AGENDA

Date: February 4, 2022

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, February 10, 2022, 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/84714118660?pwd=ODBFcGlSaE84Q0JxZS9LSC9FcTRFZz09 Passcode: 137409.** Items of the following agenda will be presented to the Board:

A. MOMENT OF SILENCE

B. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of January 13, 2022

2. Approval of Refunds of Contributions for the Month of January 2022

3. **Approval of Activity in the Deferred Retirement Option Plan (DROP) for February 2022**

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 **Approval of Payment of Previously Withdrawn Contributions**

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. **Communication Plan**

2. **Fiduciary Duties of Trustees**

   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.

3. **Trustee Terms and Draft Election Schedule**

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. Quarterly Financial Statements

7. Risk Insurance Renewal

8. Portfolio Update

9. Investment Policy Amendments

10. Hardship Request

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.078 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 (February 2022)
- TEXPERS Pension Observer (Vol. 1 2022)
http://online.anyflip.com/mxfu/kcff/mobile/index.html

b. Open Records

c. CIO Recruitment

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
Christopher Gibson	Active	Police	Jan. 2, 2022
J. W. Hadaway	Retired	Fire	Jan. 4, 2022
Richard V. Crosby	Retired	Police	Jan. 5, 2022
Larry L. Barbee	Retired	Police	Jan. 18, 2022
Ralph J. Carr	Retired	Police	Jan. 19, 2022
Gary A. Harper	Retired	Fire	Jan. 24, 2022
Danny C. Beck	Retired	Fire	Jan. 29, 2022
David Nunns	Retired	Fire	Jan. 29, 2022
Gerry Friday	Retired	Fire	Jan. 30, 2022
James M. Blackburn	Retired	Fire	Jan. 31, 2022
W. G. Dyer	Retired	Fire	Jan. 31, 2022
A. M. Harrell	Retired	Fire	Jan. 31, 2022

Regular Board Meeting –Thursday, February 10, 2022

Dallas Police and Fire Pension System
Thursday, January 13, 2022
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 8:31	Nicholas A. Merrick, William F. Quinn, Armando Garza (by telephone), Robert B. French (by telephone), Gilbert A. Garcia (by telephone), Kenneth Haben, Tina Hernandez Patterson, Mark Malveaux
Present at 8:32	Steve Idoux (by telephone)
Absent:	Michael Brown
Staff	Kelly Gottschalk (by telephone), Josh Mond, Brenda Barnes, Ryan Wagner, John Holt, Greg Irlbeck (by telephone), Akshay Patel, Michael Yan, Milissa Romero
Others	Kristi Walters, Leandro Festino (by telephone), Aaron Lally (by telephone), Colin Kowalski (by telephone)

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

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A. MOMENT OF SILENCE

The Board observed a moment of silence in memory of retired police officers William B. Buchanan, Charles R. Bailey, Manuel Guevara, Jimmy W. Page, Anthony D. Gipson, George A. Mabry, Elmer H. Gilbert, Robert S. Holt, active firefighter Aaron R. Dean, and retired firefighters Patricia L. Cantrell, Donovan S. Plummer.

No motion was made.

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Regular Board Meeting
Thursday, January 13, 2022

B. CONSENT AGENDA

1. **Approval of Minutes**

   a. Regular meeting of December 9, 2021
   b. Special meeting of January 4, 2022

2. **Approval of Refunds of Contributions for the Month of December 2021**

3. **Approval of Activity in the Deferred Retirement Option Plan (DROP) for January 2022**

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**

After discussion, Mr. Quinn made a motion to approve the minutes of the Regular meeting of December 9, 2021 and Special meeting of January 4, 2022. Mr. Haben seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Haben made a motion to approve the remaining items on the Consent Agenda, subject to the final approval of the staff. Mr. Malveaux 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. **Active-Duty Survivor Benefits**

   The Board discussed the Active-Duty Survivor Benefits change that occurred in 2018.

   No motion was made.

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Regular Board Meeting
Thursday, January 13, 2022

2. Staff Compensation Plan

Staff worked with CBIZ Talent and Compensation Solutions to develop a pay structure and policy related to the administration of the pay structure. The Executive Director incorporated the Board's direction provided at the December 2021 Board meeting and reviewed the revised compensation policies and pay structure with the Board.

After discussion, Mr. Quinn made a motion to adopt the compensation policies and pay structure as presented. 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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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 investment-related travel scheduled.

After discussion, Mr. Quinn made a motion to approve Kenneth Haben to attend the TEXPERS Annual Conference. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

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5. Portfolio Update

Investment staff briefed the Board on recent events and current developments with respect to the investment portfolio.

No motion was made.

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Regular Board Meeting
Thursday, January 13, 2022

6. Investment Policy Amendments

Staff reviewed possible amendments to the Investment Policy Statement with the Board.

After discussion, Ms. Hernandez Patterson made a motion to amend the Investment Policy Statement to remove the maximum limit of seven Investment Advisory Committee members. Mr. Quinn seconded the motion, which was unanimously approved by the Board.

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7. Investment Advisory Committee Appointments

The Investment Policy stipulates that there must be a majority of outside investment professionals on the Investment Advisory Committee (IAC) and currently the IAC has an equal number of outside investment professionals and Trustees.

After discussion, Mr. Quinn made a motion to appoint the three investment professionals, Ryan Bailey, Nancy Rocha, and Tom Tull to the Investment Advisory Committee with terms ending December 31, 2023. Mr. Haben seconded the motion, which was unanimously approved by the Board.

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8. Report on the Investment Advisory Committee

The Investment Advisory Committee met on December 16, 2021. The Committee Chair and Investment Staff commented on Committee observations and advice.

No motion was made.

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Regular Board Meeting
Thursday, January 13, 2022

9. International (Non-US) Small Cap Equity Manager Recommendation

Working with Meketa, staff conducted a search for an International Small Cap Core equity manager. The Investment Advisory Committee provided advice regarding the search and interviewed two finalists. Staff and Meketa discussed the search process and the recommendation for an International Small Cap Core equity manager with the Board.

After discussion, Mr. Haben made a motion to approve the staff's recommendation to hire Global Alpha International Small Cap to actively manage the allocation to International Small Cap Equity within the Global Equity portfolio. Mr. Garcia seconded the motion, which was unanimously approved by the Board.

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10. Private Asset Cash Flow Projection Update

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

No motion was made.

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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 9:58 a.m.

The meeting was reopened at 10:56 a.m.

The Board and staff discussed legal issues.

No motion as made.

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Regular Board Meeting
Thursday, January 13, 2022

12. Closed Session - Board serving as Medical Committee

The Board went into closed executive session at 9:58 a.m.

The meeting was reopened at 10:56 a.m.

After discussion, Mr. Haben made a motion to grant survivor benefits under the provisions of Article 6243a-1, Section 6.06(o-2). Mr. Malveaux seconded the motion, which was unanimously approved by the Board.

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13. Executive Director Performance Evaluation

The Board went into closed executive session at 9:58 a.m.

The meeting was reopened at 10:56 a.m.

The Board discussed the Executive Director's performance evaluation.

After discussion, Mr. Quinn made a motion to approve a 4.35% salary increase effective January 1, 2022 for the Executive Director. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

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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, January 13, 2022

2. Executive Director's report

a. Associations' newsletters
- NCPERS Monitor (January 2022)

b. Open Records
c. CIO Recruitment
d. Communication Plan

The Executive Director's report was presented.

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Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Quinn and a second by Mr. Haben, the meeting was adjourned at 10:58 a.m.

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Nicholas A. Merrick
Chairman

ATTEST:

____
Kelly Gottschalk
Secretary

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C1

Topic: **Communication Plan**

Attendees: Dick Mullinax, FleishmanHillard

Discussion: During the November 2020 Board meeting the Board directed the Executive Director to develop a communication plan related to funding issues. In February 2021 FleishmanHillard was authorized by the Board to develop a communication framework as the first phase of the communication plan development. In September 2021 Fleishman Hillard presented the communication framework which was used to develop the communication plan.

Fleishman Hillard will present a proposed plan and budget for the Board's consideration.

Regular Board Meeting – Thursday, February 10, 2022

DISCUSSION SHEET

ITEM #C2

Topic: **Fiduciary Duties of Trustees**

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.

Attendees: Chuck Campbell, Jackson Walker

Discussion: Chuck Campbell with Jackson Walker, fiduciary counsel for the Board, will give a presentation on fiduciary duties of trustees.

Jackson Walker LLP

Dallas Police and Fire Pension System

Fiduciary Considerations for Trustees

February 10, 2022

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Overview

- Why and When Are You a Fiduciary?
- What Are Your Key Fiduciary Duties?
- What Other Standards of Conduct Apply?
- Developments with ESG Investments and Fiduciary Implications

Why Are You a Fiduciary?

- You are a fiduciary because you are a trustee of a trust
  - Exercise your duties for the benefit of others
  - Texas Constitution and State law
  - Internal Revenue Code: all assets of tax-qualified retirement plan held in trust for plan beneficiaries (members, retirees, survivors, etc.)

When Are You a Fiduciary?

- You are a fiduciary when you exercise discretion in performing your duties as a Trustee of the System.
    - Board action items
    - Delegating authority or allocating responsibility
    - Monitoring prior Board decisions
    - Establishing policies and procedures
    - Exercising individual discretion with System activities

Key Fiduciary Duties

- Duty of Loyalty
- Duty of Prudence
- Duty to Follow Governing Documents and Applicable Law

Duty of Loyalty

- Otherwise known as the “Exclusive Benefit Rule”
- Article 6243a-1, Section 3.01(a)
  - “The board shall execute its fiduciary duty to hold and administer the assets of the fund for the exclusive benefit of members and their beneficiaries under Section 802.203, Government Code, Section 67(f), Article XVI, Texas Constitution, and any other applicable law, in a manner that ensures the sustainability of the pension system for purposes of providing current and future benefits to members and their beneficiaries.”

Duty of Loyalty

- Your loyalty is to the members and beneficiaries of the System.
  - Duty of impartiality: duty of loyalty extends to all members and beneficiaries—current and retired
    - "…ensuring the sustainability of the pension system…"
  - Wear your "trustee" hat in the Boardroom
    - Your loyalty is to all members and beneficiaries—not the other "hats" you might wear in your life or work, including your source of appointment or electorate.

Duty of Loyalty

- No Self-Dealing
  - Using position (directly or indirectly) for personal profit or advantage
- Avoid Conflicts of Interest
  - Personal or business relationships that **could reasonably be expected** to diminish the Trustee's independence of judgment
- Use System assets and resources only to pay benefits and reasonable expenses

Duty of Prudence

- Prudence Standard
  - "In making investments and supervising investments, trustees shall exercise the judgment and care under the circumstances then prevailing that persons of ordinary prudence, discretion, and intelligence exercise in the management of their own affairs…" *Article 6243a-1, §4.07(b)*

Duty of Prudence —Education and Information

- Fiduciaries should become educated on topics relevant to service as trustees:
  - Plan Administration
  - Investments
  - Fiduciary and Ethics
  - Actuarial Matters
  - Governance and Risk Management
- Fiduciaries should also receive adequate background information related to decisions in front of them.

Duty of Prudence — Process

- Demonstrate required care was taken in the decision-making process by:
  - Ensuring adequate information provided to make informed decision
  - Establishing policies and procedures for significant aspects of administration
  - Adhering to policies and procedures
  - Being consistent in process and decisions

Duty to Follow Governing Documents

- Plan Documents include:
  - Your Statute---Article 6243a-1
  - Board and System Policies and Procedures
- If administrative or governance issue arises, the first place to go is your governing documents.
- Note: failure to follow documents can also cause administrative and tax-qualified plan issues giving rise to other liability.

Duty to Follow Applicable Law

- Applicable State Law
  - Your Governing Statute, Article 6243a-1
  - Texas Open Meetings Act
  - Texas Public Information Act
  - Texas Local Government Code Chapter 171 and 176
  - Texas Government Code Chapter 802

Standards of Conduct

- System governance and ethics policies provide written guidelines around activities that implicate state ethics laws, fiduciary duties, and other standards of conduct
- Help ensure compliance by providing guidance to Trustees, DPFP staff, and contractors. These include:
  - Board of Trustees and Employees Ethics and Code of Conduct
  - Board of Trustees Governance and Conduct Policy
  - Contractor's Statement of Ethics

Standards of Conduct – Key Aspects of Board and System Policies

- Statements of Standards of Conduct and Fiduciary Duties
- Conflicts of Interest and Prohibited Transactions
- Gifts, Travel, and Expenses
- Undue Influence
- Confidentiality and System Information
- Trustee Communications—Internal and External
- Board Conduct at Meetings

Developments with ESG Investments and Fiduciary Implications

Fiduciary Duties and Investment of Assets

- Trustees are to act for the exclusive benefit of members and beneficiaries and with prudence in investing plan assets.
- Prudence: give appropriate consideration to:
  - the relevant facts and circumstances of particular investment
  - the suitability of investment within overall plan purpose
    - Consideration of asset allocation, diversification, liquidity needs and cash flow status)
- Exclusive Benefit Rule: fiduciaries should prioritize "pecuniary factors"

What is a “pecuniary factor”?

