

INVESTMENT REPORT

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

**Third Quarter
Fiscal Year 2013 - 2014**

January 1, 2014 – March 31, 2014

**Prepared for:
Board of Trustees**

June 27, 2014

Investment Advisory Council

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

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

The current members are as follows:

<u>Council Member</u>	<u>Expiration of Term</u>	<u>Appointed Term</u>
Frederick S. Crown, Jr., CFA 124 Longwood Place Nashville, TN 37215 Phone: 615-347-0343 E-mail: crownfl@gmail.com	June 30, 2017	5 year
Susan Logan Huffman, CFA Managing Director Reliant Investment Management, LLC 1715 Aaron Brenner Drive, Suite 504 Memphis, TN 38120 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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Fiscal Year 2013-2014

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TABLE OF CONTENTS

Page

Minutes of June 5, 2014 IAC Meeting	1
Portfolio Overview.....	5
Equity Portfolio.....	7
Fixed Income Portfolio	19
Real Estate Portfolio	27
Private Equity Portfolio	29
Strategic Lending Portfolio.....	33
Derivative and Currency Activity	36
Operations Report	41
Appendix.....	

Minutes from the Investment Advisory Council Meeting June 5, 2014

Mr. Michael Brakebill, Chief Investment Officer, convened the meeting at 10:00 a.m. CT in the 13th Floor conference room of the Andrew Jackson State Office Building. Investment Advisory Council (IAC) members present included Mr. Fred Crown, Ms. Susan Huffman, Mr. George Stadler and Ms. Carol Womack. Investment Staff members present included Michael Brakebill, Albert Chang, Derrick Dagnan, Carrie Green, Kushal Gupta, Matthew Haitas, Arthur Henderson, Roger Henry, Michael Keeler, Thomas Kim, Grant Leslie, Tim McClure, Matthew McGanity, Rhonda Myers, Andy Palmer, JP Rachmaninoff, Rachel Roberts, Jim Robinson, Jennifer Selliers, Whit Shofner, and Roy Wellington.

Mr. George Stadler, Chairperson of the IAC, called the meeting to order and began by proposing that the minutes from the previous IAC meeting on March 24, 2014 be adopted. There were no questions regarding the minutes and Ms. Susan Huffman made a motion to adopt. The motion was seconded by Mr. Crown and unanimously approved. Mr. Stadler turned the meeting over to Mr. Brakebill to discuss current initiatives and to provide a review of investment performance.

Mr. Brakebill began his discussion by providing a brief overview of Fund performance. He noted that the Fund continues to perform well, totaling \$42.2 billion at the end of May, up from \$41.1 billion at the end of March. As of March 2014, the Fund generated an absolute (relative) return of 2.5% (-0.1%) for the quarter, 10% (+0.2%) on a 1-year basis, 9.7% (+0.8%) on a 3-year basis, and 13.1% (0.0%) on a 5-year basis. From a tactical allocation standpoint, the Fund remains neutral given the recent run up in equities.

Mr. Brakebill noted that the Investment Division remains busy organizationally. From a personnel standpoint, a trader, fixed income and mid cap position are all currently open. Two summer interns recently began working in the department and Grant Leslie has been hired to work with Daniel Crews and Carrie Green in Private Equity.

Staff members have been active with due diligence activities in Private Equity, Securities Lending and Real Estate as well as various process improvement and compliance enhancements. The Investment Division has issued request for proposals (RFP) for both a Custodian and a Real Estate Consultant. Finally, the Group is working on the TN Promise Program. Mr. Brakebill then asked Michael Keeler to discuss equities.

The Equity team is looking to construct a tactical asset allocation model and is also investigating the prospects of an active micro-cap strategy. Michael Giggie is backing up Carrie Green and Derrick Dagnan on managing the S&P 500 and 600 index funds.

Mr. Keeler then moved the discussion to performance, noting that Domestic Equities outperformed the S&P 1500 Index, largely due to a mild overweight in small and mid-cap stocks

and good relative performance in the Sector Fund. The Group reduced its small and mid-cap exposure in the current quarter to accommodate funding for the strategic lending and private equity portfolios and is currently overweight large cap stocks. Mr. Keeler then asked Kushal Gupta to discuss Quant Fund performance.

Kushal Gupta indicated that the Quant Fund had underperformed 0.3% on a relative basis (+0.4% on an absolute basis) during the quarter, largely due to elevated geopolitical concerns and Janet Yellen's guidance stumble that hit high momentum names hard and boosted performance of low multiple stocks. Mr. Gupta ended his discussion saying that the team had increased its tracking error modestly for the Quant fund this quarter to better diversify and to increase the potential for excess returns. At that point, Mr. Keeler asked Mr. Wellington to discuss Sector Fund performance.

Mr. Wellington began his comments by pointing out that the Sector Fund continues to be positioned for the middle of economic expansion. During the first quarter, the Sector Fund outperformed its S&P 500 benchmark by 0.74% and saw particularly good stock picking in overweight sectors like Industrials and Information Technology. The team continues to build exposure to good stock ideas and avoid loading up on stocks that move together. Mr. Wellington then handed the discussion back to Mr. Keeler to discuss Mid-Cap Fund performance.

Mr. Keeler noted that the Mid Cap Fund outperformed the S&P Mid-Cap 400 return by 0.70% during the quarter with good stock selection in the Consumer Staples, Technology and Industrial sectors somewhat offset by stock selection difficulties in the Health Care and Materials sectors. Mr. Keeler then asked Mr. Wellington to discuss International Equity performance.

Mr. Wellington mentioned that International Equity managers as a group fell short of meeting their benchmarks for the quarter largely due to being underweight Europe and European financials in particular. European banks had good performance on signs of support from the European Central Bank and not due to any signs of actual loan or income growth. Mr. Wellington and Mr. Brakebill noted that TCRS staff has met and remain comfortable with all of the managers that have trailed in the past year. Mr. Keeler then passed the discussion to Andy Palmer to discuss fixed income.

Mr. Palmer began by discussing how the team is responding to changing markets and indicated that the Group is looking at ETF bond and emerging market strategies that could boost alpha. The Staff is also working to develop a model to analyze country-specific risk to help identify good return opportunities globally. Mr. Palmer mentioned that Albert Chang has been actively working on mortgage-backed securities and that the TIPS portfolio matched the benchmark during the quarter. At the conclusion of Mr. Palmer's comments, Mr. Brakebill asked JP Rachmaninoff to discuss the Real Estate portfolio.

Mr. Rachmaninoff began by reviewing portfolio performance, indicating that for the 1-year period the TCRS portfolio modestly underperformed the NCREIF Property Index, the Fund's

current benchmark. He also indicated that over the 3-year, 5-year and 10-year periods, the underperformance was wider, primarily due to three individual investments, one of which was 100% vacant due to the move out of the single tenant occupant. Mr. Brakebill then reminded the Committee members that he continues to have concerns about the potential for an inherent bias in the NPI as a benchmark. Mr. Rachmaninoff indicated that he hoped to devote more time evaluating alternative benchmarks once the new real estate consultant agreement was in place. Mr. Rachmaninoff concluded by mentioning that good progress continues to be made in moving towards the strategic diversification targets for the TCRS portfolio through both commingled fund investments and direct separate account investments. He indicated that three separate account investments were in the pipeline. In addition, two commingled fund commitments were closed in the second quarter; one being a NYC value add office strategy and the second a national value add multifamily strategy. Mr. Brakebill then asked Carrie Green to discuss the Private Equity portfolio.

Mrs. Green reviewed quarterly performance and expected performance for the Private Equity program, including an update on current funds in the pipeline for 2014. Mr. Brakebill noted that the Private Equity exposure remains small today but continues to build as commitments are made and drawn down. Mr. Leslie discussed private equity market conditions at a high level, addressing industry fundraising, investment and distribution statistics. Most notably, for calendar year 2013, the global private equity industry had its best fundraising year since 2008, and buyout sponsors distributed more capital than they invested. For the first quarter of 2014, venture capital fundraising in the U.S. accelerated meaningfully as domestic venture capitalists had a particularly strong quarter in generating liquidity for investors while domestic buyout sponsors generally decelerated their pace of fundraising, investing, and distributing capital to investors. Mr. Brakebill then asked Derrick Dagnan to provide an update on Strategic Lending.

Mr. Dagnan provided an update on the high yield bond and loan market and the status of several new relationships that have recently begun. In addition, Mr. Dagnan also discussed existing managers. Mr. Dagnan noted that the Strategic Lending group is now focused more on portfolio monitoring. Mr. Brakebill then asked Tim McClure to provide an update on Trading and Operations.

Mr. McClure gave an update on trading and operations for the quarter. Mr. McClure noted that a process is underway to recruit a new equity trader. Mr. McClure mentioned that there were several new projects underway for his group including, replacing the mainframe system for the LGIP program, developing a new compliance report for the cash trades, and developing a new system to automate the collateral pledge and release process for public deposits. Trade volume for the quarter was down slightly compared to the previous quarter. Mr. McClure then introduced Roger Henry to discuss Securities Lending.

Mr. Henry provided a brief summary covering the Securities Lending program, which began on January 30, 2014. As of May 12, 2014, TCRS Securities Lending earnings totaled \$4.2 million

and the average on loan balance since inception was \$2.2 billion with a spread of 66 bps. He then stated that emerging market equities have been the top earner at 44% of the total earnings followed by domestic equities at -26%, international equities at -17%, and fixed income at -13%. Mr. Henry noted that the top five borrowing counterparties were J.P. Morgan, Citigroup, Credit Suisse, Morgan Stanley, and Goldman Sachs. Mr. Henry completed his summary by stating that overall, the Securities Lending program was operating very well and running very smooth. He then gave an updated TCRS earnings total of \$5.6 million as of June 6, 2014. Mr. Henry stated that considering the updated earnings figure, TCRS is on track to hit the annual earnings projection of \$11 million.

At that point, Mr. Brakebill made concluding remarks. Members of the Investment Advisory Council had no additional questions and Chairman Stadler asked for a motion to adjourn. Mr. Fred Crown motioned to adjourn the meeting and the motion was seconded by George Stadler and unanimously approved. The meeting adjourned at 11:55 a.m. CT.

Performance Review

March 2014

Absolute comparison

- 1 quarter return of 2.5%
- 1 year return of 10.0% (median fund did 11.7%)
- 3 year return of 9.7% (median fund did 8.8%)
- 5 year return of 13.1% (median fund did 14.4%)
- 7 year return of 5.6% (median fund did 5.3%)

Benchmark (relative) comparison

- Qtr return lagged allocation index by 0.1%
- 1 year return beat allocation index by 0.2%
- 3 year return beat allocation index by 0.8%
- 5 year return matched allocation index

Peer comparison

- 1 quarter return ranked at 5% (0% = best)
- 1 year return ranked at 72% (0% = best)
- 3 year return ranked at 22% (0% = best)
- 5 year return ranked at 75% (0% = best)
- 7 year return of 5.6% is 28% (0% = best) (median fund did 5.3%)

Risk Adjusted Returns (Sharpe Ratio)

The Sharpe ratio measures the amount of return generated per unit of risk taken.

TCRS beat 88% of peers as measured via the Sharpe ratio for the trailing 3 year period and 84% for the trailing five year period.

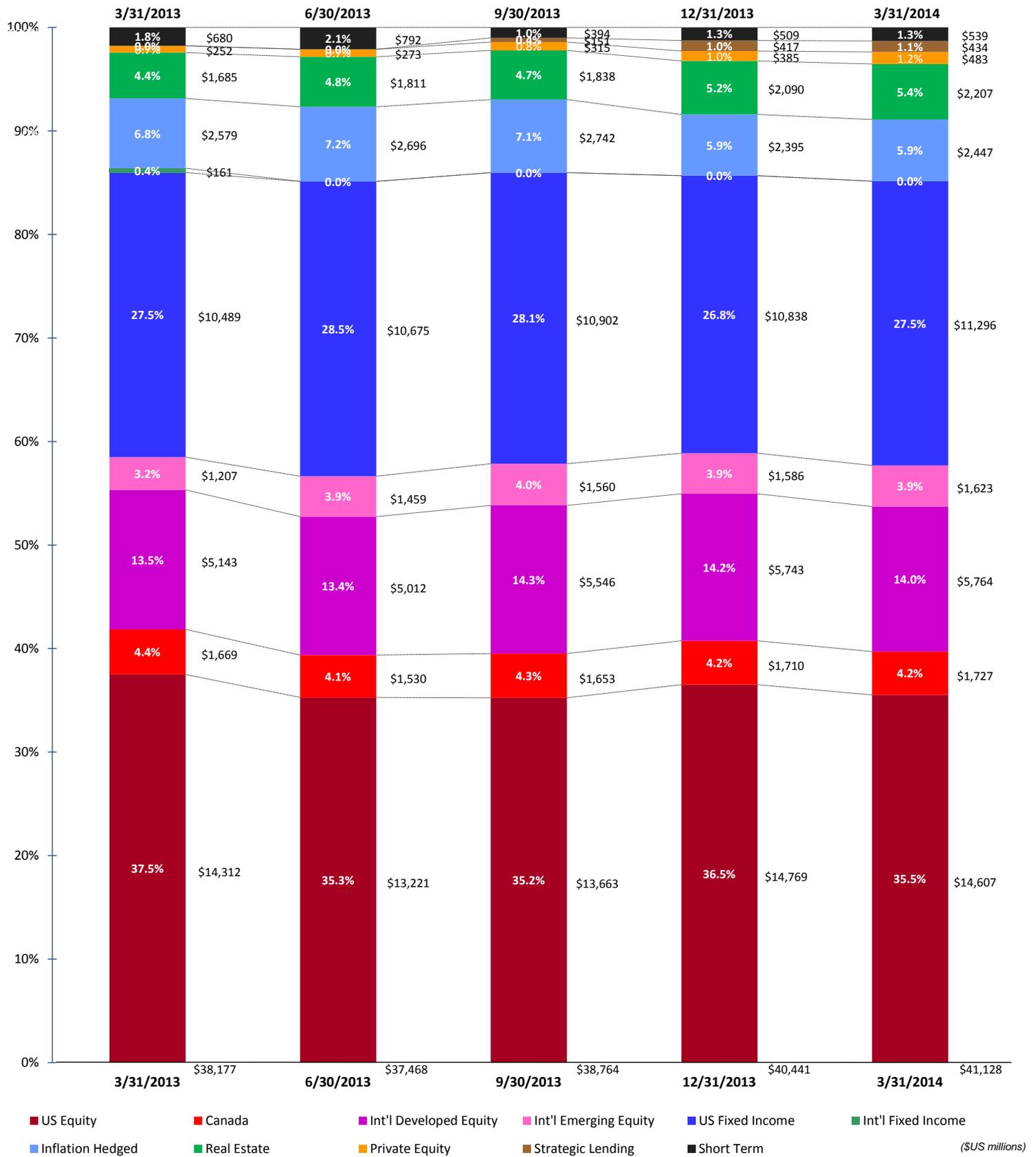
Key Initiatives

March 2014

- Personnel/Recruiting
 - Trader
 - Fixed Income Portfolio Manager or Analyst
 - Domestic Equity Portfolio Manager or Analyst
 - Summer Intern Program
- Private Equity Due Diligence
- Strategic Lending Due Diligence
- Tactical Allocation
- Process Improvements
 - SPIF/LGIP Compliance Monitoring
 - Collateral Pool Pledge and Release Automation
 - Brokerage and Soft Dollar Allocation Processes
 - Legal processes for PE, SL, RE
- Securities Lending
- Custodial RFP
- Real Estate Consulting RFP
- TN Promise Program

