



TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

EXECUTIVE SUMMARY

THIRD QUARTER 2012

STRATEGIC INVESTMENT SOLUTIONS, INC.

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- Fears over the U.S. fiscal cliff and a pronounced slowdown in China have limited upside gains in risk markets in the wake of the quantitative easing throughout the developed world. The Federal Reserve announced QE3 with unlimited MBS purchases until the labor market improves. Meanwhile, the European Central Bank's Outright Monetary Transactions (OMT), provided that a distressed country agrees to conditionality, allows the ECB to purchase the short-term sovereign debt of distressed governments on secondary markets. As a result, the S&P 500 outperformed during the quarter, returning 6.4%.
- The German Constitutional Court ratified the European Stability Mechanism (ESM), helping to reduce fears of tail risks across the Eurozone. As a result, Europe-ex UK equities rose 9.7% in the third quarter.
- Spain must agree to the conditionality in the Memorandum of Understanding before the ECB and ESM can purchase government bonds. Spanish 10-year yields declined in the wake of the OMT announcement; however, at about 6%, yields remain well above the lows reached in February.
- The Bank of Japan increased the size of their asset purchase program by JPY10trn (5trn in T-bills and 5trn in JGBs). However, the strong yen and export concerns continued to hamper equities in Japan, where stocks fell 0.8% in the third quarter.
- Safe-haven demand waned in Q3, which led to Treasuries returning only 0.6%. Meanwhile, in the currency markets, the increase in risk appetite led to a quarterly decline in the trade-weighted U.S. dollar index of 2.9%.
- In India, officials announced a number of key market liberalization measures, including a hike in subsidized fuel prices and steps to allow increased foreign investment and the privatization of government companies. Fiscal policies helped boost equities in Emerging Markets Asia, which rose 8.9% in the third quarter.
- The State Street Investor Confidence Index® (ICI) measures risk appetite by analyzing buying and selling patterns of institutional investors. As a result of declining confidence in the North American and Asian regions, the Global ICI fell to 86.9 in September, remaining well below the neutral level of 100. The decrease in confidence was most pronounced in Asia, while European institutional investors' appetite for equities is the strongest, at 101.
- For the period ending 9/30/12, the one quarter returns for, respectively, the NAREIT Equity index and the NCREIF Property index (one quarter lag), were 0.16% and 2.68%; one year, 32.61% and 12.04%; three years, 20.38% and 8.82%; and five years, 2.11% and 2.51%.
- The Fed launched a third round of quantitative easing to assist the commercial housing debt markets and forecast near zero interest rates until 2015. As the US economy continue to improve (albeit slowly), homebuilding and housing data indicate a recovery in the housing markets. Builders are still cautious and waiting to see if the recovery continues.
- Outside the US, a great deal of caution is prevalent in Europe as investors wait to see if central bank intervention continues. In contrast, in Asia Hong Kong and China developers continue to report strong demand.

