

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 23, 2006 - Thursday, October 26, 2006
Garrett Creek Ranch
Paradise, Texas**

Quarterly meeting, Gerald Brown, Chairman, presiding:

ROLL CALL

Board Members

Present: Gerald Brown, Gary Edge, George Tomasovic, John Mays, Rector C. McCollum, Steve Shaw, Steven H. Umlor, and Richard Wachsman

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

Staff

Richard Tettamant, Don Rohan, Brian Blake, Everard Davenport, Thomas M. Taylor, Jay Jackson, Scott M. Siekielski, John Holt, Jerry Chandler, Linda Rickley, and Carol Turbeville

Others

Kevin Lynch, Dick Brown, Marc Walley, Matt Whitley, Jim McBride, Dr. Jon Caulfield, Michael Chernine, Randy Black, Mark Chernine, Ken Cooley, Jon Donahue, Brent Kroener, Dan Lowe, Jeff McMahan, Mike Ebert, Arthur Hollingsworth, Keith Camp, Jack Riggs, Rhett Humphreys, Ellen Griggs, Robert Bateman, Michael Woods, David Allen, Sharon Lewis, Lelia Long, Rick Bisignano, Juanita Keller, Larry Kohn, Robert Miller, Yuniedth Midence, Jim Sheer, Rich Mackesey, Stephen Prullage Gary Lawson, and Gus Fields

* * * * *

The meeting was called to order at 1:00 p.m. on Monday, October 23, 2006.

* * * * *

• **Welcome**

Mr. Tettamant, Administrator, and Mr. Brown, Chairman, welcomed the participants to the 2006 Annual Board and Staff Workshop.

* * * * *

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 23, 2006 - Thursday, October 26, 2006**

The meeting was recessed at 3:00 p.m. on Monday, October 23, 2006.

* * * * *

The meeting was reconvened at 8:00 a.m. on Tuesday, October 24, 2006.

* * * * *

REAL ESTATE INVESTMENTS



- Reports and recommendations by The Townsend Group
 - The Townsend Group company update
 - Second Quarter Real Estate Performance Report for the period ended June 30, 2006
 - Infrastructure investing

Mr. Kevin Lynch, of The Townsend Group, gave an organizational update on The Townsend Group.

After discussion, Mr. Edge made a motion to receive and file The Townsend Group company update. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

Mr. Richard Brown, of The Townsend Group, reviewed the System's real estate performance for the second quarter ended June 30, 2006. The real estate investment performance was as follows:

Portfolio					
	1.13%	24.53%	21.24%	15.44%	14.46%
	0.67%	21.43%	18.82%	13.49%	12.85%

After discussion, Mr. Edge made a motion to receive and file the Second Quarter Real Estate Performance Report for the period ended June 30, 2006. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 23, 2006 - Thursday, October 26, 2006**

REAL ESTATE INVESTMENTS (continued)

Messrs. Lynch and Brown gave an educational presentation on the topic of infrastructure investing.

After discussion, Mr. Edge made a motion to receive and file the Townsend presentation on infrastructure investing. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

* * * * *

- 2006-2007 Real Estate Tactical Plan

Messrs. Lynch and Brown reviewed the 2006 Real Estate Tactical Plan and discussed their recommendations for the 2007 strategic plan.

After discussion, Mr. Edge made a motion to receive and file the Real Estate Tactical Plan review and update. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

* * * * *

The meeting was recessed at 9:38 a.m.

The meeting was reconvened at 9:48 a.m.

* * * * *

- Panel discussion: Domestic and International Timber Investments
 - Forest Investment Associates
 - RMK Timberland Group

Marc Walley, Vice President, and Matt Whitley, Portfolio Manager, from Forest Investment Associates; and Dr. Jon Caulfield, Director of Research and Analysis, and Jim McBride, Vice President of Business Development from RMK Timberland Group; presented a panel discussion on Domestic and International Timber Investments with Board and staff participation. Forest Investment Associates and RMK Timberland Group manage timber investments for the System.

After discussion, Mr. Edge made a motion to receive and file the timber presentation. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 23, 2006 - Thursday, October 26, 2006**

* * * * *

REAL ESTATE INVESTMENTS (continued)

The meeting was recessed at 11:50 a.m.

The meeting was reconvened at 12:58 p.m.

