

TENNESSEE CONSOLIDATED RETIREMENT SYSTEM

EXECUTIVE SUMMARY

DECEMBER 31, 2012

STRATEGIC INVESTMENT SOLUTIONS, INC.

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- Heightened fears over the U.S. fiscal cliff outweighed numerous positive indicators in the fourth quarter as the S&P 500 total return index fell 0.4%. The decline occurred despite the resolution of U.S. elections and the Federal Reserve committing to keep its target rate near zero and buy U.S. bonds as long as unemployment remains above 6.5%, as well as inflation remaining below its target.
- The European Central Bank's Outright Monetary Transactions (OMT) plan continued to boost sentiment in Europe. As a result, equities in Europe-ex UK rose 8.6% in the fourth quarter. The improved sentiment helped tighten spreads for Spanish and Italian sovereign debt.
- In Japan, the dovish Shinzo Abe was elected Prime Minister, heightening expectations of further quantitative easing. The Bank of Japan is being pressured to increase its inflation target to 2% and has increased the size of its asset purchase program. These moves helped boost Japanese equities 5.8% in the fourth quarter, while the yen fell 10.2% against the dollar.
- Given improved investor confidence, safe-haven demand was subdued; Treasuries declined by about 0.1% in Q4. Meanwhile, in the currency markets, the uptick in risk appetite led to a quarterly decline in the trade-weighted U.S. dollar index of 0.16%.
- 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 and Asian regions, the Global ICI rose 0.4 points to 80.9 in December but remained well below the neutral level of 100. The increase in confidence was most pronounced in North America, while European institutional investors' appetite for equities is the strongest, at 95.2.
- For the period ending 12/31/12, the one quarter returns for, respectively, the NAREIT Equity index and the NCREIF Property index were 2.58% and 2.54%; one year, 18.06% and 10.54%; three years, 17.83% and 12.63%; and five years, 5.45% and 2.13%.
- 2012 witnessed a recovering housing market, stronger private balance sheets, and a European meltdown that did not occur. Cap rates remained low for tier 1 assets and the CMBS market continued to recover, with issuance growing 45% from \$33 billion in 2011 to \$48 billion in 2012. Capital continued to look for yield, value, and inflation protection.
- With all of the "good news" to date, there will be many that are concerned that the good news will not continue for real estate. However the US, the low rates managed by the Fed should keep cap rates stable. Outside the US, real estate looks less certain but as invest become more confident real estate should recover.

