



TMRS Quarterly Summary

Period Ended: December 31, 2014

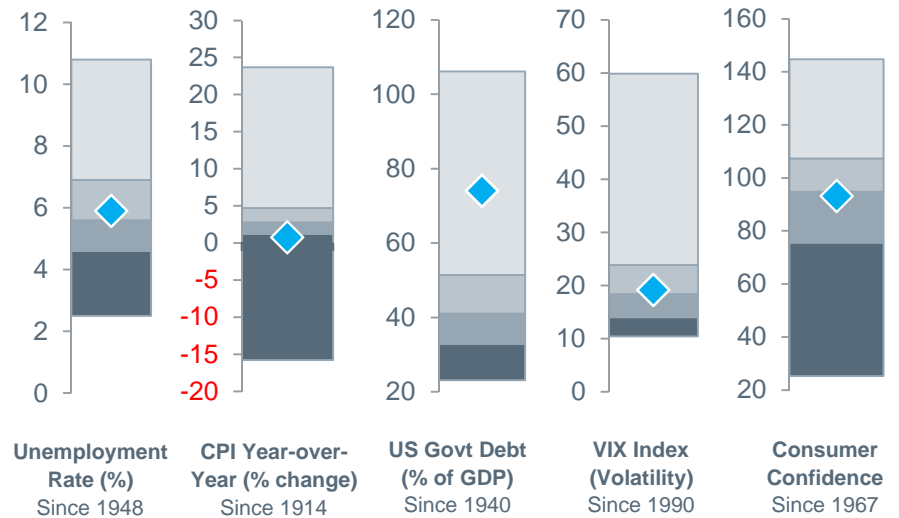


Fourth Quarter Economic Environment

Key Economic Indicators

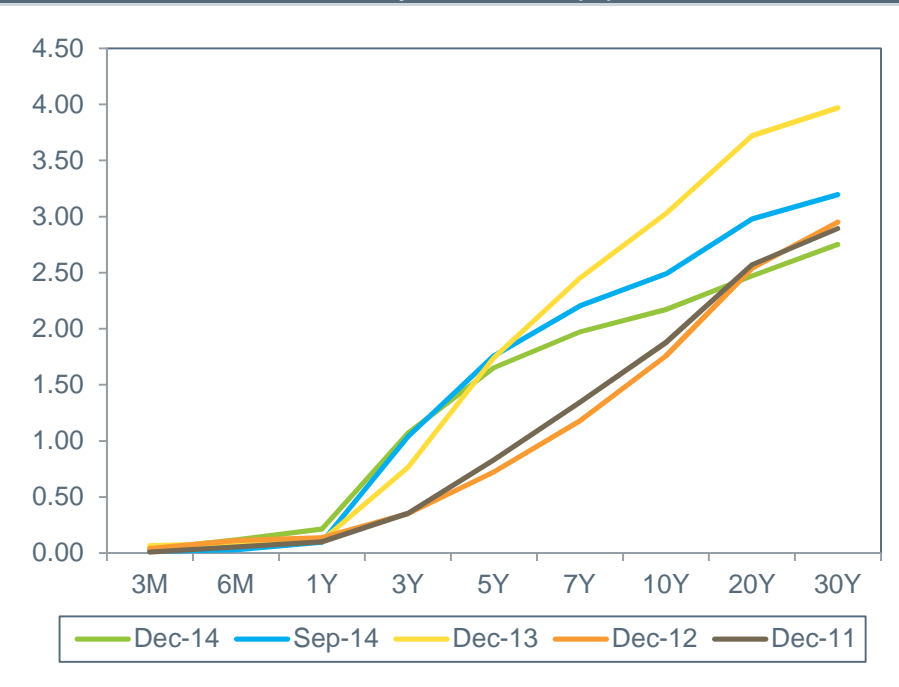
Multiple periods of heightened volatility hit global markets in Q4. However, a strengthening of the U.S. dollar combined with rapidly falling oil prices caused domestic markets to decouple from international markets. The U.S. economy continues to show strength compared to foreign regions. Non-farm payroll jobs increased at an average monthly rate of 289,000 rounding out the strongest year of job gains since 1999. Furthermore, the unemployment rate continued to decline, ending the year at 5.6%. While market participants continue to forecast interest rate hikes by mid-2015, further signs of disinflation could push the date out further. Economic developments in Europe and emerging economies were less impressive. European monetary policy has proven successful in recapitalizing the banking system; however, lending remains constrained due to weak loan demand from the private sector. Within emerging economies, falling oil prices and a rising U.S. dollar have led to renewed concerns over possible balance of payments issues and capital flight.

