

**Firemen's Annuity  
and Benefit Fund  
of Chicago, Illinois**

**Financial Report**

For the years ended December 31, 2006 and 2005

**THE RETIREMENT BOARD  
OF THE  
FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO  
AS OF DECEMBER 31, 2006**

**Elected Trustees** \_\_\_\_\_

**Ex Officios** \_\_\_\_\_



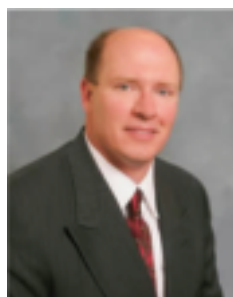
**Anthony Martin, Secretary**  
Member of the Board since December, 2002. A member of the Chicago Fire Department since December 1988. Earned Bachelor of Arts degree in Political Science and Sociology from St. Xavier University. An active member of Local 2 and former steward for the 23<sup>rd</sup> Battalion.



**Derrick F. Jackson, Deputy Fire Commissioner, President**  
Member of the Board, Deputy Fire Commissioner and Bureau of Employee Relations since January 2000. A member of the Chicago Fire Department for 29 years. Earned a Bachelor of Arts degree from Western Illinois University and a M.P.A. degree from Roosevelt University.



**Dan P. Fabrizio, Vice-President**  
Began term as Active Trustee in December 2004. A member of the Chicago Fire Department since September 1979. Former President of Chicago Fire Fighters Union Local 2 from May 1, 1993 to April 30, 1999. Earned a Bachelor of Science degree in Fire Science from Southern Illinois University.



**Steve Lux, Comptroller of the City of Chicago**  
Began his term as Comptroller of the City of Chicago in July 2006. Worked in the accounting field for 20 years in both the public and private sector. Prior positions for the City of Chicago included Managing Deputy Comptroller of Accounting and Deputy Comptroller of Accounting. Earned a Bachelor of Science in Accounting from the University of Illinois in Urbana and is a Certified Public Accountant.



**Michael Shanahan**  
Began term as Active Trustee in December 2006. A member of the Chicago Fire Department since February 1982. Earned a Bachelor of Science degree in Business Economics from Illinois Benedictine College. An active member of Local 2 and an advisory board member of the Police and Firemen's Insurance Association.



**Stephanie Neely, City Treasurer of Chicago**  
Appointed City of Chicago Treasurer in October 2006 and elected in February 2007. Prior to appointment, she worked 20 years for various leading investment banking institutions and was a former Vice President at Northern Trust Global Investments. Earned a Bachelor of Science degree in Economics from Smith College and a Masters in Business Administration from the University of Chicago.



**Walter Carlson**  
Elected Annuitant Board Member in December 2005. Retired since 2004 with 38 years on the job. Former Director of Contract Enforcement at the Chicago Fire Fighter Union Local 2 from 1992 to 2005.



**Miguel del Valle, City Clerk of Chicago**  
Appointed City Clerk in December 2006 and elected in February 2007. Prior to appointment, he served as a full-time State Senator since 1987 and also worked as Assistant Majority Leader. Earned a Bachelor of Arts degree and a Masters of Arts in Education and Guidance from Northeastern Illinois University.

**THE RETIREMENT BOARD**  
of the  
**FIREMEN'S ANNUITY AND BENEFIT FUND**  
**OF CHICAGO**

Suite 1400  
20 South Clark Street Chicago, IL 60603-1899  
(312) 726-5823 Fax (312) 726-2316  
Marshall Line 9261 <http://www.fabf.org>  
(800) 782-7425



**ELECTED TRUSTEES**

ANTHONY R. MARTIN, Secretary  
DAN P. FABRIZIO, Vice President  
MICHAEL J. SHANAHAN  
WALTER M. CARLSON, Annuitant Member

**EX-OFFICIO TRUSTEES**

Deputy Fire Commissioner, DERRICK JACKSON, President  
City Treasurer, STEPHANIE NEELY  
City Comptroller, STEVE LUX  
City Clerk, MIGUEL del VALLE

June 22, 2007

**To the Participants of the Firemen's Annuity and Benefit Fund of Chicago**


The Retirement Board and Staff of the Firemen's Annuity & Benefit Fund of Chicago are pleased to submit this Annual Financial Report for the year ended December 31, 2006. We strongly recommend that you read this report to gain an understanding of the current status of your retirement plan.

Throughout 2006, the Retirement Board focused on many priorities including the Fund's investment performance, our underfunded status, and improving service to our participants. We have recently developed and mailed a participant profile so members can be apprised of their personal and family information, helping to ensure the accuracy of our records. The board, staff and Fund's attorneys reviewed all applicable federal and state law and any related municipal ordinances to ensure that any allowed service credits are available to our participants serving in the Armed Forces of The United States. Other areas of involvement included, The Korshak Settlement Agreement and annuitant healthcare premiums, the Pension Protection Act of 2006, and establishing a disaster recovery site which will allow the Fund to provide our participants with an appropriate level of service in the event operations at our current location were unexpectedly interrupted.

The Retirement Board is very pleased to report yet another strong investment year, earning 15.5% on its invested assets. The Fund continues to adhere to its adopted Investment Objectives and Asset Allocation Plan. This disciplined approach has contributed to significant gains across all asset classes. Please review the Investment Committee report on page 32 of this report.

Several new individuals began their service as trustees during 2006. Newly elected Active member, Lt. Michael Shanahan, has 26 years of service on the Chicago Fire Department and is assigned to Engine 126. Comptroller of the City of Chicago, Steve Lux, filled the position as an Ex Officio Trustee. Two new elected city officials were seated as ex-officio trustees. Stephanie Neely was appointed to the position of City Treasurer, and was subsequently re-elected. Former State Senator Miguel Del Valle was appointed to the vacant position of City Clerk of Chicago, and was also subsequently re-elected. The board and staff welcomes all of our new trustees and expresses it's gratitude to both George Korda and Judith Rice for their faithful years of service and commitment to the Fireman's Annuity and Benefit Fund and all of our members.

Be assured, that The Retirement Board's primary commitment is to you, our members. We dedicate all our efforts to the prudent oversight of your Fund. We always welcome your questions and suggestions. Please feel free to contact any of us at the Fund office.

  
Derrick Jackson  
President

  
Anthony Martin  
Fund Secretary

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### Professional Staff and Advisors December 31, 2006

#### Professional Staff

**Executive Director** - Kenneth E. Kaczmarz  
**Chief Investment Officer** - Michael G. Moran, CFA, CPA  
**Fund Comptroller** - Jaclyn McAllister  
**Deputy Director of Benefits** - Janet A. Pelech  
**Administrative Coordinator** - Lori A. Lund  
**Information Systems Manager** - Janice E. DeGroot

#### Advisors and Consultants

**Actuary** - Gabriel, Roeder, Smith & Company  
**Independent Auditors** - Legacy Professionals  
**Investment Consultant** - Mercer Investment Consulting  
**Legal Counsel** - Burke, Burns & Pinelli, Ltd.  
**Master Custodian** - The Northern Trust Company

#### Professional Investment Managers

BA Partners Fund IV	LSV Asset Management
Brandes Investment Partners	Marvin and Palmer Associates
Chicago Equity Partners	Mesirow Financial
Credit Suisse Asset Management	Mesirow Financial Capital Partners IX, L.P.
Earnest Partners	Navellier & Associates
Globeflex Capital LP	Neuberger & Berman LLC
Husic Capital Management	Northern Trust Quantitative Advisors
ICON Investment Management	PIMCO Funds
Illinois Private Equity Fund-of-Funds, LP	Rhumblin
ING Aeltus Investment Management	The Boston Company
Keeley Asset Management	Western Asset Management Company
Logan Capital Management	William Blair & Company
Loomis, Sayles & Company	

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City Comptroller, STEVE LUX  
City Clerk, MIGUEL del VALLE

**EXECUTIVE DIRECTOR'S REPORT**

June 22, 2007

To the Retirement Board of The Firemen's  
Annuity and Benefit Fund of Chicago  
Twenty South Clark Street, Suite 1400  
Chicago, Illinois 60603

The annual financial report of the Firemen's Annuity and Benefit Fund of Chicago (Fund) for the year ended December 31, 2006, is hereby submitted. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including disclosures, rests with the Fund. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner designed to present fairly the financial position and results of operations of the Fund. All disclosures necessary to enable the reader to understand the Fund's financial activities have been included.

The Fund covers City of Chicago (City) firefighters and paramedics. The Fund is considered to be a component unit of the City because the Fund is fiscally dependent upon the City as a result of the City's authority to levy a tax in order to provide funding to the Fund.

Since the Fund was established by Illinois statute in 1931, our goal has been to provide the highest level of service to active members and annuitants. A Board of Trustees called the Retirement Board administers the Fund. It is composed of eight members: four ex officios, the Deputy Fire Commissioner, City Treasurer, City Clerk, and City Comptroller; and four persons who must be elected participants of the Fund. The Retirement Board elects one of its own members as President, as Vice-President and as Secretary.

Among its duties, the Retirement Board is required to consider all applications for benefits submitted by eligible members, invest the monies of the Fund in a manner prescribed by state statute and Fund policy, make rules and regulations for the proper conduct of the Fund, have an audit of the accounts of the Fund made annually by an independent certified public accountant, and submit a detailed report of the affairs of the Fund to the State of Illinois Department of Insurance and the City of Chicago each year. A summary of specific plan provisions, as established by state statute, is presented as part of this report.

**FINANCIAL INFORMATION**

Management of the Fund is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Fund are protected from loss, theft, or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

**REVENUES AND EXPENSES**

Revenues required to finance retirement benefits are accumulated primarily through the collection of contributions from active firefighters and paramedics, corresponding employer contributions, and income on investments. Revenues increased by \$59,389,462 (24.9%) in 2006. Investment and other income for both 2006 and 2005 have been calculated in accordance with the Governmental Accounting Standards Board (GASB) pronouncements, requiring recognition of the Fund's assets to be recorded at fair value (GASB 25) and its securities lending activities (GASB 28) to be disclosed separately.

