

INVESTMENT REPORT

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

**Fourth Quarter
Fiscal Year 2012 - 2013**

April 1, 2013 – June 30, 2013

**Prepared for:
Board of Trustees**

September 27, 2013

Investment Advisory Council

Pursuant to T.C.A. Section 8-37-108, the State Treasurer shall nominate, with the advice and consent of the Board of Trustees, the Investment Advisory Council, comprised of five senior investment professionals in the Tennessee investment community, who shall have at least five years professional experience as a portfolio manager, economist or an investment advisor in any field of which investments of TCRS funds are authorized. The term of appointment is for five years. Also, the treasurer may nominate two (2) additional members for three year terms.

The TCRS investment staff consults quarterly with the Advisory Council on a formal basis for strategy and guidance, and on an informal basis as needed.

The current members are as follows:

<u>Council Member</u>	<u>Expiration of Term</u>	<u>Appointed Term</u>
Frederick S. Crown, Jr., CFA 124 Longwood Place Nashville, TN 37215 Phone: 615-347-0343 E-mail: crownfl@gmail.com	June 30, 2017	5 year
Henry J. Delicata Park Street Capital One Federal Street, 24 th Floor Boston, MA 02109 Phone: (cell) 617-347-8854 / (office) 617-897-9252 E-mail: hdelicata@parkstreetcapital.com	June 30, 2014	5 year
Susan Logan Huffman, CFA Managing Director Reliant Investment Management, LLC 6077 Primacy Parkway, Suite 130 Memphis, TN 38119 Phone: 901-843-0600 / Fax: 901-843-0325 E-mail: shuffman@reliantllc.com	June 30, 2016	5 year
George B. Stadler, CFA 95 White Bridge Road, Suite 414 Nashville, TN 37205 Phone: 615-416-3455 cell E-mail: george@hmscm.com	June 30, 2015	5 year
Carol Womack, Principal Diversified Trust Company 3102 West End Avenue, Suite 600 Nashville, TN 37203 Phone: 615-386-7302 E-mail: cwomack@diversifiedtrust.com	June 30, 2015	3 year

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Board of Trustees Meeting

Fourth Quarter

Fiscal Year 2012-2013

April 1, 2013 – June 30, 2013

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Minutes from the Investment Advisory Council Meeting September 5, 2013

Mr. Michael Brakebill, Chief Investment Officer, convened the meeting at 10:00 a.m. in the Treasury Conference Room on the 13th Floor of the Andrew Jackson State Office Building. The Investment Advisory Council (IAC) members present were: Mr. George Stadler, Mr. Fred Crown and Ms. Carol Womack. Ms. Susan Huffman and Mr. Henry Delicata participated by conference call. Investment Staff members present were: Sarah Angus, Crisman Boggan, Michael Brakebill, Daniel Crews, Michael Giggie, Matthew Haitas, Art Henderson, Peter Katseff, Kushal Gupta, Tim McClure, Rhonda Myers, Andrew Palmer, Bill Perez, Jim Robinson, and Roy Wellington. Treasurer David Lillard and Mr. Bill Abney were also in attendance.

George Stadler, the Chairperson of the Investment Advisory Council, called the meeting to order and read the following:

Tenn. Code Ann. §8-44-108(b)(2) provides that in the event that a governing body does not have a physical quorum of the members present at the location of the meeting, then a quorum of members can participate by electronic or other means as long as the governing body makes a determination that a necessity exists for the teleconference participation. The necessity determination and a recitation of the facts and circumstances on which it is based, must be included in the minutes of the meeting. The Investment Committee determined that it was necessary to meet by teleconference.

Mr. Fred Crown motioned that the Investment Advisory Council find the telephone participation in this meeting by some member is necessary. The motion was seconded by Susan Huffman and unanimously approved.

Next, George Stadler proposed that the minutes from the previous IAC meeting on June 6, 2013 be adopted. There were no questions regarding the minutes and Susan Huffman motioned to adopt the minutes. The motion was seconded by Fred Crown and unanimously approved. The Chairperson turned the meeting over to Mr. Brakebill to give a review of investment performance and current initiatives.

Mr. Brakebill reviewed the fund's investment performance, which was illustrated in the Investment Report and in the Strategic Investment Solutions (SIS) quarterly performance report. He noted that 1-year performance of 9.9% beat 18% of funds. The fund outperformed its benchmark by 0.9% for 1-year returns and 0.6% for 3-year returns. The 3-year performance beat 54% of peers (11.6%) and the 5-year performance of the fund beat 64% of peers (5.3%).

Mr. Brakebill provided an update on the key initiatives. He reviewed the changes to the asset allocation at the beginning of the year. The strategic lending portfolio recently made its first investment and the emerging market portfolio continues to be funded over time. He noted that

due diligence on private equity, strategic lending, and real estate investments continue. Mr. Brakebill concluded by giving an update on new personnel in investments. He introduced Bill Perez, Sarah Angus, Crisman Boggan and Art Henderson. Bill Perez and Sarah Angus have joined the operations and real estate teams respectively. Both Art Henderson and Crisman Boggan have joined the equity team covering the health care and technology sectors respectively.

Kushal Gupta provided an update on the Quant Fund. He noted that the quant fund had a small underperformance in the quarter. However, the 3 year number for the fiscal year end 2013 has a 35 bps outperformance. The Quant Fund maintained a low tracking error relative to the benchmark. It remained slightly overweight in the health-care, consumer discretionary, consumer staples and energy sectors and an underweight position in the information technology, industrials and financials sectors. In general the growth, quality and momentum factors performed well in the quarter. They continued to work well until the market peak of early August 2013. The Quant Fund had a good July 2013 performance. More recently the value factors were contributed to performance, while earnings factors reduced performance. The price momentum model has come under pressure after the market peak of August 2013. The value-momentum model had mixed results.

Mike Keeler continued the discussion of domestic equities. He noted that equities did reasonably well through most of the quarter but Fed policy concerns associated with the tapering of QE made for a difficult month of June. Domestic equities underperformed the S&P 1500 benchmark return for the quarter as an overweight commitment to the mid and small cap funds relative to the index was offset by the large cap funds underperforming their respective benchmarks. Value factors tended to outperform growth during the quarter as did smaller stocks. Although the underpinnings of the recent run in U.S. domestic stocks appear to be rather shaky, the bull market seems to be intact and risk aversion somewhat in retreat which bodes well for the funds current mild overweight to small and mid-cap stocks.

Roy Wellington stated that the Sector Fund trailed the benchmark for the quarter and year. Equity markets reacted to the jump in bond yields preceding and expected tapering of the Fed bond buying program and slower economic activity in Europe and China. The strategy for improved future performance includes better use of portfolio optimization tools, weekly team review of critical events and some new sector assignments. The external international equity managers produced another fine quarter for TCRS. Commonalities were good stock selection, especially in Japan and the United Kingdom, particularly financial and consumer discretionary stocks.

Mike Keeler moved the discussion to the Mid Cap Fund, which matched the S&P Mid Cap 400 return during the quarter. An overweight commitment and good stock selection in the Health Care Sector was offset by poor stock selection in the Financial and Industrial Sectors leading to flat returns relative to the index and another quarter in which we experienced an unusually strong return attribution from sector allocation.

Mike Keeler next provided an overview of the Canada Fund. The Canada Fund has consistently added value over the past 3 years with a small tracking error, indicating that stock selection methods are working well. As a result, he noted that Staff is considering allowing the tracking error to rise to more active levels in hopes of capturing additional excess return going forward.

Andrew Palmer presented Fixed Income performance and portfolio structure. He reported that the domestic fixed income portfolio outperformed modestly during the quarter. Factors that led to performance were outperformance in the credit and government sub portfolios and below market duration positioning in a period of rising rates. These positive contributors offset small underperformance in the Gov't 1-5 and MBS portfolios. The quarter was unusual in that it saw both rising yields and widening spreads. Usually, a period of rising rates is associated with tightening spreads. This quarter was different as the whole fixed income market suffered from low liquidity as investors exited the market in response to expectations of Federal Reserve tapering of quantitative easing.

Mr. Palmer reported that the portfolio is positioned with historically low relative risk levels as liquidity constraints stemming from Dodd Frank regulations will accentuate any market movements in the coming quarter.

Mr. Palmer also reported on the use of derivatives in the Fixed Income portfolio during the quarter. He reported no change in the usage or effectiveness of derivatives in the quarter other than the small expenditure on premiums for ten-year treasury call options in the event that rates began to fall. This use was intended to allow the portfolio to participate fully in a sharp drop in rates while maintaining a defensive posture against rising rates.

Peter Katseff provided an update on the Real Estate portfolio. Mr. Katseff began providing an update on the separate account real estate transactions over the past 18 months. He noted that all these transactions are performing well. He stated that the Real Estate portfolio could increase to \$2.4 billion by the end of the fiscal year. Mr. Katseff noted that the contracts for the seven separate account advisors will be expiring at the end of October. A procurement process is currently underway to replace the expiring contracts with new five year contracts.

Daniel Crews provided an update on the Private Equity program and the private equity investing environment. Mr. Crews reviewed the private equity portfolio plan for FY2014. He discussed the maturation of TCRS's first complete private equity investment, Oaktree PPIP Private Fund, L.P. He proceeded to a general discussion of the portfolio management implications of allocating credit-driven private investments to the Strategic Lending program. Mr. Crews ended the discussion of private equity with a review of two new commitments made during the quarter.

Tim McClure gave an update on trading and operations for the quarter. Mr. McClure stated that trading volume was down for the year, but TCRS had still traded over 800 million shares valued at over \$32.1 billion during fiscal year 2013. Trades for the quarter ending June 30, 2013, were \$5.8 billion and all-in trading costs were reasonable at 9.83 basis points compared to expected

costs of 9.76 basis points according to the universe of comparable trades. Mr. McClure also mentioned that Brad Pritchett was testing a new front end trading portal provided by Instinet. The software will provide real time trading cost analysis on trades routed through the front end. During the testing period, only trades that would normally be routed to Instinet will be monitored. However, most of the approved brokers have electronic connectivity in place if TCRS decides to utilize the front end software on a permanent basis. There is no cost for the product.

Mr. Brakebill asked Mr. McClure to comment on an issue that had recently come to the attention of TCRS. A request was made by a vendor to provide proof of the license agreement between TCRS and S&P CUSIP services. TCRS does not have such an agreement, and therefore the vendor is no longer providing the pension fund with downloadable access to their services. An inquiry into how various other vendors and peers operate has revealed that distributors of data can pay different fees to S&P. One fee structure provides view only access to end users and the other fee structure provides downloadable access by the end user.

The members of the Investment Advisory Council had no additional questions and the meeting adjourned at 11:30 a.m.

Performance Review

June 2013

Absolute comparison

- 1 quarter return of -1.4%
- 1 year return of 9.9%
- 3 year return of 11.6%
- 5 year return of 5.3%
- 10 year return of 6.2%

Benchmark (relative) comparison

- Qtr return beat allocation index by 0.2%
- 1 year return beat allocation index by 0.9%
- 3 year return beat allocation index by 0.6%

Peer comparison

- 1 quarter return ranked at 88% (0% = best)
- 1 year return ranked at 82% (0% = best)
- 3 year return ranked at 46% (0% = best)
- 5 year return ranked at 36% (0% = best, beat 64% of funds)

Key Initiatives

June 2013

- Asset Allocation Implementation
 - Emerging market equities
 - Strategic lending
 - Real estate strategy

- Securities Lending
 - Legal negotiations in process

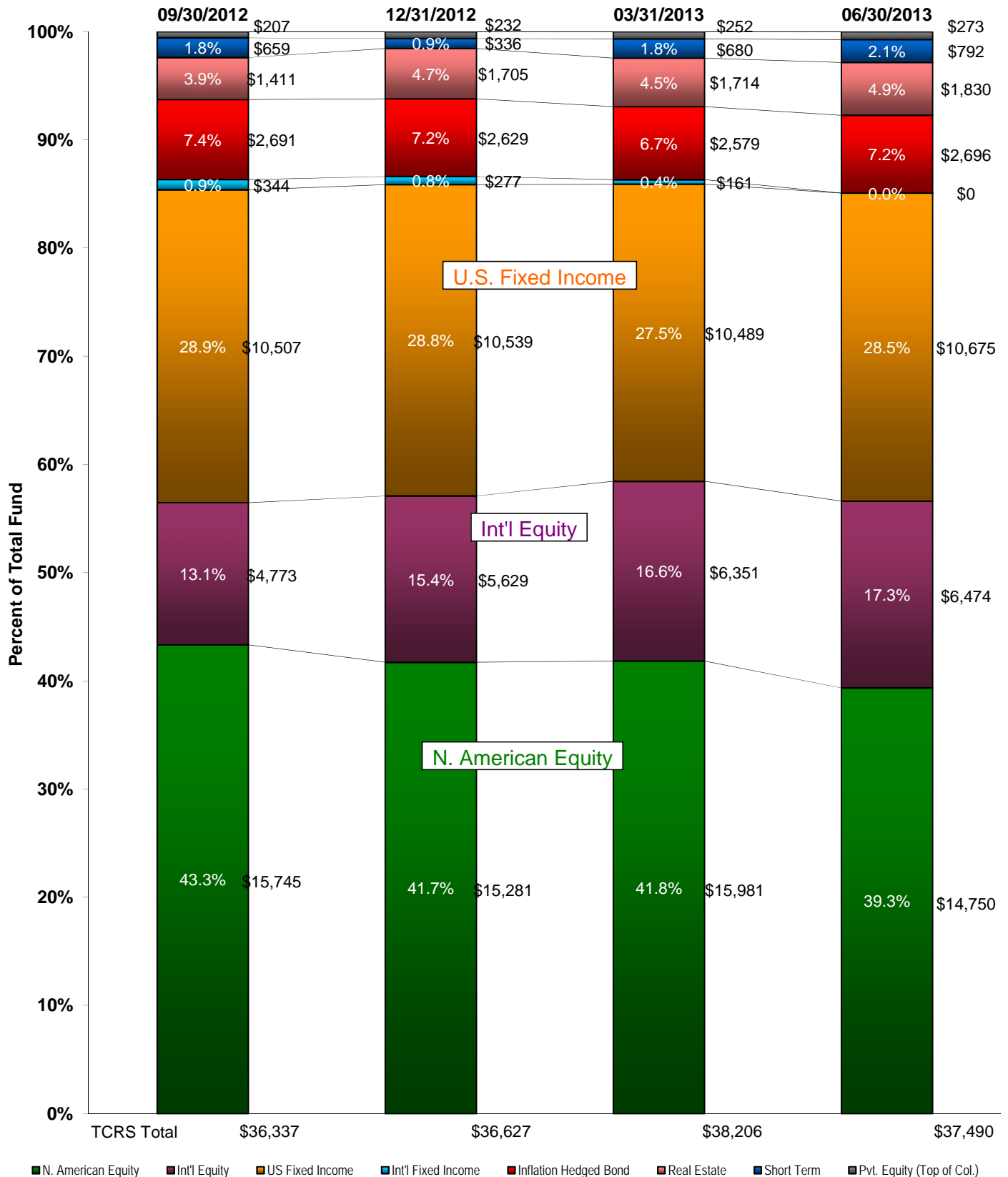
- Private Equity Due Diligence

- Strategic Lending Due Diligence

- Tactical Allocation
 - Neutral, implementing strategic changes

- Processes
 - Ethics policies
 - Real Estate guidelines
 - Private Equity guidelines

- Personnel
 - Real Estate Portfolio Manager – completed hire
 - Domestic Equity Analyst – completed hire
 - Strategic Lending Analyst – complete hire
 - Director of Private Equity
 - Director of Risk Management



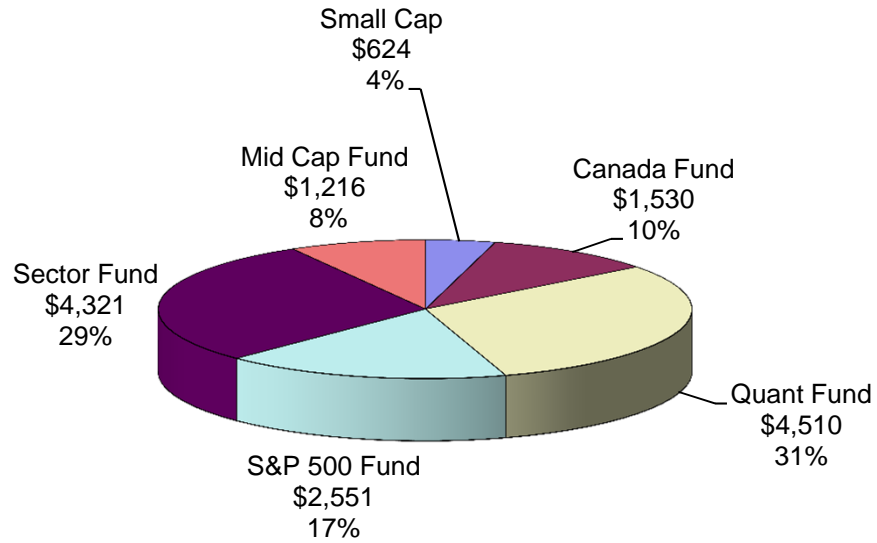
\$ = millions

Source: Strategic Investment Solutions, Inc.

