

AGENDA



Date: October 27, 2017

A special meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **10:00 a.m. on Wednesday, November 1, 2017, in the Second Floor Board Room at 4100 Harry Hines Boulevard, Dallas, Texas.** Items of the following agenda will be presented to the Board:

A. CONSENT AGENDA

Approval of Minutes

Regular meeting of October 12, 2017

B. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION:

1. 2018 Board meeting calendar

2. Deferred Retirement Option Plan (DROP) Policy

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. Discussion of draft DROP Policy including DROP balance annuitization, DROP revocation election and hardship distributions
- b. Legal considerations

3. Hybrid Defined Contribution/Defined Benefit plan analysis scope of work

4. Voting requirements for Board action under Article 6243a-1

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.

5. Ashmore: Emerging Market Debt allocation

6. Short-Term Core Bond allocation

7. Executive Director appointment

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.

C. BRIEFING ITEM

Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System

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.

**Dallas Police and Fire Pension System
Thursday, October 12, 2017
8:30 a.m.
4100 Harry Hines Blvd., Suite 100
Second Floor Board Room
Dallas, TX**

Regular meeting, William F. Quinn, Chairman, presiding:

ROLL CALL

Board Members

Present at 8:30 William F. Quinn, Nicholas A. Merrick, Samuel L. Friar, Ray Nixon, Gilbert A. Garcia, Frederick E. Rowe, Tina Hernandez Patterson, Robert C. Walters, Joseph P. Schutz, Kneeland Youngblood

Present at 8:53 Blaine Dickens

Absent: None

Staff

Kelly Gottschalk, Josh Mond, Summer Loveland, John Holt, Damion Hervey, Cynthia Thomas, Ryan Wagner, Milissa Romero, Greg Irlbeck, Linda Rickley

Others

Chuck Campbell, Deborah Brigham, Rocky Joyner, Bohdy Hedgcock, Rhett Humphreys, Nina Cortell, Ben Mesches, David Harper, Ron Weimer, Ken Sprecher, Julian Bernal, Lloyd D. Brown, Larry D. Williams, Jo-Ann Jackson, Dan Wojcik, Ken Haben, Charles Luedeker, Andy Acord, Juan Urreta, Richard Dodge, Jesse Aguirre, W. T. Hilburn, Bill Ingram, James Freeman, D. M. Thomas, B. V. Bailey, Michael Spiotta, Rick Salinas, Danny Millaway, Rojelio Rodriguez, John T. Williams, Jerry Rhodes, Linda Rhodes, Joe Pierce, A. D. Donald, Sam S. Beck, Thomas Payne, Tim Anders, Tristan Hallman, Joe Alexander, Lori Brown, Jack Fink, Zaman Hemani, Josh Womack, David Tafalla, Barry Blonstein

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

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**Regular Board Meeting
Thursday, October 12, 2017**

A. TRUSTEES

1. Welcome of newly elected Trustees

Mr. Quinn, Interim Chairman, welcomed the five remaining Trustees elected pursuant to HB 3158: Samuel L. Friar, Fire Fighter Trustee, Joseph P. Schutz, Police Officer Trustee, Blaine Dickens, Non-member Trustee, Gilbert A. Garcia, Non-member Trustee, Tina Hernandez Patterson, Non-member Trustee. The Trustees briefly introduced themselves. Mr. Dickens was not present.

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2. Election of officers of the Board of Trustees

Mr. Quinn opened the floor for officer nominations, beginning with the office of Chairman.

Mr. Garcia nominated William F. Quinn as Chairman. Mr. Youngblood seconded the nomination. Nominations ceased. The Board voted unanimously to elect Mr. Quinn as Chairman.

Mr. Quinn opened nominations for the office of Vice Chairman. He nominated Nicholas A. Merrick as Vice Chairman. Mr. Nixon seconded the nomination. Nominations ceased. The Board voted unanimously to elect Mr. Merrick as Vice Chairman.

Mr. Quinn opened nominations for the office of Deputy Vice Chairman. Mr. Nixon nominated Samuel L. Friar as Deputy Vice Chairman. Mr. Garcia seconded the nomination. The Board voted unanimously to elect Mr. Friar as Deputy Vice Chairman.

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B. MOMENT OF SILENCE

The Board observed a moment of silence in memory of retired police officers W. F. Dyson, Jr., Arthur D. Hudnall, William E. Hall, Tommy Birdsong, James F. Martin, George W. Bedford, Dale L. Mulvany, Bobby W. Pope, active firefighter Taj J. Wright, and retired firefighters James L. Clay, Marcus R. Smedley, Robert G. Damesworth, Robert H. Wesley, Ben F. Williamson, B. R. Hopkins, Jack K. Rhine, Jerry E. Foster, and Christopher Chinn.

**Regular Board Meeting
Thursday, October 12, 2017**

B. MOMENT OF SILENCE (continued)

No motion was made.

