

AGENDA



Date: October 6, 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, October 12, 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/83364156526?pwd=OG5CbEFhajN5V0hWaUFJMIhYcHQ2Zz09> Passcode: 923237.** 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 September 14, 2023

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

3. Approval of Estate Settlements

4. Approval of Survivor Benefits

5. Approval of Service Retirements

6. Spouse Wed After Retirement (SWAR)

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Retirement and Payments Approval Policy

2. Monthly Contribution Report

3. Board approval of Trustee education and travel

a. Future Education and Business-related Travel

b. Future Investment-related Travel

4. Potential Technology Projects

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.076 of the Texas Government Code.

5. Initial Reading and discussion of the 2024 Budget

6. Financial Audit Status

7. Article 6243a-1 Section 2.025

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.

8. Portfolio Update

9. Report on Investment Advisory Committee

10. Global Growth Equity Search

11. Investment Policy Statement Amendments

12. Private Asset Cash Flow Projection Update

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

13. Lone Star Investment Advisors

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.

- 14. 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 (October 2023)
 - TEXPERS Pension Observer (Vol. 3 2023)
<https://online.anyflip.com/mxfu/hphj/mobile/index.html>
 - b. Open Records**

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

At any point during the consideration of the above items, the Board may go into Closed Executive Session as per Texas Government Code, Section 551.071 for consultation with attorneys, Section 551.072 for real estate matters, Section 551.074 for personnel matters, Section 551.076 for deliberation regarding security devices or security audits, and Section 551.078 for review of medical records.



MOMENT OF SILENCE

In memory of our Members and Pensioners who recently passed away

NAME	ACTIVE/ RETIRED	DEPARTMENT	DATE OF DEATH
Carl C. Smith	Retired	Fire	Sept. 4, 2023
John W. Berry	Deferred Vested	Fire	Sept. 5, 2023
Virgil D. Lee Jr.	Retired	Police	Sept. 6, 2023
J P. Graybill	Retired	Police	Sept. 18, 2023
John S. Wade	Retired	Police	Sept. 20, 2023

Regular Board Meeting –Thursday, October 12, 2023

**Dallas Police and Fire Pension System
Thursday, September 14, 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 8:30 a.m. Nicholas A. Merrick, Michael Brown, Steve Idoux (by telephone), Mark Malveaux, Tina Hernandez Patterson, Nancy Rocha (by telephone), Anthony Scavuzzo, Matthew Shomer, Marcus Smith, Michael Taglienti, Tom Tull

Absent: None

Staff

Kelly Gottschalk, Josh Mond, Brenda Barnes, Ryan Wagner, Christina Wu, Akshay Patel, John Holt, Nien Nguyen, Milissa Romero, Cynthia J. Thomas

Others

Leandro Festino, Colin Kowalski, Cara Mendelsohn, Ken Haben (by telephone), Luke Gittemeier (by telephone)

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The meeting was called to order at 8:30 a.m.

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A. TRUSTEES

Welcome Newly Appointed Trustees

The Board welcomed Police Officer Trustee, Michael Taglienti and Firefighter Trustee, Matthew Shomer, both of whom were certified and deemed elected by the Board, and Mayoral Appointee, Tom Tull. They all will serve a three-year term from September 1, 2023, until August 31, 2026.

No motion was made.

**Regular Board Meeting
Thursday, September 14, 2023**

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B. MOMENT OF SILENCE

The Board observed a moment of silence in memory of active police officers Matthew E. Bacon, Jose E. De La Rocha, John G. Kipp, retired police officers Benny M. Newman, Barry M. Whitfield, and retired firefighters Tracy A. Murphy, T G. Gray, Truman Graves, Ronald R. Johnson, Ronnie L. Cessna, Leonard F. Johnson.

No motion was made.

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C. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of August 11, 2023

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

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

4. Approval of Estate Settlements

5. Approval of Survivor Benefits

6. Approval of Service Retirements

7. Approval of Alternate Payee Benefits

8. Spouse Wed After Retirement (SWAR)

After discussion, Mr. Taglienti made a motion to approve the minutes of the meeting of August 10, 2023. Mr. Tull seconded the motion, which was unanimously approved by the Board.

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

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**Regular Board Meeting
Thursday, September 14, 2023**

D. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Board Officers Election

The Chairman requested Trustees who are interested in serving as Vice Chairman and Deputy Vice Chairman to notify him for the Board’s consideration at the October meeting.

No motion was made.

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2. Board Committee Appointments

The Board has three permanent committees, the Audit Committee, the Professional Services Committee, and the Investment Advisory Committee.

The Chairman proposed the following committee assignments below.

Audit Committee (AC)	Professional Services Committee (PSC)
Nick Merrick, Chair	Steve Idoux, Chair
Tony Scavuzzo	Mark Malveaux
Matt Schomer	Marcus Smith
	Michael Taglienti

	Investment Advisory Committee (IAC)	Terms Expire
Board Member #1	Tom Tull, Chair	09/14/2025
Board Member #2	Michael Brown	12/31/2024
Board Member #3	Nancy Rocha	12/31/2025
Board Member #4	Tina Hernandez Patterson	12/15/2024
External #1	Ryan Bailey	12/31/2025
External #2	Rakesh Dahiya	12/31/2025
External #3	Luke Gittemeier	12/31/2024
External #4	Ken Haben	09/14/2025
External #5	Robert Jones	12/31/2024
External #6	Jamil McNeal	12/31/2024

After discussion, Ms. Hernandez Patterson made a motion to appoint Trustees to serve on committees as nominated by the Chairman. Mr. Smith seconded the motion, which was unanimously approved by the Board.

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**Regular Board Meeting
Thursday, September 14, 2023**

3. Financial Audit Status

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

No motion was made.

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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. HB 4034 Update

The Staff briefed the Board on the implementation of HB 4034. Pursuant to the Correction of Errors in Benefit Payments Policy, the Executive Director reported the discovery of four underpayments, three of which were in excess of \$10,000.

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, September 14, 2023**

8. Second Quarter 2023 Investment Performance Analysis and First Quarter 2023 Private Markets & Real Assets Review

Leandro Festino, Managing Principal and Colin Kowalski, Investment Analyst of the Meketa Investment Group reviewed the Dallas Police & Fire Pension System’s investment performance.

No motion was made.

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9. Review of Public Fixed Income

Leandro Festino, Managing Principal and Colin Kowalski, Investment Analyst of the Meketa Investment Group provided an overview of DPFP public fixed income investments.

No motion was made.

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10. Hardship Request

The Board went into closed executive session – Legal at 10:08 a.m.

The meeting reopened at 10:33 a.m.

Staff reviewed a hardship request with the Board. After discussion, Mr. Malveaux made a motion to deny the hardship request. Mr. Taglienti seconded the motion, which was approved by the following vote:

For: Mr. Merrick, Mr. Brown, Ms. Hernandez Patterson, Mr. Idoux, Mr. Malveaux, Mr. Scavuzzo, Mr. Shomer, Mr. Smith, Mr. Taglienti, Mr. Tull

Opposed: Ms. Rocha

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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 – Legal at 10:08 a.m.

The meeting reopened at 10:33 a.m.

The Board and staff discussed legal issues.

No motion was made.

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**Regular Board Meeting
Thursday, September 14, 2023**

E. BRIEFING ITEMS

1. Public Comments

Prior to commencing items for Board discussion and deliberation, the Board received public comments during the open forum.

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2. Executive Director’s report

- a. Associations’ newsletters
 - NCPERS Monitor (September 2023)
- b. Open Records
- c. Employee Update

The Executive Director’s report was presented.

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Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Taglienti and a second by Mr. Scavuzzo, the meeting was adjourned at 10:34 a.m.

Nicholas A. Merrick
Chairman

ATTEST:

Kelly Gottschalk
Secretary



DISCUSSION SHEET

ITEM #C1

Topic: Retirement and Payments Approval Policy

Discussion: Historically, the Board has approved retirements, refunds, payments to surviving spouses, estate payments and various other administrative matters under the consent agenda. Most of the consent agenda items are based upon the legal requirement that the Board approve retirements and all payments out of the trust. Staff believes that the Board has never disapproved a consent agenda item. However, having the Board approval requirement means some items cannot be processed on a rolling basis but rather must wait for the once-a-month approval.

Staff believes it is appropriate for the Board to officially delegate to the Executive Director the authority to approve all consent agenda items with the Executive Director continuing to provide to the Board gross numbers of these items so the Board is aware of any trends. This is the procedure used by many public pension plans. This method is more efficient and ultimately benefits the members. Staff is proposing this through a Retirement and Payments Approval Policy.

Staff Recommendation: Approve the Retirement and Payments Approval Policy.

Regular Board Meeting – Thursday, October 12, 2023



D A L L A S
POLICE & FIRE
PENSION SYSTEM



RETIREMENT AND PAYMENTS APPROVAL POLICY

Adopted October 12, 2023

RETIREMENT AND PAYMENTS APPROVAL POLICY

Adopted October 12, 2023

PURPOSE:

The Board of the Dallas Police and Fire Pension System recognizes that the Board is required by law to authorize all matters relating to retirements and benefit payments. This has been previously accomplished by the Board approving these matters monthly through a consent agenda. The Board recognizes that this procedure is outdated and has determined that benefits should be processed on a regular and rolling basis so as to be more efficient and provide members and beneficiaries with a more prompt response. The purpose of this policy is to delegate to the Executive Director the authority to approve all matters relating to retirement and other benefit payments which have heretofore been on the consent agenda.

POLICY:

- 1.** The Board hereby delegates to the Executive Director the authority to approve (i) retirements and entry into DROP, (ii) final payments on the death of a member or qualified survivor, (iii) payment of refunds of contributions, (iv) payment of survivor benefits, (v) benefits for alternate payees, (vi) payment of previously withdrawn contributions, (vii) payment of contributions withdrawn through a divorce and (viii) any other matter dealing with benefits which would be considered ministerial in nature. The Executive Director will bring for the Board's approval any item that is not reasonably considered ministerial and which the Executive Director believes requires Board approval.
- 2.** The Executive Director will report all matters that have been approved through this authorization to the Board monthly in an anonymous format such that this information will be public information.
- 3.** The Executive Director will continue to point out to the Board, where appropriate, unusual situations which may have occurred prior to a Board meeting.
- 4.** The Board will continue to approve minutes for the Regular and Supplemental Pension Plans. This policy does not supersede the hardship provisions of the DROP Policy.
- 5.** The Executive Director is authorized to implement procedures to accomplish the intent of this policy.



Retirement and Payments Approval Policy
Adopted October 12, 2023
Page 2 of 2

6. The delegation under this policy is intended in all respects to discharge the Board's obligations under law.

APPROVED on **October 12, 2023** the Board of Trustees of the Dallas Police and Fire Pension System.

Nicholas Merrick
Chairman

ATTEST:

Kelly Gottschalk
Secretary





DISCUSSION SHEET

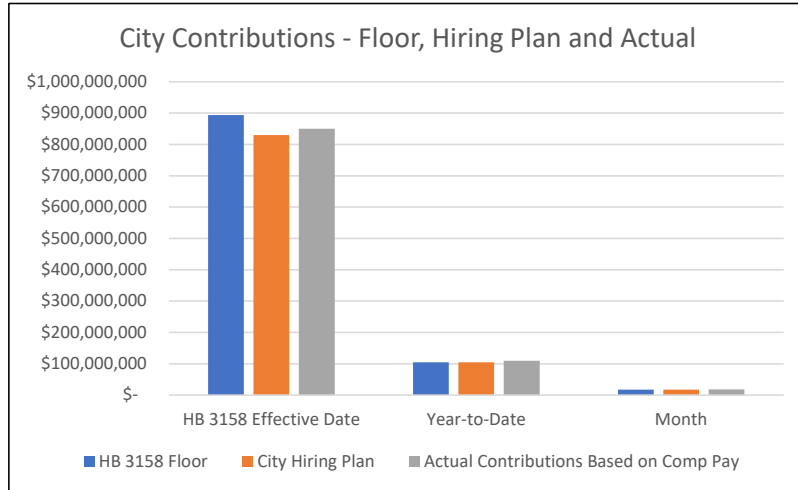
ITEM #C2

Topic: **Monthly Contribution Report**

Discussion: Staff will review the Monthly Contribution Report.

Regular Board Meeting – Thursday, October 12, 2023

Contribution Tracking Summary - October 2023 (August 2023 Data)

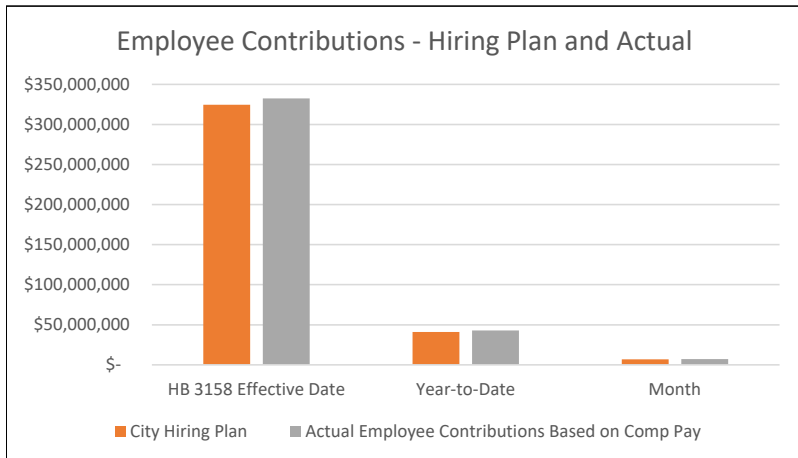


Actual Comp Pay was 102% of the Hiring Plan estimate since the effective date of HB 3158.

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.

The combined actual employees was 105 less than the Hiring Plan for the pay period ending September 12, 2023. Fire was over the estimate by 136 Fire Fighters and Police under by 241 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

Aug-23	Number of Pay Periods Beginning in the Month	HB 3158 Floor	City Hiring Plan	Actual Contributions Based on Comp Pay	Additional Contributions to Meet Floor Minimum	Comp Pay Contributions as a % of Floor Contributions	Comp Pay Contributions as a % of Hiring Plan Contributions
Month	3	\$ 17,436,000	\$ 17,435,769	\$ 18,331,507	\$ -	105%	105%
Year-to-Date		\$ 104,616,000	\$ 104,614,615	\$ 109,782,937	\$ -	105%	105%
HB 3158 Effective Date		\$ 893,837,000	\$ 829,725,000	\$ 850,086,827	\$ 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

Aug-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	3	\$ 6,822,692	\$ 7,174,637	\$ 351,945	\$ 6,355,386	105%	113%
Year-to-Date		\$ 40,936,154	\$ 42,970,960	\$ 2,034,806	\$ 38,132,316	105%	113%
HB 3158 Effective Date		\$ 324,675,000	\$ 332,461,172	\$ 7,786,172	\$ 314,871,982	102%	106%

Potential Earnings Loss from the Shortfall based on Assumed Rate of Return \$ 189,096

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	*
<i>*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.</i>		

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						
Year	Computation Pay			Number of Employees		
	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	\$ 35,244,675	\$ 1,552,367	\$ 12,384,299	5056	(107)
August	\$ 50,538,462	\$ 53,134,804	\$ 2,596,342	\$ 14,980,641	5058	(105)
September	\$ 33,692,308					
October	\$ 33,692,308					
November	\$ 33,692,308					
December	\$ 33,692,308					



DISCUSSION SHEET

ITEM #C3

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.

Regular Board Meeting – Thursday, October 12, 2023

**Future Education and Business Related Travel & Webinars
Regular Board Meeting – October 12, 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 #C4

Topic: Potential Technology Projects

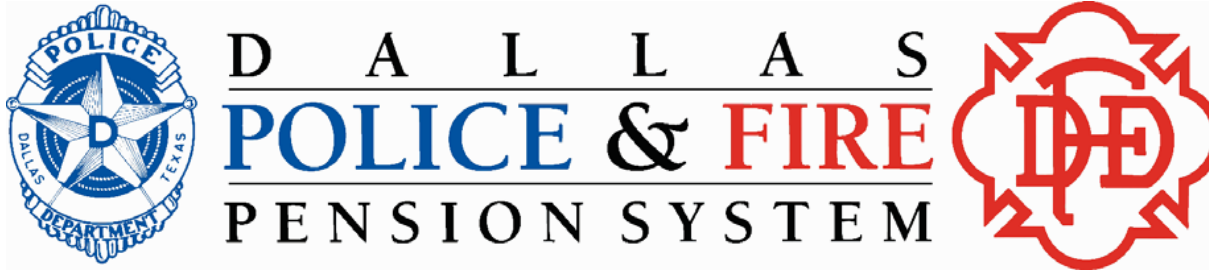
Portions of the discussion under this topic may be closed to the public under the terms of Section 551.076 of the Texas Government Code.

Discussion: Staff has identified three non-routine technology projects for 2024 and will discuss these projects with the Board separate from the budget agenda item. The projects have not been included in the budget at this time.

If the Board decides to include the projects in the 2024 budget, the expenses will be incorporated into the budget for the second reading of the budget in November.

Staff Recommendation: **Include** the technology projects in the second reading of the budget.

Regular Board Meeting – Thursday, October 12, 2023



Potential Technology Projects

October 12, 2023

Board Meeting

2024 Proposed Technology Projects

Board Room Audio/Visual Refresh

- The project scope includes:
 - Replacing
 - Audio components
 - Voice Lift
 - Audio conferencing
 - Monitors as needed
 - Control Panel
 - Microphone Mixer
 - Video components
 - Monitors as needed
 - Matrix Switcher/Scaler
 - Expansion modules
 - Video Interfaces
 - Estimated cost: \$100,000 in 2024.

Future Proposed Technology Project

Pension Administration Software

- DFPF's pension administration software is LRS's Pension Gold version 2, and it is highly customized to meet DFPF's specific plan requirements.
- Version 2 was first released in 1998, and DFPF upgraded from version 1 to version 2 in 2003.
- DFPF needs to begin considering and preparing for an upgrade of Pension Gold or the implementation of new pension administration software.
- The current software is cumbersome, not intuitive, requires LRS to intervene frequently on certain transactions, does not have sufficient error-checking capabilities, and is inefficient.
- An upgrade or implementation of new pension administration software could take 5 years and be approximately \$5 million.
- The recommended next step in this process would be to hire a consultant to help assess the options and possibly assist with an RFP. The estimated cost for the consultant in 2024 is \$100,000 to \$250,000 depending on scope.



DISCUSSION SHEET

ITEM #C5

Topic: Initial Reading and discussion of the 2024 Budget

Discussion: Attached is the budget proposal for Calendar Year 2024.

The budget has been prepared in total for both the Combined Pension Plan and the Supplemental Plan. Total expenses are then allocated to the Supplemental Plan based upon the Group Trust allocation reported by JPMorgan.

Significant changes from the prior year budget and the projected 2023 actual expenses are explained in the comments accompanying the proposed budget.

Staff

Recommendation: Direct staff to revise the proposed budget based on the direction of the Board and bring the revised proposed budget to the Board at the November 2023 Board meeting for consideration for adoption. **Authorize** forwarding the 2024 proposed budget to the City of Dallas for comment and the posting of the proposed budget to www.dpfp.org for member review prior to the November meeting.

Regular Board Meeting – Thursday, October 12, 2023

**DALLAS POLICE AND FIRE PENSION SYSTEM
OPERATING BUDGET SUMMARY
FOR THE YEAR 2024**

Expense Type	2023 Budget	2023 Projected Actual	2024 Budget	Variances		Variances	
				2024	2023	2024	2023
				Budget vs	Budget	Budget vs	Proj. Act.
				\$	%	\$	%
Administrative Expenses	6,190,265	5,508,986	5,616,096	(574,169)	(9.3%)	107,110	1.9%
Investment Expenses	10,770,886	9,618,661	9,572,817	(1,198,069)	(11.1%)	(45,844)	(0.5%)
Professional Expenses	1,277,050	1,226,853	1,600,950	323,900	25.4%	374,097	30.5%
Total	\$ 18,238,201	\$ 16,354,500	\$ 16,789,863	\$ (1,448,338)	(7.9%)	\$ 435,363	2.7%

Dallas Police & Fire Pension System Operating Budget Calendar Year 2024							
Description	2023 Budget	2023 Projected Actual*	2024 Proposed Budget	\$ Change 2024 Prop. Bud. vs. 2023 Bud.	% Change 2024 Prop. Bud. vs. 2023 Bud.	\$ Change 2024 Prop. Bud. vs. 2023 Proj. Actual	% Change 2024 Prop. Bud. vs. 2023 Proj. Actual
Administrative Expenses							
1 Salaries and benefits	3,709,489	3,569,370	3,674,704	(34,785)	(0.9%)	105,334	3.0%
2 Employment Expense	46,350	78,136	26,350	(20,000)	(43.1%)	(51,786)	(66.3%)
3 Memberships and dues	20,201	19,867	20,276	75	0.4%	409	2.1%
4 Staff meetings	500	-	500	-	0.0%	500	100.0%
5 Employee service recognition	5,000	3,188	4,000	(1,000)	(20.0%)	812	25.5%
6 Member educational programs	3,350	-	3,350	-	0.0%	3,350	100.0%
7 Board meetings	4,420	1,644	2,700	(1,720)	(38.9%)	1,056	64.2%
8 Conference registration/materials - Board	12,000	5,000	12,000	-	0.0%	7,000	140.0%
9 Travel - Board	22,000	4,719	22,000	-	0.0%	17,281	366.2%
10 Conference/training registration/materials - Staff	33,200	15,376	31,000	(2,200)	(6.6%)	15,624	101.6%
11 Travel - Staff	44,700	33,076	43,300	(1,400)	(3.1%)	10,224	30.9%
12 Liability insurance	888,533	573,072	558,990	(329,543)	(37.1%)	(14,082)	(2.5%)
13 Communications (phone/internet)	21,180	18,861	30,528	9,348	44.1%	11,667	61.9%
14 Information technology projects	190,000	159,107	85,000	(105,000)	(55.3%)	(74,107)	(46.6%)
15 IT subscriptions/services/licenses	239,860	137,681	194,615	(45,245)	(18.9%)	56,934	41.4%
16 IT software/hardware	25,000	9,040	25,000	-	0.0%	15,960	176.5%
17 Building expenses	459,697	473,460	464,120	4,423	1.0%	(9,340)	(2.0%)
18 Repairs and maintenance	94,582	92,676	108,709	14,127	14.9%	16,033	17.3%
19 Office supplies	28,475	21,639	29,025	550	1.9%	7,386	34.1%
20 Leased equipment	25,000	21,857	25,000	-	0.0%	3,143	14.4%
21 Postage	29,746	16,510	20,700	(9,046)	(30.4%)	4,190	25.4%
22 Printing	4,350	4,884	5,100	750	17.2%	216	4.4%
23 Subscriptions	2,506	2,752	2,881	375	15.0%	129	4.7%
24 Records storage	2,179	2,863	3,000	821	37.7%	137	4.8%
25 Administrative contingency reserve	12,000	173	12,000	-	0.0%	11,827	6836.4%
27 Depreciation Expense	240,947	236,325	201,248	(39,699)	(16.5%)	(35,077)	(14.8%)
28 Bank fees	25,000	7,710	10,000	(15,000)	(60.0%)	2,290	29.7%
Investment Expenses							
29 Investment management fees	9,375,000	8,527,423	8,292,000	(1,083,000)	(11.6%)	(235,423)	(2.8%)
30 Investment consultant and reporting	455,000	396,429	478,000	23,000	5.1%	81,571	20.6%
31 Bank custodian services	235,000	218,009	235,000	-	0.0%	16,991	7.8%
32 Other portfolio operating expenses (legal, valuation, tax)	644,500	430,590	512,000	(132,500)	(20.6%)	81,410	18.9%
33 Investment due diligence	61,386	46,210	55,817	(5,569)	(9.1%)	9,607	20.8%
Professional Services Expenses							
34 Actuarial services	159,500	159,500	397,750	238,250	149.4%	238,250	149.4%
35 Accounting services	61,950	59,000	61,950	-	0.0%	2,950	5.0%
36 Independent audit	115,000	130,000	143,300	28,300	24.6%	13,300	10.2%

Dallas Police & Fire Pension System Operating Budget Calendar Year 2024							
Description	2023 Budget	2023 Projected Actual*	2024 Proposed Budget	\$ Change 2024 Prop. Bud. vs. 2023 Bud.	% Change 2024 Prop. Bud. vs. 2023 Bud.	\$ Change 2024 Prop. Bud. vs. 2023 Proj. Actual	% Change 2024 Prop. Bud. vs. 2023 Proj. Actual
37 Legal fees	180,000	165,636	200,000	20,000	11.1%	34,364	20.7%
38 Legislative consultants	159,000	159,000	168,000	9,000	5.7%	9,000	5.7%
39 Public relations	-	-	-	-	100.0%	-	100.0%
40 Pension administration software & WMS	292,000	293,052	309,000	17,000	5.8%	15,948	5.4%
41 Business continuity	14,000	13,700	38,000	24,000	171.4%	24,300	177.4%
42 Network security monitoring	180,000	217,591	225,000	45,000	25.0%	7,409	3.4%
43 Disability medical evaluations	16,250	1,000	7,000	(9,250)	(56.9%)	6,000	600.0%
44 Elections	15,250	11,863	-	(15,250)	(100.0%)	(11,863)	(100.0%)
45 Miscellaneous professional services	84,100	16,511	50,950	(33,150)	(39.4%)	34,439	208.6%
Total Budget	18,238,201	16,354,500	16,789,863	(1,448,338)	(7.9%)	435,363	2.7%
Less: Investment management fees	9,375,000	8,527,423	8,292,000	(1,083,000)	(11.6%)	(235,423)	(2.8%)
Adjusted Budget Total	8,863,201	7,827,077	8,497,863	(365,338)	(4.1%)	670,786	8.6%

SUPPLEMENTAL BUDGET

Total Budget (from above)	18,238,201	16,354,500	16,789,863	(1,448,338)	(7.9%)	435,363	2.7%
Less: Allocation to Supplemental Plan Budget**	155,207	141,630	145,400	(9,807)	(6.3%)	3,770	2.7%
Total Combined Pension Plan Budget	18,082,994	16,212,870	16,644,463	(1,438,531)	(8.0%)	431,593	2.7%

* Projected based on 7/31/23 YTD annualized or estimated

** Allocation to Supplemental is based on JPM allocation between accounts as of 7/31/23 of .0087%

_____ 0.87% per JPM Unitization report as of 7/31/23

Significant Budget Changes - 2024
Budget Changes (>5% and \$25K)
SORTED BY THE \$ CHANGE FROM 2023 BUDGET TO 2024 BUDGET

		2023	2023	2024	\$ Change	% Change	\$ Change	% Change	
	Item	Budget	Projected Actual**	Budget	2024 Budget vs. 2023 Bud.	2024 Budget vs. 2023 Bud.	2024 Budget vs. 2023 Proj. Act.	2024 Budget vs. 2023 Proj. Act.	Explanation
	INCREASES:								
1	Actuarial services	159,500	159,500	397,750	238,250	149.4%	238,250	149.4%	The increase reflects the actuarial work associated with the statutorily required independent actuarial analysis and additional actuarial work anticipated in 2024 ahead of the 2025 legislative session.
2	Network security monitoring	180,000	217,591	225,000	45,000	25.0%	7,409	3.4%	Some services budgeted in 2023 under subscriptions and licenses expenses are now included with the vCISO and vSOC services in Network Security Monitoring for the 2024 budget. The change in Network Security monitoring without the reallocation would have been a decline of \$27K or 15% in this account.
3	Independent audit	115,000	130,000	143,300	28,300	24.6%	13,300	10.2%	Independent audit services RFP will be issued in 2024 for the 2023 audit. Expect increases in quoted fees.
	REDUCTIONS:								
4	Investment management fees	9,375,000	8,527,423	8,292,000	(1,083,000)	(11.6%)	(235,423)	(2.8%)	Declines in budgeted fees due to negotiated Public Equity fee reductions, a higher allocation to passive equity and projected sales of legacy real assets investments.
5	Liability insurance	888,533	573,072	558,990	(329,543)	(37.1%)	(14,082)	(2.5%)	The reduction from the prior year budget reflects the Board decision after the 2023 budget was adopted to reduce the liability insurance coverage level.
6	Other portfolio operating expenses (legal, valuation, tax)	644,500	430,590	512,000	(132,500)	(20.6%)	81,410	18.9%	Expected fees related to some private equity investments are expected to decline.
7	Information technology projects	190,000	159,107	85,000	(105,000)	(55.3%)	(74,107)	(46.6%)	Significant progress in cyber security projects in 2023. Projects for 2024 continue to focus on cyber security remediation driven by insurance requirements.
8	IT subscriptions/services/licenses	239,860	137,681	194,615	(45,245)	(18.9%)	56,934	41.4%	Some services budgeted in 2023 under subscriptions and licenses expenses are now included with the vCISO and vSOC services in Network Security Monitoring for the 2024 budget. Without the reallocation of this expense IT subscriptions would have had an increase of \$27K or 11% YOY. Product licenses for workflow (an IT project in 2023) and upgraded Office 365 licenses for enhanced security would have accounted for the increase without the reallocation.
9	Depreciation Expense	240,947	236,325	201,248	(39,699)	(16.5%)	(35,077)	(14.8%)	Some capitalized expenses became fully depreciated in 2023 or will become fully depreciated in 2024 resulting in lower depreciation expense.
10	Miscellaneous professional services	84,100	16,511	50,950	(33,150)	(39.4%)	34,439	208.6%	Decreased budget for contract Communications consultant.

