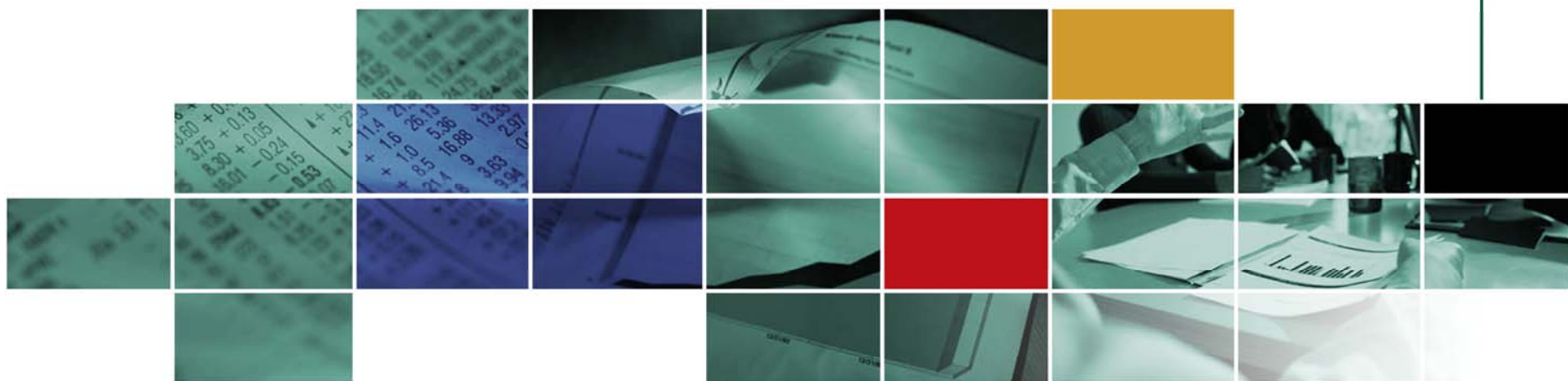


# RVKuhns

▶▶▶ & ASSOCIATES, INC.

## *TMRS Quarterly Summary*



## Capital Markets Review As of December 31, 2012

### Fourth Quarter Economic Environment

Equity markets closed the year with another positive quarter in spite of continued concerns about the health of the global economy. Domestically, the Bureau of Economic Analysis revised estimate of real GDP growth for the third quarter was 3.1% annualized, up from the second quarter rate of 1.3%. The Bureau of Labor Statistics reported modest fourth quarter job growth, as an average of 151,000 jobs were added monthly and the unemployment rate remained at 7.8%. The “fiscal cliff”, a group of tax increases and spending cuts scheduled to take effect at the beginning of 2013, dominated headlines as the fourth quarter came to a close. At the start of 2013, lawmakers reached a deal on tax issues, however, no action was taken on the debt ceiling, which is expected to be reached in late February. The automatic spending cuts known as the sequester were postponed until March. Consumer sentiment, as measured by the University of Michigan survey, declined 11.9% in December in response to the fiscal cliff impasse after reaching its highest level since 2007 in November. There was moderate improvement in the manufacturing sector in December, as the Institute for Supply Management index was reported at 50.7%, indicating expansion in the sector.

Internationally, the International Monetary Fund (IMF), European Central Bank (ECB), and Euro zone finance ministers reached agreement with Greece over the next stage of their rescue package. Spanish, Italian, and Greek debt spreads declined significantly in response to the package. Elsewhere, the Bank of Japan continued to step up its bond buying programs while incoming Prime Minister Shinzo Abe called for significant fiscal stimulus. Japanese stock markets rallied in December, gaining over 10% in local currency terms and reaching their highest levels since April. Chinese GDP grew at a 7.4% annualized rate in the third quarter, the slowest rate since 2009.

