

INVESTMENT REPORT

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

**Third Quarter
Fiscal Year 2009 - 2010**

January 1, 2010 – March 31, 2010

**Prepared for:
Board of Trustees Meeting**

June 25, 2010

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 followed:

<u>Council Members</u>	<u>Expiration of Term</u>	<u>Appointed Term</u>
Frederick S. Crown, Jr., CFA 124 Longwood Place Nashville, TN 37215 Phone: 615-385-3753 E-mail: crownfl@gmail.com	June 30, 2012	5 year
Henry J. Delicata Park Street Capital One Federal Street, 24th Floor Boston, MA 02109 Phone: 617-897-9252 / Fax: 617-897-9253 E-mail: hdelicata@gmail.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, 2011	5 year
George B. Stadler, CFA 1109 Belle Meade Blvd Nashville, TN 37205 Phone: 615-416-3455 cell E-mail: george@hmscm.com	June 30, 2010	5 year
Chuck Webb, CFA Chief Investment Officer Weaver C. Barksdale & Associates One Burton Hills Boulevard, Suite 100 Nashville, TN 37215 Phone: 615-665-1088 E-mail: cwebb@wcbarksdale.com	June 30, 2013	5 year

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Board of Trustees Meeting

Third Quarter

Fiscal Year 2009-2010

January 1, 2010 – March 31, 2010

TABLE OF CONTENTS

Page

Minutes of June 3, 2010 IAC Meeting	1
Portfolio Overview.....	5
Equity Portfolio.....	8
Fixed Income Portfolio	17
Real Estate Portfolio	27
Private Equity Portfolio	29
Derivative and Currency Activity	31
Operations Report	35
Appendix.....	

Minutes from the Investment Advisory Council Meeting June 3, 2010

Mr. Michael Brakebill, Chief Investment Officer, convened the meeting at 10:00 a.m. in the 11th Floor conference room of the Andrew Jackson State Office Building. Investment Advisory Council (IAC) members present were Mr. George Stadler, Mr. Chuck Webb, Ms. Susan Huffman and Mr. Fred Crown. Mr. Henry Delicata participated via conference call. Investment staff members present were Michael Brakebill, Ed Hennessee, Andy Palmer, Peter Katseff, Lamar Villere, Tim McClure, Mike Keeler, Jim Robinson, Carrie Green, Derrick Dagnan, Matthew Haitas, Chris Weis and Rhonda Myers.

Mr. Brakebill opened the discussion by reviewing investment performance in the quarterly IAC Report and in the quarterly Strategic Investment Solutions (SIS) report. The one-year absolute return of 24.46% is well in excess of the fund's actuarial requirements; however the ten-year return of 3.2% illustrates the difficulties investors have faced over an extended period. Mr. Brakebill reiterated how the fund tends to under-perform peers in rising markets due to conservative asset allocation.

The discussion moved to a presentation on key initiatives where Mr. Brakebill highlighted the work staff has done in conjunction with SIS in modifying the current asset allocation to raise the overall return of the fund. Mr. Brakebill reviewed the specific changes with council members who received the potential changes positively. These potential changes will be reviewed with the Investment Committee and Board of Trustees of TCRS. After review and discussion, policy language will be presented for approval.

Mr. Brakebill moved the discussion to focus on recent market and portfolio trends. He reviewed how the fund had decreased the equity weighting of the portfolio in late April 2009. As equity market values fell throughout May, the under-weighting grew to a point where staff was beginning to re-allocate back into stocks and Mr. Brakebill pointed out recent purchases in international equities as an example.

Mr. Brakebill then relayed the details of the trading error in CF Industries stock which occurred during the index sales in late April. Mr. Brakebill discussed how the order management system could have helped avoid this error and that staff was working to improve its processes to mitigate potentials for further errors.

Mr. Mike Keeler moved the discussion to domestic equities. During the quarter, staff narrowed the under-weight to small capitalization stocks by adding to the Russell 2000 futures position. Currently staff is comfortable with a slight under-weight given extended valuations and rather high growth expectations for the small and mid cap stocks relative to larger cap names. However, staff anticipates narrowing the under-weight during the upcoming quarters. In addition, during the period staff launched the Canadian TSE 60 replication fund with an initial commitment of \$100 million. Finally, staff is preparing for the onset of Bloomberg trade order management.

Mr. Jim Robinson reviewed the Quant Fund. In the March quarter, quantitative factors moved to a more neutral standing, especially compared to the drubbing taken in 2009. Value and growth

factors are expected to increase in their efficacy for picking stocks over the next several years. These factors are just now coming out of a period of historically perverse performance, even if that period has been about average in length. As real interest rates rise from depressed levels, lower quality companies will lose the tailwind of depressed capital costs. High quality, higher growth, and lower valuation stocks should benefit from these trends at the expense of lower quality, higher beta, and smaller cap stocks. Offsetting this to some extent is the European exposure of many larger cap stocks and the step down in growth expected from that region.

The Sector Fund under-performed during the quarter mostly due to poor stock selection. Factors that hurt performance include worries over Chinese fiscal tightening, Greek debt woes affecting the value of the euro and Federal support for weak companies while restraining profitable ones.

The international equity managers added 128 basis points over the benchmark EAFE IMI Index. Seven of nine managers beat their benchmarks this quarter as a result of generally good stock selection but also with country allocation decisions by Putnam, Baring and Walter Scott. After the market selloff post quarter's end, TCRS added \$250 million to its international allocation by buying iShares MSCI EAFE Index Fund (EFA) exchange traded funds (etfs).

Mr. Mike Keeler reviewed the Mid Cap Fund. The broader, smaller indices generally performed better than the S & P 500 during the period as risk investors began to actively seek risk. Outside of capitalization, value factors did well, as did low quality, low and negative return on equity (ROE) and high debt to equity names. The Mid Cap Fund under-performed the S & P Mid Cap 400 due to an under-weight to the strongly performing Financial Services sector as well as poor stock selection within the sector. The fund missed huge rebound moves in the distressed banks and low quality insurance companies. Poor stock selection in the Health, Technology and Consumer Staples sectors offset good results in the Industrial and Materials sectors.

Mr. Andy Palmer reviewed the performance of the fixed income portfolios for the quarter. He noted that the performance of all of the portfolios exceeded their benchmarks. For the domestic portfolio, a continuation of spread tightening, particularly in CMBS, Non-agency MBS and Corporate Bonds provided the bulk of the performance. Within the credit portfolios, an emphasis on BBB rated securities and financial companies was rewarded during the quarter. In the MBS market, an underweight to FHLMC pass through securities helped in the quarter. In March, FHLMC implemented its program to transfer non-performing mortgages from pools to their balance sheet. Most of these redemptions occurred to bonds with premium valuations creating a mark to market loss for the month. FNMA will implement its transfer program in the second quarter and the performance impact should reverse. Other than monthly rebalancing among sectors to offset relative performance differences, the domestic portfolio remained stable in its exposures. During the second quarter to date, risk positions have been reduced through the sale of ABS, CMBS and Non Agency MBS with proceeds redeployed into government backed sectors.

The Inflation Hedged portfolio added performance relative to its benchmark. The portfolio was positioned for an increase in rates by owning more short-intermediate maturity securities and fewer intermediate maturity securities than the index. Rates moved to reward that positioning. In addition, duration was extended intra-period in response to higher real rates.

The International Fixed portfolio benefited from diversification away from Yen and a small currency hedge back to Dollars from Yen.

The fixed income portfolio employed Treasury futures during the quarter to hedge out the interest rate risk of a corporate bond position and to replicate the exposure of owning five-year Treasury notes. In the coming quarter, it is expected that futures could be used to reduce the duration of the portfolio and options on futures could be used to protect the portfolio from a crisis event that would drive interest rates down sharply.

Mr. Katseff provided an overview of the real estate data in the IAC report. He stated that the appraised values on real estate have been impacted by the appraisers using conservative assumptions and using high discount rates. Mr. Brakebill further stated that he believes there will be future write-ups for many of the TCRS properties due to overly conservative valuations. Mr. Katseff emphasized that TCRS owns quality properties in strong locations that should perform well over the long-term; however, he indicated that he favors apartments to other classes in the short-term, because apartment occupancy can always be increased by decreasing rents. Further, he stated that the performance of industrial properties remains highly dependent on location. He concluded his remarks by stating that the pricing of properties remains the key aspect of any acquisition.

Mr. Lamar Villere provided an update on the private equity portfolio. He noted that early performance appears strong, but is not meaningful as very little capital has actually been called by the funds. Mr. Villere also provided an update on the private equity RFP process, which is expected to conclude in July. Fifteen firms have notified TCRS of their intention to submit proposals. Mr. Villere discussed recent commitments of \$40 million each to Oaktree Opportunities VIII and VIIIb. He also discussed the pipeline, which includes a venture capital fund and a buyout fund.

Mr. Tim McClure gave an update of the status of the Bloomberg OMS project. The kickoff meeting took place on February 23, 2010. Since then, many of the basic system components have been developed and system testing has taken place. User training has been delayed due to a procurement issue concerning the required communications server. This issue has been resolved and user training is scheduled to begin June 16 and full implementation is scheduled for July 31, 2010. Mr. McClure also discussed changes in personnel. Josh Stites has accepted the position of Staff Assistant to the Treasurer and there is a search underway for his replacement. When the position is filled, the topic of securities lending will be addressed.

The meeting adjourned at 12:00 p.m.

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Performance Review

March 2010

Absolute comparison

- 1 quarter return of 2.46%
- 1 year return of 24.46%
- 10 year return of 3.20%

Benchmark (relative) comparison

- Qtr return of 2.46% trailed allocation index of 2.73% (0.27%)
- 1 year return of 24.46% trailed allocation index of 27.91% (3.45%)
 - TAA down 19 bps in quarter.
 - DFI up 119 bps in quarter. Up 882 bps for year
 - DE down 26 bps in quarter. Down 344 bps for year
 - IE up by 128 bps in quarter. Down 114 bps for year
 - Currency overlay in IE was part of risk reduction trade
 - RE down 101 bps for year

Peer comparison

- 1 quarter return ranked at 95% (0% = best)
- 1 year return ranked at 92%
- 3 year return ranked at 39% (beat 61% of peers)

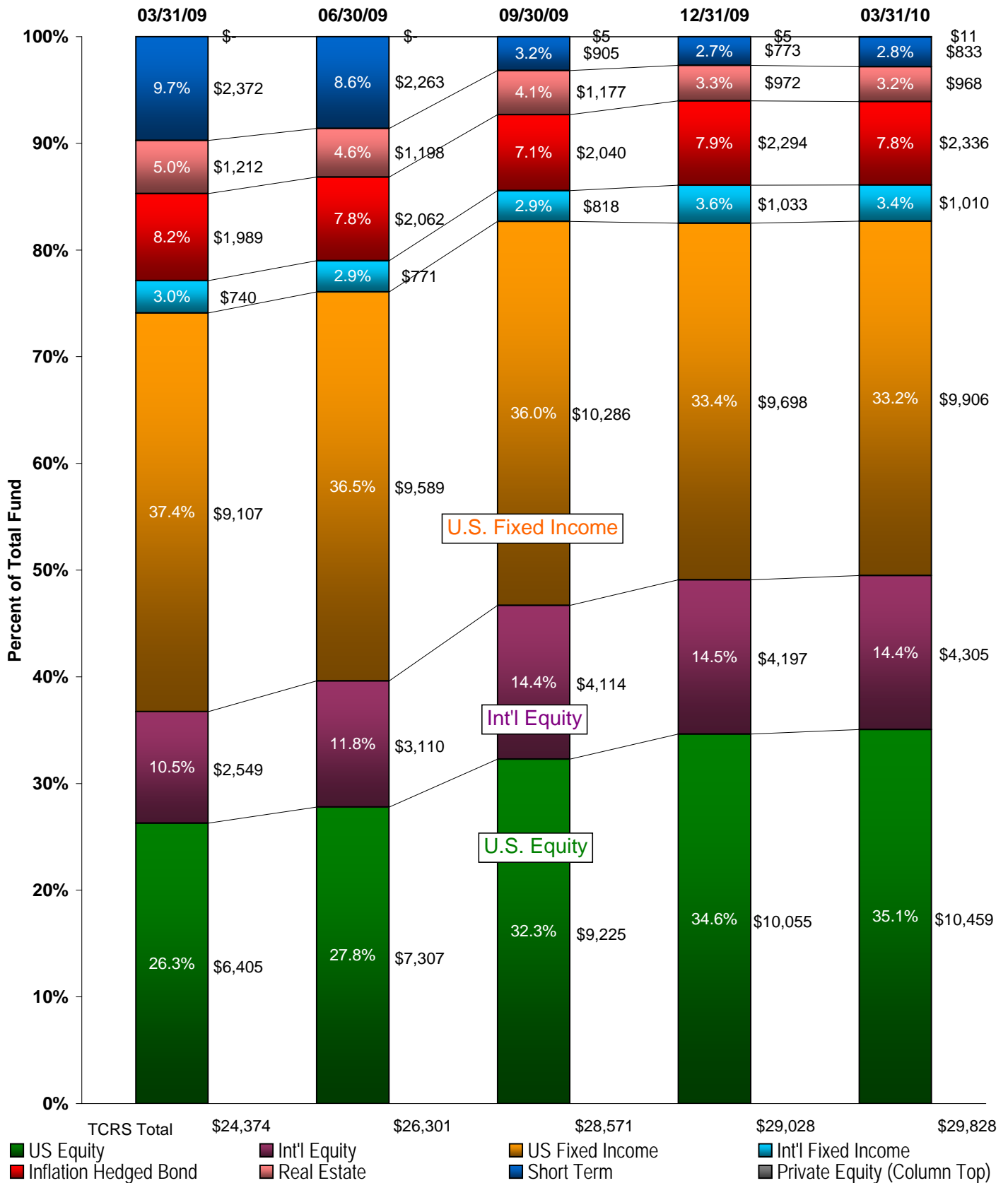
Key Initiatives

March 2010

- Asset allocation and implementation review
- Securities lending
- Private Equity Consulting Search
- General Consulting Search
- Improve Investment Operations Support
Bloomberg OMS

