

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

**EXECUTIVE SUMMARY**

SEPTEMBER 30, 2013

STRATEGIC INVESTMENT SOLUTIONS, INC.

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333 Bush Street, Suite 2000  
San Francisco, CA 94104  
(415) 362-3484

- The postponement of tapering by the Federal Reserve led to broad increases in the major indices during the third quarter. The delay helped boost the S&P 500 total return index, which rose 5.2% in the third quarter.
- The postponement of tapering also increased sentiment for emerging market equities. The MSCI EM Net Return Index rose 5.8% during the third quarter.
- An improved European outlook also lifted Europe ex-UK in the third quarter, where equities rose 14.4%.
- Despite the lack of Federal Reserve tapering, the euro rose 4.1% against the dollar in the third quarter. The re-election of German Chancellor Angela Merkel in September may have provided a boost to sentiment for the euro.
- The State Street Investor Confidence Index® (ICI) measures risk appetite by analyzing buying and selling patterns of institutional investors. While confidence increased among Asian and European institutions, weaker appetite in the North American region drove the Global ICI lower 3.5 points to 101.4 in September, but it still remained above the neutral level of 100.
- For the period ending 9/30/13, the one quarter returns for, respectively, the NAREIT Equity index and the NCREIF Property index (one quarter lag), were -3.1% and 2.9%; one year, 5.9% and 10.7%; three years, 12.3% and 13.1% and five years, 5.7% and 2.8%.
- It has now been more than four years since March 9<sup>th</sup> of 2009 when the S&P 500 index closed at 676.53. Since then, prices of “core” assets have rebounded to near peak levels; in the public markets, equity and debt capital raising for REITs has eclipsed the 2004 to 2007 period.
- With the Fed considering an increase in rates, there are concerns about the potential impact on real estate. When the index of pending home sales fell 5.6% in September (after a 1.6% decrease in August), many pundits pointed to mortgage rates that reached two year highs. This may have an impact when the Fed meets to determine where rates are headed later this year and 2014.

