

Dallas Police and Fire Pension System
Thursday, November 9, 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, John M. Mays, Rector C. McCollum, Steven G. Shaw, George Tomasovic, Steven H. Umlor, and Richard H. Wachsman

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

Staff

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

Others

Gary Lawson, Rhett Humphreys, James V. Roberts, Diane Watts, Clint Smith, Kenneth Cooley, Jon Donahue, Brent Kroener, Marshall Edwards, Dwight Walker, and W. R. Huff (by telephone)

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

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

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A. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of September 14, 2006

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



<u>EMPLOYEE NAME</u>	<u>DEPT.</u>	<u>REFUND DATE</u>
Frank Bede	P	October 27, 2006
Wesley S. Carter	P	October 6, 2006
Deanna M. Hammond	P	October 27, 2006
Isidro Negrete	P	October 6, 2006
Stanley R. Verbal	P	October 6, 2006

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

New DROP Participants



Richard D. Ewing	Fire
Gerald L. Jensen	Fire
David D. Kinney	Fire
Walter C. Reaves	Fire
Kevin F. Sipes	Fire
Clark D. Allen	Police
Douglas C. Chaney	Police
Samuel T. LePere	Police
Mark L. Mason	Police
Jeffery L. Robinson	Police
Marcia L. Trejo	Police
James G. Westbrook	Police

Retiree DROP Status Changes



Dwayne G. Bishop	Police	1
Donnie W. Chapman	Police	2
Carl L. Craft	Police	3
C. Wesley King	Police	2
George D. Payne	Police	1

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 November 2006 (continued)**

Transfer Funds from DROP to 401(k)

4. Approval of Vested Rights Letters

Shannon R. Fruge, Police Officer

5. Approval of Estate Settlements

Eunice Jordan (S) Police June 19, 2006 Linda Higginbotham

6. Approval of Survivor Benefits - Deceased Retirees

Jerry D. Lewis	Fire	Oct. 2, 2006	Wanda J. Lewis	Yes
Elmer R. Baggett	Police	Sept. 30, 2006	Wilda J. Baggett	No
Michael R. Clay	Police	Oct. 14, 2006	Debbra S. Clay	No

7. Approval of Service Retirements

Michael R. Hood	Fire	October 22, 2006
Dwayne G. Bishop	Police	October 21, 2006
Hiram O. Burleson	Police	November 1, 2006
Marshal N. Furr	Police	November 1, 2006
George D. Payne	Police	November 1, 2006
Roseanna Renaud	Police	November 1, 2006
Robert B. White	Police	November 1, 2006

The Administrator stated that the minutes for the September 14, 2006 meeting were not available and had been removed from the Consent Agenda.

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. Pensioner education demonstration

Mr. Tettamant explained that the System began a new education program this year for Pensioners and their spouses. Included in the program is a legal session with Attorney James V. Roberts that our Pensioners have found very valuable. Mr. Roberts explains wills, estate tax, and probate. He also assists the Pensioners in completing various legal documents, including Statutory Power of Attorney, Medical Power of Attorney, Directive to Physicians (Living Will), and H.I.P.A.A. Authorization (Health Insurance Portability and Accountability Act of 1996).

Mr. Roberts demonstrated to the Board the material provided in the education session.

After discussion, Mr. Shaw made a motion to receive and file Mr. Roberts's presentation and to have staff send a letter of appreciation to Mr. Roberts on behalf of the Board for his volunteer service to the Pensioners of the System. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

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2. Second and final reading of the 2007 Administrative and Professional Services Budgets

Mr. Tettamant stated that the proposed Administrative and Professional Services Budgets for fiscal year 2007 were presented to the Board for review and comments at the September 14, 2006 regular meeting. The Board held the first reading of the budgets at the October 12, 2006 regular Board meeting. At that time, the Board authorized the second reading of the budget at the November 9, 2006 regular meeting. The proposed budgets were distributed to Active Members in the September and October issues of the System newsletter, *First Responder*. No members were present at the second reading of the Budget.

After discussion, Mr. Shaw made a motion to approve the second and final reading of the 2007 Administrative and Professional Services Budgets. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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3. Closed Session - Board serving as Medical Committee

The Board went into a closed executive session – legal at 10:21 a.m.

The meeting was reopened at 10:46 a.m.

