

AGENDA



Date: February 7, 2020

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, 2020, in the Second Floor Board Room at 4100 Harry Hines Boulevard, Dallas, Texas.** Items of the following agenda will be presented to the Board:

A. MOMENT OF SILENCE

B. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of January 9, 2020

2. Approval of Refunds of Contributions for the Month of January 2020

- 3. Approval of Estate Settlements**
- 4. Approval of Survivor Benefits**
- 5. Approval of Service Retirements**

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

- 1. Quarterly Financial Statements**
- 2. Monthly Contribution**
- 3. Portfolio Update**
- 4. Rebalancing Report**
- 5. Investment Policy Statement Review**
- 6. Bank Loan Investment Allocation**
- 7. Correction of Errors in Benefit Payments Policy**

8. Board approval of Trustee education and travel

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

9. SB 944

10. Lone Star Investment Advisors Update

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

- 11. 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, including DFPF's VCP filing with the Internal Revenue Service, consideration of legal options regarding DFPF's interests in funds managed by Lone Star Investment Advisors or any other legal matter in which the duty of the attorneys to DFPF and the Board under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with Texas Open Meeting laws.**

12. 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:

Disability application

D. BRIEFING ITEMS

- 1. Public Comment**
- 2. Executive Director's report**
 - a. Associations' newsletters**
 - NCPERS Monitor (January 2020)
 - b. Open Records**

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

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



ITEM #A

MOMENT OF SILENCE

In memory of our Members and Pensioners who recently passed away

NAME	ACTIVE/ RETIRED	DEPARTMENT	DATE OF DEATH
Tommie R. Murphy	Retired	Police	Jan. 12, 2020
Joe B. Davis	Retired	Fire	Jan. 17, 2020
J. W. McElroy	Retired	Fire	Jan. 21, 2020
Donald Kirkpatrick	Retired	Police	Jan. 23, 2020
Jose Losoya, Jr.	Retired	Police	Jan. 28, 2020
James W. Nunn	Retired	Police	Jan. 28, 2020
Gene E. Bennett	Retired	Fire	Jan. 29, 2020
Hubert Townsend	Retired	Fire	Jan. 29, 2020
Homer L. Hinton	Retired	Police	Feb. 1. 2020

Regular Board Meeting – Thursday, February 13, 2020

**Dallas Police and Fire Pension System
Thursday, January 9, 2020
8:30 a.m.
4100 Harry Hines Blvd., Suite 100
Second Floor Board Room
Dallas, TX**

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

ROLL CALL

Board Members

Present at William F. Quinn, Nicholas A. Merrick, Joseph P. Schutz, Susan M. Byrne, Robert B. French (by phone), Steve Idoux, Gilbert A. Garcia, Mark Malveaux, Armando Garza, Allen R. Vaught, Tina Hernandez Patterson

Absent: None

Staff

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

Others

Scott Freeman, Ben Mesches, David Harper, Jason Jordan, David Elliston

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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 active police officers Alan L. Haynes, Joseph M. George, retired police officer James R. Gammill, retired firefighters Jay G. Steindorf, and K. L. Hoaldridge.

No motion was made.

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**Regular Board Meeting
Thursday, January 9, 2020**

B. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of December 12, 2019

2. Approval of Refunds of Contributions for the Month of December 2019

3. Approval of Estate Settlements

4. Approval of Survivor Benefits

5. Approval of Service Retirements

6. Approval of Alternate Payee Benefits

After discussion, Ms. Byrne made a motion to approve the minutes of the meeting of December 12, 2019. Mr. Garcia seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Garza made a motion to approve the remaining items on the Consent Agenda, subject to the final approval of the staff. Mr. Garcia 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. Board Committees

- a. Committee Policy and Procedure Update**
- b. Committee Appointments**

After discussion, Mr. Garcia made a motion to adopt the revised Committee Policy and Procedure and remove Gilbert Garcia and appoint Armando Garza and Tina Hernandez Patterson as members of the Audit Committee. Ms. Byrne Seconded the motion, which was unanimously approved by the Board.

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**Regular Board Meeting
Thursday, January 9, 2020**

2. Report on Investment Advisory Committee

The Investment Advisory Committee Chair and Investment Staff commented on Investment Advisory Committee observations and advice.

No motion was made.

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3. Investment Advisory Committee Terms

The Investment Policy stipulates that members of the Investment Advisory Committee shall serve two-year terms (Sec. 5.B.1.e).

Staff recommended establishing staggered terms as follows.

Position	Name	Appointed	IAC Term Expires
Board Member #1	Gilbert Garcia	September 2018	December 2020
Board Member #2	Susan Byrne	December 2019	December 2021
External #1	Scott Freeman	September 2018	December 2020
External #2	Robert Jones	January 2019	December 2020
External #3	Ray Nixon	December 2019	December 2021

After discussion, Mr. Garcia made a motion to establish staggered terms as recommended by staff. Mr. Merrick seconded the motion, which was unanimously approved by the Board.

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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 9, 2020**

5. Private Asset Cash Flow Projection Update

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

No motion was made.

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6. Real Estate Overview

The Board went into closed executive session – Real Estate at 10:02 a.m.

The meeting was reopened at 10:23 a.m.

Staff provided an overview of the asset and a review of the strategy for Vista Ridge 7 managed by BentallGreenOak, Kings Harbor managed by L&B, and Museum Tower, which is internally managed by staff.

No motion was made.

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7. Internal Controls Review

The Chief Financial Officer presented a brief overview of the internal controls in place at DPF and her assessment of the appropriateness of the controls for DPF.

No motion was made.

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**Regular Board Meeting
Thursday, January 9, 2020**

8. Monthly Contribution

Staff presented the Monthly Contribution Report.

No motion was made.

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9. Board approval of Trustee education and travel

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

No discussion was held, and no motion was made regarding Trustee education and travel. No future investment-related travel is currently scheduled.

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10. Correction of Benefit Payment Errors

Pursuant to the Correction of Errors in Benefits Payments Policy the Executive Director reviewed an overpayment and an underpayment with the Board, each in excess of \$10,000.

The overpayment was the result of an error on the Excess Plan worksheet that occurred at the time the benefit payments was set up.

The underpayment resulted from the failure to increase the Beneficiary's benefit payment to the Special Survivor percentage from the 50% benefit when the Beneficiary reached age 55. The error was discovered while staff was auditing all spouse beneficiaries that began receiving payments prior to age 55.

After discussion, Mr. Garcia made a motion to approve at the member's option, either re-annuitization of the Supplemental DROP annuity to adjust for the overpayment plus interest or allow the member's monthly payment to be reduced for the overpayment plus interest over a period not to exceed 24 months. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

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**Regular Board Meeting
Thursday, January 9, 2020**

- 11. 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, including claims involving overpayment of benefits, consideration of legal options regarding DPFP’s interests in funds managed by Lone Star Investment Advisors 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 10:25 a.m.

The meeting was reopened at 12:10 p.m.

After discussion, Mr. Garcia made a motion to grant the Executive Director, subject to the approval of the Chairman, the authority to restructure DPFP's interests in funds managed by Lone Star Investment Advisors and to take any legal action deemed necessary in respect of such interests. Mr. Malveaux seconded the motion, which was unanimously approved by the Board.

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Mr. Garcia and Mr. French left the meeting at 12:13 p.m.

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The Board went into closed executive session – Legal at 12:14 p.m.

The meeting was reopened at 12:28 p.m.

No motion was made.

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- 12. Executive Director 2020 Objectives**

The Board established performance objectives for the Executive Director for 2020.

No motion was made.

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**Regular Board Meeting
Thursday, January 9, 2020**

D. BRIEFING ITEMS

1. Public Comments

The Board received public comments during the open forum.

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2. Executive Director's report

- a.** Associations' newsletters
 - NCPERS Monitor (December 2019)
- 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 Ms. Byrne and a second by Mr. Schutz, the meeting was adjourned at 12:28 p.m.

William F. Quinn
Chairman

ATTEST:

Kelly Gottschalk
Secretary



DISCUSSION SHEET

ITEM #C1

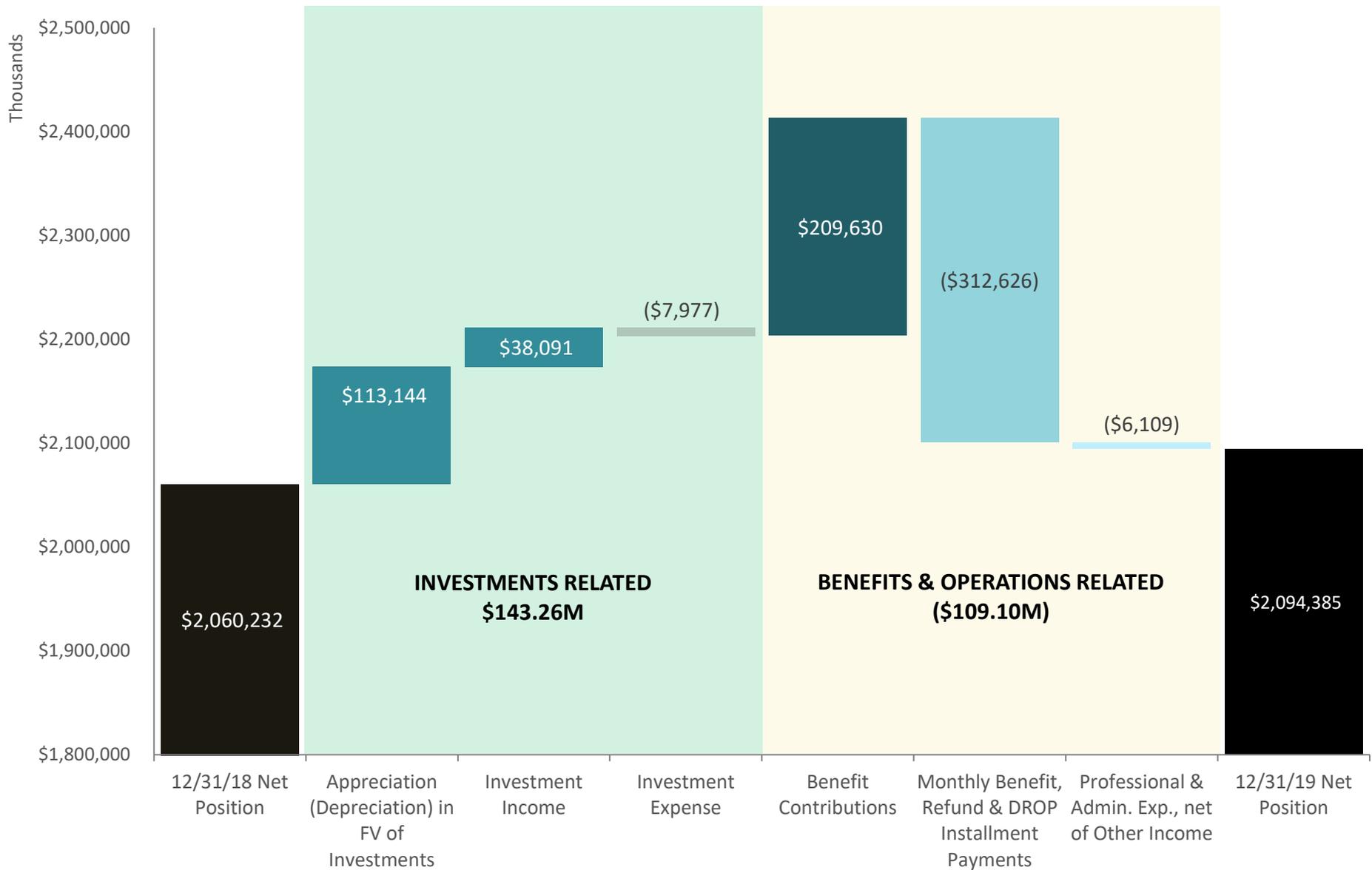
Topic: Quarterly Financial Statements

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

Regular Board Meeting – Thursday, February 13, 2020

Change in Net Fiduciary Position

December 31, 2018 – December 31, 2019 - PRELIMINARY



Components may not sum exactly due to rounding.

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

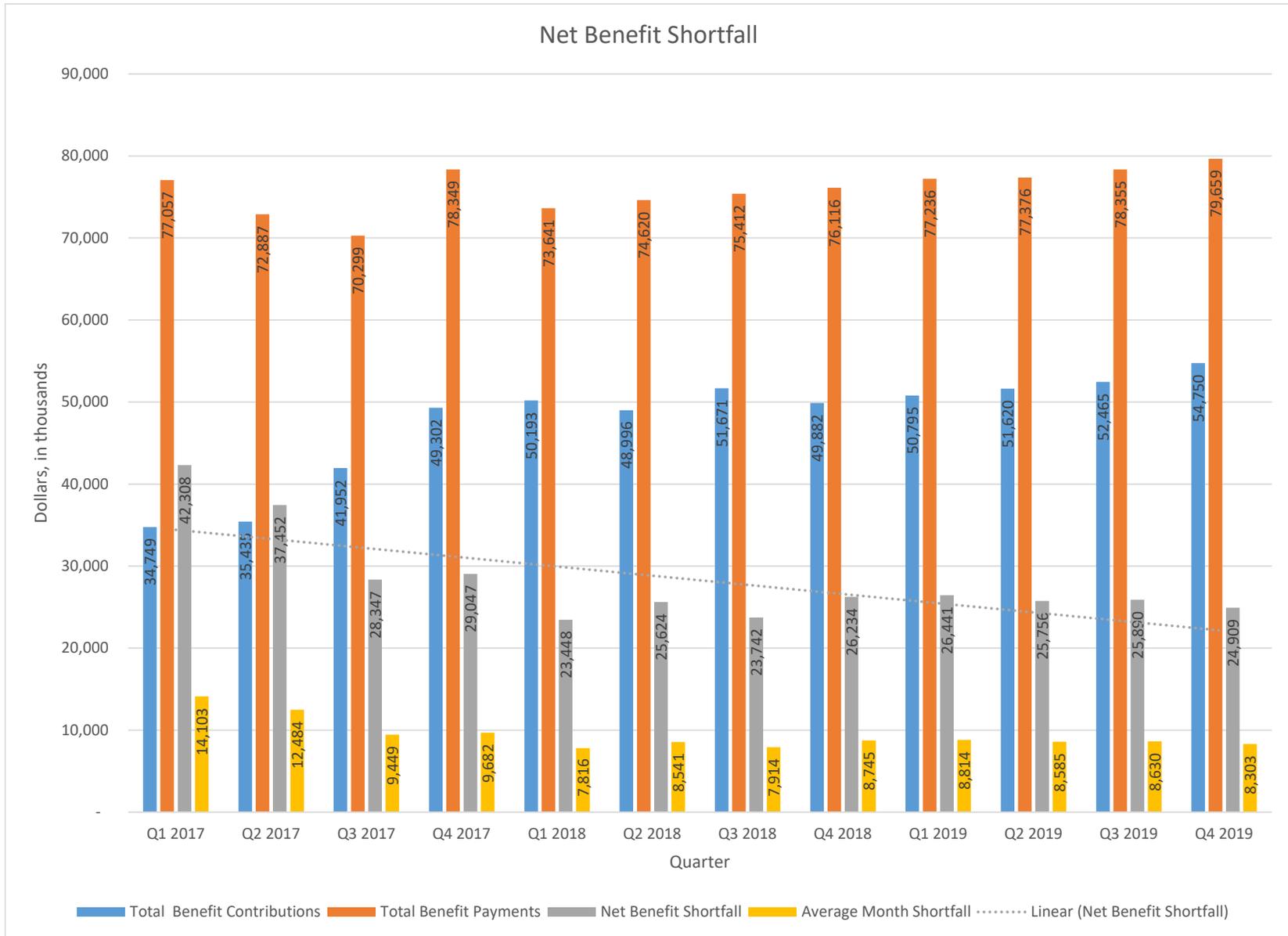
	PRELIMINARY			
	December 31, 2019	December 31, 2018	\$ Change	% Change
	(unaudited)	audited		
Assets				
Investments, at fair value (NOTE)				
Short-term investments	\$ 25,311,029	\$ 41,316,915	\$ (16,005,886)	-39%
Fixed income securities	555,703,407	515,774,800	39,928,607	8%
Equity securities	555,230,589	435,935,015	119,295,574	27%
Real assets	559,667,854	701,404,875	(141,737,021)	-20%
Private equity	292,802,830	312,874,801	(20,071,971)	-6%
Alternative investments	-	-	-	0%
Forward currency contracts	652,498.00	(270,709)	923,207	-341%
Total investments (NOTE)	1,989,368,207	2,007,035,697	(17,667,490)	-1%
Invested securities lending collateral	13,025,117	20,559,431	(7,534,314)	-37%
Receivables				
City	3,035,500	2,504,571	530,929	21%
Members	1,055,869	803,245	252,624	31%
Interest and dividends	4,459,663	4,802,419	(342,756)	-7%
Investment sales proceeds	52,570,414	34,231,149	18,339,265	54%
Other receivables	186,104	292,776	(106,672)	-36%
Total receivables	61,307,550	42,634,160	18,673,390	44%
Cash and cash equivalents	90,461,720	50,137,929	40,323,791	80%
Prepaid expenses	402,596	365,515	37,081	10%
Capital assets, net	12,328,774	12,488,943	(160,169)	-1%
Total assets	\$ 2,166,893,964	\$ 2,133,221,675	\$ 33,672,289	2%
Liabilities				
Payables				
Securities lending obligations	13,025,117	20,559,431	(7,534,314)	-37%
Securities purchased	54,957,185	48,598,173	6,359,012	13%
Accounts payable and other accrued liabilities	4,526,881	3,832,048	694,833	18%
Total liabilities	72,509,183	72,989,652	(480,469)	-1%
Net position				
Net investment in capital assets	12,328,774	12,488,943	(160,169)	-1%
Unrestricted	2,082,056,007	2,047,743,080	34,312,927	2%
Net position held in trust - restricted for pension benefits	\$ 2,094,384,781	\$ 2,060,232,023	\$ 34,152,758	2%

