INVESTMENT REPORT

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

First Quarter
Fiscal Year 2013 - 2014

July 1, 2013 – September 30, 2013

Prepared for:
Board of Trustees

December 16, 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, compromised 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:

Council Member	Expiration of Term	Appointed Term
Frederick S. Crown, Jr., CFA 124 Longwood Place Nashville, TN 37215 Phone: 615-347-0343 E-mail: **crownf1@gmail.com**	June 30, 2017	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

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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.

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

Performance Review
September 2013

Absolute comparison

- 1 quarter return of 4.1%
- 1 year return of 9.0%
- 3 year return of 10.2%
- 5 year return of 7.8%
- 10 year return of 6.4%

Benchmark (relative) comparison

- Qtr return lagged allocation index by 0.2%
- 1 year return beat allocation index by 0.5%
- 3 year return beat allocation index by 0.7%
- 5 year return lagged allocation index by 0.1%

Peer comparison

- 1 quarter return ranked at 76% (0% = best)
- 1 year return ranked at 89% (0% = best)
- 3 year return ranked at 43% (0% = best)
- 5 year return ranked at 53% (0% = best)

Key Initiatives
September 2013

- New Office Space

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

- Securities Lending
  - Legal negotiations in process

- Private Equity Due Diligence

- Strategic Lending Due Diligence

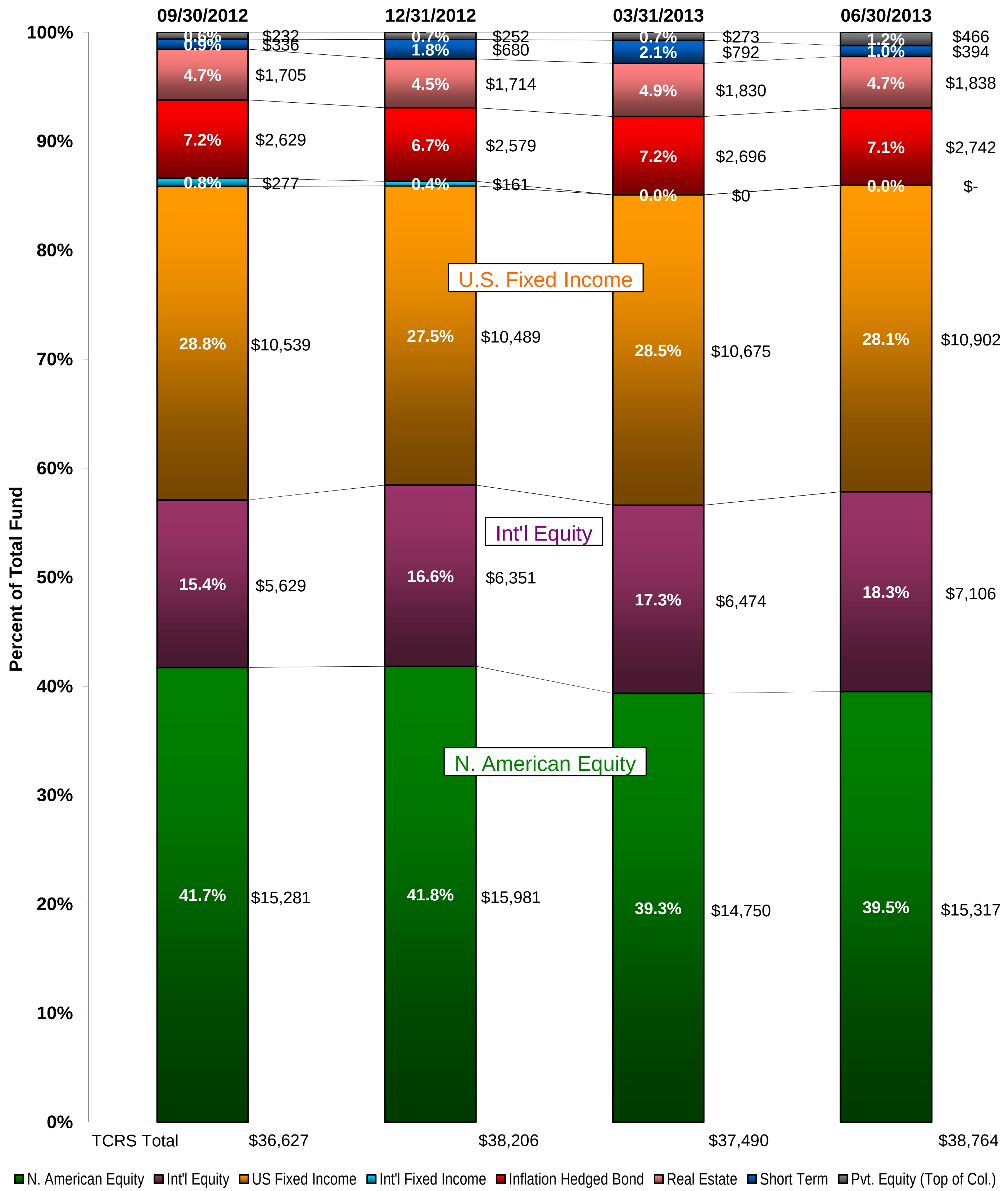
- Tactical Allocation
  - Neutral, implementing strategic changes

- Processes

- Personnel
  - Director of Real Estate
  - Director of Private Equity

TCRS Asset Allocation

September 2013

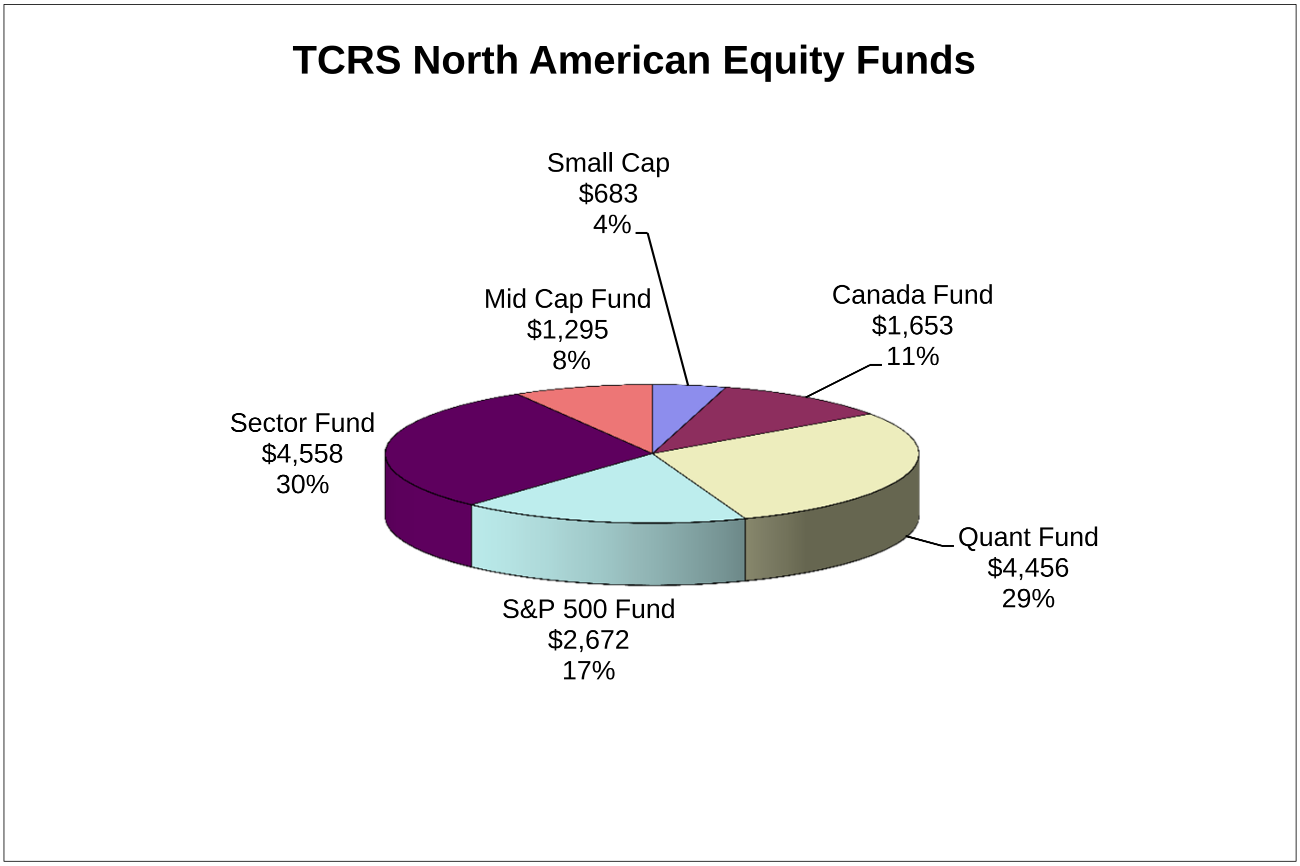


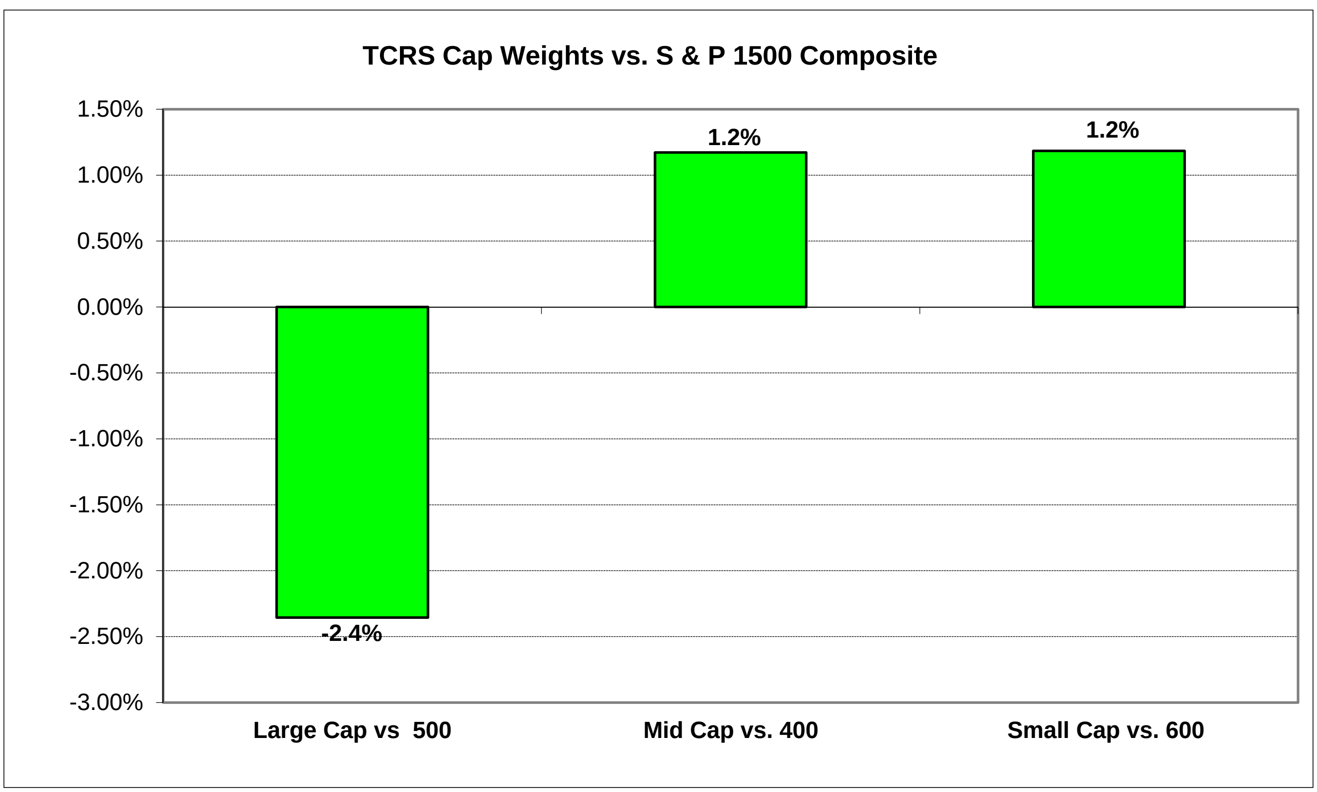
$ = millions

Source: Strategic Investment Solutions, Inc.

