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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, 2010

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HOUSTON FIREFIGHTERS' RELIEF AND RETIREMENT FUND

2010 COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2010

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

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SECTION 1
INTRODUCTION

HOUSTON FIREFIGHTERS' RELIEF AND RETIREMENT FUND

Investing for Firefighters
and Their Families®

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CHRISTOPHER E. GONZALES
Executive Director/
Chief Investment Officer

December 15, 2010

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, 2010, 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 27th 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.

FUND MILESTONES

For the third straight fiscal year, the Board and staff significantly reduced Fund expenses by creating new efficiencies to the operation. These savings are renewable into the future and to date are greater than $2 million. It is management's conviction that none of the efficiencies will sacrifice service or performance. But rather, will increase productivity through the use of higher level technology and a more focused approach.

INVESTMENT MILESTONES

Fiscal year 2010 turned out to be a superb year for the Fund. The Fund returned 17.3 percent on its investment assets. This returned outpaced the Policy targets and peers by a large degree. Once again, the outstanding performance can be attributed to a strict discipline to our fundamental strategy. Modest changes were made to the portfolio during the year in order to stay within Policy ranges as well as to manage cash flow needs. No significant adjustments were made during the year.

Adhering to a tradition of continuing education, the Investment team delivered well-rounded training and education to the Board of Trustees. The topics included; the Investment Committee's role, asset allocation policy and a review of the due diligence process for private and public market investments. Investment education provides a foundation for the Investment Committee to possess the confidence necessary to make informed and prudent decisions.

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, 2010, 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 34.

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, along with all the information provided, are the responsibility of the management of the Fund. This system includes the appropriate segregation of duties and responsibilities, sound practices in the performance of those duties, capable personnel, and the organizational structure itself. The Fund believes that the internal controls in effect adequately safeguarded assets and provided reasonable, rather than absolute, assurance that the financials are free of any material misstatements.

The financial statements 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.

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 2010, 2009 and 2008.

	2010 (millions)	2009 (millions)	2008 (millions)
BEGINNING NET ASSETS	$2,369	$3,029	$2,966
Additions	498	(531)	183
Deductions	145	129	120
Net Change	353	(660)	63
ENDING NET ASSETS	$2,722	$2,369	$3,029

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 2009 valuation, the actuarial value of assets was $3.06 billion; the aggregate actuarial liability for the Fund's members was $3.08 billion. The funding ratio is currently 95.4 — that is, current assets cover 95.4 percent of the benefits accrued to date by active and retired members and beneficiaries. This is slightly lower than the 95.6 percent in the July 2008 valuation, primarily due to the smoothing of investment losses from fiscal year 2009.

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, 2010, 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, 2009. This was the 27th 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,

Todd E. Clark, CHAIRMAN

Christopher E. Gonzales,
EXECUTIVE DIRECTOR / CHIEF INVESTMENT OFFICER

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 42.

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 61.

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, 2010 and 2009.

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, 2010 and 2009.

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 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 45).

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

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, 2010 and 2009, 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, 2010, and changes therein for the year then ended and its financial status as of June 30, 2009, 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 its supplementary information is 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 21, 2010

MFR, P.C.

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Houston, Texas 77056
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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, 2010, 2009 and 2008. 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 2010	Fiscal Year 2009	Fiscal Year 2008
ASSETS			
Investments	$2,685,644,022	$2,362,405,733	$3,009,291,017
Capital assets (net of depreciation):			
Land and building	6,806,037	7,108,860	7,399,059
Furniture, fixtures and equipment	1,236,078	641,958	276,547
Other	258,893,581	157,489,119	248,596,469
Total assets	2,952,579,718	2,527,645,670	3,265,563,092
LIABILITIES			
Short-term liabilities	230,942,424	158,684,790	236,404,540
Total net assets	$2,721,637,294	$2,368,960,880	$3,029,158,552

Plan net assets at the end of fiscal year 2010, 2009 and 2008 totaled $2,721,637,294, $2,368,960,880, and $3,029,158,552 respectively. The increase in plan net assets for fiscal year 2010 is primarily due to positive market returns in the fixed income, equity (public and private) and alternative asset classes as demonstrated in a 17.3% investment return. In fiscal year 2009, the decrease in plan net assets was due to a significant and unprecedented decline in the financial markets.

SUMMARY COMPARATIVE STATEMENT OF CHANGES IN PLAN NET ASSETS	**Fiscal Year 2010**	**Fiscal Year 2009**	**Fiscal Year 2008**
Beginning net assets	$2,368,960,880	$3,029,158,552	$2,966,081,728
ADDITIONS (REDUCTIONS) TO NET ASSETS, NET:			
Contributions	96,954,951	92,891,227	74,482,463
Net de/appreciation in fair value of investments	320,274,882	(708,952,033)	22,032,928
Interest income	59,421,505	65,169,217	66,866,092
Dividends	18,157,970	19,478,031	20,052,418
Net activity from securities lending	463,326	(599,841)	1,595,623
Earnings from private equity and real estate investments	9,143,582	7,702,408	6,589,951
Other income	861,008	372,184	1,256,464
Less cost of investment services	(7,854,253)	(6,781,837)	(9,986,181)
Net investment and other (loss) income	400,468,020	(623,611,871)	108,407,295
Total additions (reductions) to net assets, net	497,422,971	(530,720,644)	182,889,758
DEDUCTIONS FROM NET ASSETS:			
Benefits	138,297,427	122,614,070	112,163,836
Other	6,449,130	6,862,958	7,649,098
Total deductions from net assets	144,746,557	129,477,028	119,812,934
NET INCREASE (DECREASE) IN NET ASSETS	$352,676,414	$(660,197,672)	$63,076,824
ENDING NET ASSETS	**$2,721,637,294**	**$2,368,960,880**	**$3,029,158,552**

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 employees for the last three fiscal years were $22,728,287 (fiscal year 2010), $21,858,574 (fiscal year 2009), and $20,431,049 (fiscal year 2008). Employer contributions for the last three years were $74,226,664 (fiscal year 2010), $71,032,653 (fiscal year 2009), and $54,051,414 (fiscal year 2008).

In fiscal years 2010 and 2009, the employer and employee contributions increased when compared to fiscal years 2009 and 2008, primarily because of overtime and contractual salary increases.

