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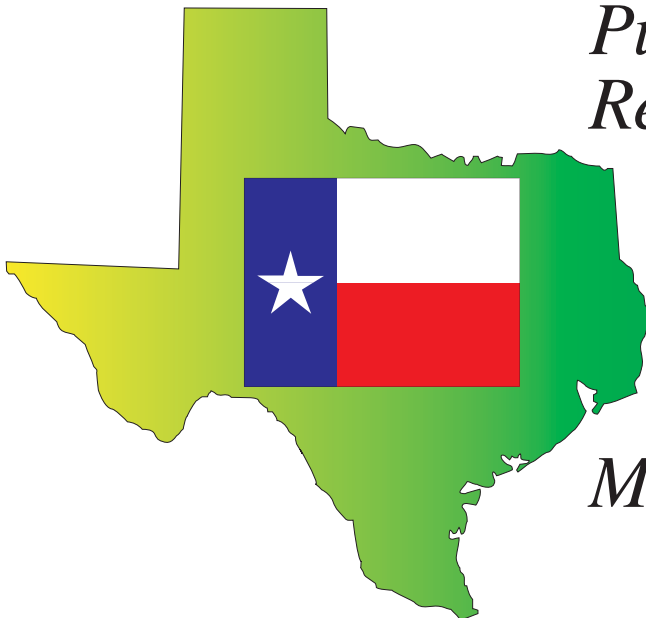
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TEXPERS

Report on the Asset Allocation and Investment Performance of Texas Public Employee Retirement Systems

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*The Texas Association of
Public Employee
Retirement Systems*



March 2004





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Key Findings

- Fifty-three percent of surveys mailed to TEXPERS members were returned with complete data, an excellent response percentage.
- Survey respondents had a total market value of \$14.4 billion. The average asset allocation of the survey respondents was 60.7% percent in equity, 29.1% in fixed income, 6.4% in real estate and 3.8% in other asset classes.
- When measuring investment performance for survey respondents as a group over the ten year period ending September 30, 2003 the respondents' composite investment return was 8.5%, compared to the average actuarial investment return assumption of 8.2%.
- For the five years ended September 30, 2003 survey respondents averaged a 6.2% return, compared to a 5.0% return for the Wilshire Median Public Fund over the same period.
- A \$100 investment in the survey respondents' aggregate portfolio on September 30, 1992 would have grown to \$258.37 at September 30, 2003. This compares to \$238.84 for \$100 growing at the 8.2% average actuarial return assumption for the same period.
- Equity allocations of individual survey respondents range from 27.09% to 70.21% whereas fixed income allocations range from 17.74% to 72.91%.
- Even given the extraordinarily difficult market environment of 2000-2002 the ten year average return of the survey respondents exceeded the average actuarial return assumption of 8.2%.

Introduction

This report reviews the asset allocation and investment performance for local pension systems that are members of the Texas Association of Public Employee Retirement Systems (TEXPERS) for the one, three, five and ten year periods ending September 30, 2003. Both the aggregate TEXPERS and individual systems' asset allocation as well as investment performance will be examined.

The purpose of this report is to document TEXPERS member systems' diversification with respect to the types of assets invested in, and the investment performance of these systems with respect to their actuarially assumed returns, market benchmarks and other public funds. This will demonstrate that local systems are being managed in compliance with the "prudent expert" rule, which requires fiduciaries of the system exercise their duties with the care, skill, prudence and diligence under the prevailing circumstances that a prudent person acting in a like capacity and familiar with matters of the type would use in the conduct of an enterprise with a like character and like aims.

Individual pension system data in this report was obtained from a January 2004 survey requesting asset allocation and investment return information from TEXPERS members. A total of seventy-nine surveys were sent to TEXPERS members. Fifty surveys were completed and returned, a sixty-three percent response. Forty-two responses, or fifty-three percent, had the five year quarterly return history required for inclusion in the study. Fifty-three percent is considered an excellent response percentage for surveys. The member systems responding represent assets of approximately \$14.4 billion. A copy of the survey is contained in Appendix 1 and a listing of TEXPERS members responding to the survey is contained in Appendix 2. Respondents that agreed to have their name disclosed in this report are listed in Appendix 3.