TCRS Asset Allocation

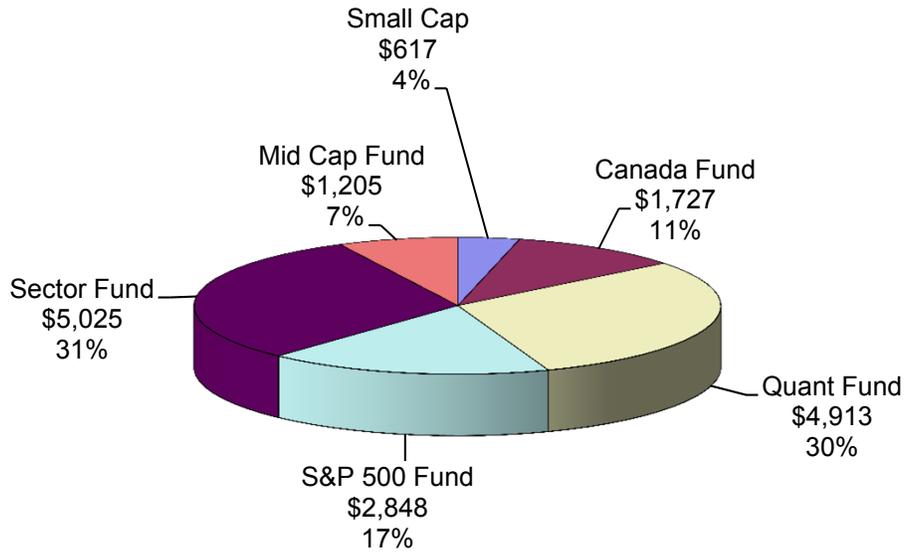
March 2014



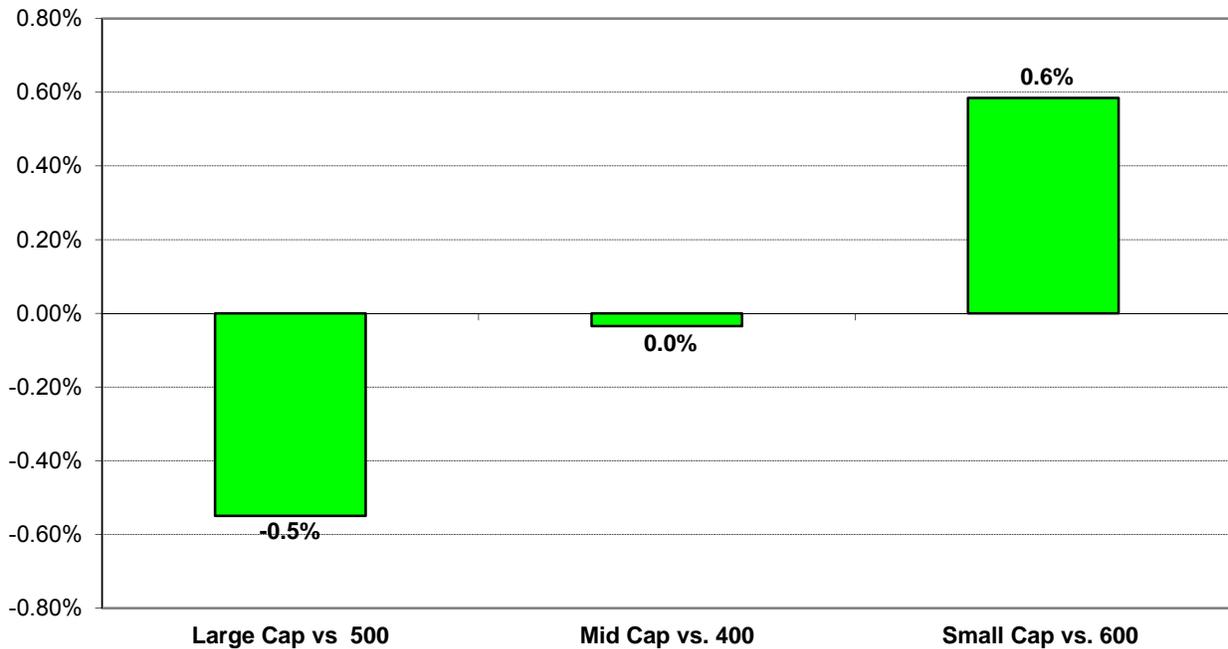
Domestic Equity Portfolio Overview

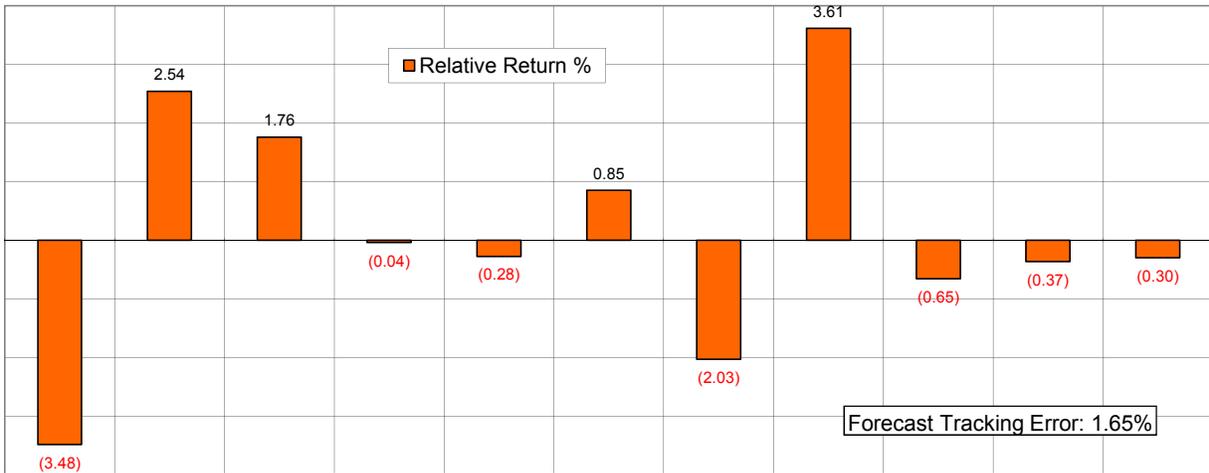
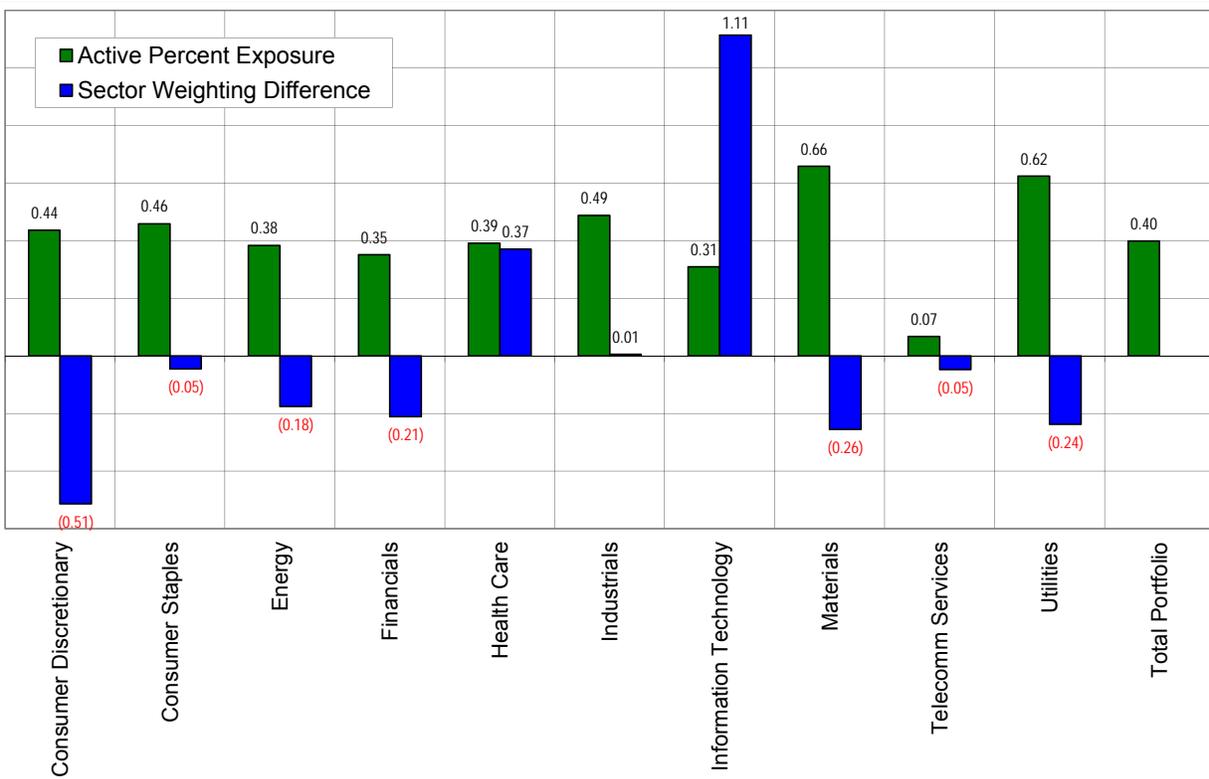
Michael Keeler, CFA

TCRS North American Equity Funds



TCRS Cap Weights vs. S & P 1500 Composite



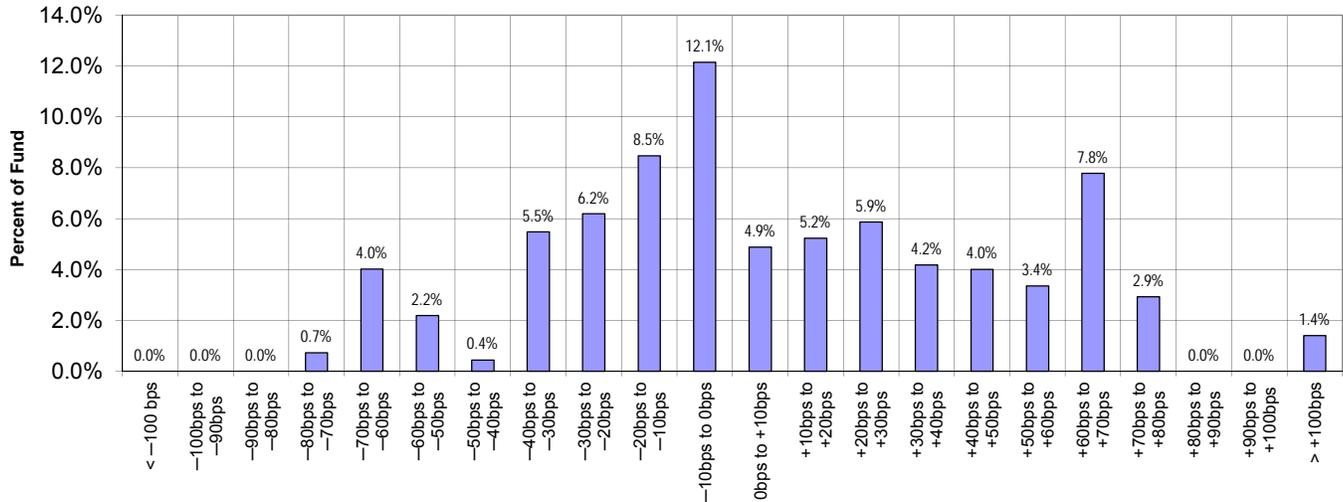


Although the markets have largely recovered from the January correction, due in large part to the fears of slower growth, it was a rough first quarter, with the S&P 500 up 1.3% year-to-date. Adding to the volatility was, when in March, the stocks reacted adversely to the Federal Reserve chairwoman Janet Yellen's first press conference guide to the markets, that the first hike in short-term interest rates will come sooner than expected. The negative reaction reversed quickly as many Wall Street economists thought that Yellen did not mean to intentionally say that, and misspoke. Geopolitical concerns have returned to the forefront this quarter, with instability in Turkey resurfacing, and the crisis in Ukraine that has soured relations between Russia and the US.

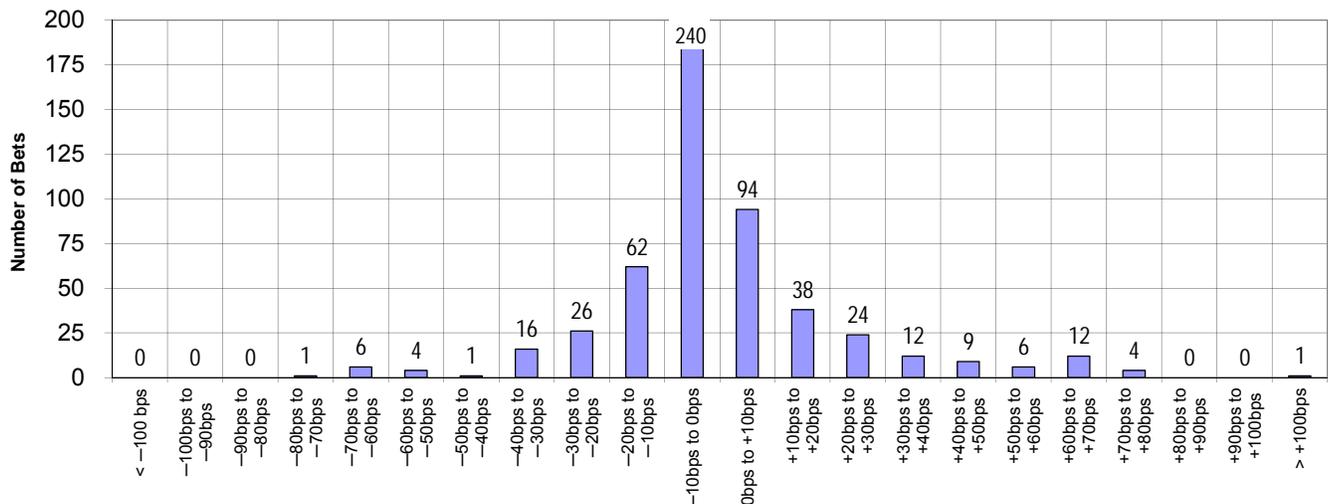
Amid an increase in market volatility, utilities emerged as the top-performing S&P 500 sector during the quarter, with health care also outpacing the market by a healthy margin. Consumer discretionary, the best performer for 2013 overall, struggled in the first quarter of 2014. Value generally outpaced growth, with mid-cap stocks topping both large- and small-cap stocks. In this quarter, the Russell 1000® Value Index's 3.02% mark compared favorably with 1.12% for the Russell 1000 Growth Index.

The quant models underperformed in the quarter and the portfolio had a 33 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, while still low and under 2, was increased slightly to better diversify and to increase the potential for excess returns, to that of previous quarter.

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



Number of Individual Stocks in Bet Size Bins

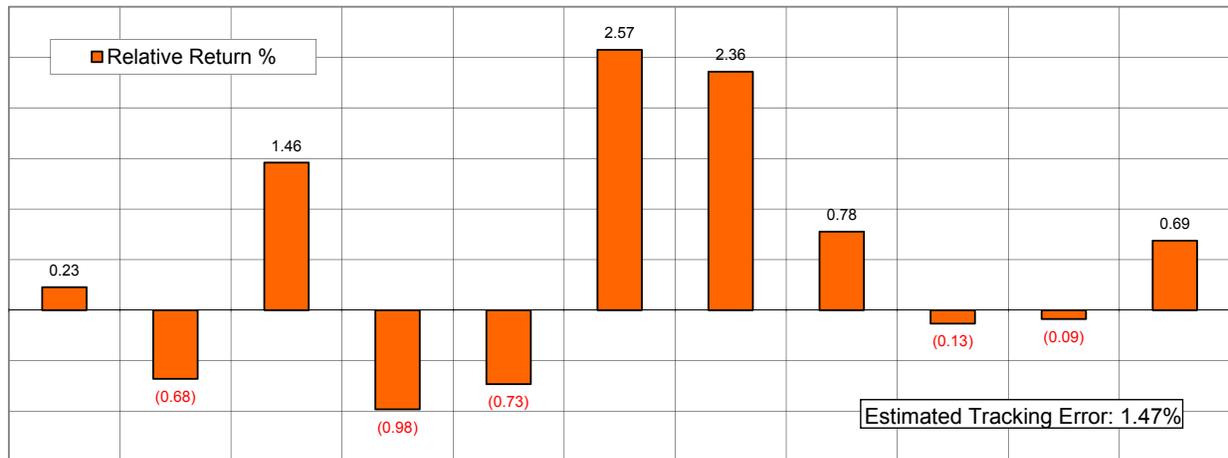
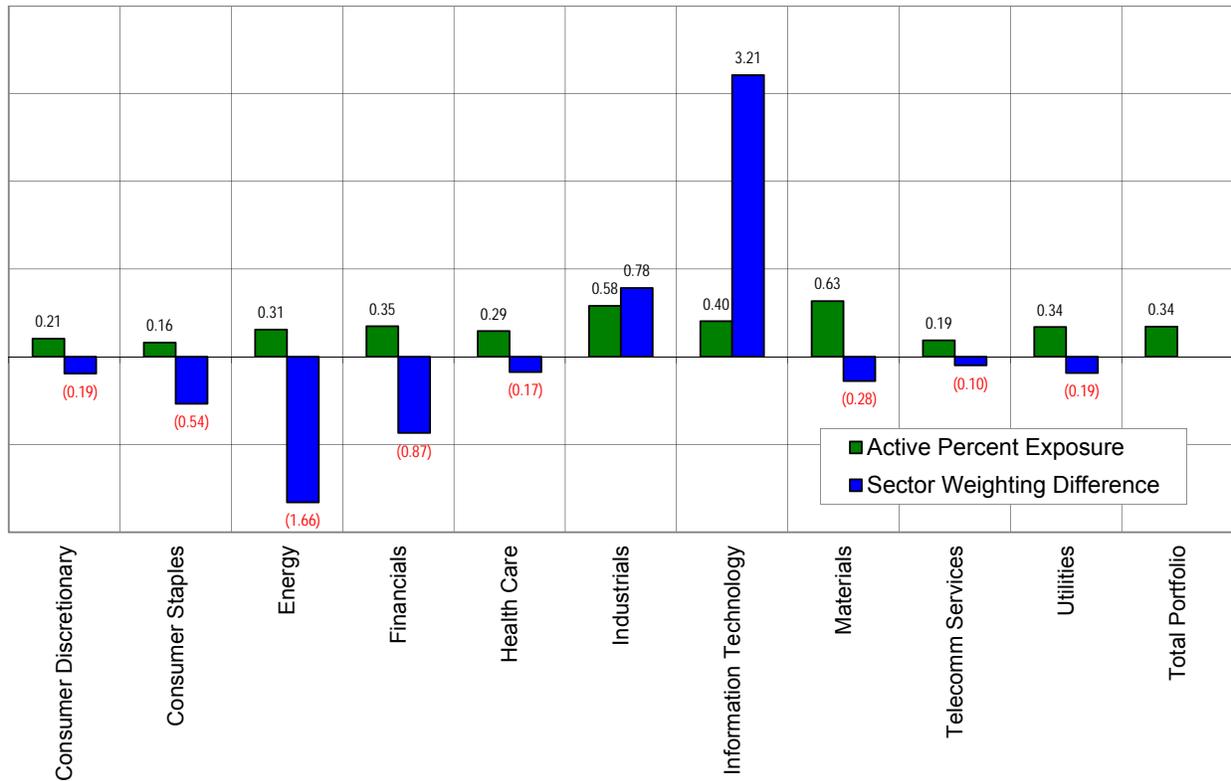


Largest Overweights by Stock in Fund

Ticker	Description	Bps Over
GOOGL	Google Inc. Class A	141
DOW	Dow Chemical Company	75
CVS	CVS Caremark Corporation	74
AAPL	Apple Inc.	73
TSLA	Tesla Motors, Inc.	72
AMGN	Amgen Inc.	69
PSX	Phillips 66	69
ADM	Archer-Daniels-Midland Company	67
WLP	WellPoint, Inc.	67
RTN	Raytheon Company	66
NOC	Northrop Grumman Corporation	65
DFS	Discover Financial Services	65
HD	Home Depot, Inc.	64
MO	Altria Group, Inc.	64
MDT	Medtronic, Inc.	62
HON	Honeywell International Inc.	62
JNJ	Johnson & Johnson	61
COV	Covidien Plc	60
DVN	Devon Energy Corporation	60
LYB	LyondellBasell Industries NV	59

Largest Underweights by Stock in Fund

Ticker	Description	Bps Under
XOM	Exxon Mobil Corporation	-73
GE	General Electric Company	-69
CSCO	Cisco Systems, Inc.	-69
IBM	International Business Machines Co	-69
KO	Coca-Cola Company	-69
PM	Philip Morris International Inc.	-63
MRK	Merck & Co., Inc.	-63
UTX	United Technologies Corporation	-59
MCD	McDonald's Corporation	-58
CVX	Chevron Corporation	-51
BMY	Bristol-Myers Squibb Company	-51
INTC	Intel Corporation	-45
EBAY	eBay Inc.	-39
DD	E. I. du Pont de Nemours and Comp	-37
F	Ford Motor Company	-37
HPQ	Hewlett-Packard Company	-37
MON	Monsanto Company	-36
ABT	Abbott Laboratories	-36
MDLZ	Mondelez International, Inc. Class A	-35
LLY	Eli Lilly and Company	-35

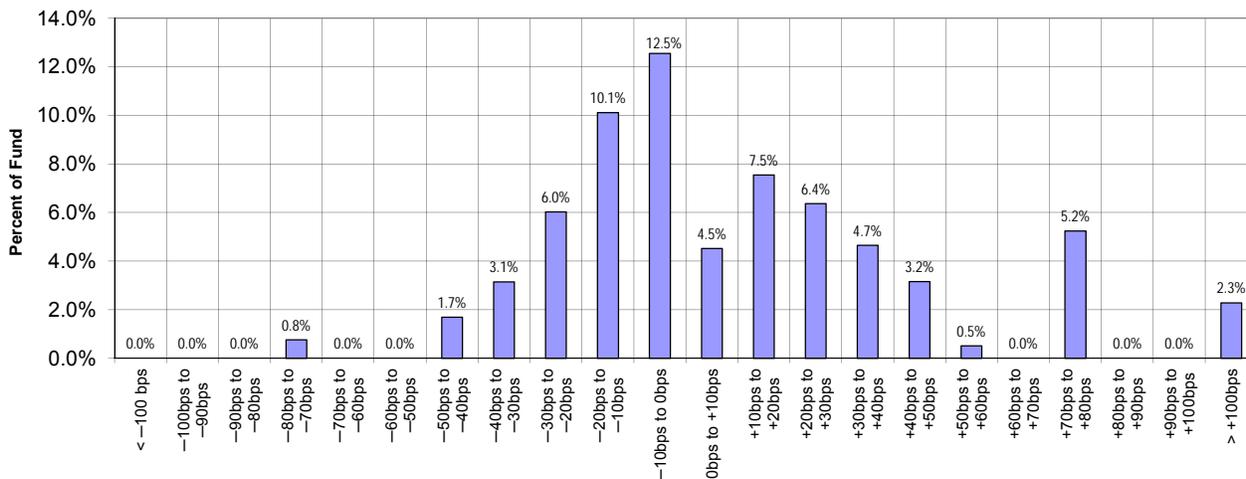


The great returns of 2013 have put all asset classes at valuations that range from high to extreme. The equity investor is facing high earnings multiples in a slowing earnings growth environment. This sounds about right given that the Fed still has to unwind its extraordinary stimulus and business are expressing confidence by hiring, leading to greater consumer confidence. Growth slowdowns in the emerging markets and the expected end of recession in Europe are keeping the foreign sector from contributing to a full share of profits at US multinationals.

