

Dallas Police and Fire Pension System
Thursday, January 20, 2005
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, Gary W. Edge, John M. Mays, Rector C. McCollum, Steven G. Shaw, George Tomasovic, Steven H. Umlor, and Richard H. Wachsman

Absent: Mayor Pro Tem Donald Hill and Councilmember Maxine Thornton-Reese

Staff Richard Tettamant, Brian Blake, Don Rohan, Everard Davenport, Pat McGennis, Jay Jackson, John Holt, Jerry Chandler, Kevin W. Killingsworth, and Linda Rickley

Others Rosalind Hewsenian, Al Kim, and Lisa Melgoza

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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. Reports and recommendations of Wilshire Associates, Inc.

- a. Quarterly investment performance report for the third quarter ending September 30, 2004
- b. Enhanced indexing recommendations
- c. Update on investment managers
 - (1) Eagle Asset Management
 - (2) Ashmore Investment Management
 - (3) Brandywine Asset Management
 - (4) Merit Energy
 - (5) Bank of Ireland Asset Management

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

- a. Ms. Hewsenian reviewed the quarterly investment performance report for the third quarter ending September 30, 2004. The investment performance is summarized in the following chart:

	Third Quarter 2004	1-year	3-year	5-year
Total Fund	0.10%	15.43%	8.95%	5.16%
Actuarial Rate	2.06%	8.50%	8.50%	8.50%

Wilshire provided the following Total Fund Overview:

- **Total Return:** For the quarter ended September 30, 2004, the Dallas Police and Fire Pension System (“the System”) generated a total fund return of 0.1%. The System has outperformed its asset allocation policy index over the one, three, five, and ten-year time periods. Compared to the actuarial rate of interest, the System has trailed over the quarter and five-year time frames, though outperforming over the one, three, and ten-year periods.
- **Asset Growth:** As of quarter-end, the System’s market value was approximately \$2.2 billion, which is similar to the previous quarter’s ending value. This change in asset value was comprised of \$98.7 million in net contributions, \$98.9 million in net distributions and administrative fees, \$2.5 million in investment management fees, and \$4.5 million in net investment gains.
- **Asset Allocation:** For the quarter ended September 30, 2004, the System was overweighted to cash, while slightly underweighted to equities and global core fixed income.

The consultant, the Board, and the staff discussed the effects of rising interest rates on hedge funds. Ms. Hewsenian stated that Wilshire’s opinion on hedge funds has changed 180 degrees to a more negative outlook.

After discussion, Mr. Wachsman made a motion to receive and file the quarterly investment performance report for the third quarter ending September 30, 2004. Messrs. Mays and Edge jointly seconded the motion, which was unanimously approved by the Board.

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

- b. Mr. Tettamant stated that in response to the Board's request, Wilshire Associates had prepared a domestic equity structure review of enhanced indexation options. Ms. Hewsenian discussed the System's current domestic equity structure and funding options for adding an enhanced index manager to the current structure. She provided a list of recommended enhanced index manager candidates.

After discussion, Mr. Shaw made a motion to proceed with Option #1, which was to hire a core enhanced index manager using assets from the S&P 500 Index Fund, without precluding other options, and subject to the risk analysis study of Merit Energy. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

The Board selected four enhanced index manager candidate firms to be interviewed at a subsequent Board meeting, as follows:

- Quantitative Management Associates LLC
 - State Street Global Advisors
 - T. Rowe Price
 - INTECH
- c. The staff and investment consultant gave an update to the Board on five investment managers for the System. The update included brief discussions on Eagle Asset Management, Ashmore Investment Management, Brandywine Asset Management, Merit Energy, and Bank of Ireland Asset Management.

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 Reports and the Real Estate Portfolio Reports for January 2005 are included in Minute Book Number 34 on pages _____.

Wilshire Associates Inc. stated that all of the asset classes are within their respective asset allocation target ranges; therefore, no rebalancing is recommended at this point. The \$18.0 million in additional cash needs should come from the Bank of Ireland international equity account.

