AGENDA

DALLAS POLICE & FIRE PENSION SYSTEM

Date: July 7, 2023

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, July 13, 2023, in the Second Floor Board Room at 4100 Harry Hines Boulevard, Dallas, Texas and via telephone conference for audio at 214-271-5080 access code 588694 or Toll-Free (US & CAN): 1-800-201-5203 and Zoom meeting for visual https://us02web.zoom.us/j/86367704127?pwd=WWsyZW13TndLam9oVXFpRDlnZ1NVZz09 Passcode: 201510.** 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 June 8, 2023

2. Approval of Refunds of Contributions for the Month of June 2023

3. **Approval of Estate Settlements**

4. **Approval of Survivor Benefits**

5. **Approval of Service Retirements**

6. **Approval of Alternate Payee Benefits**

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. **Private Asset Cash Flow Projection Update**

   Portions of the discussion under this topic may be closed to the public under the terms of Section 551.072 of the Texas Government Code.

2. **Consultant Selection**

3. **Certification of Police Officer and Firefighter Trustees Election Results**

4. **Monthly Contribution Report**

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

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

6. **Financial Audit Status**

7. **Portfolio Update**

8. **Report on the Investment Advisory Committee**

9. **Public Equity Structure Review**

10. **Benefit Underpayment Notification**

    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 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.**

D. BRIEFING ITEMS

1. Public Comment

2. Executive Director's report

a. Associations' newsletters
- NCPERS Monitor (July 2023)
- **TEXPERS Pension Observer Vol 2 2023 (anyflip.com)**

b. Open Records
c. Staffing Update
d. Independent Actuarial Services Request for Proposal

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

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

DALLAS POLICE & FIRE PENSION SYSTEM

MOMENT OF SILENCE

In memory of our Members and Pensioners who recently passed away

NAME	ACTIVE/ RETIRED	DEPARTMENT	DATE OF DEATH
Darryl W. Gary	Active	Police	May 31, 2023
Charles E. Storey	Retired	Police	June 7, 2023
Garland A. Beaty	Retired	Fire	June 9, 2023
Jimmy L. Stone	Retired	Police	June 10, 2023
David L. Peeples	Retired	Police	June 11, 2023
Robert V. Johnson	Retired	Police	June 21, 2023

Regular Board Meeting –Thursday, July 13, 2023

Dallas Police and Fire Pension System
Thursday, June 8, 2023
8:30 a.m.
4100 Harry Hines Blvd., Suite 100
Second Floor Board Room
Dallas, TX

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

ROLL CALL

Board Members

Present at 8:33 a.m.	Nicholas A. Merrick, William F. Quinn, Armando Garza (by telephone), Kenneth Haben, Tina Hernandez Patterson, (by telephone), Anthony Scavuzzo (by telephone), Marcus Smith
Absent:	Michael Brown, Steve Idoux, Mark Malveaux, Nancy Rocha
Staff	Kelly Gottschalk, Josh Mond, Ryan Wagner, Brenda Barnes, John Holt, Nien Nguyen, Milissa Romero, Cynthia J. Thomas
Others	Tom Tull, Luke Gittemeier, Caitlin Grice (by telephone), Jeff Williams (by telephone), Leandro Festino (by telephone), Aaron Lally (by telephone), Stuart Pattillo, Mitchell Zaniboni, Rick Salinas

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The Regular meeting was called to order at 8:33 a.m.

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A. MOMENT OF SILENCE

The Board observed a moment of silence in memory of retired police officer Benjamin J. Adamcik, and retired firefighters David W. Baker and Lynn B. Brantley.

No motion was made.

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B. CONSENT AGENDA

1. Approval of Minutes

a. Required Public meeting #1 of May 11, 2023
b. Regular meeting of May 11, 2023

Regular Board Meeting
Thursday, June 8, 2023

B. CONSENT AGENDA (continued)

2. **Approval of Refunds of Contributions for the Month of May 2023**

3. **Approval of Activity in the Deferred Retirement Option Plan (DROP) for June 2023**

4. **Approval of Estate Settlements**

5. **Approval of Survivor Benefits**

6. **Approval of Service Retirements**

7. **Approval of Alternate Payee Benefits**

8. **Approval of Payment of Military Leave Contributions**

9. **Approval of Earnings Test**

After discussion, Mr. Quinn made a motion to approve the minutes of the Required Public meeting #1 and the Regular meeting of May 11, 2023. Mr. Smith seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Haben made a motion to approve the remaining items on the Consent Agenda, subject to the final approval of the staff. Mr. Smith 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 Chairman, Vice Chairman, and Deputy Vice Chairman Election**

   Section 3.01(g) of Article 6243a-1 requires the Board in June of every odd year to elect from among its trustees a chairman, vice chairman, and a deputy vice chairman, each to serve for two-year terms.

   After discussion, Mr. Haben made a motion to reelect the current Board Officers to their current positions as chairman, vice chairman, and deputy vice chairman. Mr. Smith seconded the motion, which was unanimously approved by the Board.

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Regular Board Meeting
Thursday, June 8, 2023

2. January 1, 2023 Actuarial Valuation Assumptions

Caitlin Grice, Consulting Actuary and Jeff Williams, Vice President and Actuary of Segal Consulting, reviewed the assumptions used for January 1, 2022 Actuarial Valuation and believe they remain appropriate and have recommended only minor changes to the assumptions for the January 1, 2023 Actuarial Valuation for the Regular Plan (Combined Plan) and the Supplemental Plan.

After discussion, Mr. Haben made a motion to direct Segal to use its recommended assumptions in preparing the January 1, 2023 Actuarial Valuation for the Regular Plan (Combined Plan) and the Supplemental Plan. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

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3. Monthly Contribution Report

The Executive Director reviewed the Monthly Contribution Report.

No motion was made.

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Mr. Garza temporarily left the meeting at 8:46 am.

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4. Board approval of Trustee education and travel

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

The Board and staff discussed future Trustee education. There was no future Trustee business-related travel or investment-related travel scheduled.

No motion was made.

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5. Financial Audit Status

The Chief Financial Officer provided a status update on the annual financial audit.

No motion was made.

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Regular Board Meeting
Thursday, June 8, 2023

6. 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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7. First Quarter 2023 Investment Performance Analysis and Fourth Quarter 2022 Private Markets & Real Assets Review

Leandro Festino and Aaron Lally of Meketa Investment Group and the Investment Staff reviewed the first quarter 2023 Investment Performance Analysis and the fourth quarter 2022 Private Markets & Real Assets Review reports.

No motion was made.

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8. Legislative Update

Staff briefed the Board on pension bills that have been filed which may bear on DPFP.

No motion was made.

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Mr. Garza rejoined the meeting at 10:04 am.

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9. Natural Resources: Manulife Agriculture Presentation

The Board went into closed executive session at 10:13 a.m.

The meeting reopened at 11:24 a.m.

Stuart Pattillo, Director and Senior Portfolio Manager and Mitchell Zaniboni, Portfolio Analyst, representatives of Manulife Agriculture updated the Board on the status and plans for DPFP's agricultural portfolio and provided a market update on the major crops in the DPFP portfolio.

No motion was made.

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Regular Board Meeting
Thursday, June 8, 2023

10. Benefits Overpayment

Staff briefed the Board on the cause and magnitude of the members and beneficiaries whose benefits are overstated and proposed a plan of recovery for the Board's consideration. Section 802.1024 of the Government Code requires DPFP to recover the overpayments although recovery is limited to overpayments occurring not more than three years since the discovery of the overpayment. The Correction of Errors in Benefits Payment Policy requires Board approval for repayments which exceed $10,000 and exceed one year.

After discussion, Ms. Hernandez Patterson made a motion to approve the proposed plan to recover the overpayments. Mr. Smith seconded the motion, which was unanimously approved by the Board.

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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 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 at 10:13 a.m.

The meeting reopened at 11:24 a.m.

The Board and staff discussed legal issues.

No motion was made.

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D. BRIEFING ITEMS

1. Public Comments

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

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Regular Board Meeting
Thursday, June 8, 2023

2. Executive Director's report

- **a.** Associations' newsletters
  - NCPERS Monitor (June 2023)
- **b.** Open Records
- **c.** Trustee Election Update

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. Hernandez Patterson and a second by Mr. Quinn, the meeting was adjourned at 11:27 a.m.

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Nicholas A. Merrick
Chairman

ATTEST:

____
Kelly Gottschalk
Secretary

DISCUSSION SHEET

ITEM #C1

Topic: **Private Asset Cash Flow Projection Update**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.072 of the Texas Government Code.

Discussion: Staff will provide 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 2024. These estimates are intended to assist the Board in evaluating the expected time frame to reduce DPFP's exposure to these assets and the implications for the public asset redeployment, overall asset allocation, and expected portfolio risk and return.

DALLAS POLICE & FIRE PENSION SYSTEM

Quarterly Private Asset Cash Flow Projection Update

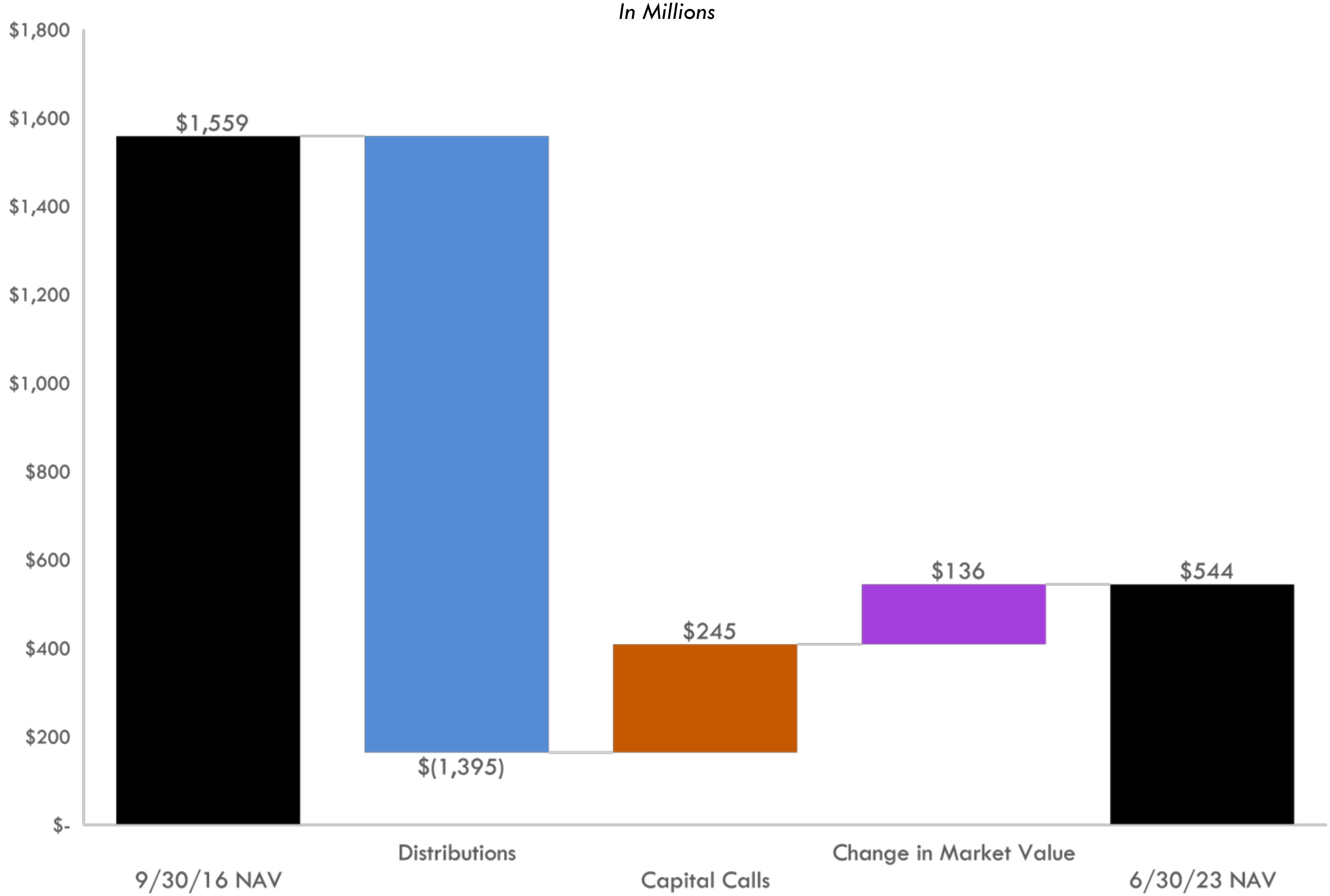
July 13, 2023

Private Asset Cash Flow Projections

Methodology Review

- Staff estimates capital calls and cash distributions from the Private Asset portfolio, built up by individual asset.
- DPFP has more control over direct investments in Real Estate and Natural Resources, therefore should have more accuracy in forecasting cash flows based on planned sales. Private Equity fund investments are controlled by GP's, therefore DPFP has little or no control over outcome – Staff incorporates GP insights but often uses an even distribution schedule over 2 years with these investments.
- **Cash flow estimates are inherently imprecise as they are often subject to events & forces outside of the manager's control.**

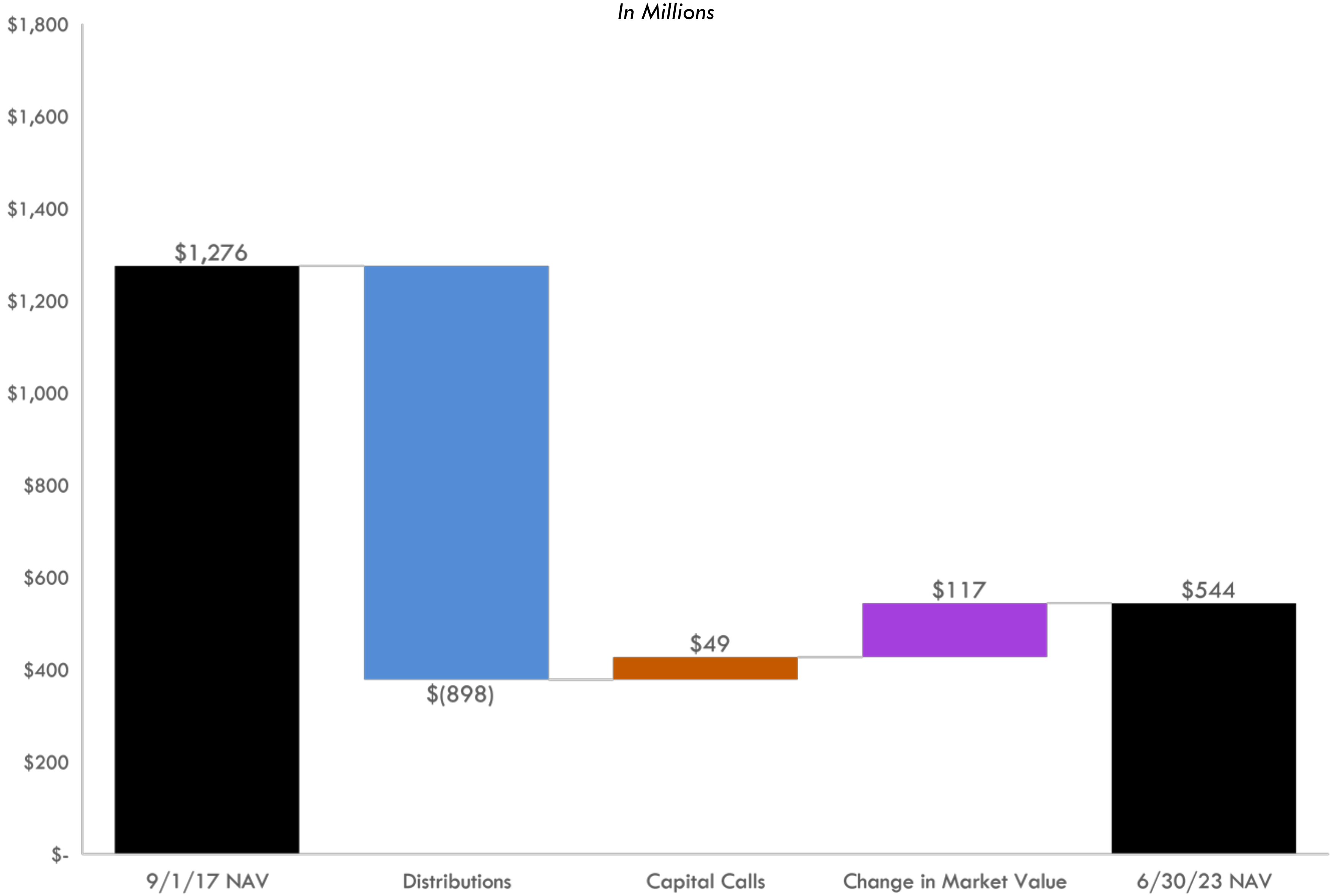
Private Asset Bridge Chart – Since 9/30/16



Numbers may not foot due to rounding.