Payments for age and service, widows and disability benefits are the largest expenses of the Fund. Total expenses in 2006 exceeded 2005 by \$11,042,356 (6.5%), attributable primarily to increases in age and service and disability benefits. The Fund is required by statute to approve an annual budget. Administrative expenses of \$2,646,739 were -4.1% lower than the \$2,755,602 budgeted for 2006. Total revenues of \$297,688,114 exceeded total benefit and expense payments of \$180,861,284, resulting in a net inflow of \$116,826,830 during 2006. Additional analysis of Fund results for 2006 is provided in the Management's Discussion and Analysis section starting on page 7.

## **FUNDING STATUS AND REQUIRED CHANGES TO FINANCIAL STATEMENT PRESENTATION**

It is the Fund's responsibility to present its financial statements in compliance with governmental accounting standards. In accordance with GASB (Governmental Accounting Standards Board) Statement 25, the Fund reports the value of its invested assets at fair value within the body of these financial statements. Funded ratios using GASB required asset values for years 2006 and 2005 appear on page 23 of this report.

The current funded ratio of 40.36% for 2006 (including the unrealized appreciation on invested assets) is considered below normal funding levels. The total actuarial requirement (normal cost plus interest) for 2006 was \$228.8 million. Employee and employer contributions totaled \$123.2 million, which resulted in a \$105.6 million shortfall in the actuarial required funding. Consequently, the present statutory multiplier of 2.26 is not adequate to maintain the Fund on an actuarially sound basis over the long term.

## **FUND INVESTMENT POLICY AND PERFORMANCE**

The time-weighted return on the market value of Fund investments was a 15.5% for the year ended December 31, 2006, as computed by outside investment counsel Mercer Investment Consulting. The Fund remained committed to the investment allocation strategy originally adopted in 1994 and periodically revised. The Fund's current policy reflects the results of an Asset/Liability modeling study conducted in 2003 by our investment counsel, Mercer Investment Consulting. The study emphasized the current underfunded status of the Fund and the need to achieve superior long-term investment returns without undue risk. Further information on the Fund's investments is found on page 32 of this report.

A third-party custodial agent holds the Fund's investments and all cash positions are covered by federal depository insurance, minimizing the risk on any short-term deposits.

## **ECONOMIC CONDITIONS AND OUTLOOK**

The Fund is a long-term institutional investor and abides by the investment guidelines it has adopted in accordance with state statutes. The largest portion of the Fund's investments is committed to the equity markets because of the greater long-term historical return of this asset class. Fund investment managers have been chosen because of their proven proficiency in the specific segments of the market in which they operate. By design, the Fund's managers have a low level of correlation in the methods and processes in which they invest the assets of the Fund. This structure of complementing styles insures a broad range of diversification and a reduction in the amount of risk assumed within the portfolio.

## **MAJOR INITIATIVES**

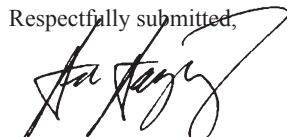
Fund staff and its external advisors continue in their efforts to develop a viable long-term funding solution, which, if implemented will revise the percentage of unfunded obligations into the future. The City of Chicago is also working on several funding initiatives. Possible scenarios include the utilization of proceeds from any potential long term lease of Midway Airport and the viability of Pension obligation bonds. The Fund is developing plans in line with the Fund's long term investment objectives, to govern the investment of any additional funding that may be received.

The Fund has begun its process of investing in alternative investment categories. Asset categories such as commodities and private equity have attractive long-term risk and reward characteristics and do not act like the larger segments of the Fund's investment portfolio, providing greater expectation of return and diversification of risk.

## **ACKNOWLEDGMENT**

I will take this opportunity to express my sincere thanks to the Trustees and staff of the Retirement Board, the Executive Board of Local 2 and all Fund participants for their interest and involvement in all phases of the Fund's operation.

Respectfully submitted,



Kenneth E. Kaczmarz  
Executive Director

April 12, 2007

Retirement Board of the  
Firemen's Annuity and Benefit Fund of Chicago  
20 South Clark Street, Suite 1400  
Chicago, IL 60603

### Actuarial Certification

At your request, we have performed an actuarial valuation for the Firemen's Annuity and Benefit Fund of Chicago ("the Fund") as of December 31, 2006. This valuation has been performed to measure the funding status of the Fund and determine the contribution levels for 2007. In addition, it includes disclosure information required under GASB Statement No. 25, Statement No. 27, and Statement No. 43. The assumptions and methods used were selected by the actuary and meet the parameters set for the disclosure presented in the financial section by Government Accounting Standards Board (GASB) Statement Nos. 25 and 43. These actuarial valuations of the Fund are performed annually.

We have provided supporting schedules for the actuarial section of the comprehensive annual financial report, including:

- Schedule of Active Member Data
- Retirements and Beneficiaries Added to and Removed from Rolls
- Solvency (Termination) Test
- Analysis of Financial Experience

We have also provided the following schedules in the financial sections of the report. We relied on information from the prior actuary for years before 1999.

- Schedule of Funding Progress
- Schedule of Employer Contributions

This valuation is based upon:

- Data relative to the members of the Fund** — Data for active members and persons receiving benefits from the fund was provided by the Fund's staff. We have tested this data for reasonableness.
- Asset Values** — The values of assets of the Fund were provided by the Fund's staff. Actuarial value of assets was used to develop actuarial results for the State-reporting basis, as well as for GASB Statement No. 25 and Statement No. 27.
- Actuarial Method** — The actuarial method utilized by the Fund is the Entry-Age Actuarial Cost Method. The objective of this method is to amortize the costs of Fund benefits over the entire career of each member as a level percentage of compensation. Any Unfunded Actuarial Accrued Liability (UAAL) under this method is separately financed. All actuarial gains and losses under this method are reflected in the UAAL.
- Actuarial Assumptions** — All actuarial assumptions remain unchanged from the prior valuation. The assumptions used are set forth in Appendix 4: Actuarial Methods and Assumptions of the Valuation Report.

The funding objective is to provide employer and employee contributions sufficient to provide the benefits of the Fund when due. The provision of State Law establishing the Fund constrains employer contributions to be 2.26 times the employee contribution level in the second prior fiscal year. Thus, with an administrative lag, the employer contribution is designed to match the employee contribution in a 2.26:1 relationship. The most recent actuarial valuation of the Fund on the State reporting basis shows that a ratio of 5.61:1 is needed to adequately finance the Fund.

The valuation results set forth in this report are based on the data and actuarial techniques described above, and upon the provisions of the Fund as of the valuation date. Based on these items, we certify these results to be true and correct.

To the best of our knowledge this report is complete and accurate and was conducted in accordance with standards of practice promulgated by the Actuarial Standards Board and in compliance with the City Ordinance. The actuarial assumptions used for the valuation produce results which, in the aggregate, are reasonable. This valuation was produced under the supervision of a member of the Academy of Actuaries with significant experience in valuing public employee retirement systems.

Gabriel, Roeder, Smith and Company



Alex Rivera, F.S.A.  
Senior Consultant



Michael R. Kivi, F.S.A.  
Senior Consultant



Larry Langer, A.S.A.  
Senior Consultant

**REPORT OF INDEPENDENT AUDITORS**

Firemen's Annuity and Benefit  
Fund of Chicago

We have audited the accompanying statements of plan net assets of Firemen's Annuity and Benefit Fund of Chicago (the Plan) as of December 31, 2006 and 2005 and the related statements of changes in plan net assets for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Plan's management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of Firemen's Annuity and Benefit Fund of Chicago at December 31, 2006 and 2005 and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 7 through 11 and the Schedule of Funding Progress, the Schedule of Employer Contributions and Notes to the Schedule of Funding Progress and Schedule of Employer Contributions on pages 27 and 28 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information presented on pages 28 through 31 is presented for purposes of additional analysis and is not a required part of the financial statements of Firemen's Annuity and Benefit Fund of Chicago. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion for, is fairly stated in all material respects in relation to the financial statements taken as a whole.

We also have previously audited, in accordance with generally accepted auditing standards, the financial statements for the years ended December 31, 2004, 2003 and 2002 (which are not presented herein), and we expressed an unqualified opinion on those financial statements. Our report on additional information related to those financial statements stated that the Additions by Source and Deductions by Type presented on page 29 were fairly stated in all material respects in relations to the basic financial statements taken as a whole. The basic financial statements for the year ended 2001(which is not presented herein) were audited by other auditors, whose report expressed an unqualified opinion on those financial statements. Their report on additional information related to those financial statements stated that, in their opinion, such information was fairly presented in relation to the basic financial statements, taken as a whole. The Employee/Spouse Annuities, Employee Retirements, Age and Service Distribution, and Participant Data presented on pages 29 and 30, which is of a nonaccounting nature, has not been subjected to the auditing procedures applied in the audits of the basic financial statements and accordingly, we express no opinion on it.

*Legacy Professionals LLP*

April 19, 2007

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section presents Management's Discussion and Analysis of the financial position and performance of the Firemen's Annuity and Benefit Fund of Chicago (Plan) for the year ended December 31, 2006. This discussion is presented as a narrative overview of the financial activities and significant changes of the Plan and should be read in conjunction with the Plan's financial statements.

### Overview of the Financial Statements

The discussion and analysis which follows is intended to serve as an introduction to the Plan's basic financial reporting, including the following statements:

**Statement of Plan Net Assets** presents the financial position of the Plan at fiscal year-end. It indicates the assets available for the payment of future benefits and any current liabilities that are owed as of the statement date. Investments are shown at fair value. All assets and liabilities are determined on an accrual basis.

**Statement of Changes in Plan Net Assets** presents the results of activities during the year. All changes affecting the assets and liabilities of the Plan are reflected on an accrual basis when the activity occurred, regardless of the timing of the related cash flows. In that regard, changes in the fair values of investments are included in the year's activity as net appreciation in fair value of investments.

**Notes to Financial Statements** provide additional information that is essential to achieving a better understanding of the data provided in the financial statements. The notes present information about the Plan's accounting policies, significant account balances and activities, material risks, obligations, and subsequent events, in any.

**Required Supplementary and Additional Information Schedules** provide detailed, historical trend information of assets, liabilities and employer contributions presented after the Notes to the Financial Statements.

The financial statements are prepared in accordance with GASB Pronouncements.

### Financial Highlights

The **net assets** of the Plan increased by \$116.8 million, a 9.2% increase during 2006. The increase in assets was directly attributable to an increase in the value of total investments achieved by strong investment returns during the year.

