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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, 2011



# HOUSTON FIREFIGHTERS' RELIEF AND RETIREMENT FUND

2011 COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR  
FISCAL YEAR ENDED JUNE 30, 2011

A Component Unit of the City of Houston, Texas

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

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# September

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SECTION 1

# INTRODUCTION

**HOUSTON FIREFIGHTERS'  
RELIEF AND RETIREMENT FUND**



Investing for Firefighters  
and Their Families®

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**BOARD OF TRUSTEES**

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**FRED S. ROBERTSON**  
Mayor's Representative

**HONORABLE HELEN HUEY**  
Citizen Member

**ALBERTINO "AL" MAYS**  
Citizen Member

**EXECUTIVE DIRECTOR/  
CHIEF INVESTMENT OFFICER**  
**CHRISTOPHER E. GONZALES**

**LETTER OF TRANSMITTAL**

December 15, 2011

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, 2011, 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 28th 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.

### INVESTMENT MILESTONES

Fiscal year 2011 turned out to be a superb year for the Fund. The Fund returned 20.6% on its investment assets. This return outpaced the Fund's Policy targets and peers by a large degree. Once again, the outstanding performance can be attributed to a strict discipline to our investment strategy and process. Modest changes were made to the portfolio during the year in order to stay within Policy allocation 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 reporting process for traditional markets, fair value considerations for private markets and comprehending the Fund's investment performance report and financial statements. Investment education provides a foundation for the Investment Committee to possess the confidence necessary to make informed and prudent decisions.

### FUND MILESTONES

For the fourth straight fiscal year, the Board and staff significantly reduced Fund expenses by creating new efficiencies to the operation and by prudently managing the budgeted expenses. 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.

### ADMINISTRATION, STAFF AND PROFESSIONAL SERVICES

At fiscal year-end, the Fund staff was made up of 28 full-time employees. The following professionals were employed by the Board of Trustees as of June 30, 2011, 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 35.

### 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 concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the evaluation of costs and benefits requires estimates and judgments by management.

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 and advice 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 2011, 2010 and 2009.

	2011 (millions)	2010 (millions)	2009 (millions)
<b>BEGINNING NET ASSETS</b>	\$2,722	\$2,369	\$3,029
Additions	645	498	(531)
Deductions	164	145	129
Net Change	481	353	(660)
<b>ENDING NET ASSETS</b>	\$3,203	\$2,722	\$2,369

## 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% 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 2010 valuation, the actuarial value of assets was \$3.12 billion; the aggregate actuarial liability for the Fund's members was \$3.34 billion. The funding ratio is currently 93.4 — that is, current assets cover 93.4% of the benefits accrued to date by active and retired members and beneficiaries. This is slightly lower than the 95.4% in the July 2009 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, 2011, 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, 2010. This was the 28th 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.

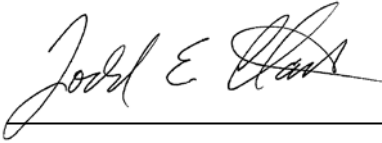
A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

**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,



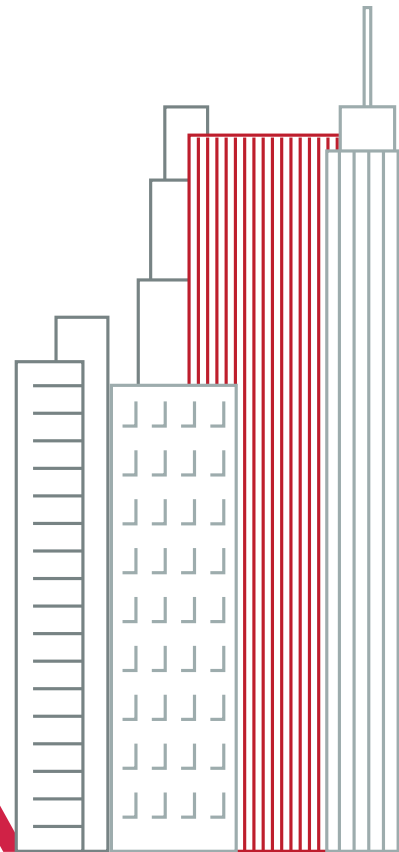
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TODD E. CLARK,  
Chairman



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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**

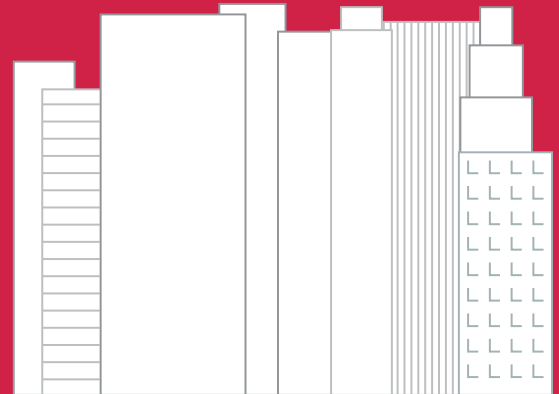
Buck Consultants

**AUDITOR**

MFR, P.C.

**CUSTODIAN BANK**

Bank of New York Mellon



**INVESTMENT ADVISORS**

- AllianceBernstein Institutional Investment Management
- ARCIS
- Ariel Capital Management
- Aurora, LLC
- BlackRock
- The Blackstone Group
- Brera Capital Partners, LLC
- Bridgewater Associates
- Capital Dynamics
- Centennial Holdings
- Coller Investment Management Limited
- Credit Suisse
- Drum Capital
- Energy Spectrum Partners
- Energy Trust, LLC
- GW Capital, Inc.
- HM Capital
- 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 43.

## 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 63.

## 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, 2011 and 2010.

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, 2011 and 2010.

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 46).

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, 2011 and 2010, 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, 2011, and changes therein for the year then ended and its financial status as of June 30, 2010, 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. This information has been subjected to the auditing procedures applied in our audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basis financial statements themselves and other additional procedures in accordance with auditing standards generally accepted in the United States of America in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 27, 2011  
 One Riverway Suite 1200  
 Houston, Texas 77056  
 713.622.1120  
 713.961.0625 Fax  
 www.mfrpc.com



Management is pleased to present a discussion and analysis of the Houston Firefighters' Relief and Retirement Fund (the Fund) financial activity for the fiscal years ended June 30, 2011, 2010 and 2009. 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 2011	Fiscal Year 2010	Fiscal Year 2009
<b>ASSETS</b>			
Investments	\$3,174,274,276	\$2,685,644,022	\$2,362,405,733
Capital assets (net of depreciation):			
Land and building	6,501,665	6,806,037	7,108,860
Furniture, fixtures and equipment	1,705,518	1,236,078	641,958
Other	266,293,422	258,893,581	157,489,119
Total assets	3,448,774,881	2,952,579,718	2,527,645,670
<b>LIABILITIES</b>			
Short-term liabilities	245,694,520	230,942,424	158,684,790
Total net assets	\$3,203,080,361	\$2,721,637,294	\$2,368,960,880

Plan net assets at the end of fiscal year 2011, 2010 and 2009 totaled \$3,203,080,361, \$2,721,637,294, and \$2,368,960,880, respectively. The increase in plan net assets for fiscal year 2011 is due to positive returns from all asset classes, demonstrated by the fiscal year return of 20.6%. The biggest contributors to performance were domestic and international equity, followed by alternative assets, fixed income, private equity, and real estate. In fiscal year 2010, the increase in plan net assets was due primarily to the positive market returns from fixed income, equities (public and private) and alternative assets.

SUMMARY COMPARATIVE STATEMENT OF CHANGES IN PLAN NET ASSETS	Fiscal Year 2011	Fiscal Year 2010	Fiscal Year 2009
Beginning net assets	\$2,721,637,294	\$2,368,960,880	\$3,029,158,552
<b>ADDITIONS (REDUCTIONS) TO NET ASSETS, NET:</b>			
Contributions	99,014,107	96,954,951	92,891,227
Net de/appreciation in fair value of investments	462,347,334	320,274,882	(708,952,033)
Interest income	61,368,886	59,421,505	65,169,217
Dividends	22,548,215	18,157,970	19,478,031
Net activity from securities lending	634,548	463,326	(599,841)
Earnings from private equity and real estate investments	7,293,304	9,143,582	7,702,408
Other income	409,183	861,008	372,184
Less cost of investment services	(8,664,197)	(7,854,253)	(6,781,837)
Net investment and other (loss) income	545,937,273	400,468,020	(623,611,871)
Total additions (reductions) to net assets, net	644,951,380	497,422,971	(530,720,644)
<b>DEDUCTIONS FROM NET ASSETS:</b>			
Benefits	156,604,589	138,297,427	122,614,070
Other	6,903,724	6,449,130	6,862,958
Total deductions from net assets	163,508,313	144,746,557	129,477,028
<b>NET INCREASE (DECREASE) IN NET ASSETS</b>	<b>\$481,443,067</b>	<b>\$352,676,414</b>	<b>\$(660,197,672)</b>
<b>ENDING NET ASSETS</b>	<b>\$3,203,080,361</b>	<b>\$2,721,637,294</b>	<b>\$2,368,960,880</b>

## ADDITIONS

### CONTRIBUTIONS

The funds needed to finance retirement benefits are accumulated through the collection of employee and employer contributions and through income on investments. These are offset by plan deductions. The amounts contributed by employee members for the last three fiscal years were \$23,262,706 (fiscal year 2011), \$22,728,287 (fiscal year 2010), and \$21,858,574 (fiscal year 2009). Employer contributions for the last three years were \$75,751,401 (fiscal year 2011), \$74,226,664 (fiscal year 2010), and \$71,032,653 (fiscal year 2009).

