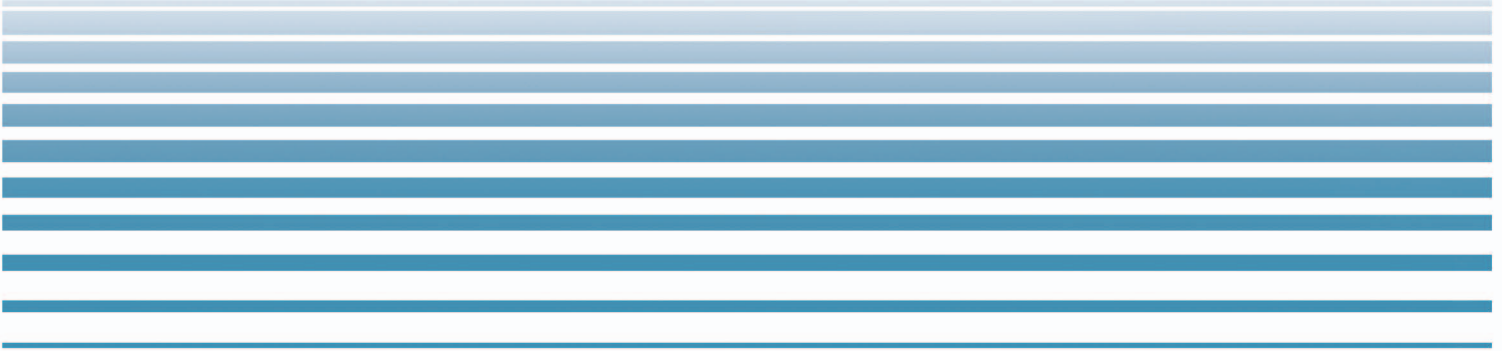




HMEPS

HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM



BEHIND EVERY NUMBER, THERE'S A PERSON

2011 Report to Participants

THOUSANDS
OF MEMBERS,
COUNTLESS
SERVICES,
ONE PLAN.



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Note to Participants

We prepared this report for our participants to serve as a summary of the primary investment, benefit and financial information you care about. All the information in this report is derived from our Comprehensive Annual Financial Report (CAFR) and is consistent with Generally Accepted Accounting Principles (GAAP). All financial information is as of June 30, 2011. (The full CAFR is available on our website at www.hmeps.org/publications.html.)



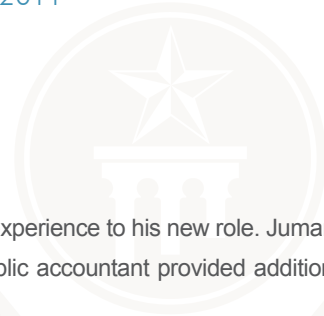
GUIDANCE YOU CAN TRUST





LETTER FROM THE CHAIRMAN

December 31, 2011



Dear Plan Participants:

I am pleased to present the 2011 Report to Participants, which provides a summary of the HMEPS 2011 Comprehensive Annual Financial Report (CAFR) and a review of operations. This is the time of year when we pause to reflect on our accomplishments and to consider our new opportunities. For HMEPS, we posted a number of achievements in this past year and we are looking forward to an even better 2012. We're working hard to bring results to you, our participants.

I am very pleased to report that HMEPS ended the year with a solid investment return of 22.2 percent. I would like to thank the HMEPS Board of Trustees and our professional staff for their continued dedication and commitment to expertly managing and growing the fund – a core part of our mission here. HMEPS is financially sound and fully able to meet its current and future obligations. We're committed to providing excellent service as well as steady, prudent management of the fund's assets so that we can deliver a secure retirement to our participants today, tomorrow and for decades to come.

While we have had our triumphs, we at HMEPS also recognize that unfortunately, it's been a challenging year for some of our participants. A weak economic recovery worsened budget problems at virtually every level of government, resulting in furloughs and layoffs of some City of Houston employees. We have worked with the affected members to ease the transition and facilitate pension benefit matters.

On a personal note, I was honored to be re-elected this year to another term as Board Chairman, along with my colleague Lonnie Vara, who was re-elected as Board Secretary. Roy W. Sanchez was newly elected to the position of Board Vice Chairman.

This past year we also welcomed Gregory Brunt as HMEPS' new Chief Investment Officer and Jumana Aumir as a Financial Analyst. Greg has been with HMEPS since 1998, and he brings a wealth of

knowledge and experience to his new role. Jumana's background as a certified public accountant provided additional value for our investment team.

We also marked a major milestone this year when HMEPS and the City of Houston finalized an Amended and Restated Meet and Confer Agreement. The Agreement provides for structured contributions from the City, makes enhancements to Board operations to promote best practices in investments and governance and increases options for eligible participants that are cost neutral to the System. HMEPS continued to upgrade internal processes designed to improve customer service to our members. Some highlights include an expanded Outreach Program, which pairs members with benefits counselors, the launch of our new electronic document retrieval system, and a seventh successful Financial Retirement Employees Education (F.R.E.E.) Summit.

