

## AGENDA



**Date:** January 13, 2021

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, January 14, 2021, via telephone conference for audio at 214-271-5080 access code 588694 or Toll-Free (US & CAN): 1-800-201-5203 and Zoom meeting for visual <https://us02web.zoom.us/j/83928343317?pwd=ZUxucEZyVTBjaW1ubXVMbGRJYWdaQT09> Passcode: 136490.** Items of the following agenda will be presented to the Board:

### **A. MOMENT OF SILENCE**

### **B. CONSENT AGENDA**

#### **1. Approval of Minutes**

Regular meeting of December 10, 2020

#### **2. Approval of Refunds of Contributions for the Month of December 2020**

- 3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for January 2021**
- 4. Approval of Estate Settlements**
- 5. Approval of Survivor Benefits**
- 6. Approval of Service Retirements**
- 7. Approval of Alternate Payee Benefits**
- 8. Approval of Payment of Military Leave Contributions**

**C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION**

**1. Chairman's Discussion Items**

Formation of small independent study group to explore ways to enhance DPF<sup>2</sup> funding status

- 2. 87th Legislative Session Preview**
- 3. Staff Retirement Plan**

- 4. Monthly Contribution Report**
- 5. Board approval of Trustee education and travel**
  - a. Future Education and Business-related Travel
  - b. Future Investment-related Travel
- 6. Actuarial Services**
- 7. Legislative Services**
- 8. Portfolio Update**
- 9. Investment Advisory Committee**
  - a. Report on Investment Advisory Committee
  - b. Investment Advisory Committee Meetings
- 10. Global Equity Structure and Passive Investment Manager**
- 11. Private Asset Cash Flow Projection Update**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.072 of the Texas Government Code

**12. Real Estate Overview**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.072 of the Texas Government Code

**13. Lone Star Investment Advisors Update**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.071 of the Texas Government Code.

**14. Legal issues - In accordance with Section 551.071 of the Texas Government Code, the Board will meet in executive session to seek and receive the advice of its attorneys about pending or contemplated litigation or any other legal matter in which the duty of the attorneys to DFPF and the Board under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with Texas Open Meeting laws.**

**15. Executive Director 2021 Objectives**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.074 of the Texas Government Code.

## **D. BRIEFING ITEMS**

- 1. Public Comment**
- 2. Executive Director's report**
  - a. Associations' newsletters**
    - NCPERS Monitor (December 2020)
    - NCPERS Monitor (January 2021)
  - b. Open Records**
  - c. Operational Response to COVID-19**
  - d. Peer Compensation Review Status**

The term "possible action" in the wording of any Agenda item contained herein serves as notice that the Board may, as permitted by the Texas Government Code, Section 551, 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 the discretion of the Board, items on this agenda may be considered at times other than in the order indicated in this agenda.

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.



## ITEM A

### MOMENT OF SILENCE

**In memory of our Members and Pensioners who recently passed away**

| NAME               | ACTIVE/<br>RETIRED | DEPARTMENT | DATE OF DEATH |
|--------------------|--------------------|------------|---------------|
| Royce L. Bonsal    | Retired            | Fire       | Nov. 24, 2020 |
| Grady L. Foster    | Retired            | Fire       | Nov. 24, 2020 |
| Donald H. Milliken | Retired            | Police     | Nov. 29, 2020 |
| S. J. O'Briant     | Retired            | Fire       | Dec. 7, 2020  |
| Gordon C. Johnson  | Retired            | Fire       | Dec. 9, 2020  |
| Gonzalo Gonzales   | Retired            | Police     | Dec. 13, 2020 |
| Norma J. Holland   | Retired            | Police     | Dec. 13, 2020 |
| Zachary N. Belton  | Retired            | Police     | Dec. 16, 2020 |
| Cecil W. Ledbetter | Retired            | Fire       | Dec. 17, 2020 |
| Shirley A. Gray    | Retired            | Police     | Dec. 20, 2020 |
| Holley M. Ashcraft | Retired            | Police     | Dec. 25, 2020 |
| F. G. Irwin        | Retired            | Fire       | Dec. 27, 2020 |

*Regular Board Meeting – Thursday, January 14, 2021*

**Dallas Police and Fire Pension System  
Thursday, December 10, 2020  
8:30 a.m.  
Via telephone conference**

Regular meeting, Nicholas A. Merrick, Vice Chairman, presiding:

**ROLL CALL**

**Board Members**

Present at 8:32 a.m. William F. Quinn, Nicholas A. Merrick, Armando Garza, Michael Brown, Robert B. French, Gilbert A. Garcia, Kenneth Haben, Tina Hernandez Patterson, Steve Idoux, Mark Malveaux, Allen R. Vaught

Absent: None

**Staff**

Kelly Gottschalk, Josh Mond, Kent Custer, Brenda Barnes, John Holt, Damion Hervey, Cynthia Thomas, Ryan Wagner, Greg Irlbeck, Michael Yan, Milissa Romero

**Others**

Scott Freeman, Rachel Pierson, Leandro Festino, Aaron Lally, Bryce Brunsting, Todd Rosa

\* \* \* \* \*

The meeting was called to order and recessed at 8:32 a.m.

\* \* \* \* \*

**A. MOMENT OF SILENCE**

The Board observed a moment of silence in memory of active police officer Bronc McCoy, retired police officers Robert A. Furr, Frank S. Williams, and retired firefighters Roy W. Cobb, Michael R. Wilson, Robert H. Pflughoft, H. D. Tharp, Thomas E. Massey.

No motion was made.

\* \* \* \* \*

**B. CONSENT AGENDA**

**1. Approval of Minutes**

- a. Required Public Meeting of November 12, 2020
- b. Regular Meeting of November 12, 2020

**Regular Board Meeting  
Thursday, December 10, 2020**

- 2. Approval of Refunds of Contributions for the Month of November 2020**
- 3. Approval of Survivor Benefits**
- 4. Approval of Service Retirements**
- 5. Approval of Alternate Payee Benefits**
- 6. Approval of Payment of Military Leave Contributions**
- 7. Approval of Payment of Previously Withdrawn Contributions**

After discussion, Mr. Garza made a motion to approve the minutes of the Required Public Meeting and the Regular Meeting of November 12, 2020. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Quinn made a motion to approve the remaining items on the Consent Agenda, subject to the final approval of the staff. Mr. Vaught seconded the motion, which was unanimously approved by the Board.

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**C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION**

**1. Report on Audit Committee**

The Audit Committee met with representatives of BDO on December 8, 2020. The Committee Chair commented on Committee observations and advice.

No motion was made.

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**2. 2019 Financial Audit**

Representatives from BDO, DFPF's independent audit firm, discussed the results of their audit for the year ended December 31, 2019.

After discussion, Mr. Quinn made a motion to approve issuance of the 2019 audit report, subject to final review and approval by BDO and the Executive Director. Mr. Garcia seconded the motion, which was unanimously approved by the Board.

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**3. 2019 Comprehensive Annual Financial Report**

Staff presented a draft of the 2019 Comprehensive Annual Financial Report.

After discussion, Ms. Hernandez Patterson made a motion to authorize the Executive Director to issue the 2019 Comprehensive Annual Financial Report upon finalization. Mr. Garcia seconded the motion, which was unanimously approved by the Board.

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**4. Chairman’s Discussion Items**

2021 Board Calendar

The Board discussed the 2021 Board meeting calendar schedule.

No motion was made.

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**5. Communication Plan**

During the November 2020 Board meeting the Board directed the Executive Director to develop a communication plan related to funding issues. A preliminary discussion document was received from the firm FleishmanHillard. Staff received further direction from the Board on the focus, scope, and goal of the communication plan.

No motion was made.

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**6. Monthly Contribution Report**

The Executive Director reviewed the Monthly Contribution Report.

No motion was made.

\* \* \* \* \*

**Regular Board Meeting  
Thursday, December 10, 2020**

**7. Board approval of Trustee education and travel**

- a. Future Education and Business-related Travel
- b. Future Investment-related Travel

The Board and staff discussed future Trustee education. There was no future Trustee business-related travel or investment-related travel scheduled.

After discussion, Mr. Merrick made a motion to approved Mr. Haben’s request to attend the TEXPERS Annual Conference. Mr. Garcia seconded the motion, which was unanimously approved by the Board.

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**8. Report on Professional Services Provider Meetings**

The Committee Chair reported that the Professional Services Committee had two phone meetings with Jeff Williams and Caitlin Grice of Segal, DPF’s actuary and Chuck Campbell of Jackson Walker LLP, DPF’s outside legal counsel. The Committee Chair reported that no issues of concern were raised by Jeff Williams, Caitlin Grice, or Chuck Campbell and that they were very complimentary of staff.

No motion was made.

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**9. Staff Retirement Plan**

The retirement plan for the DPF staff is a 401(a) defined contribution plan. DPF employees do not contribute to any retirement system where they are entitled to an annuity upon retirement. Without some form of an annuity, employees are at risk of not having a secure retirement.

Recently, Staff approached the Texas Municipal Retirement System (TMRS) about possible revisions to the TMRS statute to allow DPF staff to join the TMRS plan. TMRS has indicated they would be amenable to such plan revisions.

The Board postponed the Staff Retirement Plan discussion to the January 2021 Board meeting. The Board directed staff to develop a memorandum to address issues regarding a staff defined benefit retirement plan and to engage some Trustees for feedback.

No motion was made.

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**Regular Board Meeting  
Thursday, December 10, 2020**

**10. Portfolio Update**

Investment staff briefed the Board on recent events and current developments with respect to the investment portfolio.

No motion was made.

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**11. Investment Advisory Committee Reappointments**

The Investment Policy stipulates that members of the Investment Advisory Committee shall serve two-year terms (Sec. 5.B.1.e). The Investment Advisory Committee terms for Gilbert Garcia, Scott Freeman, and Robert Jones expire in December 2020. Each member is willing to continue serving on the Committee.

| <b>Position</b> | <b>Name</b>         | <b>Appointed</b> | <b>Proposed Expiration</b> |
|-----------------|---------------------|------------------|----------------------------|
| Board Member #1 | Gilbert Garcia      | 09/13/2018       | 12/31/2022                 |
| Board Member #2 | Michael Brown       | 11/12/2020       | 12/31/2022                 |
| Board Member #3 | Ken Haben           | 11/12/2020       | 12/31/2022                 |
| External #1     | Scott Freeman       | 09/13/2018       | 12/31/2022                 |
| External #2     | Robert Jones        | 01/10/2019       | 12/31/2022                 |
| External #3     | Rakesh Dahiya       | 07/09/2020       | 12/31/2021                 |
| External #4     | William Velasco, II | 07/09/2020       | 12/31/2021                 |

After discussion, Mr. Garza made a motion to reappoint Gilbert Garcia, Scott Freeman, and Robert Jones to serve on the Investment Advisory Committee for two-year terms ending 12/31/22. Mr. Idoux seconded the motion, which was unanimously approved by the Board.

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**12. Global Equity Structure**

Staff and Meketa evaluated potential improvements to the structure of the Global Equity portfolio. A proposed structure that includes introduction of a small cap component and a passive global equity component was presented.

No motion was made.

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**13. Third Quarter 2020 Investment Performance Analysis and Second Quarter 2020 Private Markets & Real Assets Review**

Leandro Festino, Managing Principal and Aaron Lally, Principal of the Meketa Investment Group and Investment Staff reviewed investment performance.

No motion was made.

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**14. Hearthstone Spring Valley Sale**

The Board went into closed executive session at 11:08 a.m.

The meeting was reopened at 11:53 a.m.

After discussion, Mr. Quinn made a motion to approve the sale of Spring Valley and Harris Creek. Mr. Haben seconded the motion, which was unanimously approved by the Board.

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**15. Lone Star Investment Advisors Update**

Investment staff updated the Board on recent performance, operational, and administrative developments with respect to DPFPP investments in funds managed by Lone Star Investment Advisors.

The Board went into closed executive session at 11:08 a.m.

The meeting was reopened at 11:53 a.m.

No motion was made.

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**16. Legal issues - In accordance with Section 551.071 of the Texas Government Code, the Board will meet in executive session to seek and receive the advice of its attorneys about pending or contemplated litigation or any other legal matter in which the duty of the attorneys to DPFPP and the Board under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with Texas Open Meeting laws.**

The Board went into closed executive session at 11:08 a.m.

The meeting was reopened at 11:53 a.m.

No motion was made.

\* \* \* \* \*

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

- a. Application for death benefits for disabled child
- b. Disability application 2020-2
- c. Disability application 2020-3

The Board went into closed executive session at 11:08 a.m.

The meeting was reopened at 11:53 a.m.

- a. After discussion, Mr. Vaught made a motion to grant survivor benefits under the provisions of Article 6243a-1, Section 6.06(o-2) with the requirement that employment and marital status eligibility be confirmed annually by the submittal of a copy of an income tax return until age 65. Mr. Idoux seconded the motion, which was unanimously approved by the Board.
- b. After discussion, Mr. Haben made a motion to deny the On-Duty Disability Application 2020-2. Mr. Garza seconded the motion, which was unanimously approved by the Board.
- c. After discussion, Mr. Haben made a motion to deny the On-Duty Disability Application 2020-3. Mr. Garza seconded the motion, which was unanimously approved by the Board.

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**18. Executive Director Performance Evaluation**

The Board went into closed executive session at 11:08 a.m.

The meeting was reopened at 11:53 a.m.

After discussion, Mr. Quinn made a motion to approve an increase of \$10,000 in the Executive Director’s salary. Ms. Hernandez Patterson seconded the motion, which was approved by the following vote:

For: Mr. Quinn, Mr. Merrick, Mr. Garza, Mr. Brown, Mr. Haben, Ms. Hernandez Patterson, Mr. Garcia, Mr. Idoux, Mr. Malveaux, Mr. Vaught  
Opposed: Mr. French

\* \* \* \* \*

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**D. BRIEFING ITEMS**

**1. Public Comments**

Prior to commencing items for Board discussion and deliberation, the Board received public comments during the open forum.

\* \* \* \* \*

**2. Executive Director's report**

- a. Associations' newsletters
  - NCPERS Monitor (December 2020)
  - NCPERS PERSist (Fall 2020)
  - TEXPERS Pension Observer  
<https://online.anyflip.com/mxfu/alie/mobile/index.html>
- b. Open Records
- c. Operational Response to COVID-19

The Executive Director's report was presented.

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Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Quinn and a second by Mr. Garza, the meeting was adjourned at 11:58 a.m.

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William F. Quinn  
Chairman

**ATTEST:**

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Kelly Gottschalk  
Secretary



## DISCUSSION SHEET

### ITEM #C1

**Topic:** Chairman's Discussion Item

Formation of small independent study group to explore ways to enhance DPFP funding status

**Discussion:** The Chairman will brief the Board on this item.

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## DISCUSSION SHEET

### ITEM #C2

**Topic:** 87<sup>th</sup> Legislative Session Preview

**Attendees:** Neal T. “Buddy” Jones, Hillco Partners  
Clint Smith, Hillco Partners  
Eddie Solis, Hillco Partners

**Discussion:** Representatives from HillCo Partners, DPFP’s legislative consultants, will be present to discuss the upcoming legislative session.

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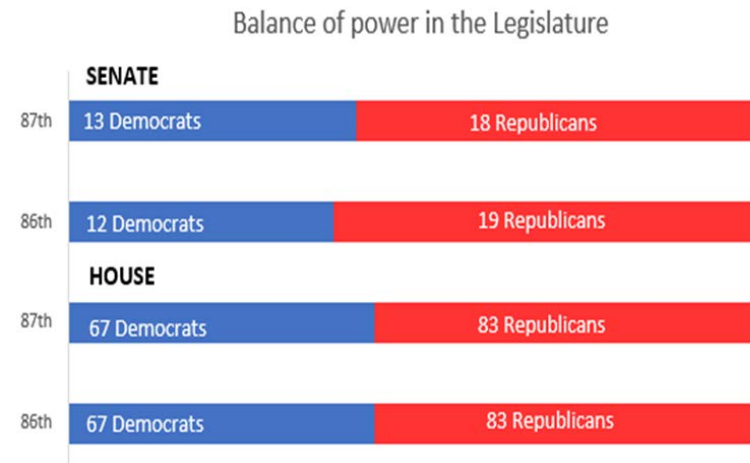
# 87<sup>th</sup> Legislative Update

DPFPS Board Meeting  
January 2021

# 87<sup>th</sup> Legislative Landscape



- The 87<sup>th</sup> Legislative session will be dominated by three issues:
  - COVID
  - Appropriations/Budget
  - Redistricting
- House Transition
  - New Speaker
  - New House Committees
- Senate, Not Much Transition
  - Possibly new voting threshold for bringing senate bills to floor



# COVID Impact on Legislative Session



- Flow of legislation will Likely Be Limited/Hindered by Protocols
  - Legislation heard could also be limited due to redistricting debate
- House and Senate Established Protocols for:
  - Legislative Process
    - Hearings
    - Testimony
    - Floor Debate
  - Access to Capitol
    - For Legislators
    - For Legislative Staff
    - For General Public

# Landscape for Local Retirement Plans



- General Landscape for Pensions
  - Legislators will likely focus on financial health of state systems (ERS/TRS)
- Pension Review Board Recommendations Presented to Legislature
  - FSRP (funding soundness restoration plans) Proposals
  - Sponsoring entity involvement in funding policy
  - Further transparency of investments
- Municipal Funding Issues
  - Minimal state funding goes to Texas cities
  - Measures to keep cities from imposing measures, such as “defunding” police
    - Proposed measures freeze tax revenue if a city defunds police

## House Pensions, Investments and Financial Services Interim Report, Pension Recommendations:



- Evaluate the need for outside analysis of public pension systems to fulfill the requirements of SB 322.
- Explore ways to grant the PRB enforcement capabilities to step in when public pension plans become detrimental to their members.
- Explicitly prohibit rolling amortization periods.
- Evaluate methods for ensuring that all public pension plans maintain a maximum of a 30-year amortization period.
- Require that sponsors are tied to the funding policy requirement.

# Timing of 87<sup>th</sup> Session



- Convened on January 12, 2021
- Bill Filing Deadline is March 12, 2021
- Legislature Likely to Receive Census Data by April
- Adjourn May 31, 2021
  - Likely see a special called session for Congressional redistricting





**Buddy Jones, Clint Smith &  
Eddie Solis**



## DISCUSSION SHEET

### ITEM #C3

**Topic:** **Staff Retirement Plan**

**Discussion:** The retirement plan for the DPFPP staff is a 401(a) defined contribution plan. DPFPP and the employee contribute 12% and 6.5% of compensation, respectively, to the plan on a bi-weekly basis. DPFPP employees do not contribute to any retirement system where they are entitled to an annuity upon retirement. Without some form of an annuity, employees are at risk of not having a secure retirement. As providing secure retirements is the goal of DPFPP, this would appear to be a reasonable goal to achieve for DPFPP employees as well.

In May and June of 2019, staff presented a possible staff defined benefit plan where the staff plan would join the group trust for the regular and supplemental plans. The Board indicated it would not approve such a plan and directed the Executive Director to seek an alternative plan.

Recently, Staff approached the Texas Municipal Retirement System (TMRS) about possible revisions to the TMRS statute to allow DPFPP staff to join the TMRS plan. TMRS has indicated they would be amenable to such plan revisions. The TMRS plan is a hybrid cash balance plan that provides for the choice of an annuity upon an employee's retirement. The contribution levels

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## DISCUSSION SHEET

### ITEM #C4 (continued)

both for employee and employer would be similar under the TMRS plan to the levels under the current DFPF 401(a) plan.

This item was discussed at the December 2020 Board meeting and the Board requested additional information for further consideration.

**Recommendation:** **Authorize** staff to facilitate necessary legislative changes to allow DFPF employees join the TMRS plan.

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D A L L A S  
POLICE & FIRE  
PENSION SYSTEM



# DPFP Staff Retirement

January 14, 2021

# Agenda

- Goal
- History
- Solutions Considered
- Texas Municipal Employee System
- Contribution Comparison

# Goal

- The goal is to provide some level of retirement security for staff that have spent their careers working to support the retirement of DPFP members.
- DPFP employees are not in Social Security and therefore it will not provide a monthly benefit for their working years at DPFP.
- The current defined contribution plan does not guarantee a lifetime stream of payments at any level.

# History

- DPFP staff separated from the City as “independent staff” in 2000.
- Recommendations from Campbell Consulting Group study (Study) were adopted by the Board.
- Prior to the split, DPFP staff were part of the Dallas Employees Retirement System (ERF) and did not participate in Social Security.
- However, about 50% of the staff, including the Executive Director and General Counsel elected to continue as “City Employees” until they had enough service to retire under the ERF plan. The last employee met their retirement eligibility in 2010. After earning their full ERF retirement these employees were made DPFP staff members and began receiving contributions to their DPFP Defined Contribution (DC) Plan.
- All new employees were required be in the DPFP staff Defined Contribution Plan.

# History: Recommended DC Structure

## Relevant recommendations from the Study:

- “The plan would provide for employee and System pre-tax contributions that are the same, as a percentage of employee compensation, as the employee and employer contributions made from time to time to the City of Dallas Employees’ Retirement Fund (“ERF”). (Staff Implementation Plan.pdf page 97/192)
  - The current combined rate for DPFP staff is 18.5% while the ERF combined rate is 36%.
- “Separate Accounts would be created for each employee, in that regard similar to those existing for the System’s DROP participants, except that each account’s actual share of the earnings, rather than an assumed rate of earning, would be allocated to the account.” (Staff Implementation Plan.pdf page 98/192)

# Solutions Considered

- DPFP Combined Plan – requires legislative change and would likely be met with resistance from DPFP members. Additionally, the mechanics of adding staff would be extremely difficult.
- ERF – requires that either DPFP staff become City employees or the ERF plan be changed which would require City support and a vote of the citizens of Dallas.
  - Neither option appears viable
- DPFP Staff Defined Benefit Plan – on an actuarial basis this option is viable, but no cost-effective solution could be found to invest the pool of assets and some DPFP members didn't want the Staff to have a plan that may have been perceived as being better than their plan either in the funded level or the benefits.
- Texas Municipal Retirement System (TMRS) – requires a simple legislative change.

# Recommended Option - TMRS

- Although legislation is required, it is a simple change to the TMRS statute and TMRS is supportive.
- TMRS is a cash balanced plan and is similar to the staff DC plan with two important modifications:
  - Staff balances earn interest at a rate set by law instead of balances being subject to the investment choices of the individual staff member and market risks.
  - At retirement, the payout of the balance is converted to a life-time stream of payments based on the options selected by the staff member.



# TMRS Retirement Plan

The following slides are copies of various provisions of the TMRS retirement plan taken from the current TMRS Member Benefit Guide.

# TMRS Benefit - (TMRS Member Benefits Guide)

- “The amount of your monthly retirement benefit is based on:
  - Your total member deposits plus interest
  - City matching funds and other credits granted
  - Your remaining life expectancy at retirement
  - Your beneficiary’s life expectancy (if you select a payment option that pays a lifetime benefit to a survivor)
  - The future interest rate assumption as set by law
  - The TMRS monthly payment plan you choose
  - Whether you choose to take a Partial Lump Sum Distribution”

# TMRS Interest - (TMRS Member Benefits Guide)

“Interest on Member Deposits Interest on your TMRS member account is credited once each year on December 31. Interest is calculated on the balance in your account as of January 1 of that calendar year. For example, interest on your account for the year 2019 will be credited on December 31, 2019, and is calculated on your balance at the beginning of the year, January 1, 2019. Due to a law passed in 2010, all member accounts are guaranteed a minimum 5% interest credit annually.”

- Note that the interest crediting rate in the TMRS plan is similar to the assumed rate of return in a defined benefit plan. As the interest crediting rate increases for TMRS, a monthly benefit on retirement would also increase over time. With a defined benefit plan, the higher the assumed rate of return, the higher the monthly benefit that can be paid with actuarial soundness. The TMRS crediting rate of 5% results in a more modest benefit than that under the DFPF plan with a 7% assumed rate of return.

# TMRS Retirement - (TMRS Member Benefits Guide)

- “In most TMRS cities, you can retire when you have at least 5 years of service credit (10 years in a few cities) and are at least age 60.”
- “You may also retire at any age if you have 20 or 25 years of service credit, depending on the plan chosen by your city.”
- “At retirement, you will choose a monthly payment option to receive your benefit. All options pay you a monthly benefit for the rest of your life. Besides the Retiree Life Only benefit, six payment options are available that can provide payments to your beneficiary if you die.”

# Contributions

## TMRS

- Employee: 5%, 6% or 7%
- City: 1x, 1.5x or 2x
  
- DPFP DC contributions
  - Employee: 6.5%
  - DPFP: 12% or ~1.85x
  
- The TMRS options do not offer an exact match of 18.5% combined rate so the total cost for DPFP and benefit for the employee will either be more or less than then current rates. Instead of 18.5% the options allow for 18% or 21%.

# Contribution Rate Comparison

| TMRS Contribution Options       |     |                               |     |     |
|---------------------------------|-----|-------------------------------|-----|-----|
|                                 |     | Employee Contribution Options |     |     |
| DPFP<br>Contribution<br>Options |     | 5%                            | 6%  | 7%  |
|                                 | 1   | 5%                            | 6%  | 7%  |
|                                 | 1.5 | 8%                            | 9%  | 11% |
|                                 | 2   | 10%                           | 12% | 14% |
|                                 |     | Combined Contribution Options |     |     |
|                                 |     | 5%                            | 6%  | 7%  |
|                                 | 1   | 10%                           | 12% | 14% |
|                                 | 1.5 | 13%                           | 15% | 18% |
|                                 | 2   | 15%                           | 18% | 21% |

- DPFP Current DC:
  - Employee: 6.5%
  - DPFP: 12%
  - Combined: 18.5%
- The TMRS options allow for either 0.5% less from employees going into their retirement or 0.5% more from employees plus 2% more from DPFP into the staff retirement accounts. The additional 2% for DPFP is approximately \$58k based on the 2020 budgeted salaries.



## **DISCUSSION SHEET**

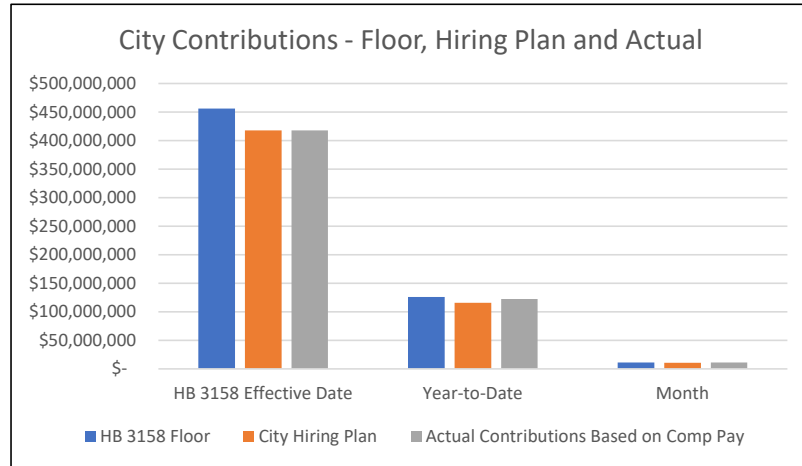
### **ITEM #C4**

**Topic:**                      **Monthly Contribution Report**

**Discussion:**                Staff will review the Monthly Contribution Report.

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**Contribution Tracking Summary - January 2021 (November 2020 Data)**



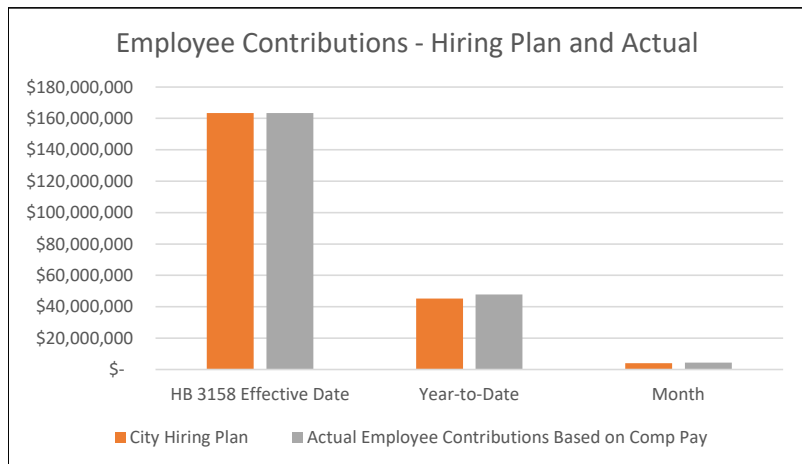
Actual Comp Pay was 100% of the Hiring Plan estimate since the effective date of HB 3158.

