AGENDA

Date: August 7, 2020

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, August 13, 2020, 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/87426172854?pwd=OW5oMWdiNzFsajE2S0tsWG9LbGtEUT09 **Passcode: 409446.** 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 July 9, 2020

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

3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for August 2020

4. **Approval of Estate Settlements**

5. **Approval of Survivor Benefits**

6. **Approval of Service Retirements**

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

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. **Monthly Contribution Report**

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

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

3. **Financial Audit Status**

4. **Quarterly Financial Reports**

5. **2020 Mid-Year Budget Review**

6. **Report on Audit Committee**

7. **Portfolio Update**

8. **Securities Lending**

9. **Private Equity and Debt Portfolio Review**

10. **Lone Star Investment Advisors Update**

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

11. **Legal issues - In accordance with Section 551.071 of the Texas Government Code, the Board will meet in executive session to seek and receive the advice of its attorneys about pending or contemplated litigation 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.**

12. **Chairman's Discussion Items**

    Thank Outgoing Trustees

13. **DPFP Office and Board Procedural Response to COVID-19**

D. BRIEFING ITEMS

1. Public Comment

2. Executive Director's report

a. Associations' newsletters

- NCPERS Monitor (August 2020)
- NCPERS PERSist (Summer 2020)
- TEXPERS Pension Observer
  http://online.anyflip.com/mxfu/vumv/mobile/index.html

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

ITEM #A

MOMENT OF SILENCE

In memory of our Members and Pensioners who recently passed away

NAME	ACTIVE/ RETIRED	DEPARTMENT	DATE OF DEATH
James E. Carlin	Retired	Fire	July 2, 2020
Thomas B. McKee	Retired	Police	July 3, 2020
Gilbert A. Kelley, Jr.	Retired	Police	July 9, 2020
Steven B. Wise	Retired	Fire	July 16, 2020
Ronald D. Bridges	Retired	Police	July 17, 2020
Roy B. Brooks	Retired	Police	July 20, 2020
Charles E. Gibbs	Retired	Fire	July 29, 2020
Joe A. Walden	Retired	Police	July 31, 2020

Regular Board Meeting – Thursday, August 13, 2020

Dallas Police and Fire Pension System
Thursday, July 9, 2020
8:30 a.m.
Via telephone conference

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

ROLL CALL

Board Members

Present at 8:31 a.m.	William F. Quinn, Nicholas A. Merrick, Joseph P. Schutz, Susan M. Byrne, Robert B. French, Steve Idoux, Gilbert A. Garcia, Mark Malveaux, Armando Garza, Allen R. Vaught, Tina Hernandez Patterson
Absent:	None
Staff	Kelly Gottschalk, Josh Mond, Kent Custer, Brenda Barnes, John Holt, Cynthia Thomas, Ryan Wagner, Greg Irlbeck, Michael Yan, Milissa Romero
Others	Leandro Festino, Aaron Lally, Sidney Kawanguzi, Paul Boneham, Joe Shea, Kenneth Latz, Kenneth Garnett

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

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A. MOMENT OF SILENCE

The Board observed a moment of silence in memory of retired police officers James H. Gardner, Allen G. Thompson, Jesse J. Pedraza, Vonnabeth L. Hooker, Royce C. Johnson, and retired firefighter J. E. Stallings.

No motion was made.

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B. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of June 11, 2020

Regular Board Meeting
Thursday, July 9, 2020

2. **Approval of Refunds of Contributions for the Month of June 2020**

3. **Approval of Estate Settlements**

4. **Approval of Survivor Benefits**

5. **Approval of Service Retirements**

6. **Approval of Alternate Payee Benefits**

7. **Approval of Earnings Test**

8. **Approval of Payment of Previously Withdrawn Contributions**

After discussion, Mr. Garcia made a motion to approve the minutes of the regular meeting of June 11, 2020. Ms. Byrne seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Garcia made a motion to approve the remaining items on the Consent Agenda, subject to the final approval of the staff. Mr. Merrick 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. **Financial Audit Status**

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

No motion was made.

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2. **Monthly Contribution Report**

The Executive Director reviewed the Monthly Contribution Report.

No motion was made.

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Regular Board Meeting
Thursday, July 9, 2020

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 Trustee business-related travel or investment-related travel scheduled.

No motion was made.

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4. Funding Policy

The Board adopted a Funding Policy for the Combined Plan in December 2019 as required by Senate Bill 2224. The Funding Policy reflected a rolling 30-year amortization method, which is no longer an acceptable amortization method according to the Pension Review Board. The contributions for the Combined Plan are set by Article 6243a-1 so the amortization method in the policy will not impact the contribution rates but will be used as a benchmark to compare the actual contributions.

Staff proposed a change that the unfunded actuarial accrued liability as of January 1, 2020 would be amortized over a closed, 25-year period using the level percent of payroll amortization methodology. Beginning on January 1, 2021, each year's experience due to actuarial gains and losses, or plan, assumption, and method changes, will be amortized over a closed, 20-year period using the level percent of payroll amortization methodology.

After discussion, Mr. Garcia made a motion to adopt the amended Funding Policy for the Combined Pension Plan. Ms. Byrne seconded the motion, which was unanimously approved by the Board.

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5. Investment Advisory Committee

The Board and staff discussed possible candidates to serve on the Investment Advisory Committee.

The Board went into closed executive session at 9:32 a.m.

The meeting was reopened at 11:06 a.m.

Regular Board Meeting
Thursday, July 9, 2020

5. Investment Advisory Committee (continued)

After discussion, Mr. Quinn made a motion to appoint Rakesh Dahiya and William M. Velasco, II as members of the Investment Advisory Committee, with their terms to run until December 31, 2021. Mr. Garcia seconded the motion, which was unanimously approved by the Board.

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6. Portfolio Update

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

No motion was made.

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7. Investment Policy Statement Revisions

Following March 2020 rebalancing activity, staff noted that the Investment Policy Statement should modify the safety reserve language to include reference to the objective of covering 2.5 years of expected net cash flows.

After discussion, Mr. Garcia made a motion to approve the proposed Investment Policy Statement as amended. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

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8. Infrastructure Portfolio Review

Staff provided an overview of the three funds which comprise the infrastructure asset class: the Global Maritime Investment Fund managed by JPMorgan Asset Management, and the Asian Infrastructure and Related Resources Opportunity funds I and II, both managed by The Rohatyn Group.

No motion was made.

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Regular Board Meeting
Thursday, July 9, 2020

9. Private Asset Cash Flow Projection Update

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

No motion was made.

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10. BentallGreenOak: Vista Ridge 7

Paul Boneham, Managing Director, Co-Head Asset Management and Joe Shea, Principal, Asset Management of BentallGreenOak presented various options in respect to DPFP's investment asset, Vista Ridge 7.

The Board went into closed executive session at 9:32 a.m.

The meeting was reopened at 11:06 a.m.

After discussion, Mr. Quinn made a motion recognizing that additional investments in private assets are not in compliance with the Investment Policy Statement, the Board nevertheless believes certain additional investments are prudent in order to both preserve and possibly increase the value of such assets as well as facilitate the liquidation of such assets, and therefore the Board authorized the Executive Director, in her discretion, to consummate (1) senior loans of up to $7.1 million to the Lone Star Investment Advisor funds and (2) an additional investment of up to $18.1 million for the Vista 7 asset. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

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11. Lone Star Investment Advisors Update

Investment staff updated the Board on recent performance, operational, and administrative developments with respect to DPFP investments in funds managed by Lone Star Investment Advisors.

The Board went into closed executive session at 9:32 a.m.

The meeting was reopened at 11:06 a.m.

Action related to this agenda item was included in the motion of Item #10.

Regular Board Meeting
Thursday, July 9, 2020

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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.

The Board went into closed executive session at 9:32 a.m.

The meeting was reopened at 11:06 a.m.

No motion was made.

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13. Closed Session - Board serving as Medical Committee

Application for death benefits for disabled child

Staff presented an application for consideration by the Board of a survivor benefits for a disabled child in accordance with Section 6.06(n) of Article 6243a-1.
The Board went into closed executive session at 9:32 a.m.

The meeting was reopened at 11:06 a.m.

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

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D. BRIEFING ITEMS

1. Public Comment

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

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Regular Board Meeting
Thursday, July 9, 2020

2. Executive Director's report

a. Associations' newsletters
- NCPERS Monitor (July 2020)

b. Open Records
c. Operational Response to COVID-19

The Executive Director's report was presented.

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Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Quinn and a second by Ms. Byrne, the meeting was adjourned at 11:13 a.m.

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William F. Quinn
Chairman

ATTEST:

____
Kelly Gottschalk
Secretary

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

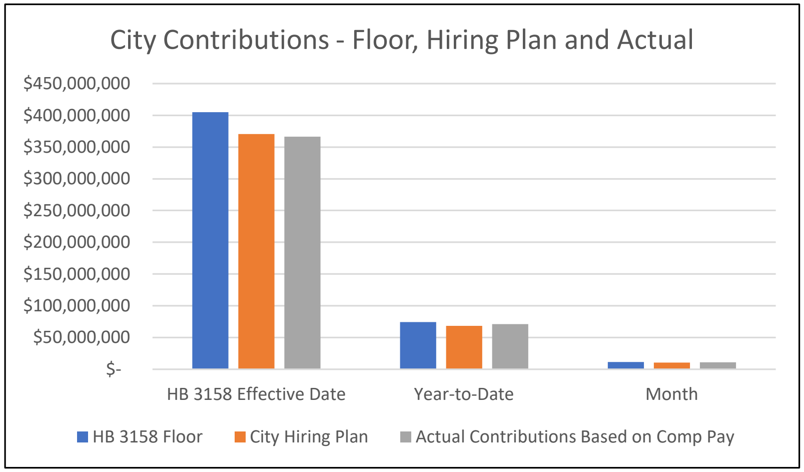
ITEM #C1

Topic: **Monthly Contribution Report**

Discussion: Staff will review the Monthly Contribution Report.

Regular Board Meeting – Thursday, August 13, 2020

Contribution Tracking Summary - August 2020 (June 2020 Data)



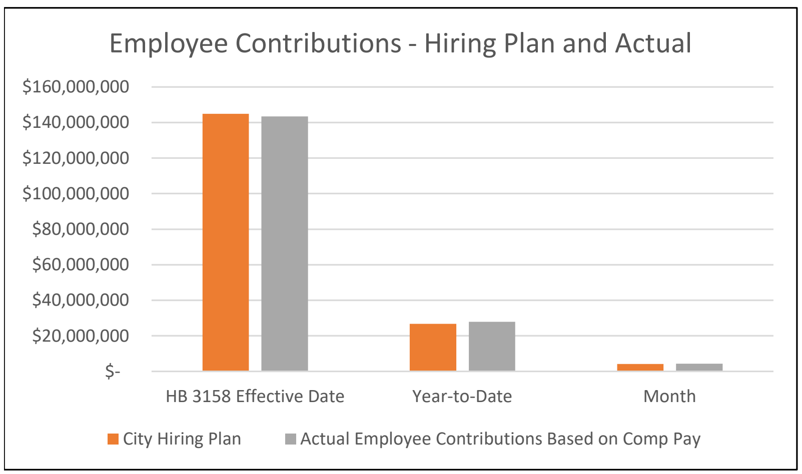
Actual Comp Pay was 99% of the Hiring Plan estimate since the effective date of HB 3158.

In the most recent month Actual Comp Pay was 107% of the Hiring Plan estimate and 98% of the Floor amount.

The Hiring Plan Comp Pay estimate increased by 3.39% in 2020. The Floor increased by 2.75%.

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

The combined actual hiring was 110 higher than the Hiring Plan for the pay period ending July 7, 2020. This is a 60 person increase over the prior month. Fire was over the estimate by 96 fire fighters and Police over by 14 officers.



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

There is no Floor on employee contributions.

Contribution Summary Data

City Contributions

Jun-20	Number of Pay Periods Beginning in the Month	HB 3158 Floor	City Hiring Plan	Actual Contributions Based on Comp Pay	Additional Contributions to Meet Floor Minimum	Comp Pay Contributions as a % of Floor Contributions	Comp Pay Contributions as a % of Hiring Plan Contributions
Month	2	$ 11,448,000	$ 10,509,231	$ 11,216,771	$ 231,229	98%	107%
Year-to-Date		$ 74,412,000	$ 68,310,000	$ 71,328,132	$ 3,083,868	96%	104%
HB 3158 Effective Date		$ 404,759,000	$ 370,450,385	$ 366,385,340	$ 38,373,660	91%	99%

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

Jun-20	Number of Pay Periods Beginning in the Month	City Hiring Plan	Actual Employee Contributions Based on Comp Pay	Actual Contribution Shortfall Compared to Hiring Plan	Actuarial Valuation Contribution Assumption	Actual Contributions as a % of Hiring Plan Contributions	Actual Contributions as a % of Actuarial Val Assumption
Month	2	$ 4,112,308	$ 4,381,900	$ 269,593	$ 4,112,308	107%	107%
Year-to-Date		$ 26,730,000	$ 27,912,646	$ 1,182,646	$ 26,730,002	104%	104%
HB 3158 Effective Date		$ 144,958,846	$ 143,381,727	$ (1,577,119)	$ 139,849,640	99%	103%

Potential Earnings Loss from the Shortfall based on Assumed Rate of Return $ -

Does not include Supplemental Plan Contributions.

Reference Information

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

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

The HB 3158 Bi-weekly Floor ends after 2024

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

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

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

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

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

City Contributions are based on the Floor through 2024, the Hiring Plan from 2025 to 2037, after 2037 an annual growth rate of 2.75% is assumed

Employee Contributions for 2018 are based on the 2017 actual employee contributions inflated by the growth rate of 2.75% and the Hiring Plan for subsequent years until 2038, when the 2037 Hiring Plan is increased by the 2.75 growth rate for the next 10 years

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

	Actuarial Valuation	GASB 67/68
YE 2017 (1/1/2018 Valuation)		
2018 Employee Contributions Assumption - based on 2017 actual plus growth rate not the Hiring Plan Payroll	$ (2,425,047)	*
2019 Estimate (1/1/2019 Valuation)		
2019 Employee Contribution Assumption	$ 9,278	*

**90% of Hiring Plan was used for the Cash Flow Projection for future years in the 12/31/2017 GASB 67/68 calculation. At 12-31-17 and 12-31-18 this did not impact the pension liability or the funded percentage.*

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

City Hiring Plan - Annual Computation Pay and Numbers of Employees						
	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			5,063		
2021	$ 408,000,000			5,088		
2022	$ 422,000,000			5,113		
2023	$ 438,000,000			5,163		
2024	$ 454,000,000			5,213		
2025	$ 471,000,000			5,263		
2026	$ 488,000,000			5,313		
2027	$ 507,000,000			5,363		
2028	$ 525,000,000			5,413		
2029	$ 545,000,000			5,463		
2030	$ 565,000,000			5,513		
2031	$ 581,000,000			5,523		
2032	$ 597,000,000			5,523		
2033	$ 614,000,000			5,523		
2034	$ 631,000,000			5,523		
2035	$ 648,000,000			5,523		
2036	$ 666,000,000			5,523		
2037	$ 684,000,000			5,523		

Comp Pay by Month - 2020	**Annual Divided by 26 Pay Periods**	**Actual**	**Difference**	**2020 Cumulative Difference**	**Number of Employees - EOM**	**Difference**
January	$ 30,461,538	$ 31,291,360	$ 829,821	$ 829,821	5136	73
February	$ 30,461,538	$ 31,414,646	$ 953,108	$ 1,782,929	5114	51
March	$ 30,461,538	$ 31,492,765	$ 1,031,226	$ 2,814,156	5093	30
April	$ 45,692,308	$ 47,775,422	$ 2,083,114	$ 4,897,270	5125	62
May	$ 30,461,538	$ 32,261,636	$ 1,800,098	$ 6,697,367	5113	50
June	$ 30,461,538	$ 32,353,611	$ 1,892,072	$ 8,589,440	5173	110
July	$ 30,461,538					
August	$ 30,461,538					
September	$ 45,692,308					
October	$ 30,461,538					
November	$ 30,461,538					
December	$ 30,461,538					

DISCUSSION SHEET

ITEM #C2

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 – August 13, 2020

ATTENDING APPROVED

Conference:	**Public Pension Funding Forum**
Dates:	August 24-25, 2020
Location:	Virtual Event
Cost:	$250

