TMRS 2011 Summary Annual Financial Report

For the Year Ended December 31, 2011

The Texas Municipal Retirement System (TMRS, or the System) prepares this report annually. Its purpose is to provide you with an overview of how the System has performed financially in the past year. This report describes the accomplishments TMRS made this year in its ongoing operations to serve members, cities, and retirees.

The Year at TMRS

Noteworthy Accomplishments of 2011

- Senate Bill 350, sponsored by Williams (House sponsor Truitt) was enacted into law in 2011. By consolidating the three main TMRS fund accounts, SB 350 provides a more efficient funding structure and reduces potential city contribution rate volatility. As a result of SB 350, most cities' contribution rates declined and their funded ratios improved.
- During 2011, the System continued to diversify its investment portfolio. By year-end, the 40% strategic target allocation to equities was met through investments in passively managed equity index funds: 20% in the domestic Russell 3000 and 20% in the MSCI All Country World ex-US Investable Market Index. In addition, the System met its 5% strategic target allocation to the real return asset class through investment in global inflation-linked bonds. Also during 2011, TMRS committed $200 million to real estate limited partnerships, and funded $97 million by year-end. With the assistance of TMRS' real estate consultant, ORG, over the next few years TMRS will continue to seek out and fund additional real estate investments up to the 10% target allocation. As the fixed income category continues to fund the other asset classes, it will gradually decline to its 35% target allocation.
- The overall one-year rate of return on the $18.5 billion investment portfolio was 2.41%, with the best performing asset class, fixed income, earning 7.99%. The return on equities was 1.03% for domestic and -13.35% for international.
- As of December 31, 2011, TMRS as a whole was 85.1% funded. This funded ratio increased from 82.9% in 2010 and from 75.8% in 2009.
- Five new cities joined the System in 2011. TMRS staff answered over 91,000 member requests for assistance and processed almost 2,900 new retirements in 2011.
- At year-end 2011, TMRS administered plans for 847 member cities that included:
  - 141,532 employee accounts
  - 40,534 retired members

TMRS Board of Trustees

(as of December 31, 2011)

The six members of TMRS' Board of Trustees are appointed by the Governor with the advice and consent of the Senate. Board members serve six-year terms and are responsible for fiduciary oversight of the System. The Board adopts investment and other policies; appoints the Executive Director; and selects financial, medical, legal, and other experts to perform important services for TMRS.

Contact Us

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Financial Information

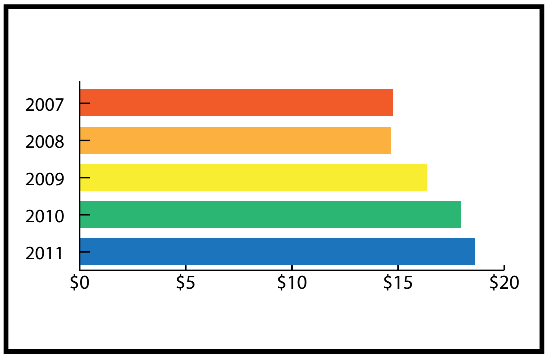
The first summary statement (below) is a snapshot of what we hold (assets), what we owe (liabilities), and the resulting difference (net assets) at both year-end 2011 and 2010. Net assets represent funds accumulated for the payment of future benefits. Investments, stated at fair market value, make up the largest portion of net assets held in trust for pension benefits. During both 2011 and 2010, the value of TMRS' investment portfolio continued to recover from the negative market conditions of 2008.

Another significant asset is securities lending collateral. Because of our participation in a securities lending program, we report both the asset and related liability of the collateral received for securities on loan at year-end. At December 31, 2011 and 2010, the cost basis of the collateral exceeded its market value, and therefore an unrealized loss on the collateral pool of $15.4 million and $20.4 million, respectively, is reflected in the Statements of Plan Net Assets.

