Volume 37, Winter 2008

PENSION◆PRESS

The Newsletter of the Houston Municipal Employees Pension System www.hmeps.org

A Letter From the Chairman

Dear Plan Participants:

Sherry Mose
Chairman

Our economy is experiencing extraordinary conditions that are affecting all investors and markets. While we know that these conditions can be stressful, it is good to know that we're meeting our obligations today, and will meet them tomorrow and beyond.

The current market conditions demand that HMEPS show tenacity in holding fast to the long-term goal of providing a safe and secure retirement to our members. Over the years, HMEPS has been able to navigate challenges and uncertainty in the economy by adhering to established investment policies. As a result, we have delivered investment performance that places our plan in an excellent position to weather the current market crisis.

In times like these, it is reassuring to know you participate in a defined benefit plan, such as HMEPS, that is professionally managed and has a well-diversified investment portfolio. Your benefit payments are not directly affected by market movements. Funds used to pay benefits come into HMEPS through member and employer contributions, and from investment portfolio returns.

No one can predict when a market recovery will occur, but going forward, we are going to use our full range of resources and talents to protect your financial interest today and into the future. As we continue to navigate the challenging conditions of the economy, you can be confident in the fact that we have a knowledgeable Board and skilled staff members guiding HMEPS.

We hope that this newsletter provides helpful insight as to what is happening at your pension system.

Your Chairman,

Sherry Mose

HMEPS To Receive Proceeds From City Note Refinancing

The City is in the process of refinancing its pension obligation note (Note) to HMEPS, which will clear the way for HMEPS to receive approximately $381 million in cash through the City's prepayment of the Note and related deferred and accrued interest.

The Note was issued on November 10, 2004 by the City for the benefit of HMEPS, as a collateralized note in the amount of $300 million maturing on December 1, 2033, along with related deferred interest certificates. The Note was issued to fulfill an obligation under the 2004 Meet and Confer Agreement, and was agreed upon in order to improve HMEPS' long-term funding outlook. The Note bears interest at no less than 8.5% per year, which is HMEPS' actuarial assumed rate of return on investments. The Note and the certificates are secured by a general obligation pledge of the City, and the Note is further secured by a promissory note from the Houston Convention Center Hotel Corporation to the City and a deed of trust on the Hilton Americas Hotel next to the George R. Brown Convention Center.

The Meet and Confer Agreement authorizes the City to prepay the Note and Deferred Interest Certificates in whole or in part. The City notified HMEPS that it will prepay in full the Note, the Deferred Interest Certificates and any and all accrued interest on January 8, 2009. Prepayment will be in the amount of approximately $381 million.

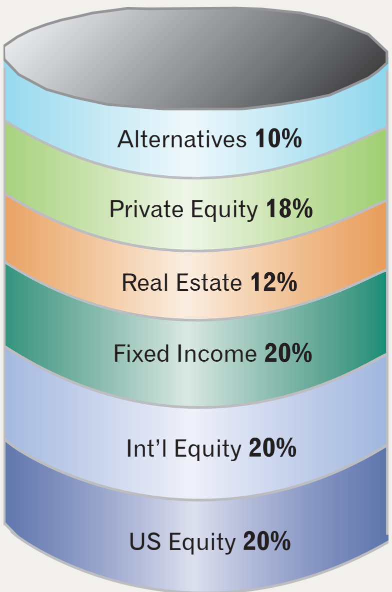
The actions being taken by the City to replace the Note with actual dollars adds to the system's investment portfolio and benefits both the City and HMEPS. HMEPS has been working with City representatives to assure a successful refinancing and prepayment.

Additional information regarding the Note can be found in our 2008 Comprehensive Annual Financial Report located on our website (www.hmeps.org) under "Publications."

HMEPS' Investment Resilience – Discipline is the Key

The last several months have been a challenging period for all investors, and further downturns in the market can be expected. During this current crisis, a variety of issues plague the economy, including a troubled housing market, credit crunch, and fluctuating energy prices, making it a very difficult environment for investors.

HMEPS' Target Asset Allocation



Looking back in time, we must remember that these financial events are not unique or unprecedented. The economic trouble of the 1930s brought a depression. The 1970s had severe recession and both periods had market corrections of greater than 40%. Each of these time periods has had its own set of unique circumstances surrounding the economy and corresponding market environments. While many financial institutions find themselves pessimistic about their futures, HMEPS is confident in the fact that we have 65 years of experience to lean on. It has used that time to hone its investment strategy and learned how to weather turbulent economic times.

Our Investments

As this article goes to print in December, the investment markets have yet to improve and still pose many challenges. Credit markets are still extremely tight, equity market volatility is still high and the global economy is slipping into recession. It is times like these that savvy investors can position assets to take advantage of the eventual upswing in markets. By following our strategic investment policy HMEPS will be investing opportunistically to capitalize on this current market dislocation. An integral part of HMEPS' overall investment policy is the strategic asset allocation policy. This policy is designed to provide the best mix of assets which can meet future pension obligations while minimizing the effects that market volatility has on the investment portfolio. This approach emphasizes strong diversification among a range of investments, each of which offers the opportunity for long-term returns. These investments include allocations to public markets (money markets, bonds and global stocks) as well as private markets (real estate, private equity and venture capital).

"Because of our long-term investment time horizon, HMEPS is able to maintain its broadly diversified investment portfolio and to opportunistically use market corrections as potential buying opportunities," stated Doug Wynkoop, HMEPS Chief Investment Officer.

