

INVESTMENT REPORT

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

**Fourth Quarter
Fiscal Year 2008 - 2009**

April 1, 2009 – June 30, 2009

**Prepared for:
Board of Trustees Meeting**

September 25, 2009

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 Member</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 Verdis Investment Management 200 Four Falls Corporate Center, Suite 201 West Conshohocken, PA 19428-2948 Phone: (cell) 484-477-8777 / (office) 610-397-1600 E-mail: hdelicata@verdisinvestment.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@hm scm.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
Fourth Quarter
Fiscal Year 2008-2009

April 1, 2009 – June 30, 2009

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Minutes from the Investment Advisory Council Meeting September 11, 2009

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. IAC members present were Mr. George Stadler and Mr. Chuck Webb. Mr. Henry Delicata and Ms. Susan Huffman participated via conference call. Investment staff members present were Michael Brakebill, Ed Hennessee, Andy Palmer, Peter Katseff, Lamar Villere, Tim McClure, Michael Keeler, Roy Wellington, Jim Robinson, Carrie Green, Rachel Roberts, Kushal Gupta and Rhonda Myers.

Michael Brakebill began the discussion with a review of investment performance. Mr. Brakebill stated the fund lagged its benchmark for the year and still ranked in the top 20th percentile in Strategic Investment Solution's (SIS) performance universe. Additionally, the fund beat 88% of peers in Northern Trust's universe. Mr. Brakebill commented on the weakness in large institutional investment manager returns. Mr. Brakebill stated that the lag versus the benchmark of 181 basis points for the year was largely the result of asset allocation which is illustrated in the lag for the fourth quarter of fiscal 2009 of 165 basis points.

Mr. Brakebill then directed the conversation to a review of the division's Key Initiatives. Mr. Brakebill stated that normalizing the portfolio is the number one initiative. Since June 30, 2009 Staff has purchased over \$700 million in public equities, but has recently scaled back purchases in anticipation of equity market weakness. Mr. Brakebill also reviewed the actions underway in developing the private equity portfolio, the real estate portfolio and opportunistic credit situations.

Mike Keeler moved the discussion to domestic equities. The combined Domestic Equity Funds lagged the benchmark S&P Composite 1500 index for the quarter ended June 30th as the massive rally in low quality, small capitalization, non-dividend paying and in some cases non-earning stocks overwhelmed the larger cap, higher quality names that TCRS tends to own. Also, TCRS sold the Russell 2000 futures which under-weighted small cap stocks which subsequently out-performed. The combined funds less futures declined less than the benchmark index for the trailing 12 months. Strong relative performances by the Quant and Sector Funds more than offset poor results in the Mid Cap Fund.

Jim Robinson then discussed the Quant Portfolio and stated that economic conditions continue to be negative for equities. Jim stated that even after six quarters in a row of lower earnings expectations for the S&P 500, 2009 earnings keep getting reduced. From their September level through the end of December, S&P 500 estimates for 2009 were cut by one-third. Jim noted that if GE cut their dividend in half and three large banks (WFC, JPM, & USB) cut their dividends to 1¢ per quarter, the y-o-y dividend growth rate falls to negative 21.6%, which would be beyond six standard deviations.

Roy Wellington reviewed the Sector Fund. The portfolio maintained its positioning for an expected economic recovery except in its exposure to the consumer. The consumer is

judged to be AWOL for this cycle. Since Jeremy Conlin retired this summer, the Financial Services Sector of the Fund is being neutrally managed. The main sector overweight is Information Technology and the main under-weights are Telecom Services, Utilities and Energy.

Roy discussed the Sector Fund alpha meeting on July 17. The analysts discussed the ongoing earnings announcements and associated company statements and whether those confirmed or contradicted our portfolio positioning. Roy stated the equity markets rallied sharply in the quarter as confidence returned and risky assets were bought. Few signs of extra economic activity could be found until the cash for clunkers program stimulated car buying. Employment is still falling, but it is falling at such a rate that corporate profitability is rebounding sharply. CEO's are mixed as to whether they are seeing new demand and whether it is due to inventory rebuilding or real demand; such distinction matters greatly to the equity market. The sector fund is positioned for an expected economic recovery led by export growth, inventory rebuilding, fiscal stimulus and ultimately consumer demand growth from a lower level than the previous cycle.

Michael Keeler then reviewed the Mid Cap Fund. The Mid Cap Fund lagged the S&P Mid Cap 400 during the quarter. There was little to choose in terms of style performance between growth and value, as index performance during the period was determined by size (smallest) and quality (low). Investors responded to narrowing risk spreads and a general belief that Armageddon had been avoided by fleeing safe havens for low ROE, low or no dividend stocks and non-earners, none of which are highly represented in the TCRS Mid Cap fund. Under-weight positions in the Industrials and Materials sectors, both of which performed well, combined with poor stock selection in the Consumer Discretionary and Financials sectors hurt relative performance. Several names thought to be on the verge of bankruptcy and thus avoided in the fund advanced 80-100% or more, causing the Mid Cap fund to lag on the upside during the period. There is some evidence that the factors our models focus on are returning to favor in the current quarter.

Roy Wellington stated the International Equity Portfolio gave up substantial relative performance in the June quarter with only Marathon and Putnam beating their benchmarks. American Century attributed serious under-performance to growth stocks missing a value rally, especially given that "near death" value equities moved significantly higher and an equity market that rebounded despite a dearth of positive news. Most managers mentioned an underweight to financial stocks as a reason for under-performance; only one manager cited cash drag.

Andy Palmer moved the discussion to the Fixed Income Portfolios. Mr. Palmer noted that the fixed income portfolio had made up substantial lost ground (up 359 basis points for the quarter) in the most recent quarter. Mr. Palmer noted that all fixed income products out-performed for the quarter. Mr. Palmer discussed the dramatic tightening in spread product. Mr. Palmer also discussed the portfolio changes Staff is implementing to focus attention more narrowly on specific market segments. Mr. Palmer also discussed the work that has been done on government programs such as the TALF and PPIP.

Peter Katseff reviewed the Real Estate portfolio and reported that Mr. Katseff and Mr. Brakebill will continue to meet with senior management of the real estate investment advisors currently under contract with TCRS. During recent meetings, the advisors confirmed that in the last twelve months few transactions for higher quality real estate investments have occurred. Mr. Delicata also stated that minimal transactions are occurring in real estate. Mr. Katseff also stated that Best Buy is moving forward in leasing all of the vacant space (previously occupied by Linens & Things) at the Courtyard at Carmel Mountain Ranch shopping center, San Diego, CA. This lease, for TCRS's San Diego retail property, is one of the few leases Best Buy has executed in the last twelve months.

Lamar Villere provided an update on the progress of the private equity program. TCRS has committed to three different private equity partnerships: \$75 million to Hellman & Friedman VII, \$44.3 million to TA XI, and \$25 million to Khosla Ventures III. Mr. Villere noted that while each group was different, all three tended to focus on buying or investing in companies with growing revenues and cash flows. Mr. Villere indicated that annual commitments are expected to be approximately \$300 million. Additionally, Mr. Villere indicated he expects the volume of private equity secondary interests available to increase over the coming months; a discussion was then held about different ways to attempt to capitalize on those opportunities.

Michael Brakebill discussed potential policy changes that may be addressed in March. One of those changes is the disclosure language for private equity investments. TCRS's external council states our current statute and policy could be improved. Also, further discussions will need to address increasing investment opportunities in international and emerging markets.

The meeting closed with a general discussion about market conditions. Mr. Brakebill expressed concern that massive government intervention is driving a significant amount of economic and investment activity. Chuck Webb commented that his economic models are improving rapidly, but a fifty percent rally in stocks is hard to explain. Henry Delicata stated that there are opportunities waiting to happen in real estate and private equity but that market participants are currently on the sidelines.

The meeting adjourned at 11:30 a.m.

Annual Performance Review

June 2009

Comparison versus Benchmark

- 1 year return of -15.27% trailed benchmark of -13.46%
- International Equities, Real Estate and Domestic Equities helped; Domestic Fixed income performance hurt

Comparison versus Peers

- Total fund 1 year return beat 80 percent of peers (median manager - 17.91%) in SIS's universe and 88% of peers in Northern Trust's universe

	1 QTR		1 YEAR		3 YEAR		5 YEAR	
	Return	Rank	Return	Rank	Return	Rank	Return	Rank
Total Fund	8.30%	87	-15.27%	20	-1.80%	19	1.68%	63
<i>Policy Index</i>	9.95%	67	-13.46%	8	-0.96%	8	2.52%	35
<i>Total Fund Allocation Index</i>	10.25%	65						
Median	11.07%		-17.91%		-2.76%		2.11%	

Some Comparisons

Fund	FY09 Return
Calpers	-23.4%
Calstrs	-25%
Texas TRS	-21.9%
Maryland	-20%
Florida Retirement	-19%
South Dakota	-20.4%
TCRS	-15.3%
Texas ERS	-14.5%
North Carolina	-14.2%

Poor Grades

Top endowments with their operating assumptions for investment declines. Reflects the year ending June 2009, and asset size from a year earlier.

	Endowment (in billions)	Projected declines
1. Harvard	\$36.9	↓ 30%
2. Yale	\$22.9	↓ 25%
3. Stanford	\$17.2	↓ 30%*
4. Princeton	\$16.3	↓ 25%
5. MIT	\$10.1	↓ 25%
10. University of Chicago	\$6.6	↓ 25%

*Stanford projection for the 12 months ending August 31, 2009
Source: WSJ research, the universities

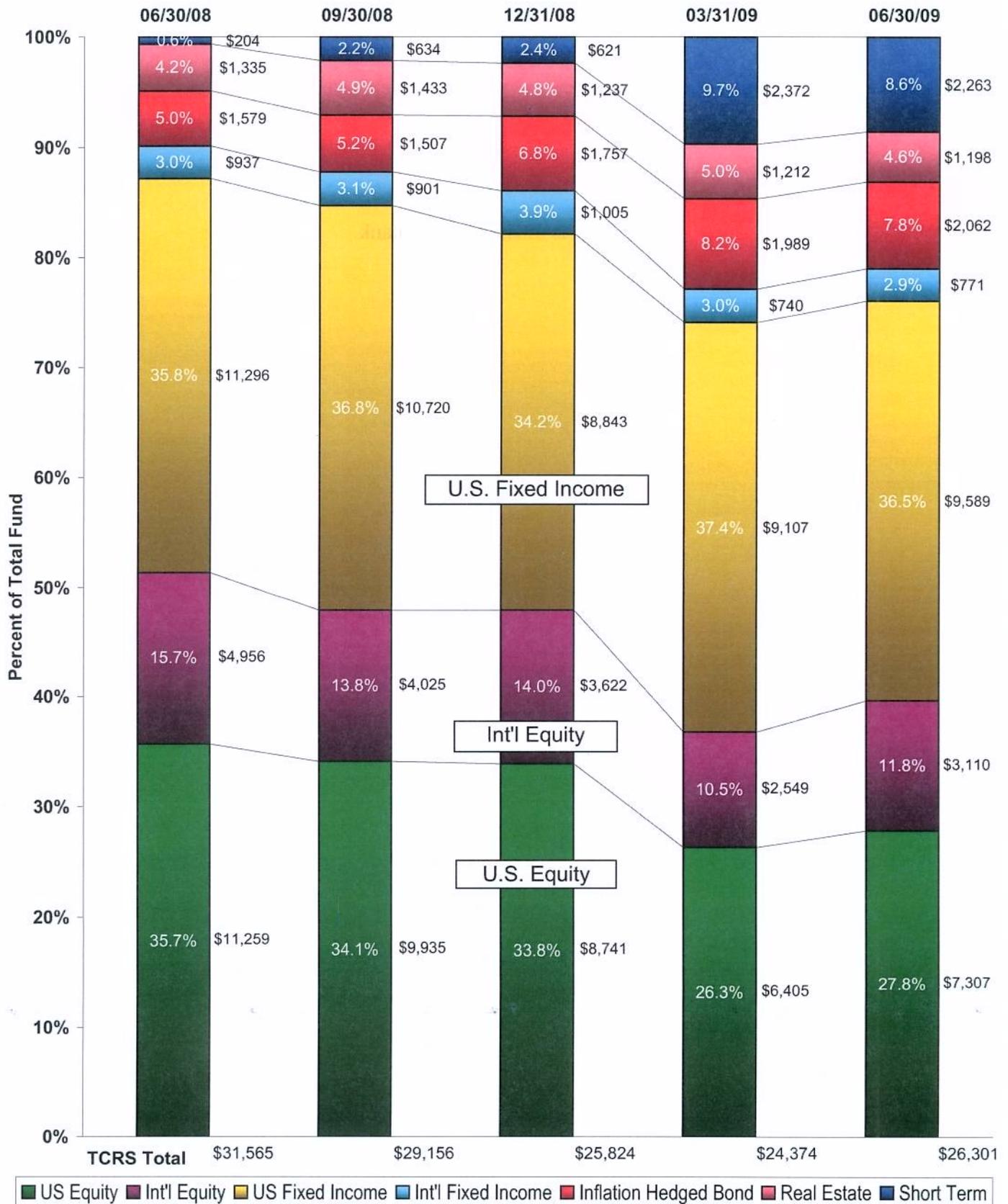
Key Initiatives

Michael Brakebill, CFA

- Normalize portfolio
- Addition of Private Equity Asset Class
- Increase Real Estate allocation
- Explore Credit Market Opportunities: TALF/PPIP
- Broaden Fixed Income Management Capability
 - Fixed income derivatives
- Improve Investment Operations Support
- Develop a Risk Management Framework and capability

