

CITY OF DETROIT
POLICE & FIRE RETIREMENT SYSTEM

2014

ANNUAL REPORT OF THE BOARD OF TRUSTEES
FOR THE YEAR ENDED JUNE 30TH, 2014



Ally Detroit Center
500 Woodward Avenue
Suite 3000
Detroit, Michigan 48226

*Report prepared by the staff of the
Police & Fire Retirement System*

BOARD OF TRUSTEES LETTER

DEAR ACTIVE MEMBERS & RETIREES:

The Board of Trustees of the Police and Fire Retirement System of the City of Detroit is pleased to submit to you the comprehensive annual financial report for the fiscal year ended June 30, 2014.

FOR THE DETERMINATION OF THE JUNE 30, 2014 TPL:

The investment return rate used in the valuation was 7.2% per year, compounded annually (net after investment expenses). The real rate of return is the portion of total investment return which is more than the inflation rate. Considering other financial assumptions, the 7.2% total investment return rate translates to an assumed real rate of return of 3.2% over wage inflation.

ASSET ALLOCATION

The Board's asset allocation is built upon the foundation that the obligations of the Retirement System to pay the benefits promised to its members and retirants are very long term obligations. Accordingly, the Board of Trustees must make investment decisions which it believes will be the most beneficial to the Retirement System over many years, not just one or two years. The Board must also balance the desire for long term capital gains with the requirements to pay benefits each month. As of June 30, 2014 the Board's target asset allocation was as follows:

| | |
|--|-------|
| <i>Equities</i> | 43.0% |
| <i>Fixed Income</i> | 28.0% |
| <i>Real Estate</i> | 13.0% |
| <i>Alternative Investments</i> | 15.0% |
| <i>Cash & Short Term Investments</i> | 1.0% |

BENEFITS PAID

The Retirement System and its assets exist to pay the benefits which its members have earned. During the fiscal year ended June 30, 2014 the Retirement System paid \$285 million in benefits to retirants and beneficiaries, plus \$38 million in lump sum defined contribution plan benefits.

The System continued to provide a toll-free telephone number (1-800-339-8344).

CONTENTS OF THE REPORT

This is a consolidated report of the Defined Benefit Plan and the Defined Contribution Plan of the Retirement System. The report consists of six (6) sections:

I. Introductory Section

contains the Board of Trustees letter of transmittal, lists Retirement System Board members, and summarizes the Plan Benefit provisions.

II. Financial Section contains the Independent Auditors report and the financial statements of the System.

III. Actuarial & Statistical

Section contains the results of the annual valuation and statistical tables which contain significant data pertaining to the Police and Fire Retirement System.

IV. Investment Section

summarizes investment activities and identifies the System's advisors and consultants.

V. Special Information

Section contains the "Safe Harbor Explanation" provided to recipients of distributions from qualified plans in order to satisfy section 402(f) of the 4 Internal Revenue Code.

VI. Question & Answer Section

contains commonly asked Retirement System related questions.

ACCOUNTING SYSTEM & REPORTS

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to governmental units in accordance with standards promulgated by the Governmental Accounting Standards Board (GASB).

REVENUES

The reserves needed to fund retirement benefits are accumulated through the collection of employer and employee contributions plus income on investments. Employer contributions for the 2013-2014 fiscal year totaled \$0 and employee contributions were \$7.7 million. Recognized investment income for the fiscal year was \$566 million.

EXPENSES

Benefit payments are the primary disbursements of the Retirement System. Consequently, recurring benefit payments prescribed by the plan, refunds of contributions from the Defined Contribution Plan and the cost of administering the System comprise the total expenses. Administrative expenses are funded entirely from investment income.

FUNDING AND RESERVES

The trust funds consist of contributions and earnings that are accumulated by the Retirement System in order to meet current and future benefit obligations to retirants and beneficiaries. A higher level of funding and a larger accumulation of assets leads to a greater potential for higher investment income. Continuous improvement in the funding of the System is the primary objective of the Board of Trustees.

As of June 30, 2014, the fund balances of the accrued assets of the Retirement System totaled \$3,276 million and the actuarial accrued liabilities were \$4,007 million resulting in a funding deficit (excess of liabilities over assets) of \$731 million.

INVESTMENTS

The Retirement System invests all available funds in order to maximize both current income and long term appreciation. The primary objective of the System's investment policy is to assure that the System meets its responsibilities for providing all promised benefits. The Board of Trustees invests all available funds in a diversified portfolio

of investments with the objective of maximizing the overall long term appreciation of the Retirement System's assets while generating sufficient current income to pay the benefits which the members of the System have earned. The portfolio is diversified to provide the highest possible total return on the System's assets with the least exposure to risk.

ACKNOWLEDGMENTS

The preparation of this report reflects the combined efforts of the Retirement System staff under the direction of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, to disclose compliance with legal provisions, and as a means of disseminating vital and pertinent information to all active and retired members of the Police and Fire Retirement System of the City of Detroit. This report is being distributed to all active members and retirees plus other interested parties.

