AGENDA

DALLAS POLICE & FIRE PENSION SYSTEM

Date: May 5, 2023

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, May 11, 2023, in the Second Floor Board Room at 4100 Harry Hines Boulevard, Dallas, Texas and via telephone conference for audio at 214-271-5080 access code 588694 or Toll-Free (US & CAN): 1-800-201-5203 and Zoom meeting for visual https://us02web.zoom.us/j/81745334176?pwd=MHlPcWZPc2xzYnJMNFVYeXh5Vmhidz09 Passcode: 514630.** 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 April 13, 2023

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

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

4. **Approval of Estate Settlements**

5. **Approval of Survivor Benefits**

6. **Approval of Service Retirements**

7. **Approval of Alternate Payee Benefits**

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. **Quarterly Financial Reports**

2. **Monthly Contribution Report**

3. **Audit Plan**

4. **Report on Audit Committee Meeting**

5. **Benefits Overpayment**

   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.

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

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

7. **Portfolio Update**

8. **Natural Resources Portfolio Review - BTG Pactual**

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

9. **Review Police Officer and Fire Fighter Trustee applicant qualifications**

    Portions of the discussion under this topic may be closed to the public under the terms of Section 551.074 of the Texas Government Code.

10. **Legislative Update**

11. **Independent Actuarial Analysis**

    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.

12. 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 (May 2023)

b. Open Records

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

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

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
Larry L. Howard	Retired	Police	Apr. 18, 2023
Kevin M. Green	Active	Police	Apr. 19, 2023
Darryl W. McGuire	Retired	Fire	Apr. 19, 2023
Ronald D. Childre	Retired	Fire	Apr. 21, 2023
Michael R. Roach	Retired	Fire	Apr. 28, 2023
R. H. Barrett	Retired	Fire	May 1, 2023

Regular Board Meeting –Thursday, May 11, 2023

Dallas Police and Fire Pension System
Thursday, April 13, 2023
8:30 a.m.
4100 Harry Hines Blvd., Suite 100
Second Floor Board Room
Dallas, TX

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

ROLL CALL

Board Members

Present at 8:31 a.m.	Nicholas A. Merrick (by telephone), William F. Quinn, Armando Garza (by telephone), Kenneth Haben, Steve Idoux (by telephone), Mark Malveaux (by telephone), Tina Hernandez Patterson, Anthony Scavuzzo, Marcus Smith
Absent:	Michael Brown, Nancy Rocha
Staff	Kelly Gottschalk, Josh Mond, Ryan Wagner, Brenda Barnes, Akshay Patel, John Holt, Nien Nguyen, Milissa Romero, Cynthia J. Thomas
Others	Ron Pastore, Aaron Lally, Tom Tull, Mark Morrison (by telephone), John Gnann, Shawn Rabb, Kristi Walters, Michael Taglienti

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The Regular 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 Clinton L. Metcalf, Johnnie M. Wilson, William W. Simpson, John H. Cheung, John N. Feinglas, Richard F. Moore, and retired firefighters Allen J. Richards, Robert E. Melton, Craig G. Anderson, Gerald R. Sellers.

No motion was made.

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Regular Board Meeting
Thursday, April 13, 2023

B. CONSENT AGENDA

1. **Approval of Minutes**

   Regular meeting of March 9, 2023

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

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

4. **Approval of Estate Settlements**

5. **Approval of Survivor Benefits**

6. **Approval of Service Retirements**

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

After discussion, Mr. Scavuzzo made a motion to approve the minutes of the Regular meeting of March 9, 2023. 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. Scavuzzo 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. **Real Estate: AEW Presentation**

   The Board went into closed executive session at 8:37 a.m.

   The meeting reopened at 9:51 a.m.

   Ron Pastore, Senior Portfolio Manager for AEW Capital Management (AEW) updated the Board on the status and plans for DPFP's investments in RED Consolidated Holdings (RCH) and Camel Square.

   No motion was made.

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Regular Board Meeting
Thursday, April 13, 2023

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Mr. Idoux left the meeting at 9:33 a.m.

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2. Monthly Contribution Report

The Executive Director reviewed the Monthly Contribution Report.

No motion was made.

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3. Board approval of Trustee education and travel

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

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

No motion was made.

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4. Board Members' reports on meetings, seminars and/or conferences attended

Mr. Haben and Ms. Hernandez Patterson reported on the TEXPERS 2023 Annual Conference.

No motion was made.

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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, April 13, 2023

6. Report on the Investment Advisory Committee

The Investment Advisory Committee met on March 23, 2023. The Committee Chair and Investment Staff commented on the Committee's observations and advice.

No motion was made.

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7. Investment Practices and Performance Report

Section 802.109 of the Texas Government Code requires that a public retirement system shall select an independent firm to evaluate the appropriateness, adequacy, and effectiveness of the retirement system's investment practices and performance and to make recommendations for improving the retirement system's investment policies, procedures, and practices.

Section 802.109 requires systems with assets of at least $100 million to complete an evaluation once every 3 years. Meketa was hired to conduct the initial report in 2020 and was re-engaged in 2023. Section 802.109 calls for any written responses from the system to accompany the evaluation report.

Aaron Lally, Principal of Meketa Investment Group discussed the Investment Practices and Performance Report.

After discussion, Mr. Scavuzzo made a motion to approve the DPFP responses to the report submitted by Meketa and authorize submission of the Meketa report and DPFP responses to the Texas Pension Review Board. Mr. Smith seconded the motion, which was unanimously approved by the Board.

Mr. Idoux was not present when the vote was taken.

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8. 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 2024. These estimates are intended to assist the Board in evaluating the expected time frame to reduce DPFP's exposure to these assets and the implications for the public asset redeployment, overall asset allocation, and expected portfolio risk and return.

No motion was made.

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Regular Board Meeting
Thursday, April 13, 2023

9. Staff 457 Plan

At the March Board meeting staff briefed the Board on changing the investment selections for the staff 457(b) plan. During the process of implementing these changes, staff discovered that the original 457(b) plan from 2005 was implemented without Board approval.

After discussion, Mr. Quinn made a motion to authorize the Executive Director to execute an Amended and Restated 457(b) Deferred Compensation Plan. Mr. Smith seconded the motion, which was unanimously approved by the Board.

Mr. Idoux was not present when the vote was taken.

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10. Legislative Update

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

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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 11:04 a.m.

The meeting reopened at 11:29 a.m.

The Board and staff discussed legal issues.

After discussion, Mr. Scavuzzo made a motion to authorize the Executive Director and General Counsel to oppose the current version of HB 4653 until such time as the bill is amended appropriately in their discretion at which time the Board will be neutral on the bill. Mr. Smith seconded the motion, which was unanimously approved by the Board.

Mr. Idoux was not present when the vote was taken.

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Regular Board Meeting
Thursday, April 13, 2023

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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2. Executive Director's report

a. Associations' newsletters
- NCPERS Monitor (April 2023)
- NCPERS PERSist (Spring 2023)

b. Open Records

The Executive Director's report was presented.

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Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Haben and a second by Ms. Hernandez Patterson, the meeting was adjourned at 11:30 a.m.

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William F. Quinn
Vice Chairman

ATTEST:

____
Kelly Gottschalk
Secretary

DISCUSSION SHEET

ITEM #C1

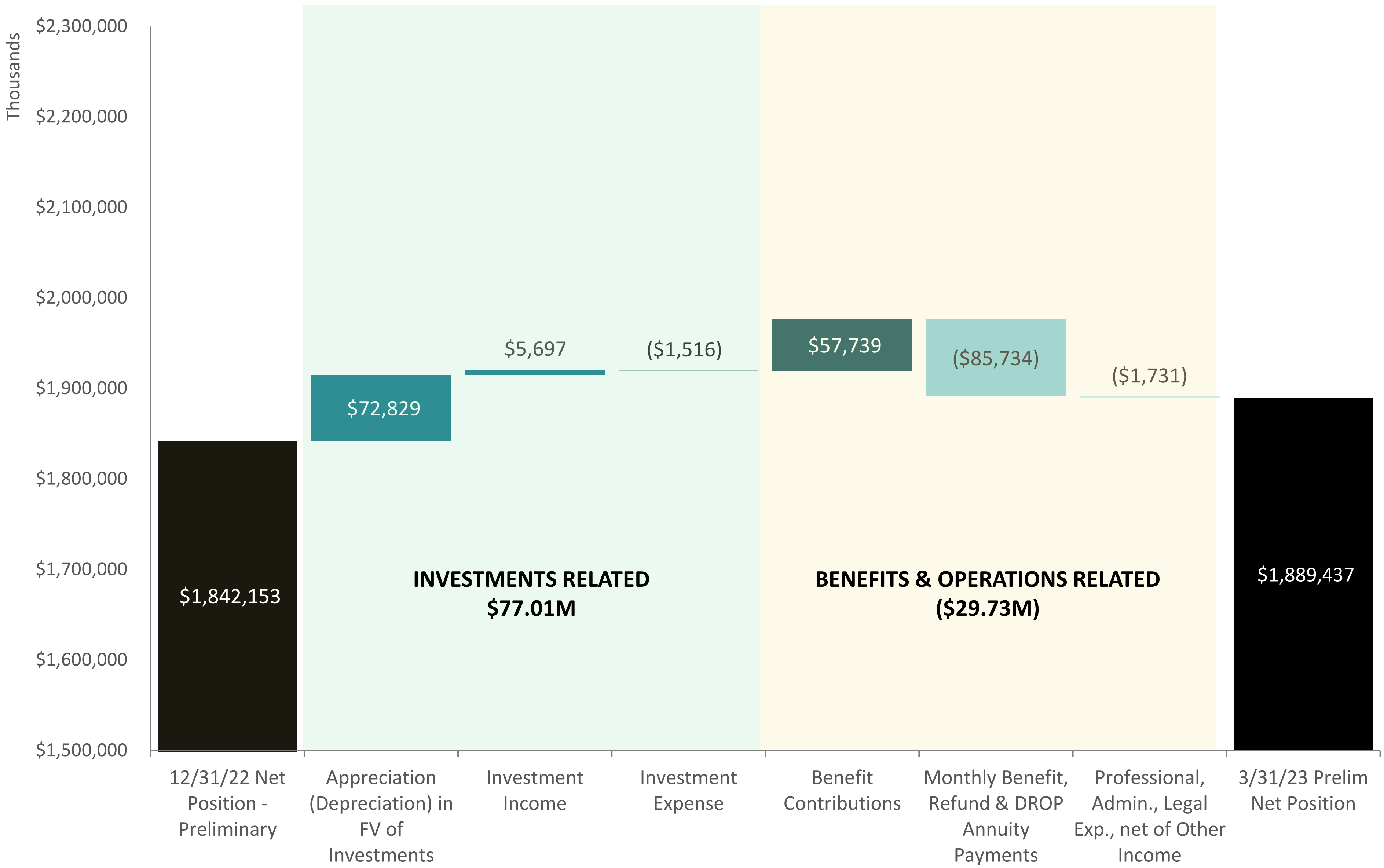
Topic: **Quarterly Financial Reports**

Discussion: The Chief Financial Officer will present the first quarter 2023 financial statements.

Regular Board Meeting – Thursday, May 11, 2023

Change in Net Fiduciary Position

PRELIMINARY - December 31, 2022 – March 31, 2023



Components may not sum exactly due to rounding.

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

	March 31, 2023	PRELIMINARY December 31, 2022		$ Change	% Change
Assets					
Investments, at fair value					
Short-term investments	$ 15,158,973	$ 14,890,840		$ 268,133	2%
Fixed income securities	330,640,974	322,059,764		8,581,210	3%
Equity securities	905,784,916	826,996,060		78,788,856	10%
Real assets	316,838,815	346,681,874		(29,843,059)	-9%
Private equity	238,629,334	238,629,334		-	0%
Forward currency contracts	(1,217)	(970)		(247)	25%
Total investments	1,807,051,795	1,749,256,902		57,794,893	3%
Receivables					
City	1,409,348	5,140,929		(3,731,581)	-73%
Members	515,688	1,819,338		(1,303,650)	-72%
Interest and dividends	4,556,860	3,788,204		768,656	20%
Investment sales proceeds	2,344,769	1,152,406		1,192,363	103%
Other receivables	60,938	49,887		11,051	22%
Total receivables	8,887,603	11,950,764		(3,063,161)	-26%
Cash and cash equivalents	71,237,390	75,285,576		(4,048,186)	-5%
Prepaid expenses	674,472	403,166		271,306	67%
Capital assets, net	11,545,695	11,605,932		(60,237)	-1%
Total assets	$ 1,899,396,955	$ 1,848,502,340		$ 50,894,615	3%
Liabilities					
Payables					
Securities purchased	4,359,534	1,138,945		3,220,589	283%
Accounts payable and other accrued liabilities	5,599,942	5,209,990		389,952	7%
Total liabilities	9,959,476	6,348,935		3,610,541	57%
Net position restricted for pension benefits	$ 1,889,437,479	$ 1,842,153,405	*	$ 47,284,074	3%

***The ending period amounts are preliminary and may change as the 2022 results are finalized.**

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

	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	$ Change	% Change
Contributions				
City	$ 42,316,896	$ 41,851,683	$ 465,213	1%
Members	15,421,728	14,643,915	777,813	5%
Total Contributions	57,738,624	56,495,598	1,243,026	2%
Investment income				
Net appreciation (depreciation) in fair value of investments	72,829,453	(94,334,522)	167,163,975	177%
Interest and dividends	5,696,968	6,499,760	(802,792)	-12%
Total gross investment income	78,526,421	(87,834,762)	166,361,183	189%
less: investment expense	(1,515,716)	(1,867,772)	352,056	19%
Net investment income	77,010,705	(89,702,534)	166,713,239	186%
Other income	59,767	56,826	2,941	5%
Total additions	134,809,096	(33,150,110)	167,959,206	507%
Deductions				
Benefits paid to members	84,415,206	82,697,147	1,718,059	2%
Refunds to members	1,318,628	1,051,222	267,406	25%
Legal expense	139,457	106,848	32,609	31%
Legal expense reimbursement	-	-	-	0%
Legal expense, net of reimbursement	139,457	106,848	32,609	31%
Staff Salaries and Benefits	980,093	907,868	72,225	8%
Professional and administrative expenses	671,638	609,926	61,712	10%
Total deductions	87,525,022	85,373,011	2,152,011	3%
Net increase (decrease) in net position	47,284,074	(118,523,121)		
Beginning of period	1,842,153,405	2,176,501,141		
End of period	$ 1,889,437,479	$ 2,057,978,020		

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

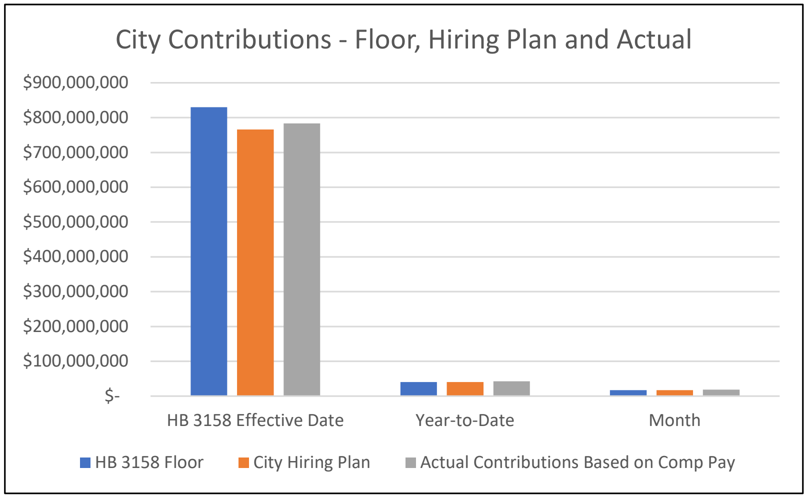
ITEM #C2

Topic: **Monthly Contribution Report**

Discussion: Staff will review the Monthly Contribution Report.

