

AGENDA



Date: August 5, 2021

The supplemental meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, August 12, 2021, via telephone conference for audio at 214-271-5080 access code 588694 or Toll-Free (US & CAN): 1-800-201-5203 and Zoom meeting for visual <https://us02web.zoom.us/j/88237235435?pwd=ZmN5OUUhJN1JXNXB0VWxDVY9sd3FBZz09> Passcode: 210109.** Items of the following agenda will be presented to the Board:

A. CONSENT AGENDA

Approval of Minutes

Regular meeting of July 15, 2021

B. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. January 1, 2021 Actuarial Valuation Assumptions

2. Quarterly Financial Reports

3. 2021 Mid-Year Budget Review

The term "possible action" in the wording of any Agenda item contained herein serves as notice that the Board may, as permitted by Texas Government Code, Section 551, in its discretion, dispose of any item by any action in the following non-exclusive list: approval, disapproval, deferral, table, take no action, and receive and file. At the discretion of the Board, items on this agenda may be considered at times other than in the order indicated in this agenda.

At any point during the consideration of the above items, the Board may go into Closed Executive Session as per Texas Government Code, Section 551.071 for consultation with attorneys, Section 551.072 for real estate matters, Section 551.074 for personnel matters, and Section 551.078 for review of medical records.

**Dallas Police and Fire Pension System
Thursday, July 15, 2021
8:30 a.m.
Via telephone conference**

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

ROLL CALL

Board Members

Present at 8:31 a.m. William F. Quinn, Nicholas A. Merrick, Armando Garza, Michael Brown, Gilbert A. Garcia, Kenneth Haben, Tina Hernandez Patterson, Mark Malveaux

Absent: Robert B. French, Steve Idoux

Staff

Kelly Gottschalk, Josh Mond, Ryan Wagner, John Holt, Damion Hervey, Cynthia Thomas, Greg Irlbeck, Michael Yan, Carol Huffman

Others

Leandro Festino, Aaron Lally, Caitlin Grice

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

The meeting was reconvened at 10:45 a.m.

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A. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of June 10, 2021

2. Approval of Survivor Benefits

After discussion, Mr. Garza made a motion to approve the minutes of the meeting of June 10, 2021. Mr. Haben seconded the motion, which was unanimously approved by the Board.

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

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**Supplemental Board Meeting
Thursday, July 15, 2021**

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

January 1, 2021 Actuarial Valuation Assumptions

DPFP staff reviewed the appropriateness of the current 7% discount rate/assumed rate of return given changing market factors and the asset allocation considerations and provided the Segal analysis from the June 2021 Board Meeting. Caitlin Grice, Consulting Actuary of Segal Consulting answered questions regarding the assumed rate of return. The Board directed that the item be brought back at the August Board meeting.

No motion was made.

* * * * *

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Merrick and a second by Mr. Garza, the meeting was adjourned at 10:46 a.m.

William F. Quinn
Chairman

ATTEST:

Kelly Gottschalk
Secretary



DISCUSSION SHEET

Supplemental

ITEM #B1

Topic: **January 1, 2021 Actuarial Valuation Assumptions**

Discussion: An Actuarial Valuation is performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits and it is an important part of the annual financial audit. Segal Consulting is preparing the January 1, 2021 Actuarial Valuation for the Regular Plan (Combined Plan) and the Supplemental Plan. Many economic and demographic assumptions are required to prepare the valuation. Pursuant to Article 16, Section 67 (f)(3) of the Texas Constitution, the Board determines the assumptions used in the valuation.

At the June 2021 Board meeting Jeff Williams from Segal, discussed the assumptions for the January 2021 valuations and recommended no changes from the Assumptions used in the prior actuarial valuation except for possible consideration of lowering the 7% assumed rate of return. At the July 2021 Board Meeting the rate of return assumption was discussed and the Board requested that Segal prepare an impact study of various return assumptions based on **estimated** January 1, 2021 net asset values.

Staff

Recommendation: **Direct** Segal to use its recommended assumptions in preparing the January 1, 2021 Actuarial Valuation for the Regular Plan (Combined Plan) and the Supplemental Plan and give Segal further direction on the assumed rate of return to be used.