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C3

Topic: **Financial Audit Status**

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

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C4

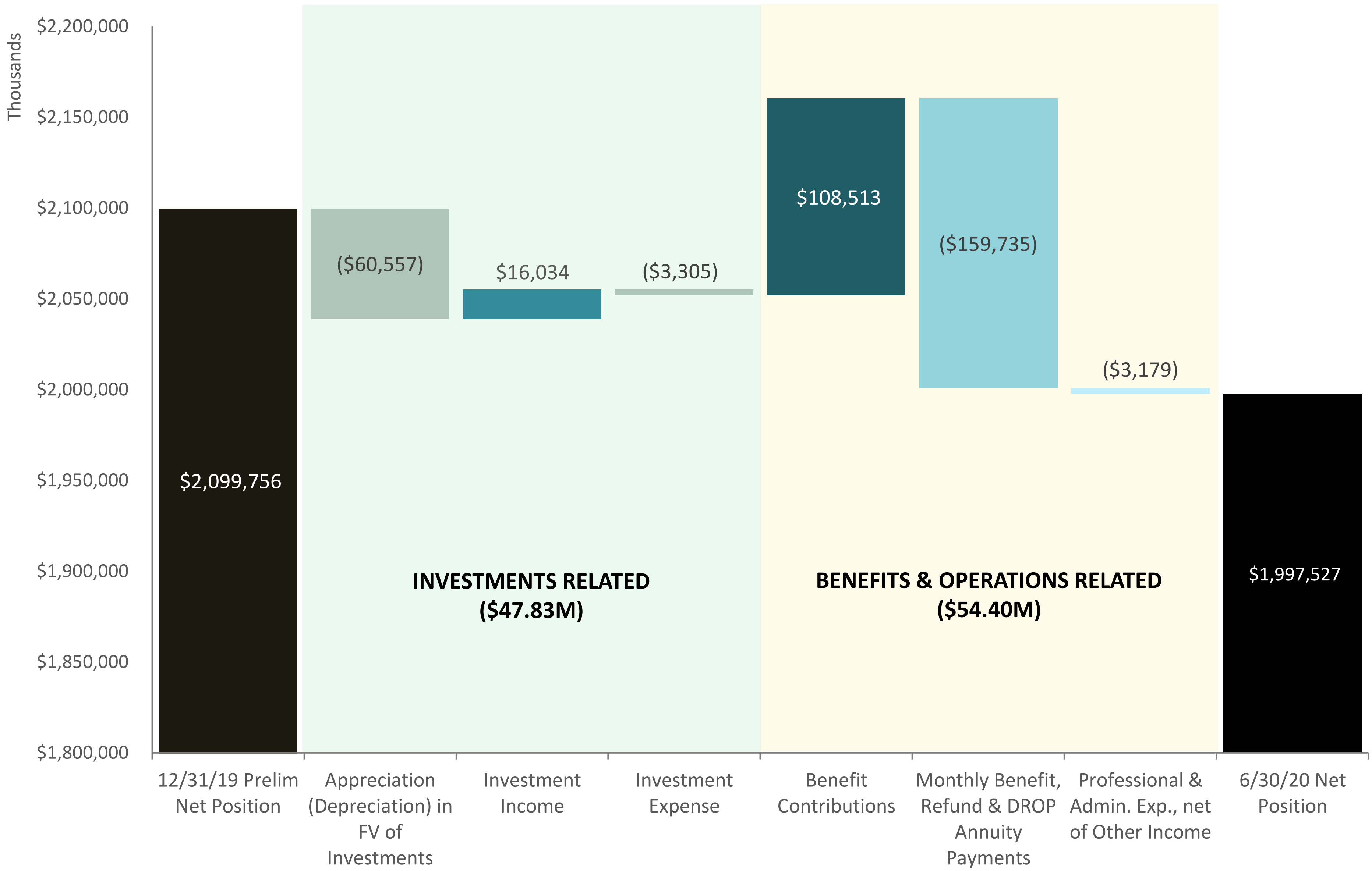
Topic: **Quarterly Financial Reports**

Discussion: The Chief Financial Officer will present the second quarter 2020 financial statements.

Regular Board Meeting – Thursday, August 13, 2020

Change in Net Fiduciary Position

PRELIMINARY - December 31, 2019 – June 30, 2020



Components may not sum exactly due to rounding.

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

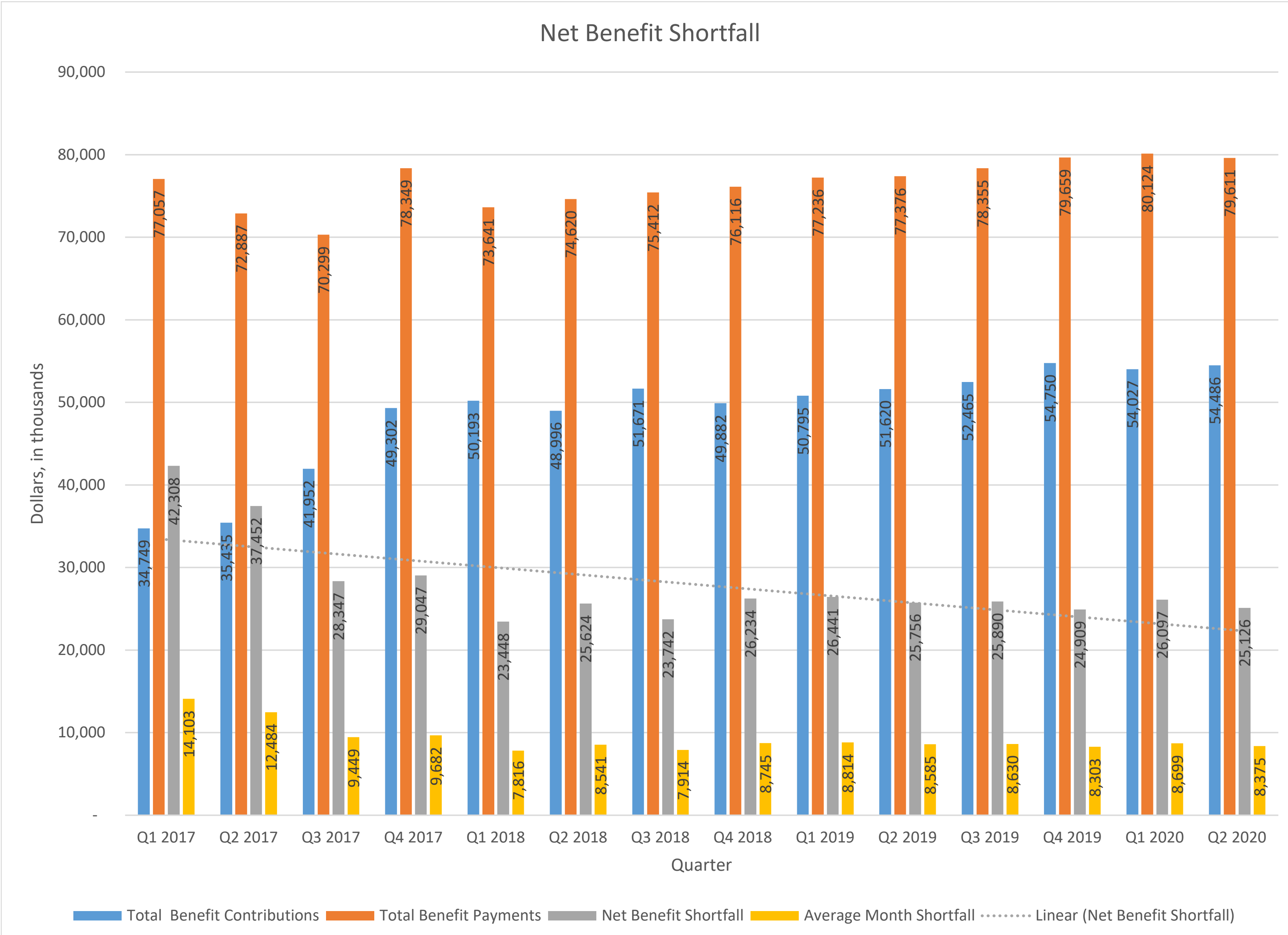
	June 30, 2020	PRELIMINARY December 31, 2019 (unaudited)	$ Change	% Change
Assets				
Investments, at fair value (NOTE)				
Short-term investments	$ 21,963,470	$ 25,311,029	$ (3,347,559)	-13%
Fixed income securities	512,264,330	555,384,168	(43,119,838)	-8%
Equity securities	558,433,728	555,230,590	3,203,138	1%
Real assets	535,092,321	567,186,915	(32,094,594)	-6%
Private equity	291,189,189	292,167,281	(978,092)	0%
Forward currency contracts	351,633.00	652,498	(300,865)	-46%
Total investments (NOTE)	1,919,294,671	1,995,932,481	(76,637,810)	-4%
Invested securities lending collateral	13,494,049	13,025,117	468,932	4%
Receivables				
City	3,112,000	3,035,500	76,500	3%
Members	1,099,623	1,055,869	43,754	4%
Interest and dividends	4,360,442	4,459,663	(99,221)	-2%
Investment sales proceeds	87,142,045	52,570,414	34,571,631	66%
Other receivables	169,756	186,104	(16,348)	-9%
Total receivables	95,883,866	61,307,550	34,576,316	56%
Cash and cash equivalents	62,252,732	89,461,720	(27,208,988)	-30%
Prepaid expenses	800,551	402,596	397,955	99%
Capital assets, net	12,208,300	12,328,774	(120,474)	-1%
Total assets	$ 2,103,934,169	$ 2,172,458,238	$ (68,524,069)	-3%
Liabilities				
Payables				
Securities lending obligations	13,494,049	13,025,117	468,932	4%
Securities purchased	88,450,896	54,957,185	33,493,711	61%
Accounts payable and other accrued liabilities	4,462,486	4,720,285	(257,799)	-5%
Total liabilities	106,407,431	72,702,587	33,704,844	46%
Net position				
Net investment in capital assets	12,208,300	12,328,774	(120,474)	-1%
Unrestricted	1,985,318,438	2,087,426,877	(102,108,439)	-5%
Net position held in trust - restricted for pension benefits	$ 1,997,526,738	$ 2,099,755,651	$ (102,228,913)	-5%

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

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

	6 Months Ended 6/30/2020	6 Months Ended 6/30/2019	$ Change	% Change
Contributions				
City	$ 80,477,658	$ 76,939,630	$ 3,538,028	5%
Members	28,034,934	25,475,275	2,559,659	10%
Total Contributions	108,512,592	102,414,905	6,097,687	6%
Investment income				
Net appreciation (depreciation) in fair value of investments	(60,556,545)	83,251,808	(143,808,353)	-173%
Interest and dividends	16,011,371	18,394,328	(2,382,957)	-13%
Total gross investment income	(44,545,174)	101,646,136	(146,191,310)	-144%
less: investment expense	(3,304,793)	(3,741,280)	436,487	12%
Net investment income	(47,849,967)	97,904,856	(145,754,823)	-149%
Securities lending income				
Securities lending income	71,583	521,546	(449,963)	-86%
Securities lending expense	(49,000)	(451,762)	402,762	-89%
Net securities lending income	22,583	69,784	(47,201)	-68%
Other income	176,129	180,220	(4,091)	-2%
Total additions	60,861,337	200,569,765	(139,708,428)	-70%
Deductions				
Benefits paid to members	158,712,088	153,394,262	5,317,826	3%
Refunds to members	1,023,376	1,218,475	(195,099)	-16%
Legal expense	138,876	273,994	(135,118)	-49%
Legal expense reimbursement	-	-	-	0%
Legal expense, net of reimbursement	138,876	273,994	(135,118)	-49%
Staff Salaries and Benefits	1,865,962	1,677,534	188,428	11%
Professional and administrative expenses	1,349,948	1,238,442	111,506	9%
Total deductions	163,090,250	157,802,707	5,287,543	3%
Net increase (decrease) in net position	(102,228,913)	42,767,058		
Beginning of period	2,099,755,651 *	2,060,232,023		
End of period	$ 1,997,526,738 *	$ 2,102,999,081		

* The beginning and ending period amounts are preliminary and will change as the 2019 results are finalized.


Net Benefit Shortfall
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
-
Dollars, in thousands
Q1 2017 34,749 77,057 42,308 14,103
Q2 2017 35,435 72,887 37,452 12,484
Q3 2017 41,952 70,299 28,347 9,449
Q4 2017 49,302 78,349 29,047 9,682
Q1 2018 50,193 73,641 23,448 7,816
Q2 2018 48,996 74,620 25,624 8,541
Q3 2018 51,671 75,412 23,742 7,914
Q4 2018 49,882 76,116 26,234 8,745
Q1 2019 50,795 77,236 26,441 8,814
Q2 2019 51,620 77,376 25,756 8,585
Q3 2019 52,465 78,355 25,890 8,630
Q4 2019 54,750 79,659 24,909 8,303
Q1 2020 54,027 80,124 26,097 8,699
Q2 2020 54,486 79,611 25,126 8,375
Quarter
Total Benefit Contributions
Total Benefit Payments
Net Benefit Shortfall
Average Month Shortfall
Linear (Net Benefit Shortfall)

DISCUSSION SHEET

ITEM #C5

Topic: **2020 Mid-Year Budget Review**

Discussion:

Attached is a review of the 2020 Operating Expense Budget detailing expenses for the first six months of the calendar year.

Expense items which are greater than the prorated budget by more than 5% and $10,000 as of June 30, 2020 are discussed in the attached review.

Supplemental Plan expenses are deducted from total expenses in arriving at total Regular Plan expenses. Expenses are allocated to the two plans on a pro-rata basis, according to the ratio of each plan's assets to the total Group Trust assets. The ratio is derived from the Unitization Report prepared by JPMorgan as of June 30, 2020. The ratio is 99.21% Regular Plan to .79% Supplemental Plan.

BUDGET REVIEW
2020 MID -YEAR REVIEW

	Description	2020 6 months Actual	2020 6 months Budget	2019 6 months Actual	Budget vs Actual Variance $ Over/(Under)	Budget vs Actual Variance % Over/(Under)
1	Independent audit	127,977	82,500	100,000	45,477	55.1%
2	Salaries and benefits	1,865,962	1,826,883	1,677,534	39,079	2.1%
3	COVID-19 expense	19,367	-	-	19,367	100.0%
4	Employment expenses	16,665	7,500	729	9,165	122.2%
5	Communications (phone/internet)	33,908	28,150	33,663	5,758	20.5%
6	IT software/hardware	11,929	9,750	7,934	2,179	22.3%
7	Miscellaneous professional services	12,126	10,125	8,365	2,001	19.8%
8	Postage	14,314	14,100	12,483	214	1.5%
9	Depreciation exp - IT hardware	7,343	7,343	-	-	0.0%
10	Legislative consultants	63,000	63,000	94,252	-	0.0%
11	Records storage	696	700	696	(4)	-0.6%
12	Leased equipment	11,843	12,000	11,240	(157)	-1.3%
13	Bank Fees	1,528	1,700	1,272	(172)	-10.1%
14	Staff meetings	-	500	-	(500)	-100.0%
15	Subscriptions	509	1,062	384	(553)	-52.1%
16	Accounting services	29,500	30,385	29,500	(885)	-2.9%
17	Memberships and dues	8,620	9,853	12,478	(1,233)	-12.5%
18	Member educational programs	-	1,375	-	(1,375)	-100.0%
19	Board meetings	1,296	3,210	2,211	(1,914)	-59.6%
20	Disability medical evaluations	2,770	4,750	-	(1,980)	-41.7%
21	Employee service recognition	144	2,500	957	(2,356)	-94.2%
22	Network security review	-	5,000	8,791	(5,000)	-100.0%
23	Business continuity	8,112	13,300	9,354	(5,188)	-39.0%
24	Miscellaneous expense	430	6,000	182	(5,570)	-92.8%
25	Conference registration/materials - board	-	5,825	1,710	(5,825)	-100.0%
26	IT subscriptions/services/licenses	65,272	71,750	50,601	(6,478)	-9.0%
27	Actuarial services	113,140	120,000	62,703	(6,860)	-5.7%
28	Printing	-	7,000	1,174	(7,000)	-100.0%
29	Elections	-	7,500	600	(7,500)	-100.0%
30	Office supplies	7,058	14,675	12,167	(7,617)	-51.9%
31	Pension administration software & WMS	131,808	141,500	139,614	(9,692)	-6.8%
32	Travel - board	-	10,750	2,538	(10,750)	-100.0%
33	Building expenses, incl depreciation	304,714	315,864	295,580	(11,150)	-3.5%
34	Conference/training registration/materials - staff	3,055	17,400	2,921	(14,345)	-82.4%
35	Liability insurance	300,350	320,286	233,998	(19,936)	-6.2%
36	Travel - staff	1,758	22,250	9,068	(20,492)	-92.1%
37	Network security monitoring	8,518	37,500	-	(28,982)	-77.3%
38	Repairs and maintenance	11,834	48,707	46,132	(36,873)	-75.7%
39	Information technology projects	30,364	70,000	45,144	(39,636)	-56.6%
40	Legal fees, net of insurance reimbursements	138,876	275,000	273,994	(136,124)	-49.5%
	Legal fee insurance reimbursements	-	-	-	-	100.0%
	Legal fees, excluding insurance reimbursements	138,876	275,000	273,994	(136,124)	-49.5%
	Gross Total	3,354,786	3,627,693	3,189,970	(272,907)	**-7.5%**
	Less: Allocation to Supplemental Plan Budget*	26,502	31,924	25,761	(5,422)	-17.0%
	Total Regular Plan Budget	**$ 3,328,284**	**$ 3,595,769**	**$ 3,164,209**	**$ (267,485)**	**-7.4%**

