

Dallas Police and Fire Pension System
Thursday, January 18, 2001
8:30 a.m.
2777 Stemmons Freeway, Suite 825
Dallas, Texas

Quarterly financial meeting, Gerald Brown, Chairman, presiding:

ROLL CALL

Board Members

Present: Gerald Brown, Steve Shaw, George Tomasovic, Rector McCollum, Gary Edge, Steve Umlor, Councilmember Donald Hill

Absent: Councilmember John Loza, Councilmember Mary Poss, Councilmember Maxine Thornton-Reese

Staff: Richard Tettamant, Linda Rickley

Others: Rosalind Hewsenian, Clint Smith

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The meeting was called to order at 8:39 a.m.

A. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Wilshire Associates, Inc. reports and recommendations

- a. Quarterly investment performance report for the third quarter ended September 30, 2000
- b. Asset allocation planning process
- c. 2001 project scheduling
- d. Directed brokerage/commission recapture study

- a. Ms. Hewsenian reviewed the quarterly investment performance report for the third quarter ended September 30, 2000. The investment performance is summarized in the following chart:

	Third Quarter 2000	1-year	3-year	5-year
Total Fund	1.54%	18.91%	13.26%	15.51%
Actuarial Rate	2.06%	8.50%	8.60%	8.66%

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1. Wilshire Associates, Inc. reports and recommendations (continued)

- **Total Return:** The Dallas Police and Fire Pension System (“the System”) posted a positive rate of return during the quarter ended September 30, 2000. The System’s 1.5% total fund return outpaced its asset allocation policy return, but lagged the actuarial assumed rate of interest during the quarter. Over longer periods however, the System’s total fund has outperformed both its asset allocation policy as well as its actuarial rate of return.
- **Asset Growth:** The System’s market value as of September 30, 2000 was approximately \$2.1 billion, which represents an increase of approximately \$6.4 million from the previous quarter-end. This change in market value consisted of net contributions of \$37.8 million, net distributions and administrative fees of \$64.6 million, investment management fees of \$0.3 million, and net investment gains of \$33.4 million.
- **Asset Allocation:** Relative to its policy allocations, the System was overweighted to U.S. equities and underweighted to international equities as of quarter-end. Such deviations from its policy helped performance during the quarter. The System was also underweighted to the real estate segment relative to its policy.
- **U.S. Equity:** The U.S. equity market, as measured by the Wilshire 5000 Index, experienced a slight appreciation of 0.2% during the quarter. Declining Internet and technology stock valuations continued to hurt performance throughout the quarter. Within the S&P 500, finance and energy were the best performing sectors, while technology was unrewarded. Small-cap stocks, as measured by the Wilshire 4500 Index, performed well during the quarter relative to the large-cap S&P 500 Index. According to the Wilshire Style Indices, value stocks, both large and small, outperformed their growth counterparts during the quarter.
- **International Equity:** The international equity markets, as measured by the MSCI EAFE Index, posted a negative return of 8.1% for the quarter and trailed the U.S. equity market. Most of the European and Pacific-Basin markets experienced losses during the quarter. The Euro, the Yen and the Pound all depreciated relative to the U.S. dollar, which also negatively impacted performance. The emerging markets, as measured by the MSCI EMF Index, generated a loss of 13.0% during the quarter and continued its decline from the previous quarter.

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1. Wilshire Associates, Inc. reports and recommendations (continued)

- **Fixed Income:** The U.S. bond market, as measured by the Lehman Aggregate Bond Index, continued to generate consistent positive returns during the quarter. A slight decline in interest rates helped the Lehman Aggregate Bond Index gain 3.0% during the quarter. The mortgage sector, as measured by the Lehman Mortgage Index, continued to perform well relative to the other sectors of the bond market. The high yield sector, which has been experiencing an increase in defaults and distressed securities, provided a moderate return during the quarter.
- **Fixed Income continued:** The non-U.S. bond markets have been experiencing losses throughout the quarter due to the appreciation of the U.S. dollar.
- **Real Estate:** Due to healthy fundamentals in the real estate market, real estate has performed fairly well this year. The Wilshire Real Estate Fund Index appreciated by 1.1% for the quarter. REITs performed relatively well, with the Wilshire Real Estate Securities Index returning 8.5% during the quarter.