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C. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of September 14, 2017

2. Approval of Refunds of Contributions for the Month of September 2017

3. Approval of Estate Settlements

4. Approval of Survivor Benefits

5. Approval of Service Retirements

6. Denial of Unforeseen Emergency Requests

After discussion, Mr. Youngblood made a motion to approve the minutes of the meeting of September 14, 2017. Mr. Nixon seconded the motion, which was approved by the following vote:

For: Youngblood, Nixon, Quinn, Merrick, Rowe, Walters

Abstain: Friar, Garcia, Hernandez Patterson, Schutz

Mr. Dickens was not present when the vote was taken.

After discussion, Mr. Garcia made a motion to approve the remaining items on the Consent Agenda, subject to the final approval of the staff. Mr. Friar seconded the motion, which was unanimously approved by the Board. Mr. Dickens was not present when the vote was taken.

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**Regular Board Meeting
Thursday, October 12, 2017**

D. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Consideration of Deferred Retirement Option Plan (DROP) Policy

- a. DROP Balance Annuitization
- b. DROP Election Revocation
- c. Hardship Distributions

Rocky Joyner, Vice President and Consulting Actuary, and Deborah Brigham, Vice President and Consulting Actuary, of Segal Consulting, DFP's actuarial firm, provided an overview of the funding level of the Plan and provided support to the Board in considering topics related to DROP, including DROP Balance Annuitization, DROP Election Revocation, and Hardship Distributions.

The DROP Policy must be amended to comply with the changes that HB 3158 made which impact DROP. Staff provided background information and considerations related to the topic areas above and requested direction from the Board on the rules related to these areas. The Board gave direction and directed staff to bring the DROP Policy, with changes, back to the Board for consideration at the special meeting of November 1, 2017.

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The meeting was recessed at 10:56 a.m.

The meeting was reconvened at 11:11 a.m.

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2. Evaluation to identify potential means of abusing the computation of benefits to inflate pension benefits

Ms. Gottschalk stated that HB 3158 added Section 3.01(j-5)(1) to Article 6243a-1, requiring that the Board, by January 1, 2018, conduct an evaluation of how benefits are computed under Article 6243a-1 to identify potential means of abusing the computation of benefits to inflate pension benefits received by pensioners.

**Regular Board Meeting
Thursday, October 12, 2017**

2. Evaluation to identify potential means of abusing the computation of benefits to inflate pension benefits (continued)

Segal Consulting presented information and their opinion regarding the Plan's protections from pension abuse to assist the Board in conducting the required evaluation. Segal stated, in part, in a letter to Ms. Gottschalk dated October 6, 2017:

In our opinion, the new Plan effectively protects the System from pension abuse. These protections are primarily in the form of pensionable salary and DROP limitations. The Plan's service purchase and COLA rules appear adequate to protect the System from abuses in those areas. The Board's establishment of disability criteria has proven effective in preventing disability abuse.

After discussion, Mr. Garcia made a motion to accept Segal Consulting's report regarding the Plan's protections from pension abuse. Mr. Youngblood seconded the motion, which was unanimously approved by the Board.

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3. Draft calendar of upcoming Board agenda items

Ms. Gottschalk discussed a draft calendar of significant Board agenda items for the next several months. The requirements of HB 3158, DPFPP policy and standard practice and other significant items were included on the calendar, but recurring agenda items related to the day-to-day operations of DPFPP were not included on the calendar.

Based on the deadlines in HB 3158, there are a significant number of items that need to be addressed in the near term. Staff requested the input of the Board on the draft calendar.

The Board provided direction to the staff. No motion was made.

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**Regular Board Meeting
Thursday, October 12, 2017**

4. Investment Overview and Reports

- a. Overview of Investment Policy Statement
- b. Review of significant investment activity
- c. Monthly investment reports
- d. Portfolio overview and cash flow forecast
- e. Excess cash deployment

The Board and staff discussed an overview of the Investment Policy Statement, reviewed the significant investment activity over the past year and the monthly investment and preliminary performance reports. They also discussed the portfolio overview and a 9-month forward projection of cash flows from private investments, net benefit and operating outflows and the resulting asset allocation through June 30, 2018. Staff and Rhett Humphreys, of NEPC, discussed the recommended rebalancing plan to deploy excess cash currently on hand as of October 2017.

After discussion, Mr. Garcia made a motion in light of the recent seating of all trustees and the need for the full Board to study and possibly amend the Investment Policy Statement, to suspend the Investment Policy Statement solely for the purpose of the Board directing staff to invest \$60 million with Income Research & Management in short term core bonds, \$50 million with RBC in emerging markets equity and \$65 million in Global Equity, with the Global Equity investments allocated as directed by the Executive Director. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

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5. Clarion Partners: Potential sale of a parcel of land in The Tribute

Bohdy Hedgcock, Senior Vice President, Clarion Partners, and Rhett Humphreys, Partner, NEPC, were present to discuss the potential sale of an approximately 25-acre parcel of land which is part of The Tribute, a 1,600-acre residential development in The Colony, Texas.

The Board went into a closed executive session – real estate at 11:58 a.m.

The meeting was reopened at 12:32 p.m.

