



TMRS Quarterly Summary

Period Ended: September 30, 2014



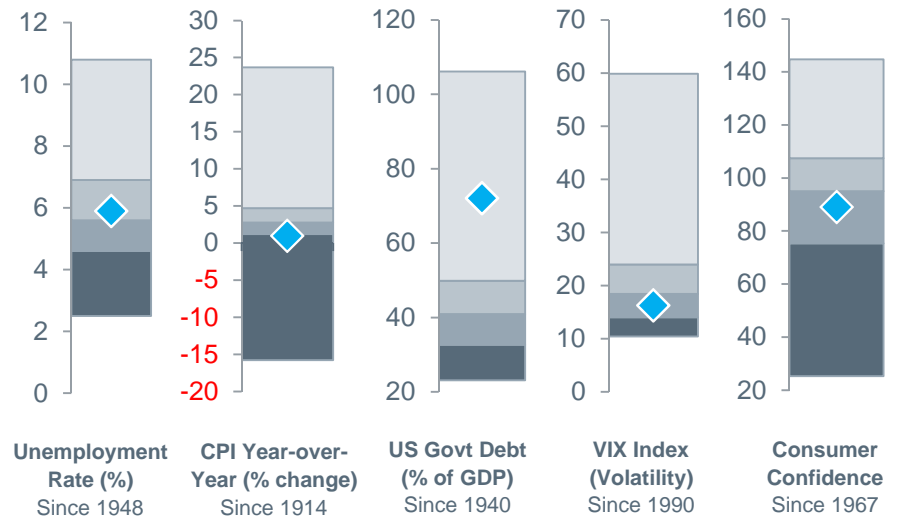
Capital Markets Review
As of September 30, 2014

Third Quarter Economic Environment

Key Economic Indicators

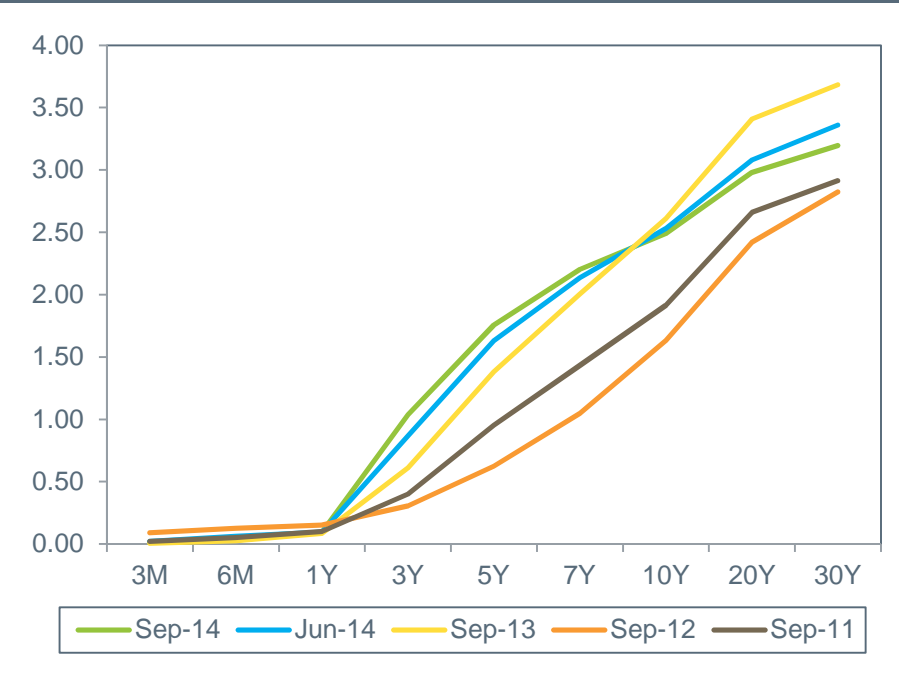
During Q3 2014, segments of the US equity market generated positive returns, aided by increased M&A activity and an upward revision to Q2 GDP. Generally, global equity markets were weaker due to growing concerns about deflationary pressures in the Eurozone and deteriorating economic indicators in emerging markets. The Federal Reserve maintained its commitment to end quantitative easing, while also signaling a slight bias toward maintaining an accommodative interest rate policy. The unemployment rate fell to 5.9% in September. Job growth in the US has averaged 227,000 per month, which is on pace to be the fastest annual job growth rate since 1999. Due to continued disappointing economic reports from the Eurozone, the European Central Bank (ECB) announced additional measures to stimulate the economy. In Japan, a devalued Yen and new consumption tax were blamed for weaker than expected industrial and retail sales. Meanwhile, Russia responded to economic sanctions with import bans and a 50 point interest rate increase in an effort to stabilize the currency and stem capital flight.

