

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

EXECUTIVE SUMMARY

DECEMBER 31, 2011

STRATEGIC INVESTMENT SOLUTIONS, INC.

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TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Fourth Quarter 2011

Capital Market Review

- Global equities performed on par with global bonds in the last quarter of 2011, as policy moves in Europe and better-than-expected US economic news improved sentiment, particularly for equity markets.
- Global commodity prices continued to head lower in the fourth quarter driven by falling agricultural and industrial metals prices. Aggregate commodity indices ended the year down more than 10 percent. After reaching a record high in September, gold prices moderated notably as the US dollar strengthened.
- US stocks fared better than their international and emerging markets counterparts. Domestically, blue chip stocks of the Dow Jones Industrial Average outperformed the S&P 500, NASDAQ and Russell indices. By sector, information technology and health care ended 2011 with the strongest performance while materials, consumer discretionary and utilities sectors finished the year in negative territory.
- Improving economic data in the US and European policy moves managed to buoy equity markets, yet failed to prompt a broader shift in investment sentiment and risk appetite. Indeed, investors remained cautious and firmly vested in bonds. The US yield curve witnessed limited movement across the term spectrum in the fourth quarter.
- Despite currency market interventions by the Bank of Japan designed to weaken the yen, the currency was mostly unmoved in the fourth quarter and ultimately ended up as the best performer among G10 currencies, strengthening over 5 percent in 2011. At the other end of the scale, the euro was the worst performer in the fourth quarter and for the year in aggregate.
- For the period ending 12/31/11, the one quarter returns for, respectively, the NAREIT Equity index and the NCREIF Property index (one quarter lag), were 15.22% and 3.30%; one year, 8.29% and 16.10%; three years, 21.05% and -1.45%; and five years, -1.42% and 3.40%.
- The fourth quarter of 2011 was characterized by very strong markets for global real estate securities, as global macroeconomic conditions became marginally more positive. Global markets have become bifurcated between the “haves” (New York, London, D.C., Singapore) and the “have nots” (Greece, Italy, etc.)
- Question marks still exist about the situation in Europe and bank capital requirements that have made financing somewhat difficult. Still, predications about an impending distressed environment have not been borne out; the relatively high yields offered by REITs and quality real estate have been attractive to investors.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Periods Ending December 31, 2011

