INVESTMENT REPORT

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Fourth Quarter
Fiscal Year 2010 - 2011

April 1, 2011 – June 30, 2011

Prepared for:
Board of Trustees

September 30, 2011

Investment Advisory Council

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

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

The current members are as follows:

Council Member	Expiration of Term	Appointed Term
Frederick S. Crown, Jr., CFA 124 Longwood Place Nashville, TN 37215 Phone: 615-385-3753 E-mail: **crownfl@gmail.com**	June 30, 2012	5 year
Henry J. Delicata Park Street Capital One Federal Street, 24th Floor Boston, MA 02109 Phone: (cell) 617-347-8854 / (office) 617-897-9252 E-mail: **hdelicata@parkstreetcapital.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, 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
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

Fourth Quarter
Fiscal Year 2010-2011

April 1, 2011 – June 30, 2011

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Minutes from the Investment Advisory Council Meeting
September 7, 2011

Mr. Michael Brakebill, Chief Investment Officer, convened the meeting at 10:00 a.m. in the 11th Floor conference room of the Andrew Jackson State Office Building. Investment Advisory Council (IAC) members present were Mr. Chuck Webb, Ms. Susan Huffman and Mr. George Stadler. Mr. Henry Delicata participated via conference call and Mr. Fred Crown was unable to attend. Investment staff members present were Michael Brakebill, Bill Abney, Andy Palmer, Mike Keeler, Peter Katseff, Lamar Villere, Tim McClure, Roy Wellington, Jim Robinson, Carrie Green, Rachel Roberts, Daniel Crews, Kushal Gupta, Ken McDowell, Matthew Haitas, and Rhonda Myers.

Mr. Brakebill reviewed investment performance which was illustrated in the Investment Report for June 30, 2011 and in the Strategic Investment Solutions (SIS) quarterly performance report. The portfolio returned 1.7% for the quarter and 19.6% for the trailing twelve months. The long-term performance of the fund continues to improve and the portfolio gained 4.9% for the trailing ten-year period. The return of the portfolio exceeded the allocation index by 0.5% for the quarter and 0.2% for the trailing year but trails the benchmark by 0.7% for the trailing three-year period. The risk-averse bias of the portfolio is responsible for the low relative performance of the portfolio and for the trailing year the fund ranked 82% versus comparable portfolios. The trailing three-year performance for TCRS ranked 66% versus comparable portfolios.

Mr. Brakebill then discussed the Key Initiatives that are underway. The asset allocation changes reviewed by the IAC were approved by the TCRS Board in December and Staff continues to implement the allocation to the Canada Fund and the change in the fixed income index from the Citigroup BIG Index to the Citigroup LPF Index. Through purchases and appreciation, the Canadian index portfolio reached a value of $1.64 billion on June 30. Securities lending is still in the process of implementation and recent progress has been very slow. Mr. Brakebill discussed the fund's ongoing asset allocation review with strategic lending and real estate strategy being the primary focus. He noted that TCRS is exploring tactical allocations to high yield fixed income and mezzanine debt. Further, he noted that under the real estate guidelines, 20% of the real estate allocation could be designated to "non-core" (higher risk and higher return) real estate. Currently, the allocation to non-core is small, but if it was increased to 20%, the real estate portfolio could potentially generate greater returns. Mr. Brakebill also stated that TCRS would be exploring and researching increasing the portfolio's exposure to global equities and hedge funds. Mr. Brakebill reported that SIS had completed its operational review of the fund and will soon begin an asset and liability review. Mr. Brakebill concluded his remarks by noting the fund was currently increasing its allocation to equities. The fund is currently 4.5% under-weight in equities but has begun buying more equities over the previous two months.

Mike Keeler moved the discussion to domestic equities. Generally defensive sectors performed well during the period while quality, size and growth dominated factor returns. Domestic Equities outperformed the S&P 1500 composite in the quarter due to strong relative performance by the Quant and Sector Funds as well as an under-weight to mid-cap stocks. An over-weight commitment to small cap futures and exposure to Canadian stocks detracted slightly from relative performance during the period. Stock selection provided all of the excess return above the benchmark during the quarter as industry sector selection was slightly negative.

The Mid Cap Fund outperformed the S&P Mid Cap 400 primarily due to good stock selection in the retailing industry and the computer software industry. Under-weighting the Banking industry, Financial Services in general and the Materials Sector as well as over-weight positions in the Health Care and Consumer Staples sectors also added relative value in the quarter. Poor stock selection in those sectors somewhat reduced relative performance but sector allocation added value. Stock selection was responsible for almost 90% of the value added against the benchmark with industry sector allocation contributing slightly.

Jim Robinson reported that the Quant Fund had another extraordinarily good quarter of relative performance in the period ended June 30, 2011. The top level multi-factor model produced an information coefficient of +0.043 with only the Earnings Momentum multi-factor component significantly deducting from the models' value-add in the quarter. The market turned in a positive absolute return in April, but May and June both had negative returns as the risk-on/risk-off trading pattern continued to dominate short term themes in the stock market. Macro level concerns over European financial problems, US government budget squabbles, and global economic weakness were the major topics in focus.

Currently, the Quant Fund has a projected annualized tracking error of 2.06%, slightly higher than desired. Beta at 1.006 and APE at 50.3% are both within tolerance, but nearing the high end of their normal ranges. The fund's transfer coefficient stands at 47% according to Northfield's optimizer, higher than typically observed since January, 2011. The Quant Fund has made steady progress in getting more holdings in better ranked stocks while staying within risk parameters.

Roy Wellington said the Sector Fund is still expecting the recovery to continue but with more uncertainty comes less emphasis on that stance. The Sector Fund had a great year of managing within their sectors. The Sector team has begun to use software to evaluate the proper weighting of the best ideas while avoiding loading up on similar risk factors. It is expected that consistent good performance with fewer surprises as a result of this optimization. The Russell 2000 Index futures return exceeded that of the Russell 2000 Index so it has performed as designed. The small stock benchmark is the S&P Small Cap Index which had a somewhat better performance in the quarter but Staff is not too concerned with the differences between the two small cap measures when averaged over several quarters.

The international managers had an excellent quarter as a group which most attributed to scattered stock picks that worked in the fund's favor. There was some discussion on the fiscal imbalances within the Eurozone and the risk to the European banking system of some member governments not repaying their borrowings. There was some agreement that the value of the Euro was at risk of declining substantially.

Mr. Palmer moved the discussion to the fixed income portfolio. He noted that the portfolio had a strong year and a strong quarter with a 289 basis point quarterly return and a 600 basis point annual return. The benchmark returns printed in the quarterly presentation were for the BIG index, which has now been replaced with the LPF index. The portfolio remains relatively short duration but has been actively increasing the duration and will continue to do so, with the duration moving from 6.2 years to 8.2 years in the quarter. The Government portfolio outperformed the index in the quarter. There was a relative under-weighting to U.S. Treasuries throughout the quarter but the portfolio is less under-weight now. The Corporate portfolio performed well with a 21 basis point relative outperformance. The portfolio is slowly decreasing its large allocation to financials and increasing its allocation in industrials. This process is slow due to the relative illiquidity of corporate bonds.

The International portfolio has continued to be under-weight the euro. However, the remarkably strong performance of the euro largely explained the relative underperformance of this portfolio. The Inflation Protected portfolio modestly lagged the index. This portfolio has had a short duration positioning with little expected changes to the positioning in the near future. The Mortgage Backed portfolio slightly underperformed its index in the quarter. The CMBS and non-agency MBS continues to decrease in size. Mr. Palmer noted that CMBS is beginning to look attractive and portfolio could be investing in this space.

Peter Katseff commented on the status of two planned acquisitions that had previously been communicated to the IAC. The office property in suburban Boston closed in August but the acquisition of the industrial property in Northern Virginia was terminated. The decision to terminate the planned acquisition was primarily due to an inability to agree to acceptable terms with the prospective single tenant. The acquisition was only to proceed if this tenant signed a lease prior to closing. Mr. Katseff provided an update on the status of the three recently approved apartment acquisitions. He noted that due diligence was underway on the Southern Florida property and the purchase and sale agreement should be executed this week. Mr. Katseff stated that the Southern California acquisitions were moving slower and he didn't foresee any major impediments to closing the transactions.

Mr. Katseff noted that the overall TCRS portfolio had performed largely as expected in the previous quarter. Further, he continued to expect appreciation in values when appraisals are completed on December 31, 2011, which will be reflected in the returns of the third quarter of the fiscal year of TCRS.

Mr. Katseff provided an update on current market conditions for domestic commercial real estate. He noted that pricing remained high in the primary markets that TCRS prefers and that buyers are attracted to real estate for its cash flow above current treasury yields. Mr. Katseff stated that the CMBS market had experienced a recent setback in the markets ability to issue new loans, but due to the large number of all cash buyers, he did not expect this to have a material impact on commercial real estate values. He further commented that some REIT analysts had begun to cut earnings growth projections due to fears of a slower economy or a recession. Mr. Katseff noted that he did not expect real estate pricing to change in the near future as it tends to lag other asset classes. Mr. Katseff concluded by stating that TCRS would continue to focus on acquiring new properties in stable primary markets, but on a selective basis.

Lamar Villere provided an update on the private equity portfolio. As of March 31, 2011, the total portfolio value had reached $58.4 million, with the bulk of that figure invested in venture and credit strategies. Mr. Villere noted that he expects buyout exposure to grow significantly over time, eventually becoming the largest component of the portfolio. Performance thus far has been better than expected, but Mr. Villere stated that he does not view performance in the first several years of the portfolio as meaningful. Mr. Villere discussed the trip that he, Bill Abney, and Michael Brakebill took to the United Kingdom, and stated that the team identified at least two very compelling potential managers. Finally, he noted that commitments in calendar 2011 have been just $70 million, but the deal pipeline for the end of the year is very robust.

Roy Wellington reviewed the performance of the fund's Equity Derivatives portfolio. He noted that equity futures underperformed small cap futures. He noted that while the Russell 2000 index has some basis risk, it appeared to be a better instrument than alternatives.

Mr. Palmer reviewed the Domestic Fixed Income Derivatives portfolio. He noted that this portfolio had largely been used to increase the duration of the Fixed Income portfolio. Further, this portfolio successfully bought call options on U.S. Treasuries, which provided good returns. He noted that going forward this portfolio would be used to manage duration risk.

Mr. Palmer reviewed the International Fixed Income portfolio. He noted that most of this portfolio provided exposure to the Canadian Dollar. The portfolio was investing in 5-year Canadian Treasuries and had found some value in Canadian asset backed securities.

Tim McClure gave an update on changes being made to the Bloomberg Order Management System. The latest enhancement is construction of the pre-trade compliance rules. Mr. Paul Robertson, Compliance Officer, is responsible for this project and has begun the process of building the necessary rules that should add an additional layer of security to the trading process. The construction process for the compliance monitoring tool will take some time, but will be a welcome addition to the OMS system. Mr. McClure also stated that the one-year anniversary of the Barclay's commission sharing agreement (CSA) program took place in April. The CSA program is currently being reviewed by the Treasury Internal Audit Division to make sure the program is transparent and in keeping with the compliance rules that were designed for the program. Lastly, Mr. McClure noted that the quarterly results of the Abel Noser trading cost analysis reports had been reviewed. Trading was difficult during the quarter with volatile markets that resulted in large intra-day moves. Still, the trading desk was able to add a small amount of value on transactions that allowed for trader discretion.

Mr. Brakebill asked each attending member of the IAC to provide an outlook for investments. All four attending IAC members provided their comments on the state of the economy and the outlook for investments.

The meeting adjourned at 12:00 p.m.

Performance Review
June 2011

Absolute comparison

- 1 quarter return of 1.7%
- 1 year return of 19.6%
- 10 year return of 4.9%

Benchmark (relative) comparison

- Qtr return beat allocation index 0.5%
- 1 year return beat allocation index by 0.2%
- 3 year return trails benchmark by 0.7%
    - TAA flat for quarter, down 167 bps for year
    - DFI up 2 bps in quarter, up 201 bps for year
    - DE up 71 bps in quarter, up 206 bps for year
    - IE up 145 bps in quarter, up 196 bps for year
    - RE down 50 bps for year

Peer comparison

- 1 quarter return ranked at 20% (0% = best)
- 1 year return ranked at 82%
- 3 year return ranked at 66%
- RE in top 1/3 over three years

