

## AGENDA



**Date:** August 2, 2019

A meeting of the Supplemental Police and Fire Pension Fund Board of Trustees will be held at **8:30 a.m. on Thursday, August 8, 2019, 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 July 11, 2019

### **B. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION**

- 1. Quarterly Financial Reports**
- 2. 2019 Mid-Year Budget Review**

The term "possible action" in the wording of any Agenda item contained herein serves as notice that the Board may, as permitted by 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, July 11, 2019  
8:30 a.m.  
4100 Harry Hines Blvd., Suite 100  
Second Floor Board Room  
Dallas, TX**

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

**ROLL CALL**

**Board Members**

Present at 8:31 a.m. Nicholas A. Merrick, William F. Quinn (by phone), Armando Garza, Gilbert A. Garcia, Susan M. Byrne, Joseph P. Schutz, Kneeland Youngblood

Present at 8:33 a.m. Robert C. Walters,

Present at 8:35 a.m. Ray Nixon

Absent: Tina Hernandez Patterson, Blaine Dickens

**Staff**

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

**Others**

Matthew McCue, Sandy Alexander

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The meeting was called to order at 8:31 a.m.

The meeting was recessed at 8:31 a.m. and reconvened at 10:29 a.m.

\* \* \* \* \*

**CONSENT AGENDA**

**1. Approval of Minutes**

Regular meeting of June 13, 2019

After discussion, Mr. Schutz made a motion to approve the minutes of the meeting of June 13, 2019. Mr. Garcia seconded the motion, which was unanimously approved by the Board.

**Supplemental Board Meeting  
Thursday, July 11, 2019**

\* \* \* \* \*

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Garcia and a second by Mr. Nixon, the meeting was adjourned at 10:29 a.m.

\_\_\_\_\_  
Nicholas A. Merrick  
Vice Chairman

**ATTEST:**

\_\_\_\_\_  
Kelly Gottschalk  
Secretary

DRAFT



## **DISCUSSION SHEET**

### **Supplemental**

### **ITEM #B1**

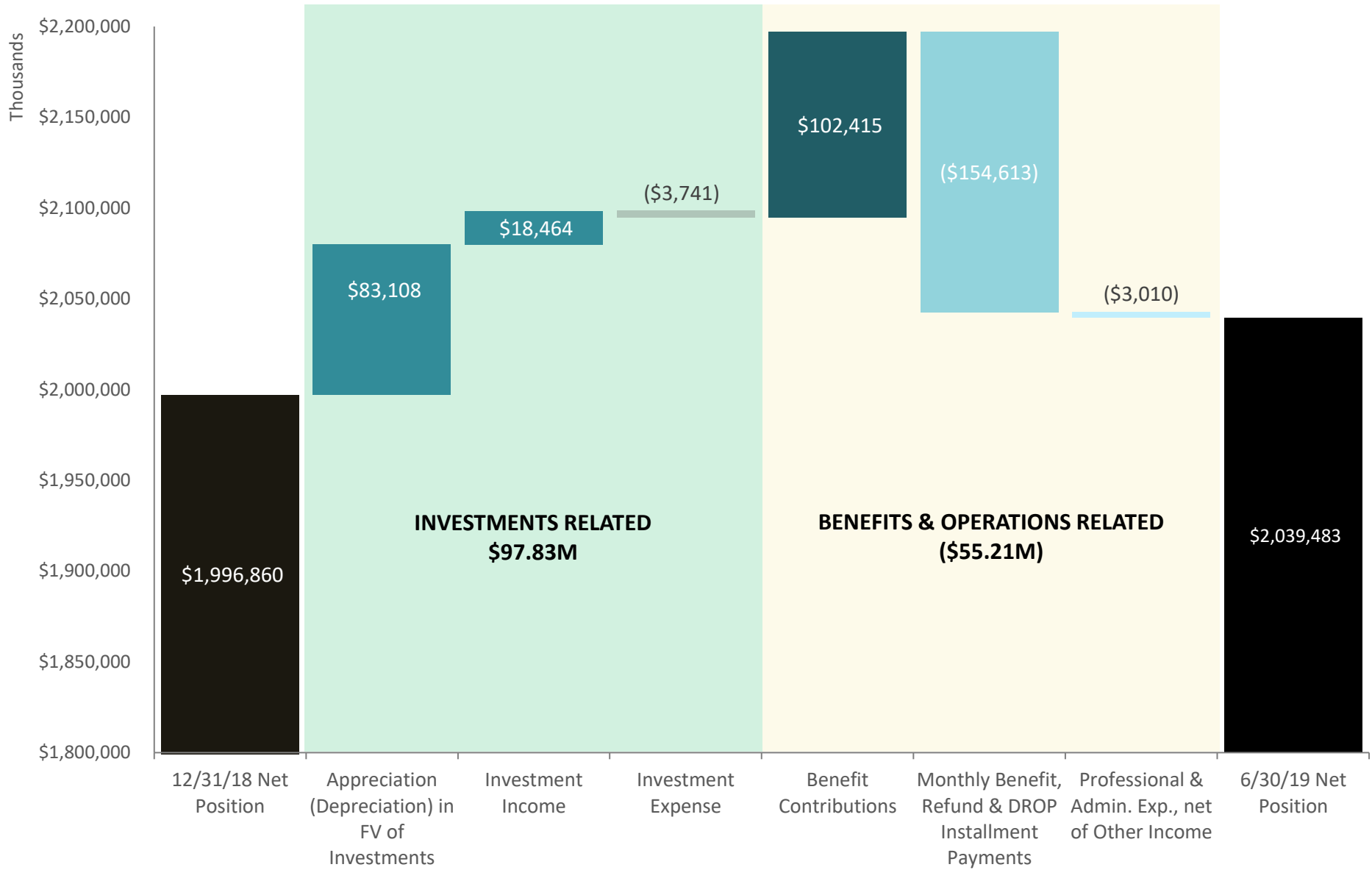
**Topic:**                    **Quarterly Financial Reports**