(NOTE) Private asset values have not yet been reported for Q4 19. Values will be updated as final reporting is received.

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

	PRELIMINARY		\$ Change	% Change
	12 Months Ended 12/31/2019 (unaudited)	12 Months Ended 12/31/2018 (audited)		
Contributions				
City	\$ 157,251,349	\$ 151,335,850	\$ 5,915,499	4%
Members	52,378,953	49,406,142	2,972,811	6%
Total Contributions	<u>209,630,302</u>	<u>200,741,992</u>	8,888,310	4%
Investment income				
Net appreciation (depreciation) in fair value of investments (NOTE)	113,144,140	6,475,020	106,669,120	1647%
Interest and dividends	37,976,218	45,066,051	(7,089,833)	-16%
Total gross investment income	151,120,358	51,541,071	99,579,287	193%
less: investment expense	(7,977,462)	(8,089,583)	112,121	1%
Net investment income	<u>143,142,896</u>	<u>43,451,488</u>	99,691,408	229%
Securities lending income				
Securities lending income	847,622	312,393	535,229	171%
Securities lending expense	(733,169)	(200,479)	(532,690)	266%
Net securities lending income	<u>114,453</u>	<u>111,914</u>	2,539	2%
Other income	359,569	479,376	(119,807)	-25%
Total additions	<u>353,247,220</u>	<u>244,784,770</u>	108,462,450	44%
Deductions				
Benefits paid to members	310,008,100	297,154,779	12,853,321	4%
Refunds to members	2,618,229	2,634,547	(16,318)	-1%
Legal expense	628,911	673,182	(44,271)	-7%
Legal expense reimbursement	(58,584)	(294,183)	235,599	-80%
Legal expense, net of reimbursement	<u>570,327</u>	<u>378,999</u>	191,328	50%
Staff Salaries and Benefits	3,410,065	2,990,341	419,724	14%
Professional and administrative expenses	2,487,741	2,544,704	(56,963)	-2%
Total deductions	<u>319,094,462</u>	<u>305,703,370</u>	13,391,092	4%
Net increase (decrease) in net position	<u>34,152,758</u>	<u>(60,918,600)</u>		
Beginning of period	2,060,232,023	2,121,150,623		
End of period	<u>\$ 2,094,384,781</u>	<u>\$ 2,060,232,023</u>		

(NOTE) Private asset values have not yet been reported for Q4 19. Values will be updated as final reporting is received.





DISCUSSION SHEET

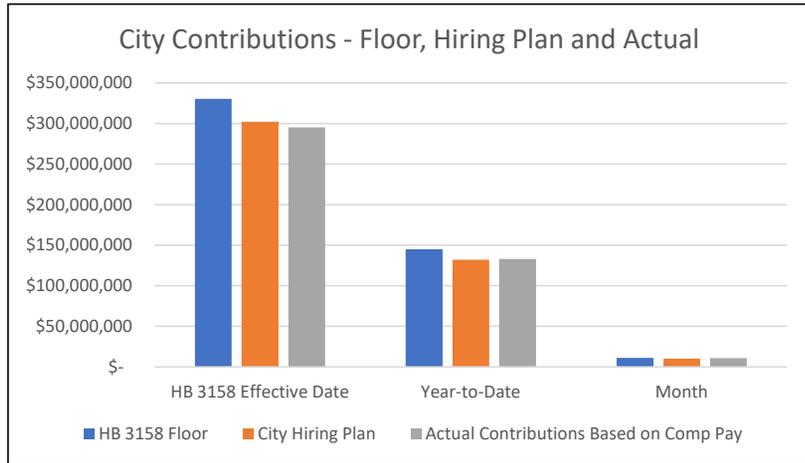
ITEM #C2

Topic: Monthly Contribution

Discussion: Staff will review the Monthly Contribution Report.

Regular Board Meeting – Thursday, February 13, 2020

Contribution Tracking Summary - February 2020 (December 2019 Data)



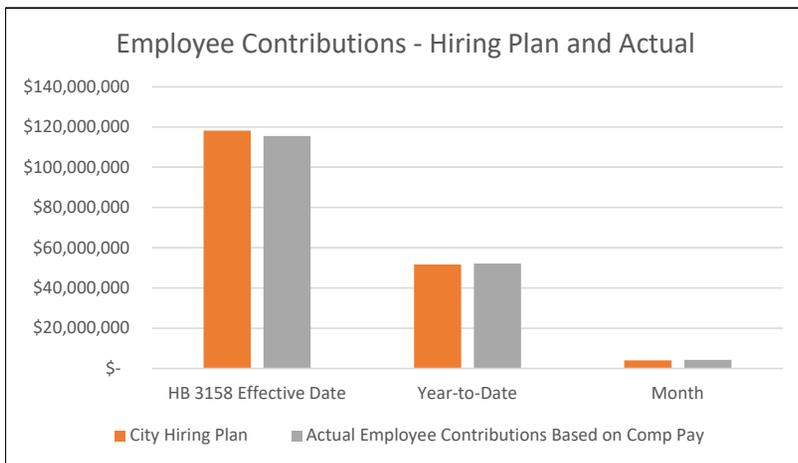
Actual Comp Pay was 97% of the Hiring Plan estimate since the effective date of HB 3158.

In the most recent month Actual Comp Pay was 106% of the Hiring Plan estimate and 97% of the floor amount.

The Hiring Plan Comp Pay estimate increased by 5.22% in 2019.

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

The combined actual hiring was 66 higher than the Hiring Plan for the pay period ending January 7, 2020. Fire was over the estimate by 97 fire fighters and Police was short 31 officers.



Since the effective date of HB 3158 actual employee contributions have been \$2.8 million less than the Hiring Plan estimate. Potential earnings loss due to the contribution shortfall is \$424k at the Assumed Rate of Return.

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

There is no Floor on employee contributions.

Contribution Summary Data

City Contributions

	Number of Pay Periods Beginning in the Month	HB 3158 Floor	City Hiring Plan	Actual Contributions Based on Comp Pay	Additional Contributions to Meet Floor Minimum	Comp Pay Contributions as a % of Floor Contributions	Comp Pay Contributions as a % of Hiring Plan Contributions
Dec-19							
Month	2	\$ 11,142,000	\$ 10,164,231	\$ 10,760,362	\$ 381,639	97%	106%
Year-to-Date		\$ 144,846,000	\$ 132,135,000	\$ 133,175,995	\$ 11,670,005	92%	101%
HB 3158 Effective Date		\$ 330,347,000	\$ 302,140,385	\$ 295,057,208	\$ 35,289,792	89%	98%

Due to the Floor through 2024, there is no cumulative shortfall in City Contributions
 Does not include the flat \$13 million annual City Contribution payable through 2024.
 Does not include Supplemental Plan Contributions.

Employee Contributions

	Number of Pay Periods Beginning in the Month	City Hiring Plan	Actual Employee Contributions Based on Comp Pay	Actual Contribution Shortfall Compared to Hiring Plan	Actuarial Valuation Contribution Assumption	Actual Contributions as a % of Hiring Plan Contributions	Actual Contributions as a % of Actuarial Val Assumption
Nov-19							
Month	2	\$ 3,977,308	\$ 4,209,730	\$ 232,422	\$ 3,770,834	106%	112%
Year-to-Date		\$ 51,705,000	\$ 52,115,021	\$ 410,021	\$ 49,020,842	101%	106%
HB 3158 Effective Date		\$ 118,228,846	\$ 115,469,081	\$ (2,759,765)	\$ 113,119,638	98%	102%

Potential Earnings Loss from the Shortfall based on Assumed Rate of Return \$ (424,607)

Does not include Supplemental Plan Contributions.

Reference Information

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

The HB 3158 Bi-weekly Floor ends after 2024

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

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

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

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

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

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

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

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

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

Comp Pay by Month - 2019	Annual Divided by 26 Pay Periods	Actual	Difference	2019 Cumulative Difference	Number of Employees EOM	Difference
January	\$ 29,461,538	\$ 29,084,185	\$ (377,354)	\$ (377,354)	4963	(75)
February	\$ 29,461,538	\$ 29,067,129	\$ (394,410)	\$ (771,763)	4974	(64)
March	\$ 29,461,538	\$ 29,092,504	\$ (369,035)	\$ (1,140,798)	4962	(76)
April	\$ 29,461,538	\$ 28,974,912	\$ (486,626)	\$ (1,627,424)	4955	(83)
May	\$ 44,192,308	\$ 43,987,516	\$ (204,791)	\$ (1,832,216)	4955	(83)
June	\$ 29,461,538	\$ 29,322,734	\$ (138,804)	\$ (1,971,020)	4938	(100)
July	\$ 29,461,538	\$ 29,651,997	\$ 190,458	\$ (1,780,561)	5027	(11)
August	\$ 29,461,538	\$ 29,823,067	\$ 361,529	\$ (1,419,033)	5016	(22)
September	\$ 29,461,538	\$ 29,912,255	\$ 450,717	\$ (968,316)	5042	4
October	\$ 44,192,308	\$ 45,226,457	\$ 1,034,149	\$ 65,833	5038	-
November	\$ 29,461,538	\$ 30,685,168	\$ 1,223,629	\$ 1,289,463	5079	41
December	\$ 29,461,538	\$ 31,189,454	\$ 1,727,915	\$ 3,017,378	5104	66



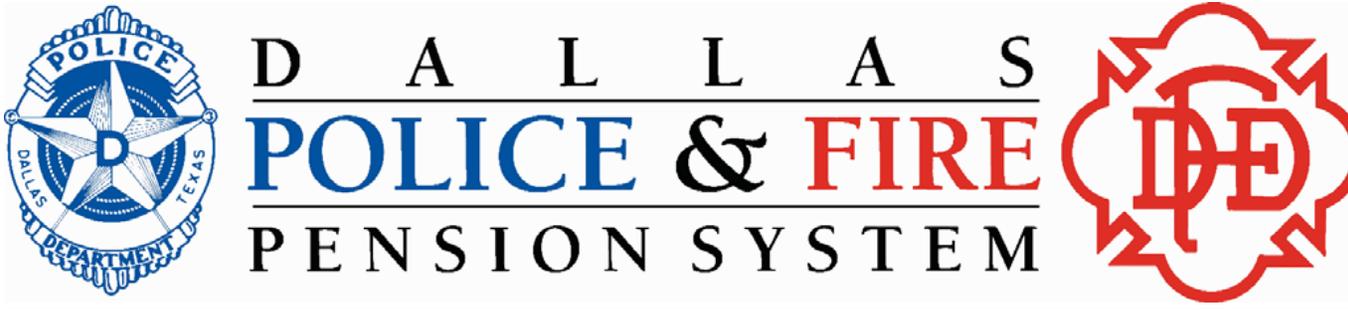
DISCUSSION SHEET

ITEM #C3

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, 2020



Portfolio Update

February 13, 2020

Asset Allocation

DPFP Asset Allocation	\$ millions			% weight		
	1/31/20	Target	Variance	1/31/20	Target	Variance
Equity	852	1,133	-282	41.3%	55.0%	-13.7%
Global Equity	506	824	-318	24.5%	40.0%	-15.5%
Emerging Markets	53	206	-153	2.6%	10.0%	-7.4%
Private Equity*	293	103	190	14.2%	5.0%	9.2%
Fixed Income	649	721	-72	31.5%	35.0%	-3.5%
Safety Reserve - Cash	79	62	17	3.8%	3.0%	0.8%
Safety Reserve - ST IG Bonds	249	247	1	12.1%	12.0%	0.1%
Investment Grade Bonds	58	82	-25	2.8%	4.0%	-1.2%
Global Bonds	69	82	-13	3.3%	4.0%	-0.7%
Bank Loans	81	82	-1	4.0%	4.0%	0.0%
High Yield Bonds	83	82	1	4.0%	4.0%	0.0%
Emerging Mkt Debt	21	82	-61	1.0%	4.0%	-3.0%
Private Debt*	9	0	9	0.4%	0.0%	0.4%
Real Assets*	560	206	354	27.2%	10.0%	17.2%
Real Estate*	377	103	274	18.3%	5.0%	13.3%
Natural Resources*	128	103	25	6.2%	5.0%	1.2%
Infrastructure*	54	0	54	2.6%	0.0%	2.6%
Total	2,061	2,061	0	100.0%	100.0%	0.0%
Safety Reserve	328	309	19	15.9%	15.0%	0.9%
*Private Market Assets	862	309	553	41.8%	15.0%	26.8%

Source: JP Morgan Custodial Data, Staff Estimates and Calculations

PRELIMINARY

12/31/19 Public Market Performance Preview

Public Markets Performance Summary

	Last Quarter			Year to Date		
	Manager	Index	Excess	Manager	Index	Excess
Net of fees						
Global Equity	8.73%	9.05%	-0.32%	28.45%	26.35%	2.09%
Boston Partners	7.11%	8.56%	-1.45%	19.76%	27.67%	-7.91%
Manulife	6.99%	8.95%	-1.96%	30.33%	26.60%	3.73%
Invesco (fka OFI)	12.71%	8.95%	3.76%	32.34%	26.60%	5.74%
Walter Scott	8.27%	8.95%	-0.68%	30.78%	26.60%	4.18%
RBC, EM Equity	10.03%	11.59%	-1.55%	17.93%	17.65%	0.28%
Fixed Income	1.42%	0.64%	0.78%	6.18%	7.13%	-0.95%
IR+M, short term debt	0.58%	0.51%	0.07%	4.27%	3.59%	0.68%
Vanguard, Investment Grade*	0.03%	0.18%	-0.15%	-	-	-
Brandywine, global bonds	4.06%	0.52%	3.54%	9.44%	6.87%	2.57%
Loomis, High Yield	2.57%	3.50%	-0.93%	8.57%	12.56%	-3.99%
Loomis, Bank Loans	0.34%	1.73%	-1.39%	5.20%	8.64%	-3.44%
Pacific Asset Mgt., Bank Loans	1.51%	1.68%	-0.17%	8.74%	8.17%	0.57%
Ashmore, EMD	3.15%	3.14%	0.01%	10.55%	12.17%	-1.62%

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

*Vanguard inception: 9/4/19

12/31/19 Public Market Impact Estimate

This table estimates the gain/loss contribution from public market investments including: market contribution (equity and fixed income composite index returns), structural implementation (manager benchmark vs. composite benchmark), and the active contribution for each investment manager (manager relative performance vs. their benchmark). The contribution from public market securities in 2019 is estimated to be \$155 million.