** Unitization split to Supplemental is based on unitization*

1	Custodian fees	108,487	111,000	110,671	(2,513)	-2.3%
2	Investment consultant and reporting	166,041	182,500	163,542	(16,459)	-9.0%
3	Investment due diligence	-	19,500	-	(19,500)	-100.0%
4	Investment portfolio operating expenses	363,667	760,275	469,774	(396,608)	-52.2%
5	Fund management fees	2,666,598	3,278,415	2,997,293	(611,817)	-18.7%
	Total Investment Expenses	**3,304,793**	**4,351,690**	**3,741,280**	**(1,046,897)**	**-24.1%**

BUDGET
2020 MID-YEAR REVIEW

Budget Changes (>5% and $10K)

	Description	2020 6 months Actual	2020 6 months Budget	Budget vs Actual Variance $ Over/(Under)	Budget vs Actual Variance % Over/(Under)	Explanation
	INCREASES:					
1	Independent audit	127,977	82,500	45,477	55.1%	Variance is related to the timing of expenses. Budget is straight lined over the year. Expect to be within budget by the end of the year.
2	COVID-19 expense	19,367	-	19,367	100.0%	New account created to track COVID-19 expenses, such as temperature scanners, acrylic guards, sanitizer, etc.
	REDUCTIONS:					
3	Legal fees, net of insurance reimbursements	138,876	275,000	(136,124)	-49.5%	Variance is related in part to the timing of expenses along with fewer case expenses than forecasted.
4	Information technology projects	30,364	70,000	(39,636)	-56.6%	Projects start dates delayed due to COVID-19. At least one project may be delayed until 2021.
5	Repairs and maintenance	11,834	48,707	(36,873)	-75.7%	Some planned maintenance is currently being deferred due to COVID-19.
6	Network security monitoring	8,518	37,500	(28,982)	-77.3%	Delay in project due to COVID-19 may result in some 2020 expenses being pushed into 2021.
7	Travel - staff	1,758	22,250	(20,492)	-92.1%	Staff travel significantly reduced due to COVID-19.
8	Liability insurance	300,350	320,286	(19,936)	-6.2%	Actual premium increases were less than budgeted resulting in a favorable variance.
9	Conference/training registration/materials - staff	3,055	17,400	(14,345)	-82.4%	Staff Conference Training attendance significantly reduced due to COVID-19.
10	Travel - board	-	10,750	(10,750)	-100.0%	The Board had no travel due to COVID-19.

INVESTMENT EXPENSES

	Description	2020 6 months Actual	2020 6 months Budget	Budget vs Actual Variance $ Over/(Under)	Budget vs Actual Variance % Over/(Under)	Explanation
1	Fund management fees	2,666,598	3,278,415	(611,817)	-18.7%	Budget and Actual are for direct fees only. Variance is due in part to the timing of expenses. Some performance fees are due and paid at year end.
2	Investment portfolio operating expenses	363,667	760,275	(396,608)	-52.2%	Variance is related in part to the timing of expenses for audits and appraisals. Additionally, some expenses for investment contracts review, advisors and legal fees have been less than forecast.
3	Investment due diligence	-	19,500	(19,500)	-100.0%	Variance is related to the timing of expenses. Planned investment due diligence travel and the purchase of an investment software have not yet occurred.
4	Investment consultant and reporting	166,041	182,500	(16,459)	-9.0%	Variance is related to the timing of expenses. Expect to be within budget by the end of the year.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C6

Topic: **Report on Audit Committee**

Discussion: The Audit Committee met with representatives of BDO on July 9, 2020. The Committee Chair will comment on Committee observations and advice.

Regular Board Meeting – Thursday, August 13, 2020

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C7

Topic: **Portfolio Update**

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

Regular Board Meeting – Thursday, August 13, 2020

DALLAS POLICE & FIRE PENSION SYSTEM

Portfolio Update

August 13, 2020

Asset Allocation

DPFP Asset Allocation	7/31/20		Target		Variance	
	$ mil.	%	$ mil.	%	$ mil.	%
Equity	**889**	**44.2%**	**1,107**	**55.0%**	**-218**	**-10.8%**
Global Equity	546	27.1%	805	40.0%	-259	-12.9%
Emerging Markets	52	2.6%	201	10.0%	-150	-7.4%
Private Equity*	291	14.5%	101	5.0%	190	9.5%
Fixed Income	**588**	**29.2%**	**704**	**35.0%**	**-116**	**-5.8%**
Safety Reserve - Cash	51	2.5%	60	3.0%	-9	-0.5%
Safety Reserve - ST IG Bonds	215	10.7%	241	12.0%	-26	-1.3%
Investment Grade Bonds	61	3.0%	80	4.0%	-19	-1.0%
Global Bonds	72	3.6%	80	4.0%	-8	-0.4%
Bank Loans	79	3.9%	80	4.0%	-1	-0.1%
High Yield Bonds	84	4.2%	80	4.0%	3	0.2%
Emerging Mkt Debt	20	1.0%	80	4.0%	-60	-3.0%
Private Debt*	6	0.3%	0	0.0%	6	0.3%
Real Assets*	**535**	**26.6%**	**201**	**10.0%**	**334**	**16.6%**
Real Estate*	364	18.1%	101	5.0%	264	13.1%
Natural Resources*	124	6.2%	101	5.0%	24	1.2%
Infrastructure*	46	2.3%	0	0.0%	46	2.3%
Total	**2,012**	**100.0%**	**2,012**	**100.0%**	**0**	**0.0%**
Safety Reserve	266	13.2%	302	15.0%	-35	-1.8%
*Private Market Assets	832	41.3%	302	15.0%	530	26.3%

Source: JP Morgan Custodial Data, Staff Estimates and Calculations

data is preliminary

Adjusted Asset Allocation

In this view staff has adjusted private market values to roughly estimate the impact from lower oil prices and Covid-19.

DPFP Asset Allocation	7/31/20		Target		Variance	
	$ mil.	%	$ mil.	%	$ mil.	%
Equity	**739**	**41.5%**	**980**	**55.0%**	**-241**	**-13.5%**
Global Equity	546	30.7%	713	40.0%	-166	-9.3%
Emerging Markets	52	2.9%	178	10.0%	-127	-7.1%
Private Equity*	141	7.9%	89	5.0%	52	2.9%
Fixed Income	**588**	**33.0%**	**624**	**35.0%**	**-35**	**-2.0%**
Safety Reserve - Cash	51	2.9%	53	3.0%	-2	-0.1%
Safety Reserve - ST IG Bonds	215	12.1%	214	12.0%	1	0.1%
Investment Grade Bonds	61	3.4%	71	4.0%	-10	-0.6%
Global Bonds	72	4.0%	71	4.0%	1	0.0%
Bank Loans	79	4.4%	71	4.0%	8	0.4%
High Yield Bonds	84	4.7%	71	4.0%	13	0.7%
Emerging Mkt Debt	20	1.1%	71	4.0%	-51	-2.9%
Private Debt*	6	0.3%	0	0.0%	6	0.3%
Real Assets*	**455**	**25.5%**	**178**	**10.0%**	**276**	**15.5%**
Real Estate*	290	16.3%	89	5.0%	200	11.3%
Natural Resources*	119	6.7%	89	5.0%	30	1.7%
Infrastructure*	46	2.6%	0	0.0%	46	2.6%
Total	**1,782**	**100.0%**	**1,782**	**100.0%**	**0**	**0.0%**
Safety Reserve	266	14.9%	267	15.0%	-1	-0.1%
*Private Mkt. Assets w/NAV Discount	602	33.8%	267	15.0%	334	18.8%

Source: JP Morgan Custodial Data, Staff Estimates and Calculations

data is preliminary

DALLAS POLICE & FIRE PENSION SYSTEM

Public Market Performance Estimates

Preliminary Public Markets Performance Estimates

	QTD 7/31/20			YTD 7/31/20		
Net of fees	**Manager**	**Index**	**Excess**	**Manager**	**Index**	**Excess**
Global Equity	4.77%	5.20%	-0.43%	-2.65%	-2.22%	-0.43%
Boston Partners	3.34%	4.78%	-1.44%	-12.79%	-1.26%	-11.53%
Boston Partners vs. value index	3.34%	2.54%	0.80%	-12.79%	-15.68%	2.88%
Manulife	5.08%	5.29%	-0.21%	-5.21%	-1.29%	-3.92%
Invesco (fka OFI)	5.89%	5.29%	0.60%	5.54%	-1.29%	6.83%
Walter Scott	4.68%	5.29%	-0.61%	2.08%	-1.29%	3.36%
RBC, EM Equity	8.01%	8.87%	-0.86%	-2.90%	-2.01%	-0.89%
Fixed Income	2.34%	3.25%	-0.91%	3.27%	5.87%	-2.60%
IR+M, short term debt	0.43%	0.19%	0.24%	3.87%	3.06%	0.81%
Fixed Income transition	1.41%	1.49%	-0.08%	1.41%	1.49%	-0.08%
Vanguard IG Bonds	-	-	-	6.19%	6.30%	-0.11%
Longfellow, IG Bonds	-	-	-	-	-	-
Brandywine, global bonds	5.87%	3.19%	2.68%	3.58%	6.27%	-2.69%
Loomis, High Yield	4.99%	4.55%	0.44%	0.90%	-0.33%	1.23%
Loomis, Bank Loans (liquidating)	0.90%	1.88%	-0.98%	-3.72%	-2.97%	-0.75%
Pacific Asset Mgt., Bank Loans	1.82%	1.88%	-0.06%	-1.19%	-2.97%	1.78%
Ashmore, EMD	5.20%	3.10%	2.10%	-5.42%	-1.37%	-4.05%

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

July 2020 data is preliminary

DALLAS POLICE & FIRE PENSION SYSTEM

Public Market Impact Estimate

This table estimates the gain/loss contribution from public market investments including market contribution (equity and fixed income composite index returns), structural implementation (manager benchmark vs. composite benchmark), and the active contribution for each investment manager (manager relative performance vs. their benchmark).

	1H20				QTD 7/31/20				YTD 7/31/20			
$ millions	Market	Structure	Active	Total	Market	Structure	Active	Total	Market	Structure	Active	Total
Public Markets	(18.7)	(10.8)	(3.8)	(33.3)	39.9	0.4	0.5	40.9	21.3	(10.4)	(3.3)	7.5
Public Equity (GE+EM)	(32.1)	2.4	(5.4)	(35.1)	29.6	1.6	(2.5)	28.7	(2.5)	4.0	(7.9)	(6.4)
Global Equity (excludes EM)	(28.2)	3.7	(5.2)	(29.7)	27.1	(0.2)	(2.1)	24.9	(1.1)	3.5	(7.3)	(4.8)
Boston Partners	(6.6)	1.3	(12.1)	(17.4)	6.6	(0.5)	(1.8)	4.2	(0.0)	0.8	(13.9)	(13.2)
Manulife	(7.4)	0.8	(4.6)	(11.1)	6.6	0.1	(0.3)	6.5	(0.7)	0.9	(4.9)	(4.7)
OFI	(7.1)	0.8	7.6	1.3	7.2	0.1	0.8	8.1	0.1	0.9	8.4	9.5
Walter Scott	(7.2)	0.8	3.9	(2.5)	6.7	0.1	(0.8)	6.1	(0.4)	0.9	3.1	3.6
RBC, EM Equity	(3.9)	(1.3)	(0.2)	(5.4)	2.5	1.8	(0.4)	3.8	(1.4)	0.5	(0.6)	(1.5)
Fixed Income (ex IR+M)	6.5	(13.3)	1.3	(5.5)	9.9	(1.2)	2.5	11.2	16.4	(14.4)	3.7	5.7
Fixed Income transition					2.0	(1.1)	(0.0)	0.8	2.0	(1.1)	(0.0)	0.8
Vanguard IG Bonds	1.5	2.1	(0.1)	3.5					1.5	2.1	(0.1)	3.5
Longfellow, IG Bonds									0.0	0.0	0.0	0.0
Brandywine, global bonds	1.7	0.3	(3.5)	(1.5)	2.2	(0.0)	1.8	4.0	3.9	0.3	(1.6)	2.5
Loomis, High Yield	1.9	(5.7)	0.6	(3.2)	2.6	1.0	0.4	4.0	4.5	(4.7)	1.0	0.8
Loomis, Bank Loans (liquidating)	(0.3)	(4.6)	4.3	(0.6)	0.0	(0.0)	(0.0)	0.0	(0.2)	(4.6)	4.3	(0.6)
Pacific Asset Mgt., Bank Loans	1.3	(3.8)	0.9	(1.6)	2.5	(1.1)	(0.0)	1.4	3.8	(4.9)	0.9	(0.2)
Ashmore, EMD	0.4	(1.5)	(1.1)	(2.1)	0.6	(0.0)	0.4	1.0	1.0	(1.5)	(0.7)	(1.1)
IR+M, short term debt	7.0	0.0	0.3	7.3	0.4	0.0	0.5	0.9	7.4	0.0	0.8	8.2

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

July 2020 data is preliminary

Investment Initiatives

- Liquidation of private market assets remains the top focus. Significant delays expected due to COVID-19 market disruption.
- Completed Investment Grade Bond transition from Vanguard to Longfellow.
- Staff continuing evaluation of and engagement with private equity funds.
- Conducted orientation meeting with new IAC members.
- Completed securities lending review.
- Evaluated potential rebalancing to replenish cash
- On-deck: IMA reviews, public equity structure, Meketa reporting format.

2020 Investment Review Calendar*

January ✓	• Real Estate Reviews: Vista 7, King's Harbor, & Museum Twr.
March ✓	• Real Estate: Clarion Presentation
April ✓	• Real Estate: AEW Presentation
May ✓	• Timber: Staff Review of FIA & BTG • Real Estate: Staff Review of Hearthstone
June ✓	• Natural Resources: Hancock Presentation
July ✓	• Infrastructure: Staff review of AIRRO and JPM Maritime
August	• Staff review of Private Equity and Debt
September	• Global Equity Manager Reviews
October	• Fixed Income Manager Reviews

*Presentation schedule is subject to change.

DALLAS POLICE & FIRE PENSION SYSTEM

LONGFELLOW FUNDING REPORT

Friday, July 24, 2020

To: DPFP Investment Team and Meketa

From: DPFP Investment Staff

Subject: Longfellow Funding Report

Background

On June 11th, 2020, the DPFP Board of Trustees approved hiring Longfellow Investment Management Company (LIM) as DPFP's Investment Grade Core Bond Manager to replace the interim allocation to the Vanguard Total Bond Market Index Fund (VBTIX).The Investment Management Agreement (IMA) was finalized on June 24th. The separate account opening was initiated on June 11th but could not be finalized until after the IMA was finalized. LIM confirmed they were ready to receive funds on the morning of July 7th and the initial contribution was made the same day.

Funding occurred in three stages to maintain exposure to the Investment Grade Bond asset class and to avoid depleting the cash reserve. Each stage consisted of ~$20MM being redeemed from the Vanguard Total Bond Market Index Fund (VBTIX) and allocated to Longfellow. Transactions occurred on July 7th, July 9th/10th, and July 16th. Staff did not use a transition manager due to VBTIX's mutual fund structure.

Transition Planning

Vanguard initially indicated that the settlement for the redemptions would be T+3 days, but actual settlement experience was T+1 day. Longfellow indicated that they would initially buy U.S. Treasury securities to approximate desired duration exposure and would then opportunistically trade into spread sectors. Use of a transition manager was not feasible due to cash redemptions from Vanguard and the LIM trading strategy which was not conducive to a defined target buy list.

Staff recommended conducting the transition in three tranches where LIM was funded from the cash account, which would be replenished when proceeds were received from Vanguard. Meketa was consulted and concurred with this approach.

Vanguard Redemptions

Vanguard redemptions were straightforward with no delays in receiving funds. As noted above, funds were received the day after the trade vs. the expected three-day settlement. Following the final redemption we also received accrued dividends of $42,554.93.

DALLAS POLICE & FIRE PENSION SYSTEM

Deploying at Longfellow

The initial $20MM of capital was deployed at Longfellow quickly. Longfellow was able to build the duration and curve exposure to reflect their composite immediately through the US Treasury market. They were also able to purchase several attractive corporate bonds. Given the ability to quickly deploy, we funded another $20MM a couple days later. Providing cash immediately allowed Longfellow to maintain the desired duration and yield curve of the portfolio and minimized transaction costs as US Treasuries would not have to sold to purchase corporate bonds and then repurchased later. The second $20MM was used to purchase US Treasuries, corporate bonds, and ABS. After the second round of funding, most of the portfolio resembled the composite. However, there is a delay in allocating to the MBS portion of the portfolio. There has been recent tightening in RMBS spreads, so Longfellow is taking a cautious approach and looking for more opportunistic entry points. They are comfortable holding US Treasuries or Agencies in lieu of RMBS in the near term and expect the portfolio to fully resemble the composite in mid to late August. The final contribution of $20.5MM was used to continue to purchase US Treasuries, corporate bonds, and ABS.

