



ADVISOR

"Dedicated to Providing Retirement Security for Firefighters and Police Officers – Past, Present and Future."

FROM THE EXECUTIVE DIRECTOR, *Warren J. Schott, CFA*



Let me begin by warning you that this is going to be a very long article. It has been a long time since our last Advisor Newsletter, so there is a lot of catching up to do. I hope each of you had a Happy New Year. I also hope the past year treated you well and that you have had a good start to the new year.

Let's start this article with a topic that is probably most important to you: the health of your Pension Fund. We just received our Annual Audit and Actuarial Valuation Reports.

Both reports provide insight into the health of the Fund. In regards to the audit, we again received an unqualified opinion, which means the financial statements of the Fund present fairly, in all material respects, the fiduciary net assets of the Fund. In plain English, the auditors are stating that each of you can trust the financial statements that the Pension Fund is presenting to the membership. The Actuarial Valuation Report determines whether the assets and contributions are sufficient to provide the required benefits. As of October 1, 2010, the funding level of the plan is 90.69%, which is an improvement from last year's level of 88.71%. As of January 31, 2011, our asset value is over \$2 billion at \$2.034 billion. I cannot begin to tell you how proud I am of the Board in the manner in which it managed this Pension Fund through the past several years. During a time when so many other pension funds are cutting benefits and/or increasing contributions, your Pension Fund remains financially strong and your benefits remain secure.

This brings me to the next topic: the 2011 Legislative Session. As most of you are aware, the Board decided to forego any legislative amendments this session. Throughout 2010, the Board continued to formulate a legislative package in case the investment markets made a strong rebound. Unfortunately, this was not the case, and the Board ultimately decided to remove the legislative package and protect the current benefit structure. This move was supported by all three of the associations (fire, police and retirees) and the City of San Antonio. This is evidence of our constituents' understanding that taking a 2-year hiatus on legislative changes was the best course of action. The Board is to be commended for its in-depth knowledge of the current national environment regarding public pension funds. Make no mistake, public pension funds are being attacked for being overly generous with their benefits and for being mismanaged to the detriment of the taxpayer. Rest assured, the Pension Fund is monitoring these attacks and stands ready to defend defined benefit plans as a whole, and our plan in particular.

Attention Retirees: the COLA has arrived. For retirees, each of you should have received a cost of living adjustment in your January retirement check. For those of you that retired prior to October 1, 1999, you received an increase of 1.5%. For those that retired after September 30, 1999, you received an increase of 1.1%. Although this is a relatively minor increase, I hope you appreciate the guaranteed nature of this increase. Whereas most pension funds offer ad-hoc increases, your pension fund has automatic increases that are not at the discretion of the Board. This guaranteed COLA is, without a doubt, the best and most expensive benefit this Pension fund offers.

Another retiree benefit, the 13th Check, did not fare so well this year. Unfortunately, the Board did not have the discretion to issue you a 13th check due to the previous negative investment returns recognized by the Fund. As it stands, it will probably be several years before the Fund is able to issue another 13th Check, so plan accordingly. It has been pleasantly welcome to hear so many of you express your appreciation for the 12 checks that have arrived and not complain about not receiving a 13th. Thank you for your understanding.

Welcome to our newest Board Member, Active Police Sergeant Jim Smith. Jim was elected in September to complete the unexpired term of Assistant Chief Harry Griffin. He has hit the ground running and has been a very active member of the Board. We look forward to working with Jim for many years to come.

Unfortunately, we are also saying goodbye to one of our longest serving Board Members, Fire Captain Don Wagoner. Don was elected in December 2002, and has been a very strong contributor to the Fund's success during a tough 10-year stretch. As he will readily say, he is conservative by nature and has used this conservatism to guide his decisions as they relate to the Fund. Being conservative, however, is what has allowed your Pension Fund to withstand the negative effects of the tech bubble and the debt bubble over the past 10 years. Don Wagoner deserves a lot of credit; he will be sorely missed. His term ends May 31, 2011.

