

MINUTE SUMMARY
Board Meeting
Thursday, May 19, 2005

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees was held at **8:30 a.m. on Thursday, May 19, 2005 in the First Floor Conference Room at 2301 North Akard Street, Dallas, Texas.** Items of the following agenda were presented to the Board:

The meeting began at 8:30 a.m.

A. CONSENT AGENDA - Approved, subject to the final review and approval of the staff.

B. DISCUSSION AND APPROVAL OF ITEMS FOR INDIVIDUAL CONSIDERATION

- Item 1.** Received and filed the portfolio review by Clay Finlay, Inc.
- Item 2.** Authorized the transfer of the State Street Global Advisors (SSgA) S&P 500 index fund to T. Rowe Price and INTECH, with the transition to be handled by the Administrator, including the amounts distributed to each firm.
- Item 3.** Received and filed the staff proposal for non-U.S. equity investments, and directed staff to implement the proposal, subject to the investment consultant's recommendation.
- Item 4a.** Granted Maria C. Kaminske an on-duty, Combined Pension Plan, Group B disability benefit, subject to the System's right under the Board-approved disability procedure to require Ms. Kaminske to undergo future medical examinations to determine if the disability still exists or if recovery has been made to the point that Ms. Kaminske is able to return to duty, or one year after surgery, whichever is sooner. Ms. Kaminske is subject to the Annual Earnings Test Review as she was hired and suffered a disability after May 1, 1990.
- Item 4b.** Granted continuance of Thomas E. Devine's on-duty, Combined Pension Plan, Group B disability benefit, subject to the System's right under the Board-approved disability recall procedure to require Mr. Devine to undergo future medical examination(s) to determine if the disability still exists or if recovery has been made to the point that Mr. Devine is able to return to duty, or two years, whichever is sooner. Mr. Devine is subject to the Annual Earnings Test Review as he was hired and suffered a disability after May 1, 1990.

- Item 5.** Based on the unique facts and circumstances brought before the Board, granted the request for a waiver of the overpayment to Leigh Burmeister, which was caused by administrative error.
- Item 6.** Received and filed the actuarial peer review.
- Item 7.** Approved the 2004 actuarial valuation and DROP assumption changes.
- Item 8.** Discussed a proposed increase to the minimum benefit for Pensioners and Qualified Surviving Spouses, and a proposal to use compounding interest on annual adjustments, instead of the current simple interest rate. Based on the projected negative actuarial impact to the System, the Board voted against the proposed changes.
- Item 9.** The Administrator gave a status update on a proposed 401(h) health insurance savings plan. The Board directed the Administrator to proceed with plans to offer a 401(h) health insurance savings plan.
- Item 10.** Heard a report by the outside legal counsel on current legal issues. No motion was made.
- Item 11.** Received and filed the report on pension-related issues for possible legislative consideration.
- Item 12.** Received and filed the May 2005 monthly asset allocation report and approved Wilshire Associates' recommendations for rebalancing the portfolio.
- Item 13.** Received and filed the monthly financial statement for the period ending March 31, 2005.
- Item 14.** Received and filed the staff and Board members' reports on due diligence meetings, seminars and/or conferences attended.
- Item 15.** Received and filed the report on the due diligence meeting with Pharos Capital Group, LLC, and approved a \$10 million investment through Pharos Capital Group, LLC, to be funded from the SSgA S&P 500 index fund, and subject to successful contract negotiations, and the final approval of the Administrator and the outside legal counsel.
- Item 16.** Received and filed the portfolio review by CDK Realty Advisors. Approved new investment proposals in Dallas, Nebraska, and Idaho through CDK, subject to successful due diligence, contract negotiations, and the final approval of the Administrator and the outside legal counsel.
- Item 17.** Postponed the presentation of the Employee of the Quarter award.

- Item 18.** Approved a new investment proposal through L & B Realty Advisors, Inc., subject to successful due diligence, contract negotiations, and the final approval of the Administrator and the outside legal counsel.

C. BRIEFING ITEMS

- Item 1.** No active members or pensioners were present to discuss concerns.
- Item 2.** Received and filed the Administrator's report.
- Item 3.** No discussion of operational and procedural issues was held.