Domestic Equity Portfolio Overview

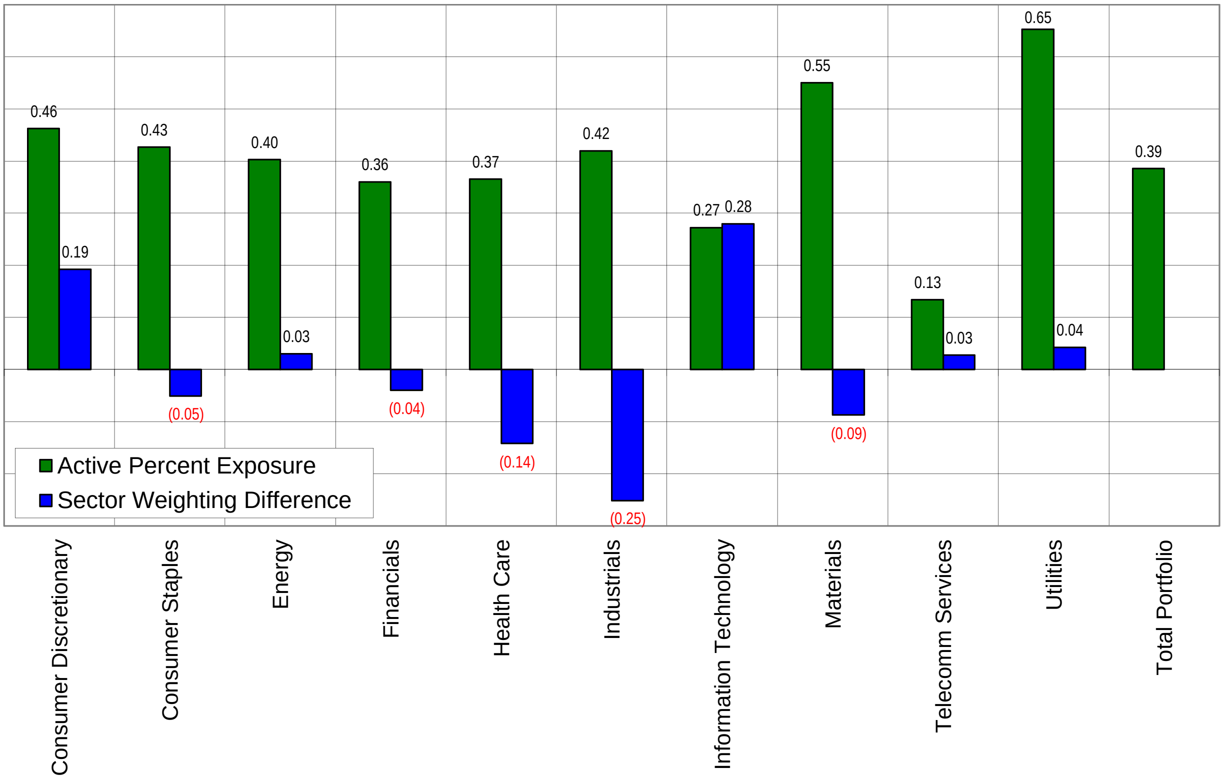
Michael Keeler, CFA

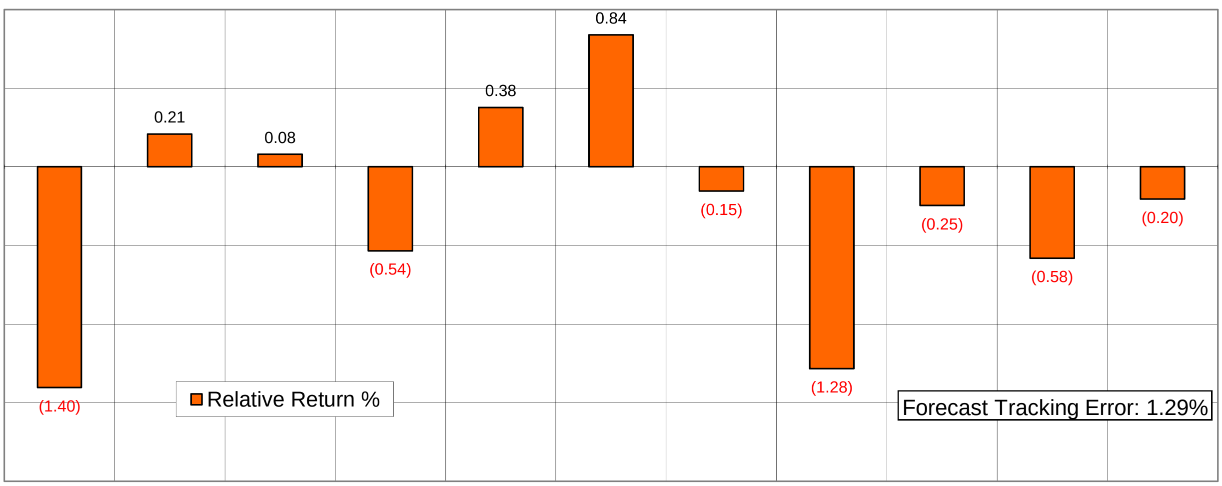




Quant Fund vs. S&P 500

Jim Robinson, CFA & Kushal Gupta, CFA, CAIA



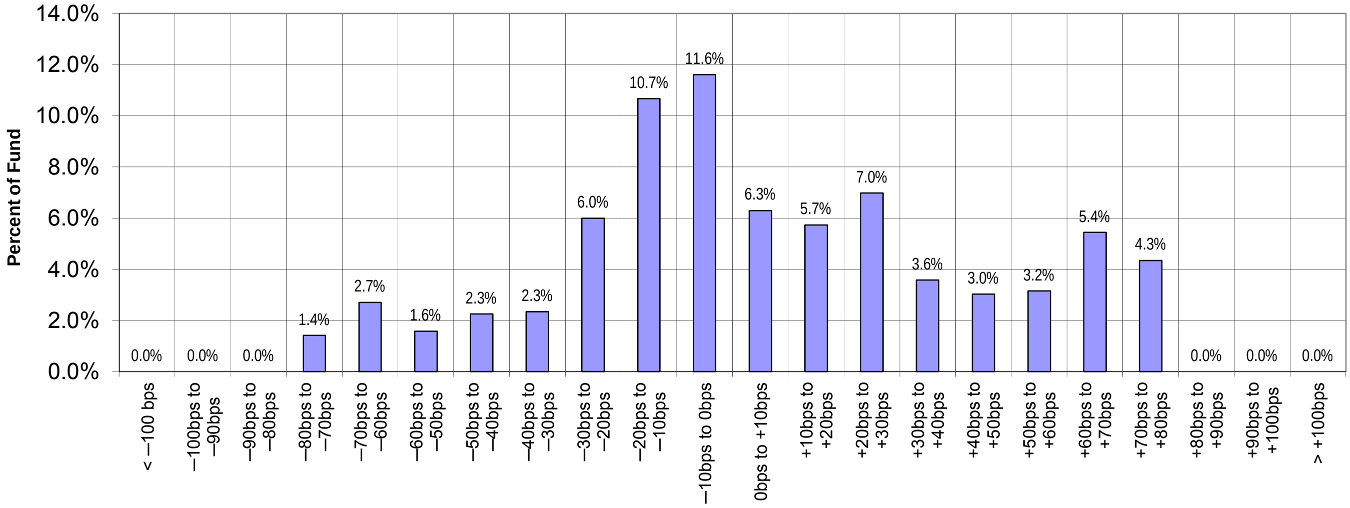


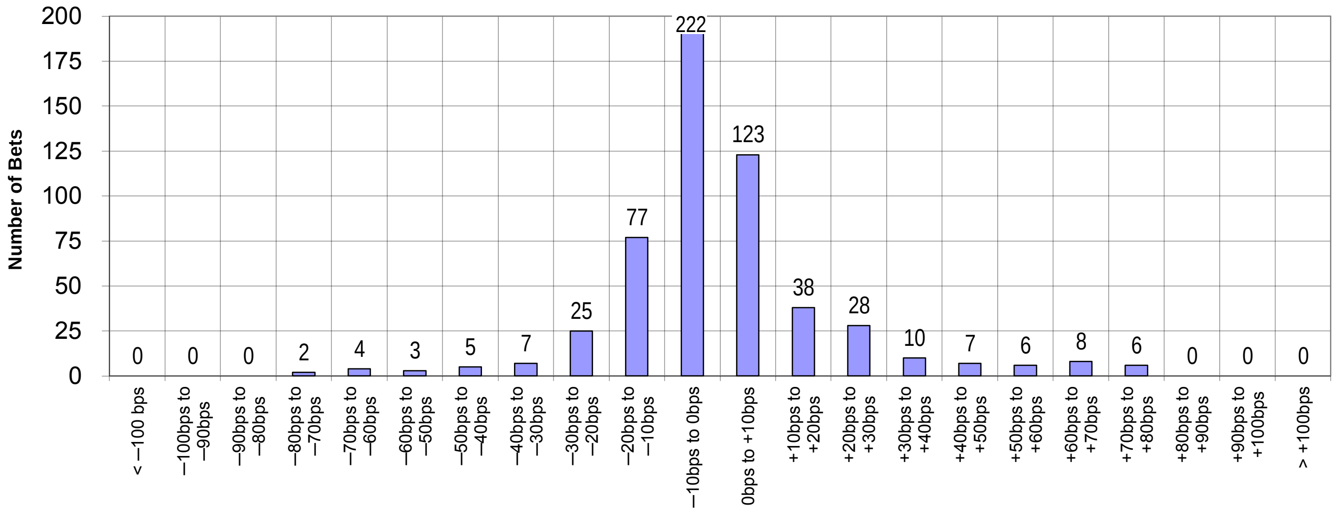
The US and global economic recovery looks to be on track. Five years after the financial crisis, with risks from Europe fading and amid expectations for US and global growth to reaccelerate, normalization of the markets has begun. This normalization process may be also contributing to a better environment for stock picking, and has boosted the performance of large cap active managers. Last quarter, 51% of managers beat the Russell 1000 with average outperformance of 0.7%, the first quarter active managers have outperformed since 1Q12. Value managers and Growth managers both staged a comeback. Quality and Momentum led in 3Q but valuation factors have outperformed YTD. The market is positive on Price Momentum, Estimate Revision, ROE and Price/Book, but negative on Price/Earnings and Dividend Yield.

At the end of the 3rd Quarter, Merrill Lynch Quantitative team saw six notable improvements: 1) EPS volatility has dropped substantially, and growth has trended to long-term average levels; 2) the equity risk premium has dropped faster than expected; 3) Wall Street sentiment is improving; 4) the macro market has dissipated and correlations have returned to normal levels; 5) volatility has declined; and 6) fundamentals may be back in focus, as earnings surprise-driven performance spreads have recently widened.

The quant models slightly underperformed in the quarter and the portfolio had a 20 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 the level similar to that of previous quarter.

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





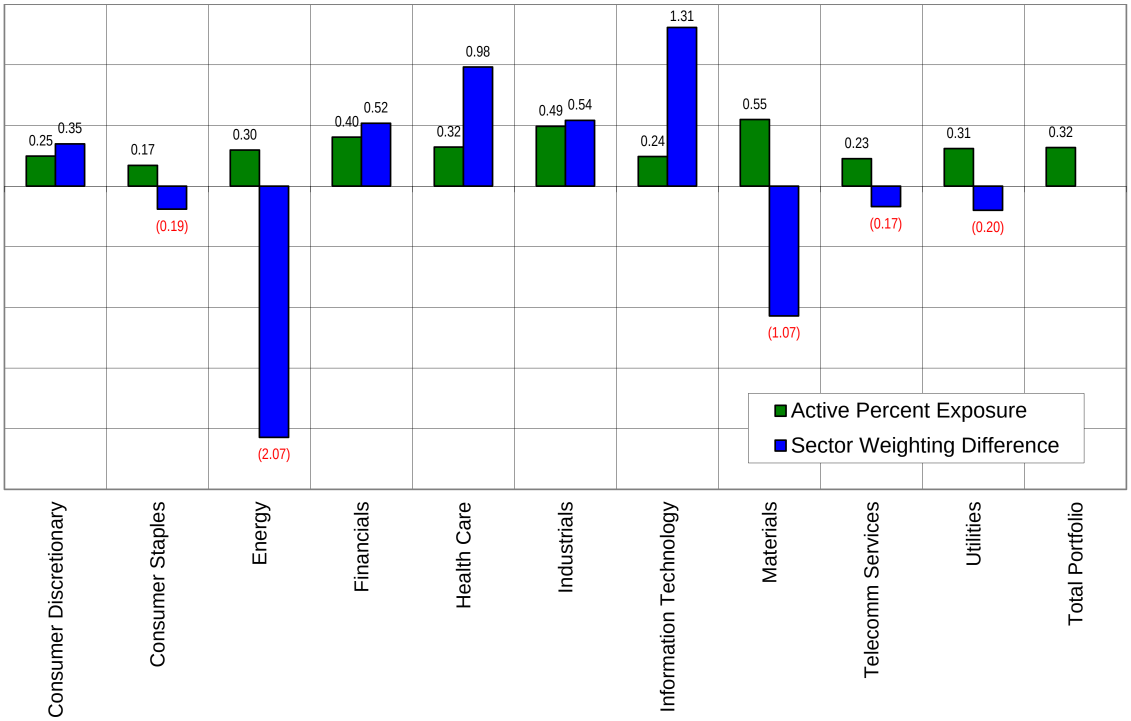
Largest Overweights by Stock in Fund

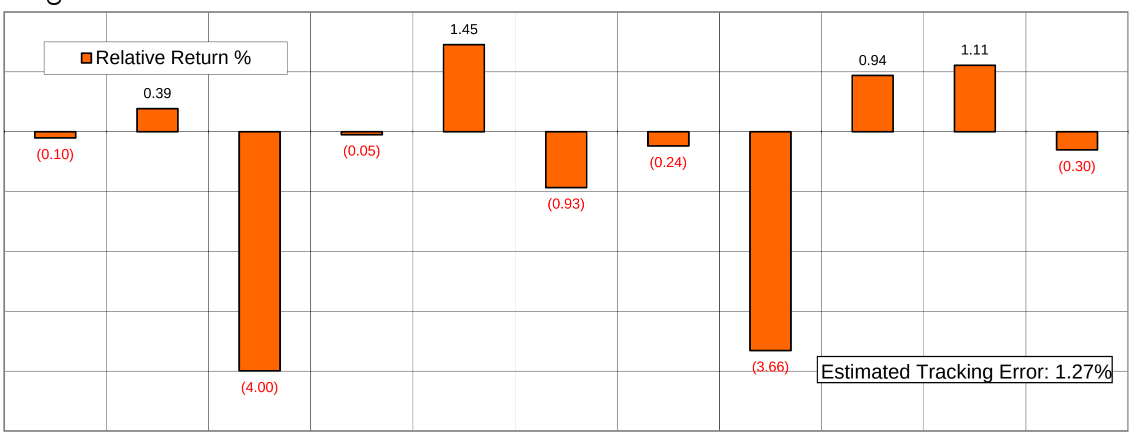
Ticker	Description	Bps Over
CMCSA	Comcast Corporation Class A	74
HD	The Home Depot, Inc.	74
SLB	Schlumberger NV	73
WFC	Wells Fargo & Company	72
MCK	McKesson Corporation	72
ABBV	AbbVie, Inc.	71
ORCL	Oracle Corporation	70
COP	ConocoPhillips	70
MDT	Medtronic, Inc.	70
APC	Anadarko Petroleum Corporation	70
JNJ	Johnson & Johnson	69
KRFT	Kraft Foods Group, Inc.	68
PEP	PepsiCo, Inc.	65
TRV	The Travelers Companies, Inc.	63
MA	MasterCard Incorporated Class A	54
CB	The Chubb Corporation	54
MO	Altria Group, Inc.	53
DVN	Devon Energy Corporation	53
UNP	Union Pacific Corporation	50
IP	International Paper Company	50

Largest Underweights by Stock in Fund

Ticker	Description	Bps Under
XOM	Exxon Mobil Corporation	-71
PM	Philip Morris International Inc.	-70
CVX	Chevron Corporation	-69
KO	The Coca-Cola Company	-68
AMZN	Amazon.com, Inc.	-67
MRK	Merck & Co., Inc.	-67
MCD	McDonald's Corporation	-55
GOOG	Google Inc. Class A	-52
PG	The Procter & Gamble Company	-51
MMM	3M Company	-49
OXY	Occidental Petroleum Corporation	-48
AIG	American International Group, Inc.	-45
USB	U.S. Bancorp	-42
EBAY	eBay Inc.	-41
BMY	Bristol-Myers Squibb Company	-38
MDLZ	Mondelez International, Inc. Class A	-35
EMC	EMC Corporation	-34
CAT	Caterpillar Inc.	-33
MET	MetLife, Inc.	-33
COST	Costco Wholesale Corporation	-32

Large Cap Sector Fund
Roy Wellington, CFA



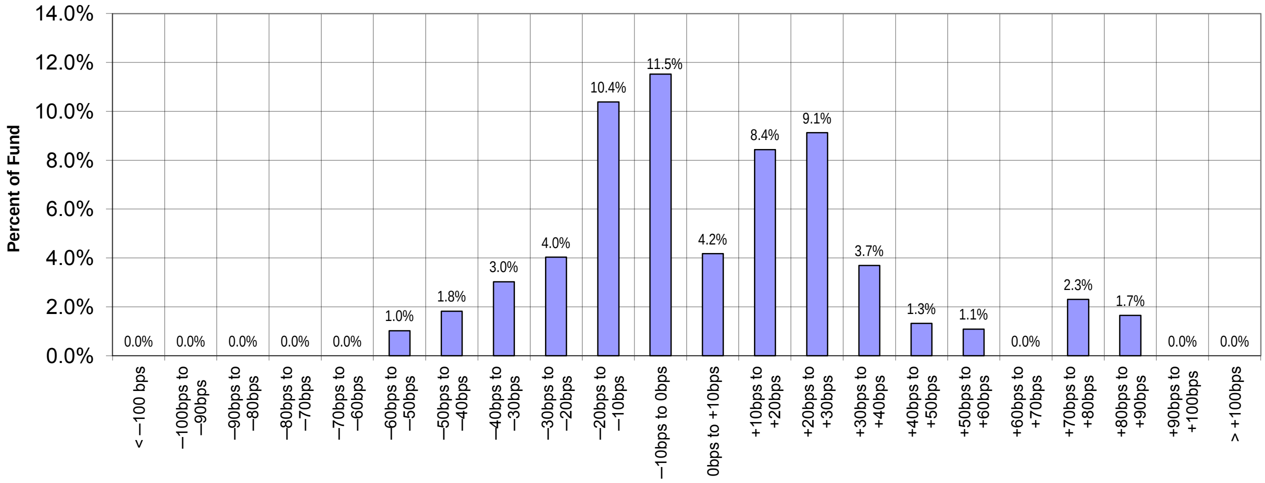


Investors assumed the Fed would begin tapering its purchases and this was well received by the equity market. Bond yields moved up in the quarter leading the Fed to postpone the promised tapering. Through it all the economy grew at a modest pace and inflation was non-existent.

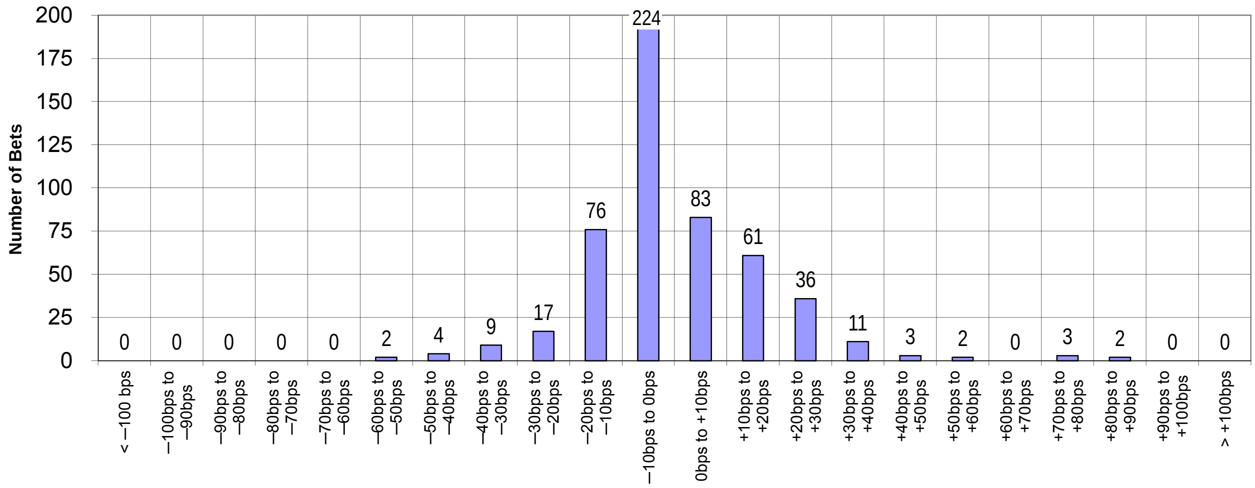
Most sector analysts noted pockets of growth but with valuations that had become stretched from easy money. Industrial and Consumer Discretionary stocks continued to perform well and are overweight in the portfolio. Technology should benefit from consumer and enterprise spending in an advancing economy but that sector has paused. Health Care is also viewed to be a secular outperformer on the strength of the product portfolio rather than as a bet on ObamaCare.

Now is not the time to own companies with commodity price sensitivity if there is no sign of inflation. Market fears of a hard landing in China eased and there was a mini-rush into industrial commodities like coal, non-ferrous metals and oil. This move faded by quarter's end but left its mark on portfolio performance. The Sector Fund was overweight refiners like Marathon Petroleum which got squeezed by rising crude oil prices and falling gasoline prices. Cobalt International, a prospective oil exploration company with high expectations disappointed by announcing several dry holes instead of even one discovery.