Key Initiatives
June 2011

- Asset allocation implementation
  - Securities lending

- Asset Allocation Review
  - Strategic lending
  - Real estate strategy

- Domestic Equity Hiring
  - Portfolio Manager/Analyst

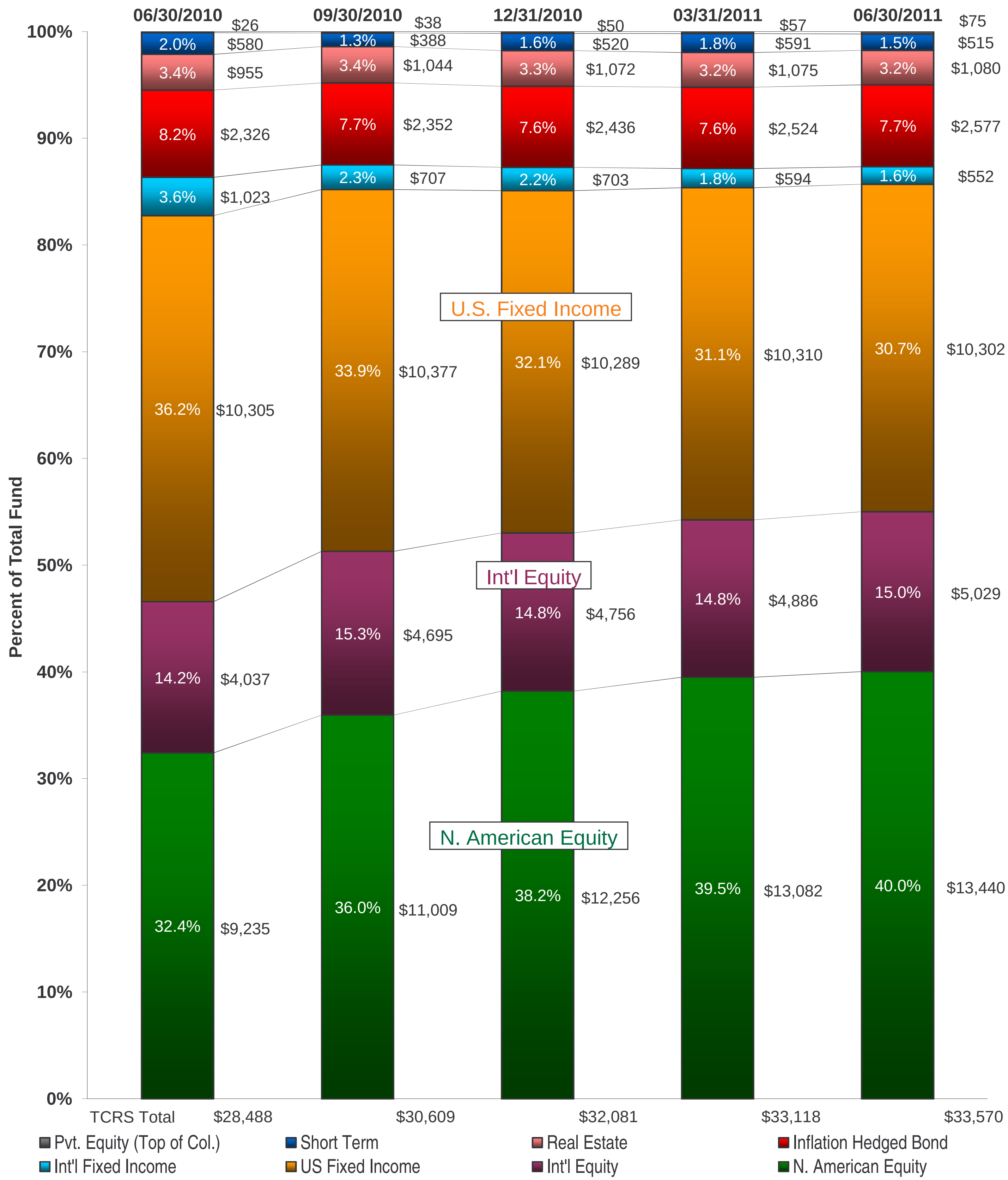
- Private Equity Due Diligence

- SIS Due Diligence Review

- Tactical Allocation

TCRS Asset Allocation

June 2011

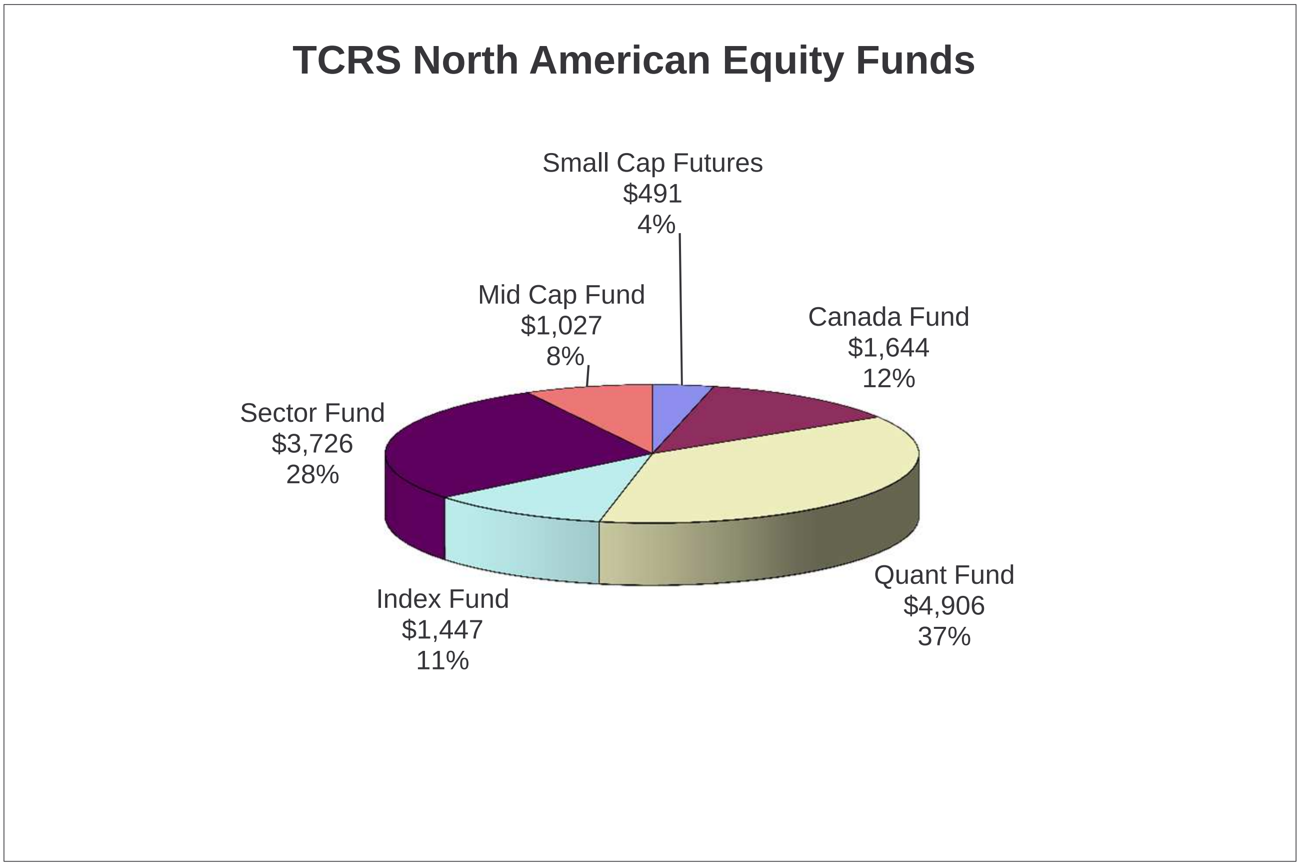


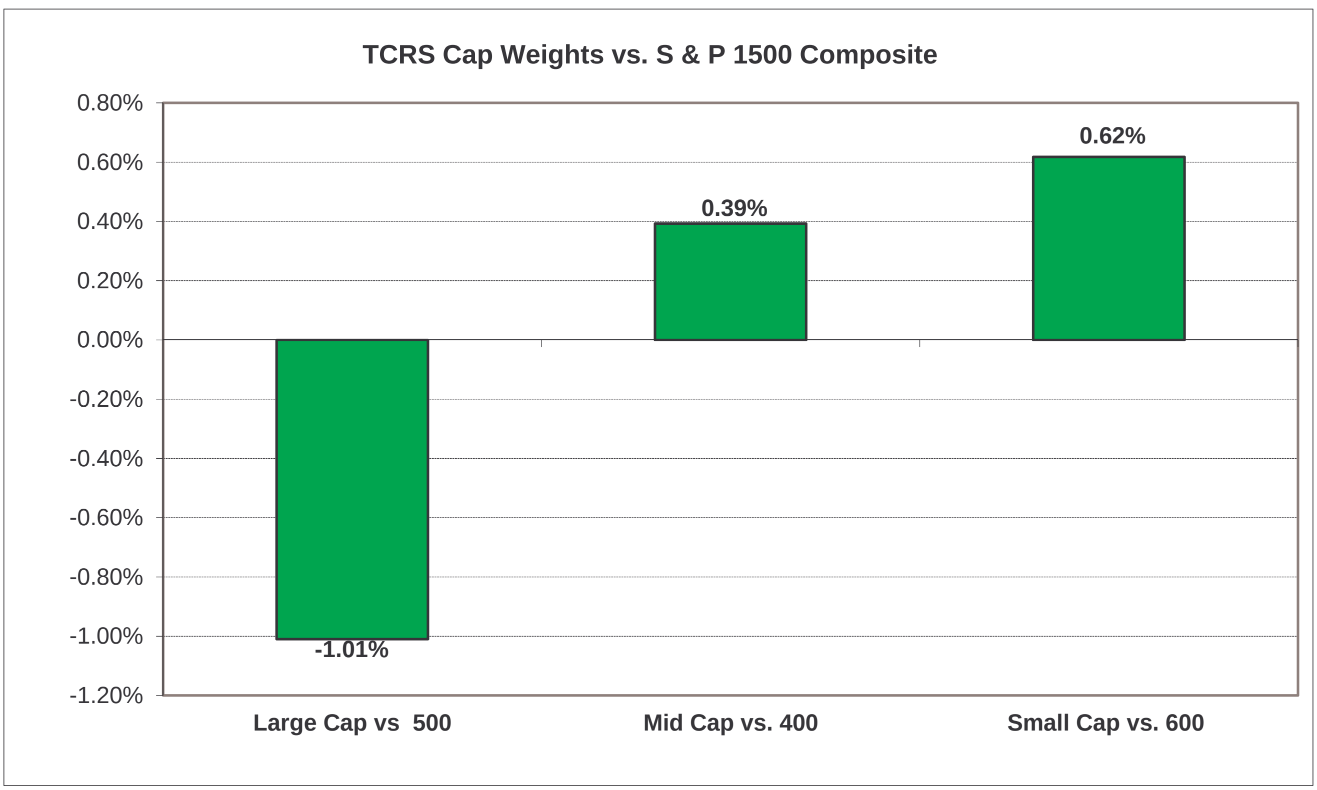
$ = millions

Source: Strategic Investment Solutions, Inc.

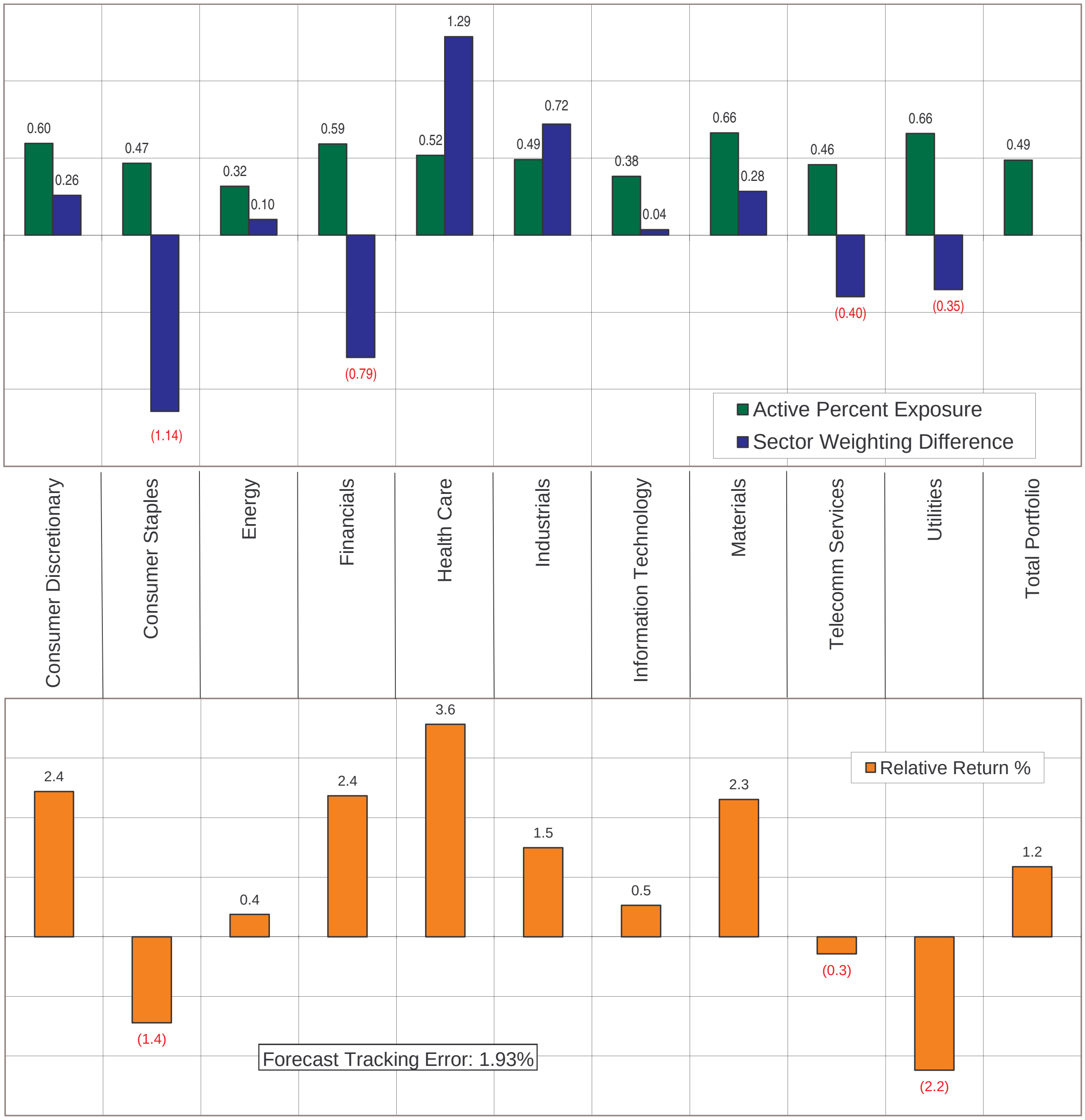
Domestic Equity Portfolio Overview

Michael Keeler, CFA





Large Cap Quant Fund
Jim Robinson, CFA



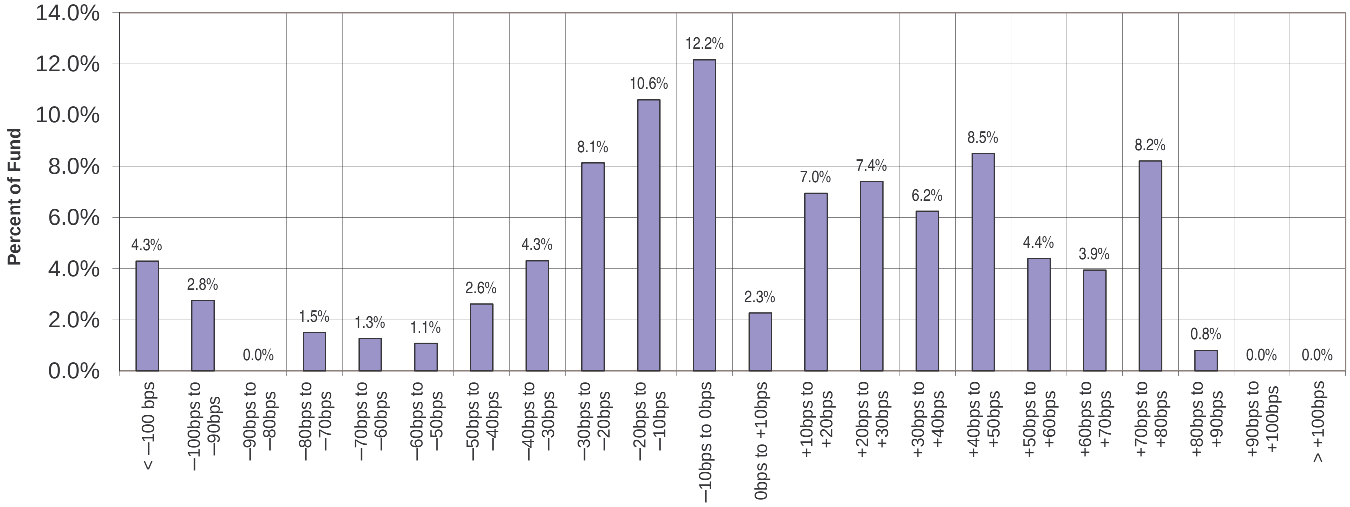
The Quant Fund outperformed the S&P500 by a wide margin in a relatively flat, if not quiet, quarter. Health Care, Consumer Discretionary, Financials, and Materials had very good relative performance. Consumer Staples and Utilities were the largest detractors therefrom. As usual, stock selection drove relative performance. Sector allocation had a small negative effect. At the individual name level, about the same value-add came from avoiding losers as from picking winners.

Price Momentum and Value Analyst models had the strongest Information Coefficients (IC) while only the Earnings Momentum model had a significantly negative IC for the quarter. The top level multi-factor model had a strong IC of +0.043.

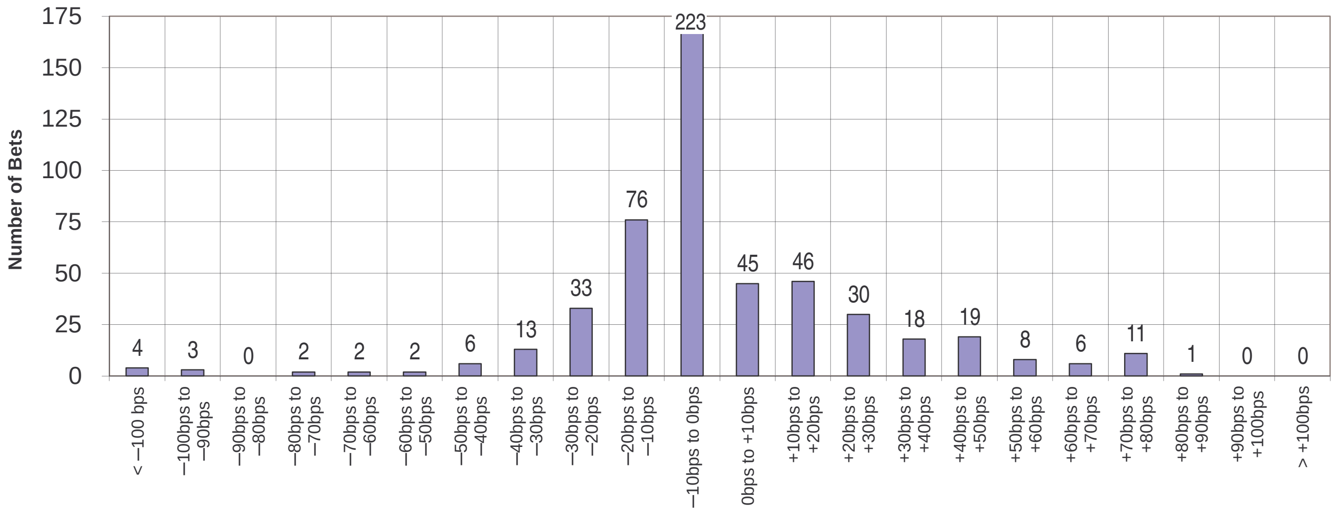
Within the S&P indices, growth outperformed value across the board. The S&P500 returned +0.10% for the quarter, slightly better than the small cap's -0.16%, and the mid-cap index brought up the rear at -0.73%. The S&P500 was up almost 3% in April to a new cycle peak, but May and June's losses wiped out almost all of April's gains. The Japanese supply disruption shock is reversing. QE2 is officially ended, but QE2-B is now under way with the Fed still buying Treasuries, though at a slower pace than before. Companies sit on record amounts of cash. Stock repurchases should continue. As fears surrounding the federal budget and the European debt crises abate and the Japanese recover, a period of relative normality should return to the market accompanied by expanding multiples even if interest rates go up a moderate amount. The equity risk premium is near multi-decade highs.

