



HOUSTON FIREFIGHTERS'  
RELIEF AND RETIREMENT FUND  
FISCAL YEAR 2014 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
**Period ended June 30, 2014**

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An Independently Governed Component Unit of the City of Houston, Texas

A firefighter in full gear, including a helmet with the number 12 and the word FIRE on it, is holding a young child. The firefighter is wearing a tan jacket and pants with reflective yellow stripes. The child is wearing a blue and purple striped shirt. The background is dark and smoky, suggesting a fire scene.

# BACKED BY THE BEST.

## HOUSTON FIREFIGHTERS' RELIEF AND RETIREMENT FUND

FISCAL YEAR 2014 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
**Period ended June 30, 2014**



2014 Comprehensive Annual Financial Report  
for fiscal year ended June 30, 2014

An Independently Governed 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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Houston, Texas 77032-3866  
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# SECTION 1: INTRODUCTION



# LETTER OF TRANSMITTAL

HOUSTON FIREFIGHTERS'  
RELIEF AND RETIREMENT FUND



Investing for Firefighters  
and Their Families®

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## BOARD OF TRUSTEES

**TODD E. CLARK**  
Chair

**GARY M. VINCENT**  
Vice Chair

**FRANCIS "FRANK" X. MAHER**  
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**GARRY W. BLACKMON, SR.**  
Member

**CRAIG T. MASON**  
City Treasurer Designee

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

**ALBERTINO "AL" MAYS**  
Citizen Member

**THE HONORABLE  
CARROLL G. ROBINSON**  
Citizen Member

December 15, 2014

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), an independently governed component of the City of Houston, for the fiscal year ended June 30, 2014, 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.



## THE HOUSTON FIREFIGHTERS' RELIEF AND RETIREMENT FUND

Established in 1937 by state statute, the Fund is the retirement system for Houston's firefighters. Day to day operations were largely performed by City of Houston employees until 1988, when the Board of Trustees started hiring its own staff and exerting more autonomy as permitted by statute. The pension fund is a defined benefit plan and is funded through a combination of employee and employer contributions and investment earnings. The Fund's membership consists of more than 6,000 active and retired firefighters and survivors of firefighters. Firefighters do not participate in the U.S. Social Security system.

State law gives the Board of Trustees responsibility for conducting all Fund business. The 10 member board consists of five active firefighters, one retired firefighter (elected by other retirees), the City Treasurer or individual performing those functions, the Mayor or an appointed representative of the Mayor and two citizen members elected by the firefighter trustees.

For the 31st 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.

The Board of Trustees is proud to present to you the Comprehensive Annual Financial Report for the fiscal year ended 2014.

### ADMINISTRATION, STAFF AND PROFESSIONAL SERVICES

At fiscal year-end, the Fund staff was made up of 31 employees. The following professionals were employed by the Board of Trustees ended June 30, 2014, to provide specialty services:

- The custodian bank is Bank of New York Mellon.
- McConnell & Jones, LLP, serves as the auditor.
- Buck Consultants, LLC 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 41.

### 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:

- Bi-weekly 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 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 target return are a diversified investment portfolio, a long-term outlook, and prudent risk-taking commensurate with fulfilling the return target 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 2014, 2013, and 2012.

	2014 (MILLIONS)	2013 (MILLIONS)	2012 (MILLIONS)
BEGINNING NET ASSETS	\$ 3,430	\$3,175	\$3,203
Additions	678	439	142
Deductions	195	184	170
Net Change	483	255	(28)
<b>ENDING NET ASSETS</b>	<b>\$ 3,913</b>	<b>\$3,430</b>	<b>\$3,175</b>

## 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 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 1, 2013 valuation, past investment gains and losses were fully recognized in the actuarial value of assets. Therefore, both the market value of assets and the actuarial value of assets were \$3.43 billion; the actuarial accrued liability was \$3.96 billion. The funding ratio remained at 87% of the benefits accrued to date by active retired members and beneficiaries.

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 McConnell & Jones, LLP, for the fiscal year ending June 30, 2014, 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, 2013. This was the 31st 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.

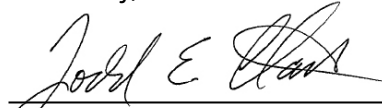


## ACKNOWLEDGMENTS

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.

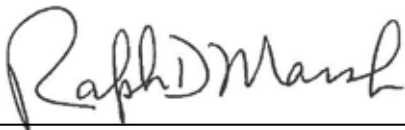
On behalf of the Board of Trustees, we would like to take this opportunity to express our appreciation to staff members and the many other professionals and participants who have worked so diligently to assure the successful operation of the Fund.

Sincerely,



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Todd E. Clark,  
Chair



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Ralph D. Marsh,  
Executive Director





## ADMINISTRATIVE

# ORGANIZATION

### EXECUTIVE DIRECTOR

Ralph D. Marsh

### CHIEF INVESTMENT OFFICER

Christopher E. Gonzales

### CHIEF LEGAL OFFICER

Jonathan W. Needle

### COMMITTEES

Pension Benefits  
Investment  
Budget and Audit  
Personnel and Procedures  
Legislative  
Memorial

### ACTUARY

Buck Consultants, LLC

### AUDITOR

McConnell & Jones, LLP

### CUSTODIAN BANK

Bank of New York Mellon



## INVESTMENT

# ADVISORS

AllianceBernstein Institutional Investment Management  
ARCIS Group, The  
Ariel Capital Management  
Aurora, LLC  
BlackRock  
Blackstone Group, The  
Brera Capital Partners, LLC  
Bridgewater Associates, LP  
Capital Dynamics Inc.  
Centennial Ventures  
Coller Investment Management Limited  
Dimensional Fund Advisors LP  
Drum Capital Management, LLC  
Earnest Partners, LLC  
Energy Spectrum Capital  
Energy Trust, LLC  
GCM Grosvenor Private Markets  
Grosvenor Capital Management, L.P.  
GW Capital, Inc.  
Horsley Bridge Partners, LLC  
Industrial Growth Partners  
Kainos Capital, LLC

Kildare Partners  
Landmark Partners  
Lexington Partners  
Liquid Realty Partners  
Lone Star Funds  
Loomis Sayles & Company  
McKinley Capital Management, Inc.  
Mellon Capital Management  
Mercator Asset Management  
Metropolitan Real Estate Management  
Mitchell Group, The  
Permal Capital Management  
Real Asset Portfolio Management  
Standish Mellon Asset Management  
Schroders Investment Management North America  
TCW Group, The  
Timberland Investment Resources  
Victory Capital Management

Please see "Fees for Investment Services" on page 41.



# PREPARATION

## **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 69.

## **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, 2014 and 2013.

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, 2014 and 2013.

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 on the Actuarial Valuation” on page 48).

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**



INDEPENDENT AUDITORS  
**REPORT**



**REPORT ON THE FINANCIAL STATEMENTS**

We have audited the accompanying financial statements of the Houston Firefighters' Relief and Retirement Fund (the Fund), which comprise the Statements of Fiduciary Net Position as of June 30, 2014 and 2013, and the related Statements of Changes in Fiduciary Net Position for the years then ended, and the related Notes to Financial Statements (collectively, Fund's basic financial statements).

**FUND MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS**

Fund management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Fund's financial statements that are free from material misstatement, whether due to fraud or error.

**AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America (US GAAS). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund's basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Fund's basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Fund's basic financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the basic financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by Fund's management, as well as evaluating the overall presentation of the Fund's basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## OPINION

In our opinion, the Fund's basic financial statements referred to above present fairly, in all material respects, the financial status of the Fund as of June 30, 2014, and 2013 and changes therein for the years then ended, in accordance with US GAAP.

## OTHER MATTERS

### Required supplemental information

US GAAP requires that the Required Supplemental Information (RSI) which comprise the Management's Discussion and Analysis, Schedule of Funding Progress, Schedule of Changes in Net Pension Liability, Schedule of Employer Contributions and Schedule of Investment Returns, be presented to supplement the Fund's basic financial statements. Such information, although not a part of the Fund's basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the Fund's basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with US GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the Fund's financial statements, and other knowledge we obtained during our audit of the Fund's financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### Additional supplemental information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The Additional Supplemental Information which comprise Schedule 5 and Schedule 6, as listed in the Table of Contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of the Fund's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 basic financial statements themselves, and other additional procedures in accordance with US GAAS. In our opinion, the Additional Supplemental Information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Houston, Texas

**October 21, 2014**

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Houston, TX 77056

Phone: 713.968.1600

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MANAGEMENT'S DISCUSSION AND  
**ANALYSIS** (UNAUDITED)

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, 2014, 2013 and 2012. 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 Fiduciary Net Position 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 fiduciary net position available at the end of the fiscal year (Assets - Liabilities = Net Position).

The Statements of Changes in Fiduciary Net Position 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 Position). Essentially, this statement shows what has happened to the plan assets during the fiscal year. If change in net position increased, then additions were more than the deductions. If change in net position 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 (Unaudited) follows the Notes to the Basic Financial Statements and provides historical and additional information considered useful in reviewing the basic financial statements.

FINANCIAL HIGHLIGHTS

SUMMARY COMPARATIVE STATEMENTS OF FIDUCIARY NET POSITION

	FY2014	FY2013	FY2012
<b>ASSETS</b>			
Investments	<b>\$ 3,910,563,935</b>	<b>\$ 3,407,812,042</b>	<b>\$ 3,149,146,970</b>
Capital assets (net of depreciation):			
Land and Building	<b>5,691,488</b>	<b>5,929,324</b>	<b>6,241,744</b>
Furniture, Fixtures and Equipment	<b>258,176</b>	<b>746,719</b>	<b>1,230,807</b>
Other	<b>183,106,359</b>	<b>184,073,502</b>	<b>155,324,575</b>
Total Assets	<b>4,099,619,958</b>	<b>3,598,561,587</b>	<b>3,311,944,096</b>
<b>LIABILITIES</b>			
Short-Term Liabilities	<b>186,794,680</b>	<b>168,124,879</b>	<b>136,812,740</b>
Total Liabilities	<b>186,794,680</b>	<b>168,124,879</b>	<b>136,812,740</b>
<b>NET POSITION</b>	<b>\$ 3,912,825,278</b>	<b>\$ 3,430,436,708</b>	<b>\$ 3,175,131,356</b>



Fiduciary net position at the end of fiscal year 2014, 2013 and 2012 totaled \$3,912,825,278, \$3,430,436,708, and \$3,175,131,356, respectively. The increase in fiduciary net position for fiscal year 2014 is primarily due to strong performance from domestic and international public and private equity markets. The same was true in fiscal year 2013, when the Fund's total portfolio returned 11.5%.

## SUMMARY COMPARATIVE STATEMENT OF CHANGES IN PLAN NET POSITION

	FY2014	FY2013	FY2012
Beginning net position	<b>\$ 3,430,436,708</b>	<b>\$ 3,175,131,356</b>	<b>\$ 3,203,080,361</b>
ADDITIONS (REDUCTIONS) TO NET ASSETS, NET:			
Contributions	<b><u>88,331,554</u></b>	<b><u>85,510,773</u></b>	<b><u>84,410,053</u></b>
Net appreciation (depreciation) in fair value of investments	<b>504,461,380</b>	<b>272,673,315</b>	<b>(35,011,612)</b>
Interest income	<b>59,395,942</b>	<b>58,307,673</b>	<b>69,244,100</b>
Dividends	<b>29,493,785</b>	<b>24,692,127</b>	<b>21,646,704</b>
Net activity from securities lending	<b>493,790</b>	<b>528,074</b>	<b>573,641</b>
Earnings from private equity and real estate investments	<b>4,887,935</b>	<b>5,145,640</b>	<b>8,274,944</b>
Other income	<b>485,993</b>	<b>904,044</b>	<b>361,051</b>
Less: Cost of investment services	<b><u>(9,700,881)</u></b>	<b><u>(8,687,653)</u></b>	<b><u>(7,553,775)</u></b>
Net investment and other income	<b><u>589,517,944</u></b>	<b><u>353,563,220</u></b>	<b><u>57,535,053</u></b>
Total additions to net assets, net	<b>677,849,498</b>	<b>439,073,993</b>	<b>141,945,106</b>
DEDUCTIONS FROM NET ASSETS:			
Benefits	<b>186,332,755</b>	<b>175,228,547</b>	<b>162,255,152</b>
Other	<b><u>9,128,173</u></b>	<b><u>8,540,094</u></b>	<b><u>7,638,959</u></b>
Total deductions from net assets	<b><u>195,460,928</u></b>	<b><u>183,768,641</u></b>	<b><u>169,894,111</u></b>
Change in net position	<b>482,388,570</b>	<b>255,305,352</b>	<b>(27,949,005)</b>
<b>ENDING NET POSITION</b>	<b>\$ 3,912,825,278</b>	<b>\$ 3,430,436,708</b>	<b>\$ 3,175,131,356</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 \$23,993,560 (fiscal year 2014), \$23,382,322 (fiscal year 2013), and \$23,090,070 (fiscal year 2012). Employer contributions for the last three years were \$64,337,994 (fiscal year 2014) \$62,128,451 (fiscal year 2013), and \$61,319,983 (fiscal year 2012).