Public Markets Impact Estimate

\$ millions	Last Quarter				Year to Date			
	Market	Structure	Active	Total	Market	Structure	Active	Total
Public Markets	\$50.40	\$3.84	(\$0.22)	\$54.02	\$146.77	\$3.64	\$4.22	\$154.63
Public Equity (GE+EM)	\$47.25	\$0.29	(\$1.32)	\$46.22	\$118.21	(\$1.77)	\$5.71	\$122.15
Global Equity (excludes EM)	\$42.88	(\$0.94)	(\$0.56)	\$41.37	\$106.74	\$1.62	\$5.70	\$114.07
Boston Partners	\$10.81	(\$0.59)	(\$1.73)	\$8.49	\$26.06	\$1.03	(\$7.04)	\$20.05
Manulife	\$10.94	(\$0.12)	(\$2.37)	\$8.45	\$27.35	\$0.20	\$3.30	\$30.85
OFI	\$10.43	(\$0.12)	\$4.33	\$14.65	\$25.63	\$0.18	\$5.33	\$31.14
Walter Scott	\$10.70	(\$0.12)	(\$0.80)	\$9.78	\$27.70	\$0.22	\$4.11	\$32.03
RBC, EM Equity	\$4.37	\$1.23	(\$0.75)	\$4.85	\$11.47	(\$3.39)	\$0.00	\$8.08
Fixed Income (ex IR+M)	\$1.82	\$3.55	\$0.92	\$6.28	\$19.49	\$5.40	(\$3.18)	\$21.71
Vanguard, Investment Grade*	\$0.23	(\$0.17)	(\$0.05)	\$0.01	(\$0.12)	(\$0.11)	(\$0.05)	(\$0.28)
Brandywine, global bonds	\$0.42	(\$0.07)	\$2.37	\$2.72	\$4.54	(\$0.16)	\$1.62	\$6.01
Loomis, High Yield	\$0.53	\$2.41	(\$0.78)	\$2.16	\$5.65	\$4.21	(\$3.07)	\$6.79
Loomis, Bank Loans	\$0.25	\$0.44	(\$0.55)	\$0.13	\$4.34	\$0.30	(\$1.67)	\$2.97
Pacific Asset Mgt., Bank Loans	\$0.26	\$0.43	(\$0.07)	\$0.62	\$3.70	\$0.20	\$0.29	\$4.19
Ashmore, EMD	\$0.13	\$0.52	\$0.00	\$0.65	\$1.37	\$0.95	(\$0.30)	\$2.02
IR+M, short term debt	\$1.33	\$0.00	\$0.18	\$1.51	\$9.07	\$0.00	\$1.70	\$10.77

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

*Vanguard inception: 9/4/19

Investment Initiatives

- Managing liquidation of private market assets remains the top focus with key initiatives discussed quarterly and as part of periodic asset class reviews.
- Modest Fixed Income rebalance in January with \$20M to Vanguard
- Investment Grade Bond Search
 - Meketa provided search process outline and due diligence overview
 - Staff refined process and sent to IAC for review. No concerns.
 - Meketa to provide short-list of candidates
 - Staff working on invitation-only RFP
 - Target funding in June 2020
- Bank Loan recommendation to be presented today
- High Yield evaluation continues
- Equity structure evaluation continues following factor evaluation by Meketa
- SB322 independent consultant report on track. Expect Meketa report and presentation in March.
- Investment Policy Annual review to be presented today
- Asset allocation review – Waiting on 2020 capital market assumptions from Meketa (just released). Anticipate March presentation with Meketa.
- On deck - Public market manager IMA/fee reviews

2020 Investment Review Calendar*

January ✓	<ul style="list-style-type: none"> Real Estate Reviews: Vista 7, King's Harbor, & Museum Twr.
February	<ul style="list-style-type: none"> None - Pushed Clarion to April due to scheduling
March	<ul style="list-style-type: none"> Real Estate: AEW Presentation
April	<ul style="list-style-type: none"> Real Estate: Clarion Presentation
May	<ul style="list-style-type: none"> Timber: Staff Review of FIA & BTG
June	<ul style="list-style-type: none"> Natural Resources: Hancock Presentation Real Estate: Hearthstone Presentation
July	<ul style="list-style-type: none"> Infrastructure: Staff review of AIRRO and JPM Maritime
August	<ul style="list-style-type: none"> Staff review of Private Equity and Debt
September	<ul style="list-style-type: none"> Global Equity Manager Reviews
October	<ul style="list-style-type: none"> Fixed Income Manager Reviews

*Presentation schedule is subject to change.



DISCUSSION SHEET

ITEM #C4

Topic: **Rebalancing Report**

Discussion: In accordance with Investment Policy section 6.C.7, staff will report on recent rebalancing recommendations and activity. During January 2020 staff rebalanced short term and high yield bonds to target and added \$20 million to investment grade bonds. The attached memo details the recommendation and activity.

Regular Board Meeting – Thursday, February 13, 2020



INVESTMENT REBALANCING REPORT

Date: January 30, 2020
To: DFPF Board of Trustees and Investment Advisory Committee
From: DFPF Investments Staff
Subject: Rebalancing Report

Executive Summary

During the week of January 13th, the fixed income portfolio was rebalanced. \$20 million was deployed to the Vanguard Investment Grade Bond allocation. \$16 million came from the IR+M short term investment grade allocation, \$3 million from the Loomis High Yield allocation and \$1 million from cash.

Background

Section 6.C of the Investment Policy Statement addresses rebalancing requirements and guidelines as follows.

C. Rebalancing

1. In general, cash flows will be allocated to move asset classes toward target weights and shall be prioritized according to the Asset Allocation Implementation Plan detailed in Appendix B1.
2. Staff shall submit a rebalancing recommendation to the Consultant at least annually based on consideration of the entire portfolio, and additionally as soon as practicable when an asset class breaches an established rebalancing range or when deemed prudent by Staff or Consultant.
3. The allocations to Cash and Short-Term Investment Grade bonds are designed to provide liquidity during periods of investment market stress and are not required to be rebalanced to target if deemed prudent by Staff and Consultant.
4. Rebalancing recommendations should consider expected future cash flows, investment liquidity, market volatility, and costs.
5. Transition management shall be used when prudent to minimize transition costs.
6. Staff is responsible for implementing the rebalancing plan following Consultant approval.
7. Rebalancing recommendations and activity shall be reported to the Board and the IAC.

January 9 Staff Recommendation

Staff submitted the following rebalancing recommendation to Meketa on Jan 9th, which was approved by Meketa on Jan 9th.

In accordance with DFPF Investment Policy rebalancing provisions (section 6.C) and the Asset Allocation Implementation Plan (Appendix B1) we request approval of the following rebalancing recommendation.

1. Redeem \$16 million from the IR+M Short Term Bond account to rebalance the allocation back to the 12% target
2. Redeem \$3 million from the Loomis High Yield Bond account to rebalance the allocation back to the 4% target.
3. Contribute \$20 million to the Vanguard Investment Grade Bond fund to move the allocation toward the 4% target.

Considerations

1. Although IR+M was \$15 million overweight as of 12/31/19, a \$16 million redemption will put it closer to target as of 1/31/20 due to negative fund cash flow.
2. Loomis has noted challenges in redeploying cash into high yield bonds at current market valuations. The modest \$3 million redemption will help reduce cash in the portfolio.
3. The \$20 million contribution to Vanguard would be funded from the \$19 million identified above plus \$1 million from cash.
4. The rebalancing model shows that cash will remain slightly above target through February and then decline by ~0.5% per month due to negative net contributions (contributions less payroll) of ~\$10 million per month.
5. We anticipate an ~\$9 million distribution from AEW in late January and another ~\$20 million from Bentall Kennedy in May. When these distributions are received staff will recommend redeployment in accordance with the asset allocation implementation plan.
6. We note that the recommended action will add duration risk and could result in modest losses if interest rates continue the upward trend experienced since early September. Our gradual implementation mitigates this risk to some extent. The Investment Advisory Committee has noted both the minimal yield pickup from the extended duration but also the improved buffering expected from higher duration during stress in the stock market.
7. Due to the relatively small amounts being transferred we plan to request that liquidation trading be conducted by the investment managers.
8. IR+M recommended a three-day trade to minimize market impact.

Rebalancing Activity

1. Redemptions notices were sent to Loomis Sayles and IR+M following transition approval by Meketa. Both managers confirmed.
2. \$20 million was transferred to the Vanguard Total Bond Market Index Fund (VBTIX) on January 13th.
3. \$3 million was redeemed from Loomis Sayles on January 13th.
4. \$16 million was redeemed from IR+M on January 17th.
5. Execution of all transactions went smoothly
6. The withdrawal from IR+M cost the portfolio 0.77bps of performance
7. The withdrawal from Loomis Full Discretion High Yield was a transfer of cash from the portfolio and incurred no costs

Asset Allocation Before and After

Asset Class	% weight			\$ millions		
	1/21/20	12/31/19	Target	1/21/20	12/31/19	Target
Fixed Income	31.6%	31.6%	35.0%	659	654	731
Safety Reserve - Cash	4.3%	4.3%	3.0%	90	88	63
Safety Reserve - ST IG Bonds	11.9%	12.7%	12.0%	248	263	251
Investment Grade Bonds	2.7%	1.8%	4.0%	57	37	84
High Yield Bonds	4.0%	4.2%	4.0%	84	86	84



DISCUSSION SHEET

ITEM #C5

Topic: Investment Policy Statement Review

Discussion: Section 5.A.7 of the Investment Policy Statement (IPS) establishes a responsibility for the Board of Trustees to review the IPS annually and revise as needed. A comprehensive review of the IPS was conducted during the Fall of 2018 with numerous revisions recommended at the December 2018 Board meeting. Staff incorporated Board feedback and the Board approved the revised policy in January of 2019. Modest changes regarding the Investment Advisory Committee were approved at the March 2019 Board meeting. Staff has recently reviewed the IPS and has a few recommended revisions. Meketa concurs with these recommendations. The proposed revisions are detailed in the attached “redline” draft.

Staff Recommendation: Approve the proposed Investment Policy Statement revisions.

Regular Board Meeting – Thursday, February 13, 2020



D A L L A S
POLICE & FIRE
PENSION SYSTEM



INVESTMENT POLICY STATEMENT

As Amended Through March 14, 2019

Commented [KFC1]: Update to Board approval date

INVESTMENT POLICY STATEMENT

Adopted April 14, 2016
As Amended Through March 14, 2019

Commented [KFC2]: To be updated
Section 9 of TOC to revert to Approval and Effective Date

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Section 9	Furthermore, through this Policy, Staff has established the necessary criteria to monitor the Custodian, Consultant(s), and Investment Managers, such that DFPF controls and manages interest rate, custody, concentration, and credit risks. Approval and Effective Date ...	14
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INVESTMENT POLICY STATEMENT

Adopted April 14, 2016
As Amended Through March 14, 2019

Section 1 Introduction and Purpose

This policy statement shall guide investment of the assets of the Dallas Police and Fire Pension System (DPFP). This investment policy statement (IPS) is issued for the guidance of the Dallas Police and Fire Pension System Board of Trustees (Board), Investment Advisory Committee (IAC), Executive Director, Staff, Consultant(s), Custodian, and Investment Managers. This IPS is intended to set forth an appropriate set of goals and objectives for DPFP. It will define guidelines to assist fiduciaries and Staff in the supervision of the investments of DPFP. The investment program processes and procedures are defined in the various sections of the IPS by:

- A. Stating in a written document DPFP's expectations, objectives and guidelines for the investment of assets;
- B. Setting forth an investment structure for managing the portfolio. This structure includes assigning various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce an appropriate level of overall diversification and total investment return over the investment time horizon;
- C. Encouraging effective communications between the Board, IAC, Executive Director, Staff, Consultant(s), Investment Managers and Custodian(s);
- D. Setting forth policy that will consider various factors, including inflation, global economic growth, liquidity and expenses, that will affect the portfolio's short and long-term total expected returns and risk;
- E. Establishing criteria to select and evaluate Investment Managers; and
- F. Complying with applicable fiduciary and due diligence requirements experienced investment professionals would utilize, and with laws, rules and regulations applicable to DPFP.

Section 2 Goals, Objectives, and Constraints

A. Goals

1. Ensure funds are available to meet current and future obligations of the plan when due.
2. Earn a long-term, net of fees, investment return greater than the actuarial return assumption.
3. Rank in the top half of the public fund universe over the rolling five-year period, net of fees.

B. Objectives

1. Maintain a diversified asset allocation.
2. Accept the minimum level of risk required to achieve the return objective.



Investment Policy Statement
As Amended Through March 14, 2019
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3. Outperform the Policy Benchmark¹ over rolling five-year periods.
4. Control and monitor the costs of administering and managing the investments.

C. Constraints

1. DPFP will be managed on a going-concern basis. The assets of the Fund will be invested with a long-term time horizon, while being cognizant of the weak actuarial funded ratio and ongoing liquidity needs.
2. The Board intends to maintain sufficient liquidity in either cash equivalents or short-term investment grade bonds to meet two to three years of anticipated benefit payments and expenses (net of contributions).
3. DPFP is a tax-exempt entity. Therefore, investments and strategies will be evaluated on a basis that is generally indifferent to taxable status.

Section 3 Ethics, Standards of Conduct, and Fiduciary Responsibility

The following are standards of conduct for the Board, Investment Advisory Committee, Staff, Investment Managers, Consultant(s), and all other investment related service providers of DPFP.²

- A. Place the interest of DPFP above personal interests.
- B. Act with integrity, competence, diligence, respect, and in an ethical manner.
- C. Use reasonable care, diligence, and exercise independent professional judgment when conducting analysis, making recommendations, and taking actions.
- D. Promote the integrity of and uphold the rules governing DPFP.
- E. Comply with all applicable laws, rules, and regulations of any government agency, regulatory organization, licensing agency, or professional association governing their professional activities.
- F. Adhere to applicable policies relating to ethics, standard of conduct and fiduciary responsibility including the:
 1. Board of Trustees and Employees Ethics and Code of Conduct Policy;
 2. Board of Trustees Governance and Conduct Policy; and the
 3. Contractor's Statement of Ethics.

Section 4 Core Beliefs and Long-Term Acknowledgements

This section outlines the core beliefs and long-term acknowledgements for the overall governance of DPFP. These beliefs and acknowledgements will serve as guiding principles in the decision making and implementation of DPFP's investment mandate.