**Discussion:**            The Chief Financial Officer will present the second quarter 2019 financial statements.

*Supplemental Board Meeting – Thursday, August 8, 2019*

## Change in Net Fiduciary Position

December 31, 2018 – June 30, 2019 - **PRELIMINARY**



Components may not sum exactly due to rounding.

**DALLAS POLICE & FIRE PENSION SYSTEM**  
**Combined Statements of Fiduciary Net Position**

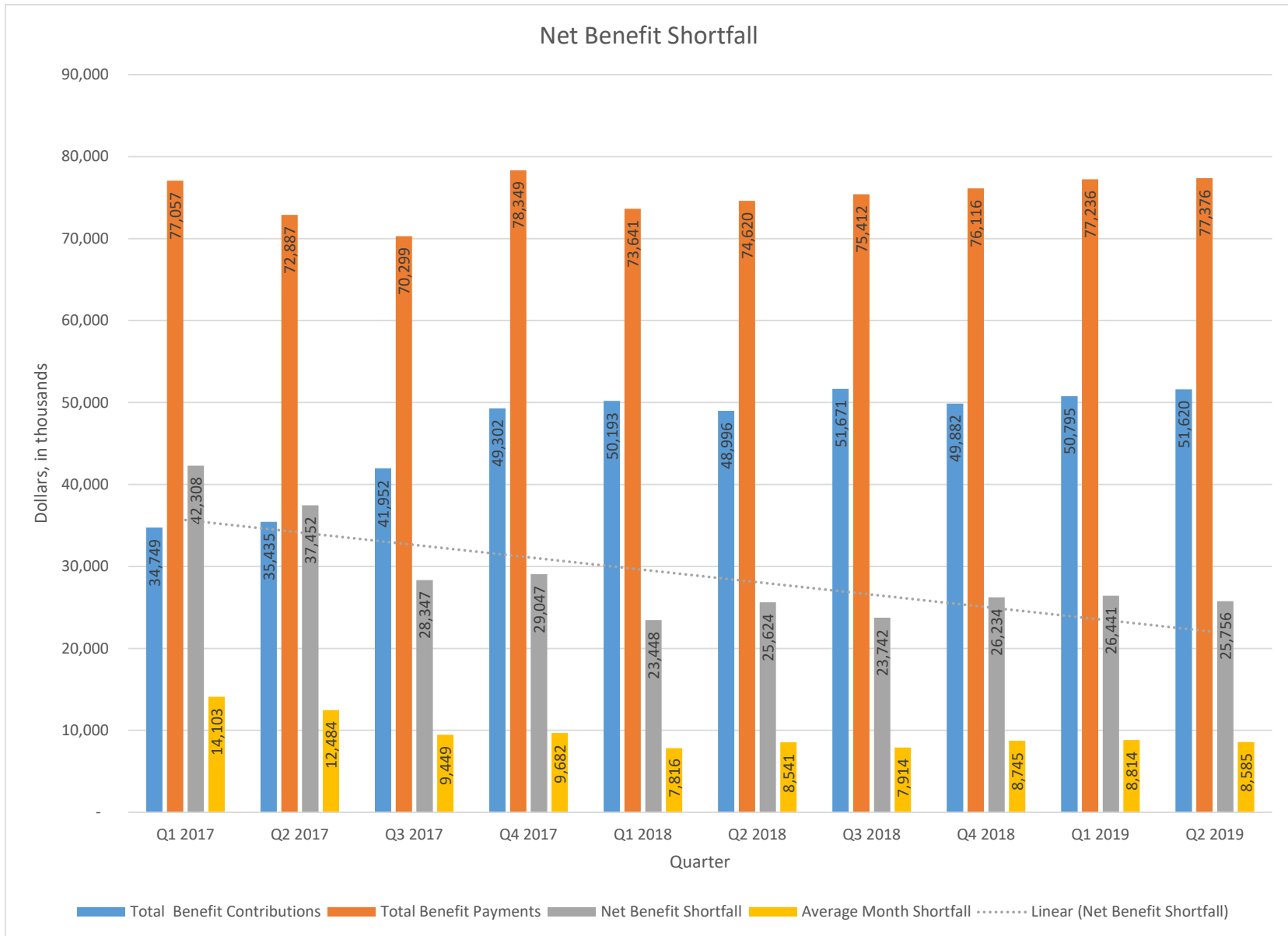
	June 30, 2019 (unaudited)	PRELIMINARY December 31, 2018 (unaudited)	Change	Change
<b>Assets</b>				
<b>Investments, at fair value (NOTE)</b>				
Short-term investments	\$ 40,653,681	\$ 41,316,915	\$ (663,234)	-2%
Fixed income securities	535,504,563	515,774,800	19,729,763	4%
Equity securities	513,152,517	435,935,015	77,217,502	18%
Real assets	626,118,937	701,405,197	(75,286,260)	-11%
Private equity	249,910,332	249,502,189	408,143	0%
Alternative investments		-	-	0%
Forward currency contracts	120,665.00	(270,709)	391,374	-145%
<b>Total investments (NOTE)</b>	<u>1,965,460,695</u>	<u>1,943,663,407</u>	<u>21,797,288</u>	<u>1%</u>
Invested securities lending collateral	36,134,198	20,559,431	15,574,767	76%
<b>Receivables</b>				
City	2,168,214	2,504,571	(336,357)	-13%
