# AGENDA

DALLAS POLICE & FIRE PENSION SYSTEM

**Date:** February 7, 2025

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, February 13, 2025, in the Second Floor Board Room at 4100 Harry Hines Boulevard, Dallas, Texas and 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/83364156526?pwd=OG5CbEFhajN5V0hWaUFJMlhYcHQ2Zz09 Passcode: 923237.** Items of the following agenda will be presented to the Board:

## A. MOMENT OF SILENCE

## B. APPROVAL OF MINUTES

Regular meeting of January 16, 2025

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

1. **Executive Director Approved Pension Ministerial Actions**

2. **City Contribution Update**

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

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

4. **Quarterly Financial Reports**

5. **Portfolio Update**

6. **Report on Investment Advisory Committee Meeting**

7. **Private Credit Strategic Review and Pacing Plan**

8. **Public Equity Structure**

9. **Public Credit Structure**

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

Discussion of the following will be closed to the public under the terms of Section 551.078 of the Texas Government Code:

Application for death benefits for disabled child 2024-2C

**11. Legislative 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.

**12. Board and Staff Organizational Changes**

**13. Lone Star Investment Advisors**

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 DPFP and the Board under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with Texas Open Meeting laws.**

**15. Executive Director Performance Evaluation**

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 (February 2025)
- NCPERS PERSist (Winter 2025)
- TEXPERS Pension Observer (Vol. 1 2025)

**b.** Open Records

**c.** March Board Date Reminder

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, Section 551.076 for deliberation regarding security devices or security audits, and Section 551.078 for review of medical records.

DALLAS POLICE & FIRE PENSION SYSTEM

# MOMENT OF SILENCE

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

| NAME | ACTIVE/ RETIRED | DEPARTMENT | DATE OF DEATH |
|---|---|---|---|
| Vernon W. Amundson | Retired | Fire | Jan. 02, 2025 |
| William J. Butler | Retired | Police | Jan. 04, 2025 |
| R D. Christopher | Retired | Fire | Jan. 05, 2025 |
| Gabriel Bixby | Active | Police | Jan. 07, 2025 |
| Samuel W. Hill | Retired | Police | Jan. 13, 2025 |
| John D. Chappelle | Retired | Police | Jan. 16, 2025 |
| John M. Williams | Retired | Police | Jan. 17, 2025 |
| James D. McCraw | Retired | Fire | Jan. 24, 2025 |
| Amos Gantt | Retired | Police | Jan. 27, 2025 |
| William Walsh | Retired | Police | Jan. 28, 2025 |
| Alvin Samples | Retired | Fire | Jan. 31, 2025 |

***Regular Board Meeting –Thursday, February 13, 2025***

**Dallas Police and Fire Pension System**
**Thursday, January 16, 2025**
**8:30 a.m.**
**4100 Harry Hines Blvd., Suite 100**
**Second Floor Board Room**
**Dallas, TX**

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

**ROLL CALL**

**Board Members**

| | |
|---|---|
| Present at 8:30 a.m. | Nicholas Merrick, Tina Hernandez Patterson, Michael Taglienti, Michael Brown, Matthew Shomer, Marcus Smith |
| By telephone at 8:35 a.m. | Steve Idoux |
| Absent | Nancy Rocha, Anthony Scavuzzo, Tom Tull |
| **Staff** | Kelly Gottschalk, Josh Mond, Brenda Barnes, Ryan Wagner, Christina Wu, Akshay Patel, Kyle Schmit, John Holt, Nien Nguyen, Milissa Romero, Cynthia Thomas, Bill Scoggins (by phone) |
| **Others** | None |

* * * * * * * *

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

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**A. MOMENT OF SILENCE**

The Board observed a moment of silence in memory of retired police officers Kenneth R. White, Arnold Brown, Victor Woodberry, Gregory A. Williams, Charles L. Tubbs, Wilbur T. Hogan, James W. Barnwell, and retired firefighters Donald L. Stevens, James P. Wood, Philip R. Ruzicka, Wayne V. Roberts, Ernie D. Richards, Freddie B. Caviness.

No motion was made.

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**Regular Board Meeting**
**Thursday, January 16, 2025**

**B. APPROVAL OF MINUTES**

Regular meeting of December 12, 2024

After discussion, Mr. Taglienti made a motion to approve the minutes of the Regular meeting of December 12, 2024. Mr. Shomer 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. Executive Director Approved Pension Ministerial Actions**

The Executive Director reported on the December pension ministerial actions.

No motion was made.

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**2. City Contribution Update**

The Executive Director provided an update on the amount of City Contributions received and any shortage since October 1, 2024.

No motion was made.

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**3. 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.

No motion was made.

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**4. 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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**Regular Board Meeting**
**Thursday, January 16, 2025**

**5. Hardship Request – 2024-1H**

No discussion was held, and no motion was made regarding the hardship request 2024-1H.

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**6. Legislative Update**

Staff briefed the Board on the upcoming legislative session.

No motion was made.

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**7. Lone Star Investment Advisors**

The Board went into closed executive session – Legal at 9:07 a.m.

The meeting reopened at 10:22 a.m.

Investment staff updated the Board on investments managed by Lone Star Investment Advisors.

No motion was made.

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**8. 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 DPFP 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 – Legal at 9:07 a.m.

The meeting reopened at 10:22 a.m.

The Board and staff discussed legal issues.

No motion was made.

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**Regular Board Meeting**
**Thursday, January 16, 2025**

**9. Executive Director Performance Evaluation**

The Board went into closed executive session – Personnel Matters at 9:07 a.m.

The meeting reopened at 10:22 a.m.

The Board discussed the Executive Director's performance.

No motion was made.

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## D. BRIEFING ITEMS

**1. Public Comment**

Prior to commencing items for Board discussion and deliberation, the Chairman extended an opportunity for public comment. No one requested to speak to the Board.

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**2. Executive Director's Report**

**a.** Associations' newsletters
- NCPERS Monitor (January 2025)

**b.** Open Records

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. Shomer and a second by Mr. Taglienti, the meeting was adjourned at 10:23 a.m.

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Nicholas A. Merrick,
Chairman

**ATTEST:**

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Kelly Gottschalk,
Secretary

**Regular Board Meeting**
**Thursday, January 16, 2025**



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DALLAS POLICE & FIRE PENSION SYSTEM

# DISCUSSION SHEET

## ITEM #C1

**Topic:** **Executive Director Approved Pension Ministerial Actions**

**Discussion:** The Executive Director approved ministerial membership actions according to the Retirement and Payments Approval Policy. Membership actions approved are summarized in the provided report.

*Regular Board Meeting – Thursday, February 13, 2025*

Membership Actions -2025

| | January | February | March | April | May | June | July | August | September | October | November | December | YTD Totals |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Refunds | 38 | 27 | | | | | | | | | | | 65 |
| DROP - Join | 2 | 2 | | | | | | | | | | | 4 |
| Estate Payments | 6 | 7 | | | | | | | | | | | 13 |
| Survivor Benefits | 4 | 11 | | | | | | | | | | | 15 |
| Retirements | 7 | 10 | | | | | | | | | | | 17 |
| Alternate Payees | 0 | 0 | | | | | | | | | | | 0 |
| Spouse Wed After Retirement | 0 | 0 | | | | | | | | | | | 0 |
| Service Purchases | 1 | 1 | | | | | | | | | | | 2 |
| Earnings Test | 0 | 0 | | | | | | | | | | | 0 |

Membership Actions -2024

| | January | February | March | April | May | June | July | August | September | October | November | December | YTD Totals |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Refunds | 23 | 22 | 21 | 26 | 16 | 21 | 13 | 19 | 37 | 18 | 20 | 32 | 268 |
| DROP - Join | 1 | 1 | 2 | 0 | 5 | 1 | 1 | 1 | 0 | 1 | 0 | 0 | 13 |
| Estate Payments | 2 | 1 | 3 | 5 | 3 | 1 | 4 | 5 | 10 | 7 | 7 | 9 | 57 |
| Survivor Benefits | 4 | 6 | 3 | 8 | 5 | 4 | 6 | 5 | 3 | 4 | 5 | 3 | 56 |
| Retirements | 10 | 10 | 16 | 9 | 13 | 10 | 9 | 11 | 7 | 5 | 8 | 6 | 114 |
| Alternate Payees | 2 | 0 | 2 | 1 | 1 | 1 | 0 | 0 | 0 | 1 | 0 | 0 | 8 |
| Spouse Wed After Retirement | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 0 | 0 | 0 | 1 |
| Service Purchases | 0 | 2 | 0 | 1 | 7 | 2 | 1 | 2 | 1 | 2 | 5 | 1 | 24 |
| Earnings Test* | 0 | 0 | 0 | 0 | 0 | 0 | 10 | 0 | 0 | 0 | 0 | 0 | 10 |

Membership Actions -2023

| | January | February | March | April | May | June | July | August | September | October | November | December | YTD Totals |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Refunds | 26 | 19 | 12 | 13 | 17 | 14 | 23 | 13 | 57 | 53 | 18 | 21 | 286 |
| DROP - Join | 3 | 3 | 0 | 2 | 2 | 2 | 0 | 0 | 3 | 0 | 3 | 0 | 18 |
| Estate Payments | 0 | 5 | 7 | 5 | 1 | 2 | 4 | 92 | 5 | 3 | 5 | 9 | 138 |
| Survivor Benefits | 1 | 6 | 8 | 6 | 4 | 3 | 5 | 6 | 6 | 2 | 3 | 6 | 56 |
| Retirements | 12 | 16 | 11 | 14 | 11 | 12 | 10 | 13 | 10 | 17 | 6 | 12 | 144 |
| Alternate Payees | 0 | 2 | 1 | 0 | 2 | 3 | 1 | 3 | 2 | 0 | 0 | 1 | 15 |
| Spouse Wed After Retirement | 1 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1 | 1 | 1 | 0 | 4 |
| Service Purchases | 2 | 0 | 0 | 1 | 0 | 2 | 0 | 1 | 0 | 0 | 2 | 0 | 8 |
| Earnings Test | 0 | 0 | 0 | 0 | 0 | 9 | 0 | 0 | 0 | 0 | 0 | 0 | 9 |

Data is based on Agenda/Executive Approval Date
Service purchases include Military, DROP Revocation, and Previously Withdrawn Contributions
The increase in Refunds in September 2023 and October 2023 is due to the Refund Project
87 of the Estate Payments in August 2023 are approvals for the Pending Death Project

G:\Kelly\Executive Director Ministerial Action Approvals\Membership Actions Data 2025

DALLAS POLICE & FIRE PENSION SYSTEM

# DISCUSSION SHEET

## ITEM #C2

**Topic:** **City Contribution Update**

**Discussion:** Staff will update the Board on the accumulated amount of City Contributions paid compared to the City Contributions due under the law.

*Regular Board Meeting – Thursday, February 13, 2025*

| City Regular Plan Contributions Beginning 10-1-2025 | | | | |
|---|---|---|---|---|
| Pay Period Date | Date Contributions Received | City Contribution Paid (Excluding Excess Benefit Plan Contributions) | City Contributions Due Under Current Law as Confirmed by the Court | Contribution Shortage |
| **City Contributions Beginning 10-1-2025** | | | | |
| 10/1/2024-10/8/2024 | Pro-rated last payroll | $ 3,814,556.76 | $ 4,727,428.57 | $ 912,871.81 |
| 10/9/2024 -10/22/2024 | 10/24/2024 | $ 6,588,862.07 | $ 8,273,000.00 | $ 1,684,137.93 |
| 10/23/2024 - 11/5/2024 | 11/7/2024 | $ 6,707,431.25 | $ 8,273,000.00 | $ 1,565,568.75 |
| 11/6/2024 - 11/19/204 | 11/21/2024 | $ 6,612,830.37 | $ 8,273,000.00 | $ 1,660,169.63 |
| City Catch Up based on City Plan - with Errors | 12/3/2024 | $ 1,762,120.67 | $ - | $ (1,762,120.67) |
| 11/20/2024 -12/3/2024 | 12/6/2024 | $ 7,790,959.24 | $ 8,273,000.00 | $ 482,040.76 |
| 12/4/2024 -12/17/2024 | 12/19/2024 | $ 7,708,704.35 | $ 8,273,000.00 | $ 564,295.65 |
| 12/18/2024 - 12/31/2024 | 1/2/2025 | $ 7,787,490.19 | $ 8,273,000.00 | $ 485,509.81 |
| 1/1/2025 -1/14/2025 | 1/17/2025 | $ 7,884,160.99 | $ 8,273,000.00 | $ 388,839.01 |
| 1/15/2025 - 1/28/2025 | 1/30/2025 | $ 7,899,488.32 | $ 8,273,000.00 | $ 373,511.68 |
| FY 2025 YTD Shortage | | $ 64,556,604.21 | $ 70,911,428.57 | $ 6,354,824.36 |
| FY 2024 Shortage - City Commitment ($184,733,285 minus $177,420,111.03) | | | | $ 7,313,173.97 |
| Total Shortage Through 1/30/2025 | | | | $ 13,667,998.33 |

# DISCUSSION SHEET

## ITEM #C3

**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.

# Future Education and Business Related Travel & Webinars
## Regular Board Meeting – February 13, 2025

| # | | | REQUESTED | APPROVED |
|---|---|---|---|---|
| 1. | **Conference** | **TEXPERS Legislative Advocacy Workshop** | **MS** | |
| | **Dates:** | February 4-5, 2025 | | |
| | **Location:** | Austin, TX | | |
| | **Est Cost:** | $125 | | |
| 2. | **Conference:** | **TEXPERS Basic Trustee Training** | | |
| | **Dates:** | March 29, 2025 | | |
| | **Location:** | Austin, TX | | |
| | **Est Cost:** | $225 | | |
| 3. | **Conference:** | **TEXPERS Advanced Trustee Training** | | |
| | **Dates:** | March 29, 2025 | | |
| | **Location:** | Austin, TX | | |
| | **Est Cost:** | $150 | | |
| 4. | **Conference:** | **TEXPERS 2025 Annual Conference** | **MS, MT, MAS** | |
| | **Dates:** | March 30-April 2, 2025 | | |
| | **Location:** | Austin, TX | | |
| | **Est Cost:** | $25 | | |
| 5. | **Conference:** | **NCPERS Trustee Educational Seminar (TEDS)** | **MAS** | |
| | **Dates:** | May 17-18, 2025 | | |
| | **Location:** | Denver, CO | | |
| | **Est Cost:** | $500 | | |

## Future Education and Business Related Travel & Webinars
## Regular Board Meeting – February 13, 2025

**REQUESTED APPROVED**

6. **Conference** **NCPERS Accredited Fiduciary Program (NAF)**
   **Dates:** May 17-18, 2025
   **Location:** Denver, CO
   **Est Cost:** $900

7. **Conference:** **NCPERS Annual Conference & Exhibition (ACE)**
   **Dates:** May 18-21, 2025
   **Location:** Denver, CO
   **Est Cost:** $1,100

8. **Conference:** **NCPERS Chief Officers Summit**
   **Dates:** June 16-18, 2025
   **Location:** New York City, NY
   **Est Cost:** $1,000

9. **Conference:** **TEXPERS 2025 Summer Forum**
   **Dates:** August 4-5, 2025
   **Location:** El Paso, TX
   **Est Cost:** TBD

DALLAS POLICE & FIRE PENSION SYSTEM

# DISCUSSION SHEET

## ITEM #C4

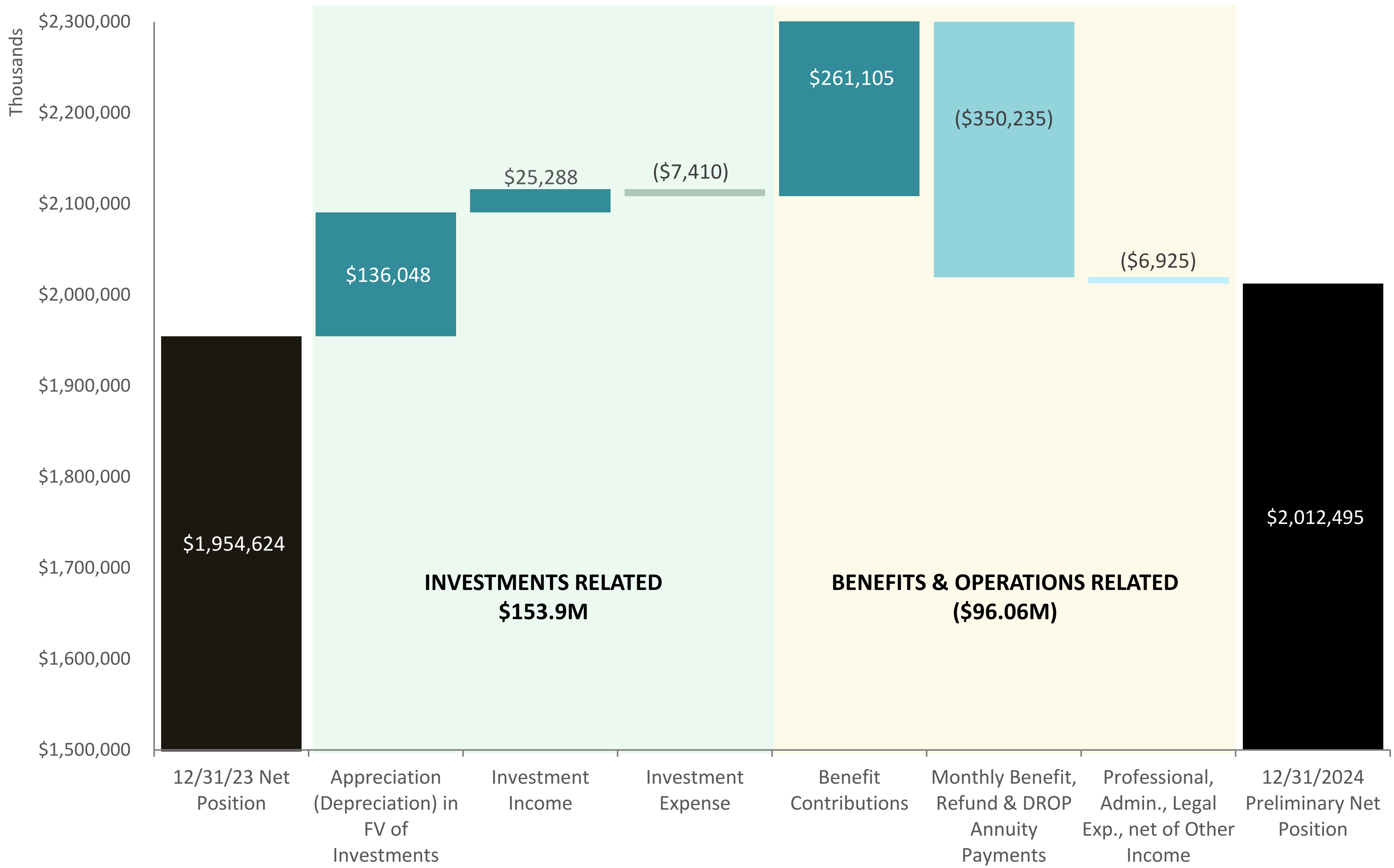
**Topic:** **Quarterly Financial Reports**

**Discussion:** The Chief Financial Officer will present the fourth quarter 2024 financial statements.

*Regular Board Meeting – Thursday, February 13, 2025*

# Change in Net Fiduciary Position

December 31, 2023 – December 31, 2024 - Preliminary




Components may not sum exactly due to rounding.

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

| | PRELIMINARY<br>December 31, 2024 | December 31, 2023 | $ Change | % Change |
|---|---|---|---|---|
| **Assets** | | | | |
| **Investments, at fair value** | | | | |
| Short-term investments | $ 27,946,217 | $ 16,982,561 | $ 10,963,656 | 65% |
| Fixed income securities | 406,205,437 | 365,809,375 | 40,396,062 | 11% |
| Equity securities | 1,067,813,755 | 995,629,628 | 72,184,127 | 7% |
| Real assets | 253,443,112 | 278,554,675 | (25,111,563) | -9% |
| Private equity | 162,447,209 | 218,856,730 | (56,409,521) | -26% |
| Forward currency contracts | (50) | - | (50) | 0% |
| **Total investments** | 1,917,855,680 | 1,875,832,969 | 42,022,711 | 2% |
| **Receivables** | | | | |
| City | 7,787,490 | 5,728,687 | 2,058,803 | 36% |
| Members | 2,635,212 | 2,083,312 | 551,900 | 26% |
| Interest and dividends | 4,546,990 | 4,668,499 | (121,509) | -3% |
| Investment sales proceeds | 60,732 | 1,963 | 58,769 | 2994% |
| Lease Receivable | 2,752,939 | 2,269,523 | 483,416 | 21% |
| Other receivables | 13,593 | 596,578 | (582,985) | -98% |
| **Total receivables** | 17,796,956 | 15,348,562 | 2,448,394 | 16% |
| Cash and cash equivalents | 72,316,825 | 62,346,331 | 9,970,494 | 16% |
| Prepaid expenses | 601,363 | 561,465 | 39,898 | 7% |
| Capital assets, net | 11,480,088 | 11,455,745 | 24,343 | 0% |
| **Total assets** | $ 2,020,050,912 | $ 1,965,545,072 | $ 54,505,840 | 3% |
| **Liabilities** | | | | |
| **Payables** | | | | |
| Securities purchased | 116,339 | 4,476,298 | (4,359,959) | -97% |
| Accounts payable and other accrued liabilities | 5,000,748 | 4,306,413 | 694,335 | 16% |
| **Total liabilities** | 5,117,087 | 8,782,711 | (3,665,624) | -42% |
| **Deferred inflow of resources** | 2,438,997 | 2,137,972 | 301,025 | 14% |
| **Net position restricted for pension benefits** | $ 2,012,494,828 * | $ 1,954,624,389 | $ 57,870,439 | 3% |

***The ending period amounts are preliminary and may change as the 2024 results are finalized.**

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

**PRELIMINARY**

| | Twelve Months Ended December 31, 2024 | Twelve Months Ended December 31, 2023 | $ Change | % Change |
|---|---|---|---|---|
| **Contributions** | | | | |
| City | $ 192,889,978 | $ 175,626,622 | $ 17,263,356 | 10% |
| Members | 68,214,922 | 62,788,685 | 5,426,237 | 9% |
| **Total Contributions** | 261,104,900 | 238,415,307 | 22,689,593 | 10% |
| **Investment income** | | | | |
| Net appreciation (depreciation) in fair value of investments | 136,047,518 | 181,638,176 | (45,590,658) | -25% |
| Interest and dividends | 25,288,395 | 22,466,303 | 2,822,092 | 13% |
| Total gross investment income | 161,335,913 | 204,104,479 | (42,768,566) | -21% |
| less: investment expense | (7,410,068) | (6,529,640) | (880,428) | 13% |
| **Net investment income** | 153,925,845 | 197,574,839 | (43,648,994) | -22% |
| Other income | 517,506 | 47,748,429 | (47,230,923) | -99% |
| **Total additions** | 415,548,251 | 483,738,575 | (68,190,324) | -14% |
| **Deductions** | | | | |
| Benefits paid to members | 344,975,325 | 340,976,263 | 3,999,062 | 1% |
| Refunds to members | 5,260,134 | 5,310,084 | (49,950) | -1% |
| Legal expense | 652,346 | 172,150 | 480,196 | 279% |
| Legal expense reimbursement | - | (589,723) | 589,723 | -100% |
| Legal expense, net of reimbursement | 652,346 | (417,573) | 1,069,919 | -256% |
| Staff Salaries and Benefits | 3,792,082 | 3,474,027 | 318,055 | 9% |
| Professional and administrative expenses | 2,997,925 | 2,979,128 | 18,797 | 1% |
| **Total deductions** | 357,677,812 | 352,321,929 | 5,355,883 | 2% |
| **Net increase (decrease) in net position** | 57,870,439 | 131,416,646 | | |
| Beginning of period | 1,954,624,389 | 1,823,207,743 | | |
| End of period | $ 2,012,494,828 * | $ 1,954,624,389 | | |

***The ending period amounts are preliminary and may change as the 2024 results are finalized.**

DALLAS POLICE & FIRE PENSION SYSTEM

# DISCUSSION SHEET

## ITEM #C5

**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, February 13, 2025*

DALLAS POLICE & FIRE PENSION SYSTEM

# Portfolio Update

*February 13, 2025*

*Board Meeting*

# Executive Summary

- **Estimated YTD Return:** 2.7% for DPFP Portfolio; 3.0% for Public Portfolio (ex-Cash) which makes up 75.5% of the assets.
- **Prelim 2024 Returns:** 7.8% for DPFP Portfolio; 11.7% for Public Portfolio (ex-Cash); 3- and 5-yr trailing returns of 3.5% and 6.7% respectively for Public Portfolio as of year-end 2024.
- **Private Asset Distributions in 2024:** $79.98M in distributions received in 2024, covering 79% of Net Benefit Outflows.
- **Staff focused on conducting diligence and ramping up efforts on new Private and Public Credit investments.**

# Investment Initiatives – 2025 Plan

## Q1 2025

- ~~Appointment of Private Markets Sub-Committee~~
- Private Credit Pacing Plan
- Public Equity and Public Credit Asset Class Structure Reviews

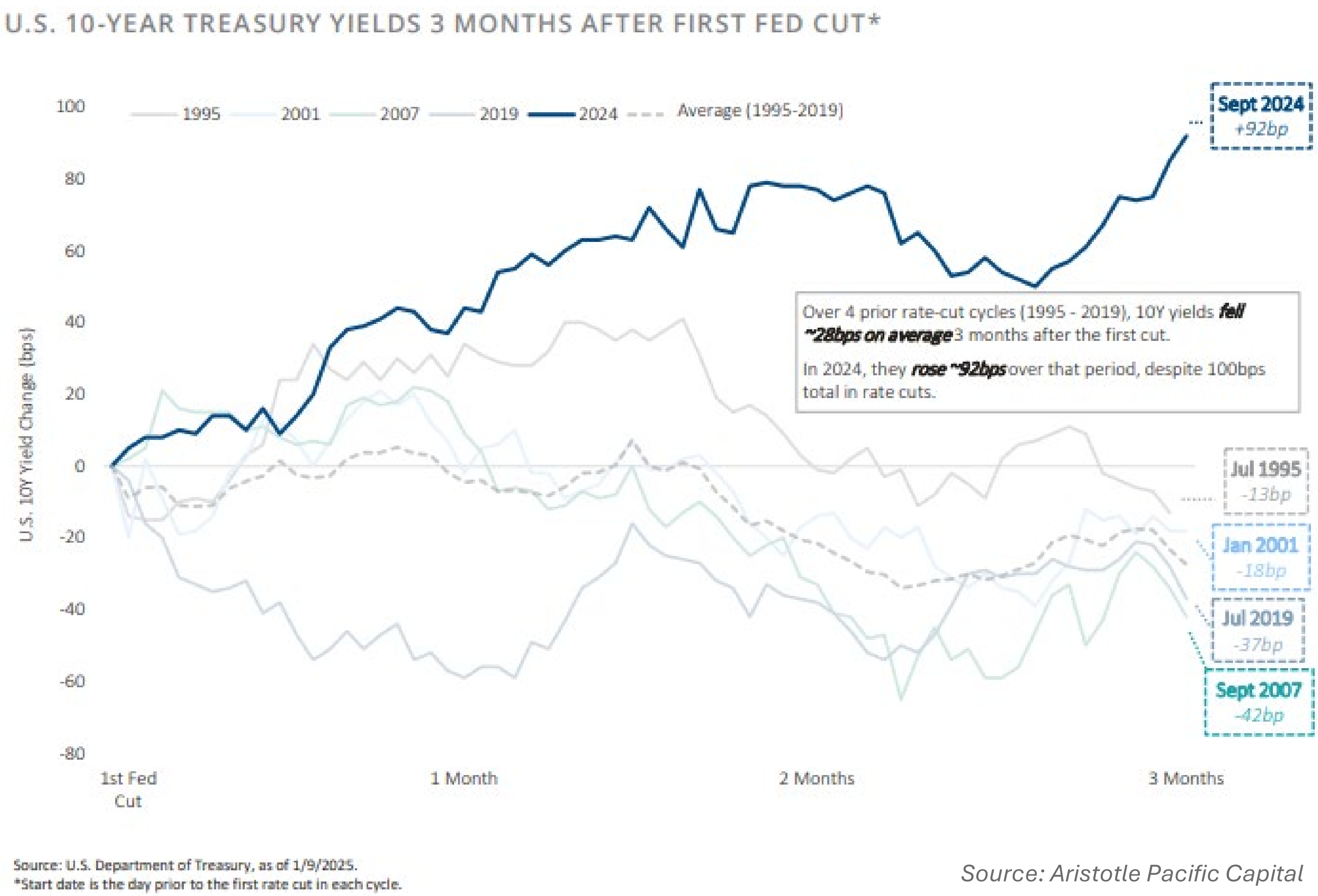
## Q2 2025

- Private Equity Pacing Plan
- Sub-Committee Review of New Private Credit Investments
- Initiate Potential Public Credit Search
- Board Approval of Initial Private Credit Commitments

## Q3 2025 & Beyond

- Initial New Private Equity Investments
- Public Credit Selection and Funding

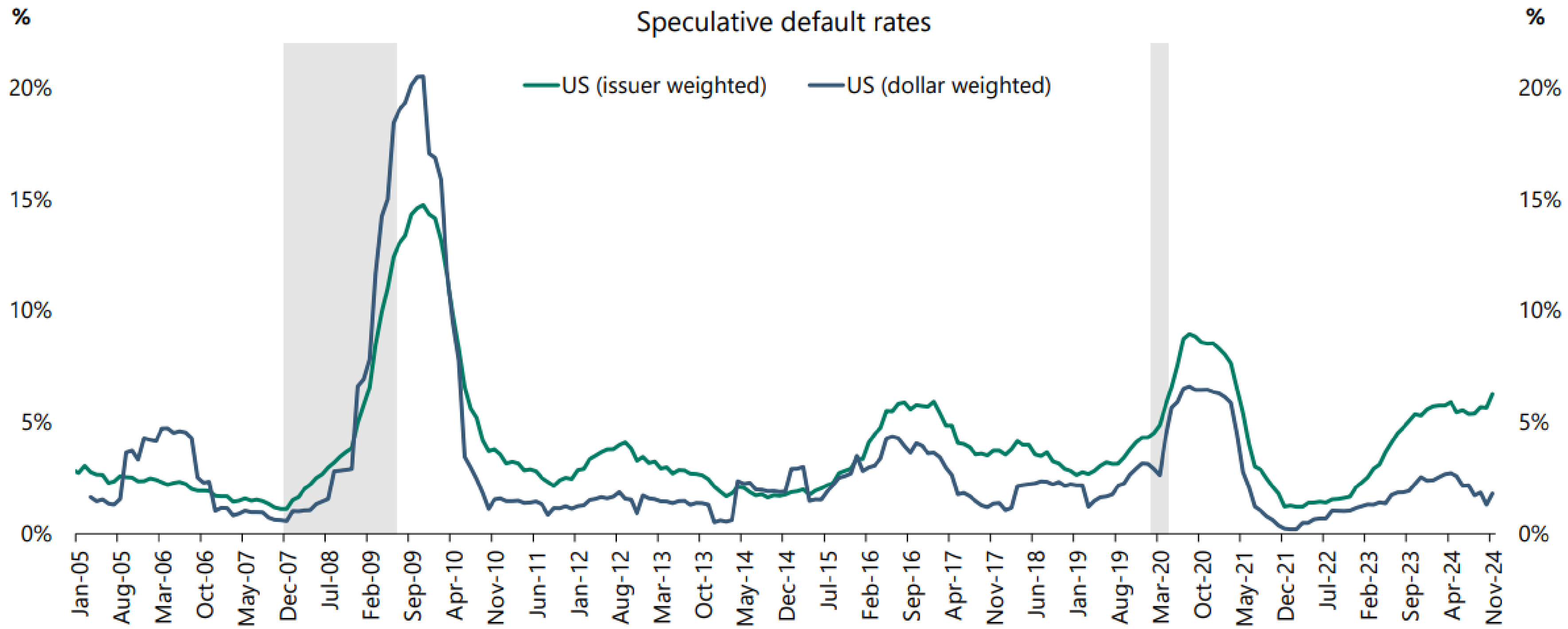
# 10-Yr Treasury Yields Have Remained Strong




*Source: Aristotle Pacific Capital*

# Smaller Companies Facing More Stress

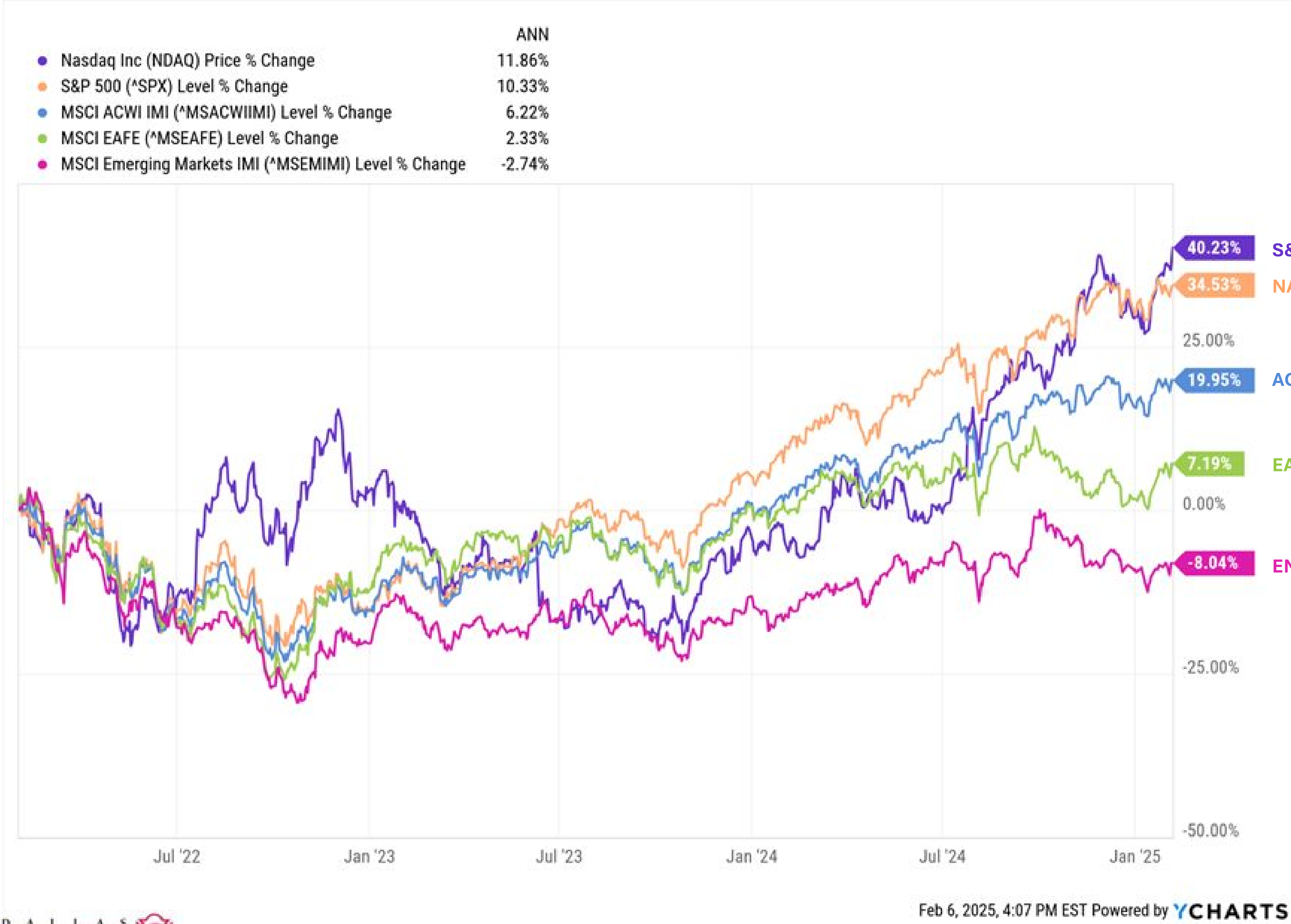
## Big difference between issuer-weighted and dollar-weighted default rates




