

**Dallas Police and Fire Pension System**  
**Thursday, September 14, 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, and Steven H. Umlor

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

**Staff**

Richard Tettamant, Brian Blake, Everard Davenport, Mike Taylor, Pat McGennis, Jay Jackson, John Holt, Jerry Chandler, Scott M. Siekielski, and Linda Rickley

**Others**

Jim McBride, Bob Sinclair, Robert Matejek, Meghan Cuddihy, Jean Landess, Archie Kelly, Vernon Patterson, Jim Oelschlager, Dr. Ed Yardeni, Robert Stimpson, Arthur Hollingsworth, Jack Riggs, Keith Camp, Kenneth Cooley, Jon Donahue, Brent Kroener, and Marshall Edwards

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The meeting was called to order at 8:31 a.m.

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**A. CONSENT AGENDA**

**1. Approval of Minutes**

- a. Special meeting of July 12, 2006
- b. Special meeting of July 17, 2006
- c. Special meeting of August 9, 2006
- d. Regular meeting of August 10, 2006
- e. Special meeting of August 15, 2006
- f. Special meeting of August 21, 2006

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**2. Approval of Refunds of Contributions for the Month of August 2006**



<u>EMPLOYEE NAME</u>	<u>DEPT.</u>	<u>REFUND DATE</u>
Ezekiel J. Grimes	Police	July 28, 2006
David J. Hazelzet	Police	July 28, 2006
Van H. Le	Police	August 11, 2006
Delia P. Michaels	Police	August 25, 2006
Arthur B. Nickens	Police	August 11, 2006
Joe R. Ramos	Police	August 25, 2006
Johnny T. Rodriguez	Police	August 11, 2006
Edward D. Saenz	Police	August 11, 2006
Kurt A. Steward	Police	August 11, 2006
Kesha N. Thomas	Police	July 28, 2006

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

**New DROP Participants**



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

**Retiree DROP Status Changes**



Scotland R. Chambers	Fire	2
Brian E. Dorethy	Fire	3
Raymond D. Munday	Fire	4
Tim Q. Rose	Fire	2
Helen M. Russell	Fire	1
Thomas J. Tenney	Fire	2
Michael A. Yudziky	Fire	1
Barry L. Anderson	Police	1
Linda P. Johnson	Police	1
Kathy J. Kresse	Police	2
Donald L. Mann	Police	2
Edgel D. Turner	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	

**Transfer Funds from DROP to 401(k)**



Calvin L. Washington	Fire
Dianne W. Smith	Fire

**4. Approval of Estate Settlements**



Wanda S. Miller ( <i>S</i> )	Fire	July 21, 2006	Donna Ingram
Christine M. Rudolph ( <i>S</i> )	Fire	July 22, 2006	Gladys Schumacher
Miller B. Pitts ( <i>M</i> )	Police	July 20, 2006	Philip W. Pitts
Marshall W. Touchton ( <i>M</i> )	Police	July 4, 2006	Wanda J. Touchton

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**5. Approval of Survivor Benefits - Deceased Retirees**

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R. C. Batchelor	Fire	August 1, 2006	Eva C. Batchelor	Yes
Michael D. Hancock	Fire	July 17, 2006	Tracy A. Hancock	No

**6. Approval of Service Retirements**

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Raymond D. Munday	Fire	August 10, 2006
Helen M. Russell	Fire	August 27, 2006
Michael A. Yudzky	Fire	August 24, 2006
Barry L. Anderson	Police	August 23, 2006
Linda P. Johnson	Police	August 3, 2006
James E. Skelly	Police	September 1, 2006
Albert C. Wagner	Police	September 6, 2006

**7. Approval of Alternate Payee Benefits**

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Pamela J. Mount	Lester C. Mount	Fire
Peggy L. Higginbotham	Rollie C. Stamps	Police
Colleen M. Kirk	William R. Kirk	Police

After discussion, Mr. Shaw 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. RMK Timberland Group**

- a. Possible new investment in Brazil
- b. Status of existing portfolio and plans for future activities with regard to that portfolio

Jim McBride and Bob Sinclair, of RMK Timberland Group, discussed a possible new investment in Brazil. The investment manager has been approved by the System to invest up to \$20 million in timber investments in Uruguay. The RMK representatives also discussed the status of the existing portfolio.