Thanks to Wilshire Associates, Inc. for providing the market return and peer group comparison data.

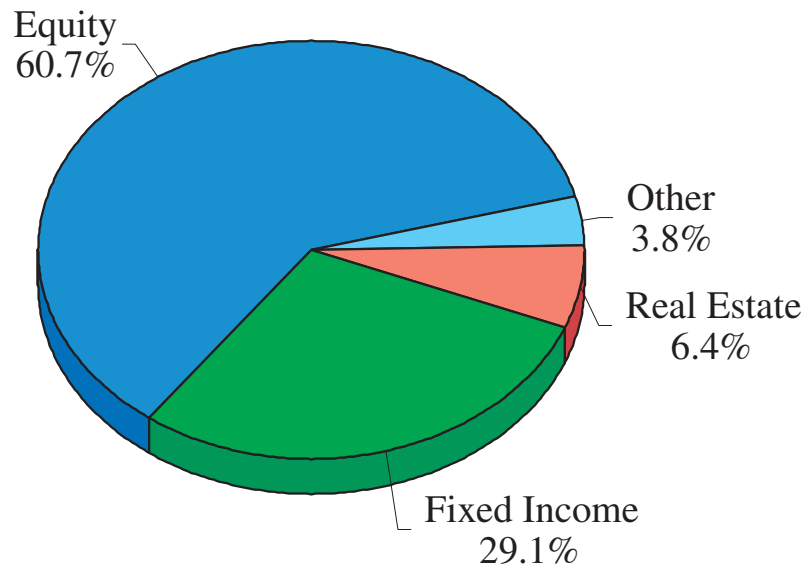
TEXPERS Composite

Asset Allocation

Figure 1 illustrates the average asset allocation of survey respondents as a composite group. The equity asset class includes investments such as domestic and international common stocks. Fixed income includes investments such as government and corporate bonds from domestic and international issuers. Real estate includes both publicly or privately traded real estate securities and direct investments in properties. Other includes all assets not falling into one of the previous classes.

Figure 1

Market Value \$14.4 Billion
As of September 30, 2003



The average equity allocation of 60.7% demonstrates that, in aggregate, the respondents have a level of equity investment within the norm for public pension systems, as generally defined by “prudent experts”.

Investment Performance

Trailing Period Returns - Table

Table 1

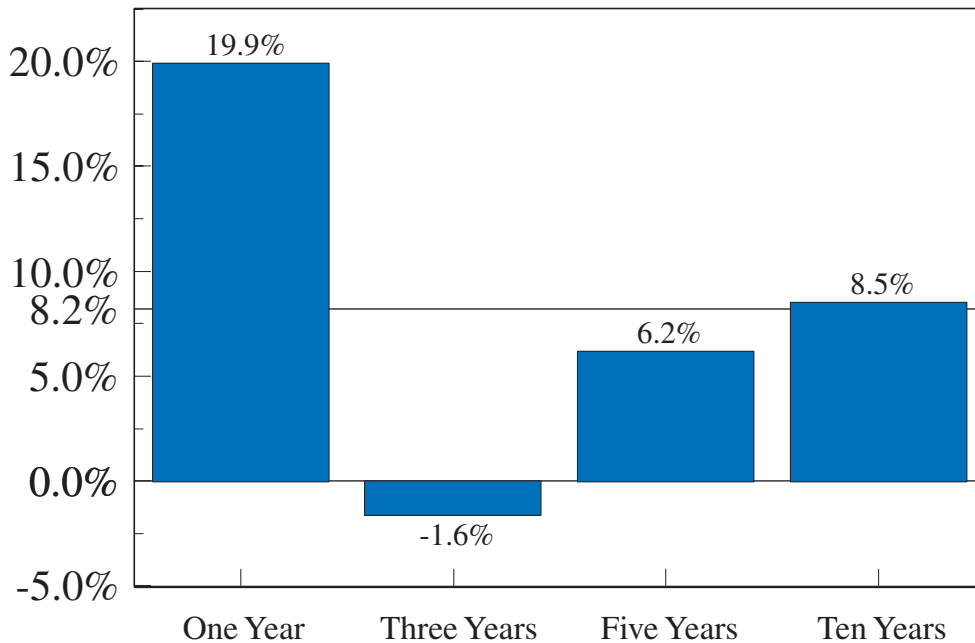
Annualized Returns for the Periods Ending 9/30/2003	One Year	Three Years	Five Years	Ten Years
TEXPERS Average	19.9	-1.6	6.2	8.5
Avg. Actuarial Assumption	8.2	8.2	8.2	8.2

