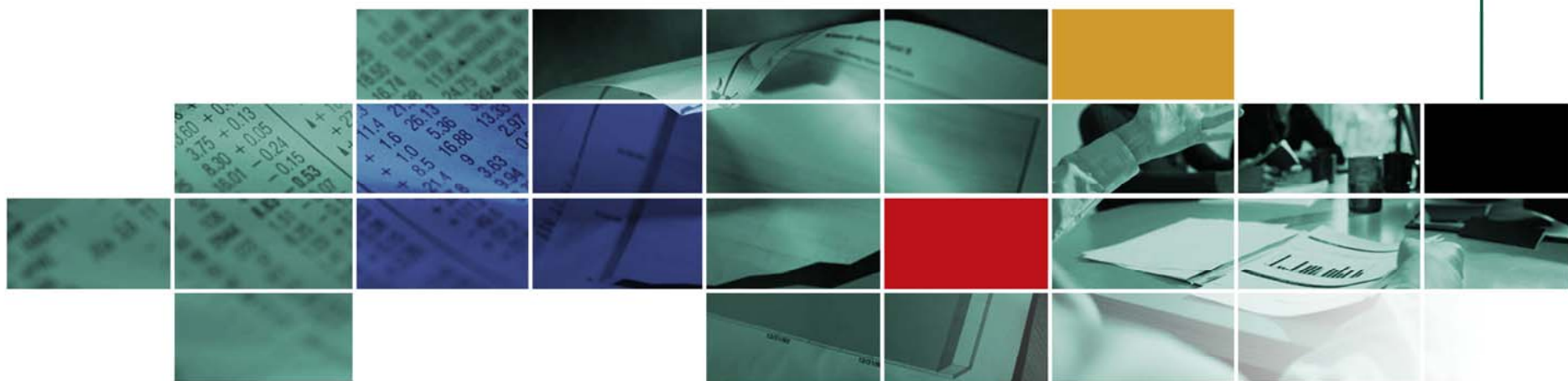


# RVKuhns

▶▶▶ & ASSOCIATES, INC.

## *TMRS Quarterly Summary*



## Capital Markets Review As of September 30, 2010

### Capital Markets Review

#### Third Quarter Economic Environment

The third quarter saw a reversal of many attributes that defined the second quarter of 2010. Global equity and fixed income markets rallied through September as investors set aside dreary economic forecasts and embraced figures that suggested global economies are still growing. Despite the ongoing sovereign debt crisis and renewed fear of country default risk, the European Commission increased its second-half annual output forecasts for the entire Eurozone. Domestic investor fears of a double-dip recession temporarily subsided as the Fed hinted at a potential second round of quantitative easing (QE2). Though speculation over QE2 pushed stock prices higher, the dollar continued to deflate against its major trading partners and investors continued to shift toward risk-averse products. During the third quarter alone, bond mutual funds saw net additions of \$87 billion, which helped lift the BC US Aggregate Bond Index to its sixth consecutive month of positive performance. Net flows to equity funds, in contrast, have been negative for most of 2010.

In the US, the recovery of the job market stalled with the unemployment rate ending the quarter at 9.6%, up 0.1% from the end of the previous quarter. Federal debt in relation to GDP continued to rise with the Congressional Budget Office projecting that it will account for 120% of GDP by 2020. The Fed maintained a Federal Funds Target Rate range of 0% to 0.25% through the third quarter while the Bank of Canada raised interest rates for the third time in four months bringing the rate to 1%. The Bank of Iceland, in an effort to regain macroeconomic stability following the 2008 collapse of its three major commercial banks, lowered interest rates by 0.75% in September.

