Comprehensive Annual FINANCIAL REPORT

For the years ended December 31, 2013 and 2012

Texas County & District Retirement System

TCDRS: Providing a bridge to retirement for Texans

The transition from the working world to retirement can seem like crossing a deep divide for many. Moving from a stable work environment to the unknowns of retirement can be a frightening proposition without planning and a solid financial foundation. The Texas County & District Retirement System (TCDRS) provides a sturdy bridge for thousands of Texans as they pass from one phase of their lives to the next.

This year's CAFR uses the Regency Bridge over the Colorado River between San Saba and Mills counties to illustrate our theme this year. Suspension bridges are engineering marvels that can efficiently carry heavy loads over long distances.

The basis of a suspension bridge is its foundation on solid engineering principles. The design includes multiple features that provide a secure crossing for residents and commerce.

For a typical suspension bridge, the structure is simple, yet strong — spreading its weight over the many parts. It all comes together through the connection of multiple components with the main cables. These main cables offer support to the road deck that serves the community.

Like a well-designed suspension bridge, TCDRS is a model of efficiency, strength and longevity.

Photos by Gerald McLeod and Kelly E. Lindner

Comprehensive Annual Financial Report

For the years ended December 31, 2013 and 2012

Texas County & District Retirement System

901 MoPac Expwy. South • Barton Oaks Plaza IV, Suite 500 • Austin, TX 78746

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

On the cover:

For more than 75 years the Regency Bridge has provided a vital commercial link over the Colorado River for Central Texas farmers and ranchers. One local resident says that the bridge reduces his daily commute by 25 miles.

Named for the former farming community on the Mills County side, the $30,000 bridge was paid for by Mills and San Saba counties and built almost entirely by hand. In 1939, workmen completed the 403-foot-long bridge, just shy of three years after a flood washed away the previous bridge. The 16-foot-wide wooden plank deck is supported by four 3.25-inch-thick steel cables comprised of 475 strains of wire.

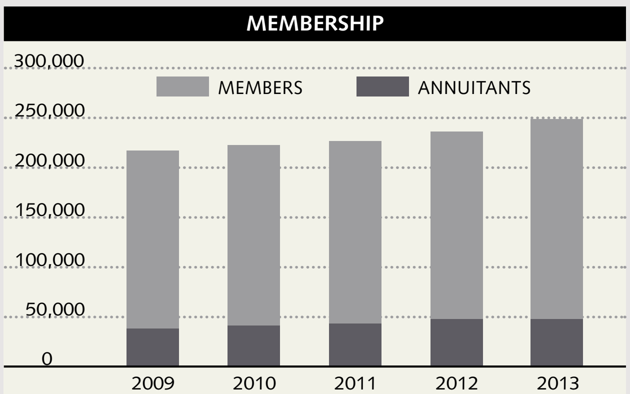
Then Gov. George W. Bush attended the rededication of the bridge after it was restored in 1997. The bridge is still maintained by the two counties. On most weekends, visitors flock to the Regency Bridge for a chance to drive or walk across the last suspension bridge in Texas open to vehicular traffic.

Cover photo by Gerald McLeod

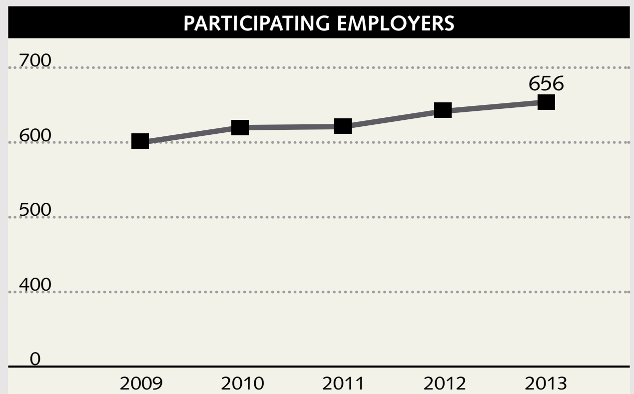
TCDRS: AT A GLANCE

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

SERVING OUR MEMBERSHIP

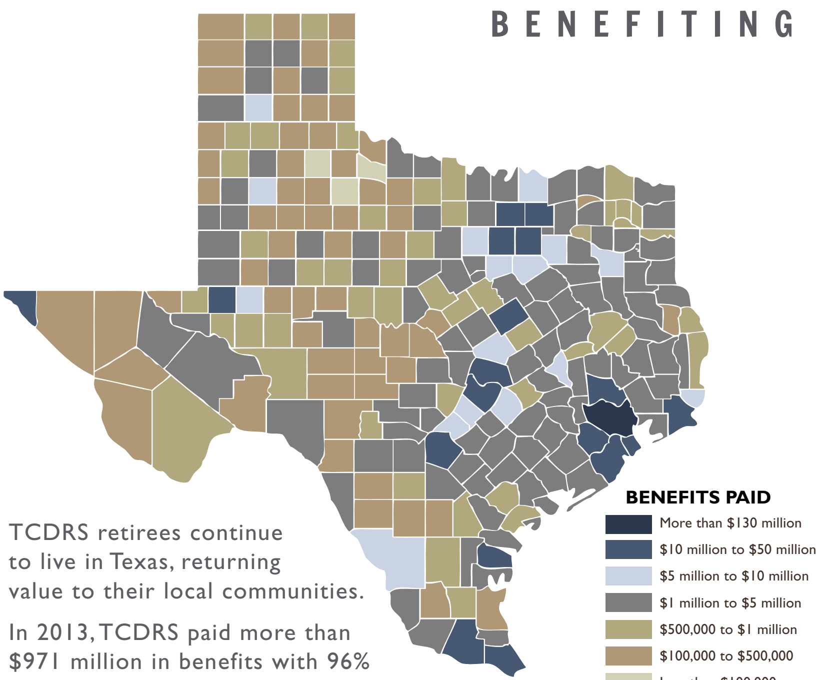


We serve a membership of more than 247,000, including nearly 50,000 retirees and beneficiaries.



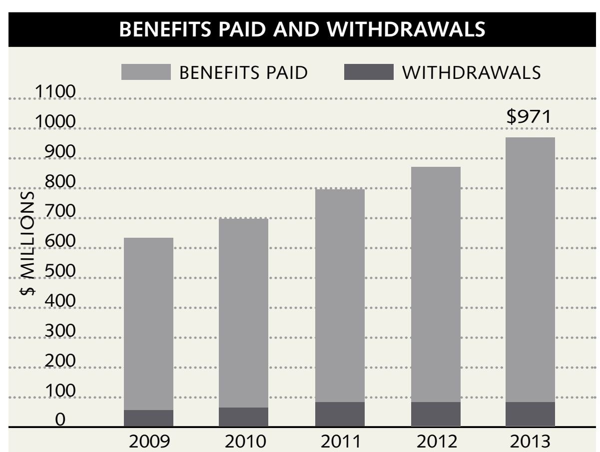
Since 1967, the system has grown to include 656 counties and districts.

BENEFITING TEXAS



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

In 2013, TCDRS paid more than $971 million in benefits with 96% staying in Texas.

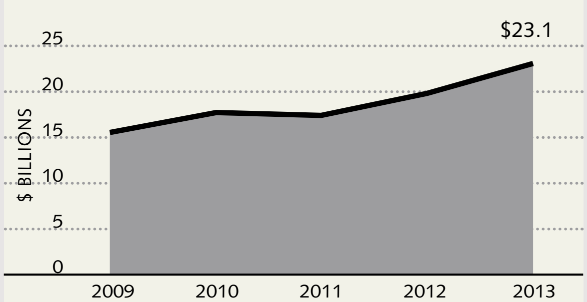


RETIREE PROFILE (as of Jan. 1, 2014)

Average Age at Retirement	Average Years of Service	Average Annual Benefit
61	17	$19,548

INVESTING FOR THE LONG TERM

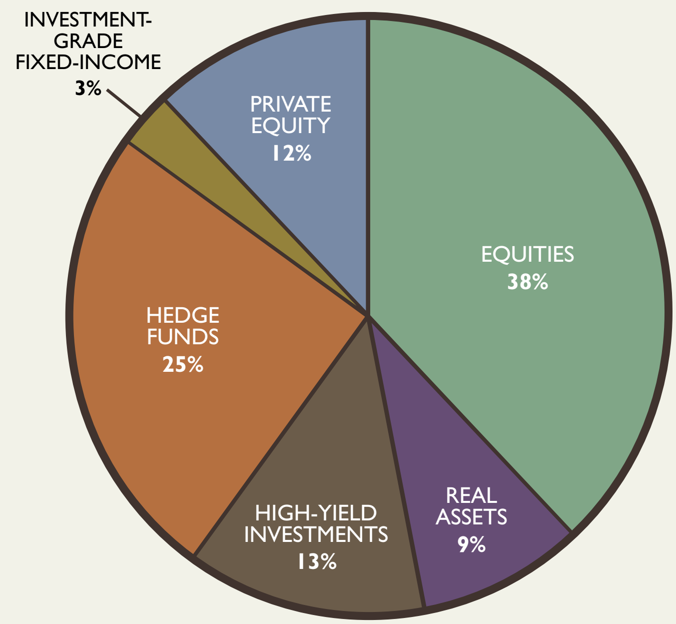
PLAN NET POSITION[1]



[1] Plan Net Position was formerly reported as Plan Net Assets

Plan net position totaled $23.1 billion. Broad diversity in our investment portfolio reduces possible losses from any single asset class or investment.

ASSET ALLOCATION TARGETS



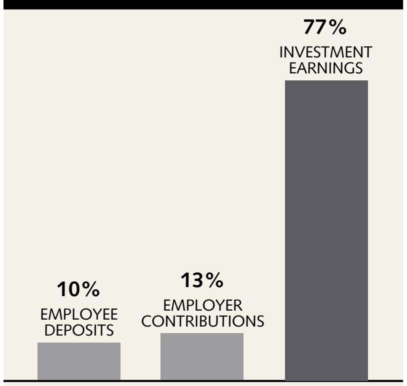
TOTAL FUND RETURN—NET OF FEES

Annualized Returns	2013 Return	5 Year	10 Year	20 Year	25 Year	30 Year
Total Fund	16.4%	13.1%	6.9%	7.5%	8.6%	9.5%

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

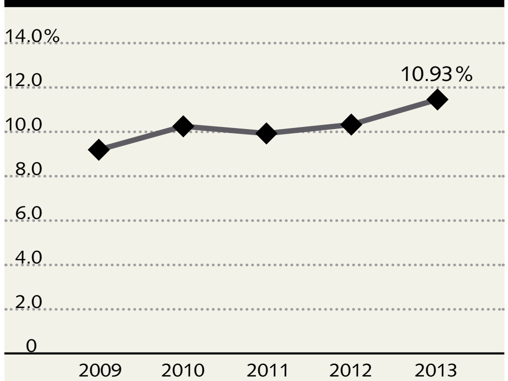
FUNDING PLANS RESPONSIBLY

FUNDING SOURCES

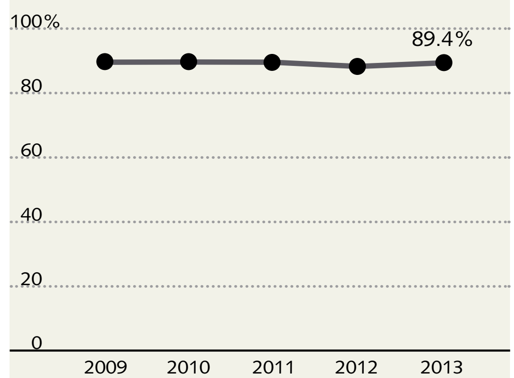


(Estimate from TCDRS inception in 1967 to present)

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 debt is paid down to zero within 20 years. This means money is there when needed and debt is not pushed to future generations.

All figures as of Dec. 31, 2013, except where noted.

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INTRODUCTORY SECTION

FINANCIAL SECTION

INVESTMENT SECTION

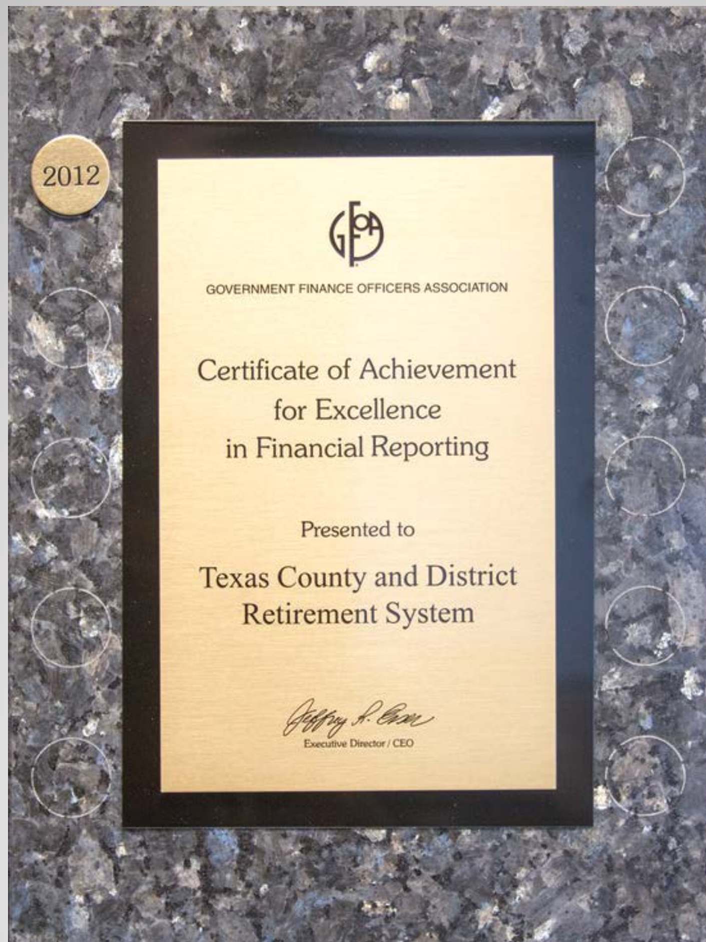
ACTUARIAL SECTION

STATISTICAL SECTION

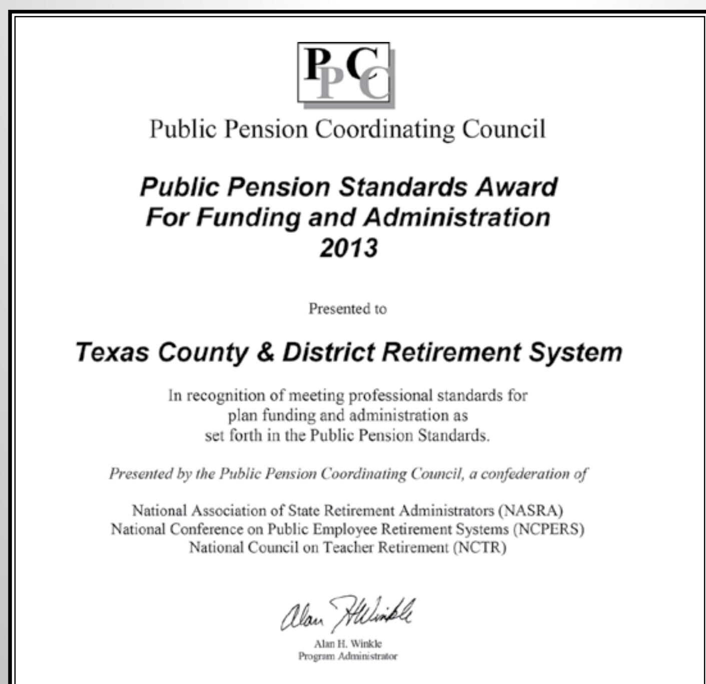
INTRODUCTORY

Foundation

TCDRS' solid foundation makes it one of the best-funded retirement plans in the country and a model for providing reliable retirement benefits.



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, 2012. This was the 21st 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.



PPCC

Public Pension Coordinating Council

Public Pension Standards Award
For Funding and Administration
2013

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 11th 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

901 MoPac Expwy. South
Barton Oaks Plaza IV
Suite 500
Austin, Texas 78746

Tel. 800-823-7782
512-328-8889

Fax 512-328-8887

www.tcdrs.org

LETTER OF TRANSMITTAL

June 9, 2014

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, 2013 — the 46th 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 unmodified ("clean") opinion on TCDRS' financial statements for the year ended Dec. 31, 2013. 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 more than 650 counties and districts to provide retirement, disability and survivor 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 and confirmed by 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 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 $19,548 as of Dec. 31, 2013. In 2013, TCDRS paid $971 million in benefits to retirees and former members, and 96% of that stayed in Texas.

For the 10-year period ended Dec. 31, 2013, the number of actively participating employers has increased from 539 to 656, a 22% increase; the number of employee and former employee members has risen from 133,210 to 197,985, a 49% increase; and the number of annuitant accounts has increased from 26,420 to 49,820, 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.

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 2013, the TCDRS portfolio net of fees return was 16.4%, which exceeded the policy benchmark return of 12.9% by a total of 3.5%. Over the long term, we've exceeded our 8% target return. Our 30-year return is 9.5% for the period ended Dec. 31, 2013.

Over the course of 2013, the TCDRS Board of Trustees updated the target allocations of the portfolio assets by increasing U.S. equities from 13.5% to 16.5%, increasing emerging market equities from 6% to 9%, increasing private equity from 10% to 12%, increasing real estate partnerships from 2% to 3%, decreasing investment-grade fixed-income from 10% to 3%, decreasing high-yield bonds from 5% to 3%, decreasing opportunistic credit from 8% to 5%, and decreasing REITs from 3% to 2%. The board also added direct lending and master limited partnerships (MLPs) at an allocation of 2% for each.

FUNDING

As one of the best-funded retirement systems in the nation, TCDRS was funded in aggregate at 89.4% as of Dec. 31, 2013. The actuarial value of assets and actuarial liabilities totaled $21.91 billion and $24.51 billion, respectively. The net position held in trust for pension benefits at year end 2013 and 2012 were $23.15 billion and $19.89 billion, respectively, an increase of $3.26 billion (16.4%).

TCDRS is a model of responsible funding. Employers participating in the system must pay 100% of their required contributions every year. In addition, TCDRS has one of the most conservative funding policies in the nation. By paying the required contribution rate, employers are paying for their current employees' future benefits. Our conservative funding methods also ensure any unfunded liabilities are paid down to zero within 20 years so that funds will be there when employees are ready for retirement.

When calculating employer rates, investment gains and losses are smoothed to avoid single-year rate spikes for employers and to give markets time to recover. The strong investment returns in 2013 enabled the TCDRS Board of Trustees to adopt a more conservative funding policy by moving from a 10-year to a 5-year smoothing method. This ensures that employer rates are more reflective of market conditions and more aligned with new GASB reporting standards. This more conservative policy accelerated for actuarial purposes the recognition of the gains and losses previously unrecognized, thereby allowing the net 2008 losses to be fully offset.

Considering the investment results and the change in smoothing method, employer rates have remained stable with a slight decrease anticipated for the average employer contribution rate in 2015. This reverses the trend of rising rates since 2008.

In addition, the board was able to more than double the general reserves account which is used to help offset future negative economic cycles and to cover general contingencies and expenses. A total of $749 million in the general reserves account is available as of Dec. 31, 2013.

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. It is expected that the rate of increase in net position to pay benefits will gradually move downward as the system matures and the number of members receiving benefits increases. 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 on page 79.

Information on funding progress for all employers as a group is in the Required Supplementary Information, located in the Financial Section. In addition, each employer receives a customized Summary Valuation Report which provides detailed information on their individual annual plan evaluation.

MAJOR INITIATIVES

In 2013, TCDRS made significant progress on our strategic plan including the following initiatives:

- Implemented the second of a five-phase project to replace outdated pension administration software. All employer plan information is now managed in the new system. In addition, significant progress was made on a tool which gives employers the ability to run benefit/cost plan scenarios online. This tool is expected to be implemented in June 2014.
- Implemented employer account statements to provide employers timely data on their account activity and to improve internal controls.
- Continued to educate members and employers through enhanced communication tools, such as welcome kits for new decision-makers, administrators and elected officials, educational web videos, improved webinars and increased use of social media such as Twitter and LinkedIn.
- Improved prospective employer communications to help non-participating employers become aware of the plan, educate employers considering participation and improve the orientation for new employers.