In October, HMEPS moved its offices to a new location on the ninth floor of the Total Plaza Building at 1201 Louisiana Street. This move will result in significant savings in rent and related expenses.

It's been an exciting year and I assure you, HMEPS will continue to build on its successes in 2012 and beyond with superior service to participants and expert stewardship of the System. I will be reporting to you on our progress throughout 2012. It's truly an honor to serve each of you.

Sincerely,

Sherry Mose
Chairman



BOARD OF TRUSTEES

At the heart of HMEPS is the hard work and dedication of everyone who serves it, beginning with the Board of Trustees. A significant responsibility of the Board is to ensure that HMEPS has in place an adequate system of internal controls. A system of internal controls is an entity's plan of organization and all of its coordinated methods and measures adopted to safeguard its assets, to ensure the accuracy and reliability of the accounting system and to promote adherence to management policies. These controls include strategic design of the entity's business systems, the appropriate segregation of duties and responsibilities, sound practices in the performance of those duties, capable personnel, and the organizational structure itself.

We believe the System's internal controls are adequate and are working as designed.

The majority of the Board's work is conducted at the Board level and within six committees, each of which addresses a specific aspect of the System's operations.

- **The Audit Committee** reviews and monitors the System's audit process and oversees the reporting of financial information for HMEPS.
- **The Budget and Oversight Committee** reviews and monitors HMEPS' operational and administrative expenditures, as well as its actuarial process.
- **The Disability Committee** reviews the submitted medical reports and other relevant information for each disability claim and makes recommendations to the Board as to the appropriate course of action.
- **The External Affairs Committee** deals with matters concerning state and federal legislative issues that affect HMEPS and any agreement or proposed agreement with the City regarding pension issues and benefits.
- **The Investment Committee** reviews investment strategies and has authority over HMEPS' asset allocation, tactical asset allocation, managers and other aspects of HMEPS' operations relating to investments. The Investment Committee is a committee of the entire Board.
- **The Personnel and Procedures Committee** deals with matters concerning HMEPS' employees, changes in policies in the working of HMEPS, and constructing the procedures for HMEPS' adherence to applicable laws.

COMMITTED TO HELPING PARTICIPANTS PLAN AND PREPARE FOR A SECURE RETIREMENT

ORGANIZATIONAL OVERVIEW

Board of Trustees

Elected and Appointed Trustees



Sherry Mose
Chairman



Roy W. Sanchez
Vice Chairman



Lonnie Vara
Secretary



Terrence Ardis
Elected Trustee



David L. Long
Elected Trustee



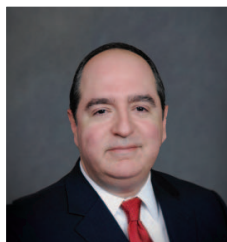
Lenard Polk
Elected Trustee



Barbara Chelette
Appointed Trustee



Richard Badger
Council Appointee



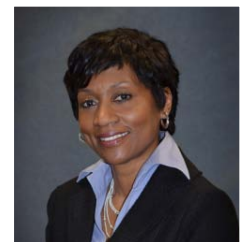
Justo P. Gonzalez
Council Appointee



Craig T. Mason
Mayoral Appointee



Vacant
Controller Appointee



Rhonda Smith
Executive Director

Administrative Organization

Board

- Audit Committee
- Budget and Oversight Committee
- Disability Committee
- External Affairs Committee
- Investment Committee
- Personnel and Procedures Committee

Executive Director

- General Counsel**
- Chief Investment Officer**
- Investment Managers' Services
- Market Research
- Performance Measurement
- Member Services**
- Benefit Administration Services

