AGENDA

Date: November 4, 2022

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, November 10, 2022, 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/81328247237?pwd=dkZobmltR3lVNHZ6cXpBbDJXd2dHQT09 Passcode: 035779.** 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 October 13, 2022

2. Approval of Refunds of Contributions for the Month of October 2022

3. **Approval of Estate Settlements**

4. **Approval of Survivor Benefits**

5. **Approval of Service Retirements**

6. **Approval of Alternate Payee Benefits**

7. **Approval of Payment of QDRO Buyback Contributions**

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. **January 1, 2022 Actuarial Valuation**

2. **Report on Professional Services Committee Meeting**

3. **Second Reading and discussion of the 2023 Budget**

4. **Quarterly Financial Reports**

5. **Financial Audit Status**

6. **Required Training Manual Delivery**

7. **Monthly Contribution Report**

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

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

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

10. **Portfolio Update**

11. **Private Market Considerations**

12. **Public Equity Portfolio Review**

13. **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.**

14. **Hardship Request**

    Portions of the discussion under this topic may be closed to the public under the terms of Section 551.078 of the Texas Government Code.

D. BRIEFING ITEMS

1. Public Comment

2. Executive Director's report

a. Associations' newsletters
- NCPERS Monitor (November 2022)
- NCPERS PERSist (Fall 2022)

b. Open Records

c. Disability Process

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

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

DALLAS POLICE & FIRE PENSION SYSTEM

MOMENT OF SILENCE

In memory of our Members and Pensioners who recently passed away

NAME	ACTIVE/ RETIRED	DEPARTMENT	DATE OF DEATH
Ira F. Van Cleave	Retired	Police	Oct. 6, 2022
Jerry G. Russell	Retired	Fire	Oct. 7, 2022
James E. Vara	Retired	Fire	Oct. 10, 2022
Thomas W. Carr	Retired	Fire	Oct. 11, 2022
Jacob I. Arellano	Active	Police	Oct. 12, 2022
James W. Beard	Retired	Police	Oct. 17, 2022
Clifford R. Holland	Retired	Police	Oct. 17, 2022
Robert A. Rowe	Retired	Police	Oct. 19, 2022
Clyde F. Goodson	Retired	Police	Oct. 26, 2022
Bobby J. Manley	Retired	Fire	Oct. 29, 2022
Tommy L. Pettiet	Retired	Police	Oct. 31, 2022

Regular Board Meeting –Thursday, November 10, 2022

Dallas Police and Fire Pension System
Thursday, October 13, 2022
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 8:31 a.m.	Nicholas A. Merrick, Michael Brown, Kenneth Haben Nancy Rocha, Marcus Smith attended in person and William F. Quinn, Armando Garza, Steve Idoux, Mark Malveaux attended by phone.
Present at 8:46 a.m.	Anthony R. Scavuzzo (by phone)
Absent:	None
Staff	Kelly Gottschalk, Josh Mond, Brenda Barnes, Ryan Wagner, Akshay Patel, Michael Yan, John Holt, Nien Nguyen, Milissa Romero, Cynthia Thomas (by phone)
Others	Mike Stoner, James Martinez, Iva Giddiens (by phone), Michael Taglienti

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

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A. MOMENT OF SILENCE

The Board observed a moment of silence in memory of retired police officers Leonard Garza, Jesse R. Dawson, James B. Rucker, James L. Chadwick, and retired firefighter Bobby C. Moore.

No motion was made.

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Regular Board Meeting
Thursday, October 13, 2022

B. CONSENT AGENDA

1. **Approval of Minutes**

   Regular meeting of September 8, 2022

2. **Approval of Refunds of Contributions for the Month of September 2022**

3. **Approval of Estate Settlements**

4. **Approval of Survivor Benefits**

5. **Approval of Service Retirements**

6. **Approval of Alternate Payee Benefits**

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

8. **Approval of Payment of DROP Revocation Contributions**

After discussion, Mr. Haben made a motion to approve the minutes of the Regular meeting of September 8, 2022. Mr. Smith 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. Mr. Haben seconded the motion, which was unanimously approved by the Board.

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C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. **Fiduciary Insurance Review**

   Mike Stoner, from Haynes & Boone, reviewed the current fiduciary policies and the types of claims that would and would not be covered by the policy so the Board can assess the adequacy of the fiduciary coverage. Representatives from Arthur J. Gallagher, DPFP's insurance broker, were available for questions.

   No motion was made.

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Regular Board Meeting
Thursday, October 13, 2022

2. Initial Reading and discussion of the 2023 Budget

The Chief Financial Officer presented the initial reading of the 2023 budget, prepared in total for both the Combined Pension Plan and the Supplement Plan.

After discussion, Mr. Haben made a motion to (i) direct the 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 10, 2022 Board meeting for consideration for adoption and (ii) authorize forwarding the 2023 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. Ms. Rocha seconded the motion, which was unanimously approved by the Board.

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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 investment-related travel scheduled.

No motion was made.

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Regular Board Meeting
Thursday, October 13, 2022

6. Portfolio Update

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

No motion was made.

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7. Report on Investment Advisory Committee

The Investment Advisory Committee met on September 22, 2022. The Committee Chair and the Chief Investment Officer commented on Committee observations and advice.

No motion was made.

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8. Investment Policy Revisions

Staff proposed amending the Investment Policy Statement (IPS) to remove the maximum number of current Board members that could serve on the IAC, but retain the requirement of more outside investment professionals than Board members attend to constitute an official meeting since a fourth Board member has expressed interest in serving on the IAC. Also, staff proposed a change to the Private Equity benchmark from the Cambridge Associates U.S. All Private Equity Index (one quarter lag) to the Russell 3000 + 2% (one quarter lag) due to the Cambridge Index no longer being accessible to DPFP free of charge.

After discussion, Ms. Rocha made a motion to approve the proposed changes to the Investment Policy Statement to remove the maximum number of Board members on the Investment Advisory Committee and the change of the Private Equity asset class benchmark. Mr. Smith seconded the motion, which was unanimously approved by the Board.

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Regular Board Meeting
Thursday, October 13, 2022

9. Public Fixed Income Portfolio Review

Staff provided an overview of DPFP public fixed income investments.

No motion was made.

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10. Private Asset Cash Flow Projection Update

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

No motion was made.

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Mr. Garza left the meeting at 10:28 a.m.

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11. Board Committee Appointments

During the September Board meeting, Trustees were appointed to the three Board committees: the Audit Committee, the Professional Services Committee, and the Investment Advisory Committee. Ms. Rocha served as a member of the Investment Advisory Committee prior to being elected as a Trustee and expressed interest in continuing to serve on the Investment Advisory Committee.