After discussion, Mr. Youngblood made a motion to authorize Clarion Partners to consummate the sale of an approximately 25-acre parcel within The Tribute. Mr. Garcia seconded the motion, which was unanimously approved by the Board.

**Regular Board Meeting
Thursday, October 12, 2017**

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6. Initial reading and discussion of the 2018 Budget

Ms. Loveland presented the initial reading of the 2018 budget, prepared in total for both the Combined Pension Plan and the Supplemental Plan.

No motion was made.

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7. Legal issues

- a. Potential claims involving fiduciaries and advisors
- b. DPF v. The Townsend Group and Gary Lawson
- c. Eddington et al. v. DPF
- d. Rawlings v. DPF
- e. DPF v. Columbus A. Alexander III
- f. Degan et al. v. DPF (Federal suit)
- g. HB 3158

The Board went into a closed executive session – legal at 2:51 p.m.

The meeting was reopened at 3:32 p.m.

No motion was made.

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8. Closed Session - Board serving as Medical Committee

Disability application

The Board went into closed executive session – medical at 12:33 p.m.

The meeting was reopened at 1:34 p.m.

No motion was made regarding the disability application.

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**Regular Board Meeting
Thursday, October 12, 2017**

9. Closed Session - Board serving as Medical Committee

Application for death benefits for disabled child

The Board went into closed executive session – medical at 12:33 p.m.

The meeting was reopened at 1:34 p.m.

After discussion, Ms. Hernandez Patterson made a motion to approve an application for death benefits for a disabled child in accordance with Section 6.06(n) of the Plan and to grant discretion to the Executive Director to determine the retroactive effective date, taking into account Social Security guidelines. Mr. Friar seconded the motion, which was unanimously approved by the Board.

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10. Unforeseeable Emergency Requests from DROP Members

No discussion was held regarding Unforeseeable Emergency Requests from DROP members.

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11. 2018 Board meeting calendar

Discussion of the 2018 Board meeting calendar was postponed to the November 1, 2017 special Board meeting.

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12. Board approval of Trustee education and travel

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

No discussion was held regarding Trustee education and travel.

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**Regular Board Meeting
Thursday, October 12, 2017**

D. BRIEFING ITEMS

1. Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System

The Board heard member and pensioner comments.

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2. Executive Director's report

- a.** Open Government Training
- b.** Associations' newsletters
 - NCPERS Monitor (August 2017)
 - NCPERS Monitor (September 2017)

No discussion was held. No motion was made.

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Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Nixon and a second by Mr. Garcia, the meeting was adjourned at 3:33 p.m.

William F. Quinn
Chairman

ATTEST:

Kelly Gottschalk
Secretary



DISCUSSION SHEET

ITEM #B1

Topic: 2018 Board meeting calendar

Discussion: Staff discussed options for scheduling the 2018 regular monthly Board meetings at the October 12, 2017 Board meeting.

At the meeting, staff advised the Board that holding the regular monthly Board meeting either during the second week of the month on Thursday or Friday or any day during the third week of the month will provide for timely monthly investment reporting and quarterly financial statements, as well as allow sufficient time for the administrative processing of retirements and other pension payments prior to the end of the month.

Trustees have provided their availability and/or preferences for the Board meeting timing to staff with respect to possible meeting dates from the second Thursday of each month through the end of the third week. A summary of Trustee feedback is as follows:

- Five Trustees indicated they were available all days in this time frame
- One Trustee has a standing conflict on the 3rd Monday, Tuesday and Wednesday
- Four Trustees indicated they preferred to not meet on Fridays
- Some Trustees indicating a preference:
 - Two Trustees' 1st preference was the 2nd Thursday
 - One Trustee's 1st preference was the 3rd Wednesday
 - One Trustee's 1st preference was the 3rd Friday
 - One Trustee equally preferred the 2nd Friday and the 3rd Monday
 - Two Trustees' 2nd preference was the 3rd Thursday

Special Board Meeting – Wednesday, November 1, 2017

DISCUSSION SHEET

ITEM #B1 (continued)

Staff

Recommendation:

Staff recommends that the Board select a consistent day and time for the regular monthly Board meeting to be scheduled.



DISCUSSION SHEET

ITEM #B2

Topic: **Deferred Retirement Option Plan (DROP) Policy**

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. Discussion of draft DROP Policy including DROP balance annuitization, DROP revocation election and hardship distributions
- b. Legal considerations

Attendees: Rocky Joyner, Vice President and Consulting Actuary, Segal Consulting
Jeff Williams, Vice President and Consulting Actuary, Segal Consulting

Discussion: The DROP Policy must be amended to comply with the changes that HB 3158 made which impact DROP. Staff is presenting a draft DROP Policy for consideration by the Board.

Representatives from Segal Consulting, DFPF's actuarial firm, will be present to provide support to the Board in considering the draft policy.