- Member Services
- Financial Counseling
- Communications

Operations

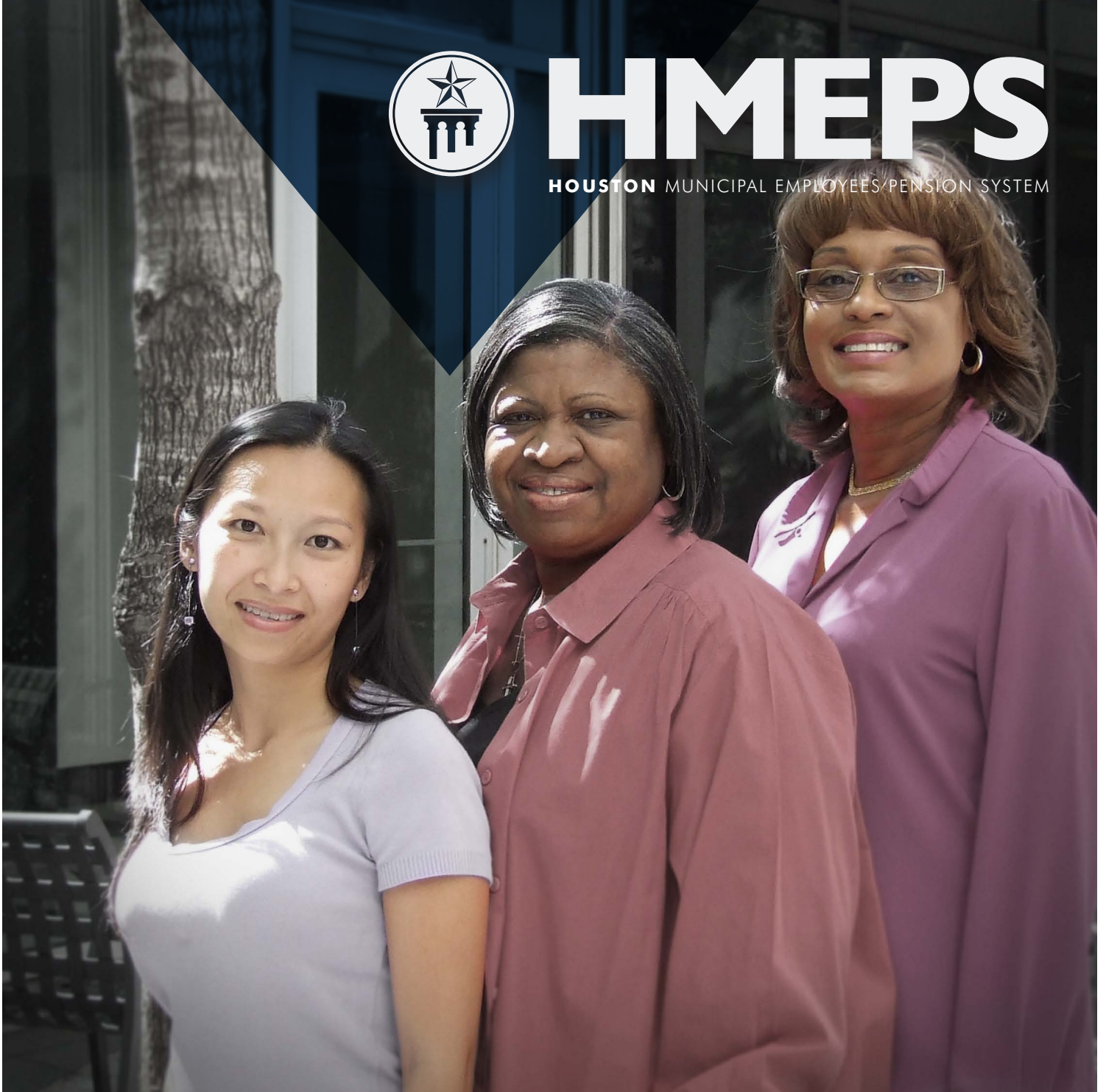
- Records
- Accounting
- Financial Reporting
- Technology Support

HMEPS RECOGNIZED FOR SUCCESSFUL PENSION REFORM



HMEPS

HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM



VISIBLE AND DEMONSTRATED INTEGRITY

A report issued by the Center for State & Local Government Excellence (“Strengthening State and Local Government Finances: Lessons for Negotiating Public Pension Plan Reform”) singled out HMEPS as one of five pension systems that instituted reforms which “made the plans more fiscally sustainable while continuing to provide retirement security to their members.” The report also featured case studies from Iowa, Oregon, Vermont and Gwinnett County, Georgia.

“the plans [became] more fiscally sustainable while continuing to provide retirement security to their members.”

The report includes in-depth summaries of the retirement systems, including a history of the systems, adopted pension reforms, challenges and benefits of pension reform, and lessons learned from the reform process. Overall, the state and local governments achieved their goals by focusing on plan funding, governance, expert data, employee communications and financial education.

The findings reinforce the fact that real change takes years to bear fruit and requires careful planning, good communication, and a strong board. The good news is that pension funding problems can, and are, being addressed in many places including Houston.

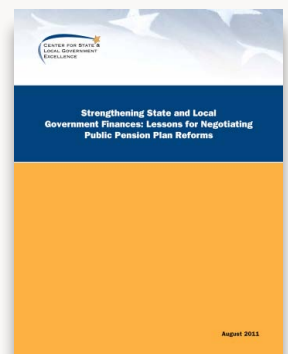
The HMEPS case study focuses on the reforms enacted between 2004 and 2008, which helped shore up funding liabilities while preserving good benefits for municipal employees. HMEPS is in a stronger position today because of early, proactive steps taken by HMEPS and the City to secure the system’s long-term viability.

In the extensive “lessons learned” sections, HMEPS was noted for adhering to several key principles:

- Consider offering a range of retirement options that support cost management while continuing to provide stable benefits for public employees.
- Appreciate the importance of a strong board.
- Foster strong communication by sharing information and reaching out to constituents.
- Include pension administrators when crafting new policies.
- Recognize the importance of investment education.
- Ensure that there is significant institutional economic, actuarial, and investment expertise.