Regular Board Meeting – Thursday, May 11, 2023

Contribution Tracking Summary - May 2023 (March 2023 Data)

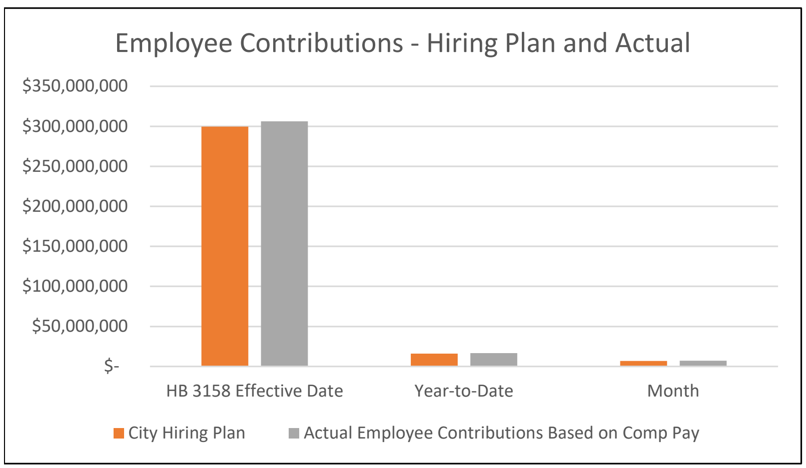


Actual Comp Pay was 102% of the Hiring Plan estimate since the effective date of HB 3158.

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

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

With the new year the City's Hiring Plan added 50 Police Officers to the estimates which now increases the shortfall of employees. The combined actual employees was 83 less than the Hiring Plan for the pay period ending March 11, 2023. Fire was over the estimate by 122 Fire Fighters and Police under by 205 Police Officers.



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

There is no Floor on employee contributions.

Contribution Summary Data

City Contributions

Mar-23	Number of Pay Periods Beginning in the Month	HB 3158 Floor	City Hiring Plan	Actual Contributions Based on Comp Pay	Additional Contributions to Meet Floor Minimum	Comp Pay Contributions as a % of Floor Contributions	Comp Pay Contributions as a % of Hiring Plan Contributions
Month	3	$ 17,436,000	$ 17,435,769	$ 18,355,191	$ -	105%	105%
Year-to-Date		$ 40,684,000	$ 40,683,462	$ 42,757,521	$ -	105%	105%
HB 3158 Effective Date		$ 829,905,000	$ 765,793,846	$ 783,061,412	$ 48,990,866	94%	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

Mar-23	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	3	$ 6,822,692	$ 7,183,434	$ 360,742	$ 6,355,386	105%	113%
Year-to-Date		$ 15,919,615	$ 16,738,716	$ 819,101	$ 14,829,234	105%	113%
HB 3158 Effective Date		$ 299,658,462	$ 306,228,928	$ 6,570,466	$ 291,568,900	102%	105%

Potential Earnings Loss from the Shortfall based on Assumed Rate of Return $ (7,219)

Does not include Supplemental Plan Contributions.

Reference Information

City Contributions: HB 3158 Bi-weekly Floor and the City Hiring Plan Converted to Bi-weekly Contributions

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

The HB 3158 Bi-weekly Floor ends after 2024

Employee Contributions: City Hiring Plan and Actuarial Val. Converted to Bi-weekly Contributions

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

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

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

Actuarial Assumptions Used in the Most Recent Actuarial Valuation - These assumptions will be reevaluated annually & may change.
City Contributions are based on the Floor through 2024, the Hiring Plan from 2025 to 2037, after 2037 an annual growth rate of 2.75% is assumed
Employee Contributions for 2018 are based on the 2017 actual employee contributions inflated by the growth rate of 2.75% and the Hiring Plan for subsequent years until 2038, when the 2037 Hiring Plan is increased by the 2.75 growth rate for the next 10 years

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

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

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

City Hiring Plan - Annual Computation Pay and Numbers of Employees						
	Computation Pay			Number of Employees		
Year	Hiring Plan	Actual	Difference	Hiring Plan	Actual EOY	Difference
2017	$ 372,000,000	Not Available	Not Available	5,240	4,935	(305)
2018	$ 364,000,000	$ 349,885,528	$ (14,114,472)	4,988	4,983	(5)
2019	$ 383,000,000	$ 386,017,378	$ 3,017,378	5,038	5,104	66
2020	$ 396,000,000	$ 421,529,994	$ 25,529,994	5,063	4,988	(75)
2021	$ 408,000,000	$ 429,967,675	$ 21,967,675	5,088	4,958	(130)
2022	$ 422,000,000	$ 439,104,541	$ 17,104,541	5,113	5,074	(39)
2023	$ 438,000,000			5,163		
2024	$ 454,000,000			5,213		
2025	$ 471,000,000			5,263		
2026	$ 488,000,000			5,313		
2027	$ 507,000,000			5,363		
2028	$ 525,000,000			5,413		
2029	$ 545,000,000			5,463		
2030	$ 565,000,000			5,513		
2031	$ 581,000,000			5,523		
2032	$ 597,000,000			5,523		
2033	$ 614,000,000			5,523		
2034	$ 631,000,000			5,523		
2035	$ 648,000,000			5,523		
2036	$ 666,000,000			5,523		
2037	$ 684,000,000			5,523		

Comp Pay by Month - 2023	Annual Divided by 26 Pay Periods	Actual	Difference	2022 Cumulative Difference	Number of Employees - EOM	Difference
January	$ 33,692,308	$ 35,387,168	$ 1,694,860	$ 1,694,860	4922	(241)
February	$ 33,692,308	$ 35,344,223	$ 1,651,915	$ 3,346,776	5045	(118)
March	$ 50,538,462	$ 53,203,452	$ 2,664,991	$ 6,011,766	5080	(83)
April	$ 33,692,308					
May	$ 33,692,308					
June	$ 33,692,308					
July	$ 33,692,308					
August	$ 50,538,462					
September	$ 33,692,308					
October	$ 33,692,308					
November	$ 33,692,308					
December	$ 33,692,308					

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C3

Topic: **Audit Plan**

Attendees: Jill Svoboda, BDO, Partner
Matt Liu, Audit Senior Manager

Discussion: Representatives from BDO, DPFP's external independent audit firm, will be present to discuss their audit plan for the year ended December 31, 2022.

REPORT TO BOARD OF TRUSTEES AND AUDIT COMMITTEE

DALLAS POLICE & FIRE PENSION SYSTEM

AUDIT PLANNING:
YEAR ENDED DECEMBER 31, 2022

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The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Board of Directors and Audit Committee) and, if appropriate, management of the Company, and is not intended and should not be used by anyone other than these specified parties.

Welcome

May 11, 2023

Board of Trustees and Audit Committee
Dallas Police & Fire Pension System

Professional standards require us to communicate with you regarding matters related to the financial statement audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. This document provides an overview of our plan for the audit of the financial statements of Dallas Police & Fire Pension System (the "System") as of and for the year ended December 31, 2022, including a summary of the nature, scope, and timing of the planned audit work.

We are pleased to be of service to the System and look forward to discussing our audit plan, as well as other matters that may be of interest to you, during our meeting on May 11, 2023.

Respectfully,

BDO USA, LLP

Executive Summary

Responsibilities

BDO USA, LLP, as your auditor, is responsible for forming and expressing an opinion(s) about whether the financial statements that have been prepared by management, with your oversight, are prepared, in all material respects, in conformity with accounting principles generally accepted in the United States of America. The audit of the financial statements does not relieve you of your responsibilities and does not relieve management of their responsibilities. The engagement letter, a copy of which has been provided to you, includes specific details regarding the auditor's and management's responsibilities.

Audit Strategy

Overall, our audit strategy is to assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design further audit procedures responsive to assessed risks. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. In connection with our audit, we will obtain a sufficient understanding of the System's internal control to plan the audit of the financial statements. However, such understanding is required for the purposes of determining our audit procedures and not to provide any assurance concerning such internal control.

We focus on areas with higher risk of material misstatement (whether due to error or fraud). Our audit strategy includes consideration of:

- prior year audit results together with current year preliminary analytical review, including discussions with management and those charged with governance regarding the System's operations,
- inherent risk within the System,
- recent developments within the industry, regulatory environment and general economic conditions,
- recently issued and effective accounting and financial reporting guidance,
- the System's significant accounting policies and procedures, including those requiring significant management judgments and estimates and those related to significant unusual transactions,
- the control environment and the possibility that the control system and procedures may fail to prevent or detect a material error or fraud,
- Information about systems and the computer environment in which the related systems operate, and
- a continual assessment of materiality thresholds based upon qualitative and quantitative factors affecting the System.
- Possible internal plan changes for the audited plan year, such as the following:
  - Accounting systems
  - System management personnel or those charged with governance
  - Internal control processes in accounting and financial reporting
  - Service providers (such as actuary, legal, custodian, investment managers, etc.)
  - Custodian and/or investment advisor agreements
  - System amendments
  - System policies and practices (Considering all new policies put into place in 2022 and ensuring previous policies put into place are being adhered to)
  - Workforce (significant layoffs, terminations, future reductions in force)
- Possible issues impacting the audit, such as the following:
  - System management's review of the recent System results when compared to the investment industry results
  - Regulatory reviews or communications and/or pending litigation
  - Prohibited transactions with parties-in-interest
  - Errors or fraud related to the System
  - Misappropriation of System assets
  - Concerns about fictitious participants or distributions made to missing, ineligible, or incorrect individuals
  - Fees and expenses paid to inappropriate vendors
  - Significant assumptions used in the valuation of the System assets
  - Significant assumptions used in the actuarial report determination of the total pension liability
  - Effect of 2022 activity and impact on the System's Net Position including effects on debt covenants as applicable, agreements and amendments

Planned Scope

Based upon our initial assessment, our audit will entail substantive testing only. The primary areas of focus in our overall audit strategy include the following:

- *Fraud Risk*
- *Entity/System Level Internal Controls Over Financial Reporting*
- *Actuarial Valuation*
- *Compliance with Plan Documents (eligibility, contributions/contribution receivables, and benefit payments)*
- *Investments (Existence and Valuation)*
- *Other Receivables, Payables and System Expenses (including any new debt agreements and amendments that may have been entered into in 2022)*
- *Investment Income (Loss)*
- *Evaluation of Related Party Transactions, Including Transactions With Parties-in-Interest*
- *Other Matters, Including Proper Disclosures, Accounting and Financial Reporting for Pensions, Legal Matter Disclosures*

Primary Areas of Focus and Audit Strategy

FRAUD RISK

Consideration	Approach
▶ Fraud risk may be impacted by the following characteristics: • Incentive or pressure • Opportunity • Rationalization or attitude ▶ Presence of fraud risk factors and how management's controls and programs to detect and prevent fraud may mitigate these risks. ▶ Risk of management override of controls.	▶ Review System management's controls and programs relating to fraud and assess operating effectiveness of such programs. ▶ Inquire of System management and other sponsor personnel as to their knowledge of any potential fraudulent or alleged fraudulent activities. ▶ Inquire of those charged with governance about their views about risks of material misstatements, including fraud risk and whether they are aware of: • tips or complaints regarding the System's financial reporting; and • matters relevant to the audit including, but not limited to, violations or possible violation of laws or regulations ▶ Consider additional procedures to address any specific fraud risks identified, including management override of controls. ▶ Introduce an element of unpredictability into our procedures by either altering the nature, timing, or extent of the procedures when compared to procedures performed in the prior year. ▶ Perform focused procedures on any significant unusual transactions, including gaining an understanding of the business purpose (or lack thereof) for the System entering into the transaction. ▶ Obtain an understanding of the System's financial relationships and transactions with those charged with governance of the System and the System Administrator for risk assessment purposes. ▶ Exercise professional skepticism. ▶ Communicate with System management, those charged with governance and the System Administrator, as necessary. ▶ Perform journal entry testing and fraud inquires.

Primary Areas of Focus and Audit Strategy

ENTITY/PLAN LEVEL INTERNAL CONTROLS OVER FINANCIAL REPORTING

Consideration	Approach
▶ System management has controls in place to maintain compliance with applicable rules and regulations and provisions of the Plan Document and Amendments. ▶ The Staff or the Executive Director has controls to monitor the activities of the outside service providers. ▶ Significant changes to personnel and internal control processes increase the risk that an internal control failure will occur due to either the design or operation of a particular control.	▶ Consider the System's internal control environment for purposes of planning our audit. ▶ Review the System's control processes in a number of areas to evaluate the design and implementation of controls in place. ▶ Review SOC 1 reports for the custodian and the external investment accounting service provider to determine whether adequate controls are in place and functioning effectively.