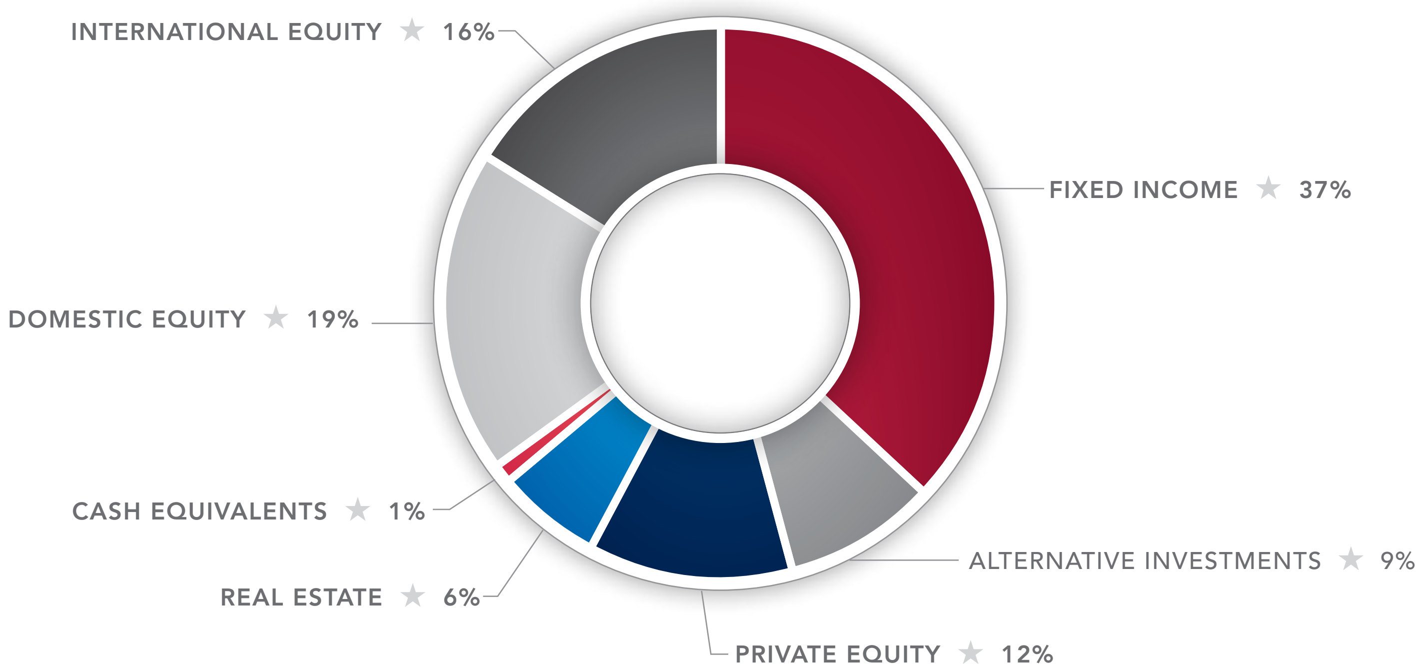
NET INVESTMENT AND OTHER INCOME

The Fund's overall financial position grew in fiscal year 2010 with an overall investment return of 17.3%. During the fiscal year, six of the seven asset classes in which the Fund invests appreciated in value. This is a stark comparison to fiscal year 2009 when six of the seven asset classes in which we invest lost value. This year's performance can be attributed to outsized returns from U.S. stocks and global bonds. Returns for those asset classes were 22.3 and 23 percent, respectively. As the real estate market continues to correct, the Fund's investments in that class declined by 7.1 percent.

At June 30, 2010, U.S. and international stocks represented approximately 35% of the Fund's investments, domestic and international bond investments represented 37%, real estate represented 6% and alternatives represented 21% (private equity 12% and hedge funds 9%). The remaining 1% represents cash equivalents.

In fiscal year 2010, the Fund's financial position improved with an overall investment return of positive 17.3%. This positive return increased the portfolio's market value to more than $2.7 billion, by total market appreciation of approximately $400 million. The Fund's portfolio experienced positive returns from all asset classes except real estate. The investment appreciation can be attributed to investments in fixed income, domestic equity, private equity, alternatives (hedge funds), international equity, and cash, listed in order of their contribution to the total fund return.

FUND ASSET ALLOCATION
(as of June 30, 2010)



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 2010, 2009, and 2008 totaled $144,746,557, $129,477,028, and $119,812,934 respectively. This represents a net increase of approximately 11.79% between fiscal years 2010 and 2009 and an increase of approximately 8.07% between fiscal years 2009 and 2008.

BENEFITS PAID TO MEMBERS

The 12.79% increase of benefits paid to members during fiscal year 2010 is mainly due to the annual cost-of-living adjustment of three percent; an increase in the number of benefit recipients; and additional monies taken out of the Deferred Retirement Option Plan (DROP) and Post Retirement Option Plan (PROP). As DROP members retire, they become eligible to take money out of their DROP accounts. PROP participation and distributions have increased since the program has been in place for more than two years. 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 2010 and 2009 and decreased between fiscal years 2009 and 2008 by 5.66% and 10.41%, respectively. The decrease in fiscal year 2010 is primarily due to a decrease in personnel, insurance, printing, utilities expenses and a drop in depreciation expenses. During fiscal year 2009, the decrease was primarily due to less personnel, consulting/legal fees associated with less contract negotiations and a drop in depreciation expenses.

Total additions to the Fund in fiscal year 2010 were $497,442,971 and total deductions were $144,746,557 thereby increasing the Fund net assets by $352,676,414. In fiscal year 2009, the Fund's net assets decreased by $660,197,672 and in fiscal year 2008, the Fund's net assets increased by $63,076,824.

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 indicated the Fund had 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. The change in funding level and corresponding increase in the actuarially calculated contribution rate in the 2007 valuation arises from several sources. The most significant are asset losses that were fully recognized in the 2007 valuation. Additionally, higher than expected pay increases during fiscal 2004 - 2007 created liability losses.

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 31). 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 November 2009, the Board of Trustees adopted the 2009 actuary valuation *for financial reporting purposes only* for the fiscal year ended June 30, 2010.

CONTACTING THE FUND'S FINANCIAL MANAGEMENT

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

STATEMENTS OF PLAN NET ASSETS

(June 30, 2010 and 2009)

ASSETS	2010	2009
INVESTMENTS, AT FAIR VALUE:		
Short-term investment funds	$69,376,467	$100,173,760
Fixed income:		
Domestic	720,176,846	617,962,482
International	226,641,362	199,677,914
Common equity:		
Domestic	462,152,907	399,984,930
International	464,497,813	419,887,965
Preferred equity:		
Domestic	733,151	744,582
International	4,831,640	5,713,558
Alternatives	250,345,905	166,401,164
Private equity	336,251,714	298,476,865
Real estate	150,636,217	153,382,513
TOTAL INVESTMENTS	**$2,685,644,022**	**$2,362,405,733**
Cash and cash equivalents	15,850,900	-
RECEIVABLES:		
Accrued interest	13,463,319	13,467,718
Due from broker recapture	6,524	6,786
Due from securities lending	50,654	58,139
Foreign funds contracts	10,423,068	8,344,555
Receivables for investments sold	11,729,591	4,850,462
Accrued dividends	3,301,089	2,579,700
City of Houston contributions	4,021,771	3,813,117
Member contributions	1,205,442	1,141,454
Other	25,134	24,546
TOTAL RECEIVABLES	**$44,226,592**	**$34,286,477**
Collateral on securities lending arrangements, at fair value	198,671,732	123,045,432
Land	483,325	483,325
Building, net	6,322,712	6,625,535
Furniture, fixtures and equipment, net	1,236,078	641,958
Prepaids (operating)	144,357	157,210
TOTAL ASSETS	**$2,952,579,718**	**$2,527,645,670**

LIABILITIES	2010	2009
Accounts payable and accrued expenses	$5,163,197	$5,095,945
Payables for investments purchased	16,557,017	22,060,292
Foreign taxes payable	96,091	73,381
Foreign funds contracts payable	10,454,387	8,409,740
Collateral on securities lending arrangements, at fair value	198,671,732	123,045,432
TOTAL LIABILITIES	**$230,942,424**	**$158,684,790**
Plan net assets held in trust for pension benefits	$2,721,637,294	$2,368,960,880

See accompanying notes to basic financial statements.

STATEMENTS OF CHANGES IN PLAN NET ASSETS

(Years Ended June 30, 2010 and 2009)

ADDITIONS (REDUCTIONS) TO PLAN NET ASSETS, NET:	2010	2009
CONTRIBUTIONS:		
City of Houston	$74,226,664	$71,032,653
Members	22,728,287	21,858,574
TOTAL CONTRIBUTIONS	**$96,954,951**	**$92,891,227**
NET INVESTMENT INCOME (LOSS):		
Net appreciation (depreciation) in fair value of investments	320,274,882	(708,952,033)
Interest	59,421,505	65,169,217
Dividends	18,157,970	19,478,031
Earnings from private equity	6,345,116	4,765,446
Earnings from real estate	2,798,466	2,936,962
Other	861,008	372,184
Securities lending arrangements:		
Earnings	613,308	2,401,121
Rebates and fees	(149,982)	(1,388,442)
Loss on default in collateral pool		(1,612,520)
TOTAL SECURITIES LENDING ARRANGEMENTS	**$463,326**	**$(599,841)**
Gross investment income (loss)	408,322,273	(616,830,034)
Less: investment services expense	(7,854,253)	(6,781,837)
NET INVESTMENT INCOME (LOSS)	**$400,468,020**	**$(623,611,871)**
TOTAL ADDITIONS (REDUCTIONS) TO PLAN NET ASSETS, NET	**$497,422,971**	**$(530,720,644)**

DEDUCTIONS FROM PLAN NET ASSETS:	2010	2009
Benefits paid to members	$138,297,427	$122,614,070
Contribution refunds to members	277,483	321,282
Professional services	740,170	781,300
Administrative expenses	5,431,477	5,760,376
TOTAL DEDUCTIONS FROM PLAN NET ASSETS	**$144,746,557**	**$129,477,028**
NET INCREASE (DECREASE) IN PLAN NET ASSETS	**$352,676,414**	**$(660,197,672)**
Plan net assets held in trust for pension benefits, beginning of year	2,368,960,880	3,029,158,552
PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR	**$2,721,637,294**	**$2,368,960,880**

See accompanying notes to basic financial statements.