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**1. RMK Timberland Group (continued)**

After discussion, Mr. Shaw made a motion to receive and file the presentation by RMK Timberland Group. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. McCollum made a motion to have the staff coordinate due diligence on the proposed approximately \$15 million Brazilian investment. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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The meeting was recessed at 9:24 a.m.

The meeting was reconvened at 9:34 a.m.

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**2. Merit Energy**

- a. Portfolio review
- b. Company update

Robert Matejek and Meghan Cuddihy of Merit Energy, discussed the status of the existing portfolio and gave an organizational update.

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

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**3. Closed Session - Board serving as Medical Committee**

**Disability recalls:**

- a. David G. Bishop, retired Firefighter
- b. Maria Kaminske, retired Police Officer

No closed session was held.

Mr. Tettamant provided to the Board members the medical information and physicians' reports regarding the disability recalls of Mr. Bishop, retired Firefighter, and Ms. Kaminske, retired Police Officer.

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**3. Closed Session - Board serving as Medical Committee (continued)**

After discussion, Mr. Shaw made a motion to grant continuance of **David G. Bishop'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. Bishop to undergo future medical examination(s) to determine if the disability still exists or if recovery has been made to the point that Mr. Bishop is able to return to duty or **two years**, whichever is sooner. Mr. Edge seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Shaw made a motion to grant continuance of **Maria C. Kaminske's** on-duty, Combined Pension Plan, Group B disability benefit, subject to the System's right under the Board-approved disability recall policy 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 **two years**, whichever is sooner. 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. Citrus Queensland PTY LTD & ORD v. Sunstate Orchards PTY LTD

The Board went into a closed executive session – legal at 10:32 a.m.

The meeting was reopened at 10:42 a.m.

No motion was made.

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**5. Oak Associates**

- a. Portfolio review
- b. Company update

Jim Oelschlager, Dr. Ed Yardeni, and Robert Stimpson, of Oak Associates, discussed the status of the existing portfolio and company updates.

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**5. Oak Associates (continued)**

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

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The meeting was recessed at 9:24 a.m.

The meeting was reconvened at 9:34 a.m.

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**6. Lone Star Growth Capital L.P.**

- a. Report on due diligence review
- b. Possible new investment

Arthur W. Hollingsworth, Jack Riggs, and Keith Camp of Lone Star Growth Capital L.P., were present to discuss a possible new investment in the Lone Star Growth Capital L.P.

Mr. Hollingsworth reported on the due diligence review attended by three Board Members and six staff members on two of the companies associated with the Lone Star Growth Capital L.P. on August 15, 2006. The due diligence visits occurred at Tote Systems International and Neuro Resource Group.

Messrs. Hollingsworth, Riggs, and Camp also discussed a possible new investment. The proposed partnership will be invested in companies located in low-to-moderate income areas in Texas. The fund will pay the tax-exempt investors a 8% preferred dividend over a seven year period. The manager of the fund is seeking \$40,000,000 in capital commitments from investors and the target return for the fund is estimated by the manager to be 21.1%.

After discussion, Mr. Shaw made a motion to invest approximately \$15 million in Lone Star Growth Capital L.P., subject to successful due diligence, contract negotiations, and the final approval of the Administrator and legal counsel. The funding would come from the enhanced index equity portfolios. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

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**7. Approval of new investments**

- a. W. R. Huff Asset Management Company's Huff Energy Fund, L.P.
- b. Levine Leichtman Capital Partners Deep Value Fund, L.P.
- c. Highland Capital Management, L.P.'s Highland Credit Opportunities Fund, Ltd.

Mr. Tettamant discussed the following possible new investments recently considered by the Board:

The Board reviewed a presentation from W. R. Huff Asset Management regarding a possible investment in the Huff Energy Fund at the August 10, 2006 Board meeting. The Board asked the investment consultant to review this investment and make a recommendation.

The Board reviewed a presentation from Levine Leichtman regarding the Levine Leichtman Capital Partners Deep Value Fund, L.P. at the June 8, 2006 Investment Advisory Committee meeting. At the July 13<sup>th</sup> Board meeting, the Board approved a \$50 million investment in the fund, subject to the approval of the Administrator, legal counsel, and successful due diligence. Board, staff, and the investment consultant completed an on-site due diligence meeting at the offices of Levine Leichtman Capital Partners on August 9, 2006.