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



Number of Individual Stocks in Bet Size Bins



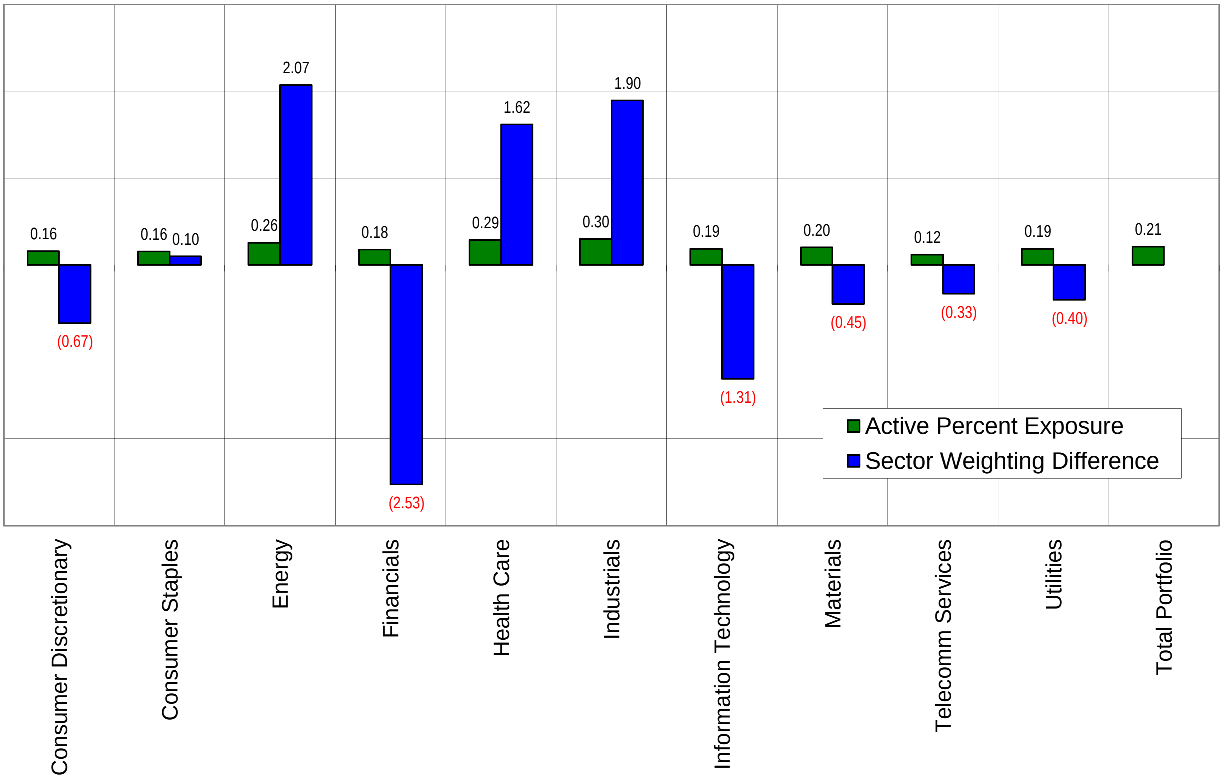
Largest Overweights by Stock in Fund

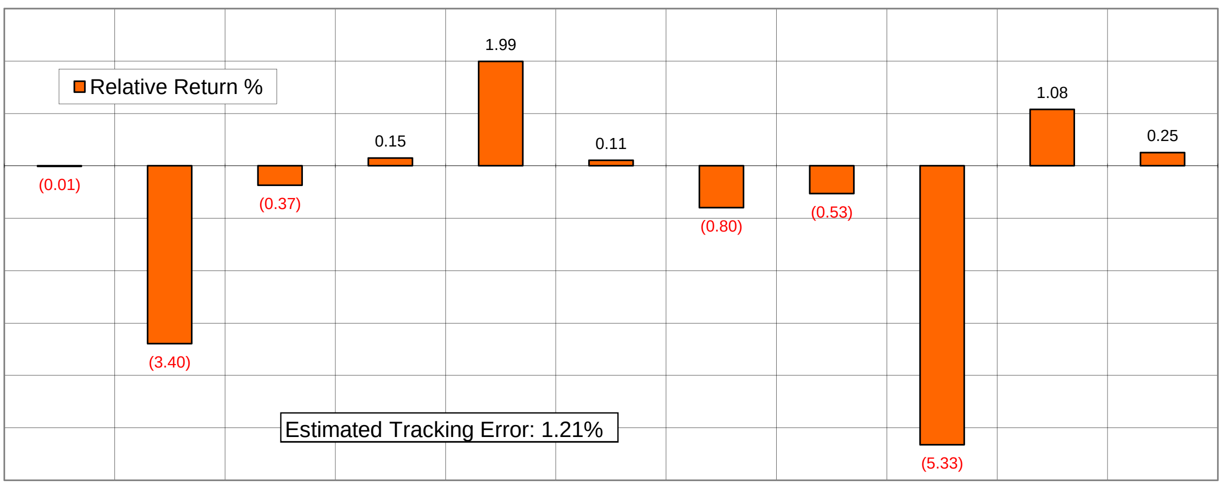
Ticker	Description	Bps Over Index Wt
AAPL	Apple Inc.	85
DAL	Delta Air Lines, Inc.	80
BEAV	B/E Aerospace Inc.	78
UTX	United Technologies Corporation	77
DHR	Danaher Corporation	77
SNDK	SanDisk Corporation	57
HCC	HCC Insurance Holdings, Inc.	52
SYNA	Synaptics Incorporated	48
MPC	Marathon Petroleum Corporation	43
IBM	International Business Machines Co	41
HAL	Halliburton Company	38
MTB	M&T Bank Corporation	36
JPM	JPMorgan Chase & Co.	36
QCOM	QUALCOMM Incorporated	35
BEN	Franklin Resources, Inc.	35
GS	The Goldman Sachs Group, Inc.	33
MYL	Mylan Inc.	32
IVZ	Invesco Ltd.	32
TMK	Torchmark Corporation	31
PPG	PPG Industries, Inc.	31

Largest Underweights by Stock in Fund

Ticker	Description	Bps Under
MMM	3M Company	-52
OXY	Occidental Petroleum Corporation	-50
AIG	American International Group, Inc.	-48
AXP	American Express Company	-47
UPS	United Parcel Service, Inc. Class B	-44
T	AT&T Inc.	-43
DD	E. I. du Pont de Nemours and Comp	-36
JNJ	Johnson & Johnson	-36
CAT	Caterpillar Inc.	-35
BMY	Bristol-Myers Squibb Company	-35
MET	MetLife, Inc.	-35
BAC	Bank of America Corporation	-32
CL	Colgate-Palmolive Company	-32
DOW	The Dow Chemical Company	-31
EOG	EOG Resources, Inc.	-31
EBAY	eBay Inc.	-28
COF	Capital One Financial Corporation	-27
PNC	The PNC Financial Services Group,	-26
ABT	Abbott Laboratories	-25
MS	Morgan Stanley	-25

Mid Cap Fund
Mike Keeler, CFA

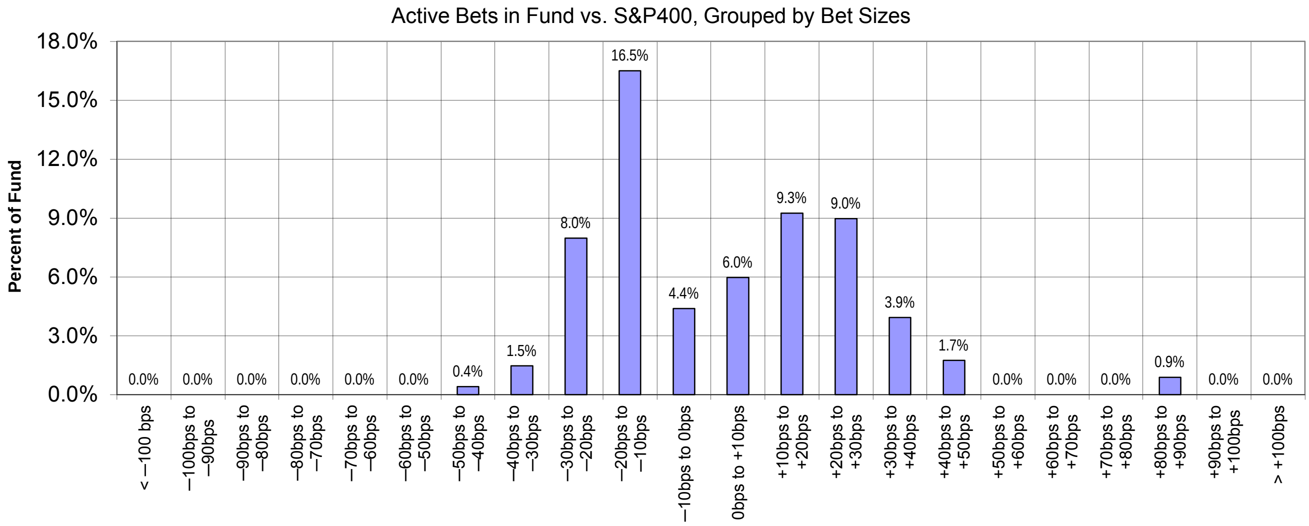


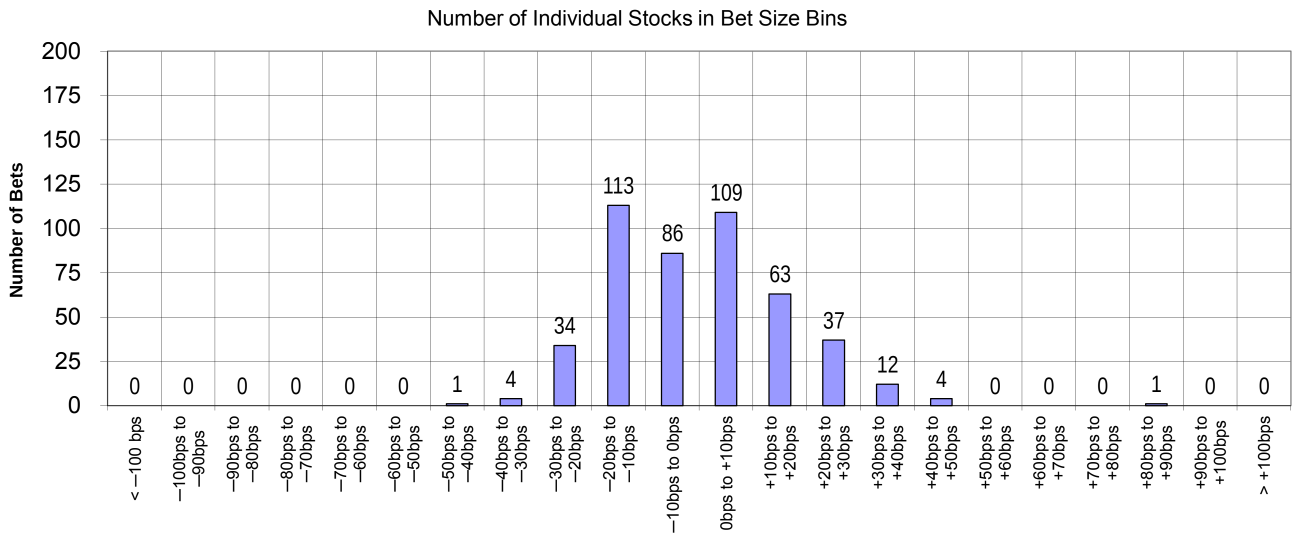


The stock market was jostled throughout the September quarter by speculation and consternation regarding central bank policy essentially resulting in a strong beginning and ending with a weak middle. Finally an ugly budget/debt ceiling battle marred the very end of the quarter.

Domestic equities slightly lagged the S & P 1500 benchmark return for the quarter as excess return derived from an overweight commitment to the mid and small cap funds relative to the S & P 1500 was offset by our large cap funds underperforming the S & P 500. In addition, our Canadian Index fund added substantal value as the TSE outperformed all of the S & P indices except the Small Cap 600. Growth factors tended to outperform during the quarter particularly among smaller stocks. In addition smaller caps outperformed larger caps and low quality dod better than high quality in general.

The Mid Cap Fund outperformed the S & P Mid Cap 400 return during the quarter. Continued good stock selection in the Health Care Sector as well as an overweight commitment to the Energy Sector and an underweight to Financials was somewhat offset by poor stock selection in the Consumer Staples and the Technology sector. Once again this quarter all of our excess return came from industry sector allocation.





Largest Overweights by Stock in Fund

Ticker	Description	Bps Over
AME	AMETEK, Inc.	89
SGY	Stone Energy Corporation	48
RKT	Rock-Tenn Company Class A	43
AEE	Ameren Corporation	43
JKHY	Jack Henry & Associates, Inc.	41
WCG	WellCare Health Plans, Inc.	37
WDR	Waddell & Reed Financial, Inc. Clas	36
AES	The AES Corporation	34
XLNX	Xilinx, Inc.	33
OCR	Omnicare, Inc.	32
TRN	Trinity Industries, Inc.	32
TXT	Textron Inc.	32
AGCO	AGCO Corporation	32
LECO	Lincoln Electric Holdings, Inc.	32
SPW	SPX Corporation	32
IDXX	IDEXX Laboratories, Inc.	31
EWBC	East West Bancorp, Inc.	31
HOS	Hornbeck Offshore Services, Inc.	29
MASI	Masimo Corporation	29
COO	The Cooper Companies, Inc.	29

Largest Underweights by Stock in Fund

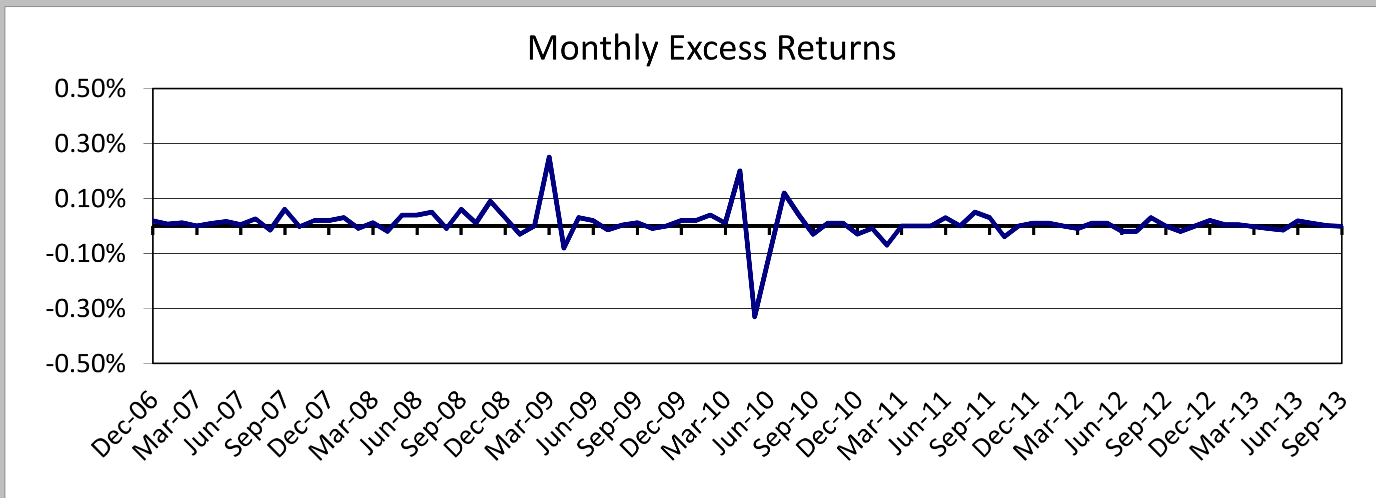
Ticker	Description	Bps Under
SIG	Signet Jewelers Limited	-41
HOLX	Hologic, Inc.	-40
CNQR	Concur Technologies, Inc.	-37
TW	Towers Watson & Co. Class A	-35
TOL	Toll Brothers, Inc.	-35
SLXP	Salix Pharmaceuticals, Ltd.	-29
DCI	Donaldson Company, Inc.	-29
ATR	Aptargroup, Inc.	-28
AYI	Acuity Brands, Inc.	-28
DPZ	Domino's Pizza, Inc.	-27
WAB	Westinghouse Air Brake Technolog	-26
CHD	Church & Dwight Co., Inc.	-26
PB	Prosperity Bancshares, Inc.(R)	-25
LII	Lennox International Inc.	-24
WWAV	WhiteWave Foods Co. Class A	-24
WEX	WEX Inc.	-24
TFX	Teleflex Incorporated	-24
HUB.B	Hubbell Incorporated Class B	-24
NEU	NewMarket Corporation	-23
HME	Home Properties, Inc.	-23