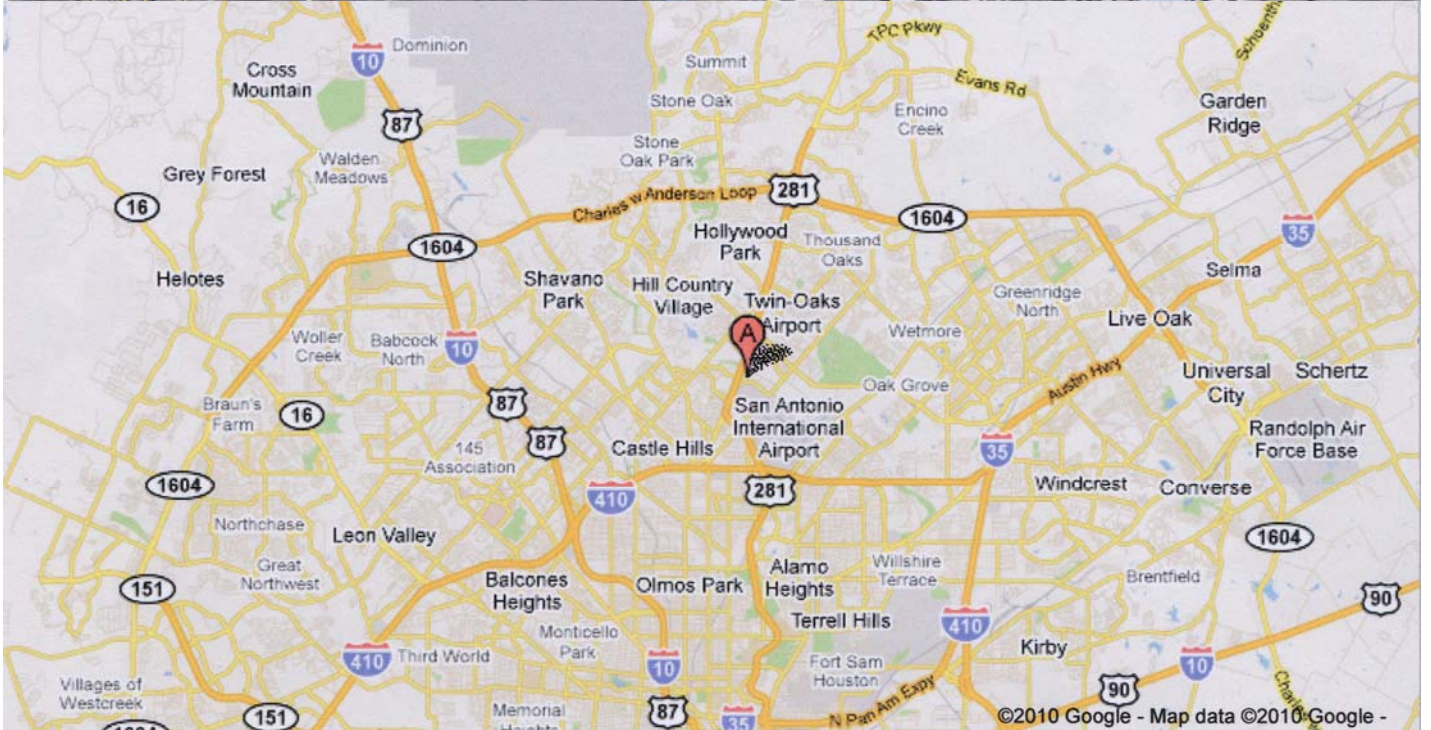
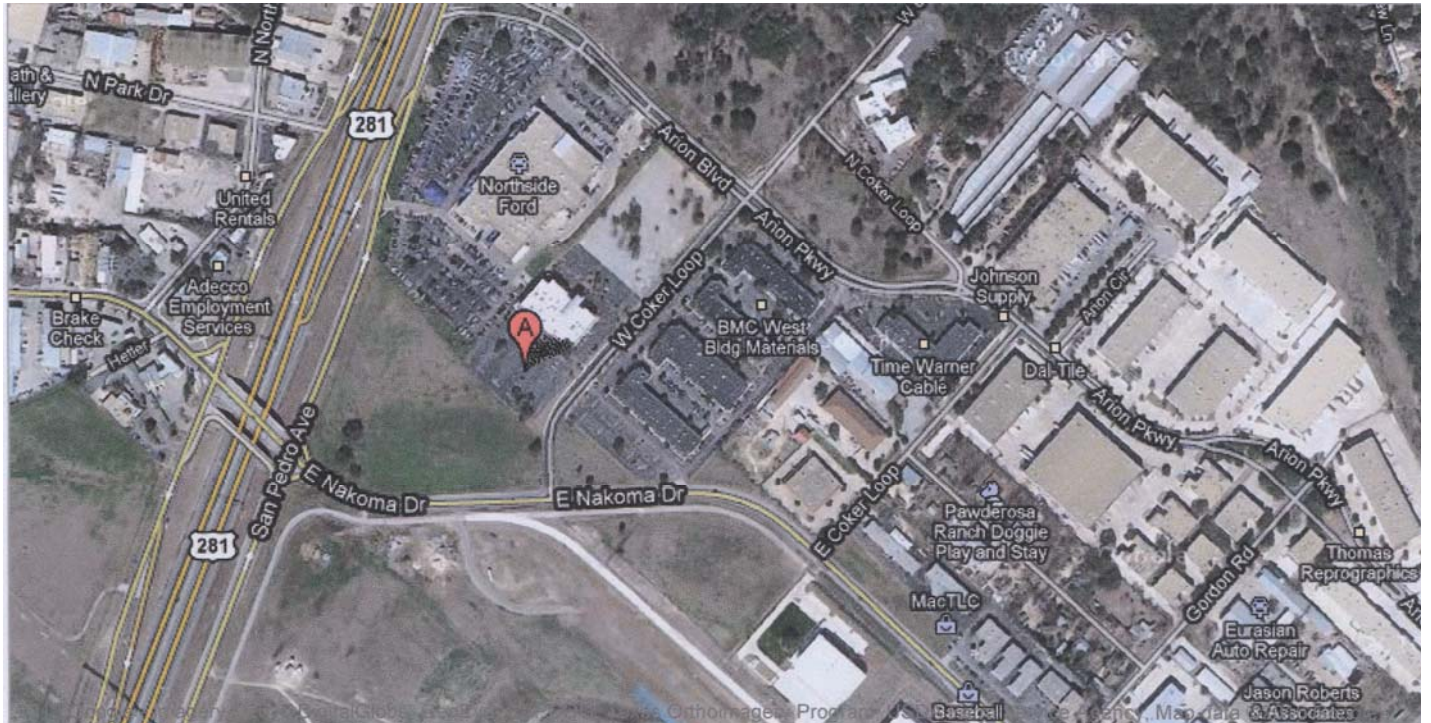
It is election time again at the Pension Fund. We will be conducting elections for an active police, active fire, and retired police position. Those positions are currently being held by Jim Smith, Don Wagoner, and Alex Perez. If you are a member of one of these groups, you will be receiving a letter from the Pension Fund in March with the election schedule. Please take the time to vote when you receive your ballot. You will have the option to vote by mail, phone or internet.