Key Economic Indicators



Economic Indicators	Dec-14	Sep-14	Dec-13	Dec-11	20 Yr
Federal Funds Rate (%)	0.06 ▼	0.07	0.07	0.04	2.85
Breakeven Infl. - 1 Yr (%)	-0.21 ▼	-0.19	1.50	1.22	1.14
Breakeven Infl. - 10 Yr (%)	1.68 ▼	1.97	2.23	1.95	2.05
CPI YoY (Headline) (%)	0.80 ▼	1.70	1.50	3.00	2.38
Unemployment Rate (%)	5.60 ▼	5.90	6.70	8.50	6.01
Real GDP YoY (%)	2.50 ▼	2.70	3.10	1.70	2.47
PMI - Manufacturing	53.50 ▼	56.10	56.10	52.80	52.03
USD Total Wtd Idx (%)	85.13 ▲	81.09	76.20	73.35	86.26
WTI Crude Oil per Barrel (\$)	53 ▼	91	98	99	53.51
Gold Spot per Oz (\$)	1,185 ▼	1,208	1,206	1,564	704

Treasury Yield Curve (%)



Market Performance (%)	QTD	YTD	1 Yr	5 Yr	10 Yr
S&P 500 (Cap Wtd)	4.93	13.69	13.69	15.45	7.67
Russell 2000	9.73	4.89	4.89	15.54	7.77
MSCI EAFE (Net)	-3.57	-4.90	-4.90	5.33	4.43
MSCI EAFE SC (Net)	-2.27	-4.95	-4.95	8.63	6.04
MSCI Emg Mkts (Net)	-4.50	-2.19	-2.19	1.78	8.43
Barclays US Agg Bond	1.79	5.97	5.97	4.45	4.71
BofA ML 3 Mo US T-Bill	0.00	0.04	0.04	0.09	1.54
NCREIF ODCE (Gross)	3.26	12.50	12.50	13.93	7.10
Wilshire US REIT	15.13	31.78	31.78	17.26	8.26
HFN FOF Multi-Strat	0.67	3.03	3.03	3.12	2.75
Bloomberg Cmddy (TR)	-12.10	-17.01	-17.01	-5.53	-1.86

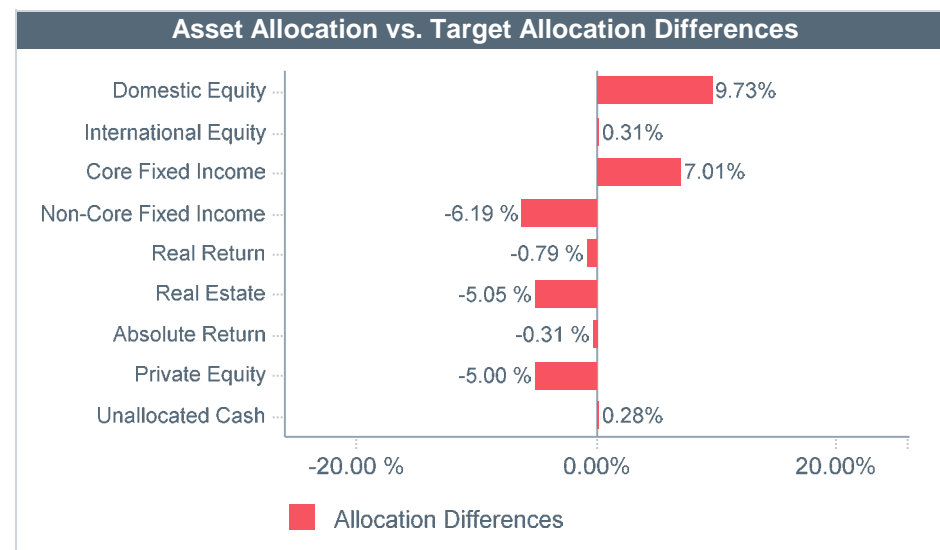
Treasury data courtesy of the U.S. Department of the Treasury. Economic data courtesy of Bloomberg Professional Service.