The meeting was adjourned at 5:16 p.m.

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SUPPLEMENTAL POLICE AND FIRE PENSION BOARD MEETING

The meeting was called to order and recessed at 8:30 a.m.

The meeting was reconvened at 1:15 p.m.

- A. CONSENT AGENDA** - Approved, subject to final review and approval of the staff.
- B. DISCUSSION AND APPROVAL OF ITEMS FOR INDIVIDUAL CONSIDERATION**
- Received and filed the May 2005 monthly asset allocation report and approved Wilshire Associates recommendations for rebalancing the portfolio.

C. BRIEFING ITEMS

The Administrator briefed the Board on the 2004 Supplemental Fund actuarial valuation.

The meeting was adjourned at 1:23 p.m.

Dallas Police and Fire Pension System
Thursday, May 19, 2005
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, Deputy Mayor Pro Tem Donald Hill, John M. Mays, Rector C. McCollum, Steven G. Shaw, George Tomasovic, Steven H. Umlor, and Richard H. Wachsman

Absent: Councilmember Maxine Thornton-Reese

Staff

Richard Tettamant, Brian Blake, Don Rohan, Everard Davenport, Mike Taylor, Pat McGennis, Zahide Torresdey, Jay Jackson, Jack Liewehr, John Holt, Jerry Chandler, and Linda Rickley

Others

Francis Finlay, Gregory Jones, Jonna Keefe, Jonathan Allen, Maria Kaminske, Sgt. Diane Watts, David Jakabowski, Bryan Cornish, Dean Burmeister, Michael Carter, Lewis Ward, Richard Mackesey, Steven Prullage, Gary Lawson, Kenneth Cooley, Jon Donahue, Brent Kroener, Andy Smith, Christine Mullis, and Bernadette Mussell

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The meeting was called to order at 8:30 a.m.

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A. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of March 10, 2005
Special meeting of March 17, 2005
Special meeting of April 13, 2005
Regular meeting of April 14, 2005
Quarterly meeting of April 21, 2005
Special meeting of April 25, 2005

2. Approval of the Monthly Trustee Summary for the Month of March 2005

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3. Approval of Refunds of Contributions for the Month of April 2005

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<u>EMPLOYEE NAME</u>	<u>DEPT.</u>	<u>REFUND DATE</u>
Jarvis James	F	Apr. 22, 2005
Mark A. DeLaPaz	P	Apr. 22, 2005
Paul Varghese	P	Apr. 8, 2005

4. Approval of Activity in the Deferred Retirement Option Plan (DROP) for May 2005

New DROP Participants

George J. Bolton	Fire
Eduardo A. Cuellar	Fire
Ricky L. Rand	Fire
Donald W. Reed	Fire
Randall L. Yanowski	Fire
Steven A. Bates	Police
Kenneth W. Beck	Police
Nicky L. Earwood	Police
Andrew J. Klein	Police
Fred R. MacDonald	Police
Dennis McDermott	Police
Gary W. Prater	Police
Kyle W. Royster	Police

Retiree DROP Status Changes

William L. Abbott	Fire	1
Alan M. Fisher	Fire	1
Willie D. Cantu	Police	4
Michael R. Clay	Police	1
Robert L. Gutkowski	Police	2

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

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4. Approval of Activity in the Deferred Retirement Option Plan (DROP) for May 2005 (continued)

Transfer Funds from DROP to 401(k)

Samuel L. Brown	Fire
William P. Rossi	Police

5. Approval of Earnings Test

Michael D. Zang, Police Officer

6. Approval of Payment of Withdrawn Contributions Due to Divorce

David O. Brown, Police Officer

7. Approval of Estate Settlements

Goldie A. Price (S)	Fire	Mar. 15, 2005	Carol Lynch	A - Sec. 6.07	
Maria J. Waters (S)	Police	Mar. 27, 2005	Katherine E. Waters, Deborah A. Lloyd, Cynthia M. Waters	B - Sec. 6.08	

