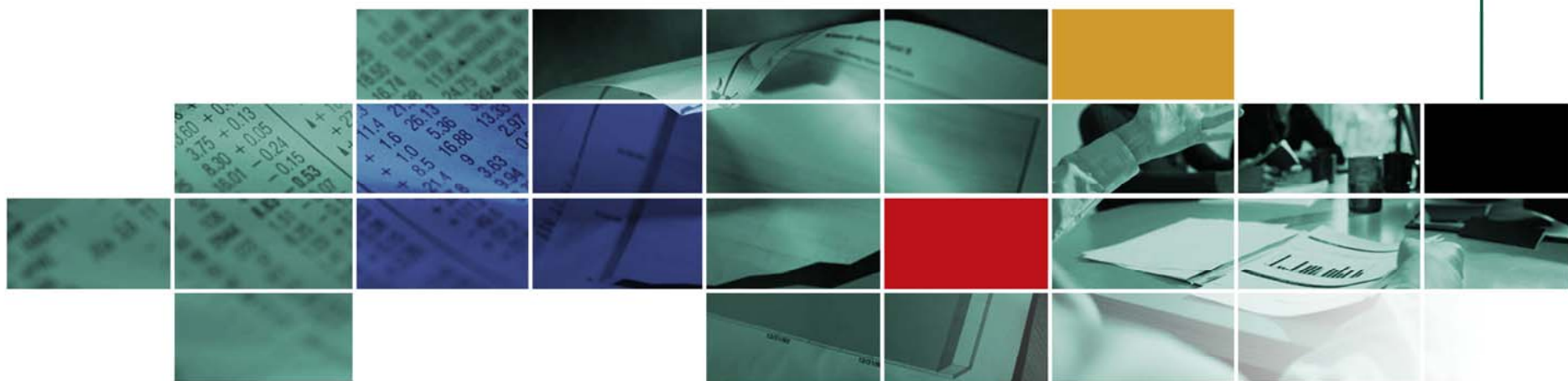


# RVKuhns

▶▶▶ & ASSOCIATES, INC.

## *TMRS Quarterly Summary*



## Capital Markets Review As of December 31, 2010

### Capital Markets Review

#### Fourth Quarter Economic Environment

During November, the Fed formally announced that it would purchase \$600 billion of Treasuries in a second round of quantitative easing (QE2). The Fed's intent was to fend off a double-dip recession by lowering real yields while stimulating the economy and addressing deflationary concerns. As a tentative economic recovery caught footing in the U.S., investor risk aversion declined and attention turned to when the Fed will increase short-term interest rates from their historic lows. Short-term interest rates have already increased in China as the People's Bank raised benchmark lending rates by 0.25% to 5.81% in an effort to rein in inflation. High unemployment persisted in the U.S. ending December at 9.4% although 2010 did mark the first year of positive non-farm job growth since 2007. Unfortunately, data suggests that recent increases in consumer spending have come at the expense of personal savings rather than corresponding increases in aggregate income. Inflation remained muted at 1.5% despite surging commodity prices over the year. The U.S. Dollar Index saw a 1.5% gain in 2010, largely due to the impact of the European debt crisis on the euro.

Over three weeks in December, investors pushed more than \$22 billion into domestic stock funds which were further aided by new and extended tax cuts. On the contrary, muni-bond mutual funds had \$18 billion in outflows as yields increased and concerns about the default risk of municipal issuers surfaced. Fueled by high liquidity and a decline in risk aversion, public REITs was the best performing asset class of 2010 returning 28.6% for the year.

#### Fourth Quarter Equities

The momentum of the global equity rally that arose during the third quarter carried through the end of 2010; growth stocks continued to lead value stocks while small-cap stocks outperformed their large-cap counterparts. All ten sectors of the S&P 500 posted positive returns, pushing the index to a 10.8% return for the quarter and a 15.1% return for the year, with economically sensitive sectors paving the way. Despite a strong upturn in the second half of 2010, the S&P 500 and other domestic equity markets have not yet returned to their all-time highs posted during 2007. The MSCI ACW Ex US finished the calendar year with an 11.6% return, largely due to the North American, emerging, and Pacific markets. Many European markets rose despite the ongoing sovereign-debt crisis, though the PIIGS (Portugal, Italy, Ireland, Greece, and Spain) finished the year in the red and continue to be a substantial economic headwind for potential EMU growth and financial stability.

