



# HMEPS

HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM



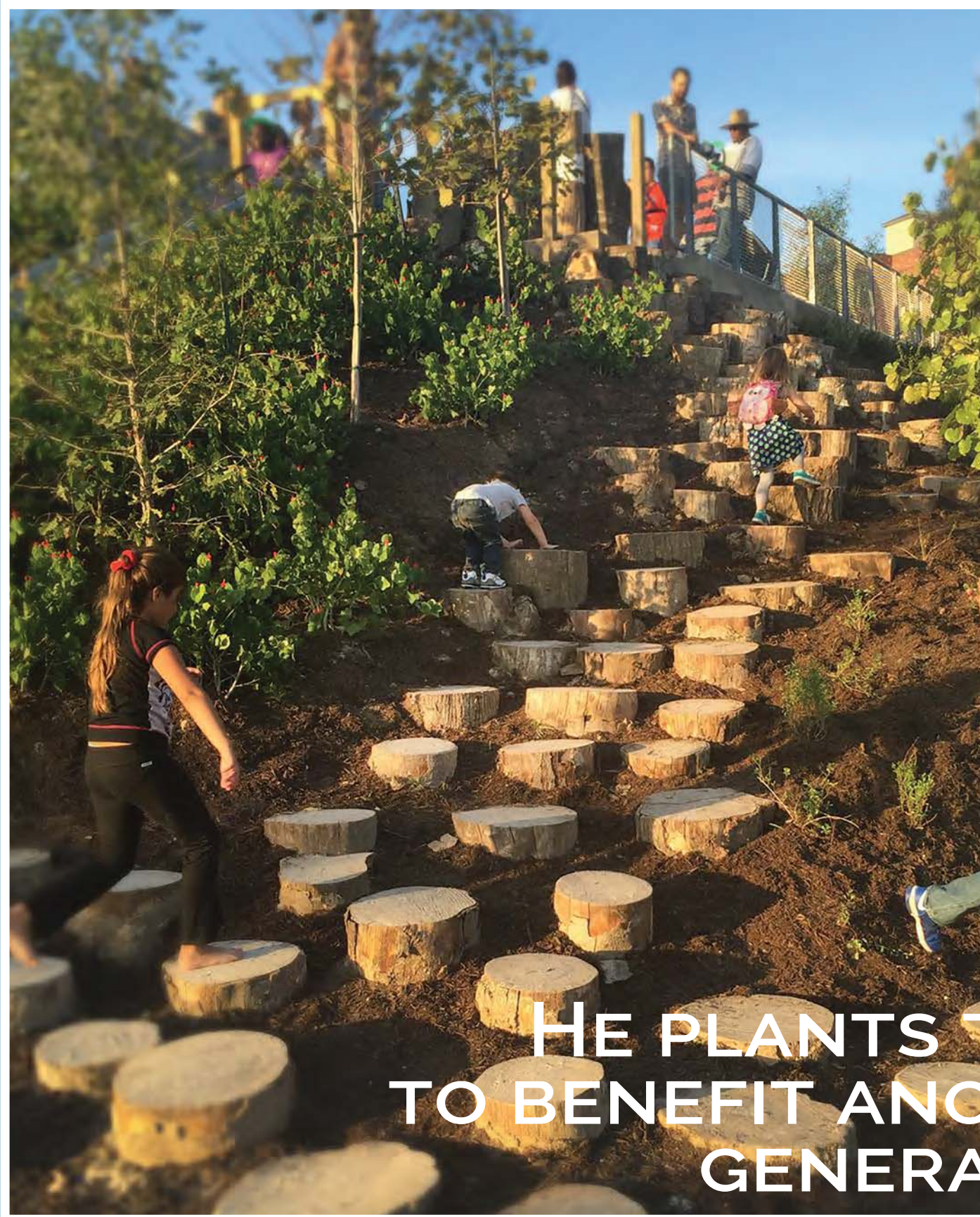
# 100

YEARS OF

## HOUSTON PARKS

A COMPONENT UNIT  
OF THE CITY OF HOUSTON, TEXAS

2016 REPORT TO PARTICIPANTS  
FOR THE YEARS ENDED JUNE 30, 2016 AND JUNE 30, 2015



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TO BENEFIT AND  
GENERA

-Cao



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# HMEPS

## CONTENTS

LETTER FROM THE CHAIRMAN .....	5
Organizational Overview .....	6
BOARD OF TRUSTEES .....	7
THE STAFF .....	8
HMEPS JOINS PARKS AND RECREATION DEPARTMENT IN CELEBRATING 100 YEARS OF SERVICE TO HOUSTON .....	10
PARTICIPANT OVERVIEW .....	12
Participant Data as of June 30, 2015 .....	13
INVESTMENTS .....	14
System Asset Allocation .....	14
Growth of \$1,000 .....	14
Comparison of Investment Returns .....	15
FINANCIALS .....	16



### 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, 2016. (The full CAFR is available on our website at [www.hmps.org/publications.html](http://www.hmps.org/publications.html).)

# HMEPS

HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM



CELEBRATING OUR PARKS



## Letter From the Chairman

January 26, 2017

Dear Participants,

I am pleased to present the 2016 Report to Participants, which summarizes the HMEPS 2016 Comprehensive Annual Financial Report (CAFR) and provides an overview of our operations for the past year. Our HMEPS Board of Trustees and staff, as always, delivered outstanding service to our participants while strengthening the System for the long term.

