

**Dallas Police and Fire Pension System**  
**Thursday, January 17, 2002**  
**8:30 a.m.**  
**2301 North Akard**  
**First Floor Conference Room**  
**Dallas, Texas**

Quarterly 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 Donald Hill

Absent: Councilmember Leo V. Chaney, Jr., Councilmember Maxine Thornton-Reese

**Staff:** Richard Tettamant, Don Rohan, Brian Blake, Jerry Baldree, Everard Davenport, Linda Stevenson, Jay Jackson, John Holt, Jerry Chandler, Linda Rickley

**Others:** Rosalind Hewsenian, Gary Lawson, Gus Fields

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The meeting was called to order at 8:33 a.m.

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**A. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION**

**1. Possible selection of international equity manager**

- a. Discuss due diligence findings
- b. Hire international equity manager(s) and approve contract(s)

The System's consultant (Ms. Hewsenian), the Board, and staff discussed their findings from the due diligence meetings at Fidelity, Clay Finlay, and Capital Guardian. Ms. Hewsenian reported on Deutsche organizational changes that might affect the Board's selection of an international equity manager(s). As requested by the Board, she also discussed the impact of retaining Fidelity as an enhanced index fund manager in place of State Street and the optimal allocation to both active management and core management, whether the core, or central, basic strategy is either passively managed or an enhanced index fund.

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The meeting was recessed at 9:51 a.m.

The meeting was reconvened at 9:59 a.m.

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**1. Possible selection of international equity manager (continued)**

Mr. Tettamant recused himself from the meeting during the discussion of Fidelity as a potential manager.

After discussion, Mr. Edge made a motion to hire Clay Finlay as the System's new international equity manager. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

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After discussion, Mr. Edge made a motion to select the 4.5% risk factor and hire Clay Finlay and Bank of Ireland. The motion died for the lack of a second.

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After discussion, Mr. Mays made a motion to select the 3.5% risk factor, using the index fund and Fidelity. The weighting among the managers would be 25% to Clay Finlay, 45% to Bank of Ireland, 0% to State Street, and 30% to Fidelity. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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After discussion, Mr. Edge made a motion to eliminate Deutsche Asset Management as an international equity manager, and to split the transition management between State Street Bank and Frank Russell Securities, Inc. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

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The meeting was recessed at 11:30 a.m.

The meeting was reconvened at 12:30 p.m.

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**2. Wilshire Associates, Inc. reports and recommendations**

- a. Quarterly investment performance report for the third quarter ended September 30, 2001
- b. Educational Sessions on Specialty Investments: Overview of High Yield, Collateralized Debt Obligations, and Hedge Funds
- c. 2002 project scheduling

Ms. Hewsenian reviewed the quarterly investment performance report for the third quarter ended September 30, 2001. The investment performance is summarized in the following chart:

	<b>Third Quarter 2001</b>	<b>1-year</b>	<b>3-year</b>	<b>5-year</b>
<b>Total Fund</b>	-10.21%	-17.73%	7.62%	8.19%
<b>Actuarial Rate</b>	2.06%	8.50%	8.52%	8.61%

- **Total Return:** The Dallas Police and Fire Pension System (“the System”) reported a return of –10.2% during the quarter ended September 30, 2001. The System trailed its asset allocation policy and its actuarial rate over the period as exposure to equities detracted from performance. Over the ten-year period, the System has outpaced both its policy and its actuarial rate.
- **Asset Growth:** As of September 30, 2001, the System’s market value was approximately \$1.8 billion, which represents a decrease of \$201.3 million from the beginning of the quarter. This change in market value was comprised of net contributions of \$24.6 million, net distributions and administrative fees of \$22.4 million, investment management fees of \$1.2 million, and a net investment loss of \$202.3 million.
- **Asset Allocation:** At quarter-end, the System was underweighted to both domestic and international equities while overweighted to global bonds and real estate.
- **U.S. Equity:** The U.S. stock market, as measured by the Wilshire 5000 Index, experienced a severe decline during the third quarter of 2001. The events of September 11<sup>th</sup> dramatically worsened the recession-related concerns that existed in the economy prior to that day. The Wilshire 5000 and S&P 500 reported returns of –15.9% and –14.7%, respectively, during the quarter. These losses were spread across each sector of the U.S. stock market. Technology and consumer durables were the worst performing sectors of the market during the period, while consumer non-durables and utilities performed well on a relative basis. From a size standpoint, small-cap stocks, which have outpaced their large-cap counterparts during the first half of 2001, underperformed during the quarter. With respect to style, value-oriented stocks came back into favor during the quarter.

