

# Comprehensive Annual Financial Report

| Fiscal Year Ended, December 31, 2011

## PENSION'S IMPACT

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Employees' Retirement Fund  
of the City of DALLAS®

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2011 AT - A - GLANCE  
(unaudited)

(dollars in thousands)

Active Members	6,745
Benefit Recipients	6,199
Inactive Members	1,047
Fund Net Assets	\$2,748,000
Benefits Paid	\$195,270
Refunds	\$4,982
Member Contributions	\$31,748
City Contributions	\$27,302
Investment Rate of Return	0.88%

**EMPLOYEES' RETIREMENT FUND  
OF THE CITY OF DALLAS**

**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

**CHERYL D. ALSTON  
EXECUTIVE DIRECTOR**

**Office Location and Mailing Address  
EMPLOYEES' RETIREMENT FUND  
600 North Pearl, Suite 2450  
Dallas, Texas 75201**

Prepared by the Staff of The Employees' Retirement Fund

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# IMPACT

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“Often overlooked is the vital role that Defined Benefit pension plans play in stimulating the US economy and creating jobs...

Virtually every state and local economy across the country is substantially enhanced from the spending of pension benefits.”\*

- National Institute on Retirement Security  
Pensionomics 2012



*\*In 2012, the National Institute on Retirement Security (NIRS) developed a study that measures the economic impact of pension benefits nationally, as well as the effect of state and local plans on local economies. The forthcoming section tabs highlight some of the impact found in the report entitled, Pensionomics 2012: Measuring the Economic Impact of DB Pension Expenditures.*



NATIONAL INSTITUTE ON  
Retirement Security

Reliable Research. Sensible Solutions.

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Employees' Retirement Fund  
of the City of DALLAS®

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## LETTER OF TRANSMITTAL

August 14, 2012

Board of Trustees  
Employees' Retirement Fund  
600 North Pearl St., Suite 2450  
Dallas, Texas 75201

Dear Board Members:

The comprehensive annual financial report (CAFR) of the Employees' Retirement Fund of the City of Dallas (ERF) for the fiscal year ended December 31, 2011 is submitted herewith. Our mission is to provide retirement benefits and superior service to advance the financial security of our members. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation rests with me and the staff of ERF.

### Report Contents

This CAFR is divided into five sections:

**Section One - Introductory Section**, contains the administrative organization, a letter of transmittal, and the Plan Summary.

**Section Two - Financial Section** contains the report of the Independent Auditors, the financial statements of ERF and certain required supplementary information.

**Section Three - Investment Section** contains a report on investment activity, investment policies, investment results, and various investment schedules.

**Section Four - Actuarial Section** which contains an Actuary's Certification Letter and the results of the annual actuarial valuation.

**Section Five - Statistical Section** includes significant data pertaining to ERF.

I trust that you and the members of ERF will find this CAFR helpful in understanding your retirement plan.

## Plan Overview

ERF was established by ordinance in November 1943 and became effective in January 1944 after ratification by the voters of the City of Dallas. ERF is a single-employer defined benefit pension plan sponsored by the City of Dallas (the “City”), and it provides retirement, disability and death benefits to its members. All employees of the City are members except police officers, fire fighters, elected officers, non-salaried appointee members of administrative boards or commissions, part-time employees working less than one-half time, temporary employees, individuals working under contract, and individuals whose salaries are paid in part by another government agency. Members are entitled to retirement benefits at the date of eligibility for retirement after five years of service or to survivor benefits after two years of service.

## Investments

The Board of Trustees oversees ERF’s portfolio, managers, and performance. It also reviews and approves potential investment opportunities, with input from the investment consultant and staff. The Board follows the “prudent person rule” which states that fiduciaries shall discharge their duties solely in the interest of ERF and its participants and beneficiaries with the degree of diligence, care and skill which prudent men and women would ordinarily exercise under similar circumstances in a like position.

2011 was a slightly positive year for ERF with a total fund return of 0.88%. The total return compares to 15.77% in 2010 and 30.62% in 2009. The Fund expects and assumes an investment rate of 8.25% over the long term, which encompasses many years in the future.

An integral part of the overall investment policy is the strategic asset allocation policy. This policy is designed to provide an optimal diversification to reduce risk and maximize total rate of return relative to risk. This emphasizes a maximum diversification of the portfolio that protects ERF from declines that a particular asset class may experience in a given period. Although traditional and alternative assets were incorporated into the asset allocation mix, the venture capital asset class is being liquidated from ERF’s portfolio.

## Additions To Plan Net Assets

The collection of employer and member contributions, as well as income from investments, is intended to provide the reserves needed to finance retirement benefits. Contribution and investment income, including unrealized gains and losses, for 2011 totaled \$84,009,000. City and member contributions for the fiscal year were \$59,050,000, an increase of approximately \$61,000 from prior year. This increase is attributed to the change in the contribution rates. The City contribution rate changed from 16.70% to 18.37% of which 9.18% is the Pension Obligation Bond Credit Rate. The City contribution to ERF increased from 8.59% to 9.19% and the member rate changed from 9.81% to 10.79%. City contributions received in 2011 were \$27,302,000 and member contributions were \$31,748,000.

### Deductions To Plan Net Assets

The principal purpose for which ERF was established is to provide retirement benefits, survivor benefits, and total and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, refund of contributions to terminated employees, and the cost of administering ERF.

Deductions for fiscal year 2011 totaled \$203,744,000, an increase of 6.9% over 2010. This increase is primarily due to an increase in the number of benefit recipients. Administrative expenses, which are controlled by a budget approved by the Board of Trustees, increased from the prior year. 2011 reflected a marginal increase of \$257,000, when compared to fiscal year 2010 expenses.

### Accounting System And Internal Controls

This CAFR was prepared to conform with the principles of governmental accounting and reporting set forth by the Governmental Accounting Standards Board (GASB) in Statement No. 25, "Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans," as well as generally accepted accounting principles that apply to government accounting for fiduciary funds. The accompanying financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized in the period in which employee services are performed. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

The Governmental Accounting Standards Board issued Statement No. 44. Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1. This Statement amends the portions of NCGA Statement 1, Governmental Accounting and Financial Reporting Principles, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. The statistical section is a required part of a comprehensive annual financial report (CAFR) and applies to any statistical section that accompanies a government's basic financial statements.

In developing and evaluating ERF's accounting system, it was determined that internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

### Funding

A pension fund is well funded when it is receiving enough money to meet all expected future obligations to participants. ERF's funding objective is to meet long-term benefit payments through contributions that remain approximately level as a percent of member payroll. The actuarial accrued liability and actuarial value of assets of ERF as of December 31, 2011 amounted to \$3.392 billion and \$2.917 billion, respectively. A detailed discussion of funding is provided in the Actuarial Section of this report.

## Professional Services

Consultants are appointed by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of ERF. An opinion from the certified public accounting firm of Grant Thornton, LLP and the actuarial firm of Gabriel, Roeder, Smith & Company are included in this report. The consultants appointed by the Board are listed in this Introductory Section.

## Acknowledgments

The compilation of this report reflects the combined effort of the 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 of the funds of ERF.

The report is available to all members of ERF.

I would like to express my gratitude to the staff, the advisors, and others who have worked so diligently to assure the successful operation of ERF.

Respectfully submitted,



Cheryl D. Alston  
Executive Director

# Board of Trustees

As of December 31, 2011

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**Carla D. Brewer, Chair**  
Employee Elected Member

**John D. Jenkins, Vice Chair**  
Employee Elected Member

**Carolyn R. Davis**  
Council Appointed Member

**Craig D. Kinton, CPA**  
City Auditor

**Tina B. Richardson**  
Employee Elected Member

**John W. Peavy III**  
Council Appointed Member

**Leslie Spencer**  
Council Appointed Member

## Administrative Staff

**Cheryl D. Alston**  
Executive Director

**Newton Bruce**  
Deputy Director

**David Etheridge**  
Deputy Director

Natalie Jenkins Sorrell  
Investment Officer

Judith Greene  
Senior Pension Specialist

Susan Oakey  
Senior Pension Specialist

Deirdre Taylor  
Senior Pension Specialist

Evelyn Thomas  
Senior Pension Specialist

Sheila Willis  
Senior Pension Specialist

Duc Lam  
Database Analyst

Jason Thompson  
Senior Information Analyst

Re'Gine Green  
Pension Benefits Specialist

Patricia Jack  
Pension Benefits Specialist

Al Perez  
Pension Benefits Coordinator

Melissa Harris  
Communications Specialist

Kate Althoff  
Communications Specialist

C. Kay Watson  
Office Manager

Lisa Larry  
Senior Office Assistant

Micaela Galicia  
Office Assistant

Jessica Leija  
Office Assistant

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# Professional Service Providers

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## Master Custodian

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The Northern Trust Company

## Consulting Actuary

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Gabriel, Roeder, Smith & Company

## Investment Consultant

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Wilshire Associates, Inc.

## Investment Accounting Firm

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Financial Control Systems, Inc.

## Auditor

---

Grant Thornton, LLP

## Legal Advisor

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Strasburger & Price, LLP  
Foster Pepper, PLLC

# Plan Summary

## SUMMARY OF KEY PROVISIONS

Employees' Retirement Fund of the City of Dallas

As of December 31, 2011

<b>Membership</b>	An employee becomes a member upon permanent employment and contributes to the Retirement Fund.
<b>Contributions</b>	The contribution rate is determined each year by the actuarial valuation. The total contribution is split 37% members and 63% City. At December 31, 2011 the members contributed 10.79% of pay and the City contributed 18.37% of pay of which 9.19% is received by the Fund and 9.18% is the used for the pension obligation bonds debt service.
<b>Definitions</b>	<p>Final Average Salary: Average monthly salary over the member's highest three years of service.</p> <p>Credited Service: Length of time an employee of the City of Dallas and while making contributions to the Fund. Part-time employees receive proportional credited service only.</p>
<b>Retirement Pension</b>	<p>Eligibility:</p> <ol style="list-style-type: none"> <li>Attainment of age 60; or</li> <li>Attainment of age 55 (if credited service began before May 9, 1972); or</li> <li>Completion of 30 years of credited service; or</li> <li>At any age after completion of 30 years of credited service with a reduced benefit before age 50; or</li> <li>Attainment of age 50, if the sum of an active member's age and credited service is at least 78.</li> </ol>
<b>Retirement Benefits</b>	The retirement benefit equals 2-3/4% multiplied by average monthly earnings multiplied by credited service limited to a maximum of 36.3636 years plus \$125 health supplement (prorated for service less than 5 years).
<b>Form of Payment</b>	An unreduced pension under a joint and one half survivor option or a ten-year certain and life option. An actuarially equivalent joint and full survivor option is also available.
<b>Deferred Retirement</b>	<p>Eligibility:</p> <p>Deferred retirement pension commencing at age 60 or at age 55, if employment commenced prior to May 9, 1972, with at least five years of credited service, and accumulated contributions are left on deposit with the Fund.</p> <p>Monthly Benefit:</p> <p>The deferred retirement is equal to the retirement pension based on earnings and credited service at the time of termination.</p>

## Disability Retirement Pension

### Non-Service Disability:

1. Eligibility: Five years of service and totally and permanently incapacitated from procuring and retaining any type of employment for compensation.
2. Monthly Benefit: Computed based on average monthly earnings and credited service at time of disability but not less than 10 times the percentage multiplier multiplied by the average monthly earnings.

### Service Disability:

1. Eligibility: Totally and permanently incapacitated as a result of injury while in the course of employment for the City.
2. Monthly Benefit: Calculated as a non-service disability pension but not less than \$500 per month.

## Death Benefits

Form: Benefit paid in accordance with the option on file, or the eligible option, or if no eligible beneficiary, a lump sum equivalent of 10 years of benefit payments to the member's estate. If less than 2 years of service, contributions are refunded.

Monthly Benefit: Based on average monthly earnings and credited service at death but not less than 10 times the percentage multiplier multiplied by the average monthly earnings.