Respectfully submitted,

Board of Trustees
Police and Fire Retirement System
of the City of Detroit

JUNE 30, 2014 BOARD OF TRUSTEES

**ELECTED
EMPLOYEE
MEMBERS:**

JEFFREY PEGG

Fire Fighter,
Fire Department
Term expires June 30, 2016

GEORGE ORZECH

Battalion Chief,
Fire Department
Term expires June 30, 2014

JAMES MOORE

Police Commander,
Police Department
Term expires June 30, 2014

MARK DIAZ

Police Officer,
Police Department
Term expires June 30, 2015

SEAN NEARY

Fire Sergeant,
Fire Department
Term expires June 30, 2015

MICHAEL SIMON

Fire Retirant,
Fire Department
Term expires June 30, 2015

LOUIS SINAGRA

Police Retirant,
Fire Department
Term expires June 30, 2015

MATTHEW GNATEK

Police Sergeant,
Police Department
Term expires June 30, 2016

**EX-OFFICIO
MEMBERS:**

MIKE DUGGAN

Mayor

ANGELA R. JAMES

Mayor Designate

EDSEL JENKINS

Mayor Designate

BRENDA JONES

Council Designate,
City Council

TANYA V. STOUDEMIRE

Treasurer / Finance Director

MELVIN HOLLOWELL

Corporate Council

OFFICERS:

CYNTHIA THOMAS

Executive Director

DAVID CETLINSKI

Assistant Executive Director

ACTUARY:

**GABRIEL, ROEDER,
SMITH & CO.**

MEDICAL DIRECTOR:

REGINALD E. O'NEAL, D.O.

**PERFORMANCE
EVALUATION:**

WILSHIRE CONSULTING

LEGAL ADVISOR:

JOE TURNER

**REAL ESTATE
CONSULTANT:**

COURTLAND PARTNERS

MASTER CUSTODIAN:

BANK OF NEW YORK

**FULL SERVICE
CONSULTANT:**

WILSHIRE CONSULTING

SUMMARY OF PLAN BENEFIT PROVISIONS

**AGE AND SERVICE
RETIREMENT**

ELIGIBILITY – 25 years of service regardless of age. DPOA and their Fire equivalents - 20 years of service regardless of age. Effective as of 3/8/07.

ANNUAL AMOUNT – An annuity equal to the actuarial equivalent of the member's accumulated contribution account plus a defined benefit, which, when added to the annuity, will provide the following:

- **Pre-1969 Members** 2.0% of AFC times the first 25 years of service, with a maximum allowance of 15/22 of a police officer's or firefighter's annual rate of compensation.
- **1969 Plan Members** 2.5% of AFC times the first 25 years of service plus 2.1% of AFC times each of the next 10 years of service.

Members may elect to receive their accumulated contribution account in a lump sum after eligibility requirements for service retirement are met. The defined benefit at retirement is then reduced by the actuarial equivalent of the amount of principal withdrawn. No reduction is made with regard to the interest portion of the withdrawal.

Pre-1969 plan members may elect 1969 plan benefits at the time of retirement.

TYPE OF AVERAGE FINAL COMPENSATION (AFC) – Average of the current compensation for the ranks held in each of the last five years (last three years for DPCOA, Executive members and their Fire equivalents) plus longevity. Pension benefits for nonunion employees may not be diminished due to a reduction in compensation because of fiscal emergency. AFC includes prior longevity distributions during the averaging period in accordance with the following schedule: 1% of compensation after 5 years of service, 2% after 11 years, 3% after 16 years and 4% after 21 years.

ADDING UNUSED SICK LEAVE TO AFC Effective July 1, 2008 for the DPOA, DPLSA, and DFFA and effective January 15, 2010 for the DPCOA the following changes have been made to the average final compensation:

DPOA and DPCOA and Fire equivalents shall receive full pay (100%) of the unused accumulated sick bank, or choose to receive the 3-year average of twenty-five percent (25%) of the above amount added to their average final compensation used to compute the member's service pension with the unused balance being lump-summed to the member. All other unions shall receive full pay for eighty-five percent (85%) of the unused accumulated sick bank, or choose to receive the 3-year average of twenty-five percent (25%) of the above amount added to their average final compensation used to compute the member's service pension with the unused balance being lump-summed to the member.

**DEFERRED RETIREMENT
OPTION PLAN**

ELIGIBILITY – 25 years of service. DPOA and Fire equivalents – 20 years of service.

ANNUAL AMOUNT – 75% of retirement at the time of DROP

**DEFERRED RETIREMENT
VESTED BENEFIT**

ELIGIBILITY – Age 40 with 8 years of service, or if a DPOA Member or their Fire equivalents who terminate employment on or after August 29, 2003 with ten years of credited service regardless of age.

ANNUAL AMOUNT – Same as regular retirement but based on average final compensation and credited service at the time of termination.

BENEFIT COMMENCEMENT – Members hired prior to 7/1/85: Unreduced benefit begins at the age when the member would have first been eligible for regular retirement had the member continued in City service.

SUMMARY OF PLAN BENEFIT PROVISIONS (CONTINUED)

DPOA Members and their Fire equivalents hired after 6/30/85: Unreduced benefit begins at age 62. All members may elect a reduced benefit payable immediately.

DUTY DISABILITY RETIREMENT

ELIGIBILITY – No age or service requirements.
ANNUAL AMOUNT – A basic benefit of 50% of final compensation and a supplemental benefit of 16 2/3% of final compensation. After 24 months, members disabled from any occupation continue to receive both benefits, otherwise, members receive only the 50% benefit. Upon attaining 25 years of service, members receive only the basic benefit of 50%. Members convert to regular retirement at age 65. Workers Compensation payments are offset.

