease over fiscal year 2020. These expenses were split between portfolio management investment expenses of $66.1

million and $2.5 million in expenses attributed to the securities lending program. The TCRS investment portfolio earned a time-weighted rate of return of 25.60% and net investment income of $13.6 billion.

Total benefits paid during the year ended June 30, 2021, were $2.9 billion, an increase of 4.1% over fiscal year 2020 total benefits, which can be attributed to an increase in the number of retirees and a 2.3% cost-of-living adjustment given in July 2020. Total refunds paid decreased $0.6 million, a decrease of 1.3%, in fiscal year 2021 from fiscal year 2020.

Administrative expenses for the year ended June 30, 2021, were $19.8 million, an increase of 3.2% from fiscal year 2020 administrative expenses. The increase in administrative costs can be primarily attributed to increased expenses for actuarial and legal services.

Condensed financial information comparing the TCRS' revenues and expenses for the past two fiscal years follows:

Revenue by Type
(expressed in thousands)

	Year ended June 30, 2021		**Year ended June 30, 2020**	
	Amount	% of Total	Amount	% of Total
Employee Contributions	$ 399,341	2.7%	$ 380,167	9.4%
Employer Contributions	1,089,474	7.2%	1,114,994	27.6%
Other Contributions	1,076	0.0%	1,406	0.0%
Net Investment Income	13,576,686	90.1%	2,539,479	62.9%
Total	$ 15,066,577	100.0%	$ 4,036,046	100.0%

Expenses by Type
(expressed in thousands)

	Year ended June 30, 2021		**Year ended June 30, 2020**	
	Amount	% of Total	Amount	% of Total
Benefit Payments	$2,871,323	97.8%	$2,757,155	97.7%
Refunds	44,190	1.5%	44,753	1.6%
Administrative	19,828	0.7%	19,215	0.7%
Total	$2,935,341	100.0%	$2,821,123	100.0%

Changes in Fiduciary Net Position

	For the Year Ended June 30, 2021	For the Year Ended June 30, 2020	FY21 – FY20 Increase (Decrease) Amount	FY21 – FY20 Percentage Change
ADDITIONS				
Contributions	$ 1,489,890,682	$ 1,496,566,726	$ (6,676,044)	(0.4%)
Investment income	13,631,076,224	2,590,371,009	11,040,705,215	426.2%
Less: Investment expense	(66,090,762)	(61,495,465)	4,595,297	7.5%
Net income from securities lending activities	11,700,714	10,603,871	1,096,843	10.3%
Net investment income	13,576,686,176	2,539,479,415	11,037,206,761	434.6%
TOTAL ADDITIONS	15,066,576,858	4,036,046,141	11,030,530,716	273.3%
DEDUCTIONS				
Annuity benefits	2,865,681,520	2,752,436,072	113,245,448	4.1%
Death benefits	5,641,247	4,719,352	921,895	19.5%
Refunds	44,189,614	44,753,651	(564,037)	(1.3%)
Administrative expenses	19,828,500	19,214,635	613,865	3.2%
TOTAL DEDUCTIONS	2,935,340,881	2,821,123,710	114,217,171	4.0%
NET INCREASE (DECREASE)	12,131,235,977	1,214,922,431	10,916,313,545	898.5%
NET POSITION RESTRICTED FOR PENSIONS				
BEGINNING OF YEAR	53,349,553,588	52,134,631,157	1,214,922,431	2.3%
END OF YEAR	$65,480,789,565	$53,349,553,588	$12,131,235,977	22.7%

Economic Factors, Future Funding Provisions, and Overall Outlook

For the year ended June 30, 2021, the portfolio delivered a return of 25.60%, which was above the actuarial assumed return of 7.25%. The fund gained 12.34% for the trailing three-year period and 9.41% for the trailing ten-year period. Accordingly, according to the Verus performance benchmark, the fund beat 82% of its peers for the trailing three-year period and 80% for the trailing ten-year period.

Strong returns from equities drove the returns for the year. Private Equity led with a return of 64.53%, and this was followed by very strong returns in Emerging Markets (50.70%), Canadian Stocks (46.95%), U.S. Stocks (40.70%), and International Developed Markets Equities (38.48%). Interest rates rose during the year due to the improving economic outlook and this dampened returns for the Fixed Income portfolio (loss of 0.90%).

An actuarial valuation was performed as of June 30, 2019, that determined the employer contribution rates for the period July 1, 2020, through June 30, 2021. An actuarial experience study to establish demographic and economic assumptions was completed effective June 30, 2016, was adopted by the Board of Trustees during fiscal year 2017, and was utilized in the June 30, 2019, actuarial valuation.

Contacting the TCRS

This report is designed to provide a financial overview of the TCRS to state legislators, members of the Board of Trustees of the TCRS, state officials, participating employers, members of the TCRS and any other interested parties. Questions or requests for additional information regarding the financial information presented in this report may be addressed in writing to the Tennessee Treasury Department, Consolidated Retirement System, 502 Deaderick Street, Nashville, TN 37243-0201.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
Statements of Fiduciary Net Position
June 30, 2021
(Expressed in Thousands)

	Public Employee Retirement Plan	Teacher Retirement Plan	Teacher Legacy Pension Plan	Total
ASSETS				
Cash and cash equivalents	$ 12,508	$ 223	$ 11,481	$ 24,212
Cash collateral for securities on loan	1,617,076	28,784	1,484,262	3,130,122
Receivables				
Member receivable	10,296	7,393	17,980	35,669
Employer receivable	40,268	2,959	35,504	78,731
Total receivables	50,564	10,352	53,484	114,400
Investment in Tennessee Retiree Group Trust	33,767,815	601,069	30,994,378	65,363,262
Capital assets (net)	4,890	87	4,488	9,465
TOTAL ASSETS	35,452,853	640,515	32,548,093	68,641,461
LIABILITIES				
Accounts payable				
Death benefits and refunds payable	1,280	312	698	2,290
Federal withholding payable	9,715	173	8,918	18,806
Retiree insurance premium payable	4,884	87	4,482	9,453
Cash collateral for securities on loan	1,617,076	28,784	1,484,262	3,130,122
TOTAL LIABILITIES	1,632,955	29,356	1,498,360	3,160,671
NET POSITION RESTRICTED FOR PENSIONS	$33,819,898	$611,159	$31,049,733	$65,480,790

See accompanying notes to the financial statements.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
Statements of Changes in Fiduciary Net Position
For the Year Ended June 30, 2021
(Expressed in Thousands)

