

**Dallas Police and Fire Pension System  
Board and Staff Workshop  
Monday, October 18, 2004 - Thursday, October 21, 2004  
WB Ranch  
Whitney, Texas**

Special meeting, Gerald Brown, Chairman, presiding:

**ROLL CALL**

**Board Members**

Present: Gerald Brown, Steve Shaw, George Tomasovic, Rector C. McCollum, Gary Edge, John Mays, and Richard Wachsmann

Absent: Councilmember Donald Hill, Councilmember Maxine Thornton-Reese, and Steven H. Umlor

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

**Others** Kenneth Cooley, Jon Donahue, Brent Kroener, Mike Ebert, Scott Schirmer, Kevin Lynch, Richard Brown, Kathy McRae, Tim Sheeley, Roz Hewsenian, Al Kim, Rodney Mitchell, Doug Hohertz, Ron Ernst, Kurt Plumer, Todd Travers, Robert Miller, Yuniedth Midence, Senator John Whitmire, Julie Gilbert, Michael Harris, Rich Mackesey, Steve Prullage, Gary Lawson, and Gus Fields

\* \* \* \* \*

The meeting was called to order at 6:00 p.m. on Monday, October 18, 2004.

\* \* \* \* \*

• **Welcome**

Mr. Tettamant, Administrator, and Mr. Brown, Chairman, welcomed the participants to the 2004 Annual Board and Staff Workshop.

\* \* \* \* \*

The meeting was recessed at 6:01 p.m. on Monday, October 18, 2004.

\* \* \* \* \*

The meeting was reconvened at 8:00 a.m. on Tuesday, October 19, 2004.

**Dallas Police and Fire Pension System  
Board and Staff Workshop  
Monday, October 18, 2004 - Thursday, October 21, 2004**

\* \* \* \* \*

**REAL ESTATE INVESTMENTS**



- **Panel discussion hosted by CDK Realty Advisors – *The Real Estate Development Process***
  - **RED Development**
  - **SMDI**

Mr. Tettamant stated that CDK Realty Advisors had arranged a panel discussion regarding the real estate development process between the Board and industry experts on the risks and rewards in proceeding with real estate development investments.

Messrs. Cooley, Donahue, and Kroener, of CDK Realty Advisors, introduced the topic and the panelists. Mike Ebert, Principal, from RED Development, and Scott Schirmer, Principal, from Schirmer Ball Company and SMDI, discussed their companies' experiences in real estate development.

After discussion, Mr. Shaw made a motion to receive and file the presentations by CDK Realty Advisors, RED Development, and SMDI. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

\* \* \* \* \*

- **The Townsend Group**
  - Real estate overview
    - New issues, opportunities, and trends
    - International and US real estate
    - Interest rate sensitivities
    - Overview of the Public Equity REIT Market

Mr. Kevin Lynch, of The Townsend Group, the System's real estate consultant, gave an overview of the current real estate market conditions in domestic and international real estate. He also discussed interest rate sensitivities and the public equity REIT market.

Mr. Richard Brown, of The Townsend Group, reviewed the System's real estate performance for the second quarter ended June 30, 2004. The real estate investment performance was as follows:

**Dallas Police and Fire Pension System  
Board and Staff Workshop  
Monday, October 18, 2004 - Thursday, October 21, 2004**

**REAL ESTATE INVESTMENTS (continued)**

- **The Townsend Group** (continued)

	2.55%	13.58%	9.32%	10.34%
	2.29%	11.74%	7.85%	8.95%

Messrs. Lynch and Brown reviewed the 2004 real estate strategic plan and discussed their recommendations for the 2005 strategic plan.

After discussion, Mr. Mays made a motion to receive and file the strategic plan review. Mr. Wachsman seconded the motion, which was unanimously approved by the Board.

Messrs. Lynch and Brown discussed the forecast for sales of individual properties, as well as the current apartment market and future opportunities in the apartment market.

After discussion, Mr. Wachsman made a motion to receive and file the Townsend report on the apartment market. Mr. Edge seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Wachsman made a motion to receive and file the remainder of the reports by The Townsend Group. Mr. Edge seconded the motion, which was unanimously approved by the Board.

\* \* \* \* \*

The meeting was recessed at 11:40 a.m.

The meeting was reconvened at 12:20 p.m.

\* \* \* \* \*

- **JPMorgan Chase Bank**
  - Explanation of services provided and/or available

Ms. Kathy McRae, Client Service Manager, of JPMorgan Chase, gave an overview of the capabilities of JPMorgan Chase and the services provided to the System in their role as the System’s custodial bank.