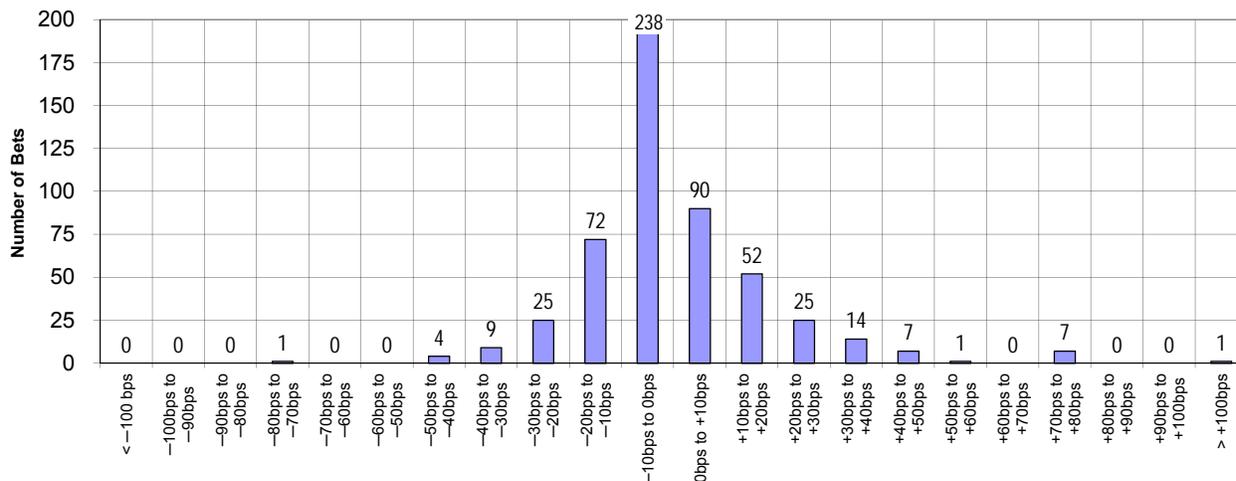
The market rested this quarter. Flight to safety and yield characterized this reassessment period. The Sector Fund is squarely positioned for the middle of the economic cycle (Information Technology and Industrials) as opposed to an inflationary blowoff or growth recession.

The quarter proved to be excellent for stock pickers as no one expected utilities to lead sector returns. Sector Fund overweight Avago returned as a top contributor along with Synaptics whose fingerprint readers are beginning to appear on smartphones. Long, long after what should be "their time", banks are still working off the financial crisis and reporting better credit metrics with new loan growth. For a market that cannot find anything to buy it seemed that Banks are as good as anything.

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



Number of Individual Stocks in Bet Size Bins



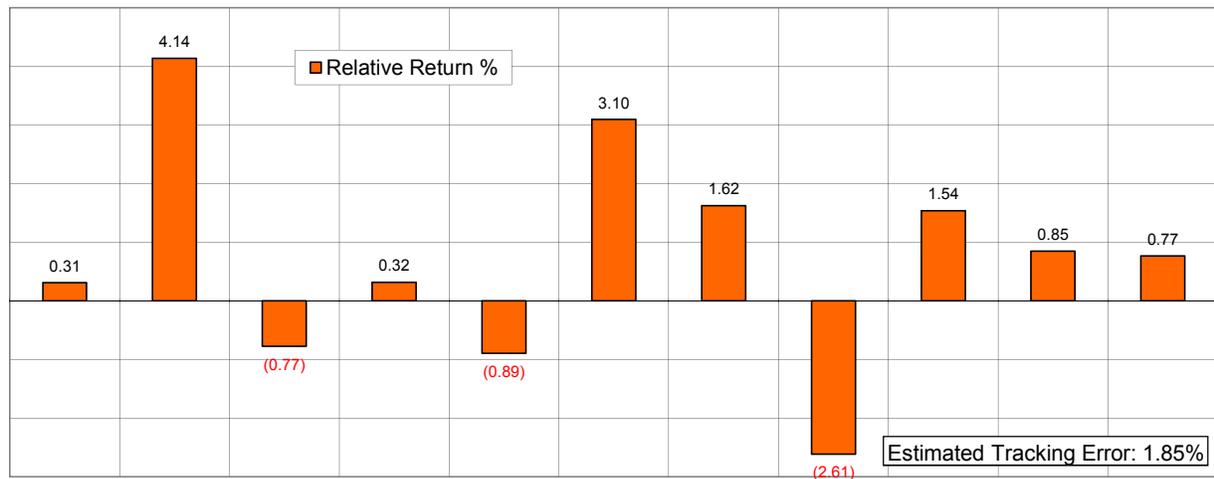
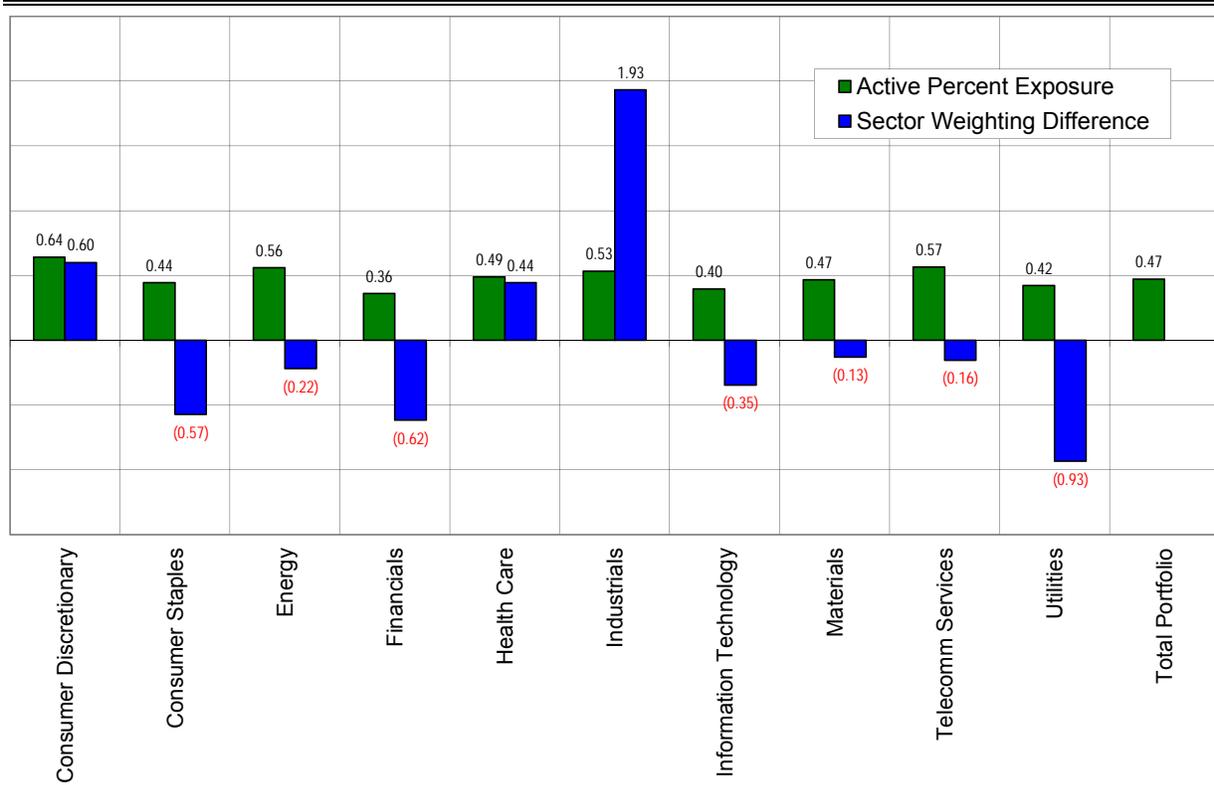
Largest Overweights by Stock in Fund

Ticker	Description	Bps Over Index Wt
GOOGL	Google Inc. Class A	229
DAL	Delta Air Lines, Inc.	78
SNDK	SanDisk Corporation	76
SYNA	Synaptics Incorporated	75
AVGO	Avago Technologies Limited	75
AAL	American Airlines Group, Inc.	74
MU	Micron Technology, Inc.	73
AAPL	Apple Inc.	72
NXPI	NXP Semiconductors NV	51
HAL	Halliburton Company	49
VMW	Vmware, Inc. Class A	48
ACT	Actavis Plc	46
URI	United Rentals, Inc.	46
ABBV	AbbVie, Inc.	44
HCC	HCC Insurance Holdings, Inc.	43
EOG	EOG Resources, Inc.	41
FB	Facebook, Inc. Class A	38
XLNX	Xilinx, Inc.	37
PPG	PPG Industries, Inc.	36
IBM	International Business Machines Co	35

Largest Underweights by Stock in Fund

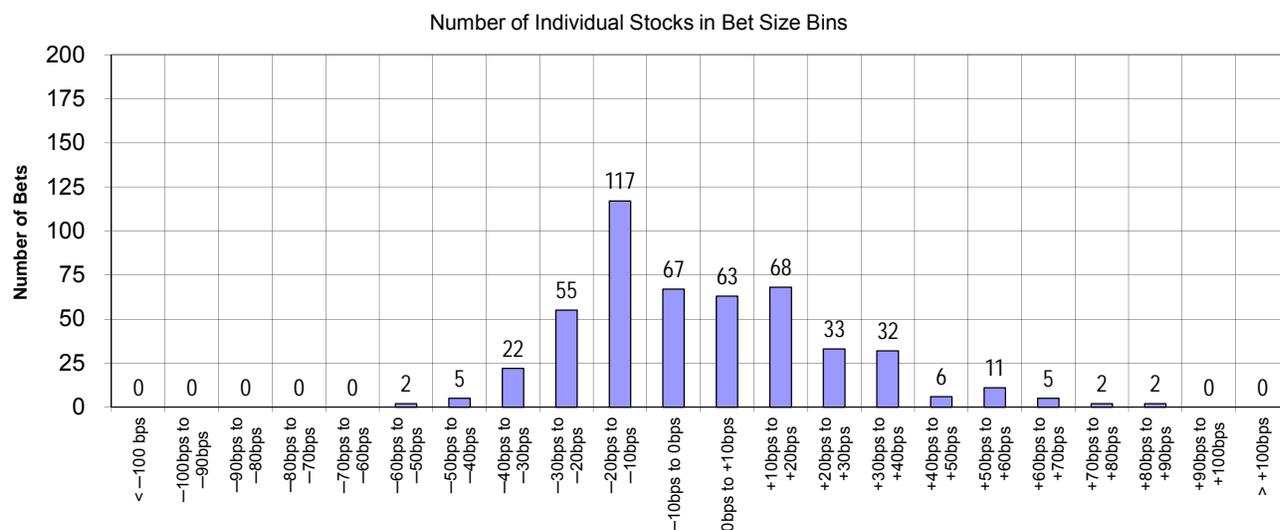
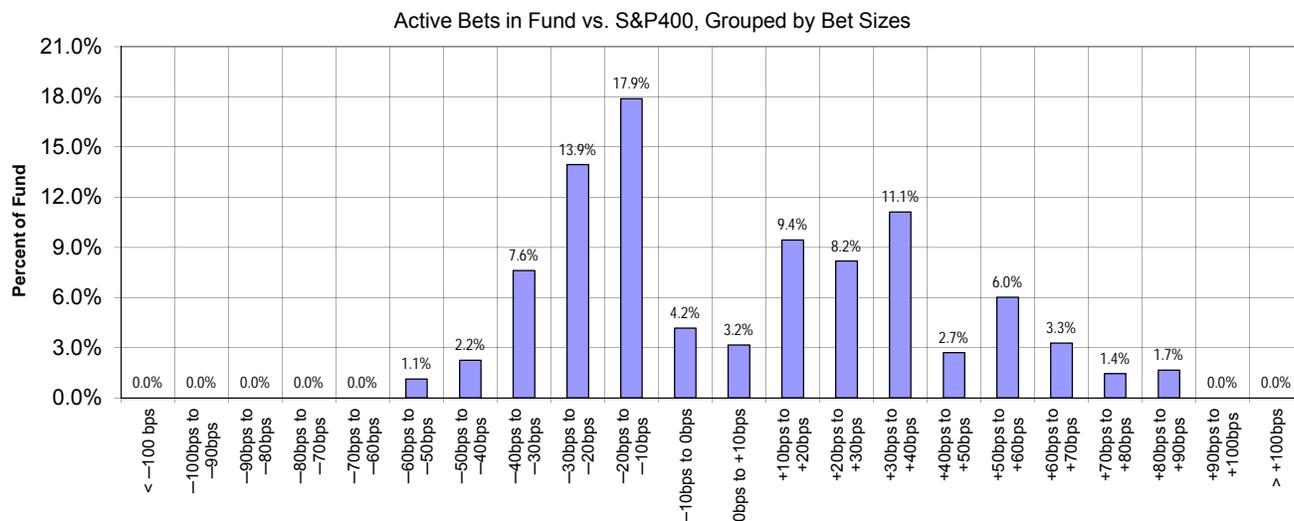
Ticker	Description	Bps Under
MSFT	Microsoft Corporation	-76
OXY	Occidental Petroleum Corporation	-45
MMM	3M Company	-41
T	AT&T Inc.	-41
CVX	Chevron Corporation	-41
ORCL	Oracle Corporation	-39
EBAY	eBay Inc.	-39
CAT	Caterpillar Inc.	-38
DD	E. I. du Pont de Nemours and Comp	-37
HPQ	Hewlett-Packard Company	-37
LLY	Eli Lilly and Company	-35
BAC	Bank of America Corporation	-31
ACN	Accenture Plc	-30
PFE	Pfizer Inc.	-30
CSCO	Cisco Systems, Inc.	-30
EMR	Emerson Electric Co.	-28
PNC	PNC Financial Services Group, Inc.	-28
AIG	American International Group, Inc.	-27
INTC	Intel Corporation	-27
COF	Capital One Financial Corporation	-26

Mid Cap Fund
Mike Keeler, CFA



The Mid Cap team's business cycle analysis currently indicates we're in a mid to late expansion, primarily characterized by rising inflation expectations and the Fed moving to neutral from expansive. However, the recent slow but reasonably steady improving economic trend appeared to stall midway through the 1st quarter as a wide array of data disappointed forecasters and investors. The weak data appeared to be primarily the result of unusually harsh winter weather across most of the country as we move into spring a gradual strengthening trend is widely hoped for.

The Mid Cap Fund outperformed the S & P Mid Cap 400 return during the quarter. Good stock selection in the Consumer Staples Technology and Industrial sectors was somewhat offset by stock selection difficulties in the Health Care and Materials sectors. Just as in the December quarter, all of our excess return came from stock selection.