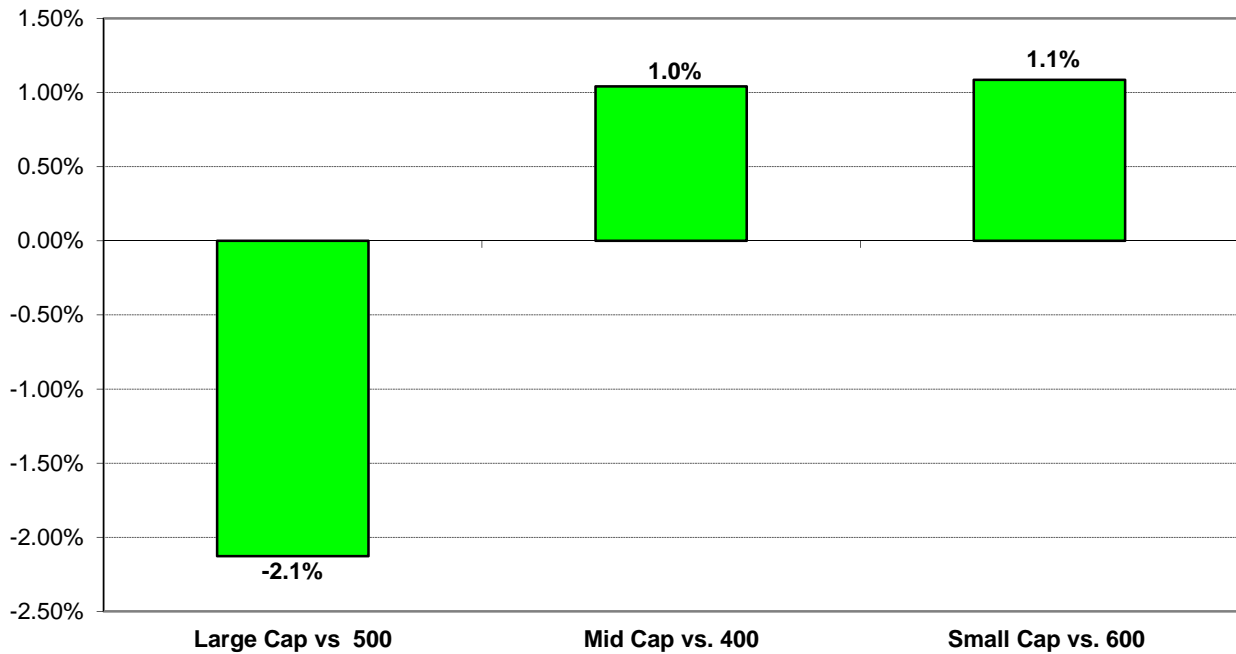
Domestic Equity Portfolio Overview

Michael Keeler, CFA

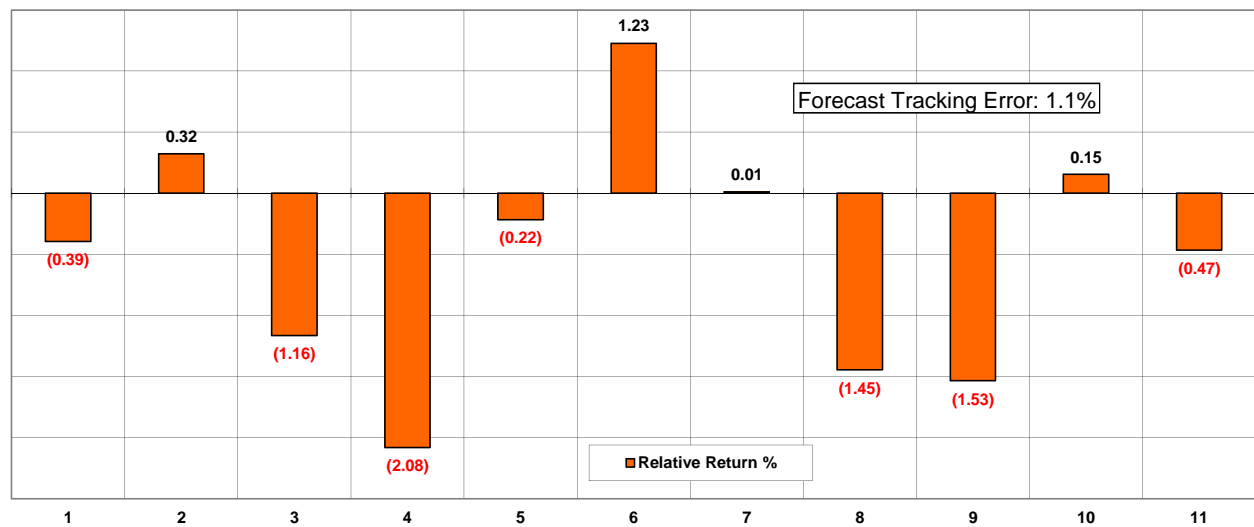
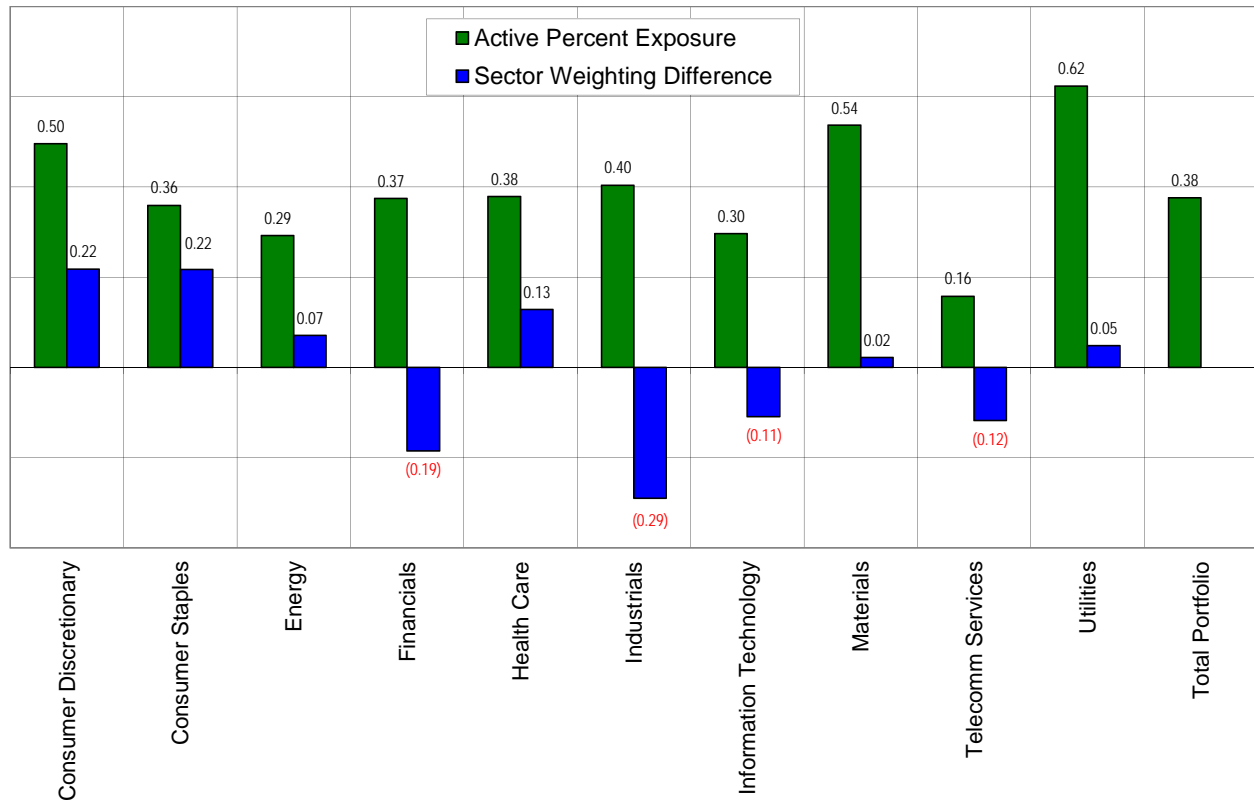
TCRS North American Equity Funds



TCRS Cap Weights vs. S & P 1500 Composite



Large Cap Quant Fund
 Jim Robinson, CFA & Kushal Gupta, CFA

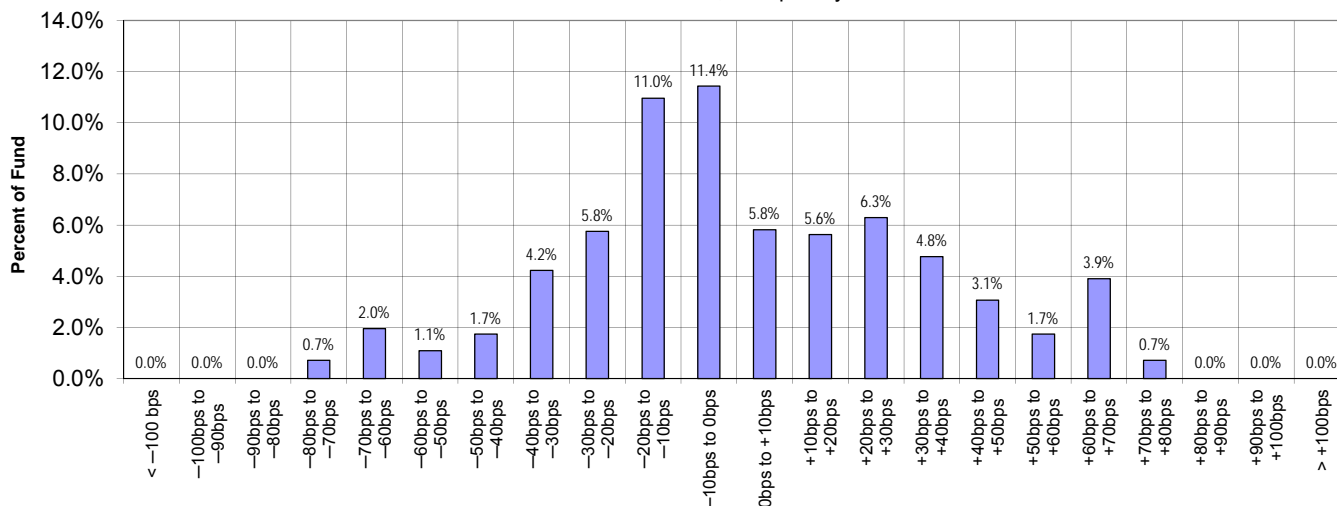


Through the 2nd quarter the S&P 500 had reached all-time highs and continued to climb till August 2nd. On June 19th, Fed Chairman Ben Bernanke announced in regards to the current Quantitative Easing program that '...it would be appropriate to moderate the pace of purchases later this year.' He went on to say, assuming that the outlook for the economy and labor markets meet the Fed's expectations, 'we will continue to reduce the pace of purchases in measured steps through the first half of next year, ending purchases around mid-year'. Many investment professionals, including me, are experiencing policy fatigue. Markets across the globe including stocks, bonds, currencies, commodities, etc... seem to be driven more and more by speculation based on policy actions rather than on the things we were all taught move markets.

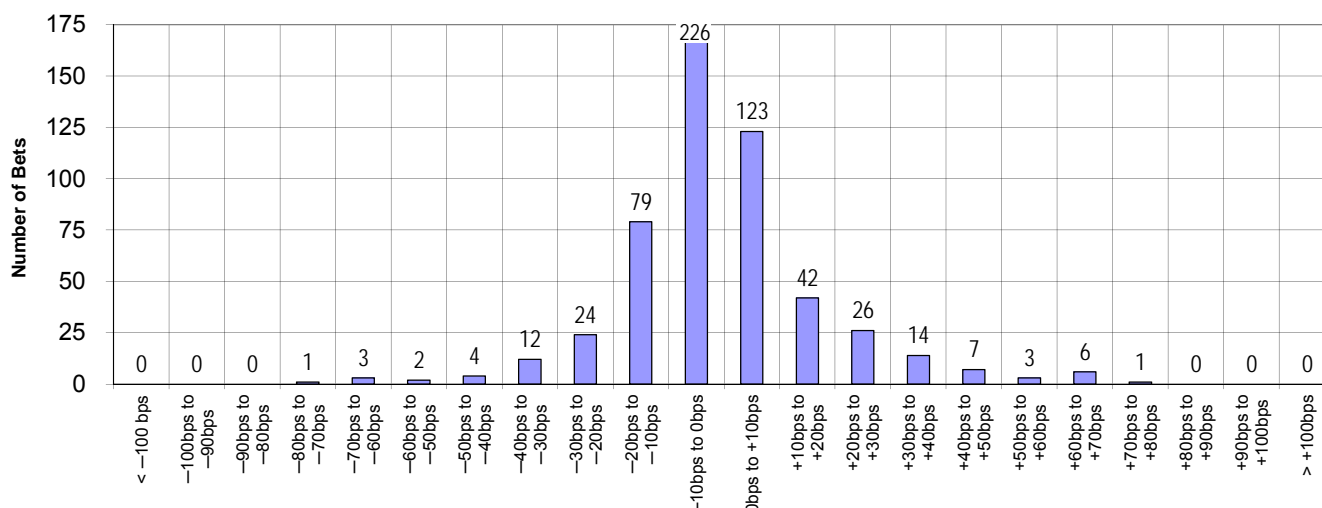
We continue to see the growth indices outperform their value counterparts for the large indices. ISI's Equity Sector Allocation Survey Shows Tech as Favorite Sector. ISI Institutional Equity Sector Allocation & Hedge Fund Sector Allocation Surveys for August 2013 saw investors cut back on Tech and hold divergent positioning in consumer discretionary.

The quant models slightly underperformed in the quarter and the portfolio had a 19 bps underperformance versus the benchmark. We still have the same provisions as the last quarter to neutralize the risks. The Quant Fund's tracking error was once again maintained at levels similar to that which it was lowered in previous quarters.

Active Bets in Fund vs. S&P500, Grouped by Bet Sizes



Number of Individual Stocks in Bet Size Bins

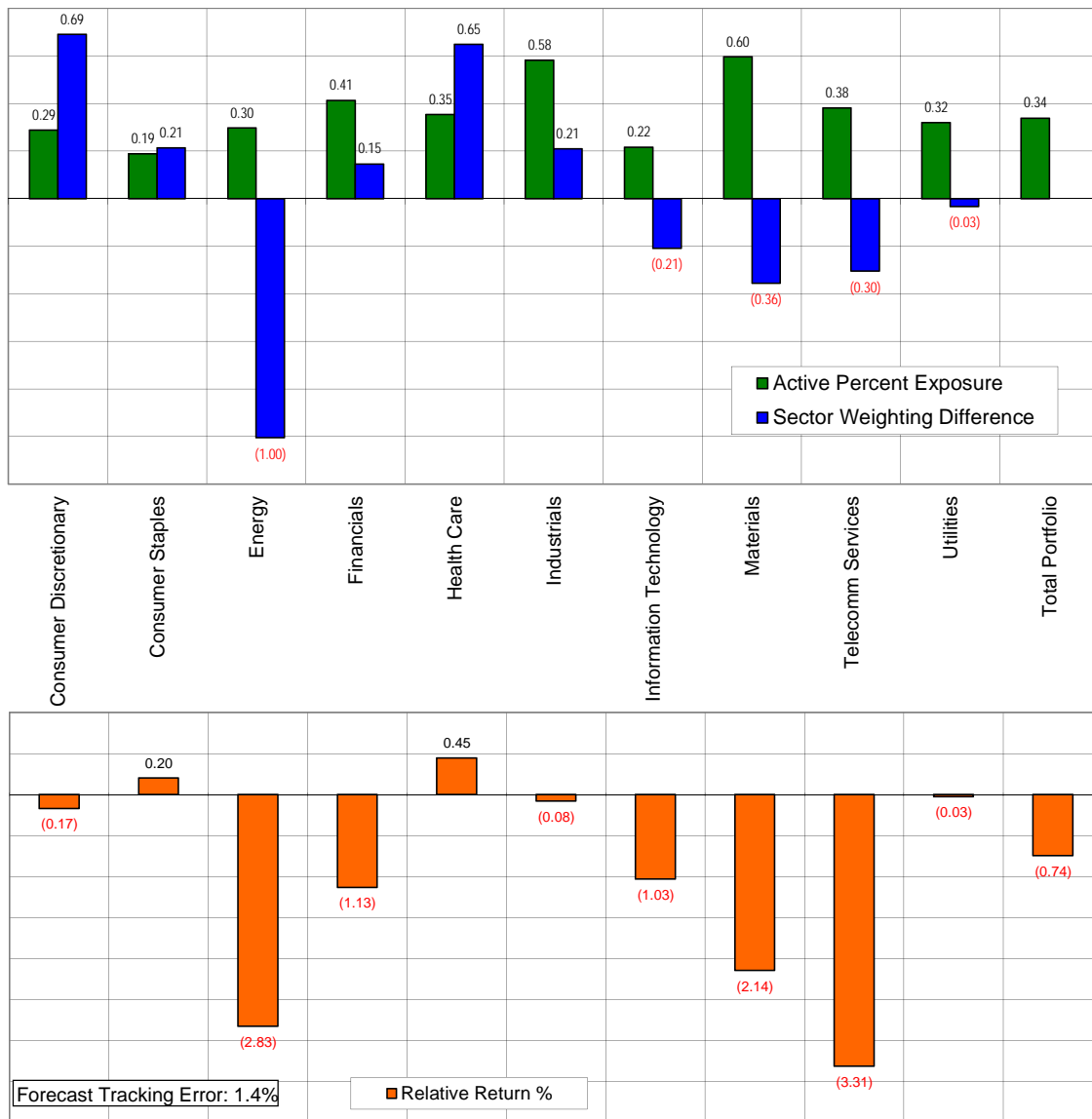


Largest Overweights by Stock in Fund

Ticker	Description	Bps Over
TJX	TJX Cos.	71
NEE	NextEra Energy Inc	69
MO	Altria Group Inc.	67
PFE	Pfizer Inc.	66
ORCL	Oracle Corp.	64
DE	Deere & Co.	64
MDT	Medtronic Inc.	60
GIS	General Mills Inc.	60
XOM	Exxon Mobil Corp.	58
CB	Chubb Corp.	56
CVX	Chevron Corp.	48
NOC	Northrop Grumman Corp.	47
CI	Cigna Corporation	44
TRV	Travelers Cos. Inc.	44
WMT	Wal-Mart Stores Inc.	42
K	Kellogg Co.	42
LLY	Eli Lilly & Co.	41
ABBV	AbbVie Inc.	40
BDX	Becton Dickinson & Co.	39
FITB	Fifth Third Bancorp	39

Largest Underweights by Stock in Fund

Ticker	Description	Bps Under
MCD	McDonald's Corp.	-72
PM	Philip Morris International Inc.	-70
MRK	Merck & Co Inc	-64
V	Visa Inc.	-63
UTX	United Technologies Corp.	-56
COP	ConocoPhillips	-52
MMM	3M Co.	-48
BYM	Bristol-Myers Squibb Co.	-43
KO	Coca-Cola Co.	-42
AIG	American International Group Inc.	-41
ABT	Abbott Laboratories	-40
MDLZ	Mondelez International Inc. CI A	-39
GOOG	Google Inc. CI A	-37
EBAY	eBay Inc.	-37
BRK.B	Berkshire Hathaway Inc. CI B	-36
AMZN	Amazon.com Inc.	-36
JNJ	Johnson & Johnson	-36
ESRX	Express Scripts Holding Co	-34
COST	Costco Wholesale Corp.	-33
BIIB	Biogen Idec Inc.	-33

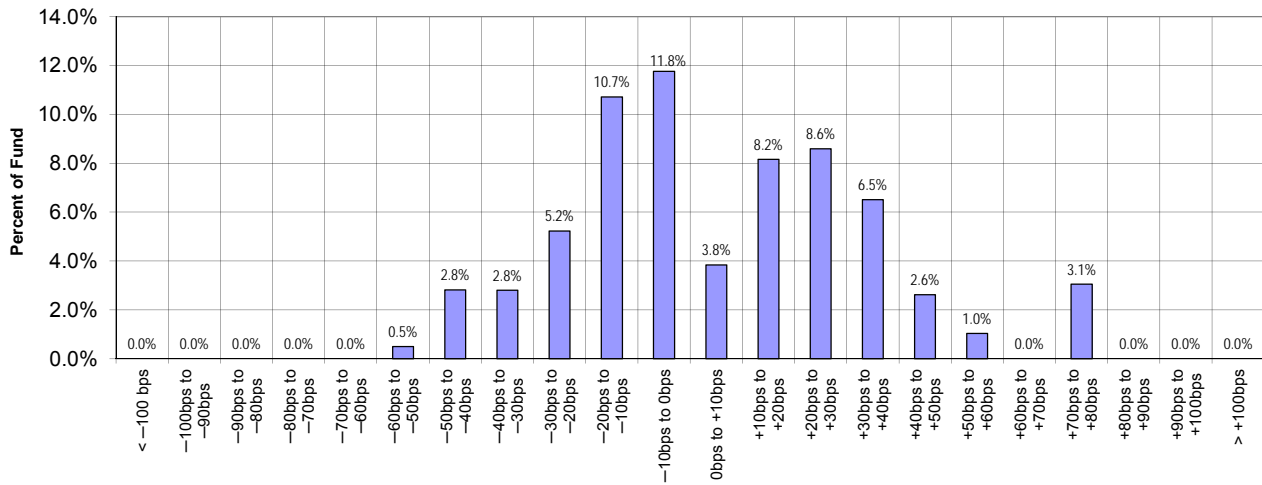


The gains of the first quarter continued into the second as fears of recession from austerity by sequester and tax hikes proved to be unfounded; on the contrary, cutting spending and raising taxes was the ticket to cutting the budget deficit. The happy times would not last long as Fed Chairman Bernanke launched his trial lead balloon suggesting that free money will not last forever. Stocks and especially bonds sold off in what is being called the "Taper Tantrum" despite economists' reassurance that any bond buying by the central bank is still easing.