In fiscal years 2011 and 2010, the employer and employee contributions increased when compared to fiscal years 2010 and 2009, primarily because of contractual salary increases.

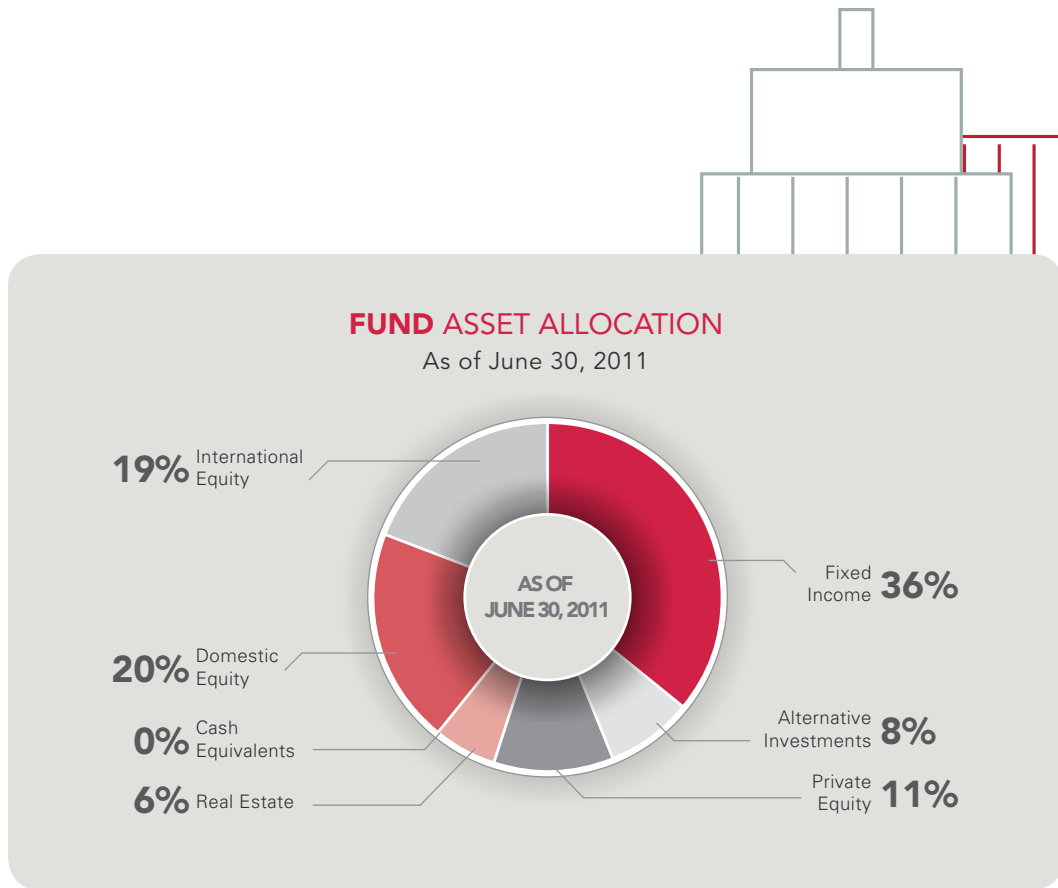
**NET INVESTMENT AND OTHER INCOME**

The Fund's overall financial position grew in fiscal year 2011 with an overall investment return of 20.6%. During the fiscal year, all seven asset classes in which the Fund invests appreciated in value. This is an improvement over fiscal year 2010 where only five of the seven asset classes in which the Fund invested appreciated in value. This year's performance can be attributed to outsized returns of 39% and 30.6% from U.S. and international equities, respectively.

At June 30, 2011, U.S. and international equities represented approximately 39% of the Fund's investments, domestic and international bond investments represented 36%, real estate

represented 6% and alternatives represented 19% (private equity 11% and hedge funds 8%). The remaining assets represented by cash equivalents amounted to less than 1%.

In fiscal year 2011, the Fund's positive return increased the portfolio's market value to more than \$3.2 billion, by total market appreciation of approximately \$645 million. The investment appreciation can be attributed to investments in domestic equity, international equity, fixed income, private equity, alternatives (hedge funds), real estate, and cash, listed in order of their contribution to the total fund return.



## 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 2011, 2010, and 2009 totaled \$163,508,313, \$144,746,557, and \$129,477,028, respectively. This represents a net increase of approximately 12.96% between fiscal years 2011 and 2010 and an increase of approximately 11.79% between fiscal years 2010 and 2009.

### BENEFITS PAID TO MEMBERS

The 13.24% increase of benefits paid to members during fiscal year 2011 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).

## NET ASSETS

Total additions to the Fund in fiscal year 2011 were \$644,951,380 and total deductions were \$163,508,313 thereby increasing the Fund net assets by \$481,443,067. In fiscal year 2010, the Fund's

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 three years.

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

### PROFESSIONAL AND ADMINISTRATIVE EXPENSES

Professional and administration deductions increased between fiscal years 2011 and 2010 and decreased between fiscal years 2010 and 2009 by 6.46% and 5.66%, respectively. The increase in fiscal year 2011 is primarily due to an increase in depreciation as new software equipment had been implemented and the addition of personnel and its expense. During fiscal year 2010, the decrease was primarily due to changes in personnel and a decrease in insurance, printing, utilities expenses and a drop in depreciation expenses.

net assets increased by \$352,676,414 and in fiscal year 2009, the Fund's net assets decreased by \$660,197,672.

## ACTUARY VALUATION INFORMATION

The Fund, by statute, may adopt an actuarial valuation once every three years in order to establish the City's contribution rate. In February 2008, the Board of Trustees adopted the finalized July 1, 2007 actuarial valuation, increasing the City's contribution rate to 29.4% effective July 1, 2008, while leaving the members' contribution rate at 9%. The July 1, 2007 actuarial report also indicates the Fund has a funding ratio of 91%.

The Board adopted the July 1, 2007 actuarial valuation after careful consideration of more recent 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% 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 32). 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 32). This schedule indicates that the employer is generally meeting their responsibility to provide resources to the Fund.

It should be noted that in January 2011, the Board of Trustees adopted the finalized July 1, 2010 actuarial valuation causing a decrease in the City's contribution rate to 23.9%, effective July 1, 2011. The valuation left the members' contribution rate the same at 9%. This reports also indicates the Fund has a funding ratio of 93%.

## 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, 2011 and 2010)

<b>ASSETS</b>	<b>2011</b>	<b>2010</b>
<b>INVESTMENTS, AT FAIR VALUE:</b>		
Short-term investment funds	\$49,520,698	\$69,376,467
Fixed income:		
Domestic	819,527,084	720,176,846
International	254,764,391	226,641,362
Common equity:		
Domestic	618,716,454	462,152,907
International	620,471,626	464,497,813
Preferred equity:		
Domestic	1,040,605	733,151
International		4,831,640
Alternatives	271,884,045	250,345,905
Private equity	361,350,452	336,251,714
Real estate	176,998,921	150,636,217
<b>TOTAL INVESTMENTS</b>	<b>\$3,174,274,276</b>	<b>\$2,685,644,022</b>
Cash and cash equivalents	4,994,702	15,850,900
<b>RECEIVABLES:</b>		
Accrued interest	15,222,723	13,463,319
Due from broker recapture	17,187	6,524
Due from securities lending	83,965	50,654
Foreign funds contracts	1,557,324	10,423,068
Receivables for investments sold	3,549,231	11,729,591
Accrued dividends	2,112,853	3,301,089
City of Houston contributions	3,819,118	4,021,771
Member contributions	1,244,326	1,205,442
Other	26,064	25,134
<b>TOTAL RECEIVABLES</b>	<b>\$27,632,791</b>	<b>\$44,226,592</b>
Collateral on securities lending arrangements, at fair value	233,410,075	198,671,732
Land	483,325	483,325
Building, net	6,018,340	6,322,712
Furniture, fixtures and equipment, net	1,705,518	1,236,078
Prepays (operating)	255,854	144,357
<b>TOTAL ASSETS</b>	<b>\$3,448,774,881</b>	<b>2,952,579,718</b>
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$4,873,036	\$5,163,197
Payables for investments purchased	5,782,408	16,557,017
Foreign taxes payable	80,300	96,091
Foreign funds contracts payable	1,548,701	10,454,387
Collateral on securities lending arrangements, at fair value	233,410,075	198,671,732
<b>TOTAL LIABILITIES</b>	<b>\$245,694,520</b>	<b>\$230,942,424</b>
Plan net assets held in trust for pension benefits	<b>\$3,203,080,361</b>	<b>\$2,721,637,294</b>

See accompanying notes to basic financial statements.