Private Asset Bridge Chart – Since 9/1/17 (New Board Formation)

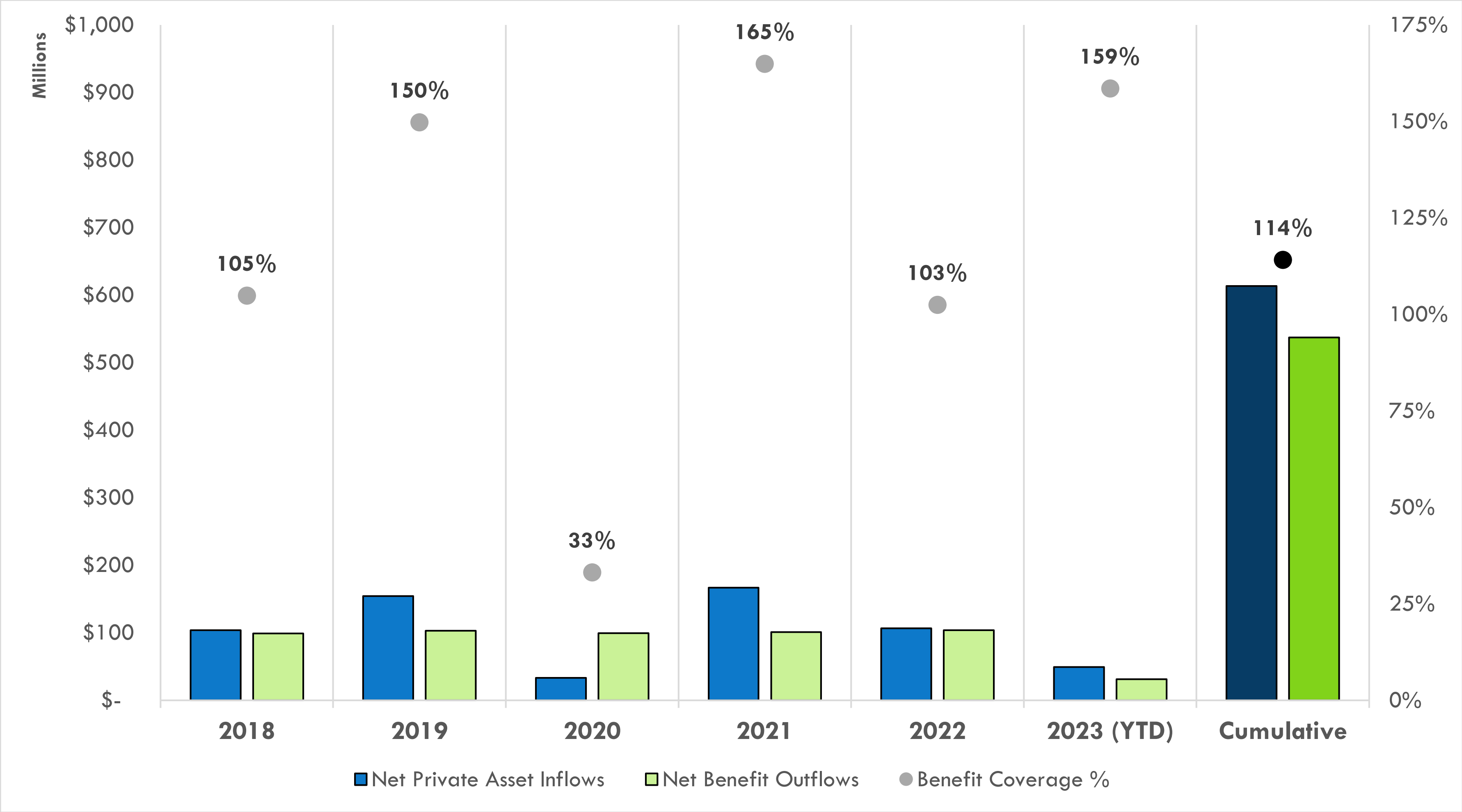
In Millions



Numbers may not foot due to rounding.

Benefit Outflow Coverage

Since 2018, net Private Asset inflows have covered 114% of net benefit outflows.



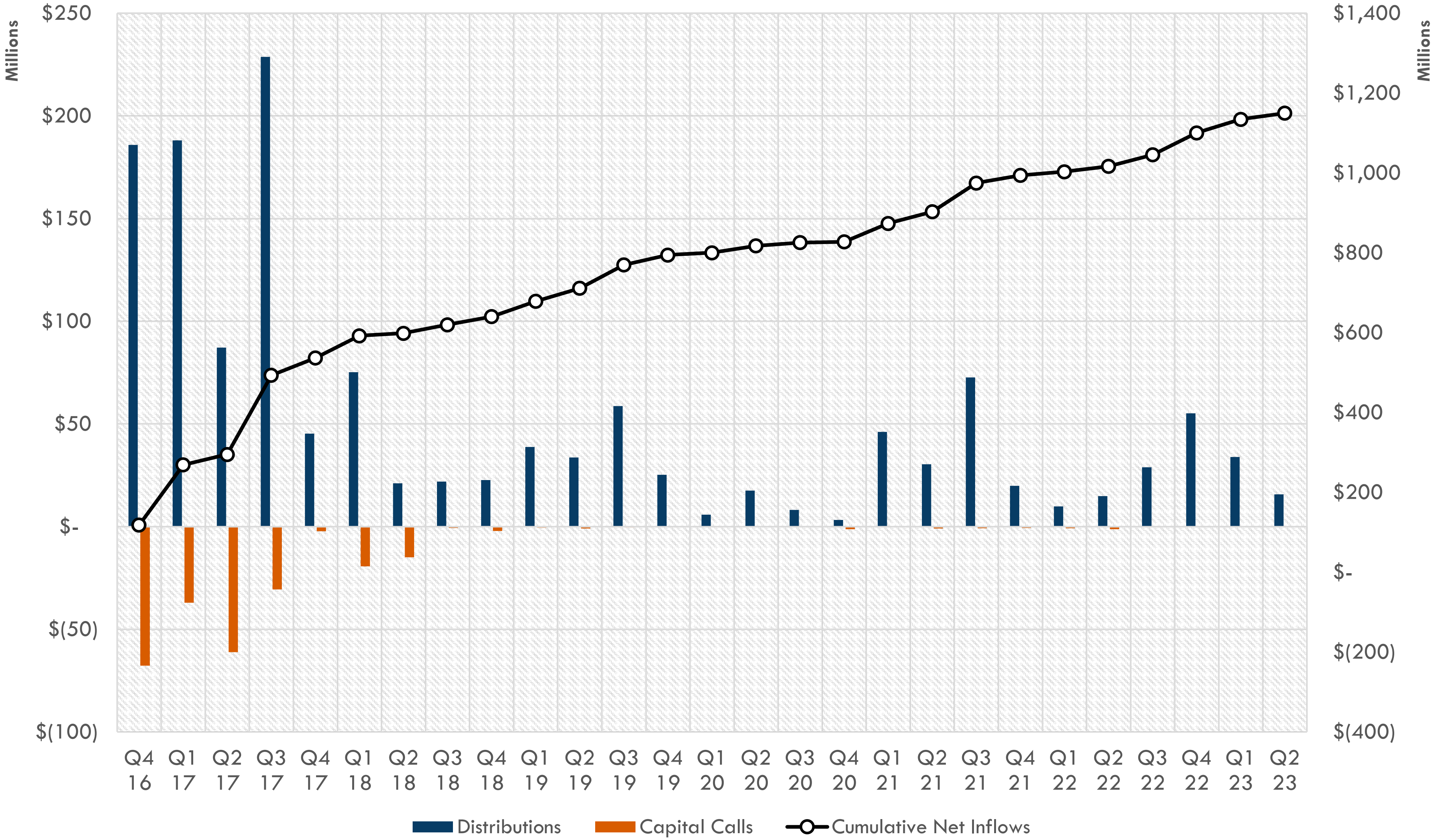
Private Asset Quarterly Cash Flows – Q2 2023

TOTAL CAPITAL CALLS & CONTRIBUTIONS		**$216,027**
TRG AIRRO	Capital Call	$181,027
Industry Ventures	Capital Call	$35,000

TOTAL DISTRIBUTIONS		**$15,695,251**
Distributions above $100K		
AEW	Camel Square	$8,372,791
AEW	Loan Paydown	$5,160,000
Museum Tower	Final Distribution	$903,565
Lone Star CRA	Distribution	$882,353
Huff Alternative	Distribution	$193,347
L&B	Kings Harbor Residual	$178,203

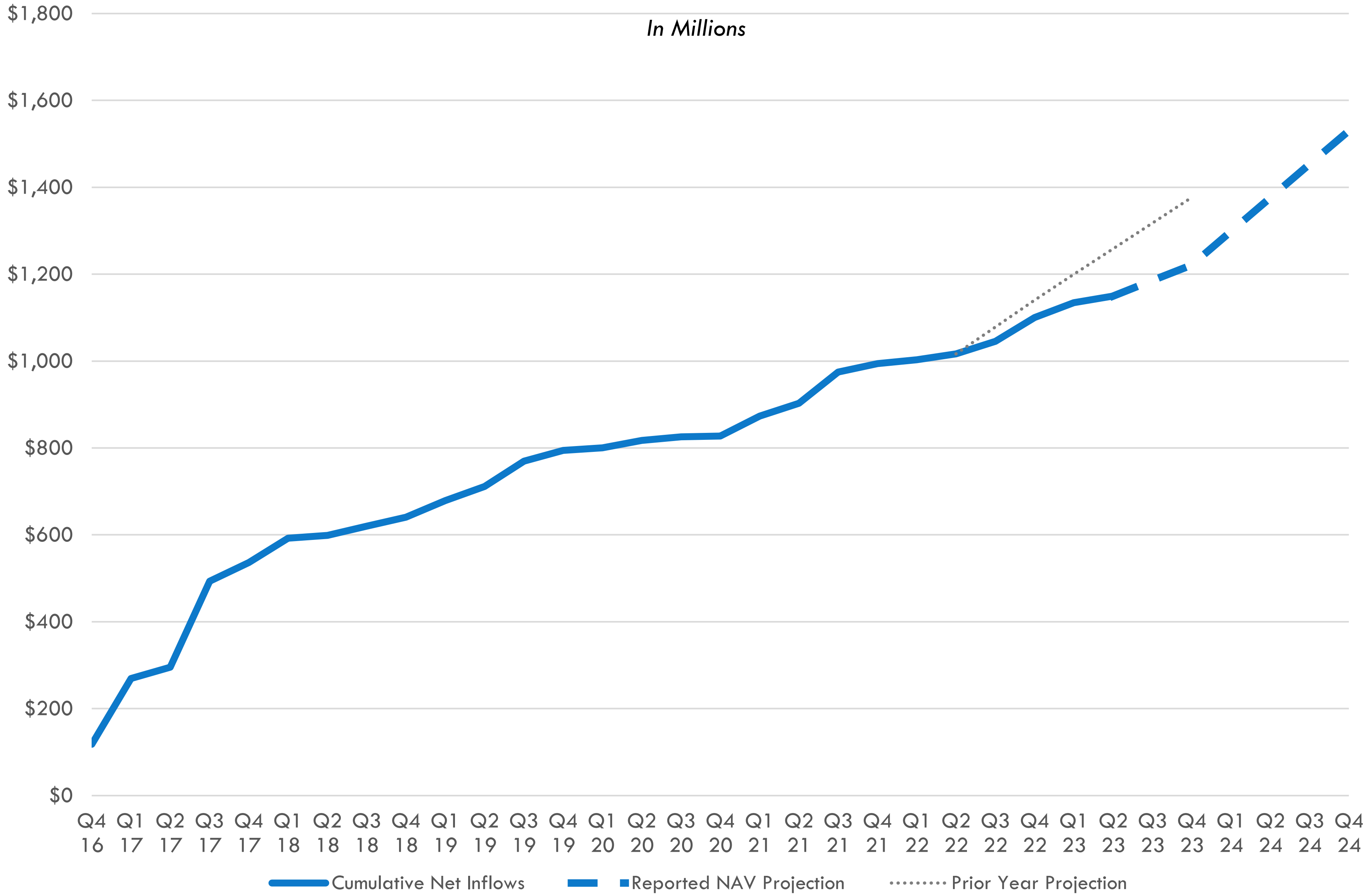
Numbers may not foot due to rounding.

Private Asset Quarterly Cash Flows – Since 9/30/16



Cumulative Actual and Projected Private Asset Net Inflows

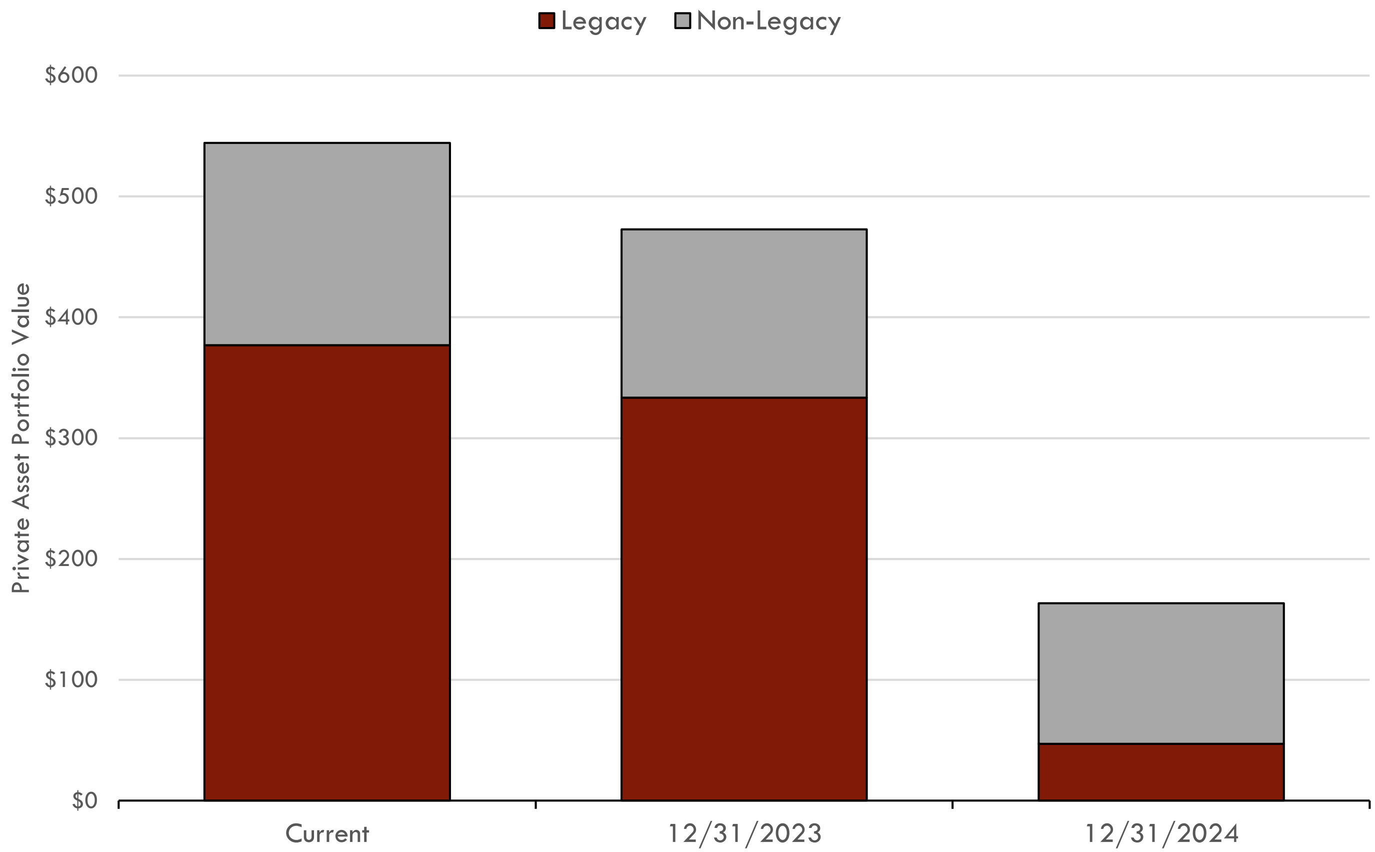
Private asset cash flow projections are based on either in-process/planned sales, if available, or a gradual disposition through 2024.



Private Asset Disposition Timeline & Composition

Private asset cash flow projections are based on either in-process/planned sales, if available, or a gradual disposition through 2024.

In Millions

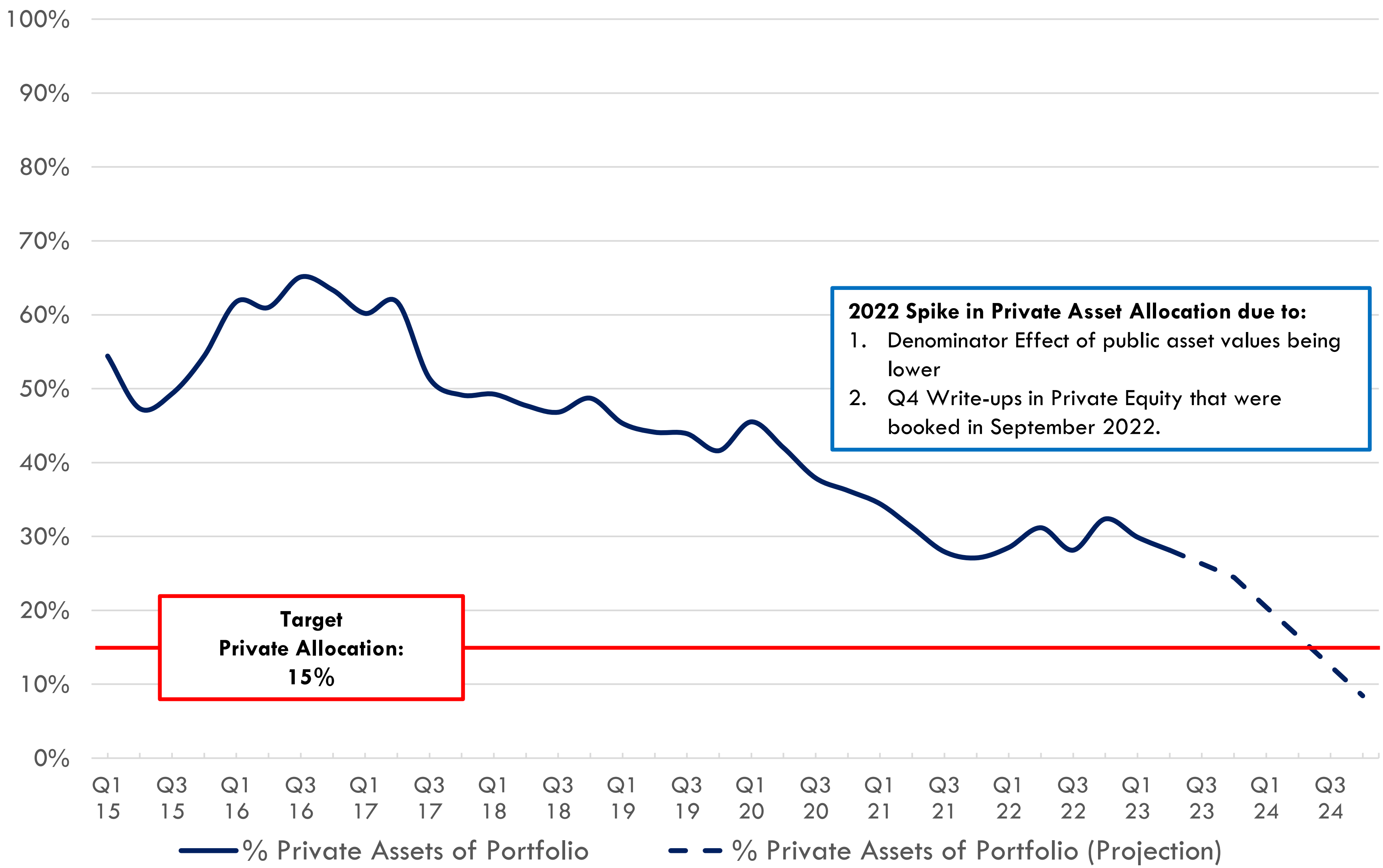


	Current	12/31/2023	12/31/2024
Legacy NAV (M)	$377	$334	$47
% of Private Portfolio	69%	71%	29%
% of DPFP Portfolio	19%	17%	2%

Private Asset Allocation Over Time

Private asset cash flow projections are based on either in-process/planned sales, if available, or a gradual disposition through 2024.