The Center for State and Local Government Excellence is a non-partisan, non-profit organization whose mission is to help state and local governments become knowledgeable and competitive employers so they can attract and retain talented, committed, and well-prepared individuals in public service.

If you want to learn more about this and read the full report you can visit us at www.hmeps.org/pensionissues.html and look for this cover.





THE STAFF

COMMITTED
TO HELPING
PARTICIPANTS
PLAN AND
PREPARE FOR
A SECURE
RETIREMENT



HMEPS' experienced staff members provide expert advice to the Board and make informed decisions every day on a wide range of issues important to the fund and its participants. These individuals are talented professionals who bring their very best to the pension system each day. They can be found in four divisions:

- Member Services
- Investment
- Legal
- Operations

The Member Services division is responsible for serving the needs of our participants on a daily basis. The division's benefits section oversees members' needs from the time they enter the system through retirement, providing them the support needed to understand and access their benefit options.

The Investment division develops and implements investment strategies to maximize returns while minimizing risks. This division is charged with effectively and prudently investing and monitoring HMEPS' assets while adhering to laws, regulations and policy guidelines.

The Legal division works with all HMEPS divisions as well as the Board to help ensure that the System is providing the best service possible to our members in compliance with federal, state and local laws.

The Operations division is responsible for accounting, records and the technology that is crucial to serving HMEPS' participants. The accounting section of the Operations division manages the accounting, budgeting, retiree payments, internal audit and financial reporting functions at HMEPS. Strong financial stewardship of system assets is the primary responsibility of this department.

Major Current and Future Initiatives

During the fiscal year, HMEPS continued to improve processes designed to expand and improve customer service, including:

- Processed 1,734 members for payroll, including retirements, survivor benefits and lump-sum payments.
- Responded to increased demand for the Outreach Program, which reaches hundreds of members with individual and group sessions provided by our benefits counselors and Financial Counselor, who is a Certified Financial Planner. This past year, these staff members conducted 586 individual counseling sessions and hosted 92 joint presentations for various City departments as well as new employee orientations.

The Information Systems (IS) staff also coordinated the launch of the MyPenPay retiree payroll portal, which allows retirees to view online their monthly check history, update relevant personal data and access year-end tax forms, where available.

During fiscal year 2011, the investment and legal team performed due diligence, legal review and manager transition for ten money managers – four new non US equity managers, two fixed income managers and four absolute return managers. In addition, the staff added four new private equity and two new real estate investments. These searches were done along with



In addition, a growing number of participants request financial counseling based on other participants' recommendations.

- Launched an electronic system that allows counselors to access documents without retrieving paper files, expediting both retirement processes and responses to members' inquiries.

The benefits counselors and the Financial Counselor participated in the 2011 Financial Retirement Employees Educational (F.R.E.E.) Summit, an important annual event designed to help City employees prepare for their financial futures. This free event has been a tremendous success with City of Houston employees.

updating HMEPS' Investment Policy Statement and Ethics Policy.

In addition, a key initiative has been the relocation of the HMEPS office, a major undertaking that occurred in Fall 2011. The move met the Board's goals of providing an accessible and conveniently located office for participants, and one that will provide significant savings in administrative costs over the next five years.

PARTICIPANT OVERVIEW



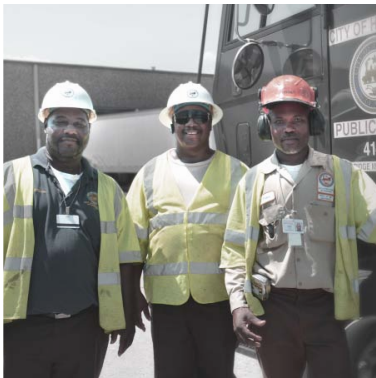
The System is a defined benefit pension plan covering all municipal employees, except police officers and firefighters (other than certain police officers in the System as authorized by the Pension Statute), employed full time by the City of Houston, elected City Officials, and the full time employees of the System. As of July 1, 2010, there were 27,074 participants in HMEPS. Included in this figure are active members, inactive participants, service retirees, disabled retirees and beneficiaries and spouses.

Information as of July 1, 2011 will be available with the next actuarial valuation, which is expected in early 2012.

The System includes a contributory group (Group A) and two noncontributory groups (Group B and Group D) and provides service, disability and death benefits for eligible participants. Participants newly hired on or after January 1, 2008 automatically become members of Group D.

ACHIEVE A GRADUAL INCREASE FOR YOUR EFFORT

AS OF JULY 1, 2010,
THERE WERE 27,074
PARTICIPANTS IN
HMEPS.