Passive Domestic Equity Funds

Derrick Dagnan, CFA & Carrie Green, CFA

Index Fund vs. S&P 500

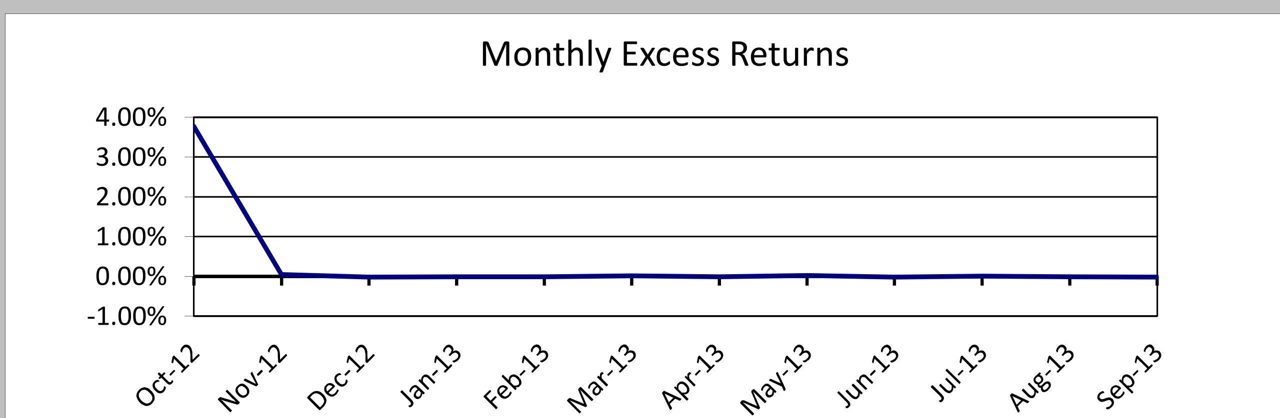
Assets as of September 2013:



	1 Quarter	1 Year	3 Years	Since Inception
Index Fund	5.3%	19.3%	16.3%	5.7%
S&P 500	5.2%	19.3%	16.3%	5.6%
Excess Return	0.0%	0.0%	0.0%	0.1%
Tracking Error	0.02%	0.04%	0.07%	0.21%

Small Cap Fund vs. S&P 600

Assets as of September 2013:



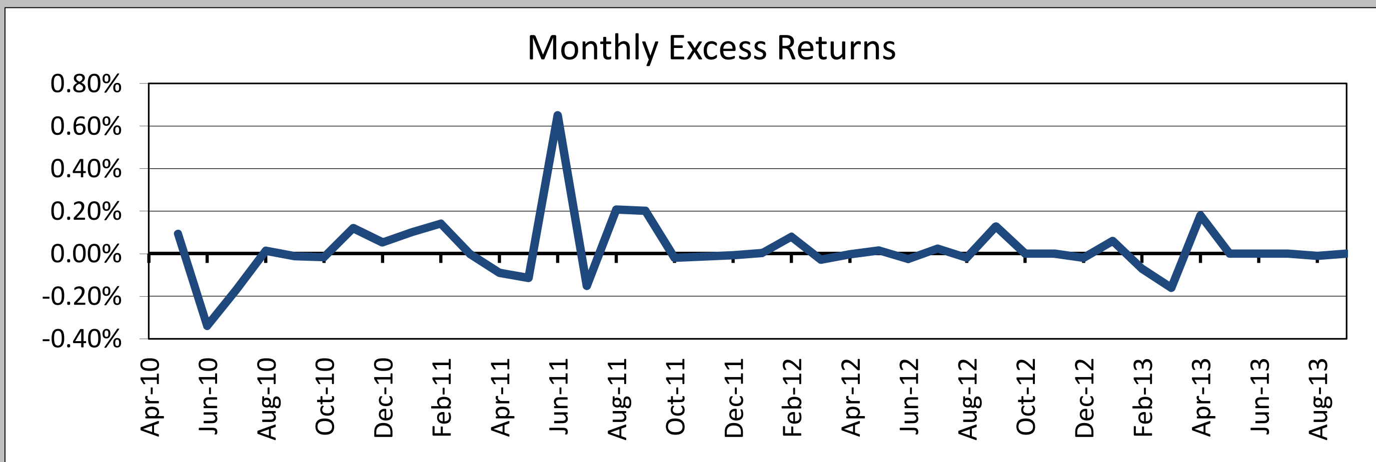
	1 Quarter	1 Year	3 Years	Since Inception
Small Cap Fund	10.70%	36.6%	N/A	36.58%
S&P 600	10.73%	31.5%	N/A	31.52%
Excess Return	-0.03%	5.1%	N/A	5.07%
Tracking Error	0.04%	3.77%	N/A	3.77%

Canada Fund

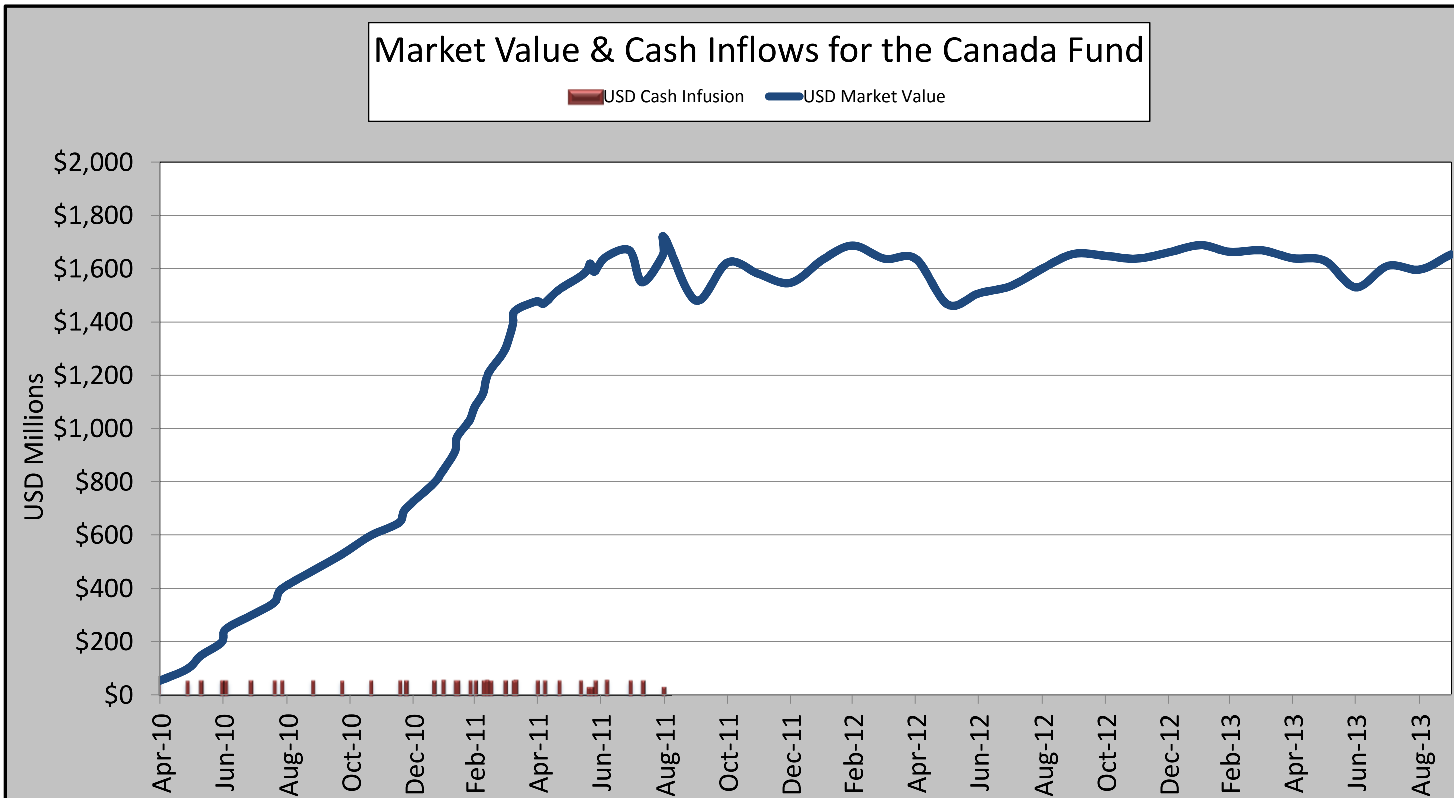
Kushal Gupta, CFA, CAIA

Canada Fund vs. SPTSX60 Index

Assets as of Sep. 30, 2013: $1.65B



	1 Quarter	1 Year	3 Years	Since Inception
Canada Fund	8.98%	3.32%	4.28%	3.53%
SPTSX60 Index	8.99%	3.34%	3.84%	3.27%
Excess Return	-0.01%	-0.02%	0.43%	0.25%
Tracking Error	0.02%	0.27%	0.47%	0.50%



Manager Performance Comparison – International Equity

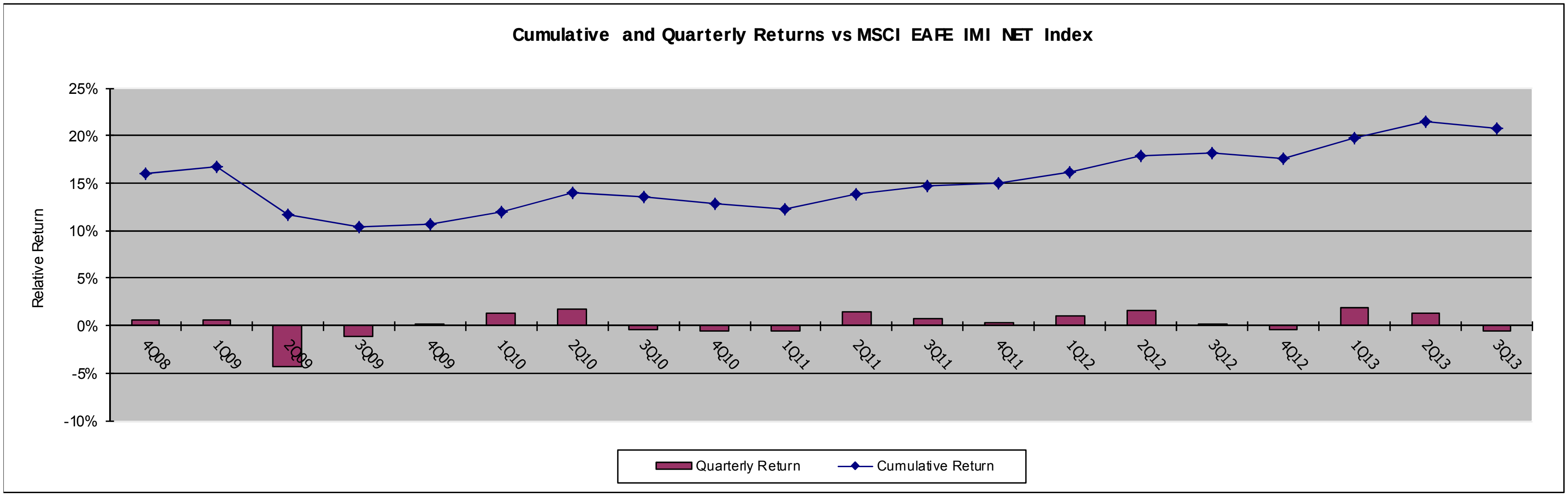
As of September 30, 2013

Manager Returns For The Quarter Ending September 30, 2013

Manager	Manager Return	Benchmark	Benchmark Return
American Century	12.97	MSCI EAFE Small Cap NET	15.52
Baring Asset Mgmt	9.13	MSCI EAFE NET Index	11.56
Emerging Market ETF	4.11	MSCI EMERGING NET CUSTOM	3.73
GE Asset Mgmt	12.42	MSCI Europe NET Index	13.61
Marathon	10.37	MSCI EAFE NET Index[2]	11.56
Pacific Indexed Port[5]	8.96	MSCI Pacific NET Index[1]	7.99
PanAgora	10.29	MSCI EAFE NET Index	11.56
Pyramis	14.26	MSCI EAFE Small Cap NET	15.52
TT International	10.78	MSCI EAFE NET Index	11.56
Walter Scott	9.15	MSCI EAFE NET Index[4]	11.56
International	9.18	MSCI EAFE IM Net Index[3]	9.69

Manager Returns For Five Years Ending September 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	9.99	MSCI EAFE NET Index[2]	6.35
Pacific Indexed Port[5]	6.22	MSCI Pacific NET Index[1]	7.34
PanAgora	8.38	MSCI EAFE NET Index	6.35
Pyramis		MSCI EAFE Small Cap NET	
TT International		MSCI EAFE NET Index	
Walter Scott	10.28	MSCI EAFE NET Index[4]	5.35
International	7.96	MSCI EAFE IM Net Index[3]	5.65



[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.*

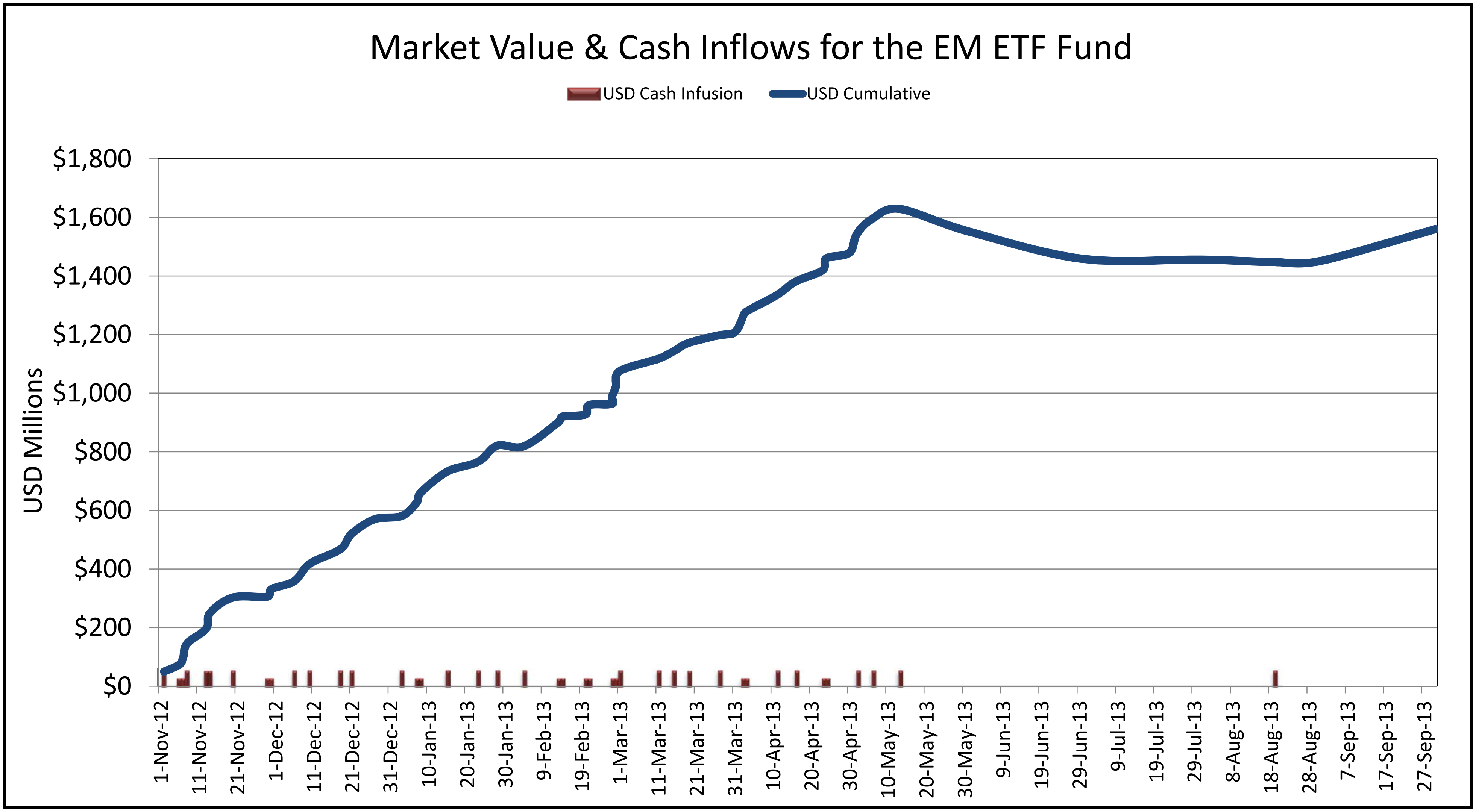
[4] *Effective as of 2/2/09; prior was MSCI Europe Index.*

