



INVESTMENTS





STRATEGIC INVESTMENT POLICY

The Strategic Investment Policy of 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. The System's Strategic Investment Policy is published on the System's website at www.dpfp.org. (See "Policies" under the "About Us" tab.)

STATEMENT OF INVESTMENT GOALS

The 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 of Trustees ("the Board") will manage the System's assets within the applicable regulatory constraints.

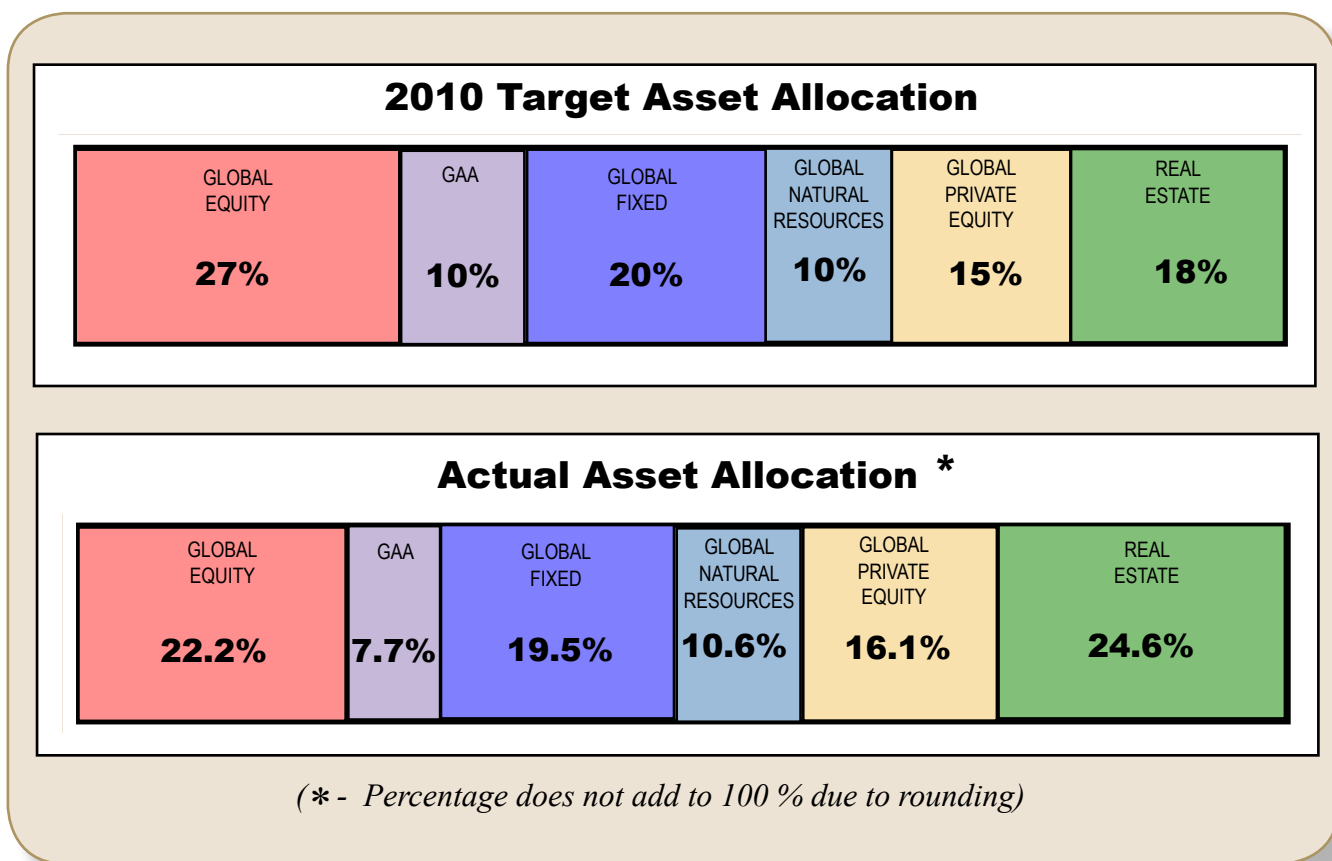
1. The overall goal of the System is to provide benefits, as anticipated under the pension plan, to its participants and their beneficiaries through a carefully planned and executed investment program.
2. The System seeks to produce the highest return on investment that is consistent with levels of liquidity 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 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 Global Real Estate, as shown in the chart below.

