

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 13, 2003 - Thursday, October 16, 2003
Garrett Creek Ranch
Paradise, Texas**

Special 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, and Richard Wachsman

Absent: Councilmember Donald Hill and Councilmember Maxine Thornton-Reese

Staff

Richard Tettamant, Don Rohan, Brian Blake, Jerry Baldree, Jay Jackson, Everard Davenport, Linda Rickley, Jerry Chandler, John Holt, Pat McGennis, and Gale Paul

Others

Scott Dennis, Blaine Smith, Kenneth Cooley, Jon Donahue, Brent Kroener, Richard Brown, Michael Kelly, Marc Walley, Terry Gottberg, Jim Johnston, Scott Dobson, Howard Marks, Greg Brandner, Roz Hewsenian, Al Kim, Charles Dolan, Laurie O'Donoghue, Ron Ernst, Mark Okada, John Landau, Lelia Long, Michael McCarthy, Ken Bailey, Gary Lawson, and Gus Fields

* * * * *

The meeting was called to order at 6:00 p.m. on Monday, October 13, 2003.

* * * * *

• **Welcome**

Mr. Tettamant, Administrator, and Mr. Brown, Chairman, welcomed the participants to the 2003 Annual Board and Staff Workshop.

* * * * *

The meeting was recessed at 6:05 p.m. on Monday, October 13, 2003.

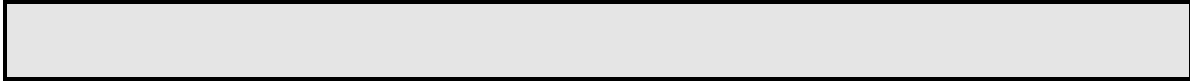
* * * * *

The meeting was reconvened at 8:00 a.m. on Tuesday, October 14, 2003.

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 13, 2003 - Thursday, October 16, 2003**

* * * * *

REAL ESTATE INVESTMENTS



- **INVESCO Realty Advisors**
 - Portfolio review
 - Retail investment program – adaptive reuse

Messrs. Dennis and Smith, of INVESCO Realty Advisors, reviewed the Pension System’s portfolio and presented an educational session on adaptive reuse in a retail investment program.

After discussion, Mr. Wachsman made a motion to receive and file the INVESCO reports. Mr. Edge seconded the motion, which was unanimously approved by the Board.

* * * * *

The meeting was recessed at 8:39 a.m.

The meeting was reconvened at 8:55 a.m.

* * * * *

- **CDK Realty Advisors**
 - Real estate educational session

Messrs. Cooley, Donahue, and Kroener, of CDK Realty Advisors, gave an educational presentation covering real estate investment concepts and terminology.

After discussion, Mr. Umlor made a motion to receive and file the CDK presentation. Mr. Edge seconded the motion, which was unanimously approved by the Board.

* * * * *

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

The meeting was reconvened at 10:28 a.m.

* * * * *

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 13, 2003 - Thursday, October 16, 2003**

REAL ESTATE INVESTMENTS (continued)

- **The Townsend Group**
 - Second quarter real estate performance report for the period ended June 30, 2003
 - Agriculture update
 - 2003 real estate review
 - 2004 real estate strategic plan discussion and approval
 - Multi-family
 - Apartments
 - Senior housing
 - Hotels

Mr. Richard Brown, of The Townsend Group, reviewed the System's real estate performance for the second quarter ended June 30, 2003. The real estate investment performance was as follows:

	3.71%	6.98%	9.39%	8.33%
	3.66%	5.69%	8.09%	7.08%

After discussion, Mr. Umlor made a motion to receive and file the Townsend Group second quarter 2003 performance report. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

Mr. Richard Brown reviewed the 2003 real estate plan and discussed Townsend's recommendations for the 2004 real estate strategic plan. Townsend recommended no changes to the following current investment ranges (weights in real estate portfolio):

Stable return	5% - 10%
Enhanced return	30% - 40%
High return	25% - 30%
REITs	12% - 15%
Timber	11% - 12%
Farm land	6% - 8%

After discussion, Mr. McCollum made a motion to leave the investment ranges unchanged for 2004, as recommended above by the Townsend Group. Mr. Edge seconded the motion, which was unanimously approved by the Board.