In the most recent month Actual Comp Pay was 109% of the Hiring Plan estimate and 100% of the Floor amount.

The Hiring Plan Comp Pay estimate increased by 3.39% in 2020. The Floor increased by 2.75%.

Through 2024 the HB 3158 Floor is in place so there is no City Contribution shortfall.

The combined actual hiring was 30 higher than the Hiring Plan for the pay period ending December 8, 2020. Fire was over the estimate by 78 fire fighters and Police under by 48 officers.



Employee contributions exceeded the Hiring Plan estimate for the month and the year.

There is no Floor on employee contributions.



**Contribution Summary Data**

| <b>City Contributions</b>   |   |                      |                         |   |   |   |   |
|---|---|----------------------|-------------------------|---|---|---|---|
| <b>Nov-20</b>   | <b>Number of Pay Periods Beginning in the Month</b> | <b>HB 3158 Floor</b> | <b>City Hiring Plan</b> | <b>Actual Contributions Based on Comp Pay</b> | <b>Additional Contributions to Meet Floor Minimum</b> | <b>Comp Pay Contributions as a % of Floor Contributions</b> | <b>Comp Pay Contributions as a % of Hiring Plan Contributions</b> |
| Month   | 2   | \$ 11,448,000        | \$ 10,509,231           | \$ 11,440,344                                 | \$ 7,656  | 100%  | 109%  |
| Year-to-Date  |   | \$ 125,928,000       | \$ 115,601,538          | \$ 122,517,502                                | \$ 3,421,219  | 97%   | 106%  |
| HB 3158 Effective Date  |   | \$ 456,275,000       | \$ 417,741,923          | \$ 417,574,710                                | \$ 38,711,011   | 92%   | 100%  |
| <p><i>Due to the Floor through 2024, there is no cumulative shortfall in City Contributions<br/>Does not include the flat \$13 million annual City Contribution payable through 2024.<br/>Does not include Supplemental Plan Contributions.</i></p> |   |                      |                         |   |   |   |   |

| <b>Employee Contributions</b>  |   |                         |  |  |  |   |  |
|--|---|-------------------------|--|--|--|---|--|
| <b>Nov-20</b>  | <b>Number of Pay Periods Beginning in the Month</b> | <b>City Hiring Plan</b> | <b>Actual Employee Contributions Based on Comp Pay</b> | <b>Actual Contribution Shortfall Compared to Hiring Plan</b> | <b>Actuarial Valuation Contribution Assumption</b> | <b>Actual Contributions as a % of Hiring Plan Contributions</b> | <b>Actual Contributions as a % of Actuarial Val Assumption</b> |
| Month  | 2   | \$ 4,112,308            | \$ 4,460,312   | \$ 348,004   | \$ 4,112,308                                       | 108%  | 108%   |
| Year-to-Date   |   | \$ 45,235,385           | \$ 47,886,980  | \$ 2,651,596   | \$ 45,235,388                                      | 106%  | 106%   |
| HB 3158 Effective Date   |   | \$ 163,464,231          | \$ 163,356,061   | \$ (108,170)   | \$ 158,355,026                                     | 100%  | 103%   |
| Potential Earnings Loss from the Shortfall based on Assumed Rate of Return |   |                         |  | \$ (532,644)   |  |   |  |
| <p><i>Does not include Supplemental Plan Contributions.</i></p>            |   |                         |  |  |  |   |  |

**Reference Information**

**City Contributions: HB 3158 Bi-weekly Floor and the City Hiring Plan Converted to Bi-weekly Contributions**

|      | HB 3158 Bi-weekly Floor | City Hiring Plan-Bi-weekly | HB 3158 Floor Compared to the Hiring Plan | Hiring Plan as a % of the Floor | % Increase/ (decrease) in the Floor | % Increase/ (decrease) in the Hiring Plan |
|------|-------------------------|----------------------------|---|---------------------------------|-------------------------------------|---|
| 2017 | \$ 5,173,000            | \$ 4,936,154               | \$ 236,846                                | 95%                             |                                     |   |
| 2018 | \$ 5,344,000            | \$ 4,830,000               | \$ 514,000                                | 90%                             | 3.31%                               | -2.15%                                    |
| 2019 | \$ 5,571,000            | \$ 5,082,115               | \$ 488,885                                | 91%                             | 4.25%                               | 5.22%                                     |
| 2020 | \$ 5,724,000            | \$ 5,254,615               | \$ 469,385                                | 92%                             | 2.75%                               | 3.39%                                     |
| 2021 | \$ 5,882,000            | \$ 5,413,846               | \$ 468,154                                | 92%                             | 2.76%                               | 3.03%                                     |
| 2022 | \$ 6,043,000            | \$ 5,599,615               | \$ 443,385                                | 93%                             | 2.74%                               | 3.43%                                     |
| 2023 | \$ 5,812,000            | \$ 5,811,923               | \$ 77                                     | 100%                            | -3.82%                              | 3.79%                                     |
| 2024 | \$ 6,024,000            | \$ 6,024,231               | \$ (231)                                  | 100%                            | 3.65%                               | 3.65%                                     |

The HB 3158 Bi-weekly Floor ends after 2024

**Employee Contributions: City Hiring Plan and Actuarial Val. Converted to Bi-weekly Contributions**

|      | City Hiring Plan Converted to Bi-weekly Employee Contributions | Actuarial Valuation Assumption Converted to Bi-weekly Employee contributions | Actuarial Valuation as a % of Hiring Plan |
|------|--|--|---|
| 2017 | \$ 1,931,538   | \$ 1,931,538   | 100%                                      |
| 2018 | \$ 1,890,000   | \$ 1,796,729   | 95%                                       |
| 2019 | \$ 1,988,654   | \$ 1,885,417   | 95%                                       |
| 2020 | \$ 2,056,154   | \$ 2,056,154   | 100%                                      |
| 2021 | \$ 2,118,462   | \$ 2,118,462   | 100%                                      |
| 2022 | \$ 2,191,154   | \$ 2,191,154   | 100%                                      |
| 2023 | \$ 2,274,231   | \$ 2,274,231   | 100%                                      |
| 2024 | \$ 2,357,308   | \$ 2,357,308   | 100%                                      |

The information on this page is for reference. The only numbers on this page that may change before 2025 are the Actuarial Valuation Employee Contributions Assumptions for the years 2020-2024 and the associated percentage.

**Reference Information - Actuarial Valuation and GASB 67/68 Contribution Assumptions**

**Actuarial Assumptions Used in the Most Recent Actuarial Valuation - These assumptions will be reevaluated annually & may change.**

City Contributions are based on the Floor through 2024, the Hiring Plan from 2025 to 2037, after 2037 an annual growth rate of 2.75% is assumed  
 Employee Contributions for 2018 are based on the 2017 actual employee contributions inflated by the growth rate of 2.75% and the Hiring Plan for subsequent years until 2038, when the 2037 Hiring Plan is increased by the 2.75 growth rate for the next 10 years

**Actuarial/GASB Contribution Assumption Changes Since the Passage of HB 3158**

|  | Actuarial Valuation | GASB 67/68 |
|--|---------------------|------------|
| <b>YE 2017 (1/1/2018 Valuation)</b>  |                     |            |
| 2018 Employee Contributions Assumption - based on 2017 actual plus growth rate not the Hiring Plan Payroll   | \$ (2,425,047)      | *          |
| <b>2019 Estimate (1/1/2019 Valuation)</b>  |                     |            |
| 2019 Employee Contribution Assumption  | \$ 9,278            | *          |
| <i>*90% of Hiring Plan was used for the Cash Flow Projection for future years in the 12/31/2017 GASB 67/68 calculation. At 12-31-17, 12-31-18 and 12-31-2019 this did not impact the pension liability or the funded percentage.</i> |                     |            |

The information on this page is for reference. It is intended to document contribution related assumptions used to prepare the Actuarial Valuation and changes to those assumptions over time, including the dollar impact of the changes. Contribution changes impacting the GASB 67/68 liability will also be included.

| <b>City Hiring Plan - Annual Computation Pay and Numbers of Employees</b> |                 |                |                 |                     |            |            |
|---|-----------------|----------------|-----------------|---------------------|------------|------------|
| Year  | Computation Pay |                |                 | Number of Employees |            |            |
|   | Hiring Plan     | Actual         | Difference      | Hiring Plan         | Actual EOY | Difference |
| 2017  | \$ 372,000,000  | Not Available  | Not Available   | 5,240               | 4,935      | (305)      |
| 2018  | \$ 364,000,000  | \$ 349,885,528 | \$ (14,114,472) | 4,988               | 4,983      | (5)        |
| 2019  | \$ 383,000,000  | \$ 386,017,378 | \$ 3,017,378    | 5,038               | 5,104      | 66         |
| 2020  | \$ 396,000,000  |                |                 | 5,063               |            |            |
| 2021  | \$ 408,000,000  |                |                 | 5,088               |            |            |
| 2022  | \$ 422,000,000  |                |                 | 5,113               |            |            |
| 2023  | \$ 438,000,000  |                |                 | 5,163               |            |            |
| 2024  | \$ 454,000,000  |                |                 | 5,213               |            |            |
| 2025  | \$ 471,000,000  |                |                 | 5,263               |            |            |
| 2026  | \$ 488,000,000  |                |                 | 5,313               |            |            |
| 2027  | \$ 507,000,000  |                |                 | 5,363               |            |            |
| 2028  | \$ 525,000,000  |                |                 | 5,413               |            |            |
| 2029  | \$ 545,000,000  |                |                 | 5,463               |            |            |
| 2030  | \$ 565,000,000  |                |                 | 5,513               |            |            |
| 2031  | \$ 581,000,000  |                |                 | 5,523               |            |            |
| 2032  | \$ 597,000,000  |                |                 | 5,523               |            |            |
| 2033  | \$ 614,000,000  |                |                 | 5,523               |            |            |
| 2034  | \$ 631,000,000  |                |                 | 5,523               |            |            |
| 2035  | \$ 648,000,000  |                |                 | 5,523               |            |            |
| 2036  | \$ 666,000,000  |                |                 | 5,523               |            |            |
| 2037  | \$ 684,000,000  |                |                 | 5,523               |            |            |

| Comp Pay by Month - 2020 | Annual Divided by 26 Pay Periods | Actual        | Difference   | 2020 Cumulative Difference | Number of Employees EOM | Difference |
|--------------------------|----------------------------------|---------------|--------------|----------------------------|-------------------------|------------|
| January                  | \$ 30,461,538                    | \$ 31,291,360 | \$ 829,821   | \$ 829,821                 | 5136                    | 73         |
| February                 | \$ 30,461,538                    | \$ 31,414,646 | \$ 953,108   | \$ 1,782,929               | 5114                    | 51         |
| March                    | \$ 30,461,538                    | \$ 31,492,765 | \$ 1,031,226 | \$ 2,814,156               | 5093                    | 30         |
| April                    | \$ 45,692,308                    | \$ 47,775,422 | \$ 2,083,114 | \$ 4,897,270               | 5125                    | 62         |
| May                      | \$ 30,461,538                    | \$ 32,261,636 | \$ 1,800,098 | \$ 6,697,367               | 5113                    | 50         |
| June                     | \$ 30,461,538                    | \$ 32,512,380 | \$ 2,050,842 | \$ 8,748,209               | 5173                    | 110        |
| July                     | \$ 30,461,538                    | \$ 32,568,582 | \$ 2,107,043 | \$ 10,855,252              | 5175                    | 112        |
| August                   | \$ 30,461,538                    | \$ 32,861,998 | \$ 2,400,460 | \$ 13,255,712              | 5033                    | (30)       |
| September                | \$ 45,692,308                    | \$ 49,783,989 | \$ 4,091,681 | \$ 17,347,393              | 5001                    | (62)       |
| October                  | \$ 30,461,538                    | \$ 33,160,417 | \$ 2,698,878 | \$ 20,046,271              | 4974                    | (89)       |
| November                 | \$ 30,461,538                    | \$ 33,202,666 | \$ 2,741,128 | \$ 22,787,399              | 5093                    | 30         |
| December                 | \$ 30,461,538                    |               |              |                            |                         |            |



## DISCUSSION SHEET

### ITEM #C5

**Topic:** Board approval of Trustee education and travel

- a. Future Education and Business-related Travel
- b. Future Investment-related Travel

**Discussion:**

- a. Per the Education and Travel Policy and Procedure, planned Trustee education and business-related travel and education which does not involve travel requires Board approval prior to attendance.

Attached is a listing of requested future education and travel noting approval status.

- b. Per the Investment Policy Statement, planned Trustee travel related to investment monitoring, and in exceptional cases due diligence, requires Board approval prior to attendance.

There is no future investment-related travel for Trustees at this time.

*Regular Board Meeting – Thursday, January 14, 2021*

**Future Education and Business Related Travel & Webinars  
Regular Board Meeting – January 14, 2021**

ATTENDING APPROVED

- 1. Conference: NCPERS FALL Conference**  
**Dates:** February 2-3, 2021  
**Location:** Virtual  
**Cost:** \$350
- 2. Conference: NCPERS Accredited Fiduciary Program (NAF)  
Modules 1 and 2**  
**Dates:** March 2-5, 2021  
**Location:** Virtual  
**Cost:** \$400
- 3. Conference: NCPERS Accredited Fiduciary Program (NAF)  
Modules 3 and 4**  
**Dates:** March 9-12, 2021  
**Location:** Virtual  
**Cost:** \$400
- 4. Conference: TEXPERS Annual Conference** KH 12/10/2020  
**Dates:** May 21-26, 2021  
**Location:** Austin, TX  
**Cost:** TBD
- 5. Conference: TEXPERS Summer Conference**  
**Dates:** August 29-31, 2021  
**Location:** San Antonio, TX  
**Cost:** TBD



## DISCUSSION SHEET

### ITEM #C6

**Topic:**

**Actuarial Services**

**Discussion:**

DPFP's contract with its actuary, The Segal Company Inc. (Segal) expired December 31, 2020.

In 2015, the Board gave direction to conduct a competitive selection process for specific service providers, including the actuary firm, every five years unless the Board explicitly waives or extends the requirement.

The Segal Group, Inc. has prepared the system annual actuarial valuations and provided other actuarial services for five years. Staff believes it is important to have consistency in actuary services though the legislatively mandated review process in 2024 and the 2025 legislative session.

Segal has proposed a contract renewal expiring at December 31, 2025 with annual service fees that increase annually between 1.2 and 1.5%. The Experience Review in 2025 is proposed at the current fee.

**Staff**

**Recommendation:**

**Authorize** the Executive Director to renew the contract with The Segal Group, Inc and **waive** the requirement to conduct a competitive section process until the end of the term of this contract, December 31, 2025.

*Regular Board Meeting – Thursday, January 14, 2021*



## DISCUSSION SHEET

### ITEM #C7

**Topic:** Legislative Services

**Discussion:** DPFP's contract with its legislative consultant HillCo Partners (Hillco) expired November 30, 2020.

In 2015, the Board gave direction to conduct a competitive selection process for specific service providers, including the legislative consulting firm, every five years unless the Board explicitly waives or extends the requirement.

Hillco has been the legislative consultants for DPFP for decades.

Staff believes Hillco Partners should be retained for the following reasons:

- HillCo was very effective during the 2017 legislative session in keeping legislators informed about the effect on DPFP of the various legislative proposals and helping to educate the legislators on the needs of DPFP with respect to such legislation. The historical knowledge of DPFP is helpful and the consistency through the 2025 session will be important.
- HillCo continues to be one of the most respected legislative firms in Austin with extensive pension knowledge.

*Regular Board Meeting – Thursday, January 14, 2021*



## DISCUSSION SHEET

### ITEM #C7 (continued)

- HillCo personnel who work directly with DPFP, Clint Smith, Eddie Solis and Buddy Jones have a long history with DPFP and understand in depth our legislative needs.

#### **Staff**

**Recommendation:** Authorize the Executive Director to renew DPFP's contract with HillCo Partners on its current terms for two years (November 30, 2022) and waive the requirement to conduct a competitive selection process until after the 2025 legislative session.

*Regular Board Meeting – Thursday, January 14, 2021*



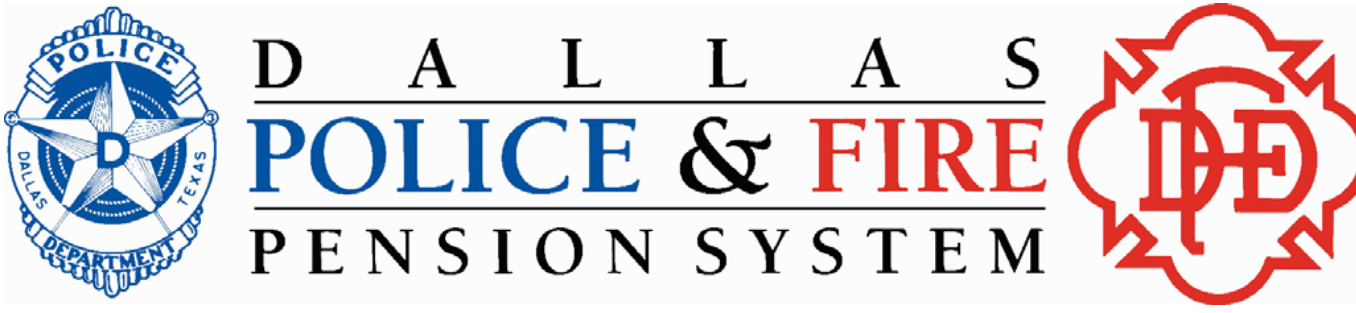
## DISCUSSION SHEET

### ITEM #C8

**Topic:** Portfolio Update

**Discussion:** Investment Staff will brief the Board on recent events and current developments with respect to the investment portfolio.

*Regular Board Meeting – Thursday, January 14, 2021*



# Portfolio Update

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January 14, 2020

# Adjusted Asset Allocation

In this view staff adjusts reported private market values to roughly estimate the impact of events that have not yet been recognized.

| DPFP Asset Allocation Using<br>Stressed Private Market Values | 12/31/20<br>NAV | Adjustments |               | Adj. NAV     |               | Target       |               | Variance    |              |
|---|-----------------|-------------|---------------|--------------|---------------|--------------|---------------|-------------|--------------|
|   |                 | \$ mil.     | % of NAV      | \$ mil.      | %             | \$ mil.      | %             | \$ mil.     | %            |
| <b>Equity</b>   | <b>910</b>      | <b>-49</b>  | <b>-5.4%</b>  | <b>861</b>   | <b>45.6%</b>  | <b>1,038</b> | <b>55.0%</b>  | <b>-176</b> | <b>-9.4%</b> |
| Global Equity   | 651             | 0           | 0.0%          | 651          | 34.5%         | 755          | 40.0%         | -103        | -5.5%        |
| Emerging Markets  | 61              | 0           | 0.0%          | 61           | 3.2%          | 189          | 10.0%         | -127        | -6.8%        |
| Private Equity*   | 198             | -49         | -24.7%        | 149          | 7.9%          | 94           | 5.0%          | 54          | 2.9%         |
| <b>Fixed Income</b>   | <b>568</b>      | <b>0</b>    | <b>0.0%</b>   | <b>568</b>   | <b>30.1%</b>  | <b>660</b>   | <b>35.0%</b>  | <b>-92</b>  | <b>-4.9%</b> |
| Safety Reserve - Cash   | 86              | 0           | 0.0%          | 86           | 4.6%          | 57           | 3.0%          | 30          | 1.6%         |
| Safety Reserve - ST IG Bonds                                  | 217             | 0           | 0.0%          | 217          | 11.5%         | 226          | 12.0%         | -9          | -0.5%        |
| Investment Grade Bonds  | 75              | 0           | 0.0%          | 75           | 4.0%          | 75           | 4.0%          | -1          | 0.0%         |
| Global Bonds  | 0               | 0           |               | 0            | 0.0%          | 75           | 4.0%          | -75         | -4.0%        |
| Bank Loans  | 72              | 0           | 0.0%          | 72           | 3.8%          | 75           | 4.0%          | -4          | -0.2%        |
| High Yield Bonds  | 74              | 0           | 0.0%          | 74           | 3.9%          | 75           | 4.0%          | -1          | -0.1%        |
| Emerging Mkt Debt   | 38              | 0           | 0.0%          | 38           | 2.0%          | 75           | 4.0%          | -37         | -2.0%        |
| Private Debt*   | 6               | 0           | 0.0%          | 6            | 0.3%          | 0            | 0.0%          | 6           | 0.3%         |
| <b>Real Assets*</b>   | <b>519</b>      | <b>-61</b>  | <b>-11.8%</b> | <b>458</b>   | <b>24.3%</b>  | <b>189</b>   | <b>10.0%</b>  | <b>269</b>  | <b>14.3%</b> |
| Real Estate*  | 349             | -56         | -15.9%        | 294          | 15.6%         | 94           | 5.0%          | 199         | 10.6%        |
| Natural Resources*  | 126             | -6          | -4.5%         | 120          | 6.4%          | 94           | 5.0%          | 26          | 1.4%         |
| Infrastructure*   | 44              | 0           | 0.0%          | 44           | 2.3%          | 0            | 0.0%          | 44          | 2.3%         |
| <b>Total</b>  | <b>1,997</b>    | <b>-110</b> | <b>-5.5%</b>  | <b>1,886</b> | <b>100.0%</b> | <b>1,886</b> | <b>100.0%</b> | <b>0</b>    | <b>0.0%</b>  |
| Safety Reserve ~\$270M=30 mo net CF                           | 303             | 0           | 0.0%          | 303          | 16.1%         | 283          | 15.0%         | 20          | 1.1%         |
| *Private Mkt. Assets w/NAV Discount                           | 722             | -110        | -15.2%        | 612          | 32.4%         | 283          | 15.0%         | 329         | 17.4%        |

Source: JP Morgan Custodial Data, Staff Estimates and Calculations  
Numbers may not foot due to rounding

data is preliminary

# Public Market Performance Estimates

## Preliminary Public Markets Performance Estimates

|                                 | 4Q20 through 12/31/20 |        |        | YTD through 12/31/20 |        |        |
|---------------------------------|-----------------------|--------|--------|----------------------|--------|--------|
|                                 | Manager               | Index  | Excess | Manager              | Index  | Excess |
| Net of fees                     |                       |        |        |                      |        |        |
| Global Equity                   | 16.06%                | 15.70% | 0.36%  | 16.03%               | 16.26% | -0.23% |
| Boston Partners                 | 22.30%                | 13.96% | 8.34%  | 7.14%                | 15.90% | -8.76% |
| Boston Partners vs. value index | 22.30%                | 15.73% | 6.57%  | 7.14%                | -1.15% | 8.29%  |
| Manulife                        | 10.97%                | 14.69% | -3.72% | 7.78%                | 16.27% | -8.49% |
| Invesco (fka OFI)               | 17.78%                | 14.69% | 3.09%  | 29.81%               | 16.27% | 13.54% |
| Walter Scott                    | 13.32%                | 14.69% | -1.36% | 19.36%               | 16.27% | 3.09%  |
| RBC, EM Equity                  | 17.03%                | 16.39% | 0.64%  | 15.19%               | 14.93% | 0.26%  |
| Fixed Income                    | 3.28%                 | 3.52%  | -0.24% | 6.45%                | 9.02%  | -2.57% |
| IR+M, short term debt           | 0.49%                 | 0.21%  | 0.28%  | 4.68%                | 3.33%  | 1.35%  |
| Longfellow, IG Bonds*           | 1.36%                 | 0.67%  | 0.69%  | 0.91%                | -0.20% | 1.11%  |
| Brandywine, global bonds**      | 5.61%                 | 1.92%  | 3.69%  | 6.71%                | 7.76%  | -1.05% |
| Loomis, High Yield              | 7.97%                 | 7.66%  | 0.31%  | 8.46%                | 7.02%  | 1.44%  |
| Pacific Asset Mgt., Bank Loans  | 2.96%                 | 3.63%  | -0.67% | 3.00%                | 2.77%  | 0.23%  |
| Ashmore, EMD                    | 10.32%                | 6.76%  | 3.56%  | 2.29%                | 3.83%  | -1.54% |

Source: JPM Morgan custody data, manager reports, Investment Staff estimates and calculations

\*Longfellow returns start from 7/31/20

\*\*Brandywine liquidated 11/30/20

4Q20 data is preliminary

# Investment Activity

- Liquidation of private market assets remains the top focus. Significant delays expected due to COVID-19 market disruption.
- Staff continuing evaluation of and engagement with end-of-life private equity funds.
- Investment Advisory Committee meeting on 12/17/20
- Passive Global Equity manager search completed with Board recommendation under separate item.
- Loomis US HY IMA executed and product transitioned to on 12/31/20. This was mostly administrative as predecessor global product was already in line with new guidelines.
- Staff Investment Policy review completed. No urgent revisions. Will wait for next revision opportunity.
- On-deck: US and Non-US small-cap equity search, asset allocation study (early/mid 2021)

# 2021 Investment Review Plan\*

|          |  |
|----------|--|
| January  | <ul style="list-style-type: none"> <li>Real Estate Reviews: Vista 7, King's Harbor, &amp; Museum Twr.</li> </ul> |
| February | <ul style="list-style-type: none"> <li>Real Estate: AEW Presentation</li> </ul>                                  |
| March    | <ul style="list-style-type: none"> <li>Real Estate: Clarion Presentation</li> </ul>                              |
| April    | <ul style="list-style-type: none"> <li>Timber: Staff Review of FIA &amp; BTG</li> </ul>                          |
| May      | <ul style="list-style-type: none"> <li>Natural Resources: Hancock Presentation</li> </ul>                        |
| July     | <ul style="list-style-type: none"> <li>Infrastructure: Staff review of AIRRO and JPM Maritime</li> </ul>         |
| August   | <ul style="list-style-type: none"> <li>Staff review of Private Equity and Debt</li> </ul>                        |
| Sept.    | <ul style="list-style-type: none"> <li>Public Equity Manager Reviews</li> </ul>                                  |
| October  | <ul style="list-style-type: none"> <li>Fixed Income Manager Reviews</li> </ul>                                   |

\*Presentation schedule is subject to change.

Staff presentations targeted for 15 minutes, Manager presentations 30 – 60 minutes.



## DISCUSSION SHEET

### ITEM #C9

**Topic:** Investment Advisory Committee

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.071 of the Texas Government Code.

- a. Report on Investment Advisory Committee
- b. Investment Advisory Committee Meetings

**Discussion:**

- a. The Investment Advisory Committee met on December 17, 2020. The Committee Chair and Investment Staff will comment on Committee observations and advice.
- b. At the December 17, 2020 meeting, the Investment Advisory Committee unanimously approved a motion to recommend to the Board to make all regularly scheduled meetings of the Investment Advisory Committee open to the public provided there is no legal requirement to allow for public comment at such meetings.

Staff seeks Board guidance with respect to holding public meetings of the Investment Advisory Committee and Trustee participation in such meetings to inform potential revisions to the Investment Policy Statement.

