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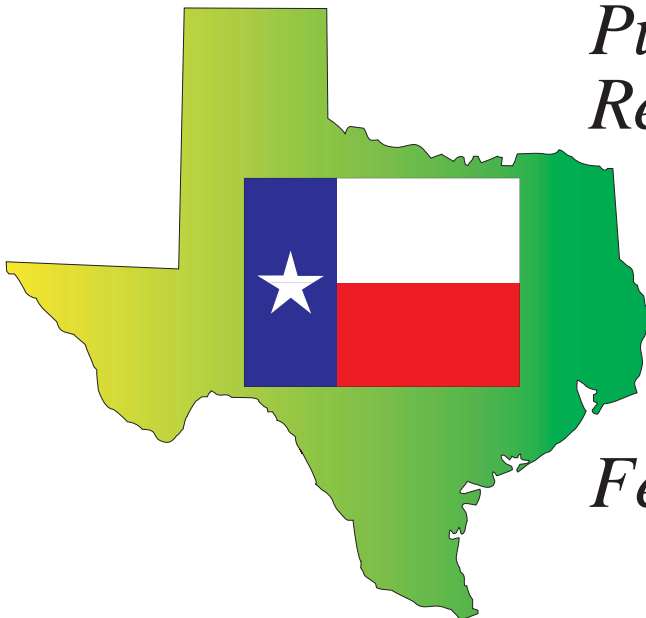
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TEXPERS

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*



February 2005





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Key Findings

- Forty-six percent of surveys mailed to TEXPERS members were returned with complete data, an excellent response percentage.
- Survey respondents had a total market value of \$16.1 billion. The average asset allocation of the survey respondents was 59.7% percent in equity, 28.0% in fixed income, 7.0% in real estate and 5.3% in other asset classes.
- When measuring investment performance for survey respondents as a group over the ten year period ending September 30, 2004 the respondents' composite investment return was 9.8%, compared to the average actuarial investment return assumption of 8.3%.
- For the ten years ended September 30, 2004 survey respondents averaged a 9.8% return, compared to a 9.7% return for the Wilshire Median Public Fund over the same period.
- A \$100 investment in the survey respondents' aggregate portfolio on September 30, 1994 would have grown to \$254.80 at September 30, 2004. This compares to \$221.42 for \$100 growing at the 8.3% average actuarial return assumption for the same period.
- Equity allocations of individual survey respondents range from 37.83% to 70.61% whereas fixed income allocations range from 16.83% to 62.17%.
- 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 8.3% by 1.5%.

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, 2004. 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 December 2004 survey requesting asset allocation and investment return information from TEXPERS members. A total of eighty-four surveys were sent to TEXPERS members. Forty-nine surveys were completed and returned, a fifty-eight percent response. Thirty-nine responses, or forty-six percent, had the five year quarterly return history required for inclusion in the study. Forty-six percent is considered an excellent response percentage for surveys. The member systems responding represent assets of approximately \$16.1 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.

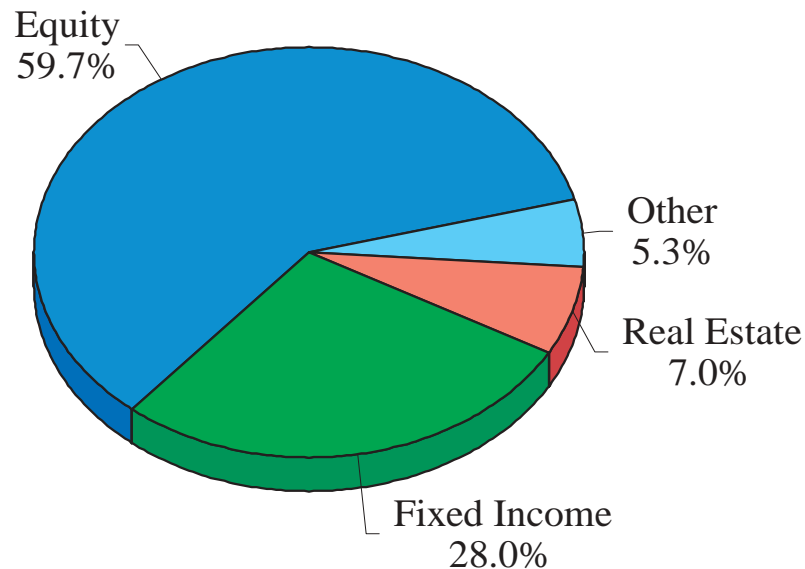
TEXPERS Composite

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 \$16.1 Billion
As of September 30, 2004