The agriculture update discussion was tabled.

The discussion of multi-family real estate investments was tabled.

* * * * *

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 13, 2003 - Thursday, October 16, 2003**

The meeting was recessed at 11:52 a.m.

The meeting was reconvened at 12:33 p.m.

* * * * *

REAL ESTATE INVESTMENTS (continued)

- **Forest Investment Associates**
 - Portfolio review
 - Timberland outlook and issues

Messrs. Kelly and Walley, of Forest Investment Associates, discussed personnel changes and reviewed the System's timberland portfolio. They also discussed future expectations and issues for timberland investments.

After discussion, Mr. Wachsman made a motion to receive and file the Forest Investment Associates report. Mr. Edge seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Wachsman made a motion to authorize the Administrator to amend the Forest Investment Associates' (FIA) investment guidelines to give FIA full fiduciary discretion to select the type or location of timber investments on behalf of the System. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

* * * * *

The meeting was recessed at 1:20 p.m.

The meeting was reconvened at 1:30 p.m.

* * * * *

- **Merit Energy Company**
 - New investment fund
 - Description of tour
 - Oil and gas well tour

Messrs. Gottberg, Johnston, and Dobson, of Merit Energy, discussed a new investment fund that will close on March 31, 2004. They conducted a tour for Board members and staff of two of their operations: the Springtown gas plant, and the Dagget lease.

No motion was made.

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 13, 2003 - Thursday, October 16, 2003**

* * * * *

The meeting was recessed at 5:46 p.m. on Tuesday, October 14, 2003

The meeting was reconvened at 7:45 a.m. on Wednesday, October 15, 2003

* * * * *

GENERAL INVESTMENTS



- **Oaktree Capital Management**
 - Review of portfolios
 - Distressed debt market update
 - Amendment to contract
 - Discussion of new investment fund, OCM Principal Opportunities Fund III, L.P.

Messrs. Marks and Brandner discussed the entire investment relationship between the System and Oaktree Capital Management. Mr. Marks reviewed the performance of OCM Real Estate Opportunities Fund B, L.P. and OCM Opportunities Fund IV, L.P. Mr. Marks also discussed the distressed debt market outlook and the related proposed contract amendment, which would include a reduction of fees for OCM Fund IV. He presented OCM Principal Opportunities Fund III, L.P. as a possible new investment.

After discussion, Mr. Edge made a motion to approve the proposed Oaktree Capital Management contract amendment. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Shaw made a motion to receive and file the Oaktree Capital Management presentation. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

* * * * *

The meeting was recessed at 8:40 a.m.

The meeting was reconvened at 8:48 a.m.

* * * * *

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 13, 2003 - Thursday, October 16, 2003**

GENERAL INVESTMENTS (continued)

- **Wilshire Associates Incorporated**
 - Second quarter performance report for the period ended June 30, 2003
 - Deutsche Asset Management

Ms. Hewsenian reviewed the System’s investment performance for the second quarter ending June 30, 2003. The investment performance is summarized in the following chart:

	Second			
	13.58%	4.70%	-3.41%	3.69%
	2.06%	8.50%	8.50%	8.52%

Wilshire provided the following Capital Market and Total Fund Overview:

- ◆ The second quarter of 2003 saw a steady advance in the U.S. equity market, with the S&P 500 Index ending the period with its largest quarterly return since the fourth quarter of 1998. The end of major fighting in Iraq and optimism about an economic recovery in the second half of the year paved the way to a broad-based market rally. The bellwether S&P 500 Index and Wilshire 5000 Index returned 15.4% and 16.5%, respectively, over the period. After an extended market decline, investors snapped up beaten-down shares of technology companies and financial institutions and moved out of the safe-harbor consumer staples and energy stocks that had best weathered the stock market pullbacks. All of the S&P 500 sectors produced double-digit gains, with the exception of the Energy sector, over the period. The best performer was the Utilities sector with a 21.2% return and the worst performer was the Energy sector with a 7.6% return. Small-cap stocks led the stock market charge ahead of the large-cap stocks. The Wilshire Small Cap 1750 Index gained 23.8% while the Wilshire Large Cap 750 Index reported a 15.5% return. Micro-cap stocks outperformed both large-cap and small-cap as the Wilshire Micro-cap 2500 Index generated a 34.2% return over the period. Value-oriented stocks outperformed growth stocks, as the Wilshire Large Growth, Large Value, Small Growth, and Small Value Indices generated returns of 11.8%, 19.8%, 21.3%, and 26.7%, respectively, during the quarter.
- ◆ The international equity markets followed the U.S. equity market and rallied during the second quarter as investors began to anticipate an improvement in the global economy. The U.S. dollar weakened sharply against the euro and the British pound and rose slightly against the Japanese yen. The European markets shrugged off continued sluggishness in local economies and yielded strong returns.

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 13, 2003 - Thursday, October 16, 2003**

GENERAL INVESTMENTS (continued)

- **Wilshire Associates Incorporated (continued)**

- ◆ Despite a rotation into stocks and low yields on investment-grade fixed income, the U.S. fixed income market generally enjoyed good performance in the second quarter. The Lehman Aggregate Bond Index, the bellwether for the U.S. fixed income market, reported a 2.5% return over the period. The Credit sector had the best results within the investment-grade universe, generating a return of 4.8% during the quarter. The Mortgage and Treasury sectors reported returns of 0.7% and 2.7%, respectively, over the period. The rally in high yield bonds continued as the Citigroup High Yield Cash Pay Index generated a return of 9.8% during the quarter. The international fixed income markets again outperformed the U.S. market, as the U.S. dollar continued its depreciation versus the euro and British pound. The Citigroup Non-US Government Bond Index reported a return of 4.2% during the quarter.
- ◆ The public real estate market produced a double-digit gain during the quarter, as the Wilshire Real Estate Securities Index reported a return of 12.3%. The private real estate market, as represented by the NCREIF Property Index, reported a return of 2.1% over the period.
- ◆ **Total Return:** The Dallas Police and Fire Pension System (“the System”) generated a total fund return of 13.6%, during the quarter ended June 30, 2003. The System outperformed both its asset allocation policy index and actuarial rate of interest over the period. The System has also outpaced its policy index over the five and ten-year periods.
- ◆ **Asset Growth:** As of quarter-end, the System’s market value was approximately \$1.8 billion, which represents an increase of \$214.2 million from the beginning of the quarter.

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 13, 2003 - Thursday, October 16, 2003**

GENERAL INVESTMENTS (continued)

• **Wilshire Associates Incorporated (continued)**

This change in market value was comprised of \$20.9 million in net contributions, \$27.5 million in net distributions and administrative fees, \$1.1 million in investment management fees, and \$221.9 million in net investment gains.

- ◆ **Asset Allocation:** As of June 30, 2003, the System was overweighted to cash, while underweighted to global core fixed income.

Ms. Hewsenian discussed an update on Deutsche Asset Management's domestic micro-cap equity account.

After discussion, Mr. Wachsman made a motion to receive and file the Wilshire second quarter performance report for the period ended June 30, 2003. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Wachsman made a motion to approve a search for a replacement for the Deutsche Asset Management domestic micro-cap equity account. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

• **Pareto Partners**

- Portfolio update
- Currency

Mr. Dolan and Ms. O'Donoghue, of Pareto Partners, discussed the System's portfolio and gave an educational session on currency. They explained that Pareto's emphasis is managing the downside of currency risk first in their investments.

After discussion, Mr. Wachsman made a motion to receive and file the presentation by Pareto Partners. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

* * * * *

The meeting was recessed at 10:02 a.m.