*Regular Board Meeting – Thursday, January 14, 2021*





## DISCUSSION SHEET

### ITEM #C10

**Topic:** Global Equity Structure and Passive Investment Manager

**Discussion:** At the December 2020 Board meeting, Staff and Meketa proposed a structure for the Global Equity asset class that established target weights for the current active managers and added allocations to global passive, US small cap, and non-US small cap. Staff worked with Meketa and the Investment Advisory Committee during the fourth quarter of 2020 to evaluate potential passive global equity managers. Staff will present a brief review of the analysis and recommend an investment manager for the role.

**Recommendation:**

- a. **Approve** the proposed structure for the Global Equity asset class.
- b. **Approve** the Staff recommendation for hiring a passive global equity investment manager.
- c. **Approve** the proposed funding for the passive global equity investment.

*Regular Board Meeting – Thursday, January 14, 2021*




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## GLOBAL EQUITY ASSET CLASS STRUCTURE

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Date: January 8, 2021

To: DPFP Board of Trustees

From: DPFP Investment Staff

Subject: Global Equity Asset Class Structure

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At the December 10, 2020 Board meeting, staff and Meketa proposed the following structure for the Global Equity asset class.

| Manager                           | (as % of global equity) | (as % of total DPFP) |
|-----------------------------------|-------------------------|----------------------|
| Boston Partners Global Equity     | 17.5%                   | 7.0%                 |
| Manulife Global Equity            | 17.5%                   | 7.0%                 |
| Walter Scott Global Strategy      | 17.5%                   | 7.0%                 |
| Invesco/OFI Global Equity         | 17.5%                   | 7.0%                 |
| MSCI ACWI IMI Index*              | 15.0%                   | 6.0%                 |
| Active Developed ex US Small Cap* | 7.5%                    | 3.0%                 |
| Active US Small Cap*              | 7.5%                    | 3.0%                 |
| *Managers not yet hired           | <b>100%</b>             | <b>40%</b>           |

### **Implementation**

- In a separate memo, staff is recommending Northern Trust as a passive global equity manager (MSCI ACWI IMI Index) to be funded from the current active managers.
- Looking forward, staff intends to overweight the passive global equity manager (Northern Trust) in preparation for funding small cap managers later in 2021, once the searches are completed.

### **Recommendation**

**Approve** the proposed structure for the Global Equity asset class.




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## **PASSIVE GLOBAL EQUITY IMPLEMENTATION RECOMMENDATION**

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Date: January 8, 2021

To: DPFP Board of Trustees

From: DPFP Investment Staff

Subject: Passive Global Equity Implementation Recommendation

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### **Executive Summary**

At the December 2020 Board meeting, Staff and Meketa proposed a global equity structure that included a passive global equity manager allocation of 6% of the entire fund. Staff worked with Meketa and the Investment Advisory Committee (IAC) during the fourth quarter of 2020 to evaluate passive global equity managers. Staff identified Blackrock, State Street, and Northern Trust as managers that all provide solid passive global equity solutions with similar results. Although no solution stands out as being demonstrably superior, Staff is recommending Northern Trust based on low fees and shorter trade notice. Meketa and the IAC are supportive of this recommendation.

### **Passive Manager Evaluation Process**

Meketa surveyed large index providers via a blind RFI process and produced a list of potential providers and associated fees. Staff initially requested a proposal from Blackrock based on lower fee indications and a proposal from Vanguard based on an existing DPFP relationship. Staff then recommended a BlackRock fund to the IAC. However, following IAC feedback expressing concerns regarding securities lending risk, staff reached out to State Street and Northern Trust who both offered non-lending funds.

Staff consulted with Meketa to identify the key metrics on which to evaluate passive index providers, which include, but are not limited to investment vehicle, fees, liquidity, trade notice and settlement, and securities lending activity. Through discussions with providers, DPFP staff also sought to understand key performance drivers, competitive advantages, and qualitative factors regarding service and data delivery. A summary comparison of key metrics and qualitative factors follow.

Staff emailed a recommendation packet to the IAC in early January indicating a preference for Northern Trust. All IAC members responded and were supportive of a Northern Trust recommendation.



### Fund Comparison

| Manager                          | Vehicle          | Securities Lending | Comp. AUM | Mgmt Fee                          | Fund Expenses         | Trade Notice |
|----------------------------------|------------------|--------------------|-----------|-----------------------------------|-----------------------|--------------|
| Northern Trust                   | Commingled trust | No                 | \$2.7B    | 4 bps                             | ~1.41 bps<br>1.75 cap | T-1          |
| State Street (SSGA)              | Commingled trust | No                 | \$9.9B    | 5 bps <= \$100M<br>4 bps > \$100M | 2.3 bps recently      | T-2          |
| Blackrock                        | Tax exempt CIT   | 50/50 split        | \$3.5B    | 4 bps                             | 1.22 bps              | T-2          |
| Vanguard Total World Stock Index | Mutual Fund      | ~96/4 split        | \$3.1B    | 8 bps                             | ~2 bps                | T-1          |

Benchmarks are MSCI ACWI IMI except Vanguard which is FTSE Global All-Cap

### Performance as of 9/30/20

| Manager             | 5 yr Tracking Error | Trailing 1 yr% |       |        | Trailing 3 yr% |       |        | Trailing 5 yr% |       |        |
|---------------------|---------------------|----------------|-------|--------|----------------|-------|--------|----------------|-------|--------|
|                     |                     | Mgr.           | Index | Excess | Mgr.           | Index | Excess | Mgr.           | Index | Excess |
| Northern Trust      | 0.50                | 10.10          | 9.57  | 0.53   | 6.94           | 6.47  | 0.47   | 10.47          | 9.97  | 0.50   |
| State Street (SSGA) | 0.06                | 10.02          | 9.57  | 0.45   | 6.91           | 6.47  | 0.44   | 10.44          | 9.97  | 0.47   |
| Blackrock           | 0.10                | 10.04          | 9.57  | 0.47   | 6.95           | 6.47  | 0.48   | 10.49          | 9.97  | 0.52   |
| Vanguard            | 0.80                | 10.23          | 10.14 | 0.09   | 7.00           | 7.07  | -0.07  | 10.42          | 10.53 | -0.11  |

Sources: Meketa and Vanguard

Performance is gross of management fees, but net of operating expenses

### Comparative Summary

- Vanguard is not favored due to its higher fee of 8 bps. Absolute performance is higher recently due to the different benchmark. However, excess return is lower due to less efficient foreign dividend tax reclamation. Staff also considered an option with separate US and non-US funds, but this was overly complex vs. other options.
- Excess returns are similar for the other funds and are primarily driven by foreign tax reclamation.
- Blackrock provides the best long-term performance at a 4-bps fee. The 4-5 bps performance advantage is consistent with expectations for the contribution from securities lending.
- For Blackrock, trading costs for investor cash flows are absorbed by the investor, while for State Street and Northern trust these costs are spread across the fund.
- State Street provides the largest fund although the proposed fee is 1 bp higher than Northern Trust or Blackrock below \$100M AUM, which equates to \$10,000/yr.
- Northern Trust is also at the lowest fee level of 4 bps and provides shorter 1-day trade notice. AUM is smaller at \$2.7B and DFPF would represent 4% of AUM pro-forma. Tracking error is substantially higher at 50 bps. This is due to fair value pricing methodology, which does not materially impact long-term performance.



### **Conclusions**

Blackrock, State Street, and Northern Trust all provide solid passive global equity solutions with similar results. Although no solution stands out as being demonstrably superior, Staff is recommending Northern Trust based on the following factors. Meketa concurs with this view, and the IAC is supportive as well.

- Eliminates securities lending risk
- Low management fee at 4bps
- Capped administrative fee
- Shorter trade notice period

The Appendix beginning on the following page contains an overview of Northern Trust's organization, key people, recent performance, philosophy, process, and portfolio characteristics. Additional details can be found in the attached fact sheet and presentation.

### **Recommendation**

Staff recommends investing in the Northern Trust MSCI ACWI IMI commingled index fund for the passive global equity allocation. The Investment Advisory Committee and Meketa support this recommendation. This will be a Traditional Investment based on the criteria in Appendix D (Alternative Investments) of the Investment Policy.

Staff recommends funding Northern Trust by rebalancing each of the four existing active global equity managers to 7% target weights (~\$132 million). The proposed funding would result in a contribution of approximately \$123 million to Northern Trust, representing 6.5% of the total fund vs. a 6.0% target.

Staff recommends that the passive global equity allocation be allowed to accumulate additional contributions on an interim basis prior to selecting and funding investment managers for U.S. small cap (3% target) and International small cap (3% target).

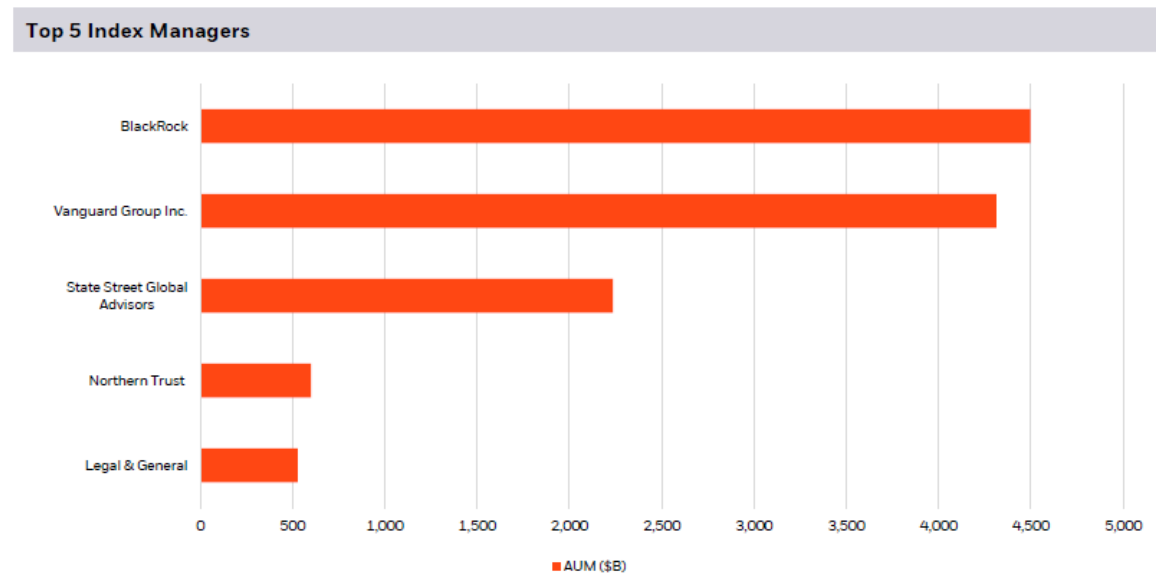


**APPENDIX  
Northern Trust MSCI ACWI IMI Index Overview**

**Northern Trust Overview**

Northern Trust was originally started as a bank in 1889. The Northern Trust investments business was founded in 1998 and provides asset servicing, investment management, and wealth management services to institutions and individuals. The firm is headquartered in Chicago, Illinois and has over 77 office locations worldwide. The company is publicly traded under ticker NTRS and is currently led by Chairman and CEO Michael O’Grady. As of September 30, 2020, Northern Trust had \$1.3 trillion in assets under management and \$13.1 trillion under custody/administration.

Northern Trust is one of the Top 5 Index Managers by AUM.



Source: Pensions & Investments (AUM data as of 6/30/2019)

*Philosophy*

Northern Trust’s investment philosophy is grounded in the belief that to efficiently replicate benchmark characteristics, it is vital to consider liquidity, transaction costs, and risk throughout the investment process. The approach focuses on the inherent trade-off between costs and tracking error and seeks to minimize turnover with associated costs while considering the resultant impact to the active risk to the portfolio. Utilizing an optimizer tool that seeks to match the benchmark beta, risk characteristics, and industry, sector, and country weights is a critical component of the investment process.

*Process*

To achieve its objective, the fund employs a replication technique, which generally seeks to hold each index constituent in its proportional index weight. The fund may accomplish this by investing in other non-lending collective trusts managed by Northern Trust or individual common stocks. Sampled strategies (buying only a representative sample of stocks in the index) are utilized when



appropriate as determined by the optimization model based on transaction cost and tracking error risk. The investment process is a continuous cycle of implementation and portfolio construction analysis, performance and attribution analysis, and risk controls compliance analysis.

Northern Trust utilizes its Intelligent Indexing platform to create efficient portfolios focused on the following key initiatives:

- A customized approach that results in replicated portfolios where appropriate and sampled strategies where identified as appropriate by the optimization process.
- Dynamic investment process that employs innovative technology to maximize liquidity and minimize transaction costs.
- Innovative index change strategies that emphasize the minimization of wealth erosion.
- Multi-dimensional risk management that tightly constrains portfolios at the region, country, sector, industry, stock and risk factor level.

Northern Trust risk oversight involves continuous monitoring of portfolio risk, performance, and attribution compliance. The following reviews are a critical component of the investment process.

- Daily Reviews by portfolio management team and compliance team:
  - Observe projected vs. actual tracking error
  - Evaluate positioning, risks, and costs
  - Monitor changes in index constituents and characteristics
  - Real-time validation of holdings vs. guidelines
  - Pre and post-trade compliance
- Monthly Reviews by Asset Management Risk Committee:
  - Oversight and monitoring of investment, operational, and regulatory risks
- Quarterly Reviews by Investment Governance Committee:
  - Performance results vs. benchmark and peer group
  - Investment strategy decisions and governance



### Performance

The fund has generated over 40 bps excess return annualized over time, primarily due to dividend tax reclamation.

#### NORTHERN INVESTMENTS COLLECTIVE FUNDS PERFORMANCE AS OF NOVEMBER 30, 2020

##### INTERNATIONAL INDEX - COLLECTIVE FUNDS

|   | One<br>Month | Trail<br>Quarter | YTD   | Trail<br>1<br>Year | Trail<br>2<br>Year* | Trail<br>3<br>Year* | Trail<br>4<br>Year* | Trail<br>5 Year * | Trail<br>6<br>Year* | Trail<br>7 Year * | Trail<br>8<br>Year* | Trail<br>9<br>Year* | Trail<br>10 Year * | ITD*  |
|---|--------------|------------------|-------|--------------------|---------------------|---------------------|---------------------|-------------------|---------------------|-------------------|---------------------|---------------------|--------------------|-------|
| Northern Trust All Country World Investable Market Index Fund - Non-Lending | 12.50        | 6.84             | 11.15 | 15.06              | 14.34               | 8.96                | 12.80               | 11.10             | 8.89                | 8.74              | 10.63               | n/a                 | n/a                | 10.47 |
| MSCI ACWI IMI   | 12.66        | 6.80             | 10.75 | 14.67              | 13.93               | 8.54                | 12.35               | 10.65             | 8.44                | 8.30              | 10.18               | n/a                 | n/a                | 10.02 |
| Excess Return   | -0.16        | 0.04             | 0.40  | 0.38               | 0.40                | 0.42                | 0.45                | 0.45              | 0.45                | 0.44              | 0.46                |                     |                    | 0.46  |

Source: Northern Trust

### Portfolio Characteristics

The fund is similar to the benchmark in terms of market cap and key financial metrics.

| FUND CHARACTERISTICS                               | Fund       | Benchmark <sup>1</sup> |
|--|------------|------------------------|
| Number of Equity Securities                        | 8,755      | 8,726                  |
| Weighted Average Market Cap (\$M)                  | 260,889.21 | 259,288.18             |
| Trailing 12-month Price-to-Earnings Ratio          | 22.34      | 22.46                  |
| Price-to-Book Ratio                                | 2.35       | 2.41                   |
| Dividend Yield (%)                                 | 2.18       | 2.16                   |
| 3-Year EPS (%)                                     | 12.68      | 12.59                  |
| Return on Equity (%)                               | 18.44      | 18.29                  |
| Annual Portfolio Turnover as of 7/31/20 (%)        | 48.09      |                        |
| <b>PERFORMANCE AND RISK CHARACTERISTICS (3 YR)</b> |            |                        |
| Beta*  | Fund       |                        |
|  | 0.99       |                        |
| Annualized Standard Deviation                      | 16.98      |                        |
| Tracking Error*                                    | 0.65       |                        |

\*Measured against the Fund's benchmark

Source: Northern Trust





The Northern Trust portfolio is well-aligned with the MSCI ACWI IMI benchmark index in terms of holdings and sector allocations.

| <b>TOP HOLDINGS %</b>                           | <b>Fund</b> | <b>Benchmark<sup>1</sup></b> |
|---|-------------|------------------------------|
| Apple Inc.                                      | 3.46        | 3.47                         |
| Microsoft Corporation                           | 2.61        | 2.62                         |
| Amazon.com, Inc.                                | 2.30        | 2.31                         |
| Facebook, Inc. Class A                          | 1.09        | 1.09                         |
| Alibaba Group Holding Ltd.<br>Sponsored ADR     | 0.94        | 0.95                         |
| Alphabet Inc. Class C                           | 0.77        | 0.77                         |
| Alphabet Inc. Class A                           | 0.76        | 0.76                         |
| Johnson & Johnson                               | 0.68        | 0.68                         |
| Tencent Holdings Ltd.                           | 0.65        | 0.65                         |
| Taiwan Semiconductor<br>Manufacturing Co., Ltd. | 0.63        | 0.64                         |
| <b>SECTOR</b>                                   |             |                              |
| <b>ALLOCATION %</b>                             | <b>Fund</b> | <b>Benchmark<sup>1</sup></b> |
| Information Technology                          | 20.82       | 20.86                        |
| Consumer Discretionary                          | 12.96       | 12.97                        |
| Health Care                                     | 12.59       | 12.59                        |
| Financials                                      | 12.38       | 12.35                        |
| Industrials                                     | 10.52       | 10.52                        |
| Communication Services                          | 8.65        | 8.66                         |
| Consumer Staples                                | 7.64        | 7.62                         |
| Materials                                       | 5.09        | 5.07                         |
| Real Estate                                     | 3.53        | 3.54                         |
| Utilities                                       | 3.06        | 3.05                         |
| Energy  | 2.77        | 2.77                         |

Source: Northern Trust

NORTHERN TRUST ASSET MANAGEMENT

EQUITY

## ALL COUNTRY WORLD

COLLECTIVE

AS OF 3Q20

## INVESTABLE MARKET INDEX FUND - NON-LENDING

## Investment Objective

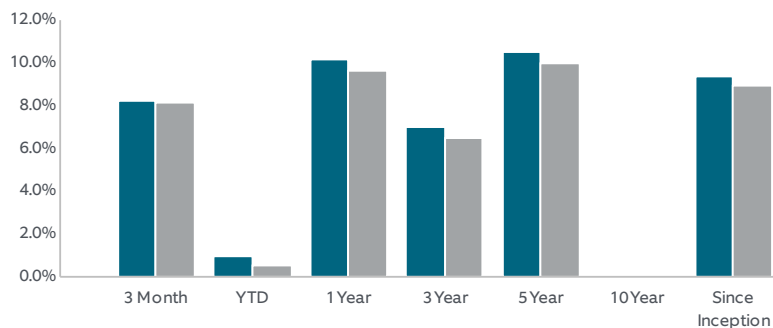
The primary objective of the Northern Trust Collective All Country World Investable Market Index Fund - Non-Lending is to provide investment results that approximate the overall performance of the MSCI All Country World Investable Market Index

## Investment Approach

To achieve its objective, the Fund employs a replication technique which generally seeks to hold each index constituent in its proportional index weight. The Fund may make limited use of futures and/or options for the purpose of maintaining equity exposure. This Fund may not participate in securities lending.

## INVESTMENT PERFORMANCE % — AS OF 9/30/20

- All Country World Investable Market Index Fund - Non-Lending
- MS AC Wld Idx IMI Nt<sup>1</sup>



## Average Annualized Returns

|                          | 3 Month | YTD  | 1 Year | 3 Year | 5 Year | 10 Year | Since Inception |
|--------------------------|---------|------|--------|--------|--------|---------|-----------------|
| ■ Fund (Gross)           | 8.18    | 0.94 | 10.10  | 6.94   | 10.47  | —       | 9.37            |
| ■ Benchmark <sup>1</sup> | 8.11    | 0.48 | 9.57   | 6.47   | 9.97   | —       | 8.90            |

## PERFORMANCE DISCLOSURES

Past performance is not indicative of future results. Returns for periods greater than one year are annualized and represent geometrically linked rates of return. Gross performance returns shown do not reflect the deduction of investment management/advisory fees, assume the reinvestment of dividends and capital gains, and are net of transaction costs and other expenses (such as administrative expenses). Performance results will be reduced by the fees incurred in the management of the account. Investment management/advisory fees are charged outside of the trust. Performance results (or fees) are provided by Northern Trust Investments, Inc. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any index.

To illustrate the effect of the compounding fees, assuming an annual gross return of 8% and an annual investment management fee of 0.20%, a \$10,000,000 account would grow in value over five years to \$14,693,280 before fees and \$14,548,130 after deduction of fees. The fee illustration represents the deduction of the highest applicable management fee. Investment management/advisory fees are described in Northern Trust Investments, Inc. Form ADV Part 2A.

There can be no assurance that any portfolio investment objectives will be achieved. Risk controls and models do not promise any level of performance or guarantee against loss of principal. Any discussion of risk management is intended to describe Northern Trust's efforts to monitor and manage risk but does not imply low risk.

Northern Trust Asset Management is composed of Northern Trust Investments, Inc. Northern Trust Global Investments Limited, Northern Trust Fund Managers (Ireland) Limited, Northern Trust Global Investments Japan, K.K., NT Global Advisors Inc., 50 South Capital Advisors, LLC and investment personnel of The Northern Trust Company of Hong Kong Limited, Belvedere Advisors, LLC and The Northern Trust Company.

|                  |                |                   |
|------------------|----------------|-------------------|
| NOT FDIC INSURED | MAY LOSE VALUE | NO BANK GUARANTEE |
|------------------|----------------|-------------------|

## FUND

## OVERVIEW

|                  | Fund                              |
|------------------|-----------------------------------|
| Benchmark/Index  | MS AC Wld Idx IMI Nt <sup>1</sup> |
| Inception Date   | 10/22/12                          |
| Total Net Assets | \$1.48 Billion                    |

## FEES AND

## EXPENSES

|                             | Fund   |
|-----------------------------|--------|
| Administrative Fee Cap (%)  | 0.0175 |
| Total Fees and Expenses (%) | 0.0175 |
| Per \$1000 Investment (\$)  | 0.1750 |

As set forth in the Fund Declaration for each Fund, NTI has established an Administrative Fee Cap pursuant to which the sum of (i) the fees charged by the Fund's external auditor and (ii) the Custody and Fund Administration Fee paid by the Fund will not exceed a specified percentage of the Fund's assets. NTI may at any time modify or discontinue the above-described Fees and Expenses.

## FUND

## CHARACTERISTICS

|   | Fund       | Benchmark <sup>1</sup> |
|---|------------|------------------------|
| Number of Equity Securities                 | 8,755      | 8,726                  |
| Weighted Average Market Cap (\$M)           | 260,889.21 | 259,288.18             |
| Trailing 12-month Price-to-Earnings Ratio   | 22.34      | 22.46                  |
| Price-to-Book Ratio                         | 2.35       | 2.41                   |
| Dividend Yield (%)                          | 2.18       | 2.16                   |
| 3-Year EPS (%)                              | 12.68      | 12.59                  |
| Return on Equity (%)                        | 18.44      | 18.29                  |
| Annual Portfolio Turnover as of 7/31/20 (%) | 48.09      |                        |

## PERFORMANCE AND

## RISK CHARACTERISTICS (3 YR)

|                               | Fund  |
|-------------------------------|-------|
| Beta*                         | 0.99  |
| Annualized Standard Deviation | 16.98 |
| Tracking Error*               | 0.65  |

\*Measured against the Fund's benchmark

## NORTHERN TRUST ASSET MANAGEMENT

## ALL COUNTRY WORLD INVESTABLE MARKET INDEX FUND - NON-LENDING

## CALENDAR YEAR RETURNS %

|                        | 2019  | 2018   | 2017  | 2016 | 2015  | 2014 | 2013  | 2012 | 2011 | 2010 |
|------------------------|-------|--------|-------|------|-------|------|-------|------|------|------|
| Fund (Gross)           | 26.83 | -9.61  | 24.32 | 8.86 | -1.74 | 4.20 | 24.07 | —    | —    | —    |
| Benchmark <sup>1</sup> | 26.35 | -10.08 | 23.95 | 8.36 | -2.19 | 3.84 | 23.55 | —    | —    | —    |

Performance quoted represents past performance and does not guarantee future results. Refer to fee illustration on prior page.

| TOP HOLDINGS %                               | Fund | Benchmark <sup>1</sup> |
|--|------|------------------------|
| Apple Inc.                                   | 3.46 | 3.47                   |
| Microsoft Corporation                        | 2.61 | 2.62                   |
| Amazon.com, Inc.                             | 2.30 | 2.31                   |
| Facebook, Inc. Class A                       | 1.09 | 1.09                   |
| Alibaba Group Holding Ltd. Sponsored ADR     | 0.94 | 0.95                   |
| Alphabet Inc. Class C                        | 0.77 | 0.77                   |
| Alphabet Inc. Class A                        | 0.76 | 0.76                   |
| Johnson & Johnson                            | 0.68 | 0.68                   |
| Tencent Holdings Ltd.                        | 0.65 | 0.65                   |
| Taiwan Semiconductor Manufacturing Co., Ltd. | 0.63 | 0.64                   |

## SECTOR

| ALLOCATION %           | Fund  | Benchmark <sup>1</sup> |
|------------------------|-------|------------------------|
| Information Technology | 20.82 | 20.86                  |
| Consumer Discretionary | 12.96 | 12.97                  |
| Health Care            | 12.59 | 12.59                  |
| Financials             | 12.38 | 12.35                  |
| Industrials            | 10.52 | 10.52                  |
| Communication Services | 8.65  | 8.66                   |
| Consumer Staples       | 7.64  | 7.62                   |
| Materials              | 5.09  | 5.07                   |
| Real Estate            | 3.53  | 3.54                   |
| Utilities              | 3.06  | 3.05                   |
| Energy                 | 2.77  | 2.77                   |

TOP REGIONS/  
COUNTRIES %

|                | Fund  | Benchmark <sup>1</sup> |
|----------------|-------|------------------------|
| United States  | 57.46 | 57.31                  |
| Japan          | 7.34  | 7.36                   |
| United Kingdom | 3.81  | 3.82                   |
| China          | 3.55  | 3.61                   |
| Canada         | 2.84  | 2.76                   |
| Switzerland    | 2.68  | 2.68                   |
| France         | 2.62  | 2.62                   |
| Germany        | 2.49  | 2.51                   |
| Australia      | 1.89  | 1.89                   |
| Taiwan         | 1.66  | 1.69                   |

## IMPORTANT INFORMATION

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The information in this factsheet may not meet all requirements for an ERISA section 404(c) plan, as described in Department of Labor regulations under 29 CFR 2550.404c-1. In addition, the information in this factsheet may not meet all requirements of Department of Labor regulations under 29 CFR 2550.404a-5. To comply with such regulations, plan sponsors will need to provide plan participants with additional information and should contact the plan administrator or plan recordkeeper regarding disclosure of total expenses to participants.

## INVESTMENT RISKS

The following Risks are for All Country World Investable Market Index Fund - Non-Lending:

**EQUITY RISK:** Equity securities (stocks) are more volatile and carry more risk than other forms of investments, including investments in high-grade fixed-income securities.

**INDEX FUND RISK:** The performance of the Fund is expected to be lower than that of the Index because of Fund fees and expenses.

**INTERNATIONAL RISK:** International investing involves increased risk and volatility.

## DEFINITIONS

<sup>1</sup>MSCI ACWI IMI Index includes large, mid cap and small cap segments and provides exhaustive coverage of these size segments by targeting a coverage range of close to 99% of the free float-adjusted market capitalization in each market. The Large Cap Indices target a coverage range of about 70% of the free float-adjusted market capitalization in each market; the Mid Cap Indices target a coverage range of about 15% of the free float-adjusted market capitalization in each market; and the Small Cap Indices target a coverage range of about 14% of the free float-adjusted market capitalization in each market. The MSCI ACWI IMI Index consists of 45 country indices comprising 24 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

**Tracking Error:** Tracking error is a measure of the volatility of the differences in the return between a fund and its benchmark. The smaller the tracking error, the more the fund resembles the benchmark regarding risk and return characteristics.