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**DALLAS POLICE AND FIRE PENSION SYSTEM
January 2005 ASSET ALLOCATION MONITORING REPORT**

Asset Class		Target		Actual		Range		Difference vs.	
		\$	%	\$	%	Minimum	Maximum	Target	\$
EQUITY									
<u>Domestic Equity</u>									
S & P Index	SSGA	392.96	16.00	358.49	14.60	9.00	17.50		(34.47)
Large Cap Growth	Oak Associates	147.36	6.00	136.82	5.57	5.00	7.00		(10.54)
Micro Cap	Deutsche Asset Mgmt	122.80	5.00	117.42	4.78	4.00	6.00		(5.38)
Large Cap Value	Alliance Capital	147.36	6.00	140.00	5.70	5.00	7.00		(7.36)
Other Equity	NTOF/Huff Alternative/Merit	0.00	0.00	61.72	2.51	0.00	5.00		61.72
Energy	Mitchell Group	24.56	1.00	25.62	1.04	0.50	1.50		1.06
Total Domestic Equity		835.04	34.00	840.07	34.21				5.03
<u>International Equity</u>									
Active Large Cap	Bank of Ireland	270.16	11.00	284.29	11.58	9.50	12.50		14.13
Active ACWI x US	Clay Finlay	147.36	6.00	150.20	6.12	5.00	7.00		2.84
Active Enhanced EAFE	Fidelity	171.92	7.00	177.45	7.23	6.00	8.00		5.53
Total International		589.44	24.00	611.94	24.91				22.50
Total Equity		1,424.48	58.00	1452.01	59.12				27.53
FIXED INCOME									
<u>Global High Quality</u>									
	Mondrian Investment Partners	122.80	5.00	117.07	4.77	4.00	6.00		(5.73)
	Pareto Partners	0.00	0.00	0.16	0.01	0.00	0.00		0.16
	Brandywine	122.80	5.00	117.64	4.79	4.00	6.00		(5.16)
<u>Domestic High Yield</u>	W.R. Huff	122.80	5.00	110.56	4.50	3.00	7.00		(12.24)
<u>Global Opportunistic</u>									
Global Opportunistic Funds	Huff Alternative Income	No Target		0.05	0.00				0.00
	Oaktree	No Target		15.39	0.63				0.00
	TCW Spl Credits	No Target		0.24	0.01				0.00
	Highland Crusader Fund	73.68	3.00	59.53	2.42	0.00	4.00		(14.15)
Total Global		73.68	3.00	75.21	3.06	0.00	4.00		1.53
GOFI Separate Account	Loomis-Sayles	221.04	9.00	226.91	9.24	8.00	10.00		5.87
Total Global		294.72	12.00	302.12	12.30				(6.75)
Total Fixed Income		663.12	27.00	647.55	26.37				(15.57)
REAL ESTATE		368.40	15.00	337.71	13.75	13.00	17.00		(30.69)
SHORT TERM		0.00	0.00	18.73	0.76	0.00	0.00		18.73
Total Assets		2,456.00	100.00	2,456.00	100.00				0.00

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**DALLAS POLICE AND FIRE PENSION SYSTEM
January 2005 ASSET ALLOCATION MONITORING REPORT
Real Estate Portfolio**

Real Estate Manager	Equity Market Value	Loan Program	Percentage of Real Estate Assets	Target Percentage	Committed Capital	Variance from Target Vs Committed
Managers in Redemption						
Heitman Capital Management (JMB III & IV)	15,025	0	0.00%	0.00%		15,025
Prudential (Strategic Value Investors. LLC)	6,037,028	0	1.79%	0.00%		6,037,028
Subtotal	6,052,053	0	1.79%	0.00%	0	6,052,053
Separate Account Managers						
Agricultural - Hancock	29,404,407	0	8.71%	10.00%	36,839,607	(7,435,200)
Forest Investment Associates	25,036,335	0	7.41%	12.50%	46,049,509	(21,013,174)
INVESCO Realty	8,549,624	0	2.53%	12.50%	46,049,509	(37,499,885)
Kennedy Associates	40,263,974	7,060,000	11.92%	10.00%	36,839,607	3,424,367
L & B Real Estate Counsel	19,419,367	0	5.75%	12.50%	46,049,509	(26,630,142)
GMAC Institutional Advisors	27,643,369	0	8.19%	0.00%	27,643,369	0
RREEF	47,971,374	0	14.20%	15.00%	55,259,411	(7,288,037)
CDK Realty Advisors	58,783,118	0	17.41%	12.50%	46,049,509	12,733,609
Subtotal	257,071,568	7,060,000	76.12%	85.00%	294,730,523	(96,442,073)
Opportunistic Partnerships						
Hearthstone (MSII, MSIII Homebuilding)	5,685,854	0	1.68%		10,000,000	(4,314,146)
Crow Holdings Realty Partners II	6,799,987	0	2.01%		20,000,000	(13,200,013)
Oaktree Capital Management (OCM R E Opportunities)	11,785,057	0	3.49%		15,000,000	(3,214,943)
Hudson Advisors (Brazos, Lone Star I, II, III,IV)	33,718,637	0	9.98%		34,842,219	(1,123,582)
Olympus Real Estate Fund II & III	16,596,886	0	4.91%		30,000,000	(13,403,114)
Subtotal	74,586,421	0	22.09%	15.00%	109,842,219	(35,255,798)
Total Real Estate	337,710,042	7,060,000	100.00%	100.00%	404,572,742	(125,645,818)

