



Houston Firefighters' Relief and Retirement Fund



2008 Comprehensive Annual Financial Report

A COMPONENT UNIT OF THE CITY OF HOUSTON, TEXAS, FOR FISCAL YEAR ENDED JUNE 30, 2008



Houston Firefighters' Relief and Retirement Fund
2008 Comprehensive Annual Financial Report
for fiscal year ended June 30, 2008

A Component Unit of the City of Houston, Texas

Prepared through the combined efforts of the
Houston Firefighters' Relief and Retirement Fund
staff under the leadership of the Board of Trustees.

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SECTION 1

Introduction

**HOUSTON
FIREFIGHTERS'
RELIEF AND
RETIREMENT
FUND**



Investing for
Firefighters and
Their Families®

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North Parkway
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**BOARD OF
TRUSTEES**

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Craig T. Mason,
City Treasurer Designee

Harold W. McDonald,
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Gary M. Vincent,
Member

**Honorable
Helen Huey,**
Citizen Member

Albertino Mays,
Citizen Member

Robert B. Stobaugh,
Mayor's Representative

Christopher Gonzales,
*Executive Director/
Chief Investment Officer*

Letter of transmittal

October 20, 2008

Craig T. Mason
City Treasurer Designee
City of Houston
P.O. Box 1562
Houston, Texas 77251-1562



Dear Mr. Mason:

The Comprehensive Annual Financial Report (CAFR) of the Houston Firefighters' Relief and Retirement Fund (the Fund), a component of the City of Houston, for the fiscal year ended June 30, 2008, is submitted herewith.

The Houston Firefighters' Relief and Retirement Fund was created in 1937 with the passage of a state law that provided benefits for firefighters in certain cities in Texas. In 1975, Article 6243e.2 was passed in the Texas legislature to create a fund for firefighters in cities with a population not less than 1.2 million. This statute was amended in 1997 into Article 6243e.2(1). Since that time, and currently, Article 6243e.2(1) governs only firefighters employed by the City of Houston. Firefighters in the City of Houston are not covered by Social Security.

Article 6243e.2(1) states that a fund shall be created to provide retirement, disability and death benefits for firefighters and their beneficiaries, and that it shall be governed by a Board of Trustees, which has sole responsibility for its maintenance. In earlier years, the City of Houston provided staff and financing for the daily administration of the Fund. Effective July 1, 1988, the Board of Trustees assumed full responsibility for its administration. Administration of the Fund includes accurately computing and disbursing retirement benefits, receiving and depositing contributions in a timely manner, accounting for investment activity, monitoring the activity of all external investment managers, auditing all financial activities of the Fund on an ongoing basis, and meeting reporting requirements in a timely manner.

Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Board of Trustees. To the best of the Board's knowledge and belief, the enclosed information is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of Fund operations. All disclosures necessary to enable the reader to gain an understanding of the financial activities of the Fund have been included.

In January 2008, the Fund's Chief Investment Officer was appointed to fill the dual role of the Executive Director/Chief Investment Officer. Both he and the Chief Legal Officer report directly to the Board of Trustees. In addition, the Chairman of the Board of Trustees is assigned to the Fund on a full-time basis.

MILESTONES AND MAJOR INITIATIVES

The Fund achieved several milestones during fiscal year 2008. Listed below are several accomplishments from the Investment, Finance and Operations, Member Services, and Legal Teams.

In anticipation of a poor market, the Fund's **Investment Team** set out for a second straight year to improve the portfolio's downside risk. The strategy was to continue to increase exposure to non-traditional alternative investments including private equity, hedge funds and real estate. During the year nearly \$250 million was committed to those asset classes.

Throughout the year the Fund's Investment Team repeatedly tested the viability of the entire group of underlying investment managers in all asset classes. As part of an ongoing due diligence program, the team is regularly meeting with existing and prospective investment managers in an effort to understand the strengths and weaknesses of their respective strategies.

For the 25th year in a row, our **Finance and Operations Team** has received the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting. It also implemented new in-house accounting software to better manage all operating expenses, which assisted in a smooth audit and a clean audit opinion.

Our **Member Services Team** continued to enhance service provided to our members by providing individual (in-person and phone conference) and group Post Retirement Option Plan (PROP) educational sessions for eligible retirees and surviving spouses. As of the end of the fiscal year, 198 have elected to participate in this new benefit option. This year, the team administered over 33,000 benefit payments totaling more than \$112 million.

This year's **Legal Team** endeavors were highly successful. An important effort was the supervision of federal legislative efforts to correct wording in federal

law that might adversely affect the deferred retirement option program. The Legal Team worked with the Member Services Team to propose various pension policy amendments which enhanced consistency and helped the Board and staff with clear measures for determining benefits eligibility. The negotiation and contracting for a new pension administration software system, in conjunction with the Member Services Team, was another important project completed. The Legal Team worked with the Investment Team to negotiate and obtain contractual terms favorable to the Fund in a growing number of private equity partnership investments. The Legal Team also provided advice and education to the Board in a number of areas requested by the Board, including open government and fiduciary duties of Fund Trustees.

ADMINISTRATION, STAFF AND PROFESSIONAL SERVICES

At fiscal year-end, the Fund staff was made up of 29 full-time employees. The following professionals were employed by the Board of Trustees as of June 30, 2008, to provide specialty services:

- The custodian bank is Bank of New York Mellon.
- Mir•Fox & Rodriguez, P.C., serves as the auditor.
- Buck Consultants is the actuary.

All investment consultants of the Fund acknowledge that they serve in a fiduciary capacity to the Fund. Most of the professional consultants appointed by the Board are listed on page 10 of this report. Other professionals employed by the Board are listed on pages 39 and 40.

ACCOUNTING SYSTEMS AND REPORTS

As plan administrator of the Fund, the Board of Trustees maintains the following various internal controls to ensure material accuracy of all data:

- Biweekly control reports are generated by the Fund staff to ensure the accuracy of employee and employer contributions received from the City of Houston.
- Monthly reconciliations are performed on benefit

payment information to confirm payment instructions to the custodian bank.

- Monthly reviews are performed on all investment transactions to ensure that dividends and interest on the investments of the Fund are properly credited, all assets are accounted for properly, all market valuations are appropriate, and each investment manager is in compliance with established guidelines.
- The checking account of the Fund, from which administrative payments are made, is reconciled monthly by the staff, and wire transfers from the custodian bank are reconciled monthly to the in-house cash account.
- The Budget and Audit Committee of the Board of Trustees, which sets general parameters for spending, meets at least quarterly to review administrative expenditures.
- The Personnel and Procedures Committee, a committee of the whole, formulates and reviews administrative procedures of the Fund. The auditor of the Fund reviews these internal controls annually. In turn, the auditor makes a report to the Board. If needed, the Board makes changes in the systems and controls of the Fund.

The financial statements included in this report have been prepared in accordance with generally accepted accounting principles (GAAP) and the principles of governmental accounting and reporting pronounced by the Governmental Accounting Standards Board (GASB). The accrual basis of accounting is used to record assets, liabilities, revenues and expenses. Revenues for the Fund are taken into account when earned without regard to date of collection. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made. For an overview of the financial position of the Fund, please refer to the Management's Discussion and Analysis in the financial section.

Contributions to the Fund are based on the principles of level cost financing, with current services

financed on a current basis and prior services amortized over a 30-year rolling period. The Fund has ended its fiscal year on June 30 since 1984. The Independent Auditors' Report from a certified public accountant and certification from the actuary of the Fund are included in this report.

INVESTMENTS

The investment portfolio is a major contributor to the Fund. The Board of Trustees created the Investment Committee, consisting of the whole Board, to oversee the investment portfolio, managers and performance of the Fund. With assistance from the Fund's professional staff, the Investment Committee monitors the asset allocation of current investments, as well as reviews potential investment opportunities.

The overall goal of the Board's investment program is to provide sufficient investment returns necessary to pay timely and sufficient benefits to participants and their beneficiaries. Key components of the investment program that enable the Fund to achieve this goal are a diversified investment portfolio, a long-term investment outlook, and prudent risk-taking commensurate with fulfilling the goal of the program. The Fund's assets are invested in short-term instruments ("cash equivalents"), fixed-income securities, domestic and international equity securities, alternative investments, private equity, and real estate. By investing in different types of assets, the impact that a downturn in one asset class would have on the Fund is minimized and the probability that the Fund will earn an adequate rate of return is improved. The Board maintains an investment outlook that emphasizes stability and long-term planning — because payments to participants and beneficiaries are long-term in nature — and avoids drastic asset shifts and market timing decisions. The Board assumes prudent risk in the investment portfolio to ensure that assets grow at an adequate rate to provide promised benefits to participants and beneficiaries. By adhering to these components, the investment program is character-

ized by steady growth in ever-changing global market and economic environments.

The performance objective of the Fund is to meet or exceed the actuarial rate, currently 8.5 percent, over a long-term horizon that is defined as 10 years.

The past fiscal year, which ended June 30, 2008, saw the Fund's annual rate of return come in at 3.96 percent.* At first glance, this return appears to be subpar when compared to the previous four years or even when compared to the Fund's target rate of return of 8.5 percent. Yet, when considering the economic and market environments of the year, this return is much better than expected.

The year brought economic forces that would naturally depress any market. We saw the historic beginning of a credit crisis led by improper home loans and poor U.S. savings rates, quickly rising commodity prices, rising unemployment, inflation, and a weak U.S. dollar. During the year, investor confidence levels in the financial system weakened as they realized the insurmountable size and complexity of the credit problem. In an effort to seek a positive return, investors shuffled money amongst asset classes creating the flux that we experienced all year and continue to experience now. Most asset classes performed poorly during this period.

Private equity and hedge funds were the strongest performers in 2008, both producing strong double digit returns of 20 percent and 15.7 percent, respectively. Real estate, fixed income and cash all delivered modest single digit returns. While the domestic and international equity classes delivered negative results, it is important to note that both asset classes outperformed their respective benchmarks. This outperformance is attributed to higher-than-market exposure to the energy sector and emerging market categories, which both delivered double digit returns in 2008.

THE RANKING

This year's return placed the Fund in the top first percentile among public pension systems over a three-, five-, seven- and ten-year annualized period, and in the second percentile over a one-year period, according to the Wilshire TUCS® Report dated June 30, 2008.†

Over the longer term, the Fund has consistently added value over its policy benchmark and exceeded the actuarial nominal rate of return target of 8.5 percent. Additional information regarding the investment results for the year is included in the Investment section of this report.

* This information is gross of investment management fees and Fund expenses.

† Source: Wilshire's Trust Universe Comparison Services Report — a cooperative effort between Wilshire Analytics, the investment technology unit of Wilshire Associates, and custodial organizations such as HFRRF's custodian bank, BNY Mellon. The TUCS Report is the most widely accepted benchmark for the performance of institutional assets.

FINANCIAL HIGHLIGHTS

Additions to assets received by the Fund are used to fund current and future benefits for members and their beneficiaries. The primary sources of additions are contributions from active members, the City of Houston and investment income. Deductions from assets consist of benefits paid to retired members and their beneficiaries, fees for professional services, and operations costs.

The following table summarizes additions and deductions to plan net assets for fiscal years 2008, 2007 and 2006.

	2008 (millions)	2007 (millions)	2006 (millions)
BEGINNING NET ASSETS	\$2,966	\$2,574	\$2,286
Additions	\$183	\$501	\$389
Deductions	\$120	\$109	\$101
Net Change	\$63	\$392	\$288
ENDING NET ASSETS	\$3,029	\$2,966	\$2,574

FUNDING STATUS

The funding objective of the Fund is to establish contributions which, when combined with present assets and future investment returns, will be sufficient to meet the financial obligations to present and future retirees and beneficiaries. Additionally, the Fund's goal is to establish contributions that are an approximately level percentage of payroll for each generation of active members. Annual actuarial valuations measure the progress toward these goals, as well as test the adequacy of the contribution rate.

The Fund's actuary assumes that the Fund's investments will return 8.5 percent each year. The differences between the assumed and actual investment return are phased in over a five-year period, yielding an actuarial value of assets. The smoothing prevents extreme volatility in employer contribution rates due to short-term fluctuations in the investment markets. The Entry Age Actuarial Cost method is used to calculate the Fund's long-term funding needs. Under this method, the actuarial value of the anticipated benefit of each plan member is allocated on a level basis over the member's career.

For the July 2007 valuation, the actuarial value of assets was \$2.63 billion; the aggregate actuarial liability for the Fund's members was \$2.89 billion. The funding ratio is currently 91.0 — that is, current assets cover 91.0 percent of the benefits accrued to date by active and retired members and beneficiaries. This is higher than the 87.0 percent in the July 2006 valuation, primarily due to recognition of recent investment gains of the Fund.

Additional information regarding the financial condition of the Fund can be found in the Actuarial section of this report.

INDEPENDENT AUDIT

An audit was performed by Mir•Fox & Rodriguez, P.C., for the fiscal year ending June 30, 2008, and was

conducted in accordance with auditing standards generally accepted in the United States of America. The Independent Auditors' Report is included in the financial section of this CAFR. The financial section also contains a management discussion and analysis report that provides a narrative introduction, overview and analysis of the financial statements.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the Houston Firefighters' Relief and Retirement Fund, Houston, Texas, for its comprehensive annual financial report for the fiscal year ended June 30, 2007. This was the 25th year that the Fund has received this prestigious award. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

ACKNOWLEDGMENTS

The compilation of this report reflects the combined effort of the Houston Firefighters' Relief and Retirement Fund staff under the leadership of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship for the assets contributed by the employee members and the City of Houston.

On behalf of the Board of Trustees, we would like

to take this opportunity to express our appreciation to staff members and the many other professionals and participants who have worked so diligently to assure the successful operation of the Fund.

Sincerely,



KEVIN J. BROLAN, CHAIRMAN



CHRISTOPHER GONZALES,
EXECUTIVE DIRECTOR / CHIEF INVESTMENT
OFFICER

Executive Director / Chief Investment Officer

Christopher Gonzales

Chief Legal Officer

Jonathan W. Needle

Deputy Director of Member Services

Glenna Hicks

Committees

Pension Benefits

Investment

Budget and Audit

Personnel and Procedures

Legislative

Memorial

Actuary

Buck Consultants

Auditor

Mir•Fox & Rodriguez, P.C.

Custodian Bank

Bank of New York Mellon

Investment Advisors

AllianceBernstein Institutional Investment Management

Americus Real Estate Investments

ARCIS

Ariel Capital Management

BlackRock

The Blackstone Group

Brera Capital Partners, LLC

Bridgewater Associates

Centennial Holdings

Coller Investment Management Limited

Credit Suisse

Drum Capitol

Energy Spectrum Capital, LP

Energy Trust, LLC

FX Concepts

GW Capital, Inc.

Harris Alternatives

HM Capital

HRJ Global Real Estate III

Industrial Growth Partners

Landmark Equity Partners

Lexington Capital Partners

Liquid Realty

Lone Star Funds

Loomis Sayles & Company

Marvin & Palmer Associates, Inc.

McKinley Capital Management, Inc.

Mellon Capital

Mercator Asset Management

Metropolitan Real Estate

The Mitchell Group

Portfolio Advisors

Ranieri & Co., Inc.

RMK Timberland Group

Standish/Mellon Bond Associates

STW Fixed Income Mgmt.

TCW

Timberland Investment Resources, LLC

Victory Capital Management

Please see "Fees for Investment Services" on page 49.

AN OVERVIEW OF FINANCIAL STATEMENT PREPARATION

At the end of each fiscal year, the Board and staff members prepare financial statements showing the financial activity of the Fund. The financial statements include the statements of plan net assets and changes in plan net assets for the years presented. The notes are essential to the completeness of the information in the financial statements.

After the financial statements are prepared, an independent outside auditor hired by the Board reviews the systems and methods used to arrive at the information in the financial statements. A financial audit is then performed to determine if the financial statements are free of material misstatement. The audit includes examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements.

The audit is conducted in accordance with generally accepted auditing standards. If the auditor finds the financial statements free of material misstatement, the auditor issues an opinion such as that found on page 14, stating that the statements fairly present the financial position of the Fund in accordance with GAAP — generally accepted accounting principles.

Some of the terms used in this section are defined in the glossary on pages 70 to 72.

Statements of Plan Net Assets

The statements of plan net assets are statements of the financial condition of the Fund that show snapshots of Fund assets and liabilities at a specific point in time. In this case, it is the end of the fiscal year on June 30, 2008 and 2007.

The statements show assets, liabilities and the remaining Fund balance. An asset is anything having commercial, economic or exchange value. Assets include cash, receivables (interest and dividends earned by the investments of the Fund and employee member

and employer contributions), investments, collateral on securities lending arrangements, and land.

Fund liabilities include money reserved for members who are entitled to benefits and obligations for professional services the Fund has used — but for which payment has not been made.

Statements of Changes in Plan Net Assets

The statements of changes in plan net assets show the financial impact on the Fund of operations and investments during a period of time. In this case, it is the years ended June 30, 2008 and 2007.

Additions to plan net assets represent cash that came into, or is expected to come into, the Fund from events that take place during a fiscal year.

Additions include employee member contributions, employer contributions and investment income. Investment gains are included because the increase (or decrease) in market value of investments is shown as revenue since the investments are reported at market value.

Deductions from plan net assets represent the money that the Fund paid out or expects to pay out from events that take place during a fiscal year. Deductions include benefit payments to retirees and beneficiaries, refunds of contributions to firefighters who leave the Houston Fire Department, and professional and administrative expenses.

This statement provides useful information about what happened during a single year. Retirement funds, however, operate with a long-term strategy (see “An Overview of the Actuarial Valuation” on page 52).

Changes in plan net assets at the end of the statement show the previous year’s balance, plus revenues after expenses, to total the plan net assets held in trust for pension benefits at fiscal year-end.

Notes to Financial Statements

The notes are an integral part of the financial statements. The notes include any information that might be needed to have an adequate understanding of the overall financial status of the Fund.

In this report, the notes include explanations of the payment and refund features of the governing statute of the Fund, the accounting methods used by the Fund, the funding methods used, the methods and assumptions the actuary uses to determine contribution requirements, and any significant changes that take place after fiscal year-end.

Supplementary Information

The supplementary 10-year trend information provides additional historical perspective. These charts show the progress toward reaching the goal of being totally funded, as well as sources of revenues and types of expenses of the Fund during the fiscal year.

Other supplementary information provides additional details for analysis.



