

**THE EL PASO ROUTE
TEXAS AND PACIFIC
RAILWAY.**

MINERAL WELLS, TEX.

Mineral Wells, Tex., a charming little city, and known as "The Texas Health Resort," is situated at the western terminus of the Texas & Pacific R.R. at Northwold, Tex. The U. S. V. & P. R. R. is clustered to run from the Gulf of Mexico to Red River, the Mineral Wells. This road is under construction, and all indications point towards its early completion.

The altitude of Mineral Wells is 200 feet, and the average winter temperature is 45 degrees Fahrenheit, the average summer temperature is 80 degrees. The prevailing wind blows from the city of Mineral Wells and is of a nature that is very refreshing in summer, and moderate in winter. The climate is unsurpassed, and is one of the best in the United States.

Thousands of people have been cured of various ailments by the use of the waters of Mineral Wells, which are superior to those of any other health resort in the United States, and are fully equal to the best mineral waters of California. In fact, they are being sold throughout the Texas Medical Association, and are the only mineral water in the State of Texas.

Mineral Wells, Tex., April 1st, 1906. - I have been visiting Mineral Wells for the past few days, and in visiting this wonderful city they have been recommended, such as diabetes, syphilis, Bright's disease, (in its incipient stage), gonorrhea, rheumatism, neuralgia, headache, and all nervous affections, and many other ailments and complications, and especially children, and elderly people. I have visited Mineral Wells, Tex., and I can say that the waters of Mineral Wells, Tex., are superior to any other mineral water in the United States.

The present population of Mineral Wells is about 2,000. The hotel is provided with every luxury, and is one of the best in the State. The hotel is modern and comfortable, and is situated on the bank of the river. It is representative of the city, and is one of the best in the State. The hotel is provided with every luxury, and is one of the best in the State. The hotel is modern and comfortable, and is situated on the bank of the river. It is representative of the city, and is one of the best in the State.

With the advent of the Texas & Pacific R.R. and the completion of the road to the Gulf of Mexico, the city of Mineral Wells will be one of the largest and most important in the State. There are three weekly newspapers, well edited and ably managed, and the social and business life is one of the best in the State. The city is one of the most beautiful in the State, and is one of the best in the State.

For any further information, address
E. P. TURNER,
Box 177, Mineral Wells, Texas.

**THE TEXAS & PACIFIC
RAILWAY.**

Through Car Service.
Dallas, Texas.

THROUGH CAR SERVICE.
Dallas, Texas.

**MAP OF THE
THE TEXAS & PACIFIC RAILWAY
AND CONNECTIONS**

REPORT ON INVESTMENT ACTIVITY



April 18, 2006

To: The Board of Trustees and
Participants of the Texas Municipal Retirement System

The objective of the TMRS investment program is to generate consistent income to meet statutory requirements and credit supplemental interest (if possible) to member and municipality accounts. TMRS achieves this by investing in quality bonds with long maturities and with an emphasis on protection from the likelihood of a bond being retired prematurely. As a result, the investment program objectives focus on income rates of return rather than total rates of return that are impacted by volatile valuations in a changing interest rate environment. Depending on the interest rate environment, the total rate of return of the TMRS investment portfolio can fluctuate significantly, while the income rate of return is relatively stable. The focus on income return and a consistent strategy of holding quality long-term bonds has allowed the TMRS Board to credit 6% interest to member and municipality accounts for 2005. This was above the general market environment and above the statutory target rate of 5%. In addition, TMRS paid an “extra check” to annuitants equivalent to 40% of their monthly benefit, and ended the year with an interest reserve in excess of 2.0% of invested assets.

The interest rate environment was very active in 2005, with short-term interest rates increasing eight times, from 2.25% in February 2005 to 4.25% as of year-end, compared to short-term rates increasing five times in the second half of 2004. Higher rates usually result in lower bond prices, which enables TMRS to purchase securities at lower prices while earning more income for the portfolio. Despite this environment of increasing short-term rates, TMRS’ long-term focus resulted in an increase in the portfolio’s value by over 10% from 2004 and allowed TMRS to capture a significant amount of realized gains. Even though short-term rates have been on the rise during 2005, TMRS’ economic advisors, A. Gary Shilling and Co., Inc. and Hillswick Asset Management, LLC, continue to project an environment of lower long-term interest rates. During 2005, long Treasury yields ranged from a low of 4.19% to a high of 4.91%. We continue to focus on maintaining the overall quality of the portfolio while facing ongoing challenges in finding high-quality investments at relatively attractive yields.