Members	707,580	803,245	(95,665)	-12%
Interest and dividends	4,970,776	4,802,419	168,357	4%
Investment sales proceeds	46,107,935	34,231,149	11,876,786	35%
Other receivables	226,475	292,776	(66,301)	-23%
<b>Total receivables</b>	<u>54,180,980</u>	<u>42,634,160</u>	<u>11,546,820</u>	<u>27%</u>
Cash and cash equivalents	63,127,141	50,137,929	12,989,212	26%
Prepaid expenses	856,842	365,515	491,327	134%
Capital assets, net	12,375,813	12,488,943	(113,130)	-1%
<b>Total assets</b>	<u>\$ 2,132,135,669</u>	<u>\$ 2,069,849,385</u>	<u>\$ 62,286,284</u>	<u>3%</u>
<b>Liabilities</b>				
<b>Payables</b>				
Securities lending obligations	36,134,198	20,559,431	15,574,767	76%
Securities purchased	52,923,310	48,598,173	4,325,137	9%
Accounts payable and other accrued liabilities	3,595,276	3,832,048	(236,772)	-6%
<b>Total liabilities</b>	<u>92,652,784</u>	<u>72,989,652</u>	<u>19,663,132</u>	<u>27%</u>
<b>Net position</b>				
Net investment in capital assets	12,375,813	12,488,943	(113,130)	-1%
Unrestricted	2,027,107,072	1,984,370,790	42,736,282	2%
<b>Net position held in trust - restricted for position benefits</b>	<u>\$ 2,039,482,885</u>	<u>\$ 1,996,859,733</u>	<u>\$ 42,623,152</u>	<u>2%</u>