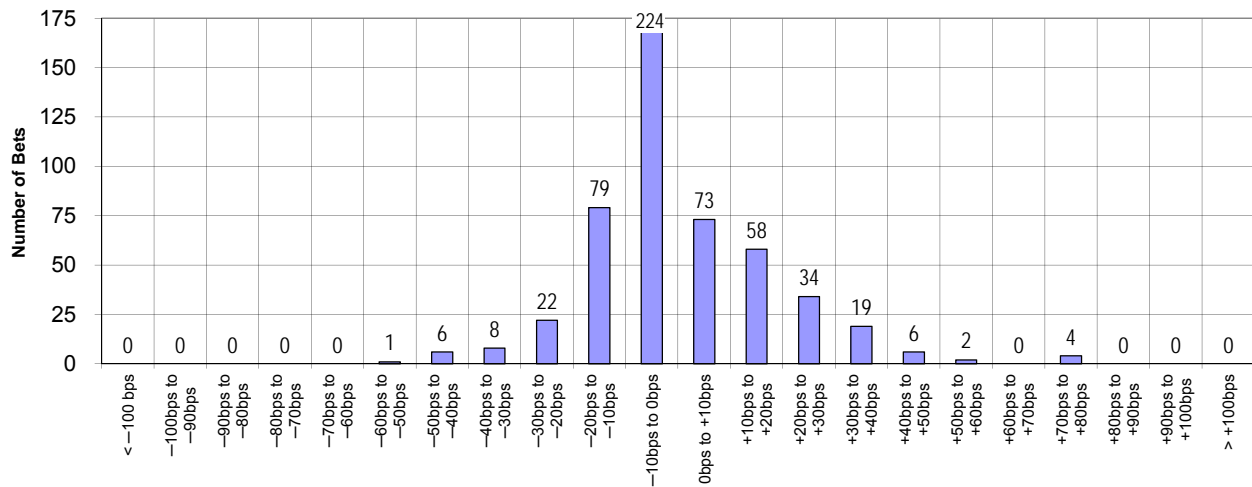
The Sector Fund tries to be neither "bullish" nor "bearish" but the reversal in the equity market came with reversals in several stocks. The market wrestled with slow economic growth as it was never clear if consumer or capital spending would take the United States forward. At quarter's end it was found to be the Financials sector that advanced the most confirming that the Fed Chairman probably has the clearest crystal ball.

While most of the Sector Fund's biggest active weights were not rewarded this quarter there were some standouts. Health Care company Actavis spurned two potential acquirers and won its own target in a boardroom drama that was lauded by the market. Marathon Petroleum Company, an Energy sector refiner and marketer bounced off of nine times earnings assisted by falling margins and led the decliners.

Active Bets in Fund vs. S&P500, Grouped by Bet Sizes



Number of Individual Stocks in Bet Size Bins

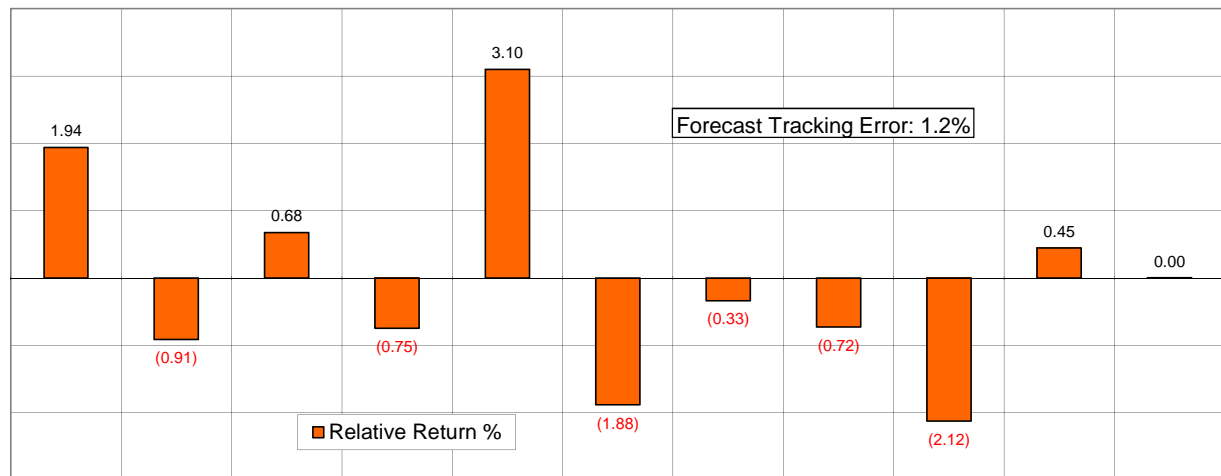
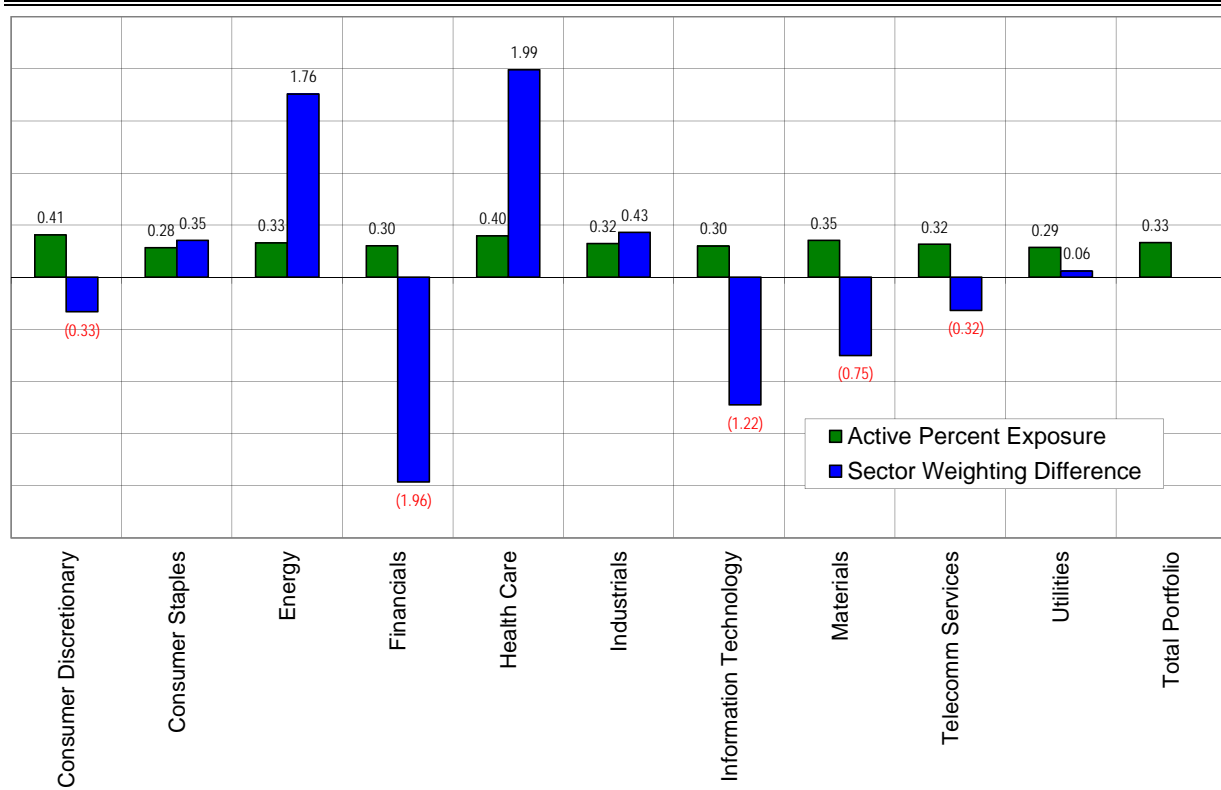


Largest Overweights by Stock in Fund

Ticker	Description	Bps Over Index Wt
BA	Boeing Co.	80
ETN	Eaton Corporation PLC	76
HON	Honeywell International Inc.	76
UNP	Union Pacific Corp.	74
HCC	HCC Insurance Holdings Inc.	54
MPC	Marathon Petroleum Corp.	50
BEAV	B/E Aerospace Inc.	49
CTL	CenturyLink Inc.	45
IBM	International Business Machines Co	45
PCP	Precision Castparts Corp.	42
ORCL	Oracle Corp.	41
TSO	Tesoro Corp.	40
JPM	JPMorgan Chase & Co.	40
CVX	Chevron Corp.	39
MTB	M&T Bank Corp.	39
CI	Cigna Corporation	37
DAL	Delta Air Lines Inc.	36
AAPL	Apple Inc.	36
ADT	ADT Corporation	35
GOOG	Google Inc. Cl A	35

Largest Underweights by Stock in Fund

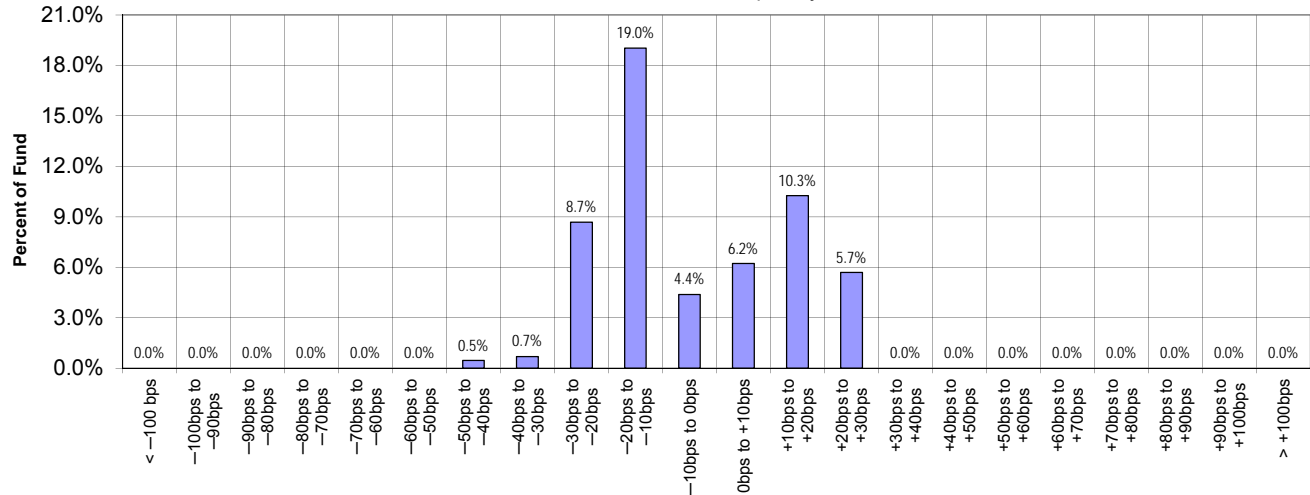
Ticker	Description	Bps Under
OXY	Occidental Petroleum Corp.	-50
AXP	American Express Co.	-50
MMM	3M Co.	-49
T	AT&T Inc.	-48
AIG	American International Group Inc.	-46
BRK.B	Berkshire Hathaway Inc. Cl B	-45
PFE	Pfizer Inc.	-44
VZ	Verizon Communications Inc.	-40
CAT	Caterpillar Inc.	-38
CL	Colgate-Palmolive Co.	-35
MET	MetLife Inc.	-35
LLY	Eli Lilly & Co.	-34
JNJ	Johnson & Johnson	-34
DD	E.I. DuPont de Nemours & Co.	-34
BAC	Bank of America Corp.	-31
ABT	Abbott Laboratories	-28
EBAY	eBay Inc.	-28
EMR	Emerson Electric Co.	-27
DOW	Dow Chemical Co.	-27
PNC	PNC Financial Services Group Inc.	-27



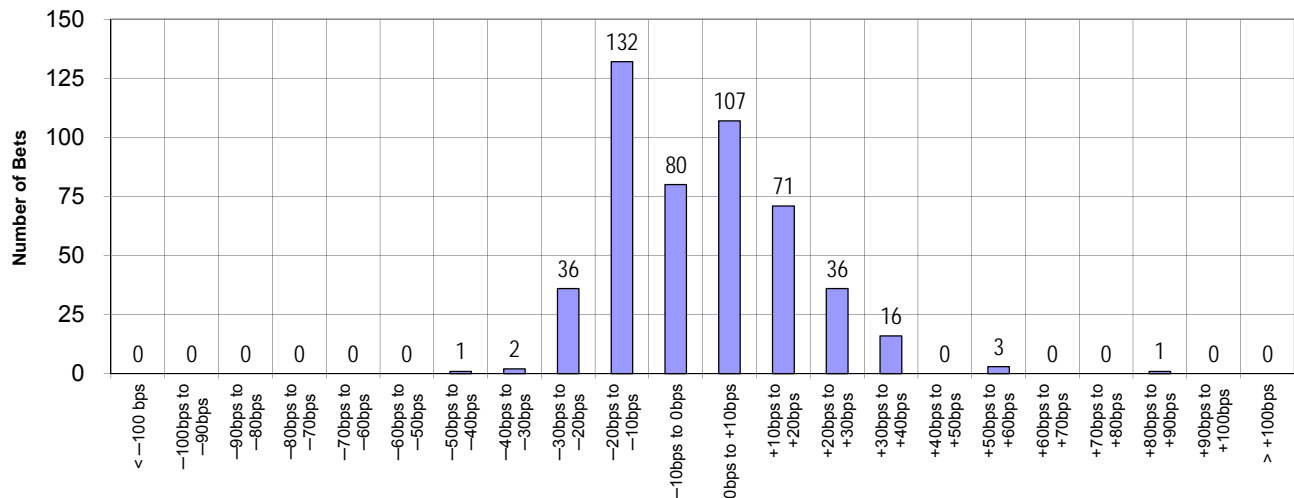
Stocks did reasonably well through most of the quarter but Fed policy concerns associated with the tapering of QE made for a difficult month of June. Domestic equities underperformed the S&P 1500 benchmark return for the quarter as an overweight commitment to the mid and small cap funds relative to the index was offset by our large cap funds underperforming their respective benchmarks. Value factors tended to outperform growth during the quarter as did smaller stocks. Although the underpinnings of the recent run in U.S. domestic stocks appear to be rather shaky, the bull market seems to be intact and risk aversion somewhat in retreat which bodes well for our current mid overweight to small and mid-cap stocks.

The Mid Cap Fund matched the S&P Mid Cap 400 return during the quarter. An overweight commitment and good stock selection in the Health Care Sector was offset by poor stock selection in the Financial and Industrial Sectors leading to flat returns relative to the index and another quarter in which we experienced an unusually strong return attribution from sector allocation.

