

Dallas Police and Fire Pension System
Thursday, April 17, 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, Richard H. Wachsman, and Mayor Pro Tem Donald Hill

Absent: Councilmember Maxine Thornton-Reese

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

Others Rosalind Hewsenian, Jon Donahue, Ken Cooley, and Brent Kroener

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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. Quarterly investment performance report for the fourth quarter ending December 31, 2002
- b. Update on global bond aggregate search
- c. Update on Oak Associates
- d. Update on Deutsche Asset Management micro cap

Ms. Hewsenian, of Wilshire Associates, reviewed the quarterly investment performance report for the fourth quarter ended December 31, 2002. The investment performance is summarized in the following chart:

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

	Fourth Quarter 2002	1-year	3-year	5-year
Total Fund	6.35%	-11.94%	-5.60%	3.32%
Actuarial Rate	2.06%	8.50%	8.50%	8.55%

Wilshire provided the following Total Fund Overview:

- **Total Return:** The Dallas Police and Fire Pension System (“the System”) generated a total fund return of 6.35%, during the quarter ended December 31, 2002. The System trailed its asset allocation policy index, but outpaced its actuarial rate of interest, over the period. The System has outpaced its policy index over the three, five, and ten-year periods.
- **Asset Growth:** As of quarter-end, the System’s market value was approximately \$1.6 billion, which represents an increase of \$84.2 million from the beginning of the quarter. This change in market value was comprised of \$31.2 million in net contributions, \$40.5 million in net distributions and administrative fees, \$3.6 million in investment management fees, and \$97.1 million in net investment gains.
- **Asset Allocation:** As of December 31, 2002, the System was overweighted to global opportunistic fixed income and cash, while underweighted to domestic and international equity.
- **U.S. Equity:** The U.S. stock market reversed course and recorded gains for the quarter ended December 31, 2002 after extended market declines during the past three quarters. The fourth quarter found investors snapping up beaten-down stocks, but investors remain cautious as the cloudy employment picture and continued talk of war with Iraq continue to loom over the market. The Wilshire 5000 Index and the S&P 500 Index reported returns of 7.8% and 8.4%, respectively, over the period. All sectors of the U.S. market experienced gains with Utilities and Technology as the best performing sectors during the quarter, generating positive returns of 22.8% and 18.5%, respectively, over the period. From a style perspective, value stocks returned to favor and outperformed their growth counterparts, while large-cap stocks outperformed small-cap stocks during the quarter. Micro-cap stocks outperformed both large and small stocks, as the Wilshire Micro Cap Index reported a gain of 11.5%.
- **International Equity:** The international equity markets climbed higher during the quarter, with the exception of the Pacific-Basin markets. The MSCI ACWI Free ex-US Index posted a return of 6.9% over the period. The major European markets followed the United States’ lead and experienced gains in local currency terms and in dollar-based terms. The dollar was weak against the UK pound and the Euro, rewarding US-based investors with higher dollar-term returns. The MSCI Europe Index was up 10.9% during the quarter. The Pacific-Basin markets under performed the European markets during the quarter, with the MSCI Pacific Index down 3.2%. The emerging markets again outperformed relative to the developed markets during the quarter, as the MSCI EAFE Index and the MSCI EMF Index reported returns of 6.5% and 10.0%, respectively.

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

- **Fixed Income:** The domestic bond market recorded a slight gain during the quarter, as investors rotated out of bonds into equities. The Lehman Aggregate Bond Index reported a return of 1.6% over the period, as all segments of the aggregate index appreciated during the quarter. The Credit segment was the best performer over the period, as investors picked up beaten-down Telecommunications issues. High yield bonds benefited from the overall investor confidence during the quarter, as evidenced by 8.4% gain of the Salomon High Yield Cash Pay Index. The international bond market also performed well as the Salomon Non-US Government Bond Index generated a positive return of 6.1% during the quarter.
- **Real Estate:** Real estate securities reported a small gain during this quarter. The Wilshire Real Estate Securities Index reported a return of 1.2% over the period. 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 quarterly investment performance report for the fourth quarter ending December 31, 2002. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

The Board, staff, and consultant discussed the global bond aggregate manager search.

After discussion, Mr. Tomasovic made a motion to conduct a due diligence site visit to Brandywine Asset Management. Mr. Edge seconded the motion, which was unanimously approved by the Board.

The Board, staff, and consultant discussed the performance of Oak Associates, a large-cap growth manager, since the fourth quarter of 1990 when the System originally hired Oak.

