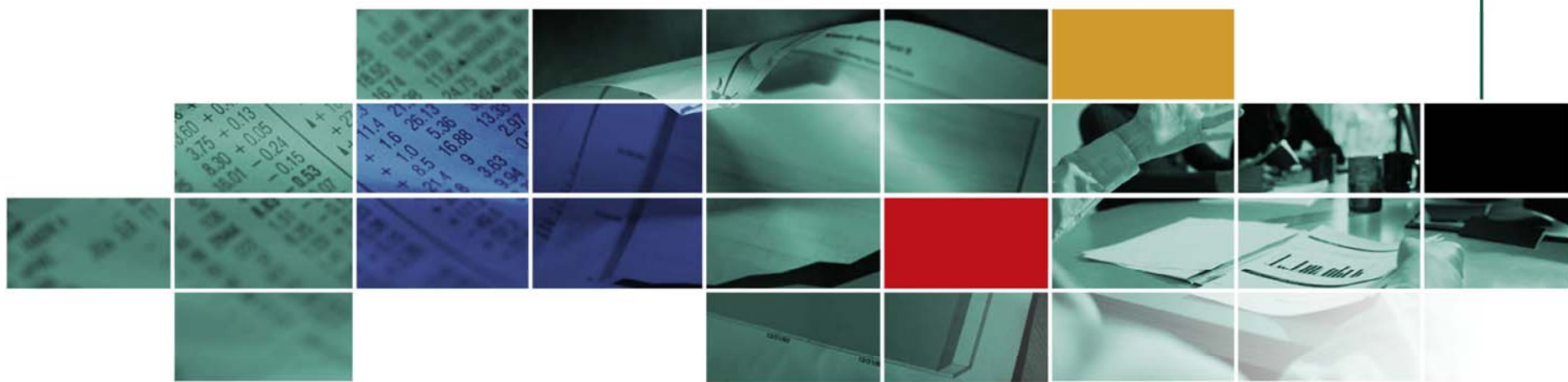


# RVKuhns

▶▶▶ & ASSOCIATES, INC.

## *TMRS Quarterly Summary*



## Capital Markets Review As of March 31, 2011

### Capital Markets Review

#### First Quarter Economic Environment

Equity and fixed income markets were subjected to a wide array of cross-currents during the quarter as negative international headlines intermingled with positive U.S. economic reports. Social and political unrest in several Middle Eastern and North African oil-producing countries raised energy concerns and provided a headwind to the global equity rally initiated during 2010. By mid-March, headlines were dominated by the largest recorded earthquake to strike Japan as well as by the tsunami and nuclear crisis that followed. European sovereign debt fears were refueled as Portugal's government collapsed and fears of contagion escalated. Inflationary concerns continued to materialize in emerging markets, as evinced by the People's Bank of China raising interest rates for the second consecutive quarter.

In the U.S., the BEA increased their 4Q10 final GDP estimate to 3.1% annualized, 0.3% higher than the previous assessment. The manufacturing and service-industry ISM indices reached levels during the first quarter that have not been witnessed since 2004 and 2005, respectively. The unemployment rate fell to 8.8% in March as the 4-week average of jobless claims decreased to 389,500 – a level generally considered to be consistent with sustainable employment growth. In contrast, housing prices remained weak due to an inflated inventory level. Commodity prices finished the quarter with mixed returns though oil prices rose above \$100 per barrel for the first time since 2008. Rising farm food and crude oil prices pushed headline inflation higher in the U.S. while core inflation (which excludes food and energy prices) remained muted.

#### First Quarter Domestic Equities

- Domestic equities finished the quarter with strong returns as key economic fundamentals improved and corporate activity rose.
- Small-caps outperformed large-caps with small-cap growth stocks, represented by the R 2000 Growth, the highest performer at 9.2%.
- Every sector of the S&P 500 posted positive returns culminating in a 5.9% quarterly return for the index.
  - The energy sector, bolstered by oil speculation and rising commodity prices, provided the strongest return for the quarter at 16.8%. The industrial sector was the second-best performer, returning 8.8%.
  - The financials sector benefited from positive investor sentiment regarding the Fed's decision to allow several banks to reinstate dividends and authorize share repurchases.
- During Q1, there was a \$35B net inflow into U.S. equity mutual funds – the first quarter of positive net cash flows since Q1 2010.