Market Indices Review

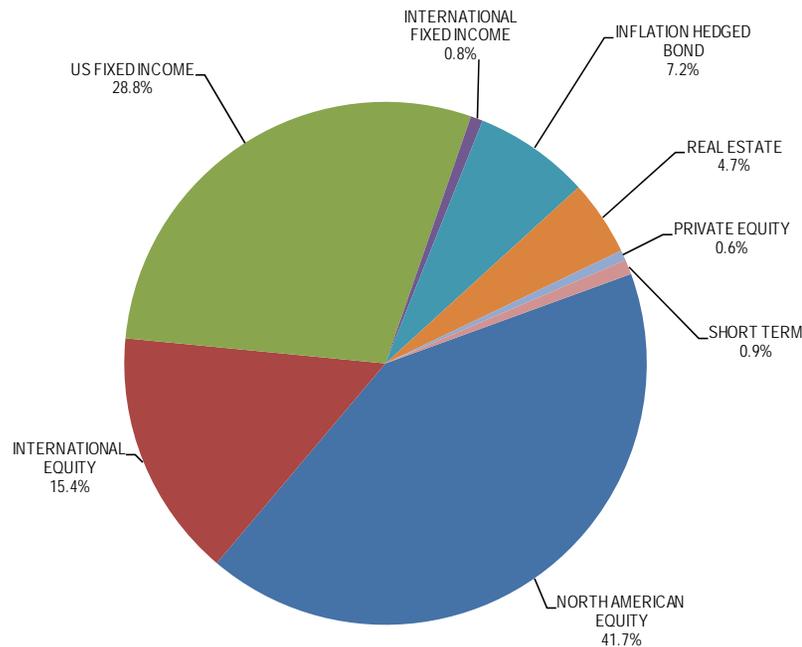
Periods Ending December 31, 2012

INDEX	STYLE	1 QTR	1 YEAR	3 YEAR	5 YEAR	7 YEAR	10 YEAR
NORTH AMERICAN EQUITY INDICES							
S&P 1500	Large Cap Broad	0.03	16.17	11.22	2.07	4.35	7.51
S&P 500	Large Cap Core	-0.38	16.00	10.87	1.66	4.12	7.10
S&P MidCap 400	Mid Cap Broad	3.61	17.88	13.63	5.14	6.27	10.53
S&P Small Cap 600	Small Cap Broad	2.22	16.33	14.07	5.14	5.70	10.45
Russell 3000 Growth	Large Cap Growth	-1.19	15.21	11.46	3.15	5.18	7.69
Russell 3000 Value	Large Cap Value	1.65	17.55	10.92	0.83	3.38	7.54
NASDAQ Composite	Large Cap Core	-3.10	15.91	9.99	2.89	5.02	8.99
DJIA	Large Cap Core	-1.74	10.24	10.87	2.62	5.71	7.32
S&P/T SX 60	Canadian Large Cap Broad	1.19	10.49	5.57	0.18	6.72	14.45
INTERNATIONAL INDICES							
MSCI EAFE NET	International Equity	6.57	17.32	3.56	-3.69	2.19	8.21
MSCI AC World -ex US	International Equity	5.89	17.39	4.33	-2.44	4.00	10.22
MSCI Emerging Markets	Emerging Markets	5.61	18.64	4.99	-0.61	8.74	16.89
Citigroup World Govt	Global Fixed	-1.71	1.65	4.37	5.27	6.19	6.04
Citigroup World Govt ex US	International Fixed	-2.36	1.51	3.95	5.24	6.35	6.38
US FIXED INCOME INDICES							
3-Month Treasury Bills	Cash	0.02	0.08	0.08	0.35	1.57	1.66
Barclays Aggregate	Core Fixed	0.21	4.21	6.19	5.95	5.86	5.18
Barclays Govt/Credit	Core Fixed	0.37	4.82	6.70	6.06	5.90	5.25
Barclays Mortgage	Mortgages	-0.20	2.59	4.72	5.67	5.78	5.08
NAR Equity REIT	Real Estate	2.58	18.06	17.83	5.45	5.81	11.62
NCREIF Property - One Qtr lag	Real Estate	2.34	11.00	10.90	2.26	6.39	8.34

Asset Allocation Analysis – Total Plan

As of December 31, 2012

CURRENT ALLOCATION BY ASSET CLASS



	Actual \$	Actual %
NORTH AMERICAN EQUITY	15,281,054,898	41.7%
INTERNATIONAL EQUITY	5,628,785,513	15.4%
US FIXED INCOME	10,539,150,277	28.8%
INTERNATIONAL FIXED INCOME	276,688,258	0.8%
INFLATION HEDGED BOND	2,629,410,526	7.2%
REAL ESTATE	1,704,558,309	4.7%
PRIVATE EQUITY	231,689,369	0.6%
SHORT TERM	335,865,789	0.9%
TOTAL	36,627,202,939	100.0%

	TARGET	ACTUAL	DIFF
NORTH AMERICAN EQUITY	40.0%	41.7%	1.7%
INTERNATIONAL EQUITY	15.0%	15.4%	0.4%
US FIXED INCOME	26.0%	28.8%	2.8%
INTERNATIONAL FIXED INCOME	0.0%	0.8%	0.8%
INFLATION HEDGED BOND	8.0%	7.2%	-0.8%
REAL ESTATE	7.0%	4.7%	-2.3%
PRIVATE EQUITY	3.0%	0.6%	-2.4%
SHORT TERM	1.0%	0.9%	-0.1%

	9/30/2012	12/31/2012	DIFF
NORTH AMERICAN EQUITY	43.3%	41.7%	-1.6%
INTERNATIONAL EQUITY	13.1%	15.4%	2.2%
US FIXED INCOME	28.9%	28.8%	-0.1%
INTERNATIONAL FIXED INCOME	0.9%	0.8%	-0.2%
INFLATION HEDGED BOND	7.4%	7.2%	-0.2%
REAL ESTATE	3.9%	4.7%	0.8%
PRIVATE EQUITY	0.6%	0.6%	0.1%
SHORT TERM	1.8%	0.9%	-0.9%

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.