TCRS Asset Allocation

June 2009



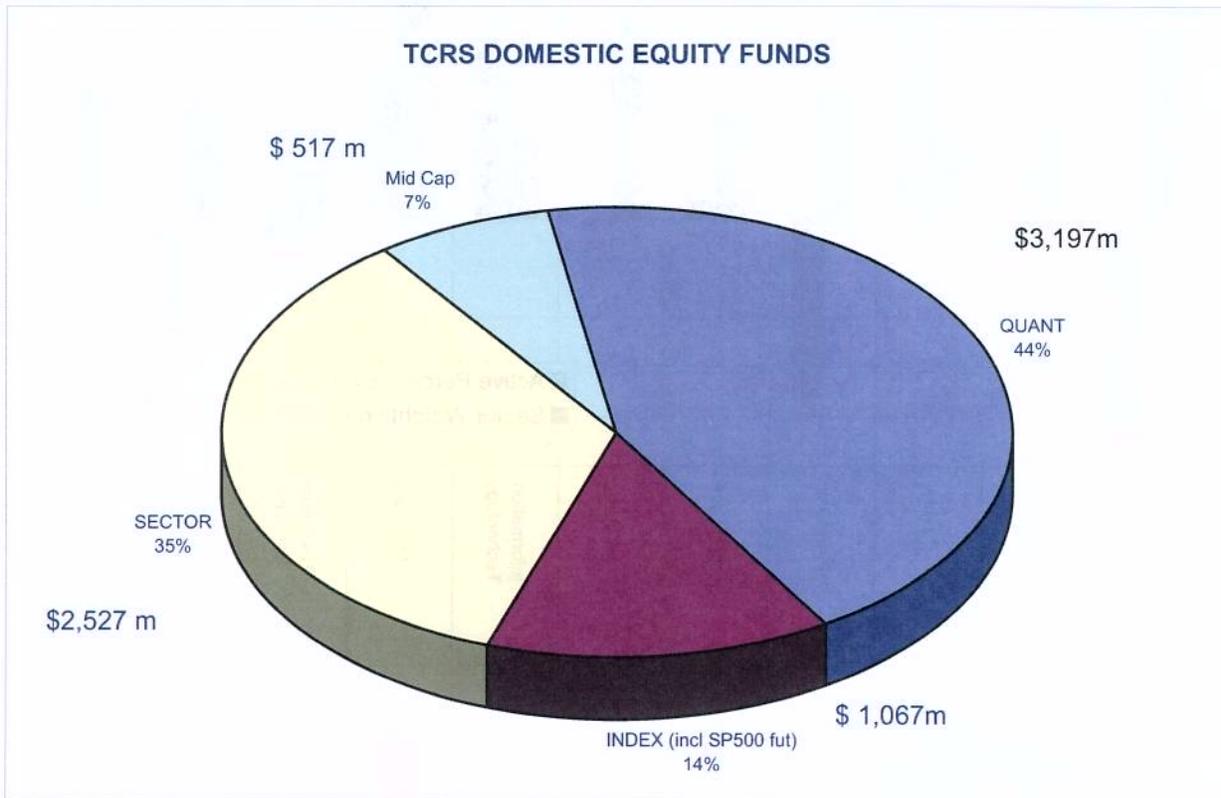
\$ = millions

Source: Northern Trust Passport & SIS

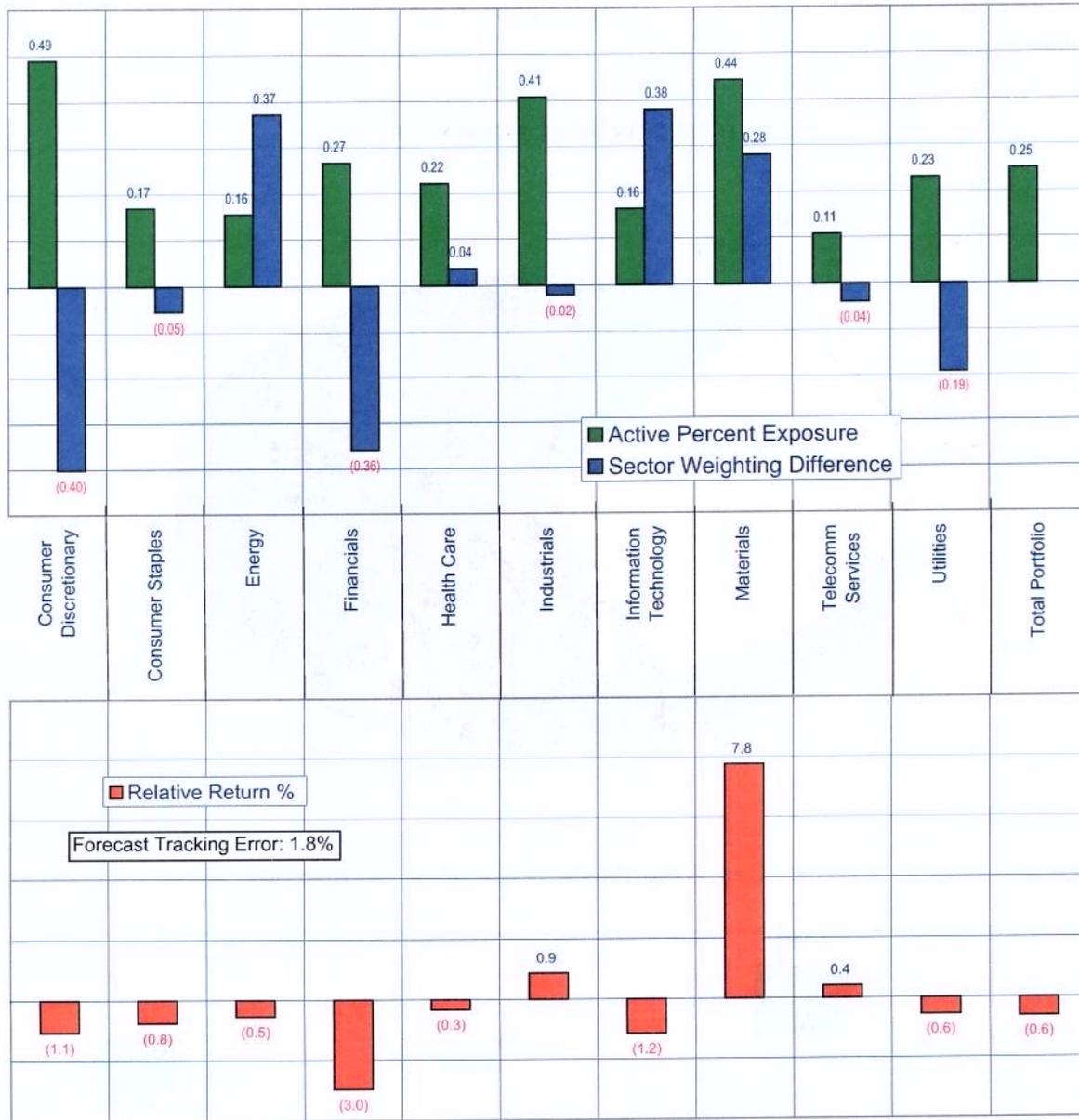
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Domestic Equity Portfolio Overview

Michael Keeler, CFA



Large Cap Quant Fund
Jim Robinson, CFA



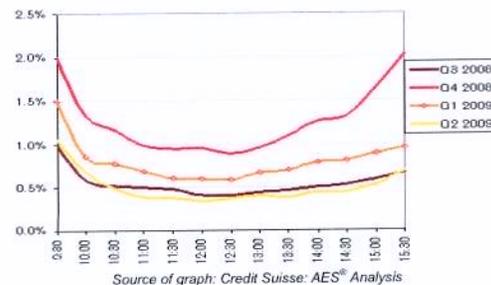
April continued the strong rally begun in March. Momentum slowed in May and stalled in June. For the quarter as a whole, absolute returns were very strong, the 5th highest quarter since 1985. Lower quality and lower earnings retention / higher yield stocks out performed others, the trend some what attenuating in June.

Value related metrics along with exposure to smaller market capitalizations within the S&P 500 worked best in the June quarter. Price and earnings momentum were by far the worst performing factors. The financial sector easily out paced all other sectors' returns.

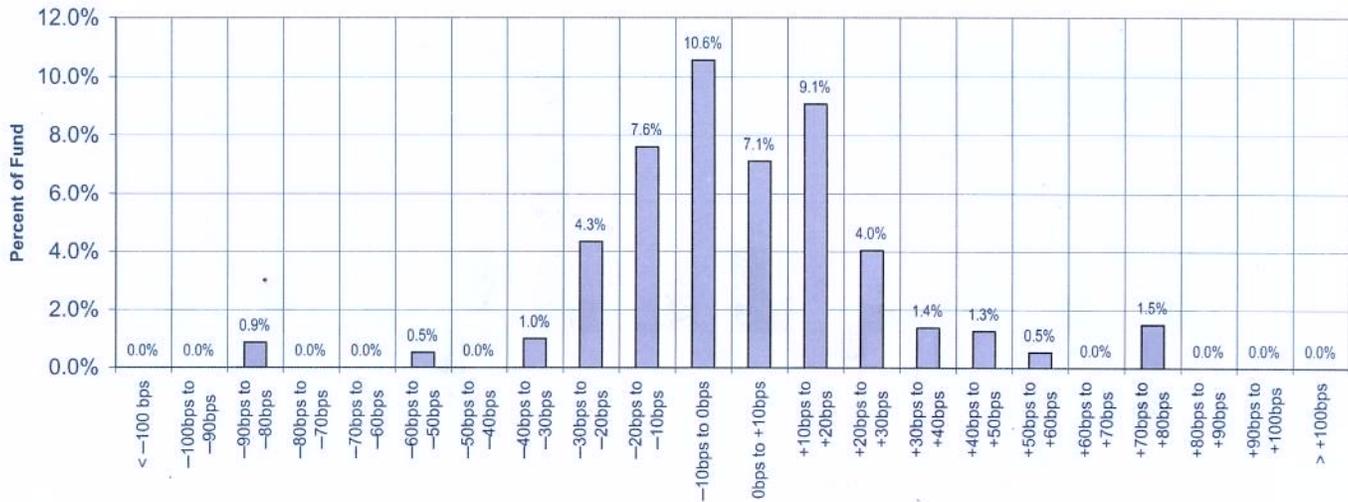
Markets appear to be returning to more normal conditions. The average systematic correlation across stock returns nearly reached all time highs, surpassed only during the crash of 1987 and in 1954. In 2007 and 2008, equity portfolios' realized tracking errors (TE)

commonly exceeded their projected TE by a factor of 2 or 3. Recently, both of these measures have come back down. Intraday bid-ask spreads show a very similar picture to that shown below, a return to more normal looking market conditions in the most recent quarter compared to the previous two quarters.