Largest Overweights by Stock in Fund

Ticker	Description	Bps Over
TRN	Trinity Industries, Inc.	84
HII	Huntington Ingalls Industries, Inc.	82
LM	Legg Mason, Inc.	72
CSC	Computer Sciences Corporation	72
IEX	IDEX Corporation	69
LII	Lennox International Inc.	68
ALK	Alaska Air Group, Inc.	65
SBNY	Signature Bank	64
HAS	Hasbro, Inc.	62
HAR	Harman International Industries, Inc.	59
WDR	Waddell & Reed Financial, Inc. Class	58
ACM	AECOM Technology Corporation	58
SIVB	SVB Financial Group	58
BLL	Ball Corporation	57
JKHY	Jack Henry & Associates, Inc.	56
APOL	Apollo Education Group, Inc. Class	54
OSK	Oshkosh Corporation	52
RJF	Raymond James Financial, Inc.	51
EWBC	East West Bancorp, Inc.	50
HP	Helmerich & Payne, Inc.	50

Largest Underweights by Stock in Fund

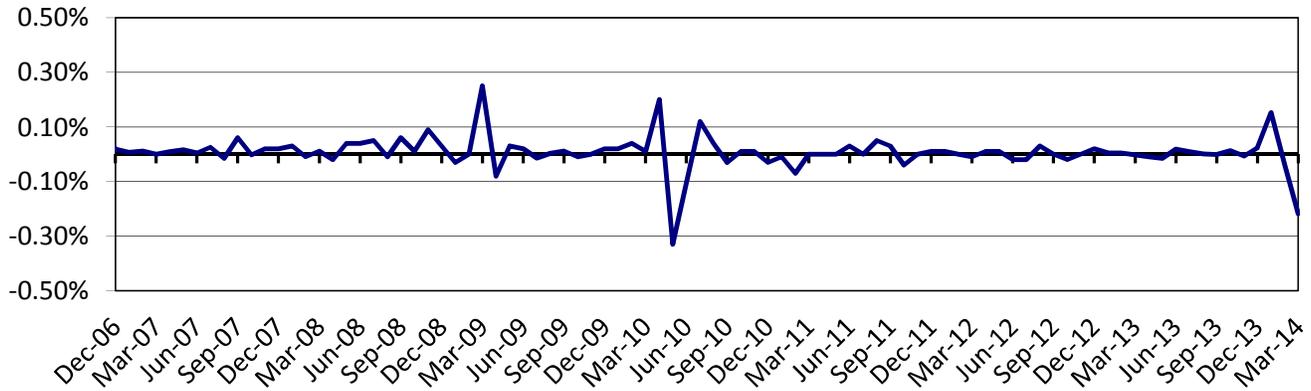
Ticker	Description	Bps Under
UA	Under Armour, Inc. Class A	-59
SIG	Signet Jewelers Limited	-54
OII	Oceaneering International, Inc.	-50
JAH	Jarden Corporation	-47
MTD	Mettler-Toledo International Inc.	-44
COO	Cooper Companies, Inc.	-42
SLXP	Salix Pharmaceuticals, Ltd.	-42
GPOR	Gulport Energy Corporation	-39
AMG	Affiliated Managers Group, Inc.	-38
MLM	Martin Marietta Materials, Inc.	-38
FNF	Fidelity National Financial, Inc. Class	-38
HOLX	Hologic, Inc.	-38
EGN	Energen Corporation	-37
SWKS	Skyworks Solutions, Inc.	-37
TOL	Toll Brothers, Inc.	-37
AYI	Acuity Brands, Inc.	-36
BEAV	B/E Aerospace Inc.	-36
RPM	RPM International Inc.	-35
DKS	Dick's Sporting Goods, Inc.	-35
CBST	Cubist Pharmaceuticals, Inc.	-35

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

Index Fund vs. S&P 500

Assets as of March 2014: \$2.9B

Monthly Excess Returns

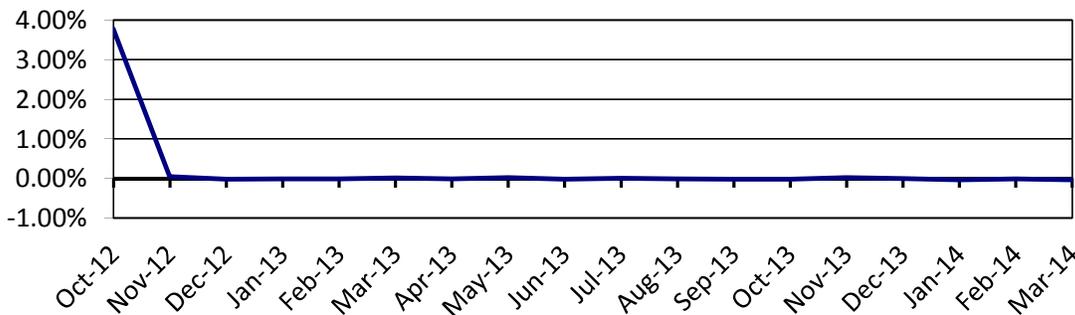


	1 Quarter	1 Year	3 Years	Since Inception
Index Fund	1.7%	21.8%	14.7%	7.0%
S&P 500	1.8%	21.9%	14.7%	6.9%
Excess Return	-0.1%	-0.1%	0.0%	0.1%
Tracking Error	0.64%	0.28%	0.17%	0.22%

Small Cap Fund vs. S&P 600

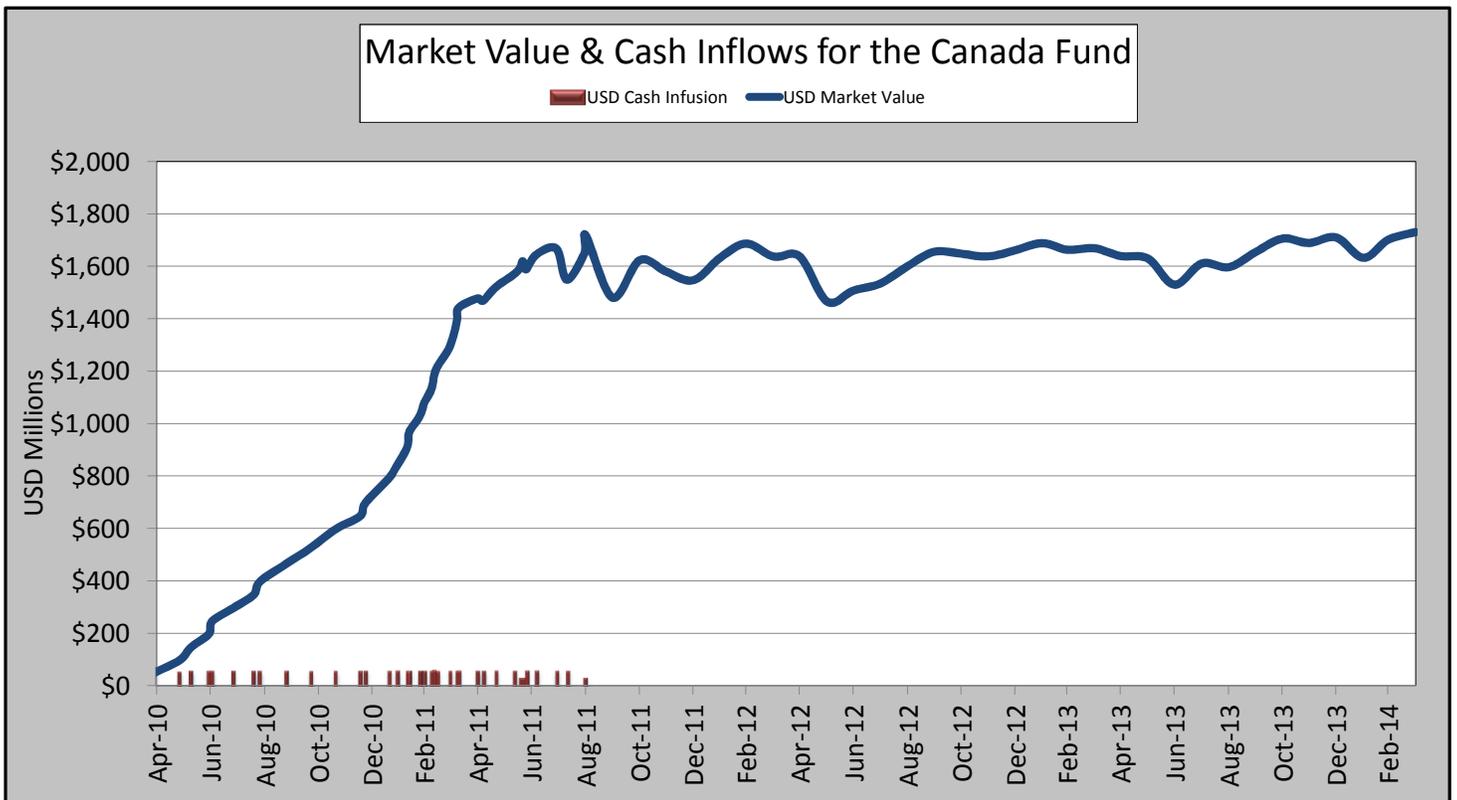
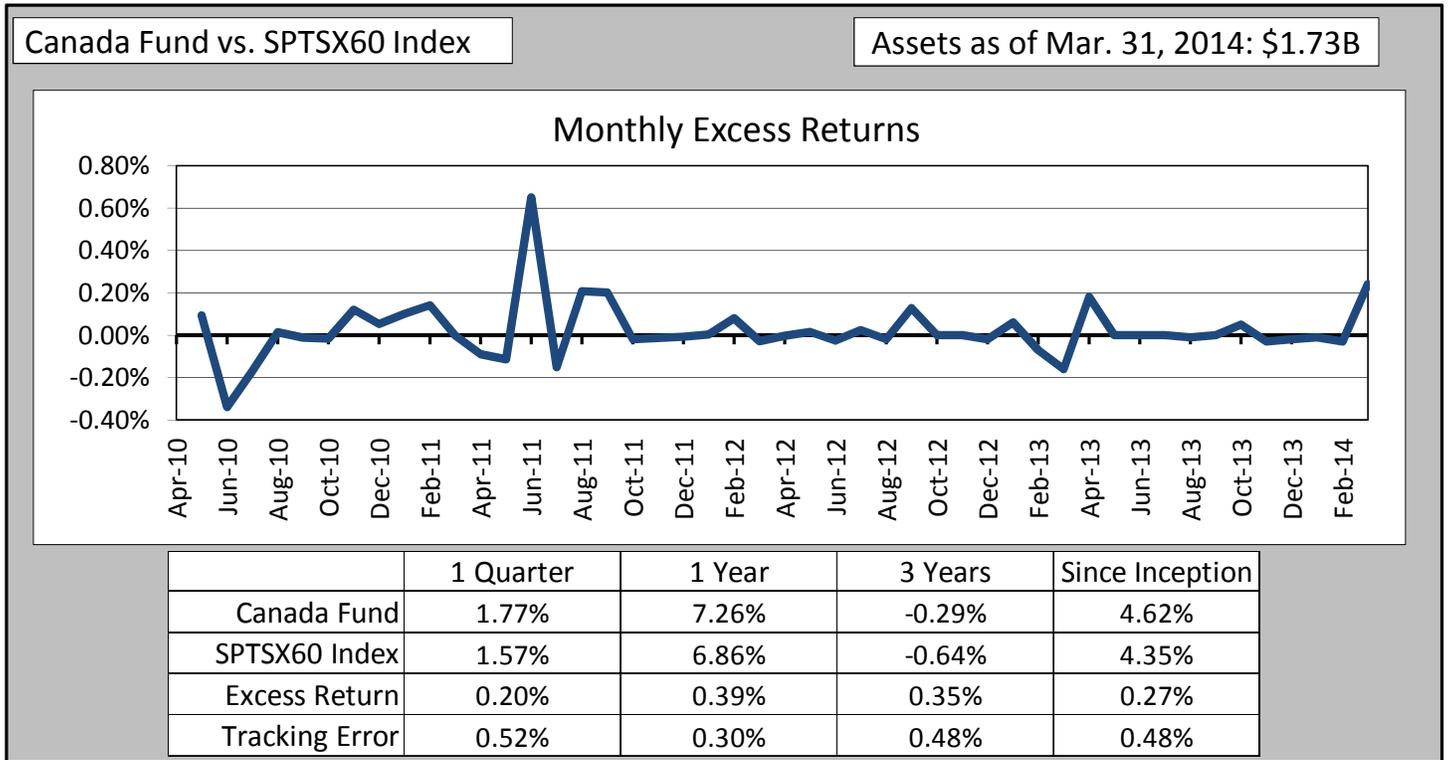
Assets as of March 2014: \$620M

Monthly Excess Returns



	1 Quarter	1 Year	3 Years	Since Inception
Small Cap Fund	1.05%	27.7%	N/A	51.60%
S&P 600	1.13%	27.8%	N/A	46.08%
Excess Return	-0.07%	-0.1%	N/A	5.52%
Tracking Error	0.06%	0.06%	N/A	3.08%

Canada Fund
Kushal Gupta, CFA, CAIA



Manager Performance Comparison - International Equity

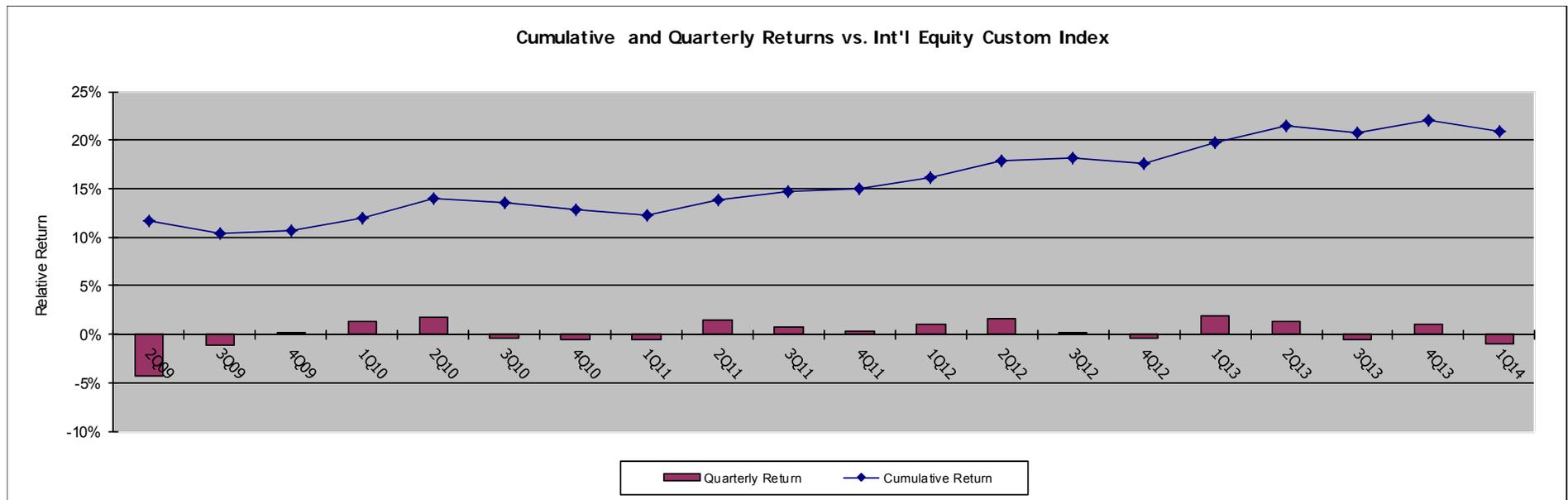
As of March 31, 2014

Manager Returns For The Quarter Ending March 31, 2014

Manager	Manager Return	Benchmark	Benchmark Return
American Century	4.88	MSCI EAFE Small Cap	3.36
Baring Asset Mgmt	-0.90	MSCI EAFE	0.66
Emerging Market ETF	0.35	MSCI Emg Mkts Net Custom	2.00
GE Asset Mgmt	0.12	MSCI Europe	2.10
Marathon	1.24	MSCI EAFE net	0.66
Pacific Indexed Portfolio ¹	-2.30	MSCI Pacific net	-2.51
PanAgora Asset Mgmt	2.84	MSCI EAFE	0.66
Pyramis Global	2.22	MSCI EAFE Small Cap	3.36
TT International	-1.32	MSCI EAFE	0.66
Walter Scott	-1.51	MSCI EAFE net ²	0.66
International Equity	0.38	Int'l Equity Custom ³	1.31

Manager Returns For Five Years Ending March 31, 2014

Manager	Manager Return	Benchmark	Benchmark Return
American Century	23.57	MSCI EAFE Small Cap	21.70
Baring Asset Mgmt	17.15	MSCI EAFE	16.02
Emerging Market ETF		MSCI Emg Mkts Net Custom	
GE Asset Mgmt	17.36	MSCI Europe	17.47
Marathon	19.19	MSCI EAFE net	16.02
Pacific Indexed Portfolio ¹	12.73	MSCI Pacific net	13.43
PanAgora Asset Mgmt	18.54	MSCI EAFE	16.02
Pyramis Global	22.79	MSCI EAFE Small Cap	21.70
TT International	16.82	MSCI EAFE	16.02
Walter Scott	16.94	MSCI EAFE net ²	16.02
International Equity	17.17	Int'l Equity Custom ³	15.09



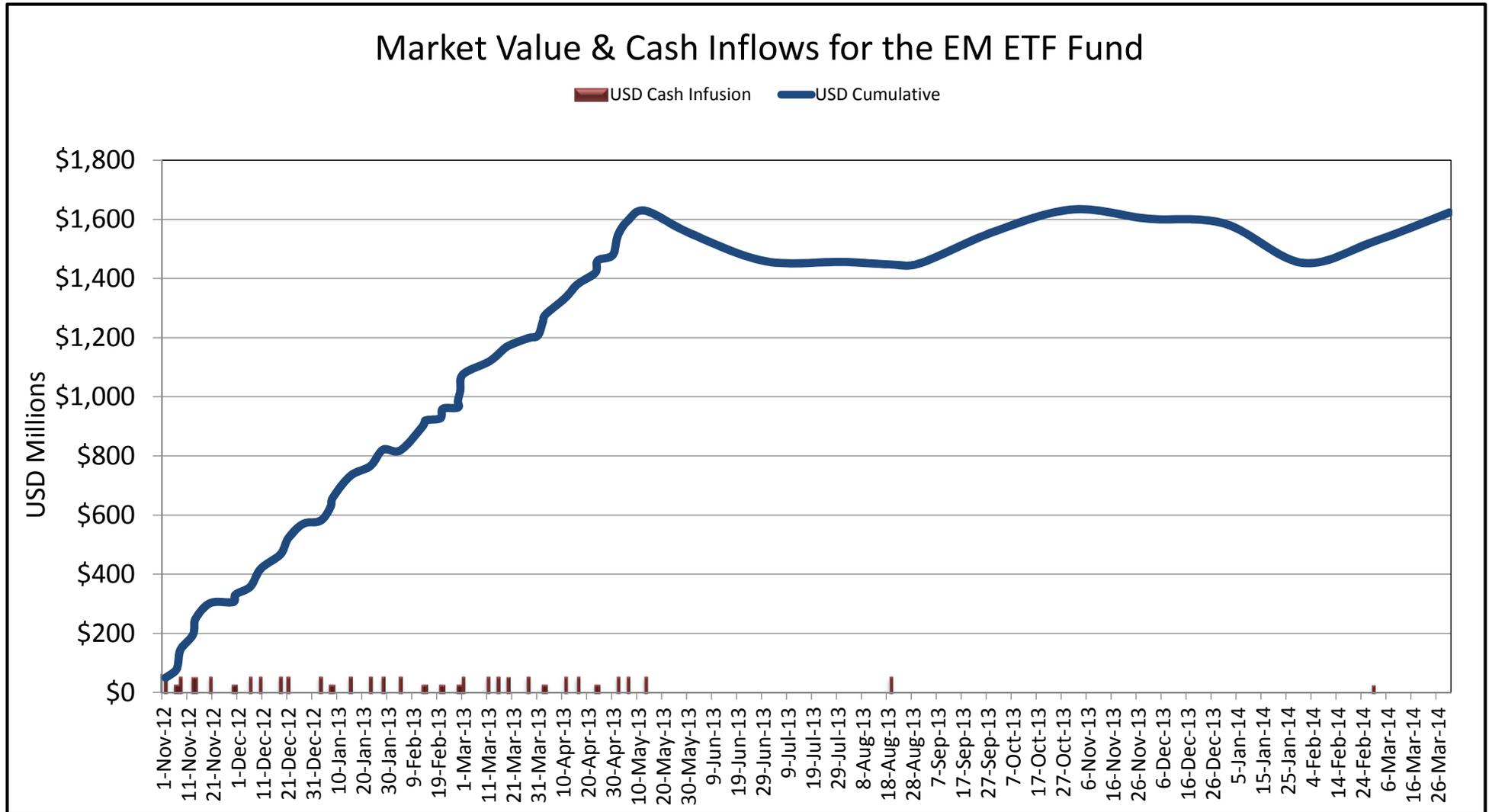
¹ Effective as of 9/4/10, internally managed by TCRS staff. Amundi Pacific terminated.