	Public Employee Retirement Plan	Teacher Retirement Plan	Teacher Legacy Pension Plan	Total
ADDITIONS				
Contributions				
Member contributions	$ 162,281	$ 72,213	$ 164,847	$ 399,341
Employer contributions	723,255	29,153	337,066	1,089,474
Other contributions	1,076	-	-	1,076
Total contributions	886,612	101,366	501,913	1,489,891
Investment income	7,033,366	116,123	6,481,587	13,631,076
Less: Investment expense	(34,102)	(563)	(31,426)	(66,091)
Net income from investing activities	6,999,264	115,560	6,450,161	13,564,985
Securities lending activities				
Securities lending income	7,338	121	6,762	14,221
Less: Securities lending expense	(1,301)	(21)	(1,198)	(2,520)
Net income from securities lending activities	6,037	100	5,564	11,701
Net investment income	1,306,627	16,947	1,215,905	2,539,479
TOTAL ADDITIONS	7,005,301	115,660	6,455,725	13,576,686
DEDUCTIONS				
Annuity benefits	1,524,681	104	1,340,897	2,865,682
Death benefits	2,790	80	2,771	5,641
Refunds	24,240	4,069	15,881	44,190
Administrative expense	12,679	2,560	4,589	19,828
TOTAL DEDUCTIONS	1,564,390	6,813	1,364,138	2,925,341
NET INCREASE	6,327,523	210,213	5,593,500	12,131,236
FIDUCIARY NET POSITION RESTRICTED FOR PENSIONS				
BEGINNING OF YEAR	27,492,375	400,946	25,456,233	53,349,554
END OF YEAR	$33,819,898	$611,159	$31,049,733	$65,480,790

See accompanying notes to the financial statements.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
Notes to the Financial Statements
June 30, 2021

The Tennessee Consolidated Retirement System (TCRS) is a public employee retirement system comprised of defined benefit pension plans covering Tennessee state employees, employees of the state's higher education systems, teachers, and employees of political subdivisions in Tennessee. The TCRS was established in 1972 by a statutory enactment of the Tennessee General Assembly. The provisions of the TCRS are codified in Title 8, Chapters 34–37, *Tennessee Code Annotated*. In accordance with Title 8, Chapter 34, Section 202, *Tennessee Code Annotated,* all funds invested, securities, cash, and other property of the TCRS are held in trust and can be expended only for the purposes of the trust. Although the assets for all pension plans within the TCRS are commingled for investment purposes, the assets of each separate plan may legally be used only for the payment of benefits to the members of that plan and for its administration, in accordance with the terms of the plan.

A: Summary of Significant Accounting Policies

Reporting entity: The TCRS is included in the State of Tennessee financial reporting entity as a discretely presented component unit. The state appoints the majority of the TCRS Board of Trustees, its governing body, and approves it operating budget. The TCRS is presented as such in Tennessee's *Annual Comprehensive Financial Report.* That report is available on the state's website at www.tn.gov/finance/rd-doa/fa-accfin-ar.html.

Measurement focus and basis of accounting: The accompanying financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements have been prepared using the flow of economic resources measurement focus and the accrual basis of accounting. Under the accrual method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred regardless of the timing of related cash flows.

Plan member and employer contributions are recognized in the period of time for which they are due, in accordance with legal provisions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Cash and cash equivalents: Cash and cash equivalents includes cash, cash management pools, and cash invested in a short-term, open-end mutual fund under the contractual arrangement for master custody services. Cash received by the TCRS, that cannot be invested immediately in securities or is needed for operations, is invested in the State Pooled Investment Fund sponsored by the State of Tennessee and administered by the State Treasurer. That report is available on the state's website at https://treasury.tn.gov.

Method used to value investments: Assets of the TCRS are invested in the Tennessee Retiree Group Trust (TRGT). A report of TRGT is available on the state's website at https://treasury.tn.gov. As of June 30, 2021, the TCRS owns 99.27% of the net asset value in the TRGT**.** The TRGT is not registered with the Securities and Exchange Commission (SEC) as an investment company. The State of Tennessee has not obtained a credit quality rating for the TRGT from a nationally recognized credit ratings agency. The fair value of investment positions in the TRGT is determined daily based on the fair value of the pool's underlying portfolio. Furthermore, the state had not obtained or provided any legally binding guarantees to support the value of participant shares during the fiscal year. There are no restrictions on the sale or redemption of shares.

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price. Investment income consists of realized and unrealized appreciation (depreciation) in the fair value of investments and interest and dividend income. Interest income is recognized when earned. Securities and securities transactions are recorded in the financial statements on trade-date basis.

The fair value of assets of the TRGT held at June 30, 2021, represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Assets held are categorized for fair value measurement within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and give the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

- Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets that can be accessed at the measurement date.
- Level 2 – Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; assets or liabilities that have a bid-ask spread price in an inactive dealer market, brokered market, and principal-to-principal market; and Level 1 assets or liabilities that are adjusted.
- Level 3 – Valuations derived from valuation techniques in which significant inputs are unobservable.

Investments where fair value is measured using the net asset value ("NAV") per share have no readily determinable fair value and have been determined to be calculated consistent with FASB principles for investment companies.

Where inputs used in the measurement of fair value fall into different levels of the hierarchy, fair value of the instrument in its entirety are categorized based on the lowest level input that is significant to the valuation. This assessment requires professional judgement and as such management developed a fair value committee that worked in conjunction with our custodian and investment professionals to make these valuations. All assets held were valued individually and aggregated into classes so to be represented in the table below.

Short-term securities generally include investments in money market-type securities reported at cost plus accrued interest.

Equity and equity derivative securities classified in Level 1 are valued using last reported sales prices quoted in active markets that can be accessed at the measurement date. Equity and equity derivative securities classified in Level 2 are securities whose values are derived daily from associated traded securities. Equity securities classified in Level 3 are valued with last trade data having limited trading volume.

U.S. Treasury bills, bonds, notes, and futures classified in Level 1 are valued using last reported sales prices quoted in active markets that can be accessed at the measurement date. Debt and debt derivative securities classified in Level 2 are valued using a bid-ask spread price from multiple independent brokers, dealers, or market principals, which are known to be actively involved in the market. Level 3 debt securities are valued using proprietary information, a single pricing source, or other unobservable inputs related to similar assets or liabilities.

Real estate investments classified in Level 3 are valued using the last valuations provided by external investment advisors or independent external appraisers. Generally, all direct real estate investments are appraised by a qualified independent appraiser(s) with the professional designation of Member of the Appraisal Institute (MAI), or its equivalent, every three years beginning from the acquisition date of the property. The appraisals are performed using generally accepted valuation approaches applicable to the property type.

Investments in private mutual funds, traditional private equity funds, strategic lending funds, and real estate funds that report using GAAP, the fair value, as well as the unfunded commitments, were determined using the prior quarter's NAV, as reported by the fund managers, plus the current cash flows. These assets were then categorized by investment strategy. In instances where the fund investment reported using non-GAAP standards, the investment was valued using the same method, but was classified in Level 3.

