COMPREHENSIVE ANNUAL FINANCIAL REPORT

HOUSTON FIREFIGHTERS' RELIEF AND RETIREMENT FUND

A COMPONENT UNIT OF THE CITY OF HOUSTON, TEXAS

FOR FISCAL YEAR ENDED JUNE 30, 2009

2009

HOUSTON FIREFIGHTERS'
RELIEF AND RETIREMENT FUND

2009 Comprehensive Annual Financial Report for fiscal year ended June 30, 2009

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.

4225 Interwood North Parkway
Houston, Texas 77032-3866
Phone 281.372.5100
1.800.666.9737
web: www.hfrrf.org

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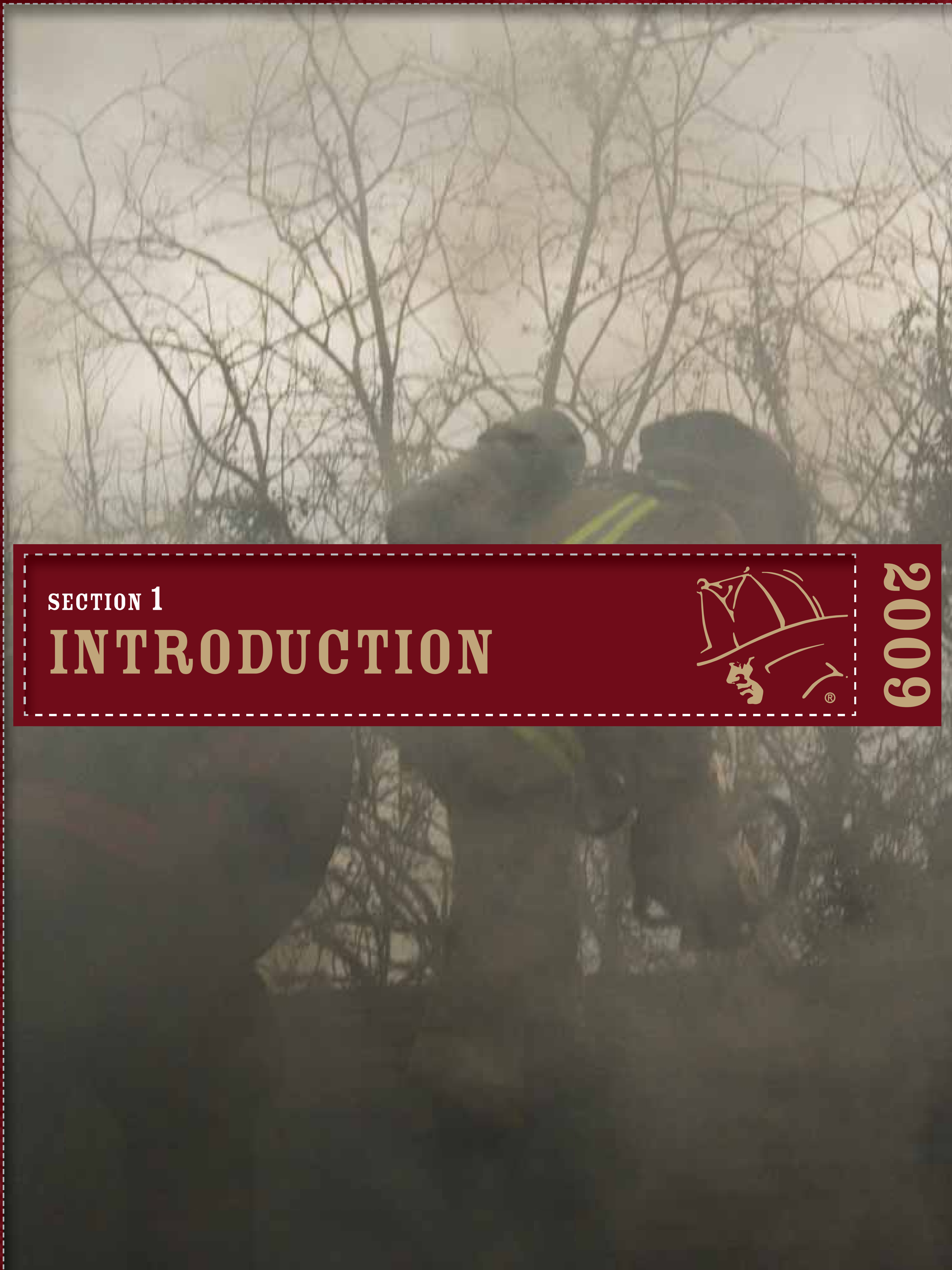


SECTION 1

INTRODUCTION

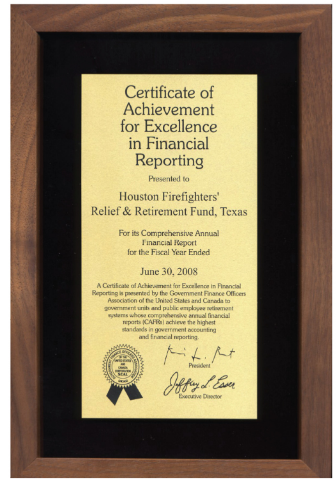
2009

LETTER OF TRANSMITTAL

Houston Firefighters'
Relief and Retirement Fund

Investing for Firefighters
and Their Families®

4225 Interwood
North Parkway
Houston, Texas
77032-3866
Tel 281.372.5100
Fax 281.372.5101
1.800.666.9737
www.hfrrf.org



December 14, 2009

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, 2009, 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.

MILESTONES AND MAJOR INITIATIVES

For the 26th 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.

Continuing to focus on providing exceptional services to Fund Members, the **Member Services Team** has added a "Long-Term Care" module to the Financial Planning seminars for retirees, which provides tools for seniors who want to plan ahead for life's transitions. The team's efforts to increase pension benefit education for active members through station visits has been successful, reaching 60 to 100 members per month.

This year's **Legal Team** endeavors were highly successful. The Legal Team supervised the on-schedule submission of a plan determination review request with the Internal Revenue Service, as provided by federal regulations. The Legal Team analyzed, tracked and provided reports to Trustees on a number of bills of significance to the Fund pending during the 2009 regular session of the Texas Legislature. The Legal Team worked with the Member Services Team to propose various pension policy amendments to assist in more precisely determining disability benefits applications. The Legal Team worked with the Investments Team to negotiate and obtain contractual terms favorable to the Fund in private equity partnership investments. The Legal Team also provided advice and education to the Board in a number of areas of law affecting the Fund, including fiduciary duties of Fund Trustees.

ADMINISTRATION, STAFF AND PROFESSIONAL SERVICES

At fiscal year-end, the Fund staff was made up of 26 full-time employees. The following professionals were employed by the Board of Trustees as of June 30, 2009, to provide specialty services:

- The custodian bank is Bank of New York Mellon.
- MFR, P.C., serves as the auditor.
- Buck Consultants is the actuary.

Most of the professional consultants appointed by the Board are listed on page 9 of this report. Other professionals employed by the Board are listed on page 33.

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 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 revenue of the Fund. The Board of Trustees created the Investment Committee to oversee the investment portfolio. With guidance from the Fund's professional staff, the Investment Committee determines policy, strategy, and monitors the performance of the Fund.

Key components of the investment program that enable the Fund to achieve its goal are a diversified investment portfolio, a long-term outlook, and prudent risk-taking commensurate with fulfilling the goal of the program. The Fund's assets are invested in short-term instruments (cash and cash equivalents), fixed income securities, domestic and international equity securities, private equity, real estate and hedge funds. 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.

In the fiscal year 2009, the Fund experienced a loss of 20.0 percent gross of fees and expenses. The fiscal year presented challenges to most of the strategies in which the Fund invests. By design, in the event of a financial market downturn, the Fund should have above-market performance because of the diversification of its assets. This year, however, the strategy failed to beat its benchmark due to the extreme financial uncertainty among investors, governments and consumers.

THE RANKING

Despite this year's poor performance relative to the Benchmark, the Fund has maintained its position in the top one-percentile versus its peers for the five, seven and ten-year periods, according to the Wilshire Trust Universe Comparison Report® dated June 30, 2009. Historically, the Fund has repeatedly added value over its Policy Benchmark and exceeded the actuarially determined target rate of return of 8.5 percent.

Additional information regarding the investment results for the year is included in the Investment Information section of this report.

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 2009, 2008 and 2007.

	2009 (millions)	2008 (millions)	2007 (millions)
BEGINNING NET ASSETS	$3,029	$2,966	$2,574
Additions	$(531)	$183	$501
Deductions	$129	$120	$109
Net Change	$(660)	$63	$392
ENDING NET ASSETS	$2,369	$3,029	$2,966

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 2008 valuation, the actuarial value of assets was $2.95 billion; the aggregate actuarial liability for the Fund's members was $3.08 billion. The funding ratio is currently 95.6 — that is, current assets cover 95.6 percent of the benefits accrued to date by active and retired members and beneficiaries. This is higher than the 91.0 percent in the July 2007 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 MFR, P.C., for the fiscal year ending June 30, 2009, 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, 2008. This was the 26th 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 E. Gonzales,
EXECUTIVE DIRECTOR / CHIEF INVESTMENT OFFICER

ADMINISTRATIVE ORGANIZATION

EXECUTIVE DIRECTOR / CHIEF INVESTMENT OFFICER
Christopher E. 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
MFR, P.C.

CUSTODIAN BANK
Bank of New York Mellon

INVESTMENT ADVISORS
AllianceBernstein Institutional Investment Management
Americus Real Estate Investments
ARCIS
Ariel Capital Management
Aurora, LLC
BlackRock
The Blackstone Group
Brera Capital Partners, LLC
Bridgewater Associates
Centennial Holdings
Coller Investment Management Limited
Credit Suisse
Drum Capital
Energy Spectrum Partners
Energy Trust, LLC
FX Concepts
GW Capital, Inc.
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
Permal 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 41.

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 12, 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 page 60.

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, 2009 and 2008.

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, 2009 and 2008.

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 44).