#### Domestic Equities

- Equities lost ground in October, but rebounded later in the quarter to post gains for the second consecutive quarter.
- Continuing the trend since the second quarter, value significantly outperformed growth, as the Russell 3000 Value returned 1.65% while the Russell 3000 Growth returned -1.19%.
- Mid-cap stocks outperformed small cap and large cap stocks, as the Russell Mid Cap returned 2.88% compared with 1.85% and 0.12% for the Russell 2000 and Russell 1000, respectively.
- Sector returns were mixed this quarter. Financials posted a 5.92% return on the quarter, and were the highest performing sector. Telecommunications returned -6.02%, and was the lowest performing sector.

#### International Equities

- International markets produced their second consecutive quarter of strong returns. Gains were experienced broadly by both developed and emerging markets.
- As with domestic equities, value outperformed growth as the MSCI EAFE Value returned 7.44% compared with 5.79% for the MSCI EAFE Growth.

#### Fixed Income

- U.S. bonds outperformed their global counterparts, as the Barclays US Aggregate Bond Index returned 0.21% versus -0.48% for the Barclays Global Aggregate Bond Index.
- As in the third quarter, appetite for risk remained high, as emerging markets debt outperformed developed markets debt, and high yield outperformed investment grade.

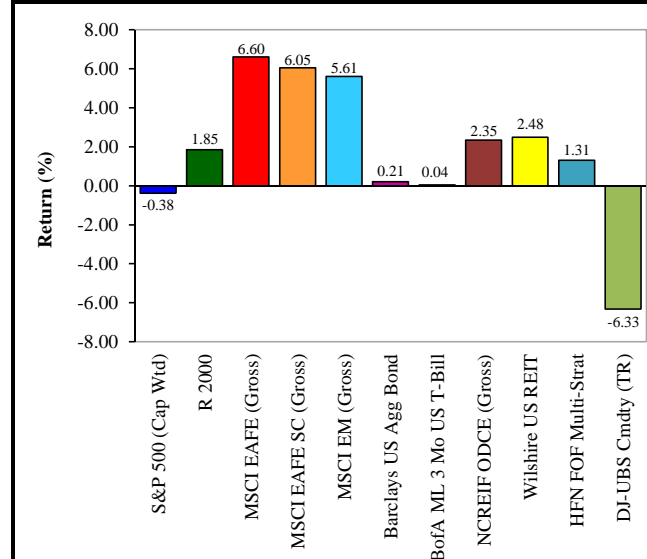
### Trailing-Period Performance

	Mth End Oct-2012	Mth End Nov-2012	MTD	QTD	FYTD	1 Year	2 Years	3 Years	5 Years	10 Years
S&P 500 (Cap Wtd)	-1.85	0.58	0.91	-0.38	16.00	16.00	8.84	10.87	1.66	7.10
R 2000	-2.17	0.53	3.56	1.85	16.34	16.34	5.58	12.25	3.55	9.72
MSCI EAFE (Gross)	0.84	2.43	3.21	6.60	17.90	17.90	2.01	4.04	-3.21	8.70
MSCI EAFE SC (Gross)	0.86	0.96	4.15	6.05	20.42	20.42	0.78	7.52	-0.51	12.34
MSCI EM (Gross)	-0.60	1.28	4.90	5.61	18.64	18.64	-1.47	4.99	-0.61	16.89
Barclays US Agg Bond	0.20	0.16	-0.14	0.21	4.21	4.21	6.01	6.19	5.95	5.18
BofA ML 3 Mo US T-Bill	0.01	0.02	0.02	0.04	0.11	0.11	0.11	0.11	0.52	1.78
NCREIF ODCE (Gross)	N/A	N/A	N/A	2.35	10.94	10.94	13.43	14.40	-1.10	6.71
Wilshire US REIT	-0.90	-0.39	3.82	2.48	17.59	17.59	13.34	18.21	5.25	11.57
HFN FOF Multi-Strat	-0.15	0.43	1.03	1.31	4.80	4.80	-0.51	1.22	-1.98	3.38
DJ-UBS Cmdty (TR)	-3.87	0.05	-2.61	-6.33	-1.06	-1.06	-7.39	0.07	-5.17	4.09