TCRS Asset Allocation

March 2010



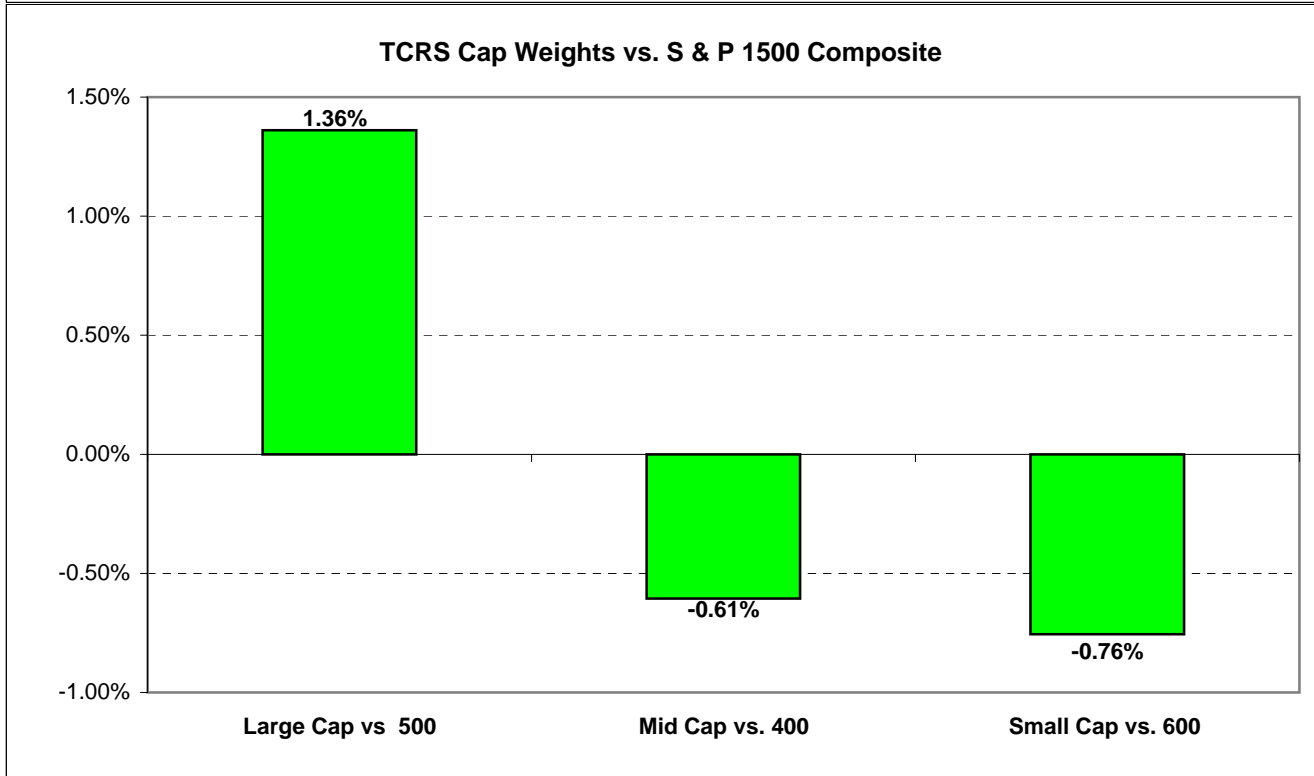
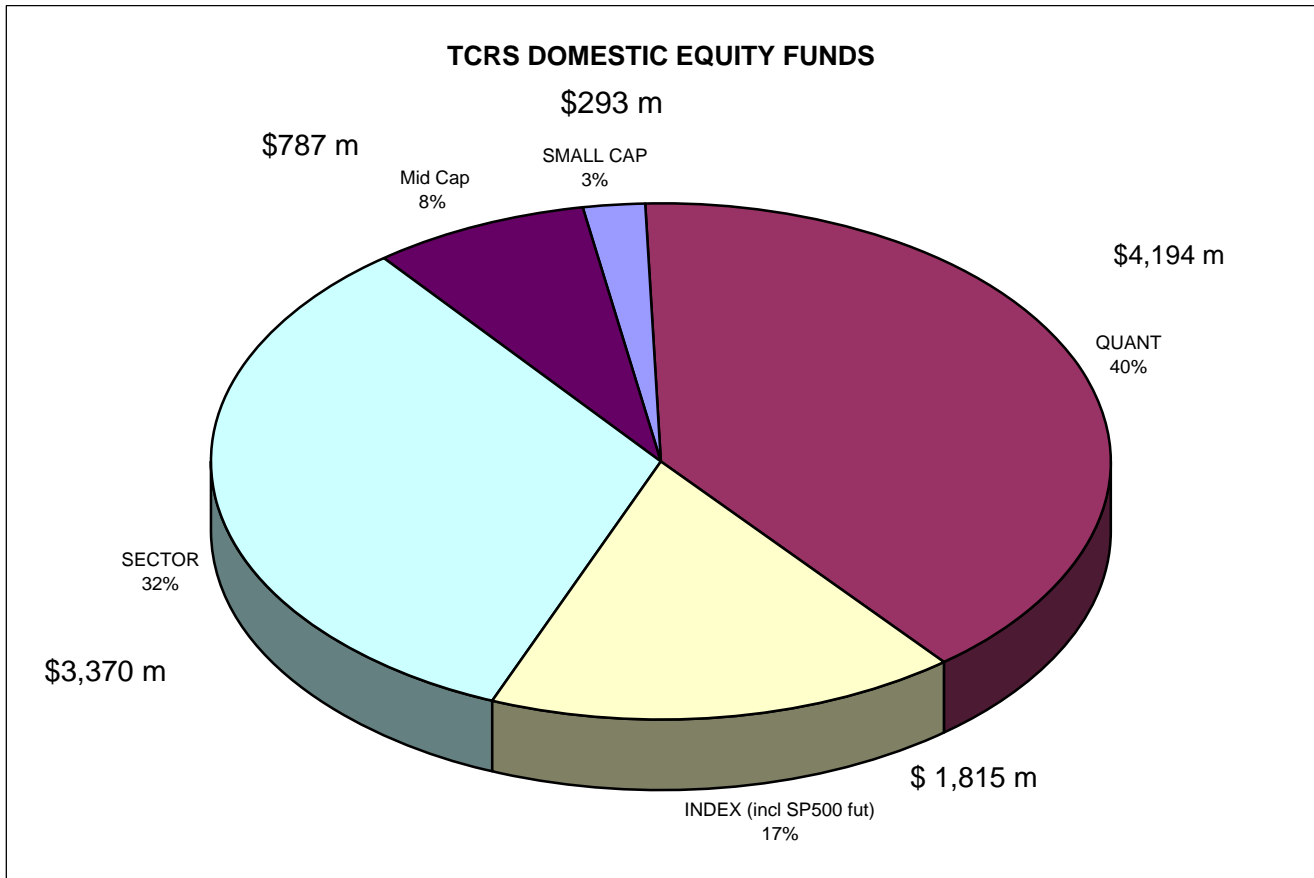
\$ = millions

Source: Strategic Investment Solutions, Inc.

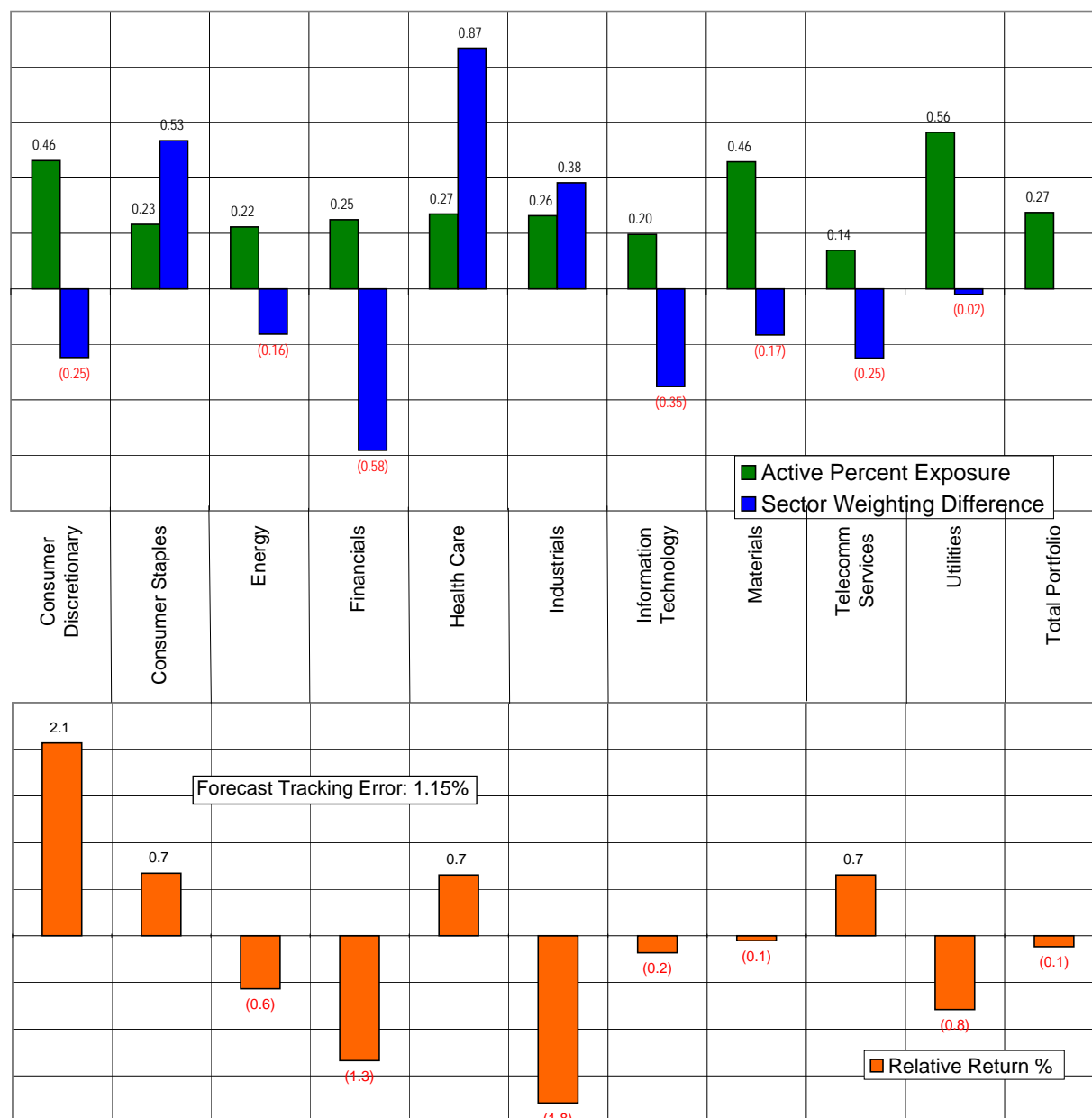
TCRS Domestic Equity

Domestic Equity Portfolio Overview

Michael Keeler, CFA



Large Cap Quant Fund
Jim Robinson, CFA



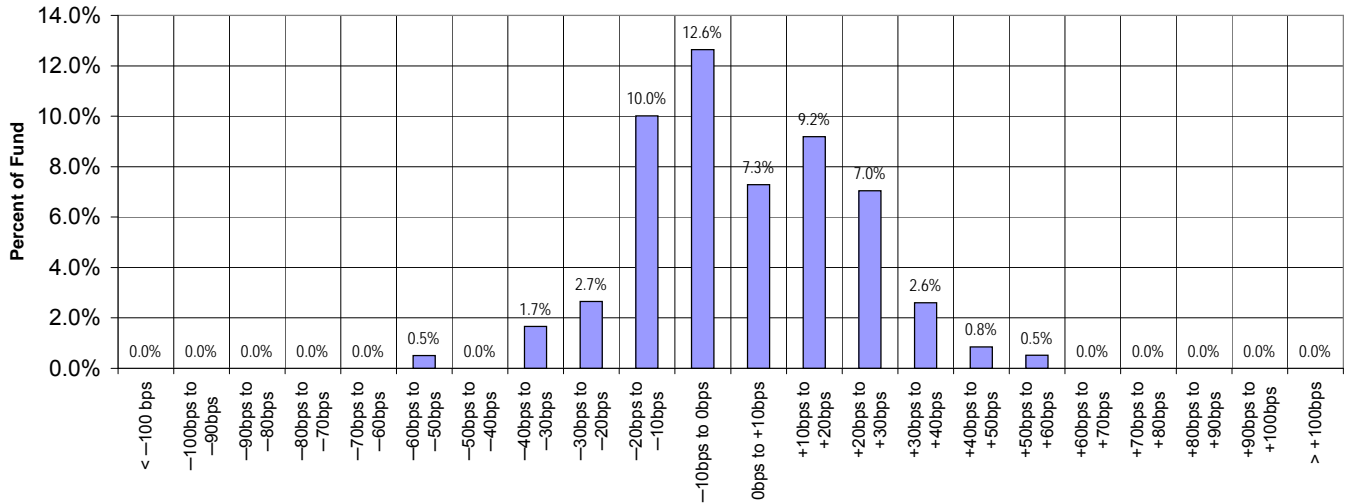
Of the four multi-factor models influencing the Quant Fund's returns in the March quarter, only Price Momentum contributed positively. Overall, the fund experienced slightly negative relative performance.

March 2010 Qtr	Value + Momentum	Earnings Momentum	Price Momentum	Relative Value
Information Coefficient	0.00	0.03	0.03	-0.02
Long-Short Spread %ROR	-2.30	-2.12	4.19	-1.91

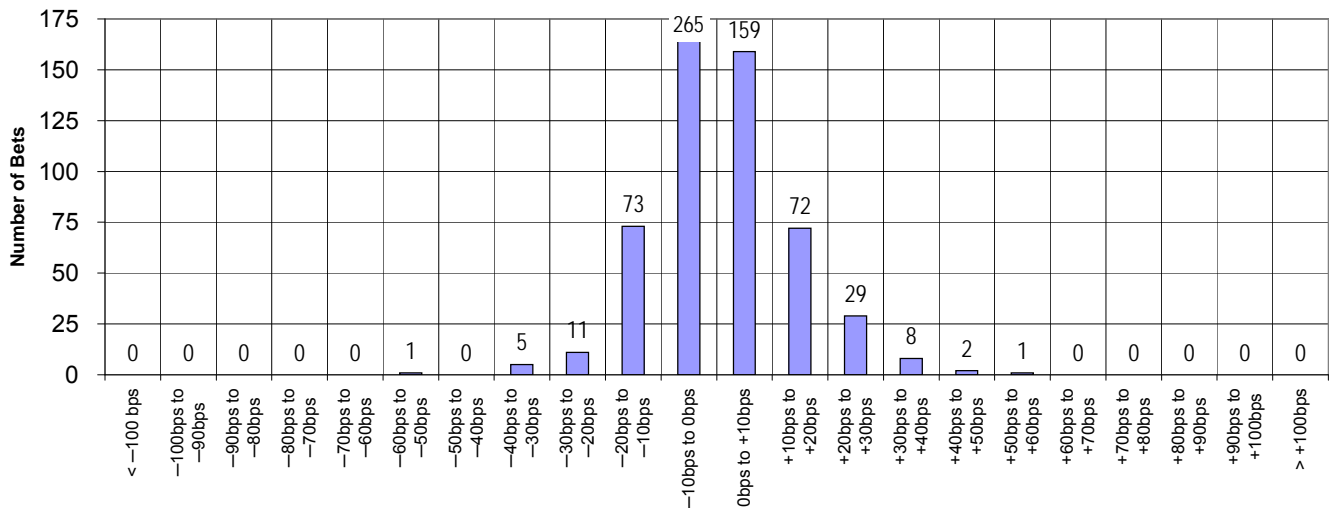
After coming through a sustained period where most broadly based multi-factor quantitative models have not worked well, price momentum's effectiveness may wane as more fundamentally oriented factors assume leadership. Companies with top and bottom line growth and continued upside surprises are likely candidates to replace more technically oriented variables. If the economy can continue to plug along after recent massive cost cutting and years of under investing in plant and equipment, revenue growth plus higher job creation and capital spending should unfold over the next several quarters. The high correlation of factor returns in 2003 and 2009 lends credence to 2010, like 2004 and 2005,

being a good time for both value and growth (more so than price momentum) strategies. High beta strategies did not work well in 2004-05 and seem to have run their course for this market cycle. Versus lower quality stocks, higher quality stocks are now selling at a discount on P/E, price to book, and price to sales as they have for most of the past 11+ years. If real interest rates rise and reverse an atypically low cost of capital, the premium paid for riskier companies' stocks should dissipate. As seems to be happening currently, a peak in earnings estimate revisions is also usually associated with outperformance by higher quality stocks.