DISCUSSION SHEET

ITEM #B3

- Topic:** Hybrid Defined Contribution/Defined Benefit plan analysis scope of work
- Attendees:** Rocky Joyner, Vice President and Consulting Actuary, Segal Consulting
Jeff Williams, Vice President and Consulting Actuary, Segal Consulting
- Discussion:** Section 3.01(j-5)(2) of Article 6243a-1 requires the Board, by January 1, 2018, “to conduct an evaluation of . . .the impact, including the impact on the combined pension plan, of establishing one or more alternative benefit plans, including a defined contribution plan or a hybrid retirement plan that combines elements of both a defined benefit plan and a defined contribution plan, for newly hired employees of the city and for members who voluntarily elect to transfer to an alternative benefit plan.”
- Representatives of DPFP’s Actuary, Segal Consulting, will present an outline for the Board of a proposed analysis to satisfy the requirements of Section 3.01(j-5)(2). With direction from the Board, Segal will return for the December Board meeting to present the analysis and results.



Overview of Scope of Alternative Plan and Option Analysis

Board of Trustees Meeting

November 1, 2017

Dallas Police and Fire Pension System

 Segal Consulting

September 1, 2017 Dallas Police and Fire Retirement System

The new Plan which is effective on September 1, 2017 includes the following requirement for the Board to review before December 31, 2017.

(2) The impact, including the impact on the combined pension plan, of establishing one or more alternative benefit plans, including a defined contribution plan or a hybrid retirement plan that combines elements of both a defined benefit plan and a defined contribution plan, for newly hired employees of the city and for members who voluntarily elect to transfer to an alternative benefit plan.

This presentation provides a summary of plan options and a proposed study to comply with the above plan requirement.



Considerations for Retirement Plan Structure

Retirement Plan Structure

- Public Sector Retirement Plans fall into 2 broad categories:
 - **Defined Benefit Plans** which focus on benefit security
 - **Defined Contribution Plans** which focus on wealth accumulation

- **Defined Benefit Plans** include final average salary plans, career average salary plans and flat dollar plans
 - Risk generally borne by Employer
 - **Risk includes:** Wage inflation, Inflation risk, Interest rate, Investment risk, Longevity risk, Incentive risk, Regulatory risk

- **Defined Contribution Plans** include 401(a), 403(b), 457(b) and matching plans
 - Risk generally borne by Employee
 - **Risk includes:** Wage inflation, Inflation risk, Interest rate, Investment risk, Longevity risk, Incentive risk, Regulatory risk, Non-participation risk, Leakage risk, Cognitive and Will-power risk

Setting Priorities

- What is the ultimate purpose in reviewing plan design?
 - If yes, by how much? As a dollar amount or as a % of pay?
- Is it to reduce contribution requirements?
 - If yes, by how much? As a dollar amount or as a % of pay?
- Is it to reallocate potential retirement risk?
 - If yes, how will responsibility for retirement income be shared?
- Is it to modify work force behavior to better coincide with management and personnel objectives?
 - If yes, how do we quantify these objectives?



Balancing Taxpayer, Employer and Member Concerns

Taxpayer Concerns

Cost

- No increase in taxes
- No decrease in services

Employer Concerns

Mission

- No increase in costs
- Recruiting and retention of workforce
- Meeting service mission

Employee Concerns

Adequacy

- Maintain living standard
- Portable benefits
- Competitive compensation and benefits
- Healthcare costs (including end of life costs)
- Outliving the money
- Leaving an estate

So interested parties look to hybrid plans to:

- Lower employer costs
- Reduce employer contribution volatility
- Provide members benefit flexibility
- Create greater flexibility, especially for short service employees
- Make the Plan more understandable
- Modify the risk characteristics of the pension offerings
- Attract/Motivate/Retain talent base

In considering a hybrid arrangement please bear in mind that:

- DB and DC plans have decidedly different approaches to benefit design
- Shifting of risk may have unintended consequences
- There is no magic equivalent plan (DB = DC)
 - Difference rests in risk and performance

What are the plan design options?

Hybrid Plan Options

➤ Dual Plans

- A dual plan is an arrangement which consists of both a DC and DB plan. The DB is often the primary plan while the DC plan establishes a minimum benefit and provides portability

➤ DB Plans with Lump-sum options (including DROP features)

➤ Crossover Plans

- A crossover plan permits participants to move between an employer-sponsored DB and DC plan. When hired the employee is given a choice of plans DB, DC or a combined plan. Typically the option to “cross-over” to the DB plan is permitted after 3 to 5 years of employment

➤ Cash Balance

- A cash balance plan is a DB plan which accumulates, under a pre-defined interest crediting rate, a hypothetical account balance. The interest accumulated is based on an index (e.g., one-year Treasury rate plus 1.5%) as defined in the plan. A simple example of a cash balance plan is one that allocates 5% of annual salary to each participant’s cash balance account and guarantees a fixed rate of interest on those contributions. The benefit is typically calculated using a career average salary

➤ Target benefit plans

➤ Floor offset

Assessing the Value of a Hybrid Approach

➤ Measure against retirement policy

- Adequacy at retirement (replacement ratios)
- Purchasing power into retirement

➤ Measure against funding policy

- Stability
- Amount
- Compliance with PRB

➤ Analyze investment options

- Sufficient number and variety
- Sufficient safeguards

Combination Plan Strategy

➤ Look at a “layered” plan approach

- First review the DB plan and consider a lower guaranteed benefit (maintains a level of security)
- Next create a companion DC plan with employee contributions and an employer match (spreads risk and encourages member participation)
- Project potential benefits for an array of possible careers to test for benefit adequacy

