

**Dallas Police and Fire Pension System
 Thursday, April 21, 2005
 8:30 a.m.
 2301 North Akard Street
 First Floor Conference Room
 Dallas, Texas**

Quarterly meeting, Steven G. Shaw, Vice-Chairman, presiding:

ROLL CALL

Board Members

Present: Gary W. Edge, John M. Mays, Rector C. McCollum, Steven G. Shaw, George Tomasovic, Steven H. Umlor, and Richard H. Wachsman

Absent: Gerald Brown, Deputy Mayor Pro Tem Donald Hill, and Councilmember Maxine Thornton-Reese

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

Others Rosalind Hewsenian, Al Kim, Scott Towns, 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 fourth quarter ending December 31, 2004
 - b. Oaktree Capital Management/GFI Power Opportunities Fund II
 - c. Concept proposal regarding refinement to the Asset Allocation Policy
- a. Ms. Hewsenian reviewed the quarterly investment performance report for the fourth quarter ending December 31, 2004. The investment performance is summarized in the following chart:

	Fourth Quarter 2004	1-year	3-year	5-year	10-year
Total Fund	11.19%	14.77%	10.11%	4.98%	11.49%
Actuarial Rate	2.06%	8.50%	8.50%	8.50%	8.60%

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

Wilshire provided the following Total Fund Overview:

- **Total Return:** For the quarter ended December 31, 2004, the Dallas Police and Fire Pension System (“the System”) generated a total fund return of 11.2%, which exceeded its asset allocation benchmark return of 9.0%. The System outperformed its asset allocation benchmark during all other periods. Relative to the actuarial rate of interest, the System has outperformed during all periods, with the exception of the five-year period.
- **Asset Growth:** As of quarter-end, the System’s market value was approximately \$2.5 billion, which represented an increase of \$250 million in assets from the previous quarter end. The increase in market value was comprised of a net investment gain of \$253 million, along with net contributions of \$85 million, net distributions and administrative fees of \$84 million, and investment management fees of \$3 million.
- **Asset Allocation:** As of December 31, 2004, the System did not have any significant differences in its actual allocations versus its asset allocation policy.

After discussion, Mr. Wachsman made a motion to receive and file the quarterly investment performance report for the fourth quarter ending December 31, 2004. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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The meeting was recessed at 9:15 a.m.

The meeting was reconvened at 9:28 a.m.

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The staff and Wilshire discussed a due diligence review on a possible investment known as Oaktree Capital Management/GFI Power Opportunities Fund II.

After discussion, Mr. Wachsman made a motion to receive and file the presentation on the Oaktree Capital Management/GFI Power Opportunities Fund II. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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The meeting was recessed at 9:53 a.m.

The meeting was reconvened at 10:03 a.m.

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

Ms. Hewsenian, the Board, and staff discussed a concept proposal regarding refinement to the Asset Allocation Policy.

After discussion, Mr. Edge made a motion to authorize Wilshire Associates to proceed with researching a modification to the asset allocation policy, regarding Global Opportunistic Fixed Income (GOFI). Mr. Umlor seconded the motion, which was unanimously approved by the Board.

The Board directed Wilshire Associates to develop a Private Equity Investment Policy and to be prepared to discuss Private Equity at the annual workshop in October 2005.

The Board discussed priorities for future projects with Ms. Hewsenian. The Board and staff developed the following work plan in order by priority:

- 1) Enhanced Index Manager due diligence meetings
- 2a) Concept proposal for changes to Global Opportunistic Fixed Income asset allocation
- 2b) Highland Capital Management review
- 3) International Equity (Bank of Ireland, Clay Finlay, International Enhanced Index managers)
- 4) Global Equity managers
- 5) Oaktree Capital Management's global convertible securities fund
- 6) Domestic Equity segment (Value, Core, Growth)

After discussion, Mr. Tomasovic made a motion to receive and file an updated 2005 work plan as stated above. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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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

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2. Monthly asset allocation report (continued)

The Asset Allocation Monitoring Reports and the Real Estate Portfolio Reports for April 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 allocation to the Loomis Sayles account within the GOFI segment is below the lower end of the range (actual 7.27% versus range of 8.00% to 10.00%), but Wilshire recommends taking no action because 1) the overall GOFI segment is within its range and 2) the range for Loomis Sayles does not reflect the System's decision to make an allocation to Ashmore. The \$4.0 million in additional cash should be allocated equally to Mondrian and Brandywine in the global core fixed income segment, the asset class that is most underweighted relative to its target.