An asset allocation review is conducted monthly by the Board and staff. 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 as soon as administratively possible.



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

The global financial markets experienced a roller coaster ride during 2010. While strong corporate earnings and the Federal Reserve's commitment to a second round of quantitative easing lifted the markets, the high United States unemployment rates, a depressed United States housing market, and concerns over Europe's sovereign debt problems weighed on the markets. Despite many ups and downs, the global financial markets finished the year with strong gains. The broad United States stock market as measured by the S&P 500 returned 15.1%. Small- and mid-capitalization stocks did even better, returning 26.9% as measured by the Russell 2000 index. Outside the United States the international markets returned 11.15% as measured by the MSCI ACWI ex US index. Against this backdrop, the System's investment portfolio had an annual return of 11.4% net of fees. While the Global Equity and Global Natural Resources investments led with double digit gains, all of the System's major asset classes had positive returns for the year. At the end of 2010, the System's assets were valued at \$3.11 billion.

The System maintained its long-term perspective in 2010. The System's financial composite comprised of Global Public Equity, Global Asset Allocation, the public portion of the Global Fixed Income and the Global Natural Resources portfolios ranked in the top 4% among public plans according to NEPC, the System's general investment consultant. The System also received the "2010 Projects of the Year" award from *American Road and Transportation Builders Association* for participation as an equity partner in infrastructure investments in North Texas to rebuild the managed lanes sections of State Highways 121 and 183 and Interstate Highway 820 in Tarrant County, as well as the managed lanes sections of the LBJ express way in Dallas County.

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 to continue to achieve its financial goals in the future. For a more detailed comparison, see "Rates of Return by Asset Class" below.

Rates of Return by Asset Class

Asset Class	2010 Return	Benchmark Return	Benchmark
Global Equity			
Global Public Equity	17.34%	12.70%	MSCI ACWI
Global Private Equity	11.90%	17.30%	S&P 500 + 2%
Global Natural Resources	17.39%	8.41%	Custom
Global Fixed Income	16.21%	5.50%	BC Global Aggregate
Global Asset Allocation	12.00%	6.10%	T-Bill +600BPS
Global Real Estate	3.07%	11.72	Townsend Group Stylized Index
Cash Equivalent	0.17%	0.12%	T-Bill

Global Equity Portfolio

The System's Global Equity portfolio consists of the System's investments in global public equities as well as global private equities. The asset allocation target for global public equities is 27% while the target for global private equities is 15%. Public equities are those securities traded on any of the world's security markets. Private equities generally are not publicly traded.

As of December 31, 2010, the System's public equities investments returned 17.34% compared to a return of 12.70% by the MSCI ACWI index, a measure of global equity markets. The investments were valued at \$690 million, representing 22.2% of the System's total market value. Tradewinds Global Investors LLC, a global all capitalization manager funded in fourth quarter 2009, finished the year with a gain of 25.5%, while OFI Institutional Asset Manager had an annual rate of return of 16.2%. Also included in this portfolio are the System's investments in public real estate consisting of Real Estate Investment Trusts (REITs) totaling approximately \$51 million.