Active Bets in Fund vs. S&P400, Grouped by Bet Sizes



Number of Individual Stocks in Bet Size Bins



Largest Overweights by Stock in Fund

Ticker	Description	Bps Over
ENR	Energizer Holdings Inc.	52
WYN	Wyndham Worldwide Corp.	52
CRI	Carter's Inc.	51
AEE	Ameren Corp.	40
JKHY	Jack Henry & Associates Inc.	39
HBI	Hanesbrands Inc.	38
NVE	NV Energy Inc.	38
EAT	Brinker International Inc.	37
OCR	Omnicare Inc.	37
SGY	Stone Energy Corp.	34
PVH	PVH Corp.	34
SIVB	SVB Financial Group	33
WDR	Waddell & Reed Financial Inc. Cl A	33
TXT	Textron Inc.	32
GEF	Greif Inc. Cl A	32
SBNY	Signature Bank	32
IT	Gartner Inc.	30
PRA	ProAssurance Corp.	30
PDCO	Patterson Cos. Inc.	30
DRC	Dresser-Rand Group Inc.	30

Largest Underweights by Stock in Fund

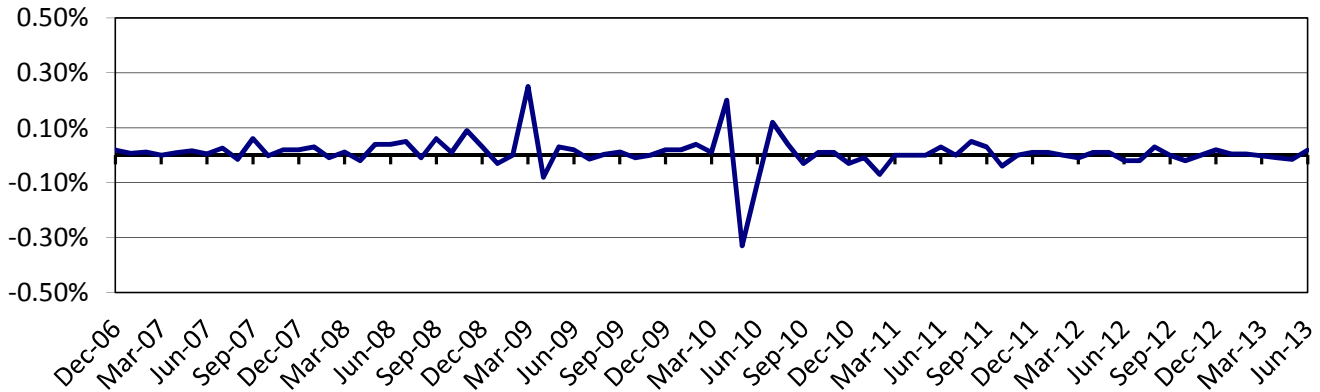
Ticker	Description	Bps Under
PII	Polaris Industries Inc.	-46
HOLX	Hologic Inc.	-39
HSIC	Henry Schein Inc.	-30
NCR	NCR Corp.	-30
COO	Cooper Cos.	-30
GGG	Graco Inc.	-29
DCI	Donaldson Co. Inc.	-29
CVD	Covance Inc.	-29
CNQR	Concur Technologies Inc.	-28
GDI	Gardner Denver Inc.	-28
ATR	AptarGroup Inc.	-28
ANSS	Ansys Inc.	-27
OHI	Omega Healthcare Investors Inc.	-27
SON	Sonoco Products Co.	-26
HME	Home Properties Inc.	-26
FMER	FirstMerit Corp.	-25
DPZ	Domino's Pizza Inc.	-25
AYI	Acuity Brands Inc.	-24
TW	Towers Watson & Co. Cl A	-24
TFX	Teleflex Inc.	-24

Passive Domestic Equity Funds
 Derrick Dagnan, CFA & Carrie Green, CFA

Index Fund vs. S&P 500

Assets as of June 2013: \$2.5B

Monthly Excess Returns

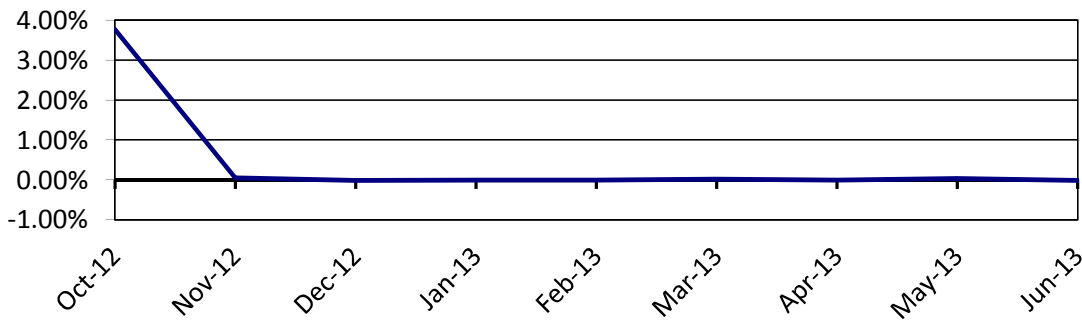


	1 Quarter	1 Year	3 Years	Since Inception
Index Fund	2.9%	20.6%	18.5%	5.1%
S&P 500	2.9%	20.6%	18.4%	5.0%
Excess Return	0.0%	0.0%	0.1%	0.1%
Tracking Error	0.06%	0.05%	0.10%	0.21%

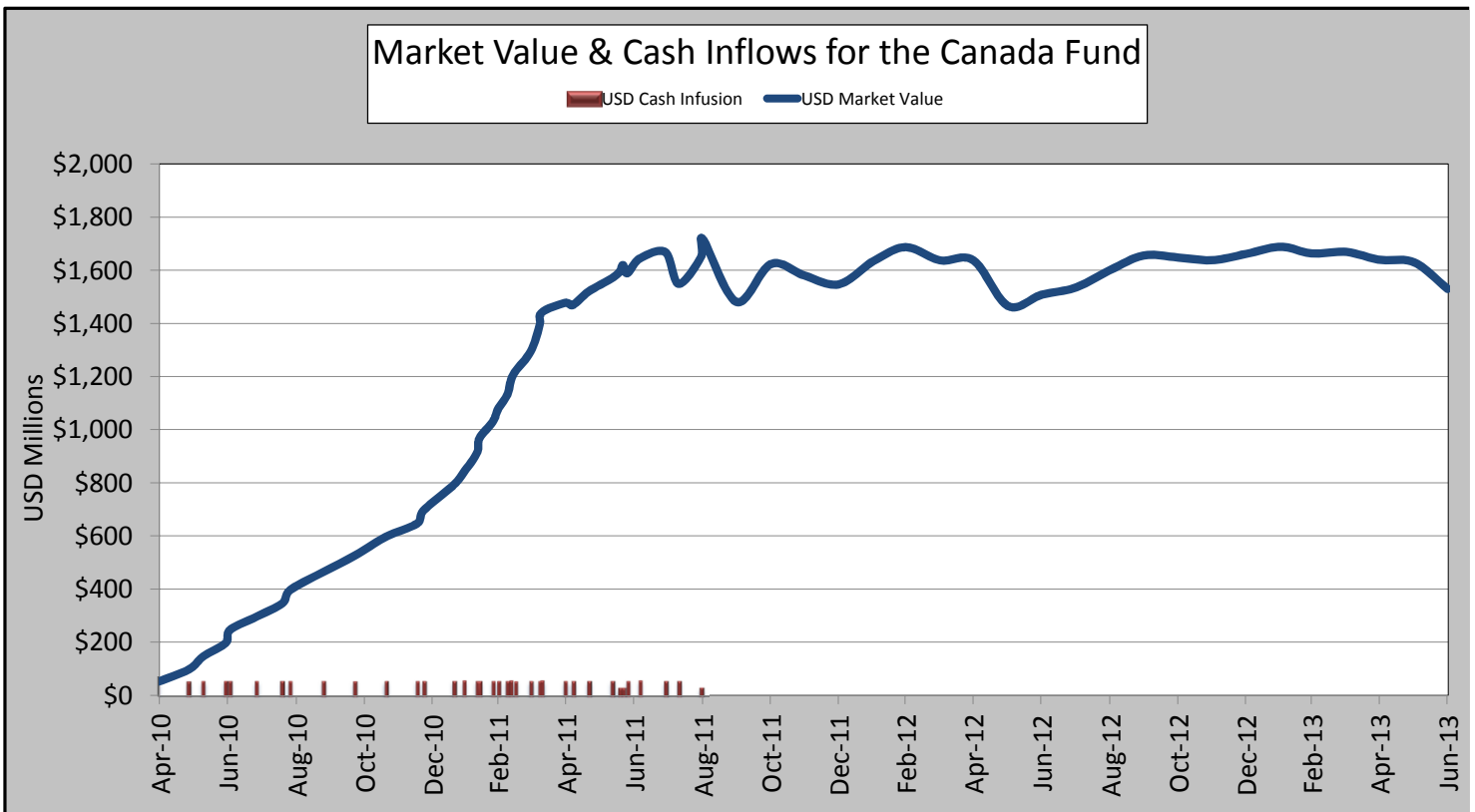
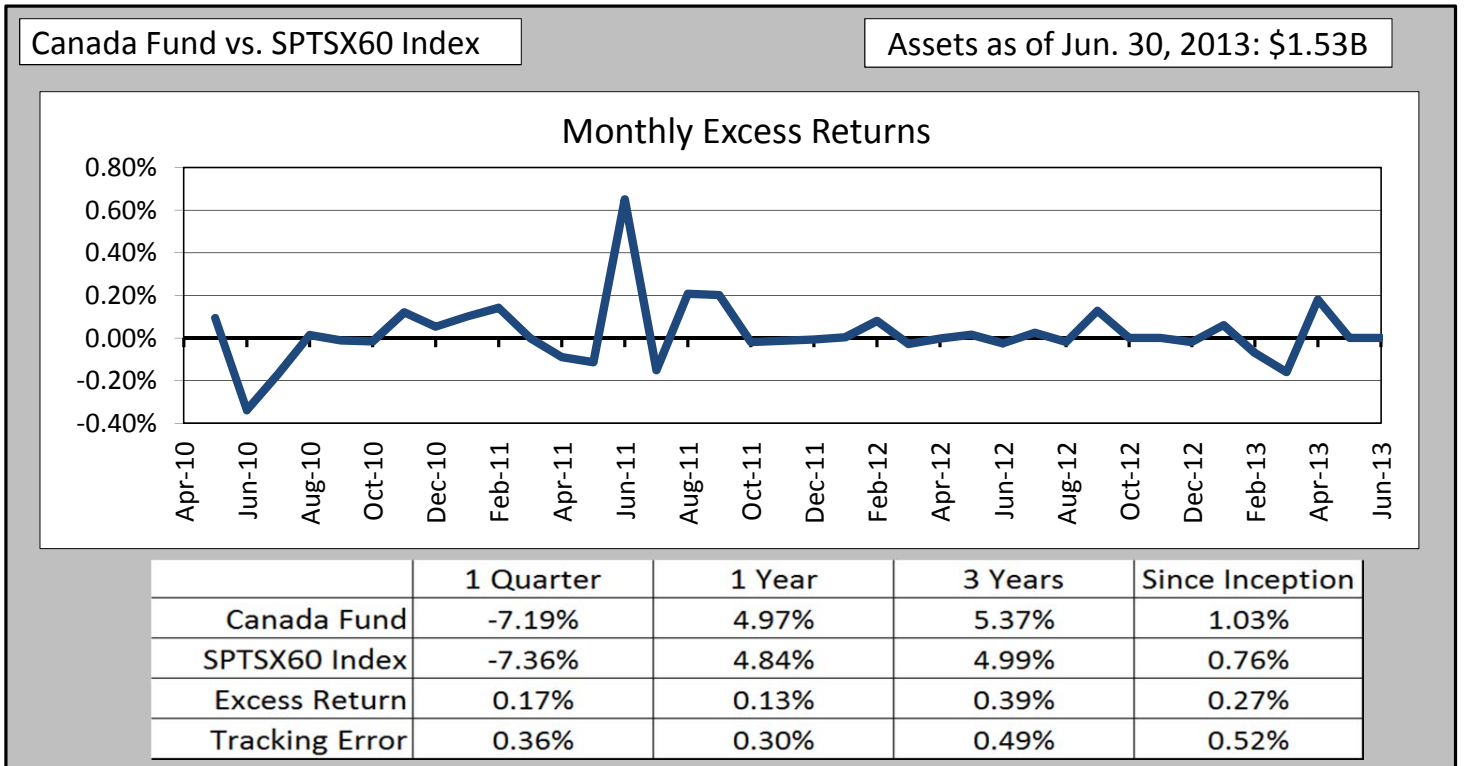
Small Cap Fund vs. S&P 600

Assets as of June 2013: \$620M

Monthly Excess Returns



	1 Quarter	1 Year	3 Years	Since Inception
Small Cap Fund	3.92%	N/A	N/A	23.38%
S&P 600	3.92%	N/A	N/A	18.77%
Excess Return	0.00%	N/A	N/A	4.61%
Tracking Error	0.08%	N/A	N/A	4.35%



Manager Performance Comparison – International Equity

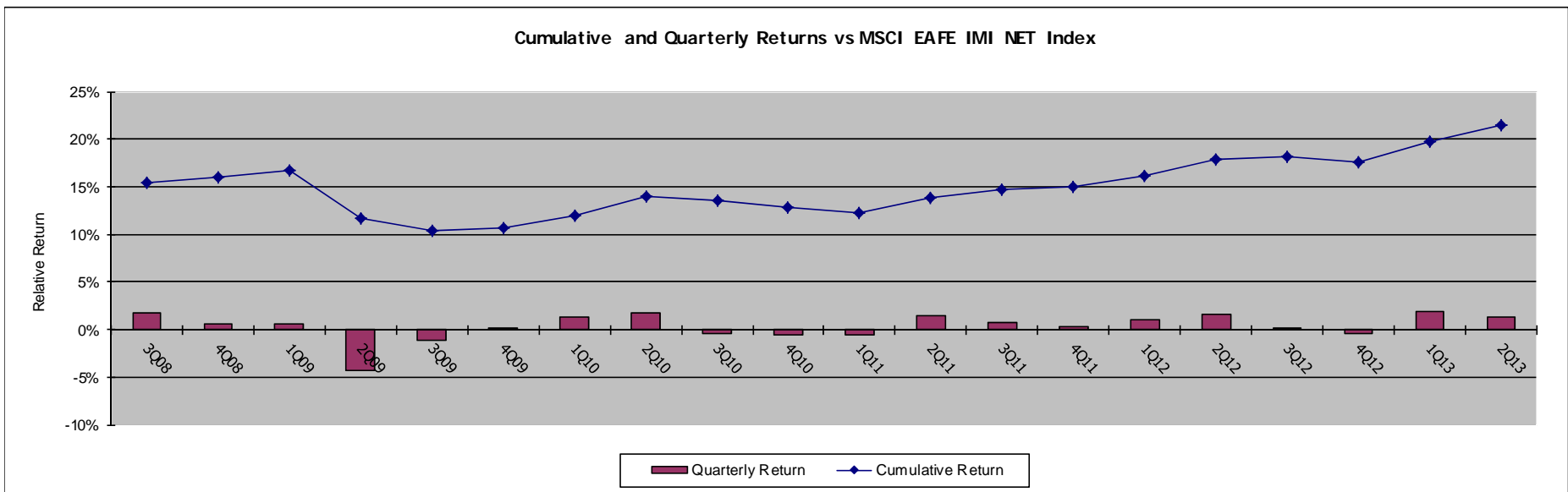
As of June 30, 2013

Manager returns for the quarter ending June 30, 2013

Manager	Manager Return	Benchmark	Benchmark Return
American Century	2.62	MSCI EAFE Small Cap NET	-2.52
Baring Asset Mgmt	0.87	MSCI EAFE NET Index	-0.98
Emerging Market ETF	-9.00	MSCI EMERGING NET CUSTOM	-8.40
GE Asset Mgmt	-0.68	MSCI Europe NET Index	-0.51
Marathon	1.23	MSCI EAFE NET Index ²	-0.98
Pacific Indexed Port ⁵	-2.30	MSCI Pacific NET Index ¹	-1.74
PanAgora	-0.54	MSCI EAFE NET Index	-0.98
Pyramis	-0.07	MSCI EAFE Small Cap NET	-2.52
TT International	3.75	MSCI EAFE NET Index	-0.98
Walter Scott	-3.11	MSCI EAFE NET Index ⁴	-0.98
International	-1.86	MSCI EAFE IM Net Index ³	-3.21

Manager returns for five years ending June 30, 2013

Manager	Manager Return	Benchmark	Benchmark Return
American Century		MSCI EAFE Small Cap NET	
Baring Asset Mgmt		MSCI EAFE NET Index	
Emerging Market ETF		MSCI EMERGING NET CUSTOM	
GE Asset Mgmt		MSCI Europe NET Index	
Marathon	3.55	MSCI EAFE NET Index ²	-0.63
Pacific Indexed Port ⁵	-0.71	MSCI Pacific NET Index ¹	1.18
PanAgora	1.21	MSCI EAFE NET Index	-0.63
Pyramis		MSCI EAFE Small Cap NET	
TT International		MSCI EAFE NET Index	
Walter Scott	5.03	MSCI EAFE NET Index ⁴	-1.61
International	1.75	MSCI EAFE IM Net Index ³	-0.95



¹ Effective as of 7/1/04; prior was MSCI AC Asia Pacific Free Index.

² Effective as of 5/19/06; prior was MSCI Europe Index.

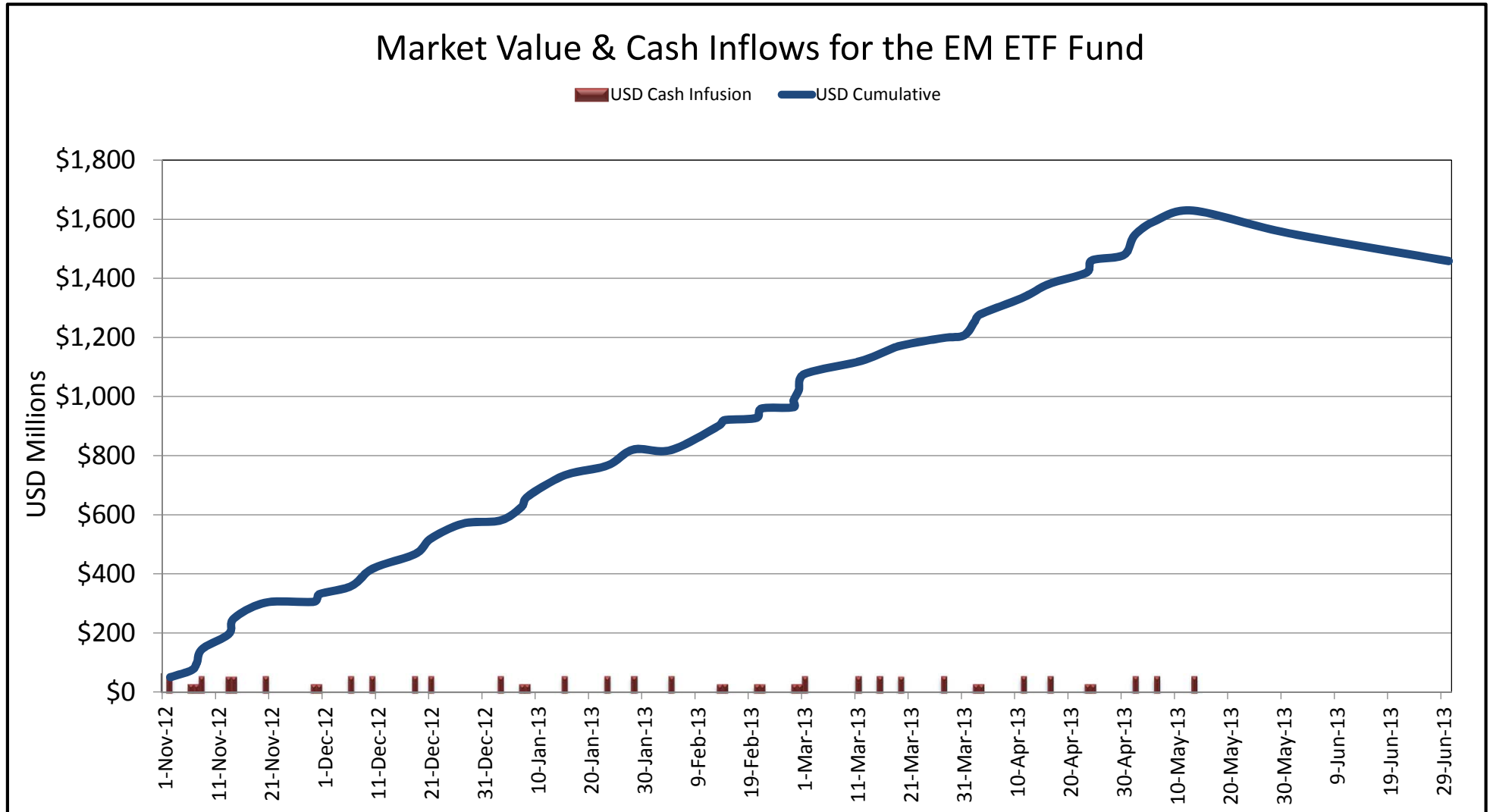
³ Effective as of 10/1/08; prior was MSCI EAFE NET Index.