1. DESCRIPTION OF PLAN

GENERAL

The Houston Firefighters' Relief and Retirement Fund (the Fund) was created in 1937 by act of the 45th Legislature of the State of Texas (Article 6243e). The current governing statute is Article 6243e.2(1), Vernon's Texas Civil Statutes (the Act). The Fund is a single employer defined benefit pension plan covering all firefighters employed full time by the City of Houston (the City) and provides for service, disability, and death benefits for eligible members. At June 30, 2010 and 2009, the membership of the Fund consisted of the following:

	FY 2010	FY 2009
Retirees and beneficiaries currently receiving benefits	2,600	2,486
Former members entitled to benefits but not yet receiving them	8	8
ACTIVE MEMBERS:		
Vested	1,990	2,077
Nonvested	1,921	1,866
TOTAL MEMBERS	**6,519**	**6,437**

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, 2010 and 2009, the active members' contribution rate was 9% and the City's contribution rate was 29.4%.

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 not 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 full 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. 59, *Financial Instruments Omnibus*

This Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools.

GASB Statement No. 59 amends the following pronouncements:

- GASB Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and GASB Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, to clarify that unallocated insurance contracts should be reported as interest-earning investment contracts,
- GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, to emphasize the applicability of SEC requirements to certain external investment pools - known as 2a7-like pools,
- GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, to clarify that interest rate risk disclosure for a government's investments pools should be limited to its debt investment pools,
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, to clarify (1) which financial guarantee contracts, revenue-based contracts, and hybrid instruments are within the scope of the statement and (2) whether contracts that include nonperformance penalties meet the net settlement characteristics,
- National Council on Governmental Accounting (NCGA) Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences*, to conform with the amendments made to GASB Statement No. 53.

The requirement of this statement are effective for financial statements for periods beginning after June 15, 2010. Management does not believe that the adoption of GASB Statement No. 59 will have a material effect on the Fund's financial statements in fiscal year 2011 when adopted.

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. This statement has been implemented by the Fund with no significant effect on the financial statements.

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.

GASB 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, GASB 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. GASB Statement No. 51 also provides guidance on recognizing internally generated computer software as an intangible asset.

The requirements of GASB Statement No. 51 are effective for financial statements for periods beginning after June 15, 2009. The provisions of GASB Statement No. 51 generally are required to be applied retroactively. This statement has been implemented by the Fund with no effect on the financial statements.

3. CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

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

The City is required to contribute at a rate that has been actuarially determined and adopted by the Board, but not less than twice the members' contributions. 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, 2010*	JUNE 30, 2009*
Employer normal cost	$54,285,416	$51,895,428
Member normal cost	22,722,166	21,822,591
Total normal cost	77,007,582	73,718,019
Plus: Additional Statutory Requirement	19,947,369	19,173,208
NET CONTRIBUTIONS REQUIRED	**$96,954,951**	**$92,891,227**
Employer contributions actually made	$74,226,664	$71,032,653
Member contributions actually made	22,728,287	21,858,574
TOTAL CONTRIBUTIONS	**$96,954,951**	**$92,891,227**

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

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, 2010. 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. The change in funding level and corresponding increase in the actuarially calculated contribution rate in the 2007 valuation arises from several sources. The most significant are asset losses that were fully recognized in the 2007 valuation. Additionally, higher than expected pay increases during fiscal 2004 - 2007 created liability losses.

In November 2009, the Board of Trustees adopted the 2009 actuary valuation for *financial reporting purposes only* for the fiscal year ended June 30, 2010.

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, 2009, the most recent actuarial valuation date, is as follows (dollar amounts in millions):

Actuarial Valuation Date	7/01/09
Actuarial Value of Assets (AVA)	$ 3,062.2
Actuarial Accrued Liability (AAL)	$ 3,209.7
Unfunded AAL (UAAL)	$ 147.5
AVA as a Percentage of AAL	95%
Covered Payroll	$ 259.0
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, 2009 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 31 through 32. 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:

	2010	2009
Short-term investment funds	$69,376,467	$100,173,760
Fixed income	946,818,208	817,640,396
Common equity	926,650,720	819,872,895
Preferred equity	5,564,791	6,458,140
Alternative investments	250,345,905	166,401,164
Private equity	336,251,714	298,476,865
Real estate	150,636,217	153,382,513
TOTAL INVESTMENTS	**$2,685,644,022**	**$2,362,405,733**

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. The fair value shown here may differ from reported net assets due to payables, receivables, and trades pending settlement.

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, 2010 and 2009, 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, 2010 and 2009, the Fund investment portfolio had no single holdings in excess of 5% of Fund net assets.

INTEREST RATE RISK

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

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the investment. Interest rate risk is the greatest risk faced by an investor in the fixed income market. The price of a fixed income security typically moves in the opposite direction of the change in interest rates. The weighted average maturity expresses investment time horizons (when the investment 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, 2010, 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	12.54	$52,990,497
Consumer Discretionary	0.54	1,439,996
Corporate Debt	17.09	599,948,051
Energy	16.75	2,930,282
Financials	18.82	1,654,946
FHLM/FNMA	1.83	4,245,016
U.S. Government Issues	15.32	26,574,254
Healthcare	5.21	10,103,356
Industrials	19.62	1,749,922
Information Technology	19.63	7,825,614
Non-U.S. Corporate	4.30	57,076,773
Non-U.S. Government Issues	1.53	28,760,322
Telecommunication Services	1.96	47,188
U.S. Convertibles	11.11	14,876,695
U.S. Fixed Income Funds	0.00	1,823,878
U.S. Private Placements	14.93	110,037,633
U.S. Taxable Muni Bonds	27.88	24,207,820
Utilities	17.41	525,965
TOTAL FIXED INCOME SECURITIES		**$946,818,208**

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, 2010 is as follows:

QUALITY RATING	FAIR VALUE	PERCENTAGE OF HOLDINGS
AGY	$4,245,016	0.16%
A1	28,341,985	1.05%
A2	130,570,337	4.83%
A3	157,879,079	5.84%
AA1	4,763,017	0.18%
AA2	24,786,619	0.92%
AA3	51,280,423	1.90%
AAA	100,214,705	3.71%
B1	12,027,958	0.45%
B2	25,723,744	0.95%
B3	15,012,753	0.56%
BA1	18,518,749	0.69%
BA2	25,004,832	0.93%
BA3	33,601,157	1.24%
BAA1	62,265,404	2.30%
BAA2	69,262,056	2.56%
BAA3	107,421,620	3.98%
CA	1,718,942	0.06%
CAA1	13,496,643	0.50%
CAA2	13,911,439	0.51%
CAA3	6,802,009	0.25%
Not rated	13,395,467	0.50%
TOTAL CREDIT RISK DEBT SECURITIES*	**$920,243,954**	**34.07%**

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

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Realized and unrealized gains and losses on investments which result from changes in foreign currency exchange rates have been included in the net appreciation (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, 2010 is as follows:

