AGENDA

DALLAS POLICE & FIRE PENSION SYSTEM

Date: August 4, 2023

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, August 10, 2023, in the Second Floor Board Room at 4100 Harry Hines Boulevard, Dallas, Texas and via telephone conference for audio at 214-271-5080 access code 588694 or Toll-Free (US & CAN): 1-800-201-5203 and Zoom meeting for visual https://us02web.zoom.us/j/81579077794?pwd=Zy90N29XcFBZb1phTzBBQlBScXVXZz09 Passcode: 910136.** 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 13, 2023

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

3. **Approval of Estate Settlements**

4. **Approval of Survivor Benefits**

5. **Approval of Service Retirements**

6. **Approval of Alternate Payee Benefits**

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 **Approval of Payment of Previously Withdrawn Contributions**

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. **Certification of Firefighter Trustee Runoff Election Results and Recognition of Outgoing Trustees**

2. **Quarterly Financial Reports**

3. **2023 Mid-Year Budget Review**

4. **Financial Audit Status**

5. **Monthly Contribution Report**

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

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

7. **Portfolio Update**

8. **Infrastructure Portfolio Review**

9. **Deferred Retirement Option Plan (DROP) Policy**

   a. DROP Policy Revisions
   b. Approval of a De Minimis Payment
   c. Hardship Request

   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.

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

D. BRIEFING ITEMS

1. Public Comment

2. Executive Director's report

a. Associations' newsletters
- NCPERS Monitor (August 2023)
- NCPERS PERSist (Summer 2023)

b. Open Records
c. Employee Update
d. Independent Actuary

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

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

DALLAS POLICE & FIRE PENSION SYSTEM

MOMENT OF SILENCE

In memory of our Members and Pensioners who recently passed away

NAME	ACTIVE/ RETIRED	DEPARTMENT	DATE OF DEATH
Harold R. Andrews	Retired	Police	July 3, 2023
Chris Jackson	Active	Police	July 6, 2023
Floyd D. Pettigrew	Retired	Police	July 10, 2023
Robert P. Trail	Retired	Fire	July 13, 2023
David M. Kunkle	Retired	Police	July 14, 2023
William D. Cobb	Retired	Police	July 26, 2023
Harold W. Minter	Retired	Fire	July 30, 2023
Stephen R. Norris	Retired	Police	July 31, 2023

Regular Board Meeting –Thursday, August 10, 2023

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

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

ROLL CALL

Board Members

Present at 8:33 a.m.	Nicholas A. Merrick, William F. Quinn, Armando Garza, Michael Brown, Kenneth Haben, Steve Idoux (by telephone), Mark Malveaux (by telephone), Tina Hernandez Patterson (by telephone), Nancy Rocha, Anthony Scavuzzo, Marcus Smith
Absent:	None
Staff	Kelly Gottschalk, Josh Mond, Ryan Wagner, Brenda Barnes, Akshay Patel, John Holt, Nien Nguyen, Carol Huffman, Nagjeevan (Jenny) Singh, Kaitlyn Gensler, Cynthia J. Thomas
Others	Aaron Lally (by telephone), Tom Tull

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

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A. MOMENT OF SILENCE

The Board observed a moment of silence in memory of active police officer Darryl W. Gary, retired police officers Charles E. Storey, Jimmy L. Stone, David L. Peeples, Robert V. Johnson, and retired firefighter Garland A. Beaty.

No motion was made.

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B. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of June 8, 2023

Regular Board Meeting
Thursday, July 13, 2023

B. CONSENT AGENDA (continued)

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

3. **Approval of Estate Settlements**

4. **Approval of Survivor Benefits**

5. **Approval of Service Retirements**

6. **Approval of Alternate Payee Benefits**

After discussion, Mr. Garza made a motion to approve the minutes of the Regular meeting of June 8, 2023. Mr. Quinn seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Scavuzzo made a motion to approve the remaining items on the Consent Agenda, subject to the final approval of the staff. Mr. Haben seconded the motion, which was unanimously approved by the Board.

Mr. Smith was not present during the Consent Agenda.

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C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

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

Staff provided the quarterly update on the private asset cash flow projection model first discussed at the February 2018 Board meeting. The cash flow model projects estimated contributions to, and distributions from, private assets through the end of 2024. These estimates are intended to assist the Board in evaluating the expected time frame to reduce DPFP's exposure to these assets and the implications for the public asset redeployment, overall asset allocation, and expected portfolio risk and return.

Mr. Smith joined the meeting at 8:37 a.m.

No motion was made.

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Regular Board Meeting
Thursday, July 13, 2023

2. Consultant Selection

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

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

The Board went into closed executive session at 9:23 a.m.

The meeting reopened at 9:38 a.m.

After discussion, Mr. Garza made a motion to hire Meketa as the general investment consultant and hire Albourne as the private markets investment consultant and authorize the executive director to enter into investment consultant agreements with Meketa and Albourne. Mr. Quinn seconded the motion, which was approved by the following vote:

For: Mr. Merrick, Mr. Quinn, Mr. Garza, Mr. Brown, Mr. Scavuzzo, Mr. Smith, Mr. Idoux, Ms. Rocha, Mr. Malveaux, Ms. Hernandez Patterson,
Opposed: Mr. Haben

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3. Certification of Police Officer and Firefighter Trustees Election Results

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

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

Regular Board Meeting
Thursday, July 13, 2023

3. Certification of Police Officer and Firefighter Trustees Election Results (continued)

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

After discussion, Mr. Quinn made a motion to certify the election results of the Police Officer and Firefighter Trustee election and authorize a runoff election for the Firefighter Trustee position between Armando Garza and Matthew Shomer. Mr. Smith seconded the motion, which was unanimously approved by the Board.

Mr. Garza abstained from the vote.

YesElections
Powered by Election America

Results:

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

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

Turnout:

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

1775 I St NW
Suite 1150
Washington, DC 20006

155 Mineola Blvd.
Suite 102
Mineola, NY 11501

4275 Executive Sq.
Suite 200
San Diego, CA 92037

(866) 514-2995 | YesElections.com

Regular Board Meeting
Thursday, July 13, 2023

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4. Monthly Contribution Report

The Executive Director reviewed the Monthly Contribution Report.

No motion was made.

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5. 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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6. Financial Audit Status

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

No motion was made.

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7. Portfolio Update

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

No motion was made.

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Regular Board Meeting
Thursday, July 13, 2023

8. Report on the Investment Advisory Committee

The Investment Advisory Committee met on June 22, 2023. The Committee Chair and Investment Staff commented on the Committee's observations and advice.

No motion was made.

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9. Public Equity Structure Review

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

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

After discussion, Mr. Scavuzzo made a motion to approve the updated Public Equity Structure. Mr. Brown seconded the motion, which was unanimously approved by the Board.

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10. Benefit Underpayment Notification

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

The Board went into closed executive session at 10:04 a.m.

The meeting reopened at 10:31 a.m.

No motion was made.

Regular Board Meeting
Thursday, July 13, 2023

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

The Board went into closed executive session at 10:04 a.m.

The meeting reopened at 10:31 a.m.

The Board and staff discussed legal issues.

No motion was made.

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D. BRIEFING ITEMS

1. Public Comments

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

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2. Executive Director's report

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

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

The Executive Director's report was presented.

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Regular Board Meeting
Thursday, July 13, 2023

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Haben and a second by Mr. Smith, the meeting was adjourned at 10:31 a.m.

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Nicholas A. Merrick
Chairman

ATTEST:

____
Kelly Gottschalk
Secretary

DISCUSSION SHEET

ITEM #C1

Topic: **Certification of Firefighter Trustee Runoff Election Results and Recognition of Outgoing Trustees**

Discussion: The terms of Trustees William Quinn (Mayoral), Kenneth Haben (Police), and Armando Garza (Fire) expire on August 31, 2023. A general election was held for the Police Officer and Firefighter Trustee positions in June 2023. At the July 13th Board meeting, the Board certified the election results and authorized a runoff election for the Firefighter Trustee position because no candidate received more than 50% of the votes cast. In the general election, Michael Taglienti was elected as the Police Officer Trustee. The Mayor of Dallas will appoint the successor for William Quinn's Trustee position.

YesElections, an independent third-party election company, conducted the runoff election between the two candidates (Armando Garza and Matthew Shomer) that received the most votes in the general election process for the Firefighter Trustee position. The voting period for the Firefighter Trustee runoff election ended on August 1, 2023.

Matthew Shomer received the most votes in the runoff election and was elected as the Firefighter Trustee. Both new trustees' terms are from September 1, 2023, to August 31, 2026.

DISCUSSION SHEET

ITEM #C1
(continued)

Staff and the Board would like to thank William Quinn, Kenneth Haben, and Armando Garza for their dedication to the pension system and service to the Board and the members.

Staff Recommendation: **Certify** the election results of the Firefighter Trustee runoff election.

YesElections
Powered by Election America

August 2, 2023

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

Dear Kelly Gottschalk:

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

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

Sincerely yours,

Chris Backert
CEO
YesElections

1775 I St NW
Suite 1150
Washington, DC 20006

155 Mineola Blvd.
Suite 102
Mineola, NY 11501

4275 Executive Sq.
Suite 200
San Diego, CA 92037

(866) 514-2995 | YesElections.com

YesElections
Powered by Election America

Results:

Race	Candidate/Choice	Votes
Firefighter Trustee	Matthew Shomer	257
Firefighter Trustee	Armando Garza (incumbent)	196

Turnout:

Internet	Phone	Total	Electorate	Turnout %
372	81	453	2024	22.38

DISCUSSION SHEET

ITEM #C2

Topic: **Quarterly Financial Reports**

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

Regular Board Meeting – Thursday, August 10, 2023

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

	June 30, 2023	PRELIMINARY December 31, 2022	$ Change	% Change
Assets				
Investments, at fair value				
Short-term investments	$ 23,928,266	$ 14,890,840	$ 9,037,426	61%
Fixed income securities	343,215,623	321,493,344	21,722,279	7%
Equity securities	975,906,078	826,996,060	148,910,018	18%
Real assets	303,724,868	347,647,569	(43,922,701)	-13%
Private equity	236,350,784	237,391,484	(1,040,700)	0%
Forward currency contracts	-	(970)	970	-100%
Total investments	1,883,125,619	1,748,418,327	134,707,292	8%
Receivables				
City	4,701,386	5,140,928	(439,542)	-9%
Members	1,707,663	1,819,338	(111,675)	-6%
Interest and dividends	3,964,651	3,788,204	176,447	5%
Investment sales proceeds	1,536,581	1,152,406	384,175	33%
Other receivables	33,166	49,887	(16,721)	-34%
Total receivables	11,943,447	11,950,763	(7,316)	0%
Cash and cash equivalents	61,516,327	75,285,576	(13,769,249)	-18%
Prepaid expenses	816,433	403,166	413,267	103%
Capital assets, net	11,485,459	11,605,932	(120,473)	-1%
Total assets	$ 1,968,887,285	$ 1,847,663,764	$ 121,223,521	7%
Liabilities				
Payables				
Securities purchased	5,867,069	1,138,945	4,728,124	415%
Accounts payable and other accrued liabilities	4,495,556	5,210,268	(714,712)	-14%
Total liabilities	10,362,625	6,349,213	4,013,412	63%
Net position restricted for pension benefits	$ 1,958,524,660	$ 1,841,314,551 *	$ 117,210,109	6%

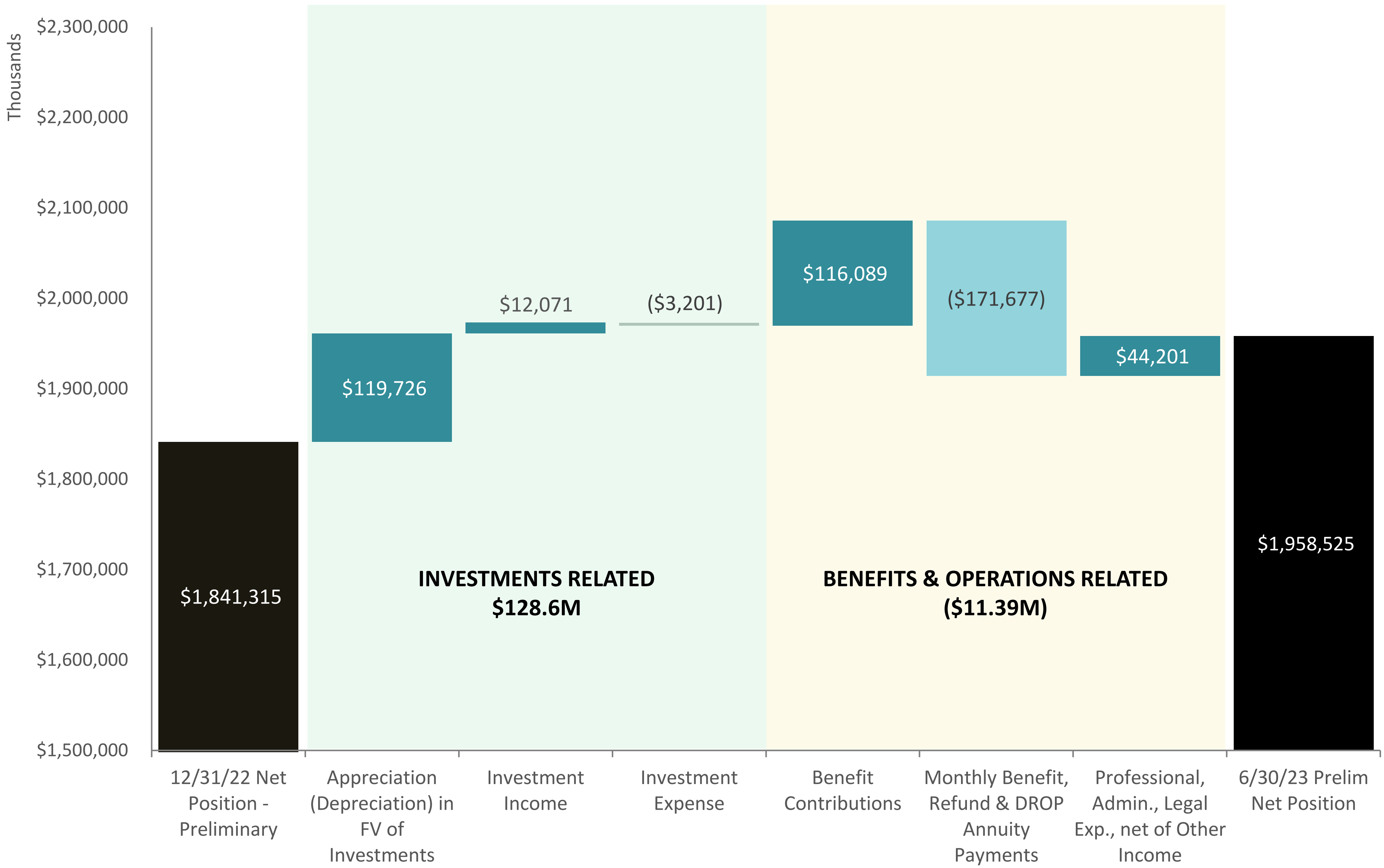
***The ending period amounts are preliminary and may change as the 2022 results are finalized.**

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

	Six Months Ended June 30, 2023	Six Months Ended June 30, 2022	$ Change	% Change
Contributions				
City	$ 85,050,904	$ 84,231,674	$ 819,230	1%
Members	31,038,511	29,528,378	1,510,133	5%
Total Contributions	116,089,415	113,760,052	2,329,363	2%
Investment income				
Net appreciation (depreciation) in fair value of investments	119,726,334	(247,464,629)	367,190,963	148%
Interest and dividends	12,070,564	11,870,831	199,733	2%
Total gross investment income	131,796,898	(235,593,798)	367,390,696	156%
less: investment expense	(3,200,621)	(3,623,234)	422,613	12%
Net investment income	128,596,277	(239,217,032)	367,813,309	154%
Other income	47,536,113	2,202,788	45,333,325	2058%
Total additions	292,221,805	(123,254,192)	415,475,997	337%
Deductions				
Benefits paid to members	169,071,538	165,366,930	3,704,608	2%
Refunds to members	2,605,333	1,663,521	941,812	57%
Legal expense	147,449	259,412	(111,963)	-43%
Legal expense reimbursement	-	-	-	0%
Legal expense, net of reimbursement	147,449	259,412	(111,963)	-43%
Staff Salaries and Benefits	1,808,288	1,700,970	107,318	6%
Professional and administrative expenses	1,379,088	1,265,528	113,560	9%
Total deductions	175,011,696	170,256,361	4,755,335	3%
Net increase (decrease) in net position	117,210,109	(293,510,553)		
Beginning of period	1,841,314,551	2,176,501,141		
End of period	$ 1,958,524,660	$ 1,882,990,588		

Change in Net Fiduciary Position

PRELIMINARY - December 31, 2022 – June 30, 2023



Components may not sum exactly due to rounding.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C3

Topic: **2023 Mid-Year Budget Review**

Discussion: Attached is a review of the 2023 Operating Expense Budget detailing expenses for the first six months of the calendar year.

Expense items with variances to the prorated budget by more than 5% and $10,000 as of June 30, 2023 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, 2023. The ratio is 99.13% Regular Plan to .87% Supplemental Plan.

BUDGET REVIEW
2023 MID -YEAR REVIEW

	Description	2023 6 months Actual	2023 6 months Budget	2022 6 months Actual	Budget vs Actual Variance $ Over/(Under)	Budget vs Actual Variance % Over/(Under)
1	Legal fees, no insurance reimb for any category	147,449	90,000	259,412	57,449	63.8%
2	Legislative consultants	94,478	79,500	63,000	14,978	18.8%
3	Independent audit	66,150	57,500	-	8,650	15.0%
4	Elections	11,862	7,625	7,938	4,237	55.6%
5	Pension administration software & WMS	149,156	146,000	122,705	3,156	2.2%
6	Printing	3,580	2,175	2,207	1,405	64.6%
7	Repairs and maintenance	47,999	47,291	35,682	708	1.5%
8	Records storage	1,428	1,089	759	339	31.1%
9	Depreciation exp - IT hardware	7,343	7,343	7,343	-	0.0%
10	Public Relations Expense	-	-	17,499	-	0.0%
11	Business continuity	6,850	7,000	8,804	(150)	-2.1%
12	Staff meetings	-	250	-	(250)	-100.0%
13	Subscriptions	513	1,253	487	(740)	-59.1%
14	Memberships and dues	9,100	10,100	8,555	(1,000)	-9.9%
15	Communications (phone/internet)	9,217	10,590	9,537	(1,373)	-13.0%
16	Board meetings	826	2,210	1,524	(1,384)	-62.6%
17	Accounting services	29,500	30,975	29,500	(1,475)	-4.8%
18	Leased equipment	10,968	12,500	10,908	(1,532)	-12.3%
19	Employee service recognition	849	2,500	-	(1,651)	-66.0%
20	Member educational programs	-	1,675	250	(1,675)	-100.0%
21	Office supplies	11,503	14,238	11,415	(2,735)	-19.2%
22	Postage	11,172	14,873	10,824	(3,701)	-24.9%
23	Travel - staff	17,250	22,350	4,487	(5,100)	-22.8%
24	Conference registration/materials - board	50	6,000	75	(5,950)	-99.2%
25	Miscellaneous expense	4	6,000	21	(5,996)	-99.9%
26	Disability medical evaluations	500	8,125	-	(7,625)	-93.8%
27	IT software/hardware	3,744	12,500	9,667	(8,756)	-70.0%
28	Bank Fees	3,538	12,500	11,671	(8,962)	-71.7%
29	Travel - board	2,033	11,000	848	(8,967)	-81.5%
30	Building expenses, incl depreciation	332,479	342,978	317,718	(10,499)	-3.1%
31	Conference/training registration/materials - staff	5,081	16,600	1,617	(11,519)	-69.4%
32	Employment expenses	1,584	23,175	9,740	(21,591)	-93.2%
33	Information technology projects	66,589	95,000	31,597	(28,411)	-29.9%
34	Network security monitoring	56,842	90,000	6,171	(33,158)	-36.8%
35	Miscellaneous professional services	5,639	42,050	12,215	(36,411)	-86.6%
36	Actuarial services	42,250	79,750	49,192	(37,500)	-47.0%
37	Salaries and benefits	1,808,288	1,854,746	1,700,970	(46,458)	-2.5%
38	IT subscriptions/services/licenses	60,235	119,930	95,909	(59,695)	-49.8%
39	Liability insurance	308,777	444,266	365,664	(135,489)	-30.5%
	Gross Total	3,334,826	3,733,657	3,225,911	(398,831)	**-10.7%**
	Less: Allocation to Supplemental Plan Budget*	29,099	31,773	26,225	(2,674)	-8.4%
	Total Regular Plan Budget	**$ 3,305,727**	**$ 3,701,884**	**$ 3,199,686**	**$ (396,157)**	**-10.7%**

**Split to Supplemental is based on unitization*

1	Custodian fees	109,004	117,500	110,340	(8,496)	-7.2%
2	Investment due diligence	20,605	30,693	19,885	(10,088)	-32.9%
3	Investment consultant and reporting	202,500	227,500	171,042	(25,000)	-11.0%
4	Investment portfolio operating expenses	266,892	322,250	485,883	(55,358)	-17.2%
5	Fund management fees (direct only)	2,601,620	3,023,075	2,836,084	(421,455)	-13.9%
	Total Investment Expenses	**3,200,621**	**3,721,018**	**3,623,234**	**(520,397)**	**-14.0%**

BUDGET
2023 MID-YEAR REVIEW

Budget Changes (>5% and $10K)

	Description	2023 6 months Actual	2023 6 months Budget	Budget vs Actual Variance $ Over/(Under)	Budget vs Actual Variance % Over/(Under)	Explanation
	INCREASES:					
1	Legal fees, no insurance reimb for any category	147,449	90,000	57,449	63.8%	Variance primarily due to the timing on insurance reimbursement.
2	Legislative consultants	94,478	79,500	14,978	18.8%	The Legislature was in session during the first half of the year resulting in higher fees per the contract.
	REDUCTIONS:					
3	Liability insurance	308,777	444,266	(135,489)	-30.5%	Budget included expected expenses for additional layers of fiduciary insurance that was not renewed earlier this year.
4	IT subscriptions/services/licenses	60,235	119,930	(59,695)	-49.8%	The variance relates to the timing of some expenses, as well as actual expenses being less than budgeted.
5	Actuarial services	42,250	79,750	(37,500)	-47.0%	Variance was due in part to the timing and quantity of specialized services required.
6	Miscellaneous professional services	5,639	42,050	(36,411)	-86.6%	The budgeted project for communication services has been deferred to a future period
7	Network security monitoring	56,842	90,000	(33,158)	-36.8%	Actual expenses for network monitoring have been less than expected.
8	Information technology projects	66,589	95,000	(28,411)	-29.9%	Most planned IT projects are underway and we expect higher expenses in the second half of the year.
9	Employment expenses	1,584	23,175	(21,591)	-93.2%	Variance is primarily related to the timing of the actual expenses.
10	Conference/training registration/materials - staff	5,081	16,600	(11,519)	-69.4%	Conference and training expenses are expected to increase in the second half of the year.

INVESTMENT EXPENSES

	Description	2023 6 months Actual	2023 6 months Budget	Budget vs Actual Variance $ Over/(Under)	Budget vs Actual Variance % Over/(Under)	Explanation
1	Fund management fees (direct only)	2,601,620	3,023,075	(421,455)	-13.9%	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	266,892	322,250	(55,358)	-17.2%	Some budgeted expenses for valuation and other investment contracting matters may not be incurred.
3	Investment consultant and reporting	202,500	227,500	(25,000)	-11.0%	Budgeted expenses for possible private markets services not yet incurred.
4	Investment due diligence	20,605	30,693	(10,088)	-32.9%	Budgeted expenses for staff investment due diligence travel have not yet been incurred.