➤ Layered approach objectives

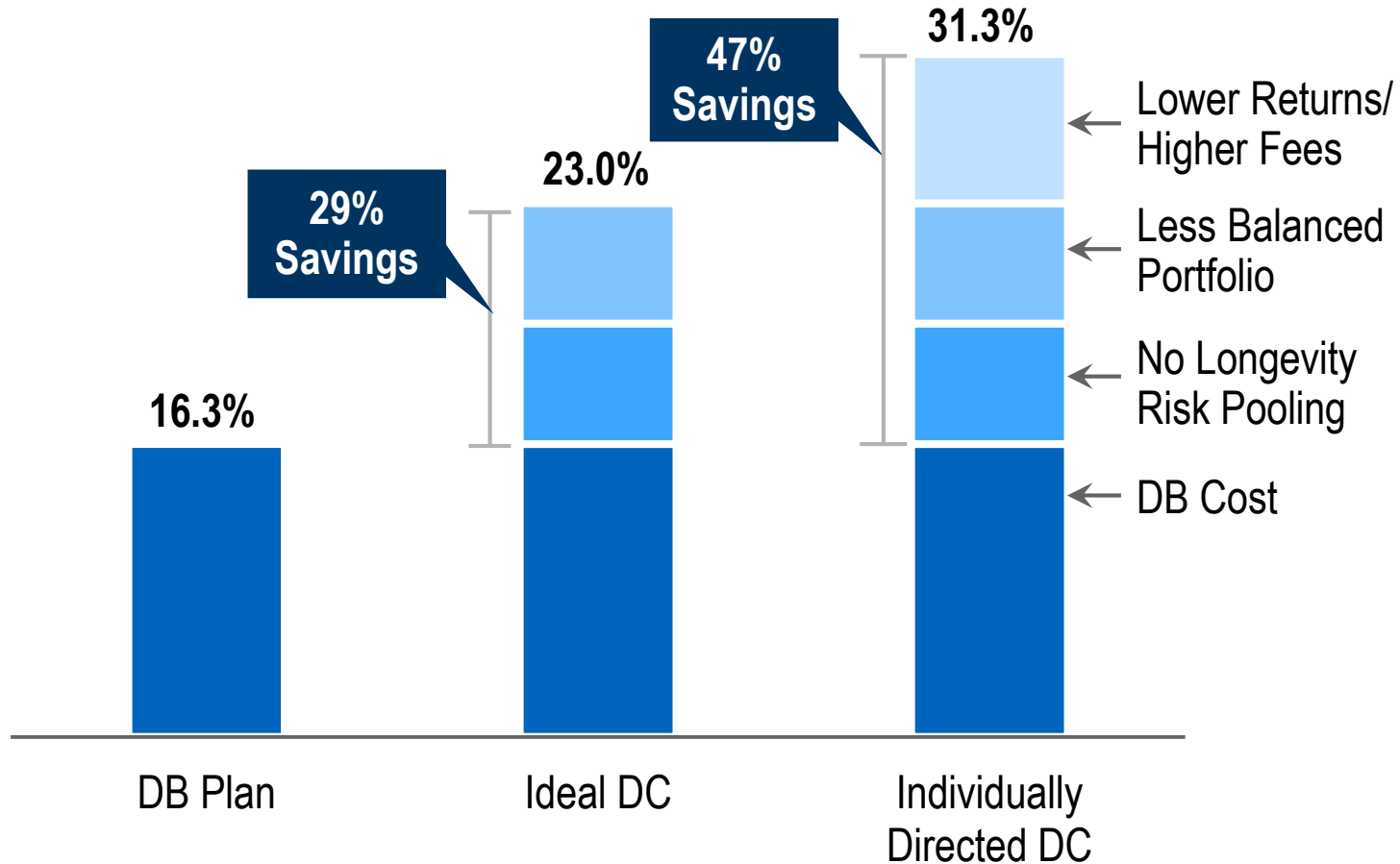
- Allocates more of the plan risk to the member
- Provides additional benefit flexibility to the member
- Lessens future contribution swings for the plan sponsor
- Maintains a core DB strategy for the base retirement
- Provides a platform for disability benefits

DB/DC Comparison from an Annuity Viewpoint

Case Studies

- In December 2014, the NIRS released an update of their 2008 study “Better Bang for the Buck”.
- In spite of some discussions proposing to use DC plans as the base retirement in the public sector, this study shows that the DB model is inherently more cost-efficient than DC plans.
- These efficiencies in delivering benefits are due to three structural advantages.
 - Longevity risk pooling
 - Asset allocation
 - Low fees and professional management
- Consequently, any savings from shifting from a DB plan to a DC plan results from decreasing retirement income.
- Since 2008, improvements have been made in benefit delivery for some DC plans. The Better Bang paper refers to these as “ideal DC” plans, also known as pooled DC plans.
 - These plans remove asset allocation and selection from the individual to a professional manager.
 - Even with this improvement DB plans are 29% more efficient than an “ideal” DC plan.
- The chart on the following page from “Still a Better Bang for the Buck” illustrates the impact of these structural efficiencies inherent in DB plans.
 - For an individually managed DC plan, a DB plan is 48% more cost effective in delivering benefits.