Supplemental Board Meeting- Thursday, August 12, 2021



DISCUSSION SHEET
Supplemental

ITEM #B2

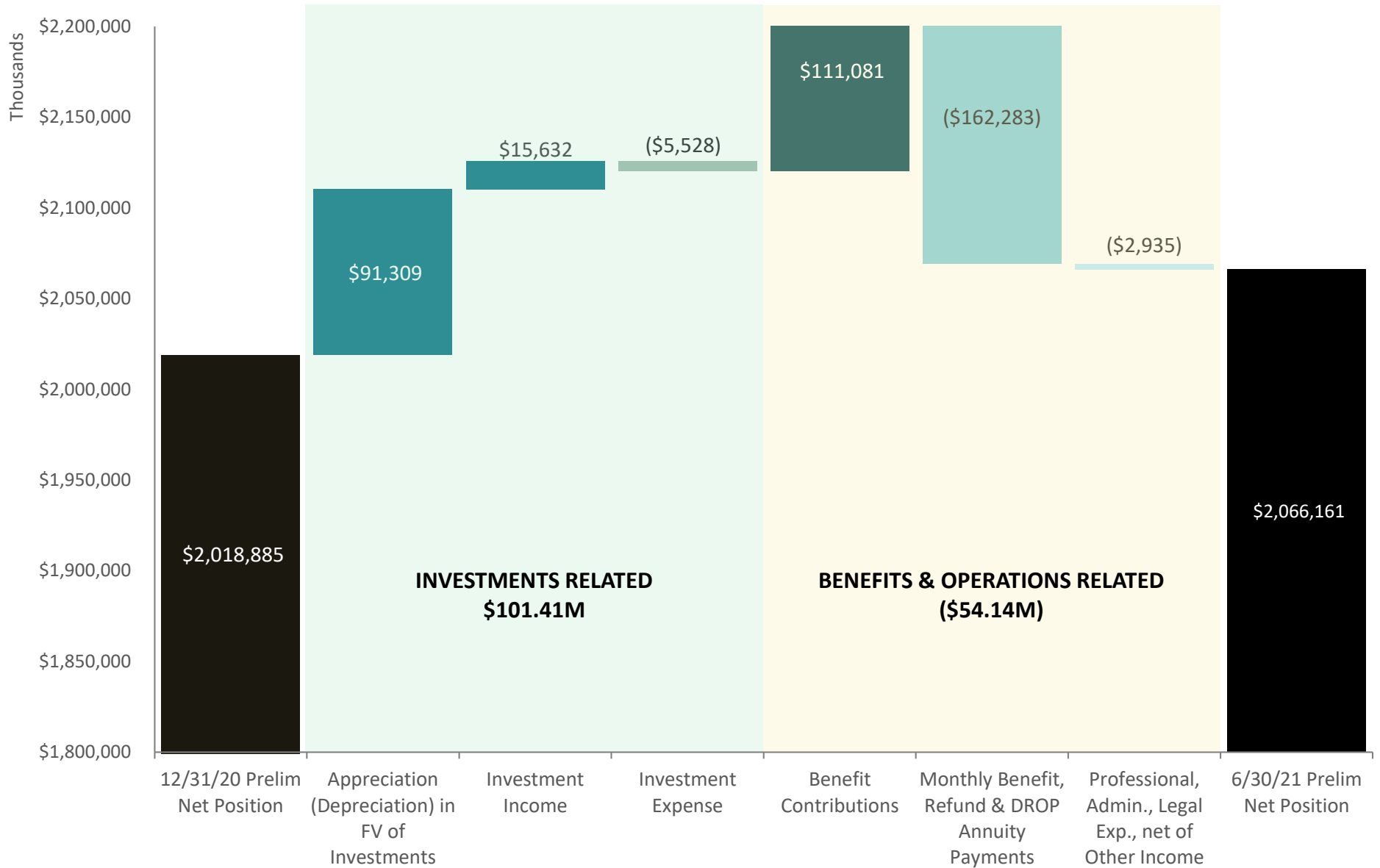
Topic: **Quarterly Financial Reports**

Discussion: The Chief Financial Officer will present the second quarter 2021 financial statements.

Supplemental Board Meeting – Thursday, August 12, 2021

Change in Net Fiduciary Position

PRELIMINARY - December 31, 2020 – June 30, 2021



Components may not sum exactly due to rounding.