#### Fourth Quarter Fixed Income

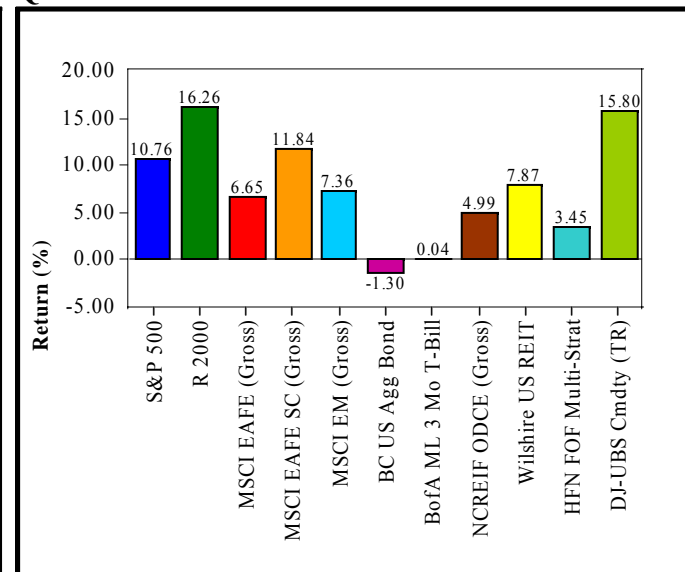
Investors moved away from Treasuries during the fourth quarter as concerns mounted that the expansion in the Fed's balance sheet from QE2 could be inflationary. The yield on a 10-year Treasury bond rose by 77 basis points during the fourth quarter and resulted in an average loss of 2.6% across all maturities based on the Barclays Capital indices. Despite the late-year spike, the 10-year Treasury yield declined by 55 basis points year-over-year. Corporate bonds fared well during 2010 as corporate deleveraging improved balance sheets and strong cash flows increased the ability of companies to repay debt. In the rising-rate fourth quarter, riskier high-yield corporate bonds provided one of the only havens in the fixed income market. However, even with poor results near the end of the year, nearly every fixed income sector finished the calendar year in positive territory.

#### Trailing-Period Performance

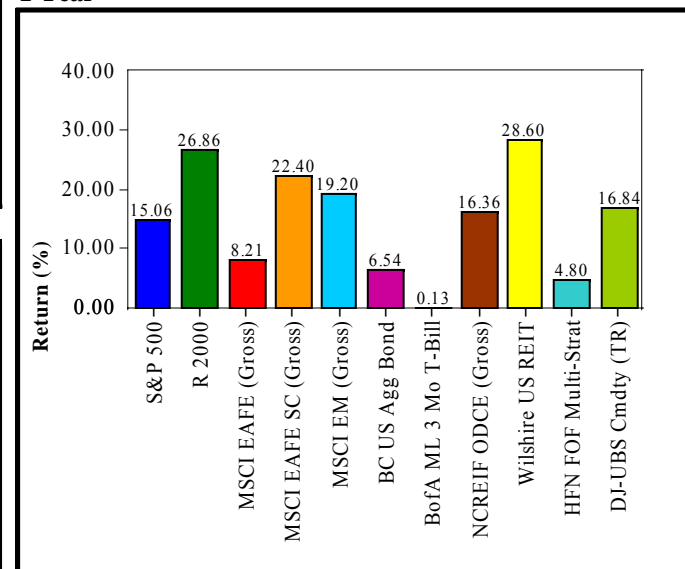
	Mth End Oct-2010	Mth End Nov-2010	MTD	QTD	CYTD	1 Year	2 Years	3 Years	5 Years	10 Years
S&P 500	3.80	0.01	6.68	10.76	15.06	15.06	20.63	-2.85	2.29	1.41
R 2000	4.09	3.47	7.94	16.26	26.86	26.86	27.02	2.22	4.47	6.33
MSCI EAFE (Gross)	3.62	-4.79	8.11	6.65	8.21	8.21	19.72	-6.55	2.94	3.94
MSCI EAFE SC (Gross)	3.87	-3.57	11.65	11.84	22.40	22.40	34.28	-1.37	3.17	9.87
MSCI EM (Gross)	2.91	-2.64	7.15	7.36	19.20	19.20	46.08	-0.03	13.11	16.23
BC US Agg Bond	0.36	-0.57	-1.08	-1.30	6.54	6.54	6.24	5.90	5.80	5.84
BofA ML 3 Mo US T-Bill	0.02	0.01	0.02	0.04	0.13	0.13	0.17	0.79	2.43	2.38
NCREIF ODCE (Gross)	N/A	N/A	N/A	4.99	16.36	16.36	-9.60	-9.73	-0.14	5.20
Wilshire US REIT	4.70	-1.63	4.74	7.87	28.60	28.60	28.60	0.18	2.42	10.47
HFN FOF Multi-Strat	1.46	-0.09	2.05	3.45	4.80	4.80	7.23	-2.94	2.00	4.47
DJ-UBS Cmdb (TR)	4.98	-0.35	10.69	15.80	16.84	16.84	17.87	-3.67	1.18	5.84