Minimum Service Death Benefit: Not less than \$500 per month if death resulted from a service related injury.

## Return of Accumulated Contributions

A member at the time of termination is entitled to be paid their accumulated contributions without interest.

## Cost-of-Living Adjustments

A cost-of-living adjustment to the base pension shall be made based on the greater of:

The percentage of change in the price index for October of the current year over October of the previous year up to 5%, or

The percentage of the annual average change of the price index for the latest 12 months available up to 5%.

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# IMPACT

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FINANCIAL  
SECTION

“For every dollar contributed by taxpayers in a single state, \$5.52 in total economic output was supported within that state, on average.”\*



**\$1.00** → **\$5.52**  
contributed by taxpayers supported economic output



\* In 2012, the National Institute on Retirement Security (NIRS) developed a study that measures the economic impact of pension benefits nationally. Additional information can be found in the report entitled, *Pensionomics 2012: Measuring the Economic Impact of DB Pension Expenditures*.

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EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS

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# FINANCIAL STATEMENTS

As Of December 31, 2011 and 2010

With Independent Certified Public Accountant's Report Thereon

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## Report of Independent Certified Public Accountants

Audit • Tax • Advisory

**Grant Thornton LLP**  
1717 Main Street, Suite 1500  
Dallas, TX 75201-4667

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[www.GrantThornton.com](http://www.GrantThornton.com)

The Board of Trustees  
Employees' Retirement Fund of the City of Dallas

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We have audited the accompanying statements of plan net assets of the Employees' Retirement Fund of the City of Dallas (the "Plan") as of December 31, 2011 and 2010, and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. 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 established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Employees' Retirement Fund of the City of Dallas as of December 31, 2011 and 2010, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of city contributions and funding progress be presented to supplement the basic financial statements. Such information, although not a required part of the 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 basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America established by the American Institute of Certified Public Accountants. These limited procedures 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

*Grant Thornton LLP*

Dallas, Texas  
July 10, 2012

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
Required Supplementary Information

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The management's discussion and analysis of the Employees' Retirement Fund of the City of Dallas (the Plan) financial performance provides an overview of the financial activities and funding conditions for the fiscal years ended December 31, 2011, 2010 and 2009. The intent of this discussion and analysis is to give a narrative overview and analysis of the Plan's financial performance as a whole. For more detailed information regarding performance, readers should also review the financial statements, notes to the financial statements, and required supplementary information in order to enhance their understanding of the Plan's financial performance.

### FINANCIAL STATEMENTS

The Plan is a defined benefit plan that provides retirement, disability, and death benefits to full time and permanent part-time civilian employees of the City of Dallas (the City). The Plan has two basic financial statements:

- a statement of plan net assets that provides information about the fair value and composition of plan assets, plan liabilities, and plan net assets; and
- a statement of changes in plan net assets that provides information about the year-to-year changes in plan net assets.

There are also notes to the financial statements that include a brief plan description, a summary of significant accounting policies, and information about contributions, legally required reserves, and investment concentrations. The report also contains required supplemental information in addition to the basic financial statements. Collectively, this information presents the net assets available for pension benefits and summarizes the changes in net assets for those benefits.

### FINANCIAL HIGHLIGHTS

Fiscal year 2011 ended on a positive note even after a very volatile third quarter. This was the third consecutive year of positive returns for the Plan. Financial highlights for the Plan at fiscal year ended December 31, 2011 are as follows:

- Although not nearly as impressive as the 15.77% return earned in 2010, the Plan still had a positive total rate of return on a market basis of 0.88% for the year.
- The net assets of the Plan held in trust to pay pension benefits were \$2.7 billion as of December 31, 2011. This amount reflects a decrease of \$120 million from last year. This decrease is primarily the result of the increase in pension payments coupled with a flat investment return.
- Contribution revenue for fiscal year 2011 was \$59 million, an increase of approximately \$61 thousand from last fiscal year. This is attributed to an increase in the contribution rates.
- Pension benefits paid to retirees and beneficiaries increased \$12.4 million bringing the total benefit payments to \$195 million. Refunds of contributions paid to former members upon termination of employment increased slightly from \$4.5 million to \$5.0 million.
- Net investment income (net appreciation in the fair value of investments, plus interest and dividend income, less investment expenses) decreased \$374 million compared to last fiscal year.
- Administrative expenses of \$3.5 million in 2011 were approximately \$250 thousand more than 2010 as a result of an increase in the investment consulting fees and legal fees.

**CONDENSED FINANCIAL INFORMATION**

	<u>2011</u> (in thousands)	<u>2010</u> (in thousands)	<u>2009</u> (in thousands)
Assets	\$3,255,952	\$3,533,518	\$3,183,437
Liabilities	507,491	665,322	583,237
Net Assets Held in Trust for Pension Benefits	2,748,461	2,868,196	2,600,200
Contributions	59,050	58,989	57,494
Investment & other income, net	24,959	399,601	619,522
Benefit payments	195,270	182,883	172,493
Refund of contributions	4,982	4,476	4,273
Administrative expenses	3,492	3,235	3,315
Change in Net Assets Held in Trust for Pension Benefits	(119,735)	267,996	496,935

**FINANCIAL POSITION AND RESULTS OF OPERATIONS**

The Plan's total return for fiscal year 2011 was 0.88% as compared to 15.77% in 2010 and 30.62% in 2009. The top performing asset classes were real estate securities, private equity, global fixed income, and high yield with returns of 11.53%, 11.34%, 8.83%, and 6.51% respectively for the year. The Plan's investment portfolio decreased from \$2.8 billion to \$2.6 billion in fiscal year 2011, a decrease of approximately \$200 million. The fiscal year 2010 portfolio, compared to fiscal year 2009, showed an increase of \$268 million over fiscal year 2009 market value of \$2.6 billion.

Additions to Plan Net Assets consist of employer and employee contributions, investment income, and net realized and unrealized gain on investments. For fiscal year 2011, additions to plan net assets reflect a decrease of \$375 million, in comparison to 2010. This decrease is primarily a result of the decrease in fair value of investments. As experienced in 2009 and 2010, both City and employee contributions showed marginal increases as a result of increased contribution rates. City and employee contributions for fiscal year 2011 were approximately \$27 million and \$32 million, respectively. Collection levels for total contributions for 2011 were \$59 million compared to \$59 million in 2010 and \$57 million in 2009.

Although the total investment return for 2011 was positive (0.88%), the small return had a negative impact on the Plan's investment income. Net investment income/(loss) is presented net of investment expenses and is comprised of interest, dividend income, gains/(losses) from the sale of investments, net unrealized appreciation/(depreciation) in the fair value of investments, and net income from securities lending activities. For fiscal year 2011, the Plan had net investment income of \$25 million (which does not include non-investment income of \$405 thousand). Fiscal year 2010 net investment income was \$399 million as compared to fiscal year 2009 investment income of \$619 million.

Fiscal year 2011 liabilities of \$507 million showed a decrease of 23.73% over fiscal year 2010 liabilities of \$665 million. Liabilities for 2010 had an increase of 14.1% over the \$583 million of liabilities for fiscal year 2009. The decrease in 2011 is primarily due to 2011 decreases in currency contracts and securities lending collateral at year end which decreased by \$85 million and \$62 million respectively. The 2010 increase over 2009 was attributed to an increase in the currency contracts. Year end balances for currency contracts were \$171 million in 2011, \$256 million in 2010 and \$182 million in 2009. Pending securities

purchases at year end were \$22 million in 2011, \$34 million in 2010 and \$24 million in 2009. The differences between years were due to market conditions.

Deductions from Plan Net Assets are largely benefit payments. During fiscal year 2011, benefits paid were \$195 million, an increase of \$12 million over payments made in 2010. Benefits paid in fiscal year 2010 were \$183 million, an increase of \$10 million over payments made in 2009. The major cause of the 2011 increase is attributable to new retirements with higher base benefits as was the increase between 2010 and 2009.

New retirements were 362, 423 and 375 respectively for fiscal years 2011, 2010 and 2009. Cost-of-living-adjustments (which are effective on January 1 of the succeeding year) paid in each of the respective years were 2.3% in 2011 and 0.0% in 2010. Due to economic conditions, a cost-of-living increase was not granted for 2010, therefore no cost of living adjustments were paid in 2010. A cost of living adjustment is granted if there is an increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) either from October of the prior year to October of the current year or if the monthly changes average is greater than zero. Under both scenarios, the computation resulted in a negative change in the CPI-W for 2010. For a third year, the city's reduction in force also caused a higher request level for refunds of contributions from members who terminated employment. During fiscal year 2011 refunds of contributions amounted to \$4.9 million (432 refunds), compared with \$4.5 million refunded (457 refunds) during fiscal year 2010 and \$4.3 million refunded (522 refunds) during fiscal year 2009. Although fiscal year 2011 reflects a moderate decline in the number of members requesting refunds as compared to fiscal year 2010, the refund dollar values were greater in 2011 than those for 2010. Administrative expenses of approximately \$3.5 million represent approximately 2.00% of total deductions for all three fiscal years.

## CURRENT ENVIRONMENT

Plan membership for active members continued to decrease during fiscal year 2011 due to reduction in force. Active membership declined from 7,034 to 6,745 members, a decrease of 4.1%. For 2011 the number of new retirements was 362 compared to 423 in 2010. The trend of benefit payments continues to increase. Similar to most mature plans, benefit payments exceed the level of contribution revenue received and cash generated from investments are needed in order to meet benefit payments.

An actuarial valuation of the Plan's assets and benefit obligations is performed annually. For 2011, the actuarial funded ratio, which is a standard measure of a plan's funded status representing the ratio of the actuarial value of assets to the actuarial accrued liability, was 86.0%, down by 6.7% over 2010. This decrease is due to the continued recognition of the economic downturn experienced in 2008. The ratio for 2010 was 92.2%, down by 2.8% over 2009 ratio of 95.0%. This decrease was primarily a result of the unfavorable investment returns for 2008.

EMPLOYEES' RETIREMENT FUND OF  
THE CITY OF DALLAS

Statements of Plan Net Assets

As of December 31, 2011 and 2010  
(In thousands)

	<u>2011</u>	<u>2010</u>
<b>ASSETS:</b>		
Cash and short-term investments	\$ 105,794	\$ 99,101
Collateral on loaned securities	<u>306,163</u>	<u>368,396</u>
	411,957	467,497
Receivables:		
Currency contracts	171,461	256,176
Currency gains	77	1,844
Accrued dividends	2,707	2,304
Accrued interest	10,725	9,715
Accrued securities lending	103	84
Accrued real estate dividend income	752	-
Securities sold	3,838	3,891
Employer contributions	325	307
Employee contributions	<u>382</u>	<u>351</u>
Total receivables	190,370	274,672
Investments, at fair value:		
Commingled index funds	106,288	255,126
Domestic equities	941,665	1,194,162
United States and foreign government fixed income securities	179,124	183,148
Domestic corporate fixed-income securities	667,582	602,180
International equities	547,109	405,246
Investments, at estimated fair value:		
Private equities	36,368	16,434
Real estate	175,489	135,049
Venture capital funds	-	4
Total investments	<u>2,653,625</u>	<u>2,791,349</u>
Total assets	3,255,952	3,533,518
<b>LIABILITIES:</b>		
Accounts payable	4,582	3,836
Payable for securities purchased	22,291	34,158
Investment fees payable	2,994	2,756
Currency contracts	171,461	256,176
Securities lending collateral	<u>306,163</u>	<u>368,396</u>
Total liabilities	<u>507,491</u>	<u>665,322</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS	<u>\$2,748,461</u>	<u>\$2,868,196</u>
(A Schedule of Funding Progress is presented on page 17)		

The accompanying notes are an integral part of these financial statements.