**(NOTE) Some Private asset values have not yet been reported for Q4 18. Values will be updated as final reporting is received.**

**DALLAS POLICE & FIRE PENSION SYSTEM**  
**Combined Statements of Changes in Fiduciary Net Position**

	6 Months Ended 6/30/2019 (unaudited)	PRELIMINARY 6 Months Ended 6/30/2018 (unaudited)	Change	Change
<b>Contributions</b>				
City	\$ 76,939,630	\$ 73,998,001	\$ 2,941,629	4%
Members	25,475,275	25,190,844	284,431	1%
<b>Total Contributions</b>	<u>102,414,905</u>	<u>99,188,845</u>	3,226,060	3%
<b>Investment income</b>				
investments (NOTE)	83,107,902	(18,887,584)	101,995,486	540%
Interest and dividends	18,394,328	25,923,861	(7,529,533)	-29%
Total gross investment income	<u>101,502,230</u>	<u>7,036,277</u>	94,465,953	1343%
less: investment expense	(3,741,280)	(4,036,850)	295,570	7%
<b>Net investment income</b>	<u>97,760,950</u>	<u>2,999,427</u>	94,761,523	3159%
<b>Securities lending income</b>				
Securities lending income	521,546	133,028	388,518	292%
Securities lending expense	(451,762)	(99,323)	(352,439)	355%
<b>Net securities lending income</b>	<u>69,784</u>	<u>33,705</u>	36,079	107%
Other income	180,220	173,496	6,724	4%
<b>Total additions</b>	<u>200,425,859</u>	<u>102,395,473</u>	98,030,386	96%
<b>Deductions</b>				
Benefits paid to members	153,394,262	147,179,703	6,214,559	4%
Refunds to members	1,218,475	1,080,753	137,722	13%
Interest expense		-	-	0%
Legal expense	273,994	217,202	56,792	26%
Legal expense reimbursement	-	-	-	0%
Legal expense, net of reimbursement	<u>273,994</u>	<u>217,202</u>	56,792	26%
Staff Salaries and Benefits	1,677,534	1,414,855	262,679	19%
Professional and administrative expenses	1,238,442	1,325,948	(87,506)	-7%
<b>Total deductions</b>	<u>157,802,707</u>	<u>151,218,461</u>	6,584,246	4%
<b>Net increase (decrease) in net position</b>	<u>42,623,152</u>	<u>(48,822,988)</u>		
Beginning of period	1,996,859,733	2,121,150,623		
End of period	<u>\$ 2,039,482,885</u>	<u>\$ 2,072,327,635</u>		

**(NOTE) Some Private asset values have not yet been reported for Q4 18. Values will be updated as final reporting is received.**







## DISCUSSION SHEET

### Supplemental

### ITEM #B2

**Topic:** 2019 Mid-Year Budget Review

**Discussion:** Attached is a review of the 2019 Operating Expense Budget detailing expenses for the first six months of the calendar year.

Expense items which are greater than the prorated budget by more than 5% and \$10,000 as of June 30, 2019 are discussed in the attached review.

Supplemental Plan expenses are deducted from total expenses in arriving at total Regular Plan expenses. Expenses are allocated to the two plans on a pro-rata basis, according to the ratio of each plan's assets to the total Group Trust assets. The ratio is derived from the Unitization Report prepared by JPMorgan as of June 30, 2019. The ratio is 99.19% Regular Plan to .81% Supplemental Plan.