## Market Indices Review

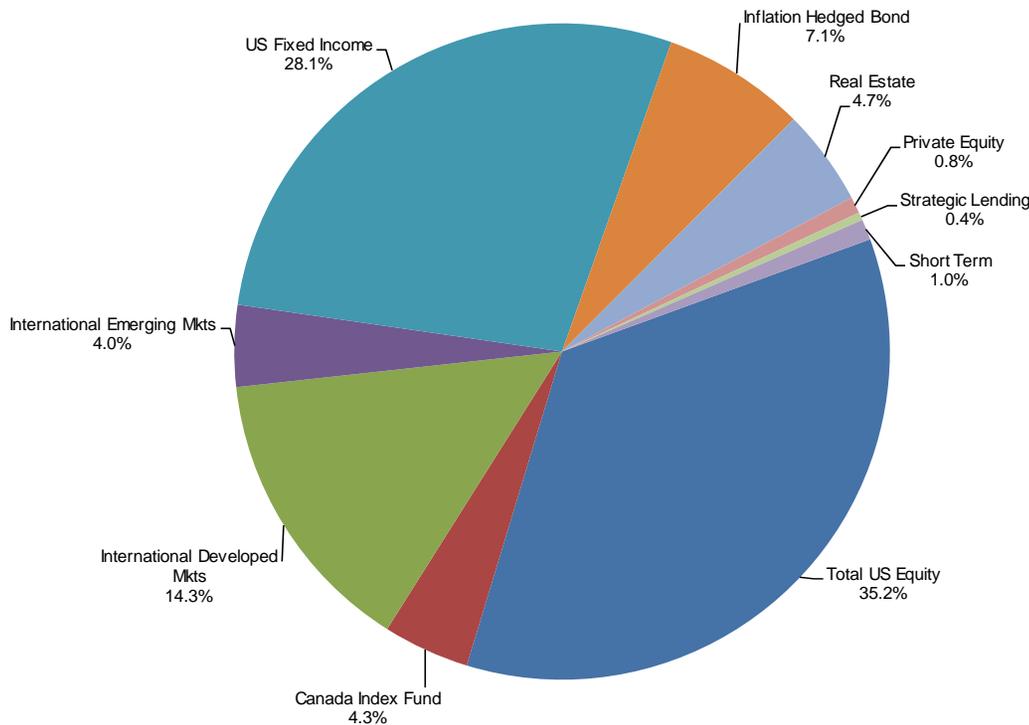
Periods Ending September 30, 2013

INDEX	STYLE	1 QTR	1 YEAR	3 YEAR	5 YEAR	7 YEAR	10 YEAR
<b>NORTH AMERICAN EQUITY INDICES</b>							
S&P 1500	Large Cap Broad	5.63	20.43	16.53	10.35	5.98	7.97
S&P 500	Large Cap Core	5.24	19.34	16.27	10.02	5.60	7.57
S&P MidCap 400	Mid Cap Broad	7.54	27.68	17.45	13.08	9.01	10.84
S&P Small Cap 600	Small Cap Broad	10.73	31.51	20.68	12.40	8.56	11.14
Russell 3000 Growth	Large Cap Growth	8.48	20.31	17.18	12.16	7.71	7.99
Russell 3000 Value	Large Cap Value	4.23	22.67	16.27	8.89	4.33	8.09
NASDAQ Composite	Large Cap Core	11.19	22.51	18.12	13.77	8.70	8.75
DJIA	Large Cap Core	2.12	15.59	14.94	9.93	6.61	7.74
S&P/T SX 60	Canadian Large Cap Broad	9.00	3.03	3.74	4.42	5.23	11.44
<b>INTERNATIONAL INDICES</b>							
MSCI EAFE NET	International Equity	11.56	23.77	8.47	6.35	2.40	8.01
MSCI AC World -ex US	International Equity	10.17	16.98	6.43	6.74	3.49	9.24
MSCI Emerging Markets	Emerging Markets	5.90	1.33	0.00	7.56	6.26	13.16
Citigroup World Gov't	Global Fixed	2.88	-4.60	1.02	4.25	5.11	4.80
Citigroup World Gov't ex US	International Fixed	1.01	2.19	2.79	4.18	4.12	4.21
<b>US FIXED INCOME INDICES</b>							
3-Month Treasury Bills	Cash	0.01	0.07	0.08	0.15	1.17	1.61
Barclays Aggregate	Core Fixed	0.57	-1.68	2.86	5.41	5.12	4.59
Barclays Gov/Credit	Core Fixed	0.36	-1.96	2.89	5.71	5.14	4.52
Barclays Mortgage	Mortgages	1.03	-1.20	2.65	4.66	5.10	4.75
NAR Equity REIT	Real Estate	-3.09	5.87	12.34	5.75	3.14	9.54
NCREIF Property - One Qtr lag	Real Estate	2.87	10.73	13.14	2.79	5.65	8.59

Asset Allocation Analysis – Total Plan

As of September 30, 2013

CURRENT ALLOCATION BY ASSET CLASS



	Actual \$	Actual %
Total US Equity	13,663,473,422	35.2%
Canada Index Fund	1,653,376,897	4.3%
International Developed Mkts	5,546,074,648	14.3%
International Emerging Mkts	1,559,690,672	4.0%
US Fixed Income	10,901,609,629	28.1%
Inflation Hedged Bond	2,741,995,994	7.1%
Real Estate	1,837,734,503	4.7%
Private Equity	315,460,887	0.8%
Strategic Lending	150,777,969	0.4%
Short Term	394,172,282	1.0%
<b>TOTAL</b>	<b>38,764,366,903</b>	<b>100.0%</b>

	TARGET	ACTUAL	DIFF
Total US Equity	33.0%	35.2%	2.2%
Canada Index Fund	4.0%	4.3%	0.3%
International Developed Mkts	13.0%	14.3%	1.3%
International Emerging Mkts	5.0%	4.0%	-1.0%
US Fixed Income	25.0%	28.1%	3.1%
Inflation Hedged Bond	4.0%	7.1%	3.1%
Real Estate	7.0%	4.7%	-2.3%
Private Equity	3.0%	0.8%	-2.2%
Strategic Lending	5.0%	0.4%	-4.6%
Short Term	1.0%	1.0%	0.0%

	6/30/2013	9/30/2013	DIFF
Total US Equity	35.3%	35.2%	0.0%
Canada Index Fund	4.1%	4.3%	0.2%
International Developed Mkts	13.4%	14.3%	0.9%
International Emerging Mkts	3.9%	4.0%	0.1%
US Fixed Income	28.5%	28.1%	-0.4%
Inflation Hedged Bond	7.2%	7.1%	-0.1%
Real Estate	4.9%	4.7%	-0.1%
Private Equity	0.7%	0.8%	0.1%
Strategic Lending	0.0%	0.4%	0.4%
Short Term	2.1%	1.0%	-1.1%