8. Approval of Survivor Benefits - Deceased Retirees

Billy Jones	Police	Apr. 14, 2005	Helen L. Jones	Yes	B - Sec. 6.08

9. Approval of Service Retirements

William L. Abbott	Fire	Apr. 3, 2005	B - Sec. 6.02(b)	Yes/VIII	Yes
Phyllis G. Allen	Fire	Apr. 6, 2005	B - Sec. 6.02(b)	Yes/VI	No
Alan M. Fisher	Fire	May 4, 2005	B - Sec. 6.02(b)	Yes/VIII	No
Willie D. Cantu	Police	May 1, 2005	B - Sec. 6.02(d)	No/VIII	No
Michael R. Clay	Police	May 4, 2005	B - Sec. 6.02(b)	Yes/VIII	Yes
Larry P. Heflin	Police	Apr. 20, 2005	B - Sec. 6.02(b)	Yes/VI	No
Richard D. Millward, Jr.	Police	Mar. 4, 2005	B - Sec. 6.02(b)	Yes/V	Yes
Jack C. Perritt	Police	Apr. 13, 2005	B - Sec. 6.02(b)	Yes/V	No
Wesley D. Stout	Police	April 20, 2005	B - Sec. 6.02(b)	Yes/VI	No

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9. Approval of Service Retirements (continued)

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 Request for Acknowledgment of Name Change

Mary D. Pepin	Fire	May 1, 2005	Mary D. Jorn
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After discussion, Mr. Wachsmann made a motion to approve the items on the Consent Agenda, subject to the final review and approval of the Administrator. Mr. Tomasovic 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. Portfolio review by Clay Finlay, Inc.

Francis Finlay, Chairman and CEO; Greg Jones, Managing Director, Head of Asia; Jonathan Allen, Principal, Senior Research Analyst; and Jonna Keefe, Principal, Client Services, were present from Clay Finlay, Inc. for a portfolio review. They explained that Clay Finlay, Inc. is one of the companies owned by Old Mutual Asset Management, the U.S. asset management group of Old Mutual PLC. Clay Finlay is an international equity investment manager that was founded in 1982 and is headquartered in New York with investment offices in London and Tokyo. Clay Finlay has been a fiduciary for the System since March, of 2002 and currently manages approximately \$143.6 million of the Systems international equity portfolio. The Clay Finlay international equity portfolio has returned 8.70% net of fees versus 13.2% for the ACWI ex US benchmark over the last three years annualized ending March 2005.

Clay Finlay described their investment philosophy as buying well-managed companies, with steady, sustainable earnings growth rates, priced reasonably in relation to those growth rates, which the manager believes will outperform over the longer-term horizon. Clay Finlay uses a team based investment approach. Portfolio construction is based primarily by stock selection considerations. The investment manager aims to create concentrated, yet risk-controlled portfolios.

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1. Portfolio review by Clay Finlay, Inc. (continued)

Messrs. Finlay, Jones, and Allen, and Ms. Keefe reviewed the 2004 performance of the System's portfolio with Clay Finlay. They also discussed their company's prospective view of the market.

After discussion, Mr. Edge made a motion to receive and file the portfolio review by Clay Finlay, Inc. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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The meeting was recessed at 9:39 a.m.

The meeting was reconvened at 9:49 a.m.

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2. Enhanced index search

Mr. Tettamant reviewed with the Board that at the March 17, 2005 Board meeting, four enhanced index managers made presentations and were reviewed by the Board, staff, and representatives from Wilshire Associates, the System's general investment consultant. The Board approved two enhanced index managers, T. Rowe Price and INTECH, as finalists for the Enhanced Index Search. The two firms were approved as investment managers for the System, subject to a successful due diligence, successful contract negotiations, and the final approval of the Administrator and legal counsel. The due diligence reviews for the enhanced index investment manager search were conducted on May 3 and May 4, 2005. Steve Shaw, Vice Chairman; Steve Umlor, Police Trustee; Richard Wachsman, Fire Pensioner Trustee; Richard Tettamant, Administrator; and Brian Blake, Assistant Administrator-Investments, attended the on-site due diligence reviews.

The Board went into a closed executive session – legal at 10:18 a.m.

The issues concerning contract negotiations with the two firms were discussed with the legal counsel and Administrator.

The meeting was reopened at 10:31 a.m.

