

MINUTE SUMMARY
Board Meeting
Thursday, September 8, 2005

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees was held at **8:30 a.m. on Thursday, September 8, 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.** Heard the special request of Jean Landess, Pensioner, regarding a request for a plan amendment.
- Item 2.** Received and filed the proposed plan amendment documents, approved addition of Board Authority to Qualify the Plan provision in the plan amendment election agenda, and approved the plan amendment election schedule.
- Item 3.** Approved the DROP interest rate of 9.5%, effective October 1, 2005.
- Item 4.** Received a report by the outside legal counsel on current legal issues. No motion was made.
- Item 5.** Approved the retirements of former Chief Robert Jackson and former Chief Willie Taylor, effective August 15, 2001.
- Item 6.** Approved the changes in the Qualified Domestic Relations Order (QDRO) forms, effective September 1, 2005, as required by Texas House Bill 410.
- Item 7.** Approved the T. Rowe Price guideline changes, subject to a review by the investment consultant, Administrator, and legal counsel.
- Item 8.** Approved the contract extension with Wilshire Associates, the System's general investment consultant, on a month-to-month basis until the search is completed.
- Item 9a.** Received and filed the Administrative and Professional Services Budgets review for the first six months of Calendar Year 2005.

- Item 9b.** Approved the proposed Calendar Year 2006 Administrative and Professional Services Budgets and authorized the first reading at the October 13, 2005 regular meeting of the Board.
- Item 10.** The Board presented an award to Mrs. Gayle Baldree, widow of William G. Baldree, the System's former Auditor, in recognition of his years of service to the Dallas Police & Fire Pension System from 1990 to 2005.
- Item 11.** Approved the 2004 audit report, which stated that the statements prepared by the System present fairly the status of the System as of December 31, 2003 and 2004.
- Item 12.** Approved the 2004 annual report and condensed annual report, subject to the final review and approval of the Administrator and legal counsel.
- Item 13.** Received and filed the monthly financial statement for the period ending April 30, 2005.
- Item 14.** Received and filed the September 2005 monthly asset allocation report and approved Wilshire Associates' recommendations for rebalancing the portfolio.
- Item 15.** Received and filed the staff and Board members' reports on due diligence meetings, seminars and/or conferences attended.
- Item 16.** Discussed the proposed agenda and plans for the annual workshop in October and gave direction to the staff.
- Item 17.** Received and filed the update on investments through CDK Realty Advisors and approved a new investment proposal through CDK.
- Item 18.** Approved the Amended Limited Partnership Agreement with Pharos Capital Partners II-A, subject to the final approval of the Administrator and legal counsel.

C. BRIEFING ITEMS

- Item 1.** No 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 3:40 p.m.

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Dallas Police and Fire Pension System
Thursday, September 8, 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, Jack Liewehr, Pat McGennis, Jay Jackson, John Holt, Jerry Chandler, and Linda Rickley

Others

Gary Lawson, Gus Fields, Jean Landess, Archie Kelly, Stephen Prullage, Gayle Baldree, Ken Cooley, Jon Donahue, and Brent Kroener

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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

Special meeting of August 10, 2005
Regular meeting of August 11, 2005
Special meeting of August 24, 2005

2. Approval of Refunds of Contributions for the Month of August 2005

Refund of Combined Pension Plan, Section 6.02 Group B Contributions
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<u>EMPLOYEE NAME</u>	<u>DEPT.</u>	<u>REFUND DATE</u>
Brian S. Brown	P	August 5, 2005
Lowell G. Bryant	P	August 5, 2005
Margarita Toscano	P	July 29, 2005

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3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for September 2005

New DROP Participants

James R. Aulbaugh	Fire
John W. Bailey	Fire
David K. Gilliland	Fire
John R. Hanes	Fire
Charles S. Hardy	Fire
Eldon R. O'Dell	Fire
Roddy L. Packer	Fire
Johnny L. Rudder	Fire
Robert W. Steely	Fire
Steven B. Wise	Fire
Julian A. Bernal	Police
Jerry C. Cockrell	Police
Richard A. Dwyer	Police
Joseph Greco	Police
Richard J. Manuel	Police
Charles M. Miller	Police
C.B. Norfleet	Police
Thomas L. Pearl	Police
James B. Rucker	Police
William J. Skinner	Police
William S. Stuckert	Police
Jack E. Teufel	Police
Marlon Waters	Police
Donn T. Wheeler	Police