The gross **rate of return** of the investment portfolio for 2006 was 15.5% versus 2005's return of 10.7%. Above benchmark performance returns across many of the Plan's equity and fixed income investments contributed to 2006's results.

The **actuarial funding** of the Plan for 2006 was 40.36%, contrasted against 2005's funding level of 41.75%. The slight decrease in the funding level during 2006 was primarily due to the recognition of the additional liability attributable to the changes in salary levels resulting from the new 2006 contract between the City of Chicago and Local 2.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Plan Net Assets

A summary of the Plan net assets is provided below:

Plan Net Assets (in millions) As of December 31,				
	<u>2006</u>	<u>2005</u>	Increase/(Decrease) in	
			<u>Dollars</u>	<u>Percent</u>
Cash and cash equivalents	\$ 47.4	\$ 29.6	\$ 17.8	60.1%
Receivables and prepaid expenses	158.3	111.1	47.2	42.5
Investments, at fair value	1,263.7	1,143.3	120.5	10.5
Collateral held for securities on loan	<u>223.0</u>	<u>179.6</u>	<u>43.3</u>	24.2
Total assets	<u>1,692.4</u>	<u>1,463.6</u>	<u>228.8</u>	15.6
Payables	78.0	9.3	68.7	737.7
Securities lending collateral	<u>222.9</u>	<u>179.6</u>	<u>43.3</u>	24.1
Total liabilities	<u>300.9</u>	<u>188.9</u>	<u>112.0</u>	59.3
Plan net assets	<u>\$ 1,391.5</u>	<u>\$ 1,274.7</u>	<u>\$ 116.8</u>	9.2%

### Changes in Plan Net Assets

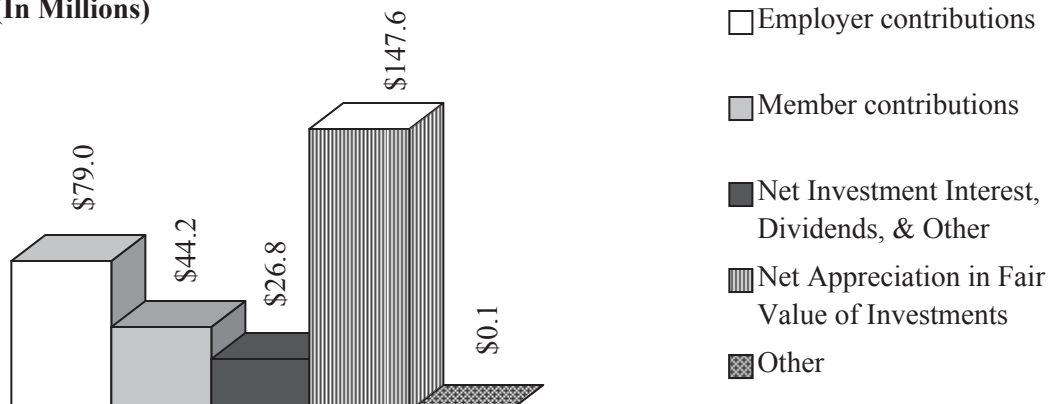
A summary of the changes in Plan net assets, reflecting the changes in resources available to pay benefits to members, retirees and beneficiaries, is provided below:

Changes (in millions) For the Years Ended December 31,				
	<u>2006</u>	<u>2005</u>	Increase/(Decrease) in	
			<u>Dollars</u>	<u>Percent</u>
Additions:				
Employer contributions	\$ 79.0	\$ 90.1	\$ (11.1)	12.4%
Member contributions	44.2	35.7	8.5	23.9
Net investment and securities				
lending income	174.4	112.0	62.4	55.7
Other	<u>.1</u>	<u>.5</u>	<u>(.4)</u>	(80.0)
Total additions	<u>297.7</u>	<u>238.3</u>	<u>59.4</u>	24.9
Deductions:				
Benefits	174.4	163.9	10.5	6.4
Annuitant health care	2.2	2.2	-	0.0
Refunds of contributions	1.6	1.5	.1	10.2
Administrative expenses	<u>2.7</u>	<u>2.2</u>	<u>.5</u>	22.7
Total deductions	<u>180.9</u>	<u>169.8</u>	<u>11.1</u>	6.5
Net increase in plan net assets	<u>\$ 116.8</u>	<u>\$ 68.5</u>	<u>\$ 48.3</u>	70.5%

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Additions to Plan Net Assets

#### Additions (In Millions)



**Employer contributions** decreased \$11.1 million (-12.4%) between 2006's employer contribution of \$79.0 million and 2005's employer contribution of \$90.1 million. This decrease reflects the timing of required City of Chicago employer contributions in 2005 corresponds to increased member contributions received in 2003 due to the new 2003 contract that was settled and retroactive salaries were paid.

**Member contributions** increased \$8.5 million (23.9%), from \$35.7 million in 2005 to \$44.2 million in 2006 as a result of the retroactive salary increase payments made in accordance with the new contract signed in 2006 between the City of Chicago and Local 2.

**Net investment and securities lending income** increased. For 2006, the Plan earned \$174.4 million in portfolio income and gains that were derived from strong showings in portfolio equity and fixed income holdings. Net investment income for 2005 was \$112.0 million.

### Deductions to Plan Net Assets

#### Deductions (In Millions)



**Benefit payments** to retirees and plan participants increased \$10.5 million (6.4%) between 2005 and 2006 as retroactive adjustments to salaries due to the new 2006 contract agreement increased corresponding benefits to affected retirees.

**Annuitant health care and administrative expenses** remained relatively constant between 2006 and 2005.

**Refund of contributions** increased by \$149,259 (10.2%) between 2006's refunds of \$1,619,107 and 2005's refunds of \$1,469,848.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Funding Status

The actuarial assets, actuarial liabilities and funding status for the Plan are provided below:

	Actuarial Values (in millions) December 31,		<u>Increase/(Decrease) in</u>	
	<u>2006</u>	<u>2005</u>	<u>Dollars</u>	<u>Percent</u>
	Actuarial assets	\$ 1,264.5	\$ 1,203.7	\$ 60.8
Actuarial liabilities	<u>3,133.1</u>	<u>2,882.9</u>	<u>250.2</u>	8.68
Unfunded actuarial liabilities	<u>\$ 1,868.6</u>	<u>\$ 1,679.2</u>	<u>\$ 189.4</u>	11.28%
Funded ratio	<u>40.36%</u>	<u>41.75%</u>		

**Actuarial assets** increased slightly from \$1.20 billion in 2005 to \$1.26 billion in 2006 (\$60.8 million; +5.1%) due to the strong investment gains of 2006 were offset by the required five year actuarial smoothing of gains and losses from current and prior years.

**Actuarial liabilities** increased from \$2.88 billion in 2005 to \$3.13 billion in 2006 (\$250.2 million; +8.68%), as the impact of court decisions, and increasing salary levels resulting from the new 2006 contract between the City of Chicago and Local 2 were recognized.

The **funded ratio** is one indicator of the financial strength of the Plan, measuring the ratio of net assets available to meet the actuarially determined future liabilities of the Plan. The decrease in the funded ratio from 41.75% in 2005 to 40.36% in 2006 was due primarily to the increased actuarial liabilities resulting from higher salaries provided by the recently enacted 2006 contract and actual contributions received are significantly less than the actual required contribution.

### Investments

The performance of the Plan's investments, as shown by major asset class, is provided below:

	Investment Results For the Years Ended December 31,	
	<u>2006</u>	<u>2005</u>
Equities	18.4%	12.5%
S & P 500 – benchmark	15.8%	4.9%
Fixed income	7.6%	3.1%
Lehman Bros. Aggregate - benchmark	3.8%	2.4%
Total Fund	15.5%	10.7%

The value of the Plan's investments, including cash and cash equivalents, increased from \$1.173 billion in 2005 to \$1.311 billion in 2006, an increase of \$138.3 million (+11.8%). Strong performance across all asset classes contributed to the increase in value. Total return for the entire investment portfolio in 2006 was 15.5%, compared with 10.7% in 2005.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### Contact Information

This financial report is designed to provide plan participants, retirees, beneficiaries, the employer and all other interested users with a complete, detailed, easy to understand financial portrait of the Plan at December 31, 2006. Questions, concerns or comments regarding this report or requests for additional information should be addressed to:

Kenneth E. Kaczmarz  
Executive Director  
Firemen's Annuity & Benefit Fund of Chicago  
20 S. Clark  
Suite 1400

## Firemen's Annuity and Benefit Fund of Chicago

### Statements of Plan Net Assets

December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>Assets</b>		
Receivables		
Employer - net	\$ 78,822,884	\$ 92,192,171
Investment income	4,831,392	5,717,422
Unsettled trades	71,255,751	10,142,979
Other	<u>3,249,162</u>	<u>3,045,262</u>
Total receivables	<u>158,159,189</u>	<u>111,097,834</u>
Prepaid expenses	<u>155,725</u>	<u>71,852</u>
Investments		
Corporate bonds	119,159,822	97,977,760
U.S. and Foreign Government obligations	73,241,910	58,959,819
Equities	999,537,970	860,051,007
Cash deposits and short-term investments	47,362,629	29,598,770
Mutual funds	62,800,621	120,218,658
Private equity and venture capital	<u>9,010,406</u>	<u>6,046,695</u>
Total investments	<u>1,311,113,358</u>	<u>1,172,852,709</u>
Collateral held for securities on loan	<u>222,953,380</u>	<u>179,559,634</u>
Total assets	<u>1,692,381,652</u>	<u>1,463,582,029</u>
<b>Liabilities and Net Assets</b>		
Liabilities		
Unsettled trades	75,689,410	7,346,694
Accounts payable and accrued expenses	1,870,717	1,417,374
Securities lending collateral	222,953,380	179,559,634
Participant accounts	<u>383,832</u>	<u>600,844</u>
Total liabilities	<u>300,897,339</u>	<u>188,924,546</u>
Net assets held in trust for pension benefits	<u>\$ 1,391,484,313</u>	<u>\$ 1,274,657,483</u>
(A schedule of funding progress is presented on page 27)		