Large Cap Quant Fund
Jim Robinson, CFA

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



Number of Individual Stocks in Bet Size Bins



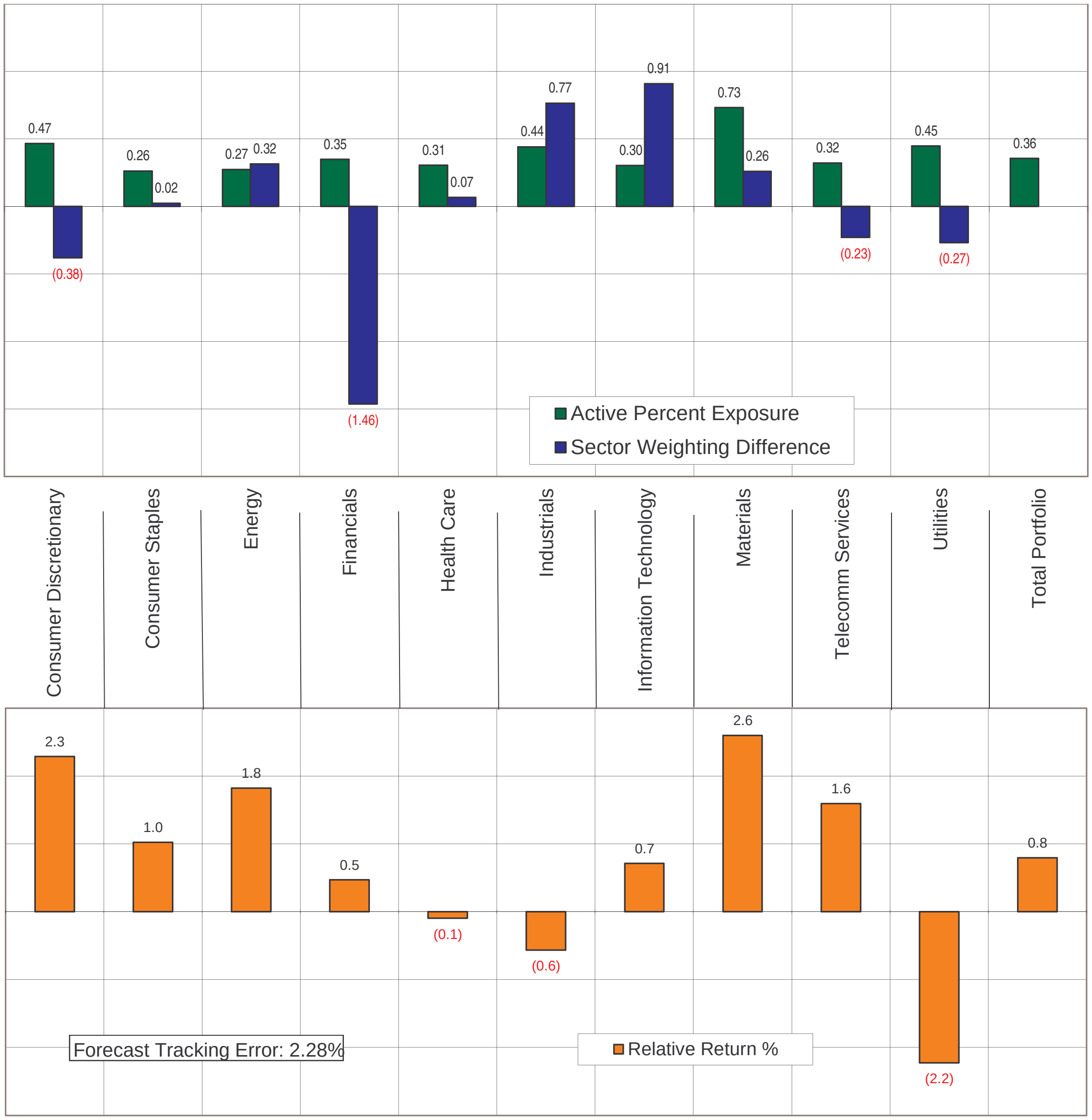
Largest Over Weights by Stock in Fund

Ticker	Description	Bps Over
AFL	AFLAC Inc.	81
UTX	United Technologies Corp.	78
MCD	McDonald's Corp.	77
IBM	International Business Machines Co	76
MCK	McKesson Corp.	76
COF	Capital One Financial Corp.	76
BMY	Bristol-Myers Squibb Co.	76
CMCSA	Comcast Corp. Cl A	74
LMT	Lockheed Martin Corp.	73
UNH	UnitedHealth Group Inc.	72
JPM	JPMorgan Chase & Co.	72
PM	Philip Morris International Inc.	71
OXY	Occidental Petroleum Corp.	69
PFE	Pfizer Inc.	69
TJX	TJX Cos.	69
S	Sprint Nextel Corp.	63
CVX	Chevron Corp.	63
CB	Chubb Corp.	61
ACE	ACE Ltd.	59
GE	General Electric Co.	58

Largest Under Weights by Stock in Fund

Ticker	Description	Bps Under
T	AT&T Inc.	-112
BRK.B	Berkshire Hathaway Inc. Cl B	-111
GOOG	Google Inc. Cl A	-106
C	Citigroup Inc.	-101
PEP	PepsiCo Inc.	-93
BAC	Bank of America Corp.	-92
MRK	Merck & Co Inc	-91
SLB	Schlumberger Ltd.	-77
KO	Coca-Cola Co.	-74
INTC	Intel Corp.	-66
AMZN	Amazon.com Inc.	-61
MMM	3M Co.	-56
KFT	Kraft Foods Inc.	-52
EMC	EMC Corp.	-47
BA	Boeing Co.	-45
AMGN	Amgen Inc.	-45
CVS	CVS Caremark Corp.	-42
USB	U.S. Bancorp	-41
UPS	United Parcel Service Inc. (Cl B)	-41
MET	MetLife Inc.	-39

Large Cap Sector Fund
Roy Wellington, CFA



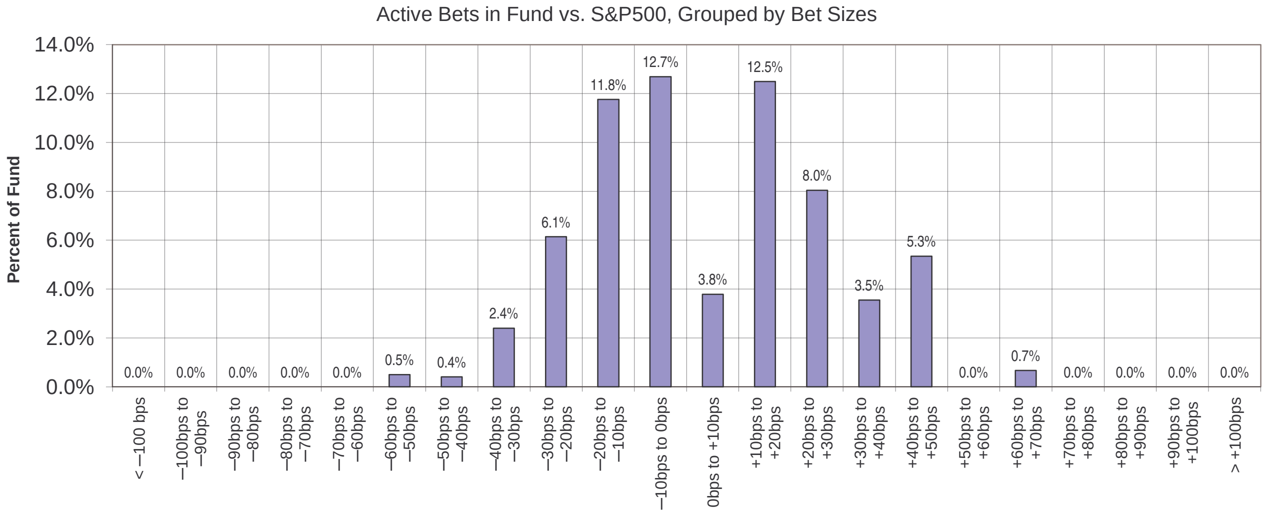
The Sector Fund had its **β** (sector exposure) meetings on July 1st and August 26th. The Sector Fund is positioned for economic recovery: we neither expect a double dip nor are inflation pressures evident. The market has gone through a bout of defensiveness across all sectors with defensive sectors showing market leadership. Whereas before it was surprising to see the defensive sectors outperforming in an up market, it is not surprising that those sectors continued to beat the index in down markets. The question of whether the stage of the economic cycle has shifted back to impending recession or whether the sectors should be expected to respond differently this time (sure, but how?) is the topic of the August 26th meeting.

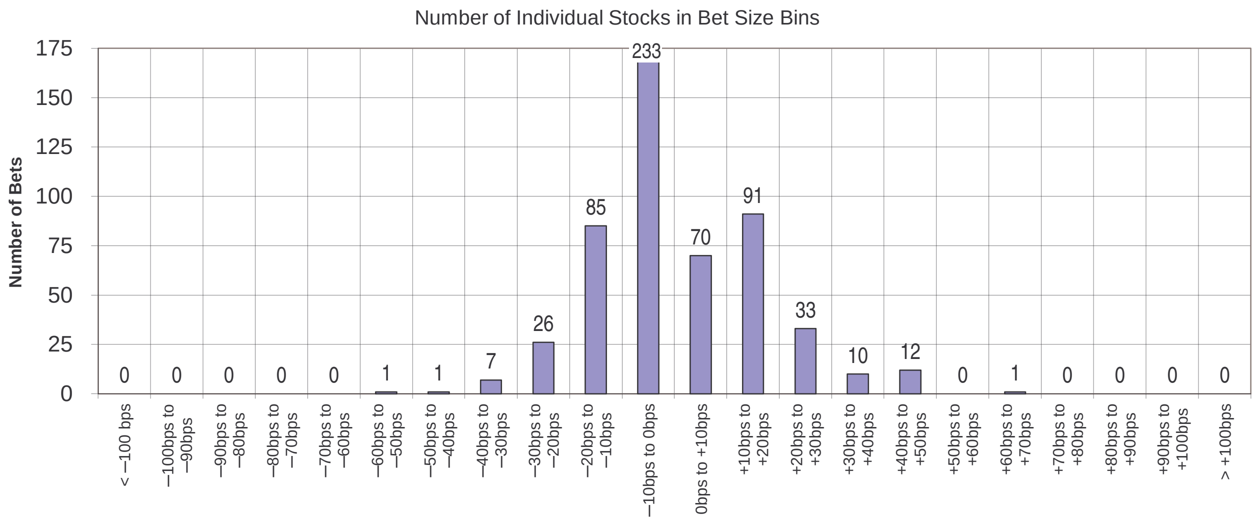
The Sector Fund **α** (educational seminar) meeting on July 1st and August 2nd reviewed the trial optimized portfolio prepared by Kushal Gupta. Appropriate risk tolerance parameters and a certain comfort level which will come mainly from results still need to be achieved. The present portfolio was shown to have an imbalanced exposure to factor risk that is neither desired nor managed other than it should be minimized in a way that does not affect overall performance from high conviction buy ideas. The optimizer also shows how different stock weights would put greater emphasis on high conviction buys and suggests several trade ideas to get there. Other discussion centered on trade instructions that are not broker specific but could invoke strategies to get trades done cheaply depending on a manager's knowledge of market action and trading objective.

A sense of normalcy has returned to market pricing where stocks with improving prospects and good valuations seem to be the ones outperforming. This plays into the management style of the Sector Fund and as a result managers in all sectors contributed to the outperformance. The Sector Fund enjoyed one of its best ever fiscal years with 179 basis points over the S&P 500 mostly from stock selection within the sectors and a little from sector allocation. OK, maybe there was a little luck too.

A representative trade for the quarter is to own Domino's Pizza with strong international growth while returning capital and avoiding Juniper Networks whose enterprise customers are all too happy to keep waiting for products that are yet to be delivered.

Large Cap Sector Fund
Roy Wellington, CFA





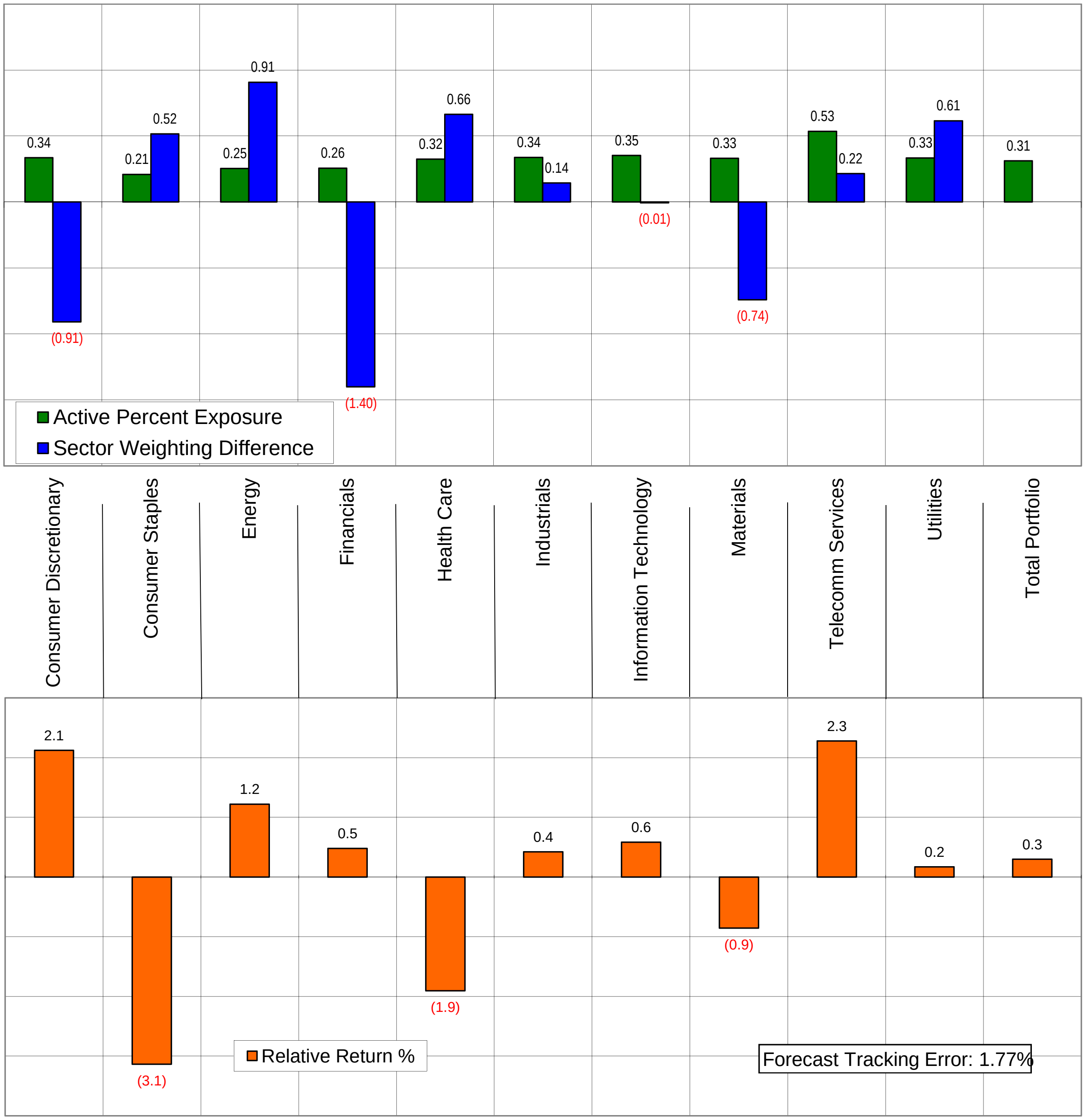
Largest Over Weights by Stock in Fund

Ticker	Description	Bps Over Index Wt
IBM	International Business Machines Co	68
ORCL	Oracle Corp.	50
BHI	Baker Hughes Inc.	48
TYC	Tyco International Ltd.	46
MMM	3M Co.	45
NSC	Norfolk Southern Corp.	45
BA	Boeing Co.	45
HON	Honeywell International Inc.	45
UNP	Union Pacific Corp.	44
UTX	United Technologies Corp.	44
AAPL	Apple Inc.	41
DHR	Danaher Corp.	41
BCE	BCE Inc.	40
ACN	Accenture PLC	39
IP	International Paper Co.	38
INTC	Intel Corp.	38
PCP	Precision Castparts Corp.	37
CE	Celanese Corp. (Series A)	37
BEN	Franklin Resources Inc.	36
ALB	Albemarle Corp.	34

Largest Under Weights by Stock in Fund

Ticker	Description	Bps Under
BRK.B	Berkshire Hathaway Inc. Cl B	-50
VZ	Verizon Communications Inc.	-41
KO	Coca-Cola Co.	-37
AMZN	Amazon.com Inc.	-36
CL	Colgate-Palmolive Co.	-36
EMR	Emerson Electric Co.	-35
V	Visa Inc.	-34
LLY	Eli Lilly & Co.	-32
EBAY	eBay Inc.	-31
DE	Deere & Co.	-29
DVN	Devon Energy Corp.	-28
PX	Praxair Inc.	-27
BK	Bank of New York Mellon Corp.	-26
BAC	Bank of America Corp.	-26
FDX	FedEx Corp.	-25
MRK	Merck & Co Inc	-25
SBUX	Starbucks Corp.	-25
DOW	Dow Chemical Co.	-24
WLP	WellPoint Inc.	-24
GLW	Corning Inc.	-24

Mid–Cap Fund
Mike Keeler, CFA



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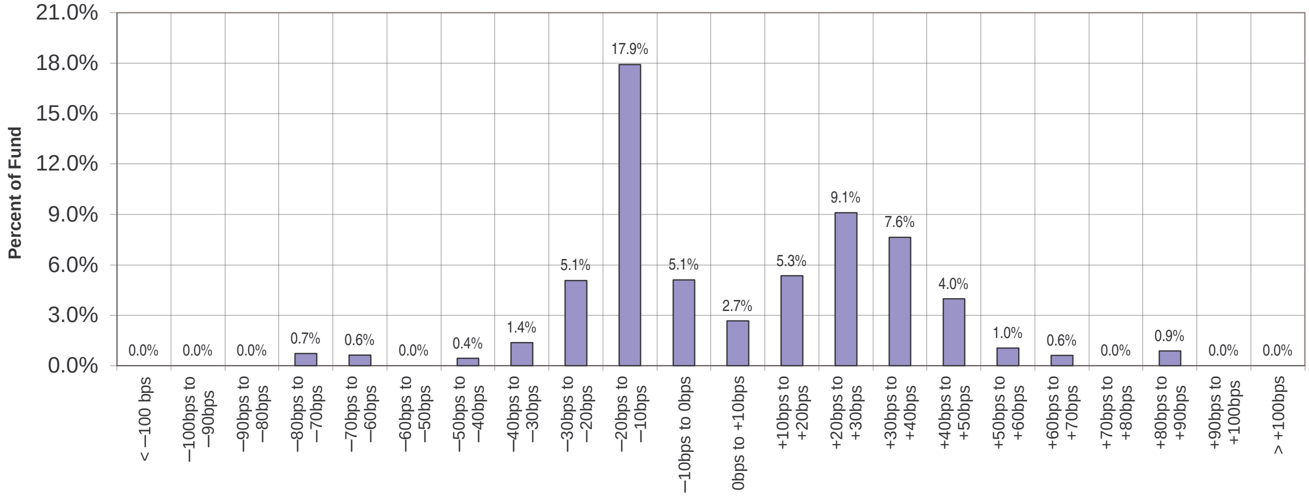
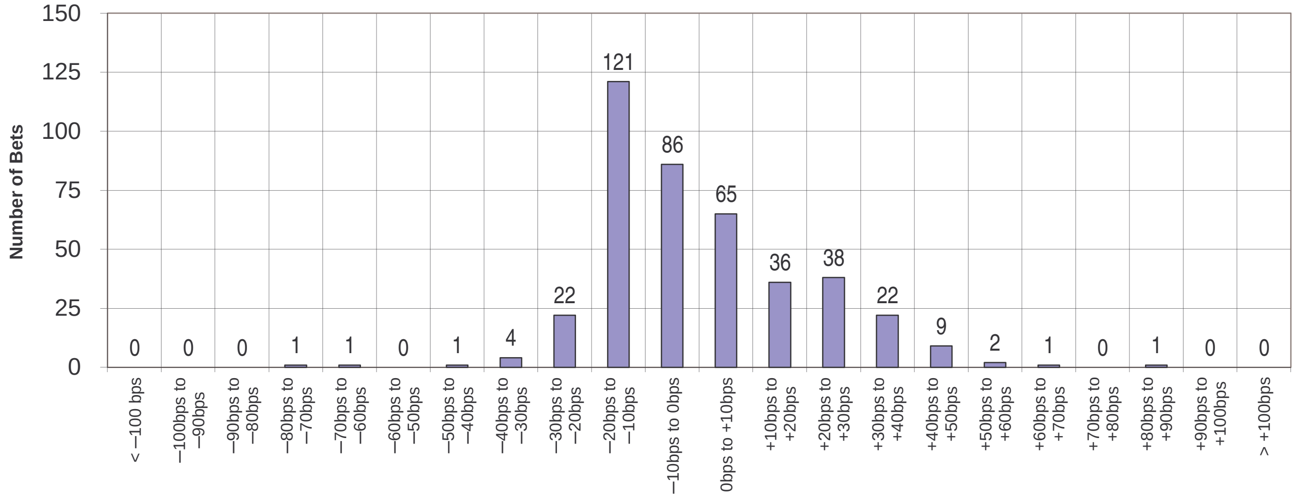
The Mid Cap Fund out performed the S & P Mid Cap 400 primarily due to good stock selection in the retailing industry (Foot Locker and Dollar Tree) and the computer software industry (Solera). Under weighting the banking industry, Financial Services in general and the Materials Sector as well as over-weight positions in the Health Care and Consumer Staples sectors also added relative value in the quarter. Poor stock selection in those sectors somewhat reduced relative performance but we were at least correct in the sector allocation. Stock selection was responsible for almost 90% of the value added against the benchmark with industry sector allocation contributing slightly.