Implementation Costs/Gains Estimate

The total proceeds from the redemption from Vanguard totaled $60,582,714.82. Staff calculated a status quo value of VBTIX of $60,694,951.87, representing the theoretically value of the portfolio on July 20th if no shares had been sold. From the redemption of VBTIX, $60,500,000.00 was deployed to Longfellow and $82,714.83 to the control account as cash. The estimated NAV for Longfellow on July 20th, 2020 was $60,637,312.39, resulting in an implementation gain of $137,312.39. Total DPFP NAV including both Longfellow and the control account on July 20th was $60,720,027.22. When compared to the status quo value of VBTIX, there is a $25,075.35 transition gain which amounts to a 0.04% excess return.

DALLAS POLICE & FIRE PENSION SYSTEM

Transition Summary

Vanguard Transactions

Date	Shares Transacted	Share Price	Amount
7/7/20	1,715,265.87	$11.66	$20,000,000.00
7/10/20	1,715,265.87	$11.66	$20,000,000.00
7/16/20	1,757,070.99	$11.69	$20,540,159.90
7/16/20	Income Dividend Wire		$42,554.93
Total Proceeds from VBTIX			$60,582,714.83

Status Quo Value of VBTIX

Date	Initial Shares	Share Price	Amount
7/20/20	5,187,602.72	$11.70	$60,694,951.87

Funds Deployed

Date	Investment	Amount
7/7/20	Longfellow	$20,000,000.00
7/9/20	Longfellow	$20,000,000.00
7/16/20	Longfellow	$20,500,000.00
7/16/20	Control	$82,714.83
Total Deployed		$60,582,714.83

Implementation Gain/(Loss)

7/20/20	Longfellow estimated NAV	$60,637,312.39
	Cash transferred to Control Account	$82,714.83
7/20/20	Status Quo Value of VBTIX	($60,694,951.87)
Implementation Gain		$25,075.35
Excess return vs Status Quo		0.04%

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C8

Topic: **Securities Lending**

Discussion: Investment staff will discuss an updated analysis of the securities lending program. The program has failed to achieve expected income levels and staff believes that the modest income is not sufficient to warrant expending monitoring resources or incurring the limited risk related to reinvestment of cash collateral. Meketa concurs with this recommendation.

Recommendation: **Approve** the suspension of the securities lending program.

DALLAS POLICE & FIRE PENSION SYSTEM

Securities Lending

DPFP Board Meeting

August 13, 2020

Summary

- Staff recommends suspending the securities lending program.
- Securities lending income of around $100K annually has not rebounded to historical levels and no longer justifies Board/IAC/ Staff time to monitor the program and the modest risk associated with investment of cash collateral. (Income down in 2020.)
- Following multiple interactions with JP Morgan, we believe that securities lending income can not be increased significantly in the current environment. Lower income is primarily a supply/demand issues, with too much lending and too few borrowers.
- DPFP 2019 increase in securities lending expense was driven by higher use of cash collateral vs. non-cash and higher rebate rates, driven by higher interest rates and demand issues.

Historical Securities Lending Net Income

Securities Lending	2012	2013	2014	2015	2016	2017	2018	2019
Net Income $ thousands	718	781	628	544	402	101	112	114
End-of-year Lending base estimate in $ millions								
Fixed income securities	unavail	466	474	383	270	328	516	556
Equity securities	unavail	901	703	440	155	470	436	555
Total	unavail	1,368	1,177	823	425	798	952	1,111
Income/Lending base	unavail	0.057%	0.053%	0.066%	0.095%	0.013%	0.012%	0.010%

Source: DPFP Consolidated Annual Financial Reports

- Historical securities lending income of over $500K annually is now $100K.
- 1H20 net income is $22,582 => $45K annual run rate.
- Return on lendable assets has declined from ~6 basis points (0.06%) to 1 basis point.

DALLAS POLICE & FIRE PENSION SYSTEM

Annual Trends - Volume

LOANS & LENDABLE ASSETS	2017	2018	2019
Average OnLoan (MV)	19,116,698	44,179,369	59,612,819
Average Lendable (MV)	273,390,812	617,702,006	795,528,084
Utilization %	6.99%	7.15%	7.49%
COLLATERAL			
Average OnLoan (MV)	2017	2018	2019
Cash	15,068,460	12,956,411	32,928,536
Non-Cash	4,048,238	31,222,958	26,684,283
Total	19,116,698	44,179,369	59,612,819
Average Collateral (MV)			
Cash	15,529,894	13,345,487	33,726,459
Non-Cash	4,188,510	32,084,197	27,327,215
Total	19,718,405	45,429,684	61,053,675

Source: JP Morgan Reports

- Lendable assets rebounded in 2018.
- Utilization stable around 7%.
- Mix shift to more non-cash collateral in 2018 and more cash collateral in 2019.

Annual Trends - Fees

Average Investment/Fee Rate	2017	2018	2019
Cash	1.023	1.891	2.351
Non-Cash	0.388	0.119	0.140
Average Rebate Rate			
Cash	0.212	0.996	1.975
Non-Cash	0.000	0.000	0.000
Average Total Spread			
Cash	0.811	0.895	0.376
Non-Cash	0.388	0.119	0.140

Source: JP Morgan Reports

- Cash fee and rebate rates driven primarily by interest rates.
- Cash and non-cash fees rates also driven by demand and mix.
- Spread is what drives net income.
- Lower spread on cash collateral hurt in 2019.

Annual Trends - Mix

Demand Driver	2017	2018	2019
General Collateral	9,504	15,152	51,369
Warm	9,412	17,768	15,292
Yield	8,015	30,012	18,192
Special	73,532	47,906	30,751
Miscellaneous	936	1,076	-1,151
Total	101,399	111,914	114,453

Source: JP Morgan Reports

- Relatively consistent revenue for past three years
- 2019 saw improved general collateral (normal) loans, but weaker volume in higher income securities.

Increasing Interest Expense

DPFP Financial Statements	2017	2018	2019 prelim
DPFP Securities lending income	186,728	312,393	847,622
DPFP Securities lending expense	-85,329	-200,479	-733,169
Net securities lending income	101,399	111,914	114,453

Significant increase in income and expense, with stable net income.

Rough Calculations and Estimates	2017	2018	2019
(a) Average Cash Collateral (MV)	15,529,894	13,345,487	33,726,459
(b) Average Cash Fee Rate	1.02%	1.89%	2.35%
(c) Estimated Cash Fee (=a*b)	158,882	252,402	792,749
(d) Average Cash Rebate Rate	0.21%	1.00%	1.97%
(e) Estimated Rebate (=a*d)	-32,932	-132,938	-666,071
(f) Estimated Cash Income (=c+d)	125,950	119,464	126,678
(g) Average Non-cash Collateral (MV)	4,188,510	32,084,197	27,327,215
(h) Average Non-cash Fee Rate	0.39%	0.12%	0.14%
(i) Estimated Non-cash Fee (=g*h)	16,245	38,278	38,205
(j) Estimated total sec. lending income (=f+i)	175,127	290,680	830,954
(e) Estimated Rebate (=a*d)	-32,932	-132,938	-666,071
subtotal	142,195	157,742	164,882
JPM split @30%	-42,658	-47,323	-49,465
DPFP expense	-75,590	-180,260	-715,536

Sources: DPFP Financial statements, JP Morgan reports, Staff calculations

Rough calcs use average annual data to explaing the general trend but are not exact.

2.5X avg cash collateral

2.0x rebate rate due to higher interest rates and worse demand/mix

Results in rebates up 5X

DALLAS POLICE & FIRE PENSION SYSTEM

Quarterly Trends

LOANS & LENDABLE ASSETS	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20
Average OnLoan (MV)	64,203,171	47,159,970	57,608,469	70,260,237	62,414,260	48,240,471	39,867,684	44,655,407
Average Lendable (MV)	748,658,738	720,860,262	753,480,465	793,591,255	806,544,716	827,560,768	807,378,178	773,123,816
Utilization %	8.58%	6.54%	7.65%	8.85%	7.74%	5.83%	4.94%	5.78%
COLLATERAL								
Average OnLoan (MV)	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20
Cash	13,976,561	12,918,283	33,557,717	42,842,793	33,913,517	21,521,561	12,573,276	8,393,379
Non-Cash	50,226,609	34,241,688	24,050,752	27,417,444	28,500,744	26,718,910	27,294,408	36,262,028
Total	64,203,171	47,159,970	57,608,469	70,260,237	62,414,260	48,240,471	39,867,684	44,655,407
Average Collateral (MV)								
Cash	14,339,234	13,292,145	34,388,943	43,959,946	34,670,720	22,011,865	12,885,760	8,653,099
Non-Cash	51,683,451	35,165,171	24,644,922	28,065,858	29,150,623	27,397,177	27,999,347	37,365,876
Total	66,022,685	48,457,315	59,033,864	72,025,804	63,821,342	49,409,042	40,885,107	46,018,974
Average Investment/Fee Rate	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20
Cash	1.942	2.276	2.465	2.535	2.358	1.800	1.396	0.065
Non-Cash	0.090	0.148	0.187	0.134	0.123	0.122	0.111	0.151
Average Rebate Rate								
Cash	1.356	1.591	2.142	2.058	2.015	1.493	1.206	-0.160
Non-Cash	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Average Total Spread								
Cash	0.586	0.685	0.323	0.477	0.343	0.307	0.189	0.225
Non-Cash	0.090	0.148	0.187	0.134	0.123	0.122	0.111	0.151
Demand Driver	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20
General Collateral	3,657	7,073	9,701	15,745	16,366	9,558	5,054	7,301
Warm	6,835	3,552	3,568	4,731	4,229	2,764	1,839	2,332
Yield	2,686	4,757	3,621	14,072		500		2,308
Special	10,121	10,367	10,457	9,020	6,497	4,777	2,729	1,054
Miscellaneous	-24	1,134	-29	-1,102	49	-69	-33	
Total	23,276	26,883	27,317	42,466	27,141	17,529	9,588	12,994

Source: JP Morgan Reports

DALLAS POLICE & FIRE PENSION SYSTEM

Quarterly Rough Calculations

DPFP Financial Statements	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20
DPFP Securities lending income	85,455	93,910	224,427	297,119	217,053	109,024	53,028	18,555
DPFP Securities lending expense	75,484	25,673	197,109	254,653	189,912	91,495	43,440	5,560
Net securities lending income	9,971	68,237	27,317	42,466	27,141	17,529	9,588	12,994

Rough Calculations and Estimates	3Q18	4Q18	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20
(a) Average Cash Collateral (MV)	14,339,234	13,292,145	34,388,943	43,959,946	34,670,720	22,011,865	12,885,760	8,653,099
(b) Average Cash Fee Rate	1.94%	2.28%	2.46%	2.54%	2.36%	1.80%	1.40%	0.06%
(c) Estimated Cash Fee (=a*b)	69,624	75,647	211,917	278,603	204,355	99,046	44,968	1,401
(d) Average Cash Rebate Rate	1.36%	1.59%	2.14%	2.06%	2.01%	1.49%	1.21%	-0.16%
(e) Estimated Rebate (=a*d)	-48,602	-52,869	-184,153	-226,189	-174,613	-82,148	-38,864	3,457
(f) Estimated Cash Income (=c+d)	21,022	22,778	27,764	52,414	29,743	16,898	6,103	4,858
(g) Average Non-cash Collateral (MV)	51,683,451	35,165,171	24,644,922	28,065,858	29,150,623	27,397,177	27,999,347	37,365,876
(h) Average Non-cash Fee Rate	0.09%	0.15%	0.19%	0.13%	0.12%	0.12%	0.11%	0.15%
(i) Estimated Non-cash Fee (=g*h)	11,683	13,043	11,508	9,394	8,965	8,378	7,773	14,117
(j) Estimated total sec. lending income (=f+i)	81,306	88,690	223,425	287,998	213,320	107,424	52,741	15,517
(e) Estimated Rebate (=a*d)	-48,602	-52,869	-184,153	-226,189	-174,613	-82,148	-38,864	3,457
subtotal	32,705	35,821	39,272	61,809	38,708	25,276	13,877	18,974
JPM split @30%	-9,811	-10,746	-11,782	-18,543	-11,612	-7,583	-4,163	-5,692
DPFP expense	-58,413	-63,615	-195,935	-244,732	-186,225	-89,731	-43,027	-2,235

Sources: DPFP Financial statements, JP Morgan reports, Staff calculations

Rough calcs use average data to explain the general trend but are not exact.

DALLAS POLICE & FIRE PENSION SYSTEM

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C9

Topic: **Private Equity and Debt Portfolio Review**

Discussion: Staff will provide an overview of DPFP investments in private equity and private debt.

Regular Board Meeting – Thursday, August 13, 2020

DALLAS POLICE & FIRE PENSION SYSTEM

Private Equity and Private Debt Review

August 13, 2020

Private Equity and Private Debt Performance

as of 12-31-2019

Dollar in millions	Vintage	Com-mitment	Paid In	Dist-ributions	Current Value*	Total Value	Unrealized Gain/Loss	DPI	TVPI	IRR
Lone Star Investment Advisors										
North Texas Opp. Fund	2000	10.00	10.00	9.13	1.51	10.64	0.64	0.91	1.06	0.70%
Lone Star Growth	2006	16.00	26.56	12.80	8.94	21.74	-4.82	0.48	0.82	-9.32%
Lone Star CRA	2008	50.00	58.22	12.93	59.03	71.96	13.73	0.22	1.24	6.97%
Lone Star Op. Fund V	2012	75.00	75.00	0.53	14.15	14.68	-60.32	0.01	0.20	-42.67%
Total		***151.00***	***169.78***	***35.39***	***83.63***	***119.01***	***-50.77***	***0.21***	***0.70***	-
Huff										
Huff Alternative Fund	2000	66.80	78.83	74.49	15.14	89.63	10.81	0.95	1.14	1.58%
Huff Energy	2006	100.00	98.94	4.48	187.19	191.67	92.73	0.05	1.94	6.88%
Total		***166.80***	***177.77***	***78.97***	***202.33***	***281.30***	***103.53***	***0.44***	***1.58***	-
Other Private Equity										
Hudson Clean Energy	2009	25.00	24.99	4.73	2.07	6.81	-18.19	0.19	0.27	-19.35%
Yellowstone Capital	2008	5.28	5.11	1.46	0.00	1.46	-3.65	0.29	0.29	-32.45%
Industry Ventures IV	2016	5.00	3.53	0.24	4.14	4.38	0.85	0.07	1.24	14.06%
Private Debt										
Highland Crusader	2003	50.96	50.96	63.17	1.57	64.74	13.78	1.24	1.27	4.19%
Riverstone Credit Ptrs	2016	10.00	12.24	6.75	7.37	14.12	1.88	0.55	1.15	8.44%
					301.11					

Source: Meketa Private Markets Review as of December 2019

* Preliminary values based on most recent manager reporting, and do not reflect final 12-31-2019 audit valuation

DPI - Ratio of Distributions to Paid in Cpaital

TVPI - Ratio of Total Value (distributions and unrealized) to Paid in Capital

IRR - Internal Rate of Return

Current Unfunded Commitments

as of 12/31/2019

Private Equity	Commitment	**Unfunded Commitment**
Hudson Clean Energy Partners	25,000,000	-
Huff Alternative Fund	100,000,000	-
Huff Energy Fund	100,000,000	**119,979**
Industry Ventures Partnership Holdings IV	5,000,000	**1,465,000**
Lone Star CRA Fund	50,000,000	-
Lone Star Growth Capital	16,000,000	**2,240,000**
Lone Star Opportunities Fund V	75,000,000	-
North Texas Opportunity Fund	10,000,000	-
Yellowstone Energy Ventures II	5,283,254	**170,947**
Total Private Equity	***386,283,254***	***3,995,926***

Private Debt	Commitment	**Unfunded Commitment**
Riverstone Credit Partners	10,000,000	**639,444**
Highland Crusader	51,000,000	-
Total Private Debt	***10,000,000***	***639,444***

Private Equity Portfolio - Overview

Lone Star Investment Advisors Funds

- A series of funds managed by Lone Star Investment Advisors that includes Lone Star Growth Capital, Lone Star CRA, Lone Star Opportunities Fund V, and the North Texas Opportunity Fund.
- Investments focused on Texas-based, lower middle-market companies. Remaining investments heavily concentrated in oil and gas service companies.
- North Texas Opportunity Fund sole remaining investment is Irving Holdings, a company focused on medical transportation services.

Huff Funds

- ***Huff Energy Fund*** – Oil and gas exploration and production fund with Eagle Ford Shale properties (operating and non-operating) comprising the bulk of remaining assets. Sale process interrupted by severe market conditions and is on hold.
- ***Huff Alternative Fund –*** Primary remaining asset is a minority interest real estate parcel on the Las Vegas strip. Efforts are underway to market and monetize this asset.