¹ The Policy Benchmark represents the return of the investable and non-investable indices as defined in Appendix B, at the target allocation for each asset class.

² These are informed by the CFA Institute and the Center for Fiduciary Studies.



Investment Policy Statement
 As amended through March 14, 2019
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- A. A well-defined governance structure with clearly delineated responsibilities is critical in achieving consistent, long-term performance objectives.
- B. The strategic asset allocation determines the risk reward profile of the portfolio and thus drives overall portfolio performance and volatility.
 - 1. Asset allocation has a greater effect on return variability than asset class investment structure or manager selection.
 - 2. It is essential to account for liabilities in setting long-term investment strategy.
 - 3. Rebalancing the portfolio is a key aspect of prudent long-term asset allocation policy.
- C. Investment costs will be monitored and minimized within the context of maximizing net return. The goal is not low fees, but rather maximum returns, net of fees.
 - 1. The opportunity for active manager risk-adjusted outperformance (alpha) is not uniformly distributed across asset classes or Investment Managers' strategies.
 - 2. Active strategies are preferred when there is strong conviction that they can be expected to add alpha, net of fees.
 - 3. Passive strategies should be considered if alpha expectations are unattractive.
 - 3.4. Professional fees will be negotiated when feasible.
- D. Risk is multifaceted and will be evaluated holistically, incorporating quantitative measures and qualitative assessments.
 - 1. Global investment reduces risk through diversification.
 - 2. Diversification across different risk factors reduces risk.
 - 3. The pattern of returns matters because volatility levels and the sequence of gains and losses can impact funded status.
 - 4. Risk that is not expected to be rewarded over the long-term, or mitigated through diversification, will be minimized.
 - 5. Generating positive investment return requires recognizing and accepting non-diversifiable risk. Not taking enough risk is risky; therefore, DPFP will accept a prudent amount of risk to achieve its long-term target returns.

Commented [KFC3]: Meketa suggestion to ensure comprehensive view.

Section 5 Roles and Responsibilities

A. Board of Trustees

The Board of Trustees (Board) has a fiduciary responsibility to ensure prudent management of the plan and compliance with all state and federal laws. Additionally, the Board:

- 1. Establishes investment objectives consistent with the needs of DPFP and approves the IPS of DPFP;
- 2. Approves strategic asset allocation targets and ranges, and asset class structures;
- 3. Prudently hires, monitors, and terminates key investment service providers including: Consultant(s), Investment Managers and Custodian;



Investment Policy Statement
As amended through March 14, 2019
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4. Appoints members to the Investment Advisory Committee (IAC);
5. Reviews investment related expenses;
6. Approves Board travel related to investments; and
7. Reviews the IPS annually and revises as needed.

B. Investment Advisory Committee (IAC)

1. IAC Composition, Selection and Criteria
 - a. The requirement and general composition of the IAC is defined by statute.
 - b. The IAC serves at the discretion of the Board of Trustees.
 - c. IAC recommendations are not binding on the Board, provided however the Board may in the exercise of its fiduciary discretion grant decision-making authority to the IAC.
 - d. The IAC is composed of up to six members including one or two current Board members and a majority of outside investment professionals.
 - e. IAC members will serve two-year terms.
 - f. The Board will appoint members of IAC members by vote.
 - g. IAC meetings require a quorum of at least three IAC members, a majority of whom must not be current Trustees. Any vote by the IAC which is reported to the Board must also advise the Board as to how each member of the IAC voted who was present for such vote. IAC members shall be provided reasonable notice of upcoming meetings, but this shall not prevent the IAC from meeting on short notice for an urgent item requiring immediate attention.
 - h. One IAC member who is also a member of the Board will function as Chair of the IAC. The Chair shall serve as liaison to the Board and preside over IAC meetings.
 - i. The Board of Trustees may elect to dismiss a member of the IAC for any reason.
2. IAC Roles and Responsibilities:
 - a. A key role of the IAC is to ensure that DFPF investments are prudently managed.
 - b. The IAC will advise regarding the search and selection process for investment managers and other matters that the Board may request.
 - c. All investment related agenda materials for the Board will be made available to the IAC.
 - d. The IAC will meet as needed, but at least quarterly, to discuss the investment program and provide insight and recommendations to Staff and Consultant.
 - e. The IAC Chair will report to the Board regarding IAC activity as well as investment-related concerns and recommendations.
 - f. Any IAC member may address the Board to communicate investment related concerns.



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g. IAC members are fiduciaries to DPFP.

C. Executive Director

1. The Executive Director is authorized to administer the operations and investment activities of DPFP under policy guidance from the Board;
2. Is authorized to manage investments approved by the Board including authority to enter into contract amendments including fund extensions, act with regard to investment governance issues and engagement of advisors as needed;
3. Manages the day to day operations of DPFP;
4. Oversees and reports to the Board on investment and due diligence processes and procedures;
5. Approves/declines all Staff travel related to investment manager on-site due diligence; and
6. Approves Investment Staff recommendations for presentation to the IAC and Board.
7. The Executive Director is a fiduciary to DPFP [when exercising discretion in the performance of their duties.](#)

D. Investment Staff

1. The Investment Staff (Staff) has primary responsibility for oversight and management of the investment portfolio. Staff is responsible for investment manager due diligence and recommendations, portfolio implementation consistent with the Board approved asset allocation, and assessment of the Consultant(s);
2. Helps the Board and the IAC to oversee Investment Managers, Consultant(s), Custodian, and vendors;
3. Reports to Executive Director through the Chief Investment Officer;
4. Works closely with the Investment Consultant(s);
5. Notifies Consultant in writing of rebalancing needs and recommended implementation;
6. Coordinates the preparation and annual review of the IPS;
7. Prepares Staff Investment Manager recommendations, submits Staff and Consultant(s) recommendations to Executive Director for review;
8. After Board approval of investment, Staff approves Investment Manager Strategy guidelines which will be outlined in the Investment Manager agreements, as applicable;
9. Monitors all investments, Investment Managers and investment-related vendors;
10. Accounts for and reviews all external management fees and investment expenses; and



11. Ensures all investment fiduciaries to DPFP are aware of their fiduciary obligations annually.³

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³ Verification of this may be through contract, agreement, or annual fiduciary acknowledgement letter.



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 As amended through March 14, 2019
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E. Consultant(s)

1. The Consultant(s) provides independent investment expertise to the Board, IAC, and Staff;
2. Reports to the Board and works closely with Staff;
3. Monitors and reports qualitative and quantitative criteria related to Investment Managers and aggregate portfolio activity and performance;
4. ~~Recommends annually to Board Reviews~~ strategic asset allocation targets, ranges, and benchmarks for asset classes as required by the IPS and recommends improvements to the Board;
5. Documents asset allocation recommendations with asset class performance expectations including standard deviation, expected return and correlations for each asset class used by DFPF;
6. Reviews asset class structures periodically as required by the IPS and recommends improvements to the Board.
- ~~7. Establishes and follows due diligence procedures for Investment Manager candidate searches;~~
- ~~8. Conducts screens and searches for Investment Manager candidates;~~
- ~~9.7.~~ Assists in the selection process and monitoring of Investment Managers;
- ~~10. Reviews and recommends Investment Managers and peer groups to IAC and Board;~~
- ~~11.8.~~ Documents and delivers to Staff written recommendations on Investment Manager new hire, hold and termination reviews;
- ~~12.9.~~ Recommends benchmark and appropriate asset class and sub-allocation for investment managers;
- ~~13.10.~~ Approves and verifies in writing each of Staff's rebalancing recommendations and implementation;
- ~~14.11.~~ Monitors the diversification, quality, duration, and risk of holdings as applicable;
- ~~15.12.~~ Assists Staff in negotiation of terms of vendor contracts; and
- ~~16.13.~~ Prepares quarterly investment reports, which include the information outlined in Appendix C.
- ~~17.14.~~ Any Investment Consultant is normally a fiduciary to DFPF and this responsibility must be acknowledged in writing. DFPF may engage subject matter advisors that, while acting in DFPF's interest, may not be a contractual or statutory fiduciary to DFPF.

Commented [KFC4]: Asset allocation review requirements are covered in section 6. Changed language to comport with paragraph 6 below.

Commented [KFC5]: #8 below is sufficient. 9.8. Assists in the selection process and monitoring of Investment Managers; Requirements are detailed in section 7.A Investment Manager Search and Selection

Commented [KFC6]: #3&8 above are sufficient

F. Investment Managers

1. Public Investment Managers
 - a. Acknowledge in writing acceptance of the objectives, guidelines, and standards of performance;



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- b. Invest the assets of DPFP in accordance with its objectives, guidelines and standards;

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- c. Exercise full discretionary authority as to all buy, hold and sell decisions for each security under management, subject to the guidelines established in the Investment Management Agreement or applicable contract;
 - d. Send trade confirmations to the Custodian;
 - e. Deliver monthly report to Consultant(s)/Staff describing portfolio asset class weights, investment performance, security positions, and transactions;
 - f. Adhere to best execution and valuation policies;
 - g. Inform Staff and Consultant, as soon as practical, in writing of any breach of investment guidelines, ethics violations or violations of self-dealing;
 - h. Inform Staff and Consultant as soon as practical, in writing, of any significant changes in the ownership, organizational structure, financial condition, personnel staffing, or other material changes at the firm; and
 - i. Act as a fiduciary to DPFP. All separate account investment managers are fiduciaries to DPFP and this responsibility must be acknowledged in the contract for services.
2. Commingled Fund Investment Managers
- a. Provide the objectives, guidelines, and standards of performance of the fund;
 - b. Provide a report detailing fund performance and holding on a monthly basis or as agreed by DPFP;
 - c. Prices and fair market valuations will be based on reference to liquid markets, or obtained from an independent service provider if the assets held by the fund cannot be reasonably valued by reference to liquid markets;
 - d. The investment manager of the commingled fund must act as a Fiduciary to the commingled fund.
 - e. Mutual funds where the investment advisor or manager of the mutual fund is subject to the Investment Company Act of 1940 meet the requirements of this subsection 2.
3. Private Investment Managers
- a. Provide objectives, strategy guidelines, and standards of performance as evidenced in investment manager, operating, or partnership agreement;
 - b. Ensure that financials statements undergo annual audits and that investments are reported at fair market value, as outlined in the Investment Management, Partnership, or Operating Agreement(s);
 - c. Communicate to Staff any material changes in the ownership or management of the firm, and or the stability of the organization;
 - d. Inform Staff, as soon as practical, in writing of any breach of investment guidelines, ethics violations or violations of self-dealing.



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G. Custodian

1. Safe keep and hold all DFPF's assets in the appropriate domestic accounts and provide highly secure storage of physical stock certificates and bonds such that there is no risk of loss due to theft, fire, or accident;⁴
2. Maintain separate accounts by legal registration;
3. Arrange for timely execution and settlement of Investment Manager securities transactions made for DFPF;
4. Proactively reconcile transactions and reported values to Investment Manager statements;
5. Provide for receipt and prompt crediting of all dividend, interest and principal payments received as a result of DFPF portfolio holdings or securities lending activities;
6. Monitor income receipts to ensure that income is received when due and institute investigative process to track and correct late or insufficient payments, including reimbursement for any interest lost due to tardiness or shortfall;
7. At the direction of the Staff, expeditiously transfer funds into and out of specified accounts;
8. Timely collection of income, including tax reclaim;
9. Prompt and accurate administration of corporate actions, including proxy issues; and
10. Manage securities lending.

Section 6 Strategic Asset Allocation and Rebalancing

Note: The investment portfolio is undergoing a transition from a legacy allocation with substantial exposure to illiquid private market assets to a more traditional allocation profile. In October 2018, the Board approved a new long-term asset allocation, recognizing that implementation would be subject to the gradual unwinding of private market assets. In November 2018, the Board approved an asset allocation implementation plan to prioritize the reallocation of cash distributions from private market assets. Initial variances to long-term allocation targets may be quite large but are expected to gradually diminish. Rebalancing ranges have been established to accommodate current variances to target and will be tightened over time as appropriate.

A. Asset Allocation

1. The strategic asset allocation establishes target weights and rebalancing ranges for each asset class and is designed to maximize the long-term expected return of the Fund within an acceptable risk tolerance while providing liquidity to meet cash flow needs.
2. A formal asset allocation study will be conducted as directed by the Board, but at least every three years.

⁴ Electronic transfer records at the Depository Trust Company ("DTC") are preferred.



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3. Asset allocation targets will be reviewed annually for reasonableness in relation to significant economic and market changes or to changes to the investment objectives.
4. Asset class descriptions are provided in Appendix A.
5. The approved asset allocation is included in Appendix B.

B. Asset Class Structure

1. The asset class structure establishes the investment manager roles that will be used to implement the asset allocation.
2. The asset class structure will emphasize simplicity and cost control and toward that end will employ the minimum number of managers necessary to assure appropriate diversification within each asset class.
3. Asset class structures will be reviewed periodically, approximately every two years.
4. Any changes to the asset class structure must be approved by the Board.

C. Rebalancing

1. In general, cash flows will be allocated to move asset classes toward target weights and shall be prioritized according to the Asset Allocation Implementation Plan detailed in Appendix B1.
2. Staff shall submit a rebalancing recommendation to the Consultant at least annually based on consideration of the entire portfolio, and additionally as soon as practicable when an asset class breaches an established rebalancing range or when deemed prudent by Staff or Consultant.
3. The allocations to Cash and Short-Term Investment Grade bonds are designed to provide liquidity during periods of investment market stress and are not required to be rebalanced to target if deemed prudent by Staff and Consultant.
4. Rebalancing recommendations should consider expected future cash flows, investment liquidity, market volatility, and costs.
5. Transition management shall be used when prudent to minimize transition costs.
6. Staff is responsible for implementing the rebalancing plan following Consultant approval.
7. Rebalancing recommendations and activity shall be reported to the Board and the IAC.

D. Private Market Provisions

1. DPFPP will not commit capital to any direct private market investments or co-investments that are tied to a single company. This restriction does not prevent DPFPP from holding direct investments that result from the dissolution of a private market fund
2. DPFPP will not commit capital to any private market fund if such commitment would likely result in DPFPP holding greater than a 10% interest in the fund.



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3. DPFP will not commit capital to any private market fund if such commitment exceeds 2% of the total market value of the DPFP investment portfolio.
4. DPFP will not commit to any private market fund if the current value plus total unfunded commitments to related funds (e.g. fund family) exceeds 45% of the total market value of the DPFP investment portfolio.
5. The Board and Staff may consider and approve sales of private assets for less than the current net asset value of the asset reported to the Board. Factors affecting such a decision would include prices obtained after marketing the asset, liquidity, or overallocation to the relevant asset class.

Commented [KFC7]: New commitments to private market funds are still several years in the future. This change prevents old commitments to successful funds from preventing future investments.

Commented [KFC8]: This looks like 45% in the redline but is actually a change from 4% to 5% to allow using one family of funds to meet the current 5% allocation to private equity or real estate.

Section 7 Investment Manager Search, Selection, and Monitoring

A. Investment Manager Search and Selection

1. The selection of investment managers will utilize a robust process to ensure an open and competitive universe, proper evaluation and due diligence, and selection of candidates that are best able to demonstrate the characteristics sought in a specific search.
2. Investment manager searches shall be based on one or more of the following reasons:
 - a. Changes to the approved asset allocation;
 - b. Changes to the approved asset class structure; or
 - c. Replacement for terminated manager or manager of concern.
3. The IAC will advise regarding the search and selection process for investment managers
4. Staff and Consultant shall define and document the search process, including evaluation criteria, prior to initiating the search process.
5. Each investment manager hiring recommendation shall be supported by a rationale that is consistent with the pre-established evaluation criteria.
6. Each hiring recommendation will generally include the following information:
 - a. A description of the organization and key people;
 - b. A description of the investment process and philosophy;
 - c. A description of historical performance and future expectations;
 - d. The risks inherent in the investment and the manager's approach;
 - e. The proper time horizon for evaluation of results;
 - f. Identification of relevant comparative measures such as benchmarks and/or peer samples;
 - g. The suitability of the investment within the relevant asset class; and
 - h. The expected cost of the investment.



