

Dallas Police and Fire Pension System
Thursday, August 9, 2001
8:30 a.m.
2301 North Akard, Suite 200
Dallas, Texas

Regular meeting, Gerald Brown, Chairman, presiding:

ROLL CALL

Board Members

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

Absent: Councilmember Donald Hill, Councilmember John Loza, Councilmember Mary Poss

Staff Richard Tettamant, Don Rohan, Brian Blake, Linda Rickley, Jerry Baldree, Everard Davenport

Others Gary Lawson, Juan (John) A. deLuna, Daniel J. Rice, L. Farrell Crane, Lewis F. Crane, John H. Gordon, Douglas Hohertz, Rodney Mitchell, Henry Groppe, Paul Smith, Scott Dennis, Louis Paletta

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

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A. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of July 12, 2001
Quarterly meeting of July 19, 2001

2. Approval of the Monthly Trustee Summary for the Month of June 2001

3. Approval of Refunds of Contributions for the Month of July 2001

Refund of Combined Pension Plan, Section 6.02 Group B Contributions		
<u>Member</u>	<u>Dept.</u>	<u>Refund Date</u>
Ezekiel J. Grimes	P	July 9, 2001
Gina L. Mosley	P	July 9, 2001
Matthew J. Nybeck	P	July 3, 2001

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**3. Approval of Refunds of Contributions for the Month of July 2001
(continued)**

Refund of Combined Pension Plan, Section 6.02 Group B Contributions
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<u>Member</u>	<u>Dept.</u>	<u>Refund Date</u>
T. Williams, Jr.	P	July 3, 2001
Patricia Vasquez, Alternate Payee Joseph Vasquez	F	July 13, 2001

4. Approval of Activity in the Deferred Retirement Option Plan (DROP) for August 2001

New DROP* Participants

Member	Dept.
Larry J. Bassett	Fire
Blaine A. Danyluk	Fire
Roy G. Ferguson	Fire
Wallace J. Graves	Fire
Leland G. Hancock	Fire
James F. Hill, II	Fire
Geary S. Miller	Fire
Robert P. McMahan	Fire
Kenneth M. Thomas	Fire
Larry R. Waller	Fire
Edward G. Silva, Jr.	Police

Pensioner DROP* Participants

Pensioner	Dept.
Dixie R. Dickerson	Fire
Jerry W. McDonald	Police

Transfer Funds from DROP* to 401(k)

Member	Dept.
Donnie W. Chapman	Police

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5. Approval of Payment of First Year Contributions

James M. Smith, Police

6. Approval of Survivor Benefits - Deceased Retirees

Deceased Member	Dept.	Date Of Death	Qualified Survivor	Estate Payment	Group
W. A. Fuller	Fire	July 8, 2001	Juanita Fuller	Yes	B - Sec. 6.02
Lonnie H. Bolin	Police	July 20, 2001	Christina A. Bolin	No	B - Sec. 6.02

7. Approval of Service Retirements

Member	Dept.	Effective	Group	* DROP Participant
Andres B. Enriquez	Fire	July 1, 2001	A - Sec. 6.01(e)	No/VII
James P. Kean	Fire	July 30, 2001	B - Sec. 6.02(b)	Yes/V
Glenn Z. Luker	Police	August 1, 2001	B - Sec. 6.02(b)	Yes/V
Randal A. Milner	Police	July 30, 2001	B - Sec. 6.02(c)	No/VII

* Distribution Method	
NE - Not Eligible	IV - Lump Sum Partial or Delayed Payment
I - Life Annuity	V - Monthly Payments
II - Joint/Survivor Annuity	VI - Although Eligible - No Distribution Elected
III - Lump Sum ASAP	VII - Did Not Join

After discussion, Mr. Wachsman made a motion to approve the items on the Consent Agenda, subject to the final approval of the Administrator. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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B. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Energy equity investments, including interviews with the following firms:

- a. State Street Research and Management
- b. Orleans Capital Management
- c. The Mitchell Group

Mr. Tettamant, Administrator, stated that at the July 12, 2001 meeting, the Board voted to interview firms for possible energy equity investments. He explained the screening process by which the finalist firms were selected. The following firms gave presentations regarding their energy equity investment capabilities:

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**1. Energy equity investments, including interviews with the following firms:
(continued)**

- | | |
|--------------------------------------|--|
| State Street Research and Management | - Juan (John) A. deLuna
- Daniel J. Rice |
| Orleans Capital Management | - L. Farrell Crane
- Lewis F. Crane
- John H. Gordon |
| The Mitchell Group | - Rodney Mitchell
- Henry Groppe
- Douglas Hohertz |

After discussion, Mr. Shaw made a motion to approve a contract for a \$20 million energy equity investment through The Mitchell Group, subject to a successful due diligence visit by Board members and the final approval of the Administrator and the attorney. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

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2. Possible investment through INVESCO Realty Advisors

Messrs. Smith and Dennis, of INVESCO Realty Advisors, discussed a potential investment in Fairfax, Virginia with the Board. This investment would be outside the investment manager's discretionary guidelines, and would require Board approval.

After discussion, Mr. Edge made a motion to approve the Fairfax, Virginia real estate investment with INVESCO, subject to INVESCO's final due diligence. Mr. Wachsman seconded the motion, which was unanimously approved by the Board.

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3. Possible investment in Lone Star Fund IV

Mr. Paletta, of Hudson Advisors, discussed a potential investment in Lone Star Fund IV with the Board. Russell Real Estate Advisors, the System's real estate consultant, recommended approval of the investment.

After discussion, Mr. Wachsman made a motion to approve an investment of \$20 million in Lone Star Fund IV, subject to contract approval by the Administrator and the outside legal advisors. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

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**4. First Amendment to the Amended and Restated Operating Agreement of
Hearthstone-MSII Homebuilding Investors, LLC**

Hearthstone is requesting a change to their documents. According to Russell Real Estate Advisors, Hearthstone is proposing that the Partnership Agreement be amended to allow them to invest in land processing investments (where certain permits or approvals are yet to be obtained) up to a total of \$15 million on a combined basis or 3% of the Fund's capital commitments. Individual land processing investments will range between \$250,000 to \$2,000,000, to allow for diversification within this strategy, and the land will be optioned and not purchased until all permits and approvals are in place. Russell Real Estate Advisors has reviewed the proposed amendment to the Partnership Agreement of Hearthstone Multi-State Fund II and recommends approving the amendment.

After discussion, Mr. Wachsman made a motion to approve the First Amendment to the Amended and Restated Operating Agreement of Hearthstone-MSII Homebuilding Investors, LLC, based on the real estate consultant's recommendation, and subject to the final approval of the Administrator and outside legal advisor. Messrs. Tomasovic and Mays jointly seconded the motion, which was unanimously approved by the Board.

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5. International equity investments

- a. Possible reduction of the Deutsche Asset Management Emerging Markets percentage allocation and the timing of such reduction
- b. Adjustment of the targets and ranges on the Monthly Asset Allocation Report

Mr. Tettamant stated that at the last Board meeting, the Board discussed the Emerging Markets portfolio. The recommendation at that time was to reduce the Emerging Markets allocation by 50% to 2.5% of the assets.

After discussion, Mr. Wachsman made a motion to approve the reduction of the Deutsche Asset Management Emerging Markets allocation by 50% to 2.5% of the assets. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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6. Possible investment through Oaktree Capital Management

This item was tabled until the September Board meeting.

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7. Police officer and firefighter pay lawsuits

The System's attorney, Mr. Lawson, stated that there was no activity to report regarding the various pay lawsuits.

No motion was made.

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8. Condensed Annual Reports

The Board at its July 12, 2001 meeting approved the draft 2000 Annual Report. Condensed versions of the Annual Report have been prepared to highlight selected information from the full report. On publication, the Condensed Annual Reports will be distributed to active members and pensioners.

After discussion, Mr. Wachsman made a motion to approve the Condensed Annual Reports for the active members and pensioners, subject to the final approval of the Administrator. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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9. Second reading of Administrative and Professional Services budgets for Fiscal Year 2001-2002

The proposed Administrative and Professional Services Budgets for Fiscal Year 2001-2002 were presented to the Board for review and comment at the June 14, 2001 meeting. The proposed budgets were distributed to the active members in the System's newsletter, the *Pension Update*, the weeks of June 25, 2001 and July 23, 2001. The first reading was held at the July 12, 2001 Board meeting. At that time, the Board authorized the second reading of the budget at the August 9, 2001 regular meeting.