The Board reviewed a presentation from Highland Capital Management regarding the Highland Credit Opportunities Fund, Ltd. at the July 13, 2006 Investment Advisory Committee meeting.

After discussion, Mr. Shaw made a motion to approve the investment in the Huff Energy Fund, L.P. for \$100 million, subject to the final approval of the Administrator and legal counsel. The funding would come from the enhanced index equity portfolios. Mr. McCollum seconded the motion, which passed by the following vote:

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

After discussion, Mr. Edge made a motion to approve the due diligence report on the Levine Leichtman Capital Partners Deep Value Fund, Ltd. and give approval to invest the previously-approved \$50 million in the fund, subject to the final approval of the Administrator and legal counsel. The funding would come from the enhanced index equity portfolios. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.



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**7. Approval of new investments (continued)**

After discussion, Mr. Tomasovic made a motion to approve a \$30 million investment in Highland Capital Management's Highland Credit Opportunities Fund, Ltd., subject to the final approval of the Administrator and legal counsel. The initial funding will come from the Highland Crusader Fund, L.P. managed by Highland Capital Management. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

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**8. Restructuring of terms of Riata Partnership through Capmark Investments LP**

Mr. Tettamant reported that the System currently has approximately \$13,000,000 in real estate investments with Capmark Investments. The Riata Partnership deal was approved by the Board at the April 13, 2006 Board Meeting. The terms of the Riata Partnership have been restructured.

After discussion, Mr. Umlor made a motion to approve changes resulting from the restructuring of the terms of the Riata Partnership through Capmark Investments LP, subject to the final approval of the Administrator and legal counsel. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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**9. Expansion of Bank of America line of credit**

Mr. Tettamant stated that the current line of credit with Bank of America is at the maximum of \$115,000,000. The line of credit needs to be increased by at least \$36,000,000.

After discussion, Mr. Umlor made a motion to receive and file the report on the expansion of Bank of America line of credit. Mr. Edge seconded the motion, which was unanimously approved by the Board.

After further discussion, Mr. Umlor made a motion to approve the expansion of the Bank of America line of credit by \$50 million. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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**10. CDK Realty Advisors**

- a. Retail exit strategies
- b. Possible Dallas investment
- c. Status of existing portfolio and plans for future activities with regard to that portfolio
- d. Greenway mortgage
- e. Possible Kansas investment
- f. Developer loan opportunity

Ken Cooley, Jon Donahue, Brent Kroener, and Marshall Edwards, from CDK Realty Advisors, discussed the System's retail exit strategies for the System. A presentation was given that described the exit strategy where Macquarie Capital Partners on behalf of investors purchased certain RED retail developments known as lifestyle centers.

After discussion, Mr. Tomasovic made a motion to receive and file the presentation on retail exit strategies. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

The Board went into a closed executive session – real estate at 1:54 p.m.

CDK presented a possible real estate investment opportunity in Dallas, Texas.

The meeting was reopened and recessed at 2:56 p.m.

The meeting was reconvened at 2:58 p.m.

After discussion, Mr. Edge made a motion to approve the due diligence expenses and a refundable deposit on the Dallas real estate investment that was presented. Mr. Umlor seconded the motion, which was approved by the following vote:

For: Edge, Umlor, Brown, McCollum, Tomasovic

Against: Shaw

The CDK representatives discussed the status of the existing portfolio and plans for future activities with regard to that portfolio.

After discussion, Mr. Shaw made a motion to receive and file the portfolio update by CDK Realty Advisors. Mr. Edge seconded the motion, which was unanimously approved by the Board.

The CDK representatives discussed a new mortgage for the real estate investment known as Greenway Station.

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**10. CDK Realty Advisors (continued)**

After discussion, Mr. Umlor made a motion to approve the CDK recommendation regarding the Greenway Station mortgage. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

The Board went in to a closed executive session – real estate at 3:41 p.m.

The CDK representatives presented a possible real estate investment in Kansas.

The meeting was reopened at 3:59 p.m.