*Supplemental Board Meeting – Thursday, August 8, 2019*

**BUDGET REVIEW  
2019 MID -YEAR REVIEW**

Description	2019 6 mos Actual	2019 6 mos Budget	2018 6 mos Actual	Budget vs Actual Variance \$ Over/(Under)	Budget vs Actual Variance % Over/(Under)
1 Legislative consultants	94,252	79,500	63,000	14,752	18.6%
2 Information technology projects	45,144	35,000	65,232	10,144	29.0%
3 Independent audit	100,000	90,000	100,000	10,000	11.1%
4 Communications (phone/internet)	33,663	27,800	27,380	5,863	21.1%
5 Pension administration software & WMS	139,614	136,500	158,992	3,114	2.3%
6 Memberships and dues	12,478	9,591	11,190	2,887	30.1%
7 Actuarial services	62,703	60,000	67,006	2,703	4.5%
8 Business continuity	9,354	7,750	7,046	1,604	20.7%
9 Network security	8,791	7,500	1,205	1,291	17.2%
10 Records storage	696	660	639	36	5.5%
11 Accounting services	29,500	29,500	29,500	0	0.0%
12 Bad debt expense - members	-	-	(175)	-	100.0%
13 Building expenses, incl depreciation	295,580	295,800	281,842	(219)	-0.1%
14 Bank Fees	1,272	1,500	395	(228)	-15.2%
15 Staff meetings	-	500	176	(500)	-100.0%
16 IT software/hardware	7,934	8,500	6,271	(566)	-6.7%
17 Subscriptions	384	1,070	297	(686)	-64.1%
18 Leased equipment	11,240	11,950	12,025	(710)	-5.9%
19 Postage	12,483	13,500	5,745	(1,017)	-7.5%
20 Member educational programs	-	1,250	-	(1,250)	-100.0%
21 Printing	1,174	2,555	1,192	(1,381)	-54.1%
22 Employee service recognition	957	2,500	399	(1,543)	-61.7%
23 Board meetings	2,211	3,800	1,299	(1,589)	-41.8%
24 Miscellaneous professional services	8,365	12,238	9,709	(3,872)	-31.6%
25 Office supplies	12,167	16,550	12,686	(4,383)	-26.5%
26 Conference registration/materials - board	1,710	7,450	1,940	(5,740)	-77.0%
27 Miscellaneous expense	182	6,000	920	(5,818)	-97.0%
28 Elections	600	7,500	-	(6,900)	-92.0%
29 Repairs and maintenance	46,132	54,125	43,725	(7,993)	-14.8%
30 Travel - staff	9,068	18,750	6,682	(9,682)	-51.6%
31 Depreciation exp - IT hardware	-	11,000	-	(11,000)	-100.0%
32 Travel - board	2,538	16,310	-	(13,772)	-84.4%
33 Disability medical evaluations	-	14,500	-	(14,500)	-100.0%
34 Conference/training registration/materials - staff	2,921	18,750	2,117	(15,829)	-84.4%
35 IT subscriptions/services/licenses	50,601	73,920	53,319	(23,319)	-31.5%
36 Employment expenses	729	26,138	93,236	(25,409)	-97.2%
37 Liability insurance	233,998	302,277	260,957	(68,278)	-22.6%
38 Salaries and benefits	1,677,534	1,915,945	1,414,855	(238,410)	-12.4%
Legal fees, excluding insurance reimbursements	273,994	650,000	217,201	(376,006)	-57.8%
Legal fee insurance reimbursements	-	-	-	-	100.0%
39 Legal fees, net of insurance reimbursements	273,994	650,000	217,201	(376,006)	-57.8%
<b>Gross Total</b>	<b>3,189,970</b>	<b>3,978,176</b>	<b>2,958,003</b>	<b>(788,206)</b>	<b>-19.8%</b>
Less: Allocation to Supplemental Plan Budget*	25,761	96,936	23,888	(71,175)	-73.4%
<b>Total Regular Plan Budget</b>	<b>\$ 3,164,209</b>	<b>\$ 3,881,240</b>	<b>\$ 2,934,115</b>	<b>\$ (717,031)</b>	<b>-18.5%</b>