Table 1 and Figure 2 compare the survey respondents average investment return over the one, three, five and ten year periods ending September 30, 2003 to their average actuarial investment return assumption of 8.2%. Even given the extraordinarily difficult market environment of 2000-2002 the ten year return of 8.5% exceeds the actuarial return assumption of 8.2%. This demonstrates that TEXPERS members as a group produce long-term rates of return in excess of the average return expectation of the group.

Trailing Period Returns - Chart

Figure 2

Returns vs. Average Actuarial Assumption For Periods Ending 9/30/2003



Growth of \$100

Figure 3

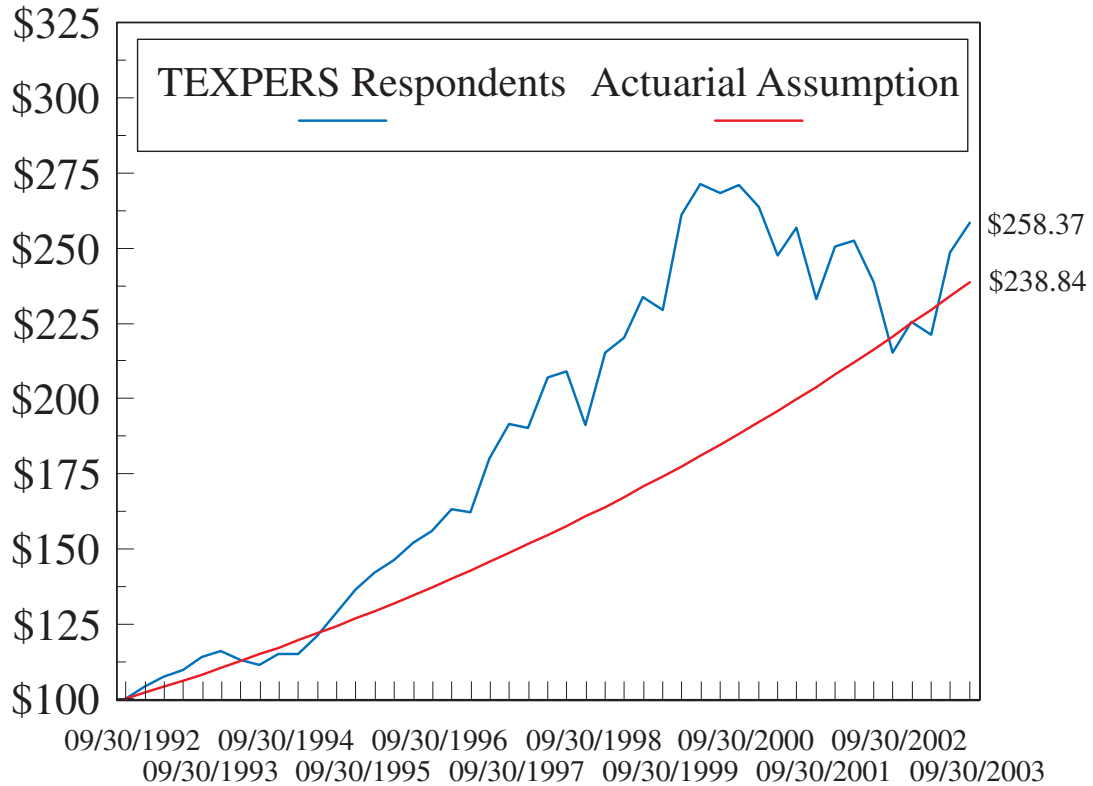


Figure 3 displays the growth of \$100 as if it were invested on September 30, 1992 in the survey respondents' aggregate portfolio. This is compared to \$100 invested in a hypothetical portfolio growing at the 8.2% average actuarial assumption. As can be seen from this exhibit, over the period ending September 30, 2003, \$100 invested in the TEXPERS respondents' portfolio has grown to \$258.37 versus \$238.84 in the 8.2% actuarially assumed return portfolio.