#### Third Quarter Equities

The third quarter witnessed a double-digit recovery in global stock prices that nearly offset the losses suffered during the previous quarter. After a brief slump in August, the quarter finished strong with both the S&P 500 Index and the Dow Jones Industrial Average having their best-performing Septembers in 71 years. In a wider context, growth stocks notably outperformed value for the quarter, with large-cap equities slightly outperforming small-cap equities. International markets also rallied following the August lull, with every sector of the MSCI ACW Ex US Index posting positive returns for the quarter. Regional gains were broad, with double-digit returns around the globe for developed economies. Japan, which lagged significantly behind its international counterparts, was the only exception. Emerging markets posted positive performance with Poland, Chile, Thailand, and Colombia providing quarterly returns in excess of 30%. In the international arena, growth outperformed value for the quarter, with small- outperforming large-cap equities.

#### Third Quarter Fixed Income

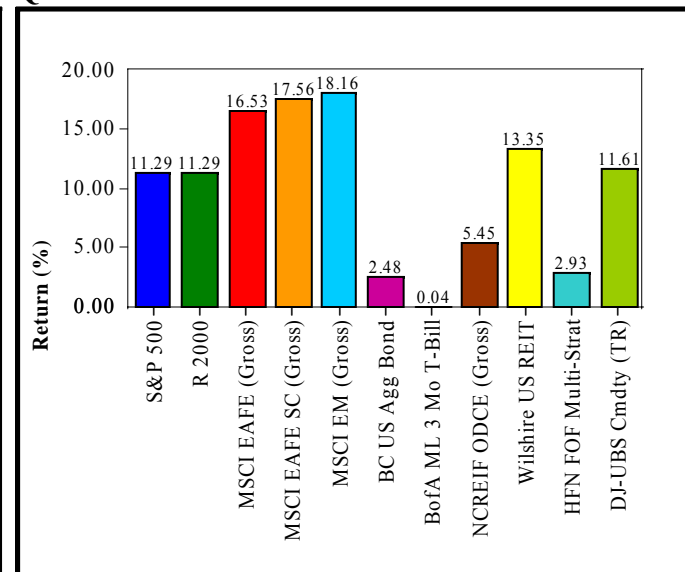
Treasury yields declined to historic lows and credit spreads tightened over the quarter as investor risk aversion and perceptions of deflation remained high. As investors revisited expectations for how long the Fed will keep short-term interest rates low, long-dated bonds outperformed their shorter-term counterparts. Commercial mortgage-backed securities continue to outperform among fixed income sectors in 2010 while agency mortgage-backed securities have been hampered by concerns over the possibility of a government-sponsored refinancing program. Emerging-market and high-yield bonds recovered from their recent relative underperformance; the average price on high yield debt broke the 100 cents on the dollar barrier in September for the first time since June 2007. Breaking out of the red for the first time in 2010, foreign government bonds provided the strongest performance in the third quarter by a wide margin.