In fiscal year 2014 and 2013, the employer and employee contributions increased when compared to fiscal year 2013 and 2012 due to a slight increase in hours.

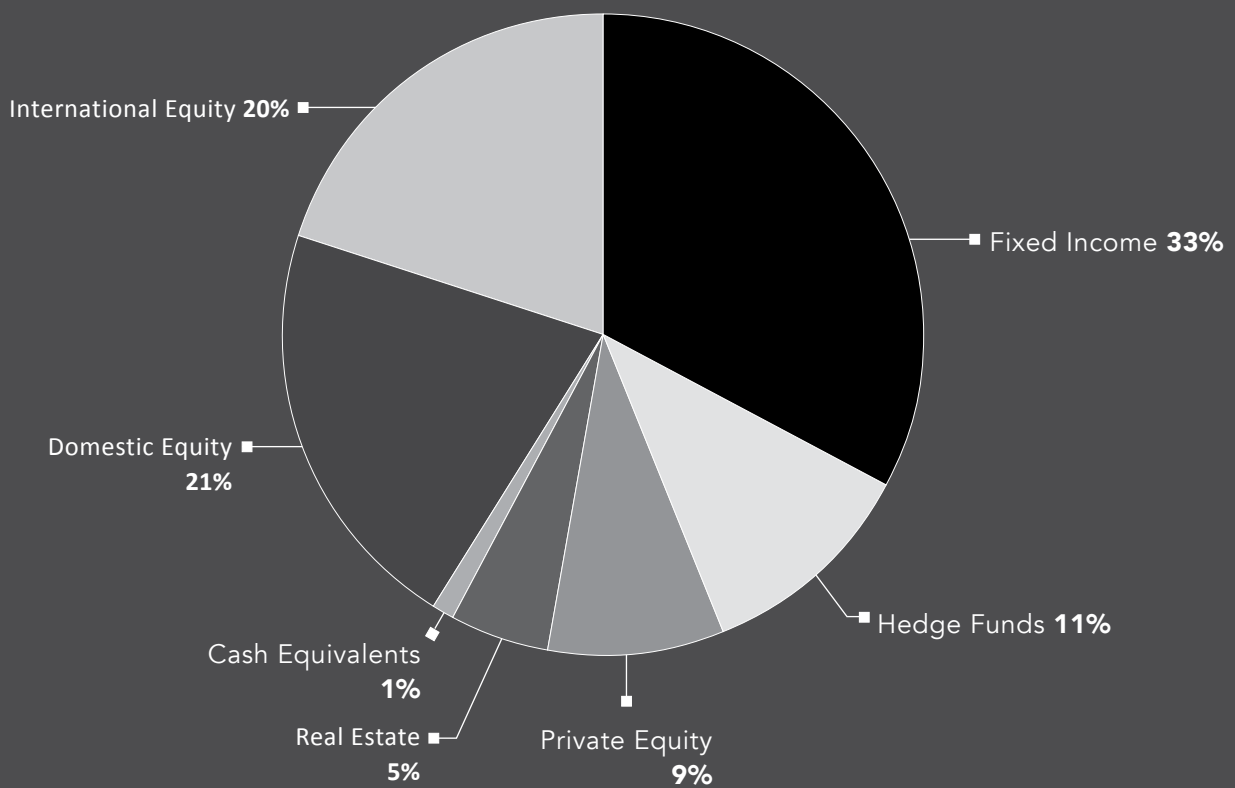
### NET INVESTMENT AND OTHER INCOME

The Fund's investment portfolio grew in fiscal year 2014 with a total portfolio investment return of 17.8%. During the fiscal year, all seven asset classes in which the Fund invested appreciated in value.

At June 30, 2014, domestic and international equities represented approximately 41% of the Fund's investments, domestic and international bond investments represented 33%, real estate represented 5% and hedge funds represented 20% (private equity 9% and hedge funds 11%). The remaining assets represented by cash equivalents amounted to approximately 1%.

In fiscal year 2014, the Fund's positive return increased the portfolio's market value by approximately \$482 million (net).

FUND ASSET ALLOCATION AS OF JUNE 30, 2014





## DEDUCTIONS

Most deductions from fiduciary 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 years 2014, 2013, and 2012 totaled \$195,460,929, \$183,768,641, and \$169,894,111, respectively. This represents a net increase of approximately 6.36% between fiscal years 2014 and 2013, 8.17% between fiscal years 2013 and 2012 and 3.91% between fiscal years 2012 and 2011.

## BENEFITS PAID TO MEMBERS

The 6.34% increase of benefits paid to members during fiscal year 2014 is mainly due to the annual cost of living adjustment of three percent, and an increase in the number of benefit recipients. This growth in benefit payments is normal for a maturing pension fund.

## PROFESSIONAL AND ADMINISTRATIVE EXPENSES

Professional and administration deductions increased between fiscal years 2014 and 2013 and between fiscal years 2013 and 2012 by 4.17% and 8.40%, respectively. The increase in fiscal year 2014 is primarily due to an increase in actuarial, legal and other consulting expenses along with an increase in office costs. During fiscal year 2013, the increase was primarily due to an increase in legal expenses and the addition of Directors and Officers liability insurance.

## NET POSITIONS

Total additions to the Fund in fiscal year 2014 were \$677,849,498 and total deductions were \$195,460,929, thereby increasing a change in the Fund's net position by \$482,388,569. In fiscal year 2013, the Fund's net position increased by \$255,305,352 and in fiscal year 2012, the Fund's net position decreased by \$27,949,005.

## 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 January 2011, the Board of Trustees adopted and certified the finalized July 1, 2010 actuarial valuation, decreasing the City's contribution rate to 23.9% effective July 1, 2011, while leaving the members' contribution rate at 9%. The July 1, 2010 actuarial report also indicates the Fund has a funding ratio of 93%.

The Board adopted the July 1, 2010 actuarial valuation after careful consideration and analysis of an independent experience study. It should be noted that the Actuarial Value of Assets is based on the difference between the actual rate of return and the 8.5 percent assumed rate of return recognized in the actuarial value over five years. The adoption of the July 1, 2010 valuation for financial statement reporting purposes included changes to three assumptions. The assumptions changed were the following: (1) update to the RP2000 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. The three changes led to a lower projected plan cost and thus lower City contributions. In March 2014, the Board of Trustees adopted and certified the finalized July 1, 2013 actuarial valuation, increasing the City's contribution rate to 33.2% effective July 1, 2014, while leaving the members' contribution rate at 9%. The July 1, 2013 actuarial report indicates the Fund has a funding ratio of 86.6%.

GASB 67 requires a disclosure of the Net Pension Liability (NPL). The NPL is the difference between the Total Pension Liability (TPL) and the market value of assets. GASB 67 requires the determination for the TPL using the individual entry age method, level percent of pay actuarial cost method and a discounted rate. Information about whether the fiduciary's net positions are increasing or decreasing over time relative to the total pension liability is provided in the Schedule of Changes in the Fund's Net Pension Liability and Related Ratios - Unaudited (on page 36).

Annual required contributions of the employer and contributions made by the employer in relation to the actuarially determined contributions are provided in the Schedule of Employer Contributions - Unaudited (on page 37).

## 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.



## BASIC FINANCIAL

## STATEMENTS

STATEMENTS OF FIDUCIARY NET POSITION (Fiscal Year Ended June 30, 2014 and 2013)

ASSETS	2014	2013
Cash and cash equivalents	\$ 3,747,619	\$ 8,148,792
INVESTMENTS, AT FAIR VALUE:		
Short-term investment funds	123,988,309	97,588,111
Fixed income:		
Domestic	999,759,679	892,278,952
International	221,130,156	231,483,751
Common equity:		
Domestic	739,534,784	698,755,739
International	808,591,879	675,534,529
Preferred equity:		
Domestic	6,090,379	2,948,498
International	3,640,635	1,459,426
Hedge funds	445,189,494	266,107,027
Private equity	367,166,543	352,403,618
Real estate	195,472,077	189,252,391
<b>TOTAL INVESTMENTS</b>	<b>\$ 3,910,563,935</b>	<b>\$ 3,407,812,042</b>
RECEIVABLES		
Accrued interest	13,955,979	15,181,603
Due from broker recapture	11,847	8,369
Due from securities lending	53,084	53,537
Foreign funds contracts	7,210,109	1,267,312
Receivables for investments sold	14,173,407	6,353,894
Accrued dividends	2,501,389	2,325,397
City of Houston contributions	2,474,147	1,591,405
Member contributions	670,534	599,275
Other	19,849	20,796
<b>TOTAL RECEIVABLES</b>	<b>\$ 41,070,345</b>	<b>\$ 27,401,588</b>
Collateral on securities lending arrangements, at fair value	137,966,092	148,209,106
Land	483,325	483,325
Building, net	5,208,163	5,445,999
Furniture, fixtures and equipment, net	258,176	746,719
Prepays (operating)	322,303	314,016
<b>TOTAL ASSETS</b>	<b>\$ 4,099,619,958</b>	<b>\$ 3,598,561,587</b>
LIABILITIES		
Accounts payable and accrued expenses	4,904,191	4,549,227
Payables for investments purchased	36,667,359	14,017,846
Foreign taxes payable	50,156	79,939
Foreign funds contracts payable	7,206,882	1,268,761
Collateral on securities lending arrangements, at fair value	137,966,092	148,209,106
<b>TOTAL LIABILITIES</b>	<b>\$ 186,794,680</b>	<b>\$ 168,124,879</b>
NET POSITION		
Net investment in capital assets	5,949,664	6,676,043
Restricted for self-insurance fund	5,000,000	5,000,000
Unrestricted	3,901,875,614	3,418,760,665
Plan net position - restricted for pension benefits	\$ 3,912,825,278	\$ 3,430,436,708

See accompanying notes to basic financial statements.



BASIC FINANCIAL

# STATEMENTS

## STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION

(Fiscal Year Ended June 30, 2014 and 2013)

	2014	2013
ADDITIONS (REDUCTIONS) TO PLAN NET POSITION, NET:		
Contributions:		
City of Houston	\$ 64,337,994	\$ 62,128,451
Members	23,993,560	23,382,322
<b>TOTAL CONTRIBUTIONS</b>	<b>\$ 88,331,554</b>	<b>\$ 85,510,773</b>
NET INVESTMENT INCOME (LOSS):		
Net appreciation in fair value of investments	504,461,380	272,673,315
Interest	59,395,942	58,307,673
Dividends	29,493,785	24,692,127
Earnings from private equity	4,681,493	3,703,269
Earnings from real estate	206,442	1,442,371
Other	485,993	904,044
Securities lending arrangements:		
Earnings	120,060	183,530
Rebates and fees	373,730	344,544
Total securities lending arrangements	\$ 493,790	\$ 528,074
Gross investment income (loss)	599,218,825	362,250,873
Less: investment services expense	(9,700,881)	(8,687,653)
Net investment income (loss)	589,517,944	353,563,220
<b>TOTAL ADDITIONS (REDUCTIONS) TO PLAN NET POSITION, NET</b>	<b>\$ 677,849,498</b>	<b>\$ 439,073,993</b>
DEDUCTIONS FROM PLAN NET POSITION:		
Benefits paid to members	186,332,755	175,228,547
Contribution refunds to members	784,927	530,855
Professional services	1,458,772	1,284,130
Administrative expenses	6,884,474	6,725,109
<b>TOTAL DEDUCTIONS FROM PLAN NET POSITION</b>	<b>\$ 195,460,928</b>	<b>\$ 183,768,641</b>
Net increase in plan net position	482,388,570	255,305,352
Plan net position restricted for pension benefits, beginning of year	3,430,436,708	3,175,131,356
<b>PLAN NET POSITION - RESTRICTED FOR PENSION BENEFITS, END OF YEAR</b>	<b>\$ 3,912,825,278</b>	<b>\$ 3,430,436,708</b>

See accompanying notes to basic financial statements.



