

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

EXECUTIVE SUMMARY

JUNE 30, 2013

STRATEGIC INVESTMENT SOLUTIONS, INC.

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- The discussion of tapering quantitative easing and a potential unwind of financial repression by the Federal Reserve led to a pull-back in the major indices in mid-June. However, concerns about the effects of fewer purchases by the Fed eased by month-end, more so for developed equity markets as the S&P 500 total return index rose 2.9% in the second quarter.
- Relative calm in Europe helped boost the euro, which rose 1.2% against the dollar in the second quarter.
- Fears of Fed tapering and a Chinese slowdown hurt sentiment towards emerging market equities. The MSCI EM Total Return Index fell 8.1% during the second quarter.
- Growth fears also impacted Pacific ex-Japan in the second quarter, where equities fell 10.9%.
- The State Street Investor Confidence Index® (ICI) measures risk appetite by analyzing buying and selling patterns of institutional investors. As a result of improving confidence in the North American region, the Global ICI rose 11.9 points to 106.8 in June, rising above the neutral level of 100. Confidence also increased among Asian and European institutions.
- For the period ending 6/30/13, the one quarter return for the NAREIT index was (1.6%), the one year return was 9.4%, and the three year return was 18.2%. For the NCREIF Property index (one quarter lag), the one quarter return was 2.6%; the one year return was 10.5%, and the three year return was 13.3%.
- The IMF cut World GDP growth forecasts, now at 3.1% in 2013 and 3.8% in 2014, down from 3.5% and 4.0%, respectively, at the beginning of the year. Perhaps as a result, President Mario Dragi of the ECB pledged to keep rates low.
- In the US, REITs sold off dramatically after Bernanke's tapering discussion, with the increase in the 10-year government putting downward pressure on real asset pricing as debt financing becomes more costly. At the same time, a reduction in concerns about financial catastrophes, combined with a low yield environment, has prompted a recovery in housing values.