#### Trailing-Period Performance

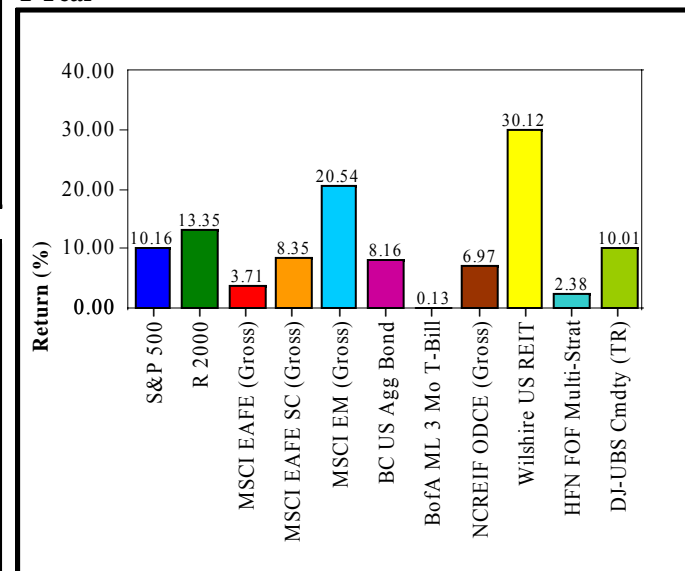
	Mth End Jul-2010	Mth End Aug-2010	MTD	QTD	CYTD	1 Year	2 Years	3 Years	5 Years	10 Years
S&P 500	7.01	-4.51	8.92	11.29	3.89	10.16	1.27	-7.16	0.64	-0.43
R 2000	6.87	-7.40	12.46	11.29	9.12	13.35	1.26	-4.29	1.60	4.00
MSCI EAFE (Gross)	9.49	-3.09	9.82	16.53	1.46	3.71	3.75	-9.06	2.45	2.99
MSCI EAFE SC (Gross)	8.64	-2.88	11.42	17.56	9.44	8.35	12.06	-6.52	2.42	7.90
MSCI EM (Gross)	8.40	-1.91	11.13	18.16	11.02	20.54	19.99	-1.20	13.08	13.77
BC US Agg Bond	1.07	1.29	0.11	2.48	7.94	8.16	9.35	7.42	6.20	6.41
BofA ML 3 Mo US T-Bill	0.02	0.01	0.01	0.04	0.08	0.13	0.26	1.13	2.61	2.55
NCREIF ODCE (Gross)	N/A	N/A	N/A	5.45	10.83	6.97	-16.74	-10.56	-0.12	5.03
Wilshire US REIT	9.87	-1.32	4.54	13.35	19.21	30.12	-4.05	-6.94	1.39	10.14
HFN FOF Multi-Strat	0.63	0.10	2.18	2.93	1.36	2.38	0.06	-3.34	1.69	4.26
DJ-UBS Cmdb (TR)	6.77	-2.55	7.26	11.61	0.90	10.01	-8.39	-6.84	-2.35	5.19

Performance is annualized for periods greater than one year.

### QTD

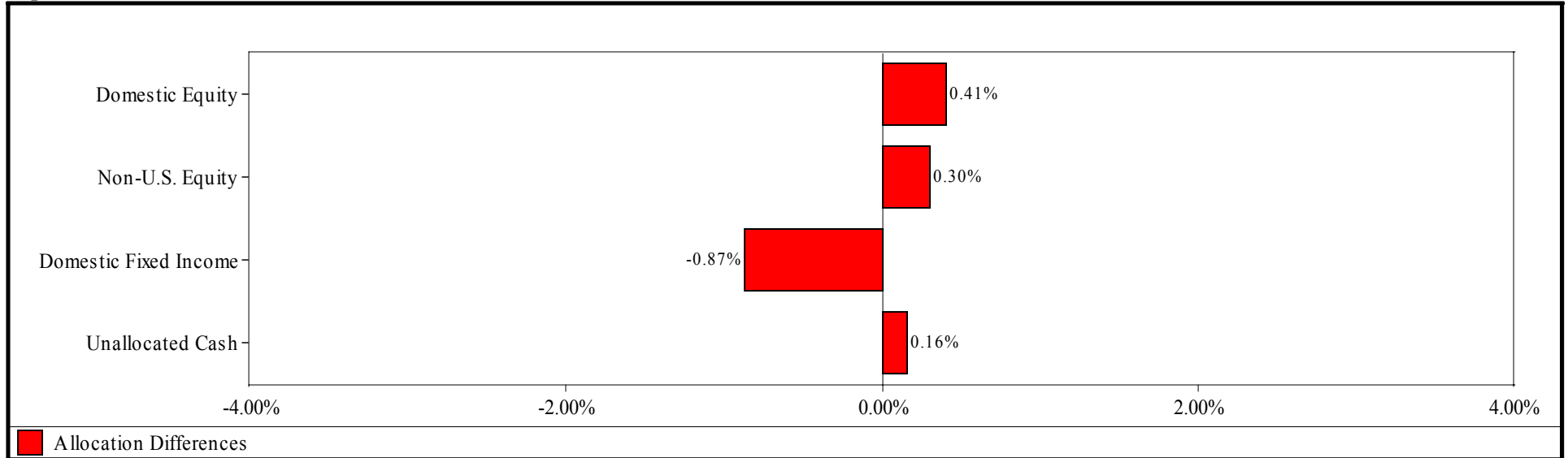


### 1 Year



**Texas Municipal Retirement System  
Total Fund Composite  
Asset Allocation vs. Target Allocation  
As of September 30, 2010**

