INVESTMENT REPORT

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Third Quarter
Fiscal Year 2011 - 2012

January 1, 2012 – March 31, 2012

Prepared for:
Board of Trustees

June 29, 2012

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
Board of Trustees Meeting
Third Quarter
Fiscal Year 2011-2012

January 1, 2012 – March 31, 2012

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Minutes from the Investment Advisory Council Meeting
June 6, 2012

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. Fred Crown, Mr. Chuck Webb, and Mr. George Stadler. Mr. Henry Delicata participated via conference call and Ms. Susan Huffman was unable to attend. Investment staff members present were Michael Brakebill, Andy Palmer, Mike Keeler, Peter Katseff, Lamar Villere, Tim McClure, Roy Wellington, Jim Robinson, Carrie Green, Daniel Crews, Kushal Gupta, Ken McDowell, Thomas Kim, Matthew Haitas, Michael Giggie, Eric Stewart, Phil Payne, and Rhonda Myers. Mr. Bill Abney and Ms. Alison Cleaves were also in attendance.

Mr. Brakebill reviewed the investment performance which was illustrated in the Investment Report for March 31, 2012 and in the Strategic Investment Solutions (SIS) quarterly performance report. He noted the total return of TCRS was 7.0% for the quarter and 8.3% for the year. Before discussing the SIS Asset Liability Study, Mr. Brakebill made a couple of announcements. He introduced two new interns, Eric Stewart and Phil Payne, who will be with TCRS for the summer. Eric Stewart will be graduating with an MBA from Vanderbilt University in December. Phil Payne will be graduating in December with an MBA from the University of Tennessee at Knoxville. Mr. Brakebill also informed the IAC that Ms. Alison Cleaves was in the process of developing a memo regarding procedures for treating potential conflicts of interests from current IAC members.

Mr. Brakebill reviewed the SIS 2012 Asset Liability Study Summary. He emphasized that the summary distributed was a draft and that he had held preliminary meetings with The Treasurer to review the draft. The final version will be distributed by SIS in the third quarter. Mr. Brakebill walked through the key points of the Summary produced by SIS. He noted that SIS provides an expected return and risk for each asset class that is investible by TCRS. SIS uses historical data as well as the Capital Asset Pricing Model to project expected returns and risk levels. SIS uses this information to project returns under asset allocations of different risk levels. Staff plans to review the results of the study with The Treasurer and the Investment Committee to determine if any changes in allocation will be implemented.

Mike Keeler moved the discussion to domestic equities. He noted that domestic equities performed in line with the S&P 1500, aided by strong relative performance in the Sector Fund. An underweight to Canada contributed to outperformance relative to the custom North American benchmark. Growth and size factors were successful in adding value during the period.

Mike Keeler noted that the Mid Cap Fund lagged the S&P Mid Cap 400 primarily due to poor stock selection in the diversified financials, commercial and professional services and machinery industries. However, this underperformance was somewhat offset by good stock picking in the consumer staples sector and the energy sector. He noted that an underweight position in technology and an overweight position in the relatively weak consumer staple and energy sectors also hurt relative performance during the quarter. Faulty sector allocation contributed to roughly 70% of the shortfall against the benchmark. Looking ahead, stocks appear to have entered a trading range as growth visibility is limited, but some of the worst problems from last year seem to be eroding slowly. In the current quarter, growth and quality factors seem to be reasserting themselves after a heavy "risk on" influence in the first quarter. He noted that earnings are generally coming in above or around expectations but investors' reactions are somewhat tempered by cautious management commentary and guidance and also sometimes overshadowed by headlines related to European and Chinese economic data.

Jim Robinson moved the discussion to the Quant Fund. He noted that a high percentage of portfolio managers underperformed in calendar 2011. This underperformance led to higher than normal trading activity in the first quarter as portfolios were readjusted and price momentum was extremely perverse. On January 2nd, the Quant Fund lost 25 basis points of relative performance. As a result, Staff has implemented a new risk metric to help anticipate some types of factor reversals. In addition, Staff has also started using a new risk model in the portfolio optimization program that the Quant Fund utilizes. Previously, long term risk model had been used but this model has been augmented with a shorter horizon model. Having two models to compare should allow Staff to better respond to quickly changing market environments and more readily spot "error maximization" anomalies that sometimes crop up in the output from such software. Mr. Robinson concluded by noting that there seems to be no end to the current situation in which macroeconomic and political concerns are such prominent drivers in the market.

Roy Wellington stated that the Sector Fund team continues to expect economic recovery, with minimal inflation pressure. The rapid rebound in equity prices during the quarter was due largely to the actions of the European Central Bank in restoring liquidity and confidence, which has run its course. Liquidity will not prevent a recession as overdrawn governments tighten their belts to maintain their credit worthiness. The main drama in asset markets has been the slow, drawn out default of the Greek government, and the questionable condition of Italy, Spain and Portugal. He noted that the U.S. economy continues to experience modest improvement with lower unemployment but an overextended government. The Sector Fund is overweight the Consumer Discretionary and to a lesser extent Technology sectors. It reduced the underweights to Financials and Health Care but is keeping an underweight in the Energy and Materials sectors as the rest of the world slows down. Finally, he noted that there were no changes to the futures holdings but small cap as described by the S&P 600 Index continues to outperform the Russell 2000 Index.

Roy Wellington stated that the externally managed International Equity portfolio performed well overall during the quarter. In order for managers to outperform the benchmark, they most likely needed to overweight Europe, which is tough to do given the uncertainty. All but one EAFE manager outperformed the benchmark in the period. TCRS's European manager (GE Asset Management) did well on both an absolute and relative basis, while TCRS's small cap manager performance was mixed, with Pyramis outperforming and American Century underperforming.

Mr. Palmer reviewed the performance of the Domestic Fixed Income, Inflation Protected and International Fixed Income portfolios. The Domestic Fixed Income Portfolio produced a return for the quarter of 0.22% which was 1.12% in excess of the Citigroup Large Pension Fund Index. Mr. Palmer noted that the market environment was beneficial for the posturing of the portfolio as interest rates rose and all non-Treasury sectors produced positive excess returns. All of the component sub–portfolios (Government 1-5, Government 5+, Corporate and Mortgage) outperformed their respective indices. In general, the performance was achieved through adding to underperforming securities in the fourth quarter and benefitting as those securities recovered during the quarter. Looking forward to the April-June quarter, most of those trades had been unwound to leave the overall portfolio with a low relative risk position.

Mr. Palmer noted that the Inflation protected portfolio performed in line with its index during the quarter and the International Portfolio benefitted from underweight positions in Euro and Yen currency bonds and strong performance from the Canadian Dollar, the Norwegian Kroner and the British Pound. These holdings helped the International Portfolio outperform by 75 bps for the quarter.

Mr. Palmer also reported on the Fixed Income Derivative, Currency Forward and Mortgage TBA activity for the quarter. Fixed Income Derivative positions performed as expected during the quarter. Derivatives were used to replicate the interest rate exposures in the benchmark index and to hedge specific interest rate risk in individual credit securities.

Peter Katseff provided an update on the Real Estate portfolio. He began by reviewing the differences in markets termed “24/7”, such as New York and San Francisco, and the next tier of primary markets, such as Dallas and Chicago. He noted that TCRS owns fewer assets in “24/7” markets, which are currently outperforming other markets. He noted that since the previous IAC meeting, TCRS closed on an apartment community in Dallas and expects to close on another apartment community in Houston in a few days. The total combined value of these transactions is equal to approximately $100 million. Further, TCRS is negotiating the acquisition of two student housing communities for an additional $100 million and would close on these properties in the third quarter. Mr. Katseff stated that there was a reasonable chance that the Real Estate portfolio could reach 5% of the TCRS portfolio by the summer of 2013.

In the absence of Lamar Villere, Mr. Brakebill provided an update on the Private Equity program. He stated that Private Equity is expected to close on four new funds in the next few months raising the total commitment to approximately $500 million. However, only approximately $165 million has been called and invested. Finally, Mr. Brakebill noted that the current allocations are very different from long-run targets. Specifically, the long-run buyout allocation should be closer to 65% of the portfolio as opposed to the current allocation of 36%.

Tim McClure gave an update on trading for the quarter. He noted that Brad Pritchett was able to meet seasoned traders in Austin, Texas. Mr. Pritchett was exposed to some trading tools that should add value to the equity trading desk. He stated that trading was difficult during the quarter and trading costs were high universally. Still, the trading desk was able to trade over 480 million shares valued at over $17 billion at a cost of 2.2 basis points as compared to the Abel Noser universe of equity trades.

Mr. Brakebill and the IAC members discussed their outlook for the economy and for investments. The meeting adjourned at 12:00 p.m.

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Performance Review
March 2012

Absolute comparison

- 1 quarter return of 7.0%
- 1 year return of 8.3%
- 10 year return of 5.5%

Benchmark (relative) comparison

- Qtr return beat allocation index by 0.4%
- 1 year return beat allocation index by 1.2%
- 3 year return trails allocation index by 0.4%
    - TAA subtracted 30 bps for quarter
    - DFI up 112 bps in quarter, up 16 bps for year
        - 13.5% return for year, 7.5% for 5 years!
    - DE flat in quarter, up 163 bps for year
        - Excellent relative year
    - IE up 97 bps in quarter, up 372 bps for year (great year)
    - RE down 404 bps for year

Peer comparison

- 1 quarter return ranked at 73% (0% = best)
- 1 year return ranked at 2% (Beat 98% of funds for 1 year)
    - Beat median fund (4.39%) by 3.9%
- 3 year return ranked at 72% (15% vs. 16.2% median)
- 5 year return ranked at 19% (3.8% vs. 3.1% median)

Key Initiatives
March 2012

- Asset Allocation Review/Legislative Session
  - Strategic lending
  - Real estate strategy
  - Global equities