The meeting was reconvened at 10:20 a.m.

* * * * *

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 13, 2003 - Thursday, October 16, 2003**

* * * * *

GENERAL INVESTMENTS (continued)

- **Wilshire Associates Incorporated (continued)**
 - Derivatives Investment Guidelines
 - Enhanced indexation
 - Emerging market debt

Ms. Hewsenian discussed proposed changes to the Derivatives Investment Guidelines for External Money Managers. All of the recommended changes were considered minor, not substantive.

Mr. Kim gave an educational presentation on Enhanced Indexation, which is a type of investment management style that falls between active and passive management.

Ms. Hewsenian gave an educational presentation on Emerging Market Debt, an investment asset class.

After discussion, Mr. Shaw made a motion to approve the proposed changes to the Derivatives Investment Guidelines for External Money Managers, subject to the final approval of the Administrator and legal counsel. Mr. Mays seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Edge made a motion to receive and file the enhanced indexation presentation. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Mays made a motion to receive and file the emerging market debt presentation. Mr. Wachsman seconded the motion, which was unanimously approved by the Board.

* * * * *

The meeting was recessed at 11:34 a.m.

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

* * * * *

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 13, 2003 - Thursday, October 16, 2003**

GENERAL INVESTMENTS (continued)

- **Highland Capital Management**
 - Portfolio review
 - Highland Crusader Fund profile and case studies

Messrs. Ernst and Okada, of Highland Capital Management, discussed the System's distressed debt portfolio, as well as specific investment case studies.

After discussion, Mr. Wachsman made a motion to receive and file the Highland Capital Management presentation. Mr. Mays seconded the motion, which was unanimously approved by the Board.

* * * * *

- **Bank of Ireland**
 - Portfolio review

Ms. Long, and Messrs. McCarthy and Landau, of Bank of Ireland, reviewed the System's international equity portfolio performance through the quarter ended September 30, 2003.

After discussion, Mr. McCollum made a motion to receive and file the Bank of Ireland portfolio review. Mr. Wachsman seconded the motion, which was unanimously approved by the Board.

* * * * *

The meeting was recessed at 1:50 p.m.

The meeting was reconvened at 2:46 p.m.

* * * * *

- **Wilshire Associates Incorporated**
 - 2003 strategic plan review
 - 2004 strategic plan discussion and approval

Ms. Hewsenian reviewed the 2003 strategic plan and accomplishments. She also discussed with the Board and staff the proposed 2004 strategic plan.

After discussion, Mr. Shaw made a motion to receive and file the 2003 strategic plan review and approve the proposed 2004 strategic plan. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 13, 2003 - Thursday, October 16, 2003**

* * * * *

The meeting was recessed at 3:00 p.m. on Wednesday, October 15, 2003

* * * * *

The meeting was reconvened at 8:00 a.m. on Thursday, October 16, 2003

* * * * *

ADMINISTRATIVE ISSUES

1. Discussion of political process

Mr. Bailey, Pension System retiree and legislative consultant, discussed the political process with the Board and staff.

After discussion, Mr. Wachsman made a motion to receive and file Mr. Bailey's presentation. Mr. Edge seconded the motion, which was unanimously approved by the Board.

* * * * *

The meeting was recessed at 8:58 a.m.

The meeting was reconvened at 9:05 a.m.

* * * * *

2. Internal controls review

Mr. Tettamant and Mr. Rohan reviewed overall internal controls procedures, and held a detailed discussion with the Board on changes made during the last year.

After discussion, Mr. Shaw made a motion to receive and file the internal controls review. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

* * * * *

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 13, 2003 - Thursday, October 16, 2003**

ADMINISTRATIVE ISSUES (continued)

- 3. Staff presentations**
 - a. Business continuity
 - b. Pensioner advocate
 - c. Age 70½ rule

In keeping with the Board's approval of a Business Continuity Policy at its meeting on April 10, 2003, Mr. Rohan reviewed the major features of the initial phase of development of the Business Continuity Plan and outlined expectations for further development. The Policy requires a comprehensive procedure, or Plan, to maintain mission-critical services during a business-disruptive event. Copies of the Plan were distributed to the Board.