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



Number of Individual Stocks in Bet Size Bins



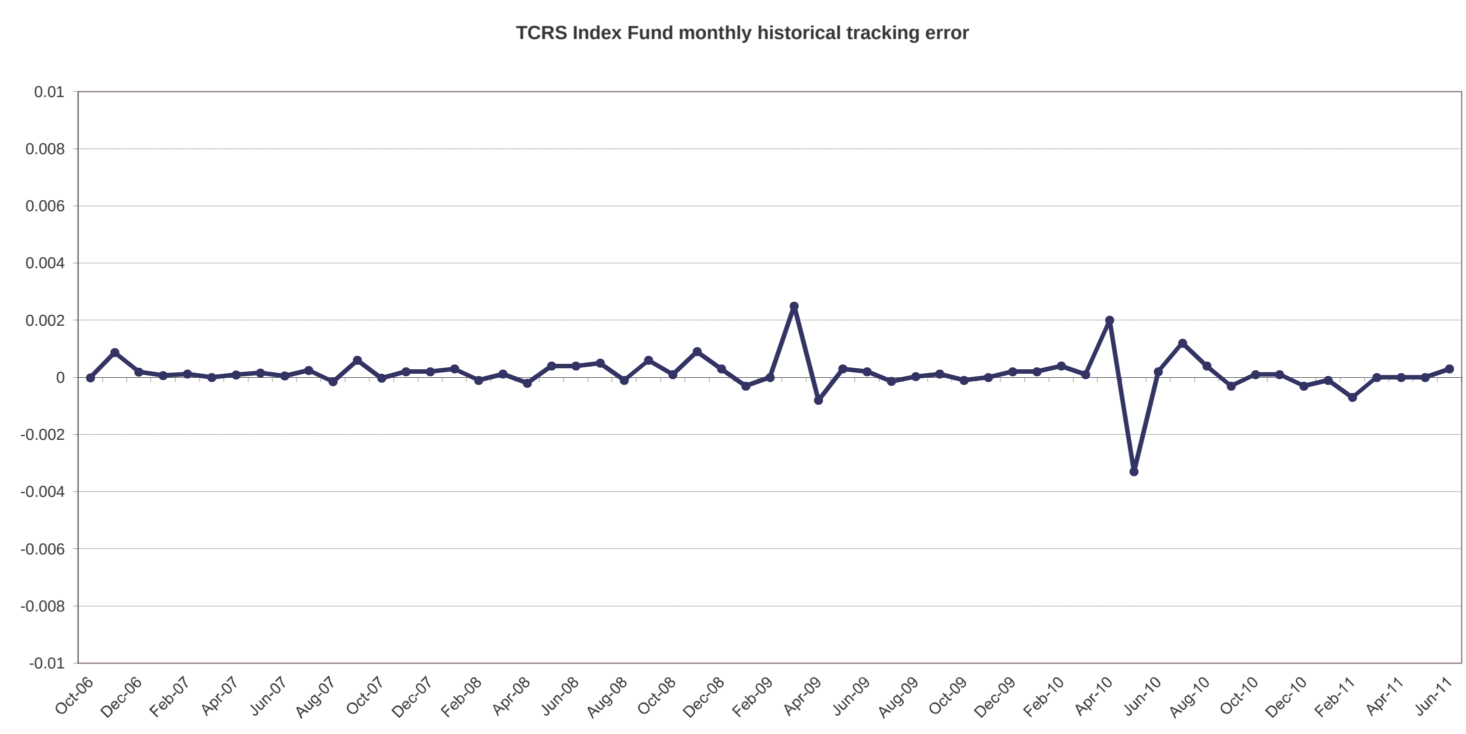
Largest Over Weights by Stock in Fund

Ticker	Description	Bps Over
ADS	Alliance Data Systems Corp.	88
GDI	Gardner Denver Inc.	61
PETM	PetSmart Inc.	54
GCO	Genesco Inc.	51
LRCX	Lam Research Corp.	49
KBR	KBR Inc.	48
SLH	Solera Holdings Inc.	46
ARW	Arrow Electronics Inc.	44
PXP	Plains Exploration & Production Co.	44
HRC	Hill-Rom Holdings Inc.	43
ESI	ITT Educational Services Inc.	42
DLTR	Dollar Tree Inc.	42
CLH	Clean Harbors Inc.	40
ALK	Alaska Air Group Inc.	39
RGA	Reinsurance Group of America Inc.	39
TKR	Timken Co.	39
EZPW	Ezcorp Inc. (Cl A)	38
LOGM	LogMeIn Inc.	38
CRR	CARBO Ceramics Inc.	38
RS	Reliance Steel & Aluminum Co.	37

Largest Under Weights by Stock in Fund

Ticker	Description	Bps Under
LZ	Lubrizol Corp.	-72
BUCY	Bucyrus International	-63
NHP	Nationwide Health Properties Inc.	-44
VSEA	Varian Semiconductor Equipment A	-39
VRTX	Vertex Pharmaceuticals Inc.	-34
UFS	Domtar Corp.	-33
PII	Polaris Industries Inc.	-32
DPL	DPL Inc.	-30
FTO	Frontier Oil	-29
TIN	Temple-Inland Inc.	-27
TRH	TransAtlantic Holdings Inc.	-26
WRI	Weingarten Realty Investors	-26
AMG	Affiliated Managers Group Inc.	-25
GMCR	Green Mountain Coffee Roasters In	-24
TRN	Trinity Industries Inc.	-23
UA	Under Armour Inc. (Cl A)	-23
PLCM	Polycom Inc.	-23
GES	Guess? Inc.	-23
NFG	National Fuel Gas Co.	-22
JKHY	Jack Henry & Associates Inc.	-22

S&P 500 Index Fund
Daniel Crews, CFA



Top Ten Holdings as of June 30, 2011

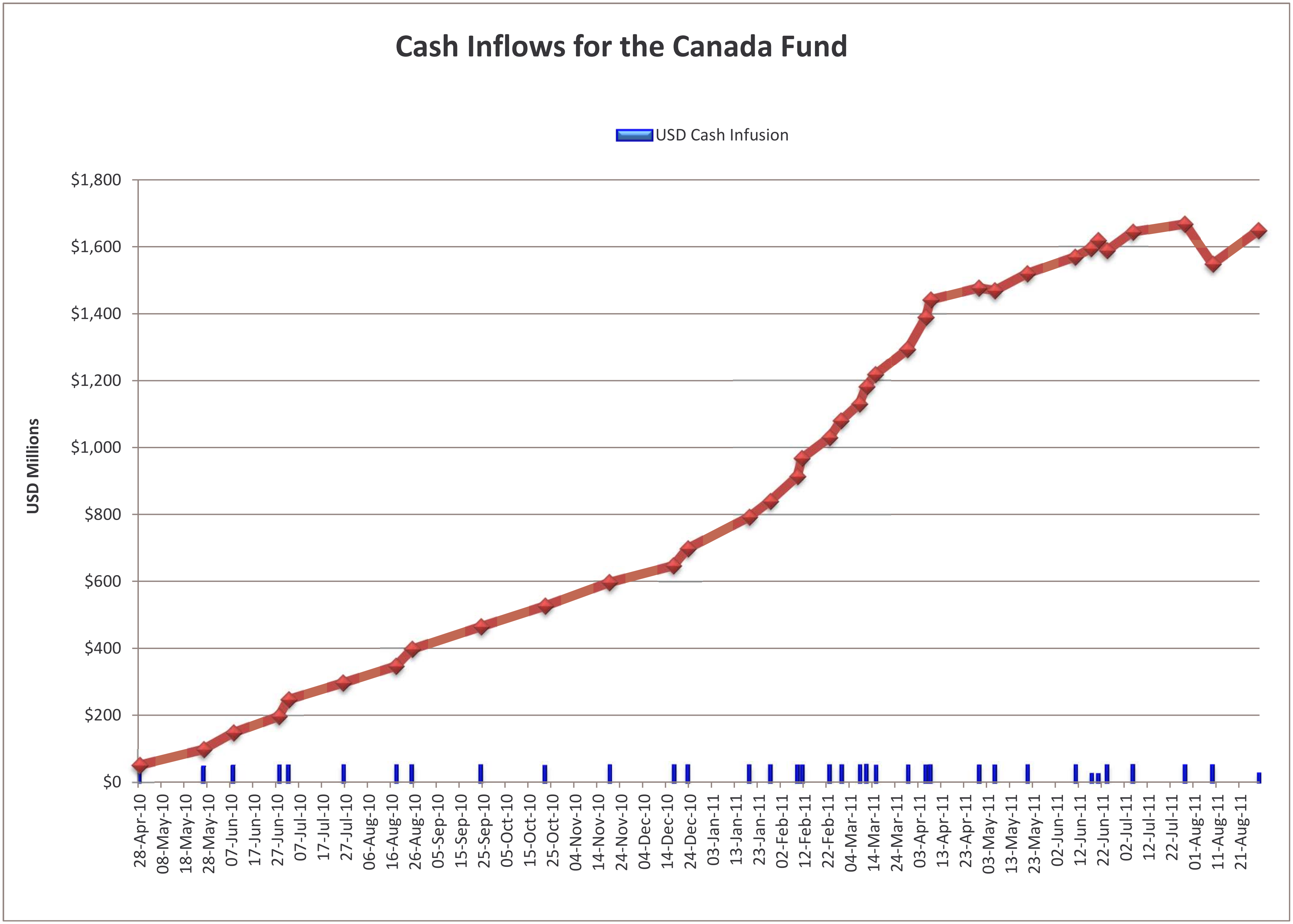
Ticker	Name	Portfolio Weight	S&P 500 Weight	Difference
XOM	Exxon Mobil Corp.	3.33	3.33	0.00
AAPL	Apple Inc.	2.60	2.58	0.02
IBM	International Business Machines Corp.	1.73	1.73	0.01
CVX	Chevron Corp.	1.72	1.72	0.00
GE	General Electric Co.	1.66	1.66	0.00
MSFT	Microsoft Corp.	1.62	1.61	0.02
T	AT&T Inc.	1.55	1.55	0.00
JNJ	Johnson & Johnson	1.52	1.52	0.00
PG	Procter & Gamble Co.	1.49	1.48	0.01
PFE	Pfizer Inc.	1.37	1.35	0.01

Ten Largest Overweights and Underweights as of June 30, 2011

Ticker	Name	Portfolio Weight	S&P 500 Weight	Difference
BAC	Bank of America Corp.	0.90	0.92	-0.02
AAPL	Apple Inc.	2.60	2.58	0.02
C	Citigroup Inc.	0.99	1.01	-0.02
MSFT	Microsoft Corp.	1.62	1.61	0.02
JPM	JPMorgan Chase & Co.	1.34	1.35	-0.01
PG	Procter & Gamble Co.	1.49	1.48	0.01
PFE	Pfizer Inc.	1.37	1.35	0.01
MON	Monsanto Co.	0.31	0.32	-0.01
HAL	Halliburton Co.	0.38	0.39	-0.01
SLB	Schlumberger Ltd.	0.96	0.98	-0.01

Tracking Error	
Forecasted Tracking Error	0.04%
Historical Tracking Error	0.24%
Value at Risk	$1,045,937

Comments:
- Fund sold $150 million on 4/5/11.
- Fund sold $350 million in February to reduce overall plan equity allocation. February alpha number of (0.07%) was a result of trading impact for the allocation changes.
- Note on December 31 reported portfolio data: S&P made changes ot the index on the close of 12/31/10 that were not incorporated into the fund until the next liquid trading day. Therefore, the risk forecasts and underweight/overweight table from the 12/31/10 IAC report are overstated. The performance impact from the timing discrepancy was nil.
- Due to a critical trading error in the issue CF Industries (Ticker: CF) as well as two unusually beneficial portfolio trades, Index Fund realized abnormally high tracking error in the 4Q FY10 period. The trading error was unwound opportunistically and processes were established to prevent similar errors in the future.
- Index Fund liquidated $200 million in assets on 4/29/10
- Index Fund liquidated $250 million in assets on 4/16/10
- Index Fund received an additional $100 million inflow on 9/24/09
- Index Fund received an additional $100 million inflow on 7/29/09
- April 2009 witnessed relatively large negative deviation from the index (-7 bps) due to a double corporate action by Time Warner, large banks raising substantial amounts of equity following the release of the infamous "stress test" results, the exit of Noble (which did not behave according to the empirically normative pattern for S&P 500 exclusions), and the tactical holding of Citi preferred shares rather than Citi common.
- Extraordinary positive tracking error was evident in the fund during March 2009 (25 bps). The deviation from benchmark returns in March primarily relates to good timing on a trade conducted March 2 and to class action litigation income posted to the fund.



Cash Inflows for the Canada Fund
USD Cash Infusion
USD Millions
$1,800
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
28-Apr-10
08-May-10
18-May-10
28-May-10
07-Jun-10
17-Jun-10
27-Jun-10
07-Jul-10
17-Jul-10
27-Jul-10
06-Aug-10
16-Aug-10
26-Aug-10
05-Sep-10
15-Sep-10
25-Sep-10
05-Oct-10
15-Oct-10
25-Oct-10
04-Nov-10
14-Nov-10
24-Nov-10
04-Dec-10
14-Dec-10
24-Dec-10
03-Jan-11
13-Jan-11
23-Jan-11
02-Feb-11
12-Feb-11
22-Feb-11
04-Mar-11
14-Mar-11
24-Mar-11
03-Apr-11
13-Apr-11
23-Apr-11
03-May-11
13-May-11
23-May-11
02-Jun-11
12-Jun-11
22-Jun-11
02-Jul-11
12-Jul-11
22-Jul-11
01-Aug-11
11-Aug-11
21-Aug-11

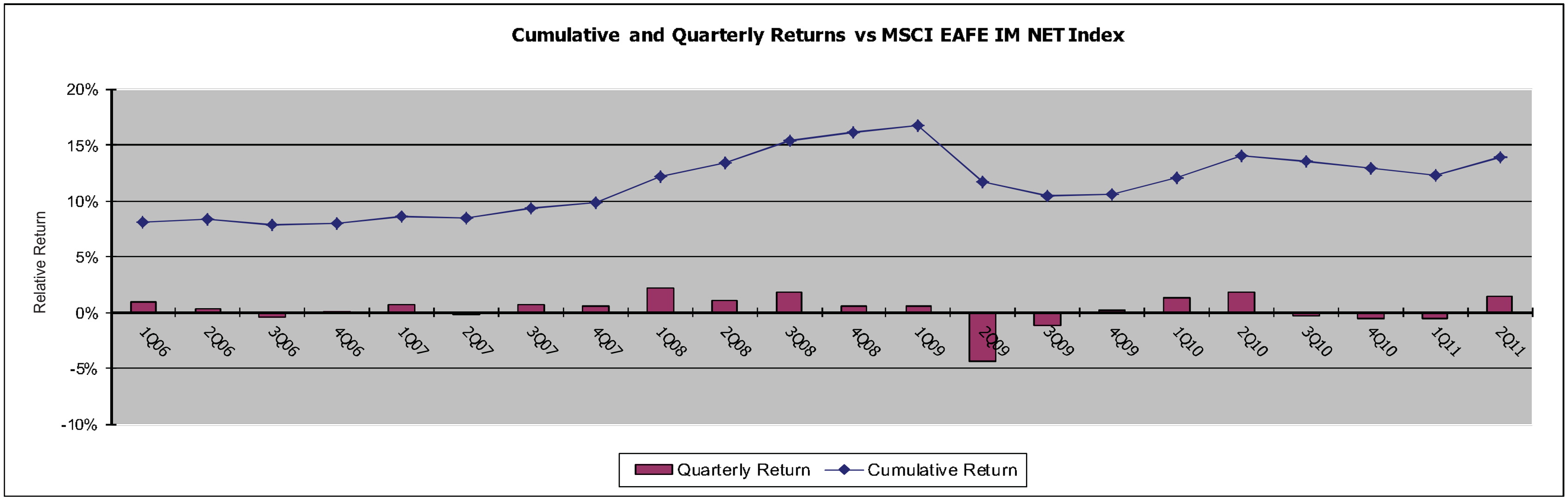
International Manager Performance Comparison