Assumes 100% of private asset proceeds are reinvested into liquid investments and flat fund NAV



Re-Investing in Private Markets Program

- DPFP has not made a new private markets investment since 2016, as the focus has been on right-sizing the over allocation to the space.
- DPFP's 15% target to private markets allocation consists of 5% to Real Estate, 5% to Natural Resources, and 5% to Private Equity.
  - This would amount to ~$97M to each asset class at current AUM.
- DPFP's current portfolio remains overweight to private markets.
  - The target allocation to private markets is 15% while DPFP remains at 28%.
  - Though highly dependent on asset sales, it is possible that DPFP drops below the 15% target sometime in late 2023 or early 2024.
- High-level considerations need to be addressed and procedures put in place prior to making new private market investments.
  - Board and Staff, along with private markets consultant, need to consider: when to start re-investment, governance and diligence process, annual pacing plans and updates to the private market provisions in the IPS.
  - Reminder: Pursuant to Section 4.07 of Article 6243a-1, the vote of eight trustees is required to approve any Alternative Investment.

Private Market Holdings as of 6/30/23

		Market Value ($M) 6/30/2023	Exposure %
Private Equity	**$**	**236.4**	**12.2%**
Huff Alternative		0.1	0.0%
Huff Energy		**174.0**	**9.0%**
Industry Ventures		9.2	0.5%
Lone Star CRA		**51.7**	**2.7%**
Lone Star Growth Capital		0.0	0.0%
Lone Star Opportunity Fund V		0.0	0.0%
Lone Star North TX Op. Fund		1.4	0.1%
Private Debt	**$**	**4.1**	**0.2%**
Highland Crusader		0.4	0.0%
Riverstone		3.7	0.2%
Real Assets	**$**	**303.7**	**15.7%**
Natural Resource	**$**	**106.1**	**5.5%**
BTG Pactual		13.4	0.7%
Hancock		92.8	4.8%
Infrastructure	**$**	**38.6**	**2.0%**
TRG AIRRO I		17.3	0.9%
TRG AIRRO II		4.7	0.2%
JPM Global Maritime		16.6	0.9%
Real Estate	**$**	**159.0**	**8.2%**
AEW Capital Management		**128.9**	**6.7%**
Clarion Partners		30.0	1.6%
Total Private Markets	**$**	**544.2**	**28.1%**
Legacy Assets (does not include AEW Camel Square)	**$**	**361.6**	**18.7%**

DALLAS POLICE & FIRE PENSION SYSTEM

Initial Thoughts By Asset Class

Private Equity (Current $236M / Target $97M)

- Consideration of a Secondary Fund commitment(s) to gain some vintage year diversification at the outset of the program.
- Investments for initial years of program will likely be with larger and established managers.
- What mix of exposures do we want in the portfolio (growth, buy-out, private debt)?
- Pacing plan and commitment sizing will be first step. Likely 3-4 commitments per year of ~$10M/each once program is fully up and running.
- Possible addition of private credit to Asset Allocation.

Real Estate (Current $159M / Target $97M)

- Given the smaller target allocation, does not make sense to invest in individual properties or direct real estate holdings.
- Consider investing 40-60% of the allocation in open-ended core ODCE funds, with remaining dedicated towards more opportunistic or sector-specific closed-end funds.

Agriculture (Current $106M / Target $97M)

- Plan to keep Manulife Ag portfolio long-term and dispose of remaining timber portfolio with BTG.
- Manulife looking at possible dispositions within portfolio which could be re-invested to improve crop and geographic diversification.

DISCUSSION SHEET

ITEM #C2

Topic: **Consultant Selection**

Discussion: Meketa was hired as DPFP's general investment consultant in April 2018. At the time Meketa was hired, DPFP did not expect to make any new private market investments over the near-term given the overallocation issue. Because of this, Meketa was not engaged to provide any direct private market services outside of performance reporting.

Staff has been conducting a consultant search over the past 4 months, which included RFPs being issued to 9 firms. A sub-committee of 6 members of both Board and IAC members has been advising staff throughout the process. Staff and the sub-committee recommended retaining Meketa as the general consultant and interviewing Meketa and Albourne as it relates to private markets consulting. The sub-committee held in-person interviews with Albourne and Meketa on June 15th.

Staff Recommendation: To be **provided** at the meeting.

DALLAS POLICE & FIRE PENSION SYSTEM

Investment Consultant Search

July 13, 2023

Search Process to Date

<u>After reviewing the RFPs, the following 4 firms were eliminated:</u>

1. AndCo
2. Wilshire
3. Cambridge
4. Hamilton Lane (Specialty)

<u>The following 5 semi-finalists firms held video interviews with staff the week of May 1st:</u>

1. Meketa
2. RVK
3. Verus
4. Aksia (Specialty)
5. Albourne (Specialty)

<u>After discussion at the 5/8 Sub-Committee meeting, the decision was made to retain Meketa as the general consultant and hold interviews for Private Markets services with:</u>

1. Meketa
2. Albourne

Consultant Search Timeline

January 30, 2023

- Consultant Search Sub-Committee Kick Off Meeting

February 15, 2023

- Issue RFP to selected consulting firms.

March 15, 2023

- RFP submission deadline.

April 17, 2023

- Staff memo to sub-committee for selection of 5 semi-finalist firms.

Week of May 1st, 2023

- Staff interviews with 5 semi-finalist firms

May 8, 2023

- Sub-Committee discussion with staff on consultant evaluation & next steps

June 15, 2023

- Sub-Committee finalist interviews for Private Market services with Meketa and Albourne.

July 2023

- Board approval of firm(s).

Key Selection Considerations

1. Private Market Capabilities

2. One vs Two Consultants

3. Costs

Finalists Comparison

	Meketa	Albourne
Total Assets Under Advisement:	$1.7T ($117B Private Markets)	$800B ($400B Private Markets)
Employee Ownership:	100% by 85 shareholders Largest Shareholder < 25% of equity	100% by 77 Shareholders Largest Shareholder ~ 35% of equity
Sources of Revenue:	70% Non-Discretionary	100% Non-Discretionary
Total Employees:	243	599
Private Markets Employees:	53	392
Expected Capital Deployed in 2023:	Private Equity: $2B Private Debt: $3B Real Estate: $1.5B Natural Resources: $700M	Private Equity: $16B Private Debt: $4B Real Estate: $5.7B Natural Resources: $283M
# of Funds Underwritten/Yr:	150	600

Meketa vs. Albourne

Meketa	Albourne
• Benefits of one consultant vs. two: Degree of ownership over whole portfolio decisions, including an understanding of funding & liquidity situation. • Staff has good working relationship and level of trust with Meketa built up over past 5 years. • Strong private markets capabilities for full-service Consultant. • Cost savings of Meketa vs. Albourne.	• Depth and breadth of private markets coverage. • Comprehensive Castle online platform. • Robust Operational Due Diligence process. • Sub-Committee and IAC members have been impressed with Albourne in past professional experiences.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C3

Topic: **Certification of Police Officer and Firefighter Trustee Election Results**

Discussion: The terms of the Police Officer and Firefighter Trustees (Kenneth Haben and Armando Garza) expire on August 31, 2023.

YesElections, an independent third-party election company, conducted the election process for the Police Officer and Firefighter Trustee positions following the election rules adopted by the Board, and the voting period ended on June 28, 2023. Under the election rules adopted by the Board, the Police and Firefighter candidate must receive 50% +1 vote to be elected as a Police Officer or Firefighter Trustee. A runoff election is required if no candidate gets more than the necessary majority of the votes cast.

Michael Taglienti received more than 50% of the votes cast for the Police Officer Trustee, so he has been elected as the Police Officer Trustee with a term from September 1, 2023, to August 31, 2026. No candidate received more than 50% of the votes in the Firefighter Trustee election, so a runoff election is needed to elect the Firefighter Trustee.

DISCUSSION SHEET

ITEM #C3
(continued)

Staff Recommendation: **Certify** the election results of the Police Officer and Firefighter Trustee election and **authorize** a runoff election for the Firefighter Trustee position between Armando Garza and Matthew Shomer.

YesElections
Powered by Election America

June 29, 2023

Dallas Police and Fire Pension System
4100 Harry Hines Boulevard, Ste. 100
Dallas, TX 75219

Dear Kelly Gottschalk:

The attached report contains the results from the 2023 Trustee election for the Dallas Police and Fire Pension System.

Thank you. It has been a pleasure working with you.

Sincerely yours,

Chris Backert
CEO
YesElections

1775 I St NW
Suite 1150
Washington, DC 20006

155 Mineola Blvd.
Suite 102
Mineola, NY 11501

4275 Executive Sq.
Suite 200
San Diego, CA 92037

(866) 514-2995 | YesElections.com

YesElections
Powered by Election America

Results:

Race	Candidate/Choice	Votes	Percent
Police Officer Trustee - Police	Michael Taglienti	132	55.46%
Police Officer Trustee - Police	Kenneth Haben (incumbent)	76	31.93%
Police Officer Trustee - Police	Zachary Knetzer	30	12.61%

Race	Candidate/Choice	Votes	Percent
Firefighter Trustee - Fire	Armando Garza (incumbent)	124	31.55%
Firefighter Trustee - Fire	Matthew Shomer	97	24.68%
Firefighter Trustee - Fire	David Waks	87	22.14%
Firefighter Trustee - Fire	David Hatch	85	21.63%

Turnout:

Group	Internet	Phone	Total	Electorate	Turnout %
Fire	342	51	393	2024	19.42
Police	208	30	238	3048	7.81
Total	550	81	631	5072	12.44

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

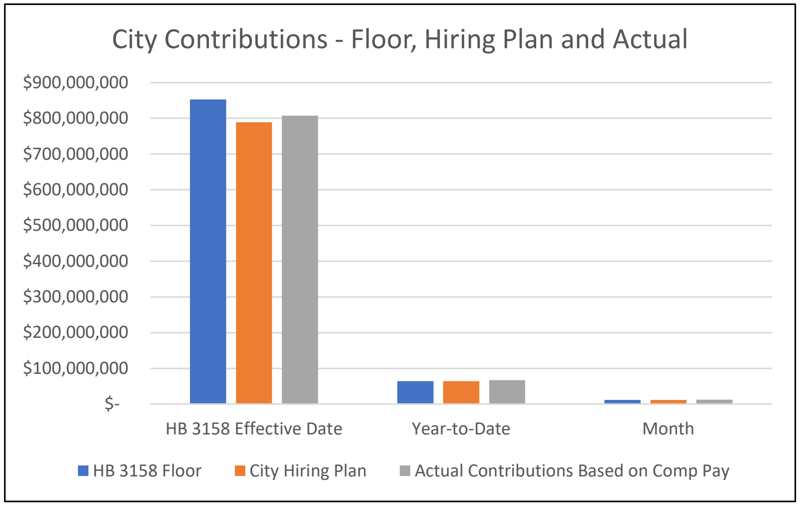
ITEM #C4

Topic: **Monthly Contribution Report**

Discussion: Staff will review the Monthly Contribution Report.

Regular Board Meeting – Thursday, July 13, 2023

Contribution Tracking Summary - July 2023 (May 2023 Data)

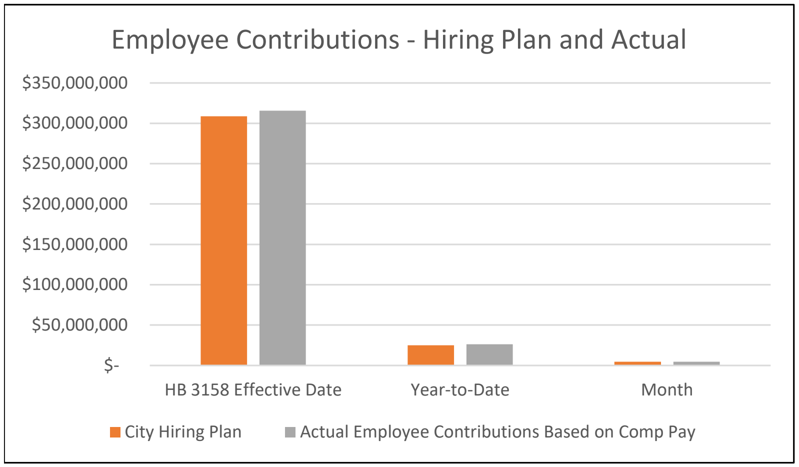


Actual Comp Pay was 102% of the Hiring Plan estimate since the effective date of HB 3158.

The Floor decreased for 2023 to equal the Hiring Plan, this was a decreased by 3.82% in 2023 for the Floor. The Hiring Plan increased by 3.79% in 2023. It is expected that actual contributions will exceed the Floor through 2024.

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

With the new year the City's Hiring Plan added 50 Police Officers to the estimates which now increases the shortfall of employees. The combined actual employees was 117 less than the Hiring Plan for the pay period ending May 9, 2023. Fire was over the estimate by 115 Fire Fighters and Police under by 232 Police Officers.



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

There is no Floor on employee contributions.

Contribution Summary Data

City Contributions

May-23	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
Month	2	$ 11,624,000	$ 11,623,846	$ 12,183,556	$ -	105%	105%
Year-to-Date		$ 63,932,000	$ 63,931,154	$ 67,138,833	$ -	105%	105%
HB 3158 Effective Date		$ 853,153,000	$ 789,041,538	$ 807,442,723	$ 48,990,866	95%	102%

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

May-23	Number of Pay Periods Beginning in the Month	City Hiring Plan	Actual Employee Contributions Based on Comp Pay	Actual Contribution Excess Compared to Hiring Plan	Actuarial Valuation Contribution Assumption	Actual Contributions as a % of Hiring Plan Contributions	Actual Contributions as a % of Actuarial Val Assumption
Month	2	$ 4,548,462	$ 4,768,289	$ 219,828	$ 4,236,924	105%	113%
Year-to-Date		$ 25,016,538	$ 26,278,652	$ 1,262,114	$ 23,303,082	105%	113%
HB 3158 Effective Date		$ 308,755,385	$ 315,768,864	$ 7,013,480	$ 300,042,748	102%	105%

Potential Earnings Loss from the Shortfall based on Assumed Rate of Return	$ 60,381

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, 12-31-18 and 12-31-2019 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						
	Computation Pay			Number of Employees		
Year	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	$ 421,529,994	$ 25,529,994	5,063	4,988	(75)
2021	$ 408,000,000	$ 429,967,675	$ 21,967,675	5,088	4,958	(130)
2022	$ 422,000,000	$ 439,104,541	$ 17,104,541	5,113	5,074	(39)
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 - 2023	Annual Divided by 26 Pay Periods	Actual	Difference	2022 Cumulative Difference	Number of Employees - EOM	Difference
January	$ 33,692,308	$ 35,387,168	$ 1,694,860	$ 1,694,860	4922	(241)
February	$ 33,692,308	$ 35,344,223	$ 1,651,915	$ 3,346,776	5045	(118)
March	$ 50,538,462	$ 53,203,452	$ 2,664,991	$ 6,011,766	5080	(83)
April	$ 33,692,308	$ 35,355,815	$ 1,663,507	$ 7,675,273	5060	(103)
May	$ 33,692,308	$ 35,314,654	$ 1,622,347	$ 9,297,620	5046	(117)
June	$ 33,692,308					
July	$ 33,692,308					
August	$ 50,538,462					
September	$ 33,692,308					
October	$ 33,692,308					
November	$ 33,692,308					
December	$ 33,692,308					

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C5

Topic: **Board approval of Trustee education and travel**

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

Discussion:

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

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

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

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

Future Education and Business Related Travel & Webinars
Regular Board Meeting – July 13, 2023

ATTENDING APPROVED

1. **Conference:** **TEXPERS Advance Trustee Training**
   Dates: August 13, 2023
   Location: The Woodlands, TX
   Est Cost: TBD

2. **Conference:** **TEXPERS Summer Education Forum**
   Dates: August 14-15, 2023
   Location: The Woodlands, TX
   Est Cost: TBD

3. **Conference:** **NCPERS Public Pension Funding Forum**
   Dates: August 20-23, 2023
   Location: Chicago, IL
   Est Cost: TBD

DISCUSSION SHEET

ITEM #C6

Topic: **Financial Audit Status**

Discussion: The Chief Financial Officer will provide a status update on the annual financial audit.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C7

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, July 13, 2023

DALLAS POLICE & FIRE PENSION SYSTEM

Portfolio Update

July 13, 2023

Board Meeting

Executive Summary

- Liquidation of private market assets remains the top focus.
  - $50M in distributions received YTD, with vast majority coming from AEW Camel Square and JPM Maritime fund.
- At the March 2022 Board meeting, staff notified the Board that the Safety Reserve would be drawn down to fund net benefit outflows.
- **Rebalancing actions:**
  - Since the Safety Reserve was put into drawdown in March 2022, **~$84M of proceeds have been reinvested into Global Equity**, while **~$105M of proceeds have been held within the Safety Reserve**, which has extended coverage period from September 2023 to July 2024.
- **Consultant Search:** RFP issued on February 15th; interviews with 5 semi-finalist firms conducted week of May 1st. In-Person finalist interviews with the sub-committee were conducted on June 15th.
- **Estimated Year-to-Date Return (as of 6/30/23):** 6.49% for DPFP portfolio; 10.1% for Public Markets (ex-Cash) which accounts for 69.2% of the assets.