Performance Summary

Periods Ending December 31, 2012

	1 QTR		1 YEAR		3 YEAR		5 YEAR		10 YEAR	
	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA
TCRS Composite	1.04	-0.48	12.69	-0.33	9.62	0.14	3.69	-0.48	6.38	-0.72
<i>Policy Index¹</i>	1.52		13.02		9.48		4.17		7.10	
<i>Total Fund Allocation Index²</i>	1.30		12.36		9.16					
<i>IF Public DB >\$1B Gross Median</i>	2.10		13.04		9.00		3.15		7.89	
NORTH AMERICAN EQUITY MANAGERS										
Large Cap										
Index	-0.38	0.00	15.99	-0.01	10.87	0.00	1.76	0.10		
Quant	-1.07	-0.69	14.00	-2.00	11.08	0.21	2.06	0.40	7.44	0.34
Sector	-0.84	-0.46	15.57	-0.43	10.92	0.05	1.53	-0.13	7.15	0.05
S&P 500 Index	-0.38		16.00		10.87		1.66		7.10	
Mid Cap										
Mid Cap ³	3.44	-0.17	17.80	-0.08	13.84	0.22	3.52	-1.41	10.05	-0.12
S&P MidCap 400 Index ³	3.61		17.88		13.62		4.93		10.17	
Small Cap										
Small Cap Index ⁴	2.55	0.33								
S&P SmCap 600 Index	2.22									
Equity Futures	-1.60	-3.82	11.53	-4.80						
S&P SmallCap 600 Index	2.22		16.33							
Canada										
Canada	1.12	-0.07	10.69	0.20						
S&P/TSX 60 Index	1.19		10.49							
NORTH AMERICAN EQUITY COMPOSITE	-0.21	-0.39	14.86	-0.64						
<i>87.5% S&P 1500/ 12.5% S&P/TSX 60 Index</i>	0.18		15.50							
US EQUITY COMPOSITE	-0.37	-0.40	15.39	-0.78	11.61	0.39	1.82	-0.25	7.34	-0.04
<i>US Equity Benchmark⁵</i>	0.03		16.17		11.22		2.07		7.38	
<i>IF All DB US Eq Gross Median</i>	0.61		16.17		11.25		2.17		7.92	
INTERNATIONAL EQUITY MANAGERS										
Developed										
Baring Asset Management	4.10	-2.47	15.24	-2.08	6.03	2.47				
MSCI EAFE NET Index	6.57		17.32		3.56					
Marathon	4.80	-1.77	18.05	0.73	7.21	3.65	0.15	3.84	11.71	3.54
MSCI EAFE NET Index ⁶	6.57		17.32		3.56		-3.69		8.17	
PanAgora Asset Management	6.36	-0.21	20.36	3.04	6.61	3.05	-1.75	1.94		
MSCI EAFE NET Index	6.57		17.32		3.56		-3.69			
TT International	7.51	0.94	17.81	0.49	3.20	-0.36				
MSCI EAFE NET Index	6.57		17.32		3.56					
Walter Scott	5.39	-1.18	21.25	3.93	9.38	5.82	3.23	8.08	11.91	3.58
MSCI EAFE NET Index ⁷	6.57		17.32		3.56		-4.85		8.33	
Developed Small Cap										
American Century Investment	4.02	-1.99	21.88	1.88	9.22	2.05				
MSCI EAFE Small Cap NET Index ⁸	6.01		20.00		7.17					
Pyramis Global Advisors	5.25	-0.76	23.26	3.26	9.03	1.86				
MSCI EAFE Small Cap NET Index ⁸	6.01		20.00		7.17					

