Texas County & District Retirement System

Comprehensive Annual Financial Report

For the Year Ended December 31, 2011

Comprehensive Annual Financial Report

For the Year Ended
December 31, 2011

Retirement Security Benefits Texas

Every working Texan needs retirement security. Being financially independent when the time comes to stop working is the goal of every employee.

Well-designed and responsibly funded pension plans, like TCDRS, provide workers with a way to save for a financially secure future. TCDRS is an efficient way for employers to fund retirement benefits, helping them attract and retain talented people for public service. Our unique plan design also allows county and district employers to control costs.

TCDRS returns value to local communities in Texas too. Most TCDRS retirees continue to live in the communities they served as public employees. That means retirees are using their benefits to enrich their hometowns. In 2011, TCDRS paid $797 million in benefits to retirees and former employees.

Texas County & District Retirement System

901 MoPac Expwy. South

Barton Oaks Plaza IV, Suite 500

Austin, TX 78746

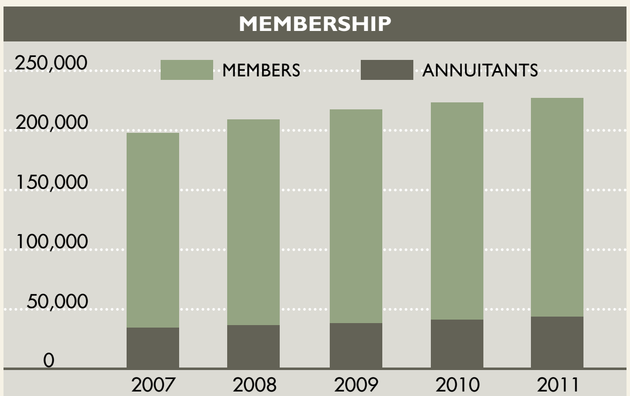
Prepared by the Finance, Communications, Actuarial Services and Investment Divisions

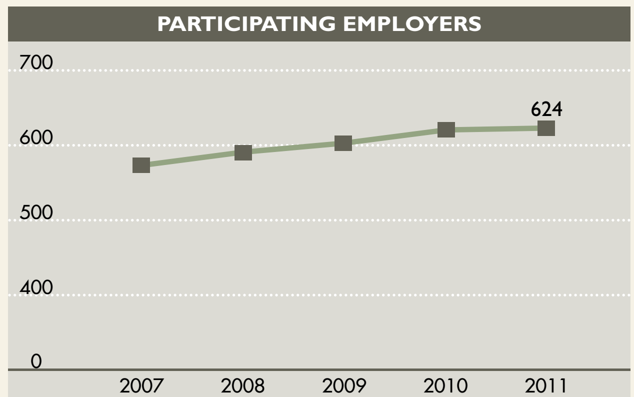
TCDRS: AT A GLANCE

TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

TCDRS works with counties and districts to provide reliable retirement, disability and survivor benefits for their employees.

SERVING OUR MEMBERSHIP

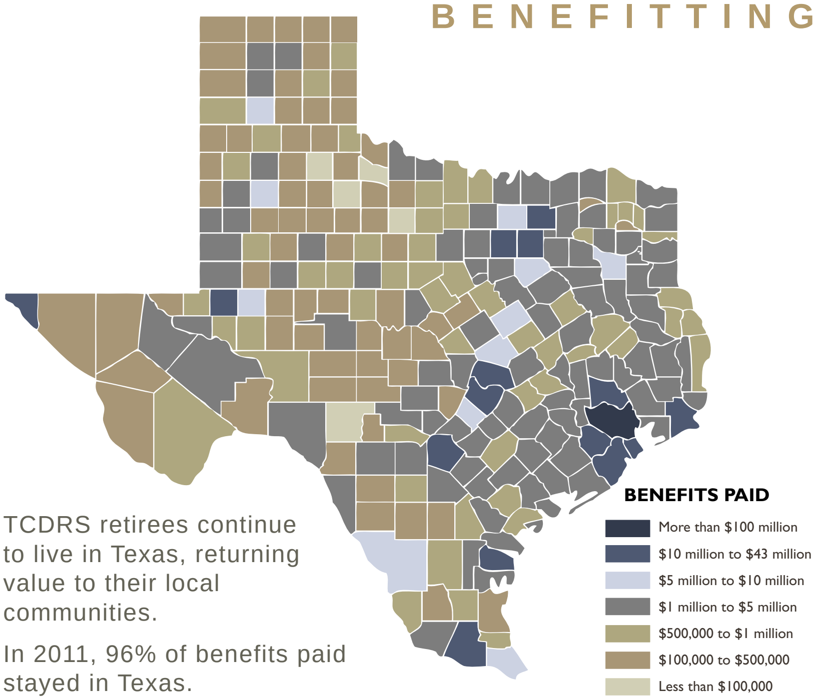




We serve a membership of more than 225,000, including over 43,000 retirees.

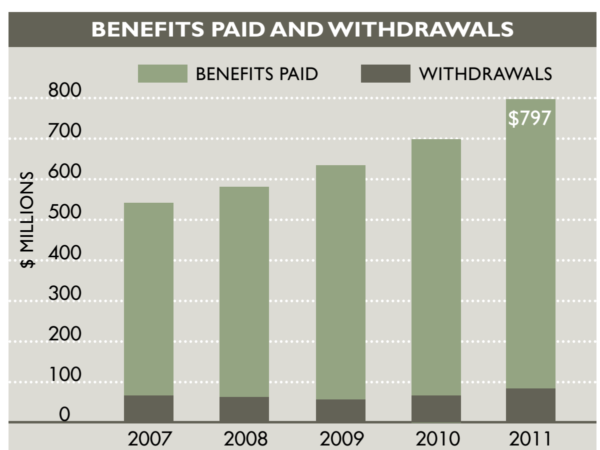
Since 1967, the system has grown to include 624 counties and districts.

BENEFITTING TEXAS



TCDRS retirees continue to live in Texas, returning value to their local communities.

In 2011, 96% of benefits paid stayed in Texas.

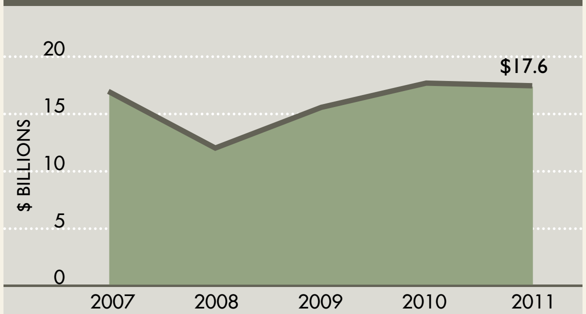


RETIREE PROFILE

Average Age at Retirement	Average Years of Service	Average Annual Benefit
61	17	$18,312

INVESTING FOR THE LONG TERM

NET PLAN ASSETS



Plan assets totaled $17.6 billion. Broad diversity in our investment portfolio reduces possible losses from any single asset class or investment.

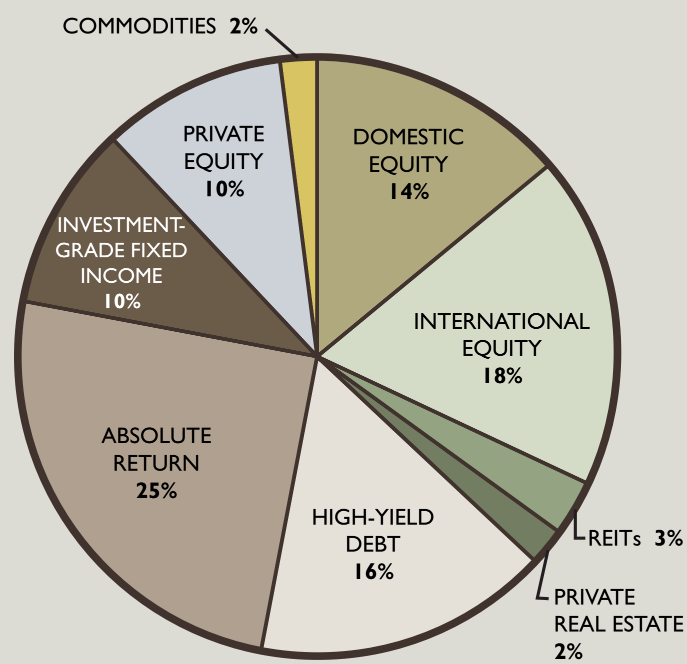
TOTAL FUND RETURN

Annualized Returns	2011 Return	3 Year	10 Year	20 Year	30 Year
Total Fund	-1.0%	12.3%	6.2%	7.2%	9.9%

Our investments have exceeded our target return of 8% over the long term.

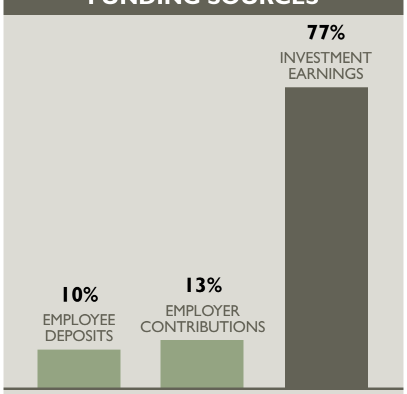
ASSET ALLOCATION TARGETS

effective Jan. 1, 2012



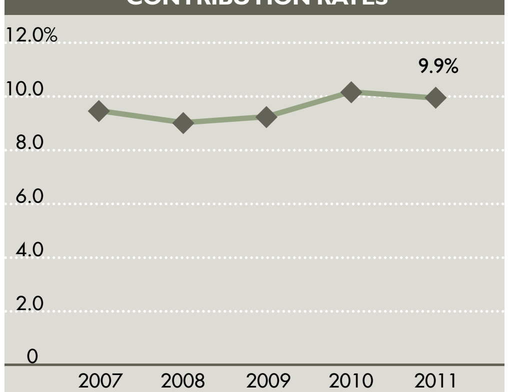
FUNDING PLANS RESPONSIBLY

FUNDING SOURCES

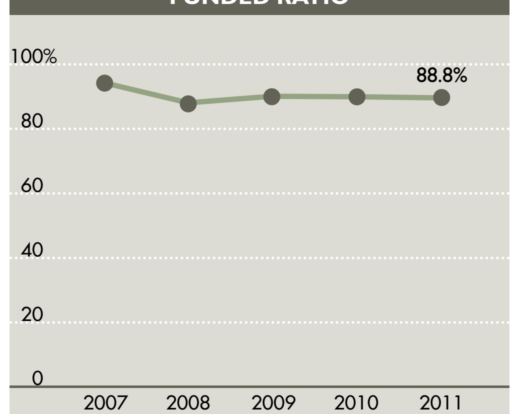


(From TCDRS inception in 1967 through Dec. 31, 2011)

AVG. REQUIRED EMPLOYER CONTRIBUTION RATES



FUNDED RATIO



Investment earnings fund most of the benefits. Employers must pay 100% of their required contributions every year. Each plan is funded independently by a county or district and its employees. Our conservative funding methods ensure any unfunded liabilities are paid down to zero within 20 years. This means money is there when needed and unfunded liabilities are not pushed to future generations.

All figures as of Dec. 31, 2011

TABLE OF CONTENTS

INTRODUCTORY SECTION

FINANCIAL SECTION

INVESTMENT SECTION

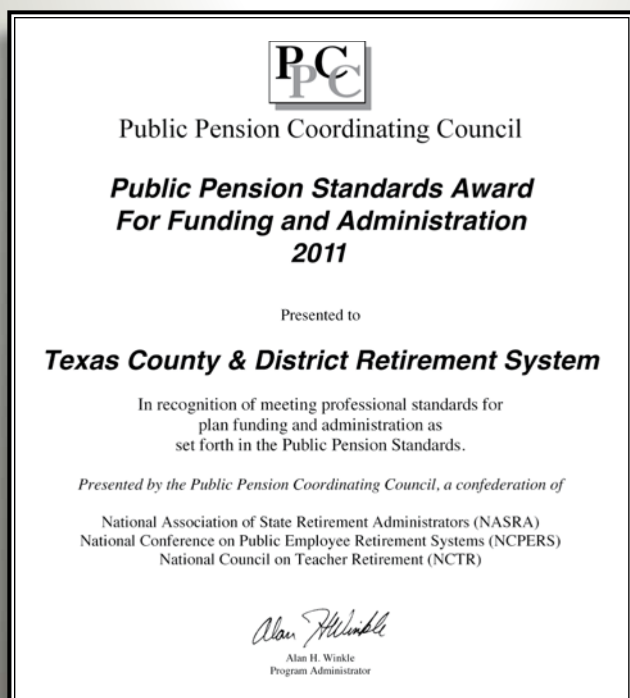
ACTUARIAL SECTION

STATISTICAL SECTION

TCDRS serves those who serve Texas.

Introductory

The Certificate of Achievement for Excellence in Financial Reporting was presented by the Government Finance Officers Association of the United States and Canada for the fiscal year ended Dec. 31, 2010. This was the 19th consecutive year that TCDRS has received this prestigious award, which recognizes comprehensive annual financial reports that have achieved the highest standards in government accounting and reporting.



Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2011

Presented to

Texas County & District 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

TCDRS was awarded the Public Pension Coordinating Council's (PPCC) Public Pension Standards award for the ninth consecutive year. This award is in recognition of meeting professional standards for plan design and administration as set forth in the Public Pension Standards.

TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

Post Office Box 2034
Austin, Texas 78768-2034

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Barton Oaks Plaza IV
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Austin, Texas 78746

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Fax 512-328-8887

www.tcdrs.org

LETTER OF TRANSMITTAL

June 18, 2012

We are pleased to present the Comprehensive Annual Financial Report (CAFR) of the Texas County & District Retirement System (TCDRS or system) for the year ended Dec. 31, 2011 — the 44th full year of operations. This report fulfills the requirements established by the Texas Government Code for public retirement systems to publish an annual financial report. This CAFR is designed to provide a better understanding of TCDRS — a system that continues to maintain a strong and positive financial future.

TCDRS management is responsible for both the accuracy of the data and the completeness and fairness of the presentation within this report.

This CAFR was prepared to conform to the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board. A comprehensive framework of internal controls exists to provide reasonable assurance regarding the safekeeping of assets and fair presentation of the financial statements and supporting schedules. Internal controls also provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. The concept of reasonable assurance recognizes that first, the cost of a control should not exceed the benefits likely to be derived, and second, the valuation of the cost and benefits requires estimates and judgments by management.

KPMG LLP, Certified Public Accountants, has issued an unqualified ("clean") opinion on TCDRS' financial statements for the year ended Dec. 31, 2011. The independent auditor's opinion is located at the front of the Financial Section of this report (see page 20).

Immediately following the independent auditor's opinion is the Management's Discussion and Analysis (MD&A), which provides a narrative introduction, overview and analysis of the basic financial statements. The MD&A complements the Letter of Transmittal and should be read in conjunction with it.

Created in 1967 by the Texas Legislature, TCDRS partners with over 620 counties and districts to provide retirement, disability and death benefits. By providing attractive retirement benefits, we help our employers hire and retain talented staff.

TCDRS is administered by a nine-person board of trustees appointed by the governor with the consent of the state senate. The board appoints a director, who is responsible for all day-to-day operations, and an investment officer, who oversees investment operations. The board also appoints a legal counsel, a consulting actuary, an independent auditor, a medical board and investment consultants. TCDRS does not receive funding from the State of Texas.

TCDRS is a unique, savings-based plan. Members save for their own retirement over the length of their careers. At retirement, TCDRS benefits are based on a member's final savings balance and employer matching.

Members are county public safety officers, emergency service providers, nurses, county judges, commissioners and others who serve our state. These public servants have saved for a predictable retirement income in return for their service to local communities throughout Texas.

TCDRS is not a one-size-fits-all system. Each employer maintains its own customized plan of retirement benefits. Because of that, employers have the flexibility and local control to select benefits and pay for those benefits. In addition, employers have the ability to adjust their benefits each year to meet their needs and budgets.

On average, our current retirees began taking a benefit at age 61 after working 17 years. The average annual benefit for current retirees is $18,312 as of Jan. 1, 2012. In 2011, TCDRS paid $797 million in benefits to retirees and former members, and 96% of that stayed in Texas.

For the 10-year period ended Dec. 31, 2011, the number of actively participating employers has increased from 503 to 624, a 24% increase; the number of employee and former employee members has risen from 126,572 to 185,091, a 46% increase; and the number of annuitant accounts has increased from 23,130 to 43,635, an 89% increase.

INVESTMENTS

The TCDRS Board of Trustees constructs the TCDRS investment portfolio to achieve our long-term investment return goal with an acceptable amount of risk. By meeting our investment goal, we help employers provide meaningful, secure benefits to their employees and retirees at a reasonable, stable cost.

Our investment goals are:

- **Achieve our target investment return:** Our long-term return objective is 8%, which helps maintain stable costs for employers and stable benefits for employees and retirees.
- **Invest for the long term:** Our investment horizon is 30 years or more.
- **Keep investment risk at acceptable levels:** In constructing the portfolio, we continually balance the risk of short-term volatility against the risk of not achieving our long-term target return.

To ensure that the investment process is restricted by appropriate safeguards, the board has adopted and periodically reviews an investment policy that defines and restricts investment authority and emphasizes the importance of a long-term investment philosophy with minimization of risk.

In 2011, the TCDRS portfolio return was -1.0%, which exceeded the policy benchmark of -1.4% by a total of 40 basis points. Over the long term, we've exceeded our 8% target return. Our 30-year return is 9.9% for the period ended Dec. 31, 2011.

FUNDING

Benefits are funded by investment earnings, employee deposits and employer contributions. At retirement, 77% of benefits paid are funded by investment earnings, 13% by employers (taxpayers) and 10% from employees' own contributions. The percentages are based on data from TCDRS inception in 1967 through Dec. 31, 2011.

Employer contribution rates are calculated annually for each employer's plan by independent consulting actuaries.

A key difference between TCDRS and traditional defined benefit plans is that employers participating in our system must pay 100% of their required contributions every year. By paying the required contribution rate every year, employers are paying for their current employees' future benefits. Our conservative funding methods also ensure any existing unfunded liabilities are paid down to zero within 20 years. These methods ensure that the money will be there when needed and unfunded liabilities are not pushed to future generations.

The net assets held in trust for pension benefits at year end 2011 and 2010 are $17.63 billion and $17.73 billion, respectively, a decrease of $0.10 billion (0.6%).

Cash flow from deposits and contributions exceeds the amounts required to meet annual benefits paid to TCDRS retirees, withdrawals and the administrative expenses of the organization.

Normally, as the system matures, it is expected that the rate of increase in net assets to pay benefits would gradually move downward as the number of members receiving benefits increases. However, investment returns and changes in employers' plans may also affect annual cash flow. The recent history of net investment income, contributions and deposits, benefit payments, and administrative costs is shown in the Statistical Section beginning on page 78.

A total of $197 million in reserves is available for general contingencies and expenses. The board approves annual budgets for investment and administrative expenditures and authorizes their funding from investment earnings and general reserves, respectively.

In the aggregate at year end 2011, the actuarial value of assets and actuarial liabilities totaled $19.02 billion and $21.41 billion respectively, resulting in a funded ratio of 88.8%. The annual actuarial valuation of each plan reviews the progress made in achieving funding objectives. The valuation may result in adjustments to employer contribution rates to ensure adequate funding to meet those objectives. Historical information relating to funding progress for all employers as a group is in the Required Supplementary Information, located in the Financial Section. Each employer receives additional information about the financial condition of their plans as part of their Summary Valuation Report.

MAJOR INITIATIVES

In 2011, TCDRS made significant progress on our strategic plan including the following initiatives:

- Implemented a targeted education program for members when they meet certain benefit milestones, such as eligibility for the Survivor Benefit, vesting and retirement eligibility.
- Completed a pension administration system assessment study, which included a feasibility study, documentation of high-level business requirements and selection of a software vendor to replace the pension administration system.
- Designed enhancements to the website that will allow members to update their addresses and beneficiaries online. In addition, employers will be able to submit new member information electronically.
- Implemented a new Finance & Human Resources application, which includes electronic workflow for related processes, enhanced reporting, better auditing and control mechanisms, and improved employer accounting.
- The TCDRS Board of Trustees revised the asset allocation at their December 2011 meeting, effective Jan. 1, 2012. The following asset classes were increased as a percentage of the total portfolio: absolute return from 20% to 25% and high-yield debt from 13% to 16%. The following asset classes were reduced as a percentage of the total portfolio: TIPS (Treasury Inflation-Protected Securities) from 3% to 0%, domestic equities from 16% to 14%, and international equities from 21% to 18%.

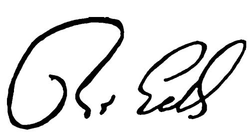
AWARDS AND ACKNOWLEDGMENTS

TCDRS proudly accepted a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA) for the fiscal year ended Dec. 31, 2010. This was the 19th consecutive year that the system achieved this prestigious award, which recognizes comprehensive annual financial reports that are readable and efficiently organized, and that satisfy accepted accounting principles and applicable legal requirements.

TCDRS was also awarded the Public Pension Coordinating Council's (PPCC) Public Pension Standards award for 2011, which is the ninth consecutive year that the system received this award in recognition of meeting professional standards for plan design and administration.

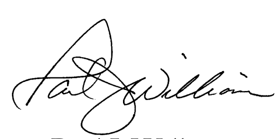
TCDRS staff and the board of trustees worked together to produce this report. Our thanks go out to everyone who has contributed to the preparation of this report and who works diligently for the continued successful operation of the Texas County & District Retirement System.

Sincerely,



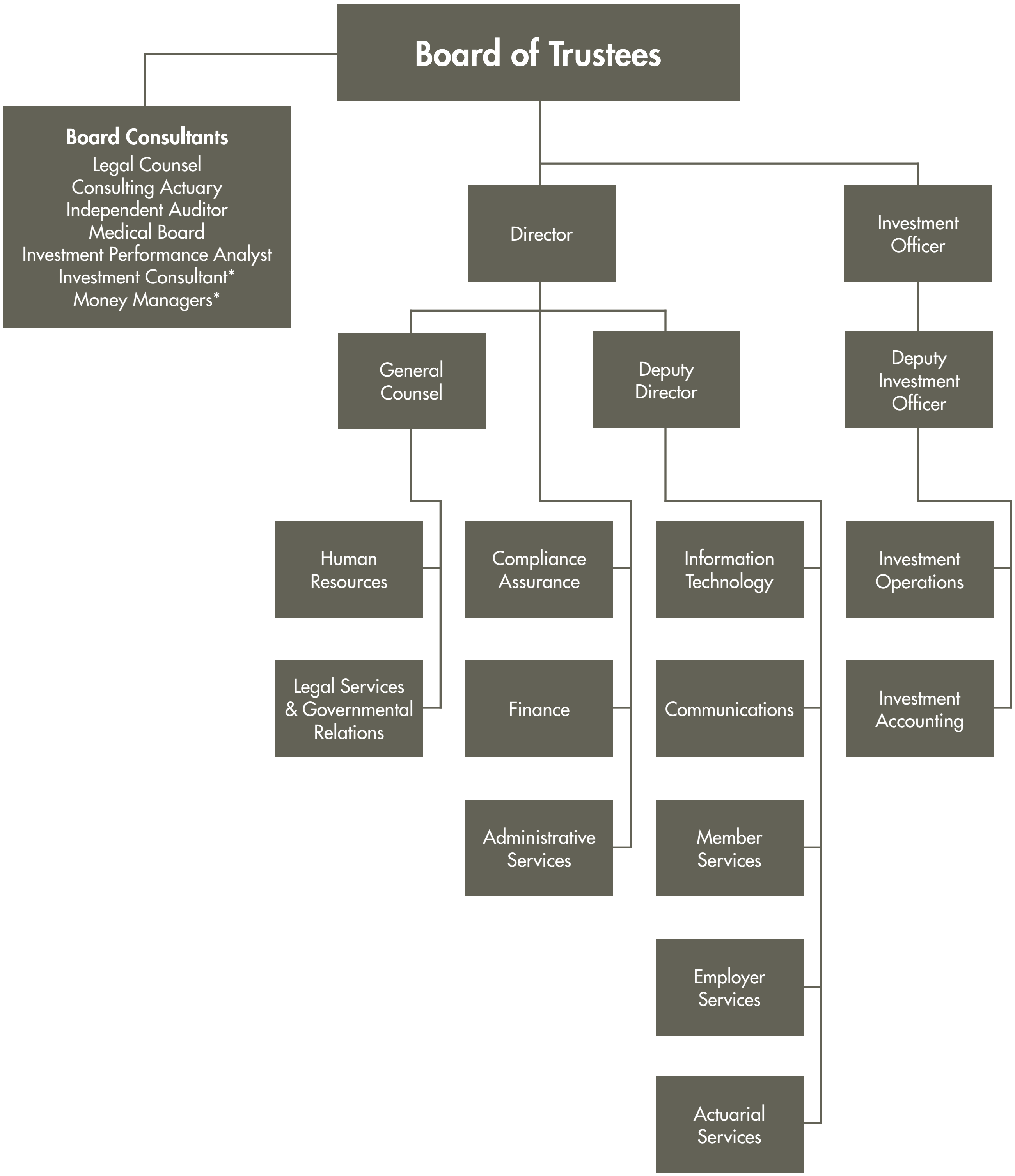
Robert A. Eckels
Chair

Gene Glass
Director



Paul J. Williams
Investment Officer

ORGANIZATION CHART



** For information regarding investment professionals' fees, see Tables 9–11 in the Investment Section.*

[LEFT TO RIGHT] Ed Miles, Jr., Kristeen Roe, Jan Kennady, Bridget McDowell, Robert A. Eckels, H.C. "Chuck" Cazalas, Jerry Bigham, Bob Willis (not pictured: Daniel R. Haggerty)

EXECUTIVE STAFF AND PROFESSIONAL ADVISORS

INVESTMENT STAFF

Paul J. Williams
Investment Officer

Sandra Bragg
Deputy Investment Officer

ADMINISTRATIVE STAFF

Gene Glass
Director

Tom Harrison
General Counsel

Amy Bishop
Deputy Director

PROFESSIONAL ADVISORS

Vinson & Elkins LLP
Legal Counsel

Milliman, Inc.
Consulting Actuary

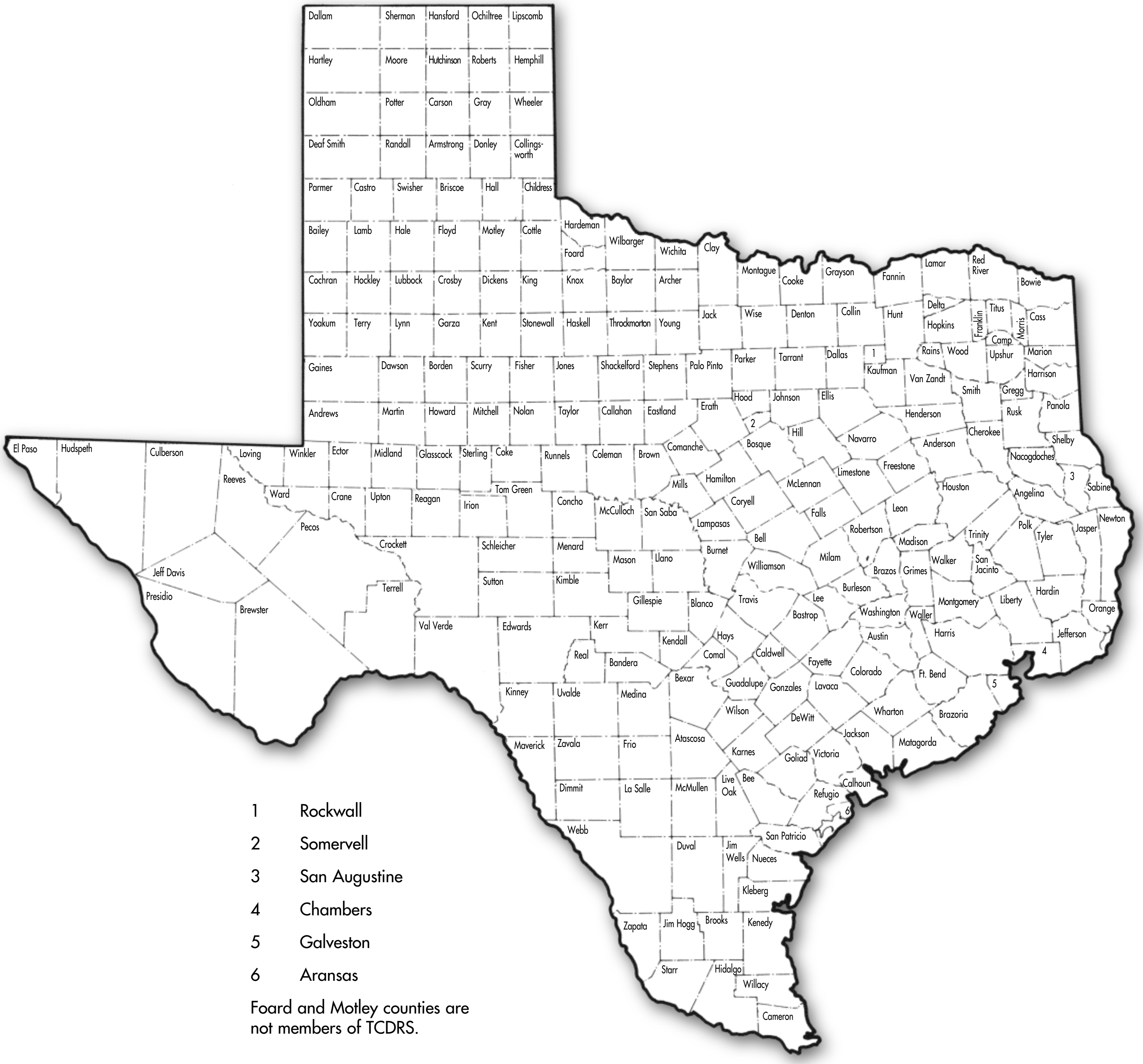
Bank of New York Mellon
Investment Performance Analyst

Cliffwater LLC
Investment Consultant

KPMG LLP
Independent Auditor

Ace Alsup, M.D., Chairman
John P. Vineyard, Jr., M.D.
Shelby H. Carter, M.D.
Medical Board

MEMBER COUNTIES AND DISTRICTS As of Jan. 1, 2012



1 Rockwall
2 Somervell
3 San Augustine
4 Chambers
5 Galveston
6 Aransas

Foard and Motley counties are not members of TCDRS.