After discussion, Mr. Shaw made a motion to approve the Kansas investment, subject to successful due diligence, contract negotiations, and the final approval of the Administrator and legal counsel, to authorize the Chairman to execute the contract, and to authorize the Administrator to perform all necessary acts and exercise all appropriate discretion to consummate the investment and ongoing operation. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

The CDK representatives discussed a developer loan opportunity for the System for approximately \$25 million. The developer loan opportunity will provide RED Development a line of credit for the right to participate in future RED Development real estate investments.

After discussion, Mr. McCollum made a motion to approve CDK's recommendation regarding a developer loan for RED Development, subject to the final approval of the Administrator and legal counsel. Specific details regarding the terms of the loan were delegated to the Administrator. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

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**11. Update on Dallas real estate investments**

Mr. Tettamant reported to the Board on Dallas area real estate investments.

After discussion, Mr. Edge made a motion to receive and file the staff report on Dallas real estate investments. Mr. Shaw seconded the motion, which was unanimously approved by the Board.

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**12. Due diligence with Knudson Companies and L & B Realty Advisors, LLP (continued)**

Mr. Tettamant stated that the Investment Advisory Committee on July 13, 2006 made a recommendation to the Board that the System invest \$10 million with Knudson Luxury Housing, subject to certain contract restrictions and negotiations, subject to approval of the Administrator and legal counsel, and a successful due diligence review. The Board will discuss a possible due diligence review of the Knudson Companies in Hawaii.

L&B Realty Advisors, one of the System's real estate investment advisors, manages several real estate investments owned by the System. The Board will discuss a possible due diligence review of the System's real estate holdings in Hawaii.

After discussion, Mr. Shaw made a motion to have the Chairman, Administrator, and Investment Analyst conduct a due diligence review of the Knudson Companies and real estate holdings of the System managed by L&B Realty Advisors. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

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**13. Budget issues**

- a. Administrative and Professional Services Budgets review for the first six months of Calendar Year 2006
- b. Presentation and discussion of the 2007 Administrative and Professional Services Budgets

Mr. Tettamant reviewed the Calendar Year 2006 Administrative and Professional Services Budgets for the first six months of the calendar year. Expenses overall for both the Administrative and Professional Services budgets are under the prorated 6-month budget. The following expense items exceeded budget by more than 5%:

- Administrative Budget:
  - Leased Equipment
  - Continuing Education
  - Employment Expense
- Professional Services Budget:
  - Legal Expense
  - Legislative Consultant – Locke, Liddell & Sapp
  - Pension Administration Program – Levi, Ray & Shoup

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**13. Budget issues (continued)**

Mr. Tettamant reported that the Administrative Advisory Committee had reviewed the Calendar Year 2007 budget proposal at its August 10, 2006 meeting. He then submitted the initial proposal for the Calendar Year 2007 Administrative and Professional Services Budgets, as required by the System's budget preparation procedures. The proposed 2007 budget includes an increase of 28.5 % over the CY 2006 budget. The increase is due primarily to increased investment management fees resulting from the increase in System assets, added services and increased fuel costs. The total budget represents approximately 75 basis points on the estimated year end 2007 System assets, meeting the System's goal of less than 1% of assets. Details follow:

**Administrative Budget**

The proposed administrative budget totals \$3,306,266, an increase of 8.8% over the CY 2006 budget. Increases (shown in ) are attributed primarily to the following:

- Salaries and benefits – 
  - 5% general salary increase
  - Full year funding for staff positions and salary increases approved by the Board in 2006
  - Addition of a clerical staff position to assist the Board Coordinator/HR Manager and Board Secretary in their administrative duties
  - Expected 15% increase in health insurance costs
  
- Increases in travel related line items to reflect impact of increased fuel costs on travel expenses:
  - Continuing Ed
  - Staff Development
  - Mileage

Other proposed increases in Postage, Education Programs, Repair & Maintenance, Subscriptions and Fixed Assets line items vary by more than a 5% increase from the CY 2006 budget and are detailed in the presentation.