Total Real Estate with Loan Program	344,770,042
Market value total fund with Loan Program	2,463,033,832
Market value total fund	2,455,973,832

	\$
Target Value (\$ and %)	368,396,075
Market Value (\$ and %)	337,710,042
Variance from Target	(30,686,033)

	%
Total Committed Capital	15.00%
Managers in Redemption	13.75%
Actual Committed Capital	-1.25%

Total Committed Capital	410,624,795
Managers in Redemption	6,052,053
Actual Committed Capital	404,572,742

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2. Monthly asset allocation report (continued)

The Board and staff discussed some of the Kennedy Associates' investments.

After discussion, Mr. Edge made a motion to receive and file the January 2005 monthly asset allocation reports and approve the investment consultant's recommendations for rebalancing the portfolio. Mr. Wachsman seconded the motion, which was unanimously approved by the Board.

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3. Request by the Huff Alternative Income Fund, L.P. for waiver of approval of audit and appraisal

Mr. Tettamant explained that The Huff Alternative Income Fund, which is concluding and has total assets of less than \$420,000, has requested the right not to perform the annual audit.

After discussion, Mr. Edge made a motion to approve the request by the Huff Alternative Income Fund, L.P. for waiver of approval of the audit and appraisal. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

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The meeting was recessed at 11:55 a.m.

The meeting was reconvened at 12:41 p.m.

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4. Potential investment with Tishman Speyer Real Estate Venture VI, L.P.

Mr. Tettamant provided the following background:

Kevin Lynch and Richard Brown, both Principals from The Townsend Group, the System's real estate investment consultant, reviewed a potential real estate investment through Tishman Speyer known as the Tishman Speyer Real Estate Venture VI, L.P. at the January 13, 2005 Board meeting.

Representatives from Tishman Speyer Properties previously made a presentation to the Investment Advisory Committee on April 8, 2004. Tishman Speyer is a developer/operator, specializing in institutional real estate investments with an emphasis on Central Business District office buildings in large U. S. cities.

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**4. Potential investment with Tishman Speyer Real Estate Venture VI, L.P.
(continued)**

Staff requested Board direction regarding the potential investment opportunity.

After discussion, Mr. Wachsman made a motion to allocate \$20 million to an investment in the Tishman Speyer Real Estate Venture VI, L.P. Mr. Edge seconded the motion. The motion failed by the following vote:

For: Wachsman

Against: Brown, Edge, Mays, McCollum, Umlor, and Shaw
(Mr. Tomasovic was not present when the vote was taken.)

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5. Audited financial statements for the year ending December 31, 2003

Mr. Tettamant reported that Mir, Fox & Rodriguez, the Systems' independent auditor, has completed and presented the independent audit report of the System's financial statements for the year ending December 31, 2003. The Independent Audit Report states that the financial statements prepared by the System present fairly the financial status of the System as of December 31, 2002 and 2003, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

After discussion, Mr. Shaw made a motion to approve the audited financial statements for the year ending December 31, 2003, subject to the final approval of the Administrator. Mr. Wachsman seconded the motion, which was unanimously approved by the Board.

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6. Draft 2003 Annual Report

Staff distributed a draft copy of the Annual Report for 2003, which also included the complete Audit Report with financial statements and the Actuarial Valuation.

Staff recommended that the System forego normal publishing of the annual report and instead, post the completed report to the System's website with only a limited printing for archiving and distribution to required parties, such as the Pension Review Board.

The System also would not print and distribute the three Condensed Annual Reports – for Active Members, Pensioners and Supplemental Fund participants. However, the System previously produced a summary annual report and has printed excerpts of actuarial and membership information from the draft annual report in issues of the Active Member and Pensioner newsletters.

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6. Draft 2003 Annual Report (continued)

After discussion, Mr. McCollum made a motion to approve the publication of the 2003 annual report, subject to the final approval of the Administrator. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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7. Possible investment in Oaktree Capital Management's OCM/GFI Power Opportunities Fund II

The consultant and the Administrator discussed the proposed investment. The Board requested that representatives of Oaktree be available at the March meeting when Wilshire representatives are present.

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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. Shaw 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. Umlor and a second by Mr. McCollum, the meeting was adjourned at 1:22 p.m.

Gerald Brown
Chairman

ATTEST:

Richard L. Tettamant
Secretary