Retiree DROP Status Changes

John C. Allen	Fire	2
Jackie P. Doyal	Police	1
Gordon F. Dreyfus	Police	1
Forrest L. Fenwick	Police	2
Douglas L. Holmes	Police	1
Victoria M. Ligenza	Police	2
Patsy R. Prestenberg	Police	2
Marlin R. Price	Police	2
Amy B. Trippel	Police	4

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

Transfer Funds from DROP to 401(k)

Robert C. Ludwig	Police
Autrey F. Mays	Police

4. Approval of Estate Settlements

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William R. Standley (*M*) Fire July 2, 2005 Veaneta B. Standley B - Sec. 6.02

5. Approval of Survivor Benefits - Deceased Retirees

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Howard O. Benson	Police	July 5, 2005	Marian S. Benson	Yes	B - Sec. 6.08
Stavis Ellis	Police	August 10, 2005	Juanita R. Ellis	Yes	B - Sec. 6.08

6. Approval of Survivor Benefits - Deceased Member

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Stanley D. Strawn	Fire	August 8, 2005	Selena D. Strawn, spouse & guardian, FBO Samantha D. Strawn & Sydney D. Strawn	No	B - Sec. 6.08
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7. Approval of Service Retirements

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Jerry R. Boren	Fire	September 4, 2005	B - Sec. 6.02(b)	Yes/IV/V	No
Jeff E. Cammon	Police	March 25, 2005	B - Sec. 6.02(b)	No/VII	No
Jackie P. Doyal	Police	August 17, 2005	B - Sec. 6.02(b)	Yes/VIII	Yes
Gordon F. Dreyfus	Police	August 24, 2005	B - Sec. 6.02(b)	Yes/VIII	No
Douglas L. Holmes	Police	August 24, 2005	B - Sec. 6.02(b)	Yes/VIII	No
Amy B. Trippel	Police	September 7, 2005	B - Sec. 6.02(d)	No/VIII	No

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7. 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

8. Approval of Alternate Payee Benefits

Claudia B. Pettus	Rex B. Pettus	Fire	B – Sec. 6.02(b)
Barbara J. Rhoads	Charles R. Rhoads	Police	A – Sec. 6.01(e)

After discussion, Mr. Wachsman made a motion to approve the items on the Consent Agenda, subject to the final review and approval of the Administrator. Mr. Edge 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. Special request of Jean Landess, Pensioner

Mr. Tettamant, Administrator, stated that Mr. Jean Landess had requested to address the Board regarding a possible plan amendment. Messrs. Landess and Kelly, pensioners of the Dallas Police & Fire Pension System, spoke to the Board and requested an increase in benefits for Qualified Surviving Spouses to a minimum of \$2,200 per month.

The Board and the System’s actuary, Mr. Prullage, of Buck Consultants, listened to the plan amendment request and discussed its actuarial impact on the System with Messrs. Landess and Kelly.

After discussion, Mr. Wachsman made a motion to receive and file the special request. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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2. Plan amendment election

- a. Discussion of proposed amendments
- b. Set election schedule

Messrs. Tettamant, Rohan, and Davenport discussed progress on the proposed plan amendment election. Staff is continuing to research the proposed changes and to develop plan document language.

See pages _____ of Minute Book Number 35 for a list of the proposed changes still being considered.

After discussion, Mr. Wachsman made a motion to remove from consideration the proposed plan amendment #2 that would provide 100% joint and survivor benefits for active member deaths with a minimum of 5 years of service, due to the adverse impact on Pension System funding. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

After discussion Mr. McCollum made a motion to add another provision (Section 8.01(i)) that would permit Board modification of an approved amendment in order to meet Internal Revenue Service qualification requirements. Mr. Edge seconded the motion, which was approved by the following vote:

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

After discussion, Mr. Tomasovic made a motion to modify proposed plan amendment #1 to (1) approve the 401(h) plan for a 5-year period only, (2) conduct a review at the end of the 5-year period to determine whether or not the 401(h) plan should be continued, and (3) use the same definition of qualified dependents that applies to Pension System survivor benefits. Mr. Umlor seconded the motion, which was approved by the following vote:

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

After discussion, Mr. Shaw made a motion to retain the proposed plan amendment #12, which would eliminate the automatic 4% annual adjustment to Member base pension and survivor benefits for persons who first become Members after December 31, 2006, or who return to Active Service after that date and retire with no pre-2007 Pension Service. Mr. Umlor seconded the motion, which was approved by the following vote:

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

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Possible Plan Amendments

1	<p>401(h) Health Savings Plan [Section 4.01] Permit use of pension funds to pay administrative cost of new program allowing members to make voluntary, post-tax contributions to account maintained by the Pension System and co-invested with pension funds for payment of post retirement medical expenses.</p>	<p>Start-up costs to borne by System; as participation activity increases, costs would be shifted to participant accounts. Staff has spoken to two possible claims administrators. Continuing to research.</p>
2	<p>Survivor Benefits [Section 6.08] Provide 100% J&S benefit in event of death of active member with minimum 5 years of service credit; member could opt for 50% survivor benefit on leaving active service.</p>	<p>Would require new reduction factors with greater reduction than current factors. Staff working on plan document language similar to provisions in ERF. Continuing to research.</p>
3	<p>100% Joint & Survivor Pension [Section 6.06 (y)] Permit Pensioners to elect 100% Joint and Survivor Pension prospectively, with one year qualification period.</p>	<p>Drafting proposed change in plan document language.</p>
4	<p>Beneficiary Designation [Section 6.06] Permit Members and benefit recipients to designate a beneficiary to receive any single, final payment now going to that individual's estate after death.</p>	<p>Drafting proposed change in plan document language.</p>
7	<p>Death Benefit [Section 6.08] Provide option for Pensioner to elect to include as qualified survivors children under age 19 acquired after leaving active service.</p>	<p>Drafting proposed change in plan document language.</p>

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**Possible Plan Amendments
(continued)**

9	DROP Disbursements [Section 6.14(f) and (g)] Remove plan document restrictions that limit withdrawals to monthly distributions on three days notice and provide guidelines for withdrawals through Board policy.	Drafting proposed change in plan document language and Board DROP policy.
12	Annual Adjustment [Section 6.12] Remove automatic feature from annual adjustment for new members hired after effective date.	A trigger mechanism that, when met, required the Board to only <i>consider</i> an ad hoc annual adjustment would not cause the actuary to include an assumption for future increases in the valuation. The cost of any adjustment would only be recognized as the Board grants the adjustment. Drafting proposed change in plan document language.
13	Plan Amendment Election [Section 7.01] Permit Pensioners to vote on all proposed plan amendments	Drafting proposed change in plan document language.
14	Benefit Supplement [Section 6.13] Remove requirement of 20 years of service credit as a qualification for the benefit.	Actuary estimates the cost to remove 20-year requirement at \$11,000,000 and an increase in years to fund by one year.
15	Disability Benefits [Section 6.05] Apply provisions of SB 310 regarding rebuttable presumption of job-related cause of certain heart-lung disease to both fire fighters and police officers.	Cost estimate requested from actuary. Drafting proposed change in plan document language.

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2. Plan amendment election (continued)

After discussion, Mr. Edge made a motion to approve the proposed election schedule. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

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3. Deferred Retirement Option Plan (DROP) interest rate for the period beginning October 1, 2005

Mr. Tettamant stated that Section 6.14 (c) of the Plan Document provides that effective for years beginning on October 1, 2002 and each October 1 thereafter, interest will be credited to Member DROP accounts determined at a daily rate equal to the arithmetic average of the annual market return on the System's investments for the preceding ten calendar years, as determined by the System's Qualified Actuary.

As reported in the Actuarial Valuation Report as of January 1, 2005, the arithmetic average of the annual market return for the ten-year period ending December 31, 2004 was 11.70%. Based on this information, the Actuary determined that the DROP interest rate beginning on October 1, 2005, is 9.50%.

After discussion, Mr. McCollum made a motion to approve the DROP interest rate of 9.5% (annual percentage yield), effective October 1, 2005. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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4. 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 11:13 a.m.

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

The meeting was reopened at 11:20 a.m.

No motion was made.