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

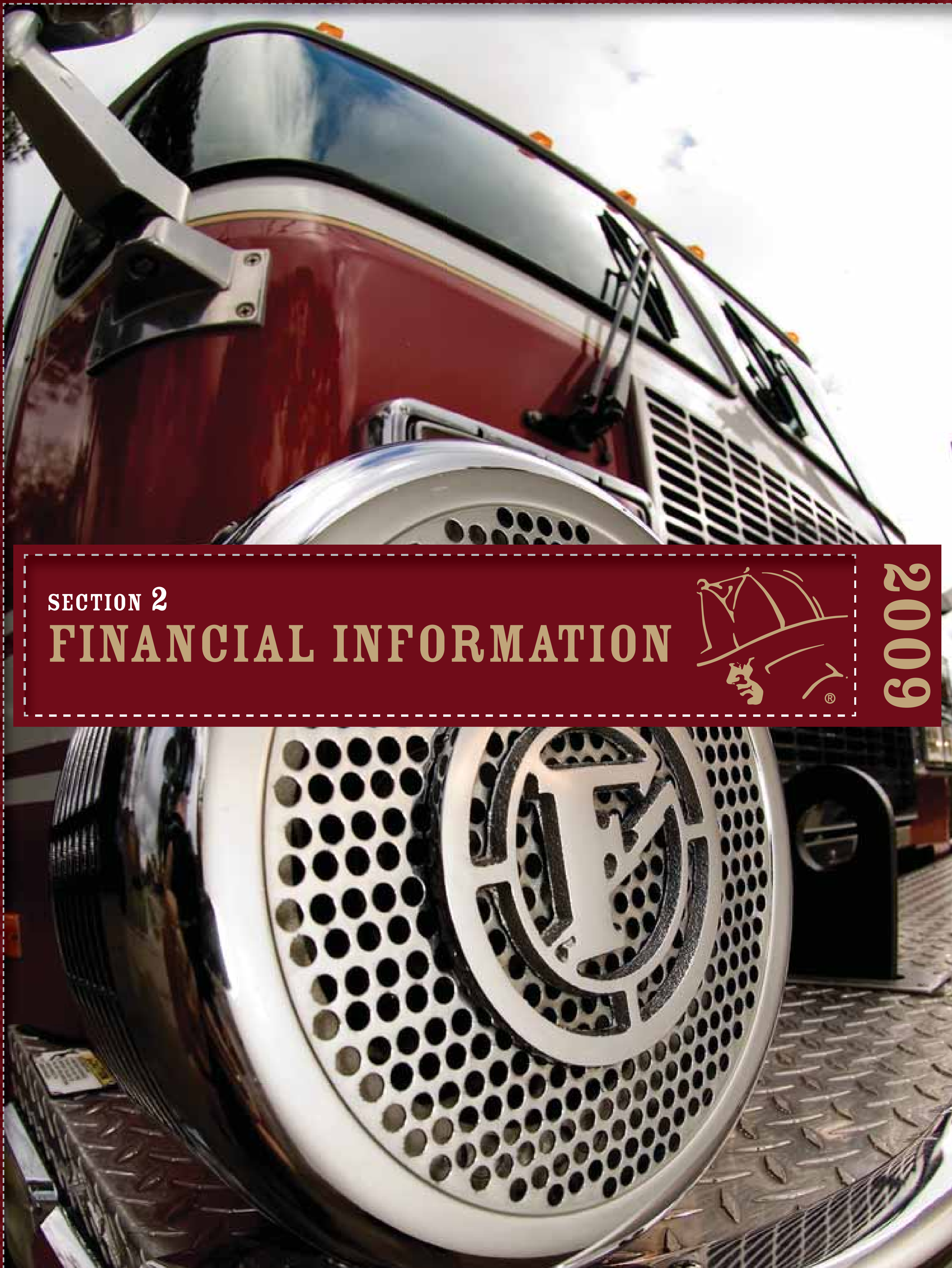
The notes are an integral part of the financial statements. The notes include any information that might be needed to have an adequate understanding of the overall financial status of the Fund.

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

2009

INDEPENDENT AUDITORS' REPORT

MFR, 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, 2009 and 2008, 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, 2009, and changes therein for the year then ended and its financial status as of June 30, 2008, 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. 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 15, 2009

One Riverway Suite 1900
Houston, Texas 77056
713.622.1120
713.961.0625 Fax
www.mfrpc.com

MfR.P.C.

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, 2009, 2008 and 2007. 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 which 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 which 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 which 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 follows 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 2009	Fiscal Year 2008	Fiscal Year 2007
ASSETS			
Investments	$2,362,405,733	$3,009,291,017	$2,943,371,721
CAPITAL ASSETS (NET OF DEPRECIATION):			
Land and building	$7,108,860	$7,399,059	$7,700,340
Furniture, fixtures and equipment	$641,958	$276,547	$644,837
Other	$157,489,119	$248,596,469	$703,616,908
Total assets	$2,527,645,670	$3,265,563,092	$3,655,333,806
LIABILITIES			
Short-term liabilities	$158,684,790	$236,404,540	$689,252,078
Total net assets	$2,368,960,880	$3,029,158,552	$2,966,081,728

Plan net assets at the end of fiscal year 2009, 2008 and 2007 totaled $2,368,960,880, $3,029,158,552 and $2,966,081,728, respectively. The decrease in plan net assets for fiscal year 2009 is due to a significant and unprecedented decline in the financial markets. In fiscal year 2008, the modest increase in plan net assets was primarily due to strong returns from the private equity and hedge fund asset classes as demonstrated in a 3.96% investment return.

Summary Comparative Statements of Changes in Plan Net Assets			
	Fiscal Year 2009	Fiscal Year 2008	Fiscal Year 2007
Beginning net assets	$3,029,158,552	$2,966,081,728	$2,573,884,346
ADDITIONS (REDUCTIONS) TO NET ASSETS:			
Contributions	$92,891,227	$74,482,463	$72,803,130
Net de/appreciation in fair value of investments	$(708,952,033)	$22,032,928	$328,607,064
Interest income	$65,169,217	$66,866,092	$57,664,859
Dividends	$19,478,031	$20,052,418	$31,620,176
Net proceeds from securities lending	$(599,841)	$1,595,623	$1,284,669
Earnings from private equity and real estate investments	$7,702,408	$6,589,951	$14,888,840
Other income	$372,184	$ 1,256,464	$3,092,051
Less cost of investment services	$(6,781,837)	($9,986,181)	$(10,182,092)
Net investment and other (loss) income	$(623,611,871)	$108,407,295	$426,975,567
Court judgment	–	–	$1,273,490
Total (reductions) additions to net assets	$(530,720,644)	$182,889,758	$501,052,187
DEDUCTIONS FROM NET ASSETS:			
Benefits	$122,614,070	$112,163,836	$100,965,331
Other	$6,862,958	$7,649,098	$7,889,474
Total deductions from net assets	$129,477,028	$119,812,934	$108,854,805
Net (decreases) increase in net assets	$(660,197,672)	$63,076,824	$392,197,382
ENDING NET ASSETS:	$2,368,960,880	$3,029,158,552	$2,966,081,728

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 $21,858,574 (fiscal year 2009), $20,431,049 (fiscal year 2008), and $19,981,657 (fiscal year 2007). Employer contributions for the last three years were $71,032,653 (fiscal year 2009), $54,051,414 (fiscal year 2008), and $52,821,473 (fiscal year 2007).

In fiscal years 2009 and 2008, the employer and employee contributions increased when compared to fiscal years 2008 and 2007, primarily because of the three year collective bargaining agreement finalized in 2005 between the City and active firefighters. This agreement was for 2005-2008 and it increases the payroll salaries for all active firefighters over a multiple year period. Another major factor for the increase in the employer contribution between fiscal years 2009 and 2008, effective July 1, 2008, the employer contribution rate increased from 23.8% to 29.4%.

NET INVESTMENT AND OTHER INCOME

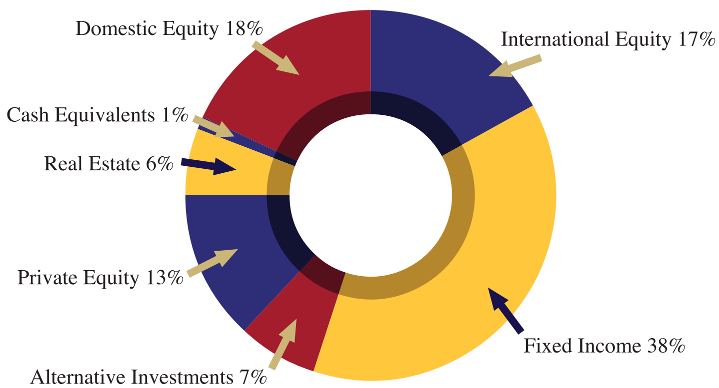
The Fund's financial position declined during fiscal year 2009 with an overall investment return of negative 20.0%. This negative return reduced the portfolio's market value to less than $2.4 billion, by total market devaluation of approximately $624 million. The Fund's portfolio experienced negative returns from all asset classes except for cash and cash equivalents and fixed income. The investment devaluation can mostly be attributed to market exposures to global equities including the energy sector. The investment devaluation can mostly be attributed to market exposures to global equities including the energy sector.

At June 30, 2009, U.S. and international stocks represented approximately 35% of the Fund's investments, domestic and international bond investments represented 38%, real estate represented 6% and alternatives represented 20% (private equity 13% and hedge funds 7%). The remaining 1% represents cash equivalents.

In fiscal year 2008, the Fund's portfolio's market value increased to more than $3 billion, an increase 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.

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% 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% through June 30, 2007.

Fund Asset Allocation as of June 30, 2009



DEDUCTIONS

Most deductions from plan net assets in a retirement fund 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 comprise the total deductions.

Deductions for fiscal year 2009, 2008, and 2007 totaled $129,477,028, $119,812,934, and $108,854,805, respectively. This represents a net increase of approximately 8.07% between fiscal years 2009 and 2008 and an increase of approximately 10.7% between fiscal years 2008 and 2007.

BENEFITS PAID TO MEMBERS

The 9.3% increase of benefits paid to members during fiscal year 2009 is mainly due to the annual cost-of-living adjustment of three percent; an increase in the number of retirees; and additional monies taken out of the Deferred Retirement Option Plan (DROP) and Post Retirement Option Plan (PROP). As the number of DROP members retire, they now are able to take money out of their DROP accounts. PROP participation and distributions have increased since the program has been in place for more than one year. 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 2009 and 2008 and decreased between fiscal years 2008 and 2007 by 10.4% and 5.0%, respectively. The decrease in fiscal year 2009 is primarily due to a decrease in personnel expenses, consulting/legal fees associated with less contract negotiations and a drop in depreciation expenses. During fiscal year 2008, the decrease was primarily due to less personnel and depreciation expenses.

The reduction to plan net assets of $530,720,644 plus total deductions of $129,477,028 decreased the Fund's assets by $660,197,672. In fiscal year 2008, the Fund's net assets increased by $63,076,824 and in fiscal year 2007, the Fund's net assets increased by $392,197,382.

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 February 2008, the Board of Trustees adopted the finalized July 1, 2007 actuarial valuation, increasing the City's contribution rate to 29.4% effective July 1, 2008, while leaving the members' contribution rate at 9%. The July 1, 2007 actuarial report also indicates the Fund has a funding ratio of 91%.

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 30). 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 31). This schedule indicates that the employer is generally meeting their responsibility to provide resources to the Fund.