Performance Summary

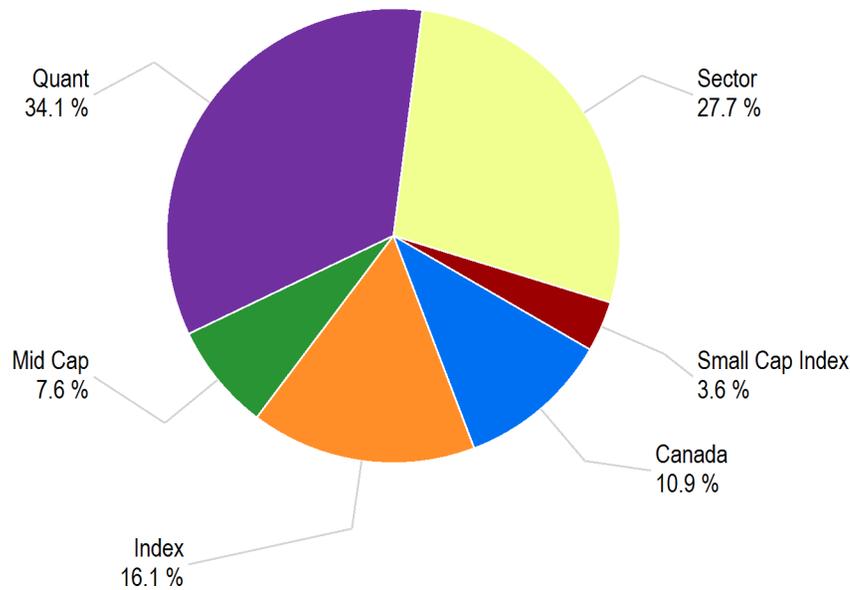
Periods Ending December 31, 2012

	1 QTR		1 YEAR		3 YEAR		5 YEAR		10 YEAR	
	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA	RETURN	ALPHA
GE Asset Management	7.70	0.68	24.89	5.77	4.70	1.45				
MSCI Europe NET Index ⁹	7.02		19.12		3.25					
Pacific Indexed Portfolio ¹⁰	6.39	0.49	15.01	0.59	3.23	-1.43	-4.32	-2.45	7.84	0.04
MSCI Pacific NET Index ¹¹	5.90		14.42		4.66		-1.87		7.80	
Emerging Market										
Emerging Market ETF ¹²										
MSCI Emerging Markets Net Custom Index										
TOTAL INT'L EQUITY COMPOSITE	6.10	-0.41	20.41	2.77	6.84	2.87	-0.62	2.68	10.35	1.78
MSCI EAFE IMI NET Index ¹³	6.51		17.64		3.97		-3.30		8.57	
IF ALL DB ex-US Eq Gross Median	6.55		18.71		4.62		-2.70		9.24	
US FIXED INCOME										
Corporate	2.06	0.54	14.90	2.15	13.28	1.84	10.40	1.09	7.42	0.21
Citigroup LPF Credit Index ¹⁴	1.52		12.75		11.44		9.31		7.21	
Government 1-5	0.73	1.11	12.09	7.92	14.13	4.71	9.10	1.21		
Citigroup LPF Treasury/Gov't Sponsored ¹⁵	-0.38		4.17		9.42		7.89			
Government 5 Plus	-0.19	0.19	4.80	0.63	12.14	0.29	8.25	-0.59		
Citigroup LPF Treasury/Gov't Sponsored ¹⁶	-0.38		4.17		11.85		8.84			
Mortgage Backed Securities	-0.17	0.05	3.36	0.76	5.28	0.47	4.90	-0.83	4.69	-0.44
Citigroup Mortgage Backed Securities Index	-0.22		2.60		4.81		5.73		5.13	
US FIXED INCOME COMPOSITE	0.70	0.46	8.61	2.35	10.56	1.53	8.23	0.40	6.21	0.18
Citigroup LPF Index ¹⁷	0.24		6.26		9.03		7.83		6.03	
IF All DB US Fix Inc Gross Median	0.72		7.78		7.84		7.12		6.08	
INFLATION HEDGED BOND	0.74	0.11	7.13	-0.05	8.80	-0.36	7.13	-0.07		
Inflation Hedged Account	0.74	0.11	7.13	-0.05	8.80	-0.36	7.14	-0.06		
Citigroup TIPS Index	0.63		7.18		9.16		7.20			
INTERNATIONAL FIXED INCOME COMPOSITE	-5.35	0.07	-1.80	1.34	5.13	0.33	6.35	0.18	6.37	0.42
International Fixed Income	-5.35	0.07	-1.80	1.34	5.13	0.33	6.35	0.18	6.37	0.42
Citigroup G5 -ex US Index ¹⁸	-5.42		-3.14		4.80		6.17		5.95	
IF All DB ex-US Fix Inc Gross Median	1.04		9.48		5.13		6.35		7.02	
REAL ESTATE	1.67	-0.67	9.81	-1.19	3.29	-7.61	0.85	-1.41	6.92	-1.42
NCREIF Property Index - One Qtr lag	2.34		11.00		10.90		2.26		8.34	
IF All DB Real Estate Gross Median	1.95		10.66		13.43		-1.23		6.10	
PRIVATE EQUITY¹⁹	1.61	-3.55	10.63	-27.70	9.08	-7.14				
S&P 500 Index + 3% (One Qtr lag) ²⁰	6.95		33.20		16.22					
IF All DB Private Eq Gross Median	0.88		8.65		11.01					
SHORT TERM	0.75		1.84		1.82		2.20			
Cash Account	0.33		1.62		1.86		1.90		2.49	
Short Duration	0.99		3.23		2.16		3.31			