** Projected based on 7/31/22 YTD annualized or estimated

Significant Budget Changes - 2024
Budget Changes (>5% and \$25K)
SORTED BY THE \$ CHANGE FROM 2023 PROJECTED ACTUAL TO 2024 BUDGET

		2023	2023	2024	\$ Change	% Change	\$ Change	% Change	
	Item	Budget	Projected Actual**	Budget	2024 Budget vs. 2023 Bud.	2024 Budget vs. 2023 Bud.	2024 Budget vs. 2023 Proj. Act.	2024 Budget vs. 2023 Proj. Act.	Explanation
	INCREASES:								
1	Actuarial services	159,500	159,500	397,750	238,250	149.4%	238,250	149.4%	The increase reflects the actuarial worked associated with the statutorily required independent actuarial analysis and additional actuarial work anticipated in 2024 ahead of the 2025 legislative session.
2	Investment consultant and reporting	455,000	396,429	478,000	23,000	5.1%	81,571	20.6%	Budgeted private markets services in 2023 did not occur, but have been rebudgeted for 2024.
3	Other portfolio operating expenses (legal, valuation, tax)	644,500	430,590	512,000	(132,500)	(20.6%)	81,410	18.9%	Fees related to some private equity investments were less than expected in 2023 but are projected to increase in 2024.
4	IT subscriptions/services/licenses	239,860	137,681	194,615	(45,245)	(18.9%)	56,934	41.4%	Product licenses for workflow (an IT project in 2023) and upgraded Office 365 licenses for enhanced security are primarily responsible for increased costs in 2024.
5	Miscellaneous professional services	84,100	16,511	50,950	(33,150)	(39.4%)	34,439	208.6%	2023 budgeted communications services were not engaged. Rebudgeted for 2024 at a reduced amount.
6	Legal fees	180,000	165,636	200,000	20,000	11.1%	34,364	20.7%	Expected expenses based on current status of cases.
7	Business continuity	14,000	13,700	38,000	24,000	171.4%	24,300	177.4%	Additional backup service engaged for 2024.
	REDUCTIONS:								
8	Information technology projects	190,000	159,107	85,000	(105,000)	(55.3%)	(74,107)	(46.6%)	Fewer cyber security remediation projects are expected in 2024 due to the significant progress in that area in 2023.
9	Employment Expense	46,350	78,136	26,350	(20,000)	(43.1%)	(51,786)	(66.3%)	Fewer open employee positions requiring agency fees expected in 2024.
10	Depreciation Expense	240,947	236,325	201,248	(39,699)	(16.5%)	(35,077)	(14.8%)	Some capitalized expenses will become fully depreciated in 2024 resulting in lower depreciation expense.



DISCUSSION SHEET

ITEM #C6

Topic: Financial Audit Status

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

Regular Board Meeting – Thursday, October 12, 2023



DISCUSSION SHEET

ITEM #C7

Topic: Article 6243a-1 Section 2.025

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

Discussion: Section 2.025 of the DPFPP plan details a process that provides for DPFPP complying with funding requirements under state law. Staff will brief the Board on the following matters:

- a) Review of the September 19th City of Dallas Ad Hoc Committee on Pensions meeting.
- b) Discuss the City of Dallas Ad Hoc Committee on Pensions meeting scheduled for the afternoon of the Board meeting.
- c) Provide an update on Cheiron's work as the Independent Actuary required under Section 2.025.
- d) Provide a legal briefing on the requirements of Section 2.025.

Regular Board Meeting – Thursday, October 12, 2023



DISCUSSION SHEET

ITEM #C8

Topic: Portfolio Update

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

Regular Board Meeting – Thursday, October 12, 2023



D A L L A S
POLICE & FIRE
PENSION SYSTEM



Portfolio Update

October 12, 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.
- **Global Growth Equity Search:** Two finalist firms presented at the September 28 IAC meeting. Board consideration of recommended manager WCM at October Board.
- **Safety Reserve:** 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 discussed the Safety Reserve, and how operationally to exit the draw down mode at the September IAC meeting.
- **Estimated Year-to-Date Return (as of 9/30/23):** 4.3% for DPFP portfolio; 7.1% for the Public Portfolio which makes up 70% of the assets.

Investment Initiatives – 2023/24 Plan

Q4 2023

- Global Growth Manager Approval & Funding
- IPS Updates

Q1 2024

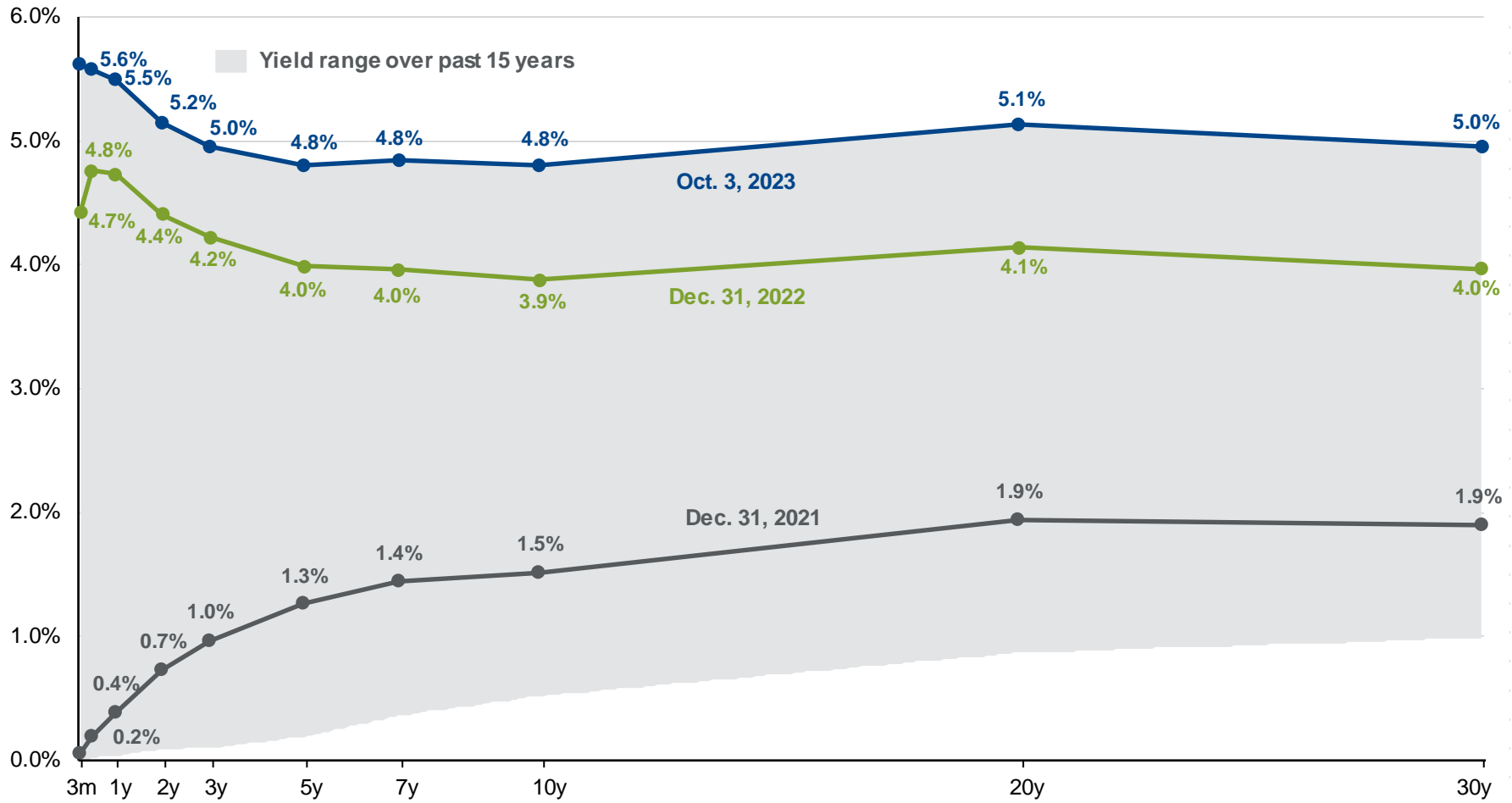
- Begin Custodian Search
- Asset Allocation Study
- Private Market Planning – Update IPS provision, pacing studies, etc.

Equity Market Drawdown (1/1/22 to 10/4/23)



Yield Curve

U.S. Treasury yield curve



Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
 Guide to the Markets – U.S. Data are as of October 3, 2023.

Public Markets Performance Snapshot

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

DPFP | As of September 30, 2023

Performance Summary					
Ending September 30, 2023					
	Market Value (\$)	1 Mo (%)	YTD (%)	3 Yrs (%)	5 Yrs (%)
Total Public Portfolio (ex-Cash)	1,299,461,768	-3.4	7.1	3.6	4.2
<i>60% MSCI ACWI IMI Net/40% Bloomberg Global Aggregate Index</i>		<i>-3.7</i>	<i>4.7</i>	<i>1.3</i>	<i>3.2</i>
Public Equity	953,730,727	-4.3	8.2	6.8	6.4
<i>MSCI ACWI IMI Net USD</i>		<i>-4.2</i>	<i>9.4</i>	<i>6.9</i>	<i>6.1</i>
Global Equity	868,163,114	-4.3	8.8	7.4	6.8
<i>MSCI ACWI IMI Net USD</i>		<i>-4.2</i>	<i>9.4</i>	<i>6.9</i>	<i>6.1</i>
Boston Partners Global Equity Fund	113,790,552	-1.9	4.0	15.1	6.2
<i>MSCI World Net</i>		<i>-4.3</i>	<i>11.1</i>	<i>8.1</i>	<i>7.3</i>
Manulife Global Equity Strategy	113,482,947	-3.1	9.0	8.3	7.4
<i>MSCI ACWI Net</i>		<i>-4.1</i>	<i>10.1</i>	<i>6.9</i>	<i>6.5</i>
Russell Investments ACWI Growth	111,730,722	-5.5	--	--	--
<i>MSCI ACWI Growth NR USD</i>		<i>-5.5</i>	<i>18.2</i>	<i>3.8</i>	<i>8.4</i>
Walter Scott Global Equity Fund	110,315,289	-5.3	9.4	5.7	7.4
<i>MSCI ACWI Net</i>		<i>-4.1</i>	<i>10.1</i>	<i>6.9</i>	<i>6.5</i>
NT ACWI Index IMI	312,387,911	-4.2	9.8	--	--
<i>MSCI ACWI IMI Net USD</i>		<i>-4.2</i>	<i>9.4</i>	<i>6.9</i>	<i>6.1</i>
Eastern Shore US Small Cap	54,588,259	-6.0	2.8	--	--
<i>Russell 2000</i>		<i>-5.9</i>	<i>2.5</i>	<i>7.2</i>	<i>2.4</i>
Global Alpha International Small Cap	51,867,433	-6.6	0.0	--	--
<i>MSCI EAFE Small Cap</i>		<i>-4.4</i>	<i>1.8</i>	<i>1.1</i>	<i>0.8</i>

Public Markets Performance Snapshot

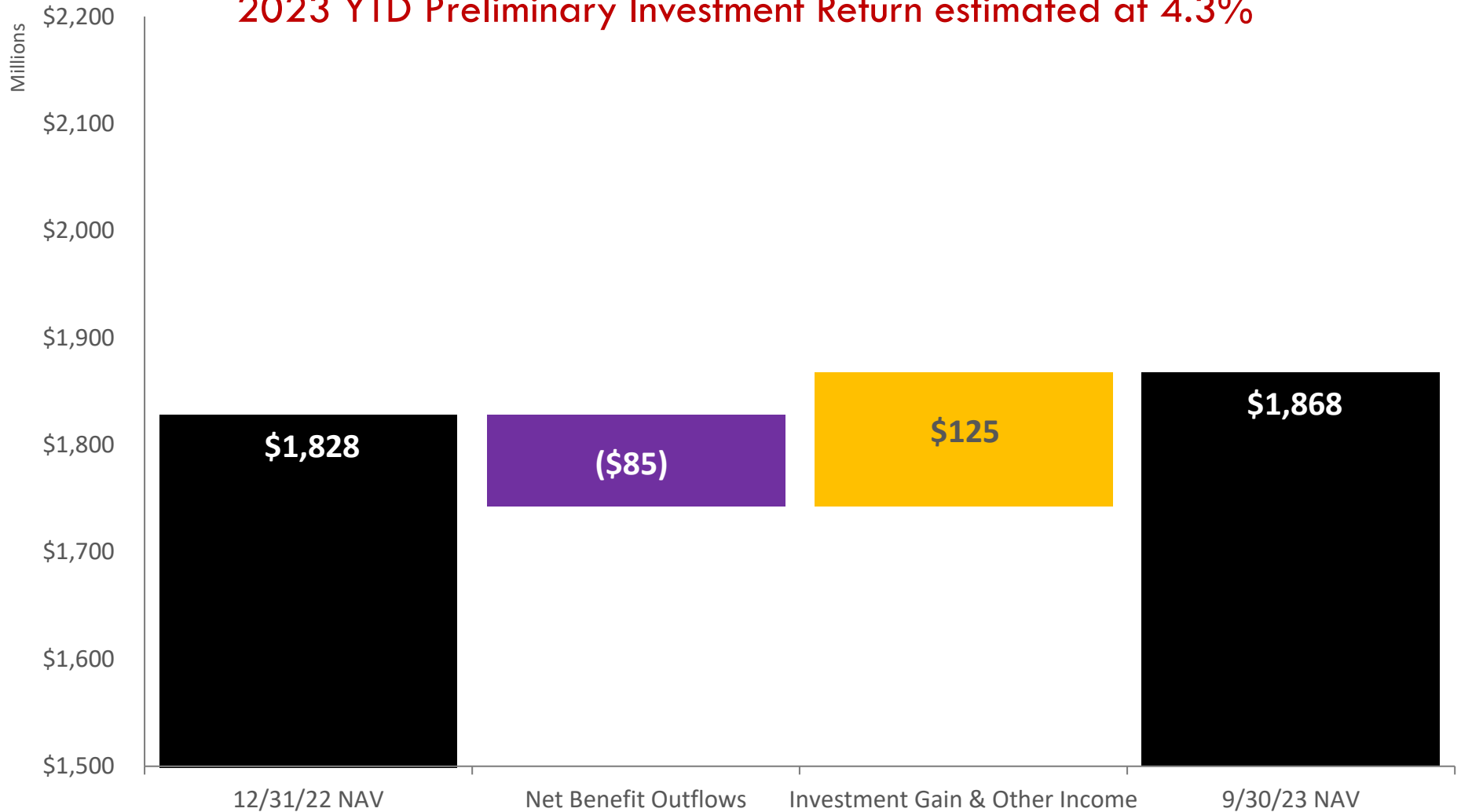
DPFP | As of September 30, 2023

	Ending September 30, 2023				
	Market Value (\$)	1 Mo (%)	YTD (%)	3 Yrs (%)	5 Yrs (%)
Emerging Markets Equity	85,567,613	-3.5	2.6	-0.1	2.2
<i>MSCI Emerging Markets IMI Net</i>		-2.5	3.4	-0.3	1.3
RBC Emerging Markets Equity	85,567,613	-3.5	2.6	-0.1	2.2
<i>MSCI Emerging Markets IMI Net</i>		-2.5	3.4	-0.3	1.3
Public Fixed Income	345,731,042	-1.0	4.5	-0.9	1.0
<i>Bloomberg Multiverse TR</i>		-2.9	-1.9	-6.6	-1.5
IR&M 1-3 Year Strategy	65,532,081	-0.1	2.4	-0.4	1.6
<i>Bloomberg US Aggregate 1-3 Yr TR</i>		-0.1	1.9	-0.7	1.2
Longfellow Core Fixed Income	65,611,117	-2.7	-0.9	-4.8	--
<i>Bloomberg US Aggregate TR</i>		-2.5	-1.2	-5.2	0.1
Aristotle Pacific Capital Bank Loan	79,156,576	0.8	10.7	6.0	4.6
<i>Credit Suisse Leveraged Loan</i>		0.9	9.9	5.9	4.3
Loomis US High Yield Fund	71,306,268	-1.3	4.8	--	--
<i>Bloomberg US High Yield 2% Issuer Cap TR</i>		-1.2	5.9	1.8	2.9
Metlife Emerging Markets Debt Blend	64,125,000	-2.3	4.5	--	--
<i>35% JPMEMBI Global Index/35% JPM CEMBI Broad Diversified Index/ 30% JPMGBI-EM Diversified Global Index</i>		-2.3	2.9	--	--

2023 - Change in Market Value Bridge Chart

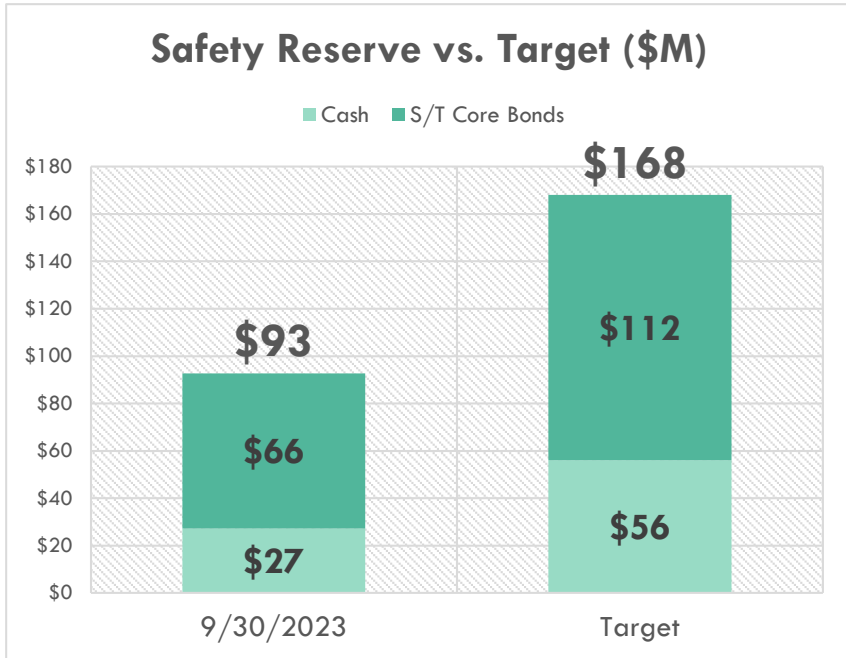
In Millions

2023 YTD Preliminary Investment Return estimated at 4.3%

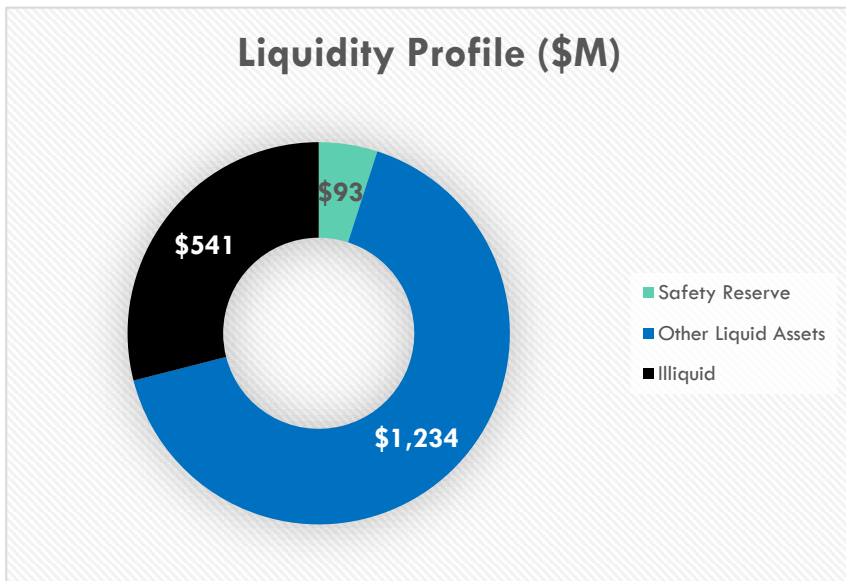


The beginning 12/31/22 value is from the Q4 2022 Meketa Performance Report and includes a one-quarter lag on private assets.
 Numbers may not foot due to rounding.

Safety Reserve Dashboard



Projected Net Monthly outflows of **\$9.6M** per month. Safety Reserve of **\$93M** would cover net monthly outflows for next **9 months** or through **June 2024**.



Expected Cash Activity	Date	Amount (\$M)	Projected Cash Balance (\$M)	Projected Cash (%)
	9/30/23		\$27.2	1.5%
City Contribution	10/13/23	\$9.0	\$36.2	1.9%
City Contribution	10/27/23	\$9.0	\$45.2	2.4%
Pension Payroll	10/27/23	(\$28.4)	\$16.8	0.9%
City Contribution	11/10/23	\$9.0	\$25.8	1.4%
City Contribution	11/24/23	\$9.0	\$34.8	1.9%
Pension Payroll	11/23/23	(\$28.4)	\$6.4	0.3%
City Contribution	12/8/23	\$9.0	\$15.4	0.8%
City Contribution	12/22/23	\$9.0	\$24.4	1.3%
Pension Payroll	12/29/23	(\$28.4)	(\$4.0)	-0.2%

Numbers may not foot due to rounding

Asset Allocation Detail

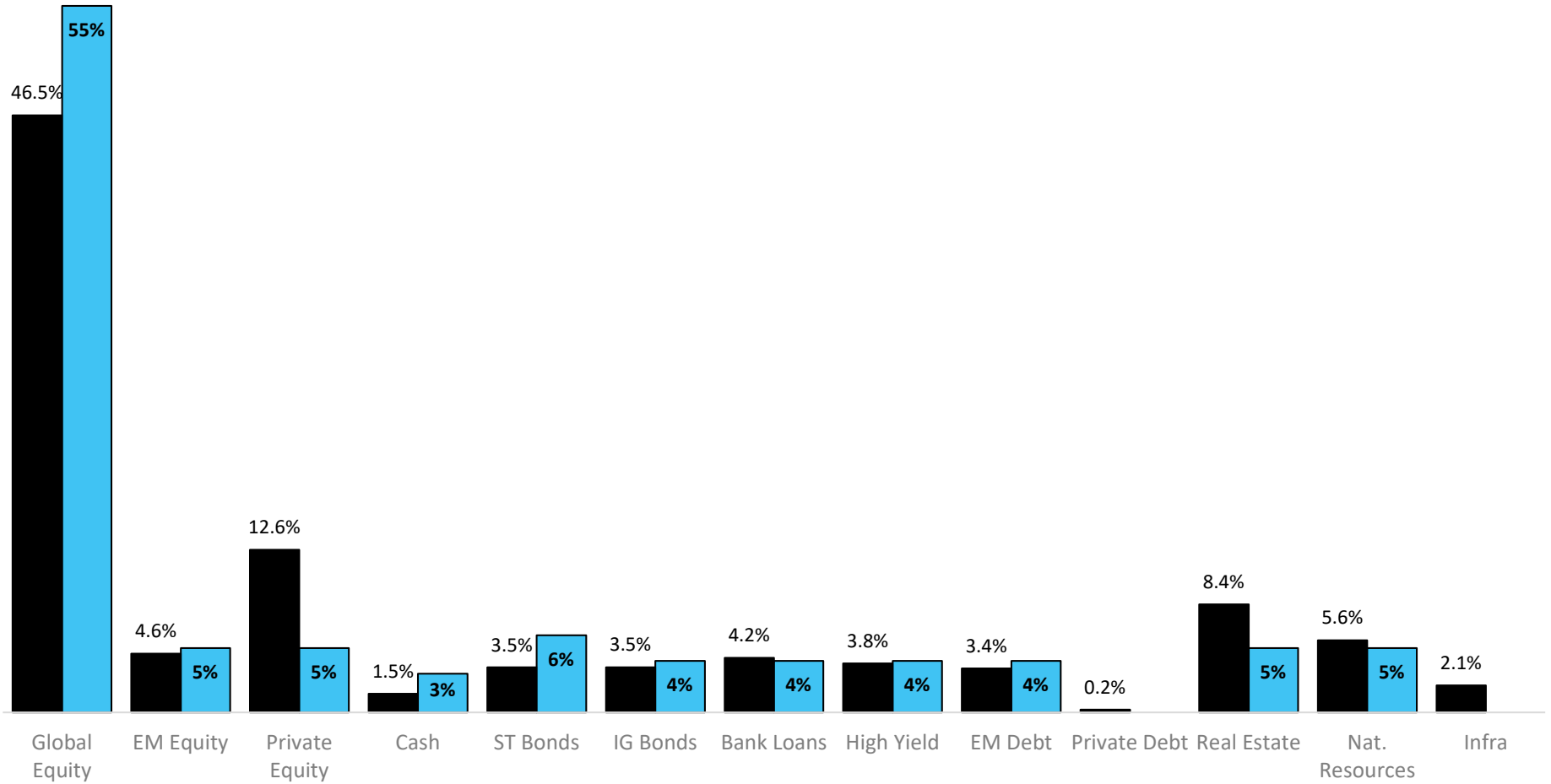
DPFP Asset Allocation	9/30/2023		Targets			Variance	
	NAV	%	\$ mil.	%	% of Target	\$ mil.	%
Equity	1,190	63.7%	1,214	65%	98%	-24	-1.3%
Global Equity	868	46.5%	1,027	55%	84%	-159	-8.5%
<i>Boston Partners</i>	<i>114</i>	<i>6.1%</i>	<i>112</i>	<i>6%</i>	<i>102%</i>	<i>2</i>	<i>0.1%</i>
<i>Manulife</i>	<i>113</i>	<i>6.1%</i>	<i>112</i>	<i>6%</i>	<i>101%</i>	<i>1</i>	<i>0.1%</i>
<i>Russell Transition - ACWI Growth</i>	<i>112</i>	<i>6.0%</i>	<i>112</i>	<i>6%</i>	<i>100%</i>	<i>0</i>	<i>0.0%</i>
<i>Walter Scott</i>	<i>110</i>	<i>5.9%</i>	<i>112</i>	<i>6%</i>	<i>98%</i>	<i>-2</i>	<i>-0.1%</i>
<i>Northern Trust ACWI IMI Index</i>	<i>312</i>	<i>16.7%</i>	<i>467</i>	<i>25%</i>	<i>67%</i>	<i>-155</i>	<i>-8.3%</i>
<i>Eastern Shore US Small Cap</i>	<i>55</i>	<i>2.9%</i>	<i>56</i>	<i>3%</i>	<i>97%</i>	<i>-1</i>	<i>-0.1%</i>
<i>Global Alpha Intl Small Cap</i>	<i>52</i>	<i>2.8%</i>	<i>56</i>	<i>3%</i>	<i>93%</i>	<i>-4</i>	<i>-0.2%</i>
Emerging Markets Equity - RBC	86	4.6%	93	5%	92%	-8	-0.4%
Private Equity*	236	12.6%	93	5%	253%	143	7.6%
Fixed Income	377	20.2%	467	25%	81%	-90	-4.8%
Cash	27	1.5%	56	3%	49%	-29	-1.5%
S/T Investment Grade Bonds - IR+M	66	3.5%	112	6%	58%	-47	-2.5%
Investment Grade Bonds - Longfellow	66	3.5%	75	4%	88%	-9	-0.5%
Bank Loans - Aristotle Pacific	79	4.2%	75	4%	106%	4	0.2%
High Yield Bonds - Loomis Sayles	71	3.8%	75	4%	95%	-3	-0.2%
Emerging Markets Debt - MetLife	64	3.4%	75	4%	86%	-11	-0.6%
Private Debt*	4	0.2%	0	0%		4	0.2%
Real Assets*	301	16.1%	187	10%	161%	114	6.1%
Real Estate*	157	8.4%	93	5%	168%	64	3.4%
Natural Resources*	105	5.6%	93	5%	112%	12	0.6%
Infrastructure*	39	2.1%	0	0%		39	2.1%
Total	1,868	100.0%	1,868	100%		0	0.0%
Safety Reserve ~\$162M=18 mo net CF	93	5.0%	168	9%	55%	-75	-4.0%
*Private Market Assets	541	29.0%	280	15%		261	14.0%

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

Numbers may not foot due to rounding

Asset Allocation – Actual vs Target

■ 9/30/2023 ■ Target





DISCUSSION SHEET

ITEM #C9

Topic: **Report on Investment Advisory Committee**

Discussion: The Investment Advisory Committee met on September 28, 2023. The Committee Chair and Investment Staff will comment on Committee observations and advice.