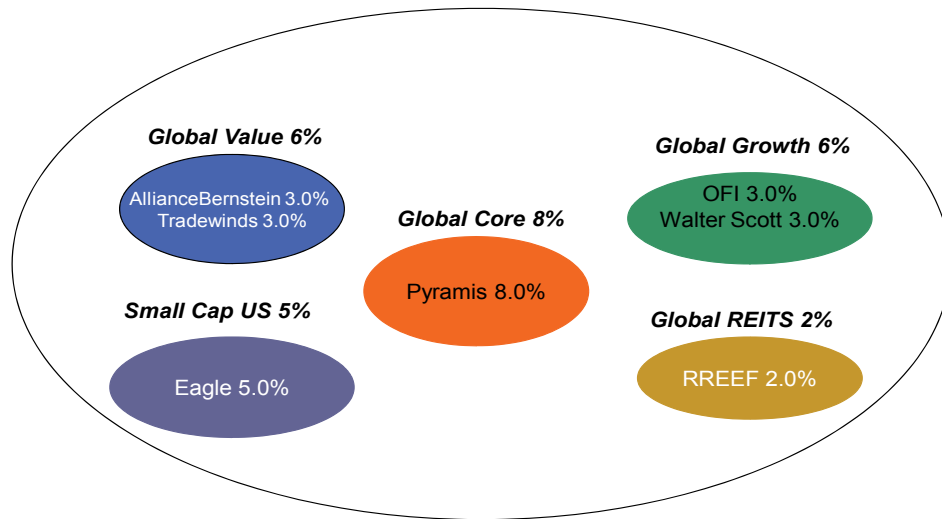
As of the end of 2010, the System's Global Private Equity portfolio is valued at approximately \$518 million, representing 16.6% of the System's total investment portfolio. The annualized rate of return of the Global Private Equity portfolio was 11.90% for 2010. Among the top performing private equity investments, the Lone Star CRA Fund and North Texas Opportunity Fund, both advised by the Dallas based Lone Star Investment Advisors, returned 61.7% and 11.3% for the year respectively.

New private equity investments made by the System during 2010 included closing on a \$50 million investment with the LBJ Infrastructure Group, and closing on a \$50 million investment with JP Morgan Global Maritime Investment Fund. The System's investment objective is to seek a combination of income and capital appreciation over a multi-year holding period.

Top Ten Global Equity Holdings

Security Description	Market Value
PFIZER INC	\$5,607,577.50
WAL-MART STORES INC	\$5,002,816.45
NIPPON TELEGRAPH & TELEPHONE CORP (NTT)	\$4,472,258.19
NESTLE SA	\$4,232,801.74
MICROSOFT CORP	\$4,069,898.40
JOHNSON & JOHNSON	\$4,063,545.00
NEWMONT MINING CORP	\$3,883,911.75
NOVO-NORDISK AS	\$3,641,504.45
BARRICK GOLD CORP	\$3,481,960.50
ERICSSON	\$3,410,173.36