HMEPS had a full year in 2016, as we worked with a new mayor and administration toward pension and funding reform, navigated challenging investment markets, made a change in administrative leadership and welcomed two new additions to our Board of Trustees.

Although HMEPS' portfolio grew modestly in FY 2016 with a total return of 1.6%, the fund ranks in the top 10% over the trailing ten-year period ending June 30, 2016, with an annualized return of 6.7%. The System generated double digit positive returns in six of the past ten fiscal years, and outperformed similarly situated pension plans in seven of those ten years. The System's well diversified portfolio has provided a five-year annualized return of 6.8%.

In 2016, HMEPS made important changes to its administrative leadership and board governance. With the arrival of a new mayoral administration, HMEPS made a staff leadership change. David L. Long, who had previously served as Executive Director, and most recently had served as a Board Trustee, resumed his

position as Executive Director in January. In addition, we welcomed to our Board of Trustees retiree trustee Rod Newman, who previously was an HMEPS trustee in the active employee trustee position, and David Donnelly, who is the mayoral appointee. I am confident in our staff and board leadership as HMEPS moves forward into 2017.

We also continue to enhance and expand our overall communications efforts. Our two Financial Retirement Employees Educational (F.R.E.E.) Summits held in the spring and fall were very popular and successful. This was the 12th consecutive year HMEPS has co-sponsored this program for our participants.

We look forward to a successful 2017, which will include an eventful legislative session in Austin. We remain committed to protecting and growing the System for our participants, and to working with policymakers on any issues regarding pensions. We will stay vigilant and work diligently on behalf of our participants. I offer best wishes for the new year.

As always, it is an honor to serve as your Chairman.

Sincerely,

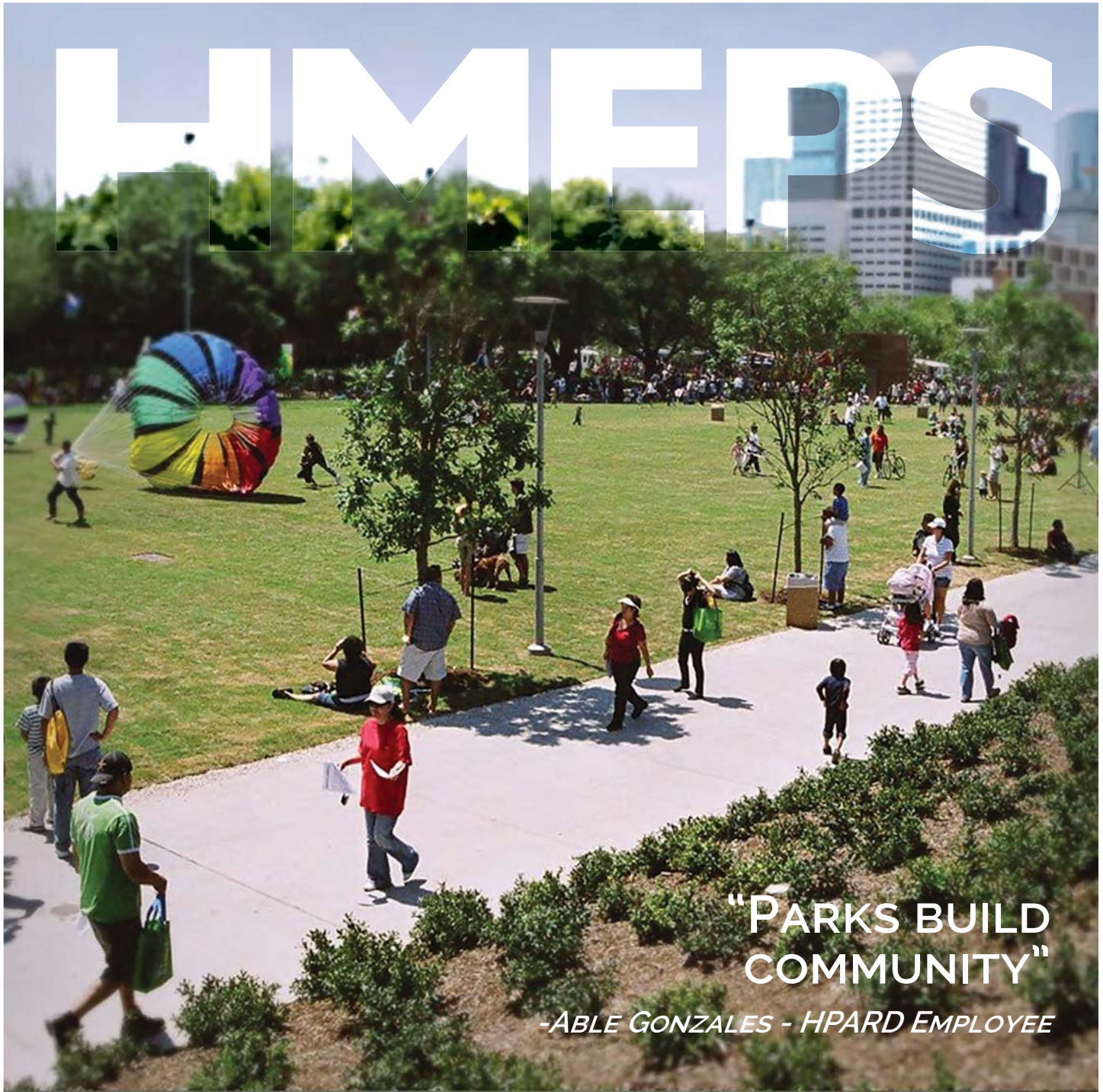


Sherry Mose  
Chairman

# BOARD OF TRUSTEES

## ORGANIZATIONAL OVERVIEW

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. 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.