ACTUARIAL VALUATION

Consideration	Approach
▶ Significant judgement and expertise is required in developing assumptions and performing evaluations. ▶ Actuarial valuation data is accurate and consistent. ▶ The effects of amendments, terminations, curtailments and other System events on the calculation. ▶ Whether the actuarial calculation appropriately applies current standards. ▶ Whether actuarial provisions and assumptions are deemed reasonable. ▶ Whether disclosures over actuarial assumptions and funding issues are appropriate.	▶ Confirm the actuarial data directly with the actuary. ▶ Perform census data reconciliations and review the completeness of the census data submitted to the actuary. ▶ Evaluate the professional qualifications of the actuary. ▶ With the assistance of the Actuarial Managing Director and Actuarial Manager, review and assess underlying documentation and development of assumptions and methods used. ▶ Review funding requirement, actuarial provisions and assumptions used for accuracy.

Primary Areas of Focus and Audit Strategy

COMPLIANCE WITH PLAN DOCUMENTS – ELIGIBILITY

Consideration	Approach
▶ Whether all covered employees have been properly included in employee eligibility records. ▶ Whether accurate participant data for eligible employees was supplied to the trustee/ custodian/service providers.	▶ Test that participating employees are eligible per the Plan Document on a sample basis. ▶ Review documentation supporting eligibility. ▶ Review participant personnel files.

COMPLIANCE WITH PLAN DOCUMENTS – CONTRIBUTIONS/CONTRIBUTIONS RECEIVABLVE

Consideration	Approach
▶ Whether the amounts received or due to the Plan have been determined, recorded, and disclosed in the financial statements in conformity with the Plan document and accounting principles generally accepted in the U.S.	▶ Confirm the contributions made in 2022 directly with the City of Dallas. ▶ Test and ensure the calculation of employer and employee contributions is in accordance with the Plan Document. ▶ Test the reasonableness of contributions receivable.

Primary Areas of Focus and Audit Strategy

COMPLIANCE WITH PLAN DOCUMENTS - BENEFIT PAYMENTS

Consideration	Approach
▶ Whether benefit payments are in accordance with the Plan Document. ▶ Whether benefit payments are made to or on behalf of person entitled to them and only to such persons. ▶ Whether transactions are recorded in the proper account, amount, and period.	▶ Verify eligibility to receive the distributions. ▶ For DROP distributions agree distribution to proper request. ▶ Agree distributions to supporting checks or ACH transfer. ▶ Test the proper tax withholdings were made, if any. ▶ Review and recalculate benefit payments. ▶ Perform data analytics over annuity payments throughout the year

INVESTMENTS

Consideration	Approach
▶ Due to significant valuation issues with certain investments in the industry over the last several years, consider whether investments are properly valued and whether classified in conformity with accounting principles generally accepted in the U.S. ▶ Whether investment transactions are recorded in conformity with accounting principles generally accepted in the U.S.	▶ Confirm investments with third-party fund managers and/or custodians. ▶ Test fair value of investments at year-end by comparing the carrying value to an outside third-party source, including audited financial statements presented at fair value, real estate appraisals (if applicable), and partnership agreements. ▶ Compare the investment income to rates of return per a third-party source, including audited financial statements at fair value, and test earning allocations. ▶ Consider management's policy of reviewing valuation methodologies, inputs and assumptions. ▶ Review the System's investment policy in correlation with the investments in place. ▶ Assess the appropriateness of the classification of investment within the fair value hierarchy in accordance with GASB 72, Fair Value Measurement and Application and related disclosures.

Primary Areas of Focus and Audit Strategy

OTHER RECEIVABLES, PAYABLES AND SYSTEM EXPENSES

Consideration	Approach
▶ Whether receivables and payables are appropriately recorded. ▶ Whether liabilities recorded are complete and all expenses are captured. ▶ Whether securities lending obligations are appropriately recorded. ▶ Whether the System is in compliance with debt covenants and plans to alleviate violations of such covenants if any new ones were entered into in 2022.	▶ For loans payable review maturity schedules and covenants and send confirmations. Review for any new debt agreements in 2022 to ensure compliance with covenants and related disclosures are appropriately included in the financial statements. ▶ Review schedules of uncompensated liabilities. ▶ Review securities lending arrangements. ▶ Obtain forward currency contracts and review the appropriateness of the receivable and payable balances. ▶ Perform a search of unrecorded liabilities. ▶ Obtain a detail break out of System expenses. ▶ Confirm fund management fees in correlation with the investment confirms. ▶ Select a sample of expenses and agree them to invoices and payments.

INVESTMENTS INCOME

Consideration	Approach
▶ Whether the realized gain or loss on investments is appropriately recorded. ▶ Whether dividends are appropriately recorded by the System. ▶ Whether interest earned is appropriately recorded by the System.	▶ For a selection of transactions recalculate the realized gains and losses. ▶ For a selection of transactions test dividends received by the System to independent market sources. ▶ Test interest earned by recalculating or performing reasonableness tests.

Primary Areas of Focus and Audit Strategy

EVALUATION OF RELATED PARTY TRANSACTIONS, INCLUDING TRANSACTIONS WITH PARTIES-IN-INTEREST

Consideration	Approach
▶ Consider the System's relationship and transactions with its related parties and parties-in-interest. ▶ Example of related party transactions include those between an entity, affiliates of the entity, other parties that can significantly influence the management of operating policies of the other, management, or members of their immediate families. ▶ Consider the susceptibility of the System financial statements to material misstatement (whether due to error or to fraud) that could result from the System's related party and party-in-interest relationship and transactions.	▶ Assess the risk of material misstatement associated with the System related party and party-in-interest relationship and transactions. ▶ Perform inquiry of System management regarding the identity of the System's related parties and parties-in-interest, the nature of the System's relationships and transactions with such parties and the System's process for identifying, authorizing and approving, and accounting for and disclosing such relationships and transactions. ▶ Perform inquiry and other procedures deemed appropriate to obtain an understanding of the controls, if any, that System management has established to identify, authorize and approve, and account for and disclose such relationships and transactions. ▶ Evaluate whether the System financial statements (1) appropriately account for and disclose identified relationships and transactions the related parties and parties-in-interest and (2) are fairly presented given any such relationship and transactions identified. ▶ Communicate to those charge with governance regarding significant matters arising from our audit.

OTHER MATTERS

Consideration	Approach
▶ Ensure the financial report includes all appropriate disclosures.	▶ Complete a disclosure checklist specific to Pension System and one specific to GASB standards. ▶ Review the credit risk disclosure for appropriateness and adequacy. ▶ Review legal expenses and obtain legal confirmations for any potential commitments and contingencies and/or litigation that may require disclosure.

We will communicate to those charged with governance, in a timely manner, any significant changes to the planned audit strategy initially identified that may occur during the audit to the results of audit procedures or in response to external factors, such as changes in the economic environment.

Overall Audit Timeline

The following represents our anticipated schedule with regard to our audit of the financial statements of the [Entity]:

	May	Jun	Jul	Aug
Planning meeting, client assistance listings provided to System management	✓			
Confirmation procedures	✓	✓		
Year-End Fieldwork (Various weeks beginning in May and occurring through July as needed)		✓	✓	✓
Review draft financial statements (from date of receipt of financials)			✓	✓
Final communications with those charged with governance				✓
Update subsequent event inquiries; release opinion on financial statements				✓

Independence

Our engagement letter to you dated May 1, 2023 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the System with respect to independence as agreed to by the System. Please refer to that letter for further information.

Client Service Team

As a matter of policy, we attempt to provide continuity of service to our clients to the greatest extent possible. Where engagement team rotation is necessary, we will discuss this matter with you and determine the appropriate individual to be assigned to the engagement based on particular experience, expertise, and engagement needs.

We are pleased to be of service to the System and look forward to answering questions you may have regarding our audit plan as well as other matters that may be of interest to you.

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Appendix

Implementation of New GASB Standards

New GASB Standards

In light of the COVID-19 Pandemic, the GASB issued Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, to provide relief to governments. This Statement, which was effective upon the issuance date of May 8, 2020, postponed the effective dates of certain provisions in Statements that were first effective for reporting periods beginning after June 15, 2018. The effective dates of certain provisions contained in the following pronouncements were postponed by one year. See current effective dates as below:

▶ Statement No. 87, Leases	Effective for reporting period beginning after 6/15/2021
▶ Statement No. 91, *Conduit Debt Obligations*	Effective for reporting period beginning after 12/15/2021
▶ Statement No. 93, *Replacement of Interbank Offered Rates*	Effective for reporting period beginning after 6/15/2021

Earlier application of the standards is encouraged and is permitted to the extent specified in each pronouncement as originally issued.

New GASB Standards

Additional new GASB pronouncements include:

- Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- Statement No. 96, *Subscription-Based Information Technology Arrangements*
- Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32
- Statement No. 98, *The Annual Comprehensive Financial Report*
- Statement No. 99, *Omnibus 2022*
- Statements No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*
- Statements No. 101, *Compensated Absences*

GASB Statement No. 87, *Leases*

Effective Dates	Date per Pronouncement	Date as amended per GASB Statement No. 95
	Fiscal Years Beginning After 12/15/2019	Fiscal Years Beginning After 6/15/2021

- Requires recognition of certain lease assets and liabilities for leases that are currently classified as operating leases.
- New definition of a lease - a contract that conveys the right to use another entity's nonfinancial asset for a period in an exchange or exchange-like transaction.
- Eliminates the distinction between operating and capital leases.
- Excludes short-term leases, leases that transfer ownership and service concession arrangements that are covered by GASB Statement No. 60.
- Lessees would recognize a lease liability and an intangible right-to-use lease asset which would be amortized in a systematic and reasonable manner over the shorter of the lease term or the useful life of the underlying asset.
- Lessors would recognize a lease receivable and deferred inflow of resources which would be recognized as revenue in a systematic and rational manner over the term of the lease.

GASB Statement No. 91, *Conduit Debt Obligations*

Effective Dates	Date per Pronouncement	Date as amended per GASB Statement No. 95
	Reporting Periods Beginning After 12/15/2020	Reporting Periods Beginning After 12/15/2021

- Clearly defines the characteristics of a conduit debt obligation and establishes that a conduit debt obligation is not a liability of the issuer.
- An issuer should recognize a liability associated with an additional commitment or voluntary commitment to support debt service if certain recognition criteria are met.
- As long as a conduit debt obligation is outstanding, an issuer that has made an additional commitment should evaluate at least annually whether the recognition criteria are met. An issuer that has only made a limited commitment should evaluate whether those recognition criteria are met when an event occurs that cause the issuer to evaluate its willingness or ability to support the obligor's debt service through a voluntary commitment.
- Standard addresses accounting for arrangements where capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities.
- Standard enhances note disclosures related to conduit debt.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*

Effective Dates	Date per Pronouncement	Date as amended per GASB Statement No. 95
	Effective as Noted Below	Paragraphs 13 and 14 are Effective for Fiscal Years Beginning After June 15, 2021

- Effective for Reporting Periods Beginning After June 15, 2020:
  - Provides exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment.
  - Clarifies the hedge accounting termination provisions when a hedged item is amended to replace the reference rate.
  - Clarifies that the uncertainty related to the continued availability of IBORs does not, by itself, affect the assessment of whether the occurrence of a hedged expected transaction is probable.
  - Identifies a Secured Overnight Financing Rate and the Effective Federal Funds Rate as appropriate benchmark interest rates for the qualitative evaluation of the effectiveness of an interest rate swap.
  - Clarifies the definition of reference rate, as it is used in Statement 53, as amended.
  - Provides an exception to the lease modifications guidance in Statement 87, as amended, for certain lease contracts that are amended solely to replace an IBOR as the rate upon which variable payments depend. (paragraphs 13 and 14)
- Effective for Reporting Periods Ending After December 31, 2021:
  - Removes LIBOR as an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap (paragraph 11b).

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*

Effective Dates	Date per Pronouncement
	Fiscal Years Beginning After 6/15/2022

- For the Public-Private and Public-Public Partnerships (P3s) that meet the definition of a service concession arrangement (SCA), this Statement carries forward the financial reporting requirements for SCAs that were included in Statement 60, with modifications to apply the more extensive requirements related to recognition and measurement of leases to SCAs.
- For P3s that meet the definition of a lease, the guidance in Statement No. 87 should be applied, if existing assets of the transferor that are not required to be improved by the operator as part of the P3 arrangement are the only underlying P3 assets and the P3s do not meet the definition of an SCA.
- This Statement provides specific guidance for all other P3s from the perspective of both a government that transfers rights to another party and governmental operators that receive those rights.
- The Statement requires governments to account for Availability Payment Arrangement (APAs) in which ownership of the asset transfers by the end of the contract as a financed purchase of the underlying infrastructure or other nonfinancial asset. It also requires a government to report an APA that is related to operating or maintaining a nonfinancial asset as an outflow of resources (for example, expense) in the period to which payments relate

GASB Statement No. 96, *Subscription Based Information Technology Arrangements*

Effective Dates	Date per Pronouncement
	Fiscal Years Beginning After 6/15/2022

- Addresses accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. Standard is based on the standards established in Statement No. 87, *Leases*.
- Defines a SBITA as a contract that conveys control of the right to use a SBITA vendor's IT software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.
- Requires governments with SBITAs to recognize a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability (with an exception for short-term SBITAs—those with a maximum possible term of 12 months).
- Provides guidance related to outlays other than subscription payments, including implementation costs, and requirements for note disclosures related to a SBITA.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Plans Deferred Compensation Plans*

Effective Dates	Date per Pronouncement
	Effective as Noted Below

- Effective Upon Statement Issuance – June 2020:
  - Requires that for purposes of determining whether a primary government is financially accountable for a potential component unit, except for a potential component unit that is a defined contribution pension plan, a defined contribution OPEB plan, or an other employee benefit plan (for example, certain Section 457 plans), the absence of a governing board should be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically performs.
  - Requires that the financial benefit burden criteria in Statement No. 84, Fiduciary Activities, be applicable to only defined benefit pension and OPEB plans administered through a trust.
- Effective for Fiscal Years Beginning After June 15, 2021
  - Requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan.
  - Requires that a Section 457 plan that meets the definition of a pension apply all accounting and financial reporting requirements relevant to pensions.
  - Clarifies that Statement 84, as amended, should be applied to all Section 457 plans to determine whether those arrangements should be reported as fiduciary activities.

GASB Statement No. 98, *The Annual Comprehensive Financial Report*

Effective Dates	Date per Pronouncement
	Fiscal Years Ending After 12/15/2021

- This Statement establishes the term annual comprehensive financial report, and its acronym, ACFR.
- The new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments.
- This Statement was developed in response to concerns raised by stakeholders that the common pronunciation of the acronym for comprehensive annual financial report sounds like a profoundly objectionable racial slur. This Statement's introduction of the new term is founded on a commitment to promoting inclusiveness.