Manager returns for the quarter ending June 30, 2011

Manager	Manager Return	Benchmark	Benchmark Return
American Century	0.86	MSCI EAFE Small Cap Index	1.03
Baring Asset Mgmt	2.33	MSCI EAFE NET Index	1.56
GE Asset Mgmt	3.69	MSCI Europe Index	2.85
Marathon	2.40	MSCI EAFE NET Index[2]	1.56
Pacific Indexed Port[5]	1.16	MSCI Pacific Index[1]	0.03
PanAgora	3.89	MSCI EAFE NET Index	1.56
Pyramis	2.38	MSCI EAFE Small Cap Index	1.03
TT International	3.07	MSCI EAFE NET Index	1.56
Walter Scott	4.14	MSCI EAFE NET Index[4]	1.56
International	2.92	MSCI EAFE IMI NET[3]	1.47

Manager returns for five years ending June 30, 2011

Manager	Manager Return	Benchmark	Benchmark Return
American Century		MSCI EAFE Small Cap Index	
Baring Asset Mgmt		MSCI EAFE NET Index	
GE Asset Mgmt		MSCI Europe Index	
Marathon	5.49	MSCI EAFE NET Index[2]	1.48
Pacific Indexed Port[5]	0.70	MSCI Pacific Index[1]	0.70
PanAgora	2.95	MSCI EAFE NET Index	1.48
Pyramis		MSCI EAFE Small Cap Index	
TT International		MSCI EAFE NET Index	
Walter Scott	8.06	MSCI EAFE NET Index[4]	1.37
International	3.73	MSCI EAFE IMI NET[3]	1.91



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

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

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

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

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

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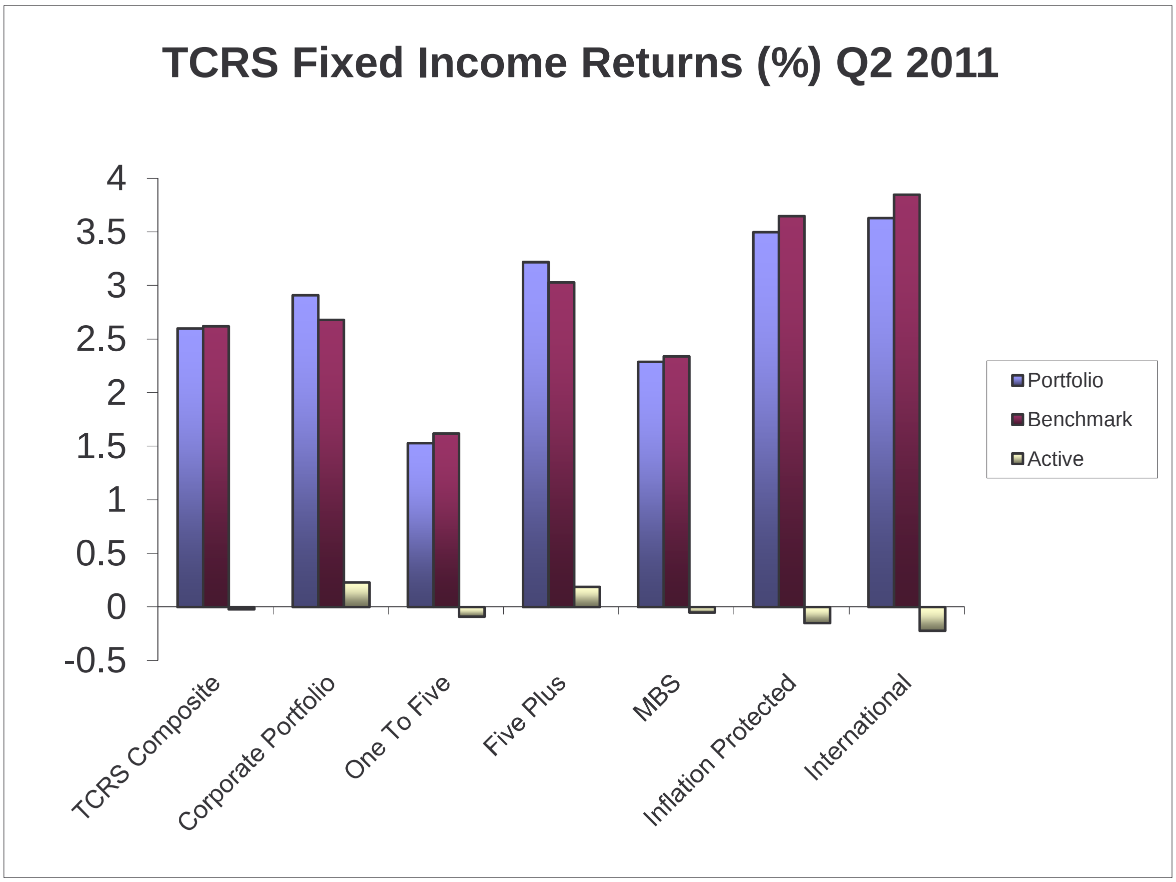
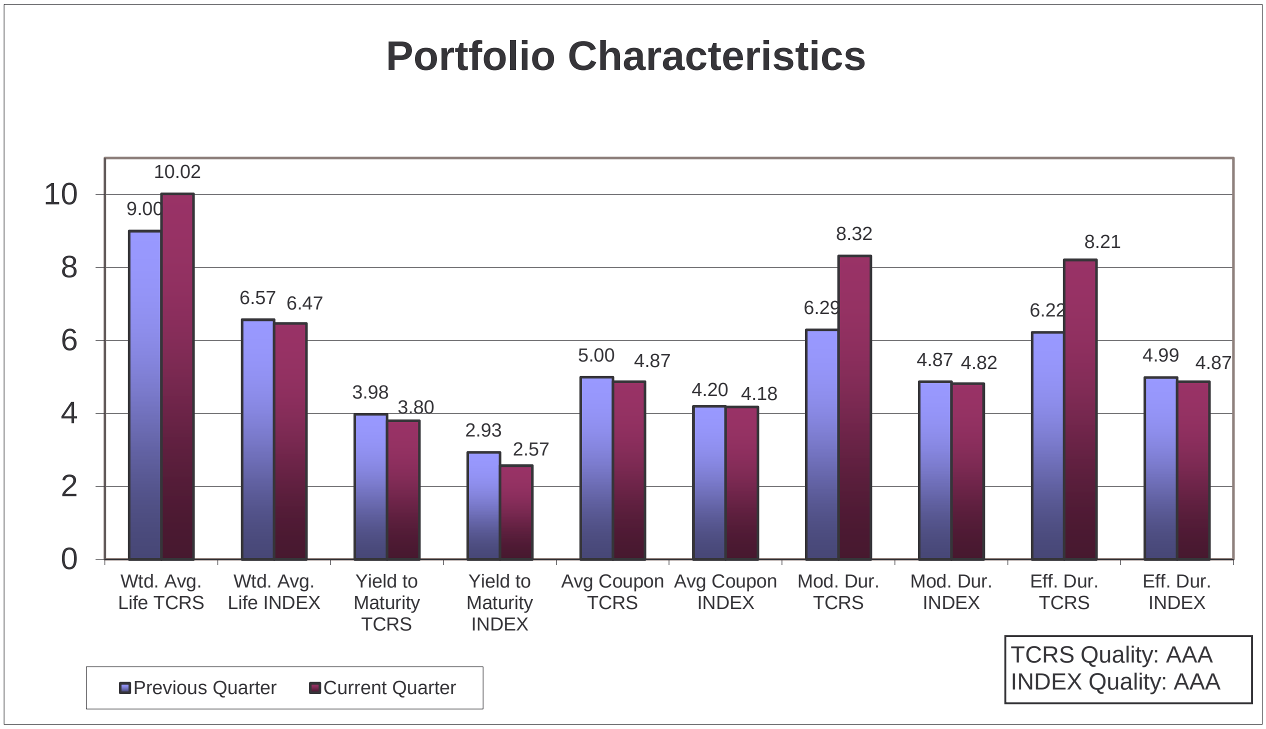
Portfolio	Value (Yield Book) ($MMs)	Portfolio Return Q1	Benchmark Return Q1	Active Return Q1
TCRS Domestic Fixed Income Composite	$10,612	2.60	2.62	(0.02)
Corporate Portfolio	$3,162	2.91	2.68	0.23
Government One To Five Years	$1,733	1.53	1.62	(0.09)
Government Five Plus Years	$1,957	3.22	3.03	0.19
Mortgage Portfolio	$3,736	2.29	2.34	(0.05)
TCRS Inflation Protected Securities	$2,577	3.50	3.65	(0.15)
TCRS International	$587	3.63	3.85	(0.22)

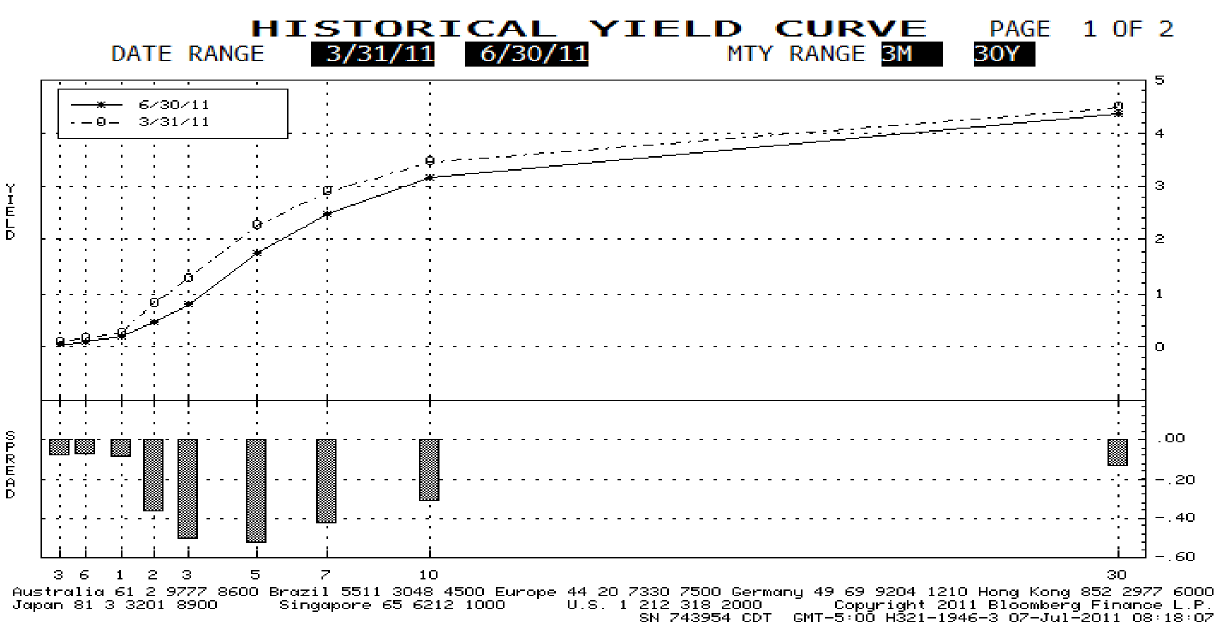


Note: All positions and market values are as of June 30, 2011

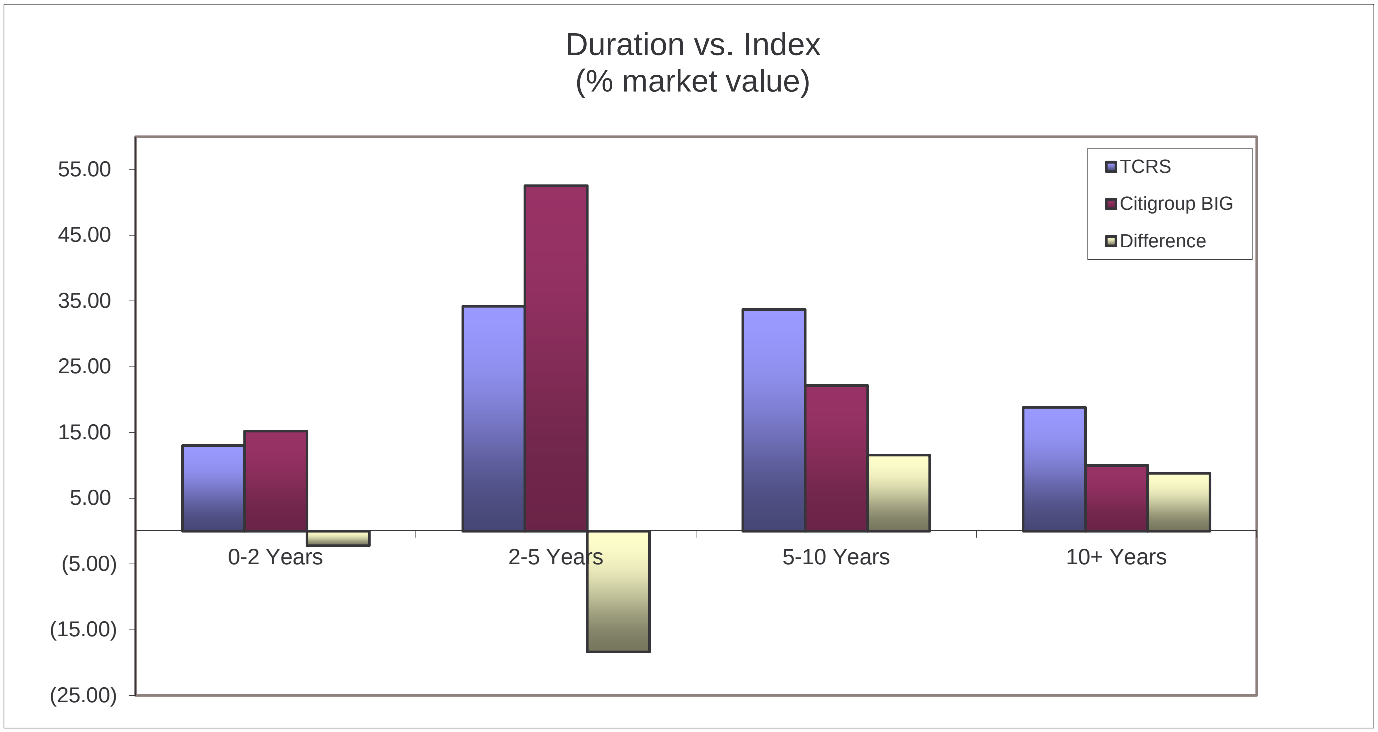
Portfolio statistics reflect positioning in preparation for the benchmark adjustment on 07/01/2011

