

Dallas Police and Fire Pension System
Wednesday, November 1, 2016
10:00 a.m.
Second Floor Board Room
4100 Harry Hines Blvd., Suite 100
Dallas, TX

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

ROLL CALL

Board Members

Present at 10:00 William F. Quinn, Nicholas A. Merrick, Samuel L. Friar, Blaine Dickens, Ray Nixon, Gilbert A. Garcia, Frederick E. Rowe, Tina Hernandez Patterson (via telephone), Robert C. Walters, Joseph P. Schutz, Kneeland Youngblood

Absent: None

Staff

Kelly Gottschalk, Josh Mond, Summer Loveland, John Holt, Damion Hervey, Cynthia Thomas, Ryan Wagner, Milissa Romero, Greg Irlbeck, Linda Rickley

Others

Chuck Campbell, Rocky Joyner, Jeff Williams, Rhett Humphreys, John Ricketts, Jesse Hill, Steve Johnson, James E. Hunter, David Williams, James F. Hill II, Robert Benitez, Linda Dollar, Paul Ellzey, Evelyn Mayfield, Ronald B. Parrish, Steve L. Slaton, L. D. Fox, Leon Hollins, Diana Swaner, Rebecca W. Casey, Robert B. Winters, Mark S. Reed, Thomas M. Payne, Shirley Henry, Lawrence Henry, Roy Binion, Ronald Hale, Melissa Miller, Kim Slaughter, Kelly Wagoner, Donald A. Rogers, Jerry M. Rhodes, Ernest Perez, Jesse Aguirre, John D. Hancock, Thomas Miller, David Slaughter, Bill Ingram, Dale Erves, Chris Williams, Frank Varner, Leah Frank Applewhite, Jacqueline Tahbone, Michael Gomez, Warren B. Wilson, Dixie R. Dickerson, Raul Duarte, Salvador Morales, Tracy Landess, Robert Trail, Lorenza Beacham, David E. Gibson, Bryant Tillery, Perro Henson, Janis Elliston, Richard Langlin, Billy W. Pell, Rudolf R. Fernandez, Larry Williams, Jerry Walton, Nick Sullivan, Ronnie Roe, David J. Slavik, Jack Henderson, Anthony Arredondo, Ken Strader, Sam Hickson, John Means, Tom Moore, Pat Welsh, Rick Salinas, James R. Jones, Christopher Cooper, Debra Carlin, Millie Sue England, Carol Richtsmeier, Bill Hunt, Jess E. Leonard, Patricia

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Others, (Continued) Leonard, Lloyd D. Brown, Jerry W. Knoerr, Steve Coffman, Paul W. Myers, Danny Miller, Gregory Courson, Abel Ramirez, Jim Aulbaugh, Willie Reynolds, Jimmy Bollman, John L. Carter, Jacky Vest, Don Howard, Sam Brodner, Michael Watson, Marcus Dollar, Jerry Miller, Laura Spray, Ken Haben, Jack Collins, Leonard G. Jordan Jr., Bruce G. Anderson, C. J. Thomas, John P. Denk, Michael Mason, Max Kirk, Joe Pierce, Denny Hagar, Daryl Hall, Jess Lucio, Jr., Kristi England, Harold Holland, Dwayne England, George L. Stroud, William R. Paris, Jr., Philip Braun, Martin Kemp, Sr., Phillip Murray, Forrest Fenwick, Mark Gibbons, Ray Lemasters, Mike Morgan, Edward Davis, Michael Spiotta, Joseph A. Freeze, James Robinson, Julian Bernal, Jose Mendez, Larry Evans, Danny Millaway, Elton Garrett, James Greene, Sam Mandell, Larry Goldsmith, Sandino Contreras, Jerry Hejl, James Freeman, Mike Bartis, Mark Stovall, Frank Ruspoli, Gordon Dreyfus, Steve Corder, Michael Cole, Charlie Gale, Elisa Keaveney, J. V. Smith, J. A. Thomas, Scott White, Steve Fass, Felecia Kemp, Stephen Gunn, Vidal Armando, Boux Bland, Michael Otto, Curtis Gage, Andy Acord, Carolyn Freeman, W. R. Bricker, Tom Moorman, Aaron Anderson, Pat Lewter, Clay Bramblitt, Rick Thomas, Obie Cartmill, Bill Keaveney, William Huffman, Thomas Carr, Michael Ray Dorety, Scotland Chambers, William D. Fries, Judy Richie, Phil Ruzicka, Malcolm May, Robert Palmer, Donald Casey, Ennis Hill, Rudy Gonzales, A. B Cardenas, D. S. McDermott, Joe Alexander, Warren Martin, Holly Carter, A. D. Donald, Jack Harrison, Teresa Slaton, Lyle Reagan, Chuck Swaner, Danny Campbell, Gary K. Woods, Sherryl Scott, Jaci Applewhite, Randall Yanowski, Charles Hale, David Elliston, Joe C. Guzman, Hoyt Hubbell, Herbert Royal, Ricky Rand, Charlotte Winters, Tonesha Winters, Keith Allen, David Tafalla, Diana Zoga, John Thompson, Tristan Hallman

