

AGENDA



Date: October 17, 2008

A special meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **11:00 a.m. on Thursday, October 23, 2008 in the First Floor Conference Room at 2301 North Akard Street, Dallas, Texas.** Items of the following agenda will be presented to the Board:

A. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

Highland Capital Management

- a.** Organizational update
- b.** Highland Crusader Fund, L.P.
- c.** Highland Credit Opportunities CDO, L.P.
- d.** Possible additional investment in Highland Credit Opportunities CDO, L.P.
- e.** Status of existing portfolio and plans for future activities with regard to that portfolio

B. BRIEFING ITEMS

Administrator's report

The term "possible action" in the wording of any Agenda item contained herein serves as notice that the Board may, in its discretion, dispose of any item by any action in the following non-exclusive list: approval, disapproval, deferral, table, take no action, and receive and file.

At any point during the consideration of the above items, the Board may go into Closed Executive Session as per Texas Government Code, Section 551.071 for consultation with attorneys, Section 551.072 for real estate matters, Section 551.074 for personnel matters, and Section 551.078 for review of medical records. An expression of preference or a preliminary vote may be taken by the Board on any briefing item or item discussed in executive session.

At the discretion of the Board, items on this agenda may be considered at times other than those indicated above.

Dallas Police and Fire Pension System
Thursday October 23, 2008
11:00a.m.
2301 North Akard Street
First Floor Conference Room
Dallas, Texas

Special meeting, Gerald Brown, Chairman, presiding:

ROLL CALL

Board Members

Present: Jerry Allen, Gerald Brown, Gary W. Edge, John M. Mays, Rector C. McCollum, Steven G. Shaw, George Tomasovic, Steven H. Umlor, and Richard H. Wachsman

Absent: Dwaine R. Caraway, Pauline Medrano, and David A. Neumann

Staff Brian Blake, Don Rohan, Everard Davenport, Mike Taylor, John Holt, Talal Ellass, Larry Landfried, Greg Irlbeck, Christina Wu, and Linda Rickley

Others Gary Lawson, Mark Okada, Maureen Mitchell, and Brian Cox

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The meeting was called to order at 11:00 a.m.

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A. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

Highland Capital Management

- a. Organizational update
- b. Highland Crusader Fund, L.P.
- c. Highland Credit Opportunities CDO, L.P.
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Highland Capital Management (continued)

Mr. Blake, Assistant Administrator – Investments gave the following report to the Board:

- The Highland Crusader Fund is an event driven, distressed debt strategy. The fund typically invests in the senior secured obligations of financially distressed or stressed companies and seeks to maximize value through its influence or control of the workout and restructuring process. The System made its initial investments in the Crusader Fund in August of 2003.
- The Highland Credit Opportunities Fund is a multi-strategy product that invests across the credit markets in both private and public transactions. The fund invests in a diverse portfolio of primarily below investment grade debt securities including bank loans, corporate and high yield bonds, stressed/distressed loans and bonds, credit derivatives and other structured products, and special situations/equities. The System made its initial investments in the Credit Opportunities Fund in December of 2006.
- An initial investment of \$20MM was made to the Crusader Fund in Aug. of 2003 with additional investments in the amounts of \$7.5MM, \$12MM, and \$11.4MM funded in Aug. 2004, Dec. 2004, and April 2005 respectively (total of \$50.9MM)
- In Dec. 06, \$30MM was taken out of the Crusader fund and invested in the Credit Opportunities Fund.
- As of end of September 2008, System's estimated account balance for the Crusader Fund is \$52.4MM and \$20.4MM for the Credit Opportunities Fund.
- As of September 2008, the combined IRR on both the Crusader Fund and the Credit Opportunities Fund is 8.57% with the Crusader Fund returning 14.15% IRR since Aug.2003 and the Credit Opportunities Fund returning -18.98% IRR since Dec.2006.
- On October 14, Highland Capital communicated to the System a proposal to raise additional equity from existing investors in order to meet an Over Collateralization (OC) covenant for the Market Value Notes that the fund issued. Failure to meet the OC test will allow the Market Value note holders to liquidate the assets of the fund and create significant losses for the fund investors.

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Highland Capital Management (continued)

- The proposal
 - Current fund investors agree to lock their investments until December 31, 2009.
 - Additional fund investors agree to lock their investments until December 31, 2010.
 - Other terms from Highland Capital Management available at the meeting.
- On Oct.15, Highland Capital communicated to the System its decision to liquidate the Crusader Fund. Highland estimates that 40% of the portfolio will be liquidated over the next 12 months with the remainder paid out over a period of up to 4 years.
- Both funds have been impacted by price declines of the underlying assets and the use of leverage.

Mark Okada, Maureen Mitchell, and Brian Cox, of Highland Capital were present to give the Board an organizational update, and portfolio reviews on Highland Crusader Fund, L.P. and Highland Credit Opportunities CDO, L.P. Mr. Okada also discussed a possible additional investment in Highland Credit Opportunities CDO, L.P.

After discussion, Mr. Wachsmann made a motion to approve an investment of up to \$10 million in the Highland Credit Opportunities CDO, L.P., subject to successful notes issued by Highland Credit Opportunities CDO, L.P., 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.

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B. BRIEFING ITEMS

Administrator's report

No report was given. No motion was made.

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The Assistant Administrator – Investments stated that there was no further business to come before the Board. On a motion by Mr. Edge and a second by Mr. Shaw, the meeting was adjourned at 1:16 p.m.

[Signature]

Gerald Brown
Chairman

ATTEST:

[Signature]

Richard L. Tettamant
Secretary