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



Number of Individual Stocks in Bet Size Bins

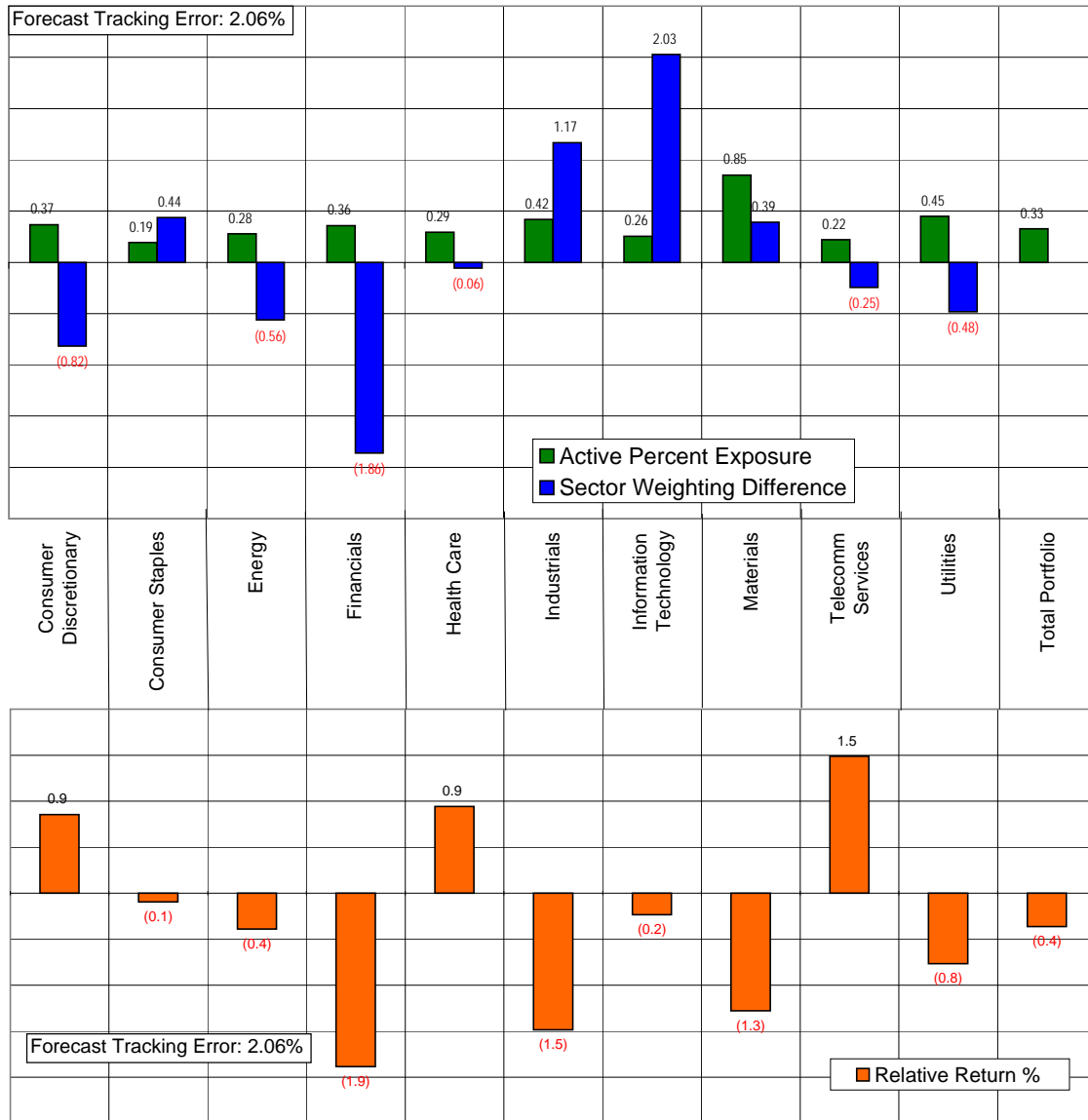


Largest Over Weights by Stock in Fund

Ticker	Description	Bps Over Index Wt
CMCSK	Comcast Corp. (CI A Special)	51
WMT	Wal-Mart Stores Inc.	43
NWSA	News Corp. (CI A)	42
WLP	WellPoint Inc.	36
MDT	Medtronic Inc.	35
MSFT	Microsoft Corp.	34
IBM	International Business Machines Co	32
TRV	Travelers Cos. Inc.	31
CEG	Constellation Energy Group Inc.	31
EMR	Emerson Electric Co.	31
UTX	United Technologies Corp.	30
TJX	TJX Cos.	30
TGT	Target Corp.	29
CNI	Canadian National Railway Co.	28
APA	Apache Corp.	28
PM	Philip Morris International Inc.	28
NOV	National Oilwell Varco Inc.	27
CI	CIGNA Corp.	26
DLTR	Dollar Tree Inc.	26
DD	E.I. DuPont de Nemours & Co.	26

Largest Under Weights by Stock in Fund

Ticker	Description	Bps Under
CMCSA	Comcast Corp. (CI A)	-51
EMC	EMC Corp.	-35
LOW	Lowe's Cos.	-34
MCD	McDonald's Corp.	-34
BAX	Baxter International Inc.	-33
C	Citigroup Inc.	-31
GD	General Dynamics Corp.	-28
NKE	Nike Inc. (CI B)	-27
CELG	Celgene Corp.	-27
SO	Southern Co.	-26
MS	Morgan Stanley	-25
NEM	Newmont Mining Corp.	-24
D	Dominion Resources Inc. (Virginia)	-23
EOG	EOG Resources Inc.	-22
MON	Monsanto Co.	-22
BBT	BB&T Corp.	-21
DUK	Duke Energy Corp.	-20
TMO	Thermo Fisher Scientific Inc.	-20
NSC	Norfolk Southern Corp.	-20
AGN	Allergan Inc.	-19



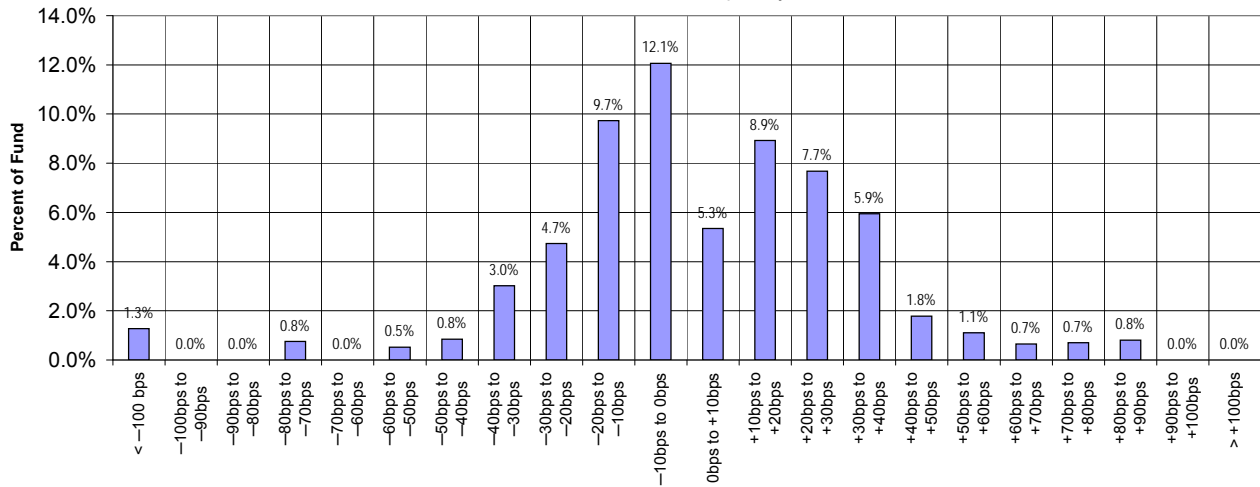
The Sector Fund had its β (sector exposure) meeting on May 18. The portfolio maintained its positioning for an expected economic recovery emphasizing Technology and Industrials but some bearishness was evident as analysts were looking to lower weighting in Technology and Financials. The team reviewed comments made by analysts and companies about concerns over growth in China and exposure to a weaker euro. It was reported that analyst commentary was at an early stage while companies are seeing no impacts as yet.

The overall bearish tone was certainly not expressed by WR for Industrials where a strong finish in the first quarter of 2010 seems to be continuing into the second on the strength and breadth of global recovery. Primarily domestic or European operations are not seeing quite the same strength.

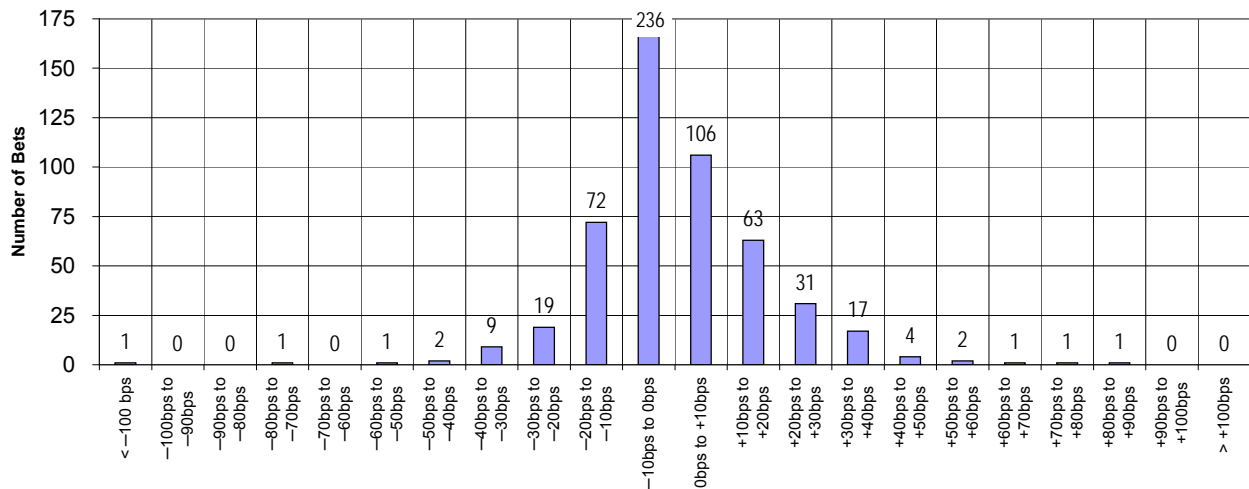
The Sector Fund had its α (education seminar) meeting on April 23 with reviewing portfolio valuation and construction tactics along the lines of the documents that were developed in the earlier quarter.

It was a tough quarter for performance. The better companies are calculating the fiscal pressures of the new health care bill and other pending regulations. Less profitable companies are getting Federal support, turning normal security analysis upside down. The discovery that Greece cannot repay its debt has put pressure on the euro and so the portfolio is expressing new euro sensitivity that was never much of a factor before. Even apparently obvious moves like lending restraint in China are impacting markets out of proportion to any "surprise" element.

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



Number of Individual Stocks in Bet Size Bins

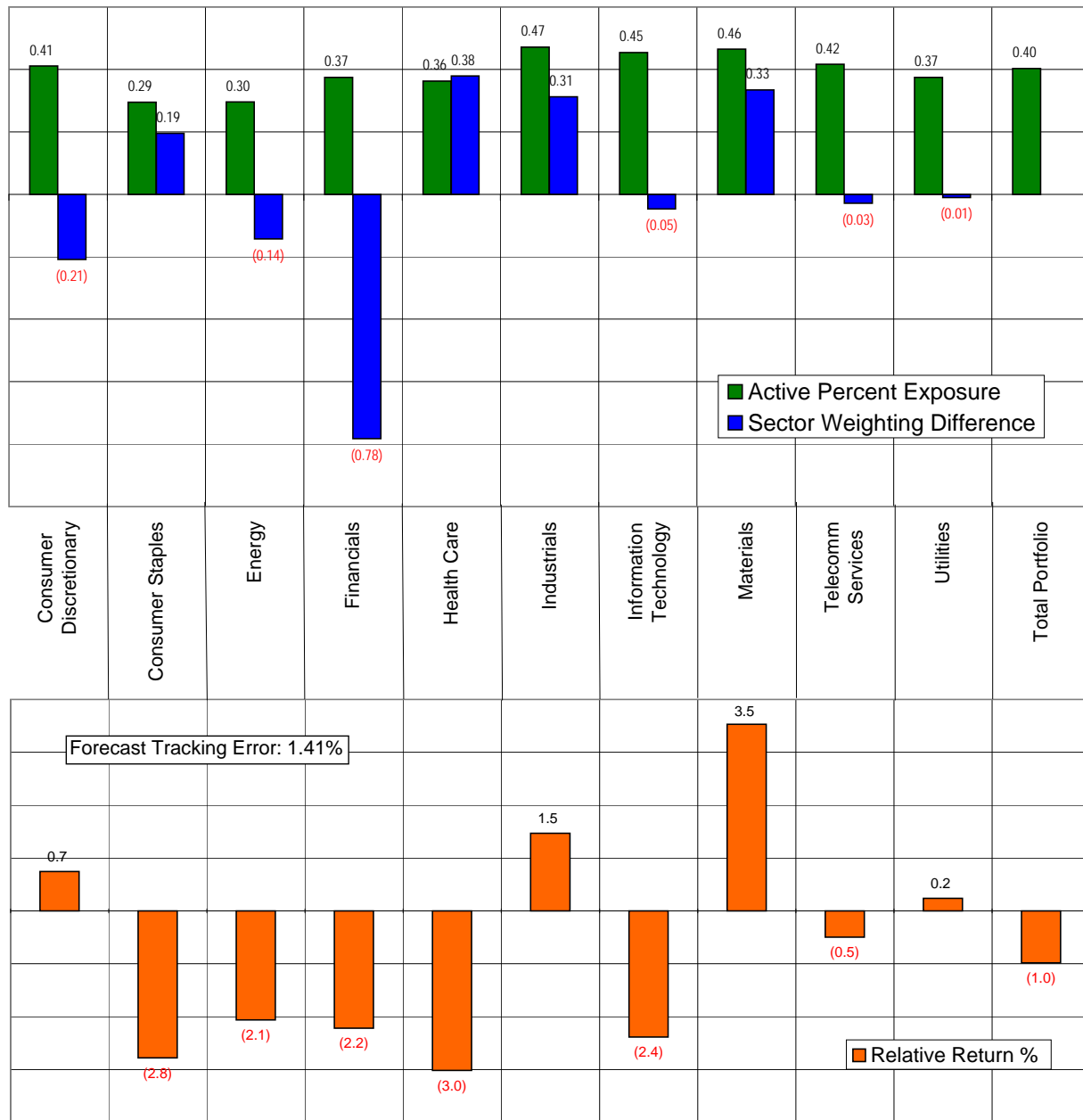


Largest Over Weights by Stock in Fund

Ticker	Description	Bps Over Index Wt
ORCL	Oracle Corp.	81
GS	Goldman Sachs Group Inc.	71
INTC	Intel Corp.	65
IBM	International Business Machines Co	56
HPQ	Hewlett-Packard Co.	55
X	United States Steel Corp.	48
TD	Toronto-Dominion Bank	45
AAPL	Apple Inc.	43
BLK	Blackrock Inc.	42
RIG	Transocean Ltd.	40
JPM	JPMorgan Chase & Co.	40
BCUY	Bucyrus International Inc.	38
NE	Noble Corp.	38
ASH	Ashland Inc.	38
ESRX	Express Scripts Inc.	36
BEN	Franklin Resources Inc.	36
PDE	Pride International Inc.	36
JOYG	Joy Global Inc.	35
MMM	3M Co.	34
AMED	Amedisys Inc.	33

Largest Under Weights by Stock in Fund

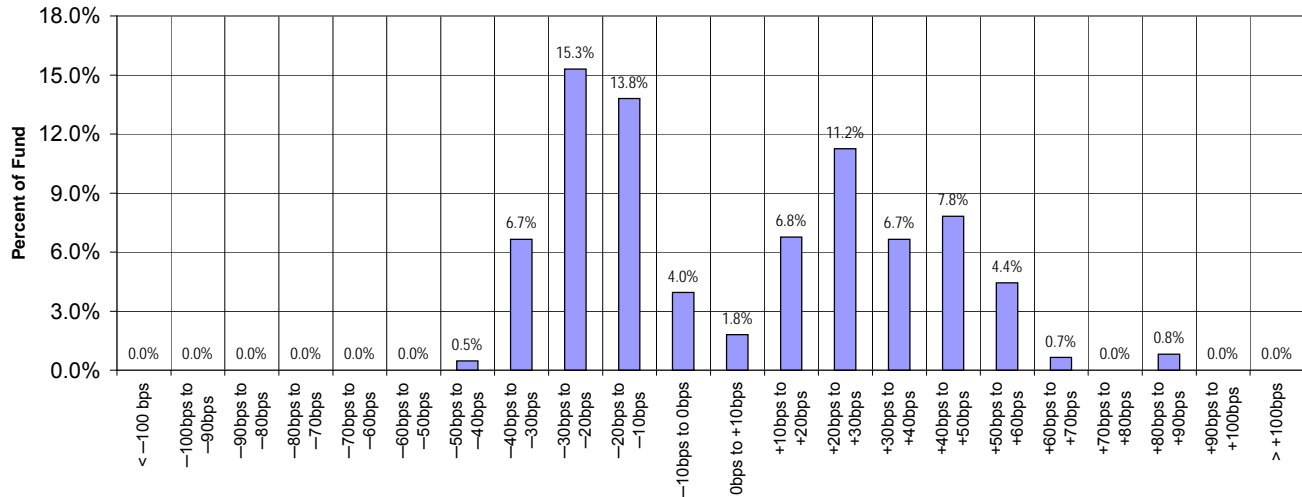
Ticker	Description	Bps Under
BRK.B	Berkshire Hathaway Inc. (Cl B)	-127
C	Citigroup Inc.	-75
BA	Boeing Co.	-52
BAC	Bank of America Corp.	-43
T	AT&T Inc.	-41
MON	Monsanto Co.	-37
BK	Bank of New York Mellon Corp.	-35
UNP	Union Pacific Corp.	-35
LLY	Eli Lilly & Co.	-35
MET	MetLife Inc.	-34
DOW	Dow Chemical Co.	-32
DD	E.I. DuPont de Nemours & Co.	-32
KO	Coca-Cola Co.	-31
F	Ford Motor Co.	-31
EBAY	eBay Inc.	-29
JNJ	Johnson & Johnson	-28
WFC	Wells Fargo & Co.	-28
MHS	Medco Health Solutions Inc.	-28
GD	General Dynamics Corp.	-28
COP	ConocoPhillips	-28