After discussion, Mr. Edge made a motion to receive and file the Wilshire report on the quarterly investment performance for the third quarter ended September 30, 2000. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

- b.** Ms. Hewsenian gave an overview of the asset allocation process and recommended that a special Board meeting be held in March regarding asset reallocation.

After discussion, Mr. Tomasovic made a motion to receive and file the asset allocation overview. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

- c.** Ms. Hewsenian discussed the scheduling of investment projects during 2001 and recommended that the scheduling be reconsidered after the completion of the asset reallocation.

No motion was made.

- d.** Ms. Hewsenian discussed a report prepared by Wilshire Associates which summarized soft dollar trading costs by Pension System investment managers.

After discussion, Mr. Edge made a motion to receive and file the soft dollar trading report by Wilshire Associates. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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2. Monthly asset allocation report

- a. Monthly asset allocation report
- b. Wilshire Associates' recommendations for rebalancing the Pension System's investment portfolio

The Asset Allocation Monitoring Report and the Real Estate Portfolio Report are included in Minute Book Number 29 on pages _____.

Wilshire recommended no changes in asset allocation. All asset classes and accounts are within their respective ranges. Cash needed for expenses should be met from the Alliance Large Value portfolio.

After discussion, Mr. Edge made a motion to receive and file the January 2001 monthly asset allocation report and approve Wilshire Associates' recommendations. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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3. Legislative update by Hillco Partners

Clint Smith, of Hillco Partners, briefed the Board on Texas legislative developments, including Senate Committee assignments. He also reported on the Texas Sunset Commission's decisions regarding the State Pension Review Board and the Office of Fire Fighters' Pension Commissioner.

After discussion, Mr. Edge made a motion to receive and file the legislative update by Hillco Partners. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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4. TEXPERS membership for the System employees' 457 Plan

W.R. Huff has offered to sponsor a membership in the Texas Association of Public Employee Retirement Systems (TEXPERS) for the Pension System employees' 457 Plan. This would increase the Pension System's voting strength at TEXPERS.

After discussion, Mr. Edge made a motion to approve the W. R. Huff offer to sponsor a TEXPERS membership for the Pension System employees' 457 Plan. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

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**DALLAS POLICE AND FIRE PENSION SYSTEM
JANUARY 2001 ASSET ALLOCATION MONITORING REPORT**

Asset Class		Target		Actual		Range		Difference
		\$	%	\$	%	Minimum	Maximum	vs. Target \$
EQUITY								
<u>Domestic Equity</u>								
S & P Index	SSgA	346.75	17.00	337.68	16.56	10.00	19.00	(9.07)
Large Cap Growth	Oak Assoc.	122.38	6.00	106.95	5.24	5.00	7.00	(15.43)
Micro Cap	Deutsche Asset Mgmt	101.99	5.00	104.90	5.14	4.00	6.00	2.91
Large Cap Value	Alliance Capital	122.38	6.00	129.20	6.33	5.00	7.00	6.82
Private Equity	NTOP/Huff	0.00	0.00	4.80	0.24	0.00	5.00	0.00
Total Domestic Equity		693.51	34.00	683.53	33.51	29.00	39.00	(9.98)
<u>International Equity</u>								
Active Large Cap	Bank of Ireland	183.58	9.00	179.59	8.80	7.50	10.50	(3.99)
Active Small Cap	Acadian	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Active Emerging	Deutsche Asset Mgmt	101.99	5.00	93.19	4.57	4.00	6.00	(8.80)
Passive EAFE Int'l Index	SSgA	203.97	10.00	201.64	9.89	8.50	11.50	(2.33)
Total International Equity		489.54	24.00	474.42	23.26	20.00	28.00	(15.12)
Total Equity		1,183.04	58.00	1,157.95	56.77	49.00	67.00	(25.09)
FIXED INCOME								
<u>Global High Quality</u>	Deutsche Asset Mgmt	203.97	10.00	206.39	10.12	8.50	11.50	2.42
<u>Domestic High Yield</u>	W.R. Huff	101.99	5.00	101.29	4.97	3.00	7.00	(0.70)
<u>Global Opportunistic</u>								
Opportunistic Partnership	W.R. Huff	61.19	3.00	74.48	3.65	0.00	4.00	13.29
GOFI Separate Account	Loomis-Sayles	183.58	9.00	184.27	9.03	8.00	14.00	0.69
Total Global Opportunistic		244.77	12.00	258.75	12.69	10.00	14.00	13.98
Total Fixed Income		550.73	27.00	566.43	27.77	21.50	32.50	15.70
REAL ESTATE		305.96	15.00	300.37	14.73	13.00	17.00	(5.59)
CASH EQUIVALENTS		0.00	0.00	14.98	0.73	0.00	0.00	14.98
Total Assets		2,039.73	100.00	2,039.73	100.00	83.50	116.50	0.00

