

Dallas Police and Fire Pension System
Thursday, August 26, 2004
8:00 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, Al Kim, Gary Lawson, Todd McCallister, Sita Monti, Paul S. Szczygiel, George W. Browning, Horacio A. Valeiras, Travis Prentice, Jack Gastler, Marina T. Carlson, Craigh A. Cepukenas, Emily Colella, Steven S. Smith, Larry Kassman, and John Ford

* * * * *

The meeting was called to order at 8:02 a.m.

* * * * *

A. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Overview/introduction by Wilshire Associates, Inc. regarding international equity structure/US small/micro-cap manager search review

Ms. Hewsenian and Mr. Kim, of Wilshire Associates, the System's investment consultant, discussed the international equity structure and the domestic small/micro-cap investment manager search for the fund. The Board previously had asked the consultant questions regarding Bank of Ireland Asset Management's (BIAM) investment style, performance, style drift, and BIAM's allocation among the current international equity managers.

**Quarterly Board Meeting
Thursday, August 26, 2004**

1. Overview/introduction by Wilshire Associates, Inc. regarding international equity structure/US small/micro-cap manager search review (continued)

In addition, the consultant discussed the domestic equity portfolio and its allocation to small/micro-cap investments. The consultant also reviewed the style, correlation, and fit of the domestic small/micro-cap search candidates with the existing domestic equity investments managers for the System.

After discussion, Mr. Mays made a motion to receive and file the Wilshire reports regarding the international equity structure/US small/micro-cap manager search review. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

* * * * *

2. Interviews with the following small/micro-cap manager firms:

- a. Eagle Asset Management, Inc.
- b. David L. Babson & Company Inc.
- c. Nicholas-Applegate Capital Management
- d. Artisan Partners

Mr. Tettamant stated that the Board reviewed materials from Babson Capital Management LLC and Wilshire Associates concerning the small/micro-cap investment manager search at a May 20, 2004 special Board meeting. Four firms were invited to make presentations to the Board for a small/micro-cap equity search to possibly replace an existing micro-cap equity manager. The four investment management firms selected to make presentations for the small/micro-cap equity search were Eagle Asset Management, Inc., Babson Capital Management LLC, Nicholas-Applegate Capital Management, and Artisan Partners.

Mr. McCallister, Managing Director & Portfolio Manager, and Ms. Monti, Vice President, Institutional Marketing, representing Eagle Asset Management, conducted the first presentation for the small/micro-cap equity search.

* * * * *

The meeting was recessed at 9:30 a.m.

The meeting was reconvened at 9:43 a.m.

* * * * *

**Quarterly Board Meeting
Thursday, August 26, 2004**

2. Interviews with the following small/micro-cap manager firms: (continued)

Babson Capital Management, LLC, represented by Mr. Szczygiel, Managing Director & Portfolio Manager, and Mr. Browning, Managing Director, Client Service, gave the next presentation.

Mr. Valeiras, Managing Director and Chief Investment Officer, Mr. Prentice, Portfolio Manager, US Mini/Small Cap Growth, and Mr. Gastler, Sales and Client Service, represented Nicholas-Applegate Capital Management in the third presentation.

* * * * *

The meeting was recessed at 11:30 a.m.

The meeting was reconvened at 11:37 a.m.

* * * * *

Ms. Carlson, Managing Director & Portfolio Manager, Mr. Cepukenas, Senior Analyst, and Ms. Colella, Institutional Client Services, representing Artisan Partners, conducted the final presentation.

* * * * *

The meeting was recessed at 12:27 p.m.

The meeting was reconvened at 1:04 p.m.

* * * * *

No motion was made.

* * * * *

3. Possible selection of a small/micro-cap manager

The Board, staff, and consultant discussed the small/micro-cap equity manager interviews.

**Quarterly Board Meeting
Thursday, August 26, 2004**

3. Possible selection of a small/micro-cap manager (continued)

After discussion, Mr. Shaw made a motion to hire Eagle Asset Management, Inc. as the small/micro-cap equity manager, subject to successful due diligence and contract negotiation, and the final approval of the Administrator and legal counsel. Mr. Tomasovic seconded the motion, which passed by the following vote:

For: Shaw, Tomasovic, Brown, McCollum, Umlor, Mays, and Wachsman
Opposed: Edge

After discussion, Mr. Shaw made a motion to hire Artisan Partners as the small/micro-cap equity manager if the final review of and/or negotiations with Eagle Asset Management, Inc. are unacceptable. The hiring of Artisan Partners also would be subject to successful due diligence and contract negotiation, and the final approval of the Administrator and legal counsel. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

* * * * *

4. Reports and recommendations of Wilshire Associates, Inc.

- a. Quarterly investment performance report for the first quarter ending March 31, 2004
 - b. International equity asset implementation review
 - c. W. R. Huff Asset Management Company
 - (1) Performance
 - (2) Telewest Communications PLC and NTL Corporation
 - d. Highland Crusader Fund
- a. Ms. Hewsenian reviewed the quarterly investment performance report for the first quarter ending March 31, 2004. The investment performance is summarized in the following chart:

	First Quarter 2004	1-year	3-year	5-year
Total Fund	2.74%	37.07%	6.00%	6.01%
Actuarial Rate	2.06%	8.50%	8.50%	8.50%

Wilshire provided the following Total Fund Overview:

- **Total Return:** The Dallas Police and Fire Pension System (“the System”) generated a total fund return of 2.7%, during the quarter ended March 31, 2004. The System has outperformed its asset allocation policy index over all time periods. Compared to the actuarial rate of interest, the System has outperformed with the exception of the three and five-year timeframes.