Members who filed for duty disability retirement prior to July 1, 1995, for DPOA members and fire equivalents or prior to June 30, 1998, for all others receive 66 2/3% of final compensation payable to the eligibility date for regular retirement. After the eligibility date for regular retirement, benefit is computed as a regular retirement benefit. Workers Compensation payments are offset.

NON-DUTY DISABILITY RETIREMENT

ELIGIBILITY – 5 years of service.
ANNUAL AMOUNT – Computed as a regular retirement benefit, but based on average final compensation and credited service at the time of disability. Minimum benefit is 20% of average final compensation.

DUTY DEATH BEFORE RETIREMENT

ELIGIBILITY – No age or service requirement.
ANNUAL AMOUNT – Widow receives 5/11 of a patrolman’s or fireman’s compensation and each child under age 18 receives 1/10 of such compensation with a maximum total of 7/33 of such compensation.

If there is no widow, each child receives 1/4 of such compensation with a maximum total of 1/2 of such compensation. If there is no widow or children, each dependent parent receives 1/6 of such compensation. Worker’s compensation payments are offset.

NON-DUTY DEATH BEFORE RETIREMENT

ELIGIBILITY – No age or service requirement.
ANNUAL AMOUNT – Same as regular retirement benefit to a widow or dependent widower, but reduced in accordance with a 100% joint and survivor option election. Minimum benefit is 20% of average final compensation. Each child under 18 receives 1/7 of a patrolman’s or fireman’s compensation with a maximum total of 2/7 of such compensation. If there is no spouse or children, each dependent parent receives 1/7 of such compensation.

POST RETIREMENT COST-OF-LIVING ADJUSTMENTS

PRE-1969 PLAN MEMBERS: Allowances increase in proportion to active member compensation for the corresponding rank.
POST-1969 PLAN MEMBERS: Pensions increase by 2.25% of the **original** pension amount. Effective 4-1-11 members of the DPLSA and Fire equivalents and 9-1-11 for members of the DPOA and Fire equivalents do not receive cost of living adjustments for service time earned after these dates.
 LSA and DPCOA members, and their Fire equivalents, who retire July 1, 1998 or later and DPOA members and their Fire equivalents, who retire July 1, 2001 or later the 2.25% annual increase shall be compounded.

MEMBER CONTRIBUTIONS

5% of covered compensation payable until first eligible for regular retirement.

SUMMARY OF ASSUMPTIONS USED FOR DPFERS ACTUARIAL VALUATIONS

assumptions adopted by board of trustees after consulting with actuary

ECONOMIC ASSUMPTIONS

THE INVESTMENT RETURN RATE used in the valuation was 7.2% per year, compounded annually (net after administrative expenses). The real rate of return is the portion of total investment return which is more than the inflation rate. Considering other financial assumptions, the 7.2% total investment return rate translates to an assumed real rate of return of 3.2%.

PAY INCREASE ASSUMPTIONS for individual active members have been calculated. Part of the assumption for each age is for a merit and/or seniority increase, and the other 4.0% recognizes inflation.

TOTAL ACTIVE MEMBER PAYROLL is assumed to increase 4.0% annually, which is the portion of the individual pay increase assumptions attributable to wage inflation.

NON-ECONOMIC ASSUMPTIONS

THE NUMBER OF ACTIVE MEMBERS is assumed to continue at the present number.
THE MORTALITY TABLE used to measure retired life mortality is the RP-2014 Blue Collar Annuitant Table for males and females. Pre-retirement mortality is the RP-2014 Blue Collar Employee Tables for males and females. The tables are projected to be fully generational, based on the 2-dimensional, sex distinct mortality improvement scale MP-2014 (which was published and intended to be used with RP-2014). This table was first used as of June 30, 2014. For disabled members, the same tables are used.
THE PROBABILITIES OF AGE/SERVICE RETIREMENT for members eligible to retire have been calculated. These probabilities were last revised for the June 30, 2014 valuation.
THE PROBABILITIES OF SEPARATION from service (including death-in-service) are shown for sample ages. These probabilities were revised for the June 30, 2008 valuation.

FUNDING METHODS

THE UNIT CREDIT COST METHOD was used in determining age and service liabilities and normal costs, vesting liabilities, and casualty pension liabilities. Under this method, there is no normal costs since benefits are frozen and there are no future accruals and actuarial accrued liability is the present value of each individual's accrued benefit.

DIFFERENCES BETWEEN ASSUMED EXPERIENCE AND ACTUAL EXPERIENCE ("actuarial gains and losses") become part of actuarial accrued liabilities.

UNFUNDED ACTUARIAL ACCRUED LIABILITIES Actual employer contributions through June 30, 2023 are set by the POA. The amortization period and method after 2023 has not yet been established by the Board.

EMPLOYER CONTRIBUTION DOLLARS were assumed to be paid in a single sum on the last day of the employer fiscal year. (Adopted for the 6/30/79 actuarial valuation.)

VALUATION ASSETS recognize investment return above or below the actuarial assumed

rate over a three-year period. (Adopted for the 6/30/95 actuarial valuation.)

