

Investment Section

Report by Investment Consultant

Letter from TCRS Chief Investment Officer

Statutory Investment Authority

Investment Performance Review

Asset Allocation

Largest Holdings

Investment Summary

Schedules of Investment Fees and Commissions





Ms. Jill Bachus, Director
Tennessee Consolidated Retirement System
Andrew Jackson Building
Nashville, TN 37243-0230

October 2, 2015

Re: **2015 CAFR Performance Letter**

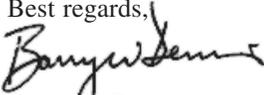
Dear Jill:

For the year ended June 30, 2015, TCRS earned a return of 3.33%, ahead of its policy index (2.95%) and ahead of its as-allocated index (2.63%). While US Equity returns were in line with expectations (7.8%), International Equities disappointed (-3.4%) due to the strong appreciation of the US Dollar. Fixed Income securities generally earned their coupon (2.8%) but Treasury Inflation Protection securities (-1.6%) were hurt by falling inflation expectations. Real Estate (12.8%) and Private Equity (20.54%) contributed significantly. The investment performance for TCRS was computed using a market value based, time-weighted rate of return. As of June 30, 2015, the System's asset allocation and one-year respective returns were:

ASSET CLASS	% OF ASSETS	ONE-YEAR RETURN
Domestic Equity	33.2%	7.85%
Canada Index Fund	3.5%	(14.14%)
International Developed Market	13.5%	(0.24%)
International Emerging Market	4.8%	(11.90%)
Domestic Fixed Income	26.5%	2.76%
Inflation-Indexed Fixed Income	6.0%	(1.57%)
Real Estate	6.5%	12.82%
Private Equity	2.5%	20.54%
Strategic Lending	2.4%	0.84%
Cash and Cash Equivalents	1.0%	.34%
TOTAL	100.0%	3.33%

For the year, TCRS ranked above the median (43rd percentile) of a universe of public funds > \$1 Billion. For five years, the performance ranked near the median. Given the fund's conservative posture, these rankings are commendable. Throughout the year, the US Economy continued its steady but slow recovery despite the ending of the Federal Reserve Bank's Quantitative Easing program. The European and Japanese economies have begun to grow again as their Central Banks have instituted similar bond-buying programs which have exacerbated their currency declines. Concerns of economic slowness in China and other emerging economies is putting additional stress on investor expectations for global growth. As the entire global stock market has experienced a strong rebound from its 2009 lows, valuations have become stretched. At the same time, the search for under-valued assets in other parts of the investable universe is turning up fewer and fewer opportunities. At a time like this, a well-diversified, cost efficient, well-funded investment program like TCRS should weather upcoming conditions successfully.

SIS is an independent, employee-owned investment consulting firm. Our sole line of business is providing strategic consulting services to large institutional investors.

Best regards,

Barry W. Dennis
Managing Director



STATE OF TENNESSEE

DAVID H. LILLARD, JR.
STATE TREASURER



MARYJO PRICE
CHIEF OPERATING OFFICER

MICHAEL BRAKEBILL
CHIEF INVESTMENT OFFICER

TREASURY DEPARTMENT
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0225

JILL BACHUS
DIRECTOR OF TCRS

December 23, 2015

Dear Members:

I am pleased to present the Investment Section of the TCRS Comprehensive Annual Financial Report for the fiscal year ended June 30, 2015.

With over \$43.0 billion in assets, TCRS is one of the largest public pension plans in the United States. TCRS assets are invested to preserve principal value, to achieve a superior rate of return within acceptable risk levels, and to provide the liquidity necessary to pay beneficiaries in a timely manner.

The TCRS portfolio is diversified among domestic and international stocks and bonds, real estate, private equity, and short-term securities. A diversified portfolio is used to manage risk and to minimize significant exposure to unpredictable events. Staff consults with the TCRS general investment consultant periodically to determine the optimal, long-term mix of assets to best meet the plan's investment objectives. TCRS has adopted a conservative investment strategy that has yielded excellent returns with a low level of risk. The investment performance for TCRS was computed using a market value-based, time-weighted rate of return.