EMPLOYEES' RETIREMENT FUND OF  
THE CITY OF DALLAS

Statements of Changes in Plan Net Assets

For the Years Ended December 31, 2011 and 2010  
(In thousands)

	<u>2011</u>	<u>2010</u>
ADDITIONS:		
Contributions:		
Employer	\$ 27,302	\$ 27,323
Employee	31,748	31,666
Total contributions	59,050	58,989
Net investment income:		
Dividends	32,931	30,251
Interest	50,280	47,559
Real estate dividend income	6,808	305
Net (depreciation)/appreciation in fair value of investments	(53,025)	330,364
Securities lending rebates paid by borrowers	535	83
Securities lending income	1,051	1,324
Total investment income	38,580	409,886
Less investment expenses:		
Investment management fees	(13,237)	(10,422)
Custody fees	(150)	(150)
Consultant fees	(322)	(320)
Securities lending management fees	(317)	(281)
Total investment expenses	(14,026)	(11,173)
Net investment income	24,554	398,713
Other income	405	888
Total increases	84,009	458,590
DEDUCTIONS:		
Benefit payments	195,270	182,883
Refund of contributions	4,982	4,476
Administrative expenses	3,492	3,235
Total deductions	203,744	190,594
Net (decrease)/increase in net assets held in trust for pension benefits	(119,735)	267,996
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	2,868,196	2,600,200
End of year	<u>\$2,748,461</u>	<u>\$2,868,196</u>

The accompanying notes are an integral part of these financial statements.

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(1) Description of the Plan

(a) General

The Employees' Retirement Fund of the City of Dallas (the "Plan") is a single-employer defined benefit pension plan that provides retirement, disability, and death benefits to its members, and is sponsored by the City of Dallas (the "City"). All employees of the City are members in the Plan, except police officers, firefighters, elected officers, non-salaried appointee members of administrative boards or commissions, part-time employees working less than one-half time, temporary employees, individuals working under contract, and individuals whose salaries are paid in part by another government agency. Members are entitled to retirement benefits after five years of service and to survivor benefits after two years of service or at the date of eligibility for retirement. The Plan was established and derives its authority to continue in operation from Chapter 40A of the Dallas City Code. The description of the Plan provisions in this report is for financial disclosure only. It is not intended to create or reduce legal rights. The rights and responsibilities of the Board of Trustees, the Plan, the members and the retirees are governed by the Plan as set forth in Chapter 40A. As of December 31, 2011 and 2010, the Plan's membership consisted of:

	<u>2011</u>	<u>2010</u>
Retirees and beneficiaries currently receiving benefits and inactive members entitled to benefits but not yet receiving them	7,246	7,104
Current members:		
Vested	4,665	4,606
Nonvested	<u>2,080</u>	<u>2,428</u>
Total current members	<u>6,745</u>	<u>7,034</u>
Total membership	<u>13,991</u>	<u>14,138</u>

(b) Pension Benefits

Effective November 7, 1989, members of the Plan are entitled to pension benefits equal to 2.75% of the average monthly earnings of the member for each year of credited service. Average monthly earnings are determined based on the member's earnings for the three highest years. Normal retirement age is 60. Members of the Plan employed prior to May 9, 1972 are entitled to pension benefits at age 55, determined as described in this note.

A member who has completed 30 years of credited service may elect retirement at age 50 and is entitled to full pension benefits. A member who has completed 30 years of service and elects retirement before age 50 is entitled to pension benefits at a percentage of normal retirement benefits ranging from 67.0% to 93.3%, depending upon the age of the member. Effective May 1993, active members may elect to retire after the attainment of age 50 once a combination of their age and years of service equal at least 78 ("Rule of 78"). They are then entitled to full pension benefits. The Rule of 78 has been incorporated into the actuarial calculations reflected in these notes to the financial statements.

Cost-of-living adjustments for retirees are made each year on the first of January by adjusting the pension base by the percentage change of the Consumer Price Index, not to exceed 5%. The cost-of-living adjustment effective January 2011 was 2.3%. Due to economic conditions, a cost-of-living adjustment was not granted for 2010 resulting in no adjustment payments effective January 2010.

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In addition, the Plan provides retirees who have five or more years of service a flat taxable amount of \$125 per month as a health premium subsidy. Payment of the health supplement will be prorated for each partial year of credited service for less than five years of credited service.

(c) Disability and Death Benefits

Members that become totally and permanently disabled may qualify for a service-connected disability with no minimum service requirement, or a non-service connected disability with five or more years of credited service. Non-service connected benefits are based on actual credited service or a minimum of 10 years. Service-connected benefits are equal to normal retirement benefits or a minimum of \$500.

Upon the death of an active married member with less than 15 years of service, the joint and one-half survivor option is the automatic death benefit.

If an active member has at least 15 years of service or is eligible to retire, the member may elect the joint and full survivor option. Under this option, the member receives a reduced base pension payment which is actuarially computed based on the member's age, average monthly earnings, years of credited service at retirement, and the relative age of the spouse. Upon the death of the member, this option pays the full amount of the member's pension payment to the surviving spouse for life.

Upon the death of a member before retirement, death benefits equal to the normal retirement benefit will be paid to a qualified recipient: surviving spouse, minor child under age 18, a disabled child who became disabled before age 18, or a dependent parent. Death benefits vary depending on the beneficiary. The surviving spouse, the disabled child, or the dependent parent will receive a lifetime benefit unless the ten-year option is taken. The minor child under age 18 will receive the normal retirement benefit for ten years or until reaching age 18. If the member has less than two years of credited service, the member's contributions will be refunded.

Upon the death of a retired member, a death benefit is paid in accordance with the option selected by the member at retirement. If there are no qualified recipients at the time of death and benefits have not been paid for ten years, death benefits are paid to the designee (an estate, a person or an entity) named by the member. The designee will receive a lump-sum payment based on ten years of benefit payments when the member's death occurs before retirement. If death occurs after retirement, the designee will receive a commuted lump-sum payment representing the balance of a guaranteed ten-year period starting from the date of retirement.

If a member does not have an eligible beneficiary, death benefits will be paid to the designee or member's estate in one commuted value payment. Benefit payments will vary depending on whether death occurred before or after retirement. Upon the death of a member before retirement, the designee or member's estate will receive a lump-sum payment based on ten years of benefit payments. Upon the death of a retired member, the designee or estate will receive a commuted value lump-sum payment representing the balance of a guaranteed ten-year period starting from the date of retirement.

(d) Contributions

If employment ends before attaining five years of service and before attaining eligibility for retirement, the member's contributions will be refunded upon written request to the Plan.

If a member's employment is terminated after five years of service, the member may elect a refund of contributions upon a written request, or the member may elect to receive pension benefits at normal retirement age equal to the amount accrued to the date of termination.

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Based on the authorization in the Plan, the annual actuarial valuation will establish any new contribution rates for employees and the City. The new rates which became effective October 1, 2011 are 10.79% of pay for employees and a combined rate of 18.37% of pay for the City. The City's 18.37% is divided into 9.19% cash to the Plan and 9.18% for debt service payments on the pension obligation bonds. The former rates, effective October 1, 2010, were 9.81% of pay for employees and a combined rate of 16.70% of pay for the City. The City's 16.70% was divided into 8.59% cash to the Plan and 8.11% for debt service payments.

The percent contributed may vary from the legally required rate as the annual required contribution is based upon covered payroll as of the actuarial valuation date, January 1, whereas contributions are calculated and paid based upon actual payrolls throughout the year.

Certain factors, such as changes in benefit provisions, the size or composition of the population covered by the Plan or the actuarial assumptions used, may significantly affect the identification of trends in the amounts reported in the Schedule of Funding Progress located in the Required Supplemental Information section.

(e) Plan Administration

The Plan is governed by seven members, consisting of three members appointed by the City Council who may be Council members, three employee members of the Plan (elected by the membership) and the City Auditor (serving ex officio). The Board has general powers and duties to administer the Plan, including appointing an administrator to carry out the business of the Board, investing the assets of the Plan, making expenditures from the Plan, and determining members' eligibility for benefits.

Based on a Plan amendment passed by the voters of the City of Dallas in November 2004, the Board annually increases or decreases contribution rates in a ratio where the City pays 63% and the employee pays 37% of the contribution rate as determined by the actuarial valuation. The Plan requires notice to the City of the contribution rates and provides procedures by which the City may review and challenge those rates; codifying the Board's policies and procedures relating to the Plan's actuarial process and the City's participation in the selection of an actuarial firm to perform a peer review/audit; increasing the Board from five members to seven by adding another employee elected representative and another council appointed representative effective March 1, 2005; increasing from three to four the number of board members required to constitute a quorum; increasing the terms of the employee elected representatives from two to three years; requiring Council approval before the Board may grant temporary or permanent discretionary adjustments to retirement benefits over and above the regular cost-of-living increases; correcting section references to the term "qualified recipient"; and authorizing either the Council or the Board to propose amendments to Chapter 40A, subject to approval by the Board, the Council, and the voters of the City.

The Plan may be terminated only by ordinance recommended by the Board, adopted by the City Council, and approved by a majority of the voters of the City voting in a general or special election. The Plan does not address allocation of the net assets in the event of termination.

(2) Summary of Significant Accounting Policies

(a) Basis of Accounting

The accompanying financial statements are prepared on the economic resources measurement focus and accrual basis of accounting. Accordingly, interest earned but not received and dividends declared but not received as of the Plan's fiscal year end are recorded as accrued interest and dividends receivable, respectively. Contributions owed but not received (approximately \$707 thousand and \$658 thousand at December 31, 2011 and 2010 respectively) as of the Plan's fiscal year end are recorded as

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contributions receivable. Benefits and refunds are recorded when paid. In addition, unsettled investment purchases and sales are accrued.

(b) Administrative Expenses

Administrative expenses (excluding investment related expenses) totaling approximately \$3.5 million and \$3.2 million for the years ended December 31, 2011 and 2010 respectively are paid from the Plan's contributions. The contribution rates calculated by the actuary take into consideration the expected administrative expenses.

(c) Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires Plan management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(d) Investments and Investment Income

The Plan's investment policy requires that investments comply at all times with applicable local, state and federal regulations. The Plan's investment policy is based upon an asset allocation study that considers the current and expected condition of the Plan, the expected long-term capital market outlook and the Plan's risk tolerance. Unless specifically permitted in the investment manager guidelines or other governing document, the investment policy prohibits the purchase of non-negotiable securities, short sales, selling on margin, puts, calls, straddles, options, or "letter" (restricted) stock. Also, unless specifically authorized in a manager's individual guidelines, the investment policy prohibits the use of derivatives (See derivatives disclosure in footnote 3).

Marketable securities are valued at fair value based on quoted market prices, where available. Estimated fair values of real estate, private equity and venture capital funds have been determined based upon appraised values or other comparable methods. Purchases and sales of securities and any resulting gain or loss are recorded on a trade-date basis. Net (depreciation) appreciation includes the Plan's gains and losses on investments bought and sold as well as held during the year.

(e) Foreign Currency Transactions

The Plan may enter into forward foreign currency exchange contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date as a hedge against specific transactions or portfolio position to protect the Plan against adverse currency movements. Entering into these arrangements involves the risk of dealing with counter parties and their ability to meet the terms of the contracts. These contracts are valued at fair value at the financial statement date, and any realized and unrealized gains and losses are recorded when they are incurred.

Investments denominated in foreign currencies at December 31, 2011 and 2010 were converted to U.S. dollars at the foreign exchange rates quoted at December 31, 2011 and 2010. These foreign exchange gains and losses are included in net (depreciation) / appreciation in fair value of investments in the accompanying Statements of Changes in Plan Net Assets.

(f) Securities Lending

The Board has authorized the Plan to enter into an agreement with The Northern Trust Company ("Northern") for the lending of certain of the Plan's securities (the "Securities Lending Program" or "Program") including, but not limited to, stocks and bonds to counterparty brokers and banks ("borrowers"), for a predetermined period of time and fee.

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The Board capped the securities lending exposure at \$538.2 million.