Market Indices Review

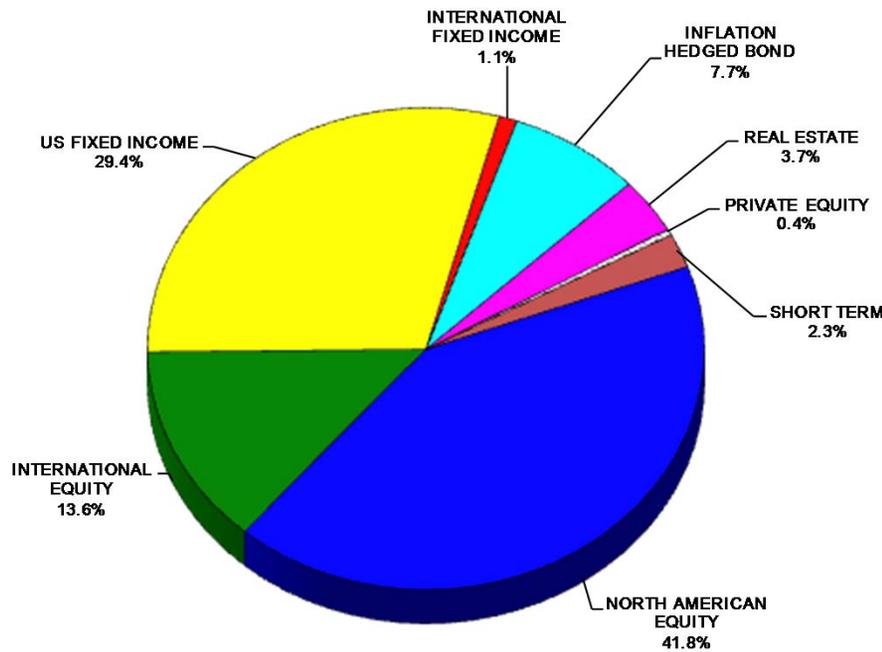
INDEX	STYLE	1 QTR	1 YEAR	3 YEAR	5 YEAR	7 YEAR	10 YEAR
NORTH AMERICAN EQUITY INDICES							
S&P 1500	Large Cap Broad	12.10	1.75	14.65	0.11	2.95	3.40
S&P 500	Large Cap Core	11.82	2.11	14.11	-0.25	2.64	2.92
S&P MidCap 400	Mid Cap Broad	12.98	-1.73	19.57	3.32	5.57	7.04
S&P Small Cap 600	Small Cap Broad	17.17	1.02	17.01	1.94	4.54	7.09
Russell 3000 Growth	Large Cap Growth	10.94	2.18	18.09	2.46	3.82	2.74
Russell 3000 Value	Large Cap Value	13.33	-0.10	11.62	-2.58	1.98	4.08
NASDAQ Composite	Large Cap Core	7.86	-1.80	18.21	1.52	2.62	2.94
DJIA	Large Cap Core	12.78	8.38	14.90	2.37	4.50	4.56
S&P/TSX 60	Canadian Large Cap Broad	5.22	-11.28	18.30	3.61	9.19	11.72
INTERNATIONAL INDICES							
MSCI EAFE NET	International Equity	3.33	-12.14	7.65	-4.72	1.71	4.67
MSCI AC World -ex US	International Equity	3.77	-13.33	11.20	-2.48	3.97	6.76
MSCI Emerging Markets	Emerging Markets	4.45	-18.17	20.42	2.70	10.71	14.20
Citigroup World Gov't	Global Fixed	-0.12	6.35	4.68	7.13	4.87	7.77
Citigroup World Gov't ex US	International Fixed	-0.48	5.17	4.92	7.23	4.67	8.36
US FIXED INCOME INDICES							
3-Month Treasury Bills	Cash	0.00	0.10	0.14	1.48	2.18	1.95
Barclays Aggregate	Core Fixed	1.12	7.84	6.77	6.50	5.60	5.78
Barclays Govt/Credit	Core Fixed	1.18	8.74	6.60	6.55	5.54	5.86
Barclays Mortgage	Mortgages	0.88	6.23	5.83	6.54	5.78	5.69
Merill Lynch High Yield	High Yield Fixed	6.17	4.50	23.46	7.25	7.22	8.54
NAR Equity REIT	Real Estate	15.22	8.29	21.05	-1.42	5.04	10.20
NCREIF Property - One Qtr lag	Real Estate	3.30	16.10	-1.45	3.40	7.48	7.82

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

As of December 31, 2011

Asset Allocation Analysis - Total Plan

CURRENT ALLOCATION BY ASSET CLASS



ASSET ALLOCATION	MARKET VALUE	%
NORTH AMERICAN EQUITY	13,853,333,154	41.8%
INTERNATIONAL EQUITY	4,487,918,947	13.6%
US FIXED INCOME	9,743,580,085	29.4%
INTERNATIONAL FIXED INCOME	348,627,459	1.1%
INFLATION HEDGED BOND	2,552,808,455	7.7%
REAL ESTATE	1,237,307,872	3.7%
PRIVATE EQUITY	131,653,212	0.4%
SHORT TERM	762,299,009	2.3%
TOTAL	33,117,528,192	100.0%

ASSET ALLOCATION	TARGET	ACTUAL	DIFF
NORTH AMERICAN EQUITY	40.0%	41.8%	1.8%
INTERNATIONAL EQUITY	15.0%	13.6%	-1.4%
US FIXED INCOME	26.0%	29.4%	3.4%
INTERNATIONAL FIXED INCOME	0.0%	1.1%	1.1%
INFLATION HEDGED BOND	8.0%	7.7%	-0.3%
REAL ESTATE	7.0%	3.7%	-3.3%
PRIVATE EQUITY	3.0%	0.4%	-2.6%
SHORT TERM	1.0%	2.3%	1.3%

ASSET ALLOCATION	9/30/2011	12/31/2011	DIFF
NORTH AMERICAN EQUITY	40.0%	41.8%	1.8%
INTERNATIONAL EQUITY	13.9%	13.6%	-0.3%
US FIXED INCOME	31.1%	29.4%	-1.6%
INTERNATIONAL FIXED INCOME	1.1%	1.1%	-0.1%
INFLATION HEDGED BOND	7.9%	7.7%	-0.2%
REAL ESTATE	3.7%	3.7%	0.0%
PRIVATE EQUITY	0.4%	0.4%	0.0%
SHORT TERM	1.9%	2.3%	0.4%

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.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Periods Ending December 31, 2011

