

Dallas Police and Fire Pension System
Thursday, May 11, 2006
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, Rector C. McCollum, Steven G. Shaw, George Tomasovic, Steven H. Umlor, and Richard H. Wachsman

Absent: Deputy Mayor Pro Tem Donald Hill, John M. Mays, and Councilmember Maxine Thornton-Reese

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

Others Michael Chernine, Mark Chernine, Scott McMannus, and Frank DeLuca (all four via telephone), and Gary Lawson, Gus Fields, Deborah Gray, Scott Hill, Kenneth Cooley, Jon Donahue, Brent Kroener, Marshall Edwards, Rich Mackesey, Steve Prullage, Deltra Hayes, and Les Rosenblatt

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The meeting was called to order at 8:32 a.m.

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A. CONSENT AGENDA

1. Approval of Minutes

- a. Special meeting of April 6, 2006 (11:30 a.m.)
- b. Special meeting of April 6, 2006 (1:00 p.m.)
- c. Special meeting of April 10, 2006
- d. Regular meeting of April 13, 2006
- e. Special meeting of April 19, 2006

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2. Approval of Refunds of Contributions for the Month of April 2006

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<u>EMPLOYEE NAME</u>	<u>DEPT.</u>	<u>REFUND DATE</u>
None		

3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for May 2006

New DROP Participants

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David W. Ashley	Fire
Michael O. Bell	Fire
Maxie Bishop, Jr.	Fire
Kenneth S. Buckley	Fire
Roger F. Hester, II	Fire
Charles E. James	Fire
Gregory P. Noel	Fire
Jack K. Rhine	Fire
Helen M. Russell	Fire
R. T. Wooten, Jr.	Fire
Debra L. Easton	Police
William L. Pepsis	Police
Susan M. South	Police

Retiree DROP Status Changes

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3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for May 2006 (continued)

**Retiree DROP Status Changes
(continued)**

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

Transfer Funds from DROP to 401(k)

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None

4. Approval of Vested Rights Letters

- a. Karen E. Snyder, Police Officer
- b. Alberto D. Chavez, Police Officer

5. Approval of Earnings Test

- a. Richard R. Casillas, Police Officer
- b. Gregory V. Kirkpatrick, Firefighter

6. Approval of Estate Settlements

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Louie B. Kirkpatrick (*P*) Police Feb. 21, 2006 Judith A. Youngs, Gary L. Kirkpatrick, and Sandy Bell A - Sec. 6.01

7. Approval of Survivor Benefits - Deceased Retirees

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Maurice T. Hutchison, Jr.	Police	Feb. 18, 2006	Joan L. Hutchison	No	B - Sec. 6.08
Frank O. Mote, Jr.	Police	Apr. 19, 2006	Billie J. Mote	Yes	B - Sec. 6.08

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8. Approval of Survivor Benefits - Deceased Member

Dale A. Peterson	Police	July 3, 1996	Deanne Pritchard FBO Laura N. Pate	No	B - Sec. 6.08

9. Approval of Service Retirements

Harriel D. Long	Fire	Apr. 19, 2006	B - Sec. 6.02(b)	Yes/VIII	Yes
Richard S. Peek	Fire	Apr. 5, 2006	B - Sec. 6.02(b)	Yes/VIII	No
Wanda Sykes-Moore	Fire	May 3, 2006	B - Sec. 6.02(b)	Yes/V	Yes
Joseph M. Dunn	Police	Apr. 13, 2006	B - Sec. 6.02(b)	Yes/VIII	No
David Mendenhall	Police	Apr. 19, 2006	B - Sec. 6.02(b)	Yes/V	No
Thomas E. Shaughnessy	Police	Apr. 19, 2006	B - Sec. 6.02(b)	Yes/V/VI	No

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

After discussion, Mr. Tomasovic made a motion to approve the items on the Consent Agenda, subject to the final review and approval of the Administrator. Mr. Shaw 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. 2005 actuarial valuation

Richard Mackesey and Steve Prullage, of Buck Consultants, Inc., the System's actuary, discussed the actuarial valuation as of January 1, 2006 with the Board and staff.