**September 30, 2010**

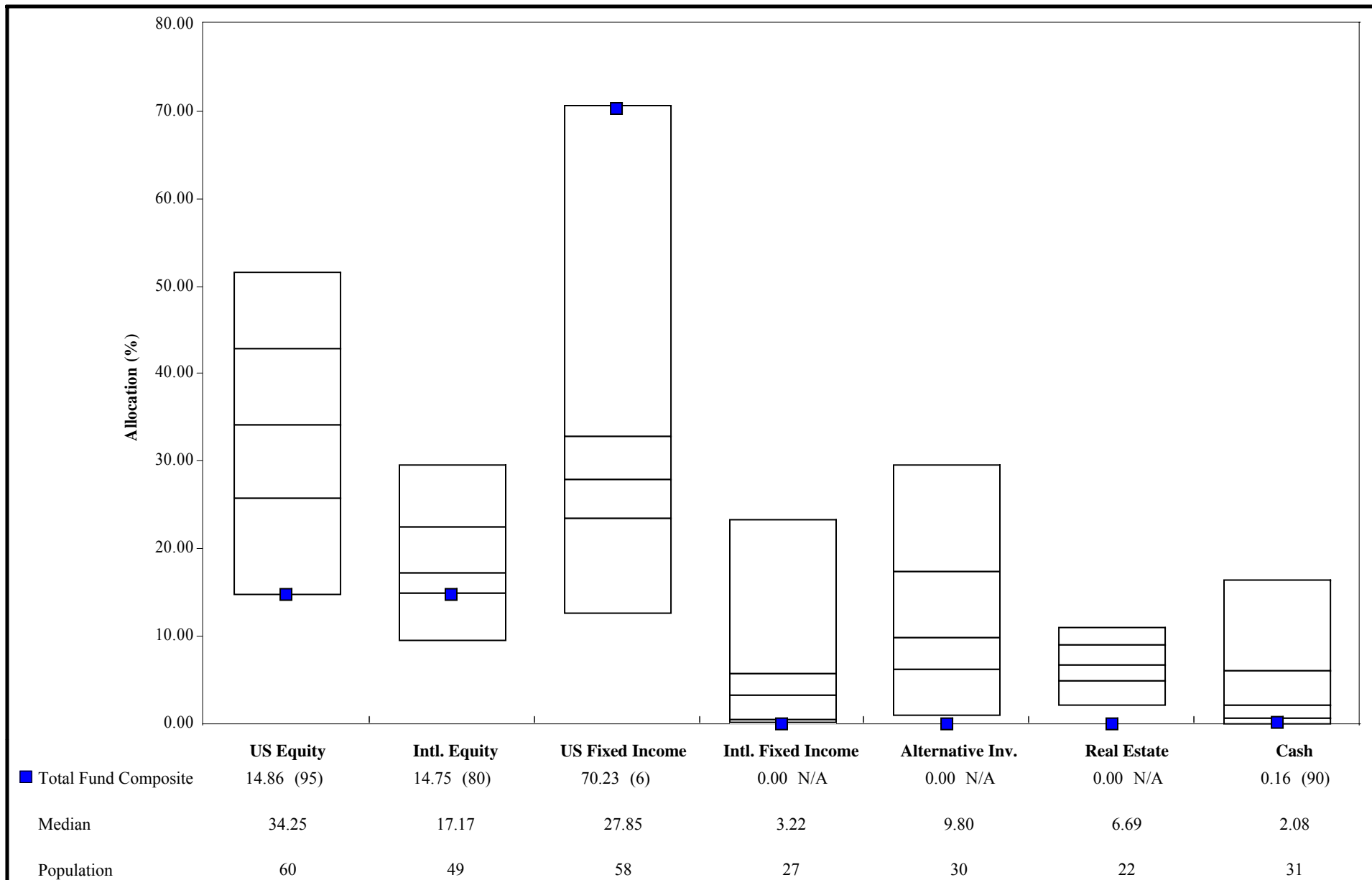


**September 30, 2010**

	<b>Market Value (\$)</b>	<b>Allocation (%)</b>	<b>Target (%)</b>
Domestic Equity	2,611,560,404	14.86	14.45
Non-U.S. Equity	2,592,814,696	14.75	14.45
Domestic Fixed Income	12,344,508,232	70.23	71.10
Unallocated Cash	28,949,696	0.16	-
<b>Total Fund</b>	<b>17,577,833,028</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 September 30, 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 September 30, 2010**

	1 Quarter	Year To Date	1 Year	3 Years	5 Years	7 Years	10 Years	2009	Since Inception	Inception Date
<b>Total Fund Composite</b>	<b>5.71</b>	<b>7.10</b>	<b>8.19</b>	<b>7.15</b>	<b>5.12</b>	<b>6.53</b>	<b>8.15</b>	<b>10.24</b>	<b>9.24</b>	<b>01/01/1989</b>
Actual Allocation Benchmark	5.47	6.93	8.04	6.49	5.14	5.47	7.24	4.06	8.54	
Difference	0.24	0.17	0.15	0.66	-0.02	1.06	0.91	6.18	0.70	
<b>Total Fixed Income Composite</b>	<b>2.69</b>	<b>8.21</b>	<b>8.35</b>	<b>7.45</b>	<b>5.30</b>	<b>6.66</b>	<b>8.24</b>	<b>6.69</b>	<b>9.28</b>	<b>01/01/1989</b>
Fixed Income Benchmark	2.48	7.94	8.16	6.83	5.34	5.61	7.34	0.27	8.58	
Difference	0.21	0.27	0.19	0.62	-0.04	1.05	0.90	6.42	0.70	
<b>Global Equity Composite</b>	<b>13.98</b>	<b>3.10</b>	<b>7.26</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>30.27</b>	<b>-5.12</b>	<b>02/01/2008</b>