# FINANCIAL STATEMENTS

(Fiscal Year Ended June 30, 2014 and 2013)

## I. 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, 2014 and 2013, the membership of the Fund consisted of the following:

	2014	2013
Retirees and beneficiaries currently receiving benefits	2,997	2,917
Former members entitled to benefits but not yet receiving them	5	5
<b>ACTIVE MEMBERS:</b>		
Vested	2,331	2,081
Nonvested	1,504	1,669
<b>TOTAL MEMBERS</b>	<b>6,837</b>	<b>6,672</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, 2014 and 2013, the active members' contribution rate was 9% and the City's contribution rate was 23.9%. The Fund's contributions are reduced by the contributions to the Houston Firefighters' Relief and Retirement Fund Section 415(m) 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 3.0% for eligible benefit recipients.

Active members with 20 or more years of service are eligible to elect to establish a Deferred Retirement Option Plan (DROP) account. When the DROP election becomes effective, a DROP account is established for the member and is credited with the following amounts: the monthly pension allowance determined as if the member had left active service on the DROP effective date; amounts equal to the deductions made from the DROP participant's (or member's) salary under Section 13(c) of the Act (9% of the member's salary after June 30, 2004); and earnings on those amounts, compounded monthly at a rate based on the Fund's actual average rate of return over the preceding five years. A member may participate in the DROP for a maximum of ten years (see subsequent changes to maximum allowable DROP participation below). The participant's monthly benefit at actual retirement would be increased by 2% of original monthly benefit for every full year of DROP participation. (Beginning September 1, 2000, the percentage increase applied to monthly benefits at actual retirement was 1%, to be phased in at .5% beginning on September 1, 2000, and an additional .5% beginning September 1, 2001. The benefit increase was then changed effective September 1, 2001 to 2% per year.)



A member may continue to be employed as a firefighter by the City after 10 years of participation in the DROP; however, the 9% deducted from the member's salary, the monthly pension allowance, and the earnings calculation would no longer be credited to the member's account. Effective September 1, 2003, the following three changes to the DROP were implemented: (1) the one percent annual administrative fee for retired members with DROP balances was removed; (2) a 5% floor and a 10% ceiling on annual DROP earnings rates was implemented; and (3) widows of deceased members with DROP account balances may choose to leave the DROP accounts with the Fund. Effective May 18, 2007, the following two changes to the DROP were implemented: (1) DROP participants have the option to designate one or more adult children as eligible children with respect to survivor benefits for the member's DROP funds; and (2) DROP participants receive a pro-rated portion of the 2% increase applied to the original benefit at retirement for completed months in the final year of DROP participation (.166% per month). On November 1, 2007, the DROP period was extended to 13 years, with certain modifications for DROP years 11 to 13. The monthly pension contributions made by the member will not be posted to the DROP account after the tenth year of DROP participation. Upon retirement, the member will not receive the 2% per year calculation beyond the tenth year (maximum 20% of original benefit will be added to monthly DROP benefit upon retirement). The DROP participant will continue to receive the monthly benefit and earnings in the DROP account for DROP years 11, 12 and 13. The balance of the DROP account as of June 30, 2014 and 2013 was \$1,006,927,486 and \$958,185,467 respectively.

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 five percent annually, maximum of ten percent annually).

A benefit enhancement was enacted by the Board under Section 10 of the Act to allow members or beneficiaries

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

### **DISABILITY BENEFITS**

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

### **DEATH BENEFITS**

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

### **VESTING**

Members who terminate employment with at least 10 years of service, but prior to becoming eligible for the service retirement, are entitled to 1.7% of 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.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **BASIS OF PRESENTATION**

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

### **BASIS OF ACCOUNTING**

The economic resources basis of accounting is the method by which revenues and expenses are recognized in the accounts and reported in the basic financial statements. 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. Investments that do not have an established market may be reported at their estimated fair values as determined by the investment manager.

Unrealized gains and losses are presented as net appreciation (depreciation) in fair value of investments on the statements of changes in fiduciary net position, 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 and reported as a payable or receivable until settlement. 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 and amortization 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 September 6, 2013 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, 2014 and 2013, 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

In June 2013, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*. This standard addresses accounting and financial reporting requirements for pension plans. The requirements for GASB No. 67 require changes in presentation of the financial statements, notes to the financial statements, and required supplementary information. Significant changes include an actuarial calculation of total and net pension liability. It also included comprehensive footnote disclosure regarding the pension liability, the sensitivity of the net pension liability to the discount rate, and increased investment activity disclosures. The implementation of GASB No. 67 did not significantly impact the Fund's financial statements.

In June 2013, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. This standard will be used by the Plan's sponsor to record and report pension information in their financial statements and must comply with similar provisions as listed above. This Statement is effective for fiscal years beginning after June 15, 2014. Management of the Fund is currently evaluating the impact, if any, of this new pronouncement on the Fund's financial statements.

## RECLASSIFICATIONS

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 financial statements presentation. These reclassifications had no effect on the net position or changes therein.

# SERVICE

THE COURAGE OF LIFE IS  
OFTEN A LESS DRAMATIC  
SPECTACLE THAN THE  
COURAGE OF A FINAL  
MOMENT; BUT IT IS NO LESS  
A MAGNIFICENT MIXTURE OF  
TRIUMPH AND TRAGEDY.

– JOHN F. KENNEDY



### 3. NET PENSION LIABILITY OF EMPLOYERS

#### NET PENSION LIABILITY (\$000)

The components of the net pension liability at June 30, 2014, were as follows:

Total pension liability	<b>\$ 4,255,888</b>
Plan fiduciary net position	<b>(3,912,826)</b>
City net pension liability	<b>\$ 343,062</b>
Plan fiduciary net position as a percentage of total pension liability	<b>91.94%</b>

#### ACTUARIAL ASSUMPTIONS

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	<b>3.00%</b>
Salary increases	<b>3% to 7%</b> , based on seniority and merit
Investment rate of return	<b>8.50%</b> , net of pension plan investment expense.  This is based on an average inflation rate of return of <b>3.00%</b> and a real rate of return of <b>5.50%</b>

Census data was collected as of July 1, 2013. Liabilities measured as of the census date were projected to June 30, 2014 assuming no demographic gains or losses.

Mortality rates were based on the RP-2000 Mortality Table projected to year 2014 using Scale AA.

The long-term expected rate of return on pension plan investments was determined using a buildingblock method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the pension plan's target asset allocation as of June 30, 2014 are summarized in the following table (note that the rates shown below include the inflation component):

#### TARGET ALLOCATIONS

ASSET CLASS	LONG-TERM EXPECTED RATE OF RETURN	TARGET ASSET ALLOCATION
Domestic equity	<b>11.50%</b>	<b>17.00%</b>
International equity	<b>11.58%</b>	<b>17.00%</b>
Fixed Income	<b>5.97%</b>	<b>35.00%</b>
Cash	<b>3.81%</b>	<b>1.00%</b>
Hedge Funds	<b>7.93%</b>	<b>12.00%</b>
Real Estate	<b>8.81%</b>	<b>6.00%</b>
Private Equity	<b>16.03%</b>	<b>12.00%</b>

#### DISCOUNT RATE

The discount rate used to measure the total pension liability was 8.50%. The projection of cash flows used to determine the discount rate assumed that the Fund's contributions will continue to follow the current funding policy. Based on those assumptions, the Fund's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members for all future years and hence, the blended GASB discount rate is equal to the long-term rate of return of 8.50%. Therefore, the long-term expected rate of return on pension plan investments of 8.50% was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return remained at 8.50% to reflect the expected asset allocation.

#### SENSITIVITY OF THE NET PENSION LIABILITY TO CHANGES IN THE DISCOUNT RATE

The following presents the net pension liability, calculated using the discount rate of 8.50%, as well as what the Fund's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.50%) or 1-percentage-point higher (9.50%) than the current rate:

	1% DECREASE (7.50%)	CURRENT DISCOUNT RATE (8.50%)	1% INCREASE (9.50%)
Net Pension Liability (\$000)	<b>\$ 762,575</b>	<b>\$ 343,062</b>	<b>\$ (5,047)</b>





## 4. 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, 2011, the City's actuarially determined contribution rate of 23.9% for fiscal years 2014 and 2013 was established pursuant to the July 1, 2010 actuarial report consisting of 18.0% of covered members' salaries to pay normal costs, increased by 5.9% of amortization deficit of the actuarial accrued liability over a rolling 30 year period.

The effective member's contribution rate is 9%.

### ACTUARIALLY DETERMINED CONTRIBUTION REQUIREMENTS

JUNE 30, 2014*	
Employer normal cost	\$ 48,528,796
Member normal cost	23,985,060
<b>Total normal cost</b>	<b>\$ 72,513,856</b>
PLUS: AMORTIZATION OF DEFICIT	
Actuarial accrued liability	15,817,698
<b>NET CONTRIBUTIONS REQUIRED</b>	<b>88,331,554</b>
Employer contributions actually made	64,337,994
Member contributions actually made	23,993,560
<b>TOTAL CONTRIBUTIONS</b>	<b>\$ 88,331,554</b>
JUNE 30, 2013*	
Employer normal cost	\$ 46,807,201
Member normal cost	23,369,022
<b>Total normal cost</b>	<b>\$ 70,176,223</b>
PLUS: AMORTIZATION OF DEFICIT	
Actuarial accrued liability	\$ 15,334,550
<b>NET CONTRIBUTIONS REQUIRED</b>	<b>85,510,773</b>
Employer contributions actually made	62,128,451
Member contributions actually made	23,382,322
<b>TOTAL CONTRIBUTIONS</b>	<b>\$ 85,510,77</b>

\* Based on actuarial contribution rates as determined in the July 1, 2010 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 January 2011, the Board adopted and certified the July 1, 2010 actuarial valuation, decreasing the City's contribution rate to 23.9% effective July 1, 2011, while leaving the members' contribution rate at 9%. The City's contribution rate remained in effect until June 30, 2014. The July 1, 2010 report also indicates the Fund has a funding ratio of 93%.

The Board adopted the July 1, 2010 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 percent assumed rate of return recognized in the actuarial value over five years. The adoption of the July 1, 2010 valuation for financial statement reporting purposes included changes to three assumptions. The assumptions changed were the following: (1) update to the RP2000 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. The three changes led to a lower projected plan cost and thus lower City contributions.

Accounting standards require that the statement of fiduciary 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, 2013, the most recent actuarial valuation date, is as follows (dollar amounts in millions):

ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF PLAN ASSETS (AVA)	ACTUARIAL ACCRUED LIABILITY (AAL)	UNFUNDED AAL (UAAL)	AVA AS A PERCENTAGE OF AAL	ANNUAL COVERED PAYROLL	UAAL AS A PERCENTAGE OF ANNUAL COVERED PAYROLL
7/01/13	\$ 3,430.4	\$ 3,963.1	\$ 532.6	87%	\$ 271.8	196%

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, 2013 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 Table projected to year 2023 (ten years beyond the valuation date) using Scale AA

## HISTORICAL TREND INFORMATION

Historical trend information is provided as required supplemental information on pages 36 through 38. 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.

