

Dallas Police and Fire Pension System
Thursday, July 19, 2001
8:30 a.m.
2301 North Akard, Suite 200
Dallas, Texas

Quarterly meeting, Gerald Brown, Chairman, presiding:

ROLL CALL

Board Members

Present: Gerald Brown, Gary Edge, Steve Shaw, George Tomasovic, Rector C. McCollum, Steve Umlor, Richard Wachsman, John Mays

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

Staff: Richard Tettamant, Don Rohan, Brian Blake, Jerry Baldree

Others: Marina Lund, Joel P. Whidden, Neil McKenna, Thea Walker

* * * * *

The meeting was called to order at 8:30 a.m.

The meeting was recessed at 8:30 a.m.

The Meeting reconvened at 9:30 a.m.

* * * * *

A. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Deutsche Asset Management

Deutsche representatives, Ms. Lund and Mr. Whidden, discussed and reviewed the investment management of the System's Emerging Markets portfolio.

After discussion, Mr. Edge made a motion to receive and file the reports from Deutsche Asset Management. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

**Quarterly Board Meeting
Thursday, July 19, 2001**

* * * * *

The meeting was recessed at 10:17 a.m.

The meeting reconvened at 10:26 a.m.

* * * * *

2. Wilshire Associates, Inc. reports and recommendations

- a. Deutsche Asset Management
 - (1) Personnel issues
 - (2) Probationary status review for Emerging Markets portfolio
- b. International equity structure
- c. Quarterly investment performance report for the first quarter ending March 31, 2001

Mr. McKenna, of Wilshire Associates, the System's investment consultant, discussed personnel changes at Deutsche Asset Management and reviewed the performance of the Emerging Markets portfolio, which currently is on probationary status.

Mr. McKenna gave a detailed presentation regarding the System's international equity structure. Wilshire's key points included the following:

- The System's current international equity segment's performance has trailed the MSCI EAFE and MSCI ACWI ex US Index over most periods.
- The Board has decided to eliminate its allocation to emerging markets.
- Active management has added value versus the major indices in the international equity markets. Value-style oriented managers have outperformed growth-oriented managers over time.
- Wilshire recommends that the System hire an active manager with a slight value-orientation to replace the emerging markets manager.
- The List of Candidates that meet the screening criteria represents those managers that are good complements to Bank of Ireland. The screening process used to identify the candidates may expedite a search process.

The benefits of selecting such a manager for the System's international equity composite include potentially more consistent performance, reduced tracking error, and style-neutrality.

**Quarterly Board Meeting
Thursday, July 19, 2001**

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

Wilshire recommended that (1) the System terminate the emerging markets manager, and (2) use the emerging markets proceeds to fund a new active manager, and (3) conduct a search to hire a manager that complements Bank of Ireland, which should further diversify the segment.

After discussion, Mr. Shaw made a motion to receive and file a draft version of Wilshire's International Equity Structure report and to direct Wilshire to submit a final version of the report. Further, the motion also directed the Administrator to put on the August agenda an item for the 50% reduction of the Deutsche Asset Management Emerging Markets percentage allocation to 2 1/2%. Mr. Edge seconded the motion, which was unanimously approved by the Board.

Mr. McKenna reviewed the quarterly investment performance report for the first quarter ended March 31, 2001. The investment performance is summarized in the following chart:

	First Quarter 2001	1-year	3-year	5-year
Total Fund	-6.92%	-9.68%	7.12%	11.35%
Actuarial Rate	2.06%	8.50%	8.56%	8.64%

- **Total Return:** The Dallas Police and Fire Pension System ("the System") experienced a loss of 6.9% during the quarter ended March 31, 2001. This total fund return trailed both the System's asset allocation policy and actuarial rate during the quarter. The System has outperformed both the asset allocation policy and the actuarial rate over the five and ten-year periods.
- **Asset Growth:** The System's market value at quarter-end was approximately \$1.9 billion, which represents a decrease of \$129 million from the beginning of the quarter. This decrease in market value was comprised of net contributions of \$46.2 million, net distributions and administrative fees of \$35.1 million, and a net investment loss of \$140.1 million.
- **Asset Allocation:** As of March 31, 2001, the System was underweighted to both its domestic and international equity segments, while overweighted to its fixed income segments. The System was also overweighted to cash at quarter-end.
- **U.S. Equity:** The U.S. equity market, as measured by the Wilshire 5000 Index, fell by 12.3% during the quarter and is down 24.8% over the one-year period. The U.S. economic slowdown continued throughout the quarter, as numerous negative earnings reports hurt stock valuations across the market.