It should be noted that in July 2009, the Board of Trustees adopted the 2008 actuary valuation for financial reporting purposes only for the fiscal year ended June 30, 2009.

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. Notes to basic Financial Statements years ended June 30, 2009 and 2008.

STATEMENTS OF PLAN NET ASSETS

STATEMENTS OF PLAN NET ASSETS YEARS ENDED JUNE 30, 2009 AND 2008

Assets	2009	2008
INVESTMENTS, AT FAIR VALUE:		
Short-term investment funds	$ 100,173,760	$89,883,727
Fixed income:		
Domestic	617,962,482	743,030,056
International	199,677,914	211,722,888
Common equity:		
Domestic	399,984,930	650,312,822
International	419,887,965	659,047,798
Preferred equity:		
Domestic	744,582	3,197,150
International	5,713,558	9,604,722
Alternatives	166,401,164	142,358,591
Private equity	298,476,865	334,354,229
Real estate	153,382,513	165,779,034
Total investments	$2,362,405,733	$3,009,291,017
Cash and cash equivalents	–	4,807,070
RECEIVABLES:		
Accrued interest	13,467,718	14,448,428
Due from broker recapture	6,786	7,856
Due from securities lending	58,139	93,358
Foreign funds contracts	8,344,555	15,381,576
Receivables for investments sold	4,850,462	15,512,476
Accrued dividends	2,579,700	2,705,484
City of Houston contributions	3,813,117	2,555,926
Member contributions	1,141,454	964,843
Other	24,546	27,701
Total receivables	$34,286,477	$51,697,648
Collateral on securities lending arrangements, at fair value	123,045,432	191,953,840
Land	483,325	483,325
Building, net	6,625,535	6,915,734
Furniture, fixtures and equipment, net	641,958	276,547
Prepaids (operating)	157,210	137,911
Total assets	$2,527,645,670	$3,265,563,092
Liabilities		
Accounts payable and accrued expenses	5,095,945	3,914,482
Payables for investments purchased	22,060,292	25,064,927
Foreign taxes payable	73,381	89,194
Foreign funds contracts payable	8,409,740	15,382,097
Collateral on securities lending arrangements, at fair value	123,045,432	191,953,840
Total liabilities	$158,684,790	$236,404,540
Plan net assets held in trust for pension benefits	$2,368,960,880	$3,029,158,552

See accompanying notes to basic financial statements. (A schedule of funding progress for the plan is presented on page 30)

STATEMENTS OF CHANGES IN PLAN NET ASSETS YEARS ENDED JUNE 30, 2009 AND 2008

Additions (reductions) to plan net assets:	2009	2008
CONTRIBUTIONS:		
City of Houston	$71,032,653	$54,051,414
Members	21,858,574	20,431,049
Total contributions	$92,891,227	$74,482,463
NET INVESTMENT INCOME:		
Net (depreciation) appreciation in fair value of investments	(710,564,553)	22,032,928
Interest	65,169,217	66,866,092
Dividends	19,478,031	20,052,418
Earnings from private equity	4,765,446	4,372,152
Earnings from real estate	2,936,962	2,217,799
Other	372,184	1,256,464
Securities lending arrangements:		
Earnings	2,401,121	15,021,367
Rebates and fees	(1,388,442)	(13,425,744)
Loss on Default Security in Collateral Pool	(1,612,520)	–
Total securities lending arrangements	(599,841)	1,595,623
Gross investment income	(616,830,034)	118,393,476
Less: investment services expense	(6,781,837)	(9,986,181)
Net Investment Income	(623,611,871)	108,407,295
Total (reductions) additions to plan net assets, net	$(530,720,644)	$182,889,758
Deductions from plan net assets:		
Benefits paid to members	122,614,070	112,163,836
Contribution refunds to members	321,282	347,112
Professional services	781,300	929,000
Administrative expenses	5,760,376	6,372,986
Total deductions from plan net assets	$129,477,028	$119,812,934
Net (decrease) increase in plan net assets	$(660,197,672)	$63,076,824
Plan net assets held in trust for pension benefits, beginning of year	3,029,158,552	2,966,081,728
Plan net assets held in trust for pension benefits, end of year	$2,368,960,880	$3,029,158,552

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 6243e2 (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, 2009 and 2008, the membership of the Fund consisted of the following:

	FY 2009	FY 2008
Retirees and beneficiaries currently receiving benefits	2,486	2,421
Former members entitled to benefits but not yet receiving them	8	8
Active members:		
Vested	2,077	2,072
Nonvested	1,866	1,804
Total members	6,437	6,305

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 fiscal years ended June 30, 2009 and 2008, the active members' contribution rate was 9% and the City's contribution rate increased from 23.8% for fiscal year 2008, to 29.4% effective July 1, 2008 for fiscal year 2009.

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% of average monthly salary (defined as the monthly average of their highest individual 78 pay periods), plus 3% 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% 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 3.0% for eligible benefit recipients.

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 left active service on the DROP effective date; amounts equal to the deductions made from the DROP participant's (or member's) salary under Section 13(c) of the Act (9% of the member's salary after June 30, 2004); and earnings on those amounts, compounded monthly at a 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 ten years (see subsequent changes to maximum allowable DROP participation below). The participant's monthly benefit at actual retirement would be increased by 2% 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%, to be phased in at .5% beginning on September 1, 2000, and an additional .5% beginning September 1, 2001. The benefit increase was then changed effective September 1, 2001 to 2% 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% deducted from the member's salary, the monthly pension allowance, and the earnings 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 one percent annual administrative fee for retired members with DROP balances was removed; (2) a 5% floor and a 10% ceiling on annual DROP earnings rates was 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% increase applied to the original benefit at retirement for completed months in the final year of DROP participation (.166% 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% per year calculation beyond the tenth year (maximum 20% of original benefit will be added to monthly DROP benefit upon retirement). The DROP participant will continue to receive the monthly benefit and earnings 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 a rate based on the Fund's actual average rate of return over the preceding five years (minimum of five percent annually, maximum of ten 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% of average monthly salary (occupational), or 75% 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% of average monthly salary, plus 2.5% of average monthly salary for each year of service, up to a maximum of 50% 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% 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% 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% 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%. 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 when due, pursuant to formal commitments 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 (depreciation) 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 dated December 29, 1998 from the Internal Revenue Service 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. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. By entering into these arrangements, governments receive and make payments based on market prices without actually entering into the related financial or commodity transactions. Derivative instruments associated with changing financial and commodity prices result in changing cash flows and fair values that can be used as effective risk management or investment tools. Derivative instruments, however, also can expose governments to significant risks and liabilities. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. Management does not believe that the adoption of GASB Statement No. 53 will have a material effect on the Fund's financial statements in fiscal year 2010 when adopted.

GASB Statement No. 51,
Accounting and Financial Reporting for Intangible Assets

The objective of this statement is to establish accounting and financial reporting requirements for intangible assets. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. There are many different types of assets that may be considered intangible assets, including patents, trademarks, and computer software. Intangible assets are referred to in the description of capital assets in Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. This reference has created questions as to whether and when intangible assets should be considered capital assets for financial reporting purposes.

Statement No. 51 was established to reduce these inconsistencies. Statement No. 51 also provides authoritative guidance that specifically addresses the nature of intangible assets. The guidance specific to intangible assets includes guidance on recognition and requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. Additionally, Statement No. 51 establishes a specified-conditions approach to recognizing intangible assets that are internally generated. Effectively, outlays associated with the development of such assets should not begin to be capitalized until certain criteria are met. Outlays incurred prior to meeting these criteria should be expensed as incurred. Statement No. 51 also provides guidance on recognizing internally generated computer software as an intangible asset.

The requirements of Statement No. 51 are effective for financial statements for periods beginning after June 15, 2009. The provisions of Statement No. 51 generally are required to be applied retroactively. Management does not believe that the adoption of GASB Statement No. 51 will have a material effect on the Fund's financial statements in fiscal year 2010 when adopted.

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. Effective July 1, 2008, the City's actuarially determined contribution rate of 29.4% for fiscal year 2009 was established pursuant to the July 1, 2007 actuarial report and consists of 21.5% of covered members' salaries to pay normal costs, increased by 7.9% of additional statutory requirement to amortize the funding of the unfunded actuarial accrued liability over a rolling 30 year period. The active members' contribution rate is 9%.

Actuarially Determined Contribution Requirements	
June 30, 2009*	
Employer normal cost	$51,895,428
Member normal cost	21,822,591
Total normal cost	73,718,019
Plus: Additional Statutory Requirement	19,173,208
Net contributions required	**92,891,227**
Employer contributions actually made	71,032,653
Member contributions actually made	21,858,574
Total contributions	$92,891,227
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

** Based on actuarial contribution rates as determined in the July 1, 2007 actuarial study.*

*** 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 thru 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% effective July 1, 2008, while leaving the members' contribution rate at 9%. 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%.

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.

In July 2009, the Board of Trustees adopted the 2008 actuary valuation for **financial reporting purposes only** for the fiscal year ended June 30, 2009.

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, 2008, the most recent actuarial valuation date, is as follows (dollar amounts in millions):

Actuarial Valuation Date	07/01/08
Actuarial Value of Assets (AVA)	$ 2,945.1
Actuarial Accrued Liability (AAL)	$ 3,080.5
Unfunded AAL (UAAL)	$ 135.4
AVA as a percentage of AAL	96%
Covered Payroll	$ 239.2
UAAL as a percentage of Covered Payroll	57%

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, 2008 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% per year
General inflation rate	3% per year
Cost of living adjustment	3% 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 30 and 31. 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:

	FY 2009	FY 2008
Short-term investment funds	$100,173,760	$89,883,727
Fixed income	817,640,396	954,752,944
Common equity	819,872,895	1,309,360,620
Preferred equity	6,458,140	12,801,872
Alternative investments	166,401,164	142,358,591
Private equity	298,476,865	334,354,229
Real estate	153,382,513	165,779,034
Total investments	$2,362,405,733	$3,009,291,017

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, 2009 and 2008, 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 framework of acceptable risk and diversification. For major asset classes (e.g., domestic equities, international equities, fixed income, alternative investments, private equity and real estate), the Fund will further diversify by employing investment managers who implement the strategies selected by the Investment Committee.