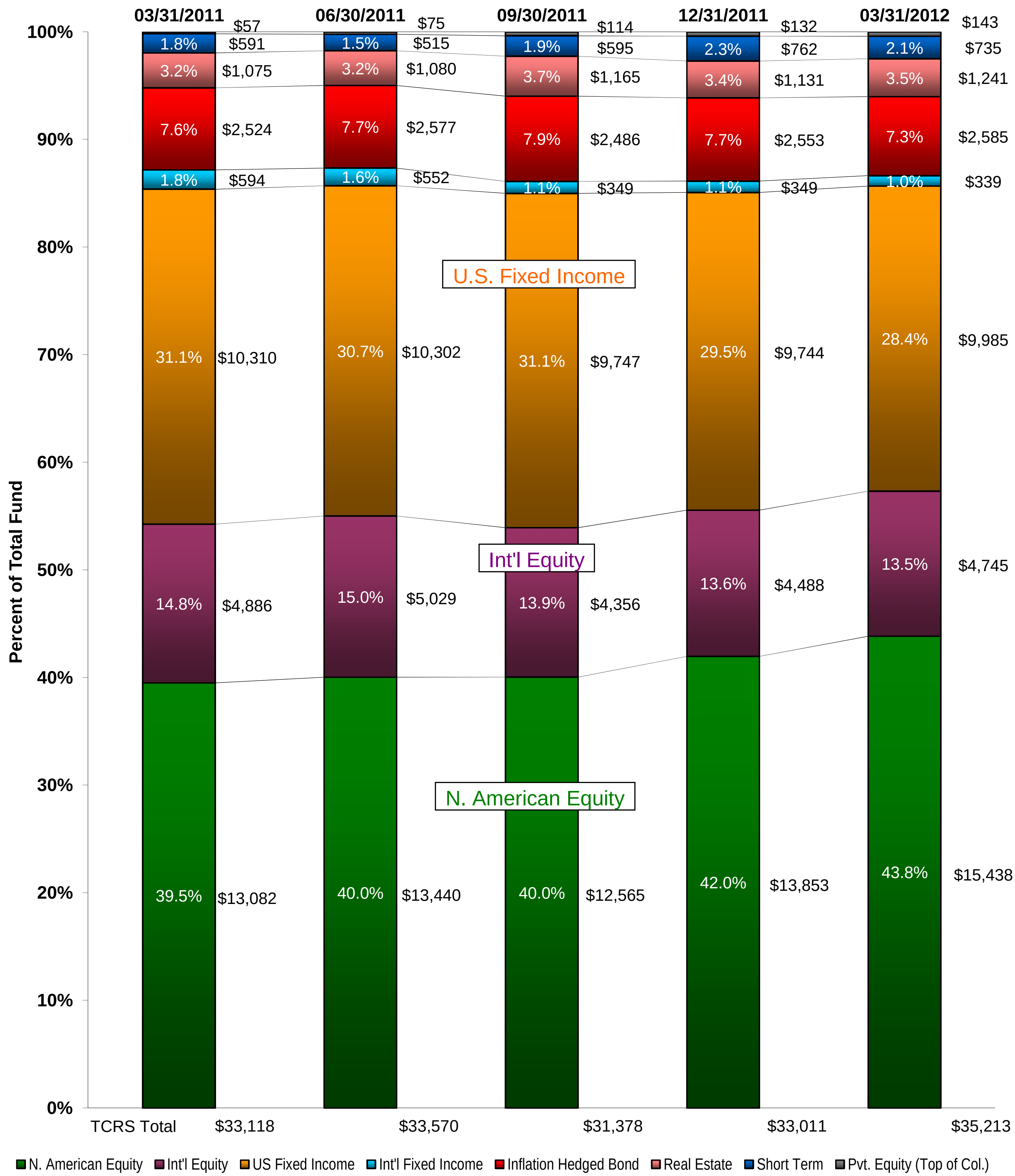
- SIS Asset/Liability Study

- Private Equity Due Diligence

- Tactical Allocation

TCRS Asset Allocation

March 2012

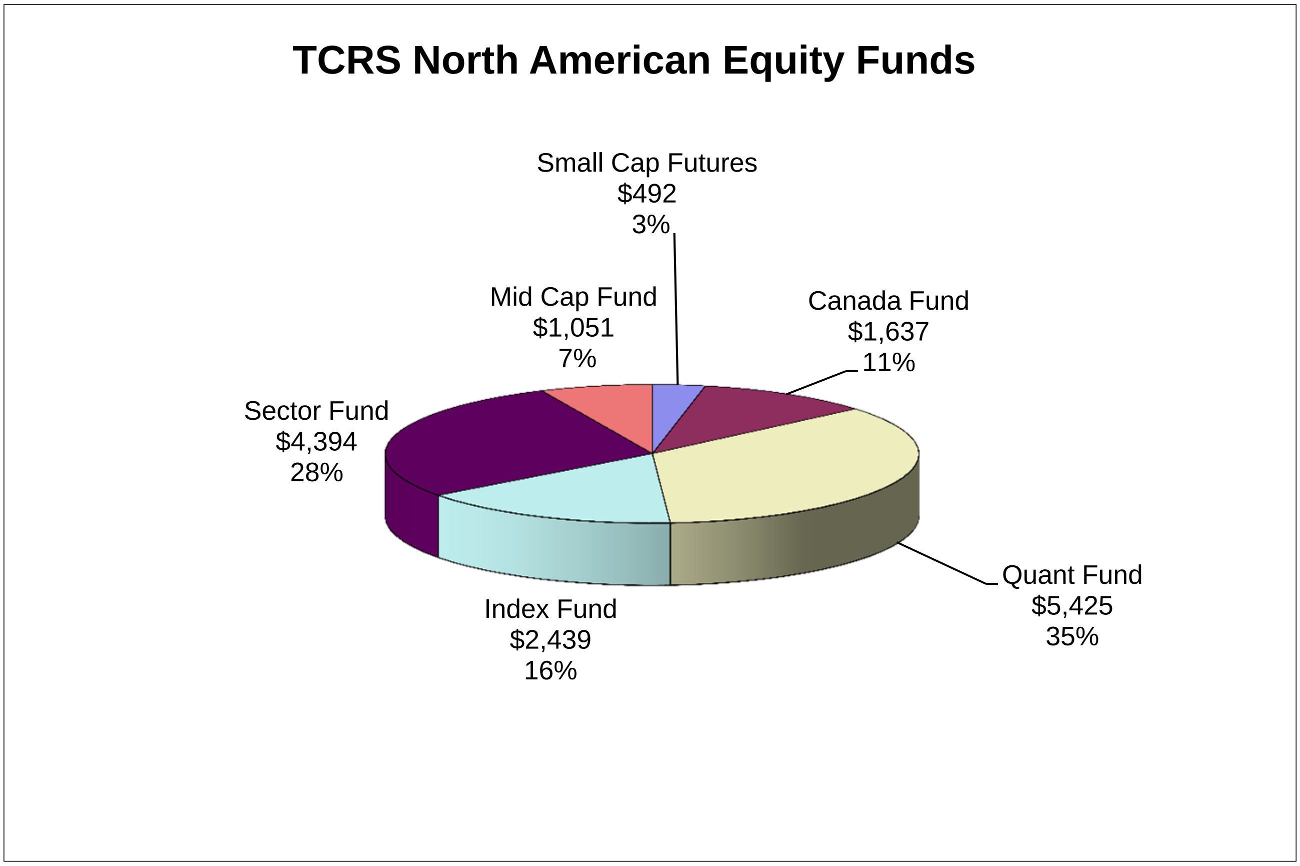


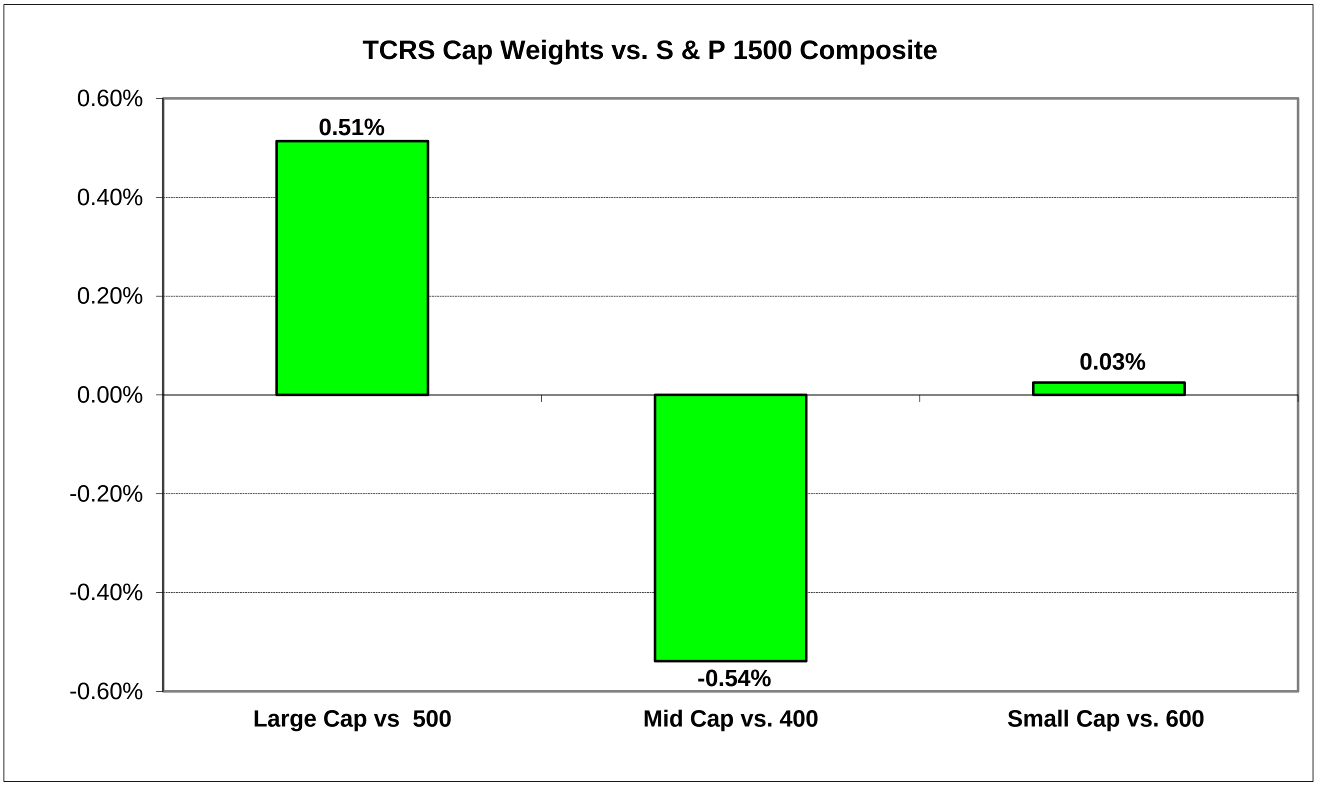
$ = millions

Source: Strategic Investment Solutions, Inc.

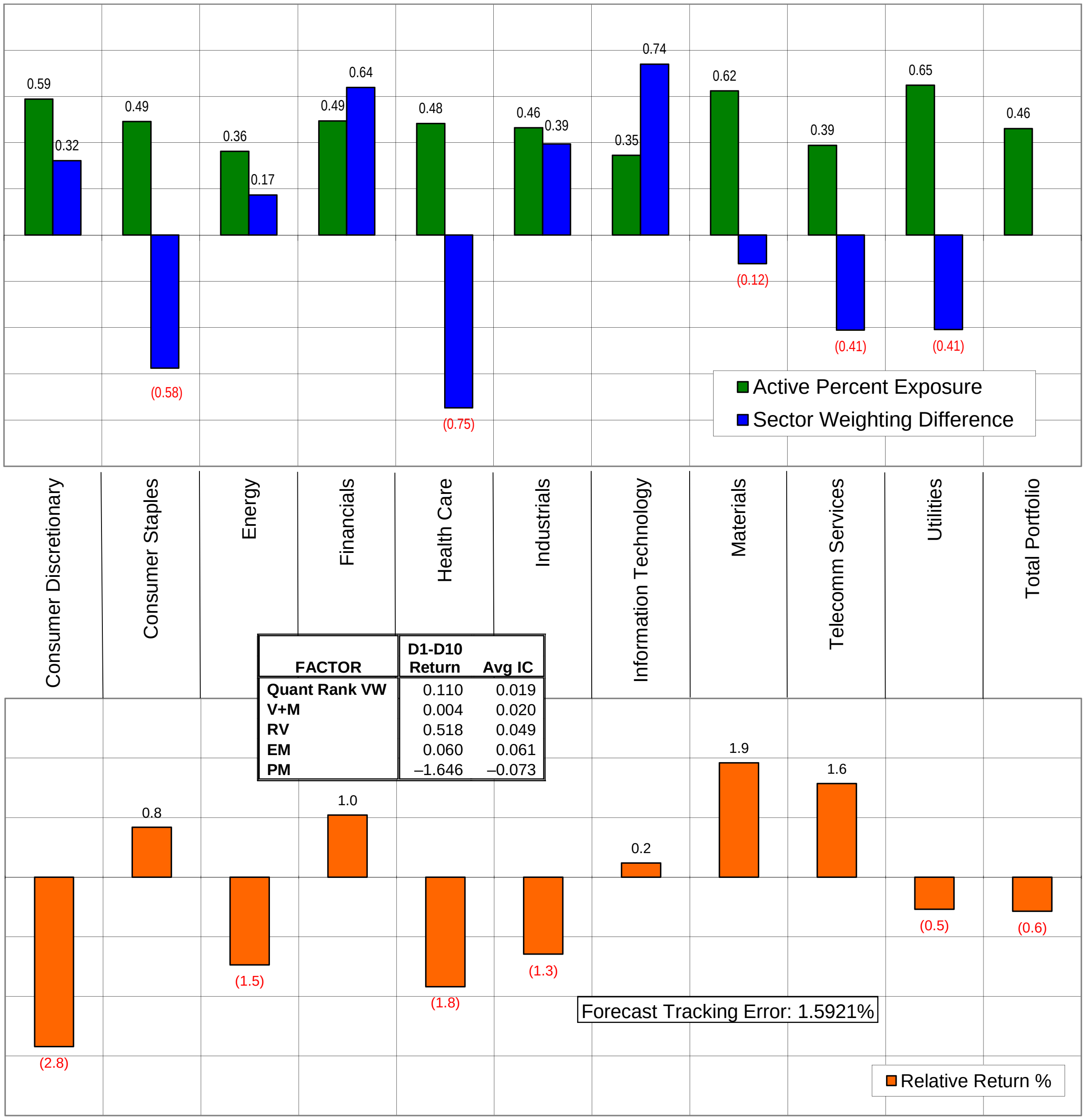
Domestic Equity Portfolio Overview

Michael Keeler, CFA





Large Cap Quant Fund
Jim Robinson, CFA



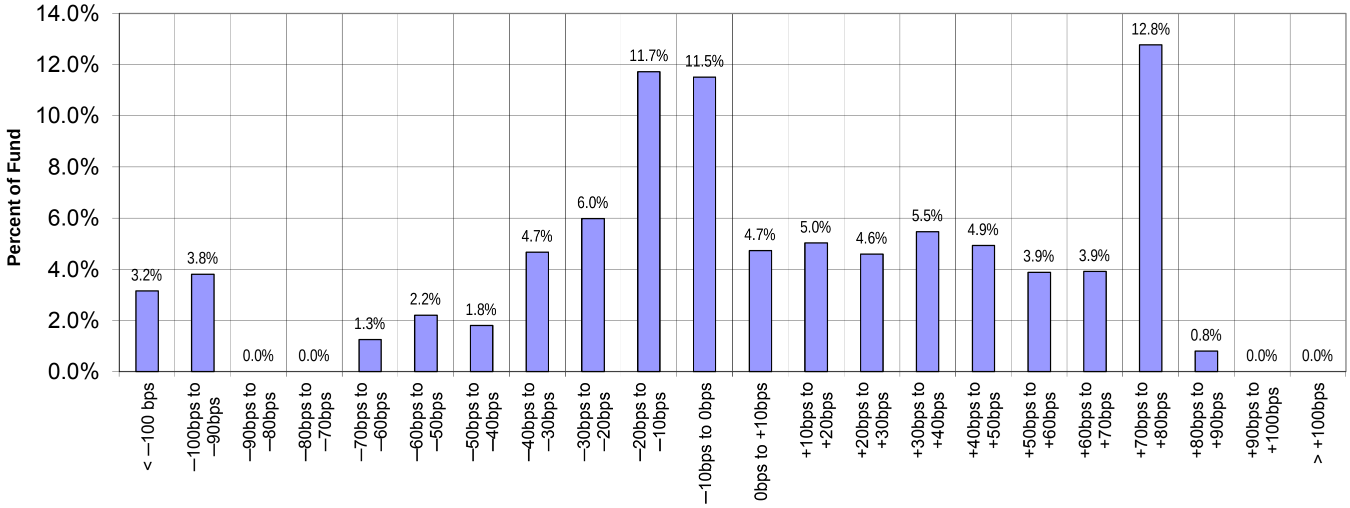
FACTOR	D1-D10 Return	Avg IC
Quant Rank VW	0.110	0.019
V+M	0.004	0.020
RV	0.518	0.049
EM	0.060	0.061
PM	–1.646	–0.073

Stocks sustained their move up in the March quarter, mostly on three factors: 1) The continued better than expected economic data domestically (like in the previous quarter). 2) What were interpreted as positive developments concerning the European financial crisis? 3) The Fed announcing that they will keep interest rates low for as long as necessary, if not longer.
The Quant Fund turned in an 11.90% quarter, underperforming the S&P500's 12.59% return in the three months ended March 31, 2012. As depicted in the insert above, the models upon which the Quant Fund relies performed poorly in the quarter. At the top level model, F1–F10 return spreads were –0.69%, –0.35%, and 1.39% on a month-by-month basis. By model, the monthly IC's were –0.020, 0.032, and 0.045. The detail that really hurt performance was that at the decile level, results were non-monotonic. More so than the negative F1–F10 spreads, there was perverse behavior in the second and ninth deciles. Generally, the Quant Fund will own much in F2 which was the worst performing decile. The Quant Fund rarely owns anything in F9, and that was the quarter's best performer. Price Momentum was the worst behaved model. It appeared that from the first trading day of January-2012, everyone who underperformed in 2011 decided to buy the laggards from the prior year. The Quant Fund lost about 25 bps of relative performance in just one day on January 2nd.

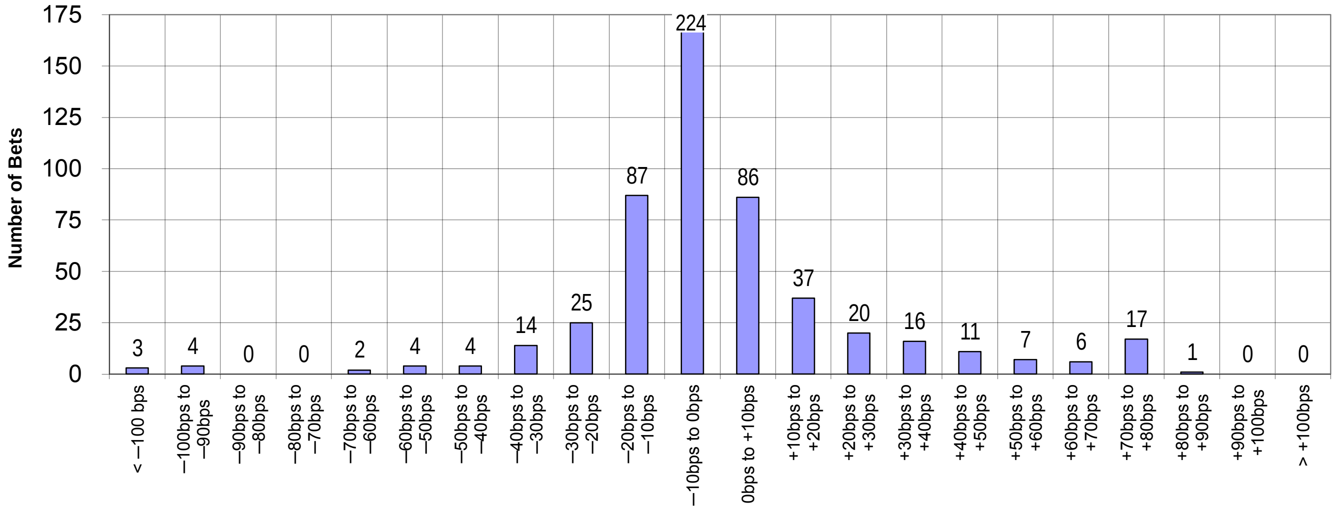
The stock market continues to look quite cheap versus bonds, but probably will until risk-free rates rise to where the latter do not appear to be return-free. The March end 801 bps equity risk premium generated by Merrill's DDM vs. AAA corporate yields is one of the highest readings on record going back to 1980.

Currently, the Quant Fund has a projected annualized tracking error of 1.71%, well within our risk target range. At 46.8%, APE is within tolerance.

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



Number of Individual Stocks in Bet Size Bins



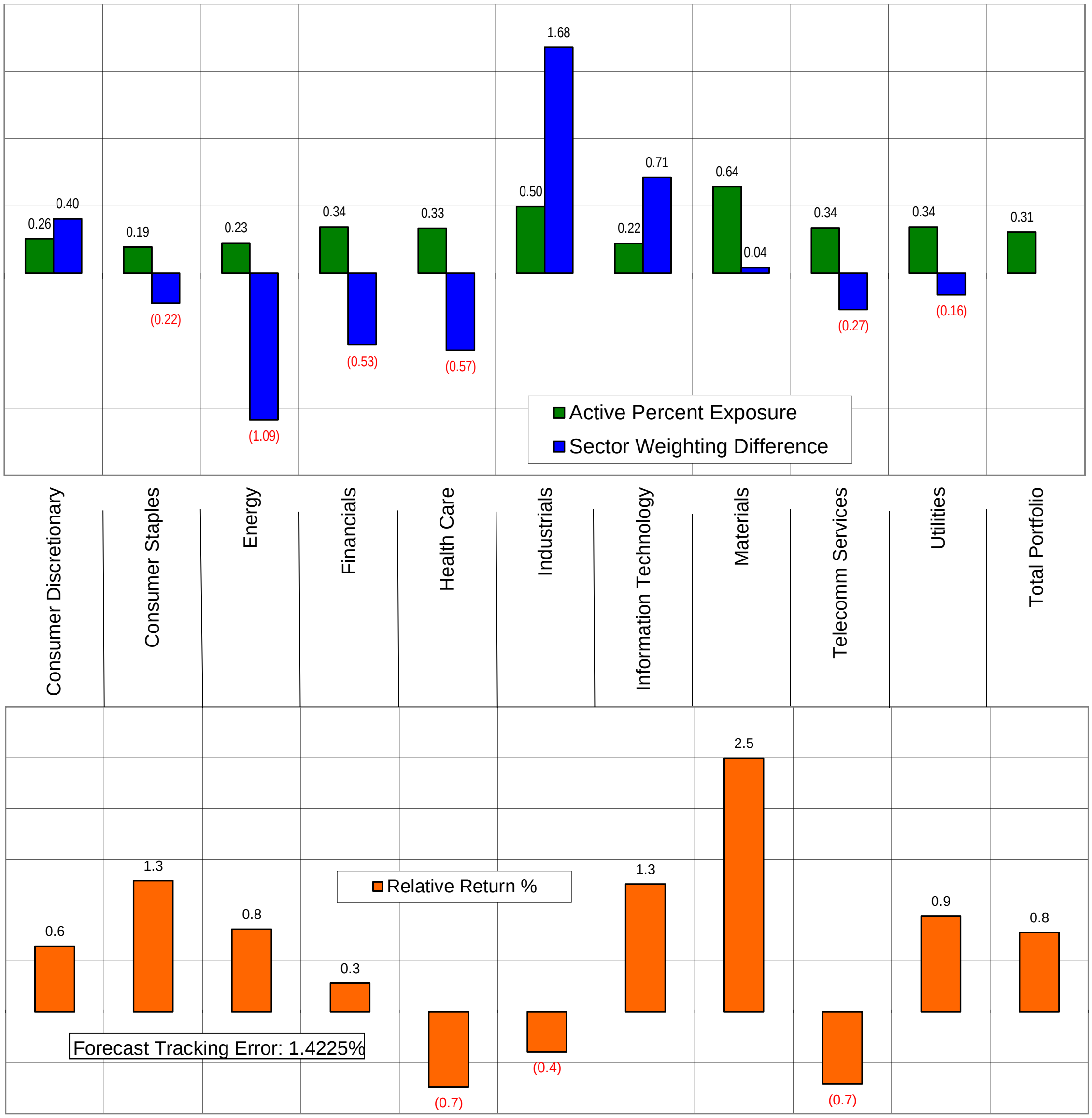
Largest Overweights by Stock in Fund

Ticker	Description	Bps Over
USB	U.S. Bancorp	80
IBM	International Business Machines Co	80
AXP	American Express Co.	80
CSCO	Cisco Systems Inc.	79
TWX	Time Warner Inc.	78
CELG	Celgene Corp.	77
ABT	Abbott Laboratories	77
MDT	Medtronic Inc.	76
TYC	Tyco International Ltd.	75
COP	ConocoPhillips	74
MSFT	Microsoft Corp.	74
MO	Altria Group Inc.	74
UNH	UnitedHealth Group Inc.	74
ACE	ACE Ltd.	73
UNP	Union Pacific Corp.	73
GIS	General Mills Inc.	71
DELL	Dell Inc.	71
MRO	Marathon Oil Corp.	70
APA	Apache Corp.	70
CMI	Cummins Inc.	66