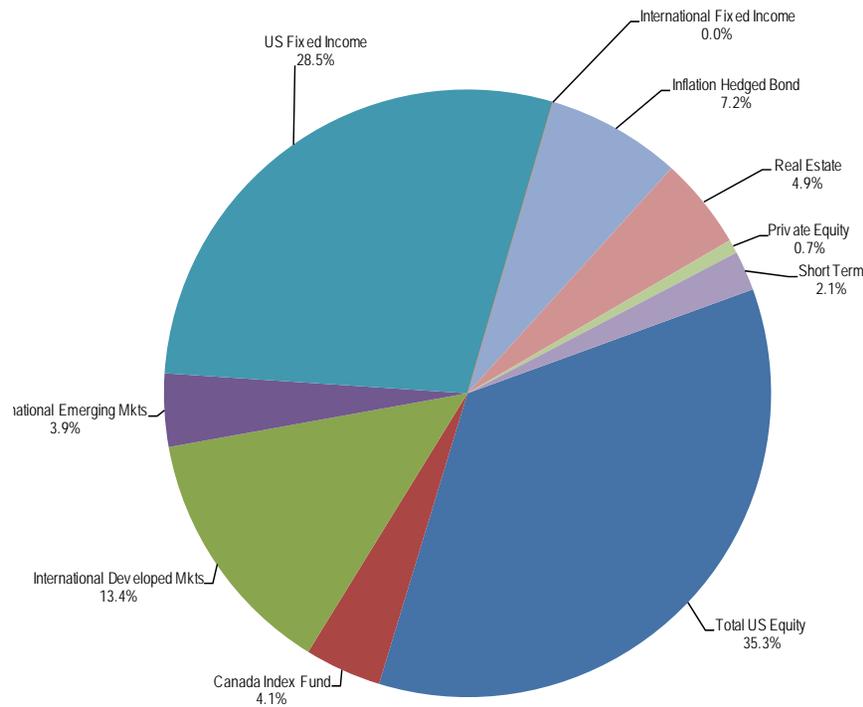
Market Indices Review

Periods Ending June 30, 2013

INDEX	STYLE	1 QTR	1 YEAR	3 YEAR	5 YEAR	7 YEAR	10 YEAR
NORTH AMERICAN EQUITY INDICES							
S&P 1500	Large Cap Broad	2.79	21.13	18.60	7.27	5.86	7.71
S&P 500	Large Cap Core	2.91	20.60	18.45	7.01	5.66	7.30
S&P MidCap 400	Mid Cap Broad	1.00	25.18	19.45	8.91	7.72	10.74
S&P Small Cap 600	Small Cap Broad	3.92	25.18	20.27	9.95	6.86	10.77
Russell 3000 Growth	Large Cap Growth	2.19	17.56	18.78	7.58	6.98	7.57
Russell 3000 Value	Large Cap Value	3.14	25.28	18.41	6.83	4.57	7.90
NASDAQ Composite	Large Cap Core	4.15	15.95	17.29	8.40	6.99	8.15
DJIA	Large Cap Core	2.92	18.87	18.23	8.64	7.09	7.92
S&P/T SX 60	Canadian Large Cap Broad	-7.64	4.52	4.88	-2.18	4.41	11.21
INTERNATIONAL INDICES							
MSCI EAFE NET	International Equity	-0.98	18.62	10.04	-0.63	1.37	7.67
MSCI AC World -ex US	International Equity	-2.90	14.14	8.48	-0.34	2.64	9.09
MSCI Emerging Markets	Emerging Markets	-7.95	3.23	3.72	-0.11	6.14	14.02
Citigroup World Govt	Global Fixed	-2.97	-4.50	2.72	3.04	4.90	4.70
Citigroup World Govt ex US	International Fixed	-3.44	-5.72	2.57	2.55	4.67	4.78
US FIXED INCOME INDICES							
3-Month Treasury Bills	Cash	0.02	0.08	0.09	0.23	1.35	1.63
Barclays Aggregate	Core Fixed	-2.32	-0.69	3.51	5.19	5.60	4.52
Barclays Govt/Credit	Core Fixed	-2.51	-0.62	3.88	5.29	5.66	4.43
Barclays Mortgage	Mortgages	-1.96	-1.10	2.51	4.84	5.48	4.70
NAR Equity REIT	Real Estate	-1.57	9.42	18.18	7.57	4.93	10.88
NCREIF Property - One Qtr lag	Real Estate	2.57	10.52	13.30	2.32	5.82	8.51

Asset Allocation Analysis – Total Plan

CURRENT ALLOCATION BY ASSET CLASS



As of June 30, 2013

	Actual \$	Actual %
Total US Equity	13,220,876,164	35.3%
Canada Index Fund	1,529,587,739	4.1%
International Developed Mkts	5,012,393,895	13.4%
International Emerging Mkts	1,458,565,018	3.9%
US Fixed Income	10,674,788,956	28.5%
International Fixed Income	0	0.0%
Inflation Hedged Bond	2,696,319,897	7.2%
Real Estate	1,830,160,160	4.9%
Private Equity	273,051,696	0.7%
Short Term	791,585,907	2.1%
Strategic Lending	0	0.0%
TOTAL	37,487,329,432	100.0%

	TARGET	ACTUAL	DIFF
Total US Equity	33.0%	35.3%	2.3%
Canada Index Fund	4.0%	4.1%	0.1%
International Developed Mkts	13.0%	13.4%	0.4%
International Emerging Mkts	5.0%	3.9%	-1.1%
US Fixed Income	25.0%	28.5%	3.5%
International Fixed Income	0.0%	0.0%	0.0%
Inflation Hedged Bond	4.0%	7.2%	3.2%
Real Estate	7.0%	4.9%	-2.1%
Private Equity	3.0%	0.7%	-2.3%
Short Term	1.0%	2.1%	1.1%
Strategic Lending	5.0%	0.0%	-5.0%

	3/31/2013	6/30/2013	DIFF
Total US Equity	37.5%	35.3%	-2.2%
Canada Index Fund	4.4%	4.1%	-0.3%
International Developed Mkts	13.5%	13.4%	-0.1%
International Emerging Mkts	3.2%	3.9%	0.7%
US Fixed Income	27.5%	28.5%	1.0%
International Fixed Income	0.4%	0.0%	-0.4%
Inflation Hedged Bond	6.7%	7.2%	0.4%
Real Estate	4.5%	4.9%	0.4%
Private Equity	0.7%	0.7%	0.1%
Short Term	1.8%	2.1%	0.3%