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

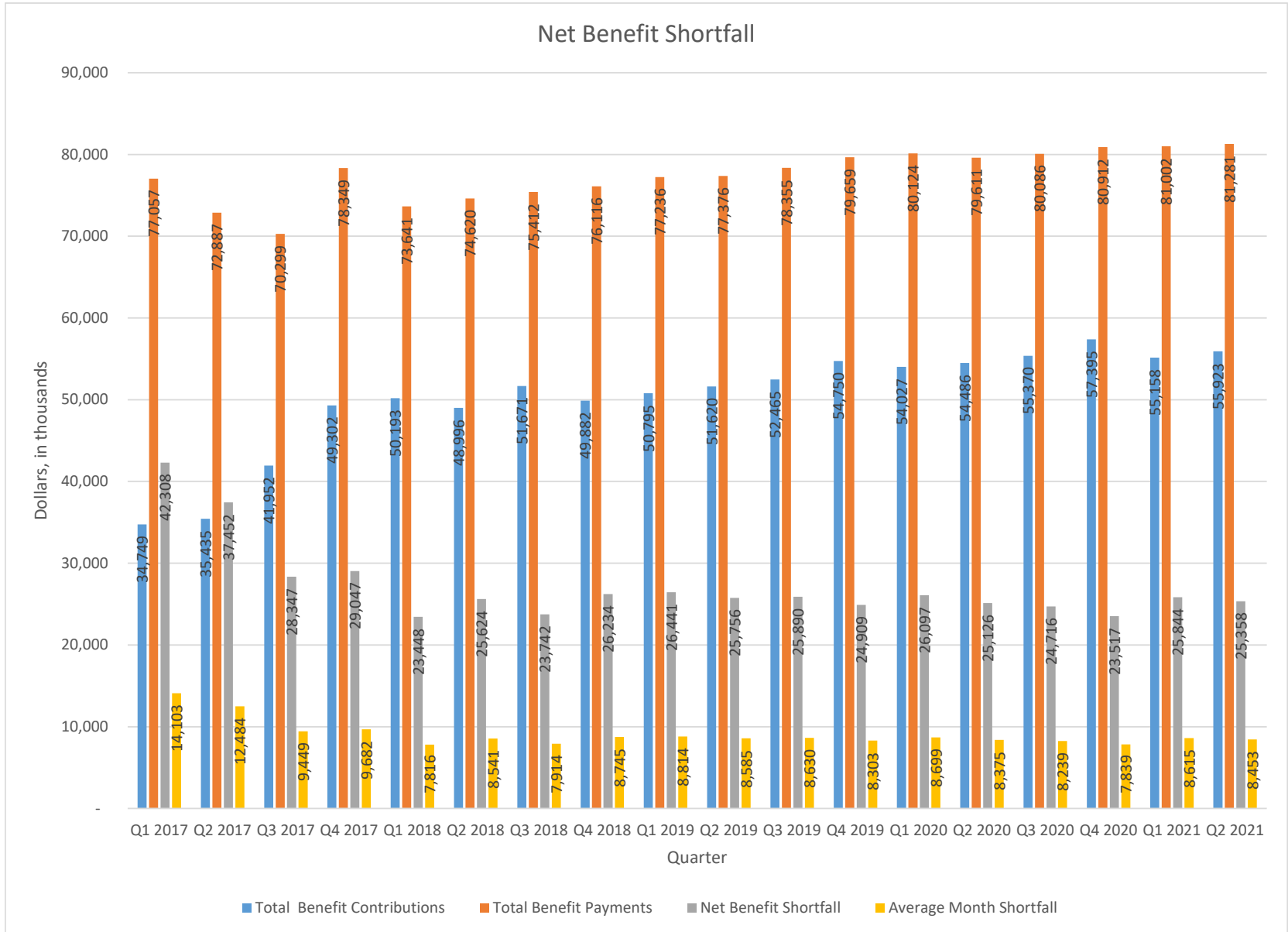
	June 30, 2021	PRELIMINARY December 31, 2020 (unaudited)	\$ Change	% Change
Assets				
Investments, at fair value (NOTE)				
Short-term investments	\$ 30,117,244	\$ 20,430,187	\$ 9,687,057	47%
Fixed income securities	485,698,320	473,421,597	12,276,723	3%
Equity securities	805,902,217	700,767,440	105,134,777	15%
Real assets	468,042,187	524,199,371	(56,157,184)	-11%
Private equity	190,669,940	197,253,569	(6,583,629)	-3%
Forward currency contracts	(14,213)	(296,918)	282,705	-95%
Total investments (NOTE)	1,980,415,695	1,915,775,246	64,640,449	3%
Receivables				
City	3,646,857	4,032,755	(385,898)	-10%
Members	1,273,475	1,445,883	(172,408)	-12%
Interest and dividends	3,987,098	3,782,403	204,695	5%
Investment sales proceeds	10,059,960	9,296,619	763,341	8%
Other receivables	119,324	675,642	(556,318)	-82%
Total receivables	19,086,714	19,233,302	(146,588)	-1%
Cash and cash equivalents	74,283,960	88,491,051	(14,207,091)	-16%
Prepaid expenses	763,863	544,957	218,906	40%
Capital assets, net	11,967,353	12,087,826	(120,473)	-1%
Total assets	\$ 2,086,517,585	\$ 2,036,132,382	\$ 50,385,203	2%
Liabilities				
Payables				
Securities purchased	15,373,506	11,783,719	3,589,787	30%
Accounts payable and other accrued liabilities	4,982,838	5,463,419	(480,581)	-9%
Total liabilities	20,356,344	17,247,138	3,109,206	18%
Net position				
Net investment in capital assets	11,967,353	12,087,826	(120,473)	-1%
Unrestricted	2,054,193,888	2,006,797,418	47,396,470	2%
Net position held in trust - restricted for pension benefits	\$ 2,066,161,241	\$ 2,018,885,244	\$ 47,275,997	2%