Total Fund Composite

Asset Alloc. by Manager, Asset Alloc. vs. Target, and Schedule of Investable Assets

Asset Allocation by Manager		
December 31, 2014: \$23,635,673,306		
	Market Value (\$)	Allocation (%)
Sasco U.S. Contrarian Value (SA)	220,424,016	0.93
Epoch U.S. Choice (SA)	234,676,566	0.99
SSgA Russell Fundamental US (CF)	291,916,059	1.24
UBS US Equity Min Vol Fund (CF) (NL)	290,409,599	1.23
Northern Trust R3000 Index (CF) (NL)	4,993,534,865	21.13
Champlain Mid-Cap Core (SA)	198,843,545	0.84
The Boston Company Opp Value (SA)	205,523,211	0.87
Citigroup Global Markets, Inc.	3,971	0.00
SSgA Russell Fund. Global Ex-US (CF)	221,933,574	0.94
UBS World Ex US Min Vol Fund (CF) (NL)	244,044,194	1.03
Northern Trust ACW ex US IMI (CF) (NL)	3,360,992,809	14.22
Wellington International Horizons (SA)	193,744,746	0.82
Lazard International Equity Plus (SA)	189,282,398	0.80
BlackRock, Inc. Core (SA)	6,718,810,937	28.43
PIMCO Core Plus Fixed Income (SA)	2,029,830,380	8.59
Guggenheim Bandera Strategic Credit Partners II, LP	150,960,430	0.64
Highland Bandera Strategic Credit Partners I, LP	250,894,744	1.06
Voya RMBS/CMBS (SA)	249,836,805	1.06
Ellington RMBS/CMBS (SA)	249,429,051	1.06
Colchester Global Inflation Linked Bond (SA)	994,900,830	4.21
Core Real Estate	631,809,010	2.67
Non-Core Real Estate	353,907,934	1.50
Harrison St. Real Estate Securities	185,143,231	0.78
Blackstone Treaty Oak Fund, LP	1,108,297,073	4.69
State Street Government STIF 6 (CF) - Cash	66,523,329	0.28

Asset Allocation vs. Target Allocation			
	Market Value (\$)	Allocation (%)	Target (%)
Domestic Equity	6,435,331,832	27.23	17.50
International Equity	4,209,997,721	17.81	17.50
Core Fixed Income	8,748,641,318	37.01	30.00
Non-Core Fixed Income	901,121,029	3.81	10.00
Real Return	994,900,830	4.21	5.00
Real Estate	1,170,860,174	4.95	10.00
Absolute Return	1,108,297,073	4.69	5.00
Private Equity	-	-	5.00
Unallocated Cash	66,523,329	0.28	0.00
Total Fund	23,635,673,306	100.00	100.00