Largest Underweights by Stock in Fund

Ticker	Description	Bps Under
BRK.B	Berkshire Hathaway Inc. Cl B	-112
KO	Coca-Cola Co.	-102
GOOG	Google Inc. Cl A	-101
JNJ	Johnson & Johnson	-99
T	AT&T Inc.	-96
PG	Procter & Gamble Co.	-94
CVX	Chevron Corp.	-93
CMCSA	Comcast Corp. Cl A	-64
DIS	Walt Disney Co.	-62
PEP	PepsiCo Inc.	-59
AMZN	Amazon.com Inc.	-58
KFT	Kraft Foods Inc.	-53
QCOM	QUALCOMM Inc.	-50
EMC	EMC Corp.	-48
V	Visa Inc.	-46
BA	Boeing Co.	-44
WFC	Wells Fargo & Co.	-43
BMY	Bristol-Myers Squibb Co.	-40
PFE	Pfizer Inc.	-40
DD	E.I. DuPont de Nemours & Co.	-39

Large Cap Sector Fund
Roy Wellington, CFA

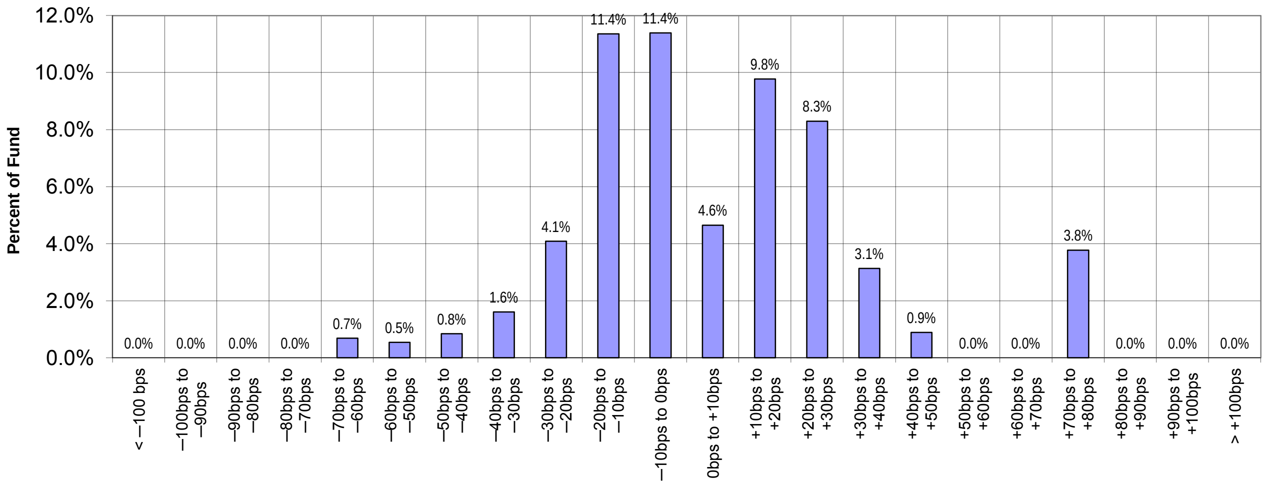


The Sector Fund had its **β** (sector exposure) meeting on May18th. The Sector Fund is positioned for economic recovery: we neither expect a double dip nor are inflation pressures evident. The rapid rebound in equity prices was due largely to the actions of the European Central Bank in restoring liquidity and confidence and has run its course. Liquidity will not prevent a recession as overdrawn government tighten their belts to maintain their credit worthiness. The main drama in asset markets has been the slow, drawn out default of the Greek government, an ongoing process and the questionable condition of Italy, Spain and Portugal. Our economy continues to experience modest improvement with lower unemployment but an overextended government. We are overweight the Consumer Discretionary and to a lesser extent Technology sectors. We reducied the underweights to Financials and Health Care but are keeping an underweight in the Energy and Materials sectors as the rest of the world slows down.

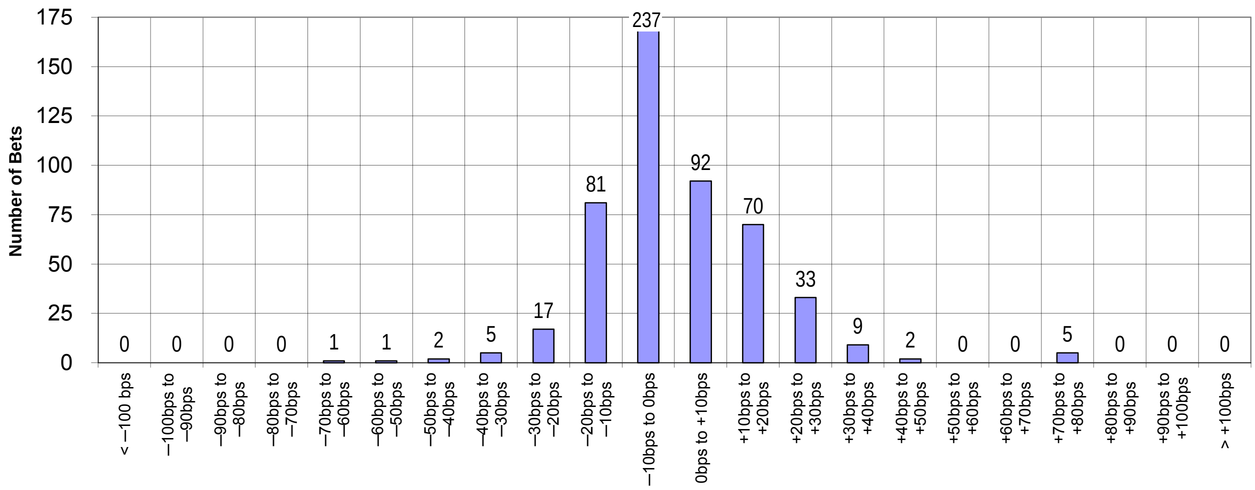
Comments around the table seemed consistent with a no recession, continued recovery, but no strong viewpoints. Caution on Europe was working to our favor; the slowdown in China was perhaps more than anticipated but there was little ill impact to the portfolio.

A representative trade for this quarter would be to avoid commodity producers and instead own the beneficiary of falling commodity prices. TCRS eliminated its holdings in the gold mines, first of all Newmont Mining: an industry that has benefited from easy money and stimulus but sometimes has problems with working for the shareholder. TCRS owned instead the oil refiners like Marathon Petroleum which could buy less expensive landlocked crudes while the market worried about new pipelines. The transition into a quality name that has worked well since the end of the quarter was messy.

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



Number of Individual Stocks in Bet Size Bins



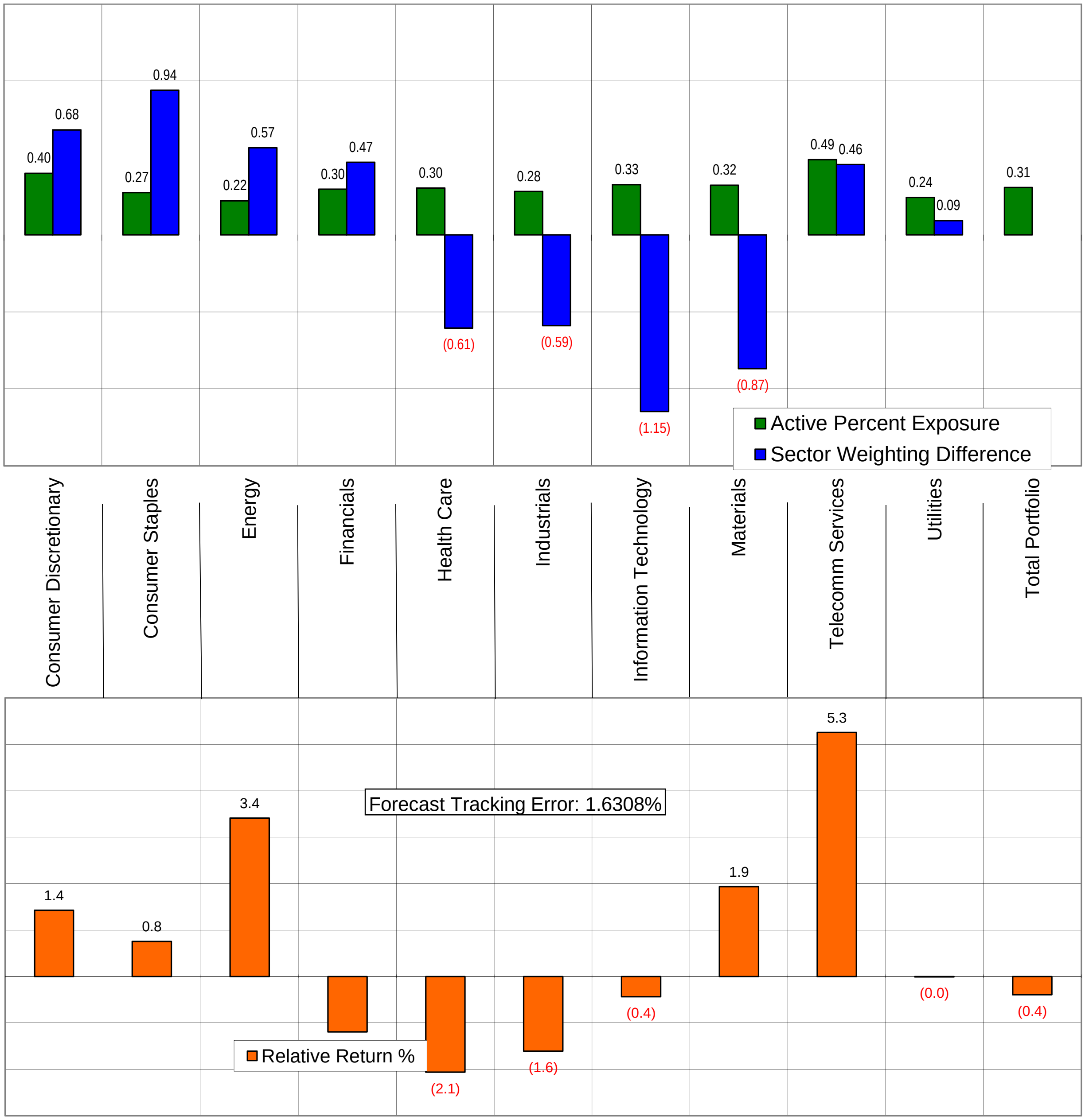
Largest Overweights by Stock in Fund

Ticker	Description	Bps Over Index Wt
HON	Honeywell International Inc.	77
TYC	Tyco International Ltd.	77
UNP	Union Pacific Corp.	76
BA	Boeing Co.	76
AAPL	Apple Inc.	72
CAT	Caterpillar Inc.	47
INTC	Intel Corp.	42
IP	International Paper Co.	40
DHR	Danaher Corp.	38
SPW	SPX Corp.	37
BCE	BCE Inc.	37
IBM	International Business Machines Co	36
GOOG	Google Inc. Cl A	33
DFS	Discover Financial Services	32
MPC	Marathon Petroleum Corp.	31
BEN	Franklin Resources Inc.	30
ORCL	Oracle Corp.	30
PFE	Pfizer Inc.	29
QCOM	QUALCOMM Inc.	29
AMT	American Tower Corp	29

Largest Underweights by Stock in Fund

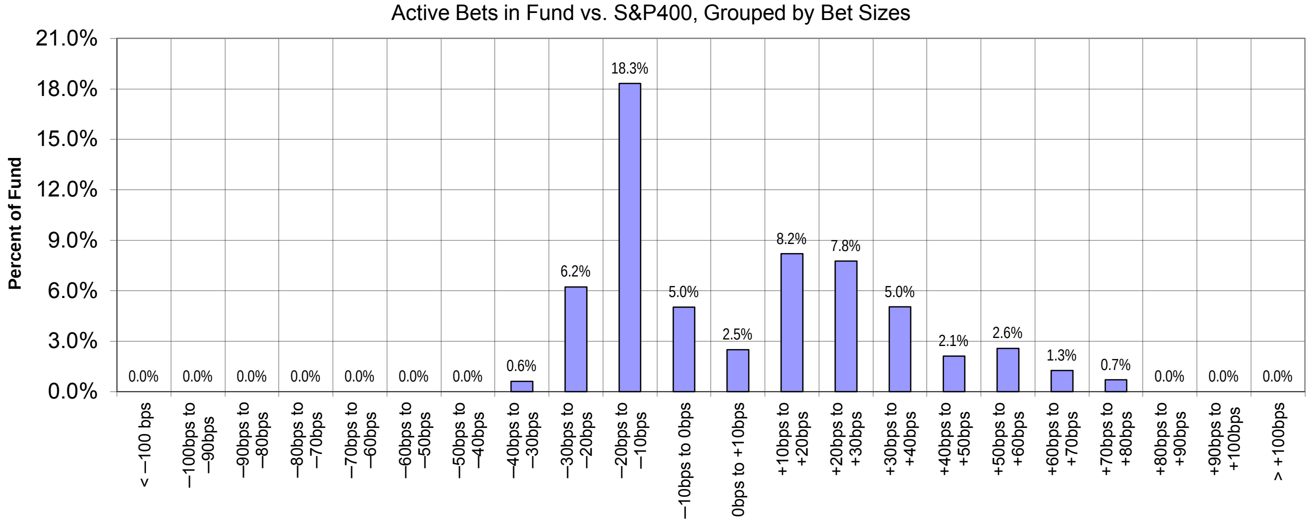
Ticker	Description	Bps Under
JNJ	Johnson & Johnson	-68
BRK.B	Berkshire Hathaway Inc. Cl B	-55
MRK	Merck & Co Inc	-42
VZ	Verizon Communications Inc.	-42
BMY	Bristol-Myers Squibb Co.	-35
EBAY	eBay Inc.	-33
LLY	Eli Lilly & Co.	-32
UPS	United Parcel Service Inc. Cl B	-30
EMR	Emerson Electric Co.	-30
V	Visa Inc.	-30
BAC	Bank of America Corp.	-29
PX	Praxair Inc.	-27
DE	Deere & Co.	-26
MMM	3M Co.	-24
COF	Capital One Financial Corp.	-24
TJX	TJX Cos.	-24
MS	Morgan Stanley	-24
EOG	EOG Resources Inc.	-23
D	Dominion Resources Inc. (Virginia)	-23
KMB	Kimberly-Clark Corp.	-23

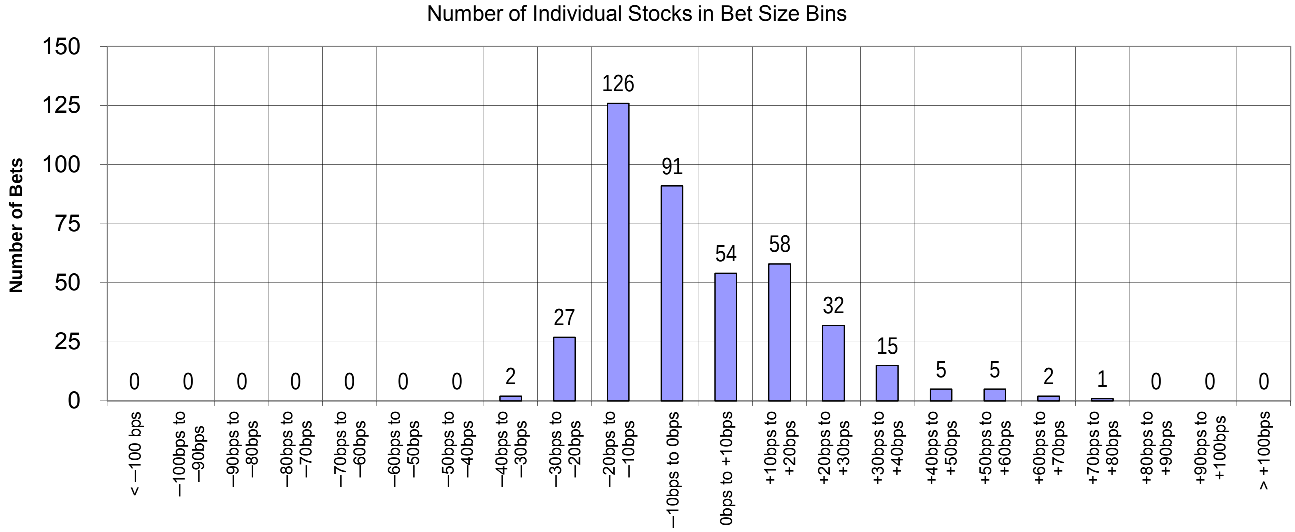
Mid Cap Fund
Mike Keeler, CFA



Domestic equities performed pretty much in line with the S&P 1500, aided by strong relative performance in the Sector Fund. An underweight to Canada contributed to outperformance relative to the custom North American benchmark. Growth and size factors were successful in adding value during the period.

The Mid Cap Fund lagged the S&P Mid Cap 400 primarily due to poor stock selection in the diversified financials, commercial and professional services and machinery industries somewhat offset by good stock picking in the consumer staples sector and the energy sector. An underweight position in technology and overweights in the relatively weak consumer staple and energy sectors also hurt relative performance during the quarter. Faulty sector allocation contributed roughly 70% of the shortfall against the benchmark. Looking ahead, stocks appear to have entered a trading range as growth visibility is limited, but some of the worst problems from last year seem to be eroding slowly. In the current quarter, growth and quality factors seem to be reasserting themselves after a heavy "risk on" influence in the 1st quarter. Earnings are generally coming in above or around expectations, but investors' reactions are somewhat tempered by cautious management commentary/guidance and also sometimes overshadowed by headlines related to European and Chinese economic data.