## 5. 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 economic and 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 is a fiduciary of the Fund's assets with respect to its discretionary duties including safekeeping the Fund's assets. The Custodian has established and maintains a custodial account to hold, or direct its agents to hold, for the account of the Fund, all assets that the Board deposits with the Custodian from time to time. All rights, title and interest in and to the Fund's assets at all times vests with the Fund's Board.

In holding all Fund assets, the Custodian acts 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 holds, manages and administers the Fund's assets for the exclusive purpose of providing the benefits to the members and the qualified survivors of the Fund.

The Board manages 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:

	2014	2013
Short-term investment funds	\$ 123,988,309	\$ 97,588,111
Fixed income-Government Securities	308,026,064	229,433,586
Fixed income-Corporate Bonds	857,960,645	833,060,286
Fixed Income-Convertibles	54,903,126	61,268,831
Common equity	1,548,126,663	1,374,290,268
Preferred equity	9,731,014	4,407,924
HEDGE FUNDS:		
Global Macro Hedge Fund	223,260,243	192,205,376
Multi-Strategy FOHFs	221,929,251	73,901,651
PRIVATE EQUITY:		
Buy out partnerships/Funds	88,993,623	81,696,374
Distressed Debt Partnerships/Funds	69,098,570	68,814,718
Direct Investments	1,075,000	1,075,000
Secondary Partnerships/Funds	101,490,343	86,823,094
Special Situations Investments	27,508,515	44,593,353
Venture Capital Partnerships/Funds	79,000,492	69,401,079
Real estate	195,472,077	189,252,391
<b>TOTAL INVESTMENTS</b>	<b>\$ 3,910,563,935</b>	<b>\$ 3,407,812,042</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, 2014 and 2013, 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

further diversifies 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 Hedge funds*

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.

#### *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.

As of June 30, 2014 and 2013, 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 noninvestment grade rating. Purchases and sales, investment selection and implementation of investment strategies are delegated to the discretion of the investment manager, subject to compliance with its management agreement and the Fund's Investment Policy.

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



As of June 30, 2014 and 2013, the following table shows the Fund's investments by type, with weighted average maturity and fair value:

	WEIGHTED AVERAGE MATURITY	FAIR
Asset Backed Securities	9.10	\$ 29,321,986
CMBS Total	29.23	841,134
CMO Corporate	8.88	864,225
Consumer Discretionary	6.25	4,510,197
Consumer Staples	1.92	1,619,800
Corporate Debt	16.78	625,982,236
Energy	14.90	5,139,289
Financials	6.64	10,012,044
General Obligation Bonds	24.79	16,037,320
Healthcare	20.93	3,202,890
Industrials	22.62	1,996,959
Information Technology	15.81	16,571,404
Materials	1.61	2,555,621
Non-U.S. Corporate	5.34	66,588,844
Non-U.S. Government Issues	1.31	25,477,037
Revenue	28.88	65,266,558
Telecommunication Services	0.71	5,181,750
TIPS (Treasury Inflation Protected)	8.55	5,275,768
U.S. Preferred Stock	1.31	897,680
U.S. Government Issues	8.58	211,142,922
U.S. Private Placements	12.21	90,344,911
U.S. Taxable Muni Bonds	54.63	30,738,636
Utilities	15.30	1,320,624
<b>TOTAL FIXED INCOME SECURITIES</b>		<b>\$ 1,220,889,835</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 (which includes government securities, corporate bonds, convertibles) as of June 30, 2014 is as follows:

QUALITY RATING	FAIR VALUE	HOLDINGS
A1	\$ 47,651,209	1.22%
A2	102,945,895	2.63%
A3	141,043,222	3.60%
AA1	12,289,382	0.31%
AA2	38,090,445	0.97%
AA3	57,218,601	1.46%
AAA	86,382,566	2.21%
B1	29,206,527	0.75%
B2	28,477,044	0.73%
B3	38,756,219	0.99%
BA1	41,325,527	1.06%
BA2	53,569,093	1.37%
BA3	38,605,451	0.99%
BAA1	72,855,074	1.86%
BAA2	103,500,104	2.64%
BAA3	63,734,122	1.63%
CA	1,456,000	0.04%
CAA1	14,066,730	0.36%
CAA2	23,282,923	0.59%
D	4 99,200	0.01%
Not rated	9,515,813	0.24%
<b>TOTAL CREDIT RISK DEBT SECURITIES*</b>	<b>\$1,004,471,147</b>	<b>25.66%</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, 2014 is as follows:

	FAIR VALUE	AGE OF HOLDINGS
Euro Currency Unit	\$ 176,244,955	4.50%
Japanese Yen	79,638,856	2.03%
Pound Sterling	70,217,760	1.79%
Swiss Franc	54,939,133	1.40%
Canadian Dollar	49,264,258	1.26%
Hong Kong Dollar	23,844,159	0.61%
Mexican New Peso	19,328,596	0.49%
South Korean Won	18,886,807	0.48%
Norwegian Krone	17,496,280	0.45%
New Zealand Dollar	16,859,414	0.43%
Australian Dollar	16,540,329	0.42%
Thailand Baht	12,629,616	0.32%
Swedish Krona	10,106,141	0.26%
Danish Krone	8,461,734	0.22%
Singapore Dollar	4,416,393	0.22%
Brazil Real	4,160,895	0.11%
New Turkish Lira	2,476,119	0.06%
Indonesian Rupiah	2,095,103	0.05%
Israeli Shekel	2,019,753	0.05%
Czech Koruna	952,150	0.02%
<b>TOTAL SECURITIES SUBJECT TO FOREIGN CURRENCY RISK</b>	<b>\$ 590,578,451</b>	<b>15.06%</b>

Summary of Investment and Professional Services on page 41 lists the Fund's investment and professional service providers.



## ALTERNATIVE INVESTMENTS

As of June 30, 2014 and 2013, the Fund was invested in various limited partnerships and other alternative investment strategies including hedge funds as detailed in the following chart:

### MARKET VALUE OF THE FUND'S INTEREST

INVESTMENT TYPE	JUNE 30, 2014	JUNE 30, 2013
Private Equity	\$ 367,166,543	\$ 352,403,618
Hedge Funds	445,189,494	266,107,027
	\$ 812,356,037	\$ 618,510,645

The Fund currently has investments in a global macro hedge fund and two multi-strategy funds 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 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 as 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, 2014 and 2013, the Fund recognized a loss of \$3,227 and a loss of \$1,449, respectively, in investment revenue related to derivatives.

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

The following is a summary of derivatives held by the Fund:  
*Fair Value at June 30*

DERIVATIVE	CLASSIFICATION	2014	2013
FX Forwards	Investment Revenue	\$ (3,227)	(1,449)

## 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 2014 and 2013. 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



## 6. 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, 2014 and 2013, the Fund's cash deposits in bank accounts totaled \$3,747,619 and \$8,148,792 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.

## 7. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

During fiscal years 2014 and 2013, 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 in fiscal years 2014 and 2013. 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 2014 or 2013 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.

## 8. LAND

In February 1998, the Fund purchased land for \$483,325 to use in the construction of a new office building for its operations and its members. This land is not depreciated.

## 9. BUILDING, FURNITURE, FIXTURES AND EQUIPMENT

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 fiduciary net position. This cost is being depreciated over 30 years. All other fixed assets are depreciated between 3 and 5 years.

Building, Furniture, fixtures and equipment are comprised as follows at June 30, 2014:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Building	\$ 9,222,726	81,429	–	9,304,155
Office furnishings and equipment	747,309	–	83,707	663,602
Computer software and hardware	2,976,640	55,483	–	3,032,123
Building Furniture, fixtures and equipment subject to depreciation	12,946,675	136,912	83,707	12,999,880
Less accumulated depreciation and amortization	(6,753,957)	(779,584)	–	(7,533,540)
<b>TOTAL BUILDING FURNITURE, FIXTURES AND EQUIPMENT, NET</b>	<b>\$ 6,192,718</b>	<b>(642,672)</b>	<b>83,707</b>	<b>5,466,339</b>





Building Furniture, fixtures and equipment are comprised as follows at June 30, 2013:

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Building	\$ 9,222,726	–	–	9,222,726
Office furnishings and equipment	659,227	88,082	–	747,309
Computer software and hardware	2,920,167	56,473	–	2,976,640
Building Furniture, fixtures and equipment subject to depreciation	12,802,120	144,555	–	12,946,675
Less accumulated depreciation and amortization	(5,812,894)	(941,063)	–	(6,753,957)
<b>TOTAL BUILDING FURNITURE, FIXTURES AND EQUIPMENT, NET</b>	<b>\$ 6,989,226</b>	<b>(796,508)</b>	<b>–</b>	<b>6,192,718</b>

## 10. 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:

	2014		2013	
	SECURITIES LENT	COLLATERAL HELD	SECURITIES LENT	COLLATERAL HELD
Fixed income	\$ 114,229,144	\$ 117,107,761	\$ 109,100,436	\$ 112,002,548
Common and preferred stocks	20,324,922	20,858,331	34,536,700	36,206,558
	<b>\$ 134,554,066</b>	<b>\$ 137,966,092</b>	<b>\$ 143,637,136</b>	<b>\$ 148,209,106</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, 2014 and 2013. 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 1 day and 1 day as of June 30, 2014 and 2013, 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, 2014 and 2013, securities lending transactions were collateralized in cash.

## 11. RELATED PARTY

During fiscal years 2014 and 2013, the Plan utilized the services of investment management companies, in which the Plan owns an interest. Manager fees of approximately \$523,000 and \$503,000 were paid in fiscal years 2014 and 2013, respectively, to these companies.



## 12. BENEFIT PLANS

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

The Fund also offers its full-time employees a Profit Sharing Plan which is a qualified retirement plan under Section 401(a) of the Internal Revenue Code of 1986, as amended. The Fund maintains the Profit Sharing Plan to provide a tax-deferred way for it to contribute to its employees' savings for retirement, disability, death, and other major life events. The Fund contributes into the Profit Sharing Plan 16% of a participating employee's qualified yearly salary. During fiscal years 2014 and 2013, the Fund contributed \$414,717 and \$410,353, respectively, to the Profit Sharing Plan.

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

## 13. COMMITMENTS AND CONTINGENCIES

As described in note 1, certain members of the Fund are entitled to refunds of their accumulated contributions upon termination of employment with the City, prior to being eligible for pension benefits.

As of June 30, 2014 and 2013, aggregate contributions from active members of the Fund with less than ten years of service were \$39,091,213 and \$46,820,849, respectively. Contributions for employees with 10 to 20 years of service have not been determined. As of June 30, 2014 and 2013, 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 \$280,500,000 and \$283,000,000 as of June 30, 2014 and 2013, 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 selfinsurance 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, 2014 and 2013, cumulative contributions made to the self-insurance fund by the Fund have been approximately \$5,000,000.

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

## 14. 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 (unaudited) 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.

## 15. SUBSEQUENT EVENTS

Management of the Fund has evaluated subsequent events through October 21, 2014, which is the date the financial statements were available to be issued. Management has determined that no subsequent events require disclosure in these financial statements.