The 2015 fiscal year was challenging for investors and TCRS gained 3.33% for the fiscal year with an annualized gain of 9.84% for the trailing three-year period. While the one-year figure trailed the actuarially-required return, the three-year number has exceeded the target and the portfolio was still managed in a manner to protect capital in an adverse environment.

The experienced investment staff of TCRS is committed to providing superior investment returns in a financially-sound manner with the highest ethical and professional standards. With the leadership of our Board, our Treasurer, and our dedicated staff, this goal will be met.

Sincerely,

Michael Brakebill
Chief Investment Officer



STATUTORY INVESTMENT AUTHORITY

The investment authority for the Board of Trustees of TCRS is set out in Tennessee Code Annotated, Section 8-37-104. Pursuant to this authority and the investment terms, conditions and limitations outlined therein, the Board of Trustees approves the TCRS' investment policy. The Board approved TCRS' revised and restated investment policy on March 31, 2015.

TCRS' primary investment objective, as set by the Board, is to establish a stable, diversified investment portfolio that, in the long-term, will meet or exceed the assumed actuarial rate of return, as adopted by the Board, in order to provide sufficient liquidity to pay beneficiaries in a timely manner.

TCRS' policies and the strategies implemented by the Treasury Investment Division staff serve to benefit plan members in several ways. The emphasis on a conservative asset allocation and high quality securities helps to ensure the soundness of the system and the ability to provide the needed funds upon a member's retirement.

Funds in the retirement system are actively managed, primarily by the Treasury Investment Division, through a diversified portfolio of high-quality domestic and international bonds, domestic and international stocks, real estate, private equity, and short-term instruments. From time to time, pursuant to Tennessee Code Annotated, Section 8-37-114, the Treasury Investment Division engages outside investment managers to manage a limited number of asset classes or subclasses. In those instances, the Investment Division endeavors to use emerging investment managers to the greatest extent feasible within the bounds of financial and fiduciary prudence, as prescribed under Tennessee Code Annotated, Section 8-37-113. During fiscal year 2014-2015, no assets were under the control of emerging investment managers.

To assist in the fiduciary responsibility for managing the TCRS portfolio during fiscal year 2015, Strategic Investment Solutions, Inc. served as the general investment consultant for TCRS. The Townsend Group served as the real estate investment consultant and Cambridge Associates, LLC served as the private equity consultant.

State Street Bank and Trust Company was the master bank custodian for TCRS, providing safekeeping and accounting services for the investment portfolio during fiscal year 2015.

COST OF INVESTMENT OPERATION

The cost to operate the investment program for TCRS is about twelve basis points (0.12%). This cost includes the cost of personnel, operational cost, master bank custodian cost, record keeping, and external manager fees. Commission costs for publicly listed securities and management fees for private equity investments are capitalized, meaning commission costs and management fees are not included in the expenses, but are recorded in the value of the assets. Recent peer comparisons of investment management fees and expenses indicate the investment program is managed very cost effectively.

PERFORMANCE MEASUREMENT

TCRS' independent external investment consultant, Strategic Investment Solutions, Inc., provided performance measurement for TCRS. During the 2015 fiscal year, TCRS had a total return of 3.33%. Domestic stocks gained 7.85%, while the S&P 1500 Index gained 7.31%. Domestic bonds gained 2.76% versus the bond benchmark of 2.98%. International stocks lost 3.39% versus a loss of 5.64% against the benchmark. Real estate gained 12.82% versus 12.71% for the NCREIF index.