Key Economic Indicators



| Economic Indicators | Sep-14 | Jun-14 | Sep-13 | Sep-11 | 20 Yr |
|-------------------------------|---------|--------|--------|--------|-------|
| Federal Funds Rate (%) | 0.07 ▼ | 0.09 | 0.06 | 0.06 | 2.92 |
| Breakeven Infl. - 1 Yr (%) | -0.19 ▼ | 1.46 | 0.41 | 0.86 | 1.17 |
| Breakeven Infl. - 10 Yr (%) | 1.97 ▼ | 2.24 | 2.19 | 1.76 | 2.05 |
| CPI YoY (Headline) (%) | 1.70 ▼ | 2.10 | 1.50 | 3.90 | 2.39 |
| Unemployment Rate (%) | 5.90 ▼ | 6.10 | 7.50 | 9.00 | 6.01 |
| Real GDP YoY (%) | 2.30 ▼ | 2.60 | 1.70 | 1.20 | 2.49 |
| PMI - Manufacturing | 59.00 ▲ | 55.30 | 51.50 | 52.80 | 52.05 |
| USD Total Wtd Idx (%) | 81.09 ▲ | 75.73 | 75.22 | 72.81 | 86.30 |
| WTI Crude Oil per Barrel (\$) | 91 ▼ | 105 | 102 | 79 | 52.90 |
| Gold Spot per Oz (\$) | 1,208 ▼ | 1,327 | 1,329 | 1,624 | 694 |

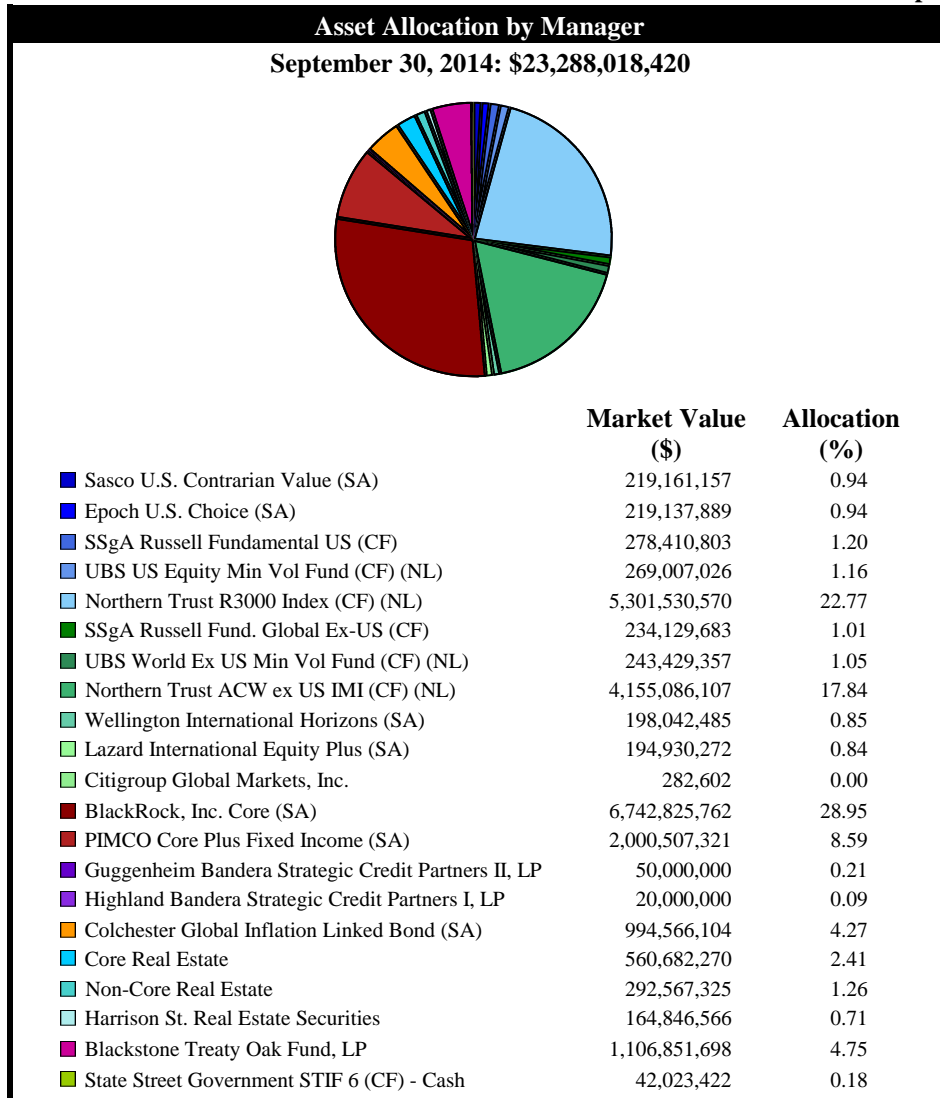
Treasury Yield Curve (%)