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

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3. Possible amendment to the Highland Crusader partnership agreement

Mr. Tettamant explained that Highland Crusader Fund, L.P. is an investment of the System held in the Global Opportunistic Fixed Income portfolio that has an approximate market value of \$73,940,00 as of April 1, 2005. The General Partner has requested that the Limited Partners approve the Second Amended and Restated Agreement of Limited Partnership of the Highland Crusader Fund, L.P. as a replacement for the existing Agreement. Among the changes are the following:

1. Increase the annual management fee from 1.0% to 1.5%
2. Elimination of the 6% hurdle rate
3. Establishment of a 20% quarterly gate, with a maximum time to total redemption of one year
4. Elimination of the 2% discretionary sales charge

The proposed changes will take place on May 1, 2005. However, the changes for existing investors do not take place during the period from April 1, 2005 until December 31, 2005. Fee changes for existing investors will begin on January 1, 2006.

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

Asset Class	Target		Actual		Range		Difference vs.		
	\$	%	\$	%	Minimum	Maximum	Target	\$	
EQUITY									
<u>Domestic Equity</u>									
S & P Index		SSGA		16.00	350.87	14.40	9.00	17.50	(39.11)
Large Cap Growth		Oak Associates	146.24	6.00	123.78	5.08	5.00	7.00	(22.46)
Deutsche Micro Cap		Deutsche Asset Mgmt		0.00	0.29	0.01	0.00	0.00	0.00
Small Cap	389.98	Eagle Asset Management		5.00	110.79	4.55	4.00	6.00	(11.08)
Large Cap Value		Alliance Capital	146.24	6.00	138.57	5.69	5.00	7.00	(7.67)
Other Equity		NTOF/Huff Alternative/Merit	0.00	0.00	75.13	3.08	0.00	5.00	75.13
Energy		Mitchell Group	21.87	1.00	26.91	1.10	0.50	1.50	2.54
Total Domestic Equity			828.70	34.00	826.34	33.91			(2.36)
<u>International Equity</u>									
Active Large Cap		Bank of Ireland	0.00		24.37				
Active ACWI x US		Clay Finlay		11.00	264.31	10.84	9.50	12.50	(3.80)
Active Enhanced EAFE		Fidelity		7.00	143.68	5.89	5.00	7.00	(2.56)
Total International Equity	268.11		584.97	24.00	168.09	6.90	6.00	8.00	(2.53)
Total Equity	170.62		1,413.67	58.00	576.08	23.63			(8.89)
FIXED INCOME									
<u>Global High Quality</u>									
		Mondrian Investment Partners	121.87	5.00	109.90	4.51	4.00	6.00	(11.97)
		Pareto Partners		0.00	0.02	0.00	0.00	0.00	0.02
		Brandywine	121.87	5.00	111.77	4.59	4.00	6.00	(10.10)
		W.R. Huff	121.87	5.00	112.94	4.63	3.00	7.00	(8.93)
<u>Global Opportunistic</u>									
Global Opportunistic Funds	0.00	Huff Alternative Income		No Target	0.01	0.00			0.00
		Oaktree		No Target	11.97	0.49			0.00
		TCW Spl Credits		No Target	0.23	0.01			0.00
		Ashmore		No Target	50.72	2.08			0.00
		Highland Crusader Fund*		3.00	73.94	3.03	0.00	4.00	0.82
Total Global Opportunistic Funds			73.12	3.00	136.87	5.62	0.00	4.00	63.75
GOFI Separate Account		Loomis-Sayles		9.00	177.16	7.27	8.00	10.00	(42.20)
Total Global Opportunistic	73.12		292.48	12.00	314.03	12.88			22.37
Total Fixed Income	219.36		658.09	27.00	648.66	26.61			(9.43)
REAL ESTATE			365.61	15.00	377.31	15.48	13.00	17.00	11.70
<u>SHORT TERM INVESTMENTS</u>									
			0.00	0.00	8.98	0.37	0.00	0.00	8.98
Total Assets			2,437.37	100.00	2,437.37	100.00			(0.00)