Performance Summary

Periods Ending June 30, 2013

	1 QTR		1 YEAR		3 YEAR		5 YEAR		10 YEAR	
	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA
TCRS Composite	-1.44	-0.63	9.92	0.02	11.56	0.16	5.33	-0.49	6.16	-0.54
<i>Policy Index¹</i>	-0.82		9.90		11.40		5.82		6.70	
<i>Total Fund Allocation Index²</i>	-1.55		9.02		10.95					
<i>IFx Public DB >\$1B Gross Median</i>	-0.12		12.02		11.30		5.05		7.12	
NORTH AMERICAN EQUITY MANAGERS										
Large Cap										
Index	2.87	-0.04	20.54	-0.05	18.48	0.03	7.08	0.07		
Quant	2.72	-0.19	19.84	-0.76	18.79	0.34	7.18	0.17	7.74	0.44
Sector	2.04	-0.87	18.74	-1.86	18.53	0.07	6.90	-0.11	7.31	0.01
<i>S&P 500 Index</i>	2.91		20.60		18.45		7.01		7.30	
Mid Cap										
Mid Cap ³	1.05	0.04	25.81	0.63	19.92	0.48	7.87	-1.04	10.40	0.03
<i>S&P MidCap 400 Index³</i>	1.00		25.18		19.45		8.92		10.38	
Small Cap										
Small Cap Index ⁴	3.92	0.00	24.85	-0.33						
<i>S&P SmCap 600 Index</i>	3.92		25.18							
Canada										
Canada	-7.49	0.16	4.64	0.06	5.26	0.42				
<i>S&P/TSX 60 Index</i>	-7.64		4.58		4.84					
NORTH AMERICAN EQUITY COMPOSITE										
	1.33	-0.30	18.61	-0.76	17.48	0.50				
<i>N.A. Equity Custom Index⁵</i>	1.62		19.37		16.98					
US EQUITY COMPOSITE										
	2.42	-0.37	20.39	-0.73	19.13	0.53	6.99	-0.28	7.60	0.00
<i>US Equity Custom Index⁶</i>	2.79		21.13		18.60		7.27		7.59	
<i>IFx All DB US Eq Gross Median</i>	2.79		21.84		18.50		7.30		8.12	
INTERNATIONAL EQUITY MANAGERS										
Developed										
Baring Asset Management	0.87	1.85	19.38	0.76	12.75	2.71				
<i>MSCI EAFE NET Index</i>	-0.98		18.62		10.04					
Marathon	1.23	2.21	22.47	3.85	12.69	2.65	3.55	4.18	11.10	3.64
<i>MSCI EAFE NET Index⁷</i>	-0.98		18.62		10.04		-0.63		7.46	
PanAgora Asset Management	-0.54	0.44	20.05	1.43	13.30	3.25	1.21	1.84		
<i>MSCI EAFE NET Index</i>	-0.98		18.62		10.04		-0.63			
TT International	3.75	4.73	26.42	7.80	11.46	1.42				
<i>MSCI EAFE NET Index</i>	-0.98		18.62		10.04					
Walter Scott	-3.11	-2.13	14.81	-3.82	12.61	2.57	5.03	6.64	11.42	3.80
<i>MSCI EAFE NET Index⁸</i>	-0.98		18.62		10.04		-1.61		7.62	
Developed Small Cap										
American Century Investment	2.62	5.14	31.52	10.64	16.77	4.89				
<i>MSCI EAFE Small Cap NET Index⁹</i>	-2.52		20.88		11.88					
Pyramis Global Advisors	-0.07	2.45	24.92	4.05	14.71	2.82				
<i>MSCI EAFE Small Cap NET Index⁹</i>	-2.52		20.88		11.88					