Performance Summary

	1 QTR		1 YEAR		3 YEAR		5 YEAR		10 YEAR	
	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA
TCRS Composite	5.87	0.38	5.02	0.58	10.18	-0.28	2.83	-0.40	4.82	-0.53
<i>Policy Index¹</i>	5.49		4.44		10.46		3.23		5.35	
<i>Total Fund Allocation Index²</i>	6.12		4.12		10.49					
<i>Total Public Funds > \$100 Million Median</i>	5.34		0.89		11.10		2.04		5.31	
NORTH AMERICAN EQUITY MANAGERS										
Large Cap										
Index	11.80	-0.02	2.13	0.02	14.17	0.06	-0.12	0.13		
Quant	13.46	1.64	5.58	3.47	14.02	-0.09	0.68	0.93	3.67	0.75
Sector	11.26	-0.56	3.28	1.17	14.12	0.01	0.00	0.25	3.08	0.16
S&P 500 Index	11.82		2.11		14.11		-0.25		2.92	
Mid Cap										
Mid Cap ³	13.67	0.69	-0.79	0.94	17.89	-1.69	1.86	-0.71	7.21	0.53
S&P MidCap 400 Index ⁴	12.98		-1.73		19.58		2.57		6.68	
Equity Futures	14.38	-2.79	-2.96	-3.98						
S&P SmallCap 600 Index	17.17		1.02							
Canada										
Canada	5.18	-0.04	-10.44	0.84						
S&P/TSX 60 Index	5.22		-11.28							
NORTH AMERICAN EQUITY COMPOSITE	11.64	0.42	2.08	2.01						
NORTH AMERICAN EQUITY w/o Futures	11.54	0.32	2.28	2.21						
<i>87.5% S&P 1500/ 12.5% S&P/TSX 60 Index</i>	11.22		0.07							
US EQUITY COMPOSITE	12.51	0.41	3.90	2.15	14.37	-0.27	0.25	0.14	3.43	0.25
<i>US Equity Benchmark⁵</i>	12.10		1.75		14.64		0.11		3.18	
<i>Median</i>	12.07		-0.07		15.80		0.98		4.86	
INTERNATIONAL EQUITY MANAGERS										
Developed										
Baring Asset Management	4.29	0.96	-7.01	5.13	10.60	2.95				
MSCI EAFE NET Index	3.33		-12.14		7.65					
Marathon	2.67	-0.66	-9.28	2.86	10.53	2.88	-0.47	4.25	8.38	4.01
MSCI EAFE NET Index ⁶	3.33		-12.14		7.65		-4.72		4.37	
PanAgora Asset Management	3.31	-0.02	-10.20	1.94	10.14	2.49	-3.42	1.30		
MSCI EAFE NET Index	3.33		-12.14		7.65		-4.72			
TT International	2.91	-0.42	-16.92	-4.78	6.72	-0.93				
MSCI EAFE NET Index	3.33		-12.14		7.65					
Walter Scott	2.00	-1.33	-6.68	5.46	14.13	6.91	2.07	7.40	9.60	5.08
MSCI EAFE NET Index ⁷	3.33		-12.14		7.22		-5.33		4.52	
Developed Small Cap										
American Century Investment	5.99	6.55	-14.06	1.88						
MSCI EAFE Small Cap NET Index ⁸	-0.56		-15.94							
Pyramis Global Advisors	0.30	0.86	-13.98	1.96						
MSCI EAFE Small Cap NET Index ⁸	-0.56		-15.94							

¹ As of 7/1/11, the Policy Index is 35% S&P 1500/ 5% S&P TSX 60/ 15% MSCI EAFE IM/ 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 IM/ 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 was SMid Cap Fund.

⁴ As of 6/30/08; prior was 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 was MSCI Europe Index.

⁷ As of 2/2/09; prior was MSCI Europe Index.