We welcome a new employee to the Pension Fund, Matthew O'Reilly. Matt joined us in November and will serve as our Chief Investment Officer. I previously held the joint position of Executive Director/CIO, but the workload and increasing sophistication of the investment portfolio warranted the hiring of a dedicated CIO. Matt comes to us from Dallas, where he served as an investment consultant and more recently as a co-owner of a private equity consulting firm. Matt has a BBA in finance, an MBA and is a CFA charterholder. We are very lucky to have him onboard.

Finally, let me give you an update on the renovation of our new building. Construction is progressing, and the renovations are near completion. Our tentative date to move to the new office is mid-April, but obviously this is a moving target. I hope some of you have been able to drive by the new building. It is located at 11603 W. Coker Loop at US 281 and Nakoma. We have included some pictures on the following pages for your review.

I would like to thank each of you for letting us serve you. Your staff at the Pension Office is dedicated to providing excellent client service and I hope you have seen this in your dealings with the Fund. Thank you and be safe.





MEMBER BENEFITS

Mark Gremmer, Deputy Director



Looking back on last year, we have to say that we have a great deal to be thankful for. The results of our Annual Audit were as good as they can be. Our auditors, Carneiro, Chumney & Co., presented their report at the January meeting of our Board of Trustees. They were pleased with the outcome of the audit and were very complimentary of the staff of the Pension Fund. Their report included an unqualified opinion which is the best opinion they can give. In a separate letter to the audit committee, the auditors reported that the accounting practices and policies of the Pension Fund were being

consistently applied from year to year, that there were no changes to those policies or how they were applied, and there were no changes in accounting estimates. They also reported that there were no material misstatements that needed correcting and no disagreements with the management of the Pension Fund. The auditors continue to rotate their staff so that they get a fresh look at our accounting records each year.