## Board of Trustees | Elected and Appointed Trustees



**Sherry Mose**  
Chairman



**Roy W. Sanchez**  
Vice Chairman



**Lonnie Vara**  
Secretary



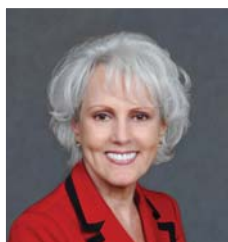
**Roderick J. Newman**  
Elected Trustee



**Asha Patnaik**  
Elected Trustee



**Lenard Polk**  
Elected Trustee



**Barbara Chelette**  
Appointed Trustee



**Edward J. Hamb II**  
Controller Appointee



**Adrian Patterson**  
Council Appointee



**Craig T. Mason**  
Mayoral Appointee



**David L. Long**  
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  
Communications  
Financial Counseling  
Member Services

#### Operations

Accounting  
Financial Reporting  
Records  
Technology Support

- 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 workings of HMEPS, and constructing the procedures for HMEPS' adherence to applicable laws.

# THE STAFF

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.

## Member Services

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.

Member Services provides information relating to pension benefits by holding seminars in the field and individual benefit meetings at HMEPS. In FY 2016, HMEPS:

- Responded to continued demand for the Outreach Program, which reaches hundreds of members with individual and group sessions provided by our benefits counselors and our Certified Financial Planner. This past year, these staff members conducted 245



individual counseling sessions and hosted 36 joint presentations for various City departments as well as new employee orientations for the benefit of 1,925 attendees.

- Processed 1,829 benefit applications, including retirements, the Deferred Retirement Option Plan, survivor benefits, refunds, and lump-sum payments.
- Continued social media efforts to provide information relating to pension benefits to participants through Facebook.
- Participated in the Spring and Fall Financial Retirement Employees Educational Summits, annual events that help City of Houston employees better plan their financial futures.
- Conducted 306 one-on-one counseling sessions between the HMEPS financial counselor and participants in addition to numerous group presentations. The financial counselor also monitored pension-related issues nationally and locally, a critical part of fulfilling HMEPS' efforts to stay informed. A growing number of participants requested financial counseling based on other participants' recommendations.

## Investments

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

The System's investment portfolio closed its 2016 fiscal year at \$2.4 billion. The total investment return for the fiscal year was 1.6%. The System's investment

performance was 6.9%, 6.8% and 6.7% for the past three-, five- and ten-year periods. Compared to similar investment portfolios (TUCS Master Trusts – Public universe), the fund posts attractive investment returns over the long term. The fund ranks in the top 10% over the trailing ten-year period ending June 30, 2016. The best performing asset classes for fiscal year 2016 were Real Estate (13.0%) and Private Equity (7.0%).

## Operations

Operations includes Financial Reporting and Accounting, Technology Support and Records.

Financial Reporting and Accounting encompasses the accounting, budgeting, retiree payments, internal audit and financial reporting functions at HMEPS. HMEPS strives to attain the highest standards of accountability, integrity and openness by applying rigorous controls within the System. HMEPS' efforts were once again recognized by the Government Finance Officers Association (GFOA) of the United States and Canada, which for the 22nd year in a row awarded HMEPS a Certificate of Achievement for Excellence in Financial Reporting.



Technology Support provides and maintains the technology that helps ensure HMEPS' benefits processing is efficient, secure and reliable.

Records staff receives, inputs and maintains the information and records for over 27,000 participants. They apply quality control standards for the maintenance of these records and develop workflow processes that help ensure timely and accurate benefit processing.

## Legal

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 participants in compliance with federal, state and local laws.



# HMEPS JOINS THE HOUSTON PARKS AND RECREATION DEPARTMENT IN CELEBRATING 100 YEARS OF SERVICE TO HOUSTON

Sitting outside on a hot, humid summer day in Houston and watching her eight grandchildren play in the pool always reminds Cheryl Ross-Grant, a 38-year employee, of her early years working in aquatics for the Houston Parks and Recreation Department (HPARD). Year after year she would see youths return to work the season as lifeguards. During the off season, many of them went off to college to earn an education that their summer job at the pool helped them afford. The city's pools not only offer a fun and safe place for our children to play, but they also teach them how to work, earn, save and plan for their future and help make Houston a better place to live. "Seeing these kids come back each year, just seeing their life grow, I know my job has a purpose."

It's hard to imagine what the City of Houston was like 100 years ago. With a population of about 80,000 people, it was the 68th largest city in the United States. There were no official city parks, just a lot of muddy bayous back then. But that began to change in 1916, when the City passed an ordinance declaring the creation of the Department of Public Parks. The department started with two projects – Sam Houston Park and Hermann Park. Today those two beautiful spaces and more than 370 other city parks make the nation's fourth-largest city a better place to live and raise a family.