- The Department of Labor (DOL) has defined a “pecuniary factor” as a factor that a fiduciary prudently determines is expected to have a material effect on the risk and/or return of an investment based on appropriate investment horizons consistent with the plan’s investment objectives and funding policy
  - Financial factors (pecuniary) vs. Non-financial factors (non-pecuniary)

Pecuniary Factors and Investing

- DOL guidance has been relatively consistent on the prioritizing of pecuniary factors and limited consideration of non-pecuniary factors
  - Consideration of non-pecuniary factors cannot sacrifice risk/return and permitted only if financial attributes do not distinguish investments (i.e. "tiebreaker" test)
  - See also Tex. Atty. Gen. Op. GA-0871 (2011)
- But....this guidance has and continues to change as to when a factor has a financial impact on an investment and may be prudently considered by a fiduciary
- ESG investing has put this issue and guidance in full focus

What is ESG?

Environmental, social and corporate governance (ESG)

- Environmental: Impact on natural resources and environmental matters
  - Ex: Climate change, pollution, energy, waste production
- Social: Impact on society, including consumer relationships and human rights
  - Ex: Employees, labor laws, gender and diversity; suppliers and customers; data protection; community impact
- Corporate Governance: Impact on corporate leadership and operational decisions
  - Ex: Board composition and independence; executive compensation

ESG Factors and Investing

- General recognition that ESG factors can be pecuniary in nature
  - How a business conducts itself from an environmental, social and governance perspective can influence the financial performance of the business
- Disparity in viewpoints has and continues to exists in the level of financial impact of ESG factors and consideration of such factors
  - DOL: 2020 rule vs 2021 proposed rule
  - Texas Government Code Sec. 809—Prohibition on Investment in Financial Companies that Boycott Certain Energy Companies (SB13, 2021)
- However, the marketplace is influencing how much ESG factors are perceived to impact the financial attributes of an investment

What the Future Holds for ESG

- *"Why Doing Good is No Longer Bad Business: The Focus on environmental, social and governance changes at America's biggest companies is a response to demand from consumers and investors*."-Wall Street Journal, Website Article June 4, 2021
- Fiduciary investors are more confident that ESG investing is consistent with fiduciary duties and financial benefit is real (see e.g. CalSTRS ESG initiative)
- Recent DOL guidance indicates a shift toward favoring ESG investing
- Investment vehicles are promoting ESG attributes in response to demand; SEC regulation as to ESG reporting
- Any plans desiring an ESG initiative should develop a specific ESG investment policy that documents the reasoning, guidelines and process for evaluating and selecting ESG investments
- Will fiduciary duties demand ESG consideration?

Questions?

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DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C3

Topic: **Trustee Terms and Draft Election Schedule**

Discussion: As required by the Trustee Election Procedures, this agenda item is intended to notify the Board that the terms of the following Trustees expire on August 31, 2022:

Robert French, Non-Member Trustee
Gilbert Garcia, Non-Member Trustee*
Tina Hernandez Patterson, Non-Member Trustee*
William Quinn, Mayoral Appointee*
Michael Brown, Mayoral Appointee

*Article 6243a-1 term limits prohibit an additional term.

The Mayor of Dallas appoints six Trustees, four of whose terms either have expired or will have expired by August 31, 2022 or are currently vacant. The Mayor is aware of this issue.

The Non-member Trustees are nominated and elected based on rules established by Article 6243a-1 and rules adopted by the Board. Staff will begin the process of working with the associations to nominate Trustees for the election. A draft election schedule is attached.

DISCUSSION SHEET

ITEM #C3
(continued)

Staff Recommendation: **Adopt** the draft 2022 Non-member Election schedule, subject to adjustment by the Nominations Committee provided the first election is completed prior to the August 2022 Board meeting and a subsequent election, if necessary, is completed prior to the September 2022 Board meeting.

DALLAS POLICE & FIRE PENSION SYSTEM

2022 Non-Member Trustee Election Schedule

Date	Item
February 10	Notify Board about trustee term expirations. Approve draft election schedule.
March 1-April 19	Nominations Committee meets to discuss the schedule and the process for vetting and selecting the non-member candidates.
April 20	Email a notice to the City Manager, Police and Fire Department Chiefs and the Association Presidents announcing call for Candidates and Post notice to DPFP Website.
April 20	Distribute via mail, and email where possible, a notification to Members and Pensioners announcing the Trustee election and call for candidates.
April 20 – May 11	Application packets are available on the DPFP website. www.DPFP.org or at the DPFP office at 4100 Harry Hines Blvd., suite 100.
May 11	Applications for Non-member Trustee candidates due at DPFP by 4:00 p.m.
May 12 - 19	Nominations Committee will review applications of potential candidates.
May 20– May 26	Nominations committee will conduct interviews with potential candidates.
May 27 – June 1	Nominations Committee selects the slate of Non-member Trustee candidates for the ballot.
May 27 – June 1	Non-Member Trustee applicants will be notified of the Nomination Committee's decision.
June 22	Mail voting packets to Members' and Pensioners' home addresses for those who have not elected eCorrespondence.

June 23	Email Non-member Trustee voting packets to Members' and Pensioners' electing eCorrespondence at 8 a.m.
June 23 – July 6	Voting begins at 8 a.m. on Thursday, June 23, voting ends at noon on Wednesday, July 6.
July 8	Vendor reports election results.
July 8	Executive Director reports election results to Nominations Committee and posts the results on the DPFP website.
July 11	Nominations Committee meets, if a subsequent election is necessary to fill open positions to: 1. Select candidate(s) or confirm previously selected backup candidate(s) to be placed on the ballot
July 14	Board of Trustees certify the election results from the election.
August 2	Mail subsequent Non-member Trustee voting packets to Members' and Pensioners' home addresses for those who have not elected eCorrespondence.
August 3	Email subsequent Non-member Trustee voting packets to Members' and Pensioners' electing eCorrespondence at 8 a.m.
August 3 – August 17	Subsequent Non-member Trustee election, if necessary. Voting begins at 8 a.m. on Wednesday, August 3. Voting ends at noon on Wednesday, August 17.
August 19	Vendor reports election results.
August 19	Executive Director reports election results to Nominations Committee and posts the results on the DPFP website.
September 1	New Trustees' terms begin.
September 8	Board of Trustees certify additional Non-Member Trustee election results.
Definitions:	**Nominations Committee:** A committee with voting representation from the organizations named in Section 3.011(b)(2) responsible for vetting, selecting and nominating Non-Member Trustee candidates. **Non-Member Trustee:** Three trustees who cannot be a Member, Pensioner, a current City employee, a person who was formerly a City employee and who has been separated from the City for less than two years prior to becoming a Trustee or a currently elected City official.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

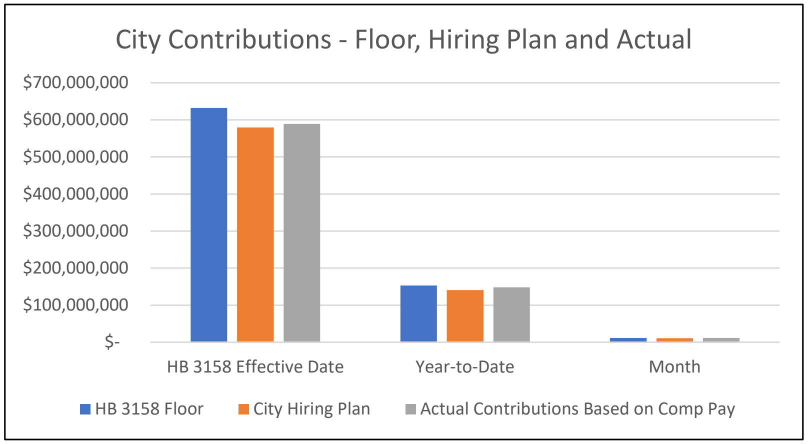
ITEM #C4

Topic: **Monthly Contribution**

Discussion: Staff will review the Monthly Contribution Report.

Regular Board Meeting – Thursday, February 10, 2022

Contribution Tracking Summary - February 2022 (December 2021 Data)



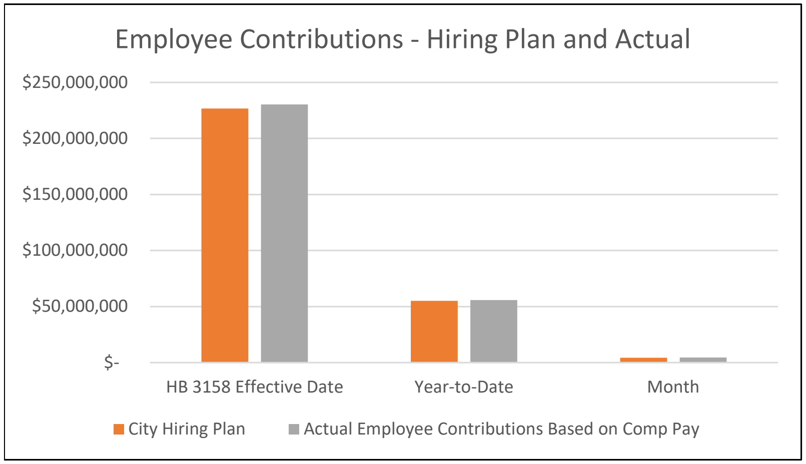
Actual Comp Pay was 102% of the Hiring Plan estimate since the effective date of HB 3158.

In the most recent month Actual Comp Pay was 106% of the Hiring Plan estimate and 98% of the Floor amount.

The Hiring Plan Comp Pay estimate increased by 3.03% in 2021. The Floor increased by 2.76%.

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

The combined actual employees was 130 less than the Hiring Plan for the pay period ending Deember 21, 2021. Fire was over the estimate by 46 fire fighters and Police under by 176 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

Dec-21	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	$ 11,764,000	$ 10,827,692	$ 11,484,596	$ 279,404	98%	106%
Year-to-Date		$ 152,932,000	$ 140,760,000	$ 148,338,848	$ 4,593,152	97%	105%
HB 3158 Effective Date		$ 632,103,000	$ 579,520,385	$ 588,812,824	$ 43,363,883	93%	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

Dec-21	Number of Pay Periods Beginning in the Month	City Hiring Plan	Actual Employee Contributions Based on Comp Pay	Actual Contribution Shortfall Compared to Hiring Plan	Actuarial Valuation Contribution Assumption	Actual Contributions as a % of Hiring Plan Contributions	Actual Contributions as a % of Actuarial Val Assumption
Month	2	$ 4,236,923	$ 4,493,854	$ 256,931	$ 4,236,924	106%	106%
Year-to-Date		$ 55,080,000	$ 55,897,468	$ 2,935,930	$ 55,080,012	101%	101%
HB 3158 Effective Date		$ 226,768,846	$ 230,248,912	$ 3,480,066	$ 221,659,654	102%	104%

Potential Earnings Loss from the Shortfall based on Assumed Rate of Return $ (402,198)

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			5,113		
2023	$ 438,000,000			5,163		
2024	$ 454,000,000			5,213		
2025	$ 471,000,000			5,263		
2026	$ 488,000,000			5,313		
2027	$ 507,000,000			5,363		
2028	$ 525,000,000			5,413		
2029	$ 545,000,000			5,463		
2030	$ 565,000,000			5,513		
2031	$ 581,000,000			5,523		
2032	$ 597,000,000			5,523		
2033	$ 614,000,000			5,523		
2034	$ 631,000,000			5,523		
2035	$ 648,000,000			5,523		
2036	$ 666,000,000			5,523		
2037	$ 684,000,000			5,523		

Comp Pay by Month - 2021	Annual Divided by 26 Pay Periods	Actual	Difference	2020 Cumulative Difference	Number of Employees EOM	Difference
January	$ 31,384,615	$ 33,074,493	$ 1,689,878	$ 1,689,878	4960	(128)
February	$ 31,384,615	$ 33,017,462	$ 1,632,847	$ 3,322,725	4926	(162)
March	$ 47,076,923	$ 49,432,981	$ 2,356,058	$ 5,678,783	4929	(159)
April	$ 31,384,615	$ 33,091,981	$ 1,707,366	$ 7,386,148	4935	(153)
May	$ 31,384,615	$ 33,011,653	$ 1,627,037	$ 9,013,186	4913	(175)
June	$ 31,384,615	$ 32,932,804	$ 1,548,189	$ 10,561,374	4904	(184)
July	$ 31,384,615	$ 33,011,207	$ 1,626,592	$ 12,187,966	4939	(149)
August	$ 31,384,615	$ 33,087,134	$ 1,702,518	$ 13,890,485	4918	(170)
September	$ 47,076,923	$ 49,601,625	$ 2,524,701	$ 16,415,186	4936	(152)
October	$ 31,384,615	$ 33,112,261	$ 1,727,646	$ 18,142,832	4964	(124)
November	$ 31,384,615	$ 33,305,388	$ 1,920,773	$ 20,063,605	4962	(126)
December	$ 31,384,615	$ 33,288,685	$ 1,904,069	$ 21,967,674	4958	(130)

