



INVESTMENTS

STRATEGIC INVESTMENT POLICY

The Strategic Investment Policy of the Dallas Police and Fire Pension System (“the System”) provides the framework for management of the System’s assets. It has been designed to allow sufficient flexibility in the management process to capture investment opportunities as they may occur, yet provide reasonable parameters to ensure prudence and care in the execution of the investment program.

It is essential that the value added by the System’s investment management be appropriate not only to meet inflationary effects, but also to provide additional returns above inflation to meet the investment goals of the System. Meeting the System’s investment goals finances an optimal package of retirement benefits for Dallas police officers and firefighters and maximizes the utilization of the members’ contributions and the tax dollars of the citizens of Dallas.

STATEMENT OF INVESTMENT GOALS

The general investment goals of the System are broad in nature to encompass the purpose of the System and its investments. They articulate the philosophy by which the Board will manage the System’s assets within the applicable regulatory constraints.

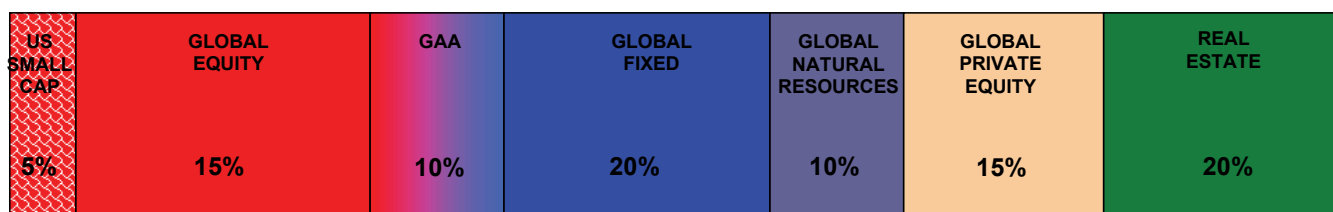
1. The overall goal of the System is to provide benefits, as anticipated under the pension plan, to its participants and their beneficiaries through a carefully planned and executed investment program.
2. The System seeks to produce the highest return on investment that is consistent with levels of liquidity and investment risk that are prudent and reasonable, given prevailing capital market conditions. While the importance of the preservation of capital is recognized, the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with compensating returns is also recognized.
3. The pension investment program shall at all times comply with existing and future applicable state and federal regulations.

STRATEGIC ASSET ALLOCATION POLICY

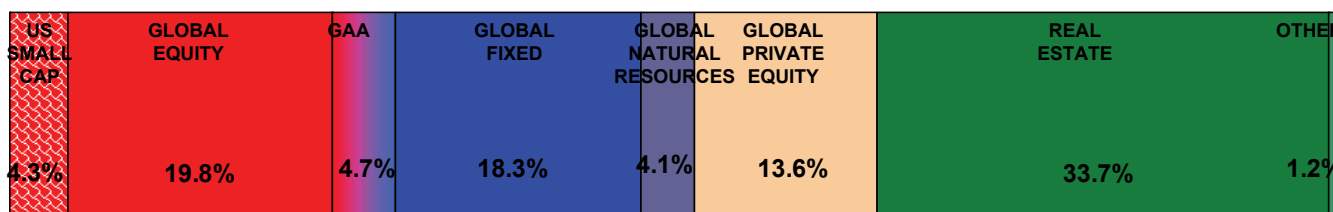
In order to achieve maximum returns, the policy of the Board of Trustees (“the Board”) is to diversify between various investment types as deemed suitable.

The Board has adopted an asset allocation policy with the following primary asset groups, Global Equity (Public equity and Private equity), Global Natural Resources, Global Fixed Income (Public Fixed Income and Private Fixed Income), Global Asset Allocation, and Real Estate, as shown in the chart below:

2009 Target Asset Allocation



Actual Asset Allocation



The plan has a -0.7% cash position.

“Other” reflects the capital recovered from the Reef Infrastructure strateav.

An asset allocation review is conducted monthly. This comparison is developed from the month end asset valuation obtained from the System’s custodian. If the comparison reveals that an account is outside the designated range, as specified in the Investment Implementation Policy, the Board may direct the Administrator to effect a reallocation of assets by month end to achieve the target allocation.