## Firemen's Annuity and Benefit Fund of Chicago

### Statements of Changes in Plan Net Assets

Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<b>Additions</b>		
Contributions		
Employer		
Property taxes - net	\$ 66,326,250	\$ 75,002,915
Personal property replacement taxes	11,314,000	12,431,000
Exempt rank funding	1,331,133	2,695,000
Total employer contributions	<u>78,971,383</u>	<u>90,128,915</u>
Plan member		
Annuities	44,068,926	35,549,482
Death benefits	152,943	147,381
Total plan member contributions	<u>44,221,869</u>	<u>35,696,863</u>
Investment income		
Net appreciation in fair value of investments	147,561,347	87,573,723
Interest	16,675,649	15,311,244
Dividends	15,955,720	13,953,842
Other	127,696	124,735
	<u>180,320,412</u>	<u>116,963,544</u>
Less investment expenses	(6,622,559)	(5,394,733)
Net investment income	<u>173,697,853</u>	<u>111,568,811</u>
Securities lending		
Income	10,503,150	5,677,704
Expenses		
Borrower rebates	(9,558,264)	(5,067,212)
Management fees	(236,087)	(162,947)
Net securities lending income	<u>708,799</u>	<u>447,545</u>
Gift fund donations	72,412	82,510
Litigation settlement	-	160,000
Miscellaneous income	15,798	214,008
Total additions	<u>297,688,114</u>	<u>238,298,652</u>
<b>Deductions</b>		
Age and service benefits		
Employees	121,785,251	115,447,346
Spouses	29,036,627	27,192,267
Dependents	1,141,990	919,291
Total age and service benefits	<u>151,963,868</u>	<u>143,558,904</u>
Disability benefits		
Duty	14,386,009	12,744,740
Occupational	6,551,197	6,074,191
Ordinary	266,389	277,816
Total disability benefits	<u>21,203,595</u>	<u>19,096,747</u>
Gift fund payments	441,500	371,600
Death benefits	778,400	844,000
Total benefits	<u>174,387,363</u>	<u>163,871,251</u>
Annuitant health care	2,208,075	2,187,458
Refunds of contributions	1,619,107	1,469,848
Administrative expenses	2,646,739	2,290,371
Total deductions	<u>180,861,284</u>	<u>169,818,928</u>
Net increase	116,826,830	68,479,724
Net assets held in trust for pension benefits		
Beginning of year	1,274,657,483	1,206,177,759
End of year	<u>\$ 1,391,484,313</u>	<u>\$ 1,274,657,483</u>

# FIREMEN'S ANNUITY AND BENEFIT FUND OF CHICAGO

## NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006 AND 2005

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Method of Accounting** - The accompanying financial statements are prepared using the accrual basis of accounting. Employer contributions are recognized when due and the employer, the City of Chicago, has made a formal commitment to provide the contributions. Plan member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

**Investments** - Investments are reported at fair value which generally represents reported market value as of the last business day of the year. Cash deposits and short-term investments are carried at cost which approximates fair value. Pooled funds are carried at fair value as estimated by the Plan's investment managers. Private equity and venture capital are carried at fair value as estimated by the Plan. Foreign securities quoted in foreign currencies are translated into U.S. dollars at year end exchange rates.

**Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

### NOTE 2. PLAN DESCRIPTION

The Firemen's Annuity and Benefit Fund of Chicago was established in 1931 and is governed by legislation contained in the Illinois Compiled Statutes (Statutes), particularly Chapter 40, Act 5, Article 6, which specifically and exclusively refers to the Plan. The Plan can be amended only by the Illinois Legislature. The Plan is a single-employer defined benefit pension plan with a defined contribution minimum. The Plan was created for the purpose of providing retirement and disability benefits for employees of the City of Chicago (City) employed under the provisions of the Municipal Personnel Ordinance as fire service and for the dependents of such employees. The Plan is considered to be a component unit of the City of Chicago and is included in the City's financial statements as a pension trust fund.

The Statutes authorize a Board of Trustees of eight members to carry out the provisions of the Article. According to the Article, four members of the Board are ex officio and four are to be elected by the employee members of the Plan. The four ex officio members are the City Treasurer, the City Clerk, the City Comptroller and the Deputy Fire Commissioner. All members of the Board of Trustees are fiduciaries with respect to the Plan and are statutorily mandated to discharge their duties, as such, solely in the interest of the Plan's participants and beneficiaries.

The Board has the powers and duties required in the Article to collect all contributions due to the Plan, to invest the Plan's reserves, to have an annual audit, to appoint employees, to authorize or suspend payment of any benefit and to have exclusive original jurisdiction in all matters relating to or affecting the Plan. The Board approves its own budget that is prepared by the administrative staff of the Plan. The Board is required annually to submit to the City Council of the City of Chicago a detailed report of the financial affairs and status of the reserves of the Plan. Provisions in other articles of Chapter 40 require the Board to submit its annual audit and actuarial valuation reports to the State of Illinois Department of Insurance, as well as another detailed annual report, the form and content of which are specified by the Department of Insurance.

**NOTE 2. PLAN DESCRIPTION (CONTINUED)**

Any employee of the City of Chicago employed under the provisions of the Municipal Personnel Ordinance as fire service is covered by the Firemen's Annuity and Benefit Fund of Chicago. Covered employees are required to contribute 9.125% of their salary to the Plan. If an employee leaves covered employment without qualifying for an annuity, accumulated contributions are refunded with statutory interest. The City of Chicago, for its employer's portion, is required by the Statutes to contribute the remaining amounts necessary to finance the requirements of the Plan. The City's total contribution is limited to an amount not more than the total amount of contributions made by the employees to the Plan in the calendar year two years prior to the year for which annual applicable tax is levied, multiplied by 2.26. The source of funds for the City's contribution has been designated by State Statutes as the City's annual property tax levy. The City of Chicago's payroll for employees covered by the Plan for the years ended December 31, 2006 and 2005 was \$387,442,074 and \$341,252,492 respectively.

The Plan provides retirement benefits as well as death and disability benefits. Employees who reach compulsory age (63) with at least 10 years of service and less than 20 years of service are entitled to receive an annuity of 30% of average salary for the first ten years of service plus an additional 2% for each year in excess of 10 with partial City contributions. This can not exceed 50%.

At age 50 or more with 10 or more but less than 20 years of service, the employee is entitled to an annuity of the entire sum accumulated for age and service annuity from deductions from salary, plus 1/10 of the sum accumulated from contributions by the City for each completed year of service after the first 10 years.

Employees with at least 20 years of service are entitled to receive a minimum formula annuity upon attainment of age 50, of 50% of final average salary plus an additional amount equal to 2.5% of final average salary for each year of service or fraction thereof in excess of 20 years of service. Final average salary is based on the highest average annual salary for any four consecutive years within the last ten years of service immediately preceding the date of retirement. This annuity shall not exceed 75% of the final average salary. The monthly annuity is increased by 3% of the original annuity at the first of the month following the later of age 55 or the first anniversary of retirement and by 3% each first day of January thereafter, if born before January 1, 1955. There is no limit on the increases. If born after January 1, 1955, the monthly annuity is increased by 1.5% of the original annuity at the first of the month following the later of age 60 or the first anniversary of retirement and 1.5% on each first day of January thereafter, but not to exceed a total increase of 30%.

At December 31, 2006 and 2005, participation consisted of the following:

	<u>2006</u>	<u>2005</u>
Retirees and beneficiaries currently receiving benefits	4,382	4,357
Terminated plan participants entitled to but not yet receiving benefits	177	180
Active plan participants	<u>5,078</u>	<u>4,999</u>
Total participants	<u>9,637</u>	<u>9,536</u>

### NOTE 3. INVESTMENT SUMMARY

The Plan is authorized to invest in bonds, notes, certificates of indebtedness, mortgage notes, real estate, stocks, shares, debentures, or other obligations or securities as set forth in the “prudent person” provisions of the Statutes. The following table presents a summarization of the fair value (carrying amount) of the Plan’s investments as of December 31, 2006 and 2005.

	<u>2006</u>	<u>2005</u>
<u>Investments</u>		
Corporate bonds:		
Not on securities loan	\$ 89,320,195	\$ 74,026,080
On securities loan	29,839,627	23,951,680
U.S. and Foreign Government obligations:		
Not on securities loan	54,325,261	45,408,944
On securities loan	18,916,649	13,550,875
Equities:		
Not on securities loan	831,746,634	723,251,367
On securities loan	167,791,336	136,799,640
Cash deposits and short-term investments	47,362,629	29,598,770
Equity mutual funds	283,380	56,883,015
Fixed income mutual funds	62,517,241	63,335,643
Private equity and venture capital	9,010,406	6,046,695
	<u>1,311,113,358</u>	<u>1,172,852,709</u>
Collateral held for securities on loan	222,953,380	179,559,634
Total investments and invested securities lending cash collateral	<u>\$ 1,534,066,738</u>	<u>\$ 1,352,412,343</u>

#### Investment Risk

##### Custodial Credit Risk

For deposits, custodial credit risk is the risk that, in the event of a bank failure, the Plan’s deposits and collateral securities in the possession of an outside party would not be recoverable. Deposits are exposed if they are not insured or are not collateralized. At December 31, 2006 and 2005, the Plan’s exposure to such risk was \$690,431 and \$1,427,110 respectively, comprised of foreign currencies held outside the custodial bank.

For investments securities, custodial credit risk is the risk that, in the event of the failure of the counter party, 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. Investment securities are exposed to custodial credit risk if they are not insured, or are not registered in the Plan’s name, and held by the counter party. To minimize custodial risk, the Plan’s custodian physically (or through agreement with a sub-custodian) maintains possession of securities owned by the Plan. In addition, the Plan seeks to maintain a fully invested position in accordance with established target asset allocation and minimize cash deposits. At December 31, 2006 and 2005, the Fund’s investments exposure to custodial risk was \$21,281 that was uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not held in the Plan’s name.