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5. Claims of Former Chiefs Jackson and Taylor

Mr. Tettamant reviewed that the Board had approved the retirement of Chief Robert Jackson on January 13, 2000, effective October 31, 1999, and the retirement of Chief Willie Taylor on April 17, 2001, effective March 28, 2001. As a result of a settlement of litigation, the retirements of Chief Jackson and Chief Taylor were rescinded and termination of employment with the City was established as August 14, 2001.

Chief Jackson and Chief Taylor reapplied for retirement retroactive to August 15, 2001.

After discussion, Mr. Edge made a motion to approve the retirements of former Chief Robert Jackson and former Chief Willie Taylor, effective August 15, 2001. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

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The meeting was recessed at 11:22 a.m.

The meeting was reconvened at 12:05 p.m.

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6. New Qualified Domestic Relations Order (QDRO) forms

Staff provided the following information regarding the need for new Qualified Domestic Relations Order (QDRO) forms:

Background: Although divorce courts can divide assets unequally, their starting point is with each party getting half of the community property. H.B. 410 as passed by the Texas Legislature became effective September 1, 2005. It changed the portions of accrued pensions that are considered community property between a Member and the Alternate Payee, or former spouse, if they married after employment began. Members who were already married when they came to work are unaffected by the new law.

Under the old law, the Pension System did only one calculation for a divorce. The benefit was figured as if the member had terminated on the date of divorce. A determination was then made of what percentage of the Service was accrued during the marriage and each spouse had a community interest in 50% of that amount. If, for example, the Member had been married 5 of the 15 years of employment, then 5/15, or 1/3, of the benefit was community property. The Alternate Payee's community interest was half of that, or 1/6 of the total benefit.

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6. New Qualified Domestic Relations Order (QDRO) forms (continued)

Effect of H.B. 410: Under the new law, the Pension System does two calculations - one as of the date of marriage, the other as of the date of divorce. The difference between the two calculations is community property, with the Alternate Payee's community interest now being one-half of that number. Because of benefit improvements and increasing salaries, the new law increases the amount the Alternate Payee will receive.

Proposal and explanation: Two proposed QDRO forms with the changes required by H.B. 410 were distributed, along with two charts showing the effect of the new law. The first chart used the salary history of a typical officer with ten years of service and showed the difference in benefits an Alternate Payee would receive based upon one through ten years of marriage. The second chart defined the rights of a divorcing spouse of a typical Battalion Chief/Police Captain with 20 years of service. It showed the benefits that would be paid if the member were getting a divorce from a spouse married at the beginning of each of those years.

After discussion, Mr. Edge made a motion to approve the new approach for inclusion in all Qualified Domestic Relations Order (QDRO) forms, subject to the final approval of the Administrator and legal counsel. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

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7. T. Rowe Price guideline changes

Staff stated that T. Rowe Price has been approved as a domestic enhanced index manager that is benchmarked against the S&P 500 Index. T. Rowe Price was funded with approximately \$135,222,000 in stock and cash from the SSgA's Flagship S&P 500 index fund on August 26, 2005. T. Rowe Price uses a large team of in-house analysts to select individual stocks that comprise the enhanced index portfolio. The number of equity holdings will typically range from 200 to 300 securities.

T. Rowe Price made a presentation to the Board as a finalist in the enhanced index manager search on March 17, 2005. At the March 17, 2005 presentation, the T. Rowe Price materials did not include certain investments, other than common stocks, as investments that were requested to manage the enhanced index program. T. Rowe Price during contract negotiations requested that convertible stock, Exchange Traded Funds (ETFs), and that certain foreign issuers listed on a U.S. exchange or traded on a major U.S. securities market including ADRs (American Depository Receipts) be included as authorized investments for the System's enhanced index portfolio.

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7. T. Rowe Price guideline changes (continued)

After discussion, Mr. Edge made a motion to take the funds previously designated for T. Rowe Price back and invest it in the S&P 500 index fund. The motion died for lack of a second.

After discussion, Mr. Wachsman made a motion to approve Wilshire Associates' recommendation to allow T. Rowe Price to invest in Exchange Traded Funds (ETFs) and American Depository Receipts (ADRs), but not convertible stock. Mr. Tomasovic seconded the motion, which was approved by the following vote:

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

The Board directed the Administrator to express to T. Rowe Price the Board's strong dissatisfaction with T. Rowe Price's failure to discuss prior to their selection as an enhanced index manager the three additional types of investments that they are now requesting to include.