SECTION 2

Financial information

*Mir·Fox &
Rodriguez, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS

Member of the American Institute of Certified Public Accountants

BOARD OF TRUSTEES

Houston Firefighters' Relief and Retirement Fund:

We have audited the accompanying statements of plan net assets of the Houston Firefighters' Relief and Retirement Fund (the Fund) as of June 30, 2008 and 2007, and the related statements of changes in plan net assets for the years then ended. These basic financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

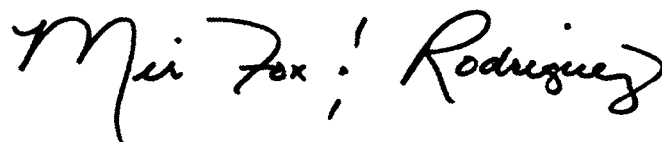
In our opinion, the basic financial statements referred to above present fairly, in all material respects, information regarding the Fund's net assets available for benefits as of June 30, 2008, and changes therein for the year then ended and its financial status as of June 30, 2007, and changes therein for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis (MD&A) and the required supplemental information (schedules 1 and 2) are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and required supplemental information. However, we did not audit such information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional supplemental information (schedules 3 and 4) are presented for the purpose of additional analysis and are not a required part of the Fund's basic financial statements. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 16, 2008

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Houston, Texas 77056
713.622.1120
713.961.0625 Fax
www.mfrpc.com



Management is pleased to present a discussion and analysis of the Houston Firefighters' Relief and Retirement Fund (the Fund) financial activity for the fiscal years ended June 30, 2008, 2007 and 2006. This discussion is intended to serve as an introduction to the Fund's basic financial statements, which reflect Fund resources available for payment of benefits and other expenses. The basic financial statements consist of:

The **Statements of Plan Net Assets** reflect a snapshot of the Fund's financial position and reflect resources available for the payment of benefits and other expenses at fiscal year-end. The statements show the Fund's assets, liabilities and plan net assets available at the end of the fiscal year (Assets - Liabilities = Net Assets).

The Statements of Changes in **Plan Net Assets** reflect the results of all transactions that occurred

during the fiscal year and show the fiscal year-end additions to and deductions from the Fund (Additions - Deductions = Net Change in Net Assets). Essentially, this statement shows what has happened to the plan assets during the fiscal year. If net assets increased, then additions were more than the deductions. If net assets decreased, then additions to the Fund were less than the deductions from the Fund.

Notes to the Basic Financial Statements are an integral part of the basic financial statements and include additional information that might be needed to have an adequate understanding of the overall financial status of the Fund.

Required Supplemental Information and **Additional Supplemental Information** follow the **Notes to the Basic Financial Statements** and provide historical and additional information considered useful in reviewing the basic financial statements.

FINANCIAL HIGHLIGHTS

Summary Comparative Statements of Plan Net Assets

	FISCAL YEAR 2008	FISCAL YEAR 2007	FISCAL YEAR 2006
ASSETS			
Investments	\$3,009,291,017	\$2,943,371,721	\$2,554,928,572
Capital assets (net of depreciation):			
Land and building	\$7,399,059	\$7,700,340	\$7,971,016
Furniture, fixtures and equipment	\$276,547	\$644,837	\$972,448
Other	\$248,596,469	\$703,616,908	\$662,387,701
TOTAL ASSETS	\$3,265,563,092	\$3,655,333,806	\$3,226,259,737
LIABILITIES			
Short-term liabilities	\$236,404,540	\$689,252,078	\$652,375,391
TOTAL NET ASSETS	\$3,029,158,552	\$2,966,081,728	\$2,573,884,346

Plan net assets at the end of fiscal years 2008, 2007 and 2006 totaled \$3,029,158,552; \$2,966,081,728 and \$2,573,884,346; respectively. The modest increase in plan net assets for fiscal year 2008 is due to strong returns from the private equity and hedge funds asset classes as demonstrated in a 3.96 percent investment return. In fiscal year 2007, the increase in plan net assets was due to continued favorable market conditions as evidenced by the Fund's total investment return of 17.00 percent (and 14.48 percent in fiscal year 2006).

<i>Summary Comparative Statements of Changes in Plan Net Assets</i>			
	FISCAL YEAR 2008	FISCAL YEAR 2007	FISCAL YEAR 2006
Beginning net assets	\$2,966,081,728	\$2,573,884,346	\$2,286,004,017
Additions to net assets:			
Contributions	\$74,482,463	\$72,803,130	\$67,250,954
Net appreciation in fair value of investments	\$22,032,928	\$328,607,064	\$250,059,653
Interest income	\$66,866,092	\$57,664,859	\$48,722,319
Dividends	\$20,052,418	\$31,620,176	\$20,577,585
Net proceeds from securities lending	\$1,595,623	\$1,284,669	\$1,440,398
Earnings from private equity and real estate investments	\$6,589,951	\$14,888,840	\$10,417,063
Other income	\$1,256,464	\$3,092,051	\$511,678
Less cost of investment services	(\$9,986,181)	\$(10,182,092)	\$(10,094,588)
Net investment and other income	\$108,407,295	\$426,975,567	\$321,634,108
Court judgment	–	\$1,273,490	–
TOTAL ADDITIONS TO NET ASSETS	\$182,889,758	\$501,052,187	\$388,885,062
Deductions from net assets:			
Benefits	\$112,163,836	\$100,965,331	\$93,842,906
Other	\$7,649,098	\$7,889,474	\$7,161,827
TOTAL DEDUCTIONS FROM NET ASSETS	\$119,812,934	\$108,854,805	\$101,004,733
NET INCREASE IN NET ASSETS	\$63,076,824	\$392,197,382	\$287,880,329
ENDING NET ASSETS	\$3,029,158,552	\$2,966,081,728	\$2,573,884,346

ADDITIONS

Contributions

The funds needed to finance retirement benefits are accumulated through the collection of employee and employer contributions and through income on investments. These are offset by plan deductions. The amounts contributed by employee members for the last three fiscal years were \$20,431,049 (fiscal year 2008); \$19,981,657 (fiscal year 2007) and \$18,470,660 (fiscal year 2006). Employer contributions for the last three years were \$54,051,414 (fiscal year 2008); \$52,821,473 (fiscal year 2007) and \$48,780,294 (fiscal year 2006).

In fiscal years 2008 and 2007, the employer and employee contributions increased when compared to fiscal years 2007 and 2006, primarily because of the three-year collective bargaining agreement finalized in 2005 between the City and active firefighters. This

agreement is for 2005 – 2008, and it increases the payroll salaries for all active firefighters over a multiple-year period.

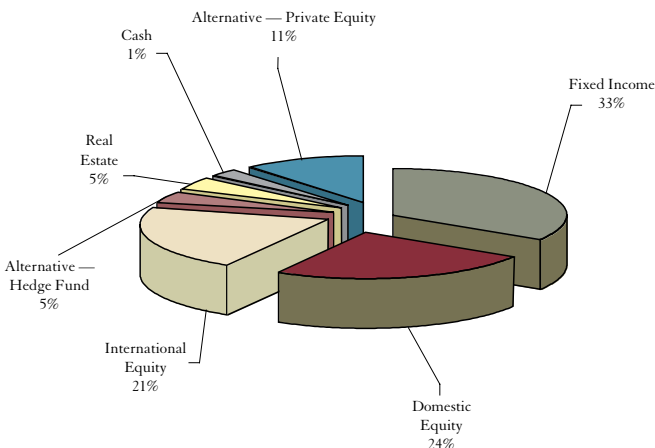
Net Investment and Other Income

The Fund's overall financial position continued to grow during fiscal year 2008 with an overall investment return of 3.96 percent. This modest result enhanced the portfolio's market value to more than \$3 billion by contributing a net of almost \$108 million to the Fund. The Fund's portfolio experienced double digit returns from the private equity and hedge fund asset classes. Greater than market exposures to the energy sector protected the Fund from double digit losses within the domestic equity asset class.

At June 30, 2008, U.S. and international stocks represented approximately 45 percent of the Fund's invest-

ments, domestic and international bond investments represented 33 percent, real estate represented 5 percent, and alternatives represented 16 percent (private equity 11 percent and hedge funds 5 percent). The remaining 1 percent represented cash equivalents.

Asset Allocation as of June 30, 2008



In fiscal year 2007, the Fund's portfolio's market value increased to more than \$2.9 billion, an increase of almost \$427 million to the Fund. Between fiscal years 2004 and 2007, the Fund's portfolio experienced double digit returns from the domestic equity, international equity, private equity and real estate asset classes. The Fund's bond portfolio was up 9 percent in fiscal year 2007 despite the credit market woes. Once again, higher than market exposures to the energy sector and international developed and emerging markets were the drivers behind the strong return. The positive gain for the fiscal year 2007 strengthened the Fund's long-term performance. The 10-year annualized return was 9.84 percent through June 30, 2007.

Court Judgment

Prior to fiscal year 2007, the Fund was involved in lawsuits concerning its award for prior service credit (PSC) to 22 firefighters and its denial to approximately 78 others. The 78 denied firefighters ultimately stopped pursuing their claims and the issue became whether the City of Houston would have to pay its share of contributions to enable the award or credit to those of

the approved firefighters who were prepared to make their contributions. In 2006, the First Court of Appeals agreed with the Fund and the trial court that the City was required to pay its share of PSC contributions. The City decided not to pursue further review of the case by the Texas Supreme Court, leaving the appellate decision favorable to the Fund in place. The proper contribution amounts were determined in accordance with the appellate decision and were agreed upon by the Fund, the City and the PSC firefighters in order to establish the PSC for those firefighters who were prepared to make their portion of PSC contributions. In connection with this court judgment, in fiscal year 2007 the Fund received a total of \$1,273,490 (representing \$979,549 of City contributions and \$293,941 of firefighter contributions).

DEDUCTIONS

Most deductions from plan net assets in a retirement system relate to the purpose for which it has been created: the payment of benefits. Consequently, recurring benefit payments prescribed by the plan, refunds of contributions to members and the cost of administering the Fund compose the total deductions.

Deductions for fiscal years 2008, 2007 and 2006 totaled \$119,812,934; \$108,854,805 and \$101,004,733; respectively. This represents a net increase of approximately 10.7 percent between fiscal years 2008 and 2007 and an increase of approximately 7.8 percent between fiscal years 2007 and 2006.

Benefits Paid to Members

The 11.1 percent increase of benefits paid to members during fiscal year 2008 is mainly due to the annual cost-of-living adjustment of 3 percent, an increase in the number of retirees, and additional monies taken out of the Deferred Retirement Option Plan (DROP). As DROP members retire, they are able to take money out of their DROP accounts.

This growth in benefit payments is normal for a maturing pension fund.

Professional and Administrative Expenses

In total, professional and administration deductions decreased between fiscal years 2008 and 2007 and increased between fiscal years 2007 and 2006 by 5.0 percent and 11.5 percent, respectively. The decrease in fiscal year 2008 is primarily due to a decrease in personnel expenses. During fiscal year 2007, the increase was primarily due to personnel expenses, consultation/legal fees associated with additional contract negotiations, and utility expenses.

Total additions to the Fund in fiscal year 2008 were \$182,889,758 and total deductions were \$119,812,934, thereby increasing the Fund net assets by \$63,076,824. In fiscal year 2007, the Fund's net assets increased by \$392,197,382, and in fiscal year 2006, the Fund's net assets increased by \$287,880,329.

ACTUARY VALUATION INFORMATION

The Fund, by statute, may adopt an actuarial valuation once every three years in order to establish the City's contribution rate. In April 2005, the Board of Trustees adopted the finalized July 1, 2002 actuarial valuation setting the City's contribution rate at 23.8 percent, effective July 1, 2005 through June 30, 2008. The members' contribution rate remained at 9 percent.

In February 2008, the Board of Trustees adopted the finalized July 1, 2007 actuarial valuation, increasing the City's contribution rate to 29.4 percent effective July 1, 2008, while leaving the members' contribution rate at 9 percent. The City's new contribution rate will remain in effect until June 30, 2009. The July 1, 2007 actuarial report also indicates the Fund has a funding ratio of 91 percent.

The Board adopted the July 1, 2007 actuarial valuation after careful consideration of more recent preliminary actuarial information. It should be noted that the Actuarial Value of Assets is based on the difference between the actual rate of return and the 8.5 percent assumed rate of return recognized in the actuarial

value over five years. Because the gains and losses are smoothed over a five-year period, the change in funding level in the 2007 actuarial valuation is primarily due to the impact of market volatility experienced during fiscal years 2000 through 2002 and not the accrued benefits liability, which remains stable and reasonable.

Accounting standards require that the statement of plan net assets state assets at fair value, and include only benefits and refunds due plan members and beneficiaries, as well as accrued investment and administrative expenses as of the reporting date. Information regarding the actuarial funding status of the Fund is provided in the Schedule of Funding Progress (on page 36). The asset value stated in the Schedule of Funding Progress is the actuarial value of assets, determined by calculating the difference between the expected valuations of assets and the actual market value of assets, adjusted for any unrecognized gains or losses and amortized over a five-year period. The actuarial accrued liability is calculated using the entry age method.

Annual required contributions of the employer and contributions made by the employer in relation to the required contributions are provided in the Schedule of Employer Contributions (on page 37). This schedule indicates that the employer is generally meeting their responsibility to provide resources to the Fund.

It should be noted that in March 2007, the Board of Trustees adopted the 2006 actuary valuation for *financial reporting purposes* only for the fiscal year ended June 30, 2007.

ADDITIONAL INFORMATION

The Governmental Accounting Standards Board (GASB) has issued Statement No. 50, *Pension Disclosures — an Amendment of GASB Statements No. 25 and No. 27*. This Statement enhances information disclosed in notes to financial statements or presented as required supplementary information (RSI) by pension plans and by

employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pensions by State and Local Governmental Employers*.

In general, the Statement requires notes to financial statements to disclose the funded status of the plan as of the most recent actuarial valuation in notes to financial statements instead of the RSI. It also requires the notes to include a reference linking the funded status disclosure to the required schedule of funding progress in the RSI. The GASB Statement No. 50 is effective for periods beginning after June 15, 2007, and has been adopted with the Fund's June 30, 2008 financial statements.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

This financial report is designed to provide our members, business partners and taxpayers with a general overview of the Fund's financial activities. If you have questions about this report or need additional information, contact the Executive Director of the Houston Firefighters' Relief and Retirement Fund at 4225 Interwood North Parkway, Houston, Texas 77032.

Statements of plan net assets

YEARS ENDED JUNE 30, 2008 AND 2007

	FY 2008	FY 2007
ASSETS		
Investments, at fair value:		
Short-term investment funds	\$89,883,727	\$130,127,465
Fixed income:		
Domestic	\$743,030,056	\$802,902,835
International	\$211,722,888	\$149,684,512
Common equity:		
Domestic	\$650,312,822	\$639,287,170
International	\$659,047,798	\$697,558,613
Preferred equity:		
Domestic	\$3,197,150	\$195,000
International	\$9,604,722	\$4,497,523
Alternatives	\$142,358,591	\$117,697,170
Private equity	\$334,354,229	\$278,795,341
Real estate	\$165,779,034	\$122,626,092
TOTAL INVESTMENTS	\$3,009,291,017	\$2,943,371,721
Cash and cash equivalents	\$4,807,070	\$8,756,018
Receivables:		
Accrued interest	\$14,448,428	\$13,166,648
Due from broker recapture	\$7,856	\$6,184
Due from securities lending	\$93,358	\$149,623
Foreign funds contracts	\$15,381,576	\$7,103,504
Receivables for investments sold	\$15,512,476	\$6,419,382
Accrued dividends	\$2,705,484	\$2,024,958
City of Houston contributions	\$2,555,926	\$2,139,320
Member contributions	\$964,843	\$807,597
Other	\$27,701	\$28,708
TOTAL RECEIVABLES	\$51,697,648	\$31,845,924
Collateral on securities lending arrangements, at fair value	\$191,953,840	\$662,886,229
Land	\$483,325	\$483,325
Building, net	\$6,915,734	\$7,217,015
Furniture, fixtures and equipment, net	\$276,547	\$644,837
Prepays (operating)	\$137,911	\$128,737
TOTAL ASSETS	\$3,265,563,092	\$3,655,333,806
LIABILITIES		
Accounts payable and accrued expenses	\$3,914,482	\$4,061,642
Payables for investments purchased	\$25,064,927	\$15,100,859
Foreign taxes payable	\$89,194	\$80,567
Foreign funds contracts payable	\$15,382,097	\$7,122,781
Collateral on securities lending arrangements, at fair value	\$191,953,840	\$662,886,229
TOTAL LIABILITIES	\$236,404,540	\$689,252,078
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	\$3,029,158,552	\$2,966,081,728

(A schedule of funding progress for the plan is presented on page 36.) See accompanying notes to basic financial statements.

Statements of changes in plan net assets
YEARS ENDED JUNE 30, 2008 AND 2007

	FY 2008	FY 2007
ADDITIONS TO PLAN NET ASSETS		
Contributions		
City of Houston	\$54,051,414	\$52,821,473
Members	\$20,431,049	\$19,981,657
TOTAL CONTRIBUTIONS	\$74,482,463	\$72,803,130
Net investment income:		
Net appreciation in fair value of investments	\$22,032,928	\$328,607,064
Interest	\$66,866,092	\$57,664,859
Dividends	\$20,052,418	\$31,620,176
Earnings from private equity	\$4,372,152	\$11,690,766
Earnings from real estate	\$2,217,799	\$3,198,074
Other	\$1,256,464	\$3,092,051
Securities lending arrangements:		
Earnings	\$15,021,367	\$31,784,258
Rebates and fees	\$(13,425,744)	\$(30,499,589)
TOTAL SECURITIES LENDING ARRANGEMENTS	\$1,595,623	\$1,284,669
Gross investment income	\$118,393,476	\$437,157,659
Less: investment services expense	\$(9,986,181)	\$(10,182,092)
NET INVESTMENT INCOME	\$108,407,295	\$426,975,567
Court judgment		\$1,273,490
TOTAL ADDITIONS TO PLAN NET ASSETS	\$182,889,758	\$501,052,187
DEDUCTIONS FROM PLAN NET ASSETS		
Benefits paid to members	\$112,163,836	\$100,965,331
Contribution refunds to members	\$347,112	\$202,679
Professional services	\$929,000	\$885,842
Administrative expenses	\$6,372,986	\$6,800,953
TOTAL DEDUCTIONS FROM PLAN NET ASSETS	\$119,812,934	\$108,854,805
Net increase in plan net assets	\$63,076,824	\$392,197,382
Plan net assets held in trust for pension benefits, beginning of year	\$2,966,081,728	\$2,573,884,346
Plan net assets held in trust for pension benefits, end of year	\$3,029,158,552	\$2,966,081,728

See accompanying notes to basic financial statements.

1. DESCRIPTION OF PLAN

General

The Houston Firefighters' Relief and Retirement Fund (the Fund) was created in 1937 by act of the 45th Legislature of the State of Texas (Article 6243e). The current governing statute is Article 6243e.2(1), Vernon's Texas Civil Statutes (the Act). The Fund is a single employer defined benefit pension plan covering all firefighters employed full time by the City of Houston (the City) and provides for service, disability and death benefits for eligible members. At June 30, 2008 and 2007, the membership of the Fund consisted of the following:

	<i>FY 2008</i>	<i>FY 2007</i>
Retirees and beneficiaries currently receiving benefits	2,421	2,309
Former members entitled to benefits but not yet receiving them	8	8
Active members:		
Vested	2,072	2,135
Nonvested	1,804	1,685
TOTAL MEMBERS	6,305	6,137

The Fund is a local governmental plan and therefore is not subject to the Employee Retirement Income Security Act of 1974.

