

Dallas Police and Fire Pension System
Thursday, August 12, 2004
8:30 a.m.
2301 North Akard Street
First Floor Conference Room
Dallas, Texas

Regular meeting, Gerald Brown, Chairman, presiding:

ROLL CALL

Board Members

Present: Gerald Brown, Gary W. Edge, John M. Mays, Rector C. McCollum, Steven G. Shaw, Councilmember Maxine Thornton-Reese, George Tomasovic, Steven H. Umlor, and Richard H. Wachsman

Absent: Deputy Mayor Pro Tem Donald Hill

Staff Richard Tettamant, Brian Blake, Don Rohan, Everard Davenport, Jack Liewehr, Pat McGennis, Don McMillan, Jay Jackson, John Holt, Jerry Chandler, and Linda Rickley

Others Gary Lawson, Gus Fields, Eric Calhoun, Ronald E. Harris, Jane Lewis, Kenneth Cooley, Jon Donahue, Brent Kroener, Scott Schirmer, and Bill Brownlee

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The meeting was called to order at 8:57 a.m.

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A. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of July 8, 2004

2. Approval of the Monthly Trustee Summary for the Month of June 2004

3. Approval of Refunds of Contributions for the Month of July 2004

Refund of Combined Pension Plan, Section 6.02 Group B Contributions

<u>EMPLOYEE NAME</u>	<u>DEPT.</u>	<u>REFUND DATE</u>
Fredrick L. Moore	F	July 2, 2004
Thy A. Bui	P	July 2, 2004
Robert N. Clarke, III	P	July 16, 2004

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**3. Approval of Refunds of Contributions for the Month of July 2004
(continued)**



<u>EMPLOYEE NAME</u>	<u>DEPT.</u>	<u>REFUND DATE</u>
Gary E. Hill	P	July 2, 2004
Justin B. Holton	P	June 25, 2004
Miguel Martinez	P	July 16, 2004
Christopher W. Powell	P	July 23, 2004
Brandon J. Westmoreland	P	July 2, 2004



4. Approval of Activity in the Deferred Retirement Option Plan (DROP) for August 2004

New DROP Participants

EMPLOYEE NAME	DEPT.
John D. Bickley	Fire
Timothy W. King	Fire
Rex F. Stovall	Fire
Curtis L. Braziel	Police
James E. Gallagher	Police
Jonathan P. Graybill	Police
William A. Hollingsworth	Police
Jeffrey K. Hull	Police
William R. Knobel	Police
Ricardo M. Terrones	Police

Retiree DROP Status Changes

NAME	DEPT.	STATUS CODE
John C. Allen	Fire	1
Larry V. Clearman	Fire	2
Kelly S. Harris	Fire	4
Walter M. Neal	Fire	1
Claude W. Prewitt	Fire	1
Roy D. Rand	Fire	1

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4. Approval of Activity in the Deferred Retirement Option Plan (DROP) for August 2004 (continued)

**Retiree DROP Status Changes
(continued)**

Curtis L. Starlin	Fire	2
Rodney L. Vike	Fire	1
Frank L. Hearron	Police	1
Matthew E. Schmidt	Police	4
Thomas S. Shelton	Police	1

1 - Active DROP to Retiree DROP	2 - Retiree DROP to Payment
3 - Retiree to Retiree DROP	4 - Active (No DROP) to Retiree DROP

Transfer Funds from DROP to 401(k)

Robert Smith	Fire

5. Approval of Vested Rights Letters

- a. Christopher Hands, Police Officer
- b. Eddie M. Herrera, Police Officer

6. Approval of Payment of Military Leave Contributions

Leslie R. Thomason, Firefighter

7. Approval of Estate Settlements

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Patsy A. Kelley (S)	Police	June 6, 2004	Vickie Molzahn	A - Sec. 6.07
Gladys M. Williams (S)	Police	July 9, 2004	Fred Williams, Gail Horn, and Majorie Lewis	A - Sec. 6.07

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8. Approval of Survivor Benefits - Deceased Retirees

James H. Gillham	Fire	July 16, 2004	Linda L. Gillham	Yes	A - Sec. 6.07
Robert E. Dugger, Jr.	Police	July 2, 2004	Anna M. Dugger	Yes	A - Sec. 6.07
Verlan D. Monaghan	Police	June 12, 2004	Betty M. Monaghan	Yes	B - Sec. 6.08
Henry C. Reidling	Police	July 1, 2004	Mary M. Reidling	Yes	A - Sec. 6.07