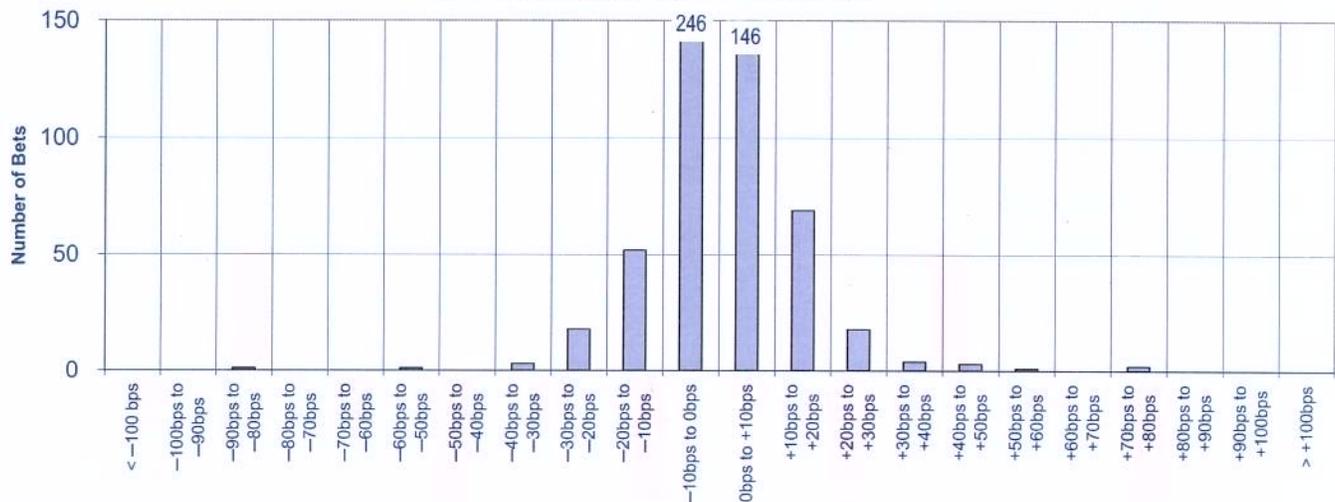
Intraday Volatility of the S&P 500



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



Number of Individual Stocks in Bet Size Bins

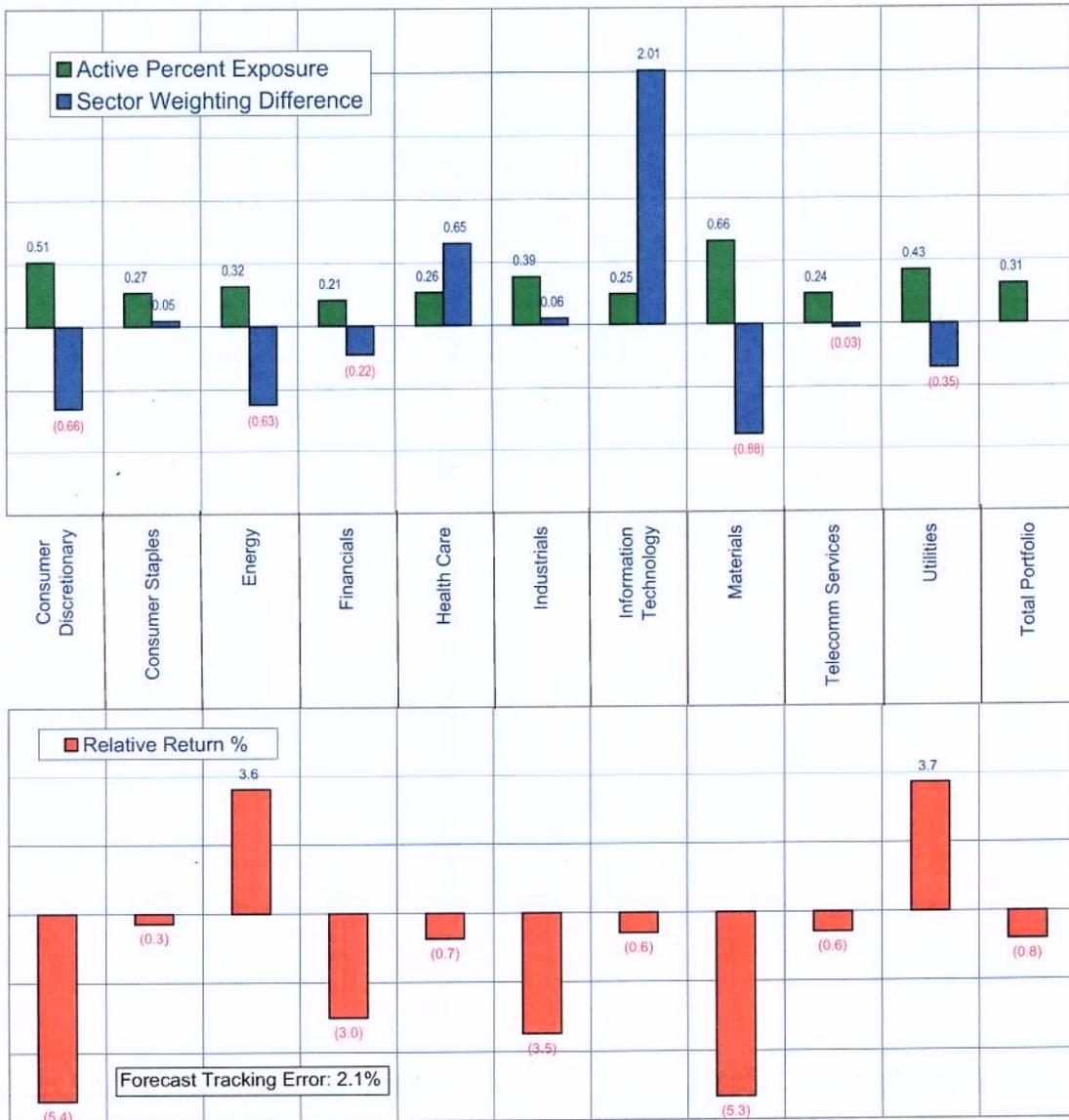


Largest Over Weights by Stock in Fund

Ticker	Description	Bps Over Index Wt
UTX	United Technologies Corp.	75
CMCSK	Comcast Corp. (CI A Special)	74
LMDIA	Liberty Media Corp. Series A Liberty	54
LMT	Lockheed Martin Corp.	44
IBM	International Business Machines Co	42
GD	General Dynamics Corp.	40
AMGN	Amgen Inc.	38
XOM	Exxon Mobil Corp.	35
RTN	Raytheon Co.	34
BAX	Baxter International Inc.	31
ITT	ITT Corp.	29
WMT	Wal-Mart Stores Inc.	25
C*M	CITIGROUP INC PFD1/1000 SR F	25
EMR	Emerson Electric Co.	24
NTRS	Northern Trust Corp.	24
KR	Kroger Co.	23
APOL	Apollo Group Inc. (CI A)	22
DF	Dean Foods Co.	22
XEL	Xcel Energy Inc.	22
BLL	Ball Corp.	21

Largest Under Weights by Stock in Fund

Ticker	Description	Bps Under
GE	General Electric Co.	-87
CMCSA	Comcast Corp. (CI A)	-52
BA	Boeing Co.	-38
KO	Coca-Cola Co.	-31
MET	MetLife Inc.	-31
BAC	Bank of America Corp.	-30
APC	Anadarko Petroleum Corp.	-28
CELG	Celgene Corp.	-27
YHOO	Yahoo! Inc.	-27
KMB	Kimberly-Clark Corp.	-27
NWSA	News Corp. (CI A)	-26
CME	CME Group Inc. (CI A)	-26
NKE	Nike Inc. (CI B)	-25
COST	Costco Wholesale Corp.	-25
F	Ford Motor Co.	-24
JNJ	Johnson & Johnson	-22
DOW	Dow Chemical Co.	-22
FDX	FedEx Corp.	-22
TMO	Thermo Fisher Scientific Inc.	-21
EOG	EOG Resources Inc.	-21



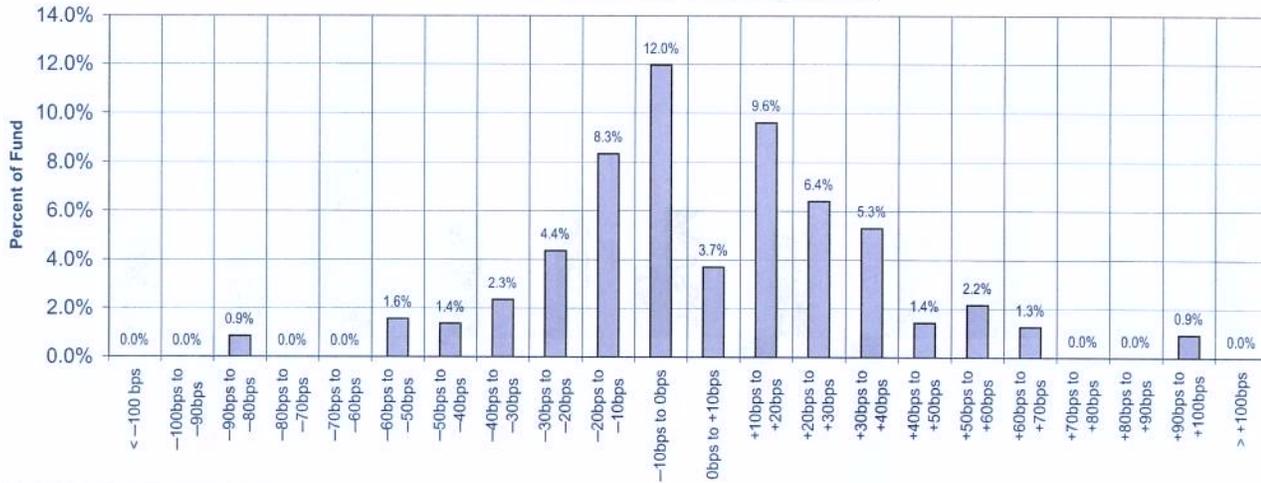
The Sector Fund had its beta (sector exposure) meeting on June 9. The portfolio maintained its positioning for an expected economic recovery except that the consumer is judged to be AWOL for this cycle. TCRS is now without the services of a Financial Sector analyst with the retirement of Jeremy Conlin so that sector is being managed close to neutral pending a new hire or staff reassignment. The main overweight is Information Technology, the main underweights are Telecom Services, Utilities and Energy.

The Sector Fund had its alpha (education seminar) meeting on July 17. The analysts discussed the ongoing earnings announcements and associated company statements and whether those confirmed or contradicted our portfolio positioning. We used the meeting format to update the corporate bond portfolio manager on events at the company level.

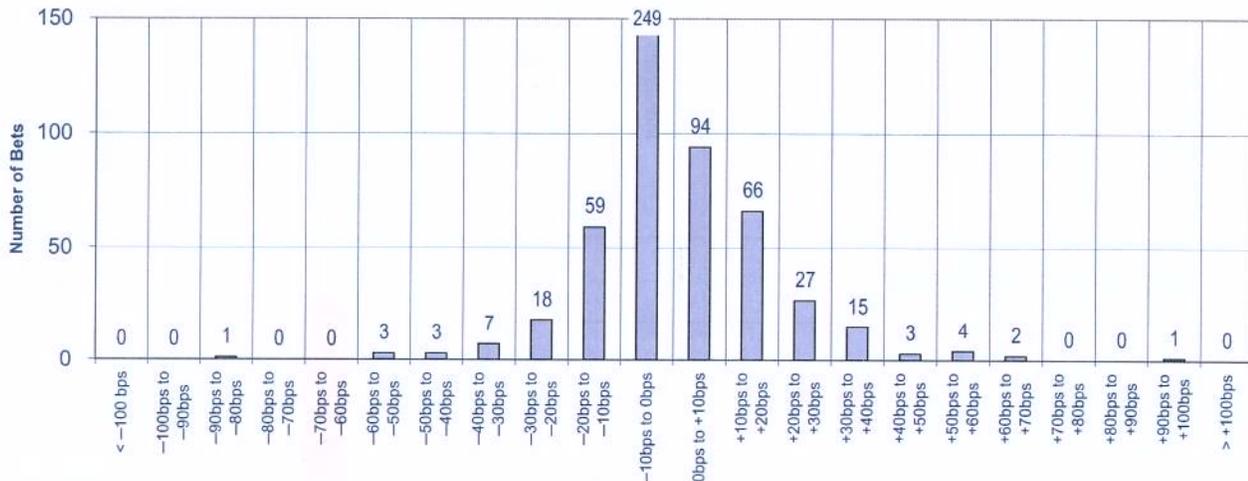
The equity markets rallied sharply in the quarter as confidence returned and risky assets were bought. Few signs of extra economic activity could be found until the cash for clunkers program stimulated car buying. Still employment is falling, but it is falling at such a rate that corporate profitability is rebounding sharply. CEOs are mixed as to whether they are seeing new demand and whether that is inventory rebuilding or real demand; such distinction matters greatly to the equity market.

Sector relative weights are positioned for an expected economic recovery led by export growth, inventory rebuilding, fiscal stimulus and ultimately consumer demand growth from a lower level than the previous cycle.

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



Number of Individual Stocks in Bet Size Bins

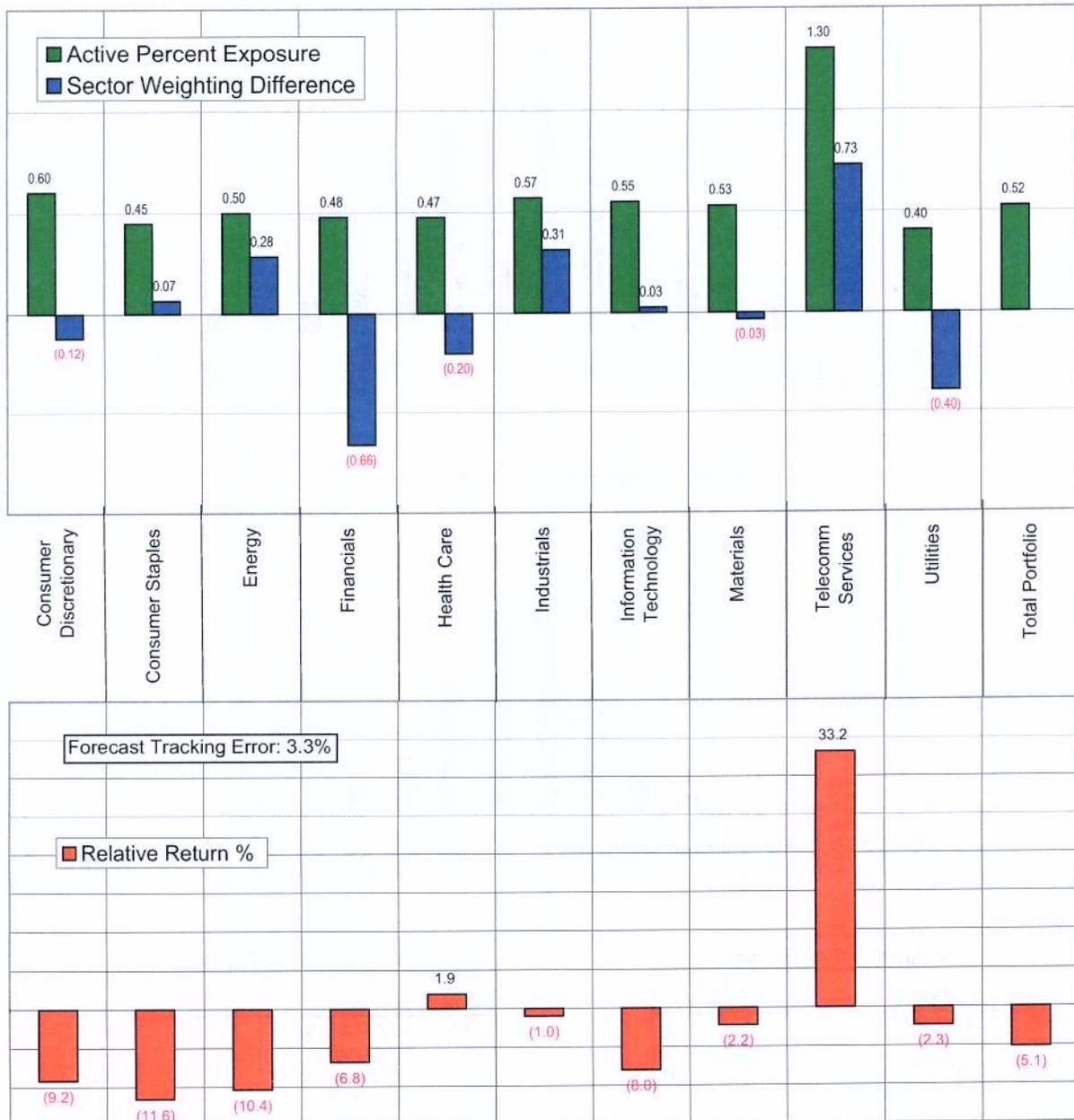


Largest Over Weights by Stock in Fund

Ticker	Description	Bps Over Index Wt
ORCL	Oracle Corp.	94
INTC	Intel Corp.	65
CMCSK	Comcast Corp. (CI A Special)	61
HPQ	Hewlett-Packard Co.	57
HD	Home Depot Inc.	54
WFT	Weatherford International Ltd.	53
IBM	International Business Machines Co	52
PDE	Pride International Inc.	50
ESRX	Express Scripts Inc.	47
RIG	Transocean Ltd.	45
APOL	Apollo Group Inc. (CI A)	40
HK	Petrohawk Energy Corp.	40
AAPL	Apple Inc.	40
GS	Goldman Sachs Group Inc.	39
MSFT	Microsoft Corp.	38
NE	Noble Corp.	37
RKT	Rock-Tenn Co. (CI A)	36
DF	Dean Foods Co.	36
ABT	Abbott Laboratories	35
RCI	Rogers Communications Inc. (CI B)	33