After discussion, Mr. Edge made a motion to receive and file the 2005 actuarial valuation by Buck Consultants. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

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2. Loomis Sayles Senior Loan Fund, LLC

Mr. Tettamant stated that the Board had previously approved Loomis Sayles, one of the System's Global Opportunistic Fixed Income (GOFI) investment managers, to use the Loomis Sayles Senior Loan Fund, LLC as an authorized investment for the portfolio. Mr. Tettamant reported that the resulting contract negotiations to invest in the fund have been completed.

No motion was made.

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3. CDK Realty Advisors

- a. Possible sale of property in Texas
- b. Status of existing portfolio and plans for future activities with regard to that portfolio

The Board went into a closed executive session – real estate at 9:56 a.m.

Messrs. Cooley, Donahue, Kroener, and Edwards, of CDK Realty Advisors, discussed a possible sale of property in Texas. In addition, the status of the existing portfolio and plans for future activities with regard to that portfolio were discussed.

The meeting was reopened at 10:07 a.m.

No motion was made in open session.

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4. LandBaron Investments

- a. Possible purchase of property in Oregon
- b. Status of existing portfolio and plans for future activities with regard to that portfolio
- c. Legal issues

The Board went into a closed executive session – real estate at 12:44 p.m.

Mike Chernine, Founder and Principal, with LandBaron Investments, and associates Mark Chernine, Scott McMannus, and Frank DeLuca discussed, via telephone conference, a possible purchase of property in Oregon for the System's real estate portfolio.

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4. LandBaron Investments (continued)

Mr. Chernine also discussed the status of the existing portfolio and plans for future activities in regard to that portfolio.

The meeting was reopened at 1:51 p.m.

No motion was made in open session.

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5. Possible hiring of a real estate due diligence consultant

Mr. Tettamant reported that staff and legal counsel reviewed Jones, Hill, McFarland & Ellis (JHME), a professional acquisition support and due diligence company, at their offices in Plano, Texas on April 14, 2006. Representing JHME during the meeting was Deborah Gray, Vice President. JHME has performed due diligence services for various investors and owners, including pension funds, REITs, private equity groups, and commingled investment funds.

Deborah Gray and Scott Hill discussed with the Board their scope of services that is offered to assist various clients on real estate due diligence reviews. The scope of services that the company offers includes financial due diligence, property condition assessments, lease review and analysis, design and construction phase review analysis, site development feasibility studies, pre-acquisition development due diligence, ALTA Surveys, and basic zoning reports-entitlement evaluation reports-license reviews.

After discussion, Mr. Shaw made a motion to enter into a contract with Jones, Hill, McFarland, & Ellis to perform real estate due diligence on an as-needed basis, 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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The meeting was recessed at 12:08 p.m.

The meeting was reconvened at 12:44 p.m.

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6. Legal issues including, but not limited to:

- a. Police Officer and Firefighter pay lawsuits
- b. Commercial Loan Source v. Land Baron Investments

The Board went into a closed executive session – legal at 1:52 p.m.

Mr. Lawson, the System’s outside legal counsel, briefed the Board on legal issues regarding the Police Officer and Firefighter pay lawsuits and LandBaron Investments.

The meeting was reopened at 1:57 p.m.

No motion was made.

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The meeting was recessed at 1:58 p.m.

The meeting was reconvened at 2:01 p.m.

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7. Possible acceptance of the appointment of the Board of Trustees of the Dallas Police and Fire Pension System as the administrator of the Group Trust

Mr. Tettamant explained that the Group Trust was created to invest the funds of the Dallas Police and Fire Pension System, the Supplemental Police and Fire Pension Plan and the program of Medical and Dental benefits described in Section 401(h) of the Internal Revenue Code and the pension plan document. The trustees of the Group Trust are, by definition, identical to the trustees of the Pension System. It was recommended to the trustees of the Group Trust that they grant the trustees of the Pension System complete plenary power to administer the Group Trust so that it would be unnecessary to have separate meetings for investment purposes.

The trustees of the Group Trust approved a motion at the Group Trust meeting held on May 11, 2006 to adopt the resolution authorizing the Board of Trustees of the Dallas Police and Fire Pension System to conduct the business affairs of the Group Trust.