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INVESTMENTS MEASURED AT FAIR VALUE

As of June 30, 2021

Expressed in Thousands

Investments at Fair Value Level	GAAP Hierarchy Level 1	GAAP Hierarchy Level 2	GAAP Hierarchy Level 3	NAV	Total Investments
Government Agencies	$ -	$ 112,322	$ -	$ -	$ 112,322
Government Bonds	5,672,842	119,585	-	-	5,792,427
Government Inflation Indexed	90,897	-	-	-	90,897
Government Mortgage Backed	-	3,868,730	17,138	-	3,885,868
Government Asset Backed	-	74,233	20,188	-	94,421
Municipal Bonds	-	58,472	8,105	-	66,577
Commercial Mortgage Backed	-	328,395	194,655	-	523,050
Commercial Paper	-	94,962	-	-	94,962
Corporate Asset Backed Securities	-	393,853	713,760	-	1,107,613
Corporate Bonds	-	4,724,115	17,119	-	4,741,234
Corporate Equities	32,335,476	-	42,515	-	32,377,991
Preferred Stocks	53,122	32,841	13	-	85,976
Limited Partnership Units	-	-	1,076,213	9,646,997	10,723,210
Real Estate	-	-	3,152,911	1,958,896	5,111,807
Derivatives	-	374	-	-	374
TOTAL TRGT INVESTMENTS AT FAIR VALUE	$38,152,337	$9,807,902	$5,242,617	$11,605,893	$64,808,749
Cash and Cash Equivalents					928,042
Cash Collateral on Loaned Securities					3,153,034
Investment Income Receivable					216,944
Derivatives Receivable					205,264
Investments Sold					72,742
TOTAL ASSETS OF THE TRGT					$69,384,775

The following table sets forth the additional disclosures of the TRGT's investments, which are stated at fair value based on the net asset value (NAV) (expressed in thousands), as a practical expedient, reported by the investment managers or general partners:

Asset Classification	Strategy	Number of Funds	NAV	Remaining Life	Redemption Terms	Redemption Restrictions
Limited Partnerships	Traditional Private Equity and Strategic Lending	169	$9,646,997	Various	N/A	Various transfer and sale restrictions
Real Estate	Real Estate Commingled Investments	38	$1,958,8961	N/A	N/A	Various transfer and sale restrictions

Traditional Private Equity and Strategic Lending: The private equity asset class is categorized into two component portfolios: traditional and strategic lending. Generally speaking, the types of private equity strategies include venture capital, buyout, natural resource, secondary, special situations, tactical, structured credit, and high yield debt. The majority of these investments have an approximate life of 10 years or greater and are considered illiquid. During the life of the partnerships, distributions are received as underlying partnership investments are realized. Transfer or sale of the partnership interest are restricted over the life of the partnership. The TRGT has no plans to liquidate any of these investments.

Real Estate Commingled Investments: The real estate asset class is comprised of two different investment types: direct investments and commingled investments. A commingled investment is a pooled investment vehicle comprised of real estate investments that is overseen by an external investment manager or general partner. Generally speaking, the commingled real estate investment strategies include office, retail, industrial, multi-family, and diversified. The majority of these investments have an approximate life of 10 years or greater and are considered illiquid. During the life of the pooled investment vehicle, distributions are received as underlying investments are realized. Transfer or sale of the interest is restricted over the life of the investment. The TRGT has no plans to liquidate any of these investments.

Capital assets: Capital assets consist of internally generated computer software, reported at historical cost less any applicable amortization. Capital assets are defined by the state as assets with an initial individual cost of $5,000 or more and an estimated useful life in excess of two years. The computer software was valued at $9.5 million at year-end and is being amortized using the straight-line method over the ten-year estimated life of the system. The amortization expense for the current year was $3.7 million.

B: Plan Descriptions

Plan administration: The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS.

At June 30, 2021, there were three defined benefit pension plans within the TCRS. The Public Employee Retirement Plan is an agent, multiple-employer defined benefit pension plan for state government employees and for political subdivisions electing to participate in the TCRS. The Teacher Legacy Pension Plan is a cost-sharing, multiple-employer defined benefit pension plan for teachers of local education agencies (LEAs). The Teacher Legacy Pension Plan closed to new membership on June 30, 2014, but will continue providing benefits to existing members and retirees. Beginning July 1, 2014, the Teacher Retirement Plan became effective for teachers employed by LEAs after June 30, 2014. The Teacher Retirement Plan is a separate cost-sharing, multiple-employer defined benefit pension plan.

The general administration and responsibility for proper operation of the TCRS plans are vested in a 20-member Board of Trustees, consisting of 18 voting members and 2 non-voting members. The board has 9 ex-officio members, 2 of whom are non-voting. The 7 voting ex-officio members are the State Treasurer, Secretary of State, Comptroller of the Treasury, Commissioner of Finance and Administration, Commissioner of Human Resources, Director of the TCRS, and Administrative Director of the Courts. The 2 non-voting ex-officio members are the chair and vice-chair of the Legislative Council on Pensions and Insurance.

Three active teacher members, one from each grand division of the state, and a retired teacher member are selected for three-year terms by the Speaker of the House of Representatives and the Speaker of the Senate. Two active state employee members, who are from departments other than those represented by ex-officio members, are elected by state employees for three-year terms. A board member is appointed for a two-year term by each of the following organizations: Tennessee County Services, Tennessee Municipal League, and Tennessee County Officials Association. Two members, a public safety employee and a retired state employee, are appointed by the Governor for two-year terms. All members must be vested members of the TCRS, except for ex-officio members.

Plan membership: At June 30, 2021, the membership of the pension plans consisted of the following:

	Public Employee Retirement Plan	Teacher Retirement Plan	Teacher Legacy Pension Plan	Total
Inactive Plan Members or Beneficiaries Currently Receiving Benefits	116,559	53	53,785	170,397
Inactive Employees Entitled to But Not Yet Receiving Benefits	145,670	11,630	30,951	188,251
Active Plan Members	142,448	29,203	50,944	222,595
Total Membership	404,677	40,886	135,680	581,243
Number of participating employers	637	144	144	781

Membership above includes all plans whether open or closed.

Benefits provided: The TCRS provides retirement, disability, and death benefits. The benefits of the TCRS are established by state law (Title 8, Chapters 34–37, *Tennessee Code Annotated*). In general, the benefits may be amended prospectively by the General Assembly for employees becoming members of the TCRS after June 30, 2014. Amendments of benefits for employees becoming members before July 1, 2014, can be restricted by precedent established by the Tennessee Supreme Court.

Teacher Legacy Pension Plan

Members of the Teacher Legacy Pension Plan are eligible to retire at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Plan members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2^{nd} of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%.

Teacher Retirement Plan

Members of the Teacher Retirement Plan are eligible to retire at age 65 with 5 years of service credit or pursuant to the rule of 90 where age and years of service total 90. Plan members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic cost-of-living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2^{nd} of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. The Teacher Retirement Plan includes provisions to control employer contributions and unfunded liabilities. As such, plan provisions are automatically changed when employer contributions and unfunded liabilities exceed statutory limits.

Public Employee Retirement Plan

For state employees, there are two major tiers of benefits and eligibility requirements. State employees becoming members before July 1, 2014, are eligible to retire at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. State employees becoming members after June 30, 2014, are eligible to retire at age 65 with 5 years of service or pursuant to the rule of 90 where age and years of service total 90. Plan members are entitled to receive unreduced service retirement benefits, which are determined by a formula using the member's highest 5 consecutive year average compensation and the member's years of service credit. Service-related disability benefits are provided regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. Member and beneficiary annuitants are entitled to automatic COLAs after retirement. A COLA is granted each July for annuitants retired prior to the 2^{nd} of July of the previous year. The COLA is based on the change in the CPI during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. There are additional classes of employees that include state judges, elected members of the General Assembly, and public safety officers which have different benefit structures and eligibility requirements. These classifications represent an immaterial percentage of the state employee membership.