The Fund is a component unit of the City. The operation of the Fund is solely for the City of Houston firefighters. The Fund is governed by a Board of Trustees (the Board) and can only be terminated or amended by an act of the Legislature of the State of Texas. One member of the Board is either the City mayor or an appointed representative, five members are elected by active firefighters, one member is elected by retired firefighters, two members are citizen representatives, and one member is the City Treasurer Designee.

The following description of the Fund provides only general information. Members should refer to the

Summary Plan Description for a more complete description of the Fund's provisions.

Contributions

Active members are required to contribute to the Fund a certain percentage of qualifying salary. The City is required to contribute at a rate that has been actuarially determined and adopted by the Board, but not less than twice the members' contributions. For the years ending June 30, 2008 and 2007, the active members' contribution rate was 9 percent and the City's contribution rate was 23.8 percent. The City's contribution rate will increase to 29.4 percent effective July 1, 2008.

Pension Benefits

All members who retired prior to November 1, 1997, should consult the Act in effect at the time of retirement to determine pension benefits.

Members with 20 or more years of service retiring on or after November 1, 1997, are entitled to a service retirement of 50 percent of average monthly salary (defined as the monthly average of their highest individual 78 pay periods), plus 3 percent of average monthly salary for each year of service in excess of 20 years until the member completes 30 years of service, for a total monthly pension not to exceed 80 percent of the member's average monthly salary for the highest 78 pay periods of the member's participation.

Pensions are adjusted annually for a fixed annual cost-of-living adjustment of 3 percent.

Active members with 20 or more years of service are eligible to elect to establish a Deferred Retirement Option Plan (DROP) account. When the DROP election becomes effective, a DROP account is established for the member and is credited with the following amounts: the monthly pension allowance determined as if the member had retired at the date the election was made, amounts equal to the deductions made from the DROP member's salary under Section 13(c) of the Act, 9 percent

of the member's salary after June 30, 2004, and interest on those amounts, compounded monthly at an interest rate based on the Fund's actual average rate of return over the preceding five years. A member may participate in the DROP for a maximum of 10 years. The participant's monthly benefit at actual retirement would be increased by 2 percent of original monthly benefit for every full year of DROP participation. (Beginning September 1, 2000, the percentage increase applied to monthly benefits at actual retirement was 1 percent, to be phased in at 0.5 percent beginning on September 1, 2000, and an additional 0.5 percent beginning September 1, 2001. The benefit increase was then changed effective September 1, 2001, to 2 percent per year.) A member may continue to be employed as a firefighter by the City after 10 years of participation in the DROP; however, the 9 percent deducted from the member's salary, the monthly pension allowance and the interest calculation would no longer be credited to the member's account. Effective September 1, 2003, the following three changes to the DROP were implemented: (1) the 1 percent annual administrative fee for retired members with DROP balances was removed; (2) a 5 percent floor and a 10 percent ceiling on annual DROP interest rates were implemented; and (3) widows of deceased members with DROP account balances may choose to leave the DROP accounts with the Fund. Effective May 18, 2007, the following two changes to the DROP were implemented: (1) DROP participants have the option to designate one or more adult children as eligible children with respect to survivor benefits for the member's DROP funds; and (2) DROP participants receive a pro-rated portion of the 2 percent increase applied to the original benefit at retirement for completed months in the final year of DROP participation (0.166 percent per month). On November 1, 2007, the DROP period was extended to 13 years, with certain modifications for DROP years 11 to 13. The monthly pension contributions made by the member will no longer be posted to the DROP account after the tenth year of DROP participation. Upon retirement, the member will not receive the 2 percent per year calculation beyond the tenth year (maximum 20 percent of original benefit will be added to monthly DROP benefit

upon retirement). The DROP participant will continue to receive the monthly benefit and interest in the DROP account for DROP years 11, 12 and 13.

Members or beneficiaries of members receiving pension or disability benefits (other than deferred retirees, survivors of deferred retirees or active members who have elected the DROP) shall receive an additional monthly benefit payment of \$150 along with their standard monthly benefit payment.

The Fund established a Post Retirement Option Plan (PROP) which became effective October 1, 2007. This new benefit allows retired members and survivors who are receiving service retirement benefits or taxable disability pension to have all or a portion of his or her monthly service pension or other taxable benefits issued by the Fund credited to a PROP account. The PROP account shall be credited with earnings in the same manner as the Fund's DROP program by calculating earnings compounded monthly at an interest rate based on the Fund's actual average rate of return over the preceding five years (minimum of 5 percent annually, maximum of 10 percent annually).

A benefit enhancement was enacted by the Board under Section 10 of the Act to allow members or beneficiaries of members receiving pension, disability, or death benefits (other than deferred retirees, survivors of deferred retirees, or active members who have elected the DROP) to receive a supplemental benefit payment each January. The aggregate amount of the annual supplemental benefit payment may not exceed \$5 million in any one year, and to receive the annual supplemental benefit payment, the retired member or eligible survivors must have been receiving benefits on June 30 of the year preceding the year in which the annual supplemental benefits are to be paid. The amount of the benefit enhancement that an individual receives is based on date of retirement and the amount of annual retirement benefit in comparison to an annual minimum income level.

Disability Benefits

Service-connected disability benefits are 50 percent of average monthly salary (occupational), or 75 percent of average monthly salary (general), or the service retirement, if it is greater and if the member is eligible. Non-service-connected disability benefits amount to 25 percent of average monthly salary, plus 2.5 percent of average monthly salary for each year of service, up to a maximum of 50 percent of average monthly salary, or the service retirement, if it is greater and if the member is eligible.

Death Benefits

Death benefits are available to a surviving spouse, dependent children or dependent parents. Line-of-duty death benefits are payable at 100 percent of member's average monthly salary. If an active member dies who is eligible for a service, disability or deferred pension, the member's eligible survivors are entitled to death benefits equal to the benefits the member would have been entitled to. Post-retirement death benefits are equal to the benefits being paid to the member upon his or her death. If there are no eligible survivors, the Fund will refund to the member's designated beneficiary or estate the amount of the member's contributions, with 5 percent simple interest, not compounded, for members with at least 10 years but less than 20 years of service and without interest for members with less than 10 years of service.

Vesting

Members who terminate employment with at least 10 years of service, but prior to becoming eligible for the service retirement, are entitled to 1.7 percent of average monthly salary for each year of service, payable beginning at age 50, or an optional refund of contributions with simple interest at 5 percent. Members who terminate their employment with less than 10 years of service may receive a refund of their contributions to the Fund, without interest. Members who terminated their employment prior to September 1, 1987, and prior to retirement for reasons other than death or disability

forfeit their accumulated plan benefits, including their contributions to the Fund.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of Presentation**

The accompanying basic financial statements are presented in accordance with generally accepted accounting principles established by the Governmental Accounting Standards Board (GASB), which designates accounting principles and financial reporting standards applicable to State and local governmental units. The accompanying basic financial statements include solely the accounts of the Fund, which include all programs, activities and functions relating to the accumulation and investment of the net assets and related income necessary to provide the service, disability and death benefits required under the terms of the governing statutes and amendments thereto.

Basis of Accounting

The basis of accounting is the method by which revenues and expenses are recognized in the accounts and reported in the basic financial statements. The accrual basis of accounting is used by the Fund. Under the accrual basis of accounting, revenues, which include contributions and investment income, are recognized when they are earned and collection is reasonably assured, and expenses are recognized when the liability is incurred. Member and employer contributions are recognized as revenue in the period in which the compensation is earned. In addition, the Fund records contributions according to Fund requirements and State statute. Benefits paid to members and contribution refunds are recognized when due and payable in accordance with the terms of the Fund. Accrued income, when deemed uncollectable, is charged to operations.

Reporting Entity

The Fund is a component unit of the City, and its basic financial statements and required supplemental

information are included in the City's Comprehensive Annual Financial Report.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Fund considers only demand deposits as cash. Cash equivalent securities, which are composed of all highly liquid investments with a maturity of three months or less when purchased, are considered to be cash equivalents.

Investment Valuation and Income Recognition

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Short-term investments are government and corporate bonds with a maturity of less than one year, and are valued at cost which approximates fair value. Directly held private equity is valued at historical cost. Directly held private debt is valued at principal, plus capitalized interest. Timber and real estate investments are valued by the investment manager and are based on independent appraisals. With the exception of energy related private equity investments that are valued on an income tax basis, traditional private equity and real estate partnerships and trusts are valued at fair value as determined by the investment manager in accordance with the investment's governing documents. Hedge fund investments are reported at the fair value based on the most recent available closing quotation on such exchange. Where such investments are dealt in or traded on more than one exchange, the investment manager may determine which exchange will prevail for this purpose. In the case of any unlisted asset, the Custodian

will determine the market value utilizing prices obtained from independent pricing services pursuant to the hedge fund's pricing policies. Investments that do not have an established market may be reported at their estimated fair values.

Unrealized gains and losses are presented as net appreciation in fair value of investments on the statements of changes in plan net assets, along with gains and losses realized on sales of investments. Purchases and sales of investments and forward foreign exchange contracts are recorded on the trade date. Gains or losses on forward foreign exchange contracts are recognized when the contract is complete. Dividend income is recorded on the ex-dividend date. Interest and income from other investments are recorded as earned.

Building, Furniture, Fixtures and Equipment

Building, furniture, fixtures and equipment are recorded at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the related assets ranging from three to 30 years. Any gain or loss on the retirement of assets is recognized currently. Major outlays for additions and improvements are capitalized if equal to or greater than \$5,000. Maintenance and repairs are charged to expense.

Administrative Expenses

The cost of administering the Fund is paid by the Fund from current earnings pursuant to an annual fiscal budget approved by the Board.

Federal Income Tax

The Fund received a favorable letter of determination from the Internal Revenue Service dated December 29, 1998, stating that the Fund qualifies as a tax-exempt plan and trust. The Fund's management and Board believe that the Fund is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code.

Recent Accounting Pronouncements

GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*

This Statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by State and local governments. The Statement specifically requires governmental entities to measure most derivative instruments at fair value in their financial statements. The new standard provides specific criteria that governmental entities will use to determine whether a derivative instrument results in an effective hedge. Changes in fair value for effective hedges that are achieved with derivative instruments will be recognized in the reporting period to which they relate. The changes in fair value of these hedging derivative instruments do not affect current investment revenue, but are instead reported as deferrals in the statement of net assets. Derivative instruments that do not meet the criteria for an effective hedge or that are associated with investments that are already reported at fair value are classified as investment derivative instruments for financial reporting purposes. Changes in fair value of these derivative instruments are reported as part of investment revenue in the current reporting period. GASB Statement No. 53 also improves disclosure by requiring a summary of the entity's derivative instrument activity, its objective for entering into derivative instruments, and their significant terms and risks. The requirements of GASB Statement No. 53 are effective for financial statements for periods beginning after June 15, 2009.

GASB Statement No. 50, *Pension Disclosures — an Amendment of GASB Statements No. 25 and No. 27*

This Statement enhances information disclosed in notes to financial statements or presented as Required Supplementary Information (RSI) by pension plans and by employers that provide pension benefits. The reporting changes required by this Statement amend applicable note disclosure and RSI requirements of

Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 27, *Accounting for Pension by State and Local Governmental Employers*. In general, the GASB Statement No. 50 requires notes to financial statements to disclose the funded status of the plan as of the most recent actuarial valuation in the notes to financial statements instead of in the notes to the RSI. It also requires the notes to include a reference linking the funded status disclosure in the notes to financial statements to the required schedule of funding progress in the RSI. The Statement is effective for periods beginning after June 15, 2007, and has been adopted with the Fund's June 30, 2008 financial statements.

3. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

Contribution rates are established to remain level over time as a percentage of active members' qualifying salaries. The contribution rate has been determined to provide for normal cost plus the level percentage of members' salaries required to amortize the unfunded actuarial accrued liability (or surplus) over a rolling 30-year period.

The City is required to contribute at a rate that has been actuarially determined and adopted by the Board, but not less than twice the members' contributions. The City's actuarially determined contribution rate of 23.8 percent for fiscal years 2008 and 2007 was established pursuant to the July 1, 2002 actuarial report and consists of 22.1 percent of covered members' salaries to pay normal costs, increased by 1.7 percent of covered members' salaries to amortize the funding of the unfunded actuarial accrued liability over a rolling 30-year period. The active members' contribution rate is 9 percent.

Actuarially Determined Contribution Requirements

JUNE 30, 2008*

Employer normal cost	\$50,192,126
Member normal cost	\$20,431,049
TOTAL NORMAL COST	\$70,623,175
Plus: Amortization of deficit actuarial accrued liability	\$3,859,288
NET CONTRIBUTIONS REQUIRED	\$74,482,463
Employer contributions actually made	\$54,051,414
Member contributions actually made	\$20,431,049
TOTAL CONTRIBUTIONS	\$74,482,463

JUNE 30, 2007*

Employer normal cost	\$49,047,106
Member normal cost	\$19,981,657
TOTAL NORMAL COST	\$69,028,763
Plus: Amortization of deficit actuarial accrued liability	\$3,774,367
NET CONTRIBUTIONS REQUIRED	\$72,803,130
Employer contributions actually made	\$52,821,473
Member contributions actually made	\$19,981,657
TOTAL CONTRIBUTIONS	\$72,803,130

* Based on actuarial contribution rates as determined in the July 1, 2002 actuarial study.

The July 1, 2002 actuarial data, which was adopted by the Board in April 2005 for funding purposes effective July 1, 2005, through June 30, 2008, resulted in an actuarially determined percentage City contribution rate of 23.8%.

Actuarial Process

The Fund, by Statute, may adopt an actuarial valuation once every three years in order to establish the City's contribution rate. In February 2008, the Board adopted the finalized July 1, 2007 actuarial valuation, increasing the City's contribution rate to 29.4 percent effective July 1, 2008, while leaving the members' contribution rate at 9 percent. The City's new contribution rate will remain in effect until June 30, 2009. The July 1, 2007 report also indicates the Fund has a funding ratio of 91 percent.

The Board adopted the July 1, 2007 actuarial valuation after careful consideration of more recent preliminary actuarial information. It should be noted that the actuarial value of assets is based on the difference

between the actual rate of return and the 8.5 percent assumed rate of return recognized in the actuarial value over five years. Because the gains and losses are smoothed over a five-year period, the change in funding level in the 2007 actuarial valuation is primarily due to the impact of market volatility experienced during fiscal years 2000 through 2002 and not the accrued benefits liability, which remains stable and reasonable.

Accounting standards require that the statement of plan net assets state assets at fair value, and include only benefits and refunds due plan members and beneficiaries, as well as accrued investment and administrative expenses as of the reporting date. Information regarding the actuarial funding status of the Fund as of July 1, 2007, the most recent actuarial valuation date, is as follows (dollar amounts in millions):

Actuarial Valuation Date	07/01/07
Actuarial Value of Assets (AVA)	\$2,633.6
Actuarial Accrued Liability (AAL)	\$2,892.3
Unfunded AAL (UAAL)	\$258.7
AVA as a percentage of AAL	91%
Covered Payroll	\$232.4
UAAL as a percentage of Covered Payroll	111%

The City is responsible for funding the deficiency, if any, between the amounts available to pay the Fund's benefits and the amount required to pay such benefits.

The July 1, 2007 actuarial valuation used the following significant assumptions:

Investment rate of return	8.5%, net of expenses
Salary increases	3% to 7%, based on seniority and merit
Payroll growth rate	3.0% per year
General inflation rate	3.0% per year
Cost of living adjustment	3.0% annually
Actuarial cost method	Entry age method
Amortization method	Level percentage of payroll over 30 years
Life expectancy	Based on 1994 Group Annuity Mortality Table

HISTORICAL TREND INFORMATION

Historical trend information is provided as required supplemental information on pages 36 and 37. This information is intended to demonstrate progress the Fund has made in accumulating sufficient assets to pay benefits when due and the related actuarial assumptions used in determining the actuarially determined amounts.

4. INVESTMENTS

Statutes of the State of Texas authorize the Fund to invest surplus funds in the manner provided by the Government Code, Title 8, Subtitle A, Subchapter C. This subchapter provides for the investment of surplus assets in any investment or investments that are deemed "prudent" by the Board. The investment policy of the Board does not restrict the types of investments authorized to be made on behalf of the Fund; however, the Board seeks to produce a return on investments that is based on prudent and reasonable investment risk and the cash flow requirements of the Fund given prevailing capital market conditions. While the Board recognizes the importance of the preservation of capital, it also adheres to the theory of capital market pricing, which maintains that varying degrees of investment risk should be rewarded with incremental returns. Consequently, prudent risk-taking is justifiable.

The Board has employed BNY Mellon (Custodian) as Custodian of the assets of the Fund, and in said capacity, the Custodian shall be a fiduciary of the Fund's assets with respect to its discretionary duties including safekeeping the Fund's assets. The Custodian shall establish and maintain a custodial account to hold, or direct its agents to hold, for the account of the Fund all assets that the Board shall from time to time deposit with the Custodian. All right, title and interest in and to the Fund's assets shall at all times be vested with the Fund's Board.

In holding all Fund assets, the Custodian shall act with the same care, skill, prudence and diligence under the prevailing circumstances that a prudent person

acting in like capacity and familiar with matters of this type would use in the conduct of an enterprise with a like character and with like aims. Further, the Custodian shall hold, manage and administer the Fund's assets for the exclusive purpose of providing the benefits to the members and the qualified survivors of the Fund.

The Board shall manage the investment program of the Fund in compliance with all applicable Federal and State statutes and regulations concerning the investment of pension assets. The Board has adopted an Investment Policy Statement (Investment Policy) to set forth the factors involved in the management of investment assets for the Fund. The Board has established an Investment Committee to act on all matters related to investments.

The fair values of the Fund's investments as of June 30, by type, are as follows:

	<i>FY 2008</i>	<i>FY 2007</i>
Short-term investment funds	\$89,883,727	\$130,127,465
Fixed income	\$954,752,944	\$952,587,347
Common equity	\$1,309,360,620	\$1,336,845,783
Preferred equity	\$12,801,872	\$4,692,523
Alternative investments	\$142,358,591	\$117,697,170
Private equity	\$334,354,229	\$278,795,341
Real estate	\$165,779,034	\$122,626,092
TOTAL INVESTMENTS	\$3,009,291,017	\$2,943,371,721

Portions of the Fund's investments are classified as security investments. A security is a transferable financial instrument that evidences ownership or creditorship. Investments in partnerships and real estate are investments that are evidenced by contracts rather than securities.

Custodial Credit Risk

For an investment, custodial credit is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Fund, and are held by either the counterparty or the counterparty's trust department or agent but not in the Fund's name. At June 30, 2008 and 2007, the Fund's security investments that were not subject to custodial credit risk were the investments not registered on an exchange.

Concentration of Credit Risk

The allocation of assets among various asset classes is set by the Board with the objective of optimizing the investment return of the Fund within a framework of acceptable risk and diversification. For major asset classes (e.g., domestic equities, international equities, fixed income, alternative investments and real estate), the Fund will further diversify by employing investment managers who implement the strategies selected by the Investment Committee.

Significant guidelines are as follows:

Public market investments

1. Specific guidelines will be developed cooperatively by the Fund's investment staff, legal counsel and investment manager and shall be incorporated into the Investment Management Services Contract executed by the Chair of the Investment Committee and the investment manager.