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**13. Budget issues (continued)**

**Professional Service Budget**

The Non-Investment Manager Fees portion of the proposed budget for professional services totals \$2,945,985, an increase of 36.2% over the CY 2006 budget. Significant changes from the current year budget include (Increases shown in ):

- Errors and omissions insurance   
Estimated cost to provide protection to Board and Staff in the performance of their duties related to the pension fund
- Investment Consulting Services   
Increase in estimated fee according to contract formula with new consultant
- Legal Fees   
Increased need for legal services due to complexity of investment structure and increased real estate involvement
- Real Estate Consultant   
Includes increase of \$50,000 for real estate due diligence
- Pension Administration Program   
Included in increase is expense to develop automation of DROP distributions through direct withdrawal from a bank, also known as DROP ATM.

Other increases in the following line items varied by more than 5% from the CY 2006 budget and were detailed in the presentation: Independent Audit, Investment Research, Legislative Conferences, and Network Security.

Estimated Investment Manager Fees are based on projected asset growth at the actuarial return rate. We have estimated Investment Manager fees for 2007 at \$16,500,000, an increase of \$4 million, 32%, over CY 2006 budget. Actual CY 2005 investment management expense was approximately \$13.5 million.

**Additional Budget Requests**

Staff requested that the Board consider funding the following additional items not included in the budget presentation in the CY2007 Administrative and Professional Services budgets (Total additional request, including requested new staff positions totaled \$395,000):

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**13. Budget issues (continued)**

- Business Continuity Hot Site \$92,000  
The System established an alternative work site in the event that the System suffers a work disruption. The scope of the current plan is to provide back-up of pension benefit data to assure the distribution of pension payroll. Under a Hot Site concept, the System would back up investment and administrative data daily to the Hot Site so that in the event of a disruption, System Staff would have access to this information to assure continued smooth operations and services to our Members and other stake holders.
  
- Imaging of Member Files \$50,000  
The System currently images documents for Member files to provide an electronic record in the event of loss of access to hard copy files. The proposal would provide development of an indexing system to facilitate access to Member information in the electronic files and provide funding for a temporary position to help Staff catch-up on back log of indexing of Board minutes and other documents.
  
- Internet-based Member Services, Phase II \$50,000  
In the 2006 budget, the Board authorized Web Member Services to permit Member access to pension information through the Internet. Phase II would permit greater Member access and functionality through the Internet. In this phase, pension forms that a Member accessed via the Internet would be pre-populated with the Member's demographic data. The Member then would be able to complete and submit the forms online without having to print and mail the forms to the System. Form submission would be safeguarded through encryption.
  
- Staff recommends the following new Staff positions (Total of requested new staff positions \$203,000)
  - Staff Attorney \$130,000  
As the System's investment structure becomes more complex, the System's General Counsel needs assistance in handling the legal support for System investment programs. Moreover, the System's General Counsel has advised the Administrator that he plans to retire in 2008. In anticipation of his retirement and to provide the opportunity for the future replacement General Counsel to learn the System's investment and benefit structure and provide assistance with current legal support, Staff recommends the Board authorize the Administrator to hire an assistant general counsel.

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**13. Budget issues (continued)**

- Data Control Clerk \$40,000  
This position would assist both the Benefits Team and Information Technology. The position would back-up the Systems Analyst and duties would include imaging documents, downloading and processing City contribution and health insurance input to the PensionGold pension administration system and resolution of payroll exception reports.
  
- Pensioner Liaison Assistant \$33,000  
This position would assist the Pensioner Liaison in the delivery of services to Retirees. These functions have mushroomed as we have had to help Retirees resolve health insurance issues and assistance is needed if we are to fill the vacuum left by the City's apparent inability to respond to Retiree inquiries related to health insurance.

After discussion, Mr. Shaw made a motion to receive and file the CY 2006 six-month budget review. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Umlor made a motion to approve the proposed Calendar Year 2007 Administrative and Professional Services Budgets and authorize the first reading at the October 12, 2006 regular meeting of the Board. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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**14. Deferred Retirement Option Plan (DROP) interest rate for the period beginning October 1, 2006**

Mr. Tettamant explained 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 and Retiree 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, 2006, the arithmetic average of the annual market return for the ten-year period ending December 31, 2004 is 10.35%. Based on this information, the Actuary determined that the DROP interest rate beginning October 1, 2006, should be increased by 25 basis points to 9.75%.