	FAIR VALUE	PERCENTAGE OF HOLDINGS
Japanese Yen	$74,781,392	2.77%
Euro Currency Unite	73,519,930	2.72%
British Pound Sterling	55,276,392	2.05%
Swiss Franc	46,559,077	1.72%
Canadian Dollar	35,840,911	1.33%
Hong Kong Dollar	28,841,188	1.07%
Singapore Dollar	16,501,907	0.61%
Indonesian Rupian	15,678,794	0.58%
South Korean Won	14,961,672	0.55%
Brazil Real	14,466,552	0.54%
Mexican New Peso	13,309,502	0.49%
Australian Dollar	12,034,059	0.45%
Norwegian Krone	10,470,878	0.39%
New Zealand Dollar	9,421,209	0.35%
Swedish Krona	6,462,477	0.24%
Thailand Baht	3,549,873	0.13%
Danish Krone	3,077,284	0.11%
New Taiwan Dollar	2,383,301	0.09%
S. Afican Comm Rand	2,369,822	0.09%
New Turkish Lira	2,054,677	0.08%
Malaysian Ringgit	514,426	0.02%
Philippine Peso	365,429	0.01%
Chinese Yan Renminbi	48	0.00%
TOTAL SECURITIES SUBJECT TO FOREIGN CURRENCY RISK	**$442,440,800**	**16.39%**

Schedule 4 on page 34 lists the Fund's investment and professional service providers.

ALTERNATIVE INVESTMENTS

As of June 30, 2010 and 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, 2010	JUNE 30, 2009
Private Equity	$336,251,714	$298,476,865
Hedge Funds	250,345,905	166,401,164
	$586,597,619	**$464,878,029**

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.

DERIVATIVE INVESTING

The Fund's investment managers may invest in derivatives if permitted by the guidelines established by the Fund's Board. Derivatives are generally defined as contracts whose values depend on, or are derived from, the value of an underlying asset, reference rate or index. The investment manager may invest in exchange-traded derivative securities to provide incremental value at the margin and to hedge or reduce risk. The majority of the Fund's exposure to derivatives is indirect and by way of the Fund's investments in commingled fund vehicles.

As of June 30, 2010 and 2009, the Fund recognized losses of $31,319 and $65,185, respectively, in investment revenue related to derivatives.

Several of the Fund's investment managers invest internationally. They hold foreign exchange forwards to mitigate the risk associated with these investments.

The following is a summary of derivatives held by the Fund:

FAIR VALUE AT JUNE 30

DERIVATIVE	CLASSIFICATION	2010	2009
FX Forwards	Investment Revenue	$(31,319)	(65,185)

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 counter parties. 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. No such losses occurred during fiscal years 2010 and 2009. 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.

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, 2010 and 2009, the Fund's cash deposits in bank accounts totaled $15,850,900 and zero 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 2010 and 2009, 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 2010 or 2009. 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:

	2010	2009
Building	$9,165,952	$9,159,287
Less accumulated depreciation	(2,843,240)	(2,533,752)
BUILDING, NET	**$6,322,712**	**$6,625,535**

8. FURNITURE, FIXTURES AND EQUIPMENT

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

	2010	2009
Office furnishings and equipment	$767,450	$767,450
Computer software and hardware	2,434,017	2,445,492
Furniture, fixtures and equipment subject to depreciation	3,201,467	3,212,942
Less accumulated depreciation	(2,966,968)	(2,936,157)
Net amount subject to depreciation	234,499	276,785
Software in development phase	1,001,579	365,173
Furniture, fixtures, and equipment, net	$1,236,078	$641,958

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:

	2010		2009	
	Securities Lent	Collateral Held	Securities Lent	Collateral Held
Fixed income	$87,793,010	$89,871,129	$56,323,066	$57,558,512
Common and preferred stocks	105,130,138	108,800,603	62,779,203	65,486,920
	$192,923,148	$198,671,732	$119,102,269	$123,045,432

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, 2010 and 2009. 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 36 days and 33 days as of June 30, 2010 and 2009, 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, 2010 and 2009, securities lending transactions were collateralized in cash.

10. RELATED PARTY

During fiscal years 2010 and 2009, the Plan utilized the services of investment management companies, in which the Plan owns an interest. Manager fees of approximately $450,000 and $484,000 were paid in fiscal years 2010 and 2009, 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 2010 and 2009, the Fund contributed $395,078 and $359,799, 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, 2010 and 2009, aggregate contributions from active members of the Fund with less than ten years of service were $41,661,919 and $34,269,899, respectively. Contributions for employees with 10 to 20 years of service have not been determined. As of June 30, 2010 and 2009, 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 $268,000,000 and $272,000,000 as of June 30, 2010 and 2009, 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, 2010 and 2009, 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 events of recent years in the global financial markets and U.S. housing market resulted in dramatic changes in economic conditions, including interest rate, currency, equity and credit conditions. The affect of those 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 may occur over the course of different economic and market cycles.

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.

14. SUBSEQUENT EVENTS

Management of the Fund has evaluated subsequent events through October 21, 2010, which is the date the financial statements were available to be issued.

SCHEDULE 1

SCHEDULE OF FUNDING PROGRESS (UNAUDITED)

(dollars in millions)

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF ASSETS (AVA)	ACTUARIAL ACCRUED LIABILITY (AAL)	AVA AS PERCENTAGE OF AAL	UNFUNDED AAL (UAAL)	COVERED PAYROLL	UALL AS PERCENTAGE OF COVERED PAYROLL
7-1-99	$1,538.5	$1,470.6	105%	$(67.9)	$159.0	(43)%
7-1-00	1,726.3	1,589.3	109%	(137.0)	163.6	(84)%
7-1-01	1,863.1	1,650.8	113%	(212.3)	164.3	(129)%
7-1-02	1,922.4	1,970.1	98%	47.7	190.6	25%
7-1-04	2,000.3	2,266.8	88%	266.5	181.5	147%
7-1-05	2,119.2	2,461.1	86%	341.9	192.1	178%
7-1-06	2,324.9	2,670.9	87%	346.0	218.7	158%
7-1-07	2,633.6	2,892.3	91%	258.7	232.4	111%
7-1-08	2,945.1	3,080.5	96%	135.4	239.2	57%
7-1-09	3,062.2	3,209.7	95%	147.5	259.0	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 2

SCHEDULE OF EMPLOYER CONTRIBUTIONS (UNAUDITED)

(dollars in thousands)

YEAR ENDED JUNE 30	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
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%
2010	74,227	100%

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

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

NOTE TO REQUIRED SUPPLEMENTAL SCHEDULES (UNAUDITED)

(dollars in thousands)

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, 2009
Actuarial cost method	Entry age method
Amortization method	Level percentage of payroll over 30 years
Remaining amortization period	Rolling 30 year
Asset valuation method	Five-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, 2009 valuation are the same as those used in the July 1, 2008 valuation.

See accompanying independent auditors' report.

SCHEDULE 3

INVESTMENT, PROFESSIONAL SERVICES AND ADMINISTRATIVE EXPENSES
(Years Ended June 30, 2010 and 2009)

	2010	2009
INVESTMENT SERVICES:		
Custodial services	$380,163	$354,364
Money management services	7,474,090	6,427,473
TOTAL INVESTMENT SERVICES	**$7,854,253**	**$6,781,837**
PROFESSIONAL SERVICES:		
Actuarial services	$110,700	$82,908
Audit and accounting services	34,996	29,083
Consulting and professional services	411,923	506,163
Legal services	163,129	145,707
Medical examinations	19,422	17,439
TOTAL PROFESSIONAL SERVICES	**$740,170**	**$781,300**
ADMINISTRATIVE EXPENSES:		
Depreciation	$412,401	$444,111
Continuing education	116,156	126,117
Furniture, equipment and supplies	33,350	19,717
Insurance	717,413	781,834
Investment research	91,061	89,479
Office cost	3,743,943	3,926,164
Facility maintenance	150,831	143,402
Utilities	166,322	229,552
TOTAL ADMINISTRATIVE EXPENSES	**$5,431,477**	**$5,760,376**

See accompanying independent auditors' report.