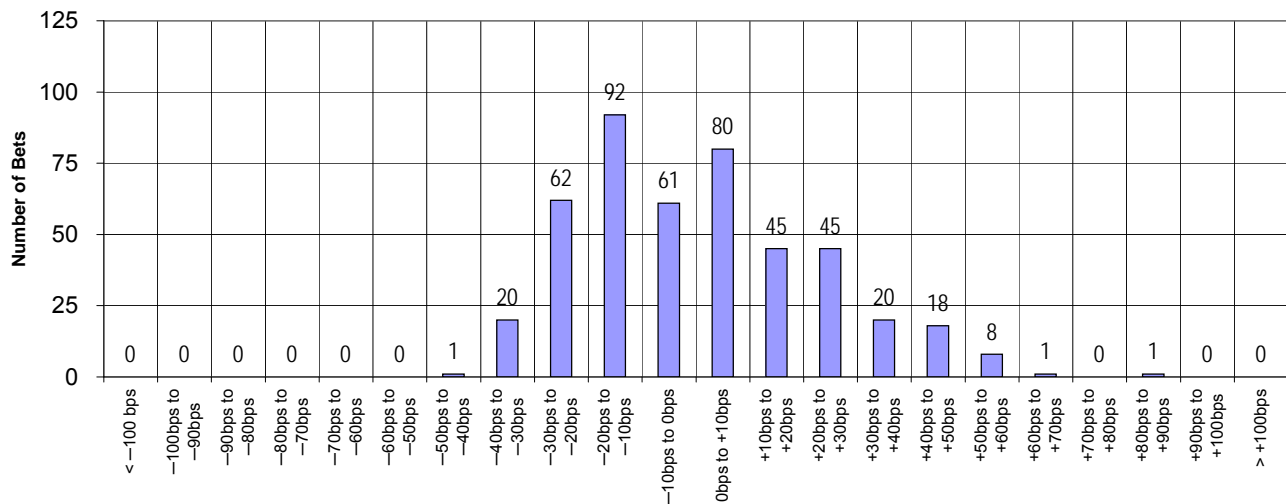
The broader, smaller indices generally performed better than the S & P 500 during the period as investors began to seek out risk. The real star of the quarter was the S & P Mid Cap 400, turning in a return close to 400 basis points higher than both the bigger and smaller cap measures. In general, risk spreads appear to have narrowed dramatically partially driven in turn by a rapid acceleration in corporate profits. Outside of capitalization factors, value appeared to be the best behaved, as well as low quality, and low / negative ROE, and high debt/ equity. In terms of industry sectors Financials and Industrials outperformed throughout most of the broad indices as earnings bounced back from depressed or money losing levels. As we begin to consider September quarter earnings, at least a moderate deceleration is evident in most estimates, which could impact the sustainability of the risk trade that has worked so well thus far. Valuations multiples are no longer compelling especially relative to larger cap names. The Russell 2000, by example, currently trades at a hefty premium to the Russell 1000, a level that has, in the past, been difficult for the index to hold. In terms of overall strategy the mixed fundamental picture and currently mediocre valuation of the small and mid caps in general relative to large caps compels us to take a cautious stance on the group going forward.

The Mid Cap Fund under performed the S & P Mid Cap 400 due to an under weight to the strongly performing Financial sector as well as poor stock selection within the sector, missing huge rebound moves in the distressed banks and low quality insurance stocks. In addition, poor stock selection in the Health Care, Technology and Consumer Staples sectors offset good results in the Materials and Industrial sectors. Stock selection accounted for 89% of active management effect in the period with industry sector relative weighting effects comprising the other 11%.

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



Number of Individual Stocks in Bet Size Bins

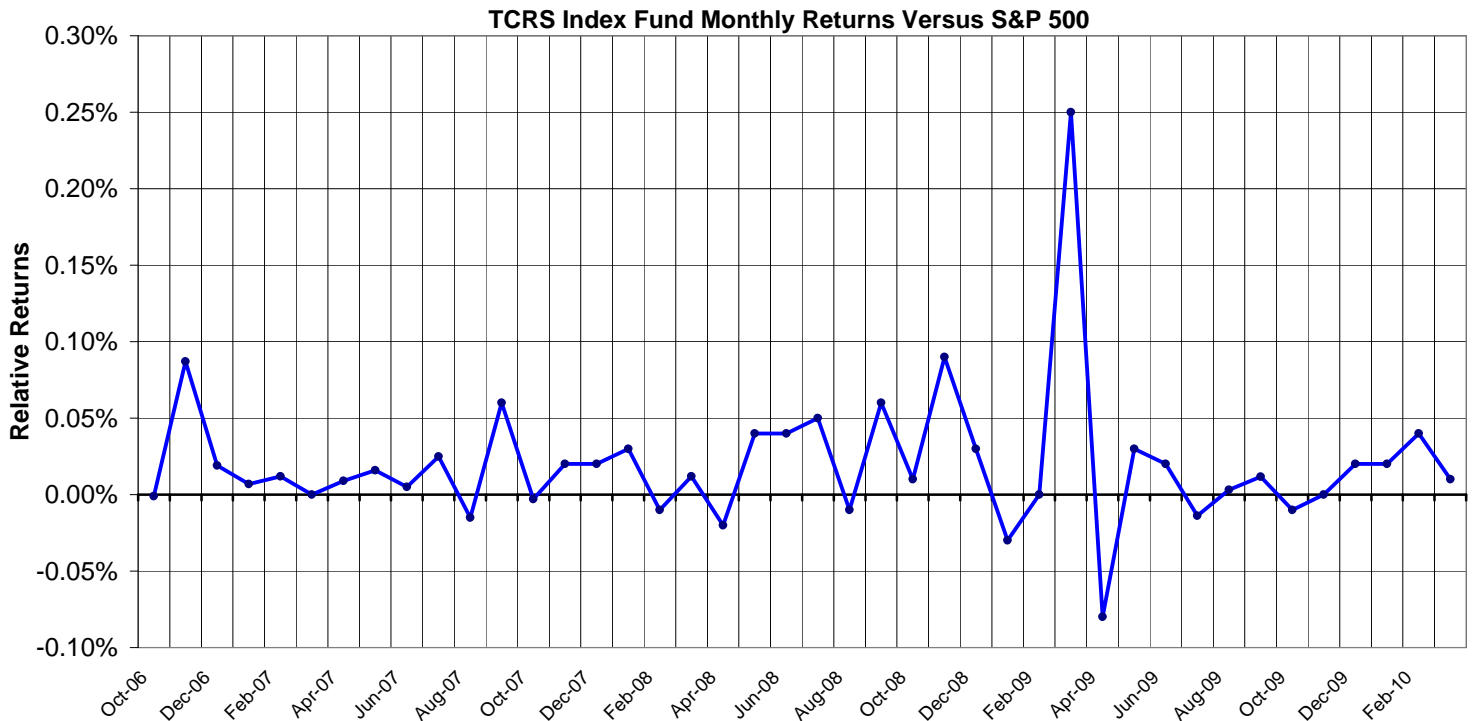


Largest Over Weights by Stock in Fund

Ticker	Description	Bps Over Index Wt
ROP	Roper Industries Inc.	81
ASH	Ashland Inc.	65
CYH	Community Health Systems Inc.	59
FOSL	Fossil Inc.	58
SIVB	SVB Financial Group	57
RYN	Rayonier Inc. REIT	55
ADS	Alliance Data Systems Corp.	55
AFAM	Almost Family Inc.	53
DPL	DPL Inc.	53
FFIV	F5 Networks Inc.	52
BEAV	BE Aerospace Inc.	49
NVR	NVR Inc.	47
BOH	Bank of Hawaii Corp.	47
OKE	ONEOK Inc.	46
AMG	Affiliated Managers Group Inc.	46
DLTR	Dollar Tree Inc.	45
TKR	Timken Co.	44
ARW	Arrow Electronics Inc.	44
RE	Everest Re Group Ltd.	44
ANSS	Ansys Inc.	43

Largest Under Weights by Stock in Fund

Ticker	Description	Bps Under
TRA	Terra Industries Inc.	-47
ROVI	Rovi Corp	-40
MXB	MSCI Inc. (CI A)	-39
OSIP	OSI Pharmaceuticals Inc.	-36
TRMB	Trimble Navigation Ltd.	-35
FNF	Fidelity National Financial Inc.	-35
TRH	TransAtlantic Holdings Inc.	-35
GMCR	Green Mountain Coffee Roasters In	-35
HEW	Hewitt Associates Inc. (CI A)	-34
AGCO	AGCO Corp.	-34
SPW	SPX Corp.	-34
ACM	AECOM Technology Corp.	-33
CREE	Cree Inc.	-32
JLL	Jones Lang LaSalle Inc.	-31
MHK	Mohawk Industries Inc.	-31
COMS	3Com Corp	-31
CBSH	Commerce Bancshares Inc.	-31
AGL	AGL Resources Inc.	-31
PVH	Phillips-Van Heusen Corp.	-30
HPT	Hospitality Properties Trust	-30

**Top Ten Holdings as of March 31, 2010**

Ticker	Name	Portfolio Weight	S&P 500 Weight	Difference
XOM	Exxon Mobil Corp.	3.03	2.99	0.03
MSFT	Microsoft Corp.	2.15	2.12	0.04
AAPL	Apple Inc.	2.02	2.02	(0.00)
GE	General Electric Co.	1.84	1.84	0.01
PG	Procter & Gamble Co.	1.76	1.74	0.02
JNJ	Johnson & Johnson	1.71	1.70	0.01
BAC	Bank of America Corp.	1.69	1.70	(0.01)
JPM	JPMorgan Chase & Co.	1.68	1.68	(0.01)
IBM	International Business Machines Corp.	1.60	1.58	0.03
WFC	Wells Fargo & Co.	1.51	1.53	(0.01)

Ten Largest Overweights and Underweights as of Mar. 31, 2010

Ticker	Name	Portfolio Weight	S&P 500 Weight	Difference
BRK.B	Berkshire Hathaway Inc. (Cl B)	1.05	1.27	(0.22)
DISCA	Discovery Communications Inc. (Series	0.00	0.09	(0.09)
KFT	Kraft Foods Inc.	0.43	0.50	(0.07)
NRG	NRG Energy Inc.	0.00	0.05	(0.05)
URBN	Urban Outfitters Inc.	0.00	0.05	(0.05)
OKE	ONEOK Inc.	0.00	0.05	(0.05)
HP	Helmerich & Payne Inc.	0.00	0.04	(0.04)
MSFT	Microsoft Corp.	2.15	2.12	0.04
XOM	Exxon Mobil Corp.	3.03	2.99	0.03
PNC	PNC Financial Services Group Inc.	0.26	0.29	(0.03)

Tracking Error

Forecasted Tracking Error	0.10%
Historical Tracking Error	0.16%
Value at Risk	\$3,098,983

Comments:

- Due to trading error in the issue CF Industries (Ticker: CF), Index Fund tracking error will be significantly negative for May 2010. The error is being unwound opportunistically but results in active deviation from the benchmark.
- Successful active trading in April will cause April 2010 tracking error to be significantly positive.
- Index Fund liquidated \$200 million in assets on 4/29/10
- Index Fund liquidated \$250 million in assets on 4/16/10
- Index Fund received an additional \$100 million inflow on 9/24/09
- Index Fund received an additional \$100 million inflow on 7/29/09
- April 2009 witnessed relatively large negative deviation from the index (-7 bps) due to a double corporate action by Time Warner, large banks raising substantial amounts of equity following the release of the infamous "stress test" results, the exit of Noble (which did not behave according to the empirically normative pattern for S&P 500 exclusions), and the tactical holding of Citi preferred shares rather than Citi common.
- Extraordinary positive tracking error was evident in the fund during March 2009 (25 bps). The deviation from benchmark returns in March primarily relates to good timing on a trade conducted March 2 and to class action litigation income posted to the fund.
- Index Fund received an additional \$200 million during January 2009 and sold a combined \$400 million in February and March.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

INTERNATIONAL MANAGER PERFORMANCE

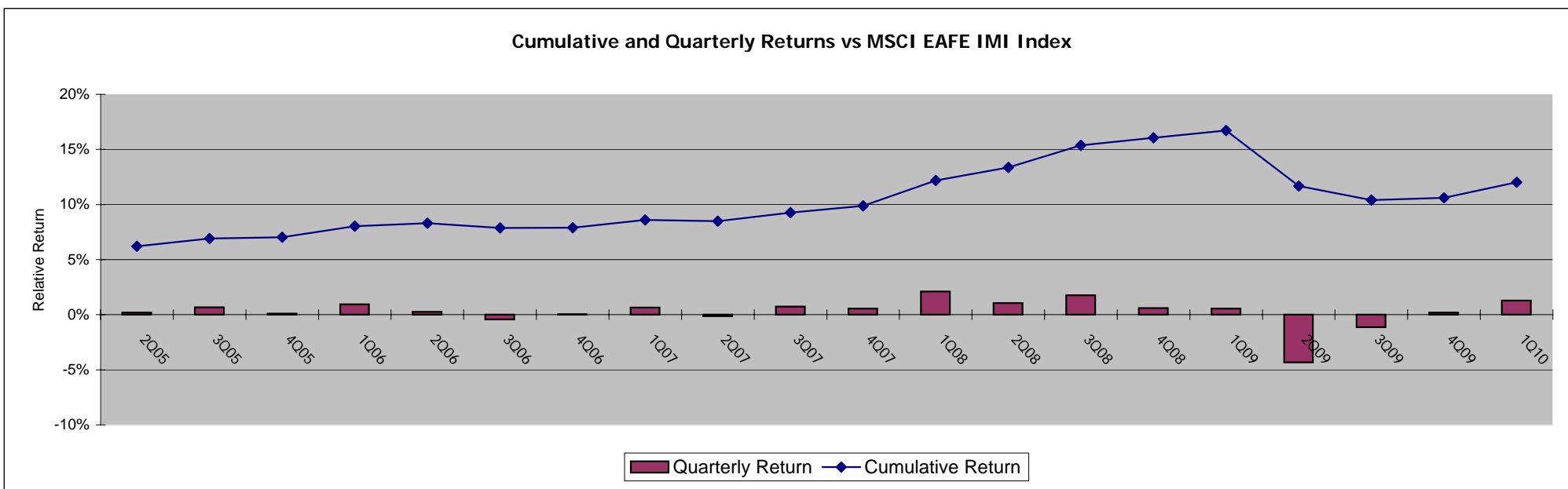
AS OF MARCH 31, 2010

Manager returns for the quarter ending March 31, 2010

Manager	Manager Return	Benchmark	Benchmark Return
American Century	4.20	MSCI EAFE Small Cap Index	4.82
Baring Asset Mgmt	1.87	MSCI EAFE NET Index	0.87
GE Asset Mgmt	-1.41	MSCI Europe Index	-1.72
Marathon	4.02	MSCI EAFE NET Index ²	0.87
Putnam EAFE	1.61	MSCI EAFE NET Index	0.87
Pyramis	5.54	MSCI EAFE Small Cap Index	4.82
SG Pacific	2.79	MSCI Pacific Index ¹	6.33
TT International	3.21	MSCI EAFE NET Index	0.87
Walter Scott	3.64	MSCI EAFE NET Index ⁴	0.87
International	2.57	MSCI EAFE IMI ³	1.29