GASB Statement No. 99, *Omnibus 2022*

Effective Dates	Date per Pronouncement
	Effective as Noted Below

- This Statement address practice issues identified during implementation and application of certain GASB Statements and accounting and financial reporting for financial guarantees.
- Effective Upon Statement Issuance – April 2022:
  - Extension of the period during which LIBOR is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt
  - Accounting of benefits distributed as part of the Supplemental Nutrition Assistance Program (SNAP)
  - Disclosures related to nonmonetary transactions
  - Pledges of future revenues when resources are not received by the pledging government
  - Clarification of provisions of Statement No. 34 related to the focus of the government-wide financial statements
  - Updates to terminology used in Statement No. 53 to refer to resource flow statements and to certain provisions in Statement No. 63
- Effective for Fiscal Years Beginning After June 15, 2022:
  - Determination of lease term and classification of leases as short-term in accordance with Statement No. 87
  - Clarification related to the determination of Public-Private Partnerships (PPP) term and recognition and measurement of installment payments and the transfer of PPP assets under Statement No. 94
  - Clarification of the provisions of Statement No. 96 related to Subscription Based Information Technology Arrangements (SBITA) term, classification of short-term SBITA, and recognition and measurement of a subscription liability
- Effective for Fiscal Years Beginning After June 15, 2023:
  - A government extending an exchange or exchange-like financial guarantee should recognize a liability and expense/expenditure related to the guarantee when qualitative factors and historical data indicate that it is more likely than not a government will be required to make a payment related to the guarantee. Statement No. 99 excludes guarantees related to special assessment debt, financial guarantee contracts within the scope of Statement No. 53, or guarantees related to conduit debt obligations.
  - Requirements related to the classification and reporting of derivative instruments within the scope of Statement No. 53 that do not meet the definition of an investment or hedging derivative instrument

GASB Statement No. 100, *Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62*

Effective Dates	Date per Pronouncement
	Fiscal Years Beginning After 6/15/2023

- This Statement defines accounting changes as changes in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity and describes the transactions or other events that constitute those changes.
- As part of those descriptions, for (1) certain changes in accounting principles and (2) certain changes in accounting estimates that result from a change in measurement methodology, a new principle or methodology should be justified on the basis that it is preferable to the principle or methodology used before the change. That preferability should be based on the qualitative characteristics of financial reporting—understandability, reliability, relevance, timeliness, consistency, and comparability.
- This Statement also addresses corrections of errors in previously issued financial statements.
- This Statement requires that:
  - changes in accounting principles and error corrections be reported retroactively by restating prior periods,
  - changes to or within the financial reporting entity be reported by adjusting beginning balances of the current period, and
  - changes in accounting estimates be reported prospectively by recognizing the change in the current period.
- The requirements of this Statement for changes in accounting principles apply to the implementation of a new pronouncement in absence of specific transition provisions in the new pronouncement.
- Statement No. 100 requires that the aggregate amount of adjustments to and restatements of beginning net position, fund balance, or fund net position, as applicable, be displayed by reporting unit in the financial statements.
- This Statement requires disclosure in notes to financial statements of descriptive information about accounting changes and error corrections, such as their nature. In addition, information about the quantitative effects on beginning balances of each accounting change and error correction should be disclosed by reporting unit in a tabular format to reconcile beginning balances as previously reported to beginning balances as restated.
- Statement No. 100 also addresses how information that is affected by a change in accounting principle or error correction should be presented in required supplementary information (RSI) and supplementary information (SI). For periods that are earlier than those included in the basic financial statements, information presented in RSI or SI should be restated for error corrections, if practicable, but not for changes in accounting principles.

GASB Statement No. 101, *Compensated Absences*

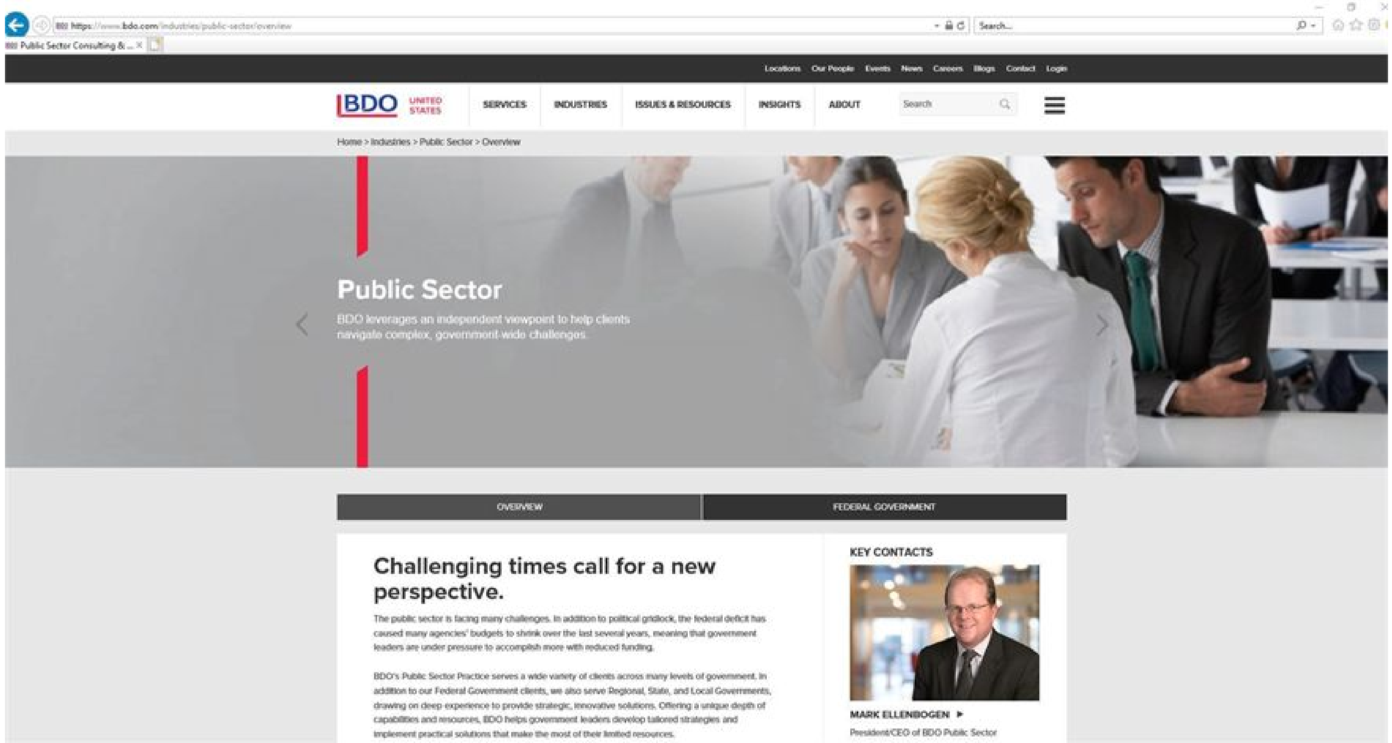
Effective Dates	Date per Pronouncement
	Fiscal Years Beginning After 12/15/2023

- This Statement requires that liabilities for compensated absences be recognized for leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means.
- Requires recognition of a liability for leave that has not been used if:
  - the leave is attributable to services already rendered,
  - the leave accumulates, and
  - the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means.
- Leave that is more likely than not to be settled through conversion to defined benefit postemployment benefits should not be included in a liability for compensated absences.
- Statement No. 101 requires that a liability for certain types of compensated absences, including parental leave, military leave, and jury duty leave, not be recognized until the leave commences.
- In addition, this Statement requires that for specific types of compensated absences, a liability not be recognized until the leave is used.
- This Statement also establishes guidance for measuring a liability for leave that has not been used, generally using an employee's pay rate as of the date of the financial statements. A liability for leave that has been used but not yet paid or settled should be measured at the amount of the cash payment or noncash settlement to be made. Certain salary-related payments that are directly and incrementally associated with payments for leave also should be included in the measurement of the liabilities.
- With respect to financial statements prepared using the current financial resources measurement focus, Statement No. 101 requires that expenditures be recognized for the amount that normally would be liquidated with expendable available financial resources.
- Statement No. 101 amends the existing requirement to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability (as long as they identify it as a net change). In addition, governments are no longer required to disclose which governmental funds typically have been used to liquidate the liability for compensated absences.

Industry Resources

Industry Risk and Resources

- BDO's industry focus is part of who we are and how we serve our clients and has been for over a century. We demonstrate our experience through knowledgeable professionals, relevant client work and participation in the industries we serve.
- Our industry practices bring perspective on trends, opportunities, issues and regulations that frame our services and approach to address your needs and your industry.



DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C4

Topic: **Report on Audit Committee Meeting**

Discussion: The Audit Committee met with representatives of BDO on May 11, 2023 to review the Audit Plan for the 2022 audit. The Committee Chair will comment on the meeting and the audit plan.

Representatives from BDO, DPFP's external independent audit firm, will be present at the meeting to answer any questions regarding the 2022 Audit Plan.

The Audit Plan is included in the board materials for review.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C5

Topic: **Benefits Overpayment**

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

Discussion: Through an unrelated review process, staff has discovered ten members and beneficiaries who have benefits which are overstated. Section 802.1024 of the Government Code requires DPFP to recover the overpayments although recovery is limited to overpayments occurring not more than three years of the discovery of the overpayment. The Correction of Errors in Benefits Payment Policy requires Board approval for repayments which exceed $10,000 and exceed one year.

Staff will brief the Board on the cause and magnitude of the overpayments and will propose a plan of recovery for the Board's consideration.

Staff Recommendation: **Approve** the proposed plan to recover the overpayments.

Regular Board Meeting – Thursday, May 11, 2023

DALLAS POLICE & FIRE PENSION SYSTEM

CORRECTION OF ERRORS IN BENEFIT PAYMENTS POLICY

Amended Through February 13, 2020

DALLAS POLICE AND FIRE PENSION SYSTEM

CORRECTION OF ERRORS IN BENEFIT PAYMENTS POLICY

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

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

A. Purpose

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

B. Benefit Underpayments

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

1. Board Notification

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

2. Investigation

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

3. Resolution

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

   b. Interest

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

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

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

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

C. <u>Benefit Overpayments</u>

1. Notification

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

2. Investigation

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

3. Collection

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

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

C. Benefit Overpayments (continued)

ii. Any resolution of an overpayment of benefits exceeding $10,000 that does not result in full payment of the entire amount, plus interest, must be approved by the Board.

b. Overpayment of Benefits of $10,000 or Less – Approval by the Executive Director

i. Resolution of an overpayment of benefits of $10,000 or less should result in immediate full payment of the entire amount, plus interest, whenever feasible. For purposes of this Policy, full repayment may include an installment repayment plan for the full amount owed, including interest at the actuarially assumed rate.

ii. Subject to the procedures and objectives in this Policy, the Executive Director shall have sole discretion to resolve any overpayment of benefits of $10,000 or less.

c. The Board and Executive Director shall use reasonable efforts to resolve an overpayment of benefits. Reasonable efforts include consideration of the facts and circumstances, IRS guidelines for correction of Plan errors and costs and benefits of collection efforts. The plan sponsor has indicated to the Board that it has no statutory authority to make additional payments to DPFP to cover any overpayments.

d. Interest

i. DPFP shall charge the Member interest only if the overpayment of benefits is not fully paid within the same fiscal year in which the error was made.

ii. Interest is assessed from the date(s) of the overpayment to the date the overpayment is resolved. "Resolved," for purposes of including interest for overpayment, means the date when DPFP collects or begins collecting any overpayment.

iii. Interest shall be calculated using the actuarially assumed rate in effect during the time the overpayment occurred through the time when the overpayment of benefits is resolved.

C. Benefit Overpayments (continued)

e. General Rules on Recovery of Overpayments

i. Future payments due to a Qualifying Survivor or an Estate and/or a DROP annuity beneficiary will be reduced to recover the overpayment whenever possible.

ii. If there is more than one Qualified Survivor or Beneficiary receiving the future payment, the recovery of overpayment will be applied on a pro-rata basis.

iii. The Executive Director may choose to not pursue collections of overpayments that are below the EPCRS de minimis level of $100.

D. Procedures

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

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

William F Quinn

William Quinn
Chairman

Attested:

Kelly Gottschalk

Kelly Gottschalk
Secretary

DALLAS POLICE & FIRE PENSION SYSTEM

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C6

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 – May 11, 2023

ATTENDING APPROVED

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

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

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

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C7

Topic: **Portfolio Update**

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

DALLAS POLICE & FIRE PENSION SYSTEM

Portfolio Update

May 11, 2023

Board Meeting

Executive Summary

- Liquidation of private market assets remains the top focus.
  - $40M in distributions received YTD, with vast majority coming from AEW Camel Square and JPM Maritime fund.
- At the March 2022 Board meeting, staff notified the Board that the Safety Reserve would be drawn down to fund net benefit outflows.
- **Rebalancing actions:**
  - In mid-April, $30M of proceeds were be redeployed into the Global Equity Portfolio ($25M to Northern Trust Passive ACWI IMI and $5M to Eastern Shore US Small Cap) and the remaining $30M was held within the Safety Reserve ($10M to IR+M Short Term Core Bonds and $20M remaining in Cash).
  - Since the Safety Reserve was put into drawdown in March 2022, **~$84M of proceeds have been reinvested into Global Equity,** while **~$105M of proceeds have been held within the Safety Reserve,** which has extended coverage period from September 2023 to June 2024.
- Consultant Search: RFP issued on February 15th; interviews with 5 semi-finalist firms conducted week of May 1st. Search Sub-Committee meeting on May 8th.
- Estimated Year-to-Date Return (as of 4/30/23): 4.75% for DPFP portfolio; 7.1% for Public Markets (ex-Cash) which accounts for 67.5% of the assets.