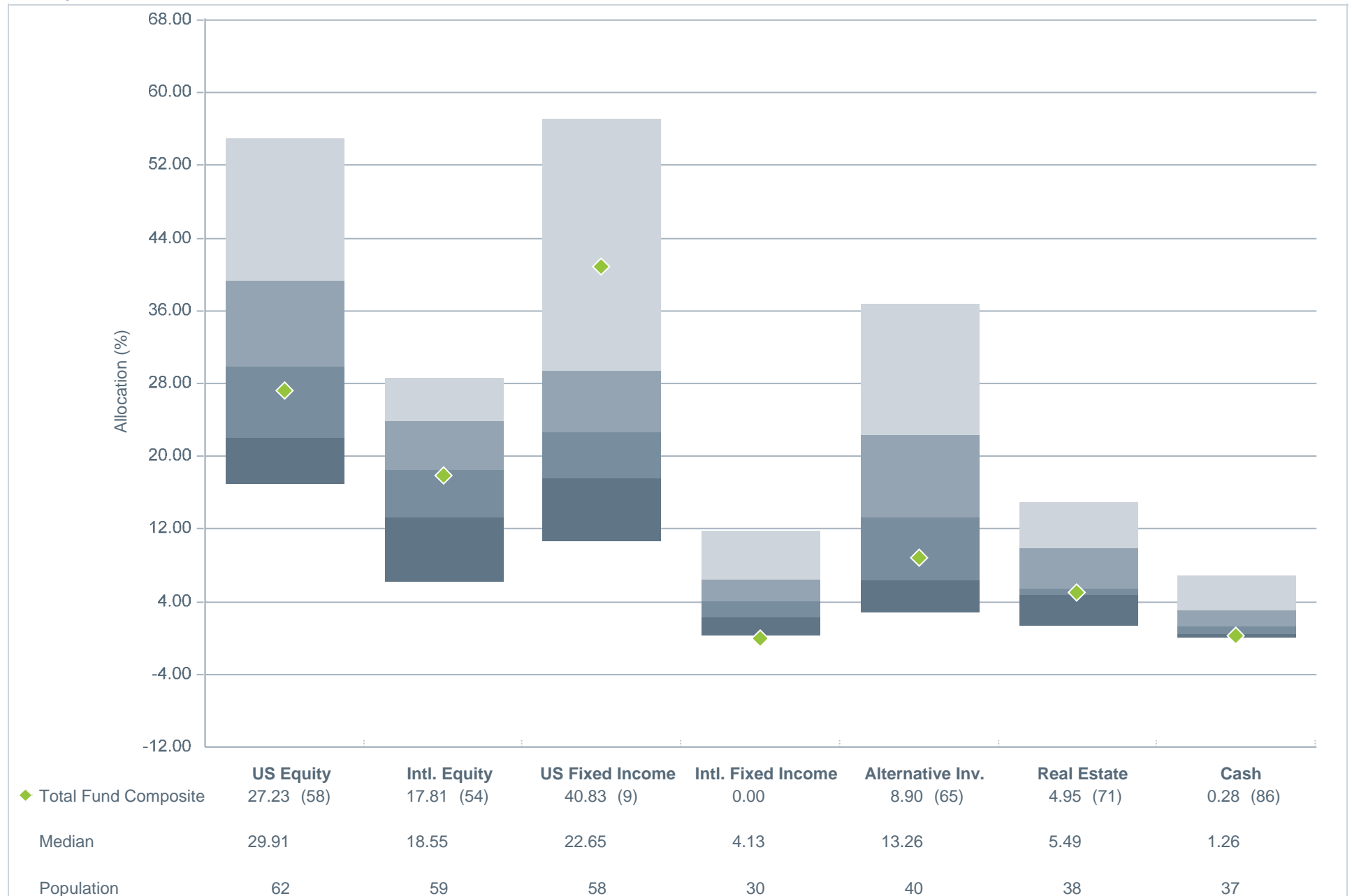
Schedule of Investable Assets						
Periods Ending	Beginning Market Value (\$)	Net Cash Flow (\$)	Gain/Loss (\$)	Ending Market Value (\$)	%Return	Unit Value
CYTD	22,374,178,482	-35,464,416	1,296,959,241	23,635,673,306	5.99	105.99

Performance shown is gross of fees and provided by State Street. Allocations shown may not sum up to 100% exactly due to rounding. Gain/Loss figure includes both realized and unrealized gains and losses. During December 2014, Voya RMBS/CMBS (SA) and Ellington RMBS/CMBS (SA) were funded. The market value shown for Citigroup Global Markets, Inc. represents residual assets from Domestic Mid-Cap manager fundings.