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**DALLAS POLICE AND FIRE PENSION SYSTEM
April 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)	15,413	0	0.00%	0.00%		15,413
Prudential (Strategic Value Investors. LLC)	5,997,960	0	1.50%	0.00%		5,997,960
Subtotal	6,013,373	0	1.50%	0.00%	0	6,013,373
Separate Account Managers						
Agricultural - Hancock	35,283,865	0	8.81%	10.00%	36,555,305	(1,271,440)
Forest Investment Associates	28,187,155	0	7.04%	12.50%	45,694,131	(17,506,976)
INVESCO Realty	21,794,814	7,400,000	5.44%	12.50%	45,694,131	(31,299,317)
Kennedy Associates	48,653,777	7,260,000	12.15%	10.00%	36,555,305	4,838,472
L & B Real Estate Counsel	36,307,498	8,325,000	9.07%	12.50%	45,694,131	(17,711,633)
GMAC Institutional Advisors	28,132,112	0	7.03%	0.00%	28,132,112	0
RREEF	44,567,218	0	11.13%	15.00%	54,832,957	(10,265,739)
CDK Realty Advisors	84,192,872	0	21.03%	12.50%	45,694,131	38,498,741
Subtotal	327,119,311	22,985,000	81.72%	85.00%	293,158,070	(34,717,890)
Opportunistic Partnerships						
Hearthstone (MSII, MSIII Homebuilding)	4,956,308	0	1.24%		10,000,000	(5,043,692)
Crow Holdings Realty Partners II	5,346,444	0	1.34%		20,000,000	(14,653,556)
Oaktree Capital Management (OCM R E Opportunities Fund B)	11,187,896	0	2.79%		15,000,000	(3,812,104)
Hudson Advisors (Brazos, Lone Star I, II, III,IV,V)	30,918,053	0	7.72%		36,230,808	(5,312,755)
Olympus Real Estate Fund II & III	14,754,796	0	3.69%		30,000,000	(15,245,204)
Subtotal	67,163,497	0	16.78%	15.00%	111,230,808	(44,067,311)
Total Real Estate	400,296,181	22,985,000	100.00%	100.00%	404,388,878	(72,771,828)

Total Real Estate with Loan Program (net)

377,311,181

Total Fund Market Value

2,437,020,305

\$

%

Target Value (\$ and %)

365,553,046

15.00%

Market Value (\$ and %)

377,311,181

15.48%

Variance from Target

11,758,135

0.48%

Total Committed Capital

410,402,251

Managers in Redemption

6,013,373

Actual Committed Capital

404,388,878

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3. Possible amendment to the Highland Crusader partnership agreement (continued)

After discussion, Mr. Umlor made a motion to disapprove the request by the Highland Crusader Fund, L.P. for an increase in the fee structure on existing investments, and to suspend consideration of any new investments through Highland until the issue is resolved to the satisfaction of the Board. Messrs. McCollum and Tomasovic jointly seconded the motion, which was unanimously approved by the Board.

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4. Notice of Extension of Term for Lone Star Opportunity Fund, L.P.

Mr. Tettamant stated that Lone Star Opportunity Fund, L.P. is an investment of the System held in the real estate investment portfolio. The System owns approximately \$3,496,000 in market value in the Lone Star Opportunity Fund, L.P. as of December 31, 2004. The fund had its Final Closing on March 23, 1997, and therefore, under the Term of the Partnership, would expire and the Partnership would go into dissolution on March 23, 2005, unless the Term is extended. Under the Partnership Agreement, the Term can be extended for up to two consecutive additional one-year periods upon notice to the Limited Partners by the General Partner, unless disapproved by the Limited Partners within 30 days of the date the notice is given. The General Partner has elected to extend the Term one year, to March 23, 2006, unless disapproved by the Limited Partners. The General Partner will re-examine this issue next year and determine whether or not to extend the Term for the final one-year extension period.

After discussion, Mr. Edge made a motion to approve the extension of the term for Lone Star Opportunity Fund, L.P. by one year, subject to the real estate investment consultant's recommendation. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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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
- f. Continuing education/investment research

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Administrator's report (continued)

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

Mr. Tomasovic made a motion to receive and file the Administrator's report. Mr. Umlor 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. Edge and a second by Mr. Tomasovic, the meeting was adjourned at 11:00 a.m.

Steven Shaw
Vice-Chairman

ATTEST:

Richard L. Tettamant
Secretary