At the January meeting, the actuaries also presented their report. The Segal Company was, once again, hired by the Pension Fund to provide an annual Actuarial Valuation and Review. The actuaries' report provides information about the funded level and funding progress of the Pension Fund. This year, even though a portion of the investment losses from 2008 and 2009 had to be recognized, our funding level actually improved. Much is being reported in the "news" these days about the predicament many public pension funds are in. For some, funding ratios are dangerously low. Not much is reported about public pension funds that are doing well. Our Pension Fund has performed relatively well and is financially very healthy. This is no accident. The Pension Law that governs our pension is very well-thought-out. The City of San Antonio, the Pension Fund's law firm, Martin & Drought, and the Pension Fund's Board of Trustees have come together to construct a plan that has a reliable mechanism for funding and a reasonable benefit formula that work hand-in-hand to provide a stable pension to the retirees. As the Pension Fund matures, the importance of returns on invested assets becomes much more evident. In that regard, the Board and staff have been working diligently to make sure that the investment portfolio balances the need for returns with the risks involved.

The Benefits Department has been very busy over the last year. The Pension Fund has undergone a complete conversion of its pension administration software. The pension administration software is used to store information about each individual who has worked for either department and their spouses and beneficiaries. The system calculates retirement benefits, does payroll, creates records of each transaction, and other things as needed. We had used a previous version of this software since 1995, and it was the first computer system the Pension Fund ever used. As one might imagine, the staff was very comfortable with the old version, but much has changed in the computer world since 1995, so the conversion to something new was inevitable. Each pension plan is unique. Benefit formulas are different, some have backDROPS and some have forward DROPS, rules for disabilities are different, etc., so software has to be tailored to the specific fund. That meant that our staff had to be involved in checking and testing the tasks as they were being written. The writing of the software could not have been accomplished without staff's significant input. The whole benefits department contributed to that effort, but it has to be said that Rick Matye, the payroll accountant, was absolutely critical to the operation. His attention to detail and determination to root out the source of problems or potential problems contributed greatly to the success of the conversion. Once the software was written, the new system was then ready to run side-by-side with the old system. This was done so that the change could be as seamless as possible. Our hope is that most of you were not even aware that a major conversion took place. Running the systems side-by-side lasted from November through January. Many tasks had to be duplicated, but it provided very useful information. All this was done without adding any new staff. On January 1st, we switched to the new system and ran the last month of side-by-side with the system of record being the new system. All of the year-end tax reports were completed using the new system. We were about a week later than last year getting the 1099s out, but other than that, we consider the conversion a huge success.

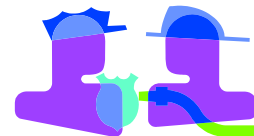
On the Pension Fund's website, www.safireandpolicepension.org, there is a generic pension calculator. Most members probably already know about it. The current fire and police contracts have been loaded, so it is ready to use. It is relatively user-friendly, and it can give some idea of what a retirement annuity will be based on the information that is entered. There are, however, some unavoidable shortcomings. The calculator can only provide an estimate based on what is entered by the member. The calculator uses no historical salary information. Your actual annuity, when it is calculated by the pension staff, will use actual history. There will be some differences. Depending upon how much the history differs from the information entered in the calculator, the differences could be significant. It cannot compute a backDROP payment. The farther into the future the expected retirement date, the less reliable will be the estimate. Most of these differences or shortcomings are to be expected from a "generic" calculator; therefore, the estimate produced by this calculator should not be relied upon to make immediate retirement plans. If the estimated retirement date is farther into the future, say 5 or 10 years, no system could produce a precise estimate. The assumptions used in the calculation can change quite a bit in that amount of time. Have fun with this calculator, use it to get some idea of what your retirement annuity will be, use it to dream about the future, but when you decide to retire, come into the office and have one of the benefits personnel run your estimate using your actual salary and employment history. That estimate will be much closer to what you will receive in retirement.

There is not much to talk about regarding tax issues this year. Last year's tax rates have been extended. In 2009, retired government employees who did not receive a stimulus check during the year with their social security check were given a credit of \$250 (The Government Retiree Credit) when they filed their form 1040. That credit has expired, so it will not be on the 2010 Form 1040.

As always, it is our privilege to serve you. Thanks for that opportunity.

MARK YOUR CALENDARS!