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The meeting was called to order at 10:02 a.m.

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DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

A. CONSENT AGENDA

Approval of Minutes

Regular meeting of October 12, 2017

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A. CONSENT AGENDA (continued)

After discussion, Mr. Friar made a motion to approve the minutes of October 12, 2017, subject to the final approval of the staff. Mr. Youngblood seconded the motion, which was unanimously approved by the Board.

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

1. 2018 Board meeting calendar

The Board and staff discussed options for scheduling the 2018 regular monthly Board meetings.

The Board directed that the Board meetings for the remainder of 2017 will be held on the second Thursday of the month beginning at 8:30 a.m. In 2018, the Board meetings will be held on the second Thursday of each month. The January through April meetings will begin at 1:00 p.m. The Board will decide the start time for the May through December meetings at a later time.

No motion was made.

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2. Deferred Retirement Option Plan (DROP) Policy

- a.** Discussion of draft DROP Policy including DROP balance annuitization, DROP revocation election and hardship distributions
- b.** Legal considerations

Ms. Gottschalk stated that the DROP Policy must be amended to comply with the changes that HB 3158 made which impact DROP. Staff presented a draft DROP Policy for consideration by the Board.

Rocky Joyner and Jeff Williams, representatives of DPFP's Actuary, Segal Consulting, were present to provide support to the Board in considering the draft policy.

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2. Deferred Retirement Option Plan (DROP) Policy (continued)

The Board went into a closed executive session – legal at 10:07 a.m.

The meeting was reopened at 11:29 a.m.

The Board directed staff to pay the DROP annuitization amounts monthly as the default option, with 60 days to request an annual payment option instead.

After discussion, Mr. Youngblood made a motion to accept the mortality table presented by the Actuary. Mr. Walters seconded the motion, which was approved by the following vote:

For: Youngblood, Walters, Quinn, Merrick, Friar, Nixon, Rowe, Schutz

Against: Dickens, Garcia, Hernandez Patterson

After discussion, Mr. Garcia made a motion that the Board adopt a variable interest rate based on US Treasury bonds, plus a spread that is based on the market. The motion died for the lack of a second.

After discussion, Mr. Youngblood made a motion that the Board approve the staff recommendation to adopt a fixed interest rate at the time of annuitization, with the rates for each quarter to be set at the average of the prior three months' rates as of the 15th of each month, based on the U.S. Department of Commerce Daily Treasury Yield Curve Rates, and for life expectancies greater than 30 years, that the 30-year rate would be used. Mr. Merrick seconded the motion, which passed by the following vote:

For: Youngblood, Merrick, Quinn, Nixon, Rowe, Hernandez Patterson, Walters

Against: Friar, Schutz, Garcia, Dickens

After discussion, Mr. Walters made a motion to include interest for the period from September 1, 2017 to the annuitization commencement, based on the DROP balance as of September 1, 2017, and adjusted for any change in the balance since September 1, 2017. Mr. Nixon seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Garcia made a motion that the Board accept all current criteria for DROP hardship distributions and then consider each of the possible expanded criteria presented by staff. Mr. Friar seconded the motion.