After discussion, Mr. Haben made a motion to appoint Nancy Rocha to the Investment Advisory Committee. Mr. Smith seconded the motion, which was unanimously approved by the Board.

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Regular Board Meeting
Thursday, October 13, 2022

12. Board Meeting Recordings

In March 2020, Governor Abbott issued an emergency order that allowed public meetings to be conducted virtually with the requirement that the meetings be recorded, and the recordings made available to the public. Although the emergency order has been lifted, DPFP has continued to post recordings of the Board meetings on the website. In 1986 the Board adopted a policy against recording the Board meetings.

After discussion, Mr. Smith made a motion to repeal the Tape-Recording Board Meeting policy and continue to record Board meetings and post the audio recordings on the website. Mr. Haben seconded the motion, which was unanimously approved by the Board.

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

The Board went into closed executive session at 10:51 a.m.

The meeting was reopened at 10:58 a.m.

The Board and staff discussed legal issues.

No motion was made.

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D. BRIEFING ITEMS

1. Public Comments

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

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Regular Board Meeting
Thursday, October 13, 2022

2. Executive Director's report

a. Associations' newsletters
- NCPERS Monitor (October 2022)

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. Smith and a second by Mr. Haben the meeting was adjourned at 10:59 a.m.

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Nicholas A. Merrick
Chairman

ATTEST:

____
Kelly Gottschalk
Secretary

DISCUSSION SHEET

ITEM #C1

Topic: **January 1, 2022 Actuarial Valuation**

Attendees: Jeff Williams, Vice President and Consulting Actuary, Segal Consulting
Caitlin Grice, Consulting Actuary, Segal Consulting

Discussion: Jeff Williams and Caitlin Grice of Segal Consulting, DPFP's actuarial firm, will discuss results of the January 1, 2022 actuarial valuation report, including the GASB No. 68 actuarial valuation.

Staff Recommendation: **Approve** issuance of the January 1, 2022 actuarial valuation report, subject to final review by the auditors (BDO) and review and approval by the Executive Director.

DISCUSSION SHEET

ITEM #C2

Topic: **Report on Professional Service Provider Meeting**

Discussion: According to the Committee Policy and Procedure, the Professional Services Committee is responsible for meeting privately with the external service providers, without DPFP staff present, at a minimum on an annual basis. The purpose of such a meeting is to provide a forum for the service provider to provide candid comments to the Professional Services Committee.

The Professional Service Committee met with Jeff Williams and Caitlin Grice of Segal November 10, 2022.

Staff Recommendation: The Professional Services Committee shall **report** to the Board any material comments and **recommend** to the Board any appropriate actions needed as a result of the meetings with Segal.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C3

Topic: **Second Reading and Discussion of the 2023 Budget**

Discussion: Attached is the budget proposal for Calendar Year 2023.

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/or projected 2022 actual expenses are explained in the comments accompanying the proposed budget.

The first reading of the proposed budget was at the October 13, 2022 Board meeting. The proposed budget was posted on the DPFP website on October 13, 2022, and submitted to the City of Dallas for comment.

No changes have been made to the 2023 proposed budget since the first reading.

Staff Recommendation: **Approve** the proposed 2023 budget.

DALLAS POLICE AND FIRE PENSION SYSTEM
OPERATING BUDGET SUMMARY
FOR THE YEAR 2023

				Variances		Variances	
				2023 Budget vs	2022 Budget	2023 Budget vs	2022 Proj. Act.
Expense Type	**2022 Budget**	**2022 Projected Actual**	**2023 Budget**	**$**	**%**	**$**	**%**
Administrative Expenses	6,159,334	5,392,753	6,190,265	30,931	0.5%	797,512	14.8%
Investment Expenses	14,044,000	12,240,743	10,770,886	(3,273,114)	(23.3%)	(1,469,857)	(12.0%)
Professional Expenses	1,533,477	1,181,258	1,277,050	(256,427)	(16.7%)	95,792	8.1%
Total	$ 21,736,811	$ 18,814,754	$ 18,238,201	$ (3,498,610)	(16.1%)	$ (576,553)	(3.1%)

Dallas Police & Fire Pension System
Operating Budget
Calendar Year 2023

	Description	2022 Budget	2022 Projected Actual*	2023 Proposed Budget	$ Change 2023 Prop. Bud. vs. 2022 Bud.	% Change 2023 Prop. Bud. vs. 2022 Bud.	$ Change 2023 Prop. Bud. vs. 2022 Proj. Actual	% Change 2023 Prop. Bud. vs. 2022 Proj. Actual
Administrative Expenses								
1	Salaries and benefits	3,935,546	3,456,216	3,709,489	(226,057)	(5.7%)	253,273	7.3%
2	Employment Expense	25,610	10,892	46,350	20,740	81.0%	35,458	325.5%
3	Memberships and dues	19,487	18,095	20,201	714	3.7%	2,106	11.6%
4	Staff meetings	500	-	500	-	0.0%	500	100.0%
5	Employee service recognition	5,080	1,500	5,000	(80)	(1.6%)	3,500	233.3%
6	Member educational programs	2,750	500	3,350	600	21.8%	2,850	570.0%
7	Board meetings	6,420	2,822	4,420	(2,000)	(31.2%)	1,598	56.6%
8	Conference registration/materials - Board	11,650	129	12,000	350	3.0%	11,871	9202.3%
9	Travel - Board	21,500	1,453	22,000	500	2.3%	20,547	1414.1%
10	Conference/training registration/materials - Staff	37,750	7,567	33,200	(4,550)	(12.1%)	25,633	338.7%
11	Travel - Staff	42,950	20,547	44,700	1,750	4.1%	24,153	117.6%
12	Liability insurance	664,899	740,493	888,533	223,634	33.6%	148,040	20.0%
13	Communications (phone/internet)	29,835	18,801	21,180	(8,655)	(29.0%)	2,379	12.7%
14	Information technology projects	250,000	74,445	190,000	(60,000)	(24.0%)	115,555	155.2%
15	IT subscriptions/services/licenses	212,300	187,076	239,860	27,560	13.0%	52,784	28.2%
16	IT software/hardware	25,000	21,753	25,000	-	0.0%	3,247	14.9%
17	Building expenses	420,413	415,431	459,697	39,284	9.3%	44,266	10.7%
18	Repairs and maintenance	88,576	74,531	94,582	6,006	6.8%	20,051	26.9%
19	Office supplies	24,475	22,001	28,475	4,000	16.3%	6,474	29.4%
20	Leased equipment	24,000	21,755	25,000	1,000	4.2%	3,245	14.9%
21	Postage	29,650	26,270	29,746	96	0.3%	3,476	13.2%
22	Printing	4,100	3,712	4,350	250	6.1%	638	17.2%
23	Subscriptions	2,396	971	2,506	110	4.6%	1,535	158.1%
24	Records storage	1,500	1,518	2,179	679	45.3%	661	43.5%
25	Administrative contingency reserve	12,000	122	12,000	-	0.0%	11,878	9736.1%
27	Depreciation Expense	240,947	240,947	240,947	-	0.0%	-	0.0%
28	Bank fees	20,000	23,206	25,000	5,000	25.0%	1,794	7.7%
Investment Expenses								
29	Investment management fees	12,440,000	9,572,288	9,375,000	(3,065,000)	(24.6%)	(197,288)	(2.1%)
30	Investment consultant and reporting	345,000	342,381	455,000	110,000	31.9%	112,619	32.9%
31	Bank custodian services	235,000	220,680	235,000	-	0.0%	14,320	6.5%
32	Other portfolio operating expenses (legal, valuation, tax)	981,500	2,065,418	644,500	(337,000)	(34.3%)	(1,420,918)	(68.8%)
33	Investment due diligence	42,500	39,976	61,386	18,886	44.4%	21,410	53.6%
Professional Services Expenses								
34	Actuarial services	158,250	96,223	159,500	1,250	0.8%	63,277	65.8%
35	Accounting services	60,770	59,000	61,950	1,180	1.9%	2,950	5.0%
36	Independent audit	103,000	109,000	115,000	12,000	11.7%	6,000	5.5%