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 – February 10, 2022

ATTENDING APPROVED

2022 EVENTS

			ATTENDING	APPROVED
1.	**Conference:**	**TEXPERS Annual Conference**	**KH**	**01/13/2022**
	Dates:	April 3-6, 2022		
	Location:	Fort Worth, TX		
	Est Cost:	TBD		
2.	**Conference:**	**NCPERS Trustee Educational Seminar (TEDS)**		
	Dates:	May 21 – 22, 2022		
	Location:	Washington, DC		
	Est Cost:	TBD		
3.	**Conference:**	**NCPERS Program for Advanced Trustee Studies (PATS)**		
	Dates:	May 21 – 22, 2022		
	Location:	Washington, DC		
	Est Cost:	TBD		
4.	**Conference:**	**NCPERS Accredited Fiduciary (NAF) Program**		
	Dates:	May 21 – 22, 2022		
	Location:	Washington, DC		
	Est Cost:	TBD		

Future Education and Business Related Travel & Webinars
Regular Board Meeting – February 10, 2022

ATTENDING APPROVED

2022 EVENTS
(continued)

5. Conference: **NCPERS Annual Conference & Exhibition (ACE)**
Dates: May 22 – 25, 2022
Location: Washington, DC
Est Cost: TBD

6. Conference: **NCPERS Public Safety Conference**
Dates: October 25-28, 2022
Location: Nashville, TN
Est Cost: **TBD**

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C6

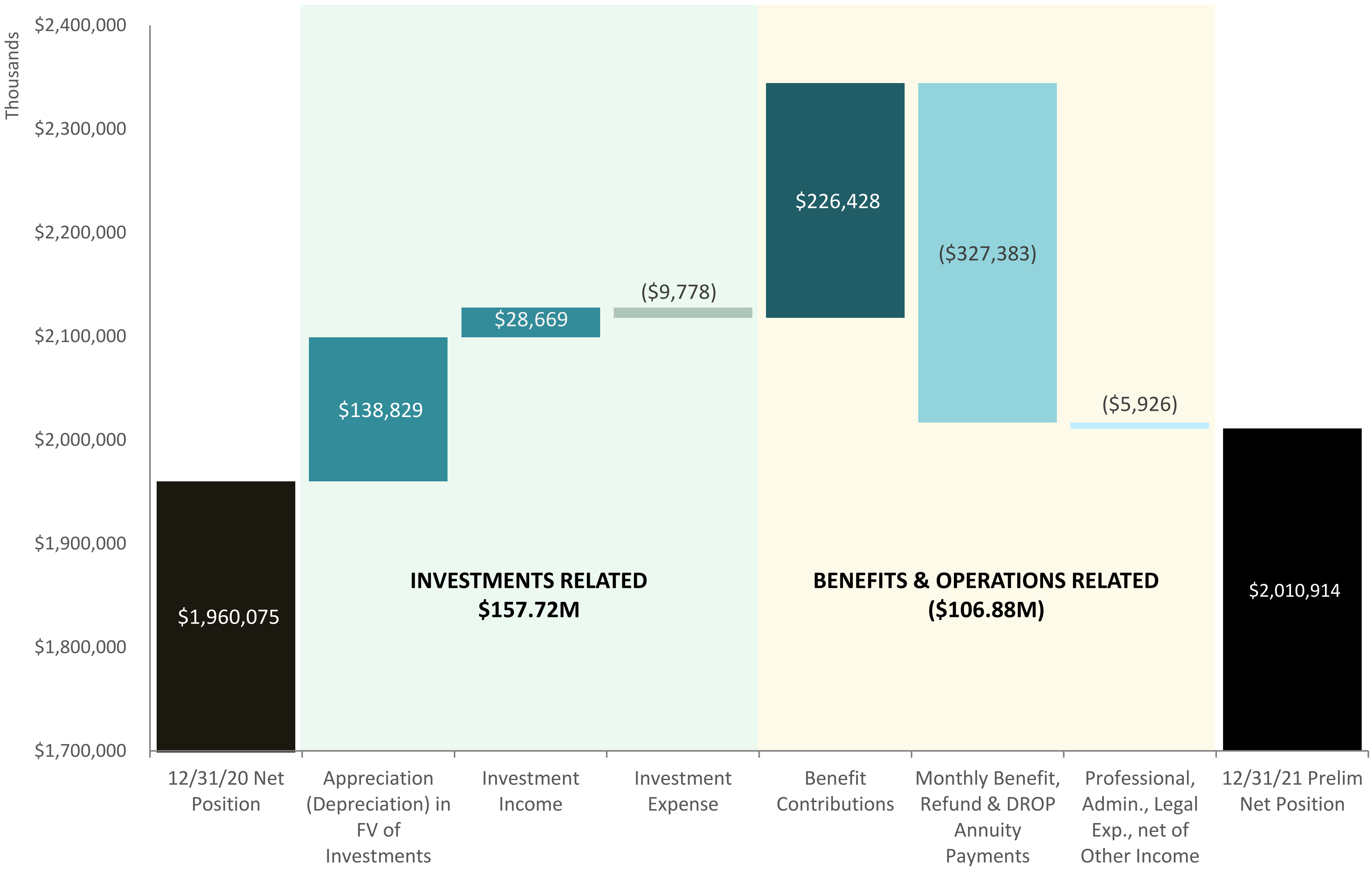
Topic: **Quarterly Financial Statements**

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

Regular Board Meeting – Thursday, February 10, 2022

Change in Net Fiduciary Position

PRELIMINARY - December 31, 2020 – December 31, 2021



Components may not sum exactly due to rounding.

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

	PRELIMINARY December 31, 2021 (unaudited)	December 31, 2020	$ Change	% Change
Assets				
Investments, at fair value (NOTE)				
Short-term investments	$ 12,939,975	$ 20,430,187	$ (7,490,212)	-37%
Fixed income securities	420,600,845	473,421,597	(52,820,752)	-11%
Equity securities	968,323,984	700,767,440	267,556,544	38%
Real assets	397,883,676	525,332,602	(127,448,926)	-24%
Private equity	133,604,797	137,309,870	(3,705,073)	-3%
Forward currency contracts	(45)	(296,918)	296,873	-100%
Total investments (NOTE)	1,933,353,232	1,856,964,778	76,388,454	4%
Receivables				
City	4,558,572	4,032,755	525,817	13%
Members	1,613,390	1,445,883	167,507	12%
Interest and dividends	3,444,616	3,782,403	(337,787)	-9%
Investment sales proceeds	223,273	9,296,619	(9,073,346)	-98%
Other receivables	124,478	675,642	(551,164)	-82%
Total receivables	9,964,329	19,233,302	(9,268,973)	-48%
Cash and cash equivalents	60,032,434	88,491,051	(28,458,617)	-32%
Prepaid expenses	411,295	544,957	(133,662)	-25%
Capital assets, net	11,846,879	12,087,827	(240,948)	-2%
Total assets	$ 2,015,608,169	$ 1,977,321,915	$ 38,286,254	2%
Liabilities				
Payables				
Securities purchased	358,266	11,783,719	(11,425,453)	-97%
Accounts payable and other accrued liabilities	4,336,216	5,463,419	(1,127,203)	-21%
Total liabilities	4,694,482	17,247,138	(12,552,656)	-73%
Net position				
Net investment in capital assets	11,846,879	12,087,827	(240,948)	-2%
Unrestricted	1,999,066,808	1,947,986,950	51,079,858	3%
Net position held in trust - restricted for pension benefits	$ 2,010,913,687	$ 1,960,074,777	$ 50,838,910	3%

(NOTE) Private asset values have not yet been reported for Q4 21. Values will be updated as final reporting is received.

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

PRELIMINARY

	Twelve Months Ended 12/31/2021	Twelve Months Ended 12/31/2020	$ Change	% Change
Contributions				
City	$ 167,639,854	$ 163,727,494	$ 3,912,360	2%
Members	58,787,873	57,550,636	1,237,237	2%
Total Contributions	226,427,727	221,278,130	5,149,597	2%
Investment income				
Net appreciation (depreciation) in fair value of investments **(NOTE)**	138,829,138	(30,758,052)	169,587,190	551%
Interest and dividends	28,668,875	29,811,204	(1,142,329)	-4%
Total gross investment income	167,498,013	(946,848)	168,444,861	17790%
less: investment expense	(9,777,954)	(8,484,854)	(1,293,100)	-15%
Net investment income	157,720,059	(9,431,702)	167,151,761	1772%
Securities lending income				
Securities lending income	-	89,355	(89,355)	-100%
Securities lending expense	-	(54,330)	54,330	-100%
Net securities lending income	-	35,025	(35,025)	-100%
Other income	338,620	346,615	(7,995)	-2%
Total additions	384,486,406	212,228,068	172,258,338	81%
Deductions				
Benefits paid to members	324,097,893	318,452,498	5,645,395	2%
Refunds to members	3,285,148	2,275,841	1,009,307	44%
Legal expense	332,641	763,621	(430,980)	-56%
Legal expense reimbursement	-	(469,248)	469,248	-100%
Legal expense, net of reimbursement	332,641	294,373	38,268	13%
Staff Salaries and Benefits	3,333,272	3,675,346	(342,074)	-9%
Professional and administrative expenses	2,598,542	2,619,983	(21,441)	-1%
Total deductions	333,647,496	327,318,041	6,329,455	2%
Net increase (decrease) in net position	50,838,910	(115,089,973)		
Beginning of period	1,960,074,777	2,075,164,750		
End of period	$ 2,010,913,687	$ 1,960,074,777		

(NOTE) Private asset values have not yet been reported for Q4 21. Values will be updated as final reporting is received.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C7

Topic: **Risk Insurance Renewal**

Attendees: Iva Giddings, Area Managing Director, Arthur J. Gallagher & Co.
James Martinez, Fiduciary Liability Program Specialist, Arthur J. Gallagher & Co.

Discussion: Risk insurance (whose categories do not include employee health insurance) is the second largest expenditure for DPFP on an annual basis. The total 2022 budget for all risk insurance categories combined is $664,899.

Representatives of DPFP's insurance broker, Arthur J. Gallagher & Co. will discuss the insurance market and the risk renewal status. Changes in the Cyber, and Fiduciary markets and policies will be highlighted.

Bids from the broker are still pending as of the board information publishing date.

Staff Recommendation: **Consider** reducing some of the excess layers of the Fiduciary insurance coverage.

DALLAS POLICE AND FIRE PENSION SYSTEM
2022-2023 Renewal Comparison

Insurance Type	Cumulative Limit	2022 Cumulative Premium	2021 Cumulative Premium	Premium $ Change	Premium % Change
Primary Fiduciary	$ 15,000,000	$ 332,934	$ 325,258	$ 7,676	2.4%
1st Excess	25,000,000	445,690	385,258	60,432	15.7%
2nd Excess	35,000,000	530,260	434,258	96,002	22.1%
3rd Excess	45,000,000	593,687	472,258	121,429	25.7%
4th Excess	50,000,000	615,887	488,408	127,479	26.1%
Cyber	5,000,000	115,306	20,208	95,099	470.6%
1st Excess	10,000,000	NA	36,151	79,155	219.0%
2nd Excess	15,000,000	NA	51,890	63,416	122.2%
Cyber Retention increased from $10,000 to $100,000					
Cyber renewal pending requested additional documents and remediation					
All other insurance lines		67,025	64,119	2,906	4.5%
Total all insurance lines		**$ 798,218**	**$ 604,417**	**$ 193,801**	**32.1%**
2022 Budget		664,899			

Public Pension Plan Fiduciary Liability Limit Information - 2021
(Plans with over $25M in fiduciary liability limits)

State	Plan Assets	Plan Participants	Limit
TX	$1B	7,000	$25M
CA	$8B	20,000	$25M
CA	$8B	25,000	$25M
CA	$70B	185,000	$35M
SC	$34B	500,000	$25M
TX	$165B	1,800,000	$25M

Public Pension Plan Fiduciary Liability Limit Information - 2021
(Plans with $1 - 10B in plan assets)

State	Plan Assets	Plan Participants	Limit
MO	$1B	13,000	$15M
TX	$1B	4,000	$5M
TX	$1B	3,000	$5M
GA	$1B	4,000	$15M
TX	$1B	7,000	$25M
GA	$1.5B	18,000	$10M
FL	$2B	5,000	$1M
AR	$2.5B	30,000	$10M
CO	$3.5B	15,000	$15M
MA	$1.8B	12,000	$20M
TX	$5B	5,000	$10M
CA	$8B	20,000	$25M
CA	$8B	25,000	$25M
MA	$8.5B	48,000	$15M
CA	$10B	40,000	$15M

Gallagher
Insurance | Risk Management | Consulting

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C8

Topic: **Portfolio Update**

Discussion: Investment Staff will brief the Board on recent events and current developments with respect to the investment portfolio.