Private Equity Portfolio - Overview

Others

- ***Hudson Clean Energy –*** Cleantech fund with three remaining investments involved in wind power, solar power, and wireless charging. Fund working toward monetization, with companies in various stages of development.

- ***Industry Ventures IVPH IV –*** Technology venture capital fund with focus on secondaries market. Diversified exposure to over 1000 active companies.

- ***Yellowstone Energy Ventures –*** Energy technology fund with one remaining investment in a UV lighting company. Fund is winding down and plans a shares-in-kind distribution.

Private Debt - Overview

Highland Crusader Fund

- Senior secured debt and equity fund that is in liquidation being managed by Alvarez and Marsal.
- Single remaining investment in a healthcare company.

Riverstone Credit Partners

- Private debt fund focused on loans and bonds of distressed energy companies.
- Remaining investments split among companies involved in oil and gas exploration and production, midstream companies, and service companies.
- Fund is in wind-down, expect half of fund to be distributed in 2021 and half in 2022.

DALLAS POLICE & FIRE PENSION SYSTEM

Private Equity and Private Debt Review

August 13, 2020

Appendix

Huff Energy Fund

The Huff Energy Fund, L.P.

Asset Class:	Private Equity	Vintage Year:	2006
Investment Period / Fund Term End Dates:	Feb 2014 / Feb 2021 (extended 3yrs)	Total Fund Size:	$493m
Management Fee:	1% of appraised asset values	DPFP Commitment:	$100m
Performance Fee/Carry:	80/20 split with 8% hurdle	DPFP % of Fund:	20.28%

Investment Performance (In Millions)

As of 12/31/19

Paid In Capital	Unfunded Commitment	DPFP Distributions	NAV	Inception IRR	TVPI	DPI
$98.9	$0.1	$4.5	**$187.2**	6.88%	1.94	0.05

Fund Strategy / Portfolio

- The Huff Energy Fund made oil and gas exploration and production investments based on the thesis that high energy prices and advanced technology supported the development of previously uneconomic projects. The fund acquired properties and drilled exploratory wells.
- DPFP has received only $4.5M in net distributions from the fund since inception, most of which was in 2009 from investments in publicly traded energy securities. The remaining portfolio is invested in illiquid oil and gas acreage and partnerships, primarily located in South Texas Eagle Ford (oil) and Northern Louisiana (gas).

Strategic Plan / Timeline

- The GP has exercised the last discretionary election to extend the fund for another year. Future extensions will require approval by a majority of LPs.
- Sale process for the Eagle Ford properties, which comprise the bulk of the fund, was disrupted by market conditions and is on hold.

Huff Alternative Fund

Asset Class:	Private Equity	Vintage Year:	2000
Investment Period / Fund Term End Dates:	Oct 2007 / Oct 2016	Total Fund Size:	$749m
Management Fee:	0% - since 2015 fund extension	DPFP Commitment:	$100m
Performance Fee/Carry:	90/10 with 8% hurdle	DPFP % of Fund:	13.35%

Investment Performance (In Millions)

As of 12/31/19

Paid In Capital	Unfunded Commitment	DPFP Distributions	NAV	Inception IRR	TVPI	DPI
$78.8	-	$74.5	**$15.1**	1.58%	1.14	0.95

Fund Strategy / Portfolio

- Private equity fund originally invested in a diverse range of industries, companies, and types of investments.
- The fund term has expired and the fund is now in liquidation, which is being managed by the GP.
- Primary remaining fund asset is a minority interest in a property on the Las Vegas strip.

Strategic Plan / Timeline

- A Hispanic food investment was sold in late 2019. Additional proceeds expected over the next few years as escrow holdback is released.
- Portions of the Vegas property have been sold, with proceeds paying down debt. Remaining portion is being marketed.

Lone Star Investment Advisors

LONESTAR INVESTMENT ADVISORS

Investment Performance (In Millions)							As of 12/31/19
Fund	Paid In Capital	Unfunded Commitment	DPFP Distributions	NAV	Inception IRR	TVPI	DPI
Growth Capital	$26.56	$2.24	$12.80	**$8.94**	-9.32%	0.82	0.48
CRA	$58.22	-	$12.93	**$59.03**	6.97%	1.24	0.22
Opportunity V	$75.00	-	$0.53	**$14.15**	-42.67%	0.20	0.01
Combined	$159.78	$2.24	$26.26	**$82.12**		0.68	0.16

Funds Strategy / Portfolio

- DPFP has limited partner interests in the above 3 funds ("LSIA Portfolio") managed by Lone Star Investment Advisors.
- LSIA Portfolio focuses on lower-middle market investments located in Texas and is heavily concentrated in oil& gas services.
- 12 portfolio companies remain in the LSIA Portfolio.

Strategic Plan / Timeline

- Staff is working closely with Board and Board sub-committee to consider monetization options.

Hudson Clean Energy

Asset Class:	Private Equity	Vintage Year:	2009
Investment Period / Fund Term End Dates:	Oct 2012 / Dec 2021 (extended 3yrs)	Total Fund Size:	$1.02 billion
Management Fee:	0%, $50k quarterly administration fee	DPFP Commitment:	$25m
Performance Fee/Carry:	Tiered structure based on timing of asset sales	DPFP % of Fund:	2.44%

Investment Performance (In Millions)

As of 12/31/19

Paid In Capital	Unfunded Commitment	DPFP Distributions	NAV	Inception IRR	TVPI	DPI
$25.0	-	$4.7	**$2.1**	-19.35%	0.27	0.19

Fund Strategy / Portfolio

- Sector-focused growth capital investment in alternative energy companies.
- With two investments written off at year-end 2018, the fund has 3 remaining investments involved in solar power, wind power, and wireless charging
- The remaining portfolio companies are at various stages, including production trials, wind-down, and capital raising

Strategic Plan / Timeline

- A restructuring was finalized in March 2019, resulting in a Co-GP/Co-Manager structure
- The fund term was extended from 2018 to 2021 according to the terms of the restructuring
- Progress is being made on asset monetization, with asset sales occurring in late 2018 and Q1 2019

Industry Ventures Partnership Holdings IV

Asset Class:	Private Equity	Vintage Year:	2016
Investment Period / Fund Term End Dates:	July 2020 / July 2026	Total Fund Size:	$209m
Management Fee:	1% committed capital	DPFP Commitment:	$5m
Performance Fee/Carry:	5% primaries, 10% secondaries, 20% direct/co-invests to GP; over 6% pref	DPFP % of Fund:	2.4%

Investment Performance (In Millions) — As of 12/31/19

Paid In Capital	Unfunded Commitment	DPFP Distributions	NAV	Inception IRR	TVPI	DPI
$3.5	$1.5	0.24	**$4.1**	14.06%	1.24	0.07

Fund Strategy / Portfolio

- Venture capital fund that makes primary fund, secondary fund, and direct investments in early and mid-stage venture backed companies primarily in the information technology sector.
- The fund targets a 40% allocation to early secondary opportunities, 40% to primary fund commitments and 20% to direct co-investments.
- The fund has exposure to 1000 active companies through underlying fund interests, and there have been 94 realizations in underlying portfolio companies since inception.

Strategic Plan / Timeline

- It is still early in the fund life: The first capital call was made in July 2016 and the commitment period is 4 years. Fund term is 10 years, with GP option to extend an additional 4 years.

North Texas Opportunity Fund

LONESTAR INVESTMENT ADVISORS

Asset Class:	Private Equity	Vintage Year:	2000
Investment Period / Fund Term End Dates:	May 2010 / May 2019 (extended 9yrs)	Total Fund Size:	$26.6m
Management Fee:	0% - fund in liquidation	DPFP Commitment:	$10m
Performance Fee/Carry:	80/20 split with 8% pref	DPFP % of Fund:	37.57%

Investment Performance (In Millions)

As of 12/31/19

Paid In Capital	Unfunded Commitment	DPFP Distributions	NAV	Inception IRR	TVPI	DPI
$10.0	-	$9.1	**$1.5**	0.70%	1.06	0.91

Fund Strategy / Portfolio

- North Texas Opportunity Fund has one remaining investment, a minority interest in Dallas Yellow Checker Cab.
- The company's performance and valuation has dropped in recent years based on the emergence and competition of ride sharing services. A strategic focus on medical transportation has stabilized earnings and recent sole-source contract awards increased earnings in 4Q19, setting up the company for 2020 monetization.

Strategic Plan / Timeline

- In order to save costs in a fund with only one asset, the fund level audit was waived in 2017, with company-level audited financial statements being provided.
- The fund GP is seeking an extension of the fund term.

Yellowstone Energy Ventures

YELLOWSTONE

Asset Class:	Private Equity	Vintage Year:	2008
Investment Period / Fund Term End Dates:	May 2011 / Aug 2020 (extended 2yrs at GP discretion)	Total Fund Size:	$21.8m
Management Fee:	0%	DPFP Commitment:	$10m
Performance Fee/Carry:	80/20 split after LP gets 100% capital contributed	DPFP % of Fund:	45.89%

Investment Performance (In Millions)

As of 12/31/19

Paid In Capital	Unfunded Commitment	DPFP Distributions	NAV	Inception IRR	TVPI	DPI
$5.1	$0.2	$1.5	**$0.0**	-32.45%	0.29	0.29

Fund Strategy / Portfolio

- Sector focused fund investing in clean energy technology and renewable energy.
- The investment program was terminated in 2011, releasing DPFP from $4.7 million of its $10 million commitment.
- No management fee is being charged.

Strategic Plan / Timeline

- Considering the low value of the remaining holding and to save fund costs, an amendment was executed in 2017 and 2018 to waive the fund level audit. The requirement for an audit will be re-evaluated on an annual basis
- The fund has one remaining holding, a UV lighting technology company.
- The fund plans to wind-down and will be distributing shares-in-kind

Riverstone Credit Partners

RIVER STONE

Asset Class:	Private Debt	Vintage Year:	2016
Investment Period / Fund Term End Dates:	April 2019 (extended 1yr) / April 2023	Total Fund Size:	$470m
Management Fee:	1.5% of invested capital during investment period, 1% thereafter	DPFP Commitment:	$10m
Performance Fee/Carry:	85/15 split over 6% Pref	DPFP % of Fund:	2.13%

Investment Performance (In Millions) **As of 12/31/19**

Paid In Capital	Unfunded Commitment	DPFP Distributions	NAV	Inception IRR	TVPI	DPI
$12.2	$1.4	$6.8	**$7.4**	8.44%	1.15	0.55

Fund Strategy / Portfolio

- Closed-end distressed energy fund that invests opportunistically in loans and bonds of energy companies both directly originated and purchased in the secondary market, with target gross returns of 15%.
- With the tightening in high yield energy spreads in early and mid-2018, Riverstone focused on its direct lending strategy resulting in 98% of the fund invested in direct lending. The remainder of the fund is invested in market-based opportunities (non-originated deals in private and public companies).

Strategic Plan / Timeline

- Riverstone extended the investment period to April 2019 to correspond with the end of fundraising for Fund II. This enabled Fund I to continue to benefit from deal flow and invest on a pro-rata basis with Fund II.
- Fund is in wind-down, with half of fund proceeds expected in 2021 and half in 2022.

Highland Crusader Fund

HIGHLAND CAPITAL Management, L.P.

Asset Class:	Private Debt	Vintage Year:	2003
Investment Period / Fund Term End Dates:	Oct 2008 / Aug 2011	Remaining Fund Size:	$22m
Management Fee:	1.75% on distributed cash, hourly billing of Investment Manager	DPFP Commitment:	$51m
Performance Fee/Carry:	5% on amounts distributed up to $175m, 15% over $175m	DPFP % of Fund:	11%

Investment Performance (In Millions)

As of 12/31/19

Paid In Capital	Unfunded Commitment	DPFP Distributions	NAV	Inception IRR	TVPI	DPI
$51	-	$63.2	**$1.6**	4. 19%	1.27	1.24

Fund Strategy / Portfolio

- Invested primarily in undervalued senior secured loans and other securities of financially troubled firms.
- During 2008, in deteriorating market conditions, the fund began wind-down and investor interests were redeemed. In August 2011, a joint plan of distribution was agreed between Highland and investors.
- In July 2016, the Redeemer Committee replaced Highland as investment manager with Alvarez and Marsal.

Strategic Plan / Timeline

- Since 2016, the Investment Manager has made progress liquidating assets, and the fund has approximately 39% of assets in cash awaiting expiration of reps and warranty periods and resolution of lawsuits.
- The fund has paid distributions recently, with DPFP receiving a total of $1.3 million in the past two years.
- Remaining investments include common stock and rights in a healthcare company.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C10

Topic: **Lone Star Investment Advisors Update**

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

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

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C11

Topic: **Legal issues - In accordance with Section 551.071 of the Texas Government Code, the Board will meet in executive session to seek and receive the advice of its attorneys about pending or contemplated litigation or any other legal matter in which the duty of the attorneys to DPFP and the Board under the Texas Disciplinary Rules of Professional Conduct clearly conflicts with Texas Open Meeting laws.**

Discussion: Counsel will brief the Board on these issues.

DISCUSSION SHEET

ITEM #C12

Topic: **Chairman's Discussion Items**

Thank Outgoing Trustees

Discussion: The Chairman will brief the Board on the status of these items.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C13

Topic: **DPFP Office and Board Procedural Response to COVID-19**

Discussion: The Executive Director will provide an update about DPFP's COVID-19 office response and discuss Board procedures for upcoming meetings.

Regular Board Meeting – Thursday, August 13, 2020

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #D1

Topic: **Public Comment**

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

Regular Board Meeting – Thursday, August 13, 2020

DISCUSSION SHEET

ITEM #D2

Topic: **Executive Director's report**

a. Associations' newsletters
- NCPERS Monitor (August 2020)
- NCPERS PERSist (Summer 2020)
- TEXPERS Pension Observer
  http://online.anyflip.com/mxfu/vumv/mobile/index.html

b. Open Records

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

THE NCPERS

MONITOR

The Latest in Legislative News

August 2020

In This Issue

Biden Unity Task Force Plan Underscores Retirement Priorities

Photo Illustration © 2020, adobestock.com

Measures to guarantee a secure and dignified retirement are a centerpiece of the 110 pages of domestic policy recommendations issued in mid-July by the Biden presidential campaign.

Vice President Joe Biden, the presumptive Democratic presidential nominee, developed the "Unity Task Force" recommendations in consultation with Sen. Bernie Sanders (I-Vermont) as well as current and former lawmakers. The involvement of Sanders, a former presidential candidate, is a bid to engage and build support among the liberal wing of the Democratic Party by devising a progressive agenda to be pursued by a possible Biden Administration.

Retirement policy is addressed in a section on the economy, one of six key domestic policy areas addressed in the plan. The other policy focuses of the Unity Task Force plan are health care, climate change, criminal justice, education, and immigration.

The plan notes that too many workers lack access to adequate retirement savings vehicles. It proposes to expand Social Security by making it more progressive and generous. It would also abolish windfall elimination provisions and government pension offsets that affect the Social Security benefits of many public workers.

The plan also proposes to shore up public and private pensions to enable workers to keep benefits they have earned by providing a path forward for distressed plans.

CONTINUED ON PAGE 5

COVID 4.0 (or CARES Act 2.0)

By Tony Roda

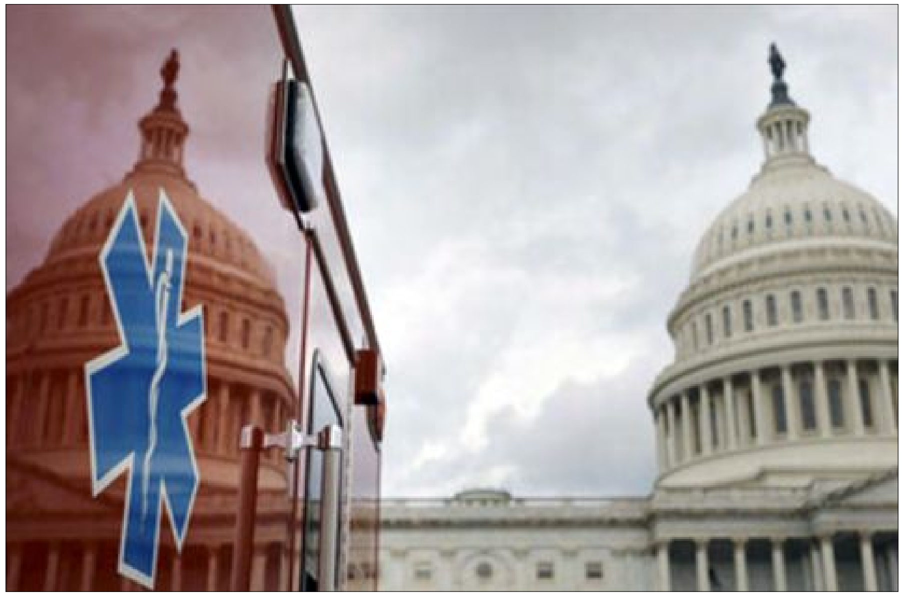


Photo illustration © 2020, Adobestock.com

ThIt's immaterial which moniker Members of Congress, the President, or I give to this next round of Covid-19 legislation, but the two leading generic contenders are Covid 4.0 and CARES Act 2.0. Both are correct in certain respects. This will be the fourth major piece of Covid legislation and, yes, it will extend and modify many of the key provisions found in the CARES Act.