**Beta:** Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole.

**Annualized Standard Deviation:** Standard deviation is a measure of risk. In this case risk is represented by the funds price movements up or down over time.



For more complete information concerning this Fund, including risks and expenses, please contact your relationship manager or call 877/651-9156 to request a copy of the most recent Annual Report and read it carefully before investing in the Fund.

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ASSET MANAGEMENT

# Equity Index Solutions



NORTHERN TRUST

# TABLE OF CONTENTS

- Northern Trust Asset Management Overview
- Index Management Capabilities and Team
- Investment Process
- Appendix

# Northern Trust Asset Management Overview

---

## PRINCIPLES THAT ENDURE

### Service

Relentless drive to provide exceptional service.

### Expertise

Resolving complex challenges with multi-asset class capabilities.

### Integrity

Acting with the highest ethics, utmost honesty and unfailing reliability.



## NORTHERN TRUST

Northern Trust's core principles of service, expertise, and integrity have remained constant for over 125 years, guiding Northern Trust's evolution to a multi-faceted global financial services provider.

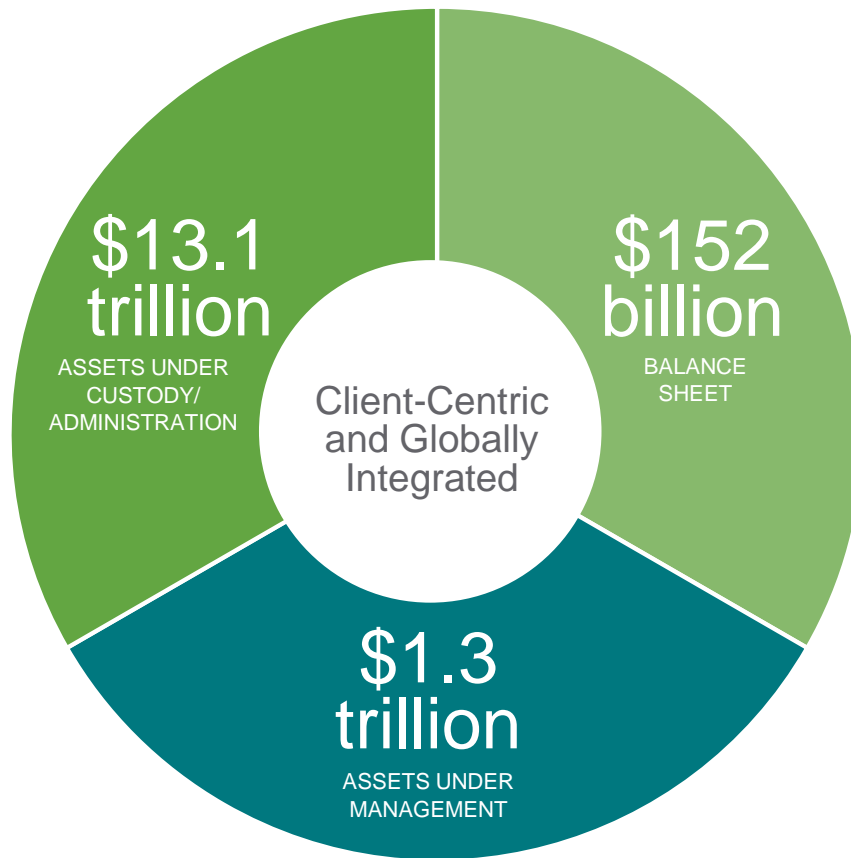
Throughout our history and changing market environments, we have led the financial services industry by aligning our efforts with these guiding principles.

Today, we remain committed to these founding principles which continue to unite and drive our partners around the globe — delivering our clients unparalleled service and expertise, with integrity.

# NORTHERN TRUST CORPORATION

*Serving the world's most-sophisticated clients – from sovereign entities and the wealthiest individuals, to the largest global corporations and hedge funds.*

## GLOBAL PLATFORM



As of September 30, 2020

<sup>1</sup>Standard and Poor's, senior debt

<sup>2</sup>For additional information on these awards, see important information on page 10.

## AT A GLANCE

- Founded in 1889
- Headquartered in Chicago, IL
- Locations in 24 countries
- 20,000 global employees
- Diversified revenue streams
- A+ debt rating; well-capitalized<sup>1</sup>



World's  
**most admired**  
companies®

*Fortune Magazine*<sup>2</sup>

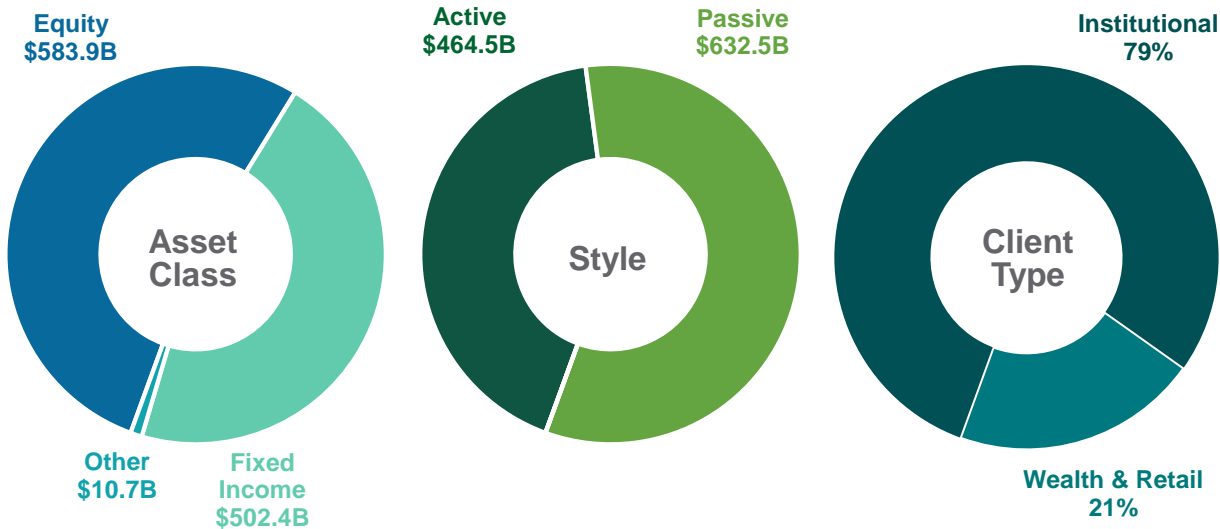




# NORTHERN TRUST ASSET MANAGEMENT

*A leading global investment manager with a client-centric culture rooted in a fiduciary heritage.*

## TOTAL ASSETS UNDER MANAGEMENT



## A TRUSTED PARTNER

**Leveraging** the strength of Northern Trust

**Global** network of investment professionals with deep expertise

**Demonstrated** ability to thrive in various market environments

**Progressive** thought leadership and unique insights

**Solving** complex global challenges with innovative solutions

**Focused** on placing the needs of our clients above all else

**\$1.0 trillion**  
TOTAL AUM\*

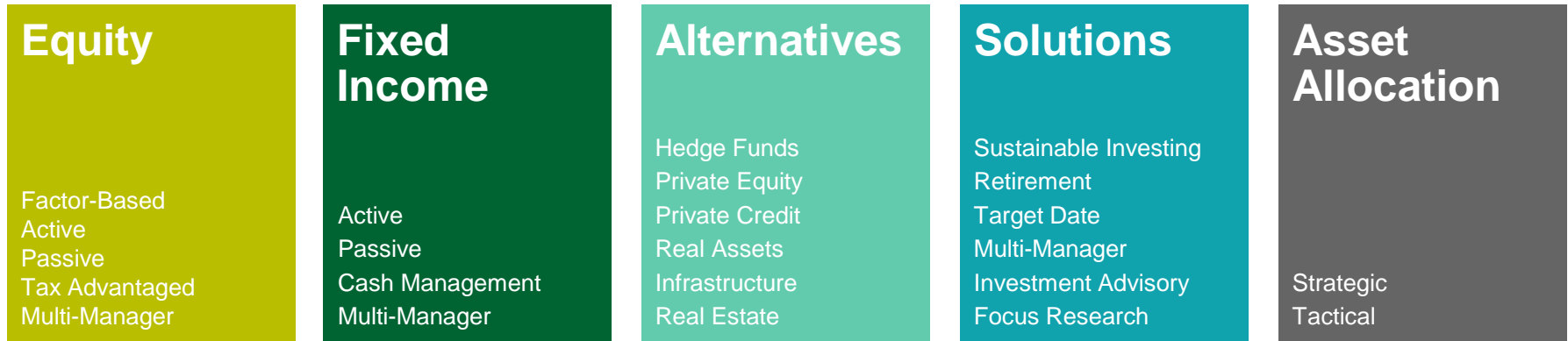
World's **18th largest** asset manager

\*Assets under management as of September 30, 2020. For the Northern Trust Asset Management entities included in AUM total, please see disclosure at end of this document. The above rankings are not indicative of future performance. Unless otherwise noted, rankings are based on total worldwide assets under management of \$1.0 trillion as of December 31, 2019 by Pensions & Investments magazine's 2020 Special Report on the Largest Money Managers.

# ASSET MANAGEMENT EXPERTISE

*Investment solutions and asset allocation informed by deep capital markets analysis. Comprehensive asset class capabilities from passive and factor-based, to fundamental active and multi-manager.*

## Capital Markets Expertise



..... Forward-looking, historically aware investment approach .....

## GLOBAL PRODUCT VEHICLES

Collective Funds | Common Contractual Funds (CCF) | Common Funds | Exchange Traded Funds (ETFs) | Fonds voor Gemene Rekening (FGR)

Investment Company Variable Capital (ICVC) | Managed Accounts | Mutual Funds | Separate Accounts

# A GLOBAL LEADER IN ASSET MANAGEMENT

*Providing innovative solutions to meet client objectives has earned the confidence of global investors.*

## TOP MONEY MANAGER RANKING

**Worldwide Assets<sup>1</sup>**  
18TH LARGEST

**Worldwide Institutional Assets<sup>2</sup>**  
13TH LARGEST

**Factor-Based Strategies<sup>1</sup>**  
7TH LARGEST

**Sovereign Wealth Funds<sup>1</sup>**  
6TH LARGEST

**Endowment/Foundation Assets<sup>1</sup>**  
5TH LARGEST

**Institutional Cash Manager<sup>3</sup>**  
1ST IN THE U.S.

**Indexed (U.S.) Equity<sup>4</sup>**  
4TH LARGEST

**Indexed (U.S.) Fixed Income<sup>4</sup>**  
4TH LARGEST

**ETF Sponsor**  
16TH LARGEST IN THE U.S.<sup>8</sup>

## Equity

Leaders in Factor-based investing since 1994

## Fixed Income & Liquidity Solutions

Two-time Fixed Income Municipal Manager of the Year<sup>5</sup>

## ESG

Over 30 Years of Managing Socially Responsible Portfolios  
UNPRI Signatory

## Retirement Solutions

8th Largest DB Manager<sup>4</sup>  
10th Largest DC Manager<sup>3</sup>

## Multi-Manager

Third-party manager solutions  
9th Largest Outsourcing Manager Worldwide / 5th U.S.<sup>6</sup>

## 50 South Capital

Hedge Funds and Private Equity Solutions


## Flexshares<sup>®</sup>

Family of equity, fixed income & real asset ETFs

## Northern Funds

\$226.5 billion<sup>7</sup> diversified mutual fund family

<sup>1</sup>Total worldwide assets under management. <sup>2</sup>Worldwide institutional assets under management. <sup>3</sup>U.S. Institutional, tax exempt. <sup>4</sup>U.S. Institutional, tax exempt, managed internally. <sup>5</sup>*Institutional Investor*, 2013 and 2014. <sup>6</sup>Data as of March 31, 2020. <sup>7</sup>Data as of September 30, 2020. <sup>8</sup>Morningstar as of December 31, 2019. The above rankings are not indicative of future performance. Unless otherwise noted, rankings are based on total worldwide assets under management of \$1.0 trillion as of December 31, 2019 by Pensions & Investments magazine's 2020 Special Report on the Largest Money Managers.



# Stability + Strength

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# Opportunity

We're referred to as the stable institution that people trust—but trust and stability doesn't mean tired and stationary.

Quite the contrary; trust and stability mean we operate from a position of strength.

And with strength comes the ability to identify, create and seize opportunities for our clients.

# IMPORTANT INFORMATION

## ***2018 One of the World's Most Admired Companies***

Fortune's survey partners at Hay Group starts with approximately 1,500 companies: the Fortune 1,000 -- the 1,000 largest U.S. companies ranked by revenue; non-U.S. companies in Fortune's Global 500 database with revenues of \$10 billion or more. Hay then selects the highest-revenues companies in each industry, surveying a total of 680 companies from 28 countries. To create the 51 industry lists, Hay polled executives, directors and analysts to rate companies in their own industry on nine criteria, from investment value to social responsibility. A company's score must rank in the top half of its industry survey to be listed.

<http://fortune.com/worlds-most-admired-companies>

*(click on 'See our methodology and credits')*

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Past performance is no guarantee of future results.

Northern Trust Asset Management is composed of Northern Trust Investments, Inc. Northern Trust Global Investments Limited, Northern Trust Fund Managers (Ireland) Limited, Northern Trust Global Investments Japan, K.K, NT Global Advisors Inc., 50 South Capital Advisors, LLC and investment personnel of The Northern Trust Company of Hong Kong Limited, Belvedere Advisors LLC and The Northern Trust Company.

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# Index Management Capabilities and Team

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# GLOBAL INDEX MANAGEMENT PLATFORM

*Our transparent index management process considers risk, liquidity and costs at every stage while integrating pointed proxy voting policies and principles targeted at upholding stewardship practices.*

## FAST FACTS

**\$628.8B AUM\***

**4th Largest** Index Manager<sup>1</sup>

**2nd Largest** CIT Manager

Manager of **4** of the **top 10 largest ESG index funds** globally

## OUR ADVANTAGE

Integrated industry-leading global platform backed by significant scale and infrastructure

Dynamic process centered around efficiency that is designed to be cost-efficient in scope from portfolio management to transitions

Innovative product suite focused on evolving indexing for traditional broad market capitalization to proprietary factor-based strategies and strong stewardship engagement

## OUR CAPABILITIES

### Equity

Developed Markets  
Emerging Markets  
Frontier Markets  
Market-Cap Weighted  
Alternatively Weighted

### Fixed Income

Global Broad Fixed Income  
Government Sectors  
Securitized Sectors  
Credit Sectors  
Alternatively Weighted

### Real Assets

Real Estate  
Infrastructure  
Natural Resources

## Sustainable Investing

<sup>1</sup> Total worldwide assets under management. The above rankings are not indicative of future performance. Unless otherwise noted, rankings are based on total worldwide assets under management of \$1.0 trillion as of December 31, 2019 by Pensions & Investments magazine's 2020 Special Report on the Largest Money Managers.

Assets under management as of 09/30/20

\*Index Management AUM does not include \$3.6B of Multi-Manager Solutions Assets.

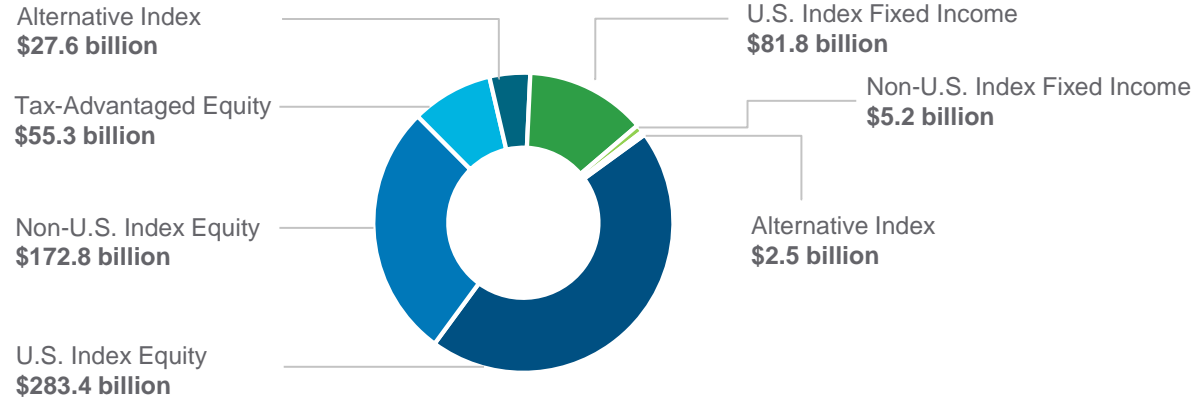
# INDEX MANAGEMENT

*Traditional market-cap weighted, alternatively-weighted and custom strategies for all asset classes*

Total index management assets under management:  
**\$628.8 billion\***  
 as of September 30, 2020

**Equity:**  
**\$539.2 billion**

**Fixed Income:**  
**\$89.6 billion**



As of September 30, 2020 (updated quarterly). Source: NTAM Finance.

\*Index Management AUM does not include \$3.6B of Multi-Manager Solutions Assets.

Northern Trust Asset Management is composed of Northern Trust Investments, Inc. Northern Trust Global Investments Limited, Northern Trust Fund Managers (Ireland) Limited, Northern Trust Global Investments Japan, K.K, NT Global Advisors Inc., 50 South Capital Advisors, LLC and investment personnel of The Northern Trust Company of Hong Kong Limited, Belvedere Advisors LLC and The Northern Trust Company to offer investment products and services to personal and institutional markets.

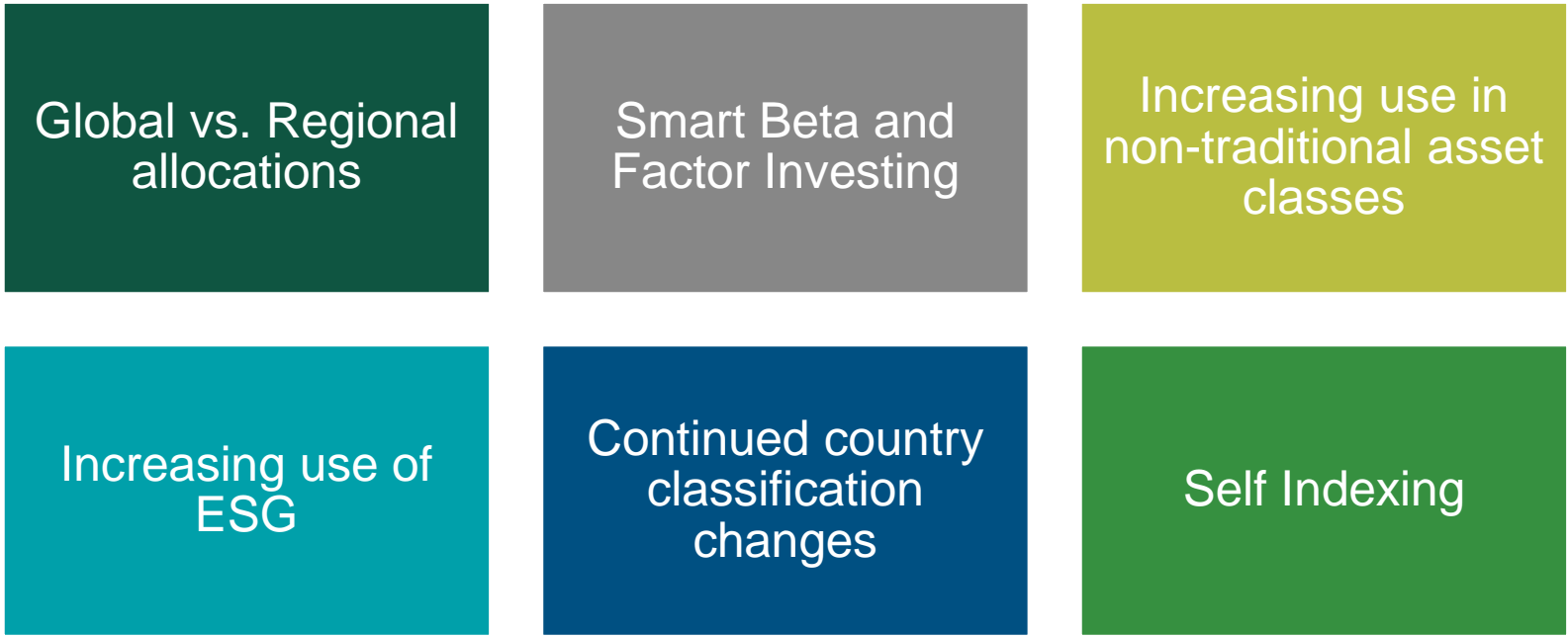
For purpose of compliance with the Global Investment Performance Standards (GIPS®) the firm is defined as Northern Trust Asset Management Services, a subset of Northern Trust Asset Management, and includes those investment products managed by NTI, NTGIL, NTGIJ and TNTC that are distributed through global channels.

As of 09/30/2020 Northern Trust Asset Management had assets under management totaling \$1.09 trillion of which \$1.03 trillion is part of the GIPS firm.



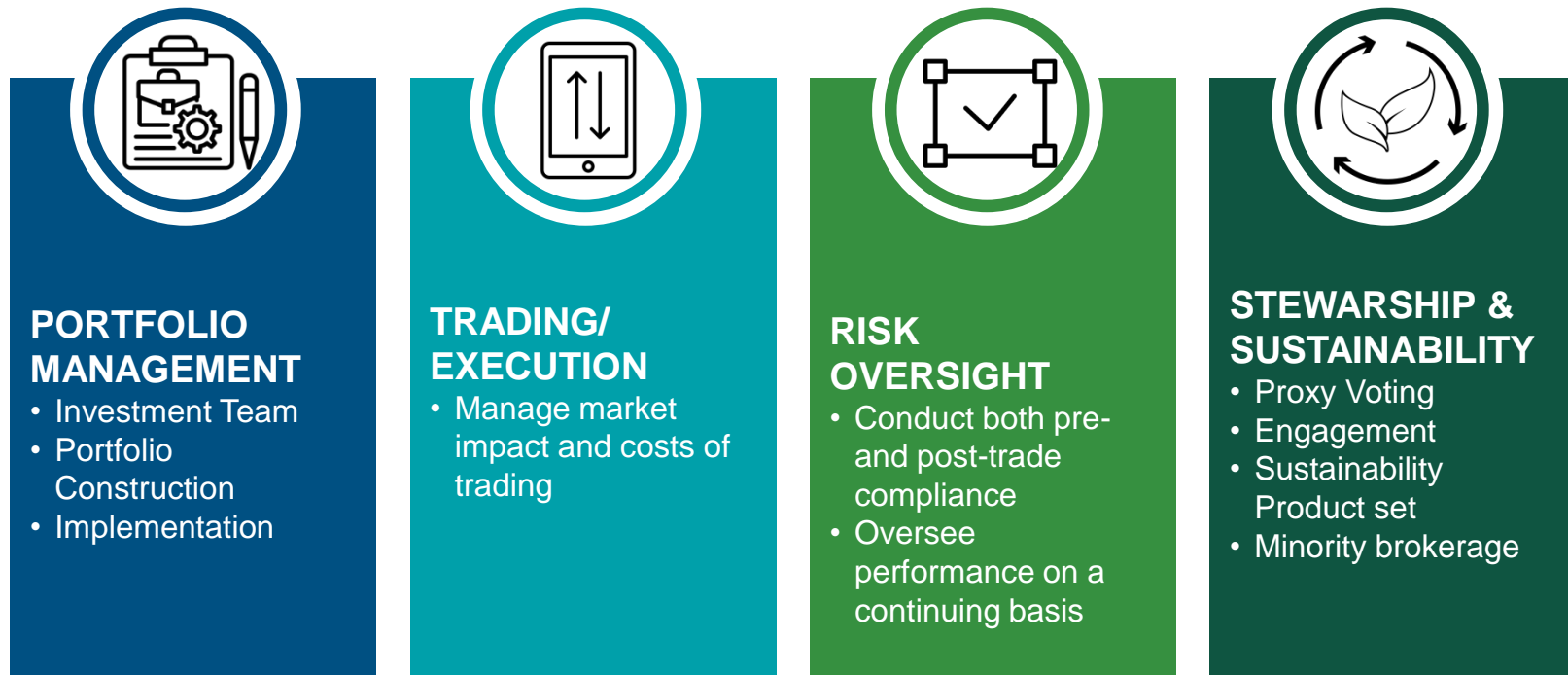
# GLOBAL TRENDS IN INDEX MANAGEMENT

*The seemingly simple world of index investing continues to grow in breadth and complexity.*



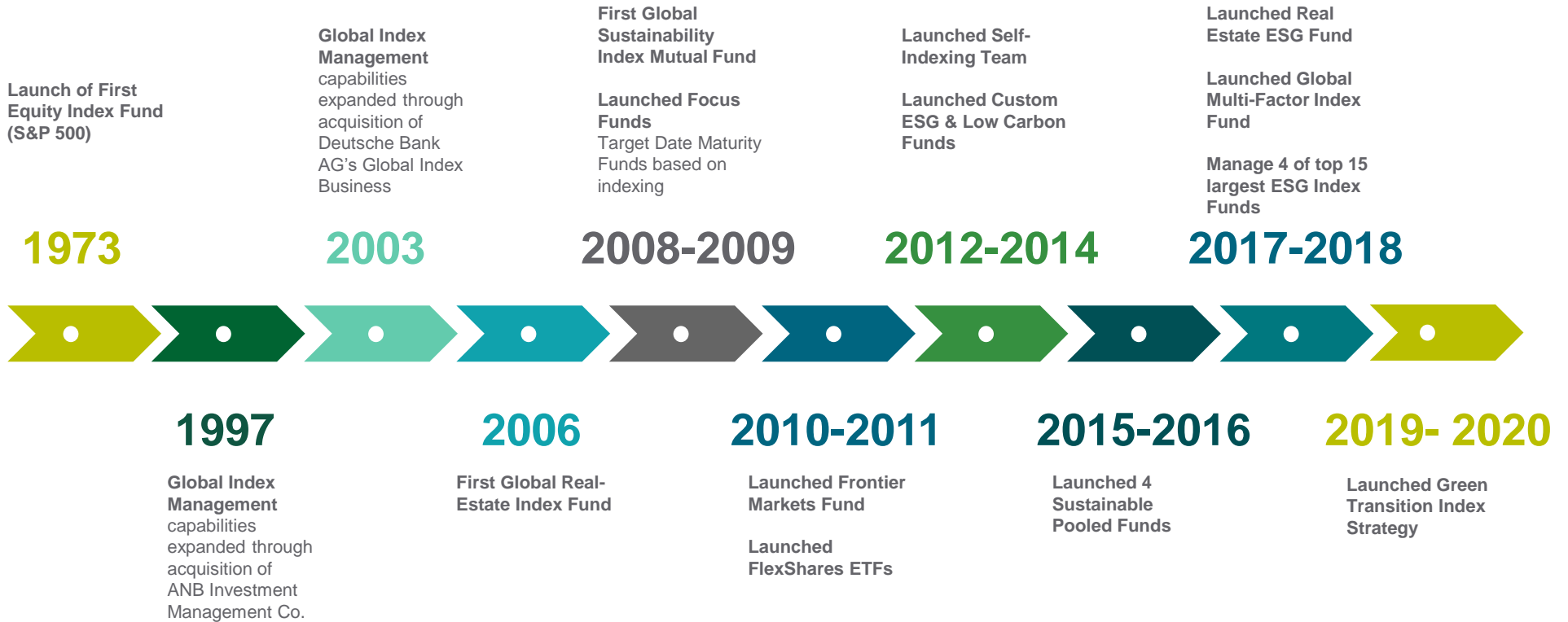
# A GLOBAL APPROACH TO EQUITY INDEX MANAGEMENT

*As our footprint spans the global marketplace, so does our investment process and approach to managing investment solutions.*



Please note that this information reflects current processes and that all steps of the analysis may not be taken for each investment.