Source: Shobhit Gupta, Moody's Analytics, Apollo Chief Economist

*Source: Apollo*

# Equity Market Returns (3 Years Ending 1/31/25)



# Public Markets Performance Snapshot

## Public Markets (ex-Cash) made up 75.5% of DPFP Investment Portfolio.

**Asset Allocation & Performance | As of January 31, 2025**

**Performance Summary**
**Ending January 31, 2025**

| | Market Value ($) | 1 Mo (%) | 1 Yr (%) | 3 Yrs (%) | 5 Yrs (%) |
|---|---|---|---|---|---|
| **Total Public Portfolio (ex-Cash)** | **1,542,712,720** | **3.0** | **15.0** | **5.8** | **7.5** |
| *60% MSCI ACWI IMI Net/40% Bloomberg Global Aggregate Index* | | *2.2* | *11.7* | *3.3* | *5.6* |
| **Public Equity** | **1,123,713,463** | **3.8** | **18.1** | **7.0** | **10.3** |
| *MSCI AC World IMI Index (Net)* | | *3.3* | *19.9* | *7.9* | *10.7* |
| **Global Equity** | **1,044,877,838** | **4.0** | **18.5** | **7.6** | **10.8** |
| *MSCI AC World IMI Index (Net)* | | *3.3* | *19.9* | *7.9* | *10.7* |
| Boston Partners Global Equity Fund | 122,706,841 | 5.2 | 13.7 | 8.3 | 11.3 |
| *MSCI World Net* | | *3.5* | *21.4* | *9.5* | *12.1* |
| Manulife Global Equity Strategy | 123,675,629 | 4.2 | 14.8 | 7.2 | 9.9 |
| *MSCI ACWI Net* | | *3.4* | *20.7* | *8.4* | *11.0* |
| Walter Scott Global Equity Fund | 126,005,538 | 3.9 | 10.5 | 6.6 | 9.7 |
| *MSCI ACWI Net* | | *3.4* | *20.7* | *8.4* | *11.0* |
| WCM Global Equity | 128,734,616 | 5.8 | 37.3 | -- | -- |
| *MSCI AC World Index Growth (Net)* | | *2.6* | *25.8* | *9.9* | *13.4* |
| NT ACWI Index IMI | 424,688,266 | 3.5 | 20.3 | 8.3 | -- |
| *MSCI AC World IMI Index (Net)* | | *3.3* | *19.9* | *7.9* | *10.7* |
| Eastern Shore US Small Cap | 64,305,293 | 3.1 | 22.4 | 3.8 | -- |
| *Russell 2000 Index* | | *2.6* | *19.1* | *5.6* | *8.7* |
| Global Alpha International Small Cap | 54,761,656 | 2.8 | 0.8 | -- | -- |
| *MSCI EAFE Small Cap (Net)* | | *3.4* | *7.1* | *0.4* | *3.6* |

*Source: Meketa*

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# Public Markets Performance Snapshot

**Asset Allocation & Performance | As of January 31, 2025**

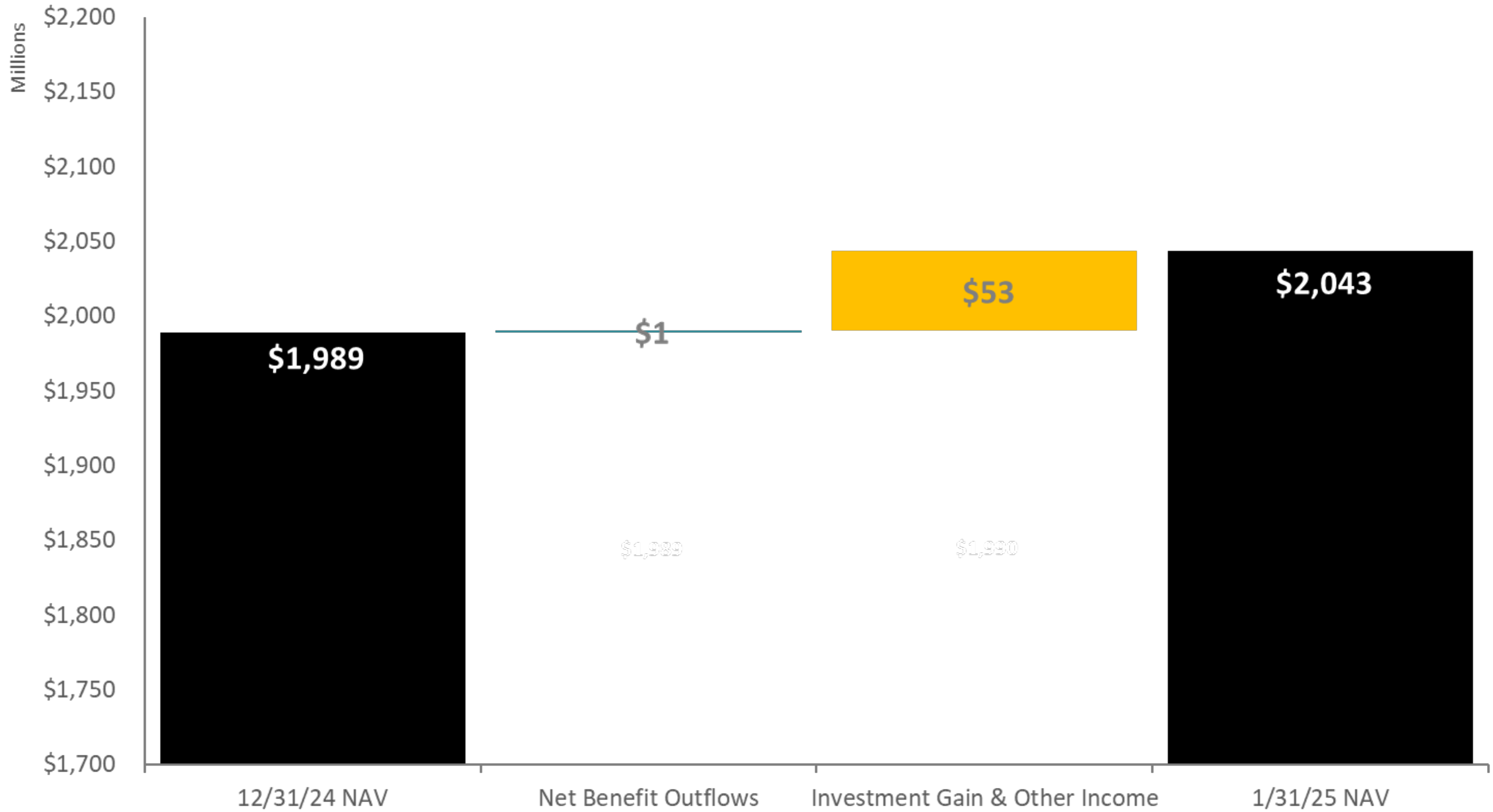
| | Market Value ($) | 1 Mo (%) | 1 Yr (%) | 3 Yrs (%) | 5 Yrs (%) |
|---|---|---|---|---|---|
| **Emerging Markets Equity** | **78,835,625** | **0.8** | **13.9** | **0.7** | **3.8** |
| *MSCI Emerging Markets IMI (Net)* | | *1.1* | *13.1* | *-0.3* | *3.7* |
| RBC Emerging Markets Equity | 78,835,625 | 0.8 | 13.9 | 0.7 | 3.8 |
| *MSCI Emerging Markets IMI (Net)* | | *1.1* | *13.1* | *-0.3* | *3.7* |
| **Public Fixed Income** | **418,999,257** | **0.9** | **6.6** | **1.5** | **1.9** |
| *Bloomberg Global Multiverse Index* | | *0.6* | *0.6* | *-3.4* | *-1.9* |
| IR&M 1-3 Year Strategy | 123,928,276 | 0.4 | 4.9 | 2.5 | 2.1 |
| *Blmbg. U.S. Aggregate 1-3 Yrs* | | *0.5* | *4.4* | *2.1* | *1.5* |
| Longfellow Core Fixed Income | 80,414,244 | 0.6 | 2.7 | -1.2 | -- |
| *Blmbg. U.S. Aggregate Index* | | *0.5* | *2.1* | *-1.5* | *-0.6* |
| Aristotle Pacific Capital Bank Loan | 84,565,610 | 0.6 | 9.1 | 7.5 | 6.1 |
| *Credit Suisse Leveraged Loan* | | *0.7* | *8.8* | *6.9* | *5.7* |
| Loomis US High Yield Fund | 69,674,690 | 1.6 | 10.9 | 3.8 | -- |
| *Blmbg. U.S. High Yield - 2% Issuer Cap* | | *1.4* | *9.7* | *4.3* | *4.5* |
| Metlife Emerging Markets Debt Blend | 60,416,437 | 1.7 | 7.2 | -- | -- |
| *35% JPMEMBI Glbl/35% JPM CEMBI Broad Div/30% JPMGBI-EM Di* | | *1.3* | *6.0* | *0.8* | *0.5* |

*Source: Meketa*

# Change in Market Value Bridge Chart - As of 1/31/2025

*In Millions*

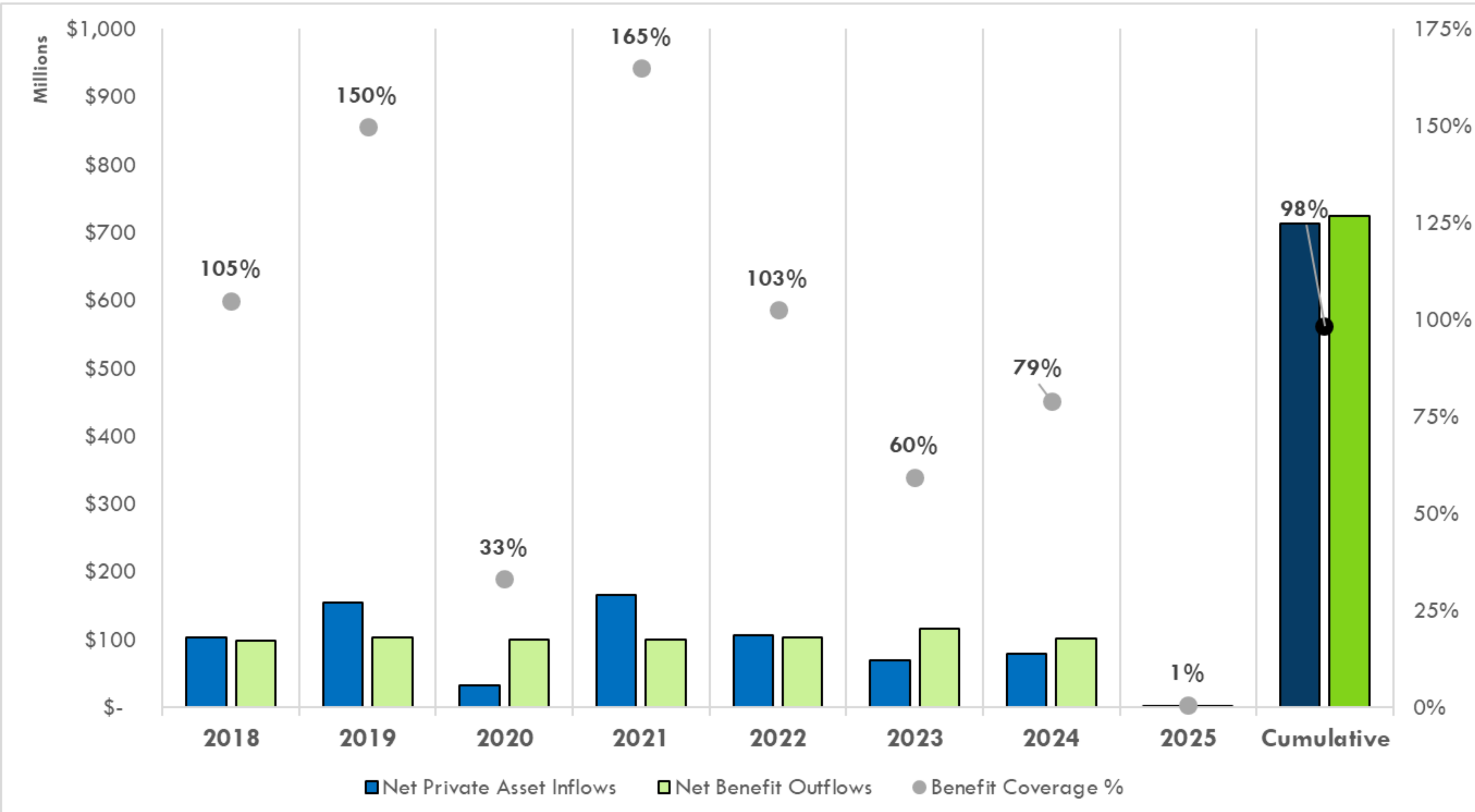
## 2025 YTD Preliminary Investment Return estimated at 2.7%



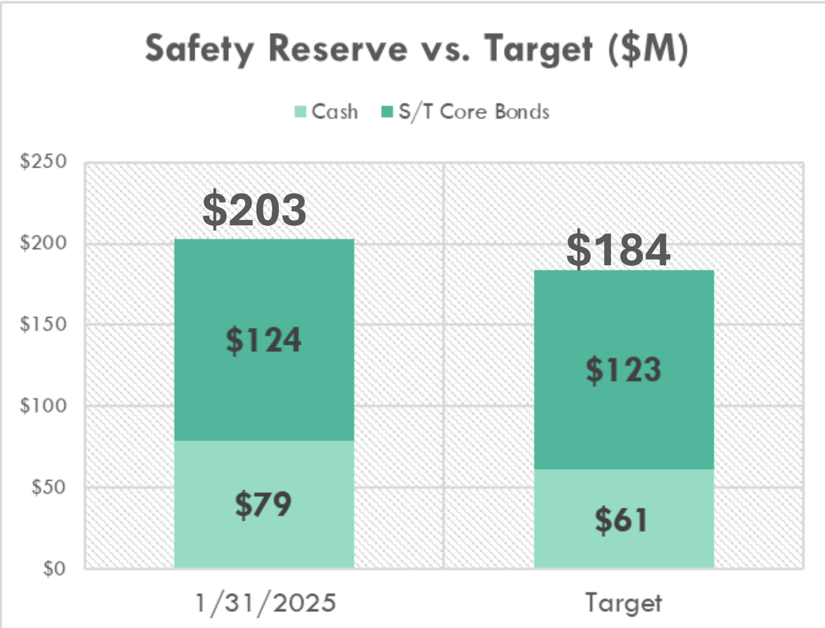

The beginning 12/31/24 value is preliminary and includes a one-quarter lag on private assets.
Numbers may not foot due to rounding.

# Benefit Outflow Coverage

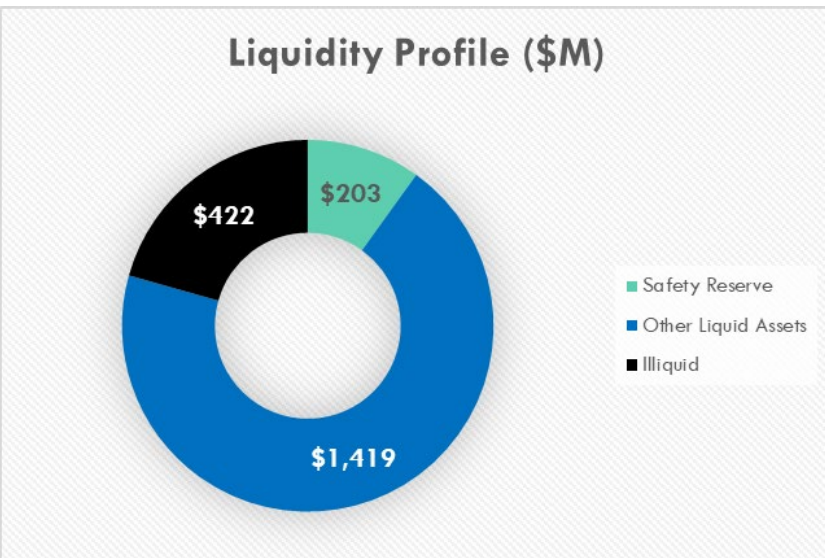
**Since 2018, net Private Asset inflows have covered 98% of net benefit outflows.**



# Safety Reserve Dashboard – As of 1/31/25




Projected Net Monthly outflows of **$6.7M** per month. Safety Reserve of **$203M** would cover net monthly outflows for next **30 months** or through **July 2027.**




| Expected Cash Activity | Date | Amount ($M) | Projected Cash Balance ($M) | Projected Cash (%) |
|---|---|---|---|---|
| | 1/31/25 | | $79.0 | 3.9% |
| City Contribution | 2/14/25 | $10.6 | $89.6 | 4.4% |
| Pension Payroll | 2/26/25 | ($28.8) | $60.8 | 3.0% |
| City Contribution | 2/28/25 | $10.6 | $71.4 | 3.5% |
| City Contribution | 3/28/25 | $10.6 | $82.0 | 4.0% |
| Pension Payroll | 3/26/25 | ($28.8) | $53.2 | 2.6% |
| City Contribution | 4/11/25 | $10.6 | $63.8 | 3.1% |
| City Contribution | 4/25/25 | $10.6 | $74.4 | 3.6% |
| Pension Payroll | 4/30/25 | ($28.8) | $45.6 | 2.2% |
| City Contribution | 5/9/25 | $10.6 | $56.2 | 2.8% |
| City Contribution | 5/23/25 | $10.6 | $66.8 | 3.3% |

*Numbers may not foot due to rounding.*

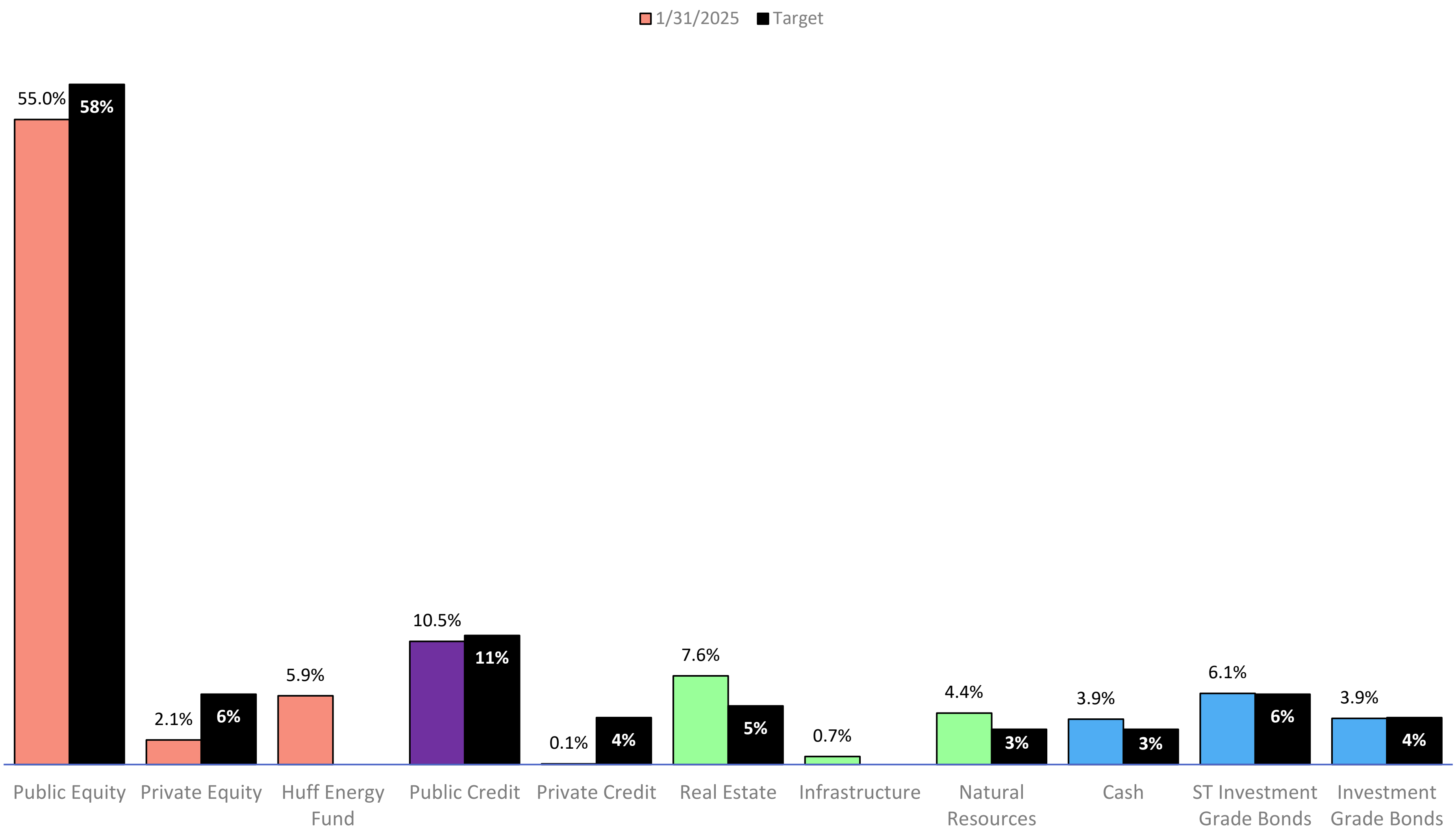
# Asset Allocation Detail

| DPFP Asset Allocation | 1/31/2025 | | Targets | | | Variance | |
|---|---|---|---|---|---|---|---|
| | NAV | % | $ mil. | % | % of Target | $ mil. | % |
| **Equity** | **1,286** | **62.9%** | **1,308** | **64%** | **98%** | **-22** | **-1.1%** |
| Public Equity | 1,124 | 55.0% | 1,185 | 58% | 95% | -61 | -3.0% |
| *Northern Trust ACWI IMI Index* | *425* | *20.8%* | *490* | *24%* | *87%* | *-66* | *-3.2%* |
| *Boston Partners* | *123* | *6.0%* | *123* | *6%* | *100%* | *0* | *0.0%* |
| *Manulife* | *124* | *6.1%* | *123* | *6%* | *101%* | *1* | *0.1%* |
| *Walter Scott* | *126* | *6.2%* | *123* | *6%* | *103%* | *3* | *0.2%* |
| *WCM* | *129* | *6.3%* | *123* | *6%* | *105%* | *6* | *0.3%* |
| *Eastern Shore US Small Cap* | *64* | *3.2%* | *61* | *3%* | *105%* | *3* | *0.2%* |
| *Global Alpha Intl Small Cap* | *55* | *2.7%* | *61* | *3%* | *89%* | *-7* | *-0.3%* |
| *RBC Emerging Markets Equity* | *79* | *3.9%* | *82* | *4%* | *96%* | *-3* | *-0.1%* |
| Private Equity | 43 | 2.1% | 123 | 6% | 35% | -80 | -3.9% |
| Huff Energy Fund | 120 | 5.9% | 0 | 0% | | 120 | 5.9% |
| **Credit** | **216** | **10.6%** | **307** | **15%** | **70%** | **-91** | **-4.4%** |
| Public Credit | 215 | 10.5% | 225 | 11% | 95% | -10 | -0.5% |
| *Aristotle Pacific Bank Loans* | *85* | *4.1%* | *82* | *4%* | *103%* | *3* | *0.1%* |
| *Loomis Sayles High Yield Bonds* | *70* | *3.4%* | *82* | *4%* | *85%* | *-12* | *-0.6%* |
| *MetLife Emerging Market Debt* | *60* | *3.0%* | *61* | *3%* | *98%* | *-1* | *0.0%* |
| Private Credit | 1 | 0.1% | 82 | 4% | *1%* | -81 | -3.9% |
| **Real Assets** | **258** | **12.6%** | **163** | **8%** | **158%** | **95** | **4.6%** |
| Real Estate | 154 | 7.6% | 102 | 5% | 151% | 52 | 2.6% |
| Natural Resources | 90 | 4.4% | 61 | 3% | 146% | 28 | 1.4% |
| Infrastructure | 14 | 0.7% | 0 | 0% | | 14 | 0.7% |
| **Fixed Income & Cash** | **283** | **13.9%** | **266** | **13%** | **107%** | **18** | **0.9%** |
| Cash | 79 | 3.9% | 61 | 3% | 129% | 18 | 0.9% |
| IR+M Short Term Bonds | 124 | 6.1% | 123 | 6% | 101% | 1 | 0.1% |
| Longfellow IG Bonds | 80 | 3.9% | 82 | 4% | 98% | -1 | -0.1% |
| **Total** | **2,043** | **100.0%** | **2,043** | **100%** | | **0** | **0.0%** |
| | | | | | | | |
| Safety Reserve | 203 | 9.9% | 184 | 9% | 110% | 19 | 0.9% |
| Private Market Assets | 422 | 20.6% | 368 | 18% | | 54 | -3.2% |

Source: Preliminary BNY Custodial Data, Staff Estimates and Calculations.

Numbers may not foot due to rounding

# Asset Allocation – Actual vs Target



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# DISCUSSION SHEET

## ITEM #C6

**Topic:** **Report on Investment Advisory Committee Meeting**

**Discussion:** The Investment Advisory Committee met on January 23, 2025. The Committee Chair and Investment Staff will comment on Committee observations and advice.

*Regular Board Meeting – Thursday, February 13, 2025*

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# DISCUSSION SHEET

## ITEM #C7

**Topic:** **Private Credit Strategic Review and Pacing Plan**

**Attendees:** Spencer Edge, Senior Portfolio Analyst - Albourne

**Discussion:** Albourne will present a strategic review and pacing plan for the Private Credit allocation, which will cover portfolio construction, benchmarking, the pacing model, and an overview of the forward calendar for various private credit strategies. Staff and Albourne reviewed the Private Credit portfolio strategy and pacing plan with the Investment Advisory Committee in January. Staff will seek the Board's approval of the proposed revision to the benchmark for the Private Credit asset class.

**Staff Recommendation:** **Approve** the amended Investment Policy Statement which changes the Private Credit benchmark.


**January 2025**

# Dallas Police & Fire Pension System: Private Credit Portfolio

www.albourne.com

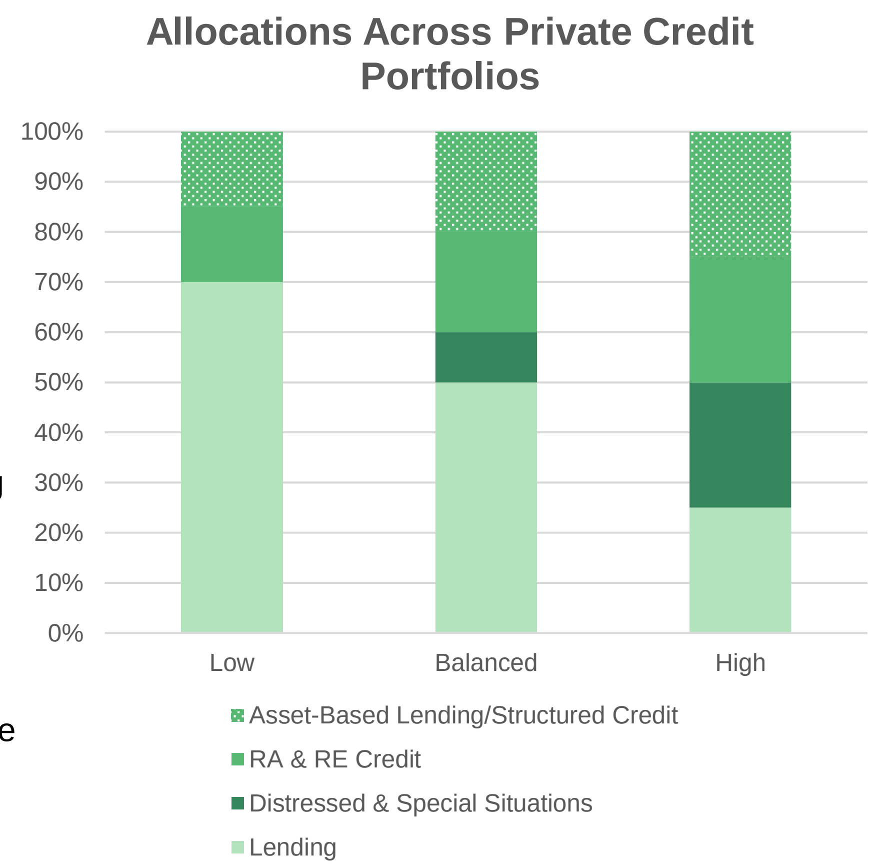
# Overview


| | |
|---|---|
| 1 | Portfolio Construction |
| 2 | Review Benchmark |
| 3 | Pacing Model |
| 4 | Albourne Recommendations |

# Example Model Private Credit Portfolio

# Example Private Credit Model Portfolios

- **Portfolio Types: full-cycle target returns**
  - Lower Risk: 6-8%
  - Balanced: 8-10%
  - Higher Risk: 10-12%
- **Private Lending**
  - Target allocation range: 25-70% (including all mandates)
  - Anchor position across all portfolio types
  - Driven by seniority and stable risk/return
- **Distressed & Special Situations**
  - Target allocation range: 0-25%
  - Relatively small allocation in Lower Risk portfolio reflecting high correlation to Lending and Equities
  - Builds in higher risk portfolio due to returns
- **Real Asset and Real Estate Credit***
  - Target allocation range: 15-25%
  - Both provide attractive risk/return and diversification, hence notable positions in lower risk portfolio
- **Asset-Based Lending/Structured Credit***
  - Target allocation range: 15%-25%
  - Large opportunity set with idiosyncratic exposures

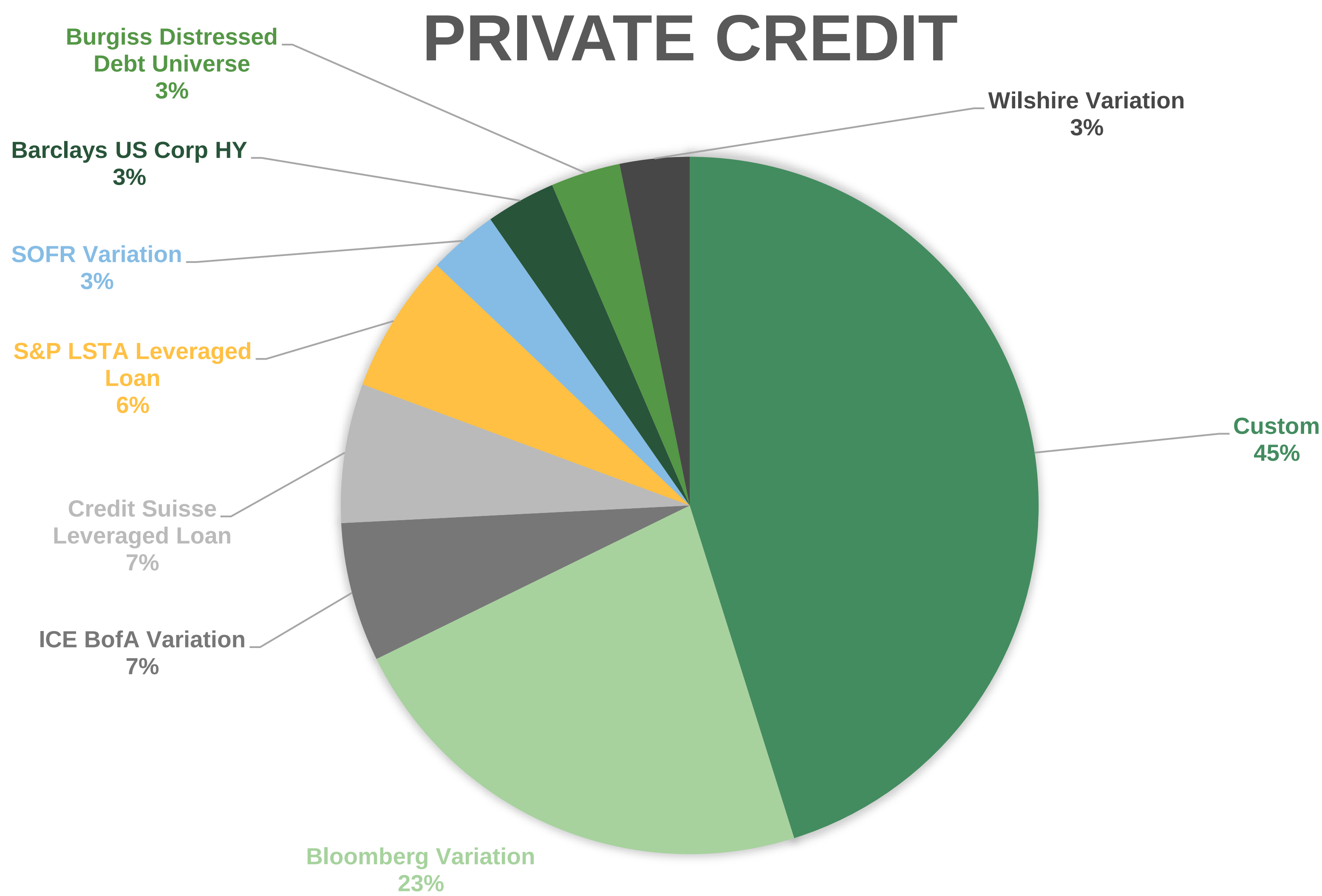



**For Cash Flow Modeling purposes, Real Asset and Real Estate Credit, and Asset-Based Lending/Structured Credit have been consolidated into Multi-Strategy Lending. See slide 10 and 11 for more details.*

*For illustrative purposes only*

# Benchmark Recommendations

# Asset Class Benchmark Sample – Public Pensions




*Sample size: 31 Portfolios*
*Identified benchmarks of Albourne Private Credit clients using publicly available sources*

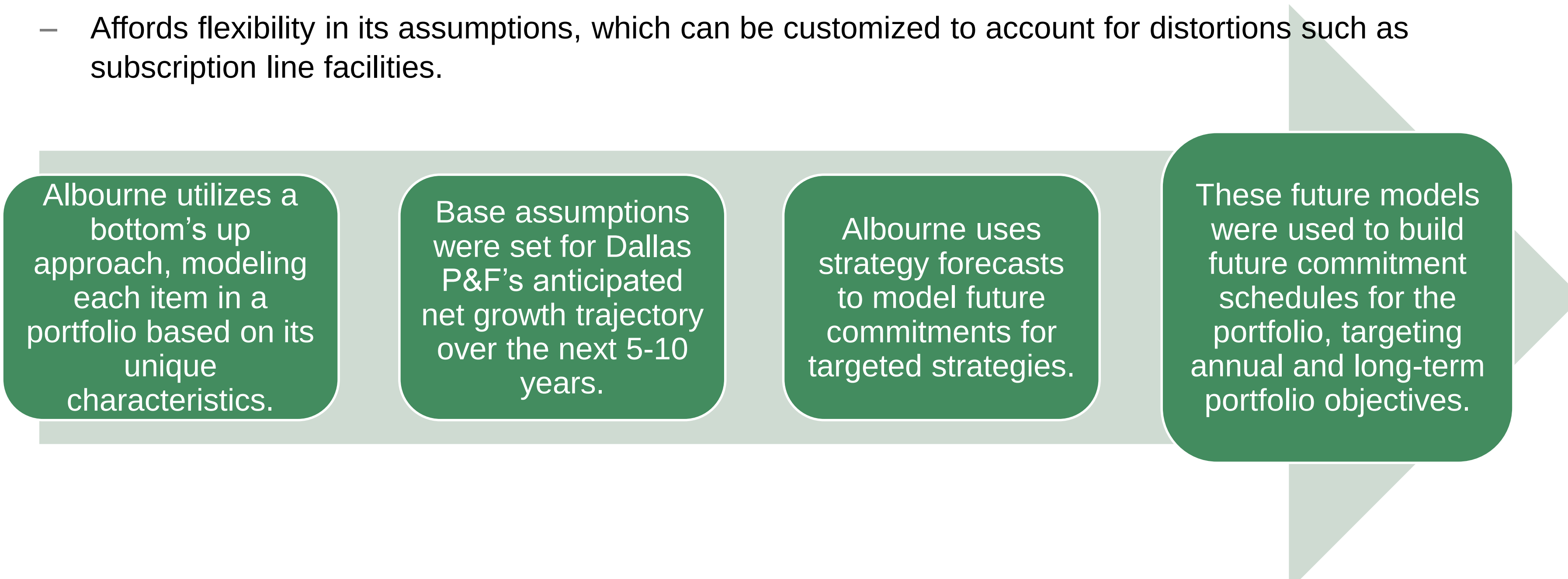
# Private Credit Custom Benchmark Examples

- 95% Bloomberg US Aggregate Custom Index + 5% Bloomberg US High Yield 2% issuer Capped Custom Index
- 50% Bloomberg US High Yield/50% Morningstar LSTA Leveraged Loan
- 40% Bloomberg US Corporate High Yield; 40% Credit Suisse Leveraged Loans; 10% JP Morgan EMBI GD; 5% JP Morgan GBI-EM GD; 5% JP Morgan CEMBI BD
- 50% BofA US High Yield II + 50% S&P/Loan Syndications & Trading Association US Leverage Loan Index
- 50% HFRX Distressed Securities Index, 20% HFRX Relative Value Index, 15% Credit Suisse Leveraged Loan Index, and 15% ICE BofA High Yield Index
- 70% ACWI IMI/30% Bloomberg US Intermediate Aggregate Index Balanced Benchmark
- 50% Credit Suisse Leveraged Loan Index/50% BofA ML US HY BB-B constrained + 150 bps
- S&P LTSA Leveraged Loan Index + 150 bps
- 60% Bloomberg US Aggregate Bond Index, 15% Bloombergs Global Aggregate Bond Index Hedged, 25% Bloomberg World Government Inflation Linked Bond Index Hedged
- 50% Morningstar LSTA Performing Loan Index + 50% Bloomberg US High Yield Ba/B 2% Issuer Cap

# Pacing Model Output

# Pacing Model Overview and Process

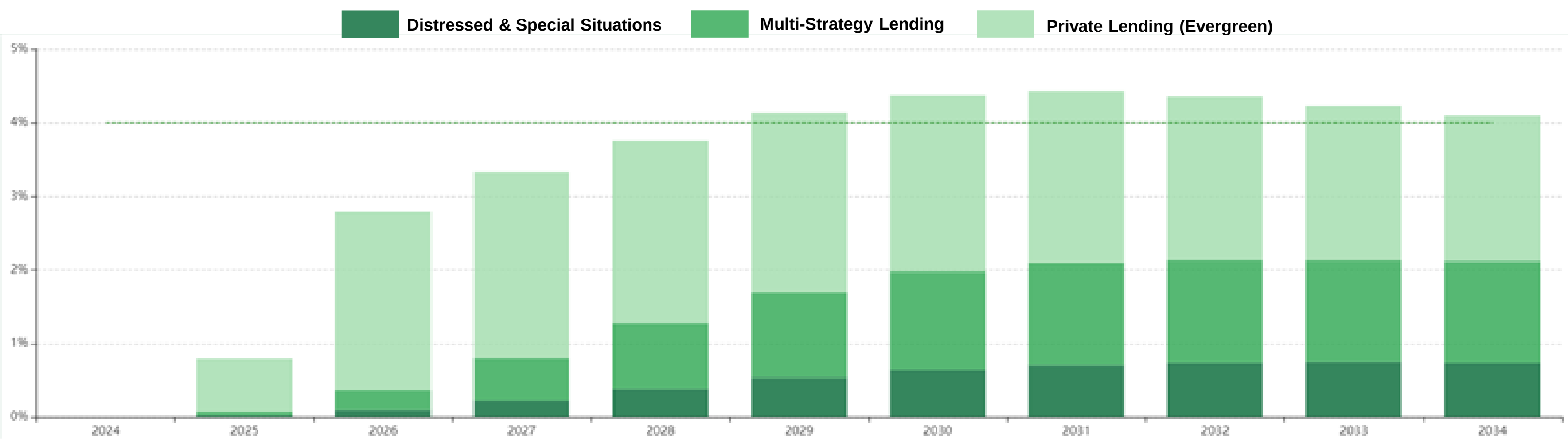
- Albourne's proprietary cash flow simulator employs a Bayesian approach, adapting to new information as it is gathered. This is in contrast with classical models (e.g. the Takahashi-Alexander model) where cash flow forecasts are calculated in advance.
- Advantages
  - Utilizes prior knowledge of a strategy's cash flow profile.
  - Considers and adapts to the economic environment.
  - Affords flexibility in its assumptions, which can be customized to account for distortions such as subscription line facilities.