Summary Comparative Statements of Plan Net Assets
As of December 31, 2011 and 2010

	2011	2010
ASSETS		
Investments, at fair value	$ 18,464,825,574	$ 18,302,526,324
Receivables and other	1,666,432,835	1,643,712,522
Invested securities lending collateral	1,688,567,121	2,693,847,465
Capital assets, net	9,261,818	9,694,046
TOTAL ASSETS	21,829,087,348	22,649,780,357
LIABILITIES		
Payables and accrued liabilities	1,526,807,921	1,916,591,404
Funds held for Supplemental Death Benefits Fund	27,026,910	26,400,118
Securities lending collateral	1,703,958,593	2,714,294,965
TOTAL LIABILITIES	3,257,793,424	4,657,286,487
NET ASSETS	$ 18,571,293,924	$ 17,992,493,870

Net Assets Growth in Billions

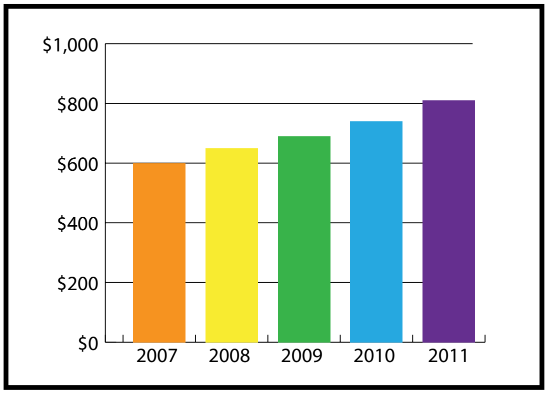


The second summary statement (below) reports activity for the year (changes in net assets). Additions include member and employer contributions, and income earned from our investment portfolio. Investment income, which is presented net of investment expenses (i.e., after investment expenses have been deducted), is comprised of interest, realized gains from the sale of securities, securities lending income, and net unrealized appreciation in the fair value of investment securities. Net investment income earned in 2011 reflects a significant decrease from 2010, primarily affected by the lower returns in the equity markets. Deductions include payments to retirees, refunds of contributions to withdrawing members, and administrative expenses. The increase in benefit payments represents a steady increase in the number of retired members (from 38,260 in 2010 to 40,534 in 2011).

Summary Comparative Statements of Changes in Plan Net Assets
For the years ended December 31, 2011 and 2010

	2011	2010
ADDITIONS		
Contributions and other	$ 1,022,789,196	$ 994,946,183
Net investment income	434,765,653	1,496,328,020
TOTAL ADDITIONS	1,457,554,849	2,491,274,203
DEDUCTIONS		
Benefit payments	810,317,265	743,467,100
Refunds of contributions	55,666,288	49,041,627
Allocation to Supplemental Death Benefits Fund	1,331,570	1,312,293
Administrative expenses and other	11,439,672	10,634,956
TOTAL DEDUCTIONS	878,754,795	804,455,976
CHANGE IN NET ASSETS	578,800,054	1,686,818,227
NET ASSETS		
BEGINNING OF YEAR	17,992,493,870	16,305,675,643
END OF YEAR	$ 18,571,293,924	$ 17,992,493,870