Market Indices Review

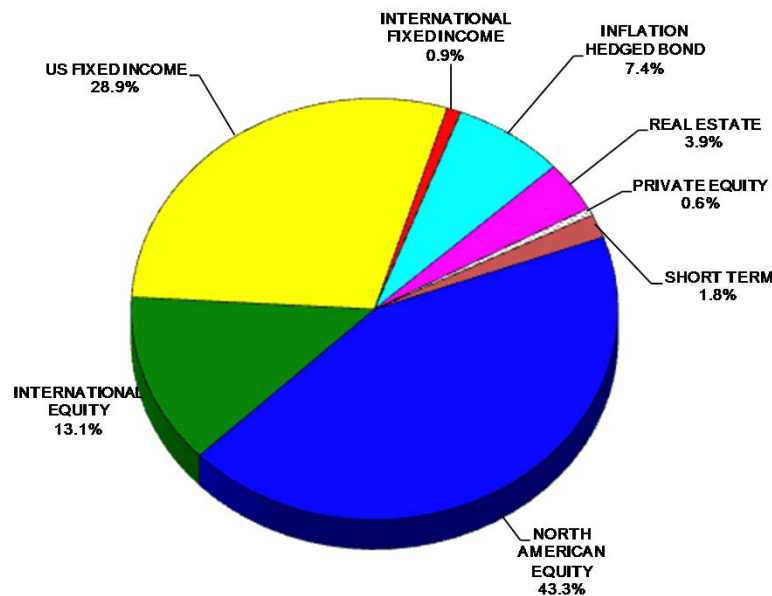
Periods Ending September 30, 2012

INDEX	STYLE	1 QTR	1 YEAR	3 YEAR	5 YEAR	7 YEAR	10 YEAR
NORTH AMERICAN EQUITY INDICES							
S&P 1500	Large Cap Broad	6.25	30.18	13.37	1.36	4.66	8.34
S&P 500	Large Cap Core	6.35	30.20	13.20	1.05	4.48	8.01
S&P MidCap 400	Mid Cap Broad	5.44	28.54	14.33	3.35	5.73	10.40
S&P Small Cap 600	Small Cap Broad	5.40	33.35	15.14	3.29	5.43	10.74
Russell 3000 Growth	Large Cap Growth	6.01	29.35	14.69	3.22	5.78	8.57
Russell 3000 Value	Large Cap Value	6.44	31.05	11.83	-0.72	3.32	8.28
NASDAQ Composite	Large Cap Core	6.17	29.02	13.66	2.90	5.43	10.28
DJIA	Large Cap Core	5.02	26.52	14.45	2.17	6.29	8.59
S&P/TSX 60	Canadian Large Cap Broad	10.58	14.98	6.94	-0.06	6.90	15.31
INTERNATIONAL INDICES							
MSCI EAFE NET	International Equity	6.92	13.75	2.12	-5.24	1.85	8.20
MSCI AC World -ex US	International Equity	7.49	15.04	3.63	-3.67	3.79	10.32
MSCI Emerging Markets	Emerging Markets	7.89	17.33	5.96	-0.98	8.97	17.37
Citigroup World Gov't	Global Fixed	2.99	3.29	4.29	6.45	6.15	6.71
Citigroup World Gov't ex US	International Fixed	3.98	3.46	4.02	6.56	6.31	7.27
US FIXED INCOME INDICES							
3-Month Treasury Bills	Cash	0.03	0.07	0.11	0.73	1.91	1.84
Barclays Aggregate	Core Fixed	1.58	5.16	6.19	6.53	5.92	5.33
Barclays Govt/Credit	Core Fixed	1.73	5.66	6.50	6.63	5.93	5.39
Barclays Mortgage	Mortgages	1.13	3.71	4.99	6.35	5.90	5.24
NAR Equity REIT	Real Estate	0.16	32.61	20.38	2.11	5.65	11.38
NCREIF Property - One Qtr lag	Real Estate	2.68	12.04	8.82	2.51	6.70	8.29

Asset Allocation Analysis – Total Plan

As of September 30, 2012

CURRENT ALLOCATION BY ASSET CLASS



ASSET ALLOCATION	MARKET VALUE	%
NORTH AMERICAN EQUITY	15,744,956,702	43.3%
INTERNATIONAL EQUITY	4,773,083,260	13.1%
US FIXED INCOME	10,506,884,460	28.9%
INTERNATIONAL FIXED INCOME	343,757,052	0.9%
INFLATION HEDGED BOND	2,690,766,264	7.4%
REAL ESTATE	1,410,735,663	3.9%
PRIVATE EQUITY	207,469,362	0.6%
SHORT TERM	658,957,441	1.8%
TOTAL	36,336,610,204	100.0%

ASSET ALLOCATION	TARGET	ACTUAL	DIFF
NORTH AMERICAN EQUITY	40.0%	43.3%	3.3%
INTERNATIONAL EQUITY	15.0%	13.1%	-1.9%
US FIXED INCOME	26.0%	28.9%	2.9%
INTERNATIONAL FIXED INCOME	0.0%	0.9%	0.9%
INFLATION HEDGED BOND	8.0%	7.4%	-0.6%
REAL ESTATE	7.0%	3.9%	-3.1%
PRIVATE EQUITY	3.0%	0.6%	-2.4%
SHORT TERM	1.0%	1.8%	0.8%