| Market Performance (%) | QTD | YTD | 1 Yr | 5 Yr | 10 Yr |
|------------------------|--------|-------|-------|-------|-------|
| S&P 500 (Cap Wtd) | 1.13 | 8.35 | 19.74 | 15.70 | 8.11 |
| Russell 2000 | -7.36 | -4.41 | 3.93 | 14.28 | 8.19 |
| MSCI EAFE (Net) | -5.88 | -1.38 | 4.25 | 6.56 | 6.32 |
| MSCI EAFE SC (Net) | -7.82 | -2.74 | 3.00 | 8.91 | 8.07 |
| MSCI Emg Mkts (Net) | -3.50 | 2.43 | 4.30 | 4.42 | 10.68 |
| Barclays US Agg Bond | 0.17 | 4.10 | 3.96 | 4.12 | 4.62 |
| BofA ML 3 Mo US T-Bill | 0.01 | 0.03 | 0.05 | 0.10 | 1.59 |
| NCREIF ODCE (Gross) | 3.24 | 8.94 | 12.40 | 12.40 | 7.14 |
| Wilshire US REIT | -3.07 | 14.46 | 13.51 | 16.02 | 8.34 |
| HFN FOF Multi-Strat | 0.15 | 2.35 | 6.18 | 3.20 | 3.16 |
| Bloomberg Cmdty (TR) | -11.83 | -5.59 | -6.58 | -1.37 | -1.04 |