Regular Board Meeting – Thursday, October 12, 2023



DISCUSSION SHEET

ITEM #C10

Topic: Global Growth Equity Search

Discussion: Working with Meketa, staff has conducted a search for a Global Growth Equity manager. The Investment Advisory Committee provided advice regarding the search and interviewed two finalists. Staff and Meketa will discuss the search process and the recommendation.

Staff

Recommendation: Available at the meeting.

Regular Board Meeting – Thursday, October 12, 2023

WCM Investment Management Quality Global Growth Equity



PROPOSED NEW INVESTMENT	
1) Name of investment and manager	WCM Investment Management Quality Global Growth Equity
2a) DFPF Asset Class	Global Equity
2b) Asset class allocation / target	46.5% current / 55% target
3a) DFPF Sub-Asset Class	Global Equity
3b) Sub-Asset class allocation / target	0% current / 6% target
4) Proposed investment size	~\$120M - 6% of DFPF
5) Projected funding date and schedule	Q4 2023
INVESTMENT STRATEGY/STRUCTURE	
1) Investment strategy	Global Growth
2) Total fund or strategy size	\$19B
3) Firm assets under management	\$80B
4) Investment Legal Structure	Separate Account
5) Liquidity	Daily
6) Proposed Benchmark	MSCI ACWI Growth
7) Peer Group	Global Growth
DUE DILIGENCE INFO	
1) Staff meetings with manager	Staff interview 9/01/2023, IAC interview 9/28/2023
2) Consultant Recommendation	Attached
3) Staff Recommendation	Attached
4) IAC Interview & Recommendation Date	9/28/2023
5) Expected Board Approval Date	10/12/2023



GLOBAL GROWTH EQUITY MANAGER RECOMMENDATION

Date: October 12th, 2023
 To: DFPF Board of Trustees
 From: DFPF Investments Staff
 Subject: Global Growth Equity Manager Recommendation

Executive Summary:

Staff, with the assistance of Meketa, initiated the search process for Global Growth Equity manager and narrowed down our shortlist to six managers. Staff received Request for Proposals (RFPs) from all six managers and interviewed four managers. Staff then narrowed the list down to two finalists who presented to the Investment Advisory Committee (IAC) at the September 28th meeting. The IAC agreed with staff's recommendation to hire WCM Investment Management Quality Global Growth Equity. Based on the Public Equity Structure Review approved by the Board in July 2023, the target allocation to Global manager is 6%, or approximately \$120M. Staff expects to fund the amount of approximately \$120M to WCM Investment Management from the Russell Transition account.

Search Process:

DFPF had been invested in the Invesco Global Equity strategy since 2007. Invesco was one of four active Global Equity managers in the DFPF portfolio. Invesco conducted a portfolio review with IAC in December 2022. Staff and Meketa conducted a comprehensive evaluation of Invesco over the subsequent months. At the March 2023b Board meeting, Invesco was terminated, and staff was directed to commence the search process for a new active global growth manager.

Staff began the search through a download from eVestment of all 355 global growth strategies in its database. The strategies were screened down further based on the following requirements:

1. The firm be GIPS compliant.
2. The product has available capacity.
3. The product has a 5-year product track record.

This narrowed the number of possible strategies to 222. Staff used the following quantitative and qualitative parameters to narrow the list down further:

Benchmark: MSCWI ACWI Growth

1. Primarily All or Large Cap exposure is required.
2. Preference for "growth" style. Value and Relative value strategies will not be acceptable.
3. Product AUM over \$1.5 billion.
4. Institutional share of product AUM over 30%.
5. Firm AUM over \$2 billion.
6. Active share over 75%.



7. The portfolio is not overly concentrated (over 30 holdings and less than 50% of exposure in top ten holdings).
8. 1-Yr return greater than -35%.
9. Trailing 3-Yr and 5-Yr excess return greater than -2%; Positive 10-Yr excess return.
10. 3-Yr tracking error vs. MSCI ACWI Growth less than 12%.
11. Risk measures including portfolio characteristics as compared to benchmark including volatility, tracking error, absolute drawdown, and relative drawdown vs. MSCI ACWI Growth indices.
12. Risk and Performance evaluation shall include rolling 3- and 5-year analyses.

Staff ended up with a list of 30 names of which three were in Meketa's Bullpen. In April 2023, staff held calls with 14 firms that passed the screen to gain a deeper understanding of their organization and strategies. On May 1st, 2023, staff had a call with Meketa's research group to review each of the strategies. The Meketa research team assessed their coverage of these strategies, noting cases where they may not be familiar with or have coverage of the strategy. Following discussions with Meketa and further research efforts, the RFP shortlist was refined to six managers. At the June 22nd, 2023, IAC meeting, staff provided an overview of the shortlist managers and reviewed the RFP with the committee. The RFP was issued to the six firms on June 25th with a submission deadline of July 21st.

Request for Proposal Candidates:

1. C WorldWide Global Equities
2. GQG Partners Global Equity (Minority Owned Firm)
3. Intermede Investment Partners Global Equity
4. Sustainable Growth Advisers Global Growth
5. T. Rowe Price Global Focused Growth Equity
6. WCM Investment Management Quality Global Growth Equity

All six RFPs were submitted by the deadline. Staff independently evaluated the RFP responses based on the criteria laid out in the search document. After completion of the internal review, staff held a call with Meketa on August 22nd to discuss views of each of the firms, areas of concern and next steps to move forward. Staff and Meketa agreed to narrow the list down to four semi-finalists.

Managers Selected for Interview:

1. C WorldWide Global Equities
2. Intermede Investment Partners Global Equity
3. T. Rowe Price Global Focused Growth Equity
4. WCM Investment Management Quality Global Growth Equity

In late August to early September, Staff conducted calls with the four semi-finalists. Ryan Wagner and Akshay Patel individually ranked these firms. The below scoring summary provides the combined ranking based on each staff member's individual rankings. Staff used a 1 to 4 forced ranking system, with 1 being the best score.



	Organization	Investment Team	Philosophy Process	Performance	Fees (w/ OpEx)	Overall	
	20%	20%	25%	25%	10%	Score	Rank
WCM	1	1.5	1.5	2	2	1.58	1
T. Rowe	3	1.5	1.5	1	2	1.73	2
Intermede	2	3.5	4	3	3	3.15	3
C WorldWide	4	3.5	3	4	1	3.35	4

At the September 28th IAC, Staff recommended hiring WCM Investment Management Quality Global Growth Equity due to their strong investment team including a second generation of Portfolio Managers, high conviction portfolio, and unique focus on corporate culture as part of their investment analysis. The IAC concurred with the staff's recommendation.

WCM Investment Management Summary: Information required by section 7.A.6 of the Investment Policy.

The following is a summary of information required by section 7.A.6 of the Investment Policy

a. A description of the organization and key people:

WCM was founded in 1976 and is based out of Laguna Beach, California. The firm is 64.5% employee owned, Natixis Investment Manager has 24.9% economic ownership (with a 5% voting interest), while retired employees hold a 10.6% stake in the firm. As of 6/30/2023, WCM manages \$80 billion in assets across 17 equity strategies, with \$19 billion in the Quality Global Growth strategy. The four key portfolio decision-makers are Paul Black (CEO), Mike Trigg (President), Sanjay Ayer (Vice President), and Jon Tringale (Vice President). They are assisted by a team of 11 Business Analysts and 4 Cultural Analysts.

b. A description of the investment process and philosophy:

WCM aims to create a concentrated portfolio (30-40 holdings) of high-quality companies with consistent earnings. They seek to identify companies with durable economic moats which provide sustainable competitive advantages over their peers. The team believes that the long-term trajectories of these moats are just as important as their sizes. They attempt to buy companies with growing economic moats and will see at the first sign that their moats have begun to deteriorate. The projected annual turnover is 15%-35% and as much as half the turnover is expected to be position-size management.

c. A description of historical performance and future expectations:

WCM has demonstrated resilience in downturns, attributed to the inclusion of high-quality assets in their portfolio. Over the past decade, it shows a downside capture of 88.9% and an upside capture of 97.0% in comparison to MSCI ACWI Growth benchmark. The strategy has outperformed the MSCI ACWI Growth benchmark over both five and ten-year periods by 1.29% and 1.68%, and it also ranks in the top quartile among its peers. The portfolio maintains a 5-year tracking error of 5.8%.



d. The risks inherent in the investment and the manager's approach:

The growth has dominated value investment style from mid-2007 until the COVID-19 pandemic. The GQQQ strategy has benefited from this tailwind. However, during a period of high inflation and high interest rates, growth might underperform value and the broad core benchmark. WCM has seen a substantial increase in AUM, rising from \$4 billion to \$19 billion in the past five years. There can be a style drift (of moving up the market cap) if management doesn't close the product when the growth of AUM is detrimental to the strategy. While capacity is currently less of an issue for this strategy, WCM remains vigilant. In the past, they closed their international focused growth strategy in 2021.

e. The proper time horizon for evaluation of results:

Staff views trailing 3-year and 5-year perspectives as the appropriate time horizon for evaluation.

f. Identification of relevant comparative measures such as benchmarks and/or peer samples:

The benchmark is the MSCI ACWI Growth. WCM will be compared to the Global Growth peer group.

g. The suitability of the investment within the relevant asset class:

WCM is suitable as an active global equity manager at a 6% target within the broader Global Equity asset class based on the Public Equity Structure review approved by the Board in July 2023.

h. The expected cost of the investment.

The staff expects the annual management fees will amount to average \$600,000.

MEMORANDUM

TO: Dallas Police & Fire Pension System
FROM: Leandro Festino, Aaron Lally, Colin Kowalski, Hayley Tran, Meketa Investment Group
DATE: October 12, 2023
RE: DPFP Global Growth Equity Manager Search Process

Background

At the September 2023 meeting, the DPFP Investment Advisory Committee (IAC) approved a Global Growth Equity manager, based on the recommendation from Staff, and supported by Meketa. In this document we provide a high-level review of the process followed by Staff in conjunction with Meketa under the guidance of the Investment Advisory Committee.

Manager Search Process

→ Fall 2022:

- Meketa and DPFP Staff (“Staff”) initiated discussions on the underperformance of global growth manager Invesco Global Equity Fund. The Board of Trustees requested a full review of Invesco given underperformance.

→ March 2023:

- Invesco was terminated and Russell Investments took over the separate account as a transition manager.
- Staff prepared the Global Growth Equity Search Process criteria. Meketa reviewed and ultimately agreed with the process and search criteria outlined.
- Staff started with a database search based on the criteria and Meketa provided a short list of preferred strategies. In total 30 strategies were under consideration at this phase in the search process.

→ April 2023:

- Staff further narrowed the list down to 14 firms that passed quantitative and qualitative screens and held calls with the majority of the firms to gain a deeper understanding of each organization and strategy.



October 12, 2023

→ **May 2023:**

- On May 1, 2023, staff had a call with Meketa's research group to review each of the strategies.
- Following discussions with Meketa and further research efforts, the RFP shortlist was refined to six strategies.
- Staff drafted the RFP questions and Meketa reviewed, suggesting a few minor edits.

→ **June 2023:**

- At the June 22nd IAC meeting, Staff provided an overview of the shortlist managers and reviewed the RFP with the Committee. The RFP was issued to the six firms on June 25th with a submission deadline of July 21st.

→ **August 2023:**

- Staff independently evaluated the RFP responses based on the criteria laid out in the search document.
- Staff held a call with Meketa on August 22nd to discuss views of each of the firms, areas of concern and next steps to move forward. Staff and Meketa agreed to narrow the list down to four semifinalists.
- Staff conducted calls with all four finalist managers.

→ **September 2023:**

- Staff narrowed down the list to two finalists, T. Rowe Price and WCM (see rationale in IAC meeting materials). Meketa concurred with Staff.
- Staff conducted onsite visits to both finalists which further strengthened their conviction in each.
- The IAC interviewed T. Rowe Price and WCM at the September 28th meeting and voted to recommend hiring WCM for the mandate, as well as a request to negotiate and improve on the proposed fees by WCM.

Summary and Recommendation

DPPF Investment Staff has carried out a thoughtful, comprehensive, robust and well documented process to identify qualified firms to manage the Global Growth Equity mandate. The process was transparent and carried out under the guidance of the IAC, with extensive collaboration with Meketa. We believe that Staff, the IAC and Meketa's efforts on this search are in line with guidance provided in the Investment Policy Statement (IPS) and consistent with industry best practices.

Meketa supports the IAC's decision to recommend WCM for the mandate. We would be pleased to elaborate on this topic at the October 2023 Board of Trustees meeting. In the meantime, if we can be of assistance, please don't hesitate to contact us at (760) 795-3450.

LF/AL/HT/CK/sf



Appendix

Minimum Requirements:

1. The firm be GIPS compliant.
2. The product has available capacity.
3. The product has a 5-year product track record.

Evaluation Criteria focused on:

1. Separate account preferred; commingled funds will be considered.
2. Clearly defined investment philosophy and process that engenders DPFP staff conviction.
3. Appropriate fit within DPFP's Public Equity Portfolio.
4. Organization strength and stability
 - a. Qualifications and stability of key firm personnel.
 - b. Employee and ownership diversity metrics, trends, and initiatives, including leadership roles.
 - c. Firm and Product AUM is stable or growing modestly and provides solid financial footing.
 - d. Organization structure is stable and appropriate.
 - e. Ownership plans and trends are clear and support organization strength and stability.
 - f. Clean regulatory, compliance and audit history.
 - g. Well-diversified client base across firm and product.
5. Investment Team, Philosophy and Process.
 - a. Qualifications of key investment personnel for strategy.
 - b. Succession planning and investment team stability.
 - c. Well defined investment philosophy and process.
 - d. Well defined risk controls.
6. Investment reporting appropriately explains positioning and key drivers of performance (absolute and relative).
7. Fees will be evaluated relative to the reporting universe and candidates under consideration.



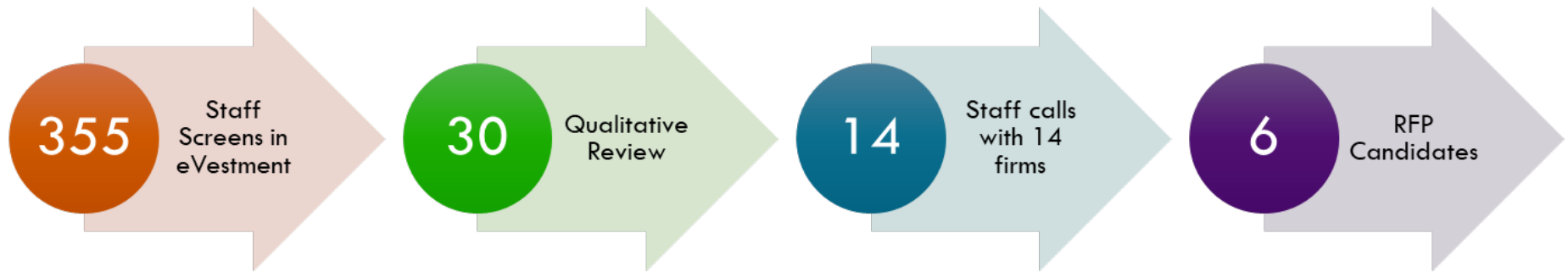
D A L L A S
POLICE & FIRE
PENSION SYSTEM



Global Growth Equity Manager Search Process & Finalist Recommendation

October 12th, 2023

Global Growth Equity Manager Search Process



RFPs were sent to the following managers, and all were received by the deadline of July 21st, 2023.

1. C WorldWide Global Equities
2. GQG Partners Global Equity
3. Intermede Global Equity
4. Sustainable Growth Advisers Global Growth
5. T. Rowe Price Global Focused Growth Equity
6. WCM Quality Global Growth

Global Growth Equity Manager Search Interview Process



After reviewing the RFPs, the following managers were interviewed for one hour each between August 28th and September 8th

1. C WorldWide Global Equities
2. Intermede Global Equity
3. T. Rowe Price Global Focused Growth Equity
4. WCM Quality Global Growth

After the interviews, the following managers were selected as finalist candidates

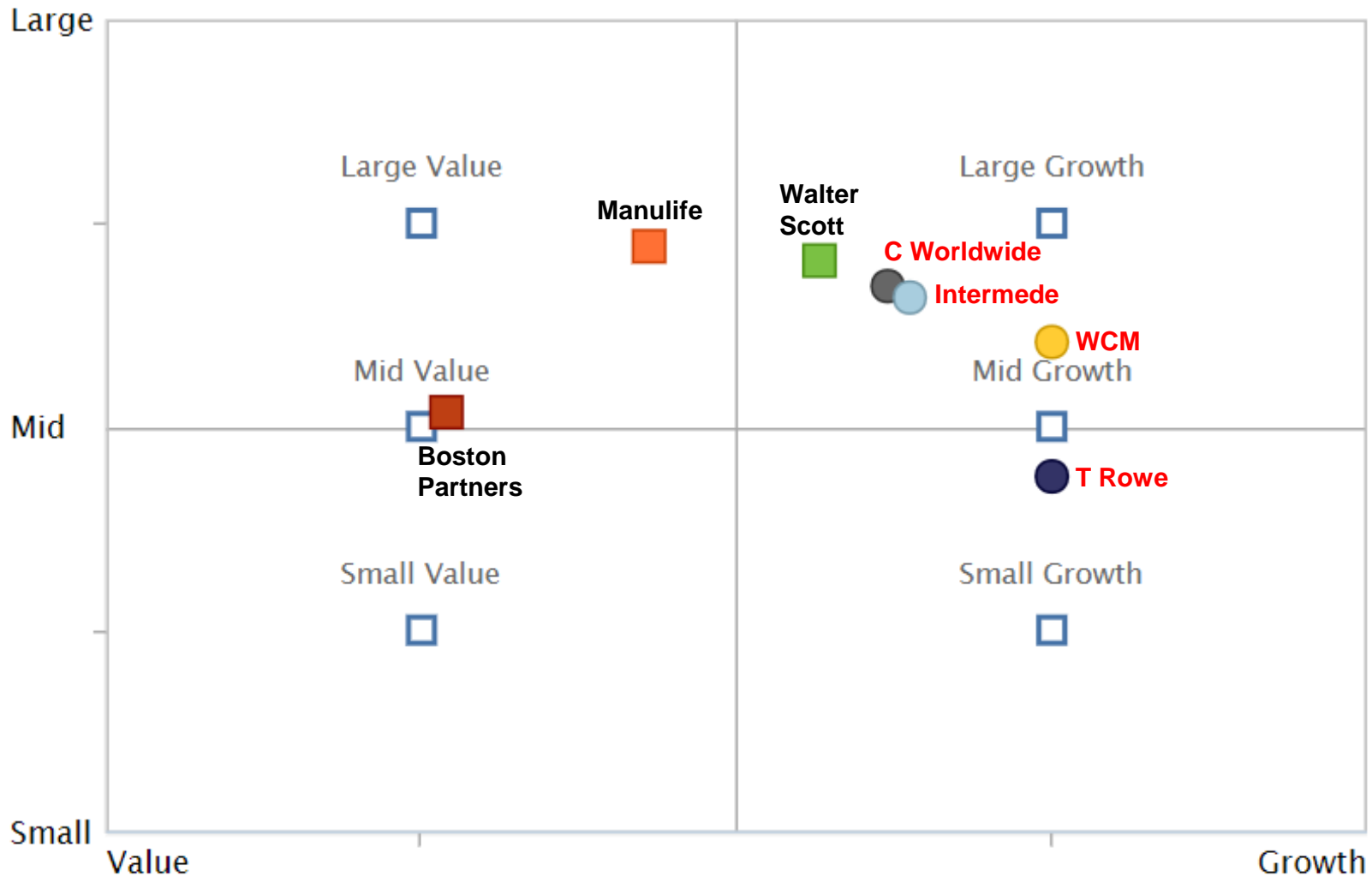
1. T. Rowe Price Global Focused Growth Equity
2. **WCM Quality Global Growth – Recommended Manager**

Outline of Global Growth Search Criteria

1. Primary All or Large Cap exposure required.
2. Preference for "growth" style. Value and Relative value strategies will not be acceptable.
3. Available product capacity with appropriate capacity controls and limits.
4. Product AUM over \$1.5 billion; Firm AUM over \$2.0 billion.
5. Institutional share of product AUM over 30%.
6. Active share over 75%.
7. Portfolio not overly concentrated (over 30 holdings and less than 50% of exposure in top ten holdings).
8. Trailing Return Criteria: 1-Yr return greater than -35%; Trailing 3-Yr and 5-Yr excess return greater than -2%; Positive 10-Yr excess return.
9. 3-Yr tracking error vs. MSCI ACWI Growth less than 12%.
10. Section 7.A.8.b of the IPS states: On all public active manager searches, staff will request an RFP from at least one Diverse Manager, so long as the firm meets the minimum criteria outlined in the specific search process. To be considered a Diverse Manager, the firm must have economic ownership of more than 50% of any combination of the following groups: female, veteran, disabled and/or minority (non-white).

Style Map vs MSCI World

Total Average Style Map – Traditional
Q4-2014 to Q2-2023



FINALISTS OVERVIEW AND PERFORMANCE COMPARISON

Finalist Comparison

	T. Rowe Price Global Focused Growth Equity	WCM Quality Global Growth
Firm AUM:	\$1.4T	\$80.4B
Product AUM:	\$25.8B	\$18.6B
Strategy Inception:	1995	2008
Primary Equity Style	Growth	Growth
Employee Ownership:	Publicly Traded	75% employee owned, 25% owned by Natixis (5% voting shares)
Firm Diversity:	Investment Team is 28% non-white and 24% female.	Investment Team is 35% non-white and 15% female.
Investment Team:	1 PM / 1 Associate PM / 1 Analyst	4 PMs / 11 Business Analysts
Philosophy/Process:	Growth Manager, seek long term capital appreciation with faster earnings growth and reasonable valuation	Bottom-up fundamental global growth specialist, run concentrated & high conviction portfolio
Meketa Bullpen:	No	Yes

Active Manager Concentration in DPFP Portfolio

	T. Rowe Price	WCM Quality	Walter Scott	Boston Partners	Manulife
# of Holdings:	85	36	48	103	52
% of Portfolio in Top 10:	33.3%	36.0%	30.7%	18.4%	33.8%
Current P/E (12 mo Trailing):	30.7x	34.6x	29.4x	11.1x	15.9x
Annual Turnover (LTM):	92.0%	41.6%	6.5%	50.7%	45.0%
Active Share:	74.4%	87.8%	87.3%	90.5%	83.7%
Weighted Avg. Mkt Cap (5 Yr)	\$501,882M	\$288,396M	\$197,700M	\$66,730M	\$351,126M
Tracking Error (5 Yr)	6.2	5.8	4.7	8.0	4.6

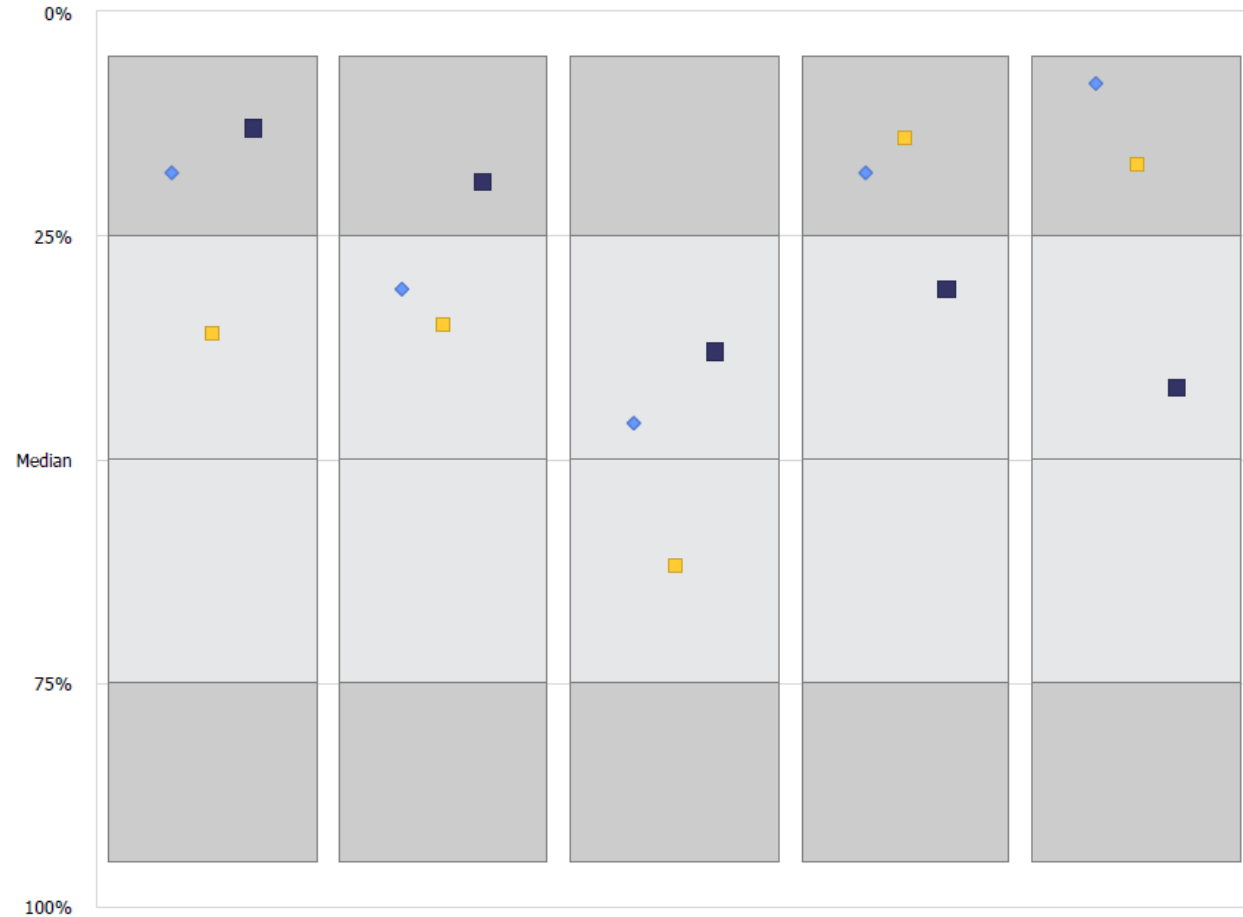
Benchmarks: MSCI World: Boston Partners | MSCI ACWI: Manulife, Walter Scott | MSCI ACWI Growth: T. Rowe Price and WCM