#### First Quarter International Equities

- Most international equities witnessed gains despite serious headwinds from macroeconomic events in the Middle East and Japan.
- Large-caps outperformed small-caps with developed large-cap value stocks, represented by the MSCI EAFE Value, leading the way.
- Even though March saw a 0.2% decline, the MSCI ACW Ex US finished the quarter up 3.5%, primarily due to the energy sector.
- Emerging markets, represented by the MSCI Emg Mkts, rallied to a 5.9% return in March but finished the quarter up 2.1%, lagging developed markets.

#### First Quarter Fixed Income

- The Fed kept short-term rates near zero, holding interest rates near their historic lows. The 10-year Treasury note ended the quarter yielding 3.5%, up 0.2% over the quarter. As QE2 is set to conclude in June, investor speculation over the impact remains high.

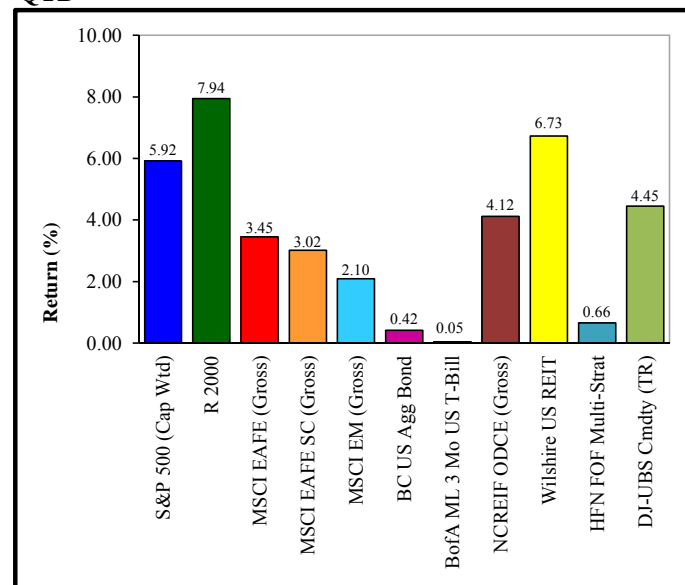
#### Trailing-Period Performance

	Mth End Jan-2011	Mth End Feb-2011	MTD	QTD	CYTD	1 Year	2 Years	3 Years	5 Years	10 Years
S&P 500 (Cap Wtd)	2.37	3.43	0.04	5.92	5.92	15.65	31.61	2.36	2.62	3.29
R 2000	-0.26	5.48	2.59	7.94	7.94	25.80	43.09	8.57	3.36	7.91
MSCI EAFE (Gross)	2.37	3.32	-2.20	3.45	3.45	10.90	31.19	-2.53	1.78	5.83
MSCI EAFE SC (Gross)	0.80	2.27	-0.06	3.02	3.02	20.29	43.25	1.75	1.70	10.96
MSCI EM (Gross)	-2.69	-0.92	5.90	2.10	2.10	18.78	46.85	4.62	11.01	17.13
BC US Agg Bond	0.12	0.25	0.06	0.42	0.42	5.12	6.40	5.30	6.03	5.56
BofA ML 3 Mo US T-Bill	0.01	0.02	0.03	0.05	0.05	0.16	0.17	0.51	2.23	2.24
NCREIF ODCE (Gross)	N/A	N/A	N/A	4.12	4.12	20.25	-0.71	-8.92	-0.10	5.38
Wilshire US REIT	3.52	4.59	-1.43	6.73	6.73	24.98	63.44	1.66	0.77	11.31
HFN FOF Multi-Strat	0.07	0.81	-0.22	0.66	0.66	4.08	7.48	-1.46	1.14	4.28
DJ-UBS Cmdb (TR)	1.00	1.32	2.06	4.45	4.45	28.49	24.45	-5.20	2.57	7.07

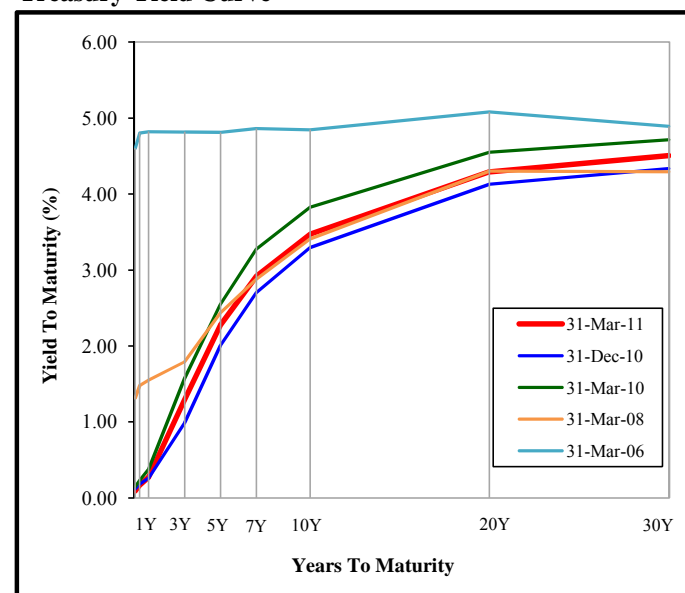
Performance is annualized for periods greater than one year.