For political subdivision employees, there are various tiers of benefits and eligibility requirements. Each political subdivision adopts the benefit structure that the entity provides to its employees. Unreduced service retirement benefits are determined using a multiplier of the member's highest 5 consecutive year average compensation multiplied by the member's years of service credit. Plan members are eligible for service-related disability benefits regardless of length of service. Five years of service is required for non-service-related disability eligibility. The service-related and non-service-related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10% and include projected service credits. A variety of death benefits are available under various eligibility criteria. If adopted as a benefit provision by the political subdivision, member and beneficiary annuitants are entitled to automatic COLAs after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the CPI during the prior calendar year, capped at 3%, and applied to the current benefit. No COLA is granted if the change in the CPI is less than 0.5%. A 1% COLA is granted if the CPI change is between 0.5% and 1%. There are additional classes of employees, local judges, elected officials, and public safety officers, which may have different benefit structures and eligibility requirements. These classifications represent an immaterial percentage of the political subdivisions' membership.

Contributions: Pursuant to Title 8, Chapter 37, *Tennessee Code Annotated,* the Board of Trustees adopted an actuarially determined contribution (ADC) for each participating employer, as recommended by an independent actuary following an actuarial valuation.

For the Teacher Legacy Pension Plan, LEAs are required by statute to contribute to the ADC. The ADC is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, the unfunded accrued liability, and the cost of administration. Teachers are required by statute to contribute 5% of their salary. For the year ended June 30, 2021, the required ADC for LEAs was 10.27% of covered payroll.

For the Teacher Retirement Plan, LEAs are required by statute to contribute the greater of the ADC or 4%. The ADC is the estimated amount necessary to finance the costs of benefits earned by plan members during the year, the unfunded accrued liability, and the cost of administration. Teachers are required by statute to contribute 5% of their salary. For the year ended June 30, 2021, the required ADC for LEAs was 2.02% of covered payroll while actual contributions were 4% of covered payroll.

For the Public Employee Retirement Plan, each governmental entity is required by statute to contribute to the ADC except that the contribution rate for state employees hired after June 30, 2014, is the greater of the ADC or 4%. The ADC is the estimated amount necessary to finance the costs of benefits earned by plan members during the plan year, the unfunded accrued liability, and the cost of administration. For the year ended June 30, 2021, the required ADC varied for each participating employer, with approximately 96% of all employer rates less than 20%. By statute, state employees hired before July 1, 2014, are noncontributory while employees hired after June 30, 2014, contribute 5% of their salary. As adopted by the governmental entity, political subdivision employees may be noncontributory, contribute 2.5% of their salary, or contribute 5% of their salary.

Reserves: The statute governing the Teacher Retirement Plan and certain employers in the Public Employee Retirement Plan provide for a minimum employer contribution rate of 4%. The statute further provides that the amount of the employer contributions in excess of the actuarially determined contribution rate is deposited into a stabilization reserve for each plan. The statute may be amended by the Tennessee General Assembly. Assets in the stabilization reserve are commingled for investment purposes and receive a pro rata share of investment earnings. The amount in the stabilization reserve is not considered in calculating the actuarially determined employer contribution rate for each plan. The statute provides that the assets in the stabilization reserve will be utilized should the actuarially determined contribution rate exceed 4%. In such case, the required employer contribution in excess of 4% will be transferred from the stabilization reserve to the account of the Teachers Retirement Plan or certain Public Employee Retirement Plan employers. By statute, the Board of Trustees may adopt a policy to suspend the deposits into the stabilization reserve in any given year when the stabilization reserve reaches a certain level that is determined by the board. If deposits are suspended, then the employer contribution will be the actuarially determined contribution rate for that year rather than the higher 4%. The board has not adopted a policy at this time.

From July 1, 2014, through June 30, 2018, the funds contributed to the stabilization reserves were held by TCRS in the pension trust fund. As of June 30, 2021, there was $73,152,014 in the stabilization reserve on behalf of the Teachers Retirement Plan and $67,245,155 in the various stabilization reserves on behalf of the Public Employee Retirement Plan held by TCRS. Effective July 1, 2018, all future stabilization reserve contributions are held in a separate trust outside of TCRS for the benefit of each employer that participates in the Stabilization Reserve Trust. The amounts reflected in the Stabilization Reserve Trust can only be moved to the entity's pension trust at the direction of the entity (employer) with the approval of the Board of Trustees of the Pension Stabilization Reserve Trusts.

C: Deposits and Investments

Statutory Authority: The Tennessee Retiree Group Trust (TRGT) was established in 2015 by a statutory enactment of the Tennessee General Assembly. The provisions of the TRGT are codified in Title 8, Chapters 34–37, *Tennessee Code Annotated*. Pursuant to this statute the Tennessee Consolidated Retirement System (TCRS) and its Board of Trustees with the State Treasurer (Treasurer) as custodian, authorized by Section 8-37-104, *Tennessee Code Annotated,* adopted this group trust for the purpose of pooling funds of TRGT with other assets in the custody of the Treasurer, solely for investment purposes. The assets invested consist exclusively of assets of exempt pension and profit-sharing trusts and individual retirement accounts, custodial accounts, retirement income accounts, governmental plans, and tax-exempt trusts under the Internal Revenue Code of 1986 and Rev. Rul. 81-100, as modified by Rev. Ruls. 2004-67, 2008-40, and 2011-1 (referred to herein as "Retirement Assets"). The custodian shall be responsible for managing and directing the investment of the Group Trust Funds in the same manner as it invests funds of the TCRS.

The TRGT is authorized to invest in securities in accordance with the investment policy of the TCRS. That policy allows the trust to invest in bonds, debentures, preferred stock and common stock, real estate, and other good and solvent securities subject to the approval of the Board of Trustees, but further subject to the following statutory restrictions and provisions:

a. The total sum invested in common and preferred stocks shall not exceed 75% of the total of the funds of the trust.
b. The total sum invested in notes and bonds or other fixed income securities exceeding one year in maturity shall not exceed 75% of the total funds of the trust.
c. Within the restrictions in (a) and (b) above, 15% of the total of the funds of the retirement system may be invested in securities of the same kinds, classes, and investment grades as those otherwise eligible for investment in various approved foreign countries. However, upon action of the TCRS Board of Trustees with subsequent approval by the Council on Pensions and Insurance, limit has been authorized at an amount not to exceed 25%.
d. Within the restrictions in (a) and (b) above, funds may be invested in Canadian securities which are substantially of the same kinds, classes, and investment grades as those otherwise eligible for investment.
e. The total amount of securities loaned under a securities lending program cannot exceed 30% of total assets.
f. The total sum invested in alternative assets shall not exceed 40% of the market value of total assets.

State statute also authorizes the TRGT to invest in forward contracts to hedge its foreign currency exposure and to purchase or sell domestic equity index futures contracts for the purpose of asset allocation relating to the domestic equity portfolio. The total amount of the financial futures contract obligation shall not exceed 10% of the market value of the TRGT's total assets. Position sizes will be measured by notional amounts. Options will be measured in their notional equivalents.