The average equity allocation of 59.7% 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

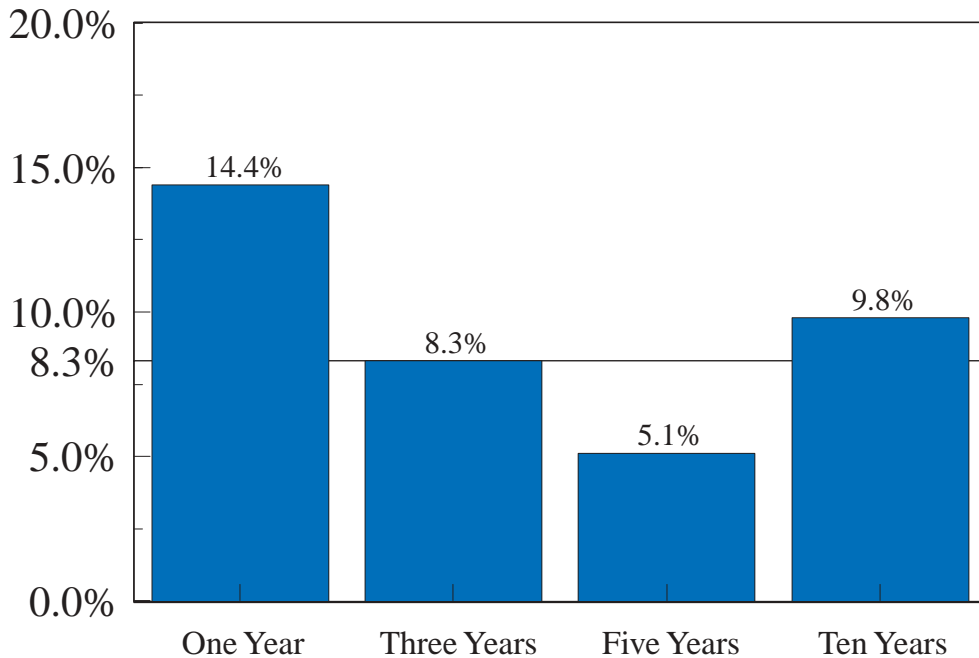
Annualized Returns for the Periods Ending 9/30/2004	One Year	Three Years	Five Years	Ten Years
TEXPERS Average	14.4	8.3	5.1	9.8
Avg. Actuarial Assumption	8.3	8.3	8.3	8.3

Table 1 and Figure 2 compare the survey respondents average investment return over the one, three, five and ten year periods ending September 30, 2004 to their average actuarial investment return assumption of 8.3%. Even given the extraordinarily difficult market environment of 2000-2002 the ten year return of 9.8% exceeds the actuarial return assumption of 8.3%. 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 9/30/2004



