2012

COMPREHENSIVE ANNUAL FINANCIAL REPORT

fiscal year ended, december 31, 2012

MINDS, HEARTS & HANDS

built. maintain. grow

Employees' Retirement Fund
of the City of DALLAS ®

2012 AT - A - GLANCE

(unaudited)

(dollars in thousands)

Active Members	6,864
Benefit Recipients	6,309
Inactive Members	1,054
Fund Net Assets	$2,983,671
Benefits Paid	$209,097
Refunds	$4,369
Member Contributions	$35,644
City Contributions	$30,371
Investment Rate of Return	14.30%

In 2013, the National Institute on Retirement Security (NIRS) conducted an opinion study about pensions and retirement security.

The forthcoming tabs include several of the questions asked of Americans in this study as well as the statisical outcomes of those questions.

NATIONAL INSTITUTE ON
Retirement Security
Reliable Research. Sensible Solutions.

The Employees' Retirement Fund provides retirement, disability, and death benefits to permanent civilian employees of the City of Dallas.

2012

COMPREHENSIVE ANNUAL FINANCIAL REPORT

fiscal year ended, december 31, 2012

Prepared by the Staff of The Employees' Retirement Fund

EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS

CHERYL D. ALSTON
EXECUTIVE DIRECTOR

Employees' Retirement Fund
600 N. Pearl Street Suite 2450 Dallas, TX 75201

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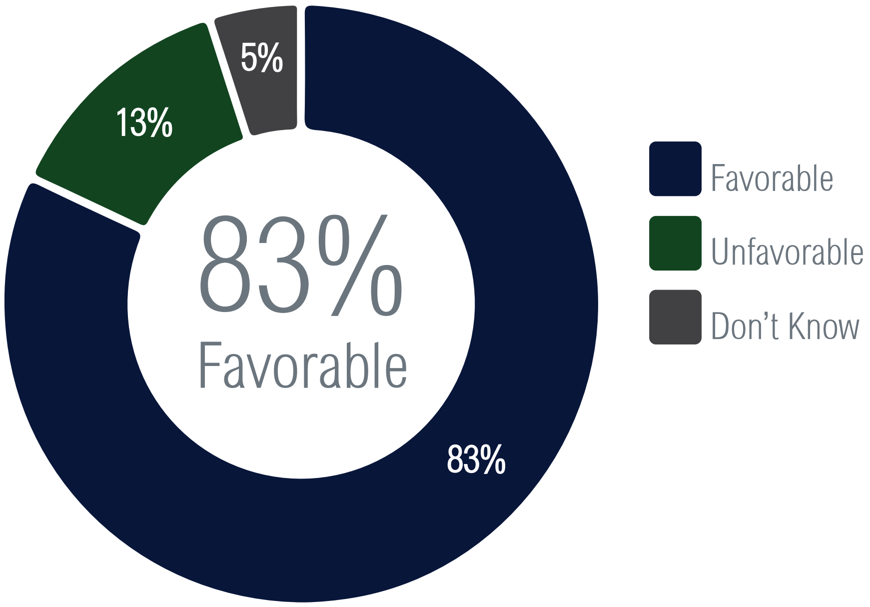
INTRODUCTORY SECTION

Americans Have a Highly Favorable View of Pensions

How would you describe your view of a defined benefit pension?



Americans seem to understand and value the qualities of pensions and how they promote retirement security with a regular income stream that lasts through retirement. The overall favorability of pensions is quite high - 83%.

Support of pensions was even among men and women, 83% and 82% respectively. Private sector employees were highly supportive (80%), as were governmental employees (90%).

Americans continue to have a high level of confidence that their pension is safe. More than three-quarters of those who have a pension (78%) are confident their pension would be there when they retired, or will be when they do retire. This is up from polling conducted in 2011. Retirees (92%) and governmental employees (89%) express high levels of confidence.

- National Institute on Retirement Security
Pensions and Retirement Security 2013

Employees' Retirement Fund
of the City of DALLAS ®

August 13, 2013

LETTER OF TRANSMITTAL

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 (ERF) for the fiscal year ended December 31, 2012 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 appointed 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 death 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.

2012 was a slightly positive year for ERF with a total fund return of 14.3%. The total return compares to .88% in 2011 and 15.77% in 2010. 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.

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 and other income, for 2012 totaled $452,122,000. City and member contributions for the fiscal year were $66,015,000, an increase of approximately $6,965,000 from prior year. This increase is attributed to the change in the contribution rates. The city contribution rate changed from 18.37% to 20.21% of which 9.73% is the Pension Obligation Bond Credit Rate. The City contribution to ERF increased from 9.19% to 10.48% and the member rate changed from 10.79% to 11.87%. City contributions received in 2012 were $30,371,000 and member contributions were $35,644,000.

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 2012 totaled $216,912,000, an increase of 6.5% over 2011. 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, decreased from the prior year. 2012 reflected a marginal decrease of $45,000, when compared to fiscal year 2011 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, 2012 amounted to $3.518 billion and $2.846 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, 2012

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

Sheila Willis
Senior Pension Specialist

Duc Lam
Database Analyst

Jason Thompson
Senior Information Analyst

Re'Gine Green
Senior Pension Specialist

Patricia Jack
Senior Pension Specialist

Al Perez
Pension Benefits Specialist

Melissa Harris
Communications Specialist

Kate Althoff
Communications Specialist

C. Kay Watson
Office Manager

Lisa Larry
Senior Office Assistant

Jessica Leija
Administrative Specialist II

Margaret Lara
Administrative Specialist II

Micaela Galicia
Office Assistant II

Yvonne Garcia
Office Assistant II

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PROFESSIONAL SERVICE PROVIDERS

Master Custodian

The Northern Trust Company

Consulting Actuary

Gabriel, Roeder, Smith & Company

Investment Consultant

Wilshire Associates, Inc.

Investment Accounting Firm

Financial Control Systems, Inc.

Auditor

Grant Thornton, LLP

Legal Advisors

Strasburger & Price, LLP
Foster Pepper, PLLC

PLAN SUMMARY

Summary of Key Provisions

Employees' Retirement Fund of the City of Dallas
As of December 31, 2012

Membership

An employee becomes a member upon permanent employment and contributes to the Retirement Fund.

Contributions

The contribution rate is determined each year by the actuarial valuation. The total contribution is split 37% members and 63% City. At December 31, 2012 the members contributed 11.87% of pay and the City contributed 20.21% of pay of which 10.48% is received by the Fund and 9.73% is the used for the pension obligation bonds debt service.

Definitions

Final Average Salary: Average monthly salary over the member's highest three years of service.

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.

Retirement Pension

Eligibility:

a. Attainment of age 60; or
b. Attainment of age 55 (if credited service began before May 9, 1972); or
c. Completion of 30 years of credited service; or
d. At any age after completion of 30 years of credited service with a reduced benefit before age 50; or
e. Attainment of age 50, if the sum of an active member's age and credited service is at least 78.

Retirement Benefits

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).

Form of Payment

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.

Deferred Retirement

Eligibility:

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.

Monthly Benefit:

The deferred retirement is equal to the retirement pension based on earnings and credited service at the time of termination.

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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84 percent of Americans believe all workers should have access to a pension so that they can be self-sufficient in retirement.