# 3.85% Growth with Anchor Evergreen Fund

| Assumptions | |
|---|---|
| Current AUM | $2bn |
| Growth Rate | 3.85% |

## Average NAV by Strategy




| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **NAV as % of Total Portfolio** | | | | | | | | | | | |
| **Target** | 0.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% |
| **Model** | 0.0% | 1.4% | 3.1% | 3.5% | 3.9% | 4.3% | 4.4% | 4.4% | 4.3% | 4.2% | 4.1% |
| **Model (mn)** | $0 | $29 | $67 | $79 | $92 | $104 | $112 | $116 | $118 | $119 | $119 |
| **Future Commitment Schedule (mn)** | | | | | | | | | | | |
| **Distressed & Special Situations** | | $5 | $5 | $5 | $5 | | $5 | | $5 | | $5 |
| **Multi-Strategy Lending*** | | $15 | $10 | $10 | $5 | $5 | | $5 | $5 | $10 | $5 |
| **Private Lending (Evergreen)** | | $30 | $25 | | | | | | | | |
| **Commitments** | **$0** | **$50** | **$40** | **$15** | **$10** | **$5** | **$5** | **$5** | **$10** | **$10** | **$10** |

**Multi Strategy Lending includes Real Asset and Real Estate Credit, and Asset-Based Lending/Structured Credit*
*For illustrative purposes only*

# 3.85% Growth with only Closed-End Funds

| Assumptions | |
|---|---|
| Current AUM | $2bn |
| Growth Rate | 3.85% |

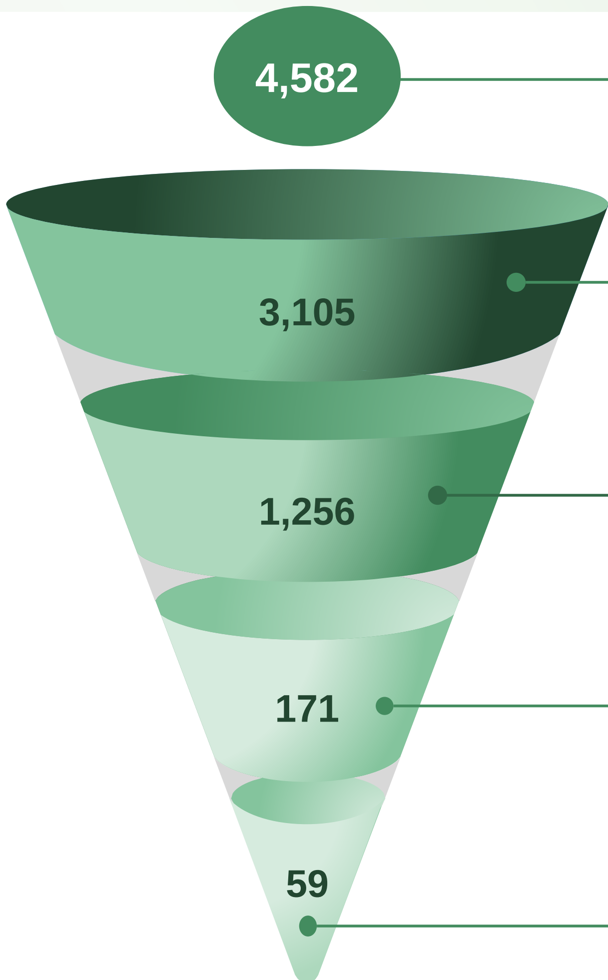
## Average NAV by Strategy


| | 2024 | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | 2032 | 2033 | 2034 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **NAV as % of Total Portfolio** | | | | | | | | | | | |
| **Target** | 0.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% | 4.0% |
| **Model** | 0.0% | 0.6% | 1.8% | 3.0% | 3.7% | 4.2% | 4.5% | 4.5% | 4.4% | 4.2% | 4.1% |
| **Model (mn)** | $0 | $11 | $36 | $59 | $75 | $84 | $89 | $90 | $88 | $85 | $82 |
| **Future Commitment Schedule (mn)** | | | | | | | | | | | |
| **Distressed & Special Situations** | | | $5 | $5 | $5 | | $5 | | | $5 | |
| **Multi-Strategy Lending*** | | $15 | $10 | $5 | $5 | $5 | | $5 | | | |
| **Private Lending** | | $25 | $20 | $15 | $10 | $10 | $10 | $10 | $10 | $10 | $10 |
| **Commitments** | **$0** | **$40** | **$35** | **$25** | **$20** | **$15** | **$15** | **$15** | **$10** | **$15** | **$10** |

**Multi Strategy Lending includes Real Asset and Real Estate Credit, and Asset-Based Lending Structured Credit*

*For illustrative purposes only*

# Private Credit Coverage




**1. All Private Markets Funds**
All Private Markets (Private Credit, LBO / Growth, Venture Capital, Real Estate, Real Assets, Multi-Asset and Secondaries) funds in Albourne's database.

**2. Funds that Albourne tracks**
Funds in 1 above, for which Albourne has current target fund size / strategy / Form ADV data.

**3. Funds reviewed by Albourne**
Funds in 2 above, where Albourne has logged a call or meeting with a manager* or rated the next or current fund of the manager.

**4. Currently rated A or B**
Funds in 3 above, which have a fundraising status of open or prospective and have a rating of A or B.

**5. Albourne Top Picks and Aspiring Top Picks****
Funds in 4 above, which are recommended to clients and are rated A or B with a Conviction level of 4 or 5 during the fundraising period.

*May include calls or meetings logged by non-Private Market Fund Analysts and non-Analysts
**Funds in 3 above, which are recommended to clients but have not met the criteria to be considered Top Picks.
As at 21 June 2024

# Albourne Recommendations

# Albourne Recommendations

- **Portfolio Construction:**
  - Albourne recommends that Dallas P&F construct its Private Credit portfolio along the lines of the Balanced Portfolio highlighted on slide 4:
  - The portfolio would be constructed to target long-term expected returns that exceed the assumed rate of return the Plan.
  - The portfolio would initially be skewed towards Senior Secured Direct Lending with a relatively conservative risk/return profile: target 50% +/- 20%
  - Real Asset and Real Estate Credit and Asset-Based Lending/Structured Credit strategies would also become key components of the portfolio, all with attractive risk-return and diversifying attributes: target 20% +/- 10% (for both categories)
  - The portfolio would retain the flexibility to opportunistically invest in higher risk-return strategies such as Distressed and Special Situations: target 10% +/- 10%.
- **Portfolio Benchmark:**
  - As our Client Survey results display, there is no one consensus benchmark employed by your pension peers.
  - Custom benchmarks are frequently utilized and often include a blended combination of High Yield and Leveraged Loan indices, with and without a spread.
  - Based on feedback from your IAC and given the portfolio's targeted composition, Albourne recommends a spread of 100bps over the blended HY/LL index.
- **Portfolio Pacing:**
  - Our CF Modeling highlights two paths towards achieving the desired 4% target weight over the next 4-5 years.
  - The scenario combining an Evergreen Fund with Closed-End funds has the benefit of enabling the Plan to get more quickly invested in the Private Credit space, while providing vintage diversification and J-curve mitigation.
  - If Staff, with Albourne due diligence support, can identify a well-structured and operationally sound Evergreen structure in the Direct Lending space, it would make sense to "anchor" the PC portfolio to this commitment.
  - Staff should retain the flexibility to invest in best-in-class managers/funds in other strategies based on fundraising timelines and available capacity, while maintaining discipline around deployment to achieve target NAV.

# Questions

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DALLAS POLICE & FIRE PENSION SYSTEM

# PRIVATE CREDIT STRATEGIC & PACING PLAN

**Board Review Date**: February 13, 2025

## Philosophy:

The DPFP Private Credit portfolio will be designed to target high single-digit returns net of fees, with a focus on maintaining modest risk. A balanced strategy will be adopted, initially emphasizing senior secured direct lending, which offers a relatively conservative risk/return profile. Additionally, portions of the portfolio will be allocated to real asset/real estate credit, asset-based lending and structured credit, which provide attractive risk-return characteristics and diversification benefits. The portfolio will also opportunistically pursue distressed or special situations investment opportunities. Geographically, while the portfolio will primarily focus on opportunities within the US, we may selectively invest in international opportunities as well.

## Proposed Strategic Plan Targets & Ranges:

DPFP intends to construct its Private Credit portfolio with the following strategies and target ranges. These allocations represent longer term strategic ranges that will be met over a multi-year period. Allocations in individual years may vary depending on the opportunity set.

| Strategy Weights | | | |
|---|---|---|---|
| **Strategy** | **Target** | **Min** | **Max** |
| Senior Secured Direct Lending | 50% | 30% | 70% |
| Real Asset/Real Estate Credit | 20% | 10% | 30% |
| Asset-Based Lending/Structured Credit | 20% | 10% | 30% |
| Distressed & Special Situations | 10% | 0% | 20% |

## Pacing Plan:

The following commitment schedule provides a recommended annual commitment amount to meet DPFP's Private Credit 4% target allocation over a period of four to five years in order to provide vintage year diversification to the portfolio. Vintage commitments shown may be made to one or more investment managers. A pacing study will be conducted annually to project cash flows and future commitment schedule.

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| Future Commitment Schedule (millions) | | | | | |
|---|---|---|---|---|---|
| ***Year*** | **2025** | **2026** | **2027** | **2028** | **2029** |
| ***Strategy*** | | | | | |
| Distressed & Special Situations | $5 | $5 | $5 | $5 | |
| Multi-Strategy Lending (Real Asset/Real Estate Credit, Asset-Based Lending/Structured Credit) | $15 | $10 | $10 | $5 | $5 |
| ***Direct Lending*** | $30 | $25 | | | |
| ***Commitments*** | **$50** | **$40** | **$15** | **$10** | **$5** |

**Benchmark:**

A custom benchmark consisting of 50% Bloomberg US High Yield index and 50% Credit Suisse Leveraged Loans index, plus a spread of 100 bps, on a one quarter lag basis is chosen to represent the target return for the Private Credit portfolio. This benchmark selection also reflects the belief that private credit should earn a spread over the public market given its illiquidity and complexity premiums.

## Appendix B – Strategic Asset Allocation and Rebalancing Ranges

| Asset Class | Policy Benchmark | Target Weight | Minimum Weight | Maximum Weight |
|---|---|---|---|---|
| **Equity** | | **64%** | | |
| Public Equity | MSCI ACWI IMI Net | 58% | 50% | 66% |
| Private Equity | MSCI ACWI IMI Net + 2% 1Q lag | 6% | N/A[1] | N/A[1] |
| Huff Energy | Actual Return of Fund[2] | 0% | N/A[1] | N/A[1] |
| **Credit** | | **15%** | | |
| Public Credit | 35% Bloomberg US HY Index, 35% Credit Suisse Leveraged Loans, 30% Blended EMD Benchmark[3] | 11% | 7% | 15% |
| Private Credit | 50% Bloomberg US HY / 50% Credit Suisse Leveraged Loans + 1~~.50~~% 1Q Lag | 4% | N/A[1] | N/A[1] |
| **Real Assets** | | **8%** | | |
| Real Estate | NCREIF Property Index 1Q Lag | 5% | N/A[1] | N/A[1] |
| Natural Resources | NCREIF Farmland TR Index 1Q Lag | 5% | N/A[1] | N/A[1] |
| Infrastructure | S&P Global Infrastructure[2] | 0% | N/A[1] | N/A[1] |
| **Fixed Income & Cash** | | **13%** | | |
| Cash | 91 Day T-Bills | 3% | 0% | 6% |
| Short Term Investment Grade Bonds | Bloomberg Barclays 1-3 Year U.S. Aggregate TR | 6% | 0% | 9% |
| Investment Grade Bonds | Bloomberg Barclays U.S. Aggregate TR | 4% | 2% | 6% |
| **Total** | | **100%** | | |

1 - Rebalancing Ranges are not established for illiquid asset classes.
2 – Huff Energy and Infrastructure benchmarks are for purposes of the Allocation Index and are not included in the Policy Index.
3 - Emerging Markets Debt benchmark consists of 35% JPMEMBI Global / 35% JPM CEMBI Broad Diversified / 30% JPM GBI-EM.

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# DISCUSSION SHEET

## ITEM #C8

**Topic:** **Public Equity Structure**

**Attendees:** Leandro Festino, Managing Principal - Meketa Investment Group
Colin Kowalski, VP, Senior Investment Analyst - Meketa Investment Group

**Discussion:** Meketa will review the structure of DPFP's Public Equity allocation. The Investment Policy Statement (IPS) requires Asset Class Structure Reviews for any asset class with multiple managers. The purpose of the structure review is to establish the investment manager's roles and allocations that will be used to implement the asset allocation. Staff and Meketa reviewed the structure with the Investment Advisory Committee in January. Staff will seek the Board's approval of the proposed Public Equity Structure.

**Staff Recommendation:** **Approve** the Public Equity Asset Class Structure.

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# ASSET CLASS STRUCTURE: PUBLIC EQUITY

**Board Approval Date**: TBD

**Philosophy:**

The Public Equity Asset Class Structure seeks to balance active management's ability to generate alpha while reducing risks tied to individual manager performance. A larger allocation to passive indexing reduces costs and increases stability.

The utilization of domestic and international small-cap managers, as well as an emerging market equity manager, is intended to maintain regional, sector, and market cap neutrality relative to the MSCI ACWI IMI benchmark. However, active managers may choose to underweight certain regions or sectors to express their view.

**Asset Class Construction:**

DPFP Public Equities will follow the structure below. In the event of an extreme situation that requires the prompt termination of an active manager within any of the mandates below, it is expected that a transition manager will be utilized to maintain the intended exposure.

| Mandate | % of Public Equity | % of Total Fund | Minimum | Maximum |
|---|---|---|---|---|
| Active Global Equity Manager 1 | 10.3% | 6% | 4% | 8% |
| Active Global Equity Manager 2 | 10.3% | 6% | 4% | 8% |
| Active Global Equity Manager 3 | 10.3% | 6% | 4% | 8% |
| Active Global Equity Manager 4 | 10.3% | 6% | 4% | 8% |
| Passive ACWI IMI Fund | 41.4% | 24% | 16% | 30% |
| Domestic Small Cap Manager | 5.2% | 3% | 1% | 5% |
| Intl. Small Cap Manager | 5.2% | 3% | 1% | 5% |
| EM Equity Manager | 7.0% | 4% | 2% | 6% |
| **Total Public Equity** | **100%** | **58%** | | |

**Implementation:**

As DPFP currently maintains a structural underweight in Public Equities relative to its target, due to an overweight position in legacy private markets, this underweight is expected to be reflected in the Passive ACWI IMI allocation until the Public Equity asset class reaches the 58% Asset Allocation target.

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## February 13, 2025

## Public Equity Structure Review

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## History

- **July 2017** – The structure with four active global equity managers was implemented.
- **August 2018 -** When Meketa started working with DPFP, we evaluated the global equity program as part of our Initial Fund Review.
- **February 2019** – Meketa conducted a comprehensive global equity program review. It was noted that an underweight to small cap equities and US existed relative to the MSCI ACWI IMI index.
- **October 2020** – The Board agreed to equal weight the four global equity managers after Meketa conducted a risk weighted study with the IAC and Staff, and determined the complexities of managing a risk weighted program did not provide an added benefit.
- **October 2020 –** The Board approved two managers searches (US equity small cap and international small cap equity) due to the underweight to small cap.
- **March 2021 -** A global equity index was funded to complement the four active global equity managers.
- **July 2021 –** The Board approved the hiring of Eastern Shore US small cap equity.
- **January 2022 –** The Board approved the hiring of Global Alpha Non-US small cap equity.
- **March 2023** – The Board approved terminating Invesco and approved a replacement search, hiring Russell Investments as a transition manager until the search is completed.
- **July 2023 –** The Board approved an updated public equity structure that decreased the Active Global Equity manager targets from 8% to 6%, decreased the Small Cap Equity manager targets from 4% to 3% and increased the Passive Global Equity target from 15% to 25%.
- **October 2023** – The Board approved the hiring of WCM Global Quality Growth.
- **October 2024** – The Board approved a new asset allocation policy which combined the public equity allocation into a single target of 58%.

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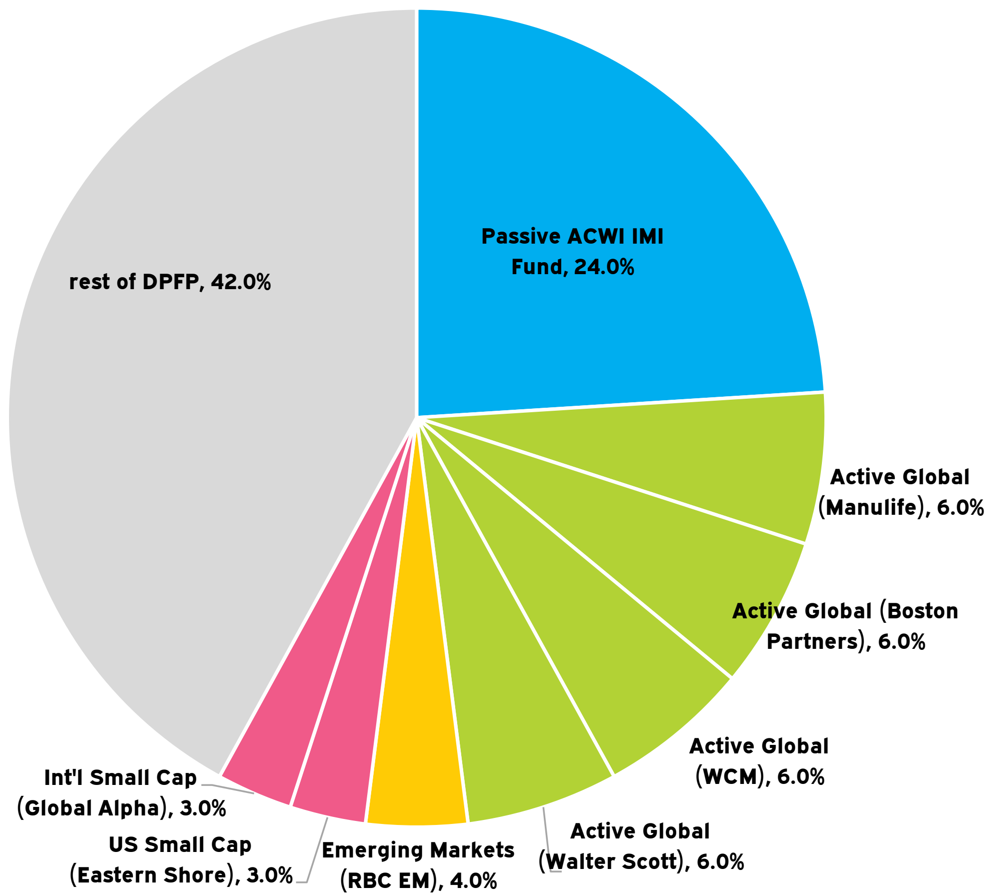
**Dallas Police & Fire Pension System**

**Public Equity Structure Review**

## Proposed Public Equity Targets



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**Public Equity Structure Review**

## Details

| Mandate | % of Public Equity (%) | % of Total Fund (%) | Minimum | Maximum |
|---|---|---|---|---|
| Active Global Equity Manager 1 | 10 | 6 | 4 | 8 |
| Active Global Equity Manager 2 | 10 | 6 | 4 | 8 |
| Active Global Equity Manager 3 | 10 | 6 | 4 | 8 |
| Active Global Equity Manager 4 | 10 | 6 | 4 | 8 |
| Passive ACWI IMI Fund | 41 | 24 | 16 | 30 |
| Domestic Small Cap Manager | 5 | 3 | 1 | 5 |
| International Small Cap Manager | 5 | 3 | 1 | 5 |
| Emerging Market Equity Manager | 7 | 4 | 2 | 6 |
| **Total Public Equity** | **100** | **58** | | |

→ DPFP uses concentrated active global equity managers.

→ We like this approach but want to be mindful of the effect it can have on total equity returns when one manager significantly underperforms. Placing a 6% target on each strategy maintains the ability for each strategy to be impactful while limiting manager specific risk.

→ The allocation to the NT MSCI ACWI IMI Index provides a low-cost core exposure to global equity markets.

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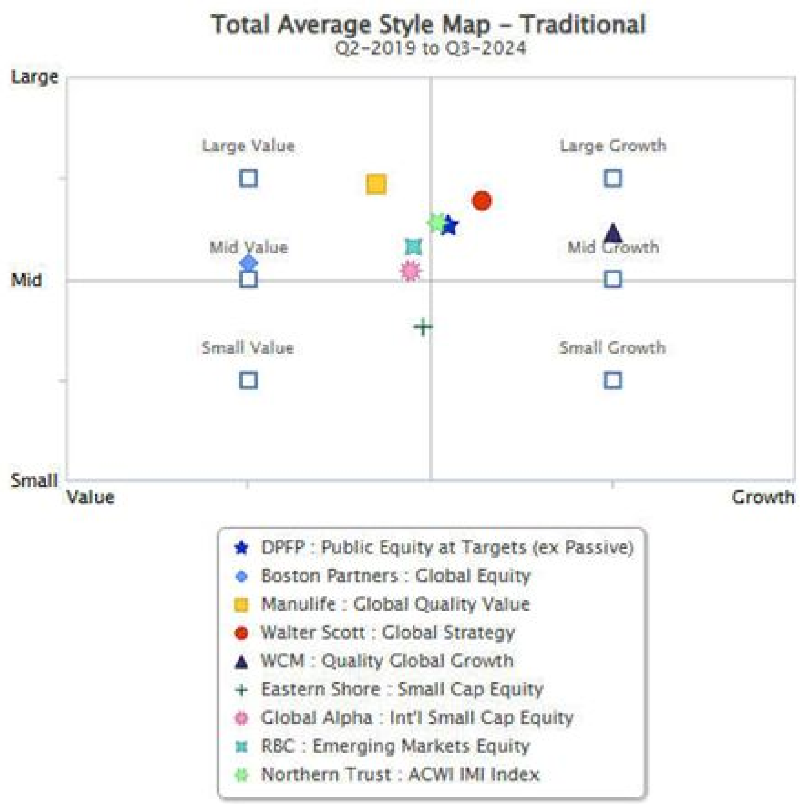
**Public Equity Structure Review**

## Returns Based Style Tilts vs. MSCI ACWI IMI (5-Year)




→ At full proposed weights, we expect the portfolio should have a core stance. Note this is based on historical returns-based analysis, if DPFP's public equity was at the full proposed weights (excluding the NT ACWI IMI passive index) over the observation period.

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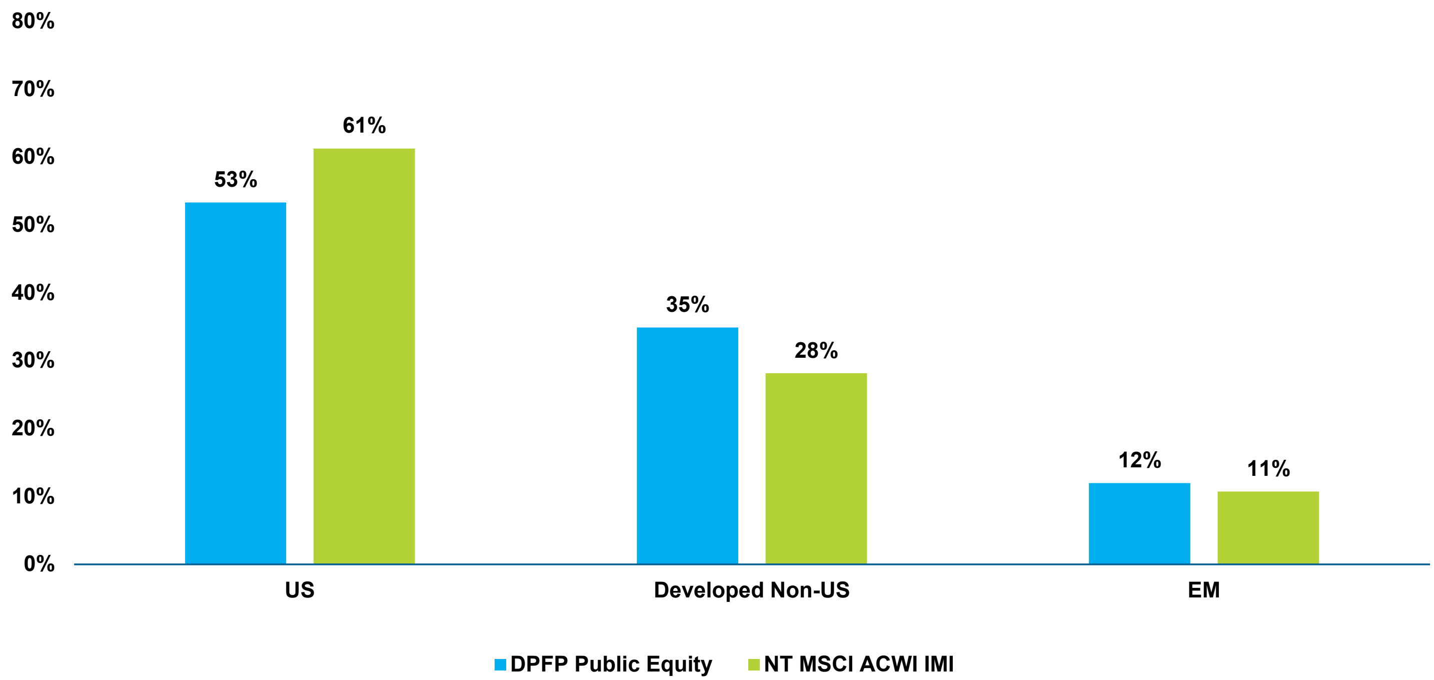
## Expected Regional Exposure at Full Weights[1]




→ DPFP public equity at full targets exhibits an overweight to Developed Non-US equity with subsequent underweight to US equity.

→ Regional allocation decisions are left up to the individual manager's discretion.

[1] DPFP public equity aggregate shows the expected regional allocations at full weights based on the regional allocations of each manager at September 30, 2024.

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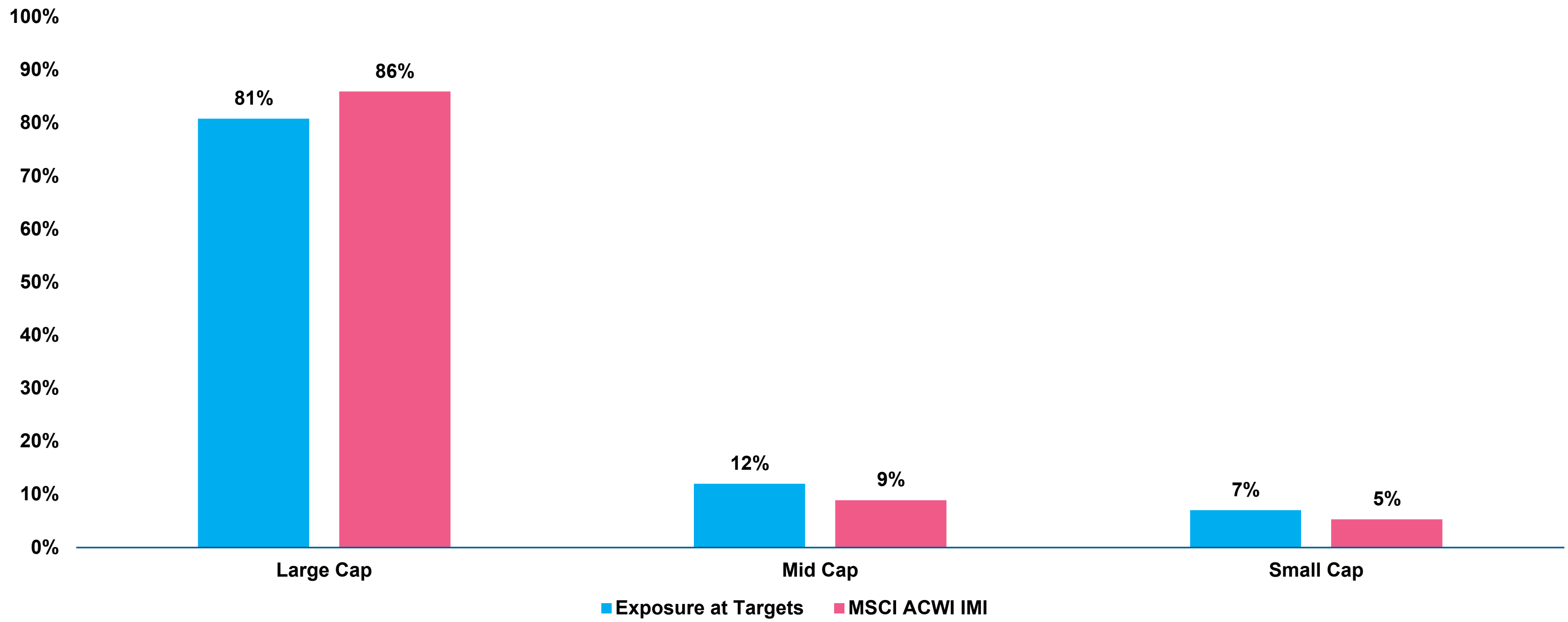
Public Equity Structure Review

## Expected Market Cap Exposure at Full Weights[1]




→ At the full proposed weights, DPFP should have market cap exposure very similar to the MSCI ACWI IMI index, with a small overweight to small cap, driven by the two active small cap strategies.

[1] Exposure at Targets shows the expected regional allocations at full weights based on the regional allocations of each manager at September 30, 2024.

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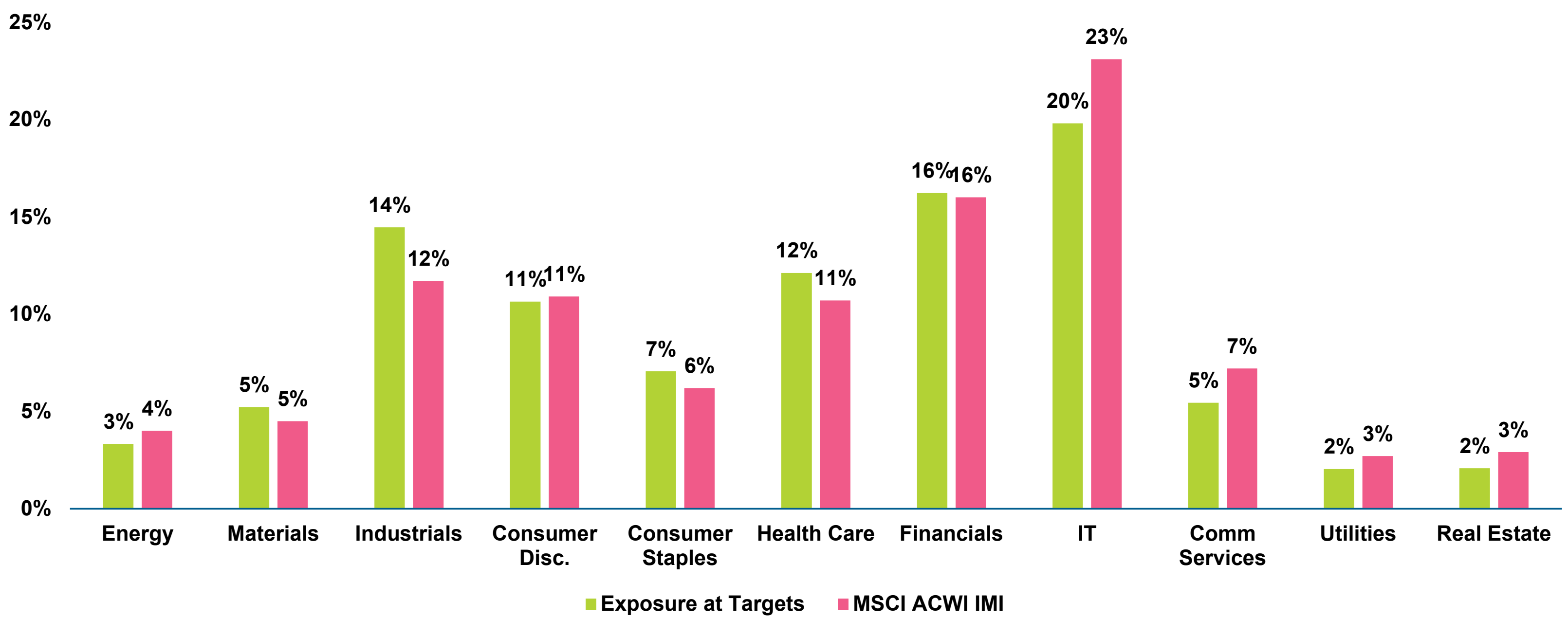
## Sector Exposure at Full Weights[1]




→ Based on current manager holdings, we do not expect any material sector tilts relative to the benchmark.

[1] Exposure at Targets shows the expected regional allocations at full weights based on the regional allocations of each manager at September 30, 2024.

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## Benchmark Review

| Manager | Primary Benchmark | Secondary Benchmark |
|---|---|---|
| Boston Partners | MSCI World Net | MSCI World Value |
| Manulife | MSCI ACWI Net | MSCI ACWI Value |
| WCM | MSCI ACWI Growth Net | MSCI ACWI Net |
| Walter Scott | MSCI ACWI Net | MSCI ACWI Growth |
| Global Alpha Intl. Small Cap | MSCI EAFE Small Cap | n/a |
| Eastern Shore Small Cap | Russell 2000 | n/a |
| RBC EM | MSCI Emerging Markets IMI Net | n/a |

→ Benchmarks remain appropriate for the equity managers.

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**Public Equity Structure Review**

## Risk and Return Analysis[1]

### Performance as of September 30, 2024

| | 1-Yr (%) | 3-Yr (%) | 5-Yr (%) | 10-Yr (%) |
|---|---|---|---|---|
| Public Equity Actual (net) | 29.0 | 6.7 | 11.4 | 9.8 |
| Public Equity at Targets[2] (net) | 29.3 | 6.6 | 11.3 | 9.6 |
| *MSCI ACWI IMI* | *31.0* | *7.4* | *11.9* | *9.2* |

### Risk Statistics as of September 30, 2024[3]

| | 5-Yr Standard Deviation (%) | 5-Yr Upside Capture (%) | 5-Yr Downside Capture (%) | 10-Yr Standard Deviation (%) | 10-Yr Upside Capture (%) | 10-Yr Downside Capture (%) |
|---|---|---|---|---|---|---|
| Public Equity Actual (net) | 17.2 | 98.2 | 99.4 | 14.7 | 101.0 | 98.7 |
| Public Equity at Targets[2] (net) | 17.3 | 97.2 | 97.8 | 14.6 | 99.5 | 95.6 |
| *MSCI ACWI IMI* | *17.5* | *100.0* | *100.0* | *14.9* | *100.0* | *100.0* |

→ DPFP's Public Equity has outperformed the MSCI ACWI IMI over the long-term (trailing 10-years) while displaying less volatility.

[1] Returns are net of estimated fees based on the underlying managers' fee schedules.
[2] Risk and return statistics for the hypothetical portfolios was sourced from eVestment Composite data. Models the current manager roster at full target weights over the full period, rebalanced semi-annually to targets. Net of estimated manager fees.
[3] Risk statistics are relative to the MSCI ACWI IMI Index Net.