Largest Under Weights by Stock in Fund

Ticker	Description	Bps Under
XOM	Exxon Mobil Corp.	-85
DIS	Walt Disney Co.	-54
CMCSA	Comcast Corp. (CI A)	-52
MON	Monsanto Co.	-50
MDT	Medtronic Inc.	-48
CL	Colgate-Palmolive Co.	-44
LLY	Eli Lilly & Co.	-44
BA	Boeing Co.	-38
WAG	Walgreen Co.	-36
KO	Coca-Cola Co.	-36
LMT	Lockheed Martin Corp.	-33
WLP	WellPoint Inc.	-31
SO	Southern Co.	-30
PM	Philip Morris International Inc.	-30
COP	ConocoPhillips	-29
DD	E.I. DuPont de Nemours & Co.	-29
XTO	XTO Energy Inc.	-27
T	AT&T Inc.	-27
GD	General Dynamics Corp.	-27
MRO	Marathon Oil Corp.	-27



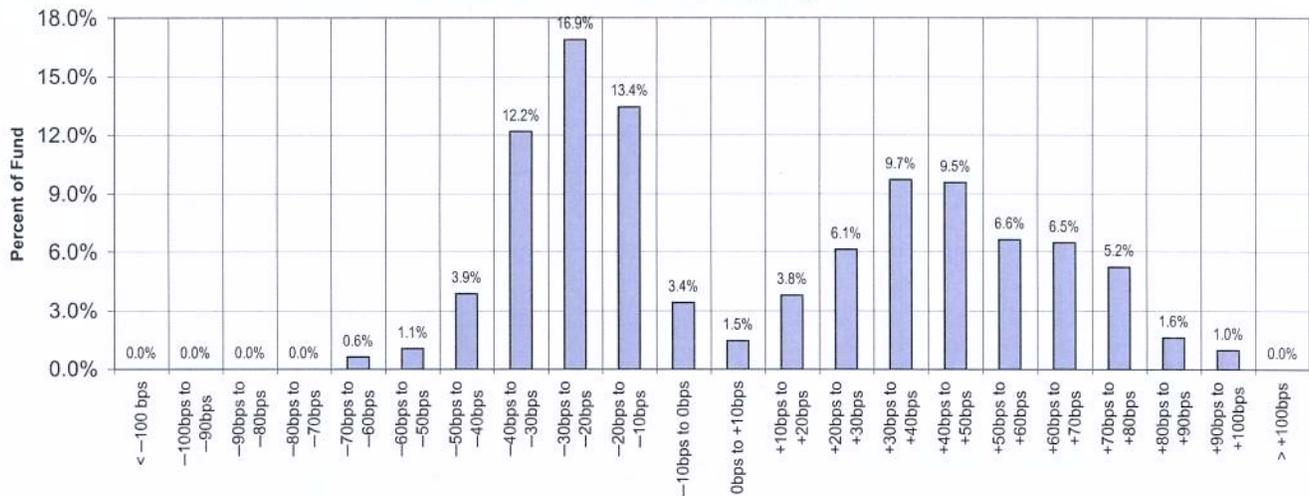
Comments:

The Mid Cap Fund lagged the S & P Mid Cap 400 during the quarter. There was little to choose in terms of style performance between growth and value, as index performance during the period was determined by size (smallest) and quality (low). Investors responded to narrowing risk spreads and a general belief that Armageddon had been avoided by fleeing safe havens for low ROE, low or no dividend stocks and non earners, none of which are highly represented in the TCRS Mid Cap Fund.

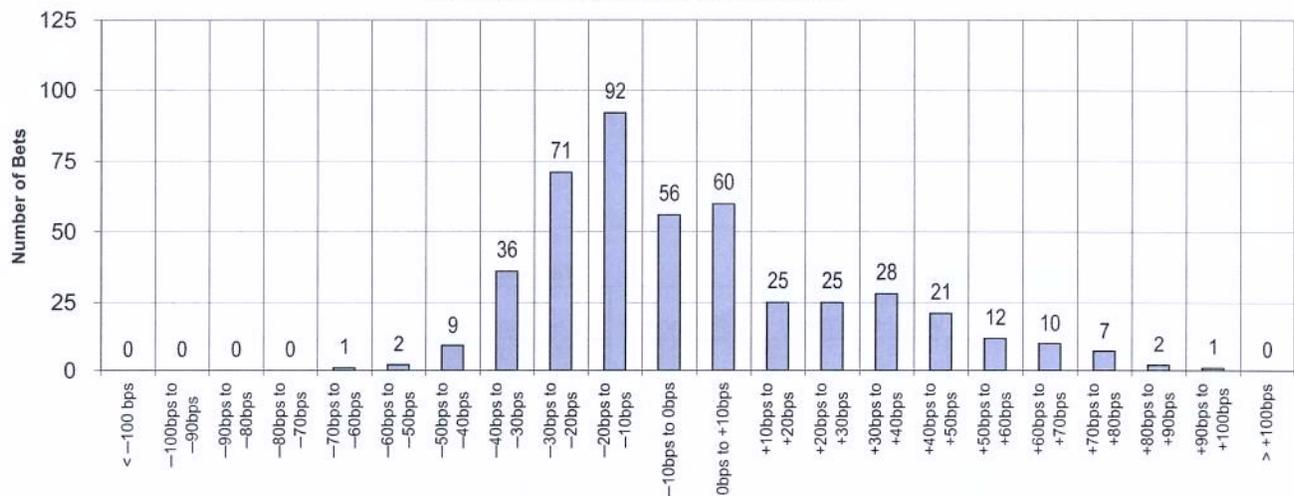
Under weight positions in the Industrial and Materials sectors, both of which performed well, combined with poor stock selection in the Consumer Discretionary and Finance sectors hurt relative performance. Several names thought to be on the verge of bankruptcy and thus were avoided in the fund advanced 80 – 100 % or more”, causing the Mid Cap fund to lag on the upside during the period. There is some evidence that the factors our models focus on are returning to favor in the current quarter.

Mid – Cap Fund
Mike Keeler, CFA

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



Number of Individual Stocks in Bet Size Bins

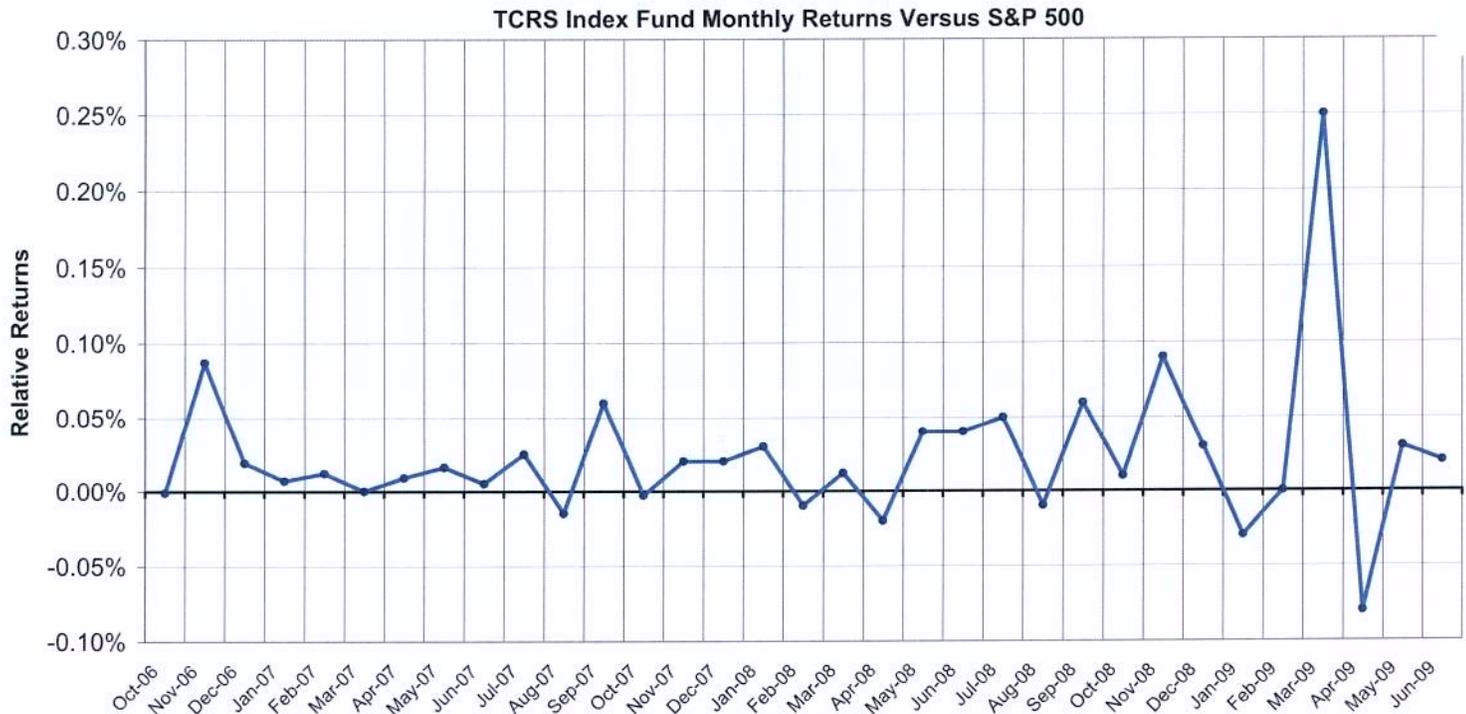


Largest Over Weights by Stock in Fund

Ticker	Description	Bps Over Index Wt
AAP	Advance Auto Parts Inc.	98
GPN	Global Payments Inc.	82
MSM	MSC Industrial Direct Co. (CI A)	81
OMG	OM Group Inc.	79
SAI	SAIC Inc.	77
PRAA	Portfolio Recovery Associates Inc.	75
DPL	DPL Inc.	75
KMX	CarMax Inc.	75
AEO	American Eagle Outfitters Inc.	72
SNPS	Synopsys Inc.	71
STE	STERIS Corp.	70
TDW	Tidewater Inc.	69
STAR	Starent Networks Corp.	66
EW	Edwards Lifesciences Corp.	66
PCLN	priceline.com Inc.	65
CLF	Cliffs Natural Resources Inc.	65
WDC	Western Digital Corp.	62
CRK	Comstock Resources Inc.	62
BR	Broadridge Financial Solutions Inc.	61
MAN	Manpower Inc.	61

Largest Under Weights by Stock in Fund

Ticker	Description	Bps Under
PWR	Quanta Services Inc.	-62
BWA	BorgWarner Inc.	-55
HOLX	Hologic Inc.	-51
PXP	Plains Exploration & Production Co.	-46
LZ	Lubrizol Corp.	-44
FNF	Fidelity National Financial Inc.	-44
AVT	Avnet Inc.	-44
CVD	Covance Inc.	-44
RMD	ResMed Inc.	-43
STRA	Strayer Education Inc.	-42
KBR	KBR Inc.	-41
ACM	AECOM Technology Corp.	-41
TDS	Telephone & Data Systems Inc.	-39
IM	Ingram Micro Inc. (CI A)	-39
ANSS	Ansys Inc.	-38
IDXX	IDEXX Laboratories Inc.	-38
PETM	PetSmart Inc.	-37
AGCO	AGCO Corp.	-37
DCI	Donaldson Co. Inc.	-37
MTD	Mettler-Toledo International Inc.	-36

**Top Ten Holdings as of June 30, 2009**

Ticker	Name	Portfolio Weight	S&P 500 Weight	Difference
XOM	Exxon Mobil Corp.	4.24	4.24	-0.01
MSFT	Microsoft Corp.	2.26	2.26	-0.00
JNJ	Johnson & Johnson	1.94	1.95	-0.00
PG	Procter & Gamble Co.	1.85	1.85	-0.00
T	AT&T Inc.	1.82	1.82	-0.00
IBM	International Business Machines Corp.	1.71	1.72	-0.00
JPM	JPMorgan Chase & Co.	1.65	1.65	-0.00
CVX	Chevron Corp.	1.65	1.65	-0.00
AAPL	Apple Inc.	1.58	1.58	-0.00
GE	General Electric Co.	1.54	1.54	0.00

Ten Largest Overweights and Underweights as of June 30, 2009

Ticker	Name	Portfolio Weight	S&P 500 Weight	Difference
XOM	Exxon Mobil Corp.	4.24	4.24	-0.01
PCS	MetroPCS Communications Inc.	0.04	0.04	-0.00
MSFT	Microsoft Corp.	2.26	2.26	-0.00
D	Dominion Resources Inc. (Virginia)	0.24	0.25	-0.00
JNJ	Johnson & Johnson	1.94	1.95	-0.00
AVY	Avery Dennison Corp.	0.03	0.04	-0.00
T	AT&T Inc.	1.82	1.82	-0.00
AAPL	Apple Inc.	1.58	1.58	-0.00
PG	Procter & Gamble Co.	1.85	1.85	-0.00
IBM	International Business Machines Corp.	1.71	1.72	-0.00

Tracking Error

Forecasted Tracking Error	0.10%
Historical Tracking Error	0.18%
Value at Risk	\$1,779,932

Comments:

- S&P 500 quarterly share rebalance took place on 6/20/09
- 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 and sold a combined \$400 million in February and March.
- S&P 500 quarterly share rebalance took place on 3/20/09
- S&P 500 quarterly share rebalance took place on 12/19/08
- S&P 500 quarterly share rebalance took place on 9/19/08
- S&P 500 quarterly share rebalance took place on 6/20/08
- S&P 500 quarterly share rebalance took place on 3/20/08
- Index Fund received an additional \$200 million on 3/17/08
- Index Fund received an additional \$200 million inflow on 3/7/08

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Periods Ending June 30, 2009

International Manager Performance Comparison

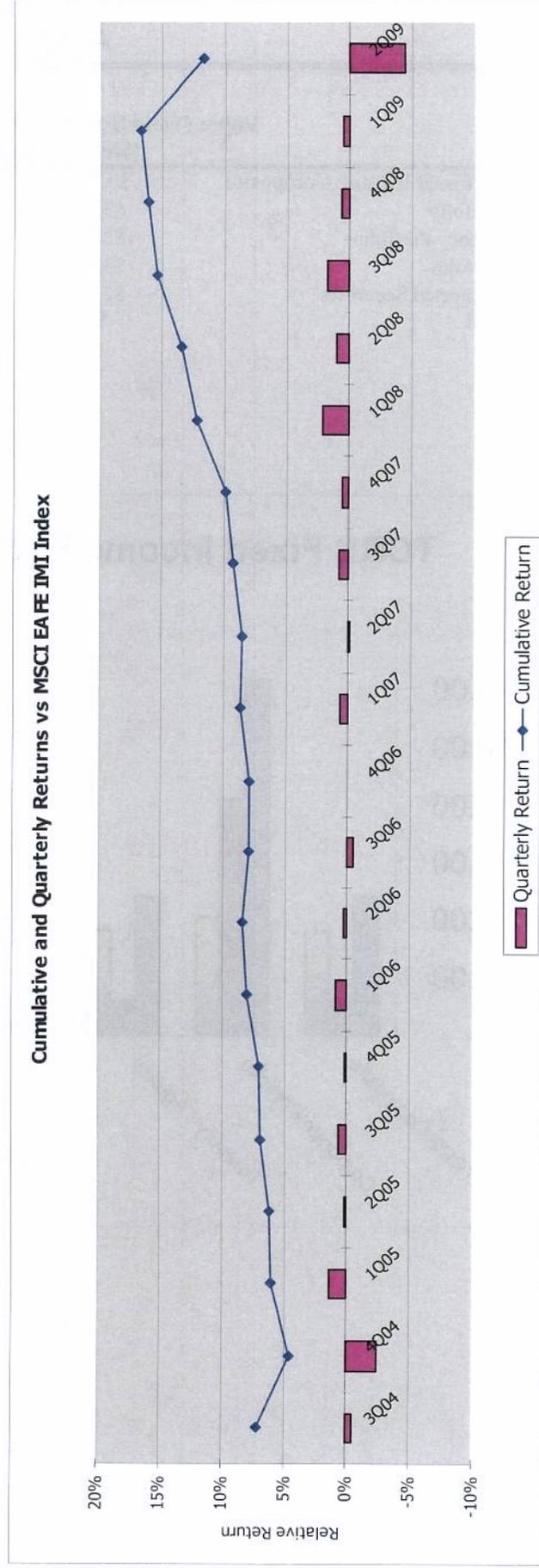
Manager returns for the quarter ending June 30, 2009

Manager	Manager Return	Benchmark	Benchmark Return
American Century ¹	17.56%	MSCI EAFE Small Cap Index	34.55%
Baring Asset Mgmt	22.42%	MSCI EAFE NET Index	25.43%
GE Asset Mgmt	23.11%	MSCI Europe Index	25.90%
Marathon	26.10%	MSCI EAFE NET Index ²	25.43%
Putnam EAFE	26.51%	MSCI EAFE NET Index	25.43%
Pyramis ⁴	33.41%	MSCI EAFE Small Cap Index	34.55%
SG Pacific	24.29%	MSCI Pacific Index ¹	25.74%
TT International	22.16%	MSCI EAFE NET Index	25.43%
Walter Scott	21.57%	MSCI EAFE NET Index ⁵	25.43%
International	22.00%	MSCI EAFE IMI ³	26.33%

Manager returns for five years ending June 30, 2009

Manager	Manager Return	Benchmark	Benchmark Return
American Century ⁴		MSCI EAFE Small Cap Index	
Baring Asset Mgmt		MSCI EAFE NET Index	
GE Asset Mgmt		MSCI Europe Index	
Marathon	6.17%	MSCI EAFE NET Index ²	2.38%
Putnam EAFE	3.49%	MSCI EAFE NET Index	2.31%
Pyramis ⁴		MSCI EAFE Small Cap Index	
SG Pacific	2.74%	MSCI Pacific Index ¹	2.44%
TT International		MSCI EAFE NET Index	
Walter Scott	6.31%	MSCI EAFE NET Index ⁵	2.64%
International	3.69%	MSCI EAFE IMI ³	2.50%

Cumulative and Quarterly Returns vs MSCI EAFE IMI Index



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

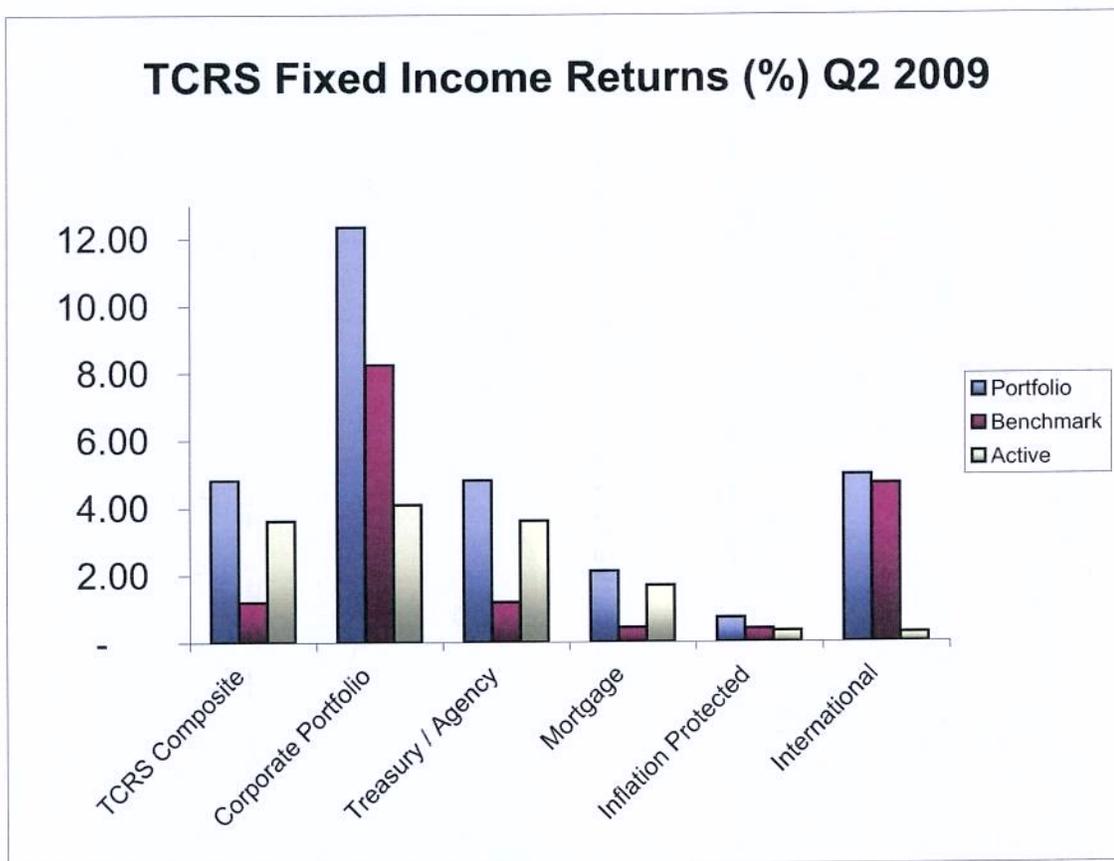
² Effective as of 5/19/06; prior was MSCI Europe Index.

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

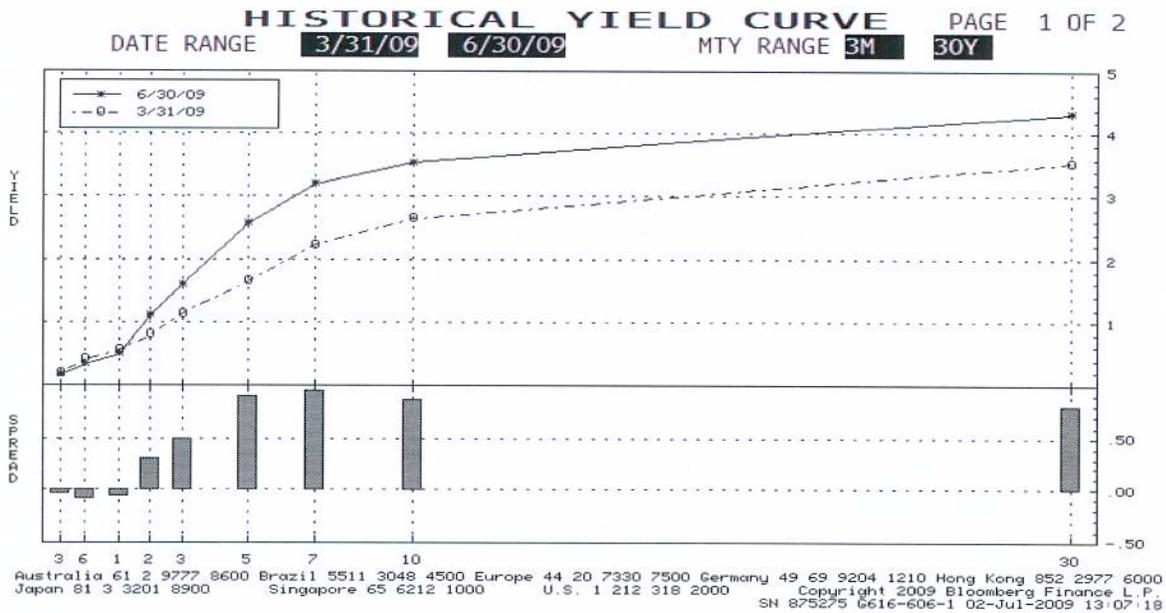
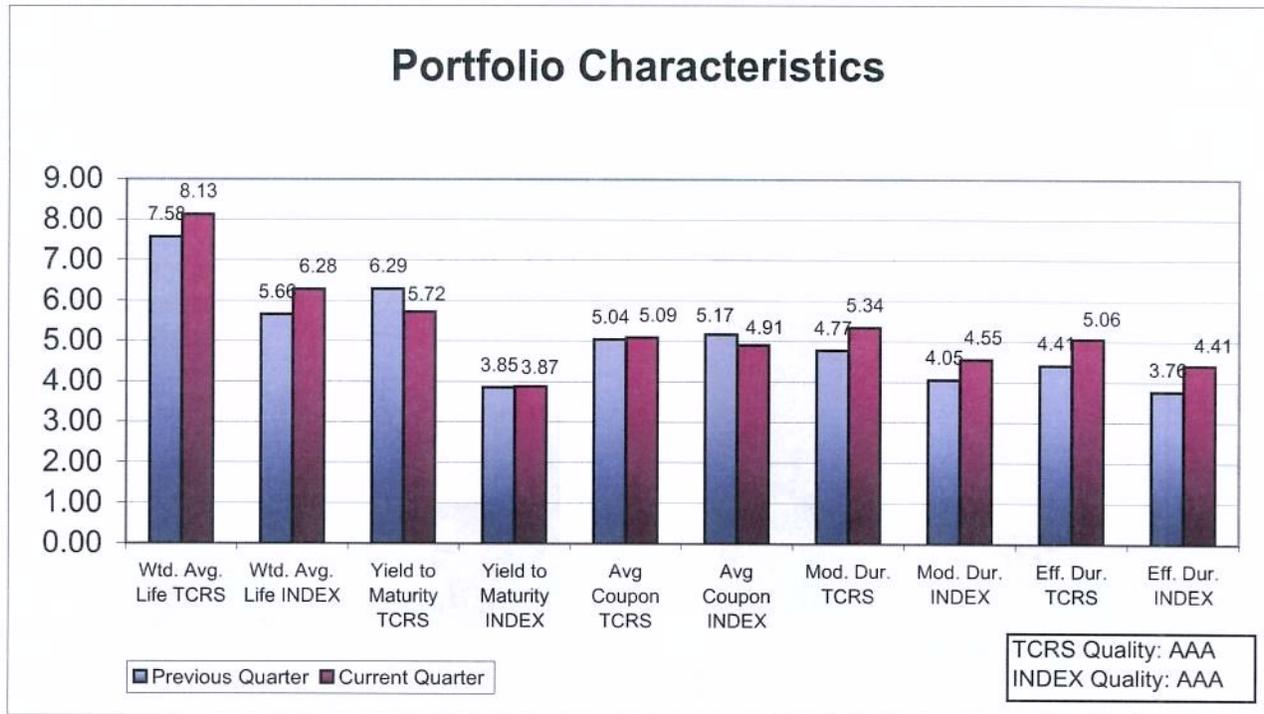
⁴ Funded 2/09.

⁵ Effective as of 2/2/09; prior was MSCI Europe Index.