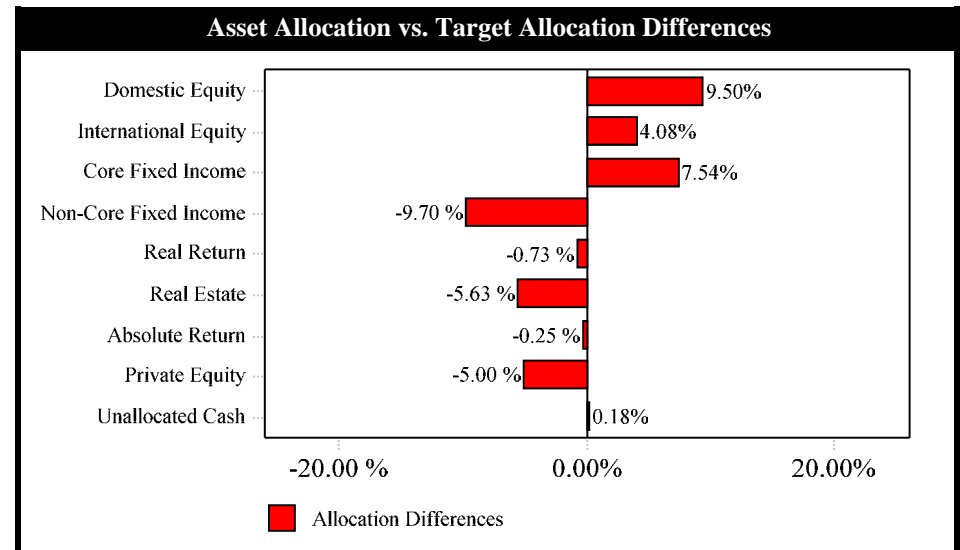
Treasury data courtesy of the U.S. Department of the Treasury. Economic data courtesy of Bloomberg Professional Service. N/A is shown for data that is currently unavailable. HFN Index performance is preliminary and subject to change.

Texas Municipal Retirement System
Total Fund Composite
Asset Alloc. by Manager, Asset Alloc. vs. Target, and Schedule of Investable Assets
As of September 30, 2014



Asset Allocation vs. Target Allocation

| | Market Value (\$) | Allocation (%) | Target (%) |
|-----------------------|-----------------------|-------------------|---------------|
| Domestic Equity | 6,287,247,446 | 27.00 | 17.50 |
| International Equity | 5,025,900,507 | 21.58 | 17.50 |
| Core Fixed Income | 8,743,333,083 | 37.54 | 30.00 |
| Non-Core Fixed Income | 70,000,000 | 0.30 | 10.00 |
| Real Return | 994,566,104 | 4.27 | 5.00 |
| Real Estate | 1,018,096,161 | 4.37 | 10.00 |
| Absolute Return | 1,106,851,698 | 4.75 | 5.00 |
| Private Equity | - | - | 5.00 |
| Unallocated Cash | 42,023,422 | 0.18 | 0.00 |
| Total Fund | 23,288,018,420 | 100.00 | 100.00 |



