

Dallas Police and Fire Pension System
Thursday, July 17, 2003
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, and Deputy Mayor Pro Tem Donald Hill

Absent: Gary Edge, John Mays, Richard Wachsman, and Councilmember Maxine Thornton-Reese

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

Others: Rosalind Hewsenian, Audrey Jones, and Tony Freitas

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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. Deutsche Asset Management micro cap portfolio review

Mr. Tettamant stated that Deutsche Asset Management as a micro cap equity manager has been a fiduciary for the System since March 1999. The market value for the System's micro cap equity account is approximately \$79.50 million as of May 31, 2003.

Ms. Jones, Managing Director of the Small and Micro Cap Equity Group, and Mr. Freitas, Managing Director, presented the Deutsche Asset Management micro cap portfolio review, which included a review of the account and performance, and discussion of the portfolio structure and strategy.

After discussion, Mr. Shaw made a motion to receive and file the portfolio review by Deutsche Asset Management. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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

The meeting was reconvened at 10:01 a.m.

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

- a. Update on Deutsche micro-cap
- b. Global bond aggregate manager search
 - (1) Reports on due diligence meetings
 - (a) Payden & Rygel Investment Management
 - (b) Delaware International Advisers Ltd.
 - (c) Pareto Partners
 - (d) Brandywine Asset Management
 - (2) Possible selection of investment manager(s) and allocation of funds
- c. Quarterly investment performance report for the first quarter ending March 31, 2003

Ms. Hewsenian, of Wilshire Associates, gave an introductory overview of the Deutsche portfolio performance prior to the Deutsche presentation by Ms. Jones and Mr. Freitas.

Messrs. Brown, Tomasovic, Umlor, Wachsman, Tettamant, and Blake, and Ms. Hewsenian discussed their findings from the due diligence meetings with the global bond aggregate investment manager candidates.

Ms. Hewsenian also reviewed the System's investment performance for the first quarter ending March 31, 2003. The investment performance is summarized in the following chart:

	-1.50%	-13.01%	-7.75%	1.33%
	2.06%	8.50%	8.50%	8.54%

Wilshire provided the following Total Fund Overview:

Total Return: The Dallas Police and Fire Pension System ("the System") generated a negative total fund return of 1.5%, during the quarter ended March 31, 2003. The System trailed both its asset allocation policy index and actuarial rate of interest over the period. The System has outpaced its policy index over the five and ten-year periods.

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

Asset Growth: As of quarter-end, the System's market value was approximately \$1.634 billion, which represents a decrease of \$11.0 million from the beginning of the quarter. This change in market value was comprised of \$46.6 million in net contributions, \$32.8 million in net distributions and administrative fees, \$1.8 million in investment management fees, and \$23.0 million in net investment losses.

Asset Allocation: As of March 31, 2003, the System was overweighted to global opportunistic fixed income and real estate, while underweighted to equities.

After discussion, Mr. Shaw made a motion to receive and file the update on Deutsche micro-cap and the quarterly investment performance report for the first quarter ended March 31, 2003. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Umlor made a motion to hire two companies, Delaware and Pareto Partners, to manage the System's allocation to the global bond aggregate, and authorize the Administrator to negotiate contracts, subject to the final approval of the Administrator and legal counsel. Each of the two companies would be given 50% of the total allocation to manage. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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3. Approval of transition management services for global bond aggregate manager(s)

Mr. Tettamant requested authorization to notify the Frank Russell Company to perform investment transition services for the global fixed income investment manager change. Total cost for the transition is estimated to be 23 basis points. Using a 10% target allocation to global fixed income, the global bond portfolio would be approximately \$186,000,000 and the transition would result in an estimated \$427,800 cost (or 23 basis points). The estimated cost would include market impact, bid ask spread, broker commission, and an investment transition fee to Frank Russell Company. The Board has previously approved the contract for investment transition services with Frank Russell Company.