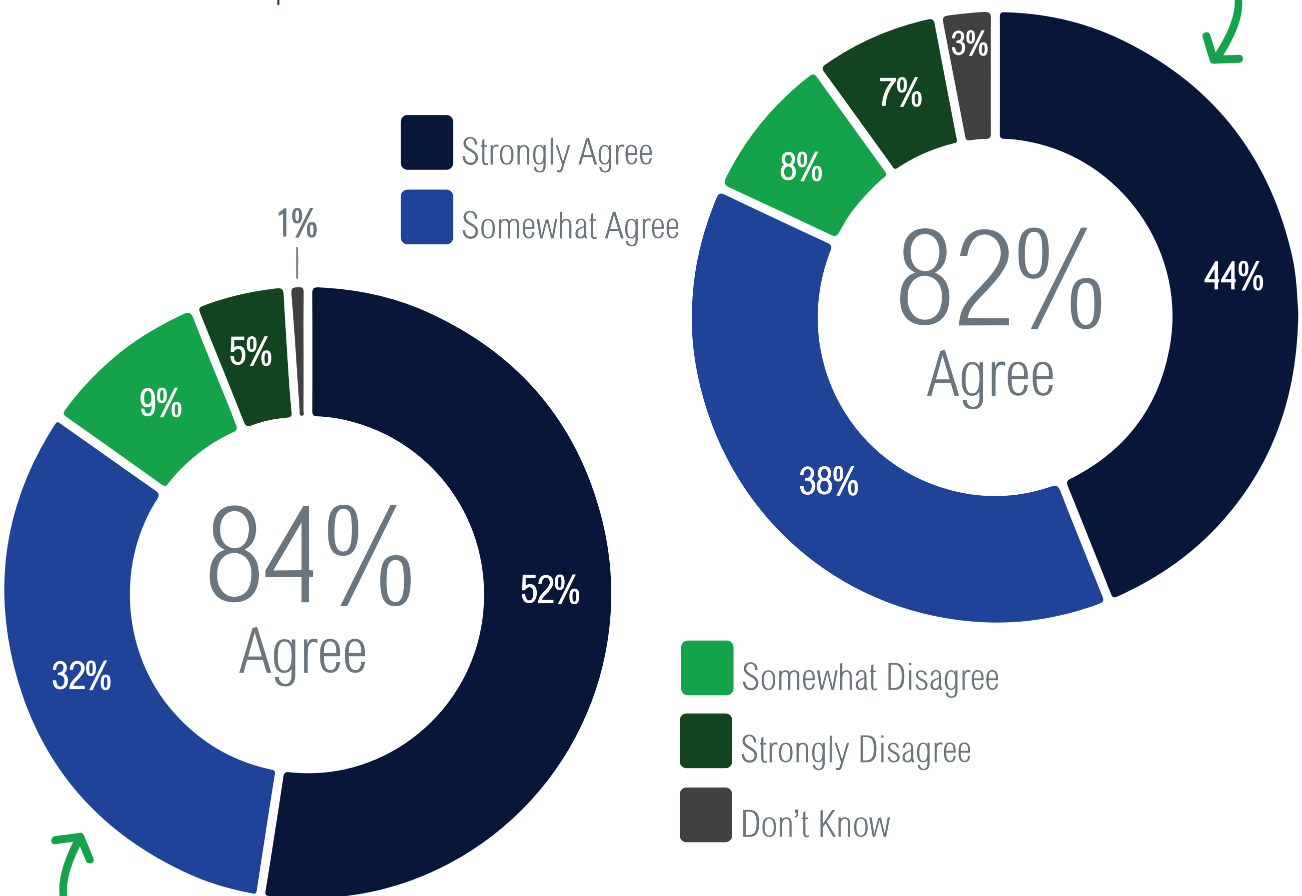
More than half strongly agree, which is consistent with polling conducted in 2009 and 2011. Support is higher among populations considered more vulnerable to falling short in retirement.

- National Institute on Retirement Security
Pensions and Retirement Security 2013

FINANCIAL SECTION

Majorities Believe Pensions Increase Retirement Security

To what extent do you agree or disagree that Americans with traditional pensions are more likely than those without pensions to have a secure retirement?



Strong Support for Pensions to Ensure Self-Reliance

To what extent do you agree or disagree that all workers should have access to a pension plan so they can be independent and self-reliant in retirement?

EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS

FINANCIAL STATEMENTS

As Of December 31, 2012 and 2011

With Independent Certified Public Accountant's Report Thereon

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Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of Employees' Retirement Fund of the City of Dallas (the "Plan"), which comprise the statements of plan net position as of December 31, 2012 and 2011 and the related statements of changes in plan net position for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding Employees' Retirement Fund of the City of Dallas' net position as of December 31, 2012 and 2011 and changes therein for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary information

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 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. 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The introductory, investment, actuary, and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Grant Thornton LLP

Dallas, Texas
July 9, 2013

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, 2012, 2011 and 2010. 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 position that provides information about the fair value and composition of plan assets, plan liabilities, and plan net position; and

- a statement of changes in plan net position that provides information about the year-to-year changes in plan net position.

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 position available for pension benefits and summarizes the changes in net position for those benefits.

FINANCIAL HIGHLIGHTS

Fiscal year 2012 experienced an appreciation of investments for the Plan year. This was the fourth consecutive year of positive returns for the Plan. Financial highlights for the Plan at fiscal year ended December 31, 2012 are as follows:

- The Plan had a positive return of 14.3% for the year, far exceeding the .88% return earned in 2011.
- The net position of the Plan held in trust to pay pension benefits were $3.0 billion as of December 31, 2012. This amount reflects an increase of $235 million from last year. This increase is primarily the result of the increase in net appreciation in fair value of investments.
- Total contributions for fiscal year 2012 was $66 million, an increase of approximately $7.0 million from last fiscal year. This is attributed to an increase in the contribution rates.
- Pension benefits paid to retirees and beneficiaries increased $13.8 million bringing the total benefit payments to $209 million. Refunds of contributions paid to former members upon termination of employment decreased slightly from $5.0 million to $4.4 million.
- Net investment income (net appreciation in the fair value of investments, plus interest and dividend income, less investment expenses) increased $361 million compared to last fiscal year.
- Administrative expenses of $3.4 million in 2012 were approximately $46 thousand less than 2011.

CONDENSED FINANCIAL INFORMATION

	2012 (in thousands)	2011 (in thousands)	2010 (in thousands)
Assets	$3,625,082	$3,255,952	$3,533,518
Liabilities	641,411	507,491	665,322
Net Position Held in Trust for Pension Benefits	2,983,671	2,748,461	2,868,196
Contributions	66,015	59,050	58,989
Investment & other income, net	386,107	24,959	399,601
Benefit payments	209,097	195,270	182,883
Refund of contributions	4,369	4,982	4,476
Administrative expenses	3,446	3,492	3,235
Change in Net Position Held in Trust for Pension Benefits	235,210	(119,735)	267,996

FINANCIAL POSITION AND RESULTS OF OPERATIONS

The Plan's total return for fiscal year 2012 was 14.3% as compared to .88% in 2011 and 15.77% in 2010. The top performing asset classes were international equity, domestic equity, public real assets, and high yield with returns of 19.53%, 15.55%, 13.78%, and 13.38% respectively for the year. The Plan's investment portfolio increased from $2.7 billion to $2.9 billion in fiscal year 2012, an increase of approximately $259 million. The fiscal year 2011 portfolio, compared to fiscal year 2010, showed a decrease of $138 million over fiscal year 2010 market value of $2.8 billion.

Additions to Plan Net Position consist of employer and employee contributions, investment income, and net realized and unrealized gain on investments. For fiscal year 2012, additions to plan net position reflect an increase of $368 million, in comparison to 2011. This increase is primarily a result of the increase in fair value of investments. As experienced in 2010 and 2011, both City and employee contributions showed increases as a result of increased contribution rates. City and employee contributions for fiscal year 2012 were approximately $30 million and $36 million, respectively. Collection levels for total contributions for 2012 were $66 million compared to $59 million in 2011 and $59 million in 2010.

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 2012, the Plan had net investment income of $386 million (which does not include non-investment income of $429 thousand). Fiscal year 2011 net investment income was $25 million as compared to fiscal year 2010 investment income of $399 million.