PRE-RETIREMENT SEMINAR



Friday, May 13, 2011

Seminar will be held @ New Office Location

**San Antonio Fire & Police Pension Fund
11603 W. Coker Loop, Suite 201**

8:00 a.m. ~ 3:00 p.m.

**Space is Limited – So Please Register Early
@ 210-534-3262**

PLAN FOR YOUR FUTURE!

MARKET NEWS

Matthew O'Reilly, CFA, Chief Investment Officer



As the new CIO and my first quarterly update, I am happy to say that the San Antonio Fire and Police Pension System crossed the \$2 billion mark this quarter because of the strong equity markets. I have met several members and realize many of you are focused on having a solid pension plan and the prized 13th check. The good news is the portfolio is in very good shape. The portfolio is well diversified, weathered a tough storm in 2008, and the sun has been shining for the

past two years. Specifically, the fourth quarter generated equity returns of 11.6%. Furthermore, stocks logged their best December in seven years and the market ended the year in positive territory for the second consecutive year. It was a volatile year, to say the least, but continued efforts by the Federal Reserve to prime the pump, and an 11th hour agreement not to raise taxes, firmly cemented a positive year for stocks. The sad news, the 13th check will be difficult to obtain for a while because we have to dig out of a very tough period, a period that people have not seen since the great depression.

We believe the outlook for equities in 2011 will be very good. A few reasons for the positive outlook are the following:

GDP (Gross Domestic Product): We have now had five consecutive quarters of positive economic growth. It wasn't incredibly robust, but it has been positive and that's the point. The fourth quarter, as most economists now think, should also point to continued economic growth and likely better than 3%.

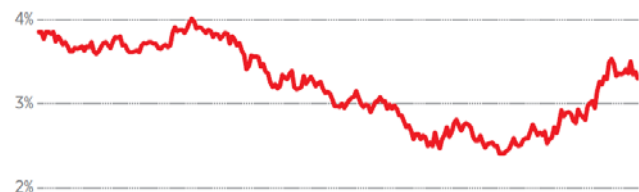
Job Growth: Though the unemployment rate remains over 9%, the trend is beginning to come down. How can we tell? First, the country has created more than one million jobs over the past year. Second, economic growth of this magnitude should put pressure on the unemployment rate going forward. Furthermore, the trend in new unemployment insurance claims is likely to show gains of 150,000 per month in 2011. That would be double what it has been over the previous 12 months.

November Retail Sales: Retail sales data illustrate that shopping is now back in vogue. The year-over-year numbers compiled by the Census Bureau show that sales were up 7.7%.

Inflation: Because labor markets still have plenty of slack, it's not likely you can easily waltz into the boss's office and demand a 10% pay hike. That's a good omen for inflation to remain in check.

An area the staff at SAFFP is watching very closely is the bond market. I often wonder if many individual investors think bonds are safe and can never lose money. This unfortunately is not the case because as interest rates rise, the prices of bonds drop. The yields already have risen slightly as shown in the chart below:

10-year Treasury yields, 12/31/09-12/31/10

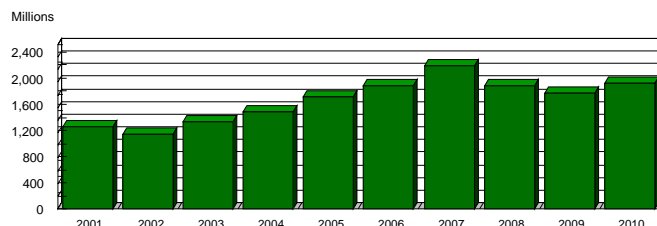


Source: Federal Reserve Board. Past performance is no indication of future results.

At some point down the road, the easy monetary policy of the past few years will give way to a more normalized strategy and with that, Treasury yields will have nowhere to go but up. The only question is when. The main influence on bond yields is inflation, and currently inflation is not an issue, but that could change quickly and relying on the Federal Reserve to get out in front of it in time should not be assumed by investors.

Matthew O'Reilly has previously worked at a mixture of asset management firms and consulting firms. He has advised several public and corporate pensions with asset allocation, manager selection, and built several successful alternative investment programs. He is a CFA charter member. Mr. O'Reilly graduated with an MBA at the University of Texas at Dallas with an undergraduate degree in finance at the University of Wisconsin at Eau Claire.