Staff Scoring Summary

Managers force ranked 1 thru 4 in each category, with 1 being best.
Ranks by category below based on average ranking of Ryan and Akshay

	Organization 20%	Investment Team 20%	Philosophy & Process 25%	Performance 25%	Fees 10%	Overall Avg (Rank)
WCM	1 <ul style="list-style-type: none"> Paul Black (CEO) owns 18.6% of firm Kurt Winrich (Retired) 18.6% Natixis IM owns 24.9% Exceptional growth in AUM 	1.5 <ul style="list-style-type: none"> 4 PMs including CEO Paul Black. Strong generation of 2nd generation of talent with Mike Trigg, Sanjay Ayer & Jon Tringale. 	1.5 <ul style="list-style-type: none"> 25 to 35 holdings Seek durable & accelerating economic moats Strong focus on company culture 	2 <ul style="list-style-type: none"> Top quartile manager over trailing 5 & 10 yr periods. Better downside capture than T Rowe 	2 <ul style="list-style-type: none"> Flat & Performance Fee Option 	1.58 (1) <p>Top overall score and staff preference. Strong investment team with high conviction portfolio. Meketa bullpen manager.</p>
T. Rowe	3 <ul style="list-style-type: none"> Publicly Traded Asset Manager with \$1.4T in assets 	1.5 <ul style="list-style-type: none"> Lead PM Dave Eiswert has sole decision-making responsibility since 2012 Nabi Hanano appointed Associate PM in 2020 Relies on broader T Rowe team (198) to provide research 	1.5 <ul style="list-style-type: none"> 60 to 80 names Invests in companies with stable fundamentals with accelerating returns over 1-2 yr period. 	1 <ul style="list-style-type: none"> Top quartile performance over 5, 7, 10 yr trailing periods. Higher beta / vol vs. WCM 	2 <ul style="list-style-type: none"> Flat & Performance Fee Option 	1.73 (2) <p>Good option, especially if IAC/Board is not comfortable with WCM concentration. Differentiate research platform & least correlated to current DFPF managers.</p>
Intermede	2 <ul style="list-style-type: none"> Boutique Global Equities shop with \$7B in AUM Employees own 64% Insignia Financial 36% 	3.5 <ul style="list-style-type: none"> Barry Darge is lead PM Supported by a team of sector specialist analysts & two other PMs (located outside of London). Investment Team consists of 9 members 	4 <ul style="list-style-type: none"> ~ 40 holdings 95% bottom-up % 5% on macro Annual Turnover 28% & 18% in last two years Similar philosophy to Walter Scott 	3 <ul style="list-style-type: none"> Above average long-term returns Struggled to keep up with benchmark during growth rally over last 1 yr 	3 <ul style="list-style-type: none"> Flat & Performance Fee Option 	3.15 (3) <p>Solid firm and team, concern around proximity of 3 PMs and similarity to Walter Scott.</p>
C WorldWide	4 <ul style="list-style-type: none"> Altor (PE) owns 80% of firm Employees own 20% 	3.5 <ul style="list-style-type: none"> 4 Person Global decision team supported by a team of 19 Investment professionals 	3 <ul style="list-style-type: none"> 25 to 30 holdings Generalist approach, but do have specialist for Health care and EM Similar philosophy to Walter Scott 	4 <ul style="list-style-type: none"> Consistent long-term returns, with higher share of EM compared to other semi-finalists 	1 <ul style="list-style-type: none"> Flat & Performance Fee Option 	3.35 (4) <p>Solid option in Meketa bullpen, concern around private equity ownership & similarity to Walter Scott.</p>

Finalists – Performance Annualized Returns (as of 6/30/23)

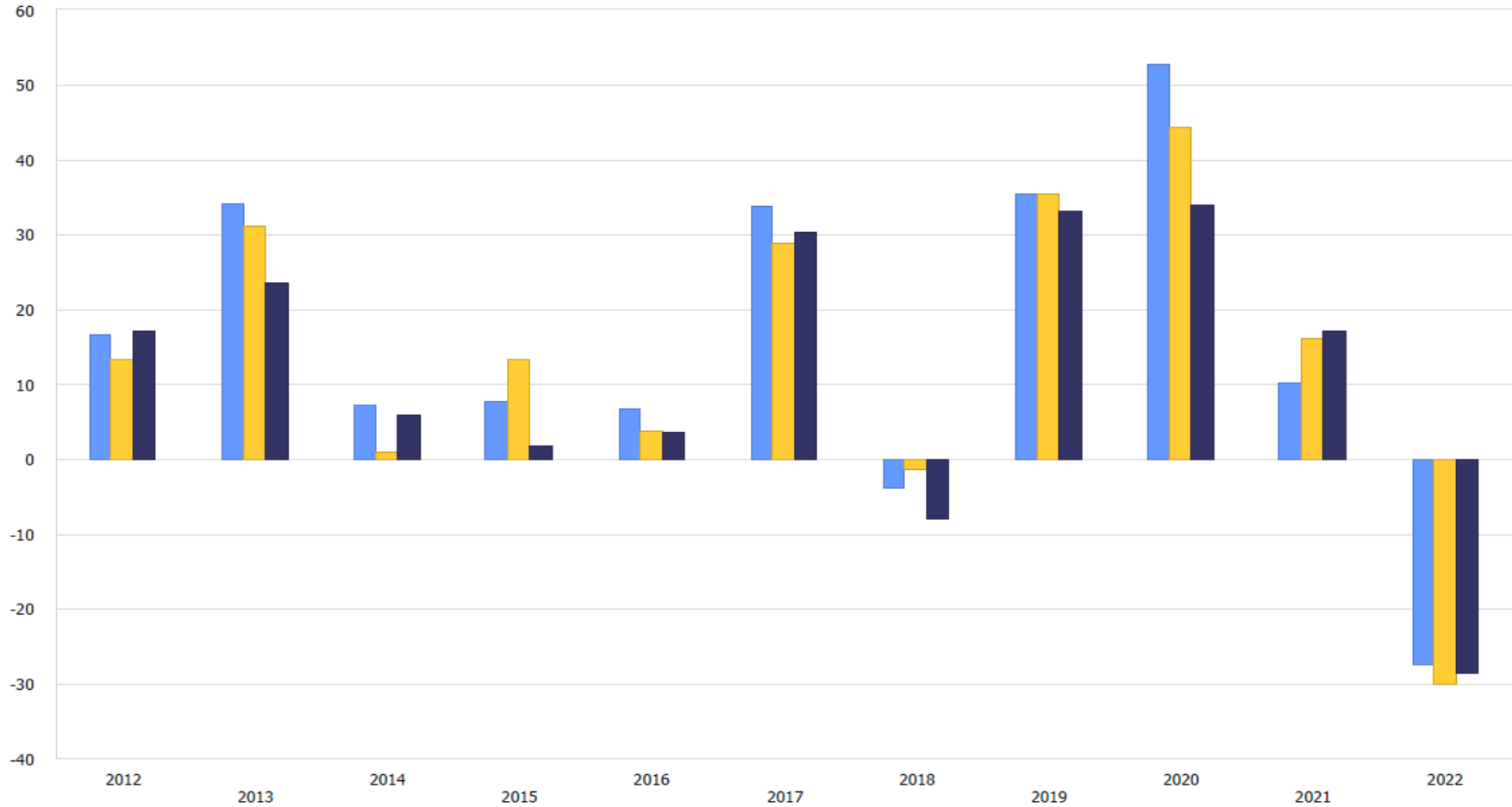


Source: eVestment

	MRQ		1 Year		3 Years		5 Years		10 Years	
		Rk		Rk		Rk		Rk		Rk
◆ T. Rowe Price: Global Focused Growth Equity Strategy	8.35	18	20.46	31	9.15	46	11.60	18	14.44	8
■ WCM Investment Management: Quality Global Growth	6.88	36	19.91	35	7.37	62	12.02	14	13.02	17
■ MSCI Index: MSCI ACWI Growth-GD	9.28	13	23.35	19	9.81	38	10.73	31	11.34	42



Finalists – Performance Calendar Year

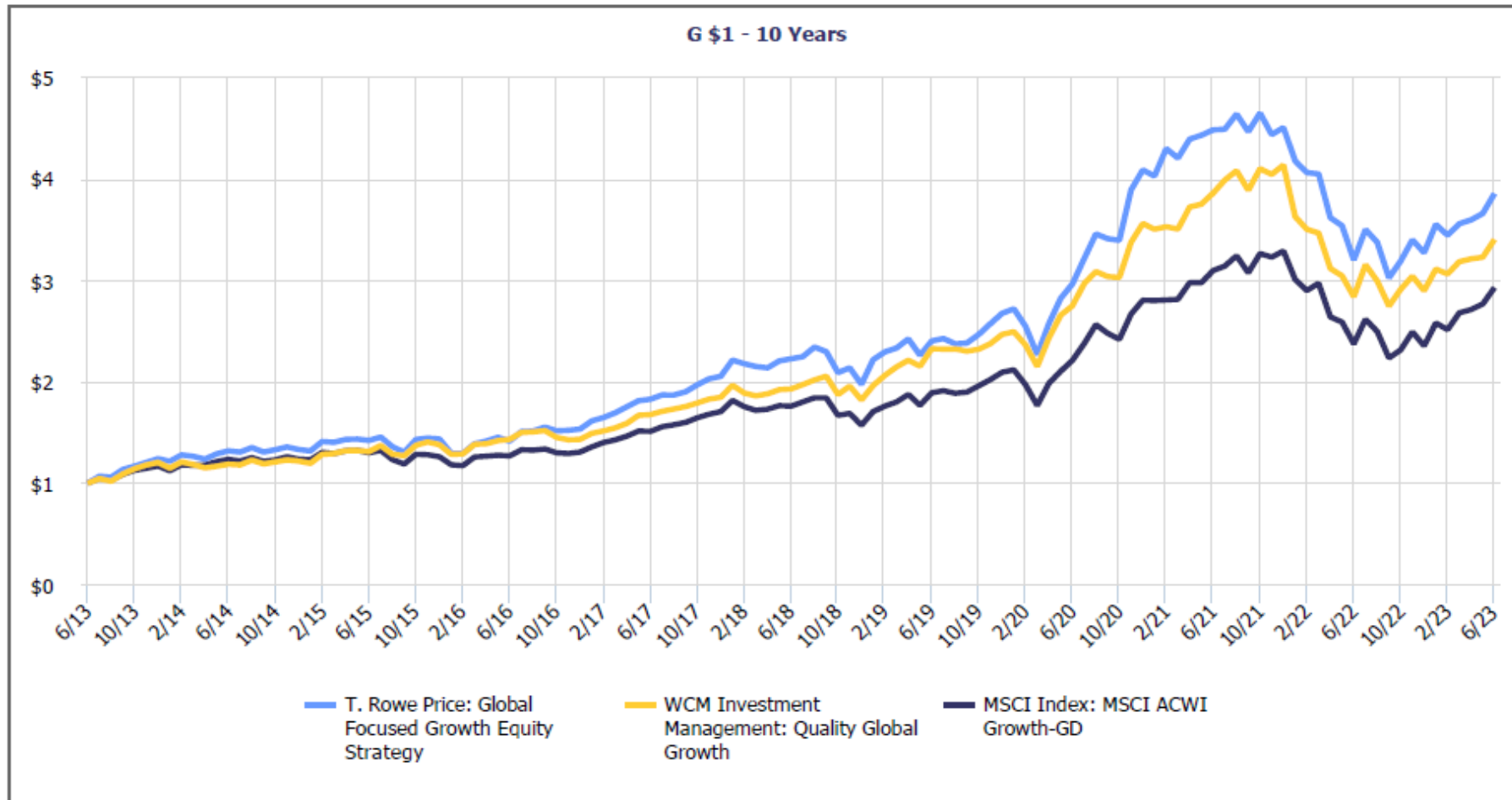


	DS	RM	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
T. Rowe Price	IM	GF	16.78	34.12	7.24	7.80	6.82	33.87	-3.81	35.41	52.84	10.22	-27.38
WCM Investment Management	IM	GF	13.37	31.12	1.03	13.31	3.81	28.94	-1.41	35.48	44.31	16.21	-29.95
MSCI Index	IM	IX	17.17	23.62	5.82	1.91	3.66	30.46	-7.82	33.17	33.93	17.32	-28.44

Source: eVestment



Finalists - Growth of \$1 (Trailing 10-yr)

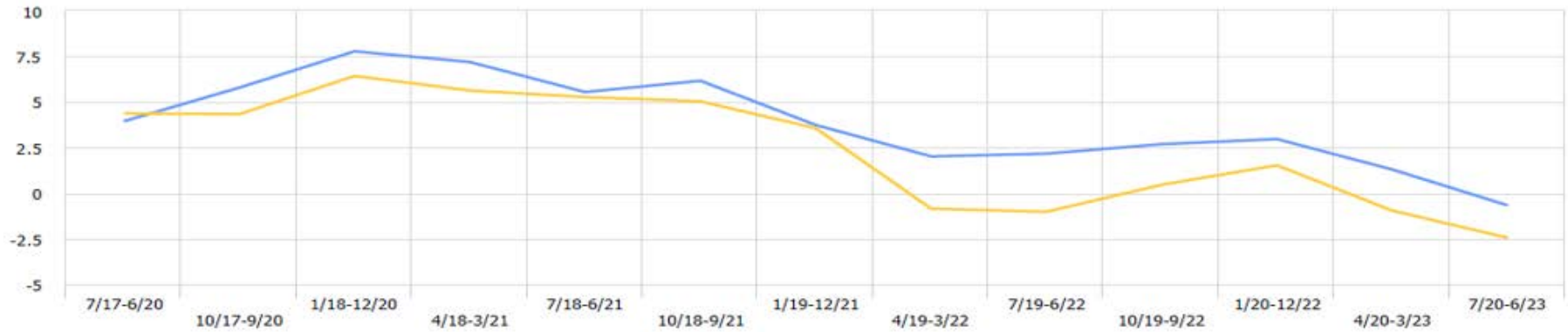


Source: eVestment

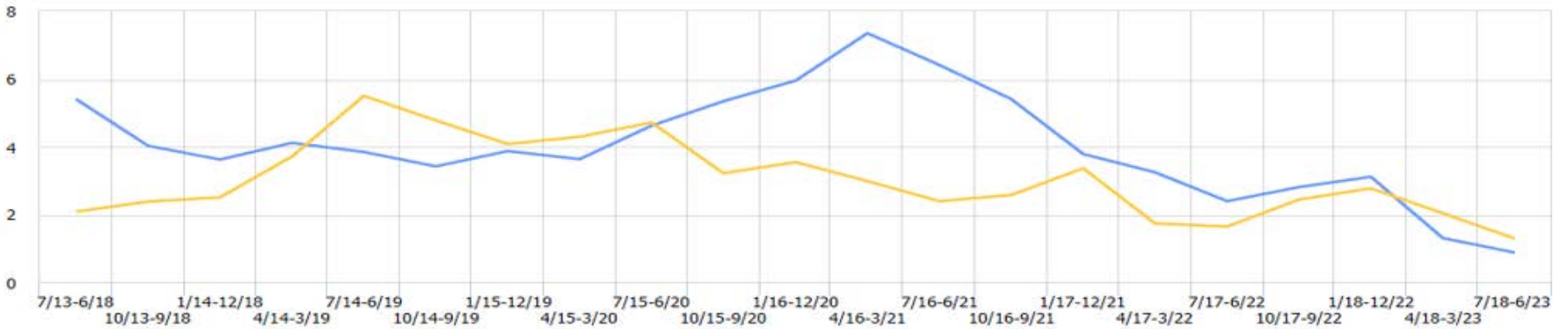
Over the long run, both managers have outperformed the MSCI ACWI Growth Index

Finalists – Rolling Excess Returns

Rolling 3 Yrs. Excess Returns



Rolling 5 Yrs. Excess Returns

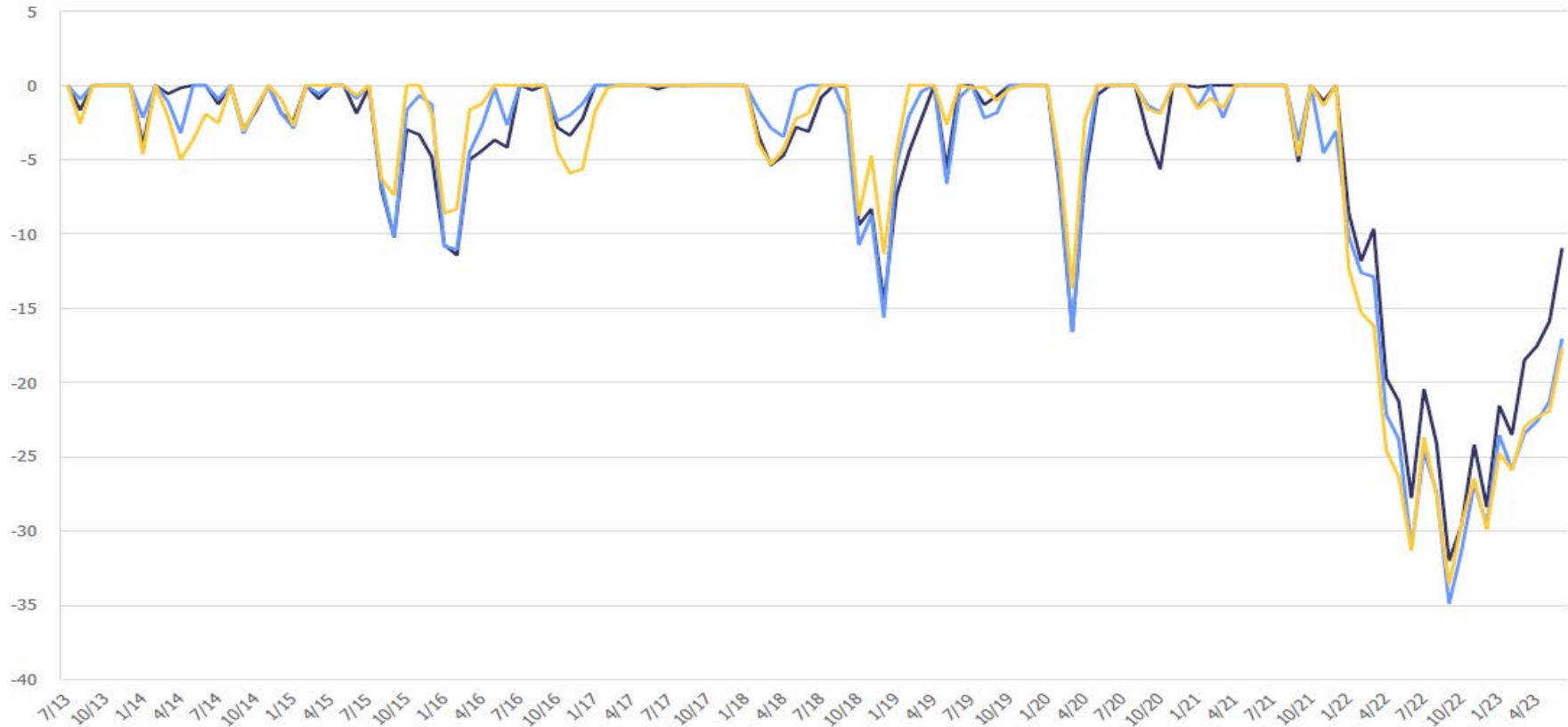


◆ T. Rowe Price ■ WCM

Source: eVestment

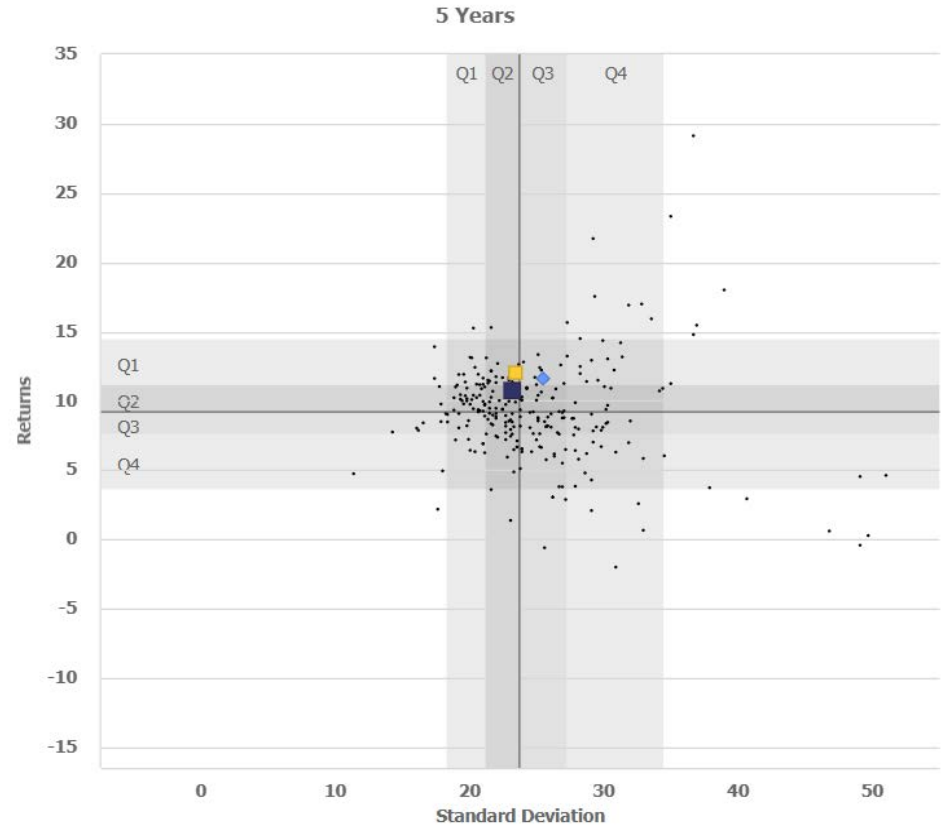
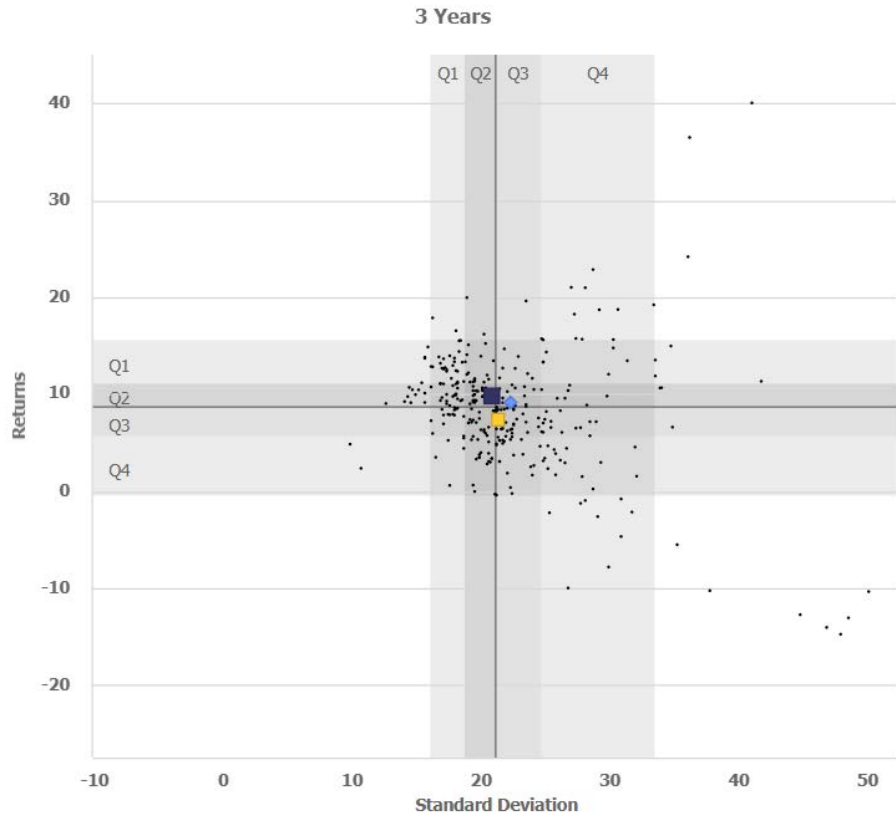
Finalists – Drawdown Insights

Underwater Drawdown - 10 Years



	T. Rowe Price Global Focused Growth Equity Composite	WCM Quality Global Growth
Max Drawdown:	34.95%	33.62%
Downside Market Capture:	98.9%	88.9%
Upside Market Capture:	109.6%	97.0%
Max Drawdown Length:	11 months	9 months

Finalists – Risk vs Reward(as of 6/30/23)



- ◆ T. Rowe Price: Global Focused Growth Equity Strategy
- MSCI Index: MSCI ACWI Growth-GD
- WCM: Quality Global Growth
- + Universe Median

Source: eVestment



Top 10 Holdings as of June 30, 2023

T. Rowe Price Global Focused Growth		WCM Quality Global Growth	
AMAZON.COM INC	5.3%	MICROSOFT CORP	4.3%
APPLE INC	4.7%	NOVO NORDISK 'B'	4.2%
ELI LILLY AND CO	4.3%	STRYKER CORP	4.0%
MICROSOFT CORP	3.9%	AMAZON.COM INC	4.0%
LONDON STOCK EXCHANGE GROUP PLC	3.2%	DATADOG INC	4.0%
META PLATFORMS INC	3.0%	VISA INC	3.9%
DAIICHI SANKYO COMPANY LTD	2.8%	LVMH MOET HENNESSY LOUIS VUITTON SE	3.9%
NVIDIA CORPORATION	2.8%	UNITEDHEALTH GROUP INC	3.8%
EXXON MOBIL CORP	2.2%	ARTHUR J. GALLAGHER & CO.	3.8%
AMADEUS IT GROUP SA	2.0%	ENTEGRIS INC	3.6%
Total	34.2%	Total	39.5%

Source: Meketa

Finalists – Correlation of Excess Returns to DFPF Managers

Correlation of Manager Excessive Return vs ACWI
(Excess return – 5 Yr. as of June 30, 2023)

	Boston Partners	Manulife	Walter Scott	T. Rowe	WCM
T. Rowe	-0.27	-0.43	0.04	1.0	
WCM	-0.51	-0.24	0.54	0.52	1.0

Benchmark: MSCI ACWI

A consideration when combining managers within a multi-manager portfolio is the co-movement, or correlation, of their excess returns over time. Excess returns are defined as an individual manager's performance relative to the index. Ideally, each manager within the portfolio will exhibit a low correlation of excess returns with other managers in the multi-manager program.