Cost of DB and DC Plans as a % of Payroll



Estimated Replacement Ratios

- Recent studies have shown that about 80% of pre-retirement pay at retirement is needed to maintain a retiree's standard of living after retirement. The 80% typically includes spousal coverage and unless a COLA is included in the plan design, inflation will erode purchasing power over time.
- Traditionally this has included three sources; Social Security, employer pension and employee savings.
- Dallas public safety employees do not participate in Social Security so the remaining two sources must fill the retirement needs of the individuals.
- For a plan participant hired at age 28 and expected to retire at age 58 under the Plan for those hired after September 1, 2017, the Dallas plan will provide 75% of the average earnings (2.5% per year of service).

Suggested Initial Alternative Plan Study

Model the impact of a layered hybrid plan with these features.

- A DB plan with the same features as the post September 1, 2017 plan for new hires except that the multiplier will be 1.75% instead of 2.50%.
- A DC plan with an employee contribution rate of 4.05% and an employer match of 4.05%.
- The model will project the funding percentage and contribution requirements for the combined plans.
- The model will also project replacement ratios for sample employees at two hiring ages.

Study results will be presented at the December 14 Board of Trustees meeting.



DISCUSSION SHEET

ITEM #B4

Topic: Voting requirements for Board action under Article 6243a-1

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: Counsel will brief the Board on the new voting requirements under Article 6243a-1 for the Board to take action.



DISCUSSION SHEET

ITEM #B5

Topic: Ashmore: Emerging Market Debt allocation

Attendees: Rhett Humphreys, Partner (NEPC)

Discussion: DFPF has approximately \$19.2 million, or 0.90% of the portfolio, invested in the Ashmore Emerging Markets Local Currency Bond Fund (“Local Currency Fund”) which is held within the Emerging Markets Debt allocation. DFPF’s target allocation to Emerging Markets Debt is 6%. At the July 13, 2017 meeting, the Board approved an initial investment of \$50 million, with authority to increase the investment up to \$70 million, into the Ashmore EM Blended Debt Fund LP (“EM Blended Debt Fund”), with the intention of liquidating the investment in the Local Currency Fund and using the proceeds as a funding source for the EM Blended Debt Fund. The EM Blended Debt Fund strategy offers better diversification than the Local Currency Fund, as Ashmore can allocate across hard currency, local currency and corporate debt instruments. Staff would like the Board to confirm staff’s recommendation to liquidate the current proceeds from the Local Currency Fund investment and transfer those funds to the EM Blended Debt Fund.

Staff

Recommendation: **Authorize** liquidation of DFPF’s investment in the Ashmore Emerging Markets Local Currency Bond Fund and invest \$20 million in the Ashmore EM Blended Debt Fund.

EMD: Ashmore Blended vs Local Currency Comparison - As of 9/30/17

	Ashmore EM Blended Debt Fund LP	Ashmore Emerging Markets Local Currency Bond Fund
Benchmark:	50% JP Morgan EMBI - GD 25% JP Morgan ELMI+ 25% JP Morgan GBI EM GD	JP Morgan GBI EM GD
Strategy AUM:	\$18.8 billion	\$18.5 billion
Portfolio Size:	\$290.7 million	\$88.5 million
Fund Launch:	June, 2015	December, 2010
Management Fees:	First \$50 million @ 75bps Next \$50 million @ 70bps	95 bps on all assets
Standard Deviation:		
Fund	6.72%	12.01%
Benchmark	6.42%	11.42%
Portfolio YTM:	5.68%	5.61%
Duration	4.72	5.44
Holdings:		
Hard Currency	48.63%	-
Local Currency	51.37%	100%
Corporate	4.32%	-
Exposure:		
Total # of Countries	64	20

EMD: Ashmore Blended vs Local Currency Comparison - As of 9/30/17

As of 9/30/17

Historical Returns	Inception Date	YTD (%)	1 Yrs	3 Yrs	5 Yrs	Inception
Ashmore Local Currency Bond Fund	12/8/10	15.79	9.78	0.75	(0.88)	0.90
<i>JPMorgan GBI-EM GD</i>		14.28	7.32	0.26	(0.91)	1.00
Ashmore Blended Debt Composite	7/1/03	10.93	8.01	6.45	3.87	9.80
<i>50% JPM EMBI GD / 25% JPM ELMI+ / 25% JPM GBI-EM GD</i>		10.39	5.51	3.24	2.06	9.96



DISCUSSION SHEET

ITEM #B6

Topic: Short-Term Core Bond allocation

Attendees: Rhett Humphreys, Partner (NEPC)