## STATEMENTS OF CHANGES IN PLAN NET ASSETS

(June 30, 2011 and 2010)

	2011	2010
<b>ADDITIONS (REDUCTIONS) TO PLAN NET ASSETS, NET:</b>		
Contributions:		
City of Houston	\$75,751,401	\$74,226,664
Members	23,262,706	22,728,287
<b>TOTAL CONTRIBUTIONS</b>	<b>\$99,014,107</b>	<b>\$96,954,951</b>
Net investment income (loss):		
Net appreciation (depreciation) in fair value of investments	462,347,334	320,274,882
Interest	61,368,886	59,421,505
Dividends	22,548,215	18,157,970
Earnings from private equity	4,718,560	6,345,116
Earnings from real estate	2,574,744	2,798,466
Other	409,183	861,008
Securities lending arrangements:		
Earnings	784,926	613,308
Rebates and fees	(150,378)	(149,982)
<b>TOTAL SECURITIES LENDING ARRANGEMENTS</b>	<b>\$634,548</b>	<b>\$463,326</b>
Gross investment income (loss)	554,601,470	408,322,273
Less: investment services expense	(8,664,197)	(7,854,253)
Net investment income (loss)	545,937,273	400,468,020
<b>TOTAL ADDITIONS (REDUCTIONS) TO PLAN NET ASSETS, NET</b>	<b>\$644,951,380</b>	<b>\$497,422,971</b>

	2011	2010
<b>DEDUCTIONS FROM PLAN NET ASSETS:</b>		
Benefits paid to members	\$156,604,589	\$138,297,427
Contribution refunds to members	332,417	277,483
Professional services	836,237	740,170
Administrative expenses	5,735,070	5,431,477
<b>TOTAL DEDUCTIONS FROM PLAN NET ASSETS</b>	<b>\$163,508,313</b>	<b>\$144,746,557</b>
Net increase (decrease) in plan net assets	481,443,067	352,676,414
Plan net assets held in trust for pension benefits, beginning of year	2,721,637,294	2,368,960,880
<b>PLAN NET ASSETS HELD IN TRUST FOR PENSION BENEFITS, END OF YEAR</b>	<b>\$3,203,080,361</b>	<b>\$2,721,637,294</b>

See accompanying notes to basic financial statements.

## 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 and their survivors. At June 30, 2011 and 2010, the membership of the Fund consisted of the following:

	2011	2010
Retirees and beneficiaries currently receiving benefits	2,720	2,600
Former members entitled to benefits but not yet receiving them	7	8
<b>ACTIVE MEMBERS:</b>		
Vested	1,984	1,990
Nonvested	1,877	1,921
<b>TOTAL MEMBERS</b>	<b>6,588</b>	<b>6,519</b>

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, 2011 and 2010, the active members' contribution rate was 9% and the City's contribution rate was 29.4%. The Fund's contributions are reduced by the contributions to the replacement benefit plan.

### 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% 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 benefits 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 5% annually, maximum of 10% 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**

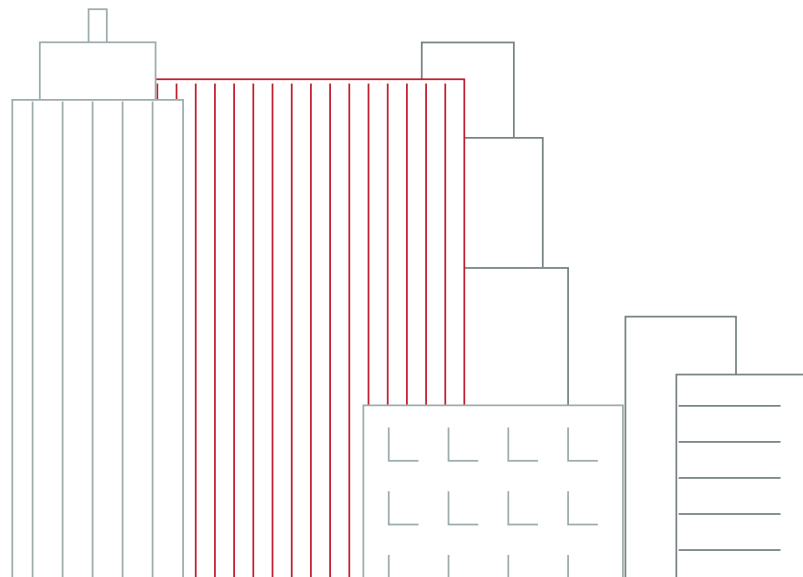
Service-connected disability benefits are 50% of average monthly salary (occupational), or 75% of average monthly salary (general), or the service retirement, if it is greater and if the member is eligible. Non service-connected disability benefits amount to 25% of average monthly salary, plus 2.5% of 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 their 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.



## 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 investments are valued by the investment manager and are based on independent appraisals. Directly held real estate is valued based on independent appraisals. With the exception of certain energy related private equity investments that are valued on an income tax basis, 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.

Accounting principles generally accepted in the United States of America require Fund's management to evaluate tax positions taken by the Fund and recognize a tax liability (or asset) if the Fund

has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Fund management has analyzed the tax positions taken by the Fund, and has concluded that as of June 30, 2011 and 2010, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the basic financial statements. The Fund is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

**RECENT ACCOUNTING PRONOUNCEMENTS**

GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*.

Statement No. 64 will improve financial reporting by State and local governments by clarifying the circumstances in which hedge accounting continues to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced.

This statement is intended to clarify GASB Statement No. 53, which was previously implemented by the Fund. The provisions of this statement are effective for financial statements for periods beginning after June 15, 2011. Management believes that this statement will have no significant effect on the Fund's financial statements.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*.

This statement is intended to improve financial reporting by providing citizens and other users of State and local government financial reports with information about how past transactions will continue to impact a government's financial statements in the future.

This statement provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position (which is the net residual amount of the other elements). The statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. The statement also discusses how net position (no longer net assets) should be displayed. Ultimately, this new framework will serve to standardize the presentation of deferred balances and their effects on a government's net position and address uncertainty related to their display.

The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011. The Fund will implement this statement for the year ending June 30, 2012.

GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*

This statement is intended to enhance the usefulness of the GASB's Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board (FASB)

and American Institute of Certified Public Accountants (AICPA) pronouncements.

This statement incorporates into the GASB's authoritative literature, the applicable guidance previously presented in the following pronouncements issued before November 30, 1989:

- FASB Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the AICPA's Committee on Accounting Procedure

By incorporating and maintaining this guidance in a single source, the statement reduces the complexity of locating and using authoritative literature needed to prepare State and local government financial reports.

The requirements of Statement No. 62 are effective for financial statements for periods beginning after December 15, 2011. Management expects no changes in the Fund's financial report as a result of implementing this statement.

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, and
- 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 requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. This statement has been implemented by the Fund with no significant effect on the financial statements.

## 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 years 2011 and 2010 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 effective member's contribution rate is 9%.

Actuarially determined contribution requirements	June 30, 2011*	June 30, 2010*
Employer normal cost	\$55,366,607	\$54,285,416
Member normal cost	23,254,355	22,722,166
Total normal cost	78,620,962	77,007,582
Plus: Additional Statutory Requirement	20,393,145	19,947,369
<b>NET CONTRIBUTIONS REQUIRED</b>	<b>\$99,014,107</b>	<b>\$96,954,951</b>
Employer contributions actually made	75,751,401	74,226,664
Member contributions actually made	23,262,706	22,728,287
<b>TOTAL CONTRIBUTIONS</b>	<b>\$99,014,107</b>	<b>\$96,954,951</b>

\*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 contribution rate will remain in effect until June 30, 2011. 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 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% 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 January 2011, the Board of Trustees adopted the July 1, 2010 actuary valuation for financial statement reporting for fiscal year ended June 30, 2011. In addition, the Fund's Board adopted the July 1, 2010 actuary valuation to establish the City's contribution rate effective July 1, 2011. The City's actuarially determined contribution rate will be 23.9% with the active members' contribution remaining at 9%.

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, 2010, the most recent actuarial valuation date, is as follows (dollar amounts in millions):

Actuarial Valuation Date	7/01/10
Actuarial Value of Assets (AVA)	\$ 3,116.8
Actuarial Accrued Liability (AAL)	\$ 3,337.5
Unfunded AAL (UAAL)	\$ 220.6
AVA as a Percentage of AAL	93%
Covered Payroll	\$ 265.8
UAAL as a Percentage of Covered Payroll	83%

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, 2010 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 RP-2000 Mortality Table

### HISTORICAL TREND INFORMATION

Historical trend information is provided as required supplemental information on pages 32 through 33. 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.

## 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:

	2011	2010
Short-term investment funds	\$49,520,698	\$69,376,467
Fixed income	1,074,291,475	946,818,208
Common equity	1,239,188,080	926,650,720
Preferred equity	1,040,605	5,564,791
Alternative investments	271,884,045	250,345,905
Private equity	361,350,452	336,251,714
Real estate	176,998,921	150,636,217
<b>TOTAL INVESTMENTS</b>	<b>\$3,174,274,276</b>	<b>\$2,685,644,022</b>

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 risk 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, 2011 and 2010, 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 and Alternative Investments**

1. The specific guidelines along with contractual requirements for each manager will be developed cooperatively by the Fund’s investment staff, legal counsel, and the investment manager and shall be incorporated into an Investment Management Agreement or other binding agreement as is appropriate for the investment.

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, strategy, and structure 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 best execution.
- 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 CIO 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 assistance from the investment staff shall monitor each 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 a manager if they deem it appropriate at any time. Quantitative and qualitative performance measures shall be monitored as are appropriate to each investment.

**Private Market Investments**

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.

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:

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 investment staff shall monitor each 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 a manager if they deem it appropriate at any time. Quantitative and qualitative performance measures shall be monitored as are appropriate to each investment.