After discussion, Mr. Wachsman made a motion to invest 50 percent (50%) of the State Street Global Advisors (SSgA) S&P 500 index fund with T. Rowe Price and 50 percent (50%) with INTECH. Mr. Umlor seconded the motion.

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2. Enhanced index search (continued)

After further discussion, Messrs. Wachsman and Umlor withdrew the motion.

After further discussion, Mr. Umlor made a motion to authorize the transfer of the State Street Global Advisors (SSgA) S&P 500 index fund to T. Rowe Price and INTECH, with the transition to be handled by the Administrator, including the amounts distributed to each firm. Mr. Tomasovic seconded the motion. The following vote was taken:

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

The motion passed.

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3. Staff proposal for non-U.S. equity investments

Mr. Jay Jackson, the System's Investment Analyst, presented a proposal for restructuring the non-U.S. equity investments, also known as international equity investments. As stated in the Strategic Investment Policy, the target for the international equity portfolio is 24% of the total investment assets of the System. As of March 31, 2005, the international equity portfolio was approximately \$576.1 million or 23.91% of the total investment assets of the System.

Bank of Ireland Asset Management, Clay Finlay, and Fidelity Management Trust Company currently manage the international equity portfolio. Staff discussed a proposal to allocate more assets to a core approach and balance the two additional international equity managers in approximately equal percentage weightings. The proposal would result in the core investment advisor managing approximately 50% of the international equity portfolio and the remaining two investment advisors each managing approximately 25% of the international equity portfolio.

After discussion, Mr. Mays made a motion to receive and file the staff proposal and refer it to Wilshire Associates, the System's investment consultant, for further study. Mr. Edge seconded the motion, which was unanimously approved by the Board.

After discussion Mr. Wachsman made a motion to direct the staff to implement the proposal for restructuring the non-U.S. equity investments, subject to the review of the investment consultant. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

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4. Closed Session - Board serving as Medical Committee

Discussion of the following disability application and recall will be closed to the public under the terms of Section 551.078 of the Texas Government Code:

a. Disability application:



Maria C. Kaminske Police May 20, 2005 B - Sec. 6.05 On-Duty

b. Disability recall:

Thomas E. Devine, retired Firefighter

The Board went into a closed executive session – medical at 9:59 a.m.

Mr. Tettamant reviewed with the Board members the medical information and physicians’ reports regarding the disability application of Ms. Kaminske.

The meeting was reopened at 10:06 a.m.

After discussion, Mr. Shaw made a motion to grant **Maria C. Kaminske** an on-duty, Combined Pension Plan, Group B disability benefit, subject to the System’s right under the Board-approved disability procedure to require Ms. Kaminske to undergo a future medical examination in one year from the date of her forthcoming surgery to determine if the disability still exists or if recovery has been made to the point that Ms. Kaminske is able to return to duty. Ms. Kaminske is subject to the Annual Earnings Test Review as she was hired and suffered a disability after May 1, 1990. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

The Board went into a closed executive session – medical at 10:08 a.m.

Mr. Tettamant reviewed with the Board members the medical information and physicians’ reports regarding the disability recall of Mr. Devine.

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

After discussion, Mr. Edge made a motion to grant continuance of **Thomas E. Devine’s** on-duty, Combined Pension Plan, Group B disability benefit, subject to the System’s right under the Board-approved disability recall procedure to require Mr. Devine to undergo future medical examination(s) to determine if the disability still exists or if recovery has been made to the point that Mr. Devine is able to return to duty, or two years, whichever is sooner. Mr. Devine is subject to the Annual Earnings Test Review as he was hired and suffered a disability after May 1, 1990. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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5. Overpayment review

Mr. Tettamant reported that Fire Captain Dean Burmeister had requested that the Board waive an overpayment of pension benefits to his ex-spouse, Leigh Burmeister. Ms. Burmeister is receiving benefit payments through a Qualified Domestic Relations Order (QDRO) splitting benefits from Captain Burmeister. Ms. Burmeister has authorized Captain Burmeister to act on her behalf regarding the overpayment. A copy of the request is attached.