HMEPS would like to join the Houston Parks and Recreation Department in celebrating 100 years of dedicated service to creating a healthy, beautiful and beneficial environment for residents and visitors. Many people are not aware of all the hard work and commitment that goes into designing, developing, financing, staffing and maintaining these parks and into operating the numerous community centers and recreational programs located within them.

While maintenance is only part of the grand organization, it is a very important duty since HPARD is tasked with maintaining over 37,851 acres of land. The employees take great pride and care in making sure each park looks its best at all times. Joseph Pierucci, a long-time employee of HPARD said, "It's gratifying to know that you're providing places for the public to relax and participate in recreation activities. I've been here 39 years, and I've seen trees that we planted many years ago that are now maturing and providing shade." Pierucci started his tenure as a worker on golf courses and tennis courts and is now the Division Manager overseeing green spaces, parks and medians. He echoes a common sentiment: "I love to be outdoors."



Sam Houston Park (1900) - <http://digital.lib.uh.edu/collection/p15195coll2/item/131>

Working for HPARD has provided him with many memorable experiences, such as working at and attending the Doug Sanders Celebrity Classic Golf Tournament where he met Bob Hope, Sammy Davis Jr., and then-Vice President George H.W. Bush. But it's not all fun and games. Pierucci was integral in coordinating city-wide cleanup efforts after Hurricane Ike. "It presented a different opportunity," he said. "It was a

challenge, but we were all able to pull together and get the job done."

Taking care of the City's landscaping is more than just the responsibility of HPARD. It seems that no other department partners with more City departments than HPARD. Able Gonzales, a 41-year employee of HPARD, said the department partners with libraries, the health department, solid waste, public works, the Mayor's office and others.

For example, libraries are greatly involved with after-school programs that offer tutoring along with other



Long Reach, Buffalo Bayou, near Houston, Texas (1908) - <http://digital.lib.uh.edu/collection/p15195coll16/item/507/show/505>

recreational activities. The Solid Waste Department will help pick up Christmas trees, which are processed into mulch and used to fertilize the esplanades.

"I think we are really involved with the quality of life and maintaining parks. Some people can't go to Disneyland, so we try to beautify the parks and maintain them as well as possible. I think it's a huge quality of life issue," Gonzales said.

Gonzales was originally hired as a recreator and taught art classes to children. He remembers showing them how to tie-dye shirts. "I had more fun than the kids," he said, smiling as he recounts stories of the children he taught in 1975 and how some still make an effort to stay in touch with him. "Parks build community," he said.

Houston always has a place to go to find cultural and wildlife activities in a fun, family-friendly environment. HPARD is involved with many Houston traditions, including the Thanksgiving Day Parade, the City Hall Christmas tree lighting ceremony, the Rodeo Parade and the Fourth of July celebrations.

Houston has earned the accreditation of the Commission for Accreditation of Park and Recreation Agencies (CAPRA), which provides recognition of excellence in

operation and service, while providing assurances to the public that the agency meets national standards of best practices.

An important part of those best practices is utilizing new technology to improve the efficiency of services, a far cry from the early days when Ross-Grant worked in a barn with tractor equipment and a manual typewriter.

She remembers her supervisor having to hunt down an electric typewriter so she could be better equipped to perform her duties.

"Lots of people don't know the impact that we have on the community," Ross-Grant said. When speaking about the summer meal or after-school programs and community centers, she said, "we really rely on the community, volunteers and our business partners to work together to make these programs happen."



Houston has come a long way since its humble beginnings. At HMEPS, we thank our members and retirees for the dedicated service they have selflessly offered to ensure that we have beautiful and high quality parks, esplanades and programs for our children and future generations to enjoy.

# PARTICIPANT OVERVIEW

## AS OF JULY 1, 2015 THERE WERE 27,345 PARTICIPANTS IN HMEPS

Our members come from all City departments and serve their communities' diverse and special needs night and day, in good weather and bad – each contributing unique skills to make Houston a great place to live. HMEPS is honored to serve each and every one of our hardworking members.

HMEPS is a defined benefit pension plan covering all municipal employees, except police officers and firefighters (other than certain police officers as authorized by state law), employed full time by the City of Houston, elected City Officials, and the full time employees of HMEPS. HMEPS 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.

As of July 1, 2015, there were 27,345 participants in HMEPS. Included in this figure are active members, inactive participants, service retirees, disabled retirees and beneficiaries and surviving spouses. Of the 11,827 active employees, 6,352 are male and 5,475 are female. HMEPS also serves 7,819 service retirees, 350 disabled retirees, 1,854 beneficiaries, and 5,495 inactive participants.