Dallas Police & Fire Pension System
Operating Budget
Calendar Year 2023

	Description	2022 Budget	2022 Projected Actual*	2023 Proposed Budget	$ Change 2023 Prop. Bud. vs. 2022 Bud.	% Change 2023 Prop. Bud. vs. 2022 Bud.	$ Change 2023 Prop. Bud. vs. 2022 Proj. Actual	% Change 2023 Prop. Bud. vs. 2022 Proj. Actual
37	Legal fees	515,000	444,707	180,000	(335,000)	(65.0%)	(264,707)	(59.5%)
38	Legislative consultants	126,000	126,000	159,000	33,000	26.2%	33,000	26.2%
39	Public relations	100,000	17,499	-	(100,000)	(100.0%)	(17,499)	(100.0%)
40	Pension administration software & WMS	292,000	244,204	292,000	-	0.0%	47,796	19.6%
41	Business continuity	18,000	17,608	14,000	(4,000)	(22.2%)	(3,608)	(20.5%)
42	Network security review	10,000	-	-	(10,000)	(100.0%)	-	100.0%
43	Network security monitoring	100,000	27,117	180,000	80,000	80.0%	152,883	563.8%
44	Disability medical evaluations	12,000	-	16,250	4,250	35.4%	16,250	100.0%
45	Elections	20,000	17,546	15,250	(4,750)	(23.8%)	(2,296)	(13.1%)
46	Miscellaneous professional services	18,457	22,354	84,100	65,643	355.7%	61,746	276.2%
	Total Budget	21,736,811	18,814,754	18,238,201	(3,498,610)	(16.1%)	(576,553)	(3.1%)
	Less: Investment management fees	12,440,000	9,572,288	9,375,000	(3,065,000)	(24.6%)	(197,288)	(2.1%)
	Adjusted Budget Total	9,296,811	9,242,466	8,863,201	(433,610)	(4.7%)	(379,265)	(4.1%)

SUPPLEMENTAL BUDGET

	Total Budget (from above)	21,736,811	18,814,754	18,238,201	(3,498,610)	(16.1%)	(576,553)	(3.1%)
	Less: Allocation to Supplemental Plan Budget**	228,014	160,114	155,207	(72,807)	(31.9%)	(4,906)	(3.1%)
	Total Combined Pension Plan Budget	**21,508,797**	**18,654,640**	**18,082,994**	**(3,425,803)**	**(15.9%)**	**(571,647)**	**(3.1%)**

** Projected based on 7/31/21 YTD annualized or estimated*
*** Allocation to Supplemental is based on JPM allocation between accounts as of 7/31/22 of .0085%*

0.85% per JPM Unitization report as of 7/31/22

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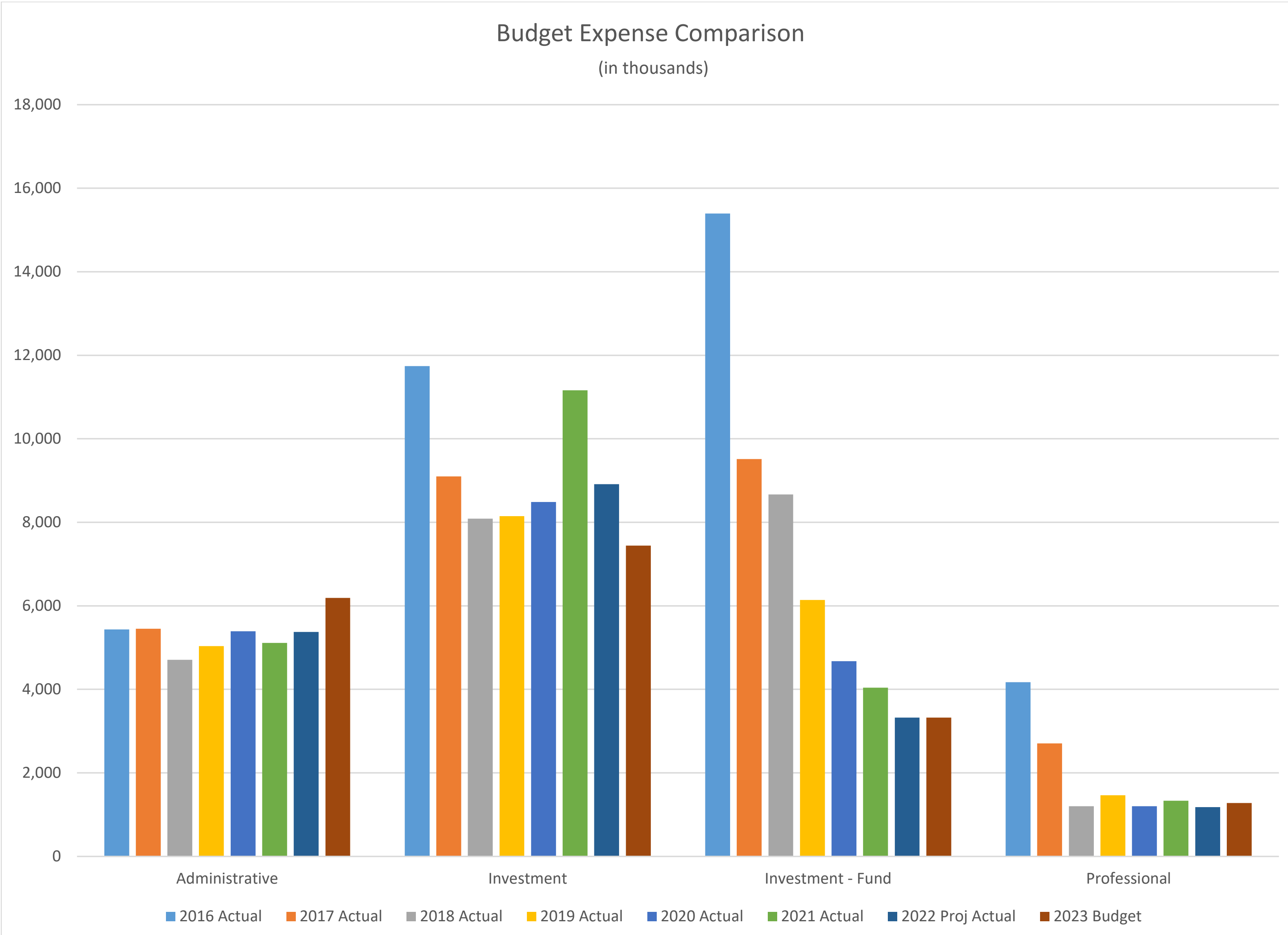
Significant Budget Changes - 2023
Budget Changes (>5% and $25K)
SORTED BY THE $ CHANGE FROM 2022 BUDGET TO 2023 BUDGET