SCHEDULE 4

SUMMARY OF INVESTMENT AND PROFESSIONAL SERVICES

Year Ended June 30, 2010

INDIVIDUAL OR FIRM NAME	OFFICIAL PLAN POSITION	AMOUNT	NATURE OF SERVICES
Mellon Trust	Custodian	$380,163	Custodial
Ariel Capital Management	Investment manager	497,598	Money management
AllianceBernstein	Investment manager	812,664	Money management
The Mitchell Group	Investment manager	506,680	Money management
Mercator	Investment manager	1,187,589	Money management
Marvin & Palmer	Investment manager	720,586	Money management
McKinley Capital	Investment manager	794,540	Money management
Mellon Capital	Investment manager	38,748	Money management
Victory Capital	Investment manager	476,917	Money management
GW Capital	Investment manager	229,919	Money management
Loomis Sayles "A" and "B"	Investment manager	913,736	Money management
Standish/Mellon Bond "STIF"	Investment manager	111,481	Money management
STW Fixed Income Mgmt "A"	Investment manager	647,969	Money management
STW Fixed Income Mgmt "B"	Investment manager	85,504	Money management
Texas Forest Partners	Investment manager	249,746	Money management
Energy Trust	Investment manager	200,413	Money management
TOTAL INVESTMENT SERVICES		$7,854,253	
Buck Consultants, L.L.C.	Actuary	$110,700	Actuarial
Strasburger and Price, L.L.P.	Attorneys	45,811	Legal
Jackson Walker L.L.P.	Attorneys	91,482	Legal
Winstead P.C.	Attorneys	2,291	Legal
Ducker, Montgomery, Aronstein & Bess, P.C.	Attorneys	5,400	Legal
Ice Miller L.L.P.	Attorneys	10,063	Legal
Andrews Kurth L.L.P.	Attorneys	8,082	Legal
MFR, P.C.	Auditors	31,396	Audit
Joseph Mason C.P.A	Auditors	3,600	Audit
National Mail Advertising Inc.	Communications	488	Printing and design
Adjacent Technologies, Inc.	Consultant	14,212	Consulting
Howard Fraiser Barker Elliott, Inc.	Consultant	3,064	Consulting
Locke Lord Bissell & Liddell L.L.P.	Consultant	192,021	Consulting
William & Jenson, P.L.L.C.	Consultant	144,000	Consulting
Vitech Systems Group, Inc.	Consultant	17,436	Consulting
Convergint Technologies	Consultant	274	Consulting
Kirksey and Partners	Consultant	1,000	Consulting
Stacy H. Edick	Consultant	2,200	Consulting
Adcetera Design Studio, Inc.	Consultant/Communications	10,390	Consulting, printing, and design
Bayside Printing Company	Consultant/Communications	24,903	Consulting, printing, and design
Printmailers, Inc	Consultant/Communications	1,935	Consulting, printing, and design
Texas Occupational Medicine Inst.	Physicians	18,775	Medical examinations
Allergy & Asthma	Physicians	275	Medical examinations
Texas E.N.T. Specialists, PA	Physicians	372	Medical examinations
TOTAL PROFESSIONAL SERVICES		$740,170	

See accompanying independent auditors' report.

SECTION 3

INVESTMENT INFORMATION

REPORT OF 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.

PORTFOLIO RESULTS[1]

The fiscal year 2010 return on investments for the Houston Firefighters' Relief and Retirement Fund's investment portfolio was 17.3 percent, bringing the asset value to approximately $2.7 billion. This year's return brings our 7 and 10-year annualized returns to 9.1 percent and 6.6 percent, respectively.

As a comparison, the Fund's investment portfolio continues to outperform the broad markets as measured by the Standard & Poor's 500 Index, the Barclays Aggregate Bond Index and the Public Pension Fund Universe Median[2], where its performance finished in the top one-percentile for the 5, 7 and 10-year periods.

	1-Year	7-Year	10-Year
Standard & Poor's 500 Index	14.4%	2.9%	-1.6%
Barclays Aggregate Bond Index	9.5	5.0	6.5
Public Pension Fund Peers – Median	12.7	5.5	3.4

During the fiscal year, six of the seven asset classes in which the Fund invests appreciated in value. This is a stark comparison to fiscal year 2009 when six of the seven asset classes in which we invest lost value. This year's performance can be attributed to outsized returns from the domestic equity and fixed income asset classes. Returns for those asset classes were 22.3 percent and 23.0 percent, respectively. Private equity, 17.5 percent, and alternatives, 15.6 percent, also contributed positively to this year's total return. Real estate was the only class to lose value during the year ending with a -7.1 percent return.

The year ended with the Asset Allocation (see table on next page) close to Policy targets. The allowance to hold up to 10 percent in the alternatives space was put into play during the fiscal year as a protective measure from global stock exposure. While the stock markets strongly outperformed, it was feared that the velocity of the outperformance was unsustainable. That measure delivered positive results. During the months of April and May, investors turned bearish as a result of the BP oil spill in the Gulf of Mexico, European sovereign debt issues and a continued elevated level of unemployment in the U.S., together yielding a sharp global stock correction.

Great confidence in the portfolio strategy's resiliency was gained during the fiscal year. It is believed that the current portfolio design is not only able to meet or exceed the Policy Target Return of 8.5 percent over time, but to also be protective of losses during most down cycles.

Subsequent to the year end, the portfolio has continued to deliver positive results. The current return for the period beginning July 1, 2010 and ending September 30, 2010 is 8.65 percent.

1. All returns are gross of management fees and expenses
2. Taken from the Wilshire Trust Universe Comparison Report (TUCS): Wilshire's Trust Universe Comparison Service (TUCS) is a collaborative effort between Wilshire Associates and custodial organizations. Custodians submit asset positions and performance data to be pooled into universes of managed tax-exempt portfolios. TUCS is the most widely accepted benchmark for the performance of institutional assets. It provides comprehensive information on the effects of risk, allocation, and style, creating powerful decision-making tools based on accurate and timely information.

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, contrarian and active management.

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[1]
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[2]

1. 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).
2. 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.

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.

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. 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.

PLEASE GO TO WWW.HFRRF.ORG FOR A COMPLETE VERSION OF THE INVESTMENT POLICY STATEMENT.

	CURRENT ASSET ALLOCATION[1] (dollars in millions)		**PREVIOUS YEAR** ASSET ALLOCATION[1] (dollars in millions)	
	2010 Market Value[2]	Percent	2009 Market Value[2,3]	Percent
Cash Equivalents	$23	0.8%	$13	0.6%
Domestic Equity	508	18.7%	433	18.3%
International Equity	445	16.4%	397	16.8%
Fixed Income	999	36.8%	900	38.1%
Alternative Investments	250	9.2%	166	7.0%
Private Equity	336	12.4%	298	12.6%
Real Estate	151	5.6%	153	6.5%
	$2,712	**100.0%**	**$2,360**	**100.0%**

1. Calculated using asset classes reflected in the Fund's Investment Policy Statement. These numbers have been rounded up.
2. The market value shown in this report include accrued interest/dividends and payables/receivables on pending trades. In the Report of Plan Net Assets, these additional values are included in the "Other" category.
3. This value has been adjusted from last year's report.