The Professional Services Budget submitted for the second reading includes a change to one line item from the prior proposal. The "Retirement Information System" line item to upgrade pension record keeping and benefit payments services is changed to name Levi, Ray and Shoup, Inc. as the vendor for the services and to reduce the amount requested from \$635,000 to \$400,000. The changes incorporate the Board's approval at its July 19 special meeting of the recommendations presented by Campbell Consulting in its management study of computer systems upgrade alternatives. There is no change to the Administrative Services Budget.

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9. Second reading of Administrative and Professional Services budgets for Fiscal Year 2001-2002 (continued)

After discussion, Mr. Edge made a motion to approve the second and final reading of the Fiscal Year 2001-2002 Administrative and Professional Services Budgets. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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10. Pension System's monthly financial statement

The Board and staff discussed the monthly financial statement for the period ending June 30, 2001.

After discussion, Mr. Wachsman made a motion to receive and file the monthly financial statement. Mr. Mays seconded the motion, which was unanimously approved by the Board.

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11. 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 Incorporated stated that no rebalancing is necessary, as all asset classes are within their target ranges.

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

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12. Preliminary agenda for the annual Board/Staff Workshop to be held on October 15-18, 2001

The Board and staff discussed the preliminary agenda for the annual workshop.

No motion was made.

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

Asset Class		Target		Actual		Range		Difference
		\$	%	\$	%	Minimum	Maximum	vs. Target \$
EQUITY								
<u>Domestic Equity</u>								
S & P Index	SSgA	328.42	17.00	311.92	16.15	10.00	19.00	(16.50)
Large Cap Growth	Oak Assoc.	115.91	6.00	105.44	5.46	5.00	7.00	(10.47)
Micro Cap	Deutsche Asset Mgmt	96.60	5.00	104.19	5.39	4.00	6.00	7.59
Large Cap Value	Alliance Capital	115.91	6.00	128.33	6.64	5.00	7.00	12.42
Private Equity	NTOP/Huff	0.00	0.00	11.26	0.58	0.00	5.00	0.00
			34.00	661.14	34.22	29.00	39.00	4.29
Total Domestic Equity								
<u>International Equity</u>								
Active Large Cap	Bank of Ireland	173.87	9.00	162.72	8.42	7.50	10.50	(11.15)
Active Emerging	Deutsche Asset Mgmt	96.60	5.00	86.09	4.46	4.00	6.00	(10.51)
Passive EAFE Int'l Index	SSgA	193.19	10.00	171.77	8.89	8.50	11.50	(21.42)
			24.00	420.58	21.77	20.00	28.00	(43.08)
Total International Equity								
			58.00	1081.72	55.99	49.00	67.00	(38.79)
Total Equity								
FIXED INCOME								
<u>Global High Quality</u>								
	Deutsche Asset Mgmt	193.19	10.00	193.07	9.99	8.50	11.50	(0.12)
<u>Domestic High Yield</u>								
	W.R. Huff	636.85	5.00	96.42	4.99	3.00	7.00	(0.18)
<u>Global Opportunistic</u>								
Opportunistic Partnership	W.R. Huff	57.96	3.00	59.69	3.09	0.00	4.00	1.73
GOFI Separate Account	Loomis-Sayles	173.87	9.00	173.99	9.01	8.00	14.00	0.12
			12.00	233.68	12.10	10.00	14.00	1.85
Total Global Opportunistic								
	463.66		27.00	523.17	27.08	21.50	32.50	1.55
Total Fixed Income								
	1,120.51		15.00	306.81	15.88	13.00	17.00	17.02
<u>REAL ESTATE</u>								
<u>CASH EQUIVALENTS</u>								
			0.00	20.21	1.05	0.00	0.00	20.21
Total Assets								
			100.00	1,931.91	100.00	83.50	116.50	0.00