	Item	2022 Budget	2022 Projected Actual**	2023 Budget	$ Change 2023 Budget vs. 2022 Bud.	% Change 2023 Budget vs. 2022 Bud.	$ Change 2023 Budget vs. 2022 Proj. Act.	% Change 2023 Budget vs. 2022 Proj. Act.	Explanation
	INCREASES:								
1	Liability insurance	664,899	740,493	888,533	223,634	33.6%	148,040	20.0%	Expecting significant premium increases across all lines of insurance, specifically cyber and fiduciary. Additionally, the 2022 budget did not fully reflect the renewal premiums actually incurred in 2022.
2	Investment consultant and reporting	345,000	342,381	455,000	110,000	31.9%	112,619	32.9%	Budgeting $75K for possible private markets services along with $35K for SB322.
3	Network security monitoring	100,000	27,117	180,000	80,000	80.0%	152,883	563.8%	Cyber Security planning and remediation is a top focus. A vCISO has now been engaged to assist in prioritizing projects. The 2023 budget represents a full year of vCISO services.
4	Miscellaneous professional services	18,457	22,354	84,100	65,643	355.7%	61,746	276.2%	Increased budget for contract Communications consultant rather than full time staff employee.
5	Building expenses	420,413	415,431	459,697	39,284	9.3%	44,266	10.7%	Increase driven by expected increases in utilities and services (security, janitorial, HVAC, elevator, etc.)
6	Legislative consultants	126,000	126,000	159,000	33,000	26.2%	33,000	26.2%	Legislature will be in session in 2023. Fees are increased during a legislative session.
7	IT subscriptions/services/licenses	212,300	187,076	239,860	27,560	13.0%	52,784	28.2%	Adding additional and upgraded licenses for VMWare support and Network Health Monitoring.
	REDUCTIONS:								
8	Investment management fees	12,440,000	9,572,288	9,375,000	(3,065,000)	(24.6%)	(197,288)	(2.1%)	Declines in fee schedules (Private Equity), rates and the decrease in market value of the portfolio are driving the decrease in management fees.
9	Other portfolio operating expenses (legal, valuation, tax)	981,500	2,065,418	644,500	(337,000)	(34.3%)	(1,420,918)	(68.8%)	The settlement of the Lone Star case should result in lower expenses.
10	Legal fees	515,000	444,707	180,000	(335,000)	(65.0%)	(264,707)	(59.5%)	Expected expenses based on current status of cases.
11	Salaries and benefits	3,935,546	3,456,216	3,709,489	(226,057)	(5.7%)	253,273	7.3%	Reducing expected headcount by two (from 25 to 23) partially offset by budgeted salary and benefit cost increases.
12	Public relations	100,000	17,499	0	(100,000)	(100.0%)	(17,499)	(100.0%)	No public relations projects planned for 2023.
13	Information technology projects	250,000	74,445	190,000	(60,000)	(24.0%)	115,555	155.2%	Focus for 2023 continues to be on cyber security remediation for insurance requirements. Some budget dollars reallocated to Network Security Monitoring.

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

Significant Budget Changes - 2023
Budget Changes (>5% and $25K)
SORTED BY THE $ CHANGE FROM 2022 PROJECTED ACTUAL TO 2023 BUDGET

	Item	2022 Budget	2022 Projected Actual**	2023 Budget	$ Change 2023 Budget vs. 2022 Bud.	% Change 2023 Budget vs. 2022 Bud.	$ Change 2023 Budget vs. 2022 Proj. Act.	% Change 2023 Budget vs. 2022 Proj. Act.	Explanation
	INCREASES:								
1	Salaries and benefits	3,935,546	3,456,216	3,709,489	(226,057)	(5.7%)	253,273	7.3%	2022 Projected actual is less due to staff vacancies. We hope to be fully staffed again in 2023.
2	Network security monitoring	100,000	27,117	180,000	80,000	80.0%	152,883	563.8%	Cyber Security planning and remediation is a top focus. A vCISO has now been engaged to assist in prioritizing projects. The 2023 budget represents a full year of vCISO services.
3	Liability insurance	664,899	740,493	888,533	223,634	33.6%	148,040	20.0%	Expecting significant premium increases across all lines of insurance, specifically cyber and fiduciary.
4	Information technology projects	250,000	74,445	190,000	(60,000)	(24.0%)	115,555	155.2%	Projects originally planned for 2022 were deferred to focus on cyber security remediation for insurance requirements. 2023 projects will be focused on cyber security.
5	Investment consultant and reporting	345,000	342,381	455,000	110,000	31.9%	112,619	32.9%	2023 Budget includes $75K for possible private markets services along with $35K for SB322.
6	Actuarial services	158,250	96,223	159,500	1,250	0.8%	63,277	65.8%	Budgeting additional $75k for specialized work related to board requests, member issues and other items.
7	Miscellaneous professional services	18,457	22,354	84,100	65,643	355.7%	61,746	276.2%	Budgeting for contract Communications consultant rather than full time staff.
8	IT subscriptions/services/licenses	212,300	187,076	239,860	27,560	13.0%	52,784	28.2%	Additional and upgraded licenses for VMWare support and Network Health Monitoring.
9	Pension administration software & WMS	292,000	244,204	292,000	0	0.0%	47,796	19.6%	Budgeting for possible PG and WMS enhancements, as well as price increases - 4%.
10	Building expenses	420,413	415,431	459,697	39,284	9.3%	44,266	10.7%	Increase driven by expected increases in utilities and services (security, janitorial, HVAC, elevator, etc.)
11	Travel - Staff	42,950	20,547	44,700	1,750	4.1%	24,153	117.6%	Limited staff travel in 2022. Expecting a return to a more normal level in 2023.
12	Employment Expense	25,610	10,892	46,350	20,740	81.0%	35,458	325.5%	Agency fees for potential new hires.
13	Legislative consultants	126,000	126,000	159,000	33,000	26.2%	33,000	26.2%	Legislature will be in session in 2023. Fees are increased during a legislative session.
14	Conference/training registration/materials - Staff	37,750	7,567	33,200	(4,550)	(12.1%)	25,633	338.7%	Limited staff conference attendance in 2022. Expect increased attendance to return to a more normal level in 2023.
	REDUCTIONS:								
15	Other portfolio operating expenses (legal, valuation, tax)	981,500	2,065,418	644,500	(337,000)	(34.3%)	(1,420,918)	(68.8%)	The settlement of the Lone Star case should result in lower expenses.
16	Legal fees	515,000	444,707	180,000	(335,000)	(65.0%)	(264,707)	(59.5%)	Actual costs of some open cases have been less than expected.