Growth of \$100

Figure 3

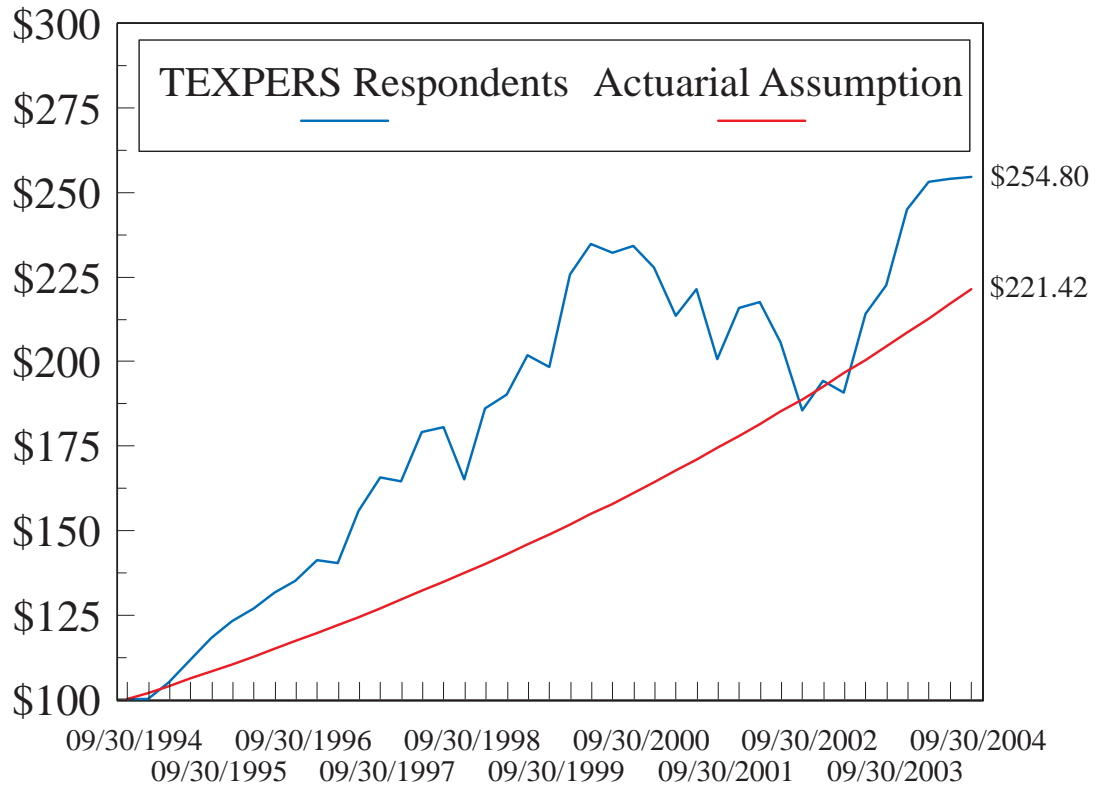


Figure 3 displays the growth of \$100 as if it were invested on September 30, 1994 in the survey respondents' aggregate portfolio. This is compared to \$100 invested in a hypothetical portfolio growing at the 8.3% average actuarial assumption. As can be seen from this exhibit, over the ten years ending September 30, 2004, \$100 invested in the TEXPERS respondents' portfolio has grown to \$254.80 versus \$221.42 in the 8.3% actuarially assumed return portfolio.

TEXPERS member systems as a group have performed in excess of their actuarial investment return assumption over the ten years ending September 30, 2004.

Individual Pension Systems

Asset Allocation

Table 2 details the percentage allocation to the major asset classes by each survey respondent. Equity allocations range from 37.83% to 70.61%, fixed income allocations range from 16.83% to 62.17% and real estate allocations range from 0.00% to 17.93%.

Table 2

	Equity	Fixed Income	Real Estate	Other		Equity	Fixed Income	Real Estate	Other	
Fund 1	61.80	35.41	0.00	2.79		Fund 21	60.11	28.82	10.24	0.83
Fund 2	62.09	27.89	10.00	0.02		Fund 22	65.93	34.07	0.00	0.00
Fund 3	44.93	22.55	17.93	14.59		Fund 23	53.77	46.23	0.00	0.00
Fund 4	55.49	27.13	15.00	2.38		Fund 24	56.43	38.91	0.00	4.66
Fund 5	64.05	35.95	0.00	0.00		Fund 25	49.38	35.93	0.00	14.69
Fund 6	70.16	29.84	0.00	0.00		Fund 26	65.79	29.22	4.99	0.00
Fund 7	59.33	40.67	0.00	0.00		Fund 27	69.67	30.33	0.00	0.00
Fund 8	37.83	62.17	0.00	0.00		Fund 28	59.07	23.71	7.77	9.45
Fund 9	66.76	33.24	0.00	0.00		Fund 29	58.41	27.02	5.16	9.41
Fund 10	62.77	25.62	0.04	11.57		Fund 30	52.82	16.83	16.51	13.84
Fund 11	58.21	41.79	0.00	0.00		Fund 31	63.48	36.52	0.00	0.00
Fund 12	64.78	35.22	0.00	0.00		Fund 32	62.22	32.30	0.00	5.48
Fund 13	62.71	37.29	0.00	0.00		Fund 33	69.11	30.89	0.00	0.00
Fund 14	65.06	30.03	4.91	0.00		Fund 34	68.04	29.18	2.78	0.00
Fund 15	64.30	30.68	4.30	0.72		Fund 35	51.04	39.16	0.00	9.80
Fund 16	65.18	23.28	11.54	0.00		Fund 36	60.75	23.08	14.37	1.80
Fund 17	59.31	40.69	0.00	0.00		Fund 37	55.94	37.38	0.00	6.68
Fund 18	60.91	39.09	0.00	0.00		Fund 38	70.61	29.39	0.00	0.00
Fund 19	56.09	32.75	3.69	7.47		Fund 39	63.90	36.10	0.00	0.00
Fund 20	42.16	54.95	2.89	0.00						