**Dallas Police and Fire Pension System  
Board and Staff Workshop  
Monday, October 18, 2004 - Thursday, October 21, 2004**

**REAL ESTATE INVESTMENTS (continued)**

▪ **JPMorgan Chase Bank (continued)**

Mr. Tim Sheeley, Vice President, Corporate Reorganizations, gave a detailed explanation of the securities lending and securities litigation services provided by JPMorgan Chase.

After discussion, Mr. Shaw made a motion to receive and file the presentations by JPMorgan Chase Bank. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

The Board directed the Administrator to cancel the securities litigation search.

\* \* \* \* \*

The meeting was recessed at 2:25 p.m. on Tuesday, October 19, 2004.

\* \* \* \* \*

The meeting was reconvened at 8:00 a.m. on Wednesday, October 20, 2004.

\* \* \* \* \*

**GENERAL INVESTMENTS**



- **Wilshire Associates Inc.**
  - Second Quarter Performance Report for the period ended June 30, 2004
  - 2004 Strategic Plan Review and Update
  - 2005 Strategic Plan
  - Educational issues
    - Enhanced indexing
    - Pension obligation bonds

Ms. Hewsenian and Mr. Kim, of Wilshire Associates Incorporated, reviewed the System's investment performance for the second quarter ending June 30, 2004. The investment performance is summarized in the following chart:

**Dallas Police and Fire Pension System  
Board and Staff Workshop  
Monday, October 18, 2004 - Thursday, October 21, 2004**

**GENERAL INVESTMENTS (continued)**

• **Wilshire Associates Inc. (continued)**

	<b>Second</b>			
	0.33%	21.78%	5.10%	4.89%
	2.06%	8.50%	8.50%	8.50%

Wilshire provided the following Capital Market Overview:

- ◆ U.S. equity markets managed to generate gains for the second quarter of 2004, albeit negative performance was recorded during the month of April. Improved corporate earnings and an upward revision to job creation figures for the month of March were tempered by continued political strife in the Middle East, steep hikes in oil prices, and a 0.25% increase in the Federal Funds rate. The broad U.S. equity market, as represented by the Dow Jones Wilshire 5000 Index, returned 1.4% for the quarter, trailing the S&P 500 Index return of 1.7%. Among the Dow Jones Wilshire 5000 GICS sectors, Industrials and Energy sectors were the top-performing segments, largely due to strong performance of issues such as Boeing, Raytheon, and Lockheed Martin. In contrast, Financials and Utilities lost ground for the quarter amidst higher interest rates and rising oil and gas prices. Large cap issues slightly outperformed liquid small-cap issues (Wilshire Large Cap 750 Index, 1.5%; Wilshire Small Cap 1750 Index, 1.2%). In terms of style, growth-oriented stocks outperformed value-oriented stocks in the large-cap arena, however, in the small-cap segment, value issues exceeded growth issues (Wilshire Large Growth Index, 3.0%; Wilshire Large Value Index, 0.2%; Wilshire Small Growth Index, 1.1%; Wilshire Small Value Index, 1.3%). Micro-cap stocks retreated for the quarter, with the Wilshire Micro-cap Index posting a return of -3.0%, largely due to sell-offs in the face of inflationary woes.
- ◆ Non-U.S. equity market results were mixed for the second quarter, with the MSCI ACWI Free ex-US Index returning -0.7% in U.S. Dollar terms and 1.4% in local terms. The European region (MSCI Europe Index, 2.1% USD; 3.0%, local) benefited from higher corporate earnings and the inclusion of ten new countries into the European Union. In contrast, the Pacific region ended a five-quarter advance, as a direct result of China's plans to implement stringent capital requirements for banks, which would impede China's surging economy (MSCI Pacific Index, -4.0% USD; 1.1%, local). Finally, developed markets prevailed over emerging markets (MSCI EAFE Index, 0.2% USD; MSCI EMF Index, -9.6% USD) due to the rising cost of borrowing U.S. Dollars.