Performance Summary

Periods Ending September 30, 2013

	1 QTR		1 YEAR		3 YEAR		5 YEAR		10 YEAR	
	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA
<b>TCRS Composite</b>	<b>4.10</b>	<b>-0.25</b>	<b>8.96</b>	<b>-0.65</b>	<b>10.23</b>	<b>-0.02</b>	<b>7.79</b>	<b>-0.35</b>	<b>6.39</b>	<b>-0.56</b>
<i>Policy Index<sup>1</sup></i>	4.35		9.61		10.25		8.14		6.95	
<i>Total Fund Allocation Index<sup>2</sup></i>	4.30		8.42		9.55		7.86			
<i>IFx Public DB &gt;\$1B Gross Median</i>	4.84		12.16		9.73		7.79		7.38	
<b>NORTH AMERICAN EQUITY MANAGERS</b>										
Large Cap										
Index	5.25	0.01	19.29	-0.05	16.25	-0.02	10.07	0.05		
Quant	5.03	-0.21	17.92	-1.42	16.59	0.32	9.85	-0.17	7.95	0.38
Sector	4.92	-0.32	17.36	-1.98	16.15	-0.12	9.90	-0.12	7.55	-0.02
S&P 500 Index	5.24		19.34		16.27		10.02		7.57	
Mid Cap										
Mid Cap <sup>3</sup>	7.74	0.20	28.22	0.54	17.95	0.50	12.00	-1.08	10.32	-0.16
S&P MidCap 400 Index <sup>3</sup>	7.54		27.68		17.45		13.08		10.48	
Small Cap										
Small Cap Index <sup>4</sup>	10.70	-0.03	31.87	0.36						
S&P SmCap 600 Index	10.73		31.51							
Canada										
Canada	8.98	-0.02	3.00	-0.08	4.17	0.27				
S&P/TSX 60 Index	9.00		3.08		3.90					
<b>NORTH AMERICAN EQUITY COMPOSITE</b>										
<i>N.A. Equity Custom Index<sup>5</sup></i>	5.92	-0.07	17.57	-0.92	15.42	0.42				
	5.99		18.49		15.00					
<b>US EQUITY COMPOSITE</b>										
<i>US Equity Custom Index<sup>6</sup></i>	5.56	-0.07	19.43	-1.00	16.93	0.40	10.03	-0.32	7.87	-0.03
	5.63		20.43		16.53		10.35		7.90	
<i>IFx All DB US Eq Gross Median</i>	6.85		22.95		16.84		10.81		8.45	
<b>INTERNATIONAL EQUITY MANAGERS</b>										
Developed										
Baring Asset Management	9.13	-2.43	22.35	-1.42	10.40	1.93				
MSCI EAFE NET Index	11.56		23.77		8.47					
Marathon	10.37	-1.19	26.19	2.42	11.28	2.81	9.99	3.64	11.33	3.10
MSCI EAFE NET Index <sup>7</sup>	11.56		23.77		8.47		6.35		8.23	
PanAgora Asset Management	10.29	-1.27	23.61	-0.16	10.57	2.10	8.38	2.03	9.51	1.50
MSCI EAFE NET Index	11.56		23.77		8.47		6.35		8.01	
TT International	10.78	-0.78	33.46	9.69	9.39	0.92				
MSCI EAFE NET Index	11.56		23.77		8.47					
Walter Scott	9.15	-2.41	18.80	-4.97	10.98	2.51	10.28	4.93	11.88	3.50
MSCI EAFE NET Index <sup>8</sup>	11.56		23.77		8.47		5.35		8.38	
Developed Small Cap										
American Century Investment	12.97	-2.55	33.23	3.80	15.36	4.11				
MSCI EAFE Small Cap NET Index <sup>9</sup>	15.52		29.43		11.25					
Pyramis Global Advisors	14.26	-1.26	30.36	0.93	14.05	2.80				
MSCI EAFE Small Cap NET Index <sup>9</sup>	15.52		29.43		11.25					