After discussion, Mr. Wachsman made a motion to receive and file the report on Oak Associates. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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

After discussion, Mr. McCollum made a motion to receive and file the update on Deutsche Asset Management's micro-cap equity account. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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2. Selection of distressed debt investment manager

Mr. Tettamant stated that Highland Capital Management, L.P. is an investment advisor located in Dallas, Texas that manages over \$8 billion in assets. James Dondero, President, and Mark Okada, Chief Investment Officer, are founders and key employees of the firm. Wilshire Associates presented an educational presentation on distressed debt investments at the October 17, 2001 Board Meeting and agreed to conduct interviews with Oaktree Capital Management and Highland Capital. Oaktree Capital Management and Highland Capital were interviewed at the November 8, 2001 Board Meeting and the reports were received and filed. On September 30, 2002 and October 10, 2002, Highland Capital spoke to the Investment Advisory Committee on the topic of distressed debt investing. In the summer of 2002, GSC was added to the due diligence process by the Board. On December 12, 2002, Roz Hewsenian updated the Board with the information that Wilshire Associates was in the process of completing due diligence reviews on GSC and Highland Capital that would be presented to the Board in January 2003.

At the January 16, 2003 Board meeting, Wilshire discussed distressed debt managers, including GSC and Highland Capital Management. The Board at the January 16, 2003 Board meeting decided to proceed with a due diligence review of Highland Capital Management. The Board completed an on-site due diligence review of Highland Capital on February 24, 2003.

Ms. Hewsenian presented a final review and discussed the possible selection of Highland Capital as a distressed debt manager for the System.

After discussion, Mr. Shaw made a motion to hire Highland Capital Management as a distressed debt manager with a \$20 million allocation, subject to final approval of the contract by the Administrator and the attorney. Mr. Mays seconded the motion, which was unanimously approved by the Board.

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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 32 on pages _____.

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

Asset Class		Target		Actual		Range		Difference vs.	
		\$	%	\$	%	Minimum	Maximum	Target	\$
EQUITY									
<u>Domestic Equity</u>									
S & P Index	SSgA	261.04	16.00	229.61	14.07	9.00	17.50		(31.43)
Large Cap Growth	Oak Assoc.	97.89	6.00	97.32	5.97	5.00	7.00		(0.57)
Micro Cap	Deutsche Asset Mgmt	81.58	5.00	68.43	4.19	4.00	6.00		(13.15)
Large Cap Value	Alliance Capital	97.89	6.00	88.73	5.44	5.00	7.00		(9.16)
Private Equity	NTOP/Huff Alternative	0.00	0.00	24.48	1.50	0.00	5.00		24.48
Energy	Mitchell Group	16.32	1.00	17.93	1.10	1.00	1.50		1.61
Total Domestic Equity		<u>554.72</u>	<u>34.00</u>	<u>526.50</u>	<u>32.28</u>				<u>(28.22)</u>
<u>International Equity</u>									
Active Large Cap	Bank of Ireland	179.47	11.00	163.71	10.03	9.50	12.50		(15.76)
Active ACWI x US	Clay Finlay	97.89	6.00	86.27	5.29	5.00	7.00		(11.62)
Active Enhanced EAFE	Fidelity	114.21	7.00	105.48	6.47	6.00	8.00		(8.73)
Total International Equity		<u>391.57</u>	<u>24.00</u>	<u>355.46</u>	<u>21.78</u>				<u>(36.11)</u>
Total Equity		<u>946.29</u>	<u>58.00</u>	<u>881.96</u>	<u>54.06</u>				<u>(64.33)</u>
FIXED INCOME									
<u>Global High Quality</u>	Deutsche Asset Mgmt	163.15	10.00	163.95	10.05	8.50	11.50		0.80
<u>Domestic High Yield</u>	W.R. Huff	81.58	5.00	83.36	5.11	3.00	7.00		1.78
<u>Global Opportunistic</u>									
Global Opportunistic Funds	W.R. Huff	No Target		10.24	0.63				0.00
	Oaktree	No Target		51.84	3.18				0.00
	TCW Spl Credits	No Target		0.34	0.02				0.00
Total Global Opportunistic Funds		48.95	3.00	62.42	3.82	0.00	4.00		13.47
GOFI Separate Account	Loomis-Sayles	146.84	9.00	164.60	10.09	8.00	10.00		17.76
Total Global Opportunistic		<u>195.79</u>	<u>12.00</u>	<u>227.02</u>	<u>13.90</u>				<u>31.23</u>
Total Fixed Income		<u>440.52</u>	<u>27.00</u>	<u>474.33</u>	<u>29.06</u>				<u>33.81</u>
<u>REAL ESTATE</u>		244.70	15.00	264.62	16.22	13.00	17.00		19.92
<u>CASH EQUIVALENTS</u>		0.00	0.00	10.60	0.66	0.00	0.00		10.60
Total Assets		<u>1,631.51</u>	<u>100.00</u>	<u>1,631.51</u>	<u>100.00</u>				<u>0.00</u>