As staff reported to the Board at its April 14, 2005 meeting, a routine review identified the overpayment of benefits to Ms. Burmeister. The overpayment occurred due to an erroneous entry to Ms. Burmeister's account in October 2001 that caused the monthly payment to be treated as an Old Plan death benefit. Staff has corrected Ms. Burmeister's benefit amount.

The Board's Recapture of Overpayments Policy outlines the steps required to discharge the Board's fiduciary responsibility concerning the recovery of overpayments. A copy of the policy was distributed. Section 802.1024 of the Texas Government Code limits collection of an overpayment to a period not more than three years prior to discovery of the overpayment.

Mr. Burmeister discussed his request with the Board.

After discussion, Mr. Wachsman made a motion to grant Mr. Burmeister's request for a waiver of repayment of the overpayment to Leigh Burmeister, based on the unique facts and circumstances brought before the Board. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

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6. Actuarial peer review

Mr. Tettamant stated that at its December 11, 2003 meeting, the Board authorized the Administrator to negotiate a contract with an independent actuarial firm to perform a peer review of actuarial valuation services performed for the System by Mellon Consultants, at a cost not to exceed \$100,000.

Staff entered into an agreement with the actuarial firm Gabriel, Roeder, and Smith (GRS) to perform a general review of actuarial assumptions and method and to replicate the actuarial results. The project began in December 2004.

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6. Actuarial peer review (continued)

A complete copy of the GRS report was provided to each Trustee. Michael Carter and Lewis Ward of GRS were present and discussed the results of their review. GRS found that the actuarial basis used for valuing the plans is within the range of reasonableness and is an accurate portrayal of the System's assets and liabilities. The GRS report also found that all benefits are being valued appropriately and the GRS replication of the valuation determined an actuarial present value of benefits within 2.1% of the Mellon Consultant's valuation.

GRS stated that they would have recommended changes to the following assumptions:

- Inflation
- Post-retirement mortality
- Salary increase rates
- Possible modification to the real return assumption

Messrs. Mackesey and Prullage, of Mellon Consultants, were present during the discussion.

After discussion, Mr. Edge made a motion to receive and file the report by the actuarial firm of Gabriel, Roeder, and Smith. Mr. Mays seconded the motion, which was unanimously approved by the Board.

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The meeting was recessed at 11:40 a.m.

The meeting was reconvened at 12: 20 p.m.

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7. 2004 actuarial valuation

Messrs. Mackesey and Prullage, of Mellon Consultants, Inc., the System's actuary, discussed the actuarial valuation as of January 1, 2005 with the Board.

Mr. Mackesey stated that the Mellon report reflected a change in assumptions for the Deferred Retirement Option Plan (DROP). The new assumption will be that those members who are currently eligible for DROP, but who have not joined DROP, will not join DROP. Currently, we assume all members will join DROP.

After discussion, Mr. Edge made a motion to approve the 2004 actuarial valuation and approve the changes to the assumptions for the Deferred Retirement Option Plan (DROP). Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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8. Proposed benefit changes

Fire Pensioner Trustee Richard Wachsman asked the Board to consider the following two changes to Group B minimum benefit provisions. An estimate by the System's actuary of the impact on System funding was provided.

1. Increase minimum benefit payable to a Qualified Surviving Spouse from \$1,200 per month to \$2,000 per month.

IMPACT: Increase in liabilities of \$32,400,000
Increase in funding period of 10 years

2. Increase minimum retirement benefit from \$2,200 per month to \$3,000 per month.

IMPACT: Increase in liabilities of \$22,000,000
Increase in funding period of 7 years

The Board also was asked to consider a change to Plan provisions to provide that the annual adjustment to benefits be compounded from year to year. The current provision provides that the annual adjustment is determined on a Pensioner's Base Benefit and is not changed over the course of retirement.

IMPACT: Increase in liabilities of \$310,000,000
Increase in funding period is infinite

After discussion, Mr. Wachsman made a motion to propose the three plan amendments stated above. Mr. Umlor seconded the motion. The following vote was taken:

For: None
Against: Brown, Edge, Mays, McCollum, Shaw, Tomasovic, Umlor,
and Wachsman

The motion failed.

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The meeting was recessed at 1:15 p.m.

The meeting was reconvened at 1:23 p.m.

