



# TMRS Quarterly Summary

Period Ended: March 31, 2014



## Capital Markets Review As of March 31, 2014

### First Quarter Economic Environment

During the first quarter, capital markets delivered generally positive returns after an initial period of volatility in January. In the U.S., the Federal Reserve ("Fed") released its Comprehensive Capital Analysis and Review ("CCAR") or "stress test", which illustrated continuing improvement in the U.S. banking industry. In her first press conference as Fed chair, Janet Yellen focused on the persistently below target rate of inflation. Moreover, Yellen indicated that the Fed will review a "wide range of information" before deciding to increase interest rates. Private employment finally reached pre-recession levels in the first quarter of 2014, adding 192,000 jobs in March with the retail, construction, and healthcare sectors each adding workers. Additionally, the number of people employed relative to the working-age population rose to 58.9%, a four-year high. U.S. GDP growth forecasts were revised upward to 2.6% for the last quarter of 2013. However, harsh winter weather conditions and widening trade deficits have dampened first quarter GDP growth estimates to 1.5%.

At quarter end, the IMF revised its global GDP growth estimate downward to 3.6% from an earlier estimate of 3.7%. Overall, investment managers and economists provided mixed long-term outlooks. The Russian annexation of Crimea contributed to sharp declines in Russian equity and currency markets. Outside of nearby emerging markets, global markets largely withstood the geopolitical turmoil. Argentina devalued the peso by 19.0%, its largest devaluation since 2002, but inflation stubbornly remained below market expectations. In the Asia-Pacific region, China's economic growth outlook slowed, while the results of Prime Minister Shinzo Abe's structural reforms in Japan appeared increasingly uncertain.

#### Domestic Equities

- U.S. equity markets faltered at the start of the quarter following a robust year in 2013, but finished in positive territory. The S&P 500 returned 1.81% on the quarter.
- Value outperformed growth stocks, as the Russell 3000 Value returned 2.92%, while the Russell 3000 Growth earned 1.07% for the quarter.
- Mid-cap stocks posted the most attractive returns, followed by large and small-cap respectively. The Russell 1000 Index returned 2.05%, while the Russell 2000 Index returned 1.12%.
- While portfolios with above average concentrations of high-dividend and Healthcare stocks fared better than most, a weak performing Consumer Discretionary sector was detrimental to active managers.

#### International Equities

- Non-U.S. developed markets continued to lag the U.S. markets; however, returns of major indices were still positive across the board.
- Developed markets outperformed emerging markets for the fifth quarter in a row, with the MSCI EAFE returning 0.66% and the MSCI Emerging Markets returning -0.43%.

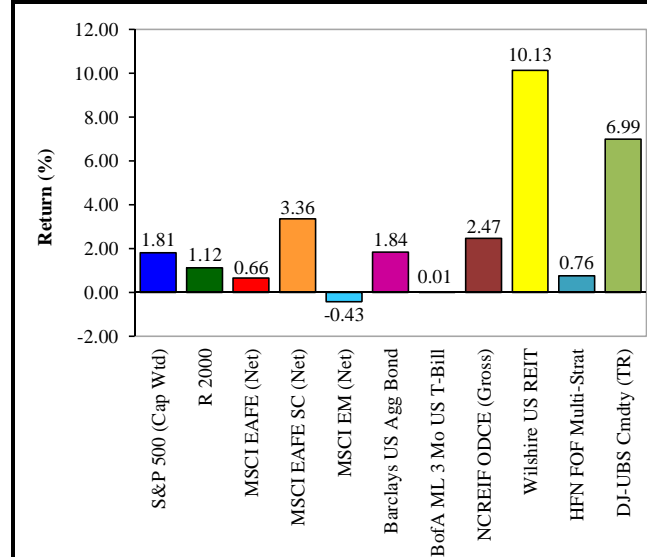
#### Fixed Income

- Fixed income markets started the year on a positive note, with the Barclays US Aggregate Bond Index returning 1.84%.
- During the quarter, the Fed's comments on the end of quantitative easing pushed the 2-year yield up to 0.44%, a 6 basis point increase, while concerns over the global economic environment weighed on longer maturities.