⁸ As of 07/01/11, MSCI EAFE Small Cap NET Index; prior was MSCI EAFE Index.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

Periods Ending December 31, 2011

Performance Summary (Continued)

	1 QTR		1 YEAR		3 YEAR		5 YEAR		10 YEAR	
	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA
GE Asset Management	4.93	-0.46	-12.69	-1.63	7.18	-0.68				
MSCI Europe NET Index ⁹	5.39		-11.06		7.86					
Pacific Indexed Portfolio ¹⁰	-0.29	0.01	-15.09	-1.41	6.35	-1.25	-3.90	-0.47	5.42	-0.10
MSCI Pacific NET Index ¹¹	-0.30		-13.68		7.60		-3.43		5.52	
TOTAL INT'L EQUITY COMPOSITE	3.09	0.23	-10.86	1.75	9.19	0.82	-2.39	2.00	6.49	1.37
TOTAL INT'L EQUITY w/o Currency Overlay	3.09	0.23	-10.86	1.75	10.20	1.83	-1.78	2.61	7.11	1.99
MSCI EAFE IM NET Index ¹²	2.86		-12.61		8.37		-4.39		5.12	
Median	3.88		-12.17		9.71		-2.70		6.77	
US FIXED INCOME										
Corporate	2.42	-0.53	13.83	0.76	16.96	4.41	8.45	0.64	7.01	0.08
Citigroup Credit Index ¹³	2.95		13.07		12.55		7.81		6.93	
Government 1-5	2.14	0.56	20.69	-0.69	12.93	3.64	8.91	0.50		
Citigroup LPF Treasury/Gov't Sponsored ¹⁴	1.58		21.38		9.29		8.41			
Government 5 Plus	1.56	-0.02	23.30	1.16	13.08	4.21	8.78	-0.87		
Citigroup LPF Treasury/Gov't Sponsored ¹⁵	1.58		22.14		8.87		9.65			
Mortgage Backed Securities	0.94	0.03	6.39	0.01	7.02	1.14	5.56	-1.06	5.29	-0.47
Citigroup Mortgage Backed Securities Index	0.91		6.38		5.88		6.62		5.76	
US FIXED INCOME COMPOSITE	1.73	-0.10	14.31	-0.45	12.37	3.75	7.80	-0.22	6.40	-0.05
US FIXED INCOME w/o Derivatives	1.50	-0.33	11.06	-3.70	11.30	2.68	7.18	-0.84	6.09	-0.36
Citigroup LPF Index ¹⁶	1.83		14.76		8.62		8.02		6.45	
Median	1.28		6.01		9.05		6.87		6.24	
INFLATION HEDGED BOND**	2.69	-0.03	13.67	-0.34	9.62	-0.53	8.15	0.08		
Inflation Hedged Account	2.69	-0.03	13.67	-0.34	9.62	-0.53	8.15	0.08		
Citigroup TIPS Index	2.72		14.01		10.15		8.07			
Median	2.69		13.36		10.20					
INTERNATIONAL FIXED INCOME COMPOSITE***	0.62	0.41	7.44	-0.14	6.77	0.17	8.92	-0.07	8.39	0.18
International Fixed Income	0.62	0.41	7.44	-0.14	6.77	0.17	8.92	-0.07	8.39	0.18
Citigroup G5 -ex US Index ¹⁷	0.21		7.58		6.60		8.99		8.21	
Median	0.34		4.84		6.07		7.81			
REAL ESTATE	1.57	-1.73	14.64	-1.46	-4.27	-2.82	1.26	-2.14	6.44	-1.38
NCREIF Property Index - One Qtr lag	3.30		16.10		-1.45		3.40		7.82	
Median	1.43		12.46		-3.80		-1.10		6.52	
PRIVATE EQUITY	-5.45	7.47	8.05	3.91						
S&P 500 Index + 300 bps (One Qtr lag) ¹⁸	-12.92		4.14							
SHORT TERM	0.12		1.81		2.20					
Cash Account	0.08		2.65		1.50		2.65		2.51	
Short Duration	0.25		1.05		3.74					

⁹ As of 07/01/11, MSCI Europe NET Index; prior w as MSCI Europe Index.

¹⁰ Performance w as attributable to Amundi through 9/3/10; portfolio managed by TCRS staff after ward.

¹¹ As of 7/1/04; prior w as MSCI AC Asia Pacific Free Index.

¹² As of 10/1/08; prior w as MSCI EAFE NET Index.

¹³ As of 7/1/2011, benchmark is Citigroup LPF Credit. As of 4/1/2011, benchmark is 50% Citigroup Credit Index, 50% Citigroup LPF Credit Index. Citigroup Credit Index: 7/1/05-3/31/11. Lehman Credit ex BBB prior.

¹⁴ As of 7/1/2011, benchmark is Citigroup LPF Treasury/Government Sponsored. As of 04/1/2011, benchmark, is 50% Citigroup 1-5 Govt/50% Citigroup 1-7 Govt. As of 8/1/09, name switched from Fixed Income Overlay to Gov't 1-5 in order to reflect strategy change. As of 8/1/09, benchmark is Citi Treas/Gov't Sponsored 1-5; prior w as Citi BIG Index.