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**14. Deferred Retirement Option Plan (DROP) interest rate for the period beginning October 1, 2006 (continued)**

After discussion, Mr. Tomasovic made a motion to approve the DROP interest rate of 9.75%, effective October 1, 2006. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

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**15. 2005 audit report**

Mr. Tettamant presented the 2005 audit prepared by Mir•Fox & Rodriguez, the System's independent auditor.

After discussion, Mr. Shaw made a motion to approve the 2005 audit report, subject to the final approval of the Administrator. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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**16. 2005 annual report and condensed annual report**

Staff provided a draft copy of the 2005 Annual Report. The report is in six sections:

- Transmittal Letter and Introductory Section
- Financial Section with the complete Independent Audit Report
- Investment Section
- Actuarial Section with the complete Actuarial Valuation
- Statistics Section
- Police and Fire Supplemental Pension Plan Actuarial Valuation

Separate condensed versions of the Annual Report prepared for Active Members and Pensioners to highlight selected information from the full report were also provided. On publication, the Condensed Annual Reports will be distributed to Active Members and Pensioners.

After discussion, Mr. Shaw made a motion to approve publication of the 2005 Annual Report and Condensed Active Member and Pensioner Annual Reports, subject to the final review and approval of the Administrator and legal counsel. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

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**17. City of Dallas Human Resources issues**

- a. Compensation study
- b. Approve addendum to health savings plan
- c. Approve request for determination letter

Mr. Tettamant briefed the Board regarding the City's compensation package included in the 2006-2007 budget and its impact on the System.

After discussion, Mr. Shaw made a motion to receive and file the report on the City's compensation package included in the 2006-2007 budget and its impact on the System. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

The Administrator briefed the Board on the status of the Health Savings Plan. The 2005 Plan Amendment election included a change to the Plan to establish the Board's authority to create a Medical Savings Account. This account is called the Dallas Police and Fire Pension System Health Savings Plan. Staff provided a draft Addendum to the Plan Document to give details of the Health Savings Plan being created to implement the Medical Savings Account. If directed by the Board, the System's legal counsel will forward a request to the Internal Revenue Service for a determination letter on the plan.

The Board went into a closed executive session – legal at 10:35 a.m.

The meeting was reopened at 10:41 a.m.

After discussion, Mr. Shaw made a motion to receive and file the report and authorize the System's legal counsel to seek a determination letter from the IRS on the Health Savings Plan. Mr. Tomasovic seconded the motion, which was unanimously approved by the Board.

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**18. Pension System's financial statement January through May, 2006**

No action was taken.

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**19. Monthly investment report**

- a. Group Trust's monthly asset allocation report
- b. Recommendations for rebalancing the Group Trust's investment portfolio
- c. Pension System's monthly valuation report

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**19. Monthly investment report (continued)**

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

Fidelity is over their maximum range of 11.5%. We recommend transferring \$22 million to Bank of Ireland and \$22 million to Clay Finlay which will bring Fidelity back to their target of 10%. No other rebalancing is recommended at this time.

After discussion, Mr. Shaw made a motion to receive and file the September 2006 monthly asset allocation report and approve the staff recommendations. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Shaw made a motion to receive and file the August 2006 monthly valuation report. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

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

- a. Conference: Due diligence: Lone Star Growth Capital L.P.**  
**Dates:** August 15, 2006

Messrs. Edge, Shaw, Umlor, Tettamant, Blake, Rohan, Davenport, Taylor, and Jackson reported on the due diligence review.

- b. Conference: TEXPERS Summer Educational Forum**  
**Dates:** August 20-21, 2006

Messrs. Brown, Edge, Mays, McCollum, Shaw, Tomasovic, Umlor, Tettamant, Blake, Rohan, Davenport, and Taylor discussed the TEXPERS forum.

- c. Conference: Legislative Meeting**  
**Dates:** August 22, 2006

Messrs. Brown, Shaw, and Tettamant reported on the legislative meeting.