AWARDS AND ACKNOWLEDGMENTS

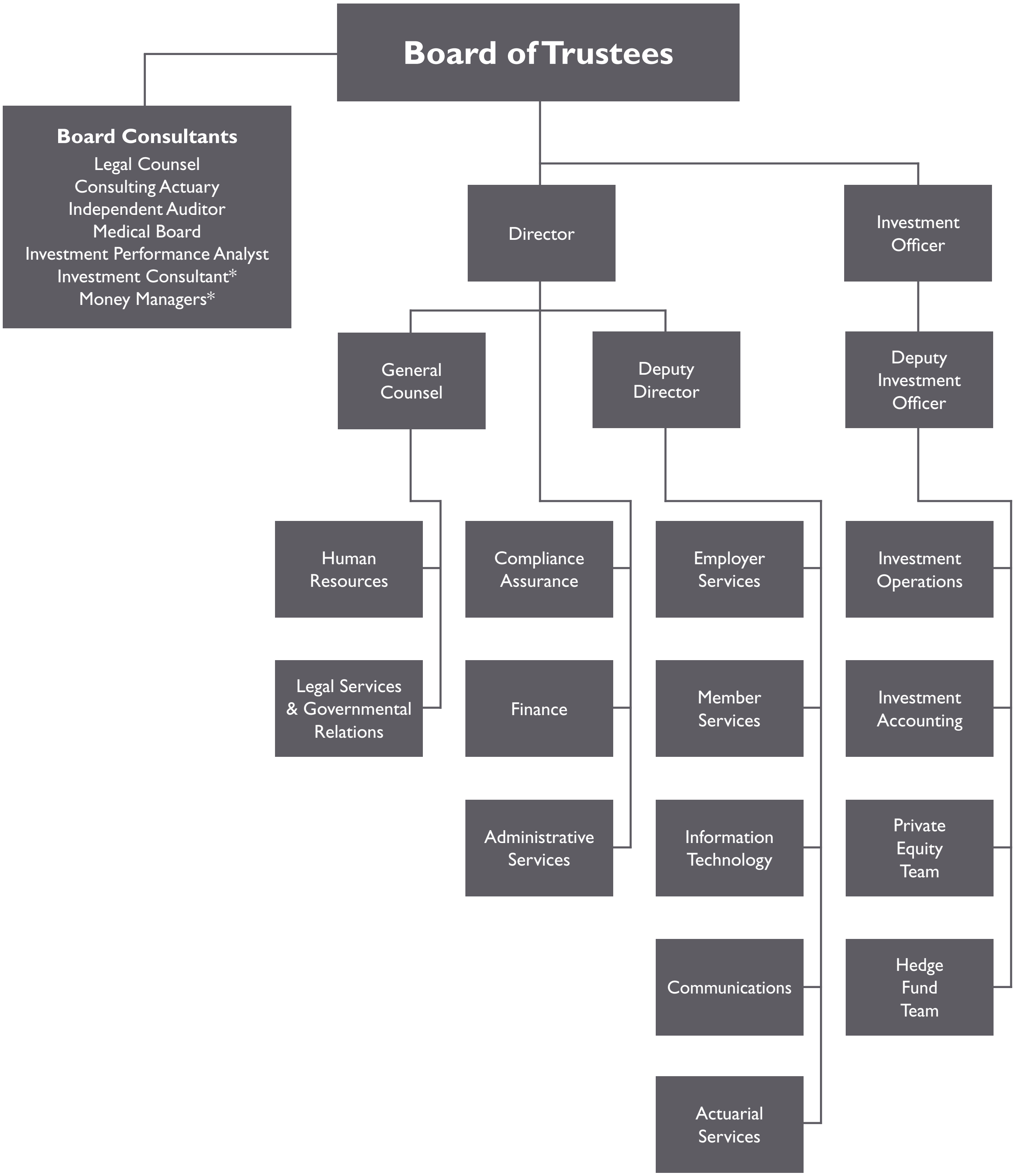
TCDRS proudly accepted a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada (GFOA) for the fiscal year ended Dec. 31, 2012. This was the 21st consecutive year that the system achieved this prestigious award, 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 2013, which is the 11th 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 to continue to make the Texas County & District Retirement System a model for providing retirement benefits.

Sincerely,

Robert A. Eckels Chair	Gene Glass Director	Paul J. Williams Investment Officer



** For information regarding investment professionals' fees, see Tables 10–13 in the Investment Section.*

[LEFT TO RIGHT] Kristeen Roe, Mary Louise Garcia, Deborah Hunt, Jan Kennady, Bob Willis, Robert A. Eckels, Bridget McDowell (not pictured: H.C. "Chuck" Cazalas, Jerry Bigham)

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
Bradshaw & Bickerton PLLC
Investment Counsel

Milliman, Inc.
Consulting Actuary

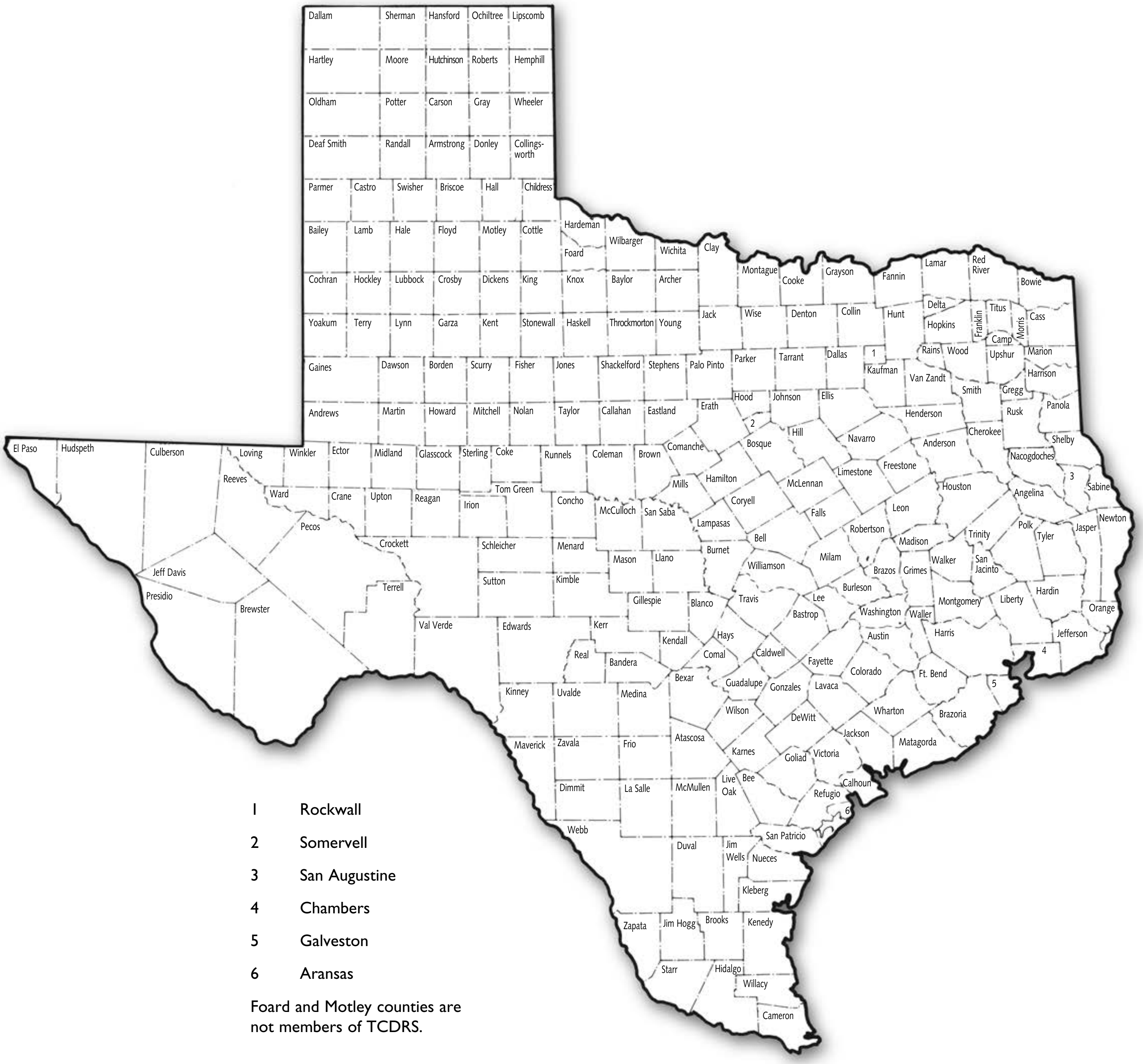
Bank of New York Mellon
Investment Performance Analyst

Cliffwater LLC
Investment Consultant

KPMG LLP
Independent Auditor

Jackson Walker LLP
Fiduciary & Benefit Plan Administration Counsel

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



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 Dec. 31, 2013

A

Acton Municipal Utility District
Agua Special Utility District
Alamo Area Council of Governments
Anderson County
Anderson County Central Appraisal District
Andrews County
Andrews County Central Appraisal District
Angelina County
Angelina County Appraisal District
Angelina-Nacogdoches Counties Water Control & Improvement District #1
Angleton Drainage District
Aquilla Water Supply District
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

Bacliff Municipal Utility District
Bailey County
Bandera County
Bastrop County
Bastrop County Emergency Services District #1
Baylor County
Baylor County Appraisal District
Bayview Irrigation District #11
Bayview Municipal Utility District
Bee County
Bell County
Bell County Appraisal District
Bell County Water Control & Improvement District #1
Benbrook Water & Sewer Authority
Bexar Appraisal District
Bexar County
Bexar County Emergency Services District #2
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
Bistone Municipal Water Supply District
Blanco County
Borden County
Borden County Appraisal District
Bosque County
Bosque County Central Appraisal District
Bowie County
Brazoria County
Brazoria County Appraisal District
Brazoria County Conservation & Reclamation District #3
Brazoria County Drainage District #4
Brazoria County Drainage District #5
Brazos County
Brazos County Appraisal District
Brazos County Emergency Communications District
Brazos Regional Public Utility Agency
Brazos River Authority
Brazos Valley Council of Governments
Brazos Valley Groundwater Conservation District
Brewster County
Brewster County Appraisal District
Bright Star-Salem Special Utility District
Briscoe County
Brookesmith Special Utility District
Brooks County
Brookshire-Katy Drainage District
Brookshire Municipal Water District
Brown County
Brownsville Irrigation District
Brushy Creek Municipal Utility District
Burleson County
Burnet Central Appraisal District
Burnet County

C

Caldwell County
Caldwell County Appraisal District
Calhoun County
Calhoun County Appraisal District
Calhoun County E911 Emergency Communications District
Callahan County
Callahan County Appraisal District
Cameron County
Cameron County Appraisal District
Cameron County Drainage District #1
Cameron County Drainage District #3
Cameron County Drainage District #5
Cameron County Emergency Communication District
Cameron County Irrigation District #2
Cameron County Irrigation District #6
Camp Central Appraisal District
Camp County
Carson County
Cass County
Cass County Appraisal District
Castro County
Central Appraisal District of Bandera County
Central Appraisal District of Johnson County
Central Appraisal District of Taylor County
Central Texas Groundwater Conservation District
Central Texas Regional Mobility Authority
Central Water Control & Improvement District
Chambers County
Chambers County Appraisal District
Chambers County Public Hospital District
Cherokee County
Childress County
Childress County Appraisal District
Childress County Hospital District
Clay County
Clay County Appraisal District
Coastal Bend Groundwater Conservation District
Coastal Plains Groundwater Conservation District
Cochran County
Cochran County Appraisal District
Coke County
Coke County Appraisal District
Coleman County
Collin County
Collin County Central Appraisal District
Collingsworth County
Colorado County
Comal Appraisal District
Comal County
Comal County Emergency Services District #3
Comal County Emergency Services District #4 Spring Branch Fire & Rescue
Comal County Emergency Services District #5
Comanche County
Combined Consumers Special Utility District
Concho County
Concho County Hospital District
Concho Valley Council of Governments

Cooke County
Cooke County Appraisal District
Coryell County
Cottle County
Cow Creek Groundwater Conservation District
Crane County
Crane County Hospital District
Crockett County
Crockett County Water Control & Improvement District #1
Crosby County
Crosby County Appraisal District
Crosby Municipal Utility District
Cross Roads Special Utility District
Culberson County

D

Dallam County
Dallam County Appraisal District
Dallas Central Appraisal District
Dallas County
Dallas County Park Cities Municipal Utility District
Dawson County
Dawson County Central Appraisal District
Deaf Smith County
Deaf Smith County Hospital District
Delta County
Delta County Appraisal District
Delta County Municipal Utility District
Delta Lake Irrigation District
Denco Area 911 District
Denton Central Appraisal District
Denton County
Denton County Fresh Water Supply District 1A
Denton County Transportation Authority
DeWitt County
DeWitt County Appraisal District
Dickens County
Dickens County Appraisal District
Dimmit County
Donley County
Duval County
Duval County Groundwater Conservation District

E

East Fork Special Utility District
East Medina County Special Utility District
Eastland County
Eastland County Appraisal District
Ector County
Ector County Hospital District
Edwards Aquifer Authority
Edwards Central Appraisal District
Edwards County
El Paso Central Appraisal District
El Paso County
El Paso County 911 District
El Paso County Hospital District
Ellis County
Emerald Bay Municipal Utility District
Emergency Communication District of Ector County
Erath County

F

Falls County
Falls County Appraisal District
Fannin County
Fannin County Appraisal District
Fayette County
Fisher County
Fisher County Hospital District
Floyd County
Fort Bend Central Appraisal District
Fort Bend County
Fort Bend County Water Control & Improvement District #2
Four Way Special Utility District
Franklin County
Freestone County
Freestone County Appraisal District
Frio County
Frio County Appraisal District

G

Gaines County
Gaines County Appraisal District
Galveston Central Appraisal District
Galveston County
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
Garza Central Appraisal District
Garza County
Gillespie County
Glasscock County
Goliad County
Gonzales County
Gonzales County Appraisal District
Gray County
Gray County Appraisal District
Grayson Central Appraisal District
Grayson County
Greater Harris County 911 Emergency Network
Greenbelt Municipal & Industrial Water Authority
Gregg County
Grimes County
Grimes County Appraisal District
Guadalupe Appraisal District
Guadalupe County
Gulf Coast Water Authority

H

Hale County
Hall County
Hall County Appraisal District
Hamilton County
Hansford County
Hansford County Hospital District
Hardeman County
Hardin County
Hardin County Appraisal District
Harlingen Irrigation District Cameron County #1
Harris County
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 #36
Harris County Water Control & Improvement District #50
Harrison County
Hartley County
Hartley County Appraisal District
Haskell County
Haskell Memorial Hospital District
Hays County
Hays County Emergency Services District #5
Hays County Emergency Services District #6
Hemphill County
Hemphill County Appraisal District
Hemphill County Hospital District
Hemphill County Underground Water Conservation District
Henderson County

Henderson County 911 Communication District
Henderson County Appraisal District
Hidalgo and Cameron Counties Irrigation District #9
Hidalgo County
Hidalgo County Appraisal District
Hidalgo County Drainage District #1
Hidalgo County Irrigation District #1
Hidalgo County Irrigation District #2
Hidalgo County Irrigation District #6
High Plains Underground Water Conservation District #1
Hill County
Hockley County
Hockley County Appraisal District
Hood County
Hopkins County
Hopkins County Appraisal District
Housing Authority of the City of Abilene
Housing Authority of the City of Huntington
Houston County
Houston County Appraisal District
Howard County
Hudspeth County
Hunt County
Hunt County Appraisal District
Hutchinson County
Hutchinson County Appraisal District

I

Iraan General Hospital District
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
Jasper County
Jasper County Water Control & Improvement District #1
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
Jim Hogg County
Jim Hogg County Appraisal District
Jim Hogg County Emergency Services District #1
Jim Hogg County Water Control & Improvement District #2
Jim Wells County
Johnson County
Jonah Water Special Utility District
Jones County
Jones County Appraisal District

K

Karnes County
Karnes County Appraisal District
Karnes County Hospital District
Kaufman County
Kaufman County Appraisal District
Kendall Appraisal District
Kendall County
Kendall County Water Control & Improvement District #1
Kenedy County
Kenedy County Central Appraisal District
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
Kleberg County
Knox County

L

La Salle County
La Salle County Appraisal District
Laguna Madre Water District
Lake Cities Municipal Utility Authority
Lake Kiowa Special Utility District
Lakeway Municipal Utility District
Lamar County
Lamar County Appraisal District
Lamb County
Lampasas County
Lampasas County Appraisal District
Lavaca County
Lavaca-Navidad River Authority
Lee County
Leon County
Leon County Central Appraisal District
Liberty County
Liberty County Central Appraisal District
Limestone County
Limestone County Appraisal District
Lipscomb County
Live Oak County
Live Oak County Appraisal District
Llano County
Loving County
Loving County Appraisal District
Lower Trinity Groundwater Conservation District
Lower Valley Water District
Lubbock Central Appraisal District
Lubbock County
Lubbock County Water Control & Improvement District #1
Lubbock Emergency Communication District
Lubbock Reese Redevelopment Authority
Lumberton Municipal Utility District
Lynn County
Lynn County Appraisal District
Lynn County Hospital District

M

Macedonia-Eylau Municipal Utility District
Mackenzie Municipal Water Authority
Madison County
Madison County Appraisal District
Marion County
Marion County Appraisal District
Marshall-Harrison County Health District
Martin County
Martin County Appraisal District
Mason County
Matagorda County
Matagorda County Drainage District
Matagorda County Hospital District
Matagorda County Navigation District #1
Maverick County
Maverick County Hospital District
Maverick County Water Control & Improvement District #1
McCamey County Hospital District
McCulloch County
McCulloch County Appraisal District
McLennan County
McLennan County 911 Emergency Assistance District
McLennan County Appraisal District
McLennan County Water Control & Improvement District #2
McMullen County

Medical Arts Hospital—Dawson County
Medina County
Medina County 911 District
Medina County Appraisal District
Memorial Medical Center
Menard County
Mesa Underground Water Conservation District
Middle Rio Grande Development Council
Midland Central Appraisal District
Midland County
Midland Emergency Communication District
Milam County
Mills Central Appraisal District
Mills County
Mitchell County
Mitchell County Appraisal District
Montague County
Montague County Tax Appraisal District
Montgomery Central Appraisal District
Montgomery County
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
Mustang Special Utility District

N

Nacogdoches County
Navarro Central Appraisal District
Navarro County
Newton Central Appraisal District
Newton County
Nolan County
North Central Texas Municipal Water Authority
North Hunt Special Utility District
North Plains Groundwater Conservation District
North Texas Tollway Authority
Northeast Texas Municipal Water District
Northeast Texas Public Health District
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

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 Emergency Services District #2
Orange County Navigation & Port District
Orange County Water Control & Improvement District #1

P

Palo Duro River Authority
Palo Pinto Appraisal District
Palo Pinto County
Panola County
Parker County
Parker County Appraisal District
Parker County Hospital District
Parker County Special Utility District
Parmer County
Parmer County Appraisal District
Pecan Valley Groundwater Conservation District
Pecos County
Pecos County Appraisal District
Pecos County Water Control & Improvement District #1
Permian Basin Regional Planning Commission
Permian Regional Medical Center
Pineywoods Groundwater Conservation District
Polk Central Appraisal District
Polk County
Polk County Fresh Water Supply District #2
Port of Bay City Authority
Port of Beaumont Navigation District
Port of Corpus Christi Authority
Port of Port Arthur Navigation District
Post Oak Savannah Groundwater Conservation District
Potter County
Potter County Appraisal District
Potter-Randall County Emergency Communications District
Presidio Appraisal District
Presidio County

R

Rains County
Rains County Appraisal District
Randall County
Randall County Appraisal District
Rankin County Hospital District
Reagan County
Reagan Hospital District
Real County
Red Bluff Water Power Control District
Red River Appraisal District
Red River Authority
Red River County
Reeves County
Reeves County Appraisal District
Reeves County Hospital District
Refugio County
Refugio County Drainage District #1
Refugio Groundwater Conservation District
Rio Grande Council of Governments
Roberts County
Robertson County
Rockwall Central Appraisal District
Rockwall County
Runnels County
Rusk County
Rusk County Appraisal District
Rusk County Groundwater Conservation District