The TMRS portfolio performance was calculated by State Street Analytics, a division of State Street Corporation. Rates of return presented were calculated using a time-weighted rate of return methodology based upon market values. Comparisons were made to other pension plans in the State Street Universe (SSU), without regard for the investment objectives of the individual plans in the universe. The State Street Universe is a proprietary comparative universe service developed by State Street Corporation, representing more than \$1.4 trillion in assets and containing over 4,000 portfolios. Additional comparisons are made to a relevant nationally recognized bond index, the Lehman Government/Credit Long Bond Index (LG/C Long).

Given the long-term nature of the TMRS fund objectives, performance for longer periods is most relevant. The performance measurement reveals that the TMRS income rate of return, a measure that is appropriate for the investment program objectives, remains consistent and was 7.0% over the past ten years. TMRS ranked in the top 1% of SSU's Total Fund income returns whose Median Total Fund return was 3.0%, and TMRS also exceeded the LG/C Long income return of 6.8%. For the past ten years the total rate of return was 8.6% versus the 8.4% return of the SSU's Median Public Fund, which represents ownership of all classes of security investments. In addition, TMRS also exceeded the LG/C Long total return of 7.4%. The portfolio's high relative total rate of return is a result of its long-term maturity structure and higher concentration in zero coupon securities. The investment results were achieved within the investment policies established by the TMRS Board of Trustees.

Respectfully submitted,



Preston G. Craig
Director of Investments

OUTLINE OF INVESTMENT POLICIES

Because the plan design depends on a relatively consistent level of credited interest across all plan years, and because compound interest credited annually at the highest feasible rate best assures the highest amount of accumulated deposits for the member at retirement, TMRS' goals are best achieved by an income-producing portfolio management strategy, rather than a total return strategy that may result in credits below the 5% statutory minimum target level.

As such, neither market value declines nor rises of its fixed-income portfolio are of material significance to the System's investment objectives. Periods of rising interest rates, which, by definition, will result in erosion of bond market values, should be regarded as opportunities to increase the yield on the total portfolio, and fixed income market volatility should be regarded as opportunities to realize gains.

Investment Objectives

The basic objectives of investment and reinvestment of system assets are:

1. To assure preservation of (and return of) principal.
2. To earn income sufficient to:
 - a) allow annual interest credit on the reserve funds at the minimum statutory rate;
 - b) pay annual administrative costs of the System; and
 - c) allow annual interest credit on the member and municipality accumulation accounts at the minimum statutory rate.
3. To consistently earn additional income, if feasible, for the following purposes:
 - a) maintain and continue an "interest reserve" to better ensure continued credits at the statutory minimum target rate during low yielding market periods;
 - b) pay a distributive benefit to annuitants on December 31st of each year; and
 - c) credit additional annual interest to the individual accounts of members and to the accumulation accounts of municipalities.
4. To maintain sufficient liquidity to pay benefits.

General Investment Policies

1. Funds of the System shall be invested, without distinction as to source, only in securities as that term is defined in the TMRS Act, and as authorized by the TMRS Board of Trustees' investment policies. Board policy limits on amounts of any security or class of securities shall be observed.
2. Investments shall be made with the degree of judgment and care, under the circumstances then prevailing, that persons of prudence, discretion, and intelligence exercise in the management of their own affairs, considering the probable income from the securities and probable safety of their capital.

