

**Dallas Police and Fire Pension System**  
**Thursday, January 15, 2004**  
**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, Mayor Pro Tem Donald Hill, and Councilmember Maxine Thornton-Reese

Absent: None

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

**Others** Rosalind Hewsenian, Kevin Lynch, and Dick Brown

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The meeting was called to order at 8:31 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 third quarter ending September 30, 2003
  - b. Micro-cap/small-cap investment manager search
    - (i) Selection of finalists for micro-cap/small-cap investment manager
    - (ii) Schedule for micro-cap/small-cap investment manager search
  - c. Possible investment in Oaktree Capital Management's OCM Principal Opportunities Fund III, LP. (POF3)
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- a. Ms. Hewsenian, of Wilshire Associates, discussed in great detail the Securities and Exchange Commission's (SEC) industry-wide fact-finding review of the pension consulting industry. Specifically, the review relates to how consulting firms are compensated generally by plan sponsors, money managers, or other entities, and disclosure of those compensation arrangements.

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

Some of the SEC's requests for information will include client-specific documents. Ms. Hewsenian provided a letter from Wilshire informing the Pension System of the SEC review.

Ms. Hewsenian reviewed the quarterly investment performance report for the third quarter ended September 30, 2003. The investment performance is summarized in the following chart:

	<b>Third Quarter 2003</b>	<b>1-year</b>	<b>3-year</b>	<b>5-year</b>
<b>Total Fund</b>	5.20%	25.17%	-2.78%	6.85%
<b>Actuarial Rate</b>	2.06%	8.50%	8.50%	8.51%

Wilshire provided the following Total Fund Overview:

- **Total Return:** The Dallas Police and Fire Pension System ("the System") generated a total fund return of 5.2%, during the quarter ended September 30, 2003. The System outperformed both its asset allocation policy index and actuarial rate of interest over the period. The System has outpaced its policy index over all time periods, with the exception of the three-year period.
- **Asset Growth:** As of quarter-end, the System's market value was approximately \$1.9 billion, which represents an increase of \$90.4 million from the beginning of the quarter. This change in market value was comprised of \$24.4 million in net contributions, \$30.7 million in net distributions and administrative fees, \$2.3 million in investment management fees, and \$99.0 million in net investment gains.
- **Asset Allocation:** As of September 30, 2003, the System was overweighted to global opportunistic fixed income and cash, while underweighted to global core fixed income and real estate.

After discussion, Mr. Shaw made a motion to receive and file the quarterly investment performance report for the third quarter ending September 30, 2003. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

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The meeting was recessed at 9:29 a.m.

The meeting was reconvened at 9:42 a.m.

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

- b. Ms. Hewsenian discussed the small/micro-cap equity search materials that were supplied to the Board and the possible courses of action for the Board.

After discussion, Mr. Mays made a motion to receive and file the update on the small/micro-cap equity account and to discuss the topic again at the April quarterly Board meeting and reach a final decision at that time. Messrs. Umlor and Wachsman jointly seconded the motion, which was approved by the Board. Messrs. Edge and Brown were opposed to the motion.

- c. Ms. Hewsenian stated that Wilshire is reviewing Oaktree Capital Management's fund, OCM Principal Opportunities Fund III, LP (POF3), as a possible investment for the System. She does not have a final recommendation at this time. Howard Marks, Chairman, Oaktree Capital Management, made a presentation to the Board regarding POF3 at the October 2003 Workshop. OCM POF3 will buy equity positions, probably through the purchase of distressed debt positions, and obtain ownership, control, or significant influence at attractive price levels by taking advantage of market inefficiencies. The targeted investments of OCM POF3 fund are the equivalent of small-to-mid-cap companies. The second and final close for the fund is scheduled for February 18, 2004. Total size of POF3 is expected to be approximately \$1.4 billion.

The consensus of the Board was to postpone making a final decision regarding the OCM Principal Opportunities Fund III, LP until receipt of the Wilshire recommendation.

No motion was made.

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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

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 recommended that the \$4 million in excess cash be invested in the SSgA S&P 500 Index Fund.