Performance Summary

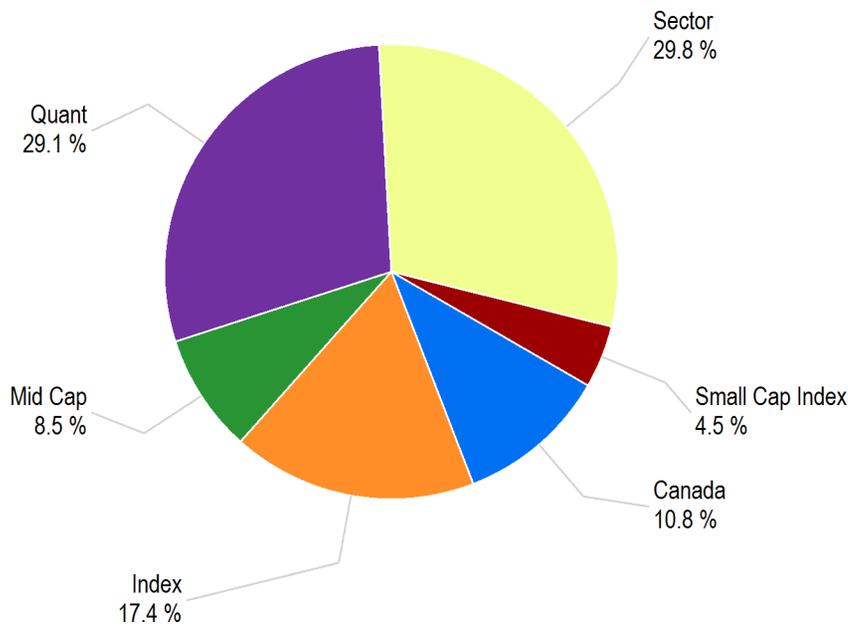
Periods Ending September 30, 2013

	1 QTR		1 YEAR		3 YEAR		5 YEAR		10 YEAR	
	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA
GE Asset Management	12.42	-1.19	23.87	-0.36	10.08	1.35				
MSCI Europe NET Index <sup>10</sup>	13.61		24.23		8.73					
Pacific Indexed Portfolio <sup>11</sup>	8.96	0.97	23.43	0.11	8.34	-0.03	6.22	-1.21	6.84	-0.39
MSCI Pacific NET Index <sup>12</sup>	7.99		23.32		8.37		7.43		7.23	
<b>Emerging Market</b>										
Emerging Market ETF <sup>13</sup>	4.11	0.38								
MSCI Emerging Markets Net Custom Index	3.73									
<b>TOTAL INT'L EQUITY COMPOSITE</b>	<b>9.18</b>	<b>-0.51</b>	<b>20.04</b>	<b>2.74</b>	<b>9.51</b>	<b>2.84</b>	<b>7.96</b>	<b>2.31</b>	<b>9.61</b>	<b>1.98</b>
Int'l Equity Custom Index <sup>14</sup>	9.69		17.29		6.67		5.65		7.63	
IFx ALL DB ex-US Eq Gross Median	10.13		18.67		7.43		6.60		8.77	
<b>US FIXED INCOME</b>										
Corporate	0.19	-0.11	-2.66	2.37	7.33	1.88	11.30	1.91	6.31	0.59
Citigroup LPF Credit Index <sup>15</sup>	0.30		-5.03		5.45		9.39		5.72	
Government 1-5	-0.26	0.99	-5.15	2.57	8.43	3.25	7.32	1.34		
Citigroup LPF Treasury/Gov't Sponsored <sup>16</sup>	-1.25		-7.72		5.18		5.98			
Government 5 Plus	-1.15	0.10	-7.27	0.45	4.70	0.59	7.18	0.86		
Citigroup LPF Treasury/Gov't Sponsored <sup>17</sup>	-1.25		-7.72		4.11		6.32			
Mortgage Backed Securities	1.02	-0.04	-1.10	0.10	3.05	0.35	4.63	-0.05	4.34	-0.47
Citigroup Mortgage Backed Securities Index	1.06		-1.20		2.70		4.68		4.81	
<b>US FIXED INCOME COMPOSITE</b>	<b>0.15</b>	<b>0.25</b>	<b>-3.50</b>	<b>1.47</b>	<b>5.71</b>	<b>1.23</b>	<b>7.96</b>	<b>1.55</b>	<b>5.42</b>	<b>0.26</b>
Citigroup LPF Index <sup>18</sup>	-0.10		-4.97		4.48		6.41		5.16	
IFx All DB US Fix Inc Gross Median	0.67		-0.82		4.08		7.07		5.23	
<b>INFLATION HEDGED BOND</b>	<b>0.65</b>	<b>0.11</b>	<b>-6.69</b>	<b>0.06</b>	<b>3.73</b>	<b>-0.24</b>	<b>5.19</b>	<b>-0.14</b>		
Inflation Hedged Account	0.65	0.11	-6.69	0.06	3.73	-0.24	5.19	-0.14		
Citigroup TIPS Index	0.54		-6.75		3.97		5.33			
<b>REAL ESTATE</b>	<b>1.62</b>	<b>-1.25</b>	<b>10.16</b>	<b>-0.57</b>	<b>11.73</b>	<b>-1.41</b>	<b>0.95</b>	<b>-1.84</b>	<b>7.37</b>	<b>-1.22</b>
NCREIF Property Index - One Qtr lag	2.87		10.73		13.14		2.79		8.59	
IFx All DB Real Estate Gross Median	2.99		10.72		13.24		0.36		6.15	
<b>PRIVATE EQUITY<sup>20</sup></b>	<b>3.44</b>	<b>0.22</b>	<b>10.65</b>	<b>-12.94</b>	<b>9.98</b>	<b>-11.48</b>				
S&P 500 Index + 3% (One Qtr lag) <sup>21</sup>	3.22		23.59		21.46					
<b>STRATEGIC LENDING<sup>22</sup></b>										
Strategic Lending Custom Index <sup>22</sup>										
<b>SHORT TERM</b>	<b>0.22</b>		<b>0.86</b>		<b>1.33</b>		<b>1.70</b>			
Cash Account	0.12		0.62		1.57		1.38		2.43	
Short Duration	0.45		1.17		1.61		2.87			