PRESENT ASSETS are set to equal the Market Value

The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (M.A.A.A.).

| 2014 DPFERS MEMBERSHIP | |
|------------------------------|----------------------|
| Number of: | |
| Retirees and Beneficiaries | 8,476 |
| DROP | 565 |
| Inactive Non Retired Members | 235 |
| Active Members | 2,701 |
| Total | 11,977 |
| Covered Payroll | \$150,176,596 |

ACTIVE MEMBERS AS OF JUNE 30, 2014

by attained age & years of service

| ATTAINED AGE | FIRE MEMBERS | | | | | | | TOTALS | |
|---------------|------------------------------------|-----------|------------|------------|------------|------------|-----------|------------|---------------------|
| | YEARS OF SERVICE TO VALUATION DATE | | | | | | | No. | VALUATION PAYROLL* |
| | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30+ | | |
| Under 20 | 1 | | | | | | | 1 | \$29,352 |
| 20-24 | 21 | 1 | | | | | | 22 | 645,744 |
| 25-29 | 24 | 2 | 2 | | | | | 28 | 869,998 |
| 30-34 | 12 | 15 | 21 | 2 | | | | 50 | 2,185,894 |
| 35-39 | 5 | 15 | 85 | 18 | | | | 123 | 5,931,392 |
| 40-44 | 3 | 9 | 67 | 77 | 19 | 1 | | 176 | 8,893,441 |
| 45-49 | | 8 | 30 | 43 | 72 | 58 | 1 | 212 | 12,341,200 |
| 50-54 | | | 16 | 21 | 42 | 75 | 12 | 166 | 10,489,317 |
| 55-59 | | | 4 | 4 | 12 | 40 | 32 | 92 | 6,310,883 |
| 60 | | | | | | 1 | | 1 | 108,000 |
| TOTALS | 66 | 50 | 225 | 165 | 145 | 175 | 45 | 871 | \$47,805,221 |

| ATTAINED AGE | POLICE MEMBERS | | | | | | | TOTALS | |
|---------------|------------------------------------|------------|------------|------------|------------|------------|-----------|--------------|----------------------|
| | YEARS OF SERVICE TO VALUATION DATE | | | | | | | No. | VALUATION PAYROLL* |
| | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30+ | | |
| UNDER 20 | 2 | | | | | | | 2 | \$58,704 |
| 20-24 | 55 | | | | | | | 55 | 1,758,405 |
| 25-29 | 78 | 41 | | | | | | 119 | 4,764,904 |
| 30-34 | 35 | 94 | 71 | 2 | | | | 202 | 9,447,158 |
| 35-39 | 18 | 54 | 188 | 156 | 1 | | | 417 | 20,880,638 |
| 40-44 | 7 | 27 | 136 | 407 | 45 | 1 | | 623 | 32,679,243 |
| 45-49 | 6 | 14 | 56 | 223 | 102 | 31 | | 432 | 23,386,550 |
| 50-54 | 4 | 4 | 26 | 80 | 45 | 99 | 4 | 262 | 14,598,435 |
| 55-59 | | 2 | 7 | 24 | 21 | 75 | 28 | 157 | 9,509,159 |
| 60 | | | 1 | | 3 | 7 | 12 | 23 | 1,412,729 |
| 61 | | | | | | 7 | 12 | 19 | 1,167,313 |
| 62 | | | 1 | | | 4 | 10 | 15 | 853,453 |
| 63 | | | | | 1 | 3 | 5 | 8 | 473,672 |
| 64 | | | | | | 2 | 3 | 5 | 308,488 |
| 65 | | 1 | 2 | | | 1 | 6 | 10 | 559,464 |
| 66 | | | | | 1 | 1 | 4 | 6 | 348,924 |
| 67 | | | | | 1 | | 3 | 4 | 219,962 |
| 71 | | | | | | | 2 | 2 | 115,909 |
| 72 | | | | | | | 1 | 1 | 48,364 |
| TOTALS | 205 | 237 | 488 | 892 | 219 | 231 | 90 | 2,362 | \$122,591,474 |

@ Includes 625 members currently in the DROP.

* Valuation payroll is the greater of the current year and prior year reported pay.