TEXPERS member systems as a group have performed in excess of their actuarial investment return assumption since September 30, 1992.

Individual Pension Systems

Asset Allocation

Table 2 details the percentage allocation to the major asset classes by each survey respondent. Equity allocations range from 27.09% to 70.21%, fixed income allocations range from 17.74% to 72.91% and real estate allocations range from 0.00% to 17.20%.

Table 2

	Equity	Fixed Income	Real Estate	Other		Equity	Fixed Income	Real Estate	Other	
Fund 1	62.11	27.60	0.04	10.25		Fund 22	69.62	30.38	0.00	0.00
Fund 2	51.19	41.24	7.57	0.00		Fund 23	56.54	38.70	0.00	4.76
Fund 3	42.44	43.62	13.94	0.00		Fund 24	58.82	37.07	0.00	4.11
Fund 4	62.97	37.03	0.00	0.00		Fund 25	56.79	27.06	14.64	1.51
Fund 5	50.45	17.74	17.20	14.61		Fund 26	55.50	44.50	0.00	0.00
Fund 6	63.42	28.04	8.52	0.02		Fund 27	66.46	33.54	0.00	0.00
Fund 7	63.13	36.87	0.00	0.00		Fund 28	67.08	32.92	0.00	0.00
Fund 8	55.94	44.06	0.00	0.00		Fund 29	68.18	31.82	0.00	0.00
Fund 9	61.01	30.26	7.99	0.74		Fund 30	66.08	32.09	0.00	1.83
Fund 10	53.19	46.81	0.00	0.00		Fund 31	63.45	36.55	0.00	0.00
Fund 11	68.00	32.00	0.00	0.00		Fund 32	59.82	39.61	0.57	0.00
Fund 12	58.62	30.23	3.92	7.23		Fund 33	60.92	39.08	0.00	0.00
Fund 13	62.31	37.69	0.00	0.00		Fund 34	66.97	33.03	0.00	0.00
Fund 14	60.55	34.14	5.31	0.00		Fund 35	52.92	34.82	11.00	1.26
Fund 15	64.98	35.02	0.00	0.00		Fund 36	42.62	41.74	0.00	15.64
Fund 16	70.21	29.79	0.00	0.00		Fund 37	57.19	42.81	0.00	0.00
Fund 17	27.09	72.91	0.00	0.00		Fund 38	69.79	30.21	0.00	0.00
Fund 18	53.29	46.20	0.00	0.51		Fund 39	70.04	21.48	8.48	0.00
Fund 19	58.65	35.15	6.20	0.00		Fund 40	62.78	37.22	0.00	0.00
Fund 20	61.71	36.72	0.00	1.57		Fund 41	57.16	37.29	0.00	5.55
Fund 21	66.09	28.74	5.17	0.00		Fund 42	35.87	61.23	2.90	0.00

Investment Performance

Table 3 lists investment returns for survey respondents over the one, three, five and ten year periods ending September 30, 2003. For comparison purposes, a benchmark of 60% of the Wilshire 5000 index and 40% of the Lehman Brothers Aggregate index returned 17.8% for the one year, -1.7% for the three years, 4.6% for the five years and 9.0% for the ten years ended September 30, 2003.