S

Sabine County
Sabine County Appraisal District
Sabine-Neches Navigation District of Jefferson County
Sabine Pass Port Authority
San Augustine County
San Jacinto County
San Jacinto County Appraisal District
San Patricio County
San Patricio County Appraisal District
San Patricio County Drainage District
San Patricio County Navigation District
San Patricio Municipal Water District
San Saba County
Santo Special Utility District
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
Smith County
Smith County 911 Communications District
Smith County Appraisal District
Somervell County
Somervell County Central Appraisal District
Somervell County Water District
South Plains Association of Governments
South Texas Development Council
Southeast Texas Groundwater Conservation District
Starr County
Starr County Appraisal District
Stephens County
Stephens County Tax Appraisal District
Sterling County
Sterling County Appraisal District
Stonewall County
Stonewall County Appraisal District
Stonewall Memorial Hospital District
Stratford Hospital District
Sutton County
Sutton County Hospital District
Swisher County
Swisher County Appraisal District

T

Tarrant Appraisal District
Tarrant County
Tarrant County 911 Emergency Assistance District
Tax Appraisal District of Cottle County
Taylor County
Terrell County
Terrell County Water Control & Improvement District #1
Terry County
Terry Memorial Hospital District
Texas Association of Counties
Texas County & District Retirement System
Texas Eastern 911 Network
Throckmorton County
Titus County
Titus County Appraisal District
Titus County Fresh Water Supply District
Tom Green County
Travis Central Appraisal District
Travis County
Travis County Emergency Services District #1 North Lake Fire & Rescue
Travis County Emergency Services District #4
Travis County Water Control & Improvement District—Point Venture
Tri-County Special Utility District
Trinity Bay Conservation District
Trinity County
Trinity County Appraisal District
Trophy Club Municipal Utility District #1
Two Way Special Utility District
Tyler County
Tyler County Appraisal District

U

United Irrigation District
Upper Brushy Creek Water Control & Improvement District
Upper Trinity Groundwater Conservation District
Upshur County
Upton County
Upton County Appraisal District
Uvalde County

V

Val Verde County
Valley Municipal Utility District #2
Valwood Improvement Authority
Van Zandt County
Van Zandt County Appraisal District
Velasco Drainage District
Victoria County
Victoria County Drainage District #3
Victoria County Groundwater Conservation District

W

Walker County
Walker County Special Utility District
Waller County
Waller County Appraisal District
Ward County
Ward County Central Appraisal District
Ward Memorial Hospital
Washington County
Webb County
Webb County Appraisal District
West Central Texas Council of Governments
West Central Texas Municipal Water District
West Jefferson County Municipal Water District
West Nueces-Las Moras Soil & Water Conservation District #236
Wharton County
Wharton County Water Control & Improvement District #1
Wheeler County
Wheeler County Appraisal District
White River Municipal Water District
Wichita Appraisal District
Wichita County
Wichita County Water Improvement District #2
Wichita-Wilbarger 911 District
Wickson Creek Special Utility District
Wilbarger County
Wilbarger County Appraisal District
Wilbarger County Hospital District
Willacy County
Willacy County Appraisal District
Willacy County Housing Authority
Williamson Central Appraisal District
Williamson County
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
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

FINANCIAL

Secure

Employers pay 100% of their required contribution rate, ensuring money is there when needed.

KPMG

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

Independent Auditors' Report

The Board of Trustees
Texas County & District Retirement System

Report on the Financial Statements

We have audited the accompanying statements of plan net position of the Texas County & District Retirement System (TCDRS), as of December 31, 2013 and 2012, and the related statements of changes in plan net position for the years then ended and the related notes to the financial statements, which collectively comprise the TCDRS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audit 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of TCDRS as of December 31, 2013 and 2012, and the respective changes in financial position for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis and Schedules of Funding Progress and Employer Contributions for the Pension Trust Fund and the Group Term Life Insurance Fund on pages 22-25 and 42-43, respectively, 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise TCDRS' basic financial statements. The Introductory Section on pages 6-18, Other Supplementary Information – Changes in Plan Net Position by Fund and Interfund Transfers, Changes in Endowment Fund, Changes in Income Fund, Administrative Revenues and Expenses, Investment Expenses and Professional/Consultant Fees and Services on pages 44-50, the Investment Section on pages 52-60, the Actuarial Section on pages 62-75, and the Statistical Section on pages 78-88 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Other Supplementary Information – Changes in Plan Net Position by Fund and Interfund Transfers, Changes in Endowment Fund, Changes in Income Fund, Administrative Revenues and Expenses, Investment Expenses and Professional/Consultant Fees and Services are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such 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 basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, Other Supplementary Information – Changes in Plan Net Position by Fund and Interfund Transfers, Changes in Endowment Fund, Changes in Income Fund, Administrative Revenues and Expenses, Investment Expenses and Professional/Consultant Fees and Services are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Introductory, Investment, Actuarial, and Statistical Sections have 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

Austin, Texas
June 9, 2014

FINANCIAL

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 Position, Statements of Changes in Plan Net Position and the Notes to the Financial Statements. Required Supplementary Information and Other Supplementary Information are also presented.

- **The Statements of Plan Net Position** report the assets less liabilities and the resulting net position available for pension or insurance benefits at the end of 2013, compared to 2012.
- **The Statements of Changes in Plan Net Position** report the transactions that occurred during 2013 and 2012 for which additions less deductions equal the net increase or decrease in plan net position.
- **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 Position and Statements of Changes in Plan Net Position show financial information for both the Pension Trust Fund and the GTLF.

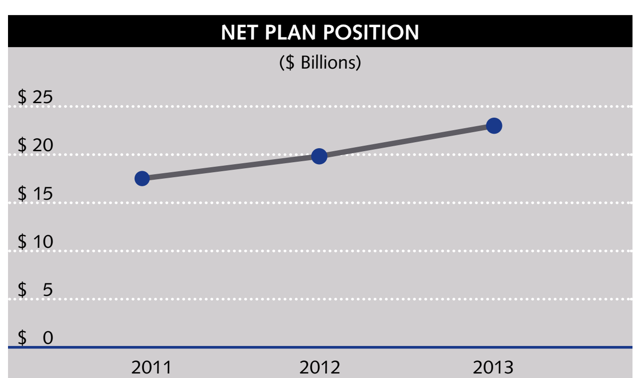
FINANCIAL ANALYSIS: PENSION TRUST FUND

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 position and the changes in plan net position showing comparative detail for 2013, 2012 and 2011 is presented on page 23.

Net position (the amount that assets exceed liabilities) held in trust for pension benefits at year end 2013 totaled $23.15 billion. The 2012 amount was $19.89 billion and for 2011 was $17.63 billion. The increase in plan net position in 2013 was $3.26 billion and in 2012 was $2.26 billion, while the decrease in plan net position in 2011 was $0.10 billion.

The overall financial condition of the system improved due to the continuing economic recovery that resulted in strong growth in U.S. and international-developed stock markets. The increase in 2013 plan



SUMMARY INFORMATION ABOUT PLAN NET POSITION

Pension Trust Fund
($ Millions)

	Dec. 31, 2013	2012	2011	2013 – 2012 $ Change	% Change	2012 – 2011 $ Change	% Change
Assets							
Investments, at Fair Value	$ 23,049	$ 19,779	$ 17,514	$ 3,270	16.5%	$ 2,265	12.9%
Invested Securities-Lending Collateral	48	80	134	(32)	(40.0)	(54)	(40.3)
Receivables, Cash and Cash Equivalents, Other	132	136	143	(4)	(2.9)	(7)	(4.9)
Capital Assets, Net	16	15	16	1	6.7	(1)	(6.3)
Total Assets	**23,245**	**20,010**	**17,807**	**3,235**	**16.2**	**2,203**	**12.4**
Liabilities							
Securities-Lending Collateral	48	80	134	(32)	(40.0)	(54)	(40.3)
Other Liabilities	51	45	47	6	13.3	(2)	(4.3)
Total Liabilities	**99**	**125**	**181**	**(26)**	**(20.8)**	**(56)**	**(30.9)**
Net Position Held in Trust for Pension Benefits	**$ 23,146**	**$ 19,885**	**$ 17,626**	**$ 3,261**	**16.4%**	**$ 2,259**	**12.8%**

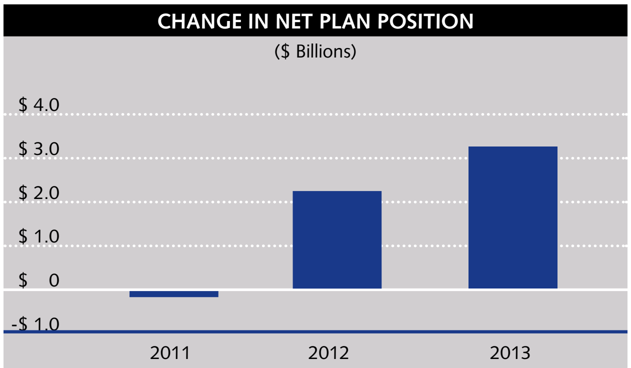
Due to rounding, totals and detail may not equal. Percentages shown are based on rounded amounts and may differ slightly from actual.

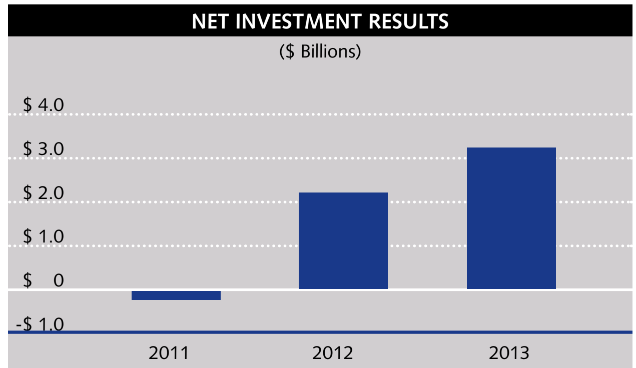
SUMMARY INFORMATION ABOUT CHANGES IN PLAN NET POSITION

Pension Trust Fund
($ Millions)

	Years Ended Dec. 31, 2013	2012	2011	2013– 2012 $ Change	% Change	2012 – 2011 $ Change	% Change
Additions							
Employee Deposits	$ 367	$ 353	$ 348	$ 14	4.0%	$ 5	1.4%
Employer Contributions	644	584	570	60	10.3	14	2.5
Net Investment Results	3,240	2,212	(208)	1,028	46.5	2,420	N/M
Other Income	2	2	1	0	0.0	1	100.0
Total Additions	**4,253**	**3,151**	**711**	**1,102**	**35.0**	**2,440**	**343.2**
Deductions							
Benefits Paid	880	790	716	90	11.4	74	10.3
Withdrawals	91	82	81	9	11.0	1	1.2
Administrative Expenses	18	17	15	1	5.9	2	13.3
Other Expenses	3	3	3	0	0.0	0	0.0
Total Deductions	**992**	**892**	**815**	**100**	**11.2**	**77**	**9.4**
Net Increase (Decrease) in Plan Net Position	**3,261**	**2,259**	**(104)**	**1,002**	**44.4**	**2,363**	**N/M**
Net Position Held in Trust for Pension Benefits	**$ 23,146**	**$ 19,885**	**$ 17,626**	**$ 3,261**	**16.4%**	**$ 2,259**	**12.8%**

Due to rounding, totals and detail may not equal. Percentages shown are based on rounded amounts and may differ slightly from actual.
N/M = Not meaningful



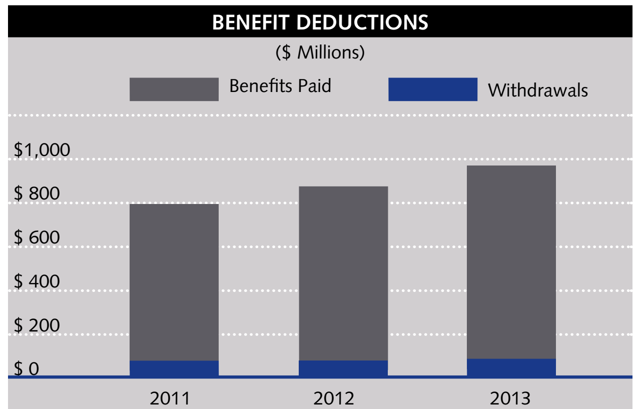


net position was primarily due to net investment income of $3.24 billion — a 16.4% overall return, net of fees. Net investment results for 2013 consist of the appreciation in fair value of investments of $3,138 million, $133 million in interest and dividends, and net income from securities-lending activity of $2 million less $33 million of investment activity expenses. Net investment income in 2012 was $2,212 million, while net investment loss in 2011 was $208 million.

Most asset classes, except emerging market international equities, investment-grade fixed-income, commodities and TIPS, generated positive returns in 2013. The results from investing activities for all asset classes is presented on page 56.

Additions to net plan position in 2013 also included $367 million in employee deposits and $644 million in employer contributions. Employee deposits increased $14 million and employer contributions rose $60 million over 2012 amounts. In 2012, employee deposits increased by $5 million and employer contributions increased by $14 million. Together, employee deposits and employer contributions increased during 2013 by 7.9% and 2012 by 2.0% over the previous year's amounts.

Deductions for benefits paid and withdrawals for 2013 were $971 million, an 11.4% increase over the previous year. These deductions for 2012 were $872 million, a 9.4% increase over 2011. These deductions for 2011 were $797 million, a 14.2% increase over 2010. Higher deductions in 2013 and 2012 were due to several factors, including increases in the number of retiree and beneficiary accounts in 2013 (a 6.5% increase) and in 2012 (a 7.3% increase), higher average benefits and an 11% increase in withdrawals in 2013.



OTHER CURRENTLY KNOWN INFORMATION: PENSION TRUST FUND

TCDRS' investment return for 2013 was 16.4%, net of fees, which exceeded its policy benchmark return of 12.9% by 3.5%.

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 89.4% as of Dec. 31, 2013. This is up from 88.2% as of Dec. 31, 2012.

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 5 years. This asset valuation method is designed to prevent volatility in employer contribution rates due to short-term fluctuations in the financial markets. In this way, investment losses and gains are expected to 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 position is expected to be sufficient to cover any adverse experience that may occur.

Summary information about plan net position and the changes in plan net position showing comparative detail for 2013, 2012 and 2011 is presented below.

The net position held in trust for insurance benefits at year end 2013 was $24.8 million, an increase of $1.5 million or 6.5% over the 2012 amount. The increase is due to an interest allocation of $1.6 million. Employer premiums rose $0.2 million (or 6.4%). Insurance benefits in 2013 increased $0.4 million (or 11.3%) due to a 23% increase in the number of retiree deaths.

At year end 2012, the net position held in trust for insurance benefits was $23.3 million, which was an increase of $1.6 million or 7.4% over the 2011 amount. Insurance premiums decreased by $2.0 million in 2012 over 2011 amounts. Premiums received were lower due to a large employer electing to discontinue participation. Insurance benefits decreased by $1.0 million in 2012 due to the same reason.

REQUESTS FOR INFORMATION

This annual 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.

FINANCIAL

SUMMARY INFORMATION ABOUT PLAN NET POSITION

Group Term Life Fund

	Dec. 31, 2013	Dec. 31, 2012	Dec. 31, 2011	2013 – 2012 $ Change	2013 – 2012 % Change	2012 – 2011 $ Change	2012 – 2011 % Change
Total Assets	$ 25,423,439	$ 23,962,919	$ 21,958,344	$ 1,460,520	6.1%	$ 2,004,575	9.1%
Total Liabilities	613,284	663,146	253,888	(49,862)	(7.5)	409,258	161.2
Net Position Held in Trust for Benefits	**$ 24,810,155**	**$ 23,299,773**	**$ 21,704,456**	**$ 1,510,382**	**6.5%**	**$ 1,595,317**	**7.4%**

SUMMARY INFORMATION ABOUT CHANGES IN PLAN NET POSITION

Group Term Life Fund

	Years Ended Dec. 31, 2013	2012	2011	2013 – 2012 $ Change	2013 – 2012 % Change	2012 – 2011 $ Change	2012 – 2011 % Change
Additions							
Employer Premiums	$ 4,203,456	$ 3,949,356	$ 5,927,549	$ 254,100	6.4%	$ (1,978,193)	(33.4%)
Income Allocation from Pension Trust Fund	1,625,589	1,524,820	1,376,030	100,769	6.6	148,790	10.8
Total Additions	**5,829,045**	**5,474,176**	**7,303,579**	**354,869**	**6.5**	**(1,829,403)**	**(25.0)**
Deductions							
Insurance Benefits	4,318,663	3,878,859	4,852,898	439,804	11.3	(974,039)	(20.1)
Total Deductions	**4,318,663**	**3,878,859**	**4,852,898**	**439,804**	**11.3**	**(974,039)**	**(20.1)**
Net Increase in Plan Net Position	**1,510,382**	**1,595,317**	**2,450,681**	**(84,935)**	**(5.3)**	**(855,364)**	**(34.9)**
Net Position Held in Trust for Benefits	**$ 24,810,155**	**$ 23,299,773**	**$ 21,704,456**	**$ 1,510,382**	**6.5%**	**1,595,317**	**7.4%**

STATEMENTS OF PLAN NET POSITION

	Dec. 31, 2013			Dec. 31, 2012		
	Pension Trust Fund	Group Term Life Fund	Total	Pension Trust Fund	Group Term Life Fund	Total
ASSETS						
Cash and Cash Equivalents	$ 30,404,150	$ —	$ 30,404,150	$ 33,374,229	$ —	$ 33,374,229
Receivables:						
Contributions	77,776,056	—	77,776,056	71,245,908	—	71,245,908
Investment Interest and Dividends	18,379,755	—	18,379,755	30,799,837	—	30,799,837
Securities-Lending Interest	193,854	—	193,854	236,972	—	236,972
Foreign Currency & Exchange Contracts	4,494,363	—	4,494,363	63,213	—	63,213
Employer Premiums	—	207,827	207,827	—	284,140	284,140
Other	365,575	—	365,575	126,561	—	126,561
Total Receivables	101,209,603	207,827	101,417,430	102,472,491	284,140	102,756,631
Prepaid Expenses and Other Assets	365,095	—	365,095	300,558	—	300,558
Investments, at Fair Value:						
U.S. Equities	5,103,865,956	—	5,103,865,956	3,759,666,446	—	3,759,666,446
International Equities	3,962,003,385	—	3,962,003,385	3,010,236,656	—	3,010,236,656
Global Equities	416,506,302	—	416,506,302	300,000,000	—	300,000,000
Hedge Funds	5,676,314,651	—	5,676,314,651	5,336,078,479	—	5,336,078,479
High-Yield Investments	3,025,912,619	—	3,025,912,619	3,099,017,529	—	3,099,017,529
Private Equity	1,765,621,656	—	1,765,621,656	1,354,384,105	—	1,354,384,105
REITs	663,965,637	—	663,965,637	641,201,474	—	641,201,474
Master Limited Partnerships	468,771,784	—	468,771,784	—	—	—
Private Real Estate Partnerships	340,064,479	—	340,064,479	248,227,990	—	248,227,990
Commodities	334,902,325	—	334,902,325	375,046,910	—	375,046,910
TIPS	47,728,844	—	47,728,844	102,475,240	—	102,475,240
Investment-Grade Fixed-Income	1,121,361,520	—	1,121,361,520	1,455,845,048	—	1,455,845,048
Cash and Cash Equivalents	121,976,337	—	121,976,337	96,990,643	—	96,990,643
Total Investments	23,048,995,495	—	23,048,995,495	19,779,170,520	—	19,779,170,520
Invested Securities-Lending Collateral	48,152,753	—	48,152,753	80,386,269	—	80,386,269
Funds Held by Pension Trust Fund	—	25,215,612	25,215,612	—	23,678,779	23,678,779
Capital Assets, Net	15,815,410	—	15,815,410	15,085,299	—	15,085,299
Total Assets	**23,244,942,506**	**25,423,439**	**23,270,365,945**	**20,010,789,366**	**23,962,919**	**20,034,752,285**
LIABILITIES						
Accounts and Investments Payable	25,617,768	—	25,617,768	21,408,872	—	21,408,872
Insurance Benefits Payable	—	613,284	613,284	—	663,146	663,146
Funds Held for Group Term Life Fund	25,215,612	—	25,215,612	23,678,779	—	23,678,779
Securities-Lending Collateral	48,152,753	—	48,152,753	80,386,269	—	80,386,269
Total Liabilities	**98,986,133**	**613,284**	**99,599,417**	**125,473,920**	**663,146**	**126,137,066**
Net Position Held in Trust for Benefits	**$ 23,145,956,373**	**$ 24,810,155**	**$ 23,170,766,528**	**$ 19,885,315,446**	**$ 23,299,773**	**$ 19,908,615,219**

See accompanying Notes to the Financial Statements.