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8. General investment consultant's contract

- a. Extension of current consultant on a month-to-month basis
- b. Update on Request for Information (RFI) for general investment consultant

Mr. Tettamant stated that the five-year contract of Wilshire Associates, the System's general investment consultant, expires on September 30, 2005. The fifth year annual rate for investment consulting services is \$245,000 per year through the contract expiration date.

Staff gave an update to the Board on the investment consultant search. The RFI (Request for Information) for consulting services was sent out on August 26, 2005. The RFI was sent to the following investment consultants: Cliffwater, Fund Evaluation Group, Knupp & Associates, NEPC (New England Pension Consultants), PCA (Pension Consulting Alliance), RV Kuhns & Associates, and Wilshire Associates. Due to the System's long-term relationship with the existing investment consultant, Wilshire Associates was not required to complete the RFI.

After discussion, Mr. Edge made a motion to approve a contract extension on a month-to-month basis with Wilshire Associates until the general investment search is completed. Mr. Wachsman seconded the motion, which was unanimously approved by the Board.

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Thursday, September 8, 2005**

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The meeting was recessed at 12:33 p.m. to hold the Administrative Advisory Committee meeting.

The meeting was reconvened at 12:55 p.m.

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9. Budget issues

- a. Administrative and Professional Services Budgets review for the first six months of Calendar Year 2005
- b. Presentation and discussion of the 2006 Administrative and Professional Services Budgets

- a. The staff provided a review of the Calendar Year 2005 Administrative and Professional Services Budgets detailing expenditures for the first six months of the calendar year.

The adjusted 2005 administrative budget, as approved by the Board, was shown on page 2 of the review. Overall administrative expenses were well within budget. The budget summary on page 3 of the review showed System administrative expenditures through mid-year at 44.5 % of the CY 2005 budget. No line item exceeded the prorated budget amount by more than 5%.

The adjusted 2005 professional services budget, as approved by the Board, was provided on page 5 of the review. Overall expenses for professional services also were within budget, as summarized on page 6 of the review. At mid-year, expenditures were 50.1% of the adjusted CY 2005 budget. Itemized expenses that exceed the prorated budget amount by 5% or more for the first six months were detailed on page 7 of the review.

- b. The Administrative Advisory Committee reviewed the System's initial budget proposal for Calendar Year 2006 at its meeting on August 11, 2005. The revised Administrative and Professional Services budget proposal for Calendar Year 2006 incorporating changes directed by the Committee was provided.

The revised proposed administrative budget totaled \$3,039,963, an increase of 9.6% over the adjusted CY 2005, as approved by the Board. The administrative budget was presented on page 4 of the proposal. As directed by the Administrative Services Committee, the revised budget differed from the initial proposal in the following areas:

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9. Budget issues (continued)

- Salaries and Benefits
 - Added full time Investment Accountant position - \$73,261
 - Added half time Benefits Counselor position - \$31,121
- Continuing Education - restored \$18,000 that had been deleted
- Business Continuity - added \$13,200 to fund Phase II of the Business Continuity Plan

The proposed professional services budget was presented on page 8. The All Non-Investment Manager Fees portion of the professional services budget totaled \$2,103,100, an increase of 4.9% over the adjusted CY 2005 budget, as approved by the Board.

Differences from the initial budget proposal were as follows:

- Buck Consultants –Adjusted 2005 Budget amount to reflect Board approved expenditure for Asset Allocation Modeling Study completed earlier this year
- Locke, Liddell and Sapp – Added vendor proposed contract increase for 2006 services, not available at the time of the initial budget proposal
- Mir · Fox, Rodriguez – Adjusted 2005 Budget amount to reflect contract increase approved by the Administrator for 2005; increased 2006 proposed budget amount to reflect contract increase
- Added Information Technology Projects
 - Microfiche Imaging Project - \$40,000
 - Internet-based Member Services - \$83,000

Projecting asset growth at the actuarial return rate, Investment Manager fees for 2006 were estimated at \$12,500,000. The criteria for estimating fees was reduced from 60 basis points used in the initial proposal to 50 basis points.