After discussion, Mr. Shaw made a motion to approve Frank Russell Company as the investment transition manager to be used to implement the changes for the new global bond aggregate managers. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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The meeting was recessed at 11:31 a.m.

The meeting was reconvened at 12:17 p.m.

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4. Review of due diligence meetings with Clay Finlay Inc. and Lone Star Advisors

Board members and staff who recently met with Clay Finlay Inc. and Lone Star Advisors discussed the on-site reviews of the two current investment managers for the System. Mr. Tettamant stated that Clay Finlay currently manages approximately \$100.7 million as an international equity investment manager for the System and Lone Star Advisors currently manages approximately \$27.1 million as a real estate investment manager for the System.

After discussion, Mr. Shaw made a motion to receive and file the review of the due diligence meetings with Clay Finlay Inc. and Lone Star Advisors. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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5. 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 33 on pages _____.

Wilshire Associates Inc. stated that all of the asset class allocations are within their respective target ranges; therefore, no rebalancing is necessary. Wilshire recommends that the \$3 million in cash needs should come from the RREEF REITs account.

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

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

Asset Class		Target		Actual		Range		Difference vs.	
		\$	%	\$	%	Minimum	Maximum	Target	\$
EQUITY									
<u>Domestic Equity</u>									
S & P Index	SSgA	294.60	16.00	265.02	14.39	9.00	17.50		(29.58)
Large Cap Growth	Oak Assoc.	110.47	6.00	128.36	6.97	5.00	7.00		17.89
Micro Cap	Deutsche Asset Mgmt	92.06	5.00	82.49	4.48	4.00	6.00		(9.57)
Large Cap Value	Alliance Capital	110.47	6.00	104.92	5.70	5.00	7.00		(5.55)
Private Equity	NTOP/Huff Alternative	0.00	0.00	22.16	1.20	0.00	5.00		22.16
Energy	Mitchell Group	18.41	1.00	19.64	1.07	1.00	1.50		1.23
Total Domestic Equity		<u>626.01</u>	<u>34.00</u>	<u>622.59</u>	<u>33.83</u>				<u>(3.42)</u>
<u>International Equity</u>									
Active Large Cap	Bank of Ireland	202.53	11.00	201.98	10.97	9.50	12.50		(0.55)
Active ACWI x US	Clay Finlay	110.47	6.00	110.31	5.99	5.00	7.00		(0.16)
Active Enhanced EAFE	Fidelity	128.89	7.00	128.75	6.99	6.00	8.00		(0.14)
Total International Equity		<u>441.89</u>	<u>24.00</u>	<u>441.04</u>	<u>23.94</u>				<u>(0.85)</u>
Total Equity		<u>1,067.90</u>	<u>58.00</u>	<u>1063.63</u>	<u>57.77</u>				<u>(4.27)</u>
FIXED INCOME									
<u>Global High Quality</u>	Deutsche Asset Mgmt	184.12	10.00	170.37	9.25	8.50	11.50		(13.75)
<u>Domestic High Yield</u>	W.R. Huff	92.06	5.00	92.95	5.05	3.00	7.00		0.89
<u>Global Opportunistic</u>									
Global Opportunistic Funds	W.R. Huff	No Target		8.34	0.45				0.00
	Oaktree	No Target		46.84	2.54				0.00
	TCW Spl Credits	No Target		0.33	0.02				0.00
	Highland Crusader Fund *	No Target		0.00	0.00				0.00
Total Global Opportunistic Funds		55.24	3.00	55.51	3.00	0.00	4.00		0.27
GOFI Separate Account	Loomis-Sayles	165.71	9.00	162.51	8.83	8.00	10.00		(3.20)
Total Global Opportunistic		<u>220.95</u>	<u>12.00</u>	<u>218.02</u>	<u>11.83</u>				<u>(2.93)</u>
Total Fixed Income		<u>497.13</u>	<u>27.00</u>	<u>481.34</u>	<u>26.13</u>				<u>(15.79)</u>
<u>REAL ESTATE</u>		276.19	15.00	262.69	14.27	13.00	17.00		(13.50)
<u>CASH EQUIVALENTS</u>		0.00	0.00	33.56	1.83	0.00	0.00		33.56
Total Assets		<u><u>1,841.22</u></u>	<u><u>100.00</u></u>	<u><u>1,841.22</u></u>	<u><u>100.00</u></u>				<u><u>0.00</u></u>