Fiscal year 2012 liabilities of $641 million showed an increase of 26.39% over fiscal year 2011 liabilities of $507 million. Liabilities for 2011 had a decrease of 23.73% over the $665 million of liabilities for fiscal year 2010. The increase in 2012 was primarily due to 2012 increases in currency contracts and securities purchased at year end which increased by $117 million and $11 million respectively. The 2011 decrease over 2010 was attributed to an $85 million decrease in the currency contracts. Year end balances for currency contracts were $288 million in 2012, $171 million in 2011 and $256 million in 2010. Pending securities purchases at year end were $33 million in 2012, $22 million in 2011 and $34 million in 2010. The differences between years were due to market conditions.

Deductions from Plan Net Position are largely benefit payments. During fiscal year 2012, benefits paid were $209 million, an increase of $14 million over payments made in 2011. Benefits paid in fiscal year 2011 were $195 million, an increase of $12 million over payments made in 2010. The major cause of the 2012 increase is attributable to new retirements with higher base benefits, as was the increase between 2011 and 2010.

New retirements were 223, 362 and 423 respectively for fiscal years 2012, 2011 and 2010. Cost-of-living-adjustments (which are effective on January 1 of the succeeding year) paid in each of the respective years were 3.9% in 2012 and 2.3% in 2011. 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. During fiscal year 2012 refunds of contributions amounted to $4.4 million (367 refunds), compared with $5.0 million refunded (432 refunds) during fiscal year 2011 and $4.5 million refunded (457 refunds) during fiscal year 2010. The fiscal year 2012 refund amount reflects a decline in the number of members requesting refunds as compared to fiscal year 2011. Administrative expenses of approximately $3.4 million represent less than 2.00% of total deductions for all three fiscal years.

CURRENT ENVIRONMENT

Plan membership for active members increased during fiscal year 2012. Active membership increased from 6,745 to 6,864 members, an increase of 1.8%. For 2012 the number of new retirements was 223 compared to 362 in 2011. 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 2012, 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 81%, down by 5% over 2011. This decrease is due to the continued recognition of the economic downturn experienced in 2008. The ratio for 2011 was 86%, down by 6% from 2010 ratio of 92%. This decrease was primarily a result of the unfavorable investment returns for 2008.

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EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Statements of Plan Net Position

As of December 31, 2012 and 2011
(In thousands)

	2012	2011
ASSETS:		
Cash and short-term investments	$ 87,644	$ 105,794
Collateral on loaned securities	311,684	306,163
	399,328	411,957
Receivables:		
Currency contracts	288,289	171,461
Currency gains	1,539	77
Accrued dividends	2,388	2,707
Accrued interest	9,971	10,725
Accrued securities lending	114	103
Accrued real estate dividend income	753	752
Securities sold	8,713	3,838
Employer contributions	529	325
Employee contributions	601	382
Total receivables	312,897	190,370
Investments, at fair value:		
Commingled index funds	74,337	106,288
Domestic equities	887,888	941,665
United States and foreign government fixed income securities	187,518	179,124
Domestic corporate fixed-income securities	698,086	667,582
International equities	809,243	547,109
Investments, at estimated fair value:		
Private equities	64,220	36,368
Real estate	191,565	175,489
Total investments	2,912,857	2,653,625
Total assets	3,625,082	3,255,952
LIABILITIES:		
Accounts payable	4,715	4,582
Payable for securities purchased	33,456	22,291
Investment fees payable	3,267	2,994
Currency contracts	288,289	171,461
Securities lending collateral	311,684	306,163
Total liabilities	641,411	507,491
NET POSITION HELD IN TRUST FOR PENSION BENEFITS	$2,983,671	$2,748,461

(A Schedule of Funding Progress is presented on page 43)

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 Position

For the Years Ended December 31, 2012 and 2011
(In thousands)

	2012	2011
ADDITIONS:		
Contributions:		
Employer	$ 30,371	$ 27,302
Employee	35,644	31,748
Total contributions	66,015	59,050
Net investment income:		
Dividends	38,241	32,931
Interest	50,210	50,280
Real estate dividend income	7,321	6,808
Net appreciation / (depreciation) in fair value of investments	303,844	(53,025)
Securities lending rebates paid by borrowers	693	535
Securities lending income	1,223	1,051
Total investment income	401,532	38,580
Less investment expenses:		
Investment management fees	(14,995)	(13,237)
Custody fees	(150)	(150)
Consultant fees	(326)	(322)
Securities lending management fees	(383)	(317)
Total investment expenses	(15,854)	(14,026)
Net investment income	385,678	24,554
Other income	429	405
Total increases	452,122	84,009
DEDUCTIONS:		
Benefit payments	209,097	195,270
Refund of contributions	4,369	4,982
Administrative expenses	3,446	3,492
Total deductions	216,912	203,744
Net increase / (decrease) in net position held in trust for pension benefits	235,210	(119,735)
NET POSITION HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	2,748,461	2,868,196
End of year	$2,983,671	$2,748,461

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

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Notes to the Financial Statements

December 31, 2012 and 2011

(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 3l, 2012 and 2011, the Plan's membership consisted of:

	2012	2011
Retirees and beneficiaries currently receiving benefits and inactive members entitled to benefits but not yet receiving them	7,363	7,246
Current members:		
Vested	4,843	4,665
Non-vested	2,021	2,080
Total current members	6,864	6,745
Total membership	14,227	13,991

(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 2012 was 3.9% and 2.3% in January 2011.

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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, 2012 are 11.87% of pay for employees and a combined rate of 20.21% of pay for the City. The City's 20.21% is divided into 10.48% cash to the Plan and 9.73% for debt service payments on the pension obligation bonds. The former rates, effective October 1, 2011, were 10.79% of pay for employees and a combined rate of 18.37% of pay for the City. The City's 18.37% was divided into 9.19% cash to the Plan and 9.18% 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 position 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 as of the Plan's fiscal year end are recorded as contributions receivable. Benefits and refunds are recorded when paid.

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In addition, unsettled investment purchases and sales are accrued.

(b) Administrative Expenses

Administrative expenses 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, 2012 and 2011 were converted to U.S. dollars at the foreign exchange rates quoted at December 31, 2012 and 2011. 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 Position.

(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.

In 2009, the Board capped the securities lending exposure at $538.2 million.

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(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 2012 and 2011. 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 $805 thousand as of December 31, 2012 and a net realized gain of $84 thousand as of December 31, 2011. As of December 31, 2012, the Plan had a net unrealized gain on forward contracts of $1.6 million and a net unrealized loss of $3 million at December 31, 2011. These gains and losses are included in net (depreciation) / appreciation in fair value of investments in the accompanying Statements of Changes in Plan Net Position. Currency forward contracts outstanding at December 31, 2012 and 2011 were approximately $288 million and $171 million, respectively.

Currency	2012 Currency Forward Contracts Outstanding (in thousands)	2011 Currency Forward Contracts Outstanding (in thousands)
Australian Dollar	$9,526	$ 6,065
Brazilian Real	1,976	6,041
Canadian Dollar	12,178	3,317
Chile Peso	972	405
Columbia Peso	-	749
Czech Koruna	216	-
Denmark Krone	24	1,138
Euro	6,801	1,262
Hong Kong Dollars	324	548
Hungary Forint	2,738	-
Indonesia-Rupiahs	851	1,668
Indian Rupee	2,723	-
Israel Shekel	53	-
Japanese Yen	6,020	2,228
Korean Won	7,819	3,333
Malaysia Ringgit	4,796	2,677

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Mexican Peso	5,229	5,010
New Zealand Dollar	5,286	2,853
Norwegian Krone	14,840	4,027
PEI	46	44
Philippines-Pesos	-	267
Poland Zloty	4,168	-
Russia Ruble	4,213	593
Singapore Dollar	2,425	270
Swedish Krona	14,551	16,047
Switzerland Franc	5,071	2,748
Thailand Baht	429	32
Turkey Lira	5,272	1,367
Taiwan New Dollar	1,418	-
UK Pound	5,682	14,055
US Dollar	161,397	94,717
South Africa Rand	1,245	-
Total	$288,289	$171,461

(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, 2012 and December 31, 2011.