- Total Fund and asset class composites are ranked against InvestorForce universes. Managers are ranked against eVestment Alliance style universes. Ranking of 1 is a top ranking and ranking of 100 is a bottom ranking.
- 1 As of 1/1/13, the Policy Index is 33% S&P 1500/ 4% S&P TSX 60/ 13% MSCI EAFE IMI net/ 5% MSCI Emerging Mkts net/ 25% Citigroup LPF/ 4% Citigroup TIPS/ 7% NCREIF 1Q Lag/ 3% S&P 500 + 3% - 1Q Lag/ 1% 91 Day T-Bill/ 5% Strategic Lending.
  - 2 As of 7/1/13, the Total Fund Allocation Index is 34.4% S&P 1500/ 4.2% S&P TSX 60/ 13.5% MSCI EAFE IMI net/ 5.2% MSCI Emerging Mkts net/ 28.1% Citi LPF/ 8% Citigroup TIPS/ 4.9% NCREIF 1Q Lag/ 0.7% S&P 500 + 3% 1Q Lag/ 1% 91 Day T-Bill.
  - 3 As of 7/1/08, strategy was changed from SMID Cap. Benchmark is linked to S&P 1000 Index.
  - 4 Funded 7/2012. Use 100% Russell 2000 Futures returns January 2011- June 2012. Use weighted blend of Russell 2000 Futures and Small Cap Fund returns July 2012- October 2012. Use 100% Small Cap Fund returns November 2012- present
  - 5 As of 1/1/13, benchmark is 89.19% S&P 1500/ 10.81% S&P TSX 60; prior was 87.5% S&P 1500/ 12.5% S&P TSX 60 Index.
  - 6 As of 7/1/04 S&P 1500 Index; prior was S&P 500 Index.
  - 7 As of 5/19/06; prior was MSCI Europe Index.
  - 8 As of 2/2/09; prior was MSCI Europe Index.
  - 9 As of 07/01/11, MSCI EAFE NET Index; prior was MSCI EAFE Index.
  - 10 As of 07/01/11, MSCI Europe NET Index; prior was MSCI Europe Index.
  - 11 Performance was attributable to Amundi through 9/3/10; portfolio managed by TCRS staff afterward.
  - 12 As of 7/1/04; prior was MSCI AC Asia Pacific Free Index.
  - 13 Funded November 2012.
  - 14 As of 1/1/13, 72.22% MSCI EAFE IMI net/ 27.78% MSCI Emerging Mkts net; Prior was MSCI EAFE IMI net (10/08-12/12); prior was MSCI EAFE NET Index.
  - 15 As of 7/1/2011, benchmark is Citigroup LPF Credit. As of 4/1/2011, benchmark is 50% Citigroup Credit Index, 50% Citigroup LPF Credit Index. Citigroup Credit Index: 7/1/05-3/31/11. Lehman Credit ex BBB prior.
  - 16 As of 7/1/2011, benchmark is Citigroup LPF Treasury/Government Sponsored. As of 04/1/2011, benchmark, is 50% Citigroup 1-5 Govt/50% Citigroup 1-7 Govt. As of 8/1/09, name switched from Fixed Income Overlay to Gov't 1-5 in order to reflect strategy change. As of 8/1/09, benchmark is Citi Treas/Gov't Sponsored 1-5; prior was Citi BIG Index.
  - 17 As of 7/1/2011, benchmark is Citigroup LPF Treasury/Government Sponsored. As of 4/1/2011, benchmark is 50% Citigroup Core 5+ Gov't/50% Citigroup 7+ Gov't. As of 8/1/09, name switched from Agency Debt to Gov't 5 Plus in order to reflect strategy change. As of 8/1/09, benchmark is Citi Core+5 Treas/Gov't Sponsored; prior was Citi Treas/Gov't Sponsored.
  - 18 As of 7/1/2011, benchmark is Citigroup LPF Index. As of 04/1/2011, benchmark is 50% Citigroup BIG/50% Citigroup LPF. As of 7/1/05 benchmark switched from Lehman Aggregate -ex BBB Index to Citigroup BIG.
  - 19 As of 7/1/04; prior was Citigroup World Government Bond -ex US Unhedged Index.
  - 20 Per TCRS' request: As of Q1 2012, Private Equity returns are quarter-lagged IRR returns from Cambridge Associates and are the prior quarter's performance returns.
  - 21 As of February 2011, index changed from S&P 500 Index + 300bps to S&P 500 Index + 300 bps (One Qtr lagged), since inception.
  - 22 Funded 8/1/13. Reported net of fees. Benchmark is 50% Barclays HY 2% Issuer Capped/ 50% Credit Suisse Leveraged Loans.

Manager Allocation Analysis - North American Equity

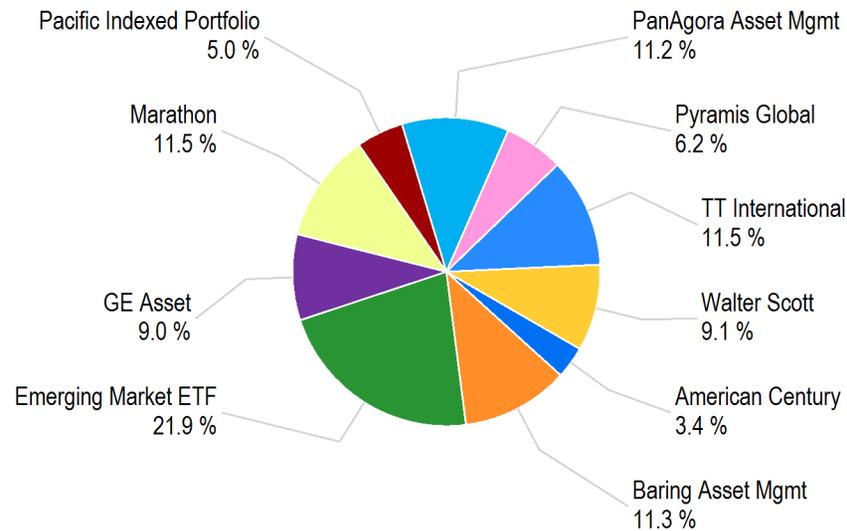
As of September 30, 2013



	Actual \$	Actual %
Canada	\$1,653,376,897	10.8%
Index	\$2,672,534,924	17.4%
Mid Cap	\$1,295,034,928	8.5%
Quant	\$4,455,699,636	29.1%
Sector	\$4,557,645,773	29.8%
Small Cap Index	\$682,558,161	4.5%
<b>Total</b>	<b>\$15,316,850,319</b>	