¹⁵ As of 7/1/2011, benchmark is Citigroup LPF Treasury/Government Sponsored. As of 4/1/2011, benchmark is 50% Citigroup Core 5+ Govt/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 w as Citi Treas/Gov't Sponsored.

¹⁶ As of 7/1/2011, benchmark is Citigroup LPF Index. As of 04/1/2011, benchmark is 50% Citigroup BIG/50% Citigroup LPF. As of 7/1/05 benchmark switched from Lehman Aggregate -ex BBB Index to Citigroup BIG.

¹⁷ As of 7/1/04; prior w as Citigroup World Government Bond -ex US Unhedged Index.

¹⁸ As of February 2011, index changed from S&P 500 Index + 300bps to S&P 500 Index + 300 bps (One Qtr lagged), since inception.

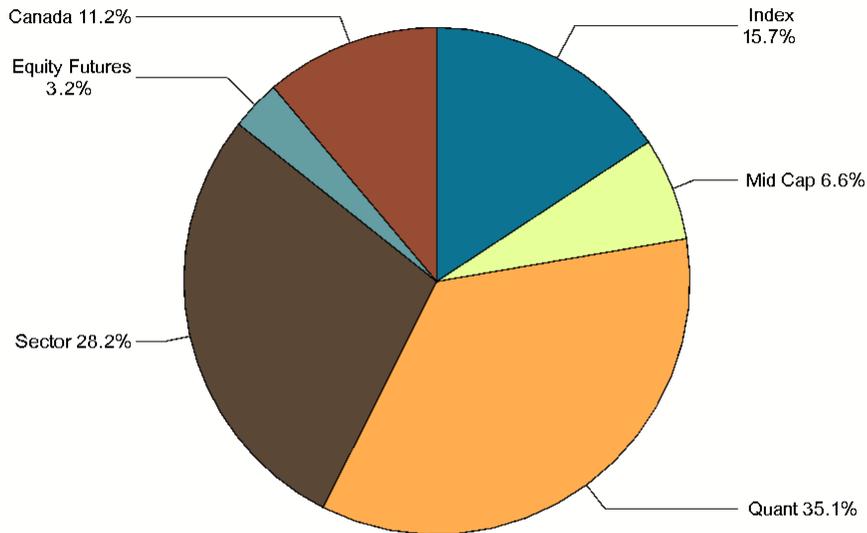
** Inflation Hedged Bond is not ranked in years 5 and greater, because there are not enough observations available.

*** International Fixed Income is not ranked in the 10 Year period, because there are not enough observations available.

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

As of December 31, 2011

Manager Allocation Analysis - North American Equity



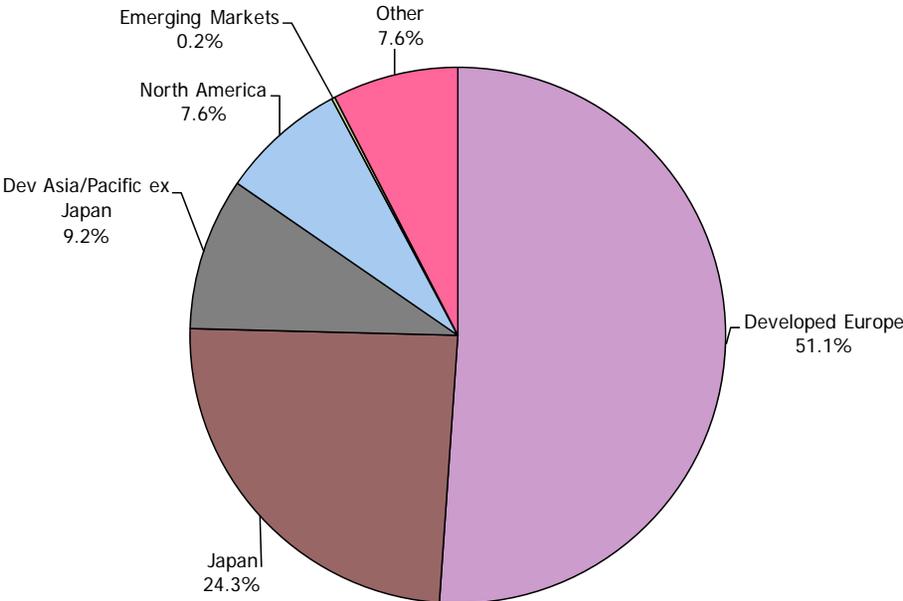
FUND	Ending Market Value	Current %
Index	2,178,972,919	15.7
Mid Cap	916,020,332	6.6
Quant	4,861,063,182	35.1
Sector	3,911,162,178	28.2
Equity Futures	439,586,000	3.2
Canada	1,546,528,543	11.2
TOTAL	13,853,333,155	100.0