Performance Summary

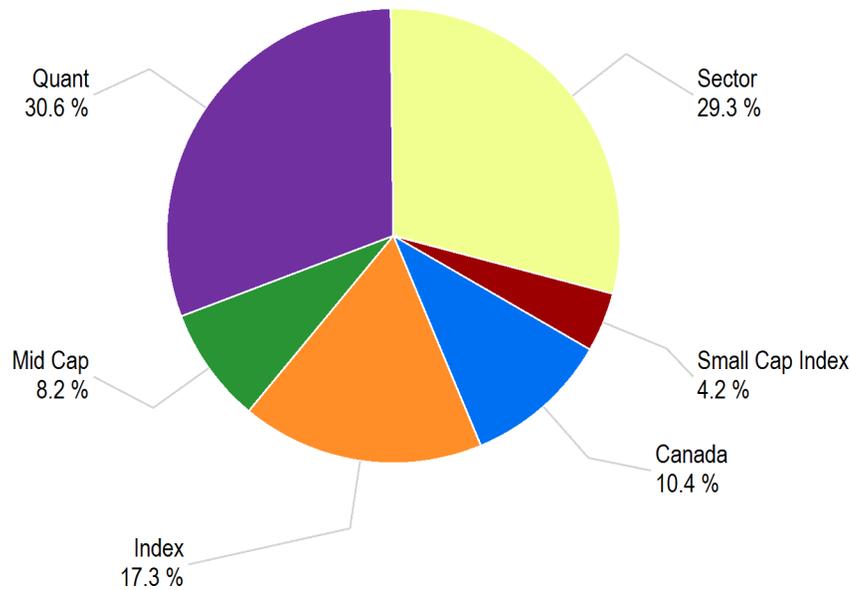
Periods Ending June 30, 2013

	1 QTR		1 YEAR		3 YEAR		5 YEAR		10 YEAR	
	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA
GE Asset Management	-0.68	-0.16	20.88	2.01	11.77	1.24				
MSCI Europe NET Index ¹⁰	-0.51		18.86		10.53					
Pacific Indexed Portfolio ¹¹	-2.30	-0.57	16.82	-1.63	9.30	-0.24	-0.71	-1.88	7.85	0.00
MSCI Pacific NET Index ¹²	-1.74		18.45		9.55		1.18		7.85	
Emerging Market										
Emerging Market ETF ¹³	-9.00	-0.60								
MSCI Emerging Markets Net Custom Index	-8.40									
TOTAL INT'L EQUITY COMPOSITE	-1.86	1.35	17.90	3.45	11.85	2.98	1.75	2.71	9.75	2.21
Int'l Equity Custom Index ¹⁴	-3.21		14.45		8.87		-0.95		7.54	
IFx ALL DB ex-US Eq Gross Median	-1.79		15.82		9.45		-0.02		8.57	
US FIXED INCOME										
Corporate	-4.80	0.47	2.67	3.02	9.10	2.19	9.60	1.75	6.26	0.59
Citigroup LPF Credit Index ¹⁵	-5.27		-0.35		6.91		7.85		5.67	
Government 1-5	-5.21	-0.18	-1.89	4.00	9.61	3.52	7.76	1.54		
Citigroup LPF Treasury/Gov't Sponsored ¹⁶	-5.03		-5.88		6.09		6.22			
Government 5 Plus	-4.94	0.09	-5.53	0.35	6.65	0.53	6.63	-0.40		
Citigroup LPF Treasury/Gov't Sponsored ¹⁷	-5.03		-5.88		6.12		7.02			
Mortgage Backed Securities	-2.08	-0.10	-0.78	0.37	2.99	0.48	4.24	-0.67	4.28	-0.47
Citigroup Mortgage Backed Securities Index	-1.98		-1.15		2.51		4.91		4.75	
US FIXED INCOME COMPOSITE	-4.08	0.10	-0.81	1.99	6.73	1.40	7.16	0.76	5.36	0.22
Citigroup LPF Index ¹⁸	-4.18		-2.79		5.33		6.40		5.14	
IFx All DB US Fix Inc Gross Median	-2.40		0.75		5.02		6.39		5.22	
INFLATION HEDGED BOND	-7.40	-0.15	-5.28	-0.06	4.36	-0.35	4.28	-0.19		
Inflation Hedged Account	-7.40	-0.15	-5.28	-0.06	4.36	-0.35	4.28	-0.18		
Citigroup TIPS Index	-7.25		-5.22		4.71		4.47			
INTERNATIONAL FIXED INCOME COMPOSITE	-4.79	0.04	-12.09	-0.66	1.05	0.12	3.15	0.12	4.48	0.12
International Fixed Income	-4.79	0.04	-12.09	-0.66	1.05	0.12	3.15	0.12	4.48	0.12
Citigroup G5 -ex US Index ¹⁹	-4.84		-11.43		0.93		3.03		4.36	
IFx All DB ex-US Fix Inc Gross Median	-3.77		0.66		2.50		4.14		5.53	
REAL ESTATE	1.65	-0.92	10.11	-0.41	11.85	-1.45	0.88	-1.44	7.40	-1.11
NCREIF Property Index - One Qtr lag	2.57		10.52		13.30		2.32		8.51	
IFx All DB Real Estate Gross Median	2.56		10.30		14.38		-0.36		6.15	
PRIVATE EQUITY²⁰	2.30	-9.20	10.23	-6.73	9.35	-6.32				
S&P 500 Index + 3% (One Qtr lag) ²¹	11.50		16.96		15.67					
SHORT TERM	0.05		1.00		1.47		1.74			
Cash Account	0.06		0.60		1.65		1.54		2.44	
Short Duration	0.01		1.35		1.70		2.76			