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7. Alternative Investments

The Board has adopted the definition of “Alternative Investments” as outlined in Appendix D, which will be reviewed as part of the due diligence process for any new investment. Pursuant to Section 4.07 of Article 6243a-1, the vote of eight trustees is required to approve any Alternative Investment.

B. Investment Monitoring

1. Staff and Consultant(s) are responsible for ongoing monitoring of all Investment Managers using qualitative and quantitative factors as appropriate.
2. Qualitative factors may include:
 - a. Consistent implementation of philosophy and process;
 - b. Ownership changes or departure of key personnel;
 - c. Assets under management at the firm and product level;
 - d. Conflicts of interest;
 - e. Material litigation or regulatory challenges involving the investment manager;
 - f. Adequate reporting and transparency; and
 - g. Material client-servicing problems.
3. Quantitative factors may include:
 - a. Long-term (3-5 years) performance relative to assigned benchmarks;
 - b. Unusually large short-term performance variance (over or under); and
 - c. Risk metrics such as volatility, drawdown, and tracking error.
4. Staff and the Consultant will highlight Investment Manager concerns to the IAC and the Board and recommend an appropriate course of action.

Section 8 Risk Management

Staff will work within the parameters of this Investment Policy Statement to mitigate the risk of capital loss. By implementing this Policy, the Board has addressed:

- A. Custodial Risk for both public and private holdings;⁵
- B. Interest Rate Risk through fixed income duration and credit monitoring;⁶
- C. Concentration and Credit Risk through asset allocation targets and ranges, rebalancing, and the monitoring of investment guidelines.

Furthermore, through this Policy, Staff has established the necessary criteria to monitor the Custodian, Consultant(s), and Investment Managers, such that DFPF controls and manages interest rate, custody, concentration, and credit risks.

⁵ Please review Custodian responsibilities in Section 5.

⁶ Please review Annual Review of IPS and Investment Manager strategy guidelines reviewed and approved by Staff.



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Section 9 Approval and Effective Date

The Investment Policy Statement was originally adopted by the Board on April 14, 2016 and was subsequently amended and adopted on the following dates.

- December 14, 2017
- January 10, 2019
- March 14, 2019
- Next approval date

APPROVED on March 14, 2019 by the Board of Trustees of the Dallas Police and Fire Pension System.

Commented [KFC9]: update

William F. Quinn
Chairman

Attested:

Kelly Gottschalk
Executive Director

DRAFT



Appendix A – Asset Class Descriptions

DPPF investment assets are prudently diversified to optimize expected returns and control risks. Assets can generally be categorized into four functional categories of Growth, Income, Inflation Protection, and Risk Mitigation

A. Growth Assets

1. Role: Capital appreciation, primary driver of long-term total return
2. Investment Approach: Growth assets generally represent equity or equity-like interests in current and future income streams and capture long-term economic growth trends throughout the world.
3. Risk Factors: The cost of the high expected long-term returns is higher expected volatility. Growth assets are highly sensitive to economic conditions and are subject to potential loss during economic downturns, rising/unexpected inflation, and rising interest rates.
4. Asset Classes
 - a. **Global Equity** represents publicly traded stock holdings of companies across the globe. Liquidity is a key benefit as stocks can be traded daily. Foreign currency volatility can be a source of risk and return.
 - b. **Emerging Market Equity** represents publicly traded stock holdings of companies located in or highly dependent on developing (emerging) countries. Emerging market equity is expected to capture the higher economic growth of emerging economies and provide higher long-term returns than global equity coupled with higher volatility. Foreign currency volatility can be a source of risk and return.
 - c. **Private Equity** refers to investments in private companies (direct investments) or funds that hold investments in private companies or securities that are not typically traded in the public markets. Frequently these investments need “patient” capital to allow time for growth potential to be realized through a combination of capital investment, management initiatives, or market development. Private equity is expected to provide higher long-term returns than global equity, but illiquidity is a key risk as investment contributions may be locked up for several years.

B. Income Assets

1. Role: Current income and moderate long-term appreciation
2. Investment Approach: Income assets are generally fixed claims on assets or income streams of an issuer (e.g. government, corporation, asset-backed securities).
3. Risk Factors: The primary risk for Income assets is the failure of the borrower to make timely payments of interest and principal (credit risk) and the price volatility related to credit risk. Bonds with greater credit risk (i.e., bonds with lower credit ratings) are typically less liquid than higher quality bonds. Income assets may also be susceptible to interest rate (duration) risk where higher market interest rates reduce their value. Longer maturities have relatively higher interest rate risk.



4. Asset Classes

- a. **Global Bonds** includes sovereign and corporate debt issued by countries and companies located throughout the world in local currency and U.S. dollars. Expanding the investable universe beyond the U.S. provides a diversified source of returns.
- b. **Bank Loans** are like high yield bonds in that both represent debt issuers with higher credit risk. Compared to high-yield bonds, bank loans typically have higher seniority in the capital structure, which has historically resulted in much higher recovery following default.
- c. **High Yield Debt** refers to bonds with higher credit risk and lower credit ratings than investment-grade corporate bonds, Treasury bonds and municipal bonds. Because of the higher risk of default, these bonds pay a higher yield than investment grade bonds.
- d. **Emerging Market Debt (EMD)** refers to bonds issued by developing countries or corporations based in developing countries. EMD bonds can be denominated in U.S. Dollars or local currency. The primary risk factor is credit quality, but interest rates and foreign currency are also factors.
- e. **Private Debt** refers to non-bank direct lending arrangements. Features are similar to bank loans with somewhat higher credit risk and yields. Investments are typically structured in a private market vehicle with limited liquidity. Private debt may be included within the private equity asset class in the strategic asset allocation.

C. **Inflation Protection (Real Assets)**

1. Role: Current income, inflation protection, diversification
2. Investment Approach: Generally, ownership in physical assets.
3. Risk Factors: Real Assets may not provide the desired inflation protection. Loss of principal is also a risk. Foreign assets are also subject to currency movements against the U.S. dollar.
4. Asset Classes
 - a. **Real Estate** includes investments in office buildings, apartments, retail, raw land, and development projects.
 - b. **Natural Resources** broadly refers to anything mined or collected in raw form but may include assets subject to further processing. Typical assets include permanent and row crops, timber, minerals, and metals.
 - c. **Infrastructure** refers to investments in physical systems that support world economies. Typical investments include transportation, communication, utilities (electricity, gas, water, sewage).



D. Risk Mitigation

1. Role: Liquidity to fund benefit payments and other cash flow needs, capital preservation, modest current income, diversification to growth assets.
2. Investment Approach: Cash equivalents or high-quality domestic bonds.
3. Risk Factors: Risks are substantially lower for risk mitigation assets but may include modest exposure to credit or interest rates (duration).
4. Asset Classes
 - a. **Cash Equivalents**
 - b. **Short Term Investment Grade Bonds** have moderate interest rate risk.
 - c. **Investment Grade Bonds** including bonds and notes issued by the U.S Treasury, U.S. Government Agencies, state and local municipalities, corporations, or other issuers with similar conservative risk profiles. Risk factors include duration and credit.

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Appendix B – Strategic Asset Allocation and Rebalancing Ranges

Asset Class	Policy Benchmark	Target Weight ¹	Minimum Weight	Maximum Weight
Equity		55%		
Global Equity	MSCI ACWI IMI Net	40%	18 22%	48%
Emerging Markets Equity	MSCI Emerging Markets IMI Net	10%	0 2.5%	12%
Private Equity	Cambridge Associates U.S. Private Equity Index 1Q Lag	5%	N/A ³²	N/A ³²
Fixed Income		35%		
Cash	91 Day T-Bills	3%	0%	5%
Short Term Investment Grade Bonds	Bloomberg Barclays US Treasury 1-3 Year	12%	5%	15%
Investment Grade Bonds ²	Bloomberg Barclays <u>U.S.</u> Aggregate	4%	2% ²	6%
High Yield Bonds	Bloomberg Barclays Global High Yield	4%	2%	6%
Bank Loans	S&P/LSTA Credit Suisse Leveraged Loan	4%	2%	6%
Global Bonds	Bloomberg Barclays Global Aggregate	4%	2%	6%
Emerging Market Debt ²	50% JPM EMBI/ 50% JPM GBI-EM	4%	2% 0%	6%
Private Debt	Barclays Global HY + 2% (Rolling 3 Mo.)	0%	N/A ³²	N/A ³²
Real Assets		10%		
Real Estate	NCREIF Property Index 1Q Lag	5%	N/A ³²	N/A ³²
Natural Resources	NCREIF Farmland Total Return Index 1Q Lag	5%	N/A ³²	N/A ³²
Infrastructure	S&P Global Infrastructure (Rolling 3 Mo.)	0%	N/A ³²	N/A ³²
Total		100%		

Commented [KFC10]: Increased Global Equity minimum weight to 22% to reflect recent weight above 24% and implementation step priority step three to maintain at least 22%. Also increase EM equity minimum to implementation step 4 to maintain at least 2.5%

Deleted footnote for Investment Grade Bonds, which are now within rebalancing ranges.

Changed Emerging Market debt minimum weight to 0% to reflect low implementation priority. This asset class won't get contributions until Global Equity has received 6% for the year.

Commented [KFC11]: Change from S&P/LSTA to Credit Suisse Leveraged Loan index for consistency with Pacific Asset Mgt.

1 – The investment portfolio is undergoing a transition from a legacy allocation with substantial exposure to illiquid private market assets to a more traditional allocation profile. In October 2018, the Board approved a new long-term asset allocation, recognizing that implementation would be subject to the gradual unwinding of private market assets. In November 2018, Appendix B1 reflects the Board-approved an asset allocation implementation plan to prioritize the reallocation of cash distributions from private market assets. Initial variances to long-term allocation targets may be quite large but are expected to gradually diminish. Rebalancing ranges have been established to accommodate current variances to target and will be tightened over time as appropriate.

2 – At the time of IPS adoption allocations to Investment Grade Bonds and Emerging Market Debt were below the minimum weight. The investment manager hiring for Investment Grade Bonds had not been completed and the Emerging Market Debt allocation was under review by the Board. These allocations will be funded in accordance with the asset allocation implementation plan in detailed in Appendix B1.

32 – Rebalancing Ranges are not established for illiquid asset classes.



Appendix B1 – Asset Allocation Implementation Plan

The investment portfolio is undergoing a transition from a legacy allocation with substantial exposure to illiquid private market assets to a more traditional allocation profile. In October 2018, the Board approved a new long-term asset allocation, recognizing that implementation would be subject to the gradual unwinding of private market assets. In November 2018, the Board approved the following implementation plan to prioritize the reallocation of cash distributions from private market assets.

Order of Reallocation

Allocate up to Target, then proceed to next asset class
1. Safety Reserve – Cash
2. Safety Reserve – Short-Term Investment Grade Bonds
3. Global Equity, only if current exposure is less than 22% of DPFP ¹
4. Emerging Market Equity, only if current exposure is less than 2.5% of DPFP ²
5. Investment Grade Bonds
6. Global Bonds
7. Bank Loans
8. High Yield Bonds
9. Global Equity above 22%, contributions limited to 6% per year.
10. Emerging Markets Debt
11. Emerging Market Equity above 2.5%, contributions limited to 2.5% per year
12. Private Real Estate (aggregate illiquid exposure must be under 20%)
13. Private Equity (aggregate illiquid exposure must be under 15%)

1 – Global Equity target weight is 40%. If current exposure is more than 22% proceed to next asset class in the matrix. The reallocation framework is designed to maintain at least the mid-2018 exposure to public equity, prior to increasing fixed-income exposure.

2 – Emerging Market Equity Target weight is 10%. If current exposure is more than 2.5% proceed to next asset class in the matrix. The reallocation framework is designed to maintain at least the mid-2018 exposure to public equity, prior to increasing fixed-income exposure.



Appendix C – Investment Consultant Reporting Requirements

The investment consultant is required to provide the Board with quarterly investment information for portfolio monitoring purposes. Generally, these are as follows:

Quarterly (due in advance of the meeting)

1. DFPF's actual asset allocation relative to its target asset allocation as defined in Appendix B.
2. DFPF's return relative to its Policy Benchmark return and other public pension funds.
3. DFPF's risk adjusted returns relative to the policy and other public pension funds.
4. Asset class performance relative to the benchmarks as defined in Appendix B.
5. Individual Investment Manager returns relative to their stated benchmark.
6. Report will specifically acknowledge any underperforming Investment Managers.
7. Any reportable events affecting any of DFPF's Investment Managers.
8. Private Markets reports which covers Private Debt, Private Equity, Infrastructure, Real Assets and Real Estate.



Appendix D – Alternative Investments

Alternative Assets means any investment that is not a Traditional Asset.

Traditional Assets include:

1. **Common Stocks:** publicly traded securities representing ownership in a corporation; also known as publicly-traded equity. Examples include publicly traded equity shares of public companies, REITs, and ADRs. Regional examples include shares of companies domiciled in the US, non-US developed markets and emerging markets.
2. **Bonds:** publicly-traded securities, the holders of which serve as creditors to either governmental or corporate entities. Examples include government bonds and corporate bonds, including senior bank loans. Regional examples include US government issued bonds, non-US international developed market issued bonds, and emerging market issued bonds. Credit examples include investment grade bonds and non-investment grade bonds (e.g. high yield bonds and bank loans).
3. **Cash Equivalents:** short-term investments held in lieu of cash and readily convertible into cash within a short time span. Examples include CDs, commercial paper, and Treasury bills.

Though an exhaustive list is not included, some of the defining characteristics of Alternative Assets and their vehicles include:

1. Private ownership vehicles
2. Liquidity-constrained, and a lock-up of capital for extended time periods (one-year or longer)
3. Use of leverage
4. Ability to take short positions
5. Use of derivatives

The Board recognizes that certain investments may have characteristics and underlying securities that could be classified as both a Traditional and Alternative Investment. On any new investment recommendation, Staff and Consultant will [propose a categorization for such an](#) investment as either Alternative or Traditional based on these criteria, with a focus on liquidity of the investment, for the Board's consideration.





DISCUSSION SHEET

ITEM #C6

Topic: **Bank Loan Investment Allocation**

Discussion: Staff and Meketa have analyzed the structure of the bank loan portfolio. Staff is providing the Board a memo and will discuss the analysis.

Staff Recommendation To be **provided** at the Board Meeting.

Regular Board Meeting – Thursday, February 13, 2020



Date: February 5, 2020
 To: DPFP Board of Trustees
 From: DPFP Investment Staff
 Subject: Bank Loan Asset Class Structure Recommendation

Recommendation

Staff recommends liquidating the Loomis Sayles’ Senior Floating Rate & Fixed Income portfolio and redeploying assets to Pacific Asset Management (PAM) Bank Loans. Meketa concurs with the staff recommendation.

Background

In January 2014, DPFP initially invested \$50MM in Loomis Sayles’ Senior Floating Rate & Fixed Income portfolio to gain exposure to the bank loan asset class. The Loomis Sayles strategy focuses on higher yielding securities with lower credit quality. In June 2017, DPFP initially invested \$50MM in Pacific Asset Management Bank Loans for bank loan diversification. The PAM strategy focuses on higher quality loans. At the time of the PAM investment, DPFP’s asset allocation to bank loans was 6%. This gave each manager a 3% target weight. With the asset allocation approved in December 2018, DPFP’s asset allocation to bank loans changed from 6% to 4%, which resulted in a 2% allocation to each manager. DPFP also has a 4% allocation to a Loomis Sayles High Yield Bond strategy. Given the relatively modest volatility of Bank Loans, staff believes implementing the 4% bank loan allocation through one manager will improve long-term results with less resource drain.