Benefit Payments in Millions

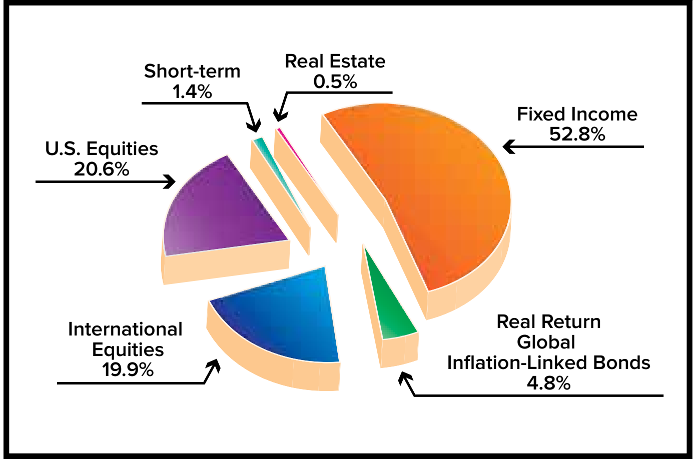


Investments

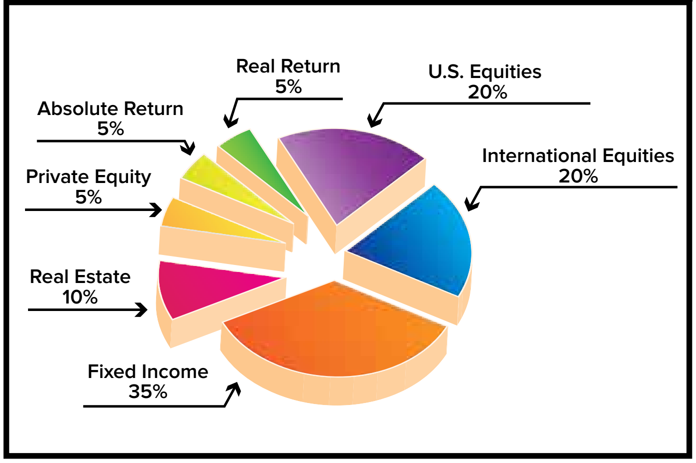
The Board of Trustees establishes investment policies and provides oversight to ensure that those policies are implemented. Nine professionals on TMRS' staff oversee the System's investment portfolio and its management. The Board approves the Investment Policy Statement (IPS), which governs the investment and management of assets for TMRS, and, as presented below, establishes target asset allocations, with implementation to occur over a multi-year period.

Initiatives during 2011 toward this strategic target allocation included continuing monthly commitments to domestic and international equity index funds. By 2011 year-end, the target allocation to equities of 40% was met. In addition, during 2011, TMRS funded its 5% target allocation to the real return asset class through investment in global inflation-linked bonds. Also during 2011, TMRS committed $200 million to real estate limited partnerships, and funded $97 million by year-end.

Asset Allocation as of 12/31/11

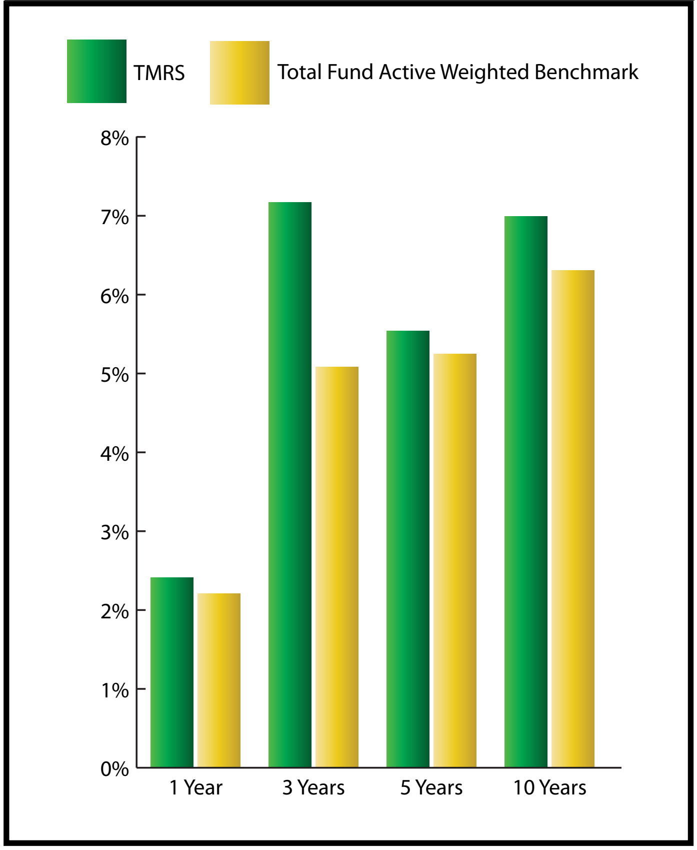


Target Asset Allocation



The total return on TMRS' investment portfolio was 2.41% for 2011. The following table compares TMRS' actual returns to policy benchmark returns for the year-end target allocation.