Manager Allocation Analysis - International Equity

As of September 30, 2013

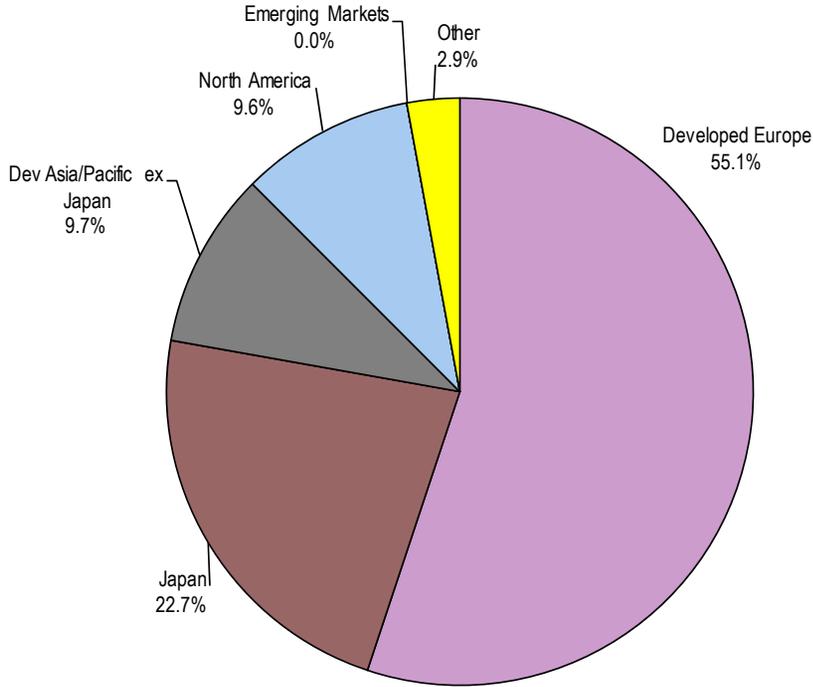


	Actual \$	Actual %
American Century	\$239,082,362	3.4%
Baring Asset Mgmt	\$800,895,610	11.3%
Emerging Market ETF	\$1,559,690,672	21.9%
GE Asset	\$639,362,489	9.0%
Marathon	\$814,578,483	11.5%
Pacific Indexed Portfolio	\$352,237,181	5.0%
PanAgora Asset Mgmt	\$798,321,399	11.2%
Pyramis Global	\$442,969,449	6.2%
TT International	\$814,280,096	11.5%
Walter Scott	\$644,347,579	9.1%
<b>Total</b>	<b>\$7,105,765,320</b>	

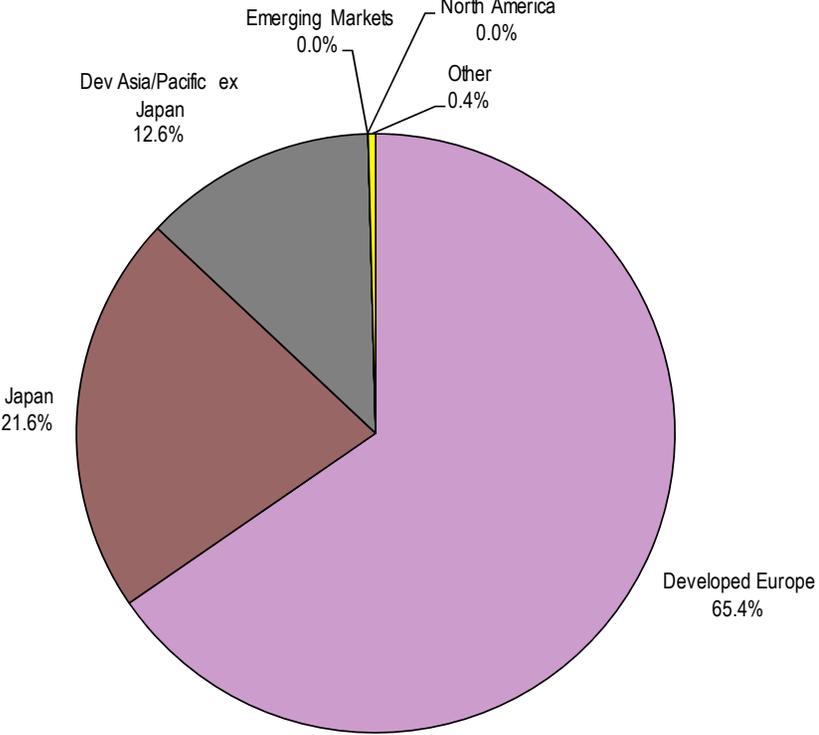
Developed International Equity Portfolio Regional Weights