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9. 401(h) health insurance savings plan

Mr. Tettamant gave a status update on a proposed 401(h) health insurance savings plan. The Board directed the Administrator to proceed with plans to offer a 401(h) health insurance savings plan, to select a vendor to process claims, and to prepare for a plan amendment election.

No motion was made.

10. Legal issues including, but not limited to:

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

In accordance with the terms of Texas Government Code, Section 551.071, the Board went into a closed executive session - legal at 1:35 p.m.

Mr. Lawson, the System's outside legal counsel, gave an update on the above-mentioned cases.

The meeting was reopened at 1:41 p.m.

No motion was made.

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11. Pension-related issues for possible legislative consideration

- a. Pending legislation
- b. Reports from legislative consultants
- c. Other legislation

Mr. Davenport, General Counsel, reported on the status of pending legislation.

After discussion, Mr. Wachsman made a motion to receive and file the report. 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 April 2005 are included in Minute Book Number 34 on pages _____.

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May 2005 ASSET ALLOCATION MONITORING REPORT

Asset Class		Target		Actual		Range		Difference vs.	
		\$	%	\$	%	Minimum	Maximum	Target	\$
EQUITY									
<u>Domestic Equity</u>									
S & P Index	SSGA	385.22	16.00	344.21	14.30	9.00	17.50		(41.01)
Large Cap Growth	Oak Associates	144.46	6.00	118.37	4.92	5.00	7.00		(26.09)
Deutsche Micro Cap	Deutsche Asset Mgmt	0.00	0.00	0.29	0.01	0.00	0.00		0.00
Small Cap	Eagle Asset Management	120.38	5.00	106.68	4.43	4.00	6.00		(13.70)
Large Cap Value	Alliance Capital	144.46	6.00	136.63	5.67	5.00	7.00		(7.83)
Other Equity	NTOF/Huff Alternative/Merit	0.00	0.00	75.13	3.12	0.00	5.00		75.13
Energy	Mitchell Group	24.08	1.00	24.87	1.03	0.50	1.50		0.79
Total Domestic Equity		<u>818.60</u>	<u>34.00</u>	<u>806.18</u>	<u>33.49</u>				<u>(12.42)</u>
<u>International Equity</u>									
Active Large Cap	Bank of Ireland	264.84	11.00	258.87	10.75	9.50	12.50		(5.97)
Active ACWI x US	Clay Finlay	144.46	6.00	140.51	5.84	5.00	7.00		(3.95)
Active Enhanced EAFE	Fidelity	168.53	7.00	168.09	6.98	6.00	8.00		(0.44)
Total International Equity		<u>577.83</u>	<u>24.00</u>	<u>567.47</u>	<u>23.56</u>				<u>(10.36)</u>
Total Equity		<u>1,396.43</u>	<u>58.00</u>	<u>1373.65</u>	<u>57.05</u>				<u>(22.78)</u>
FIXED INCOME									
<u>Global High Quality</u>									
	Mondrian Investment Partners	120.38	5.00	113.33	4.71	4.00	6.00		(7.05)
	Brandywine	120.38	5.00	113.99	4.73	4.00	6.00		(6.39)
<u>Domestic High Yield</u>									
	W.R. Huff	120.38	5.00	112.31	4.66	3.00	7.00		(8.07)
<u>Global Opportunistic</u>									
Global Opportunistic Funds	Huff Alternative Income		No Target	0.01	0.00				0.00
	Oaktree		No Target	9.48	0.39				0.00
	TCW Spl Credits		No Target	0.23	0.01				0.00
	Ashmore		No Target	50.08	2.08				0.00
	Highland Crusader Fund	72.23	3.00	73.94	3.07	0.00	4.00		1.71
Total Global Opportunistic Funds		<u>72.23</u>	<u>3.00</u>	<u>133.74</u>	<u>5.55</u>	<u>0.00</u>	<u>4.00</u>		<u>61.51</u>
GOFI Separate Account	Loomis-Sayles	216.69	9.00	174.24	7.24	8.00	10.00		(42.45)
Total Global Opportunistic		<u>288.92</u>	<u>12.00</u>	<u>307.98</u>	<u>12.79</u>				<u>20.77</u>
Total Fixed Income		<u>650.06</u>	<u>27.00</u>	<u>647.63</u>	<u>26.90</u>				<u>(2.43)</u>
REAL ESTATE		<u>361.15</u>	<u>15.00</u>	<u>376.19</u>	<u>15.62</u>	<u>13.00</u>	<u>17.00</u>		<u>15.04</u>
SHORT TERM INVESTMENTS		<u>0.00</u>	<u>0.00</u>	<u>10.17</u>	<u>0.42</u>	<u>0.00</u>	<u>0.00</u>		<u>10.17</u>
Total Assets		<u><u>2,407.64</u></u>	<u><u>100.00</u></u>	<u><u>2,407.64</u></u>	<u><u>100.00</u></u>				<u><u>0.00</u></u>