STATEMENTS OF CHANGES IN PLAN NET POSITION

	Year Ended Dec. 31, 2013			Year Ended Dec. 31, 2012		
	Pension Trust Fund	Group Term Life Fund	Total	Pension Trust Fund	Group Term Life Fund	Total
ADDITIONS						
Contributions and Deposits						
Employee Deposits	$ 367,313,130	$ —	$ 367,313,130	$ 353,349,948	$ —	$ 353,349,948
Employer Contributions	644,462,694	—	644,462,694	583,902,381	—	583,902,381
Employer Premiums	—	4,203,456	4,203,456	—	3,949,356	3,949,356
Total	1,011,775,824	4,203,456	1,015,979,280	937,252,329	3,949,356	941,201,685
Investment Income						
From Investment Activities						
Net Appreciation in Fair Value of Investments	3,137,612,454	—	3,137,612,454	2,020,561,580	—	2,020,561,580
Interest and Dividends	133,168,922	—	133,168,922	222,934,346	—	222,934,346
Total Investment Activity Income	3,270,781,376	—	3,270,781,376	2,243,495,926	—	2,243,495,926
Less Investment Activity Expenses	33,486,227	—	33,486,227	34,756,245	—	34,756,245
Net Income from Investment Activities	3,237,295,149	—	3,237,295,149	2,208,739,681	—	2,208,739,681
From Securities-Lending Activities						
Securities-Lending Income	2,450,964	—	2,450,964	3,581,919	—	3,581,919
Less Securities-Lending Expenses:						
Borrower Rebates and Management Fees	(48,847)	—	(48,847)	157,827	—	157,827
Net Income from Securities-Lending Activities	2,499,811	—	2,499,811	3,424,092	—	3,424,092
Total Net Investment Income	3,239,794,960	—	3,239,794,960	2,212,163,773	—	2,212,163,773
Building Operations and Miscellaneous Income	1,524,722	—	1,524,722	1,465,105	—	1,465,105
Income Allocation from Pension Trust Fund	—	1,625,589	1,625,589	—	1,524,820	1,524,820
Total Additions	**4,253,095,506**	**5,829,045**	**4,258,924,551**	**3,150,881,207**	**5,474,176**	**3,156,355,383**
DEDUCTIONS						
Benefits Paid	879,946,561	—	879,946,561	790,040,154	—	790,040,154
Withdrawals	91,018,703	—	91,018,703	81,950,032	—	81,950,032
Terminating Employers' SAF Refunds	46,835		46,835	—		—
Insurance Benefits	—	4,318,663	4,318,663	—	3,878,859	3,878,859
Interest Allocation to Group Term Life Fund	1,625,589	—	1,625,589	1,524,820	—	1,524,820
Administrative and Building Operations Expenses	19,816,891	—	19,816,891	18,116,762	—	18,116,762
Total Deductions	**992,454,579**	**4,318,663**	**996,773,242**	**891,631,768**	**3,878,859**	**895,510,627**
Net Increase in Net Position	**3,260,640,927**	**1,510,382**	**3,262,151,309**	**2,259,249,439**	**1,595,317**	**2,260,844,756**
Net Position Held in Trust for Benefits:						
Beginning of Year	**19,885,315,446**	**23,299,773**	**19,908,615,219**	**17,626,066,007**	**21,704,456**	**17,647,770,463**
End of Year	**$ 23,145,956,373**	**$ 24,810,155**	**$ 23,170,766,528**	**$ 19,885,315,446**	**$ 23,299,773**	**$ 19,908,615,219**

See accompanying Notes to the Financial Statements.

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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 2012, GASB issued two pronouncements that affect pension plans and state and local government employers that sponsor pension plans for their employees. These statements have future implementation dates, but result in significant changes for TCDRS and its participating employers.

GASB Statement No. 67, *Financial Reporting for Pension Plans,* was issued June 2012 and is effective for fiscal years beginning after June 15, 2013. This statement amends GASB Statement No. 25 and GASB Statement No. 50, as they relate to pension plans administered through trusts that meet certain criteria. This statement establishes standards for financial reporting and amends note disclosure and supplemental information requirements for defined benefit pension plans administered through qualified trusts. The requirements of this statement will be implemented in 2014.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was issued June 2012 and is effective for fiscal years beginning after June 15, 2014. This statement amends GASB Statement No. 27 and GASB Statement No. 50, as they relate to governmental employers that provide pensions through trusts. This statement establishes procedures for measuring and recognizing the obligations associated with pensions as well as identifies methods for attributing the associated costs to the appropriate period as they are earned over an employee's career. Also included in this statement are amendments to note and required supplementary information requirements as well as details to address special funding situations.

In 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The statement addresses contributions made by a state or local government employer after the measurement date of the government's beginning net pension liability. Contributions made between the measurement date of the beginning net pension liability and the end of the government's fiscal year end are to be recognized as deferred outflow of resources.

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 in the period the employer reports compensation for its employees pursuant to statutory requirements. 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 Current Service Annuity Reserve Fund (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 position 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 U.S. equities, international and global equities, hedge funds, high-yield investments, private equity, real estate investment trusts (REITs), Treasury Inflation-Protected Securities (TIPS), private real estate partnerships, commodities, Master Limited Partnerships (MLPs), and investment-grade fixed-income along with cash and cash 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. U.S. and international commingled equity investments, commodities, absolute return investments, private equity and private real estate partnerships 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 656 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, 2013 and 2012 is summarized in Table 1.

TABLE 1: MEMBERSHIP

Dec. 31,

Pension Trust Fund:	**2013**	**2012**
Annuitants	**49,820**	**46,801**
Terminated Employees' Accounts:		
Vested	17,515	16,439
Nonvested	55,945	52,284
Total	**73,460**	**68,723**
Current Employees' Accounts:		
Vested	60,321	59,143
Nonvested	64,204	62,820
Total	**124,525**	**121,963**
Number of Plans:		
Counties	252	252
Districts	404	389
Inactive Plan	1	1
Total	**657**	**642**
Group Term Life Fund:		
Annuitants	**6,723**	**6,301**
Terminated Employees:		
Vested	**5,285**	**4,924**
Current Employees:		
Vested	15,417	15,212
Nonvested	17,701	17,367
Total	**33,118**	**32,579**
Number of Plans:		
Counties	125	125
Districts	154	151
Total	**279**	**276**

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, 2013, the most recent actuarial valuation date is:

	($ Millions)
Actuarial Value of Assets (a)	$ 21,912.7
Actuarial Accrued Liability (AAL) – Entry Age (b)	$ 24,514.8
Unfunded AAL (UAAL) (b-a)	$ 2,602.1
Funded Ratio (a/b)	89.4%
Covered Payroll (c)	$ 5,483.8
UAAL as a Percentage of Covered Payroll [(b-a) / c]	47.5%

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

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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 for the Pension Trust follows:

Valuation Date:	Dec. 31, 2013
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	5-year smoothed value[1]
ESF	Fund value
CSARF	Fund value
Actuarial Assumptions:[2]	
Investment Return[3]	8.0%
Career Average Projected Salary Increases[3]	4.9% avg.
Payroll Increase (varies by plan)	3.5% or less
Inflation	3.0%
Cost-of-Living Adjustments	0.0%

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

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, 2013 and 2012 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, 2013, the most recent actuarial valuation date, the Group Term Life program was 108.8% funded. The actuarial accrued liability for benefits was $22.8 million, and the actuarial value of assets was $24.8 million, resulting in an Overfunded Actuarial Accrued Liability (OAAL) of $2.0 million. The covered payroll (annual payroll of active participants covered by the program) was

$1.3 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 for the GTLF follows:

Valuation Date:	Dec. 31, 2013
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	3.0%

[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 2013, 2012 and 2011, which was greater than the required rates for those years. In addition, in 2013 TCDRS made a $500,000 lump-sum contribution. Table 2 presents annual pension costs for the past three years.

The required contribution for 2013 was determined as part of the Dec. 31, 2011 actuarial valuation using the entry-age actuarial cost method. Actuarial valuations of an ongoing plan involve estimates 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
12/31/11	$781,242	100%	$0
12/31/12	879,765	100	0
12/31/13	920,532	100	0

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

Actuarial Valuation Date	**12/31/11**	**12/31/12**	**12/31/13**
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: 5-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	4.9
Payroll Increase	4.0	4.0	3.5
Inflation	3.5	3.5	3.0
Cost-of-Living Adjustments	0.0	0.0	0.0

[1] Includes inflation at the stated rate.

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, 2013, included (a) 8.0% investment rate of return (net of investment expenses); (b) career average projected salary increases of 4.9% for individuals; and (c) no cost-of-living adjustments. Both investment return and projected salary components include an inflation component of 3.0%.

Actuarial calculations reflect a long-term perspective. The actuarial methods and assumptions used, presented in Table 3, 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 assets was determined by spreading actuarial asset gains and losses over a 5-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, 2013, was 12.5 years.

As of Dec. 31, 2013, the most recent valuation date, the plan was 89.5% funded. The actuarial accrued liability for benefits was $25.6 million and the actuarial value of assets was $22.9 million, resulting in a UAAL of $2.7 million. The covered payroll (annual payroll of active employees covered by the plan) was $8.8 million and the ratio of the UAAL to the covered payroll was 30.6%.

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, 2013, 2012 and 2011, were $20,164, $17,596 and $15,624, respectively, which equaled the required contributions each year.

TCDRS Bridge Program Health Reimbursement Arrangement

TCDRS adopted the TCDRS Bridge Program

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]
12/31/2011	$17,849,375	$20,720,499	$2,871,124	86.1%	$7,440,411	38.6%
12/31/2012	19,541,973	22,957,890	3,415,917	85.1	8,378,691	40.8
12/31/2013[2]	22,893,642	25,576,844	2,683,202	89.5	8,766,979	30.6

[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 12/31/2013 valuation.

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 $550 per month beginning Jan. 1, 2012, 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, 2013, the most recent actuarial valuation date, the Bridge Program was 0% funded. The actuarial accrued liability was $515,348 and the actuarial valuation of assets was $0, resulting in a UAAL of $515,348. Based on an annual covered payroll of $8,766,979, the UAAL as a percentage of covered payroll was 5.9%. The annual OPEB cost for 2013 was $82,018 and TCDRS' contributions as an employer in 2013 were $15,400; the annual OPEB cost for 2012 was $70,429, and TCDRS' contributions as an employer in 2012 were $22,550; and the annual OPEB cost for 2011 was $64,573, and TCDRS' contributions as an employer were $23,000 in 2011. The resulting net OPEB obligation at Dec. 31, 2013 was $352,517.

The actuarial cost method used was the projected unit credit with a level dollar open 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 (1) demand deposit accounts, (2) the overnight sweep and (3) the JPMorgan U.S. Government Money Market Fund (an open-end institutional money market fund) is 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,

FINANCIAL

TABLE 5: SCHEDULE OF UNFUNDED COMMITMENTS

at Dec. 31, 2013

Investment Category	Total Commitment	Unfunded Commitment	Fair Value
Opportunistic Credit	$ 1,815,540,680	$ 106,981,333	$ 1,911,474,775
Distressed Debt	1,191,417,647	428,743,861	584,902,114
Direct Lending	300,000,000	112,523,622	199,408,350
Private Equity	3,482,995,779	1,730,493,314	1,765,621,656
Private Real Estate Partnerships	768,591,269	470,594,161	340,064,479
Total Contingent Commitments	**$ 7,558,545,375**	**$ 2,849,336,291**	**$ 4,801,471,374**

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:

Equity Holdings

The system's U.S. equities and a portion of its developed international and emerging market equities are passively managed in commingled index funds. The remaining developed international, emerging market and global equities are actively managed in commingled funds and one limited partnership.

Hedge Funds

The vehicles for hedge fund investments are typically commingled vehicles, such as limited partnerships, limited liability companies or offshore corporations. At Dec. 31, 2013, the system's hedge fund portfolio consisted of 33 partnerships with a fair value totaling $5,676,314,651.

High-Yield Investments

The board has divided the high-yield asset class into four 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. The fourth portion, direct lending partnerships, consists of privately originated debt made to small and medium-sized companies or to real estate investors in order to take advantage of disruptions in the banking systems. Table 5 lists the committed and unfunded capital to opportunistic credit, distressed debt and direct lending investments at Dec. 31, 2013.

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, 2013, TCDRS had committed $3.48 billion of capital to 97 private equity partnerships. During the first quarter of 2014, an additional $185 million has been committed to private equity partnerships. Table 5 lists the committed and unfunded capital to private equity investments at Dec. 31, 2013.

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.

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.

Commodities

Commodities consist of 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.

Private Real Estate Partnerships

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, 2013, TCDRS had committed $769 million to 18 private real estate partnerships.

Master Limited Partnerships (MLPs)

MLPs are publicly traded partnership interests created by Congress to encourage investment in domestic energy infrastructure. At the entity level, these interests are tax free provided that 90% of their income comes from natural resources such as oil, natural gas, coal, timber and other depletable resources.

Investment-Grade 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. 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.

Cash and Cash 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 45 days or less. At Dec. 31, 2013, the STIF had an average current yield of 0.28% with the maximum days to maturity of any investment not exceeding 230 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, 2013, BNY Mellon held $77,270,976 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 lists the categories of collateral investments at Dec. 31, 2013 and 2012.

At the end of years 2013 and 2012, 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, 2013 and 2012, the fair values of securities on loan were $122,807,440 and $376,282,764, respectively.

Additionally, TCDRS invests in two 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, 2013 and 2012, 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, 2013 and 2012, the Barclays Capital Aggregate Bond Index had an average S&P quality rating of AA.

At both Dec. 31, 2013 and 2012, according to S&P evaluations, the high-yield investments portfolio exhibited an overall quality rating of B. The Citigroup High-Yield Cash-Pay Capped Index is the benchmark for performance measurement of the high-yield investments portfolio. At both Dec. 31, 2013 and 2012, 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 investment-grade fixed-income or high-yield investments 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 investments portfolio.

At Dec. 31, 2013, according to Moody's Investors Service evaluations, the BNY Mellon STIF exhibited average short-term quality ratings of P-1/P-2 (Prime-1 and Prime-2), which exhibit a superior ability for repayment of senior short-term debt obligations, and an average long-term (maturity date

TABLE 6:
INVESTED SECURITIES-LENDING COLLATERAL

	Dec. 31,	
Investment Type	**2013**	**2012**
Cash and Other Receivables/(Payables)	$ (13,186)	$ 71,777
Asset-Backed Securities	56,990	81,853
Agencies	3,899,634	12,897,483
Repurchase Agreements	37,096,199	61,035,027
Domestic Corporate Fixed-Income Securities	7,113,116	6,300,129
Total Invested Securities-Lending Collateral	**$ 48,152,753**	**$ 80,386,269**

TABLE 7: CREDIT RISK BY QUALITY

	Dec. 31,							
	Investment-Grade Fixed-Income				High-Yield Investments			
	2013		2012		2013		2012	
Rating	Fair Value ($ Millions)	% of Total	Fair Value ($ Millions)	% of Total	Fair Value ($ Millions)	% of Total	Fair Value ($ Millions)	% of Total
Governments	$ —	0%	$ —	0%	$ —	0%	$ —	0%
AAA	638.0	57	854.1	59	—	0	—	0
AA	64.0	6	50.8	4	—	0	—	0
A	134.8	12	122.7	8	—	0	—	0
BBB	208.1	18	267.0	18	—	0	4.3	0
BB	30.8	3	31.4	2	66.7	2	151.0	5
B	0.8	0	7.0	1	160.1	5	494.6	16
Less than B	1.7	0	1.7	0	60.4	2	171.1	6
Not Rated—Bonds	43.2	4	121.1	8	42.9	1	137.3	4
Not Rated—Distressed Debt	—	0	—	0	584.9	19	469.3	15
Not Rated—Direct Lending	—	0	—	0	199.4	8	—	0
Not Rated—Opportunistic Credit	—	0	—	0	1,911.5	63	1,671.4	54
Total	**$ 1,121.4**	**100%**	**$ 1,455.8**	**100%**	**$ 3,025.9**	**100%**	**$ 3,099.0**	**100%**

Source: Mellon Performance and Risk Analytics Fund Analysis, Fourth Quarter 2013

greater than one year) quality rating of Aaa. Based upon the market value of the fund at Dec. 31, 2013, 91% of instruments were rated P-1 or P-2 and 9% of the instruments were rated Aaa. At Dec. 31, 2012, the STIF exhibited an average short-term quality rating of P-1 and an average long-term quality rating of Aaa with 47% of the instruments rated P-1 and 53% 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 the 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.

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. Investment guidelines established with the individual investment managers generally address concentration risk limits. At Dec. 31, 2013 and 2012, TCDRS did not have investments in any one issuer which were 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, discloses the level of interest rate risk inherent in the TCDRS fixed-income portfolios by reporting the effective duration of those portfolios.

The board's adoption of the Barclays Aggregate Bond Index is an implicit adoption of the market risk inherent in this index.

TABLE 8: INTEREST RATE RISK — FIXED-INCOME PORTFOLIOS

Dec. 31,

	2013		2012	
Asset Class	**Fair Value**	**Effective Duration in Years**	**Fair Value**	**Effective Duration in Years**
Investment-Grade Fixed-Income	$ 1,121,361,520	5.2	$ 1,455,845,048	5.7
TIPS	47,728,844	7.5	102,475,240	8.2
High-Yield Bonds[1]	330,127,380	4.6	958,318,970	5.0

[1] Included in high-yield investments reported in the Statements of Plan Net Position on page 26.

The effective duration of the Barclays Aggregate Bond Index at Dec. 31, 2013 and 2012 was 5.3 years and 5.0 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, 2013 and 2012 was 7.6 and 8.3 years, respectively.

The high-yield investments 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 Dec. 31, 2013 and 2012 was 4.4 and 4.1 years, respectively.

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.

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 a 21.5% allocation to international and global equities, a 3% allocation to distressed debt, a 2% allocation to REITs and a 12% allocation to private equity, all of which allow non-U.S. dollar denominated investments. Accordingly, the foreign currency risk inherent in the indices that have been identified as the benchmark these asset classes are measured against have been implicitly adopted as an acceptable financial risk for these asset classes.

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

Additionally, at Dec. 31, 2013 and 2012, the international equity portfolio contained six commingled funds subject to foreign currency risk with an aggregate fair value of $3,961,998,425 and $3,010,233,405, respectively.