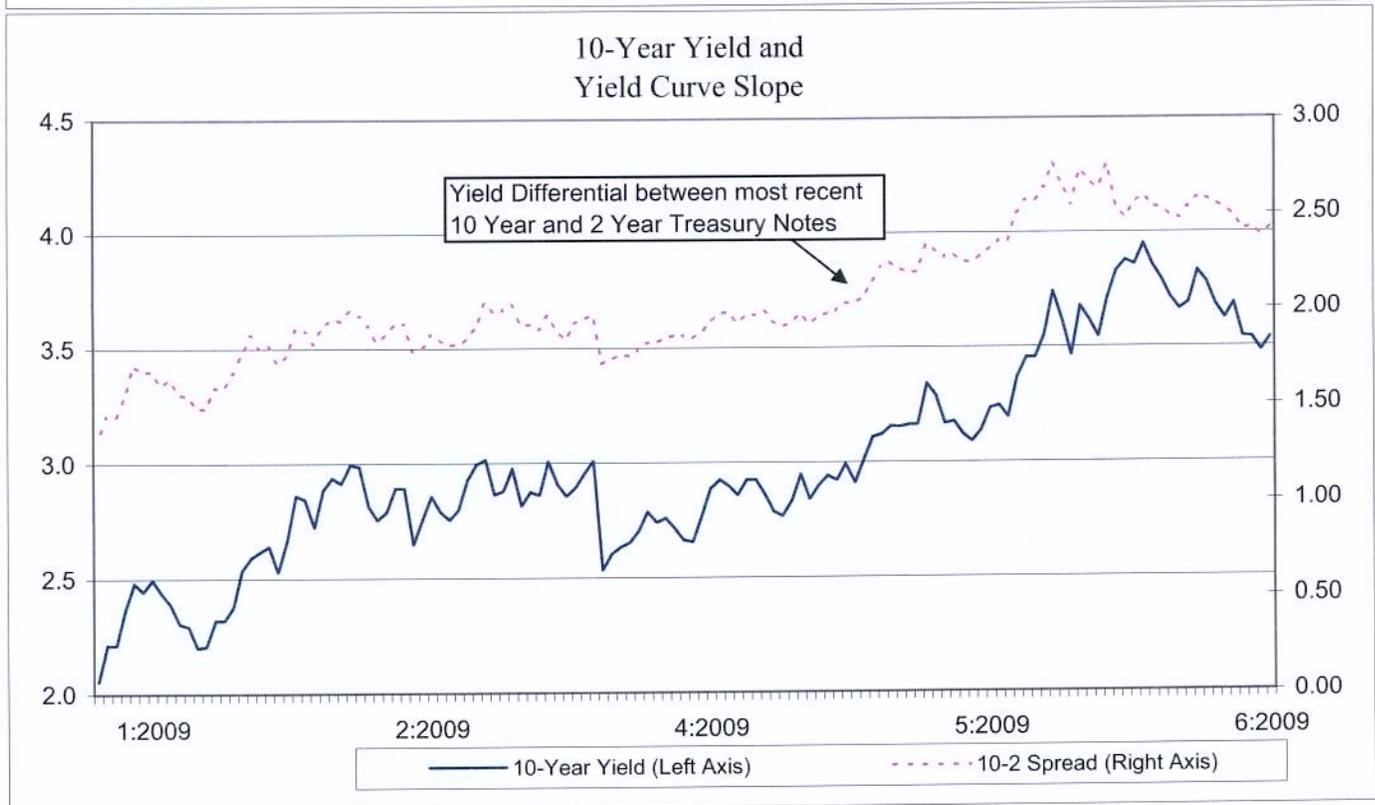
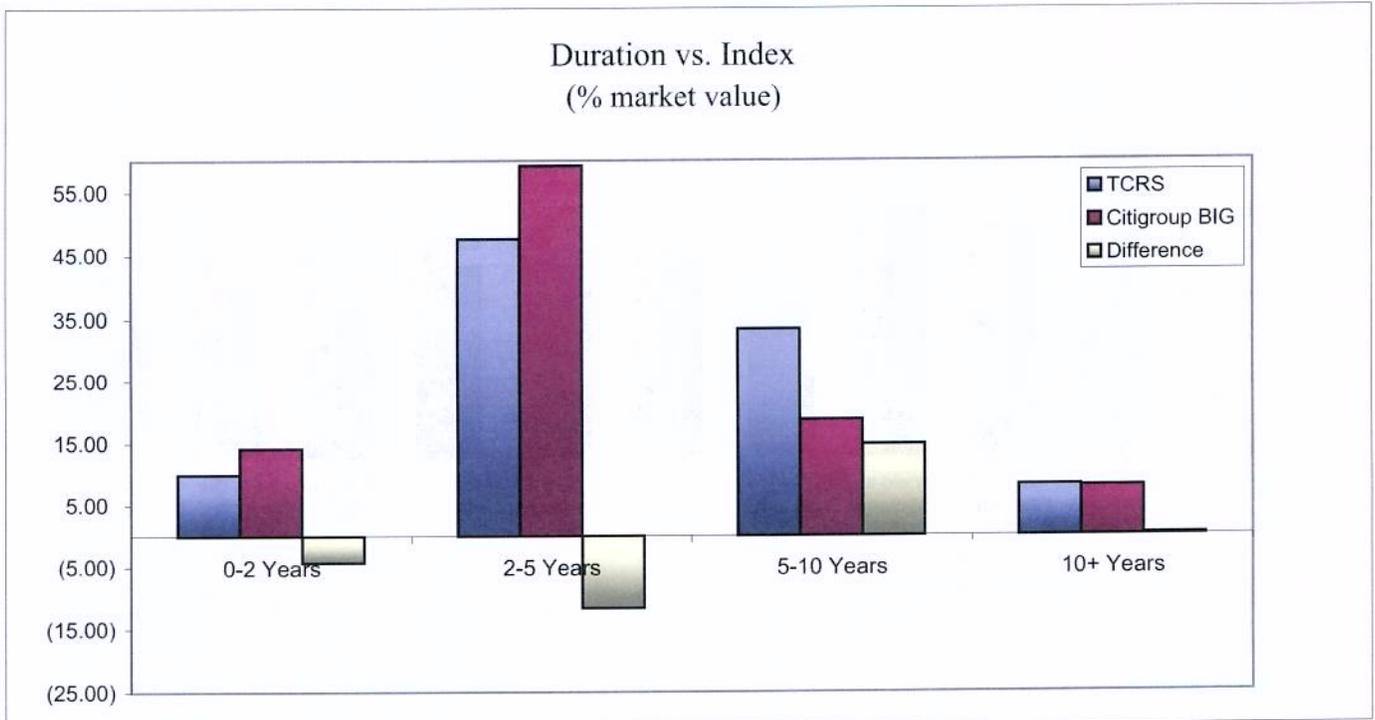
Portfolio	Value (Yield Book) (\$MMs)	Portfolio Return Q2	Benchmark Return Q2	Active Return Q2
TCRS Domestic Fixed Income Composite	\$9,587	4.81	1.20	3.61
Corporate Portfolio	\$3,022	12.35	8.26	4.09
Treasury / Agency Portfolio	\$2,350	4.81	1.20	3.61
Mortgage Portfolio	\$3,682	2.12	0.43	1.69
TCRS Inflation Protected Securities	\$2,062	0.73	0.40	0.33
TCRS International	\$771	4.97	4.7	0.27



Note: All positions and market values are as of June 30, 2009

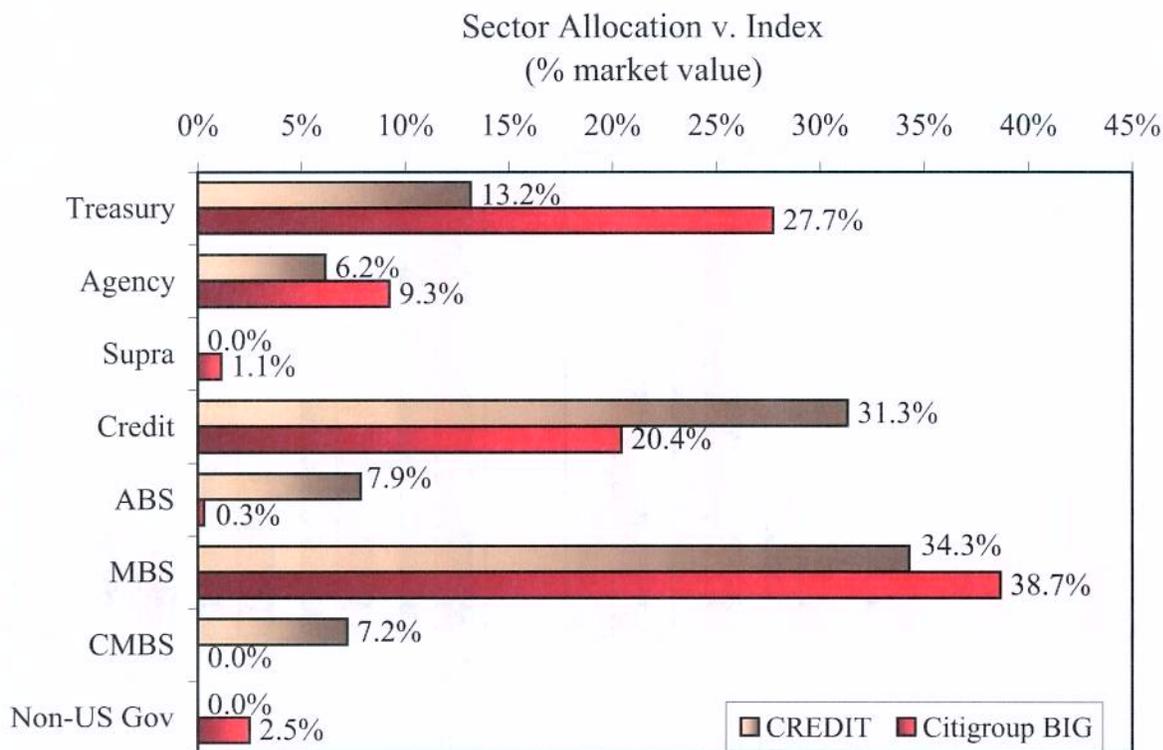


Portfolio retained a bulleted stance in anticipation of a continued steep curve.



source: Bloomberg

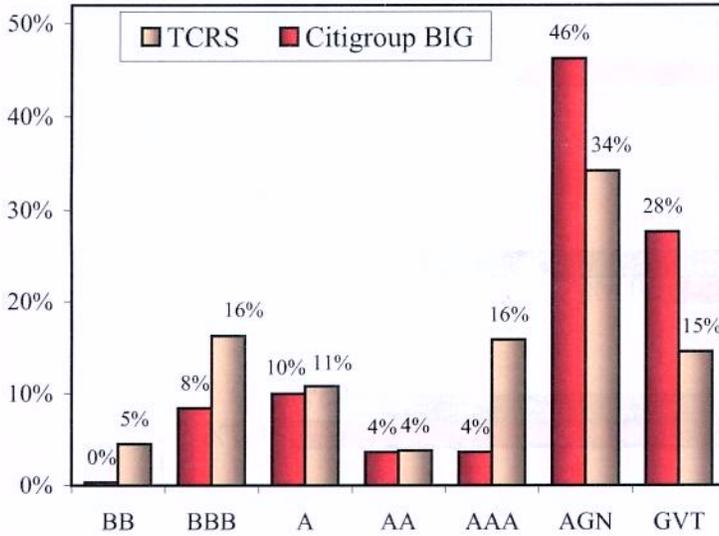
Treasury balances were reduced in favor of agency debentures.



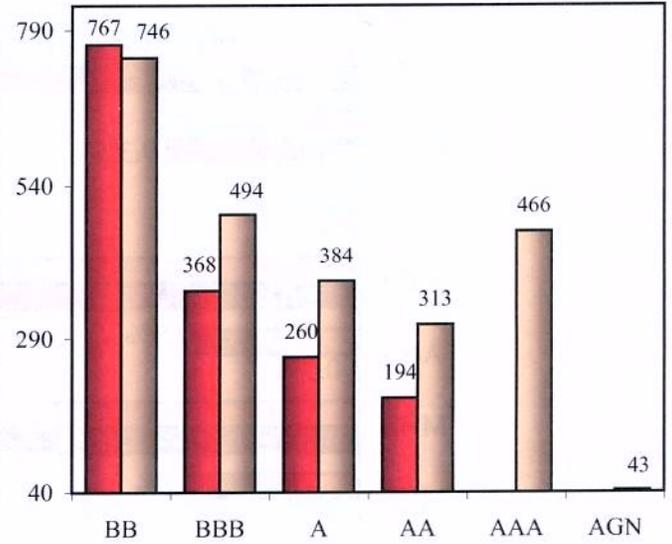
source: Yield Book

The spreads for credits under the most stress continued to tighten during the quarter. TCRS spread bias has flattened during the quarter. Incremental spread is uniform for the AA-BBB ratings.