TOTAL FUND RETURN VS POLICY BENCHMARK [1]

(Period Ending June 30)

	2010	2009	2008	2007	2006	3 Year	5 Year	7-Year	10 Year
HFRRF - Total Portfolio	17.3	-20.0	4.0	17.0	14.5	-0.8	5.5	9.1	6.6
Policy Benchmark	12.4	-12.6	1.0	17.3	11.0	-0.3	5.2	7.3	5.2
RETURNS BY ASSET CLASS									
HFRRF - Cash	2.7	5.9	8.5	9.0	7.0	5.7	6.6	5.8	6.3
Custom Benchmark	1.2	3.1	5.4	5.2	2.9	3.2	3.5	2.9	3.6
HFRRF - Domestic Equity	22.3	(38.3)	2.1	19.6	16.5	(8.3)	1.4	7.6	6.1
Russell 3000	15.7	(26.6)	(12.7)	20.1	9.6	(9.5)	(0.5)	3.5	(0.9)
HFRRF - Fixed Income	23.0	0.0	4.3	9.0	1.4	8.7	7.3	7.9	8.7
Barclays Capital Universal Index	10.6	4.9	6.2	6.6	(0.3)	7.2	5.6	5.2	6.6
HFRRF - International Equity	8.9	(36.3)	(5.2)	29.1	32.0	(13.1)	2.3	8.4	1.6
MSCI All Country World Ex-US Index	10.9	(30.5)	(6.2)	30.1	28.4	(10.3)	3.8	9.4	2.3
HFRRF - Alternative Investments	15.6	(8.0)	15.7	6.8	(5.2)	7.2	4.5	N/A	N/A
LIBOR + 3%	3.3	5.0	7.2	8.4	7.4	5.2	6.3	N/A	N/A
HFRRF - Private Equity	17.5	(19.5)	20.0	22.4	31.7	4.3	12.8	15.9	9.0
CA US Private Equity 1QA	22.5	(23.5)	12.1	29.1	31.0	1.7	12.2	15.8	7.7
HFRRF - Real Estate	(7.1)	(13.7)	7.7	16.2	15.8	(4.8)	3.0	6.0	4.0
50% NCREIF Timberland / 50% NCREIF Property	(0.2)	(8.0)	16.7	13.5	19.4	2.3	7.7	9.0	7.0

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

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

★ ★

COMPARISON OF INVESTMENT RETURNS

(Fiscal Years ending June 30)

YEAR	TOTAL FUND	MEDIAN TOTAL FUND*	FUND DOMESTIC EQUITY INV	RUSSELL 3000 STOCK IND	SP500	FUND FIXED INCOME INV	BARCLAYS CAPITAL UNIVERSAL	BARCLAYS CAPITAL GOV/ CREDIT	FUND INTL EQUITY
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
2010	17.3	12.5	22.3	15.7	14.4	23.0	10.6	9.7	8.9

*Median Total Fund represents 'Total Returns for All Master Trusts' from TUCS Report as of June 30, 2010.

COMPOUND ANNUAL RETURN

	TOTAL FUND	MEDIAN TOTAL FUND*	FUND DOMESTIC EQUITY INV	RUSSELL 3000 STOCK IND	S&P500 STOCK IND	FUND FIXED INCOME INV	BARCLAYS UNIVERSAL	BARCLAYS CAPITAL GOV/CREDIT
2-YEAR	(3.1)	(2.7)	(13.1)	(7.8)	(8.1)	10.9	7.7	7.4
3-YEAR	(0.8)	(3.3)	(8.3)	(9.5)	(9.8)	8.7	7.2	7.4
5-YEAR	5.5	2.9	1.4	(0.5)	(0.8)	7.3	5.6	5.3
7-YEAR	9.1	5.2	7.6	3.5	2.8	7.9	5.2	4.7
10-YEAR	6.6	3.4	6.1	(0.9)	(1.6)	8.7	6.6	6.5

*Median Total Fund represents 'Total Returns for All Master Trusts' from TUCS Report as of June 30, 2010.

TEN LARGEST EQUITY INVESTMENT HOLDINGS
(Excluding commingled funds)

DESCRIPTION	MARKET VALUE	PERCENT OF TOTAL MARKET VALUE
NESTLE SA	$10,116,155.23	37.00%
NOVARTIS AG	10,080,313.07	37.00%
EXXON MOBIL CORP	6,072,248.00	22.00%
DAITO TRUST CONSTRUCTION	5,405,729.49	20.00%
BHP BILLITON PLC	5,373,448.04	20.00%
SCHLUMBERGER LTD	5,289,895.26	19.00%
WPP PLC	5,288,191.36	19.00%
KAO CORP	5,215,352.04	19.00%
NISSAN MOTOR CO	5,138,732.09	19.00%
TESCO	5,050,639.31	19.00%

TEN LARGEST BOND INVESTMENT HOLDINGS

DESCRIPTION	MARKET VALUE	PERCENT OF TOTAL MARKET VALUE
STANDARD CHARTERED BK	$14,370,761.34	0.53%
CAPITAL ONE	14,217,308.25	0.52%
LLOYDS TSB BANK PLC	13,776,074.55	0.51%
TESCO PLC	12,597,412.50	0.46%
METLIFE INC	12,371,146.68	0.45%
BANK OF AMERICA CORP	12,148,133.55	0.45%
AT & T INC GLOBAL	11,457,519.50	0.42%
ALTRIA GROUP INC	11,287,825.92	0.41%
KONINKLIJKE PHILIPS ELECTRS	10,557,048.00	0.39%
CITIBANK CR CARD	10,278,969.00	0.38%

FEES FOR INVESTMENT SERVICES

	ASSETS UNDER MANAGEMENT	FEES	BASIS POINTS
INVESTMENT MANAGEMENT FEES			
Cash Equivalents Manager (1)	$85,351,206	$111,481	0.13%
Domestic Equity Managers	462,886,057	2,332,607	0.50%
International Equity Managers	469,329,452	2,702,715	0.57%
Fixed Income Managers	946,818,207	1,877,128	0.19%
Alternative Investments	250,331,976	N/A	N/A
Private Equity	336,251,733	200,413	0.05%
Real Estate Investments	150,636,216	249,746	0.16%
OTHER INVESTMENT SERVICES			
Custodian Bank	2,701,604,851	380,163	0.01%

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

TOP 25 BROKERAGE COMMISSIONS PAID

BROKER NAME	BASE COMMISSION
CREDIT SUISSE, NEW YORK	$144,447
BNY CONVERGEX / LJR, HOUSTON*	107,806
PERSHING LLC, JERSEY CITY	94,697
GOLDMAN SACHS & CO, NY	61,198
MERRILL LYNCH PIERCE FENNER, WILMINGTON	49,662
SG SEC (LONDON) LTD, LONDON	47,598
J P MORGAN SECS LTD, LONDON	46,040
MERRILL LYNCH PIERCE FENNER SMITH INC NY	45,744
MORGAN STANLEY & CO INC, NY	37,736
UBS SECURITIES LLC, STAMFORD	35,063
CITIGROUP GBL MKTS INC, NEW YORK	32,110
DEUTSCHE BK SECS INC, NY	28,764
BARCLAYS CAPITAL LE, JERSEY CITY	26,669
MERRILL LYNCH & CO INC ATLAS GLOBAL, NY	26,482
INVESTMENT TECHNOLOGY GROUP, NEW YORK	25,467
GOLDMAN SACHS EXECUTION & CLEARING, NY	25,112
DAEWOO SECURITIES CO LTD, SEOUL	22,040
JP MORGAN SECS ASIA PACIFIC, HONG KONG	21,387
CREDIT AGRICOLE CHEUVREUX, COURBEVOIE	20,554
DAIWA SECS AMER INC, NEW YORK	19,535
PERSHING SECURITIES LTD, LONDON	19,470
HOWARD WEIL INCORPORATED, NEW ORLEANS	18,978
NOMURA SECS INTL INC, NEW YORK	18,490
UBS WARBURG ASIA LTD, HONG KONG	18,199
PICKERING ENERGY PARTNERS, HOUSTON	18,192
OTHER	719,117
	$1,730,555

*Commission recapture broker

Note: During Fiscal Year 2010, nearly 6.25% of all trading activity was executed through the commission recapture broker (BNYConvergex/LJR).

SECTION 4
ACTUARIAL INFORMATION

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

TYPES OF RETIREMENT PLANS

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

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

FUNDING FOR A DEFINED BENEFIT PLAN

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

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

ACTUARIAL COST METHOD

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

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

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

ACTUARY'S REPORT

The information that follows was determined using specific actuarial methods, which have been generally described above. The methods were applied to census data about active firefighters, retirees and beneficiaries of the Fund as of July 1, 2009.

buckconsultants

September 24, 2010
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 November 2009 describes the results of the actuarial valuation of the Houston Firefighters' Relief and Retirement Fund (HFRRF) as of July 1, 2009. The HFRRF retained Buck Consultants to perform this actuarial valuation for the purposes of determining the funded status for the plan year July 1, 2009 through June 30, 2010.