The total proposed CY 2006 Administrative and Professional Services Budgets represented a 13.9% decrease from the adjusted 2005 budget.

After discussion, Mr. Shaw made a motion to approve the Administrative Advisory Committee's recommendation to (1) Receive and file the six-month budget review, and (2) Approve the Calendar Year 2006 Administrative and Professional Services Budgets and authorize the first reading at the October 13, 2005 regular meeting of the Board. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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10. Employee recognition

Mr. Brown, Chairman, and Mr. Tettamant, Administrator, presented an award to Mrs. Gayle Baldree, widow of William G. Baldree, the System's former Auditor, in recognition of his years of outstanding service to the Dallas Police & Fire Pension System from 1990 to 2005.

Messrs. Brown and Tettamant also presented a proclamation to Mrs. Baldree, which stated that the Employee of the Year Award has been designated as the William G. Baldree Employee of the Year Award, in memory of her husband.

The proclamation is included in Minute Book Number 35 on page _____.

No motion was made.

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11. 2004 audit report

Mr. Tettamant provided copies of the draft of the Independent Audit Report of the System's financial statements for the year ending December 31, 2004 completed by Mir-Fox & Rodriguez, the System's independent auditor. 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, 2003 and 2004, 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. Edge made a motion to approve the Administrative Advisory Committee's recommendation to receive and file the 2004 audit report by Mir-Fox & Rodriguez, the System's independent auditor. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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12. 2004 annual report and condensed annual report

The Administrator provided draft copies of the 2004 annual report and condensed annual report versions prepared for Active Members and Pensioners to highlight selected information from the full report.

After discussion, Mr. Wachsman made a motion to approve the Administrative Advisory Committee's recommendation to approve publication of the 2004 Annual Report and Condensed Active Member and Pensioner Annual Reports, subject to final review and approval of the Administrator and legal counsel. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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Proclamation

WHEREAS, William G. Baldree was first employed by the Dallas Police & Fire Pension System on June 27, 1990; and

WHEREAS, William G. Baldree served as the System's Auditor until his untimely death on April 2, 2005; and

WHEREAS, William G. Baldree worked diligently during his entire career to effectively control and accurately report the innumerable financial transactions of the Dallas Police & Fire Pension System; and

WHEREAS, William G. Baldree never lost sight of his ultimate duty to the firefighters and police officers of the City of Dallas and their survivors; and

WHEREAS, William G. Baldree continued to serve as a valuable resource to the System during his illness, continuing daily contact on crucial issues even during the most trying of times.

NOW THEREFORE, BE IT RESOLVED that this the 8th day of September 2005, the Board of Trustees of the Dallas Police & Fire Pension System recognizes the lengthy and valuable services of William G. Baldree by proclaiming its Employee of the Year Award, "The William G. Baldree Award", in memory of the dedicated service of William G. Baldree.

Gerald Brown

Gerald Brown
Chairman of and on behalf of the
Board of Trustees

Richard L. Tettamant

Richard L. Tettamant
Administrator

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13. Pension System's monthly financial statements

The Board and staff discussed the monthly financial statement for the period ending April 30, 2005.

After discussion, Mr. Wachsman made a motion to receive and file the monthly financial statement for the period ending April 30, 2005. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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14. 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 September 2005 are included in Minute Book Number 35 on pages _____.

Wilshire Associates Inc. stated that all of the asset classes are within their respective asset allocation ranges on a net basis. The \$7.5 million in additional cash needs should come from Loomis Sayles (\$5.5 million) and Mitchell Group (\$2.0 million). T. Rowe Price is below the minimum range but due to the ongoing asset allocation analysis, which will be presented at the October meeting, Wilshire recommends no action. No other rebalancing is recommended at this point.

After discussion, Mr. Wachsman made a motion to receive and file the September 2005 monthly asset allocation reports 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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15. Staff and Board Members' reports on due diligence meetings, seminars and/or conferences attended

- a. **Conference:** **TEXPERS 17th Annual Conference**
 Dates: August 21-22, 2005

Messrs. Brown, Edge, Wachsman, Tomasovic, McCollum, Shaw, Umlor, Mays, Tettamant, Rohan, Blake, and Davenport reported on the annual conference.