(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, 2012 and December 31, 2011.

(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, 2012 and December 31, 2011 was $64.2 million and $36.4 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 $192 million at December 31, 2012 and $175 million at December 31, 2011.

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, 2012 the Plan had $3.3 million or .11% of its approximate $2.9 billion total investments (excluding short term investments) exposed to custodial credit risk. The risk exposure at December 31, 2011 was $2.7 million or .10% of total investments (excluding short term investments) of approximately $2.7 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 position available for benefits and the total of investments that individually represent less than 5% of the net position available for Plan benefits at December 31, 2012 and December 31, 2011 are as shown below (in thousands except per share amounts).

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There were no investments that met these criteria for fiscal years 2012 and 2011. 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.

	2012		2011	
	Number of Shares/Units	Fair Value	Number of Shares/Units	Fair Value
Investments greater than 5% of net position, at fair value:	-	$ -	-	$ -
Investments less than 5% of net position:				
At fair value		3,056,400		2,853,725
At estimated fair value		255,785		211,857
Total cash and investments		$3,312,185		$ 3,065,582

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, 2012 and 2011 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, 2012 and 2011 are as follows (in thousands):

	2012		2011	
Quality Rating	Fair Value	Percentage of Bond Portfolio	Fair Value	Percentage of Bond Portfolio
AAA	$153,887	17.38	$ 171,314	20.23
AA+	15,047	1.69	9,499	1.12
AA	10,891	1.23	10,278	1.21
AA-	9,429	1.06	14,679	1.73
A+	12,628	1.42	9,976	1.18
A	16,017	1.81	16,184	1.91
A-	27,965	3.19	29,746	3.51
A-1+	2,727	.31	-	-
BBB+	37,584	4.24	35,398	4.18
BBB	34,908	3.94	26,287	3.10
BBB-	22,194	2.50	21,262	2.51
BB+	37,922	4.28	37,834	4.47
BB	39,857	4.50	59,499	7.03
BB-	71,944	8.12	94,917	11.21
B+	9,225	1.04	72,356	8.55
B	87,351	9.86	72,645	8.58
B-	4,450	.50	54,755	6.47
CCC+	212	.02	15,777	1.86
CCC	76,141	8.60	17,959	2.12
CCC-	-	-	-	-
CC	55,610	6.28	1,141	0.13
C	32,368	3.66	-	-

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DDD	15,915	1.80	-	-
D	1,777	.20	680	.08
Not rated (NR)*	50,259	5.68	25,236	2.98
U. S. Government fixed income securities (NR)**	59,296	6.69	49,284	5.84
	$885,604	100.00%	$ 846,706	100.00

* 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, and 5% of assets to global 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 27.80% and 20.62% of invested assets at December 31, 2012 and 2011 respectively. The Plan's positions in global fixed income assets were 6.40% and 7.53% of invested assets at December 31, 2012 and 2011 respectively.

Non-US Dollar denominated investments at December 31, 2012 and 2011 were as follows (in thousands):

	2012 U. S. Dollars Balance of Investments (in thousands)			2011 U. S. Dollars Balance of Investments (in thousands)		
Currency	Equities	Fixed	Currency Forward	Equities	Fixed	Currency Forward
Australian Dollar	$ 13,925	$ 13,106	$ 9,526	$ 16,191	$ 6,112	$6,065
Brazil Real	3,947	9,546	1,976	5,588	8,996	6,041
British Pound Sterling	77,414	-	-	49,635	-	-
Canadian Dollar	30,752	8,756	12,178	26,498	6,136	3,317
Chile Peso	-	-	972	-	-	405
Columbia Peso	193	-	-	-	-	749
Czech Republic-Koruna	-	-	216	64	-	-
Denmark Krone	2,693	-	24	327	-	1,138
Euro	88,340	2,235	6,801	53,482	-	1,262
Hong Kong Dollars	30,627	-	324	16,044	-	548
Hungary-Forint	129	-	2,738	337	-	-
Indian Rupee	-	-	2,723	-	-	-
Indonesia-Rupiahs	5,310	-	851	5,616	-	1,668
Israel Shekel	1,143	-	53	940	-	-
Japanese Yen	80,873	-	6,020	62,549	-	2,228
Korean Won	24,561	-	7,819	19,052	-	3,333
Malaysia Ringgit	8,731	-	4,796	7,677	-	2,677
Mexican Peso	6,610	7,834	5,229	4,065	8,637	5,010
New Zealand Dollar	-	-	5,286	-	-	2,853
Norwegian Krone	10,008	-	14,840	9,017	-	4,027
Philippines-Pesos	1,179	-	-	767	-	267
PEI	-	-	46	-	-	44
Poland-Zloty	4,048	-	4,168	2,745	-	-
Russian Ruble	-	-	4,213	-	-	593
Singapore Dollar	8,467	-	2,425	7,210	-	270
South Africa Rand	4,396	-	1,245	3,680	-	-

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Swedish Krona	9,550	-	14,551	2,666	-	16,047
Swiss Franc	30,625	-	5,071	4,797	-	2,748
Taiwan New Dollar	-	-	1,418	-	-	-
Thailand Baht	7,509	-	429	5,596	-	32
Turkish Lira	11,980	-	5,272	5,324	-	1,367
United Kingdom Pound	-	-	5,682	-	-	14,055
Total	$463,010	$41,477	$126,892	$309,867	$29,881	$76,744

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, 2012 and 2011 open currency forward contracts are as follows:

Derivative Type	Total Notional Value 12/31/2012 (in thousands)	Total Fair Value 12/31/2012 (in thousands)	Total Notional Value 12/31/2011 (in thousands)	Total Fair Value 12/31/2011 (in thousands)
Currency Forward Contracts	$1,587	$288,822	$46	$171,461
Total	$1,587	$288,822	$46	$171,461

As of December 31, 2012 and 2011 the weighted-average maturity of the bonds by bond type are as follows:

Bond Category	Fair Value 12/31/2012 (in thousands)	Weighted Average Maturity (years) at 12/31/2012	Fair Value 12/31/2011 (in thousands)	Weighted Average Maturity (years) at 12/31/2011
Asset Backed Securities	$ 23,670	5.29	$ 21,023	6.39
Bank Loans	25,238	4.57	10,476	4.32
Commercial Mortgage-Backed	35,104	29.38	34,502	29.74
Corporate Bonds	558,989	7.81	539,516	7.75
Government Agencies	13,483	3.91	11,552	5.53
Government Bonds	78,760	8.99	76,177	11.15
Government Mortgage-Backed Securities	106,539	25.43	102,140	25.82
Government issued Commercial Mortgage-Backed Securities	2,082	7.57	2,016	8.57
Index Linked Government Bonds	6,672	3.28	3,730	9.17
Municipal/ Provincial Bonds	17,133	18.11	22,369	10.78
Non-Government Backed CMOs	17,934	22.72	23,205	23.64
Total	$885,604		$846,706	
Portfolio weighted Average maturity		11.14		11.55

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

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when interest rates fall. These securities represent 12% of the total fixed income portfolio for 2012 and 12% for 2011. Their fair values at year end 2012 and 2011 were $106.5 million and $102.1 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 2012 and 2011, the Plan's investments, including investments bought, sold, and held during the year, appreciated (depreciated) in value as follows (in thousands):

	2012	2011
Investments, at fair value:		
Commingled index funds	$(5,273)	$ (47,518)
Domestic equities	52,063	(77,162)
United States and foreign government fixed income securities	1,492	9,017
Domestic corporate fixed-income securities	43,254	2,945
International equities	191,090	42,479
Short-term investments	188	84
Currency contracts	2,250	(3,039)
	285,064	(73,194)
Investments, at estimated fair value:		
Real estate	10,601	16,649
Private equity and venture capital funds	8,179	3,520
	$303,844	$ (53,025)