**SECTION 2:  
REQUIRED SUPPLEMENTAL  
INFORMATION**



SCHEDULE 1

SCHEDULE OF FUNDING PROGRESS (UNAUDITED) (DOLLARS IN MILLIONS)						
ACTUARIAL VALUATION DATE	ACTUARIAL VALUE OF PLAN ASSETS (AVA)	ACTUARIAL ACCRUED LIABILITY (AAL)	AVA AS PERCENTAGE OF AAL	UNFUNDED AAL (UAAL)	ANNUAL COVERED PAYROLL	UALL AS PERCENTAGE OF ANNUAL COVERED PAYROLL
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%
7-1-11	3,222.3	3,558.2	91%	335.9	272.5	123%
7-1-12	3,263.6	3,752.9	87%	489.6	270.9	181%
7-1-13	3,430.4	3,963.1	87%	532.6	271.8	196 %

SCHEDULE 2

SCHEDULE OF CHANGES IN THE FUND'S NET PENSION LIABILITY AND RELATED RATIOS (\$000) (UNAUDITED)	
TOTAL PENSION LIABILITY	2014
Service Cost	\$ 72,333
Interest	334,818
Changes of benefit terms Differences between expected and actual experience	0
Changes of assumptions	3,264
Benefit payments	(187,118)
Net change in total pension liability	223,297
<b>TOTAL PENSION LIABILITY-BEGINNING</b>	<b>\$ 4,032,591</b>
<b>TOTAL PENSION LIABILITY-ENDING (a)</b>	<b>\$ 4,255,888</b>
PLAN FIDUCIARY NET PENSION	
Contributions-employer	64,338
Contributions-employee	23,994
Net investment income	589,518
Benefit payments, including refunds of employee contributions	(187,118)
Administrative expense	(6,884)
Other (Professional services)	(1,459)
Net change in plan fiduciary net position	\$ 482,389
<b>PLAN FIDUCIARY NET POSITION-BEGINNING</b>	<b>\$ 3,430,437</b>
<b>PLAN FIDUCIARY NET POSITION-ENDING (b)</b>	<b>\$ 3,912,826</b>
City's net pension liability-ending (a)-(b)	\$ 343,062
Plan fiduciary net position as a percentage of the total pension liability	91.94%
Covered-employee payroll	268,424
Net pension liability as a percentage of Covered-employee payroll	127.81%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.



## SCHEDULE 3

### SCHEDULE OF EMPLOYER CONTRIBUTIONS (\$000) (UNAUDITED)

YEAR ENDED JUNE 30	EMPLOYEE PAYROLL	ACTUARIALLY DETERMINED CONTRIBUTION	CONTRIBUTIONS RELATED TO THE ACTUARIALLY DETERMINED CONTRIBUTION	CONTRIBUTION DEFICIENCY (EXCESS)	CONTRIBUTION AS A PERCENTAGE OF COVERED PAYROLL
2014	\$ 268,424	\$ 83,480	\$ 64,338	\$ 19,142	23.97%
2013	259,950	69,926	62,128	7,798	23.90%
2012	256,569	61,320	61,320	0	23.90%
2011	257,656	61,322	75,751	(14,429)	29.40%
2010	252,473	60,846	74,227	(13,381)	29.40%
2009	241,609	71,033	71,033	0	29.40%
2008	227,105	74,263	54,051	20,212	23.80%
2007	221,937	74,349	52,821	21,528	23.80%
2006	204,958	63,742	48,780	14,962	23.80%
2005*					

\*No valuation was done on 7/1/2003 to indicate the Actuarially Determined Contribution for the year ended June 30, 2005

## SCHEDULE 4

### SCHEDULE OF INVESTMENT RETURN (UNAUDITED)

YEAR ENDED JUNE 30	ANNUAL MONEY-WEIGHTED RATE OF RETURN, NET OF INVESTMENT EXPENSE
2014	17.53%
2013	11.24%
2012	1.89%
2011	20.29%
2010	16.98%
2009	(20.24%)
2008	3.58%
2007	16.56%
2006	14.02%
2005	18.67%

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.



NOTES TO REQUIRED SUPPLEMENTAL SCHEDULES FOR YEAR ENDED JUNE 30, 2014

**NOTES TO SCHEDULE OF CHANGES IN THE FUND'S NET PENSION LIABILITY AND RELATED RATIOS:**

**A. Benefit changes:** None

**B. Changes in Assumptions:** The mortality rate used at June 30, 2014 include an additional year of mortality improvement over that used in the 2013 valuation which developed the TPL at June 30, 2013

**NOTES TO SCHEDULE OF FUND CONTRIBUTIONS:**

**Valuation date:** Actuarially determined contribution rates are calculated as of July 1, in the prior fiscal year in which contributions are reported, that is, the contribution calculated as of July 1, 2012 will be made during the fiscal year ended June 30, 2014

**ACTUARIAL ASSUMPTIONS:**

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, 2013
Actuarial cost method	Entry age method
Amortization method	Level percentage of payroll over 30 years
Remaining amortization period	Rolling 30 year
Asset valuation method	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. Past investment gains and losses were fully recognized in the Actuarial Value of Assets at July 1, 2013. New gains and losses will be recognized over five years beginning July 1, 2014.
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 Table projected to year 2023 (ten years beyond the valuation date) using Scale AA	
Future DROP interest credits	Floor of 5% and a ceiling of 10%. Interest is assumed to be credited at 8% to reflect an expected average 0.5% net gain due to asset performance outside this range.	
DROP Duration	Duration of DROP at Retirement	Percentage of participants electing retirement at the specified duration
	0	0%
	3	0%
	5	5%
	8	30%
	10	65%

The adoption of the July 1, 2013 actuary valuation for financial statement reporting purposes included a change to the a) mortality rates from the RP-2000 table projected to the valuation using Scale AA to the RP-2000 table projected to 2023 (ten years beyond the valuation date) using Scale AA b) retirement rates for ages 37 and above to better reflect the plan experience c) termination rates for ages 42 and above to better reflect the plan experience.

Other changes in assumptions and methods include a) past investment gains and losses were fully recognized in the Actuarial Value of Assets at July 1, 2013. Future investment gains and losses will be recognized over five years beginning July 1, 2014 b) valuation programming for benefits for participants in the DROP was adjusted based on a review of the assumptions and plan provisions.



**SECTION 2:  
ADDITIONAL SUPPLEMENTAL  
INFORMATION**



SCHEDULE 5

INVESTMENT, PROFESSIONAL SERVICES AND ADMINISTRATIVE EXPENSES  
FISCAL YEAR ENDED JUNE 30, 2014 AND 2013

	2014	2013
<b>INVESTMENT SERVICES:</b>		
Custodial Services	\$ 349,087	\$ 313,703
Money management services	9,351,794	8,373,950
<b>TOTAL INVESTMENT SERVICES</b>	<b>\$ 9,700,881</b>	<b>\$ 8,687,653</b>
<b>PROFESSIONAL SERVICES:</b>		
Actuarial services	188,575	86,230
Audit and accounting services	31,783	37,200
Consulting and professional services	142,094	107,165
Government Relations	444,688	445,236
Legal services	633,719	574,139
Medical examinations	17,913	34,160
<b>TOTAL PROFESSIONAL SERVICES</b>	<b>\$ 1,458,772</b>	<b>\$ 1,284,130</b>
<b>ADMINISTRATIVE EXPENSES:</b>		
Depreciation	875,915	941,066
Continuing education	177,878	143,622
Furniture, equipment and supplies	140,371	115,528
Insurance	796,338	775,427
Investment research	122,249	100,511
Office cost	4,454,837	4,321,096
Facility maintenance	144,066	148,143
Utilities	172,821	179,716
<b>TOTAL ADMINISTRATIVE EXPENSES</b>	<b>\$ 6,884,475</b>	<b>\$ 6,725,109</b>

See accompanying independent auditors' report.





SCHEDULE 6  
SUMMARY OF INVESTMENT AND PROFESSIONAL SERVICES FISCAL YEAR ENDED JUNE 30, 2014

INDIVIDUAL OR FIRM NAME	AMOUNT	NATURE OF SERVICES
Mellon Trust	\$ 349,087	Custodial
Ariel Capital Management	796,749	Money management
AllianceBernstein	1,235,917	Money management
The Mitchell Group	674,159	Money management
Mercator	1,382,251	Money management
Earnest Partners	612,723	Money management
McKinley Capital	917,258	Money management
Mellon Capital LCV	56,357	Money management
Mellon Capital EM	17,959	Money management
Mellon Capital BM	23,534	Money management
Mellon Capital ACWI	14,898	Money management
Mellon Super Stiff/Standish	192,287	Money management
Victory Capital	576,822	Money management
GW Capital	302,863	Money management
Loomis Sayles "A" and "B"	1,122,573	Money management
STW Fixed Income Mgmt "A"	738,476	Money management
STW Fixed Income Mgmt "B"	79,901	Money management
Texas Forest Partners	503,704	Money management
Energy Trust	103,363	Money management
<b>TOTAL INVESTMENT SERVICES</b>	<b>\$ 9,700,881</b>	
Buck Consultants, LLC	188,575	Actuarial
VR Election Services	1,818	Audit
McConnell & Jones, LLP	29,965	Audit
Adjacent Technologies, Inc	4,120	Consulting
EFL Associates	31,461	Consulting
HexaGroup	125	Consulting
Information Network International	2,835	Consulting
Levi, Ray & Shoup, Inc.	20,518	Consulting
Media Masters	12,705	Consulting
Onlineimage	700	Consulting
Real Asset Portfolio Management	31,695	Consulting
The Retirement Plan Company, LLC	14,321	Consulting
Bayside Printing Company, Inc	9,414	Consulting, printing, and design
Limb Design, Inc.	14,200	Consulting, printing, and design
Locke Lord, LLP	300,000	Government Relations
Williams & Jensen, PLLC	144,688	Government Relations
Andrews Kurth, LLP	9,872	Legal
Baker Botts, LLP	219,093	Legal
Ice Miller, LLP	12,389	Legal
Jackson Walker, LLP	150,971	Legal
McGinnis Lochridge	3,743	Legal
McGlinchey Stafford	9,324	Legal
Strasburger & Price, LLP	196,944	Legal
Winstead PC	31,383	Legal
Baylor Occupational Health Program	6,600	Medical examinations
Jeffrey D Britton MD	2,500	Medical examinations
Methodist TMH Physician Organization	1,000	Medical examinations
Santosh Dixit	1,600	Medical examinations
William K. Drell, MD	1,635	Medical examinations
Various other medical physicians	4,578	Medical examinations
<b>TOTAL PROFESSIONAL SERVICES</b>	<b>\$ 1,458,772</b>	

See accompanying independent auditors' report



# REPORT OF CHIEF INVESTMENT OFFICER AND OUTLINE OF INVESTMENT POLICIES

## REPORT OF CHIEF INVESTMENT OFFICER

The primary goal of the Houston Firefighters' Relief and Retirement Fund's (Fund) 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 10-year period.

The internal 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 Fund's investment portfolio performed exceptionally well during the fiscal year ending June 30, 2014.

The 17.8% return added \$600 million in value to Fund assets. As you will see in this report, this year's performance brings our ten-year annualized return to 9.7%; an annualized 1.2% higher than our target return of 8.5%. We are proud of this out-performance as it has added nearly \$200 million in assets to the Fund above the value of target return over the past ten years. Further, the Fund's ten-year return continues to rank in the top percentile among 116 public pension funds according to the Wilshire's Trust Universe Comparison's Report.

During fiscal year 2014, U.S. and foreign stocks contributed the most to our overall return coming in at 27.0% and 22.9%, respectively. The private equity portfolio also delivered outsized returns returning 22.7%.

Bonds, hedge funds and real estate assets were no laggards. Each delivered solid returns.

The Fund, managed by an internal staff of investment professionals, is well-diversified among a variety of asset classes, including global stocks and bonds, private equity, absolute return strategies, real estate and cash. The investment team seeks to meet its investment goals through prudent asset allocation policy, risk management and disciplined manager selection. Even as uncertainties remain in the economy and capital markets, the investment portfolio is well positioned to continue achieving its long-term targets.

	7-YEAR	10-YEAR
HFRRF Total Fund <sup>1</sup>	6.6%	9.7%
Standard & Poor's 500 Index	5.7%	7.3%
Barclays Universal Index	5.8%	4.8%
Public Pension Fund Peers – Median <sup>2</sup>	5.2%	6.9%

1. This information is gross of Fund expenses and investment fees (with the exception of commingled funds and partnerships whose fair value is reported as net asset values) and as such inclusive of management fees and expenses.