**NOTE 3. INVESTMENT SUMMARY (CONTINUED)****Investment Risk (continued)****Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. U.S. Government obligations or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. The Plan establishes minimum investment rating guidelines for each investment manager based on their area of concentration and level of allowable risk. The following table presents a summarization at December 31, 2006 and 2005 of the credit quality ratings of investments in corporate bonds, foreign government obligations, short-term investments, and fixed income mutual funds as valued by Moody's Investors Service and/or Standard & Poor's:

<u>Type of Investment</u>	<u>Rating</u>	<u>2006</u>	<u>2005</u>
Corporate bonds	Aaa/AAA	\$ 10,985,386	\$ 17,500,813
	Aa/AA	8,697,056	9,013,252
	A/A	8,839,811	7,891,163
	Baa/BBB	26,941,171	23,649,421
	Ba/BB	10,369,485	14,297,406
	B/B	20,788,112	12,064,879
	Caa/CCC	6,496,728	4,237,000
	Not Rated	26,042,073	9,323,826
		<u>119,159,822</u>	<u>97,977,760</u>
Foreign Government obligations	Aaa/AAA	6,859,328	6,493,430
	Aa/AA	1,350,863	3,719,235
	Baa/BBB	4,312,902	4,894,614
	Ba/BB	1,509,562	1,406,305
	Not Rated	-	3,633,812
		<u>14,032,655</u>	<u>20,147,396</u>
U.S. Government obligations	Not Rated	<u>59,209,255</u>	<u>38,812,423</u>
Total U.S. and Foreign Government obligations		<u>73,241,910</u>	<u>58,959,819</u>
Cash deposits and short-term investments	Not Rated	<u>47,362,629</u>	<u>29,598,770</u>
Fixed income mutual funds	Not Rated	<u>62,517,241</u>	<u>63,335,643</u>
Total		<u>\$ 302,281,602</u>	<u>\$ 249,871,992</u>

### NOTE 3. INVESTMENT SUMMARY (CONTINUED)

#### Investment Risk (continued)

##### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, a single issuer, or an individual class of securities. The Plan requires investment managers to display an overall level of interest rate risk that is consistent with the benchmark specified by the Plan. The following table presents a summarization of debt investments at December 31, 2006 and 2005 using the segmented time distribution method:

<u>Type of Investment</u>	<u>Maturity</u>	<u>2006</u>	<u>2005</u>
Corporate bonds	Less than 1 year	\$ 13,874,253	\$ 829,553
	1-5 years	24,825,750	28,716,291
	6 - 10 years	29,402,830	30,824,822
	Over 10 years	51,056,989	37,607,094
		<u>119,159,822</u>	<u>97,977,760</u>
U.S. and Foreign Government obligations	Less than 1 year	2,929,278	3,309,518
	1-5 years	14,242,730	13,241,682
	6 - 10 years	9,925,650	9,732,861
	Over 10 years	46,144,252	32,675,758
		<u>73,241,910</u>	<u>58,959,819</u>
Total		<u>\$ 192,401,732</u>	<u>\$ 156,937,579</u>

### NOTE 3. INVESTMENT SUMMARY (CONTINUED)

#### Investment Risk (continued)

##### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Plan requires investment managers to invest in at least ten countries if investing in foreign obligations and/or equities. The Plan's exposure to foreign currency risk at December 31, 2006 and 2005 is as follows:

<u>Type of Investment</u>	Fair Value (USD) <u>2006</u>	Fair Value (USD) <u>2005</u>
Corporate bonds:		
Brazilian real	\$ -	\$ 1,174,914
British pound	939,638	1,214,167
Canadian dollar	756,082	817,819
Indonesian rupiah	574,301	-
Japanese yen	3,726,032	-
Mexican peso	369,450	-
Netherlands guilders	10,555	-
New Zealand dollar	-	1,707,193
Singapore dollar	1,432,728	1,317,419
Thailand baht	893,824	1,450,325
U.S. dollar	<u>110,457,212</u>	<u>90,295,923</u>
	<u>119,159,822</u>	<u>97,977,760</u>
U.S. and Foreign Government obligations:		
Canadian dollar	1,350,815	7,353,047
Colombian peso	-	86,605
Mexican peso	3,735,670	3,984,254
New Zealand dollar	-	3,271,094
Norwegian krone	1,438,805	1,373,314
Singapore dollar	2,226,955	2,040,474
Swedish krona	1,726,030	1,547,027
U.S. dollar	<u>62,763,635</u>	<u>39,304,004</u>
	<u>73,241,910</u>	<u>58,959,819</u>

**NOTE 3. INVESTMENT SUMMARY (CONTINUED)****Investment Risk (continued)**

## Foreign Currency Risk (continued)

<u>Type of Investment</u>	Fair Value (USD) <u>2006</u>	Fair Value (USD) <u>2005</u>
Equities:		
Australian dollar	\$ 4,623,210	\$ 2,166,603
Brazilian real	6,384,050	1,011,420
British pound	38,843,998	27,457,397
Canadian dollar	4,807,896	3,100,611
Czech Republic koruny	217,759	-
Chilean peso	668,649	232,506
Chinese yuan	-	448,109
Danish krone	929,366	709,170
Egyptian pound	443,668	-
European euro	64,691,767	57,402,735
Hong Kong dollar	6,890,460	1,996,424
Hungarian forint	666,502	-
Indonesian rupiah	1,446,638	-
Israel new shekels	1,230,180	-
Japanese yen	39,537,937	35,934,901
Malaysian ringgit	1,455,681	324,269
Mexican peso	3,938,445	945,295
New Zeland dollar	914,777	1,092,652
Norwegian krone	649,064	750,821
Pakistan rupees	256,562	-
Philippines pesos	395,623	-
Polish zlotych	667,539	-
Singapore dollar	4,359,233	2,901,276
South African rand	4,758,666	1,264,033
South Korean won	9,671,016	2,315,210
Swedish krona	2,968,727	912,299
Swiss franc	12,107,932	11,914,177
Taiwan dollar	7,550,221	1,064,145
Thailand baht	659,744	-
Turkish lira	709,841	252,795
U.S. dollar	777,092,819	705,854,159
	<u>999,537,970</u>	<u>860,051,007</u>
Total	<u>\$ 1,191,939,702</u>	<u>\$ 1,016,988,586</u>

### **NOTE 3. INVESTMENT SUMMARY (CONTINUED)**

During 2006 and 2005, net realized gain on investments sold, reflecting the difference between the proceeds received and cost value of securities sold, was \$153,089,375 and \$95,309,596 respectively. These amounts are included in the net appreciation in fair value of investments as reported on the Statement of Changes in Plan Net Assets. The calculation of realized gains and losses is independent of the calculation of net appreciation (depreciation) in the fair value of plan investments. Investments purchased in a previous year and sold in the current year result in their realized gains and losses being reported in the current year and their net appreciation (depreciation) in plan assets being reported in both the current year and the previous year(s).

All of the Plan's financial instruments are consistent with the permissible investments outlined in the State Statutes and any index-linked financial instruments are limited to those indices that replicate the permissible investments outlined in the Statutes.

### **NOTE 4. FOREIGN SECURITIES**

The Plan does not isolate that portion of net appreciation (depreciation) in fair value of investments resulting from changes in the foreign exchange rate on investments from fluctuations arising from changes in the market prices of the securities. Such fluctuations are included with net appreciation (depreciation) in fair value of investments. Net realized gains and losses on foreign currency transactions represent net exchange gains or losses on closed foreign currency contracts, disposition of foreign currencies, and the difference between the amount of investment income and foreign withholding taxes recorded on the Plan's books and the U.S. dollar equivalent amounts actually received or paid. Net unrealized gains and losses on foreign currency transactions arise from changes in the value of open foreign currency contracts and assets and liabilities other than investments at the year end, resulting from changes in the exchange rate.

### **NOTE 5. SECURITIES LENDING**

State Statutes and the Board of Trustees permit the Plan to lend its securities to broker-dealers and other entities with a simultaneous agreement to return collateral for the same securities in the future. The Plan's custodian, acting as the lending agent, lends securities for collateral in the form of cash, U.S. Government obligations and irrevocable letters of credit equal to 102% of the fair value of domestic securities plus accrued interest and 105% of the fair value of foreign securities plus accrued interest.

The Plan is not restricted as to the type or amount of securities it may loan. The Plan does not have the right to sell or pledge securities received as collateral unless the borrower defaults.

The average term of securities loaned was 101 days in 2006 and 78 days in 2005; however, any loan may be terminated on demand by either the Plan or the borrower. Cash collateral may be invested in a short-term investment pool, which had an average weighted maturity at December 31, 2006 and 2005 of 41 days and 39 days, respectively. Cash collateral may also be invested in term loans in which the investments (term loans) match the term of the securities loans.

As of December 31, 2006 and 2005, the fair value (carrying amount) of loaned securities was \$216,547,612 and \$174,302,195 respectively. As of December 31, 2006 and 2005, the fair value (carrying amount) of collateral received by the Plan was \$222,953,380 and \$179,559,634 respectively. Therefore, as of December 31, 2006 and 2005, the Plan had no credit risk exposure to borrowers because the amounts owed to the borrowers exceeded the amounts owed to the Plan.

During 2006 and 2005, there were no losses due to default of a borrower or the lending agent. The contract with the lending agent requires it to indemnify the Plan if borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or fail to pay the Plan for income distributions by the issuers of securities while the securities are on loan.

**NOTE 6. MORTGAGE-BACKED SECURITIES**

The Plan invests in mortgage-backed securities representing interests in pools of mortgage loans as part of its interest rate risk management strategy. The mortgage-backed securities are not used to leverage investments in fixed income portfolios. The mortgage-backed securities held by the Plan are guaranteed by federally sponsored agencies such as: Government National Mortgage Association, Federal National Mortgage Association and Federal Home Loan Mortgage Corporation.

All of the Plan’s financial instruments are carried at fair value on the Statement of Plan Net Assets included in investments. The gain or loss on financial instruments is recognized and recorded on the Statement of Changes in Plan Net Assets as part of investment income.

**NOTE 7. SUMMARY OF EMPLOYER FUNDING POLICIES**

Employer obligations are funded through a City tax levy which is currently limited when extended to an amount not to exceed an amount equal to the total contributions by the employees to the Plan made in the calendar year, two years prior to the year for which the annual applicable tax is levied, multiplied by 2.26.