DISCUSSION SHEET

ITEM #C4

Topic: **Financial Audit Status**

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

Regular Board Meeting – Thursday, August 10, 2023

DISCUSSION SHEET

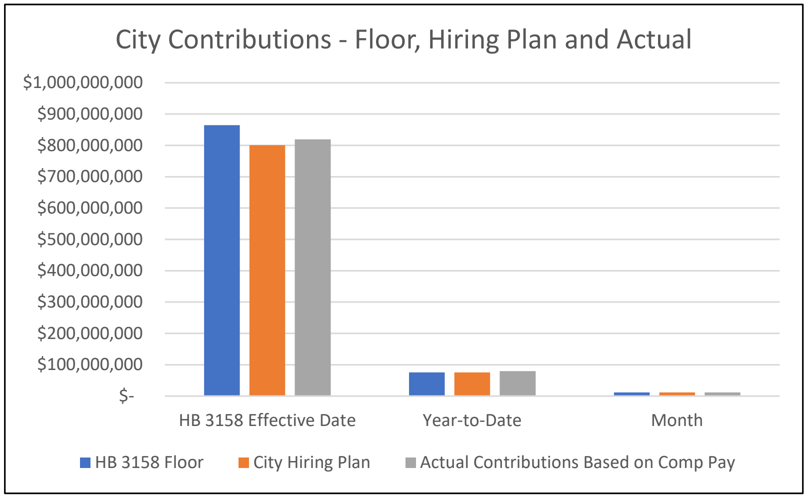
ITEM #C5

Topic: **Monthly Contribution Report**

Discussion: Staff will review the Monthly Contribution Report.

Regular Board Meeting – Thursday, August 10, 2023

Contribution Tracking Summary - August 2023 (June 2023 Data)

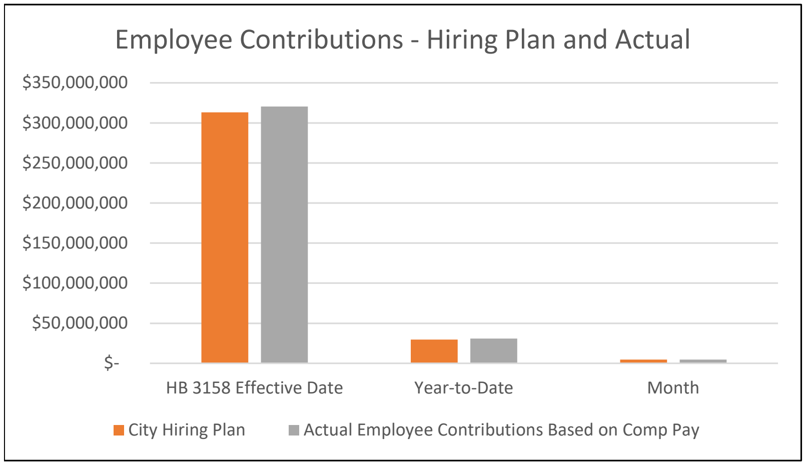


Actual Comp Pay was 102% of the Hiring Plan estimate since the effective date of HB 3158.

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

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

With the new year the City's Hiring Plan added 50 Police Officers to the estimates which now increases the shortfall of employees. The combined actual employees was 119 less than the Hiring Plan for the pay period ending July 4, 2023. Fire was over the estimate by 106 Fire Fighters and Police under by 225 Police Officers.



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

There is no Floor on employee contributions.

Contribution Summary Data

City Contributions

Jun-23	Number of Pay Periods Beginning in the Month	HB 3158 Floor	City Hiring Plan	Actual Contributions Based on Comp Pay	Additional Contributions to Meet Floor Minimum	Comp Pay Contributions as a % of Floor Contributions	Comp Pay Contributions as a % of Hiring Plan Contributions
Month	2	$ 11,624,000	$ 11,623,846	$ 12,153,184	$ -	105%	105%
Year-to-Date		$ 75,556,000	$ 75,555,000	$ 79,292,017	$ -	105%	105%
HB 3158 Effective Date		$ 864,777,000	$ 800,665,385	$ 819,595,907	$ 48,990,866	95%	102%

Due to the Floor through 2024, there is no cumulative shortfall in City Contributions
Does not include the flat $13 million annual City Contribution payable through 2024.
Does not include Supplemental Plan Contributions.

Employee Contributions

Jun-23	Number of Pay Periods Beginning in the Month	City Hiring Plan	Actual Employee Contributions Based on Comp Pay	Actual Contribution Excess Compared to Hiring Plan	Actuarial Valuation Contribution Assumption	Actual Contributions as a % of Hiring Plan Contributions	Actual Contributions as a % of Actuarial Val Assumption
Month	2	$ 4,548,462	$ 4,759,694	$ 211,233	$ 4,236,924	105%	112%
Year-to-Date		$ 29,565,000	$ 31,038,346	$ 1,473,346	$ 27,540,006	105%	113%
HB 3158 Effective Date		$ 313,303,846	$ 320,528,558	$ 7,224,712	$ 304,279,672	102%	105%
Potential Earnings Loss from the Shortfall based on Assumed Rate of Return				$ 95,822			

Does not include Supplemental Plan Contributions.

Reference Information

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

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

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

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

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

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

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

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

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

**90% of Hiring Plan was used for the Cash Flow Projection for future years in the 12/31/2017 GASB 67/68 calculation. At 12-31-17, 12-31-18 and 12-31-2019 this did not impact the pension liability or the funded percentage.*

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

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

Comp Pay by Month - 2023	Annual Divided by 26 Pay Periods	Actual	Difference	2022 Cumulative Difference	Number of Employees - EOM	Difference
January	$ 33,692,308	$ 35,387,168	$ 1,694,860	$ 1,694,860	4922	(241)
February	$ 33,692,308	$ 35,344,223	$ 1,651,915	$ 3,346,776	5045	(118)
March	$ 50,538,462	$ 53,203,452	$ 2,664,991	$ 6,011,766	5080	(83)
April	$ 33,692,308	$ 35,355,815	$ 1,663,507	$ 7,675,273	5060	(103)
May	$ 33,692,308	$ 35,314,654	$ 1,622,347	$ 9,297,620	5046	(117)
June	$ 33,692,308	$ 35,226,620	$ 1,534,312	$ 10,831,932	5044	(119)
July	$ 33,692,308					
August	$ 50,538,462					
September	$ 33,692,308					
October	$ 33,692,308					
November	$ 33,692,308					
December	$ 33,692,308					

DISCUSSION SHEET

ITEM #C6

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

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

Discussion:

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

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

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

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

Future Education and Business Related Travel & Webinars
Regular Board Meeting – August 10, 2023

ATTENDING APPROVED

1. **Conference:** **NCPERS Legislative Conference**
   Dates: January 22-24, 2024
   Location: Washington, DC
   Est Cost: TBD

2. **Conference:** **NCPERS Trustee Educational Seminar (TED)**
   Dates: May 18-19, 2024
   Location: Seattle, WA
   Est Cost: TBD

3. **Conference:** **NCPERS Annual Conference**
   Dates: May 19-22, 2024
   Location: Seattle, WA
   Est Cost: TBD

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 10, 2023

DALLAS POLICE & FIRE PENSION SYSTEM

Portfolio Update

August 10, 2023

Board Meeting

Executive Summary

- Liquidation of private market assets remains the top focus.
  - $52M in distributions received YTD, with vast majority coming from AEW Camel Square and JPM Maritime fund.
- At the March 2022 Board meeting, staff notified the Board that the Safety Reserve would be drawn down to fund net benefit outflows. Staff and Meketa plan to discuss the Safety Reserve, and how operationally to exit the draw down mode at the September IAC meeting.
- **Rebalancing actions:**
  - Since the Safety Reserve was put into drawdown in March 2022, **~$84M of proceeds have been reinvested into Global Equity,** while **~$105M of proceeds have been held within the Safety Reserve,** which has extended coverage period from September 2023 to July 2024.
  - Planned rebalancing in August of **~$100M from Active Global Managers** into **Northern Trust ACWI IMI index fund,** based on the updated Public Equity Structure Review approved by the Board last month.
- **Estimated Year-to-Date Return (as of 7/31/23):** 8.8% for DPFP portfolio; 13.3% for the Public Portfolio which make up 70% of the assets.

Investment Initiatives – 2023/24 Plan

Q3 2023

- ~~Finalize Consultant decision~~
- ~~Approve updated Public Equity Structure~~
- Global Growth Search & RFP
- Safety Reserve Review

Q4 2023 & Beyond

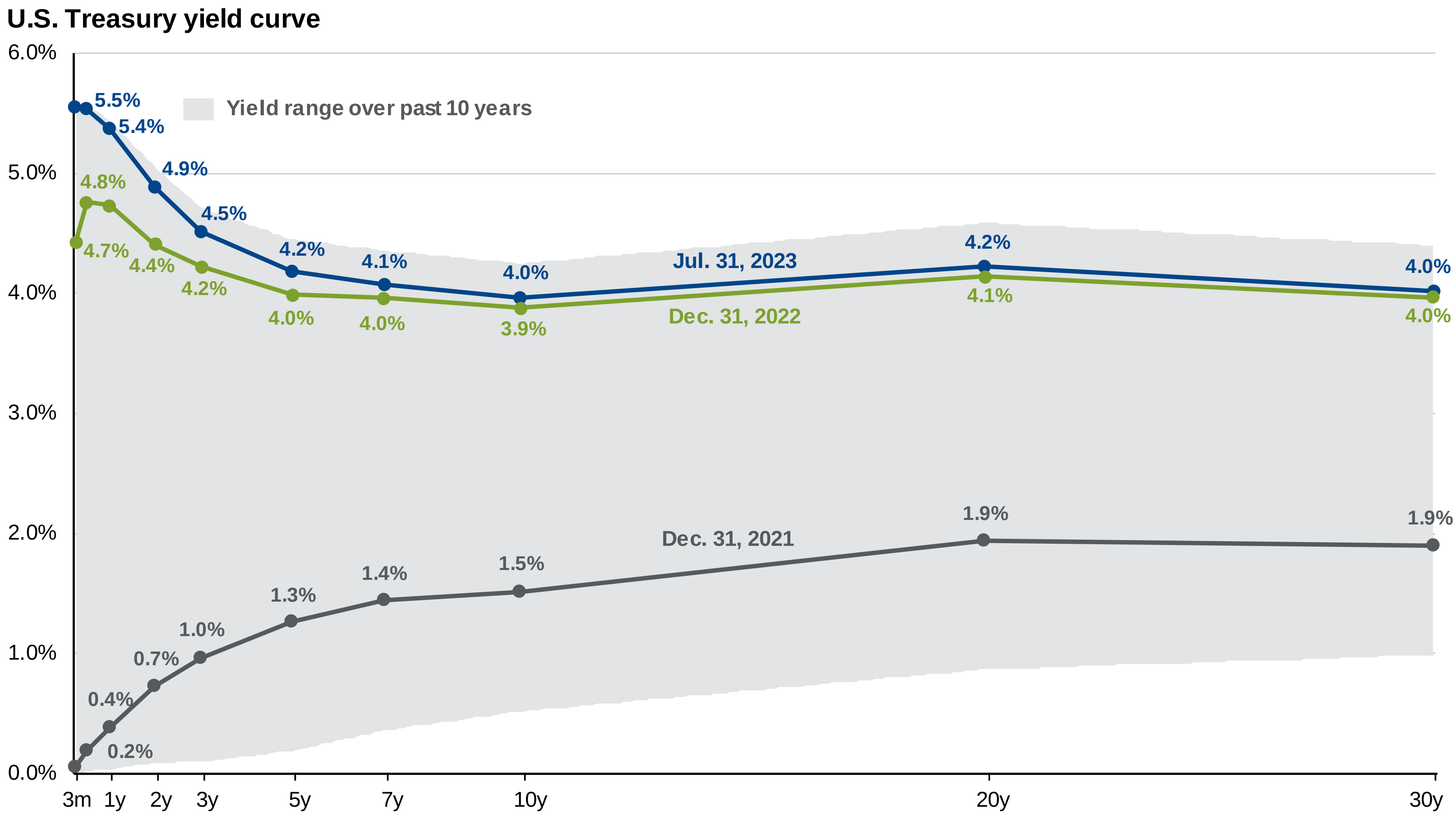
- Global Growth Selection & Funding
- Private Market Planning – Update IPS provision, pacing studies, etc.

2024

- Custodian Search
- Asset Allocation Study
- Initial Private Markets investments

Equity Market Drawdown (1/1/22 to 8/3/23)

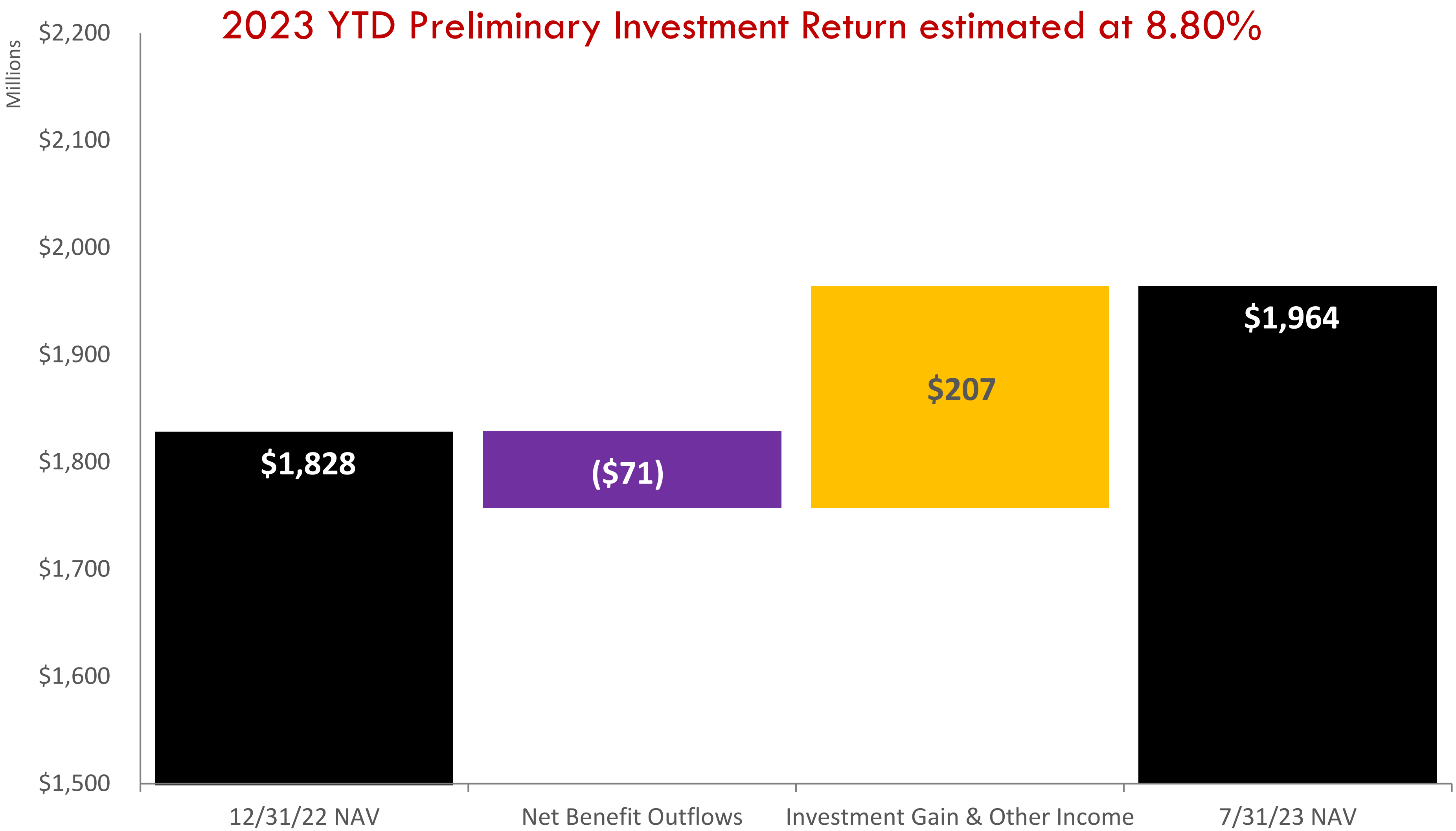
The Yield Curve



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
Guide to the Markets – U.S. Data are as of July 31, 2023.

2023 - Change in Market Value Bridge Chart

In Millions



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

Public Markets Performance Snapshot

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

Performance Summary						
	Ending July 31, 2023					
	Market Value ($)	% of Portfolio	1 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)
Total Public Portfolio (ex-Cash)	**1,375,316,633**	**100.0**	**2.7**	**13.3**	**10.8**	**6.0**
60% MSCI ACWI IMI Net/40% Bloomberg Global Aggregate Index			*2.6*	*11.2*	*6.4*	*3.9*
Public Equity	**1,025,618,262**	**74.6**	**3.2**	**16.2**	**12.9**	**10.3**
MSCI ACWI IMI Net USD			*3.8*	*17.6*	*12.5*	*10.5*
Global Equity	**930,453,155**	**67.7**	**3.1**	**16.4**	**12.5**	**10.9**
MSCI ACWI IMI Net USD			*3.8*	*17.6*	*12.5*	*10.5*
Boston Partners Global Equity Fund	138,468,583	10.1	3.7	9.9	15.4	17.4
MSCI World Net			*3.4*	*19.0*	*13.5*	*11.7*
Manulife Global Equity Strategy	141,128,193	10.3	2.7	15.2	13.2	11.2
MSCI ACWI Net			*3.7*	*18.1*	*12.9*	*10.4*
Russell Investments ACWI Growth	147,284,329	10.7	3.0	--	--	--
MSCI ACWI Growth NR USD			*3.2*	*28.3*	*15.3*	*8.1*
Walter Scott Global Equity Fund	147,730,084	10.7	0.7	17.7	13.5	9.4
MSCI ACWI Net			*3.7*	*18.1*	*12.9*	*10.4*
NT ACWI Index IMI	239,333,193	17.4	3.8	17.9	12.9	--
MSCI ACWI IMI Net USD			*3.8*	*17.6*	*12.5*	*10.5*
Eastern Shore US Small Cap	59,216,993	4.3	4.0	11.4	1.8	--
Russell 2000			*6.1*	*14.7*	*7.9*	*12.0*
Global Alpha International Small Cap	57,291,780	4.2	4.6	10.4	5.8	--
MSCI EAFE Small Cap			*4.4*	*10.2*	*7.9*	*6.1*

DALLAS POLICE & FIRE PENSION SYSTEM

Public Markets Performance Snapshot

	Ending July 31, 2023					
	Market Value ($)	% of Portfolio	1 Mo (%)	YTD (%)	1 Yr (%)	3 Yrs (%)
Emerging Markets Equity	**95,165,107**	**6.9**	**4.8**	**14.1**	**15.9**	**4.0**
MSCI Emerging Markets IMI Net			*6.3*	*12.2*	*9.5*	*2.7*
RBC Emerging Markets Equity	95,165,107	6.9	4.8	14.1	15.9	4.0
MSCI Emerging Markets IMI Net			*6.3*	*12.2*	*9.5*	*2.7*
Public Fixed Income	**349,698,371**	**25.4**	**1.2**	**5.6**	**4.3**	**-0.7**
Bloomberg Multiverse TR			*0.8*	*2.4*	*-2.2*	*-5.4*
IR&M 1-3 Year Strategy	65,330,053	4.8	0.5	2.1	1.1	-0.4
Bloomberg US Aggregate 1-3 Yr TR			*0.4*	*1.6*	*0.4*	*-0.8*
Longfellow Core Fixed Income	67,777,348	4.9	0.0	2.4	-2.6	-3.9
Bloomberg US Aggregate TR			*-0.1*	*2.0*	*-3.4*	*-4.5*
Aristotle Pacific Capital Bank Loan	77,564,986	5.6	1.3	8.5	10.4	5.8
Credit Suisse Leveraged Loan			*1.3*	*7.7*	*9.5*	*6.0*
Loomis US High Yield Fund	72,112,606	5.2	1.8	5.7	3.1	--
Bloomberg US High Yield 2% Issuer Cap TR			*1.4*	*6.8*	*4.4*	*2.0*
Metlife Emerging Markets Debt Blend	66,913,376	4.9	2.4	9.1	--	--
35% JPMEMBI Global Index/35% JPM CEMBI Broad Diversified Index/ 30% JPMGBI-EM Diversified Global Index			*1.8*	*6.8*	*--*	*--*

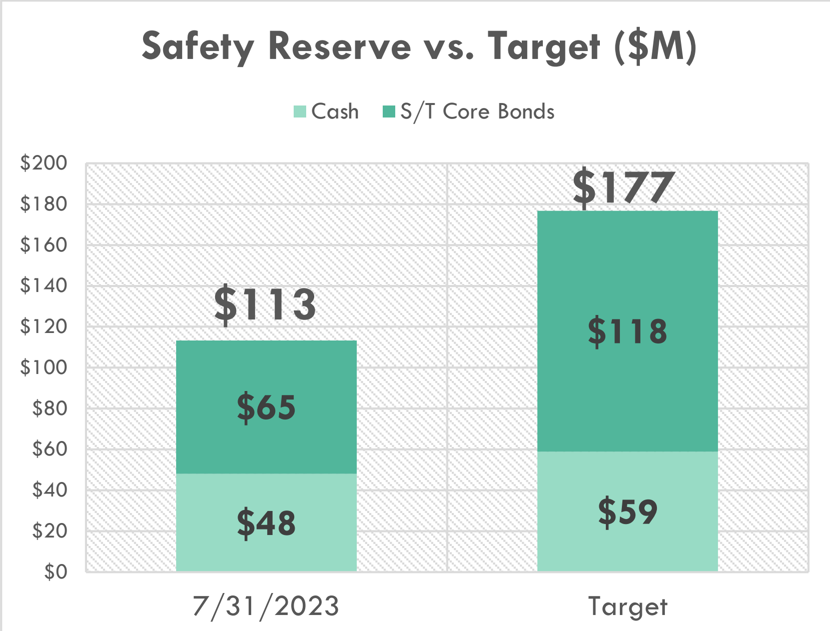
Asset Allocation Detail

DPFP Asset Allocation	7/31/2023 NAV	%	Targets $ mil.	%	% of Target	Variance $ mil.	%
Equity	**1,262**	**64.2%**	**1,277**	**65%**	**99%**	**-15**	**-0.8%**
Global Equity	931	47.4%	1,080	55%	86%	-150	-7.6%
Boston Partners	*138*	*7.0%*	*118*	*6%*	*117%*	*21*	*1.0%*
Manulife	*141*	*7.2%*	*118*	*6%*	*120%*	*23*	*1.2%*
Russell Transition - ACWI Growth	*147*	*7.5%*	*118*	*6%*	*125%*	*29*	*1.5%*
Walter Scott	*148*	*7.5%*	*118*	*6%*	*125%*	*30*	*1.5%*
Northern Trust ACWI IMI Index	*239*	*12.2%*	*491*	*25%*	*49%*	*-252*	*-12.8%*
Eastern Shore US Small Cap	*59*	*3.0%*	*59*	*3%*	*101%*	*0*	*0.0%*
Global Alpha Intl Small Cap	*57*	*2.9%*	*59*	*3%*	*97%*	*-2*	*-0.1%*
Emerging Markets Equity - RBC	95	4.8%	98	5%	97%	-3	-0.2%
Private Equity*	236	12.0%	98	5%	241%	138	7.0%
Fixed Income	**402**	**20.4%**	**491**	**25%**	**82%**	**-90**	**-4.6%**
Cash	48	2.4%	59	3%	81%	-11	-0.6%
S/T Investment Grade Bonds - IR+M	65	3.3%	118	6%	55%	-53	-2.7%
Investment Grade Bonds - Longfellow	68	3.5%	79	4%	86%	-11	-0.5%
Bank Loans - Pacific Asset Management	78	3.9%	79	4%	99%	-1	-0.1%
High Yield Bonds - Loomis Sayles	72	3.7%	79	4%	92%	-6	-0.3%
Emerging Markets Debt - MetLife	67	3.4%	79	4%	85%	-12	-0.6%
Private Debt*	4	0.2%	0	0%		4	0.2%
Real Assets*	**301**	**15.3%**	**196**	**10%**	**153%**	**104**	**5.3%**
Real Estate*	158	8.0%	98	5%	161%	60	3.0%
Natural Resources*	104	5.3%	98	5%	106%	6	0.3%
Infrastructure*	39	2.0%	0	0%		39	2.0%
Total	**1,964**	**100.0%**	**1,964**	**100%**		**0**	**0.0%**
Safety Reserve ~$162M=18 mo net CF	113	5.8%	177	9%	64%	-63	-3.2%
*Private Market Assets	541	27.5%	295	15%		246	12.5%