- 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 7/1/11, the Policy Index is 35% S&P 1500/ 5% S&P TSX 60/ 15% MSCI EAFE IMI net/ 26% Citigroup LPF/ 8% Citigroup TIPS/ 7% NCREIF 1Q Lag/ 3% S&P 500 + 3% - 1Q Lag/ 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 IMI net/ 29.8% Citi LPF/ 8% Citigroup TIPS/ 3.2% NCREIF 1Q Lag/ 0.1% S&P 500 + 3% 1Q Lag/ 1% 91 Day T-Bill.
 - 3 As of 7/1/08, strategy was changed from SMD Cap. Benchmark is linked to S&P 1000 Index.
 - 4 Funded 7/2012
 - 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 NET Index; prior was MSCI EAFE Index.
 - 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 afterward.
 - 11 As of 7/1/04; prior was MSCI AC Asia Pacific Free Index.
 - 12 Funded November 2012.
 - 13 As of 10/1/08; prior was MSCI EAFE NET Index.
 - 14 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.
 - 15 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.
 - 16 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.
 - 17 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.
 - 18 As of 7/1/04; prior was Citigroup World Government Bond -ex US Unhedged Index.
 - 19 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.
 - 20 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

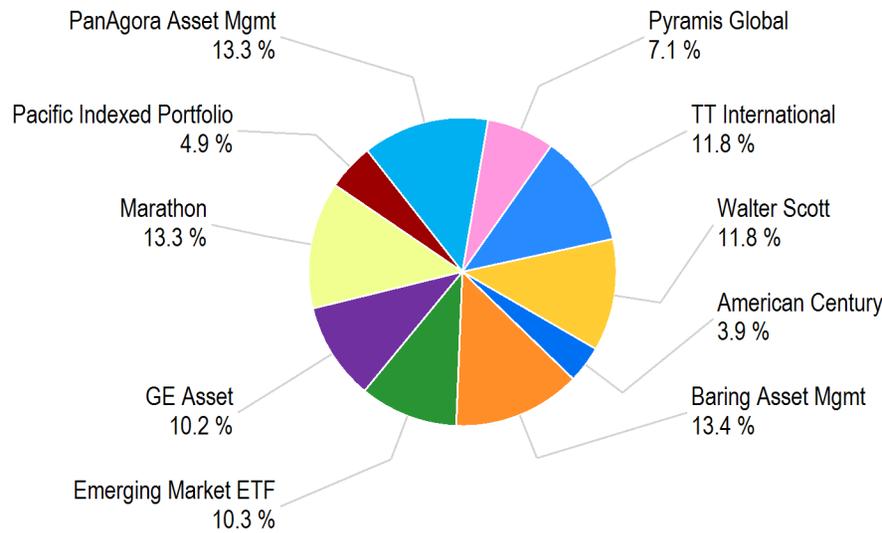
As of December 31, 2012



	Actual \$	Actual %
Canada	\$1,661,470,657	10.9%
Equity Futures Collateral	\$7	0.0%
Index	\$2,456,383,252	16.1%
Mid Cap	\$1,164,467,713	7.6%
Quant	\$5,216,896,501	34.1%
Sector	\$4,233,211,838	27.7%
Small Cap Index	\$548,624,930	3.6%
Total	\$15,281,054,898	