Manager returns for five years ending March 31, 2010

Manager	Manager Return	Benchmark	Benchmark Return
American Century		MSCI EAFE Small Cap Index	
Baring Asset Mgmt		MSCI EAFE NET Index	
GE Asset Mgmt		MSCI Europe Index	
Marathon	6.97	MSCI EAFE NET Index ²	3.25
Putnam EAFE	4.57	MSCI EAFE NET Index	3.75
Pyramis		MSCI EAFE Small Cap Index	
SG Pacific	5.40	MSCI Pacific Index ¹	4.62
TT International		MSCI EAFE NET Index	
Walter Scott	8.32	MSCI EAFE NET Index ⁴	3.55
International	5.56	MSCI EAFE IMI ³	4.01



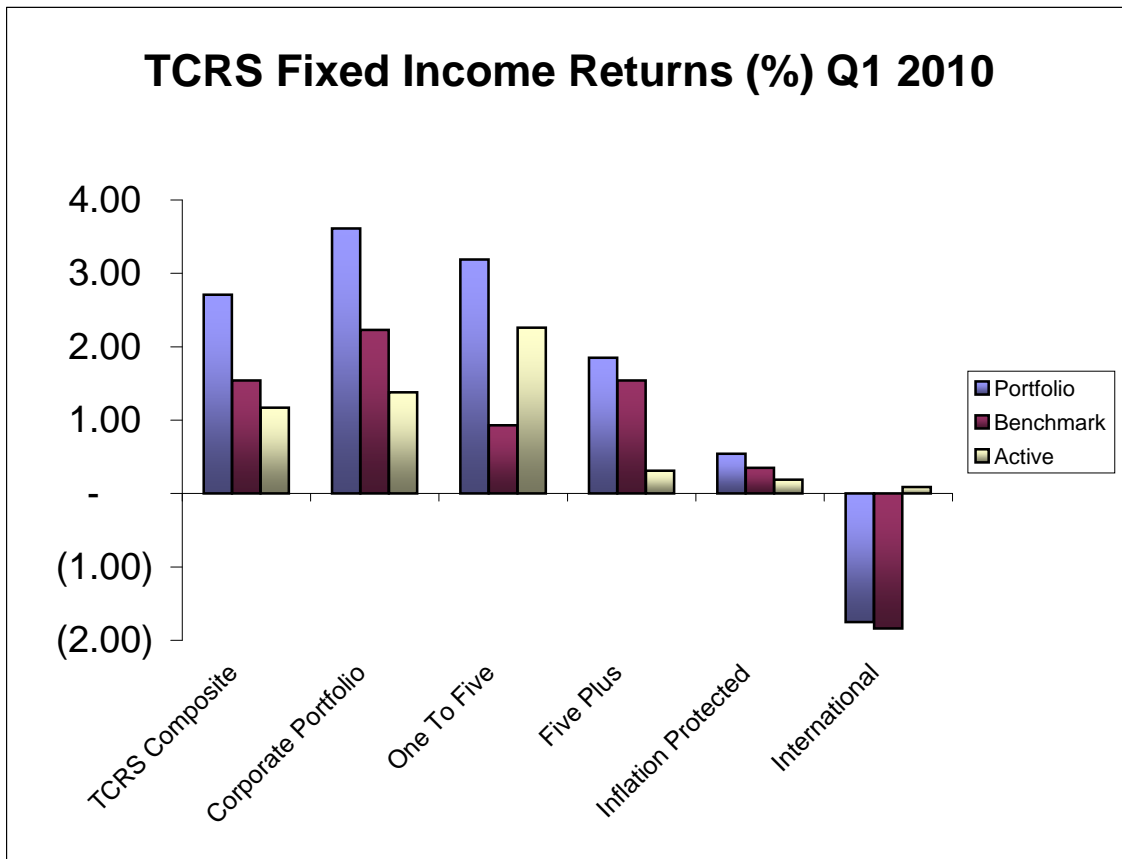
¹ Effective as of 7/1/04; prior was MSCI AC Asia Pacific Free Index.

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

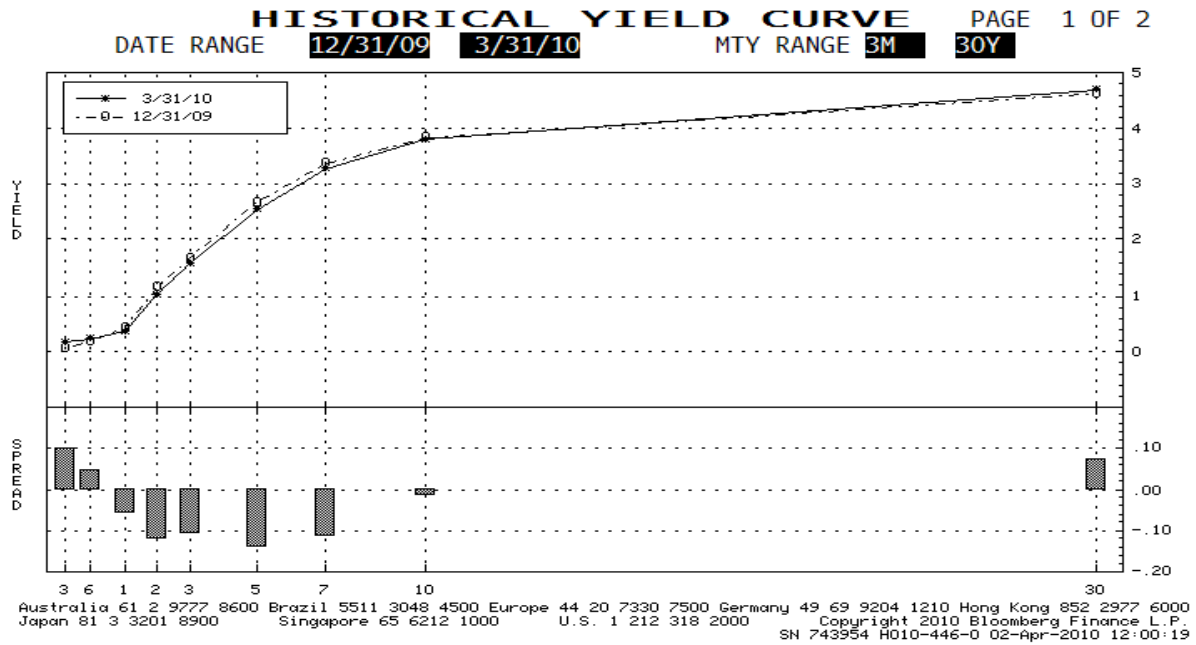
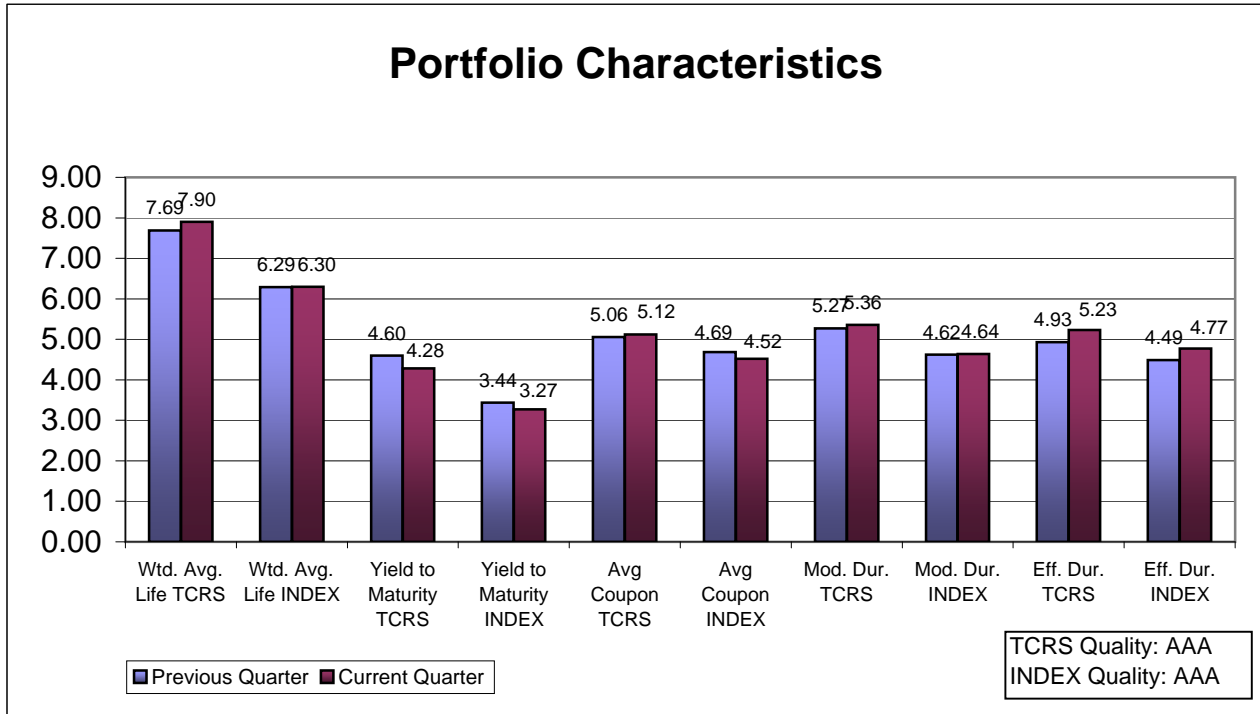
³ Effective as of 10/1/08; prior was MSCI EAFE NET Index.

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

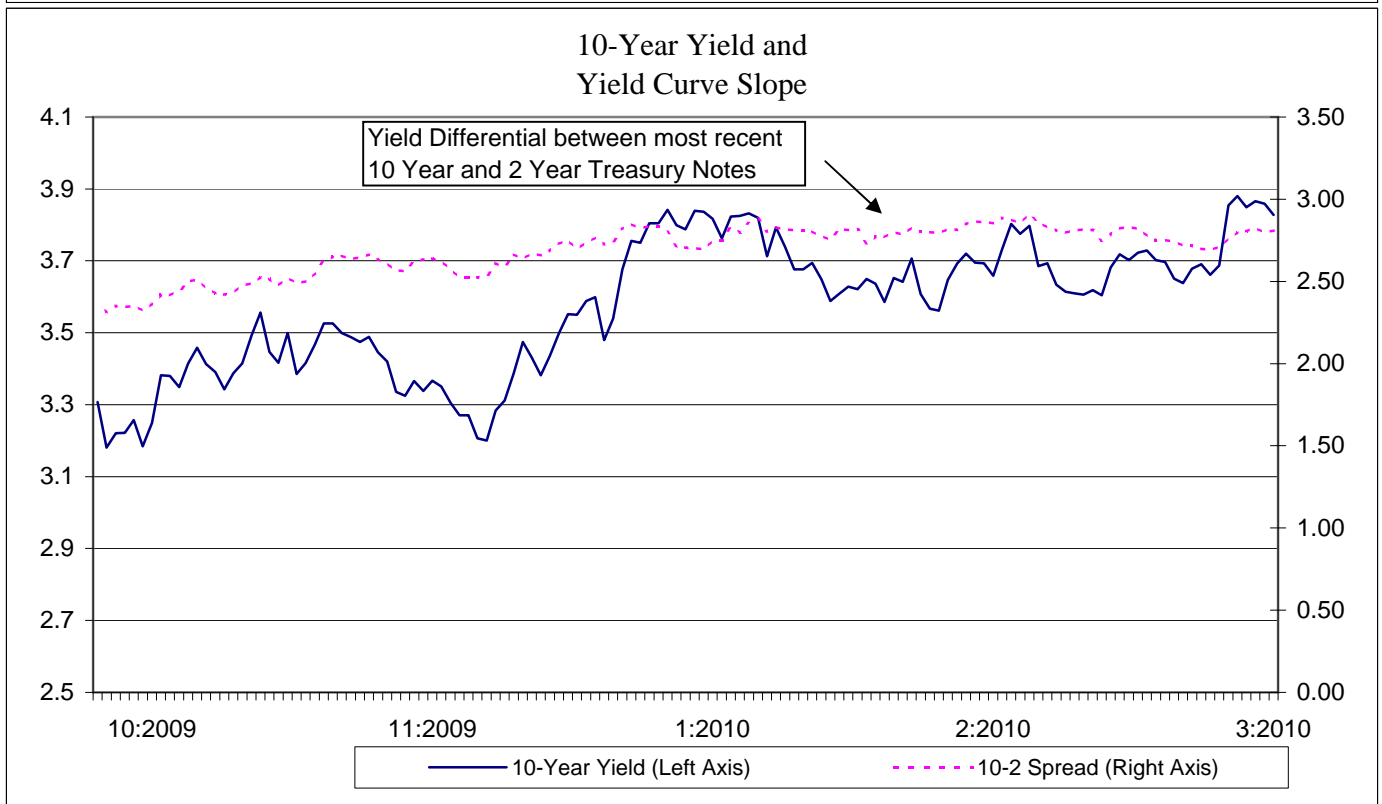
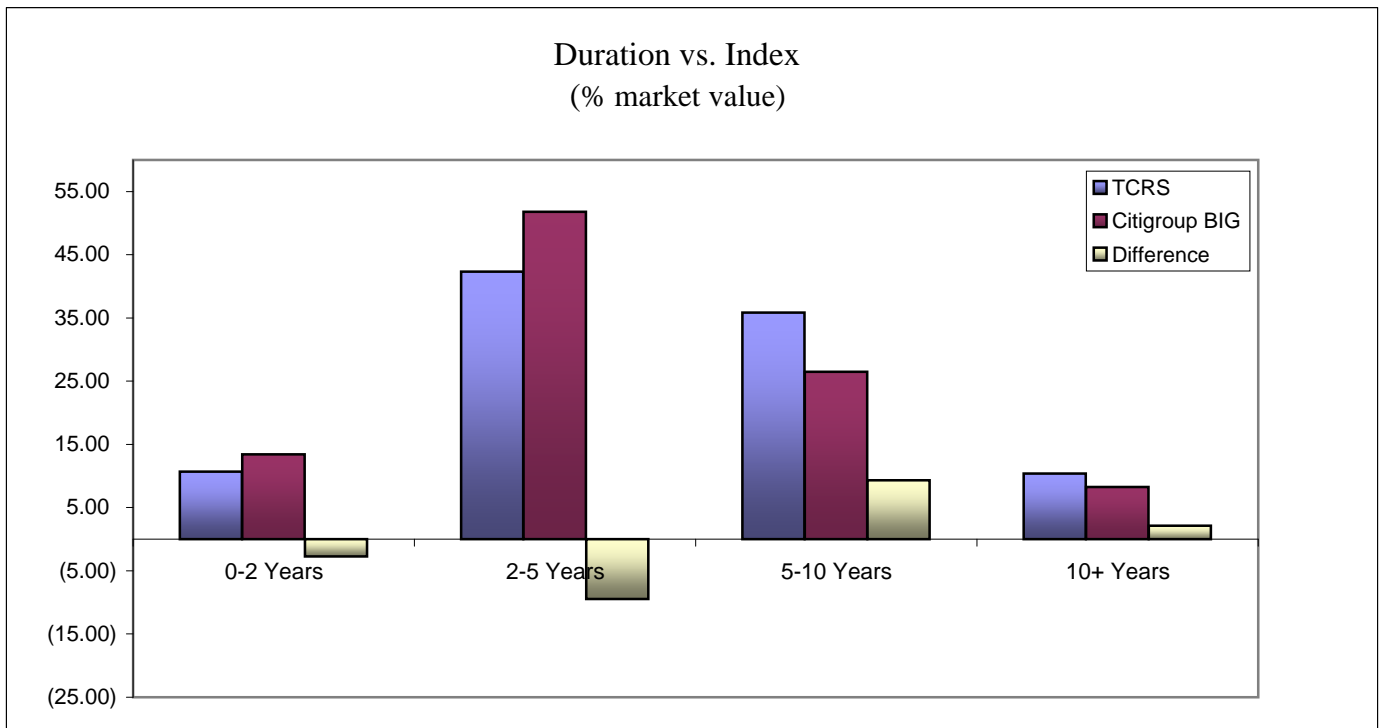
Portfolio	Value (Yield Book) (\$MMs)	Portfolio Return Q1	Benchmark Return Q1	Active Return Q1
TCRS Domestic Fixed Income Composite	\$9,955	2.71	1.54	1.17
Corporate Portfolio	\$2,991	3.61	2.23	1.38
Government One To Five Years	\$2,174	3.19	0.93	2.26
Government Five Plus Years	\$1,566	2.13	1.43	0.70
Mortgage Portfolio	\$3,200	1.85	1.54	0.31
TCRS Inflation Protected Securities	\$2,332	0.54	0.35	0.19
TCRS International	\$1,011	-1.75	-1.84	0.09