(NOTE) Private asset values have not yet been reported for Q4 20. Values will be updated as final reporting is received.

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

	<u>Six Months Ended 6/30/2021</u>	<u>Six Months Ended 6/30/2020</u>	<u>\$ Change</u>	<u>% Change</u>
Contributions				
City	\$ 82,067,414	\$ 80,477,658	\$ 1,589,756	2%
Members	29,014,008	28,034,934	979,074	3%
Total Contributions	<u>111,081,422</u>	<u>108,512,592</u>	2,568,830	2%
Investment income				
Net appreciation (depreciation) in fair value of investments	91,309,096	(60,556,545)	151,865,641	-251%
Interest and dividends	15,631,613	16,011,371	(379,758)	-2%
Total gross investment income	106,940,709	(44,545,174)	151,485,883	-340%
less: investment expense	(5,527,859)	(3,304,793)	(2,223,066)	-67%
Net investment income	<u>101,412,850</u>	<u>(47,849,967)</u>	149,262,817	-312%
Securities lending income				
Securities lending income	-	71,583	(71,583)	-100%
Securities lending expense	-	(49,000)	49,000	-100%
Net securities lending income	<u>-</u>	<u>22,583</u>	(22,583)	-100%
Other income	174,336	176,129	(1,793)	-1%
Total additions	<u>212,668,608</u>	<u>60,861,337</u>	151,807,271	249%
Deductions				
Benefits paid to members	161,045,127	158,712,088	2,333,039	1%
Refunds to members	1,238,041	1,023,376	214,665	21%
Legal expense	10,068	138,876	(128,808)	-93%
Legal expense reimbursement	-	-	-	0%
Legal expense, net of reimbursement	<u>10,068</u>	<u>138,876</u>	(128,808)	-93%
Staff Salaries and Benefits	1,785,053	1,865,961	(80,908)	-4%
Professional and administrative expenses	1,314,322	1,349,950	(35,628)	-3%
Total deductions	<u>165,392,611</u>	<u>163,090,251</u>	2,302,360	1%
Net increase (decrease) in net position	<u>47,275,997</u>	<u>(102,228,914)</u>		
Beginning of period	2,018,885,244 *	2,075,164,750		
End of period	<u>\$ 2,066,161,241 *</u>	<u>\$ 1,972,935,836</u>		

*The beginning and ending period amounts are preliminary and will change as the 2020 results are finalized.