As of June 30, 2011 and 2010, 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, 2011, the following table shows the Fund's investments by type, with weighted average maturity and fair value:

	<b>Weighted Average Maturity</b>	<b>Fair Value</b>
Asset Backed Securities	12.18	\$23,823,532
Consumer Discretionary	4.52	6,412,290
Corporate Debt	17.04	653,691,082
Energy	22.93	5,684,130
Financials	6.71	4,885,650
FHLM/FNMA	1.49	2,874,816
General Obligations	25.59	4,302,021
Healthcare	8.73	7,891,288
Industrials	11.31	8,244,860
Information Technology	15.06	16,166,413
Materials	3.53	3,595,275
Non-U.S. Corporate	4.90	82,755,243
Non-U.S. Government Issues	1.07	26,485,344
Revenue Bonds	29.76	36,475,599
Telecommunication Services	0.00	5,008,500
U.S. Convertibles	27.95	667,800
U.S. Fixed Income Funds	0.00	1,432,424
U.S. Government Issues	11.66	48,622,574
U.S. Private Placements	12.83	111,198,697
U.S. Taxable Muni Bonds	23.64	20,880,513
Utilities	17.56	3,193,424
<b>TOTAL FIXED INCOME SECURITIES</b>		<b>\$1,074,291,475</b>

**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, 2011 is as follows:

<b>Quality Rating</b>	<b>Fair Value</b>	<b>Percentage of Holdings</b>
AGY	\$2,874,816	0.09%
A1	16,699,269	0.53%
A2	156,480,895	4.92%
A3	153,914,512	4.84%
AA1	13,929,412	0.44%
AA2	45,764,320	1.44%
AA3	56,574,878	1.78%
AAA	101,390,865	3.19%
B1	16,062,701	0.51%
B2	21,992,834	0.69%
B3	33,832,527	1.06%
BA1	39,982,010	1.26%
BA2	21,135,505	0.66%
BA3	33,151,407	1.04%
BAA1	79,252,381	2.49%
BAA2	69,685,680	2.19%
BAA3	105,152,211	3.31%
C	822,900	0.03%
CA	7,490,238	0.24%
CAA1	11,491,438	0.36%
CAA2	17,979,774	0.57%
CAA3	6,206,322	0.20%
Not rated	13,802,006	0.43%
<b>TOTAL CREDIT RISK DEBT SECURITIES*</b>	<b>\$1,025,668,901</b>	<b>32.27%</b>

\*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, 2011 is as follows:

	Fair Value	Percentage of Holdings
Euro Currency Unit	\$139,844,210	4.40%
Japanese Yen	84,245,672	2.65%
British Pound Sterling	64,304,558	2.02%
Swiss Franc	49,726,405	1.56%
Canadian Dollar	38,974,577	1.23%
Hong Kong Dollar	23,260,747	0.73%
Australian Dollar	18,375,771	0.58%
Singapore Dollar	14,445,498	0.45%
Norwegian Krone	14,269,476	0.45%
Indonesian Rupian	12,290,959	0.39%
Mexican New Peso	11,652,235	0.37%
New Zealand Dollar	11,622,725	0.37%
Brazil Real	11,227,239	0.35%
South Korean Won	10,436,075	0.33%
Thailand Baht	6,274,677	0.20%
Swedish Krona	6,054,557	0.19%
Danish Krone	3,356,139	0.11%
New Taiwan Dollar	1,816,797	0.06%
Chinese Yuan Renminbi	7,685	0.00%
Philippines Peso	4,608	0.00%
<b>TOTAL SECURITIES SUBJECT TO FOREIGN CURRENCY RISK</b>	<b>\$522,190,610</b>	<b>16.44%</b>

Schedule 4 on page 35 lists the Fund's investment and professional service providers.

**ALTERNATIVE INVESTMENTS**

As of June 30, 2011 and 2010, the Fund was invested in various limited partnerships and other alternative investment strategies including hedge funds as detailed in the following chart:

<b>Market Value of the Fund's Interest</b>		
<b>Investment Type</b>	<b>June 30, 2011</b>	<b>June 30, 2010</b>
Private Equity	\$361,350,452	\$336,251,714
Hedge Funds	271,884,045	250,345,905
	<b>\$633,234,497</b>	<b>\$586,597,619</b>

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, 2011 and 2010, the Fund recognized a gain of \$8,623 and a loss of \$31,319, 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:

<b>FAIR VALUE AT JUNE 30</b>			
<b>Derivative</b>	<b>Classification</b>	<b>2011</b>	<b>2010</b>
FX Forwards	Investment Revenue	\$8,623	\$(31,319)

**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 2011 and 2010. 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.

## 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, 2011 and 2010, the Fund's cash deposits in bank accounts totaled \$4,994,702 and \$15,850,900, respectively, that are in demand deposit accounts subject to coverage by Federal

depository insurance but not collateralized. 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.

## FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

During fiscal years 2011 and 2010, 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. No such losses occurred during fiscal years 2011 or 2010. 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.

No active investment manager was employed by the Fund during fiscal year 2011 or 2010 for the sole purpose of managing foreign currency risk. External investment managers, investing on the Fund's behalf, may enter into forward foreign currency contracts to facilitate security transactions in international markets.

## 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:

	2011	2010
Building	\$9,171,090	\$9,165,952
Less accumulated depreciation	(3,152,750)	(2,843,240)
<b>BUILDING, NET</b>	<b>\$6,018,340</b>	<b>\$6,322,712</b>

## FURNITURE, FIXTURES AND EQUIPMENT

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

	2011	2010
Office furnishings and equipment	\$767,450	\$767,450
Computer software and hardware	4,072,406	2,434,017
Furniture, fixtures and equipment subject to depreciation	4,839,856	3,201,467
Less accumulated depreciation	(3,134,338)	(2,966,968)
Net amount subject to depreciation	1,705,518	234,499
Software in development phase	0	1,001,579
<b>FURNITURE, FIXTURES, AND EQUIPMENT, NET</b>	<b>\$1,705,518</b>	<b>\$1,236,078</b>

## 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:

	2011		2010	
	Securities Lent	Collateral Held	Securities Lent	Collateral Held
Fixed income	\$127,830,821	\$130,856,010	\$87,793,010	\$89,871,129
Common and preferred stocks	99,109,993	102,554,065	105,130,138	108,800,603
	<b>\$226,940,814</b>	<b>\$233,410,075</b>	<b>\$192,923,148</b>	<b>\$198,671,732</b>

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, 2011 and 2010. 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 32 days and 36 days as of June 30, 2011 and 2010, 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, 2011 and 2010, securities lending transactions were collateralized in cash.

## RELATED PARTY

During fiscal years 2011 and 2010, the Plan utilized the services of investment management companies, in which the Plan owns an

interest. Manager fees of approximately \$481,388 and \$901,428 were paid in fiscal years 2011 and 2010, respectively, to these companies.

## 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.

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 2011 and 2010, the Fund contributed \$400,440 and \$395,078, respectively, to the Profit Sharing Plan.

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

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.

## 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, 2011 and 2010, aggregate contributions from active members of the Fund with less than ten years of service were \$44,719,533 and \$41,661,919, respectively. Contributions for employees with 10 to 20 years of service have not been determined. As of June 30, 2011 and 2010, 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 \$283,000,000 and \$268,000,000 as of June 30, 2011 and 2010, 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, 2011 and 2010, 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.

## 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.

## SUBSEQUENT EVENTS

In January 2011, the Fund's Board adopted the July 1, 2010 actuary valuation to establish the City's contribution rate effective July 1, 2011. The City's actuarially determined contribution rate will be 23.9% with the active members' contribution remaining at 9%. The adoption of the July 1, 2010 actuary valuation included changes to three assumptions. The assumptions changed were the following: (1) update to the RP-2000 Mortality Table from

the 1994 Group Annuity Mortality Table, (2) an increase to the highest 78-pay period load from 3% to 5%, and (3) an update to the retirement rate schedules.

Management of the Fund has evaluated subsequent events through October 27, 2011, 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
7-1-00	\$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	1,970.2	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	2,325.0	2,670.9	87%	345.9	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%
7-1-10	3,116.8	3,337.5	93%	220.6	265.8	83%

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.

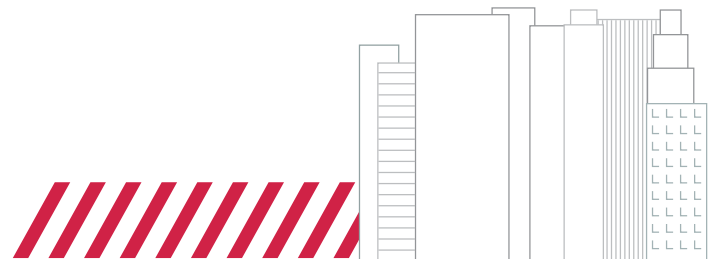
See accompanying note to required supplemental schedules.  
See accompanying independent auditors' report.

**SCHEDULE 2**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS (UNAUDITED)**

(dollars in thousands)

YEAR ENDED JUNE 30	ANNUAL REQUIRED CONTRIBUTION	PERCENTAGE CONTRIBUTED
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%
2011	75,751	100%



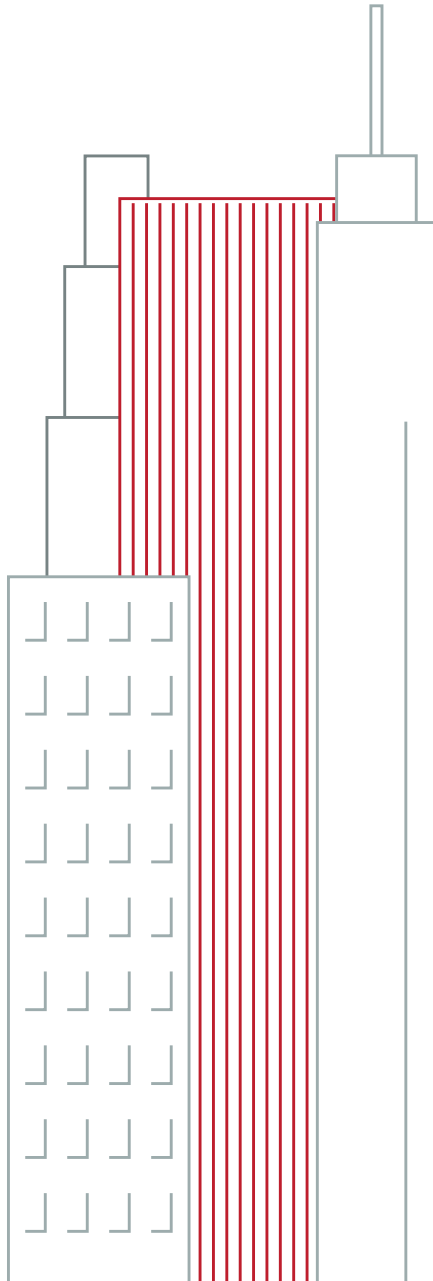
Contributions were made in accordance with actuarially determined contribution requirements as adopted by the Board of Trustees.