MEMBER COUNTIES AND DISTRICTS As of Jan. 1, 2012

Counties are indicated with a bullet point. Districts are listed immediately below the counties in which they are headquartered.

A

- Anderson County
  Anderson County Central Appraisal District
- Andrews County
  Permian Regional Medical Center
- Angelina County
  Angelina & Nacogdoches Counties Water Control & Improvement District #1
  Angelina County Appraisal District
  Central Water Control & Improvement District
  Four Way Special Utility District
  Housing Authority of the City of Huntington
- Aransas County
  Aransas County Appraisal District
  Aransas County Navigation District #1
- Archer County
  Archer County Appraisal District
- Armstrong County
- Atascosa County
  Atascosa County Appraisal District
- Austin County
  Austin County Appraisal District

B

- Bailey County
- Bandera County
  Central Appraisal District of Bandera
- Bastrop County
  Bastrop County Emergency Services District #1
- Baylor County
  Baylor County Appraisal District
- Bee County
- Bell County
  Bell County Appraisal District
  Bell County Water Control & Improvement District #1
- Bexar County
  Alamo Area Council of Governments
  Alamo Regional Mobility Authority
  Bexar Appraisal District
  Bexar County Emergency Services District 7
  Bexar County Water Control & Improvement District #10
  Bexar-Medina-Atascosa Water Control & Improvement District #1
  Bexar Metro 911 Network District
  Edwards Aquifer Authority
- Blanco County
- Borden County
  Borden County Appraisal District
- Bosque County
  Bosque County Central Appraisal District
- Bowie County
  Macedonia-Eylau Municipal Utility District
- Brazoria County
  Angleton Drainage District
  Brazoria County Appraisal District
  Brazoria County Conservation & Reclamation District #3
  Brazoria County Drainage District #4
  Brazoria County Drainage District #5
  Velasco Drainage District
- Brazos County
  Brazos County Appraisal District
  Brazos County Emergency Communications District
  Brazos Valley Council of Governments
  Wickson Creek Special Utility District
- Brewster County
  Brewster County Appraisal District
- Briscoe County
  Mackenzie Municipal Water Authority
- Brooks County
- Brown County
- Burleson County
- Burnet County
  Burnet Central Appraisal District

C

- Caldwell County
  Caldwell County Appraisal District
- Calhoun County
  Calhoun County Appraisal District
  Calhoun County E911 Emergency Communications District
  Memorial Medical Center
- Callahan County
  Callahan County Appraisal District
- Cameron County
  Bayview Irrigation District #11
  Brownsville Irrigation District
  Cameron County Appraisal District
  Cameron County Drainage District #1
  Cameron County Drainage District #3
  Cameron County Drainage District #5
  Cameron County Irrigation District #2
  Cameron County Irrigation District #6
  Harlingen Irrigation District Cameron County #1
  Laguna Madre Water District
  Valley Municipal Utility District #2
- Camp County
  Camp Central Appraisal District
- Carson County
- Cass County
  Cass County Appraisal District
  Northeast Texas Municipal Water District
- Castro County
- Chambers County
  Chambers County Appraisal District
  Chambers County Public Hospital District
  Trinity Bay Conservation District
- Cherokee County
- Childress County
  Childress County Appraisal District
  Childress County Hospital District
- Clay County
  Clay County Appraisal District
- Cochran County
  Cochran County Appraisal District
- Coke County
  Coke County Appraisal District
- Coleman County
- Collin County
  Collin County Central Appraisal District
  North Texas Tollway Authority
- Collingsworth County
- Colorado County
- Comal County
  Comal Appraisal District
  Comal County Emergency Services District #3
  Comal County Emergency Services District #4 Spring Branch Fire & Rescue
  Comal County Emergency Services District #5
- Comanche County
- Concho County
  Concho County Hospital District
- Cooke County
  Cooke County Appraisal District
- Coryell County
- Cottle County

Tax Appraisal District of Cottle County
- Crane County

Crane County Hospital District
- Crockett County

Crockett County Water Control & Improvement District #1
- Crosby County

Crosby County Appraisal District
- Culberson County

D

- Dallam County

Dallam County Appraisal District
- Dallas County

Dallas Central Appraisal District

Dallas County Park Cities Municipal Utility District

Dallas County Water Control & Improvement District #6

Valwood Improvement Authority
- Dawson County

Dawson County Central Appraisal District

Mesa Underground Water Conservation District
- Deaf Smith County

Deaf Smith County Hospital District
- Delta County

Delta County Municipal Utility District
- Denton County

Denco Area 911 District

Denton Central Appraisal District

Denton County Fresh Water Supply District 1A

Denton County Transportation Authority

Mustang Special Utility District
- DeWitt County

DeWitt County Appraisal District

Pecan Valley Groundwater Conservation District
- Dickens County

Dickens County Appraisal District

White River Municipal Water District
- Dimmit County

Middle Rio Grande Development Council
- Donley County

Greenbelt Municipal & Industrial Water Authority
- Duval County

E

- Eastland County

Eastland County Appraisal District
- Ector County

Ector County Hospital District

Emergency Communication District of Ector County
- Edwards County

Edwards Central Appraisal District
- Ellis County
- El Paso County

El Paso County Central Appraisal District

El Paso County Hospital District

El Paso County 911 District

Lower Valley Water District

Rio Grande Council of Governments
- Erath County

F

- Falls County

Falls County Appraisal District

Tri-County Special Utility District
- Fannin County

Fannin County Appraisal District
- Fayette County
- Fisher County

Fisher County Hospital District
- Floyd County
- Fort Bend County

Fort Bend Central Appraisal District

Fort Bend County Water Control & Improvement District #2
- Franklin County
- Freestone County

Freestone County Appraisal District
- Frio County

Frio County Appraisal District

G

- Gaines County

Gaines County Appraisal District
- Galveston County

Bacliff Municipal Utility District

Bayview Municipal Utility District

Galveston Central Appraisal District

Galveston County Consolidated Drainage District

Galveston County Drainage District #1

Galveston County Drainage District #2

Galveston County Emergency Communication District

Galveston County Fresh Water Supply District #6

Galveston County Health District

Galveston County Water Control & Improvement District #1

Gulf Coast Water Authority
- Garza County

Garza Central Appraisal District
- Gillespie County
- Glasscock County
- Goliad County
- Gonzales County

Gonzales County Appraisal District
- Gray County

Gray County Appraisal District
- Grayson County

Grayson Central Appraisal District

Two Way Special Utility District
- Gregg County
- Grimes County

Grimes County Appraisal District
- Guadalupe County

Guadalupe Appraisal District

H

- Hale County
- Hall County

Hall County Appraisal District
- Hamilton County
- Hansford County

Hansford County Hospital District

Palo Duro River Authority
- Hardeman County
- Hardin County

Hardin County Appraisal District

Lumberton Municipal Utility District
- Harris County

Crosby Municipal Utility District

Greater Harris County 911 Emergency Network

Harris County Appraisal District

Harris County Emergency Services District #50

Harris County Housing Authority

Harris County Water Control & Improvement District #1

Harris County Water Control & Improvement District #50
- Harrison County

Marshall-Harrison County Health District
- Hartley County

Hartley County Appraisal District
- Haskell County

Haskell Memorial Hospital District
- Hays County

Hays County Emergency Services District #6
- Hemphill County

Hemphill County Appraisal District

Hemphill County Hospital District
- Henderson County

Henderson County Appraisal District

Henderson County 911 Communications District
- Hidalgo County

Agua Special Utility District

Delta Lake Irrigation District

Hidalgo and Cameron Counties Irrigation District #9

Hidalgo County Appraisal District

Hidalgo County Drainage District #1

Hidalgo County Irrigation District #1

Hidalgo County Irrigation District #2

Hidalgo County Irrigation District #6

United Irrigation District
- Hill County

Aquilla Water Supply District
- Hockley County

Hockley County Appraisal District
- Hood County

Acton Municipal Utility District
- Hopkins County

Hopkins County Appraisal District
- Houston County

Houston County Appraisal District
- Howard County
- Hudspeth County
- Hunt County

Combined Consumers Special Utility District

Hunt County Appraisal District
- Hutchinson County

Hutchinson County Appraisal District

I

- Irion County

Irion County Appraisal District

J

- Jack County

Jack County Appraisal District
- Jackson County

Jackson County Appraisal District

Jackson County County-Wide Drainage District

Lavaca-Navidad River Authority
- Jasper County

Jasper County Water Control & Improvement District #1

Southeast Texas Groundwater Conservation District
- Jeff Davis County
- Jefferson County

Jefferson County Drainage District #3

Jefferson County Drainage District #6

Jefferson County Drainage District #7

Jefferson County Water Control & Improvement District #10

Jefferson County Waterway & Navigation District

Port of Beaumont Navigation District

Port of Port Arthur Navigation District

Sabine Pass Port Authority

West Jefferson County Municipal Water District
- Jim Hogg County

Jim Hogg County Appraisal District

Jim Hogg County Fire District #2

Jim Hogg County Water Control & Improvement District #2
- Jim Wells County
- Johnson County

Central Appraisal District of Johnson County
- Jones County

Jones County Appraisal District

K

- Karnes County

Karnes County Appraisal District

Karnes County Hospital District
- Kaufman County

Kaufman County Appraisal District
- Kendall County

Cow Creek Groundwater Conservation District

Kendall Appraisal District

Kendall County Water Control & Improvement District #1
- Kenedy County
- Kent County

Kent County Tax Appraisal District
- Kerr County

Kerr Emergency 911 Network
- Kimble County
- King County

King County Appraisal District
- Kinney County

Kinney County Appraisal District

West Nueces-Las Moras Soil & Water Conservation District #236
- Kleberg County
- Knox County

North Central Texas Municipal Water Authority

L

- La Salle County

La Salle County Appraisal District
- Lamar County

Lamar County Appraisal District
- Lamb County
- Lampasas County

Lampasas County Appraisal District
- Lavaca County
- Lee County
- Leon County

Leon County Central Appraisal District
- Liberty County

Liberty County Central Appraisal District
- Limestone County

Bistone Municipal Water Supply District

Limestone County Appraisal District
- Lipscomb County
- Live Oak County

Live Oak County Appraisal District
- Llano County
- Loving County

Loving County Appraisal District
- Lubbock County

High Plains Underground Water Conservation District #1

Lubbock Central Appraisal District

Lubbock County Water Control & Improvement District #1

Lubbock Emergency Communication District

Lubbock Reese Redevelopment Authority

South Plains Association of Governments
- Lynn County

Lynn County Appraisal District

Lynn County Hospital District

M

- Madison County

Madison County Appraisal District
- Marion County

Marion County Appraisal District
- Martin County

Martin County Appraisal District
- Mason County
- Matagorda County

Coastal Plains Groundwater Conservation District

Matagorda County Drainage District
Matagorda County Hospital District
Matagorda County Navigation District #1
Port of Bay City Authority
- Maverick County
Maverick County Hospital District
Maverick County Water Control & Improvement District #1
- McCulloch County
McCulloch County Appraisal District
- McLennan County
Brazos River Authority
McLennan County Appraisal District
McLennan County Water Control & Improvement District #2
McLennan County 911 Emergency Assistance District
- McMullen County
- Medina County
East Medina County Special Utility District
Medina County Appraisal District
Medina County 911 District
- Menard County
- Midland County
Midland Central Appraisal District
Midland Emergency Communication District
Permian Basin Regional Planning Commission
- Milam County
Post Oak Savannah Groundwater Conservation District
- Mills County
Mills County Appraisal District
- Mitchell County
Mitchell County Appraisal District
- Montague County
Montague County Tax Appraisal District
- Montgomery County
Montgomery Central Appraisal District
Montgomery County Emergency Communication District
Montgomery County Emergency Service District #1
Montgomery County Emergency Service District #3
Montgomery County Emergency Service District #8
Montgomery County Hospital District
Montgomery County Housing Authority
- Moore County
Moore County Appraisal District
Moore County Hospital District
- Morris County

N

- Nacogdoches County
Pineywoods Groundwater Conservation District
- Navarro County
Navarro Central Appraisal District
- Newton County
Newton Central Appraisal District
- Nolan County
- Nueces County
Nueces County Appraisal District
Nueces County Drainage District #2
Nueces County Emergency Services District #2
Nueces County Water Control & Improvement District #3
Nueces County Water Control & Improvement District #4
Port of Corpus Christi Authority

O

- Ochiltree County
- Oldham County
Oldham County Appraisal District
- Orange County
Orange County Appraisal District
Orange County Drainage District
Orange County Emergency Services District #1
Orange County Navigation & Port District
Orange County Water Control & Improvement District #1

P

- Palo Pinto County
Palo Pinto Appraisal District
Santo Special Utility District
- Panola County
- Parker County
Parker County Appraisal District
Parker County Hospital District
Parker County Special Utility District
Upper Trinity Groundwater Conservation District
- Parmer County
Parmer County Appraisal District
- Pecos County
Iraan General Hospital District
Pecos County Appraisal District
Pecos County Water Control & Improvement District #1
- Polk County
Lower Trinity Groundwater Conservation District
Polk Central Appraisal District
Polk County Fresh Water Supply District #2
- Potter County
Potter County Appraisal District
Potter-Randall County Emergency Communication District
- Presidio County
Presidio Appraisal District

R

- Rains County
Rains County Appraisal District
Rains County Emergency Services District #1
- Randall County
Randall County Appraisal District
- Reagan County
Reagan Hospital District
- Real County
- Red River County
- Reeves County
Red Bluff Water Power Control District
Reeves County Appraisal District
Reeves County Hospital District
- Refugio County
Refugio County Drainage District #1
Refugio Groundwater Conservation District
- Roberts County
- Robertson County
- Rockwall County
Rockwall Central Appraisal District
- Runnels County
- Rusk County
Cross Roads Special Utility District
Rusk County Appraisal District
Texas Eastern 911 Network

S

- Sabine County
- San Augustine County
- San Jacinto County
San Jacinto County Central Appraisal District
- San Patricio County
San Patricio County Appraisal District
San Patricio County Drainage District
San Patricio Municipal Water District

San Patricio Navigation District
- San Saba County
- Schleicher County
- Scurry County

Scurry County Hospital District
- Shackelford County

Shackelford County Appraisal District
- Shelby County

Shelby County Appraisal District
- Sherman County

Sherman County Appraisal District

Stratford Hospital District
- Smith County

Northeast Texas Public Health District

Smith County Appraisal District

Smith County 911 Communications District
- Somervell County

Somervell County Central Appraisal District

Somervell County Water District
- Starr County

Starr County Appraisal District
- Stephens County
- Sterling County
- Stonewall County

Stonewall County Appraisal District

Stonewall Memorial Hospital District
- Sutton County

Sutton County Hospital District
- Swisher County

Swisher County Appraisal District

T

- Tarrant County

Benbrook Water & Sewer Authority

Tarrant Appraisal District

Tarrant County 911 Emergency Assistance District
- Taylor County

Central Appraisal District of Taylor County

Housing Authority of the City of Abilene

West Central Texas Council of Governments

West Central Texas Municipal Water District
- Terrell County

Terrell County Water Control & Improvement District #1
- Terry County

Terry Memorial Hospital District
- Throckmorton County
- Titus County

Titus County Appraisal District

Titus County Fresh Water Supply District
- Tom Green County

Concho Valley Council of Governments
- Travis County

Central Texas Regional Mobility Authority

Lakeway Municipal Utility District

Texas Association of Counties

Texas County & District Retirement System

Travis Central Appraisal District

Travis County Emergency Services District #1

Travis County Water Control & Improvement District—Point Venture
- Trinity County
- Tyler County

Tyler County Appraisal District

U

- Upshur County
- Upton County

Rankin County Hospital District

Upton County Appraisal District
- Uvalde County

V

- Val Verde County
- Van Zandt County

Van Zandt County Appraisal District
- Victoria County

Victoria County Drainage District #3

Victoria County Groundwater Conservation District

W

- Walker County

Walker County Special Utility District
- Waller County

Brookshire-Katy Drainage District

Brookshire Municipal Water District

Waller County Appraisal District
- Ward County

Ward County Central Appraisal District

Ward Memorial Hospital
- Washington County
- Webb County

South Texas Development Council

Webb County Appraisal District
- Wharton County

Coastal Bend Groundwater Conservation District

Wharton County Water Control & Improvement District #1
- Wheeler County

Wheeler County Appraisal District
- Wichita County

Red River Authority

Wichita Appraisal District

Wichita County Water Improvement District #2

Wichita-Wilbarger 911 District
- Wilbarger County

Wilbarger County Appraisal District

Wilbarger County Hospital District
- Willacy County

Willacy County Appraisal District

Willacy County Housing Authority
- Williamson County

Brushy Creek Municipal Utility District

Jonah Water Special Utility District

Upper Brushy Creek Water Control & Improvement District

Williamson County Appraisal District

Williamson County Emergency Services District #3
- Wilson County

Wilson County Appraisal District
- Winkler County

Winkler County Appraisal District
- Wise County

Wise County Appraisal District
- Wood County

Bright Star-Salem Special Utility District

Wood County Appraisal District

Y

- Yoakum County

Yoakum County Appraisal District
- Young County

Z

- Zapata County

Zapata County Appraisal District
- Zavala County

Zavala County Appraisal District

Conservative funding methods create a strong system.

Financial

KPMG

KPMG LLP
Suite 1900
111 Congress Avenue
Austin, TX 78701-4091

Independent Auditor's Report

The Board of Trustees of
Texas County & District Retirement System:

We have audited the accompanying statements of plan net assets of the Texas County & District Retirement System (TCDRS) as of December 31, 2011 and 2010, and the related statements of changes in plan net assets for the years then ended which comprise the basic financial statements of TCDRS. These financial statements are the responsibility of TCDRS' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the TCDRS' internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Texas County & District Retirement System as of December 31, 2011 and 2010, and the respective changes in plan net assets for the years then ended in conformity with U.S. generally accepted accounting principles.

U.S. generally accepted accounting principles require that the management's discussion and analysis and the schedules of funding progress, employer contributions, and actuarial methods and assumptions for the Pension Trust Fund and the Group Term Life Fund (GTLF*)* on pages 21 through 25 and pages 35 and 42 through 43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming on opinion on the financial statements that collectively comprise the Texas County & District Retirement System's basic financial statements. The other supplementary information on pages 44 through 50 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole. The introductory, investment, actuarial, and statistical sections are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

KPMG LLP

June 15, 2012

INTRODUCTION

This section provides an overview and analysis of the system's financial position and performance, focusing on the current year's results, changes in those results (including three-year trends), and other currently known information. Readers are encouraged to consider this information in conjunction with information provided in other areas of the Financial Section, as well as information presented in the Letter of Transmittal in the Introductory Section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of the Statements of Plan Net Assets, Statements of Changes in Plan Net Assets and the Notes to the Financial Statements. Required Supplementary Information and Other Supplementary Information are also presented.

- The **Statements of Plan Net Assets** report the assets less liabilities and the resulting net assets available for pension or insurance benefits at the end of 2011, compared to 2010.
- The **Statements of Changes in Plan Net Assets** report the transactions that occurred during 2011 and 2010 for which additions less deductions equal the net increase or decrease in plan net assets.
- **Notes to the Financial Statements** include additional information not readily evident in the statements themselves. The notes are considered essential to a full understanding of the information provided in the financial statements.
- **Required Supplementary Information** provides historical funding progress and employer contribution information along with Pension Trust Fund actuarial methods and assumptions to assist the reader in evaluating the condition of the plans administered by TCDRS.
- **Other Supplementary Information** provides detailed information, including activity by fund, administrative and investment expenses, and professional and consultant fees and services. These schedules support summary data presented in the basic financial statements.

TCDRS operates two trusts, both of which are accounted for as fiduciary funds. The **Pension Trust Fund** accounts for and provides retirement, disability and survivor benefits to the employees of participating employers. The **Group Term Life Fund** (GTLF or Group Term Life) provides a program of group term life insurance for the employees and, if covered, retirees of electing employers. No assets of the Pension Trust Fund may be used to pay any insurance benefit due from the GTLF, nor may assets of the GTLF be used to pay any benefit due from the Pension Trust Fund. Discussion and analysis is provided separately for each of the two trusts.

The Statements of Plan Net Assets and Statements of Changes in Plan Net Assets show financial information for both the Pension Trust Fund and the GTLF.

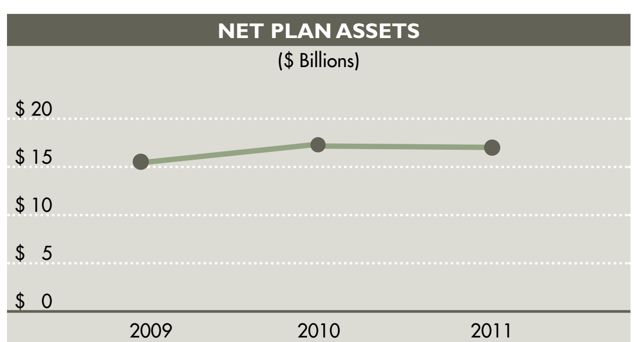
FINANCIAL ANALYSIS: PENSION TRUST FUND

The Pension Trust Fund is comprised of six individual funds, each with a specific operational purpose. Note A in the Notes to the Financial Statements has additional information about each of these funds.

Summary information about plan net assets and the changes in plan net assets showing comparative detail for 2011, 2010 and 2009 is presented on page 22.

Net assets (the amount that assets exceed liabilities) held in trust for pension benefits at year end 2011 totaled $17.63 billion. The 2010 amount was $17.73 billion and for 2009 was $15.56 billion. The decrease in plan net assets in 2011 was $0.10 billion while the increase in plan net assets in 2010 was $2.17 billion and in 2009 was $3.50 billion.

The overall financial condition of the system declined slightly due to the uncertainty in the financial markets, primarily attributable to the European debt crisis. The decrease in 2011 plan net assets was primarily due to net investment loss of



SUMMARY INFORMATION ABOUT PLAN NET ASSETS

Pension Trust Fund
($ Millions)

	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	2011 – 2010 $ Change	2011 – 2010 % Change	2010 – 2009 $ Change	2010 – 2009 % Change
Assets							
Investments, at Fair Value	$ 17,514	$ 17,599	$ 15,446	$ (85)	(0.5%)	$ 2,153	13.9%
Invested Securities-Lending Collateral	134	334	392	(200)	(59.9)	(58)	(14.8)
Receivables, Cash and Cash Equivalents, Other	143	148	137	(5)	(3.4)	11	8.0
Capital Assets, Net	16	16	18	0	0.0	(2)	(11.1)
Total Assets	**17,807**	**18,097**	**15,993**	**(290)**	**(1.6)**	**2,104**	**13.2**
Liabilities							
Securities-Lending Collateral	134	334	406	(200)	(59.9)	(72)	(17.7)
Other Liabilities	47	33	31	14	42.4	2	6.5
Total Liabilities	181	367	437	(186)	(50.7)	(70)	(16.0)
Net Assets Held in Trust for Pension Benefits	**$ 17,626**	**$ 17,730**	**$ 15,556**	**$(104)**	**(0.6%)**	**$2,174**	**14.0%**

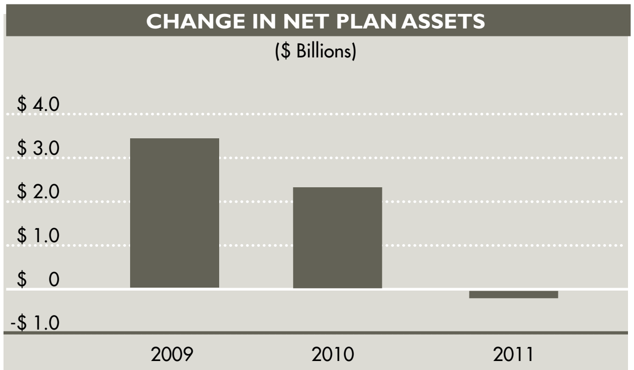
Due to rounding, totals and detail may not equal. Percentages shown are based on rounded amounts and may differ slightly from actual.

SUMMARY INFORMATION ABOUT CHANGES IN PLAN NET ASSETS

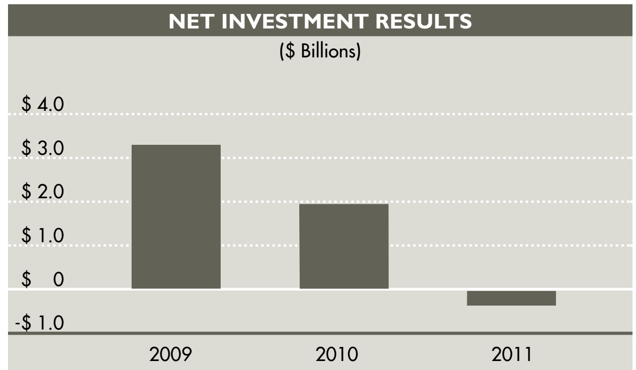
Pension Trust Fund
($ Millions)

	Years Ended Dec. 31, 2011	2010	2009	2011 – 2010 $ Change	2011 – 2010 % Change	2010 – 2009 $ Change	2010 – 2009 % Change
Additions							
Employee Deposits	$ 348	$ 358	$ 355	$ (10)	(2.8%)	$ 3	0.8%
Employer Contributions	570	550	510	20	3.6	40	7.8
Net Investment Results	(208)	1,981	3,285	(2,189)	(110.5)	(1,304)	(39.7)
Other Income	1	1	2	0	0.0	(1)	(50.0)
Total Additions	**711**	**2,890**	**4,152**	**(2,179)**	**(75.4)**	**(1,262)**	**(30.4)**
Deductions							
Benefits Paid	716	633	579	83	13.1	54	9.3
Withdrawals	81	65	56	16	24.6	9	16.1
Administrative Expenses	15	15	14	0	0.0	1	7.1
Other Expenses	3	3	2	0	0.0	1	50.0
Total Deductions	**815**	**716**	**651**	**99**	**13.8**	**65**	**10.0**
Net Increase (Decrease) in Plan Net Assets	**(104)**	**2,174**	**3,501**	**(2,278)**	**(104.8)**	**(1,327)**	**(37.9)**
Net Assets Held in Trust for Pension Benefits	**$ 17,626**	**$ 17,730**	**$ 15,556**	**$ (104)**	**(0.6%)**	**$ 2,174**	**14.0%**

Due to rounding, totals and detail may not equal. Percentages shown are based on rounded amounts and may differ slightly from actual.