Significant risk management asset allocation 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 to be 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, 2009, the Fund investment portfolio had no single holdings in excess of 5% Fund net assets. As of June 30, 2008, the Fund investment portfolio had no single holdings in excess of 5% 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 come 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, 2009, the following table shows the Fund's investments by type, with weighted average maturity and fair value:

	Weighted Average Maturity	Fair Value
Asset-Backed Securities	12.36	$45,230,777
Consumer Discretionary	19.55	629,574
Corporate Debt	17.54	549,438,213
Energy	26.71	2,802,019
Financials	24.01	1,012,300
U.S. Government Issues	8.02	16,843,065
Healthcare	2.84	8,365,625
Industrials	15.14	239,263
Information Technology	3.38	3,510,449
Multinational Fixed Income	0.00	74,043
Non-U.S. Corporate	3.52	58,092,111
Non-U.S. Government Issues	1.93	25,538,658
U.S. Convertibles	16.04	11,982,615
U.S. Fixed Income Funds	0.00	2,700,177
U.S. Private Placements	22.66	83,654,972
U.S. Taxable Muni Bonds	26.98	7,043,535
Utilities	18.37	483,000
Total fixed income securities		$817,640,396

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, 2009 is as follows:

Quality Rating	Fair Value	Percentage of Holdings
A1	$36,710,224	1.55
A2	151,307,903	6.40
A3	104,838,712	4.44
AA1	15,035,177	0.64
AA2	4,592,690	0.19
AA3	42,331,330	1.79
AAA	82,529,551	3.49
B1	12,001,252	0.51
B2	23,283,052	0.99
B3	10,441,380	0.44
Ba1	24,223,579	1.03
Ba2	20,976,701	0.89
Ba3	30,153,787	1.28
Baa1	58,393,202	2.47
Baa2	71,480,715	3.03
Baa3	63,176,768	2.67
C	758,974	0.03
Ca	3,705,100	0.16
Caa1	10,663,535	0.45
Caa2	5,710,934	0.24
Caa3	3,389,241	0.14
D	1,537,633	0.07
DEF	677,218	0.03
Rating not available	22,878,673	0.97
Total credit risk debt securities*	$800,797,331	33.90%

*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 depreciation 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, 2009 is as follows:

	Fair Value	Percentage of Holdings
EURO Currency	$86,511,694	3.66
British Pound Sterling	74,642,494	3.16
Japanese Yen	51,955,741	2.20
Swiss Franc	38,940,768	1.65
Canadian Dollar	29,237,412	1.24
Hong Kong Dollar	24,744,027	1.05
Singapore Dollar	20,303,268	0.86
Brazil Real	12,615,533	0.53
Mexican New Peso	10,135,214	0.43
Norwegian Krone	9,961,550	0.42
New Zealand Dollar	8,245,446	0.35
Thailand Baht	7,880,606	0.33
Indonesian Rupian	7,860,395	0.33
Australian Dollar	7,858,420	0.33
South Korean Won	7,489,396	0.32
New Taiwan Dollar	4,375,645	0.19
Swedish Krona	3,494,404	0.15
Danish Krone	3,045,501	0.13
South African Comm Rand	2,594,098	0.11
New Turkish Lira	498,087	0.02
Israeli Shekel	302,407	0.01
Czech Koruna	21,022	0.00
Total securities subject to foreign currency risk	$412,713,128	17.47%

Schedule 4 on page 33 lists the Fund's investment and professional service providers.

ALTERNATIVE INVESTMENTS

As of June 30, 2009, the Fund was invested in various limited partnerships and other alternative investment strategies including hedge funds as detailed in the following chart:

Market Value of the Fund's Interest		
Investment Type	June 30, 2009	June 30, 2008
Private Equity	$298,476,865	$334,354,229
Hedge Funds	166,401,164	142,358,591
	$464,878,029	$476,712,820

The Fund currently has investments in a multi-strategy hedge fund and a multi-strategy fund of hedge funds. 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 market place. 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 – is 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 – is the risk that deficiencies in the effectiveness and accuracy of the information Funds or internal controls will result in a material loss. This risk is associated with human error, Fund 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. As of June 30, 2008 and 2007, the Fund's cash deposits in bank accounts totaled zero and $4,807,070, respectively. The Fund does not have a deposit policy for custodial credit risk; however, management believes that 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 2009 and 2008, 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 standardized 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 2009 or 2008. 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 favorable or unfavorable 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 of 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:

	2009	2008
Building	$9,159,287	$9,140,824
Less accumulated depreciation	(2,533,752)	(2,225,090)
Building, net	$6,625,535	$6,915,734

8. FURNITURE, FIXTURES AND EQUIPMENT

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

	2009	2008
Office furnishings and equipment	$767,450	$769,330
Computer software and hardware	2,445,492	2,370,067
Furniture, fixtures and equipment subject to depreciation	3,212,942	3,139,397
Less accumulated depreciation	(2,936,157)	(2,862,850)
Net amount subject to depreciation	276,785	276,547
Software in development phase	365,173	–
Furniture, fixtures, and equipment, net	$ 641,958	$ 276,547

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:

	2009		2008	
	Securities Lent	Collateral Held	Securities Lent	Collateral Held
Fixed income	$ 56,323,066	$57,558,512	$47,951,882	$48,938,226
Common and preferred stocks	62,779,203	65,486,920	134,912,389	143,015,614
	$ 119,102,269	$123,045,432	$182,864,271	$191,953,840

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% to 105%, 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, 2009 and 2008. 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 33 days and 20 days as of June 30, 2009 and 2008, 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, 2009 and 2008, securities lending transactions were collateralized in cash.

10. RELATED PARTY

During fiscal years 2009 and 2008, the Plan utilized the services of investment management companies, in which the Plan owns an interest. Manager fees of approximately $484,000 and $488,000 were paid in fiscal years 2009 and 2008, respectively, to these companies.

11. 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% of a participating employee's qualified yearly salary. During fiscal years 2009 and 2008, the Fund contributed $323,517 and $387,312, 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.

12. 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, 2009 and 2008, aggregate contributions from active members of the Fund with less than ten years of service were approximately $34,269,899 and $30,418,417, respectively. Contributions for employees with 10 to 20 years of service has not been determined. As of June 30, 2009 and 2008, 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 $272,000,000 and $367,000,000 as of June 30, 2009 and 2008, 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, 2009 and 2008, 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.

13. RISKS 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 affect 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 OF FUNDING PROGRESS (UNAUDITED) (dollars in millions)

Actuarial Validation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	AVA as Percentage of AAL	Unfunded AAL (UAAL)	Covered Payroll	UAAL as Percentage of Covered Payroll
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%
July 1, 2008	$2,945.1	$3,080.5	96%	$135.4	$239.2	57%

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 of Employer Contributions (Unaudited)
(Dollars in Thousands)

Fiscal Year (Ending June 30)	Annual Required Contribution	Percentage Contributed
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%
2009	$71,033	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 Schedule (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, 2008
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
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, 2008 valuation are the same as those used in the July 1, 2007 valuation.
See accompanying independent auditors' report.

INVESTMENT, PROFESSIONAL SERVICES AND ADMINISTRATIVE EXPENSES
YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
INVESTMENT SERVICES:		
Custodial services	$354,364	$441,762
Money management services	6,427,473	9,544,419
Total investment services	$6,781,837	$9,986,181
PROFESSIONAL SERVICES:		
Actuarial services	$82,908	$85,431
Audit and accounting services	29,083	31,532
Consulting and professional services	506,163	570,227
Legal services	145,707	225,735
Medical examinations	17,439	16,075
Total professional services	$ 781,300	$929,000
ADMINISTRATIVE EXPENSES:		
Depreciation	$444,111	$735,140
Continuing education	126,117	182,896
Furniture, equipment and supplies	19,717	32,574
Insurance	781,834	782,377
Investment research	89,479	89,716
Office cost	3,926,164	4,167,646
Facility maintenance	143,402	151,795
Utilities	229,552	230,842
Total administrative expenses	$5,760,376	$6,372,986

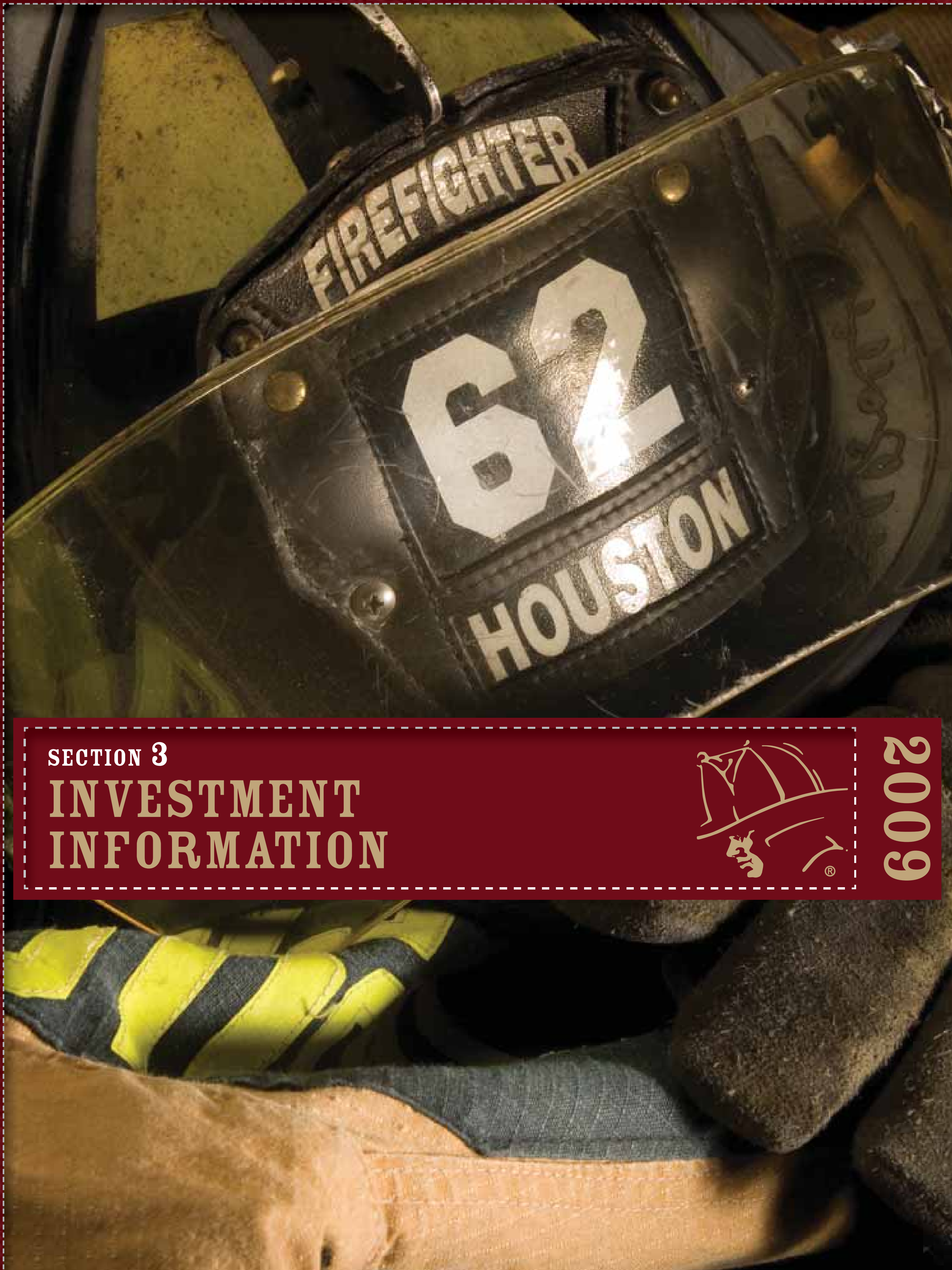
See accompanying independent auditors' report.