Data courtesy of Bloomberg Professional Service and U.S. Department of the Treasury. Trailing-period performance may differ slightly due to rounding by the provider.

### QTD

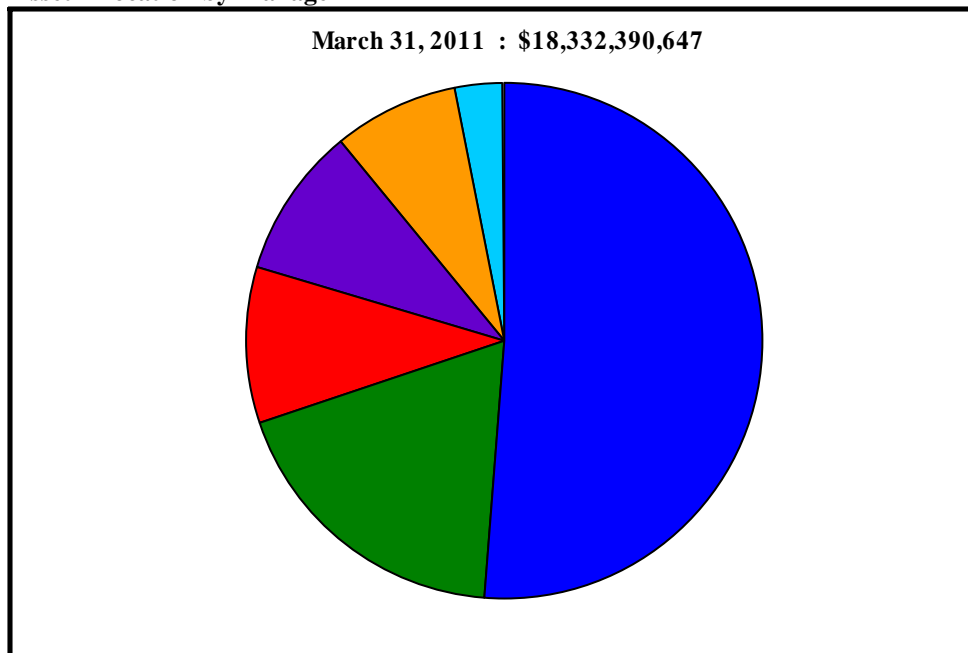


### Treasury Yield Curve



**Texas Municipal Retirement System**  
**Total Fund Composite**  
**Asset Alloc. by Manager, Asset Alloc. vs. Target, and Schedule of Investable Assets**  
**As of March 31, 2011**

