

Dallas Police and Fire Pension System
Thursday, July 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, Gary Edge, John Mays, Richard Wachsman, and Councilmember Donald Hill

Absent: Councilmember Maxine Thornton-Reese and Steve Umlor

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

Others: Rosalind Hewsenian, Vache Mahseredjian

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The meeting was called to order at 8:32 a.m.

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A. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

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

- a.** Introduction of senior consultant, Vache Mahseredjian
- b.** Quarterly investment performance report for the first quarter ending March 31, 2002
- c.** Overview of Value Equity Investing
- d.** Overview of Investment Grade Fixed Income Strategies
- e.** International Equity Asset Allocation Revisited
- f.** Screening criteria for manager searches

Ms. Hewsenian, Managing Director from Wilshire Associates, the System's investment consultant, introduced the new senior consultant, Vache Mahseredjian, Vice President.

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

Ms. Hewsenian reviewed the quarterly investment performance report for the first quarter ended March 31, 2002. The investment performance is summarized in the following chart:

	First Quarter 2002	1-year	3-year	5-year
Total Fund	-0.29%	-0.11%	3.93%	8.98%
Actuarial Rate	2.06%	8.50%	8.50%	8.59%

- ◆ **Total Return:** The Dallas Police and Fire Pension System (“the System”) generated a total fund return of –0.3%, during the quarter ended March 31, 2002, which trailed its asset allocation policy index as well as its actuarial interest rate over the period. Although international equity and real estate helped, the System’s fixed income exposure hurt performance during the quarter. The System has outpaced both its policy index and actuarial interest rate over the five and ten-year periods.
- ◆ **Asset Growth:** As of quarter-end, the System’s market value was approximately \$1.9 billion, which represents a decrease of \$7.0 million from the beginning of the quarter. This change in market value was comprised of \$42.2 million in net contributions, \$42.3 million in net distributions and administrative fees, \$1.5 million in investment management fees, and \$5.3 million in net investment losses.
- ◆ **Asset Allocation:** As of March 31, 2002, the System was overweighted to real estate and cash, while underweighted in international equity and global bonds.
- ◆ **U.S. Equity:** The U.S. stock market, as measured by the Wilshire 5000 Index, reported a small gain of 1.0% during the quarter ended March 31, 2002, while the S&P returned 0.3%. Performance across the various sectors of the market was mixed over this period. While the consumer durables and transportation sectors reported double-digit gains, the utilities and materials & services sectors experienced declines. Technology stocks had a tough quarter as well, as the Wilshire Internet Index fell by 17.9%. From a size standpoint, large-cap stocks trailed their small-cap counterparts during the quarter. Micro-cap stocks continued to produce solid performance, as the Wilshire Micro-cap 2500 Index experienced a gain of 5.2%. According to the Wilshire Style Indices, value stocks outpaced growth stocks during the quarter. The Wilshire Large Value and Small Value Indices reported gains over this period, while the Wilshire Large Growth and Small Growth Indices both fell.
- ◆ **International Equity:** The international equity markets also experienced a small appreciation during the quarter. The MSCI ACWI Free ex-US and the MSCI EAFE reported returns of 1.7% and 0.5%, respectively, over the period. Most of the major developed markets experienced small gains in local currency terms, though the strengthening US dollar had a negative impact on the dollar-based performance of these markets. The Pacific-Basin markets outperformed the European markets over the period, as the MSCI Pacific and MSCI Europe generated returns of 2.2% and –0.1%, respectively. The emerging markets, as measured by the MSCI EMF Index, enjoyed a solid gain of 11.4% during the quarter, far outpacing the developed MSCI EAFE Index.

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

- ◆ **Fixed Income:** The U.S. bond market, as measured by the Lehman Aggregate Bond Index, continued to produce flat performance during the quarter. The Lehman Aggregate reported a gain of 0.1% over the period, as performance across the various sectors was mixed. Treasuries and corporate issues experienced a minor loss during the quarter, while mortgage securities appreciated by 1.0%. The best-performing sector during the quarter was the high yield sector, as the Salomon High Yield Cash Pay Index generated a return of 2.4%. Non-dollar bonds continued to fall during the quarter, as the US dollar appreciated against most major currencies. The Salomon Non-US Government Bond Index reported a loss of 1.9% over the period.
- ◆ **Real Estate:** Real estate securities generated stellar performance during the quarter, while private real estate reported a moderate gain. The Wilshire Real Estate Securities Index reported a return of 9.1% over the period, while the NCREIF Property Index gained 1.6%.

Ms. Hewsenian stated that the Dallas Police & Fire Pension System had the highest performance of the 300 pension systems included in the Wilshire analysis of fund investment performance over the last five years for the period ended December 31, 2001.

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

The meeting was reconvened at 10:14 a.m.

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Ms. Hewsenian discussed the following topics: overview of value equity investing, overview of investment grade fixed income strategies, international equity asset allocation revisited, and screening criteria for manager searches

After discussion, Mr. Wachsman made a motion to receive and file the Wilshire quarterly investment performance report for the first quarter ended March 31, 2002. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Edge made a motion to (1) receive and file the Wilshire overview of value equity investing, (2) keep the current value manager, and (3) amend the investment work plan to end the search for a value manager. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Edge made a motion to adopt the Lehman Global Aggregate Index as the benchmark for the global core segment. Mr. Wachsman seconded the motion. Mr. Shaw was opposed to the motion. The motion carried.

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

After discussion, Mr. Wachsman made a motion to receive and file the reports on the international equity asset allocation and the screening criteria for manager searches. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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The meeting was recessed at 11:23 a.m.

The meeting was reconvened at 12:08 p.m.

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2. Possible hiring of Prizm Partners, a real estate investment manager

Mr. Tettamant, Administrator, reported on Prizm Partners.

No action was taken.

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3. 2001 annual audit

Mr. Tettamant stated that the draft audited financial statements prepared by KPMG, L.L.P., for the year ending December 31, 2001 have been finalized and will be available soon.

No action was taken.

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4. Issues arising from the examination of the System's financial process, internal controls, and related contracts

Discussion was held.

No motion was made.

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5. Draft 2001 Condensed Annual Reports

Mr. Rohan, Assistant Administrator-Operations, discussed the proposed 2001 Condensed Annual Reports with the Board.

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5. Draft 2001 Condensed Annual Reports (continued)

After discussion, Mr. Wachsman made a motion to approve the Condensed Annual Reports, subject to the final approval of the Administrator, and to distribute the reports to Members. Mr. Edge and Mr. Tomasovic jointly 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
- b. Investment managers update
- c. Professional services providers update

Mr. Tettamant briefed the Board regarding current developments relating to the Pension System, including the following: (1) reported on the status of the Prizm Partners contract, and that L&B resigned as the General Partner of the Camel Square property, (2) the conversion of the Fire 9-1-1 dispatch staff to civilians.

After discussion, Mr. Shaw made a motion to receive and file the Administrator's report. 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. Shaw and a second by Mr. McCollum, the meeting was adjourned at 3:05 p.m.

Gerald Brown
Chairman

ATTEST:

Richard L. Tettamant
Secretary

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