DISCUSSION SHEET

Supplemental

ITEM #B3

Topic: **2021 Mid-Year Budget Review**

Discussion: Attached is a review of the 2021 Operating Expense Budget detailing expenses for the first six months of the calendar year.

Expense items which are greater than the prorated budget by more than 5% and \$10,000 as of June 30, 2021 are discussed in the attached review.

Supplemental Plan expenses are deducted from total expenses in arriving at total Regular Plan expenses. Expenses are allocated to the two plans on a pro-rata basis, according to the ratio of each plan's assets to the total Group Trust assets. The ratio is derived from the Unitization Report prepared by JPMorgan as of June 30, 2021. The ratio is 99.21% Regular Plan to .79% Supplemental Plan.

Supplemental Board Meeting – Thursday, August 12, 2021

**BUDGET REVIEW
2021 MID -YEAR REVIEW**

Description	2021 6 months Actual	2021 6 months Budget	2020 6 months Actual	Budget vs Actual Variance \$ Over/(Under)	Budget vs Actual Variance % Over/(Under)
1 Legislative consultants	94,543	79,500	63,000	15,043	18.9%
2 Communications (phone/internet)	46,855	35,400	33,908	11,455	32.4%
3 IT software/hardware	17,708	8,500	11,928	9,208	108.3%
4 Miscellaneous professional services	19,260	10,775	12,126	8,485	78.7%
5 Bank Fees	9,839	1,550	1,528	8,289	534.8%
6 Public Relations Expense	2,152	-	-	2,152	100.0%
7 IT subscriptions/services/licenses	93,082	91,358	65,272	1,724	1.9%
8 Elections	-	-	-	-	100.0%
9 Depreciation exp - IT hardware	7,343	7,344	7,343	(1)	0.0%
10 Records storage	696	700	696	(4)	-0.6%
11 Memberships and dues	9,502	9,959	8,620	(457)	-4.6%
12 Staff meetings	-	500	-	(500)	-100.0%
13 Subscriptions	448	1,063	509	(615)	-57.9%
14 Business continuity	8,387	9,150	8,112	(763)	-8.3%
15 Leased equipment	11,116	12,000	11,843	(884)	-7.4%
16 Accounting services	29,500	30,385	29,500	(885)	-2.9%
17 Member educational programs	-	1,625	-	(1,625)	-100.0%
18 Employee service recognition	-	2,515	144	(2,515)	-100.0%
19 Board meetings	499	3,210	1,297	(2,711)	-84.5%
20 COVID-19 expense	-	3,750	19,367	(3,750)	-100.0%
21 Network security review	900	5,000	-	(4,100)	-82.0%
22 Conference registration/materials - board	150	5,825	-	(5,675)	-97.4%
23 Postage	4,890	10,850	14,314	(5,960)	-54.9%
24 Miscellaneous expense	-	6,000	430	(6,000)	-100.0%
25 Office supplies	6,149	12,425	7,058	(6,276)	-50.5%
26 Repairs and maintenance	35,385	42,212	11,834	(6,827)	-16.2%
27 Printing	-	7,000	-	(7,000)	-100.0%
28 Disability medical evaluations	-	8,250	2,770	(8,250)	-100.0%
29 Employment expenses	4,062	12,555	16,665	(8,493)	-67.6%
30 Travel - board	1,558	10,750	-	(9,192)	-85.5%
31 Network security monitoring	39,158	51,000	8,518	(11,842)	-23.2%
32 Pension administration software & WMS	138,059	151,000	131,808	(12,941)	-8.6%
33 Building expenses, incl depreciation	298,416	313,871	304,715	(15,455)	-4.9%
34 Conference/training registration/materials - staff	919	18,150	3,054	(17,231)	-94.9%
35 Independent audit	65,000	83,000	127,977	(18,000)	-21.7%
36 Travel - staff	2,082	21,600	1,758	(19,518)	-90.4%
37 Actuarial services	41,000	95,250	113,140	(54,250)	-57.0%
38 Liability insurance	304,420	363,574	300,350	(59,154)	-16.3%
39 Information technology projects	21,244	95,000	30,364	(73,756)	-77.6%
40 Salaries and benefits	1,785,053	1,887,621	1,865,961	(102,568)	-5.4%
41 Legal fees, net of insurance reimbursements	10,068	281,250	138,876	(271,182)	-96.4%
Legal fee insurance reimbursements	-	-	-	-	100.0%
Legal fees, excluding insurance reimbursements	10,068	281,250	138,876	(271,182)	-96.4%
Gross Total	3,109,443	3,791,467	3,354,785	(682,024)	-18.0%
Less: Allocation to Supplemental Plan Budget*	24,704	33,744	26,502	(9,040)	-26.8%
Total Regular Plan Budget	\$ 3,084,739	\$ 3,757,723	\$ 3,328,283	\$ (672,984)	-17.9%