Budget Expense Comparison
(in thousands)
18,000
16,000
14,000
12,000
10,000
8,000
6,000
4,000
2,000
0
Administrative
Investment
Investment - Fund
Professional
2016 Actual
2017 Actual
2018 Actual
2019 Actual
2020 Actual
2021 Actual
2022 Proj Actual
2023 Budget

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C4

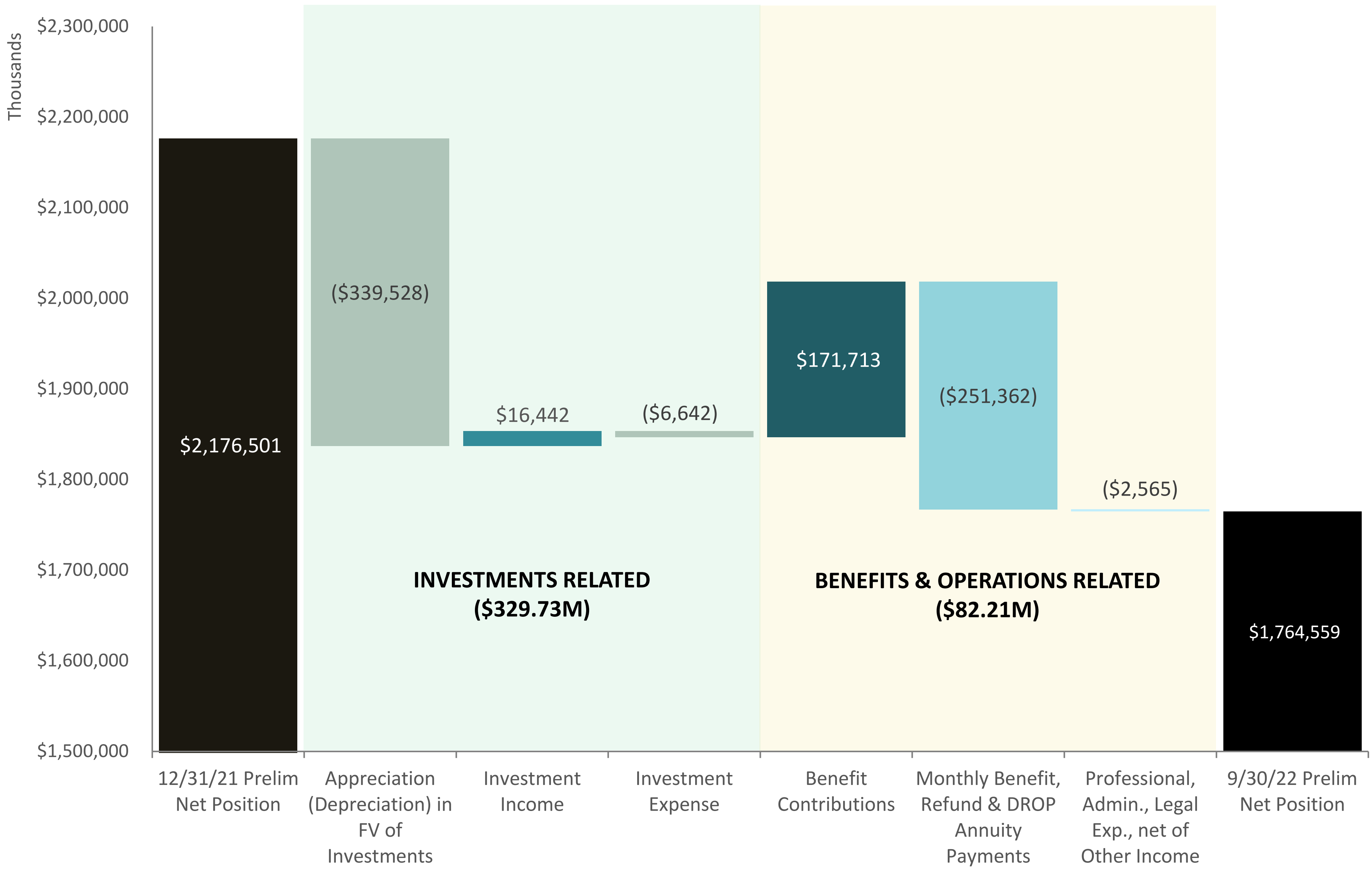
Topic: **Quarterly Financial Reports**

Discussion: The Chief Financial Officer will present the third quarter 2022 financial statements.

Regular Board Meeting – Thursday, November 10, 2022

Change in Net Fiduciary Position

PRELIMINARY - December 31, 2021 – September 30, 2022



Components may not sum exactly due to rounding.