The Board went into a closed executive session – medical at 10:46 a.m.

Mr. Tettamant provided to the Board members the medical information and physicians' reports regarding the disability application of Ms. Morrow.

The meeting was reopened at 10:57 a.m.

After discussion, Mr. McCollum made a motion to refer Melanie A. Morrow to an Independent Physician in the Fort Worth area for a medical evaluation. Mr. Wachsman seconded the motion, which was unanimously approved by the Board.

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4. Disability retirement earnings test

Mr. Tettamant explained that Section 6.03 (k) of the Plan imposes an earnings limit on the disability retirement benefit of Members who retired on or after May 1, 1990. The Board has asked staff to review the earnings test and recommend further action.

The earnings test was established in a 1990 Plan amendment in response to perceived abuse of the disability provisions of the plan. The objective of the test is to prevent disability retirees from benefiting from their disability – that is, a disability retiree should not earn more each year while disabled than the individual would earn as an Active Member.

A cursory review of other public pension plans has revealed that most plans require disability retirees to report earned income and consider such income in determining the person's continued eligibility for benefits or a reduction in benefits.

After discussion, Mr. Wachsman made a motion to leave the disability retirement earnings test unchanged and direct the staff to conduct an in-depth review of the disability provisions of comparable retirement plans and report findings to the Board in July 2007. Mr. Shaw seconded the motion, which was approved by the following vote:

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4. Disability retirement earnings test (continued)

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

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5. City of Dallas pay package

Mr. Tettamant briefed the Board on the City of Dallas's compensation package for the next three years for police officers and firefighters and its impact on the System. The package is included in the City's 2006-2007 budget.

After discussion, Mr. Wachsmann made a motion to receive and file the briefing regarding the City of Dallas pay package. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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6. 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

Mr. Lawson reported on current legal issues. No closed session was held.

After discussion, Mr. Edge made a motion to receive and file the report by legal counsel. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

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7. Legislative consultants

- a. Reports and recommendations of Hillco Partners
- b. Reports and recommendations of Locke Liddell & Sapp, LLP

Mr. Smith, of Hillco Partners, the System's legislative consultant, gave a legislative update and a projection of the 2007 Texas legislative session.

Mr. Tettamant also discussed material provided by Locke Liddell & Sapp.

After discussion, Mr. Edge made a motion to receive and file the reports given by the System's legislative consultants. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

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The meeting was recessed at 12:06 p.m.

The meeting was reconvened at 12:41 p.m.

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8. Pension System's monthly financial statement for the period August, 2006

Discussion of the monthly financial statement was tabled.

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9. Monthly investment report

- a. Group Trust's monthly asset allocation report and recommendations for rebalancing the Group Trust's investment portfolio
- b. Group Trust's monthly unitization report

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

The staff reported that all of the asset classes are within their respective asset allocation ranges. There is a cash need of \$2 million which would be taken from Brandywine Global Investment Management.

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

Mr. Tettamant discussed the monthly valuation report with the Board.

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

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**DALLAS POLICE AND FIRE PENSION SYSTEM
ASSET ALLOCATION MONITORING REPORT AS OF November 7, 2006**

Asset Class		Target		Actual		Range		Difference vs.	
		\$	%	\$	%	Minimum	Maximum	Target	\$
EQUITY									
<u>Domestic Equity</u>									
S & P Enhanced Index	INTECH	246.54	8.00	241.29	7.83	6.00	10.00		(5.25)
S & P Enhanced Index	T Rowe Price	123.27	4.00	127.69	4.14	2.00	6.00		4.42
Large Cap Growth	Oak Associates	184.91	6.00	177.15	5.75	5.00	7.00		(7.76)
Small Cap	Eagle Asset Management	154.09	5.00	143.08	4.64	4.00	6.00		(11.01)
Large Cap Value	AllianceBernstein	184.91	6.00	180.07	5.84	5.00	7.00		(4.84)
Energy	Mitchell Group	No Target		34.28	1.11	0.00	0.00		0.00
Private Equity	NTOF	No Target		5.46	0.18	0.00	0.00		0.00
	Huff Alternative Fund	No Target		72.69	2.36	0.00	0.00		0.00
	Merit Energy	No Target		14.08	0.46	0.00	0.00		0.00
	Pharos	No Target		3.12	0.10	0.00	0.00		0.00
Total Private Equity		154.09	5.00	95.35	3.09	4.00	6.00		(58.74)
Total Domestic Equity		1047.81	34.00	998.91	32.42				(48.90)
<u>International Equity</u>									
Active Large Cap	Bank of Ireland	215.73	7.00	232.85	7.56	5.50	8.50		17.12
Active ACWI x US	Clay Finlay	215.73	7.00	232.01	7.53	5.50	8.50		16.28
Active Enhanced EAFE	Pyramis (Fidelity)	308.18	10.00	316.77	10.28	8.50	11.50		8.59
Total International Equity		739.64	24.00	781.63	25.35				41.99
Total Equity		1,787.45	58.00	1780.54	57.77				(6.91)
FIXED INCOME									
<u>Global High Quality</u>	Mondrian Investment Partners	154.09	5.00	135.22	4.39	4.25	5.75		(18.87)
	Brandywine	154.09	5.00	152.64	4.95	4.25	5.75		(1.45)
<u>Domestic High Yield</u>	W.R. Huff	154.09	5.00	139.10	4.52	3.00	7.00		(14.99)

