

Dallas Police and Fire Pension System
Thursday, April 18, 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, Steve Umlor, John Mays, Richard Wachsman, and Councilmember Donald Hill

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

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

Others: Rosalind Hewsenian, Ed Banks, Dwight Walker, Christine Mullis, and Daniel Plumlee

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

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A. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Portfolio review by W. R. Huff

Messrs. Banks and Walker, representatives of W. R. Huff Asset Management, reviewed each of the System's investments in W. R. Huff Asset Management, Huff Alternative Fund LP, W.R. Huff Alternative Income Fund, and Huff's separate account management for high yield bonds, including a review of the W. R. Huff Global Securities Pool Trust.

After discussion, Mr. Wachsman made a motion to receive and file the portfolio review by W. R. Huff. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

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**Quarterly Board Meeting
Thursday, April 18, 2002**

The meeting was recessed at 9:35 a.m.

The meeting was reconvened at 9:55 a.m.

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2. Portfolio review by Oak Associates

The portfolio review by Oak Associates was scheduled to be conducted by telephone with James D. Oelschlager. Due to technical difficulties in establishing telephone communication with Oak Associates, this item was tabled.

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3. Wilshire Associates, Inc.'s reports and recommendations

- a. Deutsche Asset Management fixed income update
- b. State Street Bank Universe Comparison
- c. Summary of Yale research paper
- d. Educational Session: Review of International Equity
- e. Proposed revisions to the Investment Implementation Policy
- f. 2002 Investment Work Plan
- g. Quarterly investment performance report for the fourth quarter ending December 31, 2001

Ms. Hewsenian, Managing Director from Wilshire Associates, the System's investment consultant, discussed the following topics: Deutsche Asset Management's global fixed income update, State Street Bank Universe Comparison, a summary of Yale's research paper, and an educational session on international equity. She also discussed proposed revisions to the Investment Implementation Policy, and the 2002 Investment Work Plan.

After discussion, Mr. Tomasovic made a motion to seek requests for proposals from other investment managers for the current allocation to Deutsche Asset Management global fixed income. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Shaw made a motion to receive and file the State Street Bank Universe Comparison. Mr. Wachsman seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Shaw made a motion to receive and file the Wilshire summary of the Yale research paper on long-term global market correlations. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

**Quarterly Board Meeting
Thursday, April 18, 2002**

3. Wilshire Associates, Inc.’s reports and recommendations (continued)

After discussion, Mr. Shaw made a motion to receive and file the educational session on the international equity review and direct the consultant to prepare alternative asset allocations for the Board’s consideration. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Wachsman made a motion to approve the proposed revisions to the Investment Implementation Policy. Mr. Mays seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Tomasovic made a motion to adopt the proposed revised 2002 Investment Work Plan, which deletes a fourth international equity manager, adds a global fixed income search, and adds alternative asset allocations for international equity. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

Ms. Hewsenian reviewed the quarterly investment performance report for the fourth quarter ended December 31, 2001. The investment performance is summarized in the following chart:

| | Fourth Quarter 2001 | 1-year | 3-year | 5-year |
|-----------------------|--------------------------------|---------------|---------------|---------------|
| Total Fund | 7.73% | -6.74% | 5.26% | 8.73% |
| Actuarial Rate | 2.06% | 8.50% | 8.50% | 8.60% |