On July 27, Senate Republicans and the White House announced a set of proposals that when taken together create their fourth round response to the continuing Covid-19 crisis and simultaneously constitute a counterproposal to the House-passed HEROES Act. They're calling it the HEALS Act, so we have two additional specific names to bear in mind as we read and listen to news reports over the next couple weeks.

With the unveiling of the Senate GOP package, negotiations can now begin in earnest on bridging the differences between the two parties. The goal is to reach agreement by the end of the first week of August. However, with the presidential and Congressional elections looming large on the horizon, it will take a skillful, high-wire act to succeed in that tight timeframe.

The Senate GOP-White House proposal contains the following key provisions:

- Extension of the Paycheck Protection Program (PPP), including allowing companies to obtain a second round of loans if their revenues are down 50 percent or more.
- Second round of stimulus checks sent directly to taxpayers.
- Extension of moratorium against evictions in buildings on which mortgages are backed by federal agencies.
- Liability protections against lawsuits for certain businesses and employers.
- Extension of enhanced unemployment insurance based on a 70 percent wage replacement.
- Tax credits to incentivize companies to hire.
- $16 billion for Covid-19 testing.
- $105 billion for schools, some of which will be dependent on reopening.
- Finally, while the proposal fails to include any new federal assistance for states and localities, it provides more flexibility in how they may use existing, unspent federal monies. However, the Senate GOP legislation includes a bar to use of these funds for state and other governmental pension or postemployment benefit plans.

The sweeping prohibition reads that monies may not be used to (a) make a deposit into, or reimburse, any state or government fund that finances pensions or other postemployment benefits for current or former employees of the state or government; (b) satisfy any obligation or liability of the state or government with respect to a pension or other postemployment benefit fund, plan, or program for current or former employees of the state or government; (c) augment any amount paid, or benefit provided under, a pension or other postemployment benefit fund, plan, or program for current or former employees of the state or government; or (d) make a deposit into, or reimburse a withdrawal from, a budget stabilization fund, budget reserve account, or other 'rainy day' or reserve fund of the state or government established to provide a source of funding for operations of the state or government during a revenue downturn or other unanticipated shortfall and accounted for in the budget most recently approved as of March 27, 2020, for the state or government.

Senate Minority Leader Chuck Schumer (D-NY) quickly criticized Republicans for crafting legislation without input from Democrats. He suggested that Republicans have delayed action on the coronavirus and have been disorganized in putting out their proposal. He described the Republican package as "totally inadequate," noting that it does not include food assistance,

CONTINUED ON PAGE 5

NCPERS Executive Directors Corner

Old Foes, New Name: Equable Institute Takes a Run at 'Crowding Out' Mythology

Photo illustration © 2020, shutterstock.com

Equable Institute holds itself out as "the policy experts for bipartisan pension solutions." But you don't have to scratch too far below the surface to discover the underlying anti-pension bias. The Equable Institute team is a who's who of ideologues with a track record of trying their hardest to gut the pensions that public-sector workers have labored to earn.

Executive Director Anthony Randazzo comes from the Reason Foundation. Board member Dan Lilienquist was a one-man pension wrecking crew during his single term in the Utah Senate. Another board member, Josh McGee, is chairman of the Texas Pension Review Board, a fellow at the arch-conservative Manhattan Institute, and a well-known foe of public pensions.

The Equable Institute team is a who's who of ideologues with a track record of trying their hardest to gut the pensions that public-sector workers have labored to earn.

So it isn't too surprising that the latest report from Equable, titled "Hidden Education Funding Cuts: How Growing Teacher Pension Debt is Eating into K-12 Education Budgets," is a hodgepodge of overstatements, false claims, and omissions masquerading as an objective look at how teacher pension contributions impact state education budgets.

NASRA, the National Association of State Retirement Administrators, recently dug into the report to examine its methodology and findings. The results are alarming.

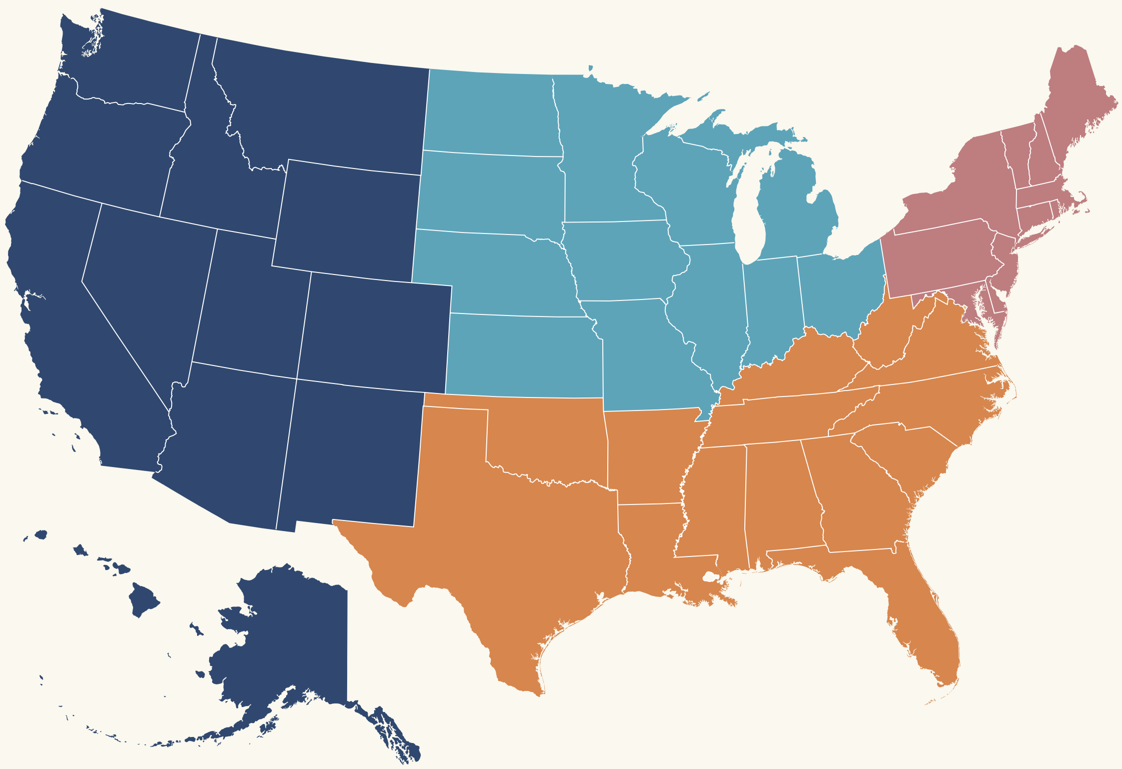
For example, the report overstates the percentage of education spending consumed by teacher pension contributions. That's not easy to do, since it takes pretty simple arithmetic to calculate percentages. But you can do it with a little determination provided you're willing to significantly understate total public education expenditures.

The definitive information on public elementary and secondary education expenditures comes from the U.S. Census Bureau, which shows spending totaled $721 billion in fiscal year 2018, the latest year for which this data is available. However, Equable bases its calculations entirely on state own-source revenues, which have made up less than half of public education revenue since 2002. By excluding key sources of public education funding, Equable warps the percentages in a way that inevitably overstates

CONTINUED ON PAGE 6

NCPERS Around the Regions

This month, we will highlight Rhode Island, Ohio, Kentucky and California.



NORTHEAST: Rhode Island

The City of Providence violated the U.S. and Rhode Island constitutions in 2012 when it indefinitely suspended cost-of-living adjustments (COLAs) for retiree pensions, the state Supreme Court ruled June 30.

The court handed decisive victories to public pensions in three cases handed down on the same day, in each instance overturning all or part of a lower court ruling in favor of the city.

The court ruled that if the pension plan for city employees and retirees is changed by the courts, it can't be changed again by the City Council without workers' agreement. As a result, the city's 2012 pension reform does not apply to several dozen retired firefighters and police officers.

In 2012, the City of Providence passed an ordinance suspending annual COLAs for pension benefits for police and firefighters until the pension fund achieved a 70 percent funding level, which was expected to be attained in 2036.

After a court-ordered mediation, most retirees agreed to a settlement which allowed for a ten-year suspension of their COLA benefit, but several dozen plaintiffs opted out of the settlement agreement, pursuing their civil claims through the litigation process. The opt-out plaintiffs claimed a violation of the takings clause of the federal and state constitution. A trial judge ruled against the retirees; the Supreme Court reversed the judgment, finding that the 2012 pension ordinance was unenforceable as to certain plaintiffs because it represented a violation of the separation of powers provision of the Rhode Island Constitution.

CONTINUED ON PAGE 7

BIDEN UNITY TASK FORCE CONTINUED FROM PAGE 1

Additionally, the plan would "equalize the network of retirement saving tax breaks so that working people can build their nest eggs faster, while also providing more equitable access to these accounts through automatic enrollment and relaxed contribution restrictions for unpaid caregivers."

The plan asserted that Democrats "will reject every effort to cut, privatize, or weaken Social Security, including attempts to raise the retirement age, diminish benefits by cutting cost-of-living adjustments, or reduce earned benefits," adding, "We will put Social Security on a path to solvency and strengthen it in perpetuity."

The Biden campaign laid out its most detailed retirement policy recommendations in July 2019 in the Biden Plan for Older Americans. Among other things, it would eliminate rules that hurt teachers and other public sector workers who either switch jobs or who have earned retirement benefits from various sources. The Biden Plan would eliminate these provisions by ensuring that teachers not eligible for Social Security would receive benefits sooner than the current ten-year period required of many teachers. The Biden Plan would also stop imposing benefit cuts on workers and surviving beneficiaries who are covered by both Social Security and another pension.

The Biden Plan would also create small business tax break for starting a retirement plan and giving workers the chance to save at work, and would enable almost all workers who lack retirement options at work to easily save for retirement at work via payroll deduction. ◆

COVID 4.0 (OR CARES ACT 2.0) CONTINUED FROM PAGE 2

hazard pay for essential workers, and funding for state and local governments. He stated that the package does not include enough money to allow schools to reopen safely and criticized the plan to reduce the enhanced unemployment benefits provided by the CARES Act, suggesting that doing so will increase poverty and hurt the economy.

So, the battle lines have been clearly drawn, and additional federal assistance for states and localities is one of the issues on which parties do not see eye to eye.

While, thus far, this current round of Covid-19 legislation would not directly affect state and local governmental pension plans, it will be important for our community to monitor the big picture debate on federal assistance for state and local governments. Of course, these are our plan sponsors and their ability to continue making actuarially determined employer pension contributions each year is critical to the sustainability of public pension funds.

NCPERS will keep you apprised as relevant and significant events unfold. ◆

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

EXECUTIVE DIRECTOR'S CORNER CONTINUED FROM PAGE 3

the extent to which teacher pension contributions consume state budgets.

The report also claims that increasing teacher pension contributions impairs states' ability to deliver a quality public education by "crowding out" other education funding priorities. Our own 2019 study, Peaceful Coexistence: The Facts About Pensions and Education Funding, has already thoroughly dissected these claims, but that didn't stop Equable from taking another run at them. The error Equable commits in this case is to treat crowding-out claims as de facto evidence instead of subjecting them to scrutiny. The polarizing rhetoric about whether states can afford both pensions and education doesn't hold up once you examine the data, because it's a false choice. And as our own research showed, the percentage of state and local government contributions to pension plans equaled 4.1 percent of revenue in 2016, a fraction of the 28.3 percent that went to education.

There are other errors in the Equable report. It is severely lacking in context, for one thing. It uses 2001 as its baseline year, a period when investment performance was exceptionally strong, employer contributions were historically low, and combined funding levels were above 100 percent. The year may have been nirvana from the standpoint of people who want absolutely minimal government support of public pensions, but it was not typical. Starting in that year is a strategy guaranteed to make other years look bad by comparison. A longer view is preferable when it comes to public pensions. Had Equable chosen 1980 or 1990 as its starting point—and in so doing, captured the 30-plus year trajectory of pension investing—the results would have been different, and less stark.

The Equable report also ignores the fact that different factors drive differences in teacher pension cost levels among states. These factors include differences in benefit levels, particularly as it relates to differences in Social Security coverage, and employers' commitment to making required pension contributions. The latter, as we all know, has a real wild card in determining the health of pensions, because governments alone have the ability to skip their obligations, while employees are required without exception to faithfully make their pension contributions. There's no pension payment holiday for workers.

According to Michael Kahn, Director of Research at NCPERS, using pension contributions as a percentage of education budgets to make a case that pensions are crowding out education does not make sense because pension costs are not part of education budgets. Dr. Kahn said Equable's approach is just like saying that spending on roads and highways is crowding out education funding. The budget for infrastructure and public works is separate from the budget for education. While there is a budget squeeze in funding many public programs and services, it's not because of pensions. Instead, it's due to the way state and local revenue systems are structured. Budget squeezes would continue even if there were no pensions until we fix state and local revenue structures.

No one is arguing that contributions to teacher pension plans have not grown in recent years; they have, and there's a reason for it. In some cases, contributions are up because unfunded pension liabilities have grown. In some cases, more conservative actuarial assumptions and methods have been adopted, and as a result formulas have changed. And in some cases, employers have set out deliberately to strengthen pension funding practices.

But to take these observable, objective trends, omit key data and apply techniques that warp the analysis is a disservice to all. As best, the Equable report is, as NASRA said, "a misleading characterization of their impact on K-12 education budgets." At worst, it is a testament to the fact that when you put lipstick on a pig, it's still a pig. When the same old cast of characters dresses up under a fancy new name and tackles the same topic with the same old biases, can we really be surprised with that they come up with distortions? ◆

AROUND THE REGIONS CONTINUED FROM PAGE 4

MIDWEST: Ohio

Several groups backed by the powerful Koch family are working to block efforts to shore up Ohio cities that have been severely impacted by the Covid-19 pandemic.

Even after cutting expenses and furloughing employees, several Ohio cities face budget and revenue shortfalls, according to a report by the Center for Media and Democracy. For example, Columbus has fallen $41.5 million short of budget, despite cutting $26 million of expenses. Cincinnati is experiencing a $15 million shortfall in 2020 and a $91 million deficit in 2021. Toledo and Cuyahoga County, which encompasses Cleveland, also face shortages, estimated at $50 million and $76 million respectively.

Yet Koch-funded groups like Americans for Prosperity Ohio and the American Legislative Exchange Council (ALEC) are lobbying to block federal relief, the report said. Americans for Prosperity is pressing for state and local governments to resolve budget deficits on their own, citing "chronic structural fiscal problems" and claiming that officials have "spent lavishly, borrowed excessively, and ignored looming pension debt."

"The Koch-backed groups appear to be taking advantage of the crisis to advance their ideological goals and further undermine public education and public employee unions," the report said. Remarkably, these groups have been silent about large-scale bailouts of private-sector industries such as airlines, automobiles and financial services.

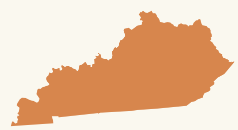
U.S. state budgets are facing budget shortfalls totaling $615 billion over the 2020-22 fiscal years, according to the Center on Budget and Policy Priorities.

They are campaigning against legislation approved by the House of Representatives that would provide nearly $1 trillion in targeted aid to state and local governments. The bill is stalled in the Senate.

A spokeswoman for the city of Lancaster, Ohio, told *The Monitor* that the city has been considering laying off 18 firefighters and 15 police officers because of a budget crunch. While that step has been avoided so far, "it will likely happen" if the mayor is unable to obtain passage of a tax levy to close the funding gap during budget meetings in November.

A letter written by Americans for Prosperity has accused state governors and local communities of "exploiting" firefighters, teachers and other state workers to justify support for additional funding, the Center for Media and Democracy said.

SOUTH: Kentucky



Kentucky's Supreme Court has dismissed a lawsuit accusing the state employee retirement system and three fund managers of engaging in high-risk investments that resulted in severe underfunding. The high court ruled July 9 ruled that the plaintiffs lacked standing because they had been paid their pensions and therefore had not suffered any "concrete or particularized" injury.

The suit, Mayberry vs. KKR, was filed in December 2017 by eight members of Kentucky Retirement Systems. The plaintiffs said KRS was enticed by actuarial and investment advisers and hedge fund managers to invest in fund-of-funds investment vehicles.