SUMMARY OF INVESTMENT AND PROFESSIONAL SERVICES YEAR ENDED JUNE 30, 2009

Individual or firm name	Official plan position	Amount	Nature of services
Mellon Trust	Custodian	$ 354,364	Custodial
Ariel Capital Management	Investment manager	379,381	Money management
AllianceBernstein	Investment manager	638,868	Money management
The Mitchell Group	Investment manager	413,846	Money management
Mercator	Investment manager	1,005,777	Money management
Marvin & Palmer	Investment manager	441,053	Money management
McKinley Capital	Investment manager	681,068	Money management
Mellon Capital	Investment manager	29,883	Money management
Victory Capital	Investment manager	426,416	Money management
FX Concepts	Investment manager	160,417	Money management
GW Capital	Investment manager	205,492	Money management
Loomis Sayles “A” and “B”	Investment manager	770,505	Money management
Standish/Mellon Bond “STIF”	Investment manager	105,749	Money management
STW Fixed Income Mgmt “A”	Investment manager	479,124	Money management
STW Fixed Income Mgmt “B”	Investment manager	205,940	Money management
Texas Forest Partners	Investment manager	245,698	Money management
Energy Trust	Investment manager	238,256	Money management
Total investment services		$ 6,781,837	

Buck Consultants, L.L.C.	Actuary	$ 82,908	Actuarial
Strasburger and Price, L.L.P.	Attorneys	51,610	Legal
Locke Lord Bissell & Liddell L.L.P.	Attorneys	4,174	Legal
Jackson Walker L.L.P.	Attorneys	52,429	Legal
The Schubot Law Firm, P.C.	Attorneys	797	Legal
Winstead P.C.	Attorneys	447	Legal
Ducker, Montgomery, Aronstein & Bess, P.C.	Attorneys	13,840	Legal
Ice Miller L.L.P.	Attorneys	10,803	Legal
Andrews Kurth L.L.P.	Attorneys	11,107	Legal
Purrington Moody Weil L.L.P.	Attorneys	500	Legal
MFR, P. C.	Auditors	29,083	Audit
National Mail Advertising Inc.	Communications	3,990	Printing and design
Cushman & Wakefield	Consultant	2,800	Consulting
Qualys	Consultant	5,495	Consulting
Websoft Publishing Company	Consultant	340	Consulting
Adjacent Technologies, Inc.	Consultant	7,875	Consulting
Howard Fraiser Barker Elliott, Inc.	Consultant	20,000	Consulting
Microsoft Tech Support	Consultant	280	Consulting
Locke Lord Bissell & Liddell L.L.P.	Consultant	192,000	Consulting
Williams & Jensen, P.L.L.C.	Consultant	144,000	Consulting
Vitech Systems Group, Inc.	Consultant	44,233	Consulting
Information Network International	Consultant	1,995	Consulting
Adcetera Design Studio, Inc.	Consultant/Communications	83,155	Consulting, printing, and design
Texas Occupational Medicine Inst.	Physicians	15,150	Medical examinations
Lone Star Bone and Joint Clinic	Physicians	850	Medical examinations
Kelsey-Seybold Clinic	Physicians	412	Medical examinations
Dorrington Medical Associates	Physicians	527	Medical examinations
Texas E.N.T. Specialists, PA	Physicians	500	Medical examinations
Total professional services		$ 781,300	

See accompanying independent auditors' report.



SECTION 3

INVESTMENT INFORMATION

2009

REPORT OF THE CHIEF INVESTMENT OFFICER

The purpose of the Houston Firefighters' Relief and Retirement Fund's investment program is to grow the assets of the Fund while maintaining the ability to pay the benefits promised to retirees and beneficiaries. This shall be achieved by earning an average annual return of 8.5% over a ten-year period.

The primary objective of the Fund's investment program is to generate an aggregate return in excess of the Fund's Policy Benchmark over a five-year period. The secondary objective is to continually improve the administration, oversight, and Trustee education of the Fund's investment program.

THE PORTFOLIO RESULTS

The fiscal year 2009 return for the Houston Firefighters' Relief and Retirement Fund investment portfolio was negative 20.0 percent[1], marking the worst performance in the history of this Fund. The year created a very difficult environment for investors across the world and this Fund was not immune to it.

As illustrated on the table on page 38, five of the seven asset classes in which the Fund invests lost value. Cash and cash equivalents was the only class to deliver a positive return, while the bond portfolio was flat. The areas worst hit were domestic and international stocks, down 38.3 and 36.3 percent, respectively[1].

Separately, the Fund's alternative portfolios, which include private equity, real estate and hedge funds, also lost value. The alternative classes serve two important purposes – diversification from traditional markets and reduced portfolio volatility. This year that strategy failed to add diversification to the portfolio, as no market was able to avoid the crisis. Volatility was limited, yet losses were still incurred. Private equity, real estate and hedge funds lost 19.5, 13.7 and 8.0 percent, respectively[1]. As planned, the hedge fund strategy did play a role in reducing the Fund's losses, as funding from this strategy came from the equity asset classes.

Despite the confusing economic and market environment, the Investment Committee remained committed to the proven investment strategy and made no significant adjustments to the portfolio during the year. However, the natural movement of the markets caused certain asset classes to be outside of our Policy targets for most of the year.

SUBSEQUENT EVENTS

As of the writing of this Report, the Fund's investment portfolio has experienced appreciable gains. For the quarter ending September 30, 2009, the Fund's total return was positive 12.7 percent[1]. Domestic and international stocks have led the way up 23.0 and 17.2 percent, respectively[1].

The Fund's investment team will continue to ensure that the Investment Committee has timely and accurate information throughout the 2010 fiscal year.

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

OUTLINE OF INVESTMENT POLICIES

The purpose of the Investment Policy Statement is to assist the Board of Trustees (Board) of the Houston Firefighters' Relief and Retirement Fund (Fund) in the investment management of the Fund's assets. The authority to amend these policies and procedures rests solely with the Board. The Investment Committee is a committee of the whole Board and has the authority to act on all matters related to investments.

INVESTMENT PHILOSOPHY

In developing the investment program, the Investment Committee is guided by a set of precepts from which all investment decisions are made and establishes the foundation and direction for all future activity. These precepts are applied by the Investment Committee, knowing the importance of asset allocation and the benefits of diversification. These guiding precepts are 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 asset allocation targets, ranges, and benchmarks as of the latest revision to this Policy.

Asset Class	Range	Target	Benchmark
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%	Barclays U.S. Universal Index
Alternative	0 – 10%	5%	LIBOR plus 3%
Private Markets			
Private Equity	11% - 18%	12%	CA US Private Equity 1QA
Real Estate	4% - 7%	6%	50% NCREIF Property /50% NCREIF Timberland**

** Citigroup 3-month T-Bill (4/30/1988 – 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).*
*** Real Estate Benchmark is 70% NCREIF Timberland / 30% NCREIF Property from inception until June 30, 2008 and 50% NCREIF Timberland / 50% NCREIF Property from July 1, 2008 to 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.

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 target 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 target allocation. Upon completion, the CIO shall report the rebalance to the Investment Committee within the next Monthly Report of Investment Actions Taken.

CASH MANAGEMENT

The CIO with the Chairman's approval is allowed the discretion to use the public markets 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 public markets portfolio will be bought/sold pro rata 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.

RISK MANAGEMENT

The Fund ensures adequate risk control through the following means:

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.

PORTFOLIO GUIDELINES

Every portfolio that is a part of the Fund's overall investment portfolio shall operate under written guidelines (Section 7.0 B) approved by the Investment Committee, which are designed to ensure that the portfolio meets its objective and operates within acceptable risk parameters.

MANAGER SELECTION

To assist the Investment Committee in the investment management of the Fund's assets, professional investment managers will be retained to implement the strategies selected by the Investment Committee. This Policy section describes generally the manager screening and selection process (due diligence), the guidelines applicable to managers hired by the Fund, and the review and retention procedures for managers retained by the Investment Committee.

The appropriateness of seeking a new or replacement investment manager will be determined by the Fund's most current investment strategy, philosophy, asset class ranges, capital availability or the need to replace an existing manager in accordance with Section 7.0 C of the Policy.

The investment staff with input from the Investment Committee shall use a disciplined due diligence process to screen and select managers consistent with the asset class placement under consideration. The Fund's investment staff shall develop and keep written records of the internal due diligence process. Additionally, the investment staff shall update and educate the Investment Committee of any changes to the process each time the Investment Committee engages in a manager search and selection.

No manager shall be given consideration by the Investment Committee until/unless the manager has been placed through the Fund's formal due diligence process. The Investment Committee or the Chief Investment Officer may engage an external consultant to assist with a search. The CIO shall report the use of an external consultant to the Investment Committee at the next Investment Committee Meeting. All new or replacement investment managers shall be approved by the Investment Committee along with funding/commitment level subject to conclusion of any further appropriate negotiations or discovery.

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 shall 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 1st and end on June 30th. The market value of the Fund shall be maintained on an accrual basis in compliance with 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.

CORPORATE GOVERNANCE

The Board of Trustees recognizes its fiduciary obligation to cast its votes in corporate affairs. Thus, the Board has adopted a written Corporate Governance Policy. As a matter of procedure, the Board has delegated the authority to sign and submit proxy material on behalf of the Fund to external managers, respectively.