CHANGE IN NET PLAN ASSETS

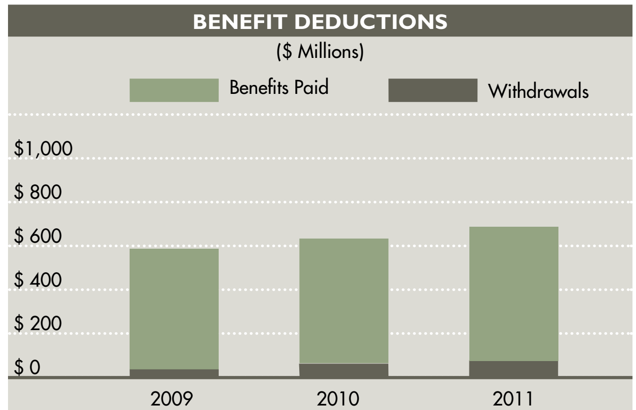


NET INVESTMENT RESULTS

$208 million — a -1.0% overall return. Net investment results for 2011 consist of the depreciation in fair value of investments of $474 million, partially offset by $296 million in interest and dividends, and net income from securities-lending activity of $4 million less $34 million of investment activity expenses. Net investment income in 2010 was $1.98 billion and 2009 was $3.29 billion.

The results from investing activities were mixed for 2011. Asset classes that earned positive returns included: private real estate (12.9%), TIPS (13.2%), private equity (9.5%), investment-grade fixed income (7.4%), high-yield debt (3.5%), REITs (1.7%) and domestic equities (1.2%). Offsetting those positive returns were declines in emerging market equities (-19.1%), developed international equities (-11.9%), commodities (-5.4%) and absolute return (-3.1%). The results from investing activities for all asset classes is presented on page 56.

Additions to net plan assets in 2011 also included $348 million in employee deposits and $570 million in employer contributions. Employee deposits decreased $10 million, primarily due to a decline of covered payroll and in the employee deposit rates of two employers that reduced benefits effective Jan. 1, 2011. Employer contributions rose $20 million over 2010 amounts, primarily attributable to lump-sum contributions, while partially offset by the reduction in the employer contribution rates related to benefit decreases and lower payroll. In 2010, employee deposits increased by $3 million and employer contributions increased by $40 million, primarily due to higher covered payroll, higher employer rates and elective lump-sum contributions by employers. Together, employee deposits and employer contributions increased during 2011 by 1.2% and in 2010 by 5.0% over the previous year's amounts.



BENEFIT DEDUCTIONS

Deductions for benefits paid and withdrawals for 2011 were $797 million, a 14.2% increase over the previous year. These deductions for 2010 were $698 million, a 9.9% increase over 2009. Higher deductions in 2011 and 2010 were due to several factors, including increases in the number of retirements in 2011 (a 6.9% increase) and in 2010 (a 7.5% increase), higher average benefits and increases in withdrawals.

OTHER CURRENTLY KNOWN INFORMATION: PENSION TRUST FUND

TCDRS' investment return for 2011 was -1.0%, before fees. This fell short of the long-term investment return, due to market uncertainty related to the European sovereign debt crises, downgrade of the United States' credit rating to AA+ from AAA and global economic growth propects.

The system's funded ratio, which is the total of all employers' actuarial value of assets as a percentage of all employers' actuarial accrued liabilities, is 88.8% as of Dec. 31, 2011. This is down from 89.4% as of Dec. 31, 2010 due to the 2011 investment loss, along with the continued recognition of 2008 investment losses, which are partially offset by 2009 and 2010 investment gains.

It is important to note that each employer plan has a separate annual valuation, which produces a separate funded ratio. Each employer's funded ratio can be used to help evaluate that employer's progress toward full funding.

The funded ratio is based on the actuarial value of assets. Actuarial asset gains and losses are recognized over 10 years. The asset valuation method is designed to prevent extreme volatility in employer contribution rates due to short-term fluctuations in the financial markets, as was experienced in recent years. For example, as of Dec. 31, 2011, we have recognized 40% of the investment losses experienced in 2008. We will continue to recognize those losses in 10% increments through the 2017 valuation. At the same time, we have recognized 30% of the investment gains we experienced in 2009. We will continue to recognize those gains in 10% increments through the 2018 valuation. In this way, investment losses and gains somewhat offset each other over the years, reducing employer contribution rate volatility.

FINANCIAL ANALYSIS: GROUP TERM LIFE FUND (GTLF)

The GTLF provides a program of group term life insurance for the employees and, if covered, retirees of electing employers. An actuarial valuation is performed annually to determine employers' premium rates and to maintain adequate funding over the long term. Based on actuarial analysis, the amount of plan net assets is expected to be sufficient to cover any adverse experience that may occur.

Summary information about plan net assets and the changes in plan net assets showing comparative detail for 2011, 2010 and 2009 is presented on the next page.

Net assets held in trust for insurance benefits at year end 2011 were $21.7 million, an increase of $2.4 million or 12.7% over the 2010 amount. The increase is due to an interest allocation of $1.4 million and employer premiums exceeding insurance benefits by $1.0 million. Employer premiums fell $1.4 million (or 19.2%) primarily due to a decrease in premium rates and covered payroll. Insurance benefits rose $0.3 million (or 6.9%) due to a rise in the number of death benefit claims for retired participants. The net assets available for insurance benefits at year end 2010 were $19.3 million, an increase of $4.0 million or 25.9% over the 2009 amount.

Insurance premiums increased by $0.2 million in 2010 over 2009 amounts. Premiums received were higher due to increases in rates and the amounts of covered payroll, which are the basis for premiums. Insurance benefits decreased by $0.4 million in 2010, primarily due to a decline in the average benefit payment for active participants.

OTHER CURRENTLY KNOWN INFORMATION: GROUP TERM LIFE FUND

Effective Jan. 1, 2012, there was a significant drop in the number of insured. This was mainly due to a large county ceasing employee and retiree coverage in the Group Term Life program. Since the program provides term life insurance and is also funded on that basis, there was no remaining GTL liability for the formerly insured employees and retirees when the county ceased GTL coverage. Therefore, this reduction in the number of insured had no detrimental financial impact on the GTLF.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of TCDRS' finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to TCDRS, Finance Division, P.O. Box 2034, Austin, Texas, 78768-2034.

SUMMARY INFORMATION ABOUT PLAN NET ASSETS

Group Term Life Fund

	Dec. 31, 2011	Dec. 31, 2010	Dec. 31, 2009	2011 – 2010 $ Change	2011 – 2010 % Change	2010 – 2009 $ Change	2010 – 2009 % Change
Total Assets	$ 21,958,344	$ 19,641,363	$ 15,968,158	$ 2,316,981	11.8%	$ 3,673,205	23.0%
Total Liabilities	253,888	387,588	669,618	(133,700)	(34.5)	(282,030)	(42.1)
Net Assets Held in Trust for Benefits	**$ 21,704,456**	**$ 19,253,775**	**$ 15,298,540**	**$ 2,450,681**	**12.7%**	**$ 3,955,235**	**25.9%**

SUMMARY INFORMATION ABOUT CHANGES IN PLAN NET ASSETS

Group Term Life Fund

	Year Ended Dec. 31, 2011	Year Ended Dec. 31, 2010	Year Ended Dec. 31, 2009	2011 – 2010 $ Change	2011 – 2010 % Change	2010 – 2009 $ Change	2010 – 2009 % Change
Additions							
Employer Premiums	$ 5,927,549	$ 7,340,463	$ 7,130,058	$ (1,412,914)	(19.2%)	$ 210,405	3.0%
Income Allocation from Pension Trust Fund	1,376,030	1,152,389	920,949	223,641	19.4	231,440	25.1
Total Additions	**7,303,579**	**8,492,852**	**8,051,007**	**(1,189,273)**	**(14.0)**	**441,845**	**5.5**
Deductions							
Insurance Benefits	4,852,898	4,537,617	4,946,963	315,281	6.9	(409,346)	(8.3)
Total Deductions	**4,852,898**	**4,537,617**	**4,946,963**	**315,281**	**6.9**	**(409,346)**	**(8.3)**
Net Increase in Plan Net Assets	**2,450,681**	**3,955,235**	**3,104,044**	**(1,504,554)**	**(38.0)**	**851,191**	**27.4**
Net Assets Held in Trust for Benefits	**$ 21,704,456**	**$ 19,253,775**	**$ 15,298,540**	**$ 2,450,681**	**12.7%**	**$ 3,955,235**	**25.9%**

FINANCIAL

STATEMENTS OF PLAN NET ASSETS

	Dec. 31, 2011			Dec. 31, 2010		
	Pension Trust Fund	Group Term Life Fund	Total	Pension Trust Fund	Group Term Life Fund	Total
ASSETS						
Cash and Cash Equivalents	$ 15,578,298	$ —	$ 15,578,298	$ 5,364,443	$ —	$ 5,364,443
Receivables:						
Contributions	76,127,357	—	76,127,357	78,794,567	—	78,794,567
Investment Interest and Dividends	46,004,956	—	46,004,956	63,210,152	—	63,210,152
Securities-Lending Interest	290,900	—	290,900	229,070	—	229,070
Employer Premiums	5,567,057	560,000	6,127,057	—	602,053	602,053
Other	101,893	—	101,893	15,103	—	15,103
Total Receivables	128,092,163	560,000	128,652,163	142,248,892	602,053	142,850,945
Prepaid Expenses and Other Assets	243,497	—	243,497	210,356	—	210,356
Investments, at Fair Value:						
Absolute Return	4,657,838,928	—	4,657,838,928	2,868,271,181	—	2,868,271,181
Domestic Equities	3,615,724,125	—	3,615,724,125	3,551,404,022	—	3,551,404,022
International Equities	2,303,773,878	—	2,303,773,878	3,679,307,589	—	3,679,307,589
High-Yield Debt	2,519,118,347	—	2,519,118,347	2,284,178,182	—	2,284,178,182
Investment-Grade Fixed Income	1,854,405,852	—	1,854,405,852	2,785,085,041	—	2,785,085,041
Private Equity	996,423,456	—	996,423,456	663,769,972	—	663,769,972
REITs	526,514,264	—	526,514,264	609,132,390	—	609,132,390
TIPS	447,696,666	—	447,696,666	685,469,932	—	685,469,932
Commodities	368,846,912	—	368,846,912	370,111,105	—	370,111,105
Private Real Estate	120,762,925	—	120,762,925	56,551,186	—	56,551,186
Cash and Equivalents	102,828,536	—	102,828,536	45,722,567	—	45,722,567
Total Investments	17,513,933,889	—	17,513,933,889	17,599,003,167	—	17,599,003,167
Invested Securities-Lending Collateral	133,614,519	—	133,614,519	334,384,053	—	334,384,053
Funds Held by Pension Trust Fund	—	21,398,344	21,398,344	—	19,039,310	19,039,310
Capital Assets, Net	15,502,495	—	15,502,495	15,815,454	—	15,815,454
Total Assets	**17,806,964,861**	**21,958,344**	**17,828,923,205**	**18,097,026,365**	**19,641,363**	**18,116,667,728**
LIABILITIES						
Accounts and Investments Payable	25,885,991	—	25,885,991	13,804,793	—	13,804,793
Insurance Benefits Payable	—	253,888	253,888	—	387,588	387,588
Funds Held for Group Term Life Fund	21,398,344	—	21,398,344	19,039,310	—	19,039,310
Securities-Lending Collateral	133,614,519	—	133,614,519	334,422,651	—	334,422,651
Total Liabilities	**180,898,854**	**253,888**	**181,152,742**	**367,266,754**	**387,588**	**367,654,342**
Net Assets Held in Trust for Benefits	**$ 17,626,066,007**	**$ 21,704,456**	**$ 17,647,770,463**	**$ 17,729,759,611**	**$ 19,253,775**	**$ 17,749,013,386**

See accompanying Notes to the Financial Statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

	Year Ended Dec. 31, 2011			Year Ended Dec. 31, 2010		
	Pension Trust Fund	Group Term Life Fund	Total	Pension Trust Fund	Group Term Life Fund	Total
ADDITIONS						
Contributions and Deposits						
Employee Deposits	$ 347,995,322	$ —	$ 347,995,322	$ 357,797,427	$ —	$ 357,797,427
Employer Contributions	570,562,898	—	570,562,898	550,102,572	—	550,102,572
Employer Premiums	—	5,927,549	5,927,549	—	7,340,463	7,340,463
Total	918,558,220	5,927,549	924,485,769	907,899,999	7,340,463	915,240,462
Investment Income						
From Investment Activities						
Net Appreciation (Depreciation) in Fair Value of Investments	(474,108,824)	—	(474,108,824)	1,712,863,123	—	1,712,863,123
Interest and Dividends	296,299,962	—	296,299,962	283,457,778	—	283,457,778
Total Investment Activity Income (Loss)	(177,808,862)	—	(177,808,862)	1,996,320,901	—	1,996,320,901
Less Investment Activity Expenses	34,353,842	—	34,353,842	31,542,620	—	31,542,620
Net Income (Loss) from Investment Activities	(212,162,704)	—	(212,162,704)	1,964,778,281	—	1,964,778,281
From Securities-Lending Activities						
Securities-Lending Income	4,154,190	—	4,154,190	3,106,231	—	3,106,231
Less Securities-Lending Expenses:						
Borrower Rebates and Management Fees	279,149	—	279,149	550,836	—	550,836
Net Income from Securities-Lending Activities	3,875,041	—	3,875,041	2,555,395	—	2,555,395
Net Appreciation in Fair Value of Securities-Lending	—	—	—	13,576,166	—	13,576,166
Net Income from Securities-Lending Activities	3,875,041	—	3,875,041	16,131,561	—	16,131,561
Total Net Investment Income (Loss)	(208,287,663)	—	(208,287,663)	1,980,909,842	—	1,980,909,842
Building Operations and Miscellaneous Income	1,402,399	—	1,402,399	1,410,153	—	1,410,153
Income Allocation from Pension Trust Fund	—	1,376,030	1,376,030	—	1,152,389	1,152,389
Total Additions	**711,672,956**	**7,303,579**	**718,976,535**	**2,890,219,994**	**8,492,852**	**2,898,712,846**
DEDUCTIONS						
Benefits Paid	715,798,140	—	715,798,140	633,311,461	—	633,311,461
Withdrawals	81,183,051	—	81,183,051	65,173,433	—	65,173,433
Insurance Benefits	—	4,852,898	4,852,898	—	4,537,617	4,537,617
Income Allocation to Group Term Life Fund	1,376,030	—	1,376,030	1,152,389	—	1,152,389
Administrative and Building Operations Expenses	17,009,339	—	17,009,339	16,362,612	—	16,362,612
Total Deductions	**815,366,560**	**4,852,898**	**820,219,458**	**715,999,895**	**4,537,617**	**720,537,512**
Net Increase (Decrease) in Net Assets	**(103,693,604)**	**2,450,681**	**(101,242,923)**	**2,174,220,099**	**3,955,235**	**2,178,175,334**
Net Assets Held in Trust for Benefits:						
Beginning of Year	**17,729,759,611**	**19,253,775**	**17,749,013,386**	**15,555,539,512**	**15,298,540**	**15,570,838,052**
End of Year	**$ 17,626,066,007**	**$ 21,704,456**	**$ 17,647,770,463**	**$ 17,729,759,611**	**$ 19,253,775**	**$ 17,749,013,386**

See accompanying Notes to the Financial Statements.

FINANCIAL

NOTES TO THE FINANCIAL STATEMENTS

A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Texas County & District Retirement System (TCDRS or system) was created in 1967 by the Texas Legislature. We partner with Texas counties and districts to provide their employees with retirement, disability and survivor benefits. TCDRS is governed by the Texas Legislature and overseen by an independent board of trustees, which is responsible for the administration of the system. We do NOT receive state funding. Each plan is funded independently by the county or district, its employees and by investment earnings.

The financial statements of TCDRS have been prepared to conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The accompanying financial statements report the operations of TCDRS, which consists of two fiduciary funds: the Pension Trust Fund and the Group Term Life Fund (GTLF). The Pension Trust Fund is used to provide retirement, survivor, disability and withdrawal benefits and to pay the operating expenses of the system. The GTLF is used to operate a voluntary program of group term life insurance benefits.

New Accounting Pronouncements

In June 2011, the GASB issued *Statement No. 64: Derivative Instruments: Application of Hedge Accounting Termination Provisions* — an amendment of GASB Statement No. 53, which is effective for reporting periods beginning after June 15, 2011. The statement clarifies whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. TCDRS did not have any applicable derivatives in 2011. Implementation of GASB 64 is not expected to have a material impact.

Basis of Accounting

The system's funds are maintained on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred, regardless of when payment is made. Employee deposits and employer contributions are recognized for the period the employer reports compensation for their employees. Benefit payments are recognized when due and payable in accordance with the plans' terms.

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The system invests in a diversified portfolio of assets. Investments, in general, are exposed to various risks, such as interest rate, credit and market volatility. It is possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Basis of Presentation

TCDRS maintains separate funds and accounts in accordance with the TCDRS Act. This is done to help ensure observance of limitations and restrictions on the use of resources available to TCDRS.

In the Pension Trust Fund, the assets of all employer plans are pooled for investment purposes. However, each employer's plan is accounted for separately, so that each employer's assets are used only for the funding of its individual plan.

The costs of administering TCDRS are paid from investment earnings and general reserves of the pooled assets of all plans.

The TCDRS Act requires that all assets of the retirement system be credited to one of the following funds and accounts, according to the purpose for which they are held:

Employees Saving Fund

The Employees Saving Fund (ESF) contains an account for each member. Each account is increased as a member makes deposits and as interest is allocated. Accounts are reduced for payments due to withdrawal or death, and by retirement.

Subdivision Accumulation Fund

The Subdivision Accumulation Fund (SAF)

receives employer contributions and contains an account for each participating employer to fund retirement benefits. An account is increased as an employer makes contributions. Annually, the board decides on the income allocation to each employer's SAF balance. Employer accounts increase if there is a positive allocation of earnings; accounts decrease if there is a negative allocation. When an employee retires, an amount equal to the employee's account balance is transferred to the CSARF for the purpose of funding the employee's benefits. If the employer provides retirement benefits in excess of the basic benefit, then the account is also reduced monthly by the amount of the additional benefit payments.

Current Service Annuity Reserve Fund

The CSARF receives employee account balances and employer matching funds when an employee chooses to retire. It maintains all funds reserved for basic benefits granted and in force, and is reduced by all such benefit payments.

Endowment Fund

The Endowment Fund contains accounts that hold the general reserves of the system, inactive accounts from the ESF and reserves to transfer to the Expense Fund for subsequent year operating expenses. Refer to the schedule of Changes in Endowment Fund on page 46.

Income Fund

All investment income is credited to the Income Fund. It accounts for investment earnings and expenses, and annual allocations to other funds. The fund is reduced by investment expenses and by the statutory allocation of interest to the ESF, CSARF and GTLF. In addition, the board makes an allocation to the SAF.

If any excess exists after all allocations are made, the remainder is transferred to the Endowment Fund. Refer to the Changes in Income Fund schedule on page 47 for additional information.

Expense Fund

TCDRS pays administrative and investment operating expenses from this fund. As mentioned in the Endowment Fund and the Income Fund, operating expenses are financed from general reserves at the beginning of the year, and the income fund finances the investment expenses by reimbursing the Expense Fund.

The Group Term Life Fund reports the net assets available to pay insurance benefits for covered participants. Premiums paid by employers and an annual allocation are added to the fund, while insurance benefits are paid from the fund.

Investments

Investments consist of a diversified portfolio, including investment-grade fixed income, domestic and international equities, absolute return (hedge funds), high-yield debt, Treasury Inflation-Protected Securities (TIPS), real estate investment trusts (REITs), private equity, private real estate and commodities, along with cash and equivalents.

Investment purchases and sales are recorded as of their trade dates. Investments are reported at fair value, and are primarily valued on the basis of market valuations provided by independent pricing services. Government securities (including TIPS), fixed-income securities and REIT investments are valued based on prices supplied by FT Interactive Data. Domestic and international commingled equity investments, commodities, absolute return investments, and private equity and real estate investments are valued based on the net asset value provided by the respective investment company or partnership. Security transactions and any resulting gains or losses are accounted for by the specific identification method on a trade-date basis.

Capital Assets

Capital assets, which consist of land, building and improvements, software, and equipment and furniture are reported at historical cost and are depreciated on a straight-line basis over the estimated useful lives. TCDRS has elected to capitalize items that individually exceed $5,000. The estimated useful lives for building and improvements range from 20 to 40 years, for furniture and components 10 years, for office equipment 3 to 5 years, for computer software 3 to 5 years, and for tenant improvements 2 to 12 years.

B: PLAN DESCRIPTION

Pension Trust Fund

TCDRS is a statewide, agent multiple-employer, public-employee retirement system. The system serves 624 actively participating counties and districts throughout Texas. Each employer maintains its own customized plan of benefits. Plan provisions are adopted by the governing body of each employer, within the options available in the TCDRS Act. Because of that, employers have the flexibility and local control to select benefits and pay for those benefits based on their needs and budgets.

Each employer has a defined benefit plan that functions similarly to a cash balance plan. The assets of the plans are pooled for investment purposes, but each employer's plan assets may be used only for the payment of benefits to the members of that employer's plan. In accordance with Texas law, it is intended that the pension plan be construed and administered in a manner that the retirement system will be considered qualified under Section 401(a) of the Internal Revenue Code. All employees (except temporary staff) of a participating employer must be enrolled in the plan. Membership in TCDRS as of Dec. 31, 2011 and 2010 is summarized in Table 1.

TABLE 1: MEMBERSHIP

Dec. 31,

Pension Trust Fund:	**2011**	**2010**
Annuitants	**43,635**	**40,836**
Terminated Employees' Accounts:		
Vested	15,524	14,487
Nonvested	47,648	44,542
Total	**63,172**	**59,029**
Current Employees' Accounts:		
Vested	58,141	56,896
Nonvested	63,778	65,993
Total	**121,919**	**122,889**
Number of Plans:		
Counties	252	252
Districts	372	366
Inactive Plans	1	1
Total	**625**	**619**
Group Term Life Fund:		
Annuitants	**5,814**	**10,065**
Terminated Employees:		
Vested	**4,712**	**5,644**
Current Employees:		
Vested	14,945	23,103
Nonvested	17,554	24,958
Total	**32,499**	**48,061**
Number of Plans:		
Counties	125	126
Districts	144	144
Total	**269**	**270**

Benefits

A percentage of each employee's paycheck is deposited into his or her TCDRS account. That percentage (from 4% to 7%) is set by the employer.

The employee's savings grow at a rate of 7%, compounded annually. The employer selects a matching rate — at least "dollar for dollar," up to $2.50 per $1.00 in the employee's account. At retirement, the employee's account balance is combined with employer matching and converted into a lifetime monthly benefit.

Employees receive a month of service time for each month that they make a deposit into their account. The amount of service an employee needs to earn a future benefit is called the vesting requirement. When an employee is vested, he or she has the right to a monthly benefit, which includes employer matching, at age 60 or older.

Employers may choose 5-, 8- or 10-year vesting. In addition, employees may retire before age 60 if they meet one of the following requirements, set by the employer:

- **"Rule of" eligibility:** Under these rules, a vested employee can retire if their age plus years of service time add up to at least 75 or 80.
- **20-year or 30-year retirement at any age:** This lets employees retire when they have at least 20 or 30 years of service time.

Retirees elect to receive their lifetime benefit by choosing one of seven actuarially equivalent payment options.

Employers may elect to provide other optional benefits. Prior service gives employees monetary credit for time worked for an organization before it joined the system. Buybacks allow current employees to re-establish a closed TCDRS account from previous service with an employer. Partial lump-sum payments at retirement allow employees to withdraw part of their TCDRS account balance as a lump sum at retirement with a reduced monthly benefit.

In addition, an employer may choose to adopt a cost-of-living adjustment (COLA) for its retirees. This adjusts retiree benefits to restore purchasing power lost due to the effects of inflation.

Contributions

A combination of three elements funds each employer's plan: employee deposits, employer contributions and investment income.

- The deposit rate for employees is 4%, 5%, 6% or 7% of compensation, as adopted by the employer's governing body.
- Participating employers are required to contribute at actuarially determined rates, which are determined annually.
- Investment income funds a large part of the benefits employees earn.

Employers have the option of paying more than the required contribution rate each year. Extra contributions can help employers "pre-fund" benefit increases, such as a cost-of-living adjustment to retirees, and they can be used to help offset or mitigate future increases in the required rate due to negative plan experience. There are two approaches for making extra contributions: (a) paying an elected contribution rate higher than the required rate and (b) making an extra lump-sum contribution to the employer account.

Administrative costs of TCDRS are financed through the system's general reserves which are part of the Endowment Fund.

Funded Status and Funding Progress – Pension Trust Fund

The funded status of the pension plan as of Dec. 31, 2011, the most recent actuarial valuation date is:

	($ Millions)
Actuarial Value of Assets (a)	$ 19,016.4
Actuarial Accrued Liability (AAL) – Entry Age (b)	$ 21,409.5
Unfunded AAL (UAAL) (b-a)	$ 2,393.1
Funded Ratio (a/b)	88.8%
Covered Payroll (c)	$ 5,202.5
UAAL as a Percentage of Covered Payroll ((b-a) / c)	46.0%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial calculations reflect a long-term perspective. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Valuation Date:	Dec. 31, 2011
Actuarial Cost Method:	Entry age
Amortization Method:	Level percent
Unfunded AAL	Closed
Overfunded AAL	Open

Remaining Amortization Period:	
Unfunded AAL	20 years
Overfunded AAL	30 years
Asset Valuation Method:	
SAF	10-year smoothed value[1]
ESF	Fund value
CSARF	Fund value
Actuarial Assumptions:[2]	
Investment Return[3]	8.0%
Career Average Projected Salary Increases[3]	5.4% avg.
Payroll Increase (varies by plan)	4% or less
Inflation	3.5%
Cost-of-Living Adjustments	0.0%

[1] Includes inflation at the indicated rate
[2] With corridor adjustment
[3] See page 63 for an explanation of actuarial assumptions.

Group Term Life Fund (GTLF)

TCDRS also administers the Group Term Life program, a group term life insurance. The fund for this benefit is a separate trust administered by the board. The fund receives monthly participating employers' premiums and pays benefits when due. The obligations of the program are payable only from this fund, and are not an obligation of, or a claim against, the TCDRS Pension Trust Fund. The fund's assets are pooled with those of the Pension Trust Fund under provisions of the TCDRS Act and annually receive an allocation of income based on the fund value. This optional program provides group term life insurance coverage to currently eligible employees, and if elected by employers, to retirees. Participation in the Group Term Life program as of Dec. 31, 2011 and 2010 is summarized in Table 1 on page 30.

Benefits

Current employees of participating employers are insured for an amount equivalent to the employee's current annual compensation. Employers may also choose to cover retirees. Retirees are insured for $5,000. Life insurance proceeds are payable as a lump sum. The coverage provided to retirees is a postemployment benefit other than pension benefits (OPEB).

Contributions

Each participating employer contributes to the Group Term Life program at a contractually required rate. An annual actuarial valuation is performed and the contractual rate is equal to the cost of providing one-year term life insurance. The premium rate is expressed as a percentage of the covered payroll of members employed by the participating employer. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect.