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



**NOTE TO REQUIRED SUPPLEMENTAL SCHEDULES (UNAUDITED)**

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



Valuation date	July 1, 2010
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
<b>ACTUARIAL ASSUMPTIONS:</b>	
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	RP-2000 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.
<b>DROP DURATION</b>	
<b>DURATION OF DROP AT RETIREMENT</b>	<b>PERCENTAGE OF PARTICIPANTS ELECTING AT THE RETIREMENT SPECIFIED DURATION</b>
0	10%
3	10%
5	10%
8	30%
10	40%

The adoption of the July 1, 2010 actuary valuation for *financial statement reporting purposes* included changes to three assumptions. The assumptions changed were the following: (1) update to the RP-2000 Mortality Table from the 1994 Group Annuity Mortality Table, (2) an increase to the highest 78-pay period load from 3% to 5%, and (3) an update to the retirement rate schedules.

See accompanying independent auditors' report.

## SCHEDULE 3

## INVESTMENT, PROFESSIONAL SERVICES AND ADMINISTRATIVE EXPENSES

(Years Ended June 30, 2011 and 2010)

	2011	2010
<b>INVESTMENT SERVICES:</b>		
Custodial services	\$406,981	\$380,163
Money management services	8,257,216	7,474,090
<b>Total Investment Services</b>	<b>\$8,664,197</b>	<b>\$7,854,253</b>
<b>PROFESSIONAL SERVICES:</b>		
Actuarial services	\$167,465	\$110,700
Audit and accounting services	33,327	34,996
Consulting and professional services	405,623	411,923
Legal services	196,752	163,129
Medical examinations	33,070	19,422
<b>Total Professional Services</b>	<b>\$836,237</b>	<b>\$740,170</b>
<b>ADMINISTRATIVE EXPENSES:</b>		
Depreciation	\$477,082	\$412,401
Continuing education	103,070	116,156
Furniture, equipment and supplies	32,084	33,350
Insurance	709,607	717,413
Investment research	91,533	91,061
Office cost	4,018,136	3,743,943
Facility maintenance	131,024	150,831
Utilities	172,534	166,322
<b>Total Administrative Expenses</b>	<b>\$5,735,070</b>	<b>\$5,431,477</b>

See accompanying independent auditors' report.



## SCHEDULE 4

## SUMMARY OF INVESTMENT AND PROFESSIONAL SERVICES

Year Ended June 30, 2011

Mellon Trust	Custodian	\$406,981	Custodial
Ariel Capital Management	Investment manager	554,590	Money management
AllianceBernstein	Investment manager	934,189	Money management
The Mitchell Group	Investment manager	597,166	Money management
Mercator	Investment manager	1,311,650	Money management
Marvin & Palmer	Investment manager	840,277	Money management
McKinley Capital	Investment manager	907,513	Money management
Mellon Capital LCV	Investment manager	43,978	Money management
Mellon Capital EM	Investment manager	148	Money management
Victory Capital	Investment manager	506,637	Money management
GW Capital	Investment manager	244,993	Money management
Loomis Sayles "A" and "B"	Investment manager	981,343	Money management
Standish/Mellon Bond "STIF"	Investment manager	101,139	Money management
STW Fixed Income Mgmt "A"	Investment manager	698,671	Money management
STW Fixed Income Mgmt "B"	Investment manager	93,089	Money management
Texas Forest Partners	Investment manager	251,252	Money management
Energy Trust	Investment manager	190,581	Money management
<b>Total Investment Services</b>		<b>\$8,664,197</b>	
Buck Consultants, L.L.C.	Actuary	\$167,465	Actuarial
Strasburger and Price, L.L.P.	Attorneys	52,771	Legal
Jackson Walker L.L.P.	Attorneys	93,477	Legal
Winstead P.C.	Attorneys	135	Legal
Baker Botts L.L.P.	Attorneys	46,895	Legal
Bernstein Litowitz	Attorneys	(9,408)	Legal
Andrews Kruth L.L.P.	Attorneys	882	Legal
McGeady Sisneros, P.C.	Attorneys	12,000	Legal
MFR, P. C.	Auditors	31,077	Audit
Joseph Mason C.P.A.	Auditors	2,250	Audit
Adjacent Technologies, Inc.	Consultant	7,881	Consulting
Information Network International	Consultant	2,362	Consulting
Doc2efile, Inc.	Consultant	2,341	Consulting
Locke Lord Bissell & Liddell L.L.P.	Consultant	192,000	Consulting
William & Jensen, P.L.L.C.	Consultant	144,000	Consulting
Vitech Systems Group, Inc.	Consultant	20,719	Consulting
Media Masters	Consultant	9,448	Consulting
NWN Corporation	Consultant	1,382	Consulting
Stacy H. Edick	Consultant	55	Consulting
Bayside Printing Company	Consultant/Communications	25,010	Consulting, printing, and design
Printmailers, Inc.	Consultant/Communications	425	Consulting, printing, and design
Texas Occupational Medicine Inst.	Physicians	14,100	Medical examinations
Jeffrey D. Britton	Physicians	17,400	Medical examinations
William K. Drell	Physicians	1,450	Medical examinations
Texas E.N.T. Specialists, PA	Physicians	120	Medical examinations
<b>Total Professional Services</b>		<b>\$836,237</b>	

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<sup>1</sup>

The fiscal year 2011 return on investments for the Houston Firefighters’ Relief and Retirement Fund’s investment portfolio was 20.6%, bringing the asset value to approximately \$3.2 billion. This year’s return brings our 7 and 10-year annualized returns to 9.4% and 8.7%, 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<sup>2</sup>, where its performance finished in the top one-percentile for the 7 and 10-year periods.

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.

	7-Year	10-Year
Standard & Poor’s 500 Index	4.2%	2.7%
Barclays Aggregate Bond Index	5.5	5.6
Public Pension Fund Peers – Median	6.1	5.6

The Fund’s portfolio performed quite well despite the increasingly volatile markets. During the fiscal year, all seven asset classes in which the Fund invests appreciated in value. U.S. domiciled stock exposure led the way posting a 39.0% return.

The year ended with the Asset Allocation (see table on next page) slightly off Policy targets. The allowance to hold up to 10% in the alternatives space was used again during the fiscal year as a protective measure from growing volatility concerns. That measure delivered positive results posting a return of 18.1%.

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% over time, but to also be protective of losses during most down cycles.

## 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
<b>PUBLIC MARKETS</b>			
Cash	0.5% - 2%	1%	Custom Cash Benchmark <sup>1</sup>
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%
<b>PRIVATE MARKETS</b>			
Private Equity	11% - 18%	12%	CA US Private Equity 1QA
Real Estate	4% - 7%	6%	50% NCREIF Property /50% NCREIF Timberland <sup>2</sup>

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.

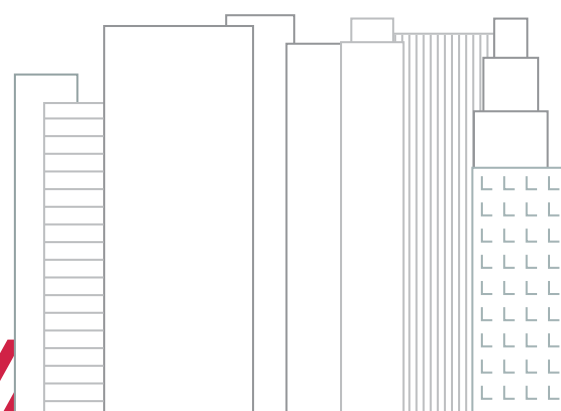
The reported investment performance of the Fund will be calculated by the Fund's custodian bank, an unaffiliated organization, with recognized expertise in this field and fiduciary level reporting responsibility to the Fund's Investment Committee. A calculation will be made for the Fund's aggregate, 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.