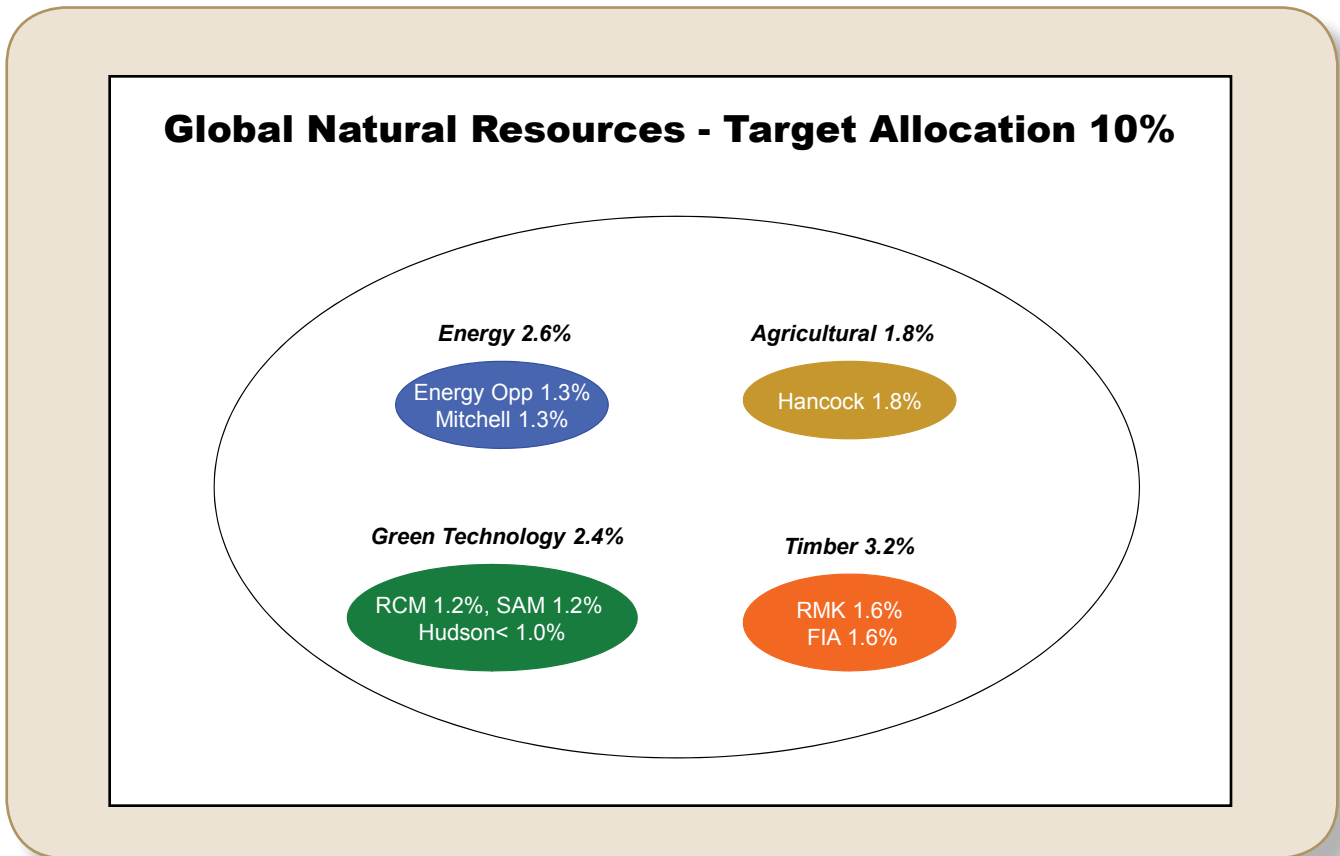
Global Public Equity - Target 27%



Global Natural Resources

Global Natural Resources allocation represents the System’s continuing commitment to natural resources, clean water, as well as green technology. This portfolio includes energy, farmland, timberland, and alternative energy investments.

The System’s energy holdings are managed by Energy Opportunities Capital Management and the Mitchell Group. Both managers produced solid gains outperforming their respective benchmarks for the year. The System’s timber portfolio is managed by Forest Investment Associates and RMK Timberland Group. The timber investments managed by Forest Investment Associates are primarily located in the southeastern parts of the US while the RMK Timberland portfolio has a global footprint with investments in the US as well as South America. At the year end, timber investments had a market value of approximately \$119 million with a one year return of 4.2% The System’s farmland holdings managed by the Hancock Agricultural Investment Group continued to generate stable and solid returns, returning 12.3% for the year and 14.7% over a five year period. At year end the farmland portfolio had a market value of approximately \$88 million. The crops include apples, cranberries, almonds, pistachios, walnuts, macadamia nuts and wine grapes. RCM Capital Management, Sustainable Asset Management, USA, and Hudson Clean Energy Partners make up the System’s investments in clean water and alternative energy. During the year Hudson Clean Energy Partners completed a successful sale of one of its portfolio investments and had an impressive 22.61% appreciation for the year.