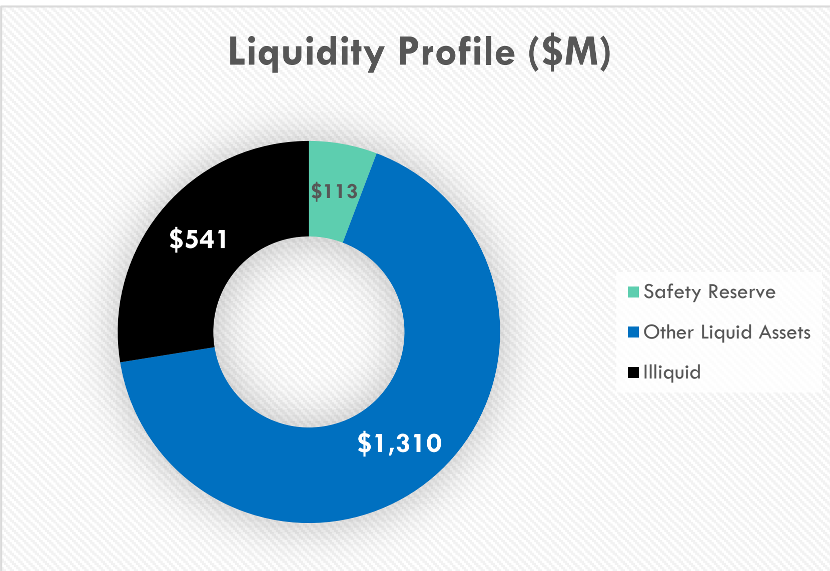
Source: Preliminary JP Morgan Custodial Data, Staff Estimates and Calculations.
Numbers may not foot due to rounding

DALLAS POLICE & FIRE PENSION SYSTEM

Safety Reserve Dashboard



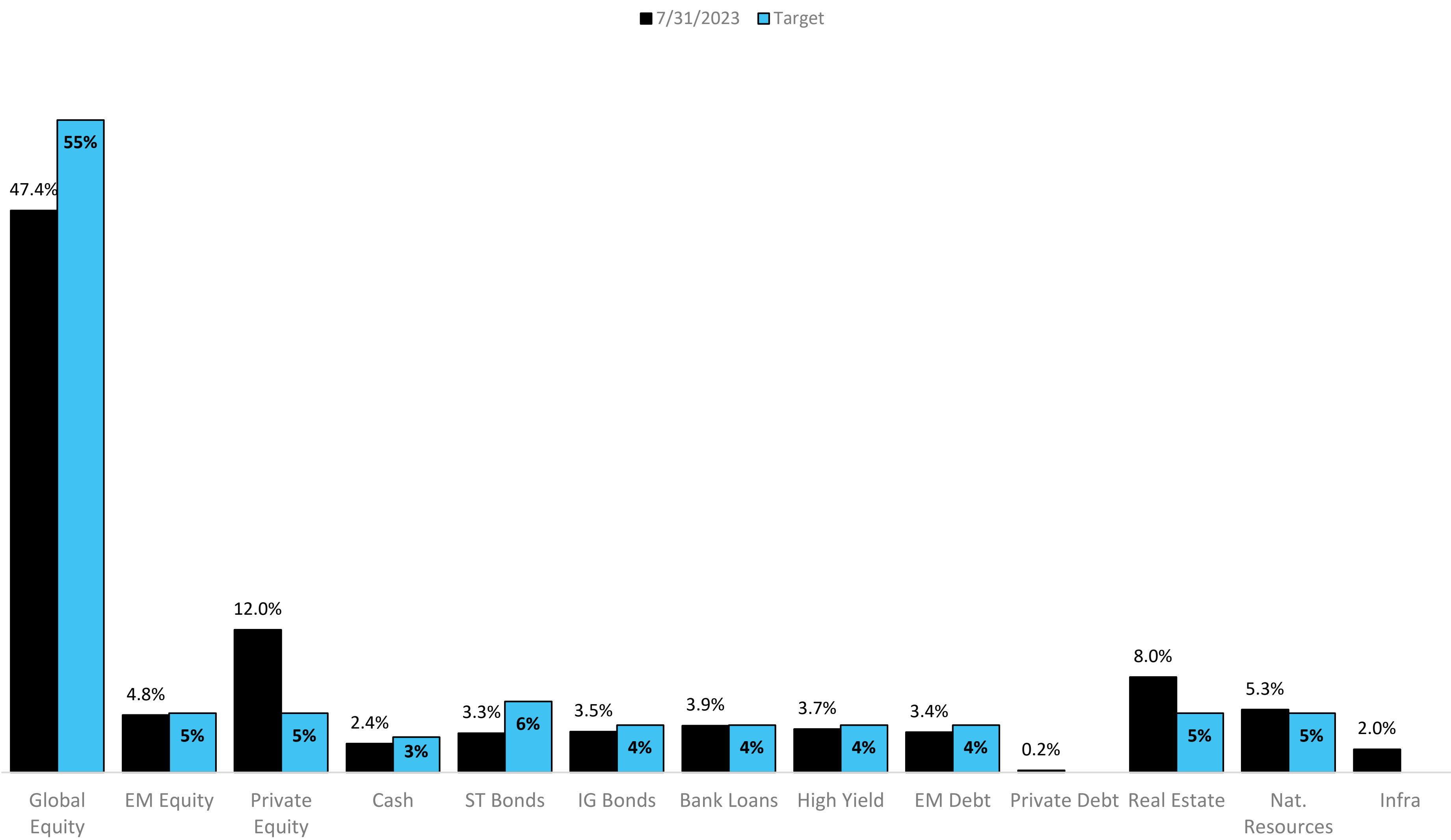
Projected Net Monthly outflows of **$9.6M** per month. Safety Reserve of **$113M** would cover net monthly outflows for next **11 months** or through **June 2024.**



Expected Cash Activity	Date	Amount ($M)	Projected Cash Balance ($M)	Projected Cash (%)
	7/31/23		$48.0	2.4%
City Contribution	8/11/23	$8.9	$56.9	2.9%
City Contribution	8/25/23	$8.9	$65.8	3.4%
Pension Payroll	8/25/23	($28.2)	$37.6	1.9%
City Contribution	9/8/23	$8.9	$46.6	2.4%
City Contribution	9/22/23	$8.9	$55.5	2.8%
Pension Payroll	9/29/23	($28.2)	$27.3	1.4%
City Contribution	10/6/23	$8.9	$36.2	1.8%
City Contribution	10/20/23	$8.9	$45.2	2.3%
Pension Payroll	10/27/23	($28.2)	$17.0	0.9%

Numbers may not foot due to rounding

Asset Allocation – Actual vs Target



2023 Board Investment Review Plan*

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

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

*Presentation schedule is subject to change.

DISCUSSION SHEET

ITEM #C8

Topic: **Infrastructure Portfolio Review**

Discussion: Staff will provide 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.

DALLAS POLICE & FIRE PENSION SYSTEM

Infrastructure Portfolio Review

August 10, 2023

Infrastructure Portfolio Overview

- The infrastructure portfolio is being liquidated. The portfolio currently represents 2.0% of plan assets with a target allocation of 0%.
- The remaining portfolio is comprised of investments in funds that have assets in global shipping and various projects in India, including wind power, thermal power and toll roads.
- Staff estimates The JPM Global Maritime Investment fund to be fully liquidated by end of 2023. For AIRRO and AIRRO II, the expectation is each will be fully liquidated by sometime in 2025.

as of 7/31/2023	$M	Weight
Infrastructure	**$38.6**	**2.0%**
JPM Global Maritime Investment Fund	$16.6	0.9%
TRG Asian Infrastructure (AIRRO)	$17.3	0.9%
TRG Asian Infrastructure II (AIRRO II)	$4.7	0.2%

JPMorgan Global Maritime Investment Fund

J.P.Morgan Asset Management

Asset Class:	Infrastructure	Vintage Year:	2009
Investment Period / Fund Term End Dates:	Fund term ended December 2022 (In Liquidation)	Total Fund Size:	$780M
Management Fee:	0.75% on capital called for investments and fund expenses, reduced by 50% from original rate in 2022	DPFP Commitment:	$50M
Performance Fee/Carry:	80/20 split with 12% pref	DPFP % of Fund:	6.4%

Investment Performance (In Millions)

* - As of 12/31/2022

Paid In Capital	Unfunded Commitment	DPFP Distributions	NAV	Since Inception IRR*	TVPI	DPI
$48.6	$1.4	$38.8	**$16.6**	2.25%	1.48	.80

Fund Strategy / Portfolio

- The fund is a closed-end, opportunistic strategy primarily focused on capital appreciation through investments in a portfolio of maritime assets.
- In 2022, container shipping markets cooled after a record 2021, with high rates in the first half but a downturn in the second half due to falling volumes and port congestion unwinding.
- In Q1 2023, China's re-opening drove normalization in dry-bulk markets, easing congestion and demand headwinds. Supply-demand fundamentals for 2023 appear balanced.

Strategic Plan / Timeline

- Fleet totaled 24 vessels at the end of Q1 2023.
- YTD cash distribution of ~$16.1M to DPFP from sale of12 Sub-Panamax and Panamax Containership vessels, 3 Pure Car & Truck Carrier and 1 Capesize Bulker.
- Estimating remaining amount will be distributed by end of 2023.

TRG Asian Infrastructure (AIRRO)

THE ROHATYN GROUP

Asset Class:	Infrastructure	Vintage Year:	2008
Investment Period / Fund Term End Dates:	Jan 2014 / Jan 2024 (extended 4yrs)	Total Fund Size:	$858M
Management Fee:	2023 – 1.43% on invested capital	DPFP Commitment:	$37M
Performance Fee/Carry:	80/20 split with 12% pref	DPFP % of Fund:	4.3%

Investment Performance (In Millions)

* - As of 12/31/2022

Paid In Capital	Unfunded Commitment	DPFP Distributions	NAV	Since Inception IRR*	TVPI	DPI
$38.5	$2.1	$17.9	**$17.3**	-1.43%	0.89	0.46

Fund Strategy / Portfolio

- The Fund invested in both operating and development infrastructure projects and related investments across Asia.
- Leap Green Energy – Established to aggregate a portfolio of Wind Energy Generations.
- Soma Tollways – Infrastructure holding company with ownership in a portfolio of road projects.
- Nandi Economic Corridor – Developing Phase I of the Bangalore Mysore Infrastructure Corridor.
- Diligent Power – Power generation company operating a coal and thermal power plant.
- JPMorgan was the original fund sponsor but facilitated a GP transfer to The Rohatyn Group (TRG) in May 2018.

Strategic Plan / Timeline

- TRG successfully secured critical refinancing on several projects during 2019. However, most of the assets still face regulatory or financial hurdles to monetization.
- TRG continues to execute strategic initiatives at the portfolio companies in order to improve their positioning as attractive candidates for third-party purchasers.
- The fund was extended for an additional 2 years to January 2024 with some fee concessions. TRG is considering creative solutions for portfolio assets which are not able to exit by 2024.

TRG Asian Infrastructure II (AIRRO II)

THE ROHATYN GROUP

Asset Class:	Infrastructure	Vintage Year:	2013
Investment Period / Fund Term End Dates:	May 2017 / Jan 2025	Total Fund Size:	$117.2, reduced from original of $468.8M
Management Fee:	0% - waived for life of fund	DPFP Commitment:	$10M, reduced from original $40M
Performance Fee/Carry:	80/20 split with 8% pref	DPFP % of Fund:	8.52%

Investment Performance (In Millions)

* - As of 12/31/2022

Paid In Capital	Unfunded Commitment	DPFP Distributions	NAV	Since Inception IRR*	TVPI	DPI
$7.3	$2.3	$0.06	**$4.7**	-6.38%	0.56	0.01

Fund Strategy / Portfolio

- Originally formed as follow-on to AIRRO I, the Fund investment period was terminated early in May 2017 due to a determination that there was a lack of acceptable investment opportunities. The Fund reduced investors' commitments by 75% upon termination of the investment period in mid-2017.
- AIRRO II holds only one company, Diligent Power, which is co-owned with the AIRRO fund.
- JPMorgan was the original fund sponsor but facilitated a GP transfer to The Rohatyn Group (TRG) in May 2018.

Strategic Plan / Timeline

- Prefer to wait for some time before reviving the exit process, citing the current business priorities of debt refinancing and bidding for new Power Purchase Agreements (PPAs) which bring greater certainty to the business.
- Seeks to push for revival of exit process towards end of the year after a round of debt restructuring that will improve Free Cash Flows.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C9

Topic: **Deferred Retirement Option Plan (DROP) Policy**

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.

a. DROP Policy Revisions
b. Approval of a De Minimis Payment
c. Hardship Request

Discussion:

a. The DROP Policy needs to be amended for the legislative change in 2021, allowing hardship distributions to any holder of a DROP annuity rather than just retirees. Staff will review this and other technical changes to the policy.

b. A surviving spouse with a DROP annuity passed away and left a monthly DROP annuity payment of 25 cents to the beneficiary. The DROP annuity term ends in 2028. Staff believes it is more cost-effective to pay the annuity in full in a lump sum now rather than on a monthly basis over the next five years and is seeking Board approval to pay the de minimums payment as a lump sum.

c. Staff will review a hardship request with the Board.

DISCUSSION SHEET

ITEM #C9
(continued)

Staff Recommendation:

a. **Amend** the DROP Policy as presented.

b. **Approve** the de minimis DROP payment.

c. Recommendation will be **available** at the meeting.

DALLAS POLICE & FIRE PENSION SYSTEM

DEFERRED RETIREMENT OPTION PLAN POLICY (DROP)

As Amended Through August 10~~June 11~~, 2023~~0~~

DEFERRED RETIREMENT OPTION PLAN POLICY

Table of Contents

DEFERRED RETIREMENT OPTION PLAN POLICY

Adopted December 10, 1992
Amended through ~~June 11, 2020~~August 10, 2023

A. PURPOSE

1. This policy provides rules governing the Deferred Retirement Option Plan of the Dallas Police and Fire Pension System ("DPFP"), as contemplated by Section 6.14 of Article 6243a-1 of Revised Statutes (the "Plan") and the Supplemental Pension Plan for the Police and Fire Departments of the City of Dallas, Texas (the "Supplemental Plan") where applicable. It is intended that DROP and the terms of this policy allow for the continued qualification of the Plan under Section 401 of the Internal Revenue Code ("Code").

2. Any reference in this policy to a provision of the Plan shall also be considered a reference to the comparable provision of the Supplemental Plan if the applicant is a member of the Supplemental Plan.

3. The Executive Director may, if necessary, develop written procedures to implement this policy.

4. This policy may be amended at any time by the Board of Trustees ("Board"), consistent with the terms of the Plan.

5. Any capitalized terms not defined in this policy shall have the meaning ascribed to them in the Plan.

B. DEFINITIONS

1. **DROP -** The program whereby a Member while still in Active Service may elect to have an amount equal to the pension benefit that the Member would otherwise be eligible to receive be credited to a notional account on the Member's behalf. A Member, as of his or her intended date of participation in DROP, must be eligible to retire and receive an immediate pension benefit. An election to enter DROP is irrevocable except for the one-time revocation window for certain Members that is described in Section D.

2. **DROP Account -** The notional account of a Member, retiree, beneficiary or Alternate Payee created pursuant to Section 6.14 of the Plan which existed or exists prior to any annuitization required under the Plan and in conformity with this policy.

B. DEFINITIONS (continued)

3. **DROP Annuitant** – The holder of a DROP Annuity.

4. **DROP Annuity** – The series of equal payments created when a DROP Account is annuitized as required under the Plan and in conformity with this policy.

C. ENTRY INTO DROP

1. The application of any Member applying for DROP participation will be placed on the agenda for a Board meeting as soon as administratively practicable following the date the application is received for consideration and approval.

2. If the Board approves a DROP application, the application will become effective as of~~on~~ the first day of the month in which the Board approves the application.

3. At the time of entry into DROP, the Member ~~must~~ irrevocably ~~select the Plan~~sets the benefit he or she will receive at the time of his or her ~~pension benefit will commence upon~~ retirement with the Member's pension benefit calculated as of the effective date of entering DROP. While on Active Service, these benefit amounts that the Member would have otherwise received if he or she would have retired on his or her effective date of DROP participation will be credited to the DROP Account.

4. Once a Member has elected to participate in DROP, that election is irrevocable ~~except as further described in Section D~~.

5. A Group B Member who obtains a rank that is higher than the highest Civil Service Rank for the City of Dallas after the effective date of his or her participation in DROP will not participate in the Supplemental Plan.

6. As of the effective date of his or her participation in DROP, the Member will no longer be entitled to obtain additional Pension Service by repaying previously withdrawn contributions or paying for any Pension Service that could have been purchased under the Plan prior to DROP entry. However, a Member who is entitled, under Section 5.08 of the Plan, to purchase credit for Pension Service for any period he or she was on a military leave of absence may still purchase that Pension Service after entering DROP so long as the required contributions are made no later than the time provided by the Uniformed Services Employment and Reemployment Rights Act ("USERRA") but no adjustment to the Members DROP account will occur as a result of any service purchase subsequent to the Member's entry into DROP.

7. The Board shall interpret the Plan and this policy to ensure that Members' rights are fully protected as required by USERRA.

D. DROP REVOCATION

1. A Member who was a DROP participant on or before June 1, 2017, has a one-time opportunity to revoke his or her DROP election. The revocation must be made before the earlier of February 28, 2018, or the date that the Member terminates Active Service. The revocation must be made by filing with the Executive Director a completed DROP revocation election form that has been approved by the Executive Director.

2. A DROP revocation eliminates the balance in a Member's DROP Account. The Member's benefit will then be established at the earlier of when the Member either (a) reenters DROP or (b) retires with DPFP, and will be calculated at that time under the Plan based upon the Member's total Pension Service and historic Computation Pay (highest 36 consecutive months for Pension Service prior to September 1, 2017 and highest 60 consecutive months for Pension Service on or after September 1, 2017.)

3. Any revocation of DROP participation described in this Section shall be for the entire period that the Member participated in DROP. No partial revocation of DROP participation shall be accepted.

4. No Member shall be entitled to revoke his or her DROP participation if any amount has been transferred out of such Member's DROP Account, except for any transfers related to corrections to DROP Accounts.

5. A Member will be credited with Pension Service for all or a portion (one-half) of the period relating to the revoked DROP participation if the Member who revoked the DROP participation purchases such Pension Service in an amount equal to the sum of: (a) the Member contributions that would have been made if the Member had not been a DROP participant during such period of DROP participation and (b) interest on such Member contributions, calculated on the contributions for the period from the dates the contributions would have been made if the Member had not been a DROP participant through the date of purchase. Interest will be calculated (a) through February 28, 2018 at the monthly rate of change of the U.S. City Average All Items Consumer Price Index (unadjusted) for All Urban Wage Earners and Clerical Workers for the applicable periods and (b) after February 28, 2018 at the interest rate used from time to time in DPFP's actuarial rate of return assumptions, compounded annually. Periods where the monthly rate of change was negative shall be computed as zero interest for such periods. DPFP staff shall be authorized to establish procedures for implementing the interest calculation required in this Section.

D. DROP REVOCATION (continued)

6. A Member may purchase Pension Service relating to the period of revoked DROP participation in increments of one-half of his or her total Pension Service during DROP participation. If a Member elects to purchase one-half of his or her total Pension Service available to be purchased following the DROP revocation, (a) a Member may not elect to purchase Pension Service relating to specific time periods during his or her DROP participation and (b) the amount of the Member contributions for purposes of such purchase will be one-half of the total amount required to be paid pursuant to Section D.5. above.

7. If a Member elects to purchase one-half of his or her Pension Service available to be purchased following the DROP revocation, the Member may subsequently purchase the remaining one-half of the Pension Service available, but must complete such purchase prior to any election to reenter DROP or terminating Active Service. The amount to be paid for the remaining Pension Service to be purchased will be calculated pursuant to subsections 4 and 5 above, with interest continuing to accrue on the portion that has not yet been paid at the rate used from time to time in DPFP's actuarial rate of return assumptions, compounded annually, calculated from the date of the original Pension Service purchase through the date of the purchase of the remaining Pension Service.

8. Only full payment will be accepted for the amount of any Pension Service elected to be purchased under this Section. No partial payment will be accepted. Direct rollovers from other tax-qualified plans or similar employer plans, including governmental Section 401(k) (including the City of Dallas 401(k) Retirement Savings Plan) and 457(b) deferred compensation plans and Section 403(b) annuity arrangements will be accepted for payment to the extent such plans permit such rollovers. Payment is not permitted from the Member's DROP account.

9. For the purposes of calculating a Member's pension benefit in the case where a Member purchases only one-half of the total Pension Service available for the period relating to a DROP revocation, the purchased Pension Service attributable to time prior to September 1, 2017 shall be equal to the product of: (a) the amount of Pension Service purchased, multiplied by (b) a fraction of which the numerator equals the Pension Service available for purchase representing periods prior to September 1, 2017, and the denominator equals the total Pension Service available for purchase in connection with the DROP revocation.

10. All DROP revocation election forms must be received by DPFP in proper order by February 28, 2018 and will be considered effective as of September 6, 2017 after approval by DPFP staff that the form is in proper order. Approval of the Board shall not be required for a DROP revocation to become effective.

E. ANNUITIZATION OF DROP ACCOUNTS

1. Methodology

DPFP staff, with the assistance of DPFP's Qualified Actuary, shall determine the annuitization of all DROP Accounts as required by the Plan and consistent with this policy.