² Effective 3/1/09. Benchmark is linked to MSCI Europe Index.

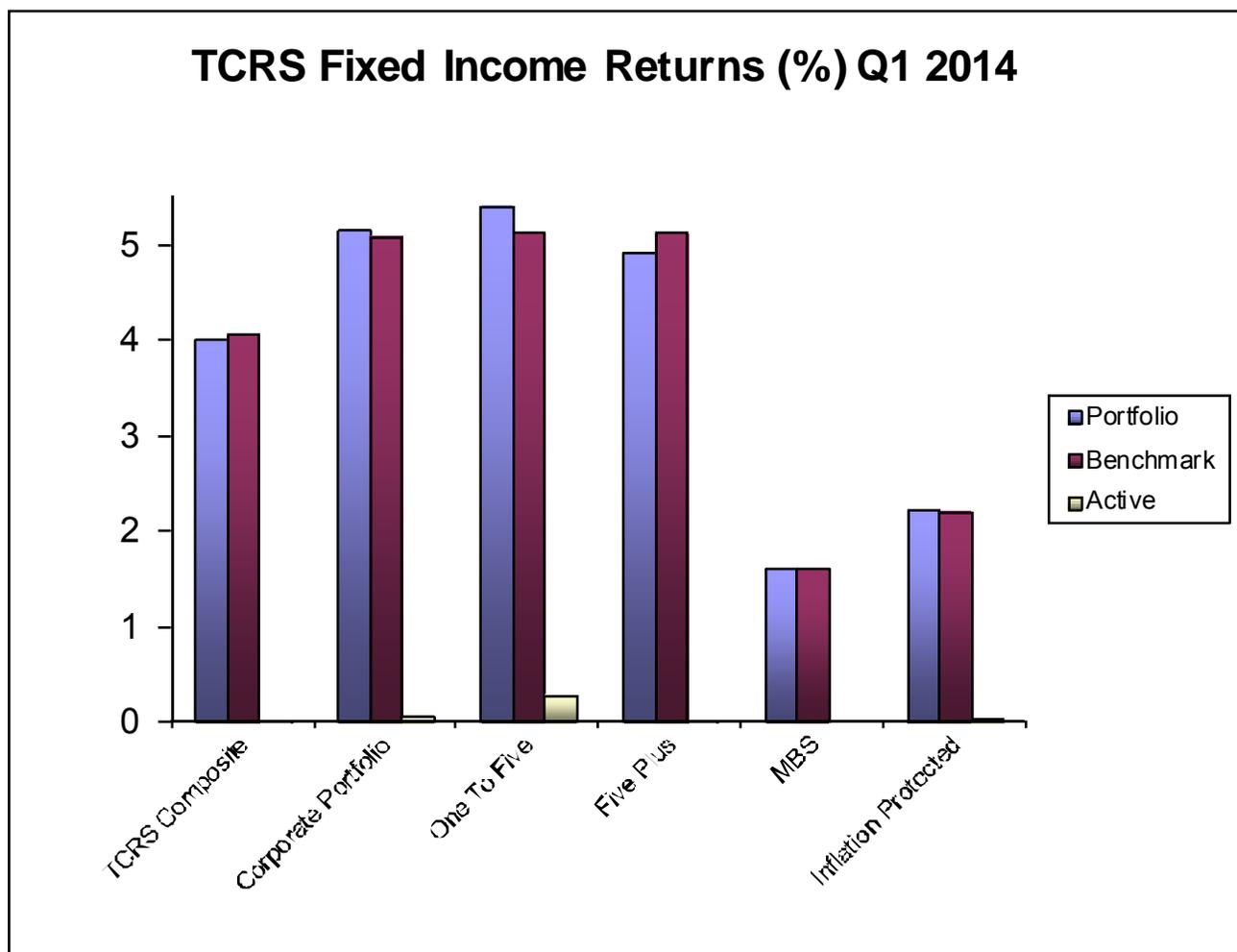
³ Effective 1/1/13, benchmark is 72.22% MSCI EAFE IMI net/ 27.78% MSCI Emerging Mkts net; linked to 100% MSCI IMI net.

Emerging Markets ETF Fund
Kushal Gupta, CFA, CAIA

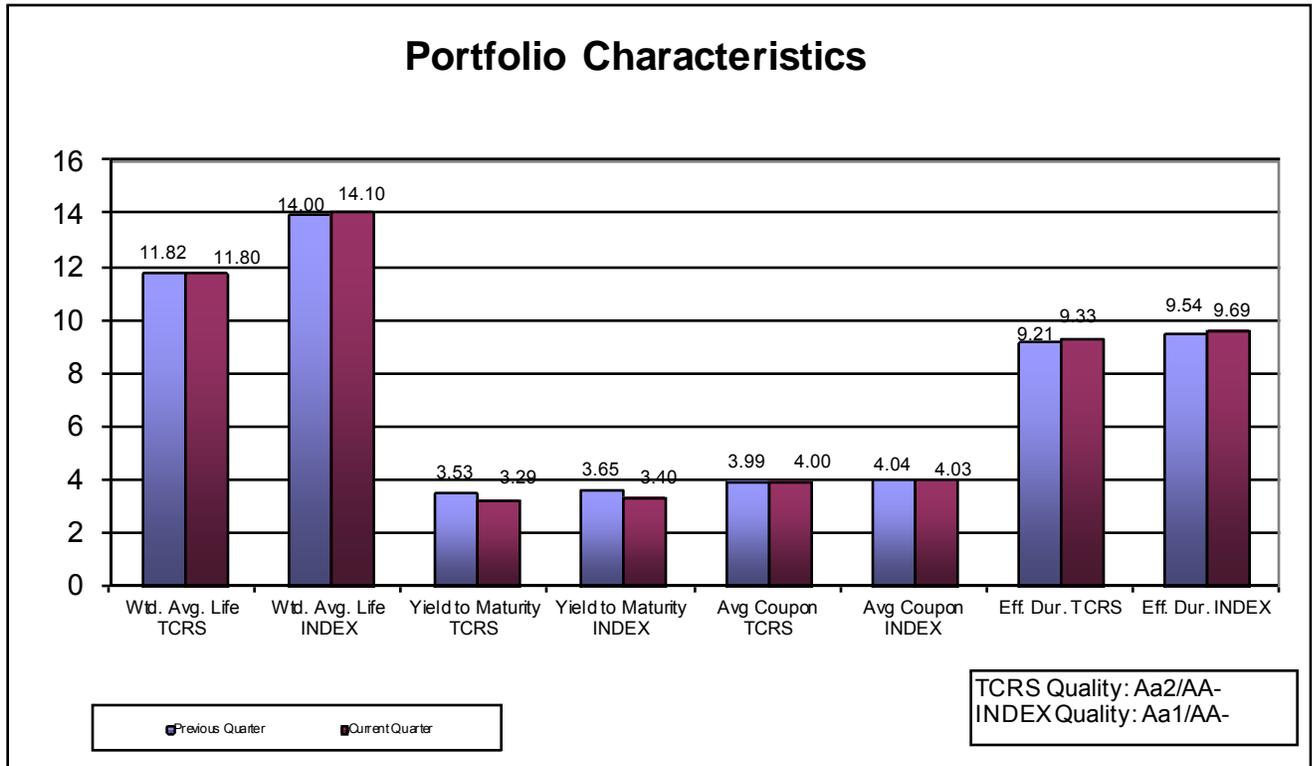
Assets as of Mar. 31, 2014: \$1.62B



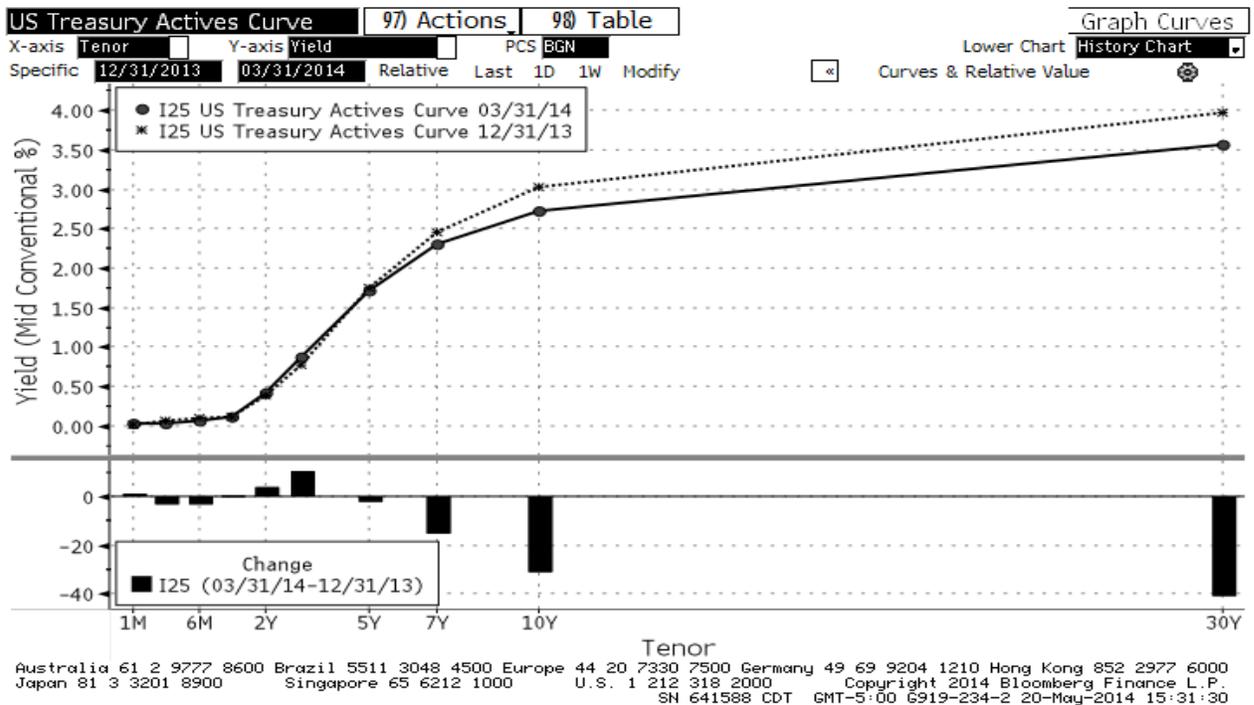
Portfolio	Value (Yield Book) (\$MMs)	Portfolio Return	Benchmark Return	Active Return
TCRS Domestic Fixed Income Composite	\$11,177	4.02	4.07	(0.05)
Corporate Portfolio	\$3,558	5.16	5.10	0.06
Government One To Five Years	\$1,962	5.42	5.14	0.28
Government Five Plus Years	\$2,018	4.93	5.14	(0.21)
Mortgage Portfolio	\$3,639	1.61	1.61	-
TCRS Inflation Protected Securities	\$2,447	2.22	2.21	0.01



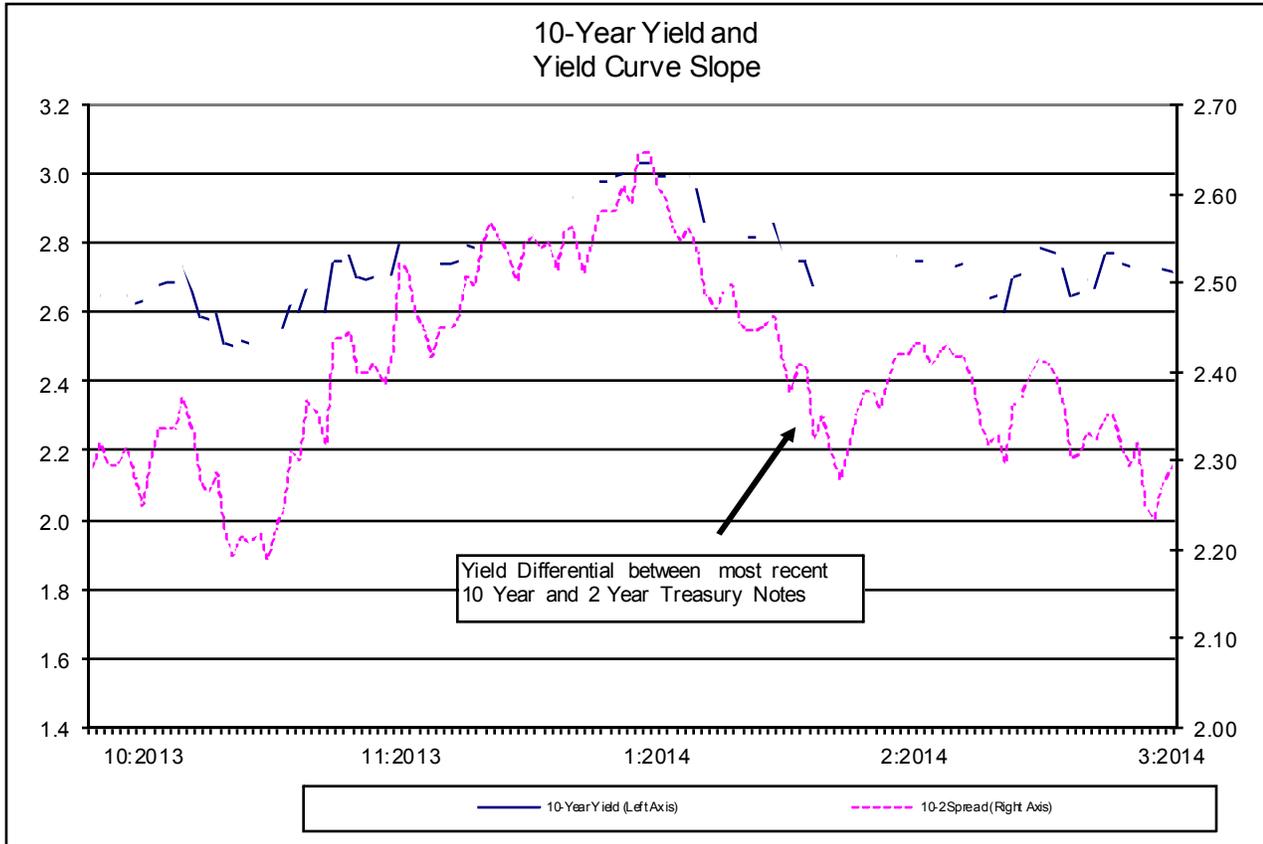
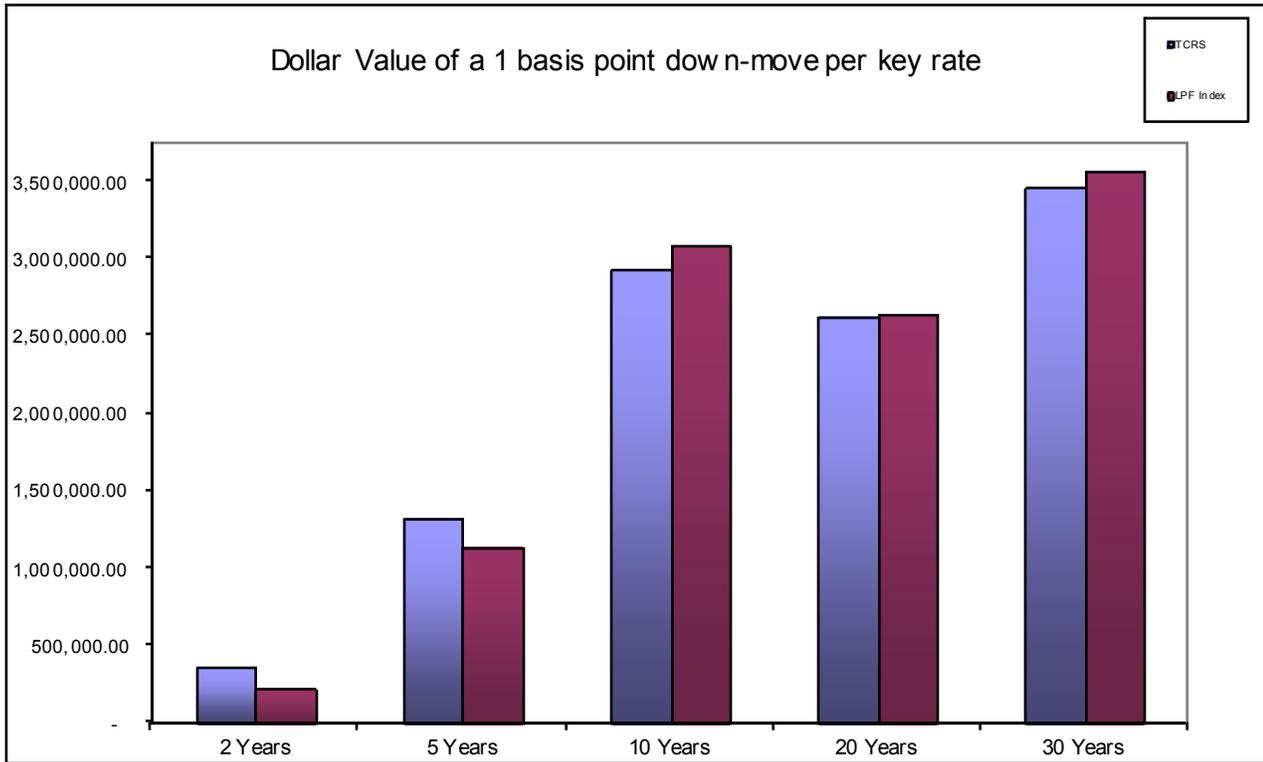
Characteristics were stable from quarter to quarter