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

- **International Equity:** The international equity markets, as measured by the MSCI ACWI Free ex-US Index, produced similar performance to that of the U.S. stock market during the quarter. The MSCI ACWI Free ex-US Index fell by 14.8%, while the developed MSCI EAFE Index fell by 14.0%. The European markets outperformed those in the Pacific-Basin region over this period. Japan experienced a loss of 18.2% in U.S. dollar terms, while the United Kingdom reported a single-digit loss. The appreciation of the Euro helped the performance of the European markets. The Euro gained a solid 7.6% versus the U.S. dollar during the quarter and is up 3.2% over the one-year period. Currency movements against the U.S. dollar during the quarter helped the dollar-based performance of the international equity markets. The emerging markets, as measured by the MSCI EMF Index, trailed the developed markets during the quarter.
- **Fixed Income:** The U.S. bond market reported solid gains during the third quarter as investors looked for a safe-haven from the equity markets. The Lehman Aggregate Bond Index generated a return of 4.6% during the quarter. The Treasury sector displayed the best performance within the bond market, as the Lehman Treasury Bond Index gained 5.5% over the period. The high yield sector continued to decline, reporting a moderate loss during the quarter. Non-dollar bonds performed especially well as most major currencies appreciated versus the U.S. dollar. The Salomon Non-US Government Bond Index reported a gain of 7.8% during the quarter.
- **Real Estate:** The Wilshire Real Estate Fund Index appreciated by 1.1% during the quarter, while real estate securities fell. The Wilshire Real Estate Securities Index posted a loss of 4.6% during the quarter.

After discussion, Mr. Mays made a motion to receive and file the Wilshire quarterly investment performance report for the third quarter ended September 30, 2001. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

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Ms. Hewsenian presented educational sessions on specialty investments as follows: high yield, collateralized debt obligations, and hedge funds.

After discussion, Mr. Wachsman made a motion to receive and file the Wilshire educational presentations. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

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The meeting was recessed at 1:40 p.m.

The meeting was reconvened at 1:46 p.m.

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**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. Wachsman made a motion to receive and file the January 2002 monthly asset allocation report and approve Wilshire Associates' recommendations. Mr. Mays seconded the motion, which was unanimously approved by the Board.

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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 regarding current developments relating to the Pension System.

After discussion, Mr. Wachsman 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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**DALLAS POLICE AND FIRE PENSION SYSTEM  
JANUARY 2002 ASSET ALLOCATION MONITORING REPORT**