* * * * *

- Real Estate Case Studies
 - Development of raw land in the western United States (LandBaron Investments)
 - Retail development of urban property (CDK Realty Advisors and RED Development, LLC)

Michael Chernine, Randy Black, and Mark Chernine from LandBaron Investments presented a real estate case study on the development of raw land in the western United States. The System has invested in land holdings in the western United States through LandBaron Investments.

After discussion, Mr. Wachsman made a motion to receive and file the presentation by LandBaron Investments. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

* * * * *

The meeting was recessed at 2:02 p.m.

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

* * * * *

Ken Cooley, Jon Donahue, and Brent Kroener from CDK Realty Advisors, and Dan Lowe, Jeff McMahon, and Mike Ebert, from RED Development, presented a real estate case study on the retail development of urban property. CDK Realty Advisors is one of the System's real estate investment managers. The System has invested in several RED Development retail projects through CDK Realty Advisors.

After discussion, Mr. Edge made a motion to receive and file the presentation by CDK Realty Advisors and RED Development. Mr. Mays seconded the motion, which was unanimously approved by the Board.

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 23, 2006 - Thursday, October 26, 2006**

* * * * *

REAL ESTATE INVESTMENTS (continued)

- Hearthstone MSII and MSIII

Mr. Tettamant explained that the System is invested in Hearthstone – MS II Homebuilding Investors, LLC (MS II) and Hearthstone Multi-State Residential Value Added Fund III, LLC (MS III). The System has a \$10,000,000 capital commitment to MSII and a \$10,000,000 capital commitment to MSIII. Both funds are held in the real estate portfolio.

Jim Z. Pugash, founder and former CEO of Hearthstone, passed away last month. After Mr. Pugash's death, Tom Bruin, Hearthstone's former President, was appointed by the Hearthstone Board of Directors as President and CEO of Hearthstone. The event of Mr. Pugash's death triggered certain provisions of the operative documents that if left unchanged would conflict with the current management and ownership structure of Hearthstone. The amendments set forth the management team, as restructured, and are intended to serve as notice of changes in the management under the terms of the operative documents.

After discussion, Mr. Shaw made a motion to approve the amendments for MSII and MSIII, subject to the final approval of the Administrator and legal counsel. Mr. Wachsman seconded the motion, which was unanimously approved by the Board.

* * * * *

The meeting was recessed at 10:55 a.m.

The meeting was reconvened at 11:07 a.m.

* * * * *

ADMINISTRATIVE ISSUES

- Staff presentations
 - Business continuity
 - Annual internal controls review
 - 2007 Board meeting calendar
 - Plans for 2007 Workshop
 - Possible relocation of Pension System offices
 - GASB

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 23, 2006 - Thursday, October 26, 2006**

ADMINISTRATIVE ISSUES (continued)

- Staff presentations (continued)
 - Business continuity

Staff gave an update to the Board on changes to the Business Continuity Plan and reviewed the System's new PensionGold Secure Business Continuity Planning Services. PG Secure is an enhancement to the System's Business Continuity Plan designed to assure continuity of our most important service – issuance of monthly pension checks and direct deposit. With this program, the System will maintain our pension data base at a secure site at Levi, Ray and Shoup (LRS), our pension administration software vendor. In the event of a business disruption, we will be able to turn over check issuance to LRS so that the most up-to-date information is used for pension payments with no delay in issuance. Staff also discussed a proposed enhancement to this service that will permit the System to update Member records when operations are disrupted.

After discussion, Mr. Wachsman made a motion to receive and file the update on the Business Continuity Plan. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

- Annual internal controls review

The Administrator, Assistant Administrator for Operations and Internal Control Manager reviewed overall internal control procedures and briefed the Board on the current status and changes made during the last year.

After discussion, Mr. Mays made a motion to receive and file the annual internal controls review. Mr. Edge seconded the motion, which was unanimously approved by the Board.

- 2007 Board meeting calendar

Staff discussed two proposals for the 2007 Board meeting calendar.

After discussion, Mr. Shaw made a motion to approve Option #2, which included two regularly scheduled meetings per month, with the first meeting to be held on the second Thursday of the month, and the second meeting on a date to be determined by the Administrator. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 23, 2006 - Thursday, October 26, 2006**

* * * * *

ADMINISTRATIVE ISSUES (continued)

- Staff presentations (continued)

- Plans for 2007 Workshop

Staff discussed options for the location and dates of the 2007 Workshop with the Board.