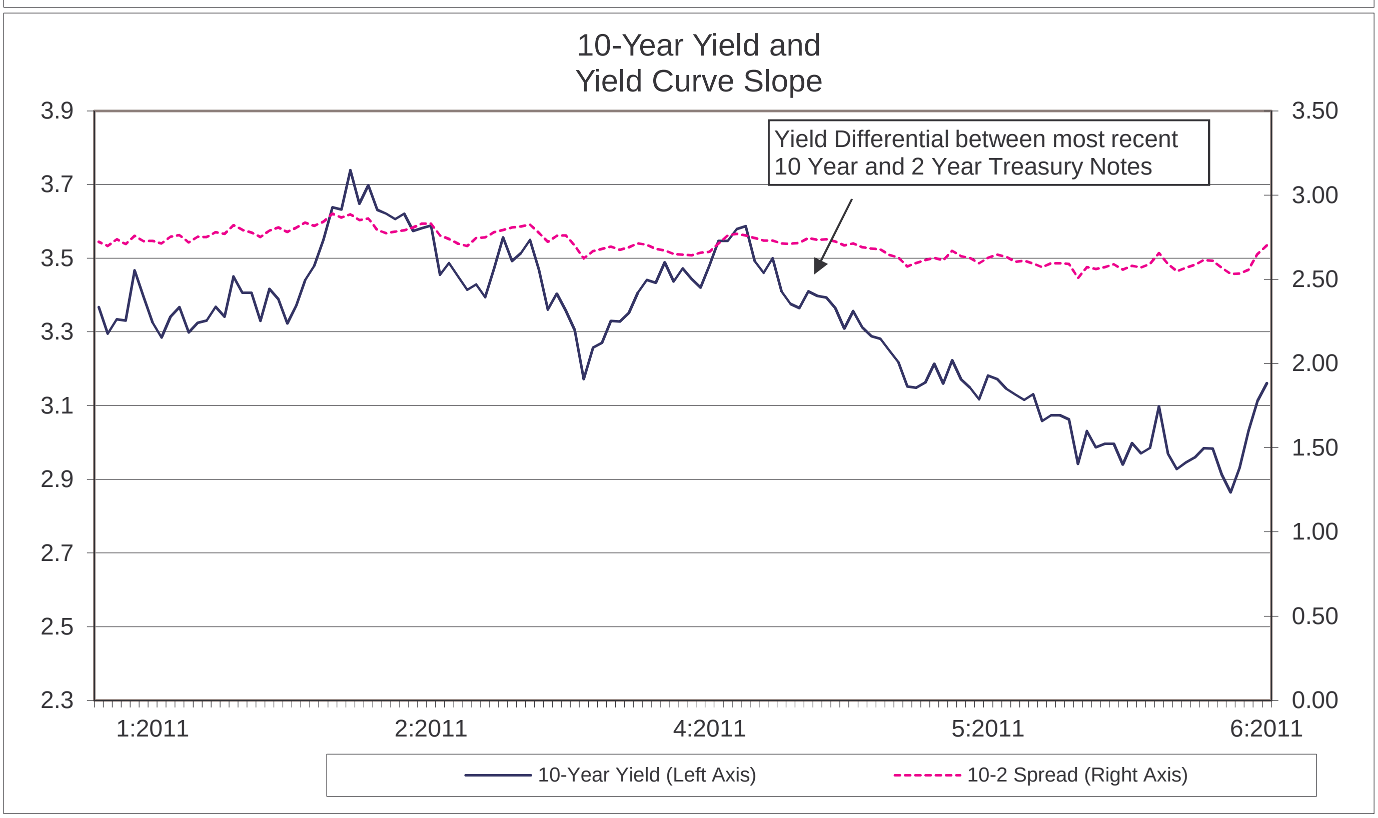


Yields fell and the curve steepened

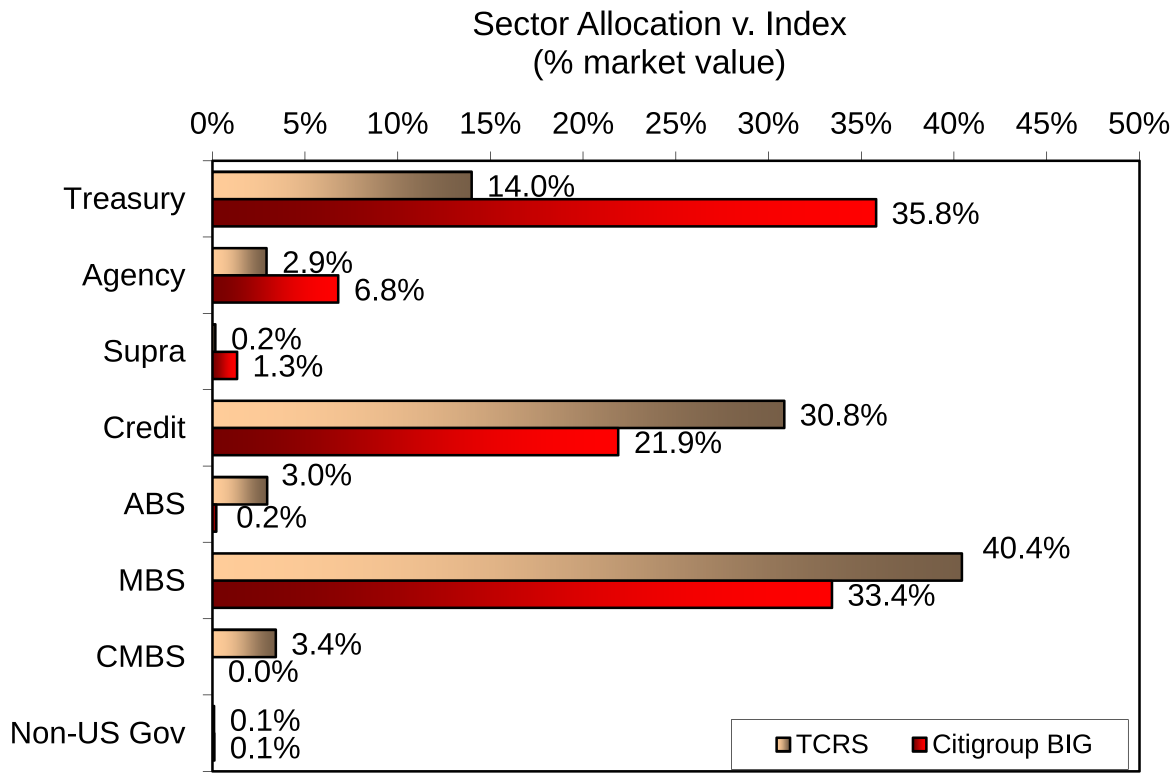


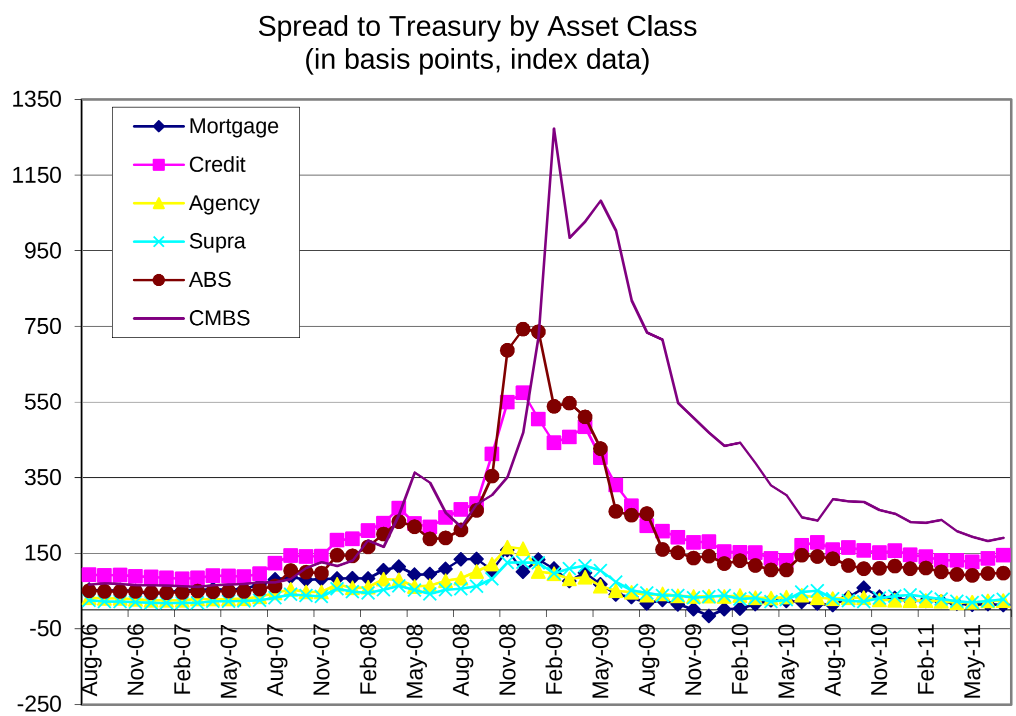
Portfolio extended duration in anticipation of 07/01 benchmark change to the Citigroup LPF Index





source: Bloomberg

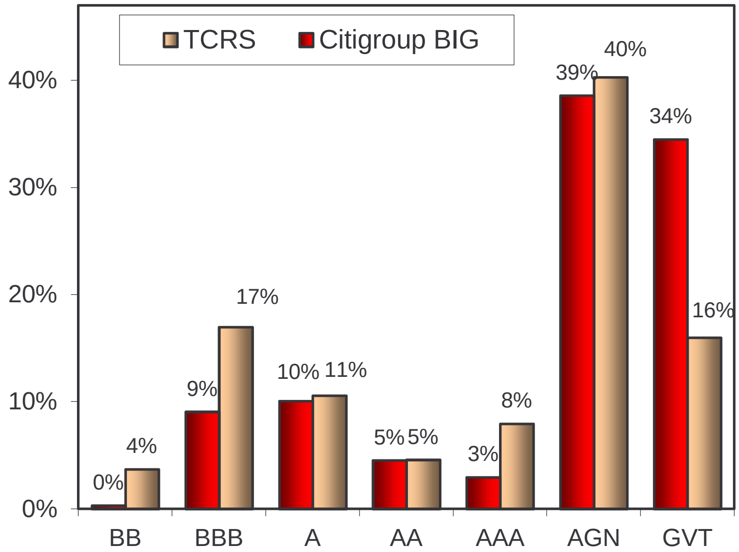




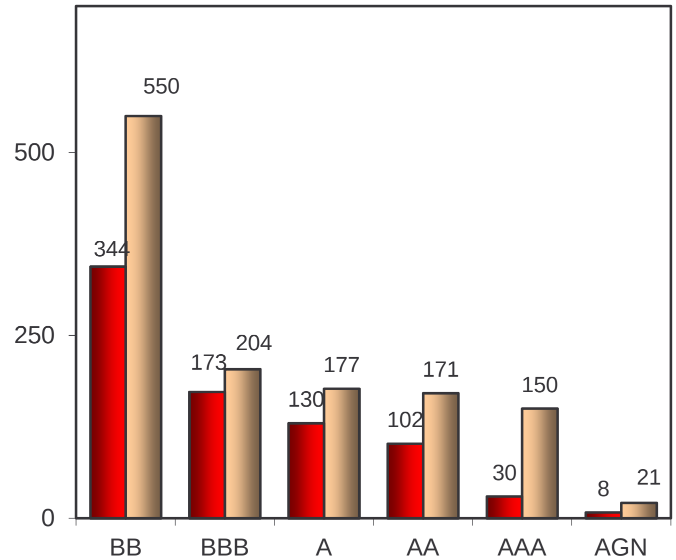
source: Yield Book

Spread widened during the quarter.
TCRS spreads vs. index increase with quality and flattened during the quarter.

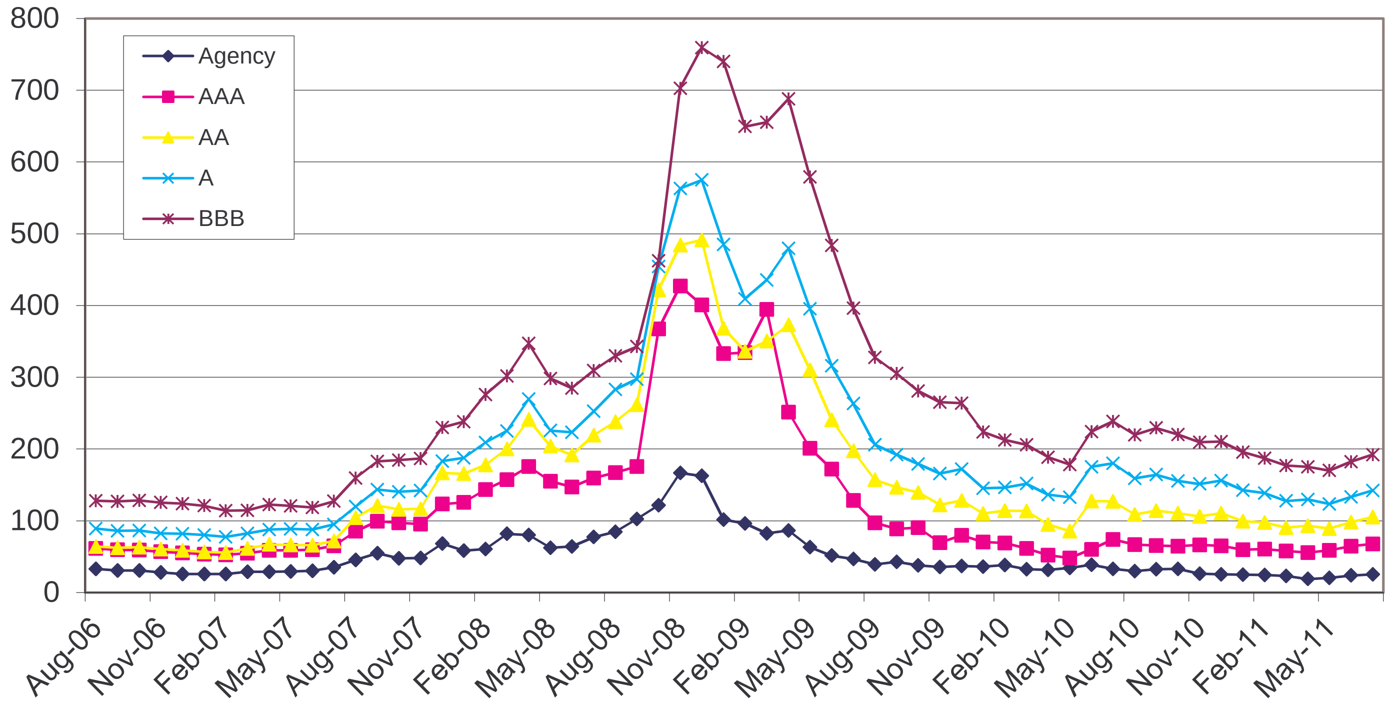
Credit Allocation v. Index
(% market value as of June 30)



OAS by Credit Allocation
(as of June 30)



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

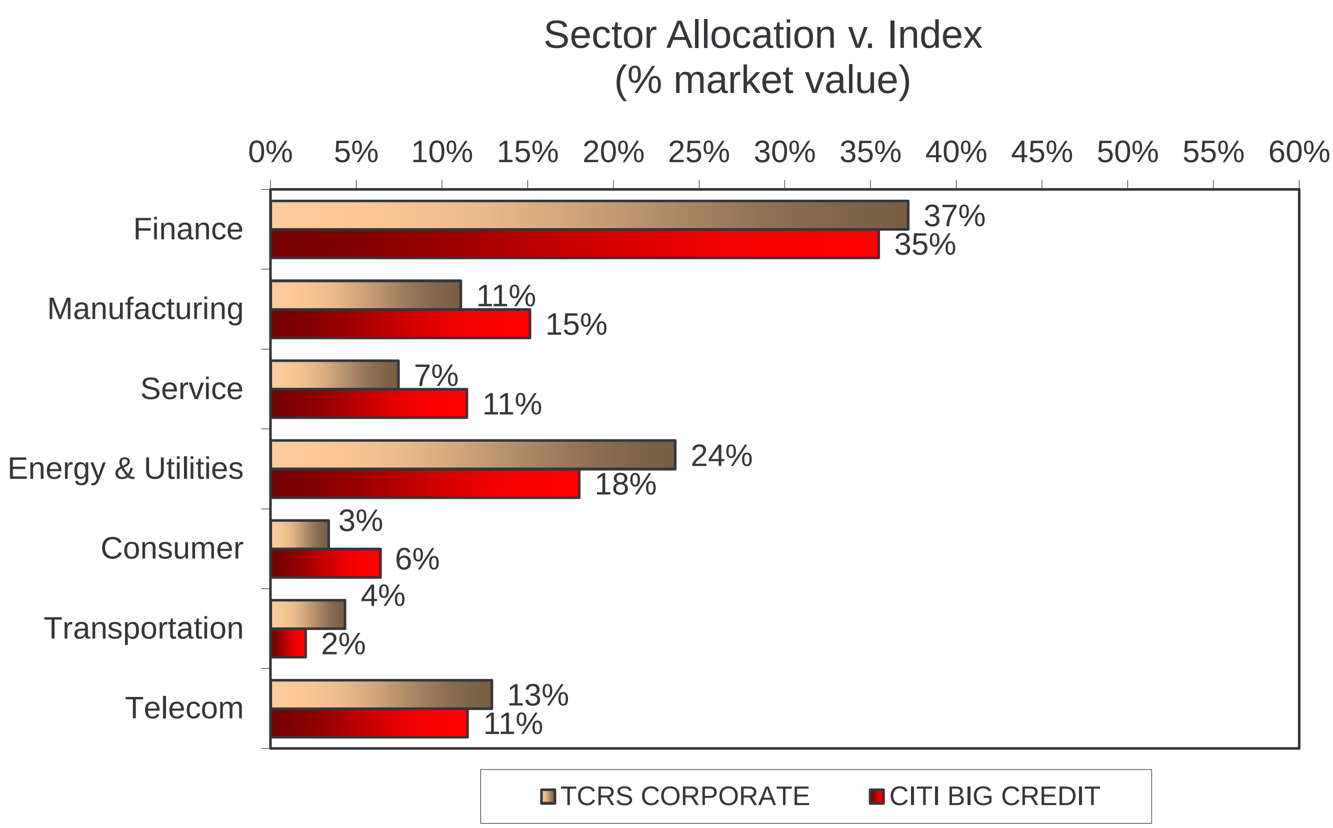


source: Yield Book

Allocation by Credit Sector
Andrew Palmer, CFA

Top 5 Credit Holdings (by Market Value)	MktVal	% MktVal
GENERAL ELECTRIC CO	101,000	1
JP MORGAN CHASE & C O	93,080	0.9
VERIZON COMMUNICATIONS INC	81,317	0.8
BANK OF AMERICA	75,636	0.7
CITIGROUP INC	66,027	0.6

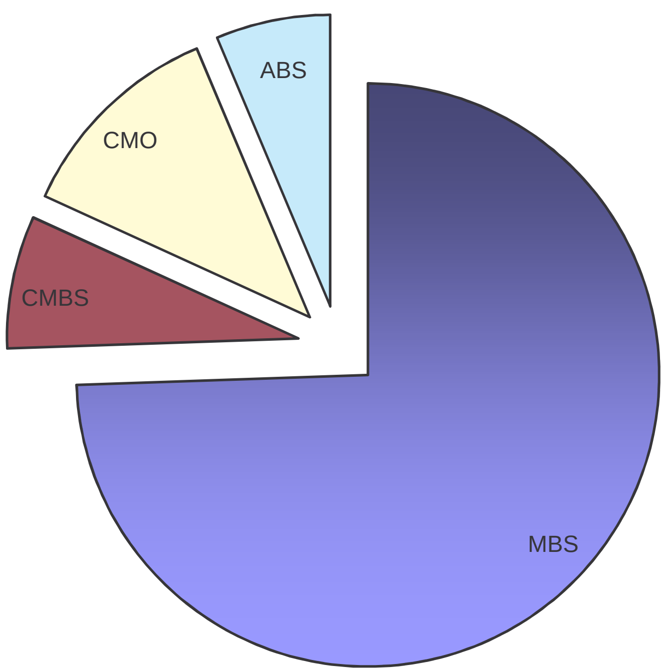
Top 5 Credit Holdings (by Dollar Duration)	$ Duration	% $ Duration
GENERAL ELECTRIC	82.19	1
BERKSHIRE HATHAWAY INC	65.46	0.8
VERIZON COMMUNICATIONS INC	59.78	0.7
AT&T INC	54.12	0.6
JP MORGAN CHASE & C O	48.79	0.6