Investment policy: The TRGT investment authority is established pursuant to Title 8, Chapter 37, *Tennessee Code Annotated*. The statute provides the Board of Trustees with the responsibility to establish the investment policy of the TRGT. The investment policy may be amended by the board. The TRGT assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided by the TCRS. The following was the board's adopted asset allocation policy as of June 30, 2021:

Authorized Asset Class	Target Allocation
U.S. equity	31%
Canadian equity	2%
Developed market international equity	12%
Emerging market international equity	4%
Private equity	10%
U.S. fixed income	20%
Strategic lending	10%
Real estate	10%
Short-term securities	1%
Total	100%

Securities Lending: The TRGT is authorized to engage in securities lending agreements by Section 8-37-104(a)(6), *Tennessee Code Annotated,* with the terms established in the investment policy whereby TRGT loans securities to brokers and dealers (borrower) and in turn, TRGT receives collateral as either cash or securities. TRGT pays the borrower interest on the collateral received and invests the collateral with the goal of earning a higher yield than the interest rate paid to the borrower. Loans are limited to no more than 30% of the market value of the total assets in the TRGT portfolio and provided further that such loans are secured by collateral. Securities received as collateral hereunder shall have a market value equal to at least 102% of the market value of the loaned domestic security or 105% of any foreign security. Cash received as collateral shall equal at least 100% of the market value of the loaned securities and may be invested by or on behalf of the TRGT in any instrument the TRGT may be directly invested. Cash collateral is held in the TRGT name and is not subject to custodial credit risk. During the year there were no violations of legal or contractual provisions by the TRGT.

The TRGT securities lending program is managed by a third-party lending agent, Deutsche Bank AG. The TRGT may loan any debt or equity securities which is owned by TRGT. Our securities lending agent manages the average maturities of securities on loan against the average maturities of securities on collateral invested. The maturity gap has a limit of 33 days. This is monitored by investment staff on a periodic basis to ensure compliance.

At June 30, 2021, the TRGT had the following securities on loan and received the collateral as shown below:

Securities Lending
As of June 30, 2021

Fair Value of Securities on Loan

Securities on Loan	Fair Value of Securities on Loan	Cash Collateral Received
Fixed	$ 1,400,886,663	$ 1,427,713,132
Equity	1,692,902,552	1,725,321,019
Total	$ 3,093,789,215	$ 3,153,034,151

The TRGT has the ability to sell the collateral securities only in the case of a borrower default.

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The credit quality distribution for the TRGT's investments in fixed income securities at year-end is included in the schedule below. Securities are rated using Standard and Poor's and/or Moody's rating scale and are presented below using the Standard and Poor's rating scale. The State Pooled Investment Fund has not obtained a credit quality rating from a nationally recognized credit ratings agency.

TRGT's investment policy specifies that bond issues subject for purchase are investment grade bonds rated by one of the Nationally Recognized Statistical Rating Organizations (NRSROs). There is no requirement to divest an asset if it is downgraded after purchase. For short-term investments, the investment policy provides for the purchase of only the highest quality debt issues. Commercial paper should be rated in the highest tier by all rating agencies which rate the paper, with a minimum of two ratings required. Commercial paper cannot be purchased if a rating agency has the commercial paper on a negative credit watch. The investment policy also requires preparation of a credit analysis report on the corporation prior to purchasing commercial paper.

As noted below, the TRGT does not utilize its own bank accounts but invests in the State Pooled Investment Fund for its operating cash purposes. Required risk disclosures relative to the State Pooled Investment Fund are presented in the *State of Tennessee Treasurer's Report.* That report is available on the state's website at http://treasury.tn.gov.

At June 30, 2021, the TRGT had the following investments:

Credit Quality Distribution for Securities With Credit Exposure as a Percentage of Total Investments
As of June 30, 2021
Expressed in Thousands

Rating	Fair Value	Percentage of Total Investments
AAA	$ 423,722	0.654%
AA	262,908	0.406%
A	1,073,516	1.656%
BBB	3,520,342	5.432%
BB	448,695	0.692%
B	154,965	0.239%
CCC	66,637	0.103%
CC	1,656	0.003%
NR	4,130,843	6.374%
	10,083,284	

U. S. Government Agencies and Obligations explicitly guaranteed by the U. S. Government	7,323,162
Total Fixed Income Securities	17,406,446
Equity	32,377,991
Real Estate	5,111,807
Private Equities	6,686,216
Strategic Lending	4,036,994
Preferred Stock not Classified as Fixed Income	85,976
Derivative Instruments (not rated)	394
Short Term Investment Fund With Custodian (not rated)	(6,204)
Short Term Investments Classified as Cash (not rated)	(890,871)
Total Investments of the TRGT	**$64,808,749**

Interest Rate Risk: Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. The investment policy for the TRGT states that the maturity of its debt securities may range from short-term instruments, including investments in the State Pooled Investment Fund, to long-term bonds, with consideration of liquidity needs. However, the policy does not specifically address limits on investment maturities. Duration is a measure of a debt investment's exposure to fair value changes arising from changing interest rates. It uses the present value of cash flows weighted for those cash flows as a percentage of the investment's full price. The TRGT had the following investments and effective duration at June 30, 2021.

Effective Duration of Debt Investments

As of June 30, 2021

Expressed in Thousands

Investment Type	Fair Value As of June 30, 2021	Effective Duration (years)
Government Agencies	$ 112,322	1.16
Government Bonds	5,792,427	15.93
Government Inflation Indexed	90,897	4.13
Government Mortgage Backed	3,885,868	4.45
Government Asset Backed	94,421	5.84
Municipal Bonds	66,577	14.43
Commercial Mortgage Backed	523,050	1.62
Commercial Paper	94,962	0.00
Corporate Asset Backed	1,107,613	1.07
Corporate Bonds	4,741,234	10.47
Short Term Investments	897,075	0.00
Total TRGT Debt Investments	$17,406,446	9.39

Asset-Backed Securities: The TRGT invests in various collateralized mortgage obligations (CMOs) which are mortgage-backed securities. These securities are based on cash flows from interest and principal payments on underlying mortgages and could therefore be more sensitive to prepayments by mortgagees as a result of a decline in interest rates. The fair value of CMOs at June 30, 2021, was $523,049,886, of which $343,877,216 were CMOs that are generally more sensitive to interest rate changes.