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

TABLE 9: FOREIGN CURRENCY RISK

Dec. 31,

	Fair Value (USD)	
Currency	**2013**	**2012**
Australian Dollar	$ 14,468,528	$ 16,753,526
Brazilian Real	4,966,118	4,811,707
British Pound Sterling	90,022,036	61,904,452
Canadian Dollar	4,224,195	4,436,124
Euro Currency Unit	171,736,181	129,978,856
Hong Kong Dollar	30,528,915	38,598,017
Indonesian Rupiah	0	118,189
Japanese Yen	31,005,367	21,090,876
Malaysian Ringgit	65,854	0
Norwegian Krone	407,067	318,681
Philippine Peso	570,609	293,277
South African Rand	1,904,369	1,837,802
Singapore Dollar	6,701,351	6,404,131
Swedish Krona	1,697,998	1,716,100
Swiss Franc	2,153,285	2,318,868
Total subject to currency risk	**$ 360,451,873**	**$ 290,580,606**

TABLE 10: FUTURES CONTRACTS

Dec. 31, 2013

Futures Contract	Expiration Date	Notional Value	Fair Value	Unrealized Gain
U.S. 10-Yr Treasury Note Future	Mar 2014	$ 2,953,125	$ 3,015,375	$ 62,250
U.S. 10-Yr Treasury Note Future	Mar 2014	(8,613,281)	(8,681,219)	(67,938)
U.S. 2-Yr Treasury Note Future	Mar 2014	70,120,188	70,213,429	93,241
U.S. 5-Yr Treasury Note Future	Mar 2014	4,414,563	4,463,539	48,976
U.S. 5-Yr Treasury Note Future	Mar 2014	(34,123,375)	(34,382,492)	(259,117)
U.S. Treasury Bond	Mar 2014	17,963,750	18,303,906	340,156
U.S. Treasury Bond	Mar 2014	11,676,438	11,822,680	146,242
U.S. Ultra Bond	Mar 2014	15,123,750	15,487,969	364,219
U.S. Ultra Bond	Mar 2014	7,357,500	7,480,109	122,609
Total		**$ 86,872,658**	**$ 87,723,296**	**$ 850,638**

contracts and forward foreign currency exchange. The investment policy does not explicitly outline the use of derivatives, but investment guidelines allow two investment-grade fixed-income managers the use of exchange-traded treasury futures to replicate cash investments or to manage yield curve or other risk positions within their portfolio. At Dec. 31, 2013, TCDRS' derivative instruments are considered investments and not hedges for accounting purposes. Table 10 lists the open futures contracts at Dec. 31, 2013. The notional values associated with these derivative instruments are generally not recorded on the financial statements; however, the amounts for unrealized gains at Dec. 31, 2013, are recorded in the fair value of investments on the Statements of Plan Net Position and the change in unrealized appreciation/(depreciation) on futures contracts for the year are included as investment income in the Statements of Changes in Plan Net Position. For the year ending Dec. 31, 2013, the change in unrealized appreciation on the futures contracts resulted in $245,000 of investment income.

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 2013 or 2012. 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 — was 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]
12/31/08	$ 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
12/31/12	20,250.3	22,953.0	2,702.7	88.2	5,283.6	51.2
12/31/13[4]	21,912.7	24,514.8	2,602.1	89.4	5,483.8	47.5

[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
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
2012	10.32	545.2	10.43	550.9	11.05	583.9	106
2013	10.93	599.4	11.08	607.7	11.75	644.5	106

See accompanying independent auditor's report.

TABLE 13: ACTUARIAL METHODS AND ASSUMPTIONS (UNAUDITED)

Actuarial Valuation Date	12/31/13
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	5-year smoothed value
ESF	Fund value
CSARF	Fund value
Actuarial Assumptions[1]	
Investment Return[2]	8.0%
Career Average Projected Salary Increases[2]	4.9% average
Payroll Increase (varies by plan)	3.5% or less
Inflation	3.0%
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 in the UAAL due to employer-elected plan changes effective after Jan. 1, 2009, is a closed 15-year period.

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]
12/31/11	$ 22.0	$ 20.6	$ (1.4)	106.8%	$ 2,064.9	(0.1%)
12/31/12	23.3	21.9	(1.4)	106.4	1,293.8	(0.1)
12/31/13	24.8	22.8	(2.0)	108.8	1,343.4	(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
2011	0.30%	$ 6.2	96%
2012	0.28	3.6	108
2013	0.28	4.2	100

See accompanying independent auditor's report.

FINANCIAL

CHANGES IN PLAN NET POSITION BY FUND AND INTERFUND TRANSFERS

Pension Trust Fund
Year Ended Dec. 31, 2013

	Employees Saving Fund	Subdivision Accumulation Fund
ADDITIONS		
Employee Deposits and Employer Contributions	$ 367,313,130	$ 644,462,694
Investment Income		
Net Appreciation in Fair Value of Investments	—	—
Interest and Dividends	—	—
Total Investment Activity Income	—	—
Less Investment Activity Expenses	—	—
Net Income From Investment Activities	—	—
Net Income From Securities—Lending Activities	—	—
Total Net Investment Income	—	—
Building Operations and Miscellaneous Income	—	—
Total Additions	**367,313,130**	**644,462,694**
DEDUCTIONS		
Benefits Paid	—	336,791,362
Withdrawals	91,018,703	—
Terminating Employers' SAF Refunds	—	46,835
Interest Allocation to Group Term Life Fund	—	—
Administrative and Building Operations Expenses	—	—
Total Deductions	**91,018,703**	**336,838,197**
TRANSFERS OF FUNDS		
Retirement Allowances	(334,765,783)	(329,947,409)
Investment Allocation and Other	361,216,432	2,043,038,369
Terminating Employer Transfers	1,771,023	(1,961,553)
Escheated Accounts, Net	59,180	—
Net Transfers	28,280,852	1,711,129,407
Net Change in Plan Net Position	**304,575,279**	**2,018,753,904**
NET POSITION HELD IN TRUST FOR PENSION BENEFITS		
Beginning of Period	**5,364,310,297**	**8,884,143,139**
End of Period	**$ 5,668,885,576**	**$ 10,902,897,043**

See accompanying independent auditor's report.

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

Pension Trust Fund
Year Ended Dec. 31, 2013

Current Service Annuity Reserve Fund	Endowment Fund	Income Fund	Expense Fund	Total
$ —	$ —	$ —	$ —	$ 1,011,775,824
—	—	3,137,612,454	—	3,137,612,454
—	—	133,168,922	—	133,168,922
—	—	3,270,781,376	—	3,270,781,376
—	—	33,486,227	—	33,486,227
—	—	3,237,295,149	—	3,237,295,149
—	—	2,499,811	—	2,499,811
—	—	3,239,794,960	—	3,239,794,960
—	—	—	1,524,722	1,524,722
—	**—**	**3,239,794,960**	**1,524,722**	**4,253,095,506**
543,153,559	1,640	—	—	879,946,561
—	—	—	—	91,018,703
—	—	—	—	46,835
—	—	1,625,589	—	1,625,589
—	—	—	19,816,891	19,816,891
543,153,559	**1,640**	**1,625,589**	**19,816,891**	**992,454,579**
664,713,192	—	—	—	—
371,931,808	443,382,762	(3,238,169,371)	18,600,000	—
190,530	—	—	—	—
—	(59,180)	—	—	—
1,036,835,530	443,323,582	(3,238,169,371)	18,600,000	—
493,681,971	**443,321,942**	**—**	**307,831**	**3,260,640,927**
5,284,200,702	**328,734,837**	**—**	**23,926,471**	**19,885,315,446**
$ 5,777,882,673	**$ 772,056,779**	**$ —**	**$ 24,234,302**	**$ 23,145,956,373**

FINANCIAL

CHANGES IN ENDOWMENT FUND

Pension Trust Fund
Year Ended Dec. 31, 2013

	General Reserves Account	Perpetual Endowment Account	Reserve for Expense Fund	Total
ADDITIONS				
Excess over Allocations — Transfer from Income Fund	$ 473,464,523	$ —	$ —	$ 473,464,523
Escheated Accounts	—	51,990	—	51,990
Total Additions	**474,464,523**	**51,990**	**—**	**473,516,513**
DEDUCTIONS				
Transfer to Expense Fund	—	—	18,600,000	18,600,000
Partial-year Interest to ESF	11,481,761	—	—	11,481,761
Reinstatements of Escheated Accounts	—	111,170	—	111,170
Uncollectible Benefits	1,640	—	—	1,640
Total Deductions	**11,483,401**	**111,170**	**18,600,000**	**30,194,571**
TRANSFERS				
Expense Allocation	(19,400,000)	—	19,400,000	—
Total Transfers	**(19,400,000)**	**—**	**19,400,000**	**—**
Net Increase (Decrease) in Fund	**442,581,122**	**(59,180)**	**800,000**	**443,321,942**
Beginning of Year	**306,488,871**	**3,645,966**	**18,600,000**	**328,734,837**
End of Year	**$ 749,069,993**	**$ 3,586,786**	**$ 19,400,000**	**$ 772,056,779**

See accompanying independent auditor's report.

CHANGES IN INCOME FUND

Pension Trust Fund
Year Ended Dec. 31, 2013

INVESTMENT RESULTS	
Net Appreciation in Fair Value of Investments	$ 3,137,612,454
Interest and Dividends	133,168,922
Net Income From Securities-Lending Activities	2,499,811
Investment Activity Expenses	(33,486,227)
Net Investment Results	**3,239,794,960**
STATUTORY ALLOCATIONS	
Allocation of Current Year Income:	
Employees Saving Fund	349,734,671
Current Service Annuity Reserve Fund	371,931,808
Group Term Life Fund	1,625,589
Total Statutory Allocations	**723,292,068**
BOARD OF TRUSTEES' ALLOCATIONS	
Allocation to the Subdivision Accumulation Fund	2,043,038,369
Allocation Excess — Transfer to General Reserves Account	473,464,523
Total Board of Trustees' Allocations	**2,516,502,892**
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, 2013 the total net change in fund calculation is: $3,239,794,960 less ($723,292,068 + $2,516,502,892) equals $0.

See accompanying independent auditor's report.

FINANCIAL

ADMINISTRATIVE REVENUES AND EXPENSES

Year Ended Dec. 31, 2013

	Administrative Operations	Building Operations	Combined Operations
Administrative Revenues:			
Rental Income	$ —	$ 1,516,406	$ 1,516,406
Other Income	8,316	—	8,316
Total Administrative Revenues	**$ 8,316**	**$ 1,516,406**	**$ 1,524,722**
Administrative Expenses:			
Salaries	$ 7,304,622	$ —	$ 7,304,622
Leave and Associated Payments	43,486	—	43,486
Payroll Taxes	535,379	—	535,379
Pension Contributions	1,148,125	—	1,148,125
Employee Insurance and Benefits	974,116	—	974,116
Recruitment and Temporaries	25,514	—	25,514
Professional Fees/Outsourcing Services	2,375,414	—	2,375,414
Banking Fees	60,010	—	60,010
Equipment Service and Repairs	541,857	—	541,857
Building Operations	—	1,088,209	1,088,209
Office Supplies	30,665	—	30,665
Noncapitalized Equipment	188,955	—	188,955
Postage	271,053	—	271,053
Telephone	103,432	—	103,432
Printing	266,929	—	266,929
Records Management	10,021	—	10,021
Reference Materials and Memberships	84,215	—	84,215
Education and Training	75,140	—	75,140
Travel	306,276	—	306,276
Organization and Meeting	220,012	—	220,012
General Insurance	214,472	—	214,472
Depreciation and Amortization	3,278,959	670,030	3,948,989
Total Administrative Expenses	**$ 18,058,652**	**$ 1,758,239**	**$ 19,816,891**

See accompanying independent auditor's report.

INVESTMENT EXPENSES	
Year Ended Dec. 31, 2013	
INVESTMENT-ACTIVITY EXPENSES	
Department Operating Expenses	
Salaries	$ 1,803,429
Payroll Taxes	109,371
Pension Contributions	277,431
Employee Health and Term Life Insurance	180,081
Professional Fees and Services	1,089,112
Investment Data Systems	46,555
Equipment Service and Repairs	5,127
Office Supplies	30,698
Telephone	8,151
Subscriptions and Memberships	15,079
Education and Travel	89,158
Depreciation and Amortization	6,496
Total Department Operating Expenses	$ 3,660,688
Nondepartment Managers' Fees:	
Equities	11,661,718
REITs	3,406,565
High-Yield Debt	3,139,556
Commodities	3,012,260
Investment-Grade Fixed-Income	2,255,450
Private Real Estate Partnerships	1,999,736
Master Limited Partnerships	575,707
Private Equity	344,981
TIPS	162,423
Total Nondepartment Managers' Fees	$ 26,558,396
Total Department Operating Expenses and Managers' Fees	$ 30,219,084
Custodial Fees — Mellon Trust	517,143
Investment Consultant Fees — Cliffwater LLC	2,750,000
Total Investment-Activity Expenses	**$ 33,486,227**
SECURITIES-LENDING EXPENSES	
Borrower Rebates and Management Fees	$ (48,847)

See accompanying independent auditor's report.

PROFESSIONAL/CONSULTANT FEES AND SERVICES

Year Ended Dec. 31, 2013

Professional/Consultant	Nature of Service	Administrative Operations	Investment Department[1]	Totals
IBridge Group, Inc.	Software consulting	$ 1,552,106	$ —	$ 1,552,106
Razorfish LLC	Website consulting	1,287,932	—	1,287,932
Phidiax, LLC	Software consulting	1,188,854	—	1,188,854
Vinson & Elkins, L.L.P.	Legal	—	964,475	964,475
Milliman, Inc.	Actuary (including experience investigation)	444,992	—	444,992
Linea Solutions, Inc.	Software consulting	324,662	—	324,662
eVerge Group of Texas, Ltd.	Software consulting	296,280	—	296,280
Allied Consultants, Inc.	Software consulting	135,071	—	135,071
Segal Consulting	Actuarial audit	125,000	—	125,000
Adjacent Technologies, Inc.	Software consulting	112,919	—	112,919
Jackson Walker L.L.P.	Legal	85,310	24,050	109,360
KPMG LLP	Audit	88,690	—	88,690
Bradshaw & Bickerton PLLC	Legal	—	86,678	86,678
McElvaney Public Affairs LLC	Legislative consulting	70,000	—	70,000
TexHahn Media, Inc.	Media relations	55,450	—	55,450
C&T Information Technology Consulting, Inc.	Software consulting	55,040	—	55,040
Paladion Networks	Software consulting	40,004	—	40,004
KPMG LLP	SOC 1 readiness assessment	35,500	—	35,500
Tribridge Holdings, LLC	Software consulting	32,312	—	32,312
Ace Hill Alsup III, M.D.	Medical board	16,800	—	16,800
Shelby H. Carter, M.D.	Medical board	14,000	—	14,000
John P. Vineyard, Jr., M.D.	Medical board	14,000	—	14,000
D4, LLC	Legal	—	13,909	13,909
Total Professional/Consultant Fees and Services		**$ 5,974,922**	**$ 1,089,112**	**$ 7,064,034**

[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.

INVESTMENT

Structure

Employees and employers save over the course of the employees' careers, maximizing the power of investment earnings. Benefits are funded primarily through investment earnings.

CLIFFWATER LLC

May 2014

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 consultant 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 2013. 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 (net of fees) based upon market values.

2013 was a year characterized by divergent global economic activity and continued global central bank intervention. This resulted in strong performance of US risk based assets such as equities and high yield bonds but negative performance in emerging markets equities. Bond yields rose throughout the year as the market discounted in the effects of the Federal Reserve "tapering" as the 10 Year Treasury yield rose from 1.76% at the start of the year to 3.03% at the end of the year. TCDRS' diversified investment portfolio increased in total assets from $19.8 billion to $23.1 billion. The one year total fund return was 16.4% net of fees. This exceeded the Board's Total Fund Policy Benchmark return of 12.9% by 3.5%. Over 10 years, the fund's 6.9% return exceeded the Board's Total Fund Policy Benchmark return of 6.4%.

At the asset class level, TCDRS' passively-managed US equities portfolio returned 33.5% for the year. TCDRS' balance of active and passive developed international managers resulted in a 24.7% return compared to the 21.0% benchmark return while global equity returned 38.8% vs. 26.7% for the benchmark. Active emerging market equities with a 6% allocation achieved a return of -3.0% compared to the benchmark of -2.6%. The active REIT managers combined for a 3.5% return versus 2.7% for the benchmark. The 2% commodities allocation returned -11.5% versus -9.5% for the benchmark. The active investment-grade fixed-income portfolio returned -1.0% relative to -2.0% for the benchmark. The hedge fund asset class returned 13.6% compared to its benchmark of 9.0%. The active high yield asset class returned 8.6% relative to the benchmark's 7.1% return and the opportunistic credit portfolio returned 14.5% compared to its benchmark return of 7.1%. The private equity program returned 19.9%, distressed debt returned 17.9% and the real estate program returned 19.0% for the year.

At the start of the year, the TCDRS Board lowered the bond exposure while increasing the equity exposure and at mid-year adjusted the asset allocation policy to shift US and developed non-US equity exposure into emerging markets, lower the high yield and REIT allocations, increase private equity and private real estate targets and add a new energy master limited partnership (MLP) mandate. The Board and staff expect these changes to both enhance future performance and control portfolio risk on behalf of participants. The fund added select hedge fund and opportunistic credit managers to increase diversification, eliminated a high yield manager and added a new MLP manager. 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, 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:

- Equities
  - U.S., international developed and emerging markets, and global equities
- Hedge funds
- High-yield investments
  - High-yield bonds, distressed debt, opportunistic credit and direct lending
- Private equity
- Real assets
  - Real estate investment trusts (REITs), commodities, private real estate partnerships, Treasury Inflation-Protected Securities (TIPS) and Master Limited Partnerships (MLPs)
- Investment-grade fixed-income securities

(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 in effect as of January 2013 are shown in Table 1 and include the long-term expected return and risk (standard deviation) for each asset class.

TABLE 1: CAPITAL MARKET ASSUMPTIONS

As of Jan. 1, 2013

Asset Category[1] (Portfolio)	Expected Return	Standard Deviation
U.S. Equities	7.45%	17.00%
International Equities — Developed	7.45	18.00
International Equities — Emerging	8.45	26.00
Global Equities	7.80	18.00
Hedge Funds	7.05	7.75
High-Yield Bonds	5.65	11.00
Opportunistic Credit	6.65	7.15
Distressed Debt	8.65	11.00
Direct Lending	8.00	10.00
Private Equity	10.45	21.00
REITs	6.20	23.00
Commodities	2.50	18.00
Private Real Estate Partnerships	9.35	20.00
TIPS	1.75	7.00
Investment-Grade Fixed-Income	1.75	4.00
Cash and Cash Equivalents[2]	1.75	0.50

[1] MLPs were not approved by the board until September 2013, therefore they are not included in this table.
[2] Money awaiting allocation to an asset category and deposited with the system's custodian.

C: ASSET ALLOCATION

The board has established asset allocation targets for each asset class within the TCDRS portfolio. In March 2013 the board approved a 2% allocation to direct lending within high-yield investments and in September the board approved a 2% allocation to MLPs within real assets. The investment officer allocates funds to the asset classes based upon these targets. Table 2 shows the target allocations in effect at Jan. 1, 2013 and Dec. 31, 2013 for each asset class.

TABLE 2: ASSET ALLOCATION TARGETS

	Target Allocation Percentages in Effect at:	
Asset Category	Jan. 1, 2013	Dec. 31, 2013
U.S. Equities	13.5%	16.5%
International Equities — Developed	11.0	11.0
International Equities — Emerging	6.0	9.0
Global Equities	1.5	1.5
Hedge Funds	25.0	25.0
High-Yield Bonds	5.0	3.0
Opportunistic Credit	8.0	5.0
Distressed Debt	3.0	3.0
Direct Lending	—	2.0
Private Equity	10.0	12.0
REITs	3.0	2.0
Commodities	2.0	2.0
Private Real Estate Partnerships	2.0	3.0
Master Limited Partnerships	—	2.0
Investment-Grade Fixed-Income	10.0	3.0

INVESTMENT

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 hedge funds, high-yield bonds, opportunistic credit, distressed debt, direct lending, private equity, REITs, TIPS, commodities, MLPs, private real estate partnerships, investment-grade fixed-income, global equities, and a portion of the developed international and emerging market equities portfolios. Asset classes managed passively are U.S. 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 reinvested. The TCDRS Investment Officer manages cash as well as new contributions in a short-term investment fund until allocated to a portfolio.

TABLE 3: EXTERNALLY MANAGED HOLDINGS

Dec. 31, 2013 ($ Millions)

Asset Class/Strategy	Total Value[1]
Equities	
U.S.	$ 5,103,865,956
International Equities — Developed	2,557,937,223
International Equities — Emerging	1,404,066,162
Global	416,506,302
Total Equities	$ 9,482,375,643
Hedge Funds	
Equity Long/Short	$ 1,319,581,184
Credit/Distressed	1,289,817,519
Event Driven	1,242,135,465
Global Macro	1,057,441,311
Multi-Strategy	767,339,172
Total Hedge Funds	$ 5,676,314,651
High-Yield Investments	
Opportunistic Credit	$ 1,911,474,775
Distressed Debt	584,902,114
High-Yield Bonds	336,945,543
Direct Lending	199,408,350
Total High-Yield Investments	$ 3,032,730,782
Private Equity	
Buyout	$ 672,329,307
Venture Capital	474,082,834
Non-U.S.	334,356,825
Energy	284,852,690
Total Private Equity	$ 1,765,621,656
Real Assets	
REITs	$ 666,365,572
MLPs	468,771,784
Private Real Estate Partnerships	340,064,479
Commodities	334,902,325
TIPS	47,959,834
Total Real Assets	$ 1,858,063,994
Investment-Grade Fixed-Income	$ 1,130,193,125

[1] Includes cash and cash equivalents, interest and dividends receivable and other trade payables and receivables.