Investment Performance

Table 3 lists investment returns for survey respondents over the one, three, five and ten year periods ending September 30, 2004. For comparison purposes, a benchmark of 60% of the Wilshire 5000 index and 40% of the Lehman Brothers Aggregate index returned 10.4% for the one year, 6.6% for the three years, 3.6% for the five years and 10.0% for the ten years ended September 30, 2004.

Table 3

	One Year	Three Years	Five Years	Ten Years		One Year	Three Years	Five Years	Ten Years	
Fund 1	10.58	5.94	3.73	6.60		Fund 21	13.17	11.59	8.60	11.86
Fund 2	15.70	8.96	4.25	9.35		Fund 22	11.67	8.10	4.15	9.54
Fund 3	15.36	7.21	6.50	10.88		Fund 23	10.84	6.29	5.42	9.57
Fund 4	15.44	9.01	5.05	10.63		Fund 24	12.03	7.65	5.77	10.52
Fund 5	12.45	7.77	5.13	9.88		Fund 25	12.65	7.48	7.26	NA
Fund 6	12.73	7.35	4.62	8.78		Fund 26	13.98	9.67	6.35	12.31
Fund 7	11.28	6.46	2.93	8.65		Fund 27	10.17	5.12	3.54	NA
Fund 8	10.15	4.27	-0.18	NA		Fund 28	17.80	9.68	4.98	10.06
Fund 9	14.35	0.44	0.52	NA		Fund 29	14.36	9.69	6.44	11.34
Fund 10	15.97	8.40	5.16	9.63		Fund 30	13.67	8.02	6.30	9.02
Fund 11	9.25	4.27	3.23	9.08		Fund 31	13.01	7.48	6.79	10.27
Fund 12	11.72	6.11	1.95	NA		Fund 32	6.18	0.28	2.72	7.67
Fund 13	12.74	0.70	-0.82	9.79		Fund 33	13.26	5.93	4.08	10.03
Fund 14	15.44	9.32	6.01	11.22		Fund 34	12.72	7.66	4.65	9.58
Fund 15	12.74	8.48	4.56	NA		Fund 35	11.43	6.41	2.96	NA
Fund 16	10.77	5.25	2.10	6.75		Fund 36	15.57	10.69	7.96	8.18
Fund 17	4.27	2.15	-0.50	NA		Fund 37	7.32	1.65	2.04	NA
Fund 18	12.24	7.03	4.58	9.19		Fund 38	10.17	5.12	3.54	NA
Fund 19	12.29	5.61	3.57	9.29		Fund 39	11.67	5.82	4.39	10.16
Fund 20	7.57	3.87	3.45	7.75						