As of September 30, 2013

Developed International Equity



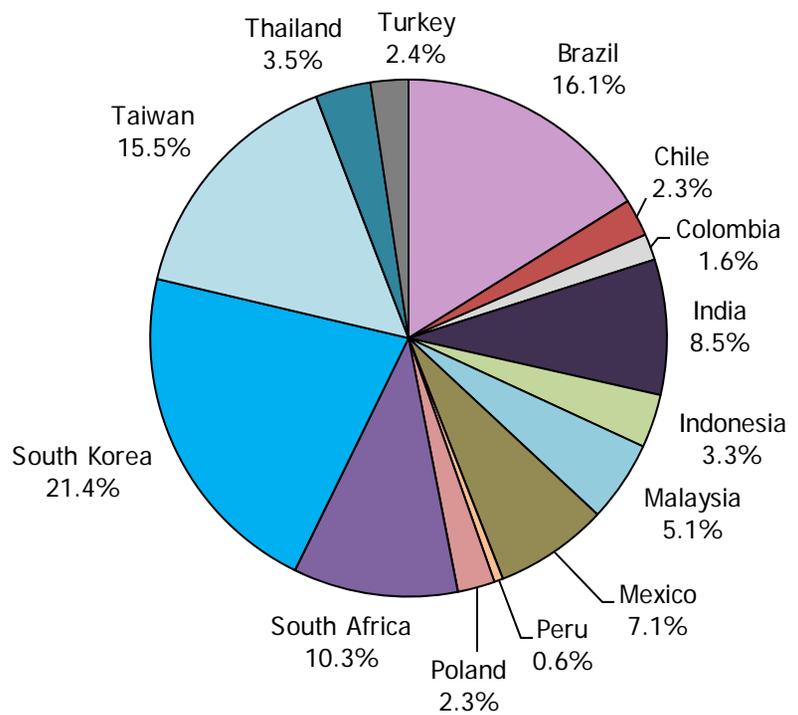
MSCI EAFE Index



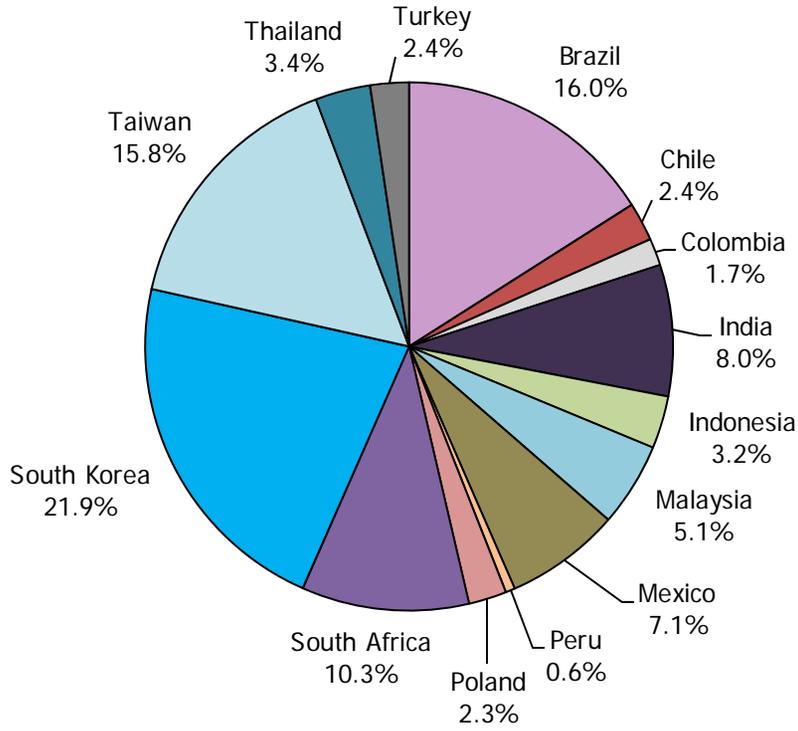
Emerging Market ETF Portfolio Regional Weights