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

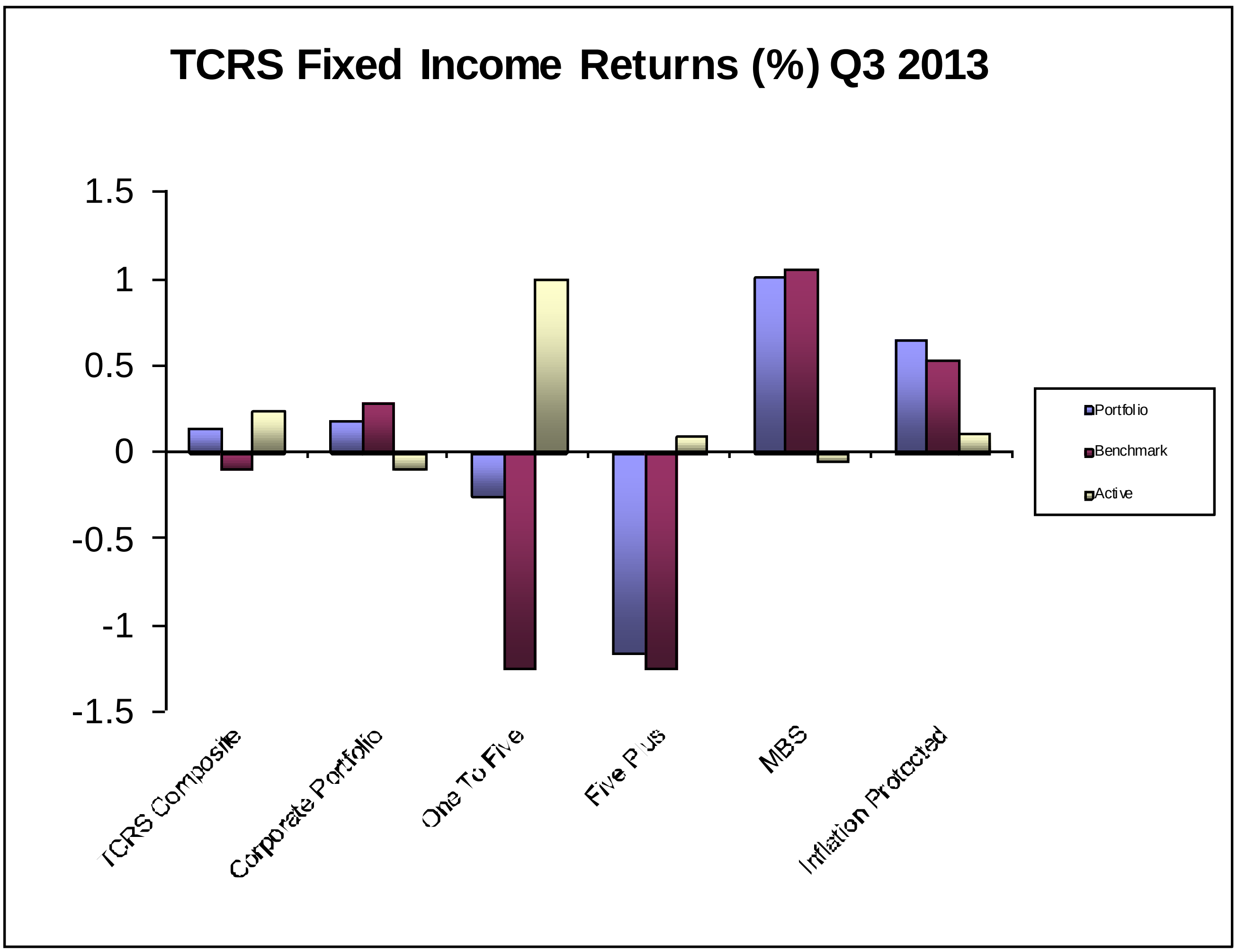
Emerging Markets ETF Fund

Kushal Gupta, CFA, CAIA

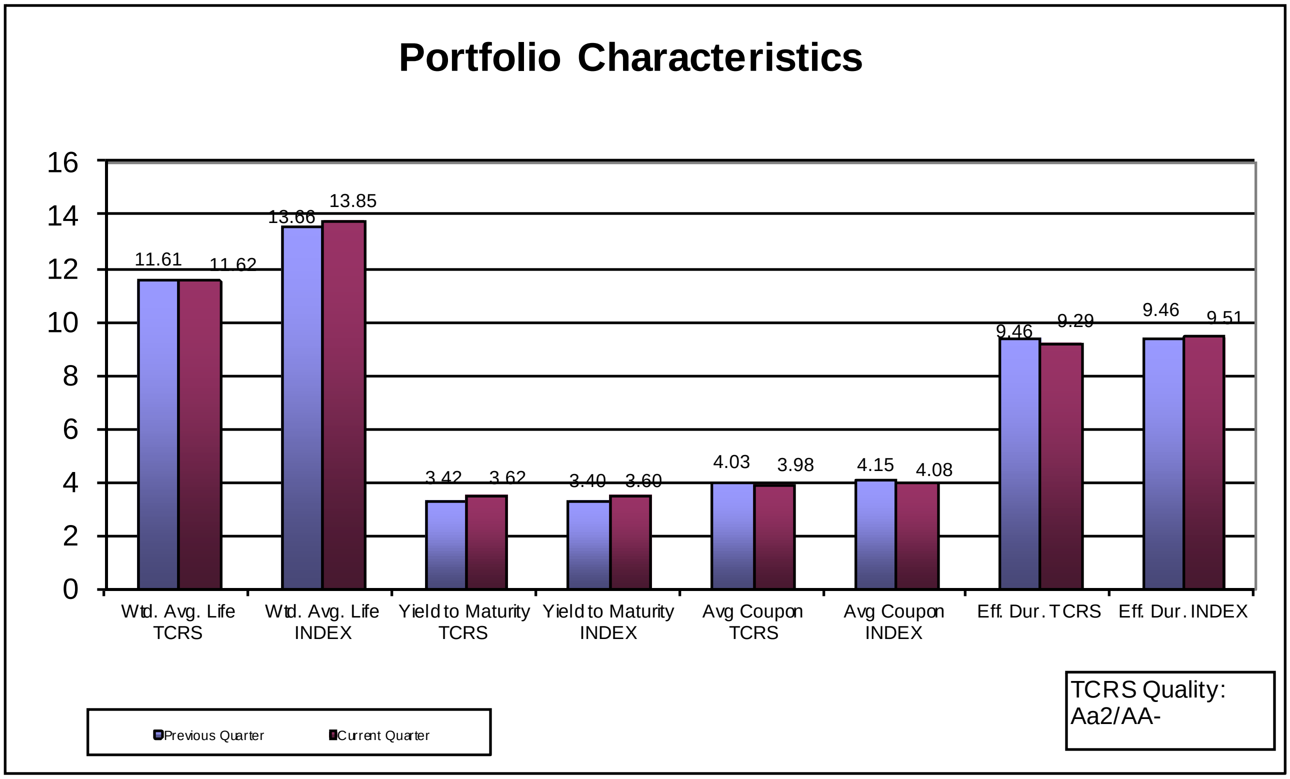
Assets as of Sep. 30, 2013: $1.56B



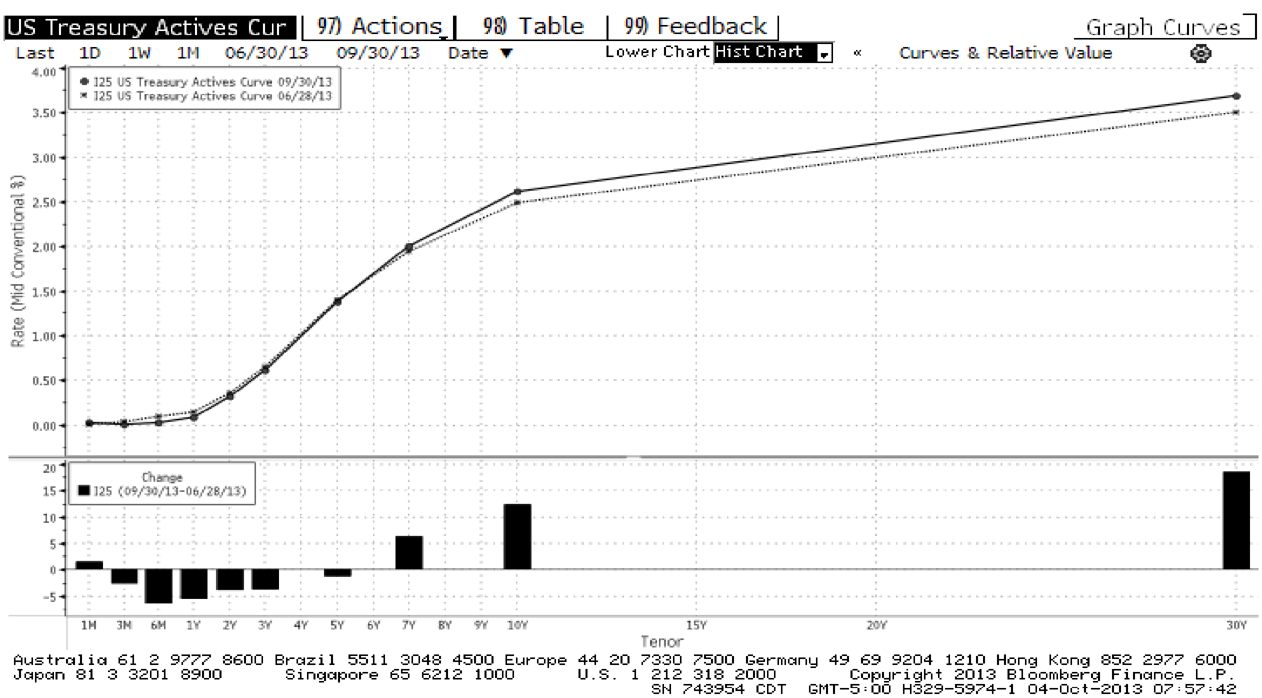
Portfolio	Value (Yield Book) ($MMs)	Portfolio Return	Benchmark Return	Active Return
TCRS Domestic Fixed Income Composite	$10,858	0.14	(0.10)	0.24
Corporate Portfolio	$3,370	0.19	0.29	(0.10)
Government One To Five Years	$1,872	(0.25)	(1.25)	1.00
Government Five Plus Years	$1,931	(1.16)	(1.25)	0.09
Mortgage Portfolio	$3,635	1.01	1.06	(0.05)
TCRS Inflation Protected Securities	$2,742	0.65	0.54	0.11



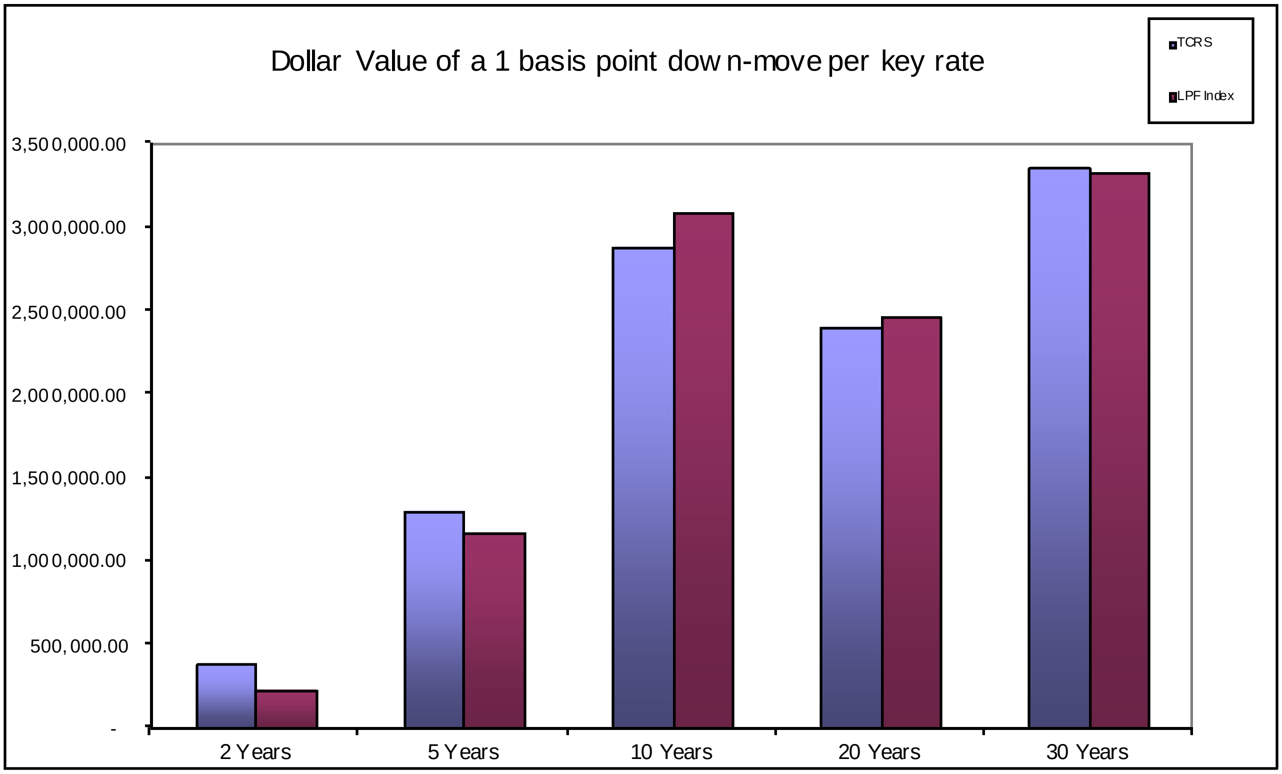
Characteristics were stable from quarter to quarter

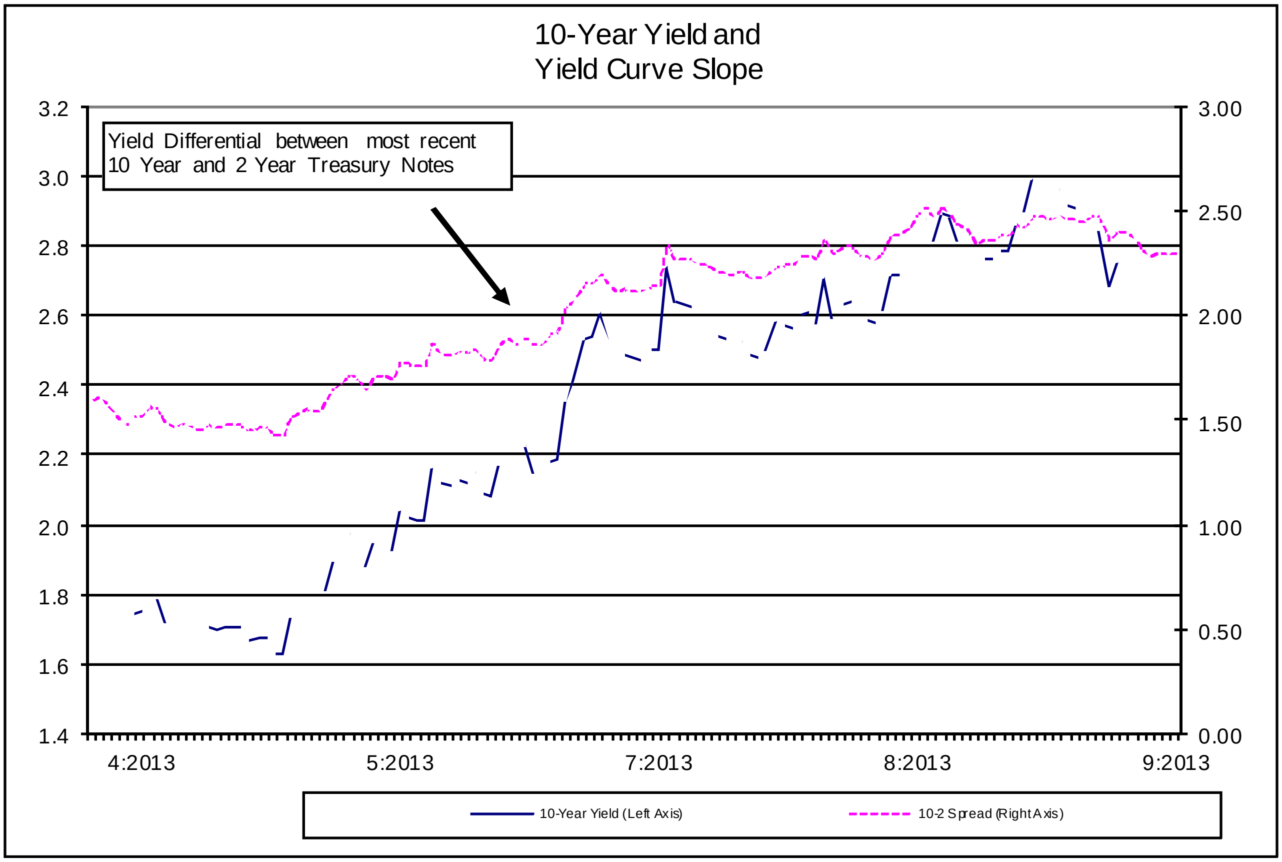


Yields fell and the curve flattened



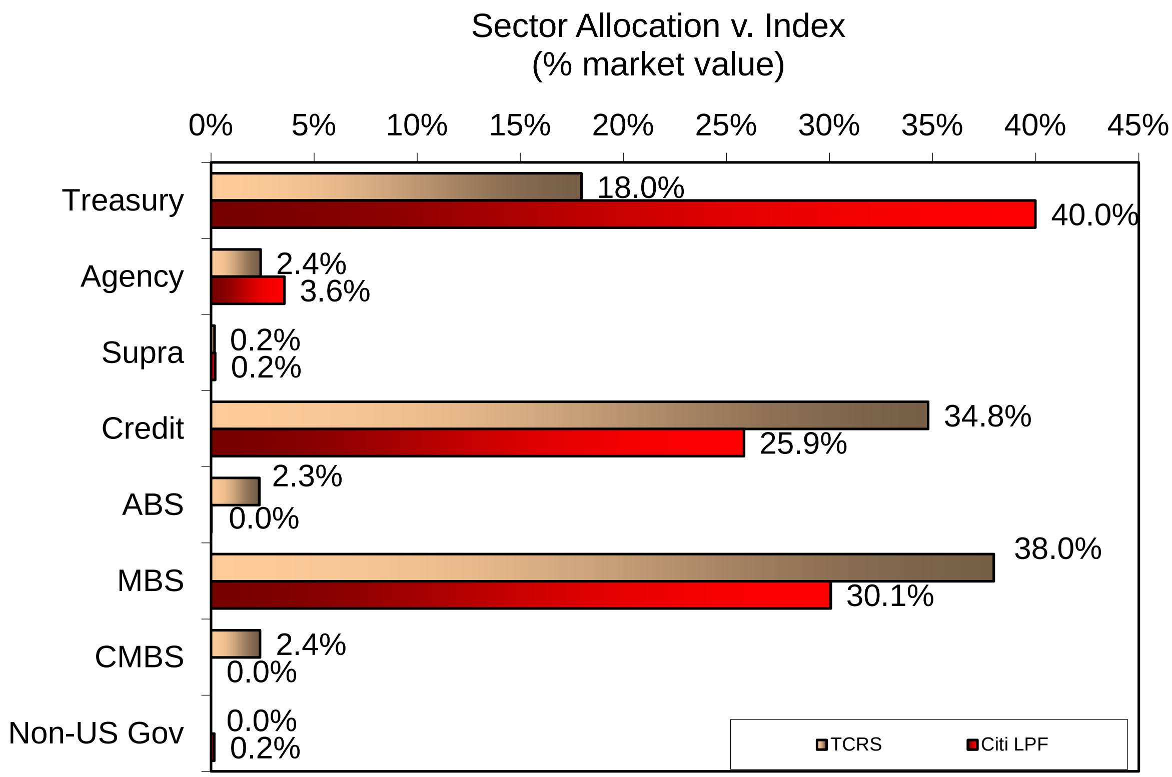
Curve positioning reflects overweight to MBS and Credit

