



HMEPS

HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM



AFTER 75 YEARS OF SERVICE
**WE EMERGE WITH
A BRIGHT FUTURE**

2018 Report to Participants

FOR THE YEARS ENDED JUNE 30, 2018 AND JUNE 30, 2017

A component unit of the City of Houston



The financial data presented in this report is derived from the 2018 HMEPS Comprehensive Annual Financial Report (CAFR) in conformity with GAAP (accrual basis). The CAFR is available at www.hmeps.org.

LETTER FROM THE CHAIRMAN



Dear Participants:

I am pleased to present the 2018 Report to Participants, which summarizes the HMEPS 2018 Comprehensive Annual Financial Report (CAFR) and provides an overview of our operations for the last year.

We are celebrating a remarkable milestone for the System this year – our 75th anniversary. In 1943, the Municipal Pension System was established with \$281,000 as a retirement system for the hard-working employees of the City of Houston. The System became official on May 3, 1943.

Now with over 28,000 participants and \$3 billion in assets, we have grown tremendously. But after 75 years of dedicated service, the System remains true to the original vision of providing secure retirement benefits to our participants. HMEPS is honored to continue the commitment set forth so many decades ago for the municipal employees of the City of Houston.

I am pleased to report that HMEPS' investment performance for Fiscal Year 2018 was 9.3%. The System generated double digit positive returns in five of the past ten fiscal years, and outperformed its peer group in seven of those ten years. We continue to diversify our investment portfolio to manage risk and maximize returns for our participants.

You, as a participant, are part of a pension plan with a strong history of experienced trustees and administrators who are committed to delivering outstanding service and strengthening the System for the long term. I am proud to continue this philosophy of trusted leadership within the System.

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

A handwritten signature in black ink, appearing to read "Sherry Mose".

Sherry Mose



BOARD OF TRUSTEES



Sherry Mose
Chairman



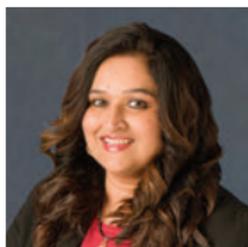
Roy W. Sanchez
Vice Chairman



Lonnie Vara
Secretary



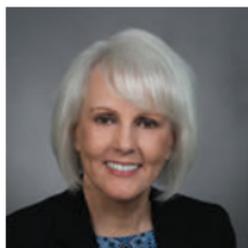
Roderick J. Newman
Elected Trustee



Asha Patnaik
Elected Trustee



Lenard Polk
Elected Trustee



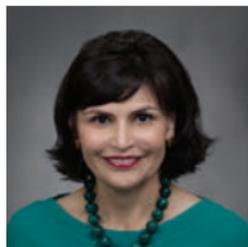
Barbara Chelette
Appointed Trustee



David Donnelly
Mayoral Appointee



Edward J. Hamb II
Controller Appointee



Denise Castillo-Rhodes
Council Appointee



Adrian Patterson
Council Appointee



David L. Long
Executive Director

BOARD COMMITTEES

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

ADMINISTRATIVE ORGANIZATION

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

FINANCIAL INFORMATION

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

ASSETS	2018	2017 (RESTATED)
Cash and cash equivalents	\$ 31,377	\$ 7,917
Investments	2,959,795	2,594,843
Receivables on asset sales	6,059	4,751
Contribution receivable - City of Houston	7,751	7,363
Other receivables	4,493	3,661
Collateral on securities lending	49,472	47,371
Furniture, fixtures and equipment, net	133	178
Total Assets	\$ 3,059,080	\$ 2,666,084
LIABILITIES		
Payables on asset purchase	9,149	9,784
Accrued liabilities	11,520	10,871
Collateral on securities lending	49,472	47,371
Total Liabilities	70,141	68,026
FIDUCIARY NET POSITION	\$ 2,988,864	\$ 2,598,058