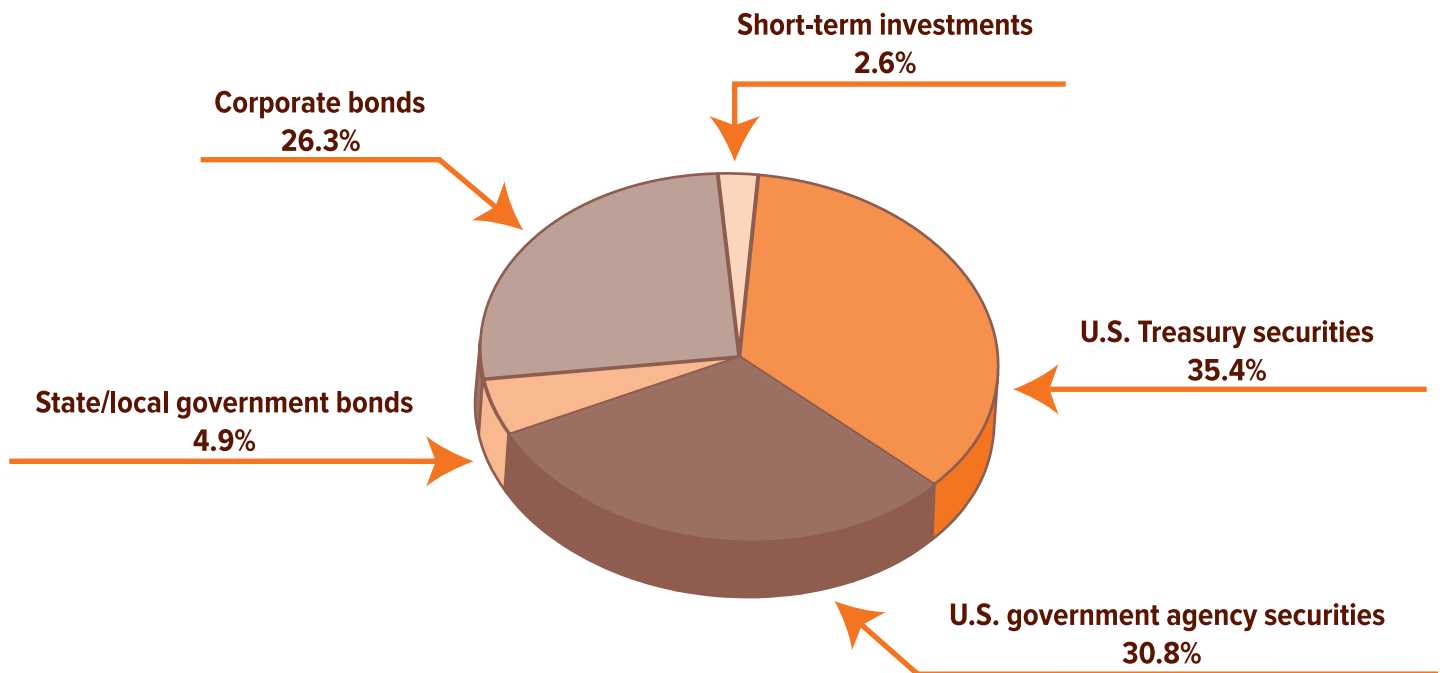
SUMMARY OF INVESTMENTS

As of December 31, 2005

	Fair Value	Percent of Total Fair Value
Short-term investments	\$ 346,237,603	2.6 %
Fixed-income securities:		
U.S. Treasury securities	4,641,646,623	35.4
U.S. government agency securities	4,037,784,371	30.8
State/local government bonds	644,830,185	4.9
Corporate bonds	<u>3,449,615,230</u>	<u>26.3</u>
Total fixed-income securities	12,773,876,409	97.4
TOTAL INVESTMENTS	\$ 13,120,114,012	100.00 %