Current Asset Allocation* (dollars in millions)				
	Fiscal Year 2009		Fiscal Year 2008	
	Market Value	Percent	Market Value	Percent
Cash Equivalents	$13	0.6%	$35	1.2%
Domestic Equity	$433	18.3%	$712	23.6%
International Equity	$397	16.8%	$634	21.0%
Fixed Income	$900	38.1%	$998	33.0%
Alternative Investment	$166	7.1%	$142	4.7%
Private Equity	$298	12.6%	$334	11.0%
Real Estate	$153	6.5%	$166	5.5%
	$2,360	100%	$3,021	100%

** Market values calculated using assets classes reflected in the Fund's Investment Policy Statement.*

Total Fund Return vs. Policy Benchmark[1]									
	2009	2008	2007	2006	2005	3 Year	5 Year	7-Year	10 Year
TOTAL FUND									
HFRRF	(20.0)	4.0	17.0	14.5	19.1	(0.9)	5.8	7.6	5.9
Policy Benchmark[2]	(12.6)	1.0	17.3	11.0	11.0	1.2	5.0	6.4	5.0
RETURNS BY ASSET CLASS									
HFRRF - Cash	5.9	8.5	9.0	7.0	4.7	7.8	7.0	5.5	7.0
Custom Benchmark[3]	3.1	5.4	5.2	2.9	1.7	4.6	3.7	3.1	4.0
DOMESTIC EQUITY									
HFRRF	(38.3)	2.1	19.6	16.5	18.6	(9.0)	0.8	4.3	3.8
Russell 3000	(26.6)	(12.7)	20.1	9.6	8.1	(8.3)	(1.8)	1.5	(1.5)
FIXED INCOME									
HFRRF	0.0	4.3	9.0	1.4	14.3	4.4	5.7	8.3	7.0
Barclays Capital Universal Index	4.9	6.2	6.6	(0.3)	7.4	5.9	5.0	5.3	6.0
INTERNATIONAL EQUITY									
HFRRF	(36.3)	(5.2)	29.1	32.0	16.9	(8.0)	3.8	6.0	2.8
MSCI All Country World Ex-US Index	(30.5)	(6.2)	30.1	28.4	16.9	(5.4)	4.9	7.1	2.9
ALTERNATIVE INVESTMENTS									
HFRRF	(8.0)	15.7	6.8	(5.2)	16.7	4.4	4.7	N/A	N/A
LIBOR[4] + 3%	5.0	7.2	8.4	7.4	5.5	6.9	6.7	N/A	N/A
PRIVATE EQUITY									
HFRRF	(19.5)	20.0	22.4	31.7	28.0	5.7	14.8	12.1	10.5
CA US Private Equity[5] 1QA	(24.4)	11.8	28.3	31.9	23.1	2.7	12.0	11.0	9.4
REAL ESTATE									
HFRRF	(13.7)	7.7	16.2	15.8	24.6	2.6	9.3	7.4	5.4
50% NCREIF[6] Timberland/ 50% NCREIF Property	(8.0)	16.7	13.5	19.4	15.3	6.8	10.9	9.7	8.2

1 All performance is gross of investment management fees and expenses.
2 HFRRF Policy Benchmark: Russell 3000 (21%), MSCI AC World Ex-U.S. (19%), Barclays Capital Universal Index (36%), LIBOR +3% (5%), CA U.S. Private Equity Index (12%), NCREIF 70% Timber/Property: National Council of Real Estate Investment Fiduciaries (NACREIF) Timberland Index/Property Index with a 70/30 split (inception to 6/30/08); 50/50 split (July 1, 2008 to present)(6%) cash Custom Benchmark (1%)
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.

Comparison of Investment Returns (Fiscal Years ending June 30)									
Year	**Total Fund**	**Median Total Fund***	**Fund Domestic Equity Inv**	**Russell 3000 Stock Ind**	**S&P500 Stock Ind**	**Fund Fixed Income Inv**	**Barclays Capital Universal**	**Barclays Capital Gov Credit****	**Fund Intl Equity**
1995	15.5	16.7	22.1	24.9	26.1	17.5	12.4	12.8	4.1
1996	16.9	17.4	21.5	26.0	26.1	12.2	5.7	4.7	17.9
1997	23.2	20.0	31.5	30.6	34.6	14.3	8.8	7.8	15.5
1998	13.1	17.9	14.6	28.8	30.2	13.2	10.1	11.3	6.1
1999	5.5	11.4	6.7	20.1	22.7	2.2	2.6	2.7	6.3
2000	10.3	10.0	(1.4)	9.6	7.3	4.8	4.8	4.3	22.1
2001	(1.1)	(4.7)	11.2	(13.9)	(14.8)	5.2	10.8	11.1	(22.2)
2002	(2.4)	(6.0)	(1.0)	(17.3)	(18.0)	1.8	7.7	8.2	(8.1)
2003	6.5	3.9	(1.8)	0.8	0.3	26.8	11.5	13.1	(6.9)
2004	18.4	15.8	30.9	20.5	19.1	4.7	1.0	(0.7)	34.3
2005	19.1	9.5	18.6	8.1	6.3	14.3	7.4	7.3	16.1
2006	14.5	9.3	16.5	9.6	8.6	1.4	(0.3)	(1.5)	27.9
2007	17.0	16.4	19.6	20.1	20.6	9.0	6.6	6.0	29.1
2008	4.0	(4.5)	2.2	(12.7)	(13.1)	4.3	6.2	7.2	(5.2)
2009	(20.0)	(17.0)	(38.3)	(26.6)	(26.2)	0.0	4.9	5.3	(36.3)

Compound Annual Returns								
	Total Fund	**Median Total Fund***	**Fund Domestic Equity Inv**	**Russell 3000 Stock Ind**	**S&P500 Stock Ind**	**Fund Fixed Income Inv**	**Barclays Capital Universal**	**Barclays Capital Gov/ Credit****
2-YEAR	(8.8)	(10.9)	(20.6)	(19.9)	(19.9)	2.1	5.6	6.3
3-YEAR	(0.9)	(2.5)	(9.0)	(8.3)	(8.2)	4.4	5.9	6.2
5-YEAR	5.8	2.1	0.8	(1.8)	(2.2)	5.7	5.0	4.8
7-YEAR	7.6	4.0	4.3	1.5	0.9	8.3	5.3	5.1
10-YEAR	5.9	2.9	3.8	(1.5)	(2.2)	7.0	6.0	5.9

**Median Total Fund represents 'Total Returns for All Master Trusts' (not just Public Funds) from TUCS Report as of June 30, 2009.*
***Barclays Gov/Credit found in TUCS report - 'Total Returns of Interest Rate Anticipation Fixed Income Portfolios' (p.IX-3)*

INVESTMENT HOLDINGS SUMMARY

Ten Largest Equity Investment Holdings		
Description	Market Value	Percent of Total Market Value
TELEFONICA SA EUR1	$12,796,993.00	0.46%
NOVARTIS AG CHF0.50 (REGD)	$11,826,447.68	0.41%
NESTLE SA CHF0.1 (REGD)	$11,551,520.00	0.41%
UNILEVER PLC ORD GBP0.031111	$11,117,838.16	0.33%
BUILDING-NET	$11,085,559.65	0.28%
VODAFONE GROUP	$10,956,805.44	0.26%
ENI EUR1	$9,983,118.00	0.23%
HESS CORP	$9,610,570.02	0.23%
NEW WORLD DEVELOPMENT CO HK$1	$8,876,216.79	0.22%
ANADARKO PETE CORP COM	$8,758,035.50	0.22%

Ten Largest Fixed-Income Holdings		
Description	Market Value	Percent of Total Market Value
TESCO PLC SR NT 144A	$12,796,993.00	0.54%
STANDARD CHARTERED BK SUB NT	$11,826,447.68	0.50%
JPMORGAN CHASE CAP XXV CAP SEC	$11,551,520.00	0.49%
METLIFE INC SR DEBT SECS SER B	$11,117,838.16	0.47%
HBOS PLC MTN TR #SB 0000 144A	$11,085,559.65	0.47%
ALTRIA GROUP INC NT	$10,956,805.44	0.46%
KONINKLIJKE PHILIPS ELECTRS N	$9,983,118.00	0.42%
PHILIP MORRIS INTL INC NT	$9,610,570.02	0.41%
AMERICAN EXPRESS CO NT	$8,876,216.79	0.38%
AT & T INC GLOBAL NT	$8,758,035.50	0.37%

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

INVESTMENT FEES

FEES FOR INVESTMENT SERVICES			
	Assets under Management	Fees	Basis Points
Investment Management Fees			
Cash Equivalents Manager [1]	$100,153,841.91	$105,749.00	0.106%
Domestic Equity Managers	$400,729,511.75	$1,888,394.00	0.471%
International Equity Managers	$425,601,522.99	$2,127,898.00	0.500%
Fixed Income Managers	$817,640,395.54	$1,455,569.00	0.178%
Alternative Investments	$166,401,164.30	$160,417.00	0.096%
Private Equity	$298,476,865.34	$238,256.00	0.080%
Real Estate Investments	$153,382,513.06	$245,698.00	0.160%
Other Investment Services			
Custodian Bank	$2,362,385,814.88	$354,364.00	0.015%
Total Fees for Investment Services	$2,362,385,814.88	$6,576,345.00	0.342%