Externally Managed Holdings

TCDRS retains external investment managers to administer portfolios within multiple asset categories. Table 3 shows the value of these externally managed holdings at Dec. 31, 2013.

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 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 identifies the benchmark portfolio associated with each asset class contained within the TCDRS investment portfolio.

A policy benchmark portfolio consisting of individual asset class benchmarks, weighted by asset class

TABLE 4: BENCHMARK PORTFOLIOS FOR PERFORMANCE MEASUREMENT

Asset Category	Benchmark Portfolio
Equities	U.S. Equity Index
	Dow Jones U.S. Total Stock Market Index[1]
	S&P 500 Index (Jan. 1997 through Dec. 1999)
	Developed International Equity Index
	MSCI World ex U.S. Standard (net)
	MSCI EAFE + Canada Index (net) (Oct. 2005 through Sep. 2007)
	MSCI EAFE Index (through Sep. 2005)
	Emerging Market International Equity Index
	MSCI EM (Emerging Markets) Standard (net)
	Global Equity Index
	MSCI World (net)
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index
High-Yield Investments	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[2] (through Dec. 2002)
	Distressed Debt Index
	Citigroup High-Yield Cash-Pay Capped Index
	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)
	Direct Lending Index
	Citigroup High-Yield Cash-Pay Capped Index
Private Equity	Venture Economics Pooled TW Returns for U.S. Private Equity Index
	TCDRS Actual Private Equity Portfolio Return (through June 2011)
Real Assets	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[1] (July 2002 through June 2010)
	Wilshire REIT Index (through June 2002)
	Commodities Index
	Dow Jones UBS Commodity Index
	TIPS Index
	Barclays U.S. TIPS Index[3]
	Private Real Estate Partnerships
	NCREIF (National Council of Real Estate Investment Fiduciaries) Index
	MLP Index
	Alerian MLP Total Return Index
Investment-Grade Fixed-Income	Barclays Aggregate Bond Index[3] (Jan. 1983 through Dec. 2003 and Oct. 2006 through Dec. 2013)
	Citigroup Large Pension Fund Index (Jan. 2004 through Sep. 2006)

[1] Prior to April 2004, these indices were called "Wilshire 5000 Index" and "Wilshire Real Estate Securities Index", respectively.
[2] Until mid-2001, this index was called "Credit Suisse First Boston Domestic + High-Yield Index".
[3] Prior to November 2008, these indices were called "Lehman U.S. TIPS" and "Lehman Aggregate Index", respectively.

target allocation, is constructed for measurement of the performance of the entire portfolio.

Performance Results

As shown in Table 5 on page 56, the TCDRS 2013 portfolio return was 16.4%, net of fees, exceeding its benchmark return of 12.9% by 3.5%. The slow healing of global economies continued in 2013. Central banks maintained short-term interest rates near zero, encouraging investors to move farther out on the risk spectrum in search of returns. Developed market equities responded accordingly and strongly with U.S. equities up 33.5% and developed non-U.S. equities up 24.7%. Private equity and private real

TABLE 5: RESULTS FROM INVESTING ACTIVITIES, NET OF FEES[1]						
		Annualized Returns				
TCDRS Portfolio/Benchmark Portfolio	2013 Return	3 Year	5 Year	10 Year	20 Year	30 Year
Total Fund	16.4	9.0	13.1	6.9	7.5	9.5
Policy Benchmark Portfolio	12.9	7.5	12.2	6.4	6.5	8.3
Domestic Equities	33.5	16.3	19.1	8.2	—	—
Domestic Equity Index Benchmark Portfolio	33.5	16.2	18.9	8.1	—	—
International Equities - Developed	24.7	8.6	13.1	7.3	—	—
Developed Intl Equity Index Benchmarh Portfolio	21.0	7.3	12.5	7.0	—	—
International Equities - Emerging	-3.0	-2.7	13.2	—	—	—
Emerging Intl Equity Index Benchmark Portfolio	-2.6	-2.1	14.8	—	—	—
Global Equity	38.8	—	—	—	—	—
Global Equity Benchmark Portfolio	26.7	—	—	—	—	—
Hedge Funds	13.6	6.2	10.5	—	—	—
Hedge Fund Benchmark Portfolio	9.0	2.5	4.9	—	—	—
High-Yield Bonds	8.6	9.7	16.7	7.8	—	—
High-Yield Bond Index Benchmark Portfolio	7.1	9.1	18.7	8.5	—	—
Opportunistic Credit	14.5	10.8	20.4	—	—	—
Opportunistic Credit Index Benchmark Portfolio	7.1	9.1	17.4	—	—	—
Distressed Debt	17.9	11.8	16.7	—	—	—
Distressed Debt Index Benchmark Portfolio	7.1	9.1	18.7	—	—	—
Private Equity	19.9	13.4	12.4	—	—	—
Private Equity Benchmark Portfolio	20.8	13.9	12.7	—	—	—
REITs	3.5	8.5	16.4	8.6	—	—
REIT Index Benchmark Portfolio	2.7	9.0	16.7	8.4	—	—
Commodities	-11.5	-5.8	—	—	—	—
Commodities Index Benchmark Portfolio	-9.5	-8.1	—	—	—	—
TIPS	-8.6	3.2	5.2	—	—	—
TIPS Benchmark Portfolio	-8.6	3.6	5.6	—	—	—
Private Real Estate Partnerships	19.0	16.7	—	—	—	—
Private Real Estate Benchmark Portfolio	11.0	11.9	—	—	—	—
Investment-Grade Fixed Income	-1.0	4.3	6.3	5.0	6.6	8.9
Investment-Grade Fixed Income Index Benchmark Portfolio	-2.0	3.3	4.4	4.9	5.9	7.8

[1] Calculations of performance were prepared using time-weighted rates of return calculations and are reported net of fees.
Source: BNY Mellon Performance and Risk Analytics Fund Analysis, Fourth Quarter 2013

estate portfolios were up 19.9% and 19.0%, respectively. Supported by investors' ongoing search for yield, returns in the high-yield asset classes were impressive with distressed debt up 17.9%, opportunistic credit up 14.5% and high-yield bonds up 8.6%. The hedge fund portfolio performed above expectations with a return of 13.6%. Real assets performed poorly with TIPS down 8.6%, commodities down 11.5% and REITs up 3.5%.

Table 6 reports TCDRS' 2013 performance results gross of fees.

Portfolios, such as direct lending and MLPs, without a full year of performance results are not reported.

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) U.S. equity and international equity index funds, and direct investment in separately managed REIT portfolios. At Dec. 31, 2013, TCDRS' 10 largest equity holdings were in the SSgA U.S. Total Stock Market Fund which has an aggregate fair value of $5,103,865,956. Table 7 displays our exposure to the 10 largest equity holdings.

[1] A complete listing of all securities TCDRS owned at Dec. 31, 2013, is available upon written request.

TABLE 6: RESULTS FROM INVESTING ACTIVITIES, GROSS OF FEES[1]

TCDRS Portfolio/Benchmark Portfolio	2013 Return	Annualized Returns 3 Year	5 Year	10 Year	20 Year	30 Year
Total Fund	16.5	9.2	13.2	7.0	7.6	9.5
Policy Benchmark Portfolio	12.9	7.5	12.2	6.4	6.5	8.3
Domestic Equities	33.5	16.3	19.1	8.2	—	—
Domestic Equity Index Benchmark Portfolio	33.5	16.2	18.9	8.1	—	—
International Equities - Developed	25.0	8.9	13.4	7.5	—	—
Developed Intl Equity Index Benchmarh Portfolio	21.0	7.3	12.5	7.0	—	—
International Equities - Emerging	-2.5	-2.2	13.7	—	—	—
Emerging Intl Equity Index Benchmark Portfolio	-2.6	-2.1	14.8	—	—	—
Global Equity	38.8	—	—	—	—	—
Global Equity Benchmark Portfolio	26.7	—	—	—	—	—
Hedge Funds	13.6	6.2	10.5	—	—	—
Hedge Fund Benchmark Portfolio	9.0	2.5	4.9	—	—	—
High-Yield Bonds	9.3	10.2	17.2	8.3	—	—
High-Yield Bond Index Benchmark Portfolio	7.1	9.1	18.7	8.5	—	—
Opportunistic Credit	14.5	10.8	20.4	—	—	—
Opportunistic Credit Index Benchmark Portfolio	7.1	9.1	17.4	—	—	—
Distressed Debt	17.9	11.8	16.7	—	—	—
Distressed Debt Index Benchmark Portfolio	7.1	9.1	18.7	—	—	—
Private Equity	19.9	13.4	12.4	—	—	—
Private Equity Benchmark Portfolio	20.8	13.9	12.7	—	—	—
REITs	4.0	9.0	17.0	9.2	—	—
REIT Index Benchmark Portfolio	2.7	9.0	16.7	8.4	—	—
Commodities	-10.7	-4.9	—	—	—	—
Commodities Index Benchmark Portfolio	-9.5	-8.1	—	—	—	—
TIPS	-8.3	3.5	5.4	—	—	—
TIPS Benchmark Portfolio	-8.6	3.6	5.6	—	—	—
Private Real Estate Partnerships	19.0	16.7	—	—	—	—
Private Real Estate Benchmark Portfolio	11.0	11.9	—	—	—	—
Investment-Grade Fixed Income	-0.8	4.4	6.5	5.2	6.7	8.9
Investment-Grade Fixed Income Index Benchmark Portfolio	-2.0	3.3	4.4	4.9	5.9	7.8

[1] Calculations of performance were prepared using time-weighted rates of return calculations and are reported gross of fees.
Source: BNY Mellon Performance and Risk Analytics Fund Analysis, Fourth Quarter 2013

TABLE 7: LIST OF LARGEST EQUITY HOLDINGS[1]

Dec. 31, 2013 ($ Millions)

Company	Prorated Market Value
Apple, Inc.	$125.4
Exxon Mobil Corporation	109.7
Google, Inc.	78.2
Microsoft Corporation	70.7
General Electric Co.	70.4
Johnson & Johnson	64.3
Chevron Corporation	59.6
Procter & Gamble	55.0
JPMorgan Chase	54.6
Wells Fargo	54.0

[1] TCDRS owns an 85% undivided interest in a Dow Jones U.S. Total Stock Market Index Fund that in turn owns equity shares in 3,541 U.S. companies. Even though TCDRS does not own any shares of the above companies directly, our undivided interest in each company within the index fund is shown above.

TABLE 8: LIST OF LARGEST FIXED-INCOME HOLDINGS

Dec. 31, 2013 ($ Millions)

Description	Maturity	Interest Rate	Fair Value
U.S. Treasury Bond	2/15/2042	3.125%	$21.8
U.S. Treasury Bond	8/15/2042	2.750	20.1
U.S. Treasury Note	1/31/2014	1.750	20.0
U.S. Treasury Note	2/15/2023	2.000	16.3
U.S. Treasury Bond	5/15/2043	2.875	14.3
U.S. Treasury Note	12/31/2020	2.375	12.4
FNMA Pool #0725027	11/1/2033	5.000	12.3
U.S. Treasury Note	8/15/2023	2.500	12.1
FNMA GTD REMIC P/T 03-W12 1A9	6/25/2043	4.480	10.4
FHLMC Pool #G0-7568	9/1/2041	4.500	10.3

Fixed-Income Holdings

Table 8, on page 57, 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, 2013, the aggregate fair value of the investment-grade fixed-income and TIPS portfolios was $1,121,361,520 and $47,728,844, respectively.

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 collateral for the same securities in the future. The aggregate income and expenses attributable to securities-lending activity and net lending income of $0.3 million are shown in Table 9.

Additionally, SSgA manages U.S. 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 9 is income of $2.2 million representing TCDRS' share of the 2013 equity portfolios' securities-lending income.

TABLE 9: SECURITIES-LENDING ACTIVITY

Year Ended Dec. 31, 2013

Elements of Securities-Lending Activity	Amount
Gross Earnings	$ 298,286
Plus Rebates from Lenders and Lending Agent's Share of Income[1]	48,847
Net Securities-Lending Income	347,133
Securities-Lending Income (Commingled Funds)	2,152,678
Net Securities-Lending Income	**$ 2,499,811**

[1] This value represents $100,047 in rebates received from borrowers reduced by $51,200 in fees paid to agents in 2013.

TABLE 10: INVESTMENT MANAGERS' FEES

Year Ended Dec. 31, 2013

Asset Class	Average of Fair Value ($ Millions)	Fees[1]	Cost Rate (in bps)[2]
Equities	$ 8,282.8	$ 23,183,645	28.0
High-Yield Bonds	713.7	3,139,556	44.0
REITs	665.3	3,406,565	51.2
Commodities	349.9	3,012,260	86.1
MLPs	93.8	575,707	61.4
TIPS	60.1	162,423	27.0
Investment-Grade Fixed-Income	1,263.7	2,255,450	17.9

[1] Excludes fees of $344,981 and $1,999,736 paid directly to a private equity and private real estate manager included in Nondepartment Manager's Fees in the Investment Expenses schedule presented on page 49. These fees are included in Table 13 on page 59. Equity fees also include $11,521,927 in fees incurred for a global equities manager which are netted against returns. These fees are not included in the Investment Expenses schedule presented on page 49.

[2] One hundred basis points (bps) equals 1%.

H: FEES AND COMMISSIONS

Table 10 presents the 2013 investment managers' fees TCDRS incurred, excluding alternative investment and securities-lending fees. The alternative investment portfolio's results are reported to TCDRS net of fees, therefore the management fees paid for these investments are not reported in Table 10.

Table 11 presents the total cost of investment-related fees (excluding alternative investment and securities-lending fees), which is $42.7 million. Based upon an average fair value of the investment portfolio during 2013 of $21.2 billion, this represents a cost of 20.1 basis points expended to manage and administer TCDRS' investment assets.

Table 12 presents the commissions paid to brokers by the system's equity managers. The managers executed trades of 78 million shares through 111 brokers. The $987,000 in commissions earned by these brokers represents a cost of $.01 per share traded.

Alternative Investment Fees

The investment management fees included in Investment Activity Expenses presented in the Statements of Changes in Net Plan Position

TABLE 11: INVESTMENT-RELATED FEES

Year Ended Dec. 31, 2013

	Fees
Investment Managers' Fees (Table 10)	$ 35,735,606
Investment Department Expenses[1]	3,660,688
Custodian	517,143
Investment Consultant	2,750,000
Total Investment-Related Fees	**$ 42,663,437**

[1] See page 49.

TABLE 12: BROKER COMMISSIONS PAID BY EQUITY MANAGERS

Year Ended Dec. 31, 2013

Brokerage Firm	Shares Traded (Thousands)	Commissions ($ Thousands)	Commissions Per Share
JP Morgan	12,265	$157	$0.01
Merrill Lynch	8,178	96	0.01
Citigroup	4,059	77	0.02
Wells Fargo Securities	1,483	50	0.03
Goldman Sachs & Co.	3,753	44	0.01
Credit Suisse	5,056	44	0.01
Barclays Capital, Inc.	2,004	43	0.02
Morgan Stanley & Co., Inc.	2,218	33	0.01
UBS Securities	1,261	33	0.03
Green Street Advisors	563	22	0.04
Summary of 101 other firms	37,153	388	0.01
Totals	**77,993**	**$987**	**$0.01**

represent only those paid directly from the Pension Trust Fund and do not include fees incurred and charged by general partners in partnerships investing in private equity, distressed debt, direct lending, opportunistic credit, private real estate and hedge funds as these types of fees are netted directly against returns for those investments in accordance with FASB ASC 820. GASB 25 provides that plans such as TCDRS are not required to include in the reported amount of investment expenses those investment-related costs that are not readily separable from investment income (where income is reported net of related expenses). In the interest of greater transparency, fees and profit shares associated with these types of investments are disclosed in Table 13 based on information requested and received from fund general partners in conjunction with the annual audit.

The investment expenses related to TCDRS' investments in partnerships investing in private equity, distressed debt, direct lending, opportunistic credit, private real estate and hedge funds fall into the categories of management fees and profit share (also called "carried interest").

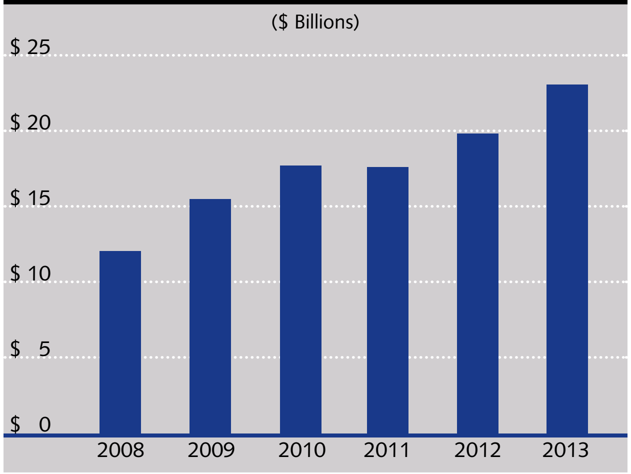
Management fees typically range from 1.5% to 2% of the value of invested assets (hedge funds and opportunistic credit) or committed capital (private equity, private real estate, distressed debt and direct lending) and are intended to compensate the general partner for its costs in operating the partnership.

TABLE 13: ALTERNATIVE INVESTMENT FEES

Investment Type	Management Fees	Carried Interest
Hedge Funds	$ 89,426,277	$ 165,350,110
Opportunistic Credit	19,688,697	51,510,183
Distressed Debt	10,366,701	18,534,327
Direct Lending	905,046	1,874,168
Private Equity	35,056,640	33,186,417
Private Real Estate Partnerships	6,632,904	12,013,029

Profit sharing or carried interest incentivizes and aligns the general partner's interest with TCDRS' interest. The carried interest represents the general partner's share of the partnership's profits, typically 20%, with 80% going to the limited partners such as TCDRS. Carried interest earned by hedge fund and opportunistic credit funds is generally accrued monthly and paid annually since the underlying investments are relatively liquid and more easily valued. Due to the long-term nature of private equity, private real estate distressed debt and direct lending partnerships (typically 8 to 12 years) and the illiquidity associated with the underlying investments, carried interest is accrued over the life of the partnership but is usually not finalized until the fund is fully liquidated. Generally, an agreed rate of return, or preferred return, must first be surpassed before carried interest is earned by the general partner. To incentivize general partners to maintain performance over the life of a partnership, periods of negative performance may result in previously accrued carried interest being reduced or "clawed back". During such periods negative carried interest expense would be reported.

FIGURE 1: GROWTH IN INVESTMENT ASSETS

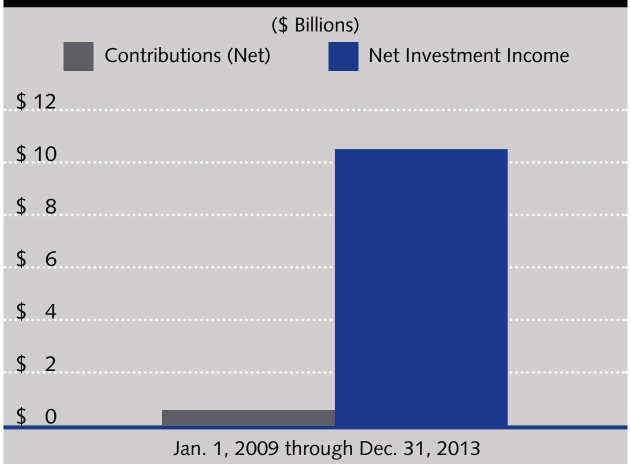


INVESTMENT

I: ASSET GROWTH OF THE SYSTEM

As shown in Figure 1 on page 59, the fair value of TCDRS' investment assets, including accrued interest and dividends, has increased by $10.96 billion over the past five years (from $12.11 billion at Dec. 31, 2008, to $23.07 billion at Dec. 31, 2013). Figure 2 identifies the components of plan asset growth over the same period. Employee deposits and employer contributions net of pension payments and refunds ($581 million) contributed 5% to asset growth for the period while net investment return ($10.5 billion) contributed the remaining 95%.