Regular Board Meeting – Thursday, February 10, 2022

DALLAS POLICE & FIRE PENSION SYSTEM

Portfolio Update

February 10th, 2022

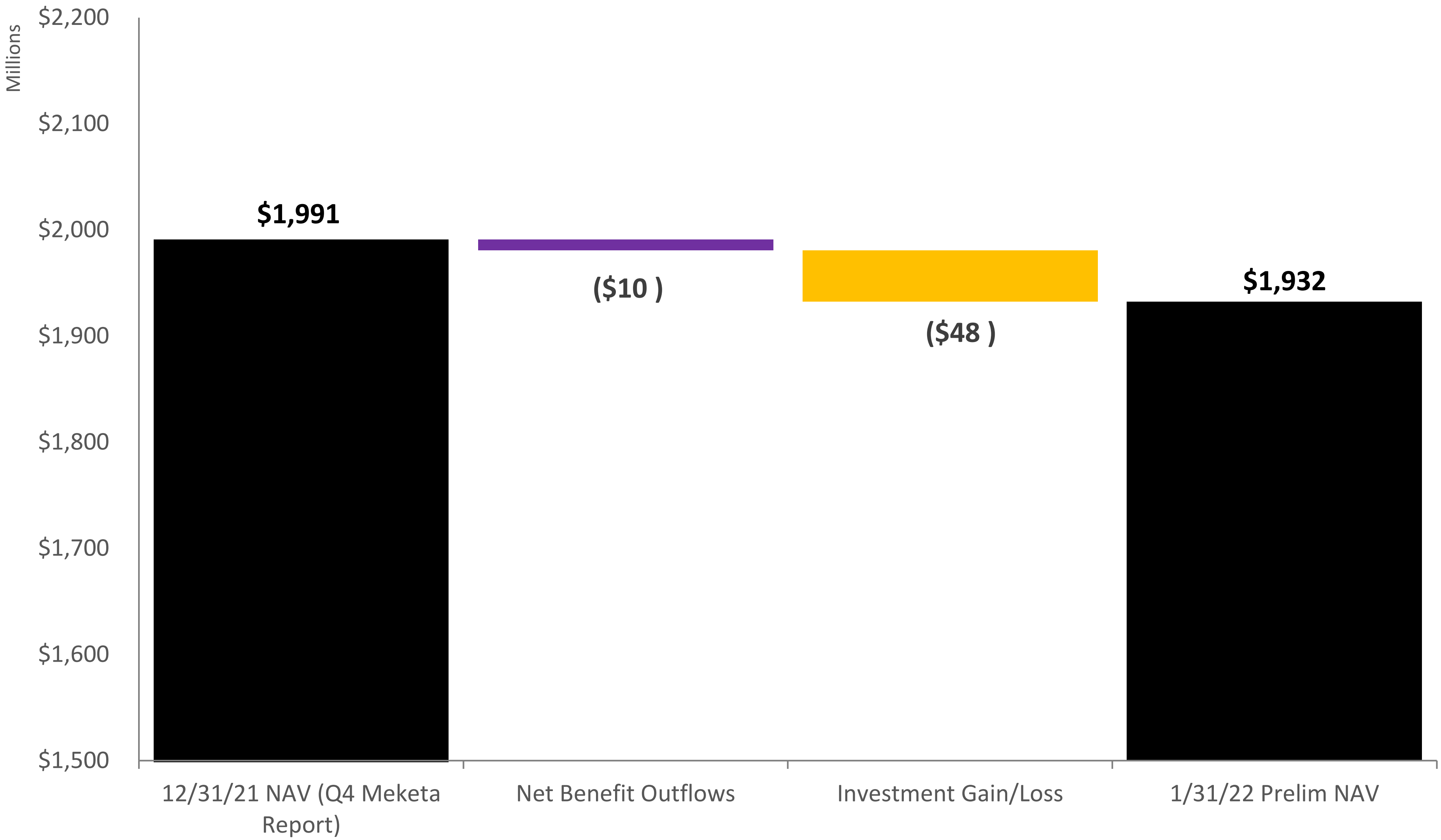
Executive Summary

- Liquidation of private market assets remains the top focus.
  - $7.8M in distributions received in 2022 YTD. Another $25M+ in distributions expected by the end of March.
- Plan to fund initial $40M allocation to new International Small Cap equity manager, Global Alpha, in March. Funding expected to come from the passive Northern Trust account.
- Estimated Year-to-Date Return: -2.4% for DPFP portfolio; -3.8% for Public Markets (ex-Cash) which accounts for 70% of the assets.

2022 YTD Change in Market Value Bridge Chart

In Millions

2022 YTD Investment Return estimated at -2.4%



Public Markets Performance Snapshot - Estimates

Public Markets (ex-Cash) currently make up 70% of DPFP Investment Portfolio.

		MTD 1/31/2022			2021		
Net of fees	**Index**	**Manager**	**Index**	**Excess**	**Manager**	**Index**	**Excess**
Total Public Portfolio (ex-Cash)	**60% MSCI ACWI IMI / 40% BBG Global AGG**	**-3.8%**	**-3.9%**	**0.2%**	**10.5%**	**8.7%**	**1.8%**
Global Equity	**MSCI ACWI IMI**	**-5.3%**	**-5.2%**	**-0.1%**	**19.3%**	**18.2%**	**1.1%**
Boston Partners	MSCI World	-0.4%	-5.3%	4.9%	23.3%	21.7%	1.6%
Manulife	MSCI ACWI	-3.0%	-4.9%	1.9%	22.8%	18.5%	4.3%
Invesco (OFI)	MSCI ACWI	-9.4%	-4.9%	-4.5%	14.0%	18.5%	-4.5%
Walter Scott	MSCI ACWI	-8.2%	-4.9%	-3.3%	19.3%	18.5%	0.8%
Northern Trust ACWI IMI Index	MSCI ACWI IMI	-4.8%	-5.2%	0.4%	15.3%	15.1%	0.2%
Eastern Shore US Small Cap	Russell 2000	-10.1%	-9.6%	-0.5%			
EM Equity - RBC	**MSCI EM IMI**	**0.5%**	**-2.2%**	**2.7%**	**-4.3%**	**-0.2%**	**-4.1%**
Public Fixed Income (ex-Cash)	**BBG Multiverse TR**	**-1.5%**	**-2.0%**	**0.5%**	**-0.4%**	**-4.5%**	**4.2%**
S/T IG Bonds - IR+M	BBG 1-3YR AGG	-0.6%	0.7%	-1.3%	-0.4%	-0.5%	0.1%
IG Bonds - Longfellow	BBG US AGG	-2.0%	-2.2%	0.1%	-0.7%	-1.6%	0.9%
Bank Loans - Pacific Asset Management	CS Leveraged Loan	0.3%	0.6%	-0.3%	5.1%	5.3%	-0.2%
High Yield - Loomis Sayles	BBG USHY 2% Cap	-2.8%	-2.7%	-0.1%	3.7%	5.3%	-1.6%
EM Debt - Ashmore	50% JPM EMBI / 25% ELMI / 25% GBI-EM	-2.9%	-2.9%	0.0%	-9.9%	-3.9%	-6.0%

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

** - Ashmore Benchmark performance for prior month is equal to the manager return due to lag in benchmark reporting*

*** - Eastern Shore performance inception date 09/03/2021*

****Northern Trust ACWI IMI Index inception date 03/05/2021*

DALLAS POLICE & FIRE PENSION SYSTEM

Asset Allocation Detail

DPFP Asset Allocation	1/31/2022		Target		Variance	
	NAV	%	$ mil.	%	$ mil.	%
Equity	**1,064**	**55.1%**	**1,256**	**65%**	**-192**	**-9.9%**
Global Equity	830	42.9%	1,063	55%	-233	-12.1%
Boston Partners	*148*	*7.7%*	*155*	*8%*	*-7*	*-0.3%*
Manulife	*145*	*7.5%*	*155*	*8%*	*-10*	*-0.5%*
Invesco (OFI)	*129*	*6.7%*	*155*	*8%*	*-26*	*-1.3%*
Walter Scott	*136*	*7.0%*	*155*	*8%*	*-19*	*-1.0%*
Northern Trust ACWI IMI Index	*236*	*12.2%*	*290*	*15%*	*-54*	*-2.8%*
Eastern Shore US Small Cap	*37*	*1.9%*	*77*	*4%*	*-41*	*-2.1%*
Future International Small Cap Mandate	*0*	*0.0%*	*77*	*4%*	*-77*	*-4.0%*
Russell Transition	*0*	*0.0%*	*0*	*0%*	*0*	*0.0%*
Emerging Markets Equity - RBC	100	5.2%	97	5%	4	0.2%
Private Equity*	134	6.9%	97	5%	37	1.9%
Fixed Income	**471**	**24.4%**	**483**	**25%**	**-12**	**-0.6%**
Cash	48	2.5%	58	3%	-10	-0.5%
S/T Investment Grade Bonds - IR+M	118	6.1%	116	6%	2	0.1%
Investment Grade Bonds - Longfellow	75	3.9%	77	4%	-3	-0.1%
Bank Loans - Pacific Asset Management	77	4.0%	77	4%	0	0.0%
High Yield Bonds - Loomis Sayles	75	3.9%	77	4%	-2	-0.1%
Emerging Markets Debt - Ashmore	71	3.7%	77	4%	-6	-0.3%
Private Debt*	7	0.3%	0	0%	7	0.3%
Real Assets*	**398**	**20.6%**	**193**	**10%**	**205**	**10.6%**
Real Estate*	215	11.2%	97	5%	119	6.2%
Natural Resources*	117	6.1%	97	5%	21	1.1%
Infrastructure*	65	3.4%	0	0%	65	3.4%
Total	**1,932**	**100.0%**	**1,932**	**100%**	**0**	**0.0%**
Safety Reserve ~$162M=18 mo net CF	166	8.6%	174	9%	-8	-0.4%
*Private Market Assets	538	27.8%	290	15%	248	12.8%

Source: Preliminary JP Morgan Custodial Data, Staff Estimates and Calculations

Numbers may not foot due to rounding

DALLAS POLICE & FIRE PENSION SYSTEM

Forward Cash Flow Projection

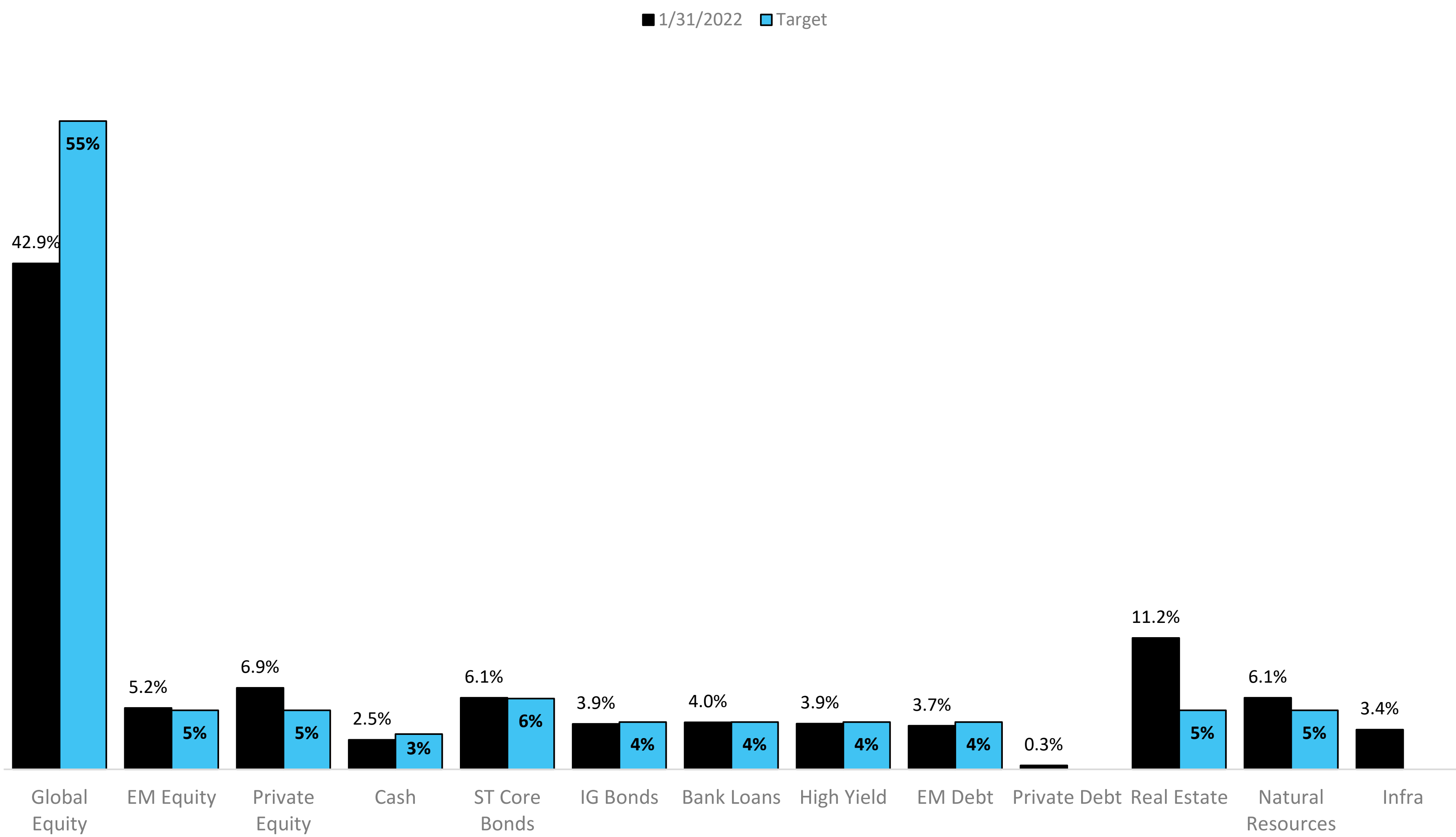
- Cash was below target at end of January, but sufficient based on the forward cash flow forecast.
- Absent additional private market distributions, staff would look to rebalance cash towards 3% target sometime by the middle of 2022.
- Rebalancing would occur from public portion of portfolio which has over $1.3B in assets with either daily or monthly liquidity.

