

**Dallas Police and Fire Pension System**  
**Thursday, January 16, 2003**  
**8:30 a.m.**  
**2301 North Akard Street**  
**First Floor Conference Room**  
**Dallas, Texas**

Quarterly meeting, Gerald Brown, Chairman, presiding:

**ROLL CALL**

**Board Members**

Present: Gerald Brown, Steven G. Shaw, George Tomasovic, Rector C. McCollum, Gary W. Edge, Steven H. Umlor, John M. Mays, and Richard H. Wachsman

Absent: Mayor Pro Tem Donald Hill and Councilmember Maxine Thornton-Reese

**Staff**

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

**Others**

Rosalind Hewsenian, Dwight Walker, and Evelyn Orley

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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. Reports and recommendations of Wilshire Associates, Inc.**

- a. Global bond aggregate search
- b. Distressed debt
- c. Quarterly investment performance report for the third quarter ending September 30, 2002
- d. Strategic Plan Review and Update
- e. Discussion Items
  - (1) Enhanced Indexing
  - (2) Sector Rotation
  - (3) Currency Hedging

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**1. Reports and recommendations of Wilshire Associates, Inc. (continued)**

Ms. Hewsenian, of Wilshire Associates, discussed the global bond search and criteria used in selecting a global bond manager for the System.

After discussion, Mr. Wachsman made a motion to interview the top five global bond managers recommended by Wilshire Associates (Pareto Partners, Brandywine, Capital Guardian Trust Company, Payden & Rygel, and Delaware International Advisers), plus Loomis, Sayles & Company. Mr. Shaw seconded the motion. Mr. Edge was opposed to the motion. The motion carried.

The meeting was recessed at 9:25 a.m.

The meeting was reconvened at 9:37 a.m.

Ms. Hewsenian discussed the criteria and search results used in a possible selection of distressed debt investment managers.

After discussion, Mr. Wachsman made a motion to eliminate GSC Partners from the distressed debt manager search. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Wachsman made a motion to hire Highland Capital Management as a distressed debt manager for the System, subject to successful due diligence.

The motion died for the lack of a second.

After discussion, Mr. Tomasovic made a motion to conduct a due diligence visit to Highland Capital Management. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

Ms. Hewsenian reviewed the quarterly investment performance report for the third quarter ended September 30, 2002. The investment performance is summarized in the following chart:

	<b>Third Quarter 2002</b>	<b>1-year</b>	<b>3-year</b>	<b>5-year</b>
<b>Total Fund</b>	-12.00%	-10.79%	-3.92%	1.62%
<b>Actuarial Rate</b>	2.06%	8.50%	8.50%	8.56%

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**1. Reports and recommendations of Wilshire Associates, Inc. (continued)**

Wilshire provided the following Total Fund Overview:

- **Total Return:** The Dallas Police and Fire Pension System (“the System”) generated a total fund return of –12.00%, during the quarter ended September 30, 2002, which trailed its asset allocation policy index as well as its actuarial interest rate over the period. The System has outpaced its policy index over the three and ten-year periods, though has trailed during the one and five-year periods.
- **Asset Growth:** As of quarter-end, the System’s market value was approximately \$1.6 billion, which represents a decrease of \$217.8 million from the beginning of the quarter. This change in market value was comprised of \$31.7 million in net contributions, \$34.3 million in net distributions and administrative fees, \$2.6 million in investment management fees, and \$212.6 million in net investment losses.
- **Asset Allocation:** As of September 30, 2002, the System was overweighted to global opportunistic fixed income and real estate, while underweighted to domestic and international equity.
- **U.S. Equity:** The U.S. stock market continued on its downward spiral during the quarter ended September 30, 2002. Weak corporate earnings and uncertainty regarding a war with Iraq eroded investor confidence further as reflected in the performance of the major equity indices. The Wilshire 5000 Index and the S&P 500 Index reported returns of –16.8% and –17.3%, respectively, over the period. All sectors of the U.S. market suffered severe losses with Utilities and Consumer Durables as the worst performing sectors during the quarter, generating negative returns of 25.2% and 24.5%, respectively. From a style perspective, growth stocks outperformed their value counterparts and large cap stocks slightly outperformed small cap stocks, during the quarter. The Wilshire Micro Cap Index underperformed both large and small stocks, reporting a loss of –20.2%.
- **International Equity:** The international equity markets followed the U.S. market and also moved broadly lower during the quarter. The MSCI ACWI Free ex-US Index posted a negative return of 19.3% over the period. Most of the major European markets experienced double-digit losses in local currency terms and in dollar-based terms. The MSCI Europe Index was down 22.8% during the quarter. The Pacific-Basin markets again outperformed the European markets during the quarter, with the MSCI Pacific Index down 12.0%. Over the period, France, Germany, and the United Kingdom experienced losses of 27.9%, 36.6%, and 17.3%, respectively, in dollar terms, while Japan reported a loss of 12.1%. The emerging markets outperformed relative to the developed markets during the quarter, as the MSCI EAFE Index and the MSCI EMF Index reported losses of 19.7% and 16.3%, respectively.