Five Year Return versus Standard Deviation

Figure 4

For the Five Years Ending September 30, 2004

Annualized Return

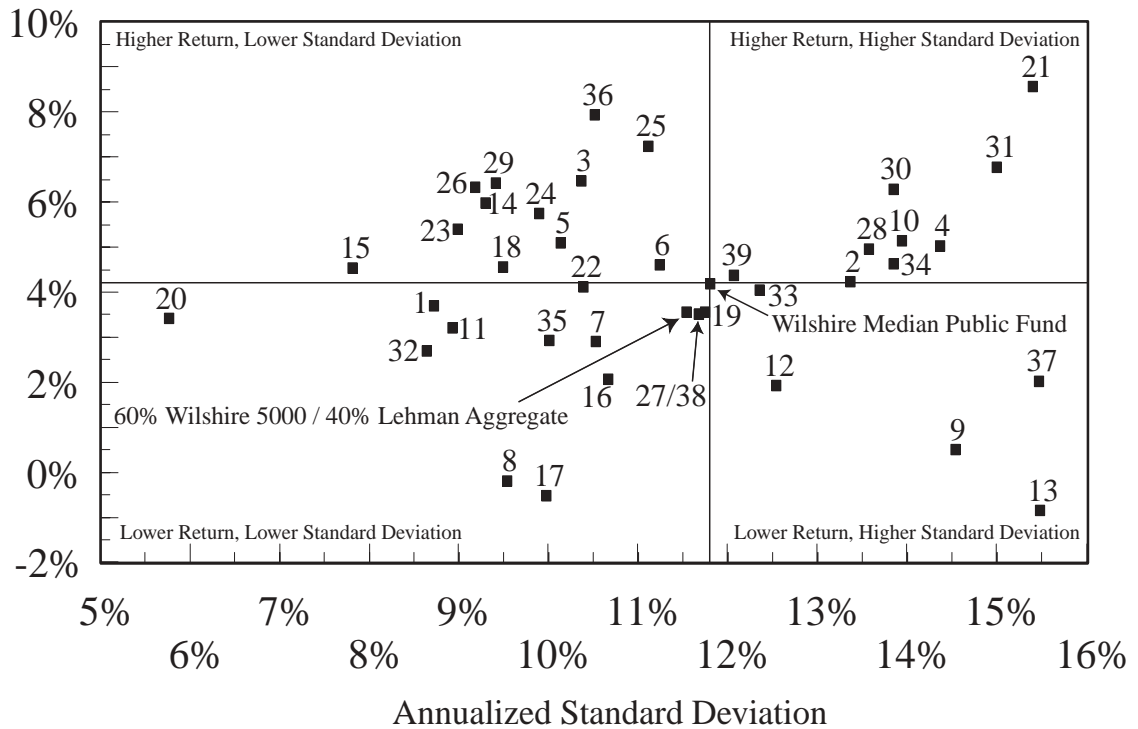


Figure 4 shows the five year return and standard deviation characteristics of the individual TEXPERS survey respondents versus two benchmarks. The first benchmark defines the four quadrants and is the Wilshire Public Funds Universe, provided by Wilshire Associates, Inc., which represents the returns 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. Twelve respondents are located in the most desirable northwest quadrant, indicating higher returns with less standard deviation than the benchmark. Twenty-two 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. Five 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, 2004