Investment Initiatives – 2023/24 Plan

Q3 2023

- Finalize Consultant decision
- Approve updated Public Equity Structure
- Global Growth Search & RFP

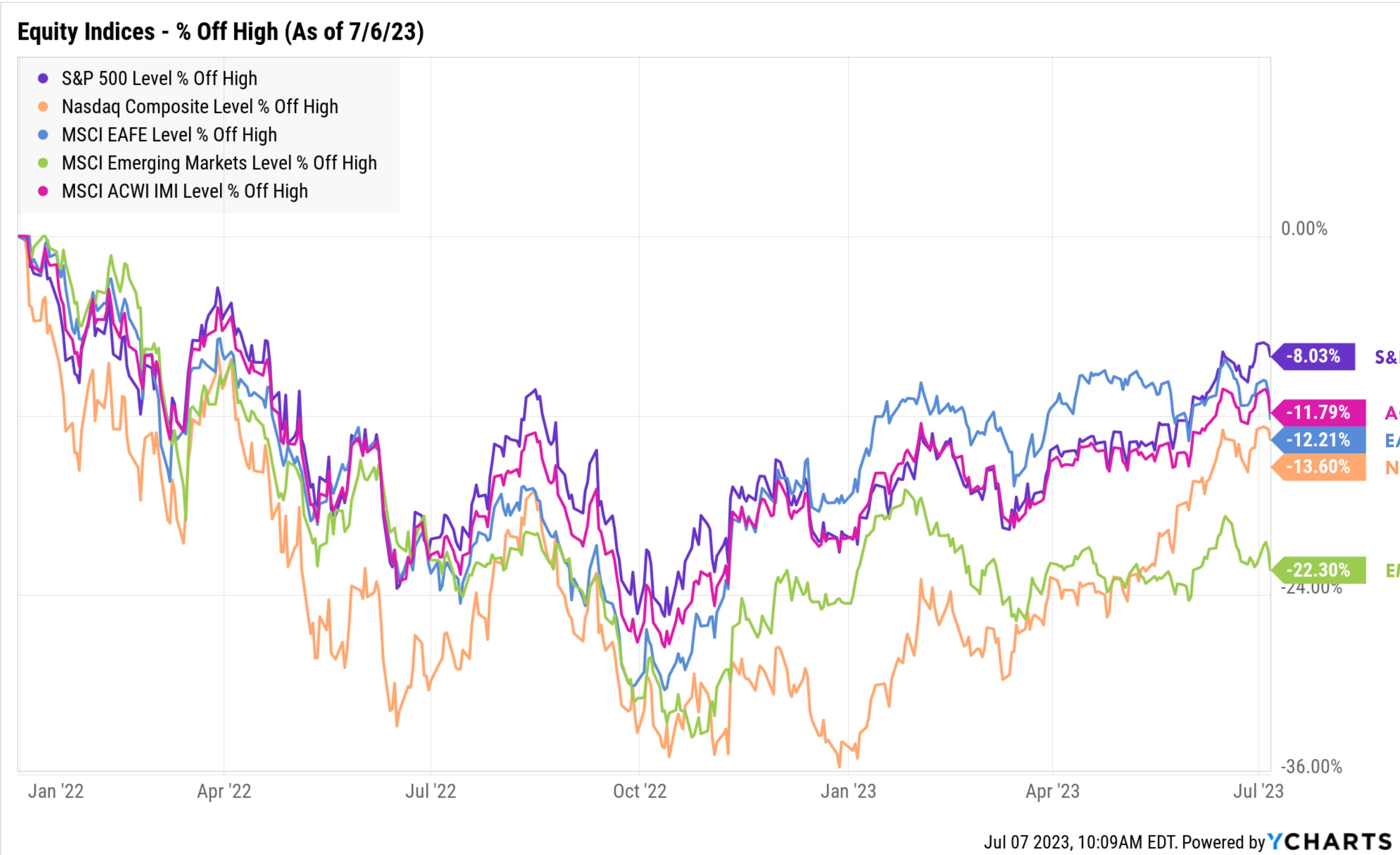
Q4 2023 & Beyond

- Global Growth Selection & Funding
- Private Market Planning – Update IPS provision, pacing studies, etc.

2024

- Custodian Search
- Initial Private Markets investments

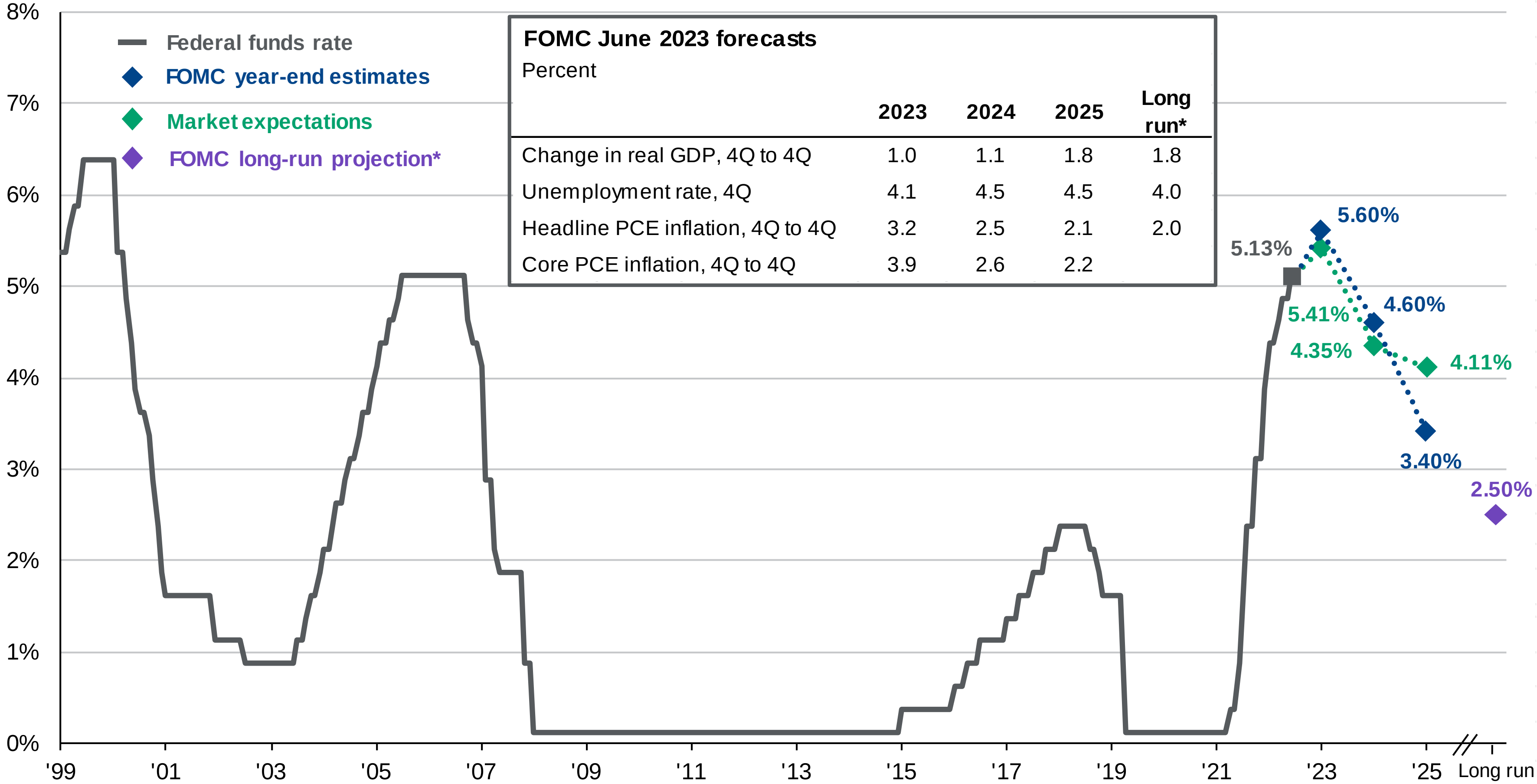
Equity Market Drawdown (1/1/22 to 7/6/23)



The Fed and Interest Rates

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



FOMC June 2023 forecasts

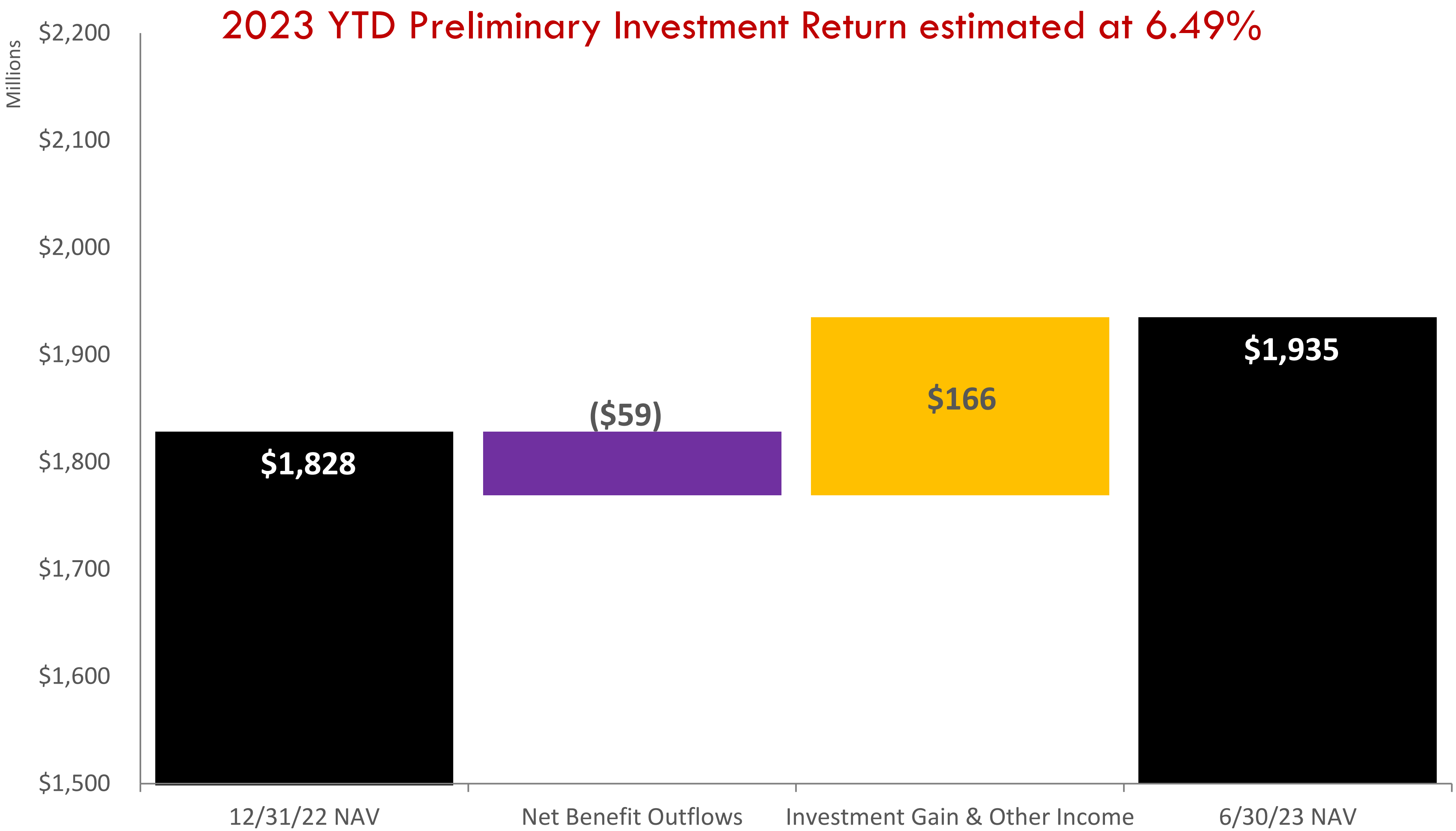
Percent

	2023	2024	2025	Long run*
Change in real GDP, 4Q to 4Q	1.0	1.1	1.8	1.8
Unemployment rate, 4Q	4.1	4.5	4.5	4.0
Headline PCE inflation, 4Q to 4Q	3.2	2.5	2.1	2.0
Core PCE inflation, 4Q to 4Q	3.9	2.6	2.2	

Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are based off of the respective Federal Funds Futures contracts for December expiry. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.
Guide to the Markets – U.S. Data are as of July 6, 2023.

2023 - Change in Market Value Bridge Chart

In Millions



The beginning 12/31/22 value is from the Q4 2022 Meketa Performance Report and includes a one-quarter lag on private assets.
Numbers may not foot due to rounding.

Public Markets Performance Snapshot - Estimates

Public Markets (ex-Cash) currently make up 69.2% of DPFP Investment Portfolio.

Net of fees	Index	6/30/2023 NAV ($M)	MTD as of 6/30/2023 Manager	MTD Index	MTD Excess	YTD as of 6/30/2023 Manager	YTD Index	YTD Excess	3 Year Trailing as of 6/30/2023 Manager	3 Year Index	3 Year Excess
Total Public Portfolio (ex-Cash)	**60% ACWI IMI 40% Global AGG**	**$1,339.1**	**4.5%**	**3.5%**	**1.0%**	**10.1%**	**8.5%**	**1.6%**	**6.6%**	**4.6%**	**2.0%**
Global Equity	**MSCI ACWI IMI**	**$902.7**	**5.7%**	**5.8%**	**-0.1%**	**12.9%**	**13.3%**	**-0.3%**	**11.3%**	**10.9%**	**0.4%**
Boston Partners	MSCI World	$133.4	6.0%	6.1%	0.0%	6.1%	15.1%	-9.0%	17.2%	12.1%	5.1%
Manulife	MSCI ACWI	$137.4	5.4%	5.8%	-0.4%	12.1%	13.9%	-1.8%	11.9%	11.0%	0.9%
Russell Transition ACWI Growth[3]	MSCI ACWI Growth	$143.0	5.5%	5.9%	-0.4%	--	24.3%	--	--	9.6%	--
Walter Scott	MSCI ACWI	$146.6	6.0%	5.8%	0.2%	16.8%	13.9%	2.9%	11.0%	11.0%	0.0%
Northern Trust ACWI IMI Index[1]	MSCI ACWI IMI	$230.5	5.8%	5.8%	0.0%	13.6%	13.3%	0.4%	11.3%	10.9%	0.4%
Eastern Shore US Small Cap[1]	Russell 2000	$57.0	8.7%	8.1%	0.6%	7.1%	8.1%	-1.0%	5.2%	10.8%	-5.6%
Global Alpha[1]	MSCI EAFE Small Cap	$54.8	2.0%	2.9%	-0.9%	5.6%	5.5%	0.1%	6.4%	5.7%	0.7%
EM Equity - RBC	**MSCI EM IMI**	**$90.8**	**5.3%**	**3.9%**	**1.4%**	**8.9%**	**5.6%**	**3.2%**	**5.3%**	**3.6%**	**1.7%**
Public Fixed Income (ex-Cash)	**BBG Multiverse TR**	**$345.6**	**1.3%**	**0.1%**	**1.2%**	**4.4%**	**1.6%**	**2.9%**	**-0.3%**	**-4.7%**	**4.4%**
S/T IG Bonds - IR+M	BBG 1-3YR AGG	$65.0	-0.3%	-0.4%	0.1%	1.6%	1.1%	0.5%	-0.4%	-0.9%	0.6%
IG Bonds - Longfellow[1]	BBG US AGG	$67.8	-0.4%	-0.4%	0.0%	2.5%	2.1%	0.4%	-3.5%	-4.0%	0.4%
Bank Loans - Pacific Asset Mgmt.[2]	CS Leveraged Loan	$76.6	2.3%	2.6%	-0.3%	7.0%	6.7%	0.3%	6.0%	6.3%	-0.4%
High Yield - Loomis Sayles[1]	BBG USHY 2% Cap	$70.9	1.9%	1.7%	0.2%	4.1%	5.4%	-1.3%	2.2%	3.4%	-1.2%
EM Debt - Metlife[1]	35% EMBI / 35% CEMBI / 30% GBI-EM	$65.4	3.1%	2.0%	1.0%	6.6%	4.9%	1.6%	-0.7%	-1.5%	0.8%

Source: JPM Morgan custody data, manager reports, Investment Staff estimates and calculations. Numbers may not foot due to rounding.