The Group Term Life program is voluntary and employers can cease participation at any time. Therefore, the funding policy of the program is to ensure that adequate resources are available to meet all insurance benefit payments for the upcoming year. It is not the intent of the funding policy to pre-fund retiree term life insurance during employees' entire careers.

Funded Status and Funding Progress

As of Dec. 31, 2011, the most recent actuarial valuation date, the Group Term Life program was 106.8% funded. The actuarial accrued liability for benefits was $20.6 million, and the actuarial value of assets was $22.0 million, resulting in an OAAL of $1.4 million. The covered payroll (annual payroll of active participants covered by the program) was $2.1 billion and the ratio of the OAAL to the covered payroll was 0.1%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and mortality. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information following the Notes to the Financial Statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Valuation Date:	Dec. 31, 2011
Actuarial Cost Method:	
Active Insurance Benefits	One-year term cost
Retiree Insurance Benefits	Entry age
Amortization Method:	Level percent, open
Remaining Amortization Period:	30 years
Asset Valuation Method:	Fund value[1]
Actuarial Assumptions:	
Investment Return	7.0%[1]
Inflation	3.5%

[1] The fund's assets are pooled with those of the Pension Trust Fund under provisions of the TCDRS Act. The fund receives an annual earnings allocation of 7% based on the fund value.

C: TCDRS AS EMPLOYER

Pension Trust Fund

TCDRS, as an employer, provides retirement, disability and survivor benefits for all of its non-temporary employees through a defined-benefit pension plan in the Texas County & District Retirement System. The plan provisions for TCDRS, as an employer, are adopted by its board, within the options available in the TCDRS Act.

Employees deposit 7% of their paychecks into their TCDRS accounts. At retirement, TCDRS provides a match of $2 for every dollar in the employee's account. (For a detailed explanation of how the benefit is calculated, see page 30.) In addition, retirees have the option of a partial lump-sum payment at retirement with a reduced monthly benefit.

TCDRS employees are vested with 8 years of service and can retire once they meet one of the following eligibility requirements: age 60 with at least 8 years of service; 20 years of service regardless of age; or when the sum of their age and service equals 75.

Like other employer plans in the system, retirement benefits for TCDRS employees are funded by investment income, employee deposits and employer contributions. The employer contribution rate for TCDRS is actuarially determined annually. As allowed by the TCDRS Act, the board elected to pay a rate of 10.5% for 2011, 2010 and 2009, which was greater than the required rates for those years. Table 2 presents annual pension costs for the past three years.

The required contribution for 2011 was determined as part of the Dec. 31, 2009 actuarial valuation using the entry-age actuarial cost method. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of employment and mortality. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions at Dec. 31, 2011, included (a) 8.0% investment rate of return (net of investment expenses); (b) career average projected salary increases of 5.4% for individuals; and (c) no cost-of-living adjustments. Both investment return and projected salary components include an inflation component of 3.5%.

Actuarial calculations reflect a long-term perspective. The actuarial methods and assumptions used, presented in Table 3 on page 34, include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with the long-term perspective of the calculations. The actuarial value of

TABLE 2: TREND INFORMATION FOR THE RETIREMENT PLAN FOR THE EMPLOYEES OF TCDRS

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/09	$767,547	100%	$0
12/31/10	770,870	100	0
12/31/11	781,242	100	0

TABLE 3: ACTUARIAL METHODS AND ASSUMPTIONS FOR THE RETIREMENT PLAN FOR THE EMPLOYEES OF TCDRS

Actuarial Valuation Date	**12/31/09**	**12/31/10**	**12/31/11**
Actuarial Cost Method	Entry age	Entry age	Entry age
Amortization Method	Level percentage of payroll, closed	Level percentage of payroll, closed	Level percentage of payroll, closed
Amortization Period	20.0 years	20.0 years	20.0 years
Asset Valuation Method	SAF: 10-year smoothed value ESF: Fund value	SAF: 10-year smoothed value ESF: Fund value	SAF: 10-year smoothed value ESF: Fund value
Actuarial Assumptions:			
Investment Return[1]	8.0%	8.0%	8.0%
Career Average Projected Salary Increases[1]	5.4	5.4	5.4
Payroll Increase	4.0	4.0	4.0
Inflation	3.5	3.5	3.5
Cost-of-Living Adjustments	0.0	0.0	0.0

[1] Includes inflation at the stated rate.

assets was determined by spreading actuarial asset gains and losses over a 10-year period. Adjustments, if needed, are made to keep the actuarial value from deviating too far from the fund value of assets. TCDRS' UAAL is amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at Dec. 31, 2011, was 17.3 years.

As of Dec. 31, 2011, the most recent valuation date, the plan was 86.1% funded. The actuarial accrued liability for benefits was $20.7 million and the actuarial value of assets was $17.8 million, resulting in a UAAL of $2.9 million. The covered payroll (annual payroll of active employees covered by the plan) was $7.4 million and the ratio of the UAAL to the covered payroll was 38.6%.

The schedule of funding progress, presented in Table 4, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Postemployment Benefits Other Than Pensions

Group Term Life Fund

TCDRS participates in the Group Term Life program. For a general explanation of the Group Term Life program, turn to page 32. TCDRS provides coverage to current eligible employees and to retired employees.

TCDRS, as an employer, contributes to the Group Term Life program at a contractually required rate.

TCDRS' contributions, as an employer, to the Group Term Life program for the years ended Dec. 31, 2011, 2010 and 2009, were $15,624, $18,353 and $19,737, respectively, which equaled the required contributions each year.

TCDRS Bridge Program Health Reimbursement Arrangement

TCDRS adopted the TCDRS Bridge Program Health Reimbursement Arrangement (Bridge Program) for its employees. The program is open to all former TCDRS employees who meet all three conditions: (a) employed with TCDRS on or after Jan. 1, 2007; (b) accumulated at least 10 years of full-time employment with TCDRS; and (c) an active TCDRS employee on or after attaining age 58½.

The Bridge Program is a self-insured medical expense reimbursement plan that provides a maximum credit of $500 per month for 60 consecutive months. Coverage begins on the first day of the month immediately after the eligible former employee reaches age 60 or has separated from employment with TCDRS, whichever occurs later.

As of Jan. 1, 2011, the most recent actuarial valuation date, the Bridge Program was 0% funded. The actuarial accrued liability was $394,688 and the

TABLE 4: FUNDING PROGRESS FOR THE RETIREMENT PLAN FOR THE EMPLOYEES OF TCDRS (UNAUDITED - REQUIRED SUPPLEMENTARY INFORMATION)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll[1] (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/09[2]	$ 14,701,180	$ 16,926,379	$ 2,225,199	86.9%	$ 7,309,965	30.4%
12/31/10	16,106,229	18,698,548	2,592,319	86.1	7,341,602	35.3
12/31/11	17,849,375	20,720,499	2,871,124	86.1	7,440,411	38.6

[1] The annual covered payroll is based on employee deposits received by TCDRS for the year ended with the valuation date.
[2] Revised economic and demographic assumptions due to an experience review were first used in the 12/31/2009 valuation.

actuarial valuation of assets was $0, resulting in a UAAL of $394,688. Based on an annual covered payroll of $7,440,411, the UAAL as a percentage of covered payroll was 5.3%. The annual OPEB cost for 2011 was $105,895 and TCDRS' contributions as an employer in 2011 were $23,000; the annual OPEB cost for 2010 was $90,836, and TCDRS' contributions as an employer in 2010 were $13,500; and the annual OPEB cost for 2009 was $76,219, and TCDRS' contributions as an employer were $12,000 in 2009. The resulting net OPEB obligation at Dec. 31, 2011, was $337,405.

The actuarial cost method used was the projected unit credit with a level dollar closed amortization method and the amortization period of 15 years. The discount rate used was 4%.

Deferred Compensation

The employees of TCDRS may participate in a deferred compensation plan created in accordance with Internal Revenue Code Section 457. This plan, available to all employees of TCDRS, permits the deferral of a portion of their salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or certain unforeseeable emergencies. All compensation deferred under the plan is held by a custodian for the exclusive benefit of participants and beneficiaries.

D: CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of funds on deposit with a financial institution in interest-bearing demand deposit accounts. They are invested on an overnight basis (sweep) in a U.S. dollar-denominated investment under a repurchase agreement. The funds are collateralized at 102% using U.S. Treasury, government or agency securities. Cash held in demand deposit accounts, the overnight sweep and the JPMorgan U.S. Government Money Market Fund, an open-end institutional money market fund, are amounts available to pay benefits, operational expenses and funds awaiting transfer to investment management.

Custodial credit risk is the risk that in the event of a bank failure, the system's deposits may not be returned to it. A discussion of custodial credit risk pertaining to cash and cash equivalents can be found in Note G, beginning on page 38.

E: INVESTMENTS

Investment decisions of the board are subject to Section 67, Article XVI of the Texas Constitution, and to the applicable statutory provisions of the Texas Trust Code that provide for a "prudent person" standard of care. Investment authorization is restricted by the investment policy adopted by the board that emphasizes the importance of a long-term investment philosophy with minimization of risk while targeting a long-term investment return of 8%. The board has determined that a diversified portfolio will offer the best opportunity to produce the desired 8% investment return. Accordingly, the TCDRS investment portfolio now includes investments in the following asset classes:

Investment-Grade Fixed Income (Core Fixed-Income)

The investment-grade fixed income portfolio consists of debt securities issued by the United States Treasury and agencies or government-sponsored entities (GSE) of the United States (U.S. governments); mortgage related instruments; U.S.

TABLE 5: SCHEDULE OF CONTINGENT COMMITMENTS

Dec. 31, 2011

Investment Category	Total Commitment	Unfunded Commitment	Fair Value
Opportunistic Credit[1]	$ 895,000,000	$ 54,667,362	$ 760,014,728
Distressed Debt[1]	632,969,985	215,765,545	429,720,285
Private Equity	2,209,627,221	1,205,563,537	996,423,456
Private Real Estate	424,000,000	312,260,675	120,762,925
Total Contingent Commitments	**$ 4,161,597,206**	**$ 1,788,257,119**	**$ 2,306,921,394**

[1] These investment categories are included in the fair value of high-yield debt on the Statements of Plan Net Assets on page 26.

dollar-denominated fixed-income securities issued by U.S. and foreign corporations; and U.S. dollar-denominated debt issued by foreign governments and supranationals. Additionally, these portfolios may contain minimal investments in short-term instruments, non-rated securities, private placement securities, convertible bonds and preferred stock. The portfolio should exhibit an overall dollar-weighted average quality rating of AA with no investment rated lower than BBB- or equivalent as rated by Standard & Poor's (S&P), Moody's Investor Service or Fitch Investor's Service at the time of purchase or, if not rated, be deemed by the manager to be of similar quality.

Domestic and International Equity Holdings

The system's domestic equities and a portion of its developed international and emerging market equities are passively managed in commingled index funds. The remaining developed international equities and emerging market international equities are actively managed in commingled funds.

High-Yield Debt

The board has divided the high-yield asset class into three portions. The high-yield bond portfolio encompasses the portion of the U.S. corporate bond market that is rated below BBB- by S&P or below Baa3 by Moody's. Accordingly, credit risks associated with these bonds are greater than risks with investment-grade fixed income bonds, which partially explains why this class has historically traded at yields of 3.5% to 4.5% above comparable U.S. Treasury instruments. The second portion consists of distressed debt partnerships, which invest in securities of companies that are financially distressed. Typical holdings are senior and subordinated debt instruments. The third portion consists of opportunistic credit partnerships that invest in securitized credit instruments made up of senior corporate bank loans and asset-backed credit investments secured by commercial and residential mortgages, car loans, and other types of assets. Table 5 lists the committed and unfunded capital to distressed debt and opportunistic credit investments at Dec. 31, 2011.

REITs

Real estate investment trusts are companies that own and operate income-producing real estate, such as commercial office buildings, apartments, malls, warehouses and storage facilities. Under provisions of the U.S. tax law, if REITs pay out most of their income in dividends, they are not required to pay income taxes. Consequently, substantial amounts of income can be received from investing in REITs.

Absolute Return (Hedge Funds)

The vehicles for absolute return investments (hedge funds) are typically commingled vehicles, such as limited partnerships, limited liability companies or offshore corporations. At Dec. 31, 2011, the system's absolute return portfolio was invested in 34 partnerships with a fair value totaling $4,657,838,928. During the first quarter of 2012, an additional $305 million has been invested in absolute return partnerships.

TIPS

Treasury Inflation-Protected Securities (TIPS) are issued by the U.S. Treasury and structured as a hedge against inflation. The principal value of the securities is adjusted based on changes in the consumer price index (CPI). Interest payments are determined by multiplying a fixed coupon by the inflation-adjusted principal. The inflation-adjusted principal is payable at maturity.

Private Equity

TCDRS' private equity investments consist of partnerships that (a) take public companies private in order to improve their operations and then resell them in the future; (b) invest in start-up companies with new ideas or technologies; (c) invest in both traditional and renewable energy discovery and production; and (d) invest in real estate. As of Dec. 31, 2011, TCDRS had committed $2.21 billion of capital to 73 private equity partnerships. During the first quarter of 2012, an additional $70 million has been committed to private equity partnerships. The funding horizon for private equity partnerships is five to seven years. Table 5 lists the committed and unfunded capital to private equity investments at Dec. 31, 2011.

Private Real Estate

Investments in private real estate include partnerships that invest in non-publicly traded vehicles that have an ownership interest in real estate properties, either income-producing or non-income producing. Private real estate investments are illiquid and typically have expected holding periods of 10 to 12 years. As reported in Table 5, at Dec. 31, 2011, TCDRS had committed $424 million to 11 private real estate partnerships.

Commodities

Investments in resources that can be either perishable (grains, sugar, etc.) or non-perishable (metals, energy, etc.). Commodities provide protection against inflation and have low correlation to stocks and other asset classes.

Cash and Equivalents

The TCDRS Board of Trustees may select one or more commercial banks, depository trust companies or other entities to serve as custodian or custodians of the system's cash, cash equivalents and short-term investments, and may authorize the custodian to invest the cash in such short-term investments as the board determines. TCDRS has authorized its custodian to invest, on an overnight basis, any cash held in the custodian's Collective U.S. Government Short Term Investment Fund (STIF). The investment objective of the STIF is to provide safety of principal, daily liquidity and competitive returns. The STIF owns high-quality debt instruments (which include U.S. government or U.S. government agencies, repurchase agreements, floating-rate notes, etc.) with a dollar-weighted average maturity of 46 days or less. At Dec. 31, 2011, the STIF had an average current yield of 0.05% with the maximum days to maturity of any investment not exceeding 338 days.

The investment officer manages cash in the STIF together with new contributions until they are allocated to a portfolio.

F: SECURITIES LENDING

State statutes and the board's policies permit TCDRS to use its investments to enter into securities-lending transactions — loans of securities to broker-dealers and other entities in exchange for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The system's custodian, The Bank of New York Mellon Corp. (BNY Mellon), is engaged as the lending agent to lend securities from the system's fixed-income portfolios for cash collateral of 102% of the market value of the securities loaned.

Collateral, either cash or securities, is initially pledged for the securities on loan and additional collateral is required from the borrower by the close of the next business day if its value falls to less than 100% of the market value of the securities on loan. U.S. government securities may also be accepted as collateral for loans. TCDRS does not have the ability to pledge or sell collateral securities unless the borrower defaults. At Dec. 31, 2011, BNY Mellon held $581,741,533 of non-cash collateral.

Cash collateral is invested in short-term fixed income instruments in accordance with the system's securities-lending guidelines. Table 6, on page 38, lists the categories of collateral investments, reported at fair value, at Dec. 31, 2011 and 2010.

At the end of years 2011 and 2010, TCDRS had no credit risk exposure to borrowers because the amounts the system owed to borrowers exceeded the amounts the borrowers owed to TCDRS. Contracts with the lending agents require the agents to indemnify TCDRS if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities on loan) or fail to pay TCDRS for income distributions while the securities are on loan. At Dec. 31, 2011 and 2010, the fair values of securities on loan were $700,178,526 and $421,798,090, respectively.

Additionally, TCDRS invests in three commingled domestic and international equity portfolios that participate in securities-lending programs managed by State Street Global Advisors. TCDRS receives a proportionate share of the securities-lending income generated from these activities.

G: DEPOSIT AND INVESTMENT RISK

Identification of credit risk, custodial credit risk, concentration credit risk, interest rate risk and foreign currency risk is mandated by GASB Statement No. 40.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The TIPS portfolio contains obligations of the U.S. government and is not considered to have credit risk. At both Dec. 31, 2011 and 2010, according to Standard and Poor's (S&P) evaluations, the investment-grade fixed income portfolio exhibited an overall quality rating of AA. The Barclays Capital Aggregate Bond Index is the benchmark for performance measurement of the investment-grade fixed income asset class. At both Dec. 31, 2011 and 2010, the Barclays Capital Aggregate Bond Index had an average S&P quality rating of AA and AAA, respectively.

At Dec. 31, 2011 and 2010, according to S&P evaluations, the high-yield debt portfolio exhibited an overall quality rating of B and B+, respectively. The Citigroup High-Yield Cash-Pay Capped Index is the benchmark for performance measurement of the high-yield debt portfolio. At both Dec. 31, 2011 and 2010, according to S&P evaluations, the benchmark exhibited an average quality rating of B+.

The investment policy does not explicitly outline an acceptable level of credit risk for the core fixed-income or high-yield debt portfolios, but the board's adoption of their respective benchmark index is an implicit adoption of the market risk inherent in these portfolios.

Table 7 lists the credit risk associated with the investment-grade fixed income portfolio and the high-yield debt portfolio.

At Dec. 31, 2011, according to Moody's Investors Service evaluations, the BNY Mellon STIF exhibited an average short-term quality rating of P-1 (Prime-1), which exhibits a superior ability for repayment of senior short-term debt obligations, and an average long-term (maturity date greater than one year) quality rating of Aaa. Based upon the market value of the fund at Dec. 31, 2011, 76% of instruments were rated P-1 and 24% of the instruments were rated Aaa. At Dec. 31, 2010, the STIF exhibited an average short-term quality rating of P-1 and an average long-term quality rating of Aaa with 98% of the instruments rated P-1 and 2% of the instruments rated Aaa.

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, TCDRS will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. TCDRS requires that demand deposit accounts be fully collateralized. Funds received by its master custodian are invested on an overnight basis or, if the funds are received late during a business day, are maintained in a fully collateralized cash trust account.

TCDRS investments, evidenced by securities in physical or book entry form and not on loan, are registered and held in safekeeping for TCDRS by its custodian bank.

TABLE 6:
INVESTED SECURITIES-LENDING COLLATERAL

	Dec. 31,	
Investment Type	**2011**	**2010**
Cash and Other Liquid Assets	$ 21,674	$ 395,961
Asset-Backed Securities	1,818,287	5,410,403
Commercial Paper	—	5,786,455
Repurchase Agreements	114,573,172	223,386,891
Certificates of Deposit	—	16,635,399
Domestic Corporate Fixed-Income Securities	17,201,386	82,768,944
Total Invested Securities-Lending Collateral	**$ 133,614,519**	**$ 334,384,053**

TABLE 7: CREDIT RISK BY QUALITY

Dec. 31,

	Investment-Grade Fixed-Income				High-Yield Debt			
	2011		2010		2011		2010	
Rating	Fair Value ($ Millions)	% of Total	Fair Value ($ Millions)	% of Total	Fair Value ($ Millions)	% of Total	Fair Value ($ Millions)	% of Total
Governments	$ —	0%	$ 1,362.3	49%	$ —	0%	$ —	0%
AAA	1,076.2	58	257.3	9	—	0	—	0
AA	107.9	6	168.7	6	—	0	—	0
A	203.8	11	363.4	13	—	0	—	0
BBB	300.0	16	393.1	14	12.9	1	11.5	1
BB	53.2	3	40.0	2	218.7	9	332.2	14
B	6.5	0	7.0	0	690.5	27	619.1	27
Less than B	0.9	0	11.6	0	186.2	7	107.5	5
Not Rated	105.9	6	181.7	7	221.1	9	186.7	8
Not Rated—Distressed Debt	—	0	—	—	429.7	17	413.4	18
Not Rated—Opportunistic Credit	—	0	—	—	760.0	30	613.8	27
Total	**$ 1,854.4**	**100%**	**$ 2,785.1**	**100%**	**$ 2,519.1**	**100%**	**$ 2,284.2**	**100%**

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The TCDRS investment policy does not explicitly outline the amount that may be invested in any one issuer. Investment guidelines established with the individual investment managers generally address concentration risk limits. At Dec. 31, 2011 and 2010, TCDRS did not have investments in any one issuer that represented greater than 5% of net investments.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The values of portfolios of longer duration are more affected by interest rate changes than are those of shorter duration. Increases in bond market yields result in market value losses; decreases result in market value gains. Multiplying the change in market yield by the duration of the portfolio can approximate the size of the gain or loss in market value. For example, if one owned a portfolio of investment-grade fixed income securities that had a duration of 6.5 years and if the yields within the bond market were to immediately fall 1%, the market value gain of the portfolio would approximate 6.5%. This change in market value indicates the level of interest rate risk inherent in the portfolio.

Table 8, on page 40, indicates the level of interest rate risk inherent in the TCDRS fixed-income portfolios by reporting the effective duration of those portfolios.

The investment policy does not explicitly outline an acceptable level of interest rate risk for the core fixed-income portfolio, but the board's adoption of the Barclays Aggregate Bond Index is an implicit adoption of the market risk inherent in this index.

The effective duration of the Barclays Aggregate Bond Index at Dec. 31, 2011 and 2010 was 4.6 years and 4.4 years, respectively.

Performance of the TIPS portfolio is measured against the Barclays U.S. TIPS Index. The effective duration of the Barclays U.S. TIPS Index at Dec. 31, 2011 and 2010 was 6.4 and 5.4 years, respectively.

The high-yield debt portfolio is measured against the Citigroup High-Yield Cash-Pay Capped Index. The effective duration of the Citigroup High-Yield Cash-Pay Capped Index at both Dec. 31, 2011 and 2010 was 4.4 years.

Cash collateral received from securities lending is invested in instruments whose maturity dates or periodic interest rate reset dates coincide with the maturity date of the particular securities loan providing the cash. This matching of investment and loan maturity/reset dates allows the agent to maintain the spread between the loan rate and the cash collateral investment rate over the term of the loan and eliminates any material interest rate exposure to TCDRS over the term of the loan.

TABLE 8: INTEREST RATE RISK — FIXED INCOME PORTFOLIOS

	Dec. 31, 2011		2010	
Asset Class	**Fair Value**	**Effective Duration in Years**	**Fair Value**	**Effective Duration in Years**
Investment-Grade Fixed-Income	$ 1,854,405,852	5.0	$ 2,785,085,041	4.6
TIPS	447,696,666	5.9	685,469,932	5.8
High-Yield Bonds	1,329,383,334	4.6	1,257,035,350	4.4

Source: BNY Mellon Performance and Risk Analytics Fund Analysis – 4th Quarter 2011

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The asset allocation plan adopted in the investment policy includes an 18% allocation to international equities. At Dec. 31, 2011, the MSCI World ex U.S. Standard (net) and MSCI EM (Emerging Markets) Standard (net) indices, which contain foreign currency risk, are identified as the benchmarks for performance measurement for the developed and emerging international equity asset classes within the portfolio. Accordingly, the foreign currency risk inherent within these indices has been implicitly adopted as an acceptable financial risk for these asset classes. In addition, the TCDRS Investment Policy allows for a portion of the private equity portfolio to be invested in non-U.S. partnerships that hold interests denominated in foreign currencies. Investment guidelines also allow one REIT manager to include foreign currency investments up to a maximum of 5% of their portfolio's market value.

Table 9 lists the foreign currency risk included in the REIT and private equity portfolios.

Additionally, at Dec. 31, 2011, the international equity portfolio contained six commingled funds subject to foreign currency risk with an aggregate fair value of $2,303,771,354. At Dec. 31, 2010, the international equity portfolio contained five commingled funds subject to foreign currency risk with an aggregate fair value of $3,679,302,330 and one commingled fund in the REIT portfolio subject to foreign currency risk with a fair value of $116,627,289.

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates or financial indexes. They include futures contracts, swap contracts, options contracts and forward foreign currency exchange. The investment policy does not explicitly outline the use of derivatives, but investment guidelines allow one investment-grade fixed income manager the use of exchange-traded treasury futures to replicate cash investments or to manage yield curve or other risk positions within its portfolio. At Dec. 31, 2011, TCDRS' derivative instruments are considered investments and not hedges for accounting purposes. Table 10 lists the open futures contracts at Dec. 31, 2011.

TABLE 9: FOREIGN CURRENCY RISK

	Dec. 31, Fair Value (USD)	
Currency	**2011**	**2010**
Australian Dollar	$ 12,945,568	$ 703,453
Brazil Real	3,657,445	—
British Pound Sterling	28,713,027	14,251,897
Canadian Dollar	2,827,200	—
Euro	102,599,431	67,667,898
Hong Kong Dollar	26,832,022	5,259
Japanese Yen	14,463,167	—
Norwegian Krone	72,126	—
Philippines Peso	143,528	—
South African Rand	1,277,899	—
Singapore Dollar	2,395,330	—
Swedish Krona	1,117,942	—
Swiss Franc	1,454,295	—
Total subject to currency risk	**$198,498,980**	**$ 82,628,507**

TABLE 10: FUTURES CONTRACTS

As of Dec. 31, 2011

Futures Contract	Expiration Date	National/Fair Value	Exposure
U.S. Treasury Bond Future	Mar 2012	$ 33,130,453	$ (321,234)
U.S. 10-Yr Treasury Note	Mar 2012	(8,441,875)	81,250
U.S. 5-Yr Treasury Note	Mar 2012	63,598,844	(371,961)
U.S. 2-Yr Treasury Note	Mar 2012	51,355,969	(31,453)
U.S. Ultra Bond	Mar 2012	9,976,484	44,859
Total		**$ 149,619,875**	**$ (598,539)**

H: RISK MANAGEMENT

TCDRS is exposed to various risks related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. To mitigate potential losses, TCDRS purchases commercial insurance in the areas of property damage, general and umbrella liability, fiduciary liability, public official and employee benefits errors and omissions, automobile, crime and workers' compensation. There were no changes in the types of insurance coverage TCDRS maintained in 2011 or 2010. Settlements have not exceeded coverages for each of the past three years.

NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION

The Pension Trust Fund information presented in the required supplementary schedules — Table 11 and Table 12 — was determined as part of the aggregate actuarial valuation at the dates indicated. Additional information as of the latest actuarial valuation is in Table 13.

In addition, the GTLF information presented in the required supplementary schedules — Table 14 and Table 15 — were determined as part of the aggregate actuarial valuation at the date indicated.

TABLE 11: FUNDING PROGRESS (UNAUDITED)

($ Millions)

Actuarial Valuation Date[1]	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)[2] (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll[3] (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/06	$ 13,229.8	$ 14,035.2	$ 805.4	94.3%	$ 4,054.3	19.9%
12/31/07	14,483.0	15,364.5	881.5	94.3	4,420.5	19.9
12/31/08	14,861.8	16,767.9	1,906.1	88.6	4,830.3	39.5
12/31/09[4]	16,564.2	18,448.1	1,883.9	89.8	5,168.0	36.5
12/31/10	17,808.6	19,931.2	2,122.6	89.4	5,213.9	40.7
12/31/11	19,016.4	21,409.5	2,393.1	88.8	5,205.5	46.0

[1] Each county and district participating in TCDRS is financially responsible for its own plan. Therefore, the aggregate numbers shown above reflect only the aggregate condition of TCDRS and are not indicative of the status of any one plan. The valuations above reflect changes in benefits elected by individual employers.
[2] The entry-age actuarial cost method is used for all plans. Each valuation above reflects the actuarial cost method, assumptions and benefits in effect as of the valuation date.
[3] The annual covered payroll is based on the employee deposits received by TCDRS for the year ending with the valuation date.
[4] Revised economic and demographic assumptions due to an experience review were first used in this valuation.