Performance is annualized for periods greater than one year.

### QTD

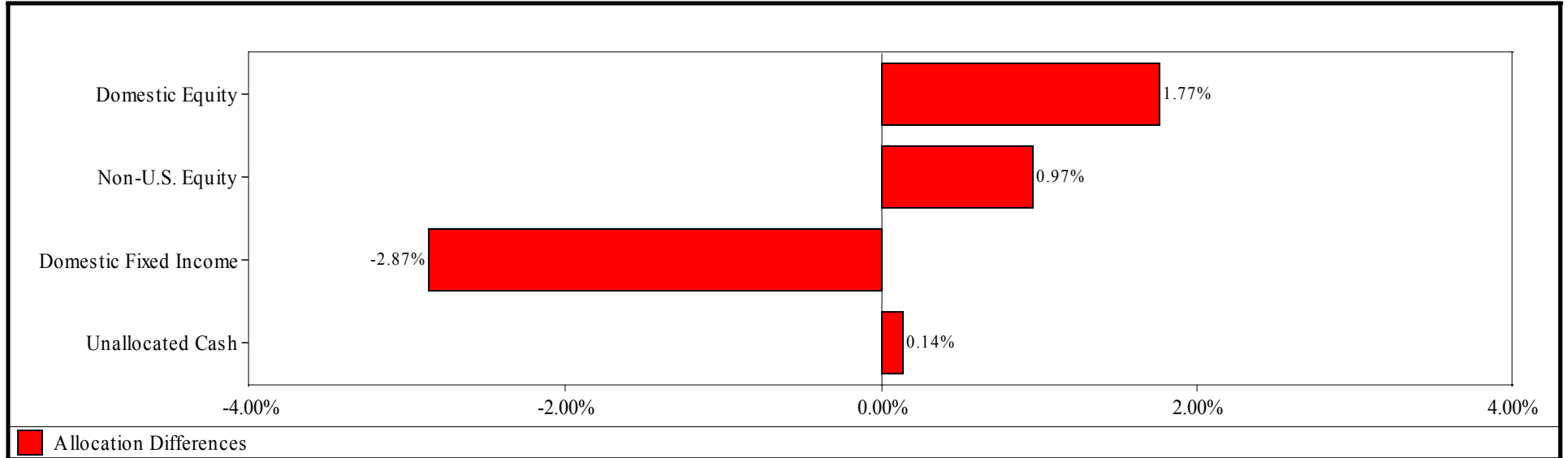


### 1 Year



**Texas Municipal Retirement System  
Total Fund Composite  
Asset Allocation vs. Target Allocation  
As of December 31, 2010**