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

Asset Class		Target		Actual		Range		Difference vs.	
		\$	%	\$	%	Minimum	Maximum	Target	\$
EQUITY									
<u>Domestic Equity</u>									
S & P Enhanced Index	INTECH	231.17	9.00	226.12	8.80	8.00	10.00		(5.05)
S & P Enhanced Index	T Rowe Price	179.80	7.00	135.87	5.29	6.00	8.00		(43.93)
Large Cap Growth	Oak Associates	154.11	6.00	136.29	5.31	5.00	7.00		(17.82)
Small Cap	Eagle Asset Management	128.43	5.00	120.03	4.67	4.00	6.00		(8.40)
Large Cap Value	Alliance Capital	154.11	6.00	145.56	5.67	5.00	7.00		(8.55)
Other Equity	NTOF/Huff Alt./Merit/Pharos	0.00	0.00	75.20	2.93	0.00	5.00		75.20
Energy	Mitchell Group	25.69	1.00	32.97	1.28	0.50	1.50		7.28
Total Domestic Equity		<u>873.31</u>	<u>34.00</u>	<u>872.04</u>	<u>33.96</u>				<u>(1.27)</u>
<u>International Equity</u>									
Active Large Cap	Bank of Ireland	282.54	11.00	276.00	10.75	9.50	12.50		(6.54)
Active ACWI x US	Clay Finlay	154.11	6.00	151.22	5.89	5.00	7.00		(2.89)
Active Enhanced EAFE	Fidelity	179.80	7.00	178.31	6.94	6.00	8.00		(1.49)
Total International Equity		<u>616.45</u>	<u>24.00</u>	<u>605.53</u>	<u>23.56</u>				<u>(10.92)</u>
Total Equity		<u>1,489.76</u>	<u>58.00</u>	<u>1477.57</u>	<u>57.52</u>				<u>(12.19)</u>
FIXED INCOME									
<u>Global High Quality</u>									
	Mondrian Investment Partners	128.43	5.00	124.26	4.84	4.00	6.00		(4.17)
	Brandywine	128.43	5.00	123.43	4.81	4.00	6.00		(5.00)
<u>Domestic High Yield</u>									
	W.R. Huff	128.43	5.00	109.64	4.28	3.00	7.00		(18.79)
<u>Global Opportunistic</u>									
Global Opportunistic Funds	Huff Alternative Income		No Target	0.00	0.00				0.00
	Oaktree		No Target	10.47	0.41				0.00
	TCW Spl Credits		No Target	0.23	0.01				0.00
	Ashmore	51.37	2.00	53.52	2.08	1.00	3.00		2.15
	Highland Crusader Fund	77.06	3.00	73.80	2.87	0.00	4.00		(3.26)
Total Global Opportunistic Funds		<u>128.43</u>	<u>5.00</u>	<u>138.02</u>	<u>5.37</u>				<u>9.59</u>
GOFI Separate Account	Loomis-Sayles	179.80	7.00	186.12	7.25	6.00	8.00		6.32
Total Global Opportunistic		<u>308.23</u>	<u>12.00</u>	<u>324.14</u>	<u>12.62</u>				<u>14.80</u>
Total Fixed Income		<u>693.52</u>	<u>27.00</u>	<u>681.49</u>	<u>26.54</u>				<u>(12.03)</u>
REAL ESTATE		<u>385.28</u>	<u>15.00</u>	<u>390.60</u>	<u>15.21</u>	<u>13.00</u>	<u>17.00</u>		<u>5.32</u>
SHORT TERM INVESTMENTS									
Total Assets		<u>2,568.56</u>	<u>100.00</u>	<u>2,568.56</u>	<u>100.00</u>				<u>0.00</u>