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**Public Equity Structure Review**

## Summary

- It is possible to keep the total equity exposure in a quasi-neutral stance (regional, market cap, style tilts) relative to the opportunity set (as measured by the MSCI ACWI IMI Index) while still have the ability to achieve excess return with a combination of active strategies and passive core.
- The weighting structure helps mitigate individual idiosyncratic manager risk.
- A core baseline allocation to passive index reduces costs and increases stability.
- These are projections only and the ultimate look-through details (regional and market cap) at full weights will likely be different than modeled, as the active managers make adjustments to their portfolios in the months/years to come.
- The asset allocation policy adopted on January 1st, 2025 combines public equity into a single target of 58%. This adds flexibility to the mandate while maintaining the allocation's growth role and significant sizing. Compared to the previous targets, the new asset allocation policy marginally reduces the implied targets to emerging markets equity and the passive index.
- Meketa is supportive of the current public equity structure.

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**Public Equity Structure Review**

## Appendix

### Total China Exposure

| 9/30/24 | (%) |
|---|---|
| Total Public Equity | 2.4 |
| *MSCI ACWI IMI* | *2.4* |

### Managers with China Exposure

| 9/30/24 | (%) |
|---|---|
| NT ACWI IMI | 2.4 |
| RBC EM | 19.4 |

→ Total direct exposure to China for DPFP’s public equity is 2.4%, in line with the MSCI ACWI benchmark. Only the NT ACWI IMI Index and RBC Emerging Markets Fund have direct investments.

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# DISCUSSION SHEET

## ITEM #C9

**Topic:** **Public Credit Structure**

**Attendees:** Leandro Festino, Managing Principal - Meketa Investment Group
Colin Kowalski, VP, Senior Investment Analyst - Meketa Investment Group

**Discussion:** Meketa will review the structure of DPFP's Public Credit allocation. The Investment Policy Statement (IPS) requires Asset Class Structure Reviews for any asset class with multiple managers. The purpose of the structure review is to establish the investment manager roles and allocations that will be used to implement the asset allocation. Staff and Meketa reviewed the structure with the Investment Advisory Committee in January. Staff will seek the Board's approval of the proposed Public Credit Structure.

**Staff Recommendation:** **Approve** the Public Credit Asset Class Structure.

*Regular Board Meeting – Thursday, February 13, 2025*

DALLAS POLICE & FIRE PENSION SYSTEM

# ASSET CLASS STRUCTURE: PUBLIC CREDIT

**Board Approval Date**: TBD

**Philosophy:**

The Public Credit Asset Class Structure is intended to maintain baseline exposure to key credit sectors (bank loans, high yield, and emerging market debt).

The core of the Public Credit portfolio is a multi-asset credit manager that has the discretion and skill to adjust allocations and take advantage of relative value opportunities between sectors. The multi-asset credit exposure is balanced by smaller allocations to dedicated high yield and bank loan managers that add stability to the overall composition of the Public Credit portfolio.

DPFP believes that there is value to having a specialized manager that focuses exclusively on emerging market debt given the expertise required for this asset class.

**Asset Class Construction:**

DPFP Public Credit will follow the below structure:

| Mandate | % of Public Credit* | % of Total Fund | Minimum | Maximum |
|---|---|---|---|---|
| Bank Loan Manager | 18.2% | 2% | 1% | 3% |
| High Yield Manager | 18.2% | 2% | 1% | 3% |
| Multi-Asset Credit Manager | 36.4% | 4% | 2% | 6% |
| Emerging Market Debt Manager | 27.3% | 3% | 1% | 5% |
| **Total Public Credit** | **100%** | **11%** | | |

**Percentages may not foot due to rounding.*

**Implementation:**

Until a multi-asset credit manager is hired by the Board and funded, the 4% multi asset credit allocation will be split evenly between the current bank loan and high yield managers (4% each) to maintain market exposure.

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# Dallas Police & Fire Pension System

## February 13, 2025

## Public Credit Structure Review

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**Dallas Police & Fire Pension System**

**Public Credit Structure Review**

## History

- **August 2017** – Aristotle Pacific Asset Management was hired within the bank loans allocation.
- **December 2017** – Ashmore EM Blended Debt was hired within the emerging markets debt allocation.
- **August 2018 -** When Meketa started working with DPFP, we evaluated the credit program as part of our Initial Fund Review.
- **January 2021** – Loomis High Yield was "hired" within the high yield allocation. DPFP had previously invested in a different high yield strategy managed by a legacy Loomis portfolio manager for many years.
- **October 2022** – Ashmore EM Blended Debt was terminated within the emerging markets debt allocation and Metlife was hired as a replacement.

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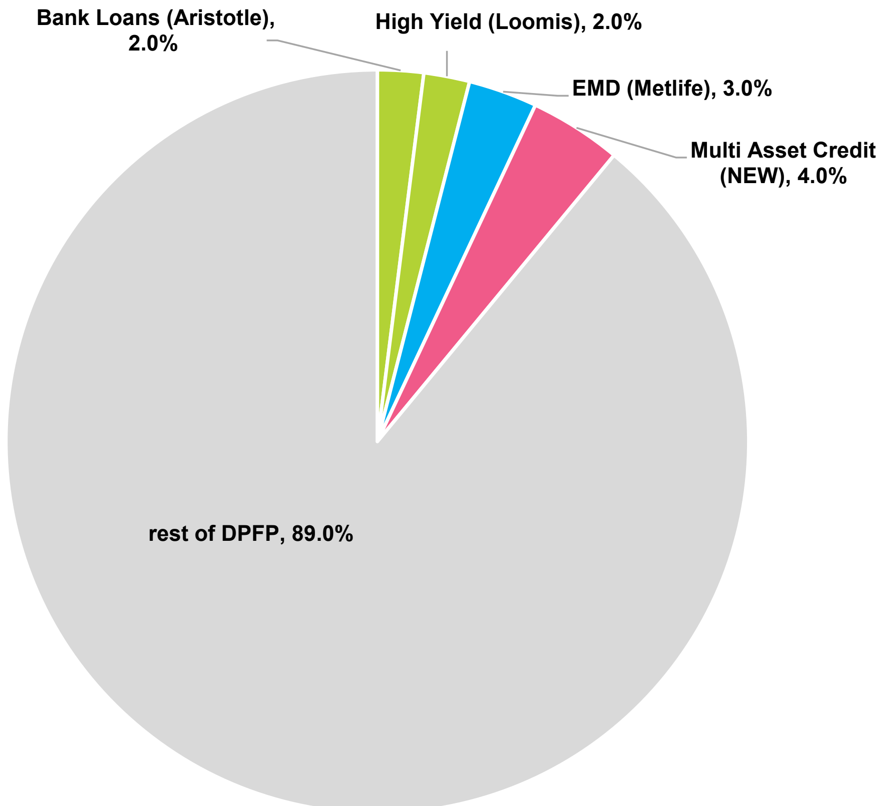
**Public Credit Structure Review**

## Proposed Public Credit Targets



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**Dallas Police & Fire Pension System**

**Public Credit Structure Review**

## Details

| Mandate | % of Public Credit (%) | % of Total Fund (%) | Minimum (%) | Maximum (%) |
|---|---|---|---|---|
| Active Bank Loan Manager | 18 | 2 | 1 | 3 |
| Active High Yield Manager | 18 | 2 | 1 | 3 |
| Active Emerging Market Debt Manager | 27 | 3 | 1 | 5 |
| Active Multi Asset Credit Manager | 37[1] | 4 | 2 | 6 |
| **Total Public Credit** | **100** | **11** | | |

- The Asset Allocation Policy adopted January 1st, 2025 targets 11% for public credit in aggregate.
- Currently, DPFP uses a siloed approach to public credit with managers dedicated specifically to bank loans, high yield, and emerging markets debt.
- In consultation with Staff, we recommend adding a multi asset credit manager that has the ability to rotate across sectors and credit quality.

[1] Rounded up to sum to 100%.

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**Dallas Police & Fire Pension System**

**Public Credit Structure Review**

## Public Credit Characteristics

| | Managers | 9/30/24 Allocation (%) | Duration (Years) | YTM (%) | Credit Risk | Liquidity |
|---|---|---|---|---|---|---|
| Bank Loans | Aristotle Pacific Capital | 3 | 0.4 | 8.6 | Moderate | Monthly |
| High Yield Bonds | Loomis Sayles | 3 | 3.6 | 6.9 | Moderate | Daily |
| Emerging Markets Debt | Metlife | 3 | 5.1 | 8.2 | Moderate | Monthly |
| **Multi Asset Credit (NEW)** | **SEARCH REQUIRED** | **0** | **n/a** | **n/a** | Moderate | TBD |
| **Total** | | **9%** | **3.0** | **7.8** | | |

- All the credit managers currently in use provide healthy yield – weighted average of near 8%.
- The credit portfolio has moderate duration.
- Strategy liquidity is generally monthly (with the exception of Loomis Sayles High Yield).
- We typically recommend Multi Asset Credit strategies that have monthly (or at times quarterly) liquidity. We find that strategies with more frequent liquidity end up constrained to invest in the full credit opportunity set – in order to meet (potential) liquidity needs.

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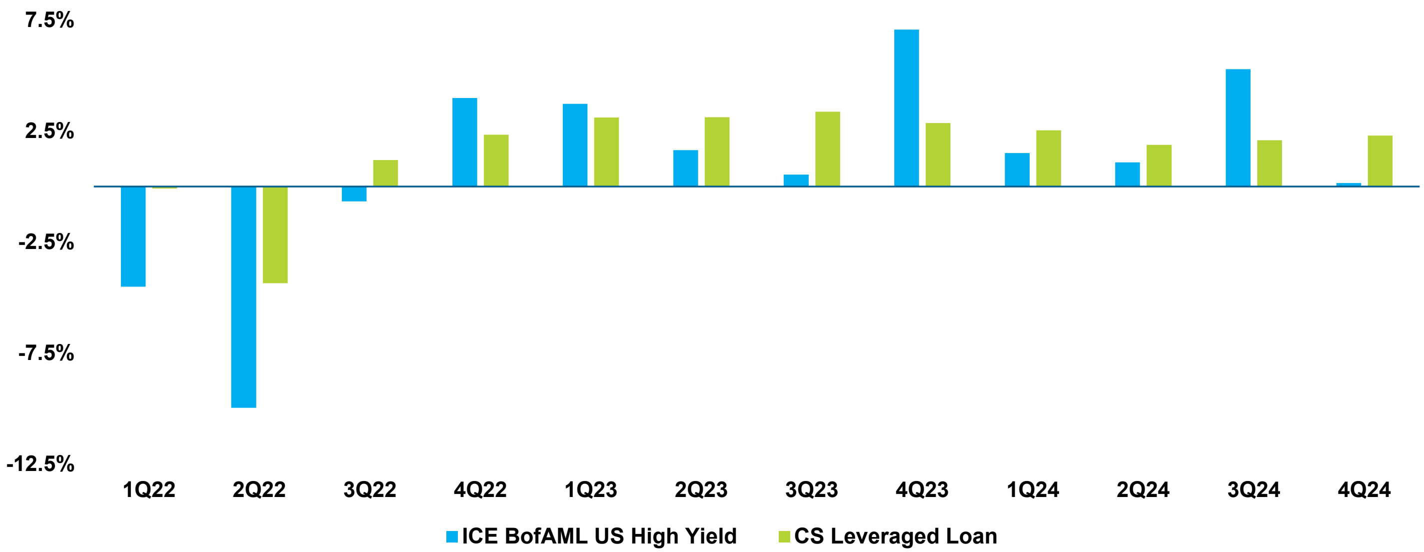
**Dallas Police & Fire Pension System**

**Public Credit Structure Review**

## What is Multi Asset Credit?

- The Multi Asset Credit ("MAC") approach allows clients to be more opportunistic in quickly evolving credit markets, through mandates that provide managers wider degrees of discretion.
- We have seen significant performance differences in bank loans vs. high yield bonds in different periods over the last two years, where rotating between the asset classes has generated meaningful alpha, rather than a static allocation to both in equal weights.

**High Yield vs Bank Loan Quartely Returns**



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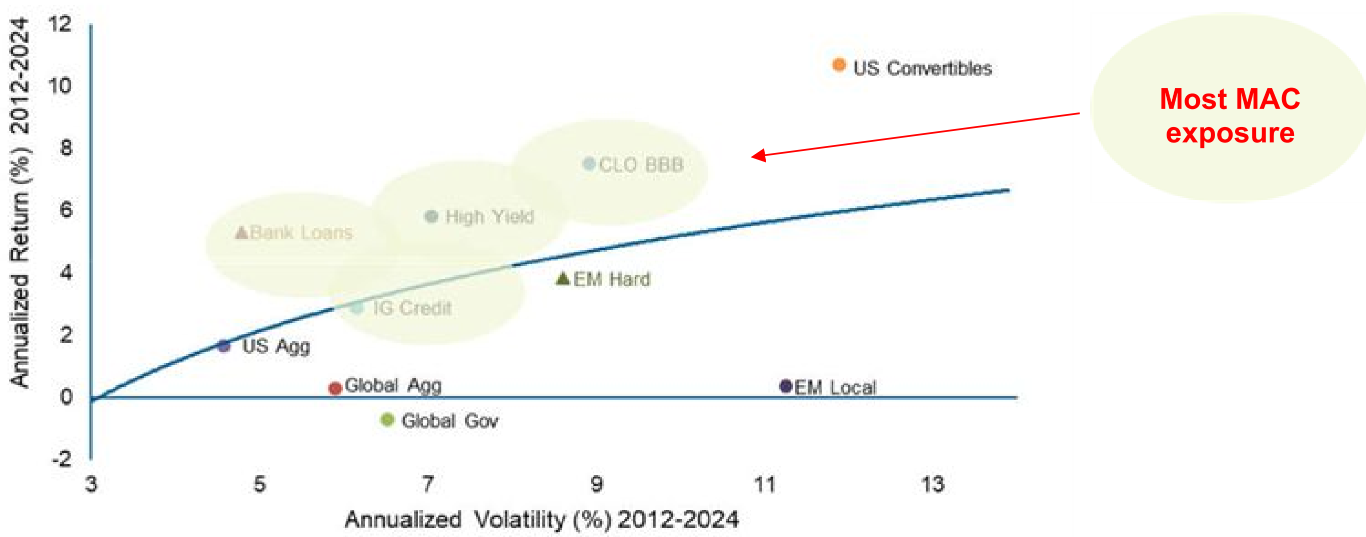
**Public Credit Structure Review**

## What is Multi Asset Credit? (continued)

→ Based on historical data[1], combining credit sectors within a single actively managed mandate can provide both diversification benefits and a more attractive risk profile. A credit manager will seek to produce alpha through relative value trades across asset types at an individual issuer level and through sector rotation based on inputs from the macro environment given the different characteristics and technicals across credit sectors

**Fixed Income Sectors Risk and Return**




[1] Calculations based on monthly index return data from January 2012 to December 2024.This does not reflect any actual portfolio and is hypothetical and for illustrative purposes only. Sources: BBG US Aggregate Index, BBG Global Aggregate Index, BBG Global Treasury Index, BBG US Credit Index, JPM EMBI GD Index, JPM GBI-EM GD Index, CS Leveraged Loan Index, ICE BofAML US Convertibles, ICE BofAML US High Yield.

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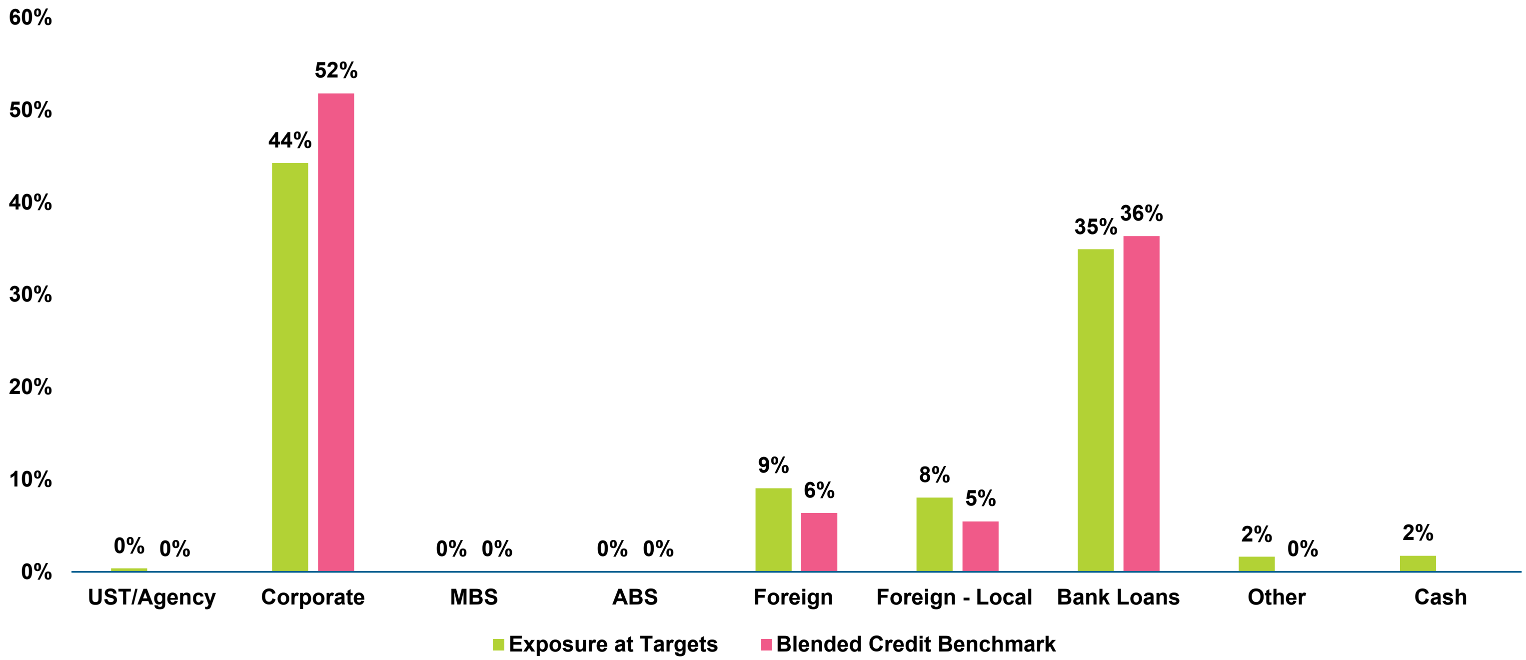
**Dallas Police & Fire Pension System**

**Public Credit Structure Review**

## Sector distribution at full weights[1] as of 9/30/2024




→ Sector distribution is fairly consistent with the blended benchmark, slightly UW corporate and OW foreign and other.

[1] Multi asset credit is modeled as 50% high yield and 50% bank loans. Blended Credit Benchmark is modeled as 36% Credit Suisse Leveraged Loans Index, 36% BBG US High Yield 2% Cap, 28% EMD Blend (35% JPM EMBI, 35% JPM CEMBI Broad Diversified Index, 30% JPM GBI-EM Diversified). Other consists largely of convertibles from the Loomis portfolio.

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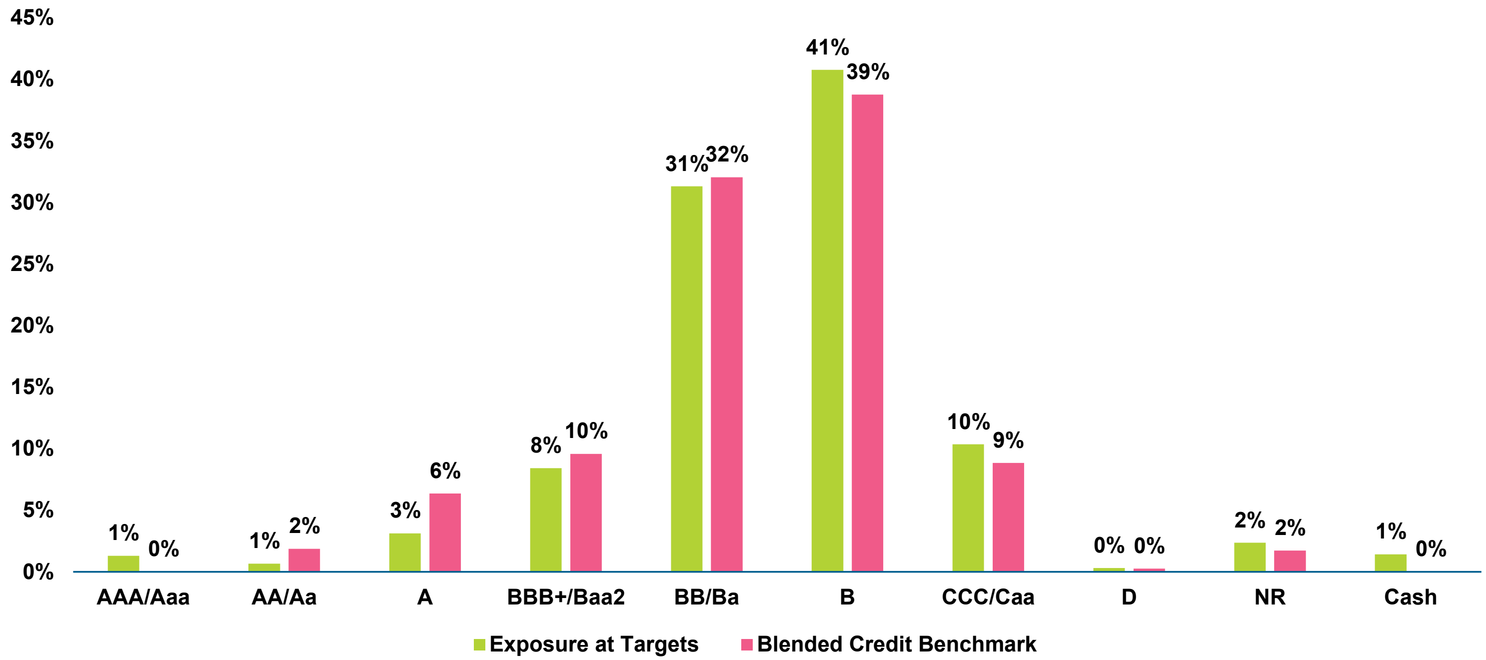
**Public Credit Structure Review**

## Credit Quality Distribution at full weights[1] as of 9/30/2024




→ Credit Quality Distribution at full weights is largely in line with the blended benchmark.

[1] Multi asset credit is modeled as 50% high yield and 50% bank loans. Blended Credit Benchmark is modeled as 36% Credit Suisse Leveraged Loans Index, 36% BBG US High Yield 2% Cap, 28% EMD Blend (35% JPM EMBI, 35% JPM CEMBI Broad Diversified Index, 30% JPM GBI-EM Diversified).

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**Public Credit Structure Review**

## Benchmark Review

| Manager | Primary Benchmark |
|---|---|
| Aristotle Capital Bank Loans | Credit Suisse Leveraged Loan |
| Loomis US High Yield Fund | Blmbg. U.S. High Yield - 2% Issuer Cap |
| Metlife Emerging Markets Debt Blend | 35% JPM EMBI,<br>35% JPM CEMBI Broad Diversified Index,<br>30% JPM GBI-EM Diversified |

→ Benchmarks remain appropriate for the credit managers.

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Dallas Police & Fire Pension System

Public Credit Structure Review

## Public Credit– Performance

| 9/30/2024 | 1-Yr | 3-Yr | 5-Yr |
|---|---|---|---|
| Public Credit[1] | 14.6% | 5.6% | 5.0% |
| *Blended Credit Benchmark[2]* | *13.4%* | *3.6%* | *4.2%* |

| 9/30/2024 | Standard Dev 3-Yr | Standard Dev 5-Yr | Sharpe Ratio 3-Yr | Sharpe Ratio 5-Yr |
|---|---|---|---|---|
| Public Credit | 6.7% | 6.9% | 0.3 | 0.4 |
| *Blended Credit Benchmark* | *6.2%* | *8.0%* | *0.1* | *0.3* |

→ DPFP's current credit managers have in aggregate outperformed a blended benchmark over trailing periods while exhibiting mostly better risk statistics.

[1] Total Credit composite performance includes the track record of the currently active credit managers in the DPFP portfolio (Aristotle, Loomis, and Metlife) at actual weights.
[2] Blended Credit Benchmark consists of 36% Credit Suisse Leveraged Loans Index, 36% BBG US High Yield 2% Cap, 27% EMD Blend (35% JPM EMBI, 35% JPM CEMBI Broad Diversified Index, 30% JPM GBI-EM Diversified).

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**Dallas Police & Fire Pension System**

**Public Credit Structure Review**

## Summary

- Meketa is supportive of the proposed public credit structure and the inclusion of multi asset credit.
- This weighting structure helps mitigate individual idiosyncratic manager risk while still allows for alpha potential.
- Core baseline exposure to the main credit sectors (bank loans, high yield, and EMD) provides a degree of exposure consistency, while a MAC manager with wide discretion provides the ability to be nimble to take advantage of market opportunities in ever changing credit/fixed income markets.
- Note - These are projections only and the ultimate look-through details (sector and credit quality) at full weights will likely be different than modeled, as the active managers make adjustments to their portfolios in the months/years to come.

MEKETA

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DALLAS POLICE & FIRE PENSION SYSTEM

# DISCUSSION SHEET

## ITEM #C10

**Topic:** **Closed Session - Board serving as Medical Committee**

Discussion of the following will be closed to the public under the terms of Section 551.078 of the Texas Government Code:

Application for death benefits for disabled child 2024-2C

**Discussion:** Staff will present an application for survivor benefits for a disabled child in accordance with Section 6.06(n) of Article 6243a-1 for consideration by the Board.

# DISCUSSION SHEET

## ITEM #C11

**Topic:** **Legislative 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:** Staff will brief the Board on pension bills that have been filed which may bear on DPFP.

*Regular Board Meeting – Thursday, February 13, 2025*

DALLAS POLICE & FIRE PENSION SYSTEM

# DISCUSSION SHEET

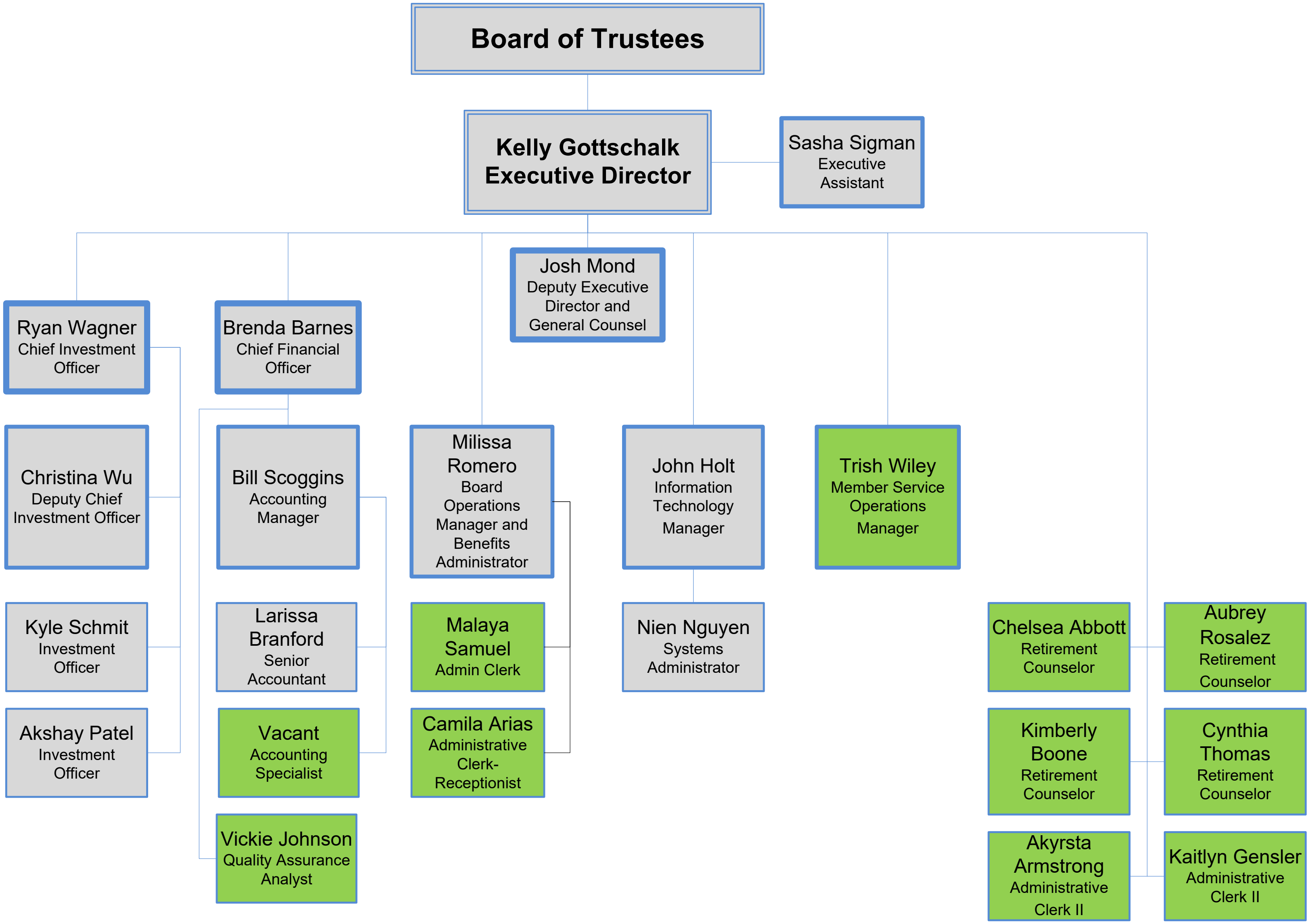
## ITEM #C12

**Topic:** **Board and Staff Organizational Changes**

**Discussion:** Staff will brief the Board on organizational changes.

*Regular Board Meeting – Thursday, February 13, 2025*

# Dallas Police & Fire Pension System
# **Organization Chart**




Member Service Operations

2/7/2025

DALLAS POLICE & FIRE PENSION SYSTEM

# DISCUSSION SHEET

## ITEM #C13

**Topic:** **Lone Star Investment Advisors**

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 investments with this manager.

*Regular Board Meeting – Thursday, February 13, 2025*

# 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 DPFP 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.

DALLAS POLICE & FIRE PENSION SYSTEM

# DISCUSSION SHEET

## ITEM #C15

**Topic:** **Executive Director Performance Evaluation**

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 meet with the Executive Director to review performance and provide recommendations concerning yearly objectives, goals, and performance.

DALLAS POLICE & FIRE PENSION SYSTEM

# DISCUSSION SHEET

## ITEM #D1

**Topic:** **Public Comment**

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

*Regular Board Meeting – Thursday, February 13, 2025*

DALLAS POLICE & FIRE PENSION SYSTEM

# DISCUSSION SHEET

## ITEM #D2

**Topic:** **Executive Director's Report**

**a.** Associations' newsletters
- NCPERS Monitor (February 2025)
- NCPERS PERSist (Winter 2025)
- TEXPERS Pension Observer (Vol. 1 2025)

**b.** Open Records
**c.** March Board Date Reminder

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

*Regular Board Meeting – Thursday, February 13, 2025*

THE NCPERS MONITOR

The Latest in Legislative News February 2025

# NCPERS Membership: Getting Fully Engaged in 2025

By: William Whitman, Director, Membership & Strategic Alliances, NCPERS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With 2025 underway, it's a good time to pause and make sure you and your colleagues are aware of the many valuable programs and resources available to them through NCPERS - and that you are planning to be engaged throughout the year! Every public pension system, service provider, and stakeholder organization should be utilizing NCPERS benefits and participating in our events to stay on top of best practices and connect with peers and partners.

Please see below for details on how to maximize the value of your membership this year. If you have questions about your organization's status or the renewal process, please email membership@ncpers.org for assistance.

Make sure your team is planning to be involved in these key programs and services during 2025:

### NCPERS Conferences

Our in-person conferences will keep you educated on trends impacting public pensions and connect you with industry experts and leaders.

The 2025 Annual Conference & Exhibition (ACE) on May 18-21 in Denver, CO will be the premier education and networking event this year for plan staff, trustees, and stakeholders. As one of the longest-running educational programs for state and local public pensions, our flagship event is designed to address the evolving challenges facing the public pension sector, offering an immersive learning experience through a mix of educational sessions, workshops, and panel discussions.

Then the second-half of the year will include our additional in-person conferences for Chief Officers, pension investment and research staff, HR Professionals, and other segments of our community. Please consider which conferences are most relevant for your work - we look forward to seeing you there!

### Pension Trustee/Administrator Training

NCPERS enlists experts from our community to educate pension trustees and administrators on how to be successful in carrying out their duties, no matter their experience level. Over May 17-18th in Denver, CO, we will offer our Trustee Educational Seminar, as well as the NCPERS Accredited Fiduciary Program for those who want certification in plan governance. Please reach out to education@ncpers.org with any questions about NCPERS University.

### Peer Roundtables

For members working within retirement systems, we have a peer Roundtable network meeting regularly to share intelligence, discuss developments, and crowd-source solutions to your challenges. Make sure your entire leadership team – CEO, CIO, and directors of Communications, HR, Member Services, Government Affairs – is signed up to attend these valuable virtual discussions with their peers.

### Webinars

NCPERS hosts regular webinars, bringing members free educational opportunities on headline issues in the public pension space. Please join us for NCPERS 2025 Public Retirement Systems Study: Key Trends and Insights for Public Pensions on February 25th to review the results of the *2025 Public Retirement Systems Study* and gain insights into plan changes, asset allocation, and business practices.

Sign up via the NCPERS Center for Online Learning to receive updates on webinars throughout the year.

### Keeping You Informed

NCPERS delivers to you the latest industry news, research releases, and legislative analysis through various communications platforms. Learn more about opportunities to contribute to our publications.

- *PERSist*, our quarterly online journal, highlights the latest research and educational content for fund members. The Winter 2025 PERSist can be found here (login required)
- NCPERS Blog hosts the latest news, think pieces, and policy explainers in the public pension space.
- Subscribe to NCPERS Retirement Security SmartBrief to receive our weekly selection of the latest news from the public pension industry and updates on issues that impact financial wellbeing in retirement. This free resource is perfect for systems looking to provide financial wellness content to their participants and beneficiaries. Contact membership@ncpers.org to learn more.
- Meet the CorPERS Members lists the products and services available from leading service providers in the NCPERS community.
- View our library of pension research to find valuable data and insights into pension funding and long-term sustainability, economic impact, healthcare and retiree medical trusts, and accounting and finance practices.
- Find our growing list of resources and best practice guides for pensions.
- Follow us on Facebook or LinkedIn for real-time updates and to connect with your peers.

We hope this helps your organization get fully engaged in NCPERS this year, but do not hesitate to reach out to membership@ncpers.org with your questions about what else is available as a member. We look forward to supporting you in 2025! ◆

NCPERS **Feature**

# Into the Whirlwind: The 119th Congress

By: Tony Roda, Williams & Jensen

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I'm writing this article eight days into the second Trump Administration. In my opinion, there shouldn't be much shock and awe over his actions. Love or hate him, he is following through on the key campaign promises that he can keep solely through executive action. It is true that he may be going deeper than many assumed he would. For instance, in taking aim at diversity, equity, and inclusion (DEI) programs, President Trump is not simply revoking recent executive orders (EO), he is revoking EOs that go back to the 1960s that were issued by President Lyndon Baines Johnson, a figure in ancient history for most reading this article.

However, in our constitutional system of checks and balances a President can do just so much alone, and many of the actions President Trump has taken since being sworn into office will be challenged in the courts. In this context, then, he will need judges to be on his side, and some will not be. Of course, this points to limitations on acting purely through executive action.