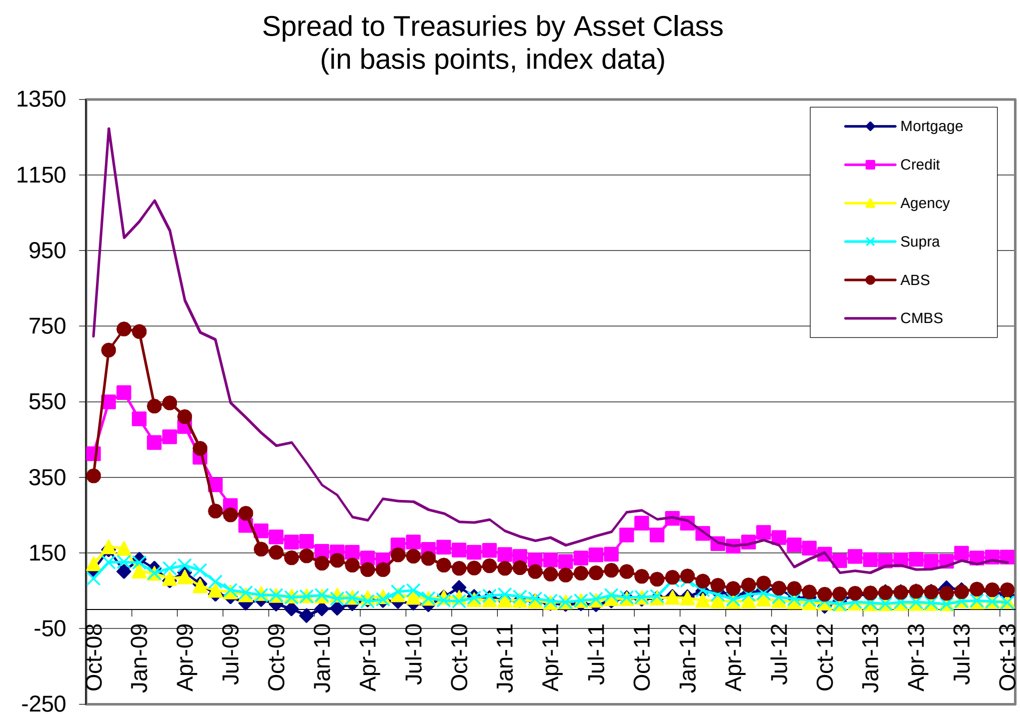




source: Bloomberg

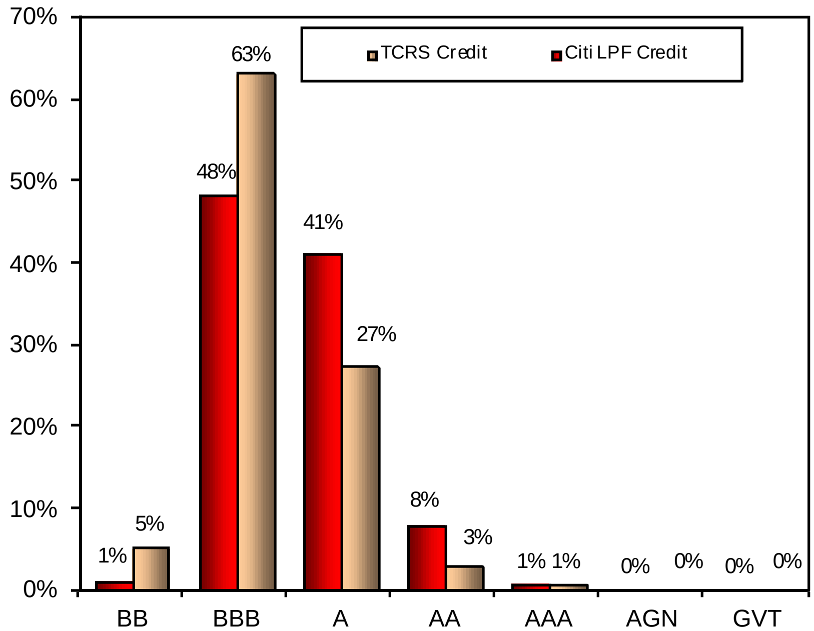
Spreads tightened during the quarter. While TCRS exposure to lower rated sectors is greater than the Index, spreads reflect risk skewed toward higher rated sectors

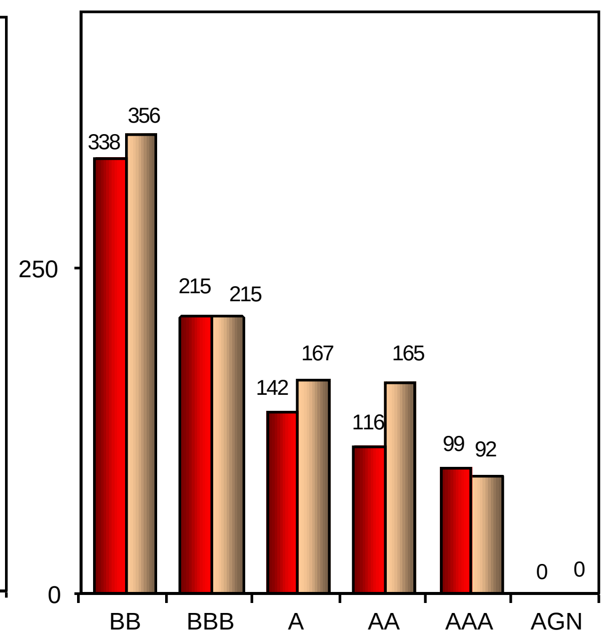


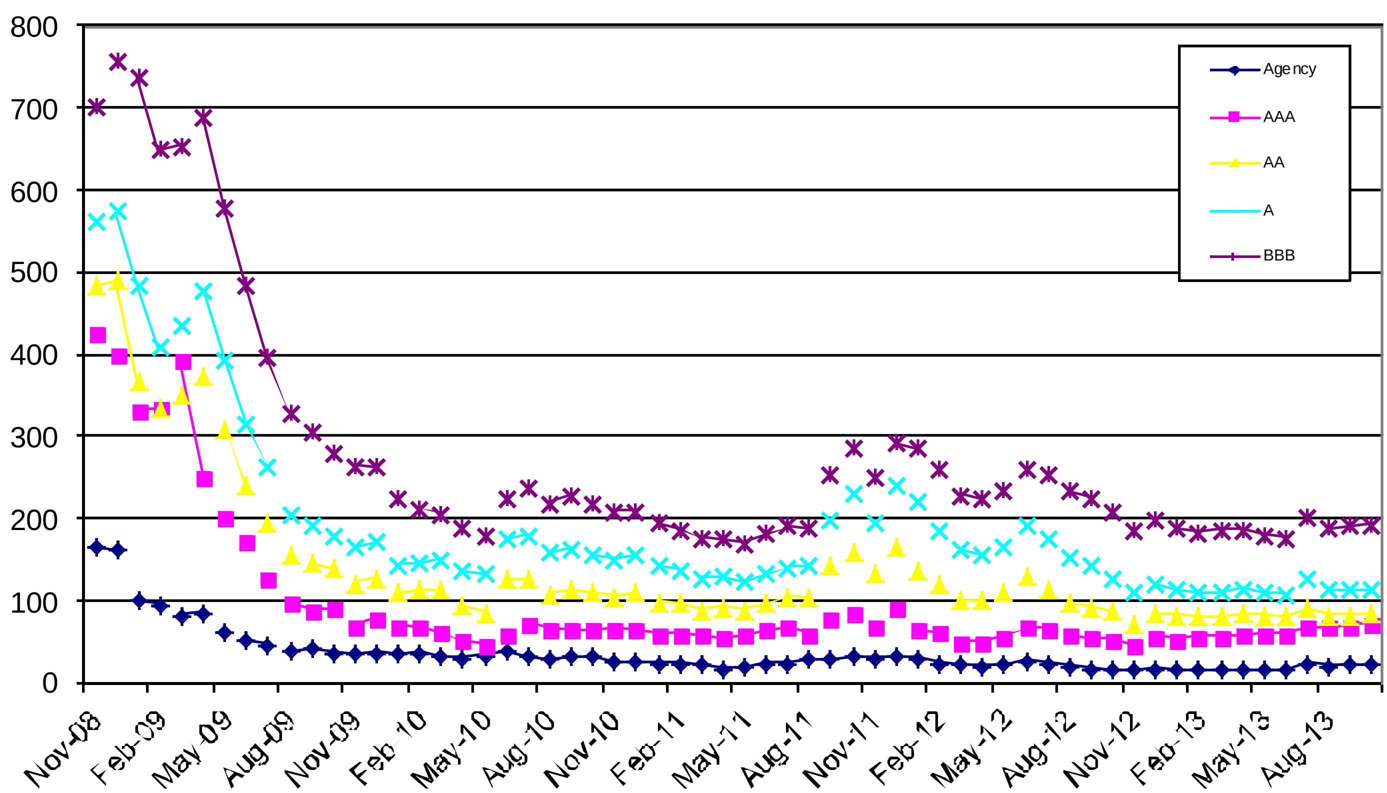


source: Yield Book

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





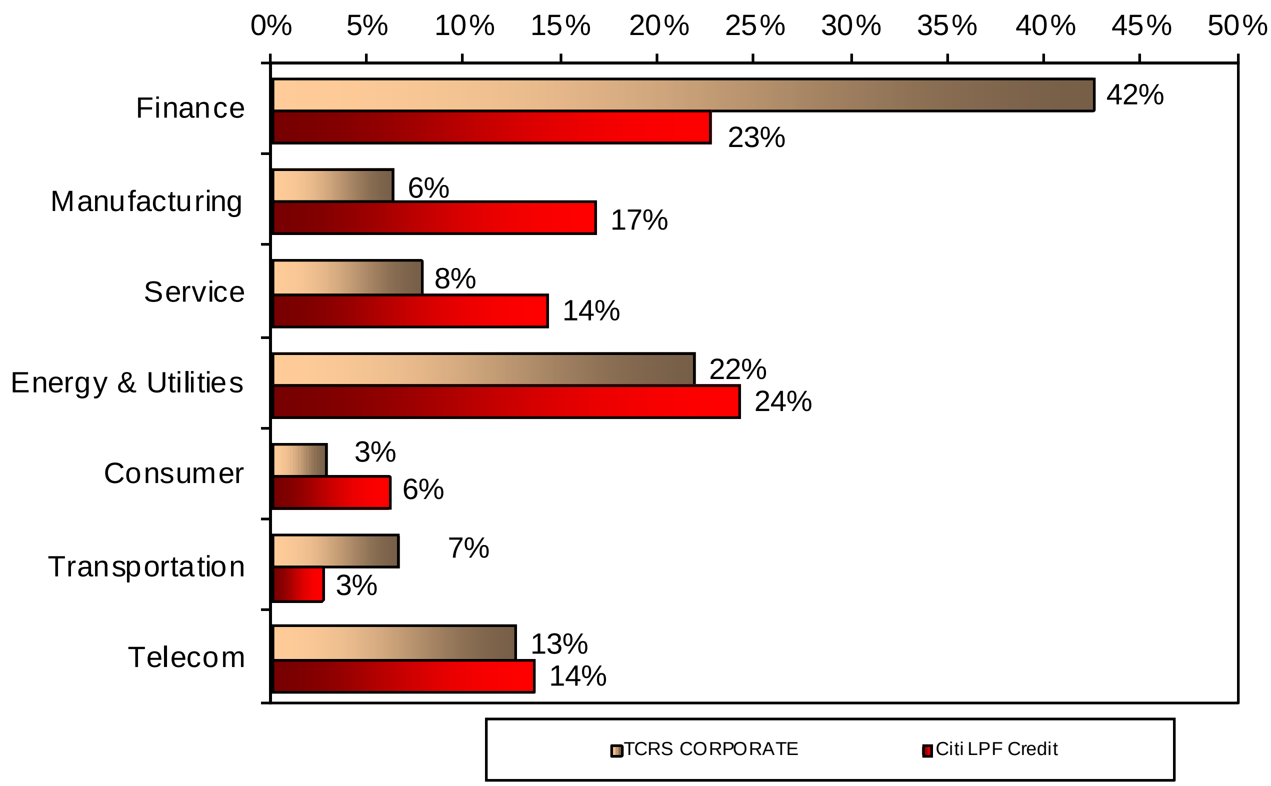


Allocation by Credit Sector
Andrew Palmer, CFA

Top 5 Credit Holdings (by Market Value)	MktVal	% MktVal
COMCAST CORP	39,418	0.4
MORGAN STANLEY	30,317	0.3
GOLDMAN SACHS GROUP INC	27,209	0.3
PETROLEOS MEXICANOS	25,244	0.2
JPMORGAN CHASE & CO	24,983	0.2

Top 5 Credit Holdings (by Dollar Duration)	$ Duration	% $ Duration
COMCAST CORP	51.86	0.5
JP MORGAN CHASE & CO	36.33	0.4
GOLDMAN SACHS GROUP INC	30.06	0.3
ANDARKO PETROLEUM CORP	25.38	0.2
GUARDIAN LIFE INSURANCE CO OF AM	25.31	0.2

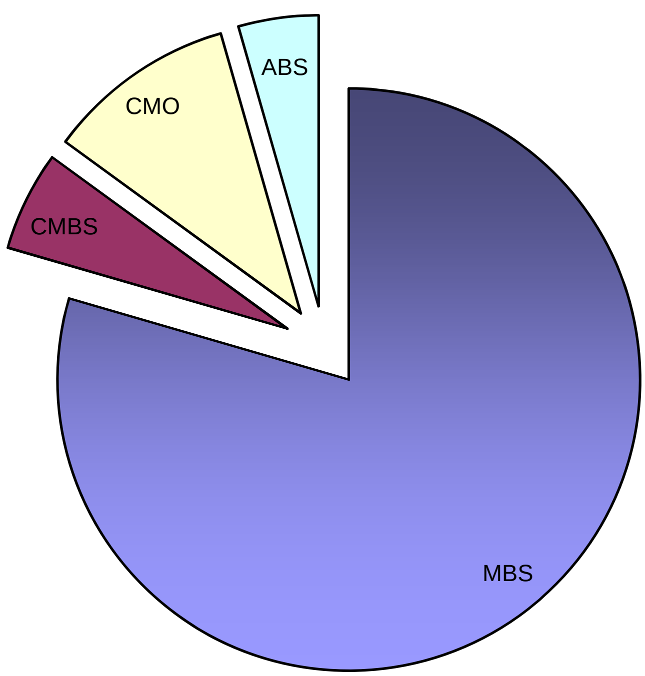
Sector Allocation v. Index
(% market value)



Securitized Product Breakdown
Andrew Palmer, CFA

	Market Value ($MM - Yield Book)	TCRS % of portfolio	CITI	Difference
Agency Mortgage Backed Securities	$3,634,037	33.5	30.1	3.5
GNMA				
15-Yr	$28,304	0.3	0.1	0.2
30-Yr	$671,971	6.2	7.7	-1.5
FNMA				
10-, 15- & 20-Yr	$507,672	4.7	2.9	1.8
30-Yr	$1,455,589	13.4	11.3	2.1
FHLM				
15-Yr	$95,147	0.9	1.7	-0.8
30-Yr	$775,719	7.2	6.3	0.9
Agency Hybrid	$99,635	0.9	0.0	0.9
Commercial Mortgage Backed Securities	$252,964	2.3	0.0	2.3
CMO and Non Agency Passthroughs	$481,220	4.4	0.0	4.4
Asset Backed Securities	$202,903	1.9	0.0	1.9
Total Securitized Product	**$4,571,124**	**42.1**	**30.1**	**12.1**