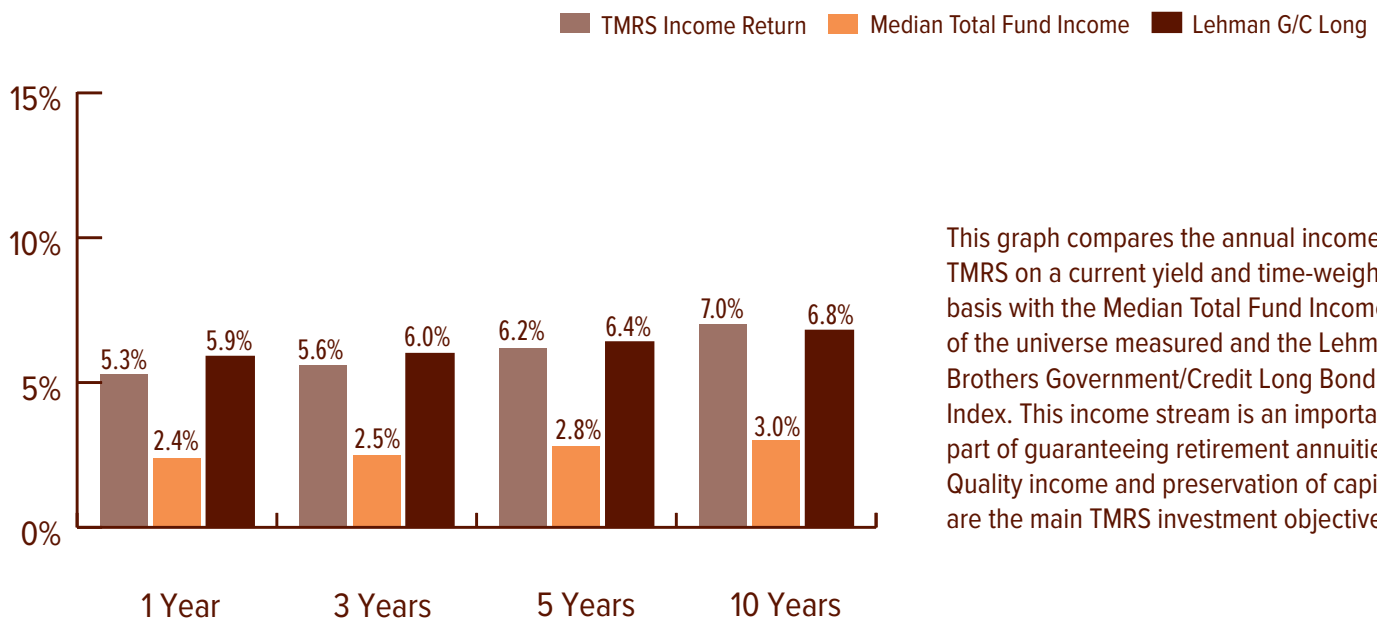
Note: The summary above includes assets of both the Fiduciary and Proprietary Funds.