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**1. Reports and recommendations of Wilshire Associates, Inc. (continued)**

- **Fixed Income:** The domestic bond market experienced gains during the quarter. The Lehman Aggregate Bond Index reported a return of 4.6% over the period, as all segments of the aggregate index appreciated during the quarter. The Treasury segment again was the best performer over the period, outperforming both the Credit and Mortgage segments. High yield bonds again underperformed investment grade bonds during the quarter, as the Salomon High Yield Cash Pay Index reported a loss of 3.2%. The international bond market also performed well as the Salomon Non-US Government Bond Index generated a positive return of 2.8% during the quarter.
- **Real Estate:** Real estate securities, having held up extremely well in the previous two quarters, declined this quarter. The Wilshire Real Estate Securities Index reported a return of -10.3% during the quarter. Private real estate, as measured by the NCREIF Property Index, gained 1.7%, reflecting the fact that the index is measured on an appraised basis.

After discussion, Mr. Wachsman made a motion to receive and file the Wilshire quarterly investment performance report for the third quarter ended September 30, 2002. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

The meeting was recessed at 11:46 a.m.

The meeting was reconvened at 12:40 p.m.

Ms. Hewsenian presented a review of the 2001-2002 Strategic Plan and an update of the 2003 Strategic Plan. She discussed three educational topics, which were enhanced indexing, sector rotation, and currency hedging.

After discussion, Mr. Shaw made a motion to receive and file the 2001-2002 Strategic Plan review and approve the revised 2003 Strategic Plan. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Edge made a motion to receive and file the educational presentations on enhanced indexing, sector rotation, and currency hedging. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

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**2. Monthly asset allocation report**

- a. Monthly asset allocation report
- b. Wilshire Associates' recommendations for rebalancing the Pension System's investment portfolio

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**2. Monthly asset allocation report (continued)**

The Asset Allocation Monitoring Report and the Real Estate Portfolio Report are included in Minute Book Number 32 on pages \_\_\_\_\_.

Wilshire Associates Inc. stated that all of the asset classes are within their target ranges. Wilshire recommends that the \$10 million in excess cash should be invested in the SSgA – S&P Index Fund since it is the most underweighted account relative to its target percentage.

After discussion, Mr. Wachsman made a motion to receive and file the January 2003 monthly asset allocation report and approve the investment consultant's recommendations for rebalancing the Pension System's investment portfolio. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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**3. Pension System's monthly financial statement**

Mr. Tettamant and the Board discussed the monthly financial statement for the period ended November 30, 2002.

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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**4. 2003 Trustee Election**

The Board discussed the election in general. Mr. Tettamant said that there are no changes to the election schedule. Since this was a briefing only, no motion was made.

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**B. BRIEFING ITEMS**

**1. Administrator's report**

- a. Custodial bank/consultants update
- b. Investment managers update
- c. Professional services providers update
- d. Coalition to Preserve Retirement Security (CPRS), National Conference on Public Employee Retirement Systems (NCPERS), and the Texas Association of Public Employee Retirement Systems (TEXPERS)
- e. General administration update

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**DALLAS POLICE AND FIRE PENSION SYSTEM  
JANUARY 2003 ASSET ALLOCATION MONITORING REPORT**