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

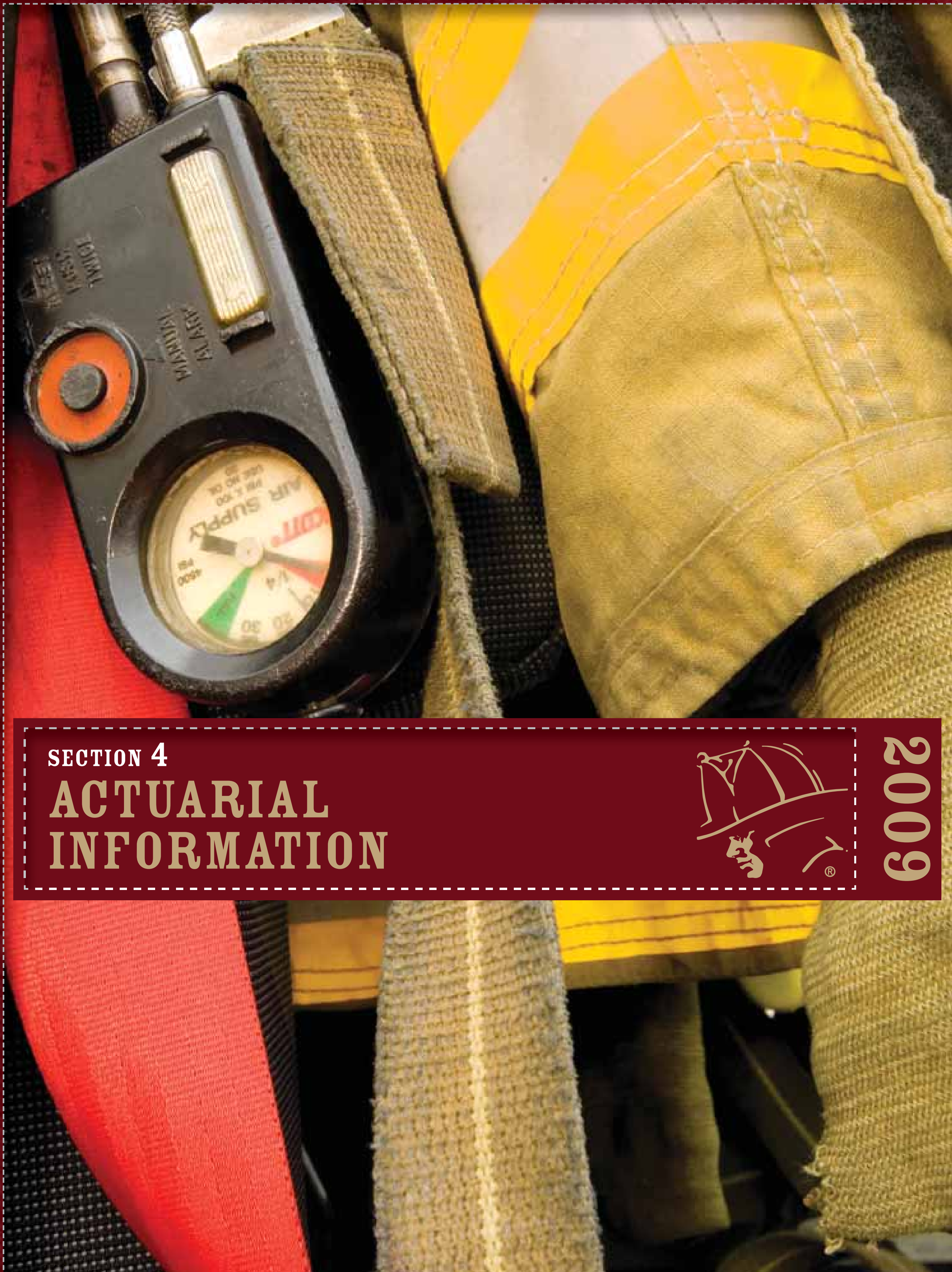
2009 BROKERAGE COMMISSIONS

Top 25 Broker Commission Paid	
Broker Name	Base Commission
BNY CONVERGEX / LJR*	$106,207
CREDIT SUISSE, NEW YORK	$98,553
GOLDMAN SACHS & CO, NY	$51,937
UBS SECURITIES LLC, STAMFORD	$51,243
PERSHING DIVISION OF DLJ,NY	$50,104
PERSHING LLC, JERSEY CITY	$47,433
MERRILL LYNCH PIERCE FENNER, WILMINGTON	$36,494
MORGAN J P SECS INC, NEW YORK	$29,780
MORGAN STANLEY & CO INC, NY	$27,319
CITIGROUP GBL MKTS INC, NEW YORK	$24,954
INVESTMENT TECHNOLOGY GROUP, NEW YORK	$22,911
MERRILL LYNCH INTL LONDON EQUITIES	$22,266
CITIGROUP GBL MKTS/SALOMON, NEW YORK	$20,596
GOLDMAN SACHS EXECUTION & CLEARING, NY	$20,524
MERRILL LYNCH PIERCE FENNER SMITH INC NY	$20,445
LIQUIDNET INC, BROOKLYN	$20,113
DEUTSCHE BK SECS INC, NY	$19,528
SAMSUNG SECS, SEOUL	$19,045
SG SEC (LONDON) LTD, LONDON	$18,110
J P MORGAN SEC, SYDNEY	$15,391
J P MORGAN SECS LTD, LONDON	$15,258
SCOTIA CAPITAL MKTS, TORONTO	$12,685
UBS EQUITIES, LONDON	$12,449
MERRILL LYNCH & CO INC ATLAS GLOBAL, NY	$12,168
WEEDEN & CO, NEW YORK	$12,055
OTHER	$440,917
TOTAL	$1,228,485

** 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 BNY Convergex / LJR 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 2009, slightly more than 8.5 percent of all trading activity was directed toward the commission recapture program.



SECTION 4

ACTUARIAL INFORMATION

2009

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, 2008.

buckconsultants
an ACS company

September 30, 2009

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 March 2009 describes the results of the actuarial valuation of the Houston Firefighters' Relief and Retirement Fund (HFRRF) as of July 1, 2008. The Fund retained Buck Consultants to perform this actuarial valuation for the purposes of determining the funded status for the plan year July 1, 2008 through June 30, 2009.

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, 2008. According to this valuation, the plan is 95.6% funded – that is, current assets cover 95.6% of the benefits accrued to date by active and retired members and beneficiaries. This is higher than the 91.1% in the July 1, 2007 valuation, primarily due to asset returns above expected in prior years.

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, 2008 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 the July 1, 2008 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

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

Lee James

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

	Probability of Death Within One Year After Attaining Age Shown	
Age	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

Age	Probability of Terminating Service (for Reasons Other Than Death, Disability or Retirement) 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

Age	Probability of Becoming Totally Disabled Within One Year 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

	After Becoming Disabled, Probability of Death Within One Year After Attaining Age Shown	
Age	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.*

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

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

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, 2008 evaluation are the same as those used in the July 1, 2007 evaluation.

Active Member and Drop Participant Valuation Data					
Valuation Date	Number	Average Age	Annual Payroll (dollars in millions)	Annual Average Salary	Percentage Increase in Average Salary
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%
7-1-08	3,876	40.2	$239.2	$59,909	4.0%

Retirees and Beneficiaries Added To and Removed From Rolls								
	Added to Rolls		Removed from Rolls		Rolls-End of Year			
Year Ended	No.	Annual Allowances	No.	Annual Allowances	No.	Annual Allowances	Percentage Increase in Annual Allowances	Average Annual Allowances
6-30-02	172	$5,493,000	61	$998,000	1,783	$44,300,000	15.5%	$24,846
6-30-04	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
6-30-08	166	$9,334,000	21	$828,000	2,460	$98,216,000	31.0%	$39,925

[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)		(1)	(2)	(3)
7-1-02	$406,522	$698,964	$864,668	$1,922,405	100%	94%	100%
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%
7-1-08	$431,132	$1,568,566	$1,080,789	$2,945,086	100%	100%	87%

Analysis of Financial Experience (Dollars in thousands)						
Gain (or Loss) During Year From Financial Experience:	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	Year Ended July 1, 2008
From Liability Sources	$(163,358)	$(8,019)	$(10,841)	$(25,268)	$(30,485)	$13,952
From Asset Sources	$(39,336)	$(175,458)	$(21,995)	$52,355	$140,572	$127,248
Total	$(202,694)	$(183,477)	$(32,836)	$27,087	$110,087	$141,200
Non-Recurring Items*	$0	$5,142	$(15,038)	$(12,459)	$0	$0
Composite Gain (or Loss) During Year	$(202,694)	$(178,335)	$(47,874)	$14,628	$110,087	$141,200

** 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 pretax 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 nonservice- 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.

POST-RETIREMENT 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.

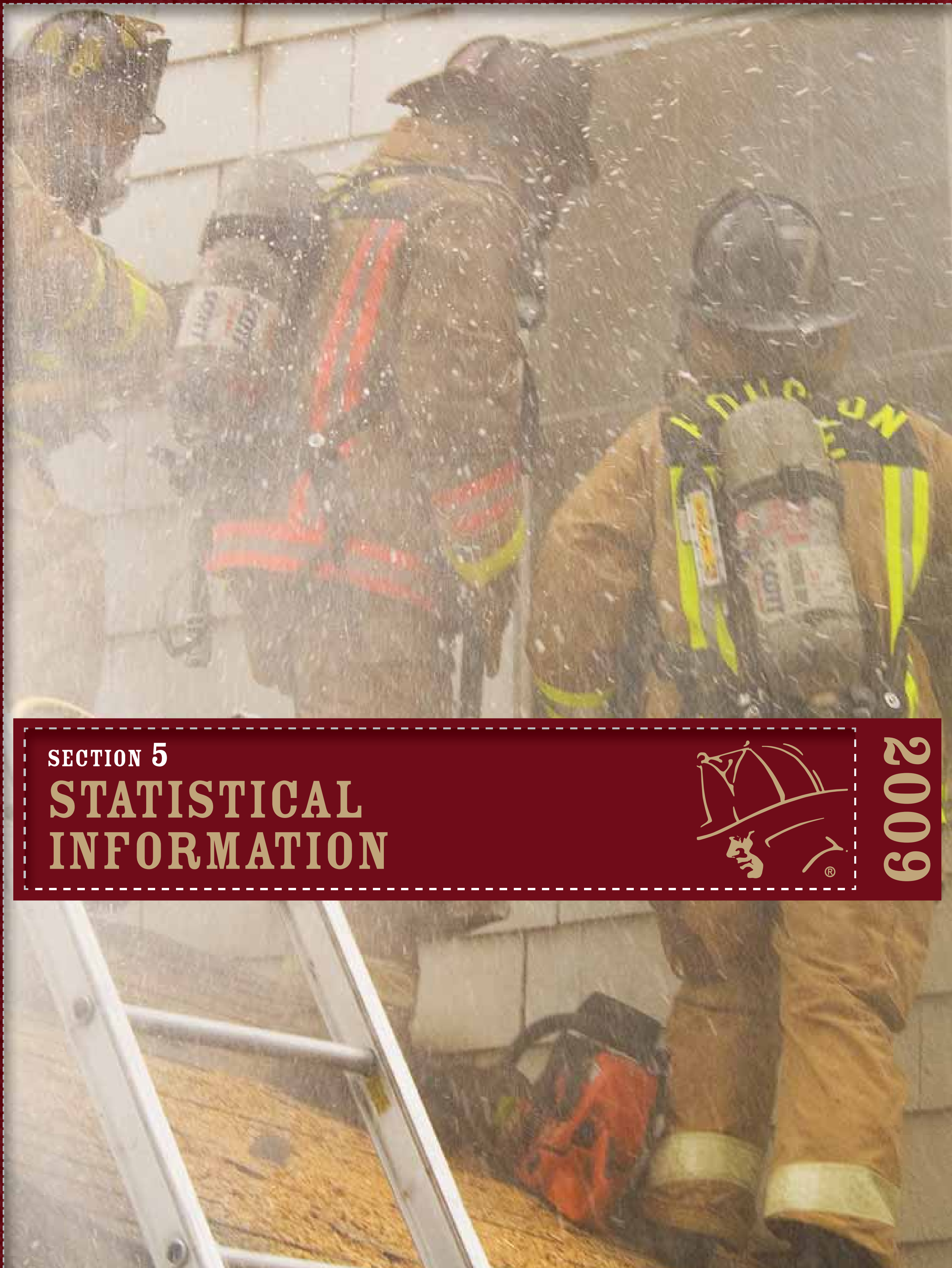
On or after November 1, 1997
Pensions adjusted each year at a fixed rate of 3 percent. The adjustment is based on the amount of benefits payable at the time of adjustment.

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.



SECTION 5

STATISTICAL INFORMATION

2009

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, 2009.

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, 2009. 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, 2009. 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, 2009.

REVENUE CAPACITY

The **Schedule of Investment Income** presents the details of the total net investment gain/loss for the 10 years ending June 30, 2009. 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, 2009.