After discussion, Mr. Shaw made a motion to adopt the proposed resolution accepting the authority and fiduciary responsibility to conduct the business of the Group Trust. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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7. Possible acceptance of the appointment of the Board of Trustees of the Dallas Police and Fire Pension System as the administrator of the Group Trust (continued)

The Resolution of the Board of Trustees of the Dallas Police and Fire Pension System is included in Minute Book Number 36 on pages _____.

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8. Pension-related issues for possible legislative consideration

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

Mr. Tettamant discussed the reports from the legislative consultants with the Board. He reported that the Speaker of the Texas House has given Chairman Eiland and the Pensions and Investments Committee certain charges. The first meeting of the committee was scheduled for April 27, 2006. The subject for the first meeting was the Employees Retirement System (ERS). The Pension System staff is monitoring the issues and will keep the Trustees informed. A copy of the Interim Charges for the Pensions and Investments Committee was provided.

After discussion, Mr. Shaw made a motion to receive and file the reports on pension-related issues for possible legislative consideration. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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9. Health savings plan update

Mr. Tettamant reported on the status of the health savings plan.

After discussion, Mr. Shaw made a motion to receive and file the status report on the health savings plan. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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10. Update on 2005 audit

Mr. Taylor, the System's Internal Control Manager, reported on the status of the 2005 audit.

**RESOLUTION OF THE BOARD OF TRUSTEES
OF
THE DALLAS POLICE AND FIRE PENSION SYSTEM**

WHEREAS, the Board of Trustees of the Dallas Police and Fire Pension System (the "System"), which is also the Board of Trustees of the Combined Pension Plan (the "Plan"), created and adopted, as a part of the plans administered by the System, the Dallas Police and Fire Pension System Group Trust (the "Trust") to hold and invest funds that consist of the assets administered by the System, including the funds of the Combined Pension Plan, the Supplemental Police and Fire Pension Plan of the City of Dallas and the program for Medical and Dental Benefits described in Section 401(h) of the Internal Revenue Code; and

WHEREAS, the Board of Trustees of the Trust has granted and appointed to the Board of Trustees of the System plenary power to administer the Trust, including but not limited to, the establishment of the Trust's goals and investment of its assets.

NOW THEREFORE, IT IS RESOLVED that the Board of Trustees of the System hereby accepts the grant of authority and appointment made by the Board of Trustees along with the fiduciary responsibility that the grant entails.

DATED: May 11, 2006

By: EF GH
Name: Gerald Brown
Title: Chairman of the Board of Trustees

ATTEST: ABCD
By: Richard L. Tettamant, Administrator

APPROVED AS TO FORM:

Gary B. Lawson

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10. Update on 2005 audit (continued)

After discussion, Mr. Shaw made a motion to receive and file the staff report on the status of the 2005 audit. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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11. Group Trust's monthly financial statements

Mr. Rohan reported that the monthly financial statements for the Group Trust for the period ending January 31, 2006 were not available.

After discussion, Mr. Edge made a motion to receive and file the report on the monthly financial statements. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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12. Monthly investment report

- a. Monthly asset allocation report
- b. Recommendations for rebalancing the Pension System's investment portfolio

The Asset Allocation Monitoring Reports and the Real Estate Portfolio Reports for May 2006 are included in Minute Book Number 36 on pages _____.

The staff stated that all of the asset classes are within their respective asset allocation ranges. One manager is not within its respective allocation range: Oak Associates is below the minimum range (actual of 4.95% versus a range of 5.00% to 7.00%). Staff recommends allocating \$31 million from Bank of Ireland to get the allocation back within range. There are no cash needs at this time. No other rebalancing is recommended at this time.

After discussion, Mr. Edge made a motion to receive and file the May 2006 monthly investment report and approve the staff recommendations. Mr. Wachsman seconded the motion, which was unanimously approved by the Board.