2. Interest Rates

To reflect the accrual of interest over the annuitization period of a DROP Annuity as required under the Plan, the accrual of interest for all DROP Annuities shall be calculated utilizing an interest rate based on the published United States Department of Commerce Daily Treasury Yield Curve Rates ("Treasury Rates") for durations between 5 and 30 years, rounded to two decimal places. If an annuitization period for a DROP Annuity is between the years for which Treasury Rates are established, then a straight-line linear interpolation shall be used to determine the interest rate. The interest rates for purposes of this subsection E.2. will be set on the first business day of each quarter (January, April, July and October) and will based upon the average of the Treasury Rates as published on the 15th day of the three prior months, or the next business day after the 15th day of a month if the 15th day falls upon a day when rates are not published. Based upon advice from DPFP's Qualified Actuary upon implementation of this policy, interest rates to be used in calculating DROP Annuities with an annuitization period that exceeds thirty years will be the Treasury Rate published for the 30-year duration as Treasury Rates beyond thirty years do not exist. ~~The initial interest rates effective as of October 1, 2017, are attached to this policy as Exhibit 1.~~

3. Mortality Table

The Board shall, based upon the recommendation of DPFP's Qualified Actuary, adopt a mortality table to be utilized in determining life expectancy for purposes of calculating DROP Annuities. The mortality table shall be based on the healthy annuitant mortality tables used in the most current actuarial valuation and blended in a manner to approximate the male/female ratio of holders of DROP accounts and DROP annuities. The Board will review this table and male/female blended ratio upon the earlier of (i) the conclusion of any actuarial experience study performed by DPFP's Qualified Actuary or (ii) any change to mortality assumptions in DPFP's annual actuarial valuation. Actual ages used in calculating life expectancy will be rounded to two decimals. The life expectancy will be rounded to the nearest whole year. ~~Life expectancy in whole years based on an annuitization date and the mortality table recommended by DPFP's Qualified Actuary shown in Exhibit 2.~~

E. ANNUITIZATION OF DROP ACCOUNTS (continued)

4. Initial Annuitization of Non-Member's DROP Accounts

a. The first payment of DROP Annuities after annuitization of all DROP Accounts in existence on or after September 1, 2017, except those DROP Accounts of Members, shall commence the last business day of the month in which this policy is adopted, or as soon as practicable thereafter.

b. The initial annuitization of all non-Member DROP Accounts existing on September 1, 2017 will be calculated and implemented on the basis of a monthly annuity. DPFP staff will send notices to the holders of such DROP Annuities to inform them that they have sixty (60) days from the date of such notice to make a one-time election to have the monthly DROP Annuity converted to an annual annuity. If a DROP Annuitant makes such an election, the monthly DROP Annuity payments will cease as soon as administratively practicable, and the first payment of the annual DROP Annuity will begin 12 months after the last monthly payment made to the DROP Annuitant.

c. For purposes of the initial annuitization described in this subsection E.4., any DROP Account which is held by a non-Member at any time on or after September 1, 2017, but prior to the initial annuitization pursuant to subsection E.4.a. above, shall (i) be adjusted to reflect any distributions to such non-Member after September 1, 2017, but prior to the initial annuitization and (ii) accrue interest for the period from September 1, 2017 through the date of initial annuitization at the same rate as the interest rate applicable pursuant to subsection E.2. in the calculation of the initial DROP Annuity.

d. Annuitization of any non-Member DROP Account under this subsection E.4. will be based on the age of the holder of such DROP Account as of the first day of the month when the annuitization of DROP Accounts under this subsection E.4. occurs. In the case of a DROP Account which is held by a trust, such DROP Account will be annuitized using the age of the oldest beneficiary of the trust.

5. Annuitization of Member DROP Accounts

a. The DROP Annuity for a Member shall be calculated based upon the Member's age and DROP Account balance on the effective date of the Member's retirement. The interest rate applicable to the calculation of the Member's DROP Annuity will be the interest rate in effect under subsection E.2. during the month the Member terminates Active Service. Payment of the DROP Annuity shall commence effective as of the first day of the month in which the Member's retirement commences.

E. ANNUITIZATION OF DROP ACCOUNTS (continued)

5. Annuitization of Member DROP Accounts (continued)

b. Each Member as part of the retirement process shall be given the opportunity to elect either a monthly or annual DROP Annuity. If no election is made, the Member will be deemed to have elected a monthly DROP Annuity.

6. Annuitization of Alternate Payee's Account

The DROP Annuity for any Alternate Payee receiving a portion of a Member's DROP Account through a Qualified Domestic Relations Order after the date of this policy shall commence on the earlier of (i) the date the Member's DROP Annuity commences or (ii) the first day of the month the Alternate Payee reaches age 58. Calculation of the DROP Annuity of an Alternate Payee will be based on the age of the Alternate Payee and the interest rate in effect under subsection E.2 upon commencement of the DROP Annuity.

7. Annuitization and Payments to Beneficiaries

a. Upon the death of a Member, the DROP Account of such Member shall be transferred to the Member's beneficiary(ies) pursuant to Section F of this policy. Such transferred account shall be annuitized as promptly as administratively practicable utilizing the interest rate in effect under subsection E.2. and the age of the beneficiary at the time of the Member's death in calculating the beneficiary's DROP Annuity.

b. Upon the death of a DROP Annuitant, the remaining DROP Annuity shall be paid to the beneficiary designated by such DROP Annuitant and shall be divided if there are multiple beneficiaries as designated by the DROP Annuitant pursuant to Section F of this policy. DPFP shall only be responsible for payments to beneficiaries after DPFP has actual knowledge of the death of a DROP annuitant.

8. Revised Annuity in the Event of an Unforeseeable Financial Hardship Distribution

If any DROP Annuitant shall receive a distribution pursuant to Section G hereof, the DROP Annuity of such DROP Annuitant shall be re-annuitized through a calculation using (a) the interest rate utilized in the calculation of the original DROP Annuity, (b) the present value of the DROP Annuity on the date of the unforeseeable financial hardship distribution as calculated by DPFP's Qualified Actuary, and (c) the remaining number of months in the life expectancy utilized in the calculation of the original DROP Annuity.

E. ANNUITIZATION OF DROP ACCOUNTS (continued)

9. Annuitization Procedure in the Event of a Rehiring

If a DROP Annuitant is rehired and becomes a Member, such person's DROP Annuity will cease (the "Ceased DROP Annuity") effective upon the DROP Annuitant resuming Active Service. When the DROP Annuitant leaves Active Service, the Ceased DROP Annuity will be re-annuitized and recommence based upon the original interest rate and the remaining number of years in the existing DROP Annuity. If the DROP Annuitant shall be eligible under the Plan for additional credits to a DROP Account (the "Additional DROP Account") after recommencing Active Service, then upon the DROP Annuitant leaving Active Service, any amount in the Additional DROP Account shall be annuitized pursuant to subsection E.5.

F. DESIGNATION OF BENEFICIARIES

1. A DROP participant will have the opportunity to designate a primary beneficiary (or primary beneficiaries) and a contingent beneficiary (or contingent beneficiaries) of his or her DROP Account either when filing the application for DROP participation, or thereafter, on a beneficiary form provided by DPFP for this purpose. A DROP Annuitant who receives a DROP Annuity will have the opportunity to designate a primary beneficiary (or primary beneficiaries) and a contingent beneficiary (or contingent beneficiaries) of his or her DROP Annuity upon or after receipt by the DROP Annuitant of notice that they are entitled to a DROP Annuity. The named beneficiary must be a living person at the time of the filing of the beneficiary form. No trusts may be named as a beneficiary, except for a trust established for a child who is entitled to benefits pursuant to Section 6.06 (n)(1) of the Plan ("Special Needs Trust"). Existing trusts which have a DROP Account as of the date of this policy will be permitted and will be annuitized pursuant to Section E.4. and the age of the oldest beneficiary of the trust will be utilized for purposes of the annuitization. Special Needs Trusts will be annuitized based upon the age of the child.

2. In the case of a holder of DROP Annuity who dies where no living person is named as a beneficiary, the remaining DROP Annuity will be paid to the deceased DROP Annuitant's estate. In the case of a Member who dies with a DROP Account where no living person is named as a beneficiary, the DROP Account will be annuitized based upon the life of the youngest heir to the deceased Member's estate and the resulting DROP Annuity will be paid to the estate.

3. Beneficiaries of a Member's DROP Account ~~or a DROP Annuitant's DROP Annuity~~ are not limited to the Qualified Survivors. Upon request, DPFP will divide a deceased participant's DROP Account or DROP Annuity among the designated beneficiaries at the time of the DROP participant's death.

F. DESIGNATION OF BENEFICIARIES (continued)

4. Upon the death of a DROP participant, the DROP participant's DROP Account or DROP Annuity shall become the property of the surviving spouse unless either (i) the surviving spouse has specifically waived his or her right to such funds or (ii) the surviving spouse's marriage to the DROP participant occurred after January 14, 2016 and the participant had already joined DROP and named a beneficiary other than the surviving spouse who was not the participant's spouse at the time of the beneficiary election, and will be transferred to the name of the surviving spouse or such other named beneficiary or beneficiaries. DROP Annuities shall be paid to the designated beneficiaries in accordance with the last beneficiary form on file in the DPFP administrative office upon that office's receipt of sufficient evidence of the DROP participant's death.

G. HARDSHIPS

1. Pursuant to the Plan, a DROP Annuitant ~~who was a former Member of the Plan (a "Retiree Annuitant")~~ may apply for a lump sum distribution relating to his or her DROP Annuity in the event that the DROP~~Retiree~~ Annuitant experiences a financial hardship that was not reasonably foreseeable. To qualify for an unforeseeable financial hardship distribution, a DROP~~Retiree~~ Annuitant (or the estate of a DROP~~Retiree~~ Annuitant in the case of subsection G.2.e.) must demonstrate that:

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

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

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

2. The Board shall only recognize the following circumstances as an unforeseeable financial hardship that is eligible for a lump sum distribution:

    a. the need to repair damage to a DROP~~Retiree~~ Annuitant's primary residence not covered by insurance as the result of a natural disaster or significant event (i.e., fire, flood, hurricane, earthquake, etc.);

    b. the need to make significant changes to a DROP~~Retiree~~ Annuitant's primary residence not covered by insurance because of medical necessity;

G. HARDSHIPS (continued)

c. the need to pay for medical expenses of the DROP~~Retiree~~ Annuitant, a DROP~~Retiree~~ Annuitant's spouse, or a dependent child or relative of the DROP~~Retiree~~ Annuitant as described under Code section 152(c) and (d), including non-refundable deductibles, as well as for the cost of prescription drug medication;

d. the need to pay for the funeral expenses of a parent, child, grandchild or spouse of the DROP~~Retiree~~ Annuitant, including reasonable travel and housing costs for the DROP~~Retiree~~ Annuitant, their spouse, parent, child or grandchild;

e. the need of the estate of a DROP~~Retiree~~ Annuitant to pay for the medical expenses or the funeral expenses of the Retiree Annuitant; or

f. other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the DROP~~Retiree~~ Annuitant.

3. DPFP staff will develop procedures relating to the application for an unforeseeable financial hardship distribution, which will include, at a minimum, a notarized statement by the applicant relating to the requirements for eligibility and documentation sufficient to demonstrate such eligibility. Following submission of the required financial hardship distribution application, the notarized statement, and other required documentation as stated in the application form, DPFP staff shall review the materials and inform the DROP~~Retiree~~ Annuitant within thirty (30) days whether any additional information or documentation is required or requested. Once all required and/or requested documentation has been submitted, the Retiree Annuitant shall be informed within thirty (30) days if (i) the DROP~~Retiree~~ Annuitant is eligible for an unforeseeable financial hardship distribution or (ii) the matter has been referred to the Board for consideration at the next regular meeting. After an unforeseeable financial hardship distribution has been made to a DROP~~Retiree~~ Annuitant, a DROP~~Retiree~~ Annuitant may not request an additional unforeseeable financial hardship distribution for ninety (90) days from the date of distribution of any amount under this Section.

4. The Executive Director shall have the authority to approve an application for an unforeseeable financial hardship distribution. The Executive Director shall submit to the Board for final action by the Board any recommended denial, in whole or in part, of any request for an unforeseeable financial hardship distribution. Determinations of the Board and the Executive Director on applications for unforeseeable financial hardship distributions are final and binding. Once an unforeseeable financial hardship distribution has been approved by either the Executive Director or the Board, payment of the distribution shall be made to the DROP ~~Retiree~~ Annuitant as soon as administratively practicable.

G. HARDSHIPS (continued)

5. For the purposes of this Section G, the term "dependent" shall mean any person who is claimed by a DROP~~Retiree~~ Annuitant as a dependent on the Retiree Annuitant's federal income tax return in any year for which a distribution is sought under this Section G.

6. Distributions under this Section G shall only be available for persons who (a) entered DROP prior to June 1, 2017 and (b) who have not revoked a DROP election under Section D. of this policy.

7. No claims for hardship distributions will be accepted for any circumstances which give rise to the hardship where such circumstances occurred more than six months (nine months in the case of a filing by the estate of a DROP~~Retiree~~ Annuitant pursuant to subsection G.2.e.) prior to the date of filing of the application pursuant to subsection G.3.

H. 100% Joint and Survivor Benefit

1. Coterminous with entry into DROP, a Member shall have the right to make the election provided for under Section 6.063(a)(1) of the Plan and such an election will not be subject to the requirement set forth in Section 6.063(e) of the Plan.

2. Subsequent to a Member's entry into DROP, if the Member has not made the election provided for in Section H.1., the Member shall have the right to make the election provided for under Section 6.063(a)(1) and such an election will be subject to the requirement set forth in Section 6.063(e). If a Member shall die while on Active Service within one year after making the election under this Section H.2., then the Member's DROP Account shall be increased by the reduced benefit amount which is contemplated by Section 6.063(e) to be paid to the surviving spouse.

3. If a Member makes an election under either Section H.1. or H.2., the amount credited to the Member's DROP balance will be adjusted accordingly.

4. If a Member should remarry while on Active Service after making an election under Section H.1 or H.2, then the Member's benefit shall be recalculated and adjusted based upon the age of the new spouse, effective as of the date of marriage as if the Member had made a new election under Section 6.063(a)(1); provided however, that (i) if the Member had made the election pursuant to Section H.1., the Member shall not be subject to the requirement set forth in Section 6.063(e) for such remarriage and recalculation and (ii) if the Member had the election pursuant to Section H.2., the one year requirement under Section 6.063(e) shall be deemed to have commenced upon the original election.

H. 100% Joint and Survivor Benefit (continued)

5. Members who are in DROP as of the effective date of this Policy shall be afforded the opportunity through the first to occur of (i) their retirement date or (ii) October 31, 2018 to make the election provided for in Section H.1 and after October 31, 2018, such Members shall be entitled to make the election provided for in Section H.2.

6. Nothing in this DROP Policy shall affect or impair the right of a Member to make the election provided for in Section 6.063(a) upon or after the Member's retirement if the Member shall not make the election provided for in this Section H, provided, however, that any election made by a Member of Pensioner after their entry into DROP, notwithstanding any other provision of Section 6.063, shall be subject to the provisions of Section 6.063(e).

I. COMMENCEMENT OF RETIREMENT BENEFIT

For any Member retiring and commencing receipt of their monthly retirement benefit, other than Members who have participated in DROP for ten years or more and are subject to the limitation set forth in the last sentence of Section 6.14(c) (a "10 Year Limitation DROP participant"), such Member's retirement benefit shall commence on the first day of the month such Member's retirement becomes effective. For any 10 Year Limitation DROP participant, such Member's monthly retirement benefit shall commence on the effective date of such Member's retirement.

J. EFFECTIVE DATE

APPROVED on August 10, 2023,~~June 11, 2020~~ by the Board of Trustees of the Dallas Police and Fire Pension System.

~~William F. Quinn~~Nicholas Merrick
Chairman

ATTEST:

Kelly Gottschalk
Secretary

~~Exhibit 1- Interest Rates~~

~~Published Rate~~	~~5 Yr~~	~~7 Yr~~	~~10 Yr~~	~~20 Yr~~	~~30 Yr~~
~~7/17/2017~~	~~1.86~~	~~2.12~~	~~2.31~~	~~2.65~~	~~2.89~~
~~8/15/2017~~	~~1.83~~	~~2.09~~	~~2.27~~	~~2.60~~	~~2.84~~
~~9/15/2017~~	~~1.81~~	~~2.04~~	~~2.20~~	~~2.52~~	~~2.77~~
~~Average~~	~~1.83~~	~~2.08~~	~~2.26~~	~~2.59~~	~~2.83~~

~~i~~

~~Exhibit 2 – Life Expectancies Based on a January 1, 2020 Annuity Commencement Date~~

~~Table effective for annuitizations beginning on or after July 1, 2020~~

Expected Lifetime in Years Based on a January 1, 2020 Commencement Date

Age	Expected Lifetime (Years)	Age	Expected Lifetime (Years)
21	65	56	30
22	64	57	29
23	63	58	28
24	62	59	27
25	61	60	26
26	60	61	25
27	59	62	24
28	58	63	23
29	57	64	22
30	56	65	21
31	55	66	21
32	54	67	20
33	53	68	19
34	52	69	18
35	51	70	17
36	50	71	16
37	49	72	15
38	48	73	15
39	47	74	14
40	46	75	13
41	45	76	12
42	44	77	12
43	43	78	11
44	42	79	10
45	41	80	10
46	40	81	9
47	39	82	8
48	38	83	8
49	37	84	7
50	36	85	7
51	35	86	6
52	34	87	6
53	33	88	6
54	32	89	5
55	31	90	5

Mortality Table

Sex distinct Pub-2010 Public Safety Retiree Amount-Weighted Mortality Tables, with the female table set back one year; projected generationally using Scale MP-2019. The sex-distinct tables are blended 85% male and 15% female.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C10

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

Discussion: Counsel will brief the Board on these issues.

DISCUSSION SHEET

ITEM #D1

Topic: **Public Comment**

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

Regular Board Meeting – Thursday, August 10, 2023

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #D2

Topic: **Executive Director's report**

a. Associations' newsletters
- NCPERS Monitor (August 2023)
- NCPERS PERSist (Summer 2023)

b. Open Records

c. Employee Update

d. Independent Actuary

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

THE NCPERS
MONITOR
The Latest in Legislative News August 2023

NCPERS Executive Director's Corner

Why Total Compensation (and Protecting Pensions) is Key to Addressing the Teacher Shortage

By Hank Kim, Executive Director and Counsel, NCPERS

Photo Illustration © 2023, istock.com

As teachers across the country are savoring their last few weeks of summer break before preparing to return to the classroom, schools continue to struggle with attracting and retaining educators.

According to a recent report, 86 percent of school districts are experiencing difficulty hiring new teachers. Some districts have resorted to fast-tracking certifications or reducing the requirements for hiring, but these are not sustainable solutions.

Teachers rightfully complain they are not compensated enough, with the same report finding that 78 percent of educators think that low pay is a serious issue. While some might think teachers have to choose between higher pay and pensions, we believe there is a path forward where teachers are both fairly compensated and have access to the long-term retirement security that defined benefit pension plans afford them.

Pensions continue to be a driving force in retaining teachers and other public servants across the country. While there is ample research on the positive effects on worker retention that occur when employers offer a pension, studies looking specifically at teachers have found they were more likely to leave the profession sooner if their benefits are reduced.

In order to solve the long-term challenges of attracting and retaining quality educators, looking at the total compensation offered will be key. Critics of public pensions, however, will argue that pensions are not sustainable and that teachers need to choose between salary increases and retirement security. We analyzed a recent article authored by Andrew Biggs, senior fellow at conservative think tank American Enterprise Institute, that makes this case to illustrate the flaws in these ideological arguments.

Biggs asserts that many teacher pension plans are significantly underfunded, reducing resources for teacher pay and benefits. But recent research from NCPERS found that during the past quarter century, the average pension expenditures were 3.6 percent of state and local own-source revenues. The same figure for education expenditures was 33.8 percent. The fact is that pension benefits are mostly funded through state appropriations, and not usually part of education finance foundation formulae from which salaries are paid.

The author attributes the funding shortfalls that teacher pensions face to an “overreliance on the stock market” and the “funding rules these plans follow.” With this oversimplification, he blatantly overlooks other important determinants of funding ratios that must be examined. For example, employer funding discipline. There is ample evidence that skipping and/or making less than the full actuarially determined contribution is the key reason for underfunding. Biggs also fails to mention that almost all plans in the public sector have revised their return assumptions downward.

He concludes with a less than subtle push for 401(k)-style retirement plans, arguing that teachers could benefit by transitioning away from traditional pensions to a “more sustainable and affordable model that frees up resources for improved teacher salaries.” This approach has proven to be more costly for school systems while simultaneously providing less benefits to educators.

Since Alaska transitioned from a defined benefit plan to the “more sustainable” 401(k)-style retirement plan in 2005, it has faced growing challenges with recruitment and retention—in addition to increased costs. In comparing termination rates between the two plans, women in their prime working years have turnover rates 138 percent higher in the 401(k)-style plans; men have turnover rates 189 percent higher. Another study found that pensions provide better retirement income compared to a 401(k) for 80 percent of teachers. As a result, Alaska is losing $20 million each year due to these retention challenges.

Pensions have been proven to be a key factor in retaining top talent, but misinformed and biased attacks continue to argue that they are not sustainable. While true unfunded liabilities may be rising due to many reasons beyond pension managers’ control (e.g., economic downturns, demographic changes, etc.), so is the economic capacity of plan sponsors. As long as the ratio between unfunded liabilities and total economic output of state and local governments over the amortization period (usually 30 years) is stable or declining, the pension plans are sustainable. As Brookings and NCPERS studies show, state and local pension plans (teachers and others) are sustainable with moderate fiscal adjustments.

Addressing the teacher recruitment and retention crisis—by looking at the total compensation packages—must take precedence. Governments face competing priorities, but they can afford both pensions and increases in education budgets (where raises typically come from). To do so, however, state and local governments must bring their revenue systems into harmony with the economy. ◆

NCPERS **Feature**

A Simple Solution to the Looming Retirement Security Crisis: Pensions

By Hank Kim, Executive Director and Counsel, NCPERS

Photo Illustration © 2023, istock.com

As Gen Xers begin to enter their retirement years, we are starting to see the consequences of the late 20th century shift from defined benefit (DB) pensions to 401(k)-style retirement plans. Americans' insufficient retirement savings will result in a combined $1.3 trillion burden for state and federal governments over the next 20 years, according to The Pew Charitable Trusts. With record levels of inflation, rising health care costs, and Social Security benefits that can't keep up, we are truly facing a retirement security crisis.

According to a study recently released by the Transamerica Center for Retirement Studies and Transamerica Institute, only 17 percent of Gen Xers feel very confident they will retire with a comfortable lifestyle.

Gen X entered the workforce as defined contribution (DC) plans were quickly becoming the norm, and they are the first generation to stare down their golden years without having had broad access to a DB pension plan. A new report from the National Institute on Retirement Security (NIRS) estimates the typical Gen X household has only $40,000 in retirement savings, and only 14 percent of Gen Xers are covered by a DB pension plan.

The outlook is grim as a comfortable retirement seems further and further out of reach for most Americans. And at the same time, employers are struggling with employee retention in a particularly tight labor market.

While the solution to these massive challenges will ultimately require a multifaceted approach, the long-term answer may be simple: Make pensions mainstream again.

Some might assume this solution would automatically be more costly for employers, but research shows otherwise. Defined benefit pensions provide more than twice as much benefit as 401(k)s at the same cost to the employer. For example, NCPERS' analysis of data shows that from 1975 to 2018, the average assets per participant in a private-sector DB plan grew from $5,634 to $184,432. During the same period, average assets per participant in DC individual accounts only grew from $6,432 to $59,186.

According to the Investment Management Institute, administrative and investment costs for DC schemes can also be more than four times higher than for DB plans. Further, DB plans reduce the overall cost of providing lifetime retirement benefits by pooling mortality and risk over a relatively large number of participants.

A 2023 report from JP Morgan Asset Management echoes these sentiments, and also highlights how a well-funded DB pension can actually enhance corporate finance. “A well-funded DB offers the most cost-efficient mechanism to finance retirement benefits for employees. Running a low risk, well-funded plan can be accretive to earnings while also reducing corporate leverage,” its authors note.

Defined benefit pensions can also support the recruitment and retention of workers, reducing cost for employers associated with high levels of turnover. Research shows that 84 percent of millennials in state and local governments said their pension benefit was the reason they’re staying in the public sector, with 85 percent indicating they would stay in their public sector jobs until they retire.

Considering that voluntary employee turnover costs U.S. businesses approximately $1 trillion each year, it’s hard to imagine why more businesses are not offering a pension to help attract and retain quality employees.

While some might think pensions are a relic of the past, they may be key to solving the retirement crisis that our country is facing. Research suggests this would also be popular across party lines, with a national survey indicating that 77 percent of Americans agree that all workers should have a pension.

Addressing Americans’ lack of retirement security will be a critical issue in the coming years. Pensions and annuities offer a lifetime stream of income while providing added benefits such as lower costs for employers and increased employee retention.

So, why not make pensions mainstream again?