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**Dallas Police and Fire Pension System
JANUARY 2001 ASSET ALLOCATION MONITORING REPORT
Real Estate Portfolio**

Real Estate Manager	Market Value	Percentage of Real Estate Assets	Target Percentage	Committed Capital	Variance from Target vs Committed
Managers in Redemption					
AEW Capital Management (Copley DPA)	429,527	0.14%	0.00%		429,527
Heitman Capital Management (JMB III & IV)	1,678,207	0.56%	0.00%		1,678,207
Subtotal	2,107,733	0.70%	0.00%	0	2,107,733
Separate Account Managers					
Agricultural - Hancock	14,557,546	4.85%	10.00%	30,595,958	(16,038,412)
Forest Investment Associates	47,089,955	15.68%	12.50%	38,244,948	8,845,008
INVESCO Realty	28,511,800	9.49%	17.50%	53,542,927	(25,031,127)
Kennedy Associates	33,261,355	11.07%	12.50%	38,244,948	(4,983,593)
L & B Real Estate Counsel	42,290,169	14.08%	15.00%	45,893,937	(3,603,768)
RREEF	61,213,016	20.38%	17.50%	53,542,927	7,670,090
Subtotal	226,923,841	75.55%	85.00%	260,065,643	(33,141,802)
Opportunistic Partnerships					
Hearthstone (MSII Homebuilding)	1,454,005	0.48%		10,000,000	(8,545,995)
Crow Holdings Realty Partners II	1,178,890	0.39%		20,000,000	(18,821,110)
Oaktree Capital Management (OCM R E Opportunities Fund B)	14,561,000	4.85%		15,000,000	(439,000)
Hudson Advisors (Brazos, Lone Star I, II, III)	20,914,416	6.96%		35,000,000	(14,085,584)
Prudential (Strategic Value Investors. LLC)	12,688,513	4.22%		25,000,000	(12,311,487)
Olympus Real Estate Fund II & III	20,538,828	6.84%		30,000,000	(9,461,172)
Subtotal	71,335,652	23.75%	15.00%	135,000,000	(63,664,348)
Total Real Estate	300,367,226	100.00%	100.00%	395,065,643	(94,698,417)

Market value total fund

2,039,730,534

\$ %

Target Value (\$ and %)

305,959,580 15.00%

Market Value (\$ and %)

300,367,226 14.73%

Variance from Target

(5,592,354) -0.27%

Total Committed Capital

397,173,377

Managers in Redemption

2,107,733

Actual Committed Capital

395,065,643

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B. BRIEFING ITEMS

Administrator's report

- a. Custodial bank/consultants update, including monthly investment performance summary
- b. Investment managers update
- c. Professional services providers update
- d. Continuing education/investment research

Mr. Tettamant briefed the Board on current developments relating to the Pension System.

After discussion, Mr. Shaw made a motion to receive and file the Administrator's report. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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The Administrator stated that there was no further business to come before the Board. On a motion by Mr. Shaw and a second by Mr. McCollum, the meeting was adjourned at 1:19 p.m.

Gerald Brown
Chairman

ATTEST:

Richard L. Tettamant
Secretary