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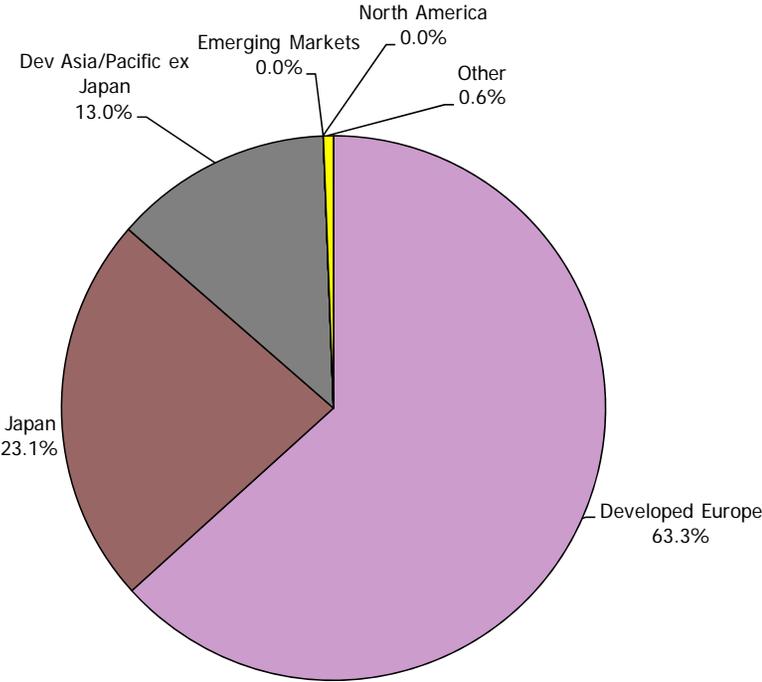
As of December 31, 2011