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2. Deferred Retirement Option Plan (DROP) Policy (continued)

After discussion, Mr. Garcia amended his motion to state that the Board accept all current criteria for DROP hardship distributions, with some reasonable verification by staff regarding a Member's financial resources, and then consider each of the possible expanded criteria presented by staff. Mr. Friar accepted the amended motion, which failed by the following vote:

For: Garcia, Friar, Schutz, Dickens, Hernandez Patterson

Against: Quinn, Merrick, Nixon, Rowe, Walters, Youngblood

After discussion, Mr. Youngblood made a motion to accept the current criteria for DROP hardship distributions, with some reasonable verification by staff regarding a Member's financial resources, but to exclude from the criteria for hardship distributions the imminent foreclosure or eviction from a primary residence and expenses related to an automobile accident involving a DROP account holder not covered by insurance. Mr. Walters seconded the motion.

After discussion, Mr. Youngblood amended the motion to include other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Retiree Annuitant. Mr. Walters accepted the amended motion, which passed by the following vote:

For: Youngblood, Walters, Quinn, Merrick, Friar, Dickens, Nixon, Rowe, Hernandez Patterson, Schutz

Against: Garcia

After discussion, Mr. Garcia made a motion to expand the hardship criteria for the need to repair damage to a primary residence to include significant damage caused by significant events such as fire or flood, in addition to damage caused by natural disasters, and to expand the hardship criteria for funeral expenses to include parent, child, and grandchild, regardless of dependency and to allow necessary associated travel costs. Mr. Friar seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Garcia made a motion to expand the hardship criteria to include the Free Application for Federal Student Aid (FAFSA)-determined Expected Family Contribution amount for Postsecondary education below the graduate level at an eligible institution for a dependent person who is or was a dependent of the Retiree Annuitant. Mr. Schutz seconded the motion, which failed by the following vote:

For: Garcia, Schutz, Dickens, Friar, Hernandez Patterson

Against: Quinn, Merrick, Nixon, Rowe, Walters, Youngblood

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2. Deferred Retirement Option Plan (DROP) Policy (continued)

After discussion, Mr. Walters made a motion to accept the staff recommendation to calculate the interest owed on DROP revocations using the actuarial rate of return assumption used in the annual actuarial valuations, compounded annually, from the date the contribution would have been made through the date of service purchase. Mr. Youngblood seconded the motion.

After discussion, Mr. Walters amended the motion to base the interest owed on DROP revocations on an established Consumer Price Index (CPI) until March 1, 2018, and thereafter, the assumed rate of return in effect until payment is completed. Mr. Youngblood accepted the amended motion, which was approved, as follows:

For: Walters, Youngblood, Quinn, Merrick, Friar, Dickens, Nixon, Garcia, Rowe, Schutz

Against: Hernandez Patterson

After discussion, Mr. Garcia made a motion to authorize the Executive Director to take all necessary actions to commence the DROP annuitizations. Mr. Nixon seconded the motion, which was unanimously approved by the Board. Messrs. Walters and Youngblood were not present when the vote was taken.

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The meeting was recessed at 12:35 p.m.

The meeting was reconvened at 12:57 p.m.

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3. Hybrid Defined Contribution/Defined Benefit plan analysis scope of work

Ms. Gottschalk stated that Section 3.01(j-5)(2) of Article 6243a-1 requires the Board, by January 1, 2018, “to conduct an evaluation of ...the impact, including the impact on the combined pension plan, of establishing one or more alternative benefit plans, including a defined contribution plan or a hybrid retirement plan that combines elements of both a defined benefit plan and a defined contribution plan, for newly hired employees of the city and for members who voluntarily elect to transfer to an alternative benefit plan.”

Rocky Joyner and Jeff Williams, representatives of DFPF’s Actuary, Segal Consulting, presented an outline for the Board of a proposed analysis to satisfy the requirements of Section 3.01(j-5)(2). With direction from the Board, Segal will return for the December Board meeting to present the analysis and results.