2. Source: June 30, Wilshire Trust Universe Comparison Services report (TUCS).

# 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	<b>0.5% - 2%</b>	<b>1%</b>	Custom Benchmark*
Domestic Equities	<b>12% - 25%</b>	<b>17%</b>	Russell 3000 Index
International Equities	<b>12% - 25%</b>	<b>17%</b>	MSCI All Country World Ex-US Index
Fixed Income	<b>30% - 40%</b>	<b>35%</b>	Barclays U.S. Universal Index
Hedge Funds	<b>10% - 20%</b>	<b>12%</b>	Libor plus 3%
<b>PRIVATE MARKETS</b>			
Private Equity	<b>11% - 18%</b>	<b>12%</b>	CA US Private Equity 1QA
Real Estate	<b>4% - 7%</b>	<b>6%</b>	50% NCREIF Property** /50% NCREIF Timberland

\*Custom Benchmark: 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-Yr T-bill Index (6/1/2000 - 11/30/2009); 50% Barclays Capital 3-mo Tr Bill / 50% Barclays 1-3 Yr Tr (12/01/2009 - Present)

\*\*NCREIF Timber/Property: National Council of Real Estate Investment Fiduciaries (NACREIF) Timberland Index / Property Index with a 70/30 split (Inception to 6/30/08); 50/50 split (July 1, 2008 to present).

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, excluding Hedge Funds, 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 or if there is expected to be a near-term large cash outflow, the short-intermediate bond, the Russell 3000 Index and the MSCI AWC xUS Index will be bought/sold pro rata to rebalance cash.

## 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.

## MARKET VALUE AND CURRENT ASSET ALLOCATION (DOLLARS IN MILLIONS)

	2014 MARKET VALUE <sup>1,2</sup>	PERCENT	2013 MARKET VALUE <sup>1,2</sup>	PERCENT
Cash Equivalents	\$ 43	1%	\$ 51	2%
Domestic Equity	802	21%	760	22%
International Equity	760	19%	634	18%
Fixed Income	1,296	33%	1,174	34%
Hedge Funds	445	11%	266	8%
Private Equity	367	9%	352	10%
Real Estate	195	5%	189	6%
	\$ 3,908	100.0%	\$ 3,426	100.0%

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

2. The market values 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.



## INVESTMENT RESULTS

### TOTAL FUND RETURN VS POLICY BENCHMARK<sup>1,2</sup> (PERIOD ENDING JUNE 30, 2014)

	2014	2013	2012	2011	2010	3 YEAR	5 YEAR	7 YEAR	10 YEAR
HFRRF - Total Portfolio	17.8	11.5	2.1	20.6	17.3	10.3	13.7	6.7	9.7
Policy Benchmark	13.0	8.9	2.9	17.2	12.4	8.2	10.8	5.7	7.9

RETURNS BY ASSET CLASS	2014	2013	2012	2011	2010	3 YEAR	5 YEAR	7 YEAR	10 YEAR
HFRRF - Cash	4.2	3.9	26.7	0.5	2.7	11.1	7.2	7.2	7.1
Custom Benchmark	0.4	0.2	0.4	0.8	1.2	0.4	0.6	1.6	2.1
HFRRF - Domestic Equity	27.0	26.8	(7.5)	39.0	22.3	14.2	20.4	6.9	10.2
Russell 3000	25.2	21.5	3.8	32.4	15.7	16.5	19.3	6.5	8.2
HFRRF - Fixed Income	11.9	3.5	10.8	11.0	23.0	8.7	11.9	9.0	8.8
Barclays Capital Universal Index	5.2	0.2	7.4	4.8	10.6	4.2	5.6	5.6	5.3
HFRRF - International Equity	22.9	16.6	(16.3)	30.6	8.9	6.3	11.3	0.4	7.5
MSCI All Country World Ex-US Index	22.3	14.1	(14.1)	30.3	10.9	6.2	11.6	1.7	8.2
HFRRF - Hedge Funds	9.8	4.1	3.5	18.1	15.6	5.8	10.1	8.0	7.3
LIBOR + 3%	3.2	3.3	3.4	3.3	3.3	3.3	3.3	4.1	5.0
HFRRF - Private Equity	22.7	11.9	17.9	16.7	17.5	17.4	17.3	11.5	16.0
CA US Private Equity 1QA	18.9	12.9	11.1	21.6	22.6	14.4	17.3	9.4	14.9
HFRRF - Real Estate	13.0	8.2	8.6	8.0	(7.1)	9.9	5.9	3.1	7.6
50% NCREIF Timberland / 50% NCREIF Prop-	10.6	10.1	6.5	8.4	(0.2)	9.0	7.0	6.0	8.9

1. This information is gross of Fund expenses and investment fees (with the exception of commingled funds and partnerships whose fair value is reported as net asset value and as such inclusive of management fees and expenses)

2. The Fund's Investment results were calculated using a time-weighted rate of return on market values.



COMPARISON OF INVESTMENT RETURNS  
 TOTAL FUND RETURN VS POLICY BENCHMARK  
 (PERIOD ENDING JUNE 30, 2013)

YEAR	TOTAL FUND	MEDIAN TOTAL FUND*	FUND DOMESTIC EQUITY INV	RUSSELL 3000 STOCK IND	S&P 500	FUND FIXED INCOME INV	BARCLAYS CAPITAL UNIVERSAL	BARCLAYS CAPITAL GOV/CREDIT	FUND INTL EQUITY	MSCI ALL COUNTRY WORLD EX US	MSCI EAFE
1998	13.1	17.9	14.6	28.8	30.2	13.2	10.1	11.3	6.1	-	6.1
1999	5.5	11.4	6.7	20.1	22.7	2.2	2.6	2.7	6.3	8.3	7.6
2000	10.3	10.0	(1.4)	9.6	7.3	4.8	4.8	4.3	22.1	16.6	17.2
2001	(1.1)	(4.7)	11.2	(13.9)	(14.8)	5.2	10.8	11.1	(22.2)	(25.4)	(24.8)
2002	(2.4)	(6.0)	(1.0)	(17.3)	(18.0)	1.8	7.7	8.2	(8.1)	(9.4)	(9.5)
2003	6.5	3.9	(1.8)	0.8	0.3	26.8	11.5	13.1	(6.9)	(5.6)	(6.1)
2004	18.4	15.8	30.9	20.5	19.1	4.7	1.0	(0.7)	34.3	32.0	32.4
2005	19.1	9.5	18.6	8.1	6.3	14.3	7.4	7.3	16.1	14.6	13.6
2006	14.5	9.3	16.5	9.6	8.6	1.4	(0.3)	(1.5)	27.9	26.9	26.6
2007	17.0	16.4	19.6	20.1	20.6	9.0	6.6	6.0	29.1	30.1	27.0
2008	4.0	(4.5)	2.2	(12.7)	(13.1)	4.3	6.2	7.2	(5.2)	(8.8)	(10.6)
2009	(20.0)	(17.0)	(38.3)	(26.6)	(26.2)	0.0	4.9	5.3	(36.3)	(30.5)	(31.4)
2010	17.3	12.5	22.3	15.7	14.4	23.0	10.6	9.7	8.9	10.9	5.9
2011	20.6	20.1	39.0	32.4	30.7	11.0	4.8	3.7	30.6	30.3	30.4
2012	2.1	1.5	(7.5)	3.8	5.4	10.8	7.4	8.8	(16.3)	(14.1)	(13.8)
2013	11.5	11.3	26.8	21.5	20.6	3.5	0.2	(0.6)	16.6	14.1	18.6
2014	17.8	15.7	27.0	25.2	24.6	11.9	5.2	4.3	22.9	22.3	23.6

\*Trust Universe Comparison Service report (TUCS) as of June 30, page I-5 ('Total Returns of Master Trusts - All Plans').

ANNUALIZED RETURNS

	TOTAL FUND	MEDIAN TOTAL FUND*	FUND DOMESTIC EQUITY INV	RUSSELL 3000 STOCK INDEX	S&P 500 STOCK INDEX	FUND FIXED INCOME INV	BARCLAYS CAPITAL UNIVERSAL	BARCLAYS CAPITAL GOV/CREDIT
2-YEAR	14.6	14.7	26.9	23.3	22.6	7.6	2.7	1.8
3-YEAR	10.3	10.0	14.2	16.5	16.6	8.7	4.2	4.1
5-YEAR	13.7	12.7	20.4	19.3	18.8	11.9	5.6	5.1
7-YEAR	6.7	5.4	6.9	6.5	6.2	9.0	5.6	5.4
10-YEAR	9.7	7.3	10.2	8.2	7.8	8.8	5.3	4.9

\*Trust Universe Comparison Service report (TUCS) as of June 30, page XV-2 ('Total Returns of Master Trusts - Public').



## TEN LARGEST EQUITY INVESTMENT HOLDINGS (EXCLUDING COMMINGLED FUNDS)

DESCRIPTION	MARKET VALUE	PERCENT OF TOTAL MARKET VALUE
ROCHE HLDG AG GENUSSSCHEINE NPV	\$12,935,684.48	0.33%
OCCIDENTAL PETROLEUM CORP	10,114,186.50	0.26%
ADECCO SA CHF1 (REGD)	9,446,041.94	0.24%
AEGON NV EUR0.12	9,023,024.29	0.23%
INTESA SANPAOLO EUR0.52	8,328,955.67	0.21%
WPP PLC ORD GBP0.10	7,469,558.38	0.19%
DAIMLER AG ORD NPV	7,204,015.48	0.18%
WESTERN UNION CO/THE	7,164,888.00	0.18%
NOBLE ENERGY INC	6,878,448.00	0.18%
KONINKLIJKE DSM NV EUR1.5	6,825,531.42	0.17%

## TEN LARGEST BOND INVESTMENT HOLDINGS

DESCRIPTION	DETAILED DESCRIPTION	MARKET VALUE	PERCENT OF TOTAL MARKET VALUE
UNITED STATES TREASURY NOTE	0.250% 02/29/2016 DD 02/28/14	\$18,831,527.00	0.48%
U S TREASURY NOTE	0.250% 01/15/2015 DD 01/15/12	13,712,878.00	0.35%
U S TREASURY NTS	0.375% 03/31/2016 DD 03/31/14	13,447,554.55	0.34%
U S TREASURY NOTE	0.500% 06/30/2016 DD 06/30/14	13,186,330.50	0.34%
STANDARD CHARTERED PLC 144A	5.700% 03/26/2044 DD 03/26/14	13,082,084.96	0.33%
JPMORGAN CHASE & CO	5.600% 07/15/2041 DD 07/21/11	12,451,723.77	0.32%
HSBC BANK USA NA	7.000% 01/15/2039 DD 06/18/08	12,300,221.13	0.31%
U S TREASURY BONDS	3.750% 11/15/2043 DD 11/15/13	12,117,060.00	0.31%
WELLS FARGO & CO	5.606% 01/15/2044 DD 11/26/13	11,382,132.10	0.29%
BANK OF AMERICA NA	6.000% 10/15/2036 DD 10/26/06	11,232,018.63	0.29%



## FEES FOR INVESTMENT SERVICES

	ASSETS UNDER MANAGEMENT	FEES	BASIS POINTS
<b>INVESTMENT MANAGEMENT FEES</b>			
Cash Equivalents Manager <sup>1</sup>	\$ 127,777,918.33	\$ 192,287.00	0.1505%
Domestic Equity Managers	745,625,163.91	3,363,538.00	0.4511%
International Equity Managers	812,232,514.53	2,945,089.00	0.3626%
Fixed Income Managers	1,220,889,835.00	2,243,813.00	0.1838%
Hedge Funds	445,189,494.38	N/A	N/A
Private Equity	367,166,543.00	103,363.00	0.0282%
Real Estate Investments	195,472,077.00	503,704.00	0.2577%
<b>OTHER INVESTMENT SERVICES</b>			
Custodian Bank	3,914,353,546.15	349,087.00	0.0089%
<b>TOTAL FEES FOR INVESTMENT SERVICES</b>	<b>\$ 3,914,353,546.15</b>	<b>\$ 9,700,881</b>	<b>0.2478%</b>

<sup>1</sup> Includes residual cash from separate accounts, which is swept daily and included in the Super STIF cash management portfolio.