**Asset Allocation by Manager**

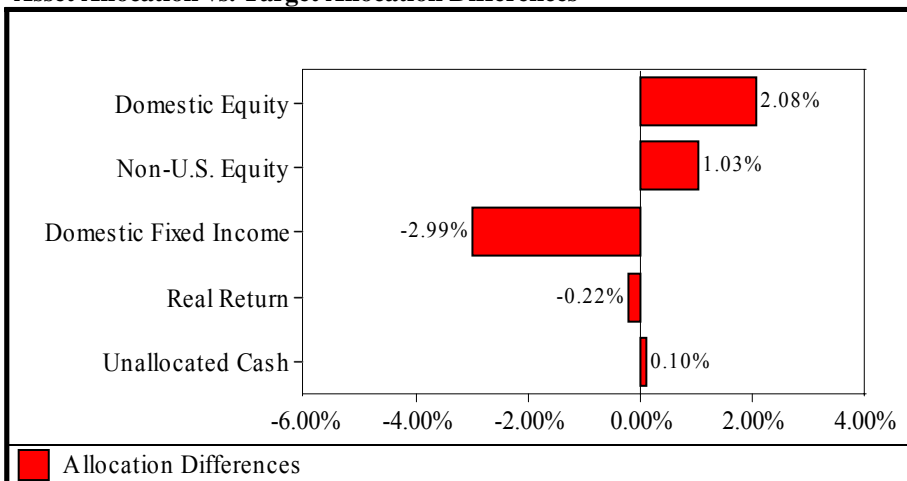


	Market Value (\$)	Allocation (%)
BlackRock, Inc. Core (SA)	9,389,511,902	51.22
Northern Trust R3000 Index (CF) (Non-Lending)	3,416,144,937	18.63
Northern Trust EAFE Index (CF) (Non-Lending)	1,791,964,369	9.77
PIMCO Core Plus Fixed Income (SA)	1,730,376,708	9.44
Northern Trust ACW ex US IMI (CF) (Non-Lending)	1,430,032,421	7.80
Colchester Global Inflation Linked Bond Fund (SA)	555,448,029	3.03
State Street Government STIF 6 (CF) - Cash	18,810,631	0.10
BlackRock, Inc. Legacy (SA)	101,649	-

**Asset Allocation vs. Target Allocation**

	Market Value (\$)	Allocation (%)	Target (%)
Domestic Equity	3,416,144,937	18.63	16.55
Non-U.S. Equity	3,221,996,790	17.58	16.55
Domestic Fixed Income	11,119,990,260	60.66	63.65
Real Return	555,448,029	3.03	3.25
Unallocated Cash	18,810,631	0.10	-
Total Fund	18,332,390,647	100.00	100.00