2. In case of conflict between the specific manager guidelines and the general guidelines, the specific guidelines, as approved by the Investment Committee, shall supersede. The general guidelines are as follows:

a. Manager investment philosophy, style and strategy shall remain consistent and shall not change without the Investment Committee's approval. The manager shall have discretion to manage the portfolio consistent with the style presented to the Investment Committee at the time of selection and further subject to the restrictions established by the policy herein.

- b. The following transactions are prohibited: short sales, selling on margin, put and call options, and the use of derivatives for speculation unless authorized by the Investment Committee.
- c. Transactions that involve a broker acting as a principal, where such broker is also affiliated with the manager who is making the transaction, are prohibited unless specifically approved by the Investment Committee.
- d. Transactions shall be executed at competitive costs, or within the parameters established for directed brokerage transactions by the Investment Committee.
- e. Managers shall maintain cash levels consistent with their style as presented to the Investment Committee at the time of selection. Any deviation shall be allowed only after notifying the Chief Investment Officer and should be related to unusual market conditions. The maximum cash level held by each manager will be addressed in the Investment Management Agreement or other binding agreement as is appropriate for the investment.

3. The Investment Committee with the assistance from the Fund staff shall monitor each investment manager's performance and adherence to style, strategy and manager-specific guidelines. It is the Investment Committee's discretion to take corrective action by replacing an investment manager if they deem it appropriate at any time.

Alternative investments and real estate

1. The investment-specific guidelines for each manager will be incorporated in a Limited Partnership Agreement, Limited Liability Company Agreement or other binding agreement as is appropriate for the investment. The Chair of the Investment Committee and the manager execute this document.

2. In case of conflict between the specific manager guidelines and the general guidelines, the specific guidelines, as approved by the Investment Committee, shall

supersede. Manager investment philosophy, style and strategy shall remain consistent and shall not change without the Investment Committee's approval. The manager shall have discretion to manage the portfolio consistent with the style presented to the Investment Committee at the time of selection and further subject to the restrictions established by the policy herein.

3. The Investment Committee with assistance from the Fund staff shall monitor each Alternative and Real Estate manager's performance and adherence to strategy and manager-specific guidelines. It is the Investment Committee's discretion to take corrective action by replacing an investment manager if they deem it feasible and appropriate at any time. Alternative and Real Estate investment manager retention is governed in most cases by Limited Partnership Agreements, Limited Liability Company Agreements or other binding agreements. In these cases, the Investment Committee with assistance from the Fund staff shall identify available options as allowed by the governing documents and determine the impact and consequences of these options.

As of June 30, 2008, the Fund's investment portfolio had no single holdings in excess of 5 percent of Fund net assets. As of June 30, 2007, the Fund's investments of \$193,175,604 in an individual U.S. Treasury Bond exceeded 5 percent of Fund net assets.

Interest Rate Risk

The Fund invests in fixed income securities including, but not limited to, investments representing instruments with an obligated fixed rate of interest including public and private debentures, mortgages, investments in life insurance general accounts and guaranteed investment contracts, with maturities greater than one year, and options/futures. Instruments may have an investment grade or non-investment grade rating. Purchases and sales, investment selection, and implementation of investment strategies are delegated to the discretion of the investment manager, subject to compliance with its management agreement and the Fund's Investment Policy.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Interest rate risk is the greatest risk faced by an investor in the fixed income market. The price of a fixed income security typically moves in the opposite direction of the change in interest rates. The weighted average maturity expresses investment time horizons (when the investment comes due and payable) in years, weighted to reflect the dollar size of individual investments within the investment type. The Fund does not have a formal investment policy that limits investment maturities as a means of managing its exposure to potential fair value losses arising from future changes in interest rates, but rather mandates such limits within the Investment Management Services Contract.

At June 30, 2008, the following table shows the Fund's investments by type, with weighted average maturity and fair value:

	<i>Weighted Average Maturity</i>	<i>Fair Value</i>
Asset-Backed Securities	8.02	\$102,612,612
Consumer Discretionary	5.17	\$1,877,625
Corporate Debt	17.25	\$584,017,009
Energy	0.09	\$1,965,850
Financials	21.59	\$1,739,140
U.S. Government Issues	5.24	\$26,688,251
Healthcare	4.69	\$11,379,275
Industrials	0.09	\$70,570
Information Technology	2.02	\$3,681,731
Multinational Fixed Income	0.00	\$96,761
Non-U.S. Corporate	4.69	\$56,196,679
Non-U.S. FHLM/FNMA	0.64	\$5,907,576
Non-U.S. Government Issues	3.89	\$39,984,095
Telecommunication Services	1.79	\$4,444,481
TIPS (Treasury Inflation Protected)	9.03	\$5,186,383
U.S. Convertibles	9.91	\$3,845,669
U.S. Fixed Income Funds	0.00	\$3,319,285
U.S. Private Placements	16.39	\$98,620,409
U.S. Taxable Muni Bonds	37.95	\$2,495,043
Utilities	0.37	\$624,500
TOTAL FIXED INCOME SECURITIES		\$954,752,944

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Fund does not have a formal policy limiting investment credit risk, but rather mandates such limits within the Investment Management Services Contract. The Fund's exposure to investment credit risk in fixed-income securities as of June 30, 2008, is as follows:

Quality Rating	Fair Value	Percentage of Holdings
Agency	\$5,907,576	0.20%
A1	\$94,589,819	3.14%
A2	\$116,451,188	3.86%
A3	\$109,638,775	3.64%
AA1	\$32,404,398	1.08%
AA2	\$16,452,293	0.55%
AA3	\$97,538,656	3.24%
AAA	\$158,287,262	5.25%
B1	\$28,805,555	0.96%
B2	\$20,439,080	0.68%
B3	\$16,952,143	0.56%
Ba1	\$19,934,638	0.66%
Ba2	\$12,032,818	0.40%
Ba3	\$19,487,995	0.65%
Baa1	\$32,672,493	1.08%
Baa2	\$41,812,253	1.39%
Baa3	\$51,509,348	1.71%
Ca	\$1,412,140	0.05%
Caa1	\$13,091,498	0.43%
Caa2	\$9,428,762	0.31%
Caa3	\$3,106,394	0.10%
Rating not available	\$20,923,126	0.69%
TOTAL CREDIT RISK DEBT SECURITIES*	\$922,878,310	30.63%

* Obligations of the U.S. government or obligations explicitly guaranteed by the U.S. government are not considered to have credit risk and, therefore, have not been included in this disclosure.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Realized and unrealized gains and losses

on investments which result from changes in foreign currency exchange rates have been included in the net appreciation in fair value of investments. The Fund's policy allows external investment managers to decide what action to take regarding their respective portfolio's foreign currency exposures subject to compliance with its respective Investment Management Services Contract and the Fund's Investment Policy Statement. The Fund's exposure to foreign currency fluctuation as of June 30, 2008, is as follows:

	Fair Value	Percentage of Holdings
EURO Currency	\$157,017,156	5.21%
British Pound Sterling	\$94,981,641	3.15%
Japanese Yen	\$74,323,972	2.47%
Swiss Franc	\$55,984,586	1.86%
Canadian Dollar	\$32,860,853	1.09%
Australian Dollar	\$30,897,887	1.03%
Singapore Dollar	\$20,482,341	0.68%
Brazil Real	\$17,427,273	0.58%
Norwegian Krone	\$13,825,913	0.46%
Mexican New Peso	\$11,818,493	0.39%
Hong Kong Dollar	\$11,100,002	0.37%
Thailand Baht	\$10,036,192	0.33%
New Zealand Dollar	\$9,832,019	0.33%
Indonesian Rupian	\$9,185,359	0.30%
South Korean Won	\$7,975,074	0.26%
Iceland Krona	\$6,411,715	0.21%
Danish Krone	\$5,036,284	0.17%
New Taiwan Dollar	\$4,772,503	0.16%
Czech Koruna	\$3,104,554	0.10%
Swedish Krona	\$2,328,319	0.08%
South African Comm Rand	\$2,154,166	0.07%
Israeli Shekel	\$2,053,178	0.07%
Egyptian Pound	\$1,271,596	0.04%
New Turkish Lira	\$887,030	0.03%
Chinese Yuan Renminbi	\$3,236	0.00%
Hungarian Forint	\$161	0.00%
TOTAL SECURITIES SUBJECT TO FOREIGN CURRENCY RISK	\$585,771,503	19.44%

Schedule 4 on pages 39 and 40 lists the Fund's investment and professional service providers.

Alternative Investments

As of June 30, 2008, the Fund was invested in various limited partnerships and other alternative investment strategies including hedge funds as detailed in the following chart:

Investment Type	<i>Market Value of the Fund's Interest</i>	
	June 30, 2008	June 30, 2007
Private Equity	\$334,354,229	\$278,795,341
Hedge Funds	\$142,358,591	\$117,697,170
	\$476,712,820	\$396,492,511

The Fund currently has investments in a multi-strategy hedge fund and a foreign currency swap fund. Hedge funds are managed portfolios of investments using advanced investment strategies such as leverage, long, short and derivative positions in both domestic and international markets with the goal of generating uncorrelated positive returns over a specified market benchmark. For the most part, hedge funds are unregulated and carry liquidity restrictions for redemption. The Fund's staff monitors risk, guidelines and compliance.

The use of derivatives in a portfolio gives rise to various types of risks. The primary types of risk include market risk, liquidity risk, counterparty risk and operations risk.

Market risk — represents the risk of adverse movements in markets (including asset prices, volatility, changes in yield curve, implied option volatility or other market variables/forces) for the derivatives or the underlying asset, reference rate or index to which the derivative relates. "Interest rate risk" is a type of market risk.

Liquidity risk — there are generally two types of liquidity risk. The first is the risk that a responsible party may not be able to, or cannot easily, unwind or offset a particular position risk at or near the previous market price, because of inadequate market depth or

because of disruptions in the marketplace. The second is the risk that the portfolio will not be able to meet its future financial obligations resulting from its derivative activities, such as margin calls on futures contracts.

Counterparty risk — the risk that a counterparty (the other party with whom a derivatives contract is made) will fail to perform contractual obligations (i.e., default in either whole or part) under a contract and that this failure occurs at a time when the contract is in-the-money. This is also sometimes referred to as "credit risk."

Operations risk — the risk that deficiencies in the effectiveness and accuracy of the information systems or internal controls will result in a material loss. This risk is associated with human error, system failures and inadequate procedures, and internal management controls.

5. CASH AND CASH EQUIVALENTS

For cash deposits and cash equivalents, custodial risk is the risk that in the event of a bank failure, the Fund's deposits may not be returned to it. The Fund's deposits are held by the Custodian bank. As of June 30, 2008 and 2007, the Fund's cash deposits in bank accounts totaled \$4,807,070 and \$8,756,018, respectively. The Fund does not have a deposit policy for custodial credit risk; however, the Fund's credit risk exposure for amounts not covered by Federal depository insurance is mitigated by the financial strength of the banking institution in which the deposits are held.

6. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

During fiscal years 2008 and 2007, the Fund entered into forward foreign exchange contracts. A currency forward is a contractual agreement between two parties to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. Forward commitments are not standard-

ized and carry credit risk due to the possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote. Fund management monitors portfolio volatility on a daily basis. In the event of a significant loss, the Fund's Investment Committee would be immediately notified and action taken, if necessary. No such losses occurred during fiscal years 2008 or 2007. Forwards are usually traded over-the-counter. These transactions are entered into in order to hedge risks from exposure to foreign currency rate fluctuation and to facilitate trade settlement of foreign security transactions. Forwards carry market risk resulting from adverse fluctuations in foreign exchange rates. Recognition of realized gain or loss depends on whether the currency exchange rate has moved favorably or unfavorably to the contract holder upon termination of the contract. Prior to termination of the contract, the Fund records the unrealized currency translation gain or loss based on the applicable forward exchange rates.

7. LAND AND BUILDING

In February 1998, the Fund purchased land for use in the construction of a new office building for its operations and its members. In April 2001, the construction of the new building was completed. All capitalized costs associated with the building have been classified as building in the statements of plan net assets. The building cost is being depreciated over 30 years. The capitalized cost and accumulated depreciation for the building is as follows at June 30:

	<i>FY 2008</i>	<i>FY 2007</i>
Building	\$9,140,824	\$9,133,883
Less accumulated depreciation	\$(2,225,090)	\$(1,916,868)
BUILDING, NET	\$6,915,734	\$7,217,015

8. FURNITURE, FIXTURES AND EQUIPMENT

Furniture, fixtures and equipment are as follows at June 30:

	<i>FY 2008</i>	<i>FY 2007</i>
Office furnishings and equipment	\$769,330	\$800,655
Computer equipment	\$2,370,067	\$2,293,951
Furniture, fixtures and equipment	\$3,139,397	\$3,094,606
Less accumulated depreciation	\$(2,862,850)	\$(2,449,769)
FURNITURE, FIXTURES AND EQUIPMENT, NET	\$276,547	\$644,837

9. SECURITIES LENDING ARRANGEMENTS

The Fund had the following securities on loan and held the following related cash collateral balances, at fair value, as of June 30:

	<i>Fiscal Year 2008</i>	
	Securities Lent	Collateral Held
Fixed income	\$47,951,882	\$48,938,226
Common and preferred stocks	\$134,912,389	\$143,015,614
	\$182,864,271	\$191,953,840
	<i>Fiscal Year 2007</i>	
	Securities Lent	Collateral Held
Fixed income	\$459,274,216	\$466,048,315
Common and preferred stocks	\$183,510,432	\$196,837,914
	\$642,784,648	\$662,886,229

State statutes and Board policies permit the Fund to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The Fund's Custodian lends securities of the type on loan for collateral in the form of cash or other securities of 102 percent to 105 percent, which varies based on the types of securities lent. The Fund has no credit risk exposure to borrowers because the amounts the Fund owes the borrowers

exceed the amounts the borrowers owe the Fund as of June 30, 2008 and 2007. The contract with the Fund's Custodian requires it to indemnify the Fund if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Fund for income distributions by the securities' issuers while the securities are on loan.

All security loans can be terminated on demand by either the Fund or the borrower. Cash collateral is invested in the lending agent's collateral investment pool, which has a weighted-average maturity of approximately 20 days and 32 days as of June 30, 2008 and 2007, respectively. The risk associated with the Fund's participation in the securities lending program is investment risk, which affects the yield spread on the investments within the loan investment pool. The Fund cannot pledge or sell collateral securities received unless the borrower defaults. At June 30, 2008 and 2007, securities lending transactions were collateralized in cash.

10. COURT JUDGMENT

Prior to fiscal year 2007, the Fund was involved in lawsuits concerning its award of prior service credit (PSC) to 22 firefighters and its denial to approximately 78 others. The 78 denied firefighters ultimately stopped pursuing their claims and the issue became whether the City of Houston would have to pay its share of contributions to enable the award of credit to those of the approved firefighters who were prepared to make their contributions. In 2006, the First Court of Appeals agreed with the Fund and the trial court that the City was required to pay its share of PSC contributions. The City decided not to pursue further review of the case by the Texas Supreme Court, leaving the appellate decision favorable to the Fund in place. The proper contribution amounts were determined in accordance with the appellate decision and were agreed upon by the Fund, the City and the PSC firefighters in order to establish the PSC for those firefighters who were prepared to make their portion of PSC contribu-

tions. In connection with this court judgement, in fiscal year 2007 the Fund received a total of \$1,273,490 (representing \$979,549 of City contributions and \$293,941 of firefighter contributions).

11. RELATED PARTY

During fiscal years 2008 and 2007, the Plan utilized the services of investment management companies in which the Plan owns an interest. Manager fees of approximately \$488,000 and \$500,000 were paid in fiscal years 2008 and 2007, respectively, to these companies.

12. BENEFIT PLANS

The Fund offers its employees a deferred compensation plan (the Plan) created in accordance with Internal Revenue Code 457. The Plan, available to all employees of the Fund, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

The Fund also offers its full-time employees a Profit Sharing Plan, which is a qualified retirement plan under Section 401(a) of the Internal Revenue Code of 1986, as amended. The Fund maintains the Profit Sharing Plan to provide a tax-deferred way for it to contribute to its employees' savings for retirement, disability, death and other major life events. The Fund contributes into the Profit Sharing Plan 16 percent of a participating employee's qualified yearly salary. During fiscal years 2008 and 2007, the Fund contributed \$387,312 and \$397,393, respectively, to the Profit Sharing Plan.

Both of the benefit plans are administered by an outside party, with the related amounts held in trust. Accordingly, these benefit plans are not reflected in the accompanying basic financial statements in accordance with GASB Statement No. 32.

13. COMMITMENTS AND CONTINGENCIES

As described in note 1, certain members of the Fund are entitled to refunds of their accumulated contributions upon termination of employment with the City, prior to being eligible for pension benefits. As of June 30, 2008 and 2007, aggregate contributions from active members of the Fund with less than 10 years of service were approximately \$30,418,417 and \$25,170,350, respectively. Contributions for employees with 10 to 20 years of service have not been determined. As of June 30, 2008 and 2007, interest payable related to these contributions has not been accrued.

The Fund had outstanding investment commitments to various limited partnerships and investment advisors of approximately \$367,000,000 and \$212,000,000 as of June 30, 2008 and 2007, respectively.

Pursuant to the May 23, 1993, revision of Section 2(l), Chapter 432, Acts of the 64th Legislature, 1973 (Article 6243e.2, Vernon's Texas Civil Statutes), the Board may, from Fund assets, establish a self-insurance fund to pay certain claims for indemnification. On June 17, 1993, the Board voted to adopt this subsection allowing for the establishment of a self-insurance fund from Fund assets. The self-insurance fund is a designation of plan net assets by the Board. As of June 30, 2008 and 2007, cumulative contributions made to the self-insurance fund by the Fund have been approximately \$5,000,000.

The Fund is a party to various claims and legal actions arising in the ordinary course of its business which, in the opinion of management, will not have a material effect on the Fund's financial position.

14. RISK AND UNCERTAINTIES

The Fund invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. The recent events in the global financial markets and U.S. housing market

have resulted in dramatic changes in economic conditions, including interest rate, currency, equity and credit conditions. The effect of the recent events on the Fund's investment portfolio is mitigated by the diversification of its holdings. However, it is at least reasonably possible that changes in the value of the Fund's investment securities will occur in the near term and that if there is a prolonged decline in the global financial markets such changes could adversely impact certain investment assets of the Fund.

The Fund's contribution rates and the actuarial information included in the notes and schedules 1 and 2 are based on certain assumptions pertaining to interest rates, inflation rates and participant demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term could be material to the financial statements.