Table 3

	One Year	Three Years	Five Years	Ten Years		One Year	Three Years	Five Years	Ten Years	
Fund 1	22.10	-2.17	6.28	8.08		Fund 22	18.00	-1.07	4.15	N/A
Fund 2	14.94	-2.67	2.39	N/A		Fund 23	15.35	-0.27	2.79	5.27
Fund 3	11.68	-0.53	6.55	9.89		Fund 24	15.97	1.13	6.18	9.40
Fund 4	14.93	0.07	4.03	N/A		Fund 25	25.17	-2.63	6.85	9.31
Fund 5	19.39	-0.64	8.18	7.98		Fund 26	14.94	0.63	5.29	8.59
Fund 6	21.13	-1.55	4.70	8.05		Fund 27	17.06	-0.18	4.62	8.37
Fund 7	18.23	0.16	2.22	5.64		Fund 28	18.47	-2.63	5.97	8.29
Fund 8	16.84	1.42	3.50	8.13		Fund 29	17.13	-0.04	4.38	7.27
Fund 9	24.23	0.86	10.65	10.11		Fund 30	10.25	1.07	1.98	N/A
Fund 10	11.28	-4.80	1.86	N/A		Fund 31	12.83	-5.12	1.39	N/A
Fund 11	16.01	0.73	3.35	7.20		Fund 32	14.79	-2.12	3.21	N/A
Fund 12	15.85	-3.16	5.17	8.00		Fund 33	17.06	-1.58	3.92	7.49
Fund 13	15.86	0.43	4.22	N/A		Fund 34	16.58	-0.57	7.34	8.79
Fund 14	13.92	0.80	5.76	N/A		Fund 35	27.38	5.49	6.06	6.38
Fund 15	14.27	-3.12	5.55	9.11		Fund 36	13.63	-0.96	8.45	N/A
Fund 16	18.00	-1.07	4.15	N/A		Fund 37	16.47	1.87	5.97	8.80
Fund 17	14.74	-4.39	-0.55	N/A		Fund 38	13.27	-4.16	5.50	8.99
Fund 18	13.86	-2.05	4.23	N/A		Fund 39	19.50	-2.15	4.79	8.40
Fund 19	17.08	2.09	7.19	N/A		Fund 40	13.74	-9.17	3.73	8.43
Fund 20	18.03	-1.55	5.63	7.00		Fund 41	8.90	-2.61	4.86	7.22
Fund 21	14.69	1.85	6.38	11.34		Fund 42	9.54	0.12	4.49	6.99