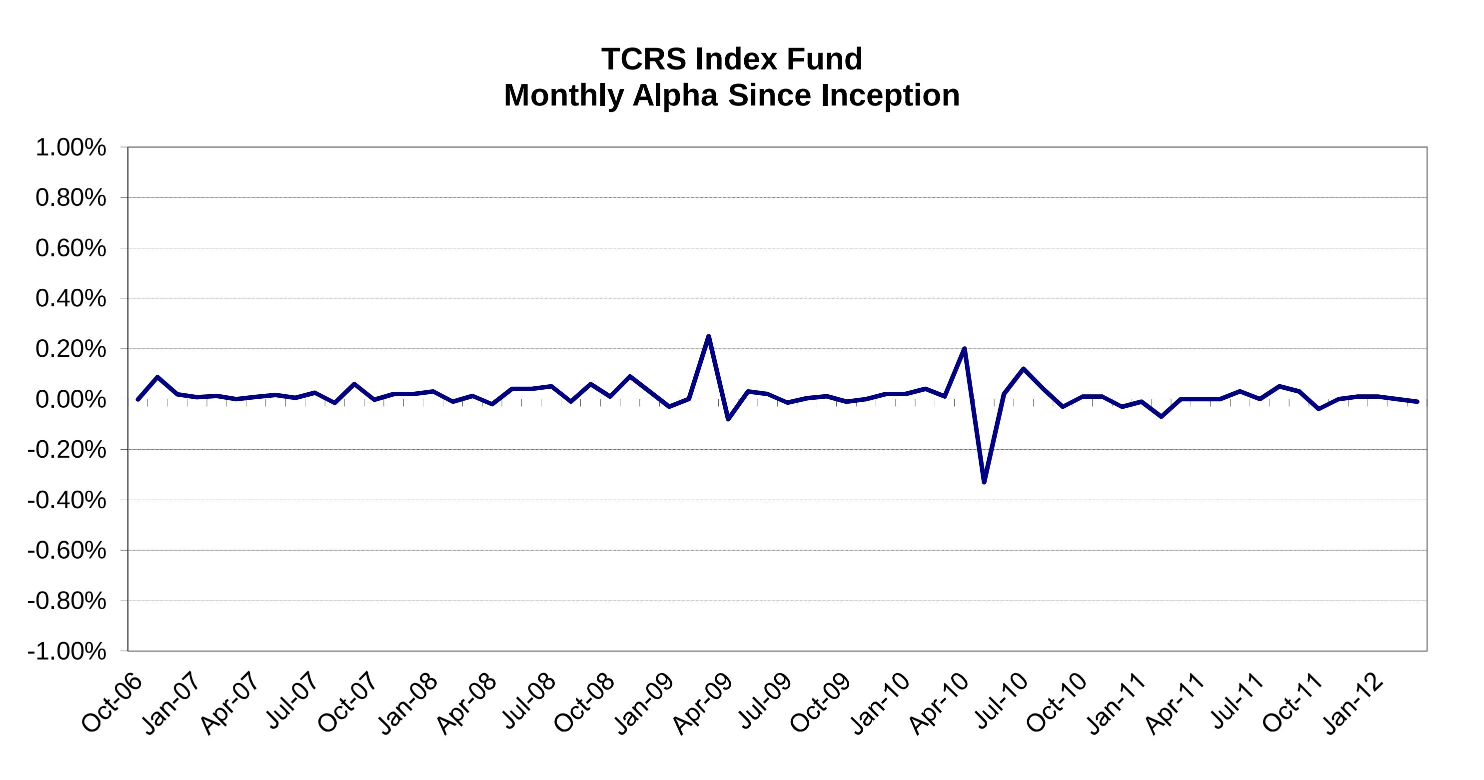
Largest Overweights by Stock in Fund

Ticker	Description	Bps Over
ADS	Alliance Data Systems Corp.	71
TUP	Tupperware Brands Corp.	64
PVH	PVH Corp.	63
PETM	PetSmart Inc.	53
AVT	Avnet Inc.	52
FL	Foot Locker Inc	52
HFC	HollyFrontier Corp.	51
LNCR	Lincare Holdings Inc.	50
BOKF	BOK Financial Corp.	44
GPN	Global Payments Inc.	43
BEAV	BE Aerospace Inc.	41
AAP	Advance Auto Parts Inc.	41
OII	Oceaneering International Inc.	41
SFD	Smithfield Foods Inc.	37
AME	Ametek Inc.	37
PII	Polaris Industries Inc.	36
LPS	Lender Processing Services Inc.	35
LECO	Lincoln Electric Holdings Inc.	35
DORM	Dorman Products Inc.	35
HAIN	Hain Celestial Group Inc.	34

Largest Underweights by Stock in Fund

Ticker	Description	Bps Under
TNB	Thomas & Betts Corp.	-32
RKT	Rock-Tenn Co. Cl A	-30
RPM	RPM International Inc.	-29
AMG	Affiliated Managers Group Inc.	-28
MTD	Mettler-Toledo International Inc.	-28
HNT	Health Net Inc.	-28
WRI	Weingarten Realty Investors	-27
GPRO	Gen-Probe Inc.	-25
ANSS	Ansys Inc.	-25
ASNA	Ascena Retail Group Inc.	-25
WDR	Waddell & Reed Financial Inc. Cl A	-23
CXW	Corrections Corp. of America	-23
CNQR	Concur Technologies Inc.	-23
HMSY	HMS Holdings Corp.	-23
VMI	Valmont Industries Inc.	-22
CHSI	Catalyst Health Solutions Inc.	-22
TECH	Techne Corp.	-22
WWD	Woodward Inc.	-22
CRI	Carter's Inc.	-21
CBOE	CBOE Holdings Inc.	-21

S&P 500 Index Fund
Daniel Crews, CFA



Top Ten Holdings as of March 31, 2012

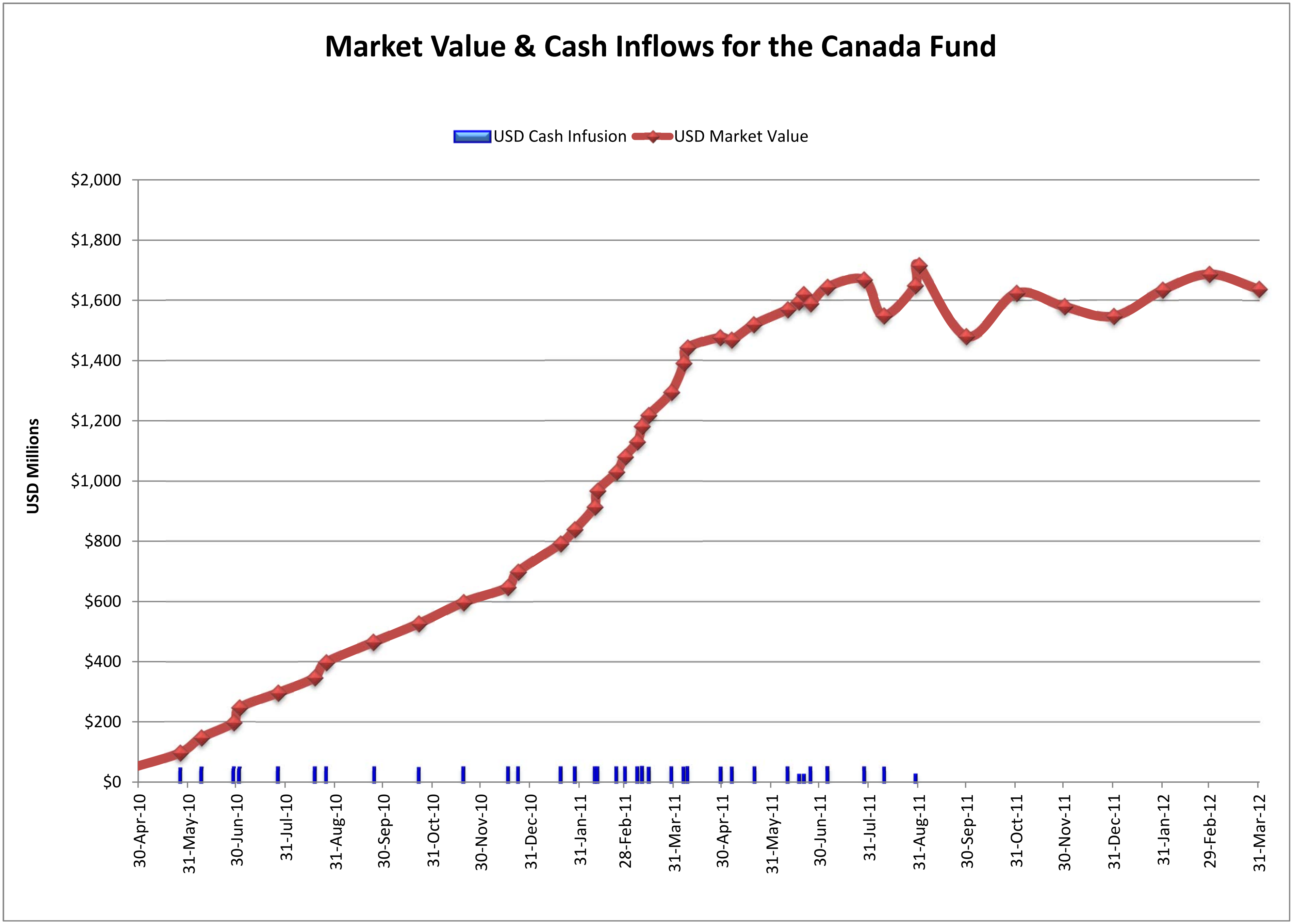
Ticker	Name	Portfolio Weight	S&P 500 Weight	Difference
AAPL	Apple Inc.	4.41	4.39	0.02
XOM	Exxon Mobil Corp.	3.20	3.21	-0.01
MSFT	Microsoft Corp.	1.91	1.89	0.01
IBM	International Business Machines Corp.	1.90	1.90	0.00
GE	General Electric Co.	1.67	1.67	0.00
CVX	Chevron Corp.	1.65	1.66	-0.02
T	AT&T Inc.	1.47	1.45	0.01
PG	Procter & Gamble Co.	1.46	1.45	0.01
JNJ	Johnson & Johnson	1.42	1.42	0.00
WFC	Wells Fargo & Co.	1.41	1.41	-0.00

Ten Largest Overweights and Underweights as of Mar. 31, 2012

Ticker	Name	Portfolio Weight	S&P 500 Weight	Difference
AAPL	Apple Inc.	4.41	4.39	0.02
CVX	Chevron Corp.	1.65	1.66	-0.02
MSFT	Microsoft Corp.	1.91	1.89	0.01
T	AT&T Inc.	1.47	1.45	0.01
XOM	Exxon Mobil Corp.	3.20	3.21	-0.01
NKE	Nike Inc. Cl B	0.32	0.31	0.01
OXY	Occidental Petroleum Corp.	0.60	0.61	-0.01
PFE	Pfizer Inc.	1.33	1.34	-0.01
BAC	Bank of America Corp.	0.80	0.81	-0.01
AMZN	Amazon.com Inc.	0.57	0.58	-0.01

Tracking Error	
Forecasted Tracking Error	0.02%
Historical Tracking Error, TTM	0.06%
Value at Risk	$685,900

Comments:
- Index Fund experienced the following funding flows in calendar 3Q11: $250 million inflow on 8/3/11, $250 million inflow on 8/8/11, $250 million inflow on 8/12/11.
- Index Fund experienced the following funding flows in calendar 2Q11: $150 million outflow 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 experienced the following funding flows in calendar 2Q10: $200 million outflow on 4/29/10, $250 million outflow on 4/16/10.
- Index Fund experienced the following funding flows in calendar 3Q09: $100 million inflow on 9/24/09, $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.


Market Value & Cash Inflows for the Canada Fund
USD Cash Infusion
USD Market Value
USD Millions
$2,000
$1,800
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
30-Apr-10
31-May-10
30-Jun-10
31-Jul-10
31-Aug-10
30-Sep-10
31-Oct-10
30-Nov-10
31-Dec-10
31-Jan-11
28-Feb-11
31-Mar-11
30-Apr-11
31-May-11
30-Jun-11
31-Jul-11
31-Aug-11
30-Sep-11
31-Oct-11
30-Nov-11
31-Dec-11
31-Jan-12
29-Feb-12
31-Mar-12

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Periods Ending March 31, 2012

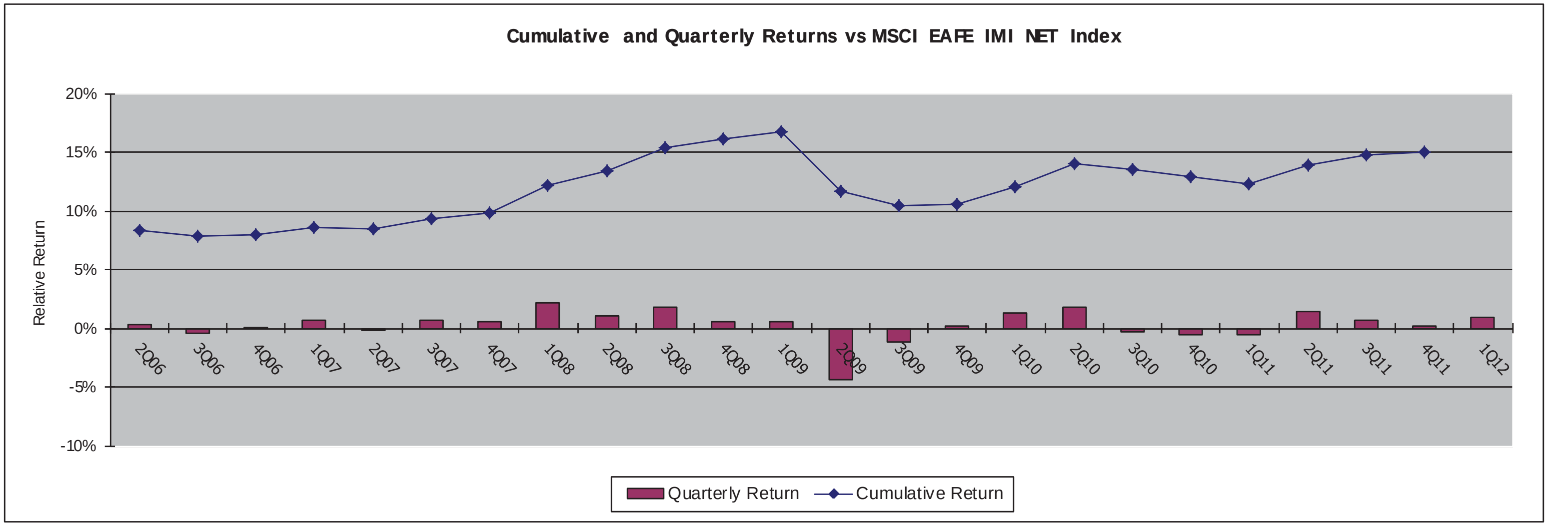
International Manager Performance Comparison

Manager returns for the quarter ending March 31, 2012

Manager	Manager Return	Benchmark	Benchmark Return
American Century	11.47	MSCI EAFE Small Cap NET	14.86
Baring Asset Mgmt	10.27	MSCI EAFE NET Index	10.86
GE Asset Mgmt	13.33	MSCI Europe NET Index	10.66
Marathon	11.76	MSCI EAFE NET Index[2]	10.86
Pacific Indexed Port[5]	11.34	MSCI Pacific NET Index[1]	11.27
PanAgora	12.25	MSCI EAFE NET Index	10.86
Pyramis	16.71	MSCI EAFE Small Cap NET	14.86
TT International	11.97	MSCI EAFE NET Index	10.86
Walter Scott	13.00	MSCI EAFE NET Index[4]	10.86
International	12.30	MSCI EAFE IM Net Index[3]	11.33

Manager returns for five years ending March 31, 2012

Manager	Manager Return	Benchmark	Benchmark Return
American Century		MSCI EAFE Small Cap NET	
Baring Asset Mgmt		MSCI EAFE NET Index	
GE Asset Mgmt		MSCI Europe NET Index	
Marathon	0.67	MSCI EAFE NET Index[2]	-3.51
Pacific Indexed Port[5]	-2.32	MSCI Pacific NET Index[1]	-2.24
PanAgora	-1.86	MSCI EAFE NET Index	-3.51
Pyramis		MSCI EAFE Small Cap NET	
TT International		MSCI EAFE NET Index	
Walter Scott	3.30	MSCI EAFE NET Index[4]	-3.51
International	-1.02	MSCI EAFE IM Net Index[3]	-3.09