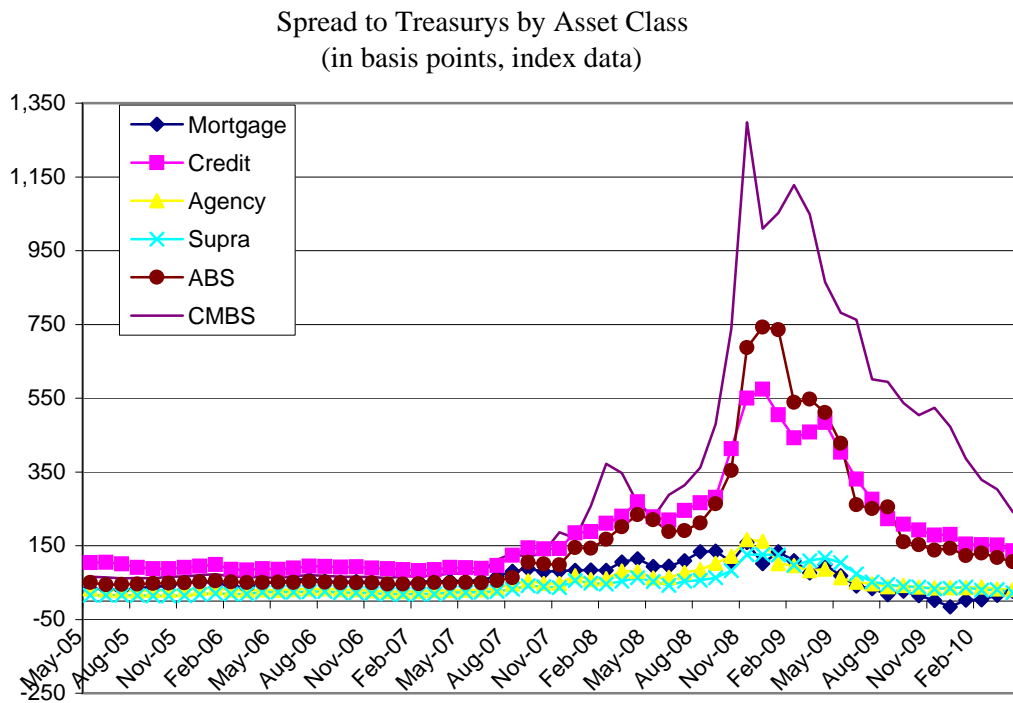
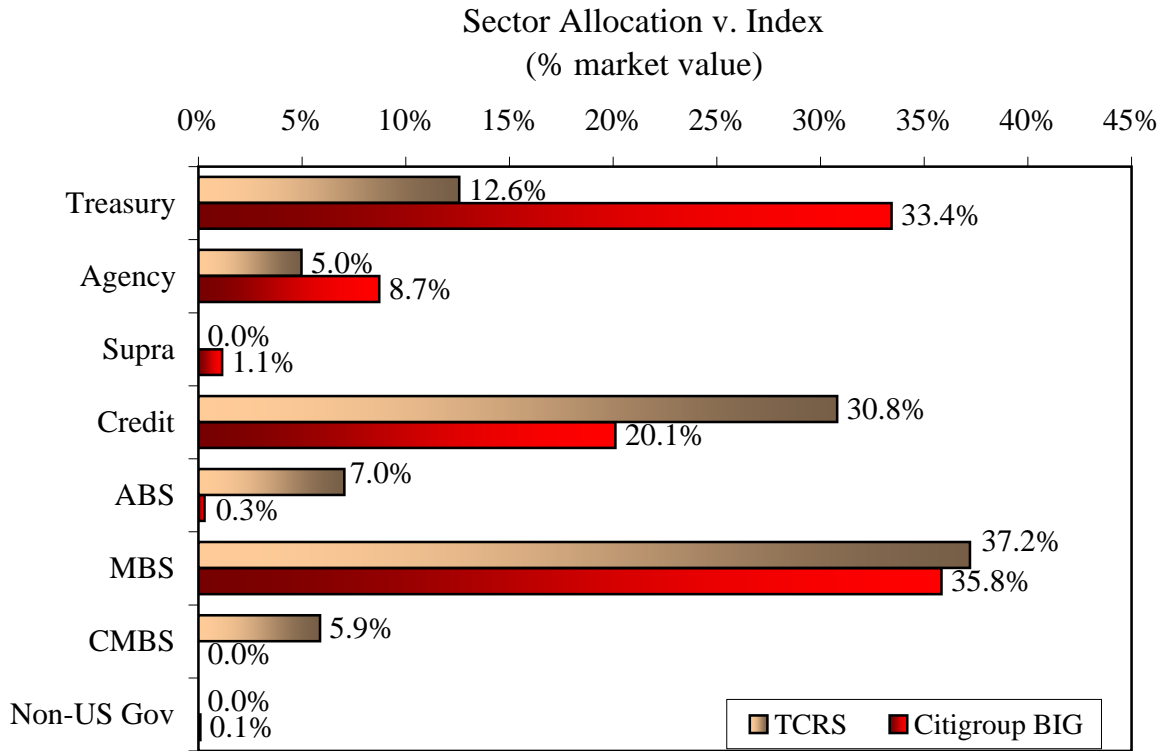
Note: All positions and market values are as of March 31, 2010



Portfolio retained a bulleted stance in anticipation of a continued steep curve.



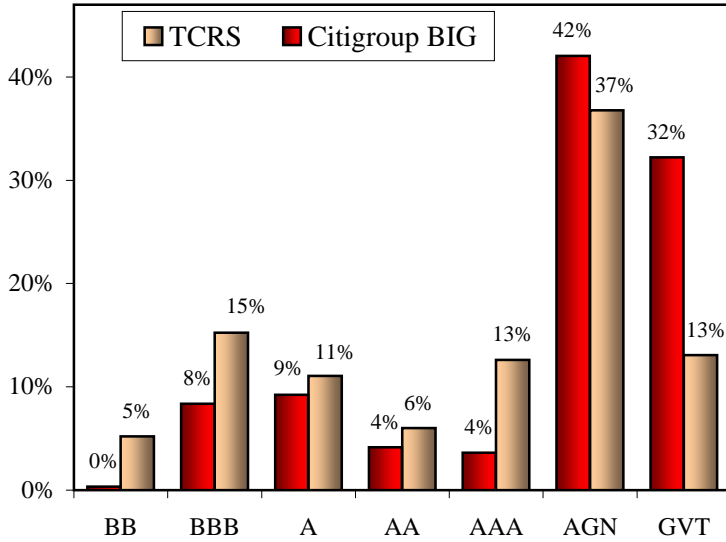
source: Bloomberg



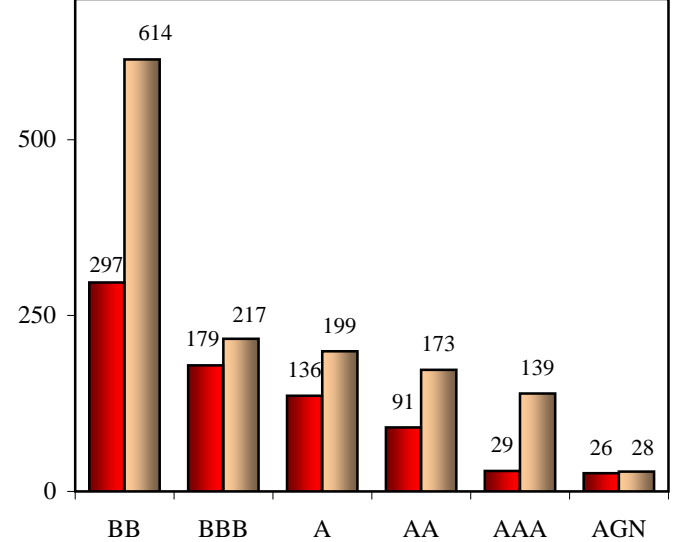
source: Yield Book

Spreads continued to tighten during the quarter. TCRS spreads vs. index increase with quality.

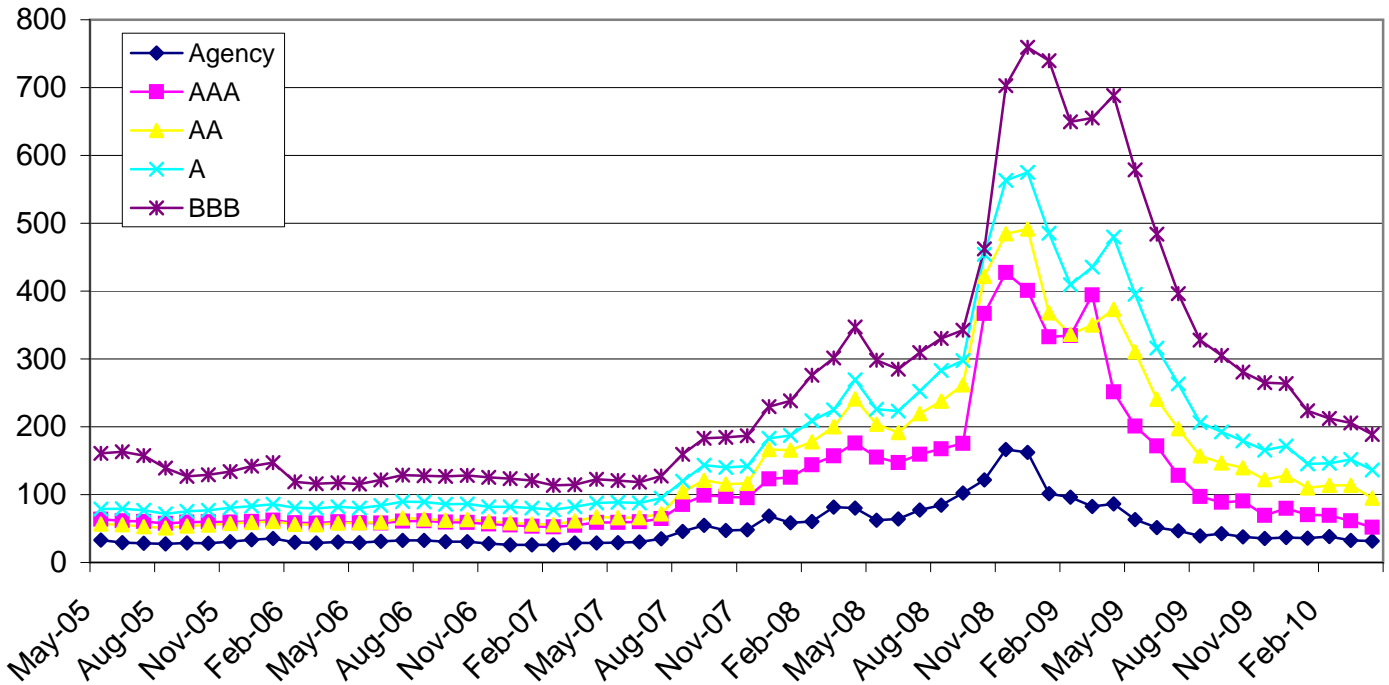
Credit Allocation v. Index
 (% market value as of March 31)



OAS by Credit Allocation
 (as of March 31)



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

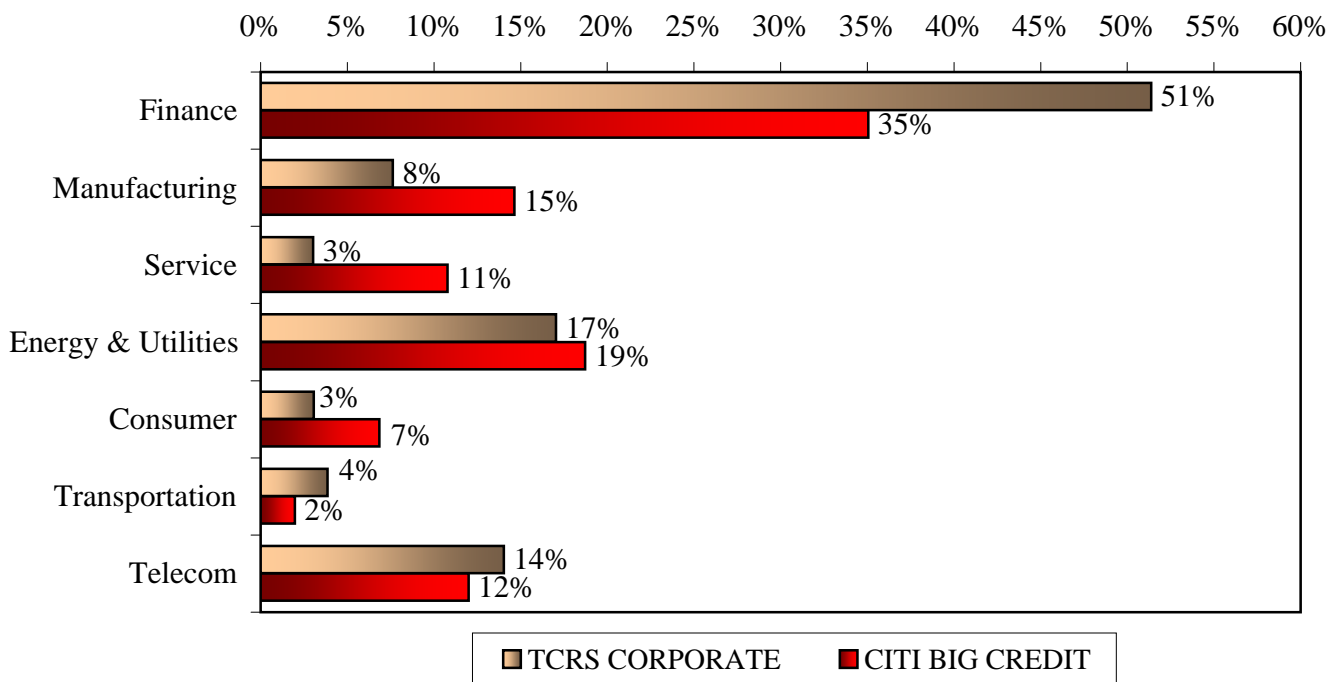


source: Yield Book

Top 5 Credit Holdings (by Market Value)	MktVal	% MktVal
BANK OF AMERICA	136,000	1.4
GENERAL ELECTRIC	111,000	1.1
JP MORGAN CHASE & C O	107,000	1.1
VERIZON COMMUNICATIONS	76,531	0.8
CITIGROUP INC	74,349	0.8