[1] - 3 yr trailing performance is based on composite data due to inception date with DPFP being less than 3 years.

[2] - Benchmark for Bank Loans is proxied to S&P Leveraged Loans for current month performance.

[3] - Invesco was replaced by Russell (Transition Account) on 3/15/2023

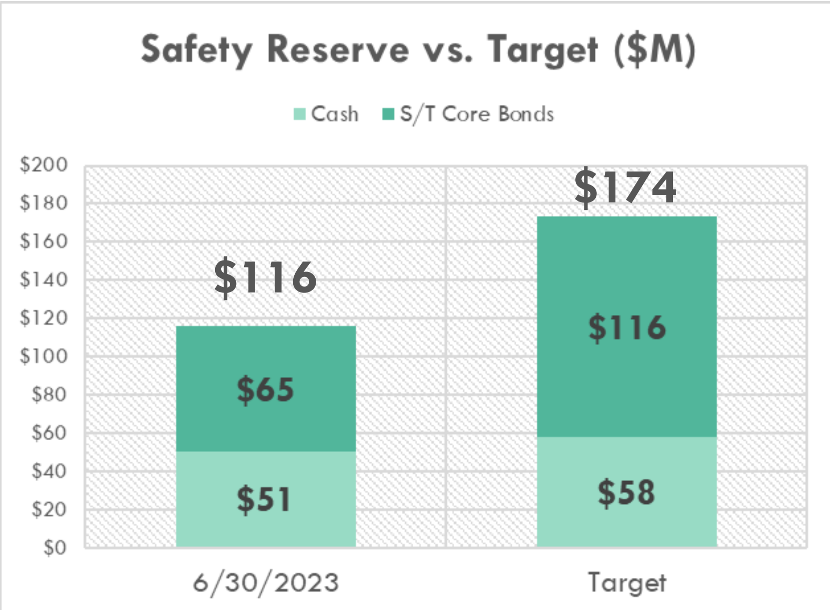
DALLAS POLICE & FIRE PENSION SYSTEM

Asset Allocation Detail

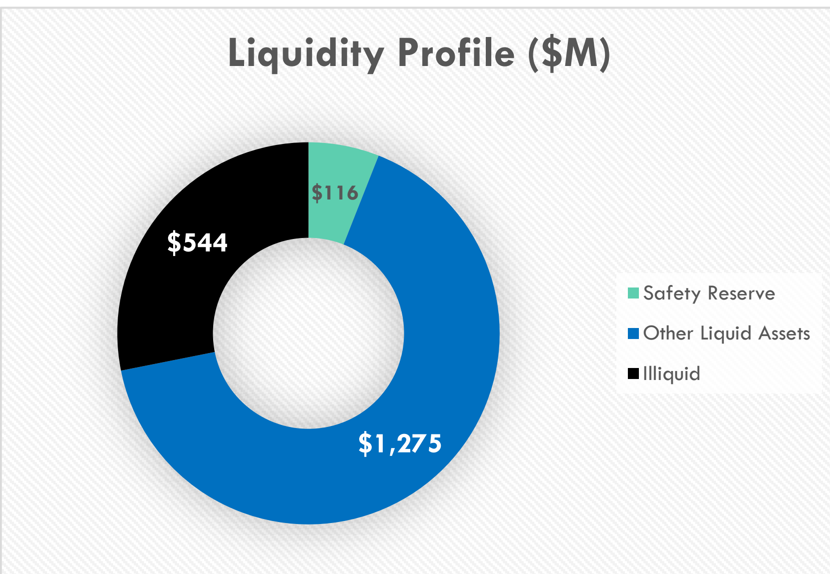
DPFP Asset Allocation	6/30/2023 NAV	6/30/2023 %	New Targets $ mil.	New Targets %	% of Target	Variance $ mil.	Variance %
Equity	**1,231**	**63.6%**	**1,258**	**65%**	**98%**	**-27**	**-1.4%**
Global Equity	903	46.7%	1,064	55%	85%	-161	-8.3%
Boston Partners	*133*	*6.9%*	*116*	*6%*	*115%*	*17*	*0.9%*
Manulife	*137*	*7.1%*	*116*	*6%*	*118%*	*21*	*1.1%*
Russell Transition - ACWI Growth	*143*	*7.4%*	*116*	*6%*	*123%*	*27*	*1.4%*
Walter Scott	*147*	*7.6%*	*116*	*6%*	*126%*	*31*	*1.6%*
Northern Trust ACWI IMI Index	*230*	*11.9%*	*484*	*25%*	*48%*	*-253*	*-13.1%*
Eastern Shore US Small Cap	*57*	*2.9%*	*58*	*3%*	*98%*	*-1*	*-0.1%*
Global Alpha Intl Small Cap	*55*	*2.8%*	*58*	*3%*	*94%*	*-3*	*-0.2%*
Emerging Markets Equity - RBC	91	4.7%	97	5%	95%	-5	-0.3%
Private Equity*	236	12.2%	97	5%	244%	140	7.2%
Fixed Income	**401**	**20.7%**	**484**	**25%**	**83%**	**-83**	**-4.3%**
Cash	51	2.6%	58	3%	87%	-7	-0.4%
S/T Investment Grade Bonds - IR+M	65	3.4%	116	6%	56%	-51	-2.6%
Investment Grade Bonds - Longfellow	68	3.5%	77	4%	88%	-10	-0.5%
Bank Loans - Pacific Asset Management	77	4.0%	77	4%	99%	-1	0.0%
High Yield Bonds - Loomis Sayles	71	3.7%	77	4%	92%	-7	-0.3%
Emerging Markets Debt - MetLife	65	3.4%	77	4%	84%	-12	-0.6%
Private Debt*	4	0.2%	0	0%		4	0.2%
Real Assets*	**304**	**15.7%**	**193**	**10%**	**157%**	**110**	**5.7%**
Real Estate*	159	8.2%	97	5%	164%	62	3.2%
Natural Resources*	106	5.5%	97	5%	110%	9	0.5%
Infrastructure*	39	2.0%	0	0%		39	2.0%
Total	**1,935**	**100.0%**	**1,935**	**100%**		**0**	**0.0%**
Safety Reserve ~$162M=18 mo net CF	116	6.0%	174	9%	66%	-58	-3.0%
*Private Market Assets	544	28.1%	290	15%		254	13.1%

Source: Preliminary JP Morgan Custodial Data, Staff Estimates and Calculations.
Numbers may not foot due to rounding

Safety Reserve Dashboard



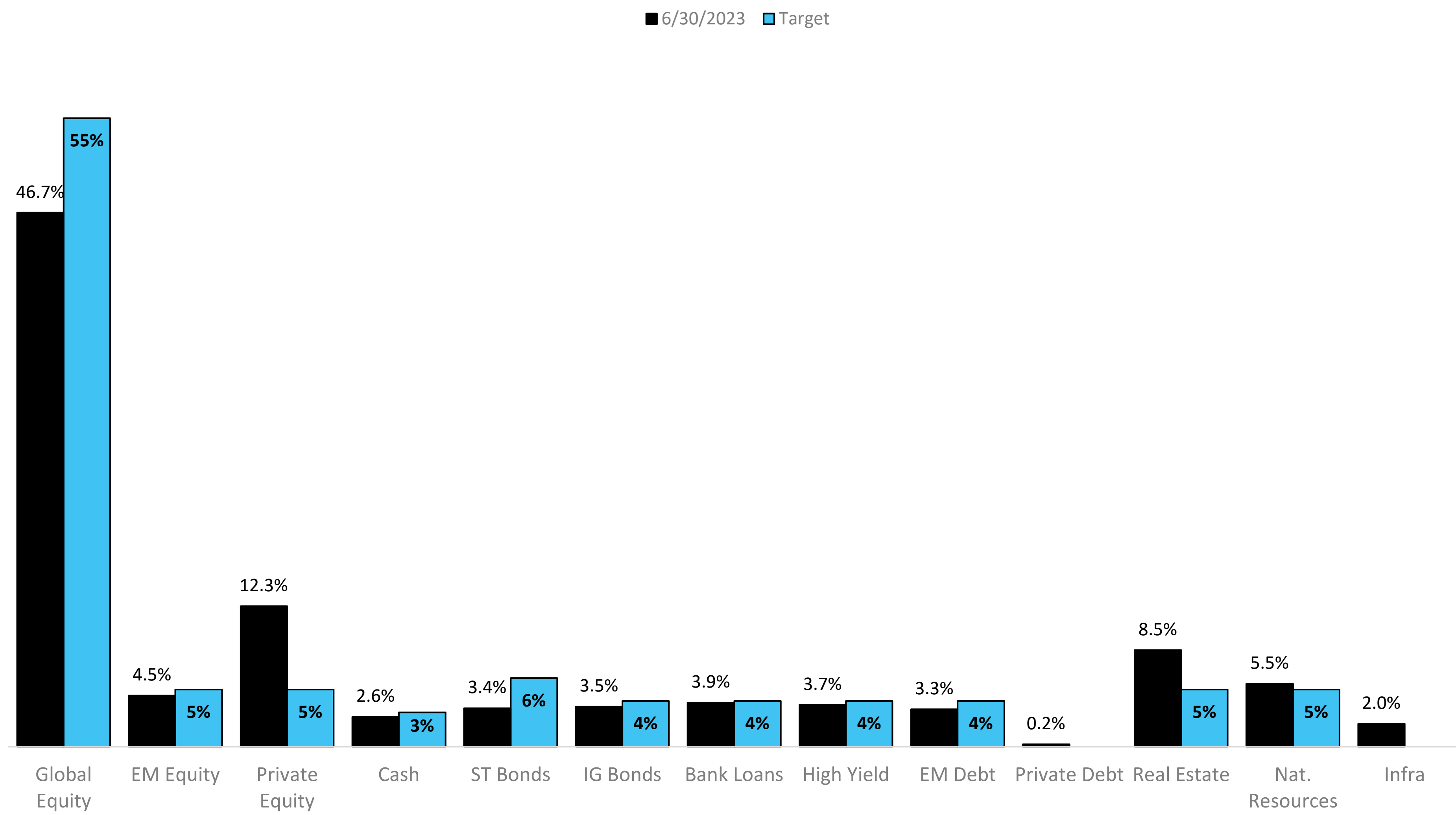
Projected Net Monthly outflows of **$9.5M** per month. Safety Reserve of **$116M** would cover net monthly outflows for next **12 months** or through **July 2024.**



Expected Cash Activity	Date	Amount ($M)	Projected Cash Balance ($M)	Projected Cash (%)
	6/30/23		$50.8	2.6%
City Contribution	7/14/23	$9.0	$59.7	3.1%
City Contribution	7/28/23	$9.0	$68.7	3.6%
Pension Payroll	7/28/23	($28.2)	$40.5	2.1%
City Contribution	8/11/23	$9.0	$49.5	2.6%
City Contribution	8/25/23	$9.0	$58.5	3.0%
Pension Payroll	8/25/23	($28.2)	$30.3	1.6%
City Contribution	9/8/23	$9.0	$39.2	2.0%
City Contribution	9/22/23	$9.0	$48.2	2.5%
Pension Payroll	9/29/23	($28.2)	$20.0	1.0%

Numbers may not foot due to rounding

Asset Allocation – Actual vs Target



2023 Board Investment Review Plan*

Staff presentations targeted for 15 minutes, Manager presentations 30 – 60 minutes.

August	• Infrastructure: Staff review of AIRRO and JPM Maritime
September	• Staff review of Public Fixed Income managers
October	• Staff review of Public Equity managers
November	• Staff review of Private Equity and Debt

*Presentation schedule is subject to change.

DISCUSSION SHEET

ITEM #C8

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

Discussion: The Investment Advisory Committee met on June 22, 2023. The Committee Chair and Investment Staff will comment on Committee observations and advice.

Regular Board Meeting – Thursday, July 13, 2023

DISCUSSION SHEET

ITEM #C9

Topic: **Public Equity Structure Review**

Discussion: At the June 22, 2023, Investment Advisory Committee meeting, Meketa and staff reviewed the structure of DPFP's Public Equity allocation, with a focus on active vs. passive weights within the 60% total target allocation. The IAC concurred with the recommendation to decrease the Active Global Equity manager targets from 8% to 6%, decrease the Small Cap Equity manager targets from 4% to 3% and increase the Passive Global Equity target from 15% to 25%.

The Public Equity Structure was last updated and approved by the Board in October 2021. The Investment Policy Statement (IPS) requires Asset Class Structure Reviews for any asset class with multiple managers. The purpose of the structure review is to establish the investment manager roles and allocations that will be used to implement the asset allocation within a particular asset class.

Recommendations: **Approve** the updated Public Equity Structure.

MEKETA | 45
CELEBRATING A MILESTONE | YEARS

Dallas Police and Fire Pension System

June 2023

Public Equity Structure Review 2023

MEKETA

Dallas Police and Fire Pension System

Public Equity Structure Review

Recommendation

→ We are seeking approval of the new proposed equity manager target weights detailed on page 4 of this report.

→ Today we will be presenting a pro-forma look-through analysis on the recommended target weights.

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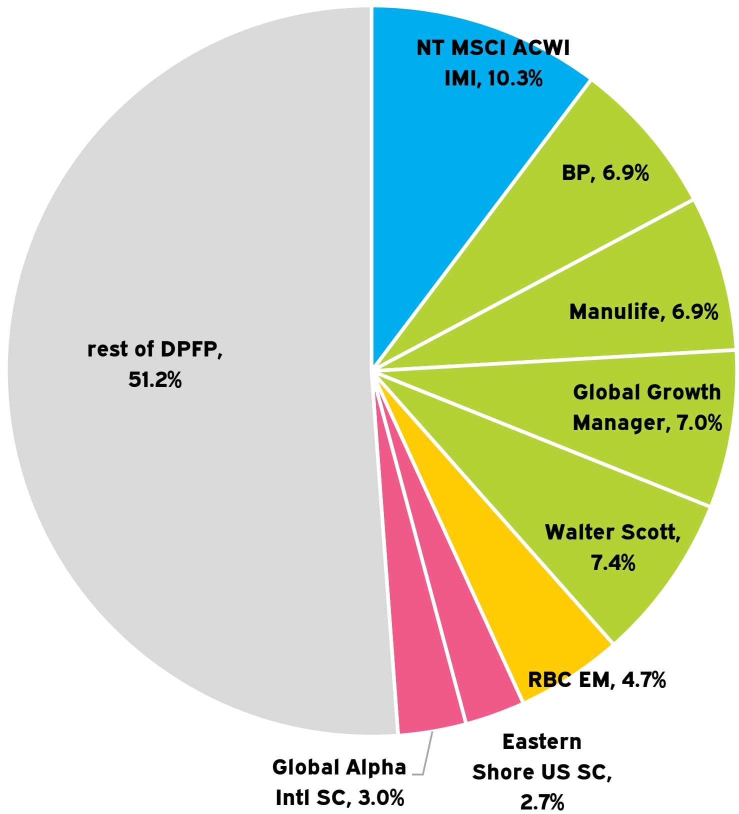
Dallas Police and Fire Pension System

Public Equity Structure Review

Current Public Equity Exposure as of 3/31/2023



→ Currently the active global equity managers each represent ~7% of total DPFP.

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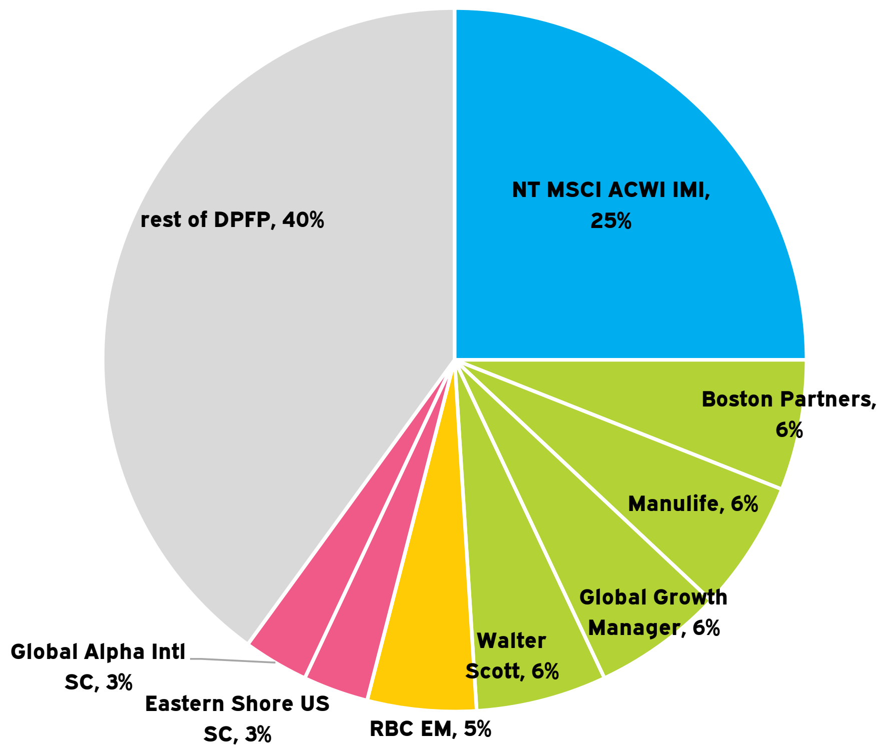
Public Equity Structure Review

Proposed DPFP Full Weighting Allocation



→ We recommend reducing the target weight of each active global equity manager to 6% and each small cap manager to 3%.