* Unitization split to Supplemental is based on unitization

1 Investment portfolio operating expenses	2,231,883	388,805	363,667	1,843,078	474.0%
2 Custodian fees	116,204	110,000	108,487	6,204	5.6%
3 Investment due diligence	17,500	17,500	-	-	0.0%
4 Investment consultant and reporting	168,542	170,000	166,042	(1,458)	-0.9%
5 Fund management fees	2,993,731	3,408,362	2,666,598	(414,631)	-12.2%
Total Investment Expenses	5,527,860	4,094,667	3,304,794	1,433,193	35.0%

**BUDGET
2021 MID-YEAR REVIEW**

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

	Description	2021 6 months Actual	2021 6 months Budget	Budget vs Actual Variance \$ Over/(Under)	Budget vs Actual Variance % Over/(Under)	Explanation
	INCREASES:					
1	Legislative consultants	94,543	79,500	15,043	18.9%	Variance is related to the timing of expenses. The legislature was in session through June and expenses are higher during the legislative session. Budget is straight lined over the year. Expect to be within budget by the end of the year.
2	Communications (phone/internet)	46,855	35,400	11,455	32.4%	Increase in expense is for analog lines primarily related to the building. These lines are being deactivated, where viable, or ported to new services.
	REDUCTIONS:					
3	Legal fees, net of insurance reimbursements	10,068	281,250	(271,182)	-96.4%	Variance is due in part to both the timing of expenses and the amount of expenses in some cases.
4	Salaries and benefits	1,785,053	1,887,621	(102,568)	-5.4%	Lower than forecasted expenses due to three vacant staff positions and one budgeted but unfilled position - Communications Specialist.
5	Information technology projects	21,244	95,000	(73,756)	-77.6%	Budget is straight-lined over the year. Due to COVID-19 some projects have been deferred or pushed to the second half of the year.
6	Liability insurance	304,420	363,574	(59,154)	-16.3%	At renewal, Crime policy coverages were significantly reduced from budgeted amounts and projected increases in Fiduciary policies were less than projected. These declines offset increased Cyber coverages and cost.
7	Actuarial services	41,000	95,250	(54,250)	-57.0%	Variance is due in part to timing and quantity of specialized services required. Additional expenses are expected in the second half of 2021 as possible changes to the assumed rate of return are considered.
8	Travel - staff	2,082	21,600	(19,518)	-90.4%	Staff travel still significantly reduced due to COVID-19.
9	Independent audit	65,000	83,000	(18,000)	-21.7%	Variance is related to the timing of expenses. Budget is straight-lined over the year. Expect to be at budget by the end of the year.
10	Conference/training registration/materials - staff	919	18,150	(17,231)	-94.9%	Staff Conference Training attendance still significantly reduced due to COVID-19.
11	Pension administration software & WMS	138,059	151,000	(12,941)	-8.6%	Variance is primarily related to the timing of some expenses.
12	Network security monitoring	39,158	51,000	(11,842)	-23.2%	Actual monitoring costs came in below the projection when the contracts were signed in 2021.

INVESTMENT EXPENSES

	Description	2021 6 months Actual	2021 6 months Budget	Budget vs Actual Variance \$ Over/(Under)	Budget vs Actual Variance % Over/(Under)	Explanation
1	Investment portfolio operating expenses	2,231,883	388,805	1,843,078	474.0%	Variance relates to the timing of some expenses and the unbudgeted Northern Trust transition costs and Lone Star costs.
2	Fund management fees	2,993,731	3,408,362	(414,631)	-12.2%	Budget and Actual are for direct fees only. Variance is due in part to the timing of expenses. Some performance fees are due and paid at year end.