Five Year Return versus Standard Deviation

Figure 4

For the Five Years Ending September 30, 2003

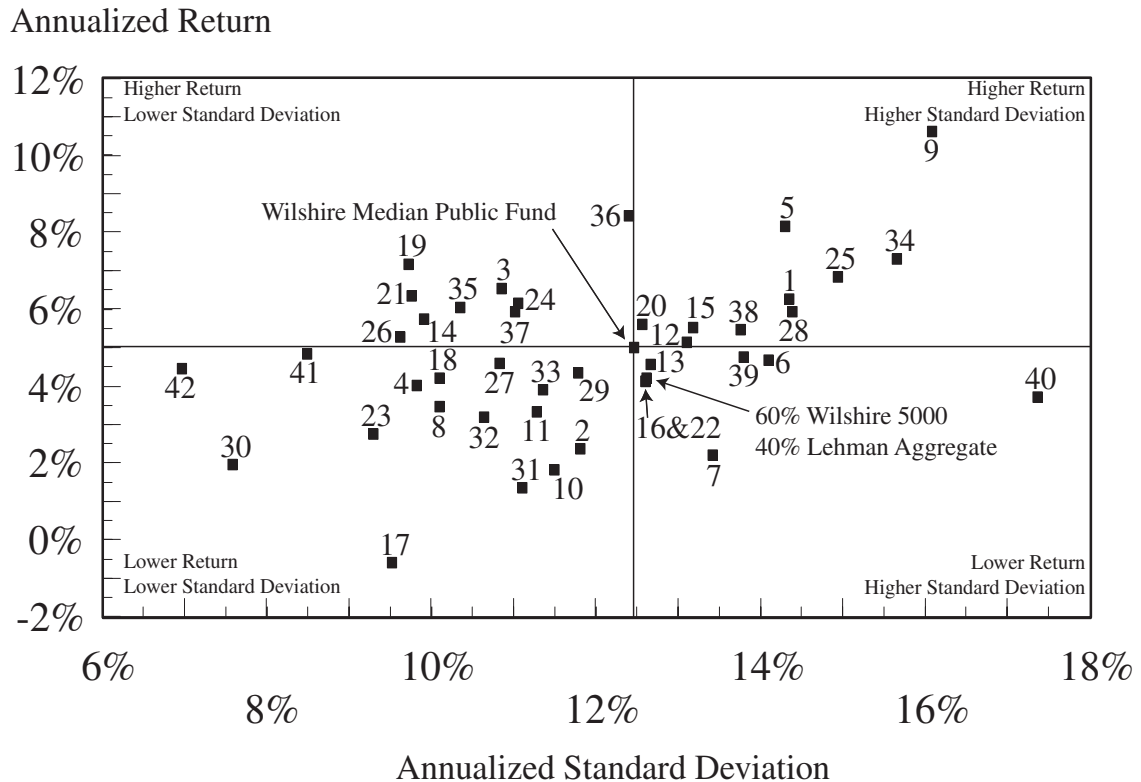


Figure 4 shows the five year return and standard deviation characteristics of the individual TEXPERS survey respondents versus two benchmarks. The first benchmark defines the four quadrants and is the Wilshire Public Funds Universe, provided by Wilshire Associates, Inc., which represents the returns of all Wilshire's public fund clients. The second benchmark is a combination of 60% of the Wilshire 5000 equity index and 40% of the Lehman Brothers Aggregate fixed income index. Annualized return and standard deviation are based on quarterly returns for the period. Standard deviation is a measure of the dispersion or volatility of the quarterly returns around their average value.

The points representing the performance of the TEXPERS survey respondents are located in all four quadrants of the chart. Nine respondents are located in the most desirable northwest quadrant, indicating higher returns with less standard deviation than the benchmark. Twenty-six respondents are located in the northeast or southwest quadrants, indicating reasonable return versus standard deviation trade-offs. That is, they have either a higher return with a higher standard deviation, or a lower return with a lower standard deviation, than the benchmark. Seven respondents are located in the least desirable southeast quadrant, where return is lower and standard deviation is higher than the benchmark.