HMEPS Is Resilient In Market Downturns

As a member of HMEPS you are participating in a defined benefit plan. When you retired from the City of Houston, HMEPS calculated your monthly pension benefit based on various factors such as years of service and salary, not investment results. Funds used to pay benefits come into HMEPS through member and employer contributions, and from investment returns. And while the market value of the HMEPS fund may fluctuate, as do the markets in general, the HMEPS fund that is used to pay benefits is sufficient to meet these obligations. We continue to issue benefit checks of approximately $169 million dollars per year to more than 8,000 retirees without interruption.

What's Next

It is important to remember that HMEPS is a long-term investor with a time horizon that lasts over decades and that the investment portfolio is well diversified in many different asset classes. Because the pension promises which the City of Houston has made to its retirees and active members are payable over many years and often decades, HMEPS can maintain a longer term investment strategy and weather short-term market fluctuations.

The HMEPS board, staff and professional consultants continue to closely monitor the HMEPS investment portfolio. In Fall 2008, the HMEPS board reviewed and approved the current strategic asset allocation to help assure monies are allocated in a manner that allows the system to continue to meet its long-term investment goals. Our system is strong enough to weather these challenges in the financial market. Your pension benefit is safe.

HMEPS INVESTMENTS

Market Value by Asset Class

	June 30, 2008	Nov. 30, 2008
Domestic	$ 446,275,513	$ 320,780,588
International	379,821,709	221,818,901
Fixed Income	352,942,811	288,396,611
Real Assets	358,358,904	281,706,652
Alternative/Private Equity	359,930,830	323,057,710
Cash Equivalents	624,232	4,959,369
City of Houston Pension Obligation Note	369,893,532	378,513,368
TOTAL	**$ 2,267,847,531**	**1,819,233,199**

A Recession Survival Kit

by Steve Waas, HMEPS Financial Counselor

It's normal for different businesses to fluctuate between profits and losses over time. But when most businesses suffer losses at the same time, for several months, it usually qualifies as a "recession." The Unted States is now in the tenth recession since 1950. The last one was in 2001. Like hurricanes, recessions are largely out of an individual's control - but proper preparations can help limit their adverse affects when they do occur. Here are several tips to help you "weather the storm."

Savings

Increasing savings is difficult because it means lowering your standard of living in the near term. Saving is even harder in recessions. One of the best ways to build savings is to make this promise to yourself - " I don't know when I'll get the next surprising inflow of money or reduced costs, but when I do I'll put part of it in savings."

These "windfalls" are rare during recessions. But believe it or not, there is a silver lining to the current hard times - a huge decline in energy prices. Probably some of your expenses are quite a bit lower than you were expecting just a few months ago. This is a windfall. Instead of spending this windfall on other things, do your best to set aside a part of it to pay off high interest rate debt, or use it to build savings.

Stocks

If you have investments in the stock market - perhaps in your deferred compensation (457) plan or in other types of accounts - the sharp decline in the market has undoubtedly been a source of distress for you. Should you change your investments? Should you get out of the market entirely?

There is no one answer that fits all situations. But this is a good time to revisit some basic questions.

Why do you own these investments? For many people, stocks are a good way to hold part of their savings - but generally only savings that they won't need for at least 5 or even 10 years. Why? Because while the long run track record of the stock market is quite good, there are frequent episodes of sudden declines - as we've just experienced. If you have a certain part of your savings that you will need in 3 years, stocks may not be the best place for that money. That's because there may not be enough time for the investment to recover from any sharp drops within the 3-year time frame.

Are your investments well diversified? If your investments are concentrated in just a few stocks or investment types, you may be taking more risk than you think.

Do you move in and out of your investments, trying to catch the highs and lows? If you do, you have lots of company. Maybe you are financially gifted and can succeed at this. But most people who try end up worse off than those who stick to a well-diversified portfolio.

Mortgage Rates

We're seeing a decline in mortgage rates as this recession unfolds. It might be a good time to review your mortgage situation with an eye toward the possibility of refinancing at lower rates. This won't make sense in all cases, but be alert for opportunities that might benefit you.

Looking Past the Recession

Nobody knows how long this recession will last. On average, recessions since 1950 have lasted about a year - but there is a lot of variation. If you're like me, when a hurricane hits you may not be quite as prepared as you'd like to be. So here's another tip: save this article. When things get better and everything seems to be going well, take it out and review it. Some preparations are easier to make before the storm. And there's always another storm, eventually.

DROP Interest Rate for CY 2009

Many of our participants are eligible to participate in our Deferred Retirement Option Plan (DROP).

Each year, the Board of Trustees sets the annual DROP interest rate. The DROP interest rate for calendar year 2009 will be 2.5%, the minimum rate provided under the Meet and Confer Agreement between HMEPS and the City of Houston. The rate was approved at the October Board meeting and is effective January 1, 2009.

The DROP interest rate is equal to half of the percentage return on HMEPS' investments for the prior fiscal year, with a minimum rate of 2.5% and a maximum rate of 7.5%. The FY2008 HMEPS' investment return was 0.47%, which is below the minimum rate, and therefore the HMEPS Board of Trustees approved the 2009 interest rate of 2.5%, effective January 1, 2009.

To speak with a benefit counselor to learn more about DROP, please call the HMEPS office at 713-595-0100.

Notice Regarding Form 1099-R

HMEPS will mail Form 1099-R's at the end of January 2009. If you have not received your Form 1099-R by the second week of February 2009 you should contact the HMEPS office (713-595-0100). If you have moved or are in the process of changing your mailing address from the address on file at HMEPS, you must submit a completed change of address form to HMEPS on or before December 31, 2008 in order to timely receive your Form 1099-R. You can obtain a change of address form by calling the HMEPS office or by accessing the Forms page on the HMEPS website (www.hmeps.org).

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Presorted Standard
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Permit No. 7057

Thanks to the HMEPS staff for their contributions to the ongoing success of the *Pension Press.*

NEWSLETTER CONTENT

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