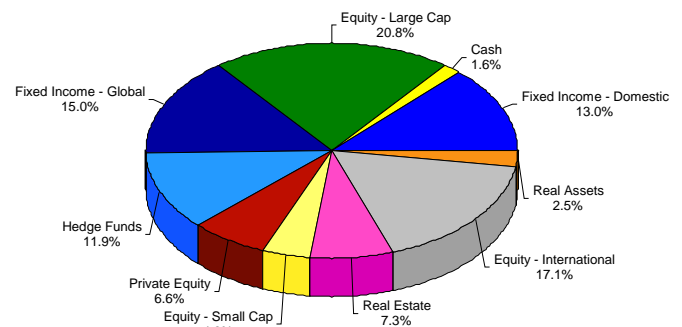
Growth of Pension Assets



	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Market Value	1,259.5	1,141.1	1,327.3	1,494.9	1,707.2	1,879.7	2,194.0	1,875.0	1,775.4	1,922.0

Data as of Fiscal Years Ending September 30

Asset Allocation by Asset Class



September 30, 2010

TRUSTEE'S MESSAGE

Jim Smith, Active Police Representative



Dear Members,

I would first like to state that it has been both a privilege and honor to serve you as one of your trustees of our Pension Fund since September of last year.

Everyone is aware of the attacks on public pensions throughout the country. I would like to reassure you that when it comes to our Fund, there is good news. Since last September, the Fund has grown from \$1,900,000,000 to over \$2,070,000,000. Our actuary advised us that our Fund is doing great in performance and funding, and more importantly, how it has been managed. We are in a fortunate position of having a great relationship with City leaders who know how important a well-funded, managed pension fund is to both us as the members and also to our fellow citizens. We are also fortunate to be living in

San Antonio where we have weathered the economic downturn. People throughout the country are realizing what a great city we have and continue to bring jobs and economic growth to our community.

During my short tenure as your trustee, I have truly enjoyed speaking to you on pension issues. I have appreciated all of the questions and concerns relating to our Pension Fund, and I welcome any ideas you might have concerning our future plans for the Fund.

I would also like to say that all of the other trustees who serve you on the Board take their positions as fiduciaries very seriously. They only want to do their best for you the members. I would be remiss if I did not mention the full-time staff working for the Fund. Warren Schott is the executive director and leads one of the most professional group of individuals with which I have had the privilege to work.

I would like to publicly thank all of the trustees and staff for their dedicated service to the Fund, making it a model for others to follow throughout the nation. I personally want to thank them for their time and energy in facilitating my education concerning pension issues.

In closing, I would like to say that I look forward to serving you in the future. If at anytime you have any questions or concerns about our Fund, please do not hesitate to contact me, any of the other trustees, or staff.



In Memoriam

As this is the first newsletter of the New Year, we would like to take this opportunity to honor the memory of those active and retired police officers and firefighters who passed away in 2010. We will continue to be grateful for their past service and sacrifice.

Police

Arnulfo Chavarria
John Garoni
James Springs
Katherine Nerio
Arturo Hernandez, Jr.
Charles Lowe
Ben Hart
Robert Aldrich, Jr.
James Cammack, Jr.
Robert Hernandez
Gregory Michaud
James Hildebrand
Charles Kalka, Sr.
Mark Hunt
Sergio Antillon
Robert Cervantes

Date of Death

January 3, 2010
January 3, 2010
February 6, 2010
February 10, 2010
March 12, 2010
March 27, 2010
May 2, 2010
May 13, 2010
May 25, 2010
July 13, 2010
July 13, 2010
July 23, 2010
August 19, 2010
August 21, 2010
October 29, 2010
December 13, 2010

Fire

James Spear
Danial Garrison
Edgar Schladoer
Sam Ojeda
William Foley
Ezequiel Martinez
Jesse Everett, Jr.
George Suther
Charles Prescott
Carlos Hernandez
Joe Lopez

Date of Death

January 14, 2010
January 27, 2010
February 17, 2010
April 6, 2010
May 3, 2010
May 12, 2010
August 30, 2010
September 24, 2010
November 19, 2010
December 19, 2010
December 24, 2010





Fire and Police Pension Fund, San Antonio
311 Roosevelt Avenue
San Antonio, TX 78210

THE ADVISOR
BOARD OF TRUSTEES

CITY OF SAN ANTONIO
Art A. Hall, Mayoral Designee
Councilman Justin Rodriguez, Secretary
Councilwoman Mary Alice P. Cisneros