(3) Derivatives

Derivatives are generally defined as contracts whose value depend on, or are derived from, the value of an underlying asset, reference rate or index. The Plan has classified the following as derivatives:

(a) Currency Forward Contracts

A currency forward is a contractual agreement between two parties to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. Forward commitments are not standardized and carry credit risk due to the possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote. No such losses occurred during fiscal years 2011 and 2010. Currency 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. Currency 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 Plan records the unrealized currency translation gain or loss based on the applicable forward exchange rates.

The Plan recognized a net realized gain of \$84 thousand as of December 31, 2011 and a net realized loss of \$21 thousand as of December 31, 2010. As of December 31, 2011, the Plan had a net unrealized loss on forward contracts of \$3 million and a net unrealized gain of \$5.1 million at December 31, 2010. These gains and losses are included in net (depreciation) / appreciation in fair value of investments in the accompanying Statements of Changes in Plan Net Assets. Currency forward contracts outstanding at December 31, 2011 and 2010 were \$171 million and \$256 million, respectively.

Currency	2011	2010
	Currency Forward Contracts Outstanding (in thousands)	Currency Forward Contracts Outstanding (in thousands)
Australian Dollar	\$6,065	\$30,301
Brazilian Real	6,041	9,483
Canadian Dollar	3,317	9,028
Chile Peso	405	2,437
Columbia Peso	749	473
Denmark Krone	1,138	26
Euro	1,262	-
Hong Kong Dollars	548	4,303
Hungary Forent	-	2,115
Indonesia-Rupiahs	1,668	2,049
Indian Rupee	-	3,984
Israel Shakil	-	136
Japanese Yen	2,228	4,120

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Korean Won	3,333	-
Malaysia Ringgit	2,677	3,978
Mexican Peso	5,010	5,379
New Zealand Dollar	2,853	-
Norwegian Krone	4,027	13,531
PEI	44	101
Philippines-Pesos	267	321
Russia Ruble	593	35
Singapore Dollar	270	76
Swedish Krona	16,047	20,796
Switzerland Franc	2,748	5,881
Thailand Baht	32	33
Turkey Lira	1,367	939
Taiwan New Dollar	-	3,013
United Kingdom Pound	14,055	847
US Dollar	94,717	128,857
South Africa Rand	-	3,934
Total	<u>\$171,461</u>	<u>\$256,176</u>

## (b) Swaps

A swap is an agreement between two or more parties to exchange a sequence of cash flows over a period of time in the future. No principal is exchanged at the beginning of the swap. The cash flows that the counterparties exchange are tied to a "notional" amount. The agreements provide, at predetermined future dates, the Plan pays interest based upon a notional principal amount and receives a return based upon the underlying index. Notional amounts represent the volume of outstanding transactions and do not represent the potential gain or loss associated with market risk or credit risk of such instruments. Risk associated with swaps includes adverse movements in the underlying index. The Plan has one investment manager authorized to enter into swaps. The Plan held no open swap contracts at December 31, 2011 and December 31, 2010.

## (c) Futures

Financial futures are agreements to purchase or sell a specific amount of an asset at a specified delivery or maturity date for an agreed upon price. These derivative securities are used to improve yield, adjust the duration of the fixed income portfolio, circumvent changes in interest rates, or to replicate an index. Futures contracts are standardized and traded on organized exchanges, thereby minimizing the Plan's risk. There were no outstanding futures contracts at December 31, 2011 and December 31, 2010.

## (d) Private Equity

To enhance the potential for earning higher rates of return relative to its other asset classes and to provide for broader portfolio diversification, the Plan, in 2009, allocated 5% of its total Plan portfolio to private equity. Recognizing that private equity investments have higher risk levels, this target of 5.0% is to be allocated within an acceptable range of 0.0% to 7.0% of private equity-oriented investments. Funding of committed capital in the private equity portfolio can occur over an extended time period and may take several years before the total allocation is fully invested. In order to reach the allocation target, a "committed" allocation up to 1.5 times the allocation is authorized. The Plan has 2 private equity managers.

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Investments in these funds as a limited partner are carried at estimated fair value. Estimated fair values of investments in private limited partnerships are determined by the fund managers or general partner based on the latest investee information available, including financial statements and other similar data necessary to the valuation process. The private equity value at December 31, 2011 and December 31, 2010 was \$36.3 million and \$16.4 million respectively.

## (e) Real Estate

The Plan allocates 5% of its portfolio to private real estate. The Plan has two managers that manage core real estate funds for a value of \$175 million at December 31, 2011 and \$135 million at December 31, 2010.

Estimated fair values of investments in these funds are determined by the fund managers based on their best estimates using fair value estimation techniques substantiated, in part, by their audited financial statements and supported by the due diligence of the Plan investment staff.

(4) Deposit and Investment Risk Disclosures

Deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. The common deposit and investment risks include custodial credit risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The required disclosures related to these risks and the Plan's exposures to these risks are disclosed in the following sections.

Custodial Credit Risk

Custodial credit risk is the risk, in event of the failure of the counterparty, the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Plan's custodial credit risk policy is set forth in Chapter 40A of the Dallas City Code and in the master custody agreement which includes the securities lending program. All investments are registered in the name of Employees' Retirement Fund of the City of Dallas or in the name of the Plan's custodian established through a master trust custodial agreement. The securities are held by the custodian in the name of the Plan.

As of December 31, 2011 the Plan had \$2.7 million or .10% of its approximate \$2.7 billion total investments (excluding short term investments) exposed to custodial credit risk. The risk exposure at December 31, 2010 was \$2.5 million or .09% of total investments (excluding short term investments) of approximately \$2.8 billion. These exposures were uninsured and uncollateralized deposits held by custodian banks outside of the United States. The Plan has experienced no such losses on these deposits during the year.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations.

The Board has contracted with third party investment managers to manage the investment portfolio of the Plan, subject to the policies and guidelines established by the Board. As the Plan's custodian bank, Northern has responsibility for the safekeeping of certain investments, handling of transactions based on the instructions of investment managers, and recordkeeping for the investment transactions.

Investments that individually represent 5% or more of the net assets available for benefits and the total of investments that individually represent less than 5% of the net assets available for Plan benefits at December

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31, 2011 and December 31, 2010 are as shown below (in thousands except per share amounts). There were no investments that met these criteria for fiscal year 2011 or 2010. The Plan's concentration of credit risk policy is communicated to individual managers in their guidelines through limitations or restrictions to securities, sectors, debt ratings, and other factors that may be applicable to a particular manager.

	<u>2011</u>		<u>2010</u>	
	<u>Number of Shares/Units</u>	<u>Fair Value</u>	<u>Number of Shares/Units</u>	<u>Fair Value</u>
Investments greater than 5% of net assets, at fair value:	-	\$ -	-	\$ -
Investments less than 5% of net assets:				
At fair value		2,853,725		3,107,359
At estimated fair value		211,857		151,487
Total cash and investments		<u>\$3,065,582</u>		<u>\$ 3,258,846</u>

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the Plan's investments in fixed income securities as of December 31, 2011 and 2010 are included in the schedule below. Securities are rated using Standard and Poor's quality ratings as presented below in the rating scale.

The Plan's strategic fixed income investment policy allocates 30% of the total assets to fixed income. The policy provides for investment of up to 15% of the fixed income assets in investment grade assets and up to 15% of the fixed income assets in high yield (below investment grade) assets. The investment grade allocation also allows selected managers to invest in non-US dollar issues on an opportunistic basis up to 20% of their portfolio assets. Long term bond ratings as of December 31, 2011 and 2010 are as follows (in thousands):

<u>Quality Rating</u>	<u>2011</u>		<u>2010</u>	
	<u>Fair Value</u>	<u>Percentage of Bond Portfolio</u>	<u>Fair Value</u>	<u>Percentage of Bond Portfolio</u>
AAA	\$171,314	20.23	\$ 183,403	23.36
AA+	9,499	1.12	3,015	0.38
AA	10,278	1.21	7,584	0.96
AA-	14,679	1.73	8,358	1.06
A+	9,976	1.18	8,160	1.04
A	16,184	1.91	33,706	4.29
A-	29,746	3.51	10,824	1.37
BBB+	35,398	4.18	26,232	3.34
BBB	26,287	3.10	23,406	2.98
BBB-	21,262	2.51	23,413	2.98
BB+	37,883	4.47	31,416	4.00
BB	59,499	7.03	52,606	6.70
BB-	94,917	11.21	99,627	12.69
B+	72,356	8.55	64,629	8.23
B	72,645	8.58	77,860	9.92
B-	54,755	6.47	49,849	6.35
CCC+	15,777	1.86	14,287	1.82
CCC	17,959	2.12	11,223	1.43
CCC-	-	-	3,423	0.44
CC	1,141	0.13	-	-
C	-	-	-	-
D	680	0.08	1,449	0.18

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Not rated (NR)*	25,236	2.98	25,051	3.19
U. S. Government fixed income securities (NR)**	49,284	5.84	25,807	3.29
	<u>\$846,706</u>	<u>100.00%</u>	<u>\$ 785,328</u>	<u>100.00</u>

\* NR-Investments that are not rated.

\*\*NR-U. S. Treasury Bonds and Notes are obligations of the U. S government or explicitly guaranteed by the U. S. government and therefore are not considered to have a credit risk.

### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Plan's foreign currency risk policy is communicated to those managers who are authorized to hedge currencies in their guidelines and sets specific parameters for each manager individually.

The Plan's investment policies limit the aggregate amount that can be invested in each class of investments. The equity investment policy sets an allocation of 22.5% of assets to international equity. The fixed income policy permits up to 20% of the global manager's portfolio to be invested in global investment grade fixed income bonds.

The Plan's positions in international equity securities, directly and through commingled funds, were 20.62% and 14.52% of invested assets at December 31, 2011 and 2010 respectively. The Plan's positions in global fixed income assets were 7.53% and 1.07% of invested assets at December 31, 2011 and 2010 respectively.

Non-US Dollar denominated investments at December 31, 2011 and 2010 were as follows (in thousands):

Currency	2011			2010		
	U. S. Dollars Balance of Investments (in thousands)			U. S. Dollars Balance of Investments (in thousands)		
	Equities	Fixed	Currency Forward	Equities	Fixed	Currency Forward
Australian Dollar	\$ 16,191	\$ 6,112	\$6,065	\$ 6,657	\$ 6,901	\$30,301
Brazil Real	5,588	8,996	6,041	6,424	10,360	9,483
British Pound Sterling	49,635	-	-	50,758	-	-
Canadian Dollar	26,498	6,136	3,317	22,436	-	9,028
Chile Peso	-	-	405	-	-	2,437
Columbia Peso	-	-	749	-	-	473
Czech Republic-Koruna	64	-	-	1,938	-	-
Denmark Krone	327	-	1,138	-	-	26
Euro	53,482	-	1,262	97,811	-	-
Hong Kong Dollars	16,044	-	548	16,873	-	4,303
Hungary-Forint	337	-	-	-	-	2,115
Indian Rupee	-	-	-	-	-	3,984
Indonesia-Rupiahs	5,616	-	1,668	4,898	-	2,049
Israel Shekel	940	-	-	2,387	-	136
Japanese Yen	62,549	-	2,228	64,342	-	4,120
Korean Won	19,052	-	3,333	24,298	-	-
Malaysia Ringgit	7,677	-	2,677	9,225	-	3,978
Mexican Peso	4,065	8,637	5,010	5,738	5,771	5,379
New Zealand Dollar	-	-	2,853	-	-	-
Norwegian Krone	9,017	-	4,027	3,704	-	13,531
Philippines-Pesos	767	-	267	1,347	-	321
PEI	-	-	44	-	-	101
Poland-Zlotych	2,745	-	-	3,337	4,290	-
Russian Ruble	-	-	593	-	-	35
Singapore Dollar	7,210	-	270	6,761	-	76
South Africa Rand	3,680	-	-	1,646	-	-
Swedish Krona	2,666	-	16,047	4,475	-	20,796
Swiss Franc	4,797	-	2,748	5,624	-	5,881