NCPERS **Feature**

Roth Method Catch Up Contributions

By: Tony Roda, Partner, Williams & Jensen

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During consideration of the 2017 tax legislation by the Senate Finance Committee, then-Chairman Orrin Hatch (R-UT) released a list of potential amendments to the bill that members of the Committee were interested in offering at the upcoming markup. One amendment listed by the Chairman himself would have subjected all catch up contributions to the Roth method, i.e., after-tax contributions and tax-free distributions.

The amendment was never offered. By the time the markup took place there was a distinct loss of appetite on imposing the Roth method. Months earlier, the House Ways and Means Committee was close to mandating the Roth method on most contributions to defined contribution plans, but then-President Trump upended the effort by publicly declaring his opposition to it.

However, legislative proposals never really die in Washington. They just get put on the shelf for a future, more opportune time to be taken down, dusted off, and reintroduced. Such is the case with the Roth method and its application to catch up contributions. Last year, Congress approved, and President Biden signed into law the SECURE Act 2.0. As enacted, the Act requires individuals who made more than $145,000 in the previous calendar year to use the Roth method for all catch up contributions to 401(a) qualified plans, 457(b) governmental plans, and 403(b) plans. The provision is effective for years beginning after December 31, 2023.

This abrupt effective date does not provide a reasonable amount of time for retirement plans to make the change. Some public and private sector plans do not have a Roth option and now must create this feature. Public sector plans have the additional burden of having to amend their plans, which are often found in state statutes, by new law approved by their legislature and signed by the governor. In recognition of this burden, previous legislative and regulatory changes have provided additional time for governmental plans to come into compliance. Unfortunately, the SECURE Act 2.0 with its over 90 separate tax law changes, each of which with its own unique effective date, does not provide a universal extended effective date for governmental plans.

NCPERS has joined its public and private sector allies in writing several letters to the U.S. Treasury Department and the Internal Revenue Service requesting a delay in the effective date. Moreover, a recent comment letter by the New York City Bar Association's Committee on Employee Benefits and Executive Compensation outlined numerous detailed questions on the implementation of the Roth catch up requirement.

While no official government response has been made, we remain hopeful that Treasury-IRS will provide a delay in the enforcement of the Roth catch up changes. NCPERS will be certain to keep its members up to date on any developments in this area. ◆

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

NCPERS **Feature**

Recognizing the June 2023 Class of Accredited Fiduciaries

By: Lizzy Lees, Director of Communications, NCPERS

NCPERS Accredited Fiduciary (NAF) Program was created nearly a decade ago to help educate public pension trustees and administrators about best practices for plan governance, oversight, and administration. Attendees can earn their Accredited Fiduciary designation, recognized nationally as a prestigious symbol of governance excellence.

The next NAF Program will take place October 21-22 in Las Vegas, immediately preceding NCPERS Financial, Actuarial, Legislative & Legal (FALL) Conference.

In order to earn the Accredited Fiduciary designation, trustees and staff must complete four training modules that cover governance and the board's role; investment and finance; legal, risk management, and communication; and human capital. Upon completion of all four modules, candidates must demonstrate mastery of the content through an exam held in June and December each year.

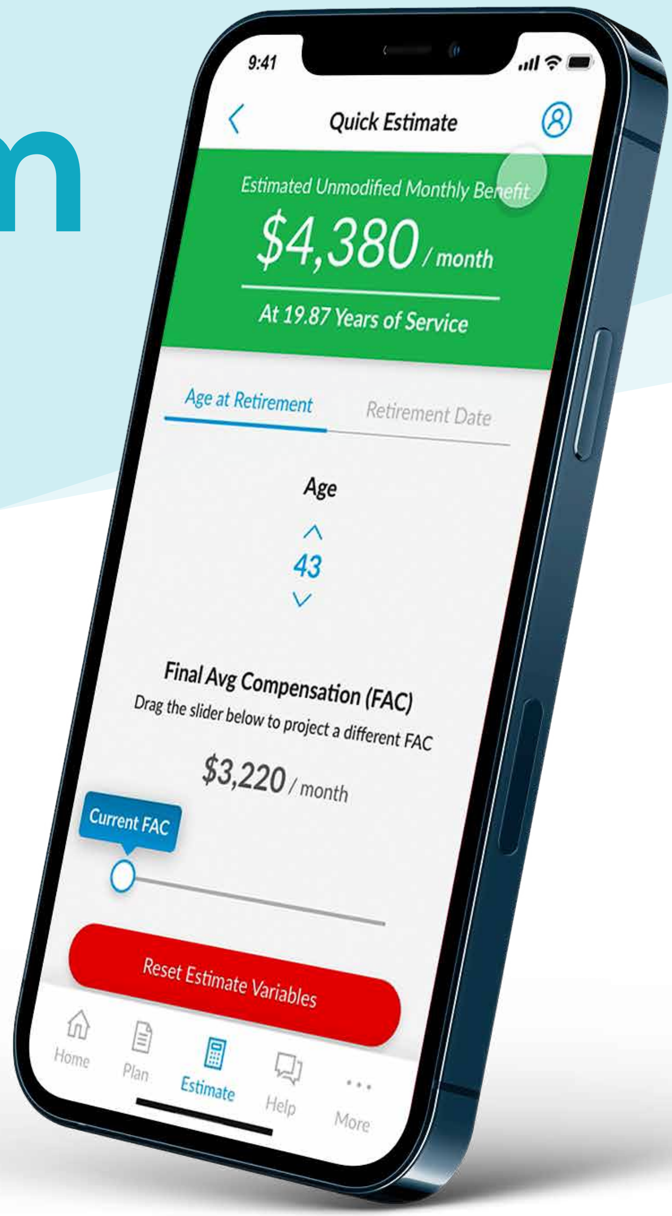
We would like to recognize the public pension trustees and staff who most recently earned their Accredited Fiduciary designation, demonstrating their commitment to and knowledge of pension plan governance:

- Deborah Cherney, San Bernardino County Employees' Retirement Association
- Pattie Featherston, Austin Police Retirement System
- Andrew Felder, City of Monroe Employees`Retirement System
- William Fowler, Austin Fire Fighters Relief & Retirement Fund
- Oscar Garcia, Fresno County Employees Retirement Association

- David Harer, Retirement Systems of Alabama
- Timothy Heling, Employees' Retirement System of Milwaukee
- Molly King, Employees' Retirement System of Milwaukee
- Brandon Krsak, Firefighters Pension and Relief Fund for the City of New Orleans
- RomanNelson, Firefighters Pension and Relief Fund for the City of New Orleans
- John Perryman, Austin Fire Fighters Relief & Retirement Fund
- Stephen Roy, Firefighters Pension and Relief Fund for the City of New Orleans

Learn more about the NAF Program and enroll in the fall class to start earning your Accredited Fiduciary designation. ◆

NCPERS PensionX Digital Platform



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

NCPERS 1941 | pensionX

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

NCPERS Around the Regions

These Arizona Cities are Saving Big Money By Paying Down Pension Debt

Chandler this week became the largest city in Arizona to pay off its public safety pension debt, saving $8-10 million per year in the city's budget and ensuring its police and fire employees receive their promised pensions.

READ MORE *Source: Axios Phoenix*

Missouri Will Exempt Social Security and Public Pension Payments From State Income Taxes

The bipartisan bill, exempting Social Security benefits and public pension payments from income tax, would reduce state general revenue by an estimated $309 million annually.

READ MORE *Source: NPR in Kansas City*

New Jersey Fully Funds Pension System for Third Straight Fiscal Year

New Jersey Gov. Phil Murphy has signed a fiscal year 2024 budget that includes a $7.1 billion contribution to the state pension system, the third consecutive fiscal year in which the state has made the full actuarially determined contribution.

READ MORE *Source: Pensions & Investments*

NCPERS 2023 Public Retirement Systems Study:

Trends in Fiscal, Operational, and Business Practices

READ THE REPORT

NCPERS Around the Regions

California Quietly Shelves $15 Billion Pension Divestment Bill

The California State Assembly has shelved legislation that would have forced the country's two largest pension funds to divest an estimated $15 billion from oil and gas companies, a major blow to environmental advocates who hoped the funds could be a national model for the divestment movement.

READ MORE *Source: Bloomberg*

Florida Sweetens Pension Pot, Hoping to Retain Public Employees

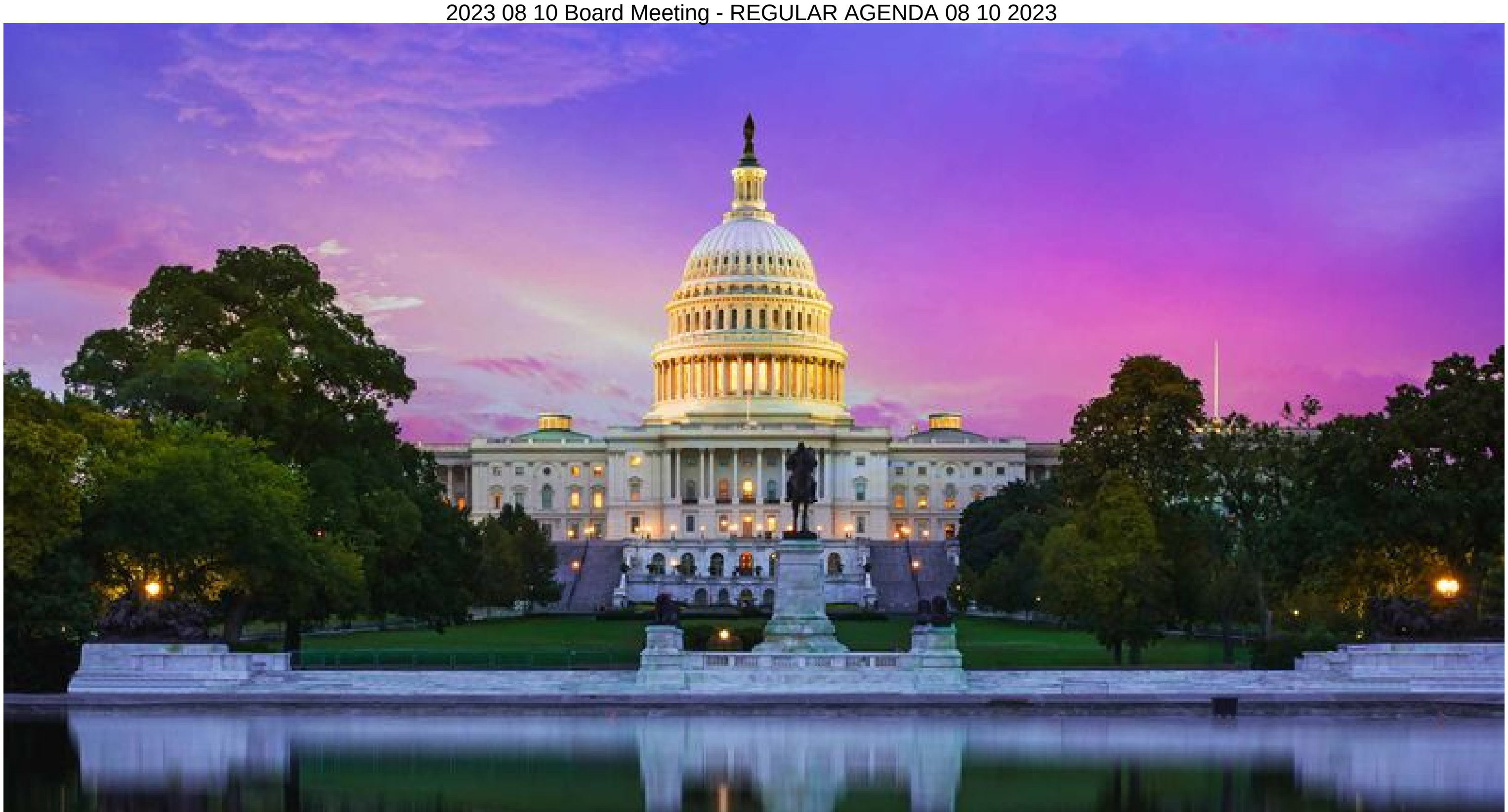
The expansion of the Deferred Retirement Option Program could prove lucrative for career government workers and educators, who will be able to draw pensions while continuing to work for eight to 10 years instead of the current limit of five years.

READ MORE *Source: The Orlando Sentinel*

New York City Clamps Down on Fossil Fuels Via ESG in Defiance of National GOP Blowback

Proponents of ESG investing, such as New York City Comptroller Brad Lander, who oversees the city's pension plans, see ESG investment strategies, for example, moving away from investments in the fossil fuel industry, as compatible with fiduciary duty, as they contend divestments help safeguard plan beneficiaries from the longer-term financial risks associated with disruption from climate change.

READ MORE *Source: Washington Examiner*



Calendar of Events 2023

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August

Public Pension Funding Forum

August 20-22
Chicago, IL

October

NCPERS Accredited Fiduciary (NAF) Program

October 21-22
Las Vegas, NV

Program for Advanced Trustee Studies (PATS)

October 21-22
Las Vegas, NV

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

October 22-25
Las Vegas, NV

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

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The Voice for Public Pensions

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PERSist

The Voice for Public Pensions | Summer 2023 | Volume 36 | Number 3

NCPERS Message

Understanding the Latest Developments in Pension Funding

Photo Illustration © 2023, istock.com

Funding ratios—a simplistic metrics used to assess the health of public pensions—is heavily favored in our summarize-on-a- bumper-sticker mentality, short attention span society. However, and precisely because it is simple, funding ratios only conveys a one-dimensional, a single point in time measurement and do not provide trends and other important context.

Relatedly, too many policymakers and the media take funding levels out of context by comparing a pension fund's underfunded amount – which is an aggregation of 30 years of projected shortfall – to a single year's revenue of its plan sponsor. As a result, the magnitude of unfunded liabilities is distorted. It stands to reason that failing to factor in revenues and funding that will be collected over the long periods during which benefits are paid would warp the math.

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

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

The forum, held Aug. 20-22 in Chicago, provides attendees with practical insights into the latest pension research, including case studies that showcase emerging funding solutions. Attendees learn which pension reform initiatives have and haven't worked, while examining the short- and long-term effects that tweaking public pension benefits and formulas can have on public employees, stakeholders, communities, and the broader economy. Download the event brochure to learn more.

The Public Pension Funding Forum will kick off with a session on understanding crypto followed by a networking reception. The next morning, panelists will explore what drives pension reforms (and the politics that often surround them). Attendees will then hear from the Treasurer of North Carolina, Dale Folwell, and NYSTRS' executive director and CIO, Thomas Lee, about the factors that keep funding levels high in their respective systems. Later that day, Andy Blough and Seth Stock of the Indiana Public Retirement System will draw from their experiences to discuss how stabilizing funding contributes to improved fiscal health of pensions.

The next day, attendees will get the actuarial perspective on enhancing the health of public pension plans and hear about Fairfax County Retirement Systems' experience with applying the concept of Sustainability Valuation to the system. Following up on last month's webinar preview, leaders from BlackRock will then share insights from their annual Peer Risk Study. The program will conclude with an update from the Federal Reserve Bank of Atlanta's David Altig on the current economic outlook.

The event also features plenty of networking opportunities to promote building connections and sharing ideas. Early-bird pricing ends July 28, so don't wait to register for the Public Pension Funding Forum. If you have any questions, please email conferences@ncpers.org. ◆

In This Issue

NCPERS In This issue

What's Shaping India? Five Emerging Trends

By: Jeremy Murden, William Blair Investment Management

Photo Illustration © 2023, istock.com

While COVID-19 impacted near-term developments in India, key sectors are standing out, offering compelling investment opportunities. Here are five emerging trends to watch.

Expanding Digital Infrastructure with the India Stack

Over the past decade, the Indian government has pushed the creation of the "India Stack," a series of free public digital goods that enable a digital economy for those who have historically been outside the formal economy. The net impact of the India Stack is that street vendors are now more likely to be inside the formal economy, accepting digital payments for goods, and can now use those sales as a verification of income for credit access. The expansion of digital infrastructure, combined with the pandemic (which increased remote work globally), also led to more outsourcing to India. India essentially became the office of the world as corporations became more comfortable with work being performed outside of the office.

From Biscuits and Toothbrushes to Luxury Goods: A Tale of Two Indias

While overall income levels in India have risen, there is still a large disparity between the highest earners and the average Indian. By income, the top 10% of Indian people earn more than 50% of the country's total GDP. Much of the population is still low-income by global standards, and most incremental consumption goes toward products lower on the pyramid. We see fewer opportunities in branded sneakers and more opportunities in basic consumables. That's why our biggest overweights in India's consumer sector are consumer staples companies.

While overall income levels in India have risen, there is still a large disparity between the highest earners and the average Indian.

Is Solar the Future?

India is a sun-rich country, and as solar energy continues to become more competitive, it can help reduce India's need to import oil and natural gas. Beneficiaries of India's renewable power investment range from large Indian businesses using their scale to expand into domestic polysilicon mining, solar panel manufacturing, and energy storage to a global leader in industrial automation geared toward electrification products such as solar inverters and switching.

Modernizing India's Urban Infrastructure

India is investing heavily to modernize and expand its infrastructure. My colleagues on our industrials team believe these investments, along with other schemes by the government (such as production-linked incentives), will go a long way in driving private capital investment and economic growth and supporting manufacturing growth. Structural steel tubing manufacturers, as well as an explosives manufacturer used in the extraction of minerals and India's leading manufacturer of cables and wiring, could potentially benefit from urban infrastructure investments.

Growth Opportunities in Rural Areas

As in urban areas, rural infrastructure in India continues to be a challenge. But my industrials team colleagues also believe this presents an opportunity for companies that can address India's infrastructure challenges. The growth rate in industries, ranging from waterproofing adhesives and coatings to piping and concrete, continues to be greater than India's gross domestic product (GDP). In addition, rural farming remains a primary source of income in India and improving agricultural efficiency is another strong growth trend. Investable examples include innovative agricultural chemical manufacturers and distributors.

In addition, rural farming remains a primary source of income in India and improving agricultural efficiency is another strong growth trend.

The Case for India

As bottom-up asset managers, we are excited about India's economic potential and remain focused on seeking out quality companies that create sustainable value. ◆

This article is excerpted from our blog, which you can read in full here.

Jeremy Murden, CAIA, *is a portfolio specialist for William Blair's global equity strategies. In this role, Jeremy conducts portfolio analysis, participates in the team's decisionmaking meetings, and communicates portfolio structure and outlook to clients, consultants, and prospects. Before joining William Blair as a portfolio specialist, Jeremy was a portfolio strategist at Matthews Asia, where he provided macro thought leadership and individual portfolio insights focused on the firm's China and Asia equity strategies. Before joining Matthews Asia, Jeremy spent 10 years as a senior investment manager analyst for William Blair Select, leading external equity manager coverage for the team that was responsible for the selection and ongoing evaluation of thirdparty investment managers. He started his career in distribution as a product specialist at Claymore Securities, now Guggenheim Funds. Jeremy received a B.Sc. in finance honors from DePaul University and an M.B.A. from the University of Chicago Booth School of Business.*

Navigating Retiree Healthcare: The Advantages of Medicare Advantage

By: Merrilee Logue, National Labor Office at the Blue Cross Blue Shield Association (BCBSA)

For organizations who have employees edging towards retirement, the Medicare landscape can be daunting, and the options can seem endless and confusing. Medicare, which is the federal health insurance for anyone aged 65 or older, is comprised of multiple parts: There is Part A, which is the Hospital Insurance, Part B covers doctor and other health care providers' services, and Part D is Prescription Drug coverage. All Parts cover different healthcare components and come at different costs, each of which may be administered separately. The government offers partial coverage for Medicare including Part A and B, but at the end of the day, to keep their existing doctors and health services, some members might find that they need to purchase Medigap to avoid gaps in their coverage.

Medicare Advantage (MA), also known as Part C, is a private insurance alternative to the government-provided Medicare that can provide supplemental benefits and help streamline this process. Rather than worrying about the logistics of administering multiple plans, MA combines Part A and B into one and most often includes Part D. This means that healthcare services can be managed together, making it easier to oversee and track.

Additionally, MA can offer extra services that traditional Medicare does not. For example, some plans might include fitness programs, like gym memberships or discounts, and some vision, hearing, and dental services, like routine checkups and cleanings (vision, hearing, and preventative dental are among the most popular select benefits[1]). Some MA plans might even cover services like transportation to doctor visits or over-the-counter drugs that Part D doesn't cover.

Medicare Advantage (MA), also known as Part C, is a private insurance alternative to the government-provided Medicare that can provide supplemental benefits and help streamline this process.

Medicare Advantage plans may have lower out-of-pocket costs than Original Medicare. With MA, members will need to pay their Part B insurance premium plus a monthly premium. Nationally, the average monthly premium for MA is $16[1]. However, many plans offer options for low or zero-dollar monthly premiums and reduced Part B costs. Ninety-nine percent of eligible enrollees have access to a no premium plan[2], with 74% of those people enrolling in no premium plans[1]. With Medicare Advantage, there also is no need to pay for any type of gap in coverage through Medigap, further lowering the cost.

Just like group health insurance, there are multiple types of plans available as a group, including Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPOs), and Private Fee-For-Service (PFFS). Sixty-one percent of MA members enroll in an HMO, with 38% choosing PPOs and 1% PFFs[3].

Medicare Advantage plans may be a valuable alternative to original Medicare, both for the organization and the member. MA helps streamline the administration process and provides additional coverage that may make it easier for members to continue getting the care they need. It may be beneficial to explore options to determine if a Medicare Advantage plan is right for your organization. ◆

Merrilee Logue *is Executive Director of the National Labor Office at the Blue Cross Blue Shield Association (BCBSA), a national federation of 34 independent, community-based and locally operated Blue Cross and Blue Shield companies. Merrilee leads the National Labor Office which is the liaison for unions to ensure that Blue Cross and Blue Shield products meet the labor community's bargaining objectives. In addition, she oversees the NLO Board of Directors which represents 90% of the union members covered by Blue Cross and Blue Shield. Merrilee has spent over 30 years in healthcare concentrating on innovation and strategy to improve the member experience. She earned a bachelor's degree in Secondary Education and a Master's degree in Education Administration from Villanova University.*

Endnotes:

[1] Centers for Medicare and Medicaid Services (CMS) Landscape File, 2023
[2] Centers for Medicare and Medicaid Services (CMS) Enrollment by Plan, 2023
[3] Centers for Medicare and Medicaid Services (CMS) MA Penetration File, 2023

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

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Three Reasons Why the Fixed Income Environment May Be Better Than You Think

By: Martin Horne, Barings

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For fixed income investors worried about wider credit spreads and an imminent wave of defaults, assessing the overall level of risk-reward on offer may help allay concerns. Despite the prevailing negativity, fixed income currently offers a range of compelling opportunities. Here are three reasons why:

1. The Long-Anticipated Downturn

While certain countries such as Germany have technically already entered a recession, other major economies such as the U.S. may not follow until later in 2023 or early 2024—arguably making it one of the most widely anticipated downturns in recent history. That has given companies considerable time to prepare. Corporate management has been managing costs closely and keeping inventory levels low. Many companies have also reduced leverage levels and proactively increased the maturity profile of their debt. As a result, any earnings decline that occurs as growth slows is likely to be orderly, while default rates could be lower than in previous downturns. Indeed, high yield issuers are in a stronger financial position to ride out challenges than they were pre-pandemic. The credit quality of the global high yield bond market has also improved considerably since the global financial crisis.

Figure 1: A Higher-Quality Market

Source: Bank of America. As of March 31, 2023.

2. Dislocations Create Opportunities

While recent banking problems are more a result of declining market values for high-quality bank assets than of lax lending standards, banks are now more cautious. But fears among public fixed income investors that tighter and more expensive bank credit could trigger liquidity problems for borrowers in public markets may be overblown. Perhaps counterintuitively, bank tightening could benefit investors in credit markets—both public and private. Opportunities to finance healthy companies that would otherwise have tapped banks are likely to increase and with supply/demand dynamics moving in favor of lenders, investors can expect to earn not only attractive yields but do so with added structural protections. In essence, providing capital when capital is scarce can be an attractive source of returns for investors willing to take smart credit risk—even into a downturn.