Yields fell and the curve flattened



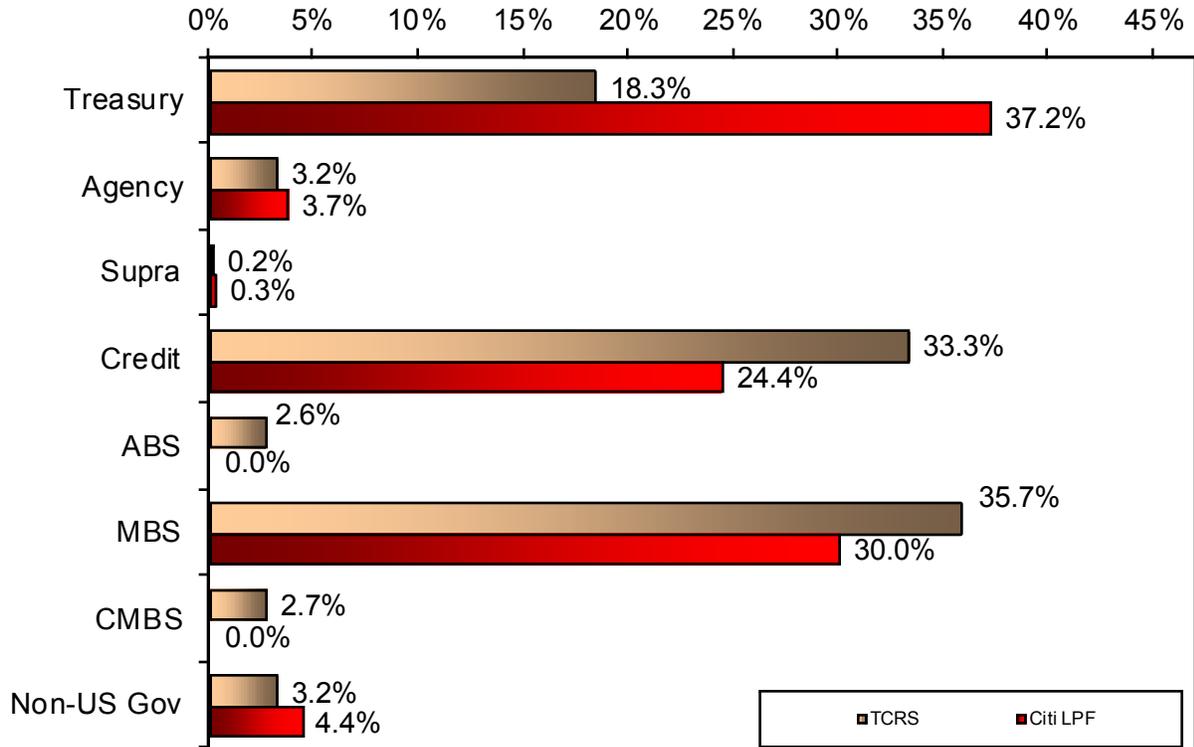
Curve positioning reflects our view that the Federal Reserve will maintain low short interest rates for longer than expected by markets.



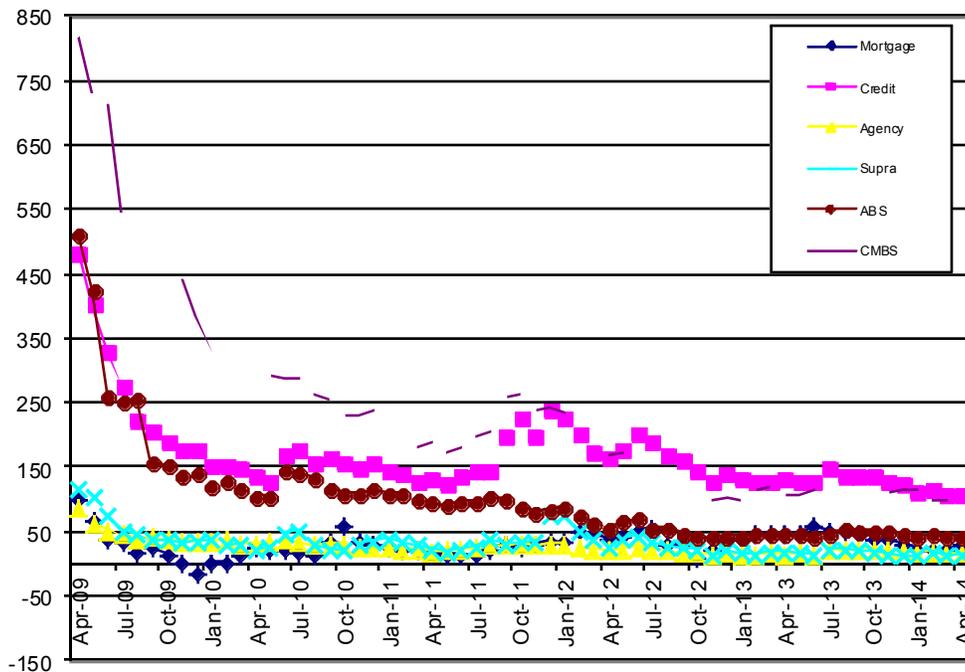
source: Bloomberg

Spreads tightened during the quarter. Exposure reflects a slight preference for credit risk over MBS risk as the Fed begins to taper MBS purchases.

Sector Allocation v. Index
(% market value)



Spread to Treasuries by Asset Class
(in basis points, index data)

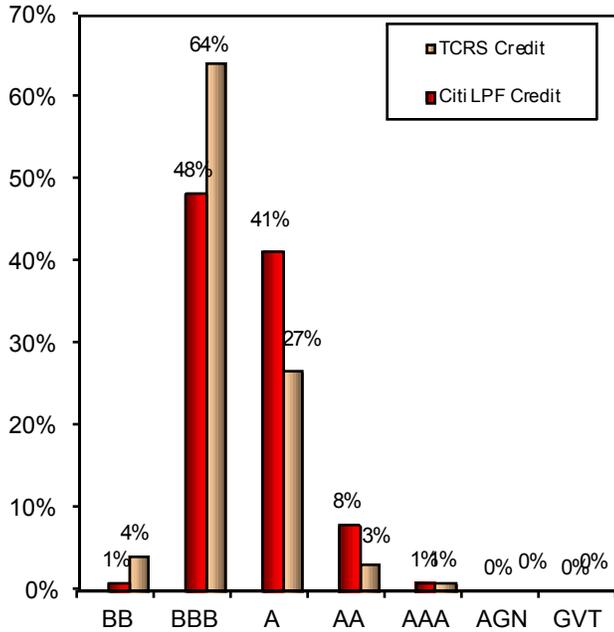


Spreads tightened during the quarter.

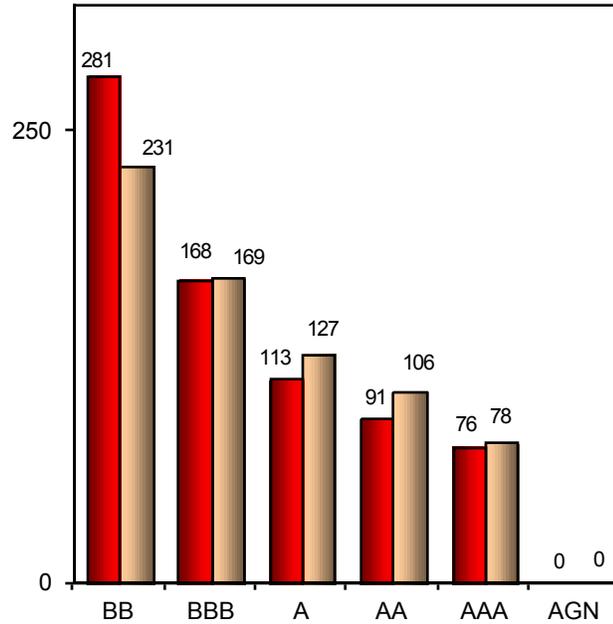
While weightings reveal a lower quality bias,

TCRS relative spreads are lower in risky sectors and higher in safe sectors

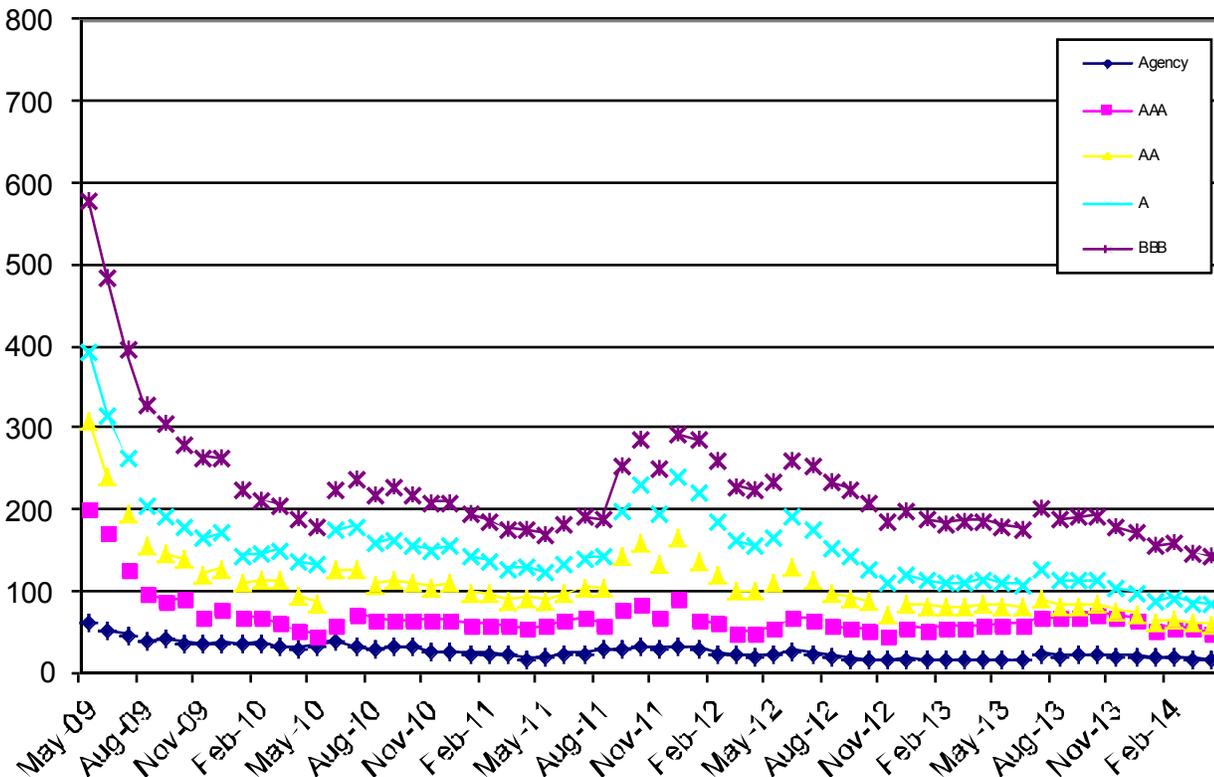
Credit Allocation v. Index
(% market value)



OAS by Credit Allocation



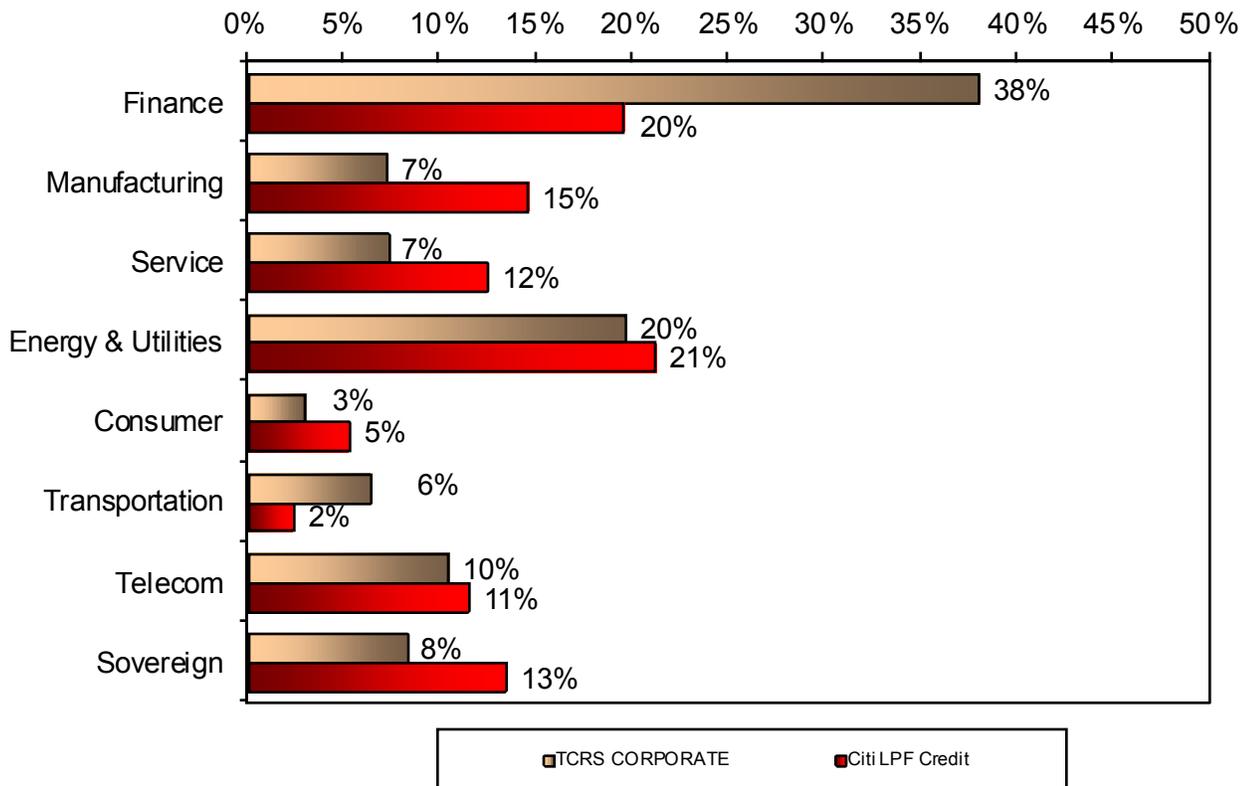
Spread to Treasury by Credit Rating
(in basis points, index data)



Top 5 Credit Holdings (by Market Value)	MktVal	% MktVal
VERIZON COMMUNICATIONS INC	40,255	0.4
PETROLEOS MEXICANOS	26,060	0.2
FORD MOTOR CREDIT CO LLC	25,758	0.2
JPMORGAN CHASE & CO	24,989	0.2
CROWN CASTLE TOWERS LLC	23,359	0.2

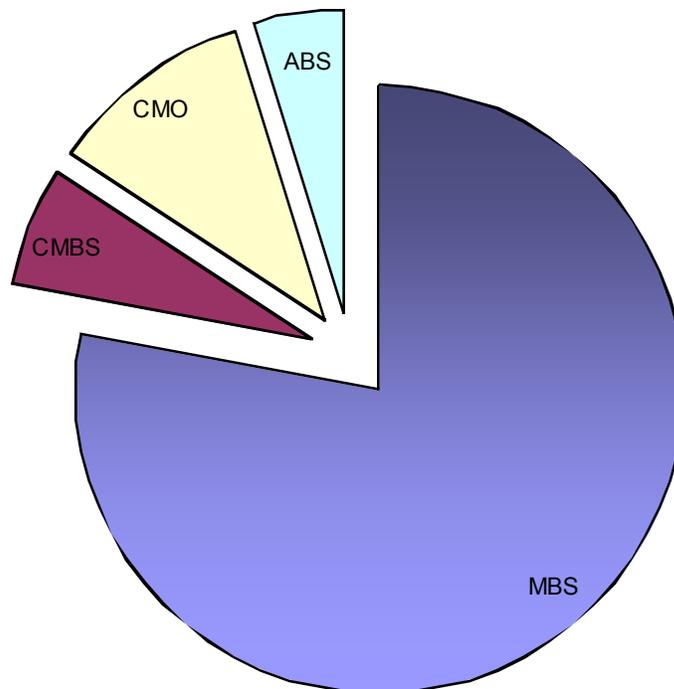
Top 5 Credit Holdings (by Dollar Duration)	\$ Duration	% \$ Duration
VERIZON COMMUNICATIONS INC	59.01	0.6
GOLDMAN SACHS GROUP INC	32.39	0.3
GUARDIAN LIFE INSURANCE CO OF AM	27.84	0.3
ANDARKO PETROLEUM CORP	26.06	0.2
AMERICAN WATER CAP CORP	25.76	0.2

Sector Allocation v. Index
(% market value)



	Market Value (\$MM - Yield Book)	TCRS % of portfolio	CITI	Difference
Agency Mortgage Backed Securities	\$3,632,340	32.5	29.9	2.5
GNMA				
15-Yr	\$25,475	0.2	0.1	0.1
30-Yr	\$726,856	6.5	7.9	-1.4
FNMA				
10-, 15- & 20-Yr	\$438,548	3.9	2.9	1.1
30-Yr	\$1,549,531	13.9	11.3	2.6
FHLM				
15-Yr	\$85,338	0.8	1.6	-0.9
30-Yr	\$738,018	6.6	6.1	0.5
Agency Hybrid	\$68,574	0.6	0.0	0.6
Commercial Mortgage Backed Securities	\$296,481	2.7	0.0	2.7
CMO and Non Agency Passthroughs	\$509,404	4.6	0.0	4.6
Asset Backed Securities	\$222,277	2.0	0.0	2.0
Total Securitized Product	\$4,660,502	41.7	30.0	11.7