TMRS Total Rate of Return Comparisons

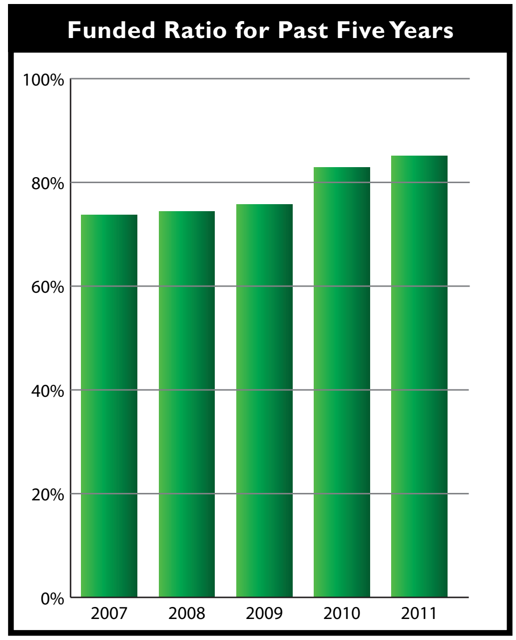


Reporting Standards

This Summary Annual Financial Report is derived from the *TMRS 2011 Comprehensive Annual Financial Report for the Year Ended December 31, 2011* (CAFR) but does not include all information necessary to be presented in conformity with generally accepted accounting principles (GAAP). The CAFR is prepared in accordance with GAAP and is subject to external audit. In contrast, this summary report provides information only for the TMRS Pension Trust Fund and is presented at a more condensed level. If you would like to review a copy of the CAFR, please download the PDF version from *www.tmrs.com*.

TMRS' Funded Status Continues to Improve

- Perhaps the most important factor that affects the soundness of a retirement program is the employer funding policy. Many of the plans around the United States that have been in the news as being inadequately funded have received contributions lower than the actuarially determined rate needed to fund the plan. Under TMRS law, all cities pay the actuarially determined contribution needed to fully fund benefits.

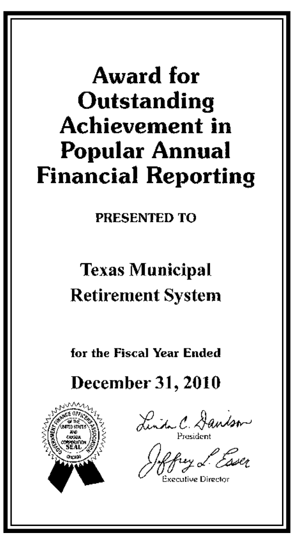


- One common measure of the soundness of a retirement plan is the plan's funded ratio, which is the ratio of actuarial assets to liabilities. Ratios above 80% are generally considered to be positive, but an even more meaningful measure of soundness is whether the funded ratio increases from year to year. As certified by the System's actuary, Gabriel Roeder Smith & Company (GRS), as of December 31, 2011, TMRS as a whole was 85.1% funded; this funded ratio increased from 82.9% in 2010 and from 75.8% in 2009.
- A key assumption that affects the long-term stability of a retirement plan is the future long-term annual rate of investment earnings. TMRS uses a conservative 7% assumption, one of the lowest of any major retirement system. To reduce volatility that might arise from investment returns in any single year, actuaries use "smoothing techniques." The 7.0% long-term rate of return assumption continues to be appropriate for TMRS. While the 2011 investment return of 2.41% fell short of the 7.0% target, smoothing the actuarial gains earned in 2010 enabled the actuaries to recognize an approximate 7.1% actuarial return for 2011.

TMRS Mission Statement

To deliver secure and competitive retirement plans through a professionally managed organization that anticipates diverse needs; provides quality services; and openly and effectively communicates with members, retirees, and cities.

Awards



Award for Outstanding Achievement in Popular Annual Financial Reporting

PRESENTED TO

Texas Municipal Retirement System

for the Fiscal Year Ended

December 31, 2010

President

Executive Director

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to TMRS for its Summary Annual Financial Report for the fiscal year ended December 31, 2010.

The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. We believe our current report continues to conform to the Popular Annual Financial Reporting requirements, and we are submitting it to GFOA.

PPCC

Public Pension Coordinating Council

Public Pension Standards Award For Funding and Administration 2011

Presented to

Texas Municipal Retirement System

In recognition of meeting professional standards for plan funding and administration as set forth in the Public Pension Standards.

Presented by the Public Pension Coordinating Council, a confederation of

National Association of State Retirement Administrators (NASRA)
National Conference on Public Employee Retirement Systems (NCPERS)
National Council on Teacher Retirement (NCTR)

Alan H. Winkle
Program Administrator

TMRS also received the Public Pension Standards 2011 Award from the Public Pension Coordinating Council (PPCC) in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.