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

	September 30, 2022	PRELIMINARY December 31, 2021 (unaudited)	$ Change	% Change
Assets				
Investments, at fair value				
Short-term investments	$ 41,117,869	$ 12,939,975	$ 28,177,894	218%
Fixed income securities	255,858,761	420,098,166	(164,239,405)	-39%
Equity securities	716,048,340	968,323,983	(252,275,643)	-26%
Real assets	384,015,515	409,453,987	(25,438,472)	-6%
Private equity	251,475,508	289,687,641	(38,212,133)	-13%
Forward currency contracts	(513)	(46)	(467)	-1015%
Total investments	1,648,515,480	2,100,503,706	(451,988,226)	-22%
Receivables				
City	1,390,858	4,558,572	(3,167,714)	-69%
Members	495,040	1,613,390	(1,118,350)	-69%
Interest and dividends	3,728,249	3,444,616	283,633	8%
Investment sales proceeds	53,757,954	223,273	53,534,681	23977%
Other receivables	60,774	124,614	(63,840)	-51%
Total receivables	59,432,875	9,964,465	49,468,410	496%
Cash and cash equivalents	50,895,854	60,032,434	(9,136,580)	-15%
Prepaid expenses	626,627	411,295	215,332	52%
Capital assets, net	11,666,169	11,846,879	(180,710)	-2%
Total assets	$ 1,771,137,005	$ 2,182,758,779	$ (411,621,774)	-19%
Liabilities				
Payables				
Securities purchased	1,837,127	358,266	1,478,861	413%
Accounts payable and other accrued liabilities	4,740,820	5,899,372	(1,158,552)	-20%
Total liabilities	6,577,947	6,257,638	320,309	5%
Net position restricted for pension benefits	$ 1,764,559,058	$ 2,176,501,141	$ (411,942,083)	-19%

Please note that the 2021 audit has not yet been finalized.

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

	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021	$ Change	% Change
Contributions				
City	$ 127,060,334	$ 123,794,724	$ 3,265,610	3%
Members	44,652,558	43,830,965	821,593	2%
Total Contributions	171,712,892	167,625,689	4,087,203	2%
Investment income				
Net appreciation (depreciation) in fair value of investments	(339,528,202)	82,011,233	(421,539,435)	-514%
Interest and dividends	16,441,751	23,032,910	(6,591,159)	-29%
Total gross investment income	(323,086,451)	105,044,143	(428,130,594)	-408%
less: investment expense	(6,642,412)	(8,000,798)	1,358,386	17%
Net investment income	(329,728,863)	97,043,345	(426,772,208)	-440%
Other income	2,259,736	261,394	1,998,342	764%
Total additions	(155,756,235)	264,930,428	(420,686,663)	-159%
Deductions				
Benefits paid to members	248,469,394	242,176,232	6,293,162	3%
Refunds to members	2,892,205	1,943,678	948,527	49%
Legal expense	266,133	91,923	174,210	190%
Legal expense reimbursement	-	-	-	0%
Legal expense, net of reimbursement	266,133	91,923	174,210	190%
Staff Salaries and Benefits	2,574,994	2,577,036	(2,042)	0%
Professional and administrative expenses	1,983,122	1,966,575	16,547	1%
Total deductions	256,185,848	248,755,444	7,430,404	3%
Net increase (decrease) in net position	(411,942,083)	16,174,984		
Beginning of period	2,176,501,141 *	1,960,074,776		
End of period	$ 1,764,559,058 *	$ 1,976,249,760		

***The beginning and ending period amounts are preliminary and may change as the 2021 results are finalized.**

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C5

Topic: **Financial Audit Status**

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

DISCUSSION SHEET

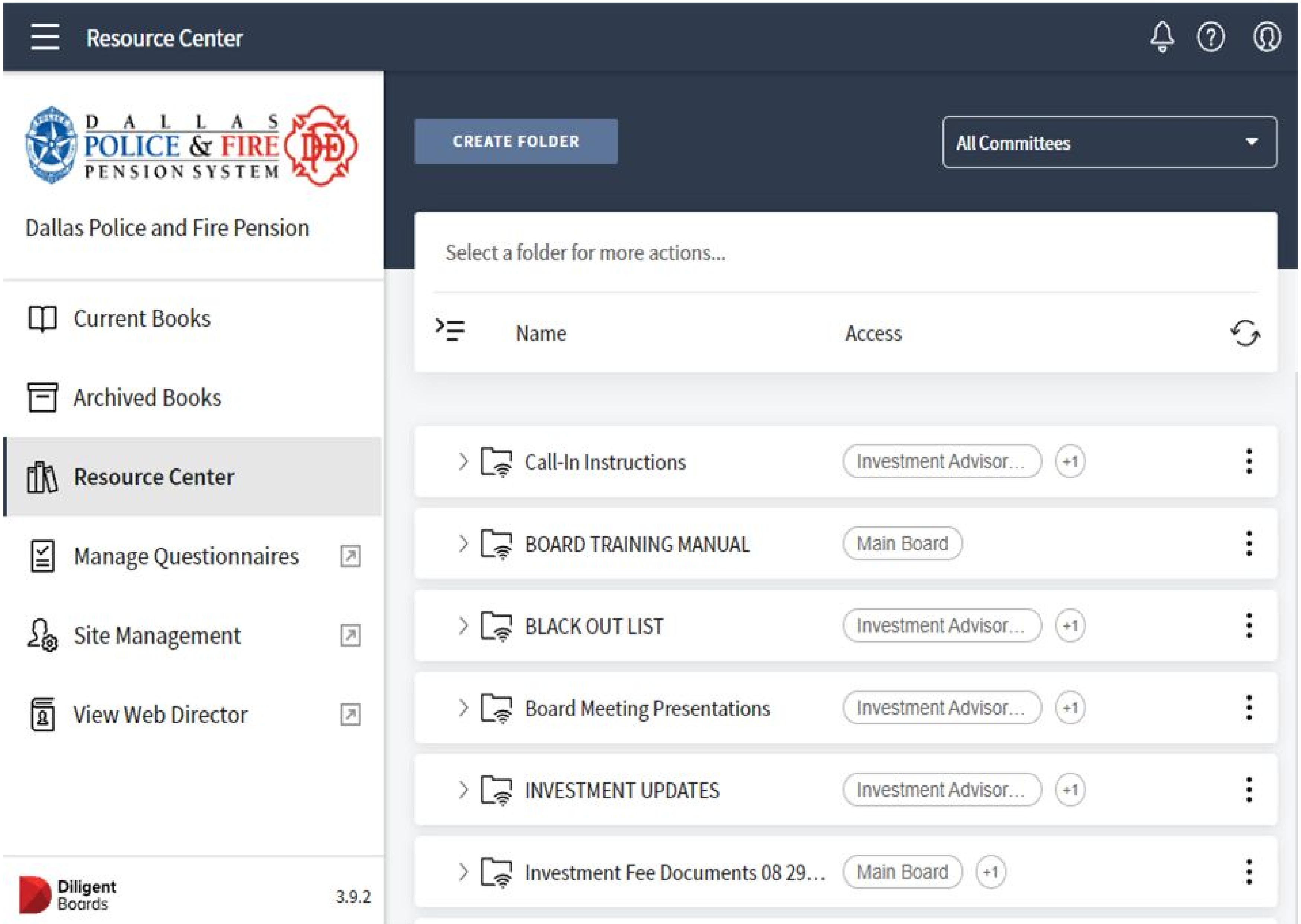
ITEM #C6

Topic: **Required Training Manual Delivery**

Discussion: Section 3.013(c) of Article 6243a-1 requires the Executive Director annually deliver a training manual covering certain subject areas set forth in Section 3.013(b). The Executive Director will provide an overview of the contents, address new items in the manual and answer any questions concerning the training manual.