ACTUARIAL & STATISTICAL SECTION

**TOTAL ACTIVE MEMBERS
AS OF JUNE 30, 2014**

by attained age & years of service

| ATTAINED AGE | YEARS OF SERVICE TO VALUATION DATE @ | | | | | | | TOTALS | |
|---------------------|--------------------------------------|------------|------------|--------------|------------|------------|------------|--------------|----------------------|
| | 0-4 | 5-9 | 10-14 | 15-19 | 20-24 | 25-29 | 30+ | No. | VALUATION PAYROLL* |
| UNDER 20..... | 3 | | | | | | | 3 | \$88,056 |
| 20-24 | 76 | 1 | | | | | | 77 | 2,404,149 |
| 25-29 | 102 | 43 | 2 | | | | | 147 | 5,634,902 |
| 30-34 | 47 | 109 | 92 | 4 | | | | 252 | 11,633,052 |
| 35-39 | 23 | 69 | 273 | 174 | 1 | | | 540 | 26,812,030 |
| 40-44 | 10 | 36 | 203 | 484 | 64 | 2 | | 799 | 41,572,684 |
| 45-49 | 6 | 22 | 86 | 266 | 174 | 89 | 1 | 644 | 35,727,750 |
| 50-54 | 4 | 4 | 42 | 101 | 87 | 174 | 16 | 428 | 25,087,752 |
| 55-59 | | 2 | 11 | 28 | 33 | 115 | 60 | 249 | 15,820,042 |
| 60..... | | | 1 | | 3 | 8 | 12 | 24 | 1,520,729 |
| 61 | | | | | | 7 | 12 | 19 | 1,167,313 |
| 62 | | | 1 | | | 4 | 10 | 15 | 853,453 |
| 63 | | | | | | 3 | 5 | 8 | 473,672 |
| 64 | | | | | | 2 | 3 | 5 | 308,488 |
| 65 | | 1 | 2 | | | 1 | 6 | 10 | 559,464 |
| 66 | | | | | 1 | 1 | 4 | 6 | 348,924 |
| 67 | | | | | 1 | | 3 | 4 | 219,962 |
| 68 | | | | | | | | | 0 |
| 69 | | | | | | | | | 0 |
| 70 | | | | | | | | | 0 |
| 71 | | | | | | | 2 | 2 | 115,909 |
| 72 | | | | | | | 1 | 1 | 48,364 |
| 73 | | | | | | | | | 0 |
| 74 | | | | | | | | | 0 |
| 75 | | | | | | | | | 0 |
| TOTALS | 271 | 287 | 713 | 1,057 | 364 | 406 | 135 | 3,233 | \$170,396,695 |

| GROUP AVERAGES: | | | |
|-------------------|------------|------------|------------|
| | POLICE | FIRE | TOTAL |
| Age: | 42.9 years | 44.5 years | 43.4 years |
| Service: | 16.3 years | 18.2 years | 16.8 years |
| Annual Pay: | \$51,902 | \$54,885 | \$52,705 |

2014 DPFERS SERVICE PROVIDERS

**CITY OF DETROIT POLICE AND FIRE RETIREMENT SYSTEM SERVICE PROVIDERS
AS OF JUNE 30, 2014**

A service provider is any individual, third-party agent or consultant, or other entity that receives direct or indirect compensation for consulting, investment management, brokerage, or custody services related to the System's assets.

| | | |
|---|--------------------------------------|---------------------------------------|
| ACKERSON & YANN PLLC | GABRIEL, ROEDER, SMITH & CO | NICKEL & SAPH INC. |
| ADVENT CAPITAL MANAGEMENT, LLC | GENOVESE JOBLOVE & BATTISTA, P.A. | NORTHBROOK INVESTMENT MANAGEMENT, LLC |
| ALEX BROWN REALTY | GEORGE PECK & ASSOCIATES | NORTHPOINTE CAPITAL, LLC |
| ALPHA PARTNERS, LLC | GFG ASSET MANAGEMENT | PARADIGM ASSET MANAGEMENT CO., LLC |
| AMBASSADOR CAPITAL MANAGEMENT | GRATRY & COMPANY, LLC | PAYDEN & RYGEL |
| AMERICAN ARBITRATION ASSOCIATION | GREENBERG TRAURIG, LLP | PENN CAPITAL MANAGEMENT COMPANY, INC |
| ARNOLD & PORTER LLP | GREENHILL & CO., LLC | PEPPER HAMILTON, LLP |
| ATIVO CAPITAL | GUGGENHEIM PARTNERS | PLANTE & MORAN |
| BAB ASSOCIATES, LLC | GUREWITZ AND RABEN, PLC | PRUDENTIAL |
| BANK OF NEW YORK MELLON | HARVEST FUND ADVISORS LLC | PUGH CAPITAL MANAGEMENT, INC. |
| BLOOMBERG FINANCE LP | HERITAGE REALTY SERVICES, LLC | RACINE & ASSOCIATES |
| CBRE CLARION SECURITIES | HERNDON CAPITAL MANAGEMENT | REGINALD E. ONEAL |
| CLARK HILL, PLC | HOWARD & HOWARD | RHUMBLINE ADVISERS |
| COURTLAND PARTNERS, LTD. | HUDSON & MUMA, INC | SALIENT CAPITAL ADVISORS, LLC |
| COUZENS, LANSKY, FEALK, ELLIS P.C. | INCOME RESEARCH & MANAGEMENT | SALIENT PARTNERS |
| CREDIT SUISSE | JANZ & KNIGHT | SEIZERT CAPITAL PARTNERS |
| CREDO CAPITAL MANAGEMENT | JOHNSTON ASSET MANAGEMENT | SMITH GRAHAM |
| DEROY & DEVEREAUX | KELLEY CAWTHORNE | STATE STREET CORPORATION |
| DETROIT-WAYNE JOINT BUILDING AUTHORITY | KENNEDY CAPITAL MANAGEMENT | STEWART CAPITAL MANAGEMENT |
| DIMENSIONAL FUND ADVISORS INC. | KLAUSNER & KAUFMAN | STOUT RISIUS ROSS, INC |
| EARNEST PARTNERS, LLC | LAWRENCE R. WALKER, P.C. | TELECOMM SOLUTIONS, LLC |
| ELECTRONIC SECURITY SYSTEMS, INC | LOOMIS, SAYLES, & COMPANY, L.P. | UNION HERITAGE CAPITAL MANAGEMENT |
| ENERGY OPPORTUNITIES CAPITAL MANAGEMENT | MACUGA, LIDDLE & DUBIN, P.C. | WELLINGTON MANAGEMENT COMPANY, LLP |
| ERIC A. LADASZ, P. C. | MELLON CAPITAL MANAGEMENT | WELLS CAPITAL MANAGEMENT |
| F. LOGAN DAVIDSON, P.C. | MERGANSER CAPITAL MANAGEMENT | WESTWOOD CAPITAL ADVISORS |
| FISHER INVESTMENTS | MILLER HOWARD INVESTMENTS | WILSHIRE ASSOCIATES INCORPORATED |
| | MORGAN STANLEY INVESTMENT MANAGEMENT | |