9. Approval of Service Retirements

John C. Allen	Fire	June 30, 2004	B - Sec. 6.02(b)	Yes/VIII	Yes
Kelly S. Harris	Fire	July 19, 2004	B - Sec. 6.02(d)	Yes/VIII	No
Boyd Lewis	Fire	July 28, 2004	B - Sec. 6.02(b)	Yes/V	No
Walter M. Neal	Fire	July 1, 2004	B - Sec. 6.02(b)	Yes/VIII	No
Claude W. Prewitt	Fire	July 1, 2004	B - Sec. 6.02(b)	Yes/VIII	No
John H. Quarles	Fire	Aug. 2, 2004	B - Sec. 6.02(b)	Yes/V	No
Roy D. Rand	Fire	July 2, 2004	B - Sec. 6.02(b)	Yes/VIII	No
Rodney L. Vike	Fire	July 14, 2004	B - Sec. 6.02(b)	Yes/VIII	No
Bruce E. Adams	Police	Aug. 11, 2004	B - Sec. 6.02(b)	Yes/IV/V	No
Richard V. Crosby, Jr.	Police	July 7, 2004	B - Sec. 6.02(b)	Yes/V	No
Frank L. Hearron	Police	Aug. 11, 2004	B - Sec. 6.02(b)	Yes/VIII	No
Jimmy D. Holt	Police	July 31, 2004	B - Sec. 6.02(b)	Yes/V	Yes
Raymond C. Nettles	Police	July 28, 2004	B - Sec. 6.02(b)	Yes/IV/V	Yes
Matthew E. Schmidt	Police	July 10, 2004	B - Sec. 6.02(c)	Yes/VIII	No
Thomas S. Shelton	Police	July 7, 2004	B - Sec. 6.02(b)	Yes/VIII	No

NE - Not Eligible	V - Monthly Payments
I - Life Annuity	VI - Although Eligible - No Distribution Elected
II - Joint/Survivor Annuity	VII - Did Not Join
III - Lump Sum ASAP	VIII - Retiree DROP
IV - Lump Sum Partial or Delayed Payment	IX - 100% Joint & Survivor

10. Approval of Alternate Payee Benefits

B. Diane Eames	Marcus D. Reinertson	Fire	B - Sec. 6.02
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After discussion, Mr. Tomasovic made a motion to approve the items on the Consent Agenda, subject to the final review and approval of the Administrator. Mr. Wachsman seconded the motion, which was unanimously approved by the Board.

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**B. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR
INDIVIDUAL CONSIDERATION**

1. Budget issues

- a. Fiscal Year 2003-2004 Administrative and Professional Services Budgets review for the first nine months of the extended fiscal year
 - b. Dallas Police and Fire Pension Fund City department budget for Fiscal Year 2004-2005
- a. Mr. Tettamant stated that at its November 14, 2002, meeting, the Board authorized a change in the accounting fiscal year to a calendar-year basis for budget purposes beginning January 1, 2005. The Board authorized a 15-month transition period from October 1, 2003 through December 31, 2004 for the 2003-2004 budget. A review of the Fiscal Year 2003-2004 Administrative and Professional Services Budgets, as adjusted, detailing expenditures for the first nine months of the extended fiscal year through June 30, 2004 was presented.

Overall administrative expenses are within budget. The budget summary showed System administrative expenditures through June 30, 2004, at 54.6% of the total FY 2003-2004 budget (after adjustment). A prorated percentage of the budget through June is 60%. Itemized expenses that exceed the prorated budget amount for the first nine months occurred in the following line items: Medical, Copy Machine, Office Insurance, Continuing Education and Fixed Assets. Variances exceeding 5% over the prorated amounts were detailed in the presentation. A prorated reimbursement to the System from the Supplemental Plan has not been applied at this time.

Overall expenses for professional services also are within budget. As of June 30, 2004, expenditures were 43.8% of the FY 2003-2004 budget, as adjusted. Variances exceeding 5% over the prorated amounts were detailed in the presentation.