INVESTMENT PERFORMANCE REVIEW
PERIODS ENDING JUNE 30, 2015

	Annualized Returns		
	Current Year	3-Year	5-Year
Pension Plan Portfolio			
TCRS Performance	3.33%	9.84%	10.85%
Policy Index	2.95%	9.76%	10.71%
Asset Allocated Index	2.63%	9.25%	10.31%
Domestic Equity			
TCRS Performance	7.85%	17.58%	17.95%
Benchmark	7.31%	17.47%	17.43%
Canadian Equity			
TCRS Performance	(14.14%)	4.52%	
Benchmark	(14.09%)	4.50%	
Domestic Fixed Income			
TCRS Performance	2.76%	3.17%	6.12%
Benchmark	2.98%	2.24%	5.14%
Inflation Hedged Bonds			
TCRS Performance	(1.57%)	(0.81%)	3.21%
Benchmark	(1.67%)	(0.83%)	3.39%
International Equity			
TCRS Performance	(3.39%)	11.12%	10.24%
Benchmark	(5.64%)	9.50%	8.16%
Real Estate			
TCRS Performance	12.82%	11.21%	11.81%
Benchmark	12.71%	11.46%	12.75%
Short-Term Securities			
TCRS Performance	1.93%	1.22%	1.41%
Private Equity			
TCRS Performance	20.54%	19.26%	17.66%
Benchmark	15.20%	18.74%	19.25%

Strategic Investment Solutions

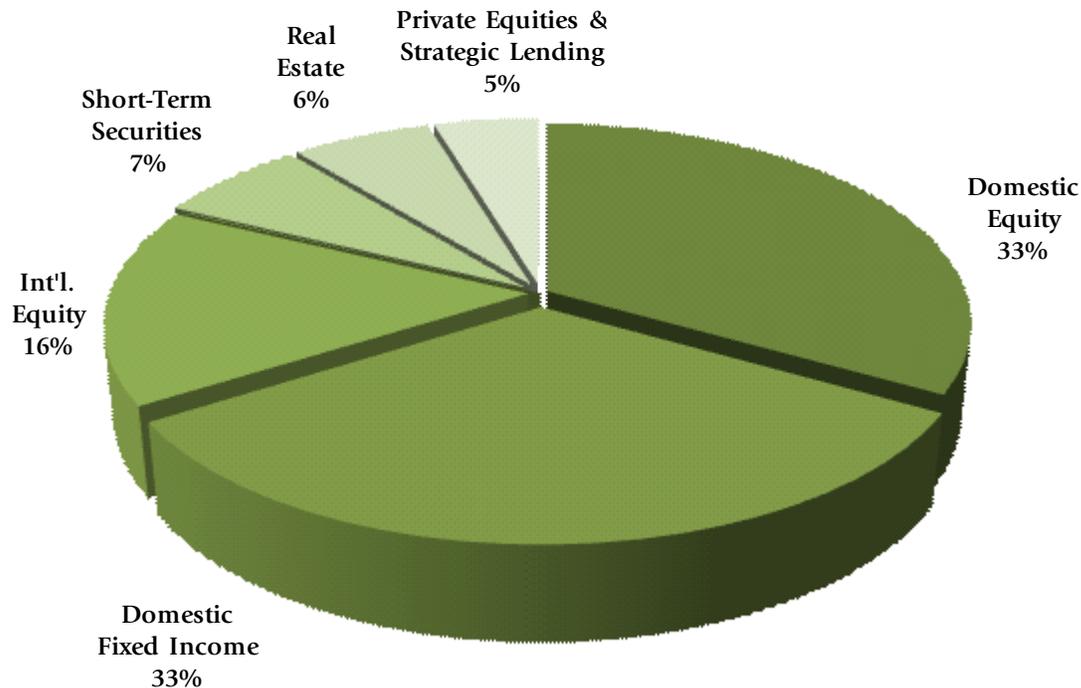
Ranking of TCRS Portfolio	Strategic Investment Solutions	
	<u>Percentile Rankings</u>	<u>Risk Adjusted Basis</u>
Last three years	68	79
Last five years	52	14

The percentile ranking is the position of the TCRS portfolio as compared with other public funds with one being the best and 100 being the worst. The investment performance for TCRS was computed using a market, time weighted rate of return by an independent investment consultant.