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Public Equity Structure Review

Rationale

- → DPFP uses concentrated active global equity managers. We like this approach but want to be mindful of the effect it can have on total equity returns when one manager significantly underperforms (e.g., Invesco). Placing a 6% target on each strategy (vs. 8%) can help reduce this risk.
- → We believe the recommended structure will still provide the ability for active managers to add alpha for DPFP, but with less active risk for any one individual active equity manager.
- → Reducing the size of each active global equity manager is consistent with feedback received from the IAC and Board.
- → A larger allocation to the NT MSCI ACWI IMI Index will provide low-cost core exposure to global equity markets.
- → We recommend reducing the target weights to the small cap managers as a means of avoiding a small cap overweight (because the rotation from the existing active global equity managers into the passive index will naturally increase small cap exposure).

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Dallas Police and Fire Pension System

Public Equity Structure Review

Proposed DPFP Full Weighting Allocation

Manager	Previous Manager Target Weights (as % of total DPFP)	Proposed Manager Weights (as % of total DPFP)	Current Market Value 3/31/23 DPFP equity exposure ($M)	Projected MV (Once public equity is fully funded to 60% of DPFP[1]) ($M)	Funding required to reach full weight ($M)
Boston Partners Global Equity	8%	6%	$130	$113	- $17
Manulife Global Equity	8%	6%	$129	$113	- $16
Walter Scott Global Strategy	8%	6%	$139	$113	- $26
TBD Global Growth Manager	8%	6%	$131	$113	- $18
NT MSCI ACWI IMI Index	15%	25%	$193	$469	+ $276
Global Alpha Small Cap	4%	3%	$57	$56	- $1
Eastern Shore Small Cap	4%	3%	$50	$56	+ $6
RBC Emerging Markets Equity	5%	5%	$89	$94	+ $5
Totals	**60%**	**60%**	**$918**	**$1,127**	**$209**

→ The proposed manager weights would require a significant increase into the NT MSCI ACWI IMI index.

[1] Based on total DPFP 3/31/23 market value of $1,877.8M.

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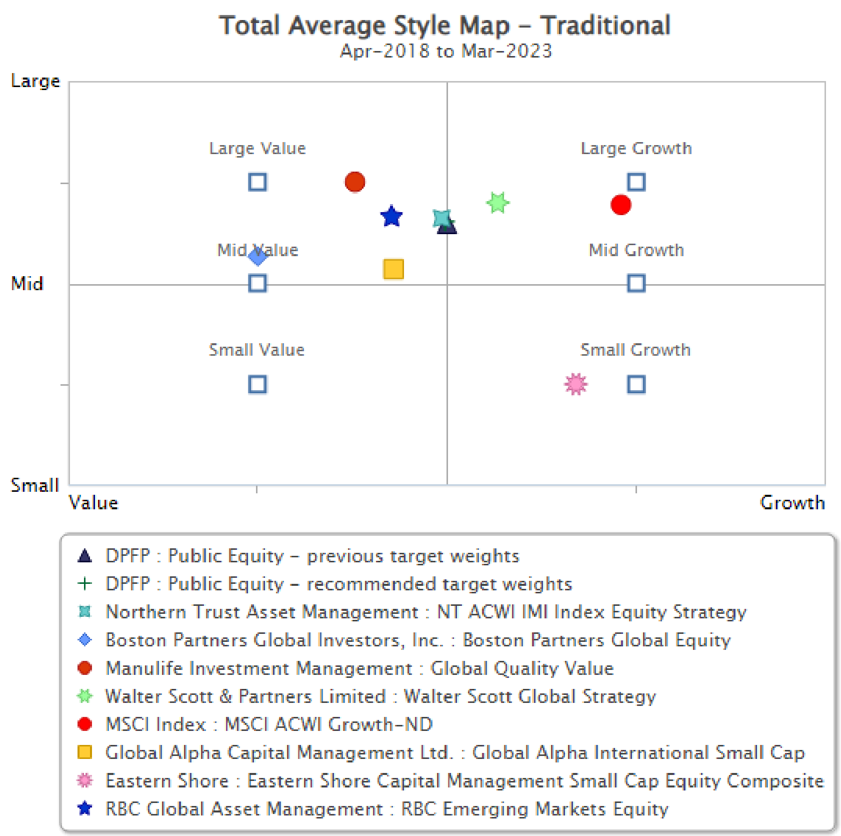
Public Equity Structure Review

Returns Based Portfolio Characteristics: Style Tilts vs. MSCI ACWI IMI (5-Year)



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

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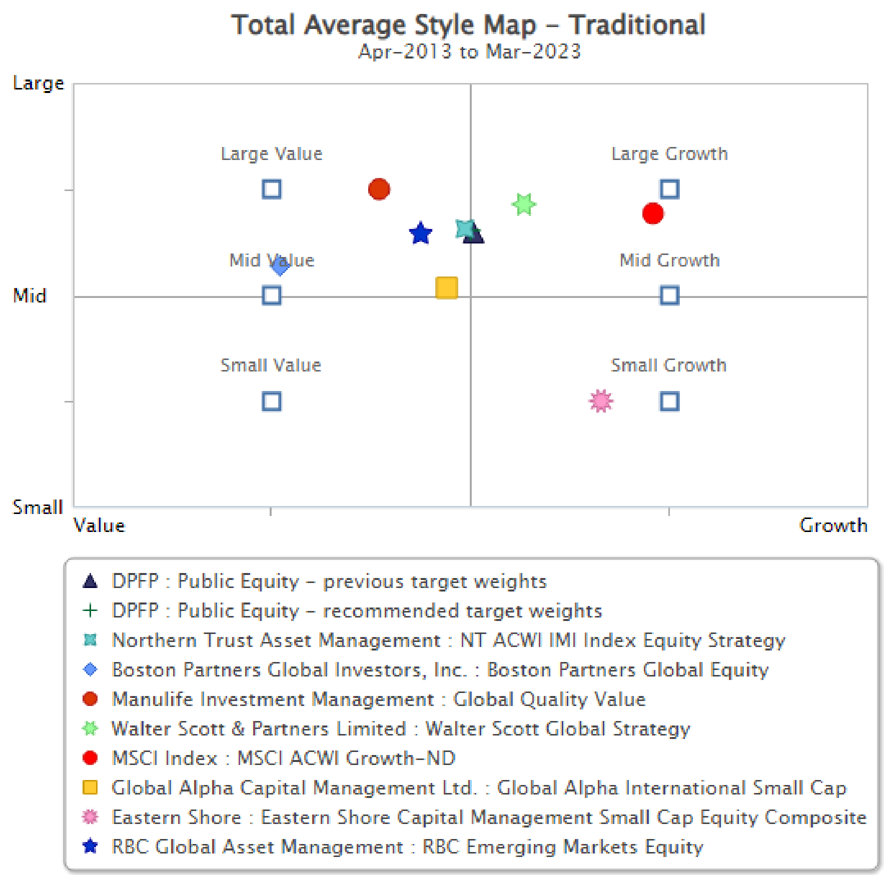
Public Equity Structure Review

Returns Based Portfolio Characteristics: Style Tilts vs. MSCI ACWI IMI (10-Year)



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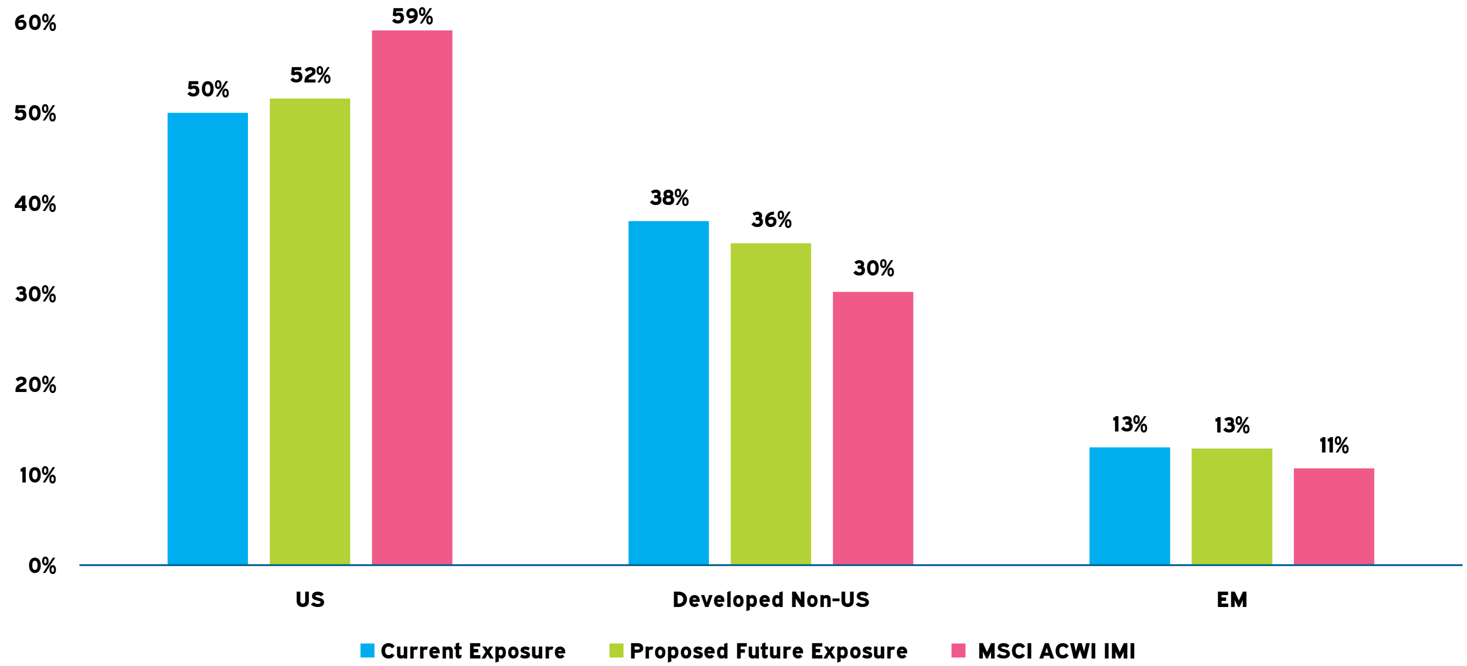
Public Equity Structure Review

Expected Regional Exposure at Full Weights



→ Reducing the weights to each active manager will marginally move the total equity regional exposure closer to the regional exposure of the MSCI ACWI IMI benchmark.

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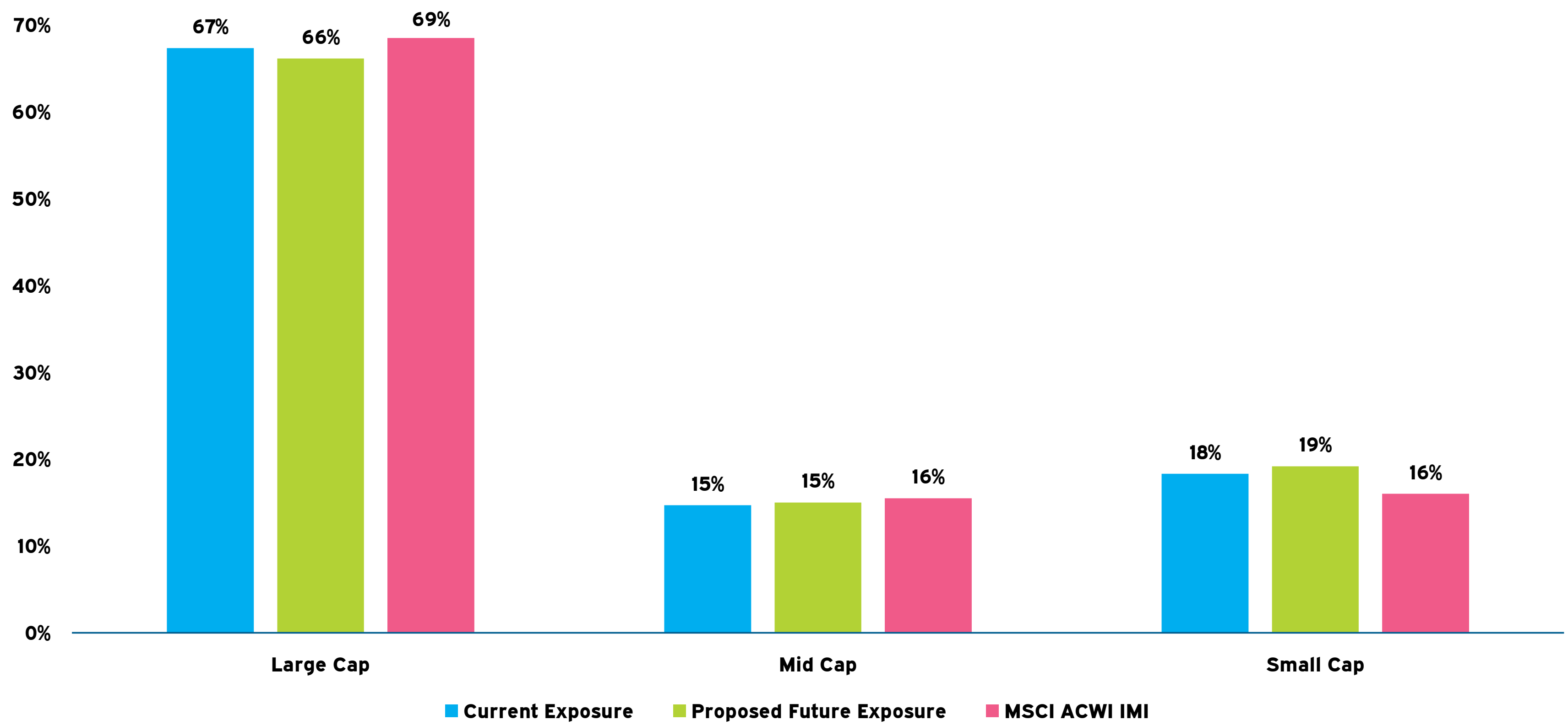
Expected Market Cap Exposure at Full Weights



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

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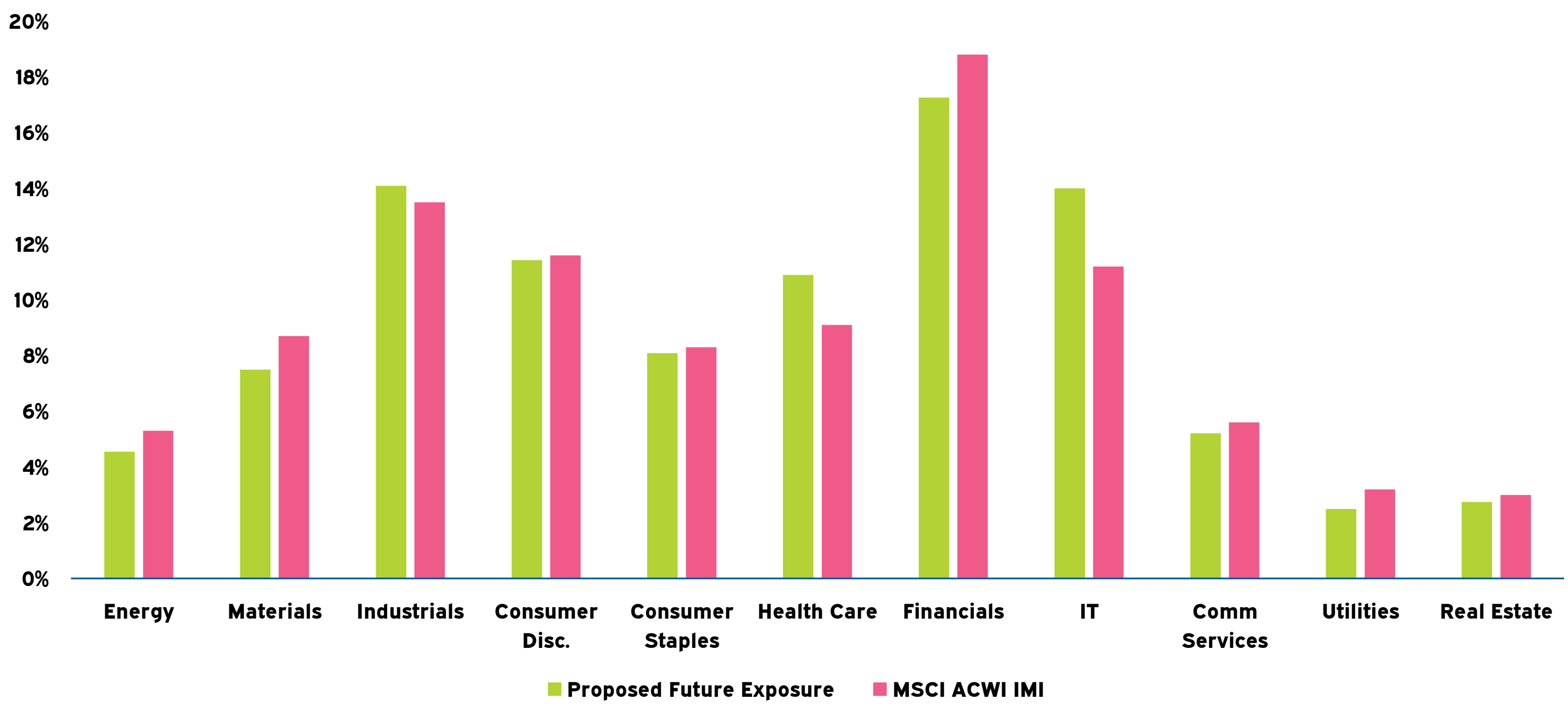
Public Equity Structure Review

Sector Exposure at Full Proposed Weights



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

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Public Equity Structure Review

Benchmark Review

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

→ We see no need to update any of the benchmarks for the equity managers.