Dallas Police and Fire Pension System

Global Equity Growth
Manager Finalists



Dallas Police and Fire Pension System

Global Equity Growth Manager Finalists

Investment Managers Overview

	WCM	T Rowe Price
Firm Location	Laguna Beach, California	Baltimore, Maryland
Firm Inception	1976	1937
Ownership Structure	75% Employee-Owned/ 25% Owned by Natixis IM	Publicly traded
Strategy Name	Quality Global Growth	Global Focused Growth Equity
Strategy Inception	April 2008	December 1995
Assets Under Management (Strategy)	\$19 billion	\$27 billion
Asset Under Management (Firm)	\$80 billion	\$1.4 trillion



Dallas Police and Fire Pension System

Global Equity Growth Manager Finalists

WCM Quality Global Growth

Organization

→ WCM Investment Management was founded in 1976 and is a boutique asset management firm headquartered in Laguna Beach, CA. Just over 75% of the firm is owned by 44 employees (nearly half of which is owned by CEO Paul Black and former co-CEO Kurt Winrich). The remaining 25% is held by Natixis Investment Managers, who purchased a minority stake in July 2018. As of 6/30/23, WCM manages \$80 billion in assets across 17 equity strategies, with \$19 billion in the Quality Global Growth strategy.

Investment Team

→ For most of WCM's history, the firm's co-CEOs Paul Black and Kurt Winrich served as the strategy's primary portfolio managers. The two have over 30 years of investment experience, and both joined WCM back in the 1980s. With significant notice and planning, Mr. Winrich retired from his position at the end of 2021, and Mr. Black now leads the investment team alone. Beyond Mr. Winrich's departure, the team's senior leadership team has been quite stable since the strategy's inception.

→ Mr. Black is supported by three additional portfolio managers, Mike Trigg, Sanjay Ayer and Jon Tringale. Their industry experience dates back to the mid- and early-2000s, and the three comprise a strong second generation of WCM investment professionals. The same team manages WCM's Focused Growth International and Emerging Markets strategies, although the sizable overlap among the strategies makes the number of names manageable for a team of this size. The senior professionals are supported by eleven analysts and three traders. All members of the team act as generalists in the research process.



Dallas Police and Fire Pension System

Global Equity Growth Manager Finalists

WCM Quality Global Growth (continued)

Investment Philosophy

→ WCM aims to create a concentrated portfolio of high-quality companies with consistent earnings. They seek to identify companies with durable economic moats which provide sustainable competitive advantages over their peers. The team believes that the long-term trajectories of these moats is just as important as their sizes. They attempt to buy companies with growing economic moats and will sell at the first sign that their moats have begun to deteriorate.

Investment Process

- The team begins with screens to narrow the investible universe, looking for companies with a minimum market capitalization of \$3.5 billion, little to no debt (industry-dependent), as well as high and improving return on invested capital. This narrows their universe down to roughly 150 to 200 high-quality businesses. Within this opportunity set, the team focuses on identifying companies with strong, growing economic moats.
- To gauge the breadth of a company's moat, the team studies company and peer firms' financials and other market data to assess the direction of a company's competitive advantage. WCM maintains a database which tracks economic moats throughout various industries, providing an ever-adapting process for identifying new moats and a system for classifying different moat "typologies". This database facilitates pattern recognition, helping the team to understand how, why, and when moats eventually deteriorate.
- Valuation is generally a secondary concern for WCM. They are still willing to sell stocks based on valuation, but they are also willing to pay a high current multiple for a business if they believe the market underestimates its earnings power.



Dallas Police and Fire Pension System

Global Equity Growth Manager Finalists

WCM Quality Global Growth (continued)

Investment Process (continued)

- The result is a concentrated portfolio of 25 to 35 companies. They aim to ensure that the companies in their portfolio “play well together.” They take efforts to diversify their stocks with respect to standard measures like industry, sector, and regional exposures, but will also seek to ensure diversification across company and moat types. Historical exposure to emerging markets has ranged between 0% and 30%, with a maximum of 35%.
- Their investment in emerging markets has diminished markedly in recent years, with 2.1% exposure as of year-end 2022, and a three-year average exposure around 10%. Portfolio turnover has generally ranged from 30% to 40%.



Dallas Police and Fire Pension System

Global Equity Growth Manager Finalists

T Rowe Price Global Focused Growth Equity

Organization

- T Rowe Price was founded in 1937 and is a large global investment management firm headquartered in Baltimore, Maryland. T Rowe Price manages is publicly traded (NASDAQ: TROW). Employees own approximately 7% of the outstanding shares.
- As of 6/30/23, T Rowe managed \$1.4 trillion in assets across 30+ strategies. The majority of assets managed are public equity strategies, but T Rowe also manages fixed income strategies and balanced asset allocations strategies. 55% of the firm assets are institutional clients, and 45% are retail investors. As of 6/30/23, there was \$27 billion invested in Global Focused Growth Equity strategy roughly split equally across separately managed accounts and commingled products.

Investment Team

- The core team leading the strategy is small, but supported by a larger research operation. David Eiswert, CFA (19 years at T Rowe, 22 years industry experience) is the lead Portfolio Manager, and supported by Associate Portfolio Manager Nabil Hanano, CFA (10 years at T Rowe, 14 years industry experience) and investment analyst Jacob H. Kann, CFA (10 years at T Rowe, 13 years industry experience).
- Dave Eiswert has been the lead portfolio manager on the strategy since October 2012. Nabil Hanano has also worked on the strategy since 2012. He was promoted to associate portfolio manager three years ago. The team is dedicated to the Global Focused Growth Equity Strategy and does not work on any other strategies.
- The dedicated team is supported by a central research process with over 100 research analysts.



Dallas Police and Fire Pension System

Global Equity Growth Manager Finalists

T Rowe Price Global Focused Growth Equity (continued)

Investment Philosophy

- The team applies a bottom-up, quality growth investment approach that is also mindful of valuation. They are seeking companies with faster earnings growth and reasonable valuation levels relative to market/sector averages.
- The team defines quality by the future durability of the business, their trust in the management team, and high returns on capital. They claim to have a more “flexible” definition of growth which spans structural, cyclical, and self-help growth to better insulate performance from the cyclical nature of factor returns. However, we note that this is by no means unique vs. peers.
- In terms of the team’s opportunity set, at times they are willing to go down in market capitalization and believe the tail end of the portfolio can offer significant value-add. Therefore, the team seeks slight exposure to smaller companies that have the potential for extreme idiosyncratic outcomes. This explains their level of concentration at 60-80 names (slightly higher at the moment at 85 names) vis a vis their desire to be “Focused” (as indicated by the strategy’s name).

Investment Process

- The investment process begins with a universe of approximately 4,000 global publicly traded stocks domiciled in developed and emerging countries with market capitalizations of roughly \$1 billion or more. TRP’s research analysts are responsible for analyzing each company’s growth prospects, balance sheet, and valuation within this universe.



Dallas Police and Fire Pension System

Global Equity Growth Manager Finalists

T Rowe Price Global Focused Growth Equity (continued)

Investment Process (continued)

- The team looks for companies with stable-to-improving business fundamentals and prospects for accelerating returns on capital over a one- to two-year time horizon.
- They view on-site visits with companies, suppliers, customers, government officials, central bankers, etc., as an integral part of the idea-generating process and spend a great deal of time meeting and engaging with senior executives across the private and public equity markets.
- Mr. Eiswert, together with Messrs. Hanano and Kann, devotes his time to the vetted stocks recommended by the firm's ~200 equity research professionals.
- Portfolio diversification, achieved through stock, sector, and country allocation decisions, is an important element of the team's risk management process. Integration of ESG factors into the investment process also helps inform investment decisions. The strategy's quality bias tends to favor companies that are well-run and generally score well on ESG measures.
- Country weights are capped at +/- 10% vs. the benchmark, while EM and broad sector exposures are capped at +/- 15%. Position sizes range from 0.5% to 5%, with cash typically comprising less than 5% of the portfolio (though cash is capped at 10%). The strategy currently has ~6% exposure to emerging markets. Turnover is high and has fluctuated significantly over the life of the strategy (see below). For the past few years, turnover has ranged from 80-100%.
- The team's analysis typically yields 100 to 150 higher-conviction investment candidates. From there, Mr. Eiswert constructs a global portfolio of the team's best ideas, while managing risk exposure at both the individual name and portfolio levels. The result is a focused portfolio consisting of approximately 60 to 80 names.



Dallas Police and Fire Pension

Global Growth Equity Manager Search

Trailing Performance (Gross of Fees)						
As of June 30, 2023						
	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	7 Yrs (%)	10 Yrs (%)
WCM Quality Global Growth	17.4	19.9	7.4	12.0	13.1	13.0
<i>MSCI ACWI Growth NR USD</i>	<u>24.2</u>	<u>23.1</u>	<u>9.6</u>	<u>10.4</u>	<u>12.4</u>	<u>11.0</u>
Excess Return	-6.8	-3.2	-2.2	1.6	0.7	2.0
<i>eV Global Growth Equity Gross Median</i>	15.5	17.9	8.5	9.8	12.6	11.3
<i>eV Global Growth Equity Gross Rank</i>	41	36	61	16	38	20
T. Rowe Price Global Focused Growth	17.8	20.5	9.1	11.6	15.4	14.4
<i>MSCI ACWI Growth NR USD</i>	<u>24.2</u>	<u>23.1</u>	<u>9.6</u>	<u>10.4</u>	<u>12.4</u>	<u>11.0</u>
Excess Return	-6.4	-2.6	-0.5	1.2	3.0	3.4
<i>eV Global Growth Equity Gross Median</i>	15.5	17.9	8.5	9.8	12.6	11.3
<i>eV Global Growth Equity Gross Rank</i>	38	32	45	21	12	11



Dallas Police and Fire Pension

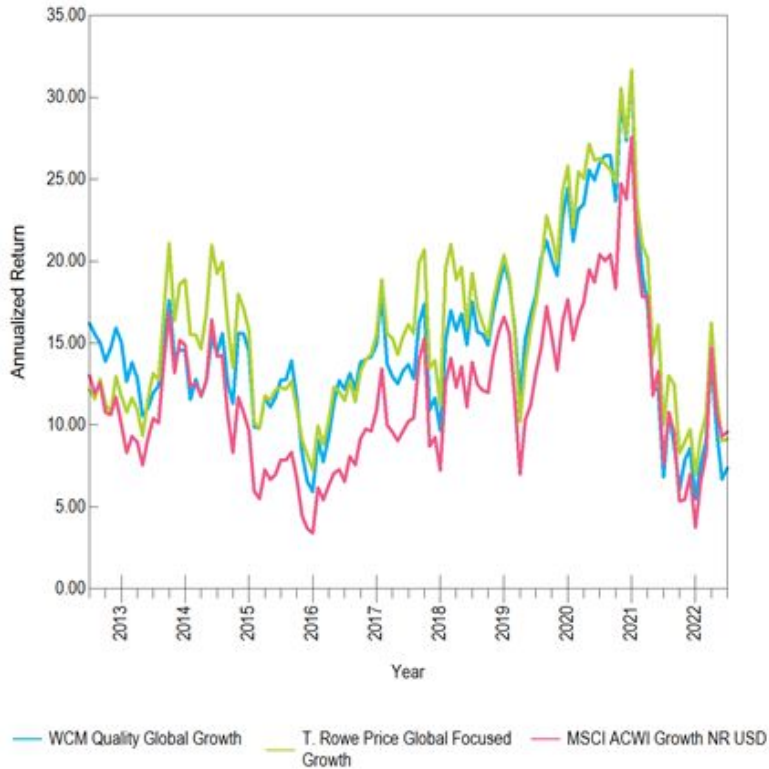
Global Growth Equity Manager Search

	Calendar Year Performance (Gross of Fees)									
	2022 (%)	2021 (%)	2020 (%)	2019 (%)	2018 (%)	2017 (%)	2016 (%)	2015 (%)	2014 (%)	2013 (%)
WCM Quality Global Growth	-30.0	16.2	44.3	35.5	-1.4	28.9	3.8	13.3	1.0	31.1
<i>MSCI ACWI Growth NR USD</i>	<u>-28.6</u>	<u>17.1</u>	<u>33.6</u>	<u>32.7</u>	<u>-8.1</u>	<u>30.0</u>	<u>3.3</u>	<u>1.5</u>	<u>5.4</u>	<u>23.2</u>
Excess Return	-1.4	-0.9	10.7	2.8	6.7	-1.1	0.5	11.8	-4.4	7.9
<i>eV Global Growth Equity Gross Median</i>	-27.3	16.1	34.1	32.8	-6.9	30.9	3.5	2.2	3.7	28.4
<i>eV Global Growth Equity Gross Rank</i>	65	49	29	28	20	62	44	4	81	31
T. Rowe Price Global Focused Growth	-27.4	10.2	52.8	35.4	-3.8	33.9	6.8	7.8	7.2	34.1
<i>MSCI ACWI Growth NR USD</i>	<u>-28.6</u>	<u>17.1</u>	<u>33.6</u>	<u>32.7</u>	<u>-8.1</u>	<u>30.0</u>	<u>3.3</u>	<u>1.5</u>	<u>5.4</u>	<u>23.2</u>
Excess Return	1.2	-6.9	19.2	2.7	4.3	3.9	3.5	6.3	1.8	10.9
<i>eV Global Growth Equity Gross Median</i>	-27.3	16.1	34.1	32.8	-6.9	30.9	3.5	2.2	3.7	28.4
<i>eV Global Growth Equity Gross Rank</i>	51	78	18	29	31	31	20	13	16	18

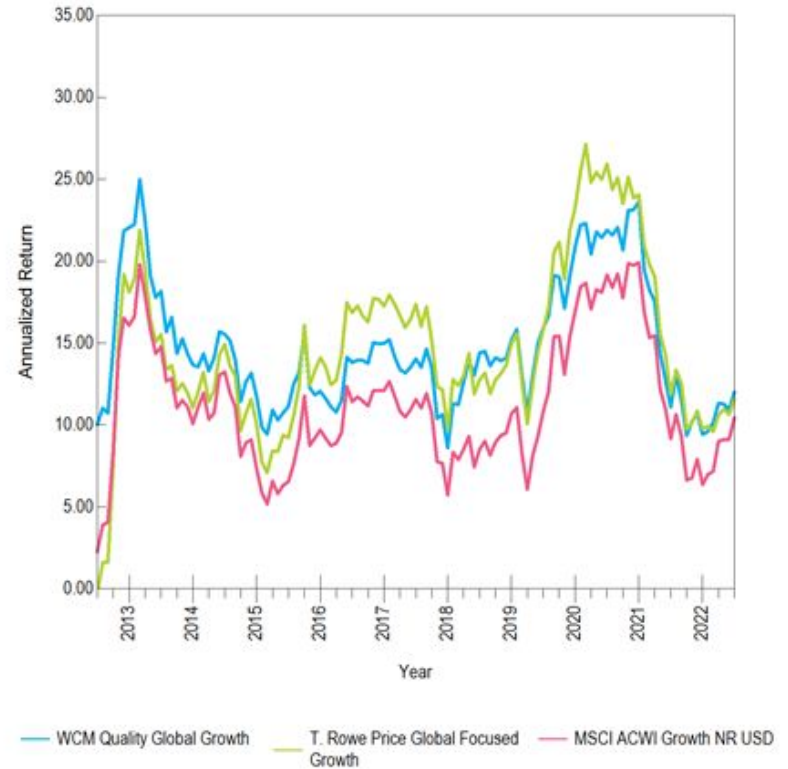


**Dallas Police and Fire Pension
Global Growth Equity Manager Search**

Rolling 3 Year Annualized Return (%)



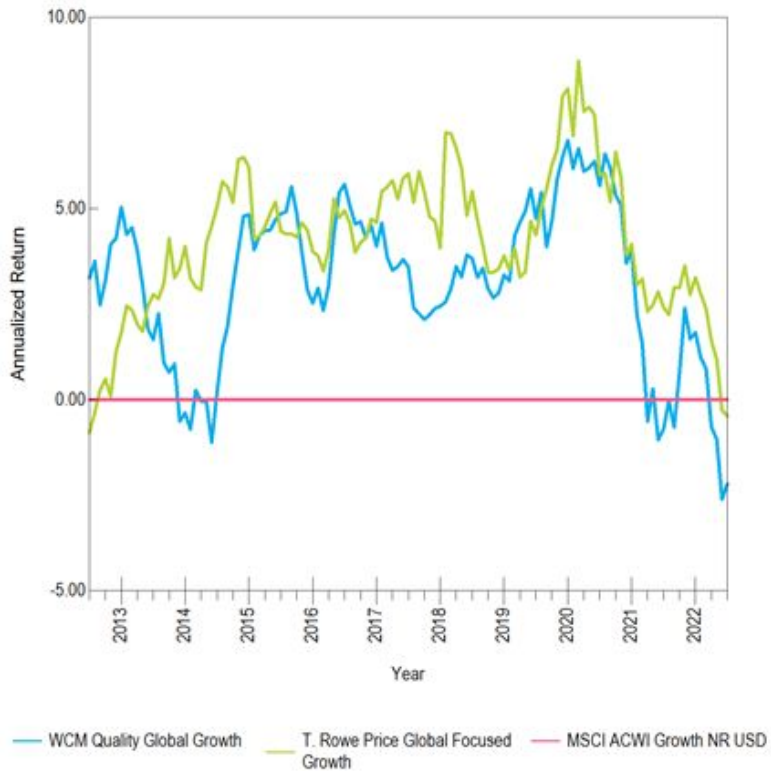
Rolling 5 Year Annualized Return (%)



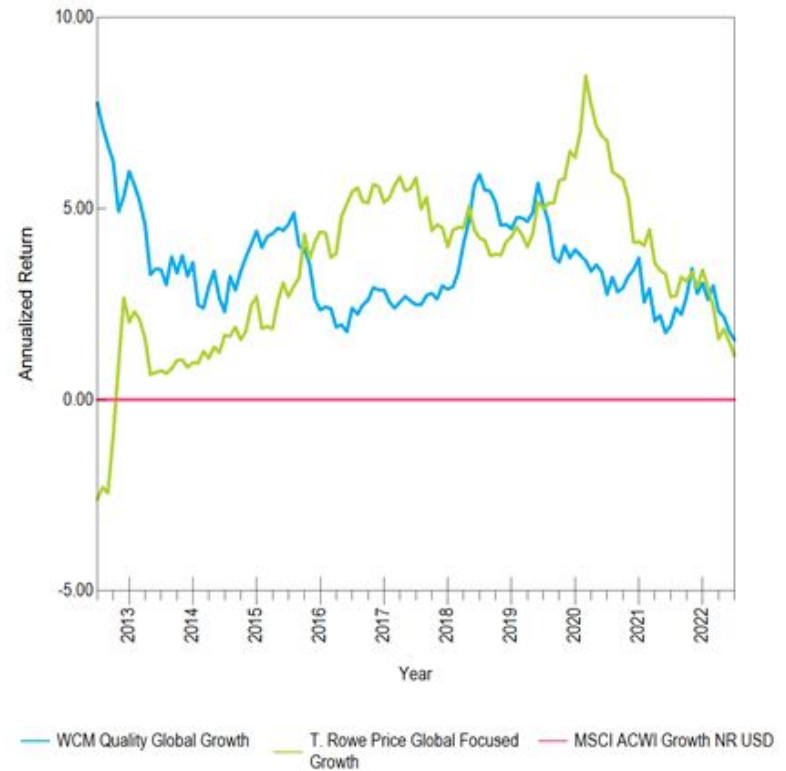


**Dallas Police and Fire Pension
Global Growth Equity Manager Search**

Rolling 3 Year Annual Excess Return (%)



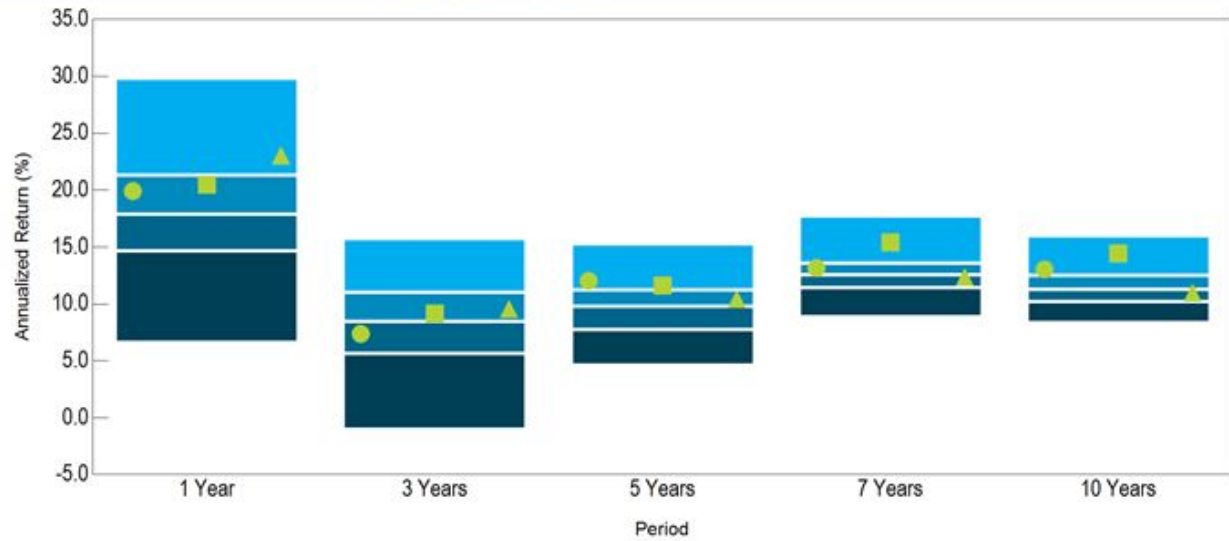
Rolling 5 Year Annualized Excess Return (%)





**Dallas Police and Fire Pension
Global Growth Equity Manager Search**

**eV Global Growth Equity Gross Return Comparison
Ending June 30, 2023**

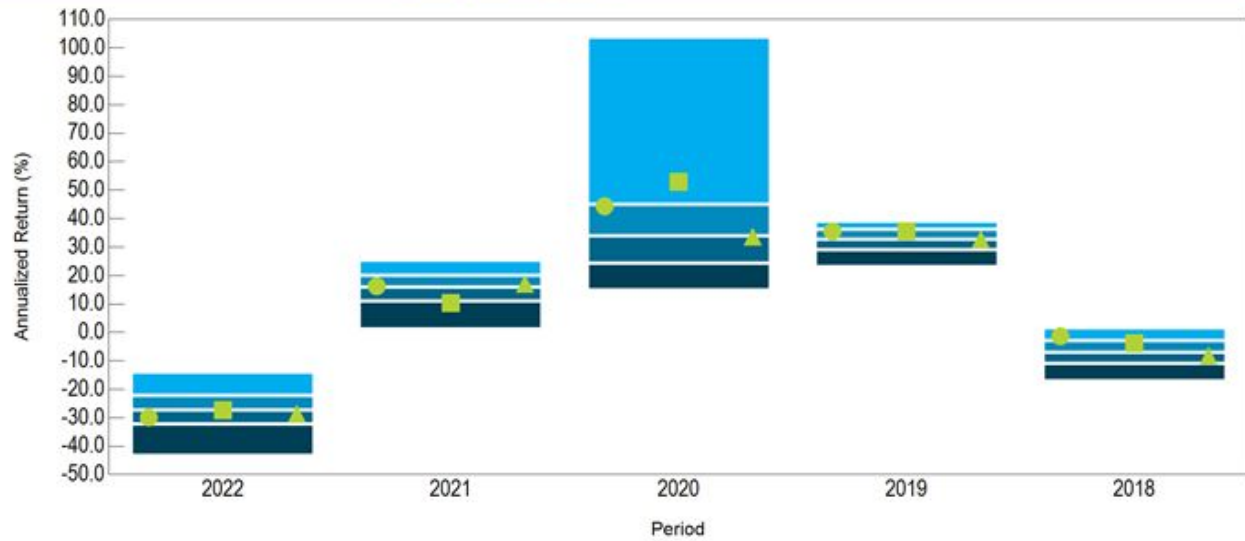


	Return (Rank)				
	1 Year	3 Years	5 Years	7 Years	10 Years
5th Percentile	29.8	15.7	15.3	17.7	16.0
25th Percentile	21.4	11.1	11.3	13.6	12.5
Median	17.9	8.5	9.8	12.6	11.3
75th Percentile	14.7	5.7	7.8	11.5	10.2
95th Percentile	6.7	-1.0	4.6	8.9	8.4
# of Portfolios	232	219	187	161	113
● WCM Quality Global Growth	19.9 (36)	7.4 (61)	12.0 (16)	13.1 (38)	13.0 (20)
■ T. Rowe Price Global Focused Growth	20.5 (32)	9.1 (45)	11.6 (21)	15.4 (12)	14.4 (11)
▲ MSCI ACWI Growth NR USD	23.1 (20)	9.6 (40)	10.4 (38)	12.4 (55)	11.0 (57)



**Dallas Police and Fire Pension
Global Growth Equity Manager Search**

**eV Global Growth Equity Gross Return Comparison
Ending June 30, 2023**



	2022		2021		2020		2019		2018	
5th Percentile	-14.1	(65)	25.3	(49)	103.7	(29)	39.1	(28)	1.5	(20)
25th Percentile	-22.2	(51)	20.2	(78)	45.1	(18)	36.3	(29)	-2.7	(31)
Median	-27.3	(53)	16.1	(44)	34.1	(51)	32.8	(53)	-6.9	(62)
75th Percentile	-32.1		11.2		24.4		29.1		-10.8	
95th Percentile	-43.1		1.3		15.0		23.3		-17.0	
# of Portfolios	225		197		172		146		127	
● WCM Quality Global Growth	-30.0	(65)	16.2	(49)	44.3	(29)	35.5	(28)	-1.4	(20)
■ T. Rowe Price Global Focused Growth	-27.4	(51)	10.2	(78)	52.8	(18)	35.4	(29)	-3.8	(31)
▲ MSCI ACWI Growth NR USD	-28.6	(53)	17.1	(44)	33.6	(51)	32.7	(53)	-8.1	(62)



Dallas Police and Fire Pension
Global Growth Equity Manager Search

Statistics Summary						
5 Years Ending June 30, 2023 Versus MSCI ACWI Growth						
	Annualized Return (%)	Annualized Standard Deviation	Annual Excess Benchmark Return	Tracking Error	Sharpe Ratio	Information Ratio
WCM Quality Global Growth	12.0%	18.9%	1.6%	5.8%	0.56	0.27
T. Rowe Price Global Focused Growth	11.6%	20.6%	1.2%	6.2%	0.49	0.19

	Annualized Alpha Jensen (%)	Up Market Capture Ratio (%)	Down Market Capture Ratio (%)	Beta	R-Squared
WCM Quality Global Growth	2.3%	89.1%	91.7%	0.92	0.91
T. Rowe Price Global Focused Growth	1.1%	104.9%	99.4%	1.00	0.91



Dallas Police and Fire Pension
Global Growth Equity Manager Search

Equity Characteristics	WCM Quality Global Growth	T. Rowe Price Global Focused Growth	
	Portfolio Q2-23	Portfolio Q2-23	Index Q2-23
Market Value	Market Value	Market Value	
Market Value (\$M)	18,642.1	25,846.7	--
Number Of Holdings	33	74	1561
Characteristics	Characteristics	Characteristics	
Weighted Avg. Market Cap. (\$B)	300.4	516.7	734.1
Median Market Cap (\$B)	57.2	84.1	12.3
P/E Ratio	34.4	29.3	29.5
Yield	0.7	1.0	1.0
EPS Growth - 5 Yrs.	18.1	14.1	16.7
Price to Book	6.7	4.8	5.7
Company Size Distribution	Company Size Distribution	Company Size Distribution	
Weighted Avg. Market Cap. (\$B)	300.4	516.7	734.1
Median Market Cap. (\$B)	57.2	84.1	12.3
Large Cap. (%)	78.9	85.8	81.8
Medium Cap. (%)	18.9	8.7	12.8
Small Cap. (%)	2.2	5.5	5.4



Dallas Police and Fire Pension
Global Growth Equity Manager Search

Sector Allocations	WCM Quality Global Growth		T. Rowe Price Global Focused Growth	
		Portfolio Q2-23	Portfolio Q2-23	Index Q2-23
Sector Distribution	Sector Distribution		Sector Distribution	
Energy		0.0	5.5	1.6
Materials		1.6	2.7	2.9
Industrials		14.5	9.1	10.0
Consumer Discretionary		15.0	13.1	14.9
Consumer Staples		4.4	4.4	6.2
Health Care		23.9	11.8	10.6
Financials		17.5	15.0	8.6
Information Technology		23.1	27.6	33.6
Communication Services		0.0	10.1	10.5
Utilities		0.0	0.0	0.4
Real Estate		0.0	0.7	0.8

Regional Allocations	WCM		T. Rowe Price	
	Region	% of Total Region	Region	% of Total
North America ex U.S.		6.38%	North America ex U.S.	3.49%
United States		69.99%	United States	59.72%
Europe Ex U.K.		17.88%	Europe Ex U.K.	16.36%
United Kingdom		2.68%	United Kingdom	4.87%
Pacific Basin Ex Japan		0.00%	Pacific Basin Ex Japan	3.37%
Japan		0.00%	Japan	5.79%
Emerging Markets		3.06%	Emerging Markets	5.87%
Other		0.00%	Other	0.55%



Dallas Police and Fire Pension
Global Growth Equity Manager Search

Top 10 Countries as of June 30, 2023

WCM Quality Global Growth		
	Manager Ending Allocation (USD)	Index Ending Allocation (USD)
Top 10 Largest Countries		
United States	70.0%	63.0%
Canada	6.4%	2.8%
France	6.3%	3.5%
Denmark	4.2%	1.3%
Netherlands	3.3%	1.6%
India*	3.1%	1.5%
United Kingdom	2.7%	2.3%
Sweden	2.0%	0.8%
Italy	2.0%	0.3%
Total-Top 10 Largest Countries	100.0%	77.2%

T. Rowe Price Global Focused Growth		
	Manager Ending Allocation (USD)	Index Ending Allocation (USD)
Top 10 Largest Countries		
United States	59.7%	63.0%
Japan	5.8%	5.2%
United Kingdom	4.9%	2.3%
Netherlands	3.7%	1.6%
Canada	3.5%	2.8%
Germany	3.3%	1.7%
Hong Kong	3.1%	0.6%
Italy	2.9%	0.3%
India*	2.6%	1.5%
Switzerland	2.3%	3.1%
Total-Top 10 Largest Countries	91.8%	82.3%

* Asterisk denotes emerging markets countries.