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**DALLAS POLICE AND FIRE PENSION SYSTEM
SEPTEMBER 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)	15,492	0	0.00%	0.00%		15,492
Prudential (Strategic Value Investors. LLC)	7,127,603	0	1.59%	0.00%		7,127,603
Subtotal	7,143,095	0	1.59%	0.00%	0	7,143,095
Separate Account Managers						
Agricultural - Hancock	44,517,440	0	9.92%	10.00%	38,528,435	5,989,005
Forest Investment Associates	31,181,233	0	6.95%	12.50%	48,160,544	(16,979,311)
INVESCO Realty	21,738,530	7,400,000	4.84%	12.50%	48,160,544	(33,822,014)
Kennedy Associates	50,234,774	7,059,000	11.19%	10.00%	38,528,435	4,647,339
L & B Real Estate Counsel	48,753,039	20,528,000	10.86%	12.50%	48,160,544	(19,935,505)
GMAC Institutional Advisors	31,910,357	0	7.11%	0.00%	31,910,357	0
Land Baron	11,171,113	0	2.49%	0.00%	11,171,113	0
RREEF	37,897,437	0	8.44%	15.00%	57,792,653	(19,895,216)
CDK Realty Advisors	107,308,039	23,237,000	23.91%	12.50%	48,160,544	59,147,495
Subtotal	384,711,962	58,224,000	85.72%	85.00%	322,412,626	(20,848,208)
Opportunistic Partnerships						
Hearthstone (MSII, MSIII Homebuilding)	4,248,048	0	0.95%		10,000,000	(5,751,952)
Crow Holdings Realty Partners II	5,052,480	0	1.13%		20,000,000	(14,947,520)
Oaktree Capital Management (OCM R E Opportunities Fund B)	11,065,238	0	2.47%		15,000,000	(3,934,762)
Hudson Advisors (Brazos, Lone Star I, II, III,IV,V)	26,830,804	0	5.98%		38,262,841	(11,432,037)
Olympus Real Estate Fund II & III	9,767,658	0	2.18%		30,000,000	(20,232,342)
Subtotal	56,964,228	0	12.69%	15.00%	113,262,841	(56,298,613)
Total Real Estate	448,819,285	58,224,000	100.00%	100.00%	435,675,467	(70,003,726)
Total Real Estate with Loan Program (net)	390,595,285					
Total Fund Market Value	2,568,562,353					
	\$		%			
Target Value (\$ and %)	385,284,353		15.00%		Total Committed Capital	442,818,562
Market Value (\$ and %)	390,595,285		15.21%		Managers in Redemption	7,143,095
Variance from Target	5,310,932		0.21%		Actual Committed Capital	435,675,467

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

- b. Conference: TAPPA**
Dates: August 23, 2005

Mr. Davenport reported on the Texas Association of Professional Pension Attorneys meeting.

- c. Conference: State Pension Review Board meeting**
Dates: September 7, 2005

Mr. Shaw and Tettamant discussed the State Pension Review Board meeting.

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

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16. Annual Board/Staff Workshop to be held on October 24-27, 2005

Mr. Tettamant discussed the annual workshop plans with the Board.

After discussion, Mr. Shaw 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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17. CDK Realty Advisors

- a. Update on properties**
- b. Possible purchase**

In accordance with the terms of Texas Government Code, Section 551.072, the Board went into a closed executive session – real estate at 2:18 p. m.

CDK Realty Advisors gave an update on the System's investment properties. CDK also presented another Dallas investment opportunity to the Board.

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17. CDK Realty Advisors (continued)

The meeting was reopened at 3:18 p.m.

No motion was made in open session.

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18. Pharos Capital Partners II-A Amended Limited Partnership Agreement

Mr. Tettamant said that the Board approved a \$10,000,000 investment in the Pharos Capital Partners II-A Limited Partnership on May 19, 2005. The System subsequently funded a \$1,000,000 capital call to Pharos Capital Partners II-A L.P. and as of August 31, 2005 has a \$9,000,000 capital commitment remaining to the fund.

The general partner of Pharos Capital Partners II-A L.P. has requested changes to the original Limited Partnership agreement to be known as the Pharos Capital Partners II-A, L.P. Amended and Restated Limited Partnership Agreement. The Board and staff discussed the requested changes.

After discussion, Mr. Edge made a motion to approve the Amended Limited Partnership Agreement, subject to the final approval of the Administrator and legal counsel. Mr. McCollum 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 discuss concerns with 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. 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.

No motion was made.

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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. Shaw and a second by Mr. Tomasovic, the meeting was adjourned at 3:40 p.m.



Gerald Brown
Chairman

ATTEST:



Richard L. Tettamant
Secretary