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Public Equity Structure Review

Return Attribution: Region vs. Stock Selection

3-Year Performance Attribution[1] as of March 31, 2023

	Boston Partners Global (%)	Manulife Global (%)	Walter Scott Global (%)	RBC EM (%)	Global Alpha Intl SC (%)	Eastern Shore US SC (%)
Regional Attribution	-0.60	-0.19	0.00	3.29	-1.14	-0.80
Stock Selection Attribution	7.00	-0.05	-0.18	-0.94	3.54	-6.31
Total Excess Return	**6.40**	**-0.23**	**-0.18**	**2.32**	**2.40**	**-7.11**

→ Stock selection has been a bigger driver of excess return than regional over/underweights.

→ Eastern Shore and Boston Partners' returns were significantly driven by stock selection. This is expected for Eastern Shore (US only strategy). Boston Partners results over the three-year period were likely driven by the significant value tilt (vs. the MSCI World Index).

→ When we conducted a similar exercise in 2019, the results were similar. Stock selection was the primary driver of relative returns, having a bigger influence on results than geographic allocation decisions.

[1] Data sourced directly from each manager. Most managers' calculation is form factset. Total excess return is gross of fees for Boston Partners, Walter Scott, RBC and Global Alpha. Net of fees for Manulife and Eastern Shore. Based on composite returns for Global Alpha and Eastern Shore.

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Public Equity Structure Review

Risk and Return Analysis[1]

Performance as of March 31, 2023

	1-Yr (%)	3-Yr (%)	5-Yr (%)	10-Yr (%)
Public Equity Actual (net)	-4.7	15.6	7.2	8.7
Public Equity Previous Targets	-5.2	15.5	6.8	8.5
Public Equity Proposed Targets	-5.6	15.5	6.7	8.4
MSCI ACWI IMI	*-7.7*	*15.6*	*6.6*	*7.9*

Risk Statistics as of March 31, 2023[2]

	5-Yr Standard Deviation (%)	5-Yr Upside Capture (%)	5-Yr Downside Capture (%)	10-Yr Standard Deviation (%)	10-Yr Upside Capture (%)	10-Yr Downside Capture (%)
Public Equity Actual (net)	17.8	100.3	98.1	14.5	102.1	98.6
Public Equity Previous Targets	17.7	99.5	97.5	14.3	100.3	95.4
Public Equity Proposed Targets	17.8	99.3	97.8	14.3	100.0	96.2
MSCI ACWI IMI	*18.1*	*100.0*	*100.0*	*14.7*	*100.0*	*100.0*

[1] Risk and return statistics for the hypothetical portfolios was sourced from eVestment Composite data. Returns are net of estimated fees based on the underlying managers' fee schedules.
[2] Risk statistics are relative to the MSCI ACWI IMI Index.

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Public Equity Structure Review

Summary

- It is possible to keep the total equity exposure in a quasi-neutral stance (regional, market cap, style tilts) relative to the opportunity set (as measured by the MSCI ACWI IMI Index) while still have the ability to achieve excess return with a combination of active strategies and passive core.
- The proposed weighting structure reduces individual idiosyncratic manager risk with the reduced target weights.
- These are projections only and the ultimate look-through details (regional and market cap) at full weights will likely be different than modeled, as the active managers make adjustments to their portfolios in the months/years to come.

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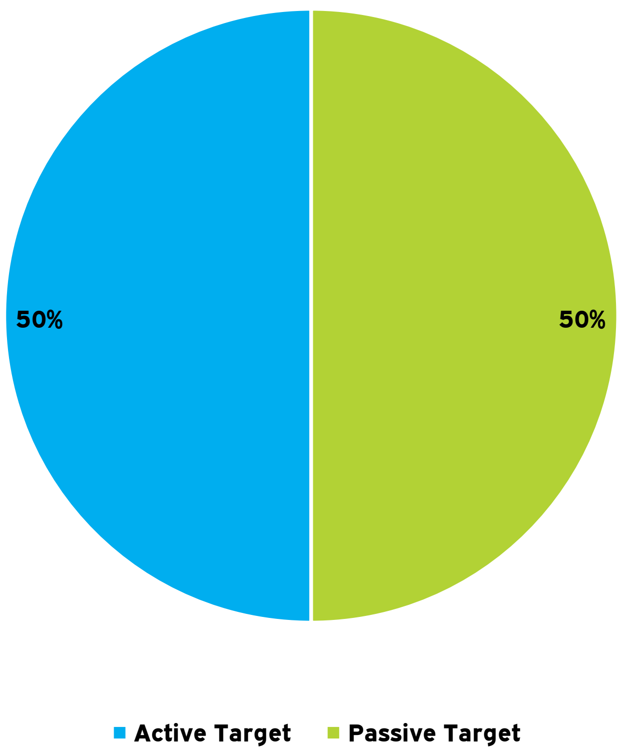
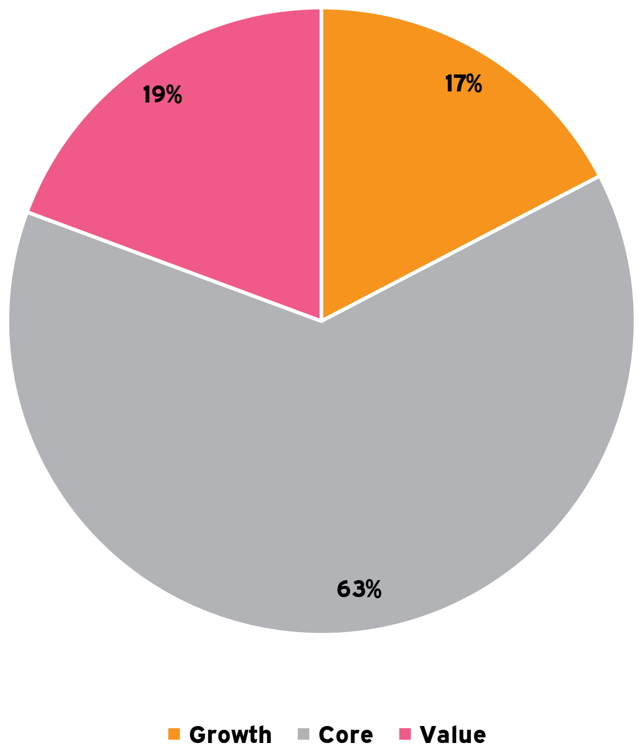
Public Equity Structure Review

Appendix - Meketa OCIO Discretionary Services Typical Equity Approach





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Public Equity Structure Review

Appendix - Meketa OCIO Discretionary Services – Current Equity Target Weights

→ The CIO of our discretionary services along with support of the OCIO investment committee execute a core satellite approach to public equity.

→ The current target weights are detailed below.

	Current Target Weight (%)
Passive Core (US)	30
Passive Core (EAFE)	15
Passive Core (EM)	6
Passive Satellite (R1 Value)	2
Passive Satellite (R1 Growth)	4
Active Core	10
Active Core	13
Active Core	13
Active Satellite	4
Active Satellite	2
Active Satellite	1

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Dallas Police and Fire Pension System

Public Equity Structure Review

Appendix - Fee Considerations at Lower Asset Values

Manager	Change in Effective Fee?
Boston Partners	Immaterial – less than 0.00%
Manulife	0.01% increase in effective fee
Walter Scott	N/A
Global Alpha Intl. Small Cap	N/A
Eastern Shore Small Cap	Immaterial – less than 0.00%
RBC EM	Immaterial – less than 0.00%

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C10

Topic: **Benefit Underpayment Notification**

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

Discussion: Staff will brief the Board regarding an underpayment, notification of which is required to be given to the Board under the Correction of Errors in Benefits Payments Policy.

Regular Board Meeting – Thursday, July 13, 2023

DALLAS POLICE & FIRE PENSION SYSTEM

CORRECTION OF ERRORS IN BENEFIT PAYMENTS POLICY

Amended Through February 13, 2020

DALLAS POLICE AND FIRE PENSION SYSTEM

CORRECTION OF ERRORS IN BENEFIT PAYMENTS POLICY

Adopted February 14, 2019
As Amended Through February 13, 2020

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

A. Purpose

In order to preserve the financial integrity of DPFP 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 DPFP shall pay any underpaid benefits as soon as reasonably possible.

   b. Interest

      i. DPFP 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.

B. **<u>Benefit Underpayments</u>** (continued)

ii. Interest shall be calculated using the actuarially assumed rate of return in effect during the time the underpayment occurred. Interest shall accrue from the date(s) of the underpayment and shall cease accruing from the earlier of (i) the date of payment or (ii) 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.

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

C. **<u>Benefit Overpayments</u>**

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.

C. **<u>Benefit Overpayments</u>** (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 DPFP to cover any overpayments.

d. Interest

i. DPFP 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 DPFP 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.

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, 2020 the Board of Trustees of the Dallas Police and Fire Pension System.

William F Quinn

William Quinn
Chairman

Attested:

Kelly Gottschalk

Kelly Gottschalk
Secretary

DALLAS POLICE & FIRE PENSION SYSTEM

DALLAS POLICE & FIRE PENSION SYSTEM

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 or any other legal matter in which the duty of the attorneys to DPFP and the Board under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with Texas Open Meeting laws.**

Discussion: Counsel will brief the Board on these issues.

Regular Board Meeting – Thursday, July 13, 2023

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #D1

Topic: **Public Comment**

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

Regular Board Meeting – Thursday, July 13, 2023

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #D2

Topic: **Executive Director's Report**

a. Associations' newsletters
- NCPERS Monitor (July 2023)
- **TEXPERS Pension Observer Vol 2 2023 (anyflip.com)**

b. Open Records
c. Staffing Update
d. Independent Actuarial Services Request for Proposal

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

Regular Board Meeting – Thursday, July 13, 2023

THE NCPERS
MONITOR
The Latest in Legislative News
July 2023

NCPERS **Executive Director's Corner**

Introducing NCPERS Securities Fraud Recovery Services

By Hank Kim, Executive Director and Counsel, NCPERS

Photo Illustration © 2023, istock.com

Securities losses due to fraud are assets of public plans, and it is the duty of plan fiduciaries to recover those assets. However, the field of securities litigation is complex and even the largest and most sophisticated public plans seek help to evaluate whether to pursue legal action and in what manner.

To help our smaller public plan members get a similar kind of objective advice, we have partnered with DIVIDEX Management, LLC to create a new member benefit: NCPERS Securities Fraud Recovery Services.

Designed after months of conversations and evaluations with a focus group composed of five target public pensions, NCPERS Securities Fraud Recovery Services was created to help our pension fund members make more informed decisions as to when and how to take action regarding opportunities to recover securities fraud losses with minimal in-house staff time spent doing so.

"We are honored to be working with NCPERS to provide public pension funds this first-of-its-kind set of securities fraud recovery consulting services," said Irwin Schwartz, president and managing member of DIVIDEX Management, LLC. "We look forward to helping pilot project participants improve their abilities to find, track and manage their securities fraud recoveries," he added.

About NCPERS Securities Fraud Recovery Services

The year-long pilot program begins July 1, 2023 and is open to the first 25 public pension funds members that enroll at no cost. In order to be eligible, the fund must 1) be a pension fund in good standing with NCPERS and 2) have $30 billion AUM or less; or have annual average securities litigation recoveries of less than $2.5 million. The base level of services is available to enrolled members at no cost, with optional services available for nominal fees. Sign up here to enroll.

Participating pension funds will receive:

- Up to three free consultations where, upon request, DIVIDEX Management will help your fund evaluate whether it makes financial sense to pursue a domestic or foreign securities fraud recovery opportunity. Such an evaluation may include a loss analysis and prudence of serving as lead plaintiff or opting-out of domestic class action cases, or joining in foreign cases. Additional evaluation services are available for a fee of $500 per consultation case.
- Free monthly reports including information on foreign securities fraud recovery opportunities; claims filing deadlines for select class action settlements; and payouts from select large class action settlements.
- Reconciliation services to analyze the efficacy of their securities class action settlement claims filings and recoveries on selected cases. For this service, participating funds will provide DIVIDEX Management with the subject securities transactions and holdings data. In the event a fund elects to receive a Settlement Recovery Evaluation, the cost will be $100 per case, payable directly to DIVIDEX Management.

Participating members may also elect to have DIVIDEX Management provide Foreign Assistance Services—negotiating retention, joinder and litigation funding agreements on behalf of the pension fund—at a cost per filed case of $5,000.

To enroll in the pilot program, please complete this form. You can learn more and find answers to frequently asked questions here.

NCPERS Securities Fraud Recovery Services is another example of how we're seeking to provide value to our member mid- and small-market plans that may not have the resources to address the operational and fiduciary challenges they face each day. As the largest trade association for public pensions, NCPERS continues to expand and evolve its member benefits to help bridge those gaps and meet the growing needs of public pensions and industry stakeholders.

If you have any questions or comments about this new program, please don't hesitate to reach out to membership@ncpers.org. ◆

NCPERS **Feature**

How to Assess the Health of Public Pensions

By: Lizzy Lees, Director of Communications, NCPERS

Photo illustration © 2023, istock.com

Funding ratios—the conventional metrics used to assess the health of public pensions—lean heavily on multiple unpredictable variables, in effect guessing at the direction that important factors such as interest rates, stock market performance, fiscal policy, and other variables will move over the course of decades. In addition, much analysis takes funding levels out of context by comparing a pension fund's long-term financial needs to the funds it has available in a single year. As a result, the magnitude of unfunded liabilities is distorted. It stands to reason that failing to factor in revenues and funding that will be collected over the long periods during which benefits are paid would warp the math.

Not surprisingly, these faulty approaches produce flawed analysis and recommendations. Yet policymakers routinely rely on such distorted assessments of public pension health as the basis for devising sweeping reforms. Doing so has long-lasting implications for public-sector workers and their beneficiaries. Over many years, policymakers have reduced public pension benefits, hiked employee contributions, and even closed plans to new hires on the basis of flawed and distorted analysis.

NCPERS recently published a Research Series paper that proposes five ways, including a few innovative ones, to assess the health of public pensions. During the 2023 Public Pension Funding Forum, researchers will further explore these methods and discuss emerging funding solutions and strategies to improve the health of public pensions.

As noted in the paper, studies by NASRA and the Reason Foundation have found that low funding ratios are frequently an impetus for reforms. Further, many opponents of public pensions often use inaccurate and out-of-context comparisons of unfunded liabilities to push through harmful pension reforms.

We believe there are better, less damaging ways to evaluate the health and sustainability of public pension plans. Below, we've outlined five ways to assess the health of public pensions beyond funding levels. To learn more, read the full NCPERS Research Series paper.

Five ways to assess the health of public pensions

1. Compare unfunded and total liabilities that are amortized over 30 years with the total economic capacity of the plan sponsor over the same period.

Too often, policymakers view unfunded and total liabilities of public pensions in isolation. Yet focusing simply on the trends in liabilities provides an incomplete picture, and that can lead to misguided decision making. If liabilities are rising rapidly, it's easy to jump to the conclusion that their rise cannot be sustained. Therefore, the focus shifts to strategies such as cutting benefits, increasing employee contributions, or closing the pension plan to new hires. However, this is a one-sided view that overlooks other important facts. For example, while liabilities are growing, it's very often the case that the economic capacity of the plan sponsors is also increasing. Liabilities must be considered in the context of the economic capacity of the plan sponsors. In the research series paper, we look at Kentucky as an example to see how this can play out with real data.

2. Assess the fiscal sustainability of the pension plan in terms of trends in the ratio between unfunded liabilities and the economic capacity of the plan sponsor.

Fiscal sustainability is a well-established concept in economics. It means that the ratio of debt to economic capacity is stable or declining over time. It's a simple concept that applies to individuals and public pensions. If unfunded pension liabilities continue to rise faster than the economic capacity of the plan sponsor, liabilities are likely to become unsustainable. However, if they are rising more slowly or in concert with the economic capacity of the plan sponsor, the pension plan is sustainable. Monitoring the ratio of unfunded liabilities to the plan sponsor's economic capacity against a benchmark – such as the historical average or another benchmark – can be a powerful tool in assessing and managing the health of a pension plan.

The NCPERS study *Enhancing Sustainability of Public Pensions* applies the concept of fiscal sustainability to state and local pension plans in each state.[1] The study refers to the application of the concept of fiscal sustainability to public pensions as the "sustainability valuation." An analysis of the 50 states in the NCPERS study shows that using the sustainability valuation – stabilizing the ratio of unfunded liabilities to the plan sponsor's economic capacity – has several benefits:

- The sustainability valuation shifts the focus from cutting benefits and closing plans to stabilizing unfunded liabilities in relation to economic capacity.
- As unfunded liabilities stabilize, funding levels are likely to improve.
- At the same time, contribution rates, measured as a percentage of revenues, are likely to decline.
- The sustainability valuation gives plan sponsors and policymakers important information that they can use to prevent a well-funded plan from becoming unsustainable due to changes in the sponsor's economic circumstances.

The research series paper looks at how sustainability valuation can be applied to pension plans in New Jersey. It is important to note that the sustainability valuation is one more tool that can be used to assess and manage pension plans. It does not replace the value of existing tools, including actuarial valuation, plan sponsors' funding discipline, stress testing, and sound investment policies.

[1] Michael Kahn, *Enhancing Sustainability of Public Pensions* (Washington, DC: NCPERS, 2022), https://www.ncpers.org/files/ncpers-enhancing-sustainability-of-public-pensions-2022.pdf.

3. Monitor the net amortization of the plan.

Net amortization is a way of measuring whether the annual contribution rate reduces or increases unfunded liabilities, presuming all other assumptions are met. The contribution rate may result in negative or positive amortization. If the annual contribution rate decreases liabilities, its impact is referred to as positive amortization. If, in contrast, liabilities increase despite contributions, the result is negative amortization.

If amortization continues to be negative, there are solutions that can be considered. A 2022 NCPERS publication authored by Tom Sgouros of Brown University proposes that an effort should be made to stabilize unfunded liability through unfunded actuarial liability (UAL) stabilization payments, or USPs.[2] The USP is the payment necessary to leave a plan in the same condition at the end of a year as it was at the beginning, presuming all other assumptions are met. Details on how to calculate the USP are shown in the report, *Measuring Public Pension Health: New Metrics and New Approaches.* This approach can have a significant impact on the health of a pension plan. The research series illustrates this using the example of Oklahoma Public Employees' Retirement System.