ASSET ALLOCATION



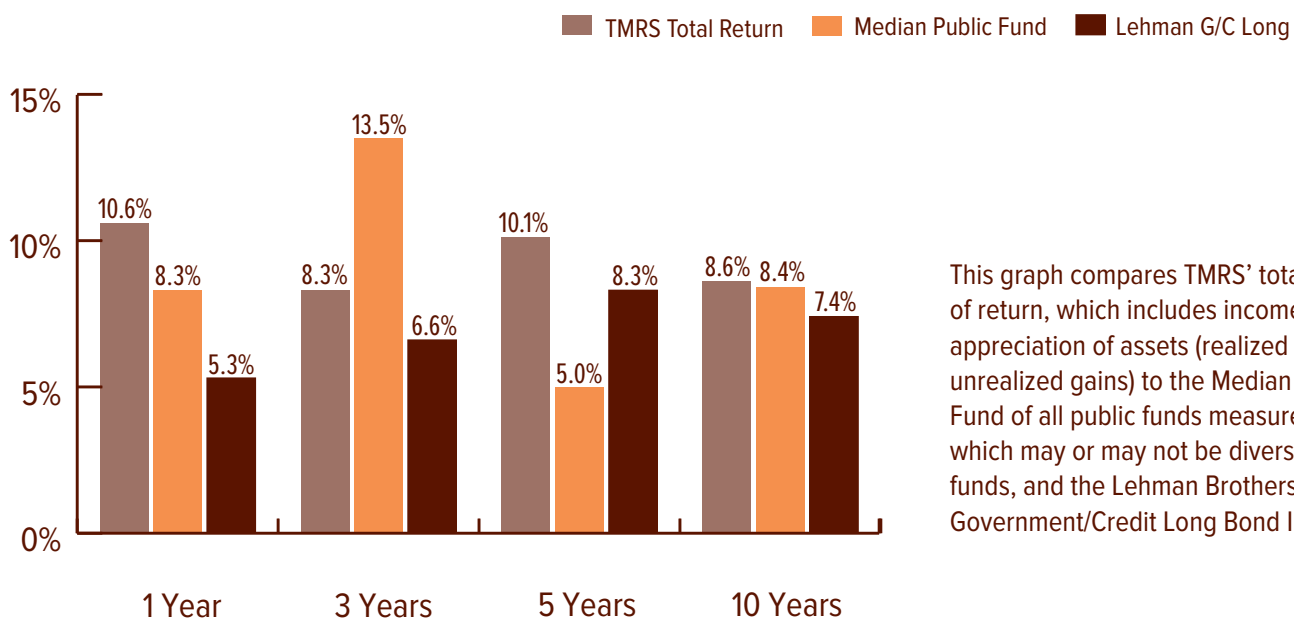
2005 INVESTMENT RESULTS

TMRS Income Rate of Return



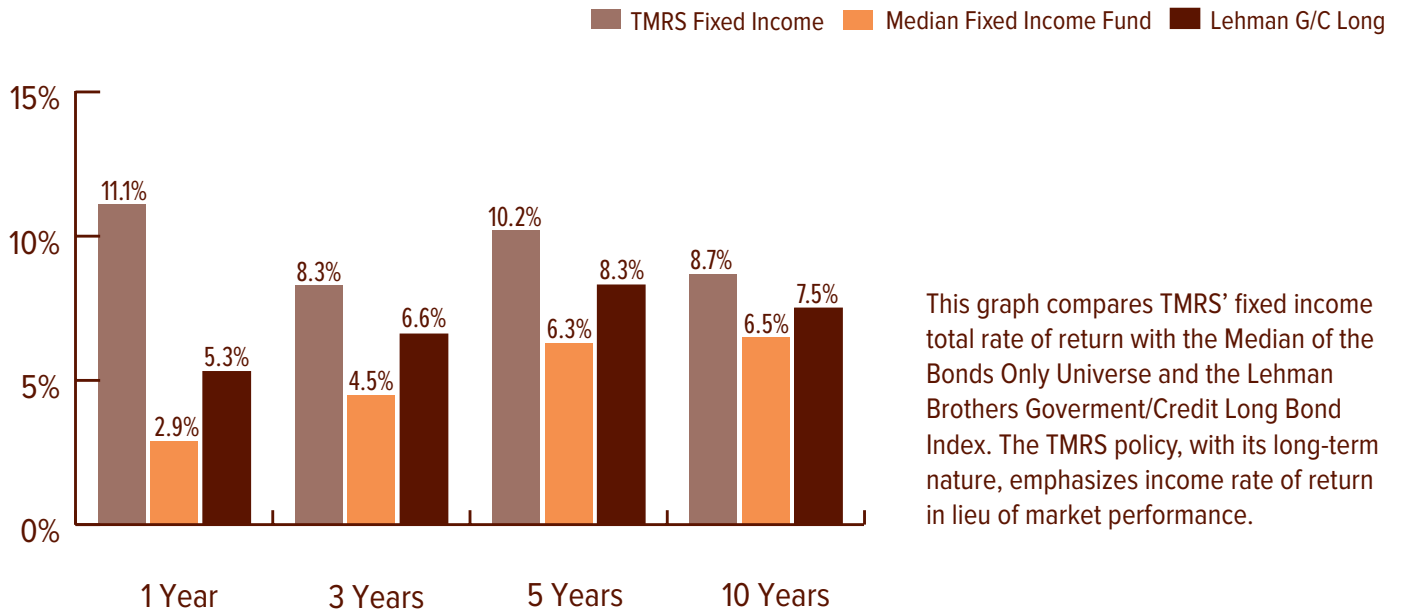
This graph compares the annual income of TMRS on a current yield and time-weighted basis with the Median Total Fund Income of the universe measured and the Lehman Brothers Government/Credit Long Bond Index. This income stream is an important part of guaranteeing retirement annuities. Quality income and preservation of capital are the main TMRS investment objectives.

TMRS Total Fund Rate of Return



This graph compares TMRS' total rate of return, which includes income and appreciation of assets (realized and unrealized gains) to the Median Public Fund of all public funds measured, which may or may not be diversified funds, and the Lehman Brothers Government/Credit Long Bond Index.

TMRS Bonds Only • Total Rate of Return



This graph compares TMRS' fixed income total rate of return with the Median of the Bonds Only Universe and the Lehman Brothers Government/Credit Long Bond Index. The TMRS policy, with its long-term nature, emphasizes income rate of return in lieu of market performance.