While recent banking problems are more a result of declining market values for high-quality bank assets than of lax lending standards, banks are now more cautious.

3. Yields Offer a Considerable "Margin of Safety"

With current prices reflecting much of the uncertainty and volatility, yields across most fixed income assets are at levels not seen since the global financial crisis (aside from the depths of the pandemic). This offers the potential for higher and more dependable absolute returns than many other asset classes.

At Barings, we advocate for patient investing and diversification in helping our clients solve for challenges ranging from income generation to liability matching. Fortunately, there are more choices today than ever before to help achieve this—from corporate and sovereign bonds (both high yield and investment grade) across developed and emerging markets, to floating-rate loans, collateralized loan obligations and various flavors of asset-backed securities. In our view, for investors who keep a level head, environments like today's can offer some of the best long-term opportunities for total returns. ◆

Martin Horne *is Barings' Global Head of Public Assets, which incorporates the global high yield, investment grade, structured credit, equities, emerging markets corporate debt and global sovereign investment teams. Martin is also Chairman of the European High Yield Investment Committee and Chairman of the Global High Yield Allocation Committee. He is also an Executive Sponsor of the Barings Black Talent Network employee resource group, as well as the Charter for Black Talent in Finance and the Professions in the U.K. Martin has worked in the industry since 1993 and his experience has encompassed the mid cap, structured credit, investment grade and leveraged finance markets. His roles at Barings also incorporated roles as senior portfolio manager in cornerstone strategies, and head of research for the European High Yield Group. Martin previously served on the board of directors of the Loan Market Association and holds a B.A. in Economics from Reading University.*

Direct Listing Dilemma for Pension Funds: Understanding the Impact of *Slack Technologies v. Pirani* on Liability under Section 11

By: Robert C. Finkel and Karine Malina, Wolf Popper LLP

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On June 1, 2023, the United States Supreme Court issued a unanimous decision in *Slack Technologies v. Pirani.*[1] Slack held that Section 11 of the Securities Act of 1933 requires all plaintiffs asserting a claim under the statute to plead and prove the shares they purchased through a direct listing are traceable to an allegedly defective registration statement.[2] However, in a direct listing, unregistered shares are sold into the market, and even if accompanying registered shares are sold at the same time, it is challenging to trace whether the shares purchased by a particular plaintiff are subject to the registration statement, unless those shares were purchased directly from an underwriter.

In 2019, Slack went public on the New York Stock Exchange through a hybrid direct offering, rather than a traditional IPO.[3] 118 million of the total shares offered by Slack were registered pursuant to a Registration Statement and 165 million shares were unregistered.[4] The Plaintiff Fiyyaz Pirani purchased shares on the NYSE the day the company went public.[5] After the price dropped, he filed a class action lawsuit under Sections 11 and 12 of the 1933 Securities Act alleging that the registration statement filed was "materially misleading."[6]

The Supreme Court vacated the Ninth Circuit's decision denying the Defendant's motion to dismiss and remanded the case for the court to decide whether the pleadings satisfy Section 11 in light of the Supreme Court's construction of the statute.[7] The Court's analysis focused on the ambiguous language in Section 11(a) which "authorizes an individual to sue for a material misstatement or omission in the registration statement when [they] acquire[] 'such security.'"[8] The issue for the Court was to decipher the meaning of "such security" and whether Congress intended liability under the statute to extend to unregistered shares acquired in a direct listing.[9] Through various "contextual clues," the Court concluded that "such security" refers to a "security registered under the particular registration statement that allegedly contains a falsehood or misleading omission."[10]

As a result of the *Slack* decision, it will be difficult for plaintiffs to prove a Section 11 claim for shares purchased on the open market as a consequence of a direct listing. In the future, companies may prefer direct listings over IPOs due to the advantage of avoiding strict liability under Section 11. Correspondingly, pension funds in direct offerings should understand that they may not be able to hold the issuers of the IPO shares to the same standard of liability as in a traditional offering. However, direct listing claims for misleading registration statements can still be brought under Section 10(b), though proof of scienter and loss causation must be shown and plaintiffs must meet a higher pleading standard of pleading fraud with specificity. In a footnote, the Court discussed Section 12 of the 1933 Act, which allows an individual to sue for a security acquired based on false or misleading statements communicated by the company orally or in a prospectus.[11] The Court chose not to rule on the proper interpretation of Section 12(a), but recommended the Ninth Circuit vacate its judgment and reconsider its holding sustaining the complaint under Section 12(a) based on the Supreme Court's Section 11 holding.[12] ◆

As a result of the Slack *decision, it will be difficult for plaintiffs to prove a Section 11 claim for shares purchased on the open market as a consequence of a direct listing.*

Robert C. Finkel *is a senior partner and member of the executive committee at Wolf Popper LLP. Robert is a graduate of the Columbia Law School, Class of 1981 (where he was a Harlan Fiske Stone Scholar), and the University of Pennsylvania, Class of 1978, where he obtained a B.S. in accounting from the Wharton School of Business and a B.A. in history from the College of Arts and Sciences. Robert began his employment in the 1980s with two large New York City defense firms. Robert became a partner at Wolf Popper LLP effective January 1, 1992. He has been repeatedly designated a Super Lawyer in Securities Litigation.*

Robert has written for The New York Law Journal on subjects including shareholder voting rights and ERISA class actions. He can be reached at rfinkel@wolfpopper.com or (212) 451-9620.

Endnotes:

[1] *Slack Techs., LLC v. Pirani*, No. 22-200, 2023 U.S. LEXIS 2301 (U.S. June 1, 2023).
[2] *Id.* at 18.
[3] *Id.* at 1.
[4] *Id.*
[5] *Id.* at 2.
[6] *Id.*
[7] *Id.* at 18.
[8] *Id.* at 12.
[9] *Id.*
[10] *Id.* at 4.
[11] *Id.* at 18-19.
[12] *Id.*

Today's Public Pensions Cannot Be Considered Government Agencies

By: Brad Kelly & Peter Landers, Global Governance Advisors LLC

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Passive oversight and management of pension systems is clearly not working. Today, pension systems need to navigate the complex and dynamic nature of financial markets, while maintaining fiduciary responsibility to pension plan beneficiaries. To do this and address existing funding gaps, pensions need to focus on modernizing their investment strategies and capabilities; benchmark against their peers; enhance their accountability and transparency; and maintain a strategic focus on maximizing investment returns for their members while continuing to provide timely and accurate pension benefits to members.

Historically, public pensions were extensions of government entities. Hiring people with similar project management and program oversight skills, under similar human resources policies, and compensating them within similar pay ranges worked well until the 1990s. By the mid 90s and 2000s, governments started to take notice and the public grew concerned about growing unfunded pension liabilities. Pension systems that are well funded today realized years ago that to ensure their long-term sustainability, they needed to operate more like competitive asset management organizations to optimize their investment strategies, enhance investment returns and better manage operating costs.

Public pensions have an inherent responsibility to deliver stable and secure returns. By attracting and retaining investment talent and adopting a competitive asset management mindset, pensions become equipped and able to actively seek out investment opportunities that generate optimal returns. The asset management community is highly competitive and the ability to recruit and retain skilled professionals is crucial for success. By positioning themselves more as asset managers, public pensions must put in place more competitive compensation packages, implement performance-based incentives, and establish a culture of innovation and excellence. It is important to realize that this does not mean pension systems need to pay Wall Street pay levels. Pensions can leverage the mission of the organization, the sole focus on deal making (not fundraising) and other benefits of working at a pension system to help attract the professional talent they need. However, it does mean some of the pay gap does need to be narrowed and that unadjusted public sector wages will not help pension systems meet this goal. With the right talent in place, pensions can leverage the knowledge and experience of high-performing investment professionals, improve their decision-making, and deliver superior investment performance.

Furthermore, adopting a competitive mindset allows pensions to pursue diverse investment opportunities that are not readily available to traditional public agencies. Asset management organizations operate in a global and interconnected financial landscape where new investment instruments, markets, and strategies constantly emerge. Considering themselves as competitive asset management organizations allows public pensions to benchmark their activities against peers, foster healthy competition, as well as modernize investment strategies, risk management practices, and operational efficiencies. This helps improve ongoing performance and can mitigate the impact of market downturns, thus protect long-term financial health.

Viewing public pensions as competitive asset management organizations increases their focus on transparency and accountability. By subjecting themselves to industry best practices, regular reporting and rigorous oversight, pension funds build higher levels of trust and credibility with their stakeholders, including members, taxpayers, and plan sponsors.

By adopting a competitive asset management organization approach, pension systems will be able to better navigate the complexities of financial markets, deliver superior investment performance, and fulfill their fiduciary duty to plan beneficiaries. The competitive asset management model enables public pensions to position themselves at the forefront of industry best practices, leveraging innovation and technology to generate sustainable returns and secure the financial future for generations of retirees to come. ◆

Brad Kelly and Peter Landers *are Partners at Global Governance Advisors (GGA) and the principal NCPERS Accredited Fiduciary (NAF) program developers and lecturers. They specialize in the strategic evaluation of corporate governance and compensation programs including board effectiveness evaluations, charter and policy development, board education, compensation philosophy executive pay alignment, performance management and incentive design. Global Governance Advisors (GGA) is a human capital consulting firm providing governance and human capital advisory services to boards of directors and senior management. The value we offer our clients stems from our unique combination of independence, experience, rigor, and integrity. This means clients receive advice that is strategic, objective and conflict-free. We bring a strategic, innovative, and practical approach to maximizing board and executive performance.*

How do Public Pension Plans Measure up to Social Security on Inflation Protection?

By: Daniel J. Siblik, ASA, MAAA, FCA, EA, Segal

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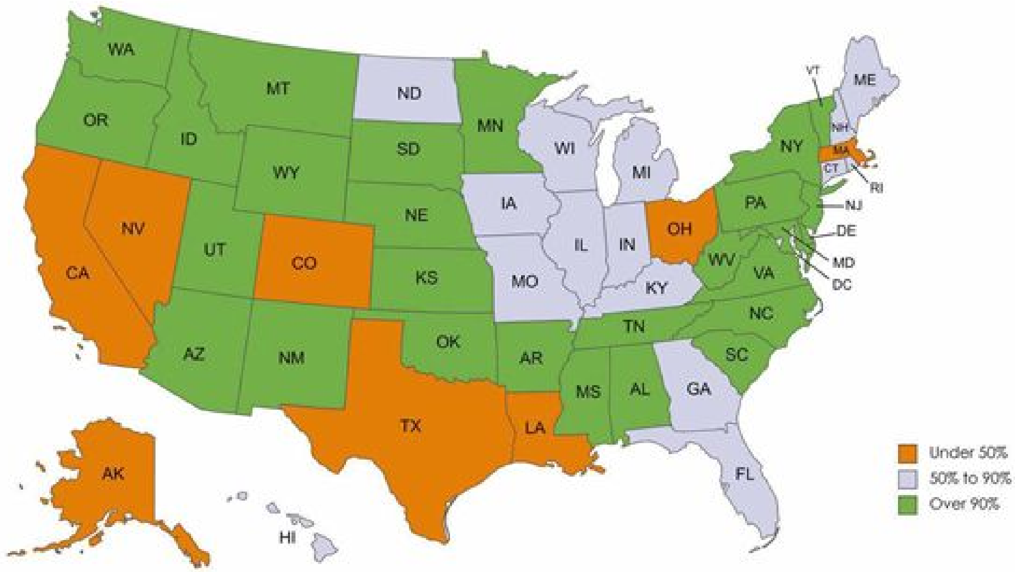
Despite concerns about how well Social Security is funded, the program has provided full annual cost-of-living adjustments (COLAs) to benefits based on the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W), a measure of inflation, since 1975. This is basically a "one-for-one" adjustment. For example, the CPI-W showed an 8.7% inflationary increase for 2022 and Social Security benefits increased 8.7%. In years with negative CPI-W values, the COLA is 0.0%.

These COLAs are good news for private sector employees, 94% of whom are covered to some degree by Social Security. A smaller percentage of the 23 million public sector employees are covered by Social Security: 72%.[1] Even that percentage is not uniform across states.

While public employees' participation in Social Security is over 90% in more than half of states, in some large states the participation rate is much lower. For example, Texas and California are only at 46% and 45%, respectively.[2] Of the 6.5 million public employees who are not covered by Social Security, 2.4 million reside in those two states.

Participation in Social Security varies not only by state but also by industry.

Social Security Participation Rate of Public Employees, by State



Source: Segal Map created using CRS Report: Social Security Coverage of State and Local Government Employees, November 2021

Participation in Social Security varies not only by state but also by industry. At least 12 states exclude teachers from Social Security participation.[3] Public safety employees also often do not participate in Social Security.

Inflation's Impact on Benefits

Many public pension plans have COLAs, but they typically offer lower annual increases than Social Security. Other public plans offer no scheduled COLAs. Consequently, even short periods of high inflation can negatively affect public plan retirees' ways of life. The impact is more acute when there are sustained increases in inflation.

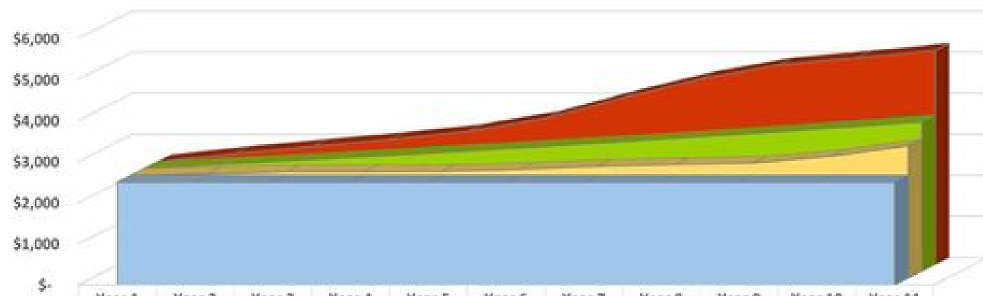
Social Security COLAs and Cumulative Increase for Two 10-Year Periods

Most Recent 10-Year Period				High-Inflationary Period from 1975–1984		
	Social Security COLA	Cumulative Increase			Social Security COLA	Cumulative Increase
2022	8.7%	128.6%		1984	3.5%	208.3%
2021	5.9%	118.3%		1983	3.5%	201.2%
2020	1.3%	111.7%		1982	7.4%	194.4%
2019	1.6%	110.3%		1981	11.2%	181.0%
2018	2.8%	108.6%		1980	14.3%	162.8%
2017	2.0%	105.6%		1979	9.9%	142.4%
2016	0.3%	103.5%		1978	6.5%	129.6%
2015	0.0%	103.2%		1977	5.9%	121.7%
2014	1.7%	103.2%		1976	6.4%	114.9%
2013	1.5%	101.5%		1975	8.0%	108.0%

Source: Social Security Administration Cost-Of-Living Adjustments

The average Social Security COLA increase from 2013 through 2022 was 2.6%. The average annual increase over all Social Security COLA years (1975–2022) was 3.8%. The first 10 years of COLAs averaged 7.7% (1975–1984). So, as with many things, timing is critical. The following graph illustrates this timing dependence for a starting monthly payment of $2500.

$2500 Monthly Annuity Payments Under Three COLA Scenarios

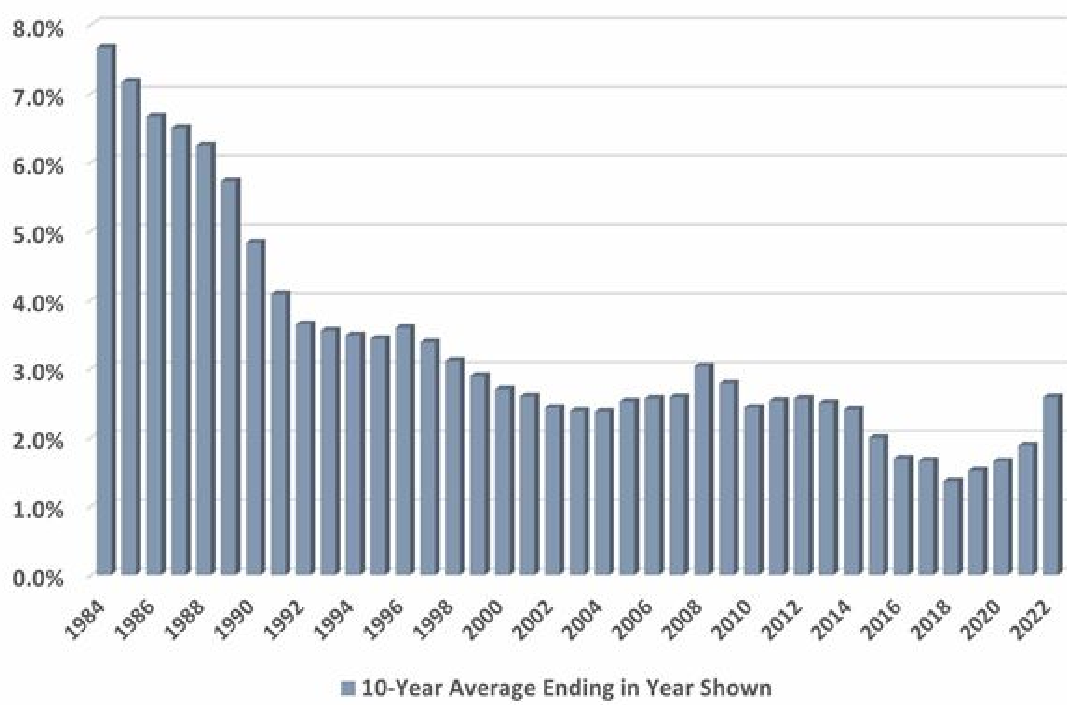


	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11
No COLA	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500	$2,500
SS COLA 2013-2022	$2,500	$2,538	$2,581	$2,581	$2,588	$2,640	$2,714	$2,757	$2,793	$2,958	$3,216
SS COLA 3.8% Average	$2,500	$2,595	$2,694	$2,796	$2,902	$3,012	$3,127	$3,246	$3,369	$3,497	$3,630
SS COLA 1975-1984	$2,500	$2,700	$2,873	$3,042	$3,240	$3,561	$4,070	$4,526	$4,861	$5,031	$5,207

Source: Social Security Administration Cost-Of-Living Adjustments

We are emerging from one of the lowest inflationary periods in recent history during which Social Security COLA increases averaged under 2.0% for multiple 10-year periods. That is now trending upward.

Average Social Security COLAs for 10-Year Periods Ending in 1984–2022



Source: Social Security Administration Cost-Of-Living Adjustments

Conclusion: How Do Public Plans Fare Against Inflation?

On average, public retirement plans whose members are ineligible for Social Security offer higher COLAs (2.5%) than plans that allow members to participate in Social Security (1.8%).[4] In both cases, these averages only sustain purchasing power for members in low inflationary environments. Yet, as already noted, some funds offer no scheduled COLAs. As inflation increases, members not participating in Social Security who receive a typical COLA or no COLA will lose net purchasing power and likely fall behind public sector employees who participate in Social Security. These plans may find retirees struggling to keep up with rising costs, especially during years of high inflation like we've seen recently. COLA concerns may vary state to state as well as across different industries.

Your actuarial consultant can help you learn more about your plan's COLA situation, including potential gaps and possible mitigations relative to inflation. ◆

Endnotes:

1. CRS Report: Social Security Coverage of State and Local Government Employees, November 2021
2. Ibid
3. Social Security Intelligence, "Teacher's Retirement and Social Security" by Devin Carroll https://www.socialsecurityintelligence.com/teachers-retirement-and-social-security/ (accessed June 25, 2023.)
4. NCPERS 2023 Public Retirement Systems Study: Trends in Fiscal, Operational, and Business Practices

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Embracing LDROM

By: Andy Hunt, CFA, FIA & Jonathan Hobbs, CFA, FSA, Allspring Global Investments

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The latest revision to Actuarial Standard of Practice (ASOP) No. 4 is upon us, and we believe it will have implications for how public pension plans think about and invest their fixed income portfolios.

Why it matters

ASOP 4, "Measuring Pension Obligations and Determining Pension Plan Costs or Contributions," has just been updated. The headline is that all pension plans' actuarial reports are now required to disclose an additional liability value known as the Low-Default-Risk Obligation Measure, or **LDROM**.

State and local pension plans have used—*and will continue to use*—the so-called accrued actuarial liability value. This liability value discounts projected benefit payments based on the expected return of the asset portfolio. However, public plans will now also disclose the market value of the liability (LDROM) using a discount rate tied to high-quality bond yields. This LDROM liability value will introduce mark-to-market volatility as the LDROM will go up and down as bond yields change (and vice versa).

What it could mean to investment portfolios

For municipal bond investors, it's too early to tell how this might affect the perceived risk/return of a given investment. Pension deficits and funding can have a large impact on the creditworthiness of state and local bond issuers, and investment analysts keep a keen eye on pension obligations. Since the LDROM is not a change to accounting and funding rules—it's merely an additional disclosure—we expect no immediate effects on the municipal bond market. However, as ratings agencies and investors digest LDROM disclosures, they may begin to prefer those pension plans with investments that better track the liability.

For public plans, this presents an opportunity to tweak their bond portfolio. Broad-based portfolios will likely give way to more tailored bond portfolios that help meet specific outcomes.

For example, public plans have very long investment horizons because their plans are typically open to new members. They use this to their advantage by investing in assets with higher expected returns, which are typically more volatile (such as public equities) or less liquid (such as private markets). At the same time, the pension plan still has short-term obligations in the form of benefit payments to members and capital calls from their private market asset managers. A bond portfolio could be devised to meet both short- and long-term needs:

A) A portion could be allocated to ensure short-term liquidity needs are met, thereby allowing riskier assets time to ride out downturns and harvest risk premia.

B) The remaining fixed income allocation could be allocated to longer-dated bonds. This has three benefits:

- Longer bonds have higher yields than shorter bonds when the yield curve is upward sloping. This could be an added source of return.
- Longer bonds are a better match to the LDROM, thus helping the portfolio move a bit more like the LDROM valuation over time.
- Longer bonds offer greater duration. In times of economic downturns, risky assets like equities and credit tend to fall while rate-sensitive assets tend to rally. More duration provides more macroeconomic diversification.

Putting these two ideas together, the bond portfolio could be reconfigured to a barbell strategy of short-term and long-term bonds. The message for pension plan sponsors? Don't call it LDI. Call it better bonds. ◆

Disclosures:

Andy Hunt *is a senior investment strategist and head of Fixed Income Solutions at Allspring Global Investments. In this capacity, he leads the development and execution of fixed income solutions across Allspring Global Investments' client base, with a particular focus on institutional clients and liability-driven investing solutions. Prior to this, he served as head of North American solutions at BlackRock for corporate pensions plans, including U.S. liability-driven investment capabilities. Andy began his investment industry career in 1992. Andy earned a bachelor's degree in mathematics from Cambridge University.*

Jonathan Hobbs *is the head of U.S. solutions for the Systematic Edge Investment Solutions team at Allspring Global Investments. In this capacity, he designs and implements outcome-oriented investment portfolios. Prior to this, he served as head of client solutions, San Francisco, and co-head of LDI North America for BlackRock. He began his investment industry career in 2003. Jonathan earned a bachelor's degree in actuarial science/ finance from Drake University.*

Modernized Pension Administration: Five Critical Automation Advantages for Public Sector Entities

By: Todd Flessner, CBIZ

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Traditional pension plans remain the norm in the public sector industry. Today, there are more than 5,000 public sector pension plans in the U.S.

While the administration of these plans has evolved through the years, many public sector entities aren't fully optimizing the advantages of automation, with some still relying on manual processes and spreadsheets. When evaluating the capabilities of a modernized Pension Administration System (PAS), here are five critical automatic advantages to consider.