Discussion: At the October 12, 2017 Board meeting, Staff and NEPC discussed their recommended rebalancing plan to deploy excess cash on hand with the Board. The Board voted, in light of the recent seating of all trustees and the need for the full Board to study and possibly amend the Investment Policy Statement, to suspend the Investment Policy Statement solely for the purpose of the Board directing staff to invest \$60 million with Income Research & Management (“IR+M”) in Short-Term Core Bonds and \$15 million in Global Equity, allocated as directed by the Executive Director. Based on discussions with IR+M, staff does not recommend investing the \$60 million in the Short-Term Core Bond portfolio over a short, but unknown time period, due to high transaction costs and longer liquidity periods based on the separate account structure of the DFPF portfolio. Staff and NEPC will discuss possible alternatives to the IR+M portfolio for the \$60 million of excess cash on hand.

\$60m Excess Cash / Short-Term Core Bond Options

	Option 1	Option 2	Option 3	Option 4	Option 5	Option 6
	IR+M Short-Term Core Bond Portfolio	JPMorgan US Govt Money Market Fund	Cash on hand at Custodian Bank	IR+M Treasury Only Portfolio	Short-Term Bond Institutional Mutual Fund	Reallocate to Fixed Income
Description	Separate Account - Direct ownership	Money Market Fund - DFPF currently invests all cash into this vehicle	Cash held on balance sheet at custodian bank - JPMorgan	Separate Account - Direct ownership	Mutual Fund NEPC FPL list includes Payden & Rygel, Reams, T. Rowe and Vanguard (Index)	Reallocate \$60m as follows: - \$20m to ST Core Bonds/Cash - \$20m to Bank Loans - \$20m to EMD
Expected Net Annualized Return	0.50%	0.80%	0.98%	0.99%	2.00%	4.56%
Expected Return Range	(0.25%) - 1.25%	0.80%	0.98%	0.99%	(0.50%) - 4.50%	(1.48%) - 10.60%
Liquidity	3 weeks	1 day	1 day	1 day	1 day	1 day - 30 day
Management Fees	18 bps	26 bps	-	10 bps	15 bps - 46 bps	18 bps - 75 bps
Sector Exposures	Governments, Corporates, Mortgages, ABS, CMBS, Muni	Cash, T-Bills, CDs and Corp Commercial Paper	Cash	90-day T-Bill	Governments, Corporates, Mortgages, ABS, CMBS, Muni	Governments, Corporates, Mortgages, ABS, CMBS, Muni, Bank Loans, EMD
Pro's	<ul style="list-style-type: none"> - Fulfills Board direction to keep \$60m in S/T Core Bond Allocation - IR+M in place as manager 	<ul style="list-style-type: none"> - Protection of Principal - Liquid with no constraints on reinvestment timing 	<ul style="list-style-type: none"> - Enhanced return as compared to money market option - Protection of Principal - Liquid with no constraints on reinvestment timing 	<ul style="list-style-type: none"> - Low transaction costs and highly liquid - Lock in return if hold until maturity 	<ul style="list-style-type: none"> - Able to gain Short-Term Core Bond exposure in more liquid, low transaction cost manner - Enhanced expected return over cash and treasury options 	<ul style="list-style-type: none"> - Excess cash invested and diversified across liquid Fixed Income portfolio - More closely follows asset allocation
Con's	<ul style="list-style-type: none"> - Due to short-term hold period, transaction costs are high and liquidity is not optimal 	<ul style="list-style-type: none"> - Lowest expected return 	<ul style="list-style-type: none"> - Low expected return 	<ul style="list-style-type: none"> - Low expected return - Administrative burden with no added benefit 	<ul style="list-style-type: none"> - Manager search and hire needed - Higher management fees than separate account 	<ul style="list-style-type: none"> - Higher risk of capital loss than other alternatives