See accompanying independent auditor's report.

TABLE 12: EMPLOYER CONTRIBUTIONS (UNAUDITED)

($ Millions)

	Actuarial Minimum Required Contributions		Annual Required Contributions (ARC)		Actual Contributions		
Plan Year Ended Dec. 31	Average Rate	Dollar Amount	Average Rate	Dollar Amount	Average Rate	Dollar Amount	Percentage of ARC Contributed
2006	8.93%	$ 362.1	8.98%	$ 364.0	9.43%	$ 382.3	105%
2007	9.50	420.1	9.57	423.2	9.73	430.3	102
2008	9.17	443.0	9.35	451.5	9.54	460.6	102
2009	9.28	479.8	9.46	488.7	9.87	510.3	104
2010	10.20	531.8	10.31	537.8	10.55	550.1	102
2011	9.89	514.6	10.06	523.1	10.97	570.6	109

See accompanying independent auditor's report.

TABLE 13: ACTUARIAL METHODS AND ASSUMPTIONS (UNAUDITED)

Actuarial Valuation Date	12/31/11
Actuarial Cost Method	Entry age
Amortization Method	Level percentage of payroll
Unfunded Actuarial Accrued Liability	Closed
Overfunded Actuarial Accrued Liability	Open
Amortization Period	
Unfunded Actuarial Accrued Liability	20 years[3]
Overfunded Actuarial Accrued Liability	30 years[3]
Asset Valuation Method	
SAF	10-year smoothed value[4]
ESF	Fund value
CSARF	Fund value
Actuarial Assumptions[1]	
Investment Return[2]	8.0%
Career Average Projected Salary Increases[2]	5.4% average
Payroll Increase (varies by plan)	4.0% or less
Inflation	3.5%
Cost-of-Living Adjustments	0.0%

[1] Please see page 63 for explanation of actuarial assumptions.
[2] Includes inflation at the indicated rate.
[3] The TCDRS Act requires a 30-year amortization period for an overfunded actuarial accrued liability, but allows the TCDRS Board of Trustees to establish policy for the amortization period for an unfunded actuarial accrued liability as long as it does not exceed 30 years. The board has adopted a current policy of a 20-year closed amortization period for those plans. The period for amortizing increases or decreases in the UAAL due to employer-elected plan changes effective after Jan. 1, 2009, is a closed 15-year period.
[4] With corridor adjustments.

See accompanying independent auditor's report.

TABLE 14: GTLF FUNDING PROGRESS (UNAUDITED)

($ Millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded (Overfunded) AAL UAAL (OAAL) (b-a)	Funded Ratio[1] (a/b)	Annual Covered Payroll[2] (c)	UAAL (OAAL) as a Percentage of Covered Payroll ((b-a)/c)
12/31/09	$ 15.3	$ 32.1	$ 16.8	47.7%	$ 2,112.8	0.8%
12/31/10	19.3	33.9	14.6	56.9	2,105.4	0.7
12/31/11	22.0	20.6	(1.4)	106.8	2,064.9	(0.1%)

[1] This table shows GTLF information using accounting principles required by GASB and is intended to be used for GASB disclosure purposes. For funding purposes, contractually required premium rates are calculated annually for each participating employer. These rates have always been sufficient to maintain a surplus in the GTLF.
[2] The annual covered payroll is based on the employee deposits received by TCDRS for the year ended with the valuation date.

See accompanying independent auditor's report.

TABLE 15: GTLF EMPLOYER CONTRIBUTIONS (UNAUDITED)

($ Millions)

	Annual Required Contributions		
Plan Year Ended Dec. 31	Average Rate	Dollar Amount	Percentage Contributed
2009	0.36%	$ 7.7	92%
2010	0.36	7.6	96
2011	0.30	6.2	96

See accompanying independent auditor's report.

CHANGES IN PLAN NET ASSETS BY FUND AND INTERFUND TRANSFERS

Pension Trust Fund
Year Ended Dec. 31, 2011

	Employees Saving Fund	Subdivision Accumulation Fund
ADDITIONS		
Employee Deposits and Employer Contributions	$ 347,995,322	$ 570,562,898
Investment Income		
Net Depreciation in Fair Value of Investments	—	—
Interest and Dividends	—	—
Total Investment Activity Loss	—	—
Less Investment Activity Expenses	—	—
Net Loss From Investment Activities	—	—
Net Income From Securities-Lending Activities	—	—
Total Net Investment Loss	—	—
Building Operations and Miscellaneous Income	—	—
Total Additions	**347,995,322**	**570,562,898**
DEDUCTIONS		
Benefits Paid	—	276,435,617
Withdrawals	81,177,482	—
Income Allocation to Group Term Life Fund	—	—
Administrative and Building Operations Expenses	—	—
Total Deductions	**81,177,482**	**276,435,617**
TRANSFER OF FUNDS		
Retirement Allowances	(311,643,145)	(309,686,699)
Investment Allocation and Other	323,861,787	(399,759,189)
Terminating Employer Transfers	1,454,289	(1,561,159)
Escheated Accounts, net	(25,223)	—
Net Transfers	13,647,708	(711,007,047)
Net Change in Plan Net Assets	**280,465,548**	**(416,879,766)**
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Period	**4,810,258,889**	**7,996,590,863**
End of Period	**$ 5,090,724,437**	**$ 7,579,711,097**

See accompanying independent auditor's report.

CHANGES IN PLAN NET ASSETS BY FUND AND INTERFUND TRANSFERS, continued

Pension Trust Fund
Year Ended Dec. 31, 2011

Current Service Annuity Reserve Fund	Endowment Fund	Income Fund	Expense Fund	Total
$ —	$ —	$ —	$ —	$ 918,558,220
—	—	(474,108,824)	—	(474,108,824)
—	—	296,299,962	—	296,299,962
—	—	(177,808,862)	—	(177,808,862)
—	—	34,353,842	—	34,353,842
—	—	(212,162,704)	—	(212,162,704)
—	—	3,875,041	—	3,875,041
—	—	(208,287,663)	—	(208,287,663)
—	—	—	1,402,399	1,402,399
—	**—**	**(208,287,663)**	**1,402,399**	**711,672,956**
439,350,420	12,103	—	—	715,798,140
—	5,569	—	—	81,183,051
—	—	1,376,030	—	1,376,030
—	—	—	17,009,339	17,009,339
439,350,420	**17,672**	**1,376,030**	**17,009,339**	**815,366,560**
621,329,844	—	—	—	—
302,871,968	(453,208,259)	209,663,693	16,570,000	—
106,870	—	—	—	—
—	25,223	—	—	—
924,308,682	(453,183,036)	209,663,693	16,570,000	—
484,958,262	**(453,200,708)**	**—**	**963,060**	**(103,693,604)**
4,269,566,026	**629,228,765**	**—**	**24,115,068**	**17,729,759,611**
$ 4,754,524,288	**$ 176,028,057**	**$ —**	**$ 25,078,128**	**$ 17,626,066,007**

FINANCIAL

CHANGES IN ENDOWMENT FUND

Pension Trust Fund
Year Ended Dec. 31, 2011

	General Reserves Account	Perpetual Endowment Account	Reserve for Expense Fund	Total
ADDITIONS				
Escheated Accounts	$ —	$ 113,312	$ —	$ 113,312
Total Additions	—	**113,312**	**—**	**113,312**
DEDUCTIONS				
Allocation Shortage — Transfer to Income Fund	426,056,851	—	—	426,056,851
Transfer to Expense Fund	—	—	16,570,000	16,570,000
Partial-year Interest to ESF	10,581,408	—	—	10,581,408
Reinstallments of Escheated Accounts	—	88,089	—	88,089
Uncollectible Benefits	17,672	—	—	17,672
Total Deductions	**436,655,931**	**88,089**	**16,570,000**	**453,314,020**
TRANSFERS				
Expense Allocation	(15,570,000)	—	15,570,000	—
Net Increase (Decrease) in Fund	**(452,225,931)**	**25,223**	**(1,000,000)**	**(453,200,708)**
Beginning of Year	**609,129,221**	**3,599,544**	**16,500,000**	**629,228,765**
End of Year	**$ 156,903,290**	**$ 3,624,767**	**$ 15,500,000**	**$ 176,028,057**

See accompanying independent auditor's report.

CHANGES IN INCOME FUND

Pension Trust Fund
Year Ended Dec. 31, 2011

INVESTMENT RESULTS		
Net (Depreciation) in Fair Value of Investments	$	(474,108,824)
Interest and Dividends		296,299,962
Net Income From Securities-Lending Activities		3,875,041
Investment Activity Expenses		(34,353,842)
Net Investment Results		**(208,287,663)**
STATUTORY ALLOCATIONS		
Allocation of Current Year Income:		
Employees Saving Fund		313,280,379
Current Service Annuity Reserve Fund		302,871,968
Group Term Life Fund		1,376,030
Total Statutory Allocations		**617,528,377**
BOARD OF TRUSTEES' ALLOCATIONS		
Allocation to the Subdivision Accumulation Fund		(399,759,189)
Allocation Shortage — Transfer From General Reserves		(426,056,851)
Total Board of Trustees' Allocations		**(825,816,040)**
Net Change in Fund[1]		**—**
Beginning of Year		**—**
End of Year	**$**	**—**

[1] Net Change in Fund is equal to: Net Investment Results less Total Statutory Allocations and Total Board of Trustees' Allocations. For the year ended Dec. 31, 2011 the total net change in fund calculation is: -$208,287,663 less ($617,528,377 + -$825,816,040) equals $0.

See accompanying independent auditor's report.

FINANCIAL

ADMINISTRATIVE REVENUES AND EXPENSES

Year Ended Dec. 31, 2011

	Administrative Operations	Building Operations	Combined Operations
Administrative Revenues:			
Rental Income	$ —	$ 1,391,236	$ 1,391,236
Other Income	11,163	—	11,163
Total Administrative Revenues	**$ 11,163**	**$ 1,391,236**	**$ 1,402,399**
Administrative Expenses:			
Salaries	$ 6,428,587	$ —	$ 6,428,587
Leave and Associated Payments	89,749	—	89,749
Payroll Taxes	464,170	—	464,170
Pension Contributions	677,354	—	677,354
Employee Insurance and Benefits	856,807	—	856,807
Recruitment and Temporaries	25,440	—	25,440
Professional Fees/Outsourcing Services	2,183,685	—	2,183,685
Banking Fees	56,057	—	56,057
Equipment Service and Repairs	656,543	—	656,543
Building Operations	—	944,653	944,653
Office Supplies	32,233	—	32,233
Noncapitalized Equipment	165,849	—	165,849
Postage	281,847	—	281,847
Telephone	104,078	—	104,078
Printing	189,689	—	189,689
Records Management	7,262	—	7,262
Reference Materials and Memberships	62,216	—	62,216
Education and Training	46,395	—	46,395
Travel	258,078	—	258,078
Organization and Meetings	211,246	—	211,246
General Insurance	209,572	—	209,572
Depreciation and Amortization	2,425,528	632,301	3,057,829
Total Administrative Expenses	**$ 15,432,385**	**$ 1,576,954**	**$ 17,009,339**

See accompanying independent auditor's report.

INVESTMENT EXPENSES

Year Ended Dec. 31, 2011

INVESTMENT-ACTIVITY EXPENSES	
Department Operating Expenses	
Salaries	$ 1,258,648
Payroll Taxes	77,133
Pension Contributions	140,798
Employee Health and Term Life Insurance	133,419
Professional Fees and Services	663,021
Investment Data Systems	101,663
Equipment Service and Repairs	3,153
Office Supplies	33,827
Telephone	4,159
Subscriptions and Memberships	6,352
Education and Travel	92,742
Depreciation and Amortization	29,218
Total Department Operating Expenses	$ 2,544,133
Nondepartment Managers' Fees:	
International Equities	11,275,924
High-Yield Debt	5,357,902
Investment-Grade Fixed-Income	3,496,508
REITs	2,946,237
Commodities	3,480,134
TIPS	973,082
Private Real Estate	505,889
Private Equity	393,913
Domestic Equities — Index Funds	228,487
Total Nondepartment Managers' Fees	$ 28,658,076
Total Department Operating Expenses and Managers' Fees	$ 31,202,209
Custodial Fees — Mellon Trust	374,133
Investment Consultant Fees — Cliffwater LLC	2,777,500
Total Investment-Activity Expenses	**$ 34,353,842**
SECURITIES-LENDING EXPENSES	
Borrower Rebates and Management Fees	$ 279,149

See accompanying independent auditor's report.

FINANCIAL

PROFESSIONAL/CONSULTANT FEES AND SERVICES

Year Ended Dec. 31, 2011

Professional/Consultant	Nature of Service	Administrative Operations	Investment Department[1]	Totals
Razorfish LLC	Website consulting	$ 769,350	$ —	$ 769,350
Vinson & Elkins, L.L.P.	Legal	68,747	634,933	703,680
eVerge Group of Texas, Ltd.	Software consulting	546,498	—	546,498
Tribridge Holdings, LLC	Software consulting	513,083	—	513,083
Milliman, Inc.	Actuary	402,262	—	402,262
Linea	Software consulting	212,000	—	212,000
Kris Valenta	Project management	164,500	—	164,500
KPMG L.L.P.	Audit	83,670	—	83,670
KPMG L.L.P.	Information security assessment	60,000	—	60,000
Elizabeth Christian & Assoc.	Public relations consulting	49,875	—	49,875
Tom Harrison	Legislative consulting	48,750	—	48,750
Jackson Walker L.L.P.	Legal	14,599	10,088	24,687
Bogdahn Consulting, LLC	Investment performance	—	18,000	18,000
Ace Alsup, M.D.	Medical board	17,040	—	17,040
Shelby H. Carter, M.D.	Medical board	14,200	—	14,200
John P. Vineyard, Jr., M.D.	Medical board	14,200	—	14,200
Total Professional/Consultant Fees and Services		**$ 2,978,774**	**$ 663,021**	**$ 3,641,795**

[1] Pursuant to GFOA guidelines, investment advisor expenses are shown only on the investment expenses schedule on the preceding page. The members of the Board of Trustees serve without compensation and are reimbursed for actual out-of-pocket travel expenses incurred.

See accompanying independent auditor's report.

Diversity in our portfolio helps us meet long-term goals.

Investment

CLIFFWATER LLC

May 2012

Board of Trustees
Texas County and District Retirement System
P.O. Box 2034
Austin, Texas 78768-2034

To the members of the Board:

It is our pleasure to be the investment consultants for the Texas County and District Retirement System (hereinafter referred to as "TCDRS") and to report on your investment performance and activities for the year ending 2011. Retained in 2005, Cliffwater LLC provides investment policy development and review, asset allocation analysis, asset class structure analysis, investment manager searches and investment performance monitoring and evaluation to the Board and its staff. In calculating investment performance, TCDRS uses the industry standard time-weighted rate of return methodology (gross of fees) based upon market values.

2011 was a year that ended where it began with a lot of volatility in between. Investors were whipsawed by "risk on/risk off" dynamics throughout the year related to questionable global economic growth and poor sovereign debt dynamics that were tempered by aggressive global governmental responses. TCDRS' diversified investment portfolio remained almost unchanged in total assets from $17.6 billion to $17.5 billion. The one year total fund return was -1.0% before fees. This exceeded the Board's Total Fund Policy Benchmark return of -1.4%. Over 10 years; the fund's 6.2% return exceeded the Board's Total Fund Policy Benchmark return of 5.7%. TCDRS ranked in the 64th (1st is highest) percentile for 1 year and the 27th percentile for 10 years among peers in an industry recognized universe of large public funds.

At the asset class level, TCDRS' passively-managed US equities portfolio returned 1.2% for the year. TCDRS' balance of active and passive developed international managers resulted in a -11.9% return compared to the -12.2% benchmark return. Active emerging market equities with a 5% allocation achieved a return of -19.1% compared to the benchmark of -18.4%. The active real estate investment trusts (REITs) managers combined for a 1.7% return versus 2.6% for the benchmark. The 2% commodities allocation returned -5.4% versus -13.3% for the benchmark. The active investment-grade fixed income portfolio returned 7.4% relative to 7.8% for the benchmark. The absolute return asset class returned -3.1% compared to its benchmark of -5.7%. The active high yield (including opportunistic credit and distressed debt) asset class returned 3.5% relative to the benchmark 5.8% return. The private equity program returned 9.5% and the newer real estate program 12.9% for the year.

TCDRS Board approved two asset allocation plan adjustments during the year that resulted in absolute return increasing from 15 to 25%, high yield increasing from 13 to 16%, private equity increasing from 8 to 10% and emerging markets increasing from 5 to 6%. Fixed income decreased from 15 to 10%, TIPS decreased from 5 to 0%, US stocks decreased from 16 to 14% and developed international stocks decreased from 16 to 12%. The Board and staff expect these changes to both enhance future performance and control portfolio risk on behalf of participants. A global REIT manager was replaced and a new emerging market equity manager was added to complement the existing portfolio. The fund added select hedge fund managers to increase diversification. The fund also committed to new private equity, private real estate and distressed debt partnerships in accordance with its annual commitment budget.

Respectfully submitted,

Kathleen K. Barchick

Kathleen K. Barchick, Sr. Managing Director

A: THE TCDRS ACT AND INVESTMENT POLICY

Investment decisions of the TCDRS Board of Trustees (board) are subject to the Texas Constitution, and to the applicable statutory provisions of the Texas Trust Code that provide for a "prudent person" standard of care.

Additionally, the board has adopted, and reviews at least annually, an investment policy that defines investment authority and emphasizes the importance of a long-term investment philosophy with minimization of risk.

B: INVESTMENT PHILOSOPHY AND STRATEGY

The board has established a target investment return of 8% and has diversified the TCDRS portfolio to include:

- Domestic equities
- Private equity investments
- International equities (developed and emerging markets)
- Absolute return investments (hedge funds)
- Investment-grade fixed-income securities (core fixed-income)
- High-yield debt (high-yield bonds, distressed debt and opportunistic credit)
- Real estate investment trust equity securities (REITs)
- Commodities
- Private real estate partnerships
- Treasury Inflation-Protected Securities (TIPS)

(For more information on these types of securities, please see the Glossary on page 85.)

The board uses a long-term, strategic approach to asset allocation based upon capital market assumptions that are reviewed and adopted annually. The assumptions adopted in December 2011, effective January 2012, are shown in Table 1 and include the long-term expected return and risk (standard deviation) for each asset class.

C: ASSET ALLOCATION

The board has established asset allocation targets for each asset class within the TCDRS portfolio. Table 2 shows the target adopted in December 2011 for each asset class. The investment officer allocates funds to the asset classes based upon these targets.

TABLE 1: CAPITAL MARKET ASSUMPTIONS

Asset Category (Portfolio)	Expected Return	Standard Deviation
Domestic Equities	7.65%	17%
International Equities—Developed	7.65	18
International Equities—Emerging	7.65	26
Private Equity	10.65	21
Absolute Return	7.70	8
Investment-Grade Fixed-Income	3.00	4
High-Yield Bonds	6.30	10
Opportunistic Credit	6.30	10
Distressed Debt	6.30	10
REITs	7.00	23
Commodities	3.00	17
Private Real Estate Partnerships	10.00	18
TIPS	3.30	6
Cash & Equivalents[1]	2.30	1

[1] Money awaiting allocation to an asset category and deposited with the system's custodian.

TABLE 2: ASSET ALLOCATION TARGETS

	Allocation Percentages
Asset Category	Target
Domestic Equities	14%
International Equities—Developed	12
International Equities—Emerging	6
Private Equity	10
Absolute Return	25
Investment-Grade Fixed-Income	10
High-Yield Bonds	7
Opportunistic Credit	6
Distressed Debt	3
REITs	3
Commodities	2
Private Real Estate Partnerships	2

TABLE 3: EXTERNALLY MANAGED HOLDINGS

Dec. 31, 2011 ($ Millions)

Fund/Asset Class Description	Total Value[1]
Equity Long/Short	1,507.5
Multi-Strategy	869.5
Event Driven	803.9
Credit	777.0
Global Macro	551.6
Distressed	148.3
Total Absolute Return	**$ 4,657.8**
State Street Global Advisors	3,615.7
Total Domestic Equities	**$ 3,615.7**
State Street Global Advisors	1,101.1
Marathon Asset Management	491.7
J.P. Morgan Investment Management	332.7
Wellington Management Co., LLP	285.3
Dimensional Fund Advisors	93.0
Total International Equities	**$ 2,303.8**
Jennison	642.1
Prudential	616.9
Dodge and Cox	599.7
Western Asset	10.4
Total Investment-Grade Fixed-Income	**$ 1,869.1**
Oaktree Capital Management, LLC	686.0
Post Advisory Group	670.1
Total High-Yield Bonds	**$ 1,356.1**
Buyout	412.4
Venture Capital	235.8
Non-US	178.6
Energy	169.6
Total Private Equity	**$ 996.4**
Angelo Gordon and Co.	266.4
Canyon Capital Advisors, LLC	142.1
Centerbridge Partners	126.2
Elliott Management Corp.	79.8
BlackRock	76.4
Och-Ziff Capital Management	69.1
Total Opportunistic Credit	**$ 760.0**
Cohen & Steers Capital Management	248.1
Morgan Stanley Investment Mgmt	162.6
Invesco Real Estate	116.3
Wellington Management Co., LLP	1.4
Total REITs	**$ 528.4**
Western Asset	450.4
Total TIPS	**$ 450.4**
Oaktree Capital Management, LLC	173.0
Wayzata Investment Partners, LLC	83.8
CarVal Investors	51.6
Angelo Gordon and Co.	32.5
Cerberus Capital Management	27.7
Davidson-Kempner Capital Mgmt, LLC	23.9
Selene Investment Partners, LLC	23.4
Summit Partners	8.3
H.I.G. Capital, LLC	5.5
Total Distressed Debt	**$ 429.7**
Wellington Management Co., LLP	189.4
Schroders Investment Management	179.4
Total Commodities	**$ 368.8**
Starwood	35.4
Walton Street	22.5
Rockwood	12.6
Angelo Gordon	11.4
Morgan Stanley	10.2
Lone Star	9.0
Blackstone	8.9
Related Fund Management	5.6
KSL	3.2
Carlyle	2.0
Total Private Real Estate Funds	**$ 120.8**

[1] Includes short-term investments, interest and dividends receivable and other net receivables.

D: ASSET CLASSES, INVESTMENT STYLES AND INVESTMENT MANAGERS

TCDRS uses both active and passive styles of investment management. The passive style seeks to match the performance of an established market index by holding the same securities as the index. An active style seeks to exceed the performance of a benchmark by allowing the manager to actively trade securities that may be different from the index.

Asset classes managed actively are the investment-grade fixed-income, high-yield bonds, opportunistic credit, distressed debt, REITs, TIPS, commodities, a portion of the developed international and emerging market equities portfolios, private equity investments, absolute return investments and private real estate partnerships. Asset classes managed passively are the domestic equities and the remainder of the developed international and emerging market equities.

The investment manager responsible for an externally managed portfolio holds any cash that portfolio generates in interest-bearing instruments or accounts until it is re-invested. The TCDRS Investment Officer manages cash in the short-term investment fund, as well as new contributions, until allocated to a portfolio.

Externally Managed Holdings

TCDRS retains external investment managers to administer portfolios within 11 asset categories, which include investments in or commitments to 145 private equity, distressed debt, opportunistic credit, private real estate and absolute return partnerships. Table 3 shows the value of these externally managed holdings at year end.

E: INVESTMENT RESULTS

TCDRS retains a professional performance measurement consultant that regularly reports investment performance to the board for each investment manager, for the aggregate of all managers in each asset class and for the total portfolio.

Performance Reporting

Performance of each investment manager is measured against the performance of similar assets contained within a benchmark portfolio, as represented by a specific index. Comparisons indicate the value added

TABLE 4: BENCHMARK PORTFOLIOS FOR PERFORMANCE MEASUREMENT

Asset Category	Benchmark Portfolio
Investment-Grade Fixed-Income	Investment-Grade Fixed-Income Index Barclays Aggregate Bond Index[1] (Jan. 1983 through Dec. 2003 and Oct. 2006 through Dec. 2011) Citigroup Large Pension Fund (Jan. 2004 through Sep. 2006)
Domestic Equities	Domestic Equity Index Dow Jones U.S. Total Stock Market Index[2] S&P 500 Index (Jan. 1997 through Dec. 1999)
International Equities	Developed International Equity Index MSCI World ex U.S. Standard (net) MSCE EAFE + Canada Index (net) (Oct. 2005 through Sep. 2007) MSCI EAFE Index (through Sep. 2005) Emerging International Equity Index MSCI EM (Emerging Markets) Standard (net)
High-Yield Debt	High-Yield Bond Index Citigroup High-Yield Cash-Pay Capped Index Merrill Lynch High Yield Master II Constrained Index (Oct. 2005 through June 2010) Merrill Lynch High Yield Master II Index (Jan. 2003 through Sep. 2005) CSFB Developed Countries High Yield Index[3] (through Dec. 2002) Distressed Debt Index Citigroup High-Yield Cash-Pay Capped Index[4] Merrill Lynch High Yield Master II Constrained Index (through June 2010) Opportunistic Credit Index Citigroup High-Yield Cash-Pay Capped Index S&P/LSTA Leveraged Loan Index (through June 2010)
REITs	REIT Index 67% FTSE NAREIT All Equity REIT Index, 33% FTSE EPRA/NAREIT Global Real Estate Index Dow Jones U.S. Select Real Estate Securities Index[2] (July 2002 through June 2010) Wilshire REIT Index (through June 2002)
Private Real Estate	NCREIF (National Council of Real Estate Investment Fiduciaries) Index
TIPS	Barclays U.S. TIPS[1]
Private Equity	Venture Economics Pooled TW Returns for U.S. Private Equity Index Dow Jones U.S. Total Stock Market Index + 300 bps (through Aug. 2011)
Commodities	Dow Jones UBS Commodity Index[4]
Absolute Return	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index

[1] Prior to November 2008, these indices were called "Lehman Aggregate Index" and "Lehman U.S. TIPS", respectively.
[2] Prior to April 2004, these indices were called "Wilshire 5000 Index" and "Wilshire Real Estate Securities Index", respectively.
[3] Until mid-2001, this index was called "First Boston Domestic + High Yield Index."
[4] Prior to Sep. 2011, these portfolios were measured against their current benchmark plus 300 bps and 100 bps, respectively. One hundred basis points (bps) equal 1%.

by each manager, if any, in excess of the performance that was experienced by the specific benchmark index. When multiple investment managers are retained within a particular asset class, a benchmark portfolio is selected for measurement of the performance of the entire asset class. Table 4 relates the associated benchmark portfolio with each asset class contained within the TCDRS investment portfolio.

When multiple asset classes are utilized by a particular investor, like TCDRS, a benchmark portfolio containing asset class benchmarks is selected for measurement of the performance of the entire portfolio.