ASSET ALLOCATION
AS OF JUNE 30, 2015

Asset Class	Fair Value
Domestic Equity	\$ 14,433,566,760
Domestic Fixed Income	14,110,531,885
International Equity	6,871,271,559
International Fixed Income	25,017,255
Short-Term Securities	2,930,729,438
Real Estate	2,684,790,605
Private Equities & Strategic Lending	1,998,600,030
Totals	\$ 43,054,507,532

This schedule classifies Canadian investments as domestic securities, convertible bonds as fixed income securities and preferred stock as fixed income securities. For investment purposes, convertible bonds and preferred stock are considered equity securities. Accordingly, the asset allocation percentages in this schedule will vary from the investment consultant's asset allocation percentages.



LARGEST STOCK HOLDINGS

as of June 30, 2015

by Fair Value

Shares	Security Name	Fair Value
4,905,934	APPLE INC COM STK	\$ 615,326,772
4,376,882	WELLS FARGO & CO	246,155,844
3,497,657	JP MORGAN CHASE & CO	237,001,238
2,591,133	EXXON MOBIL CORP	215,582,266
4,390,302	MICROSOFT CORP	193,831,833
1,837,567	JOHNSON & JOHNSON	179,089,280
1,976,419	FACEBOOK INC	169,507,576
3,015,599	CITIGROUP INC	166,581,689
1,436,626	WALT DISNEY CO	163,976,492
583,311	ALLERGAN PLC	163,355,856

LARGEST BOND HOLDINGS

as of June 30, 2015

by Fair Value

Par Value	Security Name	Yield	Maturity	Moody's Rating	Fair Value
\$ 271,240,000	U.S. Treasury Note	3.12%	01/15/16	Aaa	\$ 176,157,602
211,320,000	U.S. Treasury Note	2.33%	07/15/20	Aaa	160,802,952
169,875,295	U.S. Treasury Index Linked Note	(0.41%)	01/15/21	Aaa	149,071,490
157,298,900	U.S. Treasury Index Linked Note	(0.33%)	01/15/22	Aaa	147,387,680
152,719,040	U.S. Treasury Index Linked Note	0.16%	01/15/25	Aaa	144,733,812
146,130,144	U.S. Treasury Index Linked Note	0.06%	07/15/21	Aaa	131,613,743
124,703,172	U.S. Treasury Index Linked Note	(0.12%)	08/01/42	Aaa	130,054,199
150,000,000	U.S. Treasury STRIPS	2.35%	04/15/17	Aaa	124,145,428
126,100,000	U.S. Treasury Note	3.10%	01/15/26	Aaa	119,607,869
119,786,300	U.S. Treasury Index Linked Note	(0.82%)	08/15/43	Aaa	113,941,913

A complete portfolio listing is available upon request.

Key to Ratings: All ratings presented are from Moody's Investors Service with the exception of some of the government agency securities. Moody's does not rate these securities. Standard & Poor's does provide ratings for the securities (AAA is Standard & Poor's highest rating.) Government Securities are not rated per se, but are considered the best quality securities.

Moody's rates securities as follows:

- Aaa: Best Quality
- Aa: High Quality
- A: Upper Medium Quality
- Baa: Medium Quality
- NR: Not Rated