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South Africa Rand	-	-	-	-	-	3,934
Taiwan New Dollar	-	-	-	-	-	3,013
Thailand Baht	5,596	-	32	7,435	-	33
Turkish Lira	5,324	0	1,367	7,733	0	939
United Kingdom Pound	-	-	14,055	-	-	847
Total	<u>\$309,867</u>	<u>\$29,881</u>	<u>\$76,744</u>	<u>\$355,847</u>	<u>\$27,322</u>	<u>\$127,319</u>

### Interest Rate Risk

Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes. As of December 31, 2011 and 2010 open currency forward contracts are as follows:

Derivative Type	Total Notional Value	Total Fair Value	Total Notional Value	Total Fair Value
	12/31/2011	12/31/2011	12/31/2010	12/31/2010
	(in thousands)	(in thousands)	(in thousands)	(in thousands)
Currency Forward Contracts	<u>\$46</u>	<u>\$171,461</u>	<u>\$1,816</u>	<u>\$256,176</u>
<b>Total</b>	<u>\$46</u>	<u>\$171,461</u>	<u>\$1,816</u>	<u>\$256,176</u>

As of December 31, 2011 and 2010 the weighted-average maturity of the bonds by bond type are as follows:

Bond Category	Fair Value	Weighted Average	Fair Value	Weighted Average
	12/31/2011	Maturity (years)	12/31/2010	Maturity (years)
	(in thousands)	at 12/31/2011	(in thousands)	at 12/31/2010
Asset Backed Securities	\$ 21,023	6.39	\$ 13,574	5.96
Bank Loans	10,476	4.32	22,099	4.63
Commercial Mortgage-Backed	34,502	29.74	36,712	30.27
Corporate Bonds	539,516	7.75	501,949	12.74
Government Agencies	11,552	5.53	14,420	4.56
Government Bonds	76,177	11.15	72,861	8.54
Government Mortgage-Backed Securities	102,140	25.82	92,049	24.14
Government issued Commercial Mortgage-Backed Securities	2,016	8.57	227	9.41
Guaranteed Fixed Income	-	-	778	0.94
Index Linked Government Bonds	3,730	9.17	1,885	29.15
Municipal/ Provincial Bonds	22,369	10.78	2,476	19.09
Non-Government Backed CMOs	<u>23,205</u>	23.64	<u>26,298</u>	24.39
Total	<u>\$846,706</u>		<u>\$785,328</u>	
Portfolio weighted Average maturity		11.55		14.45

Government Mortgage Backed Securities are most sensitive to changes in interest rates as their prepayments can vary significantly with interest rate changes. This change in prepayments will generally cause the duration, or interest rate risk, of these securities to increase when interest rates rise and decrease

EMPLOYEES' RETIREMENT FUND OF  
THE CITY OF DALLAS

Notes to the Financial Statements

December 31, 2011 and 2010

when interest rates fall. These securities represent 12% of the total fixed income portfolio for 2011 and 12% for 2010. Their fair values at year end 2011 and 2010 were \$102.1 million and \$92.0 million respectively. The Plan's interest rate risk policy is communicated to the fixed income managers through the Fixed Income Asset Policy and each manager's guidelines.

Appreciation or Depreciation of Investments

In 2011 and 2010, the Plan's investments, including investments bought, sold, and held during the year, appreciated (depreciated) in value as follows (in thousands):

	<u>2011</u>	<u>2010</u>
Investments, at fair value:		
Commingled index funds	\$(47,518)	\$ 5,681
Domestic equities	(77,162)	115,706
United States and foreign government fixed income securities	9,017	6,077
Domestic corporate fixed-income securities	2,945	28,459
International equities	42,479	163,222
Short-term investments	(2,955)	(21)
Currency contracts	-	5,109
	<u>(73,194)</u>	<u>324,233</u>
Investments, at estimated fair value:		
Real estate	16,649	3,744
Security lending core fund collateral deficiency	-	1,255
Private equity and venture capital funds	<u>3,520</u>	<u>1,132</u>
	<u>\$(53,025)</u>	<u>\$ 330,364</u>

Securities Lending

During the year Northern lent, on behalf of the Plan, securities held by Northern as Plan custodian and received cash, United States government securities, agency securities, and irrevocable bank letters of credit as collateral. Northern did not have the ability to pledge or sell collateral securities absent a borrower default. Northern Trust's Core USA Collateral Section establishes requirements for participation, collateralization levels, cash and non-cash collateral guidelines, and investment guidelines for the collateral received from borrowers. Borrowers were required to put up collateral for each loan equal to: (i) in the case of loaned securities, the collateral for which is all denominated in the same currency as the loaned securities, 102% of the fair market value of the loaned securities plus any accrued but unpaid distributions thereon, and (ii) in the case of loaned securities denominated in a different currency from the loaned securities, 105% of the fair market value of the loaned securities plus any accrued but unpaid distributions thereon. Additionally, the guidelines set maturity/liquidity requirements for the collateral received from borrowers. The following table shows for open loans at December 31, 2011 and 2010, the type of collateral held, the market value of the securities on loan, and the market value of the collateral held (in thousands except percentages).

Collateral Type	Fair Value 12/31/2011	Collateral Market Value 12/31/2011	Collateral Percentage	Fair Value 12/31/2010	Collateral Market Value 12/31/2010	Collateral Percentage
Cash	\$ 298,404	\$ 306,163	103%	\$359,382	\$368,396	103%
Non-cash	<u>807</u>	<u>831</u>	103%	<u>3,755</u>	<u>3,837</u>	102%
Total	<u>\$ 299,211</u>	<u>\$306,994</u>		<u>\$363,137</u>	<u>\$372,233</u>	

EMPLOYEES' RETIREMENT FUND OF  
THE CITY OF DALLAS

## Notes to the Financial Statements

December 31, 2011 and 2010

The following represents the balances relating to the securities lending transactions as of December 31, 2011 and 2010 (in thousands):

Securities Lent	Underlying Securities 12/31/2011	Securities Collateral Value 12/31/2011	Cash Collateral Investment Value 12/31/2011	Underlying Securities 12/31/2010	Securities Collateral Value 12/31/2010	Cash Collateral Investment Value 12/31/2010
Lent for cash collateral:						
Domestic equities	\$ 143,721	\$ -	\$ 147,438	\$164,579	\$ -	\$168,797
Domestic corporate fixed income	74,109	-	75,935	124,414	-	127,126
International equities	16,802	-	17,587	22,966	-	24,081
US government, agency & foreign securities	<u>63,772</u>	<u>-</u>	<u>65,203</u>	<u>47,423</u>	<u>-</u>	<u>48,392</u>
Subtotal	298,404	-	306,163	359,382	-	368,396
Lent for securities collateral:						
Domestic equities	665	683	-	379	387	-
International equities	142	148	-	142	148	-
US government, agency & foreign securities	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,234</u>	<u>3,302</u>	<u>-</u>
Subtotal	807	831	-	3,755	3,837	-
Total	<u>\$ 299,211</u>	<u>\$ 831</u>	<u>\$ 306,163</u>	<u>\$363,137</u>	<u>\$3,837</u>	<u>\$368,396</u>

Disclosure of securities lending income is shown gross with the associated reductions for investment expenses on the Statements of Changes in Plan Net Assets, and the cash collateral and associated securities lending payable is shown on the Statements of Plan Net Assets for December 31, 2011 and 2010. The net income from securities lending in 2011 and 2010 was \$1.1 million and \$1.3 million respectively.

(5) Federal Income Tax Status

The Internal Revenue Service issued a determination letter dated January 14, 2003, stating that the Plan was designed in accordance with applicable Internal Revenue Code requirements as of that date. The last Plan change occurred in December 2004. The Plan administrator believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, the Plan was qualified and the related trust was tax-exempt as of the financial statement dates.

(6) Funded Status and Funding Progress

The funded status of the Plan as December 31, 2011, the most recent actuarial valuation date, is as follows (dollars in millions):

Actuarial Valuation Date	Actuarial Value of Assets (\$) (a)	Actuarial Accrued Liability (\$) (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (\$) (b-a)	Funded Ratio (a/b)	Covered Payroll (\$) (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/11	2,917	3,392	475	86%	319	148.9%

EMPLOYEES' RETIREMENT FUND OF  
THE CITY OF DALLAS

Notes to the Financial Statements

December 31, 2011 and 2010

The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL for benefits.

Significant assumptions as of the latest actuarial valuation follows:

Valuation date	December 31, 2011
Actuarial cost method	Entry Age Normal
Asset valuation method	5-year smoothed market
Amortization method	Level percent open, the remaining period is 30 years
Investment rate of return	8.25% compounded annually
Salary increases	3.00% - 7.00%
Payroll growth factor	3.00% per year
Includes inflation at	3.00% per year
Cost-of- Living Adjustment	3.00% per year

REQUIRED SUPPLEMENTARY INFORMATION  
(unaudited)

Schedule of City Contributions

The information presented in the required supplementary schedules was determined as part of the actuarial valuation for each year presented. The following table shows information related to City contributions (in thousands):

<u>Years Ended December 31</u>	<u>Annual Actuarially Required Contribution</u>	<u>Percentage Contributed</u>
2002	49,475	73.99
2003	65,849	52.74
2004	71,382	49.38
2005	27,898	2,027.29
2006	14,380	159.94
2007	9,387	249.42
2008	10,798	210.41
2009	39,386	64.06
2010	41,099	66.48
2011	41,049	66.51

Schedule of Funding Progress

The following table shows the Plan's funding progress (dollars in millions):

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (\$) (a)</u>	<u>Actuarial Accrued Liability (\$) (AAL) – Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (\$) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (\$) (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/02	1,864	2,400	536	78%	325	165.0%
12/31/03	1,843	2,489	646	74%	318	202.8%
12/31/04	2,482	2,488	6	99%	331	1.9%
12/31/05	2,739	2,606	-133	105%	332	-40.0%
12/31/06	2,998	2,761	-237	109%	345	-68.6%
12/31/07	3,183	2,915	-268	109%	370	-72.4%
12/31/08	2,958	3,075	118	96%	389	30.1%
12/31/09	3,032	3,192	160	95%	375	42.8%
12/31/10	3,027	3,282	255	92%	332	76.7%
12/31/11	2,917	3,392	475	86%	319	148.9%

The actuarial information presented is determined by an actuarial valuation that results from applying various assumptions (see note 6 of notes to the financial statements) termination, disability, retirement, mortality, and the time value of money to the accumulated plan benefits.

Certain factors, such as changes in benefit provisions, the size or composition of the population covered by the plan, or the actuarial assumptions used, may significantly affect the identification of trends in the amounts reported in this schedule.

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# Schedule of Administrative Expenses

as of December 31, 2011

(dollars in thousands)

## Personal services:

Salaries	\$1,626
Retirement	159
Insurance	89
<b>Total Personal Services</b>	<b>1,874</b>

## Professional services:

Actuary Service	60
Accounting & Audit Fees	47
Attorney fees	373
Communication	-
Medical	19
<b>Total Professional Services</b>	<b>499</b>

## Operating Services:

Data Processing	115
Election	-
Parking	29
Printing	42
Rent	237
Supplies and Services	167
Telephone	21
Travel and Training	136
Indirect and Other Costs	370
<b>Total Operating Services</b>	<b>1,117</b>

## Furniture & Fixtures:

Furniture	2
Other	-
<b>Total Furniture &amp; Fixtures</b>	<b>2</b>

**Total Administrative Expenses**

**\$3,492**

# Schedule of Investment Expenses

as of December 31, 2011

(dollars in thousands)

Manager Fees	\$13,237
Custodian Fees	150
Securities Lending Fees	317
Investment Consultant Fees	322
<hr/>	
Total Investment Expenses	\$14,026

\*Securities lending fees include broker rebates and the lending agent's fees.