DALLAS POLICE & FIRE PENSION SYSTEM

Investment Initiatives – 2023 Quarterly Plan

Q2 2023

- Consultant RFP Review & Interviews
- Update Public Equity Structure – review passive allocation and manager weights
- Global Growth Equity Screening

Q3 2023

- Finalize Consultant decision
- Approve updated Public Equity Structure
- Issue Global Growth Equity RFPs

Q4 2023 & Beyond

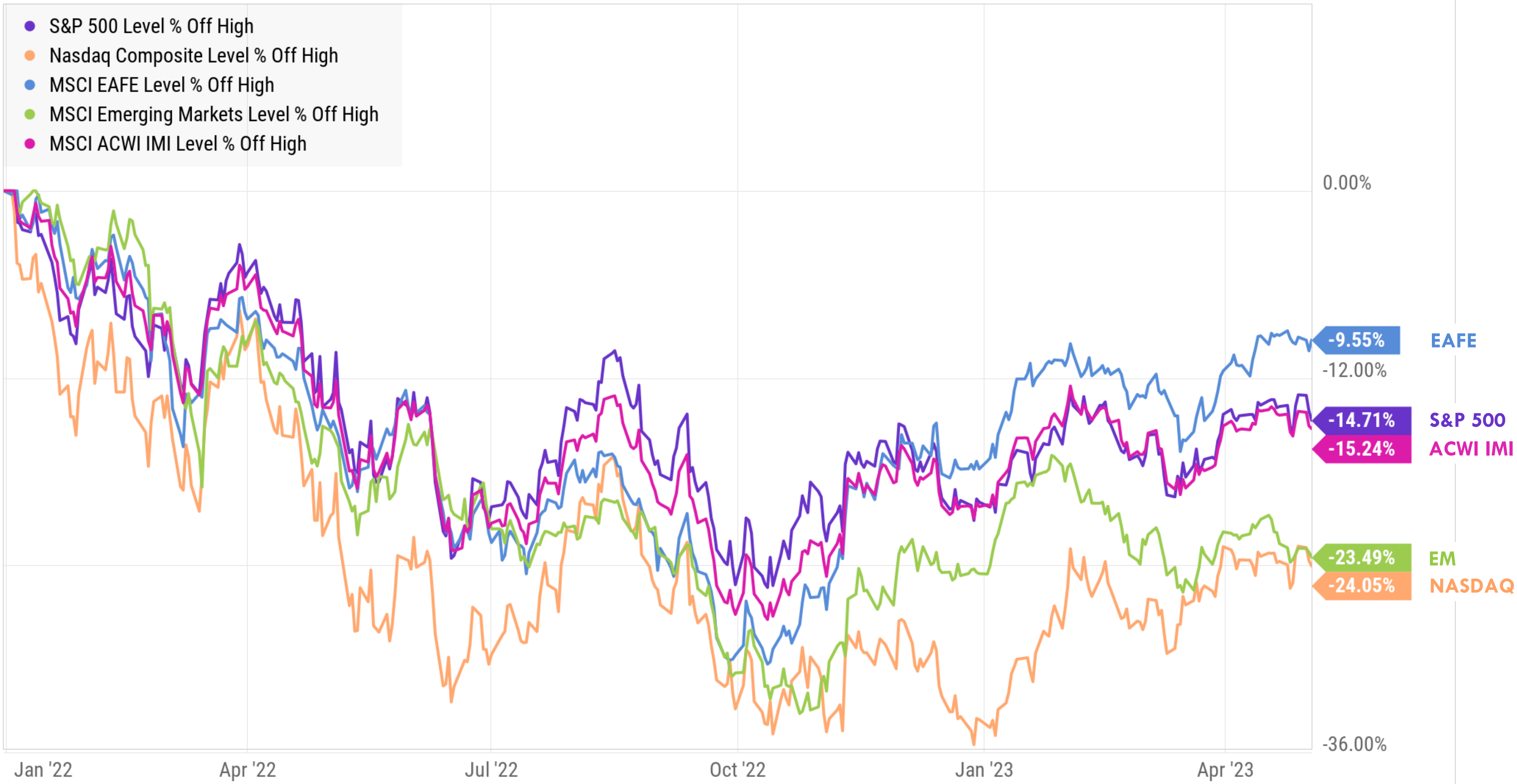
- Global Growth Selection & Funding
- Private Market Planning – Update IPS provision, pacing studies, etc.

DPFP: SVB & US Regional Bank Exposure

- After the collapse of Silicon Valley Bank (SVB), staff reached out to all our investment managers to understand any SVB, Signature Bank and other regional bank exposure.
- In mid-March, DPFP had $5.6M exposed to US regional banks across public markets, which accounted for 0.37% of the public market allocation.
- US Regional bank exposure is mostly concentrated in DPFP's US Small Cap Manager (Eastern Shore). Other managers with exposure to US regional banks include Boston Partners, IR+M, and Longfellow.
- The DPFP operating account is with Texas Capital Bank. This constitutes primarily administrative payables as well as monthly pension payments which are deposited two days before being paid out. Staff does not believe there is a material risk of failure for TCB but is nevertheless looking to mitigate the risk of loss as well as look at possible back up avenues to disburse pension payments in the unlikely event of a failure.
    - Staff has had discussions with JPMorgan, our custodian bank, who has indicated they are not interested in opening an operating account for DPFP. Staff is in early stages of considering whether it makes sense to do a custodian search to combine the operating account with the custodial function.
    - Staff has had productive conversations with Northern Trust about opening operating and payroll accounts. Staff is also reaching out to Bank of America and Wells Fargo about opening accounts there.

Equity Market Drawdown (1/1/22 to 5/3/23)

Equity Indices - % Off High (As of 5/3/23)



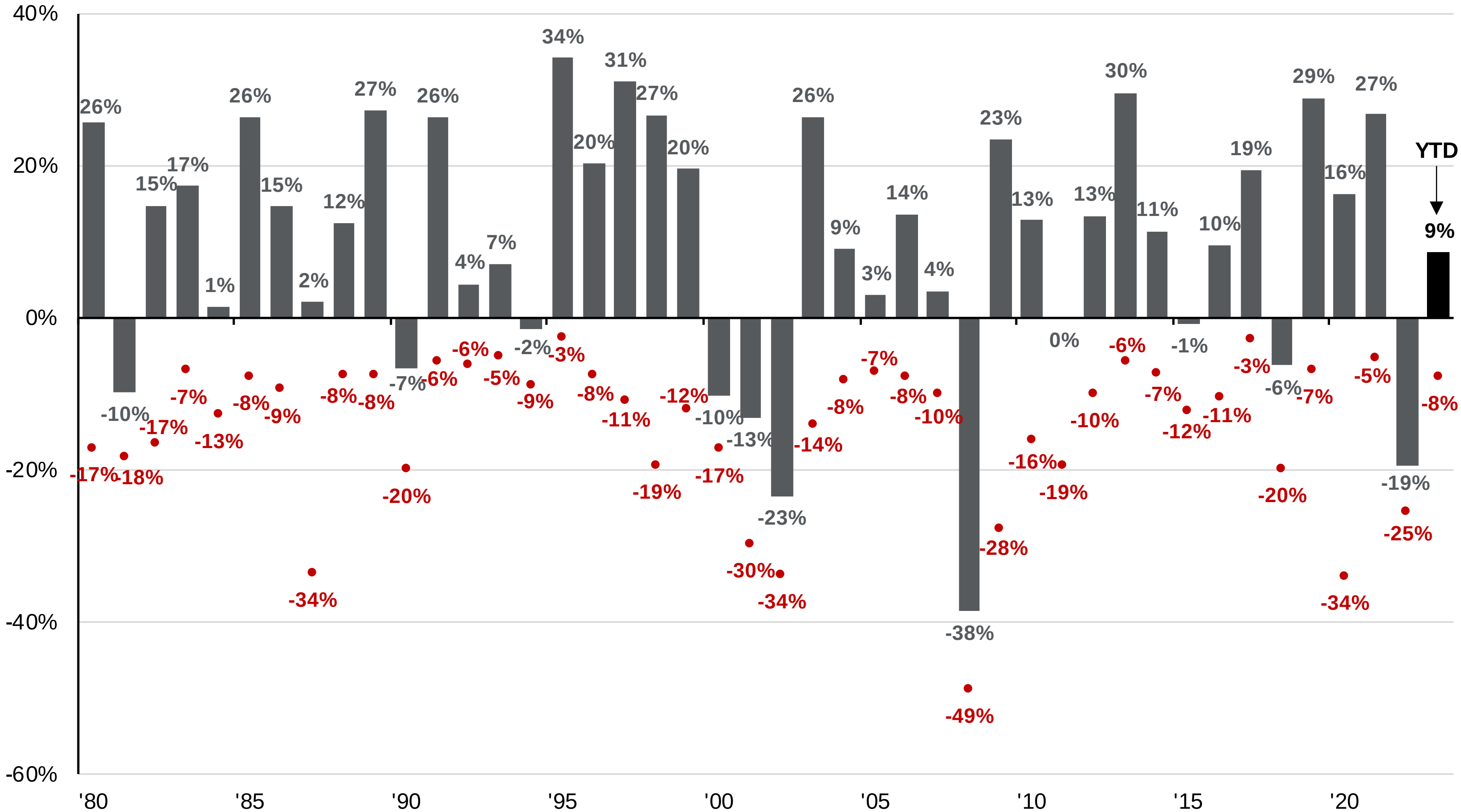
May 04 2023, 11:48AM EDT. Powered by YCHARTS

DALLAS POLICE & FIRE PENSION SYSTEM

S&P Intra-Year Declines

S&P intra-year declines vs. calendar year returns

Despite average intra-year drops of 14.3%, annual returns were positive in 32 of 43 years



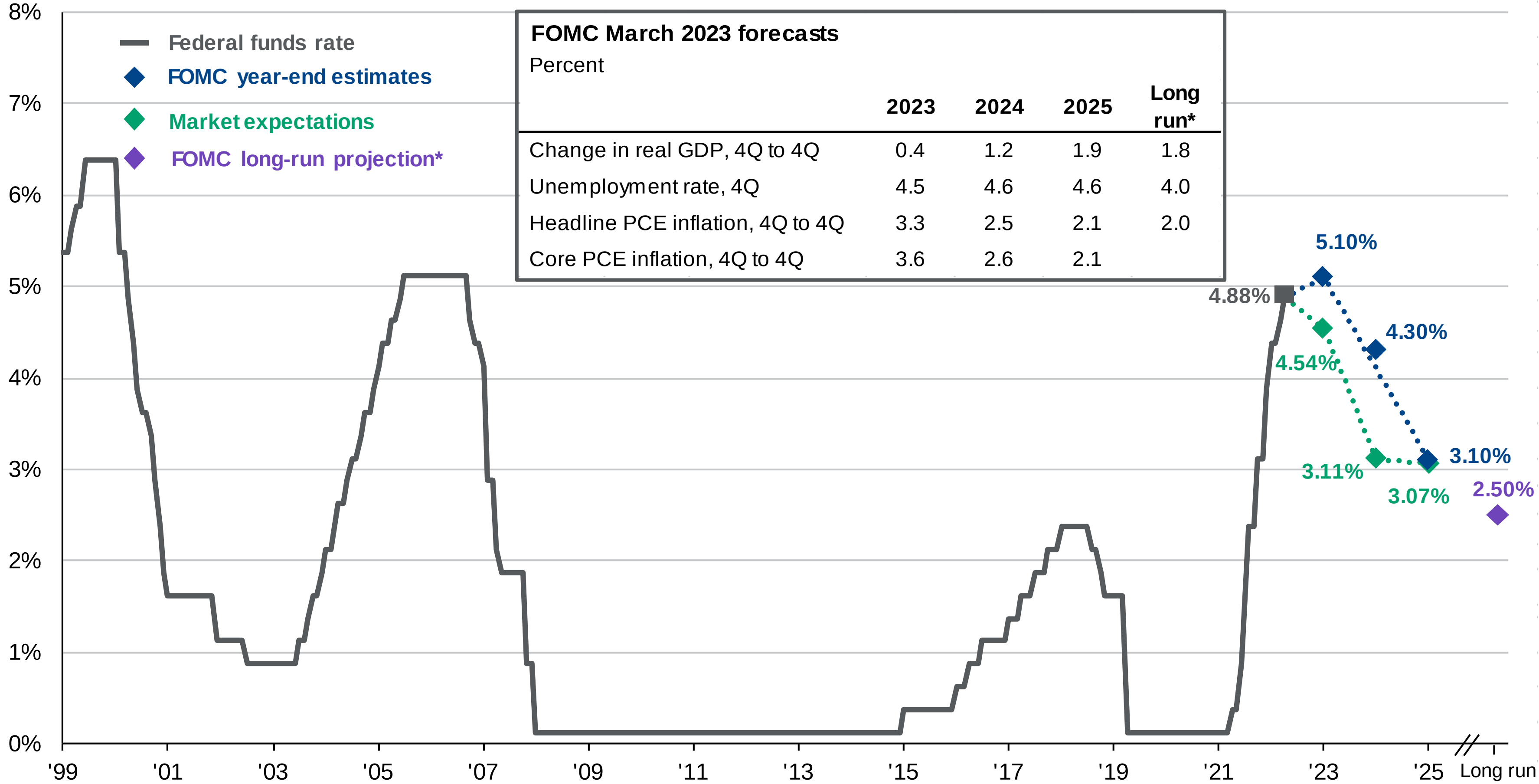
Source: FactSet, Standard & Poor's, J.P. Morgan Asset Management.
Returns are based on price index only and do not include dividends. Intra-year drops refers to the largest market drops from a peak to a trough during the year. For illustrative purposes only. Returns shown are calendar year returns from 1980 to 2022, over which time period the average annual return was 8.7%.
Guide to the Markets – U.S. Data are as of April 30, 2023.