STATEMENT OF FIDUCIARY NET POSITION

| Assets | 2014 | 2013 |
|---|------------------------|------------------------|
| Cash and Cash Equivalents | \$52,165,913 | \$39,561,392 |
| Investments - At Fair Value | 3,185,717,982 | 2,946,329,771 |
| Accrued Investment Income | 20,814,915 | 18,392,975 |
| Receivables from Investment Sales | 23,616,000 | 61,795,113 |
| Other accounts receivable | 512,243 | 353,595 |
| Notes Receivable from Participants | 17,649,803 | — |
| Restricted Assets | — | 18,750,000 |
| Cash Collateral Securities Lending | 79,546,235 | 299,774,500 |
| Capital Assets | 1,288,922 | 1,234,407 |
| Total Assets | 3,381,312,013 | 3,386,191,753 |
| Liabilities | | |
| Payables for Investment Purchases | 7,098,366 | 5,173,191 |
| Claims Payable to Retirees and Beneficiaries | 4,341,612 | 4,914,340 |
| Amounts Due Brokers Under Securities Lending Arrangements | 87,552,210 | 320,998,625 |
| Other Liabilities | 6,116,526 | 20,523,533 |
| Total Liabilities | 105,108,714 | 351,618,689 |
| Net Position - Restricted for Pensions | \$3,276,203,299 | \$3,034,573,064 |

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

| Investment Income | 2014 | 2013 |
|---|------------------------|------------------------|
| Interest and Dividends | \$101,041,852 | \$96,336,483 |
| Net Increase in Fair Value of Investments | 477,575,447 | 312,649,568 |
| Less Investment Expense | (14,983,143) | (34,898,051) |
| Net Investment Income | 563,634,156 | 374,088,000 |
| Securities Lending Income | | |
| Income | 498,646 | 1,808,690 |
| Net Gain On Collateral Pool | 2,105,876 | 5,563,582 |
| Net Securities Lending Income | 2,604,522 | 7,372,272 |
| Employee Contributions | | |
| | 7,783,141 | 7,799,790 |
| Other Income | | |
| | 2,522,115 | 21,741,155 |
| Total Additions - Net | 576,543,934 | 411,001,217 |
| Deductions | | |
| Retirees' Pension and Annuity Benefits | 285,512,629 | 279,885,732 |
| Member Refunds and Withdrawals | 38,027,844 | 35,652,101 |
| Changes in Estimate Related to Prior Year Contribution | — | 29,026,800 |
| General and Administrative Expenses | 11,266,535 | 6,250,704 |
| Depreciation Expense | 106,691 | 74,449 |
| Total Deductions | 334,913,699 | 350,889,786 |
| Net Increase In Net Position Held In Trust | 241,630,235 | 60,111,431 |
| Net Position Restricted for Pensions - Beginning of Year | 3,034,573,064 | 2,974,461,633 |
| Net Position Restricted for Pensions - End of Year | \$3,276,203,299 | \$3,034,573,064 |

SCHEDULE OF CHANGES IN THE CITY'S NET PENSION LIABILITY AND RELATED RATIOS

Additions

| Total Pension Liability | 2014 |
|--|------------------------|
| Service Cost | \$34,967,708 |
| Interest | 304,737,369 |
| Benefit Changes | (102,263,878) |
| Assumption Changes | 540,356,835 |
| Benefit Payments | (285,512,629) |
| Refunds | (38,027,844) |
| Net Change In Total Pension Liability | 454,284,561 |
| Total Pension Liability - Beginning of Year | 3,953,503,484 |
| Total Pension Liability - End of Year | \$4,407,788,045 |
| Plan Fiduciary Net Position | |
| Contributions - Employer | \$ — |
| Contributions - Employee | 7,783,141 |
| Net Investment Income | 568,760,793 |
| Benefit Payments | (285,512,629) |
| Refunds | (38,027,844) |
| Administrative Expenses | (11,373,226) |
| Net Change in Plan Fiduciary Net Position | 241,630,235 |
| Plan Fiduciary Net Position - Beginning of Year | 3,034,573,064 |
| Plan Fiduciary Net Position - End of Year | \$3,276,203,299 |
| Net Pension Liability | \$1,131,584,746 |
| Plan Fiduciary Net Position as a Percent of Total Pension Liability | 74.33% |
| Covered Employee Payroll (excluding DROP) | \$150,176,596 |
| Net Pension Liability as a Percent of Covered Payroll | 753.5% |