After discussion, Mr. Edge made a motion to hold the 2007 Workshop at Garrett Creek Ranch in Paradise, Texas on October 8 – 11, 1007. Mr. Wachsman seconded the motion, which was unanimously approved by the Board.

- Possible relocation of Pension System offices

No action was taken regarding this item.

- GASB

Mr. Taylor, Internal Control Manager, reviewed the General Accounting Standards Board (GASB), explaining who the organization is, its role and why it is important in the System's accounting operations. He also reviewed major GASB pronouncements and explained how they impact the System.

The meeting was recessed at 3:42 p.m. on Tuesday, October 24, 2006.

* * * * *

The meeting was reconvened at 8:00 a.m. on Wednesday, October 25, 2006.

* * * * *

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 23, 2006 - Thursday, October 26, 2006**

GENERAL INVESTMENTS

Reports and recommendations of the Pension System's investment managers and consultants, including, but not limited to the following:

- Reports and recommendations by NEPC
 - NEPC company update
 - Third Quarter Performance Report for the period ended September 30, 2006
 - Private equity
 - Exchange traded funds
 - Global equity

Ellen Griggs, Managing Partner, and Rhett Humphreys, Partner and Senior Consultant, from NEPC, the System's general investment consultant, discussed their reports and recommendations. The reports included a company update, third quarter performance for the period ended September 30, 2006, private equity, exchange traded funds (ETF), and a discussion on global equity.

After discussion, Mr. Wachsman made a motion to receive and file the NEPC company update, Third Quarter Performance Report for the period ending September 30, 2006, and reports on private equity, exchange traded funds, and global equity. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

* * * * *

- 2007 Tactical Investment Plan

Ms. Griggs and Mr. Humphreys presented a 2007 Tactical Investment Plan to the Board.

After discussion, Mr. Wachsman made a motion to approve the third quarter performance report for the period ended September 30, 2006, and to approve the 2007 Tactical Investment Plan. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

* * * * *

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 23, 2006 - Thursday, October 26, 2006**

* * * * *

GENERAL INVESTMENTS (continued)

- Investment trends

Investment trends covered the following four educational topics: 1) exchange traded funds (ETF); 2) global equity; 3) large cap equity and global product; and 4) infrastructure investments.

- Exchange traded funds - XTF Advisors

Michael J. Woods, CEO, and Robert Bateman, Senior Vice President, from XTF Advisors, LLC, discussed exchange traded funds (ETF).

After discussion, Mr. Shaw made a motion to receive and file the presentation by XTF Advisors, LLC regarding exchange traded funds.

- Global equity - AllianceBernstein

Sharon Lewis, Senior Portfolio Manager – Global Value Equities, and David Allen, Vice President, from AllianceBernstein, one of the System’s domestic equity investment managers, discussed global equity.

After discussion, Mr. Shaw made a motion to receive and file the presentation by AllianceBernstein regarding global equity. Mr. Edge seconded the motion, which was unanimously approved by the Board.

* * * * *

The meeting was recessed at 12:13 p.m.

The meeting was reconvened at 1:00 p.m.

* * * * *

- Large cap equity and global product - Bank of Ireland

Lelia Long, Senior Vice President and Head of Client Services North America, and Rick Bisignano, from Bank of Ireland Asset Management, one of the System’s international equity investment managers, discussed global large cap equity and Bank of Ireland’s global equity investment product.

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 23, 2006 - Thursday, October 26, 2006**

GENERAL INVESTMENTS (continued)

- Investment trends (continued)
 - Global large cap equity and global product - Bank of Ireland (continued)

After discussion, Mr. McCollum made a motion to receive and file the presentation by Bank of Ireland regarding large cap equity and their global product. Mr. Edge seconded the motion, which was unanimously approved by the Board.

- Infrastructure investments - JPMorgan

Larry A. Kohn, Managing Director, and Juanita Keller, Vice President, from JPMorgan Asset Management, discussed infrastructure investments. A related company, JPMorgan, is the System's custodian.

After discussion, Mr. Edge made a motion to receive and file the presentation by JPMorgan Asset Management regarding infrastructure investments. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

* * * * *

ADMINISTRATIVE ISSUES (continued)

- Board operations and procedures
 - Continuing Education and Investment Research Policy

The Board and staff discussed the current Continuing Education and Investment Research Policy and possible amendment to the policy.

The consensus of the Board was not to change the Continuing Education and Investment Research Policy.