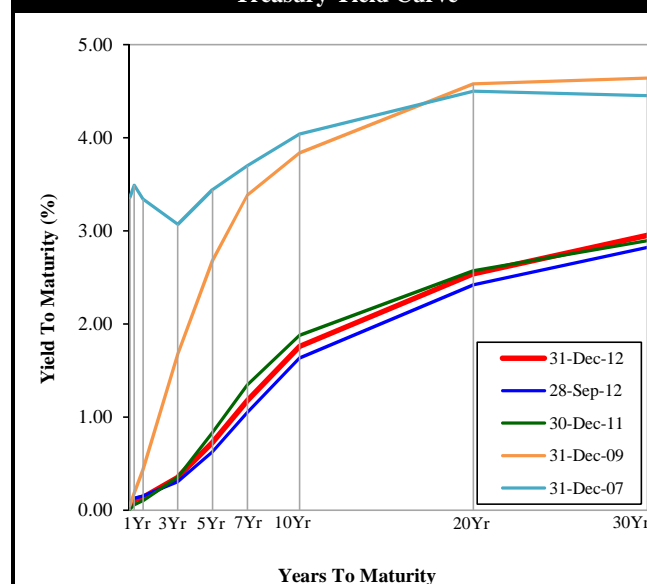
Performance is annualized for periods greater than one year.