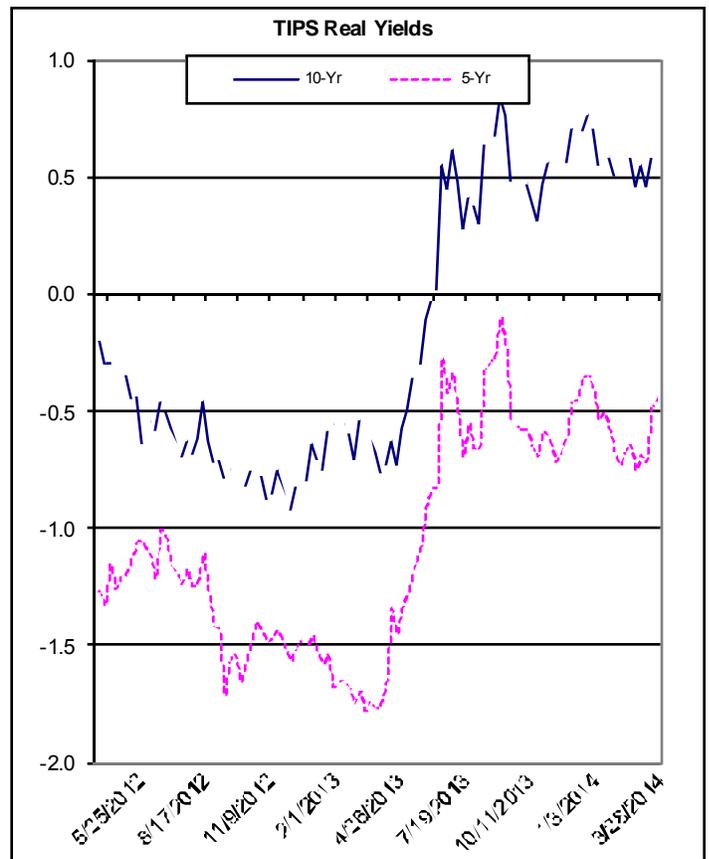
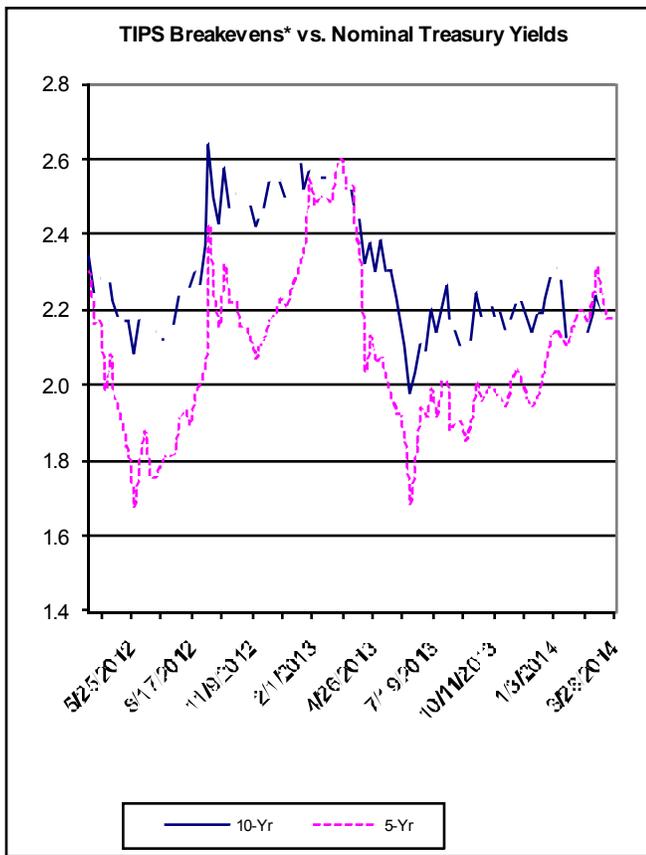
Percent of Securitized Product



Portfolio Value (Yield Book): \$2,446,789,475
 Portfolio Return: 2.22%
 Citigroup ILSI Index: 2.21%
Active Return: 0.01%

% Market Value by Duration

	TCRS	CITI	Difference
0-2	0.0%	0.0%	0.0%
2-4	1.4%	1.9%	-0.4%
4-6	3.2%	3.5%	-0.3%
6-8	5.8%	5.7%	0.1%
8-10	7.1%	7.1%	0.0%
10+	12.7%	12.9%	-0.2%

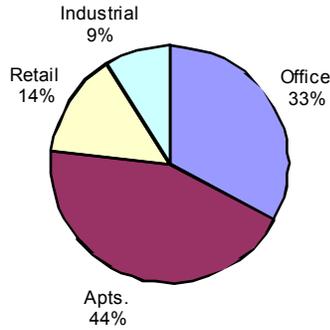


* The "breakeven" rate is the expected rate of inflation at which investment in TIPS yield the same return as investment in Treasuries

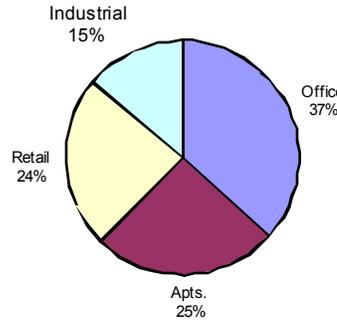
Source: Bloomberg

JP Rachmaninoff

TCRS By Property Type

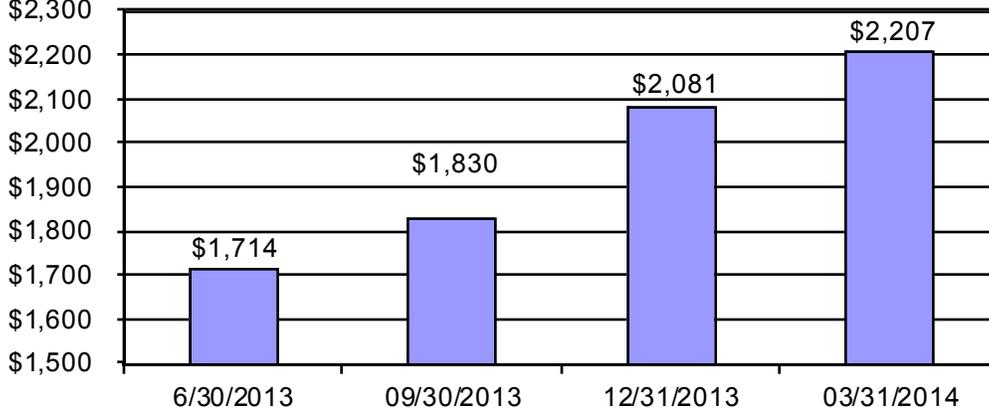


NPI By Property Type

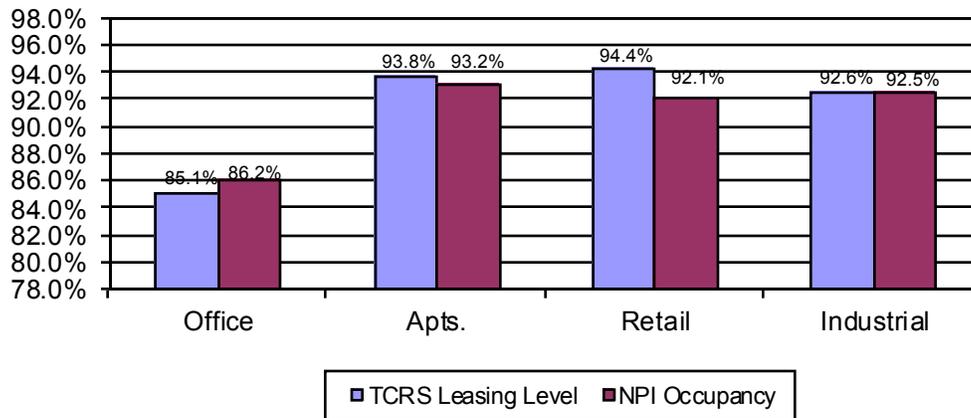


Millions

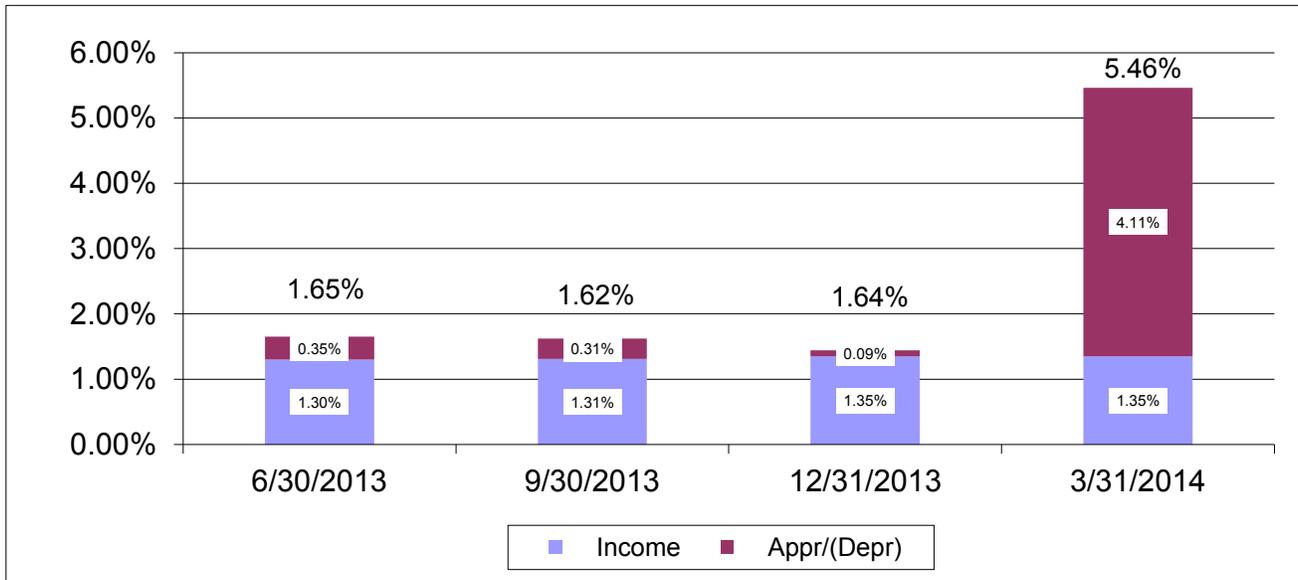
Market Value



Occupancy



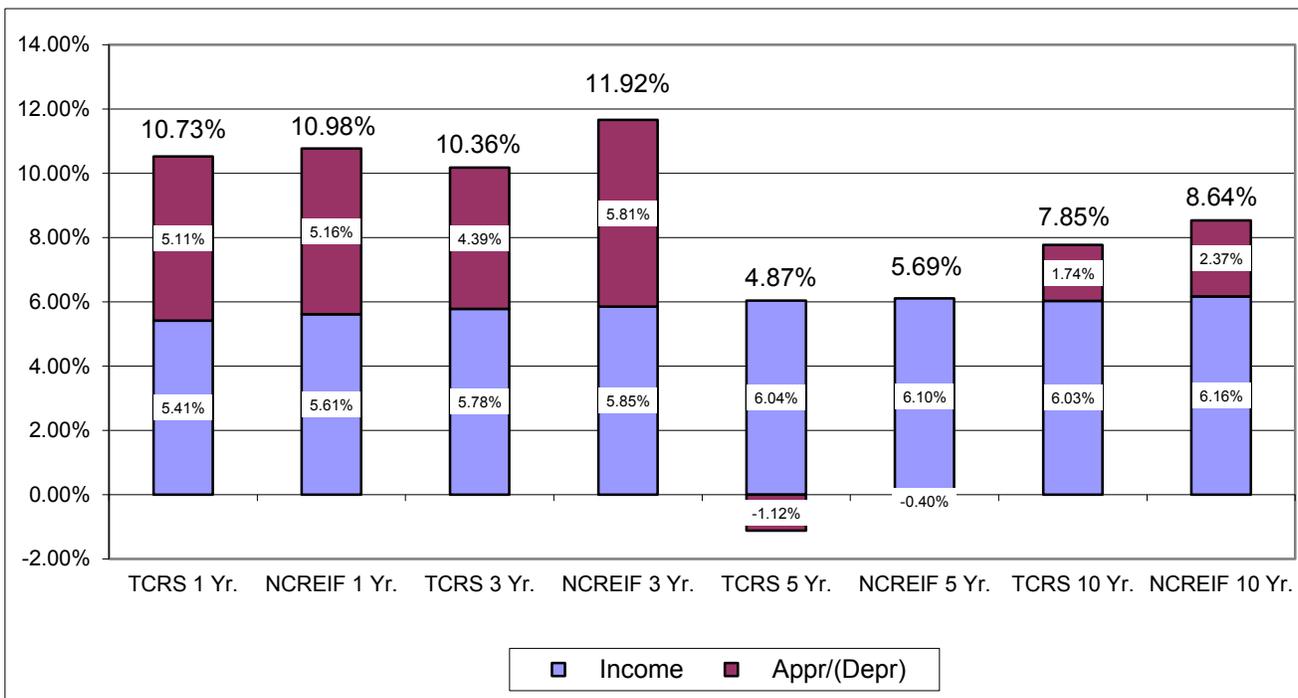
The NPI is the National Property Index of the National Council of Real Estate Investment Fiduciaries (the index used for US core properties).



All returns shown above are reported one quarter in arrears

Budgeted Annual Income Return for calendar year 2014 (excluding funds)

5.39%



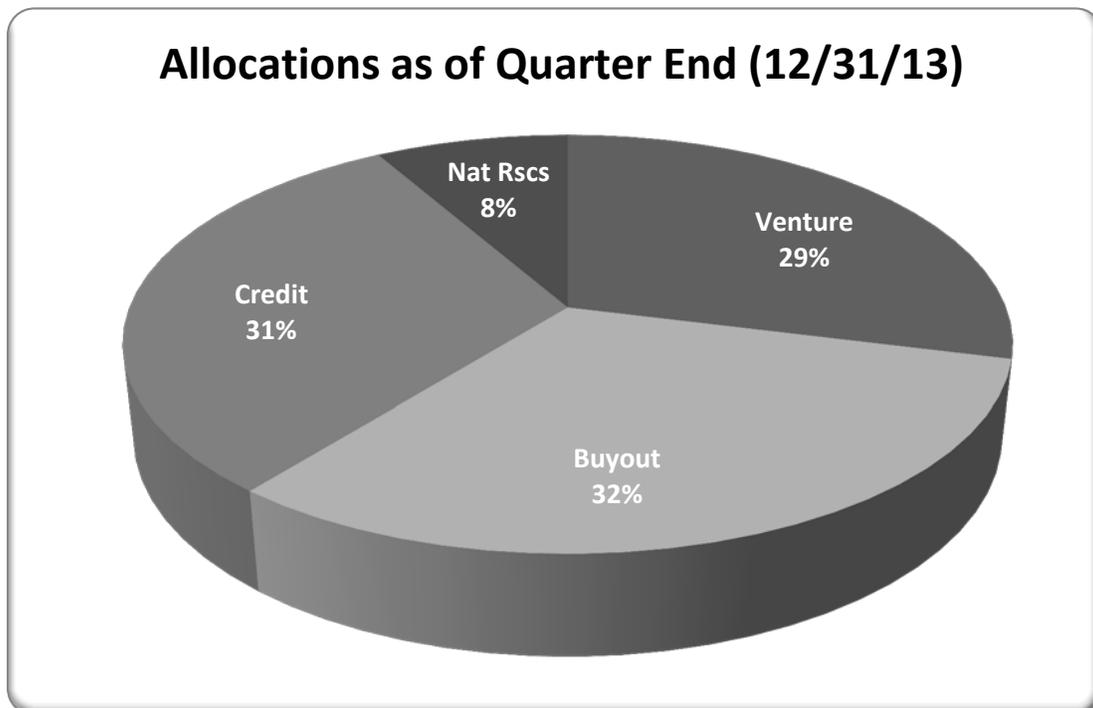
All returns shown above are reported one quarter in arrears

Tennessee Consolidated Retirement System
Private Equity Program
Fiscal 3Q 2014 Update
Daniel Crews, CFA CAIA

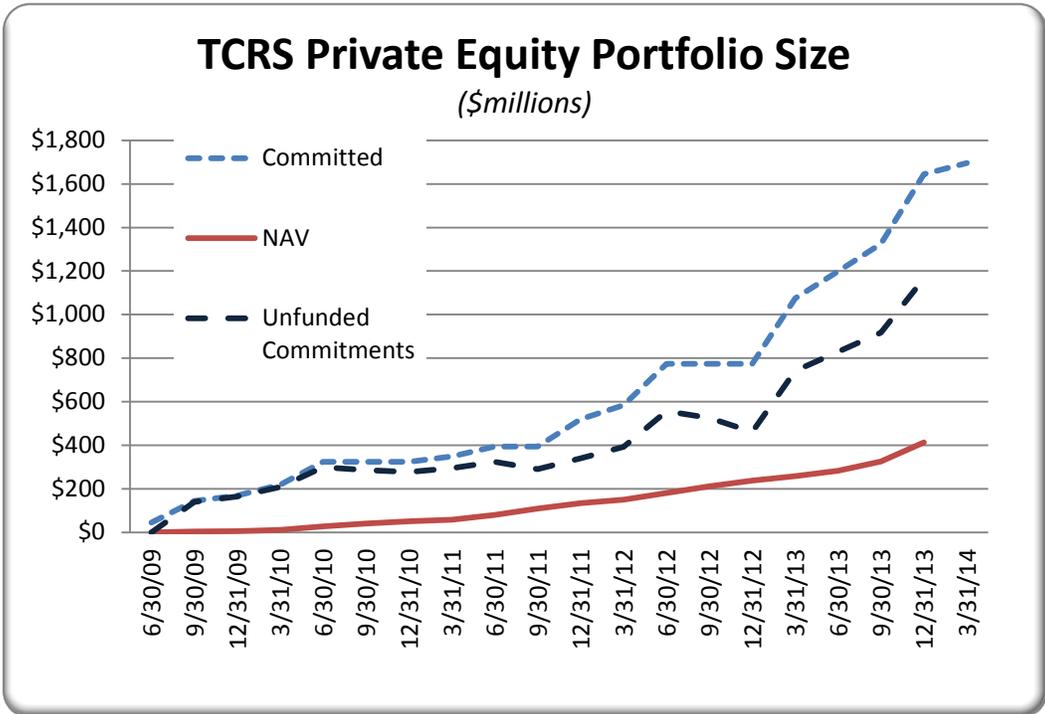
We have finalized our fiscal 2Q2014 results (the period ending 12/31/13), and are pleased to report that the program continues to show positive returns. Both the Buyout portfolio and Natural Resources are showing signs of an improving j-curve and Credit continued its positive contribution. However, significantly positive returns in the public markets continue to negatively impact our relative performance.