ASSET ALLOCATION	6/30/2012	9/30/2012	DIFF
NORTH AMERICAN EQUITY	42.4%	43.3%	0.9%
INTERNATIONAL EQUITY	13.6%	13.1%	-0.4%
US FIXED INCOME	29.2%	28.9%	-0.3%
INTERNATIONAL FIXED INCOME	1.0%	0.9%	0.0%
INFLATION HEDGED BOND	7.8%	7.4%	-0.4%
REAL ESTATE	3.9%	3.9%	0.0%
PRIVATE EQUITY	0.5%	0.6%	0.1%
SHORT TERM	1.7%	1.8%	0.1%

As of 3/1/11, the asset allocation targets are 40% North American Equity / 15% International Equity / 26% US Fixed Income / 8% Inflation Hedge Bond / 7% Real Estate / 3% Private Equity / 1% Short Term.

	1 QTR		1 YEAR		3 YEAR		5 YEAR		10 YEAR	
	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA
TCRS Composite	5.01	0.61	18.05	0.82	10.20	0.37	3.53	-0.33	6.63	-0.79
<i>Policy Index¹</i>	4.40		17.23		9.83		3.86		7.42	
<i>Total Fund Allocation Index²</i>	4.63		17.50		9.50					
<i>Total Public Funds > \$1 Billion Median</i>	4.80		15.94		9.48		2.43		8.18	
NORTH AMERICAN EQUITY MANAGERS										
Large Cap										
Index	6.36	0.01	30.18	-0.02	13.20	0.00	1.16	0.11		
Quant	6.74	0.39	30.74	0.54	13.72	0.52	1.79	0.74	8.37	0.36
Sector	6.15	-0.20	29.67	-0.53	13.45	0.25	1.18	0.13	8.06	0.05
S&P 500 Index	6.35		30.20		13.20		1.05		8.01	
Mid Cap										
Mid Cap ³	5.72	0.28	29.45	0.91	14.81	0.48	2.06	-1.29	10.29	-0.11
S&P MidCap 400 Index ⁴	5.44		28.54		14.33		3.35		10.40	
Small Cap										
Small Cap Index ⁵										
S&P SmCap 600 Index										
Equity Futures										
S&P SmallCap 600 Index	3.63	-1.77	29.65	-3.70						
	5.40		33.35							
Canada										
Canada	10.72	0.14	15.14	0.16						
S&P/TSX 60 Index	10.58		14.98							
NORTH AMERICAN EQUITY COMPOSITE										
87.5% S&P 1500/ 12.5% S&P/TSX 60 Index	6.80	0.02	28.44	0.21						
	6.78		28.23							
US EQUITY COMPOSITE										
US Equity Benchmark ⁶	6.36	0.12	30.23	0.05	13.92	0.55	1.33	-0.03	8.17	-0.09
Median	6.24		30.18		13.37		1.36		8.26	
	6.13		29.39		13.09		1.31		8.62	
INTERNATIONAL EQUITY MANAGERS										
Developed										
Baring Asset Management	6.48	-0.44	15.45	1.70	5.78	3.66				
MSCI EAFE NET Index	6.92		13.75		2.12					
Marathon	7.12	0.20	15.65	1.90	6.04	3.92	-0.81	4.43	12.13	3.51
MSCI EAFE NET Index ⁶	6.92		13.75		2.12		-5.24		8.62	
PanAgora Asset Management	7.11	0.19	16.91	3.16	5.20	3.08	-3.49	1.75		
MSCI EAFE NET Index	6.92		13.75		2.12		-5.24			
TT International	4.94	-1.98	12.77	-0.98	0.62	-1.50				
MSCI EAFE NET Index	6.92		13.75		2.12					
Walter Scott	5.48	-1.44	17.35	3.60	8.91	6.79	2.33	8.47	11.84	3.06
MSCI EAFE NET Index ⁷	6.92		13.75		2.12		-6.14		8.78	
Developed Small Cap										
American Century Investment	11.52	3.63	24.19	11.63	9.09	4.34				
MSCI EAFE Small Cap NET Index ⁸	7.89		12.56		4.75					
Pyramis Global Advisors	9.50	1.61	17.47	4.91	6.44	1.69				
MSCI EAFE Small Cap NET Index ⁸	7.89		12.56		4.75					