Securitized Product Breakdown
Andrew Palmer, CFA

		Market Value ($MM - Yield Book)	TCRS % of portfolio	CITI	Difference
Agency Mortgage Backed Securities		$3,609,772	34.7	33.4	1.3
	GNMA				
	15-Yr	$0	0.0	0.1	-0.1
	30-Yr	$407,451	3.9	7.1	-3.2
	FNMA				
	10-, 15- & 20-Yr	$230,136	2.2	2.6	-0.4
	30-Yr	$1,735,547	16.7	13.2	3.5
	FHLM				
	15-Yr	$97,572	0.9	1.7	-0.8
	30-Yr	$895,559	8.6	8.7	-0.1
	Agency Hybrid	$243,507	2.3	0.0	2.3
Commercial Mortgage Backed Securities		$356,276	3.4	0.0	3.4
CMO and Non Agency Passthroughs		$574,413	5.5	0.0	5.5
Asset Backed Securities		$307,337	3.0	0.2	2.8
	Total Securitized Product	**$4,847,798**	**46.6**	**33.6**	**13.0**

Percent of Securitized Product



Portfolio Return:	3.63%
Citigroup Non-US G5 Index:	3.85%
Active Return:	**-0.22%**

TCRS

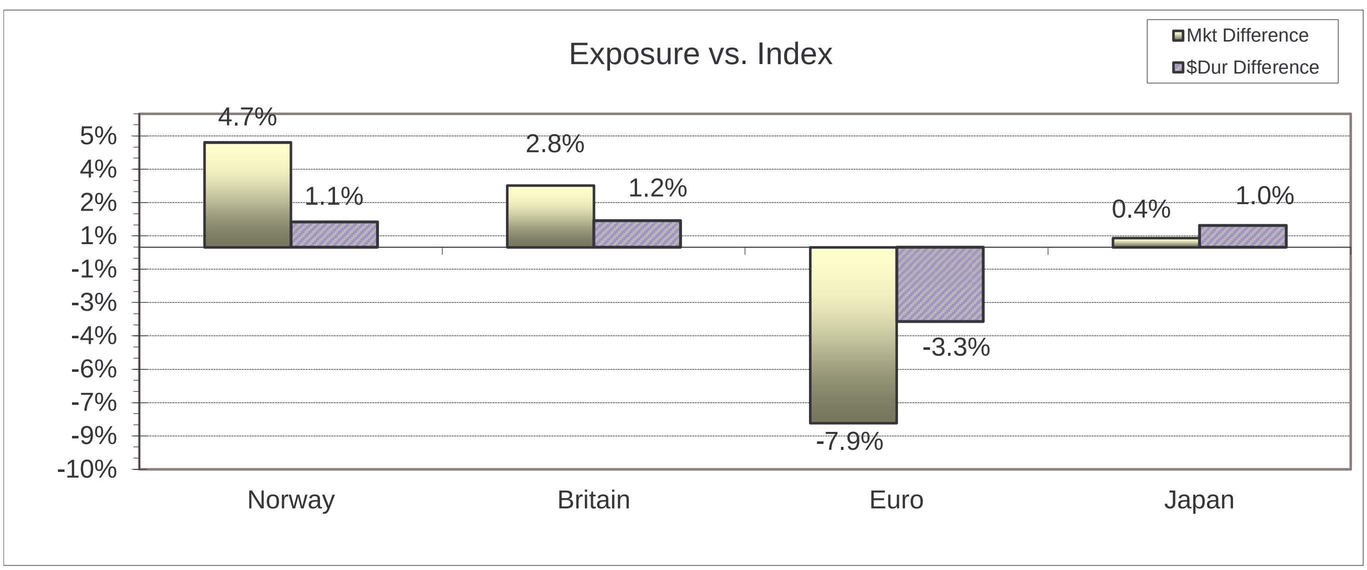
	Yield	M. Dur	Percent of Value	Percent of $Dur
Norway	2.46	1.78	4.7%	1.1%
Britain	3.02	7.99	13.3%	14.5%
Euro	3.10	7.65	19.8%	20.7%
Japan	0.88	7.51	62.2%	63.7%
	1.68	7.33	100.0%	100.0%

Citigroup G5 Sovereign Index (ex-US)

	Yield	Dur	Percent of Value	Percent of $Dur
Britain	3.01	9.21	10.5%	13.2%
Euro	2.59	6.31	27.7%	24.0%
Japan	0.83	7.40	61.8%	62.8%
	1.55	7.29	100.0%	100%

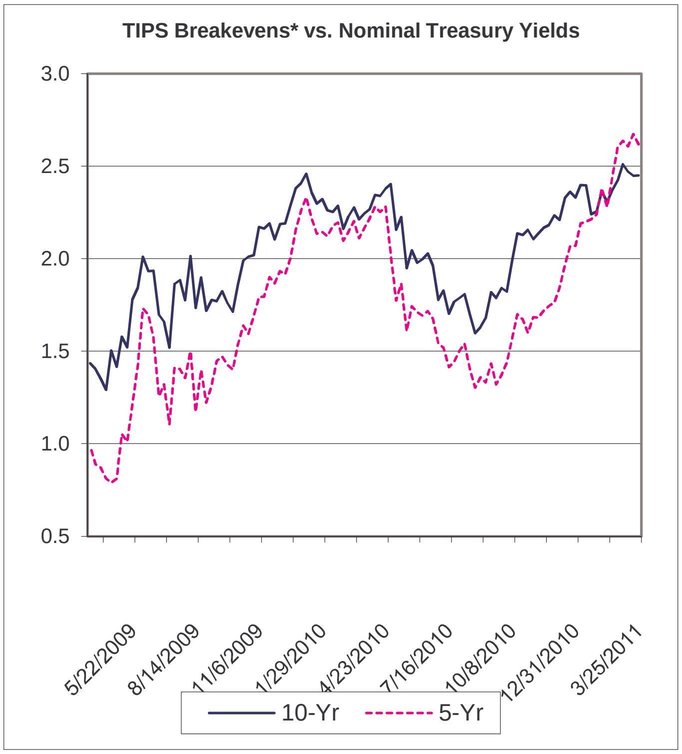
Difference

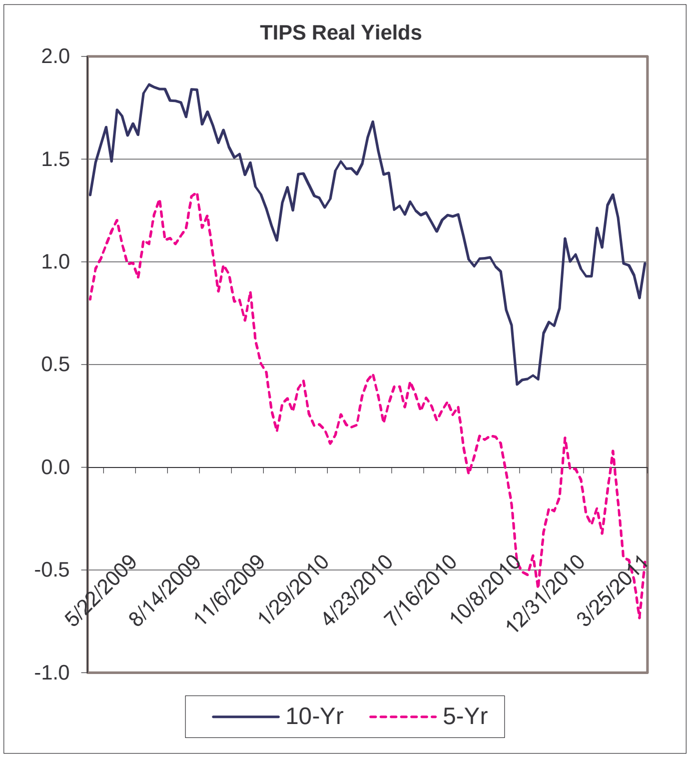
	Value Differ	M. Dur Differ	$ Dur Differ
Norway	4.7%	1.8	1.1%
Britain	2.8%	-1.2	1.2%
Euro	-7.9%	1.3	-3.3%
Japan	0.4%	0.1	1.0%
	0.0%	0.0	0.0%



Portfolio Value (Yield Book):	$2,576,668,076
Portfolio Return:	3.50%
Citigroup ILSI Index:	3.65%
Active Return:	**-0.15%**

	% Market Value by Duration		
	TCRS	CITI	Difference
0-2	18.90	15.98	2.92
2-4	28.45	29.04	-0.60
4-6	13.83	19.24	-5.41
6-8	6.35	6.05	0.30
8-10	20.43	24.25	-3.83
10+	12.05	5.44	6.61





* 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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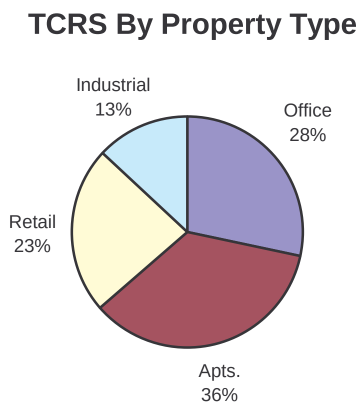
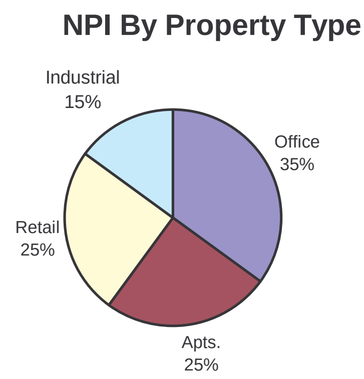
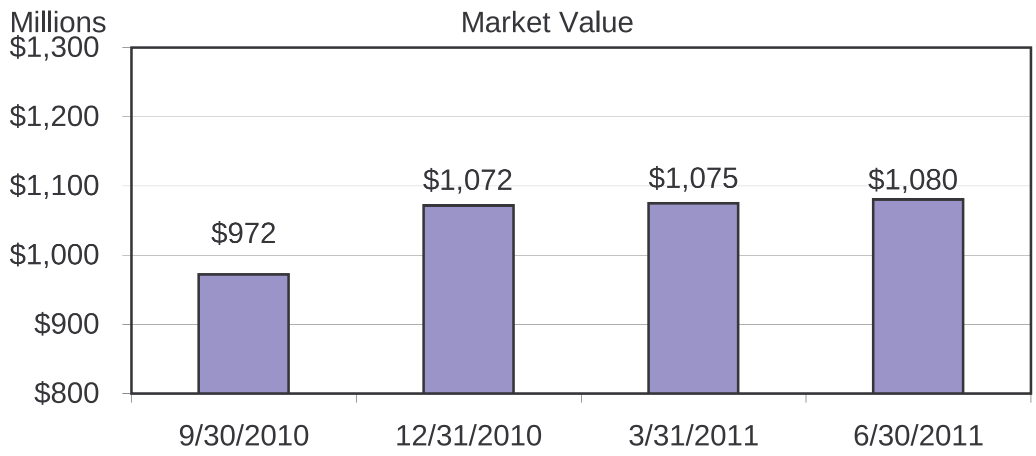
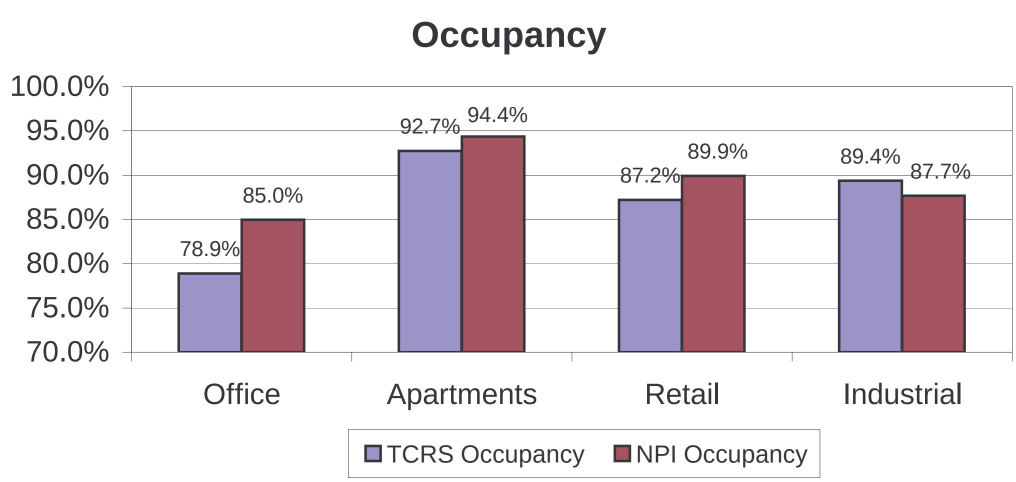
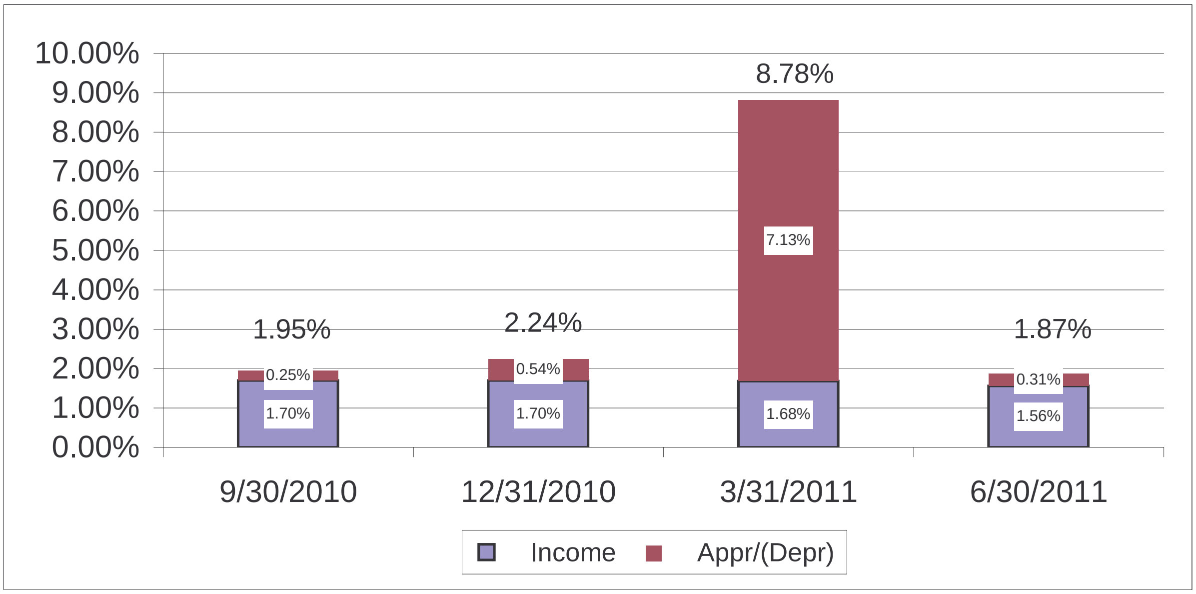




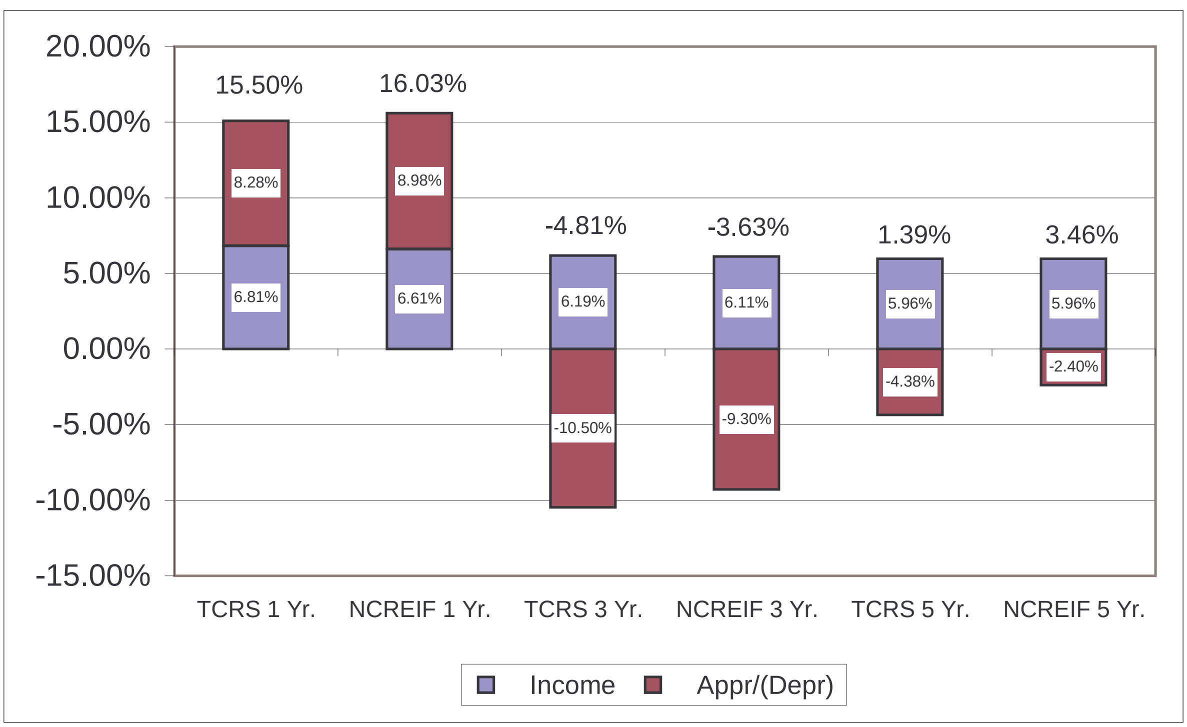




National Property Index of the National Council of Real Estate Investment Fiduciaries (the index used for US core properties).



Budgeted Annual Income Return for calendar year 2011 (excluding REITs) 6.43%



Tennessee Consolidated Retirement System
Private Equity Program
Fiscal Q4 2011 Update
Lamar Villere, CFA

Performance

We have finalized our fiscal Q3:2011 results (3/31/11), and are pleased to report that the program continues to show positive returns. As of that date, the portfolio value had reached $58.4 million, with 58% of that in credit funds, 34% in venture funds, and 9% in buyout funds. This breakdown is inconsistent with long term expectations for two primary reasons. First, TCRS seeks to partner with the top firms in each category, many of whom are not currently fundraising. Second, Hellman & Friedman VII, TCRS's largest commitment to date, only began calling capital in August 2011 despite the fund closing in 2009.