BUDGET FOR PENSION PLAN EXPENDITURES FOR FISCAL YEAR ENDING JUNE 30, 2014*

| | 2014 |
|---|---------------------|
| Salaries - Full Time | \$718,238 |
| Salaries - Overtime | 50,000 |
| Employee Benefits - Pension | 86,540 |
| Employee Benefits - Pension UAAL | 166,617 |
| Employee Benefits - Hospitalization | 132,309 |
| Employee Benefits - Hospitalization Retired | 198,002 |
| Employee Benefits - FICA | 58,847 |
| Employee Benefits - Unemployment | 23,154 |
| Worker's Compensation | 37,924 |
| Employee Benefits -Miscellaneous | 1,076 |
| Retirement Sick Leave | 10,770 |
| Other Comp -Suppl | 1,690 |
| Life Insurance | 1,460 |
| Eye care - Active | 1,460 |
| Eye Care - Retired | 1,921 |
| Income Protection | 1,460 |
| Dental -Active | 9,846 |
| Dental - Retired | 9,846 |
| Actuarial | 122,350 |
| Medical - Other | 37,500 |
| Investment Consultant Fees ** | 15,666,008 |
| Contract Services- - Other Miscellaneous | 1,071,250 |
| Office Supplies | 18,500 |
| Repairs and Maintenance - Equipment | 16,500 |
| Printing | 54,250 |
| Rental - Building | 133,996 |
| Telecommunications | 19,743 |
| Purchases Comp. Services | 512,500 |
| Travel and Education ** | 150,000 |
| Office Equipment | 13,000 |
| Total Budgeted Expenditures | \$19,326,757 |

*Costs shared with General Retirement System of the City of Detroit on a 50/50 basis

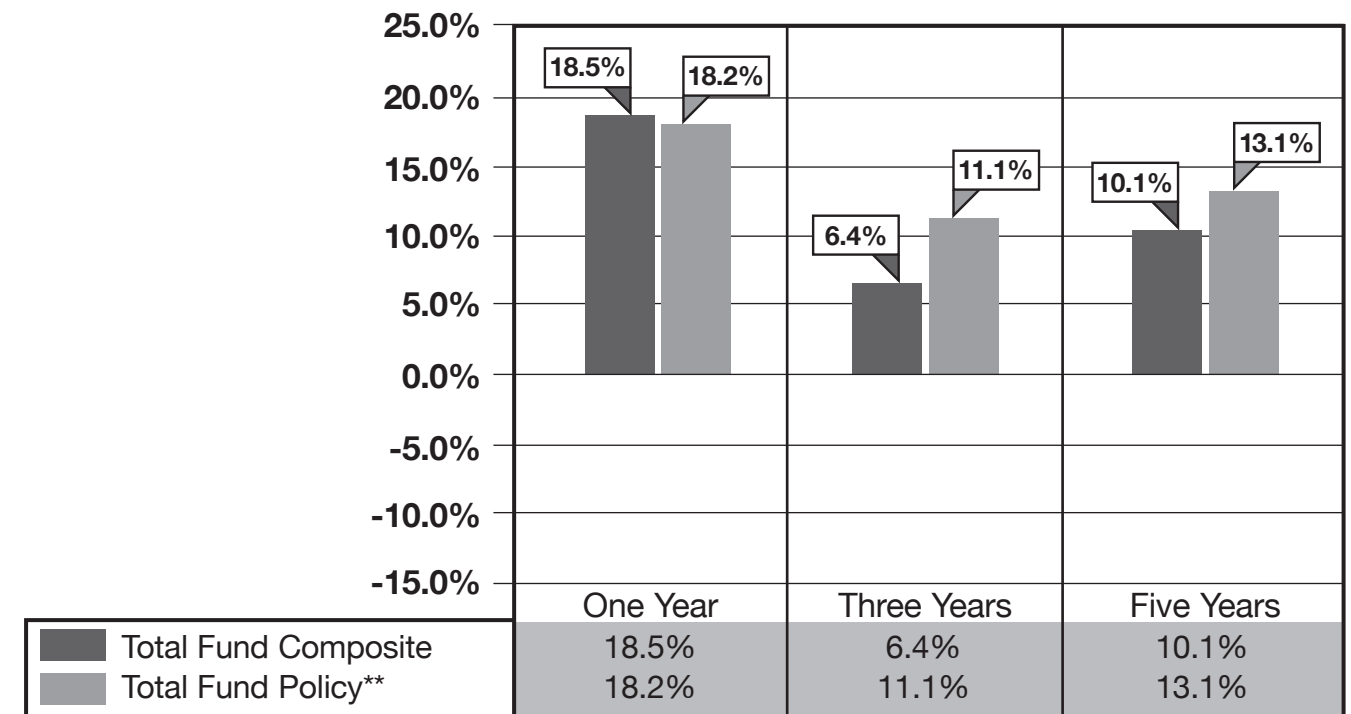
**Amount budgeted 100% to Police and Retirement System