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

ADDITIONS	2018	2017 (RESTATED)
Contributions	\$ 449,467	\$ 198,459
Investment and interest (loss) income, net	231,815	290,911
Other income	701	1,272
Total Additions	\$ 681,983	\$ 490,642
DEDUCTIONS		
Benefits paid	283,928	280,456
Contribution refunds	807	718
Administration and professional fees	6,442	6,827
Total Deductions	291,177	288,001
Net increase (decrease) in plan net position	390,806	202,641
Plan net position, beginning of year	2,598,058	2,400,024
End of year as previously stated		2,602,665
Prior years adjustment for OPEB		4,607
FIDUCIARY NET POSITION	\$ 2,988,864	\$ 2,598,058

The investment objective of the System’s portfolio is to produce an annualized investment return over the long term that exceeds the actuarial return rate assumption for the System. This will help achieve the overall objective of providing adequate retirement benefits to the participants of the System.

The System’s investment allocation provides an efficient allocation of assets that is designed to achieve overall portfolio risk and return objectives. The current target and actual allocations are shown below.

The System invests in seven major asset classes (Global Equities, Fixed Income, Real Estate, Private Equity, Inflation-Linked, Private Credit, and Absolute Return) and engages the services of numerous professional investment managers (including in both public markets and private partnerships) with demonstrated skills and expertise in managing portfolios within each asset class as a method to maximize overall fund diversification.

For the fiscal year ended June 30, 2018, the System returned 9.3%. This rate of return exceeded both the System’s policy benchmark return of 8.3%, and the return of the median fund in the Wilshire TUCS Master Trusts – Public Universe of 8.5%.

ASSET ALLOCATION

ASSET CLASS	TARGET	ACTUAL
Global Equity	32.5%	33.0%
Private Equity	17.0%	20.7%
Fixed Income	10.0%	13.7%
Private Credit	5.0%	0.5%
Real Estate	12.5%	10.3%
Absolute Return	8.0%	5.7%
Inflation Linked	15.0%	14.4%
Cash/Liquidation	-	1.7%

MEMBERSHIP

PARTICIPANT DATA AS OF JUNE 30, 2018

	<u>Number</u>
Active Members	11,809
Service Retirees.	8,616
Disabled Retirees.	298
Beneficiaries & Spouses	1,918

SCHEDULE OF ANNUITANTS BY TYPE

	JUNE 30, 2018			JUNE 30, 2017		
	NUMBER	BENEFITS (\$000)	AVERAGE BENEFIT (\$)	NUMBER	BENEFITS (\$000)	AVERAGE BENEFIT (\$)
Retirees Receiving Benefits	8,616	212,243	24,634	8,376	201,890	24,103
Retired on Disability	298	3,462	11,617	323	3,613	11,186
Survivors and Beneficiaries	1,918	31,521	16,434	1,902	30,329	15,946
Former Participants Eligible But Not Yet Receiving Benefits	3,451	-	-	3,409	-	-

HISTORICAL ACTIVE PARTICIPANT DATA

FISCAL YEAR	ALL ACTIVE			TOTAL	ANNUAL PAYROLL (\$000)	AVERAGE SALARY (\$)	% SALARY INCREASE
	GROUP A	GROUP B	GROUP D				
2009	8,906	2,153	2,274	13,333	539,023	40,428	5.7
2010	8,323	1,999	2,591	12,913	550,709	42,648	5.5
2011	7,857	1,932	2,556	12,345	544,665	44,120	3.5
2012	7,167	1,759	2,744	11,670	534,394	45,792	3.8
2013	6,777	1,666	3,338	11,781	549,971	46,683	1.9
2014	6,366	1,590	3,993	11,949	568,992	47,618	2.0
2015	5,911	1,489	4,427	11,827	584,025	49,381	3.7
2016	5,537	1,417	5,149	12,103	608,210	50,253	1.8
2017	5,165	1,312	5,589	12,066	623,577	51,681	2.8
2018	4,788	1,199	5,822	11,809	611,493	51,780	0.1



**We will continue
to send a strong message
of resilience to our participants
and to our employees
that we, HMEPS, will stay the course
and get the job done.**

HMEPS
HOUSTON MUNICIPAL EMPLOYEES PENSION SYSTEM

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