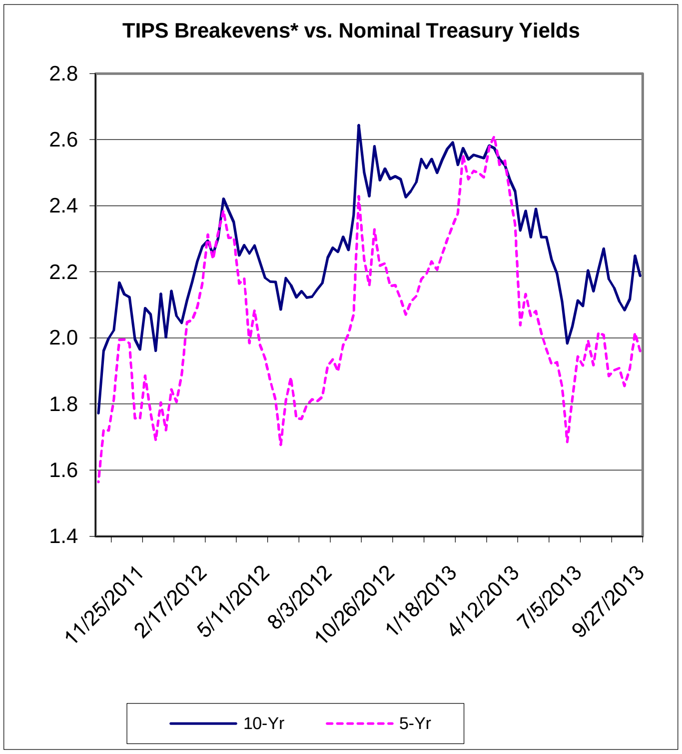
Percent of Securitized Product

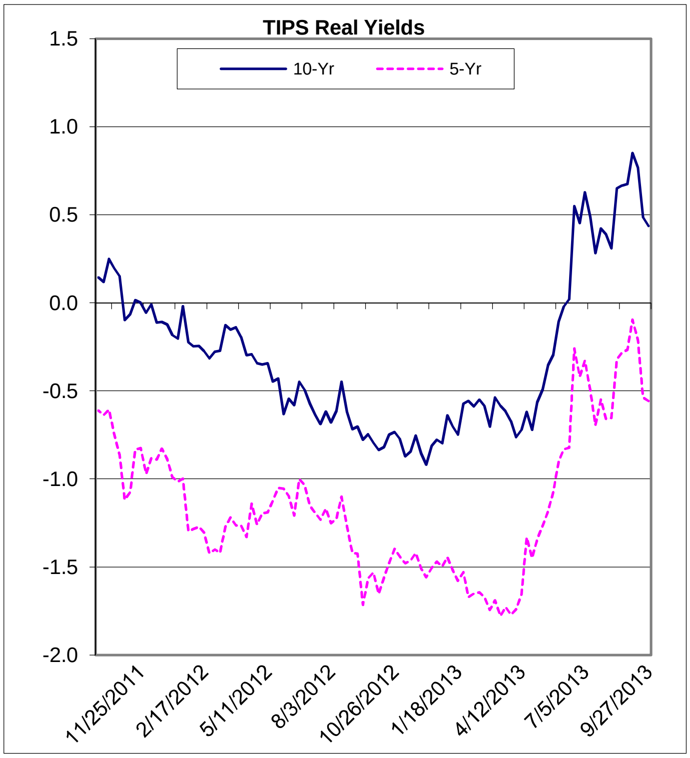


Portfolio Value (Yield Book):	$2,741,995,994
Portfolio Return:	0.65%
Citigroup ILSI Index:	0.54%
Active Return:	**0.11%**

% Market Value by Duration

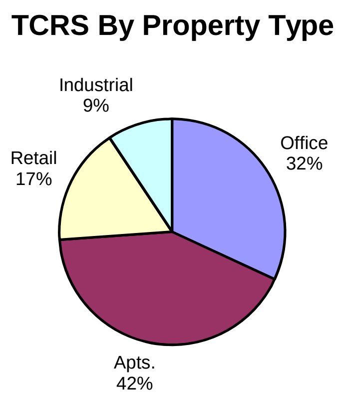
	TCRS	CITI	Difference
0-2	0.0%	0.0%	0.0%
2-4	1.7%	0.0%	1.7%
4-6	4.0%	3.9%	0.1%
6-8	5.8%	5.6%	0.2%
8-10	7.5%	7.6%	-0.1%
10+	11.8%	11.2%	0.5%

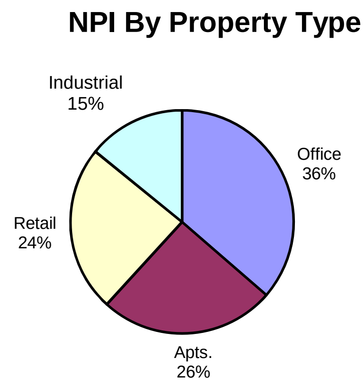


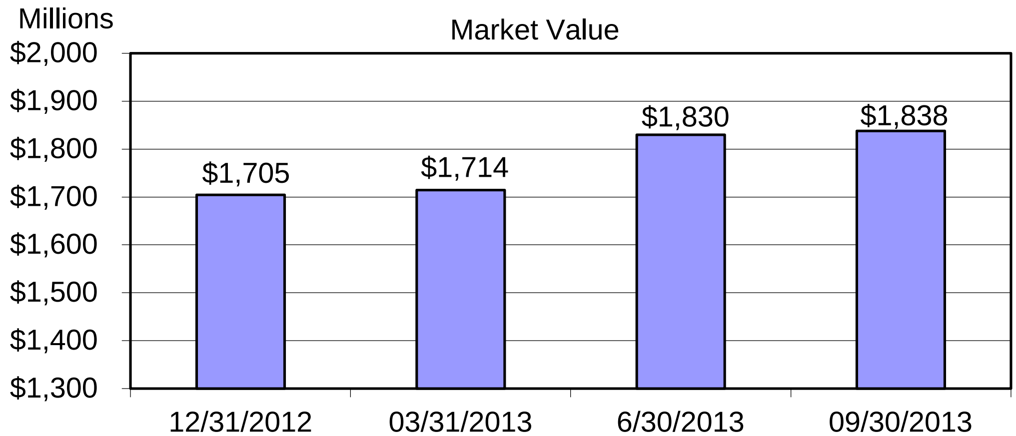


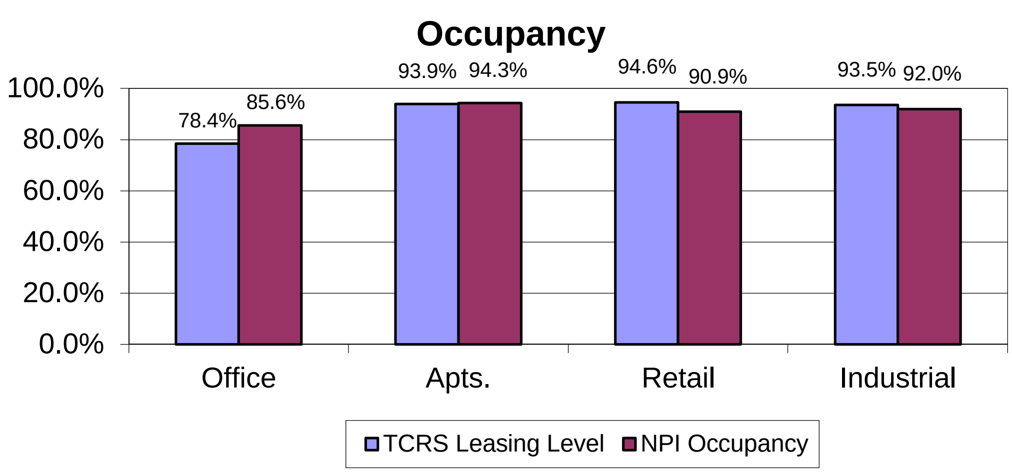
* The "breakeven" rate is the expected rate of inflation at which investment in TIPS yield the same return as investment in Treasuries

Source: Bloomberg

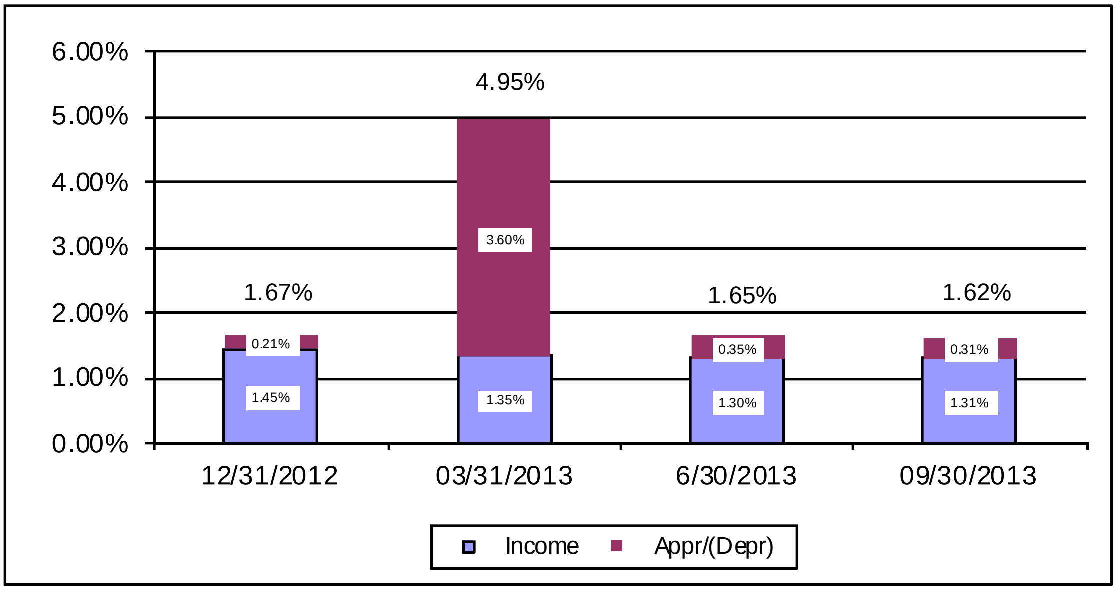






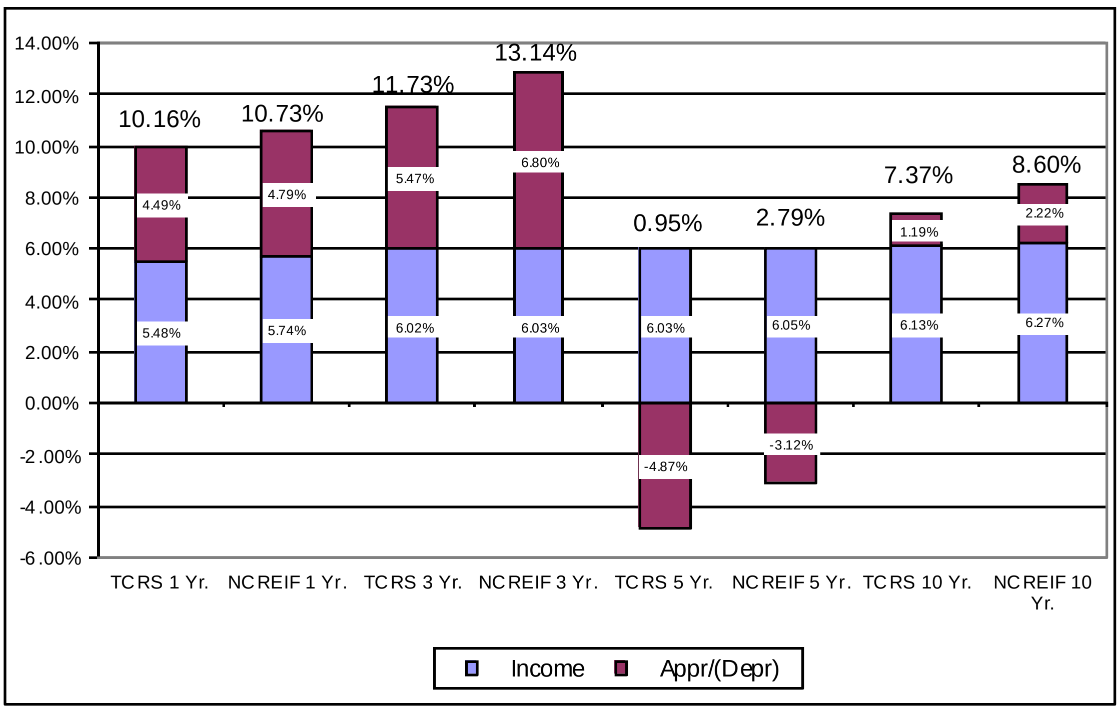


The NPI is the National Property Index of the National Council of Real Estate Investment Fiduciaries (the index used for US core properties).



All returns shown above are reported one quarter in arrears

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



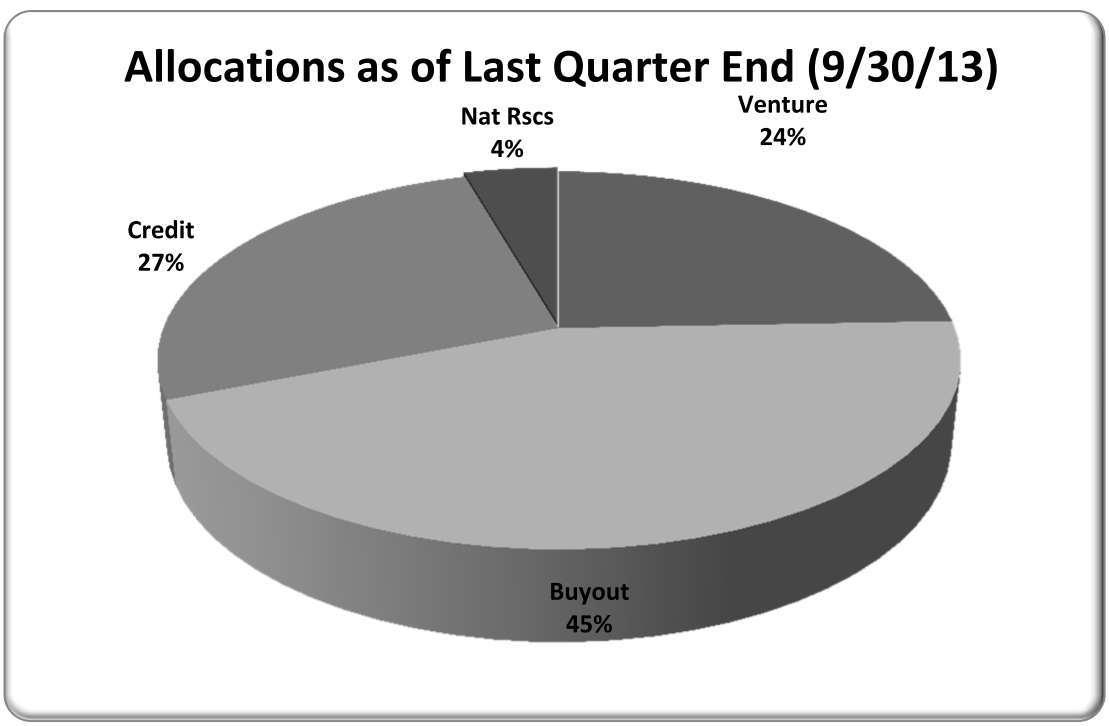
All returns shown above are reported one quarter in arrears

Tennessee Consolidated Retirement System
Private Equity Program
Fiscal Q1 2014 Update
Daniel Crews, CFA

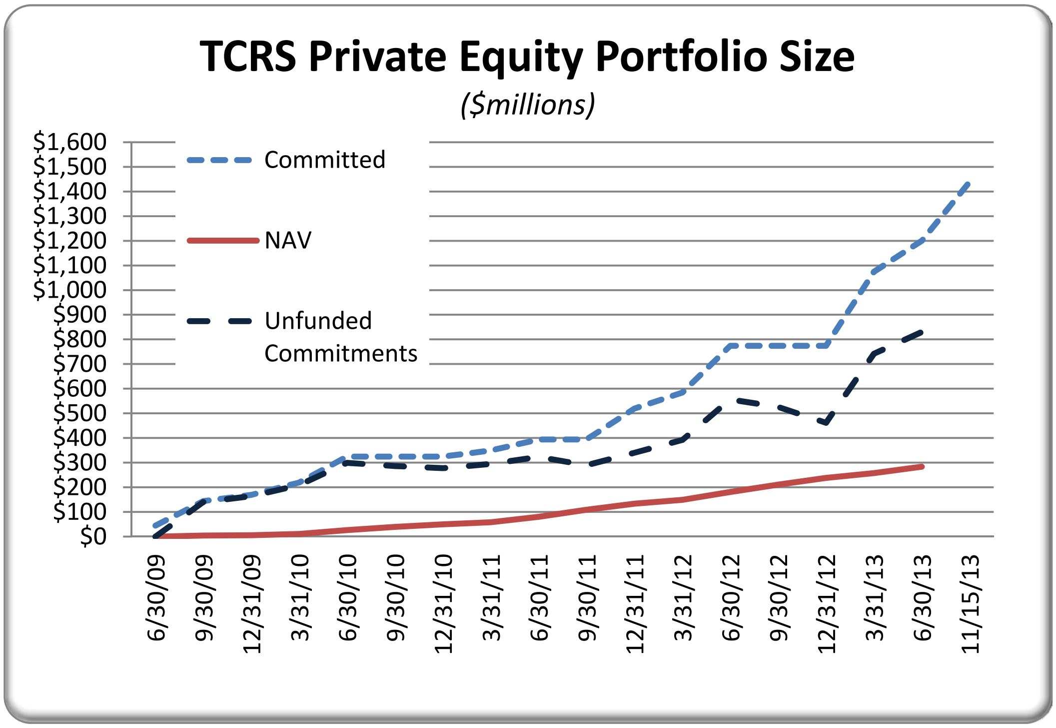
We have finalized our fiscal Q4:2013 results (the period ending 6/30/13), and are pleased to report that the program continues to show positive returns. The Buyout portfolio is showing signs of an improving j-curve and positive returns continued despite a reduced allocation to Credit. However, significantly positive returns in the public markets negatively impacted our relative performance.