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**DALLAS POLICE AND FIRE PENSION SYSTEM  
JANUARY 2004 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	345.66	16.00	320.83	14.85	9.00	17.50		(24.83)
Large Cap Growth	Oak Assoc.	129.62	6.00	125.35	5.80	5.00	7.00		(4.27)
Micro Cap	Deutsche Asset Mgmt	108.02	5.00	104.37	4.83	4.00	6.00		(3.65)
Large Cap Value	Alliance Capital	129.62	6.00	123.63	5.72	5.00	7.00		(5.99)
Private Equity	NTOP/Huff Alternative	0.00	0.00	31.60	1.46	0.00	5.00		31.60
Energy	Mitchell Group	21.60	1.00	22.93	1.06	0.50	1.50		1.33
<b>Total Domestic Equity</b>		<u>734.52</u>	<u>34.00</u>	<u>728.71</u>	<u>33.74</u>				<u>(5.81)</u>
<b><u>International Equity</u></b>									
Active Large Cap	Bank of Ireland	237.64	11.00	245.24	11.35	9.50	12.50		7.60
Active ACWI x US	Clay Finlay	129.62	6.00	132.34	6.13	5.00	7.00		2.72
Active Enhanced EAFE	Fidelity	151.23	7.00	156.08	7.22	6.00	8.00		4.85
<b>Total International Equity</b>		<u>518.49</u>	<u>24.00</u>	<u>533.66</u>	<u>24.69</u>				<u>15.17</u>
<b>Total Equity</b>		<u>1,253.01</u>	<u>58.00</u>	<u>1262.37</u>	<u>58.43</u>				<u>9.36</u>
<b>FIXED INCOME</b>									
<b><u>Global High Quality</u></b>									
	Delaware Int. Advisors	108.02	5.00	101.72	4.71	4.00	6.00		(6.30)
	Pareto Partners	108.02	5.00	101.01	4.68	4.00	6.00		(7.01)
<b><u>Domestic High Yield</u></b>									
	W.R. Huff	108.02	5.00	105.42	4.88	3.00	7.00		(2.60)
<b><u>Global Opportunistic</u></b>									
Global Opportunistic Funds	Huff Alternative Income	No Target		6.27	0.29				0.00
	Oaktree	No Target		44.91	2.08				0.00
	TCW Spl Credits	No Target		0.33	0.02				0.00
	Highland Crusader Fund	No Target		24.33	1.13				0.00
<b>Total Global Opportunistic</b>		64.81	3.00	75.84	3.50	0.00	4.00		11.03
GOFI Separate Account	Loomis-Sayles	194.43	9.00	189.50	8.77	8.00	10.00		(4.93)
<b>Total Global Opportunistic</b>		<u>259.24</u>	<u>12.00</u>	<u>265.34</u>	<u>12.27</u>				<u>6.10</u>
<b>Total Fixed Income</b>		<u>583.30</u>	<u>27.00</u>	<u>573.49</u>	<u>26.54</u>				<u>(9.81)</u>
<b>REAL ESTATE</b>		324.05	15.00	309.90	14.34	13.00	17.00		(14.15)
<b>CASH EQUIVALENTS</b>		0.00	0.00	14.60	0.69	0.00	0.00		14.60
<b>Total Assets</b>		<u>2,160.36</u>	<u>100.00</u>	<u>2,160.36</u>	<u>100.00</u>				<u>(0.00)</u>

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**DALLAS POLICE AND FIRE PENSION SYSTEM  
JANUARY 2004 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)	19,107	0.01%	0.00%		19,107
Prudential (Strategic Value Investors. LLC)	6,540,442	2.11%	0.00%		6,540,442
<b>Subtotal</b>	6,559,549	2.12%	0.00%	0	6,559,549
<b>Separate Account Managers</b>					
Agricultural - Hancock	38,179,625	12.32%	10.00%	32,404,966	5,774,659
Forest Investment Associates	40,535,195	13.08%	12.50%	40,506,207	28,988
INVESCO Realty	15,206,152	4.91%	12.50%	40,506,207	(25,300,055)
Kennedy Associates	26,950,985	8.70%	10.00%	32,404,966	(5,453,981)
L & B Real Estate Counsel	25,103,996	8.10%	12.50%	40,506,207	(15,402,211)
RREEF	35,454,109	11.44%	15.00%	48,607,448	(13,153,339)
CDK Realty Advisors	34,611,384	11.17%	12.50%	40,506,207	(5,894,823)
<b>Subtotal</b>	216,041,446	69.72%	85.00%	234,936,001	(53,505,939)
<b>Opportunistic Partnerships</b>					
Hearthstone (MSII, MSIII Homebuilding)	4,018,389	1.30%		10,000,000	(5,981,611)
Crow Holdings Realty Partners II	15,382,684	4.96%		20,000,000	(4,617,316)
Oaktree Capital Management (OCM R E Opportunities Fund B)	13,647,206	4.40%		15,000,000	(1,352,794)
Hudson Advisors (Brazos, Lone Star I, II, III,IV)	33,275,696	10.74%		34,834,265	(1,558,569)
Olympus Real Estate Fund II & III	20,963,924	6.76%		30,000,000	(9,036,076)
<b>Subtotal</b>	87,287,899	28.17%	15.00%	109,834,265	(22,546,366)
<b>Total Real Estate</b>	309,888,894	100.00%	100.00%	344,770,266	(69,492,756)