Ten Year Return versus Standard Deviation

Figure 5

For the Ten Years Ending September 30, 2003

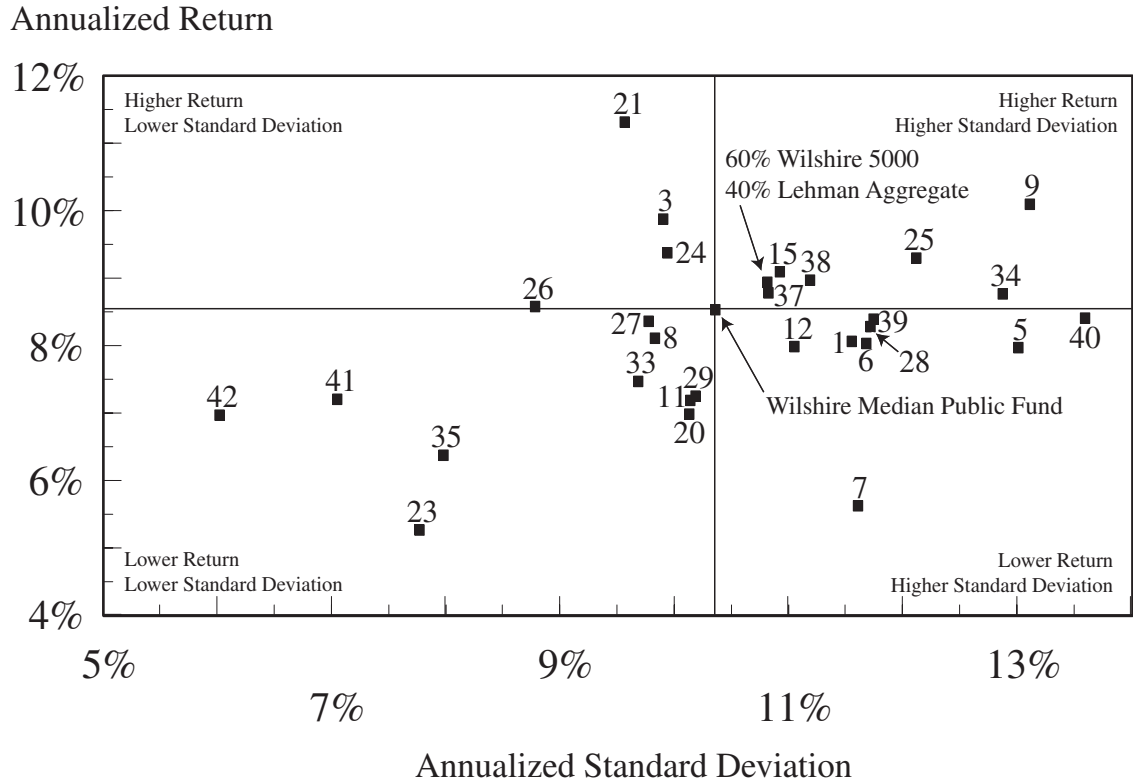


Figure 5 shows the ten year return and standard deviation characteristics of the individual TEXPERS survey respondents versus two benchmarks. The first benchmark defines the four quadrants and is the Wilshire Public Funds Universe, provided by Wilshire Associates, Inc., which represents the returns of all Wilshire’s public fund clients. The second benchmark is a combination of 60% of the Wilshire 5000 equity index and 40% of the Lehman Brothers Aggregate fixed income index. Annualized return and standard deviation are based on quarterly returns for the period. Standard deviation is a measure of the dispersion or volatility of the quarterly returns around their average value.

The points representing the performance of the TEXPERS survey respondents are located in all four quadrants of the chart. Four respondents are located in the most desirable northwest quadrant, indicating higher returns with less standard deviation than the benchmark. Sixteen respondents are located in the northeast or southwest quadrants, indicating reasonable return versus standard deviation trade-offs. That is, they have either a higher return with a higher standard deviation, or a lower return with a lower standard deviation, than the benchmark. Eight respondents are located in the least desirable southeast quadrant, where return is lower and standard deviation is higher than the benchmark.

Appendix 1

Investment Return Survey of TEXPERS Defined Benefit Plans

Fund Name: _____
 Prepared by _____
 Title of Preparer: _____
 Voice/Fax/EMail: _____ / _____
 E-mail Address: _____

Market Value Data (dollars)

Please provide market values as of September 30, 2003. These do not have to be audited numbers as custodial market values are sufficient. However, please do not change asset classes.

Asset Class	Market Value
Equity (incl. US & Non-US, Emerging Mkt.)	
Fixed Income (incl. Global Fixed, STIF, Cash)	
Real Estate (incl. Direct and REITS)	
Other (i.e. Private Equity, Alternatives, etc.)	
Total Plan	

Total Fund Rates of Return (Percents)

All returns must be actual total fund quarterly returns and should not be annualized. The returns must include both income & changes in market value; income yields alone are not sufficient. If your fund was in last year's report only the four quarters ending Sep. 30, 2003 are required:

Quarter Ended =>	Mar. 31	Jun. 30	Sep. 30	Dec. 31
2003				-----
2002	-----	-----	-----	

If your fund was not in last year's performance report, you will need to provide actual (not annualized) quarterly returns for **at least the trailing five years**:

Quarter Ended =>	Mar. 31	Jun. 30	Sep. 30	Dec. 31
2003				-----
2002				
2001				
2000				
1999				
1998				
1997				
1996				
1995				