Performance Results

As shown in Table 5 on page 56, the TCDRS portfolio returned -1.0% in 2011, exceeding its benchmark return of -1.4%. Markets experienced high volatility during 2011 as a result of the ongoing sovereign debt crisis in Europe, slowing economic growth in China and middling growth in the United States. Additionally natural disasters in Japan and Thailand, political upheaval in North Africa and

TABLE 5: RESULTS FROM INVESTING ACTIVITIES[1]

TCDRS Portfolio/Benchmark Portfolio	2011 Return	Annualized Returns 3 Year	5 Year	10 Year	20 Year	30 Year
Total Fund	-1.0%	12.3%	1.7%	6.2%	7.2%	9.9%
Policy Benchmark Portfolio	-1.4	12.2	1.4	5.7	6.2	8.7
Domestic Equities	1.2	15.4	0.4	3.9	–	–
Domestic Equity Index Benchmark Portfolio	1.1	15.2	0.2	3.9	–	–
International Equities - Developed	-11.9	8.6	-3.9	5.1	–	–
Developed Intl Equity Index Benchmark Portfolio	-12.2	8.5	-4.1	4.9	–	–
International Equities - Emerging	-19.1	18.1	1.3	–	–	–
Emerging Intl Equity Index Benchmark Portfolio	-18.4	20.1	2.4	–	–	–
Investment-Grade Fixed-Income	7.4	8.9	6.1	6.2	7.5	10.1
Investment-Grade Fixed-Income Index Benchmark Portfolio	7.8	6.8	6.5	6.1	6.7	9.1
TIPS	13.2	10.0	8.5	–	–	–
TIPS Benchmark Portfolio	13.6	10.4	8.0	–	–	–
Private Equity	9.5	10.5	0.0	–	–	–
Private Equity Benchmark Portfolio	8.6	10.2	-0.2	–	–	–
Absolute Return	-3.1	10.1	1.3	–	–	–
Absolute Return Benchmark Portfolio	-5.7	3.6	-0.8	–	–	–
High-Yield Bonds	5.7	20.4	7.4	8.2	–	–
High-Yield Bond Index Benchmark Portfolio	5.8	24.3	7.8	9.3	–	–
Opportunistic Credit	-0.6	22.8	–	–	–	–
Opportunistic Credit Index Benchmark Portfolio	5.8	22.0	–	–	–	–
Distressed Debt	3.5	17.0	7.5	–	–	–
Distressed Debt Index Benchmark Portfolio	5.8	24.3	7.8	–	–	–
Private Real Estate Funds	12.9	–	–	–	–	–
Private Real Estate Benchmark Portfolio	14.3	–	–	–	–	–
REITs	1.7	19.9	-3.6	10.7	–	–
REIT Index Benchmark Portfolio	2.6	19.6	-3.2	9.6	–	–
Commodities	-5.4	–	–	–	–	–
Commodities Index Benchmark Portfolio	-13.3	–	–	–	–	–

[1] Calculations of performance were prepared using time-weighted rates of return based upon market rates of return.
Source: BNY Mellon Performance and Risk Analytics Fund Analysis, Fourth Quarter 2011

TABLE 6: LIST OF LARGEST EQUITY HOLDINGS[1]

Dec. 31, 2011 ($ Millions)

Company	Prorated Market Value
Exxon Mobil Corporation	$103.3
Apple, Inc.	95.7
IBM Corporation	55.0
Chevron Corporation	53.8
Microsoft Corporation	49.5
General Electric Co.	48.0
Procter & Gamble Co.	46.6
AT&T	45.8
Johnson & Johnson	45.5
Pfizer, Inc.	42.3

[1] TCDRS owns a 79% undivided interest in a Dow Jones U.S. Total Stock Market Index fund that in turn owns equity shares in 3,642 domestic companies. Even though TCDRS does not own any shares of the above companies directly, our undivided interest in each company within the index is shown above.

TABLE 7: LIST OF LARGEST FIXED-INCOME HOLDINGS

Dec. 31, 2011 ($ Millions)

Description	Maturity	Interest Rate	Fair Value
U.S. Treasury Bond	08/15/2041	3.750%	$46.1
U.S. Treasury – CPI Inflation Index	01/15/2025	2.375	33.5
U.S. Treasury – CPI Inflation Index	07/15/2016	2.500	33.2
U.S. Treasury – CPI Inflation Index	07/15/2020	1.250	32.8
U.S. Treasury – CPI Inflation Index	01/15/2014	2.000	30.3
U.S. Treasury – CPI Inflation Index	04/15/2029	3.875	29.4
U.S. Treasury – CPI Inflation Index	04/15/2013	0.625	27.5
U.S. Treasury Note	11/15/2017	4.250	25.8
Fannie Mae Pool #0735288	03/01/2035	5.000	21.9
U.S. Treasury – CPI Inflation Index	01/15/2028	1.750	21.6

the Middle East along with the U.S. debt ceiling stand-off and subsequent ratings downgrade by Standard and Poors disrupted markets. Despite the downgrade, U.S. Treasury securities benefitted from a flight to safety and further quantitative easing by the Federal Reserve pushing yields to record lows. Consequently, the best performers were TIPS and investment grade bonds which were up 13.2% and 7.4%. International stocks performed poorly with developed international markets down 11.9% and emerging markets down 19.1%. Domestic equity returns were essentially flat at 1.2%. The absolute return portfolio returned -3.1% while the still relatively young private equity and private real estate portfolios returned 9.5% and 12.9%, respectively. The remaining asset classes returned low single digit positive and negative returns with high-yield bonds returning 5.7%, distressed debt 3.5%, REITS 1.7%, opportunistic credit -0.6% and commodities -5.4%.

F: LISTS OF LARGEST HOLDINGS[1]

Equity Holdings

The system's exposure to equity markets is achieved through participation in commingled investment pools, such as State Street Global Advisors (SSgA) domestic equity and international equity index funds, and direct investment in separately managed domestic and global REIT funds. At Dec. 31, 2011, TCDRS' 10 largest equity holdings were in the SSgA U.S. Total Stock Market Fund which has an aggregate fair value of $3,615,724,125. Table 6 displays our exposure to the 10 largest equity holdings.

[1] A complete listing of all securities TCDRS owned at Dec. 31, 2011, is available upon written request.

Fixed-Income Holdings

Table 7 presents the top 10 fixed-income securities owned by TCDRS. The securities are contained within the investment-grade fixed-income and TIPS portfolios. At Dec. 31, 2011, the investment-grade fixed-income portfolio contained 853 securities with an aggregate fair value of $1,854,405,852. The TIPS portfolio contained 29 securities with an aggregate fair value of $447,696,666.

G: RESULTS OF SECURITIES-LENDING ACTIVITIES

TCDRS retains The Bank of New York Mellon Corp. as securities-lending agent to engage in lending securities from the fixed-income portfolios. Securities-lending transactions consist of loans of securities to broker-dealers and other entities in exchange for collateral with a simultaneous agreement to return the

TABLE 8: SECURITIES-LENDING ACTIVITY

Year Ended Dec. 31, 2011

Elements of Securities-Lending Activity	Amount
Gross Earnings	$ 1,071,769
Less Rebates Paid to Lenders and Lending Agent's Share of Income	279,149
Net Securities-Lending Income	792,620
Securities-Lending Income (Commingled Funds)	3,082,421
Net Securities-Lending Income	**$ 3,875,041**

TABLE 9: INVESTMENT MANAGERS' FEES

Year Ended Dec. 31, 2011

Asset Class	Average of Fair Value ($ Millions)	Fees[1]	Cost Rate (in bps)[2]
International Equities	$ 3,203.3	$ 11,275,924	35.20
High-Yield Bonds	1,322.1	5,357,902	40.53
Investment-Grade Fixed-Income	2,407.7	3,496,508	14.52
Commodities	383.4	3,480,134	90.78
REITs	569.5	2,946,237	51.73
TIPS	547.6	973,082	17.77
Domestic Equities	3,525.8	228,487	0.65
Totals/Average Cost Rate	**$ 11,959.4**	**$ 27,758,274**	**23.21**

[1] Excludes fees of $393,913 and $505,889 included in Investment Expenses reported on page 49. These fees were paid directly to a private equity and private real estate manager, respectively. Typically, these fees are paid by the limited partnership.
[2] One hundred basis points (bps) equal 1%.

INVESTMENT

collateral for the same securities in the future. The aggregate income and expenses attributable to this securities-lending activity and net lending income of $0.8 million are shown in Table 8 on page 57.

Additionally, SSgA manages domestic and international equity portfolios of TCDRS in commingled funds. The securities in these funds participate in the securities-lending program of SSgA with TCDRS receiving a proportionate share of the securities-lending income generated from this activity. Also shown in Table 8 is income of $3.1 million representing TCDRS' share of the 2011 equity portfolios' securities-lending income.

H: FEES AND COMMISSIONS

Table 9 on page 57 presents the 2011 investment-manager fees TCDRS incurred, excluding private equity, private real estate and securities-lending fees. The average fee expended for investment management of the externally managed portfolio (averaging $11,959 million) was 23.2 basis points. The private equity, private real estate, absolute return, distressed debt and opportunistic credit portfolios are reported net of fees therefore the management fees paid for these investments are not reported in Table 9.

Table 10 presents the total cost of investment-related fees (excluding private equity, private real estate and securities-lending fees), which is $33.5 million. Based upon an average fair value during 2011 of $17.7 billion, this represents a cost of 18.9 basis points expended to manage and administer TCDRS' investment assets.

Table 11 presents the commissions paid to brokers by the system's equity managers. The managers executed trades of 69.5 million shares through 94 brokers. The $920,000 in commissions earned by these brokers represent $.01 per share traded.

I: ASSET GROWTH OF THE SYSTEM

As shown in Figure 1, the fair value of TCDRS' investment assets, including accrued interest and dividends, has increased by $2.11 billion over the past five years (from $15.45 billion at Dec. 31, 2006, to $17.56 billion at Dec. 31, 2011). Figure 2 identifies the components of investment asset growth over the same period. Employee deposits

TABLE 10: INVESTMENT-RELATED FEES

Year Ended Dec. 31, 2011

	Fees
Investment Managers' Fees (Table 9)	$ 27,758,274
Investment Department Expenses[1]	2,544,133
Custodian	374,133
Investment Consultants	2,777,500
Total Investment-Related Fees	**$ 33,454,040**

[1] See page 49.

FIGURE 1: GROWTH IN SYSTEM ASSETS

($ Billions)

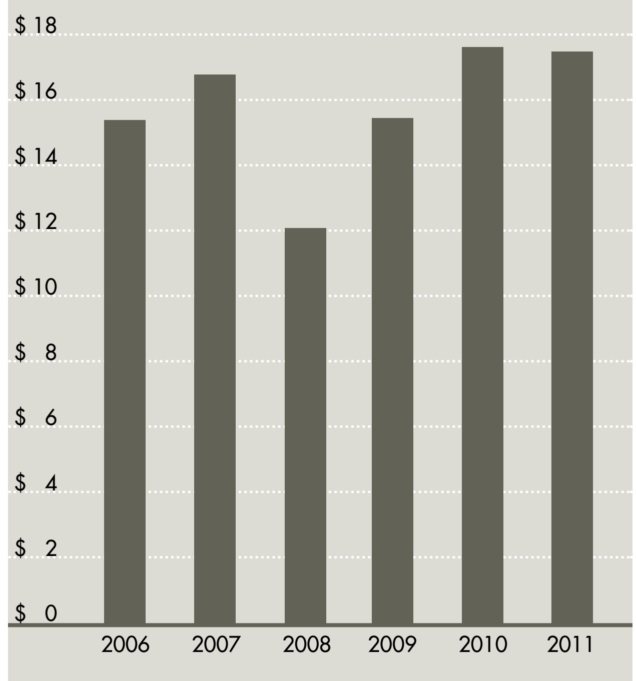
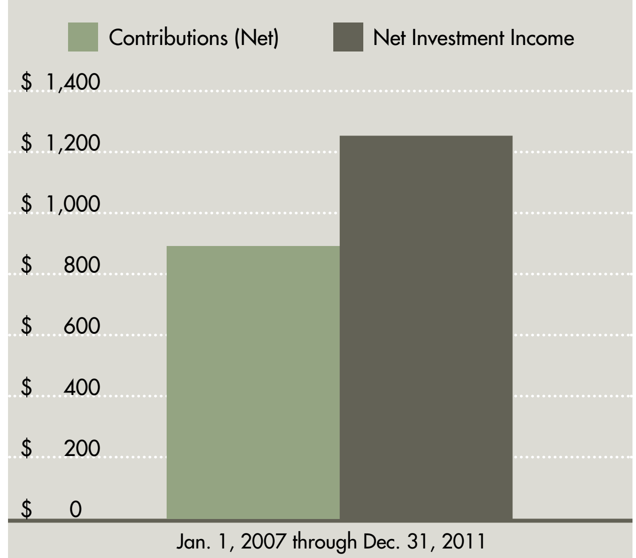


FIGURE 2: SOURCES OF ASSET GROWTH

($ Millions)



and employer contributions net of pension payments and refunds ($884 million) contributed 42% to asset growth for the period while net investment return ($1.23 billion) contributed the remaining 58%.

J: INVESTMENT SUMMARY

Based upon the total value of the investment portfolio (which is the sum of the fair value of the portfolio, plus accrued interest and dividends) at Dec. 31, 2011, Table 12 presents TCDRS' investment asset diversification. The values shown in each portfolio under the column labeled "Fair Value" are the investment amounts presented in the Statements of Plan Net Assets shown on page 26 in the Financial Section of this CAFR.

TABLE 11: BROKER COMMISSIONS PAID BY EQUITY MANAGERS

Year Ended Dec. 31, 2011

Brokerage Firm	Shares Traded (Thousands)	Commissions ($ Thousands)	Commissions Per Share
Credit Suisse	16,006	$ 70	$0.01
JP Morgan	7,595	110	0.01
Merrill Lynch	6,334	95	0.02
Barclays Capital, Inc.	3,437	62	0.02
UBS Securities, LLC	2,878	39	0.01
Citigroup	2,153	42	0.02
Morgan Stanley & Co., Inc.	2,021	43	0.02
Goldman Sachs & Co.	1,800	37	0.02
Stifel Nicolaus	1,026	31	0.03
Green Street Advisors	1,002	33	0.03
Summary of 84 other firms	25,229	358	0.01
Totals	**69,481**	**$ 920**	**$ 0.01**

TABLE 12: INVESTMENTS BY ASSET SUBCLASS

Dec. 31, 2011

Type of Investment	Fair Value	Interest, Dividends and Other Receivables[1]	Total Value	% of Total Value
Absolute Return	$4,657,838,928	$ —	$4,657,838,928	26.5%
Domestic Equities	3,615,724,125	—	3,615,724,125	20.6
International Equities	2,303,773,878	—	2,303,773,878	13.1
Investment-Grade Fixed-Income	1,854,405,852	14,740,248	1,869,146,100	10.6
High-Yield Bonds	1,329,383,334	26,677,374	1,356,060,708	7.7
Private Equity	996,423,456	—	996,423,456	5.7
Opportunistic Credit	760,014,728	—	760,014,728	4.3
REITs	526,514,264	1,843,466	528,357,730	3.0
TIPS	447,696,666	2,740,211	450,436,877	2.6
Distressed Debt	429,720,285	—	429,720,285	2.5
Commodities	368,846,912	—	368,846,912	2.1
Private Real Estate	120,762,925	—	120,762,925	0.7
Cash & Equivalents	102,828,536	1,468	102,830,004	0.6
Total Investments Shown on Statement of Net Plan Assets	**$ 17,513,933,889**	**$ 46,002,767**	**$ 17,559,936,656**	**100.0%**

[1] Includes $2,189 of currency fluctuations reported in Investments Payable from the Statements of Plan Net Assets on page 26.

INVESTMENT

READER'S NOTES

Reasonable, reliable benefits give employees retirement security.

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May 18, 2012

Board of Trustees
Texas County & District Retirement System
Austin, Texas

Dear Trustees:

In accordance with the Texas County & District Retirement System (TCDRS) Act, the annual actuarial valuation of the assets and liabilities of TCDRS has been completed as of December 31, 2011. This valuation was performed using actuarial assumptions that were adopted by the Board in December 2009. These assumptions were developed by Milliman and reported to the Board in the 2009 Investigation of Experience Study report. We recommended these assumptions to the Board.

We believe the assumptions individually and collectively represent reasonable expectations of experience over the long-term future. Nevertheless, the emerging costs of the TCDRS employers will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions.

To test how well the financing objective for each plan is being achieved, annual actuarial valuations are made. These valuations recognize differences in the past year between the actuarial assumptions and the actual experience, and any benefit changes for each plan.

The financing objective for each TCDRS plan is to provide retirement, death and disability benefits for a county's or a district's employees financed by an employer contribution rate. This rate is determined annually and is expected to remain approximately level as a percent of the employer's covered payroll. The employer contribution rate consists of the normal cost contribution rate plus the unfunded actuarial accrued liability (UAAL) contribution rate. The UAAL as of December 31, 2008 and any subsequent gains and losses are amortized over closed 20-year periods (open 30-year period if the employer is in an overfunded position).

A separate actuarial valuation for each participating county and district was performed based on the plan benefits in effect on January 1, 2012. The aggregate results of the actuarial valuation of system-wide assets and liabilities are presented in the Actuarial Section in the Summary Actuarial Valuation Results schedule. The assumptions and methods used in this valuation are summarized in the actuarial section and meet the parameters of Governmental Accounting Standards Board Statement No. 25. The member, annuitant and asset data used in the valuation were all prepared and furnished by TCDRS. We relied on that data after examining it for general reasonableness and year-to-year consistency. In addition, we prepared all of the supporting schedules in the actuarial section and the schedule of funding progress, the schedule of employer contributions and the notes to these schedules in the financial section of the comprehensive annual financial report. Please refer to the December 31, 2011 Summary Actuarial Valuation Report for further disclosures.

Sincerely,

Mark C Olleman

Mark C. Olleman, FSA, EA, MAAA
Consulting Actuary

Nick Collier

Nick J. Collier, ASA, EA, MAAA
Consulting Actuary

Offices in Principal Cities Worldwide

A: ACTUARIAL ASSUMPTIONS

The actuarial assumptions described below were developed from an actuarial experience investigation of TCDRS over the years 2005–2008. They were recommended by Milliman, Inc., adopted by the TCDRS Board of Trustees in 2009 and first used in the Dec. 31, 2009 actuarial valuation. For an explanation of terms used in this section, refer to the Glossary beginning on page 85.

Termination Rates

The rates vary by length of service, entry-age group (age at hire), sex and termination group assignments. The rates exclude termination due to death or disability, and termination rates do not apply after eligibility for retirement.

A sample of the rates for three of the seven termination groups is shown in Table 1.

The termination group assignments for an employer were based primarily upon the termination characteristics of the members of that employer's plan during the years 2005–2008 compared to the termination characteristics of all members of TCDRS during the same period.

TABLE 1: SELECT TERMINATION RATES

Entry Age	Years of Service	Male			Female		
		Low	Mid	High	Low	Mid	High
20 to 29	0	.265	.331	.397	.287	.359	.431
	3	.106	.133	.160	.115	.144	.173
	6	.062	.077	.092	.067	.084	.101
	9	.044	.055	.066	.048	.060	.072
	12	.032	.040	.048	.034	.043	.052
	15	.022	.027	.032	.023	.029	.035
30 to 39	0	.219	.274	.329	.237	.296	.355
	3	.087	.109	.131	.095	.119	.143
	6	.051	.064	.077	.055	.069	.083
	9	.037	.046	.055	.039	.049	.059
	12	.026	.033	.040	.029	.036	.043
	15	.018	.022	.026	.019	.024	.029
40 to 49	0	.196	.245	.294	.212	.265	.318
	3	.078	.098	.118	.085	.106	.127
	6	.046	.057	.068	.050	.062	.074
	9	.033	.041	.049	.035	.044	.053
	12	.023	.029	.035	.026	.032	.038
	15	.016	.020	.024	.017	.021	.025

For plans that have adopted the partial lump-sum payment option, adjustments are made to the termination rates. Rates are reduced at ages near retirement as it is anticipated that a member would be less likely to take a withdrawal if the partial lump-sum payment option were available.

Probability of Withdrawal

Employees who leave county or district employment may either elect to leave their accounts with TCDRS or withdraw their funds. The probability that a member elects to withdraw varies by length of service and vesting requirement. These rates are shown in Table 2.

Active Employee Mortality Rates

Beneficiaries of employees with four or more years of service who pass away while in active service are eligible for Survivor Benefits. Mortality rates for employees are shown in Table 3.

TABLE 2: PROBABILITY OF WITHDRAWAL UPON TERMINATION

Years of Service	Vesting Requirement		
	5 Years	8 Years	10 Years
0	100%	100%	100%
4	100	100	100
6	60	100	100
8	50	50	100
10	48	48	48
15	40	40	40
20	30	30	30
25	20	20	20
Over 28	0	0	0

TABLE 3: ACTIVE EMPLOYEE MORTALITY RATES[1]

Age	Male	Female
20	.00037	.00019
25	.00039	.00020
30	.00063	.00024
35	.00096	.00039
40	.00130	.00060
45	.00186	.00094
50	.00262	.00143
55	.00400	.00214
60	.00647	.00329
65	.00907	.00504

[1] Projection Scales AA for Males and Females are applied to these rates.

ACTUARIAL

TABLE 4: DISABILITY RATES

Age	Male and Female Occupational	Male and Female All Other Causes
35	.00001	.00038
40	.00005	.00089
45	.00010	.00144
50	.00014	.00260
55	.00023	.00463
60	.00040	.00000

Disability Rates

Members who become disabled are eligible to commence receiving benefit payments regardless of age. Disability rates are shown in Table 4. Before a member is vested, only the occupational disability probabilities are applicable. For members who are vested, but not eligible for service retirement, the probability of disablement is the sum of the occupational rate and the all-other-causes rate. Rates are assumed to be zero after the member has attained eligibility for service retirement.

Service Retirement Rates

Members who are eligible for retirement are assumed to commence receiving benefit payments based on age. Eligible members age 75 and older are assumed to commence receiving benefits immediately. Rates are shown in Table 5.

TABLE 5: SERVICE RETIREMENT RATES

Age	Male	Female
40-44	.05	.05
45-49	.10	.10
50-51	.12	.13
52-54	.13	.14
55-59	.14	.15
60	.15	.16
61	.13	.14
62	.28	.29
63	.17	.18
64	.17	.18
65	.32	.33
66-69	.22	.23
70	.24	.25
71-74	.23	.24
Over 74	1.00	1.00

Retiree, Beneficiary and Terminated Member Mortality Rates

For determining the amount of the monthly retirement benefit at the time of retirement, mortality rates are based on the UP-1984 Table with an age set back of five years for retirees and an age set back of 10 years for beneficiaries.

For calculating the actuarial accrued liability and normal cost, generational mortality is used. The RP-2000 Combined Male Table with an age set forward of one year and Projection Scale AA for Males, and the RP-2000 Combined Female Table with no age adjustment and Projection Scale AA for Females are used for service retirees, as well as the beneficiaries of both service and disability retirees. These rates are also used for terminated members who have not elected to withdraw their accounts. For disabled retirees, the RP-2000 Disabled Male Table with an age set forward of two years and Projection Scale AA for Males, and the RP-2000 Disabled Female Table with an age set forward of two years and Projection Scale AA for Females are used.

Investment Return Assumption

The components of the 8% investment return assumption are a 3.5% rate of inflation and a 4.5% real rate of return. This rate of 8% is net after investment expenses. It enables the system to make allocations at the nominal annual rates shown to the following major funds:

Subdivision Accumulation Fund 9%
Employees Saving Fund 7%
Current Service Annuity Reserve Fund 7%

Based on these nominal annual rates to the various funds, the following is assumed:

- An annual rate of 9% for calculating the actuarial accrued liability and the contribution rate for the retirement plan of each participating employer.
- An annual rate of 7% as specified in the TCDRS Act for (a) determining the amount of the monthly benefit at future dates of retirement or disability; and (b) calculating the actuarial accrued liability of the systemwide Current Service Annuity Reserve Fund.

TABLE 6: ANNUAL RATE OF SALARY INCREASE

Years of Service	Entry-Age Group < 30	30-39	40-49	> 50
1	8.7%	8.2%	7.6%	7.1%
3	7.6	7.1	6.6	6.1
5	6.8	6.2	5.7	5.2
10	5.9	5.4	4.9	4.4
15	5.4	4.9	4.4	4.4
20	5.0	4.7	4.4	4.4
25	4.8	4.4	4.4	4.4

Salary Increases

The salary increase assumption projects the salary scale for individuals over their projected careers. The annual salary increase rates assumed for individual employees vary by service and entry-age. The annual rates consist of a general wage inflation component of 4% and a merit, promotion and longevity component ranging from 0.40% to 5.25%. Note that the wage inflation of 4% is based on the underlying price inflation assumption of 3.5% and 0.5% for assumed increases in productivity. The salary scale is graded with higher increases in early entry-age years, with the average annual increase over an employee's career of 5.4%. Because TCDRS' benefit is not based on final average salary, this assumption is generally not as significant as others. Refer to Table 6 for sample salary increase rates.

Payroll Increase

The payroll increase assumption projects the rate of growth of the employer's aggregate payroll. The rate may vary by employer. It is 4% or a smaller percentage if considered appropriate based on the employer's number of employees and prior experience. The payroll increase assumption does not consider increases in the number of employees.

Cost-of-Living Adjustment

An annual increase of 0% cost-of-living adjustment is assumed. Plans may elect to periodically increase the benefit payment amounts to retirees and beneficiaries within certain guidelines.

B: ACTUARIAL METHODS

The actuarial cost method used for all plans is the entry-age actuarial cost method. Actuarial gains decrease while actuarial losses increase the unfunded actuarial accrued liability (UAAL). The UAAL is amortized over a period of time as a level percent of covered payroll.

The period for amortizing a plan's UAAL is a 20-year closed period, using a fresh-start method for 2009. Each year, plans with a UAAL amortize the previous year's actuarial gains and losses over new closed 20-year periods. The period for amortizing increases or decreases in the UAAL due to employer-elected plan changes is a closed 15-year period. For plans with an overfunded actuarial accrued liability, the amortization period is a 30-year open period.

TCDRS applies the 10-year smoothed method, which recognizes the difference between the fund value and the expected value of the Subdivision Accumulation Fund (SAF) evenly over a 10-year period. If, after the 10-year smoothing is applied, the SAF's actuarial value is outside a corridor of 60% and 140% of the SAF's fund value, the SAF's actuarial value is further adjusted by moving it one-third of the way toward the nearest corridor boundary. The expected value of SAF assets at a valuation date equals the fund value of assets as of the prior valuation date adjusted for contributions, benefit payments and transfers, plus investment return credited at the assumed rate of 9%. The fund value is equal to the actual value of the SAF after the investment income allocation process, as provided by statute.

The actuarial value of assets for the Employees Saving Fund is equal to its fund value.

C: CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

There were no changes in actuarial assumptions or methods for the Dec. 31, 2011 actuarial valuation.

TABLE 7: RETIREE AND BENEFICIARY DATA — ACCOUNTS*

Year Ended	New Accounts Added	Accounts Removed	Net Change in Accounts	Total Number of Accounts	Percent Change in Number of Accounts
12/31/06	2,846	778	2,068	32,102	6.9%
12/31/07	2,576	735	1,841	33,943	5.7
12/31/08	2,899	804	2,095	36,038	6.2
12/31/09	2,748	807	1,941	37,979	5.4
12/31/10	3,654	797	2,857	40,836	7.5
12/31/11	3,682	883	2,799	43,635	6.9

* Accounts reflect the total number of members being paid by separate employers. Values were recalculated Dec. 31, 2011 for all years shown. Previous CAFRs counted each account for individual members having multiple accounts with a single employer. The new method counts these individuals as a single account.

TABLE 8: RETIREE AND BENEFICIARY DATA — AMOUNTS

Year Ended	New Annual Benefits Added	Annual Benefits Removed	Net Change in Annual Benefits Amount	Annual Benefits	Percent Change in Annual Benefits	Average Annual Benefit*
12/31/06	$ 50,073,153	$ 3,151,802	$ 46,921,351	$ 449,137,922	11.67%	$ 13,991
12/31/07	50,559,930	5,561,096	44,998,835	494,136,757	10.02	14,558
12/31/08	61,436,639	5,408,943	56,027,696	550,164,453	11.34	15,266
12/31/09	56,323,360	9,407,651	46,915,709	597,080,162	8.53	15,721
12/31/10	86,661,972	11,490,572	75,171,400	672,251,562	12.59	16,462
12/31/11	83,906,489	8,997,023	74,909,466	747,161,028	11.14	17,123

* The average annual benefits are based on the regular benefits paid in January following the valuation date. Average Annual Benefit was recalculated Dec. 31, 2011 for all years shown to reflect the new method of tabulating accounts.