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, 2012 and 2011, 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 12/31/2012	Collateral Market Value 12/31/2012	Collateral Percentage	Fair Value 12/31/2011	Collateral Market Value 12/31/2011	Collateral Percentage
Cash	$ 306,258	$ 311,684	102%	$298,404	$306,163	103%
Non-cash	2,703	2,820	105%	807	831	103%
Total	$ 308,961	$314,504		$299,211	$306,994	

The following represents the balances relating to the securities lending transactions as of December 31, 2012 and 2011 (in thousands):

Securities Lent	Underlying Securities 12/31/2012	Securities Collateral Value 12/31/2012	Cash Collateral Investment Value 12/31/2012	Underlying Securities 12/31/2011	Securities Collateral Value 12/31/2011	Cash Collateral Investment Value 12/31/2011
Lent for cash collateral:						
Domestic equities	$ 142,258	$ -	$ 143,997	$143,721	$ -	$147,438
Domestic corporate fixed income	105,226	-	107,031	74,109	-	75,935
International equities	18,667	-	19,710	16,802	-	17,587
US government, agency & foreign securities	40,107	-	40,946	63,772	-	65,203
Subtotal	306,258	-	311,684	298,404	-	306,163
Lent for securities collateral:						
Domestic equities	794	804	-	665	683	-
International equities	1,780	1,884	-	142	148	-
US government, agency & foreign securities	129	132	-	-	-	-
Subtotal	2,703	2,820	-	807	831	-
Total	$ 308,961	$ 2,820	$ 311,684	$299,211	$ 831	$306,163

Disclosure of securities lending income is shown gross with the associated reductions for investment expenses on the Statements of Changes in Plan Net Position, and the cash collateral and associated securities lending payable is shown on the Statements of Plan Net Position for December 31, 2012 and 2011. The net income from securities lending in 2012 and 2011 was $1.5 million and $1.3 million respectively.

(5) Federal Income Tax Status

The Internal Revenue Service issued a determination letter dated May 24, 2012, stating that the Plan was designed in accordance with applicable Internal Revenue Code requirements as of that date. 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, 2012, 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)
12/31/12	2,846	3,518	672	80.9%	340	197.5%

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS

Notes to the Financial Statements

December 31, 2012 and 2011

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 is as follows:

Valuation date	December 31, 2012
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

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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):

Years Ended December 31	Annual Actuarially Required Contribution	Percentage Contributed
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
2012	50,293	60.39

Schedule of Funding Progress

The following table shows the Plan's funding progress (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)
12/31/03	1,843	2,489	646	74%	318	204%
12/31/04	2,482	2,488	6	99%	331	2%
12/31/05	2,739	2,606	(133)	106%	332	-40%
12/31/06	2,998	2,761	(237)	109%	345	-69%
12/31/07	3,183	2,915	(268)	110%	370	-73%
12/31/08	2,958	3,075	117	97%	389	30%
12/31/09	3,032	3,192	160	95%	375	43%
12/31/10	3,027	3,282	255	93%	332	77%
12/31/11	2,917	3,392	475	86%	319	149%
12/31/12	2,846	3,518	672	81%	340	198%

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, 2012 and 2011
(dollars in thousands)

Personal Services:

Salaries	$1,485
Retirement	164
Insurance	99
Total Personal Services	1,748

Professional Services:

Actuary Service	96
Accounting & Audit Fees	56
Attorney fees	321
Communication	-
Medical	8
Total Professional Services	481

Operating Services:

Data Processing	202
Election	20
Parking	25
Printing	51
Rent	229
Supplies and Services	158
Telephone	23
Travel and Training	117
Indirect and Other Costs	392
Total Operating Services	1,217

Furniture & Fixtures:

Furniture	-
Other	-
Total Furniture & Fixtures	-

Total Administrative Expenses	$3,446

SCHEDULE OF INVESTMENT EXPENSES

As Of December 31, 2012
(dollars in thousands)

Manager Fees	$14,995
Custodian Fees	150
Securities Lending Fees	383
Investment Consultant Fees	326
Total Investment Expenses	$15,854

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

SCHEDULE OF PAYMENTS FOR PROFESSIONAL SERVICES

As Of December 31, 2012
(dollars in thousands)

Accounting and Audit:	
Financial Control Systems	$56
Actuarial:	
Gabriel, Roeder, Smith & Company	96
Legal:	
Foster Pepper PLLC	134
Strasburger & Price, LLP	187
Medical:	
Various	8
Investments:	
Wilshire Associates, Inc	326
Total Professional Services Payments	$807

We also learned that a majority of Americans believe the average employee cannot save enough on their own to guarantee a secure retirement.

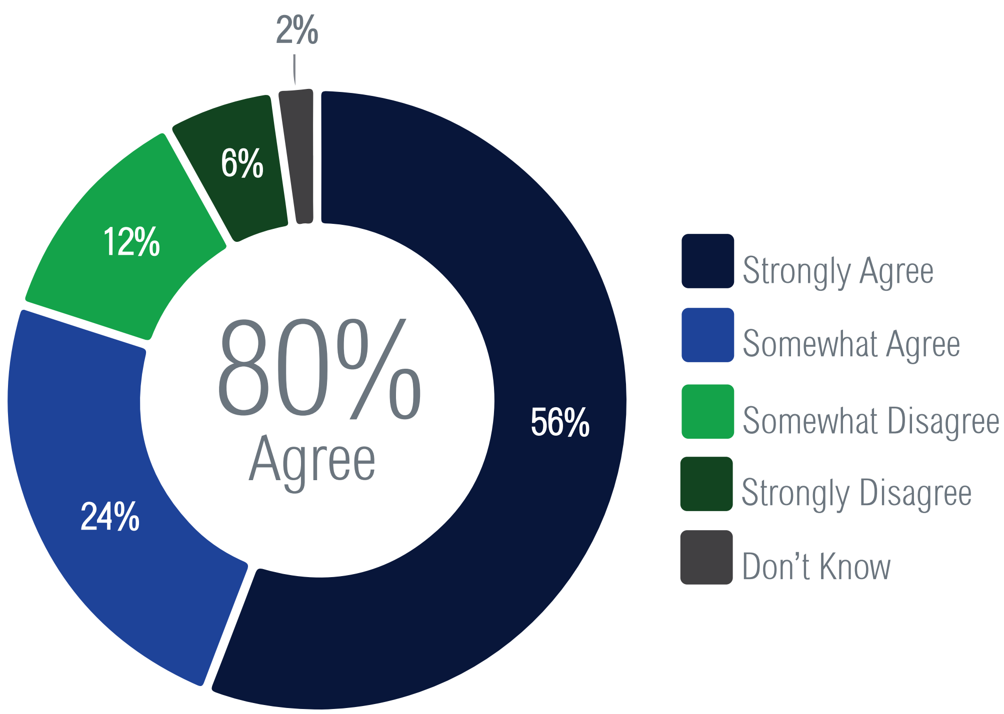
A full 80 percent agree, and 56 percent strongly agree.

- National Institute on Retirement Security
Pensions and Retirement Security 2013

INVESTMENT SECTION

Americans Can't Do it Alone

To what extent do you agree or disagree that the average worker cannot save enough on their own to guarantee a secure retirement?



Andrew Junkin, CFA, CAIA
Managing Director & Principal

July 19, 2013

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

Re: 2012 Performance Results

Dear Cheryl:

The purpose of this letter is to review the 2012 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 2012, the Fund generated a net-of-fee return of 14.3%[1], outperforming relative to its asset allocation policy benchmark's return of 14.2%, and ahead of its actuarial rate of return of 8.25%.

The domestic economy continued to show some gradual improvement in 2012 in both growth and employment. Globally, Europe continued to struggle economically and expectations for a decrease in emerging market growth spread. In this environment, global central banks continued to inject a high level of stimulus into the economy, such as the Federal Reserve's open ended 'quantitative easing' program, in a bid to stimulate growth. Concerns over European sovereign debt issues were sidelined by promises that the Eurozone members are willing to do whatever it takes to save the Euro. So despite a weaker economic recovery (by historical standards), capital markets globally were buoyed substantially in 2012.

