

Quarterly Investment Update and Performance Review As of June 30, 2012

Asset Allocation

The TMRS actual allocation has more exposure to fixed income than its peers, but the portfolio continues to move towards a well diversified structure as fixed income is reduced. A slow and methodical pace into new asset classes and strategies via ongoing research and due diligence efforts, coupled with dollar cost averaging into new investments over multiple time periods continues to be prudent.

Performance Summary (as of 6/30/2012)

Total Fund Composite (*gross of fees*)

- 3 years 7.89%
- 5 years 6.92%
- 7 years 4.31%
- 10 years 6.88%
- Since inception* 8.91%

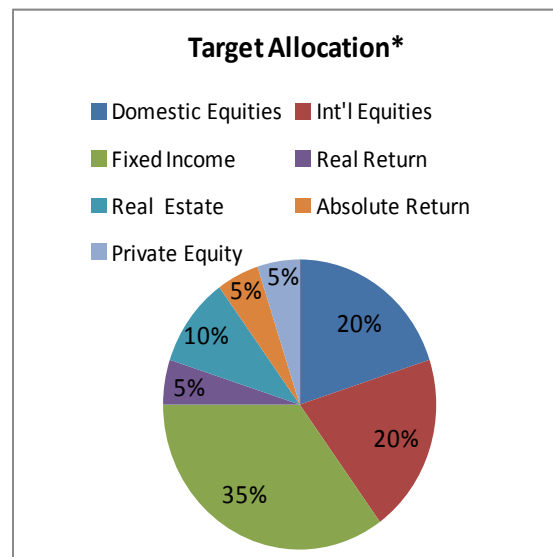
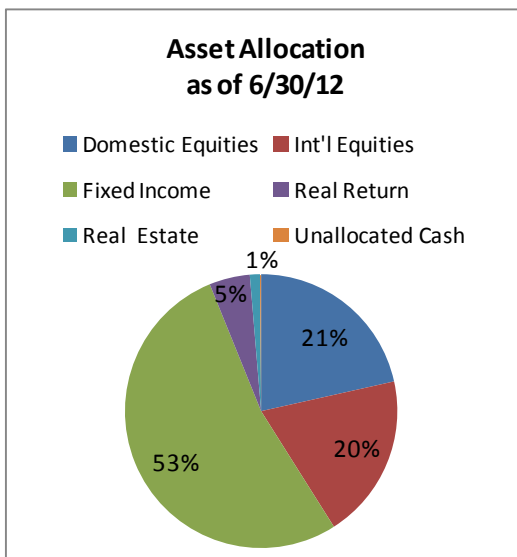
**inception date 1/1/1989*

Fund Performance

- The Total Fund Composite (Gross) returned 6.92% over the trailing five-year period ending June 30, 2012, meeting the Investment Policy Objectives for performance relative to the Actual Allocation Benchmark and Policy Index. The Total Fund outperformed the Actual Allocation Benchmark by 0.63% over the same time period, partially due to manager outperformance; it outperformed the Policy Index (Target Allocation) by 0.35% 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 currently 7%.
- The Domestic Equity Composite (Gross) returned 16.72% over the trailing three-year period ending June 30, 2012. Since inception, the current domestic equity manager has closely tracked its benchmark, as expected in a domestic passive equity strategy.
- The Non-U.S. Equity Composite (Gross) returned 5.75% over the trailing three-year period ending June 30, 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 7.18% over the trailing five-year period ending June 30, 2012. Since inception, the fixed income managers have outperformed or closely tracked the Barclays US Aggregate Bond Index.
- The Real Return Composite (Net) returned 4.50% for the year ending June 30, 2012 and 6.68% since inception (17 months) underperforming its benchmark.

Portfolio Diversification Update

- Domestic Equities: Target allocation of 20% reached in December 2011
- Int'l Equities: Target allocation of 20% reached in December 2011
- Fixed Income: Assets allocated to fixed income managers totaled 52.8% 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: To date, \$600 million committed to real estate funds (\$200M Core, \$325M Value-Add and \$75M Opportunistic). Target allocation is 10% and will be implemented over a multi-year period.
- 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.



* Note: Target Allocation does not reflect changes adopted at the August 2012 Board meeting.