[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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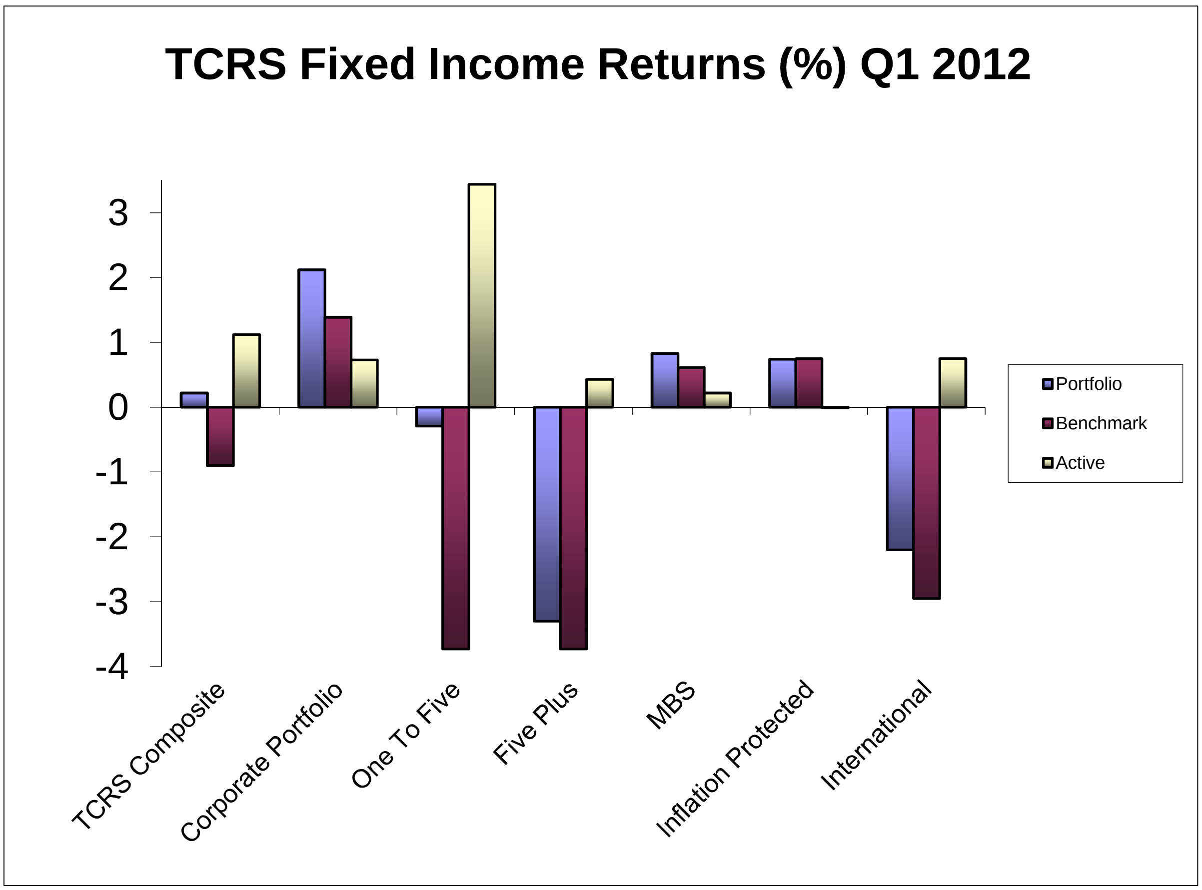
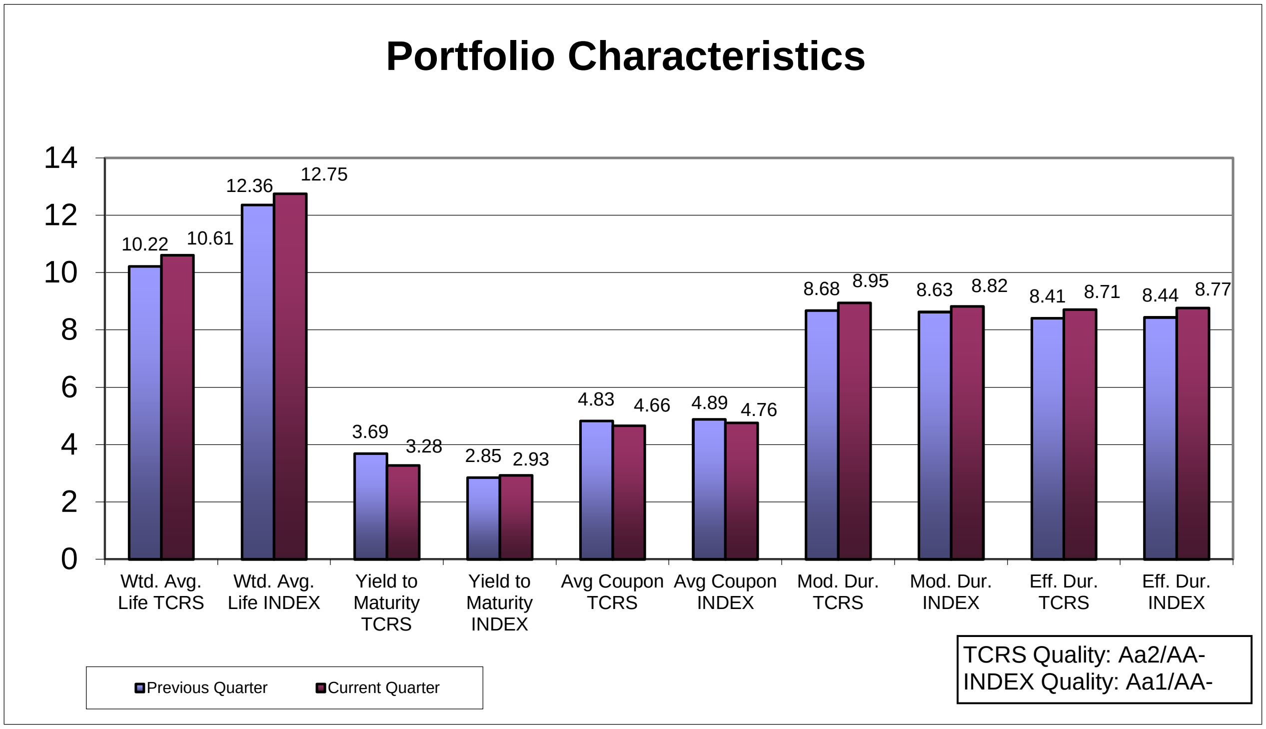
Portfolio	Value (Yield Book) ($MMs)	Portfolio Return	Benchmark Return	Active Return
TCRS Domestic Fixed Income Composite	$9,897	0.22	(0.90)	1.12
Corporate Portfolio	$3,314	2.12	1.39	0.73
Government One To Five Years	$1,267	(0.29)	(3.73)	3.44
Government Five Plus Years	$1,765	(3.30)	(3.73)	0.43
Mortgage Portfolio	$3,501	0.83	0.61	0.22
TCRS Inflation Protected Securities	$2,585	0.74	0.75	(0.01)
TCRS International	$339	(2.20)	(2.95)	0.75

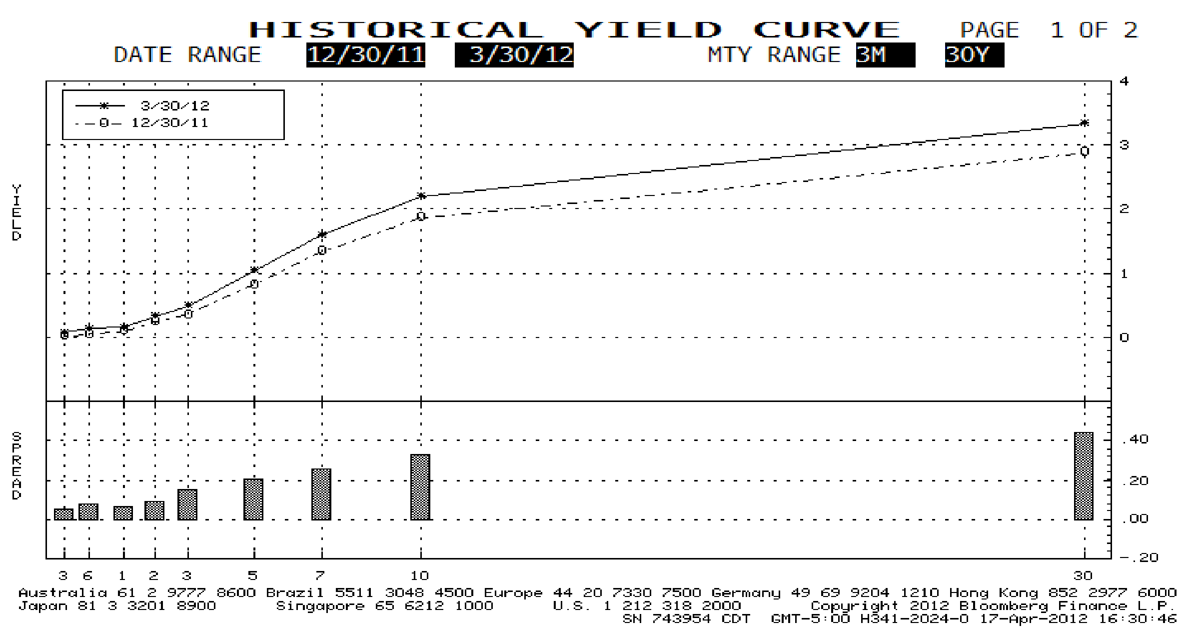


Note: All positions and market values are as of March 31, 2012

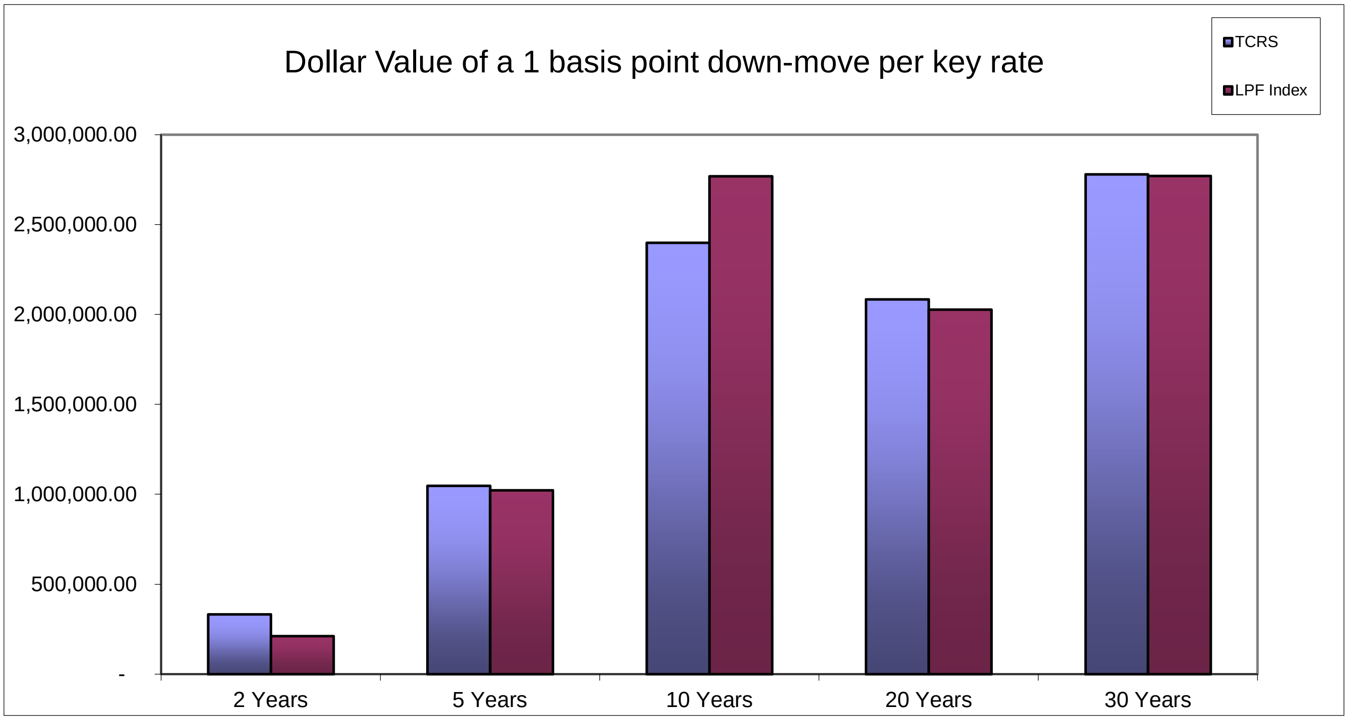
Characteristics show a decrease in spread risk as average yields fell relative to the index

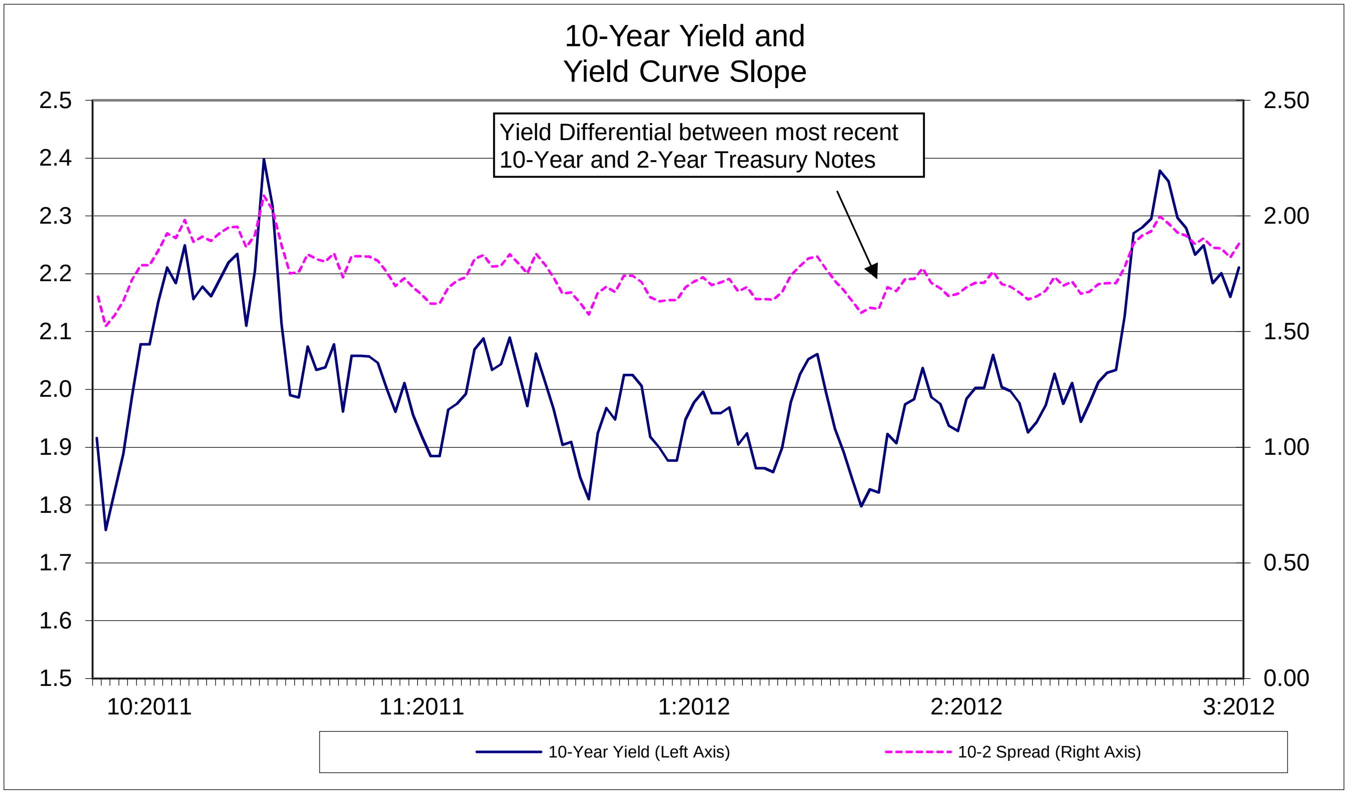


Yields rose and the curve steepened



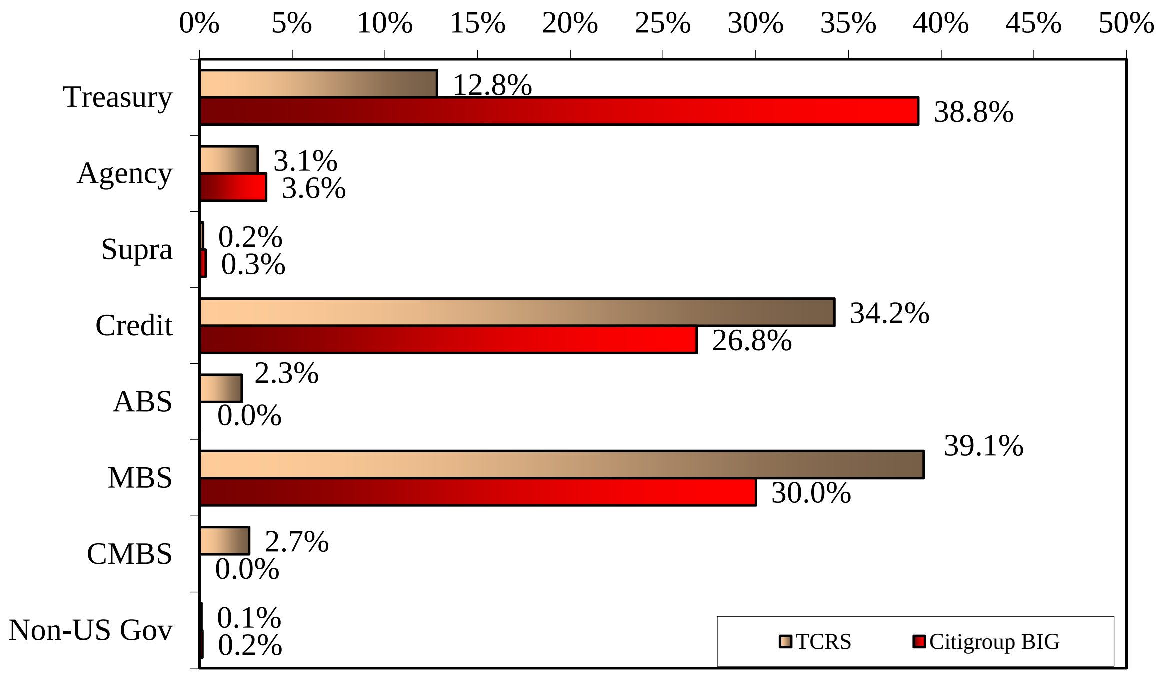
Curve positioning reflects overweight to MBS