TABLE 9: SOLVENCY TEST

($ Millions)

Valuation Date	Actuarial Accrued Liabilities for (1) Current Member Deposits	(2) Retirees and Beneficiaries	(3) Current Members (Employer-Financed Portion)	Actuarial Value of Assets	Portion of Actuarial Accrued Liabilities Covered by Net Assets (1)	(2)	(3)
12/31/06	$ 3,534.6	$ 4,244.8	$ 6,255.8	$ 13,229.8	100%	100%	87.1%
12/31/07	3,835.4	4,684.8	6,844.3	14,483.0	100	100	87.1
12/31/08	4,145.6	5,209.5	7,412.9	14,861.8	100	100	74.3
12/31/09	4,518.3	5,710.5	8,219.3	16,564.2	100	100	77.1
12/31/10	4,810.3	6,459.3	8,661.6	17,808.6	100	100	75.5
12/31/11	5,090.7	7,202.8	9,116.0	19,016.4	100	100	73.7

Presented above is one short-term means of checking a system's progress under its funding program. The present assets are compared with: (1) current member contributions on deposit; (2) the liabilities for future benefits to current retirees and beneficiaries; and (3) the employer-financed portion of the liabilities for service already rendered by current members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for current member contributions on deposit (liability 1) and the liabilities for future benefits to current retirees and beneficiaries (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the employer-financed portion of liabilities for service already rendered by current members (liability 3) will be at least partially covered by the remainder of present assets. Generally, the funded portion of liability 3 will move toward 100% over time if there are no changes in the plan benefits.

Each employer participating in TCDRS is financially responsible for its own plan. Therefore, the aggregate numbers shown above reflect only the aggregate condition of TCDRS and are not indicative of the status of any one plan.

TABLE 10: CONTRIBUTION RATE INFORMATION FOR ACTIVE EMPLOYERS

Distribution of TCDRS Plans by Year 2013 Employer Contribution Rate

Number of Depositing Members as of 12/31/11	Year 2013 Employer Contribution Rate Based on the Plan of Benefits in Effect 1/1/2012						
	Under 5.00%	5.00% – 6.99%	7.00% – 8.99%	9.00% – 10.99%	11.00% – 12.99%	Over 12.99%	Total
1 – 5	22	24	16	17	11	11	101
6 – 15	24	17	23	24	15	15	118
16 – 30	15	9	8	9	10	6	57
31 – 50	9	10	11	15	14	9	68
51 – 85	7	14	18	14	11	11	75
86 – 150	6	9	12	14	14	9	64
151 – 250	4	3	15	14	11	10	57
251 – 500	4	4	8	16	6	4	42
Over 500	0	3	3	15	14	7	42
Total	**91**	**93**	**114**	**138**	**106**	**82**	**624**

TABLE 11: PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS

Valuation Date	Number of Active Employers	Depositing Members Number	Depositing Members Annual Payroll	Average Annual Pay	Percent Increase in Average Annual Pay	Employer Contributions[1]	Average Employer Rate
12/31/06	565	110,791	$ 4,054,275,148	$ 36,594	3.9%	$ 382,318,020	9.43%
12/31/07	567	116,858	4,420,511,353	37,828	3.4	430,335,867	9.73
12/31/08	585	120,347	4,830,298,018	40,136	6.1	460,635,617	9.54
12/31/09	601	123,446	5,167,980,232	41,864	4.3	510,261,262	9.87
12/31/10	618	122,889	5,213,892,696	42,428	1.3	550,102,572	10.55
12/31/11	624	121,919	5,202,460,203	42,671	0.6	570,562,898	10.97

[1] Employer contributions include optional lump-sum contributions and elected rates.

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TABLE 12: ANALYSIS OF FINANCIAL EXPERIENCE

Gains and Losses in Actuarial Accrued Liabilities Resulting from Differences Between Assumed Experience and Actual Experience
($ Millions)

Source of Change	**2011**	**2010**
Age and Service Retirements	$ 13.1	$ 7.9
In-Service Death Benefits	(0.7)	(0.8)
Other Termination	55.1	(2.0)
Pay Increases	46.9	59.5
Contribution Income	(8.4)	(10.9)
Investment Income	(322.6)	(283.2)
Death After Retirement	(19.7)	(9.4)
Other	9.3	(4.9)
Gain (Loss) From Financial Experience	**(227.0)**	**(243.8)**
Non-recurring Items		
Plan Changes	(12.8)	15.2
Gain (Loss) From Non-recurring Items	**(12.8)**	**15.2**
Total Gain (Loss)	**$ (239.8)**	**$ (228.6)**
Total Gain (Loss) as a % of Actuarial Accrued Liabilities	**(1.1%)**	**(1.1%)**

A: ORGANIZATION

TCDRS is a statewide, agent multiple-employer, public-employee retirement system that provides the employees of participating counties and districts with retirement, disability and survivor benefits. Each county and district that participates in TCDRS maintains its own customized plan of benefits. The governing body of each employer has the option to adopt or change plan provisions based on their needs and budget.

Each employer has a defined benefit plan where member benefits are based on the final total employee savings balance and employer matching. All plan assets are pooled for investment purposes, but each employer's plan assets may be used only for the payment of benefits to the members of that employer's plan. This summary describes the plan provisions in general terms. Any questions related to the actual administration, provisions or policies of the retirement plans should be directed to TCDRS.

B: MEMBERSHIP

All full- and part-time employees must participate in TCDRS, regardless of the number of hours they work in a year or their age. Only those employees who are classified as "temporary" may be excluded from enrollment.

C: TERMINATION OF MEMBERSHIP

TCDRS membership is terminated by death, retirement, withdrawal of account balance or attainment of the age under which distribution must occur under federal law.

D: EMPLOYEE DEPOSITS

A percentage of each employee's paycheck is deposited into his or her TCDRS account. That percentage (from 4% to 7%) is set by the employer. The employee's savings grow at a rate of 7%, compounded annually.

E: SERVICE

Employees receive a month of service for each month that they make a deposit into their account. Service may also be granted for employment during periods prior to the participation of the employer and for military or certain other public service.

F: ELIGIBILITY REQUIREMENTS

Service Retirement Benefits

The amount of service an employee needs to earn a future benefit is called the vesting requirement. When an employee is vested, he or she has the right to a monthly benefit, which includes employer matching, at age 60 or older. Employers may choose 5-, 8- or 10-year vesting. In addition, employees may retire before age 60 if they meet one of the following requirements, set by the employer:

- **"Rule of" eligibility**: Under these rules, a vested employee can retire if their age plus years of service time add up to at least 75 or 80.
- **20-year or 30-year retirement at any age**: This lets employees retire when they have at least 20 or 30 years of service time.

Retirees elect to receive their lifetime benefit by choosing from one of seven actuarially equivalent payment options.

Disability Retirement Benefits

A member who is vested and who is totally and permanently disabled is eligible for a disability retirement benefit. A member who is not vested is eligible for disability retirement benefits if the total and permanent disability was a result of an on-the-job injury.

Survivor Benefits

Benefits are payable to the beneficiaries or estate of a deceased member. The eligibility requirement for an employer-provided survivor benefit is four years of TCDRS service.

Service With Other Employers

Within TCDRS, service with all employers can generally be combined to satisfy service requirements. Service with other Texas public retirement plans participating with TCDRS in the Texas Proportionate Retirement Program may be combined to satisfy TCDRS retirement eligibility and vesting requirements.

G: DETERMINATION OF RETIREMENT BENEFITS

The retirement benefit is calculated based on the employee's account balance and the employer matching. The employer selects a matching rate — at least "dollar for dollar," up to $2.50 per $1.00 in the employee's account. The retiree receives a payment every month for the rest of his or her life.

Retirees elect to receive their lifetime benefit by choosing from one of seven actuarially equivalent payment options. All methods pay a guaranteed lifetime benefit to the retiree; plus, the retiree and his or her beneficiaries are guaranteed to receive total benefit payments at least equal to the retiree's account balance at the time of retirement. The standard form of payment provides a benefit that ceases with the retiree's death. Some of the optional forms of payment continue to pay a lifetime benefit to a beneficiary after the death of the retiree. The beneficiary, whom the retiree designates at the time of retirement, may receive a lifetime payment equal to 100%, 75% or 50% of the amount being paid to the retiree. The percentage depends on the option chosen by the retiree at retirement. Another payment option provides 100% of the retiree's payment to the beneficiary if the retiree passes away first, but "pops up" to the higher standard payment amount should the beneficiary pass away first. Other optional forms of payment continue the full benefit to a designated beneficiary for any remainder of a specified period (10 or 15 years) beginning at retirement.

Each employer has the option of allowing a partial lump-sum payment. This gives the retiring member the option of receiving a reduced monthly benefit and a lump-sum payment not to exceed his or her account balance in the Employees Saving Fund.

H: FUNDING PROVISIONS

Contributions are made monthly by both the employees and the employers based on covered payroll. Dallas County has special funding requirements that meet or exceed the funding standards discussed below.

An employer adopts a plan of benefits from among the various options available. As a part of each valuation, the actuary determines the required contribution rate to adequately fund each employer's benefit plan based on each plan's actuarial experience and future expectations. Employers may also elect to fund at a rate higher than the required rate, and may also make additional lump-sum contributions. In determining an employer's required rate, the UAAL is amortized over a 20-year closed period. Any increases or decreases in the UAAL due to plan changes are amortized over a closed 15-year period. In determining an employer's required rate, overfunded actuarial accrued liabilities are amortized over a 30-year period. In each case, the amortization is calculated based on a level percentage of payroll.

I: CHANGES IN PROVISIONS

There were no new provisions reflected in the Dec. 31, 2011 valuation.

SUMMARY ACTUARIAL VALUATION RESULTS

	Dec. 31, 2011		Dec. 31, 2010	
Valuation Results for Employer Plans				
1 Actuarial present value of future benefits				
Annuitants	$ 2,523,950,037		$ 2,277,716,877	
Members	17,010,024,669		16,308,134,370	
Total	19,533,974,706		18,585,851,247	
2 Actuarial present value of future normal cost contributions	2,803,379,856		2,836,299,901	
3 Actuarial accrued liability [1 - 2]		16,730,594,850		15,749,551,346
4 Actuarial value of assets				
Employees Saving Fund	5,090,724,437		4,810,258,889	
Subdivision Accumulation Fund	9,171,123,424		8,728,736,661	
Total		14,261,847,861		13,538,995,550
5 Total unfunded actuarial accrued liability (UAAL)	2,490,228,607		2,233,511,133	
6 Total overfunded actuarial accrued liability (OAAL)	(21,481,618)		(22,955,337)	
7 Unfunded actuarial accrued liability (UAAL), net of overfunded actuarial accrued liability (OAAL) [5 + 6]. Also equals [3 - 4].		2,468,746,989		2,210,555,796
Valuation Results for Pooled Benefits				
8 Actuarial present value of future benefits from the Current Service Annuity Reserve Fund for annuities in effect	4,678,848,930		4,181,565,778	
9 Actuarial value of assets of the Current Service Annuity Reserve Fund	4,754,524,288		4,269,566,026	
10 Overfunded actuarial accrued liability (OAAL) [8 - 9]		(75,675,358)		(88,000,248)
11 Systemwide UAAL Net of OAAL [7 + 10]		**$ 2,393,071,631**		**$ 2,122,555,548**

ACTUARIAL

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May 18, 2012

Board of Trustees
Texas County & District Retirement System
Austin, Texas

Dear Trustees:

Milliman has performed an actuarial valuation for the Group Term Life Fund (GTLF) which is administered by the Texas County & District Retirement System for purposes of complying with GASB 43/45. The GTLF is an optional cost-sharing multiple-employer defined benefit OPEB plan which provides death benefits to active and, if elected, retired employees of participating subdivisions. This valuation was performed using actuarial assumptions that were adopted by the Board in December 2009. These assumptions were developed by Milliman and reported to the Board in the 2009 Investigation of Experience Study report. We recommended these assumptions to the Board. We believe the assumptions individually and collectively represent reasonable expectations of experience over the long-term future. Nevertheless, the emerging costs of the TCDRS employers will vary from those presented in our report to the extent that actual experience differs from that projected by the actuarial assumptions.

The financing objective of the GTLF is to operate as a group term insured benefit, charging each employer its premium based on current actuarial assumptions and its own demographic membership (number of active and retired members covered by GTLF). The funding of the GTLF is in accordance with Section 845.406 of the TCDRS statute. Contribution rates are established as a percentage of pay.

The GTLF provides death benefits to both active and retired members. Each participating subdivision can elect to cover just active members, or active and retired members. Only those employers that have elected to cover both active members and retired members are included in the actuarial valuation for purposes of the OPEB valuation under GASB 43/45. The required contribution rates are equal to a premium rate which is individually determined for each participating employer annually, and is based on the mortality and service experience of all employees covered by the fund and the demographics specific to the workforce of TCDRS' participating employers. The rate is expressed as a percentage of the compensation of members employed by the participating employer. The required contributions are determined using a one year term cost funding method. However, this method does not meet the parameters under GASB 43/45. Therefore, for purposes of meeting the GASB financial reporting requirements, GTLF retiree benefits are evaluated using the entry age normal cost method. Active accruals are assumed to be equal to the corresponding premium rate.

The GASB required valuation was performed for all counties and districts participating in the retiree benefit for the GTLF based on the plan benefits in effect on January 1, 2012. The results of this valuation are presented in the following tables, as well as Table 13 of the Financial Section. The assumptions and methods used in this valuation are summarized in the actuarial section and are intended to meet the parameters of Governmental Accounting Standards Board Statement No. 43. The member, annuitant and asset data used in the valuation were all prepared and furnished by TCDRS. We relied on that data after examining it for general reasonableness and year-to-year consistency. In addition, we prepared all of the supporting schedules in the actuarial section, the schedule of funding progress and the notes to these schedules in the financial section of the comprehensive annual financial report. Please refer to the December 31, 2011 Summary Actuarial Valuation Report for further disclosures.

Sincerely,

Mark C. Olleman

Mark C. Olleman, FSA, EA, MAAA
Consulting Actuary

Nick J. Collier, ASA, EA, MAAA
Consulting Actuary

Offices in Principal Cities Worldwide

A: ACTUARIAL ASSUMPTIONS AND METHODS

The actuarial assumptions described below for the Group Term Life Fund (Group Term Life), an Other Postemployment Benefit (OPEB) plan, were developed from an actuarial investigation of the experience of TCDRS over the years 2005–2008. They were recommended by Milliman, Inc., adopted by the TCDRS Board of Trustees in 2009 and first used in the Dec. 31, 2009 actuarial valuation. For an explanation of terms used in this section, refer to the Glossary beginning on page 85.

Investment Return Assumption

The rate of return is 7%, which is a statutory allocation and is not dependent on investment earnings.

Actuarial Value of Assets

All assets are valued at fund value. The fund's assets are pooled with those of the Pension Trust Fund under provisions of the TCDRS Act.

Mortality Assumptions

Active Employee Mortality Rates

Beneficiaries of employees who pass away while in active service are eligible for Group Term Life benefits. Mortality rates for employees are shown in Table 3 on page 63.

Retiree Mortality Rates

For calculating the actuarial accrued liability and normal cost, generational mortality is used. For service retirees, the RP-2000 Combined Male Table with an age set forward of one year and Projection Scale AA for Males and the RP-2000 Combined Female Table with no age adjustment and Projection Scale AA for Females are used. For disabled retirees, the RP-2000 Disabled Male Table with an age set forward of two years and Projection Scale AA for Males and the RP-2000 Disabled Female Table with an age set forward of two years and Projection Scale AA for Females are used.

Service Retirement

Members who are eligible for retirement are assumed to commence receiving benefit payments based on age. For eligible members age 75 and older, benefit payments are assumed to commence immediately. Rates are shown in Table 5 on page 64.

Disability Retirement

Members who become disabled are eligible to commence receiving benefit payments regardless of age. Disability rates are shown in Table 4 on page 64. The rates of disablement from all causes are applicable for members who are vested, but not eligible for service retirement. Before a member is vested, only the occupational disability rates are applicable. Rates are assumed to be zero after the member has attained eligibility for service retirement.

Termination of Employment

For TCDRS pension purposes, the rates vary by length of service, entry-age group (age at hire), sex and termination group assignments. The rates exclude termination due to death or disability, and assume that there is no termination after eligibility for retirement. For purposes of the Group Term Life valuation, we assume the middle termination group for the aggregate of all employees covered by the Group Term Life program. The rates are equal to the middle rates shown in Table 1 on page 63.

Probability of Withdrawal

Employees who leave county or district employment may elect either to leave their accounts with TCDRS or withdraw their funds. The probability that a member elects a withdrawal varies by length of service and vesting requirement. Rates are shown in Table 2 on page 63.

Actuarial Cost Method

For the retiree Group Term Life benefit, the entry-age actuarial cost method is used. The normal cost rate used in the valuation was calculated based on all current employees who are covered under the Group Term Life program, but only if the participating employer also covers its retirees. The aggregate normal cost is the ratio of the actuarial present value of projected insurance benefits payable after retirement to the projected salaries of all employees covered by the Group Term Life program.

The unit credit cost method for determining one-year term life insurance is used for the active insurance benefit. Thus, the normal cost is equal to the active premium rate. The total Group Term Life normal cost is the sum of this normal cost and the entry-age normal cost for the retiree insurance benefit.

B: PROVISIONS OF GOVERNING LAW

Eligibility

The county or district must have elected the applicable Group Term Life coverage for the calendar year in which an employee or retiree dies.

Amount of Insurance Benefit

Prior to Retirement

If death occurs while the member is actively employed, the benefit is an amount equal to the employee's most recent regular annualized salary.

After Retirement

The insurance benefit is equal to a single lump-sum payment of $5,000.

TABLE 13: GROUP TERM LIFE — RETIREES COVERED

Year Ended	New Retirees Added	Retirees Removed	Net Change in Retirees	Total Number of Retirees[1]	Percent Change in Number Covered
12/31/06	774	234	540	7,639	7.6%
12/31/07	755	428	327	7,966	4.3
12/31/08	773	225	548	8,514	6.9
12/31/09	986	261	725	9,239	8.5
12/31/10	1,071	245	826	10,065	8.9
12/31/11	555	4,806	(4,251)	5,814	(42.2)

[1] A single individual may have coverage with more than one participating employer.

TABLE 14: GROUP TERM LIFE — RETIREES COVERAGE AMOUNTS

Year Ended	New Annual Coverage Added	Annual Coverage Removed	Net Change in Annual Coverage Amount	Annual Coverage Amount[1]	Percent Change in Annual Coverage	Average Annual Coverage Per Member
12/31/06	$3,870,000	$1,170,000	$2,700,000	$ 38,195,000	7.6%	$ 5,000
12/31/07	3,775,000	2,140,000	1,635,000	39,830,000	4.3	5,000
12/31/08	3,865,000	1,125,000	2,740,000	42,570,000	6.9	5,000
12/31/09	4,930,000	1,305,000	3,625,000	46,195,000	8.5	5,000
12/31/10	5,355,000	1,225,000	4,130,000	50,325,000	8.9	5,000
12/31/11	2,775,000	24,030,000	(21,255,000)	29,070,000	(42.2)	5,000

[1] A single individual may have coverage with more than one participating employer.

TABLE 15: GROUP TERM LIFE SOLVENCY TEST

($ Millions)

Valuation Date	Actuarial Accrued Liabilities for: (1) Current Member Deposits	(2) Retirees and Beneficiaries	(3) Current Members (Employer-Financed Portion)	Actuarial Value of Assets	Portion of Actuarial Accrued Liabilities Covered by Net Assets: (1)	(2)	(3)
12/31/06	N/A	$ 15.63	$ 11.84	$ 8.40	N/A	53.7%	0.0%
12/31/07	N/A	16.51	12.86	10.19	N/A	61.7	0.0
12/31/08	N/A	17.46	13.67	12.19	N/A	69.8	0.0
12/31/09	N/A	18.33	13.77	15.30	N/A	83.5	0.0
12/31/10	N/A	19.85	14.07	19.30	N/A	97.2	0.0
12/31/11	N/A	12.03	8.59	22.00	N/A	100.0	100.0

N/A = Not Applicable

Presented above is one short-term means of checking a system's progress under its funding program. The present assets are compared with: (1) current member contributions on deposit; (2) the liabilities for future benefits to current retirees and beneficiaries; and (3) the employer-financed portion of the liabilities for service already rendered by current members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for current member contributions on deposit (liability 1) and the liabilities for future benefits to current retirees and beneficiaries (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the employer-financed portion of liabilities for service already rendered by current members (liability 3) will be at least partially covered by the remainder of present assets.

TABLE 16: GROUP TERM LIFE PARTICIPATING EMPLOYERS AND ACTIVE MEMBERS[1]

Valuation Date	Number of Participating Employers	Covered Members: Number	Covered Members: Annual Payroll	Average Annual Pay	Percent Increase in Average Annual Pay	Average Employer Contributions	Employer Rate
12/31/06	241	43,924	$ 1,679,963,510	$ 38,247	3.9%	$ 5,231,646	0.31%
12/31/07	247	46,454	1,853,979,012	39,910	4.3	5,983,265	0.32
12/31/08	258	47,628	1,971,014,015	41,384	3.7	6,522,399	0.33
12/31/09	266	49,264	2,112,821,143	42,888	3.6	7,130,058	0.34
12/31/10	270	48,061	2,105,375,212	43,806	2.1	7,340,463	0.35
12/31/11	269	32,499	2,064,853,871	39,190	(10.5)	5,927,549	0.29

[1] Includes only employers that participate in the Group Term Life program.

READER'S NOTES

Sound pension plans, like TCDRS, benefit everyone.

Statistical

INTRODUCTION

The Statistical Section provides additional detail to assist you in interpreting the information in the Financial Statements, Notes to Financial Statements and Required Supplementary Information. The information is presented in two main categories: Financial Trends Data and Demographic and Operating Information.

The Financial Trends Data illustrates how TCDRS' financial position has changed over time. The changes in net assets for the last 10 fiscal years show additions by source, deductions by type, and the total change in Pension Trust Fund and the Group Term Life Fund (GTLF) net assets for each year. The pension benefit expenses by type gives data on benefits paid and withdrawal deductions for the last 10 fiscal years.

The Demographic and Operating Information provides details about TCDRS' operations and membership. The schedule of New Retiree Average Benefits gives the average monthly benefit and number of retired members, organized by five-year increments of credited service, for the last 10 fiscal years. Data is given for both pension benefits and for GTLF benefit payments. This section also includes information on the number of annuitants grouped by age and by type of benefits, along with a description of the retirement payment options. The schedule of largest participating employers compares the number of current members for those employers for the most recent year-end and as of nine years ago.

TABLE 1: CHANGES IN NET ASSETS, LAST TEN FISCAL YEARS

Pension Trust Fund	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Additions										
Employee Deposits	$ 224,387,814	$ 235,662,740	$ 249,968,480	$ 259,406,309	$ 278,179,477	$ 303,430,433	$ 332,040,768	$ 354,627,084	$ 357,797,427	$ 347,995,322
Employer Contributions	291,313,309	315,637,689	338,116,653	343,108,520	382,318,020	430,335,867	460,635,617	510,261,262	550,102,572	570,562,898
Total Net Investment Income (Loss)	110,578,992	1,793,165,259	1,384,420,848	900,637,780	1,873,559,211	1,226,671,070	(5,052,167,722)	3,285,201,407	1,980,909,842	(208,287,663)
Other Additions	1,765,891	1,827,396	1,760,962	2,040,623	1,061,744	1,243,332	1,284,521	1,357,102	1,410,153	1,402,399
Total Additions	**628,046,006**	**2,346,293,084**	**1,974,266,943**	**1,505,193,232**	**2,535,118,452**	**1,961,680,702**	**(4,258,206,816)**	**4,151,446,855**	**2,890,219,994**	**711,672,956**
Deductions										
Benefits Paid:										
Service retirements	263,809,988	298,914,757	331,771,825	373,973,847	415,434,027	462,436,351	507,344,095	564,892,564	619,134,926	701,095,589
Disability retirements	9,850,998	10,527,831	11,286,878	11,938,508	12,536,673	12,991,513	13,297,812	13,870,874	14,176,535	14,702,551
Total Benefits Paid	273,660,986	309,442,588	343,058,703	385,912,355	427,970,700	475,427,864	520,641,907	578,763,438	633,311,461	715,798,140
Withdrawals:										
Separation	53,802,941	56,608,902	58,344,802	63,552,951	64,234,638	64,927,703	61,781,877	55,060,952	63,952,250	79,979,067
Death/Ineligible	714,892	389,193	806,323	349,447	557,880	744,887	1,198,103	777,907	1,221,183	1,203,984
Total Withdrawals	54,517,833	56,998,095	59,151,125	63,902,398	64,792,518	65,672,590	62,979,980	55,838,859	65,173,433	81,183,051
Administrative and Building Operations Expenses	8,379,382	9,831,601	12,223,085	11,731,184	11,100,215	12,093,768	12,746,067	15,202,472	16,362,612	17,009,339
Interest Allocation to Group Term Life Fund	233,155	250,456	307,668	398,799	505,046	603,773	747,465	920,949	1,152,389	1,376,030
Payments to Terminating Employers	—	—	—	—	2,562,808	351,055	22,900	—	—	—
Total Deductions	**336,791,356**	**376,522,740**	**414,740,581**	**461,944,736**	**506,931,287**	**554,149,050**	**597,138,319**	**650,725,718**	**715,999,895**	**815,366,560**
Change in Net Assets	**$ 291,254,650**	**$1,969,770,344**	**$1,559,526,362**	**$1,043,248,496**	**$2,028,187,165**	**$1,407,531,652**	**$(4,855,345,135)**	**$3,500,721,137**	**$2,174,220,099**	**$ (103,693,604)**

Group Term Life Fund	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Additions										
Employer Premiums	$ 3,703,200	$ 4,118,605	$ 4,405,520	$ 4,735,938	$ 5,231,646	$ 5,983,265	$ 6,522,399	$ 7,130,058	$ 7,340,463	$ 5,927,549
Income Allocation from Pension Trust Fund	233,155	250,456	307,668	398,799	505,046	603,773	747,465	920,949	1,152,389	1,376,030
Total Additions	**3,936,355**	**4,369,061**	**4,713,188**	**5,134,737**	**5,736,692**	**6,587,038**	**7,269,864**	**8,051,007**	**8,492,852**	**7,303,579**
Deductions										
Insurance Benefits	4,319,960	3,551,947	3,753,885	3,431,285	4,282,636	4,579,865	5,269,548	4,946,963	4,537,617	4,852,898
Total Deductions	**4,319,960**	**3,551,947**	**3,753,885**	**3,431,285**	**4,282,636**	**4,579,865**	**5,269,548**	**4,946,963**	**4,537,617**	**4,852,898**
Change in Net Assets	**$ (383,605)**	**$ 817,114**	**$ 959,303**	**$ 1,703,452**	**$ 1,454,056**	**$ 2,007,173**	**$ 2,000,316**	**$ 3,104,044**	**$ 3,955,235**	**$ 2,450,681**