Foreign Currency Risk: Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The investment policy limits the asset allocation for international investments to 25% of total assets. The TRGT's exposure to foreign currency risk was as follows:

Foreign Currency-Denominated Investments

As of June 30, 2021

Expressed in Thousands

Currency	Total Fair Value June 30, 2021	Fixed Income	Equity	Cash
Australian Dollar	$ 426,509	$ -	$ 426,385	$ 124
British Pound Sterling	1,586,369	-	1,583,016	3,353
Canadian Dollar	1,457,802	1,456,641	1,456,641	1,161
Danish Krone	356,774	356,773	356,773	1
Euro Currency	3,097,399	3,096,050	3,096,050	1,349
Hong Kong Dollar	235,445	235,441	235,441	4
Japanese Yen	1,713,501	1,711,715	1,711,715	1,786
New Israeli Shekel	9,157	9,157	9,157	-
New Zealand Dollar	8,540	8,538	8,538	2
Norwegian Krone	59,253	59,252	59,252	1
Singapore Dollar	105,222	105,127	105,127	95
Swedish Krona	255,629	255,596	255,596	33
Swiss Franc	795,949	795,360	795,360	4
Total	$10,107,549	$ 585	$10,099,051	$7,913

Custodial Credit Risk: Custodial credit risk for deposits is the risk that in the event of a bank failure, the TRGT deposits may not be returned to TRGT. The TRGT does not have an explicit policy with regards to custodial credit risk for deposits. At year-end, the TRGT had uninsured and uncollateralized cash deposits of $7,913,012 in foreign currency held by our master custodian, State Street Bank, in State Street's name. These deposits were used for investments pending settlement.

Rate of Return: For the year, the money-weighted rate of return on investments in the TRGT, net of investment expense, was 25.78%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Derivatives:

Futures: The TRGT may buy or sell fixed income and equity index futures contracts for the purposes of making asset allocation changes in an efficient and cost-effective manner and to improve liquidity. Gains (losses) on futures hedge losses (gains) produced by any deviation from the TRGT target allocation. The gains and losses resulting from daily fluctuations in the fair value of the outstanding futures contract are settled daily, on the following day, and a receivable or payable is established for any unsettled gain or loss as of the financial statement date. As of June 30, 2021, the TRGT was under contract for fixed income and equity index futures, and the resulting receivable is reflected in the financial statements at fair value.

Foreign Currency Forward Contracts: The international securities expose the TRGT to potential losses due to a possible rise in the value of the U.S. dollar. The TRGT investment managers can reduce foreign currency exposure by selling foreign currency forward contracts, at agreed terms and for future settlement, usually within a year. The manager will reverse the contract by buying the foreign currency before the settlement date. A gain (loss) on this transaction pair will hedge a loss (gain) on the currency movement of the international security. Foreign currency forward contracts expose the TRGT to foreign currency risk as they are denominated in foreign currency. Any unrealized gain on foreign currency forward contracts has been reflected in the financial statements as an investment. The notional amount of the foreign currency forward contracts has been reflected in the financial statements as a receivable and a payable. Any unrealized loss on foreign currency forward contracts has been included in the payable established for the contracts. TRGT did not hold any foreign currency forward contracts at June 30, 2021.

Mortgages: The TRGT is authorized to invest in to-be-announced (TBA) mortgage-backed securities similar to the foreign currency forward contracts. The TRGT enters into agreements to purchase pools of mortgage-backed securities prior to the actual security being identified. The TRGT will roll this agreement prior to settlement date to avoid taking delivery of the security. Any unrealized gain on TBA mortgage-backed securities has been reflected in the financial statements as an investment. Any unrealized loss on TBA mortgage-backed securities has been included in the payable established for the mortgages. The notional amounts of these agreements have been included in the financial statements as a receivable and a payable. The TRGT invests in these derivatives to adjust its exposure to mortgage coupon risk and to replicate the return on mortgage-backed securities portfolios without actually purchasing the security.

The fair value balances and notional amounts of derivative instruments outstanding at year-end, classified by type, and the changes in fair value of derivative instrument types for the year ended as reported in the financial statements are as follows:

TRGT Derivative Summary
As of June 30, 2021
Expressed in thousands

	Changes in Fair Value		Fair Value at June 30, 2021		
	Financial Statement Classification	**Amount**	**Financial Statement Classification**	**Amount**	**Notional Amount**
Futures Contracts	Investment Income	$24,617	Derivative Instruments Receivable	$2,954	$1,537,238
TBA Mortgage Backed Securities	Investment Income	$ 394	Derivative Instruments Assets	$ 394	$ 190,388

Futures and TBA mortgage-backed securities are exchange traded and their price is based on quoted market prices at year-end. It is the TRGT policy to conduct derivative transactions through the custodian bank and high-quality money center banks or brokerage firms. The credit risk of futures contracts is managed by maintaining a daily variation margin.

Alternative Investments: The TRGT has investments in strategic lending, private equity funds, and real estate with an estimated fair value of $15,835,016,351 at June 30, 2021. Because these investments are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investments existed, and such differences could be material. Title to real property invested in by TRGT is held by real estate investment holding companies.

Commitments:

Standby Commercial Paper Purchase Agreement: The TRGT has agreed to serve as standby commercial paper purchaser for commercial paper issued by the Funding Board of the State of Tennessee. By serving as a standby commercial paper purchaser, the TRGT receives an annual fee of 25 basis points on the $350 million maximum issuance under this agreement during times when both Moody's and Standard and Poor's investment ratings assigned to the State of Tennessee's general obligation bonds are Aaa and AAA respectively; 40 basis points during times when either Moody's or Standard and Poor's has assigned ratings of Aa and AA respectively; or 55 basis points during times when either Moody's or Standard and Poor's has assigned ratings lower than Aa and AA respectively. In the unlikely event that the TRGT would be called upon to purchase the commercial paper, the TRGT would receive interest at a rate equal to prime plus 75 basis points during the first 30 consecutive days, plus an additional 50 basis points for each consecutive 30 days thereafter, up to a maximum rate allowed by state law.

Alternative Investments: The TRGT had unfunded commitments of $9,122,845,003 in private equity, strategic lending, and real estate commitments at year-end.

D: Net Pension Liability (Asset) for Cost-Sharing Plans

The components of net pension liability (asset) at June 30, 2021, were as follows:

	Teacher Legacy Pension Plan	Teacher Retirement Plan
Total Pension Liability	$25,420,198,004	$ 466,966,849
Plan Fiduciary Net Position	(31,049,732,764)	(611,159,465)
Net Pension Liability (Asset)	$(5,629,534,760)	$(144,192,616)
Percent of Net Position to Pension Liability	122.15%	130.88%

Actuarial assumptions: The total pension liability was determined by an actuarial valuation as of June 30, 2020, rolled forward to a measurement date and a reporting date of June 30, 2021, using the following actuarial assumptions applied to all prior periods included in the measurement:

Inflation	2.5%
Salary Increases	Graded salary ranges from 8.72 to 3.46% based on age, including inflation, averaging 4.00%
Investment Rate of Return	7.25%, net of pension plan investment expense, including inflation
Cost-of-Living Adjustment	2.25%

The mortality improvement assumption adopted with the 2016 experience study utilizes the most current projection scale published by the Society of Actuaries as of the actuarial valuation date. As of June 30, 2020, the projection scale was updated from Scale MP-2018 to Scale MP-2019. This change lowered the liability and was included with other differences between expected and actual experience.