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, 2009. According to this valuation, the plan is 95.4% funded – that is, current assets cover 95.4% of the benefits accrued to date by active and retired members and beneficiaries. This is lower than the 95.6% in the July 1, 2008 valuation, primarily due to asset returns being less than expected.

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

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

HFRRF staff prepared the supporting schedules in the actuarial section of the Comprehensive Annual Financial Report, and the trend tables in the financial section are based on information supplied in prior actuarial reports, as well as our July 1, 2009 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, 2009 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.

The actuarial assumptions, methods, plan provisions, and census data used to determine the July 1, 2009 valuation results are summarized in the Actuarial Valuation Report dated November 2009. The results were prepared under the supervision of Lee James, a Fellow of the Society of Actuaries, who meets the Academy's Qualification Standards to issue this Statement of Actuarial Opinion. He is available to answer questions about the report.

Lee James | Carly A. Nichols

Lee A. James, F.S.A., E.A., M.A.A.A., F.C.A | Carly A. Nichols, F.S.A., E.A., M.A.A.A.

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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

RETIREMENT RATES

NUMBER OF YEARS OF SERVICE	PROBABILITY OF RETIRING WITHIN ONE YEAR
20	8.00%
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 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

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, 2009 evaluation are the same as those used in the July 1, 2008 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
7-1-04	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%
7-1-09	3,949	40.3	258.9	61,053	1.9%

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
6-30-04[1]	377	N/A	109	N/A	2,051	$57,676,000	30.2%	$28,121
6-30-05	135	4,353,000	53	1,107,000	2,133	62,882,000	9.0%	29,481
6-30-06	195	7,231,000	60	1,437,000	2,268	70,420,000	12.0%	31,050
6-30-07	106	3,822,000	59	1,407,000	2,315	74,948,000	6.4%	32,375
6-30-08	166	9,334,000	21	828,000	2,460	98,216,000	31.0%	39,925
6-30-09	133	3,369,000	43	2,081,000	2,550	94,536,000	(3.7)%	37,073

[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)
7-1-04	$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%
7-1-09	484,085	1,599,862	1,125,723	3,062,174	100%	100%	87%

ANALYSIS OF FINANCIAL EXPERIENCE
(Dollars in thousands)

Gain (or Loss) During Year From Financial Experience:	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	Year Ended July 1, 2009
From Liability Sources	$(8,019)	$(10,841)	$(25,268)	$(30,485)	$13,952	$76,701
From Asset Sources	(175,458)	(21,995)	52,355	140,572	127,248	(101,923)
Total	**$(183,477)**	**$(32,836)**	**$27,087**	**$110,087**	**$141,200**	**$(25,222)**
Non-Recurring Items*	5,142	(15,038)	(12,459)	0	0	0
Composite Gain (or Loss) During Year	(178,335)	(47,874)	14,628	110,087	141,200	(25,222)

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

MEMBERSHIP

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

AVERAGE SALARY

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

STANDARD SERVICE PENSION

Eligibility: 20 years of service.

Benefit

- For retirement on or after November 1, 1997, 50% of average monthly salary; plus 3% of average monthly salary per year of service in excess of 20 years.
- For retirement on or after November 1, 1996, and prior to November 1, 1997, 48.334% of average monthly salary, plus 2.834% of average monthly salary per year of service in excess of 20 years.
- For retirement on or after November 1, 1995, and prior to November 1, 1996, 46.667% of average monthly salary, plus 2.667% of average monthly salary per year of service in excess of 20 years.
- For retirement on or after September 1, 1991, and prior to November 1, 1995, 45% of average monthly salary, plus 2.5% of average monthly salary per year of service in excess of 20 years, up to 30 years, plus 1.0% of average monthly salary in excess of 30 years.
- For retirement on or after September 1, 1989, and prior to September 1, 1991, 45% of average monthly salary, plus 2.5% of average monthly salary per year of service in excess of 20 years.
- For retirement on or after September 1, 1987, and prior to September 1, 1989, 45% of average monthly salary, plus 2% of average monthly salary per year of service in excess of 20 years.
- For retirement on or after July 1, 1986, and prior to September 1, 1987, 40% of average monthly salary plus 2% of average monthly salary per year of service in excess of 20 years.
- For retirement on or after January 1, 1970, and prior to July 1, 1986, 35% of average monthly salary plus 3% of average monthly salary per year of service in excess of 25 years.

Maximum

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

ALTERNATE SERVICE PENSION

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

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

Maximum: 65 percent of average monthly salary.

SUPPLEMENTAL 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 receiving service or disability pension benefits.

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 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 one-half percent (effective September 1, 2000) for each year of DROP participation. Effective September 1, 2001, this benefit will be 2% for each year.

Effective November 1, 2007, the DROP period was extended for an additional 3 years, for a total of 13 years, with two modifications. The first modification was that the employee contributions would be added to the DROP account balance for the first 10 years only. Secondly, there would be a maximum of 20 percent of the original monthly benefit added to the benefit at retirement. (No additional 2 percent per year credits are earned for DROP years 11 through 13.) However, the monthly benefit and interest would continue to be posted to the DROP account in the years 11 through 13, and the annual cost of living increase would continue.

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 a full time student.

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. Deferred retirees and survivors of deferred retirees are not eligible. This benefit is not subject to the post-retirement adjustment.

EXCESS BENEFIT

Benefit equal to the excess of any member's 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 on or after October 1, 2000, 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.

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

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, 2010.

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, 2010. 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, 2010. 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, 2010.

REVENUE CAPACITY

The Schedule of Investment Income presents the details of the total net investment gain/loss for the 10 years ending June 30, 2010. 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, 2010.

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, 2010.

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, 2010.

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
2010	$22,728	$74,227	29.40%	$400,468	—	$497,423
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

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
2010	$138,297	$6,172	$277	$144,746
2009	112,164	7,301	347	119,812
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

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

BENEFIT EXPENSES BY TYPE

	2010	2009	2008	2007	2006
Refunds of Contributions	$277,483	$321,282	$347,112	$202,679	$264,965
Death Benefits	255,000	190,000	190,000	225,000	240,000
Deferred Retirees	534,566	529,374	602,773	471,176	466,763
Off-Duty Disabilities	1,299,525	1,619,676	1,692,026	1,385,834	1,433,514
Annual Supplemental Benefit Payments	4,828,773	4,905,980	4,938,010	4,996,204	4,975,774
On-Duty Disabilities	8,464,130	6,944,883	5,973,929	5,962,452	5,762,572
Survivors	16,728,231	14,626,579	13,568,613	12,864,154	11,927,149
DROP Distributions	42,468,145	34,744,795	28,939,800	21,969,057	19,707,773
PROP Distributions	1,230,880	282,917	48,310	—	—
Service Retirees	62,488,177	58,769,866	56,210,375	53,123,105	49,329,361
Total	**$138,574,910**	**$122,935,352**	**$112,510,948**	**$101,199,661**	**$94,107,871**

	2005	2004	2003	2002	2001
Refunds of Contributions	$73,668	$97,363	$125,824	$179,452	$298,726
Death Benefits	185,000	—	—	388,025	—
Deferred Retirees	454,197	438,383	413,387	1,634,500	367,503
Off-Duty Disabilities	1,494,307	1,506,122	1,443,059	4,951,779	1,712,337
Annual Supplemental Benefit Payments	4,973,854	4,956,121	4,971,066	3,114,594	4,965,820
On-Duty Disabilities	5,393,720	4,606,603	3,718,092	7,759,610	2,793,819
Survivors	10,756,585	9,959,839	8,572,203	10,299,394	5,927,926
DROP Distributions	18,920,316	22,931,233	17,587,240	29,671,688	5,426,224
PROP Distributions	—	—	—	—	—
Service Retirees	43,864,143	39,220,294	34,680,317	57,999,042	26,681,845
Total	**$86,115,790**	**$83,715,958**	**$71,511,188**	**$48,174,200**	**$48,174,200**