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**DALLAS POLICE AND FIRE PENSION SYSTEM
JULY 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)	6,275,918	2.39%	0.00%		6,275,918
Subtotal	6,329,269	2.41%	0.00%	0	6,329,269
Separate Account Managers					
Agricultural - Hancock	21,992,351	8.37%	10.00%	27,890,422	(5,898,071)
Forest Investment Associates	41,576,317	15.83%	12.50%	34,863,028	6,713,289
INVESCO Realty	8,050,033	3.06%	17.50%	48,808,239	(40,758,206)
Kennedy Associates	26,343,276	10.03%	12.50%	34,863,028	(8,519,752)
L & B Real Estate Counsel	22,403,940	8.53%	15.00%	41,835,633	(19,431,693)
RREEF	35,406,893	13.48%	17.50%	48,808,239	(13,401,346)
CDK Realty Advisors	26,106,192	9.94%	NA	NA	
Subtotal	181,879,002	69.24%	85.00%	237,068,588	(81,295,778)
Opportunistic Partnerships					
Hearthstone (MSII Homebuilding)	2,002,683	0.76%		10,000,000	(7,997,317)
Crow Holdings Realty Partners II	16,069,203	6.12%		20,000,000	(3,930,797)
Oaktree Capital Management (OCM R E Opportunities Fund B)	10,056,282	3.83%		15,000,000	(4,943,718)
Hudson Advisors (Brazos, Lone Star I, II, III,IV)	27,026,317	10.29%		37,630,235	(10,603,918)
Olympus Real Estate Fund II & III	19,327,299	7.36%		30,000,000	(10,672,701)
Subtotal	74,481,784	28.35%	15.00%	112,630,235	(38,148,451)
Total Real Estate	262,690,055	100.00%	100.00%	349,698,823	(113,114,960)

Market value total fund

1,841,222,604

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

\$	%
278,904,222	15.00%
262,690,055	14.27%
(16,214,167)	-0.73%

Total Committed Capital
Managers in Redemption
Actual Committed Capital

356,028,092
6,329,269
349,698,823

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6. Records retention schedule

Mr. Tettamant explained that the System's Records Management Policy and Procedure requires that the Administrator submit all records retention and disposition schedules to the System's Board of Trustees for formal adoption. The Texas State Library and Archives Commission has published a retention schedule for records common to local governments. This schedule establishes mandatory minimum retention periods for the records listed. Staff recommends adoption of this schedule.

After discussion, Mr. Umlor made a motion to adopt the latest guidance from Texas State Library and Archives Commission, as follows:

Local Schedule GR (3rd edition) – Retention Schedule for Records Common to All Local Governments effective November 1, 1995, with any unaddressed issues governed by

Texas State Records Retention Schedule (2nd edition) effective January 1, 1998.

Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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7. 2002 actuarial valuation report

Mr. Tettamant said that at its July 10, 2003 meeting, the Board was scheduled to consider the Actuarial Valuation as of January 1, 2003, conducted by Buck Consulting. The item was presented at this meeting for further discussion of any issues remaining from the earlier meeting.

After discussion, Mr. Shaw made a motion to receive and file the 2002 actuarial valuation report. 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
- b. Investment managers update
- c. General administration update

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B. BRIEFING ITEMS

Administrator's report (continued)

Mr. Tettamant briefed the Board regarding current developments relating to the Pension System.

After discussion, Mr. Shaw made a motion to receive and file the Administrator's report. Mr. Umlor 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. Umlor, the meeting was adjourned at 1:25 p.m.

Gerald Brown
Chairman

ATTEST:

Richard L. Tettamant
Secretary