# 2014 BROKERAGE COMMISSIONS

## TOP 25 BROKER COMMISSION PAID

BROKER NAME	BASE COMMISSION
MERRILL LYNCH PIERCE FENNER SMITH INC NY	\$ 102,580
BNY CONVERGEX / LJR, HOUSTON*	76,756
PERSHING LLC, JERSEY CITY	58,870
MERRILL LYNCH & CO INC ATLAS GLOBAL, NY	49,826
CREDIT SUISSE, NEW YORK (CSUS)	45,960
J P MORGAN SECURITIES INC, BROOKLYN	42,532
MORGAN STANLEY & CO INC, NY	32,200
MERRILL LYNCH GILTS LTD, LONDON	30,303
BARCLAYS CAPITAL LE, JERSEY CITY	25,265
INSTINET CORP, NY	24,270
BNY BROKERAGE, NEW YORK	23,808
MERRILL LYNCH PIERCE FENNER, WILMINGTON	20,698
JEFFERIES & CO INC, NEW YORK	19,708
CAP INSTL SVCS INC-EQUITIES, DALLAS	18,565
DEUTSCHE BK SECS INC, NY (NWSCUS33)	17,949
GOLDMAN SACHS & CO, NY	17,372
BNY CONVERGEX, NEW YORK	15,364
PAREL, PARIS	15,269
SG SEC (LONDON) LTD, LONDON	14,945
MERRILL LYNCH FAR EAST LTD, HONG KONG	12,456
J.P. MORGAN CLEARING CORP, NEW YORK	11,069
CITIGROUP GBL MKTS INC, NEW YORK	11,016
LIQUIDNET INC, BROOKLYN	9,866
WESTMINSTER RES ASSC/BROADCORT, NEW YORK	9,487
BERNSTEIN SANFORD C & CO, NEW YORK	9,456
OTHER	325,258
<b>TOTAL</b>	<b>\$ 1,040,848.65</b>

\*Commission recapture broker

Footnote: During Fiscal Year 2013, nearly 8.3% of all trading activity was executed through the commission recapture broker (BNY ConvergEx)





**SECTION 3:  
ACTUARIAL INFORMATION**



# 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

## 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.

the combined contributions of the employee (if specified) and the employer. Determining adequate funding requires making a variety of assumptions to assure full payments can be made from the plan.

## FUNDING FOR A DEFINED BENEFIT PLAN

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

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

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, 2012.





October 8, 2014

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

**David L. Driscoll,**  
**FSA, MAAA, EA, FCA**  
*Principal  
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Dear Board Members:

The Actuarial Valuation Report dated March 2014 describes the results of the actuarial valuation of the Houston Firefighters' Relief and Retirement Fund (HFRRF) as of July 1, 2013. The HFRRF retained Buck Consultants to perform this actuarial valuation for the purposes of determining the funded status as of the valuation date and adequacy of current funding for the plan year July 1, 2014 through June 30, 2015.

**David B. Kent,**  
**FSA, EA, MAAA**  
*Director  
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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 made as of July 1, 2013. According to this valuation, the plan is 86.6% funded – that is, current assets cover 86.6% of the benefits accrued to date by active and retired members and beneficiaries. This is roughly the same as the 87.0% in the July 1, 2012 valuation.

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 assumption for mortality was updated based on new actuarial guidance as described in Actuarial Standard of Practice 35. 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. 67 and 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, 2013 actuarial valuation report. As you know, for the period ending June 30, 2014, a separate report providing information required under GASB Statement No. 67 has been issued.

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 actuarial assumptions, methods, plan provisions, and census data used to determine the July 1, 2013 valuation results are summarized in the Actuarial Valuation Report dated March 2014. The results were prepared under the supervision of David Driscoll, a Fellow of the Society of Actuaries, who meets the Academy's Qualification Standards to issue this Statement of Actuarial Opinion. David Driscoll and David Kent are available to answer questions about the report.

A handwritten signature in black ink that reads "David L. Driscoll".

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David L. Driscoll, FSA, EA, MAAA, FCA  
Principal, Consulting Actuary

A handwritten signature in black ink that reads "David B. Kent".

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David B. Kent, FSA, EA, MAAA  
Director, Consulting Actuary



# SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS JULY 1, 2012

## INVESTMENT RETURN

Eight-and-a-half percent per year, net of administrative and investment 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 2013, for use in the July 1, 2012 valuation and all following valuations of the Fund. The adoption of the July 1, 2011 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

For participants terminating with at least 10 years but less than 20 years of service:

- 50% will elect a contribution refund
- 50% will elect a deferred monthly pension 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

\* 1% 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	1.00%
25	5.0
30	15.0
35	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.



## MEMBER DATA

### 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
7-1-06	3,796	41.2	218,746	52,731	6.8%
7-1-07	3,819	40.5	232,397	57,581	9.2%
7-1-08	3,876	40.2	239,172	59,909	4.0%
7-1-09	3,949	40.3	258,949	61,053	1.9%
7-1-10	3,911	40.5	265,836	63,296	3.7%
7-1-11	3,861	40.5	272,462	65,712	3.8%
7-1-12	3,788	40.8	270,873	66,631	1.0%

### RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

ADDED TO ROLLS		REMOVED FROM ROLLS		ROLLS-END OF YEAR			PERCENTAGE INCREASE IN ANNUAL ALLOWANCES	AVERAGE ANNUAL ALLOWANCES
YEAR ENDED	NO.	ANNUAL ALLOWANCES	NO.	ANNUAL ALLOWANCES	NO.	ANNUAL ALLOWANCES		
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
6-30-11	181	8,905,000	64	1,489,000	2,726	106,832,000	10.6%	39,190
6-30-12	141	7,042,000	77	2,398,000	2,790	114,176,000	6.8%	40,923

#### 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 AND ANALYSIS OF FINANCIAL EXPERIENCE  
(DOLLARS IN THOUSANDS)**

**SOLVENCY TEST**

VALUATION DATE	ACTIVE MEMBER CONTRIBUTIONS	RETIREES, BENEFICIARIES AND VESTED PARTICIPANTS	ACTIVE PARTICIPANTS (CITY-FINANCED PORTION)	ACTUARIAL VALUE OF ASSETS	PERCENTAGE OF ACTUARIAL ACCRUED LIABILITY COVERED BY ASSETS		
					(1)	(2)	(3)
7-1-06	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%
7-1-11	487,277	1,971,360	1,099,573	3,222,288	100%	100%	69%
7-1-12	491,509	2,157,908	1,103,490	3,263,265	100%	100%	56%

**ANALYSIS OF FINANCIAL EXPERIENCE**

GAIN (OR LOSS) DURING YEAR FROM FINANCIAL EXPERIENCE:	YEAR ENDED JULY 1, 2012	YEAR ENDED JULY 1, 2011	YEAR ENDED JULY 1, 2010	YEAR ENDED JULY 1, 2009	YEAR ENDED JULY 1, 2008	YEAR ENDED JULY 1, 2007	YEAR ENDED JULY 1, 2006
From Liability Sources	\$18,328	\$(2,184)	\$27,205	\$76,701	\$13,952	\$(30,485)	\$(25,268)
From Asset Sources	(151,503)	(99,107)	(162,222)	(101,923)	127,248	140,572	52,355
<b>TOTAL</b>	<b>\$(133,175)</b>	<b>\$(101,291)</b>	<b>\$(135,017)</b>	<b>\$(25,222)</b>	<b>\$141,200</b>	<b>\$110,087</b>	<b>\$27,087</b>
Non-Recurring Items*	(2,962)	(24,044)	50,888	0	0	0	(12,459)
Composite Gain (or Loss) During Year	(136,137)	(125,335)	(84,136)	(25,222)	141,200	110,087	14,628

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



## SUMMARY OF PLAN PROVISIONS JULY 1, 2012

### 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 BONUS CHECK

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



## DEFERRED RETIREMENT OPTION PLAN (DROP)

**Eligibility:** 20 years of service.

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

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

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

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

Effective 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 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

Plan provisions reflected in the July 1, 2011 valuation are the same as those in the prior valuation.





**SECTION 4:  
STATISTICAL INFORMATION**



# STATISTICS

## 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, 2014.

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, 2014. 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, 2014. 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, 2014.

## REVENUE CAPACITY

The Schedule of Investment Income presents the details of the total net investment gain/loss for the 10 years ending June 30, 2014. 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, 2014.

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, 2014.

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, 2014.

Some of these terms are used in the Investment section, beginning on page 38. 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
2014	<b>\$23,994</b>	<b>\$64,338</b>	<b>23.90%</b>	<b>\$589,518</b>	<b>N/A</b>	<b>\$677,850</b>
2013	<b>23,382</b>	<b>62,129</b>	<b>23.90%</b>	<b>353,563</b>	<b>N/A</b>	<b>439,074</b>
2012	<b>23,090</b>	<b>61,320</b>	<b>23.90%</b>	<b>57,535</b>	<b>N/A</b>	<b>141,945</b>
2011	<b>23,263</b>	<b>75,751</b>	<b>29.40%</b>	<b>545,937</b>	<b>N/A</b>	<b>644,951</b>
2010	<b>22,728</b>	<b>74,227</b>	<b>29.40%</b>	<b>400,468</b>	<b>N/A</b>	<b>497,423</b>
2009	<b>21,859</b>	<b>71,033</b>	<b>29.40%</b>	<b>(623,612)</b>	<b>N/A</b>	<b>(530,720)</b>
2008	<b>20,431</b>	<b>54,051</b>	<b>23.80%</b>	<b>108,407</b>	<b>N/A</b>	<b>182,889</b>
2007	<b>19,982</b>	<b>52,821</b>	<b>23.80%</b>	<b>426,976</b>	<b>1,273†</b>	<b>501,052</b>
2006	<b>18,471</b>	<b>48,780</b>	<b>23.80%</b>	<b>321,634</b>	<b>N/A</b>	<b>388,885</b>
2005	<b>16,355</b>	<b>32,689</b>	<b>18.00%</b>	<b>339,584</b>	<b>9,325‡</b>	<b>397,953</b>

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
2014	<b>\$186,333</b>	<b>\$8,343</b>	<b>\$785</b>	<b>\$195,461</b>
2013	<b>175,229</b>	<b>8,009</b>	<b>531</b>	<b>183,769</b>
2012	<b>162,255</b>	<b>7,389</b>	<b>250</b>	<b>169,894</b>
2011	<b>156,605</b>	<b>6,571</b>	<b>332</b>	<b>163,508</b>
2010	<b>138,297</b>	<b>6,172</b>	<b>277</b>	<b>144,746</b>
2009	<b>122,614</b>	<b>6,542</b>	<b>321</b>	<b>129,477</b>
2008	<b>112,164</b>	<b>7,301</b>	<b>347</b>	<b>119,812</b>
2007	<b>100,965</b>	<b>7,687</b>	<b>203</b>	<b>108,855</b>
2006	<b>93,843</b>	<b>6,897</b>	<b>265</b>	<b>101,005</b>
2005	<b>86,042</b>	<b>6,738</b>	<b>74</b>	<b>92,854</b>

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



## BENEFIT EXPENSES BY TYPE

	2014	2013	2012	2011	2010
Refunds of Contributions	\$784,927	\$530,855	\$250,284	\$332,417	\$277,483
Death Benefits	275,000	230,000	140,000	165,000	255,000
Deferred Retirees	664,105	634,839	590,919	578,900	534,566
Off-Duty Disabilities	1,365,538	1,637,878	1,388,323	1,509,244	1,299,525
Annual Supplemental Benefit Payments	4,734,007	4,964,072	4,873,736	4,809,178	4,828,773
On-Duty Disabilities	13,036,729	13,124,891	11,564,820	9,479,863	8,464,130
Survivors	19,259,056	19,921,710	16,658,280	16,450,190	16,728,231
DROP Distributions	54,680,454	52,595,304	49,601,265	52,235,851	42,468,145
PROP Distributions	2,982,844	2,845,353	1,979,547	2,020,965	1,230,880
Service Retirees	89,335,022	79,274,499	75,458,262	69,355,398	62,488,177
<b>Total</b>	<b>\$187,117,682</b>	<b>\$175,759,402</b>	<b>\$162,505,436</b>	<b>\$156,937,006</b>	<b>\$138,574,910</b>