Expected Cash Activity	Date	Amount ($M)	Projected Cash Balance ($M)	Projectd Cash %
	1/31/22		**$48.2**	**2.5%**
AEW Distribution	2/4/22	$7.8	$56.0	2.9%
City Contribution	2/4/22	$8.5	$64.5	3.3%
City Contribution	2/18/22	$8.5	$73.0	3.8%
Pension Payroll	2/24/22	($27.5)	$45.5	2.4%
City Contribution	3/4/22	$8.5	$54.0	2.8%
City Contribution	3/18/22	$8.5	$62.5	3.2%
Pension Payroll	3/29/22	($27.5)	$35.0	1.8%
City Contribution	4/1/22	$8.5	$43.5	2.3%
City Contribution	4/15/22	$8.5	$52.0	2.7%
Pension Payroll	4/27/22	($27.5)	$24.5	1.3%
City Contribution	4/29/22	$8.5	$33.0	1.7%
City Contribution	5/13/22	$8.5	$41.5	2.2%
City Contribution	5/27/22	$8.5	$50.0	2.6%
Pension Payroll	5/27/22	($27.5)	$22.5	1.2%

Projected Cash activity includes expected benefit contributions, payments, and material expected distributions or capital calls.

Numbers may not foot due to rounding

Asset Allocation – Actual vs Target



DALLAS POLICE & FIRE PENSION SYSTEM

Asset Class Returns – JPM Guide to the Markets

																2007 - 2021	
2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD	Ann.	Vol.
EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	REITs 41.3%	Comdty. 8.8%	Large Cap 10.6%	REITs 23.2%
Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Cash 0.0%	Small Cap 8.7%	EM Equity 22.9%
DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 27.1%	EM Equity -1.9%	REITs 7.5%	Small Cap 22.5%
Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 14.8%	Fixed Income -2.2%	High Yield 6.6%	Comdty. 19.1%
Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Asset Alloc. 13.5%	High Yield -2.5%	Asset Alloc. 5.7%	DM Equity 18.9%
Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	Asset Alloc. -3.7%	EM Equity 4.8%	Large Cap 16.9%
Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	DM Equity -4.8%	DM Equity 4.1%	High Yield 12.2%
High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	Large Cap -5.2%	Fixed Income 4.1%	Asset Alloc. 11.7%
Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.5%	REITs -7.9%	Cash 0.8%	Fixed Income 3.3%
REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	EM Equity -2.2%	Small Cap -9.6%	Comdty. -2.6%	Cash 0.7%

Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Fixed Income: Bloomberg US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg US Aggregate, 5% in the Bloomberg 1-3m Treasury, 5% in the Bloomberg Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/2006 to 12/31/2021. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of January 31, 2022.

2022 Board Investment Review Plan*

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

March	• Real Estate: Clarion Presentation & other real estate review
April	• Real Estate: AEW Presentation
May	• Natural Resources: Hancock Presentation
June	• Natural Resources: Staff review of BTG Pactual (Timber)
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 #C9

Topic: **Investment Policy Statement Amendment**

Discussion: After discussion with the Board in January about possible Investment Policy Statement amendments, staff is proposing an amendment to add a 5% asset class concentration limit to any single issuer in both the Public Equity and Public Fixed Income portfolios. Each asset class will be treated separately for purposes of the 5% limit. Staff plans to calculate the Public Equity and Fixed Income concentration levels on a quarterly basis and report to the Investment Advisory Committee if exposure to any single issuer exceeds the 5% limit and discuss with the IAC possible courses of action. A redlined version of the Investment Policy Statement is attached for reference, with updated language in Section 8 – Risk Management. Also included is a listing of the top ten issuer concentration levels at 12/31/2021 for both Public Equity and Public Fixed Income.

Staff Recommendation: **Approve** the proposed revised Investment Policy Statement.

DALLAS POLICE & FIRE PENSION SYSTEM

INVESTMENT POLICY STATEMENT

As Amended Through ~~January 13~~February 10, 2022

INVESTMENT POLICY STATEMENT

Adopted April 14, 2016
As Amended Through January 13, 2022

Table of Contents

INVESTMENT POLICY STATEMENT

Adopted April 14, 2016
As Amended Through January 13, 2022

Section 1 Introduction and Purpose

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

A. Stating in a written document DPFP's expectations, objectives and guidelines for the investment of assets;

B. Setting forth an investment structure for managing the portfolio. This structure includes assigning various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce an appropriate level of overall risk and total investment return over the investment time horizon;

C. Encouraging effective communications between the Board, IAC, Executive Director, Staff, Consultant(s), Investment Managers and Custodian(s);

D. Setting forth policy that will consider various factors, including inflation, global economic growth, liquidity and expenses, that will affect the portfolio's short and long-term total expected returns and risk;

E. Establishing criteria to select and evaluate Investment Managers; and

F. Complying with applicable fiduciary and due diligence requirements experienced investment professionals would utilize, and with laws, rules and regulations applicable to DPFP.

Section 2 Goals, Objectives, and Constraints

A. Goals

1. Earn a long-term, net of fees, investment return that, together with contributions, will be sufficient to meet current and future obligations of the plan when due.
2. Earn a long-term, net of fees, investment return greater than the actuarial return assumption.

B. Objectives

1. Maintain a diversified asset allocation that seeks to maximize the investment return while accepting prudent exposure to key investment risks.
2. Outperform the Policy Benchmark[1] over rolling five-year periods.
3. Control and monitor the costs of administering and managing the investments.

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

C. Constraints

1. DPFP will be managed on a going-concern basis. The assets of the Fund will be invested with a long-term time horizon, while being cognizant of the weak actuarial funded ratio and ongoing liquidity needs.

2. The Board intends to maintain sufficient liquidity in either cash equivalents or short-term investment grade bonds to meet 18 months of anticipated benefit payments and expenses (net of contributions).

3. DPFP is a tax-exempt entity. Therefore, investments and strategies will be evaluated on a basis that is generally indifferent to taxable status.

Section 3 Ethics, Standards of Conduct, and Fiduciary Responsibility

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

A. Place the interest of DPFP above personal interests.

B. Act with integrity, competence, diligence, respect, and in an ethical manner.

C. Use reasonable care, diligence, and exercise independent professional judgment when conducting analysis, making recommendations, and taking actions.

D. Promote the integrity of and uphold the rules governing DPFP.

E. Comply with all applicable laws, rules, and regulations of any government agency, regulatory organization, licensing agency, or professional association governing their professional activities.

F. Adhere to applicable policies relating to ethics, standard of conduct and fiduciary responsibility including the:

1. Board of Trustees and Employees Ethics and Code of Conduct Policy;
2. Board of Trustees Governance and Conduct Policy; and the
3. Contractor's Statement of Ethics.

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

Section 4 Core Beliefs and Long-Term Acknowledgements

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

A. A well-defined governance structure with clearly delineated responsibilities is critical in achieving consistent, long-term performance objectives.

B. The strategic asset allocation determines the risk reward profile of the portfolio and thus drives overall portfolio performance and volatility.

1. Asset allocation has a greater effect on return variability than asset class investment structure or manager selection.
2. It is essential to account for liabilities in setting long-term investment strategy.
3. Rebalancing the portfolio is a key aspect of prudent long-term asset allocation policy.

C. Investment costs will be monitored and minimized within the context of maximizing net return. The goal is not low fees, but rather maximum returns, net of fees.

1. The opportunity for active manager risk-adjusted outperformance (alpha) is not uniformly distributed across asset classes or Investment Managers' strategies.
2. Active strategies are preferred when there is strong conviction that they can be expected to add alpha, net of fees.
3. Passive strategies should be considered if alpha expectations are unattractive.
4. Professional fees will be negotiated when feasible.

D. Risk is multifaceted and will be evaluated holistically, incorporating quantitative measures and qualitative assessments.

1. Global investment reduces risk through diversification.
2. Diversification across different risk factors reduces risk.
3. The pattern of returns matters because volatility levels and the sequence of gains and losses can impact funded status.
4. Risk that is not expected to be rewarded over the long-term, or mitigated through diversification, will be minimized.
5. Generating positive investment return requires recognizing and accepting non-diversifiable risk. Not taking enough risk is risky; therefore, DPFP will accept a prudent amount of risk to achieve its long-term target returns.

Section 5 Roles and Responsibilities

A. Board of Trustees

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

1. Establishes investment objectives consistent with the needs of DPFP and approves the IPS of DPFP;
2. Approves strategic asset allocation targets and ranges, and asset class structures;
3. Prudently hires, monitors, and terminates key investment service providers including: Consultant(s), Investment Managers and Custodian(s);
4. Appoints members to the Investment Advisory Committee (IAC);
5. Reviews investment related expenses;
6. Approves Board travel related to investments; and
7. Reviews the IPS annually and revises it as needed.

B. Investment Advisory Committee (IAC)

1. <u>IAC Composition, Selection and Criteria</u>
   a. The requirement and general composition of the IAC is defined by statute.
   b. The IAC serves at the discretion of the Board of Trustees.
   c. The IAC is composed of a minimum of three members including one to three current Board members and a majority of outside investment professionals.
   d. IAC members will serve two-year terms.
   e. The Board will appoint members of IAC members by vote.
   f. One IAC member who is also a member of the Board will function as Chair of the IAC. The Chair shall serve as liaison to the Board and preside over IAC meetings.
   g. The Board of Trustees may elect to dismiss a member of the IAC for any reason.

2. <u>IAC Roles and Responsibilities:</u>

   a. A key role of the IAC is to ensure that DPFP investments are prudently managed.

   b. IAC recommendations are not binding on the Board, provided however the Board may in the exercise of its fiduciary discretion grant decision-making authority to the IAC.

   c. The IAC will advise regarding the search and selection process for investment managers and other matters that the Board may request.

   d. All investment related agenda materials for the Board will be made available to the IAC.

   e. The IAC Chair will report to the Board regarding IAC activity as well as investment-related concerns and recommendations.

   f. Any IAC member may address the Board to communicate investment related concerns.

   g. IAC members are fiduciaries to DPFP.

3. <u>IAC Meetings</u>

   a. The IAC will meet as needed, but at least quarterly, to discuss the investment program and provide insight and recommendations to Staff and Consultant.

   b. IAC meetings require a quorum of at least three IAC members, a majority of whom must not be current Trustees.

   c. IAC members shall be provided reasonable notice of upcoming meetings, but this shall not prevent the IAC from meeting on short notice for an urgent item requiring immediate attention.

   d. Any vote by the IAC which is reported to the Board must also advise the Board as to how each member of the IAC voted who was present for such vote.

   e. IAC meetings shall be open to the public. The IAC Chair may close any portion or all of any IAC meeting in his or her discretion if they deem it prudent to do so, provided such meeting is not a public meeting being held in compliance with the Texas Open Meetings Act.

   f. Board members who are not members of the IAC may attend and participate in IAC meetings. If a quorum of the Board shall be present at an IAC meeting, then the meeting shall comply with the Texas Open Meetings Act. Board members who are not on the IAC will give the Executive Director notice that they wish to attend an IAC meeting at least one week prior to the meeting. Board members who are not on the IAC may attend an IAC meeting but may not participate in IAC deliberations if such Board member or members, together with Board members on the IAC participating in such meeting equals or exceeds the number of non-Board IAC members participating in such meeting. The IAC Chair shall determine which Board members not on the IAC, if any, may participate in such meeting to maintain compliance with the previous sentence.