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

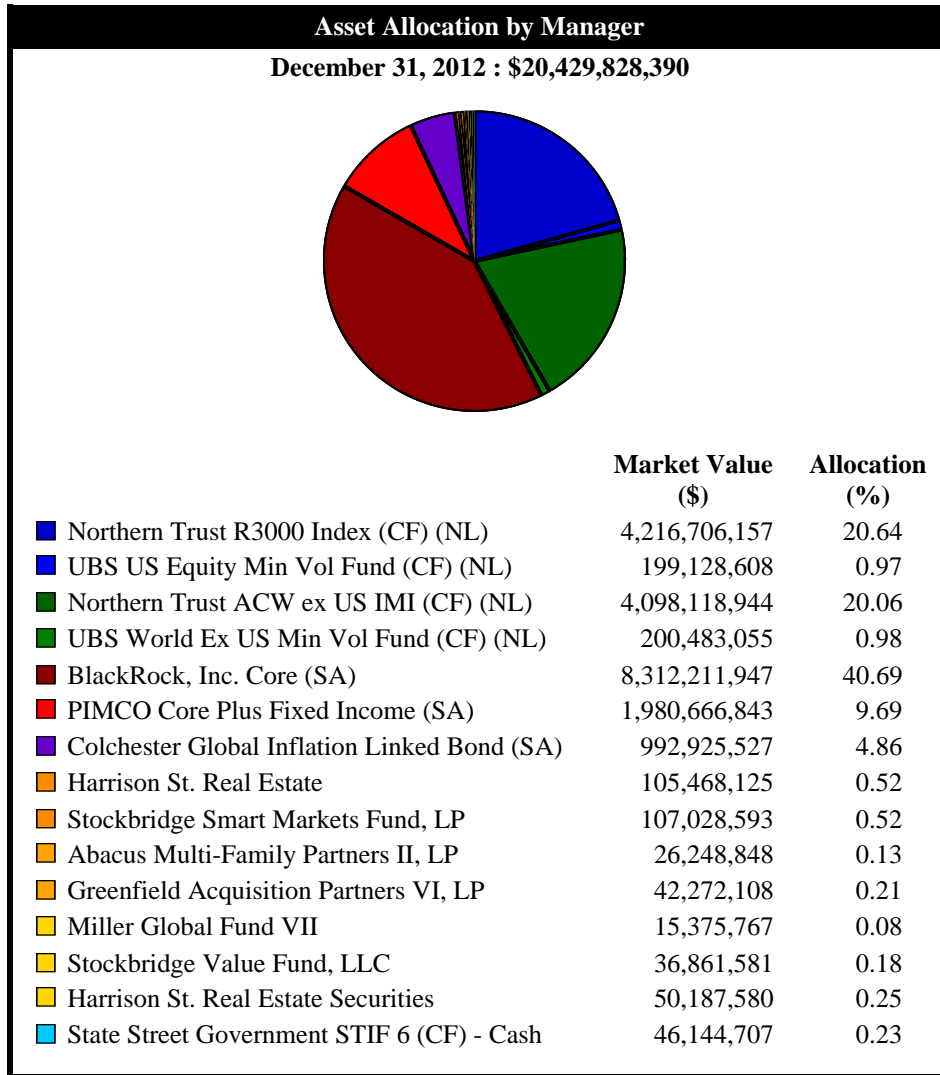
### QTD



### Treasury Yield Curve

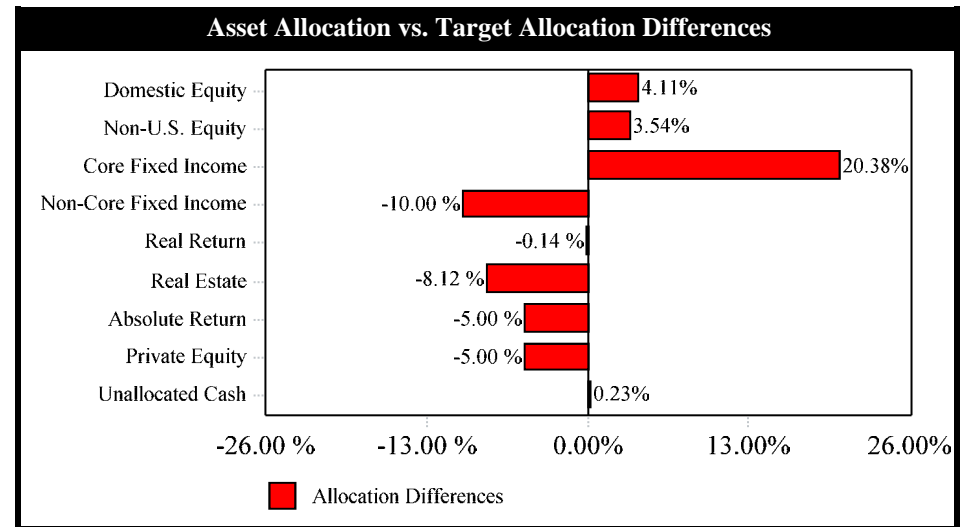


**Texas Municipal Retirement System**  
**Total Fund Composite**  
**Asset Alloc. by Manager, Asset Alloc. vs. Target, and Schedule of Investable Assets**  
**As of December 31, 2012**



**Asset Allocation vs. Target Allocation**

	Market Value (\$)	Allocation (%)	Target (%)
Domestic Equity	4,415,834,765	21.61	17.50
Non-U.S. Equity	4,298,601,999	21.04	17.50
Core Fixed Income	10,292,878,790	50.38	30.00
Non-Core Fixed Income	-	-	10.00
Real Return	992,925,527	4.86	5.00
Real Estate	383,442,603	1.88	10.00
Absolute Return	-	-	5.00
Private Equity	-	-	5.00
Unallocated Cash	46,144,707	0.23	0.00
<b>Total Fund</b>	<b>20,429,828,390</b>	<b>100.00</b>	<b>100.00</b>