## PARTICIPANT DATA AS OF JUNE 30, 2015

PARTICIPANT DATA					
	Number	Number Vested	Average Salary or Annual Benefit	Average Age	Average Service
Active Members	11,827	8,352	\$49,381	47.1	11.2
Inactive Participants	5,495	3,202	7,011	—	—
Service Retirees	7,819	—	24,107	68.5	—
Disabled Retirees	350	—	10,409	64.8	—
Beneficiaries & Spouses	1,854	—	14,752	68.3	—



SCHEDULE OF ANNUITANTS BY TYPE						
SCHEDULE OF ANNUITANTS BY TYPE	June 30, 2015			June 30, 2014		
	Number	Benefits (\$000)	Average Benefit (\$)	Number	Benefits (\$000)	Average Benefit (\$)
Retirees Receiving Benefits	7,819	188,491	24,107	7,498	178,109	23,754
Retired on Disability	350	3,643	10,409	371	3,749	10,108
Survivors and Beneficiaries	1,854	27,349	14,752	1,816	25,823	14,220
Former Participants Eligible But Not Yet Receiving Benefits	3,202	22,450	7,011	3,313	23,048	6,957



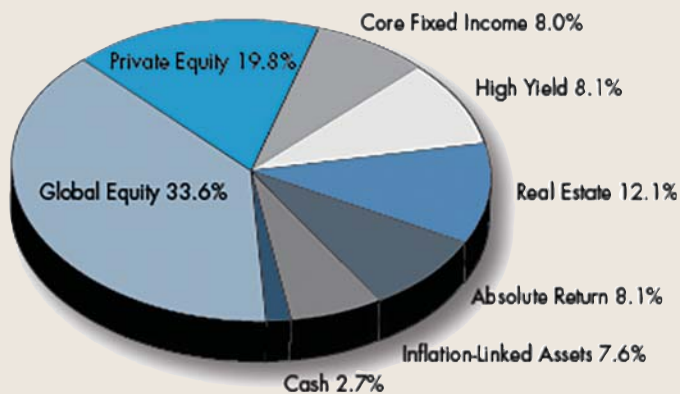
HISTORICAL ACTIVE PARTICIPANT DATA							
Valuation Date	Active Vested/Nonvested			Number of Participants	Annual Payroll (\$000)	Average Salary (\$)	% Salary Increase
	Group A	Group B	Group D				
July 1, 2006	9,544	2,601		12,145	422,496	34,788	3.0
July 1, 2007	9,947	2,429		12,376	448,925	36,274	4.3
July 1, 2008	9,587	2,195	871	12,653	483,815	38,237	5.4
July 1, 2009	8,906	2,153	2,274	13,333	539,023	40,428	5.7
July 1, 2010	8,323	1,999	2,591	12,913	550,709	42,648	5.5
July 1, 2011	7,857	1,932	2,556	12,345	544,665	44,120	3.5
July 1, 2012	7,167	1,759	2,744	11,670	534,394	45,792	3.8
July 1, 2013	6,777	1,666	3,338	11,781	549,971	46,683	1.9
July 1, 2014	6,366	1,590	3,993	11,949	568,992	47,618	2.0
July 1, 2015	5,911	1,489	4,427	11,827	584,025	49,381	3.7

# INVESTMENTS

HMEPS' investment portfolio has performed very well over the long term and ended FY 2016 with \$2.41 billion in assets. Although HMEPS' portfolio grew modestly in FY 2016 with a total return of 1.6%, the fund ranks in the top 10% over the trailing ten-year period ending June 30, 2016, with an annualized return of 6.7%. The System generated double digit positive returns in six of the past ten fiscal years, and outperformed similarly situated pension plans in seven of those ten years. The System's well diversified portfolio has provided a five-year annualized return of 6.8%.

An integral part of HMEPS' overall investment policy is its strategic asset allocation policy. HMEPS' investment allocation provides an efficient diversification of assets designed to achieve portfolio risk and return objectives.

SYSTEM ASSET ALLOCATION



The best performing asset classes for FY 2016 were Real Estate, up 13.0%, and Private Equity, up 7.0%. The benefits of a well-diversified asset allocation are evidenced by HMEPS' ability to perform very competitively over multi-year periods where different asset classes drive overall returns. For the past five-year period, Domestic Equity was the System's best performing asset class, providing a 11.0% return. HMEPS' allocation to Private Equity helped enable the System to perform well over the long term, returning 6.7% over the ten-year period ending June 30, 2016, while a more traditional asset allocation (60%/40% mix of S&P 500 Index/Barclays Aggregate Bond Index) would have returned 6.5% over the same ten-year period.

HMEPS' consistent long-term performance relative to its peers is best illustrated by the growth of \$1,000 invested in HMEPS' total fund, the policy portfolio and median public fund during the past 10 years. The ending points indicate that \$1,000 invested in HMEPS' total fund would

have grown to \$1,904, while the same \$1,000 would have grown to \$1,937 and \$1,730 respectively in the policy portfolio and the median public fund.

GROWTH OF \$1,000



## Financial Markets



U.S. equity markets began the fiscal year sharply down in the first quarter. A healthy rebound in the next three quarters resulted in the broad Wilshire 5000 index posting a modest 3.0% gain for the fiscal year. Reversing a trend of previous years, value stocks outperformed growth stocks, but large capitalization stocks continued to outpace smaller stocks. The Wilshire 5000's 3.0% gain marked the seventh consecutive positive fiscal year for the index since the credit crisis of 2008-2009.