FIGURE 2: SOURCES OF ASSET GROWTH



J: INVESTMENT SUMMARY

The total value of the portfolio and each asset class shown in Table 14 is composed of the fair value of the underlying investments plus the amount of accrued interest and dividends, if any, at Dec. 31, 2013. The values shown in each asset class under the column labeled "Fair Value" are the investment amounts presented in the Statements of Plan Net Position shown on page 26 in the Financial Section of this CAFR.

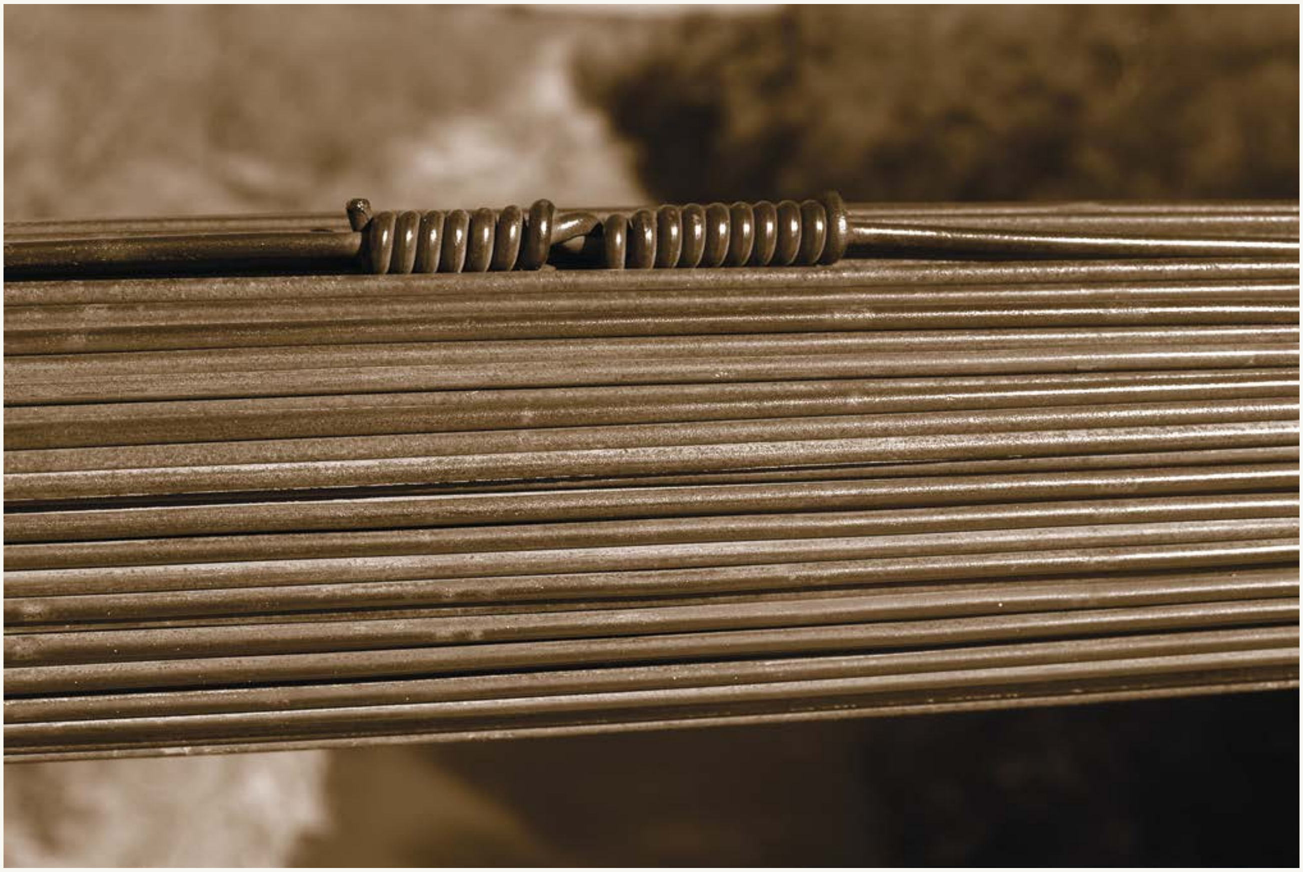
TABLE 14: INVESTMENTS BY ASSET SUBCLASS

Dec. 31, 2013

Type of Investment	Fair Value	Interest, Dividends and Other Receivables[1]	Total Value	% of Total Value
Equities				
U.S. Equities	5,103,865,956	—	5,103,865,956	22.1%
International Equities	3,962,003,385	—	3,962,003,385	17.2%
Global Equities	416,506,302	—	416,506,302	1.8%
Hedge Funds	5,676,314,651	—	5,676,314,651	24.6%
High-Yield Investments				
Opportunistic Credit	1,911,474,775	—	1,911,474,775	8.3%
Distressed Debt	584,902,114	—	584,902,114	2.5%
High-Yield Bonds	330,127,380	6,818,163	336,945,543	1.5%
Direct Lending	199,408,350	—	199,408,350	0.9%
Private Equity	1,765,621,656	—	1,765,621,656	7.6%
Real Assets				
REITs	663,965,637	2,399,935	666,365,572	2.9%
MLPs	468,771,784	—	468,771,784	2.0%
Private Real Estate Partnerships	340,064,479	—	340,064,479	1.5%
Commodities	334,902,325	—	334,902,325	1.5%
TIPS	47,728,844	230,990	47,959,834	0.2%
Investment-Grade Fixed-Income	1,121,361,520	8,831,605	1,130,193,125	4.9%
Cash and Cash Equivalents	121,976,337	83,310	122,059,647	0.5%
Total Investments Shown on Statements of Plan Net Position	**$ 23,048,995,495**	**$ 18,364,003**	**$ 23,067,359,498**	**100.0%**

[1] Includes $15,752 of net foreign currency fluctuations payable reported in Receivables, and Accounts and Investments Payable from the Statements of Plan Net Position on page 26.

ACTUARIAL



Connection

Our members are nurses, mechanics, road crew workers, sheriffs, attorneys, office workers and judges who make our communities safer and stronger.

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May 1, 2014

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, 2013. This valuation was performed using actuarial assumptions that were adopted by the Board in December 2013. These assumptions were developed by Milliman and reported to the Board in the 2013 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). Benefit increases are amortized over closed 15-year periods.

A separate actuarial valuation for each participating county and district was performed based on the plan benefits in effect on January 1, 2014. 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, 2013 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 2009-2012. They were recommended by Milliman, Inc., adopted by the TCDRS Board of Trustees in 2013 and first used in the Dec. 31, 2013 actuarial valuation. For an explanation of terms used in this section, refer to the Glossary beginning on page 85.

Termination Rates

The termination rates assume future terminations from active participation for reasons other than death, disability or retirement. 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 2009-2012 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 Low	Male Mid	Male High	Female Low	Female Mid	Female 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 is 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	.00018
25	.00038	.00019
30	.00056	.00021
35	.00090	.00031
40	.00122	.00051
45	.00173	.00077
50	.00245	.00122
55	.00363	.00181
60	.00592	.00276
65	.00860	.00429

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

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TABLE 4: DISABILITY RATES

Age	Male and Female Occupational	Male and Female All Other Causes
35	.00001	.00023
40	.00003	.00053
45	.00006	.00086
50	.00009	.00156
55	.00014	.00278
60	.00000	.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.

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 no age adjustment 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 3.0% rate of inflation and a 5.0% 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.

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 3.5% and a merit, promotion and longevity component ranging

TABLE 5: SERVICE RETIREMENT RATES

Age	Male and Female
40–44	.045
45–49	.090
50–51	.100
52–54	.105
55–57	.110
58–59	.120
60	.140
61	.120
62	.250
63	.160
64	.160
65	.300
66	.250
67	.240
68–74	.220
Over 74	1.000

TABLE 6: ANNUAL RATE OF SALARY INCREASE

Years of Service	Entry-Age Group < 30	30-39	40-49	> 50
1	8.2%	7.6%	7.1%	6.6%
3	7.1	6.6	6.1	5.6
5	6.2	5.7	5.2	4.7
10	5.4	4.9	4.4	3.9
15	4.9	4.4	3.9	3.9
20	4.5	4.2	3.9	3.9
25	4.3	3.9	3.9	3.9

from 0.40% to 5.25%. Note that the wage inflation of 3.5% is based on the underlying price inflation assumption of 3.0% 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 4.9%. Because the TCDRS' benefit is not based on final average salary, this assumption is generally not as significant as for other defined benefit retirement systems. 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 3.5% 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 in the UAAL due to employer-elected plan changes (except those increases offset by a lump-sum contribution) is a closed 15-year period. Decreases in the UAAL due to employer-elected benefit reductions are amortized over a 20-year period. For plans with an overfunded actuarial accrued liability, the amortization period is a 30-year open period.

TCDRS applies the 5-year smoothed method, which recognizes the difference between the fund value and the expected value of the Subdivision Accumulation Fund (SAF) evenly over a 5-year period. 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 and the Current Service Annuity Reserve Fund are equal to their fund value.

C: CHANGES IN ACTUARIAL ASSUMPTIONS AND METHODS

The following changes in actuarial assumptions were reflected in the Dec. 31, 2013 actuarial valuation:

- Inflation assumption decreased from 3.5% per year to 3.0% per year, with a corresponding decrease in the general wage growth assumption from 4.0% to 3.5%
- Reduced mortality rates for active members
- Adjusted retirement rates to reflect later retirements
- Lowered active disability rates
- Reduced disabled mortality rates for males
- Adjustments made to termination rates and the payroll increase assumption for some employers

One change was made to the actuarial methods. Five-year asset smoothing of the SAF with no corridor adjustment was used for the Dec. 31, 2013 actuarial valuation. Previously 10-year asset smoothing was used, with an adjustment if the actuarial value of the SAF was outside a corridor of 60% and 140% of the fund value of the SAF.

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
12/31/08	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
12/31/12	4,099	933	3,166	46,801	7.3
12/31/13	3,961	942	3,019	49,820	6.5

* Accounts reflect the total number of members being paid by separate employers.

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*
12/31/08	$ 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
12/31/12	94,155,638	10,559,930	83,595,708	830,756,736	11.19	17,751
12/31/13	91,413,679	10,968,524	80,445,155	911,201,891	9.68	18,290

* The average annual benefits are based on the regular benefits paid in January following the valuation date.

TABLE 9: SOLVENCY TEST

($ Millions)

	Actuarial Accrued Liabilities for				Portion of Actuarial Accrued Liabilities Covered by Net Position		
Valuation Date	(1) Current Member Deposits	(2) Retirees and Beneficiaries	(3) Current Members (Employer-Financed Portion)	Actuarial Value of Assets	(1)	(2)	(3)
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
12/31/12	5,364.3	8,014.5	9,574.2	20,250.3	100	100	71.8
12/31/13	5,668.9	8,796.9	10,049.0	21,912.7	100	100	74.1

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 PARTICIPATING EMPLOYERS

Distribution of TCDRS Plans by Year 2015 Employer Contribution Rate

Number of Depositing Members as of 12/31/2013	Year 2015 Employer Contribution Rate Based on the Plan of Benefits in Effect 1/1/2014						
	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	34	25	22	15	8	9	113
6 – 15	27	20	24	26	13	16	126
16 – 30	16	8	13	7	11	7	62
31 – 50	13	12	9	12	11	10	67
51 – 85	6	15	24	9	16	10	80
86 – 150	6	6	13	12	16	10	63
151 – 250	9	6	14	12	11	11	63
251 – 500	2	5	6	15	7	5	40
Over 500	0	3	4	13	11	11	42
Total	**113**	**100**	**129**	**121**	**104**	**89**	**656**

TABLE 11: PARTICIPATING EMPLOYERS AND DEPOSITING MEMBERS

Valuation Date	Number of Participating Employers	Depositing Members		Average Annual Pay	Percent Increase in Average Annual Pay	Employer Contributions[1]	Average Employer Rate
		Number	Annual Payroll				
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
12/31/12	641	121,963	5,283,625,749	43,322	1.5	583,902,381	11.05
12/31/13	656	124,525	5,483,787,404	44,038	1.7	644,462,694	11.75

[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 During Year Ended 2012–13
Resulting from Differences Between Assumed Experience and Actual Experience
($ Millions)

	$ Gain (or Loss) for Year	
Source of Change	**2013**	**2012**
Age and Service Retirements	$ 17.9	$ 20.7
Death In-Service Benefits	(0.2)	(0.7)
Other Termination	78.6	61.8
Pay Increases	17.9	40.2
Contribution Income	0.0	(1.6)
Investment Income*	30.1	(332.7)
Death After Retirement	(24.4)	(5.3)
Other	(1.1)	7.5
Gain (Loss) During Year From Financial Experience	**118.8**	**(210.1)**
Non-recurring Items		
Plan Changes	(21.9)	(36.1)
Assumption Changes	42.6	0.0
Gain (or Loss) from Non-Recurring Items	**20.7**	**(36.1)**
Composite Gain (or Loss) for Year	**$ 139.5**	**$ (246.2)**
Composite Gain (or Loss) as a % of Actuarial Accrued Liabilities	**0.6%**	**(1.1%)**

* 2013 includes the impact of the adoption of five-year asset smoothing.

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.

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 in the UAAL due to plan changes (except those offset by a lump-sum contribution by the employer) are amortized over a closed 15-year period. Decreases due to employer-elected benefit reductions are amortized over a 20-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, 2013 valuation.

SUMMARY ACTUARIAL VALUATION RESULTS

	Dec. 31, 2013		Dec. 31, 2012	
Valuation Results for Employer Plans				
1 Actuarial present value of future benefits				
Annuitants	$ 3,073,845,472		$ 2,803,394,442	
Members	18,587,769,001		17,753,543,444	
Total	21,661,614,473		20,556,937,886	
2 Actuarial present value of future normal cost contributions	2,869,867,550		2,815,014,996	
3 Actuarial accrued liability [1 - 2]		18,791,746,923		17,741,922,890
4 Actuarial value of assets				
Employees Saving Fund	5,668,885,576		5,364,310,297	
Subdivision Accumulation Fund	10,465,943,069		9,601,764,203	
Total		16,134,828,645		14,966,074,500
5 Total unfunded actuarial accrued liability (UAAL)	2,704,966,345		2,798,381,975	
6 Total overfunded actuarial accrued liability (OAAL)	(48,048,067)		(22,533,585)	
7 Unfunded actuarial accrued liability (UAAL), net of overfunded actuarial accrued liability (OAAL) [5 + 6]. Also equals [3 - 4].		2,656,918,278		2,775,848,390
Valuation Results for Pooled Benefits				
8 Actuarial present value of future benefits from the Current Service Annuity Reserve Fund for annuities in effect	5,723,059,761		5,211,079,186	
9 Actuarial value of assets of the Current Service Annuity Reserve Fund	5,777,882,673		5,284,200,702	
10 Overfunded actuarial accrued liability (OAAL) [8 - 9]		(54,822,912)		(73,121,516)
11 Systemwide UAAL Net of OAAL [7 + 10]		**$ 2,602,095,366**		**$ 2,702,726,874**
12 Funded Ratio [(4 + 9) / (3 + 8)]		**89.4%**		**88.2%**

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May 1, 2014

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 2013. These assumptions were developed by Milliman and reported to the Board in the 2013 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, 2014. 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, 2013 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 2009-2012. They were recommended by Milliman, Inc., adopted by the TCDRS Board of Trustees in 2013 and first used in the Dec. 31, 2013 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 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: GTLF — RETIREES COVERED

Year Ended	New Retirees Added	Retirees Removed	Net Change in Retirees	Total Number of Retirees[1]	Percent Change in Number Covered
12/31/08	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)
12/31/12	623	136	487	6,301	8.4
12/31/13	618	196	422	6,723	6.7

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

TABLE 14: GTLF — 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 Retiree
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
12/31/12	3,115,000	680,000	2,435,000	31,505,000	8.4	5,000
12/31/13	3,090,000	980,000	2,110,000	33,615,000	6.7	5,000

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

TABLE 15: GTLF 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 Position (1)	(2)	(3)
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
12/31/12	N/A	12.96	8.91	23.30	N/A	100.0	100.0
12/31/13	N/A	13.77	8.99	24.80	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.

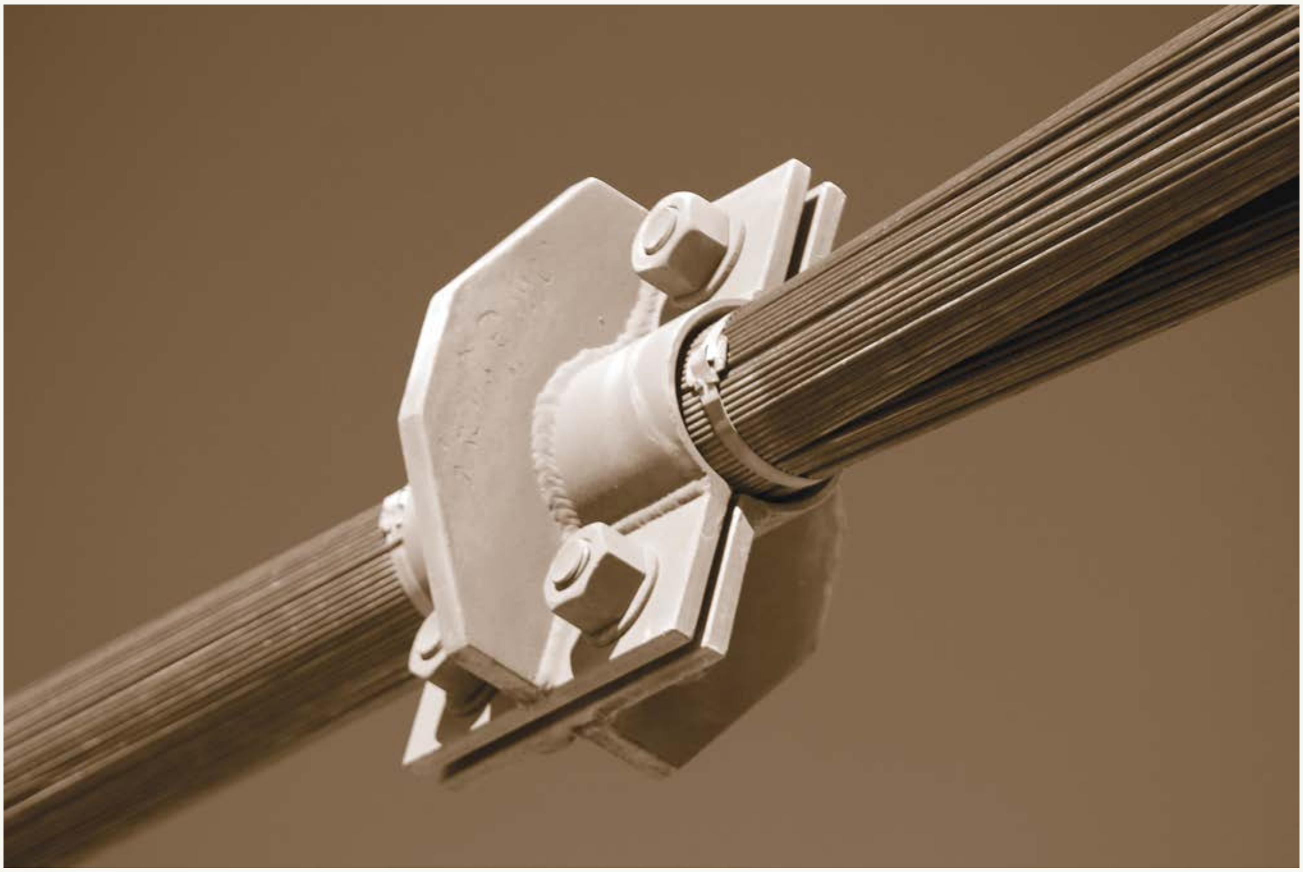
TABLE 16: GTLF PARTICIPATING EMPLOYERS AND COVERED MEMBERS[1]

Valuation Date	Number of Participating Employers	Covered Members Number	Annual Payroll	Average Annual Pay	Percent Increase in Average Annual Pay	Average Employer Premiums	Employer Rate
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
12/31/12	276	32,579	1,293,840,378	39,714	1.3	3,949,356	0.31
12/31/13	279	33,118	1,343,369,311	40,563	2.1	4,203,456	0.31

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

READER'S NOTES

STATISTICAL



Support

TCDRS retirees return value to the communities they served by supporting economic activity, job creation and by adding millions of dollars to the Texas economy.