Trustees can access the training manual electronically through Diligent under the Resource Center.

Staff Recommendation: **Acknowledgement** by each Trustee of receipt of the training manual by signing and submitting the Trustee acknowledgment form.


Resource Center
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Dallas Police and Fire Pension
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Archived Books
Resource Center
Manage Questionnaires
Site Management
View Web Director
Diligent Boards
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BOARD TRAINING MANUAL
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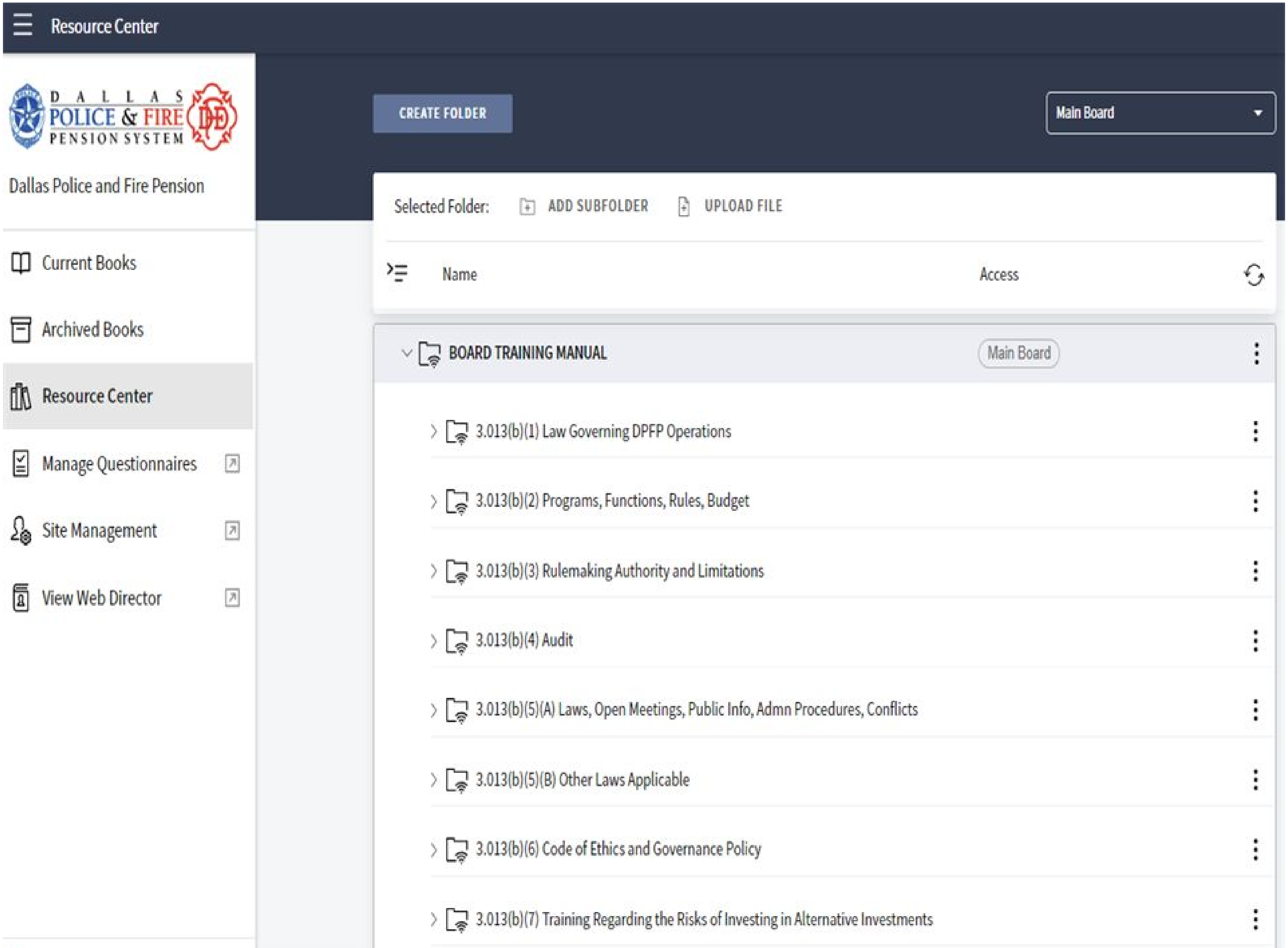
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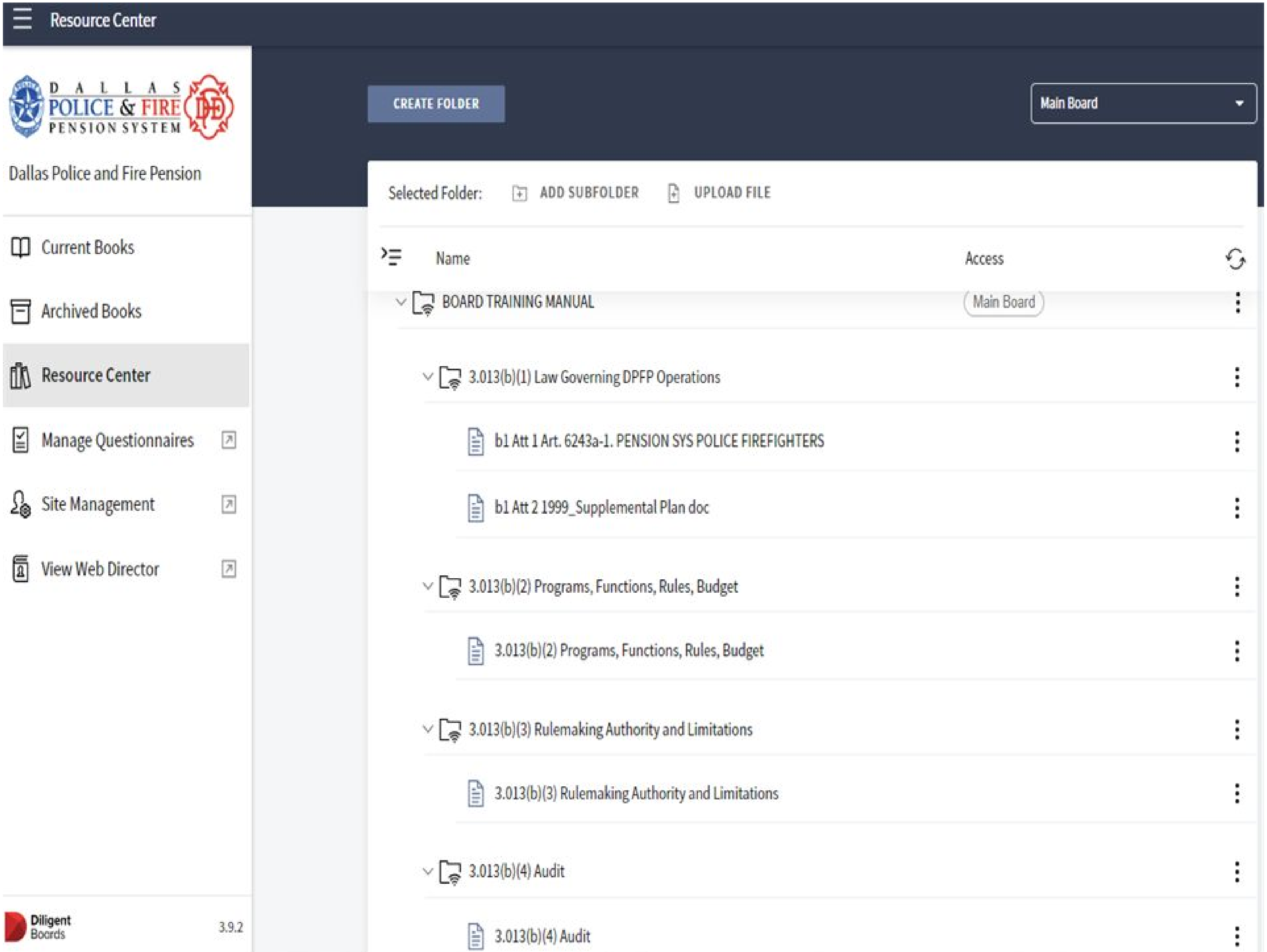
3.013(b)(1) Law Governing DPFP Operations
3.013(b)(2) Programs, Functions, Rules, Budget