**Quarterly Board Meeting
Thursday, August 26, 2004**

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

- **Asset Growth:** As of quarter-end, the System's market value was approximately \$2.2 billion, which represents an increase of \$59.0 million from the beginning of the quarter. This change in market value was comprised of \$25.4 million in net contributions, \$26.1 million in net distributions and administrative fees, \$2.4 million in investment management fees, and \$62.1 million in net investment gains.
 - **Asset Allocation:** As of March 31, 2004, the System was overweighted to equities and cash, while underweighted to fixed income and real estate.
- b. The Board and staff discussed with the consultant the balancing of the strategic implementation of investment assets among the current international investment managers.
- c. Wilshire Associates provided a performance update on WR Huff and discussed the Huff management of Telewest Communications PLC and NTL Corporation.
- d. Ms. Hewsenian recommended that the Board commit additional capital to the Highland Crusader Fund before it closes again, given that Oaktree Capital Management's OCM Fund IV is in the process of liquidation and WR Huff L.P. is in the final stages of liquidation. The consultant also compared the performance of the Ashmore emerging markets portfolio to the Highland Crusader Fund in making the recommendation.

After discussion, Mr. Wachsman made a motion to receive and file the reports and recommendations of Wilshire Associates Incorporated. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Shaw made a motion to increase the allocation to the Highland Crusader Fund to a maximum of three percent (3%) of the System's assets within the Global Opportunistic Fixed Income (GOFI) category, using the proceeds of the liquidating Oaktree Capital Management OCM Fund IV, effective immediately. Mr. Mays seconded the motion, which was unanimously approved by the Board.

* * * * *

5. Brandywine Asset Management

- a. Firm update by Wilshire Associates
- b. Interview with Brandywine Asset Management
- c. Possible selection of global fixed income manager

**Quarterly Board Meeting
Thursday, August 26, 2004**

5. Brandywine Asset Management (continued)

- a. The Board, staff, and consultant discussed the materials provided by Wilshire to update the Board on Brandywine Asset Management.
- b. The Board and staff interviewed Mr. Smith, Executive Vice President and Portfolio Manager, Mr. Kassman, Chief Administrative Officer, and Mr. Ford, Director of Marketing, from Brandywine Asset Management, regarding Brandywine's global fixed income investment management capabilities.

Mr. Tettamant stated that Brandywine currently manages approximately \$3.50 billion in global fixed income investments, approximately \$400 million in international fixed income investments, and approximately \$130 million in domestic fixed income investments. Brandywine Asset Management is an independent operating subsidiary of Legg Mason, Inc. (NYSE: LM). Other subsidiaries include Western Asset Management and Batterymarch.

Brandywine discussed various topics, including an update on the firm, the investment management philosophy and goals, the investment process, risk control and compliance, and performance results from the global fixed income team.

- c. The Board discussed the possible selection of Brandywine Asset Management as a global bond investment manager for the System.

It was noted that Brandywine was reviewed at the February 25, 2003 Board meeting as a finalist for a global bond investment manager search conducted by the Board. In addition, the Board, Staff, and Wilshire Associates conducted an on site due diligence meeting at Brandywine's office on April 23, 2003.

After discussion, Mr. Wachsman made a motion to hire Brandywine Asset Management as a global quality fixed income investment manager for the System, with fifty percent (50%) of the total global quality fixed income allocation, subject to successful due diligence and contract negotiation, and the final approval of the Administrator and legal counsel. The bulk of the funding is to be provided by moving the assets formerly allocated to Pareto Partners to Brandywine. The balance of the funds are to come from Delaware International Advisers, Ltd., such that the new allocation for the two global bond investment managers will be split approximately 50% to Delaware International Advisers and 50% to Brandywine Asset Management. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

* * * * *

**Quarterly Board Meeting
Thursday, August 26, 2004**

B. BRIEFING ITEMS

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

Mr. Tettamant reviewed current developments relating to the Pension System.

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

* * * * *

The Administrator stated that there was no further business to come before the Board. On a motion by Mr. Mays and a second by Mr. Umlor, the meeting was adjourned at 3:21 p.m.

Gerald Brown
Chairman

ATTEST:

Richard L. Tettamant
Secretary