Index is the MSCI ACWI.



Dallas Police and Fire Pension
Global Growth Equity Manager Search

Top 10 Holdings as of June 30, 2023

NOVO NORDISK 'B'	4.2%	APPLE INC	4.7%
STRYKER CORP	4.0%	ELI LILLY AND CO	4.3%
AMAZON.COM INC	4.0%	MICROSOFT CORP	3.9%
DATADOG INC	4.0%	LONDON STOCK EXCHANGE GROUP PLC	3.2%
VISA INC	3.9%	META PLATFORMS INC	3.0%
LVMH MOET HENNESSY LOUIS VUITTON SE	3.9%	DAIICHI SANKYO COMPANY LTD	2.8%
UNITEDHEALTH GROUP INC	3.8%	NVIDIA CORPORATION	2.8%
ARTHUR J. GALLAGHER & CO.	3.8%	EXXON MOBIL CORP	2.2%
ENTEGRIS INC	3.6%	AMADEUS IT GROUP SA	2.0%
Total	39.5%	Total	34.2%



Dallas Police and Fire Pension Global Growth Equity Manager Search





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DISCUSSION SHEET

ITEM #C11

Topic: Investment Policy Statement amendments

Discussion: At the September 28, 2023 IAC meeting, staff discussed changes needed to the Investment Policy Statement (IPS) regarding rebalancing considerations for the Safety Reserve allocation and fiduciary requirements for commingled fund managers. Staff will also discuss a proposed change involving the IAC meetings.

Staff

Recommendation: Approve the proposed revised Investment Policy Statement.

Regular Board Meeting – Thursday, October 12, 2023



D A L L A S
POLICE & FIRE
PENSION SYSTEM



Safety Reserve Drawdown & Rebalancing

Safety Reserve Exit Determination

- At the March 2022 Board meeting, staff notified the Board that the Safety Reserve would be drawn down to fund net benefit outflows.
- At the September IAC meeting, Staff and Meketa discussed the current status of the Safety Reserve, reviewed Investment Policy language surrounding the Safety Reserve and rebalancing and discussed plans to restore the allocation back to the target of 18 months of net benefit outflows.
- Staff and Meketa have made the determination to restore the Safety Reserve to the 9% target allocation because:
 - Though the market is still in a drawdown, global equity markets have somewhat from 2022 lows.
 - Private Market proceeds have slowed significantly in Q3 2023 and staff has less certainty surrounding expected proceeds over the next several quarters.
 - Cash will need to be replenished over the next 2 months.
- Staff plans to liquidate a combination of Public Equity and Public Fixed Income assets to rebalance into the Safety Reserve.
- Investment Policy Statement (IPS) will need to be revised to allow for rebalancing public asset classes away from target in order to move the Safety Reserve towards the 9% target.



Dallas Police and Fire Pension System

Safety Reserve



Dallas Police and Fire Pension System

Safety Reserve



Dallas Police and Fire Pension System

Safety Reserve

Background

→ Today we present a recap of the Safety Reserve history with DPFP, review policy language related to it, and conclude with a rebalancing recommendation.

Timeline of events

→ **Spring 2018** - Meketa presented the concept of a Safety Reserve (a mix of high quality, low volatility, short duration fixed income instruments and cash). It was recommended to DPFP because of a combination of the following that limited DPFP's ability to rebound from a significant market correction.

- weak funded status
- negative net benefit payments per year of approximately 5-6%
- illiquid legacy assets comprising approximately 25% of the Fund, with potentially binary outcomes

→ The establishment of a Safety Reserve was supported by staff and approved by the Board. It was established to meet ongoing expenses and benefit payments for at least 2.5 years.

→ **Winter 2019** - The Board approved a new asset allocation along with an implementation plan that was based on volatility of asset classes. Assets with the lowest volatility (risk) would be funded to target first, incrementally followed by asset classes with higher volatility.



Dallas Police and Fire Pension System

Safety Reserve

Background (continued)

- **Spring 2019** – the Safety Reserve reached its target exposure of 15%.
- **Spring 2021** – Staff, the Investment Advisory Committee (“IAC”), and Meketa re-evaluated the size of the Safety Reserve portfolio. The Board ultimately approved reducing the target size of the Safety Reserve to 9% (approximately 1.5 years’ worth of expected benefit payments and expenses). An implementation plan was agreed upon to reduce the Safety Reserve down to the new target by calendar year end.
- **Winter 2021** – the Safety Reserve reached its target exposure.
- **Spring 2022** – Staff recommended (and the Board approved) putting the Safety Reserve into “draw down” mode (explained on following pages).



Dallas Police and Fire Pension System

Safety Reserve

Investment Policy Language

→ Relevant Investment Policy Language is pasted below (emphasis added):

Section 6. B. The Safety Reserve

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



Investment Policy Language (continued)

→ Relevant Investment Policy Language is pasted below (emphasis added):

Section 6. D. Rebalancing

3. Rebalancing actions must move an asset class towards its target allocation. The Safety Reserve will be evaluated based on both the percentage allocation and the total dollars required for 18-months of expected, forward net benefit cash outflows when making rebalancing recommendations.

4. The Safety Reserve is not required to be rebalanced to target if deemed prudent by Staff and Consultant during periods of market stress.

5. Staff will notify the Board if the determination has been made to draw down the Safety Reserve to meet liquidity needs, rather than rebalancing to target.

6. Rebalancing recommendations should consider expected future cash flows, investment liquidity, market volatility, and costs.



Dallas Police and Fire Pension System

Safety Reserve

Long Term Experience with the Safety Reserve

- Since inception there have been multiple periods of equity market stress along with one of the worst calendar years for intermediate duration investment grade bonds in decades (2022).
- DPFP never had to sell assets outside of the safety reserve to pay benefits during any of these periods.
 - 2022: **-13%** Bloomberg Barclays US Aggregate
 - 2Q22: **-16%** MSCI ACWI IMI
 - 1Q20: **-22%** MSCI ACWI IMI
 - 4Q18: **-14%** MSCI ACWI IMI.
- In addition, the Board felt comfortable increasing public equity exposure from a target of 25% to a target of 60% over the past 5 years – partially because of the confidence in knowing benefit payments will be covered with the Safety Reserve.



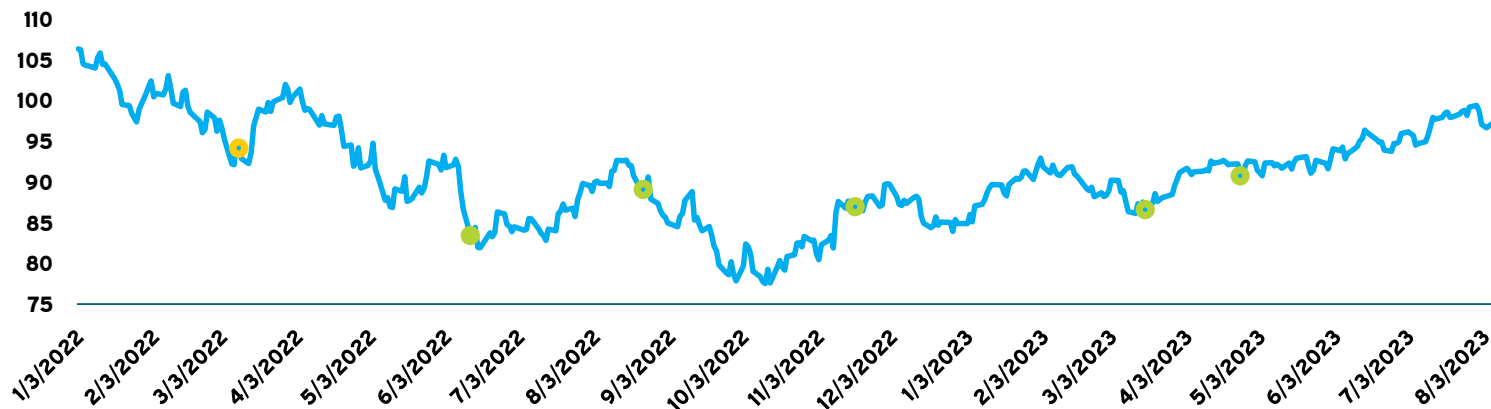
Dallas Police and Fire Pension System

Safety Reserve

Recent Experience¹ with the Safety Reserve

- The Safety Reserve was put into “draw down” in March 2022 (yellow dot below).
- Since that date \$84 million of private market proceeds (green dots below) have been reinvested into the equity market at depressed equity market valuations.
- Over the same period all benefits payments were covered by the Safety Reserve and no redemptions were required from other assets.

MSCI ACWI January 1, 2022 – August 31, 2023



¹ Using index proxy data we estimated DFPF gained ~\$2.5 mm in unrealized returns during the drawdown period by reinvesting private market proceeds into the equity market. Gain was calculated by estimating how much value was created by entering the global equity market and/or small cap market on the trade dates above minus the opportunity cost lost by not investing into IR+M in those given months. In total we estimate \$4.2M in unrealized investment gains was earned on the cumulative \$84M invested into the equity market between June 2022 – August 2023, while an estimated \$1.7M in returns was foregone by not investing the cumulative \$84M into IR+M on the dates above. All estimates through August 31, 2023. Additional details on the calculation can be provided upon request.



Dallas Police and Fire Pension System

Safety Reserve

Recommendation

- We recommend ending the draw down phase and bringing the Safety Reserve back to target now that global equity markets have recovered from the lows of 2022.
 - Current exposure is \$96 million (8/31/23), or roughly ~6% of DPFP.
 - Target exposure is 9% of DPFP. Which implies the requirement to add (at least) ~\$64 million.
 - Staff expects there could be some increase to the net monthly outflows in 2024, so the IAC/Board should reassess level of Safety Reserve during the Asset Allocation Study which is planned for early 2024.
- To refill Safety Reserve to target, we recommend that DPFP rebalance from public equities and/or fixed income and redeploy private market proceeds into Safety Reserve when available.
 - Staff and Meketa would follow typical rebalancing procedure, including Executive Director approval, and notification to IAC.
 - Source of proceeds will be dependent on Staff and Meketa's analysis at time of rebalancing.
 - IPS language around Safety Reserve and Rebalancing will need to be updated to accomplish this (see following page).



Dallas Police and Fire Pension System

Safety Reserve

Recommendation (continued)

→ To implement the rebalancing plan, we will need to modify to the Investment Policy Statement.

- The current IPS language on rebalancing states: *“Rebalancing actions must move an asset class towards its target allocation.”*
 - If the only asset classes overweight are illiquid asset classes, it creates a challenging scenario to replenish the Safety Reserve.
 - As such, assets would need to come from public fixed income or public equity, which may be at target or slightly under target.
- Section 6.D.3 will be revised to:
 - *“Rebalancing actions must move an asset class **or the Safety Reserve** towards its target allocation.”*
- In addition, Section 6.D.6 will be revised to:
 - *“Staff will notify the Board if the determination has been made to draw down the Safety Reserve to meet liquidity needs, rather than rebalancing to target. **After the commencement of a draw down period in the Safety Reserve, staff will notify the Board if the determination has been made to restore the Safety Reserve to the target.**”*



Disclaimer

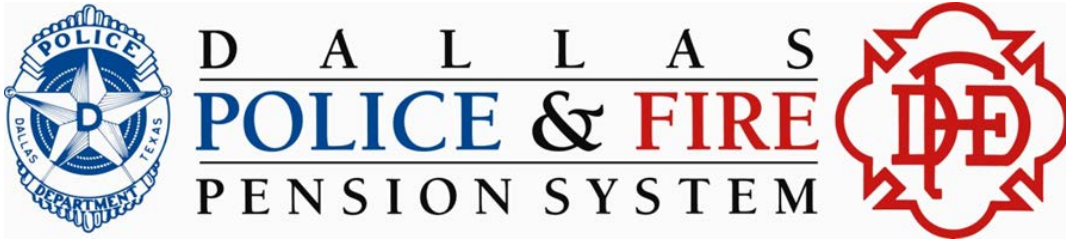
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PERFORMANCE DATA CONTAINED HEREIN REPRESENT PAST PERFORMANCE. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.



INVESTMENT POLICY STATEMENT

As Amended Through ~~February 9, 2023~~ October 12, 2023

INVESTMENT POLICY STATEMENT

Adopted April 14, 2016

As Amended Through ~~February 9, 2023~~October 12, 2023

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INVESTMENT POLICY STATEMENT

Adopted April 14, 2016

As Amended Through ~~February 9, 2023~~ October 12, 2023

Section 1 Introduction and Purpose

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

- A. Stating in a written document DPFP's expectations, objectives and guidelines for the investment of assets;
- B. Setting forth an investment structure for managing the portfolio. This structure includes assigning various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce an appropriate level of overall risk and total investment return over the investment time horizon;
- C. Encouraging effective communications between the Board, IAC, Executive Director, Staff, Consultant(s), Investment Managers and Custodian(s);
- D. Setting forth policy that will consider various factors, including inflation, global economic growth, liquidity and expenses, that will affect the portfolio's short and long-term total expected returns and risk;
- E. Establishing criteria to select and evaluate Investment Managers; and
- F. Complying with applicable fiduciary and due diligence requirements experienced investment professionals would utilize, and with laws, rules and regulations applicable to DPFP.

Section 2 Goals, Objectives, and Constraints

A. Goals

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

B. Objectives

1. Maintain a diversified asset allocation that seeks to maximize the investment return while accepting prudent exposure to key investment risks.
2. Outperform the Policy Benchmark¹ over rolling five-year periods.
3. Control and monitor the costs of administering and managing the investments.

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



Section 2 Goals, Objectives, and Constraints (continued)

C. Constraints

1. DFPF will be managed on a going-concern basis. The assets of the Fund will be invested with a long-term time horizon, while being cognizant of the weak actuarial funded ratio and ongoing liquidity needs.
2. The Board intends to maintain sufficient liquidity in either cash equivalents or short-term investment grade bonds to meet 18 months of anticipated benefit payments and expenses (net of contributions).
3. DFPF is a tax-exempt entity. Therefore, investments and strategies will be evaluated on a basis that is generally indifferent to taxable status.

Section 3 Ethics, Standards of Conduct, and Fiduciary Responsibility

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

- A. Place the interest of DFPF above personal interests.
- B. Act with integrity, competence, diligence, respect, and in an ethical manner.
- C. Use reasonable care, diligence, and exercise independent professional judgment when conducting analysis, making recommendations, and taking actions.
- D. Promote the integrity of and uphold the rules governing DFPF.
- E. Comply with all applicable laws, rules, and regulations of any government agency, regulatory organization, licensing agency, or professional association governing their professional activities.
- F. Adhere to applicable policies relating to ethics, standard of conduct and fiduciary responsibility including the:
 1. Board of Trustees and Employees Ethics and Code of Conduct Policy;
 2. Board of Trustees Governance and Conduct Policy; and the
 3. Contractor's Statement of Ethics.

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

Section 4 Core Beliefs and Long-Term Acknowledgements

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

- A.** A well-defined governance structure with clearly delineated responsibilities is critical in achieving consistent, long-term performance objectives.
- B.** The strategic asset allocation determines the risk reward profile of the portfolio and thus drives overall portfolio performance and volatility.
 - 1. Asset allocation has a greater effect on return variability than asset class investment structure or manager selection.
 - 2. It is essential to account for liabilities in setting long-term investment strategy.
 - 3. Rebalancing the portfolio is a key aspect of prudent long-term asset allocation policy.
- C.** Investment costs will be monitored and minimized within the context of maximizing net return. The goal is not low fees, but rather maximum returns, net of fees.
 - 1. The opportunity for active manager risk-adjusted outperformance (alpha) is not uniformly distributed across asset classes or Investment Managers' strategies.
 - 2. Active strategies are preferred when there is strong conviction that they can be expected to add alpha, net of fees.
 - 3. Passive strategies should be considered if alpha expectations are unattractive.
 - 4. Professional fees will be negotiated when feasible.
- D.** Risk is multifaceted and will be evaluated holistically, incorporating quantitative measures and qualitative assessments.
 - 1. Global investment reduces risk through diversification.
 - 2. Diversification across different risk factors reduces risk.
 - 3. The pattern of returns matters because volatility levels and the sequence of gains and losses can impact funded status.
 - 4. Risk that is not expected to be rewarded over the long-term, or mitigated through diversification, will be minimized.
 - 5. Generating positive investment return requires recognizing and accepting non-diversifiable risk. Not taking enough risk is risky; therefore, DFPF will accept a prudent amount of risk to achieve its long-term target returns.

Section 4 Roles and Responsibilities

A. Board of Trustees

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

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

B. Investment Advisory Committee (IAC)

1. IAC Composition, Selection and Criteria
 - a. The requirement and general composition of the IAC is defined by statute.
 - b. The IAC serves at the discretion of the Board of Trustees.
 - c. The IAC is composed of a minimum of three members including at least one current Board member and a majority of outside investment professionals.
 - d. IAC members will serve two-year terms.
 - e. The Board will appoint members of IAC members by vote.
 - f. One IAC member who is also a member of the Board will function as Chair of the IAC. The Chair shall serve as liaison to the Board and preside over IAC meetings.
 - g. The Board of Trustees may elect to dismiss a member of the IAC for any reason.
2. IAC Roles and Responsibilities:
 - a. A key role of the IAC is to ensure that DFPF investments are prudently managed.
 - b. IAC recommendations are not binding on the Board, provided however the Board may in the exercise of its fiduciary discretion grant decision-making authority to the IAC.

Section 5 Roles and Responsibilities (continued)

- c. The IAC will advise regarding the search and selection process for investment managers and other matters that the Board may request.
- d. All investment related agenda materials for the Board will be made available to the IAC.
- e. The IAC Chair will report to the Board regarding IAC activity as well as investment-related concerns and recommendations.
- f. Any IAC member may address the Board to communicate investment related concerns.
- g. IAC members are fiduciaries to DPFP.

3. IAC Meetings

- a. The IAC will meet as needed, but at least quarterly, to discuss the investment program and provide insight and recommendations to Staff and Consultant.
- b. IAC meetings require a quorum of at least three IAC members, a majority of whom must not be current Trustees.
- c. IAC members shall be provided reasonable notice of upcoming meetings, but this shall not prevent the IAC from meeting on short notice for an urgent item requiring immediate attention.
- d. Any vote by the IAC which is reported to the Board must also advise the Board as to how each member of the IAC voted who was present for such vote.
- ~~e. IAC meetings shall be open to the public. The IAC Chair may close any portion or all of any IAC meeting in his or her discretion if they deem it prudent to do so, provided such meeting is not a public meeting being held in compliance with the Texas Open Meetings Act.~~
- ~~f.e.~~ Board members who are not members of the IAC may attend and participate in IAC meetings. If a quorum of the Board shall be present at an IAC meeting, then the meeting shall comply with the Texas Open Meetings Act. Board members who are not on the IAC will give the Executive Director notice that they wish to attend an IAC meeting at least one week prior to the meeting. Board members who are not on the IAC may attend an IAC meeting but may not participate in IAC deliberations if such Board member or members, together with Board members on the IAC participating in such meeting equals or exceeds the number of non-Board IAC members participating in such meeting. The IAC Chair shall determine which Board members not on the IAC, if any, may participate in such meeting to maintain compliance with the previous sentence.

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Section 5 Roles and Responsibilities (continued)

C. Executive Director

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

D. Investment Staff

1. The Investment Staff (Staff) has primary responsibility for oversight and management of the investment portfolio. Staff is responsible for investment manager due diligence and recommendations, portfolio implementation consistent with the Board approved asset allocation, and assessment of the Consultant(s);
2. Helps the Board and the IAC to oversee Investment Managers, Consultant(s), Custodian(s), and vendors;
3. Reports to the Executive Director through the Chief Investment Officer;
4. Works closely with the Investment Consultant(s);
5. Notifies Consultant in writing of rebalancing needs and recommended implementation;
6. Coordinates the preparation and annual review of the IPS;
7. Prepares Staff Investment Manager recommendations, submits Staff and Consultant(s) recommendations to Executive Director for review;
8. After Board approval of investment, Staff approves Investment Manager strategy guidelines which will be outlined in the Investment Manager agreements, as applicable;



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Section 5 Roles and Responsibilities (continued)

D. Investment Staff (continued)

9. Monitors all investments, Investment Managers and investment-related vendors;
10. Accounts for and reviews all external management fees and investment expenses; and
11. Ensures all investment fiduciaries to DPFPP are aware of their fiduciary obligations annually.³

E. Consultant(s)

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

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

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F. Investment Managers

1. Public Separate Account Investment Managers

- a. Acknowledge in writing acceptance of the objectives, guidelines, and standards of performance;
- b. Invest the assets of DPFP in accordance with its objectives, guidelines and standards;
- c. Exercise full discretionary authority as to all buy, hold and sell decisions for each security under management, subject to the guidelines established in the Investment Management Agreement or applicable contract;
- d. Send trade confirmations to the Custodian;
- e. Deliver monthly report to Consultant(s)/Staff describing portfolio asset class weights, investment performance, security positions, and transactions;
- f. Adhere to best execution and valuation policies;
- g. Inform Staff and Consultant, as soon as practical, in writing of any breach of investment guidelines, ethics violations or violations of self-dealing;
- h. Inform Staff and Consultant as soon as practical, in writing, of any significant changes in the ownership, organizational structure, financial condition, personnel staffing, or other material changes at the firm; and
- i. Act as a fiduciary to DPFP. All separate account investment managers are fiduciaries to DPFP and this responsibility must be acknowledged in the contract for services.

2. Public Commingled Fund Investment Managers

- a. Provide the objectives, guidelines, and standards of performance of the fund;
- b. Provide a report detailing fund performance and holding on a monthly basis or as agreed by DPFP;
- ~~c.~~ Prices and fair market valuations will be based on reference to liquid markets, or obtained from an independent service provider if the assets held by the fund cannot be reasonably valued by reference to liquid markets;
- ~~d.~~ Require fiduciary standards that are not unreasonable in light of market terms for similar investments.
- ~~e.~~
- ~~d.~~ The investment manager of the commingled fund must act as a Fiduciary to the commingled fund.
- ~~e.~~ Mutual funds where the investment advisor or manager of the mutual fund is subject to the Investment Company Act of 1940 meet the requirements of this subsection 2.

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F. Investment Managers (continued)

3. Private Investment Managers

- a. Provide objectives, strategy guidelines, and standards of performance as evidenced in investment manager, operating, or partnership agreement;
- b. Ensure that financials statements undergo annual audits and that investments are reported at fair market value, as outlined in the Investment Management, Partnership, or Operating Agreement(s);
- c. Communicate to Staff any material changes in the ownership or management of the firm, and or the stability of the organization;
- d. Inform Staff, as soon as practical, in writing of any breach of investment guidelines, ethics violations or violations of self-dealing.

G. Custodian

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

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

Section 6 Strategic Asset Allocation and Rebalancing

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

A. Asset Allocation

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

B. The Safety Reserve

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

C. Asset Class Structure

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

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D. Rebalancing

1. It is expected to take multiple years to fully transition from the current exposure to the private markets towards the ~~newly established~~ long-term asset allocation.
2. Staff shall submit a rebalancing recommendation to the Consultant at least annually based on consideration of the entire portfolio, and additionally as soon as practicable when an asset class breaches an established rebalancing range or when deemed prudent by Staff or Consultant.
3. Rebalancing actions must move an asset class or the Safety Reserve towards its target allocation.
- ~~3.4.~~ The Safety Reserve will be evaluated based on both the percentage allocation and the total dollars required for 18-months of expected, forward net benefit cash outflows when making rebalancing recommendations.
- ~~4.5.~~ The Safety Reserve is not required to be rebalanced to target if deemed prudent by Staff and Consultant during periods of market stress.
6. Staff will notify the Board if the determination has been made to draw down the Safety Reserve to meet liquidity needs, rather than rebalancing to target. After the commencement of a draw down period in the Safety Reserve, staff will notify the Board if the determination has been made to restore the Safety Reserve to the target.
- ~~5.~~
- ~~6.7.~~ Rebalancing recommendations should consider expected future cash flows, investment liquidity, market volatility, and costs.
- ~~7.8.~~ Transition management should be considered to minimize transition costs.
- ~~8.9.~~ Staff is responsible for implementing the rebalancing plan following Consultant and Executive Director approval.
- 9.10. Rebalancing recommendations and activity shall be reported to the Board and the IAC.

E. Private Market Provisions

1. DPFPP will not commit capital to any direct private market investments or co-investments that are tied to a single company. This restriction does not prevent DPFPP from holding direct investments that result from the dissolution of a private market fund.
2. DPFPP will not commit capital to any private market fund if such commitment would likely result in DPFPP holding greater than a 10% interest in the fund.
3. DPFPP will not commit capital to any private market fund if such commitment exceeds 2% of the total market value of the DPFPP investment portfolio.
4. DPFPP will not commit to any private market fund if the current value plus total unfunded commitments to related funds (e.g. fund family) exceeds 5% of the total market value of the DPFPP investment portfolio.
5. The private market commitment limitations outlined above, do not prevent the Board from making contributions necessary to protect DPFPP interests.



6. The Board and Staff may consider and approve sales of private assets for less than the current net asset value of the asset reported to the Board. Factors affecting such a decision would include prices obtained after marketing the asset, liquidity, or overallocation to the relevant asset class.