SCHEDULE 1 — SCHEDULE OF FUNDING PROGRESS (UNAUDITED) (Dollars in millions)

<i>Actuarial Validation Date</i>	<i>Actuarial Value of Assets (AVA)</i>	<i>Actuarial Accrued Liability (AAL)</i>	<i>AVA as Percentage of AAL</i>	<i>Unfunded AAL (UAAL)</i>	<i>Covered Payroll</i>	<i>UAAL as Percentage of Covered Payroll</i>
July 1, 1997	\$1,183.8	\$1,128.2	105%	\$(55.6)	\$142.0	(39)%
July 1, 1998	\$1,347.4	\$1,271.4	106%	\$(76.0)	\$149.0	(51)%
July 1, 1999	\$1,538.5	\$1,470.6	105%	\$(67.9)	\$159.0	(43)%
July 1, 2000	\$1,726.3	\$1,589.3	109%	\$(137.0)	\$163.6	(84)%
July 1, 2001	\$1,863.1	\$1,650.8	113%	\$(212.3)	\$164.3	(129)%
July 1, 2002	\$1,922.4	\$1,970.1	98%	\$47.7	\$190.6	25%
July 1, 2004	\$2,000.3	\$2,266.8	88%	\$266.5	\$181.5	147%
July 1, 2005	\$2,119.2	\$2,461.1	86%	\$341.9	\$192.1	178%
July 1, 2006	\$2,324.9	\$2,670.9	87%	\$346.0	\$218.7	158%
July 1, 2007	\$2,633.6	\$2,892.3	91%	\$258.7	\$232.4	111%

Analysis of the dollar amounts of actuarial value of assets, actuarial accrued liability and unfunded actuarial accrued liability in isolation can be misleading. Expressing the actuarial value of assets as a percentage of the actuarial accrued liability provides one indication of the Fund's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Fund is becoming financially stronger or weaker; generally, the greater this percentage, the stronger the Fund. Trends in unfunded actuarial accrued liability and covered payroll are both affected by inflation. Expressing the unfunded actuarial accrued liability as a percentage of covered payroll approximately adjusts for the effects of inflation and aids analysis of the Fund's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Fund.

See accompanying note to required supplemental schedules.

See accompanying independent auditors' report.

SCHEDULE 2 — SCHEDULE OF EMPLOYER CONTRIBUTIONS (UNAUDITED)
(Dollars in thousands)

<i>Fiscal Year (Ending June 30)</i>	<i>Annual Required Contribution</i>	<i>Percentage Contributed</i>
1999	\$24,084	100%
2000	\$24,645	100%
2001	\$24,033	100%
2002	\$28,451	100%
2003	\$27,989	100%
2004	\$28,477	100%
2005	\$32,689	100%
2006	\$48,780	100%
2007	\$52,821	100%
2008	\$54,051	100%

Contributions were made in accordance with actuarially determined contribution requirements as adopted by the Board of Trustees.

*See accompanying note to required supplemental schedules.
See accompanying independent auditors' report.*

NOTE TO REQUIRED SUPPLEMENTAL SCHEDULES (UNAUDITED)

The information presented in the required supplemental schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	July 1, 2007
Actuarial cost method	Entry age method
Amortization method	Level percentage of payroll over 30 years
Remaining amortization period	Rolling 30 year
Asset valuation method	5-year smoothed market

(Table continues in next column.)

Actuarial assumptions

Investment rate of return	8.5% per year, net of expenses
Payroll growth rate	3% per year
Salary increases	3% to 7%, based on seniority and merit
General inflation rate	3% per year
Cost-of-living adjustment	3% annually
Mortality rates	1994 Group Annuity Mortality Table
Future DROP interest credits	Floor of 5% and a ceiling of 10%. Interest is assumed to be credited at 8% to reflect an expected average 0.5% net gain due to asset performance outside this range.

DROP duration	Duration of DROP at retirement	Percentage of participants electing retirement at the specified duration
	0	10%
	3	10%
	5	10%
	8	30%
	10	40%

Assumptions and methods used in the July 1, 2007 valuation are the same as those used in the July 1, 2006 valuation.

See accompanying independent auditors' report.

**SCHEDULE 3 — INVESTMENT,
PROFESSIONAL SERVICES AND
ADMINISTRATIVE EXPENSES**

Years Ended June 30, 2008 and 2007

	<i>FY 2008</i>	<i>FY 2007</i>
Investment services:		
Custodial services	\$441,762	\$419,343
Money management services	\$9,544,419	\$9,762,749
TOTAL INVESTMENT SERVICES	\$9,986,181	\$10,182,092
Professional services:		
Actuarial services	\$85,431	\$96,961
Audit and accounting services	\$31,532	\$26,880
Consulting and professional services	\$570,227	\$520,407
Legal services	\$225,735	\$230,044
Medical examinations	\$16,075	\$11,550
TOTAL PROFESSIONAL SERVICES	\$929,000	\$885,842
Administrative expenses:		
Depreciation	\$735,140	\$812,166
Continuing education	\$182,896	\$247,829
Furniture, equipment and supplies	\$32,574	\$47,680
Insurance	\$782,377	\$791,024
Investment research	\$89,716	\$82,876
Office cost	\$4,167,646	\$4,438,598
Facility maintenance	\$151,795	\$156,075
Utilities	\$230,842	\$224,705
TOTAL ADMINISTRATIVE EXPENSES	\$6,372,986	\$6,800,953

See accompanying independent auditors' report.

SCHEDULE 4 — SUMMARY OF INVESTMENT AND PROFESSIONAL SERVICES

Year Ended June 30, 2008

<i>Individual or firm name</i>	<i>Official plan position</i>	<i>Amount</i>	<i>Nature of services</i>
BNY Mellon	Custodian	\$441,762	Custodial
Ariel Capital Management	Investment manager	\$549,021	Money management
AllianceBernstein	Investment manager	\$907,663	Money management
The Mitchell Group	Investment manager	\$655,084	Money management
Mercator	Investment manager	\$1,435,037	Money management
Marvin & Palmer	Investment manager	\$870,984	Money management
McKinley Capital	Investment manager	\$1,183,868	Money management
Mellon Capital	Investment manager	\$45,610	Money management
Victory Capital	Investment manager	\$580,997	Money management
FX Concepts	Investment manager	\$750,000	Money management
GW Capital	Investment manager	\$206,075	Money management
Loomis Sayles "A" and "B"	Investment manager	\$897,149	Money management
Standish/Mellon Bond "STIF"	Investment manager	\$160,611	Money management
STW Fixed Income Mgmt. "A"	Investment manager	\$496,824	Money management
STW Fixed Income Mgmt. "B"	Investment manager	\$317,151	Money management
Texas Forest Partners	Investment manager	\$266,780	Money management
Energy Trust	Investment manager	\$221,565	Money management
TOTAL INVESTMENT SERVICES		\$9,986,181	

See accompanying independent auditors' report.

SCHEDULE 4 — SUMMARY OF INVESTMENT AND PROFESSIONAL SERVICES

Year Ended June 30, 2008

<i>Individual or firm name</i>	<i>Official plan position</i>	<i>Amount</i>	<i>Nature of services</i>
Buck Consultants, L.L.C.	Actuary	\$85,431	Actuarial
Strasburger and Price, L.L.P.	Attorneys	\$26,872	Legal
Locke Lord Bissell & Liddell, LLP	Attorneys	\$245,341	Legal
Brownstein Hyatt Farber Schreck, P.C.	Attorneys	\$49,426	Legal
Godwin Pappas Ronquillo LLP	Attorneys	\$55,239	Legal
Jackson Walker L.L.P.	Attorneys	\$264	Legal
The Schubot Law Firm, P.C.	Attorneys	\$177	Legal
Winstead PC	Attorneys	\$2,052	Legal
Dry & Tassin	Attorneys	\$2,800	Legal
Ice Miller	Attorneys	\$22,647	Legal
Health South Corp	Attorneys	(\$8,423)	Legal
Purrington Moody Weil L.L.P.	Attorneys	\$21,413	Legal
Joseph Mason, CPA	Auditors	\$5,150	Audit
Mir•Fox & Rodriguez, P.C.	Auditors	\$26,382	Audit
Printmailers, Inc.	Communications	\$2,728	Printing and design
National Mail Advertising	Communications	\$2,868	Printing and design
Infinity Group	Communications	(\$4,960)	Printing and design
Websoft Publishing Company, Inc.	Consultant	\$275	Consulting
Adjacent Technologies	Consultant	\$2,625	Consulting
William & Jenson	Consultant	\$144,000	Consulting
Vitech Systems Group, Inc.	Consultant	\$107,853	Consulting
Information Network International	Consultant	\$1,900	Consulting
Adcetera Design Studio, Inc.	Consultant/ Communications	\$120,865	Consulting , printing and design
Texas Occupational Medicine	Physicians	\$15,275	Medical examinations
William K. Drell	Physicians	\$800	Medical examinations
TOTAL PROFESSIONAL SERVICES		\$929,000	

See accompanying independent auditors' report.



SECTION 3

Investment information

The primary goal of the Houston Firefighters' Relief and Retirement Fund's investment program is to provide sufficient investment returns with appropriate levels of risk necessary to pay timely and sufficient benefits to plan participants. The Fund's Board of Trustees seeks to produce a return through its investment program that is adequate to maintain the fully funded actuarial status of the Fund, while minimizing risk through portfolio diversification.

In fiscal year 2008, the Fund experienced a rate of return of 3.96 percent.

OUTLINE OF INVESTMENT POLICIES

The Board of Trustees of the Houston Firefighters' Relief and Retirement Fund has adopted the following policies. Authority to amend these policies rests solely with the Board of Trustees, which may delegate authority to act on certain matters to the Investment Committee, a committee consisting of the whole Board of Trustees.

Investment Philosophy

In developing the investment program, the Investment Committee is guided by a set of precepts from which all investment decisions are made, establishing the foundation and direction for all future activity. The Investment Committee applies these precepts knowing the importance of asset allocation and the benefits of diversification.

The guiding precepts consist of the following: long-term focused, value-driven, relationship-driven, opportunistic and contrarian.

Asset Allocation and Rebalancing

The Investment Committee establishes the Fund's asset allocation targets, ranges and benchmarks. Below are the results of the latest revision to this policy.

<i>Asset Class</i>	<i>Range</i>	<i>Target</i>	<i>Benchmark</i>
PUBLIC MARKETS			
Cash	0.5% – 2%	1%	Custom Cash Benchmark*
Domestic Equities	15% – 25%	21%	Russell 3000 Index
International Equities	15% – 25%	19%	MSCI All Country World Ex-US Index
Fixed Income	30% – 40%	36%	Lehman Universal Index
Alternative	0 – 10%	5%	LIBOR plu 3%
PRIVATE MARKETS			
Private Equity	11% – 18%	12%	CA US Private Equity 1QA
Real Estate	4% – 7%	6%	30% NCREIF Property/70% NCREIF Timberland

*. Citigroup 3-month T-bill (4/20/1988 – 8/31/1997), ML 90-day T-bill Index (9/30/1997 – 5/31/2000), ML 1-year T-Bill Index (6/1/2000 – Present)

When necessary (usually appropriate every three to five years) the Investment Committee will undertake a comprehensive review of the Fund's asset allocation targets and ranges. This may involve an asset-liability study that places the development of investment policy into the context of future benefit payments, liabilities, required funding and the prospective funded status of liabilities.

A) Public Market Rebalancing

The Investment Committee has allocated the assets of the Fund to several asset classes with the objective of optimizing the investment return of the Fund within the framework of acceptable risk and diversification. Each asset class is allowed to operate within its specific range established by the Investment Committee. In addition, a strategic allocation has been established for each asset class for the purpose of performance evaluation and rebalancing. If a public, non-cash asset class reaches an endpoint of its allocation range, the Chief Investment Officer (CIO) with the approval of the Chairman is allowed the discretion to effect a rebalance to within 2.5% of the Strategic Allocation. Upon completion, the

CIO shall report the rebalance to the Investment Committee within the next Monthly Report of Investment Actions Taken.

B) Cash Management

The CIO with the Chairman's approval is allowed the discretion to use the short-intermediate bond portfolio to manage the cash level within the established asset class range set forth in this Section. If the cash balance rises/falls above/below the asset class range limit, the short-intermediate bond portfolio will be bought/sold to bring the cash within the range. Upon completion, the CIO shall report the transaction to the Investment Committee within the next Monthly Report of Investment Actions Taken. The CIO may not reduce the short-intermediate bond portfolio below U.S. \$125 million without the formal approval of the Investment Committee.

Risk Management

The Fund ensures adequate risk control through the following means:

A) Diversification

The Investment Committee shall diversify the investment portfolio in order to minimize the impact of the loss from individual investments as may be relevant to an asset class. In addition to achieving diversification by asset class, the Investment Committee shall pay careful attention to diversification within each asset category and subcategory.

B) Portfolio Guidelines

Every portfolio that is a part of the Fund's overall investment portfolio shall operate under written guidelines approved by the Investment Committee, which are designed to ensure that the portfolio meets its objective and operates within acceptable risk parameters.

Investment Managers

The Board has adopted policies that govern the

investment manager selection process, guidelines applicable to the managers, and review and retention procedures for all managers retained by the Fund.

The Fund's Investment Committee uses a systematic process in the selection of investment managers. This process includes rigorous due diligence by the Investment Committee, with assistance from staff. Manager guidelines include general guidelines applicable to all managers and specific guidelines unique to each manager. Specific guidelines unique to each manager are developed cooperatively by the Investment Committee and manager and incorporated into the Investment Management Services Contract executed by the Chairman and manager. The Investment Committee, with assistance from staff, continuously monitors each manager's performance and adherence to style, strategy and manager-specific guidelines.

Investment results were calculated using a time-weighted rate of return based on the market rate of return.

Portfolio Performance Measures

To measure the performance of the overall Fund, the Investment Committee has established a Policy Benchmark, which is reflective of the most recently approved asset allocation study.

The reported investment performance of the Fund will be calculated by the Fund's custodian bank, an unaffiliated organization, with recognized expertise in this field and fiduciary level reporting responsibility to the Fund's Investment Committee. A calculation will be made for the Fund's aggregate, asset class and investment manager performance using the Global Investment Performance Standards (GIPS®) or a similar standard. Additionally, each investment manager is required to keep performance records and report periodically to the Fund's custodian, internal investment staff and third-party auditor.

Separately, internal calculations of the Fund's investment manager performance shall be developed by the Fund's investment staff. A time-weighted rate of return calculation will be used for all public market investment managers. Private equity and real estate investments shall be calculated using an internal rate of return.

The fiscal year of the Fund shall begin on July 1 and end on June 30. The market value of the Fund shall be maintained on an accrual basis in compliance with the Government Accounting Standards Board Statements, industry guidelines, state statutes or whichever is applicable. The Fund's financial statements and investment returns shall be audited each fiscal year-end by an independent accounting firm in accordance with the Fund's Administrative Policies.

Each manager is assigned an investment performance benchmark relative to his or her style of management. The performance objective for each manager is to provide a five-year rolling alpha in excess of the manager's fees.

Regarding Corporate Governance

The Board of Trustees recognizes its fiduciary obligation to cast its votes in corporate affairs. The Board adopts a written statement of proxy policies and reviews this statement annually. As a part of this policy, the Board has adopted the shareholder's bill of rights, as adopted by ISS (Institutional Shareholder Services, Inc.) and customized by the Fund. All proxies are to be voted in a timely manner in accordance with expressed policies. Shareholder and management proposals are both entitled to due consideration and are given the same degree of attention. At the present time, the Board of Trustees recognizes that voting on international corporate affairs is an extremely specialized and administratively difficult enterprise. The Board of Trustees has delegated the authority to sign and submit proxy material on behalf of the Fund to all outside managers.

Investment Holdings Asset Allocation* (Dollars in millions)

	FISCAL YEAR 2008		FISCAL YEAR 2007	
	Market Value	Percent	Market Value	Percent
Cash and Cash Equivalents [†]	\$35	1.2%	\$75	2.5%
Domestic Equity	\$712	23.6%	\$696	23.5%
Fixed Income	\$998	33.0%	\$995	33.7%
International Equity	\$634	21.0%	\$668	22.6%
Alternative Investments	\$142	4.7%	\$118	4.0%
Private Equity	\$334	11.0%	\$278	9.5%
Real Estate Investments	\$166	5.5%	\$122	4.2%
	\$3,021	100%	\$2,952	100%

* Calculated using specific mandates. Includes receivables, payables and foreign currency fluctuations.

[†] Does not include cash residuals from managed accounts.

<i>Total Fund Return and Returns by Asset Class¹ (in percentages)</i>								
	PERIOD ENDING JUNE 30:					ANNUALIZED		
	2008	2007	2006	2005	2004	3-Year	5-Year	10-Year
TOTAL FUND								
■ HFRRF	4.0	17.0	14.5	19.1	18.4	16.8	15.0	9.8
Policy Benchmark ²	1.0	17.3	11.0	11.0	13.9	13.1	11.8	8.7
CASH AND CASH EQUIVALENTS								
■ HFRRF	8.5	9.0	7.0	4.7	3.0	6.9	4.9	7.6
Custom Benchmark ³	5.4	5.2	2.9	1.7	0.7	3.3	2.6	4.1
DOMESTIC EQUITY								
■ HFRRF	2.1	19.6	16.5	18.6	30.9	18.2	16.3	10.9
Russell 3000	(12.7)	20.1	9.6	8.1	20.5	12.4	11.5	7.6
FIXED INCOME								
■ HFRRF	4.3	9.0	1.4	14.3	4.7	8.1	10.9	8.1
Lehman Universal Index	6.2	6.6	(0.3)	7.4	1.0	4.5	5.2	6.2
INTERNATIONAL EQUITY								
■ HFRRF	(5.2)	29.1	32.0	16.9	34.6	25.9	20.1	9.4
MSCI All Country World Ex-U.S. Index	(6.2)	30.1	28.4	16.9	32.5	25.0	19.9	8.6
ALTERNATIVE INVESTMENTS								
■ HFRRF	15.7	6.8	(5.2)	16.7	N/A	5.7	N/A	N/A
LIBOR ⁴ + 3%	7.2	8.4	7.4	5.5	N/A	7.1	N/A	N/A
PRIVATE EQUITY								
■ HFRRF	20.0	22.4	31.7	28.0	20.1	27.3	18.1	14.2
C.A. U.S. PRIVATE EQUITY ⁵ IQA	12.4	28.6	31.9	23.0	27.4	27.8	19.7	15.8
REAL ESTATE INVESTMENTS								
■ HFRRF	7.7	16.2	15.8	24.6	4.0	18.8	12.2	9.0
70% NCREIF ⁶ Timberland/30% Property	16.7	13.5	19.4	15.3	9.1	16.0	12.3	9.8

The Fund's investment results were calculated using a time-weighted rate of return on market values, which is not materially different from Global Investment Performance Standards (GIPS®).

The Policy Benchmark provides an indication of the returns that could be achieved (excluding transaction costs) by a portfolio invested passively in the broad market with the percentage weights allocated to each asset class in the Fund's policy allocation.

¹ All performance is gross of investment management fees and expenses.

² HFRRF Policy Benchmark: Russell 3000 (22%), MSCI AC World Ex-U.S. (19%), Lehman Brothers Universal Index (36%), LIBOR + 3% (3%), CA U.S. Private Equity Index (12% — changed from a flat 15% the previous year), NCREIF 70% timberland/30% Property (6% — changed from a flat 9.25% the previous year), cash Custom Benchmark (2%)

³ Cash — Custom Benchmark: Citigroup 3-month T-Bill (4/30/1998 – 8/21/1997), Merrill Lynch 90-day T-Bill Index (9/20/1997 – 5/31/2000); Merrill Lynch 1-Year T-Bill Index (6/1/2000 – Present).