Assets as of 3/31/11	**Target**	**Commitments**	**Net Asset Value**
Buyout	45.0%	36.8%	8.6%
Credit	25.0%	40.1%	57.4%
Venture	20.0%	23.1%	34.0%
Secondaries*	10.0%	0.0%	0.0%
TCRS PE Overall	**100.0%**	**100.0%**	**100.0%**

**Note that the target range for secondaries is 0%-10%. As secondaries are typically mainly comprised of buyout exposure, the two categories could be combined for a total target allocation of approximately 55%.*

The following table provides a brief overview of performance thus far. Please note that this performance is not particularly meaningful, nor will it be meaningful for several years. It is Staff's and Cambridge's expectation that performance will likely be weak in the early years of the program as the j-curve effect negatively impacts the portfolio performance. Even with the strong performance of the portfolio during the quarter, performance still lagged the stated benchmark of S&P 500 plus 300 basis points.

IRR as of 3/31/10	**Quarter**	**Trailing 1 Year**	**Since Inception**
Buyout	-6.4%	-12.6%	-8.0%
Credit	5.2%	20.4%	19.2%
Venture	-3.2%	0.8%	4.2%
TCRS PE Overall	**1.2%**	**10.8%**	**11.0%**
S&P 500 + 3%	*6.6%*	*19.2%*	

Looking Ahead to Fiscal Q4 2011 Results

Capital calls accelerated in the quarter ended June 30, 2011, nearly doubling from $7.9 million to $15.3 million. This indicates that TCRS managers are finding ample opportunities for investment in this market. Additionally, based on the handful of reporting figures that have arrived thus far, Staff anticipates a strong quarter. With that said, based on public market weakness and the lack of a meaningful track record in the portfolio, performance will likely be volatile going forward.

European Trip Complete

The TCRS allocation plan calls for approximately 45% of TCRS's private equity allocation to be invested with non-US managers. With this in mind, TCRS staff and Cambridge traveled to the United Kingdom in July to meet with several potential private equity managers.

While several of the meetings were held with managers that are not currently fundraising, it is Staff's expectation that TCRS will make its first non-US commitment within the next 12-18 months as a direct result of the trip.

Commitments

Thus far in calendar 2011, TCRS has committed $70 million to three funds. In March, TCRS committed $25 million to Bessemer Venture Partners VIII through an entity formed by TrueBridge Capital Partners. In May, TCRS committed $20 million to Berkshire Fund VIII. Also in May, TCRS committed $25 million to Khosla Ventures IV. The Khosla commitment represents the first "re-up" for the portfolio, as TCRS previously committed $25 million to Khosla Ventures III in 2009.

Fund Pipeline

TCRS is currently in the due diligence phase on several funds, many of which are focused on middle market buyouts, an area that is challenging. While the buyout commitments thus far have been focused on generalist strategies, there are multiple firms currently under consideration that are more sector focused in nature. TCRS and Cambridge believe that a balance of generalists and specialists is ideal for the portfolio.

In addition to buyouts, Staff continues to evaluate potential opportunities in venture capital, credit, and secondaries.

Domestic Stock Index Futures
Roy Wellington, CFA

Domestic Stock Index Futures Transaction Log

Date	B/S	Contracts			Broker	Price	Total	Reason
Begin	B	5,950	Russell 2000	Jun 2011	Citigroup	841.7000	500,811,500	
Trades								
6/10/2011	S	5,950	Russell 2000	Jun 2011	Citigroup	786.8000	(468,146,000)	2a
6/10/2011	B	5,950	Russell 2000	Sep 2011	Citigroup	783.5000	466,182,500	2b
Contracts Outstanding on June 30, 2011								
End	B	5,950	Russell 2000	Sep 2011	Citigroup	825.4000	491,113,000	
					Total 4Q FY2011	$	(7,735,000)	

1 Move equity allocation towards allocation target.
2a Swap to next contract.
2b Swap from earlier contract.

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

TCRS also believes that it can add value to the underlying equity index return by investing cash allocated to the strategy in better (in terms of duration and credit) returning instruments than those implied by futures prices. Another source of extra return comes from rolling the futures contract from one calendar quarter to the next. If these sources of extra return dry up then TCRS can opt to own the underlying equity securities.

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

Collateral:	US Treasury Notes	$ 32,014,877
Short Duration Fixed Income:		403,867,500
TCRS Cash:		55,230,623

Review: TCRS maintained its exposure to small cap stocks by utilizing the Russell 2000 Index future. The market value of small cap stocks represented by our futures exposure fell in line with the drop in the Russell 2000 Index.

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

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Domestic Fixed Income Derivatives Report

Andrew C. Palmer, CFA

Domestic Fixed Income Derivatives Transaction Log

ACCT	SOLD	BOUGHT	NET	EXPIRATION	CONTRACT	TYPE	STRIKE
Begin							
			800	JUN (M) 2011	JUN 11 10 YR T-N	FUTURE	
			-750	JUN (M) 2011	JUN 11 US 2YR T-	FUTURE	
			1375	JUN (M) 2011	JUN 11 5 YR T NT	FUTURE	
			600	JUN (M) 2011	JUN 11 U.S. T-BOI	FUTURE	
			500	JUN (M) 2011	JUN 11 CBT UL T-	FUTURE	
			250	SEP (U) 2012	EURODOLLAR	PUT	96
			300	JUN (M) 2011	10-yr Tsy	PUT	116.5

TRADE SUMMARY BY ACCOUNT

ACCT	SOLD	BOUGHT	NET	EXPIRATION	CONTRACT	TYPE	STRIKE
Corporate							
	-1190	890	(300)		JUN 11 10 YR T-NOTES		
	(200)	200	-		JUN 11 5 YR T NT		
	(80)	80	-		JUN 11 CBT UL T-BONDS		
	(720)	620	(100)		JUN 11 U.S. T-BONDS		
	(200)	-	(200)		SEP 11 5 YR T NT		
	(890)	1,390	500		SEP 11 10 YR T-NOTES		
	(1,200)	2,700	1,500		SEP 11 U.S. T-BONDS		
	(80)	80	-		SEP 11 CBT UL T-BONDS		
1-5 Gov't							
	(1,375)	1,375	-		JUN 11 5 YR T NT		
	(750)	750	-		JUN 11 US 2YR T-NT		
	-	3,500	3,500		SEP 11 CBT UL T-BONDS		
Overlay							
	(250)	500	250		CALL JUL 11 T-NOTE OPTION 1250		
	-300		(300)		PUT JUN 11 T-NOTE OPTION 1165		
	(500)	500	-		CALL JUN 11 T-NOTE OPTION 1210		
	(1,000)	1,000	-		JUN 11 CBT UL T-BONDS		
		1250	1,250		SEP 11 CBT UL T-BONDS		
5+ Gov-t							
	(500)		(500)		JUN 11 10 YR T-NOTES		
	(500)		(500)		JUN 11 CBT UL T-BONDS		
	(500)		(500)		JUN 11 U.S. T-BONDS		
		500	500		SEP 11 10 YR T-NOTES		
	(500)	500	-		SEP 11 5 YR T NOTE		
		1,000	1,000		SEP 11 CBT UL T-BONDS		
		500	500		SEP 11 U.S. T-BONDS		

End						
	250	SEP (U) 2012	EURODOLLAR	PUT	96
	1000	SEP 11 10 YR T-NOTES		FUTURE	
	2000	SEP 11 U.S. T-BONDS		FUTURE	
	5750	SEP 11 CBT UL T-BONDS		FUTURE	

Domestic Fixed Income Derivatives Report

Andrew C. Palmer, CFA

Domestic Fixed Income Derivatives Transaction Log

SUMMARY OF LAST QUARTER'S ACTIVITY:

CONTRACTS IN USE:

- 5-year Futures
- 2-year Futures
- 10-year Futures
- Long Bond Futures
- Ultra-Long Futures
- Eurodollar Put
- 10-year Futures Call
- 10-year Futures Put

STRATEGIES:

- Used Ultra-Long, Long Bond and Ten Year Futures to manage interest rate exposures in the 1-5 Gov't portfolio, the 5+ Gov't Portfolio and the Corporate portfolio as part of the transition to the LPF Index.
- Rolled 1,375 Five Year Futures contracts in 1-5 Gov't portfolio to replicate duration profile of index without using physical Treasury notes.
- Used Ultra-Long Bond Futures to offset the duration impact of a strategic overweight to the MBS portfolio.
- Sold 500 puts on Ten year Futures to close out a put option as interest rates peaked before expiration and recoup premium.
- Purchased call options on Ten year Futures to protect against a spike down in rates. Closed both positions with profitably by quarter end.
- Rolled a sale of 750 Two year Futures to reduce exposure to interest rate risk in the 1-2 year portion of the yield curve.

EFFICACY:

- Futures positions performed as expected. The five year replication strategy produced returns in excess of the Five-year Treasury note and the duration adjustment transactions produced the expected impact on interest rate sensitivity. The Eurodollar put option trade was held and still provides protection against a tightening of monetary policy and a widening in Eurodollar spreads. The Calls and Puts on Ten year Futures were closed out during the quarter with approximate recovery of premium achieved in two purchases and a gain achieved on the third purchase.

PROPOSED STRATEGIES FOR CURRENT QUARTER:

- Use Ultra-Long, Long Bond and Ten Year Futures to manage interest rate exposures in the 1-5 Gov't portfolio, the 5+ Government Portfolio and the Corporate portfolio as part of the transition to the LPF Index.
- Use Ultra-Long Bond Futures to offset the duration impact of a strategic overweight to the MBS portfolio.
- 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 and Ten Year Futures in the Corporate portfolio to offset the duration impact of timing differences in individual corporate bond trades.
- Buying out-of-the-money calls or puts on long and intermediate Treasuries to hedge big movements in rates.

Currency Forwards Activity

Jesse Picunko, CFA

2011 2nd Quarter Activity

GOVERNMENT ONE TO FIVE
(CANADA TRADE HEDGING)

4/27/2011	4/29/2011	B	75,000	CAD	HSBC	0.9525	(71,438)
4/27/2011	6/30/2011	S	75,000	CAD	HSBC	0.9540	71,549
5/12/2011	6/30/2011	B	10,000	CAD	HSBC	0.9671	(9,671)
6/28/2011	6/30/2011	B	65,000	CAD	HSBC	0.9840	(63,960)
6/28/2011	7/29/2011	S	65,000	CAD	HSBC	0.9848	64,011

TCRS MORTGAGE PORTFOLIO

END OF QUARTER MORTGAGE TBA POSITIONS

Jesse Picunko, CFA

	PRICE	PAR ($milion)	MARKET ($million)	SETTLE	FIRM
FNMA 4.0 30 Yr	100.250	10	10.03	JUL	CS
FNMA 4.0 30 Yr	100.250	38	38.10	JUL	C
FNMA 4.5 30 Yr	103.570	25	25.89	JUL	JEF
FNMA 4.5 30 Yr	103.570	40	41.43	JUL	BOA
FNMA 4.5 30 Yr	103.570	43	44.54	JUL	UBS
FNMA 5.0 30 Yr	106.242	61	64.81	JUL	NOM
FNMA 5.0 30 Yr	106.242	10	10.62	JUL	BNP
GNMA 4.0 30 Yr	102.008	25	25.50	JUL	CS
	Total	**252**	**261**		

By Firm	Market Value ($million)
BOA	41.4
C	38.1
DB	0.0
JEF	25.9
NOM	64.8
UBS	44.5
CS	35.5
WF	0.0
JPM	0.0
BAR	0.0
RBS	0.0
MFG	0.0
BNP	10.6
Total	261

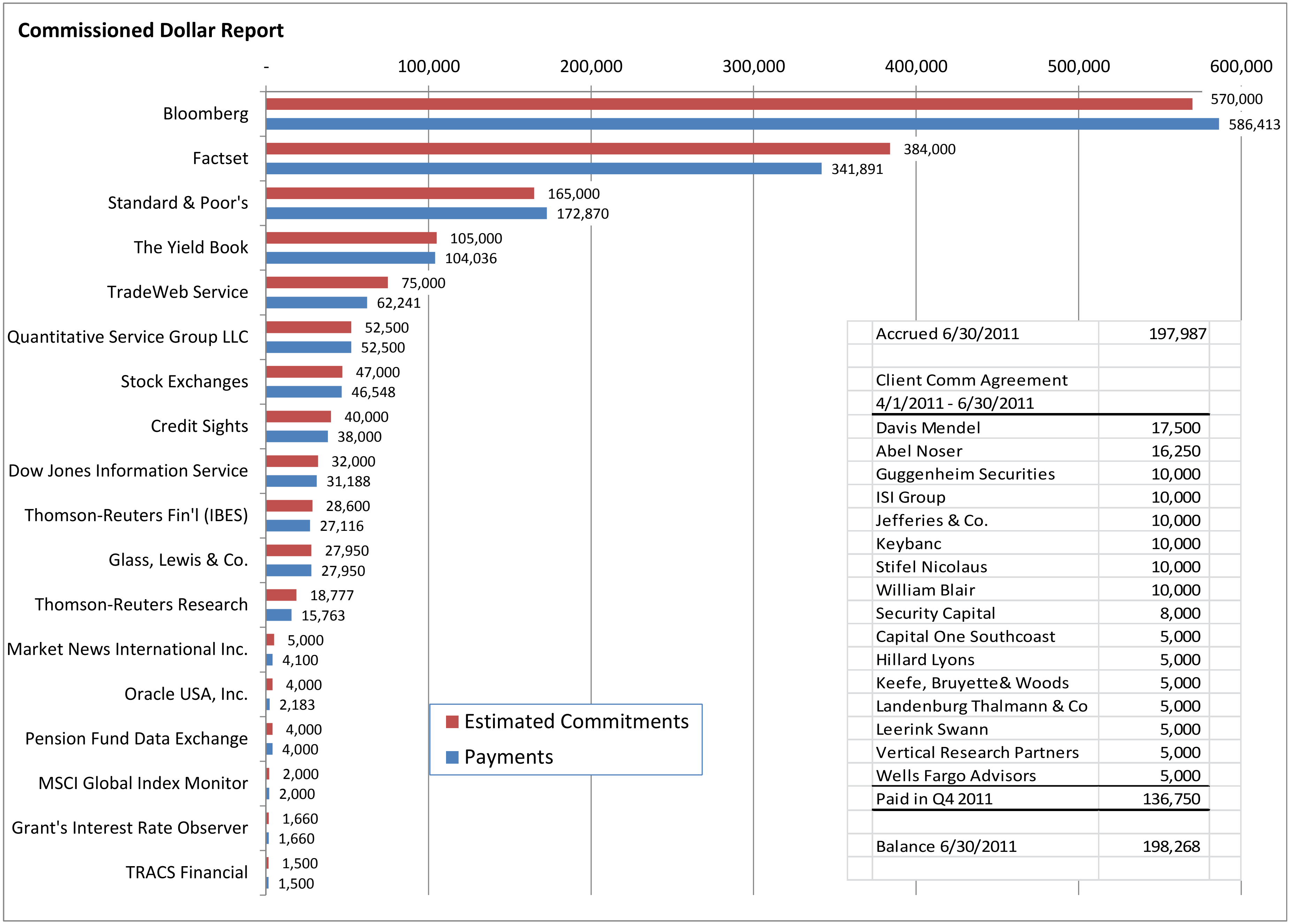
OPERATIONS UPDATE
Tim McClure, CTP

TCRS continues to move forward with changes to the Operations area. As TCRS looks for ways to add value to the Fund, this is an area that offers some opportunity for efficiencies and technology upgrades.

Trade Order Management System (OMS) – The latest addition to the OMS is pre-trade compliance. Historically, TCRS has relied upon the custodian to provide post-trade compliance. Now, compliance rules are in the process of being added that will strengthen the controls already in place and either warn the portfolio manager of a potential problem or prevent trades that would be in violation of policy or internal mandate. The Compliance Officer, Paul Robertson, is responsible for building the rules that will be utilized and notifying management of violations. The construction of the pre-trade compliance rules is currently a work in progress.

Trading **–**TCRS entered into a CSA with Barclays Capital on April 1, 2010. The program gives the traders additional flexibility by allowing trading with firms that offer better execution and still maintaining the ability to pay for research from smaller firms with the commissions generated from the CSA. The effectiveness of the program continues to be evaluated as the one-year anniversary of this program approaches. Internal Audit is currently reviewing the CSA program to make sure that the process is transparent, efficient, and operating as management intended.

Trading Cost Analysis – For over a year, TCRS has been working with Abel Noser to obtain information regarding TCA. During this time, data feeds have been provided by the custodian, and TCA consisted mainly of comparisons of price versus open and price versus VWAP. With the implementation of OMS, very detailed data is being captured and provided to Abel Noser. The latest full quarter of time stamped data (March thru June 2011) has been reviewed. The report is becoming more useful each quarter by the traders, and this quarter focused on determining the optimal method to trade each portfolio manager. The report also showed how stocks performed two days following execution.



Accrued 6/30/2011	197,987
Client Comm Agreement	
4/1/2011 - 6/30/2011	
Davis Mendel	17,500
Abel Noser	16,250
Guggenheim Securities	10,000
ISI Group	10,000
Jefferies & Co.	10,000
Keybanc	10,000
Stifel Nicolaus	10,000
William Blair	10,000
Security Capital	8,000
Capital One Southcoast	5,000
Hillard Lyons	5,000
Keefe, Bruyette& Woods	5,000
Landenburg Thalmann & Co	5,000
Leerink Swann	5,000
Vertical Research Partners	5,000
Wells Fargo Advisors	5,000
Paid in Q4 2011	136,750
Balance 6/30/2011	198,268