Annualized Return

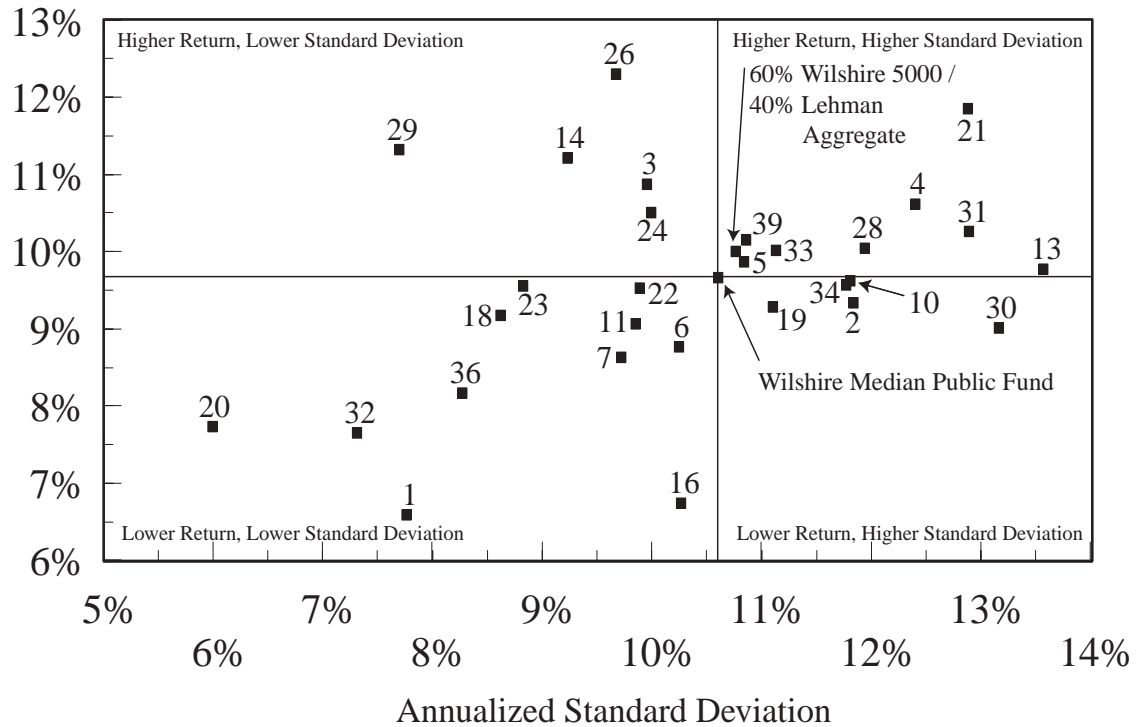


Figure 5 shows the ten year return and standard deviation characteristics of the individual TEXPERS survey respondents versus two benchmarks. The first benchmark defines the four quadrants and is the Wilshire Public Funds Universe, provided by Wilshire Associates, Inc., which represents the returns of 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. Five respondents are located in the most desirable northwest quadrant, indicating higher returns with less standard deviation than the benchmark. Nineteen 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. Five 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, 2004. 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, 2004 are required:

Quarter Ended =>	Mar. 31	Jun. 30	Sep. 30	Dec. 31
2004				-----
2003	-----	-----	-----	

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
2004				-----
2003				
2002				
2001				
2000				
1999				
1998				
1997				
1996				

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 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
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
Lower Colorado River Authority Retirement Plan
Lubbock Firemen's Relief & Retirement Fund
Lufkin Firemen's Relief & Retirement Fund *
McAllen Firefighters Pension & Relief 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
Plainview Fireman's Relief & Retirement Fund *
Plano Retirement Security Plan *
San Antonio City Public Service Pension Plan
San Antonio Fire and Police Pension Fund
StarTran Retirement Plan *
Sweetwater Firemen's Relief & Retirement Fund
Temple Fire Fighter's Relief & Retirement Fund *
Texarkana Firemen's Relief & Retirement 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
35	Abilene Firemen's Relief & Retirement Fund
33	Amarillo Firemen's Relief & Retirement Fund
34	Austin Employees' Retirement System
31	Austin Fire Fighters Relief & Retirement Fund
3	Austin Police Retirement System
6	Beaumont Firemen's Relief & Retirement Fund
26	Big Spring Firemen's Relief & Retirement Fund
18	Corpus Christi Fire Fighters' Retirement System
36	Denison Firemen's Relief & Retirement Fund
22	El Paso City Employees' Pension Fund
5	El Paso Firemen & Policemen's Pension Fund
28	Fort Worth Employees' Retirement Fund
17	Greenville Firemen's Relief & Retirement Fund
30	Houston Municipal Employees Pension System
10	Houston Police Officers Pension System
12	Irving Firemen's Relief & Retirement Fund
23	Lower Colorado River Authority
39	Lubbock Firemen's Relief & Retirement Fund
25	McAllen Firefighters Pension & Relief Fund
38	Metro. Transit Auth. of Harris County - Non-Union Pension Plan
27	Metro. Transit Auth. Transport Workers Union Pension Plan
29	Odessa Firemen's Relief & Retirement Fund
32	Orange Fireman's Relief & Retirement Fund
20	Paris Firefighters' Relief and Retirement Fund
14	Sweetwater Firemen's Relief & Retirement Fund
15	Texarkana Firemen's Relief & Retirement Fund
16	University Park Firemen's Relief & Retirement Fund
24	VIA Metropolitan Transit Retirement Plan
9	Waxahachie Firemen's Relief & Retirement Fund