The actuarial assumptions used in the June 30, 2020, actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2012, through June 30, 2016.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2016, actuarial experience study. This return was selected from a range of values developed using historical market returns and future capital market projections. The future capital market projections were produced using a building-block method in which a best estimate of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) is developed for each major asset class. These best estimates are combined to produce the future capital market projection by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.5%. The best estimates of geometric real rates of return and the TCRS investment policy target asset allocation for each major asset class are summarized in the following table:

Authorized Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
U.S. equity	5.69%	31%
Developed market international equity	5.29%	14%
Emerging market international equity	6.36%	4%
Private equity and strategic lending	5.79%	20%
U.S. fixed income	2.01%	20%
Real estate	4.32%	10%
Short-term securities	0.00%	1%
		100%

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.25% based on a comparison of historical market returns and future capital market projections.

Discount rate: The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that employee contributions from plan members will be made at the statutorily required contribution rates and that employer contributions from LEAs will be made at the actuarially determined rate as required by statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of net pension liability (asset) to changes in the discount rate: The following presents the Teacher Legacy Pension Plan's and Teacher Retirement Plan's net pension liability (asset) for LEAs using the discount rate of 7.25%, as well as what its net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.25%) or one percentage point higher (8.25%) than the current rate:

Plan	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Teacher Legacy Pension Plan	$(2,444,167,882)	$(5,629,534,760)	$(8,275,360,950)
Teacher Retirement Plan	$ (7,890,591)	$ (144,192,615)	$ (245,092,059)

E. Other Accounting Disclosures

Subsequent event: The 112th General Assembly of the State of Tennessee appropriated a one-time additional contribution of $250 million to the Public Employee Retirement Plan for state and higher education employees to be effective July 1, 2021, in accordance with Public Chapter 454, Section 64, Item 56.

SCHEDULE OF CHANGES IN THE TEACHER LEGACY PENSION PLAN'S NET PENSION LIABILITY (ASSET)

Fiscal Year Ended June 30

Total pension liability	2021	2020	2019	2018	2017	2016	2015	2014
Service cost	$320,188,346	$324,597,317	$345,065,162	$345,257,426	$351,528,106	$359,568,654	$393,173,920	$404,576,942
Interest	1,764,235,143	1,716,256,039	1,695,569,610	1,636,816,010	1,618,619,959	1,582,470,751	1,578,251,721	1,483,656,307
Change of benefit terms	-	-	-	-	-	-	-	-
Difference between expected and actual experience	(37,149,799)	(442,566,506)	72,474,157	(119,208,468)	(296,555,977)	(764,354,573)	46,576,630	-
Change of assumptions	-	-	-	346,381,384	-	-	-	-
Benefit payments, including refunds of member contributions	(1,359,548,443)	(1,314,913,673)	(1,268,406,149)	(1,218,622,546)	(1,172,892,841)	(1,138,014,028)	(1,096,410,122)	(1,037,013,093)
Net change in total pension liability	687,725,247	283,373,177	844,702,780	990,623,806	500,699,247	39,670,804	921,592,149	851,220,156
Total pension liability - beginning	24,732,472,757	24,449,099,580	23,604,396,800	22,613,772,994	22,113,073,747	22,073,402,943	21,151,810,794	20,300,590,638
Total pension liability - ending (a)	25,420,198,004	24,732,472,757	24,449,099,580	23,604,396,800	22,613,772,994	22,113,073,747	22,073,402,943	21,151,810,794
Plan fiduciary net position								
Contributions-employer	337,066,627	$353,767,319	350,734,176	318,336,627	319,576,407	327,521,593	338,301,211	348,474,887
Contributions-members	164,846,662	167,155,248	168,919,223	176,442,688	177,940,219	181,763,296	187,121,567	195,520,938
Net investment income	6,455,724,460	1,215,904,780	1,759,945,606	1,867,629,821	2,365,586,643	560,785,122	646,526,936	3,054,117,822
Benefit payments, including refunds of member contributions	(1,359,548,443)	(1,314,913,673)	(1,268,406,149)	(1,218,622,546)	(1,172,892,841)	(1,138,014,028)	(1,096,410,122)	(1,037,013,093)
Administrative expense	(4,589,318)	(4,571,564)	(5,201,742)	(5,789,356)	(5,347,136)	(6,893,993)	(5,635,689)	(2,663,319)
Net change in plan fiduciary net position	5,593,499,987	417,342,110	1,005,991,114	1,137,997,234	1,684,863,292	(74,838,010)	69,903,903	2,558,437,235
Plan fiduciary net position - beginning	25,456,232,777	25,038,890,667	24,032,899,553	22,894,902,319	21,210,039,027	21,284,877,037	21,214,973,134	18,656,535,899
Plan fiduciary net position - ending (b)	31,049,732,764	25,456,232,777	25,038,890,667	24,032,899,553	22,894,902,319	21,210,039,027	21,284,877,037	21,214,973,134
Net pension liability (asset)- ending (a) - (b)	$(5,629,537,760)	$(723,760,020)	$ (589,791,087)	$(428,502,753)	$(281,129,325)	$903,034,720	$788,525,906	$(63,162,340)

This schedule is intended to show information for ten years. Additional years' information will be shown as it becomes available.

SCHEDULE OF CHANGES IN THE TEACHER RETIREMENT PLAN'S NET PENSION LIABILITY (ASSET)
Fiscal Year Ended June 30

Total pension liability	2021	2020	2019	2018	2017	2016	2015
Service cost	$98,704,242	$85,848,628	$74,297,210	$60,633,198	$43,440,149	$28,980,449	$15,581,497
Interest	28,379,472	20,721,440	14,804,562	9,275,807	5,159,135	2,175,079	583,011
Change of benefit terms	-	-	-	-	-	-	-
Difference between expected and actual experience	(3,478,690)	(10,298,460)	1,446,372	763,491	2,054,643	(1,477,409)	-
Change of assumptions	-	-	-	2,496,211	-	-	-
Benefit payments, including refunds of member contributions	(4,252,985)	(3,695,228)	(2,206,627)	(1,628,598)	(1,021,752)	(283,467)	(34,531)
Net change in total pension liability	119,352,039	92,576,380	88,341,517	71,540,109	49,632,175	29,394,652	16,129,977
Total pension liability - beginning	347,614,810	255,038,430	166,696,913	95,156,804	45,524,629	16,129,977	-
Total pension liability - ending (a)	466,966,849	347,614,810	255,038,430	166,696,913	95,156,804	45,524,629	16,129,977
Plan fiduciary net position							
Contributions-employer	29,152,958	$25,616,933	20,529,121	34,957,065	26,262,053	17,538,589	8,310,132
Contributions-members	72,213,168	63,182,574	52,929,975	43,730,696	32,848,220	21,855,921	10,390,077
Net investment income	115,660,117	16,947,487	18,475,708	13,554,381	10,058,396	1,011,283	294,742
Benefit payments, including refunds of member contributions	(4,252,985)	(3,695,228)	(2,206,627)	(1,628,598)	(1,021,752)	(283,467)	(34,531)
Administrative expense	(2,559,673)	(2,295,363)	(2,018,230)	(1,846,534)	(1,417,125)	(819,972)	(280,047)
Net change in plan fiduciary net position	210,213,585	99,756,403	87,709,947	88,767,010	66,729,792	39,302,354	18,680,373
Plan fiduciary net position - beginning	400,945,879	301,189,476	213,479,529	124,712,519	57,982,727	18,680,373	-
Plan fiduciary net position - ending (b)	611,159,465	400,945,879	301,189,476	213,479,529	124,712,519	57,982,727	18,680,373
Net pension liability (asset) - ending (a) - (b)	$(144,192,616)	$(53,331,069)	$(46,151,046)	$(46,782,616)	$(29,555,715)	$(12,458,098)	$(2,550,396)

This schedule is intended to show information for ten years. Additional years' information will be shown as it becomes available.