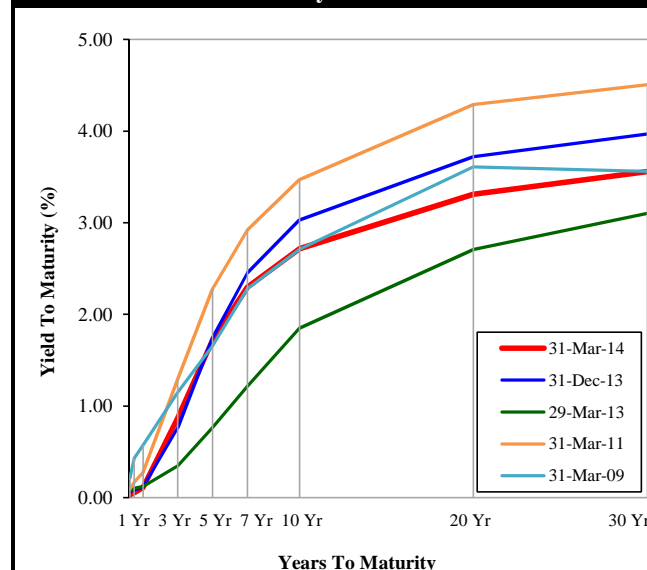
### Trailing-Period Performance

	Mth End - Jan 2014	Mth End - Feb 2014	MTD	QTD	CYTD	1 Year	2 Years	3 Years	5 Years	10 Years
S&P 500 (Cap Wtd)	-3.46	4.57	0.84	1.81	1.81	21.86	17.84	14.66	21.16	7.42
R 2000	-2.77	4.71	-0.68	1.12	1.12	24.90	20.52	13.18	24.31	8.53
MSCI EAFE (Net)	-4.03	5.56	-0.64	0.66	0.66	17.56	14.36	7.21	16.02	6.53
MSCI EAFE SC (Net)	-1.54	5.52	-0.53	3.36	3.36	23.26	18.17	9.40	21.70	8.61
MSCI EM (Net)	-6.49	3.31	3.07	-0.43	-0.43	-1.43	0.25	-2.86	14.48	10.11
Barclays US Agg Bond	1.48	0.53	-0.17	1.84	1.84	-0.10	1.82	3.75	4.80	4.46
BofA ML 3 Mo US T-Bill	0.01	0.00	0.00	0.01	0.01	0.07	0.09	0.08	0.12	1.65
NCREIF ODCE (Gross)	N/A	N/A	N/A	2.47	2.47	13.71	12.24	13.04	7.30	7.17
Wilshire US REIT	3.88	5.04	0.93	10.13	10.13	4.42	9.11	10.52	29.24	8.19
HFN FOF Multi-Strat	-0.16	1.58	-0.65	0.76	0.76	6.34	5.74	2.62	4.54	2.88
DJ-UBS Cmnty (TR)	0.30	6.24	0.41	6.99	6.99	-2.10	-2.56	-7.37	4.24	0.43