- Total Fund and asset class composites are ranked against InvestorForce universes. Managers are ranked against eVestment Alliance style universes. Ranking of 1 is a top ranking and ranking of 100 is a bottom ranking.
- 1 As of 1/1/13, the Policy Index is 33% S&P 1500/ 4% S&P TSX 60/ 13% MSCI EAFE IMI net/ 5% MSCI Emerging Mkts net/ 25% Citigroup LPF/ 4% Citigroup TIPS/ 7% NCREIF 1Q Lag/ 3% S&P 500 + 3% - 1Q Lag/ 1% 91 Day T-Bill/ 5% Strategic Lending.
 - 2 As of 4/1/13, the Total Fund Allocation Index is 34.4% S&P 1500/ 4.2% S&P TSX 60/ 13.5% MSCI EAFE IMI net/ 5.2% MSCI Emerging Mkts net/ 28.5% Citi LPF/ 8% Citigroup TIPS/ 4.5% NCREIF 1Q Lag/ 0.7% S&P 500 + 3% 1Q Lag/ 1% 91 Day T-Bill.
 - 3 As of 7/1/08, strategy was changed from SMID Cap. Benchmark is linked to S&P 1000 Index.
 - 4 Funded 7/2012. Use 100% Russell 2000 Futures returns January 2011- June 2012. Use weighted blend of Russell 2000 Futures and Small Cap Fund returns July 2012- October 2012. Use 100% Small Cap Fund returns November 2012- present
 - 5 As of 1/1/13, benchmark is 89.19% S&P 1500/ 10.81% S&P TSX 60; prior was 87.5% S&P 1500/ 12.5% S&P TSX 60 Index.
 - 6 As of 7/1/04 S&P 1500 Index; prior was S&P 500 Index.
 - 7 As of 5/19/06; prior was MSCI Europe Index.
 - 8 As of 2/2/09; prior was MSCI Europe Index.
 - 9 As of 07/01/11, MSCI EAFE NET Index; prior was MSCI EAFE Index.
 - 10 As of 07/01/11, MSCI Europe NET Index; prior was MSCI Europe Index.
 - 11 Performance was attributable to Amundi through 9/3/10; portfolio managed by TCRS staff afterward.
 - 12 As of 7/1/04; prior was MSCI AC Asia Pacific Free Index.
 - 13 Funded November 2012.
 - 14 As of 1/1/13, 72.22% MSCI EAFE IMI net/ 27.78% MSCI Emerging Mkts net; Prior was MSCI EAFE IMI net (10/08-12/12); prior was MSCI EAFE NET Index.
 - 15 As of 7/1/2011, benchmark is Citigroup LPF Credit. As of 4/1/2011, benchmark is 50% Citigroup Credit Index, 50% Citigroup LPF Credit Index. Citigroup Credit Index: 7/1/05-3/31/11. Lehman Credit ex BBB prior.
 - 16 As of 7/1/2011, benchmark is Citigroup LPF Treasury/Government Sponsored. As of 04/1/2011, benchmark, is 50% Citigroup 1-5 Govt/50% Citigroup 1-7 Govt. As of 8/1/09, name switched from Fixed Income Overlay to Gov't 1-5 in order to reflect strategy change. As of 8/1/09, benchmark is Citi Treas/Gov't Sponsored 1-5; prior was Citi BIG Index.
 - 17 As of 7/1/2011, benchmark is Citigroup LPF Treasury/Government Sponsored. As of 4/1/2011, benchmark is 50% Citigroup Core 5+ Gov't/50% Citigroup 7+ Gov't. As of 8/1/09, name switched from Agency Debt to Gov't 5 Plus in order to reflect strategy change. As of 8/1/09, benchmark is Citi Core+5 Treas/Gov't Sponsored; prior was Citi Treas/Gov't Sponsored.
 - 18 As of 7/1/2011, benchmark is Citigroup LPF Index. As of 04/1/2011, benchmark is 50% Citigroup BIG/50% Citigroup LPF. As of 7/1/05 benchmark switched from Lehman Aggregate -ex BBB Index to Citigroup BIG.
 - 19 As of 7/1/04; prior was Citigroup World Government Bond -ex US Unhedged Index.
 - 20 Per TCRS' request: As of Q1 2012, Private Equity returns are quarter-lagged IRR returns from Cambridge Associates and are the prior quarter's performance returns.
 - 21 As of February 2011, index changed from S&P 500 Index + 300bps to S&P 500 Index + 300 bps (One Qtr lagged), since inception.

Manager Allocation Analysis - North American Equity

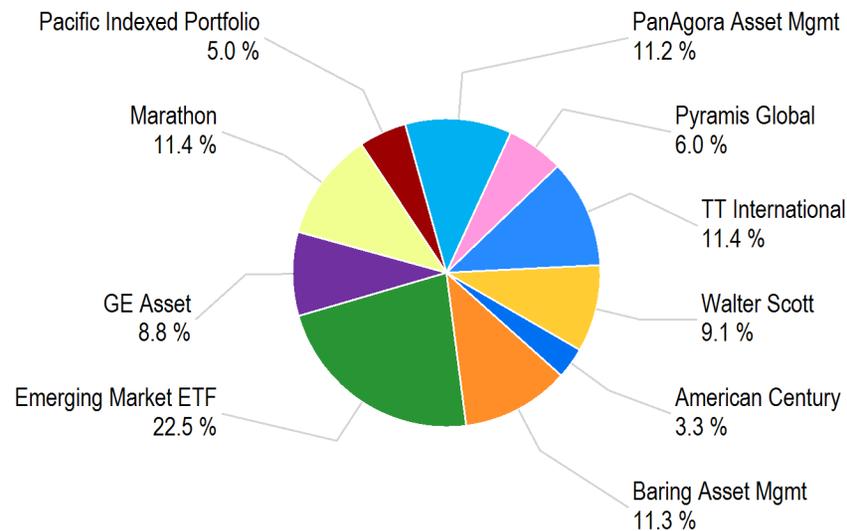
As of June 30, 2013



	Actual \$	Actual %
Canada	\$1,529,587,739	10.4%
Equity Futures Collateral	\$7	0.0%
Index	\$2,550,586,401	17.3%
Mid Cap	\$1,216,205,397	8.2%
Quant	\$4,509,524,152	30.6%
Sector	\$4,320,636,912	29.3%
Small Cap Index	\$623,923,295	4.2%
Total	\$14,750,463,903	