- **Total Return:** The Dallas Police and Fire Pension System (“the System”), during the quarter ended December 31, 2001, reported a total fund return of 7.7%. The System outpaced both its asset allocation policy index as well as its actuarial interest rate during the quarter as well as the five and ten-year periods.
- **Asset Growth:** As of quarter-end, the System’s market value was approximately \$1.9 billion, which represents an increase of \$137.4 million from the beginning of the quarter. This change in market value was comprised of \$41.9 million in net contributions, \$40.5 million in net distributions and administrative fees, \$3.6 million in investment management fees, and \$139.5 million in investment gains.
- **Asset Allocation:** As of December 31, 2001, the System was slightly overweighted in real estate, while underweighted in international equity and global bonds.
- **U.S. Equity:** The U.S. stock market, as measured by the Wilshire 5000 Index, displayed signs of recovery during the fourth quarter of 2001. The Wilshire 5000 reported a return of 12.4% during the quarter, while the S&P 500 gained 10.7%. Most sectors of the market experienced an appreciation over this period with the exception of the utilities sector. Technology was the top-performing sector as the Wilshire Internet Index reported a solid gain of 26.1% during the quarter. Large-cap stocks, as measured by the Wilshire Large Cap 750 Index, underperformed versus their small-cap counterparts, as measured by the Wilshire Small Cap 1750 Index.

**Quarterly Board Meeting
Thursday, April 18, 2002**

3. Wilshire Associates, Inc.'s reports and recommendations (continued)

U.S. Equity: (continued)

From a style standpoint, growth stocks were favored during the quarter. According to the Wilshire Style Indices, growth stocks, both large and small, outpaced value stocks during the quarter.

- **International Equity:** The international equity markets, as measured by the MSCI ACWI Free ex-US Index, also experienced gains during the quarter. The MSCI ACWI Free ex-US Index and the MSCI EAFE Index generated returns of 8.9% and 7.0%, respectively, during the quarter. The European markets outperformed the Pacific-Basin markets over this period. The MSCI Europe Index reported a gain of 10.1% in U.S. dollar terms, while the MSCI Pacific Index experienced a minor loss. Currency movements against the U.S. dollar had a negative impact on the dollar-based performance of the international equity markets. The Euro, the Yen, and the Pound all depreciated versus the U.S. dollar during the quarter. The emerging markets, as measured by the MSCI EMF Index, outpaced the developed markets over the period. The MSCI EMF Index reported a return of 26.6% during the quarter, significantly outpacing the developed MSCI EAFE Index.
- **Fixed Income:** The U.S. bond market, as measured by the Lehman Aggregate Bond Index, reported flat performance during the fourth quarter of 2001. Although the US Federal Reserve lowered interest rates on three occasions during the quarter, the bond market experienced sell-offs as investors began to shift their investments back into equities. According to the Lehman Indices, corporate bonds experienced a slight gain during the quarter, while Treasuries declined. The high yield sector performed relatively well during the quarter, as the Salomon Composite High Yield Index appreciated by 8.3% over the period. Non-dollar bonds, as measured by the Salomon Non-US Government Bond Index, fell by 4.0% during the quarter, in part due to the strengthening U.S. dollar.
- **Real Estate:** The Wilshire Real Estate Fund Index and the Wilshire Real Estate Securities Index generated returns of -1.6% and 5.5%, respectively, during the quarter. The Wilshire Real Estate Securities Index experienced a solid gain of 10.5% over the one-year period.

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

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The meeting was recessed at 12:02 p.m.

The meeting was reconvened at 12:48 p.m.

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**Quarterly Board Meeting
Thursday, April 18, 2002**

4. Update on international equity transition

Mr. Tettamant reported that the Board of Trustees recently approved two new international equity advisors, Fidelity Management Trust Company and Clay Finlay, Inc. The authorized funding came from the withdrawal of the State Street Global Advisors EAFE Index Fund and the termination of the Deutsche Asset Management's emerging markets account. Frank Russell Securities and State Street Brokerage were used as transition managers during the month of March to fund the following amounts:

| | New Funding | Target | Target Weightings |
|-----------------|------------------------|---------------|------------------------------|
| Fidelity | \$129,316,000 | \$129,316,000 | 30% |
| Clay Finlay | \$107,763,000 | \$107,763,000 | 25% |
| Bank of Ireland | \$ 31,850,000 | \$193,973,000 | 45% |

The Board approval of the target weightings required that the Bank of Ireland receive additional funding of \$31,850,000. The transition was completed such that all managers were funded by April 1, 2002. Frank Russell Securities and State Street Brokerage will be scheduled for the May Board meeting to discuss the completed international equity transition.