**Asset Allocation vs. Target Allocation Differences**

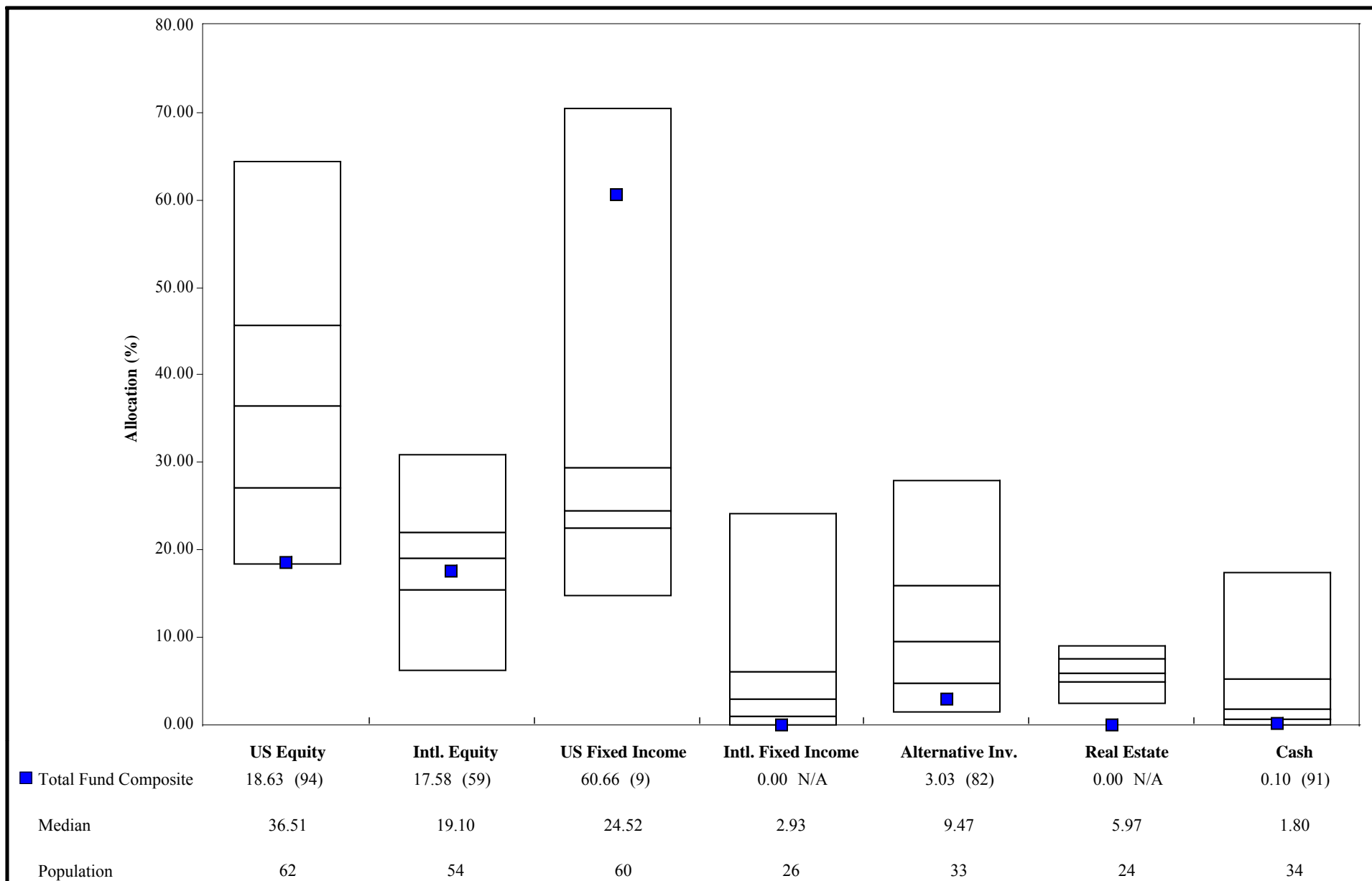


**Schedule of Investable Assets**

Periods	Beginning Market Value (\$)	Net Cash Flow (\$)	Gain/Loss (\$)	Ending Market Value (\$)	%Return	Unit Value
CYTD	17,936,876,361	30,134,131	365,380,155	18,332,390,647	2.03	102.03

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 March 31, 2011**



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, 2011**

	1 Quarter	Year To Date	1 Year	3 Years	5 Years	7 Years	10 Years	2010	Since Inception	Inception Date
<b>Total Fund Composite</b>	<b>2.03</b>	<b>2.03</b>	<b>8.54</b>	<b>5.82</b>	<b>6.81</b>	<b>6.21</b>	<b>7.50</b>	<b>9.02</b>	<b>9.21</b>	<b>01/01/1989</b>
Actual Allocation Benchmark	2.00	2.00	8.64	6.26	6.50	5.35	6.75	8.99	8.53	
Difference	0.03	0.03	-0.10	-0.44	0.31	0.86	0.75	0.03	0.68	
<b>Total Fixed Income Composite</b>	<b>0.44</b>	<b>0.44</b>	<b>4.88</b>	<b>4.35</b>	<b>5.94</b>	<b>5.59</b>	<b>7.06</b>	<b>6.51</b>	<b>9.01</b>	<b>01/01/1989</b>
Fixed Income Benchmark	0.42	0.42	5.12	4.90	5.68	4.77	6.34	6.54	8.34	
Difference	0.02	0.02	-0.24	-0.55	0.26	0.82	0.72	-0.03	0.67	
<b>Real Return Composite</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>N/A</b>	<b>N/A</b>	<b>1.45</b>	<b>02/01/2011</b>
Consumer Price Index + 4%	2.96	2.96	6.79	5.59	6.35	6.65	6.50	5.56	2.14	
Difference	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	-0.69	
<b>Global Equity Composite</b>	<b>5.01</b>	<b>5.01</b>	<b>14.36</b>	<b>0.46</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>12.62</b>	<b>-0.09</b>	<b>02/01/2008</b>
Global Equity Benchmark	4.96	4.96	14.16	0.32	N/A	N/A	N/A	12.49	-0.23	
Difference	0.05	0.05	0.20	0.14	N/A	N/A	N/A	0.13	0.14	
<b>Domestic Equity Composite</b>	<b>6.38</b>	<b>6.38</b>	<b>17.37</b>	<b>3.43</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>16.89</b>	<b>2.04</b>	<b>02/01/2008</b>
R 3000 Index	6.38	6.38	17.41	3.42	2.95	5.08	4.13	16.93	2.02	
Difference	0.00	0.00	-0.04	0.01	N/A	N/A	N/A	-0.04	0.02	
<b>Non-U.S. Equity Composite</b>	<b>3.58</b>	<b>3.58</b>	<b>11.24</b>	<b>-2.60</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>8.35</b>	<b>-2.33</b>	<b>02/01/2008</b>
Non-U.S. Equity Benchmark	3.47	3.47	10.80	-2.90	1.37	6.29	5.42	8.01	-2.64	
Difference	0.11	0.11	0.44	0.30	N/A	N/A	N/A	0.34	0.31	
<b>TMRS Unallocated Cash (SA)</b>	<b>0.02</b>	<b>0.02</b>	<b>0.14</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>N/A</b>	<b>0.13</b>	<b>0.45</b>	<b>06/01/2008</b>
BofA ML 3 Mo US T-Bill Index	0.05	0.05	0.16	0.51	2.23	2.33	2.24	0.13	0.50	
Difference	-0.03	-0.03	-0.02	N/A	N/A	N/A	N/A	0.00	-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.