Market value total fund

**2,160,331,042**

\$ %

Target Value (\$ and %)

**324,049,656 15.00%**

Market Value (\$ and %)

**309,888,894 14.34%**

Variance from Target

**(14,160,762) -0.66%**

Total Committed Capital

**351,329,815**

Managers in Redemption

**6,559,549**

Actual Committed Capital

**344,770,266**

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

After discussion, Mr. Edge made a motion to receive and file the January 2004 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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The meeting was recessed at 11:35 a.m.

The meeting was reconvened at 12:07 p.m.

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**3. Reports and recommendations of The Townsend Group, real estate investment consultants**

- a. Quarterly real estate investment performance report for the third quarter ended September 30, 2003
  - b. Recommendation regarding possible agricultural acquisition through Hancock Agricultural Investment Group
  - c. L&B Realty Advisors IMA watch list discussion
  - d. Possible revisions to the partnership agreement with Olympus Partners Fund II
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- a. Messrs. Lynch and Brown, of The Townsend Group, reviewed the System's real estate performance for the third quarter ended September 30, 2003. The real estate investment performance was as follows:

<b>Portfolio</b>				
	2.61%	11.96%	8.74%	9.56%
	2.10%	10.53%	7.38%	8.27%

After discussion, Mr. Edge made a motion to receive and file the Townsend Group's third quarter 2003 performance report. Mr. Wachsman seconded the motion, which was unanimously approved by the Board.

- b. The discussion of a possible agricultural acquisition from Hancock was tabled until the February 12, 2004 Board meeting.

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**3. Reports and recommendations of The Townsend Group, real estate investment consultants (continued)**

- c. The Board, staff, and consultants discussed L&B Realty Advisor's watch list status. L&B Realty Advisors, one of the System's real estate investment advisors, was placed on watch on July 11, 2002 by the Board, due to investment performance. The Townsend Group recommended removing L&B from watch list status.

After discussion, Mr. Wachsman made a motion to approve the real estate consultant's recommendation to remove L&B Realty Advisors from watch list status. Mr. Edge seconded the motion, which was unanimously approved by the Board.

- d. The real estate consultants reviewed the request from Olympus Partners II for a possible revision to the partnership agreement.

The consensus of the Board was to postpone the decision on the Olympus request until the February 12, 2004 Board meeting.

No motion was made.

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**5. Adoption of schedule of charges under the Public Information Act**

Mr. Tettamant stated that due to the volume of open records requests being received by the System, it would be appropriate to adopt a schedule of charges to be assessed by the System when responding to such a request.

The schedule of charges recommended by the State is based on the assumption that lower-paid employees will prepare the responses. The non-routine nature of inquiries received by the System requires that its higher-paid employees do such work. Staff recommends adoption of the maximum charges of 1.25 times the State rate.

After discussion, Mr. Edge made a motion to adopt a schedule of charges for responding to open records requests, using the maximum charges of 1.25 times the State rate. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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**Quarterly Board Meeting  
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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.

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

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The Administrator stated that there was no further business to come before the Board. On a motion by Mr. Tomasovic and a second by Mr. Shaw, the meeting was adjourned at 12:51 p.m.

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Gerald Brown  
Chairman

**ATTEST:**

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Richard L. Tettamant  
Secretary