Manager Allocation Analysis - International Equity

As of December 31, 2012



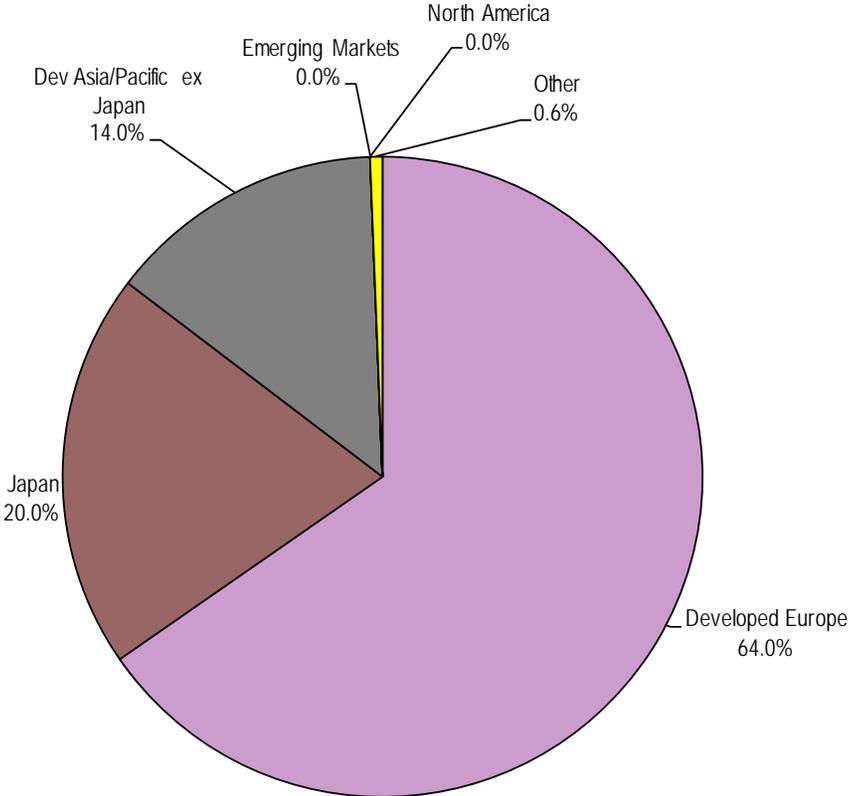
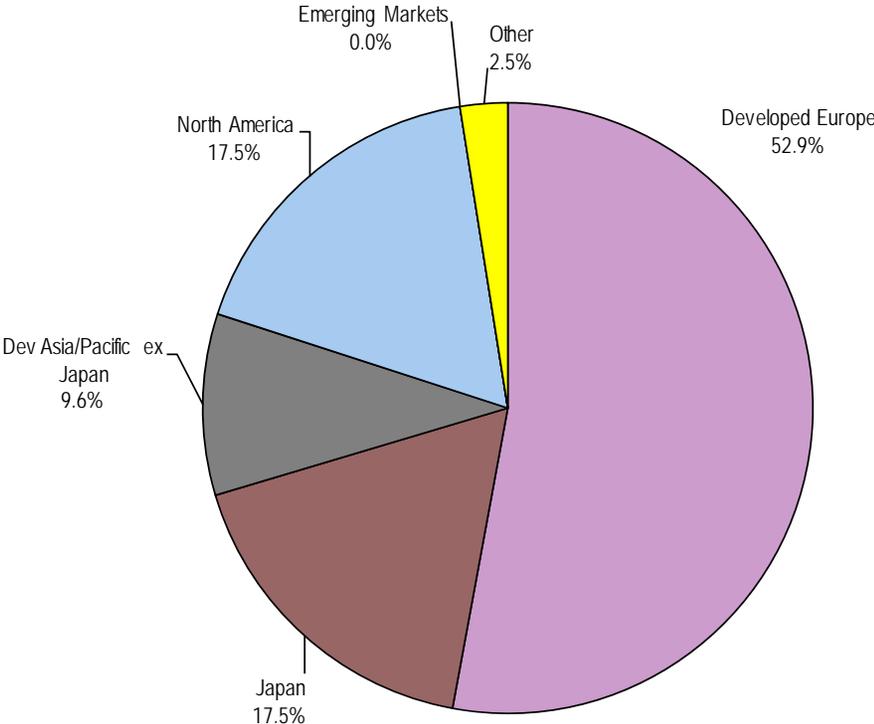
	Actual \$	Actual %
American Century	\$218,674,112	3.9%
Baring Asset Mgmt	\$755,625,662	13.4%
Capital Int'l	\$1,651	0.0%
Emerging Market ETF	\$580,707,991	10.3%
GE Asset	\$574,949,963	10.2%
JPM	\$56,809	0.0%
Marathon	\$750,301,440	13.3%
Pacific Indexed Portfolio	\$274,972,423	4.9%
PanAgora Asset Mgmt	\$747,609,856	13.3%
Putnam Europe	\$36,410	0.0%
Pyramis Global	\$399,903,384	7.1%
TT International	\$664,553,613	11.8%
Walter Scott	\$661,392,199	11.8%
Total	\$5,628,785,513	