Asset Class		Target		Actual		Range		Difference
		\$	%	\$	%	Minimum	Maximum	vs. Target \$
<b>EQUITY</b>								
<b><u>Domestic Equity</u></b>								
S & P Index	SSgA	304.01	16.00		14.49	9.00	17.50	(28.71)
Large Cap Growth	Oak Assoc.	114.00	6.00		6.58	5.00	7.00	11.10
Micro Cap	Deutsche Asset Mgmt	95.00	5.00	275.30	5.34	4.00	6.00	6.51
Large Cap Value	Alliance Capital	114.00	6.00	125.10	5.98	5.00	7.00	(0.43)
Private Equity	NTOP/Huff	0.00	0.00	101.51	0.79	0.00	5.00	0.00
	Mitchell Group	19.00	1.00	113.57	1.09	1.00	1.50	0.00
Energy		646.02	34.00	14.98	34.27	29.00	39.00	5.11
<b>Total Domestic Equity</b>								
<b><u>International Equity</u></b>								
Active Large Cap	Bank of Ireland	171.01	9.00	155.47	8.18	7.50	10.50	(15.54)
Active Emerging	Deutsche Asset Mgmt	95.00	5.00		4.78	4.00	6.00	(4.25)
Passive EAFE Int'l Index	SSgA	190.01	10.00		9.67	8.50	11.50	(6.30)
<b>Total International Equity</b>								
		456.02	24.00	90.75	22.63	20.00	28.00	(26.09)
<b><u>FIXED INCOME</u></b>								
<b><u>Total Equity</u></b>								
<b><u>Global High Quality</u></b>								
<b><u>Domestic High Yield</u></b>								
	Deutsche Asset Mgmt	190.01	10.00	171.60	9.03	8.50	11.50	(18.41)
	W.R. Huff	95.00	5.00		4.69	3.00	7.00	(5.85)
<b><u>Global Opportunistic</u></b>								
Opportunistic Partnership	W.R. Huff & Oaktree	57.00	3.00	65.75	3.46	0.00	4.00	8.75
GOFI Separate Account	Loomis-Sayles	171.01	9.00	171.37	9.02	8.00	14.00	0.36
<b>Total Global Opportunistic</b>								
		228.01	12.00	237.12	12.48	10.00	14.00	9.11
		513.02	27.00	497.87	26.20	21.50	32.50	(15.15)
<b>Total Fixed Income</b>								
<b><u>REAL ESTATE</u></b>								
		285.01	15.00	308.90	16.26	13.00	17.00	23.89
		0.00						
<b><u>CASH EQUIVALENTS</u></b>								
		0.00	0.00	12.24	0.64	0.00	0.00	12.24
<b>Total Assets</b>								
		1,900.07	100.00	1,900.07	100.00	83.50	116.50	0.00

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**DALLAS POLICE AND FIRE PENSION SYSTEM  
JANUARY 2002 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
<b>Managers in Redemption</b>					
AEW Capital Management (Copley DPA)	(0)	0.00%	0.00%		(0)
Heitman Capital Management (JMB III & IV)	1,228,815	0.40%	0.00%		1,228,815
Prudential (Strategic Value Investors LLC)	8,980,144	2.91%	0.00%		8,980,144
<b>Subtotal</b>	10,208,958	3.30%	0.00%	0	10,208,958
<b>Separate Account Managers</b>					
Agricultural - Hancock	18,891,962	6.12%	10.00%	28,500,685	(9,608,723)
Forest Investment Associates	46,084,679	14.92%	12.50%	35,625,857	10,458,822
INVESCO Realty	29,599,105	9.58%	17.50%	49,876,199	(20,277,094)
Kennedy Associates	33,385,493	10.81%	12.50%	35,625,857	(2,240,364)
L & B Real Estate Counsel	45,192,368	14.63%	15.00%	42,751,028	2,441,340
RREEF	59,193,637	19.16%	17.50%	49,876,199	9,317,438
<b>Subtotal</b>	232,347,244	75.22%	85.00%	242,255,825	(9,908,581)
<b>Opportunistic Partnerships</b>					
Hearthstone (MSII Homebuilding)	1,543,854	0.50%		10,000,000	(8,456,146)
Crow Holdings Realty Partners II	6,880,245	2.23%		20,000,000	(13,119,755)
Oaktree Capital Management (OCM R E Opportunities Fund B)	14,907,954	4.83%		15,000,000	(92,046)
Hudson Advisors (Brazos, Lone Star I, II, III, IV)	25,735,207	8.33%		42,576,310	(16,841,103)
Olympus Real Estate Fund II & III	17,272,700	5.59%		30,000,000	(12,727,300)
<b>Subtotal</b>	66,339,961	21.48%	15.00%	117,576,310	(51,236,349)
<b>Total Real Estate</b>	308,896,163	100.00%	100.00%	359,832,135	(50,935,972)

Market value total fund

**1,900,045,684**

\$ %

Target Value (\$ and %)

**285,006,853**

**15.00%**

Total Committed Capital

**370,041,093**

Market Value (\$ and %)

**308,896,163**

**16.26%**

Managers in Redemption

**10,208,958**

Variance from Target

**23,889,310**

**1.26%**

Actual Committed Capital

**359,832,135**

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Mr. Tettamant stated that there was no further business to come before the Board. On a joint motion by Mr. Wachsman and Mr. Mays, and a second by Mr. Edge, the meeting was adjourned at 2:25 p.m.

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Gerald Brown  
Chairman

**ATTEST:**

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Richard L. Tettamant  
Secretary