STATEMENT OF CHANGES IN PLAN NET ASSETS LAST 10 FISCAL YEARS

	2010	2009	2008	2007	2006
Additions					
Employer Contributions	$74,226,664	$71,032,653	$54,051,414	$52,821,473	$48,780,294
Member Contributions	22,728,287	21,858,574	20,431,049	19,981,657	18,470,660
Net Investment Income (net of expenses)	400,468,020	(623,611,871)	108,407,295	426,975,567	321,634,108
Other				1,273,490*	
TOTAL ADDITIONS	**$497,422,971**	**$(530,720,644)**	**$182,889,758**	**$501,052,187**	**$388,885,062**
Deductions					
Total Benefit Expenses (see Benefit Expenses by Type)	138,574,910	122,935,352	112,510,948	101,168,010	94,107,871
Administrative & Professional Expense	6,171,647	6,541,676	7,301,986	7,686,795	6,896,862
TOTAL DEDUCTIONS	**$144,746,557**	**$129,477,028**	**$119,812,934**	**$108,854,805**	**$101,004,733**
Change in Plan Net Assets	352,676,414	(660,197,672)	63,076,824	392,197,382	287,880,329
Net Assets Held in Trust, Beginning of Year	2,368,960,880	3,029,158,552	2,966,081,728	2,573,884,346	2,286,004,017
Net Assets Held in Trust, End of Year	$2,721,637,294	$2,368,960,880	$3,029,158,552	$2,966,081,728	$2,573,884,346

	2005	2004	2003	2002	2001
Additions					
Employer Contributions	32,688,827	28,476,946	27,989,458	28,450,723	24,032,828
Member Contributions	16,355,387	14,238,463	13,994,725	14,218,663	12,019,123
Net Investment Income (net of expenses)	339,584,437	304,224,905	97,380,249	(45,684,920)	(24,229,245)
Other	9,325,726†				
TOTAL ADDITIONS	**$397,954,377**	**$346,940,314**	**$139,364,432**	**$3,015,534**	**$11,822,706**
Deductions					
Total Benefit Expenses (see Benefit Expenses by Type)	86,115,790	83,715,958	71,511,188	57,999,042	48,174,200
Administrative & Professional Expense	6,737,975	5,565,326	4,773,834	5,308,640	4,102,440
TOTAL DEDUCTIONS	**$92,853,765**	**$89,281,284**	**$76,285,022**	**$63,307,682**	**$52,276,640**
Change in Plan Net Assets	305,100,612	257,659,030	63,079,410	(66,323,216)	(40,453,934)
Net Assets Held in Trust, Beginning of Year	1,980,903,405	1,723,244,375	1,660,164,965	1,726,488,181	1,766,942,115
Net Assets Held in Trust, End of Year	$2,286,004,017	$1,980,903,405	$1,723,244,375	$1,660,164,965	$1,726,488,181

* Court judgment income
† Agreed judgment income

SCHEDULE OF INVESTMENT INCOME LAST 10 FISCAL YEARS

	2010	2009	2008	2007	2006
INVESTMENT GAIN (LOSS)					
Net appreciation/(depreciation) in fair value of investments	$320,274,882	$(708,952,033)	$22,032,928	$328,607,064	$250,059,653
Interest	59,421,505	65,169,217	66,866,092	57,664,859	48,722,319
Dividends	18,157,970	19,478,031	20,052,418	31,620,176	20,577,585
Earnings from private equity	6,345,116	4,765,446	4,372,152	11,690,766	8,231,059
Earnings from real estate	2,798,466	2,936,962	2,217,799	3,198,074	2,186,004
Miscellaneous	861,008	372,184	1,256,464	3,092,051	511,678
	$407,858,947	**$(616,230,193)**	**$116,797,853**	**$435,872,990**	**$330,288,298**
Investment expenses	$(7,854,253)	$(6,781,837)	$(9,986,181)	$(10,182,092)	$(10,094,588)
Net gain (loss) from investing activities	400,004,694	(623,012,030)	106,811,672	425,690,898	320,193,710
FROM SECURITIES LENDING ARRANGEMENTS:					
Earnings	613,308	2,401,121	15,021,367	31,784,258	23,779,889
Rebates and fees	(149,982)	(1,388,442)	(13,425,744)	(30,499,589)	(22,339,491)
Loss on default in collateral pool		(1,612,520)			
Net income from securities lending activities	463,326	(599,841)	1,595,623	1,284,669	1,440,398
Total Net Investment Gain (Loss)	**$400,468,020**	**$(623,611,871)**	**$108,407,295**	**$426,975,567**	**$321,634,108**

	2005	2004	2003	2002	2001
INVESTMENT GAIN (LOSS)					
Net appreciation/(depreciation) in fair value of investments	$275,802,362	$252,764,028	$43,573,461	$(101,151,952)	$(79,977,341)
Interest	40,657,595	38,617,796	48,917,175	53,151,937	40,332,573
Dividends	19,360,917	15,475,695	10,391,086	7,565,826	13,321,776
Earnings from private equity	9,085,203	8,186,731	4,661,330	3,629,143	7,758,950
Earnings from real estate	1,788,456	2,462	7,322	290,719	—
Miscellaneous	494,472	390,839	306,605	600,034	—
	$347,189,005	**$315,437,551**	**$107,856,979**	**$(35,914,293)**	**$(18,564,042)**
Investment expenses	$(8,743,758)	$(11,965,521)	$(10,943,000)	$(10,236,831)	$(6,130,040)
Net gain (loss) from investing activities	338,445,247	303,472,030	96,913,979	(46,151,124)	(24,694,082)
FROM SECURITIES LENDING ARRANGEMENTS:					
Earnings	10,458,544	3,510,375	2,034,529	2,993,651	6,055,282
Rebates and fees	(9,319,354)	(2,757,500)	(1,568,259)	(2,527,447)	(5,590,445)
Net income from securities lending activities	1,139,190	752,875	466,270	466,204	464,837
Total Net Investment Gain (Loss)	**$339,584,437**	**$304,224,905**	**$97,380,249**	**$(45,684,920)**	**$(24,229,245)**

NUMBER OF BENEFIT RECIPIENTS BY TYPE AND MONTHLY BENEFIT AMOUNT

(As of June 30, 2010)

Monthly Benefit Amount	Total Number of Benefit Recipients	Service	Disability	Widows	Children	Dependent Parent	Deferred	Inactive Deferred
$1 - $200	0	0	0	0	0	0	0	0
$201 - $400	27	0	0	4	6	0	17	0
$401 - $600	44	0	0	9	1	0	34	0
$601 - $800	41	0	1	10	15	0	15	4
$801 - $1000	36	1	1	11	13	0	10	4
$1001 - $1200	25	4	4	15	1	0	1	0
$1201 - $1400	52	15	6	23	6	0	2	0
$1401 - $1600	75	20	21	32	2	0	0	0
$1601 - $1800	104	34	18	49	3	0	0	0
$1801 - $2000	139	55	40	44	0	0	0	0
Over $2000	2,057	1,566	188	289	13	1	0	0
TOTALS	**2,600**	**1,695**	**279**	**486**	**60**	**1**	**79**	**8**

Note: Inactive deferred retirees are not included in the totals 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 2009 – JUNE 2010			
Number of Service Retirements	2	50	57
Average Monthly Benefit	$3,014	$3,195	$4,420
Average Final Average Salary	$5,533	$4,303	$4,461
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

PARTICIPATING EMPLOYER AND ACTIVE MEMBERS

City of Houston	Active Members	Percentage of Covered Employees
2010	3,911	100%
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%

Some of these terms are used in the Investment section, beginning on page 35. 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

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