* * * * *

- Executive Session – Personnel

The Board went into an executive session – personnel at 3:20 p.m.

The meeting was reopened at 3:51 p.m.

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 23, 2006 - Thursday, October 26, 2006**

ADMINISTRATIVE ISSUES, (continued)

- Executive Session – Personnel (continued)

No motion was made in open session.

* * * * *

- Code of Ethics – Godwin Pappas

Gary Lawson and Gus Fields, of Godwin Pappas, the System’s outside legal counsel, conducted a review of the Board of Trustees and Employees Statement of Ethics and addressed its applicability to current pension-related events.

After discussion, Mr. Wachsman made a motion to receive and file presentation by Messrs. Lawson and Fields regarding the Board of Trustees and Employees Statement of Ethics. Mr. Edge seconded the motion, which was unanimously approved by the Board.

* * * * *

The meeting was recessed at 4:12 p.m. on Wednesday, October 25, 2006.

* * * * *

The meeting was reconvened at 8:00 a.m. on Thursday, October 26, 2006.

* * * * *

ADMINISTRATIVE ISSUES, (continued)

- Legislative issues - Panel discussion on issues relating to the 2007 Legislative Session
 - Locke Liddell & Sapp, LLP
 - Texas Legislators
 - Buck Consultants

Robert Miller and Yuniedth Midence, of Locke Liddell & Sapp, LLP, Jim Sheer, Committee Clerk of the Texas House Committee on Pensions and Investments, and Rich Mackesey, of Buck Consultants, participated in a panel discussion regarding the Texas legislature and the legislative processes and ideas under consideration for the upcoming legislative session. The likelihood of passage of proposals that may affect public pensions was given particular attention.

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 23, 2006 - Thursday, October 26, 2006**

ADMINISTRATIVE ISSUES, (continued)

- Legislative issues - Panel discussion on issues relating to the 2007 Legislative Session (continued)

After discussion, Mr. Wachsman made a motion to receive and file the reports of the legislative panel. Mr. Edge seconded the motion, which was unanimously approved by the Board.

* * * * *

- Actuarial issues – Buck Consultants
 - Actuarial assumptions
 - Projection of year-end funding
 - Corporate executive pay

Rich Mackesey and Steve Prullage of Buck Consultants, the System’s actuary, discussed the following issues:

- Actuarial assumptions

Mr. Mackesey reviewed the System’s actuarial assumptions to be used for the January 1, 2007, actuarial valuation. Staff provided schedule D of the January 1, 2006 Actuarial Valuation comparing the actual experience versus the actuarial expectation for each assumption.

- Mr. Mackesey reviewed the results of the System’s funding status for 2006 projected through the end of the calendar year.
- Mr. Mackesey addressed the issue of amounts paid to corporate executives which have come under recent scrutiny with some analysts asserting that pay and large retirements awarded to many top executives have had a negative impact on corporate performance and investment return. He provided comments on whether compensation has had an impact on corporate profits and resulting investment return.

After discussion, Mr. Wachsman made a motion to approve the change in actuarial assumption recommended by Buck Consultants to change the salary assumption to a “service-related” table. Mr. Edge seconded the motion, which was unanimously approved by the Board.

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 23, 2006 - Thursday, October 26, 2006**

* * * * *

ADMINISTRATIVE ISSUES, (continued)

After discussion Mr. McCollum made a motion to receive and file the reports by Buck Consultants. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

- Legal issues – Godwin Pappas
 - Personal liability of Trustees

Messrs. Lawson and Fields, of Godwin Pappas, discussed the topic of personal liability of public pension trustees for their actions and decisions, and reported on current legal issues.

After discussion, Mr. Umlor made a motion to receive and file the reports by Messrs. Lawson and Fields on legal issues. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

* * * * *

- Staff presentations
 - DROP ATM
 - Web services demonstration

No report was given.

No motion was made.

* * * * *

- Administrator's Report

No report was given.

No motion was made.

* * * * *

- Closing comments

No discussion was held.

**Dallas Police and Fire Pension System
Board and Staff Workshop
Monday, October 23, 2006 - Thursday, October 26, 2006**

* * * * *

Mr. Tettamant stated that there was no further business to come before the Board. On a motion by Mr. Shaw and a second by Mr. Umlor, the meeting was adjourned at 11:40 a.m.

Gerald Brown
Chairman

ATTEST:

Richard L. Tettamant
Secretary