Asset Class		Target		Actual		Range		Difference vs.	
		\$	%	\$	%	Minimum	Maximum	Target	\$
<b>EQUITY</b>									
<b><u>Domestic Equity</u></b>									
S & P Index	SSgA	265.78	16.00	227.17	13.68	9.00	17.50		(38.61)
Large Cap Growth	Oak Assoc.	99.67	6.00	96.24	5.79	5.00	7.00		(3.43)
Micro Cap	Deutsche Asset Mgmt	83.06	5.00	72.13	4.34	4.00	6.00		(10.93)
Large Cap Value	Alliance Capital	99.67	6.00	93.94	5.66	5.00	7.00		(5.73)
Private Equity	NTOP/Huff	0.00	0.00	20.02	1.21	0.00	5.00		20.02
Energy	Mitchell Group	16.61	1.00	17.84	1.07	1.00	1.50		1.23
<b>Total Domestic Equity</b>		<u>564.79</u>	<u>34.00</u>	<u>527.34</u>	<u>31.75</u>				<u>(37.45)</u>
<b><u>International Equity</u></b>									
Active Large Cap	Bank of Ireland	182.72	11.00	167.61	10.09	9.50	12.50		(15.11)
Active ACWI x US	Clay Finlay	99.67	6.00	93.66	5.64	5.00	7.00		(6.01)
Active Enhanced EAFE	Fidelity	116.28	7.00	113.29	6.82	6.00	8.00		(2.99)
<b>Total International Equity</b>		<u>398.67</u>	<u>24.00</u>	<u>374.56</u>	<u>22.54</u>				<u>(24.11)</u>
<b>Total Equity</b>		<u>963.46</u>	<u>58.00</u>	<u>901.90</u>	<u>54.29</u>				<u>(61.56)</u>
<b>FIXED INCOME</b>									
<b><u>Global High Quality</u></b>	Deutsche Asset Mgmt	166.11	10.00	163.51	9.84	8.50	11.50		(2.60)
<b><u>Domestic High Yield</u></b>	W.R. Huff	83.06	5.00	85.23	5.13	3.00	7.00		2.17
<b><u>Global Opportunistic</u></b>									
Global Opportunistic Funds	W.R. Huff	No Target		34.37	2.07				0.00
	Oaktree	No Target		44.25	2.66				0.00
	TCW Spl Credits	No Target		0.34	0.02				0.00
<b>Total Global Opportunistic Funds</b>		<u>49.83</u>	<u>3.00</u>	<u>78.96</u>	<u>4.74</u>	<u>0.00</u>	<u>4.00</u>		<u>29.13</u>
GOFI Separate Account	Loomis-Sayles	149.50	9.00	146.35	8.81	8.00	10.00		(3.15)
<b>Total Global Opportunistic</b>		<u>199.33</u>	<u>12.00</u>	<u>225.31</u>	<u>13.55</u>				<u>25.98</u>
<b>Total Fixed Income</b>		<u>448.50</u>	<u>27.00</u>	<u>474.05</u>	<u>28.53</u>				<u>25.55</u>
<b>REAL ESTATE</b>		249.17	15.00	263.31	15.85	13.00	17.00		14.14
<b>CASH EQUIVALENTS</b>		0.00	0.00	21.87	1.33	0.00	0.00		21.87
<b>Total Assets</b>		<u>1,661.13</u>	<u>100.00</u>	<u>1,661.13</u>	<u>100.00</u>				<u>(0.00)</u>

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**DALLAS POLICE AND FIRE PENSION SYSTEM  
JANUARY 2003 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>					
Heitman Capital Management (JMB III & IV)	47,790	0.02%	0.00%		47,790
Prudential (Strategic Value Investors. LLC)	9,451,922	3.59%	0.00%		9,451,922
<b>Subtotal</b>	9,499,712	3.61%	0.00%	0	9,499,712
<b>Separate Account Managers</b>					
Agricultural - Hancock	21,379,915	8.12%	10.00%	25,188,707	(3,808,792)
Forest Investment Associates	43,675,711	16.59%	12.50%	31,485,884	12,189,827
INVESCO Realty	7,907,183	3.00%	17.50%	44,080,238	(36,173,055)
Kennedy Associates	28,775,992	10.93%	12.50%	31,485,884	(2,709,892)
L & B Real Estate Counsel	36,340,420	13.80%	15.00%	37,783,061	(1,442,641)
RREEF	30,998,039	11.77%	17.50%	44,080,238	(13,082,199)
PRIZM	9,049,417	3.44%	NA	NA	
<b>Subtotal</b>	178,126,677	67.65%	85.00%	214,104,012	(45,026,752)
<b>Opportunistic Partnerships</b>					
Hearthstone (MSII Homebuilding)	2,544,492	0.97%		10,000,000	(7,455,508)
Crow Holdings Realty Partners II	11,708,210	4.45%		20,000,000	(8,291,790)
Oaktree Capital Management (OCM R E Opportunities Fund B)	15,123,301	5.74%		15,000,000	123,301
Hudson Advisors (Brazos, Lone Star I, II, III,IV)	29,060,247	11.04%		35,949,574	(6,889,327)
Olympus Real Estate Fund II & III	17,251,965	6.55%		30,000,000	(12,748,035)
<b>Subtotal</b>	75,688,215	28.74%	15.00%	110,949,574	(35,261,359)
<b>Total Real Estate</b>	263,314,604	100.00%	100.00%	325,053,586	(70,788,399)

Market value total fund

**1,661,108,283**

Target Value (\$ and %)  
Market Value (\$ and %)  
Variance from Target

\$	%
251,887,073	15.00%
263,314,604	15.85%
11,427,531	0.85%

Total Committed Capital  
Managers in Redemption  
Actual Committed Capital

334,553,298
9,499,712
325,053,586

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**1. Administrator's report (continued)**

Mr. Tettamant and Mr. Blake, Assistant Administrator-Investments, presented the monthly report on performance returns prepared by JPMorgan Chase & Co., the System's custodial bank.

Mr. Tettamant and Mr. Rohan, Assistant Administrator-Operations, discussed the detrimental effect of the City's new payroll system on the issuing of pension benefit estimates, annual benefit and Deferred Retirement Option Plan (DROP) statements and actuarial data.

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.

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**2. Board operations and procedures**

No discussion was held.

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The Administrator stated that there was no further business to come before the Board. On a motion by Mr. Shaw and a second by Mr. Tomasovic, the meeting was adjourned at 1:44 p.m.

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Gerald Brown  
Chairman

**ATTEST:**

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Richard L. Tettamant  
Secretary