### CURRENT ASSET ALLOCATION<sup>1</sup>

(dollars in millions)

### PREVIOUS YEAR ASSET ALLOCATION<sup>1</sup>

(dollars in millions)

	2011 Market Value <sup>2</sup>	Percent	2010 Market Value <sup>2</sup>	Percent
Cash Equivalents	\$5	0.2%	\$23	0.8%
Domestic Equity	649	20.3%	508	18.7%
International Equity	592	18.5%	445	16.4%
Fixed Income	1,137	35.7%	999	36.9%
Alternative Investments	272	8.5%	250	9.2%
Private Equity	361	11.3%	336	12.4%
Real Estate	177	5.5%	151	5.6%
	<b>\$3,193</b>	<b>100.0%</b>	<b>\$2,712</b>	<b>100.0%</b>

1. Calculated using asset classes reflected in the Fund's Investment Policy Statement.

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<sup>1</sup>

(Period Ending June 30)

	2011	2010	2009	2008	2007	3-Year	5-Year	7-Year	10-Year
HFRRF - Total Portfolio	20.6	17.3	-20.0	4.0	17.0	4.2	6.6	9.4	8.7
Policy Benchmark	17.2	12.4	-12.6	1.0	17.3	4.8	6.4	7.7	7.2
<b>RETURNS BY ASSET CLASS</b>									
HFRRF - Cash	0.5	2.7	5.9	8.5	9.0	3.0	5.3	5.4	5.1
Custom Benchmark	0.8	1.2	3.1	5.4	5.2	1.7	3.1	2.9	2.8
HFRRF - Domestic Equity	39.0	22.3	(38.3)	2.1	19.6	1.6	5.1	8.5	8.5
Russell 3000	32.4	15.7	(26.6)	(12.7)	20.1	4.0	3.4	4.9	3.4
HFRRF - Fixed Income	11.0	23.0	0.0	4.3	9.0	11.0	9.2	8.8	9.3
Barclays Capital Universal Index	4.8	10.6	4.9	6.2	6.6	6.7	6.6	5.7	6.0
HFRRF - International Equity	30.6	8.9	(36.3)	(5.2)	29.1	(3.3)	2.1	8.0	7.0
MSCI All Country World Ex-US Index	30.3	10.9	(30.5)	(6.2)	30.1	0.1	4.1	9.1	7.9
HFRRF - Alternative Investments	18.1	15.6	(8.0)	15.7	6.8	7.9	9.2	8.0	N/A
LIBOR + 3%	3.3	3.3	5.0	7.2	8.4	3.9	5.4	5.7	N/A
HFRRF - Private Equity	16.7	17.5	(19.5)	20.0	22.4	3.3	10.1	15.4	11.0
CA US Private Equity 1QA	21.3	21.7	(23.2)	11.6	29.5	4.3	10.4	15.0	11.3
HFRRF - Real Estate	8.0	(7.1)	(13.7)	7.7	16.2	(4.7)	1.6	6.6	5.3
50% NCREIF Timberland / 50% NCREIF Property	8.4	(0.2)	(8.0)	16.7	13.5	(0.2)	5.7	8.9	7.3

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
2011	20.6	21.1	39.0	32.4	30.7	11.0	4.8	3.7	30.6

\*Median Total Fund represents 'Total Returns for All Master Trusts' from TUCS Report as of June 30, 2011.

## 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 CAPITAL UNIVERSAL	BARCLAYS CAPITAL GOV/CREDIT
2-YEAR	18.9	16.8	30.4	23.8	22.3	16.9	7.7	6.6
3-YEAR	4.2	4.6	1.6	32.4	3.3	11.0	6.7	6.2
5-YEAR	6.6	4.9	5.1	3.4	2.9	9.2	6.6	6.3
7-YEAR	9.4	6.1	8.5	4.9	4.2	8.8	5.7	5.3
10-YEAR	8.7	5.6	8.5	3.4	2.7	9.3	6.0	5.7

\*Median Total Fund represents 'Total Returns for All Master Trusts' from TUCS Report as of June 30, 2011.

**TEN LARGEST EQUITY INVESTMENT HOLDINGS**

(Excluding commingled funds)

DESCRIPTION	MARKET VALUE	PERCENT OF TOTAL MARKET VALUE
NESTLE SA CHF0.1	\$9,220,387	0.29%
SCHLUMBERGER LTD	8,086,090	0.25%
NISSAN MOTOR CO	7,919,555	0.25%
ROCHE HLDG AG GENUSSSCHEINE	7,093,486	0.22%
KEPPEL CORP	6,980,960	0.22%
SUMITOMO CORP	6,801,531	0.21%
DAITO TRUST CONSTRUCTION	6,745,914	0.21%
BHP BILLITON PLC	6,436,281	0.20%
EXXON MOBIL CORP	6,429,020	0.20%
AXA	6,383,309	0.20%

**TEN LARGEST BOND INVESTMENT HOLDINGS**

DESCRIPTION	MARKET VALUE	PERCENT OF TOTAL MARKET VALUE
STANDARD CHARTERED BANK	\$14,805,980	0.46%
BANK OF AMERICA CORP	12,863,921	0.40%
AT&T INC	11,224,165	0.35%
LLOYDS TSB BANK PLC	11,030,972	0.34%
ALTRIA GROUP INC	11,026,832	0.34%
PHILIP MORRIS INTERNATIONAL IN	10,561,374	0.33%
WAL-MART STORES INC	10,228,363	0.32%
KONINKLIJKE PHILIPS ELECTRONIC	9,904,947	0.31%
HSBC BANK USA NA	9,575,814	0.30%
SEMPRA ENERGY	8,996,264	0.28%

## FEES FOR INVESTMENT SERVICES

	ASSETS UNDER MANAGEMENT	FEES	BASIS POINTS
<b>INVESTMENT MANAGEMENT FEES</b>			
Cash Equivalents Manager <sup>(1)</sup>	\$54,515,399.19	\$101,139.00	0.1855%
Domestic Equity Managers	619,757,058.44	2,636,560.00	0.4254%
International Equity Managers	620,471,625.94	3,059,588.00	0.4931%
Fixed Income Managers	1,074,291,475.42	2,018,096.00	0.1879%
Alternative Investments	271,884,045.14	N/A	N/A
Private Equity	361,350,452.05	190,581.00	0.0527%
Real Estate Investments	176,998,920.90	251,252.00	0.1420%
<b>OTHER INVESTMENT SERVICES</b>			
Custodian Bank	\$3,179,268,977.08	\$406,981.00	0.0128%
<b>Total Fees for Investment Services</b>	<b>\$3,179,268,977.08</b>	<b>\$8,664,197</b>	<b>0.2725%</b>

(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
PERSHING LLC	\$149,474
CREDIT SUISSE	147,046
MERRILL LYNCH PIERCE FENNER SMITH INC	85,770
MERRILL LYNCH PIERCE FENNER	83,670
BNY CONVERGEX / LJR*	80,131
GOLDMAN SACHS & CO	61,527
MORGAN STANLEY & CO INC	51,713
UBS WARBURG ASIA LTD	42,767
UBS SECURITIES LLC	41,939
JP MORGAN SECS LTD	30,675
CITIGROUP GBL MKTS INC	29,433
SG SEC (LONDON) LTD	29,430
INVESTMENT TECHNOLOGY GROUP	28,803
BARCLAYS CAPITAL LE	27,663
MERRILL LYNCH INTL LONDON EQUITIES	26,548
DEUTSCHE BK SECS INC	26,287
SIMMONS & CO INTL	25,405
JP MORGAN SECURITIES INC	22,580
EXANE	22,309
MACQUARIE SECURITIES LIMITED	21,057
GOLDMAN SACHS EXECUTION & CLEARING	20,826
JP MORGAN SECURITIES INC	20,470
LIQUIDNET INC	19,812
LEHMAN BROTHERS INC	18,521
MACQUARIE BANK LTD	17,758
OTHER	\$667,912
	<b>\$1,799,526</b>

\*Commission recapture broker

Note: During Fiscal Year 2011, nearly 4.45% of all trading activity was executed through the commission recapture broker (BNYConvergex/LJR).



SECTION 4

# ACTUARIAL INFORMATION

## AN OVERVIEW OF THE ACTUARIAL VALUATION

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.

## 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.

### 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.

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, 2010.

October 25, 2011  
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 January 2011 describes the results of the actuarial valuation of the Houston Firefighters' Relief and Retirement Fund (HFRRF) as of July 1, 2010. The HFRRF retained Buck Consultants to perform this actuarial valuation for the purposes of determining the funded status for the plan year July 1, 2010 through June 30, 2011.

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, 2010. According to this valuation, the plan is 93.4% funded – that is, current assets cover 93.4% of the benefits accrued to date by active and retired members and beneficiaries. This is lower than the 95.4% in the July 1, 2009 valuation, primarily the recognition of asset losses from prior years.

The actuarial assumptions and methods used in this valuation were selected by the Board of Trustees. The Board has sole authority to determine the actuarial assumptions. The assumptions for rates of retirement, years spent in the DROP, mortality, and the load on Average Monthly Salaries to account for the use of annual rather than per-pay period data were updated based on the results of an experience study conducted in 2010. 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, 2010 actuarial valuation report.

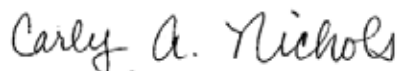
The consulting actuaries are members of the American Academy of Actuaries and meet their "General Qualification Standard for Prescribed Statements of Actuarial Opinions" relating to pension plans.

The results shown in the July 1, 2010 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, 2010 valuation results are summarized in the Actuarial Valuation Report dated January 2011. 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 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.

**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)**  
RP-2000 Mortality Table

Probability of Death Within One Year After Attaining Age Shown		
AGE	MALE	FEMALE
20	0.03%	0.02%
25	0.03	0.02
30	0.04	0.02
35	0.07	0.04
40	0.10	0.06
45	0.13	0.10
50	0.18	0.14
55	0.30	0.25
60	0.57	0.48

The actuarial assumptions and methods were adopted by the Board of Trustees in January 2011, for use in the July 1, 2010 valuation and all following valuations of the Fund. The adoption of the July 1, 2010 actuary valuation included a change from the use of The 1994 Group Annuity Mortality Table to the RP-2000 Mortality Table. The RP-2000 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	0.4
45	0.0
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% of such participants elect a refund and 50% elect a deferred monthly benefit.