**Dallas Police and Fire Pension System  
Board and Staff Workshop  
Monday, October 18, 2004 - Thursday, October 21, 2004**

**GENERAL INVESTMENTS (continued)**

- **Wilshire Associates Inc. (continued)**
- ◆ U.S. bond investors reacted negatively to inflationary fears posed by the Federal Reserve Board's increase in the Federal Fund Rate to 1.25% in June. The broad U.S. fixed income market, as represented by the Lehman Aggregate Bond Index, retreated for the quarter, posting a return of - 2.4%. Among the Lehman sectors, Credit and Treasury issues posted losses of -3.4% and -3.2%, respectively. Bond prices were driven lower throughout the quarter, with longer maturity issues suffering the worst losses (Lehman Long Treasury Index, -5.2%; Lehman 1-3 Year Treasury Index, -1.1%). Interest-rate sensitive sectors, such as Financials and Information Technology, suffered the brunt of the losses for the quarter. High yield instruments outpaced investment grade issues for the period (Citigroup High Yield Cash Pay, -0.7%), as they are less sensitive to interest rate movements. International bond markets continued to trail their domestic fixed income counterparts, with the Citigroup Non-US Government Bond Index generating a return of -3.4% during the quarter.
- ◆ The public real estate securities market, as represented by the Dow Jones Wilshire Real Estate Securities Index ("DJWRESI"), retreated and posted a return of -5.5% for the quarter, primarily due to a large loss in the month of April 2004. For the quarter, the Factory Outlet (return of -12.3%) and Regional Retail (return of -11.4%) segments reported the largest losses among the DJWRESI sectors. In contrast to the losses within the public real estate segment, the private real estate sector, as represented by the NCREIF Property Index, reported a gain of 3.1% for the second quarter.

After discussion, Mr. Shaw made a motion to receive and file the Wilshire second quarter performance report for the period ended June 30, 2004. Mr. Mays seconded the motion, which was unanimously approved by the Board.

Mr. Kim gave an educational presentation on the topic of enhanced indexing.

After discussion, Mr. Wachsman made a motion to have Wilshire Associates prepare a structure analysis for the January 2005 quarterly Board meeting with recommendations on how much to allocate to enhanced indexing so that the Board can be prepared to choose a structure and select potential managers to be interviewed. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

Ms. Hewsenian discussed pension obligation bonds with the Board and staff.

**Dallas Police and Fire Pension System  
Board and Staff Workshop  
Monday, October 18, 2004 - Thursday, October 21, 2004**

**GENERAL INVESTMENTS (continued)**

- **Wilshire Associates Inc. (continued)**

After discussion, Mr. Shaw made a motion to receive and file the presentation by Wilshire Associates on pension obligation bonds. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

The meeting was recessed at 10:07 a.m.

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

Ms. Hewsenian reviewed the 2004 Strategic Plan and recommended a 2005 Strategic Plan.

After discussion, Mr. Edge made a motion to receive and file the 2004 Strategic Plan review and approve the 2005 Strategic Plan. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

\* \* \* \* \*

The meeting was recessed at 12:47 p.m.

The meeting was reconvened at 12:53 p.m.

- **Mitchell Group**
  - Geopolitical issues
  - Portfolio review

Messrs. Rodney Mitchell and Doug Hohertz, of The Mitchell Group, discussed the System's portfolio and trends in the oil and gas industry.

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

\* \* \* \* \*

The meeting was recessed at 11:35 a.m.

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

**Dallas Police and Fire Pension System  
Board and Staff Workshop  
Monday, October 18, 2004 - Thursday, October 21, 2004**

\* \* \* \* \*

- **Highland Capital Management**
  - Portfolio review
  - New investment opportunity

Messrs. Ernst, Travers, and Plumer, of Highland Capital Management reviewed the System's portfolio and introduced a new investment proposal.

After discussion, Mr. Wachsman made a motion to receive and file the Highland Capital Management portfolio review of the Highland Crusader Fund. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Shaw made a motion to empower the staff and Wilshire Associates to conduct further study of the investment proposal and bring a final recommendation to the Board. Messrs. Mays and Edge jointly seconded the motion, which was unanimously approved by the Board.

\* \* \* \* \*

The meeting was recessed at 2:35 p.m. on Wednesday, October 20, 2004.

\* \* \* \* \*

The meeting was reconvened at 8:00 a.m. on Thursday, October 21, 2004.

\* \* \* \* \*

**ADMINISTRATIVE ISSUES**

**1. Locke Liddell & Sapp LLP**

- a. Role of a legislative consultant
- b. Legislative review

Locke Liddell & Sapp representatives, Robert Miller, Yuniedth Midence, Senator John Whitmire, Julie Gilbert, and Michael Harris, gave an overview of the legislative calendar, from the November general election through the end of the 79<sup>th</sup> session of the Texas Legislature. They also discussed with the Board their role as legislative consultants, the major issues of the 79<sup>th</sup> session, and pension-related issues.