SCHEDULE OF THE TEACHER LEGACY PENSION PLAN'S NET PENSION LIABILITY (ASSET)

Fiscal Year Ended June 30

	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability	$25,420,198,004	$24,732,472,757	$24,449,099,580	$23,604,396,800	$22,613,772,994	$22,113,073,747	$22,073,402,943	$21,151,810,794
Plan fiduciary net position	31,049,732,764	25,456,232,777	25,038,890,667	24,032,899,553	22,894,902,319	21,210,039,027	21,284,877,037	21,214,973,134
Net pension liability (asset)	$(5,629,534,760)	$(723,760,020)	$(589,791,087)	$(428,502,753)	$(281,129,325)	$903,034,720	$788,525,906	$(63,162,340)
Plan fiduciary net position as a percentage of the total pension liability	122.15%	102.93%	102.41%	101.82%	101.24%	95.92%	96.43%	100.30%
Covered payroll	$3,282,482,099	$3,326,750,965	$3,352,756,393	$3,501,703,581	$3,536,976,053	$3,622,228,641	$3,742,270,034	$3,925,131,835
Net pension liability (asset) as a percentage of covered payroll	(171.50)%	(21.76)%	(17.59)%	(12.24)%	(7.95%)	24.93%	21.07%	(1.61%)

This schedule is intended to show information for ten years. Additional years' information will be shown as it becomes available.

SCHEDULE OF THE TEACHER RETIREMENT PLAN'S NET PENSION LIABILITY (ASSET)
Fiscal Year Ended June 30

	2021	2020	2019	2018	2017	2016	2015
Total pension liability	$466,966,849	$347,614,810	$255,038,430	$166,696,913	$95,156,804	$45,524,629	$16,129,977
Plan fiduciary net position	611,159,465	400,945,879	301,189,476	213,479,529	124,712,519	57,982,727	18,680,373
Net pension liability (asset)	$(144,192,616)	$(53,331,069)	$(46,151,046)	$(46,782,616)	$(29,555,715)	$(12,458,098)	$(2,550,396)
Plan fiduciary net position as a percentage of the total pension liability	130.88%	115.34%	118.10%	128.06%	131.06%	127.37%	115.81%
Covered payroll	$1,442,090,457	$1,261,909,185	$1,056,859,310	$873,677,206	$655,205,868	$441,775,131	$207,753,299
Net pension liability (asset) as a percentage of covered payroll	(10.00)%	(4.23)%	(4.37%)	(5.35%)	(4.51%)	(2.82%)	(1.23%)

This schedule is intended to show information for ten years. Additional years' information will be shown as it becomes available.

SCHEDULE OF THE TEACHER LEGACY PENSION PLAN'S CONTRIBUTIONS

Fiscal Year Ended June 30

	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency	Covered Payroll	Contributions as a Percentage of Covered Payroll
2021	$337,066,627	$337,066,627	$0	$3,282,482,099	10.27%
2020	353,767,319	353,767,319	0	3,326,750,965	10.63%
2019	350,734,176	350,734,176	0	3,352,756,393	10.46%
2018	318,336,627	318,336,627	0	3,501,703,581	9.08%
2017	319,576,407	319,576,407	0	3,536,976,053	9.04%
2016	327,521,593	327,521,593	0	3,622,228,641	9.04%
2015	338,301,211	338,301,211	0	3,742,270,034	9.04%
2014	348,474,888	348,474,888	0	3,931,983,889	8.86%
2013	344,534,643	344,534,643	0	3,879,878,989	8.88%
2012	343,594,496	343,594,496	0	3,796,077,699	9.05%
2011	339,833,421	339,833,421	0	3,754,600,827	9.05%

SCHEDULE OF THE TEACHER RETIREMENT PLAN'S CONTRIBUTIONS

Fiscal Year Ended June 30

	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2021	$29,152,958	$29,152,958	$0	$1,442,090,457	2.02%
2020	25,616,933	25,616,933	0	1,261,909,185	2.03%
2019	20,529,121	20,529,121	0	1,056,859,310	1.94%
2018	14,251,505	34,957,065	(20,705,560)	873,677,206	4.00%
2017	10,221,212	26,262,053	(16,040,841)	655,205,868	4.01%
2016	11,044,378	17,538,589	(6,494,211)	441,775,131	3.97%
2015	5,193,832	8,310,132	(3,116,300)	207,753,299	4.00%

This schedule is intended to show information for ten years. Additional years' information will be shown as it becomes available.

SCHEDULE OF THE PUBLIC EMPLOYEE RETIREMENT PLAN, THE TEACHER LEGACY PENSION PLAN, AND THE TEACHER RETIREMENT PLAN INVESTMENT RETURNS

Fiscal Year Ended June 30

	2021	2020	2019	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	25.78%	5.05%	7.76%	8.40%	11.30%	2.78%	3.29%	16.49%

This schedule is intended to show information for ten years. Additional years' information will be shown as it becomes available.

Method and assumptions used in calculations of actuarially determined contributions.

The actuarially determined contributions for the fiscal year ended June 30, 2021, for Local Education Agencies for the Teacher Legacy Plan were calculated as a result of an actuarial valuation performed as of June 30, 2019. The actuarially determined contributions for the fiscal year ended June 30, 2021, for Local Education Agencies for the Teacher Retirement Plan were calculated as a result of an actuarial valuation performed as of June 30, 2019. The following actuarial methods and assumptions were used to determine contribution rates reported in the schedule:

	Teacher Legacy Pension Plan	Teacher Retirement Plan
Actuarial cost method	Entry Age Normal	Entry Age Normal
Amortization method	Level Dollar Amortization	Level Dollar Amortization
Remaining amortization period	N/A	N/A
Inflation	2.5%	2.5%
Cost-of-living adjustments	2.25%	2.25%
Salary increases	Graded salary ranges from 8.72% to 3.46%, including inflation, averaging 4.00%	Graded salary ranges from 8.72% to 3.46%, including inflation, averaging 4.00%
Investment rate of returns	7.25%, net of pension plan investment expense, including inflation	7.25%, net of pension plan investment expense, including inflation

Jason E. Mumpower
Comptroller

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Members of the General Assembly
Members of the Board of Trustees
The Honorable David H. Lillard, Jr., Treasurer

We have audited the financial statements of the Tennessee Consolidated Retirement System, a component unit of the State of Tennessee, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Tennessee Consolidated Retirement System's basic financial statements, and have issued our report thereon dated December 9, 2021. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Tennessee Consolidated Retirement System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Tennessee Consolidated Retirement System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Tennessee Consolidated Retirement System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Tennessee Consolidated Retirement System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Katherine J. Stickel, CPA, CGFM, Director
Division of State Audit
December 9, 2021