⁴ Effective as of 2/2/09; prior was MSCI Europe Index.

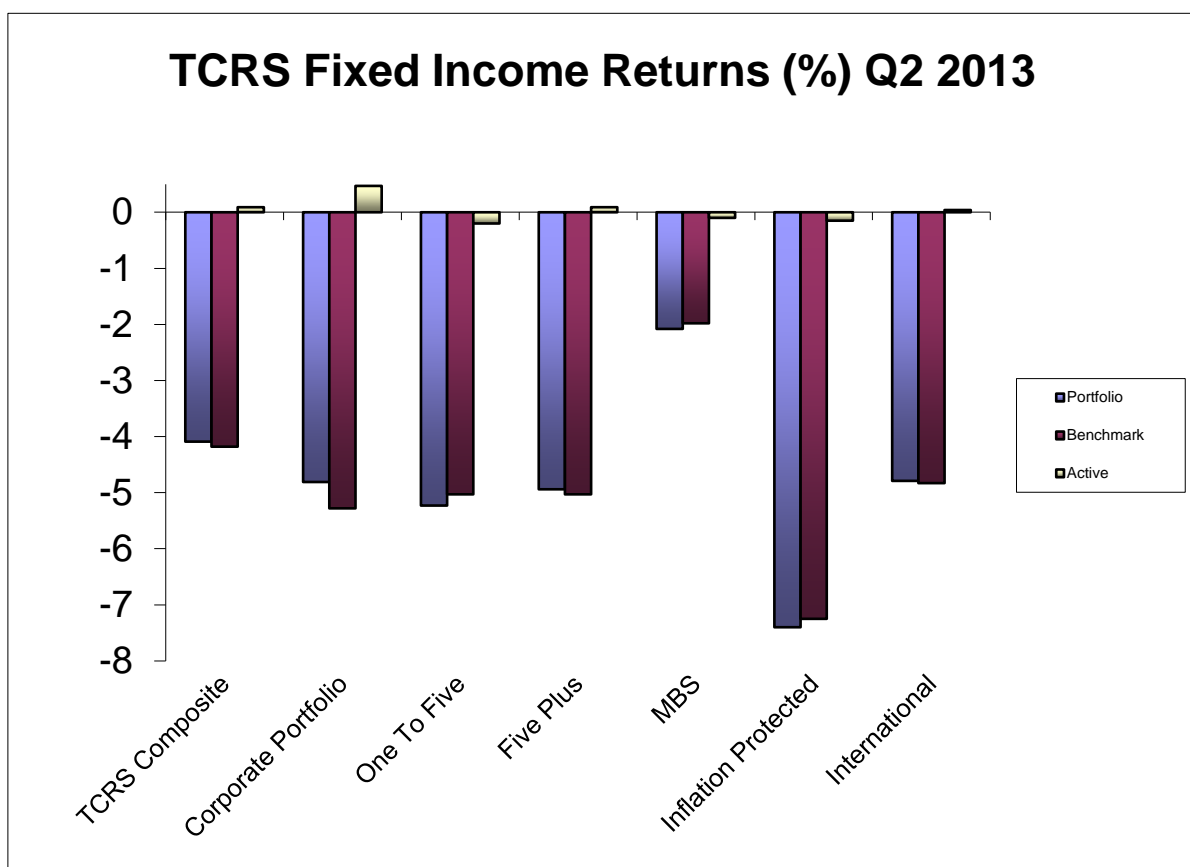
⁵ Performance was attributable to Amundi through 9/3/10; portfolio managed by TCRS staff afterward.

Emerging Markets ETF Fund
Kushal Gupta, CFA

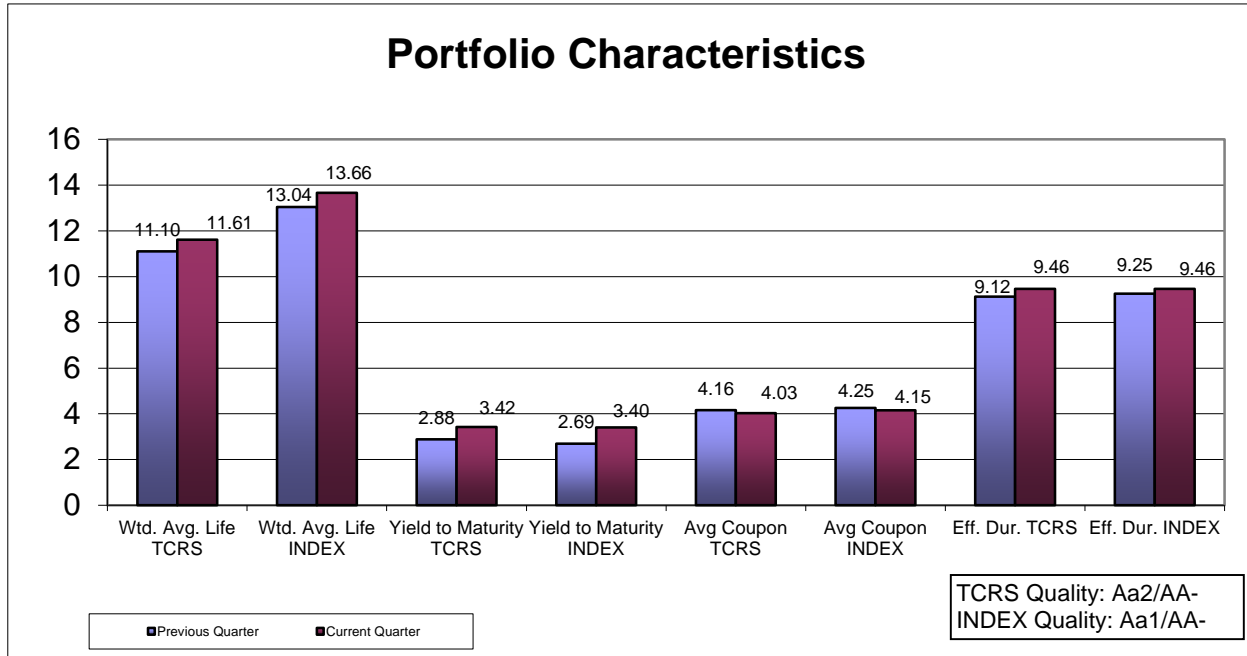
Assets as of Jun. 30, 2013: \$1.46B



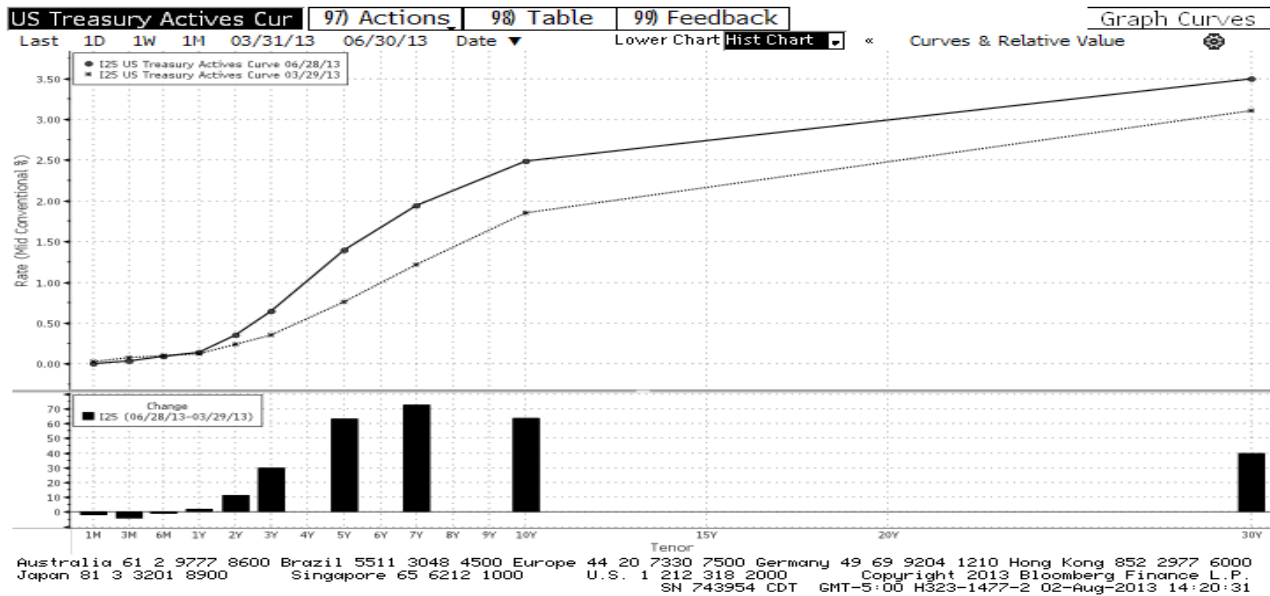
Portfolio	Value (Yield Book) (\$MMs)	Portfolio Return	Benchmark Return	Active Return
TCRS Domestic Fixed Income Composite	\$10,582	(4.09)	(4.18)	0.09
Corporate Portfolio	\$3,357	(4.81)	(5.28)	0.47
Government One To Five Years	\$1,779	(5.23)	(5.03)	(0.20)
Government Five Plus Years	\$1,845	(4.94)	(5.03)	0.09
Mortgage Portfolio	\$3,549	(2.08)	(1.98)	(0.10)
TCRS Inflation Protected Securities	\$2,722	(7.40)	(7.25)	(0.15)
TCRS International	\$0	(4.79)	(4.83)	0.04



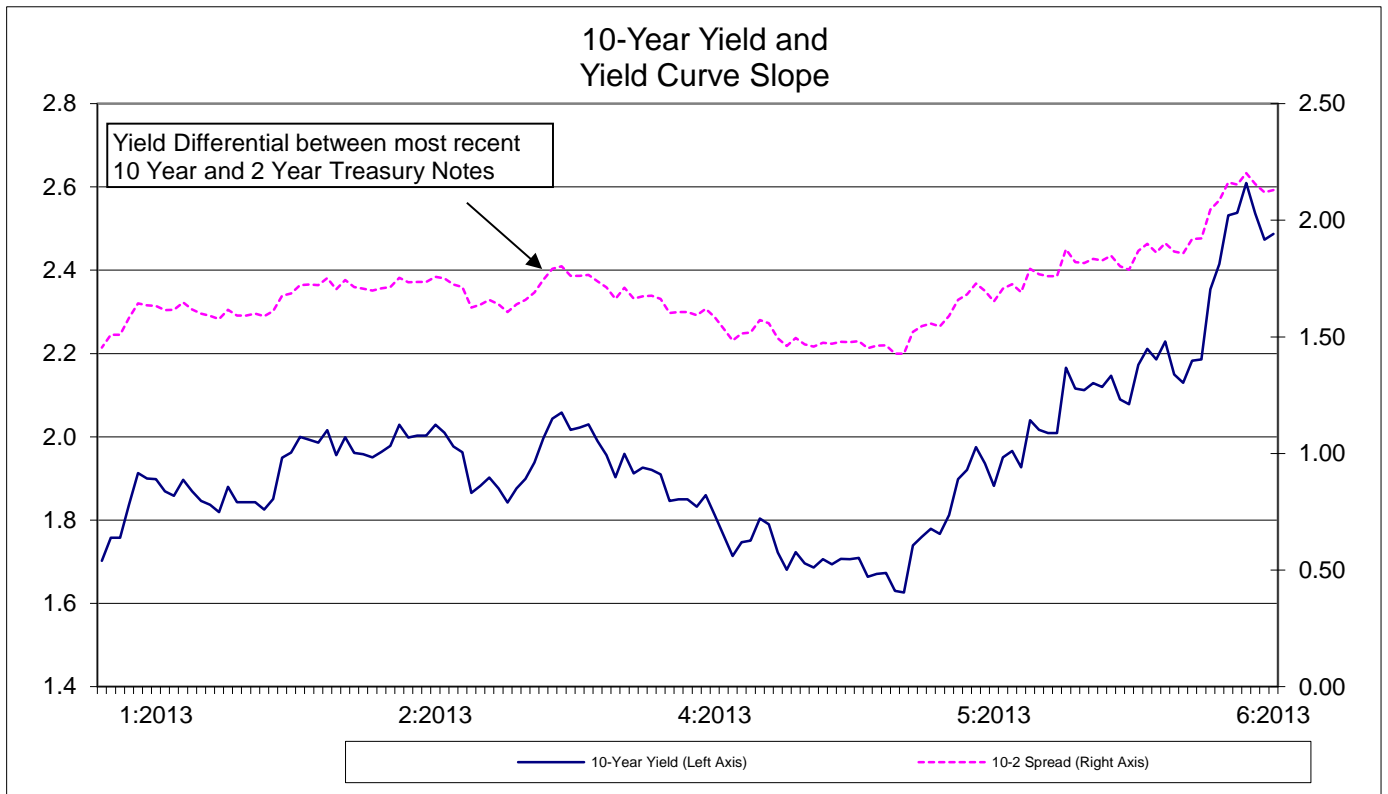
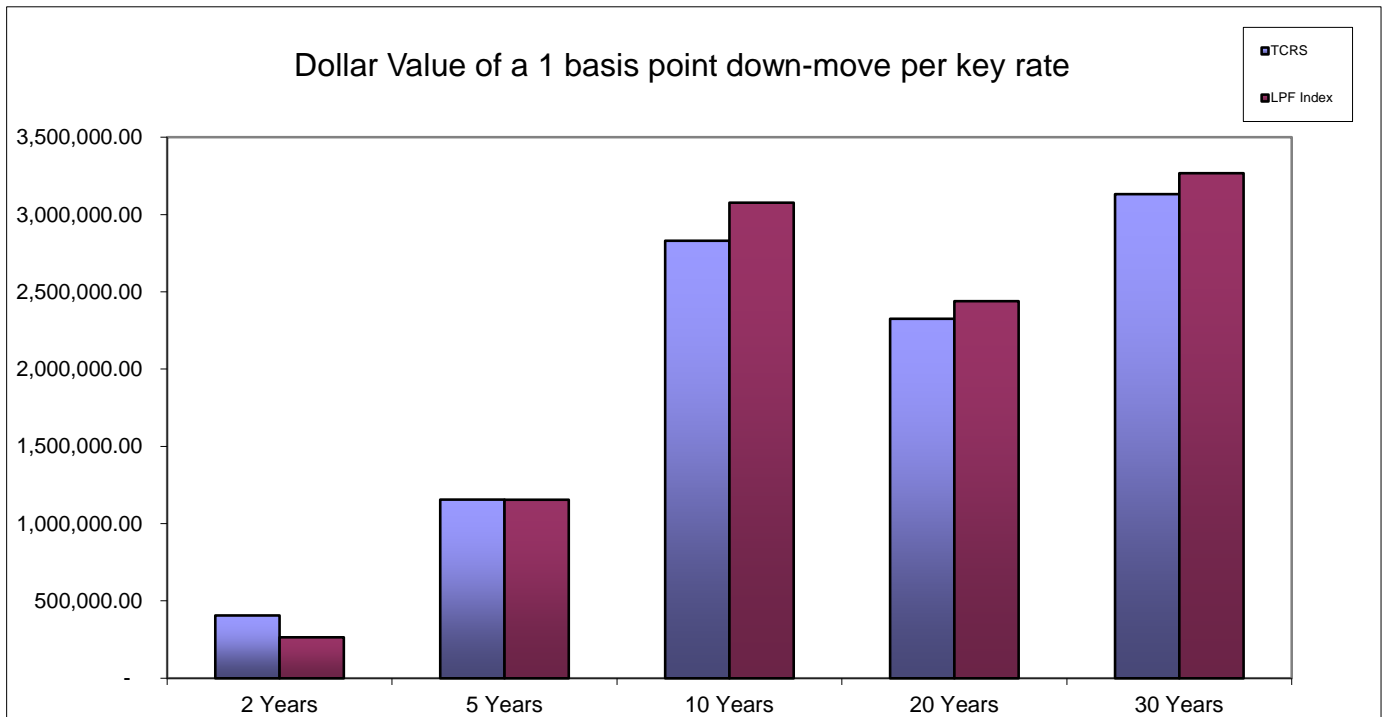
Characteristics show an increase in duration risk as long term yields rose during the quarter and MBS securities extended duration