C. Executive Director

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

D. Investment Staff

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

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

E. Consultant(s)

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

F. Investment Managers

1. <u>Public Separate Account Investment Managers</u>
   a. Acknowledge in writing acceptance of the objectives, guidelines, and standards of performance;
   b. Invest the assets of DPFP in accordance with its objectives, guidelines and standards;

F. Investment Managers (continued)

1. Public Separate Account Investment Managers

   c. Exercise full discretionary authority as to all buy, hold and sell decisions for each security under management, subject to the guidelines established in the Investment Management Agreement or applicable contract;

   d. Send trade confirmations to the Custodian;

   e. Deliver monthly report to Consultant(s)/Staff describing portfolio asset class weights, investment performance, security positions, and transactions;

   f. Adhere to best execution and valuation policies;

   g. Inform Staff and Consultant, as soon as practical, in writing of any breach of investment guidelines, ethics violations or violations of self-dealing;

   h. Inform Staff and Consultant as soon as practical, in writing, of any significant changes in the ownership, organizational structure, financial condition, personnel staffing, or other material changes at the firm; and

   i. Act as a fiduciary to DPFP. All separate account investment managers are fiduciaries to DPFP and this responsibility must be acknowledged in the contract for services.

2. Public Commingled Fund Investment Managers

   a. Provide the objectives, guidelines, and standards of performance of the fund;

   b. Provide a report detailing fund performance and holding on a monthly basis or as agreed by DPFP;

   c. Prices and fair market valuations will be based on reference to liquid markets, or obtained from an independent service provider if the assets held by the fund cannot be reasonably valued by reference to liquid markets;

   d. The investment manager of the commingled fund must act as a Fiduciary to the commingled fund.

   e. Mutual funds where the investment advisor or manager of the mutual fund is subject to the Investment Company Act of 1940 meet the requirements of this subsection 2.

3. Private Investment Managers

   a. Provide objectives, strategy guidelines, and standards of performance as evidenced in investment manager, operating, or partnership agreement;

   b. Ensure that financials statements undergo annual audits and that investments are reported at fair market value, as outlined in the Investment Management, Partnership, or Operating Agreement(s);

F. Investment Managers (continued)

3. Private Investment Managers (continued)

   c. Communicate to Staff any material changes in the ownership or management of the firm, and or the stability of the organization;

   d. Inform Staff, as soon as practical, in writing of any breach of investment guidelines, ethics violations or violations of self-dealing.

G. Custodian

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

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

Section 6 Strategic Asset Allocation and Rebalancing

Note: The investment portfolio is undergoing a transition from a legacy allocation with substantial exposure to illiquid private market assets to a more traditional allocation profile. Significant variances to long-term allocation targets are expected to gradually diminish as private market assets are monetized. Rebalancing ranges have been established to accommodate current variances to target and will be tightened over time as appropriate.

A. Asset Allocation

1. The strategic asset allocation establishes target weights and rebalancing ranges for each asset class and is designed to maximize the long-term expected return of the Fund within an acceptable risk tolerance while providing liquidity to meet cash flow needs.
2. A formal asset allocation study will be conducted as directed by the Board, but at least every three years.
3. Asset allocation targets will be reviewed annually for reasonableness in relation to significant economic and market changes or to changes to the investment objectives.
4. Asset class descriptions are provided in Appendix A.
5. The approved asset allocation is included in Appendix B.

B. The Safety Reserve

The allocation to Cash and Short Term Investment Grade Bonds (the “Safety Reserve”) is designed to cover approximately 18 months of projected benefit payments (net of contributions.) Based upon the current policy targets approved by the Board, the Safety Reserve target allocation is 9% of the Fund. The purpose of the Safety Reserve is to serve as the primary source of meeting any liquidity needs, particularly during a prolonged period of investment market stress. While the projected net benefit cash outflows are effectively known in advance, the market value of the Pension Fund’s assets will fluctuate with market activity. Consequently, the size of the Safety Reserve, as a percentage of Pension Fund assets, will fluctuate.

C. Asset Class Structure

1. An asset class structure will be prepared 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.
2. The asset class structure will emphasize simplicity and cost control, and toward that end will employ the minimum number of managers necessary to assure appropriate diversification within each asset class.
3. Asset class structures will be reviewed periodically, approximately every two years.
4. Any changes to the asset class structure must be approved by the Board.
5. Asset class structures for Private Markets will not be conducted until such time that new investments are being made in the asset class.

D. Rebalancing

1. It is expected to take multiple years to fully transition from the current exposure to the private markets towards the newly established long-term asset allocation.
2. Staff shall submit a rebalancing recommendation to the Consultant at least annually based on consideration of the entire portfolio, and additionally as soon as practicable when an asset class breaches an established rebalancing range or when deemed prudent by Staff or Consultant.
3. Rebalancing actions must move an asset class towards its target allocation. The Safety Reserve will be evaluated based on both the percentage allocation and the total dollars required for 18-months of expected, forward net benefit cash outflows when making rebalancing recommendations.
4. The Safety Reserve is not required to be rebalanced to target if deemed prudent by Staff and Consultant during periods of market stress.
5. Staff will notify the Board if the determination has been made to draw down the Safety Reserve to meet liquidity needs, rather than rebalancing to target.
6. Rebalancing recommendations should consider expected future cash flows, investment liquidity, market volatility, and costs.
7. Transition management should be considered to minimize transition costs.
8. Staff is responsible for implementing the rebalancing plan following Consultant and Executive Director approval.
9. Rebalancing recommendations and activity shall be reported to the Board and the IAC.

E. Private Market Provisions

1. DPFP will not commit capital to any direct private market investments or co-investments that are tied to a single company. This restriction does not prevent DPFP from holding direct investments that result from the dissolution of a private market fund.
2. DPFP will not commit capital to any private market fund if such commitment would likely result in DPFP holding greater than a 10% interest in the fund.
3. DPFP will not commit capital to any private market fund if such commitment exceeds 2% of the total market value of the DPFP investment portfolio.
4. DPFP will not commit to any private market fund if the current value plus total unfunded commitments to related funds (e.g. fund family) exceeds 5% of the total market value of the DPFP investment portfolio.
5. The private market commitment limitations outlined above, do not prevent the Board from making contributions necessary to protect DPFP interests.
6. The Board and Staff may consider and approve sales of private assets for less than the current net asset value of the asset reported to the Board. Factors affecting such a decision would include prices obtained after marketing the asset, liquidity, or overallocation to the relevant asset class.

Section 7 Investment Manager Search, Selection, and Monitoring

A. Investment Manager Search and Selection

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

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

B. Investment Monitoring

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

Section 8 Risk Management

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

A. Custodial Credit Risk for both public and private holdings;[5]

B. Interest Rate Risk through fixed income duration monitoring;[6]

C. Issuer Concentration ~~of Credit~~ Risk through limits on single issuer exposure. ~~asset allocation targets and ranges, rebalancing, and the monitoring of investment guidelines.~~

1. Public Equity Concentration: Exposure to public equity securities from any individual issuer shall be limited to 5% of the total Public Equity portfolio (Global Equity and Emerging Markets Equity).

2. Fixed Income Concentration: Except for holdings of US government and agency securities, exposure to publicly traded fixed income securities from any individual issuer shall be limited to 5% of the Public Fixed Income portfolio (excludes Private Debt). Convertible bonds will be included in the Fixed Income concentration calculation.

---

[5] Reference Custodian responsibilities in Section 5.

[6] Reference IPS Annual Review in Section 5.A.7of IPS and Investment Manager strategy guidelines reviewed and approved by Staff.

3. Staff will calculate the Public Equity and Public Fixed Income concentration on a quarterly basis and report to the IAC if the concentration from a single issuer exceeds the 5% limit and discuss with the IAC possible courses of action.

~~C.~~**D.** Private Market Concentration guidelines are addressed in Section 6.E of this policy.

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

Section 9 Approval and Effective ~~January 13, 2022~~February 10, 2022

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

December 14, 2017
January 10, 2019
March 14, 2019
February 13, 2020
July 9, 2020
November 12, 2020
March 11, 2021
August 12, 2021
January 13, 2022

APPROVED on ~~January 13, 2022~~ February 10, 2022, by the Board of Trustees of the Dallas Police and Fire Pension System.

Nicholas A. Merrick
Chairman

ATTEST:

Kelly Gottschalk
Secretary

Appendix A – Asset Class Descriptions

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

A. Growth Assets

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

B. Income Assets

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

B. Income Assets (continued)

4. Asset Classes

   a. **Bank Loans** are like high yield bonds in that both represent debt issuers with higher credit risk. Compared to high-yield bonds, bank loans typically have higher seniority in the capital structure, which has historically resulted in much higher recovery following default.

   b. **High Yield Debt** refers to bonds with higher credit risk and lower credit ratings than investment-grade corporate bonds, Treasury bonds and municipal bonds. Because of the higher risk of default, these bonds pay a higher yield than investment grade bonds.

   c. **Emerging Markets Debt** (EMD) refers to bonds issued by developing countries or corporations based in developing countries. EMD bonds can be denominated in U.S. Dollars or local currency. The primary risk factor is credit quality, but interest rates and foreign currency are also factors.

   d. **Private Debt** refers to non-bank direct lending arrangements. Features are similar to bank loans with somewhat higher credit risk and yields. Investments are typically structured in a private market vehicle with limited liquidity. Private debt may be included within the private equity asset class in the strategic asset allocation.

C. Inflation Protection (Real Assets)

1. Role: Current income, inflation protection, diversification

2. Investment Approach: Generally, ownership in physical assets.

3. Risk Factors: Real Assets may not provide the desired inflation protection. Loss of principal is also a risk. Foreign assets are also subject to currency movements against the U.S. dollar.

4. Asset Classes

   a. **Real Estate** includes investments in office buildings, apartments, hotels, industrial warehouses, retail, raw land, and development projects.

   b. **Natural Resources** broadly refers to anything mined or collected in raw form but may include assets subject to further processing. Typical assets include permanent and row crops, timber, minerals, and metals.

   c. **Infrastructure** refers to investments in physical systems that support world economies. Typical investments include transportation, communication, utilities (electricity, gas, water, sewage).

D. Risk Mitigation

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

Appendix B – Strategic Asset Allocation and Rebalancing Ranges

Asset Class	Policy Benchmark	Target Weight[1]	Minimum Weight	Maximum Weight
Equity		**65%**		
Global Equity	MSCI ACWI IMI Net	55%	36%	60%
Emerging Markets Equity	MSCI Emerging Markets IMI Net	5%	3%	7%
Private Equity	Cambridge Associates U.S. All Private Equity Index 1Q Lag	5%	N/A[2]	N/A[2]
Fixed Income		**25%**		
Cash	91 Day T-Bills	3%	0%	6%
Short Term Investment Grade Bonds	Bloomberg Barclays 1-3 Year U.S. Aggregate TR	6%	0%	9%
Investment Grade Bonds	Bloomberg Barclays U.S. Aggregate TR	4%	2%	6%
Bank Loans	Credit Suisse Leveraged Loan	4%	2%	6%
High Yield Bonds	Bloomberg Barclays U.S. Corporate High Yield TR	4%	2%	6%
Emerging Markets Debt	50% JPM EMBI/ 50% JPM GBI-EM	4%	2%	6%
Private Debt	Barclays U.S. HY TR + 2%	0%	N/A[2]	N/A[2]
Real Assets		**10%**		
Real Estate	NCREIF Property Index 1Q Lag	5%	N/A[2]	N/A[2]
Natural Resources	NCREIF Farmland TR Index 1Q Lag	5%	N/A[2]	N/A[2]
Infrastructure	S&P Global Infrastructure	0%	N/A[2]	N/A[2]
Total		**100%**		

1 – The investment portfolio is undergoing a transition from a legacy allocation with substantial exposure to illiquid private market assets to a more traditional allocation profile. Significant variances to long-term allocation targets are expected to gradually diminish as private market assets are monetized. Rebalancing ranges have been established to accommodate current variances to target and will be tightened over time as appropriate.

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

Appendix C – Investment Consultant Reporting Requirements

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

Quarterly (due in advance of the meeting)

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

Appendix D – Alternative Investments

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

Traditional Assets include:

1. Common Stocks: publicly traded securities representing ownership in a corporation; also known as publicly-traded equity. Examples include publicly traded equity shares of public companies, REITs, and ADRs. Regional examples include shares of companies domiciled in the US, non-US developed markets and emerging markets.