\* Unitization split to Supplemental is based on unitization

40 Custodian fees	110,671	118,500	54,351	(7,829)	-6.6%
41 Investment due diligence	-	24,000	-	(24,000)	-100.0%
42 Investment consultant and reporting	163,542	215,000	256,051	(51,458)	-23.9%
43 Investment portfolio operating expenses	469,774	847,000	273,319	(377,226)	-44.5%
44 Fund management fees	2,997,293	3,455,000	3,453,129	(457,707)	-13.2%
<b>Total Investment Fees</b>	<b>3,741,280</b>	<b>4,659,500</b>	<b>4,036,850</b>	<b>(918,220)</b>	<b>-19.7%</b>

**BUDGET  
2019 MID-YEAR REVIEW**

**Budget Changes (>5% and \$10K)**

Item	2019 6 mos Actual	2019 6 mos Budget	Budget vs Actual Variance \$ Over/(Under)	Budget vs Actual Variance % Over/(Under)	Explanation
<b>INCREASES:</b>					
1 Legislative consultants	94,252	79,500	14,752	18.6%	Variance is related to the timing of expenses. The legislature was in session through June and expenses are higher during the legislative session. Budget is straight lined over the year. Expect to be within budget by the end of the year.
2 Information technology projects	45,144	35,000	10,144	29.0%	Variance is related to the timing of projects. Some projects, for example the imaging project, were completed or near completion by the end of June. Variance by the end of July is down to \$5,300.
3 Independent audit	100,000	90,000	10,000	11.1%	Variance is related to the timing of expenses. Budget is straight lined over the year. Expect to be within budget by the end of the year.
<b>REDUCTIONS:</b>					
4 Legal fees, net of insurance reimbursements	273,994	650,000	(376,006)	-57.8%	Variance is related in part to the timing of expenses along with fewer case expenses than forecasted.
5 Salaries and benefits	1,677,534	1,915,945	(238,410)	-12.4%	Lower than forecasted expenses due to vacant staff positions.
6 Liability insurance	233,998	302,277	(68,278)	-22.6%	Actual expenses are less than forecasted due to a favorable renewal and the timing of expenses. To expense the premium over the correct time period, YTD 2019 has only five months of expense. One month of 2019 expense is \$47,312.
7 Employment expenses	729	26,138	(25,409)	-97.2%	Several staff positions remain unfilled at this time and the budgeted amount has not been utilized.
8 IT subscriptions/services/licenses	50,601	73,920	(23,319)	-31.5%	Timing of the expenses along with lower than forecasted expenses for some items have led to a positive budget variance.
9 Conference/training registration/materials - staff	2,921	18,750	(15,829)	-84.4%	Variance is related in part to the timing of expenses along with fewer conferences / training expenses for staff than forecasted.
10 Disability medical evaluations	-	14,500	(14,500)	-100.0%	No disability or recall claims YTD in 2019. Budgeted for 10 disability or recall claims at \$2,500 each and 2 child disability claims at \$2,000 each in 2019.
11 Travel - board	2,538	16,310	(13,772)	-84.4%	Limited Board travel so far in 2019.
12 Depreciation exp - IT hardware	-	11,000	(11,000)	-100.0%	Switch project just completed. Depreciation will begin in July 2019.

**INVESTMENT EXPENSES**

Item	2019 6 mos Actual	2019 6 mos Budget	Budget vs Actual Variance \$ Over/(Under)	Budget vs Actual Variance % Over/(Under)	Explanation
13 Investment due diligence	-	24,000	(24,000)	-100.0%	Variance is related to the timing of expenses. Planned investment due diligence travel and the purchase of an investment software have not yet occurred.
14 Investment consultant and reporting	163,542	215,000	(51,458)	-23.9%	Budget includes \$50k for private market services that has not yet been utilized.
15 Investment portfolio operating expenses	469,774	847,000	(377,226)	-44.5%	Variance is related in part to the timing of expenses for audits and appraisals. Additionally, some expenses for investment contracts review, advisors and legal fees have been less than forecast.
16 Fund management fees	2,997,293	3,455,000	(457,707)	-13.2%	Budget and Actual are for direct fees only. Variance is due in part to the timing of expenses. Some performance fees are due and paid at year end.