In line with this narrative, the Fund's global equity investments rallied materially with U.S. equities up 15.6% and non-U.S. equities increasing by 19.5%. The global fixed income asset

[1] Performance calculations are consistent with the computations and methodologies approved by the CFA Institute.

Wilshire

class was up more modestly at 6.3%, while high yield returned 13.4%. The Fund's real estate segment fared well, climbing 12.8% for the year. The Fund's private equity investments also gained 6.2%, which trailed the public asset classes but will likely improve as valuations are increased in 2013. Public real assets were one of the Fund's best performing assets, increasing by 13.4%.

When compared to other public funds in the Wilshire Cooperative Total Fund Universe, ERF ranked in the second quartile during 2012 and in the first quartile over the three, five and ten-year time periods. Overall, ERF's diversified asset allocation and discipline have served it well during the year of 2012 and over the longer term time horizon.

The ERF Board of Trustees added an allocation to global equity which will allow the selected investment managers to allocate opportunistically across regions. Additionally, the public real assets portfolio consists of investments in Master Limited Partnerships which have accrued very positively to the portfolio. As the Trustees look to pro-actively 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 2012 were:

Asset Class	Allocation
Domestic Equity	22.5%
International Equity	22.5%
Global Equity	5.0%
Fixed Income	15%
High Yield	15%
Public REITS	5%
Private Core Real Estate	5%
Public 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

INVESTMENT POLICIES SUMMARY

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.

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INVESTMENT RESULTS

Investment Summary

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

Investment Category	2012 Rate Of Return
Domestic Equities	15.55%
International Equities	19.53%
Fixed Income	6.28%
High Yield Bonds	13.38%
Real Estate Securities	12.83%
Cash Equivalents	0.11%
Private Equity	6.17%
Private Real Estate	13.78%
Total Portfolio	14.29%

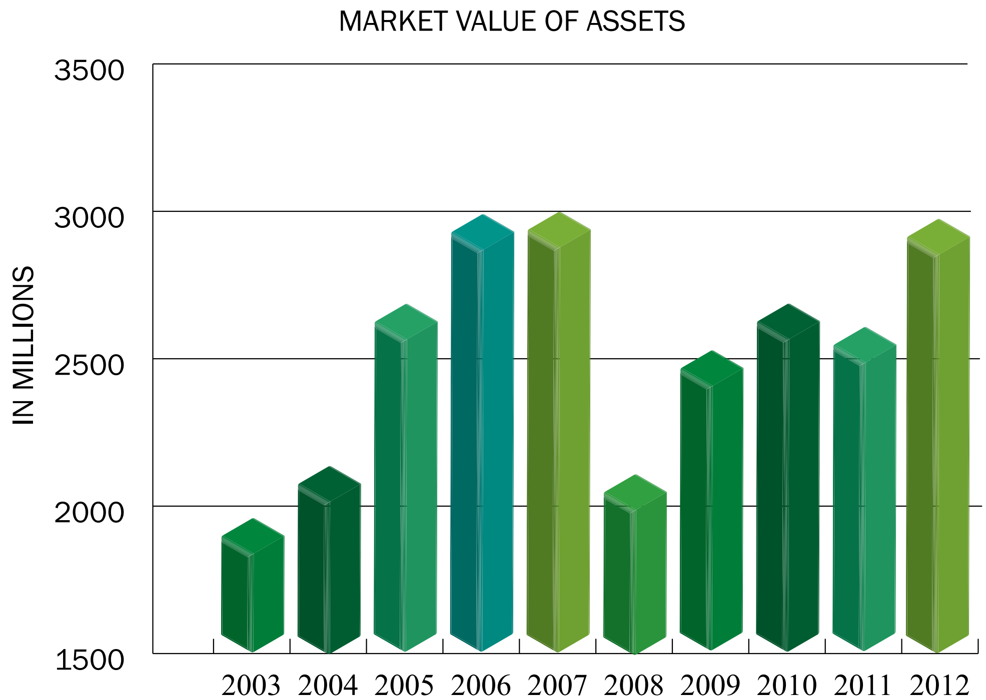
INVESTMENT MANAGERS

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
Global Equities	Aberdeen Wellington
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 2012 was up 14.3%. The world equity markets as measured by various indices were mixed for 2012 with the MSCI All World ex-US Index down 16.83% and the Dow Jones Wilshire 5000 returning 16.06%. The Barclays Aggregate Bond Index was up 4.22%. The Citigroup High Yield Cash Pay Index was up 15.1% for the year.

At December 31, 2012, the net asset value of the Plan was $3.0 billion. This value represents an 8.6% or $235 million increase 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

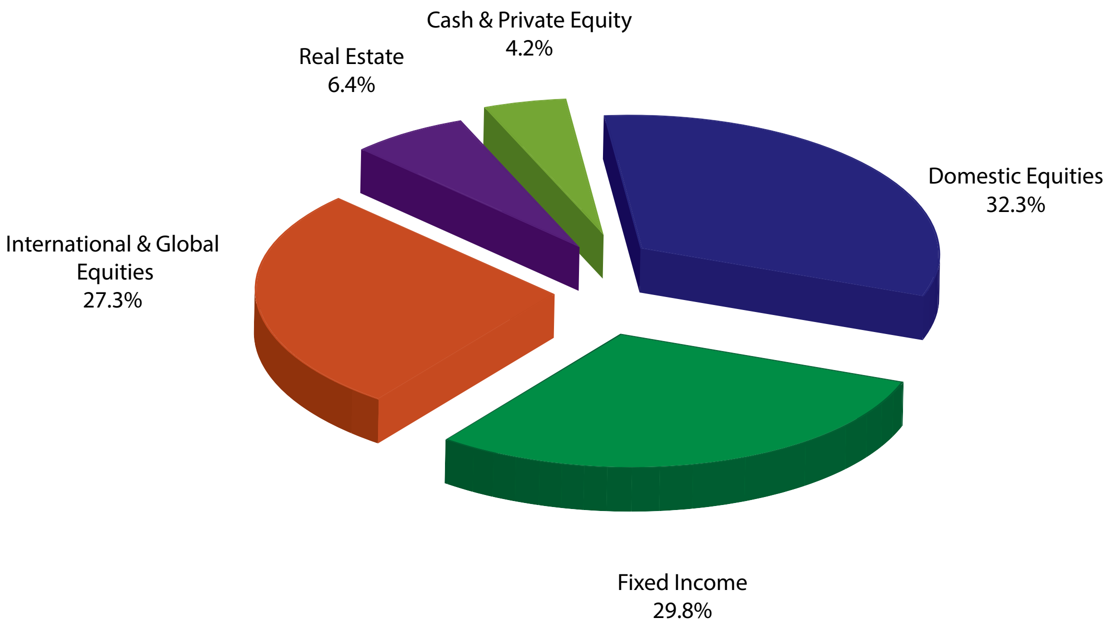
The Plan's long-term strategic asset allocation policy sets the following targets: 37.5% in domestic equity (22.5%) including real estate securities (5.0%) private equity (5.0%) and Master Limited Partnerships (MLP's) (5.0%); 27.5% in international and 5% global equity; 15% in global fixed income; and 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 8.0% of domestic equity assets at year end, and actively managed portfolios represented the remaining 22.7% of domestic equity investments. Total US equity returned 15.55% for the year while the benchmark Wilshire 5000 Index had a return of 16.1%. The S&P 500 Index returned 15.9% 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 19.5% while the MSCI All World ex-US Index reported a return of 16.8% for the year, and the MSCI EAFE Index reported 17.3%. The global equity allocation was funded at year end, but performance was not available.

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 6.3% while the Barclays Aggregate Bond Index returned 4.2%.