⁴ London Interbank Offered Rate (LIBOR): A short-term interest rate quoted as a 1-, 3-, and 6-month rate for U.S. dollars.

⁵ Cambridge Associates LLC U.S. Private Equity Index®: end-to-end calculation based on data compiled from 663 private equity funds, including fully liquidated partnerships, formed between 1986 and 2008. All returns are net of fees, expenses and carried interest.

⁶ National Council of Real Estate Investment Fiduciaries (NCREIF): A quarterly time series composite total rate of return measure of investment performance of a very large pool of individual real estate properties acquired in the private market for investment purposes only.

Investment results (continued)

<i>Comparison of Investment Returns (Fiscal Years End on June 30)</i>											
FISCAL YEAR	TOTAL FUND	MEDIAN TOTAL FUND*	FUND DOMESTIC EQUITY INV.	RUSSELL 3000 STOCK INDEX	SP500 STOCK INDEX	FUND FIXED-INCOME (BOND) INV.	LEHMAN BROS. UNIV.	LEHMAN BROS. GOV/ CREDIT	FUND INT'L EQUITY	MSCI ALL-COUNTRY WORLD EX-US	MSCI EAFE
1980	11.8	11.4	17.5	18.7	17.3	1.1	—	3.8	—	—	—
1981	11.8	12.1	27.1	23.2	20.6	(11.0)	—	(4.1)	—	—	—
1982	3.4	(1.0)	(7.1)	(13.9)	(11.5)	5.6	—	13.3	—	—	—
1983	36.4	44.1	65.9	66.4	61.2	29.5	—	29.1	—	—	—
1984	(3.9)	(3.7)	(11.7)	(8.5)	(4.7)	(0.2)	—	1.8	—	—	—
1985	27.7	27.3	30.6	31.2	30.9	32.3	—	28.7	—	—	—
1986	21.7	26.1	26.5	35.7	35.8	19.1	—	20.7	—	—	—
1987	13.6	12.5	19.6	19.8	25.1	8.3	—	4.7	—	—	—
1988	3.6	0.6	1.2	(6.1)	(7.1)	11.4	—	7.5	—	—	—
1989	12.8	14.6	16.8	19.7	20.5	10.9	—	12.3	—	—	—
1990	9.3	10.2	14.4	13.5	16.4	4.9	—	7.1	—	—	—
1991	3.7	7.4	2.4	7.2	7.4	11.3	10.7	10.2	(10.6)	—	(11.5)
1992	8.4	13.3	7.5	14.7	13.5	24.6	14.2	14.2	0.8	—	(0.7)
1993	16.7	13.6	19.7	16.0	13.6	20.7	12.0	13.2	12.2	—	20.3
1994	5.7	2.4	2.0	1.0	1.3	2.0	(1.1)	(1.5)	19.7	—	17.0
1995	15.5	16.7	22.1	24.9	26.1	17.5	12.4	12.8	4.1	—	1.7
1996	16.9	17.4	21.5	26.0	26.1	12.2	5.7	4.7	17.9	—	13.3
1997	23.2	20.0	31.5	30.6	34.6	14.3	8.8	7.8	15.5	—	12.8
1998	13.1	17.9	14.6	28.8	30.2	13.2	10.1	11.3	6.1	—	6.1
1999	5.5	11.4	6.7	20.1	22.7	2.2	2.6	2.7	6.3	8.3	7.6
2000	10.3	10.0	(1.4)	9.6	7.3	4.8	4.8	4.3	22.1	16.6	17.2
2001	(1.1)	(4.7)	11.2	(13.9)	(14.8)	5.2	10.8	11.1	(22.2)	(25.4)	(24.8)
2002	(2.4)	(6.0)	(1.0)	(17.3)	(18.0)	1.8	7.7	8.2	(8.1)	(9.4)	(9.5)
2003	6.5	3.9	(1.8)	0.8	0.3	26.8	11.5	13.1	(6.9)	(5.6)	(6.1)
2004	18.4	15.8	30.9	20.5	19.1	4.7	1.0	(0.7)	34.3	32.0	32.4
2005	19.1	9.5	18.6	8.1	6.3	14.3	7.4	7.3	16.1	14.6	13.6
2006	14.5	9.3	16.5	9.6	8.6	1.4	(0.3)	(1.5)	27.9	26.9	26.6
2007	17.0	16.4	19.6	20.1	20.6	9.0	6.6	6.0	29.1	30.1	27.0
2008	4.0	(4.5)	2.2	(12.7)	(13.1)	4.3	6.2	7.2	(5.2)	(8.8)	(10.6)

<i>Compound Annual Return</i>								
PERIOD TOTAL	TOTAL FUND	MEDIAN TOTAL FUND*	FUND DOMESTIC EQUITY INV.	RUSSELL 3000 STOCK INDEX	SP500 STOCK INDEX	FUND FIXED- INCOME (BOND) INV.	LEHMAN BROS. UNIVERSAL	LEHMAN BROS. GOV/ CREDIT
2-year	10.3	5.3	10.5	2.4	2.4	6.7	6.4	6.6
3-year	11.7	6.4	12.5	4.7	4.4	4.9	4.2	3.8
5-year	14.5	8.5	17.2	8.4	7.6	6.7	4.2	3.6
7-year	10.7	5.9	11.6	3.2	2.5	8.6	5.7	5.6
10-year	8.9	6.6	9.7	3.5	2.9	3.2	5.8	5.7

*Trust Universe Comparison Service Public Funds Total Returns

Investment holdings summary

Ten Largest Equity Investment Holdings (Excluding commingled funds)

DESCRIPTION	MARKET VALUE	PERCENT OF TOTAL MARKET VALUE
Nestle SA CHF0.1 (REGD)	\$15,333,041.43	0.51%
Vodafone group	\$13,473,951.79	0.44%
schlumberger LTD COM	\$10,202,089.95	0.34%
BHP Billiton Limited	\$8,970,261.20	0.30%
telefonica SA EUR1	\$8,912,079.67	0.29%
Exxon Mobil Corp	\$8,804,187.00	0.29%
Hess Corp	\$8,505,206.00	0.28%
Statoilhydro ASA NOK2.50	\$7,852,359.11	0.26%
Adidas AG NPV	\$7,674,438.51	0.25%
Unilever PLC ORD GBP0.031111	\$7,573,228.35	0.25%

Ten Largest Fixed-Income Holdings

DESCRIPTION	MARKET VALUE	PERCENT OF TOTAL MARKET VALUE	
HBOS PLC MTN TR #SB 0000 144A	6.750% 05/21/2018 DD 05/21/08	\$13,156,238.40	0.43%
JPMorgan Chase CAP XXV CAP SEC	6.800% 10/01/2037 DD 09/26/07	\$12,456,689.05	0.41%
Tesco PLC SR NT 144A	6.150% 11/15/2037 DD 11/05/07	\$12,095,653.50	0.40%
Standard Chartered BK SUB NT	6.400% 09/26/2017 DD 09/26/07	\$11,011,271.95	0.36%
Glitnir Banki HF 144A	6.375% 09/25/2012 DD 09/25/07	\$10,056,501.00	0.33%
Mexico (UTD MEX ST) BDS	9.000% 20-DEC-2012 MXN100	\$9,893,830.39	0.33%
Bank Of America Corp SER K	VAR RT 12/29/2049 DD 01/30/08	\$9,485,808.75	0.31%
PacifiCorp BD	6.250% 10/15/2037 DD 10/03/07	\$9,159,013.56	0.30%
U S Treasury Notes	3.500% 12/15/2009 DD 12/15/04	\$9,145,800.00	0.30%
AT&T Inc Global NT	6.500% 09/01/2037 DD 08/31/07	\$8,545,762.30	0.28%

Note: A list of marketable securities may be available on request.

Fees for Investment Services

DESCRIPTION	ASSETS UNDER MANAGEMENT	FEES	BASIS POINTS*
Cash Equivalents Manager†	\$95,564,003.51	\$160,611.00	0.1681%
Domestic Equity Managers	\$653,509,971.67	\$2,738,375.00	0.4190%
International Equity Managers	\$668,652,519.84	\$3,489,889.00	0.5219%
Fixed Income Managers	\$954,752,943.36	\$1,917,199.00	0.2008%
Alternative Investments	\$142,358,591.32	\$750,000.00	0.5268%
Private Equity	\$366,372,479.76	\$221,565.00	0.0605%
Real Estate Investments	\$133,760,804.35	\$266,780.00	0.1994%
OTHER INVESTMENT SERVICES			
Custodian Bank	\$3,014,971,313.81	\$441,762.00	0.0147%
TOTAL FEES FOR INVESTMENT SERVICES	\$3,014,971,313.81	\$9,986,181	0.3419%

* Calculated using average quarterly assets under management.

† Includes residual cash from separate accounts, which is swept daily and included in the Super STIF cash management portfolio.

<i>Top 25 Broker Commission Paid</i>	
BROKER NAME	BASE COMMISSION
Pershing Division Of DLJ, NY	\$168,214
Bear Stearns & Co Inc, NY	\$95,702
BNY Convergenx / LJR, Houston	\$92,024
Credit Suisse, New York (CSFBUS33XXX)	\$81,109
Merrill Lynch Pierce Fenner, Wilmington	\$80,781
Goldman Sachs & Co, NY	\$60,046
Morgan Stanley & Co Inc, NY	\$59,452
Merrill Lynch Intl London Equities	\$53,666
Lehman Bros Inc, New York	\$36,675
Merrill Lynch & Co Inc Atlas Global, NY	\$34,193
UBS Securities LLC, STAMFORD	\$30,784
Deutsche BK SECS Inc, NY (NWSCUS33)	\$29,788
Merrill Lynch Pierce Fenner Smith Inc NY	\$29,654
J P Morgan SECS LTD, London	\$26,852
Pershing Securities LTD, London	\$26,191
Citigroup GBL MKTS/Salomon, New York	\$25,932
Liquidnet Inc, Brooklyn	\$25,271
Samsung SECS, Seoul	\$23,024
UBS Warburg Asia LTD, Hong Kong	\$22,492
Friedman Billings, Washington DC	\$21,775
Goldman Sachs Execution & Clearing, NY	\$21,720
Macquarie Equities LTD, Sydney	\$20,013
HSBC SECS Inc, New York	\$19,856
Mellon Financial Mrkts LLC, Jersey City	\$18,165
Dresdner Kleinwort SECS LTD (KBENGB22)	\$17,240
Other	\$694,256
TOTAL	\$1,814,874

* *Commission recapture broker*

COMMISSION RECAPTURE PROGRAM

Houston Firefighters' Relief and Retirement Fund began a brokerage commission recapture program in 1993. Currently, the brokerage firm of Lynch, Jones & Ryan Inc. participates in the program. A portion of any commission generated by trading activity conducted by the Fund's investment managers with these firms is returned or recaptured by the Fund. The amount of the commissions recaptured is defined via contracts with the individual brokerage firms and varies with the type of trading activity. Any commissions recaptured are deposited in the investment manager's account from whom the trading activity originated. The Fund's investment managers are not required to participate in the program, but the Board feels it has provided ample financial incentive for solid participation. During fiscal year 2008, slightly more than 5 percent of all trading activity was directed toward the commission recapture program.



SECTION 4

Actuarial information

There are several types of retirement plans, each designed to provide income security after retirement. How each type of plan is funded varies depending on the type of plan. The Houston Firefighters' Relief and Retirement Fund is a single-employer defined benefit plan, which requires an actuarial valuation to determine the amount of funding required to pay benefits. Another type of plan, a defined contribution plan, does not require an actuarial valuation.

Types of Retirement Plans

Defined contribution plans accumulate contributions (employee only, or employee and employer). The plan then provides a benefit based on the actual investment growth (or decline) of those contributions. A specific benefit is not promised. Adequate funding is accomplished simply by making the required contributions.

The Houston Firefighters' Relief and Retirement Fund is a defined benefit plan. Defined benefit plans represent a promise to pay specific benefits to employees. The benefit to employees and their survivors is usually much more than the combined contributions of the employee (if specified) and the employer. Determining adequate funding requires making a variety of assumptions to assure full payments can be made from the plan.

Funding for a Defined Benefit Plan

Adequate funding of a defined benefit plan is necessary because employees are promised a specific benefit at retirement (based on the plan formula). Therefore, there must be enough money in the plan to pay the benefits that have been promised.

The exact amount of money required to provide future benefits cannot be determined without making some assumptions. It is necessary for an actuary (a person trained to calculate these types of risks) to make specific assumptions. The actuary must then determine a cost method to assure adequate funding so the Fund can provide promised benefits.

ACTUARIAL COST METHOD

Using an actuarial cost method involves estimating the ultimate cost of the plan, then establishing a systematic way to cover a proportionate part of the estimated cost each year through advance funding. The ultimate cost of a plan includes all specific benefits that are promised to be paid, plus all administrative expenses, less any investment earnings realized over the total life of the plan. Since the exact ultimate cost of the plan cannot be determined until the last retired member of a plan dies, it must be actuarially estimated by forecasting the plan's expenses and investment return. The necessary funding, or contribution amount, is established from these estimates.

Estimating the total amount of benefits that will be paid to members requires the use of statistical methods, because the estimate depends on assumptions about the actual number of people who will receive benefits and the amount of the benefits. Therefore, assumptions must be made about the number of active members and beneficiaries who will receive benefits or become disabled, the duration of retirement and disability payments, amounts paid at different ages, mortality rates, pay raises, terminations, and layoffs — for all the years the plan is in existence.

Administrative expenses must also be estimated. This requires specific accounting and managerial expertise. Investment analysis and forecasting are also required to estimate earnings on plan assets.

ACTUARY'S REPORT

The information that follows was determined using specific actuarial methods, which have been generally described above. The methods were applied to census data about active firefighters, retirees and beneficiaries of the Fund as of July 1, 2007.



Wells Fargo Plaza
1000 Louisiana Street,
Suite 4900
Houston, Tx 77002

November 18, 2008

Board of Trustees
Houston Firefighters' Relief and Retirement Fund
4225 Interwood North Parkway
Houston, TX 77032-3866

Dear Board Members:

The Actuarial Valuation Report dated February 21, 2008 describes the results of the actuarial valuation of the Houston Firefighters' Relief and Retirement Fund (HFRRF) as of July 1, 2007. The Fund retained Buck Consultants to perform this actuarial valuation for the purposes of determining the funded status for the plan year July 1, 2007 through June 30, 2008.

HFRRF's goal is to establish contributions which, when combined with present assets and future investment return, will be sufficient to meet the financial obligations of HFRRF to present and future retirees and beneficiaries. An additional goal is to establish contributions which are an approximately level percentage of payroll for each generation of active members.

Actuarial valuations are performed annually, with the most recent valuation as of July 1, 2007. According to this valuation, the plan is 91.1% funded – that is, current assets cover 91.1% of the benefits accrued to date by active and retired members and beneficiaries. This is higher than the 87.0% in the July 1, 2006 valuation, primarily due to asset returns above expected.

The actuarial assumptions and methods used in this valuation were selected by the Board of Trustees. The Board has sole authority to determine the actuarial assumptions. In our opinion, the actuarial assumptions and methods used are appropriate for purposes of the valuation and, in the aggregate, are reasonably related to the experience of the Fund and to reasonable expectations and meet the parameters of Governmental Accounting Standards Board Statement No. 25.

In preparing the actuarial results, we have relied upon information provided by the Board of Trustees regarding plan provisions, plan participants, plan assets and other matters. While the scope of our engagement did not call for us to perform an audit or independent verification of this information, we have reviewed this information for reasonableness but have not audited it. The accuracy of the results presented in this report is dependent upon the accuracy and completeness of the underlying information. Historical information for years prior to 2004 was prepared by the prior actuaries and was not subjected to our actuarial review.

HFRRF staff prepared the supporting schedules in the actuarial section of the Comprehensive Annual Financial Report, and the trend tables in the financial section are based on information supplied in prior actuarial reports, as well as our July 1, 2007 actuarial valuation report.

The consulting actuaries are members of the American Academy of Actuaries and meet their "General Qualification Standard for Prescribed Statements of Actuarial Opinions" relating to pension plans.

The results shown in this report are reasonable actuarial results. However, a different set of results could also be considered reasonable actuarial results, since the Actuarial Standards of Practice describe a "best-estimate range" for each assumption, rather than a single best-estimate value. Thus, reasonable results differing from those presented in this report could have been developed by selecting different points within the best-estimate ranges for various assumptions.

Carly A. Nichols, F.S.A., E.A., M.A.A.A.

Lee A. James, F.S.A., E.A., M.A.A.A.A., F.C.A.

INVESTMENT RETURN

Eight-and-a-half percent per year, net of expenses

PAYROLL GROWTH RATE

Three percent per year

INFLATION

Three percent per year

INDIVIDUAL SALARY INCREASES

AGE	ANNUAL SALARY INCREASE RATE
20	7.00%
25	6.25
30	5.50
35	5.00
40	4.00
45	3.70
50	3.40
55 and over	3.00

MORTALITY RATES (NON-DISABLED)**1994 Group Annuity Mortality Table**

AGE	PROBABILITY OF DEATH WITHIN ONE YEAR AFTER ATTAINING AGE SHOWN	
	MALE	FEMALE
20	0.05%	0.03%
25	0.07	0.03
30	0.08	0.04
35	0.09	0.05
40	0.11	0.07
45	0.16	0.10
50	0.26	0.14
55	0.44	0.23
60	0.80	0.44

The actuarial assumptions and methods were adopted by the Board of Trustees on June 16, 2005, for use in the July 1, 2005 valuation of the Fund and all following valuations of the Fund. The 1994 Group Annuity Mortality Table is used to determine the mortality assumptions of the plan, including the probability of ceasing active service due to death.

TERMINATION RATES**PROBABILITY OF TERMINATING SERVICE
(FOR REASONS OTHER THAN DEATH,
DISABILITY OR RETIREMENT)**

AGE	WITHIN ONE YEAR AFTER ATTAINING AGE SHOWN
20	1.3%
25	1.3
30	1.2
35	0.7
40	0.6
45	0.2
50	0.0

The liability for the optional refund of contributions for participants who terminate with at least 10 but less than 20 years of service was determined by assuming that 50 percent of such participants elect a refund and 50 percent elect a deferred monthly benefit.

DISABILITY RATES**PROBABILITY OF BECOMING
TOTALLY DISABLED WITHIN ONE YEAR**

AGE	AFTER ATTAINING AGE SHOWN
20	0.75%
25	0.75
30	0.75
35	1.50
40	1.50
45	1.50
50	1.50
55	1.50
60	3.00

DISABLED MORTALITY RATES

AGE	AFTER BECOMING DISABLED, PROBABILITY OF DEATH WITHIN ONE YEAR AFTER ATTAINING AGE SHOWN	
	MALE	FEMALE
20	2.3%	0.7%
25	2.6	1.3
30	2.9	1.9
35	2.8	2.2
40	3.1	2.3
45	3.5	2.3
50	4.1	2.6
55	5.3	3.0
60	6.5	3.4

**PERCENTAGE OF DEATH AND
DISABILITY IN LINE OF DUTY**

AGE	DEATH	DISABILITY*
25	100%	60%
35	100	60
45	42	34
55	20	25

* One percent of firefighters who become disabled in the line of duty are assumed to be incapable of performing any substantial gainful activity.