- b. The System is required to submit a budget to the City for City expenditures reimbursed by the System to the City. The expenses include the salaries and benefits of City employees of the System, property and liability insurance and data services. Though these items are included in the System's 2005 budget, they are separated for reporting to the City on the City's fiscal year cycle October 1, 2004 through September 30, 2005.

The proposed budget for City reimbursements is decreased by \$40,285 to \$572,753. The 12-month portion of the System's 2003-2004 budget for City Services is \$613,038. The proposed budget includes an increase of \$42,340 (from \$18,374 to \$60,714) for projected sick leave payoffs in the event eligible City employees of the System retire.

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1. Budget issues (continued)

The amount proposed for health insurance expense is reduced by \$5,196, from \$27,793 to \$22,597, based on actual billings from the City and a projected rate increase.

After discussion, Mr. Wachsman made a motion to approve the Administrative Advisory Committee's recommendation to receive and file the mid-year review of the Fiscal Year 2003-2004 Administrative and Professional Services Budgets. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Wachsman made a motion to approve the Dallas Police and Fire Pension Fund City department budget for Fiscal Year 2004 - 2005. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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2. Possible investment through Pension Management Company

Mr. Tettamant presented information from Pension Management Company which was in response to questions posed by the Trustees about performance numbers during the company's presentation at the June 10, 2004 Investment Advisory Committee meeting. Their marketing company has inquired as to the next step in the process to be hired by the System.

No motion was made. The Board asked the Administrator to thank the representation of Pension Management Company for making a presentation to the Board.

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3. Delaware International Advisers, Ltd. consent letter

Mr. Tettamant explained that Delaware International Advisers, one of the System's global bond portfolio investment advisors, currently manages a global fixed income portfolio that is valued at approximately \$109,613,000 as of June 30, 2004. Delaware International began managing the global bond portfolio as fiduciaries on October 31, 2003. On May 5, 2004, Delaware International announced an employee purchase of the firm from the parent company, Lincoln National Corporation. The private equity firm of Hellman & Friedman LLC will own a substantial minority interest in the new Delaware International Advisers Ltd. Company. Related press releases were provided.

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3. Delaware International Advisers, Ltd. consent letter (continued)

Delaware International Advisers has requested that the Board review and approve a consent letter assigning the existing Investment Advisory Agreement to the new Delaware International Advisers Ltd. company that will operate under a new name and will continue to provide investment advisory services on the same terms and conditions as such services are currently being provided. The consultant has reviewed the consent letter and verbally recommended Board approval.

After discussion, Mr. Edge made a motion to approve and authorize the chairman to sign the consent letter with Delaware International Advisers, Ltd. Mr. Mays seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Edge made a motion to implement the recommendation of Wilshire Associates to place Delaware Investment Advisers on probation and request a plan of action to address the organizational issues. Mr. Mays seconded the motion and the Trustees voted as follows:

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

The motion failed. After discussion the Board directed the staff to monitor Delaware Investment Advisers.

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4. Closed Session - Board serving as Medical Committee

Discussion of the following disability application was closed to the public under the terms of Section 551.078 of the Texas Government Code at 10:07 a.m.



Ronald E. Harris Fire Aug. 13, 2004 B-Sec. 6.02(b) On-Duty

Mr. Tettamant reviewed with the Board members the medical information and physicians' reports regarding the disability application of Mr. Harris. Mr. Harris and Jane Lewis of the Dallas Fire Department were present.

The meeting was reopened at 10:12 a.m.

After discussion, Mr. Edge made a motion to grant **Ronald E. Harris** an on-duty, Combined Pension Plan, Group B disability benefit, subject to the System's right under the Board-approved disability procedure to require Mr. Harris to undergo future medical examination(s) to determine if the disability still exists or if recovery has been made to the point that Mr. Harris is able to return to duty, or two years, whichever is sooner. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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5. Review of The Townsend Group contract for real estate investment consulting services

Mr. Tettamant stated that the three-year fee contract for The Townsend Group, the System's real estate investment consultant since October 1, 2001, is scheduled for a possible renewal on October 1, 2004. Exhibit A from the contract detailed the annual base fees beginning in 2001 as follows:

Base Fee (2001-2002): \$102,000
Base Fee (2002-2003): \$112,000
Base Fee (2003-2004): \$122,000

The Board's decision is required on whether to open the contract to the Request for Proposals (RFP) process or enter into another agreement with Townsend.