# NORTHERN TRUST ASSET MANAGEMENT GROWTH AND INNOVATION IN GLOBAL INDEX MANAGEMENT



# INDEX EQUITY

**Bob Browne, CFA**  
Chief Investment Officer

## INDEX EQUITY

**Jake Weaver, CFA, CPA**  
Head of Index and Tax Advantaged Equity

### PORTFOLIO MANAGEMENT & RESEARCH

#### Chicago

**Brent D. Reeder**  
Head of Index, US

**Basit Amin, CFA**  
Senior Portfolio Manager

**Robert Anstine**  
Senior Portfolio Manager

**Keith Carroll**  
Senior Portfolio Manager

**Michael Gleeman, CFA**  
Senior Portfolio Manager

**Chris Jaeger**  
Senior Portfolio Manager

**Lucy Johnston**  
Senior Portfolio Manager

**Steve Santiccioli**  
Senior Portfolio Manager

**Brendan Sullivan, CFA**  
Senior Portfolio Manager

**Alan Aung, CFA**  
Portfolio Manager

**Volter Bagriy, CFA**  
Portfolio Manager

**Joe Park, CFA, CPA**  
Portfolio Manager

**Yair Walny, CFA**  
Portfolio Manager

#### London

**Nicholas Dymond, CFA**  
Head of Index, EMEA

**James Amatt**  
Senior Portfolio Manager

**Josh Fiennes, CFA**  
Senior Portfolio Manager

**Roel Houwer**  
Portfolio Manager

#### Hong Kong

**Gregory Pasieka, CFA**  
Head of Index, APAC

**Masahiro Aikawa, CFA**  
Portfolio Manager

**Nigel Tyler**  
Senior Portfolio Manager

**Mark Underhill**  
Senior Portfolio Manager

**David Crowe**  
Portfolio Manager

**Manfred Wong, CFA**  
Portfolio Manager

### INVESTMENT STRATEGY

**Jim McDonald**  
Chief Investment Strategist

**Wouter Sturkenboom, CFA**  
Chief Investment Strategist – EMEA

**Daniel Phillips, CFA**  
Senior Investment Strategist

### QUANTITATIVE STRATEGIES

**Michael R. Hunstad, Ph.D.**  
Head of Quantitative Strategies

### INDEX SERVICES

**Michael Deverall**  
Head of Index Services

### EQUITY SPECIALISTS

**Christopher Fronk, CFA, CPA**  
Senior Equity Specialist

**Stefanie Hest**  
Senior Equity Specialist

**Emily Lawrence**  
Senior Equity Specialist – Sustainable Investing

### BUSINESS MANAGEMENT

**Ali Bleecker**  
Chief Administrative Officer

### RISK MANAGEMENT LEADERSHIP

**James P. Kane**  
Head of Investment Risk Management

### EQUITY TRADING

**Richard A. Vigsnes**  
Head of Trading

#### Chicago

**Peter Driscoll**  
Senior Equity Trader

**Christopher Ebel, CFA**  
Senior Equity Trader

**Sean Finegan, CFA**  
Senior Equity Trader

**Walid Karim**  
Senior Equity Trader

**Ashish Mehta**  
Senior Equity Trader

**Curtis Nass, CFA**  
Senior Equity Trader

**Paul Howaniec**  
Equity Trader

**Jeffrey J Logan**  
Equity Trader

**Dionne Milner**  
Senior Analyst

#### London

**Martin Ekers**  
Manager Equity Trader

**Peter Hughes**  
Senior Equity Trader

**Kerem Onder**  
Senior Equity Trader

#### Hong Kong

**Wilson Har**  
Equity Trader

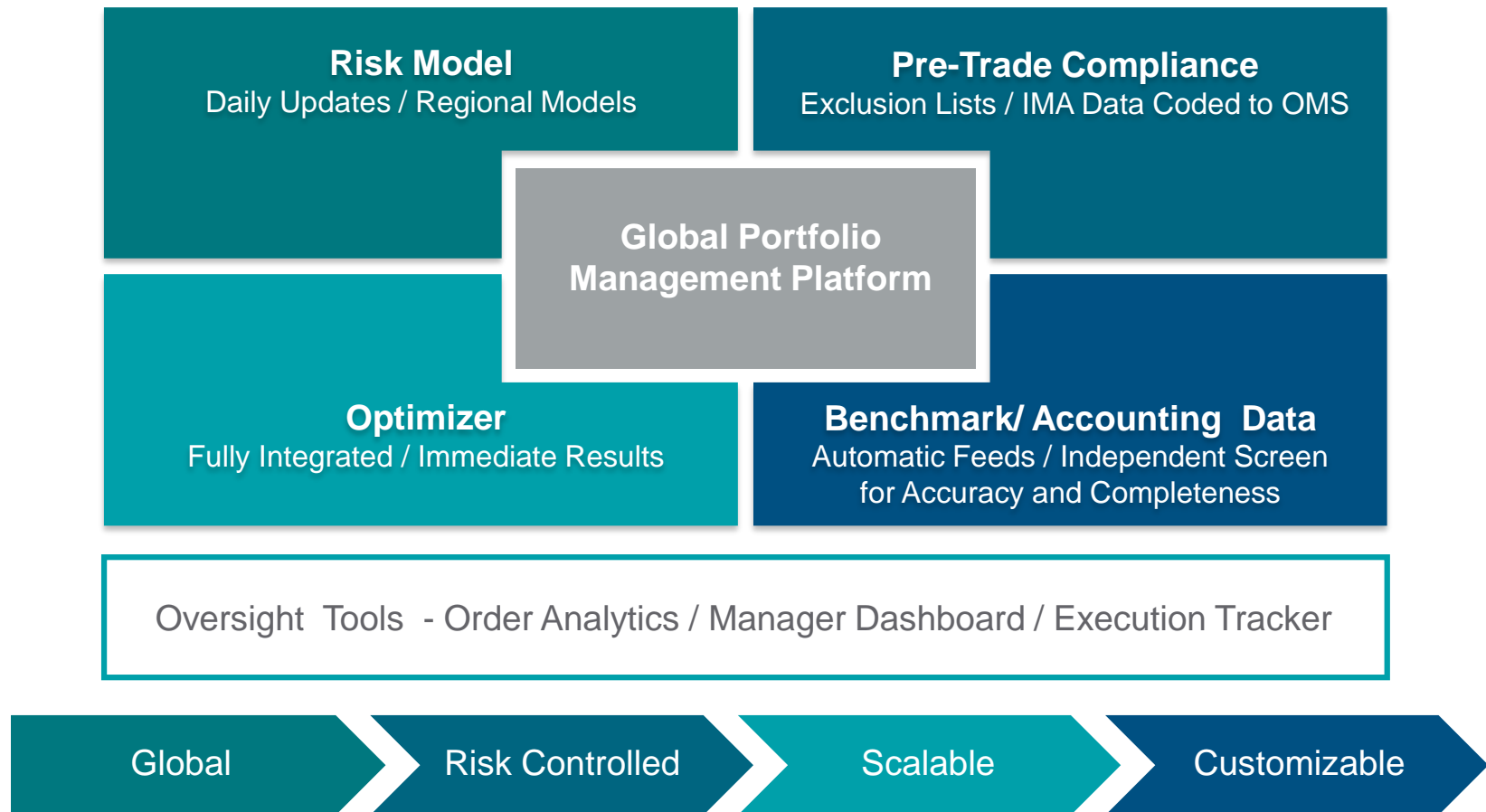
**Michael Tan**  
Equity Trader

# Investment Process

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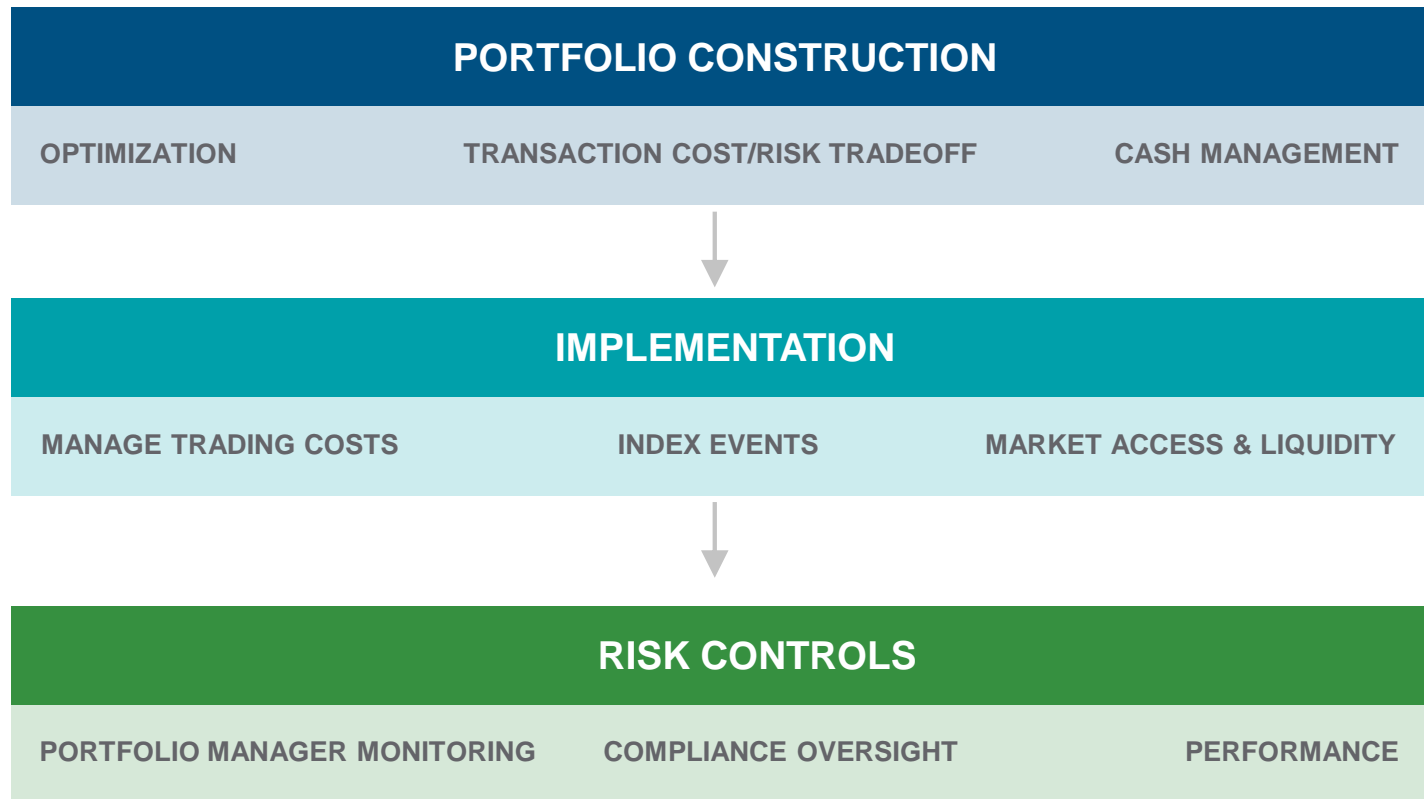
# GLOBAL TECHNOLOGY PLATFORM

*Sophisticated, consistent, global approach to asset management systems*



# INVESTMENT PHILOSOPHY & PROCESS

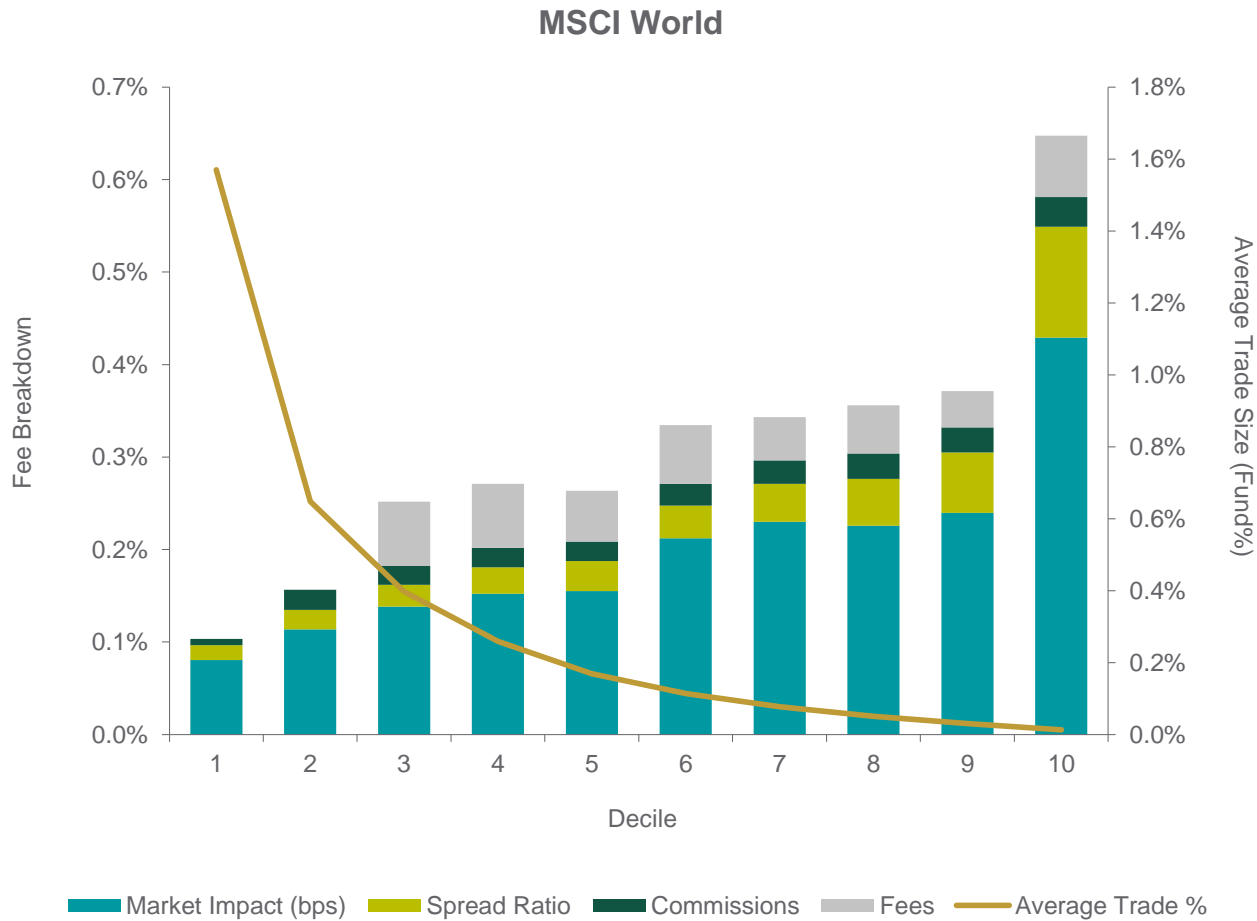
*Our investment philosophy is grounded in the belief that to efficiently replicate benchmark characteristics, it is vital to consider liquidity, transaction costs, and risk throughout the investment process.*



Please note that this information reflects current processes and that all steps of the analysis may not be taken for each investment.

# PORTFOLIO CONSTRUCTION

*Optimized portfolios and trades allow our Portfolio Managers to consider the trade-off between transaction costs and risks. We emphasize liquidity in portfolio construction.*



Source: NTAM, Bloomberg, MSCI – based on Buy of US\$500mm  
As of 12/31/2018



# PORTFOLIO CONSTRUCTION

*Designed to meet your expectations for efficient and cost effective market exposure*

**Replicate  
Where  
possible**

**Optimize  
where  
sensible**

|                             | Expected Tracking Error (+/-)* | Stock Mis-weights (+/-) | Country Exposure (+/-) | Industry Exposure (+/-) | Sector Exposure (+/-) |
|-----------------------------|--------------------------------|-------------------------|------------------------|-------------------------|-----------------------|
| <b>S&amp;P 500</b>          | 0-1 bps                        | 1 bps                   | -                      | 3 bps                   | 3 bps                 |
| <b>Russell 2000</b>         | 1-2 bps                        | 2 bps                   | -                      | 5 bps                   | 5 bps                 |
| <b>MSCI World</b>           | 1-2 bps                        | 1-2 bps                 | 3 bps                  | 3 bps                   | 3 bps                 |
| <b>MSCI Emerging Market</b> | 5-7 bps                        | 3 bps                   | 5 bps                  | 5 bps                   | 5 bps                 |

\*Tracking error is an ex-ante prediction of tracking error based on security level optimization and weights. The estimated range is annualized and expressed in basis points for the purpose of comparison. Actual/Experienced tracking error can deviate significantly based on, but not limited to, securities lending impact, foreign exchange, cash drag, futures, sampling efficiency, transaction costs.

# MULTI-DIMENSIONAL RISK OVERSIGHTS

*Continuous process examining portfolio risk, performance attribution and compliance.*

## Daily Reviews

### Portfolio Management Team

- Observe projected tracking error
- Evaluate positioning, risks and costs
- Monitor changes in index constituents and characteristics
- System validation of holdings versus guidelines, in real time
- Conduct pre-trade compliance

### Compliance Team

- OMS Systems examine holdings vs. guidelines
- Conduct post-trade compliance

## Ongoing Reviews

### Investment Governance Committee (Quarterly)

- Consists of senior investment and risk professionals across firm
- Review performance results and peer group
- Review investment strategy decisions and governance

### Asset Management Risk Committee (Monthly)

- Oversight and monitoring of investment, operational and regulatory risks
- Key members include Chief Risk Officer, Chief Compliance Officer and Chief Investment Officer

# NORTHERN TRUST EQUITY TRADING PLATFORM

*Leading market participant with global reach in Equities, Currencies, and Futures across Developed , Emerging, and Frontier markets.*



## Structure

- Global trading team with 24/6 pass the book infrastructure between dedicated dealing teams in Chicago, London, and Hong Kong
- Straight through electronic order processing from portfolio management origination to trade allocation and settlement



## Trading Strengths

- Northern Trust is a sophisticated market participant able to efficiently navigate all markets
- Competitive explicit trading costs in all markets.
- Executes with understanding and optimal blend of opportunity cost and market impact

# Appendix

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# STEWARDSHIP - PRINCIPLES AND POLICIES

*We have tailored policies targeted at upholding engagement and proxy voting in the best interest of stakeholders and clients.*



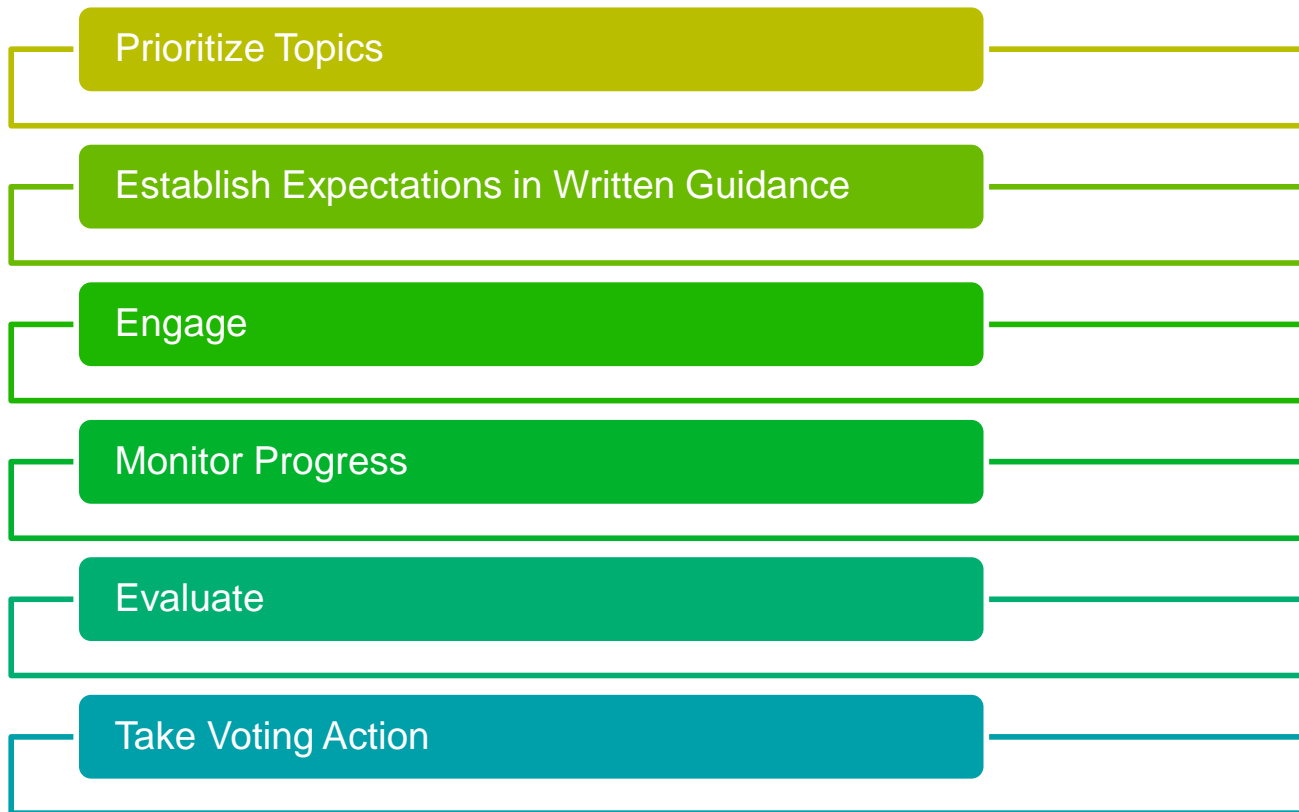
# STEWARDSHIP THEMES

*The themes and priorities align with industry reporting frameworks such as TCFD and SASB*

|                            |                                     |                                   |                                   |
|----------------------------|-------------------------------------|-----------------------------------|-----------------------------------|
| Environment                | CLIMATE CHANGE                      | NATURAL RESOURCE MANAGEMENT       | WASTE, RECYCLING AND BIODIVERSITY |
|                            | Greenhouse gas emissions reductions | Water scarcity, use and pollution | Pollution and waste management    |
|                            | TCFD-based disclosure               | Deforestation                     | Recycling opportunities           |
|                            | Strategic alignment to 2° or below  | Sustainable food and agriculture  | Biodiversity impacts              |
| Social                     | HUMAN RIGHTS                        | HUMAN CAPITAL MANAGEMENT          | CONDUCT, CULTURE & ETHICS         |
|                            | Modern slavery                      | Occupational health and safety    | Fraud and bribery                 |
|                            | Child labour                        | Diversity and inclusion           | Employee engagement               |
|                            | Community rights                    | Recruitment and retention         | Product safety                    |
| Governance                 | BOARD COMPOSITION AND EFFECTIVENESS | COMPENSATION SHAREHOLDER RIGHTS   | SHAREHOLDER RIGHTS                |
|                            | Independence                        | Pay for performance alignment     | Shareholder responsiveness        |
|                            | Structure and attentiveness         | Disclosure                        | Proxy access                      |
|                            | Diversity                           |                                   | One share one vote                |
| Risk Management & Strategy | RISK MANAGEMENT                     | BUSINESS STRATEGY                 |                                   |
|                            | Financial prudence                  | Analysis of opportunities         |                                   |
|                            | Enterprise risk management          | Scenario planning                 |                                   |
|                            | Independence of external auditor    | Business purpose and mission      |                                   |

# ENGAGEMENT ON OBJECTIVES

*Our stewardship model includes time-bound discussions with investee companies on pre-specified objectives that are viewed as being in the long-term interest of investors.*



# NTAM COLLABORATIVE ENGAGEMENTS

*To maximize the scope of impact, we engage through a variety of mechanisms and partnerships. Collaborative engagements tend to entail a partnership of asset owners and managers with similar long-term sustainability views. They are conducted with the weight of the group's pooled assets, and can be an effective tool for underscoring the relevance and importance of issues.*



NTAM has three leadership roles: Valero, Glencore, National Grid

Group member of Exxon, Boeing, BHP, Shell, BP, GE, GM, CEZ and PGE



Engagement campaign with social media companies on management of violent content



Investor Advisory Group

Standards Advisory Group



# PROXY VOTING

*We advocate for strong corporate governance practices that we believe will create and sustain long-term value for our clients.*

## Governance Focus

| Board Composition   | Board Structure  | Contested Director Elections  | Shareholder Rights   | Compensation   | Mergers & Acquisitions  | Board and Audit Accountability  |
|---|--|---|--|--|---|---|
| <p>May oppose incumbent directors serving on nominating committee where concerns arise as to the composition of the board (skills, independence, tenure, etc).</p> <p>May oppose director nominees who are CEO and sit on more than two public boards, or who are non-CEO and sit on more than four public boards.</p> <p>May oppose incumbent director nominees who attend fewer than 75% of board and board-committee meetings for two consecutive years.</p> | <p>Expect principal board committees (audit, compensation, nomination and governance) to be comprised solely of independent directors; and the board be comprised of a majority independent directors.</p> <p>Support an annual election of directors over staggered board structure.</p> <p>Support appointment of a lead independent director where role of board chair is filled by non-independent director.</p> | <p>Evaluate case-by-case, considering:</p> <ul style="list-style-type: none"> <li>• Long-term financial performance of the target company relative to peers;</li> <li>• Management’s track record;</li> <li>• Qualifications of director nominees (both slates);</li> <li>• Evaluation of each side’s objectives, goals and potential motivations; and</li> <li>• Stock ownership positions.</li> </ul> | <p><b>AMENDED:</b> Support shareholder right to call special meetings.</p> <p>Support proxy access.</p> <p>Support elimination of supermajority vote standards to approve charter and bylaw amendments</p> <p>Support shareholder proposals that ask a company to submit its poison pill for shareholder ratification.</p> | <p>Generally supportive of annual frequency of advisory votes on executive compensation.</p> <p>Examine advisory votes concerning the compensation of named executive officers on a case-by-case basis, taking into account pay structure in relation to firm performance, problematic governance practices, and the company’s overall transparency and level of responsiveness to shareholder concerns.</p> | <p>Evaluates case-by-case, considering:</p> <ul style="list-style-type: none"> <li>• Anticipated financial and operating benefits;</li> <li>• Offer Price (cost vs. premium);</li> <li>• Prospects of the combined companies;</li> <li>• How the deal was negotiated; and</li> <li>• Changes in corporate governance and their impact on shareholder rights.</li> </ul> | <p>May oppose auditor ratification or re-election of incumbent members of audit committee if non-audit fees are excessive in relation to audit-fees.</p> <p>May oppose one or more directors where the board of directors has failed to adequately respond to:</p> <ul style="list-style-type: none"> <li>• majority approved shareholder proposal; or</li> <li>• failed management proposal on executive compensation;</li> </ul> <p>May oppose one or more directors for failing to adequately guard against or manage ESG risks.</p> |

# PROXY VOTING

*We generally encourage reporting that is not unduly costly or burdensome and which does not place the company at a competitive disadvantage, but which provides meaningful information to enable shareholders to evaluate the impact of the company’s environmental, social and governance policies and practices on its financial performance.*

## Environmental and Social Focus

| Environmental Impact  | GHG Emissions and Fracturing  | Energy Efficiency   | Product Safety & Animal Welfare  | Diversity  | Equal Employment Opportunity   | Corporate Sustainability  |
|---|---|---|--|--|--|---|
| Support requests for increased disclosure regarding the environmental impact of a company's operations and products and initiatives to curtail these risks. | <p>Support disclosure concerning the emission of greenhouse gasses and the use of fracturing in connection with the extraction of natural gasses.</p> <p>Support adoption of GHG reduction targets from products and operations where companies are at higher risk.</p> | Support issuance of reports by a company detailing its energy efficiency plans. | <p>Support reporting or assessment of the safety of a company's products and services and efforts to promote their safe use.</p> <p>Support disclosure and reporting regarding animal treatment issues that may impact a company's operations and products, especially in relation to food production.</p> | <p>Support requests that a company take reasonable steps to ensure women and minority candidates are in the pool from which board nominees are chosen or that request that women and minority candidates are routinely sought as part of every board search the company undertakes.</p> <p>May oppose incumbent directors serving on nominating committee where concerns arise as to the diversity of the board.</p> | <p>Support proposals advocating the elimination of workplace discrimination based on sexual orientation or gender identity.</p> <p>Support disclosure and reporting regarding workforce diversity and diversity initiatives.</p> | <p>Support the issuance of corporate sustainability reports.</p> <p>Support increased disclosure of a company's policies and procedures for managing and mitigating risks related to cyber security and data privacy.</p> <p>Support increased disclosure on a company's supply chain policies and practices and its management of related risks on a case-by-case basis.</p> <p><b>NEW:</b> Support proposals to publish political or lobbying contributions</p> |

# USING A VEHICLE THAT SUITS YOUR NEEDS

*Choosing the right vehicle can be as important as choosing the right benchmark. We offer a wide range of vehicles and can work with you to determine which one is right for you.*

## Traditional Open Ended Index Funds (ICVC)

- Dublin domiciled
- Diverse range

## Common Contractual Funds (CCF)

- Dublin Domiciled
- Tax Efficient
- Diverse range

## Fonds vor Gemene Rekening (FGR)

- Dutch domiciled
- Tax Efficient
- Diverse range

## US Institutional Commingled Funds

- Collective Investment Trusts (CITs)
- Common Funds

## US Registered Mutual Funds

- Northern Funds family
- Diverse range

## Separately Managed Accounts

- Customized to meet your unique needs

## Exchange Traded Funds (ETFs)

- Equity
- Fixed Income
- Real Assets

# EMERGING MARKET INVESTMENT SOLUTIONS

## FAST FACTS

**Approximately \$30 Billion of emerging markets (EM) AUM<sup>1</sup>**

**15 years of expertise with emerging markets**

**Managing over 40 EM countries (Including frontier markets)**

**Scaled funds with daily liquidity**

## OUR ADVANTAGE

Unique approach focused on managing critical risks within the asset class; operational, regulatory/sovereign/market risks and transaction costs.