1. Increased Accuracy and Efficiency

The automation of administrative tasks and processes can significantly improve accuracy and efficiency. Modern PAS platforms bring all the plan's data together in a centralized pension database. Along with the benefits of the initial data clean-up, a PAS can also provide user-friendly tools that streamline ongoing data imports.

PAS platforms automate pension calculations based on each plan's unique and often complex rules. Automation of calculations increases accuracy and reduces administrative time dedicated to calculations and verifications. Through automated administrative processes, the system is able to initiate, calculate and process monthly pension payments, and then automatically complete payment reconciliation between the PAS and the payments made.

To optimize current PAS capabilities, your system should also provide user-friendly case management/workflow that helps to streamline:

- Day-to-day management and tracking of participant requests and transactions
- Electronic storage of correspondence and historical documents
- Customizable workflows that trigger based on data updates, status changes or upcoming milestones

2. Reduction of Risk

The enhancements in accuracy and efficiency reduce the inherent risks associated with pension plan administration. Having an automated process helps to ensure plan provisions are consistently applied, data updates are timely and calculations are correct. This reduces the opportunity for data inconsistencies and overpayments. Today's PAS platforms provide the ability to produce on-demand calculations using real-time participant data and the flexibility to make adjustments as plan rules change.

The streamlined processing also creates increased transparency through detailed data audit trails, showing when changes were made, who made them and the resulting new values. The increased transparency ensures issues can be quickly identified, addressed and minimized. The detailed information also assists with internal and external audits.

3. Enhanced Data Security

Pension administration involves extensive private information that must be protected. Your PAS should provide end-to-end data security that's compliant with the Department of Labor's cybersecurity guidance. System security should enable different user access levels based on roles. Data access and actions can be defined for each level, helping to protect sensitive data. All access to the system by administrators or participants should always require multi-factor authentication at login.

When evaluating PAS platforms and plan providers, do a deep dive into their cybersecurity practices, procedures and track record. Ensure that contracts include ongoing compliance plans to keep pace with changes in security standards and detailed action plans in the event a data breach occurs.

4. Comprehensive Reporting

Modern PAS platforms do more than centralize pension data and administration. Today's systems include powerful, robust reporting tools through simple, intuitive reporting dashboards and report generation interfaces. Users can quickly and easily produce standard reports, create customized reports based on plan needs or perform ad-hoc queries. The single source of plan data ensures accurate, real-time reporting and enables reports to be generated automatically for ongoing monitoring.

PAS automation also streamlines the annual data extract required by plan actuaries to calculate pension liability. Built-in validations and verifications save time for both actuaries and plan administrators by minimizing questions and separate data requests.

5. Convenient User Access

Modern PAS platforms also provide valuable participant-facing capabilities that make information easily accessible and user-friendly. Today, participants expect secure, online portal access to instantly access information about their pension. Pension portal experiences include access to plan information and pre-filled forms, real-time calculation of current or future payments, and secure self-service options. These robust capabilities enable participants to complete tasks like making online retirement elections, updating beneficiary information or maintaining tax/banking information.

Fully automated systems also enhance participant experiences by giving plan administrators the ability to automatically trigger personalized communications to members as the system recognizes defined changes in employment status or upcoming age milestones. ◆

Todd Flessner, CBIZ *is a vice president of pension administration with the Retirement & Investment Solutions practice of CBIZ, Inc. He provides management and support for pension administration and is responsible for the implementation of new client accounts, complex pension calculations, special projects and new business development. Since 1994, Todd has experience managing teams that provide pension and benefits administration services for clients of all sizes.*

NCPERS **Asset Management**

2023: The Year of the Pension Hedging Revolution

By: Shauna Hewitt, LGIM America

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With ever-present uncertainty around interest rates, inflation, recession, geopolitics and more, we believe 2023 will see many plan sponsors move to preserve their funded status gains and narrow the range of future outcomes through hedging strategies.

Capitalizing on the inverted yield curve opportunity

Many pension plans have used long-dated STRIPS as a "blunt tool" to add interest rate duration to hedge the liabilities. We say it is blunt because STRIPS do not hedge as well when the yield curve steepens. Fortunately, for those who held STRIPS, the yield curve flattened substantially, and even inverted in 2022 — meaning the strategy has done quite well. And historically speaking, the yield curve tends to steepen dramatically after a Fed rate hiking cycle. In other words, now may be an opportune time for plan sponsors holding STRIPS to move to an LDI completion framework and hedge against a potential steepening yield curve scenario.

Monetizing your glidepath

Implementing glidepath frameworks have been popular investment strategies for over a decade, and we have seen many plans de-risk over the past year due to hitting specified funded ratios and/or interest rate levels. For plans that have not yet reached the end state of their glidepath, we may recommend looking into monetizing the future glidepath triggers by selling payer swaptions.

In this case, the plan would sell payer swaptions, which are options on interest rates, which the buyer could exercise if interest rates rise to a specified level. If rates fall, or stay below the strike price through expiry, the plan keeps the premium paid by the buyer at inception. If rates rise above the strike at expiry, the option will be exercised and the plan enters into a receive fixed/pay floating swap — an action that effectively buys duration, increasing the interest rate hedge, which is in line with the plan's glidepath. This strategy is designed to allow the plan to receive an upfront premium while committing to a decision that was already established via their glidepath. Of course, it's not guaranteed that the plan's funded status will be better when rates rise, as credit spreads and return-seeking asset performance may offset the gains due to rising rates. It is critical that the plan sponsor explore the strategy in greater detail prior to implementing.

While we believe this strategy makes sense for those on a glidepath in most market environments, periods with higher interest rate volatility may result in a higher premium for selling swaptions (and consequently may also mean there is a higher chance of the swaption being exercised).

One of the main themes of 2023 is the debate over the timing and severity of the upcoming recession that most market participants seem to be forecasting.

Reducing equity risk

One of the main themes of 2023 is the debate over the timing and severity of the upcoming recession that most market participants seem to be forecasting. Historically, one popular way to protect against equity downside without paying an upfront premium has been to implement a put-spread collar. This allows the plan sponsor to protect against downside equity returns up to a point, while capping the upside. In 2023, plans may want to consider a standard collar structure, one that provides unbounded downside protection. In the past, market pricing of standard collars limited upside substantially, but due to increases in interest rates and flattening implied volatility skew, this is not currently the case. Today, it may be possible to have a symmetrical collar, providing protection below a specified percentage and allowing gains up to that same specified percentage for the next 12 months, while potentially collecting a small premium. Employing this strategy can narrow potential equity return outcomes for pension plans even as uncertain economic conditions loom. ◆

Disclosures

Shauna Hewitt *is a Senior Investment Director at LGIM America. In her role, she focuses on Consultant Relations and Institutional Sales efforts in the Midwest Region. She covers Corporate Defined Benefit and Defined Contribution clients, Public Plans, Taft-Hartley as well as Endowments and Foundations.*

She has over 25 years of investment industry experience. Prior to joining LGIM America in 2018, she served as Managing Director at Pavilion Global Markets. Shauna founded Lambright Financial Solutions which was later acquired by Knight Capital Americas. She has also held senior roles at Loop, BNY Brokerage and CRA RogersCasey. Shauna began her career with Donaldson, Lufkin & Jenrette.

Shauna serves on various committees of community outreach services in Chicago in addition to being a former board member of Women Investment Professionals (WIP), current WIP Professional Development committee member and member of National Association of Securities Professionals. She is also the past chair of LGIM America's Women's Collective.

Navigating Inherent Risk: A Guide to Cyber Risk Management for Pension Funds

By: Peter Dewar & Joe Potischman, Linea Solutions

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Pension funds are fundamentally exposed to risk because of their business processes. This unavoidable exposure – or "inherent risk" – applies to all funds regardless of size. Understanding the nuances of how your fund operates is crucial to recognizing the cyber risks related to your services offered.

For instance, financial transactions and the handling of personally identifiable information constitute significant aspects of many organizations, and both bring with them inherent risks. If we examine a pension fund for example that provides services to active contributors and retired individuals, a broad spectrum of risk is dispersed across the entity.

Pension funds are usually recommended or required to conduct an annual actuarial assessment. This exercise involves meticulous scrutiny of various components like contributions, membership composition, and investment returns to determine funding levels. As pension funds supply this information to the actuary, they also inherit the third-party risk based on the actuary's risk mitigation capabilities.

Similarly, pension funds that deal with investment managers are exposed to third-party cyber risk. If these investment managers lack strong cyber controls, assets could inadvertently end up in the hands of threat actors (as we have written about in detail here). Likewise, providing member self-services, such as allowing members and annuitants to access information electronically, apply for loans, or update beneficiaries, could also expose organizations to cyber threats. .

Pension funds are usually recommended or required to conduct an annual actuarial assessment.

So, how can pension funds effectively manage this risk?

Watching the news and worrying or reacting to the latest security breach is not a preventative risk management strategy. Instead, developing a comprehensive risk management and mitigation approach is a more proactive solution. This process begins with a detailed risk assessment to determine the current likelihood of threats based on an organization's policies and operational activities

Next, pension funds should evaluate potential mitigation strategies. These could include implementing risk management controls that are aligned with recognized risk management standards, transferring risk to other organizations either through insurance or another means, or avoiding certain risks altogether. For example, opting not to offer a service such as refunds through a member self-service portal that exposes the organization to risk, unless a mitigation strategy is in place such as strong identity management capabilities.

After risk assessment and mitigation, the following critical step is continuous risk management. This ongoing process involves regularly reviewing and updating risk management strategies and practices, reflecting evolving threats and organizational changes.

Understanding your fund's inherent risk and cyber threats associated with its operations is vital. However, merely understanding isn't enough. Implementing a holistic risk management approach, which includes risk assessment, risk mitigation, and continuous cybersecurity governance, is essential to navigating the terrain of inherent risk. Remember, the goal is not to eliminate all risk – an impossible task – but to manage it effectively, maintaining a balance between security and operational effectiveness. ◆

Peter Dewar *has over 25 years of experience in cybersecurity and leads the cybersecurity practice for the Linea group of companies that provide services across the United States and Canada. Under his leadership Linea has developed a Pension Cyber Security Framework (PCSF) to complement the generalized standards for protecting information systems. The PCSF focuses on the business process employed, services provided, and technology utilized by pension and benefits organizations, and devises controls to minimize and mitigate the inherent cybersecurity risk experienced by the industry.*

Peter has a Master's degree in Information Systems from the George Washington University, a Bachelor's degree in Information Systems from the University of the District of Columbia, is a Certified Information Systems Security Professional (CISSP), Certified Data Privacy Security Engineer (CDPSE), and has received certificates of achievements from the Harvard Kennedy School of Government, Gartner CIO Academy, and International Foundation of Employee Benefit Plans.

Joe Potischman *is the marketing specialist for Linea Secure with over 5 years of experience in the professional services industry. With his work, Linea has been able to present at over 15 separate engagements and has been published by multiple pension and benefit associations.*

Joe has a Master's degree in Communication, Culture & Technology from Georgetown University. He has also received a Certificate of Achievement in Public Plan Policy from the International Foundation of Employee Benefit Plans (IFEBP). Prior to working for Linea, he managed, CommLawBlog, an award-winning blog on Communications Law & Policy.

Emerging Markets ex-China? Looking Beyond China for Opportunities within Emerging Markets

By: Navin Hingorani, CFA, Eastspring Investments

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China's increasing dominance within the emerging markets investable universe has numerous implications for strategic asset allocation and for allocators seeking to diversify sources of alpha across return-seeking assets. Despite heightened geopolitical risks and volatility, China plays a critical role within global portfolios and within emerging market (EM) equity allocations. The decision of whether asset owners want to invest in China and how to go about doing so is a complex and subjective topic but deserving of serious consideration.

As a specialist manager in Asia, with a long history of investing and operating in China, Eastspring believes that for many allocators the longer-term financial case for adding exposure to China is quite compelling. While this comes with headline risks given deteriorating relations with the West, the tremendous alpha opportunity is hard to ignore. As China's influence and size within EM indices grows, we believe it may be more efficient to gain exposure through a dedicated China allocation while at the same time, creating a separate and less correlated EM ex-China allocation. While still early days, there've been increased discussions among large public and sovereign wealth funds about making the shift and numerous managers have launched ex-China strategies to meet anticipated demand. In some cases, the decision to exclude China all together is based on opposing views of risks or given ESG concerns, in which case an ex-China allocation is also an effective solution.

China plays a critical role within global portfolios and within emerging market (EM) equity allocations.

While strategic asset allocation decisions have implications for China's domestic markets, they also create "spill-over" effects on peripheral EM countries outside China, which stand to benefit from shifting allocations within an ex-China framework. Coupled with positive foreign direct investments (FDI) into peripheral EM countries resulting from diversification of global supply chains, the "China +1 effect" is creating substantive positive tailwinds for ex-China beneficiaries. With China comprising 30% of the MSCI EM index and continuing to grow, it's arguable that it's still under-represented within global portfolios, justifying larger, discrete allocations. China represented 5% of the MSCI EM Index 20 years ago, and at year end 2022, it stood at 32% and is forecast to hit 44% with 100% inclusion of onshore China A shares. As China's index weighting continues to rise, attractive alpha opportunities in other emerging markets will continue to be crowded out as they have disproportionately smaller index weights. Asset owners cannot afford to miss out on idiosyncratic opportunities across EMs ex-China and shouldn't have their opportunity set limited by the benchmark.

As China's index weighting continues to rise, attractive alpha opportunities in other emerging markets will continue to be crowded out as they have disproportionately smaller index weights.

As historically seen with ACWI ex U.S. and Asia Pacific ex Japan, when a single country dominates a global or regional index, sophisticated investors typically transition to discrete allocations to that dominant market to better optimize active risks and in turn often hire specialized asset managers within that region to generate alpha. This transformation to EM ex-China plus dedicated China is gaining traction and we believe it's the beginning of a sustained, longer-term shift in strategic asset allocations. ◆

Disclosures:

Source: MSCI, RIMES, Morgan Stanley Research as of 28 February 2023

This Strategy Overview provides additional analysis and summarizes an Eastspring strategy; it is not an offer or solicitation for any specific securities or vehicles. The information herein is believed to be reliable at time of publication, but Eastspring Investments does not warrant its completeness or accuracy and is not responsible for error of facts or opinion. Any opinion or estimate contained in this document may subject to change without notice. This document is solely for information and does not have any regard to the specific investment objectives, financial or tax situation and the particular needs of any specific person who may receive this document. Supplemental information, benchmark illustrations and representative accounts were all selected on best available data. The representative accounts chosen best represents guidelines, objectives and restrictions for this strategy and not based upon investment performance.

Navin Hingorani *is a Portfolio Manager within Eastspring Investment's Global Emerging Markets Focus Value Team, based in Singapore. He joined the firm in January 2011. Navin is the lead Portfolio Manager for the Global Emerging Markets ex China Dynamic Strategy as well as Co-Portfolio Manager for the Global Emerging Markets Fundamental Value strategy.*

Prior to joining Eastspring, Navin worked as an Equity Research Analyst at Bear Stearns in London. In 2003, Navin joined RMB Asset Management, focusing on US equities. In 2006, Navin joined the Emerging Markets team at JP Morgan Asset Management in London, focusing on the EMEA region, and was subsequently promoted to Portfolio Manager, responsible for covering strategies focused on the EMEA region. Navin has 23 years of investment experience.

Navin is a CFA charterholder and holds a Bachelor of Science (Hons) from University College London in Economics and a Masters of Science in European Politics & Policy from London School of Economics.

General Partner (GP)–Led Secondaries

By: Steven Hartt, CAIA & Balaj Singh, CFA, CAIA, Meketa Investment Group

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General Partner (GP)-led transactions are initiated by the GP, often to restructure the ownership of one or more assets within their funds while providing a liquidity option to existing Limited Partners (LPs). While the bespoke nature of GP-led transactions has produced a variety of structures, the vast majority involve creating a new vehicle, called a "continuation fund," that purchases one or more companies from the GP's existing fund(s). The continuation fund is managed by the same GP and backed by new investors plus any existing LPs that wish to retain exposure to the asset(s).

Increase in GP–Led Secondary Volume

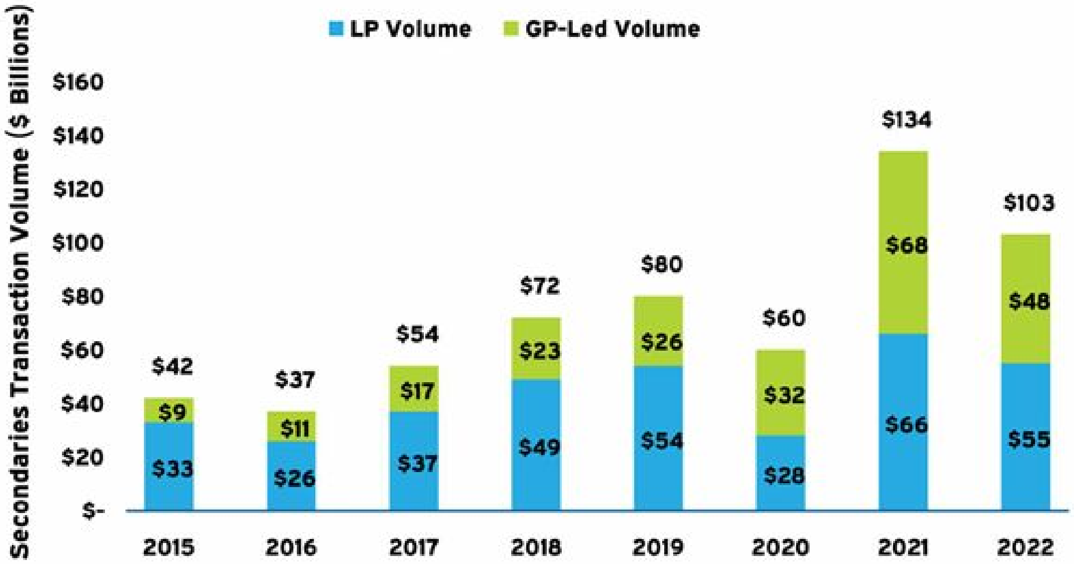
The secondaries market has grown substantially in recent years. Over $132 billion in secondary transactions took place in 2021. The secondary transaction boom has been accompanied by strong growth in GP-led secondary transactions. As shown in Figure 1, over 50% of secondary transactions in 2020 and 2021 were GP-led deals. Further, GP-led secondary transactions grew from $9 billion in 2015 to $68 billion at its peak in 2021.

The secondary transaction boom has been accompanied by strong growth in GP-led secondary transactions.

The mechanics of these transactions

In the GP-led secondary process, the GP decides they would like to continue to maintain ownership of one or more assets in a fund that is nearing the end of its term. The GP causes their fund to enter into an agreement with a continuation fund (also controlled by the GP) to purchase a significant portion of one or more of the assets. As part of this transaction, the GP negotiates with an unaffiliated third party to provide capital to, among other things, offer liquidity to those LPs that wish to exit their investment.

FIGURE 1: Secondary Market Annual Transaction Volume



Source: Evercore, 2022 Secondary Market Synopsis.

In connection with the transaction, the GP typically offers the existing LPs of the fund the option:

a) to sell their interest and receive the pro rata portion of the cash purchase price,
b) to "roll" their pro rata share of the Limited Partnership interests in the fund into the continuation fund established to purchase the asset(s),
c) to increase their participation above their pro rata share of the new interest, or
d) in some cases, to receive a combination of options (A) and (B).

Challenges and considerations

GP-led secondary transactions require significant attention from LPs, but the timing and process is often difficult to predict. This can be disruptive for an LP that is reviewing multiple deals at the same time.

The structure of each GP-led secondary transaction is typically unique, making evaluating the impact of an election to buy, sell, or hold complex. Due diligence for GP-led secondaries can often be labor and resource intensive. These transactions require a distinct skill set to respond in a "real-time," transaction-oriented timeframe to evaluate factors including transaction pricing and valuation, vehicle structure, and economic terms.

Given that the particular asset has likely been "de-risked" (e.g., more diversified revenue base, increased operational efficiency, higher profit margins, lower debt ratio, etc.) under the GP's ownership, the next leg of value development may offer less upside than the first phase. The investor should understand the value creation strategy as well as the scope of the GP's resources to assist the company in its next phase of growth.

The structure of each GP-led secondary transaction is typically unique, making evaluating the impact of an election to buy, sell, or hold complex.

GP-led secondary transactions can also present conflicts of interest, as the transaction can introduce different alignments of interest among the parties, including, for instance, payment of carried interest to the GP. The GP has a duty to act in the best interest of the LPs in the current fund while also trying to broker a deal with a buyer which the GP itself controls, thereby giving the GP a financial interest on both sides of the transaction. To address the conflict of interest related to valuations, GPs should consider engaging an independent valuation firm and also consider obtaining Limited Partner Advisory Committee ("LPAC") or investor approval of the transaction terms, especially the sale price.

Conclusions

For experienced LPs with capital to deploy, there is currently a significant supply of GP-led secondary transactions in which to potentially invest. We expect that there will continue to be a substantial number of GP-led secondary transactions to consider, particularly in today's more challenging market conditions and slower transaction volume. However, not all deals are created equal, and GP-led transactions tend to have different structures and considerations for investors to consider – so due diligence experience is essential. ◆

Disclaimers

Steven Hartt, CAIA *joined Meketa in 2010 and has been in the financial services industry for 36 years. He works in the Private Markets Group where he leads the firm's private equity manager research efforts, as well as our private equity coinvestment and secondary transaction sourcing, execution, and research. In addition to his research efforts, Mr. Hartt works directly with clients on their private markets programs.*

Prior to joining Meketa, Mr. Hartt was a Senior Vice President at Amalgamated Bank where he was in charge of alternative investments. While at Amalgamated Bank, he managed the discretionary portfolios of private equity, debt, and infrastructure funds, in addition to the development, marketing and management of a private equity fund of funds.

Mr. Hartt received a Master's of Business Administration from Columbia Business School, and a Bachelor of Science degree, cum laude, from the University of Colorado, Boulder.

Balaj Singh, CFA, CAIA *joined Meketa in 2022. An Analyst on the Private Markets team, his work includes sourcing, evaluating, and monitoring private equity investment opportunities.*

Prior to joining Meketa, he was a research Analyst at West Capital Management, a family office RIA with $1 billion in AUM. Mr. Singh was responsible for investment due diligence on managers, portfolio construction, and performance reporting. Previously, he was a Senior Stock Operations Associate at Broadridge Financial Solutions, Inc. and a Client Service Analyst at Hamilton Lane Advisors.

Mr. Singh graduated from Rutgers University with a Bachelor of Science in Finance and Accounting with a Minor in Economics and he is currently enrolled in a Master of Science in Finance at Georgetown University.

Beyond Retirement Benefits: Equipping Members with Just-In-Time Financial Information

By: Thomas Anichini CFA, CFP, GuidedChoice/3Nickels

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Retirement security is a goal all plans seek to provide. Beyond retirement security, members' financial situations vary from one to another and across their working lives. At different times, members may face decisions about buying a home, paying off debt, or saving for college. They would benefit from having access to financial guidance on demand.

Researchers Fernandes, Lynch, and Netemeyer have shown the best way to equip people to make financial decisions is with "just in time" financial education.[1] Since acquired knowledge is a "use it or lose it" tool, attempts at financial literacy often make little difference because their concepts have been forgotten by the time they are needed. The authors found that a brief financial education intervention just prior to a decision may guide a person to a better choice.

In that spirit, we attempt to offer individuals the guidance they need to make an informed choice about whatever personal finance topics interest them. For some, that guidance is in the form of topical videos. For others, DIY mobile app calculators. Holistic advice is meant to keep someone on track for their financial goals according to their current priorities.

Holistic advice is meant to keep someone on track for their financial goals according to their current priorities.