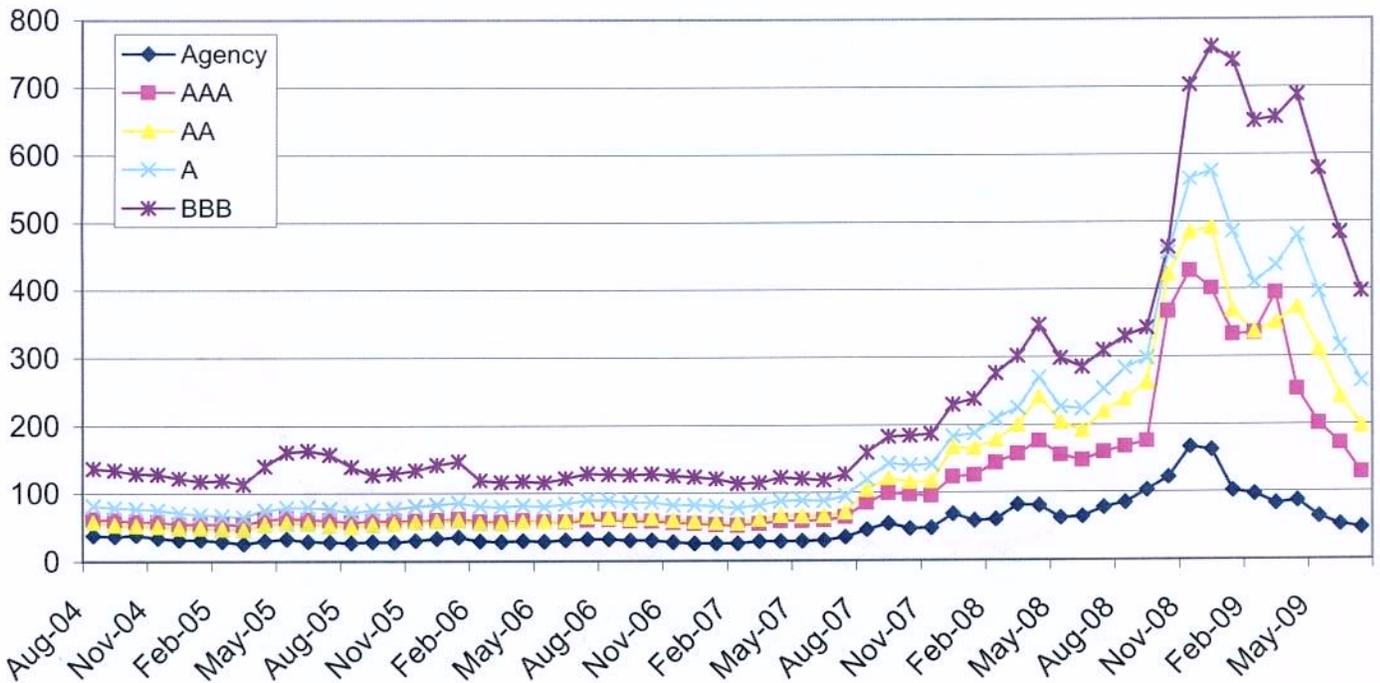
Credit Allocation v. Index
(% market value as of June 30)



OAS by Credit Allocation
(as of June 30)



Spread to Treasury by Credit Rating
(in basis points)

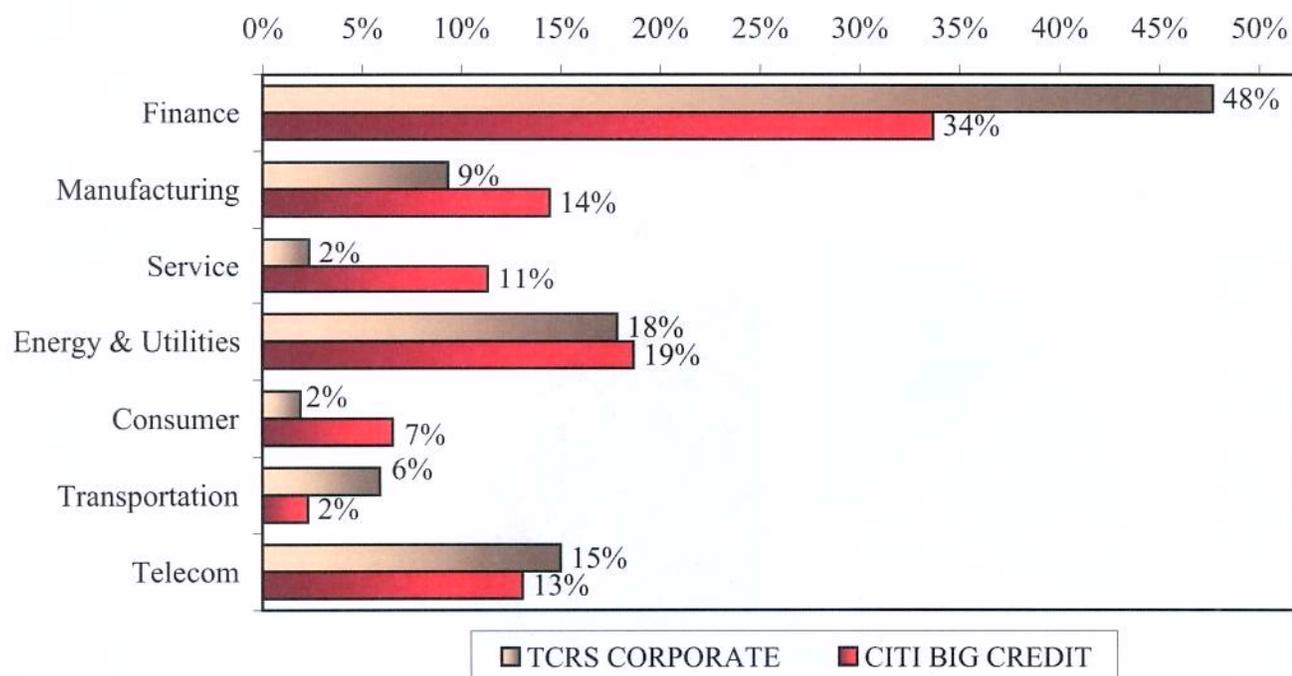


source: Yield Book

Top 5 Credit Holdings (by Market Value)	MktVal	% MktVal
BANK OF AMERICA	171,000	1.8
JP MORGAN CHASE & C O	99,882	1.0
VERIZON COMMUNICATIONS	83,863	0.9
GENERAL ELECTRIC	75,110	0.8
COMCAST CORP	72,678	0.8

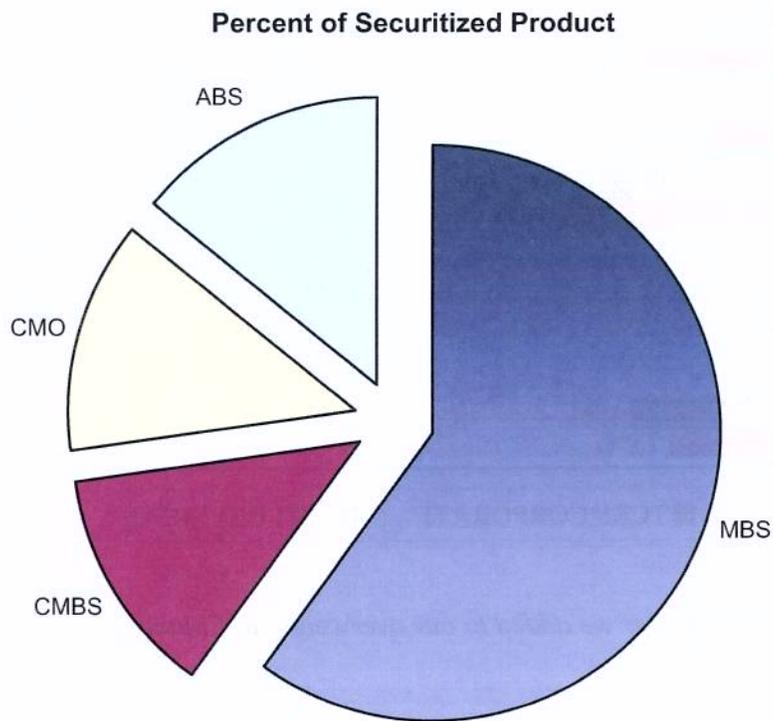
Top 5 Credit Holdings (by Dollar Duration)	\$ Duration	% \$ Duration
BANK OF AMERICA	80.99	1.7
JP MORGAN CHASE & C O	63.67	1.3
AT&T INC	60.20	1.2
GENERAL ELECTRIC	55.8	1.1
VERIZON COMMUNICATIONS	54.55	1.1

Sector Allocation v. Index
 (% market value)



During the quarter we added to our overweight to Finance.

	Market Value (\$MM - Yield Book)	TCRS	CITI	Difference
		% of portfolio		
Agency Mortgage Backed Securities	\$2,533,103	26.5	38.6	-12.2
GNMA				
15-Yr	\$2,911	0.0	0.0	0.0
30-Yr	\$308,017	3.2	5.5	-2.3
FNMA				
10-, 15- & 20-Yr	\$151,290	1.6	2.7	-1.1
30-Yr	\$1,396,045	14.6	17.0	-2.4
FHLM				
15-Yr	\$76,171	0.8	2.1	-1.3
30-Yr	\$598,669	6.3	11.3	-5.0
Agency Hybrid	\$0	0.0	0.0	0.0
Commercial Mortgage Backed Securities	\$681,443	5.6	0.0	5.6
CMO and Non Agency Passthroughs	\$675,212	5.8	0.0	5.8
Asset Backed Securities	\$742,990	6.3	0.3	6.0
Total Securitized Product	\$4,632,748	44.1	38.9	*5.2



*During the quarter the overweight in the securitized portfolio has been reduced by 2 %

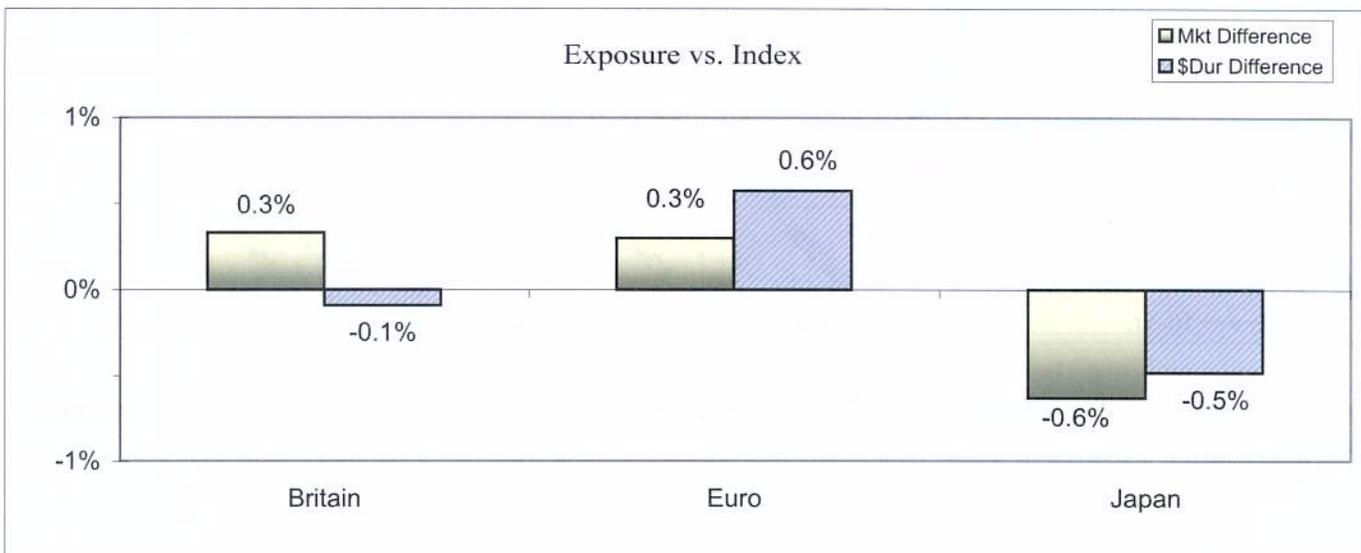
Portfolio Return: 4.97%
Citigroup Non-US G5 Index: 4.70%
Active Return: 0.27%

	TCRS		Percent of Value	Percent of \$Dur
	Yield	M. Dur		
Britain	3.61	8.67	11.7%	15.4%
Euro	2.85	5.95	31.5%	28.5%
Japan	0.96	6.51	56.8%	56.1%
	1.87	6.59	100.0%	100.0%

	Citigroup G5 Sovereign Index (ex-US)		Percent of Value	Percent of \$Dur
	Yield	Dur		
Britain	3.48	9.15	11.3%	15.5%
Euro	2.70	6.00	31.2%	27.9%
Japan	0.91	6.62	57.4%	56.6%
	1.76	6.71	100%	100%

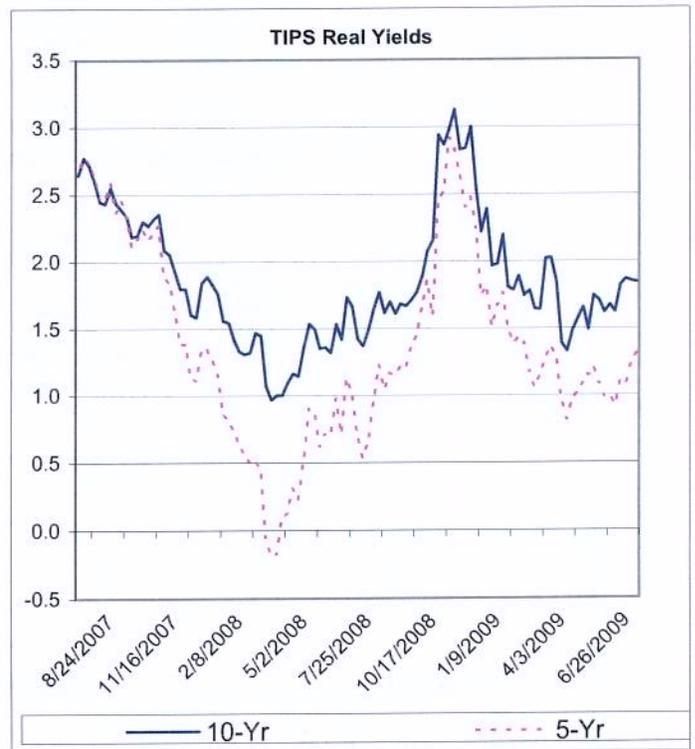
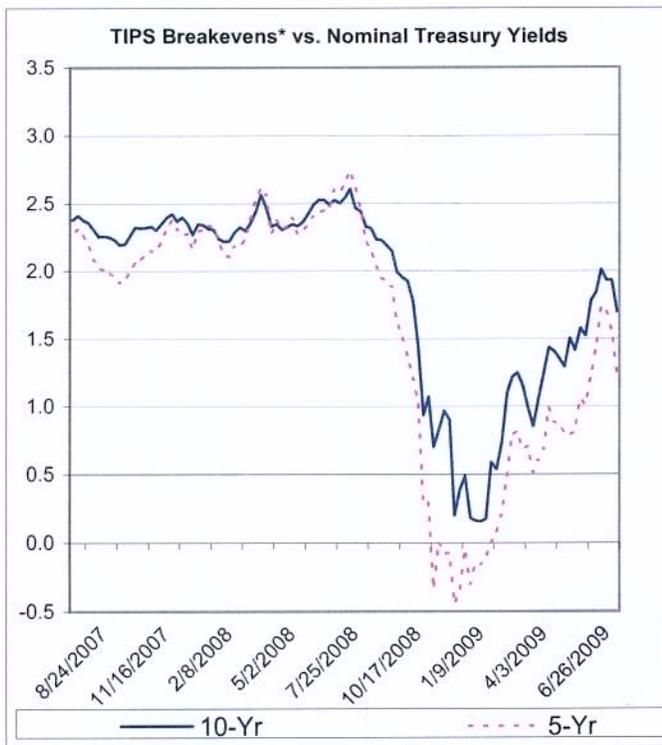
Difference