Quarterly Board Meeting
Thursday, July 19, 2001

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

Once again led by the technology sector, most sectors of the market experienced losses during the quarter. Small-cap stocks, as measured by the Wilshire Small Cap 1750 Index, outpaced large-cap stocks, as measured by the Wilshire Large Cap 750 Index, during the quarter. Micro-cap stocks posted a moderate gain during the period. According to the Wilshire Style Indices, value stocks, both large and small, continued to outperform their growth counterparts during the quarter.

- **International Equity:** The international equity markets, as measured by the MSCI ACWI Free ex US Index, declined by 13.2% during the quarter and trailed the U.S. equity market. The European markets, as measured by the MSCI Europe Index, trailed the Pacific-Basin markets, as measured by the MSCI Pacific Index, during the quarter. The Japanese market outperformed those of France, Germany and the United Kingdom over the period. The Yen, the Euro and the Pound all depreciated against the U.S. dollar during the quarter. Such currency movements hurt the dollar-based performance of these countries. The emerging markets, as measured by the MSCI Emerging Markets Free Index, reported a loss of 5.4% during the quarter and outpaced the developed MSCI EAFE Index.
- **Fixed Income:** The U.S. bond market, as measured by the Lehman Aggregate Bond Index, generated a 3.0% gain, as the U.S. Federal Reserve lowered interest rates on three different occasions during the quarter. The easing Federal Reserve policy helped the U.S. bond market. Corporate bonds, as measured by the Lehman Credit Index, displayed strong relative performance during the quarter. While Treasury securities cooled off, higher-quality issues continued to perform well. The high yield sector was the best performing sector of the bond market during the quarter, as the Salomon High Yield Cash Pay Index reported a gain of 6.4% for the period. Non-US bonds, which performed well in local currency terms, suffered from the strengthening U.S. dollar. The Salomon Non-US Government Bond Index fell by 4.9% during the quarter.
- **Real Estate:** The Wilshire Real Estate Fund Index appreciated by 2.0% during the quarter. Real estate securities, which performed well in 2000, experienced a decline over the period. The Wilshire Real Estate Securities Index fell by 1.0% during the quarter, though performance over the one-year period remains strong.

After discussion, Mr. Edge made a motion to receive and file the Wilshire Associates reports, including the quarterly investment performance report for the fourth quarter ended March 31, 2001. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

**Quarterly Board Meeting
Thursday, July 19, 2001**

* * * * *

The meeting was recessed at 12:01 p.m.

The meeting was reconvened at 12:38 p.m.

* * * * *

3. 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 30 on pages _____.

Wilshire Associates Inc. stated that no rebalancing is necessary, as all asset classes are within their target ranges.

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

* * * * *

4. Report on upgrading computer software

Mr. Tettamant stated that the proposed 2001-2002 Professional Services Budget includes a budget line to provide \$635,000 to fund an updating of the System's pension recordkeeping system. The current system was implemented and continues to be maintained by Levi, Ray & Shoup, Inc. (LRS). At its May meeting, the Administrative Advisory Committee directed the staff to explore alternative means for upgrading the system. Campbell Consulting Group conducted a management study to provide the information requested by the Board. Thea Walker of Campbell Consulting presented findings of the study at the meeting. Campbell Consulting recommended that the Pension System purchase the Pension Gold Version 2.5 software to upgrade the pension recordkeeping system.

After discussion, Mr. Edge made a motion to implement the recommendation of Campbell Consulting Group to purchase the Pension Gold Version 2.5 pension recordkeeping software. Mr. Mays seconded the motion, which was unanimously approved by the Board.