Rationale

While both Loomis and PAM are solid, institutional quality strategies, staff believes PAM is a better fit for DPFP going forward. Key factors are summarized below.

Loomis	Pacific Asset Management
“Opportunistic” profile with potential for substantial investment (up to 35%) out of benchmark, including cash, is contrary to Board preference for tighter constraints.	PAM can allocate up to 20% outside of bank loans but is tighter than Loomis and has averaged 95% in bank loans.
2019 performance lag in an up market was unexpected and primarily driven by security selection.	Modest 2019 outperformance was primarily related to the higher quality philosophy, which worked in 2019 when higher rated bank loans outperformed.
Could outperform going forward due to yield advantage of lower rated credits but expect underperformance during market correction.	Possible mean reversion underperformance risk if/when higher quality credits trail. We would expect quality bias to protect in a correction.
Loomis has seen key personnel turnover at both the firm (Dan Fuss pulling back) and the strategy (co-PM retirement in 2019).	Stable organization.
AUM in the commingled vehicle that DPFP employs has declined, making DPFP the predominant investor. However, there are substantial assets in the mutual fund.	PAM has \$4.1 billion in the strategy and \$1.2 billion in the commingled fund. DPFP would be one of the larger investors in the commingled fund, but still only about 7%.

Performance and Risk Metrics as of 12/31/19

Returns	4Q19	2019	3 yrs	5 yrs
Loomis	0.38%	5.25%	3.87%	4.19%
S&P LSTA LL	1.73%	8.64%	4.35%	4.45%
Excess	-1.35%	-3.39%	-0.48%	-0.26%
PAM	1.51%	8.73%	4.61%	4.66%
CSLL index	1.68%	8.17%	4.48%	4.54%
Excess	-0.17%	0.56%	0.13%	0.12%
Tracking Error			3 yrs	5 yrs
Loomis			0.95%	1.28%
PAM			0.44%	1.10%
Volatility			3 yrs	5 yrs
Loomis			2.55%	3.47%
PAM			2.58%	2.45%
CSLL			2.62%	2.85%
Max Drawdown		Dec. '18	Feb. '16	Dec. '14
Loomis		-2.77%	-7.69%	-1.33%
PAM		-3.20%	-1.11%	-1.25%
CSLL index		-3.09%	-4.70%	-1.10%

Transition

Staff will work with Loomis to coordinate an orderly liquidation. Staff will keep the Board and Investment Advisory Committee informed of progress.



DISCUSSION SHEET

ITEM #C7

Topic: Correction of Errors in Benefit Payments Policy

Discussion: Amendments to the interest provisions of the policy are proposed to clarify the interest calculations on benefit payment errors.

Staff

Recommendation: Adopt the Correction of Errors in Benefit Payments Policy, as amended.

Regular Board Meeting – Thursday, February 13, 2020



**CORRECTION OF ERRORS
IN
BENEFIT PAYMENTS POLICY**

Amended Through February 13~~March 14~~, 2020~~19~~

DALLAS POLICE AND FIRE PENSION SYSTEM

CORRECTION OF ERRORS IN BENEFIT PAYMENTS POLICY

Adopted February 14, 2019

As Amended Through ~~February 13~~ ~~March 14~~, 20~~20~~19

Supersedes the Recapture of Overpayments Policy
as amended through February 13, 2004

A. Purpose

In order to preserve the financial integrity of DPFPP and comply with the Board's fiduciary duty, IRS rules and regulations governing overpayment and underpayment of benefit payments known as the Employee Plans Compliance Resolution System (EPCRS) and Section 802.1024 of the Texas Government Code, it is the Board's policy to investigate any overpayment or underpayment promptly and diligently and to recover the overpayment or pay the underpayment in a timely manner. The purpose of this Policy is to provide guidelines and a process for evaluation and collection or payment of overpaid and underpaid benefits made to members and beneficiaries (collectively "Members," for purposes of this Policy).

B. Benefit Underpayments

When a wrongful underpayment of benefits has been identified, the following guidelines and procedures shall be followed:

1. Board Notification

The Executive Director shall report any underpayment in excess of \$10,000 to the Board at the next regularly scheduled Board meeting.

2. Investigation

When an underpayment of benefits is identified, the Executive Director shall investigate the facts and circumstances surrounding the underpayment.

3. Resolution

a. Staff shall notify the affected Member of the underpaid benefit in writing and DPFPP shall pay any underpaid benefits as soon as reasonably possible.

b. Interest

i. DPFPP shall include interest in its repayment only if the underpayment of benefits is not paid within the same fiscal year in which the error was made.



Correction of Errors in Benefit Payments Policy
As Amended Through ~~February 13~~ ~~March 14, 2020~~ ~~19~~
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B. Benefit Underpayments (continued)

~~ii. Interest is due from the date(s) of the underpayment to the date the Member is paid.~~

~~iii.~~ ii. Interest shall be calculated using the actuarially assumed rate of return in effect ~~when the underpayment of benefits is paid or commenced to be paid during the time the underpayment occurred.~~ Interest shall accrue from the date(s) of the overpayment and shall —cease accruing ~~from the earlier of (i) the date of payment or (ii) time the payment should have been paid until~~ thirty days after the time notice is given to the party entitled to the payment at the last known address in the records of DPFP.

~~iv.~~ iii. Interest shall not be paid if not required by EPCRS.

C. Benefit Overpayments

1. Notification

The Executive Director shall report any overpayments in excess of \$10,000 to the Board at the next regularly scheduled Board meeting. The Executive Director shall report back to the Board on the progress of the investigation and collection of the overpayment within six months if payment in full including interest, if any, is not achieved.

2. Investigation

When an overpayment of benefits is identified, the Executive Director shall immediately investigate the facts and circumstances surrounding the overpayment.

3. Collection

a. Overpayment of Benefits Exceeding \$10,000 – Approval by the Board

i. Resolution of an overpayment of benefits that exceeds \$10,000 should result in immediate full payment of the entire amount, plus interest, whenever feasible. For purposes of this Policy, full repayment may include an installment repayment plan for the full amount owed, including interest at the actuarially assumed rate. A resolution on these terms does not need Board approval, except for repayment plans exceeding one year which do require Board approval.



Correction of Errors in Benefit Payments Policy
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C. Benefit Overpayments (continued)

- ii. Any resolution of an overpayment of benefits exceeding \$10,000 that does not result in full payment of the entire amount, plus interest, must be approved by the Board.
- b. Overpayment of Benefits of \$10,000 or Less – Approval by the Executive Director
 - i. Resolution of an overpayment of benefits of \$10,000 or less should result in immediate full payment of the entire amount, plus interest, whenever feasible. For purposes of this Policy, full repayment may include an installment repayment plan for the full amount owed, including interest at the actuarially assumed rate.
 - ii. Subject to the procedures and objectives in this Policy, the Executive Director shall have sole discretion to resolve any overpayment of benefits of \$10,000 or less.
- c. The Board and Executive Director shall use reasonable efforts to resolve an overpayment of benefits. Reasonable efforts include consideration of the facts and circumstances, IRS guidelines for correction of Plan errors and costs and benefits of collection efforts. The plan sponsor has indicated to the Board that it has no statutory authority to make additional payments to DPFPP to cover any overpayments.
- d. Interest
 - i. DPFPP shall charge the Member interest only if the overpayment of benefits is not fully paid within the same fiscal year in which the error was made.
 - ii. Interest is assessed from the date(s) of the overpayment to the date the overpayment is resolved. “Resolved,” for purposes of including interest for overpayment, means the date when DPFPP collects or begins collecting any overpayment.
 - iii. Interest shall be calculated using the actuarially assumed rate in effect during the time the overpayment occurred through the time when the overpayment of benefits is resolved.



Correction of Errors in Benefit Payments Policy
As Amended Through ~~February 13~~ March 14, 2020
Page 4 of 4

C. Benefit Overpayments (continued)

e. General Rules on Recovery of Overpayments

- i. Future payments due to a Qualifying Survivor or an Estate and/or a DROP annuity beneficiary will be reduced to recover the overpayment whenever possible.
- ii. If there is more than one Qualified Survivor or Beneficiary receiving the future payment, the recovery of overpayment will be applied on a pro-rata basis.
- iii. The Executive Director may choose to not pursue collections of overpayments that are below the EPCRS de minimis level of \$100.

D. Procedures

The Executive Director may develop written procedures to implement this policy.

APPROVED on ~~February 13~~ March 14, 2020 the Board of Trustees of the Dallas Police and Fire Pension System.

William Quinn
Chairman

Attested:

Kelly Gottschalk
Secretary





DISCUSSION SHEET

ITEM #C8

Topic: Board approval of Trustee education and travel

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

Discussion:

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

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

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

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

Regular Board Meeting – Thursday, February 13, 2020

**Future Education and Business Related Travel
Regular Board Meeting – February 13, 2020**

ATTENDING APPROVED

1. **Conference:** **TEXPERS Basic Trustee Training**
Dates: May 2, 2020
Location: Galveston, TX
Est. Cost: TBD

2. **Conference:** **TEXPERS Advanced Trustee Training**
Dates: May 2, 2020
Location: Galveston, TX
Est. Cost: TBD

3. **Conference:** **TEXPERS 31st Annual Conference**
Dates: May 3-6, 2020
Location: Galveston, TX
Est. Cost: TBD

4. **Conference:** **NCPERS Trustee Education Seminar (TEDS)**
Dates: May 9 – 10, 2020
Location: Las Vegas, NV
Est. Cost: TBD

ATTENDING APPROVED

5. **Conference:** NCPERS Annual Conference
Dates: May 10 – 13, 2020
Location: Las Vegas, TX
Est. Cost: TBD

6. **Conference:** TEXPERS Summer Education Forum
Dates: August 16-18, 2020
Location: San Antonio, TX
Est. Cost: TBD



DISCUSSION SHEET

ITEM #C9

Topic: SB 944

Discussion: Staff will discuss SB 944 which was passed during the 2019 legislative session and its requirements regarding preserving public information on private devices.

Regular Board Meeting – Thursday, February 13, 2020

S.B. No. 944

1 AN ACT
2 relating to the public information law.
3 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:
4 SECTION 1. Section 552.002, Government Code, is amended by
5 adding Subsection (d) to read as follows:
6 (d) "Protected health information" as defined by Section
7 181.006, Health and Safety Code, is not public information and is
8 not subject to disclosure under this chapter.
9 SECTION 2. Section 552.003, Government Code, is amended by
10 adding Subdivision (7) to read as follows:
11 (7) "Temporary custodian" means an officer or employee
12 of a governmental body who, in the transaction of official
13 business, creates or receives public information that the officer
14 or employee has not provided to the officer for public information
15 of the governmental body or the officer's agent. The term includes
16 a former officer or employee of a governmental body who created or
17 received public information in the officer's or employee's official
18 capacity that has not been provided to the officer for public
19 information of the governmental body or the officer's agent.
20 SECTION 3. Section 552.004, Government Code, is amended to
21 read as follows:
22 Sec. 552.004. PRESERVATION OF INFORMATION. (a) A
23 governmental body or, for information of an elective county office,
24 the elected county officer, may determine a time for which

S.B. No. 944

1 information that is not currently in use will be preserved, subject
2 to Subsection (b) and to any applicable rule or law governing the
3 destruction and other disposition of state and local government
4 records or public information.

5 (b) A current or former officer or employee of a
6 governmental body who maintains public information on a privately
7 owned device shall:

8 (1) forward or transfer the public information to the
9 governmental body or a governmental body server to be preserved as
10 provided by Subsection (a); or

11 (2) preserve the public information in its original
12 form in a backup or archive and on the privately owned device for
13 the time described under Subsection (a).

14 (c) The provisions of Chapter 441 of this code and Title 6,
15 Local Government Code, governing the preservation, destruction, or
16 other disposition of records or public information apply to records
17 and public information held by a temporary custodian.

18 SECTION 4. Subchapter C, Chapter 552, Government Code, is
19 amended by adding Section 552.159 to read as follows:

20 Sec. 552.159. EXCEPTION: CONFIDENTIALITY OF CERTAIN
21 INFORMATION PROVIDED BY OUT-OF-STATE HEALTH CARE PROVIDER.
22 Information obtained by a governmental body that was provided by an
23 out-of-state health care provider in connection with a quality
24 management, peer review, or best practices program that the
25 out-of-state health care provider pays for is confidential and
26 excepted from the requirements of Section 552.021.

27 SECTION 5. Section 552.203, Government Code, is amended to

S.B. No. 944

1 read as follows:

2 Sec. 552.203. GENERAL DUTIES OF OFFICER FOR PUBLIC
3 INFORMATION. Each officer for public information, subject to
4 penalties provided in this chapter, shall:

5 (1) make public information available for public
6 inspection and copying;

7 (2) carefully protect public information from
8 deterioration, alteration, mutilation, loss, or unlawful removal;
9 ~~and~~

10 (3) repair, renovate, or rebind public information as
11 necessary to maintain it properly; and

12 (4) make reasonable efforts to obtain public
13 information from a temporary custodian if:

14 (A) the information has been requested from the
15 governmental body;

16 (B) the officer for public information is aware
17 of facts sufficient to warrant a reasonable belief that the
18 temporary custodian has possession, custody, or control of the
19 information;

20 (C) the officer for public information is unable
21 to comply with the duties imposed by this chapter without obtaining
22 the information from the temporary custodian; and

23 (D) the temporary custodian has not provided the
24 information to the officer for public information or the officer's
25 agent.

26 SECTION 6. Subchapter E, Chapter 552, Government Code, is
27 amended by adding Sections 552.233, 552.234, and 552.235 to read as

S.B. No. 944

1 follows:

2 Sec. 552.233. OWNERSHIP OF PUBLIC INFORMATION. (a) A
3 current or former officer or employee of a governmental body does
4 not have, by virtue of the officer's or employee's position or
5 former position, a personal or property right to public information
6 the officer or employee created or received while acting in an
7 official capacity.

8 (b) A temporary custodian with possession, custody, or
9 control of public information shall surrender or return the
10 information to the governmental body not later than the 10th day
11 after the date the officer for public information of the
12 governmental body or the officer's agent requests the temporary
13 custodian to surrender or return the information.

14 (c) A temporary custodian's failure to surrender or return
15 public information as required by Subsection (b) is grounds for
16 disciplinary action by the governmental body that employs the
17 temporary custodian or any other applicable penalties provided by
18 this chapter or other law.

19 (d) For purposes of the application of Subchapter G to
20 information surrendered or returned to a governmental body by a
21 temporary custodian under Subsection (b), the governmental body is
22 considered to receive the request for that information on the date
23 the information is surrendered or returned to the governmental
24 body.

25 Sec. 552.234. METHOD OF MAKING WRITTEN REQUEST FOR PUBLIC
26 INFORMATION. (a) A person may make a written request for public
27 information under this chapter only by delivering the request by

S.B. No. 944

1 one of the following methods to the applicable officer for public
2 information or a person designated by that officer:

- 3 (1) United States mail;
4 (2) electronic mail;
5 (3) hand delivery; or
6 (4) any other appropriate method approved by the
7 governmental body, including:

- 8 (A) facsimile transmission; and
9 (B) electronic submission through the
10 governmental body's Internet website.