The plaintiffs had alleged that between 2011 and 2016, the defendants knew that Kentucky Retirement Systems faced a risk of running out of plan assets but concealed the true state of affairs from members and the public, the opinion noted. Instead, the plaintiffs alleged, trustees and officers attempted to "recklessly gamble" their way out of the actuarial shortfall by investing $1.5 billion of plan assets in high-risk "fund-of-hedge-fund" products offered by the defendant hedge-fund sellers.

The investments ultimately lost over $100 million by 2018 and accumulated fees that the plaintiffs said would "measure in the hundreds of millions of dollars." These losses, according to plaintiffs, contributed to what is now a $25 billion funding shortfall in Kentucky Retirement Systems' general pool of assets.

The high court rejected the plaintiff's arguments that they faced an increased risk of not receiving pension benefits in the future. By statute, the Supreme Court noted, plaintiffs would be entitled to their pension benefits under their inviolable contract with the Commonwealth of Kentucky even if the retirement systems ran out of assets and terminated.

CONTINUED ON PAGE 8

AROUND THE REGIONS CONTINUED FROM PAGE 7

WEST:
Colorado

The California Supreme Court on July 30 unanimously issued a narrow ruling limiting the types of compensation that may be counted in pension calculations, but declined to overturn the California Rule, a set of legal precedents dating back to at least 1955 that protects pensions under the contract clause of the state's constitution.

It was the second unsuccessful challenge to the California Rule in two years. In March 2019, the California Supreme Court upheld the rule in Cal Fire Local 2881 v. California Public Employees' Retirement System. Twelve other states follow the California Rule, though three have modified it, the Sacramento Bee has reported.

The more recently decided case was brought by the Alameda County Deputy Sherriff's Association vs. the Alameda County Employees Retirement Association. In its ruling the Supreme Court upheld a law ending the practice of so-called pension spiking for county employees, saying it was enacted "for the constitutionally permissible purpose of closing loopholes and preventing abuse of the pension system."

However, the court said in its opinion, it saw "no jurisprudential reason to undertake a fundamental reexamination" of the California Rule.

Public pensions are generally calculated based on a worker's highest year of earnings. Public pension plans differ as to whether and how certain types of compensation—such as unused leave and overtime—count toward the final pension calculation.

The court said a state law implemented on January 1, 2013, didn't violate contracts by amending the law governing the county systems even though the change affects employees hired before the law took effect. The court found the law clarified existing rules and closed loopholes rather than introducing more substantial new changes, which the court called a "proper objective" in keeping with legislators' lawmaking authority.

David E. Mastagni, who represented Alameda County employees in the case, told the Los Angeles Times he was disappointed for them but glad the California Rule survived. The ruling indicated the court would limit rollbacks of pension benefits to narrow "modifications just to address perceived abuses or loopholes." ◆

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2020 Conferences

August

2020 Public Pension Funding Forum
August 24 - 25
A Virtual Event

September

NCPERS F.A.L.L. Conference
September 29-30, 2020
A Virtual Event

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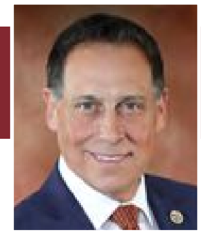
PERSist

The Voice for Public Pensions

Summer 2020 | Volume 33 | Number 3

Message from the President



Daniel Fortuna
NCPERS President

During these extraordinary times, when we can no longer operate business as usual, NCPERS needs to find new ways to provide valuable education to the public pension community. That's why NCPERS has decided to host our first virtual Public Pension Funding Forum, and we have decided to create the virtual NCPERS Financial, Actuarial, Legislative & Legal (FALL) Conference.

On August 24-25, 2020, we will host the Public Pension Funding Forum through videoconferencing. The Funding Forum focuses on the obstacles that stand in the way of closing the public pension funding gap and explores new solutions to overcome those obstacles. It will be held over two days, beginning with a presentation on how long public pensions are sustainable, from Bryon Lutz, of the Federal Reserve Board of Governors, Tom Sgouros, from Brown University, and Alex Brown, from the National Association of State Retirement Administrators.

Over the following days, virtual attendees will learn about strategies to maintain an adequate funding level through economic ups and downs, from David Villa, CEO and CIO of the State of Wisconsin Investment Board; weighing risks and returns in the current macroeconomics trends, from Nobel Laureate in Economics, Lars Peter Hansen; funding strategies from executive directors Sanford Rich (New York City Board of Education Retirement System), David

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In This Issue

Take the PERSist Quiz on pages 9, 10 and 13 | **Submit Completed Quiz Here**

TAKE THE QUIZ

Venturing Into a New Era of AI

By: Fairview Capital Partners, Inc.

The next generation of AI technology and its application remains one of the most important singular market opportunities for venture capital. The technology is tangible, and research, development, and applications continue to accelerate rapidly. As the AI market has evolved, the skill sets, networks, and due diligence requirements investors must employ have changed. The ability to navigate hyperbole is critical. The investment opportunity set for limited partners has also changed. There are now more active funds in the category than ever before, including a new crop of specialized managers. Perceptive investors who can identify where the true opportunities lie within the continued innovation and application growth in the space will be advantaged.

Photo illustration © 2020 istock.com

Broadly, AI has unquestionably given rise to a major new cohort of investments. Investment in AI-related companies has accelerated, particularly over the past five years, over which time the total dollars invested has increased at a compounded annual growth rate of nearly 80%. Deal activity is also up, with over 1,000 new AI-related venture capital deals in each of the past two years. AI investment is also expanding relative to the venture capital market. In 2019, AI investment accounted for 13% of all venture capital deals and 18% of all venture capital dollars invested, up from 4% and 9%, respectively, in 2014.

AI is an increasingly important component of venture capital portfolios, and growth in the category means that greater exposure will likely come naturally to most active investors. However, as with any aspect of venture capital investing, being proactive and navigating the market with a prepared mind is critical to long-term success. Limited partners must become adept at evaluating a new complement of skillsets and networks, and may need to adjust their approach to portfolio construction to develop optimal exposure.

When investing in venture capital firms pursuing AI investments, limited partners should consider the relevancy of the firms' experience, the technical and operational expertise resident at the firm, and its networks. The level and type of exposure, in terms of stage and AI technology layers, should also be considered. The approaches firms take can vary significantly and limited partners have several options for developing exposure to the category.

CONTINUED ON PAGE 9

Evaluating AI Venture Firms - Key Considerations

- Technical AI Knowledge
- Operational Experience
- Business Model Expertise
- Relevancy of Networks
- AI Investment Thesis and Strategy

Data: Fairview Capital Research

Fairview Capital Partners, Inc. *helps institutional investors access and intelligently invest in the most innovative segments of the private markets. Our premier venture capital program provides investors tactical access to persistently outperforming managers and exposure to the most innovative and rapidly growing technology and life science companies. With the deepest emerging/next generation manager experience, networks and deal flow in the industry, Fairview also helps investors proficiently access the best new firms, small funds, diverse managers and co-investment opportunities across the private equity spectrum with an intense focus on returns.*

NCPERS Asset Manager

TAKE THE QUIZ

Things the Pandemic Could Change

By: Kenneth J. McAtamney

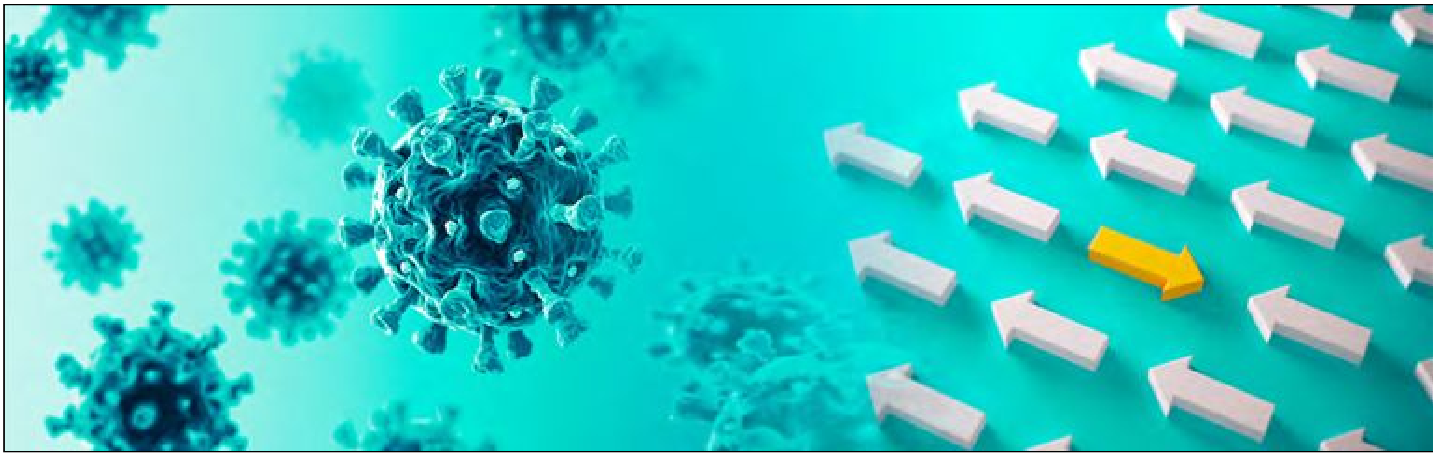


Photo Illustration © 2020 istock.com

Many of the long-term structural changes to the U.S. economy resulting from COVID-19 will depend on the post-pandemic assessments that are made by policymakers and the political reception of their actions. This process really has not yet begun to play out, but in the meantime, we have begun thinking about the ways the world—and investment landscape—will change.

1 Healthcare

Healthcare is perhaps the most obvious area of change. We wonder if the world's response to the COVID-19 pandemic might prove to be a positive catalyst for a more radical makeover. For example, will we see developments in telehealth, testing and diagnostic equipment, digital records, and personalized medicine?

And what about more risk-taking in drug development, changes in systemwide pricing, and perhaps even universal coverage?

2 Technology-Enabled Surveillance

The pandemic has left us wondering about the role that widespread health and geographic surveillance programs might play in mitigating the risk of future pandemics. It is not a far leap from that to natural disasters and crime prevention.

These checks could become a more routine part of entering large gatherings, including workplaces, schools, and entertainment venues. Is that merely a behavioral inconvenience or should we wonder about the societal cost?

3 Role of Government

This is the second systemwide shock we have experienced in the past 12 years—the first being the global financial crisis in 2007-2008. Government influence was already afoot and is likely to increase in many areas. Certain benefits that come from that, but so do risks. Will government support in the short term come with the price tag of more increased government involvement in corporate decision-making, including executive compensation and financing decisions? The COVID-19 pandemic should prove to be a very good test of globalization versus slowbalization.

4 Globalization Versus Slowbalization

Globalization is a long-term phenomenon. Over the past few years, however, we have seen many of these forces challenged and in some degree reversed as the undercurrents of socioeconomic imbalances, nationalism, and populism reveal themselves in trade and tariff changes and even corporate supply chains. *The Economist* refers to this as slowbalization. The COVID-19 pandemic should prove to be a very good test of globalization versus slowbalization. The disease knows no boundaries. It does not discriminate.

CONTINUED ON PAGE 10

NCPERS Custodian Bank

TAKE THE QUIZ

How COVID-19 Will Accelerate Change in Securities Services

By: Daron Pearce

Photo Illustration © 2020 istock.com

The COVID-19 crisis shows that the securities services industry is well-prepared, flexible and resourceful when dealing with previously unenvisaged scenarios. Many market participants achieved business as usual relatively quickly, complying with regulatory responsibilities, maintaining their operating and reporting environment and their relationships with clients despite a significant amount of employees working from home during the crisis.

One consequence of this new model has been an uptick in the quality of communications between service providers and their clients. It has proved more straightforward than many imagined for people to switch to online interaction. Many clients have sought to engage more frequently and deeply with the bank than usual: this may become the new norm.

There have been other encouraging changes of behaviour. Our data shows a significant increase in the use of online tools by front office teams. Analysts and traders have always relied on the data these tools provide but a surprisingly large number used printouts provided by an assistant. This new habit may endure. Digitisation has long been the direction of travel in the industry but the experience of COVID-19 will accelerate its use, including video interaction for relationship management, and the move away from paper-based processes. Working largely from home has proved to be a viable option for many.

In terms of operations and technology, there were some firms that discovered vulnerabilities in parts of their architecture. The COVID-19 experience will no doubt prove a catalyst for investment to address such issues and streamline operations.

A plethora of new technologies are changing how the securities servicing industry operates and interacts with clients. In terms of immediate impact during the COVID-19 crisis, three technologies stand out.

The COVID-19 crisis will spur increased demand from fund managers for application programming interfaces (APIs). APIs enable information to be accessed on-demand rather than via an end-of-day file and help to de-risk operations. The advantages of receiving data automatically and immediately via an API have resonated with clients that have experienced them first hand during remote working.

Similarly, the value of artificial intelligence (AI) and machine learning (ML) has been demonstrated during the spike in trading volumes in March. AI and ML helped BNY Mellon to maintain high standards of controls and checks despite elevated volumes.

The experience of the COVID-19 crisis could prompt a regulatory pivot to resilience, continuity and recovery capabilities. Most firms

CONTINUED ON PAGE 10

Daron Pearce *is Head of Asset Servicing Strategic Growth at BNY Mellon. In this global role, Daron focuses on identifying and accelerating both inorganic and new market entry opportunities.*

Coronavirus and Identify Theft – Are you Aware? Are you Prepared?

Note from the Ex Dir: *As part of our continuing commitment to add value to our NCPERS members, we are pleased to have worked with our partners, Gallagher and Identity Guard, to enhance the financial and emotional wellbeing of your members during these challenging times. As noted below, any NCPERS organization can extend Identity Guard, the NCPERS-endorsed identity theft program, at no cost for the balance of 2020. We hope you find the following informative, and encourage you to contact our Gallagher representatives to learn more.*

The COVID-19 pandemic has brought about changes to just about every aspect of our lives – and our digital lives are at more risk than ever before. Scammers and thieves are using the coronavirus to target victims with new scams, and unfortunately, they're working. Employees, those unemployed and retirees are all increasingly being targeted.

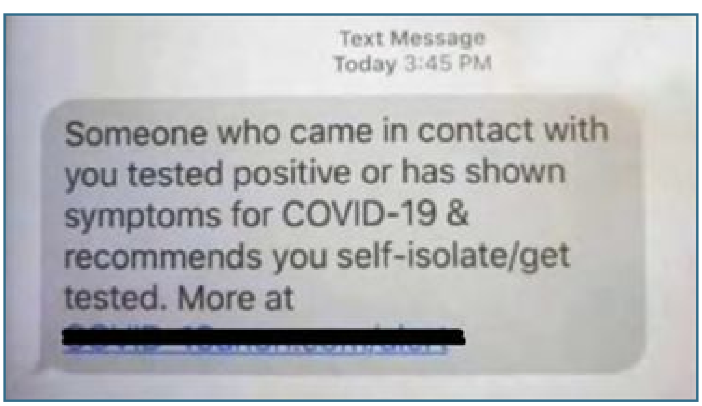
Photo Illustration © 2020 istock.com

Keep yourself safe from these 4 common scams.

Contact Tracing Scams

Many states are mounting large-scale contact tracing efforts to help slow the spread of the coronavirus. Scammers and hackers are moving in quickly to take advantage of fear, making efforts both online and over the phone.

Fake apps and text messages are used to coerce victims into clicking on malicious links or handing over their personal and health information.



After an unsuspecting person shares their information, the criminals are then turning around and selling any PII (personally identifiable information) and PHI (personal health information) that they obtain on the dark web – which means it can lead directly to identity theft for those involved.

If you get a text message that appears to have come from a contact tracer or contact tracing scams, be sure to avoid clicking on any links and do not provide the person contacting you with any of your personal information.

Coronavirus Misinformation Scams

People are always looking for the most up to date information to keep themselves and their families healthy. Unsurprisingly, scammers are taking advantage of this, too.

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NCPERS Legal

TAKE THE QUIZ

Everything Old is New Once Again: The DOL's Proposed Regulations on ESG Investing

By: Suzanne M. Dugan

The U.S. Department of Labor recently released proposed amendments to ERISA regulations relating to ESG investing. Commentators raised the alarm that the proposed regulations will chill sustainable investing practices. Are their concerns justified, and what are the take-aways for public pension plans that are not covered by ERISA but nonetheless look to it for discrete and useful guidance?

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According to the DOL, "ESG investing raises heightened concerns under ERISA". There is no doubt that the DOL is skeptical of ESG investing, particularly in certain aspects such as the traditional "all things being equal" test. But it is possible that these regulations, even if ultimately adopted as drafted, might not necessarily reflect a sea change for prudent fiduciaries.

- ***The underlying fiduciary principles remain unchanged***: Fiduciaries always have been bound by the exclusive benefit rule and the duties of loyalty and prudence, which remain unchanged. For example, under the Internal Revenue Code, no part of the corpus or income of a pension trust (including a public pension trust) may be used for purposes other than the exclusive benefit of participants and beneficiaries.