Pioneering advanced governance screening for emerging market equities

Innovative solutions that extend beyond traditional markets, offering a thoughtful solution to Frontier Markets

## OVERVIEW OF EMERGING MARKET CAPABILITIES

### Integrated Solutions

- MSCI All Country Index
- MSCI All Country Investable Market Index (IMI)
- FTSE EPRA/NAREIT Global Index
- MSCI ACWI Diversified Factor Index

### Dedicated Solutions

- MSCI Emerging Markets
- MSCI Emerging Markets Small Cap
- MSCI Emerging Markets Investable Market (IMI)
- Custom S&P 150 Frontier Market Index

### ESG Solutions

- Emerging Markets Custom Low Carbon Index
- Emerging Markets Custom Governance ESG Index

Represents total assets managed by Northern Trust as of 12/31/2019.

<sup>1</sup>All data as of December 31, 2019, unless otherwise noted.

# GLOBAL REAL ESTATE INVESTMENT SOLUTIONS

## FAST FACTS

---

**Over \$9 Billion in AUM<sup>1</sup>**

**12 years of expertise**

**Managing in 40 countries**

**11 Daily Valued Commingled Funds**

## OUR ADVANTAGE

---

Unique approach focused on managing critical risks within the asset class; operational, regulatory/sovereign/market risks and transaction cost.

Pioneering advanced ESG screens for real estate equities

Innovative solutions that include quantitative designs

## OVERVIEW OF GLOBAL REAL ESTATE CAPABILITIES

---

### Passive Solutions

- FTSE EPRA/NAREIT Global Index
  - Institutional Commingled Fund
  - DC Vehicle
- MSCI ACWI IMI Core Real Estate Index
- NT Developed Real Estate ESG Index

### Quantitative Solutions

- Global Quality Real Estate Strategy

### ESG Solutions

- NT Developed Real Estate ESG Fund
  - FGR structure

Represents total assets managed by Northern Trust as of 12/31/2019.

<sup>1</sup>All data as of December 31, 2019, unless otherwise noted.

# SUSTAINABLE INVESTING

*Innovative solutions across the spectrum of ESG criteria and using quantitative strategies seeking to achieve competitive risk-adjusted returns*

## FAST FACTS

\$106.6 Billion AUM<sup>1</sup>

PRI A+ Rated for Strategy and Governance, member since 2009

Manage 3 of the top 10 largest ESG index funds globally<sup>2</sup>

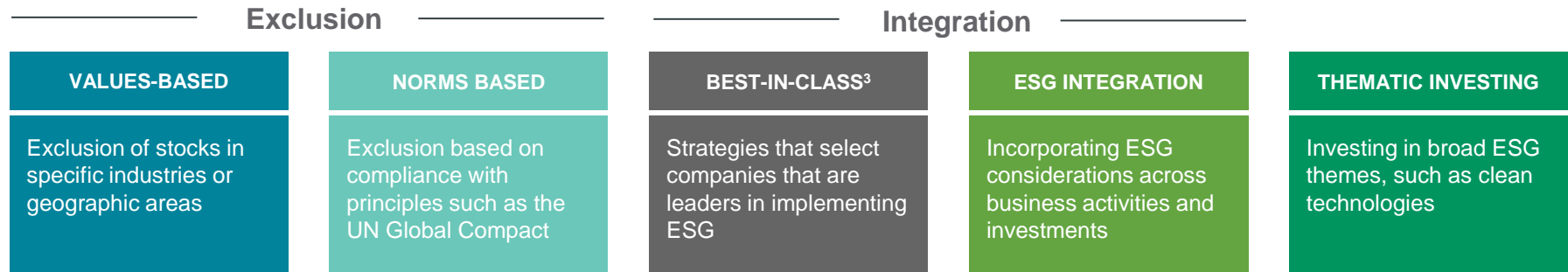
## OUR ADVANTAGE

Three decades of expertise and innovation

Robust platform of pioneering investment strategies across equities, fixed income, and REITs

Multidimensional approach integrating sustainable investing objectives, investment acumen and stewardship for long term value creation

## OUR SPECTRUM OF ESG CAPABILITIES SOLUTIONS



## Proxy Voting Policies & Engagement

Represents total assets managed by Northern Trust as of 09/30/20. Gross returns

<sup>1</sup> All data as of September 30, 2020, unless otherwise noted.

<sup>2</sup> Source: eVestment. Data as of March 31, 2020. Universe for comparison consists of 63 total passive equity products within "All ESG Universe".

<sup>3</sup> Best-in-class ESG is industry terminology referring to an investment approach that selects companies that are leaders in implementing ESG.

Past performance is no guarantee of future results. Index performance returns do not reflect any management fees, transaction costs or expenses. It is not possible to invest directly in any Index.

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## DISCUSSION SHEET

### ITEM #C11

**Topic:** **Private Asset Cash Flow Projection Update**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.072 of the Texas Government Code.

**Discussion:** Staff will provide the quarterly update on the private asset cash flow projection model first discussed at the February 2018 Board meeting. The cash flow model projects estimated contributions to, and distributions from, private assets through the end of 2023. These estimates are intended to assist the Board in evaluating the expected time frame to reduce DFPF's exposure to these assets and the implications for the public asset redeployment, overall asset allocation, and expected portfolio risk and return.

*Regular Board Meeting – Thursday, January 14, 2021*



D A L L A S  
POLICE & FIRE  
PENSION SYSTEM



# Quarterly Private Asset Cash Flow Projection Update

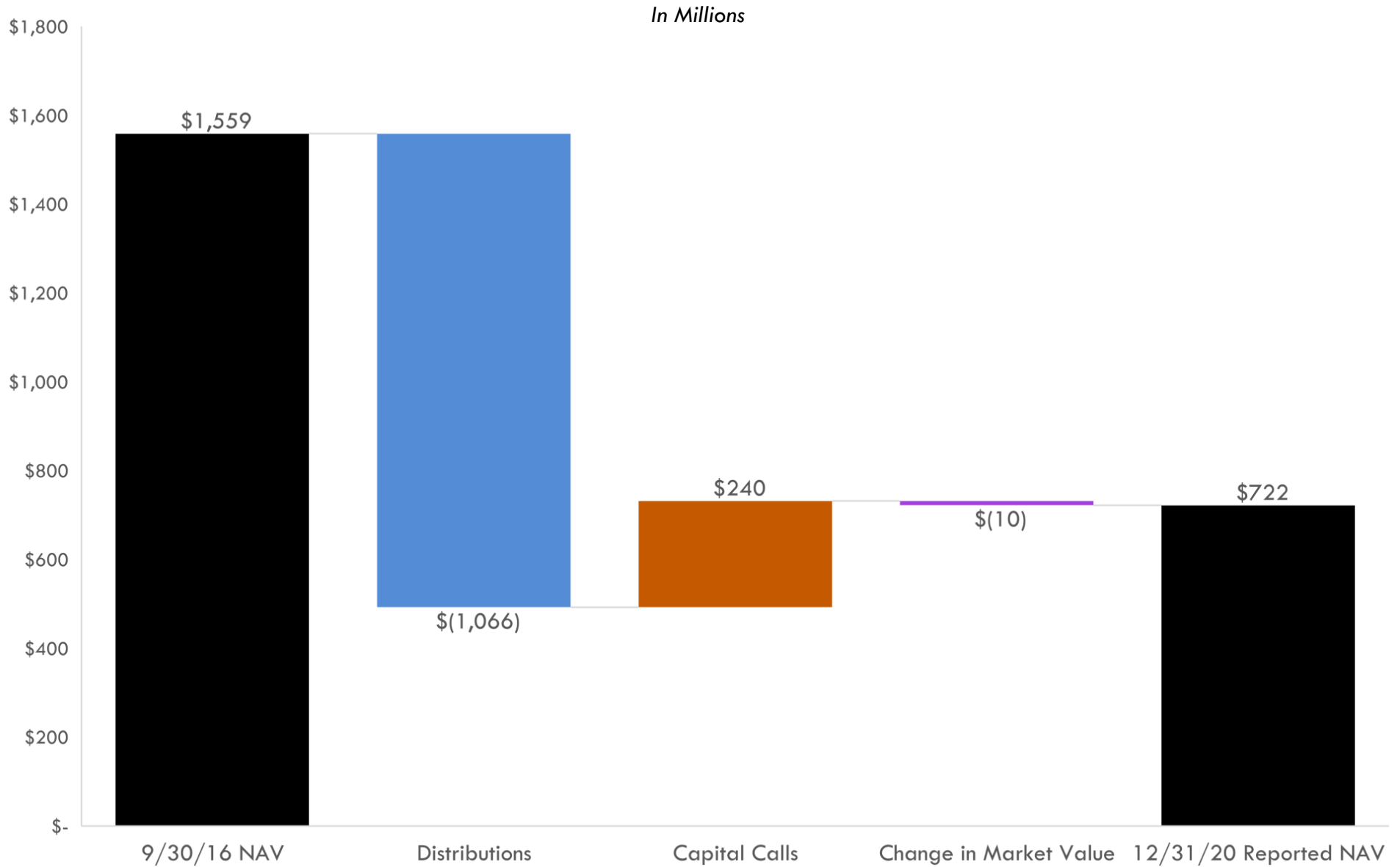
*January 14, 2021*

# Private Asset Cash Flow Projections

## Methodology Review

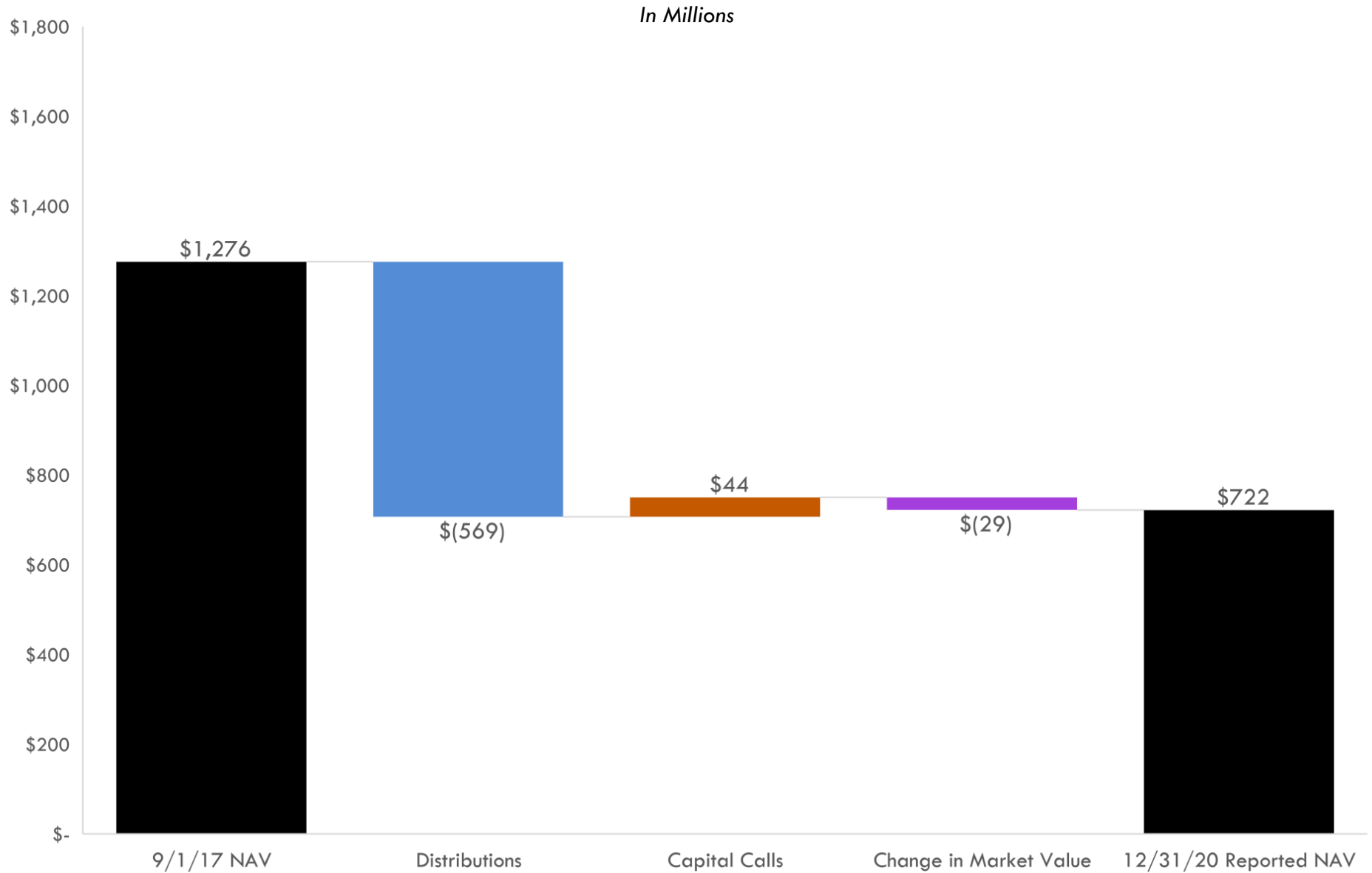
- Staff estimates capital calls and cash distributions from the Private Asset portfolio, built up by individual asset.
- DPFPP has more control over direct investments in Real Estate and Natural Resources, therefore should have more accuracy in forecasting cash flows based on planned sales. Private Equity fund investments are controlled by GP's, therefore DPFPP has little or no control over outcome – Staff incorporates GP insights but often uses an even distribution schedule over 2-4 years with these investments.
- **Cash flow estimates are inherently imprecise as they are often subject to events & forces outside of the manager's control. There is even less certainty now in the projections given recent market volatility.** Many in-process sales have been put on hold.

# Private Asset Bridge Chart – Since 9/30/16



*Numbers may not foot due to rounding.*

# Private Asset Bridge Chart – Since 9/1/17 (New Board Formation)



*Numbers may not foot due to rounding.*

# Private Asset Quarterly Cash Flows – Q4 2020

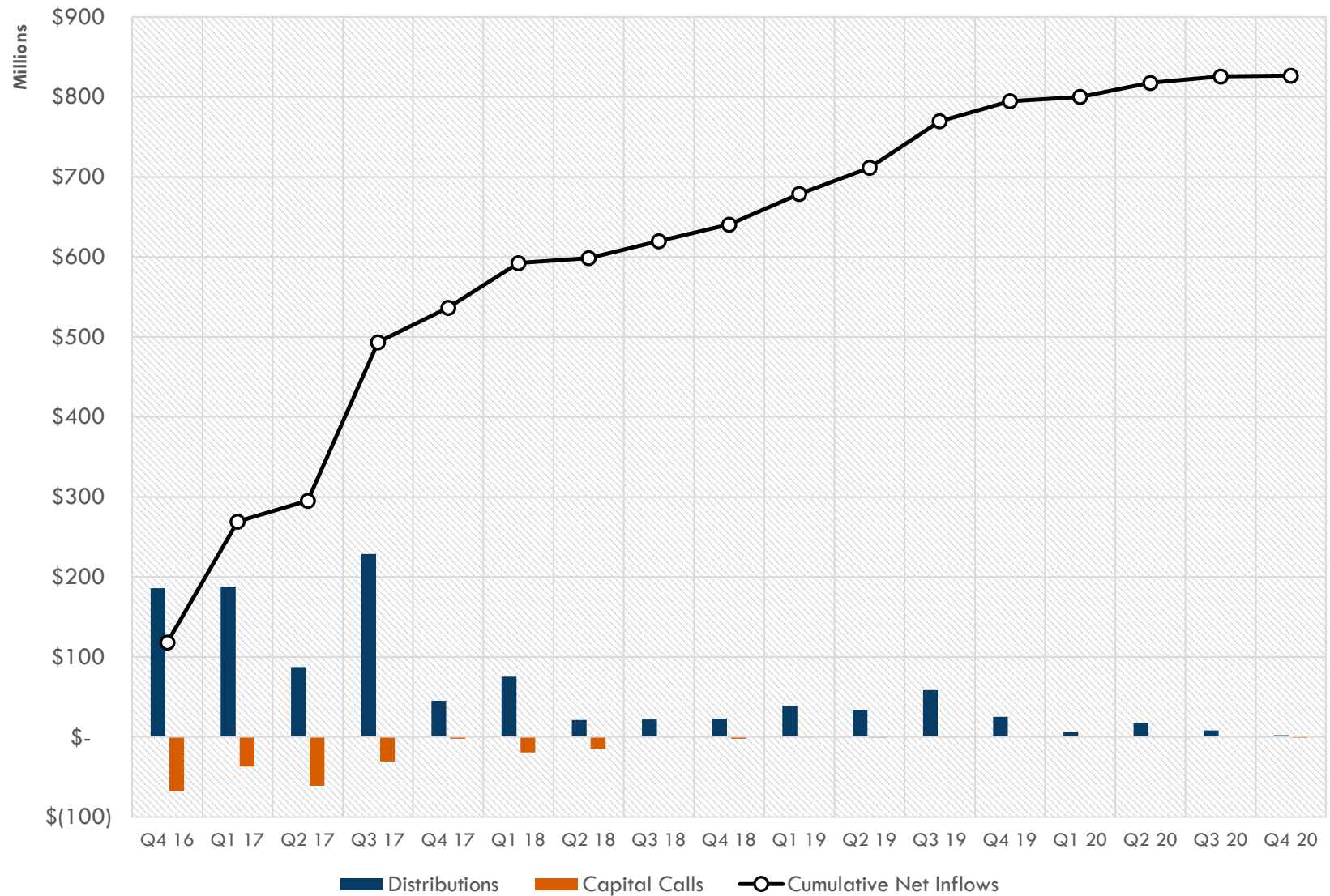
| <b>TOTAL CAPITAL CALLS &amp; CONTRIBUTIONS</b> |                            | <b>\$1,224,729</b> |
|--|----------------------------|--------------------|
| Lone CRA Bridge Loan                           | Initial Funding            | \$550,000          |
| BTG  | South Africa Capital Call  | \$396,000          |
| TRG AIRRO                                      | Capital Call               | \$166,586          |
| Industry Ventures IV                           | Capital Call               | \$72,143           |
| Hearthstone                                    | Spring Valley Capital Call | \$40,000           |
| <b>TOTAL DISTRIBUTIONS</b>                     |                            | <b>\$2,226,102</b> |
| Hancock  | Agriculture Income         | \$1,500,000        |
| Forest Investment Associates                   | Timber Income              | \$200,000          |
| L&B  | Kings Harbor Income        | \$337,596          |
| Riverstone                                     | Fund Distribution          | \$181,353          |
| Yellowstone                                    | Final Cash Distribution    | \$7,153            |

*Numbers may not foot due to rounding.*

# 2020 Actual vs. Projected Private Asset Cash Flows

| Private Asset Cash Net Inflows | 2020 Actual       | 2020 Projected     | Notes:   |
|--------------------------------|-------------------|--------------------|--|
| <b>Private Asset total</b>     | <b>31,971,200</b> | <b>181,996,128</b> |  |
| Private Equity total           | 340,154           | 9,482,205          | <i>Planned portfolio company sales did not occur.</i>  |
| Private Debt total             | 2,337,470         | 6,418,787          | <i>Lower amount of distributions from Riverstone &amp; Highland than projected.</i>                                    |
| Infrastructure total           | (519,242)         | 6,477,131          | <i>Capital calls occurred with no distributions. Asset sales did not occur as projected across all Infra funds.</i>    |
| Natural Resources total        | 3,754,000         | 15,558,976         | <i>Timber sales did not occur in 2020 as sales processes delayed due to COVID.</i>                                     |
| Real Estate total              | 26,058,818        | 144,059,029        | <i>Several planned asset sales delayed due to COVID. Sizable proceeds expected on sales under contract in Q1 2021.</i> |

# Private Asset Quarterly Cash Flows – Since 9/30/16



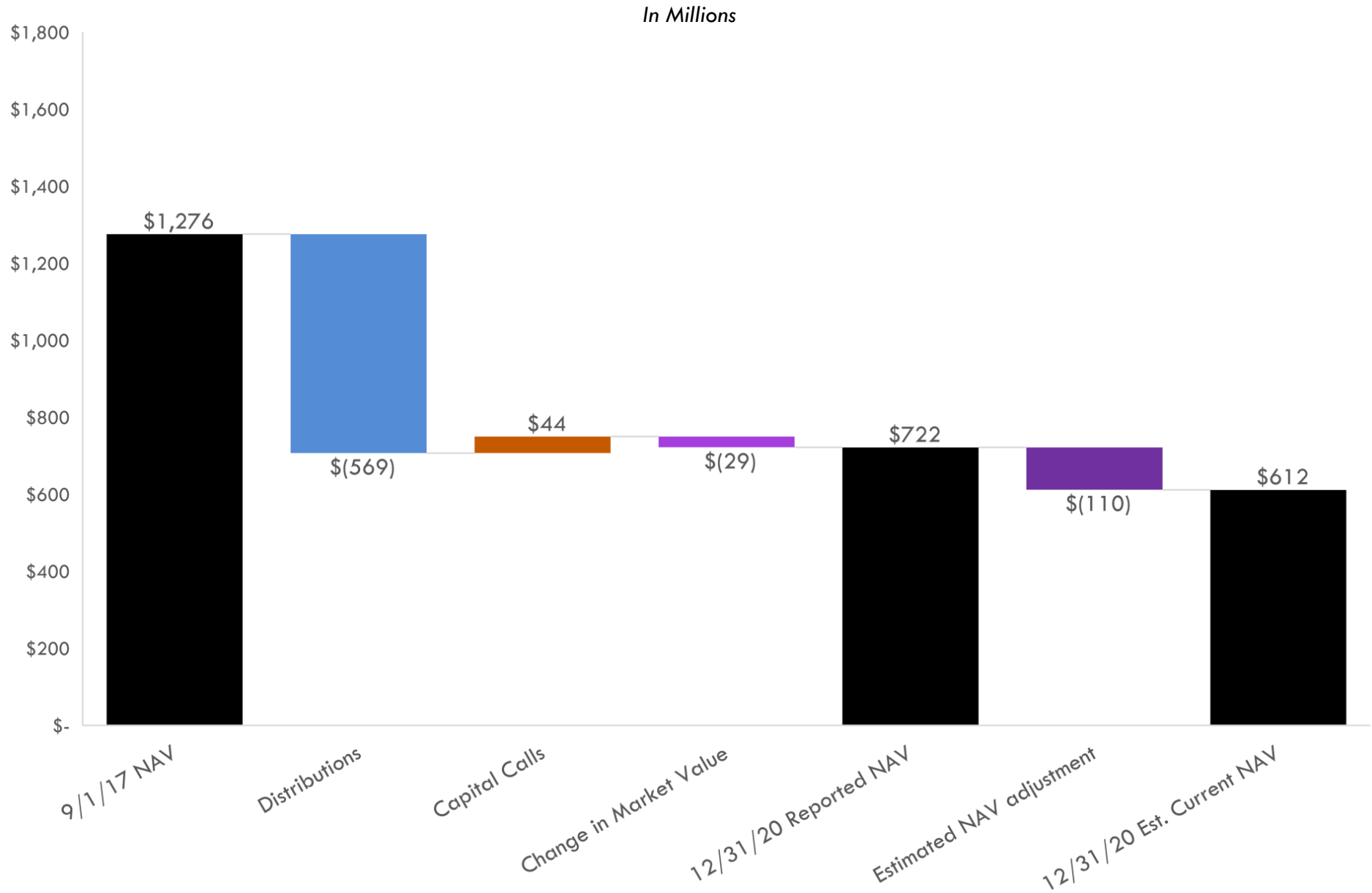


## Private Asset Lagged NAV Adjustment

- Due to a lag in the reporting of private market valuations, the **“Reported NAV”** (DPFP carrying value as of 12/31/20 based on most recent statements reported to JPM) on many Private Markets is stale and based on 2019 values or 2020 statements that have not been adjusted for changes in market value. Due to 2020 market volatility, these reported NAVs may not represent a realistic picture of current market values.
- In order to get a more accurate and real-time picture of asset allocation and future distribution activity, Staff estimated Private Market values by selectively discounting/increasing the reported NAVs on asset-by-asset basis (**“Estimated Current NAV”**). Heavier discounts were applied to Private Equity assets with energy and energy services exposure.
  - In cases where DPFP has received updated valuations in 2020 that reflect the current market environment, values have typically dropped 10-20% and we have removed any additional market value adjustments.
  - The model assumes no investment growth from the Current NAV.
  - The current blended market value adjustment of 15.2% compares with an adjustment of 30.4% in April 2020.

|                             | Reported<br>(Lagged) NAV | Market Value<br>Adjustment | Estimated<br>Current NAV |
|-----------------------------|--------------------------|----------------------------|--------------------------|
| Private Equity              | 197,572,780              | -24.7%                     | 148,758,457              |
| Private Debt                | 5,584,730                | 0.0%                       | 5,584,730                |
| Infrastructure              | 43,706,559               | 0.0%                       | 43,706,559               |
| Natural Resources           | 125,781,815              | -4.5%                      | 120,182,648              |
| Real Estate                 | 349,309,193              | -15.9%                     | 293,644,675              |
| <b>TOTAL PRIVATE ASSETS</b> | <b>721,955,077</b>       | <b>-15.2%</b>              | <b>611,877,069</b>       |

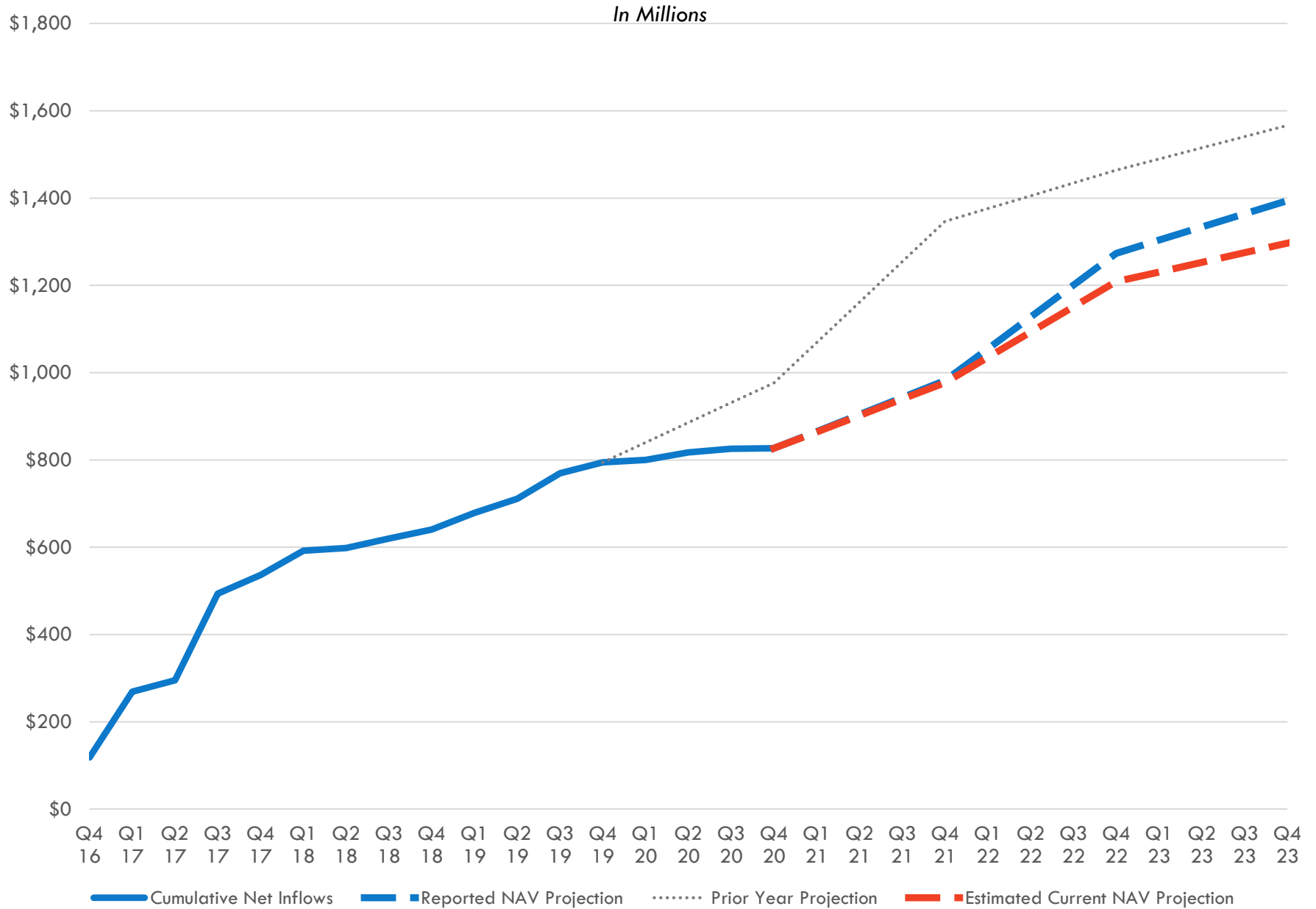
# Private Asset Lagged NAV Adjustment



Numbers may not foot due to rounding.