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DALLAS POLICE AND FIRE PENSION SYSTEM
ASSET ALLOCATION MONITORING REPORT AS OF NOVEMBER 7, 2006
(continued)

Asset Class	Target		Actual		Range		Difference vs	
	\$	%	\$	%	Minimum	Maximum	Target	\$
Global Opportunistic								
Global Opportunistic Funds								
	Huff Alternative Income	No Target	0.07	0.00				0.00
	Oaktree OCM IV	No Target	3.00	0.10				0.00
	Ashmore	61.64	2.00	63.49	2.06	1.00	3.00	1.85
	Highland Crusader Fund	92.45	3.00	101.63	3.30	2.00	4.00	9.18
Total Global Opportunistic Funds		154.09	5.00	168.19	5.46			14.10
GOFI Separate Account	Loomis-Sayles	215.73	7.00	192.23	6.24	5.00	9.00	(23.50)
Total Global Opportunistic		369.82	12.00	360.42	11.70			1.63
Total Fixed Income		832.09	27.00	787.40	25.56			(44.69)
<u>REAL ESTATE</u>		462.27	15.00	501.97	16.29	13.00	17.00	39.70
<u>SHORT TERM INVESTMENTS</u>		0.00	0.00	11.90	0.39	0.00	0.00	11.90
Total Assets		<u>3,081.81</u>	<u>100.00</u>	<u>3,081.81</u>	<u>100.00</u>			<u>0.00</u>

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**DALLAS POLICE AND FIRE PENSION SYSTEM
ASSET ALLOCATION MONITORING REPORT AS OF NOVEMBER 2006
Real Estate Portfolio**

Real Estate Manager	Total Market Value	Loan Program	Net Equity	Percentage of Real Estate Assets
Managers in Redemption				
Prudential (Strategic Value Investors. LLC)	1,446,812	0	1,446,812	0.29%
Subtotal	1,446,812	0	1,446,812	0.29%
Separate Account Managers				
Hancock Agricultural	52,234,133	0	52,234,133	10.41%
Forest Investment Associates	31,863,594	0	31,863,594	6.35%
RMK Timberland Group	670,000	0	670,000	0.13%
INVESCO	42,764,813	31,187,500	11,577,313	2.31%
Kennedy Associates	31,746,215	0	31,746,215	6.32%
L & B Real Estate Advisors LLP	94,503,596	25,813,000	68,690,596	13.68%
Capmark Investments (GMAC)	52,219,448	36,000,000	16,219,448	3.23%
Land Baron	106,632,567	94,656,987	11,975,580	2.39%
Criswell Radovan	30,312,271	18,000,000	12,312,271	2.45%
RREEF	52,544,232	0	52,544,232	10.47%
CDK Realty Advisors	194,753,310	34,279,513	160,473,797	31.97%
Subtotal	690,244,179	239,937,000	450,307,179	89.71%
Opportunistic Partnerships				
Hearthstone (MSIII Homebuilding)	475,595	0	475,595	0.09%
Crow Holdings Realty Partners II	2,735,812	0	2,735,812	0.55%
Oaktree Capital Management (OCM Fund B)	5,546,558	0	5,546,558	1.10%
Hudson Advisors (Lone Star I, II, III,IV,V)	33,702,045	0	33,702,045	6.71%
Olympus Real Estate Fund II & III	7,753,463	0	7,753,463	1.54%
Subtotal	50,213,473	0	50,213,473	10.00%
Total Real Estate	741,904,464	239,937,000	501,967,464	100.00%

Total Real Estate with Loan Program (net)

501,967,464

Total Fund Market Value

3,081,811,440

\$

%

Target Value (\$ and %)

462,271,716

15.00%

Market Value (\$ and %)

501,967,464

16.29%

Variance from Target

39,695,748

1.29%

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The meeting was recessed at 2:05 p.m.