DALLAS POLICE & FIRE GROUP

As of 10/25/17

Option #6: Reallocate to Fixed Income

	Liquidity	Actual		Rebalance	Post Rebalancing		Target	Target Range		
		\$ (M)	%	\$	\$ (M)	%	\$ (M)	Low	%	High
EQUITY										
Boston Partners	Daily	103.77			103.77					
Manulife	Daily	101.97			101.97					
OFI Global Institutional	Daily	104.24			104.24					
Walter Scott	Daily	104.56			104.56					
GLOBAL EQUITY		414.77	19.54%	-	414.77	19.54%	424.54	10%	20%	23%
RBC EM Equity	Weekly			50.00	50.00					
EMERGING MARKET EQUITY		0.00	0.00%	50.00	50.00	2.36%	106.14	0%	5%	8%
BankCap Partners	Illiquid	8.43			8.43					
Hudson Clean Energy	Illiquid	8.50			8.50					
Huff Alternative Fund	Illiquid	33.52			33.52					
Huff Energy Fund LP	Illiquid	119.44			119.44					
Industry Ventures	Illiquid	1.61			1.61					
Lone Star CRA	Illiquid	39.22			39.22					
Lone Star Growth Capital	Illiquid	1.59			1.59					
Lone Star Opportunities V	Illiquid	14.19			14.19					
North Texas Opportunity Fund	Illiquid	2.02			2.02					
Yellowstone Capital	Illiquid	0.11			0.11					
PRIVATE EQUITY		228.63	10.77%	-	228.63	10.77%	106.14	4%	5%	15%
TOTAL EQUITY		643.40	30.31%	50.00	693.40	32.67%	636.82	20%	30%	40%
FIXED INCOME										
Income Research + Management	Daily	50.14		20.00	70.14					
SHORT-TERM CORE BONDS		50.14	2.36%	20.00	70.14	3.30%	42.45	0%	2%	5%
Brandywine	Daily	64.59			64.59					
GLOBAL BONDS		64.59	3.04%	-	64.59	3.04%	63.68	0%	3%	6%
Loomis Sayles	Daily	81.50			81.50					
HIGH YIELD		81.50	3.84%	-	81.50	3.84%	106.14	2%	5%	8%
Loomis Sayles Sr. Floating Rate	Bi-Weekly	58.83		5.00	63.83					
Pacific Asset Management	Monthly	50.03		15.00	65.03					
BANK LOANS		108.86	5.13%	20.00	128.86	6.07%	127.36	3%	6%	9%
Ashmore EM Blended Debt	Monthly			40.00	40.00					
Ashmore EM Local Currency	Daily	19.18		(19.18)	0.00					
EMERGING MARKET DEBT		19.18	0.90%	20.82	40.00	1.88%	127.36	0%	6%	9%
ABSOLUTE RETURN & STRUCTURED CREDIT		0.00	0.00%	-	0.00	0.00%	127.36	0%	6%	9%
Highland Crusader Fund	Annual	2.70			2.70					
Highland Capital Management	Illiquid	6.22			6.22					
Oaktree Fund IV & 2x Loan Fund	Illiquid	0.01			0.01					
Riverstone Credit Partners	Illiquid	8.17			8.17					
PRIVATE CREDIT		17.10	0.81%	-	17.10	0.81%	106.14	2%	5%	7%
TOTAL FIXED INCOME		341.37	16.08%	60.82	402.19	18.95%	700.50	15%	33%	38%
GLOBAL ASSET ALLOCATION (GAA)										
Bridgewater All Weather	Monthly	43.03		-	43.03					
Putnam	Weekly	38.10			38.10					
RISK PARITY		81.13	3.82%	-	81.13	3.82%	106.14	2%	5%	8%
GMO	Monthly	22.84			22.84					
GTAA		22.84	1.08%	-	22.84	1.08%	63.68	0%	3%	6%
Bridgewater Pure Alpha	Monthly	35.37			35.37					
ABSOLUTE RETURN		35.37	1.67%	-	35.37	1.67%	42.45	0%	2%	5%
TOTAL GAA		139.34	6.56%	-	139.34	6.56%	212.27	5%	10%	15%
REAL ASSETS										
					0.00					
LIQUID REAL ASSETS		0.00	0.00%	-	0.00	0.00%	63.68	0%	3%	6%
Forest Investment Associates	Illiquid	30.00			30.00					
BTG Pactual Asset Management	Illiquid	44.70			44.70					
Hancock Agricultural	Illiquid	157.25			157.25					
NATURAL RESOURCES		231.95	10.93%	-	231.95	10.93%	106.14	3%	5%	10%
JP Morgan Asian Infrastructure	Illiquid	25.10			25.10					
JP Morgan Asian Infrastructure II	Illiquid	5.06			5.06					
JP Morgan Global Maritime	Illiquid	30.63			30.63					
INFRASTRUCTURE		60.79	2.86%	-	60.79	2.86%	106.14	3%	5%	10%
REAL ESTATE		536.43	25.27%	-	536.43	25.27%	254.73	10%	12%	25%
TOTAL REAL ASSETS		829.17	39.06%	-	829.17	39.06%	530.68	20%	25%	45%
CASH										
CASH & EQUIVALENTS		169.44	7.98%	(110.82)	58.61	2.76%	42.45	0%	2%	5%
NET ASSET VALUE		2,122.72	100%		2,122.72	100%				100%



DISCUSSION SHEET

ITEM #B7

Topic: Executive Director appointment

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: Section 1.54 of HB 3158 requires the Board by January 1, 2018 to appoint an Executive Director under Section 3.04 of Article 6243a-1.

In considering such appointment, Section 3.04 (a-1) provides:

“During any period in which the most recent actuarial valuation of the pension system indicates that the period needed to amortize the unfunded actuarial accrued liability of the pension system exceeds 35 years, the board shall, to the extent lapsed investments are a significant portion of the pension system's assets, ensure that the executive director appointed under Subsection (a) of this section has, or hires staff that has, appropriate experience in managing a business entity with lapsed investments in a manner that resulted in the improved liquidity or profitability of the business entity.”



DISCUSSION SHEET

ITEM #C

Topic: Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System

Discussion: This is a Board-approved open forum for active members and pensioners to address their concerns to the Board and staff.