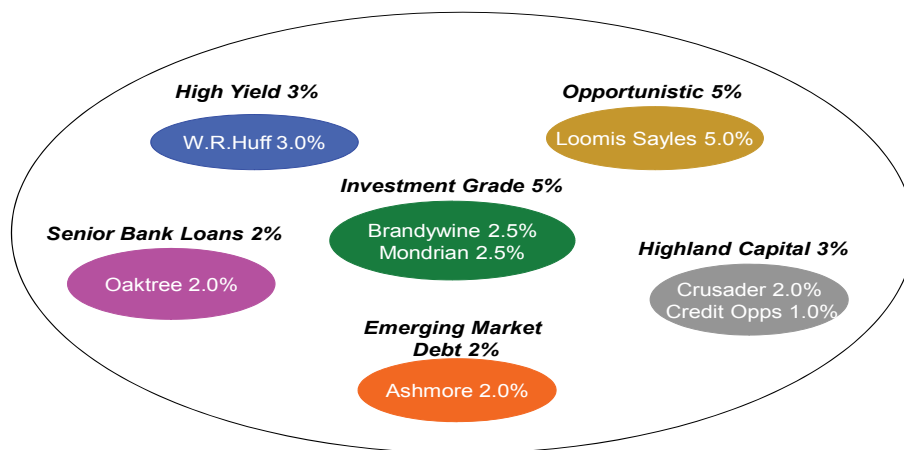
Global Fixed Income Portfolio

The System’s Global Fixed Income investments represent approximately 19.3 % of the total portfolio and returned 16.21% for the year. While the global high quality fixed income market had a moderate return of 5.5%, the System’s high quality fixed income investments outperformed the index, including the high quality fixed income portfolio managed by Brandywine Global Investment Manager returning 13.3%, and the Mondrian Investment Partners portfolio that returned 8.3%. The global high yield and opportunistic fixed income market fared better, with the Citigroup High Yield Index returning 14.3% for the year. The System’s high yield portfolio managed by W. R. Huff Asset Management returned 24.2% and Loomis Sayles gained 18.0%. The Ashmore Emerging Market Debt portfolio also had solid gains returning 18.4% for the year outperforming its benchmark – the 70% Merrill Lynch High Yield / 30% JP Morgan EMD – by 6.6%.

Top Ten Global Fixed Income Holdings

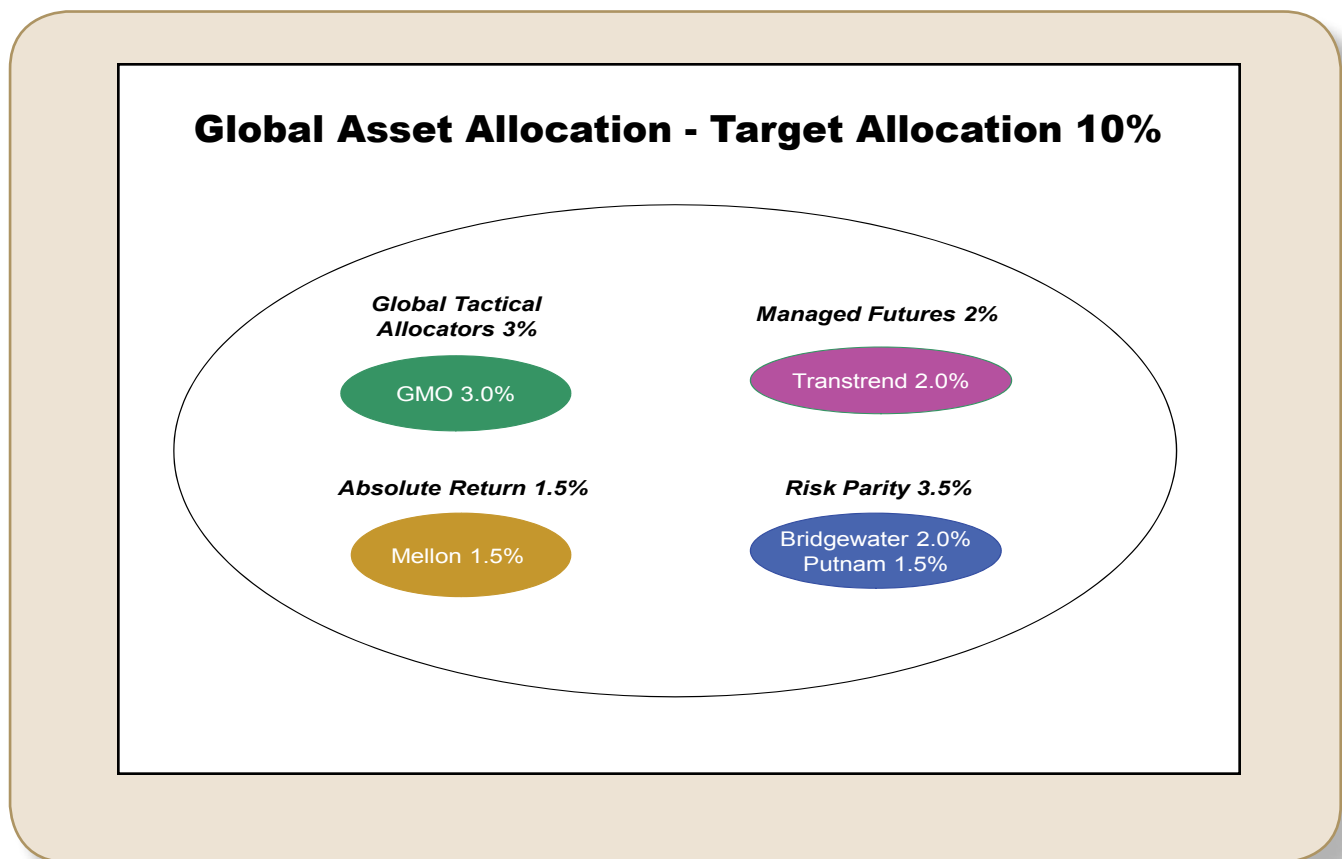
Security Description	Market Value
VALEANT PHARMACEUTICALS INTL 4% CNV BDS 11/15/2013	\$6,238,400.00
UNITED STATES TREASURY BDS 4.25% 11/15/2040	\$5,686,075.00
NEW SOUTH WALES TREASURY CORP 6% BDS 04/01/2016	\$5,507,546.84
BORDEN INC 7.875% DEBS 02/15/2023	\$5,030,100.00
POLAND (REPUBLIC OF) 5.25% BDS 10/25/2017	\$4,857,756.95
SWEDEN (KINGDOM OF) 5.50% BDS 10/08/2012	\$4,671,354.93
BRAZIL (FED REP OF) 10.25% SNR BDS 01/10/2028	\$4,301,810.84
LUCENT TECHNOLOGIES 6.45% DEB 03/15/2029	\$4,078,770.00
DENBURY RESOURCES INC 7.50% 12/15/2015	\$4,074,795.00
JAPAN 1.5% BDS JPY50000 SER 296 09/20/2018	\$3,888,145.00