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## Schedule of Payments for Professional Services

as of December 31, 2011

(dollars in thousands)

<b>Accounting and Audit:</b>	
Financial Control Systems	\$47
<b>Acturial:</b>	
Gabriel, Roeder, Smith & Company	60
<b>Legal:</b>	
Foster Pepper PLLC	120
Strasburger & Price, LLP	253
<b>Medical:</b>	
various	19
<b>Investments:</b>	
Wilshire Associates, Inc	322
<hr/>	
Total Professional Services Payments	<u>\$821</u>

# IMPACT

economy. employment. community. retirees.

“In 2009, \$426.2 billion in gross public and private pension benefits paid out supported 6.5 million American jobs.”\*



INVESTMENT  
SECTION

pensions supported  
**6.5 MILLION JOBS**



\* In 2012, the National Institute on Retirement Security (NIRS) developed a study that measures the economic impact of pension benefits nationally. Additional information can be found in the report entitled, *Pensionomics 2012: Measuring the Economic Impact of DB Pension Expenditures*.

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Andrew Junkin, CFA, CAIA  
 Managing Director & Principal

July 20, 2012

Ms. Cheryl Alston  
 Administrator  
 City of Dallas Employees' Retirement Fund  
 600 North Pearl Street #2450  
 Dallas, TX 75201

Re: 2011 Performance Results

Dear Cheryl:

The purpose of this letter is to review the 2011 investment performance results of the Dallas Employees' Retirement Fund ("ERF", "the Fund").

ERF maintains a well-diversified investment portfolio that consists of domestic and international equities, fixed income, real estate (including public REITS and private core real estate), private equity, and real assets. During 2011, the Fund generated a net-of-fee return of 0.88%<sup>1</sup>, underperforming relative to its asset allocation policy benchmark's return of 1.06%, and trailing its actuarial rate of return of 8.25%.

The ongoing sovereign debt crisis in the Eurozone region continued to weigh on global equity markets, and volatility remained elevated throughout much of the second half of 2011. The looming threat of a double-dip recession taking hold in Europe was a strong headwind, capable of halting – if not fully dismantling – the fragile recovery taking place in the US. In the Asia-Pacific region, markets had to contend with the lingering fallout from Japan's Fukushima Daiichi nuclear disaster (brought about by a strong earthquake and tsunami in the region), as well as the slowing pace of China's economic growth. The price of crude oil increased nearly 25% during the fourth quarter of 2011 (to \$98.83 per barrel), negatively impacting consumer spending. In this uncertain and tumultuous macroeconomic environment, risk-weary investors flooded into fixed income investments, particularly the sovereign debt of governments deemed safe-havens for capital preservation (namely the U.K., Germany, Japan, and the U.S.). This so-called flight to safety drove down yields to near historic levels, and the returns on these investments soared.

<sup>1</sup> Performance calculations are consistent with the computations and methodologies approved by the CFA Institute.



In line with this narrative, the Fund's global fixed income and high yield asset classes were among its best performers for the year, returning 8.83% and 6.51%, respectively; both of the aforementioned asset classes outperformed relative to their benchmarks, and helped mitigate losses elsewhere in the Fund's portfolio. The Fund's public REIT segment fared well, climbing 18.90% for the year and outpacing the private core real estate segment, which returned 14.05% for the year. The Fund's private equity investments also performed strongly, gaining 11.80%. Due in large part to its Eurozone exposure, the Fund's international equity segment suffered steep declines in 2011, falling -13.46% but remained ahead of its benchmark for the year. The Fund's domestic equity segment posted modest gains of 0.84% for the year, but trailed its benchmark. When compared to other public funds in the Wilshire Cooperative Total Fund Universe, ERF ranked in the second quartile during 2011, in the first quartile over the three-year period, in the third quartile over the five-year period, and in the first quartile over the ten-year period. Overall, ERF's diversified asset allocation and discipline have served it well during the year of 2011.

The ERF Board of Trustees adopted a new policy mix to start 2011 by expanding the real estate segment to add an allocation to private core real estate. As the Trustees look to proactively diversify its investments across asset classes, the Fund will continue to examine potential investments in private equity, private real estate and inflation-linked assets such as commodities. The approved allocations as of the end of 2011 were:

<u>Asset Class</u>	<u>Allocation</u>
Domestic Equity	25%
International Equity	25%
Fixed Income	15%
High Yield	15%
Public REITS	5%
Private Core Real Estate	5%
Real Assets	5%
Private Equity	5%

As always, we thank you for the opportunity to be of service to ERF.

Sincerely,

Best regards,

Wilshire Associates

370 Interlocken Boulevard Suite 620 Broomfield, CO 80021 TEL 303.626.7444 FAX 303.466.1537  
[www.wilshire.com](http://www.wilshire.com)

# Investment Policies Summary

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## Statement of Goals

The general investment goals are broad in nature to encompass the purpose of the Fund and its investments. They articulate the philosophy by which the Board will manage the Fund's assets within the applicable regulatory constraints.

1. The overall goal of the Fund is to provide benefits, as anticipated under the Plan document, Dallas City Code, Chapter 40A, to its participants and their beneficiaries through a carefully planned and executed investment program.
2. The Fund seeks to produce the highest return on investment which is consistent with sufficient liquidity and investment risk that are prudent and reasonable, given prevailing capital market conditions. While the importance of the preservation of capital is recognized, the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with compensating returns is also recognized. Consequently, prudent risk taking is reasonable and necessary.
3. The Fund investment program shall at all times comply with existing and applicable local, state and federal regulations.

## Investment Philosophy

The Fund is long term in nature, and the selection of investments is regulated by: the investment time horizon; the limits of acceptable risk; and the objective of optimizing the total rate of return. Each investment manager is authorized to execute investment transactions on behalf of the Board.

Investment decisions are made under the framework of the goal established for the rate of return, limits of acceptable risk, and Fund objectives. The goal is to optimize the return of the portfolio, as opposed to maximizing the rate of return.

The optimal portfolio mix is one that carefully equates expected rate of return with expected risk of all investment categories utilized in the portfolio. In setting the optimal mix of assets for the portfolio, the Board has developed a strategic asset allocation policy which incorporates a diversified asset mix. The strategic asset allocation is designed to provide an optimal diversification to reduce risk and maximize total rate of return relative to risk and the existing and projected liability structure.

The Board bases its investment strategy and goals on advice obtained from the investment consultant, the staff, and the external investment managers. The Board uses the annual external audit and annual actuarial valuation in its evaluation of the Fund's performance each year.

## Corporate Governance

Article XVI, Section 67 of the Texas Constitution and Chapter 40A of the Dallas City Code, give complete responsibility for the management and investment actions of the Employees' Retirement Fund to the Board of Trustees. The Board is held to the standard of conduct of fiduciaries in discharging their responsibilities. According to Chapter 40A the Trustees, as fiduciaries, must carry out their functions solely in the interest of the members and beneficiaries.

The Board considers the active voting of proxies an integral part of the investment process. Proxy voting may be delegated to the discretion of investment managers retained by the Board. The managers shall be required to establish a proxy voting policy and maintain records of proxy votes, and shall make these records available quarterly to the Board or its designee. The Board may at its discretion establish an overall policy of voting proxies in which case the managers' proxy voting policy shall be in accordance with that of the Board's. The Board recognizes that in certain non-U.S. markets, investment managers may, balancing the costs and benefits, not exercise proxy voting.



# Investment Results

## Investment Summary

The investment managers and the returns by investment category are shown in the following tables.

<u>Investment Category</u>	<u>2011 Rate Of Return</u>
Domestic Equities	0.84%
International Equities	-13.46%
Fixed Income	8.83%
High Yield Bonds	6.51%
Real Estate Securities	11.53%
Cash Equivalents	0.10%
Private Equity	11.34%
Private Real Estate	14.05%
Total Portfolio	0.88%

## Investment Managers

Domestic Equities, REITs, Master Limited Partnerships, & Commingled Index Funds

Adelante Capital Management, LLC  
Intech  
Northern Trust Global Investments  
Security Capital Research & Management, Inc.  
SIT Investment Associates, INC  
Systematic Financial Management, LP  
T. Rowe Price Associates, Inc.  
Harvest Fund Advisors  
Invesco

International Equities

Acadian Asset Management Inc.  
AQR Capital Management, LLC  
Baring International Investment Limited

Fixed Income

Advantus Capital Management, Inc.  
Artio Global Investors  
Black Rock Financial Management  
Oaktree Capital Management, LLC

Cash Equivalents

The Northern Trust Company

Private Equity

Credit Suisse  
Hamilton Lane

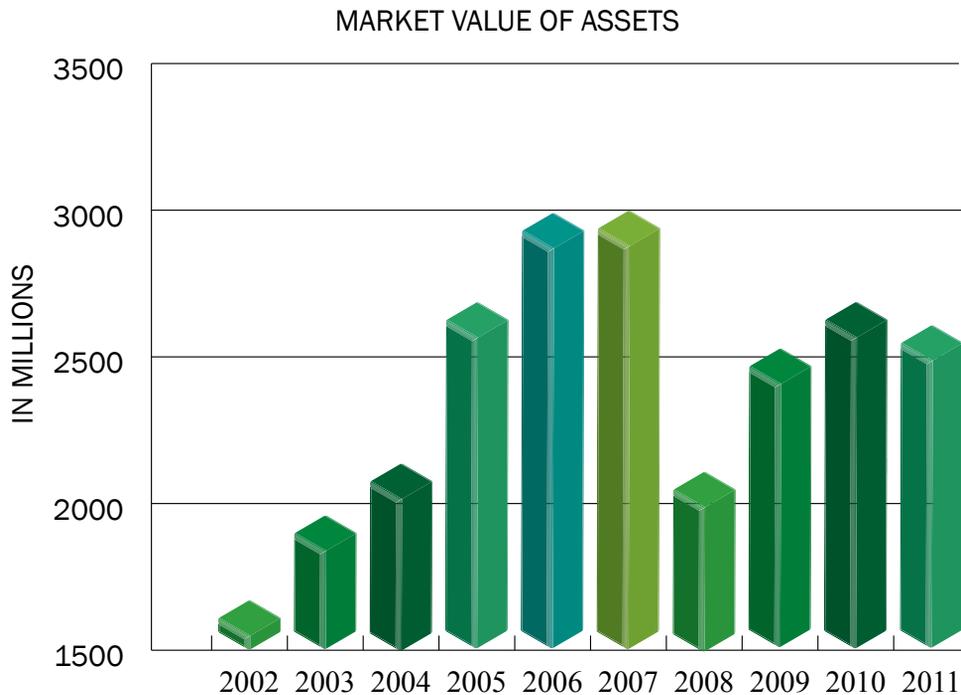
Real Estate

Heitman Real Estate Investment Management  
INVESCO Real Estate

# Total Plan Results

Fiscal year 2011 was flat. The world equity markets as measured by various indices were mixed for 2011 with the MSCI All World ex-US Index down 13.71% and the Dow Jones Wilshire 5000 returning 0.98%. The Barclays Aggregate Bond Index was up 7.84%. The Citigroup High Yield Cash Pay Index was up 5.5% for the year.

At December 31, 2011, the net asset value of the Plan was \$2.7 billion. This value represents a -0.7% or \$200 million decrease over last year's value. The Net Assets of the Plan graph below provides a pictorial history of the Plan's growth over the past 10 years.