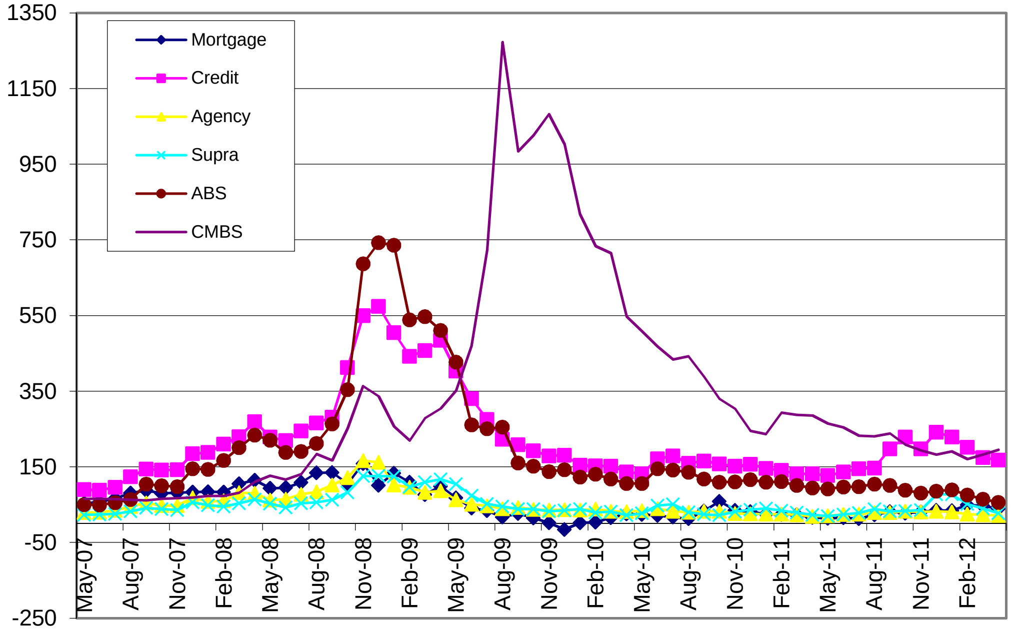


source: Bloomberg

Sector Allocation v. Index
(% market value)



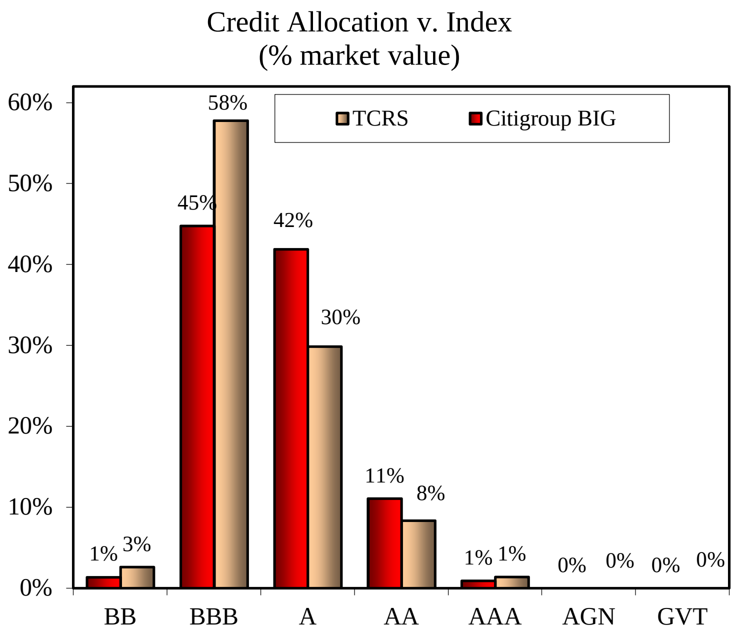
Spread to Treasury by Asset Class
(in basis points, index data)

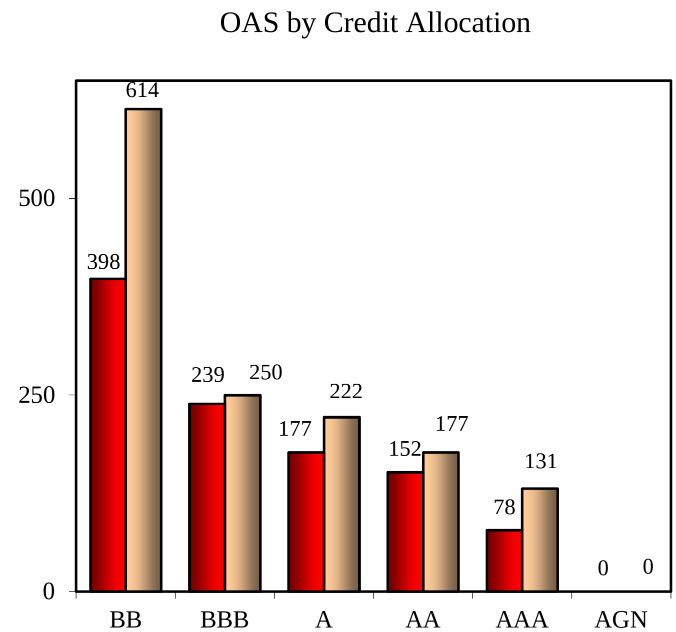


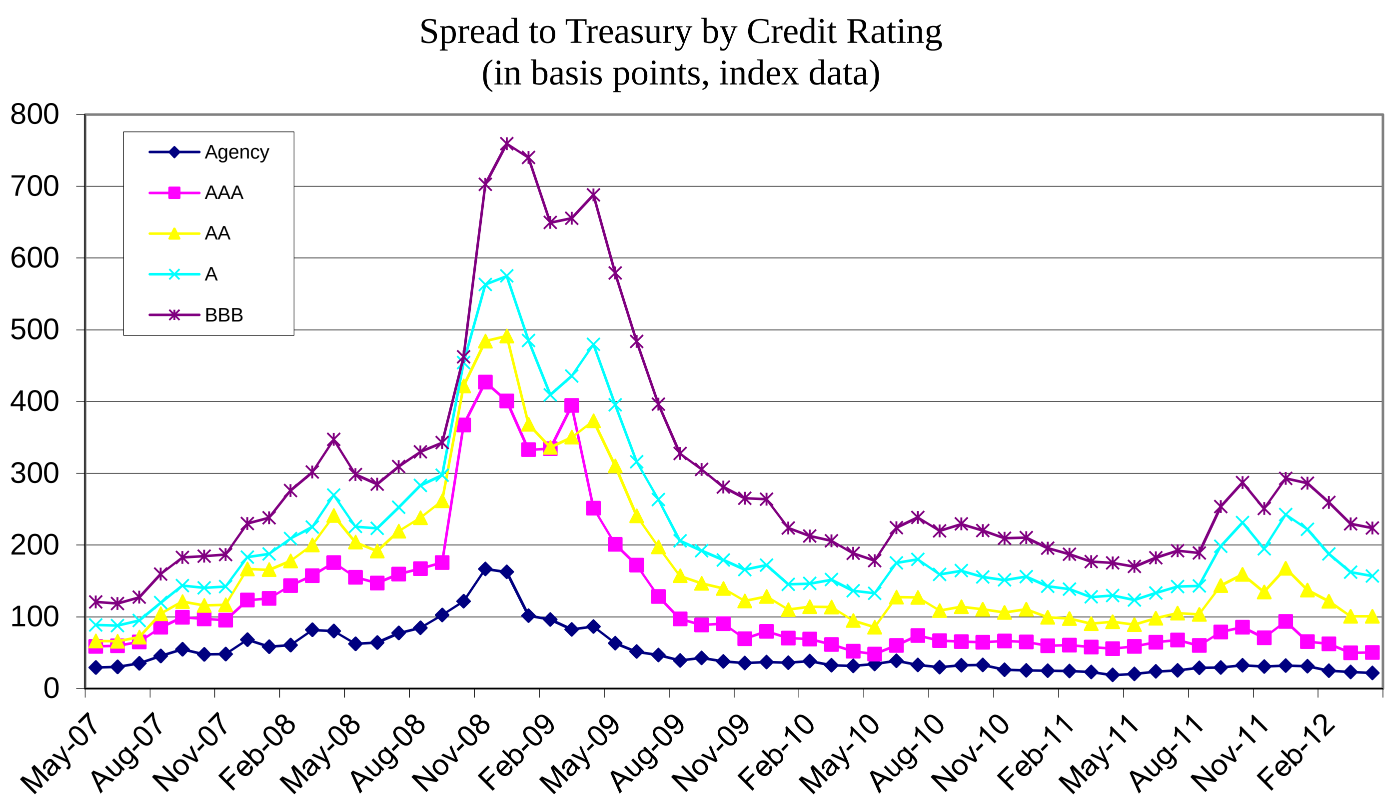
source: Yield Book

Spreads tightened during the quarter.

TCRS spreads were slightly higher than the index, reflecting our expectation of a choppy risk environment.







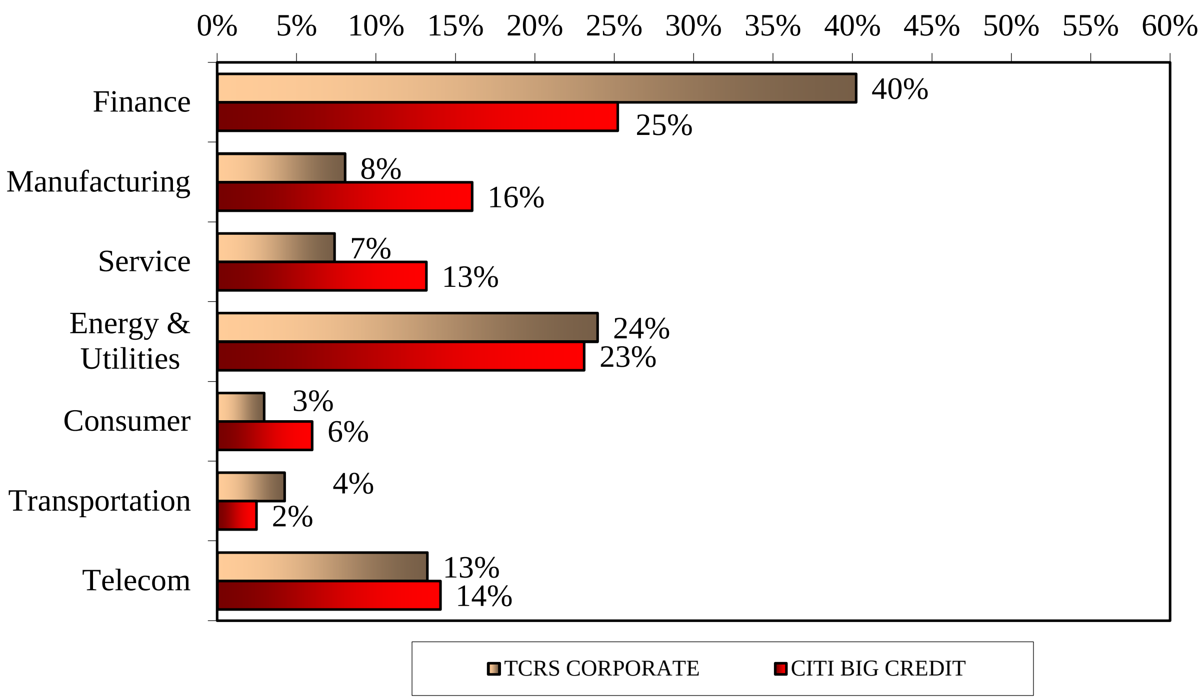
source: Yield Book

Finance exposure expanded in place of other sectors.

Top 5 Credit Holdings (by Market Value)	MktVal	% MktVal
CITIGROUP	114,000	1.1
GOLDMAN SACHS GROUP	97,237	1
BANK OF AMERICA	95,367	1
GENERAL ELECTRIC CO	91,041	0.9
TIME WARNER CABLE INC	80,465	0.8

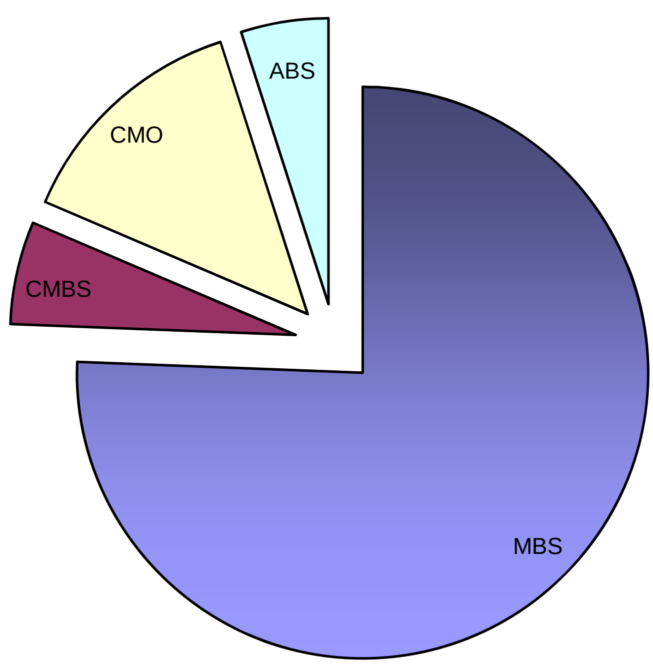
Top 5 Credit Holdings (by Dollar Duration)	$ Duration	% $ Duration
TIME WARNER CABLE INC	81.65	1
GENERAL ELECTRIC CO	89.03	0.9
BERKSHIRE HATHAWAY INC	72.28	0.8
COMCAST CORP	62.86	0.8
GOLDMAN SACHS GROUP	68.42	0.8

Sector Allocation v. Index
(% market value)



		Market Value ($MM - Yield Book)	TCRS % of portfolio	CITI	Difference
Agency Mortgage Backed Securities		$3,479,700	34.9	30.0	4.9
	GNMA				
	15-Yr	$0	0.0	0.1	-0.1
	30-Yr	$506,048	5.1	6.9	-1.8
	FNMA				
	10-, 15- & 20-Yr	$260,482	2.6	2.4	0.2
	30-Yr	$1,481,257	14.9	11.6	3.3
	FHLM				
	15-Yr	$100,123	1.0	1.6	-0.6
	30-Yr	$975,074	9.8	7.4	2.4
	Agency Hybrid	$156,716	1.6	0.0	1.6
Commercial Mortgage Backed Securities		$267,607	2.7	0.0	2.7
CMO and Non Agency Passthroughs		$628,405	6.3	0.0	6.3
Asset Backed Securities		$226,983	2.3	0.0	2.3
	Total Securitized Product	**$4,602,695**	**46.1**	**30.0**	**16.1**

Percent of Securitized Product



Portfolio Return:	-2.20%
Citigroup Non-US G5 Index:	-2.95%
Active Return:	**0.75%**

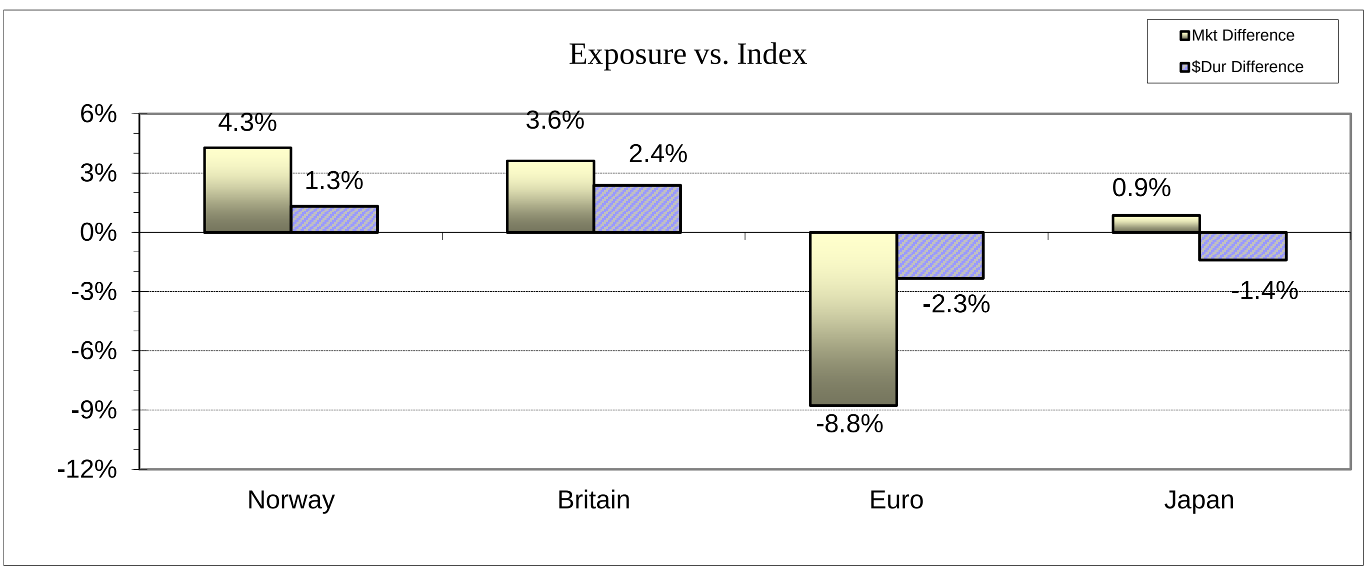
	TCRS Yield	M. Dur	Percent of Value	Percent of $Dur
Norway	2.59	2.38	4.3%	1.3%
Britain	2.35	8.65	14.4%	16.2%
Euro	1.98	8.92	17.0%	19.7%
Japan	0.68	7.52	64.3%	62.8%
	1.22	7.70	100.0%	100.0%