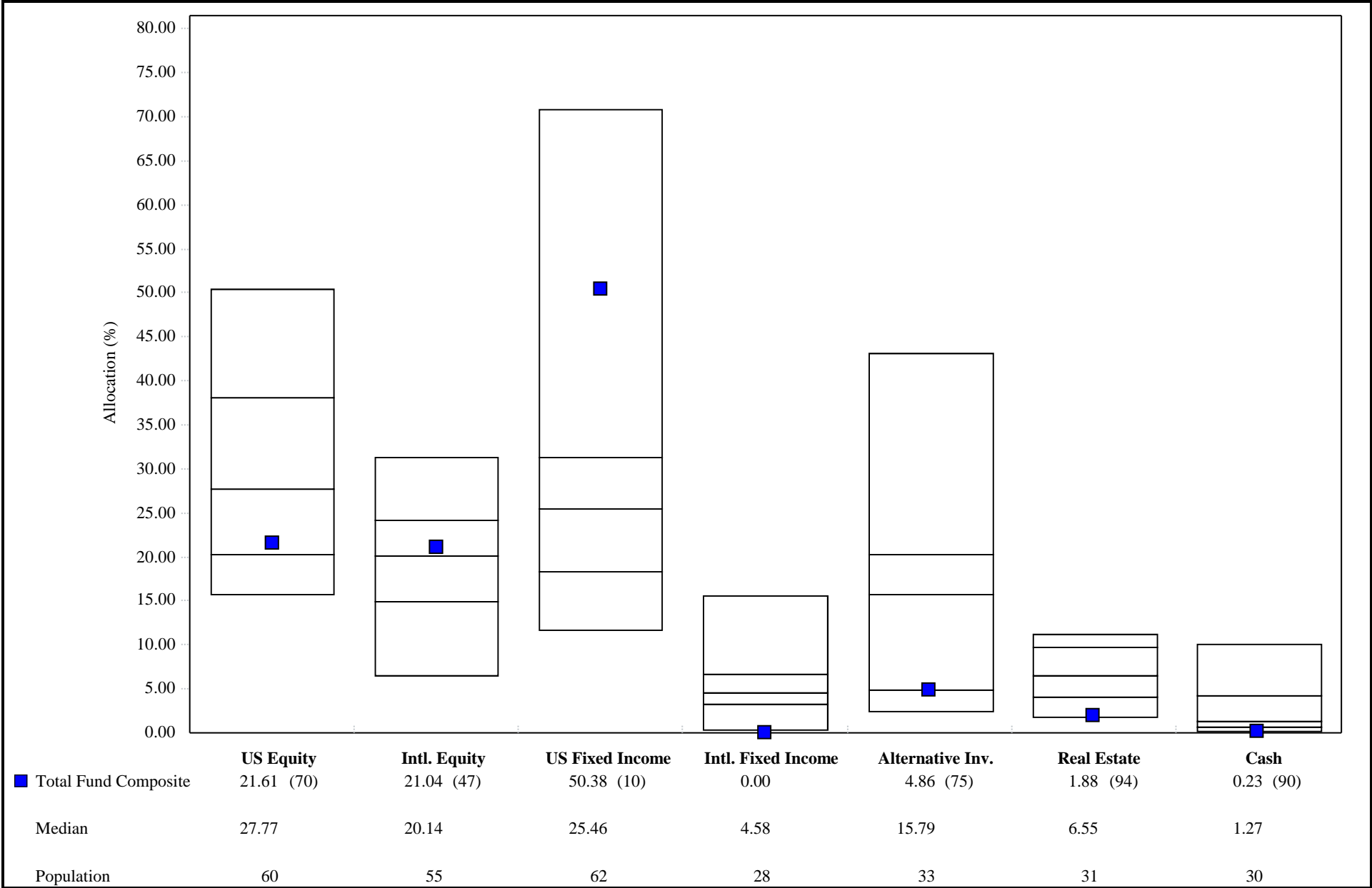


**Schedule of Investable Assets**

Periods Ending	Beginning Market Value (\$)	Net Cash Flow (\$)	Gain/Loss (\$)	Ending Market Value (\$)	%Return	Unit Value
CYTD	18,515,033,571	63,477,823	1,851,316,996	20,429,828,390	9.99	109.99

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.