### QTD



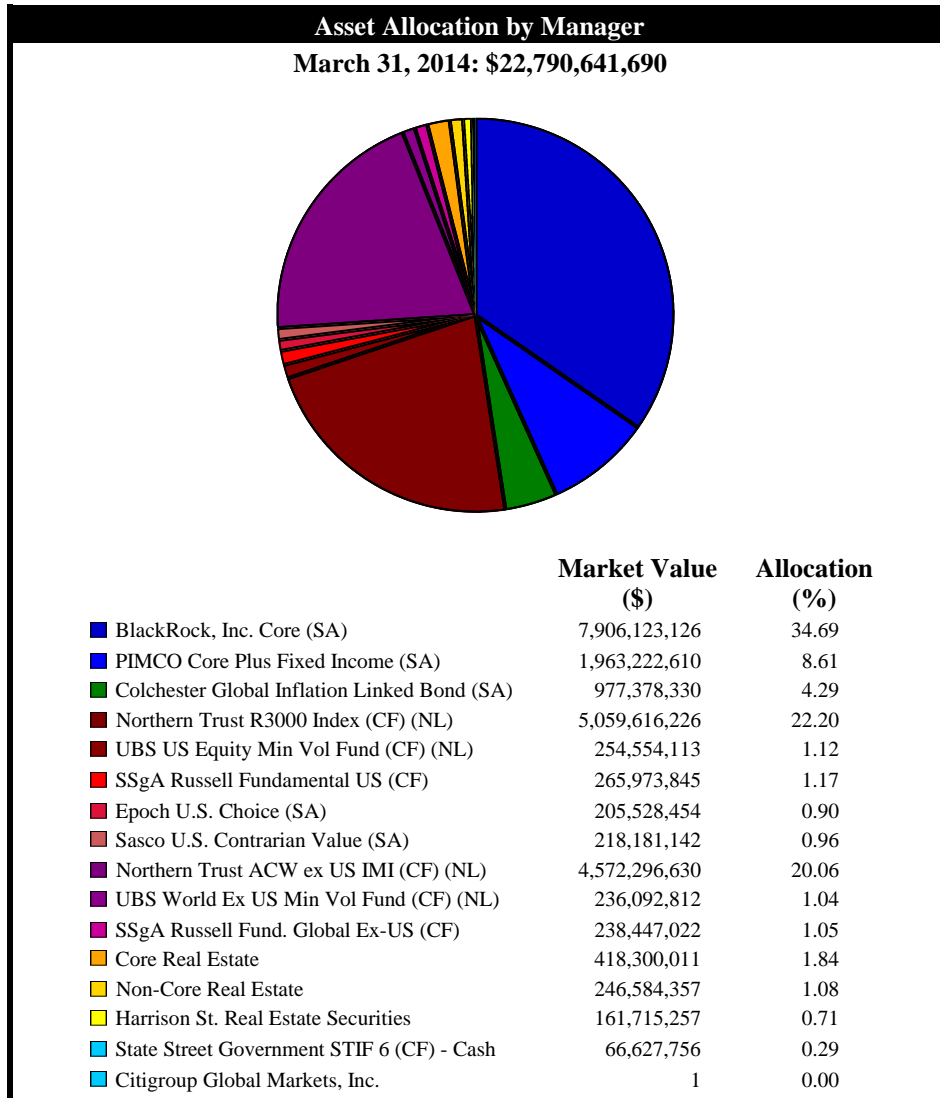
### Treasury Yield Curve



Treasury data courtesy of the U.S. Department of the Treasury.

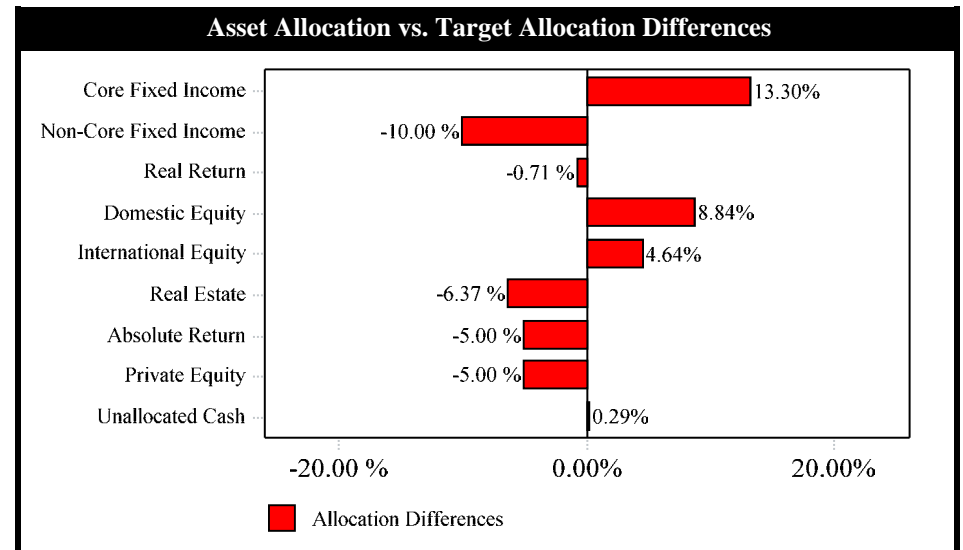
Performance for the HFN FOF Multi-Strat Index is preliminary and subject to change.

**Texas Municipal Retirement System**  
**Total Fund Composite**  
**Asset Alloc. by Manager, Asset Alloc. vs. Target, and Schedule of Investable Assets**  
**As of March 31, 2014**



**Asset Allocation vs. Target Allocation**

	Market Value (\$)	Allocation (%)	Target (%)
Core Fixed Income	9,869,345,736	43.30	30.00
Non-Core Fixed Income	-	-	10.00
Real Return	977,378,330	4.29	5.00
Domestic Equity	6,003,853,781	26.34	17.50
International Equity	5,046,836,464	22.14	17.50
Real Estate	826,599,625	3.63	10.00
Absolute Return	-	-	5.00
Private Equity	-	-	5.00
Unallocated Cash	66,627,756	0.29	0.00
<b>Total Fund</b>	<b>22,790,641,690</b>	<b>100.00</b>	<b>100.00</b>