**Dallas Police and Fire Pension System  
Board and Staff Workshop  
Monday, October 18, 2004 - Thursday, October 21, 2004**

**ADMINISTRATIVE ISSUES (continued)**

**1. Locke Liddell & Sapp LLP**

After discussion, Mr. Wachsman made a motion to receive and file the presentation by Locke Liddell & Sapp LLP. Mr. Edge seconded the motion, which was unanimously approved by the Board.

\* \* \* \* \*

**2. Mellon Consultants, Inc.**

- a. Actuarial assumptions
- b. Pension obligation bonds from an actuarial perspective

Messrs. Mackesey and Prullage of Mellon Consultants, Inc., the System's actuary, discussed actuarial issues with the Board and staff.

Mr. Mackesey reviewed the System's actuarial assumptions to be used for the actuarial review for the period ending December 31, 2004. Actuarial assumptions generally are grouped as Economic or Demographic. The actuarial expectation and actuarial experience were discussed for each assumption as Mr. Mackesey reviewed Schedule D of the Actuarial Valuation.

Mr. Mackesey recommended two changes in the demographic assumptions: (1) for Terminations Prior to Retirement, increase the expectation by 10%, and (2) for Leaving Active Service, assume that members wait one year longer to leave active service, with the intention to bring actual experience to approximately 90% of the expected number.

After discussion, Mr. Wachsman made a motion to receive and file the presentation on actuarial assumptions and approve the recommended changes. Mr. McCollum seconded the motion, which was approved by the following vote:

For: Wachsman, McCollum, Brown, Edge, Shaw, Tomasovic  
Against: Mays

After discussion, Mr. McCollum made a motion to direct Mellon Consultants, Inc. to study the options needed to bring the System's funding level to 30 years. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

Mr. Prullage reviewed issues related to pension obligation bonds from the perspective of the actuarial impact on funding.

**Dallas Police and Fire Pension System  
Board and Staff Workshop  
Monday, October 18, 2004 - Thursday, October 21, 2004**

**ADMINISTRATIVE ISSUES (continued)**

**2. Mellon Consultants, Inc. (continued)**

After discussion, Mr. Shaw made a motion to receive and file the presentation on pension obligation bonds. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

\* \* \* \* \*

**3. Retirement process**

Messrs. Tettamant and Rohan reviewed various operational processes to illustrate the retirement process, including benefit counseling, benefit entry, System payments, and taxability of benefits.

After discussion, Mr. Shaw made a motion to receive and file the presentation regarding the retirement process. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

\* \* \* \* \*

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

The meeting was reconvened at 11:00 a.m.

\* \* \* \* \*

**4. Report on number of members electing early retirement**

Messrs. Tettamant and Rohan reviewed for the Board statistics on early retirements and the impact on the decision to enter DROP.

Active DROPS and retirements for the last two years were as follows:

	<u>Normal*</u>	<u>Early/20 &amp; out</u>
2003	137	78
2004**	89	21

\* includes disabilities

\*\* through September 2004

**Dallas Police and Fire Pension System  
Board and Staff Workshop  
Monday, October 18, 2004 - Thursday, October 21, 2004**

**ADMINISTRATIVE ISSUES (continued)**

**4. Report on number of members electing early retirement**

Staff also furnished a copy of a spreadsheet that is provided to each member, as applicable, illustrating the difference in DROP accumulations when entering DROP early or waiting for normal retirement.

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

\* \* \* \* \*

**5. 2005 Trustee Election**

Mr. Tettamant stated that in accordance with Section 3.01(2) of the Plan Document and Section 4(c)(6) of the Trustee Election Procedure, the terms of four Trustee Place positions expire on May 31, 2005, as follows:

- Police Place 1 (P-1)
- Fire Place 1 (F-1)
- Police Pensioner Place 1
- Fire Pensioner Place 1

Staff presented a proposed 2005 Trustee Election Schedule for discussion by the Board.

After discussion, Mr. McCollum made a motion to receive and file the presentation regarding the 2005 Trustee Election. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

\* \* \* \* \*

**6. Health benefits proposal for System retirees and qualified survivors**

Messrs. Tettamant and Rohan presented for the Board's discussion and consideration a proposal that would allow Members to save money during Active Service to help pay health insurance expenses in retirement.

To assist in the evaluation of the proposal, Mr. Mackesey of Mellon Consultants, Inc., the System's actuary, estimated that a representative Member could accrue the following amounts over a 20 year period:

**Dallas Police and Fire Pension System  
Board and Staff Workshop  
Monday, October 18, 2004 - Thursday, October 21, 2004**

**ADMINISTRATIVE ISSUES (continued)**

**6. Health benefits proposal for System retirees and qualified survivors**

Contributes at 2% of pay	\$69,000
Contributes at 5% of pay	\$173,000

The estimates are based on the following assumptions:

- The Member starts at age 30 with 5 years of service,
- has an annual salary of \$48,249,
- will receive pay increases consistent with the salary scale used in the January 1, 2004 valuation of the Combined Pension Plan,
- will earn 8.5% per year on contributions, and
- contributes each year at the same rate to age 50.