* Ranking: 1 is best, 100 is worst. As of Q3 2012, composites are ranked against the InvestorForce asset class universes and managers are ranked against eVestment Alliance universes.
¹ As of 7/1/11, the Policy Index is 35% S&P 1500/ 5% S&P TSX 60/ 15% MSCI EAFE I/M/ 26% Citigroup Large Pension Fund/ 8% Citigroup TIPS/ 7% NCREIF/ 3% S&P 500 + 300 bps/ 1% 91 Day T-Bill.
² As of 7/1/11, the Total Fund Allocation Index is 36.8% S&P 1500/ 5.3% S&P TSX 60/ 15.8% MSCI EAFE I/M/ 29.8% Citi LPF/ 8% Citigroup TIPS/ 3.2% NCREIF/ 0.1% S&P 500 + 300 bps/ 1% 91 Day T-Bill.
³ As of 6/30/08; prior w as SMD Cap Fund.
⁴ As of 6/30/08; prior w as S&P 1000 Index.
⁵ As of 7/1/04 S&P 1500 Index; prior was S&P 500 Index.
⁶ As of 5/19/06; prior w as MSCI Europe Index.
⁷ As of 2/2/09; prior w as MSCI Europe Index.
⁸ As of 07/01/11, MSCI EAFE Small Cap NET Index; prior was MSCI EAFE Index.
⁹ Funded 7/2012