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

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

Conference: Board and Staff Annual Workshop

Dates: October 23-26, 2006

The Board and briefly discussed the annual workshop.

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

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11. 2007 Board meeting and workshop calendar

Staff discussed proposed 2007 Board meeting and workshop dates.

After discussion, Mr. Wachsman made a motion to approve the proposed 2007 Board meeting schedule. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

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12. Possible relocation of Pension System offices

The Board and staff discussed with CDK Realty Advisors the possible relocation of Pension System offices. The Board gave direction to the staff.

No motion was made.

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13. CDK Realty Advisors

- a. Possible sale of land in Dallas, Texas
- b. Possible purchase of land in Dallas, Texas
- c. Status of existing portfolio and plans for future activities with regard to that portfolio

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13. CDK Realty Advisors (continued)

The Board went into a closed executive session – real estate at 2:27 p.m.

Messrs. Cooley, Donahue, Kroener, and Edwards from CDK Realty Advisors, one of the System’s real estate investment managers, discussed a possible sale of land in Dallas, Texas. They also discussed a possible purchase of land in Dallas, Texas.

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

Additionally, CDK discussed the existing portfolio with the Board and staff.

No motion was made in open session.

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14. Possible revision to the Real Estate Investment Procedures and Guidelines

Mr. Tettamant distributed draft revised Real Estate Investment Procedures and Guidelines and requested that the Board review them prior to the regular December Board meeting at which time they will be discussed.

No action was taken.

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15. Investment issues

- a.** Global asset allocation
- b.** Global equities

Mr. Tettamant stated that the Board reviewed global asset allocation at the October 2006 workshop as part of the 2007 Tactical Investment Plan. The Board directed the staff and the consultant to review various global asset allocations investment products. A follow up meeting with recommendations regarding global asset allocation will be presented at the February Board meeting with the investment consultant.

The Board has reviewed global equity investment management for the System’s investment portfolio with staff and the investment consultant.

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15. Investment issues (continued)

Mr. Humphreys, of NEPC, discussed the forthcoming global asset allocation manager search and a global equity manager search.

The Board directed the staff to have NEPC, the System's general investment consultant, provide advance materials to the Board, with a search for a global asset allocation manager to be held in February.

After discussion, Mr. Shaw made a motion to direct the staff and investment consultant to finalize their recommendations regarding global equity investment managers, for a search to be held in February. Mr. McCollum seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. McCollum made a motion to receive and file the investment consultant's report on the two manager searches. Mr. Edge seconded the motion, which was unanimously approved by the Board.

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16. W. R. Huff Asset Management Company

- a. W. R. Huff High Yield
- b. W. R. Huff Energy Fund

Mr. Humphreys discussed the performance of the W. R. Huff High Yield Fund and the W. R. Huff Energy Fund with the Board and staff. Dwight Walker, of W. R. Huff Asset Management Company, was present. W. R. "Bill" Huff participated in the discussion by telephone conference call.

After discussion, Mr. Wachsman made a motion to reduce the System's investment in the W. R. Huff High Yield Fund by \$50 million, with the staff to provide recommendations for reinvesting the money. Mr. Umlor seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Wachsman made a motion not to change the System's investment in the W. R. Huff Energy Fund. Mr. Edge 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 members or pensioners were present to discuss concerns.

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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. Shaw 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

Mr. Wachsman requested that the System offer payroll deduction of contributions to the Fire Museum. This request will be placed on the Board agenda for consideration.

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The Administrator stated that there was no further business to come before the Board. On a motion by Mr. Wachsman and a second by Mr. Shaw, the meeting was adjourned at 5:05 p.m.

Gerald Brown
Chairman

ATTEST:

Richard L. Tettamant
Secretary