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

Asset Allocation
The TMRS portfolio continues to move towards a well diversified structure with the fixed income allocation funding new asset classes. 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 9/30/2012)
Total Fund Composite (gross of fees)
- 3 years 6.94%
- 5 years 6.82%
- 7 years 5.46%
- 10 years 6.14%
- Since inception* 8.99%

*Inception date 1/1/1989

Fund Performance versus Objectives
- The Total Fund Composite (Gross) returned 6.82% over the trailing five-year period ending September 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 0.48% over the same time period, partially due to manager outperformance; it outperformed the Policy Index (Target Allocation) by 0.12%, primarily due to the System’s relatively high allocation to Fixed Income during this time period. The assumed long term rate of return established by the actuary is currently 7%.
- The Domestic Equity Composite (Gross) returned 13.25% over the trailing three-year period ending September 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 2.11% over the trailing three-year period ending September 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 6.62% over the trailing five-year period ending September 30, 2012, outperforming the benchmark by 0.44%.
- The Real Return Portfolio (Net) returned 9.06% for the year ending September 30, 2012, outperforming its benchmark by 1.52%, and returned 8.67% since inception (21 months) underperforming its benchmark by 0.41% for that period.
Portfolio Diversification Update

- **Domestic Equities:** Target allocation reduced to 17.5% in August 2012. Current overweight will serve as placeholder for private equity. Managers for Low Vol and Fundamental Indexing Rules Based Strategies selected at September 2012 Board meeting. Continued implementation of satellite structure in 2013.

- **Int’l Equities:** Target allocation reduced to 17.5% in August 2012. Current overweight will serve as placeholder for private equity. Managers for Low Vol and Fundamental Indexing Rules Based Strategies selected at September 2012 Board meeting. Continued implementation of satellite structure in 2013.

- **Core Fixed Income:** Fixed income at 51.6% vs. 30% Core Fixed Income allocation adopted in August 2012. Overweight will continue to fund ongoing implementation of other asset classes. Asset structure reflecting new target will be proposed in early 2013.

- **Non-Core Fixed Income:** 10% Non-Core Fixed Income allocation adopted in August 2012. Asset class structure and implementation strategies will be proposed in early 2013.

- **Real Return:** Fully funded through Global Inflation-Linked Bond strategy, pending diversification of the asset class. Implementation strategy for commodities will be proposed at a later date.

- **Real Estate:** To date, $600 million committed to real estate funds ($200M Core, $325M Value-Add and $75M Opportunistic). Manager search and allocation of $300 million to Core REIT and debt funds approved in December. Target allocation is 10% and will be implemented over a multi-year period.

- **Absolute Return:** Fourth educational session was conducted at the October 2012 board meeting. Proposal for initial implementation will be presented for Board approval in 2013.

- **Private Equity:** Educational sessions for the Board are planned for 2013-2014.