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3. Hybrid Defined Contribution/Defined Benefit plan analysis scope of work
(continued)

Mr. Youngblood was not present for this item.

No motion was made.

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4. Voting requirements for Board action under Article 6243a-1

The Board went into a closed executive session – legal at 10:07 a.m.

The meeting was reopened at 11:29 a.m.

The Board’s legal counsel briefed the Board on the new voting requirements under Article 6243a-1 for the Board to take action.

No motion was made.

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5. Ashmore: Emerging Market Debt allocation

Staff stated that DPF has approximately \$19.2 million, or 0.90% of the portfolio, invested in the Ashmore Emerging Markets Local Currency Bond Fund (“Local Currency Fund”) which is held within the Emerging Markets Debt allocation. DPF’s target allocation to Emerging Markets Debt is 6%. At the July 13, 2017 meeting, the Board approved an initial investment of \$50 million, with authority to increase the investment up to \$70 million, into the Ashmore EM Blended Debt Fund LP (“EM Blended Debt Fund”), with the intention of liquidating the investment in the Local Currency Fund and using the proceeds as a funding source for the EM Blended Debt Fund.

After discussion, Mr. Nixon made a motion to authorize liquidation of DPF’s investment in the Ashmore Emerging Markets Local Currency Bond Fund and to invest \$20 million in the Ashmore EM Blended Debt Fund. Mr. Merrick seconded the motion, which was unanimously approved by the Board. Messrs. Walters and Youngblood were not present for the vote.

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6. Short-Term Core Bond allocation

Staff stated that at the October 12, 2017 Board meeting, staff and NEPC discussed with the Board their recommended rebalancing plan to deploy excess cash on hand. The Board voted, in light of the recent seating of all trustees and the need for the full Board to study and possibly amend the Investment Policy Statement, to suspend the Investment Policy Statement solely for the purpose of the Board directing staff to invest \$60 million with Income Research & Management (“IR+M”) in Short-Term Core Bonds and \$15 million in Global Equity, allocated as directed by the Executive Director. Based on discussions with IR+M, staff does not recommend investing the \$60 million in the Short-Term Core Bond portfolio over a short, but unknown time period, due to high transaction costs and longer liquidity periods based on the separate account structure of the DFPF portfolio. Staff and Mr. Humphreys, of NEPC, discussed possible alternatives to the IR+M portfolio for the \$60 million of excess cash on hand.

After discussion, Mr. Merrick made a motion to hold DFPF’s excess cash at JPMorgan, the custodian bank. Mr. Garcia seconded the motion, which was unanimously approved by the Board. Messrs. Walters and Youngblood were not present for the vote.

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7. Executive Director appointment

Ms. Gottschalk stated that Section 1.54 of HB 3158 requires the Board by January 1, 2018 to appoint an Executive Director under Section 3.04 of Article 6243a-1.

In considering such appointment, Section 3.04 (a-1) provides:

“During any period in which the most recent actuarial valuation of the pension system indicates that the period needed to amortize the unfunded actuarial accrued liability of the pension system exceeds 35 years, the board shall, to the extent lapsed investments are a significant portion of the pension system's assets, ensure that the executive director appointed under Subsection (a) of this section has, or hires staff that has, appropriate experience in managing a business entity with lapsed investments in a manner that resulted in the improved liquidity or profitability of the business entity.”

The Board went into a closed executive session – personnel at 2:28 p.m.

The meeting was reopened at 2:58 p.m.

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7. Executive Director appointment (continued)

After discussion, Mr. Youngblood made a motion to reappoint Kelly Gottschalk as Executive Director. Mr. Nixon seconded the motion, which was unanimously approved by the Board.

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Mr. Youngblood left the meeting at 2:58 p.m.

Mr. Walters left the meeting at 3:05 p.m.

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C. BRIEFING ITEM

Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System

The Board heard member and pensioner comments.

No motion was made.

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Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Garcia and a second by Mr. Friar, the meeting was adjourned at 3:15 p. m.

[signature]

William F. Quinn
Chairman

ATTEST:

[signature]

Kelly Gottschalk
Secretary

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