FINANCIAL TRENDS DATA

FIGURE 1: ADDITIONS BY SOURCE — 2011

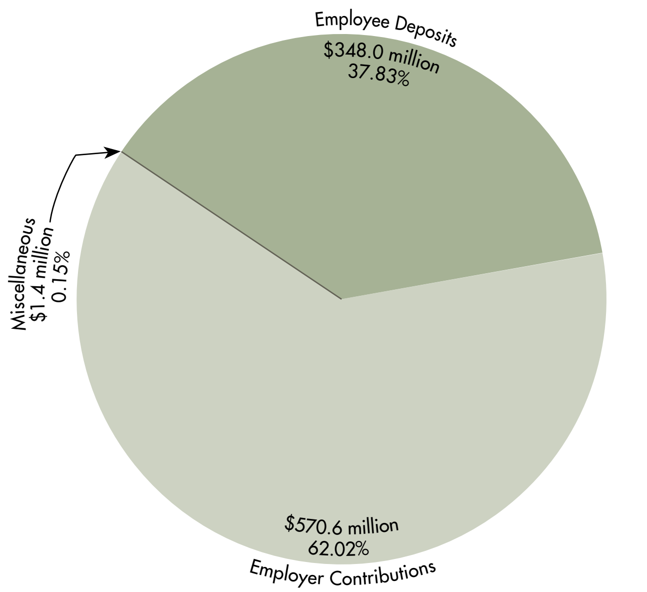


FIGURE 2: DEDUCTIONS BY TYPE — 2011

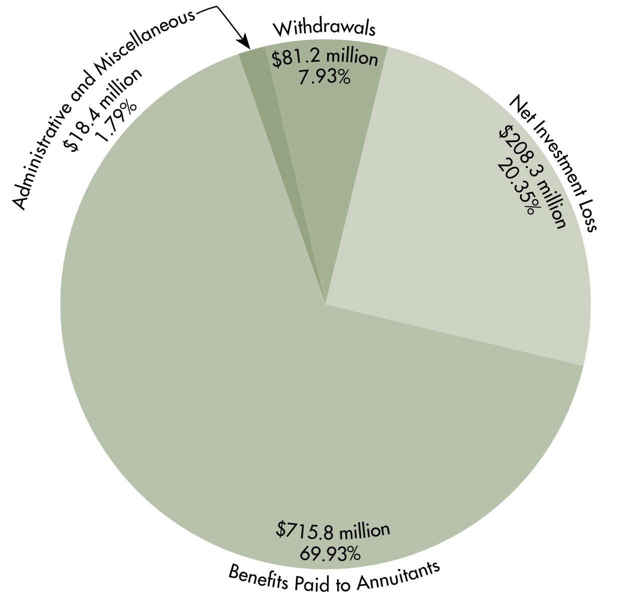


FIGURE 3: BENEFIT EXPENSES BY TYPE

($ Millions)

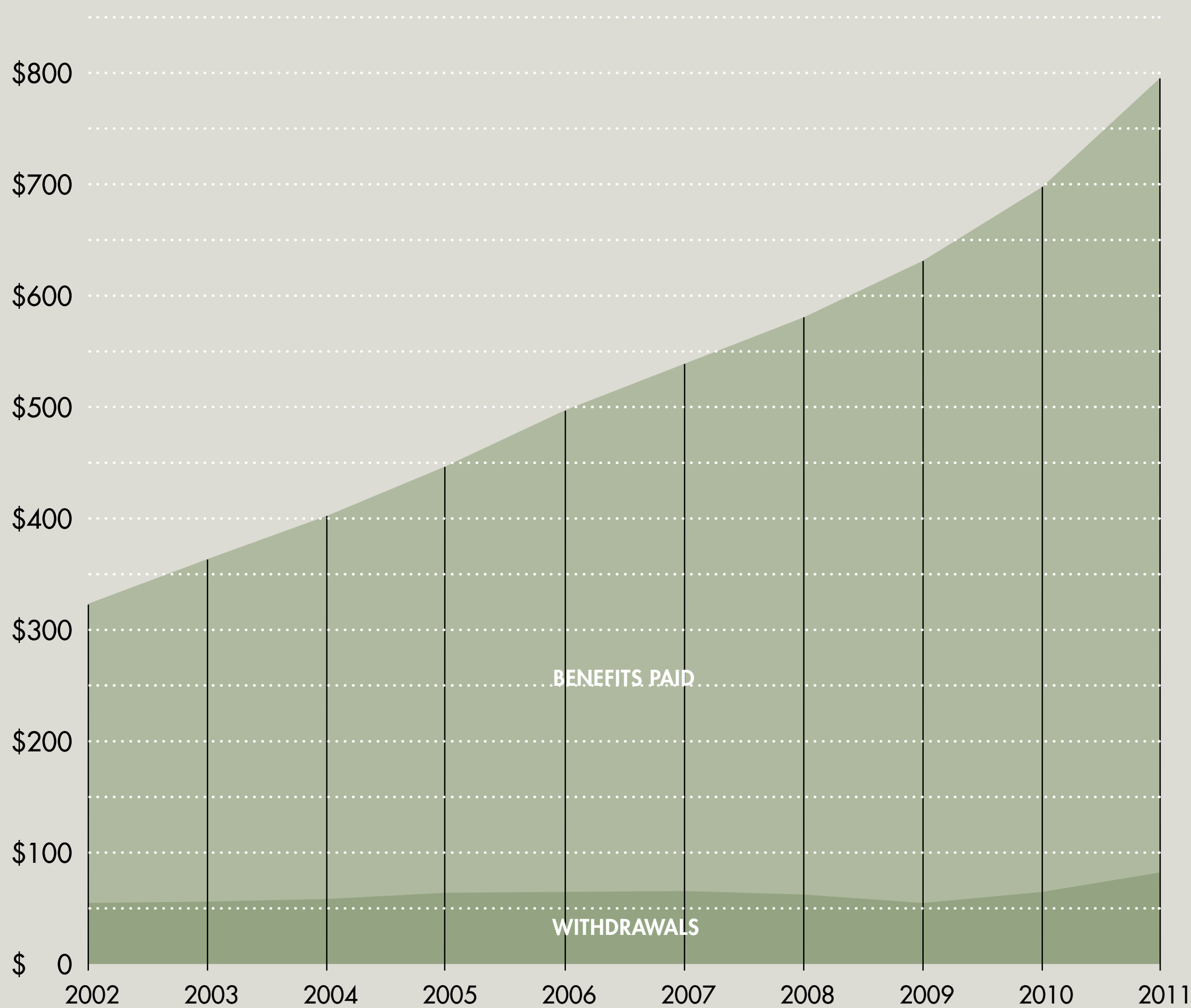


TABLE 2: BENEFIT AT RETIREMENT FOR RECENT RETIREES

This schedule reports the number and average monthly benefit at retirement for recent retirees grouped by years of credited service and year of retirement.

	Years of Credited Service						
	0–5	5–10	10–15	15–20	20–25	25–30	30+
2002							
Average Monthly Benefit	$211	$479	$794	$1,235	$1,804	$2,712	$3,041
Number of Annuitants	174	362	480	404	473	235	147
2003							
Average Monthly Benefit	$216	$521	$875	$1,235	$1,836	$2,530	$3,445
Number of Annuitants	160	355	463	403	390	223	130
2004							
Average Monthly Benefit	$238	$488	$942	$1,322	$1,845	$2,563	$3,370
Number of Annuitants	197	378	562	435	549	309	160
2005							
Average Monthly Benefit	$211	$535	$878	$1,312	$1,801	$2,575	$3,269
Number of Annuitants	196	347	481	470	506	266	141
2006							
Average Monthly Benefit	$246	$537	$923	$1,367	$1,834	$2,693	$3,715
Number of Annuitants	197	421	497	493	535	383	173
2007							
Average Monthly Benefit	$208	$593	$919	$1,344	$1,968	$2,671	$3,768
Number of Annuitants	231	378	492	427	490	351	181
2008							
Average Monthly Benefit	$184	$630	$961	$1,446	$2,023	$2,883	$4,353
Number of Annuitants	243	440	527	479	511	400	247
2009							
Average Monthly Benefit	$230	$608	$1,009	$1,503	$1,998	$3,059	$4,096
Number of Annuitants	268	421	513	439	474	392	220
2010							
Average Monthly Benefit	$237	$731	$1,026	$1,604	$2,190	$3,192	$4,463
Number of Annuitants	400	538	639	557	616	573	342
2011							
Average Monthly Benefit	$256	$683	$1,064	$1,558	$2,376	$3,206	$4,712
Number of Annuitants	412	569	651	546	652	477	356

Note: TCDRS is not a final average salary-type plan. It functions similarly to a cash balance account plan, therefore final average salary data is not presented.

TABLE 3: AVERAGE BENEFITS

This schedule reports the average benefit for retirees and for all retirees and beneficiaries.[1]

	Retirees Only		All Payees	
As of Dec. 31,	Monthly	Annually	Monthly	Annually
2006	$ 1,243	$ 14,916	$ 1,166	$ 13,992
2007	1,295	15,540	1,213	14,556
2008	1,357	16,284	1,272	15,264
2009	1,397	16,764	1,310	15,720
2010	1,465	17,580	1,372	16,464
2011	1,526	18,312	1,427	17,124

[1] In cases of retirees with multiple accounts from a single employer, the accounts are considered as a single benefit. Benefits from multiple employers to a single retiree are calculated as multiple benefits.

TABLE 4: AVERAGE BENEFIT PROFILE BY EMPLOYER TYPE

As of Dec. 31, 2011

	Retirees Only		All Payees	
	Monthly	Annually	Monthly	Annually
Counties	$ 1,560	$ 18,720	$ 1,455	$ 17,460
Districts	1,225	14,700	1,172	14,064

TABLE 5: ANNUITANTS BY TYPE OF BENEFIT

	Annuitants		Retirement Option Selected								
Amount of Monthly Benefit	Retiree	Beneficiary	Single Life	100% to Beneficiary	100% to Beneficiary with Pop-Up	75% to Beneficiary	50% to Beneficiary	25% to Beneficiary[1]	15-year Guaranteed	10-year Guaranteed	5-year Guaranteed[1]
$ 0 - 499	8,154	3,136	3,967	3,167	934	285	893	168	1,150	544	182
500 - 999	9,016	1,882	4,046	2,855	1,044	336	960	89	895	493	180
1,000 - 1,499	6,124	853	2,390	1,713	871	260	741	80	518	281	123
1,500 - 1,999	4,064	460	1,611	1,035	541	237	491	60	291	177	81
2,000 - 2,499	2,921	247	1,096	758	383	148	442	22	178	99	42
2,500 - 2,999	1,962	137	763	462	274	122	248	12	119	73	26
3,000 - 3,499	1,385	93	506	337	199	82	195	11	89	43	16
3,500 - 3,999	866	50	334	193	118	48	120	6	55	31	11
4,000 - 4,499	652	27	238	156	88	31	91	6	37	28	4
4,500 - 4,999	430	20	172	82	52	23	80	1	23	13	4
5,000 - 5,499	333	14	114	68	43	32	59	2	12	14	3
5,500 - 5,999	212	10	89	44	25	14	32	1	13	3	1
6,000 & Over	563	24	187	123	56	53	96	7	40	22	3
Subtotals	36,682	6,953	15,513	10,993	4,628	1,671	4,448	465	3,420	1,821	676
Totals	**43,635**						**43,635**				

[1] Retirement payment option is no longer available to new retirees.

RETIREMENT BENEFIT PAYMENT OPTIONS

All options pay the retiree a monthly benefit for life and, when a retiree passes away, guarantee that the total benefit paid will equal, at a minimum, the total accumulated contributions of the retiree.

Single Life

Payments cease upon the death of the retiree.

15-year Guaranteed Term

If the retiree dies within 15 years of retirement, the beneficiary will receive the same monthly payment as the retiree for the balance of the 15-year period, at which time payments cease.

10-year Guaranteed Term

If the retiree dies within 10 years of retirement, the beneficiary will receive the same monthly payment as the retiree for the balance of the 10-year period, at which time payments cease.

50% to Beneficiary

At the death of the retiree, the beneficiary will receive 50% of the retiree's monthly payment throughout the beneficiary's life.

75% to Beneficiary

At the death of the retiree, the beneficiary will receive 75% of the retiree's monthly payment throughout the beneficiary's life.

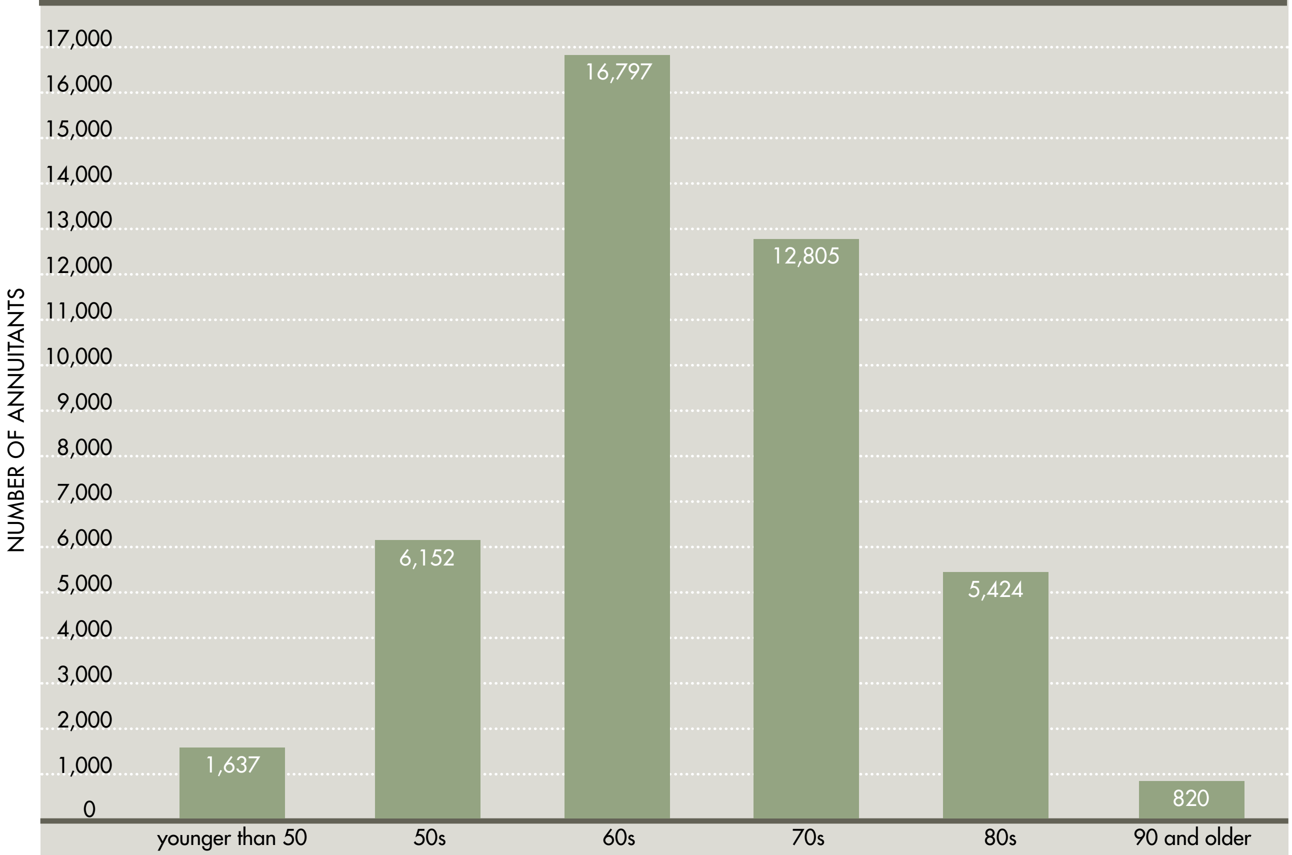
100% to Beneficiary

At the death of the retiree, the beneficiary will receive 100% of the monthly amount paid to the retiree throughout the beneficiary's life.

100% to Beneficiary with Pop-Up

If the beneficiary survives the retiree, monthly payments equal to 100% of the monthly amount paid to the retiree continue to the beneficiary for life. If the retiree outlives the beneficiary, the monthly payment amount will increase (pop-up) after the beneficiary's death to the higher amount of the Single Life option.

FIGURE 4: NUMBER OF ANNUITANTS GROUPED BY AGE



Note: There are 43,635 total annuitants, including both retirees and beneficiaries.

TABLE 6: LARGEST PARTICIPATING EMPLOYERS — CURRENT YEAR AND NINE YEARS AGO

	2011			2002		
Employer	Number of Current Employee Accounts	Rank	% of Total System	Number of Current Employee Accounts	Rank	% of Total System
Harris County	14,650	1	12.0%	14,006	1	13.8%
Dallas County	6,763	2	5.5%	5,796	2	5.7%
Travis County	5,060	3	4.2%	4,079	4	4.0%
Bexar County	4,871	4	4.0%	4,460	3	4.4%
Tarrant County	4,394	5	3.6%	4,045	5	4.0%
Hidalgo County	2,990	6	2.5%	2,108	7	2.1%
El Paso County	2,840	7	2.3%	2,666	6	2.6%
Fort Bend County	2,481	8	2.0%	1,602	8	1.6%
El Paso Co. Hospital District	2,395	9	2.0%	1,559	9	1.5%
Montgomery County	2,091	10	1.7%	1,401	12	1.4%
All others	73,384		60.2%	59,693		58.9%
Totals	**121,919**		**100.0%**	**101,415**		**100.0%**

STATISTICAL

TABLE 7: AVERAGE BENEFIT PAYMENTS (GTLF)

This schedule reports the number of GTLF insurance payments and the average benefits paid.

	Active	Retirees
2002		
Average Benefit Payment	$31,332	$4,733
Number of Payments	106	211
2003		
Average Benefit Payment	$35,849	$4,988
Number of Payments	70	209
2004		
Average Benefit Payment	$31,810	$5,000
Number of Payments	85	210
2005		
Average Benefit Payment	$31,353	$4,989
Number of Payments	73	229
2006		
Average Benefit Payment	$33,291	$5,000
Number of Payments	95	224
2007		
Average Benefit Payment	$36,459	$5,000
Number of Payments	89	267
2008		
Average Benefit Payment	$37,068	$5,000
Number of Payments	111	231
2009		
Average Benefit Payment	$39,161	$5,000
Number of Payments	93	261
2010		
Average Benefit Payment	$36,918	$5,000
Number of Payments	90	243
2011		
Average Benefit Payment	$30,026	$5,000
Number of Payments	113	292

ABSOLUTE RETURN INVESTMENTS

Absolute return investments, commonly known as "hedge funds," are designed to make money regardless of whether markets go up or down. They capture the difference in prices between similar securities by owning one and selling the other.

ACCRUED BENEFIT

An individual's benefit, based on compensation and service, as of a specific date.

ACTUARIAL ACCRUED LIABILITY

The portion, as determined by the actuarial cost method, of the Actuarial Present Value of pension plan benefits and expenses that is not provided for by future Normal Costs.

ACTUARIAL ASSUMPTIONS

In order to estimate the cost of funding benefits, the actuaries use long-term assumptions. Examples include, mortality, termination, disablement and retirement; changes in salary; payroll growth; investment returns and other relevant items. Actuarial assumptions are adopted by the board of trustees upon recommendation of the consulting actuaries. The assumptions are reviewed every four years.

ACTUARIAL GAIN (LOSS)

The difference between actual results and what was projected to happen based on Actuarial Assumptions during the period between annual Actuarial Valuations.

ACTUARIAL PRESENT VALUE

The calculated value of a series of projected cash flows expressed in present day dollars as of the valuation date using actuarial assumptions.

ACTUARIAL VALUATION

The process to calculate the employer contribution rate. This process determines the Normal Cost, Actuarial Accrued Liability, Actuarial Value of Assets and Actuarial Present Values.

ACTUARIAL VALUE OF ASSETS

The value of cash, investments and other property belonging to a pension plan, as used by the actuary for the purpose of an Actuarial Valuation.

ACTUARIALLY EQUIVALENT PAYMENT OPTIONS

Different benefit payment options that pay different amounts per month, but are of equal value at the time the option is selected.

BARCLAYS AGGREGATE BOND INDEX

This index, formerly the Lehman Brothers Aggregate Index, incorporates all domestic debt issues with maturities greater than one year and in amounts greater than $1 million. Included are publicly issued, nonconvertible, domestic debt issues of the U.S. government and its agencies and corporations in industrial, utility or financial segments.

BARCLAYS U.S. TIPS INDEX

This index, the Lehman U.S. TIPS, consists of inflation-protected securities issued by the U.S. Treasury. Securities must be fixed rate with at least $250 million of par outstanding and at least one year to final maturity. They must also be rated investment-grade (Baa3/BBB- or higher) by at least two of the three ratings agencies (Moody's, S&P, or Fitch).

BASIC BENEFIT

Benefits attributable to the member's accumulated deposits and an equal matching amount provided by the employer.

BENCHMARK PORTFOLIOS

Portfolios represented by specific indices that are created for the purpose of measuring the relative performance of investment managers, asset classes and, in the case of the Policy Benchmark Portfolio, the entire TCDRS portfolio. Data regarding performance of these benchmark portfolios during any period indicate the returns that were available during the period for comparable investments that were passively managed. Comparisons indicate the value added by each manager, if any, in excess of the performance that was experienced by the specific benchmark index.

CITIGROUP HIGH-YIELD CASH-PAY CAPPED INDEX

This index includes cash-pay bonds with a below-investment-grade rating by both Moody's Investor Services and Standard & Poor's. The bonds must have a maturity of at least one year and a minimum amount outstanding of $100 million. The par value of individual issuers is capped at $5 billion par outstanding.

COMMODITIES

Investment in resources that can be perishable (grains, sugar, etc.) and non-perishable (metals, energy, etc.). Commodities provide protection against inflation and have low correlation to stocks and other asset classes.

DISTRESSED DEBT

Distressed debt investments are investments in partnerships that purchase the debt of companies experiencing financial distress ranging from deteriorating financial conditions to bankruptcy. Strategies employed include trading, participating in restructuring transactions and controlling bankruptcy proceedings.

DOW JONES U.S. SELECT REAL ESTATE SECURITIES INDEX

Dow Jones calculates and publishes this index as a measure of the real estate market's performance.

DOW JONES U.S. TOTAL STOCK MARKET INDEX

This index is one of the broadest measures of domestic equity performance since it is computed based upon all equity trades of U.S. stocks during any day. Each company included within the index is not equally weighted within the index, but rather is weighted according to its market value among the market values of all U.S. companies.

EMPLOYER REQUIRED CONTRIBUTION RATE

The percentage of payroll the employer is required to contribute to fund future benefits for their current employees, former employees and retirees. It is the sum of the Normal Cost Contribution Rate and the Unfunded Actuarial Accrued Liability Contribution Rate.

ENTRY-AGE ACTUARIAL COST METHOD

An actuarial cost method under which the Actuarial Present Value of the Projected Benefits of each individual included in an Actuarial Valuation is allocated on a level basis over the earnings or service of the individual between entry age and assumed exit ages. The portion of this Actuarial Present Value allocated to a valuation year is called the Normal Cost. The portion of this Actuarial Present Value not provided for at a Valuation Date by the Actuarial Present Value of future Normal Costs is called the Actuarial Accrued Liability.

FTSE EPRA/NAREIT GLOBAL REAL ESTATE INDEX

This index, developed by The Financial Times and London Stock Exchange (FTSE) in conjunction with the European Public Real Estate Association (EPRA) and National Association of Real Estate Investment Trusts (NAREIT) includes worldwide listed stocks of income-producing real estate.

FTSE NAREIT ALL EQUITY REIT INDEX

This index gives a broad exposure to U.S. publicly traded equity REITs in every property sector.

HEDGE FUND RESEARCH INSTITUTE (HFRI) FUND OF FUNDS COMPOSITE INDEX

This index consists of over 650 funds with each managing a group of diverse hedge funds. Each fund of funds has at least $50 million under management or has been actively trading for at least twelve months. The index includes both domestic and offshore funds that offer diverse strategies. All constituent funds report returns net of fees on a monthly basis.

HIGH-YIELD DEBT

Domestic fixed-income securities that have not been highly rated by national rating agencies, such as Moody's Investors Service (Moody's) or Standard & Poor's (S&P). A security is considered a high-yield bond if it is rated below Baa3 by Moody's or below BBB- by S&P. To pay for the risk, the interest rates earned are higher than investment-grade bonds.

INVESTMENT-GRADE FIXED-INCOME

The investment-grade fixed-income portfolio consists of debt securities issued by the U.S. Treasury or an agency or government-sponsored entity (GSE) of the United States (U.S. governments); mortgage-related instruments, including collateralized mortgage obligations (CMOs) and real estate mortgage investment conduits (REMICs); U.S. dollar-denominated fixed-income securities issued by U.S. and foreign corporations; and U.S. dollar-denominated debt issued by foreign governments and supranationals. Additionally, these portfolios may contain minimal investments in short-term instruments, non-rated securities, private placement securities, convertible bonds and preferred stock. The portfolio should exhibit an overall dollar-weighted average quality rating of AA.

MERRILL LYNCH HIGH YIELD MASTER II CONSTRAINED INDEX

This index replicates the characteristics of the Merrill Lynch High Yield Master II Index except that it caps the market capitalization of any single issuer at 2% of the total.

MSCI EAFE INDEX (EUROPE, AUSTRALASIA, FAR EAST)

This index, prepared by Morgan Stanley Capital International (MSCI), is designed to measure developed market equity performance excluding the United States and Canada.

MSCI WORLD EX U.S.

This index, prepared by Morgan Stanley Capital International (MSCI), is designed to measure developed market equity performance excluding the United States.

NCREIF (NATIONAL COUNCIL OF REAL ESTATE INVESTMENT FIDUCIARIES) PROPERTY INDEX

This index is a quarterly time series composite, total rate of return measure of investment performance of a large pool of commercial real estate properties acquired in the private market for investment purposes only.

NORMAL COST

The portion of the Actuarial Present Value of pension plan benefits and expenses that is allocated to a valuation year by the actuarial cost method.

NORMAL COST CONTRIBUTION RATE

This is the rate required to fund current employees' benefits over their projected careers. It is equal to the Actuarial Present Value at hire of Projected Benefits divided by the Actuarial Present Value at hire of anticipated future compensation. It is calculated for each contributing member and the average is weighted by compensation.

OPPORTUNISTIC CREDIT

Comprises investments primarily in debt instruments that provide return opportunities resulting from dislocations in capital markets.

OVERFUNDED ACTUARIAL ACCRUED LIABILITY (OAAL)

The excess, if any, of the Actuarial Value of Assets over the Actuarial Accrued Liability.

PLAN YEAR

The period from Jan. 1 to Dec. 31 inclusive.

PRIOR SERVICE BENEFITS

Benefits attributable to an amount provided by the employer for service rendered by an employee prior to employer participation in TCDRS.

PRIVATE EQUITY

Private partnerships that (a) take public companies private in order to improve their operations and resell them in the future; (b) invest in start-up companies with new ideas or technologies; and (c) invest in both traditional and renewable energy discovery and production.

PRIVATE REAL ESTATE

Non-publicly traded vehicles that invest in a broad array of real estate properties and ventures. Private real estate investments are expected to be very illiquid and long term in nature. The vehicles for private real estate investments are typically partnerships, but may also include other entities such as limited liability companies or offshore corporations.

PROJECTED BENEFITS

Retirement benefit amounts that are estimated to be paid at various future times under a particular set of Actuarial Assumptions, taking into account such factors as the effect of advancement in age, and past and anticipated future compensation and service time.

REITS

Real estate investment trusts are companies that own and operate income-producing real estate, such as commercial office buildings, apartments, malls, warehouses and storage facilities. Under provisions of the U.S. tax law, if REITs pay out most of their income, they do not pay income taxes. This means higher income earnings along with any increase in the value of the real estate.

TIPS

Treasury Inflation-Protected Securities are bonds issued by the U.S. Treasury just like other U.S. government bonds. However, the principal amount of TIPS increases with the rate of inflation so that inflation does not decrease the value of the bond. They provide a way to protect against inflation.

UNFUNDED ACTUARIAL ACCRUED LIABILITY (UAAL)

The excess, if any, of the Actuarial Accrued Liability over the Actuarial Value of Assets.

UNFUNDED ACTUARIAL ACCRUED LIABILITY CONTRIBUTION RATE

The amount needed to amortize the Unfunded Actuarial Accrued Liability over a closed period of 20 years, expressed as a percent of payroll. If the plan has an Overfunded Actuarial Accrued Liability, it is amortized over an open period of 30 years, and the resulting negative Unfunded Actuarial Accrued Liability Contribution Rate is offset against the Normal Cost Contribution Rate.

VENTURE ECONOMICS POOLED TW RETURNS FOR U.S. PRIVATE EQUITY INDEX

This index is calculated by Thomson Reuters using quarterly statistics from over 2,000 U.S. private equity partnerships. The underlying cash flows from all constituent funds are combined to calculate a time-weighted, net-of-fees rate of return for the index.

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