International markets faced many challenges. Emerging markets lagged developed markets, and Asian shares underperformed other regions as China's economic

## COMPARISON OF INVESTMENT RETURNS - YEARS ENDED JUNE 30

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

	2016	3 Yrs.	5 Yrs.	10 Yrs.	2015	2014	2013	2012
Total Fund	1.65	6.94	6.76	6.65	3.38	16.39	13.58	-0.14
Actuarial Rate	8.0	8.3	8.4	8.5	8.5	8.5	8.5	8.5
Policy Portfolio	4.02	8.07	8.19	6.8	4.96	15.61	14.00	3.23
Median of Wilshire Public Fund Universe/TUCS	1.07	6.78	6.82	5.94	3.38	16.83	12.27	1.25
Global Equity	-0.31	7.5	n/a	n/a	2.22	21.92	n/a	n/a
MSCI ACWI IMI	-3.87	6.13	n/a	n/a	0.81	20.92	n/a	n/a
Fixed Income	3.33	4.5	5.16	6.31	1.13	9.22	5.99	6.31
Barclays Capital Aggregate Bond Index	6	4.06	3.76	5.13	1.86	4.37	-0.69	7.48
Merrill Lynch High Yield Master II Index	1.71	4.18	5.71	7.44	-0.55	11.80	9.57	6.51
HMEPS Private Equity	7.05	10.53	10.08	9.89	10.36	14.31	7.85	11.00
S&P 500 Index +3%	6.99	14.66	15.1	10.42	10.42	27.61	23.60	8.44
Real Estate	12.95	10.97	9.85	3.11	10.88	9.11	12.80	3.78
NCREIF Property Index	10.64	11.6	11.51	7.4	12.96	11.21	10.73	12.00
Inflation-Linked	-12.18	-0.8	-2.69	n/a	-9.14	22.33	14.52	-21.96
Consumer Price Index +4%	5.01	5.06	5.32	n/a	4.12	6.07	5.75	5.66
HMEPS Absolute Return	-6.92	0.83	2.41	n/a	2.65	7.28	10.87	-0.86
LIBOR +4%	4.51	4.34	4.36	n/a	4.25	4.24	4.31	4.46

 - HMEPS Assets  - Benchmark

slowdown affected many of its neighbors. Emerging country commodity producers that provided China with its raw materials also faced difficulties. Europe's anemic growth weighed on developed market performance. Additionally, despite a year-end rally, Brexit fears put downward pressure on European equities during the year. Overall, an index comprised of countries other than the United States, the MSCI ACWI ex-U.S. Index (net), returned -10.2% during fiscal year 2016.

U.S. Treasury securities generated positive returns in fiscal year 2016 as uncertainty in financial markets led to investors seeking safe havens. The Federal Reserve's very modest increase in interest rates in December 2015 was too small to lead to major changes in the bond markets. Over the course of the fiscal year, investors' preference for safety weighed on high yield fixed income securities which underperformed investment grade bonds. Investment grade bonds as represented by the Barclay's U.S. Aggregate bond index were up 6.0% for fiscal year 2016. High yield bonds as represented by the Merrill Lynch High Yield Master Trust II Index were up 1.7% for the fiscal year.

Among the alternative asset classes, Real Estate and Private Equity returned 13.0% and 7.0% respectively. The slowly growing U.S. economy provided stable returns for real estate, and the increase in short term interest rates was too small to meaningfully change that dynamic. Fiscal year 2016 turned in another solid year for private equity returns. General partners saw the best fundraising environment since the 2008 credit crisis, though 2016 private equity returns moderated from the returns of previous years.

Overall, the System's investments returned 1.6% for fiscal year 2016. Through the efforts of the Board of Trustees, the System's investment portfolio is more broadly diversified than most public pension plans and exhibits less volatility, particularly during extreme market environments. Over long periods of time (10 years), the System's investment performance ranks in the top 10% in the TUCS Master Trusts – Public Universe peer group. During the 10-year period ending June 30, 2016, the system's annualized return was 6.7%, with the median comparable fund returning 5.9%.

# FINANCIALS

Each year, an independent external audit is performed to review the HMEPS' financial statements to provide assurance that the statements are free of material misstatement. This outside opinion considers internal controls over financial reporting. All HMEPS divisions collaborate to produce the HMEPS Comprehensive Annual Financial Report (CAFR). The HMEPS CAFR is submitted annually to the Government Finance Officers Association (GFOA), which oversees governmental entity CAFR certification. For the 22nd consecutive year, HMEPS received the GFOA Certificate of Achievement for Excellence in Financial Reporting for its thorough financial reporting work on the 2015 CAFR.

## Revenues (Additions) and Expenditures (Deductions)

The historical Summary Statement of Changes in Fiduciary Net Position table (next page) shows HMEPS' funding is derived from income appreciation on investments, and member and employer contributions. For 2016, net investment income was \$27.9 million and total contributions were \$175.8 million.

On the expenditure side, the majority of the fund's expenses were associated with participants' periodic and one-time (refund or DROP) payments of \$254.3 million, or 97.2% of total expenses. As shown in the table on page 17, the remainder of the fund's expenses is comprised of administrative expenses of \$6.3 million (2.4%) of total expenses, and professional fees of \$1.0 (0.4%) of total expenses.