	Value Differ	M. Dur Differ	\$ Dur Differ
Britain	0.3%	-0.5	-0.1%
Euro	0.3%	0.0	0.6%
Japan	-0.6%	-0.1	-0.5%
	0.0%	-0.1	0.0%



Portfolio Value (Yield Book): \$2,062,079
 Portfolio Return: 0.73%
 Citigroup ILSI Index: 0.40%
Active Return: 0.33%

	% Market Value by Duration		
	TCRS	CITI	Difference
0-2	24.30	21.49	2.82
2-4	28.89	32.26	-3.37
4-6	14.69	12.37	2.32
6-8	2.40	2.86	-0.46
8-10	23.85	26.73	-2.87
10+	5.87	4.30	1.57



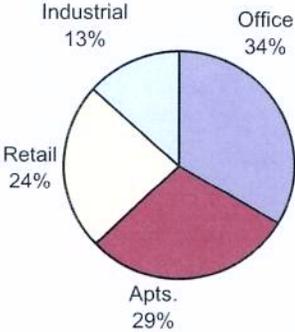
* The "breakeven" rate is the expected rate of inflation at which investment in TIPS yield the same return as investment in Treasuries

Source: Bloomberg

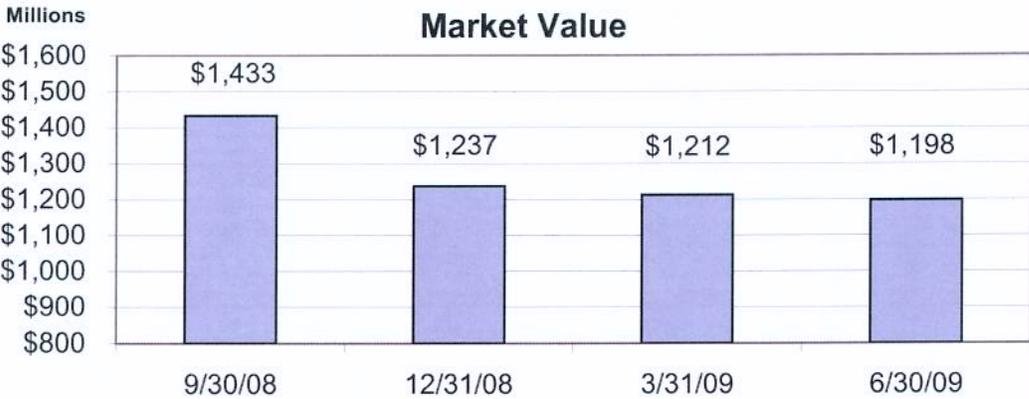
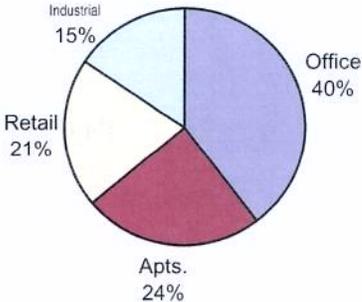
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TCRS Real Estate Portfolio Peter Katseff

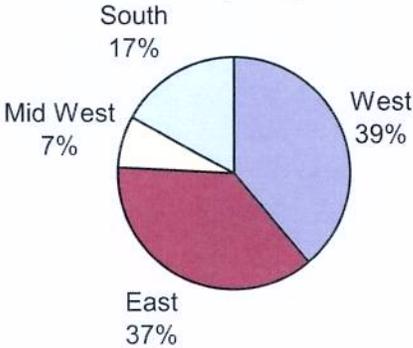
TCRS By Property Type



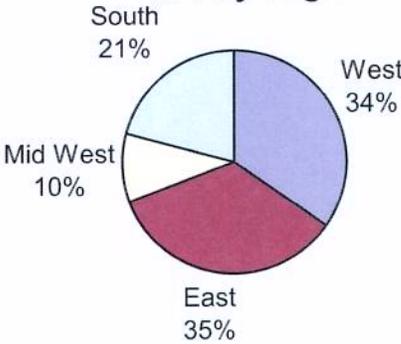
NPI By Property Type



TCRS By Region



NPI By Region



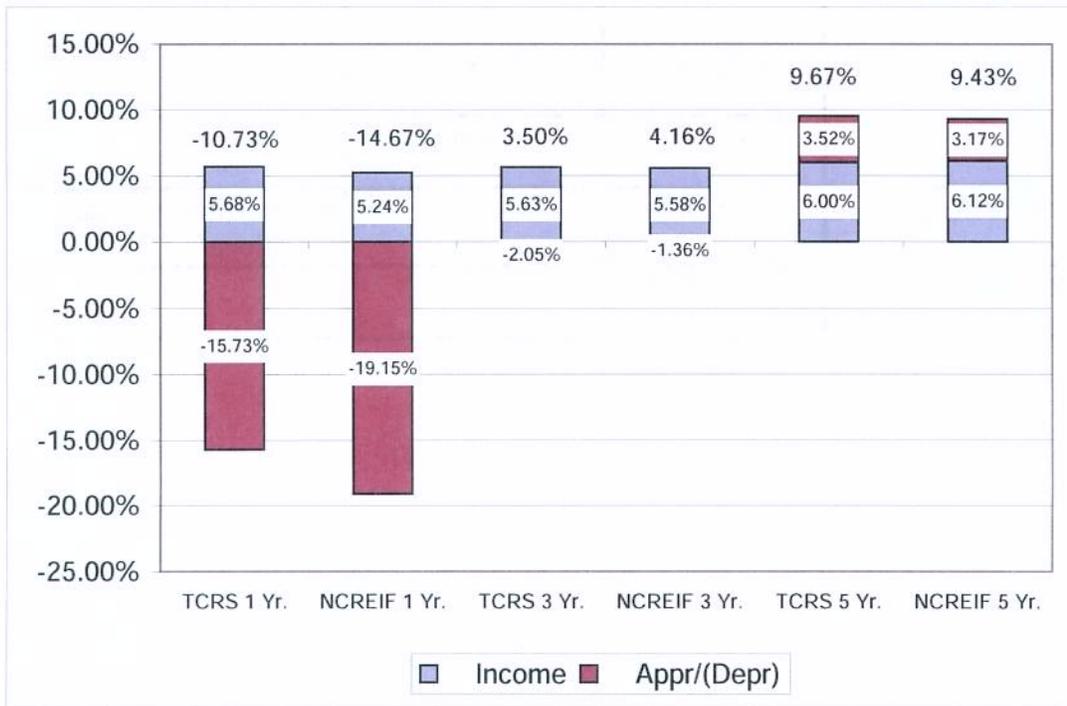
National Property Index of the National Council of Real Estate Investment Fiduciaries (the index used for US core properties).

TCRS Real Estate Portfolio Peter Katseff



Budgeted Annual Income Return for calendar year 2009 (12 months)

5.89%



Tennessee Consolidated Retirement System
Private Equity Program
Target Timeline

Action Item	Target Date	Completed Date	Note
Hire Consultant	1/13/09	1/13/09	
Hire Director	2/23/09	2/23/09	
Legal Process			
Send Legal Questionnaire	4/24/09	4/24/09	Sent to 24 firms
Legal Questionnaires Due	5/7/09	5/7/09	13 firms responded
Notify Legal Finalists	5/14/09	5/14/09	3 finalists selected
Interview Legal Finalists	5/21/09-5/22/09	5/21/09-5/22/09	
Select External Counsel	5/22/09	5/22/09	2 firms chosen
Finalize Legal Contracts	6/12/09	7/6/09	
Finalize Guidelines	6/12/09	6/23/09	
First Commitment	8/1/09	6/30/09	
Hire Junior Portfolio Manager	2010/2011		Assist with day to day operations
3% PE Target Reached	2015/2016		

Tennessee Consolidated Retirement System
Private Equity Program
Activity & Update

- **Staff Activity**

- 204 potential funds reviewed
- 35 formal “pitch” meetings (not including informational meetings)
- 13 Tennessee funds met with directly
- 11 funds visited (in their offices)
 - 4 buyout
 - 5 venture capital
 - 1 secondary
 - 1 mezzanine
- Worked directly with TNInvestco Staff to support that project

- **Recent Commitments**

- Hellman & Friedman VII - \$75m
 - Approx. \$9b fund
 - Diversified by sector, but fairly concentrated portfolios
 - Focus on domestic buyouts of market leading companies
- TA XI - \$44.3m
 - \$4b fund
 - Emphasis on growth investments
 - Unique cold-calling deal sourcing strategy
- Khosla Ventures III
 - \$750m fund
 - Firm’s leadership previously held senior roles at Kleiner Perkins, Sequoia
 - Focus on renewables/cleantech, IT

- **Other Updates**

- Access problem resurfacing
 - TCRS was cut back in TA (oversubscribed)
 - TCRS was cut out completely of another fund (oversubscribed)
 - Not given access to some funds (FOIA issues)
- IPO market showing signs of life
- PE-backed bankruptcies, especially 2005-2007 deals, continue
- Secondary market discounts appear attractive, but there has been very little actual deal volume in 2009

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		None				
Trades						
		None				
Contracts Outstanding on Jun 30, 2009						
End		None			-	
			Total 4Q FY2009	\$	-	

- 1 Move equity allocation towards allocation target.
- 2a Swap to next contract.
- 2b Swap from earlier contract.
- 3 Move equity allocation towards minimum of range.
- 4 Move equity allocation towards maximum of range.
- 5 Exchange for physical shares.
- 6 Adjust relative weight of small vs. large cap stocks
- X Contract expiration

TCRS had made a tactical reallocation to lower equity exposure and this was accomplished in part by selling all equity index future position. For the fiscal fourth quarter there were no index future positions.

When TCRS reallocates back into domestic equities it will utilize index futures as part of its strategy to obtain higher equity exposure. Should market movements make it desirable to quickly increase equity exposure then index futures are one way to access liquidity to achieve that.

TCRS has used Citigroup exclusively in FY2009 to trade index futures. An agreement with JPMorgan is being finalized.

TCRS Currency Derivative Report

Currency Forwards Activity Jesse Picunko, CFA

2009 2nd Quarter Activity

INTERNATIONAL FIXED INCOME (1333)

NO TRANSACTIONS

Currency Overlay Account (1333)

Trade Date	Value Date	Notional	Currency	Broker	Gain/Loss
3/6/2009	8/10/2009	275,000,000	EUR	STATE ST	(46,308,625)
3/6/2009	8/10/2009	42,000,000,000	JPY	HSBC	(13,009,964)
3/6/2009	8/10/2009	150,000,000	GBP	NORTHN	(40,092,000)
					(99,410,589)

The currency overlay trades on 3/6/2009 represent part of the risk reduction initiative that was implemented in February and March of 2009. The currency overlay neutralized approximately one quarter of the entire equity and fixed income currency risk to the fund.

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) – Progress continues to be made, albeit slowly. The communications hardware to handle the increased data traffic has been installed and should be tested soon. Contract language discussions continue between TCRS and Bloomberg legal regarding payment methods because the OMS can not be paid for using soft dollars. The attorney for TCRS has submitted contract language that will hopefully be agreeable to both parties and the implementation should begin soon. The portfolio management and accounting software that is provided by QED is scheduled to be upgraded in order to accommodate the additional demands of the Bloomberg OMS. New network servers have been ordered and are due to be installed late September, along with user training for the software modifications.

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.

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.

COMMISSIONED DOLLAR REPORT

<u>Vendor</u>	<u>Estimated 2008 to 2009 Commitment with Vendor</u>	<u>Service 7/1/08 - 6/30/09</u>	<u>Payments 07/01/08-06/30/09</u>
Abel/Noser Corp.	65,000	Trade Cost Execution Analysis	48,750
Bloomberg	630,000	Fixed Income Analytics/Equity Research	366,947
Council of Institutional Investors	30,000	Corporate Governance	30,000
Credit Sights	76,000	Corporate Bond Research	76,000
Dow Jones Information Service	32,000	News Retrieval Database	30,593
Factset	201,000	Multifaceted Equity Research Database & Analysis	201,192
Glass, Lewis & Co.	25,000	Proxy Research	25,000
Grants Interest Rate Observer	1,550	Economic Research	1,550
Market News International Inc.	5,330	Fixed Income Bullet Points	5,740
MSCI Global Index Monitor	1,000	International Equity Benchmark	1,000
Oracle USA, Inc.	10,000	Crystal Ball Decision Optimizer	4,868
Pension Fund Data	2,000	Pension Fund Performance	2,000
Quant. Service Group	105,000	Quantitative Research	105,000
Thomson-Reuters Fin ¹ (IBES)	14,500	Historical Consensus Est.	14,342
Thomson-Reuters Res. (Multitex)	67,500	Economic Research	69,872
Rhodes Analytics	20,000	Strategy, Sector & Industry Rotation, and Asset Allocation	20,000
Standard & Poor's	286,162	Quantitative Platform/Historical Database/ Fixed Inc. Cr. Analysis	287,912
Stock Exchanges	35,000	NYSE, AMEX, NASDAQ, Options, Futures	34,788
The Yield Book	102,600	Fixed Income Analytics	104,079
TRACS Financial	1,500	Money Market Research	1,500
TradeWeb Service	75,000	Online Bond Markets	<u>66,262</u>
Total:	\$1,786,142		\$1,497,395