Citigroup G5 Sovereign Index (ex-US)

	Yield	Dur	Percent of Value	Percent of $Dur
Britain	1.96	9.79	10.8%	13.8%
Euro	1.59	6.54	25.8%	22.0%
Japan	0.71	7.74	63.4%	64.2%
	1.07	7.65	100.0%	100%

Difference

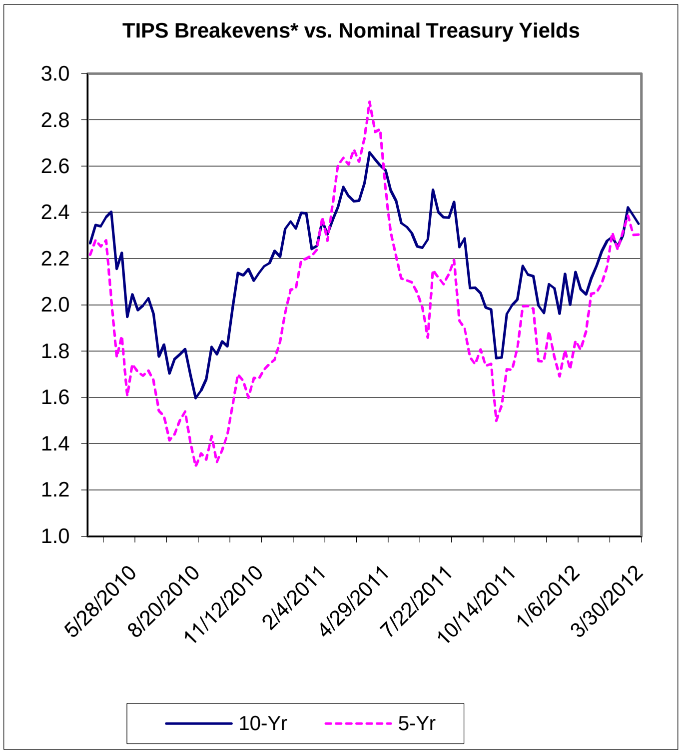
	Value Differ	M. Dur Differ	$ Dur Differ
Norway	4.3%	2.4	1.3%
Britain	3.6%	-1.1	2.4%
Euro	-8.8%	2.4	-2.3%
Japan	0.9%	-0.2	-1.4%
	0.0%	0.0	0.0%

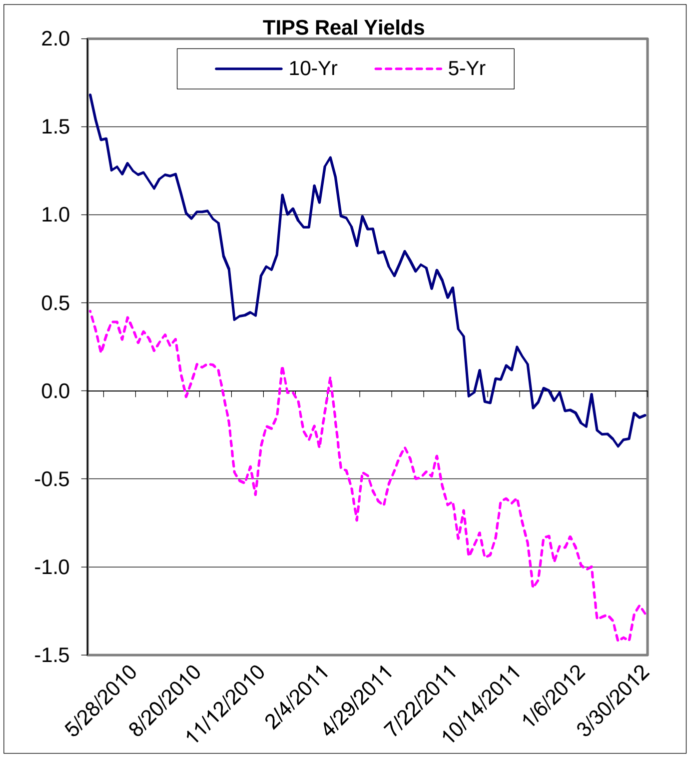


Portfolio Value (Yield Book):	$2,584,991,934
Portfolio Return:	0.74%
Citigroup ILSI Index:	0.75%
Active Return:	**-0.01%**

% Market Value by Duration

	TCRS	CITI	Difference
0-2	0.21	0.16	0.05
2-4	0.86	0.82	0.05
4-6	0.65	1.06	-0.41
6-8	1.49	1.53	-0.04
8-10	0.80	0.50	0.29
10+	1.06	1.00	0.06





* 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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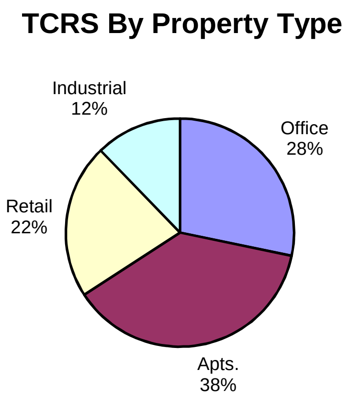
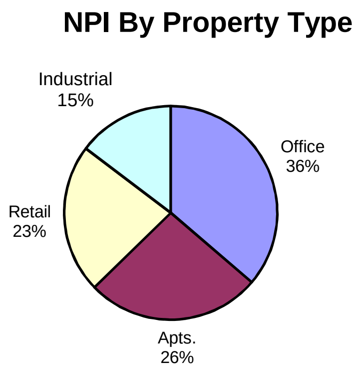
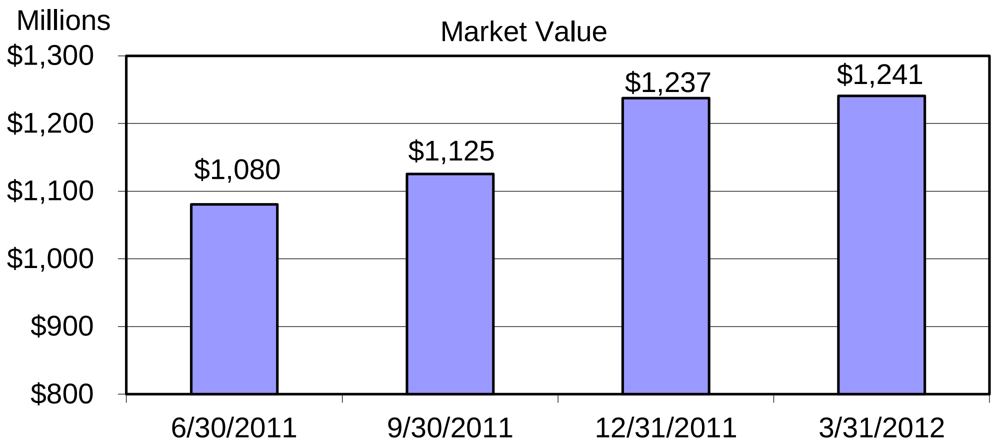
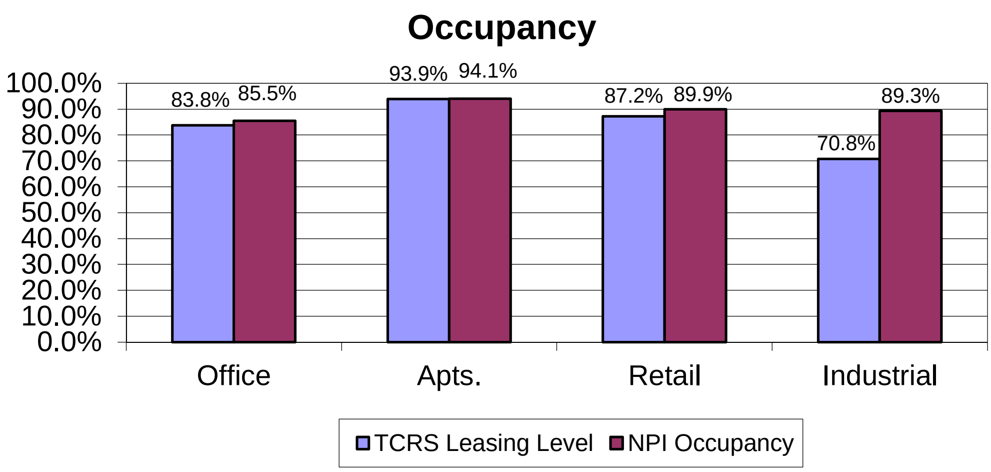
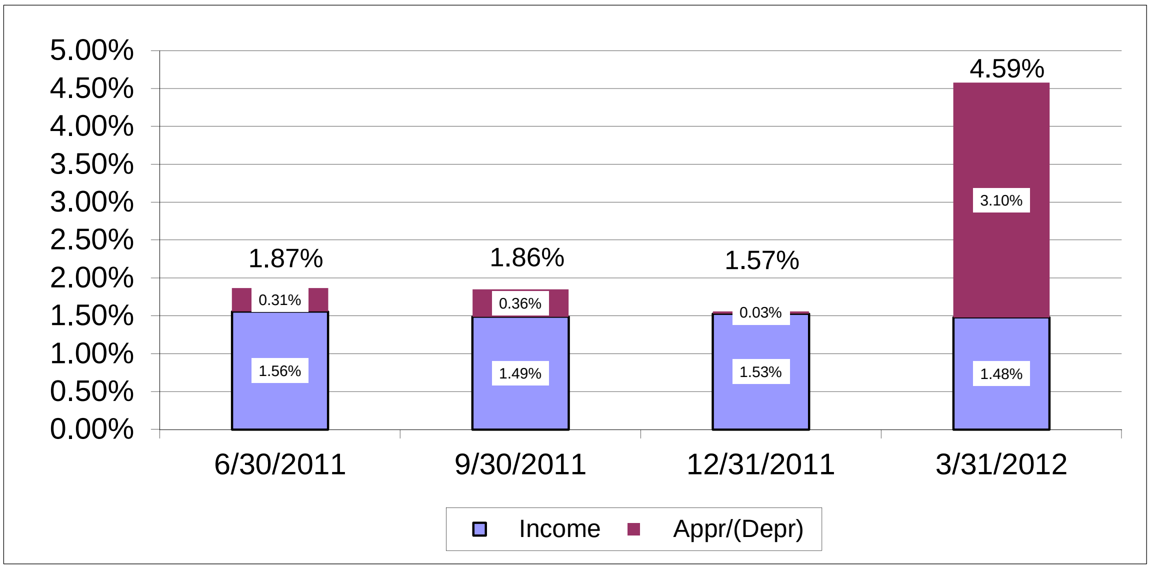






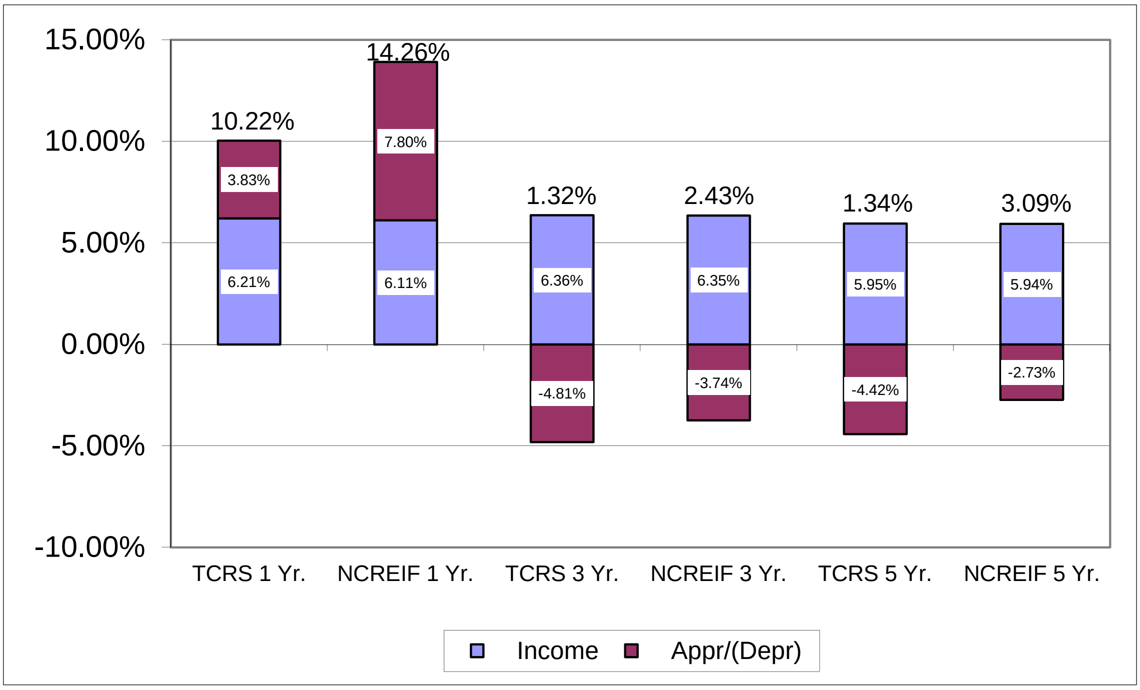


The NPI is the National Property Index of the National Council of Real Estate Investment Fiduciaries (the index used for US core properties).



All returns shown above are reported one quarter in arrears.

Budgeted Annual Income Return for calendar year 2012 (excluding REITs). 5.76%



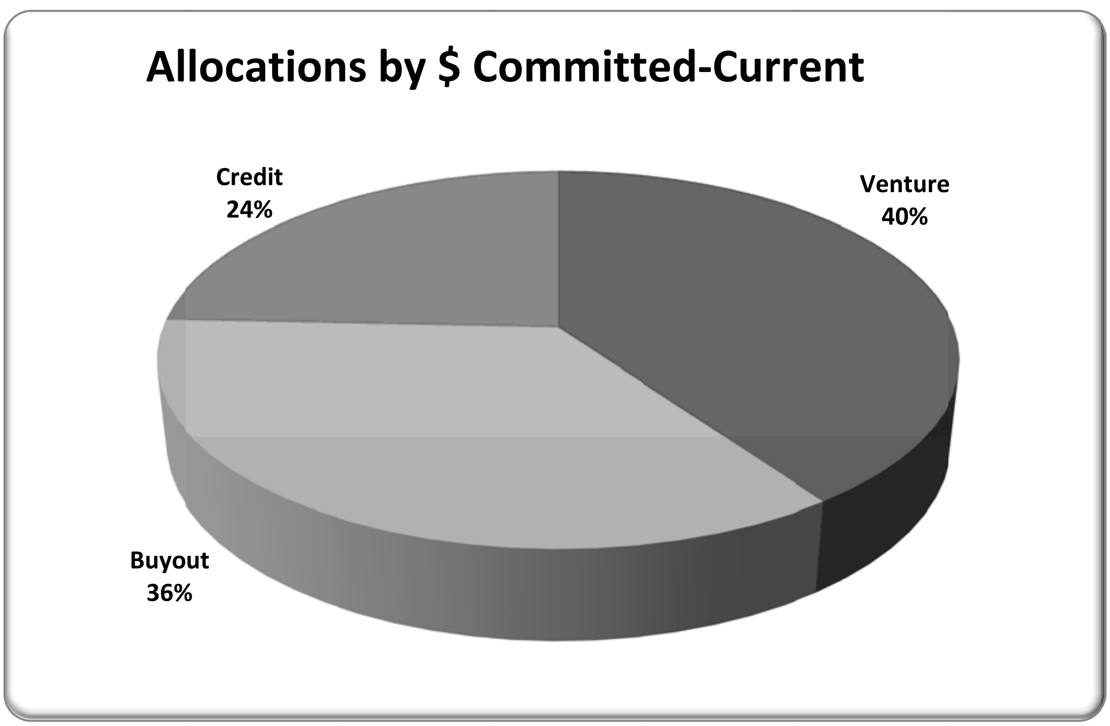
All returns shown above are reported one quarter in arrears.