### SUMMARY COMPARATIVE STATEMENT OF FIDUCIARY NET POSITION (\$000)

ASSETS	FY 2016	FY 2015
Cash and equivalents	\$ 7,551	\$ 622
Receivables on asset sales	6,048	19,724
Receivables on foreign exchanges	2,993	228
Other receivables	4,337	4,928
Investments	2,396,798	2,467,340
Collateral on securities lending	73,941	101,533
Furniture, fixtures and equipment, net	298	395
<b>Total Assets</b>	<b>2,491,966</b>	<b>2,594,770</b>
LIABILITIES		
Payable on asset purchases and foreign exchange	12,133	30,781
Accrued liabilities	5,868	5,912
Collateral on securities lending	73,941	101,533
<b>Total Liabilities</b>	<b>91,942</b>	<b>138,226</b>
<b>FIDUCIARY NET POSITION</b>	<b>\$ 2,400,024</b>	<b>\$ 2,456,544</b>

### SUMMARY COMPARATIVE STATEMENT OF CHANGES IN FIDUCIARY NET POSITION (\$000)

ADDITIONS	FY 2016	FY 2015
Contributions	\$ 175,832	\$ 161,205
Investment and interest (loss) income, net	27,988	73,854
Other income	1,303	557
<b>Total Additions</b>	<b>205,123</b>	<b>235,616</b>
DEDUCTIONS		
Benefits paid	253,178	234,955
Contribution refunds	1,105	1,549
Administration and professional fees	7,360	7,007
<b>Total Deductions</b>	<b>261,643</b>	<b>243,511</b>
Net increase (decrease) in plan net position	(56,520)	(7,895)
Plan net position, beginning of year	2,456,544	2,464,439
<b>FIDUCIARY NET POSITION</b>	<b>\$ 2,400,024</b>	<b>\$ 2,456,544</b>

## SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION (\$'000)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Additions</b>										
Employer contributions	70,265	73,272	76,837	82,052	87,285	97,161	111,859	128,274	145,007	159,958
Member contributions	20,966	21,176	20,449	19,736	19,326	18,473	17,041	16,580	16,198	15,874
Investment Income	337,259	(29,133)	(440,298)	195,433	391,095	(11,963)	263,891	351,793	73,854	27,988
Other income	29,031	29,839	489	557	1,185	654	1,246	730	557	1,303
<b>Total additions</b>	<b>457,521</b>	<b>95,154</b>	<b>(342,523)</b>	<b>297,778</b>	<b>498,891</b>	<b>104,325</b>	<b>394,037</b>	<b>497,377</b>	<b>235,616</b>	<b>205,123</b>
<b>Deductions</b>										
Benefit payments	157,716	169,483	180,361	191,048	189,199	200,014	213,178	221,925	234,955	253,178
Refund of contributions	1,398	1,760	1,795	1,285	1,620	2,206	1,266	1,213	1,549	1,105
Professional services fees	883	638	792	805	1,103	1,048	871	597	822	1,021
Cost of administration	5,223	5,837	6,420	6,290	6,020	6,264	6,341	5,818	6,185	6,339
<b>Total deduction</b>	<b>165,220</b>	<b>177,718</b>	<b>189,368</b>	<b>199,428</b>	<b>197,942</b>	<b>209,532</b>	<b>221,656</b>	<b>229,553</b>	<b>243,511</b>	<b>261,643</b>
<b>Changes in net position</b>	<b>292,301</b>	<b>(82,564)</b>	<b>(531,891)</b>	<b>98,350</b>	<b>300,949</b>	<b>(105,207)</b>	<b>172,381</b>	<b>267,824</b>	<b>(7,895)</b>	<b>(56,520)</b>
<b>Net position as of June 30</b>	<b>2,344,597</b>	<b>2,262,033</b>	<b>1,730,142</b>	<b>1,828,492</b>	<b>2,129,441</b>	<b>2,024,234</b>	<b>2,196,615</b>	<b>2,464,439</b>	<b>2,456,544</b>	<b>2,400,024</b>



## Funding Status

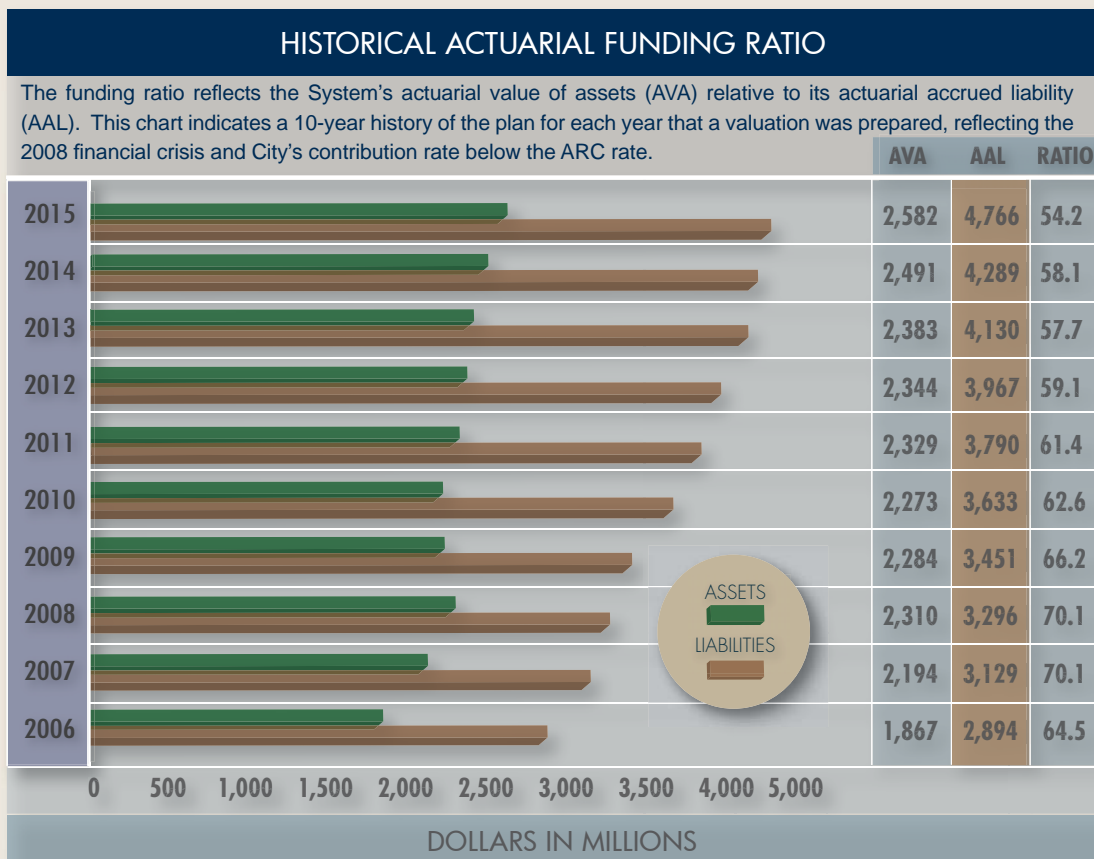
The System's funding objective is to establish contributions which, when combined with present assets and future investment returns, will be sufficient to meet the financial obligations to present and future retirees and beneficiaries.