4. Monitor employers' funding discipline.

If employers skip a contribution or pay less than the actuarially determined contribution (ADC), it throws everything off balance. It's hard to make up the loss created by skipping the contribution or paying less than is required because the asset base that grows through a compound rate of return on investments continues to be smaller. Pension plan managers should monitor contributions closely and press for employers to pay 100 percent of their ADC.

A study by the Center for Retirement Research at Boston College shows that pension plans in which plan sponsors skipped or underpaid their required pension contributions had relatively low funding ratios.[3] Conversely, a study by the National Institute on Retirement Security found that pension plans in which plan sponsors made the full required contribution were well funded and remained well funded through the 2001 and 2007–2008 recessions.[4]

In short, it is important to assess funding discipline – that is, the habit of always making the full required contribution – in the past as well as going forward. As various studies show, funding discipline has a profound impact on the health of a pension plan.

5. Monitor trends in the fund-exhaustion period.

In actuarial terms, the fund-exhaustion period is the point in time at which a pension fund would no longer be able to pay benefits if assets were frozen at current levels. A rough way to look at the fund-exhaustion date is by simply considering the ratio of current assets to annual benefit payments. Figure 5 from the research update shows how the ratio of assets to benefit payments fluctuated during the decade in relation to the average ratio. It also shows that there was an improvement in the financial health of state and local pension plans from 2009 to 2019. For example, in 2009 state and local pension plans had enough assets to pay benefits for about 12.8 years. The figure for 2019 was 13.8 years, meaning that if everything were frozen, state and local pension plans could pay benefits for the next 13.8 years.

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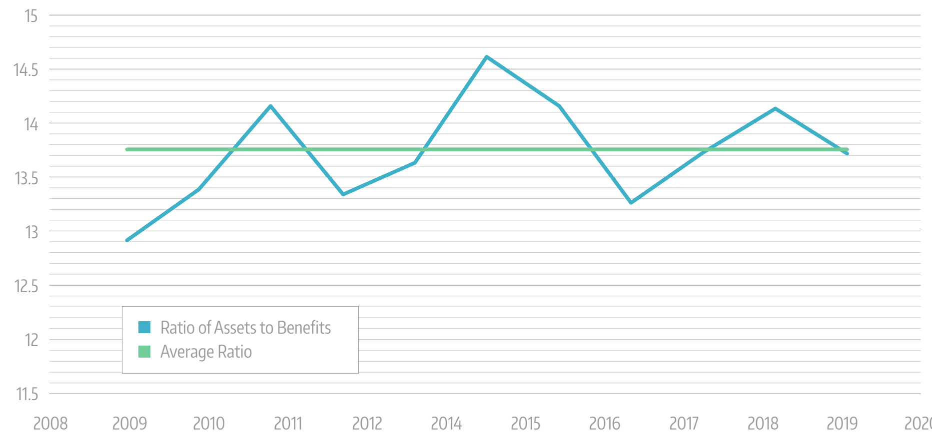
[2] Tom Sgouros, *Measuring Public Pension Health: New Metrics and New Approaches* (Washington, DC: NCPERS, 2022), https://www.ncpers.org/files/NCPERS-Pension-Metrics.pdf.

[3] Alicia H. Munnell, Jean-Pierre Aubry, and Laura Quinby, "The Impact of Public Pensions on State and Local Budgets," *Issue in Brief* 13 (Chestnut Hill, MA: Center for Retirement Research at Boston College, 2010), https://crr.bc.edu/wp-content/uploads/2010/10/slp_13-508.pdf.

[4] Jun Peng and Ilana Boivie, *Lessons from Well-Funded Public Pensions: An Analysis of Six Plans that Weathered the Financial Storm* (Washington, DC: National Institute on Retirement Security, 2011), https://www.nirsonline.org/wp-content/uploads/2011/06/final_june_29_report_lessonsfromwellfundedpublicpensions1.pdf.

Figure 5. Trends in Ratio of Assets to Benefit Payments, U.S., 2009–2019



There are more sophisticated methods to estimate the fund-exhaustion period, which involve projections of assets, contributions, and benefit payments. But the simple calculation is something that trustees can do on the back of an envelope and get a sense of the direction in which the financial health of the plan is moving. Using the fund-exhaustion period to assess the health of a pension plan is especially important for plans that are projected to run out of money in a few years.

Read the full research paper, and find additional research from NCPERS here. ◆

NCPERS **Feature**

Federal Legislative Update

By: Tony Roda, Partner, Williams & Jensen

Photo Illustration © 2023, alamy.com

Congress is careening toward the end of the fiscal year, September 30, with little or no plan on how to resolve the growing disparity between the House Republicans, on one hand, and the Senate Democrats and the President, on the other, with regard to funding levels for federal programs.

Soon after enactment of legislation to suspend the debt ceiling and set new spending caps for the next two upcoming fiscal years, conservative House Republicans balked at those levels and are demanding an additional reduction of $120 billion in fiscal year 2024. House appropriators are approving bills at the reduced levels, which will set up contentious floor consideration later this summer.

As we've seen for decades now, a short-term Continuing Resolution will be necessary to fund the federal government after September 30. However, hardline House Republicans may force a government shutdown in order to force negotiations on additional spending cuts. Questions already are being raised on whether the fiscal turmoil will lead to a massive end-of-year agreement that includes further spending and changes to the tax code. As state and local governmental retirement plans are qualified under federal tax law, any changes to the tax code need to be watched closely.

Meanwhile, the House Financial Services Committee (FSC) is spending considerable time on matters related to environmental, social, and governance (ESG) investing. Earlier this year the FSC created an ESG Working Group on which only Republicans serve. The Working Group recently released an interim report with the following priorities:

- Reform the proxy voting system to safeguard the interests of retail investors.
- Promote transparency, accountability, and accuracy in the proxy advisory system.
- Enhance accountability in shareholder voting by aligning voting decisions with economic interests of shareholders.

- Increase transparency and oversight of large asset managers to ensure their practices reflect the pecuniary interest of retail investors.
- Improve ESG rating agency accountability and transparency to safeguard retail shareholders.
- Strengthen oversight and conduct through investigations into federal regulatory efforts that would contort our financial system into a vehicle to implement climate policy.
- Demand transparency, responsibility, and adherence to statutory limits from financial and consumer regulatory agencies.
- Protect U.S. companies from burdensome EU regulations, safeguarding American interests in global markets.

In addition, a senior member of the FSC, Rep. Andy Barr (R-KY), recently introduced H.R. 4237 which, in part, would require a study of state and local governmental plans. Specifically, the U.S. Comptroller General, who is the head of the Government Accountability Office (GAO), would conduct a study on the potential impact on the federal government of underfunded state and local pension plans. The study would include the following:

(1) the extent to which such pension plans subordinate the pecuniary interests of participants and beneficiaries to ESG or other objectives; and

(2) legislative and administrative actions that, if implemented at the federal level, would prevent such pension plans from subordinating the interests of participants and beneficiaries to ESG objectives.

Finally, another senior member of the FSC, Rep. Bill Huizenga (R-MI), has introduced H.R. 4168, which is designed to block the Securities and Exchange Commission's (SEC) proposed regulation to require public companies to make certain disclosures on greenhouse gas emissions. Specifically, the legislation would amend both the Securities Act of 1933 and the Securities Exchange Act of 1934 by amending them to state that an "issuer is only required to disclose information in response to a disclosure obligation adopted by the Commission to the extent the issuer has determined that such information is important with respect to a voting or investment decision regarding such issuer."

Spending disputes and anti-ESG legislation are expected to fill the House legislative calendar this summer and early fall. Please be assured that NCPERS will closely monitor these issue areas for their impact on state and local governmental plans. ◆

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

NCPERS **Feature**

The ESG Debate: How Recent Legislation Is Impacting Retirement Fund Best Practices

By: Bridget Early, Director of Membership and Strategic Alliances, NCPERS

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Utilizing an environmental, social, and governance (ESG) framework to invest is nothing new, but it has been rapidly growing in popularity, with global ESG fund assets reaching approximately $2.5 trillion at the end of 2022. However, one new and concerning trend has been the recent ESG backlash led by lawmakers.

Recent research shows that, in fact, ESG and non-ESG investing strategies result in similar returns. When weighted by market capitalization, portfolios with ESG preferences did not fare significantly better or worse than non-ESG investments.

Despite this, with the growing politicization of ESG, lawmakers across the country are proposing or adopting legislation to regulate how and what public pension funds invest in. In blue states, the focus has primarily been on divestment from fossil fuels. Most recently, a California bill was introduced that would prevent CalPERS and CalSTRS from making new investments in fossil fuels and would require them to divest by 2030. The CalPERS board voted to oppose the bill, citing the staggering transaction costs and the lack of evidence that divestment would impact the demand for fossil fuel.

On the other end of the spectrum, red and purple states have been rapidly adopting anti-ESG legislation modeled after ALEC's 'boycott bill,' which was designed primarily to protect oil companies and gunmakers from 'boycotts' by investors and businesses. This politicization of ESG is dangerous and ultimately will likely have a negative impact on public pension funds' investment performance.

Oftentimes, these anti-ESG bills are rooted in political beliefs rather than operating as an apolitical fiduciary. They come with exorbitant costs with both direct and indirect impacts on public retirement funds' performance. Lawmakers also may not fully comprehend the long-term impact of these bills. Restricting how a fund invests can impact diversification and long-term returns by reducing the universe of investments. There are hidden costs as well. For instance, a fund may need to hire additional staff to help manage the mandates or protect the system from lawsuits. Or, due to decreased returns, the fund may ultimately require increased employee and employer contributions.

Already, we're seeing these negative impacts across the country. Below is a sampling of the impact of recent legislative proposals on retirement systems:

- Texas County District Retirement System will lose an estimated $6 billion over the next 10 years due to investment restrictions included in SB 1446.
- Due to investment restrictions included in HB 1469, North Dakota anticipates additional overhead costs of $10.2 million biennially.
- As a result of decreased competition in the municipal bond market, Florida "now pays 43 basis points more in yield (or $4.3 million for every $1 billion of bonds sold) than California with an inferior credit rating, or 0.35% more than it did prior to 2022," according to a Bloomberg analysis.

These legislation proposals—being replicated throughout the country—will likely lead to reduced investment returns, increased overhead costs, and ultimately increases in employee and employer contributions. This could have broad impacts on not only the retirement plan and its beneficiaries, but also businesses, local economies, and ultimately taxpayers.

NCPERS believes that, in order to execute their fiduciary duty, funds should be able to decide what to invest in. If you are interested in learning more about the impact of these legislation proposals, or if you would like to obtain advocacy-related resources from NCPERS, please contact me at bridget@ncpers.org. ◆

Recognizing the 2023 Trusty Trustee Award Winners

By: Lizzy Lees, Director of Communications, NCPERS

Last month, nearly 100 public pension trustees and staff attended the Trustee Educational Seminar (TEDS). Held in conjunction with NCPERS Annual Conference & Exhibition, this two-day program is designed to meet the educational needs of new and novice trustees, or as a refresher for experienced hands. The curriculum focuses on investing principles, understanding actuarial science, board policies, and other fundamental concepts that every fiduciary should know.

Each year, the program puts attendees' investment knowledge to the test with the interactive Asset Allocation Game. During this exercise—led by Bob Parise, managing director, public funds & Taft-Hartley Plans at Northern Trust Asset Management—attendees first learn about strategic and tactical approaches to asset allocation. The educational portion also covers risk models and frameworks for successful investing.

Parise then changes gears to host the gameshow-style exercise, "The Risk is Right." During this interactive asset allocation game, attendees form teams and respond to various scenarios, applying the lessons learned during the educational portion of the session in real time.

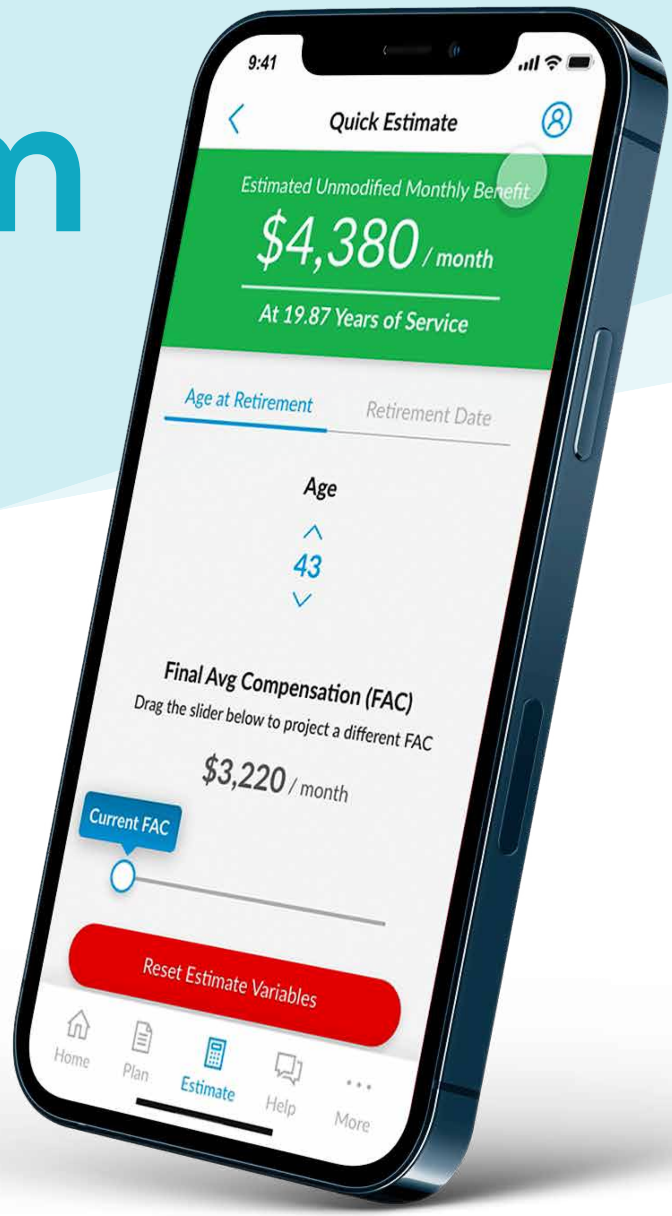
Members of the top-scoring team are then awarded the 'Trusty Trustee Award.' Congratulations to the 2023 winners for demonstrating your mastery of asset allocation and investing principles:

- Victoria Lee, Trustee, Teachers Retirement System of NYC
- William Canning, Trustee, Municipal Employees' Annuity Benefit Fund of Chicago
- Mike Goetz, Trustee, Illinois Teachers' Retirement System
- Jesse Evans, Jr., Director, City of New Orleans Employees' Retirement System

Save the date for next year's TEDS, held May 18-19 in Seattle, Washington. Sign up here to be notified when registration opens. NCPERS offers ongoing education for trustees, administrators, and industry stakeholders of all experience levels throughout the year.

View the event calendar to see your next opportunity to learn about important advances in public pension funding, financial services, legislation and regulation, and other significant issues related to public sector pension plans. ◆

NCPERS PensionX Digital Platform



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

NCPERS 1941 | pensionX

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

NCPERS Around the Regions

Nebraska Legislators, In a Rare Move, Reject Hiring By a State Agency

In a rare move, state lawmakers voted Wednesday to reconsider, and then reject, a state agency appointment — the hiring of Jason Hayes as the new director of the Nebraska Public Employees Retirement Systems (NPERS).

READ MORE *Source: Nebraska Examiner*

Most Companies on Oklahoma's Blacklist Aren't Actually Subject to a State Law Banning 'Woke' Investing; State Treasurer Added Them Anyway

The Frontier found the Oklahoma State Treasurer's office applied criteria for blacklisting companies inconsistently, leaving some firms claiming they have been arbitrarily and wrongly banned from doing business with the state. The blacklist could have far-reaching effects on everything from financing for public works projects to how state payroll checks are processed.

READ MORE *Source: The Frontier*

Missouri Pension Bills Include Benefits for Lawmakers, Officials While in Office

Inside pension bills with provisions to encourage retired teachers to return to the classroom and protect the finances of the Missouri Sheriffs Retirement System are provisions that could boost the incomes of Gov. Mike Parson, Lt. Gov. Mike Kehoe and at least three legislators.

READ MORE *Source: Missouri Independent*

Nevada, Vermont to Offer State Auto-IRA Programs

More states are following the trend of offering state-sponsored retirement savings plans to private sector workers who would otherwise not have any job-related retirement savings, as Nevada and Vermont are the latest to approve such programs, and another could potentially pass in Pennsylvania.

READ MORE *Source: PlanSponsor*

CalPERS Laser-Focused on Killing State Fossil Fuel Divestment Bill

CalPERS is executing a full-court press with staff and trustees and other stakeholders to stop a California bill that would require it and CalSTRS to divest from and halt further investment in fossil fuel companies.

READ MORE *Source: Pensions & Investments*

New York Common Signs Political Disclosure Agreements With 7 Firms

New York State Comptroller Thomas DiNapoli, trustee of the $242 billion New York State Common Retirement Fund, announced the fund has struck deals with seven portfolio companies to get them to be more transparent about their spending on political issues.

READ MORE *Source: Chief Investment Officer*

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Calendar of Events 2023

August

Public Pension Funding Forum

August 20-22
Chicago, IL

October

NCPERS Accredited Fiduciary (NAF) Program

October 21-22
Las Vegas, NV

Financial, Actuarial, Legislative, and Legal Conference (FALL)

October 22-25
Las Vegas, NV

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

The Voice for Public Pensions

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