In accordance with the terms of Texas Government Code, Section 551.071, the Board went into a closed executive legal session at 10:55 a.m. for consultation with the System's legal counsel.

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

After discussion, Mr. Wachsman made a motion to renew the real estate consultant contract with the Townsend Group on a month-to-month basis until the investment with GMAC is completed. Mr. Umlor seconded the motion, which was approved by the following vote:

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

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6. Legal issues including, but not limited to:

- a. Police Officer and Firefighter pay lawsuits
- b. TMPC lawsuit
- c. Chiefs Jackson and Taylor claims

In accordance with the terms of Texas Government Code, Section 551.071, the Board went into a closed executive legal session at 11:08 a.m.

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

The meeting was reopened at 11:29 a.m.

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The meeting was recessed at 11:29 a.m.

The meeting was reconvened at 12:02 p.m.

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6. Legal issues including, but not limited to: (continued)

The Board went into a closed Legal session at 12:02 p.m.

The meeting was reopened at 12:16 p.m.

No action was taken.

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7. Pension-related issues for possible legislative consideration

- a. Reports from legislative consultants
- b. Other legislation
- c. Pensions and Investments Committee meetings

The Board and staff discussed pension-related legislative activity. Mr. Tettamant briefed the Board on meetings held by the Texas legislature's Pensions and Investments Committee.

After discussion, Mr. Umlor made a motion to receive and file the report on current pension-related legislative activity. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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8. TEXPERS update

The Board and staff discussed issues related to membership in the Texas Association of Public Employee Retirement Systems (TEXPERS).

After discussion, Mr. Edge made a motion to receive and file the report on issues related to membership in the Texas Association of Public Employee Retirement Systems (TEXPERS) and to send a letter to each member of the TEXPERS Board of Directors regarding the Pension Board's concerns about certain TEXPERS procedures. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

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9. Dallas Employees Retirement Fund issues

Mr. Tettamant briefed the Board on recent developments regarding the City of Dallas Employees' Retirement Fund (ERF) funding issues. At its meeting on August 4, 2004, the City Council approved the proposed funding mechanism in principle, but directed the City Attorney to prepare several changes which would give them greater control of the Fund. The ERF Board was scheduled to consider the changes on August 10. The Council had to accept ERF language on August 11 for the plan amendments to be placed on the November election ballot.

After discussion, Mr. Wachsman made a motion to receive and file the briefing regarding the City of Dallas Employees' Retirement Fund issues. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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10. Proposed Dallas Police & Fire Pension System website revisions

Mr. Tettamant explained that the System obtained the services of an outside vendor for assistance in redesigning the system website. The new design has a fresher look with lots of pictures, including pictures from the System's picture gallery. Some of the pictures will change each time a user accesses a page and the colors will change with the seasons to help keep a fresh appearance. A demonstration of the new site was given.

After discussion, Mr. McCollum made a motion to approved the proposed revisions to the Dallas Police & Fire Pension System website. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

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11. Pension System's monthly financial statements

The Board and staff discussed the monthly financial statements for the periods ending February 29, 2004, March 31, 2004, April 30, 2004, and May 31, 2004.

After discussion, Mr. Wachsman made a motion to receive and file the monthly financial statements for the periods ending February 29, 2004, March 31, 2004, April 30, 2004, and May 31, 2004. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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12. 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 Reports and the Real Estate Portfolio Reports for July 2004 and August 2004 are included in Minute Book Number 34 on pages 40-43.

The Asset Allocation Report for July 2004 shows that all asset classes are within their respective ranges and no action is required for rebalancing. The July 15, 2004 meeting was postponed due to lack of a quorum.

Wilshire Associates Inc. stated that all of the asset class allocations are within their respective target ranges as of the August 2004 report; therefore, no rebalancing is necessary. The \$21 million in cash needs should be taken from the following accounts: \$10 million from Pareto Partners, \$6 million from Delaware International, and \$5 million from Fidelity Enhanced EAFE.