As of September 30, 2013

Emerging Market ETF

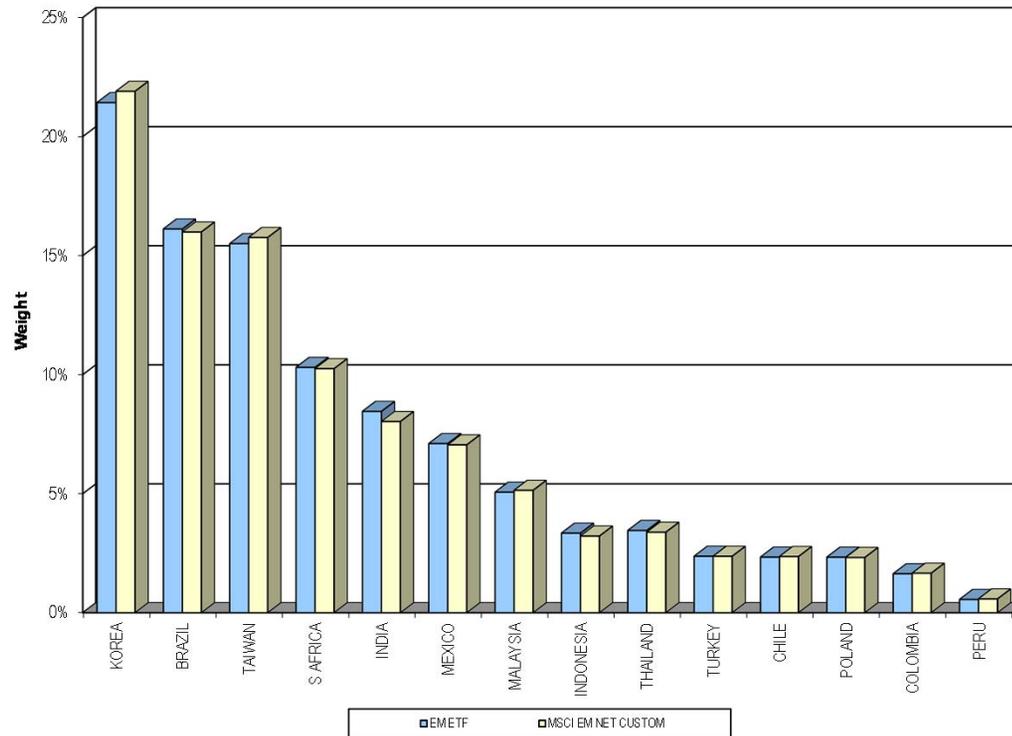


MSCI Emerging Market Net Custom Index



Portfolio Country Weights – Emerging Market ETF

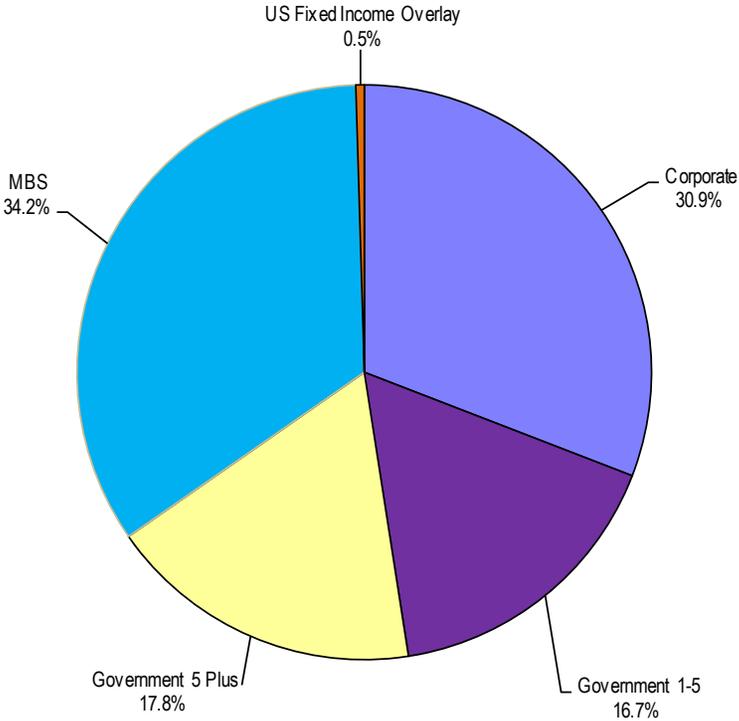
As of September 30, 2013



COUNTRY	MARKET VALUE ( \$ 000)	EM ETF	MSCI EM NET CUSTOM	DIFF
KOREA	\$ 334,176	21.4%	21.9%	-0.5%
BRAZIL	\$ 251,370	16.1%	16.0%	+0.1%
TAIWAN	\$ 241,778	15.5%	15.8%	-0.3%
S AFRICA	\$ 160,732	10.3%	10.3%	+0.1%
INDIA	\$ 131,872	8.5%	8.0%	+0.4%
MEXICO	\$ 110,795	7.1%	7.1%	+0.1%
MALAYSIA	\$ 78,959	5.1%	5.1%	-0.1%
INDONESIA	\$ 52,119	3.3%	3.2%	+0.1%
THAILAND	\$ 53,874	3.5%	3.4%	+0.1%
TURKEY	\$ 37,003	2.4%	2.4%	+0.0%
CHILE	\$ 36,422	2.3%	2.4%	-0.0%
POLAND	\$ 36,390	2.3%	2.3%	+0.0%
COLOMBIA	\$ 25,520	1.6%	1.7%	-0.0%
PERU	\$ 8,681	0.6%	0.6%	-0.0%
	\$ 1,559,691	100.0%	100.0%	0.0%

Manager Allocation Analysis – US Fixed Income

As of September 30, 2013



	Actual \$	Actual %
Corporate	3,364,100,793	30.9%
Government 1-5	1,818,118,022	16.7%
Government 5 Plus	1,939,381,042	17.8%
MBS	3,728,806,684	34.2%
US Fixed Income Overlay	51,203,088	0.5%
<b>TOTAL</b>	<b>10,901,609,629</b>	<b>100.0%</b>