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, 2009.

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, 2009.

Revenues by Source — Accrual Basis (Dollars in thousands)						
Fiscal Year (Ending June 30)	Employee Contributions	Employer Contributions	Employer Contributions as a Percentage of Annual Covered Payroll	Investment Income (or Loss) Based on Market Value	Other	Total
2009	$21,859	$71,033	29.40%	$(623,612)	—	$(530,720)
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

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

Expenses by Type — Accrual Basis (Dollars in thousands)				
Fiscal Year (Ending June 30)	Benefit Payments (excludes contribution refunds)	Professional and Administrative Expenses	Contribution Refunds	Total
2009	$122,614	$6,542	$321	$129,477
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.

Benefit Expenses by Type					
	2009	2008	2007	2006	2005
Refunds of Contributions	$321,282	$347,112	$202,679	$264,965	$73,668
Death Benefits	$190,000	$190,000	$225,000	$240,000	$185,000
Deferred Retirees	$529,374	$602,773	$471,176	$466,763	$454,197
Off-Duty Disabilities	$1,619,676	$1,692,026	$1,385,834	$1,433,514	$1,494,307
Annual Supplemental Benefit Payments	$4,905,980	$4,938,010	$4,996,204	$4,975,774	$4,973,854
On-Duty Disabilities	$6,944,883	$5,973,929	$5,962,452	$5,762,572	$5,393,720
Survivors	$14,626,579	$13,568,613	$12,864,154	$11,927,149	$10,756,585
DROP Distributions	$34,744,795	$28,939,800	$21,969,057	$19,707,773	$18,920,316
PROP Distributions	$282,917	$48,310	—	—	—
Service Retirees	$58,769,866	$56,210,375	$53,123,105	$49,329,361	$43,864,143
Total	$122,935,352	$112,510,948	$101,199,661	$94,107,871	$86,115,790

	2004	2003	2002	2001	2000
Refunds of Contributions	$97,363	$125,824	$179,452	$298,726	$186,168
Death Benefits	—	—	$388,025	—	—
Deferred Retirees	$438,383	$413,387	$1,634,500	$367,503	$333,084
Off-Duty Disabilities	$1,506,122	$1,443,059	$4,951,779	$1,712,337	$1,741,724
Annual Supplemental Benefit Payments	$4,956,121	$4,971,066	$3,114,594	$4,965,820	—
On-Duty Disabilities	$4,606,603	$3,718,092	$7,759,610	$2,793,819	$2,815,798
Survivors	$9,959,839	$8,572,203	$10,299,394	$5,927,926	$6,643,817
DROP Distributions	$22,931,233	$17,587,240	$29,671,688	$5,426,224	$1,887,631
PROP Distributions	—	—	—	—	—
Service Retirees	$39,220,294	$34,680,317	$57,999,042	$26,681,845	$22,079,996
Total	$83,715,958	$71,511,188	$48,174,200	$48,174,200	$35,688,218

Statement of Changes in Plan Net Assets Last 10 Fiscal Years					
	2009	2008	2007	2006	2005
Additions					
Employer Contributions	$71,032,653	$54,051,414	$52,821,473	$48,780,294	$32,688,827
Member Contributions	$21,858,574	$20,431,049	$19,981,657	$18,470,660	$16,355,387
Net Investment Income (net of expenses)	$(623,611,871)	$108,407,295	$426,975,567	$321,634,108	$339,584,437
Other			$1,273,490*		$9,325,726†
TOTAL ADDITIONS	$(530,720,644)	$182,889,758	$501,052,187	$388,885,062	$397,954,377
Deductions					
Total Benefit Expenses (see Benefit Expenses by Type)	$122,935,352	$112,510,948	$101,168,010	$94,107,871	$86,115,790
Administrative & Professional Expense	$6,541,676	$7,301,986	$7,686,795	$6,896,862	$6,737,975
TOTAL DEDUCTIONS	$129,477,028	$119,812,934	$108,854,805	$101,004,733	$92,853,765
Change in Plan Net Assets	$(660,197,672)	$63,076,824	$392,197,382	$287,880,329	$305,100,612
Net Assets Held in Trust, Beginning of Year	$3,029,158,552	$2,966,081,728	$2,573,884,346	$2,286,004,017	$1,980,903,405
Net Assets Held in Trust, End of Year	$2,368,960,880	$3,029,158,552	$2,966,081,728	$2,573,884,346	$2,286,004,017

	2004	2003	2002	2001	2000
Additions					
Employer Contributions	$28,476,946	$27,989,458	$28,450,723	$24,032,828	$24,644,897
Member Contributions	$14,238,463	$13,994,725	$14,218,663	$12,019,123	$12,316,994
Net Investment Income (net of expenses)	$304,224,905	$97,380,249	$(45,684,920)	$(24,229,245)	$159,213,891
TOTAL ADDITIONS	$346,940,314	$139,364,432	$3,015,534	$11,822,706	$196,175,782
Deductions					
Total Benefit Expenses (see Benefit Expenses by Type)	$83,715,958	$71,511,188	$57,999,042	$48,174,200	$35,688,218
Administrative & Professional Expense	$5,565,326	$4,773,834	$5,308,640	$4,102,440	$3,168,364
TOTAL DEDUCTIONS	$89,281,284	$76,285,022	$63,307,682	$52,276,640	$38,856,582
Change in Plan Net Assets	$257,659,030	$63,079,410	$(66,323,216)	$(40,453,934)	$157,319,200
Net Assets Held in Trust, Beginning of Year	$1,723,244,375	$1,660,164,965	$1,726,488,181	$1,766,942,115	$1,609,622,915
Net Assets Held in Trust, End of Year	$1,980,903,405	$1,723,244,375	$1,660,164,965	$1,726,488,181	$1,766,942,115

** Court judgment income*
† Agreed judgment income

Schedule of Investment Income Last 10 Fiscal Years					
	2009	2008	2007	2006	2005
Investment Gain (Loss)					
Net appreciation/ (depreciation) in fair value of investments	$(710,564,553)	$22,032,928	$328,607,064	$250,059,653	$275,802,362
Interest	$65,169,217	$66,866,092	$57,664,859	$48,722,319	$40,657,595
Dividends	$19,478,031	$20,052,418	$31,620,176	$20,577,585	$19,360,917
Earnings from private equity	$4,765,446	$4,372,152	$11,690,766	$8,231,059	$9,085,203
Earnings from real estate	$2,936,962	$2,217,799	$3,198,074	$2,186,004	$1,788,456
Miscellaneous	$372,184	$1,256,464	$3,092,051	$511,678	$494,472
	$(617,842,713)	$116,797,853	$435,872,990	$330,288,298	$347,189,005
Investment expenses	$(6,781,837)	$(9,986,181)	$(10,182,092)	$(10,094,588)	$(8,743,758)
Net gain (loss) from investing activities	$(624,624, 550)	$106,811,672	$425,690,898	$320,193,710	$338,445,247
From Securities Lending Arrangements:					
Earnings	$2,401,121	$15,021,367	$31,784,258	$23,779,889	$10,458,544
Rebates and fees	$(1,388,442)	$(13,425,744)	$(30,499,589)	$(22,339,491)	$(9,319,354)
Net income from securities lending activities	$1,012,679	$1,595,623	$1,284,669	$1,440,398	$1,139,190
TOTAL NET INVESTMENT GAIN (LOSS)	$(623,611,871)	$108,407,295	$426,975,567	$321,634,108	$339,584,437

	2004	2003	2002	2001	2000
Investment Gain (Loss)					
Net appreciation/ (depreciation) in fair value of investments	$252,764,028	$43,573,461	$(101,151,952)	$(79,977,341)	$112,220,793
Interest	$38,617,796	$48,917,175	$53,151,937	$40,332,573	$35,667,500
Dividends	$15,475,695	$10,391,086	$7,565,826	$13,321,776	$14,057,088
Earnings from private equity	$8,186,731	$4,661,330	$3,629,143	$7,758,950	$2,776,589
Earnings from real estate	$2,462	$7,322	$290,719	—	—
Miscellaneous	$390,839	$306,605	$600,034	—	—
	$315,437,551	$107,856,979	$(35,914,293)	$(18,564,042)	$164,721,970
Investment expenses	$(11,965,521)	$(10,943,000)	$(10,236,831)	$(6,130,040)	$(5,850,002)
Net gain (loss) from investing activities	$303,472,030	$96,913,979	$(46,151,124)	$(24,694,082)	$158,871,968
From Securities Lending Arrangements:					
Earnings	$3,510,375	$2,034,529	$2,993,651	$6,055,282	$4,476,149
Rebates and fees	$(2,757,500)	$(1,568,259)	$(2,527,447)	$(5,590,445)	$(4,134,226)
Net income from securities lending activities	$752,875	$466,270	$466,204	$464,837	$341,923
TOTAL NET INVESTMENT GAIN (LOSS)	$304,224,905	$97,380,249	$(45,684,920)	$(24,229,245)	$159,213,891

Retired Members by Type of Benefit								
Total Monthly Benefit Amount	Number of Benefit Recipients	Service	Disability	Widows	Children	Dependent Parent	Deferred (Receiving Benefits)	Deferred Inactive*
$1 – $200	0	0	0	0	0	0	0	0
$201 – $400	29	0	0	5	3	0	21	0
$401 – $600	46	0	0	7	6	0	33	0
$601 – $800	43	0	1	10	16	0	16	4
$801 – $1,000	34	2	2	12	11	0	7	4
$1,001 – $1,200	29	7	4	16	2	0	0	0
$1,201 – $1,400	58	13	12	26	5	0	2	0
$1,401 – $1,600	86	26	22	37	1	0	0	0
$1,601 – $1,800	106	40	21	43	2	0	0	0
$1,801 – $2,000	156	66	42	48	0	0	0	0
Over $2,000	1,899	1,452	165	271	10	1	0	0
Total Recipients	2,486	1,606	269	475	56	1	79	8

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

Average Monthly Benefit Payments and Average Final Average Salary of Retired Members			
Effective Retirement Date	Years of Credited Service		
	20 – 25	26 – 30	Over 30
July 2008 – June 2009			
Number of Service Retirements	1	42	32
Average Monthly Benefit	$2,910	$3,235	$4,138
Average Final Average Salary	$4,430	$4,356	$4,150
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

Participating Employer and Active Members		
City of Houston	Active Members	Percentage of Covered Employees
2009	3,943	100%
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%

GLOSSARY

Some of these terms are used in the Investment section, beginning on page 34. 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.

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.

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.

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

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.

Houston Firefighters' Relief and Retirement Fund
4225 Interwood North Parkway
Houston, Texas 77032-3866
tel: 281.372.5100 toll free: 800.666.9737
web: www.hfrrf.org

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