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 position for the last 10 fiscal years show additions by source, deductions by type and the total change in Pension Trust Fund and Group Term Life Fund (GTLF) net position 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 POSITION, LAST TEN FISCAL YEARS

Pension Trust Fund	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Additions										
Employee Deposits	$ 249,968,480	$ 259,406,309	$ 278,179,477	$ 303,430,433	$ 332,040,768	$ 354,627,084	$ 357,797,427	$ 347,995,322	$ 353,349,948	$ 367,313,130
Employer Contributions	338,116,653	343,108,520	382,318,020	430,335,867	460,635,617	510,261,262	550,102,572	570,562,898	583,902,381	644,462,694
Total Net Investment Income (Loss)	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)	2,212,163,773	3,239,794,960
Other Additions	1,760,962	2,040,623	1,061,744	1,243,332	1,284,521	1,357,102	1,410,153	1,402,399	1,465,105	1,524,722
Total Additions	**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**	**3,150,881,207**	**4,253,095,506**
Deductions										
Benefits Paid:										
Service Retirements	331,771,825	373,973,847	415,434,027	462,436,351	507,344,095	564,892,564	619,134,926	701,095,589	774,927,826	864,546,467
Disability Retirements	11,286,878	11,938,508	12,536,673	12,991,513	13,297,812	13,870,874	14,176,535	14,702,551	15,112,328	15,400,094
Total Benefits Paid	343,058,703	385,912,355	427,970,700	475,427,864	520,641,907	578,763,438	633,311,461	715,798,140	790,040,154	879,946,561
Withdrawals:										
Separation	58,344,802	63,552,951	64,234,638	64,927,703	61,781,877	55,060,952	63,952,250	79,979,067	80,628,521	89,227,565
Death / Ineligible	806,323	349,447	557,880	744,887	1,198,103	777,907	1,221,183	1,203,984	1,321,511	1,791,138
Total Withdrawals	59,151,125	63,902,398	64,792,518	65,672,590	62,979,980	55,838,859	65,173,433	81,183,051	81,950,032	91,018,703
Administrative and Building Operations Expenses	12,223,085	11,731,184	11,100,215	12,093,768	12,746,067	15,202,472	16,362,612	17,009,339	18,116,762	19,816,891
Interest Allocation to Group Term Life Fund	307,668	398,799	505,046	603,773	747,465	920,949	1,152,389	1,376,030	1,524,820	1,625,589
Payments to Terminating Employers	—	—	2,562,808	351,055	22,900	—	—	—	—	46,835
Total Deductions	**414,740,581**	**461,944,736**	**506,931,287**	**554,149,050**	**597,138,319**	**650,725,718**	**715,999,895**	**815,366,560**	**891,631,768**	**992,454,579**
Change in Net Position	**$ 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)**	**$ 2,259,249,439**	**$ 3,260,640,927**

Group Term Life Fund	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Additions										
Employer Premiums	$ 4,405,520	$ 4,735,938	$ 5,231,646	$ 5,983,265	$ 6,522,399	$ 7,130,058	$ 7,340,463	$ 5,927,549	$ 3,949,356	$ 4,203,456
Income Allocation from Pension Trust Fund	307,668	398,799	505,046	603,773	747,465	920,949	1,152,389	1,376,030	1,524,820	1,625,589
Total Additions	**4,713,188**	**5,134,737**	**5,736,692**	**6,587,038**	**7,269,864**	**8,051,007**	**8,492,852**	**7,303,579**	**5,474,176**	**5,829,045**
Deductions										
Insurance Benefits	3,753,885	3,431,285	4,282,636	4,579,865	5,269,548	4,946,963	4,537,617	4,852,898	3,878,859	4,318,663
Total Deductions	**3,753,885**	**3,431,285**	**4,282,636**	**4,579,865**	**5,269,548**	**4,946,963**	**4,537,617**	**4,852,898**	**3,878,859**	**4,318,663**
Change in Net Position	**$ 959,303**	**$ 1,703,452**	**$ 1,454,056**	**$ 2,007,173**	**$ 2,000,316**	**$ 3,104,044**	**$ 3,955,235**	**$ 2,450,681**	**$ 1,595,317**	**$ 1,510,382**

FINANCIAL TRENDS DATA

FIGURE 1: ADDITIONS BY SOURCE — 2013

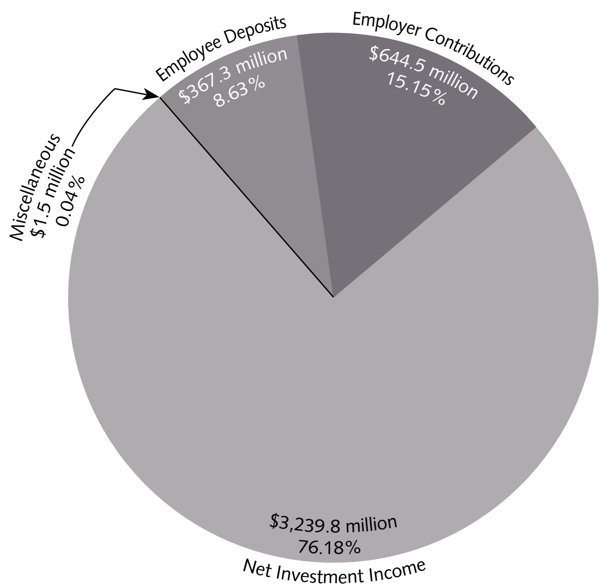


FIGURE 2: DEDUCTIONS BY TYPE — 2013

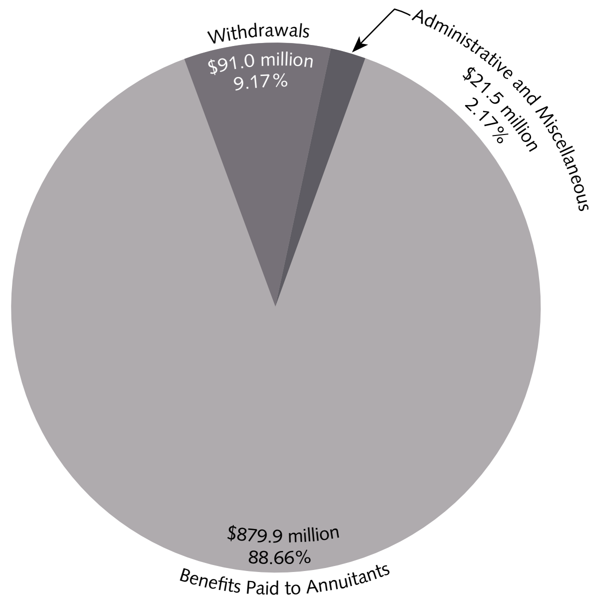


FIGURE 3: BENEFIT EXPENSES BY TYPE

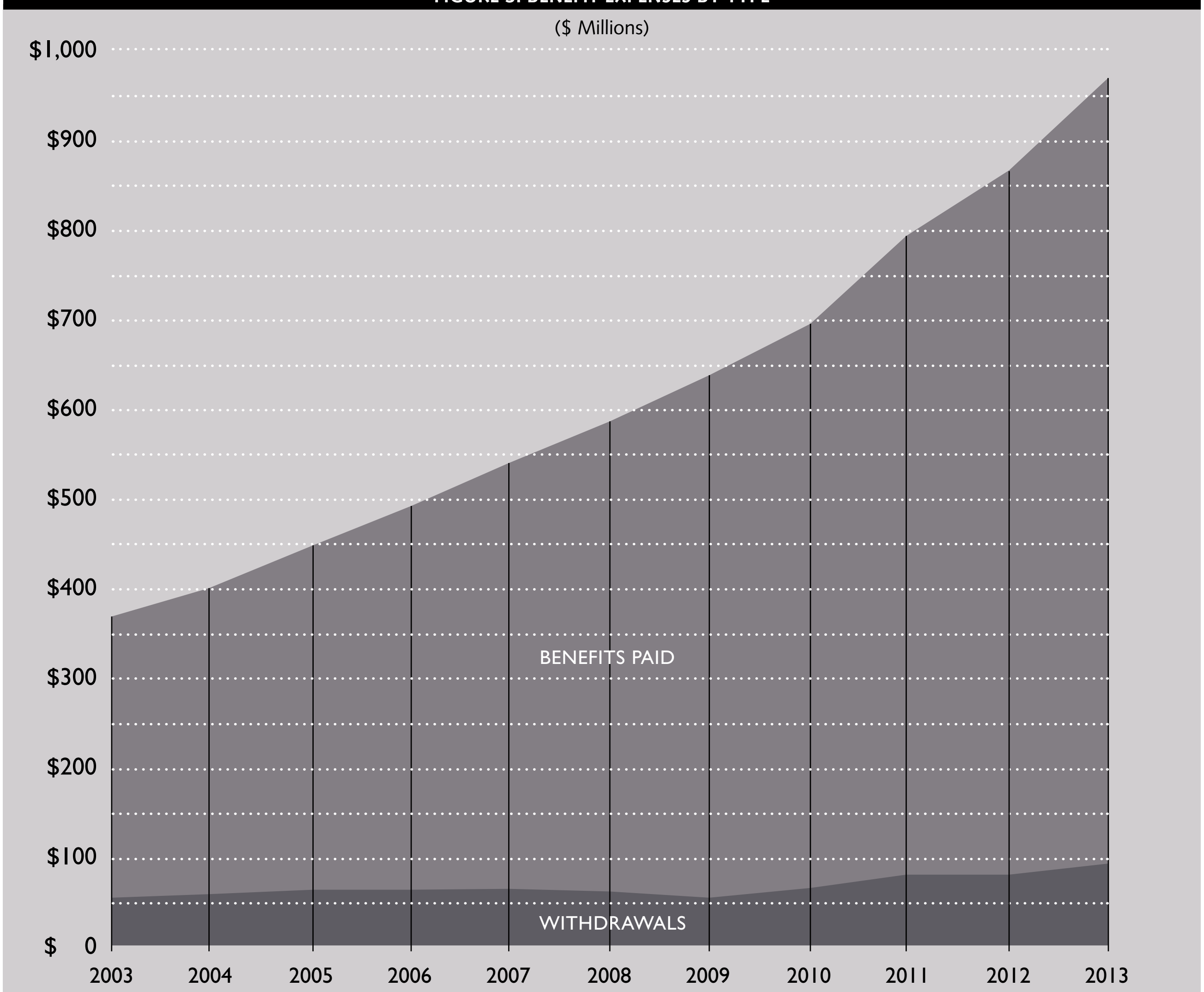


TABLE 2: BENEFIT AT RETIREMENT FOR RECENT RETIREES

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+
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
2012							
Average Monthly Benefit	$253	$649	$1,125	$1,626	$2,250	$3,220	$4,841
Number of Annuitants	484	687	717	590	700	508	411
2013							
Average Monthly Benefit	$235	$668	$1,210	$1,648	$2,247	$3,396	$4,735
Number of Annuitants	449	671	684	575	642	462	415

Note: TCDRS is an account-based plan similar to a cash balance 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**
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
2012	1,581	18,972	1,479	17,748
2013	1,629	19,548	1,524	18,288

[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, 2013

	Retirees Only		All Payees	
	Monthly	**Annually**	**Monthly**	**Annually**
Counties	$ 1,663	$ 19,956	$ 1,553	$ 18,636
Districts	1,342	16,104	1,272	15,264

TABLE 5: ANNUITANTS BY TYPE OF BENEFIT

Amount of Monthly Benefit	Annuitants: Retiree	Annuitants: Beneficiary	Retirement Option Selected: Single Life	100% to Beneficiary	100% to Beneficiary with Pop-Up	75% to Beneficiary	50% to Beneficiary	25% to Beneficiary[1]	15-year Guarantee	10-year Guarantee	5-year Guarantee[1]
$ 0 - 499	8,927	3,402	4,537	3,115	1,185	308	990	158	1,295	582	159
500 - 999	9,869	2,090	4,518	2,911	1,289	382	1,060	84	994	557	164
1,000 - 1,499	6,804	1,012	2,736	1,822	1,063	288	830	75	562	325	115
1,500 - 1,999	4,731	545	1,904	1,128	684	294	595	56	331	209	75
2,000 - 2,499	3,409	304	1,290	814	501	173	527	19	219	130	40
2,500 - 2,999	2,372	183	940	519	373	132	320	13	135	99	24
3,000 - 3,499	1,711	112	651	387	259	101	233	10	103	60	19
3,500 - 3,999	1,111	70	427	232	164	68	166	5	66	46	7
4,000 - 4,499	844	46	320	191	120	55	112	3	42	42	5
4,500 - 4,999	593	21	233	109	72	36	109	2	27	22	4
5,000 - 5,499	447	23	166	83	58	39	74	2	20	25	3
5,500 - 5,999	301	11	119	60	39	29	44	1	12	8	0
6,000 - 6,499	211	4	80	31	29	18	32	2	12	11	0
6,500 - 6,999	155	6	58	31	14	12	32	0	8	5	1
7,000 & Over	487	19	165	110	43	52	88	4	27	16	1
Subtotals	41,972	7,848	18,144	11,543	5,893	1,987	5,212	434	3,853	2,137	617
Totals	**49,820**		**49,820**								

[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.

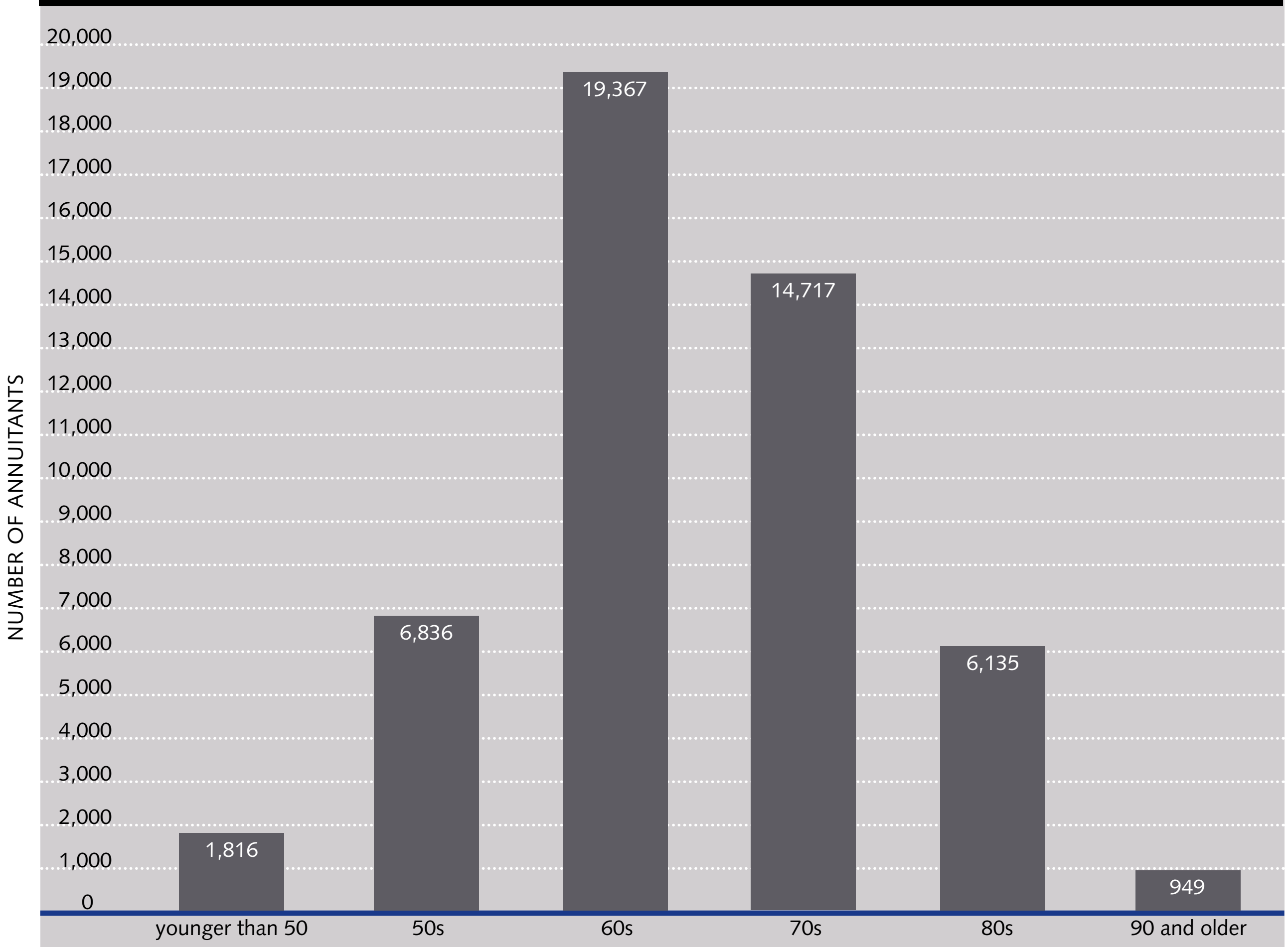
100% to Beneficiary

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 49,820 total annuitants, including both retirees and beneficiaries.

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

	2013			2004		
Employer	**Number of Current Employee Accounts**	**Rank**	**% of Total System**	**Number of Current Employee Accounts**	**Rank**	**% of Total System**
Harris County	15,278	1	12.3%	14,641	1	14.0%
Dallas County	6,801	2	5.5%	5,858	2	5.6%
Travis County	5,123	3	4.1%	4,063	5	3.9%
Bexar County	5,003	4	4.0%	4,598	3	4.4%
Tarrant County	4,385	5	3.5%	4,015	4	3.8%
Hidalgo County	3,034	6	2.4%	2,318	7	2.2%
El Paso County	2,891	7	2.3%	2,720	6	2.6%
El Paso Co. Hospital District	2,593	8	2.1%	1,742	9	1.7%
Fort Bend County	2,473	9	2.0%	1,756	8	1.7%
Montgomery County	2,087	10	1.7%	1,513	11	1.4%
All others	74,857		60.1%	61,321		58.7%
Totals	**124,525**		**100.0%**	**104,545**		**100.0%**

STATISTICAL

TABLE 7: GROUP TERM LIFE FUND — AVERAGE BENEFITS PAID

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

	Active	Retirees
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
2012		
Average Benefit Payment	$35,890	$5,000
Number of Payments	83	180
2013		
Average Benefit Payment	$38,659	$5,000
Number of Payments	83	222

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.

ALERIAN MLP INDEX

This index is a composite of the 50 most prominent energy Master Limited Partnerships. The index is calculated using a float-adjusted, capitalization-weighted methodology.

BARCLAYS AGGREGATE BOND INDEX

This 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 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.

DIRECT LENDING

Privately originated debt made to small to medium-sized companies or to real estate investors in order to take advantage of disruptions in the banking system.

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.

GLOBAL EQUITY

Investments in stocks included in all public markets, both domestic and international.

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

This index consists of more than 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.

HEDGE FUNDS

An investment strategy applied to a variety of different investments to help manage risk within the entire portfolio. Over a full market cycle, hedge funds produce equity-like returns with less than half the risk of stocks. Hedge funds do well when markets are up and mitigate losses during market downturns.

HIGH-YIELD BOND

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, 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.

MASTER LIMITED PARTNERSHIPS (MLPS)

Publicly traded partnership interests created by Congress to encourage investment in domestic energy infrastructure. At the entity level, these interests are tax free provided that 90% of their income comes from natural resources such as oil, natural gas, coal, timber and other depletable resources.

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 more than 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.

TEXAS COUNTY & DISTRICT RETIREMENT SYSTEM

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