2. Bonds: publicly-traded securities, the holders of which serve as creditors to either governmental or corporate entities. Examples include government bonds and corporate bonds, including senior bank loans. Regional examples include US government issued bonds, non-US international developed markets issued bonds, and emerging markets issued bonds. Credit examples include investment grade bonds and non-investment grade bonds (e.g. high yield bonds and bank loans).

3. Cash Equivalents: short-term investments held in lieu of cash and readily convertible into cash within a short time span. Examples include CDs, commercial paper, and Treasury bills.

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

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

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

Top Ten Public Issuer Concentration at 12/31/2021

PUBLIC FIXED INCOME ISSUER	MARKET VALUE (000's)	% OF PUBLIC FIXED INCOME
Brazil Letras do Tesouro Nacional	$ 3,070	0.73%
Republic of South Africa Government Bond	2,901	0.69%
Ecuador Government International Bond	2,807	0.66%
Indonesia Treasury Bond	2,745	0.65%
Dominican Republic International Bond	2,700	0.64%
Morgan Stanley	2,622	0.62%
PetVet Care Centers	2,209	0.52%
Citigroup	2,057	0.49%
DISH Network	2,017	0.48%
Bank of America	1,985	0.47%

PUBLIC EQUITY ISSUER	MARKET VALUE (000's)	% OF PUBLIC EQUITY
Alphabet	$ 30,605	3.15%
Microsoft	20,186	2.07%
Apple	14,815	1.52%
Meta Platforms	14,744	1.52%
Taiwan Semiconductor Manufacturing	13,358	1.37%
LVMH Moet Hennessy Louis Vuitton	10,344	1.06%
Adobe	10,322	1.06%
Cisco Systems	9,848	1.01%
Keyence	8,658	0.89%
Intuit	8,187	0.84%

DALLAS POLICE & FIRE PENSION SYSTEM

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C10

Topic: **Hardship Request**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.078 of the Texas Government Code.

Discussion: Article 6243a-1 Section 6.14(e-3)(2) allows a lump-sum distribution from the DROP account in the event of a financial hardship that is not reasonably foreseeable. Section 6.14(e-4) required the Board to adopt rules related to hardship distributions. The Board's rules are contained in Section G of the DROP Policy.

A Retiree DROP Annuitant submitted an application for a lump sum distribution from his DROP balance in accordance with the DROP policy. The DROP Policy requires that:

a. severe financial hardship exists at the time of the application (i.e., not one that may occur sometime in the future);

b. the hardship cannot be relieved through any other financial means (i.e., compensation from insurance or other sources, monthly annuity benefits, or liquidation of personal assets) unless using those other sources would also cause a financial hardship; and

DISCUSSION SHEET

ITEM #C10
(continued)

c. the amount requested in the application is reasonably related to and no greater than necessary to relieve the financial hardship.

Due to the timing of when documents were received for this request, at the time of posting the agenda the Executive Director has not determined whether the Hardship request will be approved or recommended to the Board for denial.

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

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.

DISCUSSION SHEET

ITEM #D1

Topic: **Public Comment**

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

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #D2

Topic: **Executive Director's report**

a. Associations' newsletters
- NCPERS Monitor (February 2022)
- TEXPERS Pension Observer (Vol. 1 2022)
  http://online.anyflip.com/mxfu/kcff/mobile/index.html

b. Open Records

c. CIO Recruitment

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

Regular Board Meeting – Thursday, February 10, 2022

THE NCPERS
MONITOR

The Latest in Legislative News

February 2022

In This Issue

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In our modern political history midterm Congressional elections have not been kind to the parties of first-term presidents, and the seat swings in the House have been enormous in some years.

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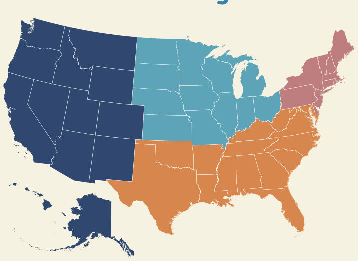
2021 NCPERS
Public Retirement Systems Study

February 2022

Our 11th annual study is a cornerstone of the NCPERS member value proposition. Once again it is rich with details on the fiscal and operational integrity of public pensions.

4 Around the Regions



This month, we will highlight Vermont, Indiana, Kentucky and New Mexico.

Pensions Deliver Benefits More Efficiently than 401(k)s, NIRS Study Finds

Defined benefit pensions continue to offer significant economic efficiencies that individual defined contribution accounts can't replicate, a new analysis by the National Institute on Retirement Security has found.

A typical pension has a 49% cost advantage as compared to a typical 401(k) plan or similar account because of features such as longevity risk pooling, higher investment returns, and optimally balanced investment portfolios, NIRS reported.

"DB plans should remain a centerpiece of retirement income policy and practice, given the persistent advantages in economic efficiency," NIRS concluded.

The report, titled *A Better Bang for the Buck 3.0: Post-Retirement Experience Drives the Pension Cost Advantag*e, is based on a comparison of defined benefit and defined contribution plans, and follows previous analyses conducted in 2008 and 2014. NIRS constructed a model that looks at the cost of achieving a target retirement benefit in a typical public sector pension plan. It then compares the cost of providing the same benefit via an "ideal" defined contribution based on generous assumptions and a typical individually directed plan.

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2022 Midterm Elections

By Tony Roda

Photo illustration © 2021, iStock.com

In our modern political history midterm Congressional elections have not been kind to the parties of first-term presidents, and the seat swings in the House have been enormous in some years. In the six most recent midterm elections held in the first term of a president, the party of the president lost House seats in five of those elections – in 1982 Ronald Reagan's GOP lost 27 seats, in 1990 George H.W. Bush's party lost 9 seats, in 1994 Bill Clinton's Democratic party lost 52 seats, Barack Obama's party lost 63 seats, and Donald Trump's GOP lost 40 seats. The only exception was in 2002 when George W. Bush's Republican Party picked up 6 seats, but recall that this was the first election after 9/11 and reflected the unique politics of that time.

Both parties are keenly aware of the pendulum swings and are gearing up for a major battle this fall. Also, the redistricting process is currently playing out in the states and in the courts. Thirteen states will either win or lose seats. In the plus column, Colorado, Florida, Montana, North Carolina, and Oregon will each gain one seat, while Texas will add two seats. Losing one seat each are California, Illinois, Michigan, New York, Ohio, Pennsylvania, and West Virginia. While this is interesting from an overall national demographic perspective, in each state control of the governorship and state legislatures as well as whether there is an independent redistricting commission will tell the final story of which party comes out ahead. The same is true for states where there are no changes in total House seats but still must redistrict.

As of this writing, the redistricting process is not completed in all states and the courts may well challenge lines that have been drawn, such as the Ohio Supreme Court recently did. According to David Wasserman, Senior Editor of the Cook Political Report, Republicans will emerge from the redistricting process with a slight advantage, but the biggest winner will be lack of competition. From what we know so far, the most competitive seats – those that voted for either Biden or Trump by less than five points – will decrease from 34 to 19 seats. In contrast, Republican leaning seats (those that voted for Donald Trump by at least five points in 2020) will increase from 106 to 117, and Democratic-leaning seats will increase from 138 to 144.

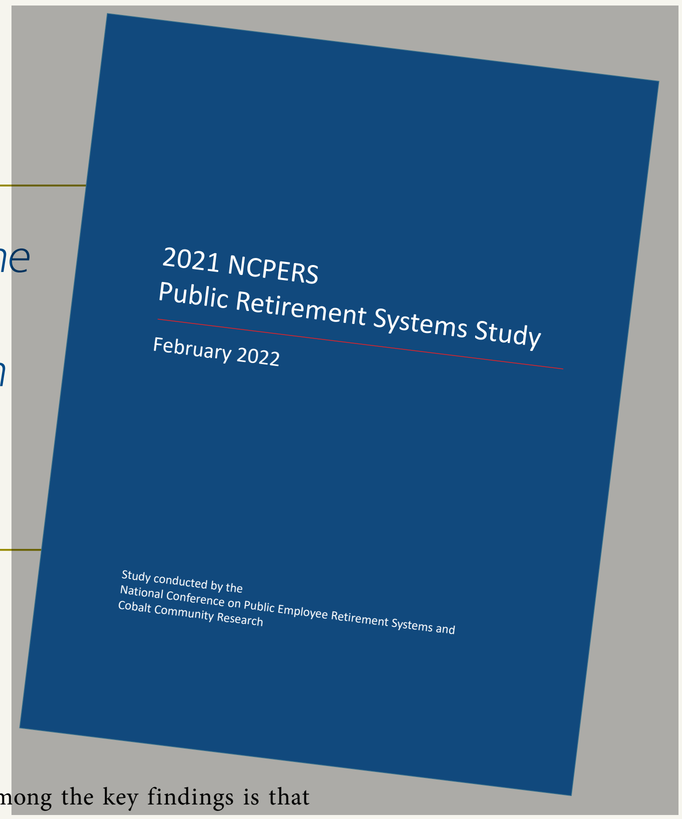
Turning to the Senate, which is currently deadlocked at 50-50, with two Independent Senators caucusing with the Democrats, the midterms present very high stakes. The 50-50 split in the Senate plus a Democratic presidential administration, with Vice President Kamala Harris as the tiebreaking vote, allows Senate Democrats to exercise the powers of the majority, namely to chair committees and set the agenda for the Senate floor.

There are 34 Senate seats up for election in 2022. One-third of Senate seats are "in-cycle" during each election. Of the 34 seats, Democrats are defending 14 and Republicans are defending 20. Eight seats are viewed as battleground or competitive, but a quick snapshot today, in my opinion, shows only three serious races: Georgia (Raphael Warnock), Wisconsin (Ron Johnson), and Pennsylvania (open, with

CONTINUED ON PAGE 5

NCPERS Executive Directors Corner

NCPERS Annual Census of Pension Systems Is a Valuable Benchmarking Tool



Our 11th annual study is a cornerstone of the NCPERS member value proposition. Once again it is rich with details on the fiscal and operational integrity of public pensions.

The 2021 NCPERS Public Retirement Systems Study has arrived, providing members with a dynamic tool for benchmarking and comparing practices of public pension systems.

Our 11th annual study is a cornerstone of the NCPERS member value proposition. Once again it is rich with details on the fiscal and operational integrity of public pensions, and includes a dashboard that members can use to refine data and customize peer groups. We hope you will join us on DATE at 1 pm Eastern Standard Time for our annual webinar to go over the findings and the dashboard's capabilities.

The study, conducted between September and December 2021, draws on data from the latest fiscal year for 156 public pension plans with aggregate assets of $2.6 trillion. Because fiscal year-end dates vary, most participants submitted data for either calendar year 2020 or the 12 months ended June 30, 2021.

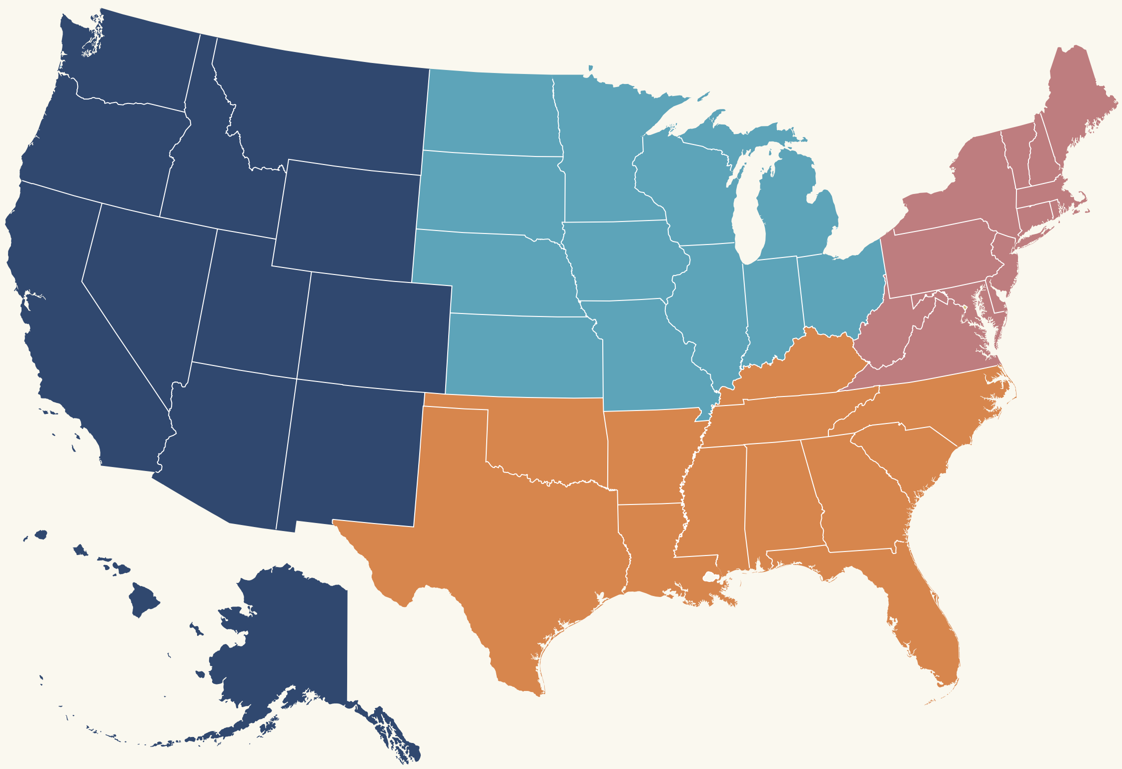
Among the key findings is that public pension funds continued to tightly manage expenses and reduce their assumed rates of return. The study found that the expense for administering funds and paying investment managers fell to 54 basis points in the 2021 study, down from 60 basis points in 2020. This demonstrates how well pension plans stack up against hybrid mutual funds, which had an annual expense rate of 59 basis points, according to the 2021 Investment Company Fact Book. One hundred basis points equals one percentage point.