This table displays the statistical characteristics of the TMRS bond portfolio as of December 31, 2005, in comparison with a relevant market index, the Lehman Brothers Government/Credit Long Bond Index.

Bond Portfolio Characteristics	TMRS DECEMBER 31, 2005	LB G/C LONG DECEMBER 31, 2005
Total number of securities	155	880
Current coupon	3.70%	7.00%
Yield to maturity	5.10%	5.20%
Average maturity (years)	22.0	19.8
Adjusted duration (years)	15.5	10.9
Average quality	AAA	AA-1/AA+

SUMMARY OF INVESTMENT OPERATIONS

For the Years Ended December 31, 2005 and 2004		
	2005	2004
Investment Income:		
Interest earned on short-term investments	\$ 19,240,539	\$ 4,520,429
Interest earned on U.S. Treasury securities	208,317,426	210,232,257
Interest earned on U.S. government agencies	190,372,798	218,570,542
Interest earned on state/local government bonds	33,827,549	26,895,306
Interest earned on corporate bonds	187,638,901	146,675,006
Gains on sale of bonds	109,631,476	87,988,926
Net securities lending income*	4,962,091	4,309,533
Other	13,974	(614)
TOTAL INVESTMENT INCOME	\$ 754,004,754	\$ 699,191,385
Investment Income Allocation:		
Employees saving fund	\$ 183,427,760	\$ 202,697,518
Municipality accumulation fund	277,220,775	307,389,534
Current service annuity reserve fund	177,931,709	157,106,806
Supplemental disability benefits fund	57,476	60,875
Supplemental death benefits fund	972,686	937,040
Endowment fund	100,930,961	956,190
Distributive benefit	13,463,387	30,043,422
TOTAL DISTRIBUTION TO FUNDS	\$ 754,004,754	\$ 699,191,385

* For purposes of this schedule, securities lending income is presented net of related fees of \$171,423,927 and \$66,649,478 for 2005 and 2004, respectively.

Note: This schedule represents the allocation of interest income, as defined by the TMRS Act, to the various funds. A description of each fund can be found in Note 1-D, pages 37-39. This schedule does not include unrealized appreciation/depreciation in the fair value of fixed income securities.

LARGEST HOLDINGS (BY FAIR VALUE)

Par	Description	Fair Value
\$ 1,883,000,000	U.S. Treasury - 5 1/2%, due 8-15-2028, Rating AAA	\$ 2,117,245,200
3,187,500,000	Resolution Funding - Zero bonds, due 1-15-2030, Rating AAA	1,037,531,250
1,925,000,000	U.S. Treasury Principal Strips - due 2-15-2027, Rating AAA	727,650,000
609,952,500	Illinois State Taxable Pension Bonds - 5.1%, due 6-1-2033, Rating AA	602,450,084
1,660,000,000	Resolution Funding - Zero bonds, due 4-15-2030, Rating AAA	534,520,000
385,630,000	Tennessee Valley Authority - 7 1/8%, due 5-1-2030, Rating AAA	501,087,622
1,150,000,000	U.S. Treasury Principal Strips - due 8-15-2026, Rating AAA	444,820,000
1,150,000,000	U.S. Treasury Principal Strips - due 8-15-2027, Rating AAA	426,650,000
975,000,000	U.S. Treasury Principal Strips - due 11-15-2026, Rating AAA	372,840,000
655,000,000	Resolution Funding - Zero bonds, due 10-15-2020, Rating AAA	324,683,500

Note: Space and cost restrictions make it impractical to print a detailed listing of the investment portfolio in this report; however, a portfolio listing is available and will be mailed upon request.

SCHEDULE OF INVESTMENT FEES

For the Year Ended December 31, 2005

Personnel services:

Staff salaries	\$ 398,581
Payroll taxes	20,955
Retirement contributions	49,424
Insurance	<u>20,741</u>
Total personnel services	489,701

Professional services:

Consulting services	<u>85,000</u>
Total professional services	85,000

Communication:

Travel	<u>20,577</u>
Total communication	20,577

Miscellaneous:

Dues, subscriptions and training	127,265
Other administrative expenses	<u>926</u>
Total miscellaneous	128,191

TOTAL INVESTMENT EXPENSES	\$ 723,469
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Note: All investment fees incurred during 2005 are related to the System's internally managed portfolio of fixed income securities.