**6. Health benefits proposal for System retirees and qualified survivors (continued)**

After discussion, Mr. Edge made a motion to receive and file the health benefits proposal for System retirees and qualified survivors and direct the staff to have legal counsel put the plan into final form, research the unitizing of plan assets, research the cost of a third party administrator, and develop a timeline for implementation of the proposal. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

\* \* \* \* \*

The meeting was recessed at 11:50 a. m.

The meeting was reconvened at 12:20 p.m.

\* \* \* \* \*

**7. City of Dallas employees' and retirees' proposed health insurance benefits**

Mr. Tettamant provided information regarding the City of Dallas 2005 employees' and retirees' proposed health insurance benefits.

After discussion, Mr. Edge made a motion to receive and file the information regarding the City of Dallas health insurance benefits. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

**Dallas Police and Fire Pension System  
Board and Staff Workshop  
Monday, October 18, 2004 - Thursday, October 21, 2004**

\* \* \* \* \*

**ADMINISTRATIVE ISSUES (continued)**

**8. History of Pension System**

Mr. Rohan presented various documents and tables to illustrate significant events in the history of the Pension System.

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

\* \* \* \* \*

**9. Business Continuity**

Messrs. Tettamant and Rohan reviewed the System's Business Continuity Plan, and briefed the Board on the current status.

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

\* \* \* \* \*

**10. Annual internal controls review**

Messrs. Tettamant and Rohan reviewed overall internal controls procedures, and briefed the Board on changes made during the last year.

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

\* \* \* \* \*

**11. 2004 Strategic Plan Review and Update**

Mr. Tettamant reviewed the 2004 Strategic Plan with the Board.

After discussion, Mr. Shaw made a motion to receive and file the 2004 Strategic Plan review. Mr. Mays seconded the motion, which was unanimously approved by the Board.

**Dallas Police and Fire Pension System  
Board and Staff Workshop  
Monday, October 18, 2004 - Thursday, October 21, 2004**

\* \* \* \* \*

**ADMINISTRATIVE ISSUES (continued)**

**12. 2005 Strategic Plan**

Mr. Tettamant stated that in addition to reviewing the current year strategic plan; each year staff also presents a plan for the next year to the Board for review and subsequent approval. Staff reviewed items that the Board may want to consider including in the 2005 Strategic Plan.

After discussion, Mr. Wachsman made a motion to refer the 2005 Strategic Plan to the Administrative Advisory Committee for review and comments before final approval. Messrs. Edge and Shaw jointly seconded the motion, which was unanimously approved by the Board.

\* \* \* \* \*

**13. 2005 Board meeting calendar**

Mr. Tettamant presented a proposed 2005 Board meeting calendar to the Board.

After discussion, Mr. Shaw made a motion to approve the 2005 Board meeting calendar. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

\* \* \* \* \*

**14. Plans for 2005 Workshop**

The Board and staff discussed possible sites for the 2005 workshop.

After discussion, Mr. Tomasovic made a motion to direct the staff to make arrangements for the 2005 workshop to be held at Garrett Creek Ranch in Paradise, Texas. Mr. Edge seconded the motion, which was unanimously approved by the Board.

\* \* \* \* \*

**15. Executive Session – Personnel**

No discussion was held.

\* \* \* \* \*

**Dallas Police and Fire Pension System  
Board and Staff Workshop  
Monday, October 18, 2004 - Thursday, October 21, 2004**

**ADMINISTRATIVE ISSUES (continued)**

**16. Board operations and procedures**

The Board discussed procedural issues.

\* \* \* \* \*

**17. Administrator's Report**

In accordance with the terms of Texas Government Code, Section 551.071, the Board went into a closed executive legal session at 12:20 p.m.

The outside legal counsel briefed the Board on the status of current legal issues.

The meeting was reopened at 12:28 p.m.

No motion was made.

\* \* \* \* \*

**18. Closing comments**

No discussion was held.

\* \* \* \* \*

**Adjournment**

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. Tomasovic, the meeting was adjourned at 1:30 p.m.

---

Gerald Brown  
Chairman

ATTEST:

---

Richard L. Tettamant  
Secretary