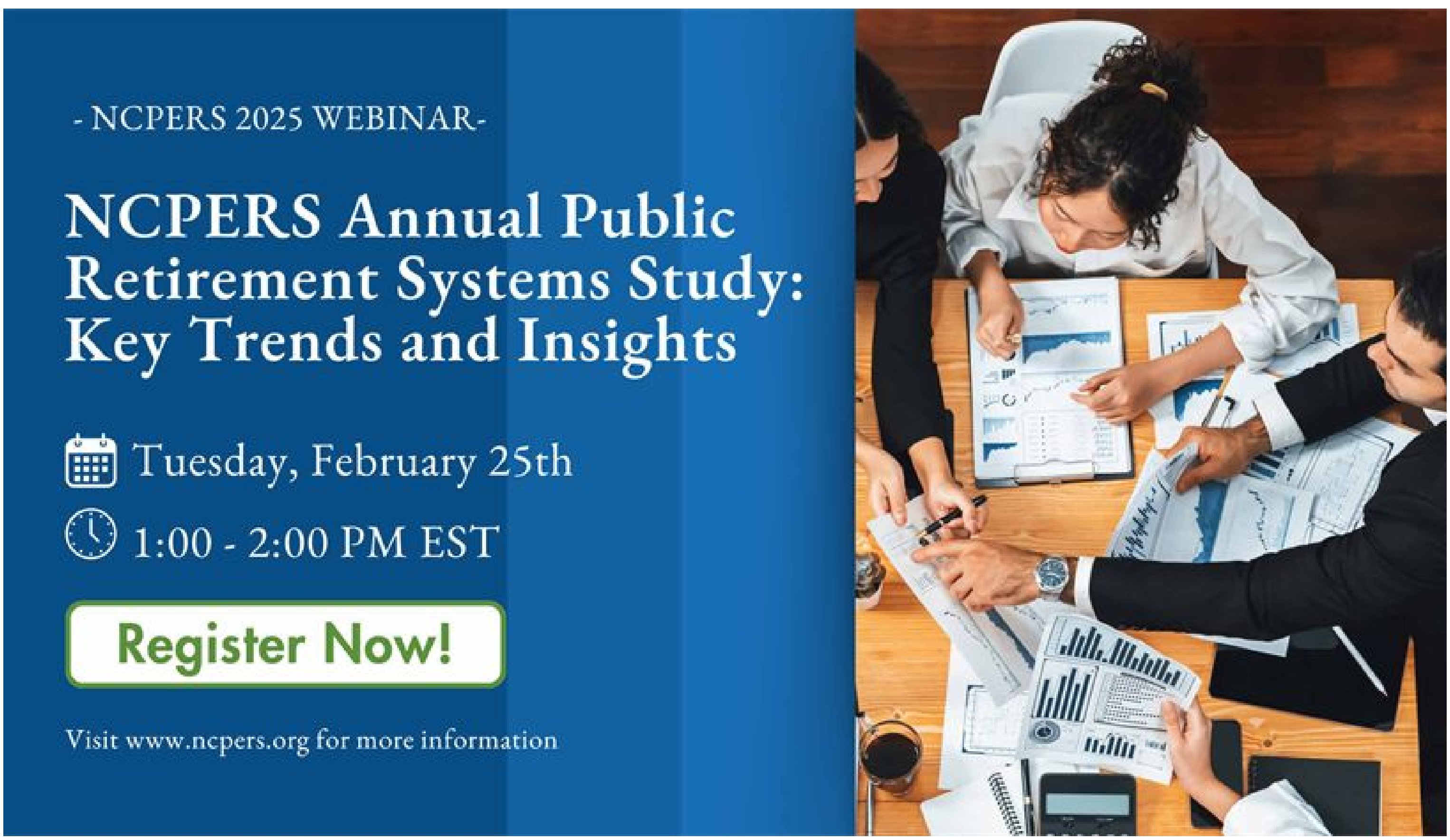
To keep his promise to enact the largest tax cut in American history, President Trump needs Congress. He does have Republican majorities in both chambers, albeit by slim margins, and Congress has a powerful legislative tool that greatly enhances the likelihood of success.

If you listen carefully enough, you will begin to hear a lot about budget reconciliation. The budget reconciliation process was enacted as part of the Congressional Budget and Impoundment Control Act of 1974, another nod to history. It allows for expedited consideration of certain tax, spending, and debt-limit legislation. Reconciliation can be used to address most mandatory entitlement spending, including Medicare and Medicaid. The most important procedural aspect of reconciliation is that it is not subject to filibuster in the Senate and may be approved in that chamber by a simple majority vote.

A primary piece of the reconciliation bill will be the extension and broadening of the Tax Cuts and Jobs Act of 2017 (TCJA), enactment of which was a priority for President Trump in his first term. Because the reconciliation bill will have a significant section devoted to taxes, state and local governmental retirement plans, which must be qualified under the federal tax code, need to pay attention, and there could be both positive and negative provisions to follow.

Specifically in the case retired first responders, the reconciliation bill could increase the annual cap under the Healthcare Enhancement for Local Public Safety Act (HELPS). The $3,000 annual cap has not been increased since its inception in 2006 despite significant increases in premiums for health care and long-term care insurance over the past 19 years.

On the defensive side, bear in mind that the original House-passed version of TCJA contained a provision to specifically subject investments of state and local governmental pension plans to the Unrelated Business Income Tax (UBIT). Analysis of the provision at the time concluded that UBIT would cover certain investments in private equity and hedge funds, debt-financed investments, as well as direct ownership and management of a business.



NCPERS, among other stakeholders, took the lead in lobbying against the UBIT provision, and it was not included in the final TCJA. However, because it was a Republican initiative in the past, it may resurface in this Congress as lawmakers struggle to find spending and revenue offsets for at least a portion of the cost of extending and enhancing the TCJA. Estimates are that a simple extension of the TCJA will result in revenue losses over the next 10 years of $4.6 trillion. On the campaign trail and continuing in his recent remarks President Trump also has called for a repeal of taxes on tips and overtime income, and Social Security benefits. Repealing these taxes would result in additional lost revenue of $1.8 trillion over the next 10 years.

Forecasts of how long Congress will need to develop and pass a reconciliation bill vary. Ambitious forecasts put final Congressional action around Memorial Day, while others believe the process will take all year with a bill finally being presented to President Trump in December. Until Congress begins consideration of the bill and finds out how difficult it will be to put the spending and tax provisions in place while satisfying all parts of the GOP political spectrum, we will not have a firm handle on the timeline.

Be assured, however, that NCPERS will closely monitor the budget reconciliation process and report any significant developments to its members. ◆

***Tony Roda*** *is a partner at the Washington, D.C. law and lobbying firm* ***Williams & Jensen****, where he specializes in legislative, regulatory, and fiduciary matters affecting state and local pension plans. He represents the National Conference on Public Employee Retirement Systems and state-wide, county, and municipal pension plans in California, Colorado, Georgia, Kentucky, Nebraska, Ohio, Tennessee, and Texas. Tony has an undergraduate degree in government and politics from the University of Maryland, J.D. from the Catholic University of America, and LL.M (tax law) from the Georgetown University Law Center.*

# Recognizing Leadership and Innovation in Public Pension Communication: NCPERS 2024 Award Winners Revealed

By: Lizzy Lees, Director of Communications, NCPERS

Photo Illustration © 2025, istock.com

The National Conference on Public Employee Retirement Systems (NCPERS) proudly announced the winners of the Public Pension Communicator of the Year Awards yesterday during the 2025 Pension Communications Summit. These prestigious awards honor exceptional professionals who have demonstrated innovative leadership, creativity, and measurable impact in their communication efforts, fostering trust and engagement across their organizations.

"Clear and effective communication is the cornerstone of building and maintaining stakeholder trust," said Hank Kim, NCPERS Executive Director and Counsel. "These award recipients have exemplified this principle by implementing innovative strategies that enhance transparency and member engagement. We are proud to honor their achievements and the impact they have made in the public pension sector."

Judges evaluated nominees using scoring criteria to select three winners in categories based on funds' assets under management (AUM) and one winner in the new Rising Star category—created to recognize individuals who have been at their organization for five years or less and have demonstrated exceptional potential and growth.

The 2024 Public Pension Communicator of the Year Award recipients are as follows:

***Less than $10 Billion AUM Category:* Mehrin Rahman, Communications Director, City of Austin Employees' Retirement System (COAERS)**

Mehrin has more than a decade of experience in public sector communications and has led transformative initiatives since joining COAERS in 2020. Her efforts include launching a financial wellness program, spearheading a successful rebrand, and redesigning the fund's website. These initiatives have significantly enhanced member education and engagement. An active participant in NCPERS' Communications Roundtable and a 2025 Pension Communications Summit program director, Mehrin is a trusted advisor to her peers and colleagues.

***$10-50 Billion AUM Category:* Candy Albers Smith, Chief Communications Officer, Missouri State Employees' Retirement System (MOSERS)**

Candy has been with MOSERS since 2006 and currently leads an award-winning team that designs, produces, and distributes MOSERS' websites, produces print and electronic communications, and delivers 100+ member education events each year. In FY2024, she oversaw the Department of Corrections (DOC) Member Outreach initiative, achieving a 25% increase in DOC member participation in educational events. Her team's interactive campaign for MOSERS Month, themed *The Wonderful World of Retirement*, was designed to encourage members to view their Annual Benefit Statement and resulted in a 24% increase in engagement compared to the year prior.

***Greater than $50 Billion AUM Category:*** **Jonathan Yost, Senior Marketing and Communications Specialist, Oregon Public Employees Retirement System**

With more than 18 years of PR and communications experience, Jonathan has brought a data-driven and innovative approach to Oregon PERS' content and engagement strategies. His key achievements include the redesign of the agency's flagship publication, *PERS by the Numbers*, the development of the agency's first *Popular Annual Financial Report*, and a campaign that increased new topic email subscriptions by 32.2% in 2024 alone. Active in the field outside of PERS, Jonathan has spoken at several industry events, currently serves as the professional development director at PRSA Oregon, teaches a public relations course at George Washington University, and served as a program director for NCPERS 2025 Pension Communications Summit.

***Rising Star Category:*** **Mary-Joy Coburn, Director of Communications, Orange County Employees Retirement System (OCERS)**

In less than two years, Mary-Joy Coburn has transformed OCERS' communication strategy, ensuring clarity, engagement, and transparency for its diverse stakeholders. She has revamped OCERS' digital presence by modernizing the website, optimizing social media engagement, and redesigning the *OCERS by the Numbers and At Your Service Newsletter*, making them more visually appealing, digitally accessible and timely for members. Her innovative outreach, including webinars and dynamic video content, has simplified complex retirement topics to make them approachable for all audiences.

NCPERS would like to thank the judges for their time and efforts in selecting this year's winners: Michelle Holleman, Director, Communications and Stakeholder Relations, Chicago Teachers' Pension Fund; Patrick von Keyserling, Senior Director of Communications, Colorado PERA; Taneda Larios, Chief Benefits Analyst, Los Angeles City Employees' Retirement System; and Alison Taylor-Thévenin, Deputy Director, Member Communications, New York City Board of Education Retirement System. ◆

NCPERS **Executive Director's Corner**

# Preview: NCPERS 2025 Public Retirement Systems Study

By Hank Kim, Executive Director and Counsel, NCPERS

Photo Illustration © 2025, istock.com

Every year since 2011, NCPERS has conducted our Public Retirement Systems Study to gather the latest data on funds' fiscal, operational, and business practices. We are pleased to announce that the soon-to-be released 2025 Public Retirement Systems Study received a record 201 responses, helping us better understand the public pension landscape and track industry trends.

If you are interested in learning about the latest study's most notable findings, please register to attend our webinar *NCPERS Annual Public Retirement Systems Study: Key Trends and Insights* on February 25. Attendees will gain insights into the current state of public plan practices, asset allocation, and fiscal performance, as well as some recent data trends and leadership priorities. Later this month, the full results of the study will be released to the public, while NCPERS members will have exclusive access to an interactive dashboard that allows them to filter data for peer-to-peer benchmarking.

Among our top-line findings, preliminary analysis indicates that funding ratios are improving, likely due to the strong equity market performance in 2024 and an upward tick in the share of plans receiving the full actuarially determined contribution. Respondents with fiscal year-end dates in the first half of 2024 reached an average funded ratio of 83.1 percent, and we anticipate similar gains across the board for systems with fiscal year-end dates in the second half of the year.

We also see evidence that equities remain the largest component of pension portfolios. Alternative investments (primarily real estate and private equity) have consistently been the second largest allocation in recent years, though for systems with fiscal year-end dates in the first half of 2024, fixed income investments are now nearly as large at 26.1 percent. NCPERS will continue to monitor this trend as plans continue to report their 2024 financial performance.

The study data continues to reinforce our contention that receiving the full actuarially determined contribution is key to better funding outcomes. Responding retirement systems that did receive their full contribution reported funded ratios an average of 20 percentage points higher than those that did not receive the full contribution. Eighty-seven percent of survey respondents indicated that they received the full actuarially determined contribution in their most recent fiscal year, continuing an upward trend from the past few years.

Overall, the data tells a story of resilience. In the span of 20 years, public sector pensions have endured two major economic crises, but by implementing best practices and appropriate plan changes, pensions have shored up funding levels and improved their sustainability. What are plan leaders planning for next? Respondents indicate that public pension priorities for 2025 include improving cyber- and fraud-prevention systems and sustaining target funding levels.

We encourage you to join us for this free webinar on February 25 at 1:00pm ET for additional detail on these and many other insights from our annual Public Retirement Systems Study. And watch for the full report – and accompanying member-only dashboard – to be released later this month. Please reach out to research@ncpers.org with any questions about this or other NCPERS research initiatives. ◆

# Sen. Deb Fischer Honored as NCPERS 2024 Policymaker of the Year for Advancing Public Safety Workforce Solutions

By: Lizzy Lees, Director of Communications, NCPERS

The National Conference on Public Employee Retirement Systems (NCPERS) named Sen. Deb Fischer (R-Neb.) its 2024 Policymaker of Year, presenting the award on Capitol Hill yesterday during NCPERS Legislative Conference & Policy Day.

NCPERS Policymaker of the Year Award, presented annually, honors policymakers whose initiatives have significantly strengthened public pensions or whose efforts have contributed to improvements in retirement security more broadly.

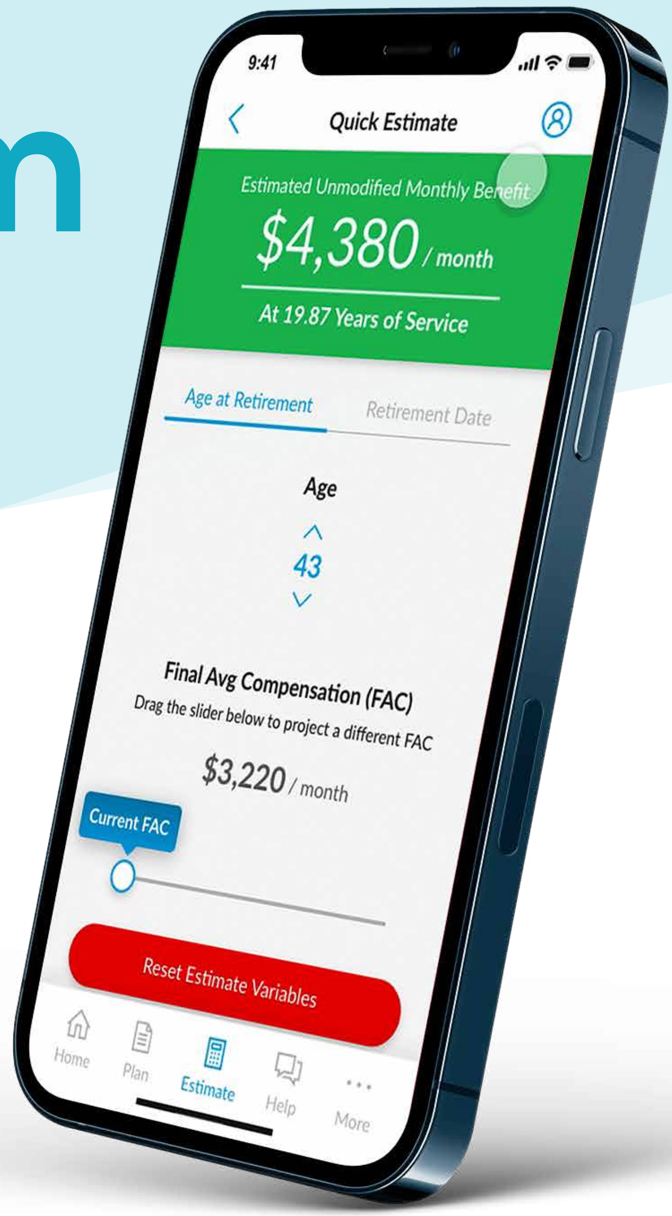
Sen. Fischer introduced the Recruit and Retain Act (S.546), gaining bipartisan support for the legislation that was enacted May 2024. The bill requires a comprehensive study be undertaken to better understand why individuals begin careers in public safety, what factors are driving attrition, and what barriers exist for industry recruitment and retention. The law also provides federal grants to law enforcement agencies that partner with educational institutions to enhance their recruitment efforts.

Research has shown that pensions play a key role in recruiting and retaining public safety workers, with more than 60 percent of police officers and firefighters surveyed by the National Institute on Retirement Security indicating that the ability to earn a pension was a major reason they stayed at their job. States and localities that have reduced pension benefits in recent years have experienced sharp increases in employee turnover, exacerbating dangerous public safety workforce shortages.

"We are pleased to recognize Sen. Fischer for her pivotal role in advancing the Recruit and Retain Act, which will help us further understand how agencies can enhance their strategies to attract new public safety professionals to the field and retain the firefighters, police officers, and first responders who play a critical role in protecting our communities," said NCPERS Executive Director and Counsel, Hank Kim.

"After years of working with Nebraska law enforcement to address workforce shortages, my Recruit and Retain Act was signed into law in 2024. I'm grateful to NCPERS for offering me their Policymaker of the Year award to recognize this accomplishment," said Sen. Fischer. "I look forward to collaborating in the future to strengthen and support America's law enforcement!" ◆

# NCPERS PensionX Digital Platform




NCPERS has partnered with Digital Deployment to offer its members a **10% DISCOUNT** on PensionX, the premier digital platform that securely enables pensions to engage with active and retired participants via a mobile self-service app and portal.

NCPERS 1941 | pensionX

**Learn more about this new NCPERS member benefit at ncpers.org/pensionx**

# NCPERS Around the Regions

## CalPERS Looks to Take-Private Deals as Trump Hits Renewables

The California Public Employees' Retirement System, one of the world's largest and most climate-friendly investors, is seeking ways to navigate one of President Donald Trump's top priorities: boosting the US fossil fuel industry and killing green subsidies. One option for CalPERS is taking companies private if their shares, already hammered by years of headwinds, decline further under Trump.

READ MORE *Source: Bloomberg*

## Wyoming Could Lose $5 Billion From Freedom Caucus' Investments Bill

Despite estimates of billions in investment losses, Freedom Caucus lawmakers again advanced a bill that would punish contracted financiers who invest Wyoming's money in funds with environmental, social and governance goals. The faction, newly in control of the House, is dead set against seeing public investments put into such funds, which it sees as antithetical to Wyoming's fossil fuel industries.

READ MORE *Source: WyoFile*

## Kentucky's Pension Funds Gets Paid Over $227 Million From Major Hedge Funds

A long-running lawsuit with major hedge funds over the management of Kentucky pension systems has been settled. As a result of the settlement, the hedge funds KKR & Co., Prisma Capital Partners, The Blackstone Group and Pacific Alternative Asset Management agreed to pay $227.5 million to the Commonwealth's pension funds.

READ MORE *Source: ABC 13 WBKO News*

## Reform Measures Boosting Health of Vermont's Pension Funds

The reform measures that Vermont lawmakers haggled over and implemented in 2022 to shore up the state's pension funds for teachers and state employees are showing good results, according to Vermont Treasurer Mike Pieciak. Both the $3.1 billion Vermont State Teachers' Retirement System, Montpelier, and the $2.8 billion Vermont State Employees' Retirement System, Montpelier, reached the highest funding ratios in nearly a decade, Pieciak said in a news release Jan. 7.

READ MORE *Source: Pensions & Investments*

## Lawmakers Approve More Scrutiny for State Employee Pension Boosts Following CT Insider Investigation

Connecticut legislators unanimously approved a resolution allowing state officials to scrutinize whether former correction officers who receive a taxpayer-funded disability pension because of an on-the-job injury are entitled to an "extraordinary circumstances" designation, which dramatically boosts their pension payments.

READ MORE *Source: CT Insider*

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# UPCOMING EVENTS

## May 2025

**NCPERS Accredited Fiduciary (NAF) Program**

May 17-18
Denver, CO

**Trustee Educational Seminar (TEDS)**

May 17-18
Denver, CO

**Annual Conference & Exhibition (ACE)**

May 18-21
Denver, CO

## June 2025

**Chief Officers Summit**

June 16-18
New York, NY

## August 2025

**Public Pension Funding Forum**

August 17-19
Chicago, IL

## September 2025

**Public Pension HR Summit**

September 24-26
Philadelphia, PA

View all upcoming NCPERS conferences at
www.ncpers.org/future-conferences.

The Voice for Public Pensions

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PERSist

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NCPERS Message

# Preview: NCPERS 2025 Public Retirement Systems Study

Photo Illustration © 2025, istock.com

Every year since 2011, NCPERS has conducted our Public Retirement Systems Study to gather the latest data on funds' fiscal, operational, and business practices. We are pleased to announce that the soon-to-be released 2025 Public Retirement Systems Study received a record 201 responses, helping us better understand the public pension landscape and track industry trends.

If you are interested in learning about the latest study's most notable findings, please register to attend our webinar *NCPERS Annual Public Retirement Systems Study: Key Trends and Insights* on February 25. Attendees will gain insights into the current state of public plan practices, asset allocation, and fiscal performance, as well as some recent data trends and leadership priorities. Next month, the full results of the study will be released to the public, while NCPERS members will have exclusive access to an interactive dashboard that allows them to filter data for peer-to-peer benchmarking.

Among our top-line findings, preliminary analysis indicates that funding ratios are improving, likely due to the strong equity market performance in 2024 and an upward tick in the share of plans receiving the full actuarially determined contribution. Respondents with fiscal year-end dates in the first half of 2024 reached an average funded ratio of 83.1 percent, and we anticipate similar gains across the board for systems with fiscal year-end dates in the second half of the year.

We also see evidence that equities remain the largest component of pension portfolios. Alternative investments (primarily real estate and private equity) have consistently been the second largest allocation in recent years, though for systems with fiscal year-end dates in the first half of 2024, fixed income investments are now nearly as large at 26.1 percent. NCPERS will continue to monitor this trend as plans continue to report their 2024 financial performance.

The study data continues to reinforce our contention that receiving the full actuarially determined contribution is key to better funding outcomes. Responding retirement systems that did receive their full contribution reported funded ratios an average of 20 percentage points higher than those that did not receive the full contribution. Eighty-seven percent of survey respondents indicated that they received the full actuarially determined contribution in their most recent fiscal year, continuing an upward trend from the past few years.

Overall, the data tells a story of resilience. In the span of 20 years, public sector pensions have endured two major economic crises, but by implementing best practices and appropriate plan changes, pensions have shored up funding levels and improved their sustainability. What are plan leaders planning for next? Respondents indicate that public pension priorities for 2025 include improving cyber- and fraud-prevention systems and sustaining target funding levels.

We encourage you to join us for this free webinar on February 25 at 1:00pm ET for additional detail on these and many other insights from our annual Public Retirement Systems Study. And watch for the full report – and accompanying member-only dashboard – to be released in February. Please reach out to research@ncpers.org with any questions about this or other NCPERS research initiatives. ◆

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**Page 5** **2025 Investment Themes for Public Funds** *(Aon)*
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*Many prognosticators are gauging what "Trump 2.0" will bring for financial markets in the new year. The policies of the new administration will significantly impact the US and global economy, presenting considerable opportunities for investors. However, the likelihood of continuing geopolitical tensions and trade wars necessitates that pension plans ensure proper diversification to maintain resilient portfolios through 2025.*

**Page 15** **REITs in 2025: Positioning for Growth in a Transforming Landscape** *(Nareit)*
*This article covers the factors driving REIT performance, their strategic value in institutional portfolios, and how they are positioned to capitalize on economic trends, valuation shifts, and sectoral innovations in 2025.*

**Page 19** **2025 Outlook: Themes for a New Economic Landing** *(Nuveen)*
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**Page 22** **Legislative and Regulatory Outlook for Texas Public Pension Systems in 2025** *(TEXPERS)*
*The 2025 legislative session could bring opportunities and challenges for Texas public pension systems as lawmakers address cost-of-living adjustments, funding policies, and investment strategies, while TEXPERS pushes to preserve the proven effectiveness of local control.*

**Page 25** **User Stories for Communications Managers** *(Tegrit)*
*When your organization is tweaking an existing pension administration system, conducting a significant upgrade, or buying new, that is your opportunity to elevate your communication tools. Modern advice is to avoid solution-specific requirements and instead express a requirement as a need in a user story. This article focuses on the kinds of user stories communications managers need most.*

**Page 27** **Creative Ways to Use AI for Member Communications** *(Segal Benz, a member of the Segal family)*
*Public retirement systems often need to convey intricate and detailed information about benefits in member communications. This article discusses how embracing generative AI in member communications offers a wealth of opportunities to enhance engagement, clarity, and efficiency.*

**Page 29** **AI Revolution: Impact on Member Experience** *(PensionX)*
*Artificial Intelligence (AI) is dramatically reshaping numerous industries, and the public pension sector is no exception. As pension systems grapple with an aging population, increased demands for efficiency, and budget constraints, AI is emerging as a powerful tool to revolutionize the member experience. In this article, we will explore some of the ways AI can enhance the member experience, focusing specifically on communication, customer service, accessibility, personalization, and operational efficiency.*

# NCPERS In This Issue

**Page 31** **Artificial Intelligence and Plan Governance Considerations** *(Segal)*
*Even with the rapid adoption of Artificial Intelligence, many plans are delaying taking action to incorporate AI guidance into their governance documents. Learn why that is a potential problem and what steps plans should take right now — even if they do not want to adopt AI as a tool.*

**Page 33** **Recent Supreme Court Decisions Signal Increased Investor Litigation** *(Labaton Keller Sucharow)*
*This article discusses two recent Supreme Court decisions that impact safeguarding investors against securities fraud. The decisions have curtailed U.S. regulatory agency power, ultimately shifting the power from the SEC and their administrative courts and leaving investors with litigation in the U.S. court system as the only means of protection.*

**Page 36** **The Critical Governance Question Before the California Supreme Court in *LACERA v. County of Los Angeles*** *(Bernstein Litowitz Berger & Grossmann)*
*A case now pending before the California Supreme Court,* LACERA v. County of Los Angeles*, could strengthen pension plan governance by empowering pension boards to make independent fiduciary decisions regarding professional staffing and compensation. This decision has far-reaching implications for public pension systems' ability to attract the next generation of top talent and presents an opportunity to align pension governance practices with the corporate governance standards pension funds uphold as institutional investors.*

**Page 40** **Cut and Run? Not So Fast... Private Credit and the Fed** *(Golub Capital)*
*This piece helps investors understand what impact future Fed actions may have on the direct lending asset class, given its floating rate structure, and makes the case for maintaining a core direct lending allocation throughout the interest rate cycle.*

**Page 43** **Strategies for Addressing Common SEC Fair Fund Recovery Challenges** *(Financial Recovery Technologies)*
*To participate in SEC Fair Funds, public pension funds must navigate strict documentation and procedural requirements, which can make recovery opportunities more difficult — but also potentially significant if adhering to best practices. Proper planning, communication, and understanding of SEC policies are crucial for maximizing participation and successful claims.*

**Page 46** **Unlocking the Power of a Strategic Allocation to Commodities** *(LGIM America)*
*As a standalone asset class, commodities have recently been uninspiring to investors, even after the inflationary period that followed the pandemic. Investors seem to have two primary concerns for maintaining a strategic allocation to commodities: (1) Commodities became a strategic allocation for many institutions after the spike in prices prior to the GFC but have delivered lackluster absolute returns since then and (2) Inflation is episodic, and it is unnecessary to hold strategic exposure to combat this. However, when we look at the combination of current market themes and historical contributions of commodities to a balanced portfolio, we see ample reasons to allocate to this unloved asset class. In this article, we address concerns about commodity returns and highlight the significant, often overlooked, diversification benefits of this asset class beyond just inflation. We also share our current inflation outlook, which remains a relevant and timely topic.*

# 2025 Investment Themes for Public Funds

By: Katie Comstock and Julie Becker, Aon

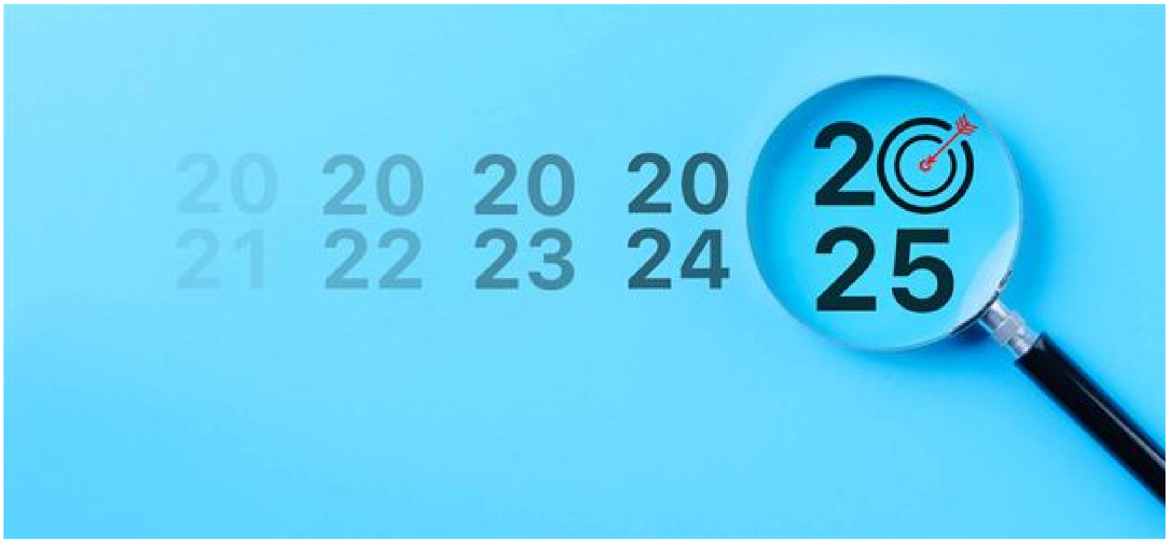


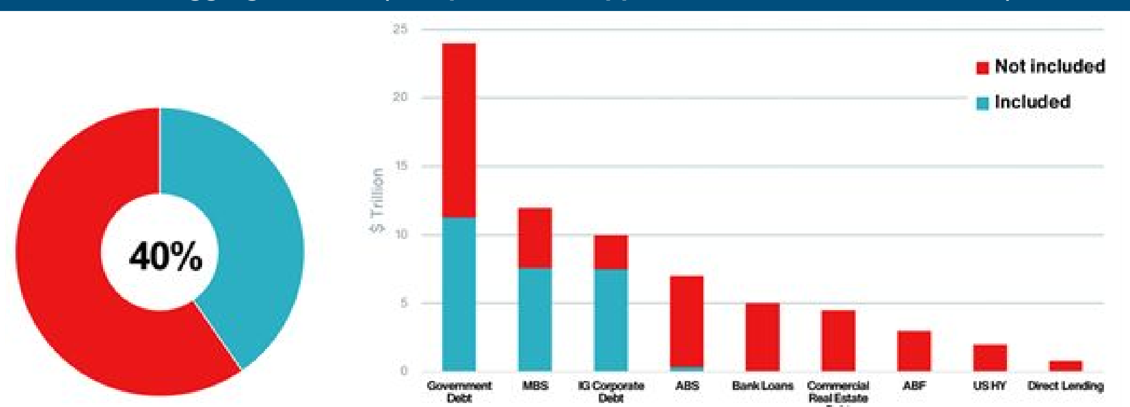

Photo Illustration © 2025, istock.com

The market environment entering 2025, with higher interest rates, normalizing inflation, resilient economic growth, and heightened geopolitical concerns, is offering a new vantage point for investment decision-making. We anticipate these new and interesting dynamics to offer four major investment themes for public funds in the upcoming year.

### 1. Fixed Income Portfolio Construction

Typically, liquid core fixed income mandates are heavily anchored to the Bloomberg Aggregate Index. This benchmark's profile has evolved over the past several years and now offers roughly 80% government-related risk and represents less than half of the publicly traded fixed income universe, as shown in the following exhibit.

**U.S. Aggregate Index (Compared with Approximate U.S. Credit Universe)**




Note: The credit universe refers to debt instruments including traditional fixed income, but not restricted to government debt, MBS, IG corporate debt and ABS. In this context, we are also including ABF, Bank Loans, Commercial Real Estate Debt, US HY and Direct Lending within the credit universe.

Source: JPM, Apollo, KKR, data as of March 29, 2022 source SIFMA, Bloomberg, The Federal Reserve, US Agencies, US Treasury. Note: CRE data as of Q2 2021, Source: Nareit, CoStar, Green Street.

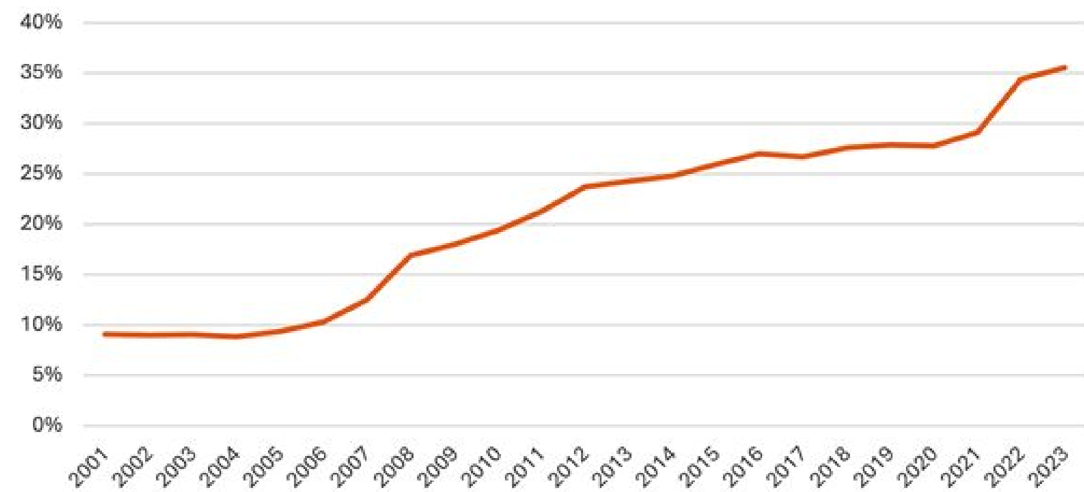
There are potential advantages for investors to branch out beyond the Aggregate Index. Other areas that are attractive include private corporate credit, asset-based finance/securitized credit, specialty finance, and opportunistic credit. Opportunities span investment grade and high yield, as well as public and private markets. These types of securities can offer greater yield premiums for illiquidity, complexity, and simply being outside major indices. We believe these opportunities can benefit a range of investors, spanning fixed income portfolios with conservative goals to those with return-focused objectives.

## 2. Assess Liquidity

A key reason liquidity is important is that it affects the opportunity set of investments that public funds can consider. For plans already stretched on liquidity, there may not be significant ability to expand investments in illiquid assets without creating unwanted risks. Whereas public plans with capacity to invest in more illiquid assets have greater ability to consider increasing existing allocations and/or adding new allocations to illiquid assets.

Public funds have been increasing their allocations to alternative investments (many of which are considered illiquid investments) for decades, as shown in the following exhibit.

**Allocation to Alternative Assets for State and Local Pension Plans**




Source: Public Plan Data (https://publicplansdata.org/). This exhibit defined alternative assets as all asset categories other than public equity, fixed income and cash. The largest of those segments are private equity, real assets, and hedge funds. The sample spans fiscal years 2001 to 2023 and includes 229 plans (121 state-run and 108 locally run) which account for 95% of state/local pension assets and members in the U.S.

As we enter 2025, many public funds are at or above their target allocations for illiquid assets, while many opportunities for alternative investments look attractive. As a result, many plan sponsors are evaluating their capacity to increase target allocations to illiquid assets. This requires careful analysis of each fund's unique circumstances, and importantly, specific cash flow expectations under a range of potential economic scenarios.

## 3. Reevaluate Opportunities in Private Markets

Our third theme for 2025 is reevaluating opportunities across private markets. As noted in Theme 2 of assessing liquidity, it is crucial to understand the capacity for illiquidity when determining whether to delve further into private markets. Changing market conditions reshuffles the attractiveness of various strategies across private markets, making many investors reevaluate their allocations. Most notably, the interest rate environment today impacts the relative attractiveness of many types of private assets where the returns are tied to interest rates (e.g., direct lending), where leverage is used (e.g., core real estate), or where performance is influenced by cash returns (e.g., some hedge funds using derivatives).

The growth in private markets has been significant and there is a myriad of potential roles these strategies play, such as return enhancement, diversification[1], inflation hedging, and impact investing, to name a few. We anticipate private market allocations to continue to increase through 2025, with particular focus on aligning exposure with areas deemed most attractive, such as various forms of private credit and real assets.

### 4. Evaluate Governance

Governance is primarily about having the processes in place to successfully determine and execute the investment views. We see an increased focus on governance by entities of all sizes, which is necessary as markets and investment solutions are getting increasingly complex. Strong governance is the foundation of a successful pension system.

Some specific aspects of governance getting more attention from public funds recently include:

- articulating investment objectives and beliefs (including on topics related to responsible investing and diverse manager initiatives)
- addressing debates about ESG, risk management processes (operational due diligence has been getting greater focus)
- processes for vetting new investments (to make sure there are sufficient controls, without limiting flexibility too much)
- setting actuarial parameters like the assumed long-term return on assets.

Governance will be the key lens by which each fund sets its priorities and executes its action plan in the upcoming year. We see many public funds assessing whether they have the right team, reporting structure, and policy documents for the increasing complexity of managing investments. ◆



***Katie Comstock*** *is a Partner and Public Sector Solutions Leader for Aon Investments USA. Her primary focus is consulting within the public arena on governance, investment policy, asset-liability analysis, asset allocation reviews, risk budgeting, and portfolio structure. In her role as Solutions Leader, Katie coordinates the firm's strategic efforts across solutions, thought leadership and market presence.*

***Julie Becker*** *is a Partner, leader of Aon's Fiduciary Services practice, and Leader of Aon's Public Sector Fiduciary & Governance Solutions. She is responsible for providing fiduciary and governance advisory services to various institutional decision-makers. Julie also helps coordinate the firm's strategic efforts across public fund solutions, thought leadership and market presence.*

*Endnotes:*

[1] Diversification does not ensure a profit, nor does it protect against loss of principal. Diversification among investment options and asset classes may help to reduce overall volatility.