<i>Trailing IRR</i>	Quarter	Trailing 1 Year	Since Inception
Buyout	7.7%	26.5%	14.4%
Credit	4.1%	16.3%	13.5%
Venture	11.8%	17.9%	14.8%
Natural Resources	<u>4.4%</u>	<u>1.6%</u>	<u>-8.2%</u>
TCRS PE Overall	8.1%	19.2%	13.8%
<i>S&P 500 + 3%</i>	<i>11.1%</i>	<i>35.8%</i>	<i>24.0%</i>

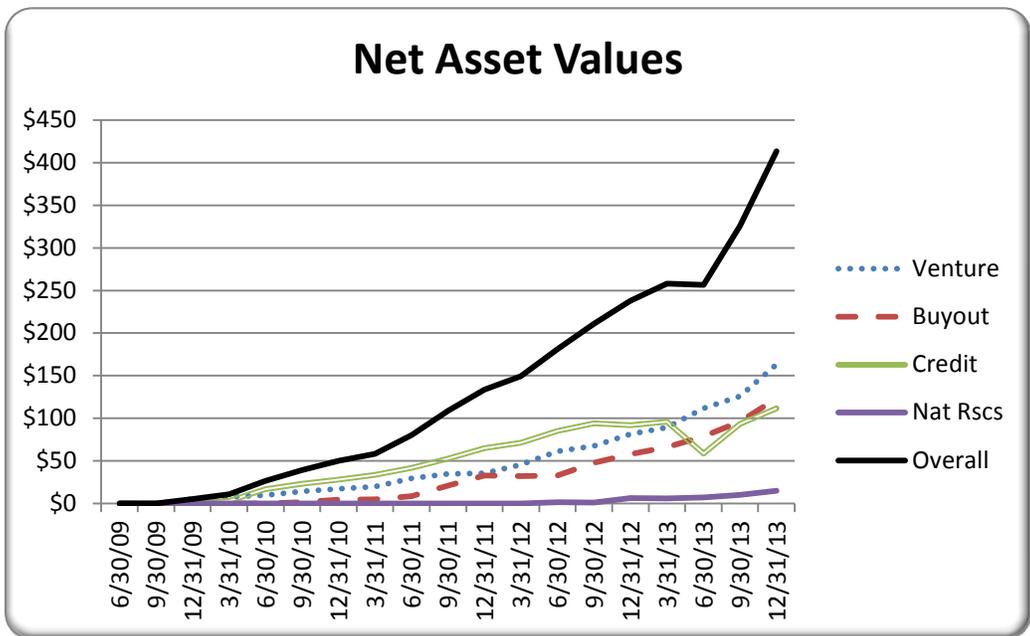
As of the end of the previous quarter, the portfolio is under-allocated on a net asset value basis to Buyout. This is the result of accelerating capital calls for Venture Capital. The following chart shows the allocations to the sub-asset classes based on current NAV and unfunded commitments through the end of December 2013.



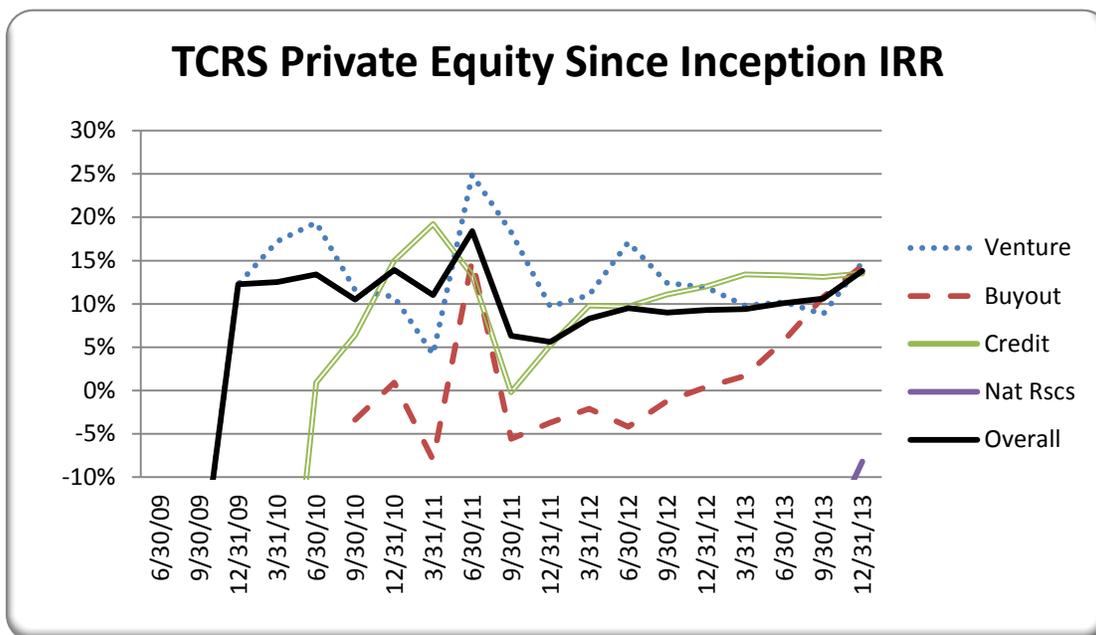
The next chart shows the overall size and growth of the TCRS portfolio in terms of commitments, unfunded commitments, and net asset value.



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.



As shown in the chart below, the overall since-inception IRR rose materially into the 2013 calendar year-end.



Staffing

TCRS conducted an extensive hiring search for additional personnel to support the private equity allocation of the portfolio. After a lengthy, thorough process we identified Carrie Green and Grant Leslie as our new private equity team members. Carrie most recently spent ten years as an analyst and portfolio manager in the TCRS Equities group, and has proven to be a valuable asset to the firm. Grant joins TCRS from the Mercer private capital group.

Looking Ahead

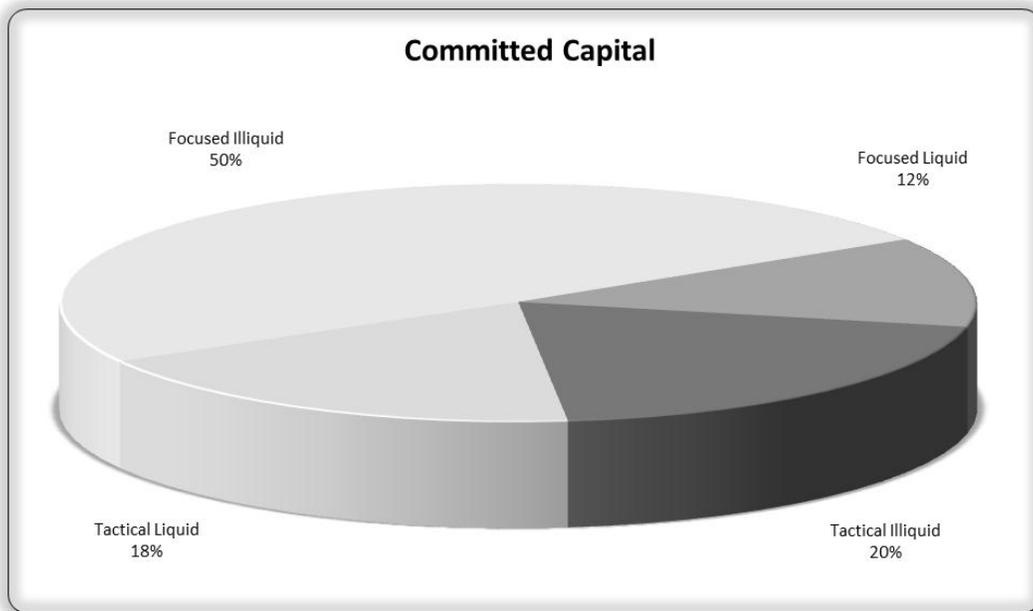
In calendar 3Q 2014, private equity Staff will focus primarily on developing more robust portfolio monitoring processes and tools.

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Tennessee Consolidated Retirement System
Strategic Lending Portfolio
Fiscal Q3 2014 Update
Andrew Palmer, CFA

During fiscal 2014, Staff made significant progress in establishing the Strategic Lending Portfolio. The portfolio aims to opportunistically invest in both liquid and illiquid below-investment grade strategies focused on high yield bonds, leveraged loans, private debt, structured products and other unique cash flow-producing investments. Conceptually, Staff aims to capture market inefficiencies by balancing investments between focused and tactical managers that primarily specialize in liquid or illiquid investments.

As of March, TCRS had committed \$600 million with \$415 million being invested in three larger separate accounts and three co-mingled funds. Currently, TCRS has committed approximately \$1.6 billion with \$530 million being invested.



Market Outlook

During the fiscal third quarter of 2014, the liquid U.S. below-investment grade market continued to perform well, posting total returns of 3.1% in the bond market and 1.3% for the loan market. Credit availability remains high, as the pace of new issuance mirrored the robust 2013 experience. Default rates have ticked up as

expected, driven by the TXU bankruptcy. It is important to note that the issuance of covenant light loans now represent over 50% of new loan issues and CCC bond issuance now mirrors the rate of issuance in 2007. Likewise, in the private debt market, leverage ratios have begun to increase and larger private borrowers are demanding covenant light deals. Recently, retail investors have removed capital from the high yield market and the fund managers quickly tightened underwriting standards on new issues to be more conservative. Thus much of the excessive credit has been driven by investor's demand for yield.

While returns in the U.S. remain attractive, the liquid below-investment grade market is frothy and the level of credit availability is a concern. The story remains more constrained in the middle market U.S. private debt and European debt markets, where banking regulations have limited capital availability. In calendar 2014 through 2015, Staff believes investors can earn an illiquidity premium and more attractive risk-adjusted returns by investing in U.S. middle market private debt, EU liquid debt, and EU middle market private debt.

Recent Developments

During the third quarter of the fiscal year, TCRS committed approximately \$100 million to the Hayfin Direct Lending co-mingled fund, which is an illiquid focused strategy that originates loans to middle market companies in Europe. Since the end of the third quarter, TCRS has committed just over \$1 billion to four separately managed accounts. TCRS committed \$707 million to the GE/CIFC U.S. Direct Lending separate account, which is an illiquid focused strategy. TCRS also committed \$150 million to the Oaktree Strategic Credit separate account and \$75 million to the Oaktree Real Estate Debt separate account, both of which are illiquid tactical strategies. Finally, TCRS committed \$100 million to the Credit Suisse Leveraged Loan separate account, which is a liquid focused strategy.

Future Activity

For the balance of 2014, the pace of new investment activity should slow. Staff aims to focus more effort on portfolio monitoring and strategic planning in the back half of calendar 2014.

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TCRS Equity Derivative Report

Domestic Stock Index Futures Roy Wellington, CFA

No Activity

Domestic Fixed Income Derivatives Report

Andrew C. Palmer, CFA

Domestic Fixed Income Derivatives Transaction Log

ACCT	SOLD	BOUGHT	NET	EXPIRATION	CONTRACT	TYPE	STRIKE
Begin			1800		CBOT 10 T-NOTE 14	Mar 0	
			2905		CBOT T-BONDS 14	Mar 0	
			4324		CBOT ULTRABOND 14	Mar 0	
			-1060		CBOT 5YR TNOTE 14	Mar 0	
TRADE SUMMARY BY ACCOUNT							
5+ Gov't (1381)							
	-	-	-		CBOT 10 T-NOTE 14	Jun 0	
	-	-	-		CBOT 10 T-NOTE 14	Mar 0	
	-	-	-		CBOT 5YR TNOTE 14	Jun 0	
	-	-	-		CBOT 5YR TNOTE 14	Mar 0	
	-	375	375		CBOT T-BONDS 14	Jun 0	
	375	-	(375)		CBOT T-BONDS 14	Mar 0	
	30	1,270	1,240		CBOT ULTRABOND 14	Jun 0	
	1,000	-	(1,000)		CBOT ULTRABOND 14	Mar 0	
1-5 Gov't (1368)							
	-	2,150	2,150		CBOT 10 T-NOTE 14	Jun 0	
	2,150	650	(1,500)		CBOT 10 T-NOTE 14	Mar 0	
	2,310	-	(2,310)		CBOT 5YR TNOTE 14	Jun 0	
	1,000	2,310	1,310		CBOT 5YR TNOTE 14	Mar 0	
	-	2,830	2,830		CBOT T-BONDS 14	Jun 0	
	2,830	-	(2,830)		CBOT T-BONDS 14	Mar 0	
	-	2,654	2,654		CBOT ULTRABOND 14	Jun 0	
	2,654	200	(2,454)		CBOT ULTRABOND 14	Mar 0	
Overlay (1371)							
	-	-	-		CBOT 10 T-NOTE 14	Jun 0	
	500	-	(500)		CBOT 10 T-NOTE 14	Mar 0	
	-	-	-		CBOT 5YR TNOTE 14	Jun 0	
	250	-	(250)		CBOT 5YR TNOTE 14	Mar 0	
	-	750	750		CBOT T-BONDS 14	Jun 0	
	750	1,050	300		CBOT T-BONDS 14	Mar 0	
	-	-	-		CBOT ULTRABOND 14	Jun 0	
	1,070	-	(1,070)		CBOT ULTRABOND 14	Mar 0	
Corporate (1365)							
	-	-	-		CBOT 10 T-NOTE 14	Jun 0	
	-	200	200		CBOT 10 T-NOTE 14	Mar 0	
	-	-	-		CBOT 5YR TNOTE 14	Jun 0	
	-	-	-		CBOT 5YR TNOTE 14	Mar 0	
	-	-	-		CBOT T-BONDS 14	Jun 0	
	-	-	-		CBOT T-BONDS 14	Mar 0	
	200	300	100		CBOT ULTRABOND 14	Jun 0	
	175	375	200		CBOT ULTRABOND 14	Mar 0	
End			2150		CBOT 10 T-NOTE 14	Jun 0	
			-2310		CBOT 5YR TNOTE 14	Jun 0	
			3955		CBOT T-BONDS 14	Jun 0	
			3994		CBOT ULTRABOND 14	Jun 0	

Domestic Fixed Income Derivatives Report

Andrew C. Palmer, CFA

Domestic Fixed Income Derivatives Transaction Log

SUMMARY OF LAST QUARTER'S ACTIVITY:

CONTRACTS IN USE:

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

STRATEGIES:

- Used Ultra-Long, Long Bond , Ten-Year Futures and Five-Year Futures to manage interest rate exposures in the 1-5 Gov't portfolio and the Corporate portfolio .
- Employed 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, Long Bond , Ten-Year Futures and Five-Year 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.

PROPOSED STRATEGIES FOR CURRENT QUARTER:

- 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, Five-Year 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.

TCRS Currency Derivative Report

Currency Forwards Activity
Albert Chang

2014 2nd Quarter Activity

NO ACTIVITY

TCRS MORTGAGE PORTFOLIO

END OF QUARTER MORTGAGE TBA POSITIONS

Albert Chang

	PRICE	PAR	MARKET	SETTLE	FIRM
	(\$milion)	(\$million)	(\$million)		
15yr FNMA 3.0	102.75	25	25.69	APR	DCM
15yr FNMA 3.0	102.75	25	25.69	APR	JEF
15yr FNMA 3.5	104.81	50	52.41	APR	JPM
30yr FNMA 3.5	100.60	25	25.15	APR	BAML
30yr FNMA 4.0	103.95	31	32.22	APR	WFC
30yr FNMA 4.0	103.95	50	51.97	APR	MZ
30yr FNMA 4.0	103.95	50	51.97	APR	CS
30yr FNMA 4.0	103.95	20	20.79	APR	NOM
30yr FNMA 4.0	103.95	15	15.59	APR	BNP
30yr GNMA II 4.0	105.09	20	21.02	APR	BNP
30yr GNMA II 4.0	105.09	10	10.51	APR	C
30yr GNMA II 4.0	105.09	50	52.54	APR	BARC
30yr GNMA II 4.5	107.84	20	21.57	APR	C
Total		391	407		

By Firm	
	(\$million)
JPM	52.41
BARC	52.54
WFC	32.22
CS	51.97
MZ	51.97
DCM	25.69
JEF	25.69
BAML	25.15
BNP	36.61
NOM	20.79
C	32.08
Total	407.12

Tennessee Consolidated Retirement System
Operations Update
Fiscal Q3 2014 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 March 31 was down slightly when compared to the previous quarter. There were 2,349 purchases totaling over 66.8 million shares with a market value of \$3.7 billion, and 3,084 sales totaling over 77.8 million shares with a market value of \$3.4 billion.

(On April 25, 2014, Brad Pritchett left TCRS, creating a vacancy in equity trading. A search is being conducted for a replacement as of this writing.)

Securities Lending – The TCRS securities lending program launched on January 30, 2014 using Deutsche Bank as its securities lending agent. Deutsche Bank employs an intrinsic value lending strategy which focuses on lower rebate rates, higher lending spreads and lower dependency on reinvestment earnings. As of May 12, 2014, TCRS earnings since inception totaled \$4.2 million. \$3.0 million was derived from lending and \$1.2 million from reinvestment of cash collateral. All cash collateral was invested in indemnified repurchase agreements.

The average on loan balance since inception was \$2.2 billion with a spread of 66 bps. Emerging Market Equities attributed the most to overall earnings, making up 44% of the total, followed by Domestic Equities (26%), International Equities (17%), and Fixed Income (13%).

The top earners for the period were ETF's (iShares MSCI Indonesia, iShares MSCI Brazil, iShares MSCI South Africa and iShares MSCI Turkey). These securities attributed \$1.27 million or 30% of overall earnings of the period.

From an average balance perspective, JP Morgan was the largest borrower, representing 13% of the total on loan balance. Citigroup (11%), Credit Suisse (10%), Morgan Stanley (9%) and Goldman Sachs (8.6%) rounded out the top 5 borrowing counterparties.