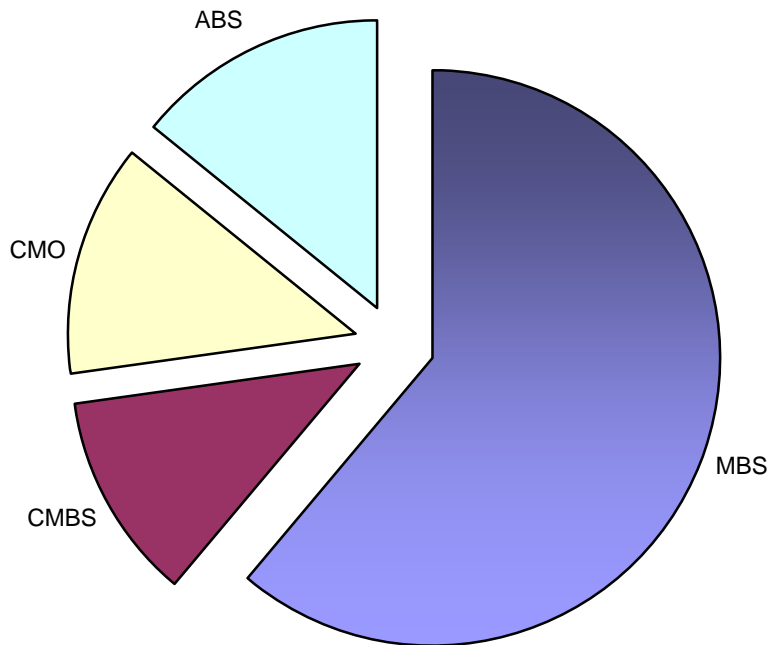
Top 5 Credit Holdings (by Dollar Duration)	\$ Duration	% \$ Duration
GENERAL ELECTRIC	80.49	1.6
BANK OF AMERICA	76.07	1.5
JP MORGAN CHASE & C O	69.54	1.4
AT&T INC	62.63	1.2
METLIFE INC	41.69	0.8

Sector Allocation v. Index
 (% market value)



	Market Value (\$MM - Yield Book)	TCRS % of portfolio	CITI	Difference
Agency Mortgage Backed Securities	\$2,963,091	30.4	35.8	-5.5
GNMA				
15-Yr	\$2,272	0.0	0.1	-0.1
30-Yr	\$545,820	5.6	5.7	-0.1
FNMA				
10-, 15- & 20-Yr	\$340,636	3.5	2.6	0.9
30-Yr	\$1,402,679	14.4	15.3	-0.9
FHLM				
15-Yr	\$79,407	0.8	1.9	-1.1
30-Yr	\$522,086	5.4	10.3	-5.0
Agency Hybrid	\$70,191	0.7	0.0	0.7
Commercial Mortgage Backed Securities	\$571,430	5.9	0.0	5.9
CMO and Non Agency Passthroughs	\$632,416	6.5	0.0	6.5
Asset Backed Securities	\$685,876	7.0	0.3	6.7
Total Securitized Product	\$4,852,813	49.7	36.1	*13.6

Percent of Securitized Product



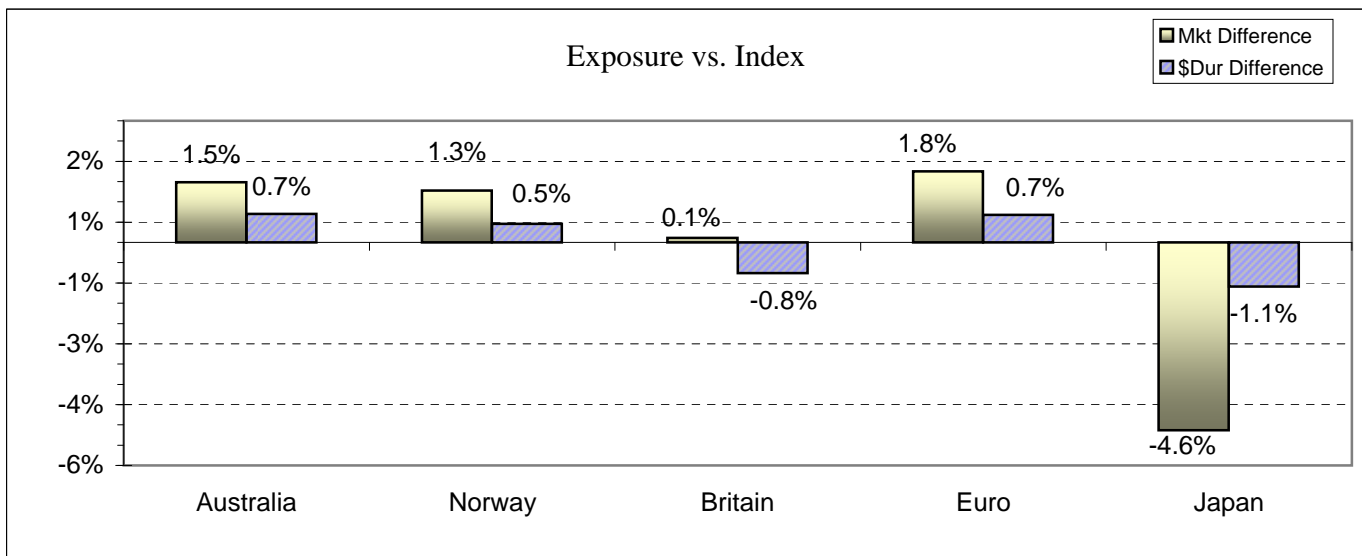
Portfolio Return: -1.75%
Citigroup Non-US G5 Index: -1.84%
Active Return: 0.09%

	TCRS		Percent of Value	Percent of \$Dur
	Yield	M. Dur		
Australia	5.56	3.00	1.5%	0.7%
Norway	1.06	2.28	1.3%	0.5%
Britain	3.26	7.51	10.5%	12.4%
Euro	2.19	5.56	31.9%	27.9%
Japan	0.91	6.75	54.9%	58.5%
	1.64	6.34	100.0%	100.0%

	Citigroup G5 Sovereign Index (ex-US)		Percent of Value	Percent of \$Dur
	Yield	Dur		
Britain	3.32	8.74	10.4%	13.2%
Euro	2.33	6.23	30.1%	27.3%
Japan	0.89	6.88	59.5%	59.6%
	1.58	6.88	100.0%	100%

Difference

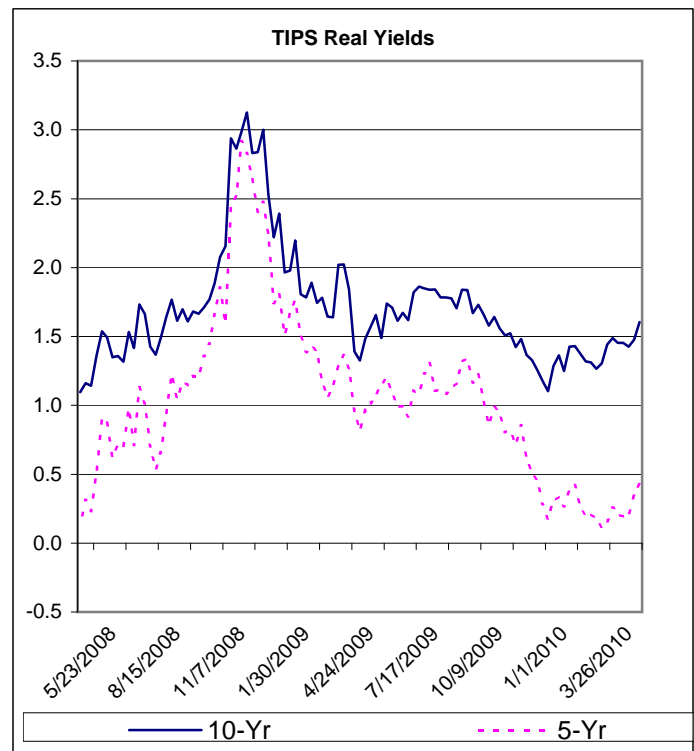
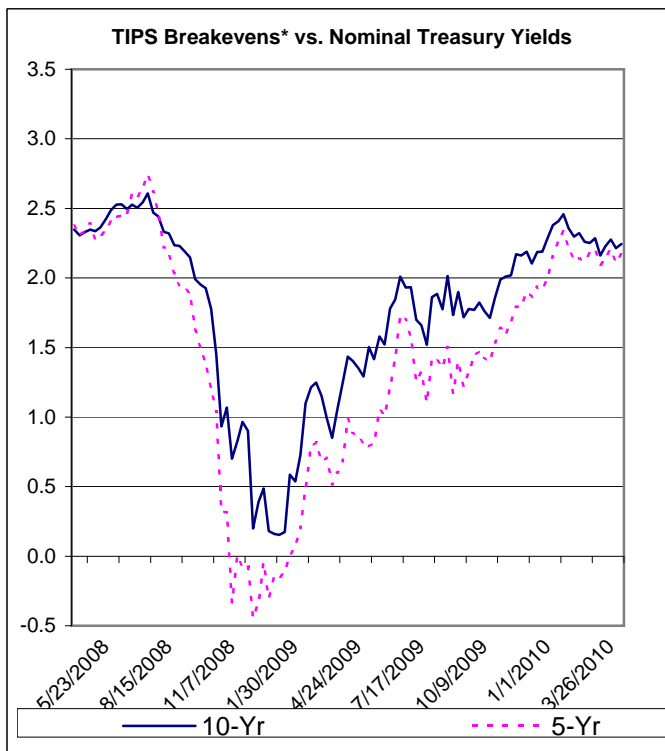
	Value Differ	M. Dur Differ	\$ Dur Differ
Australia	1.5%	3.0	0.7%
Norway	1.3%	2.3	0.5%
Britain	0.1%	-1.2	-0.8%
Euro	1.8%	-0.7	0.7%
Japan	-4.6%	-0.1	-1.1%
	0.0%	-0.5	0.0%



Portfolio Value (Yield Book): \$2,332,163
 Portfolio Return: 0.54%
 Citigroup ILSI Index: 0.35%
Active Return: 0.19%

% Market Value by Duration

	TCRS	CITI	Difference
0-2	28.95	21.46	7.49
2-4	30.29	33.30	-3.01
4-6	7.47	13.17	-5.70
6-8	15.66	9.86	5.81
8-10	16.34	20.80	-4.46
10+	1.28	1.41	-0.13



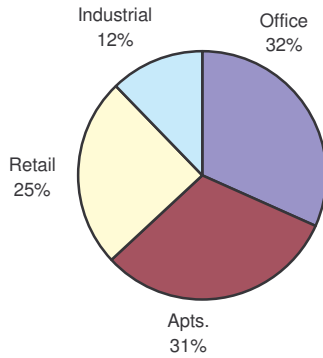
* The "breakeven" rate is the expected rate of inflation at which investment in TIPS yield the same return as investment in Treasuries

Source: Bloomberg

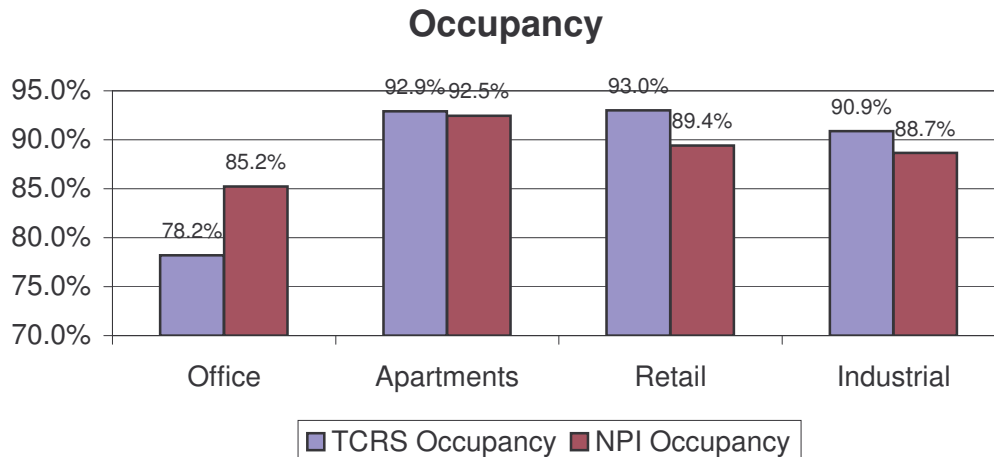
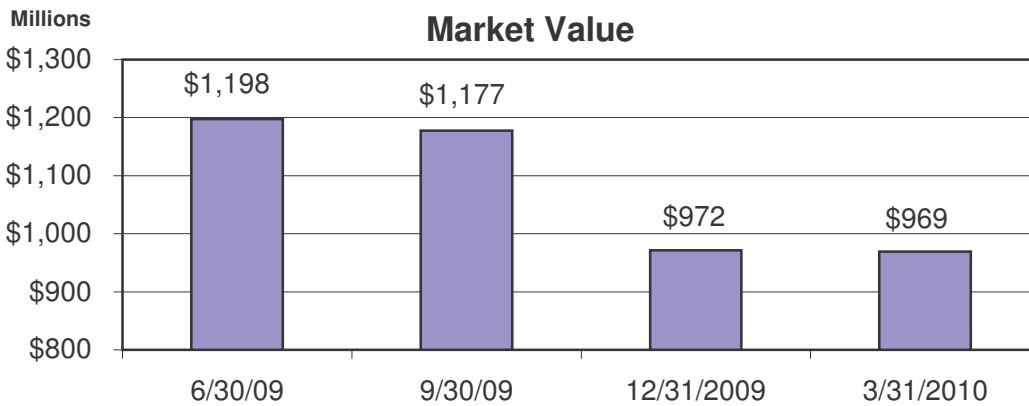
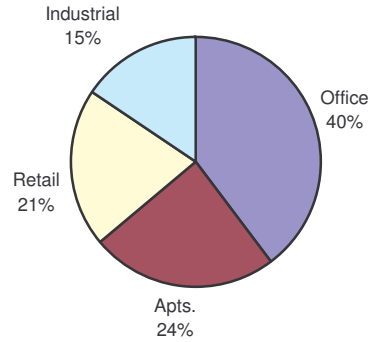
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Peter Katseff