Manager Allocation Analysis - International Equity

As of June 30, 2013

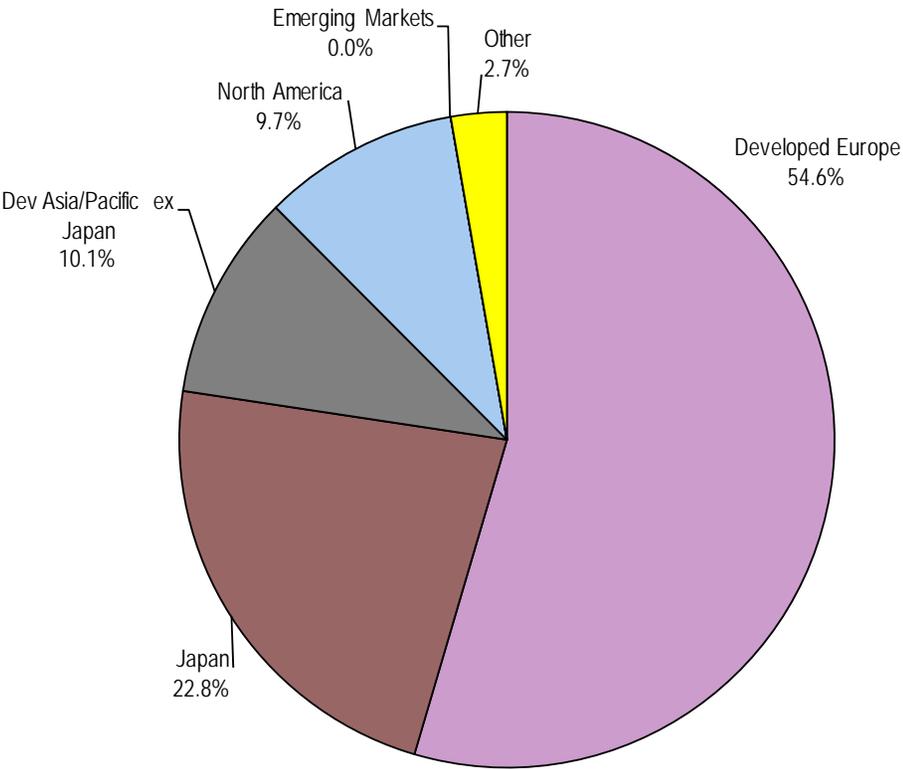


	Actual \$	Actual %
American Century	\$211,629,253	3.3%
Baring Asset Mgmt	\$733,878,825	11.3%
Emerging Market ETF	\$1,458,565,018	22.5%
GE Asset	\$568,710,795	8.8%
Marathon	\$738,054,403	11.4%
Pacific Indexed Portfolio	\$323,266,813	5.0%
PanAgora Asset Mgmt	\$723,834,383	11.2%
Pyramis Global	\$387,669,788	6.0%
TT International	\$735,047,258	11.4%
Walter Scott	\$590,302,377	9.1%
Total	\$6,470,958,913	

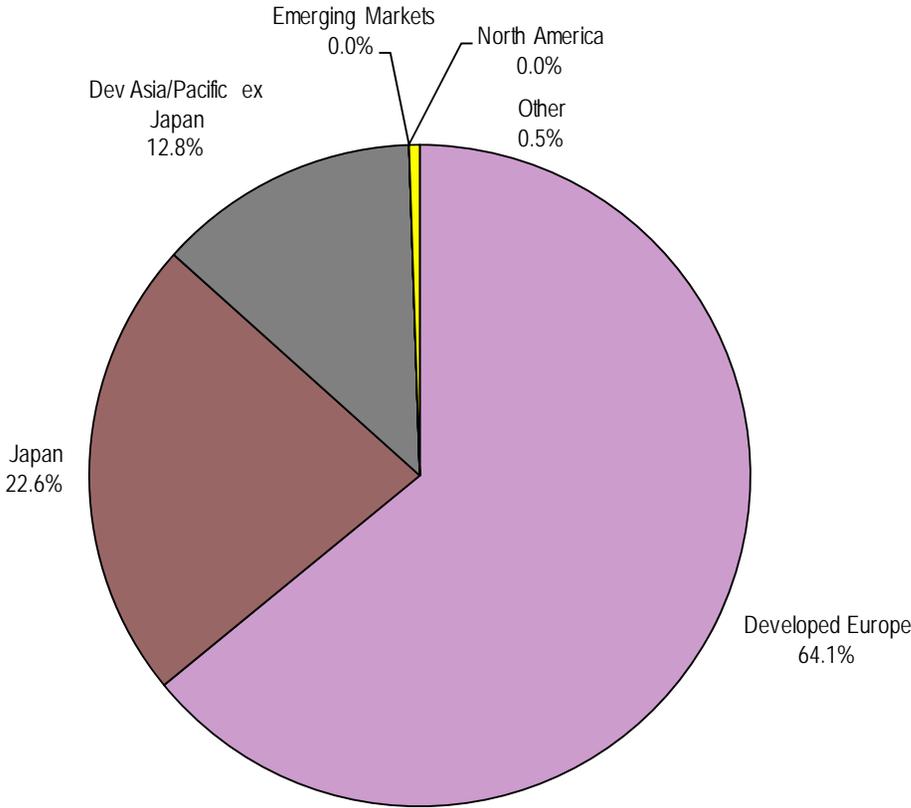
Developed International Equity Portfolio Regional Weights