**DISABILITY RATES**

AGE	PROBABILITY OF BECOMING TOTALLY DISABLED WITHIN ONE YEAR AFTER ATTAINING AGE SHOWN
20	0.75%
25	0.75
30	0.75
35	1.50
40	1.50
45	1.50
50	1.50
55	1.50
60	3.00



**DISABLED MORTALITY RATES**

After Becoming Disabled, Probability of Death Within One Year After Attaining Age Shown		
AGE	MALE	FEMALE
20	2.3%	0.7%
25	2.6	1.3
30	2.9	1.9
35	2.8	2.2
40	3.1	2.3
45	3.5	2.3
50	4.1	2.6
55	5.3	3.0
60	6.5	3.4

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

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

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

**RETIREMENT RATES**

NUMBER OF YEARS OF SERVICE	PROBABILITY OF RETIRING WITHIN ONE YEAR
20 – 24	1.00%
25 – 29	5.0
30 – 34	15.0
35 – 39	25.0
40+	100.0

**DROP DURATION**

DURATION OF DROP AT RETIREMENT	PERCENTAGE OF PARTICIPANTS ELECTING RETIREMENT AT THE SPECIFIED DURATION
0	0%
3	0
5	5
8	30
10	65

**SAMPLE RATES**

NUMBER OF YEARS OF SERVICE AT ACTUAL RETIREMENT	PERCENTAGE OF PARTICIPANTS RETIRING WITH SPECIFIC DROP DURATION				
	0 yrs	3 yrs	5 yrs	8 yrs	10 yrs
20	0%	0%	0%	0%	0%
25	0	0	100	0	0
30	0	0	5	30	65
35	0	0	5	30	65
40+	0	0	5	30	65

**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 expected payment of benefit. 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 one-half a year to reflect timing of payment.

**CHANGES IN ACTUARIAL METHODS AND ASSUMPTIONS**

The adoption of the July 1, 2010 actuary valuation for financial statement reporting purposes included changes to three assumptions. The assumptions changed were the following: (1) update to the RP-2000 Mortality Table from the 1994 Group Annuity Mortality Table, (2) an increase to the highest 78-pay period load from 3% to 5%, and (3) an update to the retirement rate schedules.

## 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
7-1-05	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%
7-1-10	3,911	40.5	265.8	63,296	3.7%

## RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

YEAR ENDED	ADDED TO ROLLS		REMOVED FROM ROLLS		ROLLS-END OF YEAR		PERCENTAGE INCREASE IN ANNUAL ALLOWANCES	AVERAGE ANNUAL ALLOWANCES
	NO.	ANNUAL ALLOWANCES	NO.	ANNUAL ALLOWANCES	NO.	ANNUAL ALLOWANCES		
6-30-05	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
6-30-10	162	7,159,000	103	2,886,000	2,609	96,580,000	2.2%	37,018

**LOAD OF NATURE OF AVERAGE MONTHLY SALARIES**

Active liabilities and normal costs were increased 5% to account for differences between the plan's definition of average monthly salary (average of the highest 78 pay periods), and the average of the final 78 pay periods.

**DEVELOPMENT OF VALUATION PAY**

Valuation pay is developed by increasing the prior year's pay with the nominal individual pay increase rate.

**AGE AT WHICH BENEFITS END FOR CHILD BENEFICIARIES**

Benefits are assumed to stop once the child beneficiary reaches age 23.

**PAY FOR NEW HIRES**

None were missing.

**EMPLOYEE CONTRIBUTIONS**

Based on the prior year's contribution and current year's pay.

**AGE AT FIRST PAYMENT FOR VESTED TERMINATIONS**

50

**BENEFITS NOT VALUED**

The proportional retirement program between the Houston municipal, police and fire pension funds which allows for combining service credit from two or more City of Houston pension plans was not valued because its impact is expected not to be material.

**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)
7-1-05	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%
7-1-10	504,946	1,737,648	1,094,879	3,116,848	100%	100%	80%



**ANALYSIS OF FINANCIAL EXPERIENCE**  
(Dollars in thousands)

Gain (or Loss) During Year From Financial Experience:	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	Year Ended July 1, 2010
From Liability Sources	\$(10,841)	\$(25,268)	\$(30,485)	\$13,952	\$76,701	\$27,205
From Asset Sources	(21,995)	52,355	140,572	127,248	(101,923)	(162,222)
<b>Total</b>	<b>\$(32,836)</b>	<b>\$27,087</b>	<b>\$110,087</b>	<b>\$141,200</b>	<b>\$(25,222)</b>	<b>\$(135,017)</b>
Non-Recurring Items*	(15,038)	(12,459)	0	0	0	50,881
Composite Gain (or Loss) During Year	(47,874)	14,628	110,087	141,200	(25,222)	(84,136)

\* 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.
- In addition a member will receive a \$5,000 lump sum payment upon retirement.

## 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% of average monthly salary plus 1% of average monthly salary per year of service after becoming eligible to retire on an alternate pension.

**Maximum:** 65% 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.



**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 participants at actual retirement will increase 2% for every year of DROP participation (Phased in at 1% effective September 1, 2000 and 1% effective September 1, 2001).

Members can remain in the DROP for 13 years. However, the member's contribution to the Fund will only be credited to his DROP account for the first ten years. Additionally, a maximum of 20% will be added to his benefit at actual retirement.

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% 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% of average monthly salary, or service pension, if greater and eligible.

In addition a member will receive a \$5,000 lump sum payment upon retirement.

**NON-SERVICE-CONNECTED DISABILITY PENSION**

**Eligibility:** No age or service requirements.

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

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

In addition a member will receive a \$5,000 lump sum payment upon retirement.

**VESTED PENSION**

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

**Benefit:** 1.7% 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% 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 in college.

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

**Postretirement:** Monthly benefit which was payable to the participant prior to his or her death. Effective July 1, 1998, a "graded" postretirement death benefit is payable to a surviving spouse if the retiree was not married at the time of retirement. This "graded" benefit is equal to 20% of the postretirement death benefit for each year of marriage to a maximum 100% 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% 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% 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% 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%. The adjustment is based on the amount of benefits payable at the time of adjustment.

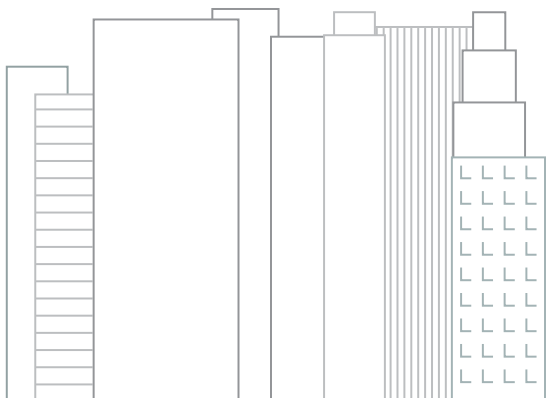
Pension adjustment for participants who retire or terminate with a vested benefit on or after October 1, 2000, begin at age 48. Pension adjustments begin immediately for participants who become disabled and cannot perform any substantial gainful activity (current and future) and qualify for general on-duty 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.

Changes in plan provisions...see report.





SECTION 5

STATISTICAL INFORMATION



## INTRODUCTION

The Statistical section of the Houston Firefighters' Relief and 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, 2011.

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, 2011. 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, 2011. 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, 2011.

## REVENUE CAPACITY

The Schedule of Investment Income presents the details of the total net investment gain/loss for the 10 years ending June 30, 2011. 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.

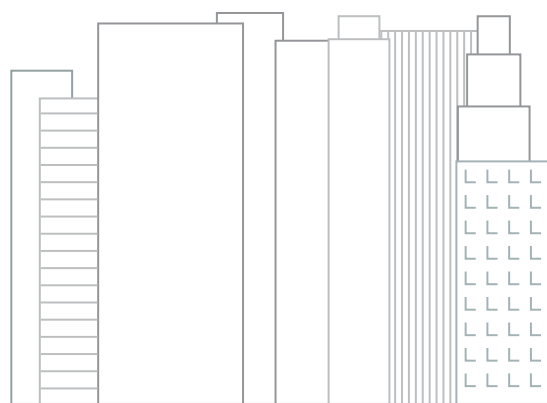
## OPERATING INFORMATION

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, 2011.

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, 2011.

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, 2011.

Some of these terms are used in the Investment section, beginning on page 36. Others are used throughout this report. Definitions are provided as they relate to the Houston Firefighters' Relief and Retirement Fund.





**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
2011	\$23,263	\$75,751	29.40%	\$545,937	—	\$644,951
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)

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

\* The employer contributed 15.4 % of the firefighters' salaries during July and August 2003. Beginning September 1, 2003, the employer contributed 16.7 % 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
2011	\$156,605	\$6,571	\$332	\$163,508
2010	138,297	6,172	\$277	144,746
2009	122,614	6,542	321	129,477
2008	112,164	7,301	347	119,812
2007	100,965	7,687	203	108,855
2006	93,843	6,897	265	101,005
2005	86,042	6,738	74	92,854
2004	83,619	5,565	97	89,281
2003	71,385	4,774	126	76,285
2002	57,820	5,309	179	63,308

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

## BENEFIT EXPENSES BY TYPE

	2011	2010	2009	2008	2007
Refunds of Contributions	\$332,417	\$277,483	\$321,282	\$347,112	\$202,679
Death Benefits	165,000	255,000	190,000	190,000	225,000
Deferred Retirees	578,900	534,566	529,374	602,773	471,176
Off-Duty Disabilities	1,509,244	1,299,525	1,619,676	1,692,026	1,385,834
Annual Supplemental Benefit Payments	4,809,178	4,828,773	4,905,980	4,938,010	4,996,204
On-Duty Disabilities	9,479,863	8,464,130	6,944,883	5,973,929	5,962,452
Survivors	16,450,190	16,728,231	14,626,579	13,568,613	12,864,154
DROP Distributions	52,235,851	42,468,145	34,744,795	28,939,800	21,969,057
PROP Distributions	2,020,965	1,230,880	282,917	48,310	53,091,454
Service Retirees	69,355,398	62,488,177	58,769,866	56,210,375	53,091,454
<b>Total</b>	<b>\$156,937,006</b>	<b>\$138,574,910</b>	<b>\$122,935,352</b>	<b>\$112,510,948</b>	<b>\$101,168,010</b>