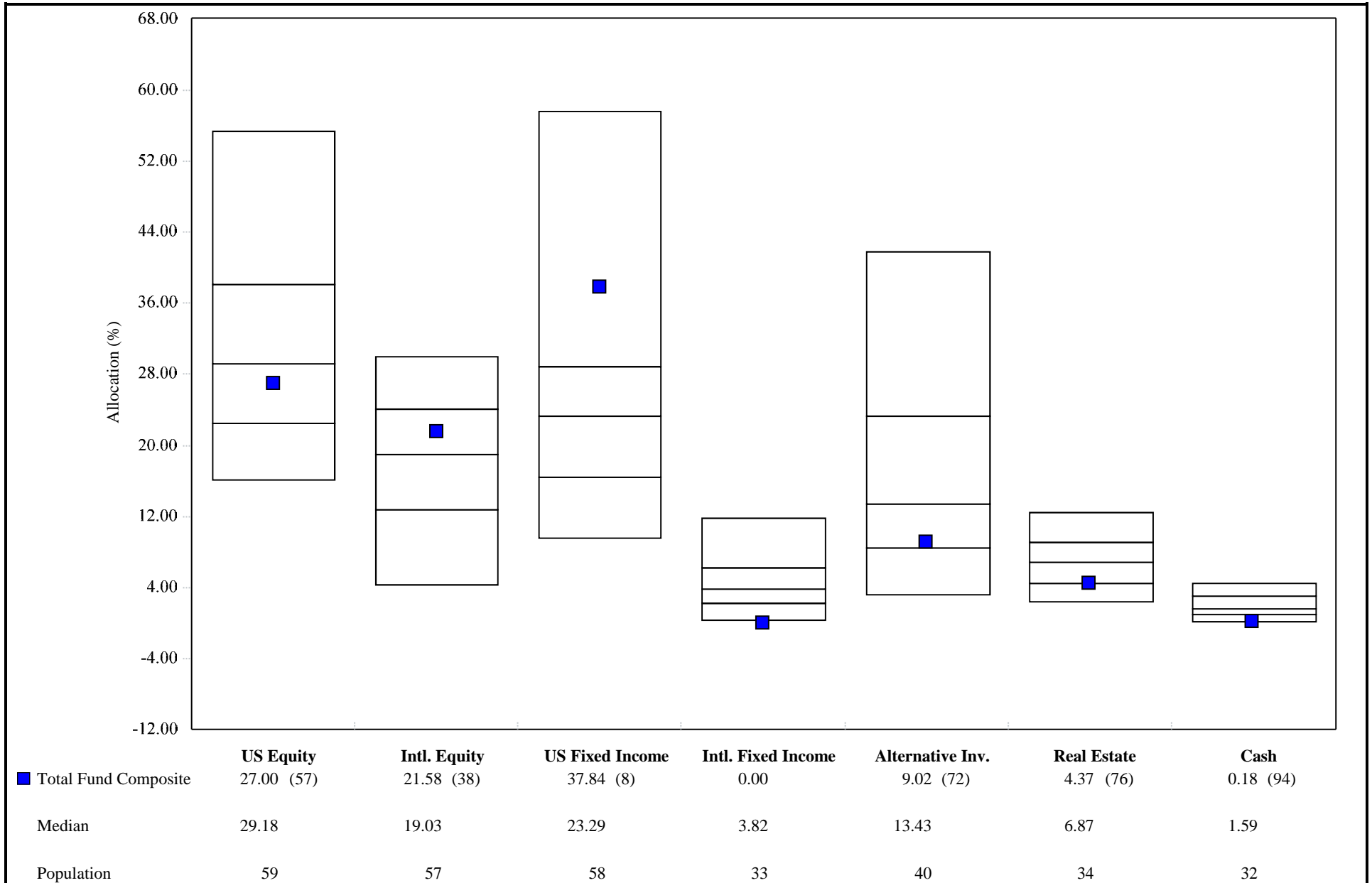
Schedule of Investable Assets

| Periods Ending | Beginning Market Value (\$) | Net Cash Flow (\$) | Gain/Loss (\$) | Ending Market Value (\$) | %Return | Unit Value |
|----------------|--------------------------------|-----------------------|--------------------|-----------------------------|-------------|---------------|
| CYTD | 22,374,178,482 | -48,591,927 | 962,431,866 | 23,288,018,420 | 4.46 | 104.46 |

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. Guggenheim Bandera Strategic Credit Partners II, LP and Highland Bandera Strategic Credit Partners I, LP were funded during September 2014. The market value shown for Citigroup Global Markets, Inc. represents residual assets from previous International Equity manager fundings.



Texas Municipal Retirement System
All Public Plans > \$1B-Total Fund
Plan Sponsor TF Asset Allocation
As of September 30, 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 September 30, 2014