DALLAS POLICE & FIRE PENSION SYSTEM

The Fed and Interest Rates

Federal funds rate expectations

FOMC and market expectations for the federal funds rate



FOMC March 2023 forecasts

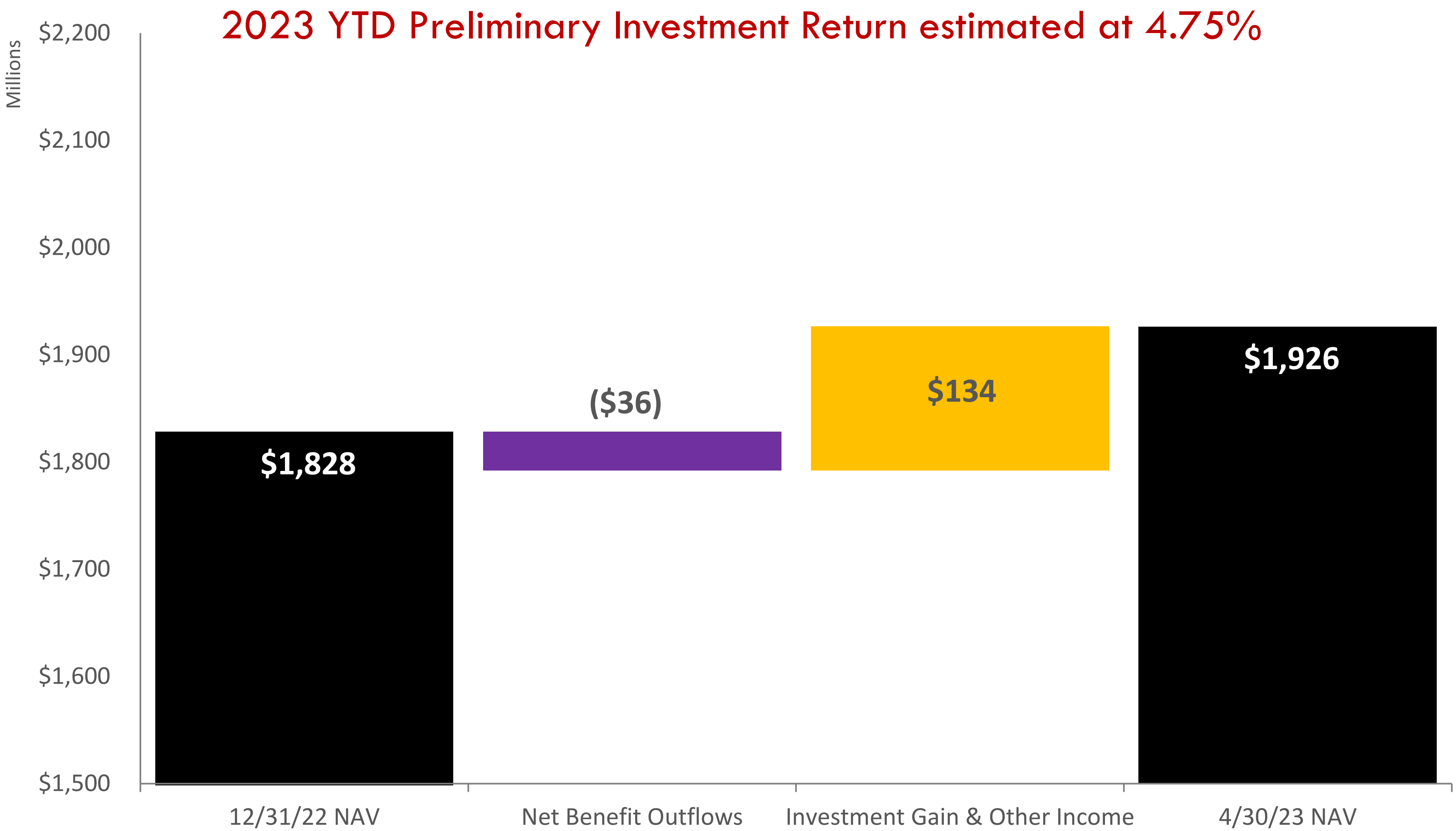
Percent

	2023	2024	2025	Long run*
Change in real GDP, 4Q to 4Q	0.4	1.2	1.9	1.8
Unemployment rate, 4Q	4.5	4.6	4.6	4.0
Headline PCE inflation, 4Q to 4Q	3.3	2.5	2.1	2.0
Core PCE inflation, 4Q to 4Q	3.6	2.6	2.1	

Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are based off of the respective Federal Funds Futures contracts for December expiry. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy. Forecasts are not a reliable indicator of future performance. Forecasts, projections and other forward-looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections or other forward-looking statements, actual events, results or performance may differ materially from those reflected or contemplated.
Guide to the Markets – U.S. Data are as of April 30, 2023.

2023 - Change in Market Value Bridge Chart

In Millions



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

Public Markets Performance Snapshot - Estimates

Public Markets (ex-Cash) currently make up 67.5% of DPFP Investment Portfolio.

		4/30/2023	MTD as of 4/30/2023			YTD as of 4/30/2023			3 Year Trailing as of 3/30/2023		
Net of fees	Index	NAV ($M)	Manager	Index	Excess	Manager	Index	Excess	Manager	Index	Excess
Total Public Portfolio (ex-Cash)	**60% ACWI IMI 40% Global AGG**	**$1,300.5**	**1.0%**	**0.9%**	**0.1%**	**7.2%**	**6.4%**	**0.8%**	**7.6%**	**5.7%**	**1.8%**
Global Equity	**MSCI ACWI IMI**	**$869.4**	**1.3%**	**1.3%**	**0.0%**	**8.8%**	**8.3%**	**0.5%**	**12.7%**	**12.2%**	**0.6%**
Boston Partners	MSCI World	$131.7	1.1%	1.8%	-0.7%	4.8%	9.6%	-4.8%	19.0%	13.1%	5.9%
Manulife	MSCI ACWI	$133.0	3.1%	1.4%	1.6%	8.5%	8.9%	-0.3%	13.2%	12.0%	1.2%
Russell Transition ACWI Growth[3]	MSCI ACWI Growth	$133.0	1.3%	1.1%	0.2%	--	--	--	--	--	--
Walter Scott	MSCI ACWI	$140.0	0.8%	1.4%	-0.6%	11.6%	8.9%	2.7%	11.5%	12.0%	-0.5%
Northern Trust ACWI IMI Index[1]	MSCI ACWI IMI	$220.5	1.3%	1.3%	0.0%	8.5%	8.3%	0.2%	12.6%	12.2%	0.5%
Eastern Shore US Small Cap[1]	Russell 2000	$54.3	-1.1%	-1.8%	0.7%	2.2%	0.9%	1.3%	6.4%	11.9%	-5.6%
Global Alpha[1]	MSCI EAFE Small Cap	$56.9	0.8%	2.0%	-1.2%	9.8%	7.0%	2.7%	10.5%	9.2%	1.3%
EM Equity - RBC	**MSCI EM IMI**	**$87.9**	**-0.7%**	**-0.9%**	**0.2%**	**5.4%**	**3.0%**	**2.4%**	**6.7%**	**5.6%**	**1.2%**
Public Fixed Income (ex-Cash)	**BBG Multiverse TR**	**$343.2**	**0.7%**	**0.4%**	**0.2%**	**3.7%**	**3.5%**	**0.2%**	**0.6%**	**-4.7%**	**5.3%**
S/T IG Bonds - IR+M	BBG 1-3YR AGG	$65.3	0.4%	0.3%	0.1%	2.2%	1.9%	0.3%	0.4%	-0.5%	0.8%
IG Bonds - Longfellow[1]	BBG US AGG	$68.7	0.3%	0.6%	-0.3%	3.9%	3.6%	0.3%	-2.7%	-3.2%	0.5%
Bank Loans - Pacific Asset Mgmt.[2]	CS Leveraged Loan	$75.1	1.3%	1.0%	0.4%	5.0%	4.1%	0.9%	6.4%	7.2%	-0.8%
High Yield - Loomis Sayles[1]	BBG USHY 2% Cap	$70.5	0.6%	1.0%	-0.4%	3.5%	4.6%	-1.1%	4.6%	5.7%	-1.1%
EM Debt - Metlife[1]	35% EMBI / 35% CEMBI / 30% GBI-EM	$63.6	0.7%	0.8%	0.0%	3.7%	3.9%	-0.2%	1.4%	0.5%	1.0%

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

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

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

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

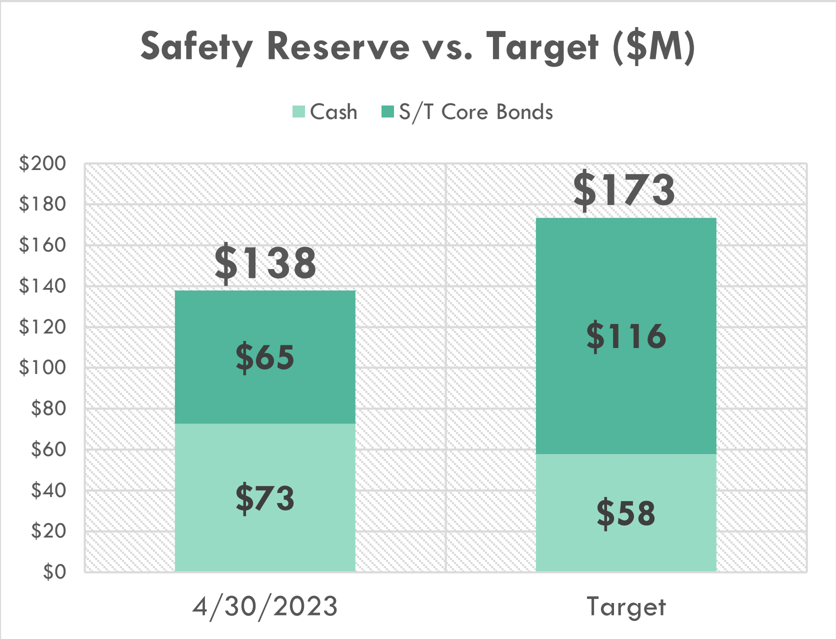
DALLAS POLICE & FIRE PENSION SYSTEM

Asset Allocation Detail

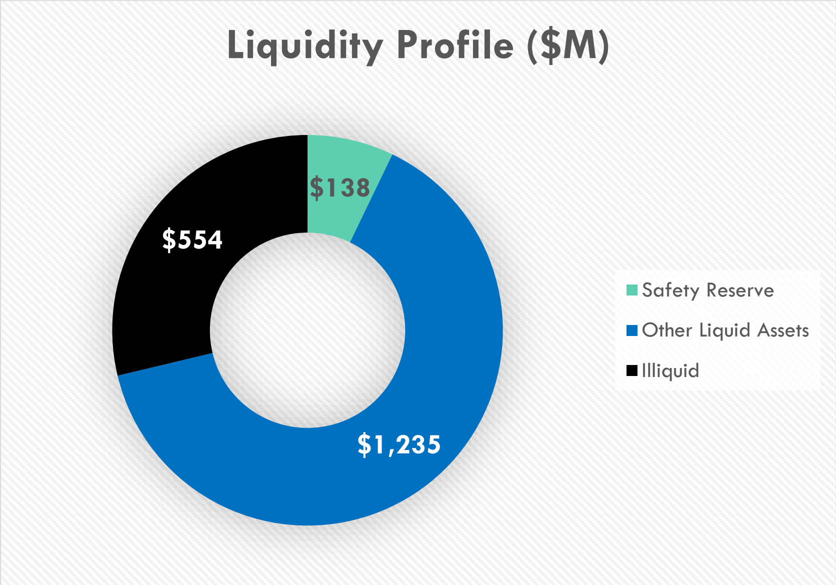
DPFP Asset Allocation	4/30/2023		Target			Variance	
	NAV	%	$ mil.	%	% of Target	$ mil.	%
Equity	**1,196**	**62.1%**	**1,252**	**65%**	**96%**	**-56**	**-2.9%**
Global Equity	870	45.1%	1,060	55%	82%	-190	-9.9%
Boston Partners	*132*	*6.8%*	*154*	*8%*	*85%*	*-22*	*-1.2%*
Manulife	*133*	*6.9%*	*154*	*8%*	*86%*	*-21*	*-1.1%*
Russell Transition - ACWI Growth	*133*	*6.9%*	*154*	*8%*	*86%*	*-21*	*-1.1%*
Walter Scott	*140*	*7.3%*	*154*	*8%*	*91%*	*-14*	*-0.7%*
Northern Trust ACWI IMI Index	*221*	*11.4%*	*289*	*15%*	*76%*	*-68*	*-3.6%*
Eastern Shore US Small Cap	*54*	*2.8%*	*77*	*4%*	*70%*	*-23*	*-1.2%*
Global Alpha Intl Small Cap	*57*	*3.0%*	*77*	*4%*	*74%*	*-20*	*-1.0%*
Emerging Markets Equity - RBC	88	4.6%	96	5%	91%	-8	-0.4%
Private Equity*	239	12.4%	96	5%	248%	142	7.4%
Fixed Income	**420**	**21.8%**	**482**	**25%**	**87%**	**-62**	**-3.2%**
Cash	73	3.8%	58	3%	126%	15	0.8%
S/T Investment Grade Bonds - IR+M	65	3.4%	116	6%	57%	-50	-2.6%
Investment Grade Bonds - Longfellow	69	3.6%	77	4%	89%	-8	-0.4%
Bank Loans - Pacific Asset Management	75	3.9%	77	4%	97%	-3	-0.1%
High Yield Bonds - Loomis Sayles	70	3.7%	77	4%	91%	-7	-0.3%
Emerging Markets Debt - MetLife	64	3.3%	77	4%	83%	-13	-0.7%
Private Debt*	5	0.2%	0	0%		5	0.2%
Real Assets*	**310**	**16.1%**	**193**	**10%**	**161%**	**118**	**6.1%**
Real Estate*	162	8.4%	96	5%	169%	66	3.4%
Natural Resources*	107	5.5%	96	5%	111%	10	0.5%
Infrastructure*	41	2.1%	0	0%		41	2.1%
Total	**1,926**	**100.0%**	**1,926**	**100%**		**0**	**0.0%**
Safety Reserve ~$162M=18 mo net CF	138	7.2%	173	9%	80%	-35	-1.8%
*Private Market Assets	554	28.7%	289	15%		265	13.7%

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

Safety Reserve Dashboard



Projected Net Monthly outflows of **$9.3M** per month. Safety Reserve of **$138M** would cover net monthly outflows for next **14 months** or through **June 2024.**