After discussion, Mr. Wachsman made a motion to receive and file the July 2004 and August 2004 monthly asset allocation reports and the investment consultant's recommendations and to take all of the needed cash from Pareto Partners only. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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13. Staff and Board Members' reports on due diligence meetings, seminars and/or conferences attended

- a. **Conference: Texas Pension Review Board Meeting**
Date: July 8, 2004

Mr. Shaw briefed the Board on the meeting.

- b. **Conference: Financial Research: Stars & Stripes '04 Summit**
Dates: July 18-20, 2004

Mr. Hill was absent; therefore, no report was given.

- c. **Conference: IFE: International Investing for Pension Professionals Seminar**
Dates: July 18-23, 2004

Mr. Brown reported on the seminar.

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**DALLAS POLICE AND FIRE PENSION SYSTEM
July 2004 ASSET ALLOCATION MONITORING REPORT**

Asset Class		Target		Actual		Range		Difference vs.	
		\$	%	\$	%	Minimum	Maximum	Target	\$
EQUITY									
<u>Domestic Equity</u>									
S & P Index	SSGA	355.74	16.00	339.51	15.27	9.00	17.50		(16.23)
Large Cap Growth	Oak Associates	133.40	6.00	122.20	5.50	5.00	7.00		(11.20)
Micro Cap	Deutsche Asset Mgmt	111.17	5.00	107.03	4.81	4.00	6.00		(4.14)
Large Cap Value	Alliance Capital	133.40	6.00	129.15	5.81	5.00	7.00		(4.25)
Private Equity	NTOF/Huff Alternative	0.00	0.00	51.22	2.30	0.00	5.00		51.22
Energy	Mitchell Group	22.23	1.00	26.49	1.19	0.50	1.50		4.26
Total Domestic Equity		755.94	34.00	775.60	34.89				19.66
<u>International Equity</u>									
Active Large Cap	Bank of Ireland	244.57	11.00	249.51	11.22	9.50	12.50		4.94
Active ACWI x US	Clay Finlay	133.40	6.00	132.54	5.96	5.00	7.00		(0.86)
Active Enhanced EAFE	Fidelity	155.64	7.00	164.41	7.39	6.00	8.00		8.77
Total International Equity		533.61	24.00	546.46	24.57				12.85
Total Equity		1,289.55	58.00	1322.06	59.46				32.51
FIXED INCOME									
<u>Global High Quality</u>									
	Delaware Int. Advisors	111.17	5.00	109.61	4.93	4.00	6.00		(1.56)
	Pareto Partners	111.17	5.00	108.31	4.87	4.00	6.00		(2.86)
<u>Domestic High Yield</u>									
	W.R. Huff	111.17	5.00	105.36	4.74	3.00	7.00		(5.81)
<u>Global Opportunistic</u>									
Global Opportunistic Funds	Huff Alternative Income	No Target		0.02	0.00				0.00
	Oaktree	No Target		29.21	1.31				0.00
	TCW Spl Credits	No Target		0.33	0.01				0.00
	Highland Crusader Fund	No Target		28.42	1.28				0.00
Total Global Opportunistic Funds		66.70	3.00	57.98	2.60	0.00	4.00		(8.72)
GOFI Separate Account	Loomis-Sayles	200.10	9.00	200.95	9.04	8.00	10.00		0.85
Total Global Opportunistic		266.80	12.00	258.93	11.64				(7.87)
Total Fixed Income		600.31	27.00	582.21	26.18				(18.10)
REAL ESTATE		333.50	15.00	309.27	13.91	13.00	17.00		(24.23)
SHORT TERM INVESTMENTS		0.00	0.00	9.82	0.44	0.00	0.00		9.82
Total Assets		2,223.36	100.00	2,223.36	100.00				(0.00)