PARTICIPANT DATA

	Number	Number Vested	Average Salary or Annual Benefit	Average Age	Average Service
Active Members	12,913	7,812	\$42,648	45.8	10.0 years
Inactive Participants	5,635	2,815	6,847	—	—
Service Retirees	6,482	—	22,280	67.4	—
Disabled Retirees	404	—	9,067	63.0	—
Beneficiaries & Spouses	1,640	—	11,204	68.7	—

SCHEDULE OF ANNUITANTS BY TYPE

SCHEDULE OF ANNUITANTS BY TYPE	June 30, 2010			June 30, 2009		
	Number	Benefits (\$000)	Average Benefit	Number	Benefits (\$000)	Average Benefit
Retirees Receiving Benefits	6,482	144,421	22,280	6,336	138,123	21,799
Retired on Disability	404	3,663	9,067	415	3,689	8,889
Survivors and Beneficiaries	1,640	18,374	11,204	1,589	16,544	10,412
Total Retirees, Survivors and Beneficiaries	8,526	166,458	19,524	8,340	158,356	18,988
Former Participants Eligible but not yet receiving Benefits	2,815	19,275	6,847	2,884	19,598	6,795
Total Eligible for Benefits	11,341	185,733	16,377	11,224	177,954	15,855

HISTORICAL ACTIVE PARTICIPANT DATA

Valuation Date	Number of Participants	Annual Payroll (\$000)	Average Salary (\$)	% Salary Increase
July 1, 2002	12,527	399,794	31,915	(0.1)
July 1, 2003	12,120	390,314	32,204	0.9
July 1, 2004	11,856	366,190	30,886	(4.1)
July 1, 2005	11,974	404,565	33,787	9.4
July 1, 2006	12,145	422,496	34,788	3.0
July 1, 2007	12,376	448,925	36,274	4.3
July 1, 2008	12,653	483,815	38,237	5.4
July 1, 2009	13,333	539,023	40,428	5.7
July 1, 2010	12,913	550,709	42,648	5.5

Beginning with 2005, a change in methodology annualizes payroll for new entrants.



FINANCIALS

Each year HMEPS coordinates an independent external audit to review the System's financial statements and confirm that the statements are free of material misstatement. This outside opinion considers internal control over financial reporting. All HMEPS divisions collaborate to produce the System's Comprehensive Annual Financial Report (CAFR). The System's CAFR is submitted to the Government Finance Officers Association (GFOA), which oversees governmental entity CAFR certification. For the 17th consecutive year, HMEPS received the GFOA Certificate of Achievement for Excellence in Financial Reporting for its thorough financial reporting work on the 2010 CAFR.

Investment Portfolio

The System invests in seven major asset classes and engages the services of or directly invests with numerous professional investment managers with demonstrated skills and expertise in managing portfolios within each asset class as a method to maximize overall fund diversification. As of June 30, 2011 the System's investment policy targets are: 20% U.S. Equities, 20% Non-U.S. Equities, 20% Fixed Income, 18% Private Equity, 12% Real Estate, 5% Absolute Return and 5% Inflation-Linked assets.

Fiscal Year 2011 Financial Highlights

The System's investment portfolio closed fiscal year 2011 at \$2.13 billion, up from \$1.83 billion at the beginning of the year. The total investment return for the fiscal year was 22.2 percent.

The System's investment performance was 22.2%, 4.8% and 6.5% for the past one-, three- and five-year periods. Although the System lagged slightly behind the policy benchmark for fiscal year 2011, it outperformed the policy benchmark for the three and five-year periods. Relative to its peer group, the fund continues to post attractive investment returns over the long term. For the one-year and three-year periods ending June 30, 2011, the Fund outperformed the median fund in the TUCS Master Trusts - Public universe. The System places in the top 10% of all public funds over the past five years and is the top performing fund over ten years.

SUMMARY COMPARATIVE STATEMENT OF PLAN NET ASSETS (\$000)

ASSETS	FY 2011	FY 2010
Cash and equivalents	\$1,065	\$1,599
Investments	2,192,678	1,824,933
Receivables on asset sales	7,487	7,574
Other receivables	27,480	8,500
Collateral on securities lending	116,401	151,090
Furniture, fixtures and equipment, net	307	352
Total Assets	2,345,418	1,994,049
LIABILITIES		
Payable on asset purchases	72,632	5,693
Accrued liabilities	26,944	8,773
Collateral on securities lending	116,401	151,091
Total Liabilities	215,977	165,557
PLAN NET ASSETS	\$2,129,441	\$1,828,492

SUMMARY COMPARATIVE STATEMENT OF CHANGES IN PLAN NET ASSETS (\$000)

	FY 2011	FY 2010
<u>Additions</u>		
Contributions	\$106,611	\$101,788
Investment and interest income, net	391,095	195,433
Other income	1,185	557
Total additions	498,891	297,778
<u>Deductions</u>		
Benefits paid	189,199	191,048
Contribution refunds	1,620	1,285
Administration and professional fees	7,123	7,095
Total deductions	197,942	199,428
Net increase (decrease) in plan net assets	300,949	98,350
Plan net assets, beginning of year	1,828,492	1,730,142
PLAN NET ASSETS, ENDING OF YEAR	\$2,129,441	\$1,828,492