Actuarial Investment Return Assumption: _____

OK to identify fund by name in the performance report (circle one): YES NO

Appendix 2

List of TEXPERS Survey Respondents

Abilene Firemen's Relief & Retirement Fund
Amarillo College Benefit Program
Amarillo Firemen's Relief & Retirement Fund
Austin Employees' Retirement System
Austin Fire Fighters Relief & Retirement Fund
Austin Police Retirement System
Beaumont Firemen's Relief & Retirement Fund
Big Spring Firemen's Relief & Retirement Fund
Conroe Firemen's Relief & Retirement Fund
Corpus Christi Fire Fighters' Retirement System
Dallas Employees' Retirement Fund
Dallas Police & Fire Pension System
Dallas Police & Fire Supplemental Fund
DART Employees' Defined Benefit Plan *
Denison Firemen's Relief & Retirement Fund
El Paso City Employees' Pension Fund
El Paso Firemen & Policemen's Pension Fund
Floresville Electric Light & Power System *
Fort Worth Employees' Retirement Fund
Galveston Employees' Retirement Fund
Galveston Firemen's Relief & Retirement Fund
Galveston Retirement Plan for Police
Greater Texoma Utility Authority Retirement Plan *
Greenville Firemen's Relief & Retirement Fund
Houston Municipal Employees Pension System
Houston Police Officers Pension System
Irving Firemen's Relief & Retirement Fund *
Irving Supplemental Benefit Plan *
Killeen Firemen's Relief & Retirement Fund
Laredo Firemen's Relief & Retirement Fund
Longview Firemen's Relief & Retirement Fund
Lower Colorado River Authority Retirement Plan
Lubbock Firemen's Relief & Retirement Fund
McAllen Firemen's Pension Fund
Metro. Transit Auth. of Harris County - Non-Union Pension Plan and Trust
Metro. Transit Auth. Transport Workers Union Pension Plan, Local 260-AFL-CIO
Midland Firemen's Relief & Retirement Fund *
Odessa Firemen's Relief & Retirement Fund
Orange Fireman's Relief & Retirement Fund
Paris Firefighters' Relief and Retirement Fund
Plano Retirement Security Plan *
Port Arthur Firemen's Relief & Retirement Fund
San Antonio City Public Service Pension Plan
San Antonio Fire and Police Pension Fund
Sweetwater Firemen's Relief & Retirement Fund
Temple Fire Fighter's Relief & Retirement Fund
Texarkana, TX Firemen's Relief & Pension Fund
University Park Firefighters' Relief & Retirement Fund
VIA Metropolitan Transit Retirement Plan
Waxahachie Firemen's Relief & Retirement Fund *

* Responded, but was unable to provide sufficient data for inclusion in the report.

Appendix 3

Respondent Fund Number - Name Cross Reference

Number	Name
32	Abilene Firemen's Relief & Retirement Fund
20	Amarillo College Benefit Program
38	Amarillo Firemen's Relief & Retirement Fund
28	Austin Employees' Retirement System
34	Austin Fire Fighters Relief & Retirement Fund
3	Austin Police Retirement System
29	Beaumont Firemen's Relief & Retirement Fund
21	Big Spring Firemen's Relief & Retirement Fund
4	Corpus Christi Fire Fighters' Retirement System
35	Denison Firemen's Relief & Retirement Fund
37	El Paso Firemen & Policemen's Pension Fund
39	Fort Worth Employees' Retirement Fund
40	Galveston Employees' Retirement Fund
11	Galveston Firemen's Relief & Retirement Fund
8	Galveston Retirement Plan for Police
10	Greenville Firemen's Relief & Retirement Fund
23	Killeen Firemen's Relief & Retirement Fund
26	Lower Colorado River Authority
15	Lubbock Firemen's Relief & Retirement Fund
36	McAllen Firemen's Pension Fund
16	Metro. Transit Auth. of Harris County - Non-Union Pension Plan
22	Metro. Transit Auth. Transport Workers Union Pension Plan
19	Odessa Firemen's Relief & Retirement Fund
12	San Antonio Fire and Police Pension Fund
14	Sweetwater Firemen's Relief & Retirement Fund
18	Temple Fire Fighter's Relief & Retirement Fund
30	Texarkana, TX Firemen's Relief & Retirement Fund
2	University Park Firemen's Relief & Retirement Fund
24	VIA Metropolitan Transit Retirement Plan