Developed International Equity Portfolio Regional Weights

As of December 31, 2012

Developed International Equity

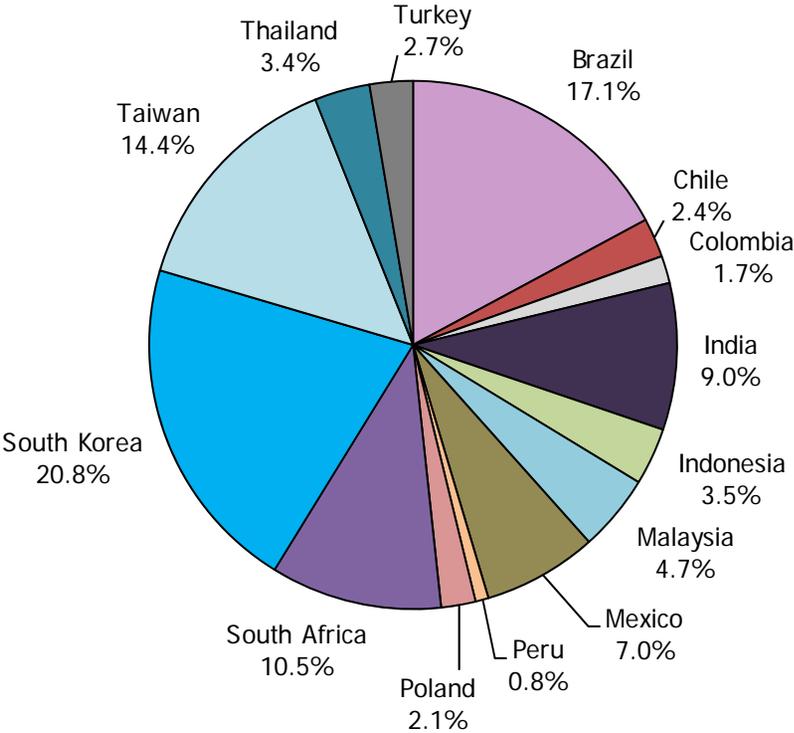
MSCI EAFE Index



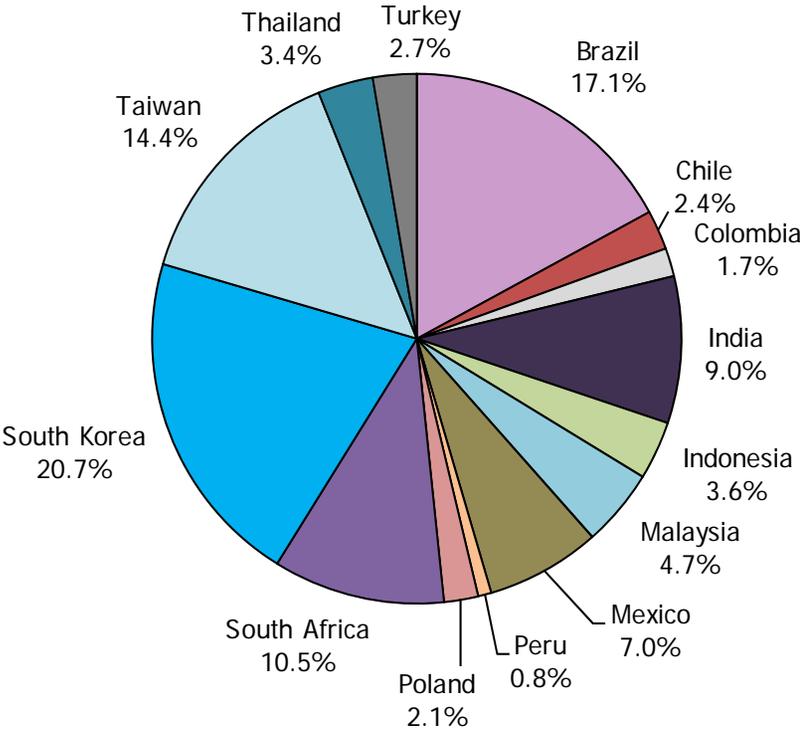
Emerging Market ETF Portfolio Regional Weights