	2009	2008	2007	2006	2005
Refunds of Contributions	\$321,282	\$347,112	\$202,679	\$264,965	\$73,668
Death Benefits	190,000	190,000	225,000	240,000	185,000
Deferred Retirees	529,374	602,773	471,176	466,763	454,197
Off-Duty Disabilities	1,619,676	1,692,026	1,385,834	1,433,514	1,494,307
Annual Supplemental Benefit Payments	4,905,980	4,938,010	4,996,204	4,975,774	4,973,854
On-Duty Disabilities	6,944,883	5,973,929	5,962,452	5,762,572	5,393,720
Survivors	14,626,579	13,568,613	12,864,154	11,927,149	10,756,585
DROP Distributions	34,744,795	28,939,800	21,969,057	19,707,773	18,920,316
PROP Distributions	282,917	48,310	—	—	—
Service Retirees	58,769,866	56,210,375	53,091,454	49,329,361	43,864,143
<b>Total</b>	<b>\$122,935,352</b>	<b>\$112,510,948</b>	<b>\$101,168,010</b>	<b>\$94,107,871</b>	<b>\$86,115,790</b>





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

	2014	2013	2012	2011	2010
<b>Additions</b>					
Employer Contributions	<b>\$64,337,994</b>	<b>\$62,128,451</b>	<b>\$61,319,983</b>	<b>\$75,751,401</b>	<b>\$74,226,664</b>
Member Contributions	<b>23,993,560</b>	<b>23,382,322</b>	<b>23,090,070</b>	<b>23,262,706</b>	<b>22,728,287</b>
Net Investment Income (net of expenses)	<b>589,517,944</b>	<b>353,563,220</b>	<b>57,535,053</b>	<b>545,937,273</b>	<b>400,468,020</b>
<b>TOTAL ADDITIONS</b>	<b>\$677,849,498</b>	<b>\$439,073,993</b>	<b>\$141,945,106</b>	<b>\$644,951,380</b>	<b>\$497,422,971</b>
<b>Deductions</b>					
Total Benefit Expenses (see Benefit Expenses by Type)	<b>187,117,682</b>	<b>\$175,759,402</b>	<b>162,505,436</b>	<b>156,937,006</b>	<b>138,574,910</b>
Administrative & Professional Expense	<b>\$8,343,246</b>	<b>\$8,009,239</b>	<b>7,388,675</b>	<b>6,571,307</b>	<b>6,171,647</b>
<b>TOTAL DEDUCTIONS</b>	<b>\$195,460,928</b>	<b>\$183,768,641</b>	<b>\$169,894,111</b>	<b>\$163,508,313</b>	<b>\$144,746,557</b>
Change in Plan Net Positions	<b>482,388,570</b>	<b>255,305,352</b>	<b>(27,949,005)</b>	<b>481,443,067</b>	<b>352,676,414</b>
Net Position Held in Trust, Beginning of Year	<b>3,430,436,708</b>	<b>3,175,131,356</b>	<b>3,203,080,361</b>	<b>2,721,637,294</b>	<b>2,368,960,880</b>
Net Position Held in Trust, End of Year	<b>\$3,912,825,278</b>	<b>\$3,430,436,708</b>	<b>\$3,175,131,356</b>	<b>\$3,203,080,361</b>	<b>\$2,721,637,294</b>

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

\* Court judgment income  
† Agreed judgment income



SCHEDULE OF INVESTMENT INCOME LAST 10 FISCAL YEARS

	2014	2013	2012	2011	2010
<b>INVESTMENT GAIN (LOSS)</b>					
Net appreciation/(depreciation) in fair value of investments	\$504,461,380	\$272,673,315	\$(35,011,612)	\$462,347,334	\$320,274,882
Interest	59,395,942	58,307,673	62,244,100	61,368,886	59,421,505
Dividends	29,493,785	24,692,127	21,646,704	22,548,215	18,157,970
Earnings from private equity	4,681,493	3,703,269	5,861,009	4,718,560	6,345,116
Earnings from real estate	206,442	1,442,371	2,413,935	2,574,744	2,798,466
Miscellaneous	485,993	904,044	361,051	409,183	861,008
	\$598,725,035	\$361,722,799	\$64,515,187	\$553,966,922	\$407,858,947
Investment expenses	(9,700,881)	(8,687,653)	(7,553,775)	(8,664,197)	\$(7,854,253)
Net gain (loss) from investing activities	589,024,154	353,035,146	56,961,412	545,302,725	400,004,694
<b>From Securities Lending Arrangements:</b>					
Earnings	120,060	183,530	296,536	784,926	613,308
Rebates and fees	373,730	344,544	277,105	(150,378)	(149,982)
Loss on default in collateral pool	-				
Net income from securities lending activities	493,790	528,074	573,641	634,548	463,326
<b>Total Net Investment Gain (Loss)</b>	<b>\$589,517,944</b>	<b>\$353,563,220</b>	<b>\$57,535,053</b>	<b>\$545,937,273</b>	<b>\$400,468,020</b>

	2009	2008	2007	2006	2005
<b>INVESTMENT GAIN (LOSS)</b>					
Net appreciation/(depreciation) in fair value of investments	\$(708,952,033)	\$22,032,928	\$328,607,064	\$250,059,653	\$275,802,362
Interest	65,169,217	66,866,092	57,664,859	48,722,319	40,657,595
Dividends	19,478,031	20,052,418	31,620,176	20,577,585	19,360,917
Earnings from private equity	4,765,446	4,372,152	11,690,766	8,231,059	9,085,203
Earnings from real estate	2,936,962	2,217,799	3,198,074	2,186,004	1,788,456
Miscellaneous	372,184	1,256,464	3,092,051	511,678	494,472
	\$(616,230,193)	\$116,797,853	\$435,872,990	\$330,288,298	\$347,189,005
Investment expenses	(6,781,837)	(9,986,181)	(10,182,092)	(10,094,588)	(8,743,758)
Net gain (loss) from investing activities	(623,012,030)	106,811,672	425,690,898	320,193,710	338,445,247
<b>From Securities Lending Arrangements:</b>					
Earnings	2,401,121	15,021,367	31,784,258	23,779,889	10,458,544
Rebates and fees	(1,388,442)	(13,425,744)	(30,499,589)	(22,339,491)	(9,319,354)
Loss on default in collateral pool	(1,612,520)				
Net income from securities lending activities	(599,841)	1,595,623	1,284,669	1,440,398	1,139,190
<b>Total Net Investment Gain (Loss)</b>	<b>\$(623,611,871)</b>	<b>\$108,407,295</b>	<b>\$426,975,567</b>	<b>\$321,634,108</b>	<b>\$339,584,437</b>



NUMBER OF BENEFIT RECIPIENTS BY TYPE AND MONTHLY BENEFIT AMOUNT  
(AS OF JUNE 30, 2014)

MONTHLY BENEFIT AMOUNT	TOTAL NUMBER OF BENEFIT RECIPIENTS	SERVICE	DISABILITY	WIDOWS	CHILDREN	DEPENDENT PARENT	DEFERRED	INACTIVE DEFERRED
\$1 - \$200	1	0	0	1	0	0	0	0
\$201 - \$400	16	0	0	4	3	0	9	0
\$401 - \$600	39	0	0	10	0	0	29	0
\$601 - \$800	35	0	0	10	7	0	18	2
\$801 - \$1,000	28	1	0	4	10	0	13	1
\$1,001 - \$1,200	19	1	1	8	0	0	9	2
\$1,201 - \$1,400	23	6	2	13	2	0	0	0
\$1,401 - \$1,600	42	1	8	24	7	0	2	0
\$1,601 - \$1,800	62	12	18	24	7	0	1	0
\$1,801 - \$2,000	75	23	13	36	3	0	0	0
Over \$2,000	2658	1993	281	366	16	1	1	0
<b>TOTALS</b>	<b>2998</b>	<b>2037</b>	<b>323</b>	<b>500</b>	<b>55</b>	<b>1</b>	<b>82</b>	<b>5</b>

Note: Inactive Deferred Retirees are not included in the totals since they are not yet receiving benefits.



**AVERAGE MONTHLY BENEFIT PAYMENTS OF RETIRED MEMBERS**

EFFECTIVE RETIREMENT DATE	YEARS OF CREDITED SERVICE						
	0-5	6-10	11-15	16-20	21-25	26-30	Over 30
<b>JULY 2013 - JUNE 2014</b>							
Number of Service Retirements	0	0	0	2	4	5	97
Average Monthly Benefits	\$0	\$0	\$0	\$3,199	\$4,773	\$3,826	\$4,288
Average Final Average Salary	\$0	\$0	\$0	\$6,099	\$7,726	\$4,975	\$4,715
<b>JULY 2012 - JUNE 2013</b>							
Number of Service Retirements	0	0	0	0	1	13	106
Average Monthly Benefits	\$0	\$0	\$0	\$0	\$4,356	\$3,666	\$4,490
Average Final Average Salary	\$0	\$0	\$0	\$0	\$7,603	\$4,901	\$4,717
<b>JULY 2011 - JUNE 2012</b>							
Number of Service Retirements	0	0	0	0	2	12	76
Average Monthly Benefits	\$0	\$0	\$0	\$0	\$3,364	\$3,788	\$4,172
Average Final Average Salary	\$0	\$0	\$0	\$0	\$5,902	\$4,981	\$4,446
<b>JULY 2010 - JUNE 2011</b>							
Number of Service Retirements	0	0	0	5	1	22	99
Average Monthly Benefits	\$0	\$0	\$0	\$3,195	\$3,402	\$3,372	\$4,108
Average Final Average Salary	\$0	\$0	\$0	\$5,982	\$5,428	\$4,535	\$4,332
<b>JULY 2009 - JUNE 2010</b>							
Number of Service Retirements	0	0	0	1	1	23	85
Average Monthly Benefits	\$0	\$0	\$0	\$3,371	\$2,507	\$3,137	\$3,921
Average Final Average Salary	\$0	\$0	\$0	\$6,742	\$4,324	\$4,470	\$4,354
<b>JULY 2008 - JUNE 2009</b>							
Number of Service Retirements	0	0	0	0	3	29	49
Average Monthly Benefits	\$0	\$0	\$0	\$0	\$3,253	\$5,287	\$80,424
Average Final Average Salary	\$0	\$0	\$0	\$0	\$3,327	\$4,539	\$322,088
<b>JULY 2007 - JUNE 2008</b>							
Number of Service Retirements	0	0	0	0	6	34	80
Average Monthly Benefits	\$0	\$0	\$0	\$0	\$3,714	\$2,901	\$4,045
Average Final Average Salary	\$0	\$0	\$0	\$0	\$4,934	\$4,196	\$4,186
<b>JULY 2006 - JUNE 2007</b>							
Count	0	0	0	2	4	20	37
Average Monthly Benefits	\$0	\$0	\$0	\$2,465	\$2,986	\$2,737	\$3,719
Average Final Average Salary	\$0	\$0	\$0	\$4,786	\$4,770	\$4,125	\$4,019
<b>JULY 2005 - JUNE 2006</b>							
Number of Service Retirements	0	0	0	2	9	10	12
Average Monthly Benefits	\$0	\$0	\$0	\$2,513	\$2,608	\$2,700	\$3,312
Average Final Average Salary	\$0	\$0	\$0	\$4,774	\$4,293	\$4,107	\$3,744
<b>JULY 2004 - JUNE 2005</b>							
Number of Service Retirements	0	0	0	0	24	18	43
Average Monthly Benefits	\$0	\$0	\$0	\$0	\$2,500	\$2,465	\$3,738
Average Final Average Salary	\$0	\$0	\$0	\$0	\$4,254	\$94,786	\$4,042

**PARTICIPATING EMPLOYER AND ACTIVE MEMBERS**

CITY OF HOUSTON	ACTIVE MEMBERS	PERCENTAGE OF COVERED EMPLOYEES
2014	3,835	100%
2013	3,750	100%
2012	3,788	100%
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%



# GLOSSARY

Some of these terms are used in the Investment section, beginning on page 38. 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 hedge funds. 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 hedge funds.

## **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.





# 2014 COMPREHENSIVE ANNUAL FINANCIAL REPORT

## HOUSTON FIREFIGHTERS' RELIEF AND RETIREMENT FUND

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