

Quarterly Investment Update and Performance Review
As of March 31, 2012

Asset Allocation

The TMRS portfolio continues to move towards a well diversified structure. The Fixed Income portfolio continues to be reduced as it funds other asset classes. A slow and methodical pace into new asset classes and strategies via ongoing research and due diligence efforts, along with dollar cost averaging into new investments over multiple time periods, continues to be a prudent process.

Performance Summary (as of 3/31/2012)

Total Fund Composite (*gross of fees*)

- 3 years 10.15%
- 5 years 6.53%
- 7 years 5.93%
- 10 years 7.81%
- Since inception* 9.06%

**inception date 1/1/1989*

Fund Performance

- The Total Fund Composite (Gross) returned 6.53% over the trailing five-year period ending 3/31/2012. The Total Fund outperformed the Actual Allocation Benchmark by 0.39% over the same time period, partially due to manager outperformance; it outperformed the Policy Index (Target Allocation) by 0.09% over the same time period, primarily due to the System's relatively high allocation to Fixed Income. The assumed long term rate of return established by the actuary is 7%.
- The Domestic Equity Composite (Gross) returned 24.26% over the trailing three-year period ending 3/31/2012. Since inception, the domestic equity manager has closely tracked its benchmark, as expected in a domestic passive equity strategy.
- The Non-U.S. Equity Composite (Gross) returned 17.20% over the trailing three-year period ending 3/31/2012. Since inception, the Non-U.S. equity manager has outperformed its benchmark marginally, as expected in a non-US passive equity strategy.
- The Total Fixed Income Composite (Net) returned 6.10% over the trailing five-year period ending 3/31/2012. Since inception, the fixed income managers have outperformed or closely tracked the Barclays US Agg Bond Index.
- The Real Return composite (Net) returned 2.89% for the quarter ending 3/31/2012. Since inception, the global inflation-linked bond manager has delivered positive performance, but underperformed its benchmark.

Portfolio Diversification Update

- Domestic Equities: Target allocation of 20% reached in December 2011
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- Fixed Income: Assets allocated to fixed income managers totaled 51.28% and will gradually move to the 35% target allocation as fixed income funds other asset classes.
- Real Return: Fully funded through Global Inflation-Linked Bond strategy, pending diversification of the asset class.
- Real Estate: Closed on two core funds in 2011 for a total commitment of \$200 million; Managers selected in September for remaining 2011 pacing plan are in the midst of document negotiation process.
- Absolute Return: Ongoing educational sessions are being presented to the Board. Recommendations expected in late 2012 or early 2013.
- Private Equity: Educational sessions for the Board are planned for 2012-2013.