The actuarial valuations of the Plan as of December 31, 2006 and 2005 indicated a minimum annual projected contribution by the City to maintain the Plan on a minimum valuation basis to be \$192,378,146 and \$164,321,700 for 2006 and 2005, respectively. The minimum annual projected contribution was based on an annual payroll of \$387,442,074 for 5,078 active participants during 2006 and \$341,252,492 for 4,999 active participants during 2005 and was computed as follows:

	2006 Levy		
	<u>Pension</u>	<u>Health Insurance Supplement</u>	<u>Total</u>
Normal cost	\$ 65,821,043	\$ 1,437,750	\$ 67,258,793
40-year level dollar amortization of the unfunded liability	<u>158,759,837</u>	<u>2,739,017</u>	<u>161,498,854</u>
	224,580,880	4,176,767	228,757,647
Less estimated plan member contributions	<u>(36,379,501)</u>	<u>-</u>	<u>(36,379,501)</u>
Annual required contribution to be financed by tax levy	<u>\$ 188,201,379</u>	<u>\$ 4,176,767</u>	<u>\$ 192,378,146</u>
Required tax levy multiple			<u>5.61</u>
	2005 Levy		
	<u>Pension</u>	<u>Health Insurance Supplement</u>	<u>Total</u>
Normal cost	\$ 57,835,993	\$ 1,384,294	\$ 59,220,287
40-year level dollar amortization of the unfunded liability	<u>134,468,779</u>	<u>2,690,881</u>	<u>137,159,660</u>
	192,304,772	4,075,175	196,379,947
Less estimated plan member contributions	<u>(32,058,247)</u>	<u>-</u>	<u>(32,058,247)</u>
Annual required contribution to be financed by tax levy	<u>\$ 160,246,525</u>	<u>\$ 4,075,175</u>	<u>\$ 164,321,700</u>
Required tax levy multiple			<u>4.54</u>

## NOTE 7. SUMMARY OF EMPLOYER FUNDING POLICIES (CONTINUED)

According to the Plan's consulting actuary, the Plan needs additional contributions in order to adequately finance the Plan.

## NOTE 8. RESERVES FOR ACTUARIAL LIABILITIES

The reserves for actuarial liabilities are based on an annual valuation submitted by the Plan's consulting actuary. The annual actuarial valuation establishes the reserves required for various statutory liabilities which arise from pension benefit schedules that are part of the current pension code legislation.

Net assets held in trust for pension benefits as of December 31 were comprised of the following reserve surplus (deficit) balances:

	<u>2006</u>	<u>2005</u>
Prior Service Annuity Reserve	\$ 1,137,972,227	\$ 1,093,501,679
City Contribution Reserve	590,699,579	580,983,152
Annuity Payment Reserve	593,205,455	551,718,149
Salary Deduction Reserve	488,956,188	481,645,463
Death Benefit Reserve	(8,925,590)	(8,049,339)
Ordinary Disability Reserve	(407,007)	(231,693)
Supplementary Payment Reserve	663,498	921,562
Gift Reserve	2,871,665	2,418,416
Reserve (deficit)	<u>(1,413,551,702)</u>	<u>(1,428,249,906)</u>
Total net assets held in trust for pension benefits	<u>\$ 1,391,484,313</u>	<u>\$ 1,274,657,483</u>

The Prior Service Annuity Reserve is a reserve account for the accumulation of City contributions to provide for: a) employee and spouse annuities that are based on service performed before the Plan's effective date of July 1, 1931 and b) any excess in minimum annuity formula requirements over the amounts required for age and service annuities, and for spouse annuities.

The City Contribution Reserve is used to accumulate amounts contributed by the City to provide for annuities based on age and service of each employee and spouse. An individual account is maintained for each employee and spouse until the employee retires, at which time the individual account balances are transferred to the Annuity Payment Reserve.

The Salary Deduction Reserve is similarly used to accumulate deductions made from employee salaries for age and service annuities for the employee and spouse. Individual accounts are maintained until the employee retires or withdraws from service before qualifying for an annuity. At retirement, account balances are transferred to the Annuity Payment Reserve. In case an eligible employee elects to take a refund of contributions instead of an annuity, the contribution refund is charged to this reserve. The Annuity Payment Reserve receives the amounts transferred from the individual accounts in the City Contribution Reserve and the Salary Deduction Reserve when an employee retires and qualifies for an annuity. All age and service annuity payments are charged to this reserve.

The Death Benefit Reserve accumulates contributions from employees and the City for ordinary death benefits. All ordinary death benefits paid are charged to this reserve.

The Ordinary Disability Reserve accumulates contributions from employees and the City for ordinary disability benefits. All ordinary disability benefits paid are charged to this reserve.

## NOTE 8. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)

The Supplementary Payment Reserve accumulates amounts to provide automatic annual postretirement increases to employee annuitants who retired before September 1, 1959 and amounts in excess of the original annuity grant due to increases in the minimum annuity.

The Gift Reserve accumulates donations to be used to provide an extra benefit to widowed spouse annuitants and orphaned child annuitants.

The Reserve surplus (deficit) represents the difference between the actuarially determined present value of all future pension payments and the value of the Plan's present assets plus the present value of future contributions. A deficit indicates that additional assets will be needed to provide for future benefits, while a surplus indicates that present assets and future contributions exceed the expected requirements for future pension payments.

During the years ended December 31, 2006 and 2005, the Plan's actuary has determined that an increase in actuarial reserves of \$306,189,258 and \$136,815,988 respectively, is required. The net increase of revenue over expenses for the years ended December 31, 2006 and 2005 of \$116,826,830 and \$68,479,724 respectively, has been applied to the increase in actuarial reserves as noted above, which has resulted in an (increase) in the Plan deficit of \$(189,362,428) and \$(68,336,264) for the years ended December 31, 2006 and 2005, respectively.

As reported by the actuary, the changes in the Plan (deficit) during the years ended December 31, 2006 and 2005 consisted of the following:

	<u>2006</u>	<u>2005</u>
Plan (deficit) at the beginning of the year	\$ (1,679,281,665)	\$ (1,610,945,401)
Gains (losses) during the year attributable to:		
Gain (loss) from salary changes	(105,514,447)	40,654,533
Gain (Loss) on investment return	24,389,764	(32,194,356)
Employer cost in excess of contributions	(68,623,327)	(60,494,782)
(Loss) from demographic assumptions	(21,421,453)	(17,264,774)
(Loss) from retroactive benefit increases	(6,651,379)	-
(Loss) from assumption changes	-	(12,434,686)
(Loss) from additional Bertucci liability	(7,878,491)	(11,681,326)
Gain (loss) from all other sources	(3,663,095)	25,079,127
Net (loss)	<u>(189,362,428)</u>	<u>(68,336,264)</u>
Plan (deficit) at the end of the year	<u>\$ (1,868,644,093)</u>	<u>\$ (1,679,281,665)</u>

The above detail denotes the change in the unfunded liability based on assets valued using a Five Year Smoothed Average Market, a market related actuarial asset value as required by Governmental Accounting Standards Board Statement No. 25. The Plan (deficit) above will not equal the Plan surplus (deficit) denoted on page 23, which is based on assets valued at actual market value.

**NOTE 8. RESERVES FOR ACTUARIAL LIABILITIES (CONTINUED)**

Some of the more significant actuarial assumptions used in the valuations were:

Mortality:

1983 Group Annuity Mortality Table, sex distinct.

Disabled Mortality:

1992 Railroad Retirement Board's Disabled Annuitant's Mortality Table.

Retirement age assumptions:

Assume all employees, except emergency medical technicians, retire by age 63 (mandatory retirement age as enacted by the City of Chicago in 2000). Emergency medical technicians are assumed to retire by age 65.

Investment rate of return:

8% per year for pensions, which contains a 3.5% inflation assumption and a 4.5% real rate of return assumption. 4.5% per year for the health insurance supplement with the rate effective as of December 31, 2005.

Salary increase:

4% per year, plus an additional percentage related to service and promotion.

Group health insurance:

Assume for valuation purposes that the current health insurance supplement will continue for life for all employee annuitants (and their future widows). The amount of the Plan paid health insurance from July 1, 2003 through June 30, 2008 is \$85 per month for each annuitant (employees and widows) not qualified to receive Medicare benefits and \$55 per month if qualified. After June 30, 2008, the amounts will be \$95 and \$65, respectively. Assume that all annuitants age 65 and over will be eligible for Medicare and all annuitants less than age 65 will not be eligible for Medicare. Assume future widows of retirees to be eligible for Medicare as well as widow annuitants who are currently receiving a health insurance supplement.

A Schedule of Funding Progress is located in the Required Supplementary Information on page 27. This schedule provides information about progress made in accumulating sufficient assets to pay benefits when due.

**NOTE 9. EMPLOYER CONTRIBUTIONS (TAXES) RECEIVABLE - NET**

Employer contribution receivable at December 31, 2006 and 2005 consist of the following:

	<u>2006</u>	<u>2005</u>
Property taxes	\$ 73,235,842	\$ 85,844,466
Personal property replacement taxes	12,645,133	12,431,000
Less allowance for uncollectible accounts	<u>(7,058,091)</u>	<u>(6,083,295)</u>
Total	<u>\$ 78,822,884</u>	<u>\$ 92,192,171</u>

**NOTE 10. RATIFICATION OF BARGAINING CONTRACT**

During 2003, a bargaining contract was ratified between the City of Chicago and Firemen's Local Union No. 2. One of the provisions in the contract allowed for a salary increase retroactive to July 1, 1999. The increase in salary resulted in an increase in employee contributions of \$10,000,000 during 2003 and increased employer contributions (tax levy) in 2005 (two years from the receipt of the retroactive increase in employee contributions) by approximately \$22,600,000.

**NOTE 11. ANNUITANT HEALTH INSURANCE**

The Plan and the City of Chicago share in the cost of providing health care coverage to the annuitants or their surviving spouses who elect to participate in the City of Chicago Annuitant Medical Benefits Program. The Plan currently, in accordance with State Statutes, subsidizes the cost of monthly group health care premiums up to \$85 per month for non-Medicare recipients and \$55 per month for Medicare recipients. The remaining cost to participate in the Program is borne by the City of Chicago and the annuitant. At December 31, 2006 and 2005, the number of annuitants or surviving spouses whose cost to participate in the Program was subsidized totaled 3,103 and 3,083 respectively. The Plan's share of the Program cost subsidy for 2006 and 2005 was \$2,208,075 and \$2,187,458 respectively.

**NOTE 12. RELATED PARTY TRANSACTIONS**

At December 31, 2006 and 2005, the Plan held investments with a total fair value of \$6,907,552 and \$1,544,236 respectively, in its investment managers.