## Asset Allocation

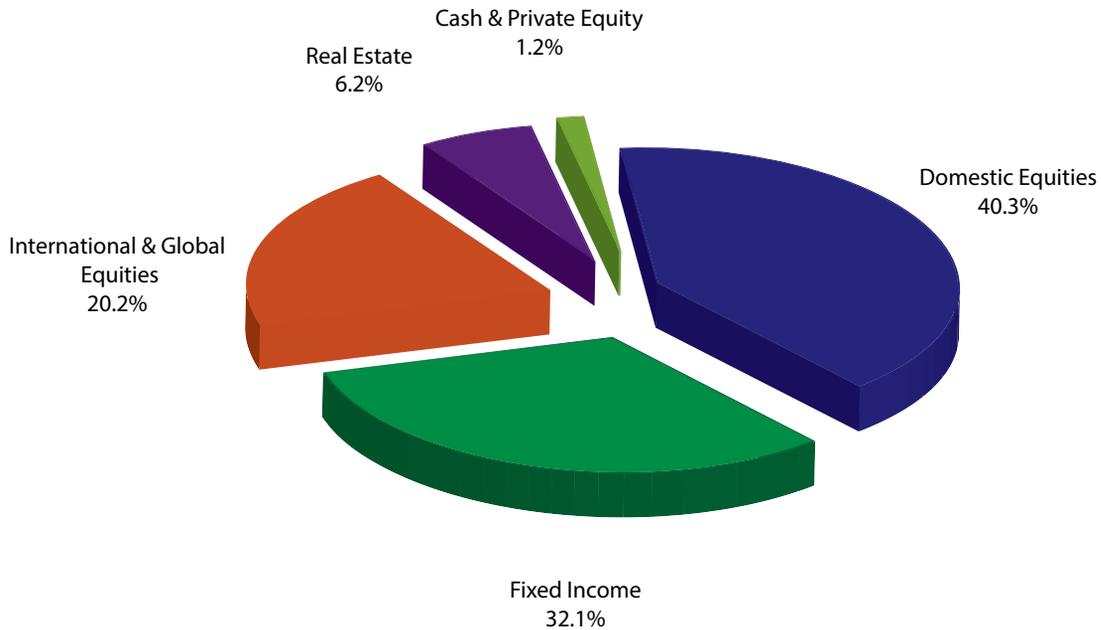
The Plan's long-term strategic asset allocation policy sets the following targets: 37.5% in domestic equity (22.5%) including real estate securities(5.0%) private equity (5.0%) and Master Limited Partnerships (MLP's) (5.0%); 27.5% in international and 5% global equity; 15% in global fixed income; and 15% in high yield fixed income. The chart on the next page shows the investments by asset class at year-end. Although no specific allocation to cash and equivalents is targeted, cash must be available for the payment of benefits and other expenses of the Plan. To accommodate constantly changing market values, the Board has approved ranges for each of the asset classes.

## Domestic and Global Equity

The Plan's allocation to domestic and global equity is targeted at 37.5% of the Plan's total assets including 5% allocated to real estate securities, 5% to private equity, and 5% to MLP's. Passively managed index funds totaled 3.9% of domestic equity assets at year end, and actively managed portfolios represented the remaining 40.3% of domestic equity investments. Total US equity returned 0.8% for the year while the benchmark Wilshire 5000 Index had a return of 1.0%. The S&P 500 Index returned 2.1% for the year.

International and global equity has a target allocation of 27.5%, and it is split between international equity (22.5%)and global equity (5.0%). The Plan's international equity composite return was -13.5% while the MSCI All World ex-US Index reported a return of -14.3% for the year. The global equity allocation had not been funded at year end.

# Asset Allocation



## Global Fixed Income

Global fixed income has a target of 15% of total assets. This allocation is allocated to two investment managers. During the year the global fixed income returned 8.8% while the Barclays Aggregate Bond Index returned 7.8%.

## High Yield Fixed Income

High yield fixed income has a target of 15%. This allocation is also evenly split between two investment managers. The high yield return for 2011 was 6.5% and the Citigroup High Yield Cash Pay Index returned 5.6%.

## Private Equity

Private equity has a target allocation of 5%. This allocation is split between two investment managers. At year end the market value was approximately 0.3%. The rate of return for the year was 11.30%.

## Real Estate

Real estate target allocation is 5% of total assets. This allocation is split between two investment managers. The real estate return for 2011 was 14.1% and the NCREIF Property Index returned 14.3%.

# Annualized Rate of Return

as of December 31, 2011

	2011	3-Year	5-Year
<b>Total Fund</b>	0.88%	15.14%	1.83%
<b>Domestic Equity</b>	0.84	14.73	-0.14
S&P 500 Index	2.12	14.1	-0.25
Dow Jones Wilshire 5000 Index	0.98	14.93	0.12
<b>International Equity</b>	-13.46	12.60	-2.87
MSCI ACWI ex US Index	-14.31	11.53	-2.74
MSCI EAFE Index	-12.14	7.65	-4.72
<b>Global Fixed Income</b>	8.83	9.45	5.64
Barclays Aggregate Bond Index	7.84	6.77	6.50
<b>High Yield Fixed Income</b>	6.51	19.35	6.74
Citigroup High Yield Cash Pay	5.59	22.70	7.22
<b>Cash Equivalents</b>	0.10	0.14	-1.45
T-Bills	0.10	0.14	1.48
<b>Real Estate Securities</b>	11.53	22.80	-2.47
Wilshire RE Securities Index	8.56	21.89	-2.15
NCREIF Property Index	13.11	-	-
<b>Private Equity</b>	11.34	-	-
Private Equity Benchmark	-1.00	-	-

# Investment Management Fees

as of December 31, 2011

(dollars in thousands)

Investment**	Assets Under Management	Fees	Basis Points
Domestic Equity	\$941,665	\$3,563	37.9
International Equity	547,109	3,109	56.8
Global Fixed Income	392,102	862	21.9
High Yield Fixed Income	454,604	2,145	47.1
Real Estate	175,489	2,240	1.3
Master Limited Partnerships	106,288	45	-
Private Equity	36,368	1,209	3.3
Cash Equivalents	103,047	64	-
	subtotal	\$2,756,672	\$13,237

## Other Investment Services

Investment Consultant	322	
Custodian	150	
Security Lending*	317	
	subtotal	789

<b>Total Investment Management Fees</b>	<b><u>\$14,026</u></b>
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\* Securities lending fees include broker rebates and the lending agent's fees.

\*\* Excludes cash.

# Ten Largest Holdings

as of December 31, 2011

Equity	Shares	Fair Value
MFB NTGI-QM COLTV Daily S&P 500	24,015.86	\$90,752,837
CF INVESCO Core RE Fund	778.31	90,171,105
CF Heitman America Real Estate	106,063.81	85,318,132
UK MSCI Index	386,015.65	23,357,807
Exxon Mobil Corp. COM	218,886.00	18,552,777
Canada MSCI Index	236,405.74	17,644,379
Simon PPTY Group Inc New	134,113.00	17,292,530
MSCI Health Care ZVM6	1,052,623.22	17,255,652
Hamilton Lane Sec FD II	11,702,732.00	16,359,555
MLP Enterprise Prods Partners	349,000.00	16,186,620

Fixed Income	Par Value	Fair Value
U.S.A. Treasury Notes .875% due 11/30/2016	10,615,000	\$10,647,376
U.S.A. Treasury Notes 3.750% due 08/15/2041	8,230,000	\$9,679,221
Brazil (Fed Rep of) 10.000% due 01/01/2012	16,010	\$8,996,100
Mexico (UTD Mex ST) 10.000% due 12/05/2024	937,000	\$8,636,667
U.S.A. Treasury Notes 2.000% due 11/15/2021	7,380,000	\$7,464,206
Ontario Prov CDA 2.300% due 05/10/2016	5,640,000	\$5,808,072
U.S.A. Treasury Bonds .250% due 12/15/2014	5,580,000	\$5,561,692
Clear Channel 9.250% due 12/15/2017	4,443,000	\$4,798,440
FNMA 4.000% due 11/01/2041	3,994,533	\$4,201,210
Canada (Govnt of) 3.250% due 06/01/2021	3,800,000	\$4,148,745

# Investment Holdings Summary

as of December 31, 2011

(dollars in thousands)

<b>Fixed Income</b>	<b>Market Value</b>	<b>Percentage of Market Value</b>
Government Bonds	\$179,124	6.49%
Corporate Bonds	<u>667,582</u>	<u>24.19%</u>
Total Fixed Income	846,706	30.68%
<b>Equity</b>		
Common Stock	1,488,774	53.95%
Index & Commingled	<u>106,288</u>	<u>3.85%</u>
Total Equity	1,595,062	57.80%
<b>Real Estate</b>		
Real Estate	<u>175,489</u>	<u>6.36%</u>
Total Real Estate	175,489	6.36%
<b>Alternative Investments</b>		
Private Equity	<u>36,368</u>	<u>1.32%</u>
Total Alternative Investments	36,368	1.32%
<b>Cash and Equivalents</b>		
Cash	2,747	0.10%
Cash Equivalents	<u>103,047</u>	<u>3.73%</u>
Total Cash and Equivalents	105,794	3.83%
Total Fund*	<u>\$2,759,419</u>	<u>100.00%</u>



# IMPACT

economy. employment. community. retirees.

“Pension benefits are highly valued by the retired Americans who count on them...But the benefits provided have an impact that reaches beyond the retirees who receive them.”\*



# \$20.2 BILLION

impact on texas economy



ACTUARIAL  
SECTION

\* In 2012, the National Institute on Retirement Security (NIRS) developed a study that measures the economic impact of pension benefits nationally. Additional information can be found in the report entitled, *Pensionomics 2012: Measuring the Economic Impact of DB Pension Expenditures*.

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**The Report of the  
December 31, 2011 Actuarial Valuation  
of the Employees' Retirement Fund  
of the City of Dallas**

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Consultants & Actuaries

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May 8, 2012

Board of Trustees  
Employees' Retirement Fund of the City of Dallas, Texas  
600 North Pearl Street  
Suite 2450  
Dallas, Texas 75201

Dear Members of the Board:

We are pleased to present our report of the actuarial valuation of the Employees' Retirement Fund of the City of Dallas, Texas ("ERF" or the "Fund") as of December 31, 2011.

This valuation provides information on the funding status of ERF. It includes a determination of the actuarially calculated contribution rates for the 2012 calendar year. In addition, it also contains the information necessary to determine the current total obligation rate and the current adjusted total obligation rate for the fiscal year beginning October 1, 2012 per City Ordinance. This rate is a function of the previous year's adjusted total obligation rate, this year's actuarially calculated contribution rate, and the rate necessary to make the debt service payment on the previously issued pension obligation bonds for fiscal year 2013.

This valuation is based on the provisions of ERF in effect as of the valuation date, data on the ERF membership and information on the asset values of the Fund as of December 31, 2011. The member, annuitant and asset data used in the valuation were all prepared and furnished by ERF staff. While certain checks for reasonableness were performed, the data used was not audited.

There were no changes in the actuarial assumptions or methods since the prior valuation. All actuarial assumptions and methods are described under Section O of this report and meet the parameters of Governmental Accounting Standards Board Statement No. 25. We believe the actuarial assumptions individually and collectively represent reasonable expectations of experience over the long-term future.

To the best of our knowledge, this report is complete and accurate and was conducted in accordance with the Actuarial Standards of Practice as set forth by the Actuarial Standards Board and in compliance with the provisions of the City Ordinance. The undersigned are independent actuaries and consultants. Mr. Randall is an Enrolled Actuary and a Member of the American Academy of Actuaries and he meets the Qualification Standards of the American Academy of Actuaries. Both Mr. Randall and Mr. Ward have significant experience in performing valuations for large public retirement systems.

Respectfully submitted,

Lewis Ward  
Consultant

Mark R. Randall, MAAA, FCA, EA  
Executive Vice President & Senior Consultant

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# SUMMARY OF THE VALUATION

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(This summary is an excerpt of the 2011 Actuarial Valuation Report.  
Sections referenced in this summary are available in the full report.)

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## FUNDING PROCESS

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Based on the previous work of the Employees' Retirement Fund Study Committee, which was ratified by both the City Council and the voters of Dallas, a new funding process commenced October 1, 2005. From this date forward, a new "current adjusted total obligation rate" will be contributed jointly by the City (63%) and the Membership (37%). This current adjusted total obligation rate will cover both the debt service tied to the pension obligation bonds issued in 2005 and the contributions to the ERF. In subsequent years, the contribution rate changes only if the actuarial valuation develops a "current total obligation rate" which differs from the "prior adjusted total obligation rate" by more than 3.00%.