Source of guidance	Topics	Benefits
Educational program	Money Debt Spending Investing Giving	Learn from topical videos and track progress with occasional quizzes
Mobile app calculators	Budget Rent or buy Pay off debt Finance a car Save for college Buy or sell a home	Access only the help needed at the time it is needed
Holistic financial advice	How to allocate discretionary income	Define your current financial goals Prioritize your goals Learn how to allocate your paycheck according to your priorities Revise as time passes and your goals change

Consider the prospect of paying down debt. People who are not financial professionals might not realize just how much money they could save by paying more than their minimum payments. Imagine a person who holds three debts totaling $54,000.

Measure	Debt 1	Debt 2	Debt 3	Total
Minimum payment	$267	$458	$691	$1,416
APR	12%	18%	24%	19.33%
Balance	$12,000	$18,000	$24,000	$54,000

With access to the relevant mobile calculator, the person can calculate the actual time and dollar savings available from paying more than the minimum. The calculator would require details about the debts – balance, rate, minimum payment – and how much extra the person could pay. (For this example, assume $200/month). The results show how long it will take and how much interest it will cost to pay off the debt by paying only the minimum and compares that to two different early payoff strategies, “Avalanche” and “Snowball.” “Avalanche” pays the extra to the highest interest rate debt; “Snowball” to the smallest balance.

The output reveals the time and money savings from paying more than the minimum according to both strategies.

Payment Plan	Months until payoff	Total Interest Paid
Minimum payment *Pay only the minimum payment each month*	60	$30,801
Snowball *Pay extra $200 each month on smallest balance*	50	$26,106
Avalanche *Pay extra $200 each month on highest interest rate*	48	$23,061

Source: Author's calculations based on 3Nickels mobile app

Instead of simply learning that paying more than the minimum can be advantageous, having access to a calculator where they may enter their own information and see their savings in terms of time and dollars of interest might spur the member to pursue one of the early payoff strategies.

Debt payoff is merely one topic among many. While some members might benefit merely from having access to on-demand education and single-topic calculators, others may prefer holistic financial advice: advice on prioritizing their entire discretionary spending. Members' financial situations are complex and constantly evolving. They likely have different values with respect to debt, saving, owning property, and personal and charitable giving. Holistic financial advice first asks them about their priorities and then guides them in deciding how best to allocate their paycheck according to their values. ◆

Endnotes:

[1] Daniel Fernandes, John G. Lynch Jr, and Richard G. Netemeyer, "Financial literacy, financial education, and downstream financial behaviors," Management Science 60, no. 8 (2014): 1861-1883.

Thomas Anichini, CFA, CFP, *is Chief Investment Strategist with GuidedChoice / 3Nickels, with over 30 years of actuarial and investment experience.*

Tom is a member of GuidedChoice's Investment Committee. He refines GuidedChoice's capital market assumptions and proprietary return model, and also contributes to GuidedChoice's retirement advice engine and 3Nickels financial advice engine. Tom communicates about the firm's philosophy and advice, and represents the investment team when facing clients and consultants.

Prior to joining the firm, Tom gained experience in various actuarial, investment consulting, and portfolio management positions, including for EnnisKnupp & Associates, Mercer, Westpeak Global Advisors, and Freeman Investment Management.

Private Credit: Decision Drivers for Today's Markets

By: Randy Schwimmer, Churchill Asset Management

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The private capital industry has seen a surge in popularity among investors seeking stability in the face of public market volatility, recession fears and banking sector turmoil. Private capital not only provides the potential for attractive income and returns but also serves as a less correlated portfolio diversifier, generally with lower mark-to-market volatility than the public markets. In today's economic climate, many investors are prioritizing scaled, conservative managers with proven track records and all-weather portfolios to help them meet their investment objectives. The confluence of higher interest rates and overall economic uncertainty can lead to attractive private capital investment opportunities; however, it is critical to align with experienced managers that remain vigilant, selective, and diversified.

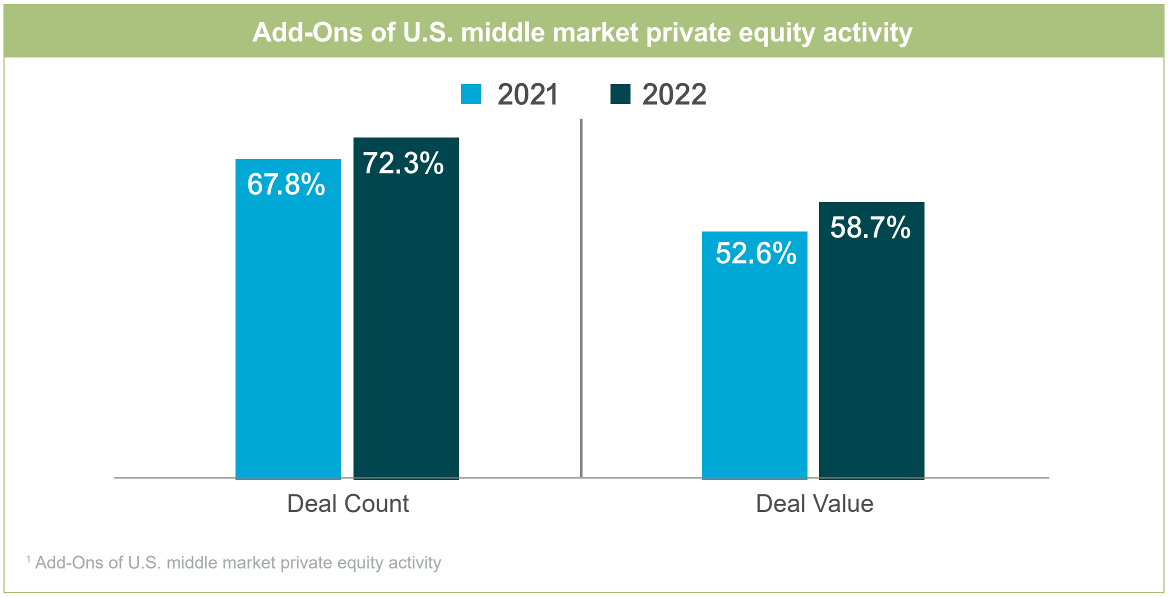
Churchill's investment teams share what is top of mind today from an underwriting perspective and why we are completing deals in this environment.

Top three reasons we're completing deals today

1. Already in our portfolio

In a volatile market, the best and healthiest companies often play offense and seek to grow through M&A. Private capital managers with large existing portfolios and flexible mandates are well positioned to benefit from this trend. Through Q1 2023, financing add-ons within Churchill's existing portfolio have seen a meaningful uptick, representing 60% of senior lending volume and accounting for 20% of the capital deployed by its equity co-investment strategy. We expect to see tailwinds for add-on activity to continue well into 2023 from 2022, where add-on transactions represented over 70% of all U.S. middle market private equity deal count.[1]

Private capital not only provides the potential for attractive income and returns but also serves as a less correlated portfolio diversifier…



2. Top sponsor relationships

Investors must adjust to a new paradigm after 10+ years of strong market conditions. In today's environment, partnering with top-tier private equity firms is more important than ever. Those with strong investment teams, proven value creation strategies and differentiated networks of operating partners and potential executives have the ability to perform irrespective of broader economic conditions. Furthermore, working with many top-tier sponsors can give investors a wide perspective on deal flow, driving increased selectivity. The ability to both identify and access private equity firms with which to partner is predicated upon years of relationship building, cemented by scale and a longstanding presence in the market.

3. Less cycle sensitive

Many investors have been positioning their portfolios in anticipation of a downturn for several years, seeking to back non-cyclical assets. Yet, what does it mean to be "non-cyclical" in today's world? The last five years have shown that performance during negative GDP growth is not the only factor to consider when evaluating the durability of businesses. Pandemics, inflation, and rising interest rates all have the potential to wreak havoc on profitability and growth. Investors should focus on partnering with companies that succeed in any macroeconomic environment. Churchill seeks to identify businesses whose products and services are a) non-discretionary, b) purchased on a recurring basis, and c) comprised of a small percentage of customers' overall cost structure but command a high cost of failure. In our experience, companies that demonstrate a combination of these three factors are most likely to provide downside risk mitigation protection in a variety of market conditions. ◆

Endnotes:

1 Pitchbook 2022 Annual U.S. PE Middle Market Report. 2 Reflects committed capital as of 01 Jan 2023. The amount of 'private capital invested' shown above includes private credit and private equity investments made, originated or committed to by Churchill Asset Management LLC and its affiliates, including TIAA, since 2011 (in respect of its Private Equity and Junior Capital platform) and since 2015 (in respect of its Senior Lending platform). Investments include committed investments that ultimately may not have been fully drawn or funded.

Randy Schwimmer *is co-head of senior lending and oversees senior lending origination and capital markets for Churchill Asset Management, an investment specialist of Nuveen.*

Randy has broad experience in middle market finance and is widely credited with developing loan syndications for middle market companies. Prior to joining the firm, Randy served as a senior managing director and head of capital markets and indirect origination at Churchill Financial. In those positions, he took responsibility for all loan capital markets activities and for managing the firm's indirect origination platform. Before that, he worked as managing director and head of leveraged finance syndication for BNP Paribas. He spent 15 years at JP Morgan Chase in corporate banking and loan syndications, where he originated, structured and syndicated leveraged loans.

Randy graduated with a B.A., cum laude, from Trinity College and an M.A. from the University of Chicago.

The Cyber Threats for Pension Funds

By: Steve Ross, Board Smart LLC

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Public employee pension funds are prime targets for cyberattacks. Very few other enterprises have the combination of large amounts of personally identifiable information (PII), lots of money and relatively small staffs. Most financial institutions with assets the size of a typical pension fund have many more employees, particularly in Information Security. Hedge funds and private equity firms also have plentiful assets, but very little personal information, while companies with databases rich in PII rarely have as much money as pension funds do.

The recent cyberattack on a servicer to CalPERS and CalSTRS, America's two largest public employee pension funds, has exposed the PII of more than a million members and the reality of the threat to pension funds. And this was not an isolated incident. Attacks have been reported on systems in Oklahoma, Massachusetts, and Missouri, among other jurisdictions.

Public employee pension funds, especially those with fewer IT-savvy employees, must protect themselves.

Public employee pension funds, especially those with fewer IT-savvy employees, must protect themselves. The first thing is to accept the potential danger and to train employees as to what they can do – and not do – to make their systems safer. Equally, boards should be educated as to the magnitude of the threat in their systems so that they can allocate adequate resources to prevent and detect cyberattacks and to build resilience should an attack occur.

Every fund that runs its own systems, whether on their premises or in the cloud, should implement at least a baseline cybersecurity program. The Employee Benefits Security Administration (EBSA) Cybersecurity Program Best Practices lists twelve measures that range from the general ("Have a formal, well-documented cybersecurity program.") to the rather specific ("Encrypt sensitive data, stored and in transit.") Every pension fund should be aware of this guidance, even if they feel they cannot afford to adhere to all its requirements. Those funds that outsource benefits administration, investments or both should ensure that their service providers follow EBSA's practices.

In terms of information security technology, every pension fund's systems should be equipped, at a minimum, with up-to-date firewalls (also known as next generation firewalls), intrusion detection and prevention software and, of course, encryption. Equally important is to have round-the-clock monitoring of information systems applications and infrastructure to detect attempted attacks, or worse, successful ones. There needs to be an incident response capability so that malware can be removed before it causes too much damage. Finally, every pension fund should have a plan for how they will continue to serve members and annuitants if a cyberattack does bring down their critical systems.

All of these technical and organizational measures require people to implement, administer and maintain them.

All of these technical and organizational measures require people to implement, administer and maintain them. Often, this is the limiting factor for adoption of best practices, especially for smaller funds. There are outsourced services known as Managed Security Service Providers (MSSP) that can fill the gap. They can bring the expertise, resources and technology that these funds either lack or cannot afford.

However, if a public employee pension fund chooses to address the issue of cybersecurity, it must accept the reality that this is not a one-time investment. Each advance in information technology has been accompanied by bad guys (a technical term) who attempt to exploit the vulnerabilities that are introduced. This will go on for the foreseeable future. ◆

Steven Ross *is Senior Advisor at Funston Advisory Services and holds certification as a Certified Information Systems Security Professional (CISSP) as well as a Master Business Continuity Professional (MBCP), a Certified Information Systems Auditor (CISA) and a Certified Data Privacy Solutions Engineer (CDPSE). Mr. Ross is a specialist in the field of information systems security and control, specializing in Information Security, Business Continuity Management, Data Privacy and IT Disaster Recovery Planning services. He has implemented Information Security programs for numerous pension funds, banks, government agencies and industrial corporations. Prior to joining Funston Advisory Services, Mr. Ross was a Director and global practice leader with Deloitte.*

In consulting engagements, he specializes in planning, policy development, implementation, and standardization of Information Security processes. In recent years, his focus has been on reliability, prevention, detection and recovery from the technical and business impact of cyberattacks.

Worlds Apart: The Case for Separating Emerging Markets from your International Allocation

By: Natascha B. E. Willans, ABS Global Investments

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While emerging markets may only represent 29% of the allocation of the international index, it deserves a far larger percentage of a manager's attention. These markets are too large, diverse, and complex to be managed as an afterthought. Equally, the cost in terms of forgone alpha potential is too high.

An Impossibly Large International Universe

Forty-five countries, 2,237 stocks.[1] The international equity universe as defined by the MSCI AC World ex-US Index leaves investors with an impractically large universe. The natural question is whether it is possible for even an experienced investor to cover such a large universe in appropriate depth. Faced with this dilemma, allocators are encouraged to rethink the universe and split it into more manageable sub-segments: emerging and developed markets.

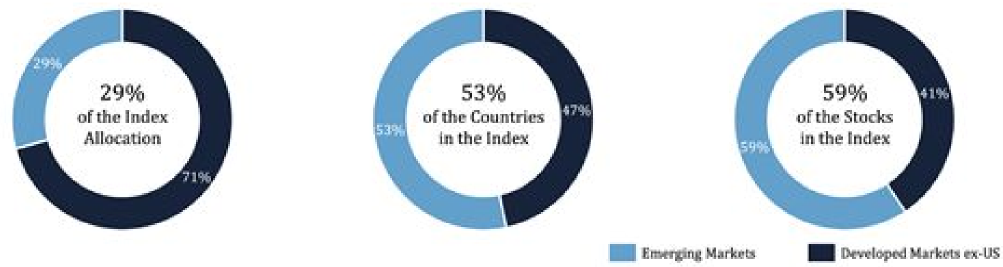
Emerging Markets: An Increasing Part of International Markets

The steady growth in the size and importance of emerging markets should not be overlooked. As recently as 2004 these markets represented only 10% of the international index. The allocation has grown almost three times since then.[2] Similarly, the number of stocks within these markets have multiplied over four times in the past 20 years.[3] While emerging markets today represent just under 30% allocation within the MSCI AC World ex-US index, they represent more than half of its countries and 59% of its stocks.

Each country has its own economic, political and market dynamics to be analyzed and each stock their own fundamentals to be dissected. So, while emerging markets have rapidly grown as a segment within international markets, managers trying to cover the full universe have generally struggled to expand their coverage at the pace of this evolution.

Each country has its own economic, political and market dynamics to be analyzed and each stock their own fundamentals to be dissected.

Emerging Markets as a Share of MSCI AC World ex-US Index

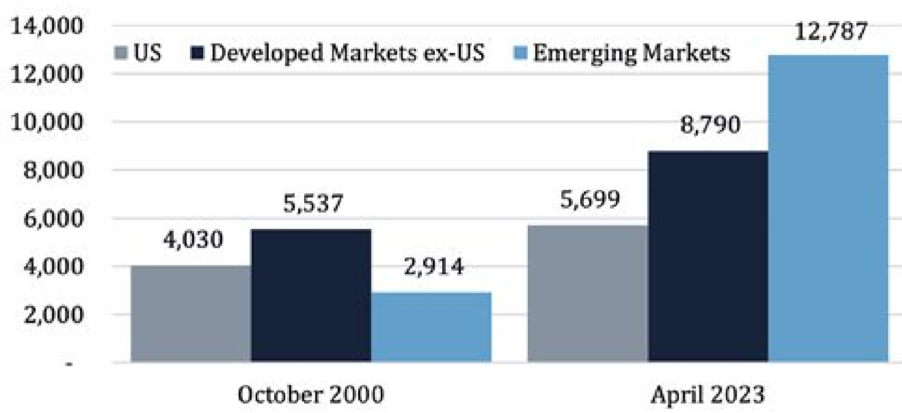


Source: MSCI and Bloomberg as of May 31, 2023.

Growth of Emerging Markets in the MSCI AC World ex-US Index

Source: MSCI and Bloomberg as of May 31, 2023.

Stock Universe with over $100M Market Cap: 2000 vs 2023



Source of October 2000 Data: MSCI, FactSet as of October 31, 2000. Includes all stocks by country with market caps over $100M. Source of April 2023 Data: MSCI, Bloomberg. Country weights as of April 30, 2023. Data based on Bloomberg EQS screen that includes all stocks by country with market caps over $100M as of April 30, 30, 2023. Developed and Emerging Market country definitions based on MSCI classifications.

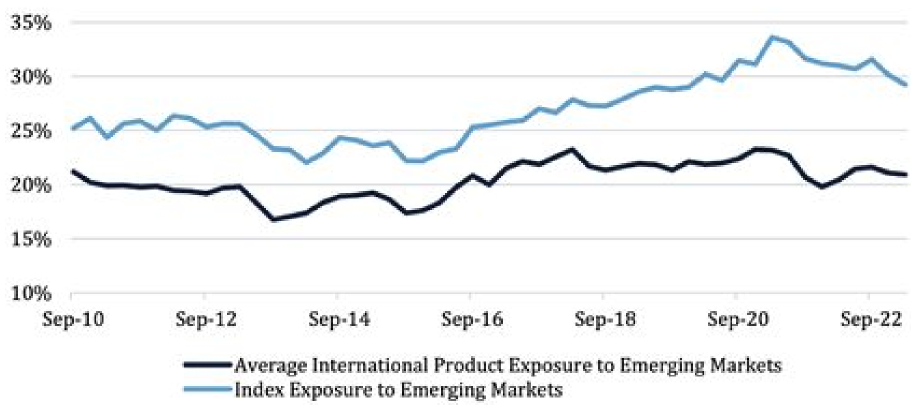
Emerging Markets Inefficiency & the Alpha Opportunity

It is generally accepted that emerging market equities are priced more inefficiently than developed market equities. Not only are information asymmetries more significant, but in many cases the large presence of retail investors creates further opportunities. This backdrop makes emerging markets fertile ground for skilled active managers to generate substantial alpha via stock selection. However, for this inefficiency to translate into value, investors must have the time, focus and mandate to scour this large and complex universe to find these opportunities.

Pitfalls of a Combined Allocation

Without the bandwidth to perform appropriate diligence, many international strategies "make do". In the past, we found that approximately 80% of international products were underweight emerging markets.[4] Although all these strategies were benchmarked to an index that includes emerging markets, they were on average underweight the asset class by 28%.[5] Further, when these products were able to generate alpha within emerging markets, it tended to be driven by style, country and/or sector bets, rather than stock selection.

International Products Consistently Underweight Emerging Markets



Source: eVestment as of Q1 2023. Universe defined as all active products within eVestment's "All ACWI ex-US Equity" universe with over $100M in AUM. Universe filtered to include only products with a preferred benchmark of MSCI ACWI ex-US Equity, MSCI ACWI ex-US Growth Equity, MSCI ACWI ex-US Value Equity and MSCI ACWI ex-US Small Cap Equity.

International Products by Emerging Markets Allocation

Source: eVestment as of Q1 2023. Universe defined as all active products within eVestment's "All ACWI ex-US Equity" universe with over $100M in AUM. Universe filtered to include only products with a preferred benchmark of MSCI ACWI ex-US Equity, MSCI ACWI ex-US Growth Equity, MSCI ACWI ex-US Value Equity and MSCI ACWI ex-US Small Cap Equity.

Conclusion

Once an afterthought for most managers focused on international markets, emerging markets have grown to become a core part of the non-US equity universe. Their diversity and inefficiency offer active managers an excellent opportunity for alpha generation, however, the magnitude and complexity of underlying markets require dedicated resources to extract this alpha. Moreover, the rapid growth of these markets suggests that the challenges of covering the full suite of international countries in one mandate will continue to grow. We believe the best way to extract alpha from these markets is to separate developed and emerging countries and specialize. ◆

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Endnotes:

1. Number of countries and stocks within the MSCI AC World ex-US Index as of May 31, 2023.
2. Emerging Market countries as a percent of MSCI AC MSCI AC World ex-US Index as of May 31, 2023.
3. Refers to stocks within each stock market defined as an emerging market by MSCI, with at least $100M in market capitalization. As of April 30, 2023
4. Data based eVestment as of Q1 2023. Universe defined as all active products within eVestment's "All ACWI ex-US Equity" universe with over $100M in AUM. Universe filtered to include only products with a preferred benchmark of MSCI ACWI ex-US Equity, MSCI ACWI ex-US Growth Equity, MSCI ACWI ex-US Value Equity and MSCI ACWI ex-US Small Cap Equity. Considers data from Q1 2019 through Q1 2023.
5. IBID

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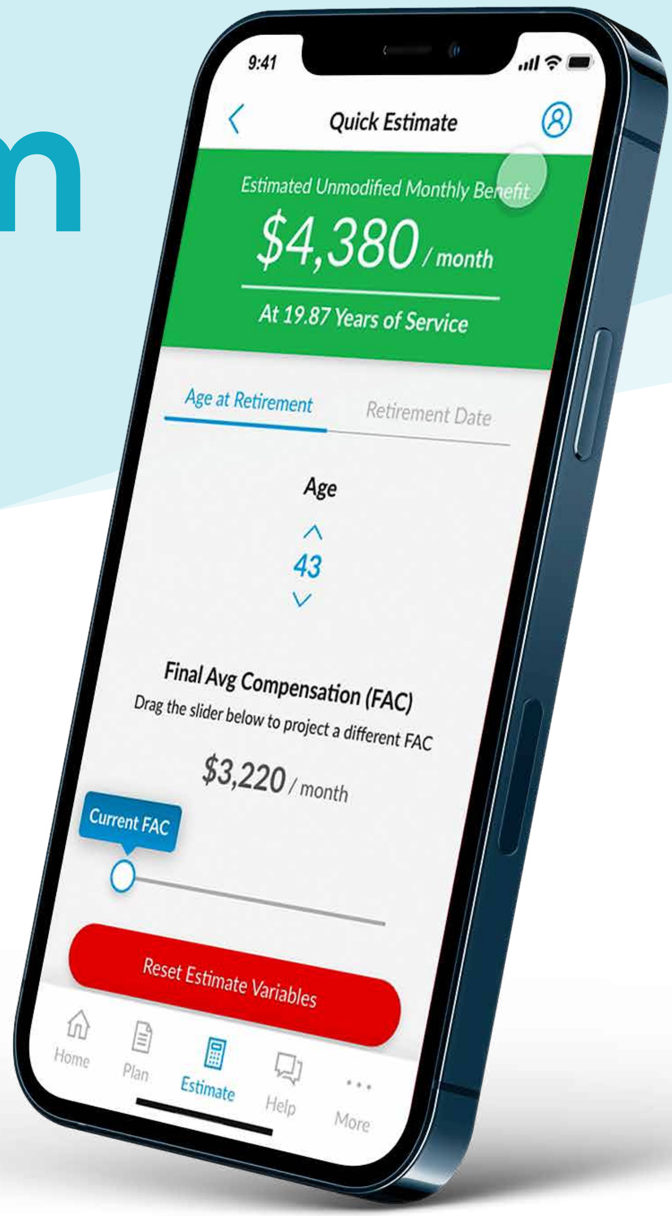
Prior to joining ABS in November 2013, she was an Executive Director in Goldman Sachs' Global Portfolio Solutions group participating in the oversight of multi-asset class investment portfolios and manager research and selection. She holds a BS in Finance, Marketing and Italian Language Studies from Georgetown University.

NCPERS PensionX Digital Platform



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