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**May 2005 ASSET ALLOCATION MONITORING REPORT
Real Estate Portfolio**

	Equity Market Value	Loan Program	Percentage of Real Estate Assets	Target Percentage	Committed Capital	Variance from Target Vs Committed
Real Estate Manager						
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	1.51%	0.00%	0	6,013,373
Separate Account Managers						
Agricultural - Hancock	35,283,865	0	8.84%	10.00%	36,108,947	(825,082)
Forest Investment Associates	27,982,923	0	7.01%	12.50%	45,136,184	(17,153,261)
INVESCO Realty	21,794,814	7,400,000	5.46%	12.50%	45,136,184	(30,741,370)
Kennedy Associates	48,653,777	7,260,000	12.19%	10.00%	36,108,947	5,284,830
L & B Real Estate Counsel	36,307,498	8,324,000	9.10%	12.50%	45,136,184	(17,152,686)
GMAC Institutional Advisors	28,132,112	0	7.05%	0.00%	28,132,112	0
RREEF	46,943,660	0	11.76%	15.00%	54,163,421	(7,219,761)
CDK Realty Advisors	84,192,872	0	21.09%	12.50%	45,136,184	39,056,688
Subtotal	329,291,521	22,984,000	82.49%	85.00%	289,921,979	(28,750,642)
Opportunistic Partnerships						
Hearthstone (MSII, MSIII Homebuilding)	5,491,443	0	1.38%		10,000,000	(4,508,557)
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)	11,336,817	0	2.84%		15,000,000	(3,663,183)
Hudson Advisors (Brazos, Lone Star I, II, III,IV,V)	29,911,523	0	7.49%		36,285,770	(6,374,247)
Olympus Real Estate Fund II & III	11,778,805	0	2.95%		30,000,000	(18,221,195)
Subtotal	63,865,032	0	16.00%	15.00%	111,285,770	(47,420,738)
Total Real Estate	399,169,926	22,984,000	100.00%	100.00%	401,207,749	(70,158,007)

Total Real Estate with Loan Program (net)

376,185,926

Total Fund Market Value

2,407,263,143

\$

%

Target Value (\$ and %)

361,089,471

15.00%

Total Committed Capital

407,221,122

Market Value (\$ and %)

376,185,926

15.63%

Managers in Redemption

6,013,373

Variance from Target

15,096,455

0.63%

Actual Committed Capital

401,207,749

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12. Monthly asset allocation report (continued)

Wilshire Associates Inc. stated that Oak Associates is not within its respective allocation range: (actual 4.92% versus range of 5.00% to 7.00%). Wilshire recommended allocating the \$6.5 million in excess cash to Oak Associates in order to get the allocation back in the range.

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

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13. Pension System's monthly financial statement

The Board and staff discussed the monthly financial statement for the period ending March 31, 2005.

After discussion, Mr. Edge made a motion to receive and file the monthly financial statement for the period ending March 31, 2005. Mr. Mays seconded the motion, which was unanimously approved by the Board.

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

- a. Conference: Merit Energy 2005 Partners Meeting**
Dates: April 18-20, 2005

Mr. Jackson reported on the Merit Energy meeting.

- b. Conference: Due Diligence: CDK Real Estate Advisors/Camel Square**
Dates: April 23-24, 2005

Mr. Shaw briefed the Board on the Camel Square due diligence meeting.