Global Fixed Income - Target Allocation 20%



Global Asset Allocation Portfolio

The System's Global Asset Allocation (GAA) portfolio represents approximately 7.7% of the System's market value. The GAA portfolio has a target allocation of 10% and is designed to produce absolute returns regardless of market conditions. As of year-end of 2010 this portfolio was valued at approximately \$238 million representing a return of 12% over the year. The System funded Putnam Total Return Trust and Robeco Transtrend Diversified Fund, LLC in the GAA category, each with a 1.5% allocation prior to yearend 2009. The Putnam Total Return Trust returned 14.2% while the Robeco Transtrend Diversified Fund, LLC returned 17% for the year. The Bridge Water All Weather portfolio led the GAA managers with a one-year return of 21.1%. Also included in this portfolio is approximately \$80 million managed by Grantham, Mayo, Van Otterloo & Co. (GMO). In December of 2010 the entire GMO portfolio was transferred from the Real Return Global Balanced Asset Allocation strategy to the Global Allocation Absolute Return strategy with a goal of generating relatively strong real returns over a market cycle.



Global Real Estate Portfolio

The System's global real estate portfolio is diversified by the type and location of the real estate assets owned. The portfolio consists of retail, industrial, multi-family, office, and undeveloped land. The location of the private assets covers the United States. International locations of the System's private real estate investments include Paris, France and the Bahamas.

The System's private real estate returned 3.07% net of fees for the year amid a slowly recovering real estate market. Longer term, the private real estate portfolio has returned 3.8% net of fees for the 5-year period and has outperformed the benchmark in 7-year, 10-year, and 15-year periods.

The System's real estate portfolio experienced an upturn in commercial real estate activities during the 4th quarter of 2010. The System sold two of its retail assets, achieving a return higher than the overall real estate portfolio. Additionally, the System had three other assets under contract at the end of the year. The System also renegotiated outstanding property level debt on some of its real estate assets, which resulted in more favorable terms for the System, such as lower financing costs, longer maturity, and reduced principal.

INFLATION

Inflation as measured by the Consumer Price Index for all Urban Consumers (CPI-U) increased 1.5% from December 2009 through December 2010 according to the U.S. Department of Labor.