| | 1 Quarter | Year To Date | 1 Year | 3 Years | 5 Years | 7 Years | 10 Years | 2013 | Since Incep. | Inception Date |
|---|--------------|--------------------|--------------|--------------|--------------|-------------|-------------|--------------|-----------------|-------------------|
| Total Fund Composite | -1.13 | 4.46 | 8.02 | 9.30 | 7.30 | 7.11 | 6.61 | 9.75 | 8.90 | 01/01/1989 |
| Actual Allocation Benchmark | -1.14 | 4.10 | 7.82 | 8.93 | 7.11 | 6.71 | 5.98 | 9.70 | 8.28 | |
| Difference | 0.01 | 0.36 | 0.20 | 0.37 | 0.19 | 0.40 | 0.63 | 0.05 | 0.62 | |
| Global Equity Composite | -2.42 | 4.05 | 11.86 | 17.78 | 10.75 | N/A | N/A | 24.87 | 4.61 | 02/01/2008 |
| Global Equity Benchmark | -2.74 | 3.44 | 11.11 | 17.45 | 10.52 | N/A | N/A | 24.49 | 4.40 | |
| Difference | 0.32 | 0.61 | 0.75 | 0.33 | 0.23 | N/A | N/A | 0.38 | 0.21 | |
| Domestic Equity Composite | -0.06 | 7.01 | 17.70 | 22.96 | 15.71 | N/A | N/A | 33.20 | 8.08 | 02/01/2008 |
| R 3000 Index | 0.01 | 6.95 | 17.76 | 23.08 | 15.78 | 6.24 | 8.44 | 33.55 | 8.12 | |
| Difference | -0.07 | 0.06 | -0.06 | -0.12 | -0.07 | N/A | N/A | -0.35 | -0.04 | |
| International Equity Composite | -5.22 | 0.56 | 5.32 | 12.30 | 5.64 | N/A | N/A | 16.31 | 0.94 | 02/01/2008 |
| International Equity Benchmark | -5.47 | -0.01 | 4.74 | 11.85 | 5.30 | -1.05 | 5.69 | 15.82 | 0.62 | |
| Difference | 0.25 | 0.57 | 0.58 | 0.45 | 0.34 | N/A | N/A | 0.49 | 0.32 | |
| Core Fixed Income Composite | 0.06 | 4.07 | 3.74 | 2.72 | 4.28 | 5.06 | 5.17 | -1.94 | 8.33 | 01/01/1989 |
| Fixed Income Benchmark | 0.17 | 4.10 | 3.96 | 2.43 | 4.12 | 4.70 | 4.58 | -2.02 | 7.72 | |
| Difference | -0.11 | -0.03 | -0.22 | 0.29 | 0.16 | 0.36 | 0.59 | 0.08 | 0.61 | |
| Non-Core Fixed Income Composite | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 10/01/2014 |
| Non-Core Fixed Income Benchmark | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | |
| Difference | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | |
| Real Return Composite | -2.04 | 4.41 | 3.95 | 3.96 | N/A | N/A | N/A | -4.06 | 4.83 | 02/01/2011 |
| Barclays Wrld Gov Infl-Lnkd Index (Unhedged) | -2.51 | 3.76 | 3.05 | 2.71 | 4.15 | 4.15 | 4.94 | -4.84 | 4.17 | |
| Difference | 0.47 | 0.65 | 0.90 | 1.25 | N/A | N/A | N/A | 0.78 | 0.66 | |
| Real Estate Composite | 2.18 | 14.06 | 16.54 | N/A | N/A | N/A | N/A | 11.69 | 11.84 | 01/01/2012 |
| NCREIF ODCE Index (Gross) (AWA) - 1 Quarter Lag | 2.93 | 8.87 | 12.75 | 12.45 | 10.00 | 2.74 | 7.14 | 13.04 | 12.23 | |
| Difference | -0.75 | 5.19 | 3.79 | N/A | N/A | N/A | N/A | -1.35 | -0.39 | |
| Absolute Return Composite | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 0.67 | 08/01/2014 |
| HFN FOF Multi-Strat Index (Net) | 0.16 | 2.35 | 6.18 | 5.23 | 3.20 | 0.46 | 3.16 | 9.10 | 0.62 | |
| Difference | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | 0.05 | |

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 September 30, 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) | 0.00 | 0.00 | 0.01 | 0.07 | 0.08 | N/A | N/A | 0.12 | 0.23 | 06/01/2008 |
| BofA ML 3 Mo US T-Bill Index | 0.01 | 0.03 | 0.05 | 0.07 | 0.10 | 0.53 | 1.59 | 0.07 | 0.26 | |
| Difference | -0.01 | -0.03 | -0.04 | 0.00 | -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 September 30, 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
- Non-Core Fixed Income Benchmark
- Barclays World Government Inflation-Linked Index (Unhedged)*
- NCREIF Open-End Diversified Core Equity Index (Gross) (AWA)**
- HFN FOF Multi-Strat Index (Net)
- 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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