GENERAL INVESTMENT MANAGER GUIDELINES

Investment management for the System is provided by external investment managers. Each investment manager operates under a set of guidelines specific to the strategic role its portfolio is to fulfill in the overall investment structure. Individual managers are evaluated according to benchmarks that reflect the objectives and characteristics of the strategic role their managed portfolio is to fulfill.

INVESTMENT HIGHLIGHTS

Calendar year 2008 was one of the most challenging and disappointing years for global investors since the Great Depression. The broad US stock market as measured by the S&P 500 index returned about -37%, the worst calendar-year performance since 1931. International markets plummeted about -45% as the credit crisis and economic distress resonated worldwide. The financial sector, the center of the crisis, was hit the hardest, but no sector or asset class was safe from the market's violent force. Against this backdrop, the System's assets are valued at \$2.55 billion, representing a 24.0% decline for the year.

Although it was certainly a disappointing year, the System maintained its long-term perspective. The System ranked in the top 9% over three-year, and top 1% over five-year among public funds by NEPC, the System's investment consultant, the System continues to rank among the best performing public pension plans in the nation. The System's use of multiple investment strategies, asset diversification, and asset rebalancing, has served us well over many market cycles and will continue to help the System achieve its financial goals in the years to come. For a more detailed comparison, see "Rates of Return by Asset Class" below.

Rates of Return by Asset Class

INVESTMENT CATEGORY	RATE OF RETURN	BENCHMARK COMPARISON	BENCHMARK
Global Equity			
Domestic Equity	-37.92%	-37.00%	S&P 500
International Equity	-45.20%	-45.24%	MSCI EAFE
Global Fixed Income			
Global Aggregate Bonds	3.53%	4.79%	BC Global Aggravated Index
Global Opportunistic	-31.96%	-25.92%	Citi Comp High Yield
Global Asset Allocation	-20.94%	8.07%	90 Bill+ 600BPS
Real Estate	-0.44%	-6.46%	Townsend Group Stylized Index
Cash Equivalent	2.83%	2.06%	91 Day T Bill

Global Equity Portfolio

The System's Global Equity portfolio represents 37.7% of System's total market value of which 24.1% represents public equity. Investment products that make up the public equity composite include domestic equity, international equity, and global equity portfolios. Domestic equities fared better as measured by the S &P 500 Index one year return of -37%, whereas international stocks performed worse returning -45% for the year. The System's Global Equity portfolio declined along with the broad equity markets with ending market value of approximately \$614.6 million.

Top Ten Equity Holdings

SECURITY DESCRIPTION	MARKET VALUE BASE
Nestle SA	\$6,565,557.56
Roche Hldg AG Genusscheine	\$6,356,943.20
Exxon Mobil Corp	\$6,075,063.00
Vodafone Group	\$5,375,149.61
Telefonica SA	\$5,239,279.17
Time Warner Cable Inc	\$4,383,672.15
Microsoft Corp	\$4,352,616.00
Chevron Corp	\$4,253,275.00
Schlumberger	\$4,224,534.00
Novartis AG	\$4,205,206.00

The System's private equity portfolio represents approximately 13.6% of the System's total investment portfolio. Among the investments which performed well for 2008, Merit Energy returned 14.4% and Huff Energy returned 9.9% while the North Texas Growth Opportunity Fund returned 39.2%. Private equity investments made during 2008 include commitments to Levine Leichtman Capital Partners IV, JP Morgan Asian Infrastructure & Related Resources, Lone Star CRA Fund, HM Capital Partner Sector Performance Fund and a \$40 million co-investment in American Beacon Advisors. Levine Leichtman Capital Partners IV seeks to make structured equity investments in entrepreneurially led companies located in the United States while the JP Morgan Asian Infrastructure & Related Resources seeks to invest in core infrastructure projects across Asia.

Global Natural Resources

Global Natural Resources was added to the System's asset allocation mix to represent the System's existing investments in global natural resources and continuing commitment to alternative energy, eco-friendly and sustainable technology investing. The portfolio consists of the System's energy, farmland, and timber holdings as well as newly made investments in the RCM EcoTrends and Robeco Sustainable Asset Management products.