11 (b) For the purpose of Subsection (a)(4), a governmental
12 body is considered to have approved a method described by that
13 subdivision only if the governmental body includes a statement that
14 a request for public information may be made by that method on:

- 15 (1) the sign required to be displayed by the
16 governmental body under Section 552.205; or
17 (2) the governmental body's Internet website.

18 (c) A governmental body may designate one mailing address
19 and one electronic mail address for receiving written requests for
20 public information. The governmental body shall provide the
21 designated mailing address and electronic mailing address to any
22 person on request.

23 (d) A governmental body that posts the mailing address and
24 electronic mail address designated by the governmental body under
25 Subsection (c) on the governmental body's Internet website or that
26 prints those addresses on the sign required to be displayed by the
27 governmental body under Section 552.205 is not required to respond

S.B. No. 944

1 to a written request for public information unless the request is
2 received:

- 3 (1) at one of those addresses;
4 (2) by hand delivery; or
5 (3) by a method described by Subsection (a)(4) that
6 has been approved by the governmental body.

7 Sec. 552.235. PUBLIC INFORMATION REQUEST FORM. (a) The
8 attorney general shall create a public information request form
9 that provides a requestor the option of excluding from a request
10 information that the governmental body determines is:

- 11 (1) confidential; or
12 (2) subject to an exception to disclosure that the
13 governmental body would assert if the information were subject to
14 the request.

15 (b) A governmental body that allows requestors to use the
16 form described by Subsection (a) and maintains an Internet website
17 shall post the form on its website.

18 SECTION 7. Section 552.301(c), Government Code, is
19 repealed.

20 SECTION 8. The changes in law made by this Act apply only to
21 a request for public information received on or after the effective
22 date of this Act. A request for public information received before
23 the effective date of this Act is governed by the law in effect when
24 the request was received, and the former law is continued in effect
25 for that purpose.

26 SECTION 9. The attorney general shall create a public
27 information request form under Section 552.235(a), Government

S.B. No. 944

1 Code, as added by this Act, not later than October 1, 2019.

2 SECTION 10. This Act takes effect September 1, 2019.

S.B. No. 944

President of the Senate

Speaker of the House

I hereby certify that S.B. No. 944 passed the Senate on April 10, 2019, by the following vote: Yeas 29, Nays 1; May 20, 2019, Senate refused to concur in House amendments and requested appointment of Conference Committee; May 22, 2019, House granted request of the Senate; May 26, 2019, Senate adopted Conference Committee Report by the following vote: Yeas 31, Nays 0.

Secretary of the Senate

I hereby certify that S.B. No. 944 passed the House, with amendments, on May 15, 2019, by the following vote: Yeas 145, Nays 0, two present not voting; May 22, 2019, House granted request of the Senate for appointment of Conference Committee; May 26, 2019, House adopted Conference Committee Report by the following vote: Yeas 145, Nays 0, one present not voting.

Chief Clerk of the House

Approved:

Date

Governor



DISCUSSION SHEET

ITEM #C10

Topic: Lone Star Investment Advisors Update

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

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

Regular Board Meeting – Thursday, February 13, 2020



DISCUSSION SHEET

ITEM #C11

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, including DFPF's VCP filing with the Internal Revenue Service, consideration of legal options regarding DFPF's interests in funds managed by Lone Star Investment Advisors or any other legal matter in which the duty of the attorneys to DFPF and the Board under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with Texas Open Meeting laws.

Discussion:

Counsel will brief the Board on these issues.

Regular Board Meeting – Thursday, February 13, 2020



DISCUSSION SHEET

ITEM #C12

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:

Disability application

Discussion: Staff will present an application for On-Duty disability pension for consideration by the Board in accordance with Section 6.03 of the Plan. Documentation will be available at the meeting.

Regular Board Meeting – Thursday, February 13, 2020



DISCUSSION SHEET

ITEM #D1

Topic: Public Comment

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

Regular Board Meeting – Thursday, February 13, 2020



DISCUSSION SHEET

ITEM #D2

Topic: Executive Director's report

- a. Associations' newsletters
 - NCPERS (January 2020)
- b. Open Records

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

Regular Board Meeting – Thursday, February 13, 2020

THE NCPERS

MONITOR

The Latest in Legislative News

January 2020

In This Issue

2 Executive Directors Corner



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January is always a key month for teeing up the year's policy challenges, and this year is no exception.

3 SECURE Act Signed into Law

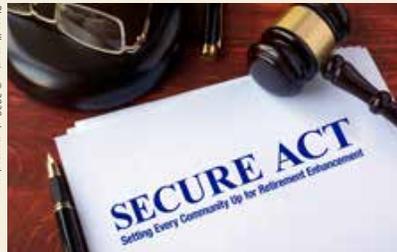
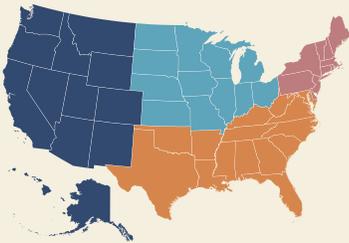


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After many years of consideration and debate Congress and the President gave final approval to legislation that will make major changes to retirement law and policy.

4 Around the Regions



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

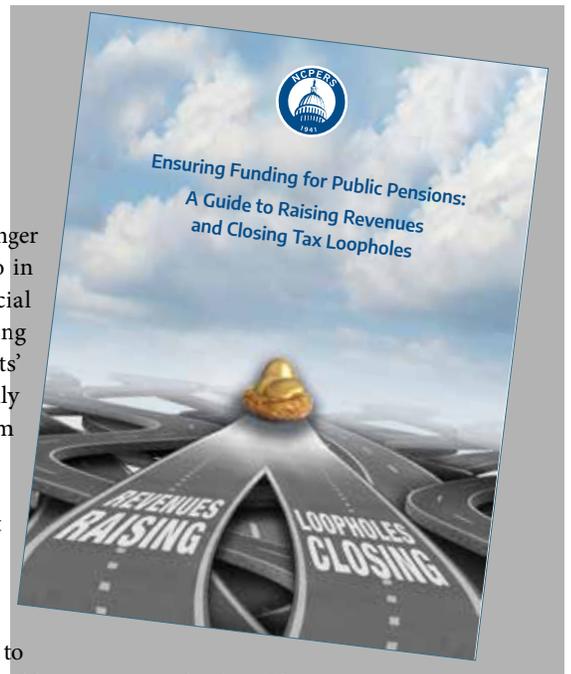
Smarter State Revenue Strategies Could Strengthen Funding Outlook for Pension Plans

Public pension systems are stronger than they were a decade ago in aftermath of a global financial crisis. Yet they are still feeling the impact of many state governments' pattern of making capricious, politically expedient decisions about long-term funding.

And if states don't clean up their act, it could get worse, according to an independent report released by NCPERS. State governments should take steps now, before another recession strikes, to close tax loopholes and end irresponsible corporate subsidies. If they fail to do so, they could find themselves having to cut state services and trim public employees' retirement benefits and take other dire steps.

Those are some of the key points from "[Ensuring Funding for Public Pensions: A Guide to Raising Revenues and Closing Tax Loopholes](#)," authored by Susan E. Kennedy and Richard Sims. They noted that when numerous state governments opted not to make their scheduled contributions to public pensions over the last decade, this exacerbated the impact of a market crash on public pensions.

The authors will present their findings and answer questions during an NCPERS Center for Online Learning [webinar](#), scheduled for January 9. We hope many members will join us for a candid discussion of what states could be doing now to immunize themselves—and their pension systems—from further funding shortfalls.



[CONTINUED ON PAGE 6](#)



January Brings the Annual Avalanche of Public Policy Issues

Happy New Year to NCPERS members and the entire public pension community! With the advent of 2020 comes a new slate of public policy issues to keep us all on our toes.

January is always a key month for teeing up the year's policy challenges, and this year is no exception. Our [State and Federal Legislative Update webcast](#) will take place January 14, and will provide an easy way for members to hear from experts in the course of a lunch hour.

After that, many of you will join us in-person January 26-28 in Washington for the [NCPERS 2020 Legislative Conference and Policy Day](#).

When it comes to engagement in advocacy, there's no better place to immerse yourself in legislative and regulatory affairs and make your voice heard. Some of the issues that on the agenda during this critical member event at the Capitol Hilton Hotel are already coming into sharp focus.

One of the key pieces developments we'll be watching is the SECURE Act, which the president signed into law on December 20, 2019. Passed in the House by on a vote of 417-3, it never made it to the Senate, but was instead successfully attached to an appropriations bill. This legislative maneuver insulated the bill from potentially troublesome provisions, including the Public Employee Pension Transparency Act (PEPTA) or a provision to subject state and local governmental pension plans to the Unrelated Business Income Tax (UBIT).



Photo Illustration © 2020 Shutterstock.com

One of the key pieces developments we'll be watching is the SECURE Act, which the president signed into law on December 20, 2019. Passed in the House by on a vote of 417-3, it never made it to the Senate, but was instead successfully attached to an appropriations bill.

While the SECURE Act's wide-ranging features are aimed primarily at defined contribution plans and IRAs, it contains some broadly relevant provisions. The bill increased the age for triggering required minimum distributions to 72, from 70 ½. This doesn't just impact 401(k) plans and IRAs – it also affects Internal Revenue Code section 401(a) qualified retirement plans, 457(b) plans, and 403(b) plans. The SECURE Act also makes it easier for smaller employers to join multi-employer plans by allowing financial institutions to run open MEPs, and it increases the auto-enrollment safe harbor cap to 15%, from 10%. We will be monitoring closely as this law moves from concept to implementation.

Of course there's more – much more.

[CONTINUED ON PAGE 8](#)

SECURE Act Signed into Law

By Tony Roda

After many years of consideration and debate Congress and the President gave final approval to legislation that will make major changes to retirement law and policy. The Setting Every Community Up for Retirement Enhancement (SECURE) Act was approved just before Congress adjourned for the holidays. It had been approved by the House as stand-alone legislation last spring, but was held up by Senators seeking additions and changes to the bill. Similar versions of the bill had been approved by the full House and the Senate Finance Committee in previous Congresses.



At the end of 2019 the political dynamics were in place for final action. The new law is largely aimed at private sector, defined contribution (DC) retirement savings plans and IRAs. However, some key provisions affect state and local governmental plans, such as:

Required Minimum Distributions (RMD)

Qualified retirement plans, including state or local governmental section 401(a) plans, section 457(b) plans, section 403(b) plans, and section 401(k) plans, are subject to the RMD rules.

Prior to enactment of the SECURE Act, the general rule was that RMDs must begin by April 1 of the calendar year following the calendar year in which the individual reaches age 70 ½. In recognition of the increasing longevity of our population the SECURE Act increases the trigger for RMDs to age 72.

The change applies to distributions required to be made after December 31, 2019, with respect to individuals who attain age 70 ½ after such date. In other words, if you turned 70 ½ on or prior to December 31, 2019, your age trigger for RMDs

is still 70 ½. However, if you turn 70 ½ after December 31, 2019, your age trigger is 72.

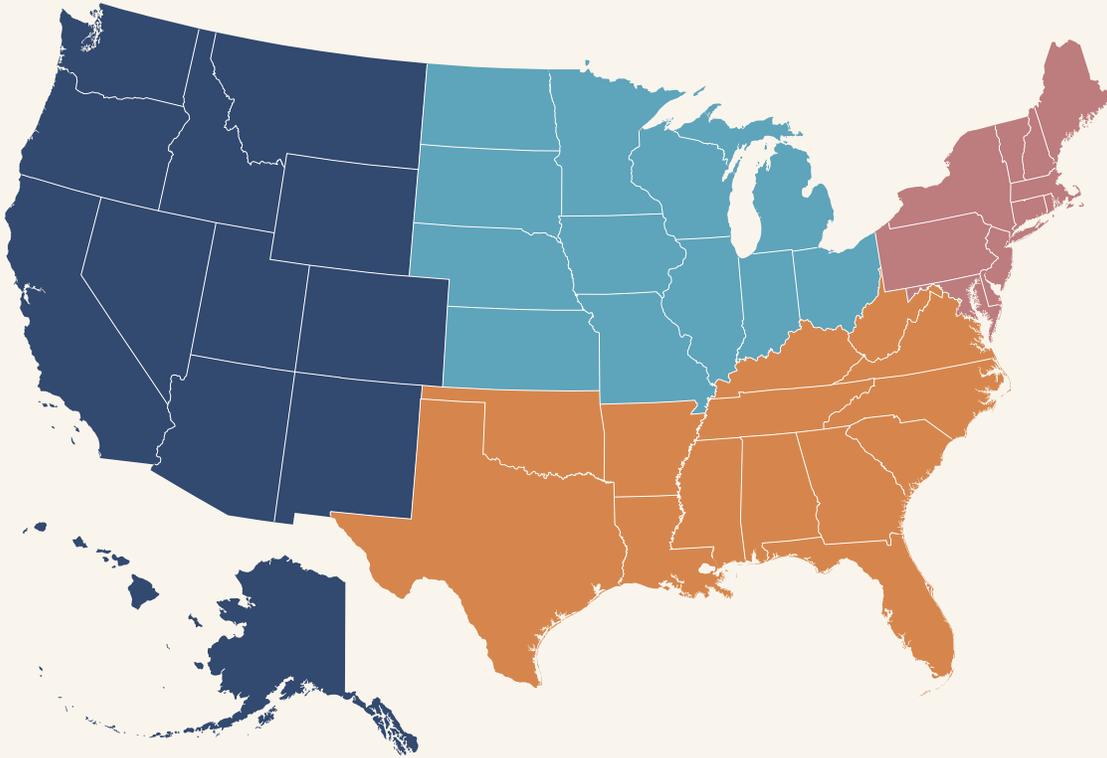
Additional Changes Affecting Governmental DC Plans

- The new law will allow participants to take a distribution of a lifetime income investment and roll it into another plan, without the withdrawal restrictions, provided their plan no longer offers that investment option.
- Taxpayers will be allowed to withdraw up to \$5,000 from their retirement accounts in the 12-month period beginning on the date on which a child of the individual is born or on which legal adoption of an eligible adoptee is finalized, without incurring the 10 percent early withdrawal tax penalty.
- Inherited retirement accounts will now have to be distributed over 10 years of the death of the employee or account owner, with certain exceptions. For section 414(d) governmental plans, this section applies to distributions with respect to employees who die after December 31, 2021.

[CONTINUED ON PAGE 6](#)

NCPERS Around the Regions

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



WEST: New Mexico



New Mexico Governor Michelle Lujan Grisham has endorsed proposed legislation to overhaul how the state's public pension system provides benefits in an effort to eliminate a \$6.6 billion unfunded liability. The legislation is expected to be considered by the New Mexico legislature when it is in session between January 21 and February 20.

The reforms, if enacted, would immediately reduce the state's Public Employee Retirement Association's unfunded liability by \$700 million, the governor's office said. "Left unattended, that shortfall will, sooner than later, obligate painful cuts and wreak havoc on future generations of retirees—if we do not come together and act now," the Democratic governor said in a December 3 statement. She added that the proposal would put PERA on track to eliminate unfunded liabilities within 25 years.

Among key features identified by the governor's office, the proposal would:

- Provide a 2.5% cost-of-living adjustment (COLA), up from 2%, for retirees over the age of 75 as of July 1, 2020. Older retirees make up about one-third of state's public sector retirees.
- Exempt from planned changes workers over age 75 as of July 1, as well as disabled retirees and those whose pensions are less than \$25,000 for 25 years or more of service.
- Provide annual COLAs of as much as 3% through a profit-sharing model tied to investment performance.
- Eliminate the seven-year wait period to qualify for cost-of-living adjustments, reverting the wait period to two years.
- Eliminate the earnings cap of 90 percent, a move aimed at encouraging employees to continue working longer.
- Incrementally increase contributions paid by employees by 0.5% per year for four years, while delaying contribution

[CONTINUED ON PAGE 5](#)

AROUND THE REGIONS CONTINUED FROM PAGE 4

increases for municipal and county workers for two fiscal years. Employee contributions would reach nearly 11% of pay, from the current 9%, while the state match would increase to 19.2%, from 17.2%.