**NOTE 13. LEASE AGREEMENTS**

The Plan leases office facilities with lease payments subject to an escalation clause for increases in real estate taxes and maintenance charges. The lease runs through March 2020.

During 2006, the Plan entered into a noncancellable operating lease for office space for disaster recovery at an offsite facility which is subject to an escalation clause for increases in real estate taxes and maintenance charges. The lease runs through September 2016.

Rental expense for 2006 and 2005 was \$169,460 and \$126,249 respectively.

Future minimum rental payments required under the noncancellable operating leases are as follows:

Year ending December 31,	
2007	\$ 110,144
2008	129,908
2009	137,162
2010	144,461
2011	149,847
2012 through 2016	816,957
2017 through 2020	<u>414,937</u>
Total	<u>\$ 1,903,416</u>

**NOTE 14. COMMITMENT**

As of December 31, 2006, the Plan had a total capital commitment for three limited partnership agreements totaling \$23,000,000. As of December 31, 2006, \$8,470,000 has been invested, leaving a commitment of \$14,530,000.

**NOTE 15. LITIGATION**

The Plan is involved in a number of cases involving the calculation of widow annuity payments as to the effective date of higher paying "duty death" widow benefits. If determined adversely to the Plan's position, the Plan's retroactive annuity payments may exceed \$2,000,000. The Plan continues to vigorously defend against these cases and cannot adequately assess the outcome of these matters. Legal counsel is unable to quantify the economic impact to the Plan if these, and all future widows similarly situated, are found to be entitled to the higher "duty death" widow benefits.

## Firemen's Annuity and Benefit Fund of Chicago

### Required Supplementary Information

#### Schedule of Funding Progress

Year Ended December 31,	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	of Covered Payroll (b-a)/(c)
<i>Pension Benefits</i>						
2001	\$1,245,129,955	\$ 2,068,717,901	\$ 823,587,946	60.19%	\$277,964,912	296.29%
2002	1,209,768,204	2,088,706,217	878,938,013	57.92	277,053,144	317.25
2003	(1) 1,194,007,767	2,517,268,107	1,323,260,340	47.43	335,170,501	394.80
2004	1,182,578,954	2,793,524,355	1,610,945,401	42.33	334,423,753	481.71
2005	1,203,654,052	2,838,698,581	1,635,044,529	42.40	341,252,492	479.13
2006	1,264,497,434	3,088,124,064	1,823,626,630	40.95	387,442,074	470.68
<i>Health Insurance Supplement</i>						
2005	-	44,237,156	44,237,156	0.00	341,252,492	12.96
2006	-	45,017,463	45,017,463	0.00	387,442,074	11.62
<i>Total</i>						
2001	1,245,129,955	2,068,717,901	823,587,946	60.19	277,964,912	296.29
2002	1,209,768,204	2,088,706,217	878,938,013	57.92	277,053,144	317.25
2003	(1) 1,194,007,767	2,517,268,107	1,323,260,340	47.43	335,170,501	394.80
2004	1,182,578,954	2,793,524,355	1,610,945,401	42.33	334,423,753	481.71
2005	1,203,654,052	2,882,935,737	1,679,281,685	41.75	341,252,492	492.09
2006	1,264,497,434	3,133,141,527	1,868,644,093	40.36	387,442,074	482.30

(1) = Change in actuarial assumptions.

#### NOTES TO SCHEDULE OF FUNDING PROGRESS AND SCHEDULE OF EMPLOYER CONTRIBUTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuation at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	December 31, 2006
Actuarial cost method	Entry Age
Amortization method	Level Dollar
Amortization period	30 years
Actuarial value of assets	Pension - Five Year Smoothed Market Health Insurance Supplement - No Assets (Pay-As-You-Go)
Actuarial assumptions:	
Investment rate of return	Pension - 8%; Health Insurance Supplement - 4.5%
Projected salary increase	4% per year, plus an additional percentage related to service and promotion
Postretirement increases	1.5% simple interest for 20 years for members born in or after 1955 3% simple interest for life for members born before 1955

## Firemen's Annuity and Benefit Fund of Chicago

### Required Supplementary Information

#### Schedule of Employer Contributions

Year Ended December 31,	Annual Required Contribution (1) (ARC) (a)	Actual Employer Contribution (b)	Percent of ARC Contributed (b/a)
<i>Pension Benefits</i>			
2001	\$ 104,014,168	\$ 60,399,909	58.07%
2002	105,106,367	59,452,787	56.56
2003	111,079,054	60,234,206	54.23
2004	134,762,334	55,532,454	41.21
2005	161,696,388	90,128,915	55.74
2006	160,246,525	76,763,308	47.90
<i>Health Insurance Supplement</i>			
2005	-	-	-
2006	4,075,175	2,208,075	54.18
<i>Total</i>			
2001	104,014,168	60,399,909	58.07
2002	105,106,367	59,452,787	56.56
2003	111,079,054	60,234,206	54.23
2004	134,762,334	55,532,454	41.21
2005	161,696,388	90,128,915	55.74
2006	164,321,700	78,971,383	48.06

(1) Annual Required Contribution (ARC) - This is the actuarially determined amount needed to finance all benefits.

#### Additional Information

##### Employee/Spouse Annuities

Year	Employee		Widow/Widower (Including Parent)	
	Number of Annuitants	Average Annuity	Number of Annuitants	Average Annuity
2001	2,422	\$ 38,048	1,332	\$ 12,399
2002	2,411	40,052	1,331	12,777
2003	2,412	42,131	1,323	13,220
2004	2,441	45,675	1,353	14,263
2005	2,442	47,917	1,331	15,388
2006	2,459	50,171	1,323	15,966

##### Employee Retirements

Year	Average Age At Retirement	Average Years of Service	Average Salary	Number of Retirements
2001	60.2	30.9	\$ 63,228	114
2002	59.7	30.8	64,560	107
2003	60.2	31.7	71,176	134
2004	60.0	32.1	82,735	147
2005	59.2	31.4	81,747	126
2006	57.7	30.1	85,115	123

##### Age and Service Distribution

Year	Number of Actives	Average Salary	Average Age	Average Service
2001	4,930	\$ 56,382	42.6	14.3
2002	4,910	56,426	43.1	14.7
2003	4,909	68,277	43.5	15.0
2004	4,856	68,868	44.0	15.2
2005	4,999	68,264	44.0	15.0
2006	5,078	76,298	44.4	15.0

## Firemen's Annuity and Benefit Fund of Chicago

### Additional Information

#### Additions by Source

Year Ended December 31,	Employer Contributions	Employer Contributions as a Percentage of Payroll	Plan Member Contributions	Net Investment and Net Securities Lending Income (Loss) (1)	Other	Total Additions
2001	\$ 60,399,909	21.73%	\$ 27,615,475	\$ (73,525,241)	\$ 62,437	\$ 14,552,580
2002	59,452,787	21.46	27,622,476	(143,540,961)	77,722	(56,387,976)
2003	60,234,206	17.97	42,665,388	249,995,138	83,850	352,978,582
2004	55,532,454	16.61	37,734,425	139,496,742	24,322,475 (2)	257,086,096
2005	90,128,915	26.41	35,696,863	112,016,356	456,518	238,298,652
2006	78,971,383	20.38	44,221,869	174,406,652	88,210	297,688,114

(1) Net investment and securities lending income includes net appreciation in fair value of investments, which includes unrealized gains and (losses) on investments held as well as realized gains and (losses) on investments sold.

(2) Includes payment of \$24,201,945 from Municipal Employees' Annuity and Benefit Fund of Chicago.

#### Deductions by Type

Year Ended December 31,	Benefits	Health Insurance	Refunds	Administrative Expenses	Total Deductions
2001	\$ 131,458,451	\$ 1,820,378	\$ 1,184,014	\$ 1,975,988	\$ 136,438,831
2002	135,866,359	1,843,850	1,080,393	1,959,054	140,749,656
2003	145,811,829	2,001,403	1,360,018	2,046,754	151,220,004
2004	154,171,122	2,184,105	2,017,047	2,096,598	160,468,872
2005	163,871,251	2,187,458	1,469,848	2,290,371	169,818,928
2006	174,387,363	2,208,075	1,619,107	2,646,739	180,861,284

#### Participant Data

	<u>2006</u>	<u>2005</u>
Active members	5,078	4,999
Annual payroll	\$ 387,442,074	\$ 341,252,492
Average salary	\$ 76,298	\$ 68,264
Average age	44.4	44.0
Average service	15.0	15.0
Annuitants and beneficiaries		
Retired employees	2,459	2,442
Spouse, parent and widow annuitants	1,437	1,436
Children and dependents	110	111
Duty disabilities	257	254
Occupational disabilities	113	107
Ordinary disabilities	6	7
Total annuitants and beneficiaries	4,382	4,357
Total benefits	\$ 174,387,363	\$ 163,871,251

## Firemen's Annuity and Benefit Fund of Chicago

### Schedules of Administrative Expenses

Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Personnel services		
Office salaries	\$ 1,127,543	\$ 988,937
Employee benefits	238,342	217,719
Total personnel services	<u>1,365,885</u>	<u>1,206,656</u>
Trustee and staff education/training	<u>17,157</u>	<u>15,394</u>
Professional services		
Accounting	10,749	-
Actuarial	85,507	109,123
Audit	28,600	27,800
Computer consulting	16,000	16,350
Medical	102,492	116,973
Legal	381,106	416,298
Payroll administration	7,883	8,379
Total professional services	<u>632,337</u>	<u>694,923</u>
Miscellaneous		
Rent	169,460	126,249
Disaster recovery	80,544	-
Insurance and surety bond	88,354	7,427
Utilities	22,218	19,553
Equipment and maintenance	29,572	21,653
Printing and postage	114,175	97,104
Office supplies	20,431	16,294
General and administrative	24,503	18,401
Other	82,103	66,717
Total miscellaneous	<u>631,360</u>	<u>373,398</u>
Total administrative expenses	<u>\$ 2,646,739</u>	<u>\$ 2,290,371</u>