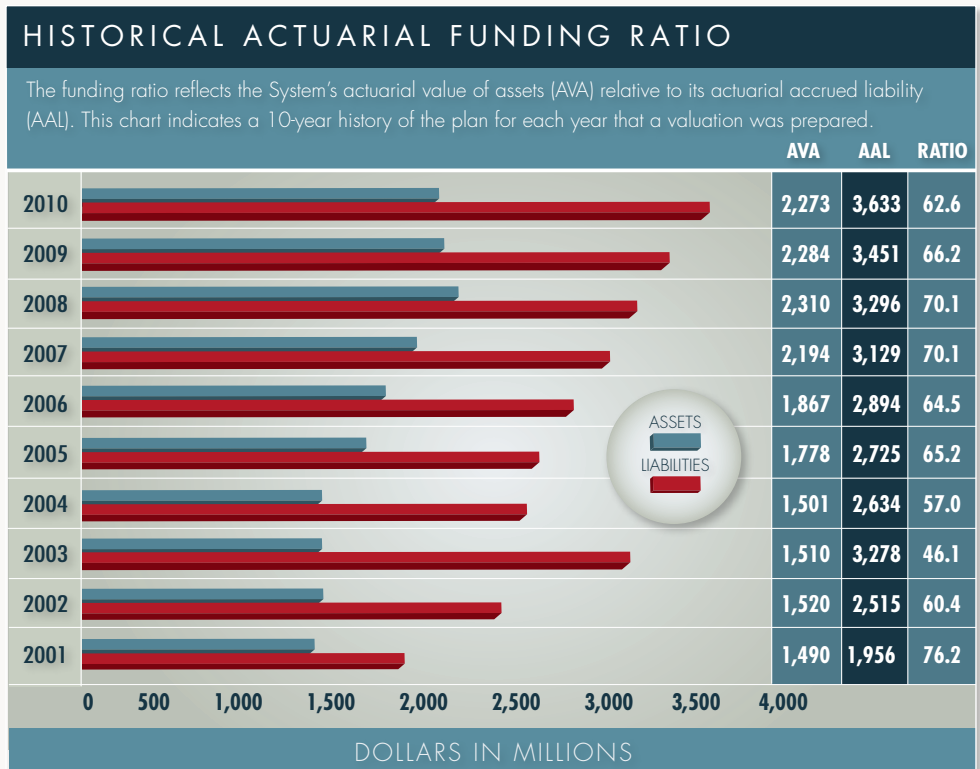
PROFESSIONAL AND ETHICAL PENSION ADMINISTRATION

Financial Markets

Economic growth for the past year has been considerably slower than many market observers had expected. Indicators suggest a deterioration in overall labor market conditions in recent months, and the unemployment rate has moved up. Nevertheless, financial markets continued their recovery throughout fiscal year 2011. The Wilshire 5000 Total Market Index gained 31.99 percent over the past twelve months and the MSCI ACWI ex-U.S. performed nearly as well at 29.73 percent. Yields and spreads on corporate bonds widened modestly in the quarter ending June 30, 2011, but remain significantly below the levels seen immediately after the credit crisis in 2008. The investment grade Barclays Aggregate Bond Index returned 3.90 percent during the year due to continuing low interest rates, while narrowing corporate spreads propelled the Merrill Lynch High Yield Master Trust II Total Return Index to a 15.36 percent return. The Federal Reserve continues to accommodate the fragile recovery with a federal funds target rate of 0.00-0.25 percent.

Inflation picked up earlier in the year, mainly reflecting higher prices for some commodities and imported goods, as well as the supply chain disruptions. More recently, inflation has moderated as prices of energy and some commodities have declined from their earlier peaks. The Consumer Price Index indicated a 3.56 percent inflation rate over the past year, and longer-term inflation expectations have remained stable.

HMEPS' investment portfolio participated in the financial markets rally during fiscal year 2011. The Board has implemented an asset allocation that has led the System to realize extremely attractive risk-adjusted returns. The System returned 22.17 percent during fiscal year 2011, significantly outpacing the actuarial assumed rate of 8.50 percent. This performance compares very favorably to HMEPS' public fund peers, placing in the 36th per-



centile among the TUCS Master Trusts - Public universe for the four quarters ending June 30, 2011. Over longer time periods (5, 7, and 10 years), HMEPS' performance is in the top decile. During the ten-year period ending June 30, 2011, HMEPS' annualized return is 7.75 percent while the median public fund's annualized return is 5.59 percent. This places HMEPS' performance in the top percentile of public funds over that period.