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**DALLAS POLICE AND FIRE PENSION SYSTEM
July 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
Managers in Redemption					
Heitman Capital Management (JMB III & IV)	17,827	0.01%	0.00%		17,827
Prudential (Strategic Value Investors. LLC)	6,515,336	2.11%	0.00%		6,515,336
Subtotal	6,533,163	2.11%	0.00%	0	6,533,163
Separate Account Managers					
Agricultural - Hancock	29,881,969	9.66%	10.00%	33,350,746	(3,468,777)
Forest Investment Associates	31,454,093	10.17%	12.50%	41,688,433	(10,234,340)
INVESCO Realty	15,300,217	4.95%	12.50%	41,688,433	(26,388,216)
Kennedy Associates	36,914,490	11.94%	10.00%	33,350,746	3,563,744
L & B Real Estate Counsel	27,503,593	8.89%	12.50%	41,688,433	(14,184,840)
RREEF	37,771,736	12.21%	15.00%	50,026,120	(12,254,384)
CDK Realty Advisors	42,059,680	13.60%	12.50%	41,688,433	371,247
Subtotal	220,885,778	71.42%	85.00%	241,792,912	(62,966,814)
Opportunistic Partnerships					
Hearthstone (MSII, MSIII Homebuilding)	4,138,297	1.34%		10,000,000	(5,861,703)
Crow Holdings Realty Partners II	13,528,688	4.37%		20,000,000	(6,471,312)
Oaktree Capital Management (OCM R E Opportunities Fund B)	12,852,885	4.16%		15,000,000	(2,147,115)
Hudson Advisors (Brazos, Lone Star I, II, III,IV)	33,397,597	10.80%		32,645,643	751,954
Olympus Real Estate Fund II & III	17,931,644	5.80%		30,000,000	(12,068,356)
Subtotal	81,849,111	26.47%	15.00%	107,645,643	(25,796,532)
Total Real Estate	309,268,052	100.00%	100.00%	349,438,555	(82,230,183)

Market value total fund

2,223,383,098

\$ %

Target Value (\$ and %)

333,507,465 15.00%

Market Value (\$ and %)

309,268,052 13.91%

Variance from Target

(24,239,413) -1.09%

Total Committed Capital

355,971,718

Managers in Redemption

6,533,163

Actual Committed Capital

349,438,555

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**DALLAS POLICE AND FIRE PENSION SYSTEM
August 2004 ASSET ALLOCATION MONITORING REPORT**

Asset Class		Target		Actual		Range		Difference vs.	
		\$	%	\$	%	Minimum	Maximum	Target	\$
EQUITY									
<u>Domestic Equity</u>									
S & P Index	SSGA	349.46	16.00	328.27	15.03	9.00	17.50	(21.19)	
Large Cap Growth	Oak Associates	131.05	6.00	112.19	5.14	5.00	7.00	(18.86)	
Micro Cap	Deutsche Asset Mgmt	109.21	5.00	101.70	4.66	4.00	6.00	(7.51)	
Large Cap Value	Alliance Capital	131.05	6.00	127.70	5.85	5.00	7.00	(3.35)	
Private Equity	NTOF/Huff Alternative	0.00	0.00	51.22	2.35	0.00	5.00	51.22	
Energy	Mitchell Group	21.84	1.00	27.66	1.27	0.50	1.50	5.82	
Total Domestic Equity		742.61	34.00	748.74	34.29			6.13	
<u>International Equity</u>									
Active Large Cap	Bank of Ireland	240.26	11.00	240.97	11.03	9.50	12.50	0.71	
Active ACWI x US	Clay Finlay	131.05	6.00	128.06	5.86	5.00	7.00	(2.99)	
Active Enhanced EAFE	Fidelity	152.89	7.00	158.78	7.27	6.00	8.00	5.89	
Total International Equity		524.20	24.00	527.81	24.16			3.61	
Total Equity		1,266.81	58.00	1276.55	58.45			9.74	
FIXED INCOME									
<u>Global High Quality</u>									
	Delaware Int. Advisors	109.21	5.00	115.55	5.29	4.00	6.00	6.34	
	Pareto Partners	109.21	5.00	114.12	5.22	4.00	6.00	4.91	
<u>Domestic High Yield</u>									
	W.R. Huff	109.21	5.00	105.10	4.81	3.00	7.00	(4.11)	
<u>Global Opportunistic</u>									
Global Opportunistic Funds	Huff Alternative Income	No Target		0.02	0.00			0.00	
	Oaktree	No Target		28.76	1.32			0.00	
	TCW Spl Credits	No Target		0.42	0.02			0.00	
	Highland Crusader Fund	No Target		32.07	1.47			0.00	
Total Global Opportunistic Funds		65.52	3.00	61.27	2.80	0.00	4.00	(4.25)	
GOFI Separate Account	Loomis-Sayles	196.57	9.00	202.47	9.27	8.00	10.00	5.90	
Total Global Opportunistic		262.09	12.00	263.74	12.07			1.65	
Total Fixed Income		589.72	27.00	598.51	27.39			8.79	
<u>REAL ESTATE</u>									
		327.61	15.00	303.89	13.91	13.00	17.00	(23.72)	
<u>SHORT TERM INVESTMENTS</u>									
		0.00	0.00	5.19	0.24	0.00	0.00	5.19	
Total Assets		2,184.14	100.00	2,184.14	100.00			(0.00)	