# Cumulative Actual and Projected Private Asset Net Inflows

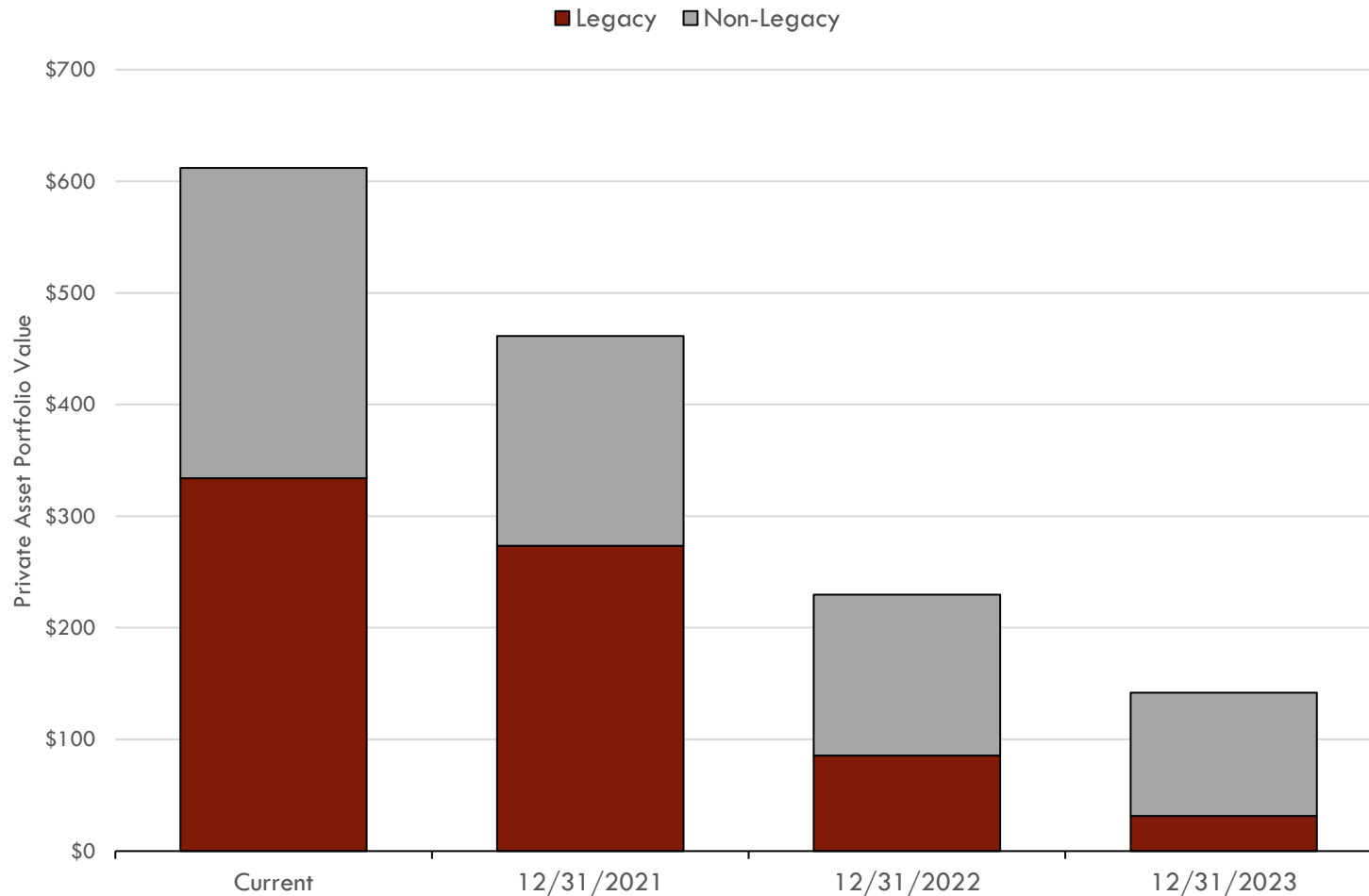
Private asset cash flow projections are based on either in-process/planned sales, if available, or a gradual disposition through 2023.



# Est. Current NAV - Private Asset Disposition Timeline & Composition

Private asset cash flow projections are based on either in-process/planned sales, if available, or a gradual disposition through 2023.

*In Millions*

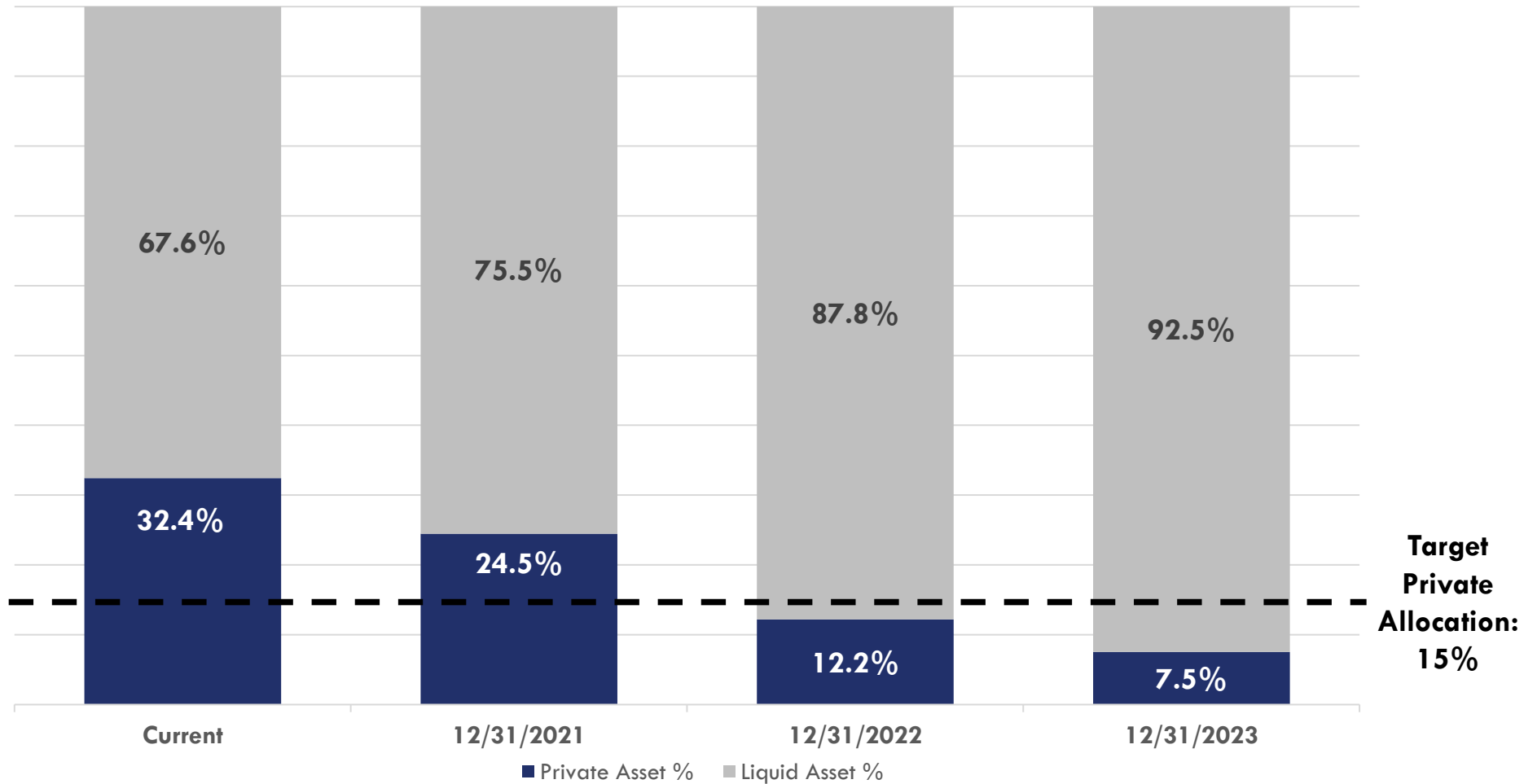


|                               |       |       |      |      |
|-------------------------------|-------|-------|------|------|
| <b>Legacy NAV (M)</b>         | \$334 | \$274 | \$86 | \$31 |
| <b>% of Private Portfolio</b> | 55%   | 59%   | 37%  | 22%  |
| <b>% of DFPF Portfolio</b>    | 18%   | 15%   | 5%   | 2%   |

# Est. Current NAV - Private Asset Allocation

Private asset cash flow projections are based on either in-process/planned sales, if available, or a gradual disposition through 2023.

Assumes 100% of private asset proceeds are reinvested into liquid investments and flat fund NAV





## DISCUSSION SHEET

### ITEM #C12

**Topic:** Real Estate Overview

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.072 of the Texas Government Code

**Discussion:** Staff will provide an overview of the asset and a review of the strategy for Vista Ridge 7 managed by Bentall Kennedy, Kings Harbor managed by L&B, and Museum Tower, which is internally managed by staff.

*Regular Board Meeting – Thursday, January 14, 2021*



## DISCUSSION SHEET

### ITEM #C13

**Topic:** Lone Star Investment Advisors Update

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.071 of the Texas Government Code.

**Discussion:** Investment Staff will update the Board on recent performance, operational, and administrative developments with respect to DFPF investments in funds managed by Lone Star Investment Advisors.

*Regular Board Meeting – Thursday, January 14, 2021*



## **DISCUSSION SHEET**

### **ITEM #C14**

- Topic:** Legal issues - In accordance with Section 551.071 of the Texas Government Code, the Board will meet in executive session to seek and receive the advice of its attorneys about pending or contemplated litigation or any other legal matter in which the duty of the attorneys to DFPF and the Board under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with Texas Open Meeting laws.
- Discussion:** Counsel will brief the Board on these issues.

*Regular Board Meeting – Thursday, January 14, 2021*





## **DISCUSSION SHEET**

### **ITEM #C15**

**Topic:** **Executive Director 2021 Objectives**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.074 of the Texas Government Code.

**Discussion:** The Board will establish performance objectives for the Executive Director for 2021.

*Regular Board Meeting – Thursday, January 14, 2021*



## DISCUSSION SHEET

### ITEM #D1

**Topic:** Public Comment

**Discussion:** Comments from the public will be received by the Board.

*Regular Board Meeting – Thursday, January 14, 2021*



## DISCUSSION SHEET

### ITEM #D2

**Topic:** Executive Director's report

- a. Associations' newsletters
  - NCPERS Monitor (December 2020)
  - NCPERS Monitor (January 2021)
- b. Open Records
- c. Operational Response to COVID-19
- d. Peer Compensation Review Status

**Discussion:** The Executive Director will brief the Board regarding the above information.

*Regular Board Meeting – Thursday, January 14, 2021*

THE NCPERS

# MONITOR

The Latest in Legislative News

December 2020

## In This Issue

### 2 Early 2021 Retirement Agenda



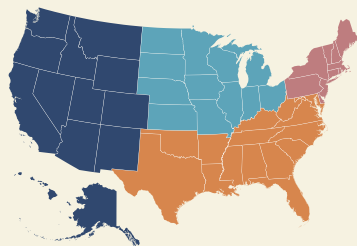
At the end of October, House Ways and Means Committee Chairman Richard Neal (D-MA) and Ranking Member Kevin Brady (R-TX) introduced H.R. 8696, the Securing a Strong Retirement Act.

### 3 Executive Directors Corner



In 2020 hindsight, it wasn't the year any of us expected. But we started 2020 strong, and we're ending it the same way.

### 4 Around the Regions



This month, we will highlight Pennsylvania, Illinois, Oklahoma and Colorado.

## Biden Administration Seen Likely to Shift Policy Toward China Trade and Investment



Dealing with Covid-19, a battered economy, and a deeply divided electorate would be a tough challenge for any President-elect. When Joe Biden takes office on January 20, he will also have the unenviable task of navigating a severely strained economic and political relationship with the world's second-largest economy, China.

Trade and economic relations with China matter to the pension community because of China's sheer heft and growth as an exporter and as a capital markets player. China's decades-long evolution to a high-tech, consumer driven economy has big ramifications for the global economy.

"There will continue to be tension between the U.S. and China — even with a new administration taking the reins — and national security considerations as well as accounting standards will remain important," Christian McCormick, a director and senior ESG strategist with Allianz Global Investors in Denver, recently told *Pensions & Investments*. "Every single discussion we have with institutional investors, the topic of investing in China comes up."

CONTINUED ON PAGE 6

# Early 2021 Retirement Agenda

By Tony Roda



At the end of October, House Ways and Means Committee Chairman Richard Neal (D-MA) and Ranking Member Kevin Brady (R-TX) introduced H.R. 8696, the Securing a Strong Retirement Act. The measure builds on the Setting Every Community Up for Retirement Enhancement (SECURE) Act, which was signed into law in December 2019.

The key sections of H.R. 8696 that would affect governmental defined benefit (DB) or defined contribution (DC) retirement plans or are closely related to public plans and workers are as follows.

- **Section 104** – allow 403(b) plans to use collective investment trusts (CITs);
- **Section 105** – increase age trigger for Required Minimum Distributions (RMDs) to 75 for years 2021 and later; the age trigger was increased from 70 ½ to 72 in the SECURE Act;
- **Section 108** – increase catch-up contribution limit to \$10k for those over age 60 participating in employer-sponsored plans;
- **Section 109** – allow unrelated public education employers to participate in multiple employer 403(b) plans;
- **Section 116** – allow non-profit volunteer firefighters and EMS who work indirectly for the government through a public safety agency to join state and local governmental pension plans;
- **Section 307** – exclude individuals with smaller retirement accounts (all DC plans aggregate \$100k or less) from RMD rules;

- **Section 309** – allow 457(b) plan participants more flexibility in changing their contribution rates, i.e., repeal first-day-of-the-month rule;
- **Section 312** – include private sector firefighters in the exclusion from the early withdrawal penalty; currently only available for public sector first responders; and
- **Section 313** – exclude disability payments to first responders from income.

In the Senate, S. 1431, the Retirement Security and Savings Act, has been introduced by Senators Rob Portman (R-OH) and Ben Cardin (D-MD) – two lawmakers who have collaborated on retirement legislation throughout their careers in Congress. S. 1431 also would raise the age trigger for RMDs to 75 but not until 2029 and would allow 403(b) plans to use CITs.

It is likely that these two leading pieces of legislation will be considered in their respective chambers sometime next year. Then, they would have to be reconciled through negotiations. But, before any of this can unfold, the policy priorities of President-Elect Joe Biden have to be considered.

During his campaign, President-Elect Biden released a proposal aimed at equalizing the tax value of retirement savings across income levels. He described this as an effort to level the playing field for saving through traditional retirement accounts between high- and low-income workers.

[CONTINUED ON PAGE 6](#)



## ‘It Was the Best of Times, It Was the Worst of Times’



Photo Illustration © 2020, iStock.com

In 2020 hindsight, it wasn't the year any of us expected. But we started 2020 strong, and we're ending it the same way. In fact, Charles Dickens' words from "A Tale of Two Cities"—"It was the best of times, it was the worst of times"—have rarely felt so relevant.

NCPERS members and the entire public pension community had to make big adjustments, like everyone else we know, to the ravages of Covid-19. The pandemic had sweeping and unprecedented effects on the way we live and the way we work.

Yet we found our strengths. As a community, public servants have frequently been on the front lines, battling the pandemic. Firefighters, EMS workers, teachers, police, and public health professionals have all powered through under trying circumstances. There are heroes all around us, and we're proud to know so many of them.

We here at NCPERS have adjusted, too, never veering from our mission of providing advocacy, research and education.

No one would have guessed in January that our Legislative Conference and Policy Day would be the last time we all came

together in person in 2020! For three days, as temperatures held safely above the freezing mark, members convened in the nation's capital for a total immersion in policy issues. Then they put what they had gleaned into action, taking their stories to Capitol Hill and federal agencies. Engagement by individuals is the cornerstone of NCPERS' advocacy efforts, and such strong involvement by members contributes to our effectiveness.

By March, of course, it was clear that in-person conferences would be going on hiatus for the foreseeable future. We did what we had to do: We found a way to operate in a brand new reality.

Members told us loud and clear that our programs had to keep going, because the public pension community does not stint on education. Covid or no Covid, pension systems were still dealing with their everyday realities:

People enter the workforce, earn benefits, and retire. We had to keep calm and carry on with our normal responsibilities to millions of current and retired workers.

So we adjusted. Conferences went virtual, starting with the very popular Public Pension Funding Forum. So did our NCPERS

[CONTINUED ON PAGE 7](#)

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*In 2020 hindsight, it wasn't the year any of us expected. But we started 2020 strong, and we're ending it the same way.*

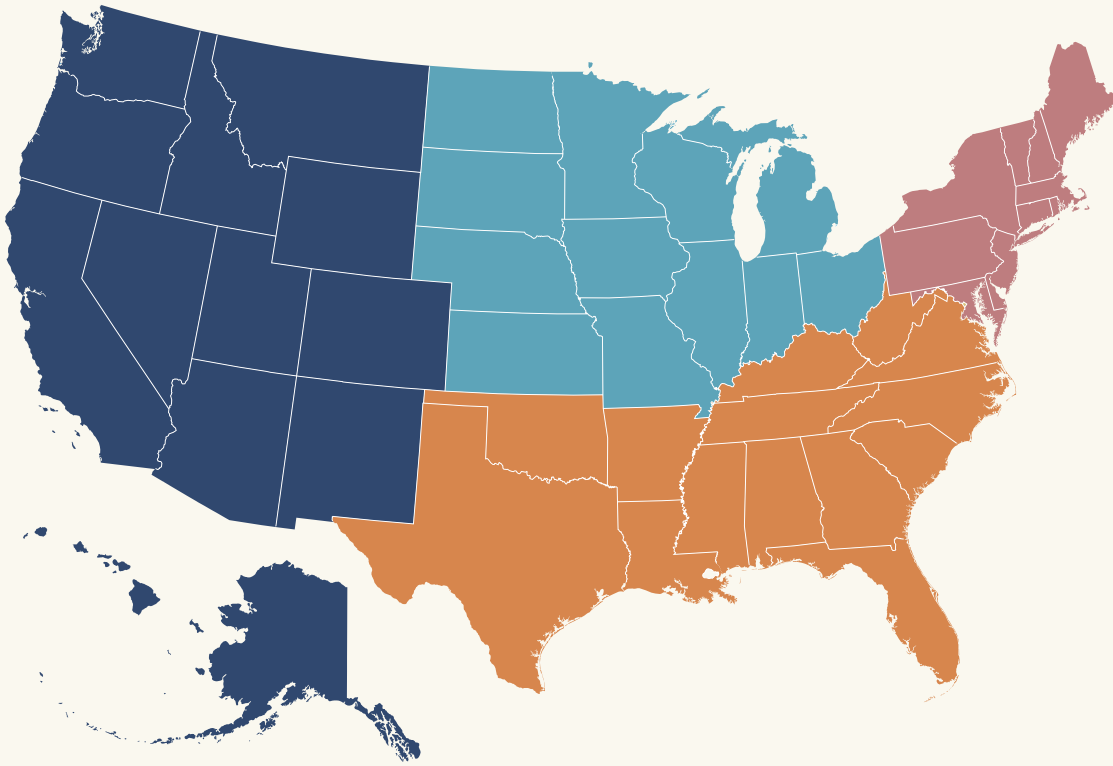
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## NCPERS

## Around the Regions

This month, we will highlight Pennsylvania, Illinois, Oklahoma and Colorado.



## EAST: Pennsylvania

Governor Tom Wolf has signed into law two pieces of legislation that impose new requirements on state pension plans.

On October 29, the Democratic governor signed into law House Bill 1961, which requires the State Employees' Retirement System (SERS) to issue an annual report on investment performance covering the period July 1 to June 30. The Public School Employees' Retirement System (PSERS) already prepares investment performance data on this basis.

And on November 25, Wolf signed HB 1962, which requires SERS and PSERS to perform an annual stress test and submit results to the Governor, General Assembly and the Independent Fiscal Office.

The purpose of HB 1961 is to simplify comparisons between the investment performance of the two statewide pension systems, and between these programs and other retirement systems nationwide. This would be beneficial to the pension plan members and beneficiaries, the public at large, and lawmakers, said Rep. Lou Schmitt, a Republican, who introduced the measure.

"The General Assembly took great strides to improve the state's two retirement systems while keeping promises made to retirees and existing employees," Schmitt said. "My bill builds upon that by ensuring investments are achieving the best returns possible."

Rep. Dawn Keefer, a Republican, introduced HB 1962, which requires the two pension systems to conduct an annual stress test that encompasses a scenario analysis, a simulation analysis and a sensitivity analysis, and report the results.

[CONTINUED ON PAGE 8](#)

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**BIDEN ADMINISTRATION CONTINUED FROM PAGE 1**

Some of the tough choices that President-elect Biden faces include whether to maintain tariffs on about \$360 billion worth of Chinese imports and whether to keep in place President Trump's just-issued executive order barring investments in Chinese firms with military ties. As of Jan. 1, 2021, individuals and companies are banned from owning direct shares or funds holding shares in 31 Chinese companies that the U.S. government has identified as security risks.

There are expectations that the punitive, confrontational tactics favored by the Trump Administration will give way to a more calibrated approach. The Biden Administration's stance is likely to be what Myron Brilliant, executive vice president of the U.S. Chamber of Commerce, called "a significant departure in tone, style and process" in a recent interview with *The New York Times*.

A comprehensive plan has yet to emerge, but elements of it have surfaced over time. The Biden Administration approach seems likely to include increasing investment in American workers to compete with China, maintaining leverage over China, and keeping a sharp focus on human rights violations, while seeking to retool rather than break trade relations between the world's largest economies.

Meanwhile, investors are closely watching accounting rules expected to be proposed next month by the Securities and Exchange Commission. The rules would impact American depository receipts, which are negotiable certificates issued by U.S. banks that represent shares in a foreign stock traded on a U.S. exchange. Some 156 Chinese companies with a combined market capitalization of \$1.2 trillion are listed on the Nasdaq, New York Stock Exchange and NYSE American, *Pensions & Investments* noted.

If the proposed rules are adopted, Chinese companies on the exchanges would be subject to the U.S. Public Company Accounting Oversight Board's audit standards. China is the only one of 50 foreign jurisdictions that taps U.S. markets but will not permit PCOAB reviews. Refusal to follow the expected SEC rules could be punished with delisting.

"A prohibition on U.S. listing of non-U.S. companies that do not have PCAOB-inspected audits is long overdue," Brandon Rees, Washington-based deputy director of investments for the AFL-CIO, including its \$716 million retirement plan, told *Pensions & Investments*. ♦

**EARLY 2021 RETIREMENT AGENDA CONTINUED FROM PAGE 2**

Roth plans, in which contributions are made with post-tax dollars but are tax-free at distribution, would not be affected. It is unclear at this point whether Biden's proposal is intended to impact traditional DC savings plans at the state and local level, such as 457(b), 403(b), 401(a), and grandfathered 401(k) plans. Legislative language on Biden's proposal is not available.

As described in campaign materials and in the media, Biden's plan would eliminate the current tax deferrals and deductions for contributions to DC retirement saving accounts, such as 401(k) plans, IRAs, and other types of DC plans. Instead, he proposes that everyone would receive a 26 percent refundable federal tax credit. A refundable tax credit is provided to a taxpayer regardless of whether it is more than the amount the taxpayer owes. The tax credit would be deposited directly into the taxpayer's retirement account.

Congressional news and data site Roll Call provided the following example of how retirement savings would be equalized: A single filer in the top 37 percent tax bracket earning \$600,000 currently gets a tax deduction of \$370 for each \$1,000 she contributes to a 401(k) plan, compared with a single filer earning \$60,000 in the 22 percent tax bracket, who only gets a \$220 tax deduction for every \$1,000 contributed. With a flat tax credit of 26 percent and using the same facts as above, both individuals would get a \$260 tax credit for their \$1,000 contribution.

Biden's proposal will have detractors. For instance, Howard Gleckman, senior fellow at the Urban-Brookings Tax Policy Center, said it's unlikely that a Republican-controlled Senate will approve of Biden's plan as is. But it wouldn't be hard to imagine a compromise combining Biden's tax credit approach with some version of two retirement savings bills that already have broad support in Congress – The Securing a Strong Retirement Act of 2020, the so-called "Secure Act 2.0," and the Retirement Security and Savings Act. Some combination is natural, he says, since all the ideas have the same goal: to increase retirement savings for workers.