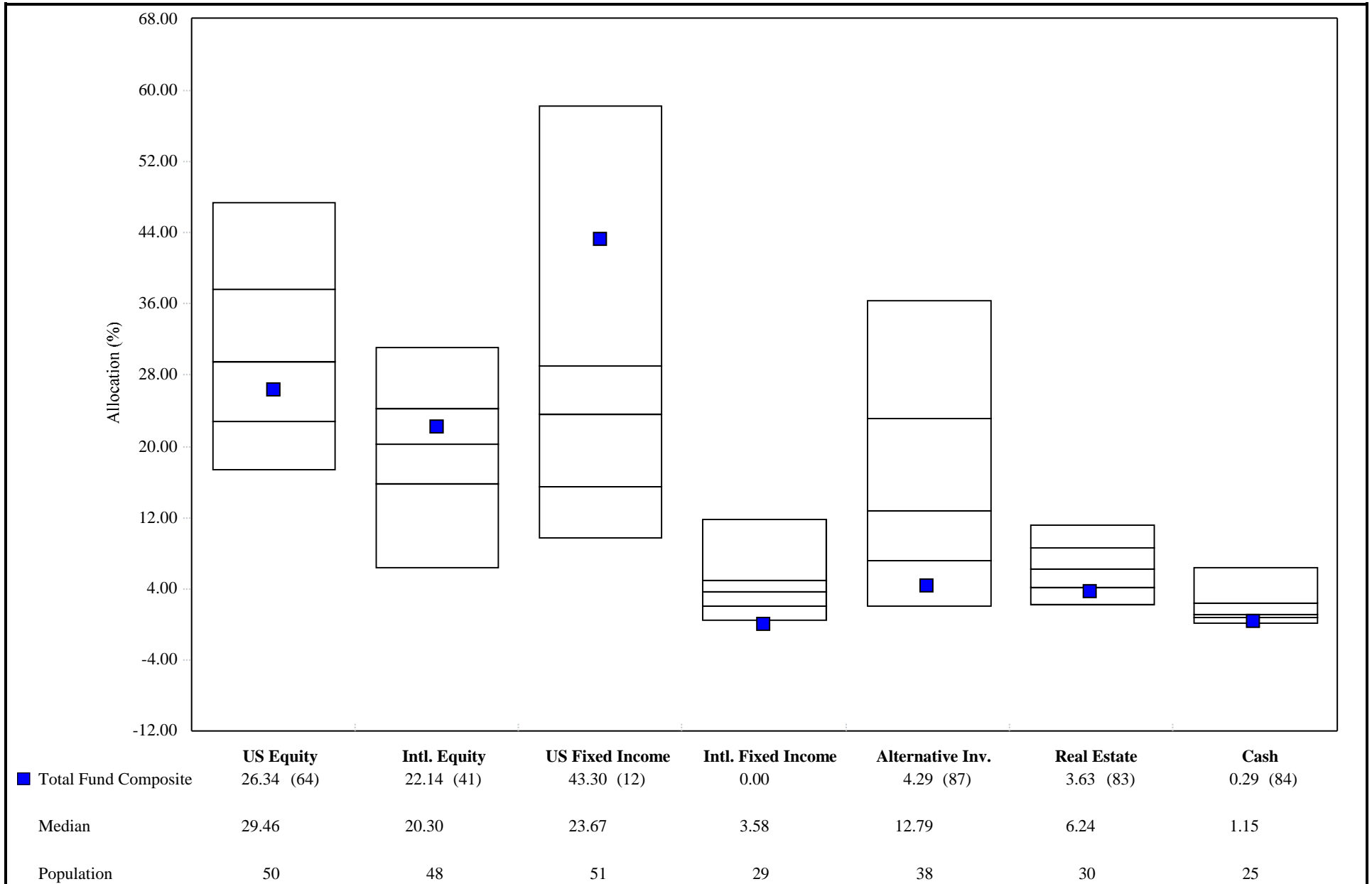
**Schedule of Investable Assets**

Periods Ending	Beginning Market Value (\$)	Net Cash Flow (\$)	Gain/Loss (\$)	Ending Market Value (\$)	%Return	Unit Value
CYTD	22,374,178,482	-2,974,669	419,437,878	22,790,641,690	1.95	101.95

Allocations shown may not sum up to 100% exactly due to rounding. Performance shown is gross of fees and provided by State Street. Gain/Loss figure includes both realized and unrealized gains and losses. Market value shown for Citigroup Global Markets, Inc. represents residual cash from liquidation.