As of December 31, 2012

Emerging Market ETF

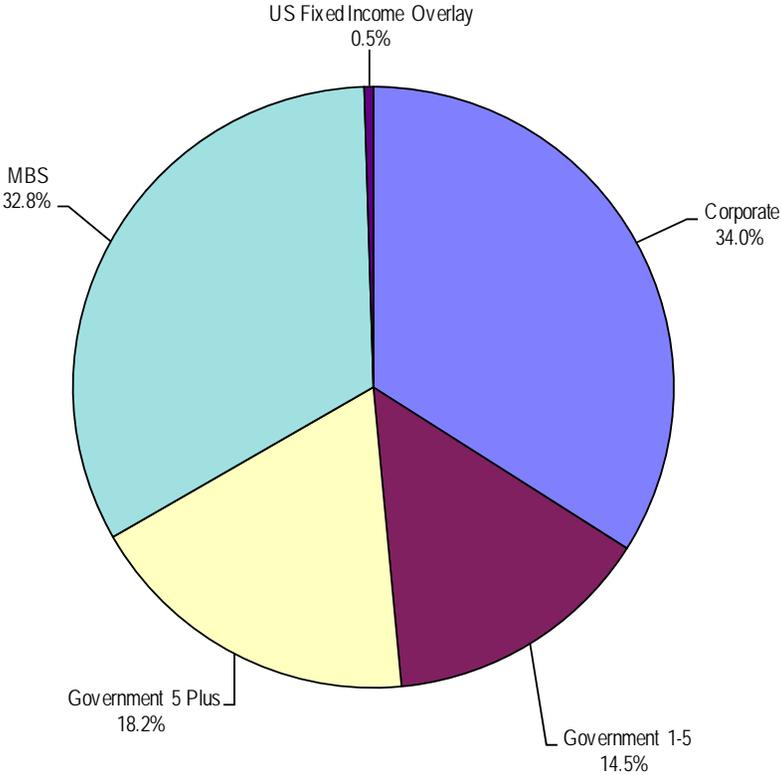


MSCI Emerging Market Net Custom Index



Manager Allocation Analysis – US Fixed Income

As of December 31, 2012

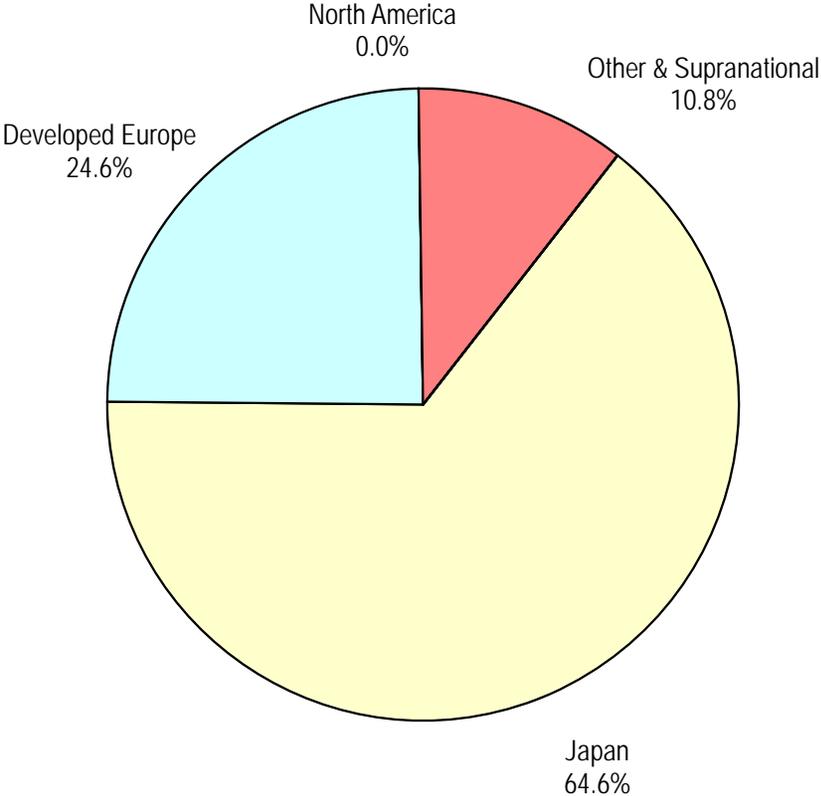


	Actual \$	Actual %
Corporate	3,583,444,539	34.0%
Government 1-5	1,528,752,524	14.5%
Government 5 Plus	1,917,669,060	18.2%
MBS	3,457,881,253	32.8%
US Fixed Income Overlay	51,402,901	0.5%
TOTAL	10,539,150,277	100.0%

International Fixed Income Portfolio Regional Weights

As of December 31, 2012

International Fixed Income



Citigroup G-5 ex US Index