As shown in Table 3 (under Section M) and discussed later in this report, the "current total obligation rate" (Item 4 in Table 3) differs from the "prior adjusted total obligation rate" (Item 1 in Table 3) by more than 3.00% as of December 31, 2011. This means that the "current adjusted total obligation rate" will increase from 29.16% to 32.08% of active member payroll effective October 1, 2012.

## EXPERIENCE DURING 2011

---

An Actuarial (Gain)/Loss Analysis [(G)/L] reviews the effects of the actual experience that differs from the assumed experience based on the actual results for the year. If any difference increases assets or reduces liabilities, we have an actuarial gain. The reverse is an actuarial loss.

On a market value return basis, the Fund gained approximately 0.86% (calculated on a dollar-weighted basis, net of investment expenses). Given this low return, the actual investment income was less than the expected investment income on the actuarial value of assets; therefore, an investment income loss is being partially recognized this year (1/5) and partially deferred into the near future (4/5). After recognizing this year's loss and prior years' deferred investment gains and losses (years 2010, 2009, 2008 and 2007), there was an overall actuarial loss of \$210 million on the actuarial value of assets as of December 31, 2011. The rate of return on the actuarial value of assets for 2011 was 1.15% (calculated on a dollar-weighted basis, net of investment expenses). This result was less than the current investment return assumption of 8.25%.

During 2011 there was an aggregate actuarial gain of about \$6.0 million derived from demographic assumptions and non-investment economic assumptions (salary increases). As seen below, ERF experienced an overall actuarial loss in calendar year 2011. This year's overall actuarial experience loss amounted to approximately \$203.9 million.

The total (G)/L for the prior 4 years is broken down as follows (\$ in millions):

	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
1) Actuarial (Gain)/Loss on Assets	\$375.99	\$146.94	\$117.40	\$209.96
2) Actuarial (Gain)/Loss on Liabilities	29.25	(23.70)	(101.31)	(6.04)
3) Total Actuarial (Gain) or Loss (1+2)	<u>405.24</u>	<u>123.24</u>	<u>16.09</u>	<u>203.92</u>

In addition to the actuarial loss for 2011 shown above, the unfunded actuarial accrued liability (UAAL) increased \$12.5 million because of the difference between the calculated contribution rate and the actual contributions to the Fund during 2011.

## FUNDED STATUS

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The funded status of ERF is measured by the Funded Ratio and the Unfunded Actuarial Accrued Liability (UAAL). The Funded Ratio is the ratio of the actuarial value of assets available for benefits to the actuarial accrued liability (AAL) of the Fund on the valuation date. Therefore, it reflects the portion of the AAL that is covered by ERF assets. The UAAL is the difference between these two amounts.

A Funded Ratio of 100% means that the funding of ERF is precisely on schedule as of the particular valuation date. In addition, an increasing funded ratio from year-to-year may also mean that the funding of ERF is on schedule. By monitoring changes in the Funding Ratio each year we can determine whether or not funding progress is being made.

Based on the actuarial value of assets, the Funded Ratio of ERF decreased from 92.2% as of December 31, 2010 to 86.0% as of December 31, 2011. This decrease is due to the continued recognition of the significant downturn in the investment markets during 4<sup>th</sup> quarter of 2008 and also to the less than expected return on assets during 2011.

The UAAL increased from \$254.7 million as of December 31, 2010 to \$474.9 million as of December 31, 2011. Since the UAAL is positive, this implies the actuarial accrued liabilities exceed the actuarial assets of the Fund as of December 31, 2010 and 2011.

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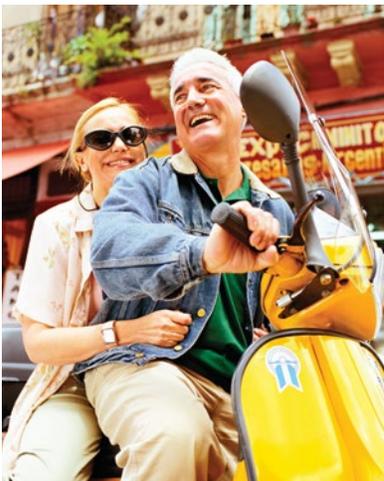
# IMPACT

economy. employment. community. **retirees.**

“When retirees spend their pension checks, those expenditures help to support jobs - at the local diner, hospital or even at a factory somewhere across the country.”\*



**\$552.9 BILLION**  
in value added to gdp



\* In 2012, the National Institute on Retirement Security (NIRS) developed a study that measures the economic impact of pension benefits nationally. Additional information can be found in the report entitled, *Pensionomics 2012: Measuring the Economic Impact of DB Pension Expenditures*.

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## Schedule of Revenue by Source

(dollars in thousands)

Year Ending	Member Contributions	Employer Contributions	% of Annual Covered P/R	Investment Income	Total
2002	21,771	36,606	11.3	-171,787	-113,410
2003	20,580	34,729	109.1	412,128	467,437
2004	20,896	35,251	10.6	289,947	346,094
2005	23,392	565,569	170.1	208,288	797,249
2006	30,123	23,000	6.7	464,629	517,752
2007	31,806	23,493	6.3	110,659	165,958
2008	31,839	22,720	5.8	-975,641	-921,082
2009	32,229	25,265	6.7	619,177	676,671
2010	31,666	27,323	8.2	398,713	457,702
2011	31,748	27,302	8.6	24,554	83,604

## Schedule of Expenses by Type

(dollars in thousands)

Year Ending	Benefit Payments	Administrative Expenses	Refunds	Investment Professional Expenses	Total
2002	97,363	1,944	2,552	7,458	109,317
2003	108,402	2,119	2,605	7,322	120,448
2004	116,675	2,075	2,976	10,003	131,729
2005	127,578	2,737	3,049	18,891	152,255
2006	139,206	2,416	3,451	35,921	180,994
2007	146,810	2,675	3,056	39,855	192,396
2008	156,575	3,255	2,742	20,926	183,498
2009	172,493	3,315	4,273	9,637	189,718
2010	182,883	3,235	4,476	11,173	201,767
2011	195,270	3,492	4,982	14,026	217,770

## Schedule of Benefit Expenses by Type

(dollars in thousands)

Year Ending	Retiree	Beneficiary	Disability	Supplement	Total
2002	82,918	5,012	2,753	6,681	97,364
2003	93,859	4,562	2,951	7,030	108,402
2004	101,284	5,076	3,128	7,187	116,675
2005	110,761	6,054	3,376	7,387	127,578
2006	121,085	6,897	3,628	7,597	139,207
2007	129,326	5,897	3,806	7,781	146,810
2008	138,695	5,959	3,979	7,942	156,575
2009	150,843	9,340	4,149	8,161	172,493
2010	162,042	7,984	4,322	8,535	182,883
2011	176,028	5,767	4,536	8,939	195,270

# Average Benefit Payment

as of December 31, 2011

Retirement Effective Dates	Years of Credited Service						
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+
Period 01/01/2011 to 12/31/2011							
Average monthly benefit	\$323.02	\$787.06	\$1,259.41	\$2,027.33	\$3,098.78	\$3,753.60	\$4,262.55
Average final average salary	\$3,797.67	\$3,757.08	\$3,701.60	\$4,260.84	\$5,052.09	\$5,105.35	\$4,990.11
Number of retired members	15	33	41	48	58	105	61
Period 01/01/2010 to 12/31/2010							
Average monthly benefit	\$223.93	\$734.08	\$1,302.73	\$1,830.30	\$2,995.36	\$3,710.91	\$4,116.13
Average final average salary	\$2,594.83	\$3,678.95	\$4,364.32	\$4,784.05	\$4,903.64	\$5,039.60	\$4,771.62
Number of retired members	8	36	49	44	70	133	91
Period 01/01/2009 to 12/31/2009							
Average monthly benefit	\$301.96	\$784.21	\$1,294.02	\$2,149.66	\$2,949.94	\$3,576.69	\$4,305.35
Average final average salary	\$3,287.00	\$3,605.72	\$3,878.74	\$4,396.37	\$4,788.12	\$4,881.66	\$4,969.17
Number of retired members	27	25	36	37	65	110	79
Period 01/01/2008 to 12/31/2008							
Average monthly benefit	\$256.93	\$992.79	\$1,160.28	\$2,059.59	\$2,717.68	\$3,490.12	\$4,168.44
Average final average salary	\$3,816.62	\$4,347.54	\$3,472.80	\$4,301.64	\$4,446.61	\$4,739.25	\$4,930.47
Number of retired members	8	33	26	18	68	73	38
Period 01/01/2007 to 12/31/2007							
Average monthly benefit	\$330.49	\$760.80	\$1,251.93	\$2,168.34	\$2,565.23	\$3,226.37	\$4,030.12
Average final average salary	\$3,350.81	\$3,387.56	\$3,787.73	\$2,941.32	\$4,272.21	\$4,516.64	\$4,476.76
Number of retired members	12	29	36	26	69	52	27
Period 01/01/2006 to 12/31/2006							
Average monthly benefit	\$208.24	\$741.86	\$1,187.64	\$1,522.49	\$2,566.20	\$3,252.67	\$3,883.23
Average final average salary	\$3,421.25	\$3,359.50	\$3,382.90	\$3,213.03	\$4,263.23	\$4,483.42	\$4,605.96
Number of retired members	9	31	30	25	73	72	50
Period 01/01/2005 to 12/31/2005							
Average monthly benefit	\$315.77	\$763.76	\$1,454.99	\$1,800.93	\$2,765.44	\$3,123.08	\$4,215.25
Average final average salary	\$3,260.48	\$3,652.23	\$3,894.79	\$3,710.63	\$4,515.87	\$4,399.20	\$4,949.87
Number of retired members	8	31	24	28	84	74	41

# Retired Members By Type of Benefit

as of December 31, 2011

Amount of Monthly Benefits	Type of Retirement <sup>a</sup>							Option Selected <sup>b</sup>		
	1	2	3	4	5	6	7	#1	#2	#3
<b>\$1 - 250</b>	51	0	7	0	0	0	0	17	13	28
<b>\$251 - 500</b>	115	3	40	45	0	2	16	52	95	74
<b>\$501 - 750</b>	201	7	68	45	3	7	24	86	151	118
<b>\$751 - 1,000</b>	244	11	85	30	26	27	11	113	156	165
<b>\$1,001 - 1,250</b>	221	16	76	29	8	16	7	97	136	140
<b>\$1,251 - 1,500</b>	235	21	63	16	8	18	5	95	135	136
<b>\$1,501 - 1,750</b>	216	13	53	17	5	15	4	109	103	111
<b>\$1,751 - 2,000</b>	207	29	52	14	2	8	7	101	123	95
<b>over 2,000</b>	3,243	165	214	60	9	42	17	994	1,557	1,199
<b>Total</b>	<b>4,733</b>	<b>265</b>	<b>658</b>	<b>256</b>	<b>61</b>	<b>135</b>	<b>91</b>	<b>1,664</b>	<b>2,469</b>	<b>2,066</b>

## Type of Retirement<sup>a</sup>

- 1 Normal retirement for age, service or Rule of 78
- 2 Early retirement
- 3 Beneficiary payment, normal or early retirement
- 4 Beneficiary payment, service connected death
- 5 Service connected disability retirement
- 6 Non-Service connected disability retirement
- 7 Beneficiary payment, disability retirement

## Option Selected<sup>b</sup>

- 1 Joint & 100% - beneficiary receives 100% of member's benefit
- 2 Joint & 50% - beneficiary receives 50% of member's benefit
- 3 10 Year Certain - beneficiary receives member's unused benefit

# Average Age and Pension at Retirement

as of December 31, 2011

Status	Average Age	Average Pension	Average Age at Retirement
Members Only	67.2	\$2,846.70	57.1
Members and Survivors	68.1	\$2,649.93	N/A
Survivors Only	72.1	\$1,632.99	N/A

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Employees' Retirement Fund

| of the City of **DALLAS** |<sup>®</sup>

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