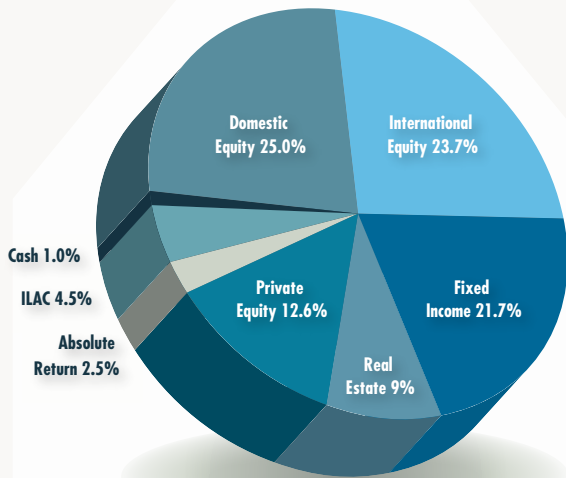
INVESTMENTS

The 10-year period that ended June 30, 2011 produced volatile annual returns, both for the markets as a whole, and also for HMEPS. The System generated double digit positive returns in 6 of the past 10 fiscal years, matched or exceeded its policy index in 6 of those 10 fiscal years, and outperformed its peer group in 7 of those 10 years.

An integral part of HMEPS' overall investment policy is its strategic asset allocation policy. The System's investment allocation provides an efficient diversification of assets designed to achieve portfolio risk and return objectives (see Figure 1).

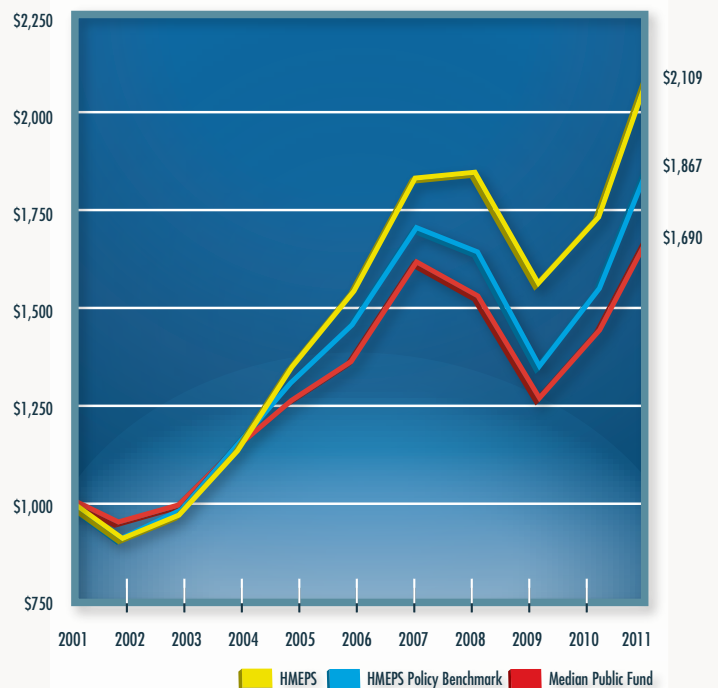
The consistent long-term above-benchmark performance is best illustrated by the growth of \$1,000 invested in HMEPS' total fund, the policy portfolio and the median public fund during the past 10 years (see Table 1). The ending points indicate that \$1,000 invested in HMEPS' total fund would have grown to \$2,109, while the same \$1,000 would have grown to \$1,867 and \$1,690 in the policy portfolio and the median public fund, respectively.

FIGURE 1
SYSTEM ASSET ALLOCATION



As shown in the investment results in the Table "Comparison of Investment Returns – Years Ended June 30" on the following page, HMEPS' total fund return exceeds its policy portfolio for the 3-, 5-, and 10- year time periods. The System's total fund performance also compares favorably relative to the median public fund, as represented by the TUCS Public Fund Universe, and has outperformed this benchmark for the same 3-, 5- and ten-year time periods. Over the ten-year period, HMEPS' performance is in the top percentile of funds in the TUCS universe.

TABLE 1



A GOOD PLAN IS A MOVE IN THE RIGHT DIRECTION



COMPARISON OF INVESTMENT RETURNS – YEARS ENDED JUNE 30

(Calculated based on a time-weighted rate of return based on the market rate of return)