Yields rose and the curve steepened, with intermediate yields rising the most

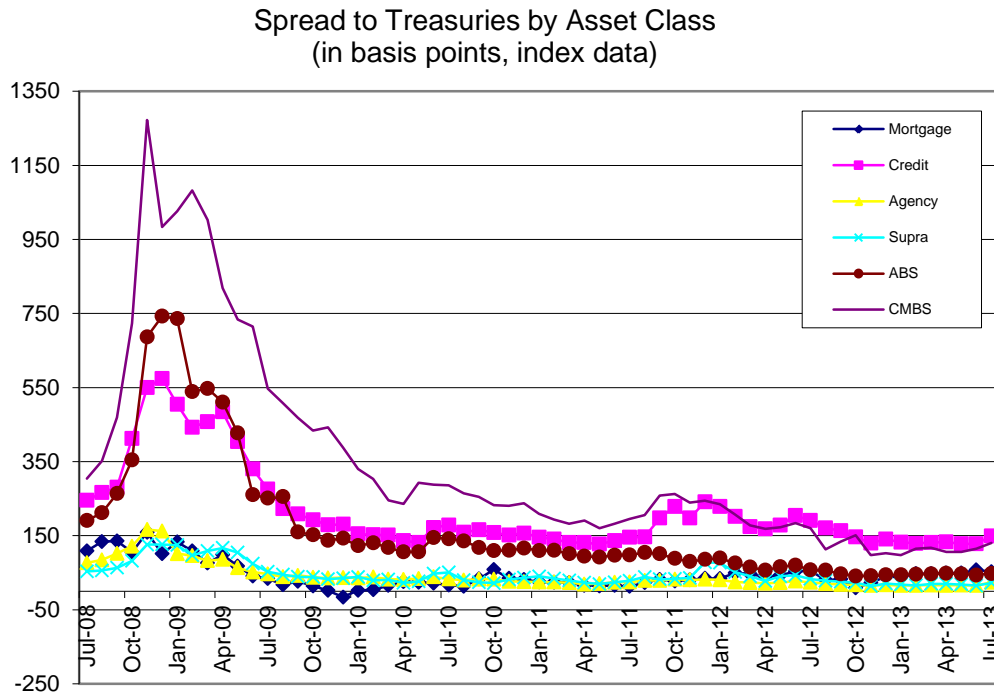
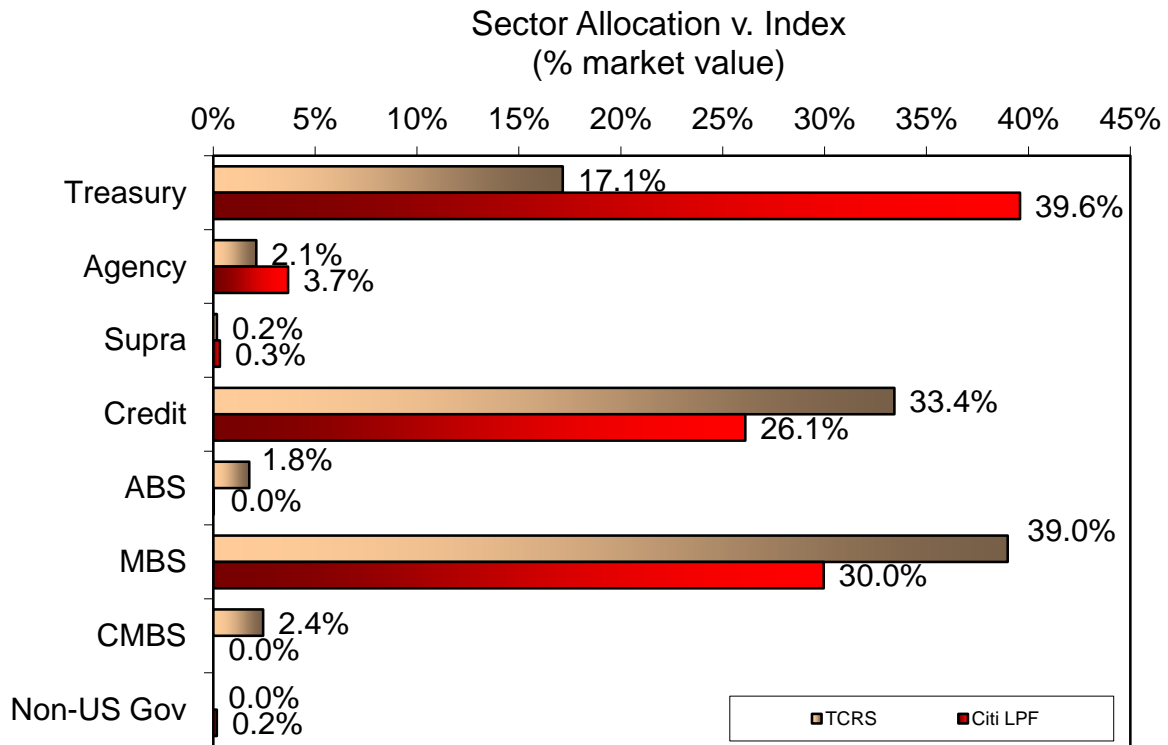


Curve positioning reflects overweight to MBS and Credit



source: Bloomberg

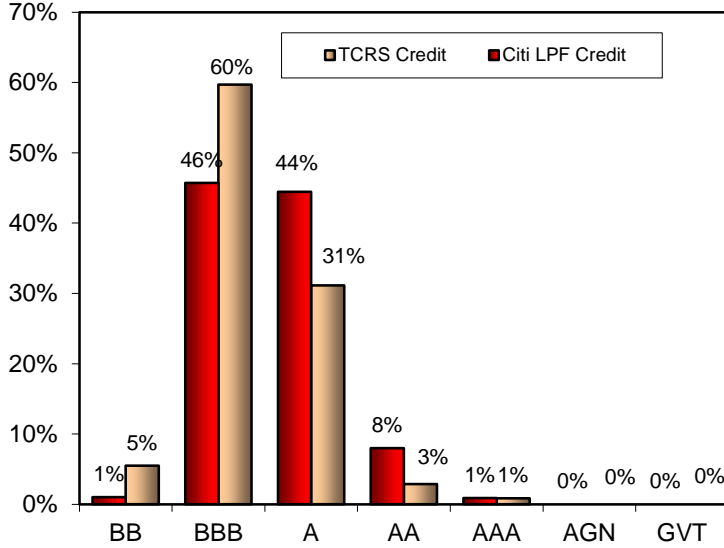
Rotated out of credit to MBS



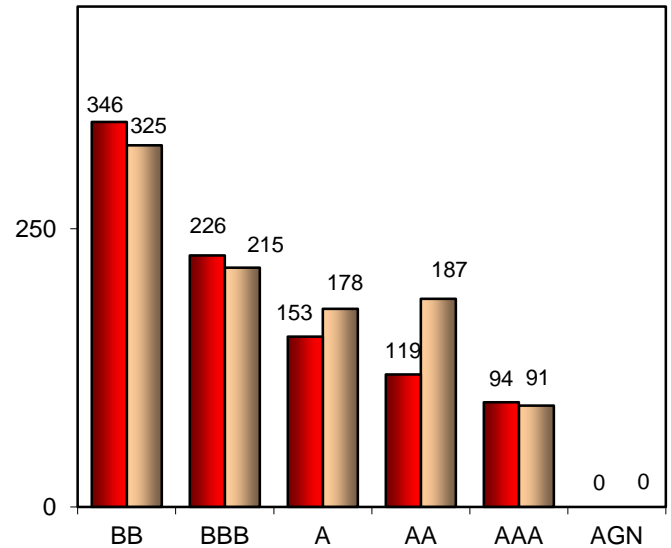
source: Yield Book

*Spreads widened during the quarter.
 TCRS spreads reflect a more conservative posture
 Spreads are lower in risky sectors and higher in safe sectors*

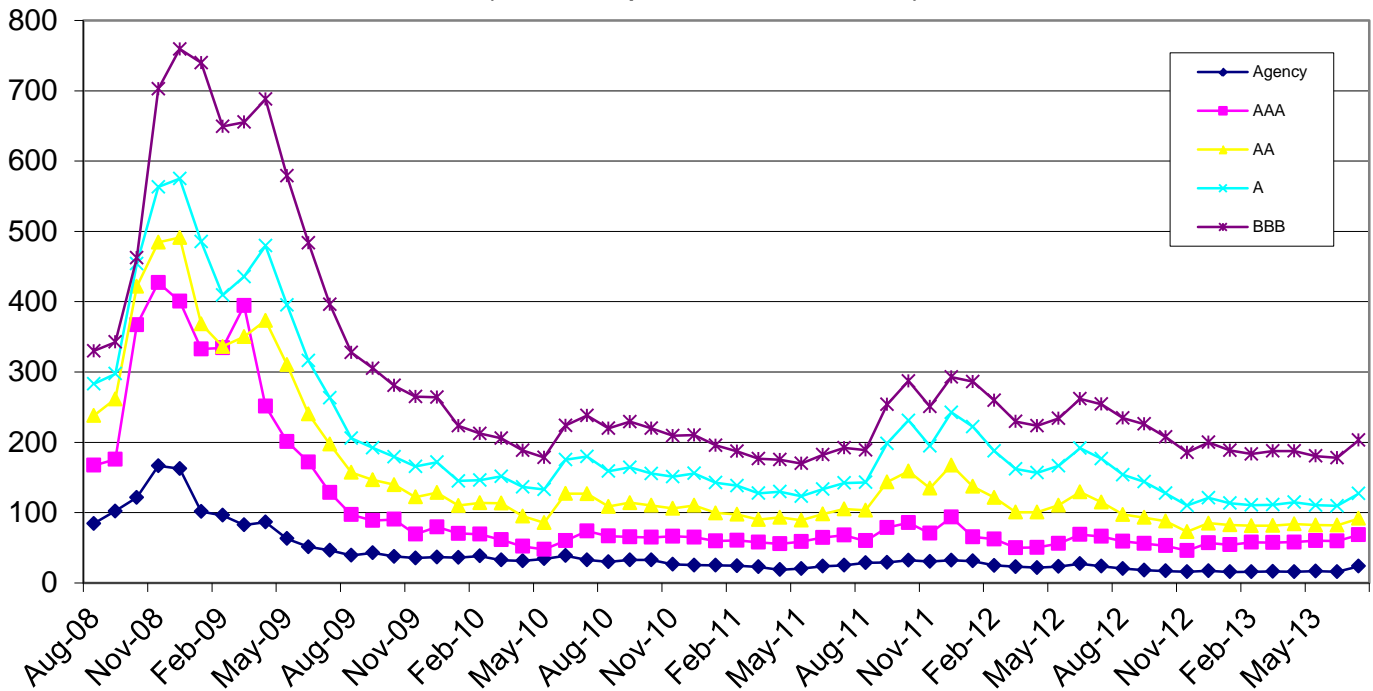
Credit Allocation v. Index
 (% market value)



OAS by Credit Allocation



Spread to Treasury by Credit Rating
 (in basis points, index data)

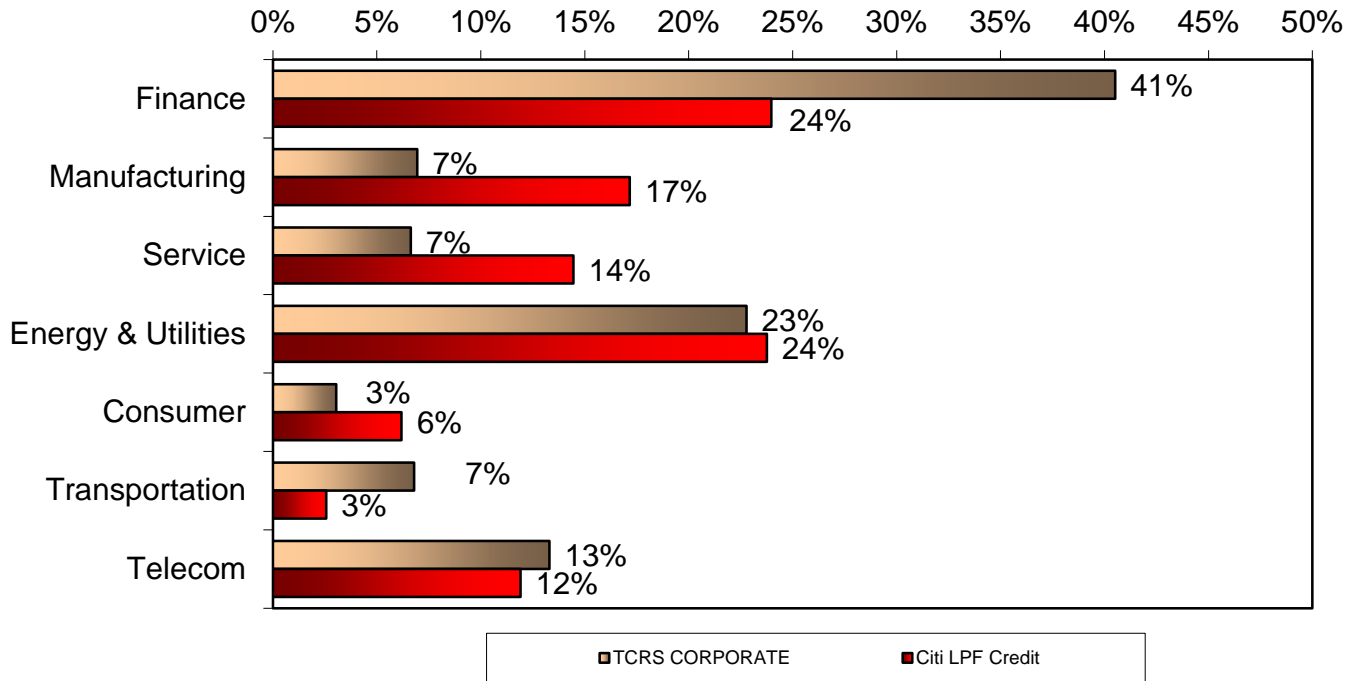


source: Yield Book

Top 5 Credit Holdings (by Market Value)	MktVal	% MktVal
GENERAL ELECTRIC CO	111,000	1.0
AMERICAN INTERNATIONAL GROUP INC	102,000	1.0
CITIGROUP	99,346	0.9
JPMORGAN CHASE & CO	93,019	0.9
BANK OF AMERICA CORP	80,941	0.8

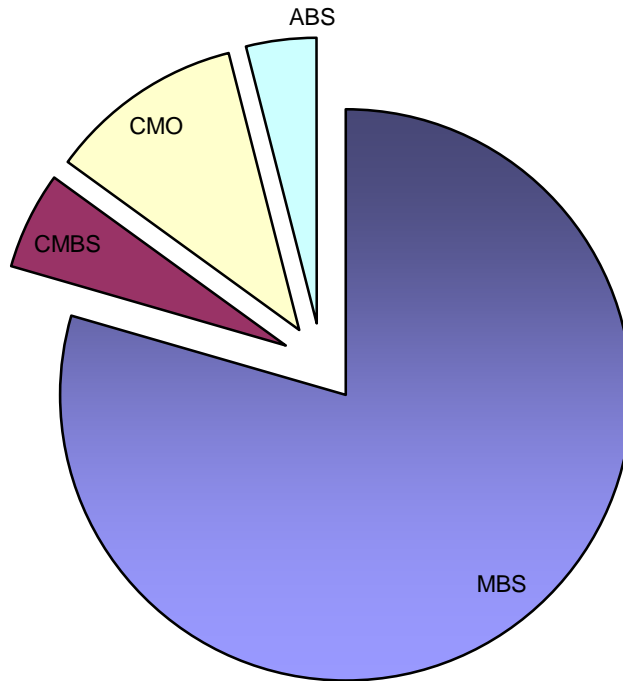
Top 5 Credit Holdings (by Dollar Duration)	\$ Duration	% \$ Duration
COMCAST CORP	93.75	0.9
JP MORGAN CHASE & CO	93.49	0.9
AT&T INC	92.76	0.9
GENERAL ELECTRIC CO	90.72	0.9
AMERICAN INTERNATIONAL GROUP INC	84.22	0.8

Sector Allocation v. Index
 (% market value)



	Market Value (\$MM - Yield Book)	TCRS % of portfolio	CITI	Difference
Agency Mortgage Backed Securities	\$3,740,464	35.2	30.0	5.2
GNMA				
15-Yr	\$8,972	0.1	0.1	0.0
30-Yr	\$699,660	6.6	7.5	-1.0
FNMA				
10-, 15- & 20-Yr	\$415,926	3.9	2.9	1.0
30-Yr	\$1,523,678	14.3	11.3	3.0
FHLM				
15-Yr	\$81,204	0.8	1.7	-1.0
30-Yr	\$871,033	8.2	6.4	1.8
Agency Hybrid	\$139,991	1.3	0.0	1.3
Commercial Mortgage Backed Securities	\$259,890	2.4	0.0	2.4
CMO and Non Agency Passthroughs	\$518,827	4.9	0.0	4.9
Asset Backed Securities	\$187,383	1.8	0.0	1.7
Total Securitized Product	\$4,706,564	44.2	30.0	14.3

Percent of Securitized Product



Portfolio Value (Yield Book): \$2,722,083,128

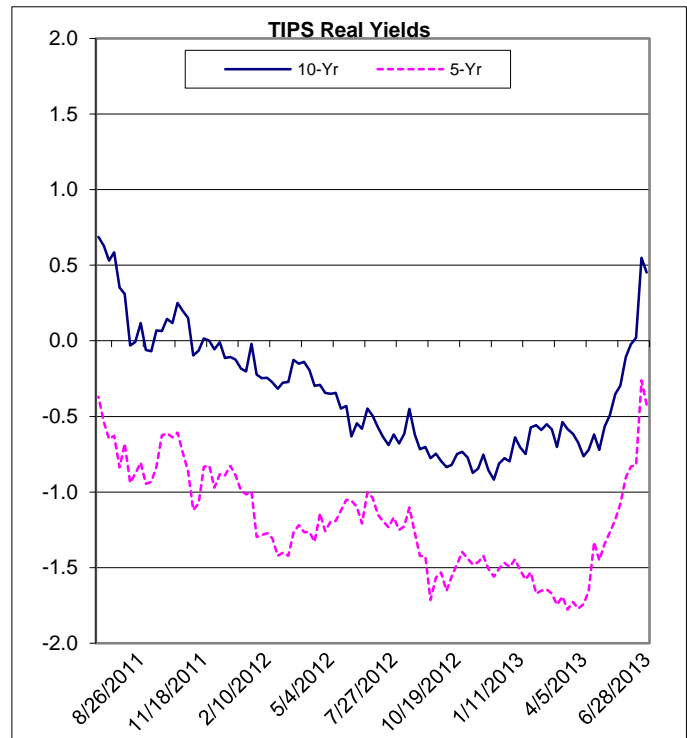
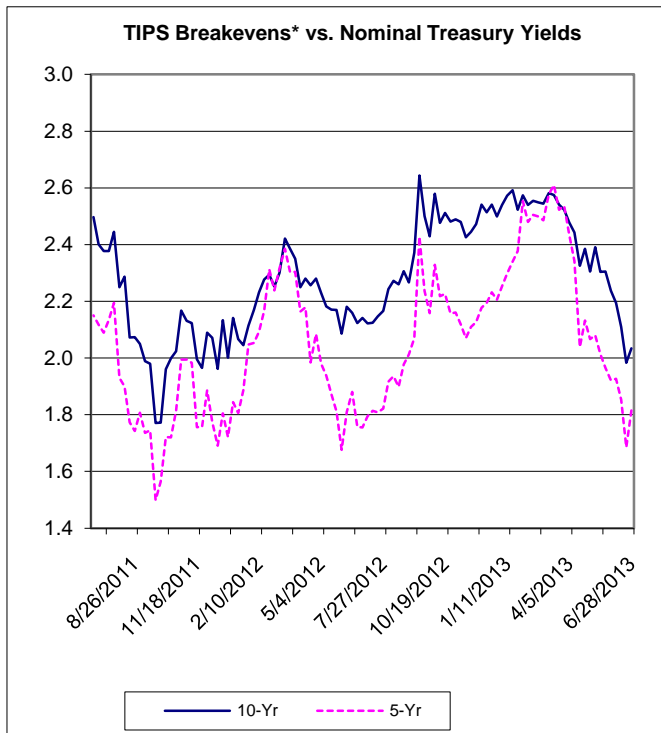
Portfolio Return: -7.40%