## Firemen's Annuity and Benefit Fund of Chicago

### Schedules of Investment Expenses

Years Ended December 31, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Investment management		
Ariel Capital Management	\$ 104,744	\$ 153,142
BA Partners (Private Equity)	121,349	-
Brandes Investment Management	493,435	407,936
Chicago Equity Partners	186,123	164,721
Columbia Management Advisors	-	50,315
Credit Suisse Asset Management	31,521	-
Earnest Partners LLC	140,160	66,062
Fox Asset Management	-	8,015
Globeflex Capital	265,049	85,839
Husic Capital Management	349,001	332,121
ICON Advisors	248,818	214,509
ING Aeltus Investment Management	148,413	134,140
Institutional Capital	378,278	338,077
INVESCO Capital Management	146,798	216,189
Keeley Asset Management	357,531	346,542
Loomis, Sayles & Company	331,883	328,997
LSV Asset Management	228,988	-
MacKay Shields Financial Corporation	185,428	178,767
Mesirow Financial Corp.	417,203	273,627
Montag & Caldwell	186,306	180,981
Mueller & Monroe	32,807	-
Navellier & Associates	193,752	217,305
Neuberger & Berman	735,404	733,566
Northern Trust Quantitative Advisors	145,076	132,223
The Boston Company	237,505	207,486
Western Asset Management	250,502	40,729
William Blair & Company	368,890	293,977
	6,284,964	5,105,266
Custodial banking		
The Northern Trust Company	137,595	89,467
Investment evaluation		
Mercer Investment Consulting	200,000	200,000
Total investment expenses	\$ 6,622,559	\$ 5,394,733

**THE RETIREMENT BOARD**  
of the  
**FIREMEN'S ANNUITY AND BENEFIT FUND**  
**OF CHICAGO**

Suite 1400  
20 South Clark Street Chicago, IL 60603-1899  
(312) 726-5823 Fax (312) 726-2316  
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(800) 782-7425



**ELECTED TRUSTEES**

ANTHONY R. MARTIN, Secretary  
DAN P. FABRIZIO, Vice President  
MICHAEL J. SHANAHAN  
WALTER M. CARLSON, Annuitant Member

**EX-OFFICIO TRUSTEES**

Deputy Fire Commissioner, DERRICK JACKSON, President  
City Treasurer, STEPHANIE NEELY  
City Comptroller, STEVE LUX  
City Clerk, MIGUEL del VALLE

**REPORT OF THE INVESTMENT COMMITTEE**

On behalf of the Retirement Board of the Firemen's Annuity & Benefit Fund of Chicago, we hereby submit the investment report for the year 2006.

Unlike the past few years, the domestic equity market during 2006 felt like a theme park rollercoaster. Early in 2006, the S&P 500 rose 6% on the strength of energy and mineral stocks. An abrupt, steep 7.5% decline followed during May and June. Yet, even with all the volatility, the S&P 500 was able to close 2006 with a gain of 15.8%. Other broad U.S. market indice gains ranged from up 9% to 22%. For 2006, your Fund was able to generate a total return of 15.5%, barely missing out on beating the S&P 500 for an eighth consecutive year.

The Fund's 15.5% return placed in the top 25% of the Northern Trust's Public Fund Universe for 2006. The Fund's cumulative performance, spanning virtually every time period reported, ranks in the top 25%, as measured against its peers. The following table shows the 1, 3, 5, 10 and 15 year annualized returns for the Fund and its peers as of December 31, 2006.

	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>	<u>10 Year</u>	<u>15 Year</u>
Firemen's Annuity & Benefit Fund of Chicago	15.5%	13.6%	10.8%	10.0%	10.8%
The Northern Trust Co. Public Fund Median	13.6%	11.6%	9.5%	9.2%	9.5%

The beginning of 2007 started off quite well, with the S&P 500 slowly ratcheting up a gain of 8.8% through May. The Fund's revamped portfolio earned 10.5% through May. Given such early gains, concerns exist that the market may have gotten ahead of itself, especially in light of rising energy prices and interest rates.

Given the outstanding performance of the Fund over the past few years, it is fitting to recognize the contributions of two departing Trustees, George Korda and Judy Rice. George and Judy's, knowledge, expertise, leadership and commitment were critical components of the Fund's recent investment successes.

As always, we pledge to exercise care and prudence in the oversight of the Fund's assets. We welcome your questions and comments regarding the Fund and its investments.

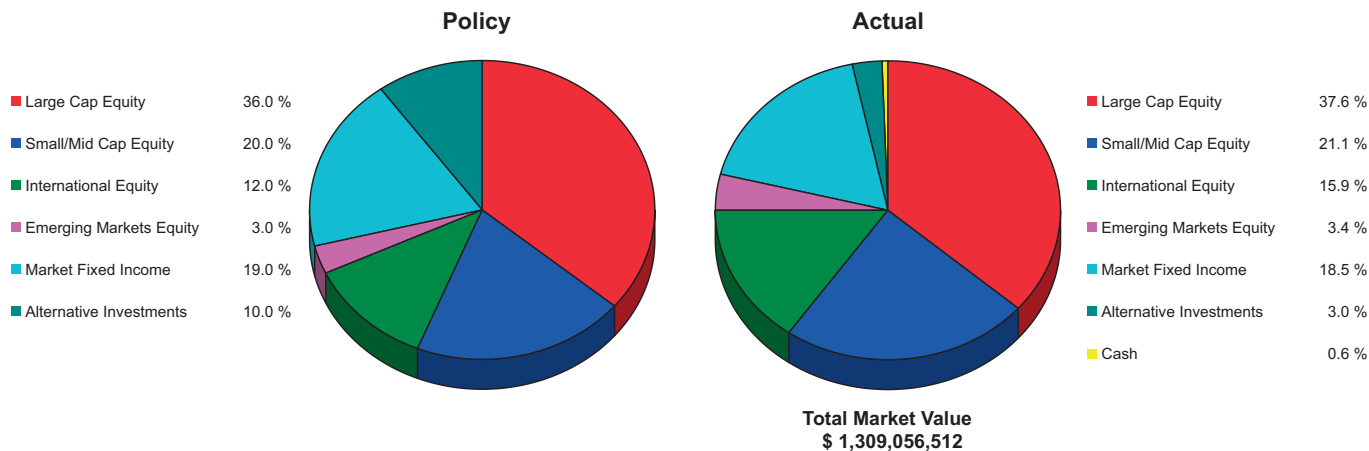
Sincerely,

Dan P. Fabrizio  
Elected Trustee, Investment Chairman

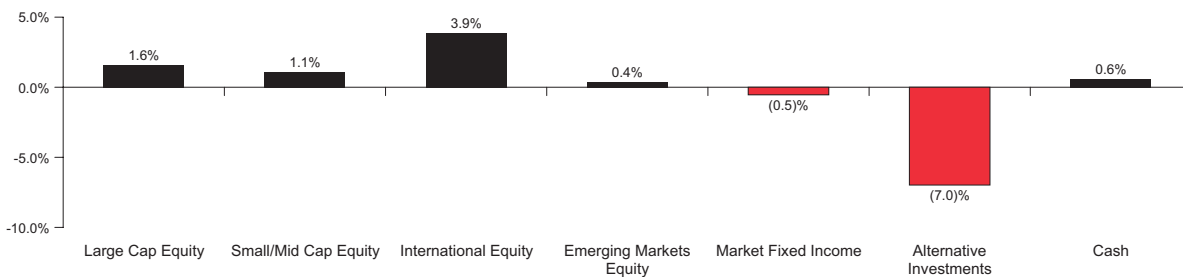
Derrick F. Jackson  
Deputy Fire Commissioner, Investment Co-Chairman

**Firemen's Annuity and Benefit Fund of Chicago**

Asset Allocation  
As of December 31, 2006



**Asset Allocation vs. Policy**



Mercer Investment Consulting

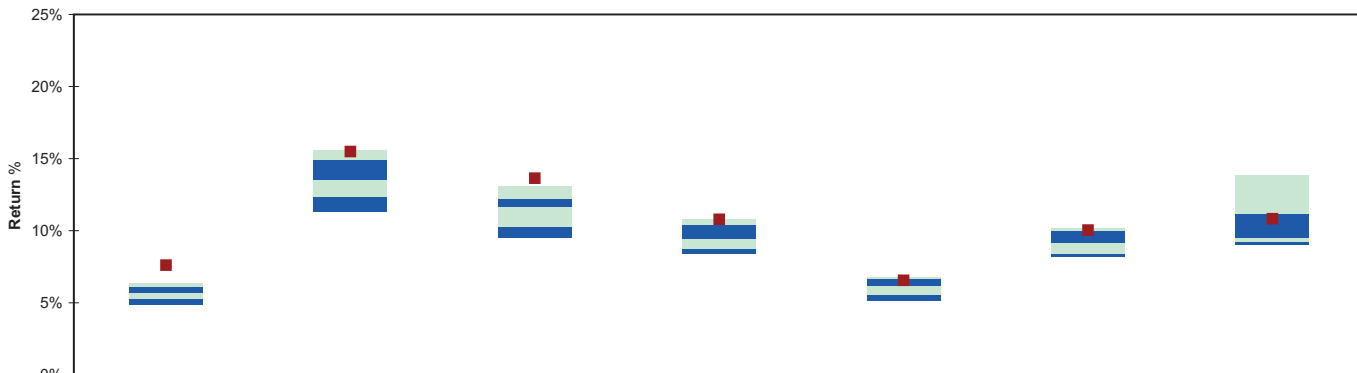
Numbers may not add due to rounding

**FundStrategy**

4th Quarter 2006

Chicago Firemen's Annuity & Benefit Fund

**Total Fund vs. TNT Public Fund Universe**



	4th Quarter 2006	1 Year	3 Years	5 Years	7 Years	10 Years	15 Years
■ Firemen's Benefit	7.6%	15.5%	13.6%	10.8%	6.6%	10.0%	10.8%
Percentile Rank	1	12	4	11	38	17	27
Number of Observations	38	36	30	20	17	13	4
10th Percentile	6.4%	15.6%	13.1%	10.8%	6.8%	10.2%	13.8%
1st Quartile	6.1%	14.9%	12.2%	10.4%	6.7%	10.0%	11.2%
Median	5.7%	13.6%	11.6%	9.5%	6.2%	9.2%	9.5%
3rd Quartile	5.3%	12.3%	10.3%	8.7%	5.6%	8.4%	9.2%
90th Percentile	4.9%	11.3%	9.5%	8.4%	5.1%	8.2%	9.0%



**OF CHICAGO**

**FIREMEN'S ANNUITY & BENEFIT FUND**

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