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**DALLAS POLICE AND FIRE PENSION SYSTEM
MAY 2006 ASSET ALLOCATION MONITORING REPORT**

Asset Class		Target		Actual		Range		Difference vs.	
		\$	%	\$	%	Minimum	Maximum	Target	\$
EQUITY									
<u>Domestic Equity</u>									
S & P Enhanced Index	INTECH	239.02	8.00	251.02	8.40	6.00	10.00	12.00	
S & P Enhanced Index	T Rowe Price	119.51	4.00	134.58	4.50	2.00	6.00	15.07	
Large Cap Growth	Oak Associates	179.27	6.00	147.79	4.95	5.00	7.00	(31.48)	
Small Cap	Eagle Asset Management	149.39	5.00	143.89	4.82	4.00	6.00	(5.50)	
Large Cap Value	Alliance Capital	179.27	6.00	169.70	5.68	5.00	7.00	(9.57)	
Energy	Mitchell Group	0.00	0.00	35.78	1.20	0.00	0.00	35.78	
Private Equity									
	NTOF	0.00	0.00	5.82	0.19	0.00	0.00	5.82	
	Huf Alternative Fund	0.00	0.00	72.45	2.42	0.00	0.00	72.45	
	Merit	0.00	0.00	7.84	0.26	0.00	0.00	7.84	
	Pharos	0.00	0.00	2.31	0.08	0.00	0.00	2.31	
Total Private Equity		149.39	5.00	88.42	2.96	4.00	6.00	(60.97)	
Total Domestic Equity		1015.85	34.00	971.18	32.52			(44.67)	
<u>International Equity</u>									
Active Large Cap	Bank of Ireland	209.14	7.00	220.62	7.38	5.50	8.50	11.48	
Active ACWI x US	Clay Finlay	209.14	7.00	193.65	6.48	5.50	8.50	(15.49)	
Active Enhanced EAFE	Fidelity	298.78	10.00	360.02	12.05	8.50	11.50	61.24	
Total International Equity		717.06	24.00	774.29	25.91			57.23	
Total Equity		1,732.91	58.00	1745.47	58.43			12.56	
FIXED INCOME									
<u>Global High Quality</u>									
	Mondrian Investment Partners	149.39	5.00	138.15	4.62	4.25	5.75	(11.24)	
	Brandywine	149.39	5.00	142.23	4.76	4.25	5.75	(7.16)	

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**DALLAS POLICE AND FIRE PENSION SYSTEM
MAY 2006 ASSET ALLOCATION MONITORING REPORT
(Continued)**

Asset Class		Target		Actual		Range		Difference vs.
		\$	%	\$	%	Minimum	Maximum	Target \$
<u>Domestic High Yield</u>	W.R. Huff	149.39	5.00	133.62	4.48	3.00	7.00	(15.77)
<u>Global Opportunistic</u>								
Global Opportunistic Funds	Huff Alternative Income	No Target		0.06	0.00			0.00
	Oaktree	No Target		4.46	0.15			0.00
	TCW Spl Credits	No Target		0.06	0.00			0.00
	Ashmore	59.76	2.00	60.88	2.04	1.00	3.00	1.12
	Highland Crusader Fund	89.63	3.00	89.70	3.00	2.00	4.00	0.07
Total Global Opportunistic Funds		149.39	5.00	155.16	5.19			5.77
GOFI Separate Account	Loomis-Sayles	209.14	7.00	195.05	6.53	5.00	9.00	(14.09)
Total Global Opportunistic		358.53	12.00	350.21	11.72			(7.13)
Total Fixed Income		806.70	27.00	764.23	25.59			(42.47)
<u>REAL ESTATE</u>		448.17	15.00	465.62	15.58	13.00	17.00	17.45
<u>SHORT TERM INVESTMENTS</u>		0.00	0.00	12.46	0.40	0.00	0.00	12.46
Total Assets		2,987.78	100.00	2,987.78	100.00			0.00

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**DALLAS POLICE AND FIRE PENSION SYSTEM
MAY 2006 ASSET ALLOCATION MONITORING REPORT
Real Estate Portfolio**