Citigroup ILSI Index: -7.25%

Active Return: -0.15%

% Market Value by Duration

	TCRS	CITI	Difference
0-2	0.0%	0.0%	0.0%
2-4	1.3%	1.3%	-0.1%
4-6	4.2%	4.1%	0.1%
6-8	6.4%	6.1%	0.3%
8-10	7.2%	7.4%	-0.1%
10+	13.0%	13.4%	-0.4%

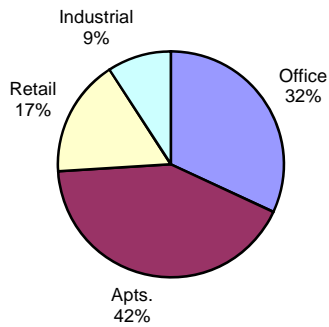


* The "breakeven" rate is the expected rate of inflation at which investment in TIPS yield the same return as investment in Treasuries

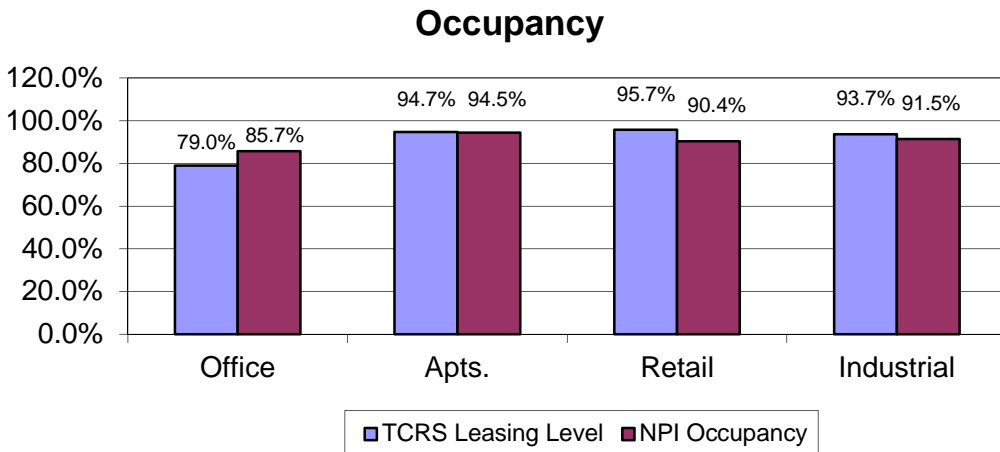
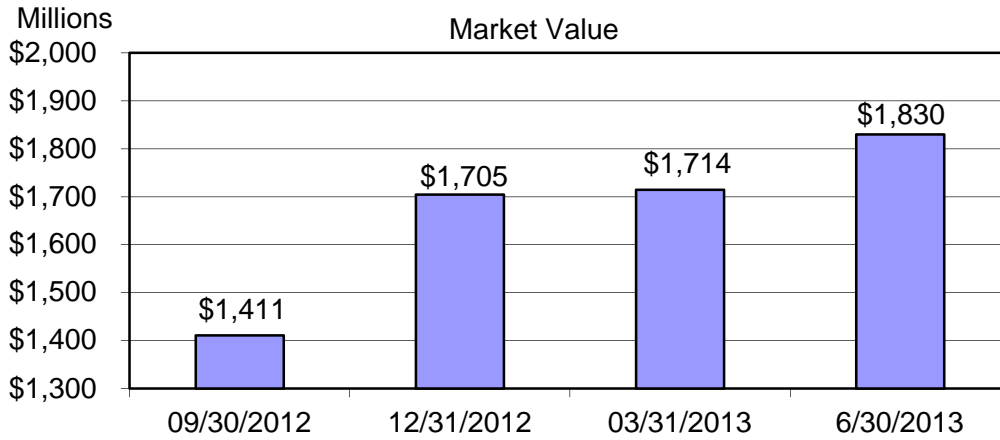
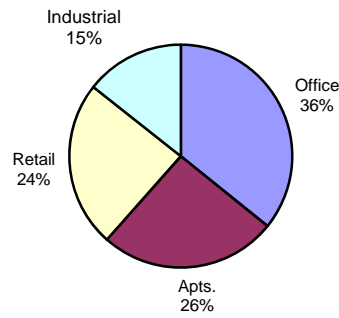
Source: Bloomberg

Peter Katseff

TCRS By Property Type

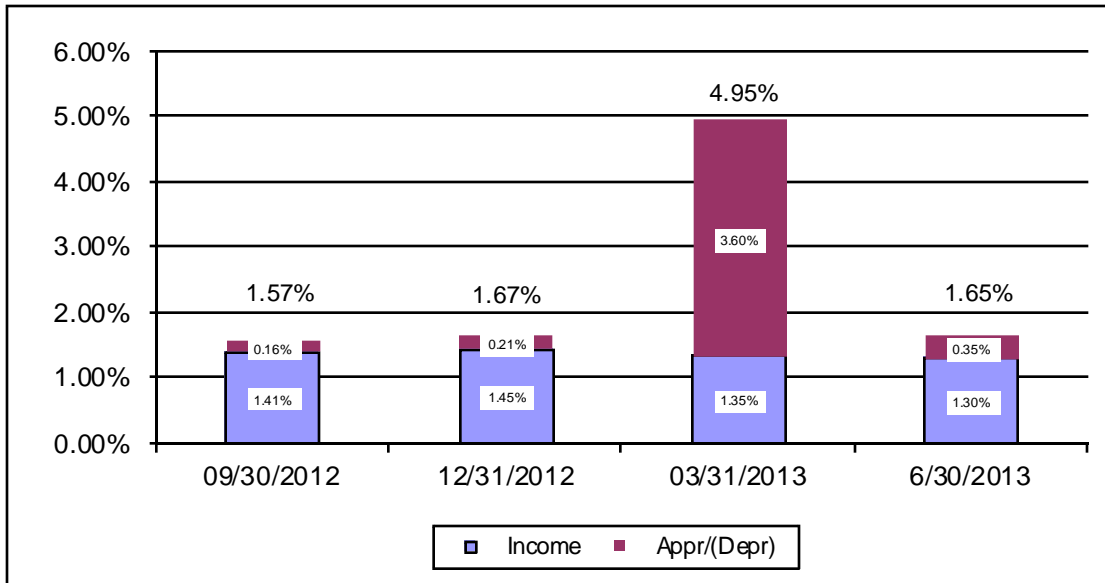


NPI By Property Type



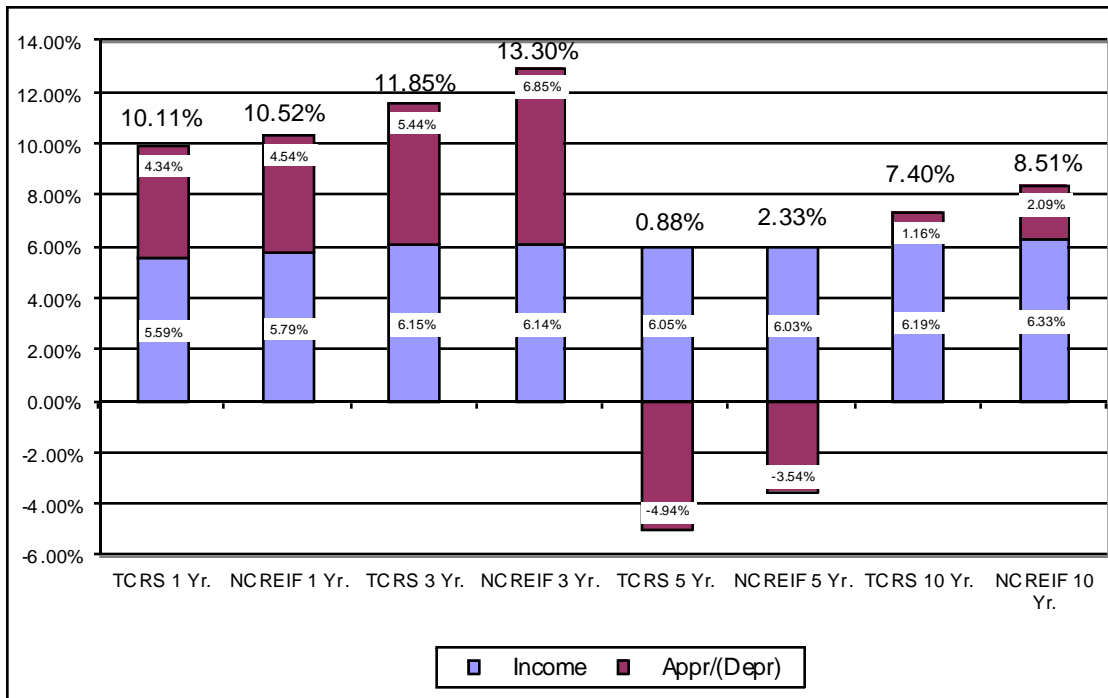
The NPI is the National Property Index of the National Council of Real Estate Investment Fiduciaries (the index used for US core properties).

Peter Katseff



All returns shown above are reported one quarter in arrears

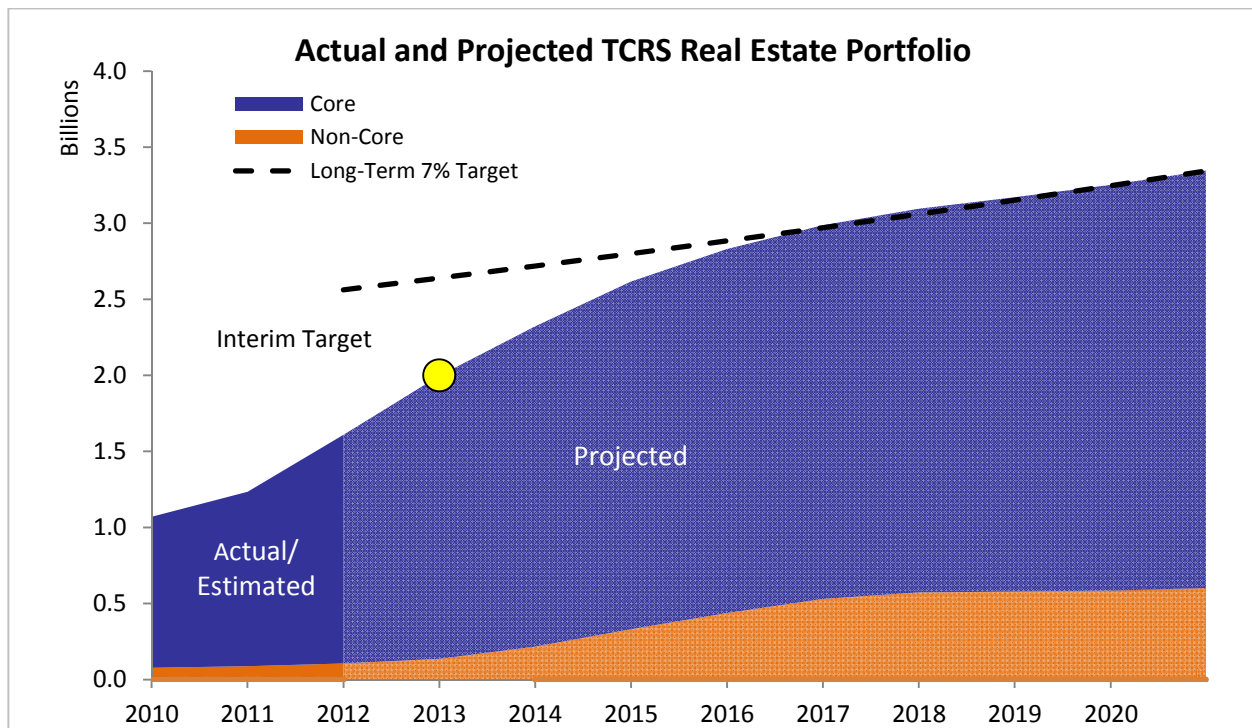
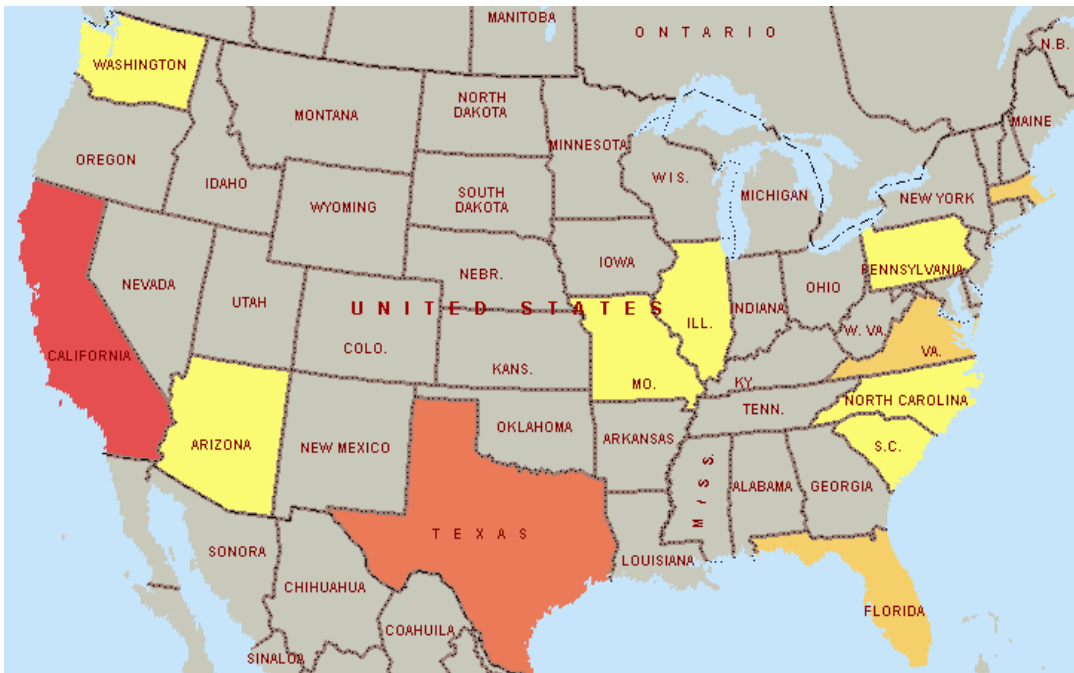
Budgeted Annual Income Return for calendar year 2013 (excluding REITs) 5.53%



All returns shown above are reported one quarter in arrears

Peter Katseff

Separate Account Diversification across the United States

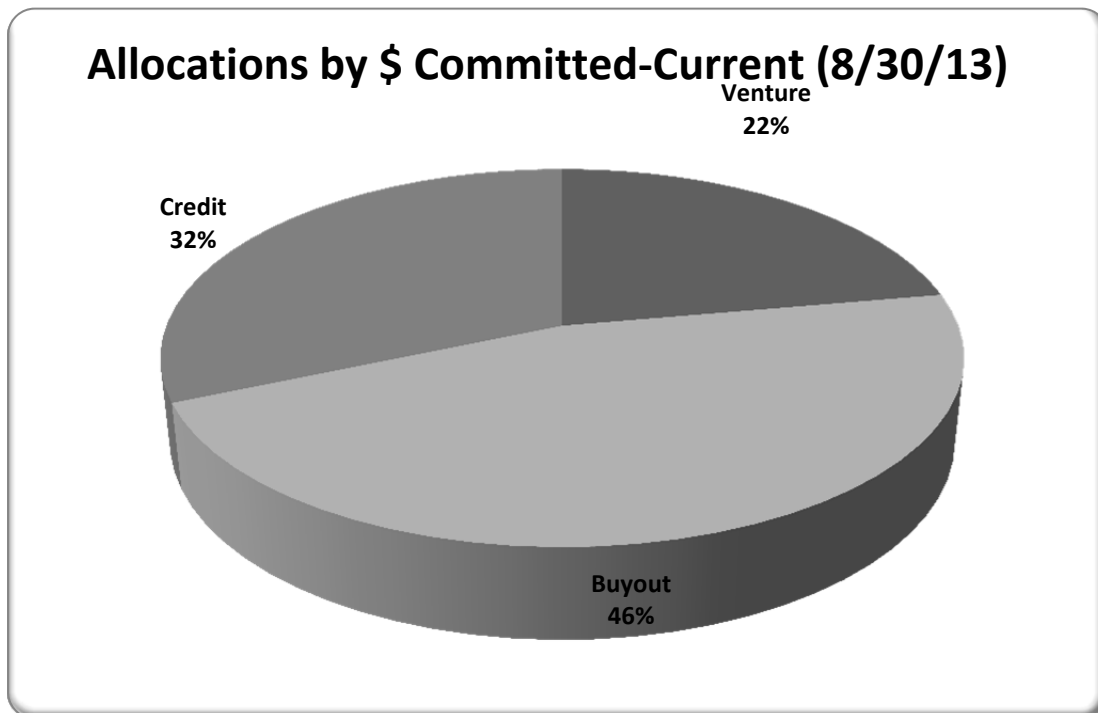


Tennessee Consolidated Retirement System
 Private Equity Program
 Fiscal Q4 2013 Update
 Daniel Crews, CFA

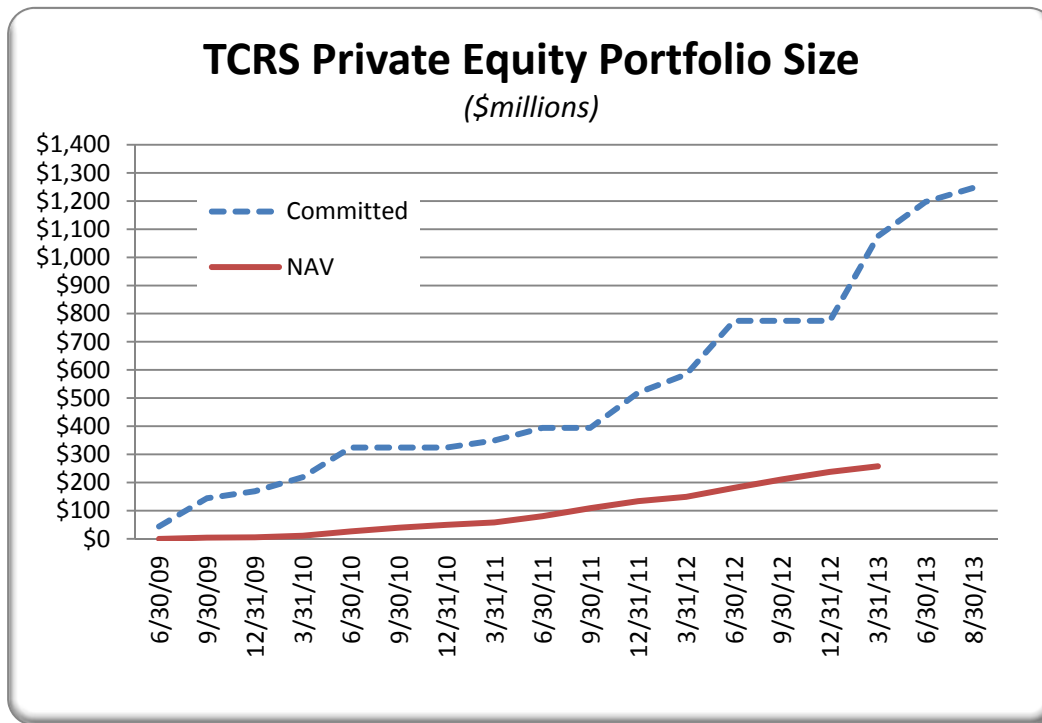
We have finalized our fiscal Q3:2013 results (the period ending 3/31/13), and are pleased to report that the program continues to show positive returns. The Venture portfolio is showing signs of an improving j-curve and the program continues to benefit from strong performance in Credit. However, significantly positive returns in the public markets negatively impacted our relative performance.