International Equity Portfolio Regional Weights

International Equity Composite w/o CO



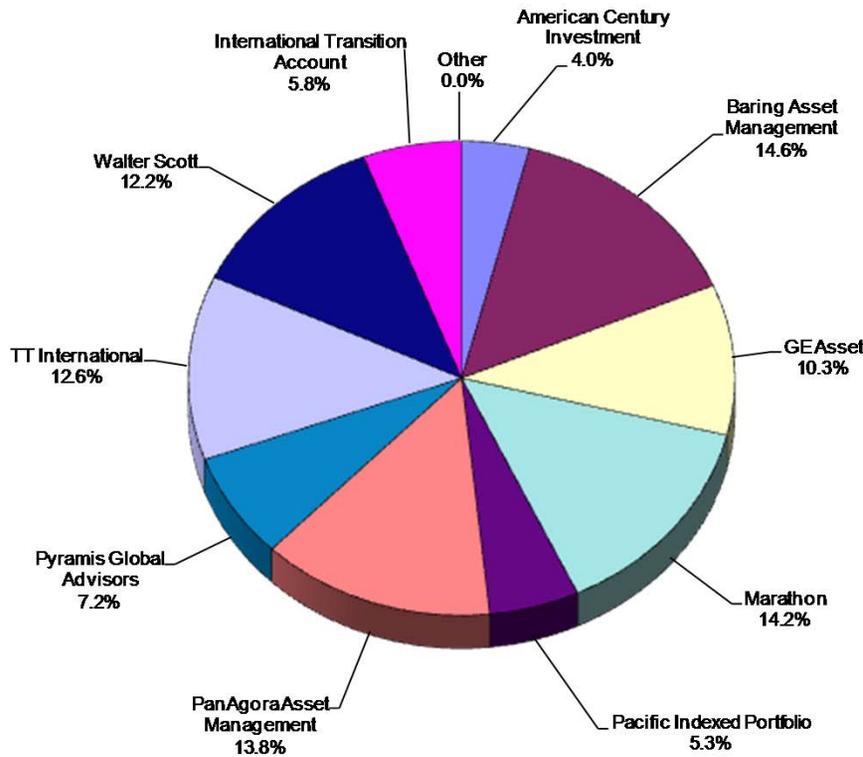
MSCI EAFE



TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

As of December 31, 2011

Manager Allocation Analysis - International Equity w/o Currency Overlay



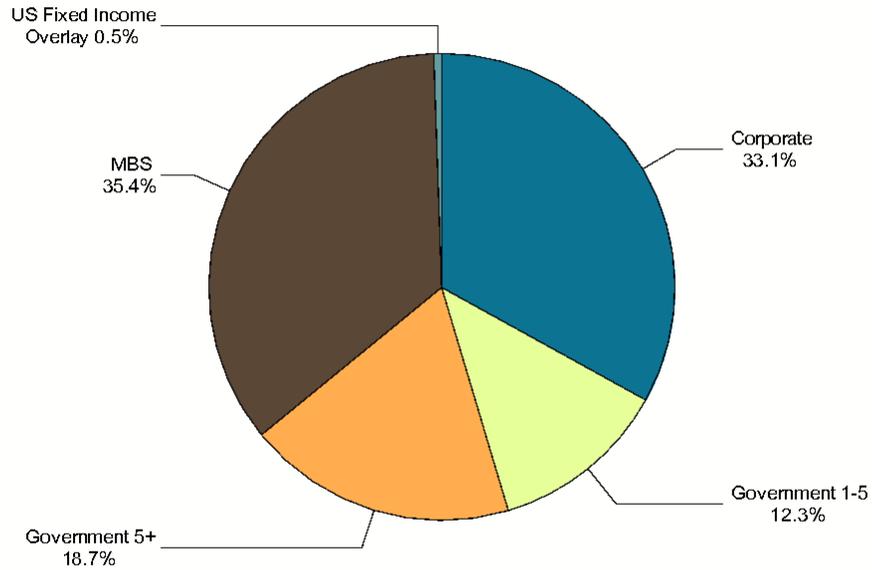
Fund	Ending Market Value	Current %
American Century Investment	179,408,456	4.0%
Baring Asset Management	655,709,694	14.6%
GE Asset	460,373,187	10.3%
Marathon	635,563,354	14.2%
Pacific Indexed Portfolio	239,080,971	5.3%
PanAgora Asset Management	621,152,965	13.8%
Pyramis Global Advisors	324,432,266	7.2%
TT International	564,118,346	12.6%
Walter Scott	545,476,657	12.2%
International Transition Account	262,509,000	5.8%
Other	94,051	0.0%
TOTAL	4,487,918,947	100.0%

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As of December 31, 2011

Manager Allocation Analysis - US Fixed Income

FUND	Ending Market Value	Current %
Corporate	3,220,405,078	33.1
Government 1-5	1,202,511,657	12.3
Government 5+	1,821,902,495	18.7
MBS	3,446,637,492	35.4
US Fixed Income Overlay	52,123,363	0.5
TOTAL	9,743,580,085	100.0

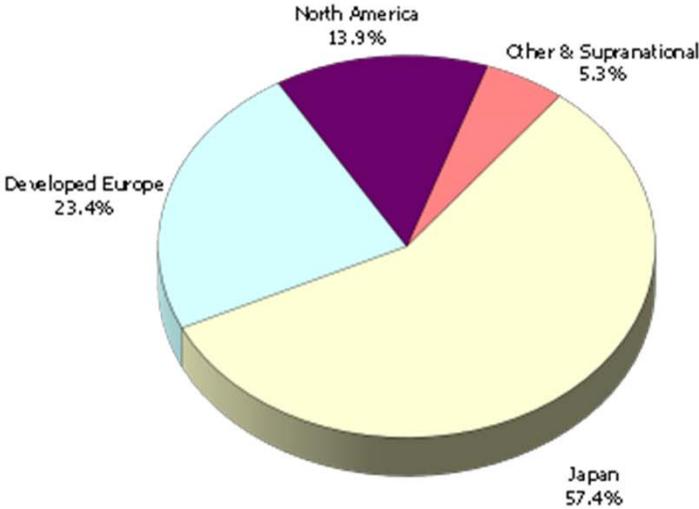


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As of December 31, 2011

International Fixed Income Portfolio Regional Weights

INTERNATIONAL FIXED INCOME



CITIGROUP G-5 EX US INDEX