Pension funds reduced their assumed annual rates of return to an average of 7.07% in 2021, down from 7.26% a year earlier. The members-only dashboard enables users to slice and dice investment return data, including differentiating between pension systems whose members participate in Social Security and those that don't.

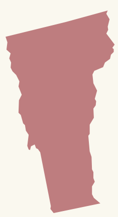
CONTINUED ON PAGE 6

NCPERS Around the Regions

This month, we will highlight Vermont, Indiana, Kentucky and New Mexico.



NORTHEAST: Vermont



Vermont's Pension Benefits, Design, and Funding Task Force issued its final report on January 10, endorsing a package of recommendations and setting the stage for legislative action.

The report culminated 18 meetings and public hearings that were conducted between July 2021 and January 2022 to collect stakeholder feedback about addressing unfunded liabilities. The funded ratios of the separate pension plans for state employees and teachers had declined at the end of fiscal year 2021 to 67.6% and 52.9%, respectively, versus 94.1% and 80.9% at the end of fiscal year 2008.

The task force recommended committing $200 million for one-time appropriations to reduce unfunded liabilities—$75 million for the state employees' plan and $125 million for the teachers' plan. They also proposed earmarking 50% of revenue surpluses in the state's general fund to be evenly split between the two pension plans.

The next steps are for the reform plan to be crafted into a bill, which would initially be considered by the Senate Government Operations committee.

The legislature formed the task force in April after a public pension overhaul bill attracted a strong backlash from teachers and employees, including public demonstrations in opposition. The new proposal was crafted by a task force consisting of lawmakers and representatives from the Vermont chapter of the National Education Association, the Vermont State Employees Association, and the Vermont Troopers Association.

The deal before lawmakers now keeps the retirement age for teachers as is, and it preserves a cost-of-living adjustment. Steve Howard, the executive director of the VSEA, told the news website VTDigger that the deal eliminates changes to the pension that

CONTINUED ON PAGE 7

NIRS STUDY CONTINUED FROM PAGE 1

NIRS broke down the elements of the 49% cost advantage of a typical defined benefit plan versus a typical defined contribution plan, which puts the burden on an individual worker to manage their portfolio.

- Longevity risk pooling accounts for 7% of the cost savings. NIRS noted that pooling risk enables pension funds to fund benefits based on average life expectancy, while paying each worker monthly income no matter how long they live. Workers with defined contribution plans, on the other hand, have to self-insure against the possibility of living longer and outlasting their financial resources by making excess contributions.

- A more diversified portfolio makes up 12% of the cost savings. Pensions are "ageless" and therefore "can perpetually maintain an optimally balanced investment portfolio rather than the typical individual strategy of downshifting over time to a lower risk/return asset allocation," the report said. The upshot is that over a lifetime, pensions earn higher investment returns as compared to defined contribution accounts.

- Superior investment returns from lower fees and professional asset management accounts for 30% of the cost savings. Pensions realize higher net investment returns due to professional management and lower fees from economies of scale, the report said.

Pensions maintained their advantage even when compared to an "ideal" defined contribution account. A defined benefit pension plan costs 27% than such a plan, which would be generously modeled to include the same fees and investor skill as a pension plan.

Stated another way, the report found that a defined contribution plan would require contributions equal to 16.5% of payroll to achieve a target retirement benefit that will replace 54% of final salary. An individually directed defined contribution almost twice as much—32.3% of payroll. And even an "ideal" plan would need 22.6% of payroll to provide the targeted benefits.

NIRS said that four-fifths of the difference in costs between pensions and defined contribution accounts occurs during the post-retirement period. "Retirees typically move from an environment that benefits from a long investment horizon and fiduciary protections to one where individuals manage their spend-down on a short-term basis without the benefits associated with longevity risk pooling," the report said.

The report also tackles two new topics: The impact of the current low interest rate environment on portfolios, and how saving mid-career rather than early in a career reduces total retirement savings. ◆

2022 MIDTERM ELECTIONS CONTINUED FROM PAGE 2

Pat Toomey retiring). This number is certain to grow, however, and will be highly dependent on who wins the various party primaries and the mood of the country in the fall. Interestingly, and on a slightly positive note for Senate Democrats, of the 14 seats they are defending, all of them were carried by President Biden, while Republicans are defending two seats that President Trump lost – Wisconsin and Pennsylvania.

It's impossible to predict the outcome of elections that will be held nine months from now; in most years it's impossible for professional prognosticators to predict an election that will occur the next day. However, with fewer competitive seats in the House over the next decade, the political center of that body will be starved of influence. As a result, reaching consensus in the House on major policy issues will become even more difficult to achieve.

The Senate, meanwhile, which cannot move legislation unless 60 votes are attained, will continue to be the chamber where major initiatives are hammered out. We've seen an example of this in the current Congress, with the Senate's bipartisan infrastructure bill ultimately being approved by the House without any changes.

Be assured that NCPERS will be closely monitoring the upcoming midterm elections and will provide its members with updates when significant matters arise. ◆

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

EXECUTIVE DIRECTORS CORNER CONTINUED FROM PAGE 3

It's worth noting that pension systems were trimming their assumptions at a time when markets were starting to go gangbusters. Funds reported one-year returns averaging 14%, five-year returns of 8.7% annually, 10-year returns of 8.4% annually, and 20-year returns of 6.7% annually. This willingness to reduce expectations amid robust market performance is clear evidence that trustees take their fiduciary responsibilities seriously. Many are pursuing cost savings and adopting more conservative assumptions despite the fact that some market segments are exceeding performance expectations.

This year's study participants were roughly evenly split between statewide pension systems—47%—and local pension systems—53%. NCPERS conducted the 11th annual study from September through December 2021 in partnership with Cobalt Community Research. In other key findings:

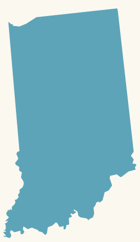
- Pension systems said earnings on investments accounted for 68% of overall pension revenues in their most recent fiscal year. Employer contributions made up 23% of revenues, and employee contributions totaled 8%.
- The Covid-19 pandemic accelerated efforts by public pension systems to expand their communications capabilities. In all, 78% offered live web conferences to members during 2021, up from 54% a year earlier.
- Pension funds that participated in the survey in 2020 and 2021 reported that their funded levels rose to 72.3%, from 71.7%. Overall, pension funds reported a funded level of 74.7% for 2021. While funded levels are not as important to pensions' sustainability as steady contributions are, the trend is positive.
- The inflation assumption for the funds' most recent fiscal year remained steady at 2.7%. These assumptions were in place in the midst of an acceleration in the rate of inflation, which reached 7% at the end of 2021, from 1.4% a year earlier, as reported by the Bureau of Labor Statistics.
- Among pension systems that offered a cost-of-living adjustment (COLA) to members, the average in the most recent fiscal year was 1.7%, the same as a year earlier. Many responding funds did not offer a COLA in the most recent fiscal year.
- A growing proportion of respondents—54%—excluded overtime pay from the benefit calculation in their most recent fiscal year, versus 51% a year earlier. ◆

NCPERS Around the Regions

AROUND THE REGIONS CONTINUED FROM PAGE 4

would require the union's members to work longer for a less secure retirement. Another key win, according to Howard, is the panel promised to look into creating a new pension benefit group for staff at the Department of Corrections, which is facing unprecedented levels of turnover. Vermont State Treasurer Beth Pearce would have to find a cost-neutral way to pay for it by April 15.

MIDWEST: Indiana



Hancock County in the greater Indianapolis metropolitan area has agreed to use its food and beverage tax to fund a pension shortfall for the Buck Creek Township Fire Department.

Leveraging $83,000 in county funds will forestall plans to cut firefighters' pay this year, the *Daily Reporter* of Greenfield, Ind., said. The township has covered the firefighters' portion of the contribution to the pension plan in the past, but determined late last year to needed to shift the cost to firefighters.

The pension shortfall stemmed from township leaders' efforts to improve the township's accounting. Bill Bolander, president of the Hancock County Council, said he felt the circumstances justified the county's involvement, according to the *Daily Reporter*. "They've got a new regime to look after things, and coming in behind somebody is hard," he said.

Brandon Wilch, a Buck Creek Township paramedic and firefighter who represents the department's professional firefighters in their union, said he and his fellow firefighters are grateful for the response to the problem by the county commissioners and county council.

"The funding granted by the council gives Buck Creek Township the opportunity through the year to re-evaluate the budget to ensure we aren't in this position again," Wilch told the *Daily Reporter* in an email. "This funding provides continued stability for the firefighters and their families for 2022."

SOUTH: Kentucky

Pension funding was a cornerstone of the $100 billion, two-year budget that the Kentucky House of Representatives approved on January 20, sending it to the Senate for further consideration.

The budget vote culminated two weeks of verbal sparring after Republican-majority House lawmakers unveiled their budget plan on January 7, breaking protocol by jumping ahead of Democratic Governor Andy Beshear's January 13 budget address. The Kentucky Democratic Party denounced the House's preemptive strike as "unprecedented" and "petty."

The lawmakers said their plan would fully fund the pension systems, provide pay increases for Kentucky State troopers and government employees, and invest in infrastructure and education. Laying out his own budget, Beshear emphasized plans to pay down pension liabilities.

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NCPERS Around the Regions

AROUND THE REGIONS CONTINUED FROM PAGE 7

The two proposals spend the same amount of general fund dollars on the Kentucky Teachers' Retirement System, approximately $860 million in each of the next two years. Both also pay the full amount to Kentucky Retirement System.

Beshear's budget allots $750 million over the next two years to reduce the state's nearly $27 billion public pension debt. The Republicans' bill allocates $415 million in the current fiscal year – $215 million for the Kentucky State Police Retirement Fund and $200 million for the Kentucky Employee Retirement System Nonhazardous pension fund.

WEST: New Mexico

Funds to recruit teachers, provide raises for public education employees, and hire police are part of the $8.4 billion-plus budget proposals currently under consideration in the Land of Enchantment.

The state has enjoyed a surge in income, resulting in a budget increase of $1 billion, or 14%, versus fiscal 2021. The surge primarily results from the oil and natural gas industry and surging petroleum production in the Permian Basin, which overlaps southwest New Mexico and western Texas.

The lead budget-writing committee for the Democrat-led Legislature outlined its spending priorities ahead of a 30-day legislative session that began Jan. 18. "New Mexico has an opportunity for generational change with the amount of money that we have," Democratic Sen. George Muñoz told the *Las Cruces Sun News*.

The Legislature's plan is aligned in major respects with Democratic Governor Michelle Lujan Grisham's budget proposal. Both plans include a 7% pay increase for public education workers, plus additional taxpayer support for pensions and medical care.

Public employees at most state government agencies would receive similar pay raises in two stages, starting in April, under the Legislature's plan.

General fund spending under the legislative proposal would increase to $8.46 billion, while the governor's budget calls for nearly $8.45 billion. That's up from $7.46 billion for the current fiscal year that ends in June 2022.

The state's surge in income is linked primarily to the oil and natural gas industry and surging petroleum production in the Permian Basin that overlaps southwest New Mexico and western Texas.

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Calendar of Events 2022

May

Trustee Educational Seminar (TEDS)
May 21 – 22
Washington, DC

Program for Advanced Trustee Studies (PATS)
May 21 – 22
Washington, DC

NCPERS Accredited Fiduciary (NAF) Program
May 21 – 22
Washington, DC

Annual Conference & Exhibition (ACE)
May 22 – 25
Washington, DC

June

Chief Officers Summit
June 27 – 29, 2022
San Francisco, CA

August

Public Pension Funding Forum
August 21 – 23
Los Angeles, CA

October

Public Safety Conference
October 25 – 28
Nashville, TN

The Voice for Public Pensions

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