Performance Summary

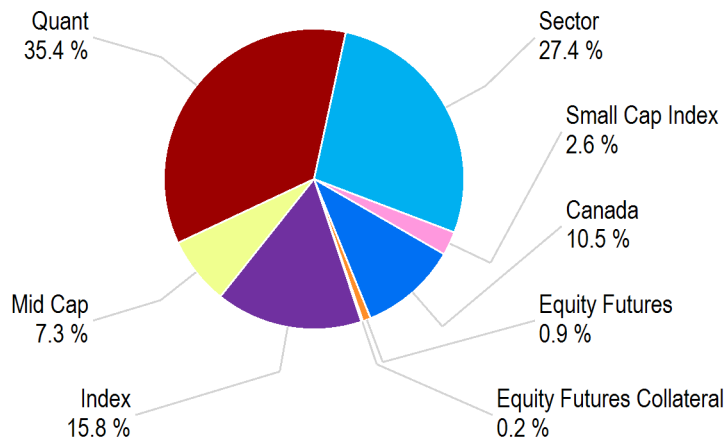
Periods Ending September 30, 2012

	1 QTR		1 YEAR		3 YEAR		5 YEAR		10 YEAR	
	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA
GE Asset Management	9.71	1.01	21.68	4.37	3.54	1.52				
MSCI Europe NET Index ⁹	8.70		17.31		2.02					
Pacific Indexed Portfolio ¹⁰	3.12	-0.61	7.79	0.06	1.59	-1.12	-6.04	-2.15	6.89	-0.08
MSCI Pacific NET Index ¹¹	3.73		7.73		2.71		-3.89		6.97	
TOTAL INT'L EQUITY COMPOSITE	7.24	0.21	16.99	3.38	5.45	3.03	-2.57	2.28	9.99	1.39
TOTAL INT'L EQUITY w/o Currency Overlay	7.24	0.21	16.99	3.38	5.45	3.03	-1.99	2.86	10.32	1.72
MSCI EAFE IMI NET Index ¹²	7.03		13.61		2.42		-4.85		8.60	
Median	7.07		15.76		3.13		-4.05		9.26	
US FIXED INCOME										
Corporate	5.68	0.41	15.31	0.93	13.31	2.09	10.38	0.92	7.39	-0.01
Citigroup LPF Credit Index ¹³	5.27		14.38		11.22		9.46		7.40	
Government 1-5	3.17	2.45	13.66	7.43	14.77	5.22	9.65	1.11		
Citigroup LPF Treasury/Gov't Sponsored ¹⁴	0.72		6.23		9.55		8.54			
Government 5 Plus	0.71	-0.01	6.64	0.41	11.49	0.57	8.90	-0.85		
Citigroup LPF Treasury/Gov't Sponsored ¹⁵	0.72		6.23		10.92		9.75			
Mortgage Backed Securities	1.35	0.24	4.50	0.74	5.54	0.47	5.50	-0.92	4.87	-0.42
Citigroup Mortgage Backed Securities Index	1.11		3.76		5.07		6.42		5.29	
US FIXED INCOME COMPOSITE	2.94	0.75	9.71	1.76	10.67	1.72	8.62	0.17	6.28	0.14
Citigroup LPF Index ¹⁶	2.19		7.95		8.95		8.45		6.14	
Median	2.63		8.93		7.90		7.52		6.17	
INFLATION HEDGED BOND**	2.17	-0.02	9.20	-0.21	9.16	-0.51	8.17	0.06		
Inflation Hedged Account**	2.17	-0.02	9.20	-0.21	9.16	-0.51	8.17	0.06		
Citigroup TIPS Index	2.19		9.41		9.67		8.11			
Median	2.14		9.09		9.47					
INTERNATIONAL FIXED INCOME COMPOSITE***	3.74	0.35	4.39	1.76	6.24	0.40	8.34	0.15	7.57	0.49
International Fixed Income	3.74	0.35	4.39	1.76	6.24	0.40	8.34	0.15	7.57	0.49
Citigroup G5 -ex US Index ¹⁷	3.39		2.63		5.84		8.19		7.08	
Median	4.32		9.77		4.86		7.24		7.57	
REAL ESTATE	1.57	-1.11	9.71	-2.33	2.61	-6.20	0.91	-1.59	6.94	-1.35
NCREIF Property Index - One Qtr lag	2.68		12.04		8.81		2.50		8.29	
Median	2.46		11.56		11.37		-1.35		6.09	
PRIVATE EQUITY¹⁸	3.4*	5.72	5.5*	-2.95	9.49	-9.92				
S&P 500 Index + 300 bps (One Qtr lag) ¹⁹	-2.32		8.45		19.41					
SHORT TERM	0.32		1.16		1.65		2.36			
Cash Account	0.10		1.37		1.81		2.14		2.50	
Short Duration	0.63		2.47		1.98					

⁹ As of 07/01/11, MSCI Europe NET Index; prior was MSCI Europe Index.
¹⁰ Performance was attributable to Amundi through 9/3/10; portfolio managed by TCRS staff after ward.
¹¹ As of 7/1/04; prior was MSCI AC Asia Pacific Free Index.
¹² As of 10/1/08; prior was MSCI EAFE NET Index.
¹³ As of 7/1/2011, benchmark is Citigroup LFF Credit. As of 4/1/2011, benchmark is 50% Citigroup Credit Index, 50% Citigroup LFF Credit Index. Citigroup Credit Index: 7/1/05-3/31/11. Lehman Credit ex BBB prior.
¹⁴ As of 7/1/2011, benchmark is Citigroup LFF Treasury/Government Sponsored. As of 04/1/2011, benchmark, is 50% Citigroup 1-5 Govt/50% Citigroup 1-7 Govt. As of 8/1/09, name switched from Fixed Income Overlay to Gov't 1-5 in order to reflect strategy change. As of 8/1/09, benchmark is Citi Treas/Gov't Sponsored 1-5; prior was Citi BIG Index.
¹⁵ As of 7/1/2011, benchmark is Citigroup LFF Treasury/Government Sponsored. As of 4/1/2011, benchmark is 50% Citigroup Core 5+ Gov't/50% Citigroup 7+ Gov't. As of 8/1/09, name switched from Agency Debt to Gov't 5 Plus in order to reflect strategy change. As of 8/1/09, benchmark is Citi Core+5 Treas/Gov't Sponsored; prior was Citi Treas/Gov't Sponsored.
¹⁶ As of 7/1/2011, benchmark is Citigroup LFF Index. As of 04/1/2011, benchmark is 50% Citigroup BIG/50% Citigroup LFF. As of 7/1/05 benchmark switched from Lehman Aggregate -ex BBB Index to Citigroup BIG.
¹⁷ As of 7/1/04; prior was Citigroup World Government Bond -ex US Unhedged Index.
¹⁸ Per TCRS' request: As of Q1 2012, Private Equity returns are from Cambridge Associates and are the prior quarter's performance returns.
¹⁹ As of February 2011, index changed from S&P 500 Index + 300bps to S&P 500 Index + 300 bps (One Qtr lagged), since inception.
 * Returns are the quarter-lagged IRR returns reported by Cambridge Associates.