The System's timber and farmland holdings continued to outperform their respective benchmarks. The timber portfolio is managed by Forest Investment Associates and RMK Timberland Group. As of the year ending 2008, timber investments had a market value of approximately \$94.7 million with a one year return of 12.2%. Longer term performance for the timber portfolio has provided 15.7% and 16.2% for the three year, and five year period ending 2008. The System's farmland holdings managed by the Hancock Agricultural Investment Group has a market value of approximately \$72.4 million and has an impressive annualized return of 23.4% over a five year period. The 2008 return for the agricultural investments was 10.5% net of fees. At year end the agricultural investments were diversified by type and location with approximately 82% located in the United States and approximately 18% in Australia. The crops include apples, cranberries, almonds, pistachios, walnuts, macadamia nuts, and wine grapes.

In third quarter 2008, the Board approved a \$20 million commitment to Hancock Agricultural Investment Group for future row crop acquisitions.

Global Fixed Income Portfolio

The System's global fixed income investments represent approximately 18.3 % of the total portfolio. While the global high quality fixed income market had a moderate return of 4.8% for the year, the global high yield and opportunistic fixed income market tanked along with the global equity market. The

Top Ten Fixed Income Holdings

SECURITY DESCRIPTION	MARKET VALUE
Japan	\$14,557,637.62
Mexico (UTD MEX ST)	\$8,709,387.78
U.S. Treasury Bonds	\$8,668,118.01
Freeport-McMoran Copper & Gold	\$7,175,000.00
Poland (Gov't of)	\$6,415,384.52
New South Wales Treasury Corp.	\$5,560,037.90
France (Gov't of)	\$5,094,291.40
AES Corp	\$3,901,334.64
Range Resources Corp	\$3,679,650.00
CitiBank	\$2,897,600.77

Citigroup High Yield index returned -25.9% for the year. Among the high quality fixed income managers, Mondrian Investment Partners returned an impressive 13.3% for the Fund and outperformed their benchmark, the BC Global Aggregate index, by 8.5%.

Global Asset Allocation Portfolio

The System's Global Asset Allocation portfolio represents approximately 4.7% of the System's market value. Among the three Global Asset Allocation Managers, GMO performed better among its peers, returning -10.3%, while Bridgewater All-Weather and Mellon Capital Management returned -24.2% and -29.1% for the year respectively. The Global Asset Allocation category has a target asset allocation of 10% which is anticipated to be fully funded over the next two years.

Real Estate Portfolio

Amid one of the worst 12-month periods on record for the equity market, the global real estate market also weathered an unusually difficult year, as fallout from the subprime-mortgage crisis continued to rock the real estate market. Among the investments affected the most, the System's public real estate portfolio consisting of investments in Real Estate Investment Trusts (REITs) declined 46.8% net of fees. As of end of 2008, the System's public real estate portfolio has an ending market value of approximately \$20 million.

The System's private real estate portfolio represents approximately 97.7% of the total real estate portfolio, diversified by the type and location of the real estate asset owned. The private portfolio consists of retail, industrial, multi-family, office, and undeveloped land. The location of the private assets covers the United States from Hawaii, Idaho, California, Arizona, Nebraska, Colorado, Georgia, Wisconsin, Nevada, and Texas. International locations of the System's private real estate investments include Paris, France and the Bahamas.

The System had strong performance in the private real estate portfolio from Kennedy Associates Real Estate Counsel, LP returning 49.9% net of fees for the year. Overall Kennedy Associates Real Estate Counsel has had strong performance with annualized return of 22.2% and 20.6% net of fees over three and five year period ending 2008. L&B Realty Advisors, who manage approximately \$72.1million of assets on behalf of the System, also posted a positive year returning 4.5% net of fees for the year. Longer term returns are 10.1% and 9.3% net of fees over the three year and five year period respectively.

The performance history for the System's private real estate is impressive albeit a difficult 2008. Having returned net annualized numbers of 8.1%, and 11.7% respectively for three years, and five years ending 2008, the System's real estate portfolio has consistently outperformed the weighted benchmark.

INFLATION

Inflation as measured by the Consumer Price Index for all Urban Consumers (CPI-U) rose 0.1% for the year 2008 according to the U.S. Department of Labor.