Section 7 Investment Manager Search, Selection, and Monitoring

A. Investment Manager Search and Selection

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

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

Investment Policy Statement

As amended through ~~February 9, 2023~~ October 12, 2023

Page 13 of 15

8. Inclusion of Diverse Managers in Public Manager Searches

- a. Over the long term, inclusion of Diverse Managers as part of external investment management is expected to enhance the expected investment performance of the System. Such relationships shall exhibit strong alignment of interest with investors and seek to provide DFPF with long-term access to the next generation of investment talent. Staff shall seek to find Diverse Managers that can benefit the System by enhancing its risk-adjusted returns, net of expenses.
- b. On all public active manager searches, staff will request an RFP from at least one Diverse Manager, so long as the firm meets the minimum criteria outlined in the specific search process. To be considered a Diverse Manager, the firm must have economic ownership of more than 50% of any combination of the following groups: female, veteran, disabled and/or minority (non-white).

B. Investment Monitoring

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

Investment Policy Statement

As amended through ~~February 9, 2023~~ October 12, 2023

Page 14 of 15

Section 8 Risk Management

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

- C. Custodial Credit Risk for both public and private holdings;⁵
- D. Interest Rate Risk through fixed income duration monitoring;⁶
- E. Issuer Concentration Risk through limits on single issuer exposure.
 1. Public Equity Concentration: Exposure to public equity securities from any individual issuer shall be limited to 5% of the total Public Equity portfolio (Global Equity and Emerging Markets Equity).
 2. Fixed Income Concentration: Except for holdings of US government and agency securities, exposure to publicly traded fixed income securities from any individual issuer shall be limited to 5% of the Public Fixed Income portfolio (excludes Private Debt). Convertible bonds will be included in the Fixed Income concentration calculation.
 3. Staff will calculate the Public Equity and Public Fixed Income concentration on a quarterly basis and report to the IAC if the concentration from a single issuer exceeds the 5% limit and discuss with the IAC possible courses of action.
- F. Private Market Concentration guidelines are addressed in Section 6.E of this policy.

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

⁵ Reference Custodian responsibilities in Section 5.

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



Investment Policy Statement

As amended through ~~February 9, 2023~~October 12, 2023

Page 15 of 15

Section 9 Approval and Effective ~~February 9, 2023~~October 12, 2023

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

December 14, 2017

January 10, 2019

March 14, 2019

February 13, 2020

July 9, 2020

November 12, 2020

March 11, 2021

August 12, 2021

January 13, 2022

February 10, 2022

October 13, 2022

February 9, 2023

APPROVED on ~~February 9, 2023~~October 12, 2023, by the Board of Trustees of the Dallas Police and Fire Pension System.

Nicholas A. Merrick
Chairman

ATTEST:

Kelly Gottschalk
Secretary



Appendix A – Asset Class Descriptions

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

A. Growth Assets

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

B. Income Assets

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

B. Income Assets (continued)

4. Asset Classes
 - a. **Bank Loans** are like high yield bonds in that both represent debt issuers with higher credit risk. Compared to high-yield bonds, bank loans typically have higher seniority in the capital structure, which has historically resulted in much higher recovery following default.
 - b. **High Yield Debt** refers to bonds with higher credit risk and lower credit ratings than investment-grade corporate bonds, Treasury bonds and municipal bonds. Because of the higher risk of default, these bonds pay a higher yield than investment grade bonds.
 - c. **Emerging Markets Debt (EMD)** refers to bonds issued by developing countries or corporations based in developing countries. EMD bonds can be denominated in U.S. Dollars or local currency. The primary risk factor is credit quality, but interest rates and foreign currency are also factors.
 - d. **Private Debt** refers to non-bank direct lending arrangements. Features are similar to bank loans with somewhat higher credit risk and yields. Investments are typically structured in a private market vehicle with limited liquidity. Private debt may be included within the private equity asset class in the strategic asset allocation.

C. Inflation Protection (Real Assets)

1. Role: Current income, inflation protection, diversification
2. Investment Approach: Generally, ownership in physical assets.
3. Risk Factors: Real Assets may not provide the desired inflation protection. Loss of principal is also a risk. Foreign assets are also subject to currency movements against the U.S. dollar.
4. Asset Classes
 - a. **Real Estate** includes investments in office buildings, apartments, hotels, industrial warehouses, retail, raw land, and development projects.
 - b. **Natural Resources** broadly refers to anything mined or collected in raw form but may include assets subject to further processing. Typical assets include permanent and row crops, timber, minerals, and metals.
 - c. **Infrastructure** refers to investments in physical systems that support world economies. Typical investments include transportation, communication, utilities (electricity, gas, water, sewage).

D. Risk Mitigation

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

Appendix B – Strategic Asset Allocation and Rebalancing Ranges

Asset Class	Policy Benchmark	Target Weight ¹	Minimum Weight	Maximum Weight
Equity		65%		
Global Equity	MSCI ACWI IMI Net	55%	36%	60%
Emerging Markets Equity	MSCI Emerging Markets IMI Net	5%	3%	7%
Private Equity	Russell 3000 + 2% 1Q lag	5%	N/A ²	N/A ²
Fixed Income		25%		
Cash	91 Day T-Bills	3%	0%	6%
Short Term Investment Grade Bonds	Bloomberg Barclays 1-3 Year U.S. Aggregate TR	6%	0%	9%
Investment Grade Bonds	Bloomberg Barclays U.S. Aggregate TR	4%	2%	6%
Bank Loans	Credit Suisse Leveraged Loan	4%	2%	6%
High Yield Bonds	Bloomberg Barclays U.S. Corporate High Yield TR	4%	2%	6%
Emerging Markets Debt	50% JPM EMBI/ 50% JPM GBI-EM	4%	2%	6%
Private Debt	Barclays U.S. HY TR + 2%	0%	N/A ²	N/A ²
Real Assets		10%		
Real Estate	NCREIF Property Index 1Q Lag	5%	N/A ²	N/A ²
Natural Resources	NCREIF Farmland TR Index 1Q Lag	5%	N/A ²	N/A ²
Infrastructure	S&P Global Infrastructure	0%	N/A ²	N/A ²
Total		100%		

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

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

Appendix C – Investment Consultant Reporting Requirements

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

Quarterly (due in advance of the meeting)

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

Appendix D – Alternative Investments

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

Traditional Assets include:

1. Common Stocks: publicly traded securities representing ownership in a corporation; also known as publicly-traded equity. Examples include publicly traded equity shares of public companies, REITs, and ADRs. Regional examples include shares of companies domiciled in the US, non-US developed markets and emerging markets.
2. Bonds: publicly-traded securities, the holders of which serve as creditors to either governmental or corporate entities. Examples include government bonds and corporate bonds, including senior bank loans. Regional examples include US government issued bonds, non-US international developed markets issued bonds, and emerging markets issued bonds. Credit examples include investment grade bonds and non-investment grade bonds (e.g. high yield bonds and bank loans).
3. Cash Equivalents: short-term investments held in lieu of cash and readily convertible into cash within a short time span. Examples include CDs, commercial paper, and Treasury bills.

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

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

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



DISCUSSION SHEET

ITEM #C12

Topic: **Private Asset Cash Flow Projection Update**

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

Discussion: Staff will provide 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 DPF's exposure to these assets and the implications for the public asset redeployment, overall asset allocation, and expected portfolio risk and return.

Regular Board Meeting – Thursday, October 12, 2023



D A L L A S
POLICE & FIRE
PENSION SYSTEM



Quarterly Private Asset Cash Flow Projection Update

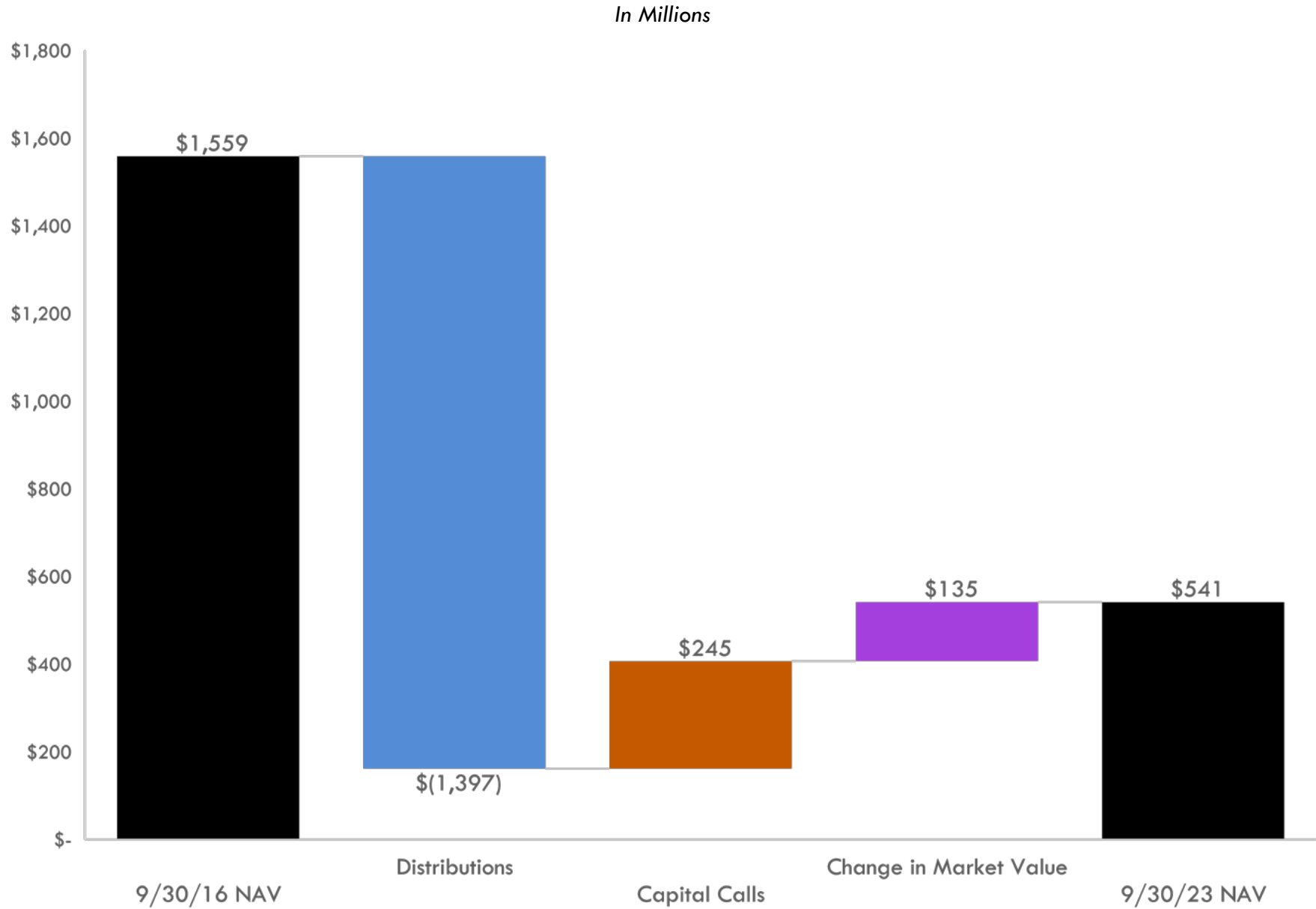
October 12, 2023

Private Asset Cash Flow Projections

Methodology Review

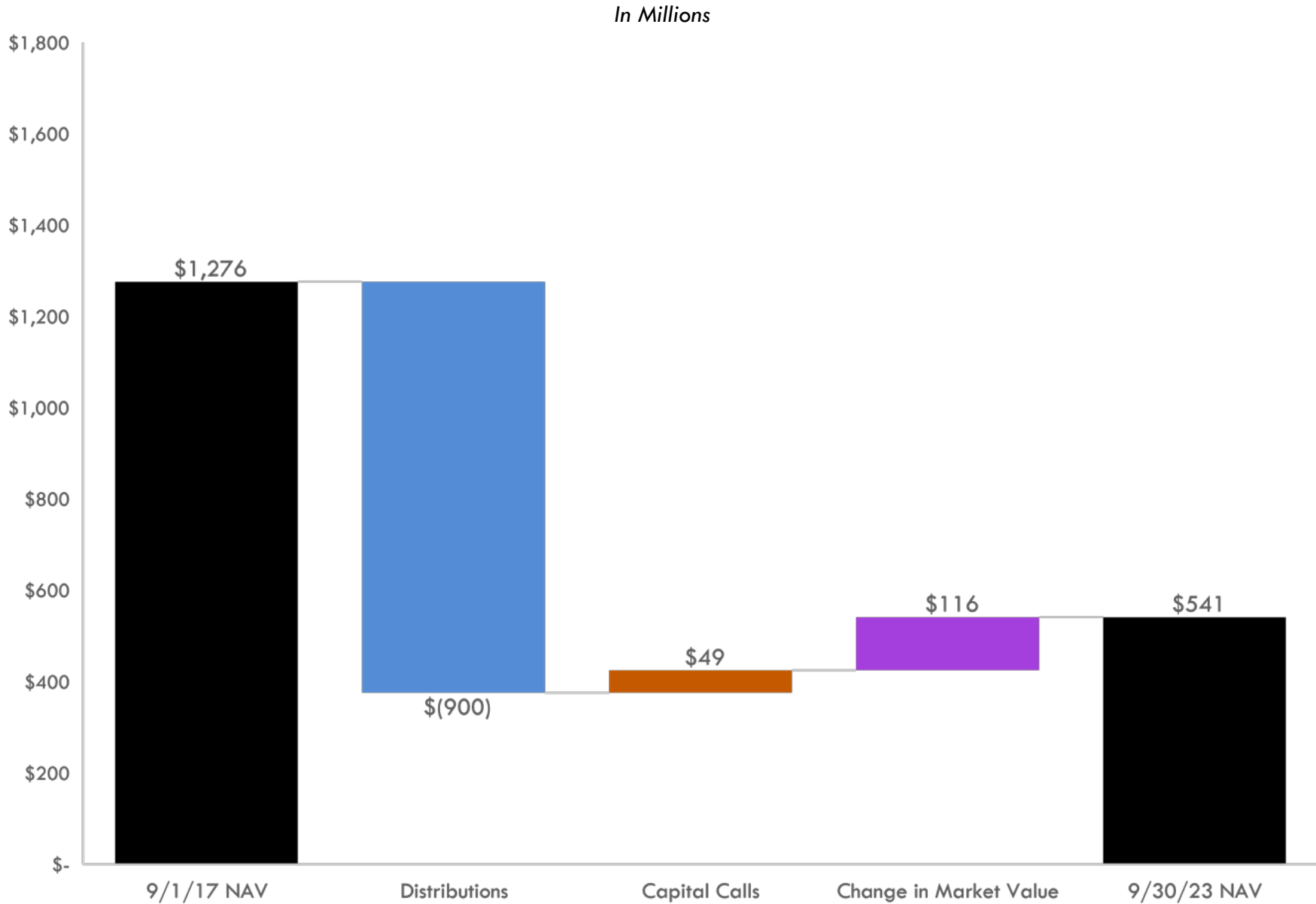
- Staff estimates capital calls and cash distributions from the Private Asset portfolio, built up by individual asset.
- DFPF has more control over direct investments in Real Estate and Natural Resources, therefore should have more accuracy in forecasting cash flows based on planned sales. Private Equity fund investments are controlled by GP's, therefore DFPF has little or no control over outcome – Staff incorporates GP insights but often uses an even distribution schedule over 2 years with these investments.
- **Cash flow estimates are inherently imprecise as they are often subject to events & forces outside of the manager's control.**

Private Asset Bridge Chart – Since 9/30/16



Numbers may not foot due to rounding.

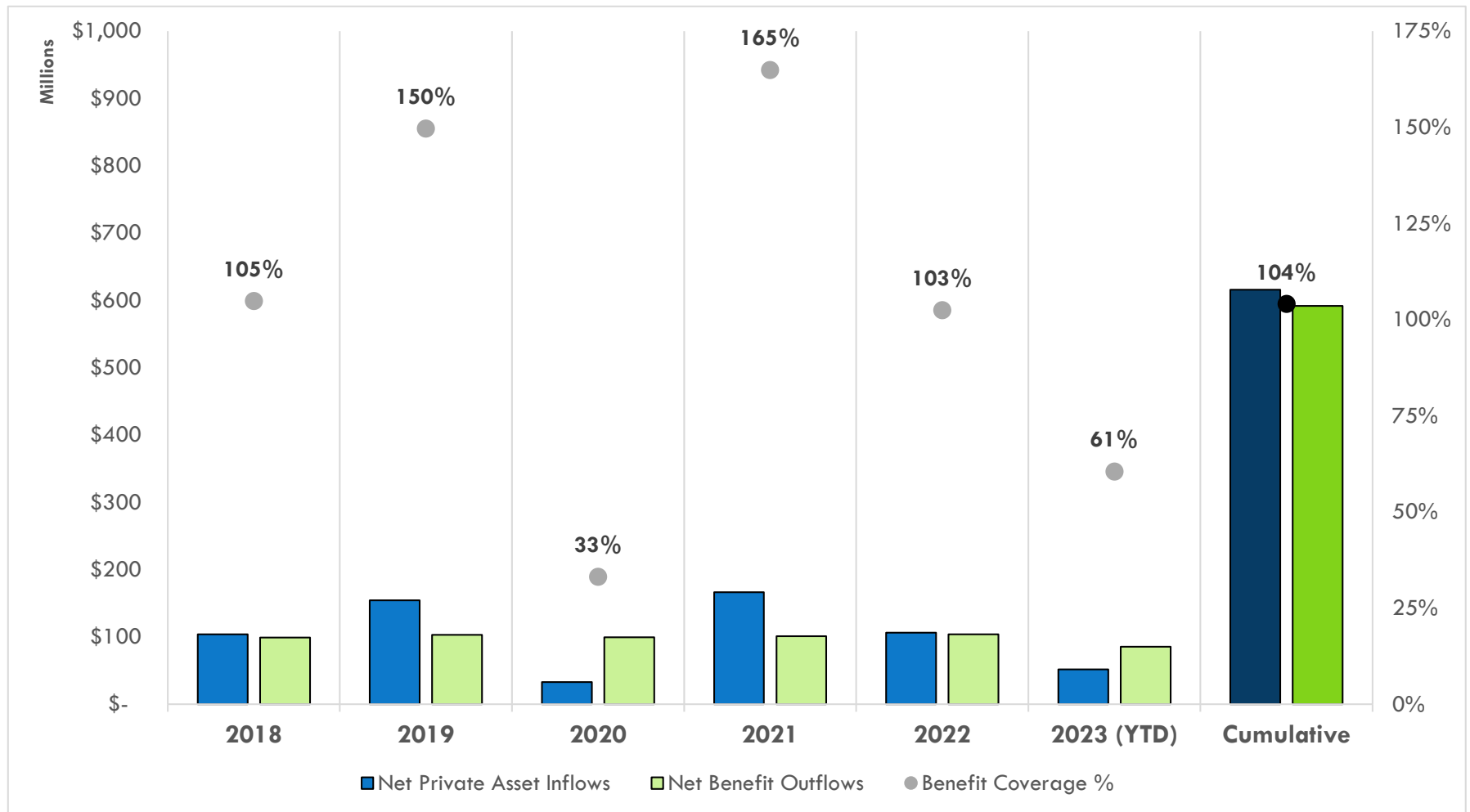
Private Asset Bridge Chart – Since 9/1/17 (New Board Formation)



Numbers may not foot due to rounding.

Benefit Outflow Coverage

Since 2018, net Private Asset inflows have covered 104% of net benefit outflows.

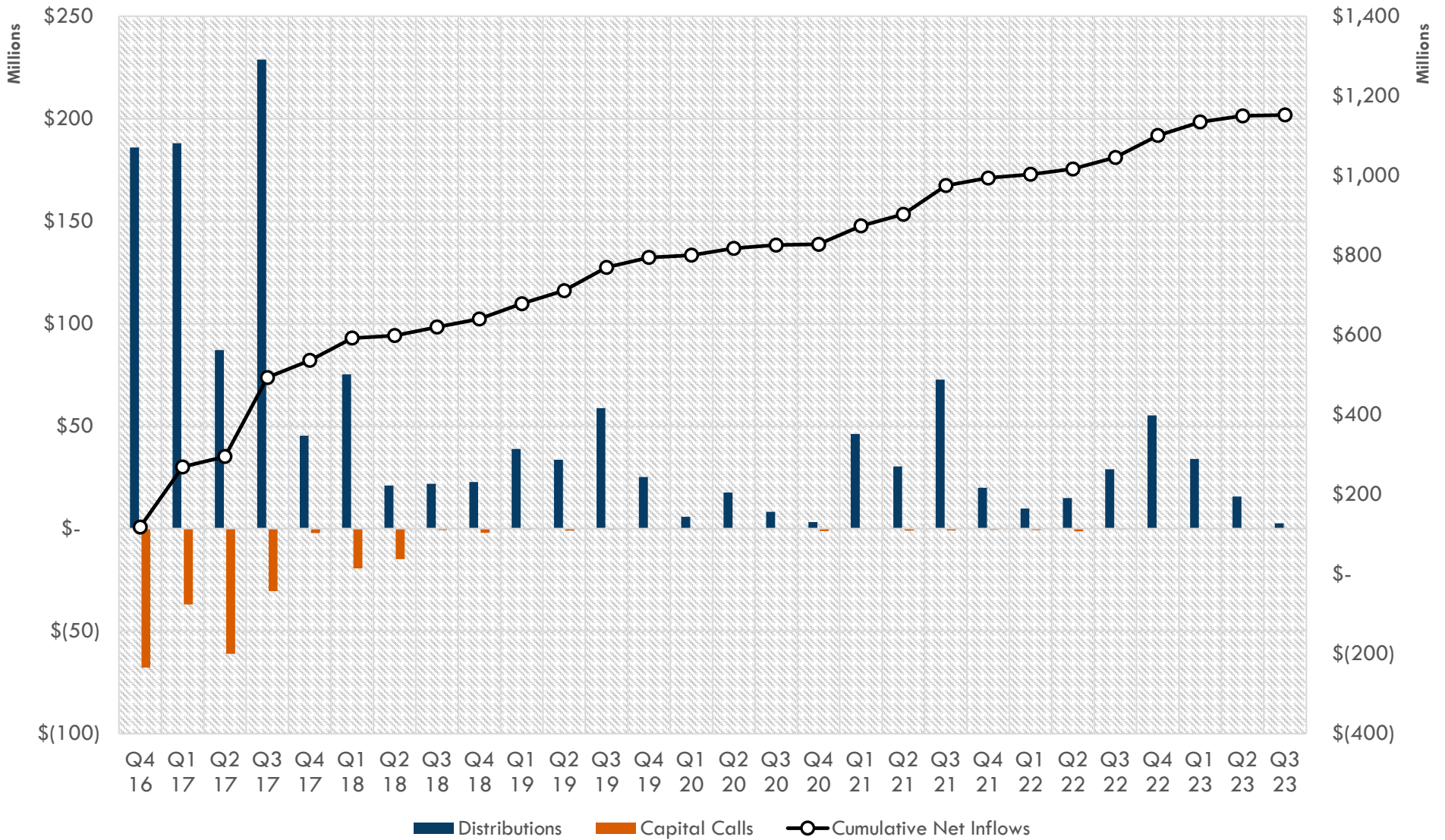


Private Asset Quarterly Cash Flows – Q3 2023

TOTAL CAPITAL CALLS & CONTRIBUTIONS		\$267,399
BTG	Capital Call	\$200,000
TRG Asian Infra	Capital Call	\$67,399
TOTAL DISTRIBUTIONS		\$2,626,340
Distributions above \$100K		
Clarion	Sale Proceeds	\$1,603,440
AEW	Camel Square Excess Cash	\$577,500
Clarion	Operating Distribution	\$445,400

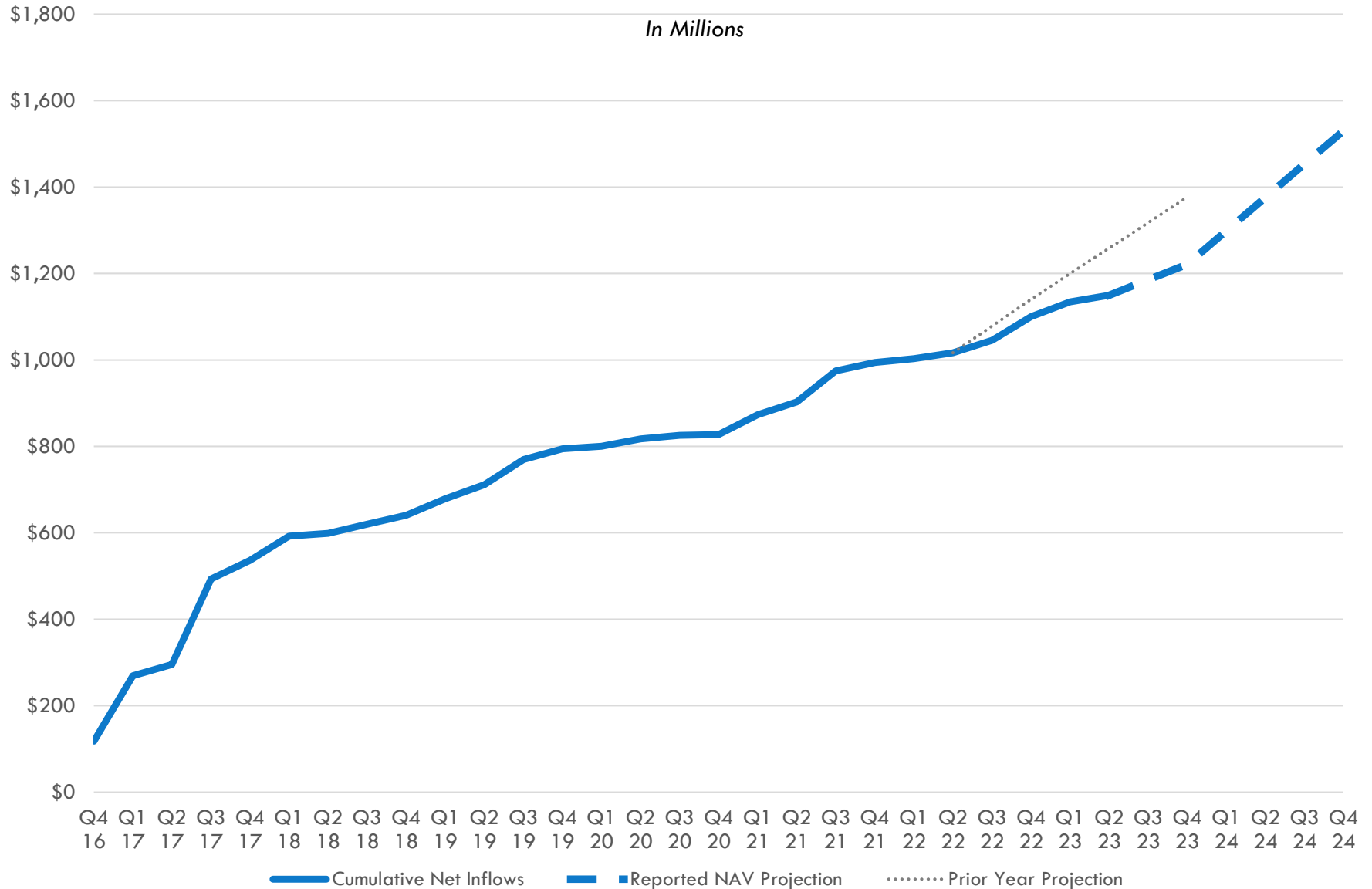
Numbers may not foot due to rounding.