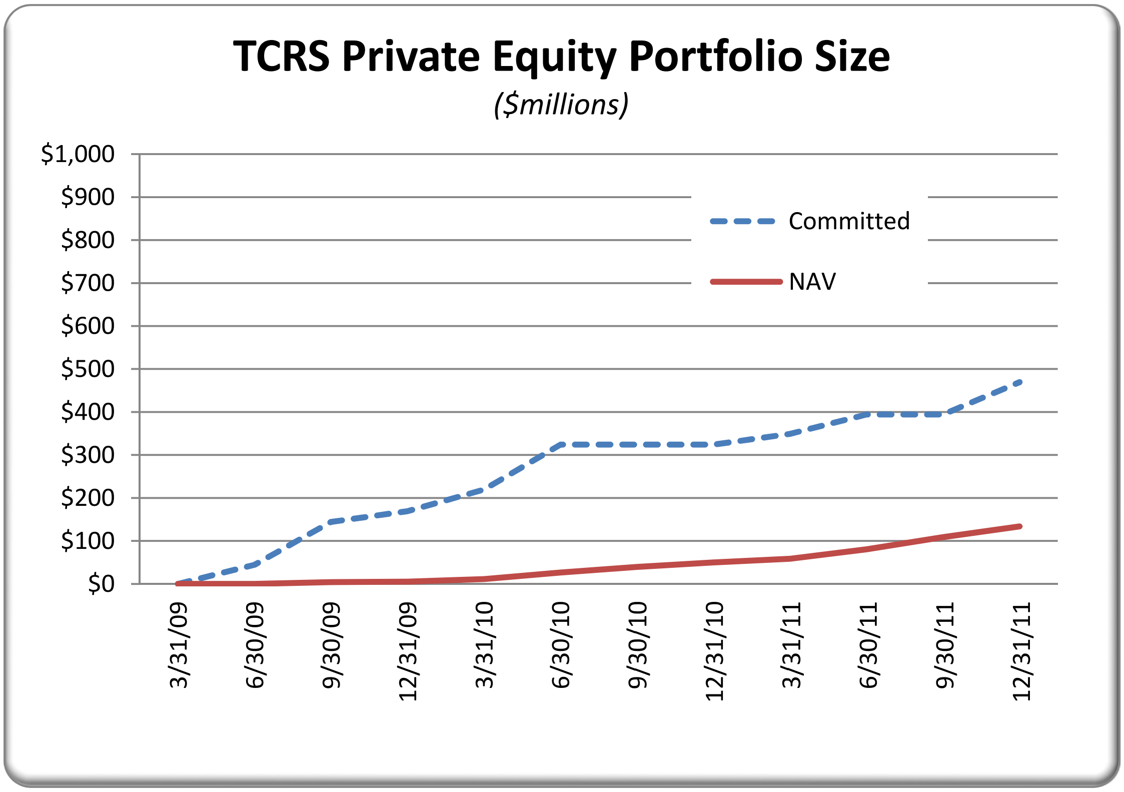
Tennessee Consolidated Retirement System
Private Equity Program
Fiscal Q3 2012 Update
Lamar Villere, CFA

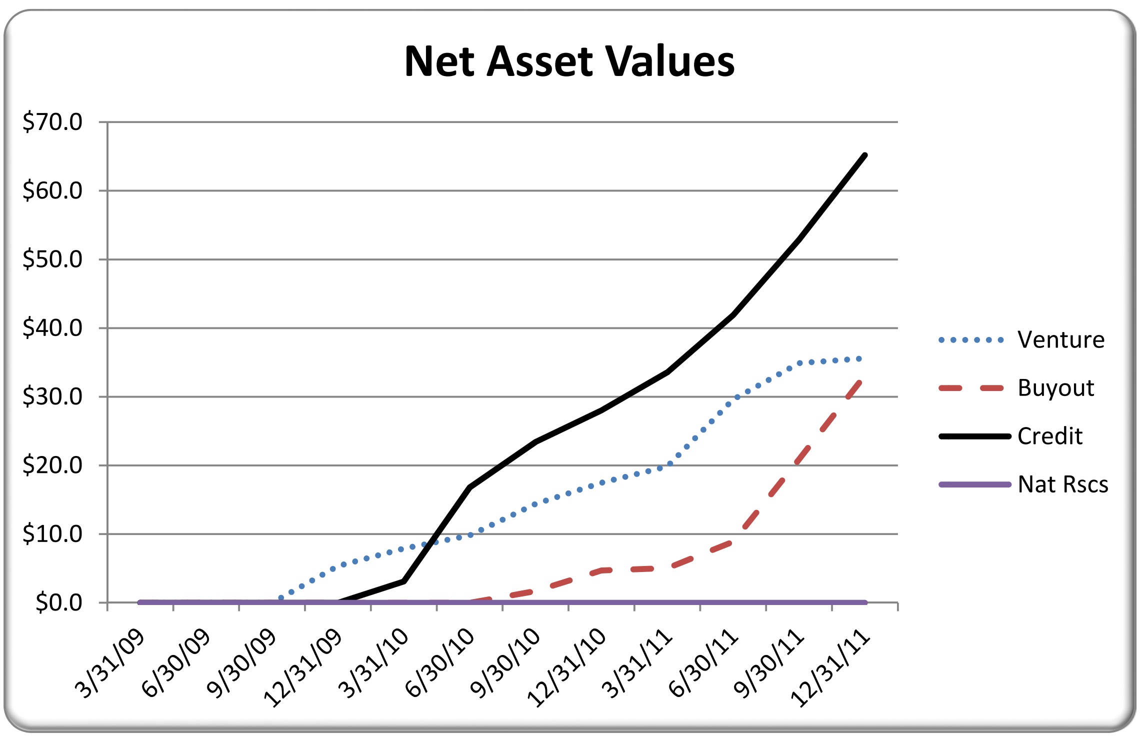
We have finalized our fiscal Q2:2012 results (12/31/11), and are pleased to report that the program continues to show positive returns. That said, early strong returns have begun to show the impact of the J-Curve, as most portfolio companies are still held at cost. Additionally, significant strength in the public markets negatively impacted our relative performance.

IRR as of 12/31/12	**Quarter**	**Trailing 1 Year**	**Since Inception**
Buyout	-0.4%	-4.1%	-3.7%
Credit	5.2%	1.3%	5.2%
Venture	-4.3%	9.2%	9.7%
TCRS PE Overall	**1.1%**	**2.8%**	**5.6%**
S&P 500 + 3%	*12.6%*	*6.9%*	*12.7%*

The overall portfolio is still over weighted to venture capital, a situation which should be reversed as the commitment pace in buyouts increases in the coming years. The following charts show the allocations to the sub-asset classes based on commitments, the overall portfolio size by both commitments and net asset value, and the net asset value of each sub-asset class over time.




TCRS Private Equity Portfolio Size
($millions)
$1,000
$900
$800
$700
$600
$500
$400
$300
$200
$100
$0
Committed
NAV
3/31/09
6/30/09
9/30/09
12/31/09
3/31/10
6/30/10
9/30/10
12/31/10
3/31/11
6/30/11
9/30/11
12/31/11


Net Asset Values
$70.0
$60.0
$50.0
$40.0
$30.0
$20.0
$10.0
$0.0
Venture
Buyout
Credit
Nat Rscs
3/31/09
6/30/09
9/30/09
12/31/09
3/31/10
6/30/10
9/30/10
12/31/10
3/31/11
6/30/11
9/30/11
12/31/11

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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	Mar 2012	Citigroup	738.8000	439,586,000	
Trades								
3/13/2012	S	1,923	Russell 2000	Mar 2012	Citigroup	818.4000	(157,378,320)	2a
3/13/2012	B	1,923	Russell 2000	Jun 2012	Citigroup	814.4000	156,609,120	2b
3/15/2012	S	4,027	Russell 2000	Mar 2012	Citigroup	831.1000	(334,683,970)	2a
3/15/2012	B	4,027	Russell 2000	Jun 2012	Citigroup	827.1000	333,073,170	2b
Contracts Outstanding on March 31, 2012								
End	B	5,950	Russell 2000	Jun 2012	Citigroup	827.7000	492,481,500	
					Total 3Q FY2012	$	59,827,250	

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	$ 48,661,679
Short Duration Fixed Income:		363,274,500
TCRS Cash:		80,545,321

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 rose in line with the Russell 2000 Index. After lagging for three quarters, the Russell 2000 Index returned slightly more than the Small Cap policy benchmark, the S&P 600. The strategy of allocating cash to Short Duration bonds and enjoying the roll from one quarter to the next earned TCRS a little extra to 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.

Domestic Fixed Income Derivatives Report

Andrew C. Palmer, CFA

Domestic Fixed Income Derivatives Transaction Log

ACCT	SOLD	BOUGHT	NET	EXPIRATION	CONTRACT	TYPE	STRIKE	
Begin								
			250		SEP (U) 2012	EURODOLLAR	PUT	96
			3524		US ULTRA BOND(CBT Mar12		FUTURE	
			2420		US LONG BOND(CBT) Mar12		FUTURE	
			1745		US 10YR NOTE (CBT)Mar12		FUTURE	

TRADE SUMMARY BY ACCOUNT

ACCT	SOLD	BOUGHT	NET	EXPIRATION	CONTRACT
5+ Gov-t (1381)					
	-	500	500		JUN 12 10 YR T-NOTES
	-	1,000	1,000		JUN 12 CBT UL T-BONDS
	-	500	500		JUN 12 U.S. T-BONDS
	500	-	(500)		MAR 12 10 YR T-NOTES
	1,000	-	(1,000)		MAR 12 CBT UL T-BONDS
	500	-	(500)		MAR 12 U.S. T-BONDS
1-5 Gov't (1368)					
	-	1,151	1,151		JUN 12 10 YR T-NOTES
	-	2,524	2,524		JUN 12 CBT UL T-BONDS
	-	1,930	1,930		JUN 12 U.S. T-BONDS
	1,245	-	(1,245)		MAR 12 10 YR T-NOTES
	2,524	-	(2,524)		MAR 12 CBT UL T-BONDS
	1,920	-	(1,920)		MAR 12 U.S. T-BONDS
Overlay (1371)					
	-	-	-		JUN 12 10 YR T-NOTES
	-	1,250	1,250		JUN 12 CBT UL T-BONDS
	-	-	-		JUN 12 U.S. T-BONDS
	-	-	-		MAR 12 10 YR T-NOTES
	1,250	-	(1,250)		MAR 12 CBT UL T-BONDS
	-	-	-		MAR 12 U.S. T-BONDS
Corporate (1365)					
	318	318	-		JUN 12 10 YR T-NOTES
	200	425	225		JUN 12 CBT UL T-BONDS
	482	482	-		JUN 12 U.S. T-BONDS
	373	373	-		MAR 12 10 YR T-NOTES
	-	-	-		MAR 12 CBT UL T-BONDS
	160	160	-		MAR 12 U.S. T-BONDS

ACCT	SOLD	BOUGHT	NET	EXPIRATION	CONTRACT	TYPE	STRIKE	
End								
			250		SEP (U) 2012	EURODOLLAR	PUT	96
			1651		JUN 12 10 YR T-NOTES		FUTURE	
			4999		JUN 12 CBT UL T-BONDS		FUTURE	
			2430		JUN 12 U.S. T-BONDS		FUTURE	

Domestic Fixed Income Derivatives Report

Andrew C. Palmer, CFA

Domestic Fixed Income Derivatives Transaction Log

<u>SUMMARY OF LAST QUARTER'S ACTIVITY:</u>

CONTRACTS IN USE:

- 5-year Futures
- 10-year Futures
- Long Bond Futures
- Ultra-Long Futures
- Eurodollar 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 and as part of the transition to the LPF Index.
- Rolled 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 Bond Futures to offset the duration impact of a strategic overweight to the MBS portfolio.

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. The Eurodollar put option trade was held and still provides protection against a tightening of monetary policy and a widening in Eurodollar spreads.

<u>PROPOSED STRATEGIES FOR CURRENT QUARTER:</u>

- 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.
- 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 , 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

Jesse Picunko, CFA

2012 1st Quarter Activity

NO ACTIVITY

TCRS MORTGAGE PORTFOLIO

END OF QUARTER MORTGAGE TBA POSITIONS

Jesse Picunko, CFA

	PRICE	PAR ($milion)	MARKET ($million)	SETTLE	FIRM
15yr FN 3.0	103.61	50.00	51.80	APR	C
15yr FN 3.0	103.61	20.00	20.72	APR	MZ
30yr FN3.5	102.91	10.00	10.29	APR	BAML
30yr FN3.5	102.91	30.00	30.87	APR	BARC
30yr FN3.5	102.91	30.00	30.87	APR	CRT
30yr FN3.5	102.91	15.00	15.44	APR	BNP
30yr FG 4.5	106.16	46.00	48.83	APR	DB
GNMA 30yr 3.5	104.41	35.00	36.54	APR	CS
GNMA 30yr 3.5	104.41	20.00	20.88	APR	RBS
GNMA 30yr 3.5	104.41	10.00	10.44	APR	JEF
GNMA 30yr 4.0	107.41	50.00	53.71	APR	WFC
GNMA 30yr 4.0	107.41	30.00	32.22	APR	JEF
GNMA 30yr 4.0	107.41	20.00	21.48	APR	BARC
GNMA 30yr 4.0	107.41	10.00	10.74	APR	CRT
GNMA 30yr 4.5	108.93	50.00	54.46	APR	NOM
GNMA 30yr 5.0	110.56	20.00	22.11	APR	BNP
FNMA 15yr 3.0	103.48	49.00	50.70	APR	UBS
	Total	**495.00**	**522.14**		

By Firm ($million)

CRT	$	41.62
C	$	51.80
BAML	$	10.29
DB	$	48.83
JEF	$	42.66
NOM	$	54.46
UBS	$	50.70
CS	$	36.54
WFC	$	53.71
BNP	$	37.55
BARC	$	52.36
MZ	$	20.72

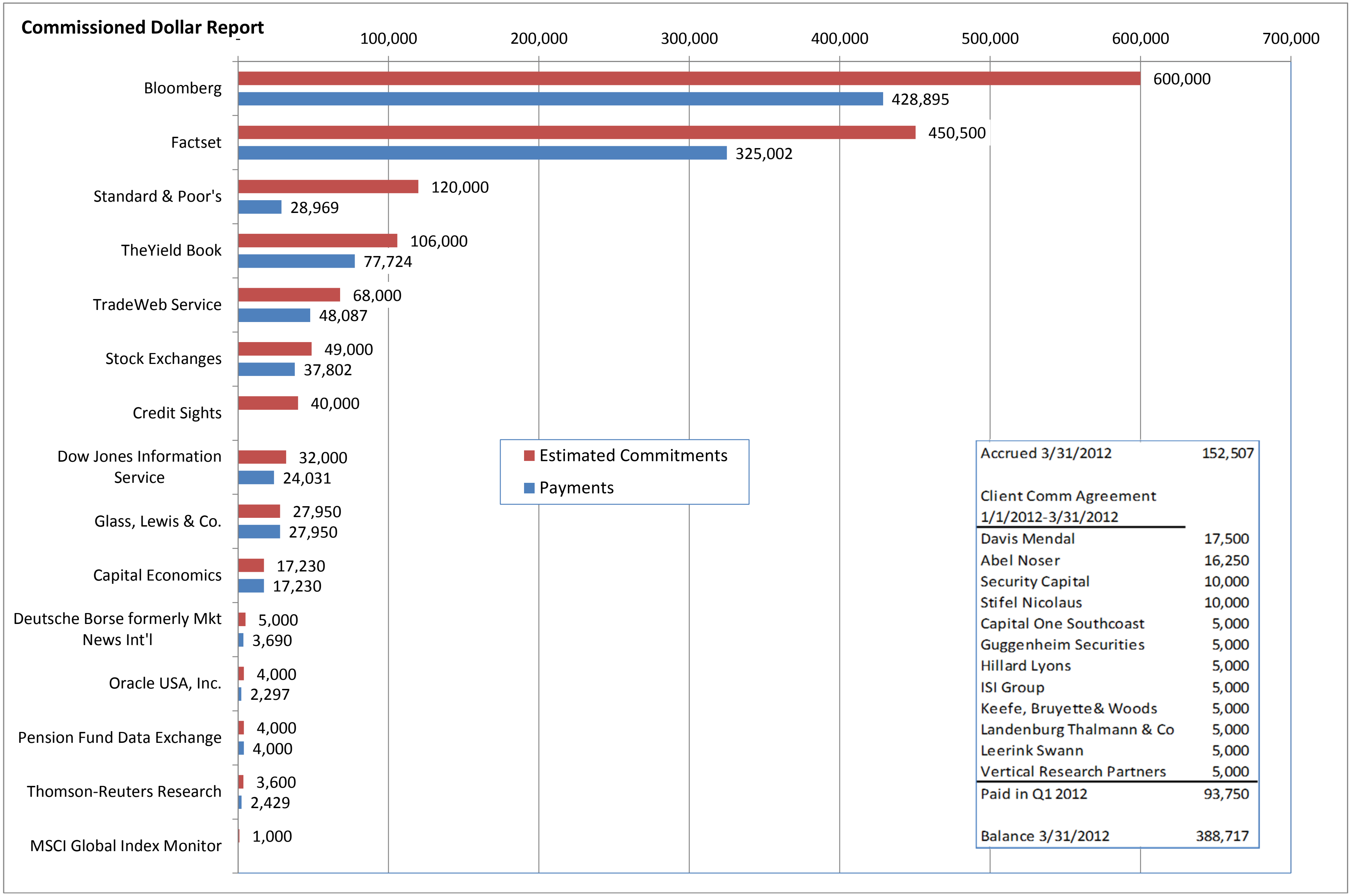
OPERATIONS UPDATE
Tim McClure, CTP

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) – Paul Robertson has taken another position within State government. Until a replacement is named for the role of Compliance Manager, the pre-trade compliance module development is on hold for now. The OMS system continues to add value and stream line the entire trading process. Staff appears to be comfortable with the system and there seems to be very few issues.

Trading – Brad and Dianne have utilized the information available on Abel Noser (discussed later) and Bloomberg and continue to search for ways to reduce the costs associated with trading. Brad recently traveled to Austin for the NASIP conference with Andy Palmer and was able to incorporate visits with traders at Texas Teachers, Texas Employees, and Texas Permanent Fund. He was able to bring back several tips for more efficient use of the OMS as well as some ideas for office layout.

Trading Cost Analysis –The latest full quarter of time stamped data (January thru March 2012) has not been received as of the time of this writing. A meeting with Abel Noser staff has been set up for May 25, 2012, and the information obtained from that meeting will be distributed to the committee.



Accrued 3/31/2012	152,507
Client Comm Agreement 1/1/2012-3/31/2012	
Davis Mendal	17,500
Abel Noser	16,250
Security Capital	10,000
Stifel Nicolaus	10,000
Capital One Southcoast	5,000
Guggenheim Securities	5,000
Hillard Lyons	5,000
ISI Group	5,000
Keefe, Bruyette& Woods	5,000
Landenburg Thalmann & Co	5,000
Leerink Swann	5,000
Vertical Research Partners	5,000
Paid in Q1 2012	93,750
Balance 3/31/2012	388,717