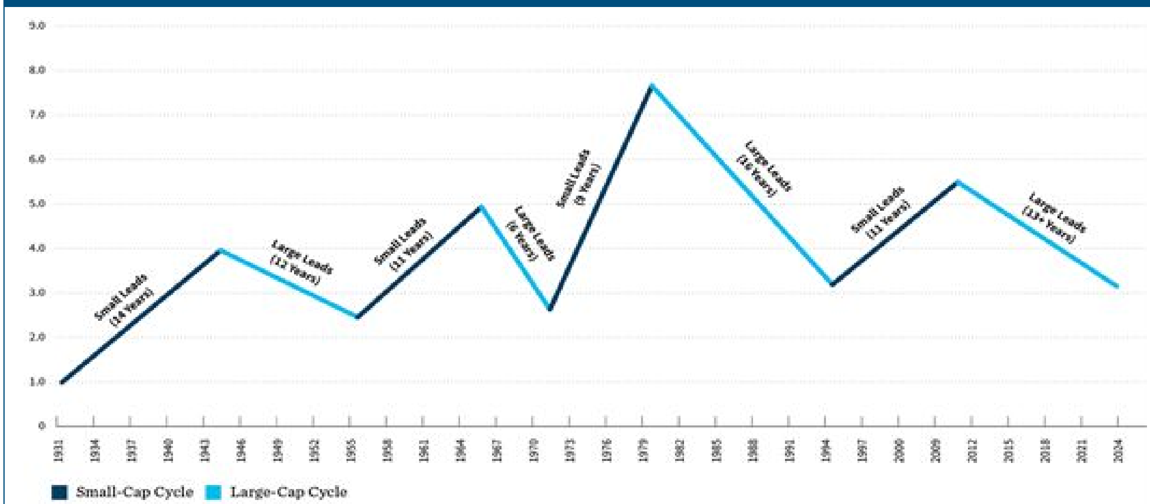
# Why U.S. Small- and Mid-Cap Equities Now?

By: Rob Lanphier, Tara Patock, Aaron Socker, and Aden Gebeyehu, William Blair

Photo illustration © 2025, istock.com

We believe the rationale for investors to look favorably on U.S. small- to mid-cap (SMID) equities has been building for several years, but as we have been reminded, relative valuation in comparison to large caps is not necessarily sufficient. Below we observe several factors that may already have begun to attract investor attention.

**U.S. Small-Cap/Large-Cap Relative Index Performance (1931 to Present)**

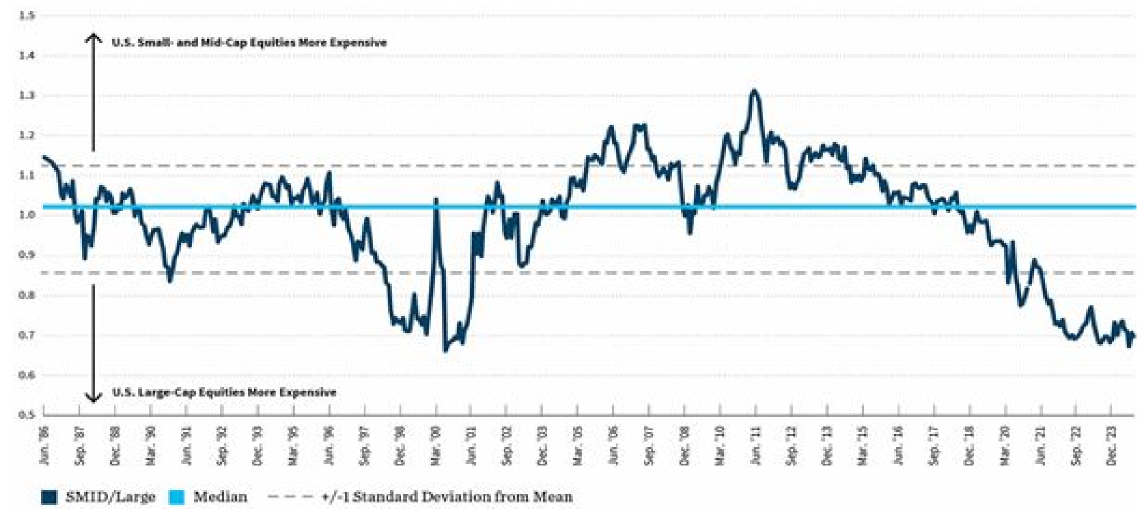



Sources: Furey Research Partners and William Blair, as of September 30, 2024. Small caps are defined by the CRSP 6-8 Decile Index from 1931 to 1978 and the Russell 2000 from 1979 to 2024. Large caps are defined by the S&P 500 Index. Y axis shows the ratio of small-cap/large-cap index values at each point in time. **Past performance is not indicative of future returns.** A direct investment in an unmanaged index is not possible.

### Market Leadership May Be Shifting

Stepping back and looking at nearly a century of market performance, it is clear that there are distinct periods of underperformance and outperformance for U.S. smaller- and larger-cap companies. For the last 13-plus years (from 1/1/2011 to 9/30/2024), larger caps have dominated.

**Relative Forward P/E: SMID- vs. Large-Cap Equities**

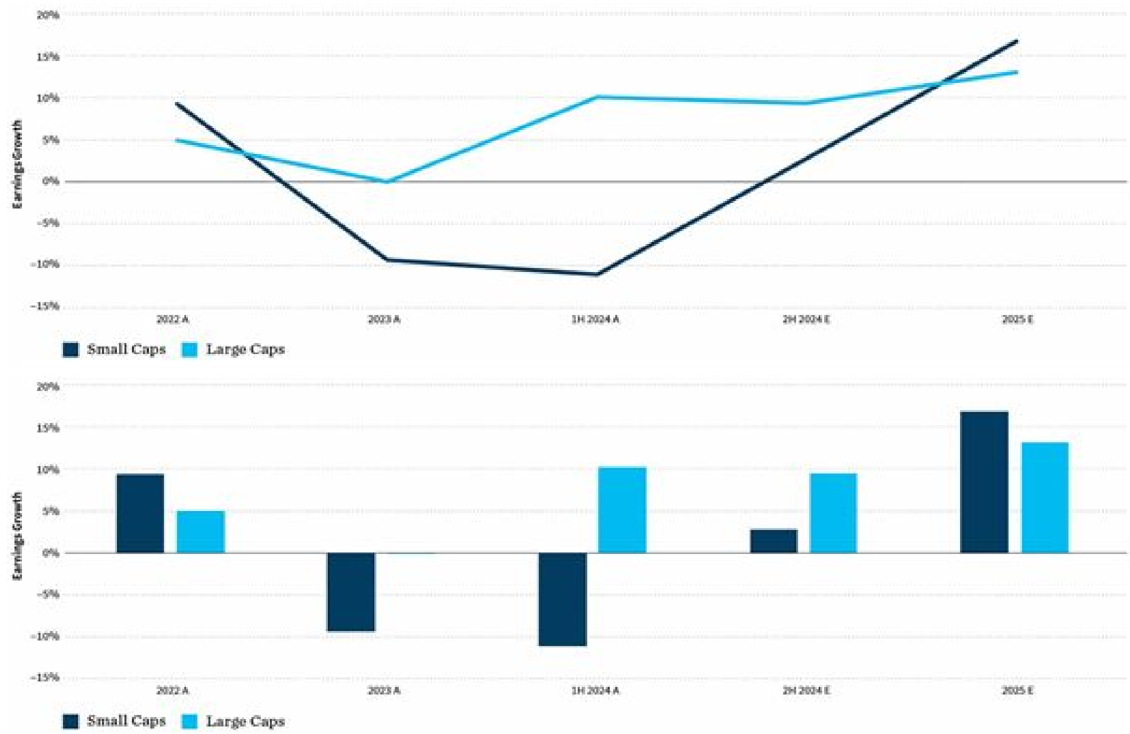



Sources: Bank of America Merrill Lynch and William Blair, as of September 30, 2024. Large-cap equities are represented by the Russell Top 200 Index, and SMID-cap equities are represented by the Russell 2500 Index. A direct investment in an unmanaged index is not possible. Valuation methodology excludes unprofitable companies.

### U.S. SMID-Cap Valuations Are at Generational Lows

From a relative valuation perspective, the disparity between U.S. SMID-cap and large-cap companies has continued to grow. Today, U.S. SMID caps are at generational lows from a forward price-to-earnings (P/E) perspective, as demonstrated by their 38-year history.

**Expected Earnings Growth: U.S. Small- vs. Large-Cap Equities**

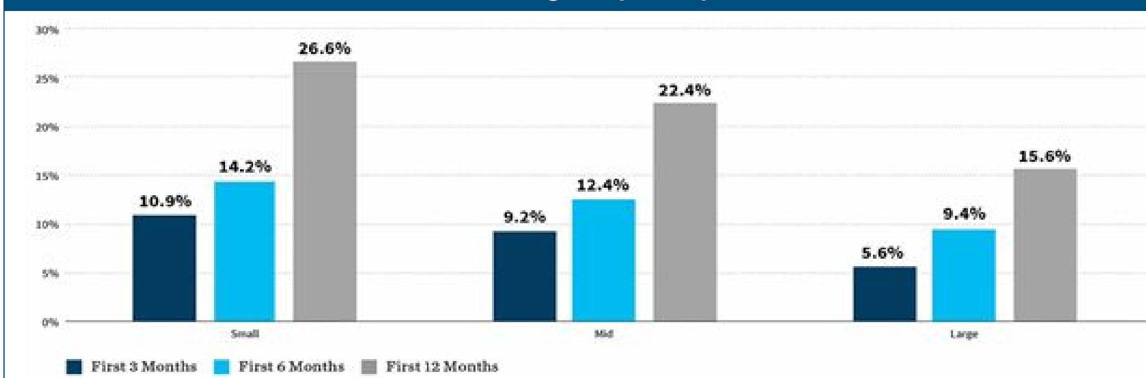



Sources: FactSet, Standard & Poor's, Jefferies, and William Blair, as of September 27, 2024. Estimates represent consensus expectations for year-over-year earnings growth for small-and large-cap equities (represented by the S&P 600 Index and S&P 500 Index, respectively). A refers to actual; E refers to estimated. A direct investment in an unmanaged index is not possible.

### Expected Earnings Growth for U.S. SMID Caps Has Improved Materially

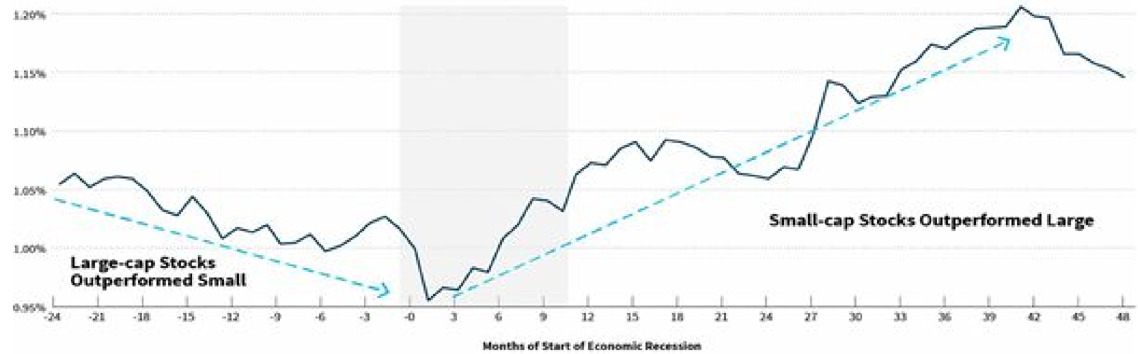
From a fundamental perspective, Wall Street analysts anticipate stronger small-cap growth in 2025 for the first time in several years. Compelling valuations and stronger fundamentals could provide a meaningful tailwind for this asset class.

**Performance of Small-, Mid-, and Large-Cap Companies After the First Rate Cut**




Sources: Federal Reserve Board, Haver Analy tics, Center for Research in Security Prices, The University of Chicago Booth School of Business, Jefferies, and William Blair, as of 10/31/2023. **Past performance is not indicative of future returns**. A direct investment in an unmanaged index is not possible.

**Average Relative Performance of U.S. Small- vs. Large-Cap Equities, Last Six U.S. Recessions (1980 to 2022)**




Sources: William Blair and Bloomberg, as of October 31, 2023. Small cap is represented by the Russell 2000 Index. Large cap is represented by the S&P 500 Index. Shaded bar represents the average length of a U.S. recession since 1980. Past performance is not indicative of future returns. A direct investment in an unmanaged index is not possible.

## U.S. SMID Caps Have Historically Outperformed After U.S. Rate Cuts and Recessions

Looking at historical market behavior, U.S. smaller-cap equities have generally outperformed after a first rate cut by the U.S. Federal Reserve or an actual recession in the United States.

## M&A Activity Could Tip the Scales in Favor of U.S. SMID Caps

Mergers and acquisitions (M&A) transaction volume was strong in 2024, and that is often a signal for smaller-cap investors, because Wall Street can pick up on what large-cap companies are viewing as attractively valued assets.

## Onshoring Could Benefit U.S. SMID Caps

The secular onshoring trend has continued, with more U.S. multinationals bringing their products, services, and intellectual property back to the United States given heightened tariffs, supply-chain disruptions, and geopolitical tensions globally. This has created an unusual opportunity for smaller, more U.S.-centric (local) companies to benefit as jobs, infrastructure, and economic stimulus broadly from secular capital inflows.

## In Conclusion

In summary, there is no perfect method for calling the timing of the market's potential pivot toward non-large equities. We would advocate for investors to consider combining an asset allocation of large caps with a non-large portfolio. However, over the last few months SMID caps have begun to outperform. From July 11, 2024, when U.S. Federal Reserve Chairman Jerome Powell pivoted his language from rate tightening to cutting, through the end of September, the Russell 2000 Growth Index has outperformed the Russell 1000 Growth Index by 961 basis points.[1] While too soon to suggest that a pivot to non-large-cap equities has started in earnest, we strongly believe it's a solid step in the right direction. ◆

***Rob Lanphier**, partner; **Tara Patock**, partner; **Aaron Socker**; and **Aden Gebeyehu** are portfolio specialists for William Blair's U.S. growth and core equity strategies.*

*Endnotes:*

[1] From 7/11/24 to 9/30/2024, the Russell 2000 Growth Index returned 7.92% and the Russell 1000 Growth Index returned -1.69%.

# 2025 Outlook: Preparing for a New World Order that Started to Unfold Even Before the US Election

By: Adam Farstrup, Schroders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Many prognosticators are gauging what "Trump 2.0" will bring for financial markets. The policies of the new administration will significantly impact the US and global economy, presenting considerable opportunities for investors. However, the likelihood of continuing geopolitical tensions and trade wars necessitates that pension plans ensure proper diversification to maintain resilient portfolios through 2025.

> *Before the US elections results, a shift was already underway in the global economic regime.*

### A move away from the post-GFC regime

Before the US elections results, a shift was already underway in the global economic regime. The post-Global Financial Crisis (GFC) environment of tight fiscal policies, zero-interest-rates, and liberalized trade had already come to an end. This shift became evident post-pandemic as fiscal spending increased and high inflation brought a return of high interest rates. In the 2024 Schroders Global Investor Insights Survey (GIIS), 82% of US pension plans said high interest rates will influence their portfolios' performance over the next 12 months, and 80% noted central bank policies will have a key impact.

The call for more tariffs reflects another departure from globalization, a trend that had already begun with tariffs imposed during President Trump's first term, which the Biden Administration did not reverse.

### A soft landing likely with a return to moderate growth

Today, the economic backdrop is benign. Inflation is moving in the right direction, and interest rates are falling in the US and Europe. We expect a soft landing, as central banks' efforts to curb inflation deliver slower growth without a recession. We also believe economic growth will reaccelerate as we move through 2025.

Recent gains in the equity market have primarily come from the "Magnificent Seven" tech stocks, which accounted for over 50% of the US equity market's return in the first half of 2024. While the concentration of the US equity market has peaked, signs suggest the market is ready to broaden, supported by President Trump's promises to cut regulations and reduce corporate tax rates.

Overall, we are seeing strong interest in international equities among US public pensions. This interest seems based on the expectation that, after such an extended period of outperformance from US stocks, returns for both US and international will revert to their long-term averages. Among those who prefer to avoid a top-down call on the US, there is increased interest in global equity strategies for the combined exposure to both US and international stocks.

*Inflation is moving in the right direction, and interest rates are falling in the US and Europe.*

### Tariffs' impact and inflation risks

Increased tariffs may cause more US companies to onshore their supply partners, boosting the US economy. While other countries may suffer from the lost trade, we expect governments will increase fiscal spending to help offset the negative impact of fewer trading opportunities with the US. We believe these developments will generate positive returns for equities in 2025, and investors may be well served by looking beyond the stocks that have been recent winners.

Still, challenges loom on the US economic front. Relaxed regulations, corporate tax cuts, and tariffs that promote onshoring could make the US economy "too hot." The loss of workers from stricter immigration policies could add to the inflationary pressures and restrict the US Federal Reserve's ability to deliver rate cuts.

*Relaxed regulations, corporate tax cuts, and tariffs that promote onshoring could make the US economy "too hot."*

## Fixed income provides income once again

With the return of higher interest rates, fixed income is once again delivering high yields. Even if bonds do not provide much diversification from stocks, they warrant including in portfolios the income they now offer. With fiscal and monetary policy diverging across the globe, there are also more opportunities to gain additional return by diversifying across different countries' bonds and currencies.

## Diversification will be critical

While the economic outlook appears favorable, numerous market risks remain. Disruption from ongoing conflicts in the Middle East and Ukraine will continue to impact global markets. Dynamic asset allocation and diversification into commodities like gold and energy will be crucial for resilience amid market turbulence. Furthermore, investments in private markets can enhance diversification by providing exposure to asset classes with distinct return drivers that are often insulated from geopolitical events.

Again, the Schroders GIIS indicates that retirement plan sponsors are responding to these challenges. To enhance diversification, 94% of surveyed pension funds are already investing in, or planning to add, private equity, private debt, and renewable infrastructure. While the right positioning can capitalize on the opportunities in 2025, effective diversification across regions and asset classes will be vital for maintaining portfolio resilience. ◆

***Disclosures:***

*All investments involve risk, including the loss of principal. Past performance provides no guarantee of future results and may not be repeated. The views shared are those of the author and may not reflect the views of Schroders Plc or any of its affiliates. Information herein has been obtained from sources we believe to be reliable but Schroders Plc does not warrant its completeness or accuracy. No responsibility can be accepted for errors of facts obtained from third parties. Reliance should not be placed on the views and information in the document when taking individual investment and /or strategic decisions. Any mention of industries or sectors is for informational purposes only and should be interpreted as a recommendation to invest or divest in any company or adopt a particular investment strategy. Schroder Investment Management North America Inc, registered as an investment adviser with the SEC, CRD Number 105820.*

***Adam Farstrup*** *is the Head of Multi-Asset, Americas at Schroders, where he manages a team focused on delivering solutions that utilize a risk premia-based approach. He leads Multi-Asset efforts in the Americas, participating in investment discussions and client solutions. Adam has been with Schroders since 2007 and is based in New York. Previously, he served as Product Manager for the Global and International Equity team from 2007 to 2013, communicating investment strategies to clients. From 2003 to 2007, he was the Chief Investment Officer of Multi-Manager Solutions at Rogerscasey, overseeing investment programs. Earlier roles included Director of International Equity Manager Research at Rogerscasey. Adam is a CFA Charterholder and holds a BA in Economics from Muhlenberg College. He is a member of the CFA Institute and CFA Society New York.*

# REITs in 2025: Positioning for Growth in a Transforming Landscape

By: David Sullivan, Nareit

Photo Illustration © 2025, istock.com

In 2024, real estate investment trusts (REITs) demonstrated resilience amid challenging economic conditions, navigating higher interest rates with robust balance sheets, efficient capital market access, and sound operating performance. Year-over-year comparisons for the first three quarters of 2024 showed over 3% growth in aggregate net operating income and dividends. The FTSE Nareit All Equity REIT Index recorded a 14% total return through Nov. 30, 2024, outperforming private real estate by more than 17 percentage points as private valuations slowly adjusted to the rising rate environment.

*Looking ahead, 2025 may bring moderating interest rates alongside steady economic growth — a potential "soft landing."*

Looking ahead, 2025 may bring moderating interest rates alongside steady economic growth — a potential "soft landing." However, challenges such as sluggish property fundamentals in certain sectors, fiscal uncertainties, and disruptive trade policies pose risks. Against this backdrop, REITs are well-positioned to capitalize on emerging opportunities by driving accretive growth, embracing key real estate trends, and offering institutional investors an efficient pathway to diverse, scalable, and innovative commercial real estate exposure.

Three factors are expected to energize the commercial real estate market:

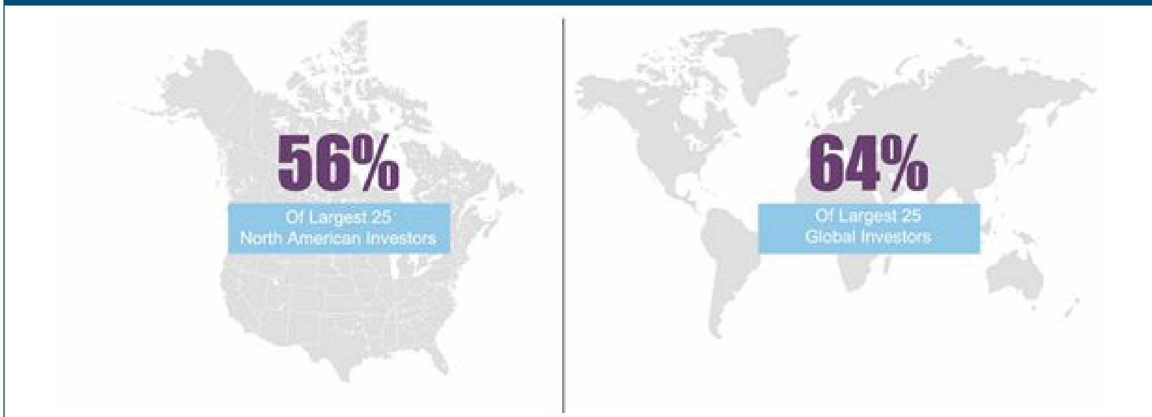
1. **Economic Soft Landing**: Stabilizing growth and interest rates could catalyze broader investment activity.
2. **Public-Private Valuation Equilibrium**: The convergence between public REIT and private real estate valuations continues, narrowing the cap rate spread from 212 basis points at the end of 2023 to 69 basis points by late 2024.
3. **Transaction Market Revival**: Realignment in valuations should stimulate property deals, benefiting REITs' growth prospects.

REITs' agility in navigating market volatility, superior liquidity, and transparency makes them essential tools for institutional portfolio strategies.

### Expanding REIT Adoption Among Institutional Investors

Institutional use of REITs has grown significantly, driven by their ability to meet evolving investment objectives. REITs are utilized in the real estate allocations of close to 60% of the 25 largest North American institutional investors.

**Large, Sophisticated Institutional Investors Use REITs with Private Real Estate**
**Institutional investors' REIT usage**




Sources: Annual reports
Note: Figures represent public plans and sovereign wealth funds that invest at least 1% of their total AUM in real estate and invest in REITs as part of their Real Estate allocation. North America includes U.S. and Canada, Global includes U.S., Canada and rest of World. Does not include investors who use REITs solely as part of their equity allocation. Data as of Dec. 31, 2023

Institutional investors value REITs for:

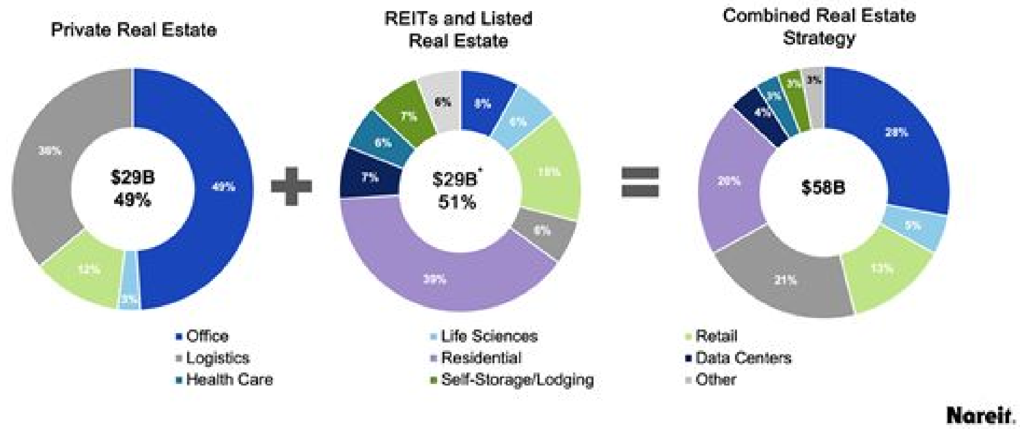
- **Geographic and Sector Diversification**: REITs offer exposure to sectors like data centers, health care, telecommunications, and logistics.
- **Tactical Allocation Opportunities**: REITs' liquidity and short-term valuation dynamics enhance flexibility.
- **Portfolio Completion Strategies**: By filling gaps in property types or regions, REITs complement private real estate holdings effectively.

### Innovative Use Cases of REITs

During 2024, Nareit released a series of case studies illustrating how institutional investors are strategically incorporating REITs to achieve their real estate portfolio objectives, including enhancing diversification and driving returns. These examples offer valuable real-world insights for other institutional investors:

1. **Norges Bank Investment Management (NBIM)**: NBIM manages Norway's sovereign wealth fund and oversees $1.7 trillion in AUM, including approximately $58 billion in real estate. It invests 51% in REITs and 49% in private real estate to enhance diversification, access new and emerging property sectors, and optimize cost management.

**Norges Bank Investment Management Real Estate Portfolio**

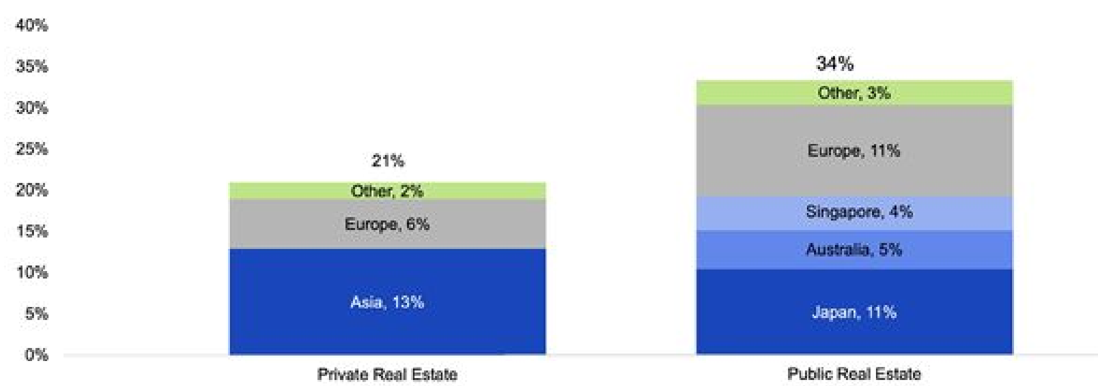



Source: NBIM, EPRA. Data as of Dec. 31, 2023.
(*) Actively managed positions within real assets.

The chart above shows how Norges uses public and private real estate in one portfolio. The REIT strategy gives Norges access to sectors like residential, data centers, health care, self-storage, and lodging, which private funds or direct investing may not be able to efficiently access. Office properties make up nearly half of Norges' private portfolio, but this exposure drops to 28% of the total portfolio when REITs are included. Norges' strategy shows how REITs play a crucial role in improving and "completing" sector diversification and the overall risk-return profile of the fund.

2. **Employee Retirement System (ERS) of Texas**: Texas ERS manages approximately $38.2 billion in AUM and allocates 12% of it to real estate. Within that real estate allocation, ERS has a 25% target for REITs. ERS uses REITs to gain geographic and property sector diversification.

**Texas ERS Real Estate Exposure Outside of North America**




Source: Employee Retirement System of Texas (ERS).
Note: Geography figures weighted by NAV, Feb. 2024. ERS has about $37.8 billion in total AUM as of Dec. 31, 2023, and a 12.3% allocation to real estate comprised of public and private investments.

Global listed real estate, especially in Asia, is a key growth area for ERS, offering unique access to high-quality assets in foreign markets. The chart above shows how the public real estate portfolio with REITs has 37% exposure to foreign real estate, compared with just 21% in the private real estate portfolio. By using REITs, ERS achieves geographic and property sector diversification otherwise unachievable in a private real estate portfolio.

## Sector Evolution and Future Prospects

As the global economy evolves, institutional interest is gravitating toward modern real estate sectors like technology infrastructure and specialized health care that REITs operate in. Offering transparency, liquidity, and operational efficiency, REITs meet core institutional needs while providing access to high-growth property markets. Increasingly central to institutional strategies, REITs deliver diversified, scalable, and innovative real estate investments. Their ability to bridge valuation cycles, respond to emerging trends, and optimize portfolios ensures their enduring relevance in a dynamic landscape.

***David Sullivan** leads institutional pension plan, foundation and endowment outreach for Nareit, the trade association for U.S. listed real estate. Nareit's mission is to actively advocate for REIT-based real estate investment with policymakers in the US and abroad as well as the global investment community. As part of this, Mr. Sullivan promotes and facilitates real estate investment through REITs to institutional investors and their consultants worldwide. This includes organizing roadshows, hosting meetings and other marketing outreach targeted to institutional real estate investment officers around the world.*

# 2025 Outlook: Themes for a New Economic Landing

By: Saira Malik, Anders Persson, and Biff Ourso, Nuveen

Photo Illustration © 2025.adobestock.com

Economic landing scenarios are subjective. And from our perspective, it feels like the post-pandemic global economy has fundamentally changed. Swings in consumer behavior, technological advancements, political shifts, global trade, and capital flows have created a world where inflation and monetary policy rates have settled into a new, higher-than-2020 equilibrium. This new, higher landing zone has significant implications in 2025 and beyond for how investors approach portfolio construction and find opportunities across asset classes.

### Fixed income: best ideas

- Securitized assets and senior loans both offer solid value while avoiding duration risks.
- For municipal bonds, we particularly favor high yield municipals, which offer compelling yields and appear attractively valued.

### Investment positioning

The global macroeconomic backdrop continues to favor fixed income investments. Most global central banks are in a slow easing mode. While inflation risks remain, they are less acute than earlier in the cycle. According to our upcoming EQuilibrium global institutional investor survey, only 28% of U.S. public pensions are planning to increase inflation mitigation strategies in 2025, as compared with 41% who were planning increases in 2024. We expect long-end interest rates to remain relatively elevated and largely range-bound over the course of 2025. But, critically, even if rates remain elevated, current yields still offer compelling income.

*While the U.S. Federal Reserve and other central banks are cutting rates, we don't anticipate quick or dramatic declines.*

Given this backdrop, we think it makes sense to stick with an overall neutral duration stance (and investors still holding high levels of cash should consider lengthening duration). While the U.S. Federal Reserve and other central banks are cutting rates, we don't anticipate quick or dramatic declines. Note, however, that we think it makes sense to adopt a longer-duration stance in municipals given that the muni bond yield curve remains steeper than the U.S. Treasury curve.

Consistent with our views on duration, we have a generally unfavorable view toward U.S. Treasuries (we see better value elsewhere) and investment-grade bonds (spreads are tight and the duration profile is longer than we prefer). In contrast, we favor high yield (especially higher quality segments that can weather slowing growth), securitized assets (where asset-backed and commercial mortgage-backed segments offer value), and senior loans (which look increasingly attractive given the higher-for-longer rates environment). We are moving toward a more neutral view on preferred securities given recent strong performance, although we see value in $1,000 par securities where spreads offer value.

Municipal bonds enjoy strong and stable credit quality. State and local governments have solid balance sheets and ample liquidity; and the municipal market features attractive supply/demand dynamics. We see broad opportunities in tax-backed areas of the traditional tax-exempt market, as well as in taxable municipals for non-U.S. investors. We are focused on the high yield and specialty- and property-tax-backed areas.

We remain constructive toward private credit markets, especially if we only experience a mild economic slowdown. According to our upcoming EQuilibrium survey, U.S. public pensions picked private fixed income as their top debt sector for planned allocation increases over the next two years.

### Real assets: best ideas

- In public markets, our best ideas include North American senior housing (demographic trends, plus opportunities for industry consolidation) and AI-related infrastructure, especially areas like electric utilities that have yet to fully realize potential benefits.
- Across private markets, we continue to focus on investments that align with climate and digital transformations, such as clean energy generation and data centers, as well as strong global demand for protein and healthy foods.

### Investment positioning

We see value in public infrastructure, but the combination of recent strong performance and the potential for changes in U.S. regulatory and tax policies cause us to approach this area with increased caution. Within infrastructure, we see significant opportunities in data centers and investments associated with electrification, given increased demand for power.

For public real estate, we think fundamentals and earnings prospects look solid, and this area should benefit from still-solid economic growth. We see particular value in senior housing, where supply is limited and demand is growing.

We also see compelling opportunities across private real assets. Our infrastructure investment themes remain focused on ongoing digitization (such as AI-driven data centers) and clean energy transition (with a focus on electrification in the form of solar, battery storage and offshore wind). We also see opportunities in agribusiness investments, including investments that focus on food ingredient processing that can reduce in-store labor at quick-serve restaurants (a growing area of the market).

We are growing increasingly cautious towards commodity investments. The likelihood of a stronger U.S. dollar and prospects for higher tariffs are likely to be negatives for this area. ◆

To read our full outlook, visit https://www.nuveen.com/global/insights/investment-outlook/annual-2025-outlook.

***Disclosures:***

*Past performance is not a guide to future performance. Investment involves risk, including loss of principal. The value of investments and the income from them can fall as well as rise and is not guaranteed.*

*Private equity and private debt investments, like alternative investments are not suitable for all investors given they are speculative, subject to substantial risks including the risks associated with limited liquidity, the potential use of leverage, potential short sales, concentrated investments and may involve complex tax structures and investment strategies.*

*This information does not constitute investment research as defined under MiFID.*
*Nuveen, LLC provides investment solutions through its investment specialists. GAR-GWP-4108763-0625*

***Saira Malik, CFA****, is Head of Nuveen Equities and Fixed Income, Chief Investment Officer (CIO) and a member of the Executive Management Team. She leads a business with more than $1 trillion in assets under management across equities, global fixed income, EIC, municipal bonds, multi-asset strategies, private placements, public real assets and C-PACE lending, along with driving weekly market and investment insights and delivering client asset allocation views from across the firm's investment teams. Saira holds the CFA designation and graduated with a B.S. in Economics from California Polytechnic State University and an M.S. in Finance from the University of Wisconsin.*

***Anders Persson, CFA****, is the fixed income chief investment officer and a member of the Nuveen Senior Leadership Team. He oversees all public and private global fixed income activities, including portfolio management, research, trading and investment risk management activities. Anders is also member of the Global Investment Committee and chairs the Global Fixed Income Investment Council. Anders graduated with a B.S. from Lander College and an M.B.A. from Winthrop University. He is a member of the CFA Institute and the North Carolina Society of Security Analysts.*

***Biff Ourso, CFA****, is Global Head of Infrastructure for Nuveen, and a member of the Senior Leadership Team. He is responsible for leading Nuveen's global private infrastructure group. In this role he leads the strategic direction and execution of investment activities and funds in the agribusiness, clean energy, and diversified infrastructure sectors. Additionally, he is a member of Nuveen's Global Investment Committee. Biff graduated with a B.A. in Economics from Davidson College and holds the Chartered Financial Analyst designation.*

# Legislative and Regulatory Outlook for Texas Public Pension Systems in 2025

By: Sherry Mose, City of Houston Deferred Compensation Plan and TEXPERS

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With the 89th Legislative Session set to kick off January 14, Texas is gearing up for a season of policy discussions that could shape the future of public pension systems across the state. The Texas Association of Public Employee Retirement Systems (TEXPERS), representing 85 pension plans for police officers, firefighters, municipal workers, and other public servants, is ready to advocate for these vital systems' continued strength and sustainability.

The Session brings not only legislative opportunities but also changes in the composition of the Legislature itself, with a significant number of new faces in both chambers. Combined with ongoing challenges like inflation, workforce trends, and funding pressures, 2025 promises to be an important year for Texas pensions.

### The Legislative Landscape: House and Senate Composition

After recent elections, the Legislature retains its Republican majority:

- **Texas Senate**: 20 Republicans, 11 Democrats, representing an average of 940,178 Texans across 31 districts.
- **Texas House**: 88 Republicans, 62 Democrats, with 150 districts averaging 194,303 Texans each.

### The Legislative Landscape: Fresh Faces in the 89th Session

This Session will see an influx of new lawmakers:

- **Texas Senate**: 3 freshmen (2 Republicans, 1 Democrat)
- **Texas House**: 32 freshmen (26 Republicans, 6 Democrats)

These new legislators bring fresh perspectives but must be quickly updated on the complexities of public pension systems. TEXPERS will prioritize outreach and education to ensure they understand the value of these plans and the importance of preserving their integrity.

### Progress Worth Celebrating

Texas' public pension systems have made remarkable progress over the past decade, thanks to thoughtful legislation and diligent management:

- **Funding Improvements**: As of mid-2024, only nine pension systems have amortization periods exceeding 40 years, a significant improvement from 2014. Most systems are now meeting or nearing the 30-year target, demonstrating the effectiveness of the *Funding Soundness Restoration Plan* requirements.