- c. Conference: CDK Realty Advisors: Partner Conference**
Dates: April 28 - May 1, 2005

Messrs. Shaw, McCollum, Wachsman, and Tettamant discussed the conference with the Board.

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

**d. Conference: Due Diligence: Enhanced Index Search
INTECH and T. Rowe Price**

Dates: May 3-4, 2005

Messrs. Shaw, Umlor, Wachsmann, Blake, and Tettamant discussed the due diligence reviews of INTECH and T. Rowe Price.

e. Conference: Due Diligence: W. R. Huff

Dates: May 5, 2005

Messrs. Shaw, Umlor, Wachsmann, Blake, and Tettamant discussed the due diligence meeting with W. R. Huff.

f. Conference: NCPERS: Annual Conference & Exhibition

Dates: May 8-12, 2005

Messrs. Edge, Mays, McCollum, Shaw, Tomasovic, Umlor, Tettamant, Rohan, and Davenport discussed the annual conference that they attended.

After discussion, Mr. Edge made a motion to receive and file the reports on the conferences and meetings attended. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

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Mr. Brown, Chairman, left the meeting at 2:15 p.m. Mr. Shaw, Vice-Chairman, presided for the remainder of the meeting.

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The meeting was recessed at 2:15 p.m.

The meeting was reconvened at 2:30 p.m.

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15. Pharos Capital Group, LLC

- a. Report on due diligence meeting
- b. Approval of investment

Mr. Tettamant stated that at the March 10, 2005 meeting, the Investment Advisory Committee recommended that the Board approve a \$10 million investment through Pharos Capital Group's fund that is known as Pharos Capital Partners II-A, L.P., subject to a successful due diligence and contract negotiations, and the final approval of the Administrator and the outside legal counsel. The Board and staff discussed the due diligence review that was conducted on April 25, 2005 by Steve Shaw, George Tomasovic, Steve Umlor, and staff.

After discussion, Mr. Wachsman made a motion to approve the Investment Advisory Committee's recommendation that the Board invest \$10 million through Pharos Capital Group, LLC, to be funded from the S&P 500 index fund, subject to successful contract negotiations, and the final approval of the Administrator and the outside legal counsel. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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The Board went into a closed executive session – real estate at 2:32 p.m.

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16. CDK Realty Advisors

- a. Portfolio review
- b. Possible new investment in Dallas, Texas
- c. Possible new investment in Omaha, Nebraska
- d. Possible new investment in Boise, Idaho

Messrs. Cooley, Donahue, and Kroener, from CDK Realty Advisors, presented an update to the Board on the existing real estate portfolio managed by CDK. CDK Realty Advisors also discussed possible purchases of real estate investments in Dallas, Texas, Omaha, Nebraska, and Idaho for the System's real estate investment portfolio.

After discussion, Mr. McCollum made a motion to proceed with the new investment in Dallas, Texas, subject to successful due diligence and contract negotiations, and 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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16. CDK Realty Advisors (continued)

After discussion, Mr. Tomasovic made a motion to proceed with the new investment in Omaha, Nebraska, subject to successful due diligence and contract negotiations, and the final approval of the Administrator and legal counsel. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. McCollum made a motion to proceed with the new investment in Idaho, subject to successful due diligence and contract negotiations, and 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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17. Employee of the Quarter award

The item was postponed until the June 9, 2005 regular Board meeting.

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18. Possible new investment through L & B Realty Advisors, Inc.

Mr. Smith, Ms. Mullis, and Ms. Mussell, of L & B Realty Advisors, Inc. discussed a possible purchase of a real estate investment in Dallas, Texas for the System's real estate investment portfolio.

After discussion, Mr. Wachsmann made a motion to authorize L & B Realty Advisors, Inc. to proceed with the proposed investment in Dallas, Texas. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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The meeting was reopened at 4:51 p.m.

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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 discuss concerns with the Board.

**Regular Board Meeting
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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. General administration update
- f. Continuing education/investment research

Mr. Tettamant and Mr. Blake 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, and other current developments relating to the Pension System.

Mr. Tomasovic made a motion to receive and file the Administrator's report. Mr. McCollum 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 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 5:16 p.m.

Gerald Brown
Chairman

ATTEST:

Richard L. Tettamant
Secretary