POLICE DEPARTMENT
Shawn Ury, Vice Chairman
Jim Smith

FIRE DEPARTMENT
Bart Moczygemba
Donald R. Wagoner

RETIREE REPRESENTATIVES
Alex B. Perez / Police
Larry A. Reed, Chairman / Fire

EXECUTIVE DIRECTOR
Warren J. Schott

Congratulations! 2010 Retirees

January 2010 – Police

Robert K. Hartle – 37 years
Willie G. Gonzales – 32 years
Jules E. Morris, Jr. – 33 years
Alan P. Hernandez – 25 years
James E. Gutierrez – 35 years
Lazaro Duarte – 35 years
Peter R. Carisson – 34 years
Arthur J. Pue, Jr. – 33 years
Frank R. Corn – 32 years

January 2010 – Fire

Valentino Castaneda – 24 years
Arturo V. Martinez – 34 years
Michael M. Ruggs – 32 years
Edward R. Kesi, Jr. – 32 years
Genaro M. Vargas – 34 years
Francis Gaitan – 36 years
Lawrence O. Sutton, III – 32 years
Robert L. Martinez – 30 years
Wayne A. Taylor – 34 years
Jay Little – 33 years
James Biela – 34 years

February 2010 – Police

Angela E. Ruks – 26 years
Carl M. Rodriguez – 38 years

February 2010 – Fire

Edward Guevara – 30 years
Hector G. Garza – 30 years

March 2010 – Police

Neal F. Mitchell, Jr. – 47 years
Thomas R. Polonis – 34 years
Michael R. Kubena – 35 years
Andrew Contreras – 28 years
David O. Rodriguez – 30 years
Kenneth R. Ruks – 26 years
Charles T. O'Dell, Jr. – 35 years

March 2010 – Fire

Jack Hardy, Jr. – 32 years
Mark Brigrance – 35 years
Terry L. Eggleston – 36 years
Richard C. Mathis – 35 years
James C. Naegelin – 34 years
John D. Aguilar – 33 years
Vernon R. Grams – 36 years
William E. Davenport – 36 years
Ramiro C. Davila – 36 years
Robert J. Lee – 31 years
Roy V. Lozano – 34 years
Albert M. Mason – 35 years
Billy F. Farris – 34 years
Steve L. O'Neill – 35 years
Johnny Pedroza – 38 years
Jose P. Trevino – 36 years
Dwight D. Andreas – 34 years
Jerry Cantu – 34 years
Mario Guerra – 35 years

April 2010 – Fire

James M. Rodriguez – 30 years

May 2010 – Police

Roberto G. Rosas, Jr. – 22 years
Steve V. Barrera – 31 years
Preston A. Richardson – 32 years
Humberto Gallegos – 29 years
Juan A. Trevino – 28 years
Robert G. O'Hara – 25 years

May 2010 – Fire

Marcelino G. Leal, III – 30 years

June 2010 – Police

Tom A. Bearden – 32 years
Harry Griffin – 34 years
Randy G. Geary – 21 years

July 2010 – Police

Ronald N. Carnesi – 31 years
Antonio Molina, Jr. – 34 years
Jeffrey L. Trout – 36 years
David V. Gutierrez – 26 years
Patrick S. Heathcock – 24 years
Robert S. Cunningham – 29 years

August 2010 – Police

Thomas S. Lauderdale, III – 36 years

August 2010 – Fire

Paul W. Radtke – 36 years
Thomas N. Thompson – 34 years
Thomas Walker – 34 years
Johnny L. George, Jr. – 36 years
Luke Grohman – 22 years
Walter D. Barnes – 34 years
Alfredo Castro, Jr. – 34 years
Fred W. Machado – 34 years
Alfred J. Ramos – 37 years

September 2010 – Fire

Robert G. Candelario – 30 years
James E. Wagner – 30 years

October 2010 – Police

Manuel R. Lopez – 34 years
Rosemary R. Flammia – 32 years
Edward Gonzales – 29 years
Kevin L. Middleton – 30 years

November 2010 – Fire

Jack F. Davis – 33 years
Mark R. Pocock – 22 years

November 2010 – Police

Dale G. Hancock – 25 years

December 2010 – Fire

Juan G. Covarrubias – 30 years