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 2012 was 13.4% and the Citigroup High Yield Cash Pay Index returned 15.1%.

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 1.9%. The rate of return for the year was 6.2%.

REAL ESTATE

Real estate is comprised of real estate securities (REITs) and private real estate. REITs and private real estate both have a 5% allocation for a total real estate allocation of 10%. REITs had a return of 16.4% against the Wilshire RE Securities Index of 17.6% , and the private real estate returned 10.0% against the NCREIF Property Index returned 17.6%.

PUBLIC REAL ESTATE

Public real assets have a target allocation of 5%. The allocation is split between two investment managers. Public real assets returned 13.8% against the Alerian MLP Index of 4.8%.

ANNUALIZED RATE OF RETURN

As of December 31, 2012

	2012	3-Year	5-Year
Total Fund	14.29	10.13	3.85
Domestic Equity	15.55	10.95	2.12
S&P 500 Index	15.98	10.86	1.65
Dow Jones Wilshire 5000 Index	16.06	11.15	2.03
International Equity	19.53	6.13	-1.55
MSCI ACWI ex US Index	16.83	3.87	-2.89
MSCI EAFE Index	17.31	3.56	-3.69
Global Fixed Income	6.28	7.76	5.72
Barclays Aggregate Bond Index	4.22	6.19	5.95
High Yield Fixed Income	13.38	10.96	8.81
Citigroup High Yield Cash Pay	15.07	11.55	9.85
Cash Equivalents	0.11	0.11	-2.38
T-Bills	0.11	0.11	0.52
Public REITS	16.41	21.62	5.74
Wilshire RE Securities Index	17.55	18.11	5.08
Private Equity	6.17	10.11	-
Private Equity Benchmark	15.98	10.86	1.65
Public Real Assets	13.78	-	-
Alerium MLP Index	4.79	-	-

INVESTMENT MANAGEMENT FEES

As of December 31, 2012

(dollars in thousands)

Investment**		Assets Under Management	Fees	Basis Points
Domestic Equity		$822,030	2,208	26.9
International Equity		650,492	3,037	46.3
Global Equity		158,751	452	28.5
Global Fixed Income		414,442	937	22.6
High Yield Fixed Income		471,162	2,274	48.3
Real Estate		191,565	2,910	1.5
Master Limited Partnerships		140,195	956	-
Private Equity		64,220	1,430	2.2
Cash Equivalents		84,344	791	-
	subtotal	$2,997,201	$14,995	

Other Investment Services

Investment Consultant		326
Custodian		150
Security Lending*		383
	subtotal	859
Total Investment Management Fees		$15,854

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

** Excludes cash (see Investment Holdings for cash value)

TEN LARGEST HOLDINGS

As of December 31, 2012

Equity	Shares	Fair Value
CF INVESCO Core RE Fund	801.57	$96,938,670
CF Heitman America Real Estate	110,339.70	94,626,764
MFB NTGI-QM COLTV Daily S&P 500	16,948.41	74,336,557
MSCI FINL Index - ZVM7	2,301,718.98	25,694,089
UK MSCI Index	353,651.81	24,642,105
Simon PPTY Group Inc New	133,403.00	21,089,680
Apple Computer	38,510.00	20,493,978
FNY Index - ZVC2	550,728.03	20,223,835
Hamilton Lane Sec FD II	11,889,022.00	18,808,446
MLP Enterprise Prods Partners	359,901.00	18,023,842

Fixed Income	Par Value	Fair Value
Mexico (UTD Mex ST) 10.000% due 12/05/2024	727,000	$7,833,747
UTD States Treasury 1.000% due 11/30/2019	6,580,000	$6,516,240
Australia (CMNWLTH) 4.250% due 07/21/2017	5,600,000	$6,181,764
U.S.A. Treasury Notes .625% due 11/30/2017	5,690,000	$5,670,882
Brazil (Fed Rep of) 0.000% due 01/01/2017	9,062	$4,878,051
Brazil (Fed Rep of) T-NTS 0.000% due 01/01/2014	8,897	$4,668,242
FNMA 3.5000% due 12/31/2040	4,220,000	$4,499,069
U.S.A. Treasury Bonds 2.75% due 08/15/2042	4,510,000	$4,354,991
FHLMC Gold Single Family 3.500% due 01/15/2041	3,850,000	$4,093,936
Vodafone AMERS 6.875% due 08/11/2015	3,848,658	$3,954,496

INVESTMENT HOLDINGS SUMMARY

As of December 31, 2012
(dollars in thousands)

Fixed Income		Market Value	Percentage of Market Value
Government Bonds		$ 187,518	6.25%
Corporate Bonds		698,086	23.27%
	Total Fixed Income	885,604	29.52%
Equity			
Common Stock		1,697,131	56.56%
Index & Commingled		74,337	2.48%
	Total Equity	1,771,468	59.04%
Real Estate			
Real Estate		191,565	6.38%
Alternative Investments			
Private Equity		64,220	2.14%
Cash and Equivalents			
Cash		3,300	0.11%
Cash Equivalents		84,344	2.81%
	Total Cash and Equivalents	87,644	2.92%
	Total Fund*	$3,000,501	100.00%

*Does not include security lending collateral or receivables.

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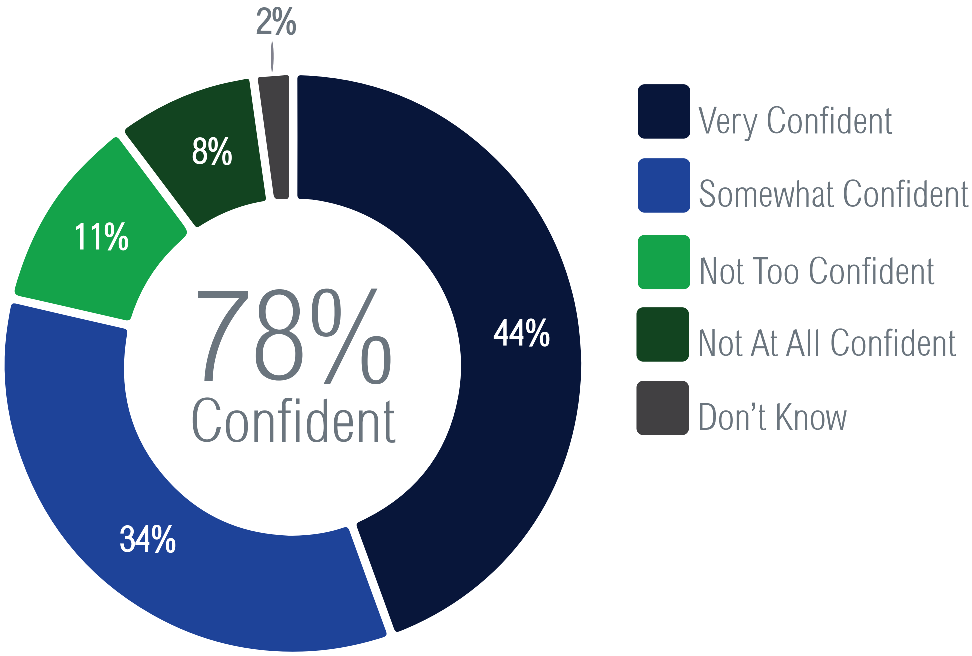
Americans Trust Pensions Will Be There at Retirement

How confident are you that your pension will be there when it is time to retire?



LEVEL OF CONFIDENCE HIGHEST FOR RETIREES (92%) AND GOVERNMENT EMPLOYEES (89%).