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**DALLAS POLICE AND FIRE PENSION SYSTEM
August 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
Managers in Redemption					
Heitman Capital Management (JMB III & IV)	18,004	0.01%	0.00%		18,004
Prudential (Strategic Value Investors. LLC)	6,523,510	2.15%	0.00%		6,523,510
Subtotal	6,541,514	2.15%	0.00%	0	6,541,514
Separate Account Managers					
Agricultural - Hancock	29,704,296	9.77%	10.00%	32,761,598	(3,057,302)
Forest Investment Associates	31,430,911	10.34%	12.50%	40,951,997	(9,521,086)
INVESCO Realty	15,300,217	5.03%	12.50%	40,951,997	(25,651,780)
Kennedy Associates	40,018,757	13.17%	10.00%	32,761,598	7,257,159
L & B Real Estate Counsel	27,503,593	9.05%	12.50%	40,951,997	(13,448,404)
RREEF	37,939,336	12.48%	15.00%	49,142,397	(11,203,061)
CDK Realty Advisors	42,059,680	13.84%	12.50%	40,951,997	1,107,683
Subtotal	223,956,790	73.70%	85.00%	237,521,585	(55,624,475)
Opportunistic Partnerships					
Hearthstone (MSII, MSIII Homebuilding)	5,475,797	1.80%		10,000,000	(4,524,203)
Crow Holdings Realty Partners II	5,438,293	1.79%		20,000,000	(14,561,707)
Oaktree Capital Management (OCM R E Opportunities Fund B)	11,652,885	3.83%		15,000,000	(3,347,115)
Hudson Advisors (Brazos, Lone Star I, II, III,IV)	32,890,818	10.82%		33,152,422	(261,604)
Olympus Real Estate Fund II & III	17,931,644	5.90%		30,000,000	(12,068,356)
Subtotal	73,389,437	24.15%	15.00%	108,152,422	(34,762,985)
Total Real Estate	303,887,741	100.00%	100.00%	345,674,007	(83,845,946)

Market value total fund

2,184,106,529

\$ %

Target Value (\$ and %)

327,615,979 15.00%

Market Value (\$ and %)

303,887,741 13.91%

Variance from Target

(23,728,238) -1.09%

Total Committed Capital

352,215,521

Managers in Redemption

6,541,514

Actual Committed Capital

345,674,007

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13. Staff and Board Members' reports on due diligence meetings, seminars and/or conferences attended (continued)

d. Conference: Pension & Investments Public Hearings

Date: August 3, 2004

Messrs. Brown, Shaw, and Tettamant reported on the hearings.

e. Conference: Pension & Investments Public Hearings

Date: August 9, 2004

Messrs. Brown, Shaw, Umlor, and Tettamant reported on the hearings.

After discussion, Mr. Edge made a motion to receive and file the staff and Board members' reports on due diligence meetings, seminars and/or conferences attended. Mr. Wachsman seconded the motion, which was unanimously approved by the Board.

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14. Preliminary agenda for the annual Board/Staff Workshop to be held on October 18-21, 2004

The Board and staff discussed the preliminary agenda for the annual Board/Staff Workshop to be held on October 18-21, 2004. No motion was made.

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15. Pareto Partners

- a.** Possible termination and disposition of assets
- b.** Consent letter

Mr. Tettamant explained that Pareto Partners, one of the System's global bond managers, announced on July 30, 2004 that Mellon Financial Corporation (NYSE ticker: MEL) signed a definitive agreement to acquire the 70% of Pareto Partners that it does not currently own from the employees of Pareto Partners and XL Capital Ltd. (NYSE ticker: XL). Pareto Partners will become a stand-alone currency manager acting as an advisor for \$35 billion in currency assets. The credit research team and the portfolio managers involved with the core/core plus and high yield asset management investment products, were sold as a separate transaction to MacKay Shields LLC, a unit of New York Life Insurance. The remaining fixed income team will be merged with Standish Mellon Asset Management, an existing subsidiary of Mellon Financial. Charles Dolan, Head of Global Bonds with Pareto Partners, manages the System's current global bond portfolio.