After discussion, Mr. Shaw made a motion to receive and file the Business Continuity Plan. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

Ms. Paul, the System's Pensioner Advocate, gave a presentation describing her activities, contacts, and referrals on behalf of the retired members and survivors of the Pension System. The Pensioner Advocate is a new position that was filled in the spring of 2003.

After discussion, Mr. Tomasovic made a motion to receive and file the Pensioner Advocate presentation. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

Ms. McGennis, Benefits Manager, gave an educational presentation on the Internal Revenue Service regulations regarding required minimum distributions at age 70 and one-half.

After discussion, Mr. Tomasovic made a motion to receive and file the required minimum distribution presentation. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

* * * * *

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

The meeting was reconvened at 12:10 p.m.

* * * * *

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 13, 2003 - Thursday, October 16, 2003**

ADMINISTRATIVE ISSUES (continued)

4. Board of Trustees and Staff Ethics Policy

Messrs. Fields and Lawson, of Lawson, Fields, McCue and Campbell, P.C., reviewed the existing Board of Trustees and Staff Ethics Policy and discussed proposals for the Board's consideration.

After discussion, Mr. Umlor made a motion to approve the proposed revisions to the Board of Trustees and Staff Ethics Policy, subject to the final approval of the Administrator and legal counsel. Mr. Edge seconded the motion, which was unanimously approved by the Board.

* * * * *

The meeting was recessed at 10:30 a.m.

The meeting was reconvened at 10:45 a.m.

* * * * *

5. 2003 Strategic Plan review

Mr. Tettamant discussed the Administrator's 2003 Strategic Plan with the Board.

After discussion, Mr. McCollum made a motion to receive and file the 2003 Strategic Plan review. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

* * * * *

6. 2004 Strategic Plan discussion and approval

Mr. Tettamant presented a proposed 2004 Strategic Plan to the Board and discussed items that the Board may want to consider including in the 2004 Strategic Plan.

After discussion, Mr. Shaw made a motion to refer the 2004 Strategic Plan to the Administrative Advisory Committee for further consideration. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

* * * * *

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 13, 2003 - Thursday, October 16, 2003**

* * * * *

ADMINISTRATIVE ISSUES (continued)

7. 2004 Board meeting calendar

Mr. Tettamant presented the proposed 2004 Board meeting calendar, which would continue the practice of scheduling the regular monthly Board meetings on the second Thursday of the month, and quarterly meetings on the third Thursdays of January, April, and July. The fourth quarterly meeting would be an annual workshop to be held in October 2004.

After discussion, Mr. Shaw made a motion to approve the proposed 2004 Board meeting calendar. Mr. Edge seconded the motion, which was unanimously approved by the Board.

* * * * *

8. 2004 Workshop plans

The Board and staff discussed options for the site of the 2004 Board and staff workshop.

The consensus of the Board was to direct the staff to continue researching options and discuss it again at the November regular meeting.

No motion was made.

* * * * *

9. Executive Session – Personnel

Board members expressed thanks to the staff for their work on behalf of members, retirees, and survivors of the Pension System.

No closed session was held. No action was taken.

* * * * *

10. Board operations and procedures

No discussion was held.

* * * * *

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 13, 2003 - Thursday, October 16, 2003**

ADMINISTRATIVE ISSUES (continued)

11. Administrator's Report

At Mr. Tettamant's request, Mr. Davenport briefed the Board regarding the Dallas Employees' Retirement Fund meeting with the City Council on October 15, 2003.

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

* * * * *

12. Closing comments

Mr. Edge requested that the 2004 Workshop include a presentation on the history of the Pension System.

* * * * *

Adjournment

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. Shaw, the meeting was adjourned at 1:06 p.m.

Gerald Brown
Chairman

ATTEST:

Richard L. Tettamant
Secretary