**December 31, 2010**

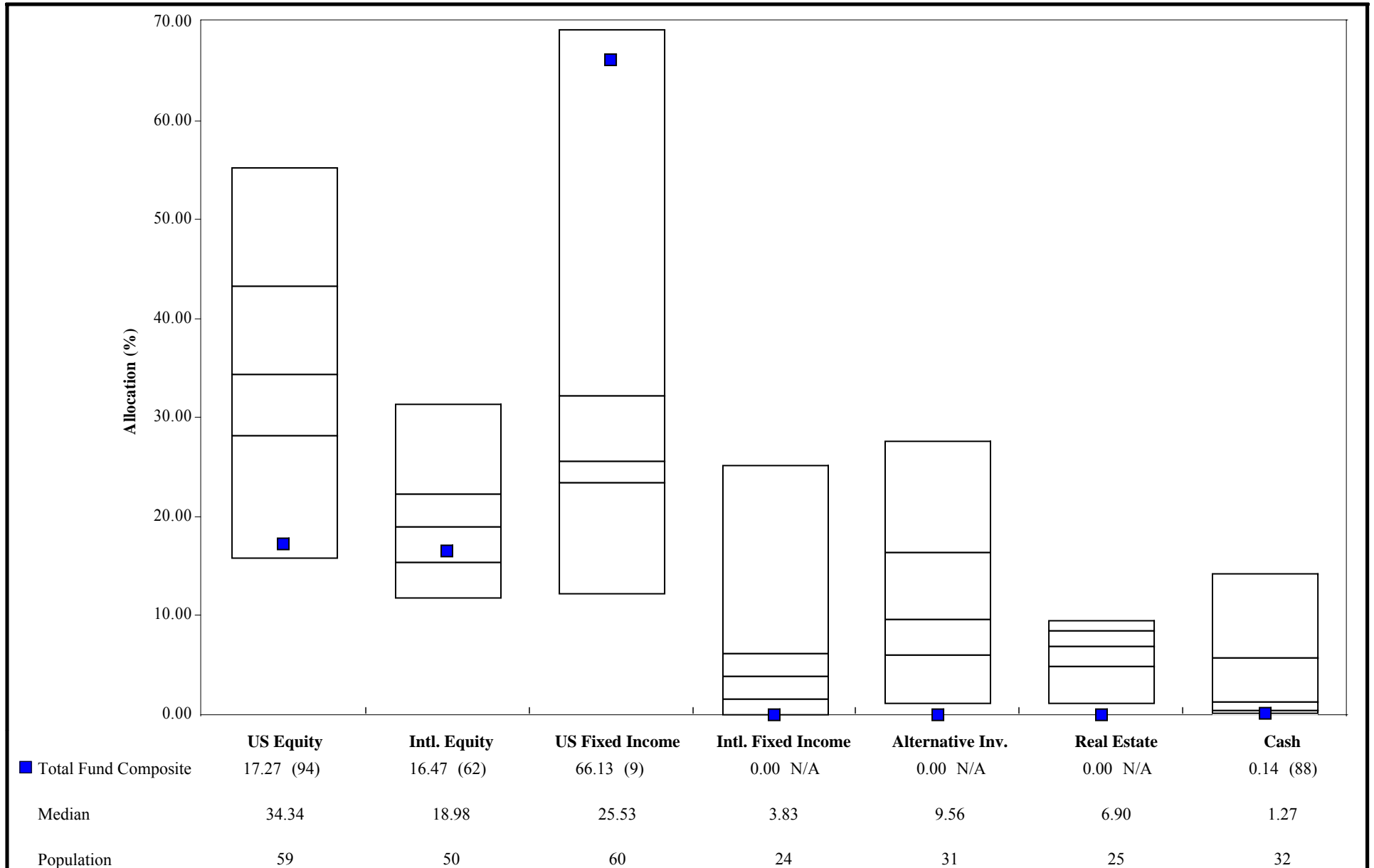


**December 31, 2010**

	Market Value (\$)	Allocation (%)	Target (%)
Domestic Equity	3,096,836,664	17.27	15.50
Non-U.S. Equity	2,953,518,334	16.47	15.50
Domestic Fixed Income	11,861,217,962	66.13	69.00
Unallocated Cash	25,303,401	0.14	-
<b>Total Fund</b>	<b>17,936,876,361</b>	<b>100.00</b>	<b>100.00</b>

Allocations shown may not sum up to 100% exactly due to rounding.