RETIREMENT RATES

NUMBER OF YEARS OF SERVICE	PROBABILITY OF RETIRING WITHIN ONE YEAR
20	8.0%
21 – 22	6.0
23 – 24	5.0
25	6.0
26	10.0
27 – 29	12.0
30 – 31	25.0
32 – 34	40.0
35 – 36	50.0
37	60.0
38 – 39	80.0
40+	100.0

DROP DURATION

DURATION OF DROP AT RETIREMENT	PERCENTAGE OF PARTICIPANTS ELECTING RETIREMENT AT THE SPECIFIED DURATION
0	10%
3	10
5	10
8	30
10	40

PERCENTAGE MARRIED

Ninety percent married, with husbands assumed to be three years older than wives. No beneficiaries other than spouse assumed.

ACTUARIAL VALUE OF ASSETS

Gains and losses in the market value of assets, based on the difference between the actual rate of return and the assumed rate of return, are recognized in the actuarial value over five years.

ACTUARIAL COST METHOD

Entry Age Method with liabilities allocated from date of entry to 30 years of service. The Unfunded Actuarial Accrued Liability (Surplus), including the effects of actuarial gains and losses, is amortized as a level percentage of payroll over 30 years. The contribution is increased for interest for half a year to reflect timing of payment.

**CHANGES IN ACTUARIAL METHODS
AND ASSUMPTIONS**

Assumptions and methods used in the July 1, 2007 evaluation are the same as those used in the July 1, 2006 evaluation.

<i>Active Member and Drop Participant Valuation Data</i>					
VALUATION DATE	NUMBER	AVERAGE AGE	ANNUAL PAYROLL (DOLLARS IN MILLIONS)	ANNUAL AVERAGE SALARY	PERCENTAGE INCREASE IN AVERAGE SALARY
7-1-01	3,318	42.1	\$164.3	\$49,522	(1.0)%
7-1-02	3,375	41.8	\$190.5	\$56,468	14.0%
7-1-04	3,656	40.4	\$181.5	\$48,206	(14.6)%
7-1-05	3,894	39.4	\$192.1	\$49,353	2.4%
7-1-06	3,796	41.2	\$218.7	\$52,731	6.8%
7-1-07	3,819	40.5	\$232.4	\$57,581	9.2%

<i>Retirees and Beneficiaries Added To and Removed From Rolls</i>								
YEAR ENDED	ADDED TO ROLLS		REMOVED FROM ROLLS		ROLLS — END OF YEAR		PERCENTAGE INCREASE IN ANNUAL ALLOWANCES	AVERAGE ANNUAL ALLOWANCES
	NO.	ANNUAL ALLOWANCES	NO.	ANNUAL ALLOWANCES	NO.	ANNUAL ALLOWANCES		
6-30-01	127	\$3,581,000	47	\$775,000	1,672	\$38,347,000	10.9%	\$22,935
6-30-02	172	\$5,493,000	61	\$998,000	1,783	\$44,300,000	15.5%	\$24,846
6-30-04 ¹	377	N/A	109	N/A	2,051	\$57,676,000	30.2%	\$28,121
6-30-05	135	\$4,353,000	53	\$1,107,000	2,133	\$62,882,000	9.0%	\$29,481
6-30-06	195	\$7,231,000	60	\$1,437,000	2,268	\$70,420,000	12.0%	\$31,050
6-30-07	106	\$3,822,000	59	\$1,407,000	2,315	\$74,948,000	6.4%	\$32,375

¹ 2-year period

Solvency Test (Dollars in thousands)

ACTUARIAL ACCRUED LIABILITY FOR:

VALUATION DATE	ACTIVE MEMBER CONTRIBUTIONS	RETIREES, BENEFICIARIES AND VESTED PARTICIPANTS	ACTIVE PARTICIPANTS (CITY-FINANCED PORTION)	ACTUARIAL VALUE OF ASSETS	PERCENTAGE OF ACTUARIAL ACCRUED LIABILITY COVERED BY ASSETS		
					(1)	(2)	(3)
7-1-01	\$374,918	\$555,332	\$720,560	\$1,863,098	100%	100%	100%
7-1-02	\$406,522	\$698,964	\$864,668	\$1,922,405	100%	100%	94%
7-1-04	\$307,036	\$909,085	\$1,050,702	\$2,000,302	100%	100%	75%
7-1-05	\$351,112	\$997,506	\$1,112,524	\$2,119,203	100%	100%	69%
7-1-06	\$354,007	\$1,162,755	\$1,154,138	\$2,324,999	100%	100%	70%
7-1-07	\$408,856	\$1,245,485	\$1,237,951	\$2,633,625	100%	100%	79%

Analysis of Financial Experience (Dollars in thousands)

GAIN (OR LOSS) DURING YEAR FROM FINANCIAL EXPERIENCE:	YEAR ENDED JULY 1, 2001	YEAR ENDED JULY 1, 2002	YEAR ENDED JULY 1, 2004	YEAR ENDED JULY 1, 2005	YEAR ENDED JULY 1, 2006	YEAR ENDED JULY 1, 2007
From Liability Sources	\$(9,353)	\$(163,358)	\$(8,019)	\$(10,841)	\$(25,268)	\$(30,485)
From Asset Sources	\$(35,515)	\$(39,336)	\$(175,458)	\$(21,995)	\$52,355	\$140,572
Total	\$(44,868)	\$(202,694)	\$(183,477)	\$(32,836)	\$27,087	\$110,087
Non-Recurring Items*	\$68,166	\$0	\$5,142	\$(15,038)	\$(12,459)	\$0
Composite Gain (or Loss) During Year	\$ 23,298	\$(202,694)	\$(178,335)	\$(47,874)	\$14,628	\$110,087

* Non-recurring items reflect changes in actuarial assumptions, methods and plan provisions.

MEMBERSHIP

Any firefighter who has not reached the age of 36 at the time he or she first enters employment shall automatically become a participant in the Fund upon completing the training period. Before October 1, 1990, the eligibility age was age 31. Before 1984, participants entered the Fund on January 1 or July 1.

AVERAGE SALARY

The average of the highest 36 months of salary (or 78 pay periods), including base pay and overtime, before reduction for pre-tax employee contributions and salary deferrals.

STANDARD SERVICE PENSION

Eligibility: 20 years of service.

Benefit

- For retirement on or after November 1, 1997, 50% of average monthly salary; plus 3% of average monthly salary per year of service in excess of 20 years.
- For retirement on or after November 1, 1996, and prior to November 1, 1997, 48.334% of average monthly salary, plus 2.834% of average monthly salary per year of service in excess of 20 years.
- For retirement on or after November 1, 1995, and prior to November 1, 1996, 46.667% of average monthly salary, plus 2.667% of average monthly salary per year of service in excess of 20 years.
- For retirement on or after September 1, 1991, and prior to November 1, 1995, 45% of average monthly salary, plus 2.5% of average monthly salary per year of service in excess of 20 years, up to 30 years, plus 1.0% of average monthly salary in excess of 30 years.
- For retirement on or after September 1, 1989, and prior to September 1, 1991, 45% of average monthly salary, plus 2.5% of average monthly salary per year of service in excess of 20 years.
- For retirement on or after September 1, 1987, and prior to September 1, 1989, 45% of average monthly

salary, plus 2% of average monthly salary per year of service in excess of 20 years.

- For retirement on or after July 1, 1986, and prior to September 1, 1987, 40% of average monthly salary plus 2% of average monthly salary per year of service in excess of 20 years.
- For retirement on or after January 1, 1970, and prior to July 1, 1986, 35% of average monthly salary plus 3% of average monthly salary per year of service in excess of 25 years.

Maximum

- For retirement on or after September 1, 1991, 80% of average monthly salary.
- For retirement on or after September 1, 1989, and prior to September 1, 1991, 70% of average monthly salary.
- For retirement on or after September 1, 1987, and prior to September 1, 1989, 65% of average monthly salary.
- For retirements on or after January 1, 1970, and prior to September 1, 1987, 60% of average monthly salary.

ALTERNATE SERVICE PENSION

Eligibility: Firefighters who became participants prior to September 1, 1987, and who attain age 50 with 20 years of service, will receive the greater of the standard or alternate pension.

Benefit: 50 percent of average monthly salary plus 1 percent of average monthly salary per year of service after becoming eligible to retire on an alternate pension.

Maximum: 65 percent of average monthly salary.

SUPPLEMENTAL BONUS CHECK

Supplemental payments totaling up to \$5 million will be payable on a prorated basis determined by the Board of Trustees to all retirees and survivors.

DEFERRED RETIREMENT OPTION PLAN (DROP)

Eligibility: 20 years of service.

Benefit: Effective July 1, 2000, eligible participants may elect to participate in the DROP for up to ten years or until they leave active service. The member's standard or alternate service pension (whichever is greater) will be calculated based on service and earnings at the time the DROP is elected.

A notional account will be maintained for each DROP participant. This account will be credited with the following amounts while the member is a participant of the DROP:

- The member's monthly retirement pension, including applicable cost-of-living adjustments
- The member's contribution to the Retirement Fund
- Investment earnings/losses as the rate of the Retirement Fund's earnings/losses averaged over a five-year period

A benefit equal to the DROP account balance will be paid at the time the member leaves active service. The payment will be made as a single lump sum or as three annual installments, if the member chooses.

Effective on July 1, 2000, a three-year back DROP is available for all eligible participants. The DROP account would be recalculated based on what the account balance would have been had the participant elected the DROP up to three years earlier than he/she actually did. The initial DROP entry date cannot be backdated prior to September 1, 1995, or prior to 20 years of credited service, and must be on the first of the month selected.

The monthly benefit for a participant at actual retirement will increase 2 percent for every year of DROP participation (phased in at one percent

effective September 1, 2000, and one percent effective September 1, 2001).

If a DROP participant suffers an on-duty disability resulting in the inability to perform any gainful activity or dies in the line of duty, the death or disability annuity benefit would be calculated as though the participant had not entered the DROP. In addition, the DROP account would be payable to the participant or beneficiary.

SERVICE-CONNECTED DISABILITY PENSION

Eligibility: No age or service requirements.

Benefit: 50 percent of average monthly salary or service pension if greater and eligible. Firefighters who are not capable of performing any substantial gainful activity will receive 75 percent of average monthly salary, or service pension, if greater and eligible.

NON-SERVICE-CONNECTED DISABILITY PENSION

Eligibility: No age or service requirements.

Benefit: 25 percent of average monthly salary, plus 2.5 percent of average monthly salary per year of service.

Maximum: 50 percent of average monthly salary or service pension, if greater and eligible.

VESTED PENSION

Eligibility: At least 10 but less than 20 years of service.

Benefit: 1.7 percent of average monthly salary per year of service, payable beginning at age 50, or optional refund of contributions with interest at a flat rate of 5 percent not compounded.

DEATH BENEFITS

Payable as specified below if survived by a spouse, dependent children, or dependent parents. Effective November 1, 1997, dependent children can continue to receive benefits between the ages of 18 and 22 if they are in college.

Non-service-connected: Monthly benefit that would have been payable had the participant retired for non-service-connected disability on the date of his or her death (or service pension if greater).

Postretirement: Monthly benefit which was payable to the participant prior to his or her death. Effective July 1, 1998, a "graded" postretirement death benefit is payable to a surviving spouse if the retiree was not married at the time of retirement. This "graded" benefit is equal to 20 percent of the postretirement death benefit for each year of marriage to a maximum 100 percent after five years of marriage.

Preretirement: Refund of contributions made if no eligible survivors. If death occurs after 10 years of service, interest is credited on the contributions at the flat rate of 5 percent not compounded. If death occurs before 10 years of service, no interest is credited.

Lump sum: A one-time \$5,000 lump-sum death benefit for any active or retired firefighter. This benefit applies to active members, current retirees, and disabled participants.

ADDITIONAL BENEFIT

Effective on or after July 1, 2001, an extra monthly benefit of \$150 is payable for life to any retired or disabled member or to an eligible survivor of a deceased member. This benefit is not subject to the post-retirement adjustment.

EXCESS BENEFIT

Benefit equal to the excess of any members' standard service pension benefit over the limit imposed by Section 415 of the code.

POSTRETIREMENT ADJUSTMENT**Prior to October 1, 1990**

Pensions adjusted each year based on changes in the CPI-U, but not below original amount or above original amount increased 3 percent each year, not compounded.

Pension adjustments for participants who retire after March 1, 1982, begin at age 55.

Pension adjustments begin immediately for participants whose benefits become payable on or after July 1, 1986, and are based upon 30 or more years of service.

On or after October 1, 1990, and prior to November 1, 1997

Pensions adjusted each year based on changes in the CPI-U. The adjustment is based on the amount of benefits payable at the time of adjustment. The maximum annual increase shall be 3 percent of the benefits payable at the time of adjustment.

Pension adjustments begin immediately for participants whose benefits become payable on or after July 1, 1986, and are based upon 30 or more years of service.

On or after November 1, 1997

Pensions adjusted each year at a fixed rate of 3 percent. The adjustment is based on the amount of benefits payable at the time of adjustment.

Pension adjustment for participants who retire or terminate with a vested benefit after March 1, 1982, begin at age 48. Pension adjustments begin immediately for participants who become disabled and cannot perform any substantial gainful activity (current and future) and qualify for general on-duty disability benefits. Participants whose benefits become payable on or after July 1, 1986, and are based upon 30 or more years of service are also eligible for pension adjustments to begin immediately.

CONTRIBUTION RATES

Members: Nine percent of salary. Refund of contributions without interest in the event of termination before 10 years of service.

City: Beginning in 1983, the rate required to fund the Retirement Fund on an actuarial reserve basis. However, a minimum contribution of twice the employee contribution rate is required by Statute. For 2005 to 2008, the City contributes 23.8 percent of payroll. This rate is based on the 2002 actuarial valuation and will be effective until fiscal year ending June 30, 2008.



SECTION 5
Statistical information

Introduction

The Statistical section of the Houston Firefighters' Relief & Retirement Fund's Comprehensive Annual Financial Report presents detailed information related to the financial statements. The schedules within the Statistical section are classified into the following three categories: Financial Trends, Revenue Capacity and Operating Information. All information was derived from Audited Annual Financials and/or our member services database system.

Financial Trends

The **Revenue by Source** presents the member and employer contributions, as well as the net investment income/loss for the 10 years ending June 30, 2008. The Fund's investment returns have the most significant impact on the additions to plan net assets.

The **Expenses by Type** presents the benefits, refunds of contributions and administrative expenses for the 10 years ending June 30, 2008. The Fund's benefits payments have the most significant impact on the total deductions from plan net assets.

The **Benefit Expenses by Type** presents the amount of benefit payments and refunds by type for the 10 years ending June 30, 2008. Most benefit types are monthly retirement benefits.

The **Statement of Changes in Plan Net Assets** is a schedule combining the additions to and deductions from plan net assets from the schedule of Revenue by Source and schedule of Expenses by Type to arrive at net increase/decrease to changes in plan net assets for the 10 years ending June 30, 2008.

Revenue Capacity

The **Schedule of Investment Income** presents the details of the total net investment gain/loss for the 10 years ending June 30, 2008. The Fund has two outside sources of revenue and one own-source (internal) of revenue. Employer contributions and member contributions, provided in the schedule of Revenue by Source, are the two outside sources of revenue, and investment income is the Fund's own-source revenue. Since investment income is the largest source of revenue to the Fund, this schedule provides more detail on the major components of the investment income, which is also disclosed in total on the schedule of Revenue by Source.

Operating Information

The schedule of **Retired Members by Type of Benefit** presents, for given benefit ranges, the total number of retirees, total monthly benefits and total number of retirees by retirement type as of June 30, 2008.

The schedule of **Average Monthly Benefit Payments and Average Final Average Salary of Retired Members** presents, in five-year increments of credited service, the average monthly benefit, the average final average salary and the number of retired members for the 10 years ending June 30, 2008.

The schedule of **Participating Employers and Active Members** provides the number of covered employees and the corresponding percentage of participation who work within the City of Houston for the 10 years ending June 30, 2008.

<i>Revenues by Source — Accrual Basis (Dollars in thousands)</i>						
FISCAL YEAR (ENDING JUNE 30)	EMPLOYEE CONTRIBU- TIONS	EMPLOYER CONTRIBU- TIONS	EMPLOYER CONTRIBUTIONS AS A PERCENTAGE OF ANNUAL COVERED PAYROLL	INVESTMENT INCOME (OR LOSS) BASED ON MARKET VALUE	OTHER	TOTAL
2008	\$20,431	\$54,051	23.80%	\$108,407	—	\$182,889
2007	\$19,982	\$52,821	23.80%	\$426,976	\$1,273 [†]	\$501,052
2006	\$18,471	\$48,780	23.80%	\$321,634	—	\$388,885
2005	\$16,355	\$32,689	18.00%	\$339,584	\$9,325 [‡]	\$397,953
2004	\$14,238	\$28,477	*	\$304,225	—	\$346,940
2003	\$13,995	\$27,990	15.40%	\$97,380	—	\$139,365
2002	\$14,219	\$28,451	15.40%	\$(45,685)	—	\$(3,015)
2001	\$12,019	\$24,032	15.40%	\$(24,229)	—	\$11,822
2000	\$12,317	\$24,645	15.40%	\$159,214	—	\$196,176
1999	\$12,043	\$24,084	15.40%	\$76,916	—	\$113,043

Contributions were made in accordance with actuarially determined contribution requirements as adopted by the Board of Trustees.

* The employer contributed 15.4 percent of the firefighters' salaries during July and August 2003. Beginning September 1, 2003, the employer contributed 16.7 percent of firefighters' salaries.

[†] Represents proceeds from court judgment regarding lawsuit concerning prior service credit to firefighters

[‡] Represents proceeds from agreed judgment regarding lawsuit concerning overtime pay between Emergency Medical Technical Technicians, as Plaintiffs, and the City of Houston, as Defendant

<i>Expenses by Type — Accrual Basis (Dollars in thousands)</i>				
FISCAL YEAR (ENDING JUNE 30)	BENEFIT PAYMENTS (EXCLUDES CONTRIBUTION REFUNDS)	PROFESSIONAL AND ADMINISTRATIVE EXPENSES	CONTRIBUTION REFUNDS	TOTAL
2008	\$112,164	\$7,301	\$347	\$119,812
2007	\$100,965	\$7,687	\$203	\$108,855
2006	\$93,843	\$6,897	\$265	\$101,005
2005	\$86,042	\$6,738	\$74	\$92,854
2004	\$83,619	\$5,565	\$97	\$89,281
2003	\$71,385	\$4,774	\$126	\$76,285
2002	\$57,820	\$5,309	\$179	\$63,308
2001	\$47,875	\$4,102	\$299	\$52,276
2000	\$35,502	\$3,168	\$187	\$38,857
1999	\$30,899	\$2,966	\$317	\$34,182

Contributions were made in accordance with actuarially determined contribution requirements as adopted by the Board of Trustees.