Trailing IRR	**Quarter**	**Trailing 1 Year**	**Since Inception**
Buyout	5.6%	11.8%	5.8%
Credit	2.8%	17.8%	13.3%
Venture	2.9%	4.1%	10.2%
Natural Resources	-3.4%	-18.0%	-25.8%
TCRS PE Overall	**3.4%**	**10.7%**	**10.1%**
S&P 500 + 3%	*3.7%*	*23.6%*	*19.7%*

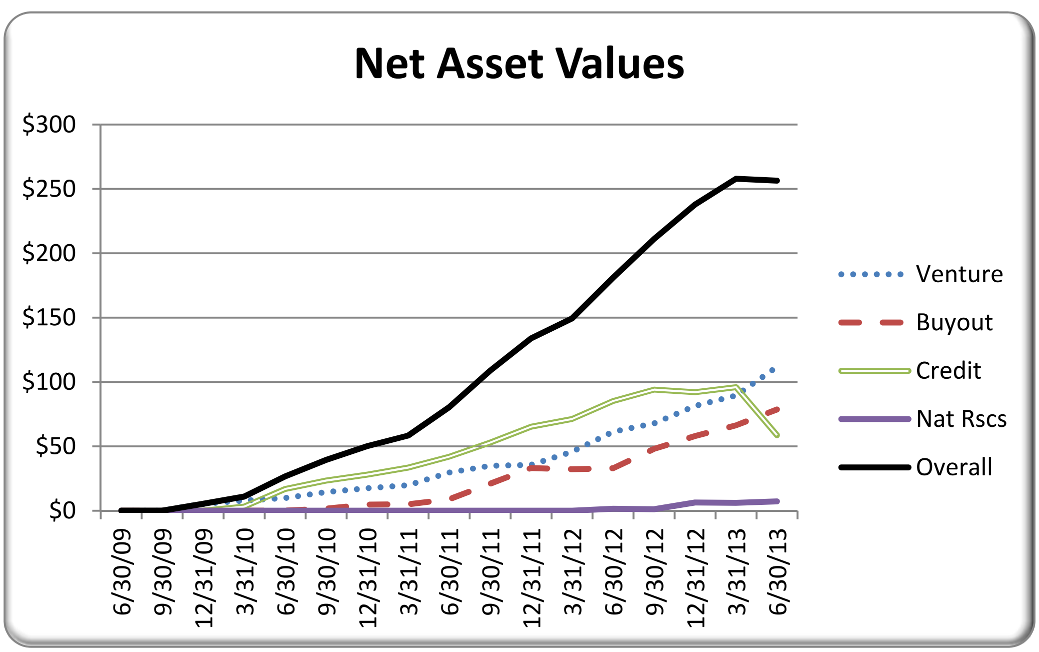
As of the end of the previous quarter, the portfolio continues to exhibit a favorable allocation among the major strategy areas. The following chart shows the allocations to the sub-asset classes based on current NAV and unfunded commitments through the end of September, 2013.



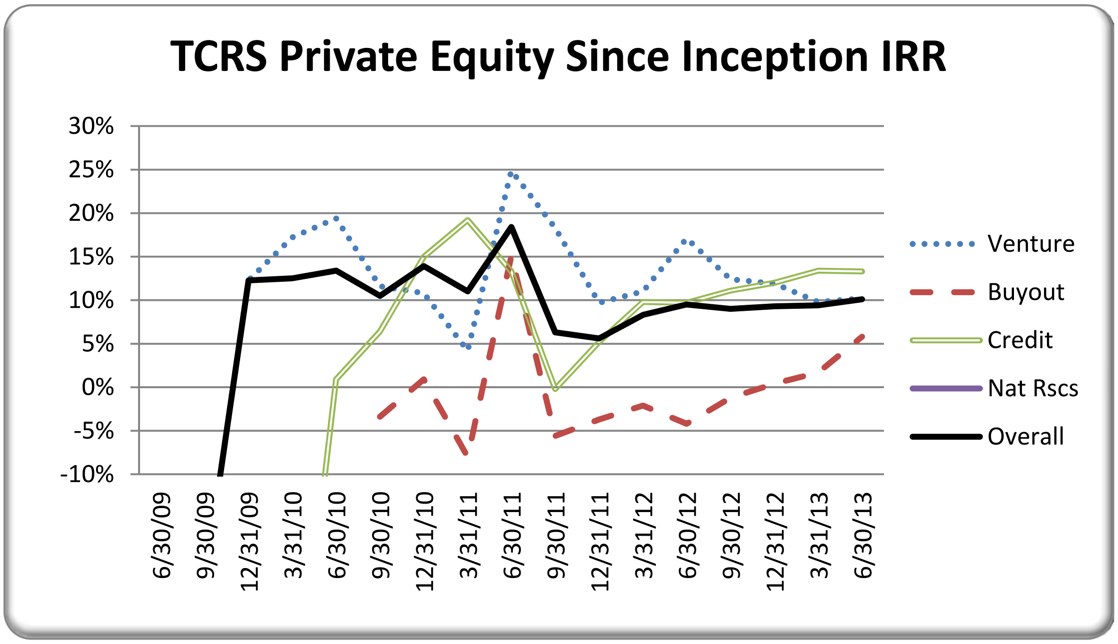
The next chart shows the overall size and growth of the TCRS portfolio in terms of commitments, unfunded commitments, and net asset value.



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. The NAV plateau seen in the quarter reflects the final maturity of one of our Credit funds.



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



Recent Commitments

In August, TCRS committed $50 million to DCPF IV Oil & Gas Co-Investment Fund, an oil and gas focused sidecar vehicle to Denham IV, to which TCRS previously committed $50 million. In October, TCRS committed $55 million to EBF & Associates' fund Merced Partners IV, an opportunistic credit and real asset fund. In November, TCRS committed $20 million to health care life sciences venture capital fund OrbiMed Private Investments V as well as $75 million to middle markets buyout fund Olympus Growth Fund VI.

Looking Ahead

The calendar 4th quarter pipeline is full, with multiple closes between now and year end. In 2014, Staff expects to focus on assessing and improving internal portfolio planning processes.

Domestic Stock Index Futures

Roy Wellington, CFA

There was no Index Futures activity in the report period.

Domestic Fixed Income Derivatives Report

Andrew C. Palmer, CFA

Domestic Fixed Income Derivatives Transaction Log

ACCT	SOLD	BOUGHT	NET	EXPIRATION	CONTRACT	TYPE	STRIKE
Begin							
			95		**SEP 13 10 YR T-NOTES**		
			4239		SEP 13 CBT UL T-BONDS		
			4505		**SEP 13 U.S. T-BONDS**		

TRADE SUMMARY BY ACCOUNT

ACCT	SOLD	BOUGHT	NET	CONTRACT
5+ Gov-t (1381)				
	-	375	375	CBOT T-BONDS 13 Dec
	375	-	(375)	CBOT T-BONDS 13 Sep
	-	1,000	1,000	CBOT ULTRABOND 13 Dec
	1,000	-	(1,000)	CBOT ULTRABOND 13 Sep
1-5 Gov't (1368)				
	-	expired		CBOT 10 T-NOTE 13 Aug C 131
	-	500	500	CBOT 10 T-NOTE 13 Dec
	500	500	-	**CBOT 10 T-NOTE 13 Sep**
	-	3,130	3,130	CBOT T-BONDS 13 Dec
	3,500	70	(3,430)	CBOT T-BONDS 13 Sep
	-	2,259	2,259	CBOT ULTRABOND 13 Dec
	2,259	-	(2,259)	CBOT ULTRABOND 13 Sep
Overlay (1371)				
	-	500	500	CBOT 10 T-NOTE 13 Dec
	500	-	(500)	**CBOT 10 T-NOTE 13 Sep**
	-	300	300	CBOT T-BONDS 13 Dec
	600	-	(600)	CBOT T-BONDS 13 Sep
	-	680	680	CBOT ULTRABOND 13 Dec
	680	-	(680)	CBOT ULTRABOND 13 Sep
Corporate (1365)				
	100	-	(100)	CBOT 10 T-NOTE 13 Dec
	305	210	(95)	**CBOT 10 T-NOTE 13 Sep**
	100	-	(100)	CBOT T-BONDS 13 Sep
	100	400	300	CBOT ULTRABOND 13 Dec
	450	150	(300)	CBOT ULTRABOND 13 Sep

End

NET	CONTRACT
900	CBOT 10 T-NOTE 13 Dec
3805	CBOT T-BONDS 13 Dec
4239	CBOT ULTRABOND 13 Dec

Domestic Fixed Income Derivatives Report

Andrew C. Palmer, CFA

Domestic Fixed Income Derivatives Transaction Log

<u>SUMMARY OF LAST QUARTER'S ACTIVITY:</u>

CONTRACTS IN USE:

- 10-year Futures
- Long Bond Futures
- Ultra-Long Futures

STRATEGIES:

- Used Ultra-Long, Long Bond , Ten-Year Futures and call options on Ten-Year Futures to manage interest rate exposures in the 1-5 Gov't portfolio and the Corporate portfolio .
- Rolled Ten -Year, 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 portfoli 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.

<u>PROPOSED STRATEGIES FOR CURRENT QUARTER:</u>

- Use Ultra-Long, Long Bond , Ten-Year Futures and Five-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, Bond Futures and Ten-Year 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.

Currency Forwards Activity

Jesse Picunko, CFA

2014 1st Quarter Activity

NO ACTIVITY

TCRS MORTGAGE PORTFOLIO

END OF QUARTER MORTGAGE TBA POSITIONS

Jesse Picunko, CFA

	PRICE	PAR ($milion)	MARKET ($million)	SETTLE	FIRM
Fannie Mae 15yr 3.5	105.51	50	52.75	OCT	CS
Fannie Mae 15yr 3.5	105.51	30	31.65	OCT	DB
Fannie Mae 15yr 3.0	103.51	46	47.61	OCT	WFC
Fannie Mae 30yr 4.0	104.88	40	41.95	OCT	C
Fannie Mae 30yr 4.0	104.88	25	26.22	OCT	NOM
Fannie Mae 30yr 4.0	104.88	41	43.00	OCT	BNP
Fannie Mae 30yr 4.5	106.81	20	21.36	OCT	BARC
Fannie Mae 30yr 4.5	106.81	10	10.68	OCT	JEF
Fannie Mae 30yr 5.0	108.44	15	16.27	OCT	DCM
Fannie Mae 30yr 5.0	108.44	33	35.78	OCT	NOM
Freddie Mac 30yr4.5	106.45	16.5	17.56	OCT	DCM
Ginnie Mae 30yr 4.0	105.47	13	13.71	OCT	DCM
	Total	**340**	**359**		

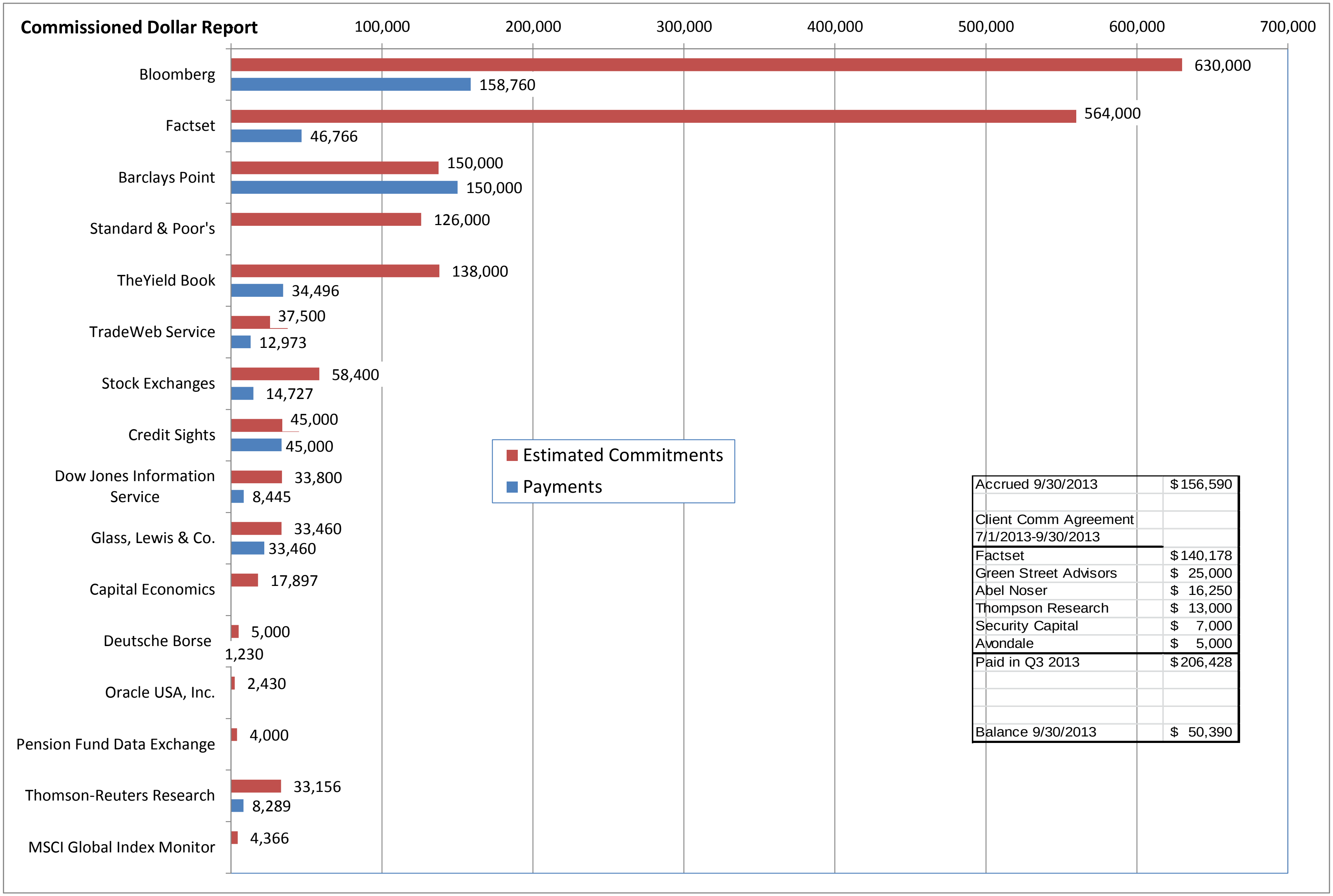
	By Firm ($million)
NOM	**62.00**
CS	**52.75**
WFC	**47.61**
DCM	**47.54**
C	**41.95**
DB	**31.65**
BNP	**43.00**
BARC	**21.36**
JEF	**10.68**
	358.56

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 quarter ended September 30 was 3,541 trades (1,657 buys and 1,884 sells), just over 108 million shares, valued at $4.78 billion. This was a decrease of about 20 million shares from the previous quarter.

Trading Cost Analysis – Even though trade volume has been decreasing, the execution of the trades continues to improve. All-in trading costs were 9.83 basis points for a total of $5.7 million and were the lowest in the last 4 quarters. This also compared well to the universe of trades in the Abel Noser universe, where the median trading costs were 9.76 basis points. Execution (measured using strike price) added 1.5 basis points of value when comparing the overall costs of all trades to the composite universe of trades at Abel Noser, and added nearly 2 basis points when reviewing basket trades only. The data that has been gathered has identified brokers that have consistently provided favorable execution. The data has also helped to identify the trading patterns of some of the portfolio managers, and this information helps the trader evaluate the best way to handle trades when consistent patterns emerge.



Accrued 9/30/2013	$156,590
Client Comm Agreement 7/1/2013-9/30/2013	
Factset	$140,178
Green Street Advisors	$ 25,000
Abel Noser	$ 16,250
Thompson Research	$ 13,000
Security Capital	$ 7,000
Avondale	$ 5,000
Paid in Q3 2013	$206,428
Balance 9/30/2013	$ 50,390