**Texas Municipal Retirement System  
All Public Plans > \$1B-Total Fund  
Plan Sponsor TF Asset Allocation  
As of March 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 March 31, 2014**

	1 Quarter	Year To Date	1 Year	3 Years	5 Years	7 Years	10 Years	2013	Since Incep.	Inception Date
<b>Total Fund Composite</b>	<b>1.95</b>	<b>1.95</b>	<b>8.29</b>	<b>7.31</b>	<b>9.32</b>	<b>6.98</b>	<b>6.54</b>	<b>9.75</b>	<b>8.98</b>	<b>01/01/1989</b>
Actual Allocation Benchmark	1.74	1.74	8.25	7.05	8.78	6.61	5.85	9.70	8.35	
Difference	0.21	0.21	0.04	0.26	0.54	0.37	0.69	0.05	0.63	
<b>Total Fixed Income Composite</b>	<b>1.85</b>	<b>1.85</b>	<b>-0.15</b>	<b>4.06</b>	<b>5.53</b>	<b>4.96</b>	<b>5.13</b>	<b>-1.94</b>	<b>8.41</b>	<b>01/01/1989</b>
Fixed Income Benchmark	1.84	1.84	-0.10	3.75	5.01	4.61	4.47	-2.02	7.78	
Difference	0.01	0.01	-0.05	0.31	0.52	0.35	0.66	0.08	0.63	
<b>Real Return Composite</b>	<b>2.60</b>	<b>2.60</b>	<b>-0.73</b>	<b>4.60</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>-4.06</b>	<b>5.04</b>	<b>02/01/2011</b>
Barclays Wrld Gov Infl-Lnkd Index (Unhedged)	2.68	2.68	-1.59	3.75	6.40	4.89	5.01	-4.84	4.49	
Difference	-0.08	-0.08	0.86	0.85	N/A	N/A	N/A	0.78	0.55	
<b>Global Equity Composite</b>	<b>1.59</b>	<b>1.59</b>	<b>17.93</b>	<b>9.75</b>	<b>18.37</b>	<b>N/A</b>	<b>N/A</b>	<b>24.87</b>	<b>4.58</b>	<b>02/01/2008</b>
Global Equity Benchmark	1.42	1.42	17.69	9.60	18.20	N/A	N/A	24.49	4.44	
Difference	0.17	0.17	0.24	0.15	0.17	N/A	N/A	0.38	0.14	
<b>Domestic Equity Composite</b>	<b>2.10</b>	<b>2.10</b>	<b>22.26</b>	<b>14.53</b>	<b>21.88</b>	<b>N/A</b>	<b>N/A</b>	<b>33.20</b>	<b>7.94</b>	<b>02/01/2008</b>
R 3000 Index	1.97	1.97	22.61	14.61	21.93	6.60	7.86	33.55	7.96	
Difference	0.13	0.13	-0.35	-0.08	-0.05	N/A	N/A	-0.35	-0.02	
<b>International Equity Composite</b>	<b>0.98</b>	<b>0.98</b>	<b>13.17</b>	<b>4.82</b>	<b>14.70</b>	<b>N/A</b>	<b>N/A</b>	<b>16.31</b>	<b>1.08</b>	<b>02/01/2008</b>
International Equity Benchmark	0.87	0.87	12.80	4.58	14.38	0.27	5.77	15.82	0.81	
Difference	0.11	0.11	0.37	0.24	0.32	N/A	N/A	0.49	0.27	
<b>Real Estate Composite</b>	<b>7.76</b>	<b>7.76</b>	<b>13.75</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>11.69</b>	<b>11.80</b>	<b>01/01/2012</b>
NCREIF ODCE Index (Gross) (AWA) - 1 Quarter Lag	3.17	3.17	13.94	13.60	3.68	3.25	7.16	13.04	12.43	
Difference	4.59	4.59	-0.19	N/A	N/A	N/A	N/A	-1.35	-0.63	
<b>TMRS Unallocated Cash (SA)</b>	<b>0.00</b>	<b>0.00</b>	<b>0.16</b>	<b>0.07</b>	<b>0.10</b>	<b>N/A</b>	<b>N/A</b>	<b>0.12</b>	<b>0.25</b>	<b>06/01/2008</b>
BofA ML 3 Mo US T-Bill Index	0.01	0.01	0.07	0.08	0.12	0.91	1.65	0.07	0.28	
Difference	-0.01	-0.01	0.09	-0.01	-0.02	N/A	N/A	0.05	-0.03	

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

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**  
**Addendum**  
**As of March 31, 2014**

**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
- Barclays World Government Inflation-Linked Index (Unhedged)\*
- NCREIF Open-End Diversified Core Equity Index (Gross) (AWA)\*\*
- 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 **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 **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.

**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).