Global Equity Benchmark	13.94	2.99	7.12	N/A	N/A	N/A	N/A	30.07	-5.26	
Difference	0.04	0.11	0.14	N/A	N/A	N/A	N/A	0.20	0.14	
<b>Domestic Equity Composite</b>	<b>11.52</b>	<b>4.77</b>	<b>10.97</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>28.45</b>	<b>-3.95</b>	<b>02/01/2008</b>
R 3000 Index	11.53	4.78	10.96	-6.59	0.92	4.60	0.09	28.34	-3.97	
Difference	-0.01	-0.01	0.01	N/A	N/A	N/A	N/A	0.11	0.02	
<b>Non-U.S. Equity Composite</b>	<b>16.62</b>	<b>1.38</b>	<b>3.62</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>32.12</b>	<b>-6.41</b>	<b>02/01/2008</b>
Non-U.S. Equity Benchmark	16.50	1.09	3.29	-9.51	1.97	7.81	2.56	31.78	-6.70	
Difference	0.12	0.29	0.33	N/A	N/A	N/A	N/A	0.34	0.29	
<b>TMRS Unallocated Cash (SA)</b>	<b>0.05</b>	<b>0.10</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>0.52</b>	<b>06/01/2008</b>
BofA ML 3 Mo US T-Bill Index	0.04	0.08	0.13	1.13	2.61	2.39	2.55	0.21	0.57	
Difference	0.01	0.02	0.00	N/A	N/A	N/A	N/A	-0.01	-0.05	

In accordance with GIPS, performance for investment managers and the Total Fund composite is calculated using different methodologies.

Historical performance shown for the Global Equity, International Equity, Domestic Equity, and Domestic Fixed Income 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.