	2006	2005	2004	2003	2002
Refunds of Contributions	\$264,965	\$73,668	\$97,363	\$125,824	\$179,452
Death Benefits	240,000	185,000	—	—	—
Deferred Retirees	466,763	454,197	438,383	413,387	388,025
Off-Duty Disabilities	1,433,514	1,494,307	1,506,122	1,443,059	1,634,500
Annual Supplemental Benefit Payments	4,975,774	4,973,854	4,956,121	4,971,066	4,951,779
On-Duty Disabilities	5,762,572	5,393,720	4,606,603	3,718,092	3,114,594
Survivors	11,927,149	10,756,585	9,959,839	8,572,203	7,759,610
DROP Distributions	19,707,773	18,920,316	22,931,233	17,587,240	10,299,394
PROP Distributions	—	—	—	—	—
Service Retirees	49,329,361	43,864,143	39,220,294	34,680,317	29,671,688
<b>Total</b>	<b>\$94,107,871</b>	<b>\$86,115,790</b>	<b>\$83,715,958</b>	<b>\$71,511,188</b>	<b>\$57,999,042</b>



## STATEMENT OF CHANGES IN PLAN NET ASSETS LAST 10 FISCAL YEARS

	2011	2010	2009	2008	2007
<b>Additions</b>					
Employer Contributions	\$75,751,401	\$74,226,664	\$71,032,653	\$54,051,414	\$52,821,473
Member Contributions	23,262,706	22,728,287	21,858,574	20,431,049	19,981,657
Net Investment Income (net of expenses)	545,937,273	400,468,020	(623,611,871)	108,407,295	426,975,567
Other					1,273,490*
<b>TOTAL ADDITIONS</b>	<b>\$644,951,380</b>	<b>\$497,422,971</b>	<b>\$(530,720,644)</b>	<b>\$182,889,758</b>	<b>\$501,052,187</b>
<b>Deductions</b>					
Total Benefit Expenses (see Benefit Expenses by Type)	156,937,006	138,574,910	122,935,352	112,510,948	101,168,010
Administrative & Professional Expense	6,571,307	6,171,647	6,541,676	7,301,986	7,686,795
<b>TOTAL DEDUCTIONS</b>	<b>\$163,508,313</b>	<b>\$144,746,557</b>	<b>\$129,477,028</b>	<b>\$119,812,934</b>	<b>\$108,854,805</b>
Change in Plan Net Assets	481,443,067	352,676,414	(660,197,672)	63,076,824	392,197,382
Net Assets Held in Trust, Beginning of Year	2,721,637,294	2,368,960,880	3,029,158,552	2,966,081,728	2,573,884,346
Net Assets Held in Trust, End of Year	\$3,203,080,361	\$2,721,637,294	\$2,368,960,880	\$3,029,158,552	\$2,966,081,728
<b>Additions</b>					
Employer Contributions	\$48,780,294	32,688,827	28,476,946	27,989,458	28,450,723
Member Contributions	18,470,660	16,355,387	14,238,463	13,994,725	14,218,663
Net Investment Income (net of expenses)	321,634,108	339,584,437	304,224,905	97,380,249	(45,684,920)
Other		9,325,726†			
<b>TOTAL ADDITIONS</b>	<b>\$388,885,062</b>	<b>\$397,954,377</b>	<b>\$346,940,314</b>	<b>\$139,364,432</b>	<b>\$3,015,534</b>
<b>Deductions</b>					
Total Benefit Expenses (see Benefit Expenses by Type)	94,107,871	86,115,790	83,715,958	71,511,188	57,999,042
Administrative & Professional Expense	6,896,862	6,737,975	5,565,326	4,773,834	5,308,640
<b>TOTAL DEDUCTIONS</b>	<b>\$101,004,733</b>	<b>\$92,853,765</b>	<b>\$89,281,284</b>	<b>\$76,285,022</b>	<b>\$63,307,682</b>
Change in Plan Net Assets	287,880,329	305,100,612	257,659,030	63,079,410	(66,323,216)
Net Assets Held in Trust, Beginning of Year	2,286,004,017	1,980,903,405	1,723,244,375	1,660,164,965	1,726,488,181
Net Assets Held in Trust, End of Year	\$2,573,884,346	\$2,286,004,017	\$1,980,903,405	\$1,723,244,375	\$1,660,164,965

\* Court judgment income

† Agreed judgment income

### SCHEDULE OF INVESTMENT INCOME LAST 10 FISCAL YEARS

	2011	2010	2009	2008	2007
<b>INVESTMENT GAIN (LOSS)</b>					
Net appreciation/(depreciation) in fair value of investments	\$462,347,334	\$320,274,882	\$(708,952,033)	\$22,032,928	\$328,607,064
Interest	61,368,886	59,421,505	65,169,217	66,866,092	57,664,859
Dividends	22,548,215	18,157,970	19,478,031	20,052,418	31,620,176
Earnings from private equity	4,718,560	6,345,116	4,765,446	4,372,152	11,690,766
Earnings from real estate	2,574,744	2,798,466	2,936,962	2,217,799	3,198,074
Miscellaneous	409,183	861,008	372,184	1,256,464	3,092,051
	<b>\$553,966,922</b>	<b>\$407,858,947</b>	<b>\$(616,230,193)</b>	<b>\$116,797,853</b>	<b>\$435,872,990</b>
Investment expenses	(8,664,197)	\$(7,854,253)	\$(6,781,837)	\$(9,986,181)	\$(10,182,092)
Net gain (loss) from investing activities	545,302,725	400,004,694	(623,012,030)	106,811,672	425,690,898
<b>FROM SECURITIES LENDING ARRANGEMENTS:</b>					
Earnings	784,926	613,308	2,401,121	15,021,367	31,784,258
Rebates and fees	(150,378)	(149,982)	(1,388,442)	(13,425,744)	(30,499,589)
Loss on default in collateral pool			(1,612,520)		
Net income from securities lending activities	634,548	463,326	(599,841)	1,595,623	1,284,669
<b>Total Net Investment Gain (Loss)</b>	<b>\$545,937,273</b>	<b>\$400,468,020</b>	<b>\$(623,611,871)</b>	<b>\$108,407,295</b>	<b>\$426,975,567</b>

	2006	2005	2010	2003	2002
<b>INVESTMENT GAIN (LOSS)</b>					
Net appreciation/(depreciation) in fair value of investments	\$250,059,653	\$275,802,362	\$252,764,028	\$43,573,461	\$(101,151,952)
Interest	48,722,319	40,657,595	38,617,796	48,917,175	53,151,937
Dividends	20,577,585	19,360,917	15,475,695	10,391,086	7,565,826
Earnings from private equity	8,231,059	9,085,203	8,186,731	4,661,330	3,629,143
Earnings from real estate	2,186,004	1,788,456	2,462	7,322	290,719
Miscellaneous	511,678	494,472	390,839	306,605	600,034
	<b>\$330,288,298</b>	<b>\$347,189,005</b>	<b>\$315,437,551</b>	<b>\$107,856,979</b>	<b>\$(35,914,293)</b>
Investment expenses	\$(10,094,588)	\$(8,743,758)	\$(11,965,521)	\$(10,943,000)	\$(10,236,831)
Net gain (loss) from investing activities	320,193,710	338,445,247	303,472,030	96,913,979	(46,151,124)
<b>FROM SECURITIES LENDING ARRANGEMENTS:</b>					
Earnings	23,779,889	10,458,544	3,510,375	2,034,529	2,993,651
Rebates and fees	(22,339,491)	(9,319,354)	(2,757,500)	(1,568,259)	(2,527,447)
Net income from securities lending activities	1,440,398	1,139,190	752,875	466,270	466,204
<b>Total Net Investment Gain (Loss)</b>	<b>\$321,634,108</b>	<b>\$339,584,437</b>	<b>\$304,224,905</b>	<b>\$97,380,249</b>	<b>\$(45,684,920)</b>

**NUMBER OF BENEFIT RECIPIENTS BY TYPE AND MONTHLY BENEFIT AMOUNT**

(As of June 30, 2011)

Monthly Benefit Amount	Total Number of Benefit Recipients	Service	Disability	Widows	Children	Dependent Parent	Deferred	Inactive Deferred
\$1 - \$200	1	1	0	0	0	0	0	0
\$201 - \$400	23	0	0	4	2	0	17	0
\$401 - \$600	38	0	0	8	0	0	30	0
\$601 - \$800	40	0	1	11	9	0	19	3
\$801 - \$1,000	26	0	1	7	8	0	10	4
\$1,001 - \$1,200	25	5	3	11	4	0	2	0
\$1,201 - \$1,400	48	12	4	25	5	0	2	0
\$1,401 - \$1,600	72	23	18	29	2	0	0	0
\$1,601 - \$1,800	83	26	18	36	3	0	0	0
\$1,801 - \$2,000	129	49	32	46	2	0	0	0
Over \$2,000	2,235	1,689	224	310	11	1	0	0
<b>TOTALS</b>	<b>2,720</b>	<b>1,805</b>	<b>301</b>	<b>487</b>	<b>46</b>	<b>1</b>	<b>80</b>	<b>7</b>

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 2010 - JUNE 2011**

Number of Service Retirements	5	37	86
Average Monthly Benefit	\$3,317	\$3,366	\$4,181
Average Final Average Salary	\$5,889	\$4,455	\$4,326

**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

**PARTICIPATING EMPLOYER AND  
ACTIVE MEMBERS**

City of Houston	Active Members	Percentage of Covered Employees
2011	3,861	100%
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%

Some of these terms are used in the Investment section, beginning on page 36. 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% 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% and 70% 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.

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