INVESTMENT SUMMARY
AS OF JUNE 30, 2015

	Domestic		International		Total	
	Fair Value	%	Fair Value	%	Fair Value	%
Fixed Income						
Government Bonds	\$ 4,859,619,689	11.29%	\$ 0	0.00%	\$ 4,859,619,689	11.29%
Corporate Bonds	4,536,293,637	10.54%	0	0.00%	4,536,293,637	10.54%
Municipal/Provincial Bonds	156,099,231	0.36%	0	0.00%	156,099,231	0.36%
Total Bonds	9,552,012,557	22.19%	0	0.00%	9,552,012,557	22.19%
Asset Backed	281,969,487	0.65%	0	0.00%	281,969,487	0.65%
Commercial Mortgage Backed	470,622,689	1.09%	0	0.00%	470,622,689	1.09%
Government Agencies	288,764,571	0.67%	0	0.00%	288,764,571	0.67%
Government Mortgage Backed Securites	3,466,372,594	8.05%	0	0.00%	3,466,372,594	8.05%
Preferred Stock	50,789,987	0.12%	25,017,255	0.06%	75,807,242	0.18%
Total Fixed Income	14,110,531,885	32.77%	25,017,255	0.06%	14,135,549,140	32.83%
Common Stock						
Consumer Discretionary	1,899,073,891	4.41%	964,661,851	2.24%	2,863,735,742	6.65%
Consumer Staples	1,273,371,444	2.96%	526,270,485	1.22%	1,799,641,929	4.18%
Energy	1,003,146,237	2.33%	478,984,181	1.11%	1,482,130,418	3.44%
Financials	2,278,259,315	5.29%	1,763,041,182	4.10%	4,041,300,497	9.39%
Healthcare	2,085,076,364	4.84%	738,060,016	1.72%	2,823,136,380	6.56%
Industrials	1,389,888,931	3.23%	940,688,958	2.18%	2,330,577,889	5.41%
Information Technology	2,756,415,889	6.40%	428,283,644	1.00%	3,184,699,533	7.40%
Materials	481,044,075	1.12%	483,121,838	1.12%	964,165,913	2.24%
Private Placements	8,174,000	0.02%	87,031,137	0.20%	95,205,137	0.22%
Rights/Warrants	0	0.00%	1,650	0.00%	1,650	0.00%
Telecommunication Services	295,286,955	0.69%	261,877,035	0.60%	557,163,990	1.29%
Utilities	379,719,384	0.88%	114,220,457	0.27%	493,939,841	1.15%
Misc/Unclassified	246,037,383	0.57%	0	0.00%	246,037,383	0.57%
Depository Receipts	107,908,034	0.25%	31,601,404	0.07%	139,509,438	0.32%
REITS	230,164,858	0.53%	53,427,721	0.13%	283,592,579	0.66%
Total common stock	14,433,566,760	33.52%	6,871,271,559	15.96%	21,304,838,319	49.48%
Short-Term Investments						
Pooled Funds and Mutual Funds	2,379,103,614	5.53%	0	0.00%	2,379,103,614	5.53%
Short-Term Bills and Notes	551,625,824	1.28%	0	0.00%	551,625,824	1.28%
Total Short-Term Investments	2,930,729,438	6.81%	0	0.00%	2,930,729,438	6.81%
Real Estate	2,684,790,605	6.24%	0	0.00%	2,684,790,605	6.24%
Private Equities and Strategic Lending	1,998,600,030	4.64%	0	0.00%	1,998,600,030	4.64%
Total Investments	36,158,218,718	83.98%	6,896,288,814	16.02%	43,054,507,532	100.00%
Derivatives and Options	1,185		0		1,185	
Short-Term Investments Classified as Cash Equivalents	(347,131,237)		0		(347,131,237)	
Total Investments as Shown on the Statement of Fiduciary Net Position	\$ 35,811,088,666		\$ 6,896,288,814		\$ 42,707,377,480	

This schedule classifies Canadian investments as domestic securities, convertible bonds as fixed income securities and preferred stock as fixed income securities. For investment purposes convertible bonds and preferred stock are considered equity securities. Accordingly, the asset allocation percentages in this schedule will vary from the investment consultant's asset allocation percentages.

**SCHEDULES OF INVESTMENT FEES AND COMMISSIONS
FOR THE YEAR ENDED JUNE 30, 2015**



SCHEDULE OF FEES

	Average Assets Under Management	Fees
Asset Management		
External Investment Manager Fees	\$ 5.6 Billion	\$ 21,593,367
Real Estate Asset Management	2.7 Billion	12,741,202
Private Equities & Strategic Lending Asset Management	2.0 Billion	0
Total Asset Management		<u><u>\$ 34,334,569</u></u>
Other Investment Services Fees		
Custodian Bank	43.1 Billion	\$ 357,670
General Investment Consultant	43.1 Billion	450,000
Real Estate Investment Consultant	2.7 Billion	225,000
Private Equities & Strategic Lending Investment Consultant	2.0 Billion	1,506,000
Total Investment Services Fees		<u><u>\$ 2,538,670</u></u>