ACTUARIAL SECTION

Millennials Highly Concerned About Retirement, Support Pensions

82%
of millennials surveyed

Very/Somewhat concerned about current economic conditions affecting ability to achieve a secure retirement

88%
of millennials surveyed

Strongly/Somewhat agree that government should make it easier for employers to offer traditional pension plans

88%
of millennials surveyed

Very/Somewhat favorable views of a traditional pension plan

88%
of millennials surveyed

Strongly/Somewhat agree that all workers should have access to a pension plan so they can be independent and self-reliant in retirement

- National Institute on Retirement Security
Pensions and Retirement Security 2013

The Report of the December 31, 2012 Actuarial Valuation of the Employees' Retirement Fund of the City of Dallas

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GRS
Gabriel Roeder Smith & Company
Consultants & Actuaries
5605 N. MacArthur Blvd.
Suite 870
Irving, TX 75038-2631
469.524.0000 phone
469.524.0003 fax
www.gabrielroeder.com

May 14, 2013

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, 2012.

This valuation provides information on the funding status of ERF. It includes a determination of the actuarially calculated contribution rates for the 2013 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, 2013 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 2014.

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, 2012. 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

(This summary is an excerpt of the 2012 Actuarial Valuation Report.
Sections referenced in this summary are available in the full report.)

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FUNDING PROCESS

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, 2012. This means that the "current adjusted total obligation rate" will increase from 32.08% to 35.29% of active member payroll effective October 1, 2013.

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EXPERIENCE DURING 2012

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 14.29% (calculated on a dollar-weighted basis, net of investment expenses). Given the outstanding return, the actual investment income was more than the expected investment income on the actuarial value of assets; therefore, an investment income gain is being partially recognized this year (1/5) and partially deferred into the near future (4/5). After recognizing prior years' deferred investment gains and losses (years 2011 - 2008), there was an overall actuarial loss of $154 million on the actuarial value of assets as of December 31, 2012 due to the final recognition of the large deferred loss on the market value of assets that occurred in calendar year 2008. The rate of return on the actuarial value of assets for 2012 was 2.82% (calculated on a dollar-weighted basis, net of investment expenses). This result was less than the current investment return assumption of 8.25%.

During 2012 there was an aggregate actuarial loss of about $3.5 million derived from demographic assumptions and non-investment economic assumptions (salary increases). As seen below, ERF experienced an overall actuarial loss in calendar year 2012. This year's overall actuarial experience loss amounted to approximately $157.9 million.

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

	2009	2010	2011	2012
1) Actuarial (Gain)/Loss on Assets	$146.94	$117.40	$209.96	$154.40
2) Actuarial (Gain)/Loss on Liabilities	(23.70)	(101.31)	(6.04)	3.46
3) Total Actuarial (Gain) or Loss (1+2)	123.24	16.09	203.92	157.86

The unfunded actuarial accrued liability (UAAL) also increased $23.4 million due to the difference between the calculated contribution rate and the actual contributions during 2012.

FUNDED STATUS

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 86.0% as of December 31, 2011 to 80.9% as of December 31, 2012. This decrease is due to the continued recognition of the significant downturn in the investment markets during 4th quarter of 2008 and due to the difference between the calculated contribution rate and the actual contribution rate as a result of the corridor funding policy.

The UAAL increased from $474.9 million as of December 31, 2011 to $672.2 million as of December 31, 2012. Since the UAAL is positive, this implies the actuarial accrued liabilities exceed the actuarial assets of the Fund as of December 31, 2011 and 2012.

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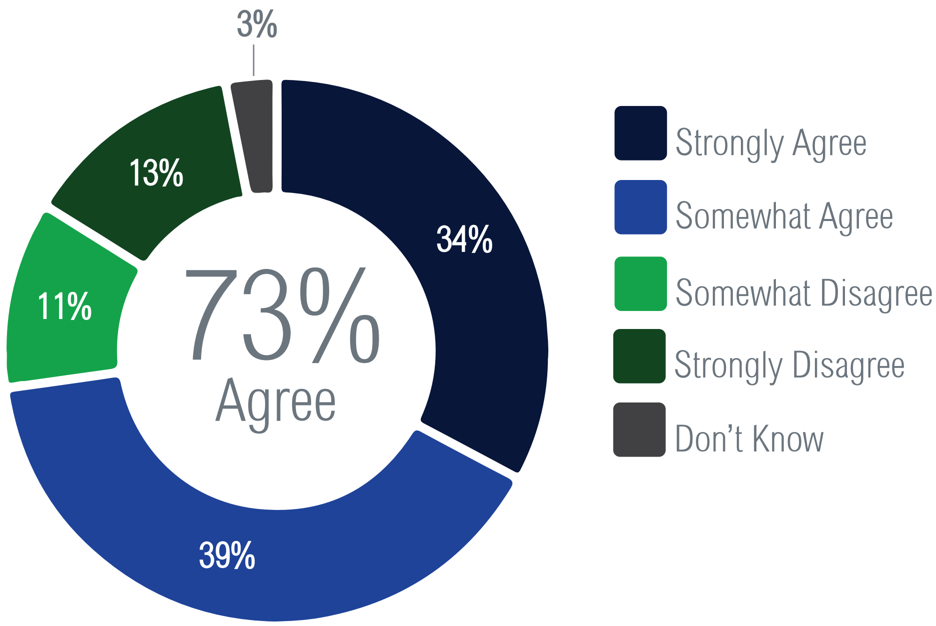
Strong Support for Public Pensions Because Employees Contribute to Cost

To what extent do you agree or disagree that state and local government employees deserve these benefits because they help finance part of the cost by contributing money out of every paycheck?



Interestingly, nearly three-quarters of Americans (73%) support these public pensions because employees contribute from every paycheck to their pension.

Typically, public pensions are a shared responsibility, with the employee, employer and investment income funding the benefits. In the private sector, federal regulations prevent employees from contributing to their pension benefit.

- National Institute on Retirement Security
Pensions and Retirement Security 2013

STATISTICAL SECTION

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
2012	35,644	30,371	9.6	385,678	451,693

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
2012	209,097	3,446	4,369	15,854	232,766

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
2012	187,712	7,561	4,677	9,147	209,097

AVERAGE BENEFIT PAYMENT

As of December 31, 2012

Retirement Effective Dates	Years of Credited Service						
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+
Period 01/01/2012 to 12/31/2012							
Average monthly benefit	$325.10	$845.25	$1,590.56	$2,009.64	$2,829.45	$3,963.86	$4,516.58
Average final average salary	$2,932.66	$4,442.19	$4,632.86	$4,117.88	$4,570.14	$5,396.80	$5,268.80
Number of retired members	12	39	32	26	39	61	32
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

RETIRED MEMBERS BY TYPE OF BENEFIT

As of December 31, 2012

Amount of Monthly Benefits	Type of Retirement[a]							Option Selected[b]		
	1	2	3	4	5	6	7	#1	#2	#3
$1 - 250	51	0	8	0	0	0	0	14	15	30
$251 - 500	115	2	41	42	0	2	13	23	98	94
$501 - 750	205	7	65	48	1	6	27	50	174	135
$751 - 1,000	239	9	89	26	25	25	10	73	178	172
$1,001 - 1,250	203	18	73	32	9	17	8	58	154	148
$1,251 - 1,500	249	15	56	12	9	15	5	92	119	150
$1,501 - 1,750	195	14	55	19	5	13	3	87	101	116
$1,751 - 2,000	222	26	58	15	3	10	7	100	108	133
over 2,000	3,374	165	226	63	9	43	18	1,124	1,471	1,303
Total	4,853	256	671	257	61	131	91	1,621	2,418	2,281

Type of Retirement[a]

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[b]

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, 2012

Status	Average Age	Average Pension	Average Age at Retirement
Members Only	67.6	$2,941.77	55.5
Members and Survivors	68.4	$2,737.06	N/A
Survivors Only	72.4	$1,672.10	N/A

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WHAT CIVILIAN RETIREES BUILT. CURRENT EMPLOYEES MAINTAIN.

WORKING TOGETHER, DALLAS CONTINUES TO GROW

CIVILIAN RETIREES HELPED BUILD OUR COMMUNITY

CURRENT EMPLOYEES WORK TO MAINTAIN & BUILD

TOGETHER DALLAS CONTINUES TO GROW

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