TCRS By Property Type

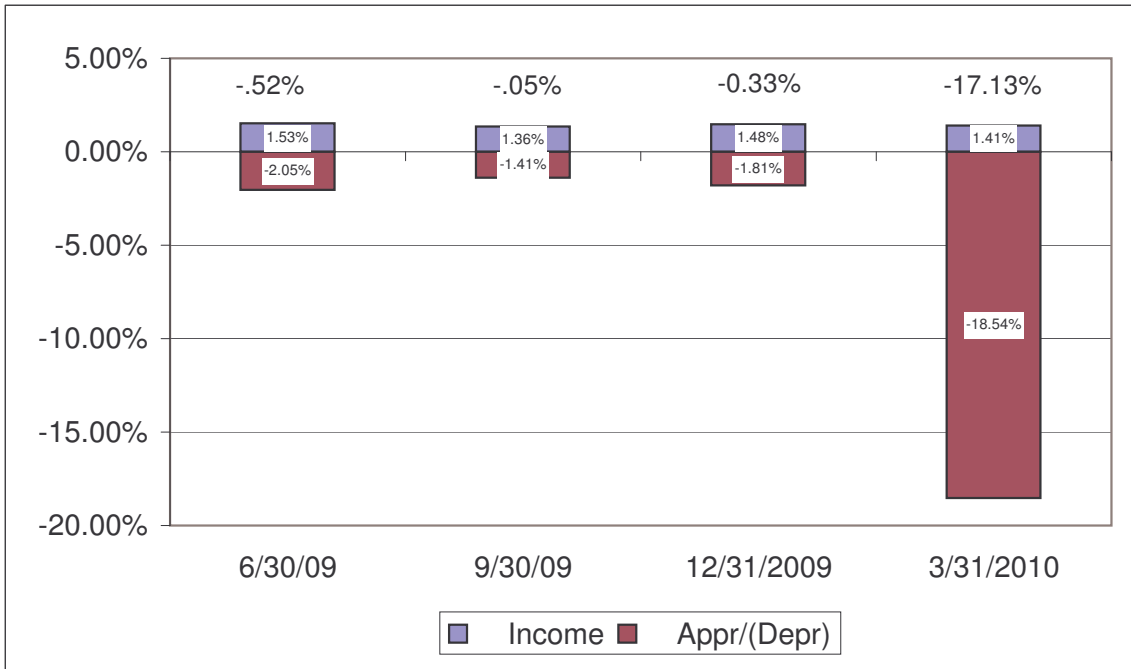


NPI By Property Type



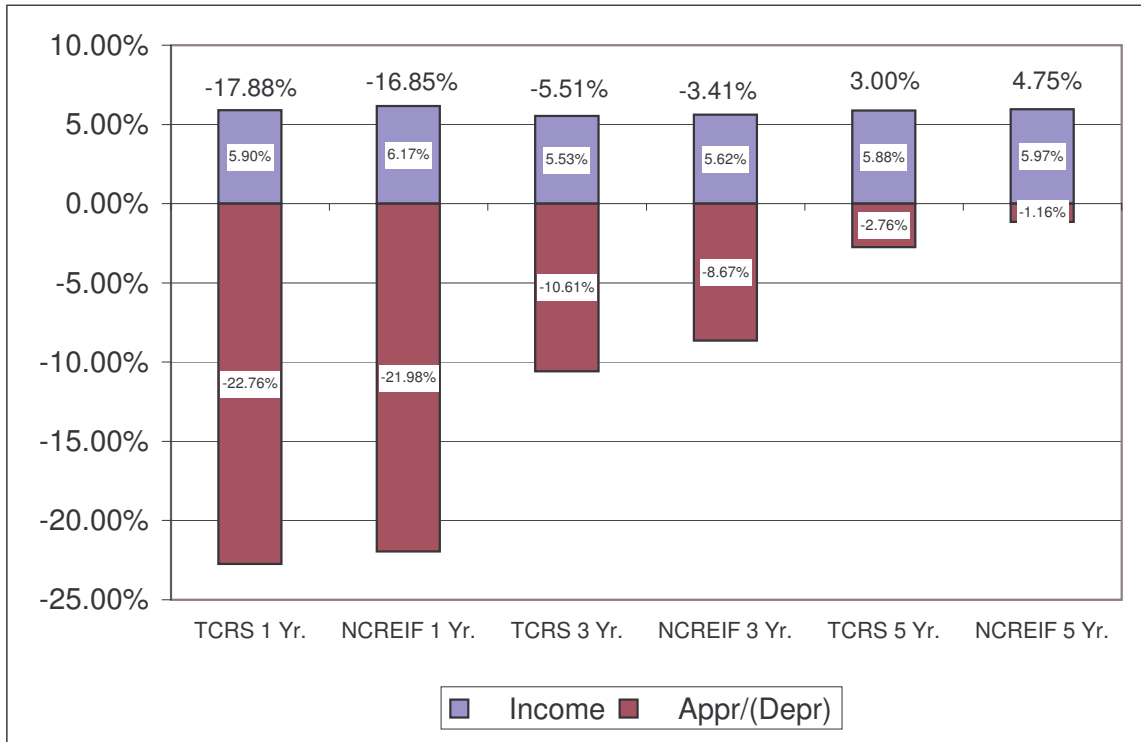
National Property Index of the National Council of Real Estate Investment Fiduciaries (the index used for US core properties).

Peter Katseff



Budgeted Annual Income Return for calendar year 2010 (12 months)

6.61%



Tennessee Consolidated Retirement System
Private Equity Program
Fiscal Q3 2010 Update
Lamar Villere, CFA

Consultant RFP

The private equity consultant RFP process was delayed somewhat in the approval process, but the RFP was posted on May 17, 2010. We expect to complete the selection process this summer, and begin working with selected consultant shortly thereafter. Given (a) our staffing constraints and (b) the involvement of the consultant in our process (as stipulated by TCRS investment policy), this is a critical hire for the private equity program.

Performance

We have finalized our fiscal Q2:2010 results (12/31/09), and are pleased (if not shocked) to report that the program has a positive IRR of 12.3% net of fees due to portfolio valuation increases in the Khosla Ventures III portfolio. Due to the expected impact of the j-curve, we do not expect the overall program's IRR to remain positive for long, but are pleased with these results nonetheless.

New Commitments

On March 5, we finally closed on a \$50 million commitment to Oaktree PPIP Private Fund. Subsequent to the end of the quarter, we closed on two additional funds from Oaktree: Oaktree Opportunities VIII and VIIIb, both at \$40 million. While we continue to be impressed with Oaktree, we expect this level of manager concentration to be the exception rather than the rule.

Fund Pipeline

A brief update on the pipeline discussed at the last meeting: the distressed fund mentioned was Oaktree Opportunities VIII/VIIIb, which closed; the mezzanine fund was not approved by SIS; the small buyout fund was oversubscribed and TCRS was not able to secure a commitment; the venture capital fund is still in process and has been approved by the Investment Committee. An additional potential commitment is in due diligence.

For reference, the funds we have closed on thus far and their summary descriptions are shown below.

- **Hellman & Friedman VII** - \$75m commitment
 - Based in San Francisco
 - \$9b fund
 - Diversified by sector, but fairly concentrated portfolios
 - Focus on domestic buyouts of market leading companies

- **TA XI** - \$44.3m commitment
 - Based in Boston
 - \$4b fund
 - Emphasis on growth equity and buyout investments
 - Unique cold-calling deal sourcing strategy

- **Khosla Ventures III** - \$25m commitment
 - Based in Menlo Park
 - \$1b fund
 - Firm's leadership previously held senior roles at Kleiner Perkins, Sequoia
 - Focus on renewables/cleantech, information technology
 - First exit, Ausra, previously announced (sold to French energy firm Areva, details not disclosed); an additional holding, Amyris, filed for IPO

- **Draper, Fisher, Jurvetson X** - \$25m commitment
 - Based in Menlo Park
 - \$450m fund
 - Diversified early-stage venture capital investor
 - Global approach with affiliates throughout US and world

- **Oaktree PPIP Private Fund** - \$50m commitment
 - Based in Los Angeles
 - \$1.1b fund
 - Purchasing senior CMBS with leverage from US Treasury Department

- **Oaktree Opportunities Fund VIII/VIIIb** - \$40m commitment each
 - Based in Los Angeles
 - \$4.5b/\$2b funds, respectively
 - Primarily investing in senior debt of distressed US companies

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	B	3,515 Russell 2000	Mar 2010 Citigroup	623.9000	219,300,850	
Trades						
1/29/2010 B	825	Russell 2000	Mar 2010 Citigroup	606.4079	50,028,650	1
3/16/2010 B	4,069	Russell 2000	Jun 2010 Citigroup	674.5000	274,454,050	2b
3/16/2010 S	4,069	Russell 2000	Mar 2010 Citigroup	676.1681	(275,132,800)	2a
3/18/2010 B	271	Russell 2000	Jun 2010 Citigroup	677.0000	18,346,700	2b
3/18/2010 S	271	Russell 2000	Mar 2010 Citigroup	679.5000	(18,414,450)	2a

Contracts Outstanding on Dec 31, 2009

End	B	4,340 Russell 2000	Jun 2010 Citigroup	677.1000	293,861,400
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Total 2Q FY2010 \$ 25,278,400

1 Move equity allocation towards allocation target.	18,939,324
2a Swap to next contract.	200,000,000
2b Swap from earlier contract.	74,922,076

Strategy: Replicate a Small company stock portfolio using Russell 2000 index futures. The Russell 2000 future plus cash should produce a return equal to the Russell 2000 Index. TCRS utilizes index futures to its advantage to make timely investments and to gain small cap exposure as desired. Our exposure to small cap remains below the policy target.

TCRS designated certain assets that in combination with the futures represents an equity allocation. These other assets were:

Collateral: US Treasury Notes	\$18,939,324
Short Duration Fixed Income:	200,000,000
TCRS Cash:	74,922,076

Review: TCRS continued to make small steps to increase small cap equity exposure. There was one purchase of Russell 2000 index futures in the fiscal third quarter.

Affiliations: TCRS has used Citigroup exclusively in the quarter to trade index futures. We have a clearing agreement with JPMorgan plus an execution only agreement with MF Global.

TCRS Fixed Income Derivative Report

Domestic Fixed Income Derivatives Andrew C. Palmer, CFA

Domestic Fixed Income Derivatives Transaction Log

KEY	ACCT	DATE	BUY/SELL	QTY	EXPIRATION	CONTRACT	TYPE	STRIKE	PRICE	DLR
Begin		0								
Trades										
2	1355	17-Mar-2010	SELL	108	JUNE (M) 2010	Ultra-Long	FUTURE	--	122-16	JPM
1	1355	24-Mar-2010	BUY	200	JUNE (M) 2010	5-yr Tsy	FUTURE	--	114-21+	JPM
1	1355	24-Mar-2010	BUY	200	JUNE (M) 2010	5-yr Tsy	FUTURE	--	114-17+	JPM
1	1355	24-Mar-2010	BUY	100	JUNE (M) 2010	5-yr Tsy	FUTURE	--	114-15.75	JPM
1	1355	29-Mar-2010	BUY	500	JUNE (M) 2010	5-yr Tsy	FUTURE	--	114-19.75	MFG

Legend: 1—Replication 2—Hedge 3—Income

POSITIONS HELD OVER QUARTER-END:

- Short—108 Ultra-Long Futures
- Long—1,375 Five-year Futures

SUMMARY OF QUARTER'S ACTIVITY:

CONTRACTS IN USE:

- 5-year Futures
- Ultra-Long Futures

STRATEGIES:

- Sold Ultra-Long Futures (30yr equiv) to hedge the interest rate risk of a corporate bond position held in 1-5 Gov't portfolio.
- Purchased 1,375 Five year contracts in 1-5 Gov't portfolio to replicate duration profile of index without using physical Treasury notes. Replication achieved through the use of an equivalent amount of the Short Duration portfolio.

EFFICACY:

- No positions were closed prior to quarter-end; no realized gains or losses.

PROPOSED STRATEGIES FOR CURRENT QUARTER:

- Buy duration in the 1-5 Gov't portfolio to replace move portfolio duration closer to the benchmark's duration.
- Selling duration in Overlay portfolio to hedge the portfolio's long duration profile. Allows Director to manage duration without forcing reallocation amongst sub-sectors.
- Buying deep out-of-the-money calls on long Treasuries to hedge fat tailed events.
- Position for a "Fed on hold" outlook.

AFFILIATIONS:

- FUTURES CLEARING MERCHANT (FCM): JP Morgan
- ACTIVE BROKER RELATIONSHIPS: JPM, Citigroup, MF Global
- CURRENT COUNTERPARTY EXPOSURE: None (as Pct of Assets: 0%)

Currency Forwards Activity
Jesse Picunko, CFA

INTERNATIONAL FIXED INCOME (1333)

FORWARDS		Date	B/S	Notional	Currency	Broker	Price	Proceeds USD
Begin			-			-	-	-
Trades	Delivery							
12/10/2010	3/10/2010	S	1,500,000,000	JPY	HSBC	88.2830	16,990,814	
1/21/2010	3/10/2010	S	1,500,000,000	JPY	HSBC	90.4450	16,584,665	
3/8/2010	3/10/2010	B	3,000,000,000	JPY	HSBC	90.3000	(33,222,591)	
3/8/2010	6/30/2010	S	3,000,000,000	JPY	HSBC	90.2500	33,240,997	
3/25/2010	6/30/2010	B	1,500,000,000	JPY	HSBC	92.7350	(16,175,123)	
4/2/2010	6/30/2010	B	1,500,000,000	JPY	HSBC	94.3150	(15,904,151)	
End						HEDGING G/L	1,514,611	

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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.

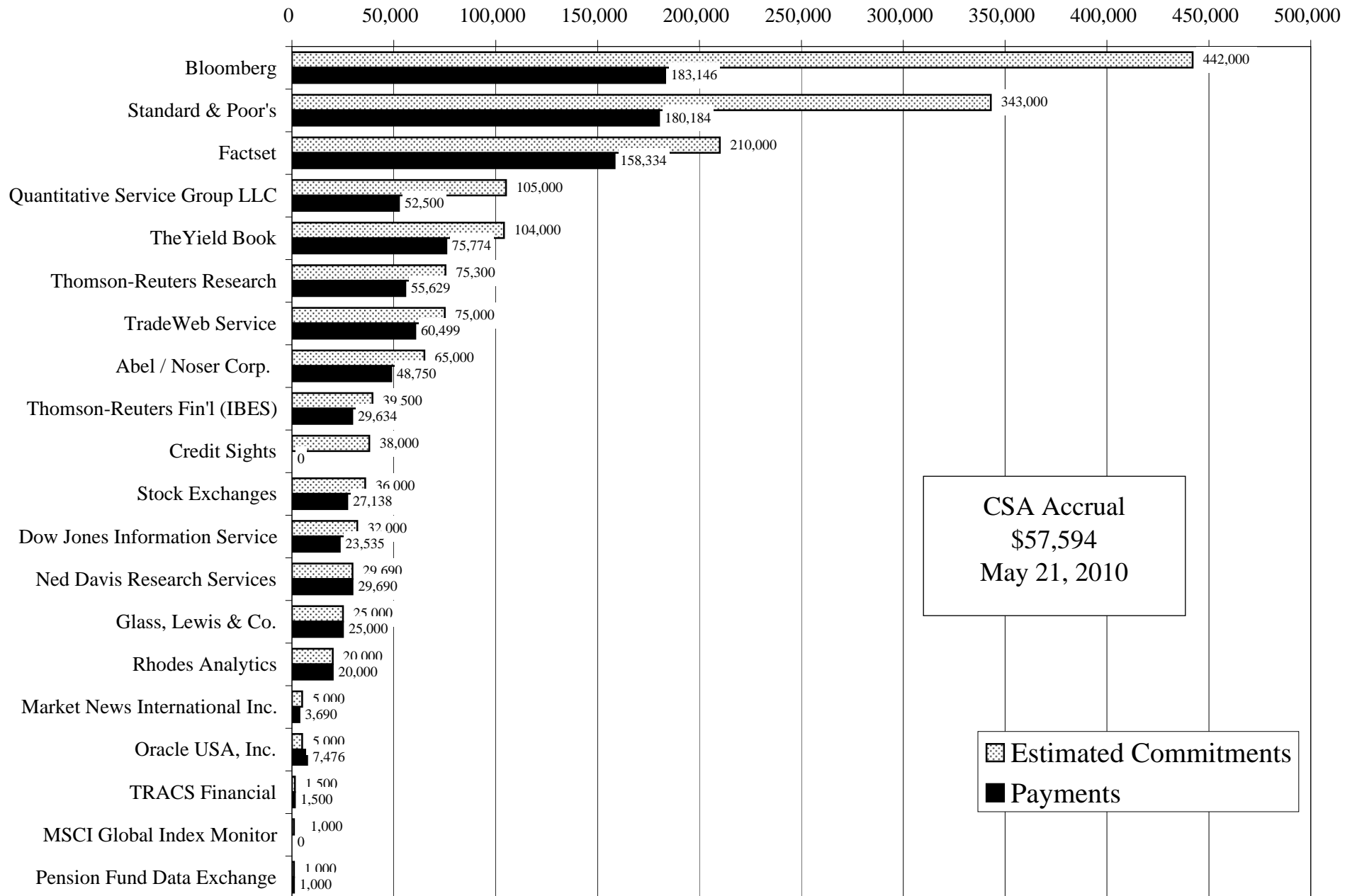
Trade Order Management System (OMS) – The kickoff meeting for implementation of the Bloomberg Trade Order Management System took place on Tuesday, February 23. User training is scheduled to begin mid June and go live is estimated to be July 31.

Trading – The equity traders continue to review commissions and the structure that is being used by other trading desks. The equity traders are looking at issues that have been a challenge for buy side managers such as soft-dollar versus hard-dollar payment methods. They are also researching commission schedules that generate sufficient revenue for research and analysis while offering some control over trading costs, such as CSA. TCRS entered into a CSA with Barclays Capital on April 1 and plans on paying for a portion of the research with the program on a trial basis. The CSA program may be expanded after management has had some time to review the effectiveness of the program.

Trading Cost Execution Analysis – The equity traders are getting more comfortable with data that is being produced by Abel Noser, a well known analytics and trading firm that specializes in trading cost execution analysis. Although the current data is not as useful as would be preferred because it is performed on custodial data, it will improve when time-stamped data is generated from the proposed OMS.

Personnel Changes – Josh Stites has accepted an offer to serve as an assistant to the Treasurer. His current position of Assistant Cash Manager is being upgraded to Cash Manager and TCRS is actively seeking a candidate to assume those duties.

Commissioned Dollar Report



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