An advocacy group for retired public employees is vowing to fight the proposal and has called for an independent study on pension fund solvency. Miguel Gómez, executive director of Retired Public Employees of New Mexico, criticized the plan to tie future COLA increases to investment returns, arguing that the fund can sustain unfunded obligations. “You’re waking up a sleeping giant of retirees in the state of New Mexico,” Gómez said at a December 4 legislative hearing.

NORTHEAST: Rhode Island



The U.S. Supreme Court on December 9 declined to review the 2013 decision by the city of Cranston, RI, to suspend pension adjustments to retired firefighters and police officers. The denial lets stand a Rhode Island Supreme Court ruling from June that concluded the suspension was necessary and legally justified.

The Cranston Police Retirees Action Committee had sued the city, its mayor and the city council after the passage of two 2013 city ordinances, and took the matter all the way to the U.S. Supreme Court. Both ordinances included a 10-year suspension of COLAs for retirees of the Cranston Police and Fire Departments enrolled in the city’s pension system.

The Rhode Island Retirement Security Act, passed in 2011, includes a provision that allows for the suspension of COLAs if a system falls below 80% funded status in order to prevent changes to the core benefits package.

Cranston Mayor Allan Fung testified that at the city’s pension system’s lowest point it was funded at only 16.9%, with \$256 million of unfunded accrued liability. Today, funding stands at 23%.

The decision not to hear the case could embolden other municipalities that are seeking to reduce previously promised benefits in order to shore up city finances.

“This gives people in other communities a little pathway to hopefully follow when they are facing similarly dire circumstances financially and a looming pension problem,” Mayor Fung told the *Providence Journal*.

MIDWEST: Illinois



As anticipated, Illinois Gov. J.B. Pritzker forged ahead on December 18 with his plan to consolidate 649 pension programs for most of the state’s police officers and firefighters outside the Chicago area into two statewide funds. The newly consolidated funds are expected to be operational by July 1, 2023.

Pritzker, a Democrat, said financial results would improve by between \$820 million and \$2.5 billion over five years as a result of the consolidation. He hailed the consolidation as a victory “after more than 70 years of failed attempts to remedy the patchwork of first responder pension plans across the state.”

According to the governor’s office, the new funds will be able to “leverage their collective buying power of \$15 billion in assets,” a sum that includes \$8.7 billion in the police fund and \$6.3 in the fire fund, to improve investment returns and reduce management costs. The move should also alleviate pressure to raise local property taxes, according to the governor’s office. The consolidation does not affect accounts for state employees or Cook County, which includes Chicago.

Pritzker pushed through the legislation less than a year after he convened a task force to assess the feasibility of consolidating pension plans. In an October report, the task force identified the merger into two funds as its “clearest and most compelling initial recommendation.” “Consolidating these 649 local plans into two statewide funds for investment purposes will reduce expenses and maximize performance — and most importantly, secure our first responders’ futures,” said Associated Fire Fighters of Illinois President Pat Devaney said in a news release. “Firefighters deserve to know their retirement will be there and taxpayers should finally be confident it’s being funded in the most efficient manner,” he added.

CONTINUED ON PAGE 9

FUNDING OUTLOOK CONTINUED FROM PAGE 1

For example, the authors noted, state tax revenues are growing more slowly than the national economy, but this can be corrected. “Meeting future pension plan obligations and commitments to other public services will be much easier if states have an adequate and growing tax revenue structure,” Kennedy and Sims wrote.

Without more progressive state taxation systems, the next recession could hit public pensions hard, presenting them with “greater challenges in obtaining the funding to meet any budgetary gaps,” they warned.

NCPERS commissioned this study to get an objective analysis of the options that are open to governments to weather an economic storm, and the findings include practical ideas that state governments can implement. The report outlines nine principles for making state tax systems stronger, more resilient, and fairer for both current and future taxpayers. They are:

- Keep what you have. States should avoid tax cuts and other legislative actions that reduce tax revenues.
- Be skeptical of tax incentives and special breaks. Tax cuts and tax incentives that are often offered in the name of attracting businesses and jobs rarely work as advertised.
- Reverse previous tax cuts. Major tax increases are never easy, but the easiest tax to raise is probably one that was recently cut.

- Increase reliance on personal income tax. Personal income tax has the capability to grow at least as fast as the growth in the income of state residents.
- Minimize dependence on sales and other consumption taxes. Sales taxes are regressive, meaning they fall harder on low-income taxpayers than on those with higher incomes, and their revenues tend to diminish over time.
- Avoid income-to-sales tax swaps. Replacing a portion of income tax with sales tax is foolhardy because it means giving up revenues from the only major tax that is both progressive and elastic and substituting a tax that is both inelastic and regressive.
- Be leery of exotic revenue sources. Depending on lotteries, casinos, racetracks, riverboats, sports betting, and cannabis sales tends to displace existing revenues.
- Conduct comprehensive and ongoing reviews of tax expenditures. Carefully consider the budgetary impact of all items that would be taxed were it not for special provisions in the law.
- Sunset all tax breaks. Require that all tax breaks expire after some set period, preferably a fairly short one. ♦

SECURE ACT CONTINUED FROM PAGE 3

Not directly affecting state and local governmental plans but of interest to many in our community, the SECURE Act would make it easier for unrelated employers to create pooled provider pension plans. These plans are alternatively known as “open-MEPs or pooled-plans” and are clearly a response to state-run plans for private sector workers, such as CalSavers and OregonSaves.

Also, for our members who also own IRA accounts the new law now allows individuals who are older than 70 ½ to continue to make contributions to traditional IRAs.

Please be assured that NCPERS will remain involved in these tax law changes as the Department of the Treasury and Internal Revenue Service draft regulations and other guidance to implement the new law. NCPERS will also be involved in the next generation of changes to retirement and pension policy. Legislation being developed by Senators Rob Portman (R-OH) and Ben Cardin (D-

MD) will serve as the foundation of this next effort and could be considered by Congress as early as 2021. ♦

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



National Conference on Public Employee Retirement Systems

ADVOCACY

RESEARCH

EDUCATION

2020 Legislative Conference

January 26-28, 2020
Capital Hilton Hotel | Washington, DC

**Policy Day
January 28**

Visit www.ncpers.org/legislative for more information

Follow Us on Twitter  #LegConf20

EXECUTIVE DIRECTOR'S CORNER CONTINUED FROM PAGE 2

- Senator Sherrod Brown (D-OH) and Rep. Tom Malinowski (D-NJ) have introduced the first-ever legislation to allow retired first responders who have reached age 50 to buy into Medicare. These bills, S. 2552 and H.R. 4527, respectively, would amend the Medicare eligibility age, which currently stands at 65. Because the vast majority of first responders retire in their fifties, they face real a gap before they become eligible for Medicare. At a time when many states and municipalities are cutting back or eliminating retiree health care, this legislation could be one way to ease the financial drain that retiree health care imposes on our nation's first responders by providing Medicare enrollment as an alternative.
- House Ways and Means Committee Chairman Richard Neal (D-MA) has introduced H.R. 4540, which would reform the Social Security penalty known as the Windfall Elimination Provision (WEP). The bill is modelled on legislation, H.R. 3934, previously introduced by Rep. Kevin Brady (R-TX), the ranking Republican Member of the Committee. Chairman Neal's bill would provide a rebate from the WEP penalty of \$150 per month for those currently affected by WEP and those who will turn age 62 before 2022. In addition, those who are not in the rebate category and all future hires would receive the

higher benefit of current Social Security law, which includes the substantial earnings exemption, or a new proportional formula.

- The House has approved H.R. 397, a bill to provide financial assistance to struggling multiemployer pension plans. While these plans are private sector collectively-bargained pension plans and not state or local governmental plans, NCPERS is tracking this legislation because the issue of discount rates has been raised. In fact, some Members of Congress have specifically said that caps on discount rates should be placed on multiemployer plans and public pension plans. Senate Finance Committee Chairman Chuck Grassley (R-IA) and Senate Health, Education, Labor, and Pensions Committee Chairman Lamar Alexander (R-TN) has proposed legislation to cap the discount rate that multiemployer plans could use in the future. The Grassley-Alexander proposal would limit the discount rate to the lesser of the actuary's best estimate of future investment returns or a cap.

There's a lot percolating, and it's only January. We hope one of your New Year's Resolutions will be to make this a year when you are a strong, committed and effective advocate for public pensions. ♦

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AROUND THE REGIONS CONTINUED FROM PAGE 5

“Lawmakers from both parties and Governor Pritzker’s office truly listened to police officers’ concerns and put in a lot of hard work to get this final bill right,” said Illinois Fraternal of Police Board Chairman Tim Kobler in a news release. “The law will let police officers control the retirement funds for their fellow officers, and it addresses the root causes of the pension dilemma rather than resorting to the same old game of just cutting benefits.”

**SOUTH:
Kentucky**



As the *Louisville Courier-Journal* dubbed Kentucky’s pension crisis the state’s fourth-biggest story of the decade, the Public Pension Oversight Board approved a raft of proposals to strengthen the Kentucky Retirement System (KRS).

The proposals, approved December 18, are

intended to help KRS improve a funded ratio that currently stands at 33%. In a key change, state pension systems would shift from a “percent-pay model” to a “liability-based model” to protect employers from increases in their contribution rates.

Employers that are locked into the retirement system would not have to pay higher rates to cover the impact of other employers laying off workers, which entitles those employers to make smaller payments. Instead, the aggregate liability would be assigned to each individual employer, and they would have a fixed payment over 24 years to pay it off, according to *Chief Investment Officer*.

The board is also to proposing steps to improve the pension systems’ ability to absorb large shocks resulting from volatile economic conditions or inaccurate assumptions regarding a pension portfolio’s rate of return. Under the proposed rule, payment periods could be extended to cover surprise increases in the level of unfunded liabilities.

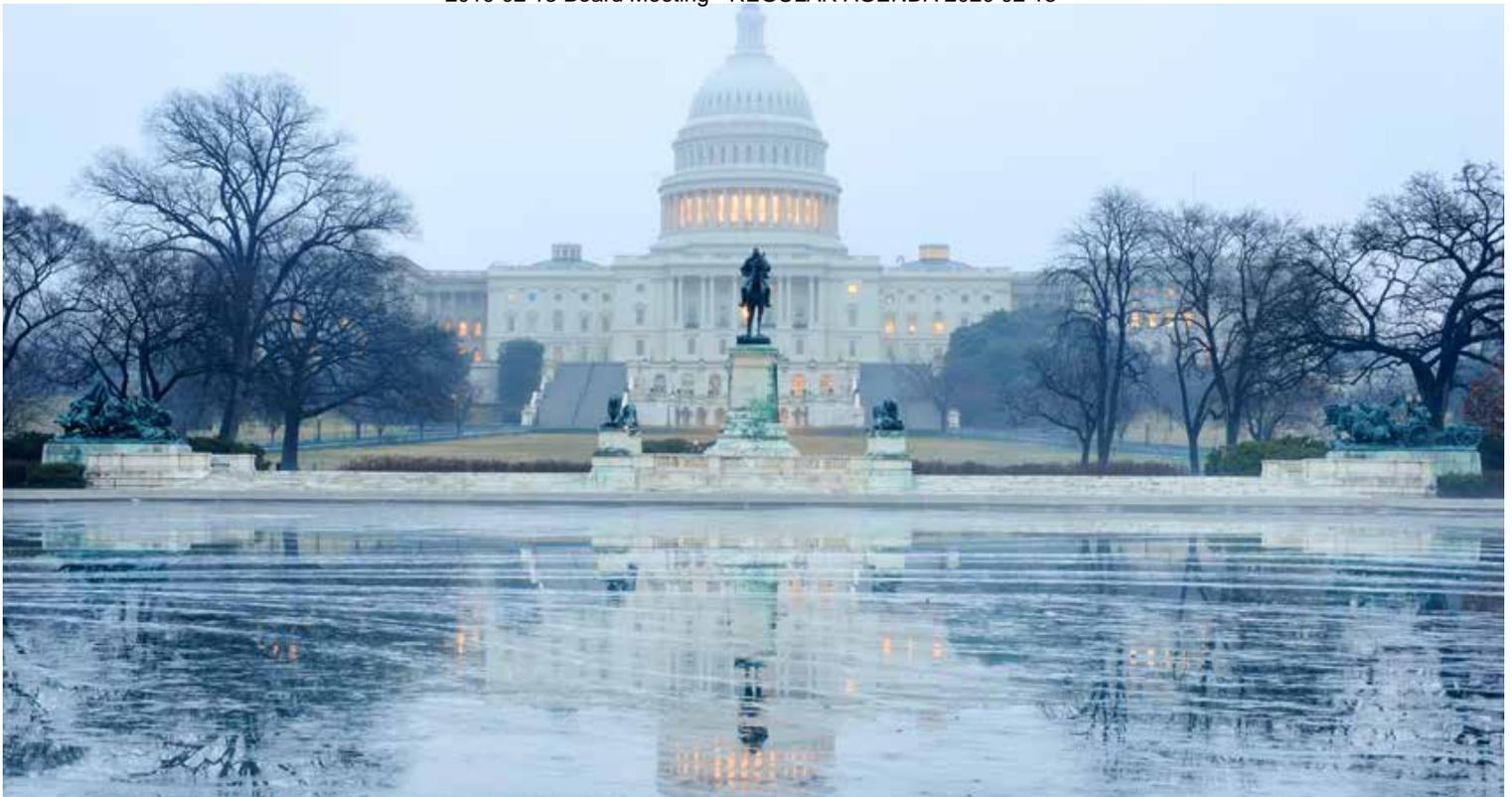
The board also proposed to add representatives of the state treasurer’s office to the board and admit state legislators as non-voting members. ♦

A large blue advertisement for NCPERS membership renewal. On the left, the text "DON'T DELAY!" is written in large, bold, light green letters. Below it, "Renew Your Membership Online Today!" is written in white. At the bottom left is the NCPERS logo, which features a stylized dome and the text "NCPERS" and "1941". Below the logo is the tagline "The Voice for Public Pensions". On the right side of the advertisement is a photograph of a man in a white shirt sitting at a desk, looking at a laptop. The laptop screen shows the NCPERS website. There are papers and a white coffee cup on the desk. At the bottom right of the advertisement, the text "Renew Your Membership at <http://ncpers.org/Members/>" is written in white and light green.

DON'T DELAY!

Renew Your Membership Online Today!

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2020 Conferences

January

Legislative Conference
January 26 - 28
Washington, DC

May

Trustee Educational Seminar (TEDS)
May 9 - 10
Las Vegas, NV

Program for Advanced Trustee Studies (PATS)
May 9 - 10
Las Vegas, NV

NCPERS Accredited Fiduciary Program (All modules)
May 9 - 10
Las Vegas, NV

Annual Conference & Exhibition (ACE)
May 10 - 13
Las Vegas, NV

July

Chief Officers Summit (COS)
July 22 - 24
Chicago, IL

August

Public Pension Funding Forum
August 23 - 25
Chicago, IL

October

NCPERS Accredited Fiduciary Program (All modules)
October 24 - 25
Location TBD

Public Safety Conference
October 25 - 28
Location TBD

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The Monitor is published by the National Conference on Public Employee Retirement Systems.
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