NCPERS will keep you apprised of any relevant developments as they occur. ♦

*Tony Roda is a partner at the Washington, D.C. law and lobbying firm [Williams & Jensen](#), where he specializes in federal legislative and regulatory issues affecting state and local governmental pension plans. He represents NCPERS and statewide, county, and municipal pension plans in California, Colorado, Georgia, Kentucky, Ohio, Tennessee, and Texas. He has an undergraduate degree in government and politics from the University of Maryland, J.D. from Catholic University of America, and LL.M (tax law) from Georgetown University.*

**EXECUTIVE DIRECTORS CORNER CONTINUED FROM PAGE 3**

Accredited Fiduciary Program, ensuring that professionals who had committed to this challenging program, which culminates in an examination that can yield a well-earned credential, would not have their education disrupted.

And we got creative on a truly ambitious scale. We designed our new [Financial, Actuarial, Legislative and Legal Conference](#), or FALL for short, to pull together all the threads of major issues facing public pensions. We are now primed to deliver this multi-track, fast-paced program to a large virtual audience in February. Unfortunately, the initial September launch date had to be scuttled when our production partner fell short. We are determined to do it right, and we will be back stronger than ever with a new partner who can deliver on our vision.

We also ramped up our webinars. The [NCPERS Center for Online Learning](#) had already been a vibrant destination for public pension officials and trustees for some time—but with the pandemic, it became an even more important way to deliver continuing education. We increased our cadence to two webinars a week whenever possible, ensuring that public fund employees and trustees could keep sharpening their skills.

All the along the way, we remained dedicated to research that digs below the surface and tells the real story of public pensions. Our massive annual [Public Employee Retirement Systems Study](#) came out in January, as usual, providing valuable benchmarks and an interactive dashboard. January also featured our deep dive in how tax loopholes could be addressed to improve state and local revenues.

In May, we published a biennial update of our “[Unintended Consequences](#)” study, which highlighted how state and local government pension benefits pour money back into communities, and examined the implications of undermining pensions. In June, we expanded our research series with “[In Tranquility or Turmoil, Public Pensions Keep Calm and Carry On.](#)” In this aggregate analysis for the United States as a whole, we examined whether public pensions have been sustainable over the last decade and a half—and how to move forward, particularly in the aftermath of the pandemic. September brought yet another vital and original research report, which outlined, as its title promised, “[Ten Ways to Close Public Pension Funding Gaps.](#)”

And throughout the pandemic, we highlighted the efforts of our members to deal with career disruptions, serve their members seamlessly, and stand up for public pensions during a time of unprecedented stress. If you haven’t checked out the [NCPERS blog](#), I hope you will do so!

It’s safe to say that we are all hoping for a calmer, easier 2021. But 2020 taught us a great deal. Public pension systems demonstrated that they could change on a dime, shift to remote work, rethink many assumptions, and continue meeting the needs of millions of members nationwide. Here at NCPERS, we received proof positive that our members are dauntless in the face of challenges, and are as committed to advocacy, education and research in a crisis as they were before it.

Here’s to better times ahead in 2021. ♦



# NCPERS FALL CONFERENCE

## FEBRUARY 2 – 3, 2021

FINANCIAL

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## NCPERS

## Around the Regions

[AROUND THE REGIONS CONTINUED FROM PAGE 4](#)

“At the end of the day, the money in these retirement funds are that of the taxpayers, and policymakers must do all they can to protect it,” Keefer said. **Her comments overlooked the fact that workers themselves contribute to the pension funds.**

### MIDWEST: Illinois



The council of the town of Normal on November 16 voted for a \$13.1 million tax levy to help fund a variety of areas, including police and fire pensions and the Illinois Municipal Retirement Fund, the public library, and operations and debt service. The levy is subject to approval at a public hearing on December 7 and would keep the property tax rate flat at about 1.5%.

Normal City Manager Pam Reece told WGLT.org, a local National Public Radio station, that about \$1 million would be shifted from the operations fund to police and fire pension obligations. The additional funds were needed because Normal began phasing in information on life expectancy of participants, and new rules that the pensions be 90% funded by 2040.

“We’re making a stronger commitment to fund our pensions. And then we’re forcing ourselves to look at additional cuts to meet the operational challenges,” council member Karyn Smith said, according to the WGLT news report.

Council member Scott Preston said the decision shows the town’s commitment to police officers and firefighters while keeping the town portion of a homeowner’s property tax bill flat, the news report added.

### SOUTH: Oklahoma



NCPERS Executive Director and Counsel Hank Kim on October 28 provided a high-level perspective on pension cost-of-living adjustments (COLAs) in testimony to an Oklahoma State Legislature committee.

Testifying before the Committee on Banking, Financial Services and Pensions, Kim described the parameters states and localities use to grant COLAs. He was invited to testify as Oklahoma considers whether to change its current approach to COLAs. In July, Oklahoma enacted legislation that granted the first COLA to retired state workers in 12 years. The increase was 2% of the monthly pension amount for workers who have been retired at least two years, and 4% for those who have been retired at least five years.

Oklahoma currently takes an ad-hoc approach to COLAs, Kim noted, as opposed to relying on an automatic trigger mechanism. This puts Oklahoma in a minority: according to NCPERS data, 29% of public pension plans offered ad hoc COLAs, meaning specific action had to be taken by a plan sponsor or legislature to agree on or authorize a COLA. More than half of plans, or 54%, had some form of an automatic COLA.

In his [testimony](#), Kim explained to lawmakers that there are numerous approaches to calculating COLAs. For instance, the decision to award a COLA can depend on other factors being met, such as the pension fund attaining a certain funding level. COLAs can also be performance based, may have delayed-onset or minimum age requirements, and may be awarded on a limited benefit basis, covering only a portion of a retiree’s annual benefit rather than the full amount.

“Answering this question is an important step toward equity for Oklahoma’s hard-working public servants,” Kim said. “The matter deserves careful and prompt consideration so that this state’s retired workers don’t have to go another 12 years before an adjustment to their pension pay is made.”

[CONTINUED ON PAGE 9](#)

# NCPERS

# Around the Regions

AROUND THE REGIONS CONTINUED FROM PAGE 8

## WEST: Colorado

Governor Jared Polis unveiled his budget proposal for the 2021-22 fiscal year and included \$225 million in funding for state pension plans that the state legislature suspended in 2020.

The governor's budget reopens discussion with the legislature, which would ultimately have to create and pass a budget, about the importance of the annual pension payment, known as the direct distribution. The legislature had decided the one-year suspension of

the direct distribution was necessary because of budget shortfalls that were exacerbated by the Covid-19 pandemic.

Colorado enacted the direct distribution arrangement in 2018 as part of a reform bill aimed at attaining a 100% funded ratio for the Public Employee Retirement Association (PERA) within 30 years. Every dollar of the \$225 million direct distribution goes toward the PERA's unfunded liability. By statute, the direct distribution was to be made annually until any unfunded liability was covered.

While the Democratic governor's proposal puts a stake in the ground, it will take several months for the budget process to play out. The Joint Budget Committee of the state legislature typically releases its budget proposal in the early spring. Colorado's 2021-22 fiscal year begins on July 1, 2021. ♦

# Don't Miss NCPERS' Social Media

A hand is shown holding a glowing tablet computer. In the background, there is a globe and various social media icons (Facebook, Twitter, LinkedIn, YouTube, RSS) and business-related terms like 'BUSINESS', 'MEDIA', and 'WORLD'. The overall theme is digital connectivity and social media.

*The Voice for Public Pensions*





## Calendar of Events 2021

## 2020-2021 Officers

### February

**NCPERS FALL Conference**  
February 2 -3, 2021  
Virtual

### March

**NCPERS Accredited  
Fiduciary Program (NAF):  
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## Executive Board Members

**State Employees  
Classification**  
*Stacy Birdwell  
John Neal*

**County Employees  
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*Teresa Valenzuela*

**Local Employees  
Classification**  
*Sherry Mose  
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**Police Classification**  
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THE NCPERS

# MONITOR

The Latest in Legislative News

January 2021

## In This Issue

### 2 End-of-Year Flourish



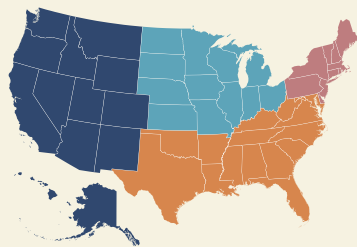
In its final days the 116th Congress approved additional financial relief to struggling individuals, businesses, first responders, and health care providers dealing with the Covid-19 pandemic, and finalized funding for federal agencies and programs through the end of fiscal year 2021.

### 3 Executive Directors Corner



A cornerstone of the membership proposition at NCPERS is our commitment to keeping you informed about the most pressing issues confronting public pensions.

### 4 Around the Regions



This month, we will highlight Connecticut, Illinois, Kentucky and New Mexico.

## NIRS Study Delves Into Pension Funding Strategies as States Work to Keep Funds Flowing

The Covid-19 pandemic has raised concerns that public pension shortfalls may develop or increase as state and local governments cope with unusual economic instability. A new report from the National Institute on Retirement Security examines strategies that 13 jurisdictions have explored to keep funds flowing to their public pensions.

The NIRS report, *Beyond the ARC: Innovative Funding Strategies from the Public Sector*, highlights case studies from California, Colorado, Indiana, Kentucky, Louisiana, Maine, Montana, New York, North Carolina, Oklahoma, Oregon, Pennsylvania and West Virginia. While investment markets and public pension funds have generally been resilient amid the Covid-19 fallout, the debate over funding levels could be renewed, the report said. The case studies should serve as a tool for policy markets and stakeholders as they search for strategies to address funding challenges, NIRS said.

The plans highlighted in the report use a variety of funding strategies. They include separate funding strategies for existing liabilities and on-going plan costs; employer side accounts; pension obligation bonds; withdrawal liabilities; and dedicated revenue streams from sources like sports betting.

NIRS Executive Director Dan Doonan said pension systems could face a push by cash-strapped state and local governments to reduce their annual required contribution (ARC) to plans. Less funding could be particularly problematic for the handful of funds that were already inadequately funded because of past funding missteps, Doonan said.

For example, the report looked at efforts in four states—California, New York, Oregon and Pennsylvania—to give local employers greater control over state-run plans through the use



CONTINUED ON PAGE 6

# End-of-Year Flourish

By Tony Roda



In its final days the 116th Congress approved additional financial relief to struggling individuals, businesses, first responders, and health care providers dealing with the Covid-19 pandemic, and finalized funding for federal agencies and programs through the end of fiscal year 2021.

One major item that will be left undone and will await action by the 117th Congress and the Biden Administration is additional federal assistance to state and local governments. Republicans in Congress have tied this further aid to simultaneous enactment of a liability shield for employers against returning workers who might contract Covid-19. In January following the inauguration of President-Elect Joe Biden we will see whether the new political dynamic in Washington will yield results on these two fronts.

Recent drafts as well as earlier versions of legislation to provide a new round of federal assistance to states and localities included language prohibiting the funds from being used by the state or local governments for their pension systems. Specifically, the recent draft in the bipartisan proposal floated this month provided two separate restrictions.

The first is similar to language we have seen throughout 2020. It is straightforward and says that no federal funds provided in the Act may be deposited into any state or local government pension fund. The second restriction, however, takes a step further. It would

create a general condition to receiving funds under the Act, saying that a state or unit of local government shall not make a change to its pension program that would result in total pension obligation payments in state fiscal years 2021 or 2022 exceeding total pension obligation payments for state fiscal year 2019, with some exceptions, including one for COLAs already provided for in the state or local law.

To condition receipt of this federal assistance to not making any changes to a state or local pension plan is certainly a new and unwelcome intrusion by Congress into the affairs of state and local government. While this would be a temporary and emergency funding stream and restriction, the precedent of making receipt of such aid conditioned on not making changes to a pension plan should, in my view, be resisted. It is analogous to saying that states and localities that take this federal aid should be barred from increasing spending on income support programs, infrastructure, or the enforcement of some law that Congress finds objectionable.

In addition, basic and important terms in this new restriction are not defined, such as “change” and “total pension obligation payments.” Would only a change to a state statute rise to the level of a “change” under the proposed new federal law? What about changes to actuarial assumptions that should automatically be made under existing law. Some of those changes may increase the employer contribution to a pension plan, thereby increasing

[CONTINUED ON PAGE 6](#)





## As Covid-19 Alters How We Communicate, NCPERS Adapts and Responds



A cornerstone of the membership proposition at NCPERS is our commitment to keeping you informed about the most pressing issues confronting public pensions. Members are familiar with our core offerings: [News clips](#) go out every week. [Washington Update](#), published as often as weekly, provides expert analysis from our [law & lobbying firm](#), Williams & Jensen. Our flagship monthly newsletter, [The Monitor](#), delivers timely news and analysis on legislative and regulatory issues. And [PERSist](#), our quarterly educational journal, delivers perspectives from NCPERS service members.

This established rhythm was just right until Covid-19 came along and upended everyone's expectations. The pandemic has disrupted so much of daily life, including school, work, travel, and the social, cultural and sporting activities that bind us together in our communities. It's pushed us deeper and deeper into an online existence, and it's radically changed the way we communicate.

Distance has made effective communication more important than ever as we all adapt to interacting remotely. Video interactions via Zoom and other remote meeting platforms are a necessary but

inadequate substitute for the intimacy of in-person engagement. Nonverbal cues—the gestures, expressions and eye contact that make up a huge part of communication—can get lost behind our screens and our face masks.

Challenges notwithstanding, communication is more urgent than ever. Throughout 2020, we at NCPERS dramatically increased our member outreach via more channels than ever. We've ramped up

*This established rhythm was just right until Covid-19 came along and upended everyone's expectations. The pandemic has disrupted so much of daily life, including school, work, travel, and the social, cultural and sporting activities that bind us together in our communities.*

different channels for a simpler reason: Members have preferences, and they differ widely. Some like Twitter, some like Facebook; some avoid social media like the plague. Some will read email blasts; others will read text messages on their phone or go online to check out blog posts. Many if not most will attend webinars, but whether they participate or not is another question.

Our communications philosophy is simple: Keep NCPERS members informed and engaged via whatever channels work best for them. Can't attend meetings? We've filled in that gap with 31 [webinars](#) and webcasts during 2020, as well as 14 [video blogs](#) between August and December.

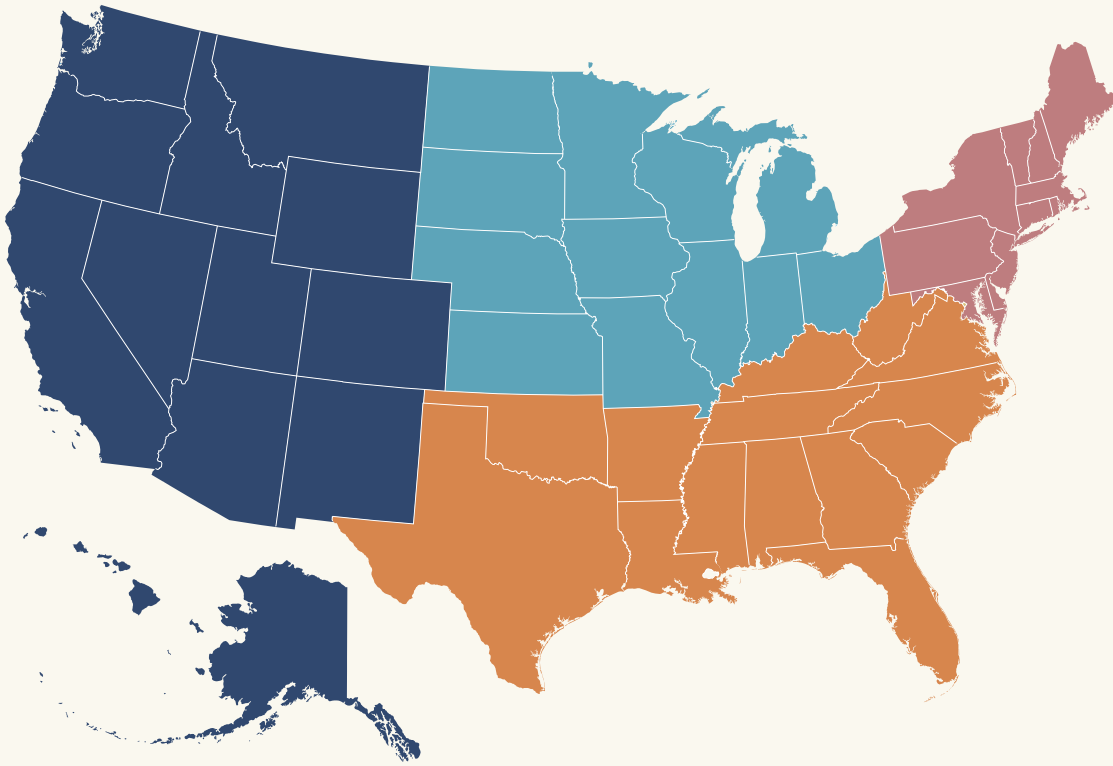
[CONTINUED ON PAGE 7](#)



## NCPERS

## Around the Regions

This month, we will highlight Connecticut, Illinois, Kentucky and New Mexico.



## EAST: Connecticut



Private-sector workers in Connecticut could have access to a state-sponsored retirement savings program by the middle of 2021, culminating nearly four years of planning that was punctuated by several setbacks.

The Connecticut Retirement Security Authority (CRSA) board is preparing to launch a Secure Choice-inspired program that would collect a 3 percent payroll deduction from workers whose employers do not offer retirement benefits. The board in April chose Sunday, a subsidiary of BNY Mellon, to serve as the program's administrator. In recent months, it has been working on its operating budget and firming up program governance, among other tasks.

The CRSA is charged with developing retirement savings options for the nearly 600,000 Connecticut workers who are not offered

a plan through their employer. State Comptroller Kevin Lembo serves as chair of the 15-member board.

According to news reports, the CRSA is currently in negotiations with an account manager, which it expects to complete early in 2021. A pilot program will begin with a small group of eligible employees to test the program before it is fully launched.

The legislation authorizing the program narrowly passed in 2016. Supporters include former Governor Dannel Malloy, Lembo and labor unions; opposition came from Connecticut Business and Industry Association, which saw it as an attempt by the state to undercut the financial and investment services industry.

The program fell behind initial plans to launch in 2018 and experienced other setbacks, including funding shortfalls, the dismissal of its first executive director, and the ripple effects of the closely watched legal battle over a pioneering program in California, known as CalSavers.

[CONTINUED ON PAGE 8](#)

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[NIRS STUDY CONTINUED FROM PAGE 1](#)

of side accounts. These efforts generally allow employers to pre-pay pension contributions into side accounts to reduce their future costs. Those contributions are then managed for the employer, and various methods are used to determine how future costs will be reduced by these credits.

One section of the report examines how plan sponsors can maintain a disciplined funding policy by dedicating a specific source of revenues to pension funds. For example, it describes how casinos and lotteries are being used to keep pension funds at a healthy level in Illinois, including the city of Chicago, Kansas, Oklahoma, Oregon, and New Jersey. It also provides case studies on how Montana uses revenue from its coal severance tax to pay down the state's unfunded pension liabilities, and how West Virginia used its tobacco settlement money

to make a large lump sum payment to jumpstart pension funding.

Other sections of the report include how to implement a withdrawal liability to protect the sustainability of plans; review the potential benefits of pension obligation bonds; and explore separate funding strategies for legacy costs and ongoing plans.

“Given the potential for renewed funding debates, these case studies can serve as a tool for policymakers and stakeholders interested in exploring funding strategies that have been utilized to address funding challenges,” NIRS said. “These case studies illustrate how different goals were achieved and can help frame funding policy discussions. And, these funding strategies could serve as a model to craft customized funding goals and strategies for pension plans facing similar obstacles.” ♦

[END-OF-YEAR FLOURISH CONTINUED FROM PAGE 2](#)

the total pension obligation payment, but we don't know if that would trigger the prohibition because neither term is defined. How about litigation that results in the rollback of a new pension law and, thereby, triggers an increase in the employer contribution? Is that a change under the proposed new federal law? The lack of clarity is a concern.

Be assured that NCPERS will keep you apprised as relevant and significant events unfold in 2021. This restrictive language on public pensions will certainly be discussed as new legislation is debated by the 117th Congress and the incoming Biden Administration. ♦

*Tony Roda is a partner at the Washington, D.C. law and lobbying firm [Williams & Jensen](#), where he specializes in federal legislative and regulatory issues affecting state and local governmental pension plans. He represents NCPERS and statewide, county, and municipal pension plans in California, Colorado, Georgia, Kentucky, Ohio, Tennessee, and Texas. He has an undergraduate degree in government and politics from the University of Maryland, J.D. from Catholic University of America, and LL.M (tax law) from Georgetown University.*



# NCPERS FALL CONFERENCE

## FEBRUARY 2 – 3, 2021



- FINANCIAL
- ACTUARIAL
- LEGISLATIVE
- LEGAL

**EXECUTIVE DIRECTORS CORNER CONTINUED FROM PAGE 3**

We reactivated the [NCPERS blog](#)—which can be accessed via a link in the upper right corner of our website—with 46 posts in 2020. Until this year, the blog had been mostly used to complement conference coverage, but this year it proved to be an indispensable tool for telling the public pension story to members and other stakeholders.

Do you spend time on Facebook? Then please be sure to “like” the [NCPERS page](#), which already has over 2,000 subscribers. Do you live and breathe Twitter? Then it’s time to follow [@NCPERS](#) for steady, timely updates. Subscribe to our [YouTube](#) channel and you’ll discover more than 200 videos, a quarter of which have been added in the past 12 months. And watch your in-box for our email blasts, the most immediate way we communicate with members.

One of the most important communications developments is on its way in 2021: The NCPERS website will be overhauled and streamlined to improve navigation and design in response to member needs.

Nobody needs to be part of every platform, of course. But NCPERS members should know that whatever channel they prefer, they can receive timely communications from us via it. All communication is about supporting our collective strength, which fuels the ability of NCPERS to have a national impact on public pension policy. Member engagement is the source of that collective strength, and engagement begins with robust communications. Be part of the story by subscribing to the NCPERS communications that most effectively meet your needs. If questions or comments, we’re all ears! ♦

# Don't Miss NCPERS' Social Media

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*The Voice for Public Pensions*

## NCPERS

## Around the Regions

[AROUND THE REGIONS CONTINUED FROM PAGE 4](#)

At a briefing to the board in October, Andrea Feirstein of AKF Consulting Group reported that most plans emphasize asset accumulation, but there has been increased interest in lifetime income funds. She also said there may be opportunities to collaborate with smaller states and create coalitions to expand these programs.

“At the end of the day, the money in these retirement funds are that of the taxpayers, and policymakers must do all they can to protect it,” Keefer said. **Her comments overlooked the fact that workers themselves contribute to the pension funds.**

## MIDWEST: Illinois



The Illinois Secure Choice program is off and running with more than 75,000 participants as of November 2020 who have saved more than \$40 million for retirement, according to State Treasurer Michael W. Frerichs.

More than 6,000 employers are registered for the program, and about 40 percent of them (2,579 employers) have begun remitting contributions for their workers. The rest are completing the enrollment process and are expected to begin remitting contributions in coming months.

The Secure Choice program provides a Roth IRA to employees who do not have access to a retirement savings plan through their employers.

The program covers all employers who don't offer retirement plans, unless they have fewer than 25 employees or have been in business for less than two years. A total of 11,002 employers were exempted as of November 2020.

Enrollment has been phased in, starting with a pilot in May 2018. Employers with more than 500 employees were required to sign up by November 2018. Those with 100-499 workers had to enroll by July 2019. And those with 25-99 employees had a November 2019 enrollment deadline.

The average monthly contribution was \$90.27 in November, and the average opt-out rate was 36.38 percent, according to the Secure Choice monthly dashboard on the Illinois Treasurer's website.

The American Society of Pension Professionals and Actuaries said that Courtney Eccles, director of Secure Choice, had made clear that enforcement of program mandates will intensify in late 2021. In an email, she told ASPPA that “We are planning to begin enforcement next year for our employers who had deadlines in 2018 and 2019.” Employers that do not sponsor a company-sponsored retirement plan and have failed to enroll in Secure Choice could face a penalty of \$250 per employee for the first year and \$500 per employee for each subsequent year.

“However, we are doing everything we can to remind employers that they missed their deadlines months—if not over a year—ago and that our goal is to work with them to ensure they are up and running with the program as soon as possible,” Eccles explained.

## SOUTH: Kentucky



Kentucky lawmakers are planning to take another run at diluting public pensions—this time, by shifting newly hired teachers into a hybrid retirement benefits plan starting in 2022.

The draft legislation, positioned as an effort to alleviate financial pressures on the Kentucky Teachers' Retirement System (KTRS), is the brainchild of Republican Rep. Ed Massey. It would shift more responsibility onto the shoulders of educators by putting new hires into a water-down retirement benefit that combines adds a “foundational” defined benefit plan with a “supplemental” defined contribution plan.

The bill would apply to new members of KTRS, both university and non-university, hired on or after January 1, 2022. It would also establish a stabilization reserve account that would be tapped if the new plan falls below 90 percent funded.

Massey said at a December 14 hearing of the Public Pension Oversight Board in Frankfort that he intends to pre-file a bill for the 2021 legislative session.

[CONTINUED ON PAGE 9](#)



## NCPERS

## Around the Regions

**AROUND THE REGIONS CONTINUED FROM PAGE 8**

Massey said he and a working group have worked behind the scenes for months on the legislation with representatives from teachers union groups like the Kentucky Education Association and Jefferson County Teachers Association. JCTA represents teachers in the state's most populous county, which encompasses Louisville.

The *Louisville Courier-Journal* reported that the Brent McKim, president of JCTA, said Massey approached them in good faith and listened to the group's concerns. He specific noted that Massey's draft legislation includes a defined benefit pension for the new tier of teacher hires.

However, the *Courier-Journal* added, "other teachers remain highly skeptical, showing the scars of fierce battles in recent sessions over other plans to change teacher pensions." Jeni Bolander — a special education teacher at Henry Clay High School in Lexington and a Central Kentucky leader of KY 120 United — said the bill reminded her of a controversial proposal previously championed by former Gov. Matt Bevin, who constantly sparred with teacher groups.

"It just makes me sad and a little sick to my stomach that these people claim to be pro public education, yet they keep slapping us in the face with this stuff," Bolander said.

**WEST:  
New Mexico**

A legislative committee on December 10 endorsed a proposal to increase the employer contribution rate to the New Mexico Educational Retirement Board by 1 percent a year for the next four years, the *Santa Fe New Mexican* reported.

The employer contribution to the Educational Retirement Board's pension system is currently 14.15 percent, lower than the 19.24 percent level that the Public Employees Retirement Association of New Mexico will reach by July 2023 under Senate Bill 72.

The proposal by Sen. Mimi Stewart, a Democrat from Albuquerque, would raise the employer rate to 18.15 percent in the fourth year. The ERB plan covers all employees in K-12 schools, public colleges and universities.

Stewart, a retired educator, told the *Santa Fe New Mexican* that her proposal is designed to "at least try to bring some parity between the two systems," as well as "long-term stability to the ERB pension fund."

Jan Goodwin, executive director of the ERB, applauded the proposal as "an important step to take to improve ERB's sustainability."

Legislators, however, voiced concerns about costs. The bill, plus bonding, would cost an additional \$150 million a year once the 4 percent cost increase was fully implemented.

"We're creating pension plans that are way better than what the private sector even offers," said Sen. John Sapien, a Democrat from Albuquerque. He argued that increasing employer contribution rates would create "the haves and the have-nots." ♦

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## Calendar of Events 2021

### January

#### [2021 State & Federal Legislation Webcast](#)

January 12, 2021

### February

#### **NCPERS FALL Conference**

February 2 -3, 2021  
Virtual

### March

#### **NCPERS Accredited Fiduciary Program (NAF): Modules 1&2**

March 2 - 5, 2021  
Virtual

#### **NCPERS Accredited Fiduciary Program (NAF): Modules 3&4**

March 9 -12, 2021  
Virtual

### April

#### **2021 Legislative Conference Webcast**

April 20, 2021

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