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**DALLAS POLICE AND FIRE PENSION SYSTEM
APRIL 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
Managers in Redemption					
Heitman Capital Management (JMB III & IV)	53,351	0.02%	0.00%		53,351
Prudential (Strategic Value Investors. LLC)	9,451,922	3.57%	0.00%		9,451,922
Subtotal	9,505,273	3.59%	0.00%	0	9,505,273
Separate Account Managers					
Agricultural - Hancock	22,912,351	8.66%	10.00%	24,744,701	(1,832,350)
Forest Investment Associates	42,595,727	16.10%	12.50%	30,930,876	11,664,851
INVESCO Realty	7,050,033	2.66%	17.50%	43,303,226	(36,253,193)
Kennedy Associates	26,435,212	9.99%	12.50%	30,930,876	(4,495,664)
L & B Real Estate Counsel	22,173,675	8.38%	15.00%	37,117,051	(14,943,376)
RREEF	31,723,148	11.99%	17.50%	43,303,226	(11,580,078)
CDK Realty Advisors	26,701,607	10.09%	NA	NA	
Subtotal	179,591,753	67.87%	85.00%	210,329,956	(57,439,810)
Opportunistic Partnerships					
Hearthstone (MSII Homebuilding)	2,628,452	0.99%		10,000,000	(7,371,548)
Crow Holdings Realty Partners II	13,074,205	4.94%		20,000,000	(6,925,795)
Oaktree Capital Management (OCM R E Opportunities Fund B)	15,123,301	5.72%		15,000,000	123,301
Hudson Advisors (Brazos, Lone Star I, II, III,IV)	27,948,867	10.56%		37,051,271	(9,102,404)
Olympus Real Estate Fund II & III	16,748,043	6.33%		30,000,000	(13,251,957)
Subtotal	75,522,868	28.54%	15.00%	112,051,271	(36,528,403)
Total Real Estate	264,619,894	100.00%	100.00%	322,381,227	(84,462,940)

Market value total fund

1,631,507,844

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

\$	%
247,447,008	15.00%
264,619,894	16.22%
17,172,886	1.22%

Total Committed Capital
Managers in Redemption
Actual Committed Capital

331,886,500
9,505,273
322,381,227

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3. Monthly asset allocation report (continued)

Wilshire Associates Inc. stated that all of the asset class allocations are within their respective target ranges. Wilshire recommends that \$25 million from Loomis Sayles to be transferred to the cash account (\$5 million) to meet cash needs and to fund the Highland Crusader Fund (\$20 million).

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

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4. Request by Loomis Sayles & Company, L.P. for permission to use bank loans in their portfolios

Mr. Tettamant reported that Loomis Sayles & Company, one of the Systems' fixed income investment advisors, has requested a modification to the existing guidelines that govern the account. The requested change to the existing guidelines requires Board approval.

Loomis Sayles has been a fiduciary for the System since 1998 and currently manages approximately \$164,600,000 under the Global Opportunistic Fixed Income (GOFI) category. Dan Fuss, portfolio manager, and Robert McManama, client service representative, have requested that the current guidelines be amended to include the purchase and sale of bank loans for the portfolio. Wilshire Associates has reviewed the request and does not recommend approval at this time.

After discussion, Mr. Wachsman made a motion to deny the request by Loomis, pending consideration of Loomis' response to the investment consultant's questions. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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The meeting was recessed at 9:33 a.m.

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

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5. Possible investment through CDK Realty Advisors

In accordance with the terms of Section 551.072, Texas Government Code, the Board went into a closed executive real estate session at 9:53 a.m. to discuss a possible investment opportunity through CDK Realty Advisors.

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

After discussion, Mr. McCollum made a motion to approve a potential real estate investment in Arizona, subject to successful due diligence and contract negotiation. Mr. Edge seconded the motion, which was unanimously approved by the Board.

The meeting was closed at 10:35 a.m. for an executive real estate session.

The meeting was reopened at 11:08 a.m.

After discussion, Mr. Edge made a motion to direct CDK Realty Advisors to proceed with the Texas investment that was discussed. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

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The meeting was recessed at 11:08 a.m.

The meeting was reconvened at 11:38 a.m.

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B. BRIEFING ITEMS

Administrator's report

- a. Custodial bank/consultants update
- b. Investment managers update
- c. General administration update

Mr. Tettamant reviewed current developments relating to the Pension System, including the proposed constitutional amendment to protect the pensions of Texas public employees.

No motion was made.

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The Administrator stated that there was no further business to come before the Board. On a motion by Mr. Wachsman and a second by Mr. Shaw, the meeting was adjourned at 12:15 p.m.

Gerald Brown
Chairman

ATTEST:

Richard L. Tettamant
Secretary