**Texas Municipal Retirement System**  
**All Public Plans > \$1B-Total Fund**  
**Plan Sponsor TF Asset Allocation**  
**As of December 31, 2010**



Parenteses contain percentile ranks. Allocations shown may not sum up to 100% exactly due to rounding.

**Texas Municipal Retirement System  
Comparative Performance  
As of December 31, 2010**

	<b>1 Quarter</b>	<b>Year To Date</b>	<b>1 Year</b>	<b>3 Years</b>	<b>5 Years</b>	<b>7 Years</b>	<b>10 Years</b>	<b>2009</b>	<b>Since Inception</b>	<b>Inception Date</b>
<b>Total Fund Composite</b>	<b>1.79</b>	<b>9.02</b>	<b>9.02</b>	<b>5.86</b>	<b>5.21</b>	<b>7.03</b>	<b>7.64</b>	<b>10.24</b>	<b>9.22</b>	<b>01/01/1989</b>
Actual Allocation Benchmark	1.93	8.99	8.99	5.82	5.35	5.80	6.82	4.06	8.53	
Difference	-0.14	0.03	0.03	0.04	-0.14	1.23	0.82	6.18	0.69	
<b>Total Fixed Income Composite</b>	<b>-1.57</b>	<b>6.51</b>	<b>6.51</b>	<b>4.98</b>	<b>4.68</b>	<b>6.64</b>	<b>7.37</b>	<b>6.69</b>	<b>9.09</b>	<b>01/01/1989</b>
Fixed Income Benchmark	-1.30	6.54	6.54	5.02	4.87	5.46	6.58	0.27	8.42	
Difference	-0.27	-0.03	-0.03	-0.04	-0.19	1.18	0.79	6.42	0.67	
<b>Global Equity Composite</b>	<b>9.24</b>	<b>12.62</b>	<b>12.62</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>30.27</b>	<b>-1.76</b>	<b>02/01/2008</b>
Global Equity Benchmark	9.23	12.49	12.49	N/A	N/A	N/A	N/A	30.07	-1.89	
Difference	0.01	0.13	0.13	N/A	N/A	N/A	N/A	0.20	0.13	
<b>Domestic Equity Composite</b>	<b>11.56</b>	<b>16.89</b>	<b>16.89</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>28.45</b>	<b>0.07</b>	<b>02/01/2008</b>
R 3000 Index	11.59	16.93	16.93	-2.01	2.74	4.49	2.16	28.34	0.05	
Difference	-0.03	-0.04	-0.04	N/A	N/A	N/A	N/A	0.11	0.02	
<b>Non-U.S. Equity Composite</b>	<b>6.88</b>	<b>8.35</b>	<b>8.35</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>32.12</b>	<b>-3.70</b>	<b>02/01/2008</b>
Non-U.S. Equity Benchmark	6.84	8.01	8.01	-6.94	2.51	6.41	3.53	31.78	-3.99	
Difference	0.04	0.34	0.34	N/A	N/A	N/A	N/A	0.34	0.29	
<b>TMRS Unallocated Cash (SA)</b>	<b>0.04</b>	<b>0.13</b>	<b>0.13</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>0.20</b>	<b>0.48</b>	<b>06/01/2008</b>
BofA ML 3 Mo US T-Bill Index	0.04	0.13	0.13	0.79	2.43	2.36	2.38	0.21	0.53	
Difference	0.00	0.00	0.00	N/A	N/A	N/A	N/A	-0.01	-0.05	

Historical performance shown for the Total Fixed Income, Global Equity, Domestic Equity, and Non-U.S. Equity composites is provided by State Street.

The Actual Allocation Benchmark is calculated monthly using beginning of month investment weights applied to each corresponding benchmark return.

The Fixed Income Benchmark is calculated monthly and consists of 100% Barclays US Aggregate Bond Index beginning July 1, 2009, and 100% Barclays Gov't/Credit Long Term Bond Index prior to July 1, 2009.

The Global Equity Benchmark and Non-U.S. Equity Benchmark are calculated monthly using beginning of month investment weights applied to each corresponding benchmark return.

Performance shown is gross of fees.