Texas Municipal Retirement System
All Public Plans > \$1B-Total Fund
Plan Sponsor TF Asset Allocation

As of December 31, 2014



Parentheses 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, 2014

	1 Quarter	Year To Date	1 Year	3 Years	5 Years	7 Years	10 Years	2013	Since Incep.	Inception Date
Total Fund Composite	1.47	5.99	5.99	8.57	7.40	6.51	6.45	9.75	8.87	01/01/1989
Actual Allocation Benchmark	1.46	5.63	5.63	8.25	7.20	6.36	5.91	9.70	8.26	
Difference	0.01	0.36	0.36	0.32	0.20	0.15	0.54	0.05	0.61	
Global Equity Composite	1.29	5.39	5.39	15.40	10.16	N/A	N/A	24.87	4.63	02/01/2008
Global Equity Benchmark	0.61	4.08	4.08	14.80	9.79	N/A	N/A	24.49	4.33	
Difference	0.68	1.31	1.31	0.60	0.37	N/A	N/A	0.38	0.30	
Domestic Equity Composite	5.23	12.61	12.61	20.39	15.56	N/A	N/A	33.20	8.57	02/01/2008
R 3000 Index	5.24	12.55	12.55	20.51	15.63	7.54	7.94	33.55	8.61	
Difference	-0.01	0.06	0.06	-0.12	-0.07	N/A	N/A	-0.35	-0.04	
International Equity Composite	-3.65	-3.11	-3.11	9.73	4.40	N/A	N/A	16.31	0.37	02/01/2008
International Equity Benchmark	-3.88	-3.89	-3.89	9.22	4.02	-1.36	3.78	15.82	0.02	
Difference	0.23	0.78	0.78	0.51	0.38	N/A	N/A	0.49	0.35	
Core Fixed Income Composite	1.63	5.77	5.77	2.86	4.60	4.49	5.04	-1.94	8.31	01/01/1989
Fixed Income Benchmark	1.79	5.97	5.97	2.66	4.45	4.40	4.54	-2.02	7.72	
Difference	-0.16	-0.20	-0.20	0.20	0.15	0.09	0.50	0.08	0.59	
Non-Core Fixed Income Composite	0.81	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.81	10/01/2014
Non-Core Fixed Income Benchmark	0.47	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.47	
Difference	0.34	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.34	
Real Return Composite	0.03	4.44	4.44	3.56	N/A	N/A	N/A	-4.06	4.53	02/01/2011
Barclays Wrld Gov Infl-Lnkd Index (Unhedged)	0.31	4.08	4.08	1.94	4.03	3.57	4.22	-4.84	3.98	
Difference	-0.28	0.36	0.36	1.62	N/A	N/A	N/A	0.78	0.55	
Real Estate Composite	5.51	20.35	20.35	12.81	N/A	N/A	N/A	11.69	12.81	01/01/2012
NCREIF ODCE Index (Gross) (AWA) - 1 Quarter Lag	3.24	12.40	12.40	12.34	12.40	2.63	7.14	13.04	12.34	
Difference	2.27	7.95	7.95	0.47	N/A	N/A	N/A	-1.35	0.47	
Absolute Return Composite	0.18	N/A	N/A	N/A	N/A	N/A	N/A	N/A	0.86	08/01/2014
HFRI FOF Diversified Index - 1 Month Lag	0.76	N/A	N/A	N/A	N/A	N/A	N/A	N/A	1.56	
Difference	-0.58	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-0.70	

Performance shown is gross of fees and provided by State Street. Performance is annualized for periods greater than one year. Real Estate performance is available quarterly. Real Estate fund returns are calculated by Private Edge and are lagged 1 quarter. Inception date shown for the Real Estate Composite represents the first full quarter following initial funding. Inception dates for non-real estate composites represents the first full month following initial funding.