<i>Trailing IRR</i>	Quarter	Trailing 1 Year	Since Inception
Buyout	1.6%	3.6%	1.7%
Credit	5.4%	17.2%	13.4%
Venture	-0.1%	8.8%	9.8%
Natural Resources	<u>-3.4%</u>	<u>N/A</u>	<u>-28.8%</u>
TCRS PE Overall	2.3%	10.2%	9.4%
<i>S&P 500 + 3%</i>	<i>11.6%</i>	<i>18.8%</i>	<i>20.4%</i>

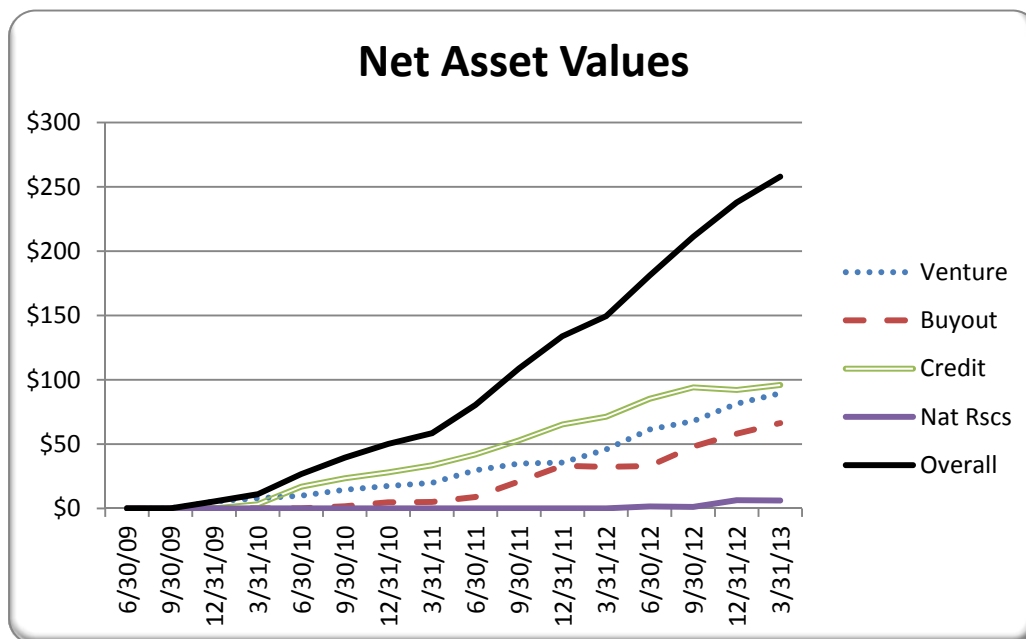
As a result of recent allocations, the overweight to venture capital has finally been mitigated. The following chart shows the allocations to the sub-asset classes based on commitments through the end of August, 2013.



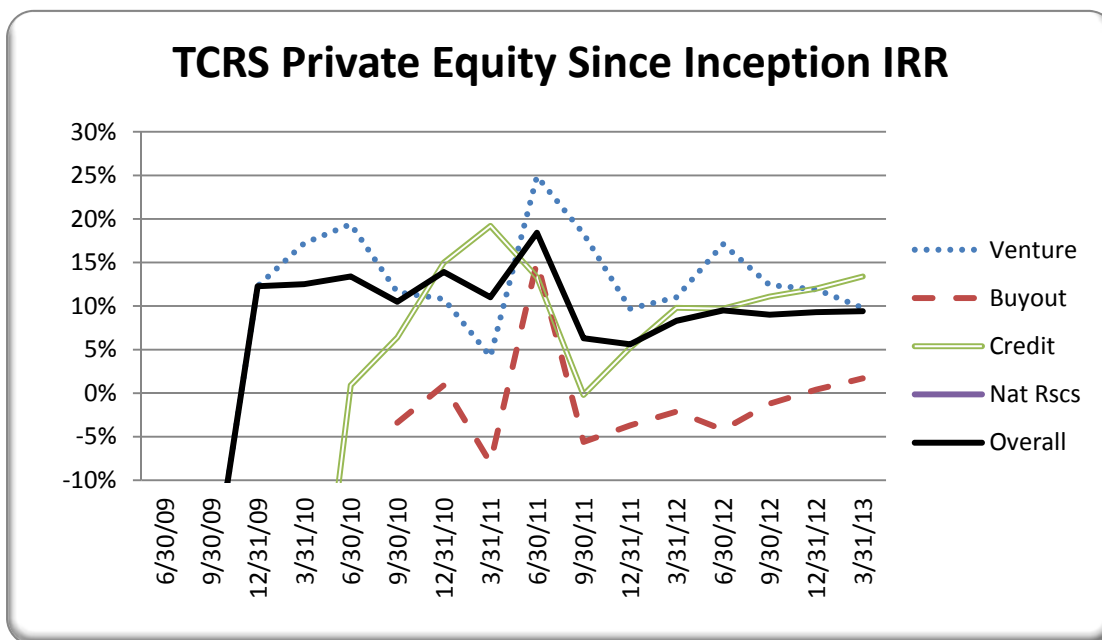
The next chart shows the overall size of the TCRS portfolio as it has grown since inception, both in terms of commitments as well as actual growth in net asset value.



The chart below illustrates the net asset value of each subcategory since the program's inception. As expected, NAVs have accelerated significantly as the portfolio begins to reflect gains from early commitments.



As shown in the chart below, the overall since inception IRR has steadied at around 10% in recent quarters.



Recent Commitments

In July, TCRS committed \$22.5 million to Harren Investors III, a lower middle market buyout fund, and \$100 million to Redwood Drawdown Fund, a distressed credit trading fund.

Looking Ahead

The private equity pipeline is full into the end of 2013. Additionally, over the next two years we expect to make multiple commitments to new funds offered by our existing General Partners.

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TCRS Equity Derivative Report

Domestic Stock Index Futures Roy Wellington, CFA

Domestic Stock Index Futures Transaction Log

Date	B/S	Contracts	Broker	Price	Total	Reason
Begin		-			-	
Trades						
There was no Index Futures activity in the report period.						
Contracts Outstanding on June 30, 2013						
End		-			-	
			Total 4Q FY2013	\$	-	

Domestic Fixed Income Derivatives Report

Andrew C. Palmer, CFA

Domestic Fixed Income Derivatives Transaction Log

ACCT	SOLD	BOUGHT	NET	EXPIRATION	CONTRACT	TYPE	STRIKE
Begin			3939		JUN 13 CBT UL T-BONDS		
			3505		JUN 13 U.S. T-BONDS		
TRADE SUMMARY BY ACCOUNT							
5+ Gov't (1381)							
	1,000	-	(1,000)		JUN 13 CBT UL T-BONDS		
	375	-	(375)		JUN 13 U.S. T-BONDS		
	-	-	-		SEP 13 10 YR T-NOTES		
	-	1,000	1,000		SEP 13 CBT UL T-BONDS		
	-	375	375		SEP 13 U.S. T-BONDS		
1-5 Gov't (1368)							
	expired	1,000			CALL AUG 13 10 YR T-NOTES 1310		
	expired	3,000			CALL JUL 13 10 YR T-NOTES 1310		
	-	-	-		JUN 13 10 YR T-NOTES		
	2,259	-	(2,259)		JUN 13 CBT UL T-BONDS		
	3,430	900	(2,530)		JUN 13 U.S. T-BONDS		
	-	-	-		SEP 13 10 YR T-NOTES		
	-	2,259	2,259		SEP 13 CBT UL T-BONDS		
	-	3,430	3,430		SEP 13 U.S. T-BONDS		
Overlay (1371)							
	680	-	(680)		JUN 13 CBT UL T-BONDS		
	600	-	(600)		JUN 13 U.S. T-BONDS		
	-	-	-		SEP 13 10 YR T-NOTES		
	-	680	680		SEP 13 CBT UL T-BONDS		
	-	600	600		SEP 13 U.S. T-BONDS		
Corporate (1365)							
	400	400	-		JUN 13 CBT UL T-BONDS		
	-	-	-		JUN 13 U.S. T-BONDS		
	105	200	95		SEP 13 10 YR T-NOTES		
	50	350	300		SEP 13 CBT UL T-BONDS		
	100	200	100		SEP 13 U.S. T-BONDS		
End			95		SEP 13 10 YR T-NOTES		
			4239		SEP 13 CBT UL T-BONDS		
			4505		SEP 13 U.S. T-BONDS		

Domestic Fixed Income Derivatives Report

Andrew C. Palmer, CFA

Domestic Fixed Income Derivatives Transaction Log

SUMMARY OF LAST QUARTER'S ACTIVITY:

CONTRACTS IN USE:

- 10-year Futures
- Call options on 10-year Futures
- Long Bond Futures
- Ultra-Long Futures

STRATEGIES:

- Used Ultra-Long, Long Bond and Call Options on Ten-Year Futures to manage interest rate exposures in the 1-5 Gov't portfolio and the Corporate portfolio .
- Rolled Thirty-Year and Ultra Futures contracts in 5+ Gov't portfolio to replicate the duration profile of the index without using physical Treasury notes.
- Used Ultra-Long Bond Futures and Long Bond Futures to offset the duration impact of a strategic overweight to the MBS portfolio and Credit Portfolios.

EFFICACY:

- Futures positions performed as expected. The replication strategy produced returns similar to the LPF Government Index and the duration adjustment transactions produced the expected impact on interest rate sensitivity. The call option trade expired out of the money but provided protection against a sharp drop in rates.

PROPOSED STRATEGIES FOR CURRENT QUARTER:

- Use Ultra-Long, Long Bond and Ten-Year Futures to manage interest rate exposures in the 1-5 Gov't portfolio, the 5+ Government Portfolio and the Corporate portfolio.
- Use Ultra-Long Bond Futures to offset the duration impact of a strategic overweight to the MBS portfolio and Credit portfolios.
- Use Ultra-Long, Long Bond and Ten-Year Futures along with cash equivalents to replicate the duration profile of the LPF Government Index without using physical Treasury notes.
- Employ Ultra-Long, Long Bond, Ten-Year and Five-Year Futures in the Corporate portfolio to offset the duration impact of timing differences in individual corporate bond trades.
- Buying out-of-the-money calls or puts on long and intermediate Treasuries to hedge big movements in rates.

TCRS Currency Derivative Report

Currency Forwards Activity Jesse Picunko, CFA

2013 4th Quarter Activity

NO ACTIVITY

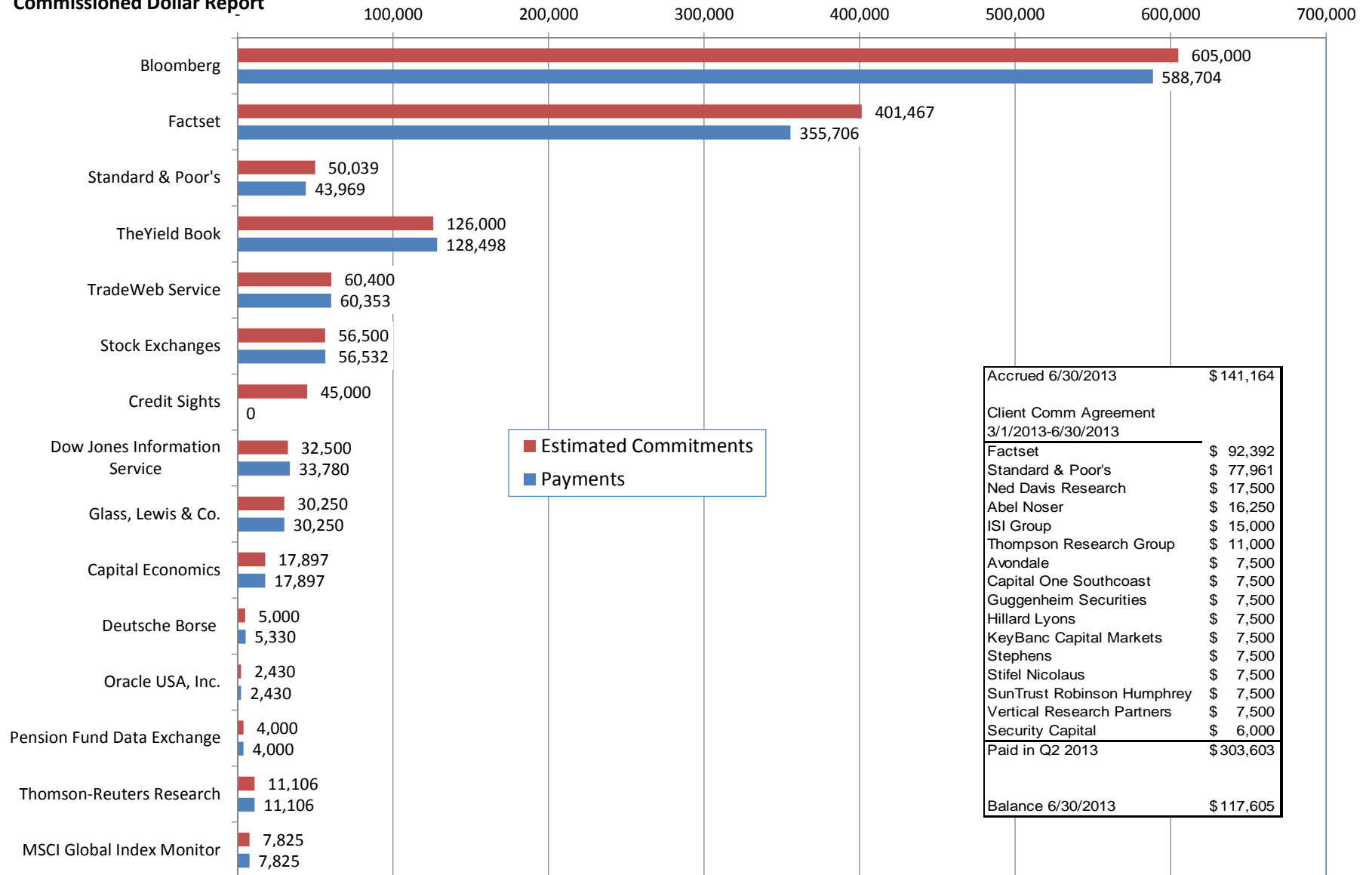
OPERATIONS UPDATE
Tim McClure, CTP

TCRS continues to move forward with changes to the Operations area. As TCRS looks for ways to add value to the Fund, this is an area that offers some opportunity for efficiencies and technology upgrades.

Trading – Trade volume for the year ended June 30 may have been down slightly, but the TCRS group still traded over 800 million shares of stock valued at over \$32.1 billion, generating commissions of just under \$11 million.

Trading Cost Analysis – As the data that is received from Abel Noser becomes more granular and staff becomes more comfortable using the data, patterns are starting to emerge. Portfolio manager timing profiles are becoming more consistent. Brad Pritchett continues to review a front-end trade platform from Instinet that will offer real time and end of day trading cost analysis. While this is not the same kind of data obtained from Abel Noser, it does appear to offer the traders more flexibility and control over a trade while the trade is in progress and will give immediate feedback on the quality of execution. Initially, the platform will be utilized to monitor trades at Instinet, and later other firms will be added if the software proves useful. The staff at Instinet continues to help Brad refine the dashboard and the information that is being generated. Traders are also utilizing more of the algos that are becoming available and working closely with the firms to gain a better understanding of the various tools and strategies to optimize performance.

Commissioned Dollar Report



Accrued 6/30/2013	\$ 141,164
Client Comm Agreement 3/1/2013-6/30/2013	
Factset	\$ 92,392
Standard & Poor's	\$ 77,961
Ned Davis Research	\$ 17,500
Abel Noser	\$ 16,250
ISI Group	\$ 15,000
Thompson Research Group	\$ 11,000
Avondale	\$ 7,500
Capital One Southcoast	\$ 7,500
Guggenheim Securities	\$ 7,500
Hillard Lyons	\$ 7,500
KeyBanc Capital Markets	\$ 7,500
Stephens	\$ 7,500
Stifel Nicolaus	\$ 7,500
SunTrust Robinson Humphrey	\$ 7,500
Vertical Research Partners	\$ 7,500
Security Capital	\$ 6,000
Paid in Q2 2013	\$ 303,603
Balance 6/30/2013	\$ 117,605