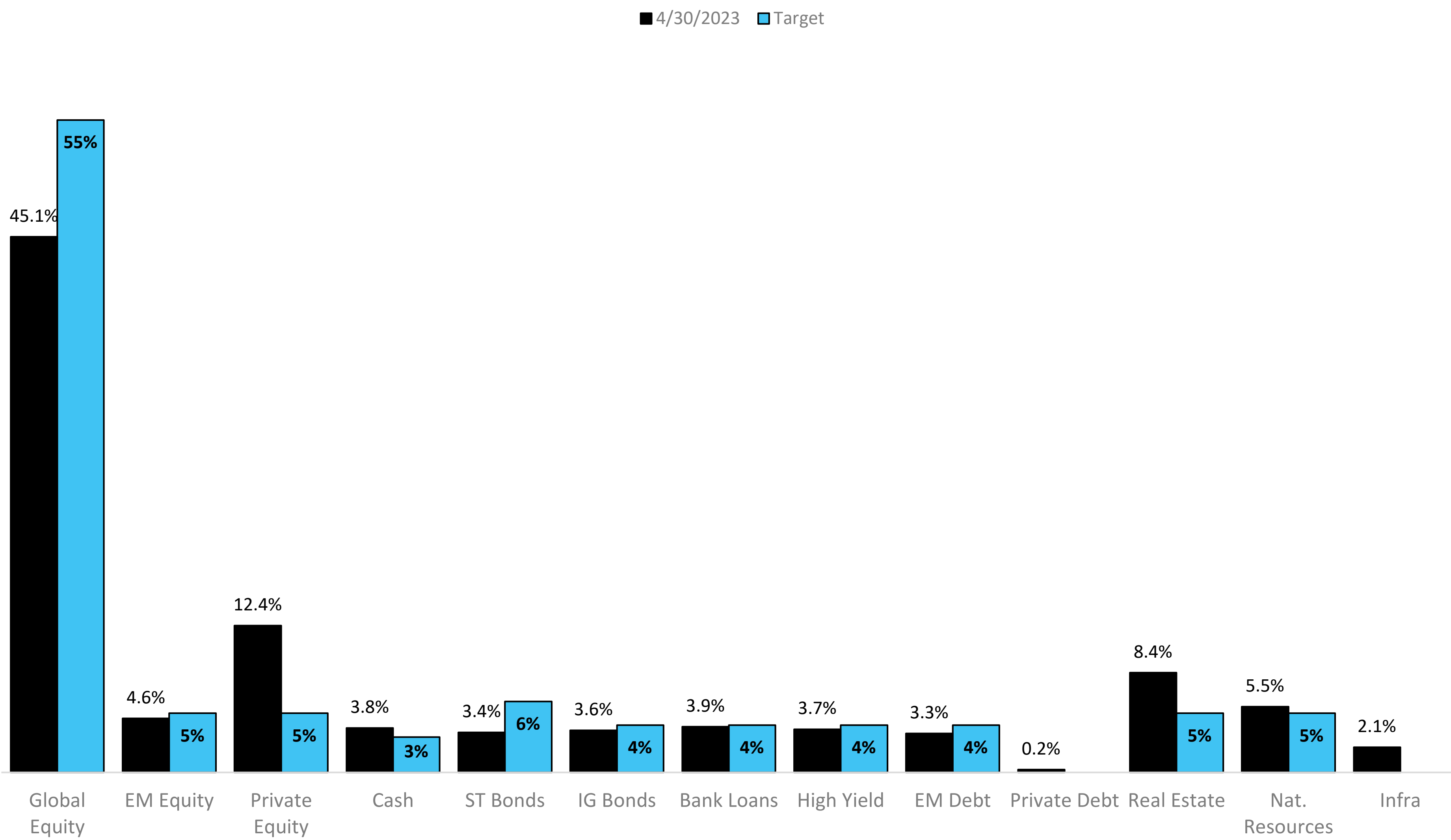


Expected Cash Activity	Date	Amount ($M)	Projected Cash Balance ($M)	Projected Cash (%)
	4/30/23		$72.6	3.8%
City Contribution	5/12/23	$9.0	$81.6	4.2%
City Contribution	5/26/23	$9.0	$90.6	4.7%
Pension Payroll	5/31/23	($28.1)	$62.5	3.2%
City Contribution	6/9/23	$9.0	$71.5	3.7%
City Contribution	6/23/23	$9.0	$80.6	4.2%
Pension Payroll	6/30/23	($28.1)	$52.5	2.7%
City Contribution	7/14/23	$9.0	$61.5	3.2%
City Contribution	7/28/23	$9.0	$70.5	3.7%
Pension Payroll	7/28/23	($28.1)	$42.4	2.2%

Numbers may not foot due to rounding

DALLAS POLICE & FIRE PENSION SYSTEM

Asset Allocation – Actual vs Target



DALLAS POLICE & FIRE PENSION SYSTEM

2023 Board Investment Review Plan*

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

May	• Natural Resources: Staff review of BTG Pactual (Timber)
June	• Natural Resources: Hancock Presentation
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.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C8

Topic: **Natural Resources Portfolio Review - BTG Pactual**

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

Discussion: Staff will provide an overview of the Natural Resources portfolio and the strategy for DPFP's timber holdings managed by BTG Pactual.

Regular Board Meeting – Thursday, May 11, 2023

DISCUSSION SHEET

ITEM #C9

Topic: **Review Police Officer and Fire Fighter Trustee applicant qualifications**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.074 of the Texas Government Code.

Discussion: Section 3.01(b-3) requires the Board to make a determination as to whether any potential candidates for the police officer and firefighter trustee positions meet the qualifications of Section 3.01(b-1) to serve as a trustee. Section 3.01 (b-1) requires that a trustee not be an elected official of the city and that a trustee has demonstrated financial, accounting, business, investment, budgeting, real estate, or actuarial experience.

Staff Recommendation: **Evaluate** the potential Trustee candidates and determine if the qualifications of Section 3.01(b-1) are met.

DISCUSSION SHEET

ITEM #C10

Topic: **Legislative Update**

Discussion: Staff will brief the Board on pension bills that have been filed which may bear on DPFP.

Regular Board Meeting – Thursday, May 11, 2023

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C11

Topic: **Independent Actuarial Analysis**

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

Discussion: Section 2.025 of the Plan requires the Pension Review Board to select, and DPFP to hire by or before July 1, 2024, an independent actuary to prepare an analysis of the actuarial condition of DPFP and make recommendations as to possible benefit and contribution changes to cause DPFP to meet the funding requirements of Section 802 of the Government Code. The actuary's report is due to the Pension Review Board and the Board by October 1, 2024.

Staff will discuss in detail the requirements and the steps being taken to start the process.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C12

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.

Regular Board Meeting – Thursday, May 11, 2023

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #D2

Topic: **Executive Director's report**

a. Associations' newsletters
- NCPERS Monitor (May 2023)

b. Open Records

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

Regular Board Meeting – Thursday, May 11, 2023

THE NCPERS
MONITOR
The Latest in Legislative News
May 2023

NCPERS **Executive Director's Corner**

Honoring Public Sector Workers in 2023

By Hank Kim, Executive Director and Counsel, NCPERS

Photo Illustration © 2023, istock.com

May 7-13th is Public Service Recognition Week. This holiday was created nearly 45 years ago to honor public servants and their impact on society, while generating awareness of the various roles that make up the public sector.

It hasn't been an easy few years for public sector workers. During the height of the pandemic, frontline workers including teachers, transit workers, and public safety officers, served the public even though effective vaccinations would be more than a year away and there were shortages of personal protective equipment. More mundane, but still important in the administration of government, many workers faced the challenge of working remotely for the first time while implementing brand-new community assistance programs and pandemic-related services. Adding to these challenges, politicians continue to question the value of defined benefit pensions as part of the overall compensation for public servants.

I'm proud of the role NCPERS plays in protecting public sector retirement benefits. Our members collectively oversee $4 trillion in retirement funds managed on behalf of seven million retirees and nearly 15 million active public servants—including firefighters, law enforcement officers, and teachers.

As my colleague Bridget Early argued in her recent commentary, pensions play a key role in attracting and retaining talent in the public sector. She cites research from NIRS that found 84 percent of millennials working in state and local governments said their pension benefit was the reason they're staying in the public sector, despite the majority (80 percent) believing they could earn more in the private sector.

Unlike short-term solutions like sign-on bonuses, pensions are long-term solutions for worker retention. But in order to effectively manage and administer these critical benefits, public pension funds need to first ensure they can hire and retain quality staff. In 2022, NCPERS met with a small group to explore these challenges. Late last year, we published the inaugural Public Pension Compensation Survey to help funds benchmark their compensation and benefits packages against peers. The 2022 survey featured data from more than 150 public pension funds and included detailed compensation information for nine c-suite positions.

Expanding on the success of the inaugural survey, this year's Public Pension Compensation Survey will focus on compensation data for mid- and senior-level roles. Survey participants will once again receive complimentary access to the online dashboard—featuring filters that allow for apples-to-apples comparisons—and a free copy of the report. In the next few weeks, we'll be distributing the 2023 Public Pension Compensation Survey to pension funds all over the country. Please reach out to membership@ncpers.org if you have any questions about how to participate.

As we celebrate public servants across the country this month, NCPERS would like to recognize the important work of public pension staff, trustees, and stakeholders. Through advocacy, research, and education, we hope to make your jobs just a little easier.

To participate in Public Service Recognition Week, we encourage you to share updates on Facebook, Twitter, and LinkedIn about what you love about working in the public sector. Please tag NCPERS and use the hashtags #PSRW #publicpensions so we can help amplify your stories!

- Facebook: @NCPERS
- Twitter: @NCPERS
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NCPERS Feature

Debt Limit and Budget Legislation

By: Tony Roda, Partner, Williams & Jensen

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The U.S. Treasury Department is counting dollars. They are counting tax receipts and refunds from the April 18 filing deadline. The result of the count will determine Congress's final deadline to approve legislation to increase the nation's debt limit and possibly, in the same bill, include significant federal spending cuts.

The Treasury actually exceeded the debt limit in January, but through extraordinary accounting measures, it has delayed the ultimate date when it will not be able to pay the government's bills. There are reports that the Treasury has received 35 percent less in revenues than during the same time period last year. Based on that information, Moody's Analytics concludes that the government will reach the critical point in June. However, with the receipts and refunds still being counting, the date could be anywhere from late May to September.

Thus far in Congress, the debate over the debt limit and whether it is appropriate to tie action on it to spending cuts has yielded mainly rhetorical attacks from each political party against the other. However, during the week of April 17, House Speaker Kevin McCarthy (R-CA) unveiled his initial version of a debt limit and budget bill – The Limit, Save, Grow Act – and that legislation passed the House on April 26 on a nearly straight party line vote, 217-215, with four Republicans voting against the measure.

Republican votes in Congress to increase the debt limit fall dramatically when a Democrat is in the White House. Looking at the votes cast to raise the debt limit in this century, with a Republican president, 65 percent of House Republicans and 74 percent of Senate Republicans supported the increase, whereas with a Democratic president the numbers fall to 24 and 20 percent, respectively. During the recent House floor debate, Democrats repeatedly reminded Republicans that, under the Trump Administration, Democrats voted to raise the debt limit three times without much controversy.

The current high-stakes drama associated with the debt limit parallels 2011. President Obama was in office and the Republicans had just won control of the House in the midterm elections. At that time, Republicans leveraged a potential default to win spending cuts along with a debt limit increase, but doing so just days before the limit would have been hit resulted in the first-ever downgrade of the U.S. credit rating.

The recently passed House GOP bill would raise the debt limit by $1.5 trillion or through March 31, 2024, whichever is first, and include what Republicans describe as $4.8 trillion in savings. The bill would return total discretionary spending to the fiscal year (FY) 2022 level in FY 2024 and cap annual growth at one percent for a decade thereafter; rescind unspent COVID relief funds; repeal most of the Inflation Reduction Act's energy and climate tax credit expansions; rescind the new enforcement funding for the Internal Revenue Service; make changes to energy, regulatory, and permitting policies; impose or expand work requirements in several federal safety net programs; and prevent implementation of President Biden's student debt cancellation program.

The measure is a non-starter for President Biden and Congressional Democrats. However, now that the House has approved the measure, the debate shifts to the Senate, where Democrats and Republicans are expected to begin discussions soon. President Biden is being urged by some Democrats to enter into negotiations with Congressional Republicans as well.

Important to the public pension plan community is the decision House Republicans made in this initial budget proposal to include changes to the tax code. This reversed their earlier tactical decision to not include tax provisions. The House GOP Leadership had been trying to avoid including revenue-raising provisions in the debt ceiling bill in order to not send a live tax vehicle to the Senate.

Under the Constitution, the House must originate revenue (tax) provisions. Once the House approves a bill that includes tax provisions, it opens the door for the Senate to add or subtract tax provisions from the House-passed bill and then send it back to the House. The Democratic Senate is likely to take advantage of such an opportunity and send politically difficult tax provisions back to the GOP-controlled House. This was the situation House Republicans hoped to avoid. However, with such strong opposition within House Republican ranks to the new green energy tax credits and funding for IRS enforcement, the Leadership needed to include provisions to repeal them in order for the Limit, Save, Grow Act to pass.

Inclusion of any tax provisions, therefore, opens the door to all tax provisions. In previous GOP-controlled chambers, tax provisions have been advanced which would have been detrimental to public pension plans. In 2017, the House approved a tax bill that included a provision to impose the unrelated business income tax (UBIT) on public pension plans. Over the years, House Republicans have also shown interest in other troublesome tax-related proposals, such as the Public Employee Pension Transparency Act (PEPTA).

Please be assured that as the debt limit and budget legislation makes its way through Congress that NCPERS will be keeping a close eye on anything harmful to public pension plans. As always, we will keep you apprised of any significant developments. ◆

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Pension Industry Careers: Job Listings, Hiring, and Retirement Announcements

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NCPERS Feature

Pension Expenditures Do Not Crowd Out Education Funding, NCPERS Study Finds

By: Lizzy Lees, Director of Communications, NCPERS

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Critics maintain that pension expenditures by state and local governments are crowding out other important forms of spending—notably, education funding. But overwhelmingly, the data shows that the crowding-out effect simply isn't occurring.

In the 2023 NCPERS research update, "Do Pension Expenditures Impact Education Spending?" lead researcher Dr. Michael Kahn conducted a thorough literature review of research arguing that pension spending is crowding out education funding. He then examined state-by-state historical data on pension contributions, education expenditures, revenues, and the economy.

Kahn found that education funding grew at three times the annual rate of pension spending from 1993 to 2019. During this period, whereas growth in education funding was stable, pension spending was volatile. The volatility in pension expenditures is often due to plan sponsors contributing less than required and making occasional lump-sum catch-up payments or due to bumps in the markets.

During the past quarter century, the average pension expenditures were 3.6 percent of state and local own-source revenues (taxes and fees collected by municipalities). The same figure for education expenditures was 33.8 percent. Even if pension costs rise faster than education expenditures, pension funding is unlikely to crowd out education funding because the ratio of the two is likely to stay about the same.

Recognizing the many competing priorities that state and local governments face, the study also examined whether state and local revenue systems are out of sync with the economy. The data showed that revenues lag economic growth in each state. "Governments can afford almost all competing priorities, but to do so, they must take determined steps to bring their revenue systems into harmony with the economy," Kahn said.