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15. Pareto Partners (continued)

Mr. Dolan will become the new Co-Head of Global Bonds with William T. Cook at Standish Mellon Asset Management. A press release from Mellon and supplemental information from Pareto Partners were provided.

As of July 31, 2004, Pareto Partners managed approximately \$114,113,000 in global bonds for the System. Pareto Partners started as a fiduciary for the System in October of 2003 and has returned approximately 3.47% gross of fees versus the benchmark of 3.61%.

Pareto Partners requested that the Board review and approve the consent letter. The consent letter would acknowledge the buyout of Pareto Partners by Mellon Europe Limited. The consent letter would also allow the current Investment Advisory Agreement to remain in full force and effect with Pareto Partners or other Mellon companies as assigned.

If the Board approves the consent letter, Standish Mellon Asset Management, a wholly owned subsidiary of Mellon Financial Corporation, will manage our fixed income assets.

The Board's other option was to terminate the relationship and move the assets to another fixed income manager.

After discussion, Mr. Tomasovic made a motion to terminate investments through Pareto Partners. No date was set. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

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16. CDK Realty Advisors

- a. Update on Landmark Center
- b. Possible purchase of property

In accordance with the terms of Texas Government Code, Section 551.072, the Board went into a closed executive real estate session at 1:40 p.m.

The meeting was reopened at 2:05 p.m.

Messrs. Cooley, Donahue, and Kroener, of CDK Realty Advisors, gave an update to the Board on a real estate investment known as Landmark Center and discussed a proposal to acquire property.

After discussion, Mr. McCollum made a motion to authorize CDK Realty Advisors to proceed with the proposed investment opportunity. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

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17. Possible investment through Lone Star Fund V

Mr. Tettamant stated that Lone Star Funds is a global investment company based in Dallas, Texas that buys financial assets often secured by real estate or other assets in various global markets for fund investors. The System invested with Lone Star Advisors through their first five funds: Brazos, Lone Star Opportunity Fund (LSOF) I, LSOF II, LSOF III, and LSOF IV. Currently, Lone Star IV has invested approximately 65% of investor's capital and is in the process of being 100% invested over the course of the next 12 months.

Lone Star Advisors is now launching its next fund, Lone Star Fund V, L.P. The new Lone Star Fund V is expected to have a similar mix of assets compared to LSOF III and LSOF IV, with the majority of investments being made in international non-performing loans. The remainder of the Lone Star Fund V will likely be split between direct real estate and financial operating companies. Investments by the other Lone Star Funds were predominately in Japan, South Korea, other Asian countries, Europe, and North America. German investments may play an important part of the investment strategy for investing in Europe for the new Lone Star Fund V.

Lone Star Advisors is targeting an IRR of 25% before fees and 20% after fees for the new Lone Star Fund V. The Townsend Group, the System's real estate investment consultant, has reviewed Lone Star Fund V and recommended approval for \$25,000,000 in committed capital for the new fund.

After discussion, Mr. Wachsman made a motion to approve an investment of \$25 million through Lone Star Fund V, subject to the final approval of the Administrator and legal counsel. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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C. BRIEFING ITEMS

1. Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System

No active members or pensioners were present to address the Board.

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2. Administrator's report

- a. Custodial bank/consultants update, including monthly investment performance summary
- 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. City of Dallas employees' and retirees' proposed health insurance benefits
- f. General administration update
- g. Continuing education/investment research

The Administrator presented the monthly report on performance returns by JPMorgan Chase & Company, the System's custodial bank.

Mr. Tettamant briefed the Board on the investment managers and professional services providers, funding mechanisms for health care benefits, and other current developments relating to the Pension System.

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

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3. Board operations and procedures

No discussion was held.

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The Assistant Administrator stated that there was no further business to come before the Board. On a motion by Mr. Edge and a second by Mr. Tomasovic, the meeting was adjourned at 3:12 p.m.

Gerald Brown
Chairman

ATTEST:

Richard L. Tettamant
Secretary