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

Asset Class		Target		Actual		Range		Difference vs.
		\$	%	\$	%	Minimum	Maximum	Target \$
<b>EQUITY</b>								
<b><u>Domestic Equity</u></b>								
S & P Enhanced Index	INTECH	233.86	8.00	248.19	8.49	6.00	10.00	14.33
S & P Enhanced Index	T Rowe Price	116.93	4.00	134.09	4.59	2.00	6.00	17.16
Large Cap Growth	Oak Associates	175.39	6.00	166.66	5.70	5.00	7.00	(8.73)
	Eagle Asset							
Small Cap	Management	146.16	5.00	133.98	4.58	4.00	6.00	(12.18)
Large Cap Value	Alliance Capital	175.39	6.00	170.34	5.83	5.00	7.00	(5.05)
Energy	Mitchell Group	No Target		32.00	1.09	0.00	0.00	0.00
<b>Private Equity</b>	NTOF	No Target		5.95	0.20	0.00	0.00	0.00
	Huff Alternative Fund	No Target		69.25	2.37	0.00	0.00	0.00
	Merit Energy	No Target		13.79	0.47	0.00	0.00	0.00
	Pharos	No Target		3.15	0.11	0.00	0.00	0.00
<b>Total Private Equity</b>		146.16	5.00	92.14	3.15	4.00	6.00	(54.02)
<b>Total Domestic Equity</b>		993.89	34.00	977.40	33.44			(16.49)
<b><u>International Equity</u></b>								
Active Large Cap	Bank of Ireland	204.62	7.00	174.63	5.97	5.50	8.50	(29.99)
Active ACWI x US	Clay Finlay	204.62	7.00	176.53	6.04	5.50	8.50	(28.09)
Active Enhanced EAFE	Fidelity	292.32	10.00	336.96	11.53	8.50	11.50	44.64
<b>Total International Equity</b>		701.56	24.00	688.12	23.53			(13.44)
<b>Total Equity</b>		1,695.45	58.00	1665.52	56.97			(29.93)
<b>FIXED INCOME</b>								

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(continued)

**DALLAS POLICE AND FIRE PENSION SYSTEM**  
**SEPTEMBER 2006 ASSET ALLOCATION MONITORING REPORT**  
(continued)

Asset Class	Target		Actual		Range		Difference vs.
	\$	%	\$	%	Minimum	Maximum	Target \$
<b><u>Global High Quality</u></b>							
Mondrian Investment Partners	146.16	5.00	134.72	4.61	4.25	5.75	(11.44)
Brandywine	146.16	5.00	130.85	4.48	4.25	5.75	(15.31)
<b><u>Domestic High Yield</u></b>							
W.R. Huff	146.16	5.00	134.71	4.62	3.00	7.00	(11.45)
<b><u>Global Opportunistic</u></b>							
Global Opportunistic Funds							
Huff Alternative Income	No Target		0.06	0.00			0.00
Oaktree	No Target		2.96	0.10			0.00
TCW Spl Credits	No Target		0.00	0.00			0.00
Ashmore	58.46	2.00	63.39	2.17	1.00	3.00	4.93
Highland Crusader Fund	87.70	3.00	100.41	3.43	2.00	4.00	12.71
<b>Total Global Opportunistic Funds</b>	146.16	5.00	166.82	5.71			20.66
GOFI Separate Account							
Loomis-Sayles	204.62	7.00	184.38	6.31	5.00	9.00	(20.24)
<b>Total Global Opportunistic</b>	350.78	12.00	351.20	12.01			18.06
<b>Total Fixed Income</b>	789.26	27.00	751.50	25.72			(37.76)
<b><u>REAL ESTATE</u></b>	438.48	15.00	488.31	16.70	13.00	17.00	49.83
<b><u>SHORT TERM INVESTMENTS</u></b>	0.00	0.00	17.86	0.61	0.00	0.00	17.86
<b>Total Assets</b>	2,923.19	100.00	2,923.19	100.00			0.00