**Texas Municipal Retirement System
Comparative Performance**

As of December 31, 2014

	1 Quarter	Year To Date	1 Year	3 Years	5 Years	7 Years	10 Years	2013	Since Incep.	Inception Date
TMRS Unallocated Cash (SA)	0.18	0.18	0.18	0.13	0.11	N/A	N/A	0.12	0.25	06/01/2008
BofA ML 3 Mo US T-Bill Index	0.00	0.04	0.04	0.07	0.09	0.39	1.54	0.07	0.26	
Difference	0.18	0.14	0.14	0.06	0.02	N/A	N/A	0.05	-0.01	

- Historical performance shown for the Global Equity, Domestic Equity, International Equity, and Total Fixed Income composites is provided by State Street.
- RVK cautions that for private market investments like Commercial Real Estate, for which there are no market prices, as are available for public securities, and for which an appraised value is calculated only quarterly, daily time weighted return calculations (public market return methodology) are imperfect at best and usually misleading.

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Custom Benchmark Comments

The **Actual Allocation Benchmark** is calculated monthly using beginning of month asset class weights applied to each corresponding benchmark return and currently consists of the following:

- Russell 3000 Index
- International Equity Benchmark
- Fixed Income Benchmark
- Non-Core Fixed Income Benchmark
- Non-Core Fixed Income Benchmark - 1 Month Lag
- Barclays World Government Inflation-Linked Index (Unhedged)*
- NCREIF Open-End Diversified Core Equity Index (Gross) (AWA)**
- HFRI Fund of Funds Diversified Index - 1 Month Lag
- BofA Merrill Lynch 3 Month US Treasury Bill Index

*As the Real Return asset class structure becomes diversified, the performance objective will be the Consumer Price Index + 4%.

**Performance for the NCREIF Open-End Diversified Core Equity Index (Gross) (AWA) is available quarterly and lagged 1 quarter; interim months assume a 0.00% return.

The **Global Equity Benchmark** is calculated monthly and consists of 50% Russell 3000 Index and 50% MSCI EAFE Index (Net) through July 31, 2010; a blend of the Russell 3000 Index, MSCI All Country World Excluding US Investable Market Index (Net) and MSCI EAFE Index (Net) at beginning of month investment weights through November 30, 2012; and 50% Russell 3000 Index and 50% MSCI All Country World Excluding US Investable Market Index (Net) thereafter.

The **International Equity Benchmark** is calculated monthly and consists of the MSCI EAFE Index (Net) through July 31, 2010; a blend of the MSCI All Country World Excluding US Investable Market Index (Net) and MSCI EAFE Index (Net) at beginning of month investment weights through January 31, 2012; and the MSCI All Country World Excluding US Investable Market Index (Net) thereafter.

The **Fixed Income Benchmark** is calculated monthly and consists of the Barclays Gov't/Credit Long Term Bond Index through June 30, 2009; Barclays US Aggregate Bond Index thereafter.

The **Non-Core Fixed Income Benchmark** is calculated monthly and consists of 50% Barclays US Corporate: High Yield Index, 25% JPM GBI-EM Global Diversified Total Return Index (USD) (Unhedged), and 25% JPM CEMBI Broad Diversified Index.

Real Estate Performance Comment

"Privately held real estate fund returns are one-quarter lagged and are provided by Private Edge. Quarterly returns are incorporated in the last month of that particular quarter. The returns for the first two months are zero.

Market values are previous quarter-end values as reported, rolled forward with current cash flows. Returns and market values provided by Private Edge are rolled into their respective Real Estate composite and the Total Plan composite.

Publicly traded real estate fund performance is non-lagged, reflecting monthly fluctuations. Detailed information regarding methodology can be found in the internal TMRS Performance Reporting Policy statement" (State Street Performance Team).

PORTLAND

CHICAGO

NEW YORK

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