After discussion, Mr. Wachsman made a motion to receive and file the update on the international equity transaction. Mr. Mays seconded the motion, which was unanimously approved by the Board.

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5. Commission recapture for international portfolio

Mr. Tettamant stated that Lynch, Jones, & Ryan, an Instinet Company, currently provides a commission recapture program for the System. The Bank of Ireland has been using the program since November 2000. The commission recapture program rebates 50% of the gross brokerage commission to the fund. For 2001, the program rebated \$11,133 to the System. Clay Finlay, a new international equity manager for the System, is eligible for the same recapture program pending Board approval.

After discussion, Mr. Wachsman made a motion to approve Clay Finlay, Inc.'s participation in the Lynch, Jones, & Ryan commission recapture program for the System. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

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**Quarterly Board Meeting
Thursday, April 18, 2002**

6. Update on the examination of the System's financial process and internal controls

Mr. Tettamant updated the Board regarding the progress of the ongoing examination of the System's financial process and internal controls. The audit examiner retained by the Board expects to complete the examination by April 29, 2002.

No Board action was required.

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7. Akard Place budget

Ms. Mullis and Mr. Plumlee, representatives of L&B Realty Advisors, discussed proposed revisions to the budget for building operations and maintenance at Akard Place for the calendar year 2002.

After discussion, Mr. Mays made a motion to approve the proposed revisions to the budget for building operations and maintenance at Akard Place for the calendar year 2002. Mr. Umlor 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

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. Mays seconded the motion, which was unanimously approved by the Board.

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**Quarterly Board Meeting
Thursday, April 18, 2002**

ADDENDUM

Information Asset Security Audit Plan

Mr. Tettamant stated that the Police and Fire Pension System has on its network sensitive data that every reasonable effort should be taken to protect. To this end, \$10,000 was included in this year's budget to fund an information asset security audit. This audit is designed to reveal existing external and internal network security vulnerabilities. From this audit, appropriate steps can be designed to eliminate these threats. The staff has received three bids to perform this review and recommends that the Board approve the contract with Firstvpn.com Secure Internetworks for this audit.

After discussion, Mr. Mays made a motion to approve the contract with Firstvpn.com Secure Internetworks to conduct the information asset security audit, subject to the approval of the Administrator or Assistant Administrator. Mr. McCollum 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. Tomasovic and a second by Mr. Mays, the meeting was adjourned at 2:47 p.m.

Gerald Brown
Chairman

ATTEST:

Richard L. Tettamant
Secretary

CITY OF DALLAS - POLICE & FIRE PENSION SYSTEM

ASSET DISTRIBUTION BY ADVISOR - AS OF February 28, 2002

| | NET ASSET VALUE | FUND % OF ASSETS | ADVISOR % OF CLASS |
|---|------------------|---------------------|-----------------------|
| EQUITY- DOMESTIC ADVISORS: | | | |
| ----- | | | |
| ALLIANCE CAPITAL MANAGEMENT | 112,929,129.71 | 6.2 % | 18.8 % |
| DEUTSCHE ASSET MGMT MCRO-CAP | 91,715,348.60 | 5.0 % | 15.3 % |
| HUFF ALTERNATIVE FUND LP | 3,554,168.23 | 0.2 % | 0.6 % |
| NORTH TEXAS OPPORTUNITY | 5,982,887.82 | 0.3 % | 1.0 % |
| OAK ASSOCIATES | 99,050,448.90 | 5.4 % | 16.5 % |
| SSGA S&P 500 FLAGSHIP | 266,057,537.03 | 14.5 % | 44.4 % |
| THE MITCHELL GROUP | 20,459,648.89 | 1.2 % | 3.4 % |
| *** TOTAL EQUITY- DOMESTIC ADVISORS: | 599,749,169.18 | 32.8 % | 100.0 % |
| FIXED INCOME ADVISORS: | | | |
| ----- | | | |
| HUFF ALTERNATIVE INCOME FUND | 43,876,874.47 | 2.4 % | 27.9 % |
| OCM FUND IV | 15,000,000.00 | 0.8 % | 9.5 % |
| TCW SPECIAL CREDITS TR III | 556,269.40 | 0.1 % | 0.4 % |
| W.R. HUFF HIGH YIELD | 97,669,140.79 | 5.3 % | 62.2 % |
| *** TOTAL FIXED INCOME ADVISORS: *** | 157,102,284.66 | 8.6 % | 100.0 % |
| INTERNATIONAL FIXED INCOME ADVISORS: | | | |
| ----- | | | |
| DEUTSCHE ASSET MGMT GLOBAL FIX. INC | 171,694,643.95 | 9.4 % | 50.7 % |
| LOOMIS SAYLES & CO | 166,969,674.76 | 9.1 % | 49.3 % |
| *** TOTAL INTERNATIONAL FIXED INCOME | 338,664,318.71 | 18.5 % | 100.0 % |
| REAL ESTATE ADVISORS: | | | |
| ----- | | | |
| CROW HOLDINGS | 7,129,128.68 | 0.3 % | 2.4 % |
| FOREST INVESTMENT ASSOCIATES | 47,916,980.82 | 2.6 % | 16.4 % |
| HANCOCK AGRICULTURAL INVEST FD | 19,477,394.00 | 1.1 % | 6.7 % |
| HEARTHSTONE MSH HOMEBUILDING | 1,908,634.30 | 0.1 % | 0.7 % |
| HEITMAN CAPITAL MANAGEMENT | 1,362,988.00 | 0.1 % | 0.5 % |
| HUDSON ADVISORS | 22,532,970.62 | 1.2 % | 7.7 % |
| INVESCO | 16,219,989.00 | 0.9 % | 5.6 % |
| KENNEDY ASSOCIATES | 30,987,493.51 | 1.7 % | 10.6 % |
| L & B | 42,877,498.00 | 2.3 % | 14.7 % |
| OCM REAL ESTATE/OPPORTUNITIES FUND | 15,137,100.00 | 0.8 % | 5.2 % |
| OLYMPUS REAL ESTATE | 17,498,371.01 | 1.0 % | 6.0 % |
| PRUDENTIAL INVESTMENTS | 8,980,144.05 | 0.5 % | 3.1 % |
| RREEF | 59,757,600.63 | 3.3 % | 20.5 % |
| *** TOTAL REAL ESTATE ADVISORS: *** | 291,786,292.62 | 15.9 % | 100.0 % |
| EQUITY- INTERNATIONAL ADVISORS: | | | |
| ----- | | | |
| BANK OF IRELAND | 162,373,986.67 | 8.8 % | 37.4 % |
| DEUTSCHE ASSET MGMT (EMERGING MKT) | 96,824,210.69 | 5.3 % | 22.3 % |
| EAFE PROVISIONAL INDEX FUND | 175,273,735.98 | 9.6 % | 40.3 % |
| *** TOTAL EQUITY- INTERNATIONAL ADVIS | 434,471,933.34 | 23.7 % | 100.0 % |
| CASH: | | | |
| ----- | | | |
| COMMINGLED CASH | 5,339,443.21 | 0.3 % | 59.7 % |
| CONTRIBUTION & EXPENSE ACCOUNT | 3,604,260.46 | 0.2 % | 40.3 % |
| *** TOTAL CASH: *** | 8,943,703.67 | 0.5 % | 100.0 % |
| TOTAL MASTER TRUST | 1,830,717,702.18 | 100.0 % | |
| CITY CONTRIBUTIONS | 5,676,338.80 | | |
| EMPLOYEE CONTRIBUTIONS | 1,216,755.82 | | |
| BENEFIT DISTRIBUTIONS | -8,238,833.92 | | |
| EXPENSES | -326,760.08 | | |