**Quarterly Board Meeting
Thursday, July 19, 2001**

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

Asset Class		Target		Actual		Range		Difference
		\$	%	\$	%	Minimum	Maximum	vs. Target \$
EQUITY								
<u>Domestic Equity</u>								
S & P Index	SSgA	333.10	17.00	314.98	16.08	10.00	19.00	(18.12)
Large Cap Growth	Oak Assoc.	117.57	6.00	112.58	5.75	5.00	7.00	(4.99)
Micro Cap	Deutsche Asset Mgmt	97.97	5.00	109.82	5.60	4.00	6.00	11.85
Large Cap Value	Alliance Capital	117.57	6.00	128.06	6.54	5.00	7.00	10.49
Private Equity	NTOP/Huff	0.00	0.00	11.26	0.57	0.00	5.00	0.00
Total Domestic Equity		666.21	34.00	676.70	34.54	29.00	39.00	10.49
<u>International Equity</u>								
Active Large Cap	Bank of Ireland	176.35	9.00	166.12	8.48	7.50	10.50	(10.23)
Active Emerging	Deutsche Asset Mgmt	97.97	5.00	91.67	4.68	4.00	6.00	(6.30)
Passive EAFE Int'l Index	SSgA	195.94	10.00	176.22	8.99	8.50	11.50	(19.72)
Total International Equity		470.27	24.00	434.01	22.15	20.00	28.00	(36.26)
Total Equity		1,136.48	58.00	1,110.71	56.69	49.00	67.00	(25.77)
FIXED INCOME								
<u>Global High Quality</u>	Deutsche Asset Mgmt	195.94	10.00	193.07	9.85	8.50	11.50	(2.87)
<u>Domestic High Yield</u>	W.R. Huff	97.97	5.00	95.02	4.85	3.00	7.00	(2.95)
<u>Global Opportunistic</u>								
Opportunistic Partnership	W.R. Huff	58.78	3.00	59.69	3.05	0.00	4.00	0.91
GOFI Separate Account	Loomis-Sayles	176.35	9.00	175.30	8.95	8.00	14.00	(1.05)
Total Global Opportunistic		235.13	12.00	234.99	11.99	10.00	14.00	(0.14)
Total Fixed Income		529.05	27.00	523.08	26.70	21.50	32.50	(5.97)
REAL ESTATE		293.92	15.00	309.65	15.80	13.00	17.00	15.73
		0.00						
CASH EQUIVALENTS		0.00	0.00	16.00	0.82	0.00	0.00	16.00
Total Assets		1,959.44	100.00	1,959.44	100.00	83.50	116.50	0.00

**Quarterly Board Meeting
Thursday, July 19, 2001**

**DALLAS POLICE AND FIRE PENSION SYSTEM
JULY 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)	20,026	0.01%	0.00%		20,026
Heitman Capital Management (JMB III & IV)	1,510,017	0.49%	0.00%		1,510,017
Subtotal	1,530,043	0.49%	0.00%	0	1,530,043
Separate Account Managers					
Agricultural - Hancock	17,320,075	5.59%	10.00%	29,391,707	(12,071,632)
Forest Investment Associates	44,892,102	14.50%	12.50%	36,739,634	8,152,468
INVESCO Realty	21,483,820	6.94%	17.50%	51,435,487	(29,951,667)
Kennedy Associates	33,385,493	10.78%	12.50%	36,739,634	(3,354,141)
L & B Real Estate Counsel	43,122,370	13.93%	15.00%	44,087,560	(965,190)
RREEF	67,068,581	21.66%	17.50%	51,435,487	15,633,094
Subtotal	227,272,441	73.40%	85.00%	249,829,509	(22,557,068)
Opportunistic Partnerships					
Hearthstone (MSII Homebuilding)	1,919,883	0.62%		10,000,000	(8,080,117)
Crow Holdings Realty Partners II	4,255,246	1.37%		20,000,000	(15,744,754)
Oaktree Capital Management (OCM R E Opportunities Fund B)	15,127,421	4.89%		15,000,000	127,421
Hudson Advisors (Brazos, Lone Star I, II, III)	26,232,443	8.47%		35,000,000	(8,767,557)
Prudential (Strategic Value Investors. LLC)	15,647,648	5.05%		25,000,000	(9,352,352)
Olympus Real Estate Fund II & III	17,663,438	5.70%		30,000,000	(12,336,562)
Subtotal	80,846,079	26.11%	15.00%	135,000,000	(54,153,921)
Total Real Estate	309,648,562	100.00%	100.00%	384,829,509	(75,180,947)

Market value total fund

1,959,447,130

\$ %

Target Value (\$ and %)

293,917,070	15.00%
-------------	--------

Market Value (\$ and %)

309,648,562	15.80%
-------------	--------

Variance from Target

15,731,493	0.80%
------------	-------

Total Committed Capital

386,359,552

Managers in Redemption

1,530,043

Actual Committed Capital

384,829,509

**Quarterly Board Meeting
Thursday, July 19, 2001**

* * * * *

B. BRIEFING ITEMS

Administrator's report

- a. Custodial bank/consultants update
- b. Investment managers update
- c. Professional services providers update

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

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

* * * * *

Mr. Tettamant stated that there was no further business to come before the Board. On a motion by Mr. McCollum and a second by Mr. Tomasovic, the meeting was adjourned at 2:19 p.m.

Gerald Brown
Chairman

ATTEST:

Richard L. Tettamant
Secretary