	2011	3 Yrs.	5 Yrs.	10 Yrs.	2010	2009	2008	2007
Actuarial rate	8.5	8.5	8.5	8.5	8.5	8.5	8.5	8.5
Total Portfolio	22.17	4.82	6.54	7.75	12.2	-16.0	0.4	18.6
Median of Wilshire Public Fund Universe/TUCS	21.19	4.53	4.97	5.59	14.8	-19.2	-4.9	17.8
U.S. Equity	33.77	4.36	2.45	4.04	17.3	-27.6	-16.8	19.4
Wilshire 5000 Index	31.99	3.96	3.44	3.73	15.7	-26.4	-12.5	20.5
International Equities	28.14	-2.01	2.88	6.81	7.9	-31.9	-5.4	29.5
MSCI All Country World ex US Index	29.73	-0.35	3.67	7.48	10.9	-30.5	-6.2	30.1
Fixed Income	9.33	8.68	7.48	6.90	17.0	0.4	2.0	9.6
Barclays Aggregate Index	3.90	6.46	6.52	5.75	9.5	6.1	7.1	6.1
Merrill Lynch High Yield Master II Index	15.40	12.39	9.20	8.75	27.5	-3.5	-2.1	11.7
HMEPS Private Equity	22.54	4.22	9.69	7.59	16.8	-20.9	11.9	25.4
S&P 500 Index	30.68	3.33	2.94	2.72	14.4	-26.2	-13.1	20.6
Real Estate	10.92	-15.73	-3.21	6.88	-9.5	-40.4	18.2	20.1
NCREIF Property Index	16.73	-2.57	3.44	7.64	-1.5	-19.6	9.2	17.2
Inflation-Linked	39.72	n/a	n/a	n/a	21.5	n/a	n/a	n/a
Consumer Price Index +4%	7.56	n/a	n/a	n/a	5.1	n/a	n/a	n/a
HMEPS Absolute Return	13.94	n/a	n/a	n/a	23.4	n/a	n/a	n/a
LIBOR +4%	4.33	n/a	n/a	n/a	4.3	n/a	n/a	n/a



HISTORICAL OVERVIEW

City of Houston officials in 1934 began setting aside funds with a special goal in mind – creating a retirement system to serve its hard-working employees. Nine years later, they had accumulated \$281,000 that they used to create the Municipal Pension System. The Texas Legislature established the plan, making the system official on May 3, 1943.

Sixty-six years of service later, the System remains true to the original vision of providing retirement benefits to its members. But there have been a few changes along the way, as well as plenty of growth in assets and membership.

In the System's early years, membership included 108 retirees who received average monthly pensions of \$44.98 and 1,067 active members who made monthly contributions of \$2.00.

By 1950, Houston was the nation's 14th largest city – behind Milwaukee – with a population of 596,163. As the city continued to expand, officials knew they needed a solid workforce to fuel the growth and so they promised new hires a pension. The offer attracted many citizens to local government work, spurring a dramatic increase in the pension system's membership.

Membership in the mid-1950s reached 4,548 and assets grew to \$3,966,825. An employee retiring in 1956 with 28 years of service was entitled to a pension benefit of \$100 per month. The monthly contribution by employees rose to \$7. Also during that time, employees became eligible for Social Security benefits.

As a new decade began in 1960, the System's assets surpassed the \$10 million mark for the first time to total \$10,596,901. Membership stood at 5,376 and active members were contributing \$10 a month to help fund the System's positive trend.

More change came in 1981, when bills were introduced in the Texas Legislature to establish a noncontributory pension group for employees, Group B.

In 1987, the U.S. stock market suffered a severe decline and budgets in most of the nation's cities, including Houston, were adversely affected.

Despite the economic turmoil of the 1980s, the System's market value continued to grow. The 1989 fund was \$546.3 million – a 400 percent increase from 1980. That same year, the System published the first issue of the Pension Press newsletter.

In 1992, Roderick J. Newman was elected as the first African American to serve on the HMEPS Board. In 1993, the Board hired its first executive director, David L. Long, and his administrative staff. That same year, the name was changed to the Houston Municipal Employees Pension System, HMEPS.

HMEPS thrived and its market value climbed to \$1.17 billion in 1997, another major first for the pension system. Also, that year the Deferred Retirement Option Plan (DROP) was instituted.

In 2004, HMEPS and the City entered into its first Meet and Confer Agreement to make certain changes to the pension plan. In subsequent years, there have been additional amendments to the original Meet and Confer Agreement. The Meet and Confer Agreement also established a new noncontributory group – Group D.

HMEPS continued to expand services to its membership in 2006 by participating in the City's first Financial Fitness Expo and introducing AccessHMEPS, an online service for DROP participants.

After serving the System for 35 years in different capacities, Chairman Fred Holmes stepped down from the HMEPS Board in 2008. Rod Newman was elected Chairman, the first African American elected to the post since the creation of the fund in 1943. In September of 2008, Sherry Mose became the first female elected to the office of Chairman.

Effective on July 1, 2011 the Amended and Restated Meet and Confer Agreement (Agreement) between the City and the System went into effect. The Agreement provides for structured contributions from the City to provide the City budgetary flexibility while strengthening the System, enhancements to Board operations to promote best practices, and increased options for eligible participants that are cost neutral to the System.

As of June 30, 2010 the System had more than 27,074 participants and, as of June 30, 2011, total assets of \$2.1 billion. HMEPS is honored to continue the commitment set forth so many decades ago for the valued employees of the City of Houston.



STRONGER TOGETHER FOR A BETTER TOMORROW



ACKNOWLEDGEMENT

HMEPS would like to thank the City of Houston employees whose photographs appear in this report.



HMEPS
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