- ***Prudent fiduciaries are focused on the plan's financial risks and returns, and keeping the interests of plan participants and beneficiaries paramount***: Prudent fiduciaries do not sacrifice investment returns, take on additional risk, or pay higher fees to promote non-pecuniary benefits or goals.

- ***ESG investing can fit within the framework under the proposed regulations***: The DOL specifically recognizes that there may be instances where ESG factors will present an economic business risk or opportunity that appropriately would be treated as material economic considerations under generally accepted investment theories. The DOL gives examples, such as improper disposal of hazardous waste or dysfunctional corporate governance, that likely implicate business risks and opportunities, litigation exposure, and regulatory obligations.

Ms. Dugan *leads the Ethics and Fiduciary Counseling practice at Cohen Milstein Sellers & Toll, PLLC, a practice she helped found within the Securities Litigation & Investor Protection group. Ms. Dugan joined Cohen Milstein in 2011 following more than 20 years of government service, including as Special Counsel for Ethics for the Office of the New York State Comptroller and Counsel to the New York State Ethics Commission. With service in government and experience as an in-house counsel, she offers the broad perspective of a regulator and the comprehensive understanding of an in-house counsel. From this unique vantage, Ms. Dugan counsels pension funds on fiduciary responsibility, ethical duties, governance, compliance issues, and investigatory matters.*

CONTINUED ON PAGE 13

TAKE THE QUIZ

The Net Negative Effects Of Hedge Fund Activism In Pension Portfolios

Assessing the Harm to Stakeholders and Long-Term Value

By: Nell Geiser and Hudson Muñoz

Photo Illustration © 2020 istock.com

The Communications Workers of America's public sector members trust pension trustees and staff to manage assets to ensure their long-term retirement security. This trust is violated when pension funds entrust their capital to activist hedge funds. While these hedge funds claim to improve operating and financial performance at target companies, in practice they extract cash, destroy good jobs, and leave companies weaker in the long term. These tactics also harm pension participants, who are passive investors in much of the indexed stock market.

Our experience with hedge fund activism includes the September 2019 intervention by Elliott Management at AT&T, where we represent about 100,000 workers. We have learned that Elliott's short-term agenda can harm its targets' long-term performance and sustainability, partly from the job cuts Elliott tends to propose that divest firms of the human capital they need to compete.

When Elliott announced its $3.2 billion economic interest in AT&T and said the stock had potential to double in price, it also demanded general cost-cutting, greater outsourcing, divestitures, and massive stock buybacks to return cash to shareholders. Pension funds that invested in Elliott were indirectly buying into Elliott's activism thesis that diverting capital to shareholders was better than having AT&T ramp up investment in strategic initiatives, such as fiber deployment and 5G expansion, which would generate organic growth through enhanced competition. This is the defining trade-off that activist hedge funds like Elliott Management force upon targeted companies: cash returns now versus organic growth and competition for the long term.

A recent study by Mark DesJardine and Rodolphe Durand found that hedge fund activism has a negative impact on long-term investors and stakeholders due to reductions in strategic investments. The study analyzed more than 1,300 activist hedge fund campaigns initiated from 2000 to 2016. The authors found that the number of employees at targeted companies decreased by 7.66% five years after the intervention and operating cash flow, a key indicator of profitability and long-term sustainability, decreased by more than 27% over the same period of time. The net effect of this was that the market value of targeted firms decreased by 9.71%, targeted companies were left with an average cash deficit of $61 million five years after the activist intervention began, and corporate social responsibility indicators suffered.

CONTINUED ON PAGE 13

Nell Geiser *is Director of Research at the Communications Workers of America and a CFA Institute charter holder. CWA represents public sector workers in state and local government across the country, along with workers in telecommunications, airlines, manufacturing and other sectors.*

Hudson Muñoz *is a Senior Strategic Research Associate at the Communications Workers of America where he works to educate the public about the social and investment impacts of hedge fund activism. He graduated magna cum laude from the Johns Hopkins University Carey School of Business and Krieger School of Arts and Sciences dual Master of Business Administration and Master of Arts in Government program in August 2019.*

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MESSAGE FROM THE PRESIDENT CONTINUED FROM PAGE 1

Eager (Kentucky Employees Retirement System), Richard Ingram (Illinois Teachers Retirement System), and Corey Amon (New Jersey Division of Investments); and finally, funding challenges during corona from an actuarial perspective, from Gene Kalwarki with Cheiron, Brian Grinnell from the State Teachers Retirement System of Ohio, and Richard Young, from the New York State Teachers Retirement System.

The new FALL Conference will be held on September 29-30, 2020, in four-hour remote sessions. FALL is where public pension trustees, staff, and industry partners can come together virtually to learn, exchange ideas, strategize solutions, and make valuable connections. This two-day virtual program is structured in three tracks that will equip attendees with valuable insights on financial, actuarial, legislative, and legal matters impacting public pensions.

To view or register for any of our conferences, please click on the links inside the article. We look forward to "seeing you" at our online events and hopefully at in-person events soon! Stay safe and healthy! ◆

ALTERNATIVE CONTINUED FROM PAGE 2

Most limited partners will have exposure to multi-strategy firms investing in the category, but we believe that focus is valuable when it comes to AI and that the market opportunity is significant enough to warrant the inclusion of specialized managers. As companies in the category scale, we have also found more co-investment opportunities emerge, particularly with companies that have quickly proven their technology and rapidly built a customer base. AI technology is accelerating behind a maturing ecosystem and its applications will be far-reaching, and the end markets are major. Some of the most significant venture-backed companies in the future are likely to be AI companies. Remaining informed and building strategic exposure to the category will be vital for limited partners with sophisticated venture capital portfolios. ◆

Read our full report here.

PERSist Quiz — Alternative

What is the best way to approach building exposure to the AI category?

- ❍ **A.** Aggressively build as much exposure as possible
- ❍ **B.** Taking a passive approach
- ❍ **C.** Being proactive and navigating the market with a prepared mind of contributions equally well.

Answer: C

ASSET MANAGER CONTINUED FROM PAGE 3

5 Shifting of Balance Between Shareholders and Stakeholders

The emergence of the modern corporation inspired a passionate debate about the balance between shareholders and stakeholders. What are a company's ethical obligations to the society whose support is necessary for it to thrive? The COVID-19 epidemic has brought this topic to the forefront by facilitating a debate about the health and welfare of workers around the world.

While these themes are appealing, it is worth noting that we are not thematic investors; we will, as always, be focused on high-quality companies—those that have durable growth opportunities given competitive advantages; those that have the ability to withstand current levels of volatility and revenue shock; those that are poised for long-term growth. ◆

__Ken McAtamney,__ partner, is the head of the global equity team and a portfolio manager for William Blair's International Growth, Global Leaders, and International Leaders strategies. He is also a member of the Investment Management leadership team. He was previously co-director of research and a mid-large-cap industrials and healthcare analyst. Before joining William Blair in 2005, Ken was a vice president at Goldman Sachs and Co., where he was responsible for institutional equity research coverage for both international and domestic equity. Before that, he was a corporate banking officer with NBD Bank. Ken received a B.A. from Michigan State University and an M.B.A. from Indiana University.

PERSist Quiz — Asset Manager

Which term refers to the forces of protectionism replacing globalization?

❍ A. Populism

❍ B. Slobalization

❍ C. Nationalism

Answer: B

CUSTODIAN BANK CONTINUED FROM PAGE 4

had tested and prepared for the loss of individual sites but had not considered the need to transfer almost all processes to people's homes. New measures will need to be put in place in anticipation of similar widespread disruption in the future: the digitalisation of operating environments will be critical to improving resilience.

Despite an inevitable focus on de-risking and building resilience, the future of securities servicing will encompass much broader change. Environmental, social and governance issues are now central to all client discussions while cryptocurrencies and digital assets are here to stay. Technology, including AI and ML, is certain to play an ever-increasing role in the industry.

Disclosure

PERSist Quiz — Custodian Bank

Multiple Choice: The future of securities servicing will encompass broad change, including:

❍ A. De-risking and building resilience

❍ B. Continued focus on ESG issues

❍ C. Increased use of AI, ML, cryptocurrencies & digital assets

❍ D. All of the above

Answer: D

HEALTHCARE CONTINUED FROM PAGE 5


Re:SAFTY CORONA VIRUS AWARENESS WHO

WO World Health Organization

World Health Organization

Dear Sir,

Click on the button below to download

Safety measures

Symptoms common symptoms include fever,coughcshortness of breath and breathing difficulties.

Regards,

Dr. Stella Chungong

Specialist wuhan-virus-advisory

FAKE

If you look closely, the message has not been sent from a legitimate company email address, and clicking on any included links or attachments can put all of the personal information on your device at risk of being stolen.

Unemployment Benefits Identity Theft

As of now, 41 million Americans have filed for unemployment benefits since the coronavirus began to infect the United States.

Using stolen PII to fraudulently file for unemployment benefits in other's names is not a new tactic for criminals, there is now a drastic increase in the sheer numbers of potential targets.

Americans, recently furloughed or laid off, are applying for unemployment only to find that they're being denied due to a "duplicate application" – a scammer has already beat them to the punch.

In some cases, has been receiving their unemployment benefit for months!

This is one form of identity theft that you won't discover until the damage has already been done.

Using emails that look like they're from legitimate organizations, such as the World Health Organization, the Center for Disease Control, or the US Government, scammers are sending malware and phishing emails to millions of inboxes every day.

If you get an email from one of these organizations, visit the official website by directly entering their URL into your web browser to verify the message is legitimate.

Generally speaking these organizations will not send you a file through email, but if you believe it to be real, be sure to scan the file with an up-to-date virus scanner before opening the file.

How to Spot Fake Coronavirus Scams and Stop Them

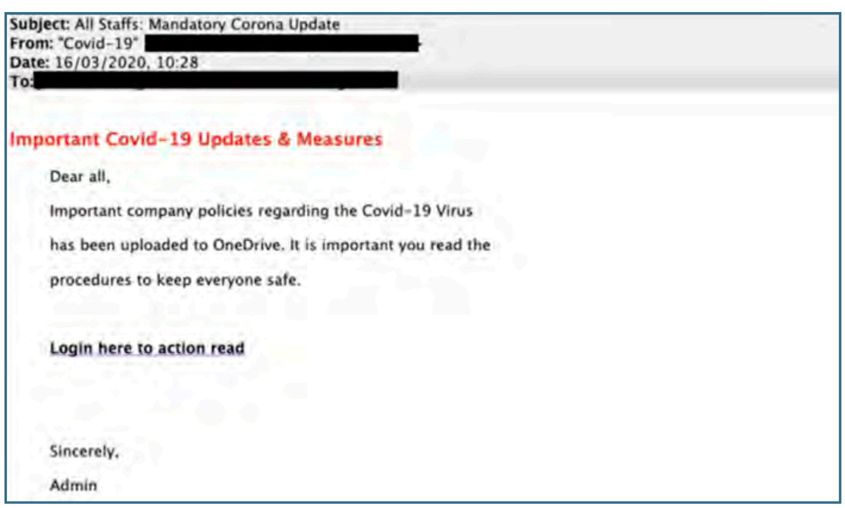
Most scams are based around the sense of urgency: the idea that if you don't act now to change your password or confirm your credit card number, something bad will happen.

If you're feeling pressured to act in a situation, ask yourself why, and then re-evaluate the legitimacy of the action you're being asked to take.

CONTINUED ON PAGE 12

Human Resources/Work From Home Email Scams

With so many employees working from home, important company information is being sent through emails. So what better time for scammers to ramp up their phishing email attempts?
An effective scam making the rounds is a phishing email that looks like it's been sent from your company's Human Resources office or from the CEO. The email claims to be communicating a new policy or company update regarding COVID-19.


Subject: All Staffs: Mandatory Corona Update
From: "Covid-19" [redacted]
Date: 16/03/2020, 10:28
To: [redacted]

Important Covid-19 Updates & Measures

Dear all,

Important company policies regarding the Covid-19 Virus has been uploaded to OneDrive. It is important you read the procedures to keep everyone safe.

Login here to action read

Sincerely,

Admin

HEALTHCARE CONTINUED FROM PAGE 11

If you find yourself in doubt of the legitimacy of an email or text, or are nervous that you've fallen victim to a coronavirus scam, Identity Guard can help.

How to Keep Your Information Safe from Scammers During the Coronavirus Pandemic

When looking for helpful information to keep you and your family healthy, falling prey to a malicious app or phishing scam is the last thing you want to be worried about. Here are some tips to help you stay safe while staying informed.

1. **Avoid doing web searches to find news and information.**
   Web results can be misleading and phishing scams can sneak in, representing themselves as legitimate sources of information. Instead, go directly to the source; navigate directly to newspaper's websites for news, or check the Federal Trade Commission, Center for Disease Control, and World Health Organization websites directly.

2. **Only download apps directly from the Google Play Store or Apple App Store.**
   Anything not from the Google Play or Apple App Store could pose a security threat to your device and all of the information on it.

3. **Avoid clicking on suspicious links.**
   If you've received an email or text message that feels even slightly suspicious, avoid clicking on any links provided. More information on avoiding suspicious links can be found in our article about avoiding phishing scams.

4. **Don't confirm personal information unless you're sure of who you're speaking to.**
   And by sure, we mean without a doubt. If you receive a phone call from your bank, healthcare provider, or government agency and are asked to confirm your personal information, hesitate. Ask if you can call them back. Then, find the verified customer service or contact number for the institution in question, and call them back to investigate the situation further.

5. **Consider offering a comprehensive identity theft program to your members.**
   As scammers get better at what they do, it can be intimidating to take them on alone. You're going to want someone in your corner. Comprehensive plans should include: 3-bureau monitoring, fast alert times, Artificial Intelligence (AI) monitoring, and have access to an expert customer service team who makes the process of resolving any security situation simple and personal. ◆

To learn more about the Identity Guard program available to member groups of NCPERS, including the promotional, no-cost offer through the end of 2020, please contact:

Don Heilman, Area Sr. Vice President – don.heilman@ajg.com
Shawn Adkins, Area Vice President – shawn.adkins@ajg.com

LEGAL CONTINUED FROM PAGE 6

- ***The key is documentation:*** Fiduciaries will demonstrate prudence through their documentation of the weight given to ESG factors in light of the assessment of their impact on risk and return; the economic risks or opportunities that qualified investment professionals would treat as material economic considerations under generally accepted investment theories; the examination of the level of diversification, degree of liquidity, and potential risk-return in comparison with other available investments that would play a similar role in their plan's portfolios. And, if using the "all things being equal" test, they will document specifically why the investments were determined to be indistinguishable and why the selected investment was chosen based on the purposes of the plan, diversification of investments, and interest of the plan participants and beneficiaries in receiving benefits from the plan.

It remains to be seen what the proposed DOL regulations will look like when finally adopted and effective, but they may not necessarily represent the death knell for public pension plans that wish to incorporate consideration of ESG factors in their investing practices, provided they do so in a manner that reflects proper attention to their fiduciaries duties. ◆

PERSist Quiz Legal

Does ERISA apply to public pension plans?

❍ **A.** Yes, public pension plans are covered by the provisions of ERISA.

❍ **B.** No, ERISA does not apply to and it is of no importance to public pension plans.

❍ **C.** ERISA, while not binding on public pension plans, sets forth principles that are reflective of the common law and standards that inform the fiduciary responsibilities of public pension plan trustees.

Answer: C

LABOR UNION CONTINUED FROM PAGE 7

These statistical findings mirror our experience at AT&T. Our analysis of Elliott's plan estimated that it would put 30,000 jobs at risk of elimination or wage reduction. AT&T has largely bent to Elliott's demands, and in June disclosed plans to lay-off more than 3,000 workers. This critical infrastructure giant has also reduced capital expenditures and ramped up share buybacks (prior to a pandemic-induced pause), as dictated by Elliott's playbook.

Pension investment decision-makers should be concerned about the net negative long-term effects of hedge fund activism at targeted companies in its own right. They should also think about hedge fund activism in terms of its knock-on effects. Since hedge fund activism tends to bring down the market value and performance of targeted companies, it will also drag down the value of passive investments in the equity and fixed income securities the pension fund also holds in the same companies during and after the activist engagement. Public fund CIOs and trustees should select asset classes and individual investments with expected returns that align with the investment horizons of plan participants. As recent outflows from the hedge fund asset class suggest, the time is now for a reexamination of hedge fund investments that rely on activist tactics for short-term cash extraction while ignoring the long-term consequences for both communities and passively held equity value. ◆

PERSist Quiz Labor Union

According to research by Desjardine and Durand, how much did the market value of targeted firms change 5 years after the activist intervention?

❍ **A.** -2.3%

❍ **B.** -9.71%

❍ **C.** 3.5%

Answer: B

2020 Conferences

August

2020 Public Pension Funding Forum
August 24 - 25
A Virtual Event

September

NCPERS F.A.L.L. Conference
September 29-30, 2020
A Virtual Event

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