- **Actuarial Adjustments**: Pension systems have continued to lower their target rates of return to reflect realistic market expectations. By 2024, 57 systems had reduced targets to 7% or below, and those remaining above this threshold are actively working to adjust.

- **Enhanced Education for Trustees**: Since 2015, mandatory education requirements have ensured trustees have the training to manage pension plans effectively. TEXPERS has led the charge, providing over 34,000 hours of instruction to more than 4,300 trustees and staff, covering topics like actuarial science, fiduciary responsibility, and investments.

### Key Issues for the 2025 Session

The upcoming Legislative Session could potentially focus on several critical issues for public pensions:

- **Cost-of-Living Adjustments**: Retirees' purchasing power is likely to be impacted by inflation. To balance retiree needs with long-term pension plan health, policymakers may examine frameworks that tie COLAs to funding benchmarks or investment performance.

- **Preserving Local Control**: Texans' system of local control has enabled pension boards and city sponsors to collaborate. TEXPERS will advocate for maintaining this autonomy, which has consistently proven effective in resolving issues tailored to each system's needs.

- **Strengthening Funding Policies**: To maintain pension system fiscal health, legislators may push for stricter funding policies, including enhanced transparency and accountability.

- **Investment Innovation**: Legislators may push pension systems to better understand fiduciary duties and support innovative investment strategies.

- **State Investment Shifts**: Changes at the state and federal level, including potential updates to environmental, social, and governance investment rules, could trickle down to municipal pension systems across the state.

### A System That Works

Despite challenges, Texas' public pension systems remain a model of effectiveness and adaptability. Whether it's city workers responding to Hurricane Harvey in 2017 or firefighters assisting during the Smokehouse Creek Fire in 2024, the commitment of public employees underscores the importance of securing their retirement futures. These systems are proof of the success of Texas' legislative framework, which balances fiscal responsibility with retirement security.

The Texas Pension Review Board's reports consistently affirm this, highlighting the strength of local control and the collaboration between pension boards and city sponsors. These structures ensure that challenges are addressed while maintaining flexibility to adapt to changing needs.

### Looking Ahead

As we prepare for the 2025 session, TEXPERS will continue to advocate for policies that strengthen Texas' public pension systems while preserving their integrity. By working with lawmakers, city sponsors, and pension boards, we can build on past progress and address new challenges, ensuring these systems remain vital for future generations.

The 89th Legislative Session presents an opportunity to honor the public employees who dedicate their lives to serving Texans. By securing their pensions, we secure the future of the communities they protect and sustain. Together, we can continue to move forward. ◆

***Sherry Mose** is a dedicated leader in public employee retirement systems, currently serving as President of the Board of Directors for the Texas Association of Public Employee Retirement Systems (TEXPERS). She is the Plan Administrator for the City of Houston Deferred Compensation Plan, overseeing all aspects of the program. In 2006, Mose founded the Financial Retirement Educational Event (F.R.E.E. Summit) to educate city employees about pensions and retirement planning. Over 16 years, this event has benefited more than 23,000 city employees.*

*As Chair of the Houston Municipal Employees Pension System (HMEPS) and a Board Member of TEXPERS and the National Conference on Public Employee Retirement Systems (NCPERS), Mose demonstrates impactful leadership. Her honors include the NAGDCA Leadership Recognition Award and the Joyce Johnson Award from NASP. Mose is an active community volunteer who mentors youth through River Pointe Church and supports initiatives promoting diversity and professional growth for women.*

# User Stories for Communications Managers

By: Laurie Mitchell, Tegrit

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When your organization is tweaking an existing pension administration system (PAS), conducting a significant upgrade or buying new, that is your opportunity to elevate your communication tools. Seize the moment to participate in writing requirements to promote the importance of communications and ensure that the tools you need for your daily work are included in the PAS changes.

Modern advice is to avoid solution-specific requirements and instead express a requirement as a need in a user story. User stories have become popular for requirements because:

- They are written from the perspective of a person (role) who will use or be impacted by the feature.
- They provide meaningful context for why the person needs the requirement.
- They help define high-level requirements without diving into low-level detail too early.

Perhaps most importantly, by not tying the requirement to a solution, your developers will have more flexibility in finding a creative and optimal solution.

User stories typically follow this format.

***Who... ...wants... ...because Why***

For background on writing user stories, see the additional resources linked below. This article focuses on the kinds of user stories communications managers need most. When writing your stories, consider the tools that you use every day to manage messages to your customers. For each of these, you are the WHO asking for WHAT you want BECAUSE YOU NEED effective, timely, professional communication deliverables. Here are some ideas for you to use when you are ready to make changes to your pension administration system.

***As a communications manager…***

I want to use both email and print to deliver marketing messages to targeted groups of customers
so I can educate our members on their pension system opportunities and inform them of issues with their accounts.

I want my communications team to create and maintain the member-facing emails and letters in the system
so that timely changes can be made without the assistance of a developer.

I want automatic, real-time affirmations delivered by email to the member for each transaction completed in the member portal
so that the member knows the transaction is done and internal users do not have to create the correspondence.

I want multiple options for fonts, styles and paragraphing available when creating emails/letters in the system
so that those materials represent the pension system professionally.

I want outbound printed letters/forms to be batched and delivered for centralized printing
so that internal users are not printing/folding/stuffing mail.

I want to generate a list of all system emails/letters (with their tracking numbers) and the workflows each letter is generated from
so I can audit the communications and schedule them for review.

I want to send broadcast email messages to all employers at one time
so we can keep employers informed of upcoming due dates, reports, system events or other plan activities.

Hopefully these examples will help you craft user stories that will get you and your team the tools you need to build and maintain your member-facing messages. ◆

For more reading on writing user stories, try these resources:
https://tech.gsa.gov/guides/effective_user_stories/
https://www.atlassian.com/agile/project-management/user-stories

***Laurie Mitchell*** *has worked in the pension industry since 2003 when she joined the Michigan Office of Retirement Services. There she served in many roles, including leading portions of their pension replacement project, and served eight years as their Customer Service Director. After retiring, she joined Tegrit where she serves as a Senior Business Consultant focusing on marketing and RFP management.*

# Creative Ways to Use AI for Member Communications

By: Jon Stuckey, Segal Benz, a member of the Segal family

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In the ever-evolving landscape of member communications, public retirement systems constantly seek new and innovative ways to engage their members. Generative Artificial Intelligence (AI), with its vast capabilities, offers an exciting frontier for transforming how we communicate complex benefits information. As benefits administrators, understanding and applying these cutting-edge tools can significantly enhance the quality and efficiency of our communications.

## Generating Ideas and Brainstorming

Generative AI can be an invaluable partner in the ideation process. By inputting a few keywords or concepts, AI can generate a multitude of ideas for newsletters, postcards, emails, or intranet posts. This can be particularly useful during brainstorming sessions, offering fresh perspectives and creative angles. AI can provide outlines, headlines, and even ready-to-use content snippets, which accelerates the content creation process and brings dynamic and engaging ideas to our benefits and communications teams.

## Simplifying the Complex and Cumbersome

Public retirement systems often need to convey intricate and detailed information about benefits, which can be overwhelming for members. Generative AI can play a pivotal role in simplifying complex content. AI tools can summarize lengthy documents, highlight key points, and translate technical jargon into plain language that's easy to understand. For example, AI-driven language models like Microsoft's Copilot can transform a dense policy document into a concise and reader-friendly article, helping members to easily grasp essential information.

### Creating Content

One of the most significant advantages of generative AI is its ability to efficiently create high-quality content. AI can draft comprehensive articles, FAQs, and personalized messages tailored to individual member profiles. Most AI engines can create good first-draft content that can then be validated and edited accordingly. For instance, if a retirement system needs to update its members about new regulatory changes, AI can quickly generate content that explains the changes, their implications, and any actions required from the members.

### Improving Customer Service

Generative AI can revolutionize customer service by providing instant and accurate responses to member inquiries. AI-powered chatbots and virtual assistants can handle a wide range of questions, from general information about benefits to specific queries about individual accounts. These tools can operate 24/7, offering members timely support and reducing the workload on customer service staff. Moreover, AI can analyze common questions and feedback, providing insights into areas where members may need more information or assistance.

### Creating Images and Audio Files

In addition to text, generative AI can produce visual and auditory content. AI tools can generate custom images, infographics, and even audio files to supplement written communications. For example, using platforms like NotebookLM, benefits administrators can create engaging visual aids that illustrate complex benefits structures or repurpose existing content to create a podcast-style conversation for members who prefer listening to reading. These multimedia elements can enhance the overall effectiveness of communications, catering to diverse member preferences and learning styles.

### Human Oversight Is Critical

While the capabilities of generative AI are vast, it is crucial to maintain human oversight to ensure that the technology is used responsibly and effectively. For example, it's up to humans to review and verify the accuracy of AI-generated content, check that the language is appropriate, and identify any potential biases. This critical evaluation helps maintain the integrity and reliability of the information being disseminated. By combining the efficiency of AI with the discernment and ethical considerations of human oversight, we can create communications that are not only informative and engaging but also trustworthy and fair.

### Conclusion

Embracing generative AI in member communications offers a wealth of opportunities to enhance engagement, clarity, and efficiency. As benefits administrators, using these tools can help us stay ahead in the rapidly evolving digital communications landscape. However, it is critical to maintain human oversight to ensure the effective, ethical, and responsible use of generative AI tools. By incorporating AI-driven ideas, simplifying complex information, creating diverse content, improving customer service, and generating multimedia content, we can deliver more impactful and accessible communications to our members.

The integration of generative AI into our communications strategies not only modernizes our approach, but also helps us meet the evolving needs and expectations of our members. By staying informed about the latest AI advancements and continuously exploring innovative applications, we can fully harness the potential of these tools to benefit our members and our organizations. ◆

***Jon Stuckey*** *is Vice President, Director of Creative Technology & Innovation at Segal Benz. For more than two decades, Jon has helped clients leverage technology to achieve HR and business successes. He is responsible for the intersection of benefits communication strategy, user experience, creative delivery, and technology.*

# AI Revolution: Impact on Member Experience

By: PensionX


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Artificial Intelligence (AI) is dramatically reshaping numerous industries, and the public pension sector is no exception. As pension systems grapple with an aging population, increased demands for efficiency, and budget constraints, AI is emerging as a powerful tool to revolutionize the member experience. From personalized retirement planning to faster response times, AI-driven solutions can transform how pension members interact with and benefit from their systems. In this article, we will explore some of the ways AI can enhance the member experience, focusing specifically on communication, customer service, accessibility, personalization, and operational efficiency.

### Streamlined Communication

Communication is a cornerstone of the member experience in public pension systems. Traditionally, communicating with pension systems has involved frustrating experiences such as waiting in long phone queues, navigating complex websites, or waiting for mail correspondence. AI can be used to supplant these aged communication channels with faster, more accessible solutions.

AI-powered chatbots and virtual assistants are increasingly becoming the first point of contact for members and can handle a wide range of inquiries, from answering basic questions about eligibility to more complex issues like understanding pension plan options and withdrawal processes. By offering instant responses and 24/7 availability, AI drastically reduces wait times and ensures convenient access to vital information for members.

Also among the latest and most exciting innovations in improving member experience are AI-generated videos that can be personalized and used for training or presenting periodic statements. Pension documents are often filled with jargon or complex numerical data that members may not fully understand. With AI, it's possible to translate this information and explain key aspects of a member's pension account using lucid text, interactive graphics, and personalized narration to help members interpret their financial standing and retirement outlook, so that they're more likely to comprehend their benefits and make informed decisions.

### Inclusive Accessibility

Accessibility is a critical concern, and affects individuals from diverse backgrounds, be it those with disabilities, those who speak different languages, or those who have varying levels of comfort with technology. Here too, AI can be leveraged to build pension systems that support voice-based interactions and multilingual translation. The result is a more inclusive, user-friendly experience that breaks down barriers and increases member satisfaction across the board.

### Efficient, Accurate Processing

AI is also helping to streamline the administrative processes that underpin public pension systems. Tasks such as verifying member eligibility, processing claims, calculating benefit payouts, and managing contributions can be time-consuming and prone to human error; AI-powered solutions can automate many of these processes while improving both speed and accuracy.

For example, in the claims process, optical character recognition (OCR) technology and natural language processing (NLP) can assist in verifying submitted documents efficiently by extracting relevant data and ensuring that all necessary information is present and correct. With the approval process expedited, the likelihood of delays caused by missing or incomplete paperwork is reduced greatly.

### Fraud Prevention and Security

Security is a significant concern for pension systems, given the sensitive nature of the data they handle. AI can help detect anomalous behavior such as unauthorized access, suspicious transactions involving a sudden change in a member's login location, or unusual withdrawal patterns, and flag these for further investigation. This level of real-time surveillance ensures that member data is kept safe and builds confidence in the pension system.

AI can also assist in identity verification. Biometric authentication, powered by AI, allows members to securely access their accounts using facial recognition or fingerprint scanning, reducing the risk of identity theft and enhancing user convenience.

### Cost Efficiency and Sustainability

Beyond improving the member experience, AI can benefit pension systems by reducing operational costs significantly. Automating routine tasks such as claims processing and data management allows pension administrators to allocate resources more effectively and focus on more complex tasks that require human oversight, thus enabling public pension systems to operate more sustainably and ensure that funds are used where they are most needed -- to support members and their retirement benefits.

### Conclusion

Artificial Intelligence is ushering in a new era of member experience in the public pension industry. From personalized communication and faster customer service to enhanced security, AI is making it easier, faster, and more efficient for members to engage with their pension systems. The result is a more responsive, accessible, and user-friendly experience that not only meets the expectations of today's pension members, but also paves the way for future generations to navigate their retirement planning with confidence and ease. As AI continues to evolve, it will undoubtedly play an increasingly crucial role in ensuring the success and sustainability of public pension systems for years to come. ◆

***PensionX**: Digital Deployment, the parent company of PensionX, has been working with pension systems for over a decade. Trusted by major public pensions across the country, they've helped modernize pension access for thousands of public servants. We are members of the Public Retirement Information Systems Management (PRISM) Association, the National Pension Education Association (NPEA), and the State Association of County Retirement Systems (SACRS). From CalSTRS to NYCERS, we have enjoyed the challenge of creating robust self-service solutions that transform the member experience while making the lives of pension staff easier.*

# Artificial Intelligence and Plan Governance Considerations

By: Scott Miller, Segal


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Advances in Artificial Intelligence (AI), particularly generative AI, are moving quickly and in ways we cannot foresee. For some public pension plans, working through the decision of whether and how to incorporate AI into the workplace seems to be a daunting task better left for another day. However, there are many reasons to replace "delay" with "immediate action," not the least of which is the fiduciary responsibility to the members and beneficiaries.

The phrase "nature abhors a vacuum" is especially true for plan staff in the absence of AI guidance. One study found that 55% of surveyed employees had used unapproved generative AI tools at work. Even worse, 69% of those employees had never received training on how to use generative AI safely and ethically at work.[1]

Clearly, providing no guidance to your employees is not the answer.

### Prohibiting the use of AI

Merely deciding not to allow AI use in the workplace is not sufficient. Plans that choose not to allow AI use should carefully develop a policy that specifically prohibits staff from using AI. The policy should include examples of common AI sites to inform staff about what the policy prohibits. Plans should also have their IT departments implement restrictions on website access to AI sites and tools.

Don't forget your vendors. Incorporate policy requirements in vendor contracts and require vendors to disclose any AI usage. Plans must also require their vendors to maintain the confidentiality and security of sensitive information. Everyone must agree on what data can and cannot be used.

### Embracing AI

If you accept the fact that AI is here to stay and decide to incorporate it into the workplace, there are several best-practice steps to take:

- First, get legal involved. Now. You need the help and guidance that only legal can provide. There is simply too much at stake to not take advantage of good counsel.
- Second, educate yourself. Talk to other plans or consultants. You do not need to reinvent this wheel. Many other plans have already implemented this decision. Use the wisdom they gained by going through the process. Then, take it another step to make it your own.
- Third, determine what AI use cases are appropriate for your plan. Examples include real-time AI-augmented analytics, call monitoring and chatbots. But be careful using AI for personnel decisions. Bias concerns are a very real thing, and typically limit AI use for personnel decisions.
- Finally, develop an AI use policy. Consider creating a cross-functional pilot group whose assignment is to become educated and help guide the organization's policy creation. Evaluate the breadth of a possible AI policy, and keep in mind that "everything" is too broad. Develop the guiding principles that the policy should reflect, including minimizing bias and maximizing security. Prohibit unauthorized use of AI -- both the people who cannot use it and the tasks for which it cannot be used. Require authorized users to receive appropriate training, including education regarding AI-related scams. Remember to include vendor requirements in your policy, as well.

### Make sure everyone understands the policy

When the policy is complete, you should require all staff to read and affirm their understanding of the AI policy, whether they are authorized users or not. Your IT department should maintain an inventory of AI uses and audit compliance with the AI usage policy. Again, IT should lock down access to unauthorized AI sites and tools for unauthorized users.

### Prepare to keep the policy up to date

Both AI users and non-users need to remember one very important thing about their new AI policy: You cannot just "set it and forget it." You need to keep informed as laws, technology and AI tools evolve over time, and modify your policy accordingly. Expect changes to that policy as new issues arise.

### Make a choice sooner rather than later

In the wise words of Teddy Roosevelt: "In any moment of decision, the best thing you can do is the right thing, the next best thing is the wrong thing, and the worst thing you can do is nothing." Remember that whichever decision you make for your plan, doing one or the other is infinitely better than sitting back and doing nothing. ◆

***Scott A. Miller, JD*** *is a Senior Consultant in Segal's Administration and Technology Consulting practice. Scott has more than 25 years of experience working with pension and benefits systems to help create operational efficiencies, improve member services, reduce administrative costs and compliance and increase internal controls.*

*Endnotes:*

[1] SalesForce, "More than Half of Generative AI Adopters Use Unapproved Tools at Work" November 15, 2023

# Recent Supreme Court Decisions Signal Increased Investor Litigation

By: Carol C. Villegas and Daniell Izzo, Labaton Keller Sucharow LLP


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U.S. law has historically offered investors two primary avenues for protecting their interests: (i) through enforcement by U.S. regulatory agencies, like the Securities and Exchange Commission ("SEC"), and (ii) through private investor litigation. In addition to safeguarding investor interests, these avenues also serve to regulate U.S. financial markets, serving as a deterrent against securities fraud.

However, two recent Supreme Court decisions significantly curtailed U.S. agency power, thereby limiting the SEC's ability to protect investors interests (and regulate financial markets). These decisions effectively shift power from the SEC and their administrative courts – where many of these issues have been historically resolved – to the U.S. court system instead. Investors' will face new obstacles in attempting to advance their interests through U.S. regulatory agencies, leaving them with effectively one option: litigation.

On June 27, 2024, the Supreme Court issued a decision in *SEC v. Jarkesy.*[1] This case concerned a civil administrative action for violations of federal securities laws brought by the SEC against George Jarkesy and investment firm, Patriot 28, LLC.[2] An administrative law judge overseeing the matter found the defendants liable for $300,000 in civil penalties.[3] The defendants sought review of the findings and civil penalties in the U.S. Court of Appeals for the Fifth Circuit.[4] Ultimately, the Fifth Circuit Court reversed and remanded the action on the grounds that the SEC's findings violated the Seventh Amendment of the U.S. Constitution.[5] Specifically, the Appellate Court found that the SEC's administrative hearing and determination violated the defendants' right to a jury trial.[6] The Supreme Court agreed -- holding that, under the Seventh Amendment, defendants are entitled to a trial by jury (in federal court) where the SEC seeks civil penalties for securities fraud.[7]

As a practical matter, *Jarkesy* narrows the SEC's power to maintain civil administrative actions for securities fraud. Indeed, the SEC is now required to bring any action that may involve civil penalties in federal court. The Supreme Court's curtailment of the SEC's authority has also resulted in many questions about the SEC's future approach to enforcement actions -- namely, whether the SEC will be more selective in its future enforcement efforts.

In keeping with its examination of agency power, the Supreme Court issued a decision in *Loper Bright Enterprises v. Raimondo* on June 28, 2024.[8] This decision overturned the longstanding doctrine established by *Chevron USA v. National Resources Defense Council* by holding that courts may now rely on their own interpretations of ambiguous laws, without deference to applicable federal agencies, like the SEC.[9] In the majority opinion, Chief Justice Roberts explained that the *Chevron* doctrine (which called for judicial deference to agency rulemaking) was not compatible with the court's duty to "say what the law is."[10] *Loper* upends the previous balance of power between administrative agencies and federal courts, narrowing (and possibly eliminating) agencies' ability to interpret and implement federal law. While the full effect of this decision remains to be seen, many suspect that agencies, like the SEC, will issue fewer regulations. Moreover, in instances where agencies do promulgate administrative law, there will be a greater risk of inconsistency as courts across the country issue varying interpretations of the regulations.

The Supreme Court's decisions to reduce agency power directly impact the SEC, one of the central administrative agencies in the U.S. Notably, the decisions do not constitute a complete elimination of the powers previously afforded to the SEC. Instead, the Supreme Court has shifted the power back to the hands of Article III judges -- a clear signal that issues, like securities fraud issues, should be litigated in court.

Indeed, in the wake of these decisions, investors must reevaluate their options for protecting shareholder value. With the SEC constrained by the Supreme Court's holdings and limited resources, solely protecting shareholder interests in connection with the SEC may not be enough. Fortunately, market participants have strong (and potentially expanded) opportunities to exercise their rights in federal court. For example, investors may now seek clarification of statutory interpretations related to their fraud actions in court without having to expend additional time and resources waiting for guidance from the SEC. Additionally, market participants have the opportunity to redress financial fraud through the U.S. class action framework. Securities fraud actions are uniquely poised for class treatment under federal law, allowing investors to bring class actions that redress corporate wrongdoing and promote positive change on a widespread basis. While these Supreme Court decisions have been seen as pro-business -- in that they decrease the SEC's power to regulate -- these decisions could have a negative effect on publicly traded companies. Big business should anticipate a marked increase in private securities litigation.

As investors look ahead, protecting their rights through litigation will become increasingly important. President-elect Trump has already indicated that he will make drastic changes to the SEC, including by publicizing plans to fire SEC Chair Gary Gensler.[11] This and other anticipated political changes will continue to slow the SEC's already declining in-house efforts, further increasing the need for and likelihood of investor litigation to protect shareholder[12] rights under the federal securities laws. ◆

***Carol C. Villegas*** *is a Partner in the New York office of Labaton Keller Sucharow LLP focusing on prosecuting complex securities fraud on behalf of institutional investors and individuals. Leading one of the Firm's Securities Litigation teams, she is actively overseeing litigation against Boeing, PayPal, Olaplex, DocuSign, and Catalent, among others. In addition to her litigation responsibilities, Carol holds a variety of leadership positions within the Firm, including serving on the Firm's Executive Committee, Chair of the Firm's Women's Networking and Mentoring Initiative, and as Chief of Compliance.*

***Danielle Izzo*** *is an Associate in the New York office of Labaton Keller Sucharow LLP focusing her practice on litigating securities fraud class actions on behalf of institutional investors. Most notably, she assisted the Firm's teams that secured notable recoveries for investors in Boston Retirement System v. Uber Technologies, Inc. ($200 million settlement, pending final court approval) and In re Allstate Corporation Securities Litigation ($90 million settlement).*

*Endnotes:*

1 SEC v. Jarkesy, 603 U.S. ____, at 2 (2024) (No. 22-859).
2 Id.
3 Id.
4 Jarkesy v. SEC, 34 F.4th 446 (5th Cir. 2022).
5 Id.
6 Id.
7 SEC v. Jarkesy, 603 U.S. ____, at 2 (2024) (No. 22-859).
8 Loper Bright Enterprises v. Raimondo, No. 22–451, 603 U.S. __ (2024).
9 See id.; Chevron USA v. National Resources Defense Council, 467 U.S. 837 (1984).
10 Loper, slip op. at 7.
11 https://www.bloomberg.com/news/articles/2024-07-27/trump-pledges-to-fire-gensler-pick-regulators-who-love-crypto?embedded-checkout=true.
12 Bloomberg Law's SEC ALJ Analytics Tracker, July 30,2024-July 29,2024.

# The Critical Governance Question Before the California Supreme Court in *LACERA v. County of Los Angeles*

By: Anya Freedman and Lauren Cruz, Bernstein Litowitz Berger & Grossmann

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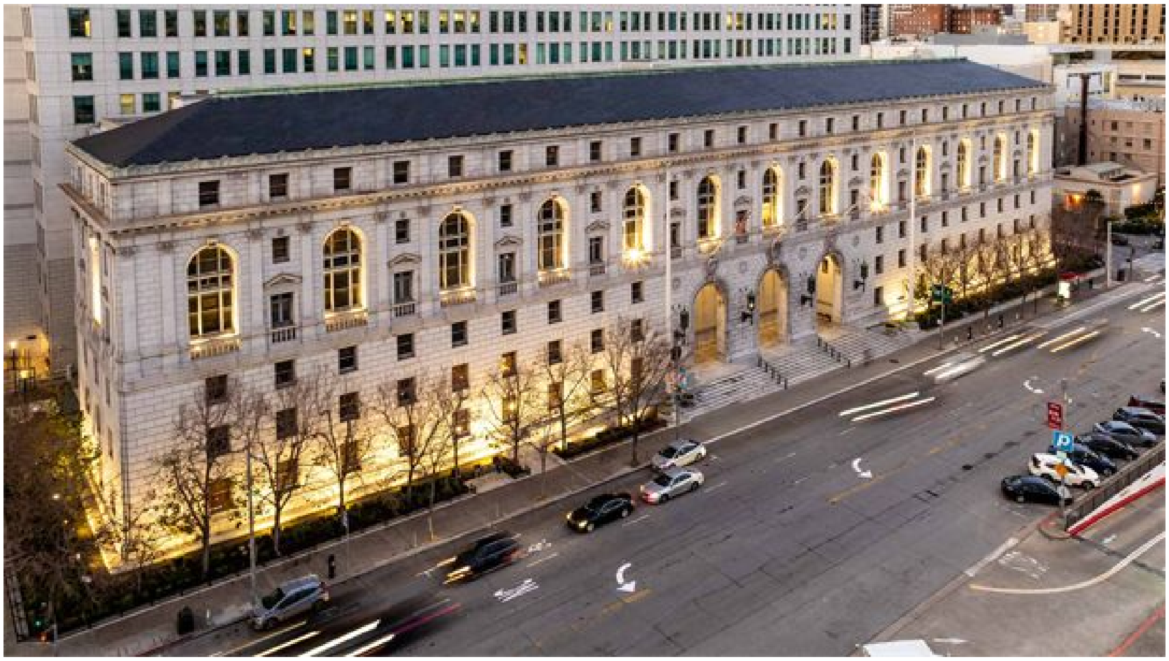
California public pension boards face a governance dilemma. The law holds them to demanding fiduciary standards and tasks them with investing billions of dollars and administering complex benefit programs. Yet historically, courts have denied them autonomy to recruit the next generation of retirement system leaders to execute these responsibilities.

Experienced pension executives continue to retire and the complexity and stakes of managing a public pension system continue to grow. While resourceful boards have promoted internally and attracted lateral government professionals, their recruitment efforts are hamstrung by a lack of independence over staffing and compensation. Pension boards will need flexibility over positions and compensation to compete with the private sector to attract young professionals with specialized expertise in fields like alternative investments, cybersecurity, accounting, auditing, artificial intelligence, and law.

This governance dilemma lies at the heart of *Los Angeles County Employees Retirement Association v. County of Los Angeles* (*LACERA*), a case now pending before the California Supreme Court (S286264).





*The Earl Warren Building — Headquarters of the California Supreme Court in San Francisco*

## The Constitutional Context: Proposition 162

Proposition 162, "The California Pension Protection Act of 1992," amended the California Constitution to ensure that pension board decisions prioritize their beneficiaries' interests. As amended, the California Constitution gives retirement boards "sole and exclusive responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries." Cal. Const., art. XVI, § 17, subd. (a).

The promise of Proposition 162, however, was limited by the California Court of Appeal's interpretation of that language in *Westly v. Board of Administration*, 105 Cal. App. 4th 1095 (2003). That court ruled that a state pension board could not bypass state civil service rules for staffing and salary decisions. Since *Westly,* state and local pension boards have done their best to meet organizational needs within governmental civil service and budget frameworks.

## The Stakes in *LACERA*

Within this context, the LACERA boards had navigated county rules to meet their staffing needs. But in 2018, the Los Angeles County Board of Supervisors began rejecting the LACERA boards' proposals, citing the desire for consistency between the pension system's structure and the county's general civil service system.

The LACERA boards sought relief in California court, seeking clarity on their constitutional autonomy over LACERA's staffing and compensation needs. Bound by *Westly*, the trial court ruled for the county; the California Court of Appeal reversed, and the California Supreme Court agreed to review the case.

## The Need for Alignment with Corporate Governance Best Practices

Both pension and corporate boards are bound by fiduciary duties of care and loyalty. The pension governance principle at stake in *LACERA* mirrors the corporate governance best practice of independent fiduciary decision-making over executive compensation. *See In re Walt Disney Co. Deriv. Litig.*, 907 A.2d 693, 749-751 (Del. Ch. 2005). Just as corporate boards must act in good faith and with undivided loyalty to the corporation to attract and incentivize executives who will implement strategy and drive shareholder value, pension boards should exercise unfettered fiduciary judgment to recruit professionals with the necessary expertise to achieve the pension system's mandate of delivering promised retirement benefits to beneficiaries.

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Pension boards are well equipped to exercise this judgment. Their stewardship as responsible investors includes evaluating corporate board independence over executive pay through proxy voting, engagement, and litigation. Denying pension boards similar authority to uphold these standards of fiduciary independence in their own organizations risks misaligning pension systems' internal governance with the standards they promote in the market.

### Opportunities for Stakeholder Advocacy

*LACERA* offers stakeholders — peer pension boards, labor organizations, governance scholars, and institutional investors -- a chance to advocate for independent fiduciary governance. Friend of the court (amicus) briefs can provide critical context and emphasize how independent staffing authority strengthens operational performance and reflects good governance principles in other sectors. Stay informed using the Supreme Court of California's website (using the docket search function, search S286264: https://supreme.courts.ca.gov/case-information/docket-search). Stakeholders interested in filing amicus briefs should confer with expert legal counsel as soon as practicable.

### Conclusion

The *LACERA* case could strengthen pension governance by (1) restoring the promise of Proposition 162 to empower California pension boards to exercise independent fiduciary judgment over how best to attract and retain the next generation of top talent, and (2) aligning pension board governance with the corporate governance best practices pension systems support as responsible shareholders. Finally, advocates for good governance in pension systems and corporations should consult counsel regarding how to share their insights as "friends of the court." ◆

***Anya Freedman****, a partner in BLB&G's Los Angeles office, advises institutional investors on fiduciary law and governance matters. Drawing on nearly a decade as the principal legal advisor to the City of Los Angeles public pension systems, she empowers leaders to build best-in-class policies and make sound decisions in securities and corporate governance litigation. Anya provides informed and innovative counsel so BLB&G's clients can protect the long-term value of their investments by investigating and taking legal action to remedy fraud, hold corporate insiders accountable for self-dealing and other misconduct, and level the playing field in financial markets.*

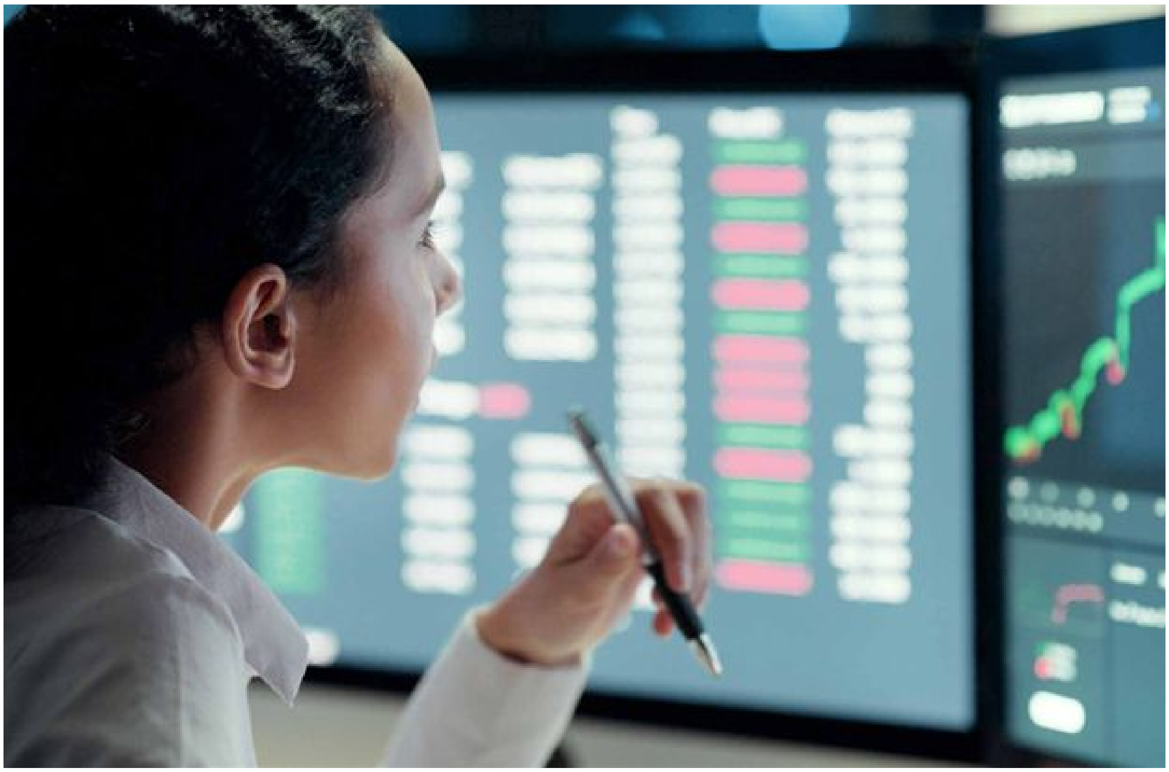
*Anya has extensive experience providing fiduciary advice, training, and education to pension funds on topics including, without limitation, strengthening compliance and risk management; engaging with public companies, regulators, and stakeholders; consulting on strategic and business plans; supporting succession planning and leadership transitions; and implementing operational changes in response to new legal requirements.*

***Lauren Cruz****, a senior counsel in BLB&G's Los Angeles office, prosecutes securities fraud, corporate governance, and shareholder rights litigation on behalf of the firm's institutional investor clients. Since joining the firm in 2019, Lauren has helped to secure over $1.2 billion in recoveries for investors damaged by corporate fraud and malfeasance. She has been a key member of the BLB&G litigation teams that prosecuted the securities fraud actions against Wells Fargo (landmark $1 billion recovery), Mattel ($98 million recovery), Qualcomm ($75 million recovery), Mohawk Industries ($60 million recovery), Splunk ($30 million recovery), and Impinj ($20 million recovery), among many others.*

*Lauren serves as board president (and has been a board member since 2019) of Mental Health Advocacy Services, a non-profit organization that provides free legal services to people with mental health disabilities in Los Angeles. She is a member of the Women Lawyers Association of Los Angeles.*

# Cut and Run? Not So Fast... Private Credit and the Fed

By: Andrea Picard, Golub Capital



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***The case for maintaining a core direct lending allocation throughout the interest rate cycle.***

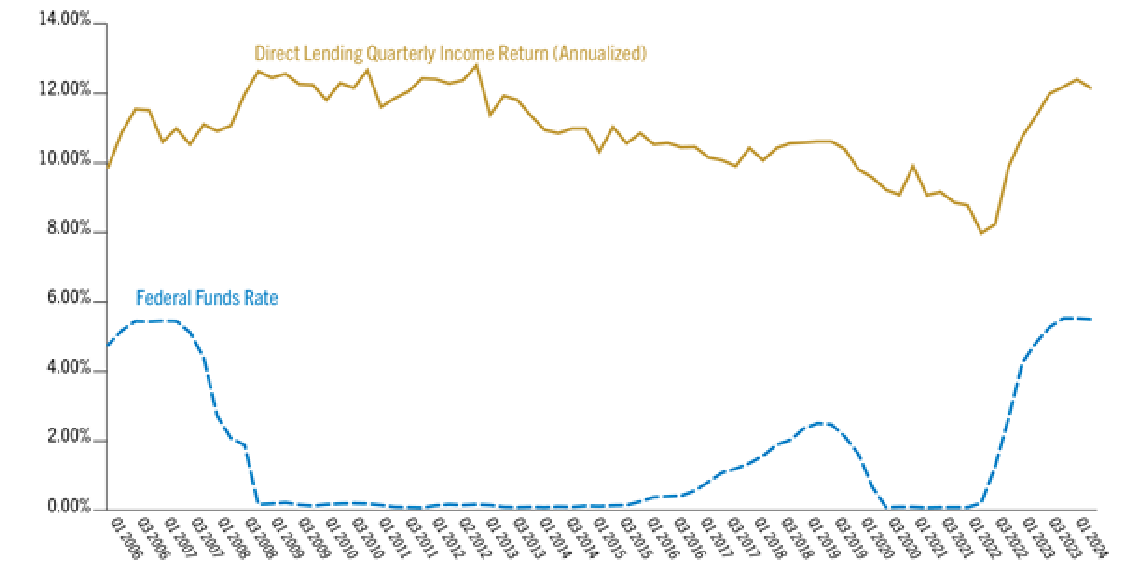
How much will the Fed cut rates — and when? These questions have dominated headlines throughout 2024; odds are the same will be true in 2025.