SCHEDULES OF COMMISSIONS

Domestic Exchange Traded Shares

Broker Name	DOMESTIC		
	Number of Shares Traded	Total Commissions	Commission Per Share
Capis	27,962,086	\$ 1,118,483	0.0400
Instinet, LLC	24,010,011	480,200	0.0200
Barclays Capital	17,185,613	343,712	0.0200
RBC Capital Markets Corporation	14,160,274	277,414	0.0196
Cowen & Company, LLC	11,538,757	230,775	0.0200
Sanford C. Bernstein & Company, Inc.	11,046,245	220,925	0.0200
Morgan Stanley & Company, Inc.	8,363,784	167,276	0.0200
Stifel Nicolaus & Company, Inc.	6,226,604	124,532	0.0200
Deutsche Bank Securities, Inc.	5,746,235	114,925	0.0200
B.O.E. Securities, Inc.	3,685,378	110,561	0.0300
Topeka Capital Markets	3,636,139	109,084	0.0300
OTHER BROKERS*	83,105,879	1,326,095	0.0160
Totals	<u><u>216,667,005</u></u>	<u><u>\$ 4,623,982</u></u>	

(continued)



SCHEDULES OF INVESTMENT FEES AND COMMISSIONS FOR THE YEAR ENDED JUNE 30, 2015 (CONTINUED)

Program Trades where total commission cost includes trading commission, liquidity fees, and market impact fees.

Broker Name	DOMESTIC		
	Number of Shares Traded	Total Commissions	Commission Per Share
Capis	108,798,861	\$ 1,481,043	0.0136
Credit Suisse	27,525,311	331,630	0.0120
Morgan Stanley & Company, Inc.	41,496,677	311,226	0.0075
Deutsche Bank Securities, Inc.	37,415,460	280,617	0.0075
Goldman Sachs Group, Inc.	23,986,070	179,896	0.0075
Citigroup Global Markets, Inc.	19,349,270	148,015	0.0076
Cowen & Company, LLC	18,670,242	140,027	0.0075
OTHER BROKERS*	50,775,799	376,882	0.0074
Totals	<u>328,017,690</u>	<u>\$ 3,249,336</u>	

International Exchange Traded Shares

Broker Name	INTERNATIONAL		
	Number of Shares Traded	Total Commissions	Commission Per Share
UBS Securities LLC	51,220,204	\$ 707,846	0.0138
Morgan Stanley & Company, Inc.	50,030,744	491,292	0.0098
JP Morgan Chase & Company	34,119,491	453,450	0.0133
Bank of America Merrill Lynch	29,145,259	433,703	0.0149
Barclays Capital	26,558,257	419,482	0.0158
Citigroup Global Markets, Inc.	28,231,813	337,672	0.0120
HSBC Bank PLC	63,296,805	325,520	0.0051
Credit Suisse	26,307,561	289,507	0.0110
Deutsche Bank Securities, Inc.	26,650,943	264,146	0.0099
Goldman Sachs Group, Inc.	18,560,414	261,483	0.0141
Instinet, LLC	12,845,876	151,646	0.0118
Exane	3,562,753	150,809	0.0423
Joh. Berenberg, Gossler & Co.	8,083,451	149,107	0.0184
Jefferies LLC	11,178,770	140,313	0.0126
BNP Paribas	8,564,694	131,188	0.0153
OTHER BROKERS*	181,038,516	1,325,535	0.0073
TOTALS	<u>579,395,551</u>	<u>\$ 6,032,699</u>	

Shares for international stocks are based on the actual foreign shares traded while the commission is expressed in U.S. dollars. Therefore, commissions per share between domestic and international are not comparable.

*Less than \$100,000 total commission per brokerage firm