<i>Benefit Expenses by Type</i>					
	2008	2007	2006	2005	2004
Refunds of Contributions	\$347,112	\$202,679	\$264,965	\$73,668	\$97,363
Death Benefits	\$190,000	\$225,000	\$240,000	\$185,000	—
Deferred Retirees	\$602,773	\$471,176	\$466,763	\$454,197	\$438,383
Off-Duty Disabilities	\$1,692,026	\$1,385,834	\$1,433,514	\$1,494,307	\$1,506,122
Annual Supplemental Benefit Payments	\$4,938,010	\$4,996,204	\$4,975,774	\$4,973,854	\$4,956,121
On-Duty Disabilities	\$5,973,929	\$5,962,452	\$5,762,572	\$5,393,720	\$4,606,603
Survivors	\$13,568,613	\$12,864,154	\$11,927,149	\$10,756,585	\$9,959,839
DROP Distributions	\$28,939,800	\$21,969,057	\$19,707,773	\$18,920,316	\$22,931,233
PROP Distributions	\$48,310	—	—	—	—
Service Retirees	\$56,210,375	\$53,123,105	\$49,329,361	\$43,864,143	\$39,220,294
TOTAL	\$112,510,948	\$101,199,661	\$94,107,871	\$86,115,790	\$83,715,958

	2003	2002	2001	2000	1999
Refunds of Contributions	\$125,824	\$179,452	\$298,726	\$186,168	\$316,765
Death Benefits	—	\$388,025	—	—	—
Deferred Retirees	\$413,387	\$1,634,500	\$367,503	\$333,084	\$286,766
Off-Duty Disabilities	\$1,443,059	\$4,951,779	\$1,712,337	\$1,741,724	\$1,605,351
Annual Supplemental Benefit Payments	\$4,971,066	\$3,114,594	\$4,965,820	—	—
On-Duty Disabilities	\$3,718,092	\$7,759,610	\$2,793,819	\$2,815,798	\$2,776,862
Survivors	\$8,572,203	\$10,299,394	\$5,927,926	\$6,643,817	\$5,661,787
DROP Distributions	\$17,587,240	\$29,671,688	\$5,426,224	\$1,887,631	\$788,368
PROP Distributions	—	—	—	—	—
Service Retirees	\$34,680,317	\$57,999,042	\$26,681,845	\$22,079,996	\$19,779,900
TOTAL	\$71,511,188	\$48,174,200	\$48,174,200	\$35,688,218	\$31,215,799

Statement of Changes in Plan Net Assets Last 10 Fiscal Years

	2008	2007	2006	2005	2004
Additions					
Employer Contributions	\$54,051,414	\$52,821,473	\$48,780,294	\$32,688,827	\$28,476,946
Member Contributions	\$20,431,049	\$19,981,657	\$18,470,660	\$16,355,387	\$14,238,463
Net Investment Income (net of expenses)	\$108,407,295	\$426,975,567	\$321,634,108	\$339,584,437	\$304,224,905
Other		\$1,273,490*		\$9,325,726†	
TOTAL ADDITIONS	\$182,889,758	\$501,052,187	\$388,885,062	\$397,954,377	\$346,940,314
Deductions					
Total Benefit Expenses (see Benefit Expenses by Type)	\$112,510,948	\$101,168,010	\$94,107,871	\$86,115,790	\$83,715,958
Administrative & Professional Expense	\$7,301,986	\$7,686,795	\$6,896,862	\$6,737,975	\$5,565,326
TOTAL DEDUCTIONS	\$119,812,934	\$108,854,805	\$101,004,733	\$92,853,765	\$89,281,284
Change in Plan Net Assets	\$63,076,824	\$392,197,382	\$287,880,329	\$305,100,612	\$257,659,030
Net Assets Held in Trust, Beginning of Year	\$2,966,081,728	\$2,573,884,346	\$2,286,004,017	\$1,980,903,405	\$1,723,244,375
Net Assets Held in Trust, End of Year	\$3,029,158,552	\$2,966,081,728	\$2,573,884,346	\$2,286,004,017	\$1,980,903,405

	2003	2002	2001	2000	1999
Additions					
Employer Contributions	\$27,989,458	\$28,450,723	\$24,032,828	\$24,644,897	\$24,084,115
Member Contributions	\$13,994,725	\$14,218,663	\$12,019,123	\$12,316,994	\$12,043,106
Net Investment Income (net of expenses)	\$97,380,249	\$(45,684,920)	\$(24,229,245)	\$159,213,891	\$76,915,830
Other*					
TOTAL ADDITIONS	\$139,364,432	\$3,015,534	\$11,822,706	\$196,175,782	\$113,043,051
Deductions					
Total Benefit Expenses (see Benefit Expenses by Type)	\$71,511,188	\$57,999,042	\$48,174,200	\$35,688,218	\$31,215,799
Administrative & Professional Expense	\$4,773,834	\$5,308,640	\$4,102,440	\$3,168,364	\$2,965,586
TOTAL DEDUCTIONS	\$76,285,022	\$63,307,682	\$52,276,640	\$38,856,582	\$34,181,385
Change in Plan Net Assets	\$63,079,410	\$(66,323,216)	\$(40,453,934)	\$157,319,200	\$78,861,666
Net Assets Held in Trust, Beginning of Year	\$1,660,164,965	\$1,726,488,181	\$1,766,942,115	\$1,609,622,915	\$1,530,761,249
Net Assets Held in Trust, End of Year	\$1,723,244,375	\$1,660,164,965	\$1,726,488,181	\$1,766,942,115	\$1,609,622,915

* Court judgment income

† Agreed judgment income

Schedule of Investment Income Last 10 Fiscal Years

	2008	2007	2006	2005	2004
Investment Gain (Loss)					
Net appreciation/(depreciation) in fair value of investments	\$22,032,928	\$328,607,064	\$250,059,653	\$275,802,362	\$252,764,028
Interest	\$66,866,092	\$57,664,859	\$48,722,319	\$40,657,595	\$38,617,796
Dividends	\$20,052,418	\$31,620,176	\$20,577,585	\$19,360,917	\$15,475,695
Earnings from private equity	\$4,372,152	\$11,690,766	\$8,231,059	\$9,085,203	\$8,186,731
Earnings from real estate	\$2,217,799	\$3,198,074	\$2,186,004	\$1,788,456	\$2,462
Miscellaneous	\$1,256,464	\$3,092,051	\$511,678	\$494,472	\$390,839
	\$116,797,853	\$435,872,990	\$330,288,298	\$347,189,005	\$315,437,551
Investment expenses	<u>\$(9,986,181)</u>	<u>\$(10,182,092)</u>	<u>\$(10,094,588)</u>	<u>\$(8,743,758)</u>	<u>\$(11,965,521)</u>
Net gain (loss) from investing activities	\$106,811,672	\$425,690,898	\$320,193,710	\$338,445,247	\$303,472,030
From Securities Lending Arrangements:					
Earnings	\$15,021,367	\$31,784,258	\$23,779,889	\$10,458,544	\$3,510,375
Rebates and fees	<u>\$(13,425,744)</u>	<u>\$(30,499,589)</u>	<u>\$(22,339,491)</u>	<u>\$(9,319,354)</u>	<u>\$(2,757,500)</u>
Net income from securities lending activities	\$1,595,623	\$1,284,669	\$1,440,398	\$1,139,190	\$752,875
TOTAL NET INVESTMENT GAIN (LOSS)	\$108,407,295	\$426,975,567	\$321,634,108	\$339,584,437	\$304,224,905

	2003	2002	2001	2000	1999
Investment Gain (Loss)					
Net appreciation/(depreciation) in fair value of investments	\$43,573,461	\$(101,151,952)	\$(79,977,341)	\$112,220,793	\$29,540,200
Interest	\$48,917,175	\$53,151,937	\$40,332,573	\$35,667,500	\$38,065,585
Dividends	\$10,391,086	\$7,565,826	\$13,321,776	\$14,057,088	\$13,466,064
Earnings from private equity	\$4,661,330	\$3,629,143	\$7,758,950	\$2,776,589	\$1,588,309
Earnings from real estate	\$7,322	\$290,719	—	—	—
Miscellaneous	\$306,605	\$600,034	—	—	—
	\$107,856,979	\$(35,914,293)	\$(18,564,042)	\$164,721,970	\$82,660,158
Investment expenses	<u>\$(10,943,000)</u>	<u>\$(10,236,831)</u>	<u>\$(6,130,040)</u>	<u>\$(5,850,002)</u>	<u>\$(6,100,337)</u>
Net gain (loss) from investing activities	\$96,913,979	\$(46,151,124)	\$(24,694,082)	\$158,871,968	\$76,559,821
From Securities Lending Arrangements:					
Earnings	\$2,034,529	\$2,993,651	\$6,055,282	\$4,476,149	\$6,599,912
Rebates and fees	<u>\$(1,568,259)</u>	<u>\$(2,527,447)</u>	<u>\$(5,590,445)</u>	<u>\$(4,134,226)</u>	<u>\$(6,243,903)</u>
Net income from securities lending activities	\$466,270	\$466,204	\$464,837	\$341,923	\$356,009
TOTAL NET INVESTMENT GAIN (LOSS)	\$97,380,249	\$(45,684,920)	\$(24,229,245)	\$159,213,891	\$76,915,830

<i>Retired Members by Type of Benefit</i>								
TOTAL MONTHLY BENEFIT AMOUNT	NUMBER OF BENEFIT RECIPIENTS	SERVICE	DISABILITY	WIDOWS	CHILDREN	DEPENDENT PARENT	DEFERRED (RECEIVING BENEFITS)	DEFERRED INACTIVE*
\$1 – \$200	5	0	0	1	4	0	0	0
\$201 – \$400	30	0	0	8	0	0	22	0
\$401 – \$600	44	0	0	5	6	0	33	0
\$601 – \$800	42	0	1	11	15	0	15	4
\$801 – \$1,000	30	2	2	10	8	0	8	3
\$1,001 – \$1,200	36	7	4	22	3	0	0	1
\$1,201 – \$1,400	63	9	14	34	4	0	2	0
\$1,401 – \$1,600	91	31	20	35	5	0	0	0
\$1,601 – \$1,800	115	40	31	43	1	0	0	0
\$1,801 – \$2,000	156	70	42	44	0	0	0	0
Over \$2,000	1,809	1,402	147	253	6	1	0	0
TOTAL RECIPIENTS	2,421	1,561	261	466	52	1	80	8

* "Deferred Inactive" are not included in total columns since they are not yet receiving benefits.

<i>Average Monthly Benefit Payments and Average Final Average Salary of Retired Members</i>			
EFFECTIVE RETIREMENT DATE	YEARS OF CREDITED SERVICE		
	20 – 25	26 – 30	Over 30
JULY 2007 – JUNE 2008			
Number of Service Retirements	6	38	75
Average Monthly Benefit	\$3,218	\$3,031	\$4,200
Average Final Average Salary	\$4,934	\$4,157	\$4,177
JULY 2006 – JUNE 2007			
Number of Service Retirements	6	20	35
Average Monthly Benefit	\$2,747	\$2,880	\$3,833
Average Final Average Salary	\$4,769	\$4,094	\$4,026
JULY 2005 – JUNE 2006			
Number of Service Retirements	11	34	99
Average Monthly Benefit	\$2,705	\$2,636	\$3,653
Average Final Average Salary	\$4,381	\$3,674	\$3,805
JULY 2004 – JUNE 2005			
Number of Service Retirements	24	26	36
Average Monthly Benefit	\$2,665	\$2,802	\$3,733
Average Final Average Salary	\$4,254	\$3,776	\$4,046
JULY 2003 – JUNE 2004			
Number of Service Retirements	35	28	71
Average Monthly Benefit	\$2,611	\$2,667	\$3,664
Average Final Average Salary	\$4,470	\$3,662	\$4,073
JULY 2002 – JUNE 2003			
Number of Service Retirements	40	43	65
Average Monthly Benefit	\$2,438	\$2,527	\$3,556
Average Final Average Salary	\$4,378	\$3,542	\$3,789
JULY 2001 – JUNE 2002			
Number of Service Retirements	17	34	65
Average Monthly Benefit	\$2,304	\$2,577	\$3,584
Average Final Average Salary	\$4,074	\$3,580	\$3,825
JULY 2000 – JUNE 2001			
Number of Service Retirements	22	32	36
Average Monthly Benefit	\$1,999	\$2,295	\$3,159
Average Final Average Salary	\$3,753	\$3,563	\$3,747
JULY 1999 – JUNE 2000			
Number of Service Retirements	19	15	11
Average Monthly Benefit	\$2,000	\$3,016	\$3,549
Average Final Average Salary	\$3,682	\$4,228	\$4,203
JULY 1998 – JUNE 1999			
Number of Service Retirements	6	11	7
Average Monthly Benefit	\$1,808	\$2,647	\$3,308
Average Final Average Salary	\$3,748	\$3,871	\$4,135

<i>Participating Employers and Active Members</i>		
CITY OF HOUSTON	ACTIVE MEMBERS	PERCENTAGE OF COVERED EMPLOYEES
2008	3,876	100%
2007	3,820	100%
2006	3,796	100%
2005	3,891	100%
2004	3,663	100%
2003	3,318	100%
2002	3,368	100%
2001	3,316	100%
2000	3,276	100%
1999	3,281	100%

Some of these terms are used in the Investment section, beginning on page 41. Others are used throughout this report. Definitions are provided as they relate to the Houston Firefighters' Relief and Retirement Fund.

ACCRUAL BASIS OF ACCOUNTING

Accounting method in which income and expense transactions are recognized when they are earned or incurred rather than when they are settled. The Fund uses this method of accounting.

ASSET

Anything having commercial or exchange value that is owned by the Fund.

BOOK VALUE

The value (cost) at which an asset is carried on a balance sheet.

CASH BASIS OF ACCOUNTING

Accounting method in which revenue and expense transactions are recognized when they are paid for (settled), rather than when they are incurred.

COMPOUND OR COMPOUNDING

The process of calculating and adding current interest to the principal and interest of a previous period(s). For example, compound interest is the interest earned on the principal plus interest earned earlier. If \$100 is deposited in a bank account that earns 10 percent interest, the account will have \$110 at the end of the first year and \$121 at the end of the second year. The extra \$1, earned on the \$10 interest from the first year, is the compound interest. This example assumes interest is compounded annually. Interest can also be compounded on a daily, quarterly or other-time basis.

COMPOUND RETURN

Profit on an investment, usually expressed as an annual percentage rate.

DIVERSIFICATION

Spreading of risk by putting assets in several different categories of investments, such as stocks, bonds, cash, high-yield and alternatives. Further diversification is accomplished by using different investment managers with different management styles within each category.

FUND EQUITY (STOCK) INVESTMENTS

The portion of the total Fund that is invested in ownership interest in corporations, usually in common stock.

FUND FIXED-INCOME (BOND) INVESTMENTS

The portion of the total Fund that is invested in debt instruments that usually pay a fixed rate of interest or dividends over a specified period of time — for example, corporate or government bonds.

INSTITUTIONAL INVESTOR ORGANIZATION

An organization that invests and trades large volumes of securities (stocks and bonds). Some examples are retirement funds, insurance companies, banks, mutual funds and college endowment funds. Typically, between 50 percent and 70 percent of the daily trading at the New York Stock Exchange is on behalf of institutional investors across the country. The Fund is an institutional investor.

THE LEHMAN UNIVERSAL INDEX

The union of the Lehman Aggregate Index, the Lehman U.S. High-Yield Index, the Lehman 144-A Index, the Lehman Eurodollar Index and the Lehman Emerging Markets Index. The Aggregate Index covers the U.S. investment-grade, fixed-rate market and includes government and corporate bonds, agency mortgage pass-through securities and asset-backed issues. The High-Yield Index covers the universe of dollar-denominated, fixed-rate noninvestment-grade debt. The 144-A Index includes fixed-rate, investment-grade, nonconvertible, dollar-denominated securities issued under Rule 144-A. The Eurodollar Index encom-

passes non-SEC registered, as well as global investment-grade, fixed-rate U.S. dollar-denominated issues. The Emerging Markets index includes dollar-denominated local, corporate, sovereign and Brady bonds of emerging-market countries.

LIABILITY

Any debt of the Fund giving a creditor a claim on the assets of the Fund (i.e., the money has not yet been paid, but the event causing the obligation has already occurred).

MARKET VALUE

Estimated selling price of an asset on the open market at a specified point in time.

MEAN RETURN

The average return.

MEDIAN RETURN

The midpoint return when all returns are ranked from highest to lowest — and there is an equal number of returns above and below.

MEDIAN TOTAL FUND RETURN

The midpoint return for all assets in all plans in a universe of plans.

MERRILL LYNCH 90-DAY TREASURY BILL INDEX

Generally accepted as a proxy for the return on a risk-free asset, this index links the monthly returns for 90-day U.S. Treasury Bills.

MSCI ALL COUNTRY WORLD EX-US INDEX

MSCI (Morgan Stanley Capital International) has 51 country indices and several regional indices, which are formed by aggregating the country indices. MSCI All Country World Ex-US Index includes all countries, excluding the United States. MSCI equity indices are constructed in a consistent manner across all countries, encompassing a total of 23 developed markets

and 28 emerging markets. The consistent approach to index construction ensures the proper representation of the countries' underlying industry distributions and market capitalizations, and allows investors to accurately compare equity performance across the markets, regions and sectors. MSCI calculates indices by applying full market capitalization weights (price multiplied by the number of shares outstanding) for the constituent securities. MSCI calculates regional indices using GDP weightings for countries.

PORTFOLIO

Combined holding of more than one stock, bond or other asset by an individual or institutional investor.

PORTFOLIO MANAGEMENT

The process of selecting, monitoring and changing assets within a portfolio or account to meet defined investment objectives. For the Fund, this management approach describes a universe of assets, determines how assets are to be distributed among security types such as stocks and bonds, and determines a risk/return relationship for investments.

RECEIVABLES

Assets to which the Fund is entitled — but has not received.

RUSSELL 3000 STOCK INDEX

Measures the performance of the 3,000 largest U.S. companies based on total market capitalization, which represents approximately 8 percent of the investable U.S. equity market. The Russell 3000 Stock Index comprises stocks within the Russell 1000 and Russell 2000 indices.

STANDARD DEVIATION

A statistical measure of the degree to which an individual value in a probability distribution tends to vary from the mean of the distribution. Standard deviation quantifies the relationship between risk and return, and is often applied in modern portfolio management.

TOTAL FUND

All the investments of the Fund, including stocks, bonds, cash equivalents, high-yield bonds, private equity, real estate and alternative investments.

TRUST UNIVERSE COMPARISON SERVICE (TUCS)

A service used by the Fund starting in fiscal year 1989 to measure the total Fund investment return against a universe of other funds with similar investment portfolios. TUCS maintains a database of investment portfolio returns for hundreds of corporate, public, multi-employer and foundation investment portfolios.

UNIVERSE

A total number of facts or events to which a specific fact or event is compared. For example, a database of investment portfolio returns of organizations, like the Fund, can be used to compare investment performance.



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