All this raises a question for allocators to floating rate direct lending strategies: Should they seek to trim their direct lending exposure in the expectation that declining rates will lead to lower returns?

Our experience suggests not: We believe the consistent, premium returns of direct lending strategies are compelling, regardless of the prevailing interest rate regime.

History suggests that there's merit to making direct lending a core allocation. Exhibit 1 shows that quarterly income from direct lending has remained consistently strong, at between 9% and 12% annualized (between 2%-3% quarterly), even as Fed funds rates have fluctuated over the last two decades — including a long stretch near zero.

**Exhibit 1: Direct Lending: Robust Income amid Interest Rate Roller-Coaster**
**Direct Lending Quarterly Income vs. Effective Federal Funds Rate**




Source: Cliffwater, Federal Reserve Bank of New York and Golub Capital Internal Analysis. Direct Lending is represented by the Cliffwater Direct Lending Index ("CDLI"). "Cliffwater," "Cliffwater Direct Lending Index," and "CDLI" are trademarks of Cliffwater LLC. The Cliffwater Direct Lending Indexes (the "Cliffwater Indexes") and all information on the performance or characteristics thereof ("Cliffwater Index Data") are owned exclusively by Cliffwater LLC, and are referenced herein under license. Neither Cliffwater nor any of its affiliates sponsor or endorse, or are affiliated with or otherwise connected to, Golub Capital, or any of its products or services. All Cliffwater Index Data is provided for informational purposes only, on an "as available" basis, without any warranty of any kind, whether express or implied. Cliffwater and its affiliates do not accept any liability whatsoever for any errors or omissions in the Cliffwater Indexes or Cliffwater Index Data, or arising from any use of the Cliffwater Indexes or Cliffwater Index Data, and no third party may rely on any Cliffwater Indexes or Cliffwater Index Data referenced in this report. No further distribution of Cliffwater Index Data is permitted without the express written consent of Cliffwater. Any reference to or use of the Cliffwater Index or Cliffwater Index Data is subject to the further notices and disclaimers set forth from time to time on Cliffwater's website at https://www.cliffwaterdirectlendingindex.com/disclosures. The federal funds market consists of domestic unsecured borrowings in U.S. dollars by depository institutions from other depository institutions and certain other entities, primarily government-sponsored enterprises. The effective federal funds rate (EFFR) is calculated as a volume-weighted median of overnight federal funds transactions reported in the FR 2420 Report of Selected Money Market Rates.

In this document, the term "Golub Capital" refers, collectively, to the activities and operations of Golub Capital LLC, GC Advisors LLC ("GC Advisors"), GC OPAL Advisors LLC ("GC OPAL Advisors"), and their respective affiliates or associated Investment funds. A number of Investment advisers, such as GC Investment Management LLC ("GC Investment Management") and OPAL BSL LLC (Management Series) (collectively, the "Relying Advisers") are registered in reliance upon GC OPAL Advisors' registration. For additional information about the Registered Advisers and the Relying Advisers, please refer to each of the Registered Advisers' Form ADV Part 1 and 2A on file with the SEC. Certain references to Golub Capital relating to its investment management business may include activities other than the activities of the Advisers, or may include the activities of other Golub Capital affiliates in addition to the activities of the Advisers.

From a total return perspective, duration-sensitive fixed income portfolios benefit in the short-term from unrealized gains associated with a decrease in rates. Intermediate bond returns with over six years of duration, as measured by the Bloomberg U.S. Aggregate Bond Index, have a high degree of dependence on changes in benchmark Treasury rates. Over 70% of the quarterly return of "the Agg" is explained by 10-year yields, compared to just 30% for direct lending.[1] In another analysis, we look at the returns of direct lending in all quarters since 2004 where T-bills moved up or down by more than 10 bps. As expected, median direct lending returns are higher in rising rate quarters (1.6%) than in falling rate periods (1.3%), but the difference is modest.

The good news for investors in direct lending strategies is that their total return "disadvantage" to traditional fixed income in periods of falling rates isn't as significant as one might think. Exhibit 2 shows that intermediate-duration bonds have historically outperformed direct lending from a total return perspective by about 46 bps during periods of falling 10-year rates.[2] But, consider the inverse: direct lending has historically outperformed by about 311 bps during periods of rising 10-year rates.

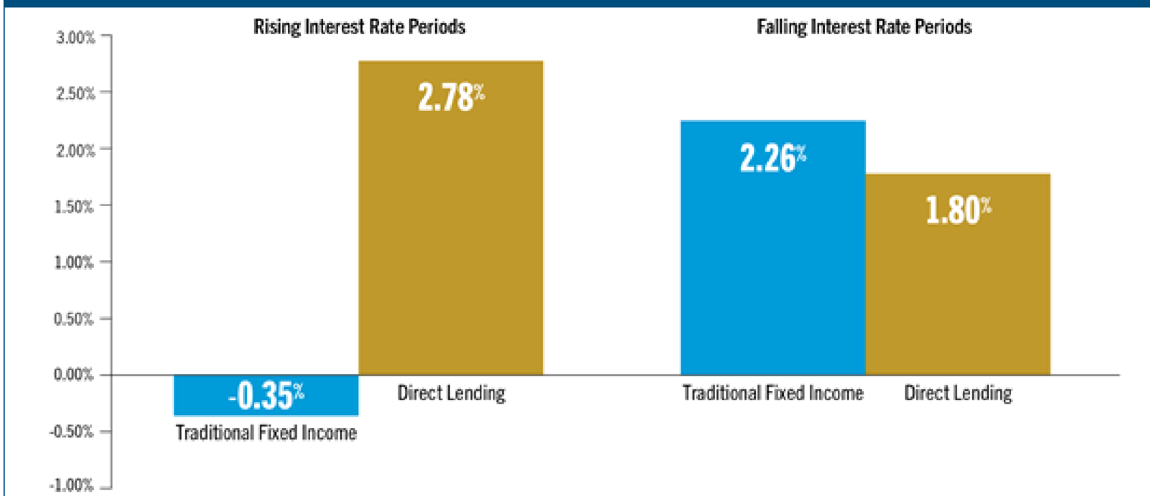
**Given how consistently consensus expectations about interest rates have been wrong during the last four years, we would argue that attempting to time the duration trade offers much more risk than potential reward.**

Lower base rates also come with benefits for direct lending strategies that we believe mitigate return headwinds. Lower base rates reduce the cash interest expense of borrowers, which increases their margin for safety against operational setbacks. M&A activity tends to pick up when rates decline, which can create attractive deployment opportunities.

And for investors in leveraged direct lending strategies, a carefully matched portfolio of floating-rate assets with floating-rate liabilities can capture a consistent credit spread.

It may be tempting to view direct lending through a tactical lens, but we think investors should understand it as a strategic allocation. ◆

**Exhibit 2: Interest Rates Will Fluctuate; Direct Lending Returns Less So**
**Intermediate Bonds and Direct Lending Returns in Rising and Falling Rate Environments**




Bloomberg, Cliffwater, Golub Capital Internal Analysis. Traditional Fixed Income represented by the Bloomberg Aggregate Bond Index Return. Direct Lending represented by the Cliffwater Direct Lending Index. Rising Interest Rate Periods, defined as when 10-Year yields rose quarter over quarter, saw an average change in the 10-Year yield of 0.33%. Falling Interest Rate Periods registered an average quarterly change in the 10-Year yield of -0.40%.

All information about Golub Capital contained in this document is presented as of July 2024, unless otherwise specified.

***Disclosures:***

*Information is current as of the stated date and may change materially in the future. Golub Capital undertakes no duty to update any information herein. Golub Capital makes no representation or warranty, express or implied, as to the accuracy or completeness of the information herein. Views expressed represent Golub Capital's current internal viewpoints and are based on Golub Capital's views of the current market environment, which is subject to change. Certain information contained in these materials discusses general market activity, industry or sector trends, or other broad-based economic, market or political conditions and should not be construed as investment advice. There can be no assurance that any of the views or trends described herein will continue or will not reverse. Past events and trends do not imply, predict or guarantee, and are not necessarily indicative of, future events or results. Past performance does not guarantee future results.*

***Andrea Picard****, Managing Director, Co-Head of Global Institutional Sales, joined Golub Capital in 2024 and is a Managing Director and Co-Head of Global Institutional Sales within the Investor Partners Group. She is responsible for business development and investor relations for the Firm. Prior to joining Golub Capital, Ms. Picard was Managing Director in the Americas Institutional Business at BlackRock, where she was the Head of U.S. Pensions. Prior to this position, she was a Partner and Director of Marketing at Stelliam Investment Management, where she led the marketing and client relationship team. Prior to that, she worked at Raven Asset Management. Ms. Picard began her career at Lehman Brothers. Ms. Picard earned her BA degree in Linguistics from the State University of New York at Albany. She received an MBA in Finance from the NYU Stern School of Business.*

*Endnotes:*


[1] Stephen Nesbitt, Private Debt, Wiley, 2023, page 54.
[2] Ibid. Nesbitt, page 56

# Strategies for Addressing Common SEC Fair Fund Recovery Challenges

By: Michael Lange, Financial Recovery Technologies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SEC Fair Funds may resemble typical securities class actions settlements, but their goals and the parties involved differ. Most notably, Fair Funds have specialized requirements that can make participation more difficult for investors and their fiduciaries.

As a federal agency, the U.S. Securities and Exchange Commission is focused on regulation and deterrence – not investor compensation. To participate in Fair Funds, pension funds must conform to the SEC's claim submission standards and processes.

If these hurdles are cleared, however, Fair Fund recovery opportunities can be significant. In 2024, the SEC has established 10 new funds worth more than $530 million combined, putting this year's enforcement activity well above the $236 million we observed in 2023.

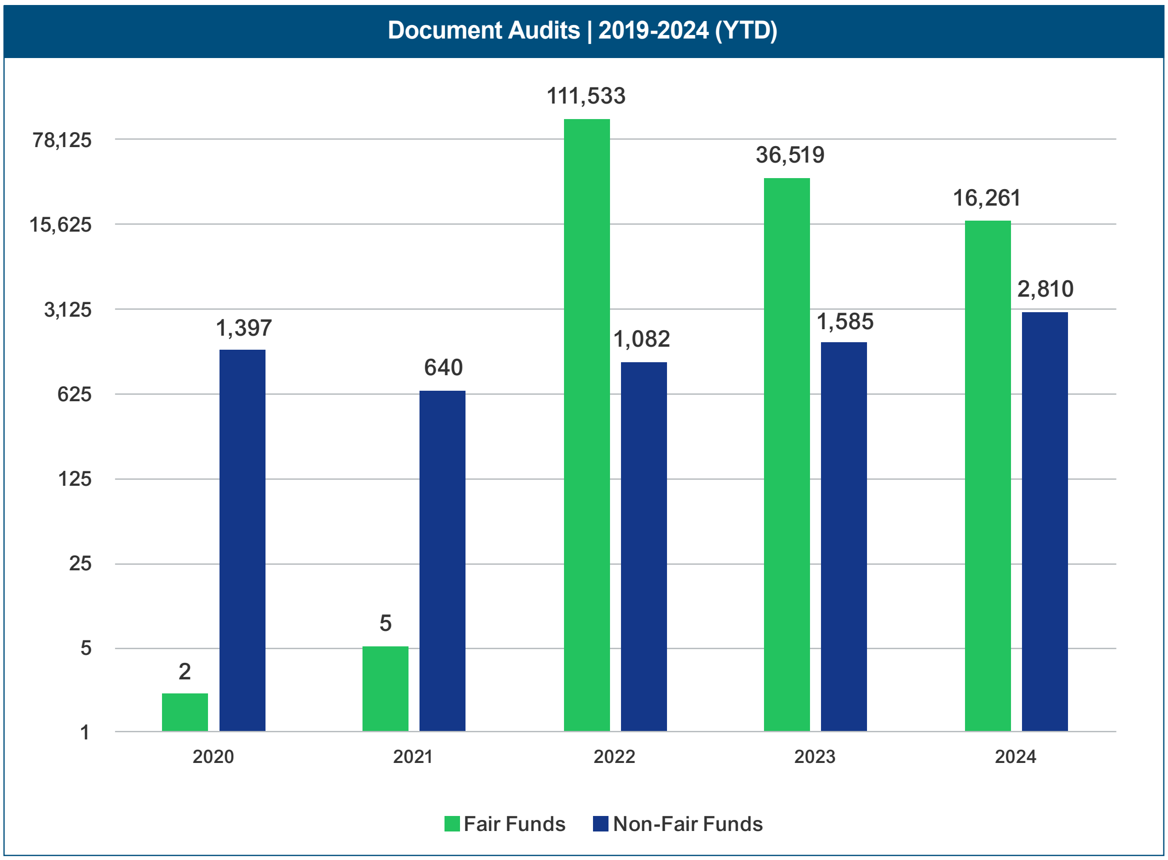
The difference between a successful recovery and a rejection frequently comes down to the small details. With that in mind, let's examine the most frequent recovery challenges we see pensions face with Fair Funds, as well as best practices for navigating them.

### Challenge #1: Documentation Requirements

The strongest barrier to Fair Fund participation is the SEC's requirement for third-party trade substantiation records. The agency ideally wants to see 100% documentation for every holding and trade, proven by custodial and brokerage records created at the time of the activity.

These requirements make Fair Fund participation especially difficult for older claim periods, when records are difficult to retrieve or no longer exist because the time required for preservation has passed. Recently, for example, a $152 million Fair Fund involving Weatherford International had a claim period spanning 2009-12.

Claim administrators also have not taken a uniform approach to these requirements. More recently, however, we've seen more audit requests from the SEC and more strict enforcement by administrators. Through the first half of 2024, my team has tracked more than 16,000 Fair Fund-related audits on claims that FRT has submitted on behalf of institutional investors – continuing a larger three-year trend that we expect to persist.




*Solution: Alternative Documentation*

When permitted, shareholders can use affidavits testifying to the reliability of system trading records, either from third-party sources (e.g., custodians and prime brokers) or even the reliability of a client's own systems. This approach is often necessary when third-party records have not been preserved over time or are otherwise difficult to obtain.

### Challenge #2: Shorter Administration Timelines

Compared to securities class actions, Fair Fund administrations have tighter turnaround times and more rigorous compliance demands. For example, deadlines for responding to SEC document requests are more strictly enforced, and investors have less room for error when the documents do not exactly match data submitted on the claim form.

While it is not uncommon for courts to permit exceptions that expand participation in class action settlements -- such as accepting claims filed late if distributions have not yet occurred -- the SEC does not give investors an opportunity to "save" their claims by substantiating other holdings and trades. Instead, all claims are effectively rejected.

*Solution: Proactive Communication*

As a best practice, entities submitting claims on behalf of investors should work with claim administrators to understand the types of records accepted for a particular Fair Fund submission, so that they can maximize shareholders' lead times for document retrieval and optimize claim submissions. This may also enable investors to better assess whether the time required to gather the required records outweighs the potential recovery opportunity.

## Challenge #3: Remittance

The SEC requires that 100% of Fair Fund payouts be distributed to the beneficial owners, without subtracting any contingent fees. This creates an operational hurdle for investors that work with a third-party filer and normally elect to pay a contingent fee out of the total pool of funds recovered from a given settlement.

As a result, some third parties that file claims on behalf of other entities have either started requiring upfront payment from or stopped servicing Fair Funds altogether.

*Solution: Standard Operating Procedures*

Fair Fund submission requirements and enforcement continue to evolve. Creating remittance processes that comply with SEC standards -- in ways that can be audited, if needed -- is critical, as is maintaining visibility into submitted claims throughout the Fair Fund lifecycle. Challenging administrative decisions when penalties for document audit failures appear too broad is also an option for investors.

## Conclusion

Many U.S. securities class action settlements are routine, to the point that recovery programs have become table-stakes for many fiduciaries. But Fair Funds are a major exception given their strict requirements tending to exclude more claims than they accept. Establishing strong internal processes for managing Fair Fund submissions will only become more important in 2025. ◆

***Michael Lange*** *(SVP Worldwide Litigation at Financial Recovery Technologies). A licensed attorney since 1991, Mike Lange has deep working knowledge of securities litigation, a rich network of relationships in the U.S. and abroad with lawyers, case organizers, and other players in the recovery space — all of which he brings to bear for institutional investors.*

# Unlocking the Power of a Strategic Allocation to Commodities

By: David Chapman, LGIM America

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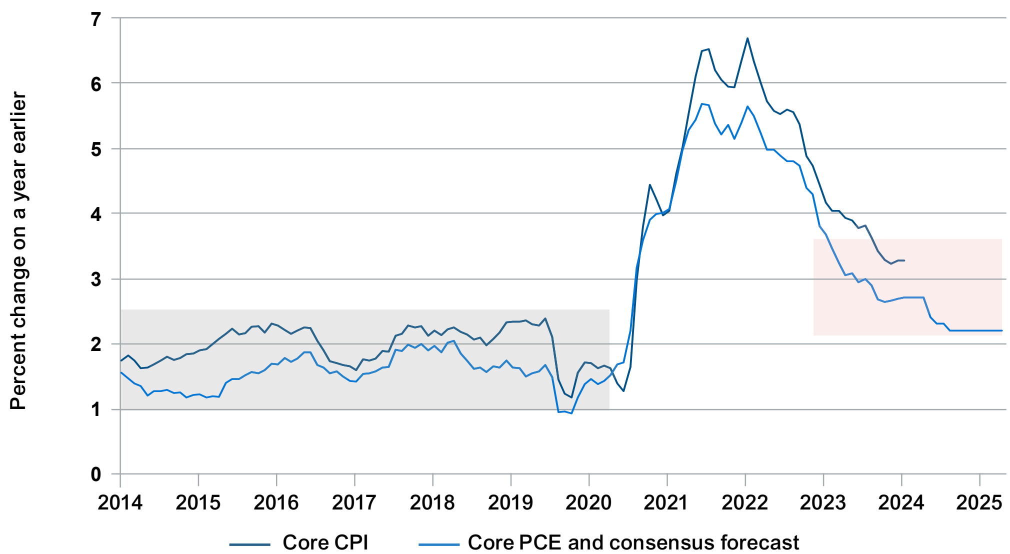
Commodities have recently been uninspiring to investors, even after the inflationary period that followed the pandemic. Concerns about maintaining an allocation seem two-fold: (1) commodities have delivered lackluster returns since the GFC, and (2) Inflation is episodic, and it is unnecessary to hold strategic exposure to combat this. However, when we look at the combination of current market themes and historical contributions of commodities to a balanced portfolio, we see ample reasons to allocate to this unloved asset class.

Ongoing Fed policy normalization with good-but-volatile growth data are generating a wider than usual range around forecasters' outlooks. The new administration in the US is poised to be able to enact a broad range of policies that are currently expected to keep longer-term inflation more elevated. Each step toward policy normalization seems to make markets more nervous about the Fed's calibration, and each geopolitical question that gets resolved seems to be replaced by two more.

Consensus and our own longer-term expectations indicate inflation settling into a range significantly higher than the disinflationary, "zero interest-rate policy" world that followed the GFC (see Figure 1). The prospect of a material shift in inflation is consistent with several themes in commodity markets: managing the energy transition, electrification and computing power requirements of industrial metals, global central bank policies and increasing reserves in gold and geopolitical and weather risks that affect multiple sectors. This suggests a supportive environment for prospective commodities returns. Yet, the most powerful argument for commodities is that their stand-alone returns don't actually need to be that exceptional.

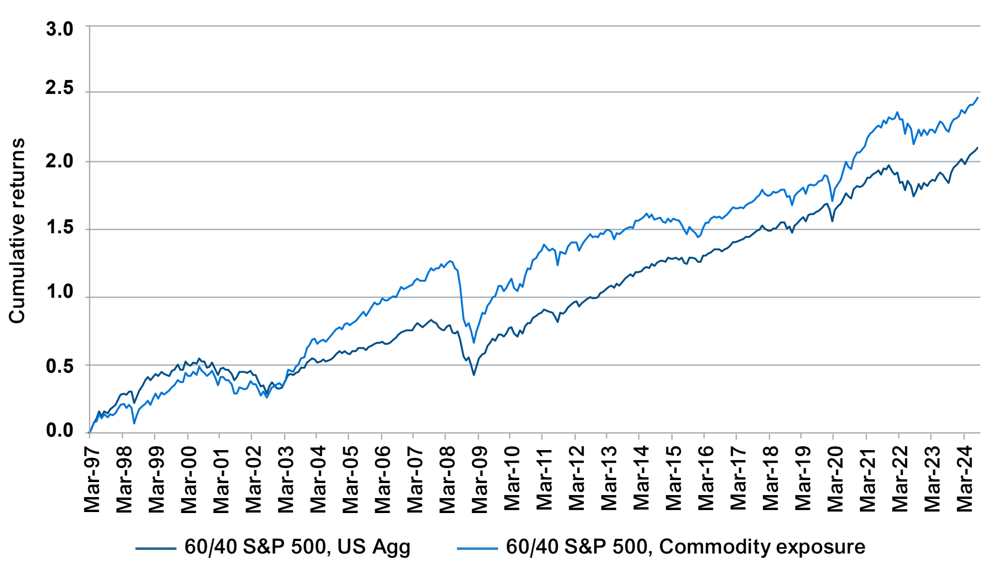
**Figure 1: US core inflation and consensus forecast**




Source: Bloomberg and LGIM America. Data as of September 30, 2024.

Figure 2 illustrates this with a relatively extreme asset allocation example, comparing the return of a traditional 60/40 portfolio allocated to S&P 500 and the US Aggregate to a 60/40 portfolio of S&P 500 and a blended commodity exposure.1 Not only are the total returns of the portfolio allocated to commodities better than the portfolio allocated to core fixed income over most horizons, but also the Sharpe Ratios over most of those horizons are better (i.e., it is a more risk efficient portfolio).

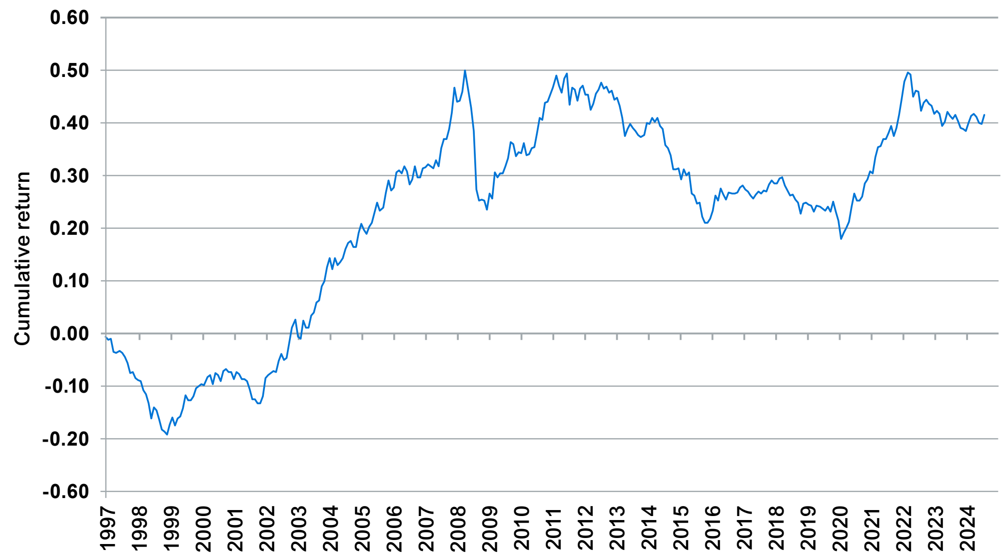
**Figure 2: Cumulative total returns**




See performance details in appendix. Commodity interests and derivative contracts inherently present substantial risk of loss and a higher risk than other investments strategies. Investors should consider these risks with the understanding that the strategy may not be successful and work in all market conditions.

Reconciling this hypothetical portfolio with the recency bias contributing to investors' aversion to commodities is relatively straightforward. Figure 3 is the cumulative difference in the contribution of a 40% allocation to the commodity exposure versus a 40% allocation to US Agg. There are several important observations, but the primary insight is commodities simply diversify risks differently than core fixed income.

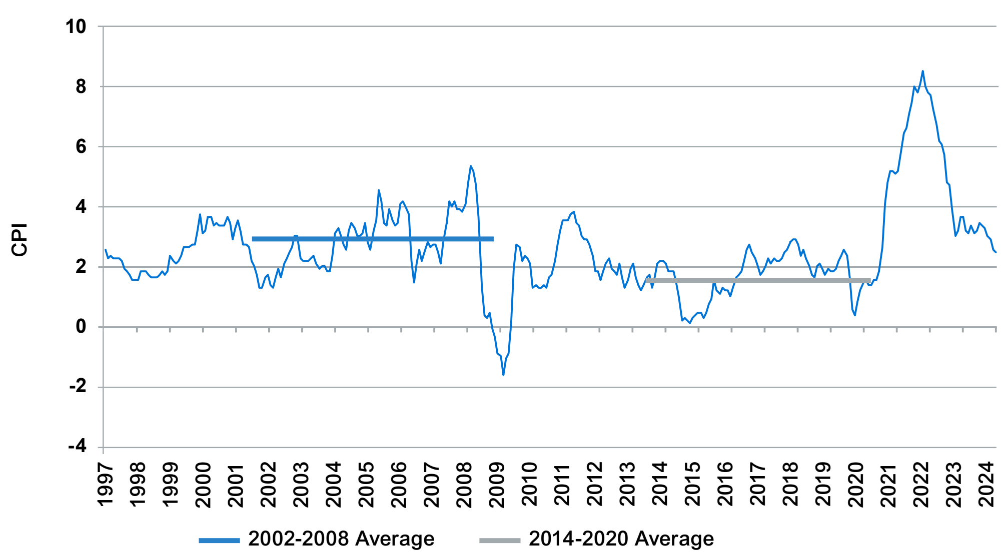
**Figure 3: Cumulative performance contribution of a blended commodity exposure**




Source: Bloomberg and LGIM America. Data as of September 30, 2024. See performance details in appendix. Commodity interests and derivative contracts inherently present substantial risk of loss and a higher risk than other investments strategies. Investors should consider these risks with the understanding that the strategy may not be successful and work in all market conditions.

First, a significant portion of the outperformance of the commodities allocation occurs during 2002-2008, conspicuously, an era of materially higher average inflation than what we experienced prior to the pandemic, as shown in Figure 4.

**Figure 4: CPI year-over-year change (%)**




Source: Bloomberg and LGIM America. Data as of September 30, 2024.

Second, the modest improvement of commodities over the Agg more recently (e.g., 0.6% annualized over 10 years) has been uneven. This is driven by commodities' co-behavior with equities during those periods. This reiterates our point that neither asset class (commodities or core fixed income) is a better equity diversifier--they are just different. Figure 5 highlights some of the historical performance differences during recent periods of heightened macro and geopolitical volatility.

**Figure 5: Historical performance differences in volatile periods**

| | Energy | Agriculture | Industrial metals | Precious metals | S&P 500 | US Aggregate |
|---|---|---|---|---|---|---|
| 2010 | -7.8% | 21.9% | 8.5% | 26.8% | 7.2% | 1.2% |
| 2012 | 9.4% | 14.9% | -2.2% | 6.7% | 3.3% | 1.4% |
| 2014 | 1.1% | 8.6% | 1.4% | -4.1% | 1.3% | 0.7% |
| 2016 | 20.3% | 12.6% | 6.0% | 10.2% | 1.9% | 2.2% |
| 2020 | 48.5% | 40.6% | 30.3% | -3.0% | 31.4% | -0.5% |
| 2022 | 37.4% | 19.6% | 11.5% | 5.3% | -8.5% | -7.5% |

Source: Bloomberg and LGIM America. Data as of September 30, 2024. The most volatile periods highlighted in the table were determined using the volatility of the Bloomberg BCOM index since 2010.

Broad commodity exposure gives investors access to four distinct sectors that each relate to the real, material world differently, in both sources and uses. Each sector diversifies significant risks in unique ways.

| Sector | Risk |
|---|---|
| Energy | Geopolitical, as well as its direct link to inflation |
| Agriculture | Geopolitical and climate |
| Precious metals | Fiscal and monetary policy, geopolitical risk |
| Industrial metals | Growth risks |

Recently, external events have increasingly influenced commodity returns and volatility, including:

- Conflict in the Middle East drives spikes in energy prices.
- Ongoing conflict in Ukraine and local weather there are affecting both energy and agriculture markets, particularly wheat.
- Weather volatility is complicating price action in other agricultural commodities in the western hemisphere and impacting North American energy hubs.
- The impact on energy in the Caucasus and the Gulf of Mexico cascades to fertilizer and biofuel markets, creating a feedback loop with the agricultural markets already at risk in those regions.
- Nervousness about deglobalization coupled with a longer and more uncertain policy normalization have made precious metals an exceptional performer of late.
- The world is grappling with longer timelines for energy transition, partly due to challenges sourcing industrial metals critical for computing and electrification.

In our view, these are all sustainable trends and persistent risks. Oher asset classes offer return and diversification benefits, too. Yet none is as closely tied to the fundamental macroeconomic dynamics shaping our future as commodities. While a 40% allocation to commodities may be extreme, they are fundamental to our existence, and there has always been a case for them in investment portfolios—perhaps now more than ever. ◆

1. The hypothetical illustration is based on an allocation of 80% Bloomberg Commodity Roll Select Index, 20% Bloomberg Gold Sub-index, and 100% Bloomberg US TIPS Index (representing the collateral).

## Appendix - Index returns (1998 - 2024)

| | S&P 500 | Bloomberg US Aggregate | BCOM Roll Select | BCOM Gold | Bloomberg US TIPS | Blended Commodity Strategy* | 60/40 S&P 500 US Agg | 60/40 S&P 500, Commodities* |
|---|---|---|---|---|---|---|---|---|
| **1998** | 28.6% | 8.7% | -23.8% | -4.2% | 3.9% | -17.3% | 21.0% | 8.5% |
| **1999** | 21.0% | -0.8% | 16.8% | -3.3% | 2.4% | 15.3% | 12.0% | 19.1% |
| **2000** | -9.1% | 11.6% | 18.4% | -10.8% | 13.2% | 26.5% | -1.0% | 4.3% |
| **2001** | -11.9% | 8.4% | -17.9% | -1.0% | 7.9% | -7.9% | -3.7% | -9.9% |
| **2002** | -22.1% | 10.3% | 26.4% | 22.5% | 16.6% | 45.8% | -9.8% | 1.3% |
| **2003** | 28.7% | 4.1% | 27.5% | 17.8% | 8.4% | 35.0% | 18.5% | 31.9% |
| **2004** | 10.9% | 4.3% | 18.8% | 3.4% | 8.5% | 24.8% | 8.3% | 16.6% |
| **2005** | 4.9% | 2.4% | 32.2% | 13.8% | 2.8% | 31.8% | 4.0% | 15.3% |
| **2006** | 15.8% | 4.3% | 9.7% | 16.0% | 0.4% | 11.1% | 11.1% | 14.2% |
| **2007** | 5.5% | 7.0% | 19.3% | 24.2% | 11.6% | 33.8% | 6.2% | 16.4% |
| **2008** | -37.0% | 5.2% | -30.9% | 2.4% | -2.4% | -28.7% | -22.1% | -32.8% |
| **2009** | 26.5% | 5.9% | 22.9% | 22.7% | 11.4% | 36.1% | 18.4% | 30.8% |
| **2010** | 15.1% | 6.5% | 19.4% | 28.5% | 6.3% | 28.9% | 12.1% | 20.7% |
| **2011** | 2.1% | 7.8% | -8.9% | 9.6% | 13.6% | 7.0% | 4.7% | 4.4% |
| **2012** | 16.0% | 4.2% | -0.5% | 6.0% | 7.0% | 7.7% | 11.3% | 12.8% |
| **2013** | 32.4% | -2.0% | -9.1% | -28.7% | -8.6% | -21.2% | 17.6% | 8.1% |
| **2014** | 13.7% | 6.0% | -15.2% | -1.8% | 3.6% | -9.8% | 10.6% | 3.9% |
| **2015** | 1.4% | 0.5% | -23.5% | -10.9% | -1.4% | -22.3% | 1.3% | -8.4% |
| **2016** | 12.0% | 2.6% | 14.2% | 7.4% | 4.7% | 17.9% | 8.3% | 14.7% |
| **2017** | 21.8% | 3.5% | 2.7% | 11.7% | 3.0% | 7.3% | 14.2% | 15.9% |
| **2018** | -4.4% | 0.0% | -13.4% | -4.7% | -1.3% | -12.9% | -2.3% | -7.7% |
| **2019** | 31.5% | 8.7% | 3.9% | 15.6% | 8.4% | 14.9% | 22.2% | 24.8% |
| **2020** | 18.4% | 7.5% | 1.0% | 20.5% | 11.0% | 15.9% | 14.7% | 17.7% |
| **2021** | 28.7% | -1.5% | 27.9% | -4.3% | 6.0% | 27.9% | 15.9% | 28.6% |
| **2022** | -18.1% | -13.0% | 13.0% | -2.7% | -11.8% | -3.9% | -15.8% | -12.3% |
| **2023** | 26.3% | 5.5% | -13.1% | 7.1% | 3.9% | -6.0% | 17.7% | 12.5% |
| **2024** | 22.1% | 4.4% | 2.3% | 22.3% | 4.9% | 11.0% | 14.8% | 17.7% |

*Assumes 0.09% p.a. financing fee for BCOM Roll Select, 0.06% p.a. financing fee for BCOM Gold. A 0.15% p.a. model management fee is applied to the entire strategy.

***Disclosures:***

*Commodity interests and derivative contracts inherently present substantial risk of loss and a higher risk than other investments strategies. Investors should consider these risks with the understanding that the strategy may not be successful and work in all market conditions.*

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***David Chapman, CFA****, is the Head of Multi-Asset at LGIM America. In his role, he is responsible for the oversight of our asset allocation and quantitative solutions, including overlays, hedging and multi-asset funds. Dave joined LGIM America in 2015. Prior to this, Dave was the Chief Investment Officer for ALAS, Inc., a professional liability mutual insurance company. Prior to ALAS, he was with Ascension Investment Management where he was the Managing Director responsible for asset allocation and investment risk management across a variety of institutional investors and plan sponsors. Dave began his investment career as a Portfolio Manager at BlackRock.*

*Dave earned a BS in Business Administration from Washington University in St. Louis and an MBA from the University of Michigan. He is a CFA charterholder and holds a Series 3 license registered with the NFA.*

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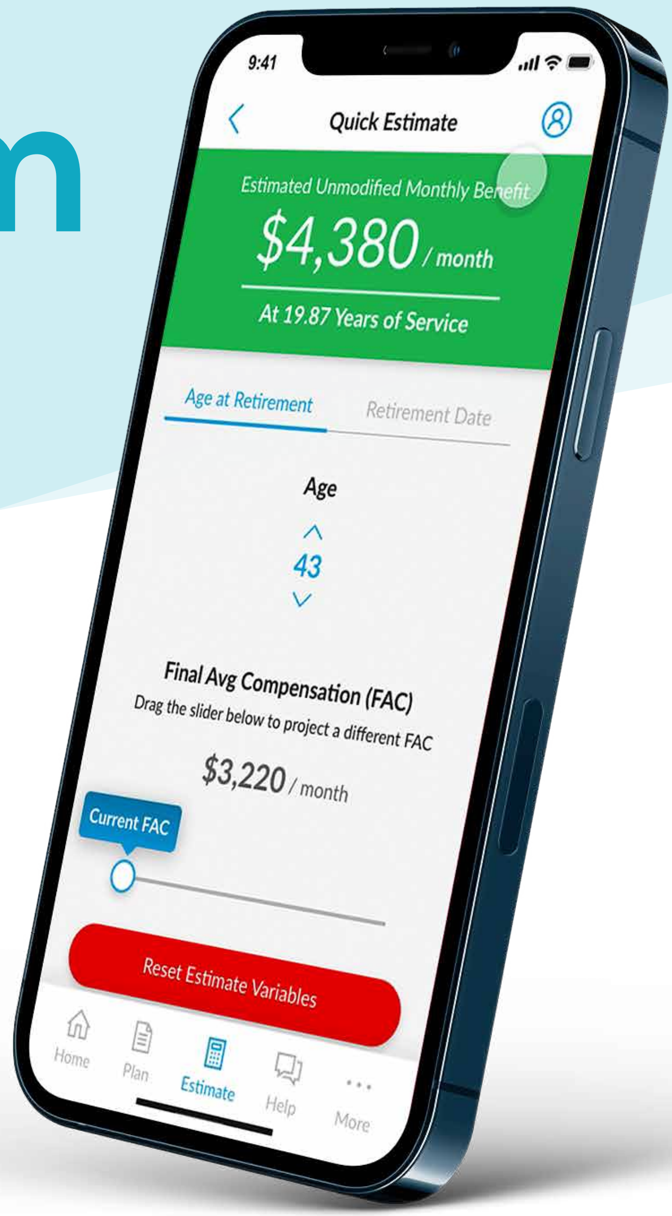


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**Trustee Educational Seminar (TEDS)**

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Denver, CO

**Annual Conference & Exhibition (ACE)**

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