Manager Allocation Analysis - North American Equity

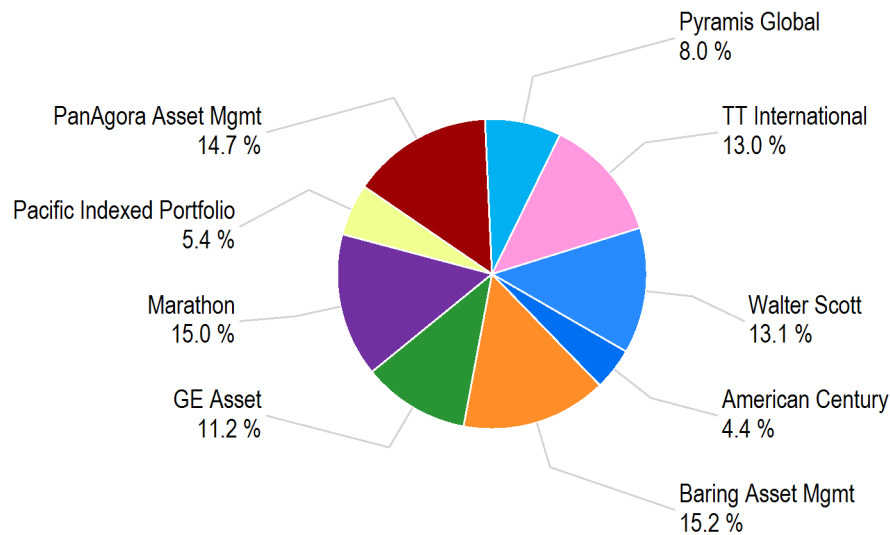
As of September 30, 2012



	Actual \$	Actual %
Canada	\$1,655,456,658	10.5%
Equity Futures	\$135,316,667	0.9%
Equity Futures Collateral	\$29,060,133	0.2%
Index	\$2,491,422,929	15.8%
Mid Cap	\$1,149,802,262	7.3%
Quant	\$5,571,168,817	35.4%
Sector	\$4,310,592,225	27.4%
Small Cap Index	\$402,137,011	2.6%
Total	\$15,744,956,702	