Private Asset Quarterly Cash Flows – Since 9/30/16



Cumulative Actual and Projected Private Asset Net Inflows

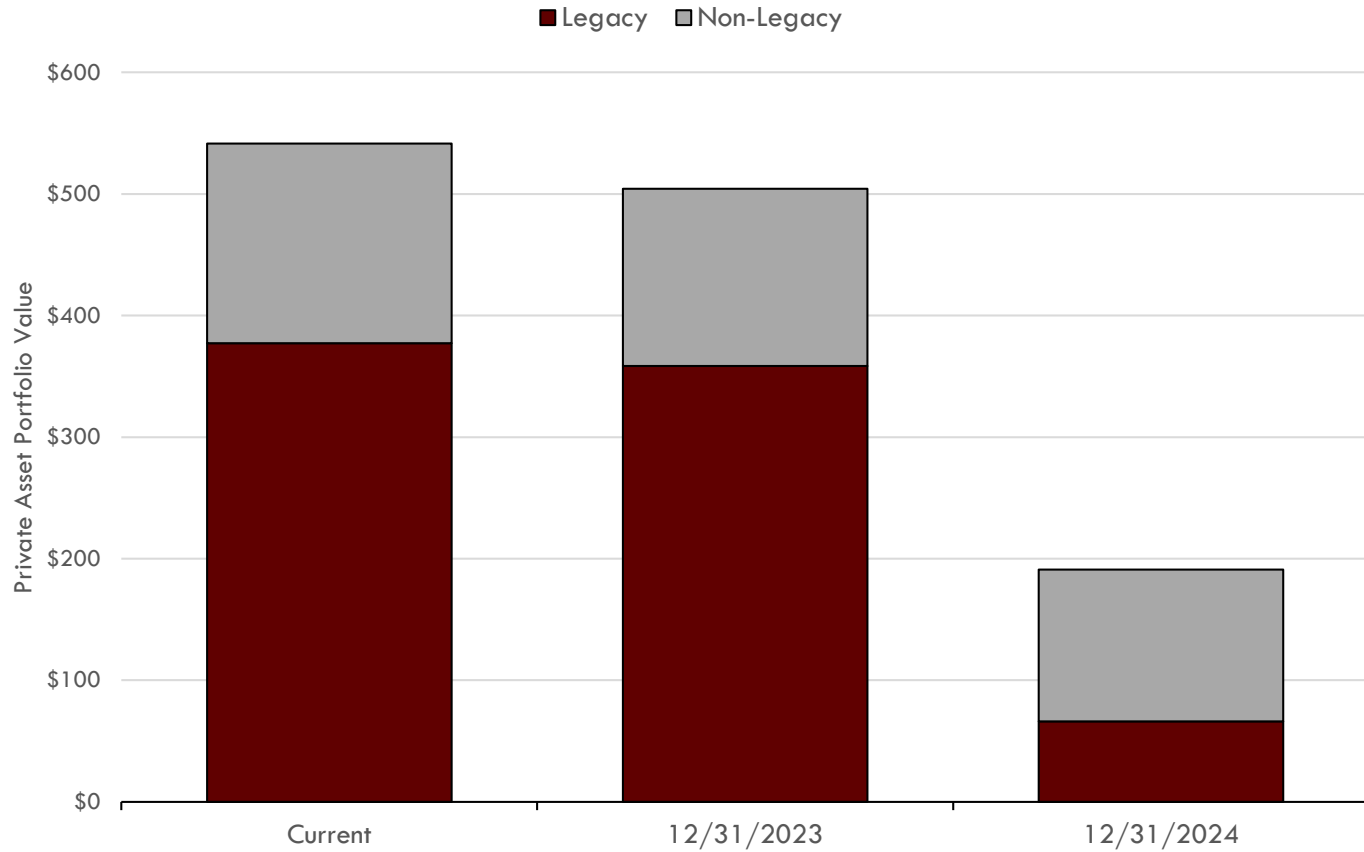
Private asset cash flow projections are based on either in-process/planned sales, if available, or a gradual disposition through 2024.



Private Asset Disposition Timeline & Composition

Private asset cash flow projections are based on either in-process/planned sales, if available, or a gradual disposition through 2024.

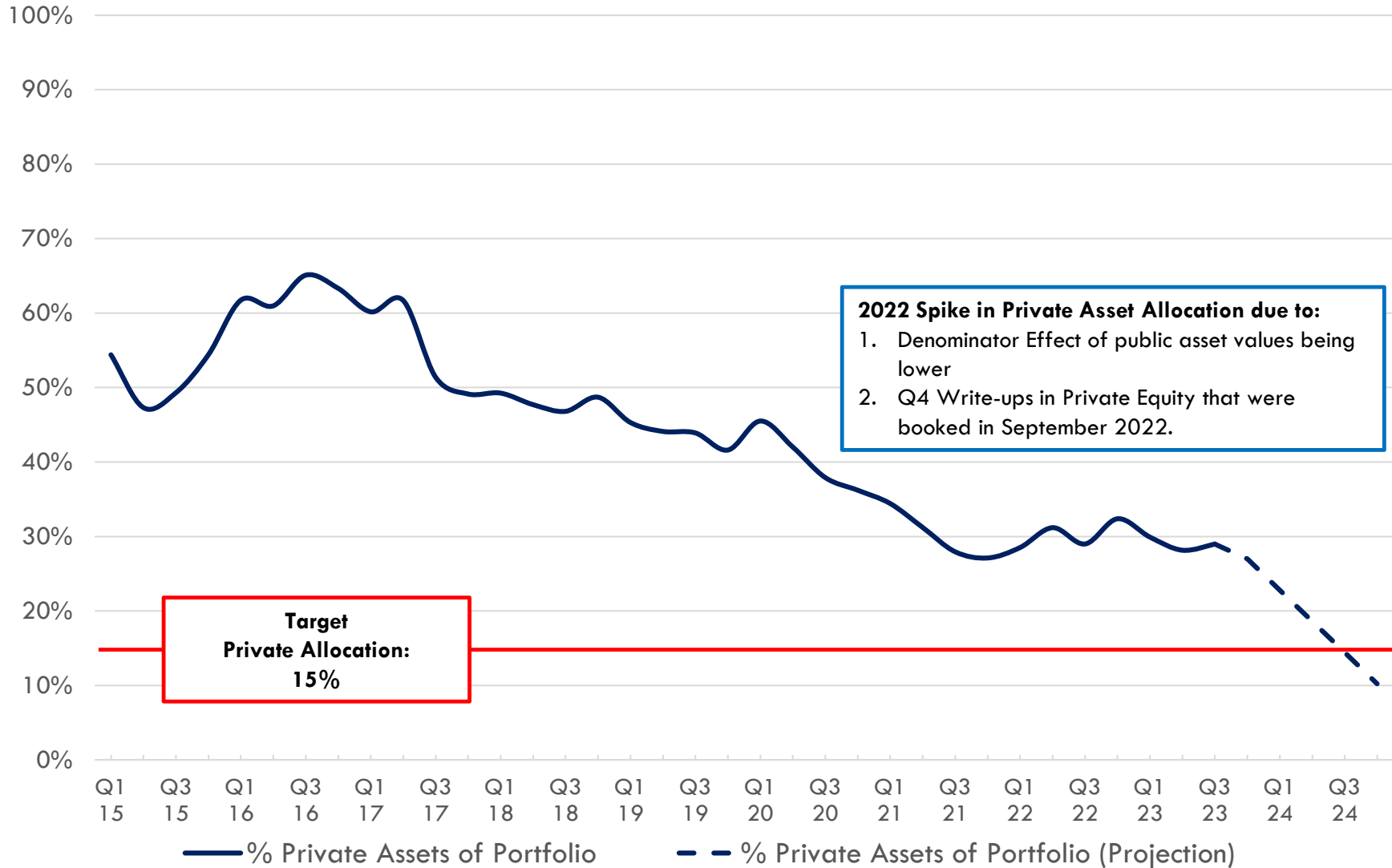
In Millions



Legacy NAV (M)	\$377	\$358	\$66
% of Private Portfolio	70%	71%	35%
% of DFPF Portfolio	20%	19%	4%

Private Asset Allocation Over Time

Private asset cash flow projections are based on either in-process/planned sales, if available, or a gradual disposition through 2024.
Assumes 100% of private asset proceeds are reinvested into liquid investments and flat fund NAV





DISCUSSION SHEET

ITEM #C13

Topic: Lone Star Investment Advisors

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

Discussion: Investment staff will update the Board on investments with this manager.

Regular Board Meeting – Thursday, October 12, 2023



DISCUSSION SHEET

ITEM #C14

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 DFPF 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.

Regular Board Meeting – Thursday, October 12, 2023



DISCUSSION SHEET

ITEM #D1

Topic: Public Comment

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

Regular Board Meeting – Thursday, October 12, 2023



DISCUSSION SHEET

ITEM #D2

Topic: Executive Director's report

- a. Associations' newsletters
 - NCPERS Monitor (October 2023)
 - TEXPERS Pension Observer (Vol. 3 2023)
<https://online.anyflip.com/mxfu/hphj/mobile/index.html>
- b. Open Records

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

Regular Board Meeting – Thursday, October 12, 2023

THE NCPERS

MONITOR

The Latest in Legislative News

October 2023

NCPERS

Executive Director's Corner



NCPERS Year in Review: 2023

By [Hank Kim](#), Executive Director and Counsel, NCPERS



Photo Illustration © 2023, iStock.com

It's been a busy year for NCPERS! We've continued to grow our team in order to expand and improve our membership offerings and work to serve the public pension community. As the days are getting shorter, we're gearing up for our [Financial, Actuarial, Legislative & Legal \(FALL\) Conference](#) in Las Vegas. This year's event will feature the return of the NCPERS University favorite, the [Program for Advanced Trustee Studies \(PATS\)](#).

We're also preparing for our always busy membership renewal season. Renewal notices will be sent to the primary contacts at current member organizations on Oct. 5. If you have any questions, please reach out to membership@ncpers.org.

In our Year in Review, below, you'll find highlights from the past 12 months as we have hosted leading educational conferences, published innovative research on pension funding, connected our members with a national network of their peers; and worked tirelessly to promote and protect pensions on behalf of our members. ☺

NATIONAL CONFERENCE ON PUBLIC EMPLOYEE RETIREMENT SYSTEMS

Who We Are

As the largest trade association for public pensions, we're proud to represent approximately 500 pension funds, plan sponsors and stakeholders and more than 150 service providers.

\$4+ Trillion

In retirement funds overseen by NCPERS members

2,600+

Trustees and staff at member pension funds

Education and Events

[Education and events](#) are a key component of NCPERS' membership offerings. Over the last 12 months, we brought together more than 2,300 public pension trustees and staff; industry stakeholders, and service providers for exclusive networking opportunities and leading educational programming (both in person and virtual). Our members have enjoyed extensive opportunities to speak at our events, provide thought leadership, and connect with new clients.

We're proud to serve as a key resource for trustees and administrators looking to build and strengthen their knowledge of pension governance best practices, no matter their experience level. Over the past 12 months, we hosted nine in-person events:

1,652

In-person event attendees

436

Organizations represented at NCPERS events

202

Event Speakers

30

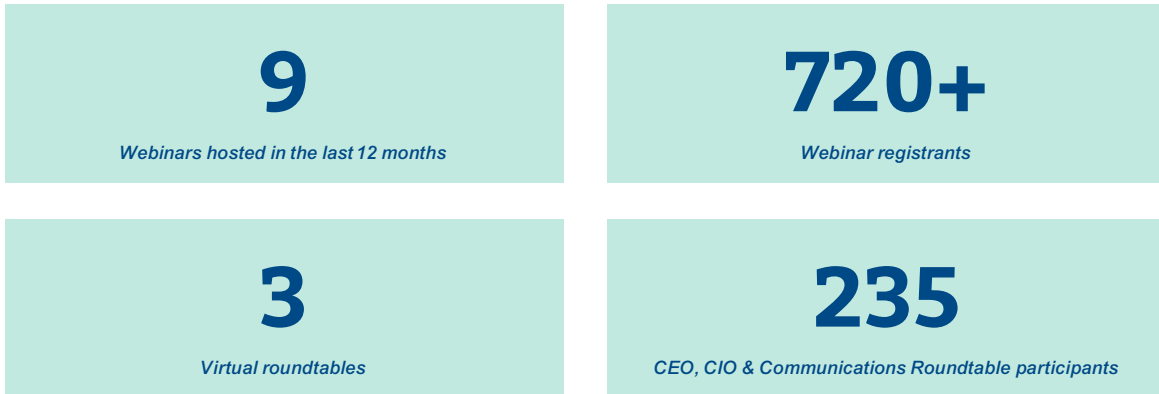
Members received their Accredited Fiduciary designation

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


Brought to you by NCPERS



Our educational programming is year-round. Outside of our signature in-person events, we also continued to engage with members virtually as part of our [Center for Online Learning](#) and with our CEO, CIO, and Communications Roundtables. And beginning in November 2023, we'll also be launching a roundtable for public pension HR professionals!



Enhancing Pension Administration

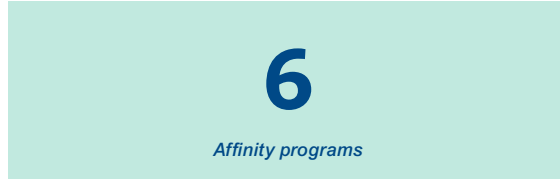
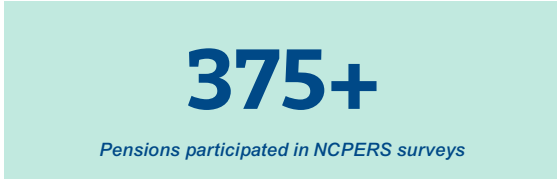
NCPERS is able to leverage our size to provide [six affinity programs](#) to help pension funds execute key services and streamline their operations on limited budgets. Ranging from discounts on insurance products for pension fund staff and members to savings on mobile self-service app development, NCPERS offerings are developed with the plan administrator in mind. Over the last 12 months, we added two brand-new affinity programs to the mix. 



October 22–25
Paris Las Vegas Hotel
Las Vegas, NV

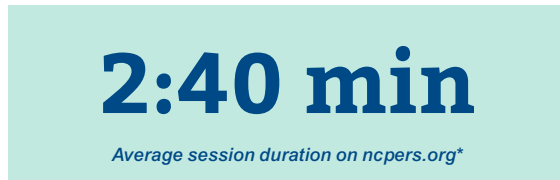
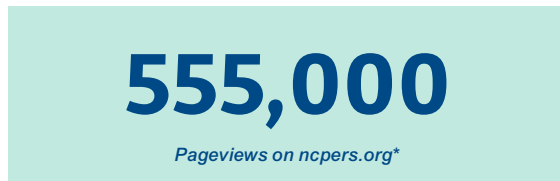


As the largest trade association for public pension plans, NCPERS utilizes our network to develop national studies that allow plans to benchmark against their contemporaries. In 2022, nearly 200 plans participated our annual [Public Retirement Systems Study](#), giving a full-scale view of trends in fiscal, operational, and business practices. In 2023, over 175 plans completed our second annual [Public Pension Compensation Survey](#). The soon-to-be released study will give systems the chance to benchmark compensation and benefits packages for senior- and mid-level staff.



Communications and Research

NCPERS is the trusted industry leader for educational materials, resources, and [research](#). Over the last 12 months, we've continued to expand our reach:



Pension staff, trustees and stakeholders increasingly rely on us and our member-only publications to stay informed. Our research also continues to serve as an important resource for the public pension community.



*Data from July 31,2022-July 31,2023

Looking Ahead to 2024

We already have several new exciting member benefits in the pipeline that we hope your organization can take advantage of in 2024. Next up, we're thrilled to announce that we have finalized our partnership with the HR Public Pension Roundtable.

Beginning November 2023, NCPERS will host quarterly video calls for the HR Roundtable and an in-person educational program for public plan HR professionals starting next year. Stay tuned for more details, and don't forget to view our [upcoming events calendar](#) to start planning for your organization's 2024 education.

If you have any questions or feedback about your NCPERS membership, please do not hesitate to reach out to me directly at hank@ncpers.org. ♦



2023 Program for Advanced Trustee Studies (PATS)

October 21 – 22
Las Vegas, NV

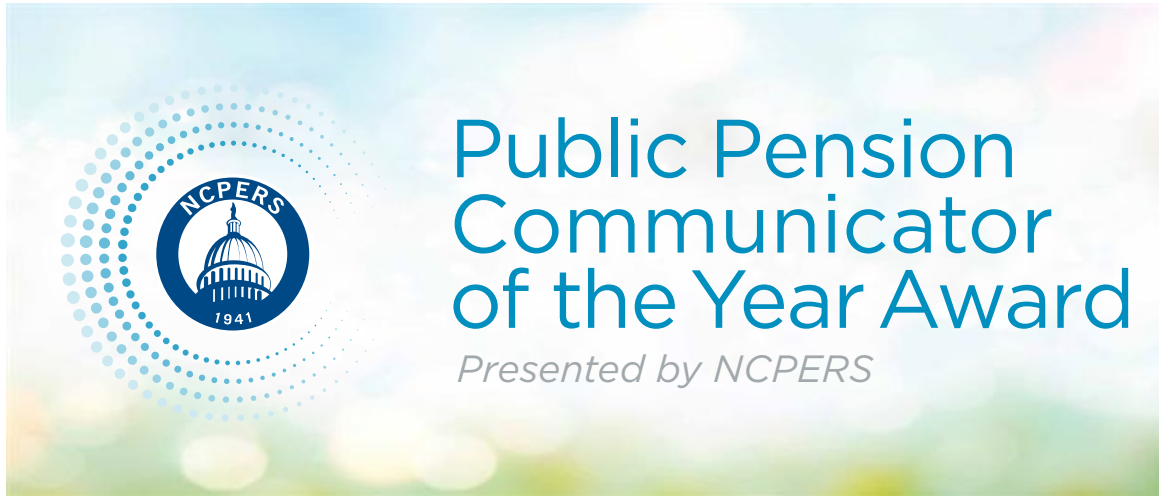
*Deepen your expertise in pension
plan governance.*

REGISTER NOW



Recognizing Public Pension Communications Professionals

By: [Lizzy Lees](#), Director of Communications, NCPERS



Building on the success of NCPERS [Pension Communications Summit](#) and Communications Roundtable, we're pleased to announce that we are currently accepting nominations for the first-ever [Public Pension Communicator of the Year Award](#).

In recognition of the communications efforts at public pensions across the country, this award was created to honor the communications staff person at a public pension who has demonstrated exceptional leadership skills; shown superior innovation and creativity; and created an impact with their communications endeavors in the preceding year.

NCPERS member pension funds oversee retirement funds on behalf of seven million retirees and nearly 15 million active public servants. "Each day, public pensions are tasked with effectively communicating with active participants and retirees across generations who have varying needs and communications preferences," said NCPERS Executive Director and Counsel, Hank Kim. "The NCPERS Public Pension Communicator of the Year Award was created to recognize the impressive communications efforts at our member pension funds and honor the individuals within these organizations who are leading the way and making a real impact."

The deadline to nominate an individual for the 2024 awards is Friday, November 10th. To nominate yourself or a colleague, [please complete this online form](#). We strongly recommend reviewing the [scoring rubric](#) and [FAQs](#) before beginning your submission.

At the judges' discretion, a winner will be selected from each of the following categories: Pension funds with less than \$10 billion AUM; pension funds with \$10-50 billion AUM; and pension funds with more than \$50 billion AUM.

Award winners will be honored in person at NCPERS [Pension Communications Summit](#) in Washington, DC on January 22, 2024. The winners will also be announced via a press release following the event.

If you have any questions, please don't hesitate to reach out directly at lizzy@ncpers.org. ♦

Department of Labor's ESG Regulation Upheld

By: [Tony Roda](#), Partner, Williams & Jensen



On September 21, U.S. District Court Judge Matthew Kacsmaryk of the Northern District of Texas upheld the U.S. Department of Labor's (DOL) 2022 Investment Duties Rule (the rule or regulation). In so doing, Judge Kacsmaryk backed the Biden Administration's rule, which is often referred to as the ESG regulation.

The rule is being challenged by a group of 26 conservative state attorneys general and private plaintiffs, who allege that it is a violation of the Employee Retirement Income Security Act (ERISA), exceeds DOL's statutory authority, and is arbitrary and capricious. The federal district court in Texas disagreed on each claim.

The Texas ruling is notable because Judge Kacsmaryk is a well-known conservative jurist who, in April of this year, issued a stunning decision that the drug mifepristone should be withdrawn from use. That drug had been approved by the U.S. Food and Drug Administration 23 years ago. It was the first drug approved for medication abortion.

As the public plan community considers the recent court ruling and the underlying ESG regulation, it is important to note that it was promulgated under the authority of ERISA, which does not govern state and local governmental retirement plans. However, state and local officials, public pension boards, investment committees, and in-house and outside counsel often take DOL's regulatory pronouncements into consideration as they develop fiduciary standards and guidelines for investment-related decisions by plan fiduciaries. [🔗](#)

The just-upheld regulation makes clear at the outset that a fiduciary shall discharge their duties "...for the exclusive purpose of providing benefits to participants and their beneficiaries..." Furthermore, the regulation states that, "A fiduciary may not subordinate the interests of the participants and beneficiaries...and may not sacrifice investment return or take on additional investment risk to promote benefits or goals unrelated to interests of the participants and beneficiaries in their retirement income or financial benefits under the plans."

The final rule also moved away from the standard included in the Biden Administration's proposed regulation, which was "(t)he projected return of the portfolio relative to the funding objectives of the plan...may often require an evaluation of the economic effects of climate change and other environmental, social, or governance factors on the particular investment or investment course of action." (Emphasis added.) While the proposed standard was still discretionary because of the use of the word "may," it would have taken us right to the brink of a regulatory requirement that in order to meet the fiduciary duty of prudence a fiduciary must consider ESG factors in all investment decisions.

Instead, the final regulation, in response to commenters who said the proposed language was a de facto mandate to analyze all investments through the ESG lens, replaced that standard with the following:

Fiduciary's determination...must be based on factors...relevant to a risk and return analysis; risk and return factors may include the economic effects of climate change and other ESG factors; whether any particular consideration is a risk-return factor depends on individual facts and circumstances.🕸



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A central issue before the court was whether the rule's allowance of ESG factors in a tiebreaker situation exceeded statutory authority. Judge Kacsmaryk cited U.S. Supreme Court precedent that where Congress hasn't directly spoken to a precise question at issue, courts must defer to a federal agency's interpretation of the law. When comparing Biden's 2022 tiebreaker rule to the Trump Administration rule of 2020, Judge Kacsmaryk stated:

"The 2022 Rule changes little in substance from the 2020 Rule and other rulemakings. Where the 2020 Rule explained that collateral factors may be considered when a fiduciary is "unable to distinguish" between two investment options on financial factors alone, the 2022 Rule allows the same when the two options "equally serve the financial interests of the plan...there is little meaningful daylight between "equally serve" and "unable to distinguish."

Judge Kacsmaryk further stated that, "For nearly three decades, DOL has posited that ERISA's obligations do not forbid consideration of collateral or non-financial benefits in the selection of competing investments that serve the plan's economic interests equally."

The plaintiffs are likely to appeal this decision to the U.S. Court of Appeals for the 5th Circuit, which is another conservative judicial forum. In addition, a separate lawsuit challenging the regulation and alleging similar legal arguments is pending in federal district court in Wisconsin.

Please know that NCPERS will keep its members up to date on future developments on this important topic. ♦

***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.*

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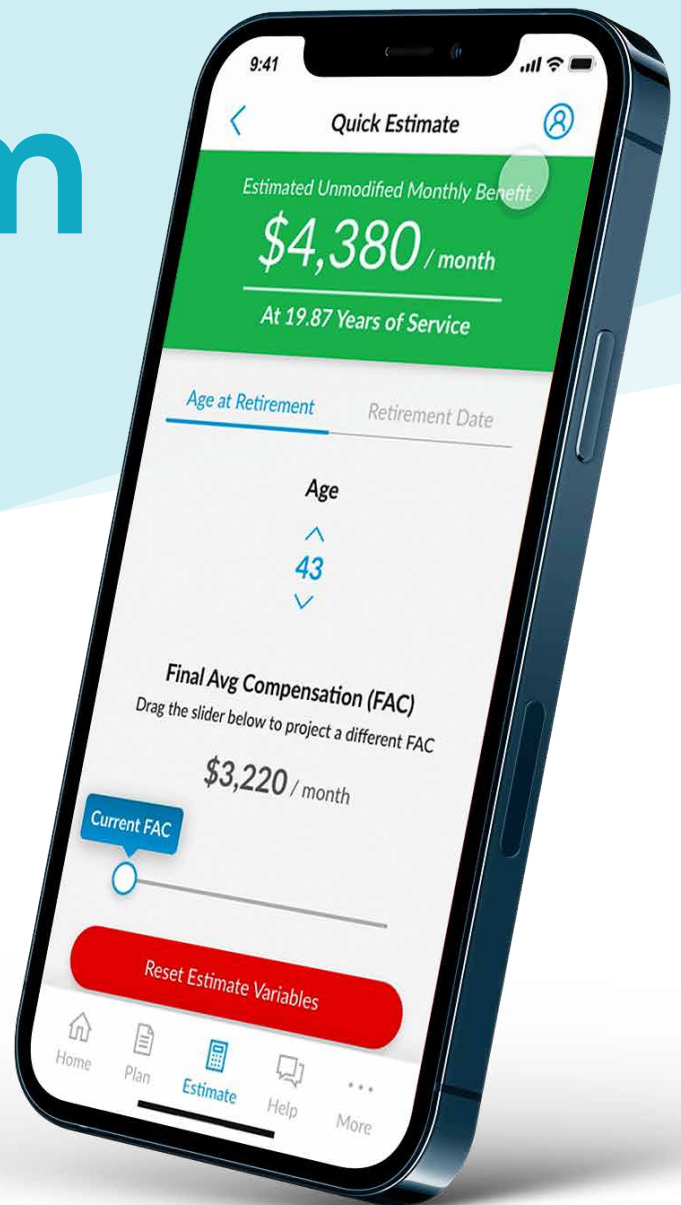


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Chicago to Contribute \$2.7 Billion to City's Underfunded Pension Plans

The city of Chicago plans to contribute a total of \$2.7 billion in 2024 to its four woefully underfunded pension funds, which includes \$307 million in advance payments, according to a 2024 budget forecast released by Mayor Brandon Johnson's office on Sept. 13.

[READ MORE](#)Source: *Pensions & Investments***New York, Oregon Pension Funds Sue Fox Corp. for Opening Itself Up to Lawsuits**

Pension funds from New York City and Oregon allege that Fox Corp. exposed itself to defamation lawsuits and breached its fiduciary duty following the network's controversial coverage of the 2020 U.S. presidential election.

[READ MORE](#)Source: *Chief Investment Officer***Washington Public Pension System Expected to be Fully Funded by 2027**

Washington state's public pension system is expected to be fully funded by 2027, according to the Office of the State Actuary. However, ongoing contributions will still be required for most of the 11 pension plans.

[READ MORE](#)Source: *The Center Square*


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Around the Regions

CalSTRS Simplifies Its Reference Benchmark to 70/30

CalSTRS' investment committee on Sept. 13 adopted a new reference benchmark of 70% stocks and 30% fixed income that it considered simpler and more easily understood by the average beneficiary.

[READ MORE](#)*Source: Pensions & Investments***Indiana Lawmakers Begin Study of Cost-of-Living Increases for Public Pension Retirees**

In almost every budget going back three decades, the state provided either a cost-of-living adjustment, or COLA, to monthly pension benefits, or it's given retirees a 13th check — an extra month's worth of benefits. It didn't do that this year, opting instead to study a permanent COLA of 0.5 percent per year. The Indiana Public Retirement System told legislators Wednesday that would cost the state about \$60 million a year.

[READ MORE](#)*Source: Cincinnati Public Radio***Persistent Pension Problems Has Dallas Eying Pension Bonds**

During a presentation to the city council last month on debt capacity for a 2024 general obligation bond referendum, Dallas Chief Financial Officer Jack Ireland said \$400 million of available capacity was being set aside for the potential issuance of POBs.

[READ MORE](#)*Source: The Bond Buyer*

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Program for Advanced Trustee Studies (PATS)

October 21-22
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October 22-25
Las Vegas, NV

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January 21-22
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January 22-24
Washington, DC

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