As of June 30, 2013

Developed International Equity



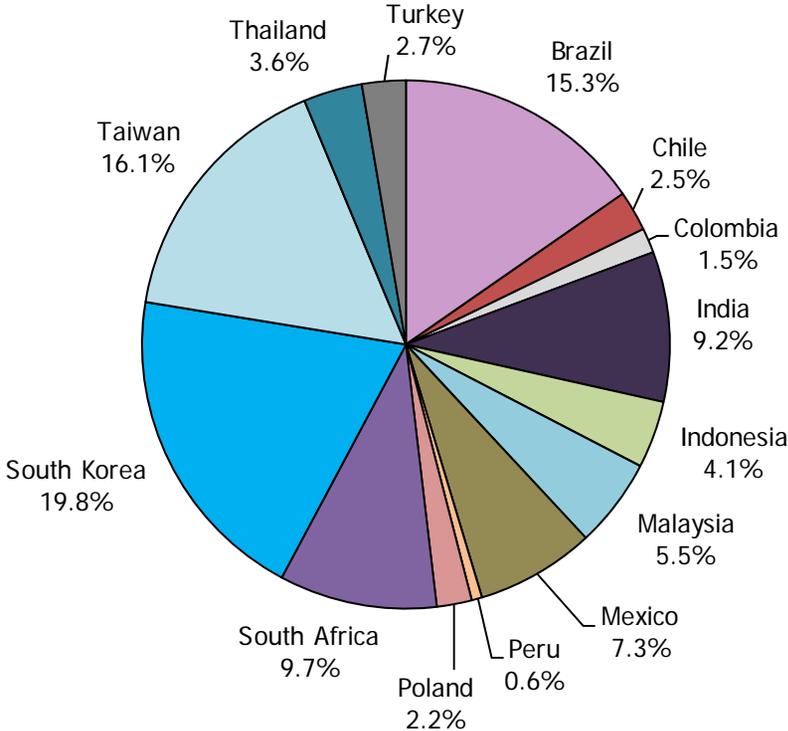
MSCI EAFE Index



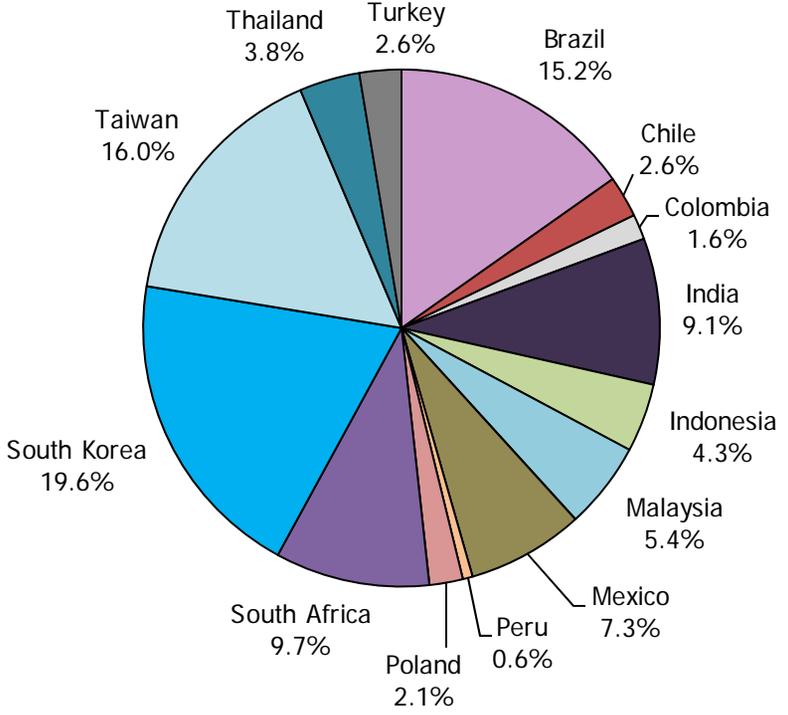
Emerging Market ETF Portfolio Regional Weights