Manager Allocation Analysis - International Equity

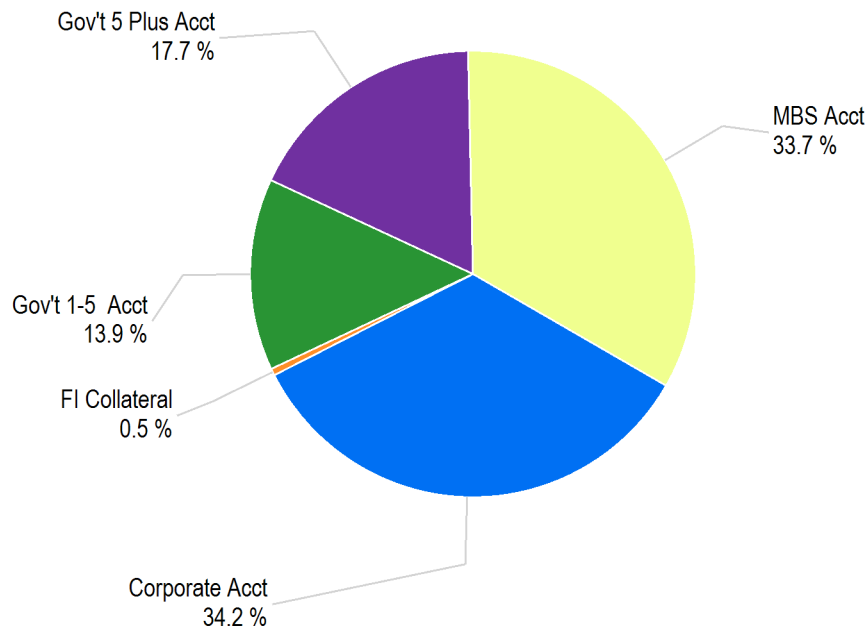
As of September 30, 2012



	Actual \$	Actual %
American Century	\$210,215,676	4.4%
Baring Asset Mgmt	\$725,897,016	15.2%
Capital Int'l	\$1,651	0.0%
GE Asset	\$533,856,139	11.2%
JPM	\$56,902	0.0%
Marathon	\$715,957,830	15.0%
Pacific Indexed Portfolio	\$258,447,004	5.4%
PanAgora Asset Mgmt	\$702,921,108	14.7%
Putnam Europe	\$36,239	0.0%
Pyramis Global	\$379,963,827	8.0%
TT International	\$618,164,680	13.0%
Walter Scott	\$627,565,189	13.1%
Total	\$4,773,083,260	

Manager Allocation Analysis - US Fixed Income

As of September 30, 2012

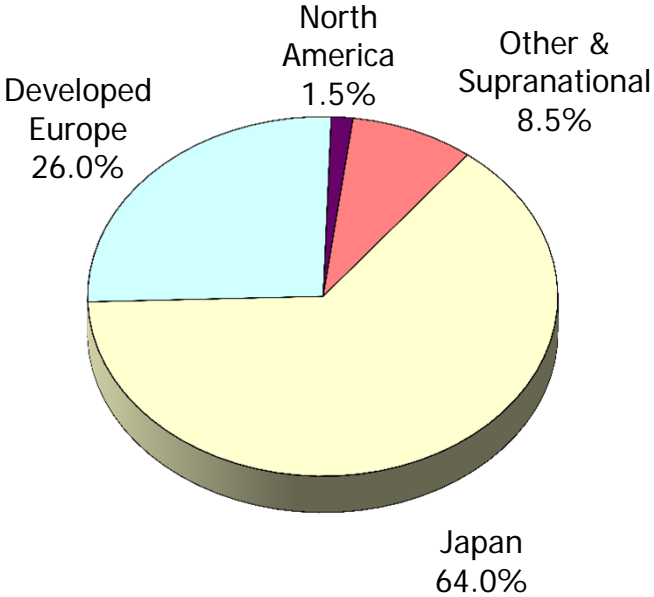


	Actual \$	Actual %
Corporate Acct	\$3,591,721,505	34.2%
Corporate Derivatives	(\$40,081)	0.0%
FI Collateral	\$51,993,745	0.5%
FI Derivative Overlay	(\$201,563)	0.0%
Gov't 1-5 Acct	\$1,461,043,301	13.9%
Gov't 1-5 Derivatives	(\$759,618)	0.0%
Gov't 5 Plus Acct	\$1,863,468,586	17.7%
Gov't 5 Plus Derivatives	(\$265,626)	0.0%
MBS Acct	\$3,539,924,212	33.7%
Total	\$10,506,884,460	

Portfolio Regional Weights – International Fixed Income

As of September 30, 2012

INTERNATIONAL FIXED INCOME



CITIGROUP G-5 EX US INDEX