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**DALLAS POLICE AND FIRE PENSION SYSTEM
AUGUST 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
Prudential (Strategic Value Investors. LLC)	13,468,800	4.39%	0.00%		13,468,800
Subtotal	14,998,843	4.89%	0.00%	0	14,998,843
Separate Account Managers					
Agricultural - Hancock	17,320,075	5.65%	10.00%	28,978,507	(11,658,432)
Forest Investment Associates	46,275,630	15.08%	12.50%	36,223,134	10,052,496
INVESCO Realty	21,483,820	7.00%	17.50%	50,712,388	(29,228,568)
Kennedy Associates	33,385,493	10.88%	12.50%	36,223,134	(2,837,641)
L & B Real Estate Counsel	43,122,370	14.06%	15.00%	43,467,761	(345,391)
RREEF	65,960,392	21.50%	17.50%	50,712,388	15,248,004
Subtotal	227,547,780	74.17%	85.00%	246,317,312	(18,769,532)
Opportunistic Partnerships					
Hearthstone (MSII Homebuilding)	1,971,372	0.64%		10,000,000	(8,028,628)
Crow Holdings Realty Partners II	4,463,114	1.45%		20,000,000	(15,536,886)
Oaktree Capital Management (OCM R E Opportunities Fund B)	15,127,421	4.93%		15,000,000	127,421
Hudson Advisors (Brazos, Lone Star I, II, III)	25,037,289	8.16%		60,000,000	(34,962,711)
Olympus Real Estate Fund II & III	17,663,438	5.76%		30,000,000	(12,336,562)
Subtotal	64,262,634	20.95%	15.00%	135,000,000	(70,737,366)
Total Real Estate	306,809,257	100.00%	100.00%	381,317,312	(74,508,055)

Market value total fund

1,931,900,490

\$ %

Target Value (\$ and %)

289,785,074 15.00%

Market Value (\$ and %)

306,809,257 15.88%

Variance from Target

17,024,184 0.88%

Total Committed Capital

396,316,155

Managers in Redemption

14,998,843

Actual Committed Capital

381,317,312

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13. Staff and Board Members' reports on Board-approved seminars and/or conferences they attended

- a. Conference: II: Public Funds Symposium Summit**
Dates: July 16-18, 2001

Mr. Tettamant and Mr. Brown reported on this investment conference.

- b. Conference: Cooper Consultants Educational Workshop**
Dates: July 30, 2001

Mr. Tettamant and Mr. Blake reported on this client conference.

After discussion, Mr. Tomasovic made a motion to receive and file the Board and staff members' reports on the Board-approved seminars and/or conferences they attended. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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C. BRIEFING ITEMS

1. Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System

No active members or retirees were present to discuss concerns.

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2. Administrator's report

- a.** Custodial bank/consultants update, including monthly investment performance summary
- b.** Investment managers update
- c.** Professional services providers update
- d.** Texas Public Employee Retirement Systems (TEXPERS), National Conference on Public Employee Retirement Systems (NCPERS), and the Coalition to Preserve Retirement Security (CPRS)
- e.** Continuing education/investment research

Mr. Tettamant discussed the monthly report on performance returns prepared by State Street Bank & Trust, the System's custodial bank.

Mr. Tettamant updated the Board on the investment managers and professional services providers, and other current developments relating to the Pension System.

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2. Administrator's report (continued)

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

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ADDENDUM

Amendment to the agreement with North Texas Opportunity Fund

The North Texas Opportunity Fund is requesting Board approval of several amendments to the Partnership Agreement. None of the proposed amendments are major, but are clarifications, typographical corrections, or technical amendments. The amendments have been reviewed and approved by the System's General Counsel and outside legal advisors.

After discussion, Mr. Wachsman made a motion to approve the amendment to the agreement with North Texas Opportunity Fund, subject to the final approval of the Administrator and legal advisors. Mr. Mays seconded the motion, which was unanimously approved by the Board.

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Mr. Tettamant stated that there was no further business to come before the Board. On a motion by Mr. Edge and a second by Mr. Tomasovic, the meeting was adjourned at 2:04 p.m.

Gerald Brown
Chairman

ATTEST:

Richard L. Tettamant
Secretary