Real Estate Manager	Total Market Value	Loan Program	Net Equity	Percentage of Real Estate Assets
Managers in Redemption				
Heitman Capital Management (JMB III)	11,751	0	11,751	0.00%
Prudential (Strategic Value Investors. LLC)	3,941,589	0	3,941,589	0.85%
Subtotal	3,953,340	0	3,953,340	0.85%
Separate Account Managers				
Agricultural - Hancock	50,805,815	0	50,805,815	10.91%
Forest Investment Associates	32,618,458	0	32,618,458	7.01%
INVESCO Realty	46,773,430	25,126,500	21,646,930	4.65%
Kennedy Associates	21,063,108	0	21,063,108	4.52%
L & B Real Estate Counsel	75,826,211	25,768,000	50,058,211	10.75%
GMAC Institutional Advisors	16,453,922	0	16,453,922	3.53%
Land Baron	125,927,017	112,656,987	13,270,030	2.85%
RREEF	44,156,268	0	44,156,268	9.48%
CDK Realty Advisors	180,887,533	23,942,000	156,945,533	33.71%
Subtotal	594,511,762	187,493,487	407,018,275	87.41%
Opportunistic Partnerships				
Hearthstone (MSII, MSIII Homebuilding)	1,363,090	0	1,363,090	0.29%
Crow Holdings Realty Partners II	3,854,791	0	3,854,791	0.83%
Oaktree Capital Management (OCM R E Opportunities Fund B)	5,794,983	0	5,794,983	1.24%
Hudson Advisors (Brazos, Lone Star I, II, III,IV, V)	34,133,380	0	34,133,380	7.33%
Olympus Real Estate Fund II & III	9,498,801	0	9,498,801	2.04%
Subtotal	54,645,045	0	54,645,045	11.74%
Total Real Estate	653,110,147	187,493,487	465,616,660	100.00%

Total Real Estate with Loan Program (net)

465,616,660

Total Fund Market Value

2,987,780,846

\$

%

Target Value (\$ and %)

448,167,127

15.00%

Market Value (\$ and %)

465,616,660

15.58%

Variance from Target

17,449,533

0.58%

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

a. Conference: Due Diligence: Napa
Dates: April 19-20, 2006

Messrs. Brown, Umlor, McCollum, Tomasovic, Tettamant, Davenport and Lawson briefed the remainder of the Board on the Napa due diligence.

b. Conference: Napa Executive Committee Mtg.
Dates: April 20-22, 2006

Messrs. Brown, Tettamant, Davenport, and Lawson discussed the committee meeting with the Board.

c. Conference: TRP: Integrating Global Equities into Traditional Manager Structures
Date: April 20, 2006

Mr. Shaw reported on the T. Rowe Price conference.

d. Conference: The Legends Grand Opening
Dates: April 21-22, 2006

Messrs. Brown, Shaw, and Umlor reported on The Legends grand opening, which is one of the System's investments through CDK Realty Advisors.

e. Conference: Merit: 2006 Annual Partners Meeting
Dates: April 24-26, 2006

Messrs. Brown, Shaw, and Tettamant briefed the Board on the annual meeting.

f. Conference: State Pension Review Board Meeting
Dates: April 26, 2006

Messrs. Brown, Shaw, Umlor, and Tettamant discussed the State Pension Review Board Meeting.

g. Conference: Due Diligence: GMAC
Date: April 26, 2006

Messrs. Brown, Shaw, Umlor, and Tettamant reported on the GMAC due diligence meeting.

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

- h. Conference: Real Estate Executive Council (REEC)
Spring Conference
Date: April 28, 2006**

Mr. Brown briefed the Board on the conference.

- i. Conference: NCPERS Annual Conference
Dates: April 30 – May 4, 2006**

Messrs. Brown, Edge, McCollum, Shaw, Tomasovic, Umlor, Wachsmann, Tettamant, Rohan, Davenport, and Taylor discussed the NCPERS annual conference. Mr. Mays also attended the conference, but was absent today.

- j. Conference: Napa Executive Committee Mtg.
Dates: May 10, 2006**

Messrs. Brown, Shaw, Tettamant, and Davenport discussed the Napa executive committee meeting with Board.

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

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14. Personnel update

The Board discussed personnel issues with the Administrator.

No motion was made.

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15. Investment in Dallas, Texas

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

The meeting was reopened at 10:15 a.m.

No motion was made in open session.

**Regular Board Meeting
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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 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. Edge made a motion to receive and file the Administrator's report. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

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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. Wachsman, the meeting was adjourned at 3:34 p.m.

Gerald Brown
Chairman

ATTEST:

Richard L. Tettamant
Secretary