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

<b>Real Estate Manager</b>	<b>Total Market Value</b>	<b>Loan Program</b>	<b>Net Equity</b>	<b>Percentage of Real Estate Assets</b>
<b>Managers in Redemption</b>				
Prudential (Strategic Value Investors. LLC)	1,253,942	0	1,253,942	0.26%
<b>Subtotal</b>	1,253,942	0	1,253,942	0.26%
<b>Separate Account Managers</b>				
Agricultural - Hancock	45,088,431	0	45,088,431	9.23%
Forest Investment Associates	32,773,392	0	32,773,392	6.71%
INVESCO Realty	42,610,688	31,187,500	11,423,188	2.34%
Kennedy Associates	30,656,977	0	30,656,977	6.28%
L & B Real Estate Counsel	94,503,596	25,813,000	68,690,596	14.07%
Capmark Investments (GMAC)	50,859,782	36,000,000	14,859,782	3.04%
Land Baron	106,632,490	94,656,987	11,975,503	2.45%
Criswell Radovan	28,840,271	18,000,000	10,840,271	2.22%
RREEF	49,367,247	0	49,367,247	10.11%
CDK Realty Advisors	194,053,310	34,279,513	159,773,797	32.72%
<b>Subtotal</b>	675,386,184	239,937,000	435,449,184	89.17%
<b>Opportunistic Partnerships</b>				
Hearthstone (MSIII Homebuilding)	787,391	0	787,391	0.16%
Crow Holdings Realty Partners II	2,749,499	0	2,749,499	0.56%
Oaktree Capital Management (OCM R E Opportunities Fund B)	5,743,620	0	5,743,620	1.18%
Hudson Advisors (Brazos, Lone Star I, II, III,IV,V)	33,124,199	0	33,124,199	6.78%
Olympus Real Estate Fund II & III	9,201,950	0	9,201,950	1.88%
<b>Subtotal</b>	51,606,659	0	51,606,659	10.57%
<b>Total Real Estate</b>	728,246,785	239,937,000	488,309,785	100.00%

**Total Real Estate with Loan Program (net)**

**488,309,785**

**Total Fund Market Value**

**2,923,194,231**

\$

%

**Target Value (\$ and % )**

**438,479,135**

**15.00%**

**Market Value (\$ and %)**

**488,309,785**

**16.70%**

**Variance from Target**

**49,830,650**

**1.70%**

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

**d. Conference: Napa Executive Committee Meeting**

**Dates:** September 12, 2006

Messrs. Brown, Shaw, Tettamant, and Davenport reported on the committee meeting.

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

\* \* \* \* \*

**21. Annual Board/Staff Workshop to be held on October 23 - 26, 2006**

Mr. Tettamant and the staff discussed proposed topics for the annual workshop with the Board.

After discussion, Mr. Tomasovic made a motion to approve the revised workshop agenda. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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**22. Change of control for Hearthstone**

Mr. Tettamant reported that Hearthstone, Inc., one of the System's real estate managers through the Hearthstone funds known as MS II Homebuilding Investors, LLC (MS2), and Hearthstone Multi-State Residential Value-Added Fund III, LLC (MS3), is requesting that the investors consent to the transaction where Hearthstone will be acquired by a company owned by American Newland Communities, L.P. Hearthstone will continue to be operated as a separate and distinct business. Newland has over 30 years of experience in residential land development and has approximately \$1.4 billion in institutional capital under management.

Provided for the Board's review were a letter from Mark Porath, EVP, Hearthstone, the proposed change of control document, background material on Newland Communities, and a presentation on the Hearthstone Newland combination.

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**22. Change of control for Hearthstone (continued)**

After discussion, Mr. Edge made a motion to approve the change of control of Hearthstone and the assignment and amendment of the contracts for Hearthstone MS2 and Hearthstone MS3, subject to the approval of the Administrator and legal counsel. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

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**23. Update on Pension Reform Legislation**

The Administrator stated that the Board was briefed at the August 10, 2006, meeting regarding pension reform legislation (HR4) passed by Congress in August. The President signed the legislation on August 17 and some of the features are effective that date.

Details on how to apply certain features of the new law remain in question, including:

- Change in 10% early distribution tax penalty
- Favorable tax treatment of health insurance premiums up to \$3,000 deducted from pension payments.

The Administrator and legal counsel reviewed the issues and discussed whether the System should seek further guidance.

No motion was made.

\* \* \* \* \*

**C. BRIEFING ITEMS**

**1. Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System**

Pensioners Jean Landess, Archie Kelly, and Vernon Patterson were present to discuss their concerns with the Board.

No motion was made.

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

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**3. Board operations and procedures**

No discussion was held.

\* \* \* \* \*

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. Edge, the meeting was adjourned at 5:17 p.m.

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Gerald Brown  
Chairman

**ATTEST:**

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Richard L. Tettamant  
Secretary