Annual actuarial valuations measure the progress toward these goals, as well as test the adequacy of the contribution rate. HMEPS receives contributions from two sources: employer contributions, which are determined as a percent of covered payroll (unless otherwise specified under the Amended and Restated Meet and Confer Agreement); and Group A member contributions. The System's actuary assumes that the System's investments will return 8.0 percent over the long-term. The differences between the assumed and actual investment return are phased in over 5 years, yielding an actuarial value of assets. This smoothing is intended to avoid extreme volatility in employer

contribution rates due to short-term fluctuations in the investment markets.

The funded ratio, the ratio of the actuarial value of assets (AVA) to the actuarial accrued liability (AAL), is a standard measure of a plan's funded status. In the absence of benefit improvements or reduced funding, a plan's funded ratio should increase over time, until it reaches 100%. The funded status alone is not appropriate for assessing the sufficiency of plan assets to cover the estimated cost of settling the plan's benefit obligations.

As of July 1, 2015 HMEPS' AVA and AAL were \$2.58 billion and \$4.77 billion, respectively, resulting in a funded ratio of 54.2%. This is lower than the funded ratio as of July 1, 2014 which was 58.1%. This change is primarily the result of a reduction in the assumed investment rate of return from 8.5% in 2014 to 8.0% in 2015.



# 2017 Pension Payment Schedule



**HMEPS**  
HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM

The schedule below indicates the dates set for payment of benefits. Direct Deposits (ACH) will be deposited on the last business day of each month. If you receive your pension benefit by mail it is typically mailed 3-4 days before the last business day of the month. If you would like to enroll in direct deposit, please visit the MyPenPay link from the HMEPS website at [www.hmeps.org](http://www.hmeps.org), or call the HMEPS office at 713-595-0100.

January 2017							February 2017							March 2017							April 2017						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
1	2	3	4	5	6	7				1	2	3	4				1	2	3	4							1
8	9	10	11	12	13	14	5	6	7	8	9	10	11	5	6	7	8	9	10	11	2	3	4	5	6	7	8
15	16	17	18	19	20	21	12	13	14	15	16	17	18	12	13	14	15	16	17	18	9	10	11	12	13	14	15
22	23	24	25	26	27	28	19	20	21	22	23	24	25	19	20	21	22	23	24	25	16	17	18	19	20	21	22
29	30	31					26	27	28					26	27	28	29	30	31		23	24	25	26	27	28	29
																					30						
May 2017							June 2017							July 2017							August 2017						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
	1	2	3	4	5	6					1	2	3						1				1	2	3	4	5
7	8	9	10	11	12	13	4	5	6	7	8	9	10	2	3	4	5	6	7	8	6	7	8	9	10	11	12
14	15	16	17	18	19	20	11	12	13	14	15	16	17	9	10	11	12	13	14	15	13	14	15	16	17	18	19
21	22	23	24	25	26	27	18	19	20	21	22	23	24	16	17	18	19	20	21	22	20	21	22	23	24	25	26
28	29	30	31				25	26	27	28	29	30		23	24	25	26	27	28	29	27	28	29	30	31		
														30	31												
September 2017							October 2017							November 2017							December 2017						
S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S	S	M	T	W	T	F	S
					1	2	1	2	3	4	5	6	7				1	2	3	4						1	2
3	4	5	6	7	8	9	8	9	10	11	12	13	14	5	6	7	8	9	10	11	3	4	5	6	7	8	9
10	11	12	13	14	15	16	15	16	17	18	19	20	21	12	13	14	15	16	17	18	10	11	12	13	14	15	16
17	18	19	20	21	22	23	22	23	24	25	26	27	28	19	20	21	22	23	24	25	17	18	19	20	21	22	23
24	25	26	27	28	29	30	29	30	31					26	27	28	29	30			24	25	26	27	28	29	30
																					31						

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