As of June 30, 2013

Emerging Market ETF

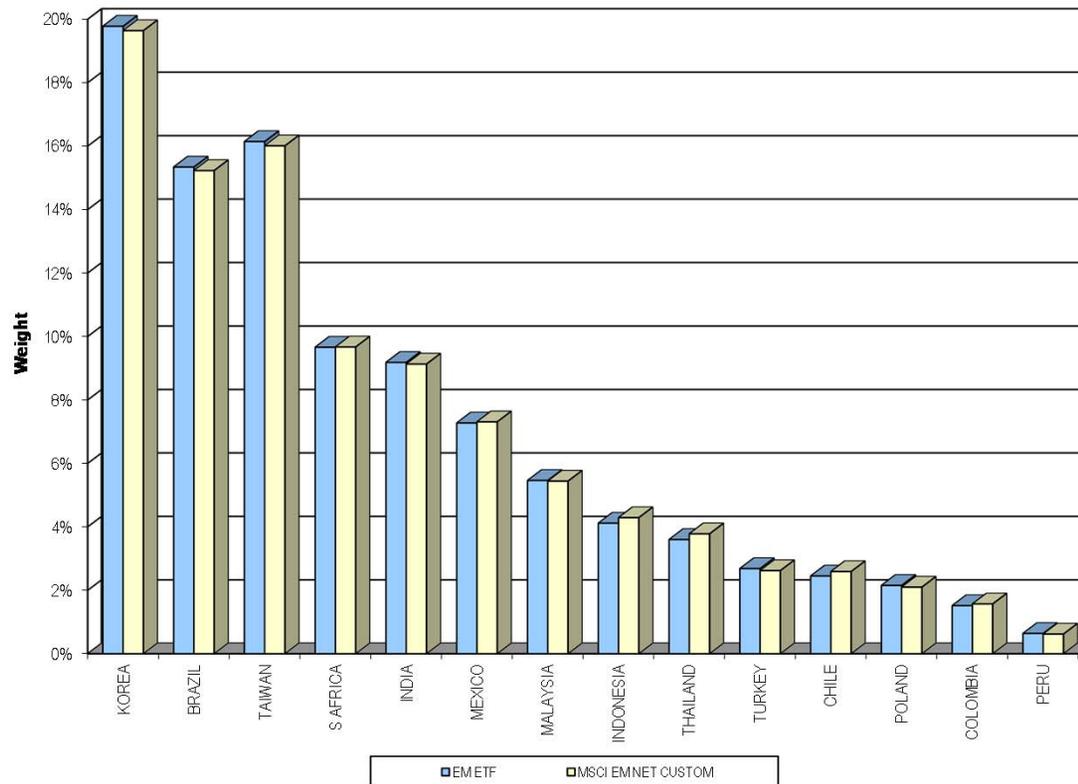


MSCI Emerging Market Net Custom Index



Portfolio Country Weights – Emerging Market ETF

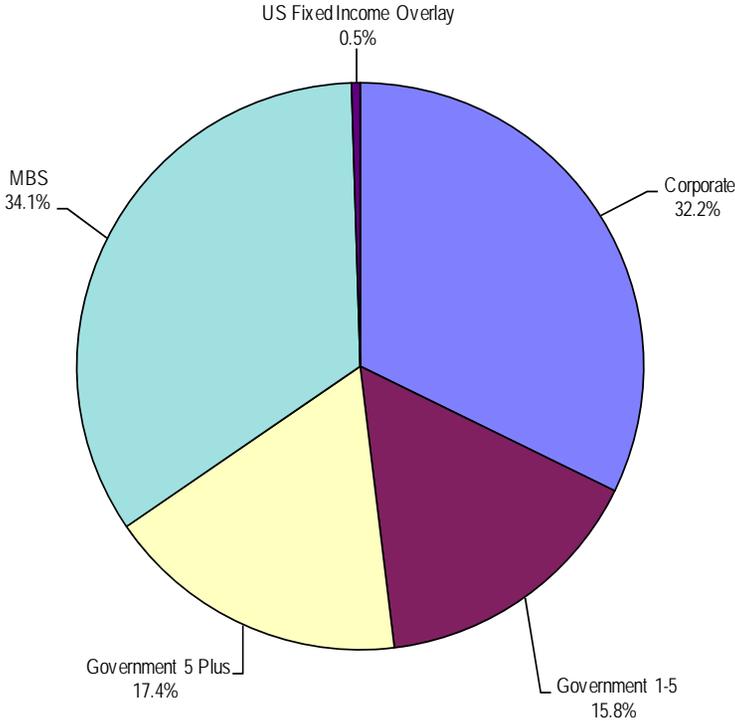
As of June 30, 2013



COUNTRY	MARKET VALUE (\$ 000)	EM ETF	MSCI EM NET CUSTOM	DIFF
KOREA	\$ 288,484	19.8%	19.6%	+0.1%
BRAZIL	\$ 223,763	15.3%	15.2%	+0.1%
TAIWAN	\$ 235,465	16.1%	16.0%	+0.1%
S AFRICA	\$ 140,933	9.7%	9.7%	-0.0%
INDIA	\$ 133,921	9.2%	9.1%	+0.1%
MEXICO	\$ 106,096	7.3%	7.3%	-0.0%
MALAYSIA	\$ 79,658	5.5%	5.4%	+0.0%
INDONESIA	\$ 60,022	4.1%	4.3%	-0.2%
THAILAND	\$ 52,506	3.6%	3.8%	-0.2%
TURKEY	\$ 39,147	2.7%	2.6%	+0.1%
CHILE	\$ 35,732	2.5%	2.6%	-0.1%
POLAND	\$ 31,414	2.2%	2.1%	+0.1%
COLOMBIA	\$ 22,107	1.5%	1.6%	-0.1%
PERU	\$ 9,317	0.6%	0.6%	+0.0%
	\$ 1,458,565	100.0%	100.0%	0.0%

Manager Allocation Analysis – US Fixed Income

As of June 30, 2013



	Actual \$	Actual %
Corporate	3,441,633,810	32.2%
Government 1-5	1,690,390,154	15.8%
Government 5 Plus	1,852,989,914	17.4%
MBS	3,637,680,140	34.1%
US Fixed Income Overlay	52,094,938	0.5%
TOTAL	10,674,788,956	100.0%