**Texas Municipal Retirement System  
All Public Plans > \$1B-Total Fund  
Plan Sponsor TF Asset Allocation  
As of December 31, 2012**



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, 2012**

	1 Quarter	Year To Date	1 Year	3 Years	5 Years	7 Years	10 Years	2011	Since Incep.	Inception Date
<b>Total Fund Composite</b>	<b>1.45</b>	<b>9.99</b>	<b>9.99</b>	<b>7.09</b>	<b>5.97</b>	<b>5.47</b>	<b>6.31</b>	<b>2.41</b>	<b>8.96</b>	<b>01/01/1989</b>
Actual Allocation Benchmark	1.46	9.47	9.47	6.90	5.84	5.50	5.82	2.39	8.31	
Difference	-0.01	0.52	0.52	0.19	0.13	-0.03	0.49	0.02	0.65	
<b>Total Fixed Income Composite</b>	<b>0.24</b>	<b>4.94</b>	<b>4.94</b>	<b>6.47</b>	<b>5.56</b>	<b>5.18</b>	<b>6.10</b>	<b>7.99</b>	<b>8.87</b>	<b>01/01/1989</b>
Fixed Income Benchmark	0.21	4.21	4.21	6.19	5.42	5.20	5.61	7.84	8.22	
Difference	0.03	0.73	0.73	0.28	0.14	-0.02	0.49	0.15	0.65	
<b>Real Return Composite</b>	<b>2.68</b>	<b>10.83</b>	<b>10.83</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>02/01/2011</b>
Barclays Wrld Gov Infl-Lnkd Index (Unhedged)	2.05	6.95	6.95	7.15	5.24	6.42	7.35	10.65	8.84	
Difference	0.63	3.88	3.88	N/A	N/A	N/A	N/A	N/A	N/A	
<b>Global Equity Composite</b>	<b>2.82</b>	<b>16.77</b>	<b>16.77</b>	<b>7.22</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>-6.28</b>	<b>0.79</b>	<b>02/01/2008</b>
Global Equity Benchmark	2.89	16.73	16.73	7.17	N/A	N/A	N/A	-6.27	0.70	
Difference	-0.07	0.04	0.04	0.05	N/A	N/A	N/A	-0.01	0.09	
<b>Domestic Equity Composite</b>	<b>0.18</b>	<b>16.33</b>	<b>16.33</b>	<b>11.17</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>1.03</b>	<b>3.38</b>	<b>02/01/2008</b>
R 3000 Index	0.25	16.42	16.42	11.21	2.05	4.34	7.68	1.03	3.39	
Difference	-0.07	-0.09	-0.09	-0.04	N/A	N/A	N/A	0.00	-0.01	
<b>Non-U.S. Equity Composite</b>	<b>5.69</b>	<b>17.23</b>	<b>17.23</b>	<b>3.25</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>-13.35</b>	<b>-1.90</b>	<b>02/01/2008</b>
Non-U.S. Equity Benchmark	5.74	17.04	17.04	3.05	-3.97	1.98	8.05	-13.44	-2.13	
Difference	-0.05	0.19	0.19	0.20	N/A	N/A	N/A	0.09	0.23	
<b>Real Estate Composite</b>	<b>0.27</b>	<b>4.41</b>	<b>4.41</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>4.41</b>	<b>01/01/2012</b>
NCREIF ODCE Index (Gross) (AWA)	2.35	10.94	10.94	14.40	-1.10	3.55	6.71	15.99	10.94	
Difference	-2.08	-6.53	-6.53	N/A	N/A	N/A	N/A	N/A	-6.53	
<b>TMRS Unallocated Cash (SA)</b>	<b>0.02</b>	<b>0.08</b>	<b>0.08</b>	<b>0.08</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>0.04</b>	<b>0.30</b>	<b>06/01/2008</b>
BofA ML 3 Mo US T-Bill Index	0.04	0.11	0.11	0.11	0.52	1.76	1.78	0.10	0.34	
Difference	-0.02	-0.03	-0.03	-0.03	N/A	N/A	N/A	-0.06	-0.04	

- 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 asset class weights applied to each corresponding benchmark 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.
- As the Real Return asset class structure becomes diversified, the performance objective will be the Consumer Price Index + 4%.
- 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.
- 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. Real Estate returns for 2012 will be revised using a Private Real Estate specific methodology as of Q1 2013 and reported with the Q1 2013 results for the Fund.

Performance shown is gross of fees.