ADMINISTRATIVE AND INVESTMENT EXPENSES

| | 2014 |
|---|---------------------|
| Investment Expenses | 14,983,143 |
| Legal Fees | 5,199,036 |
| Wages and Benefits | 2,903,649 |
| Contracted Information Technology | 676,331 |
| Audit Fees | 272,642 |
| Imaging | 64,199 |
| Medical/Disability Exams | 19,737 |
| Computer Supplies | 98,932 |
| Office Supplies | 189,584 |
| Repairs and Maintenance - Office Equipment | 106,433 |
| Computer and Office Supplies | 28,596 |
| Postage and Mailing | 52,163 |
| Printing Fees | 123,064 |
| Telephone | 28,328 |
| Storage Fees | 47,161 |
| Miscellaneous | -111,922 |
| Actuarial Fees | 955,675 |
| Insurance | 449,585 |
| Trustee Expense | 70,219 |
| Dues and Subscriptions | 11,994 |
| Public Relations | 81,129 |
| Depreciation | 106,691 |
| Total Administrative and Investment Expenses | \$26,356,369 |

INVESTMENT PERFORMANCE TOTAL FUND COMPOSITE*

Periods ended December 31, 2014



*Returns are net of fees

SCHEDULES OF REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF THE NET PENSION LIABILITY MULTIYEAR

| Ultimately 10 Fiscal Years will be Displayed | | | | | | |
|--|-------------------------|-------------------|-----------------------|---|------------------|---|
| FY Ending June 30, | Total Pension Liability | Plan Net Position | Net Pension Liability | Plan Net Position as a % of Total Pension Liability | Covered Payroll* | Net Pension Liability as a % of Covered Payroll |
| 2014 | \$4,407,788,045 | \$3,276,203,299 | \$1,131,584,746 | 74.33% | \$150,176,596 | 753.50% |

* Covered payroll shown is valuation payroll from the June 30, 2013 annual actuarial valuation projected forward with 0% wage growth. Actual covered payroll paid during the year was unavailable. Covered payroll for this purpose excludes DROP member payroll.

TRAVEL SUMMARY SECTION

POLICE & FIRE RETIREMENT SYSTEM

| NAME | DESTINATION | DATES | REASON |
|--------------------|------------------------|------------------|-------------------|
| Bigelow, Ryan | Houston, Texas | 4/22-4/24/14 | Client Conference |
| Bigelow, Ryan | Dana Point/Pasadena,CA | 05/4-05/8/14 | Client Conference |
| Bigelow, Ryan | Pittsburgh, PA | 6/25-6/27/14 | Due Diligence |
| James, Angela | Ft. Lauderdale, FL | 03/8/14-3/12/14 | Client Conference |
| James, Angela | Chicago, IL | 4/27/14 | Educational |
| James, Angela | Dana Point, CA | 5/3-5/8/14 | Client Conference |
| James, Angela | San Francisco, CA | 6/21-6/25/2014 | Client Conference |
| Moore, James | Ft. Lauderdale, FL | 03/8/14-3/12/14 | Client Conference |
| Moore, James | Dana Point, CA | 5/4-5/8/14 | Client Conference |
| Moore, James | St. Francisco, CA | 6/21-6/25/14 | Client Conference |
| Orzech, George | Washington, DC | Unable to attend | Educational |
| Orzech, George | Baltimore, MA | 04/30-5/3/14 | Educational |
| Stoudemire, Tanya | Dana Point, CA | 05/3-5/8/14 | Client Conference |
| Thomas, Cynthia A. | Scottsdale, AZ | 12/07-12/10/13 | Educational |
| Thomas, Cynthia A. | Ft. Lauderdale, FL | 3/8/14-3/12/14 | Client Conference |
| Thomas, Cynthia A. | Minneapolis, MINN | 5/18/14 | Educational |
| TOTAL | | | |

TRAVEL SUMMARY SECTION

TRAVEL SUMMARY JULY 01, 2013 - JUNE 30, 2014

| REGISTRATION | TRANSPORTATION | LODGING | MEALS | MISC | TOTAL |
|--------------|----------------|----------|--------|-------|--------------------|
| - | 827.50 | 620.48 | 192.00 | 45.00 | 1,684.98 |
| - | 1,073.89 | 627.27 | 375.00 | 75.00 | 2,151.16 |
| - | 353.16 | 505.72 | 192.00 | 45.00 | 1,095.88 |
| - | 594.20 | 865.80 | 320.00 | 75.00 | 1,855.00 |
| 800.00 | 452.15 | 1,391.36 | 375.00 | 75.00 | 3,093.51 |
| - | 1,150.75 | 815.72 | 450.00 | 90.00 | 2,506.47 |
| 175.00 | 705.00 | 1,420.22 | 375.00 | 75.00 | 2,750.22 |
| - | 487.00 | 865.80 | 320.00 | 75.00 | 1,747.80 |
| - | 753.62 | 380.82 | 375.00 | 75.00 | 1,584.44 |
| 175.00 | 876.05 | 1,337.59 | 375.00 | 75.00 | 2,838.64 |
| 1,250.00 | - | - | - | - | 1,250.00 |
| 95.00 | 589.21 | - | 256.00 | 60.00 | 1,000.21 |
| - | 851.00 | 780.72 | 450.00 | 90.00 | 2,171.72 |
| - | 639.80 | 293.11 | 256.00 | 60.00 | 1,248.91 |
| - | 693.31 | 871.80 | 320.00 | 75.00 | 1,960.11 |
| 260.00 | | | | | 260.00 |
| | | | | | \$29,199.05 |

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