The study concludes that, in every state, pension contributions are not crowding out education funding, but state and local revenue systems remain out of sync with the economy. Read the full study (PDF) and find the state-by-state analysis.

Learn more about the key findings from the study and hear directly from the lead researcher during NCPERS' May 4th webinar. Register here to attend or to access the webinar on demand.

NCPERS **Feature**

How NCPERS Accredited Fiduciary (NAF) Program Helps Public Pensions Advance Good Governance Practices

By: Lizzy Lees, Director of Communications, NCPERS

Nearly ten years ago, the NCPERS Accredited Fiduciary (NAF) program was created to educate public pension trustees and administrators about best practices for plan governance, oversight, and administration.

We spoke with NAF instructors Peter Landers and Brad Kelly of Global Governance Advisors (GGA) about how the program was developed, who should attend, and key issues public pensions should watch in the coming years. The spring class of NAF will be held on May 20-21 in conjunction with NCPERS Annual Conference & Exhibition in New Orleans. Reserve your spot today—registration closes on May 5.

Q: NCPERS Accredited Fiduciary (NAF) program started nearly 10 years ago. How did this program come to be?

Brad Kelly: Public pressure on pensions is not something new, but it has been escalating, so a lot of pensions found themselves with significant headline risk. And with politicians who didn't want to carry the liability going forward, it became very easy to point to trustees and say, 'the whole reason why we're in the situation is because we have billions of dollars that are being overseen by teachers, firefighters, and police officers.' And that, of course, couldn't be further from the truth. Pensions became underfunded largely because plan sponsors took a 10- or 15-year contribution holiday.

So NCPERS realized that a lot of their members were under this unprecedented pressure and criticism. They reached out to GGA to see what we could do to help protect these trustees and the representative nature of these pensions. We collectively agreed that it was governance. The capabilities of these trustees would be kind of that frontline form of defense—the more capable they are in their role, the less they can be criticized. And that's where we came up with the NCPERS Accredited Fiduciary program, with the four modules and the specific content that we have today.

Peter Landers: Adding to that, NCPERS had done a great job for many years with the Trustee Educational Seminar (TEDS) program, but it was very much geared towards newer trustees on public pension fund boards. There was a gap, though, for those more experienced board members—which is where the Accredited Fiduciary program comes in nicely. It's really about going one step further in trustee education. It also provides that added level of assurance to stakeholders that these trustees are taking their job seriously, they're getting necessary training, and they're even earning their Accredited Fiduciary designation.

Q: What makes NAF unique, and why do you think trustees and pension staff should consider attending?

Peter: One of the things that makes NAF unique is the ability to network with other trustees from across the country and hear about their experiences. We run several case studies through each of the modules, so you get a chance to understand different perspectives from your fellow trustees.

NAF is also where both trustees and administrators can gain an understanding of best practices and start to think outside the box. We have a specific challenge at the end of module four where we identify alternative pension fund models with different ways of cutting costs, adding benefits, gaining those increased investment returns, etc. You really don't get that from the traditional training out there.

Brad: We strongly encourage all participants to share their stories. It's important for them to share their successes—and how they realized those successes—but it's equally important to share their horror stories. So often, these funds are working in isolation. We strongly advocate that they work together to start finding ways to decrease their operating costs.

One thing that we've found is that a lot of funds really benefit from going beyond just the trustee level. Because the senior executives have to work in lockstep with the board, it often is very beneficial for the trustees to attend NAF alongside plan senior staff. Then everyone's hearing the same message about what the true role of the board is and how management should be working to support them. If you can delineate the responsibilities in a very clear way, it allows both management and the board to work much more efficiently and effectively as a cohesive group.

We always say that part of the challenge is that good board members don't know what they don't know. But after going through NAF, they understand their true fiduciary duty and a thorough understanding of best practices. Good board members ask good questions.

Q: The NAF program is currently made up of four modules: Governance and the Board's Role; Investment, Finance and Accounting; Legal Risk Management and Communication; and Human Capital. Can you provide an overview of what each of these modules covers?

Peter: Module one, Governance and the Board's Role, really gets into board governance in terms of best practices, the makeup of your board, and the typical committees that are set up. We review what roles the board plays, including when trustees should be 'in the weeds' versus focusing on policy and strategy. We talk about the roles that different individuals play and what responsibilities they should be in charge of. And then we finish off that module with a discussion on board performance, including how performance should be measured and assessed.

The second module, Investment & Finance, is taught by investment experts from Meketa. They talk about things like asset allocation and making sure you have a solid investment philosophy that you've agreed upon as a board and with your management team. Attendees learn about the use of external advisors and how to utilize them to get the best value add. They cover things like ESG, including the financial reporting and disclosure aspects of it. And they also focus on alternative investing and what to be aware of when selecting between different managers.

During module three, Legal, Risk Management & Communication, we have experts speak to some of the legal fiduciary duties of the role of a trustee. This includes things like how to limit your liabilities and fiduciary insurance. We review the different priorities from an audit perspective and what the Audit Committee's role is. And we also talk about the different types of risks and what different funds can do to try to mitigate those risks. We also cover strategies for effective communication, both as a board and for individual trustees. This includes things like who are the right individuals to speak on behalf of the fund, what role trustees play in public communication, and the importance of speaking as one voice and as one board.

Module four, Human Capital, starts off by focusing on the importance of succession planning. We cover short- and long-term succession planning, employment contracts, and executive evaluations. We discuss measuring the performance of your fund and staff members. Then we look at executive and trustee compensation, including what are the components of a good compensation philosophy, how to benchmark compensation effectively, and even how to advocate for yourself with things like education budgets. And finally, we highlight different alternative pension management models and challenge attendees to consider ways to create better efficiencies, cut costs, and maybe gain some added investment return opportunities.

Q: Do the educational needs for public pension boards differ from private sector pensions or corporate boards? If so, how?

Peter: I would say yes and no. There are some foundational elements in terms of good governance practices, but what the board should be focusing on versus what management should be focusing on are almost universal.

There are some differences, though. One area public pension boards need to focus on more than most private sector boards is the investment side of the equation, because of course, public pension funds are investing members assets. The traditional 60/40 split is no longer generating the returns that these pension funds need, so there's the need to diversify into private equity, real estate, and other alternative assets. So for public pension board members, there can be a learning curve to get up-to-speed on the investment side of things. But overall, a lot of the key tenets of board governance are universal.

Brad: I would add that that public pressure aspect is something that is considerably greater for a public pension trustee and public pension board, as opposed to a private sector organization. They're under a lot more scrutiny, so they need to know how to properly mitigate that headline risk and also understand how to work with their stakeholders and community members.

Q: What are the top three issues public pension boards and staff should be keeping an eye on in the next few years?

Brad: One of the biggest things we're trying to advocate is that public pensions in today's market are not public agencies any longer, especially when they're trying to bring investment capabilities in house to cut ongoing operating costs. But it's a philosophical change where they have to see themselves as an investment entity, because the public agencies have different compensation structures and abilities to incentivize. If you're trying to bring in investment professionals from out of state or from the private sector, you have to be competitive. But the savings associated with in-house investment professionals can be significant, and pensions are starting to realize that.

Money management fees are usually the number one operating expense for public pensions that aren't internalizing their investment capability. But as pensions are bringing more and more talent in house, they need make sure they're offering competitive compensation and being strategic so that they can get the right people in the right seats to properly safeguard the pension promises that they've made.

Peter: Adding onto that, I think, you know, the craziness of the markets just means it's more important than ever to work with your internal team or external consultants to make sure that you're comfortable with your asset allocation. Making sure that you have a diversified portfolio will hopefully allow you to weather out any of the volatility in the next few years. Part of that, though, is making sure boards and staff have the education needed to ask those good questions around asset allocation.

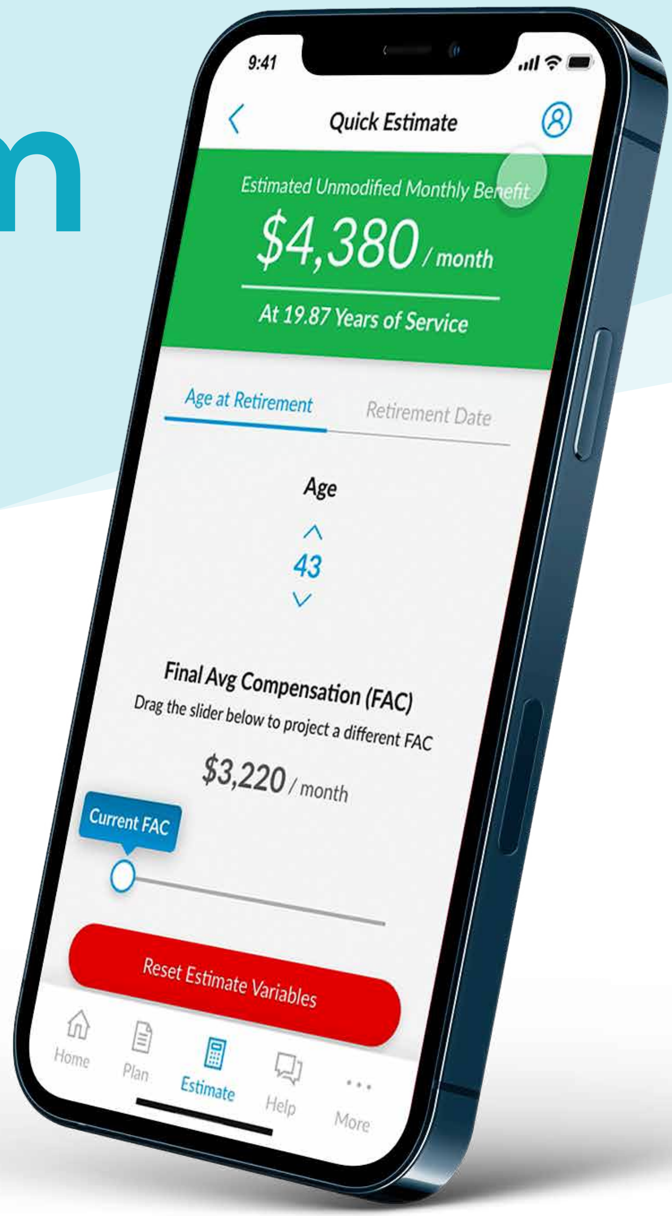
Advocating for proper education budgets—both for trustees and staff—is also key, because there is a cost to poor governance and added benefits that come from good governance. And we're talking between 30-100 basis points that can be saved or lost through governance practices, which can become very sizable numbers.

The world is evolving, so in addition to an increased focus on investments going forward, how you operate your pension fund board is key. Boards are going to have to make sure that they're setting themselves up properly to ensure they can weather out any temporary blips in the markets, and really, again, promote that long-term sustainability of their funds.

Brad: Throughout the NAF program, we remind attendees that this is a long game approach so they shouldn't be responding with knee jerk reactions. They need to ensure their investing strategy is sound and solid, and that they're adhering to it. There's some minor tweaking, but they're not going to make major changes within a six- to 12-month period. They're in it for that 10- to 30-year lifespan, and those are the time horizons they need to focus on.

Learn more about NAF and register for an upcoming class here. ◆

NCPERS PensionX Digital Platform



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

NCPERS 1941 | pensionX

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

NCPERS Around the Regions

NCPERS State-Level Pension Legislation Tracker

In our continuing commitment to provide value, NCPERS will provide a new member benefit beginning this quarter. The NCPERS State Legislative Tracking Report tracks state legislation that impacts pension systems. The bills being tracked focus on a range of issues including changes to plan design, eligibility, or administration, funding of pension systems, and statewide retirement savings programs. This tracking report is generated by a system that refreshes daily, meaning the webpage will provide current bill information.

Sign up here for access to the NCPERS State Legislative Tracking Report, and keep reading for pension news from around the regions:

Bill to Close North Dakota Public Employees' Pension Plan Goes to Gov. Burgum

The bill would close the pension plan to new hires beginning in 2025 and put them in a defined-contribution plan, similar to a 401(k). House Majority Leader Mike Lefor, R-Dickinson, has shepherded the bill from the Legislature's interim Retirement Committee..

READ MORE *Source: INForum*

Kansas Passes Anti-ESG Bill, But It's Milder Than Some Want

A proposal designed to thwart investing that considers environmental, social and governance factors has cleared the Kansas Legislature, but divisions within its GOP majorities kept the measure from being as strong as some conservatives wanted. Governor Kelly, while not signing it, allowed the bill to become law.

READ MORE *Source: The Associated Press*

Montana Lawmakers Looking at Possible Changes to State Pension Systems

The Senate Finance and Claims Committee held hearings on House Bills 226 and 569, both sponsored by Rep. Terry Moore, R-Billings. Together, the two bills seek to reduce the "amortization period" for four of Montana's public pension systems – the length of time required to pay off the liability.

READ MORE *Source: KTVH*

NCPERS Around the Regions

Senate Commits $4.7B to Boost Texas Teacher Pensions

Both chambers of the Capitol — House and Senate — have chosen to push billions of the current budget surplus into a cost-of-living adjustment for the state's retired teachers. Together, the two bills seek to reduce the "amortization period" for four of Montana's public pension systems – the length of time required to pay off the liability.

READ MORE *Source: Spectrum News1*

Phoenix Budget Discussions Pass Over Pension Debt

As Phoenix officials wrestle with the cost of soaring homelessness and the rest of the budget for the coming fiscal year, one big budget item has received little attention in public discussions of the 2023-24 spending plan so far. That item is the $3.5 billion Phoenix owes the Public Safety Personnel Retirement System (PSPRS) for police and firefighter pensions.

READ MORE *Source: The Foothills Focus*

New York Common Commits $1.3 Billion to Sustainable Program

The $242.3 billion New York State Common Retirement Fund has committed $1.3 billion to two funds as part of its Sustainable Investments and Climate Solutions program. It also earmarked more than $600 million to alternative investments in February.

READ MORE *Source: Chief Investment Officer*

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Calendar of Events 2023

May

NCPERS Accredited Fiduciary (NAF) Program

May 20–21
New Orleans, LA

Trustee Educational Seminar (TEDS)

May 20–21
New Orleans, LA

Annual Conference & Exhibition (ACE)

May 21–24
New Orleans, LA

June

Chief Officers Summit

June 19-21
Denver, CO

August

Public Pension Funding Forum

August 20-22
Chicago, IL

October

NCPERS Accredited Fiduciary (NAF) Program

October 21-22
Las Vegas, NV

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

October 22-25
Las Vegas, NV

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

The Voice for Public Pensions

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