3.013(b)(3) Rulemaking Authority and Limitations
3.013(b)(4) Audit
3.013(b)(5)(A) Laws, Open Meetings, Public Info, Admn Procedures, Conflicts
3.013(b)(5)(B) Other Laws Applicable
3.013(b)(6) Code of Ethics and Governance Policy
3.013(b)(7) Training Regarding the Risks of Investing in Alternative Investments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3.013(b)(1) Law Governing DPFP Operations
b1 Att 1 Art. 6243a-1. PENSION SYS POLICE FIREFIGHTERS
b1 Att 2 1999_Supplemental Plan doc
3.013(b)(2) Programs, Functions, Rules, Budget
3.013(b)(2) Programs, Functions, Rules, Budget
3.013(b)(3) Rulemaking Authority and Limitations
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3.013(b)(4) Audit
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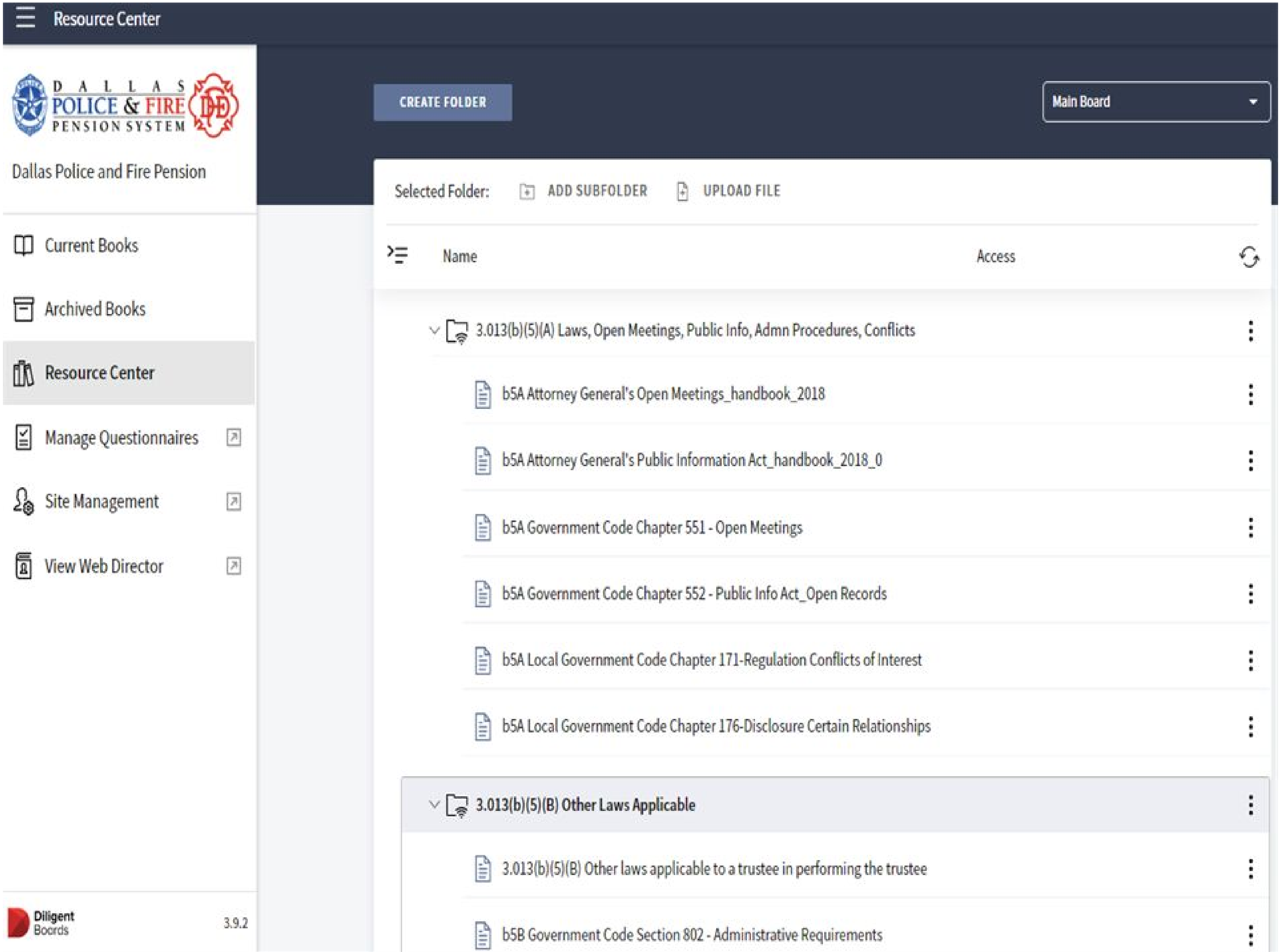
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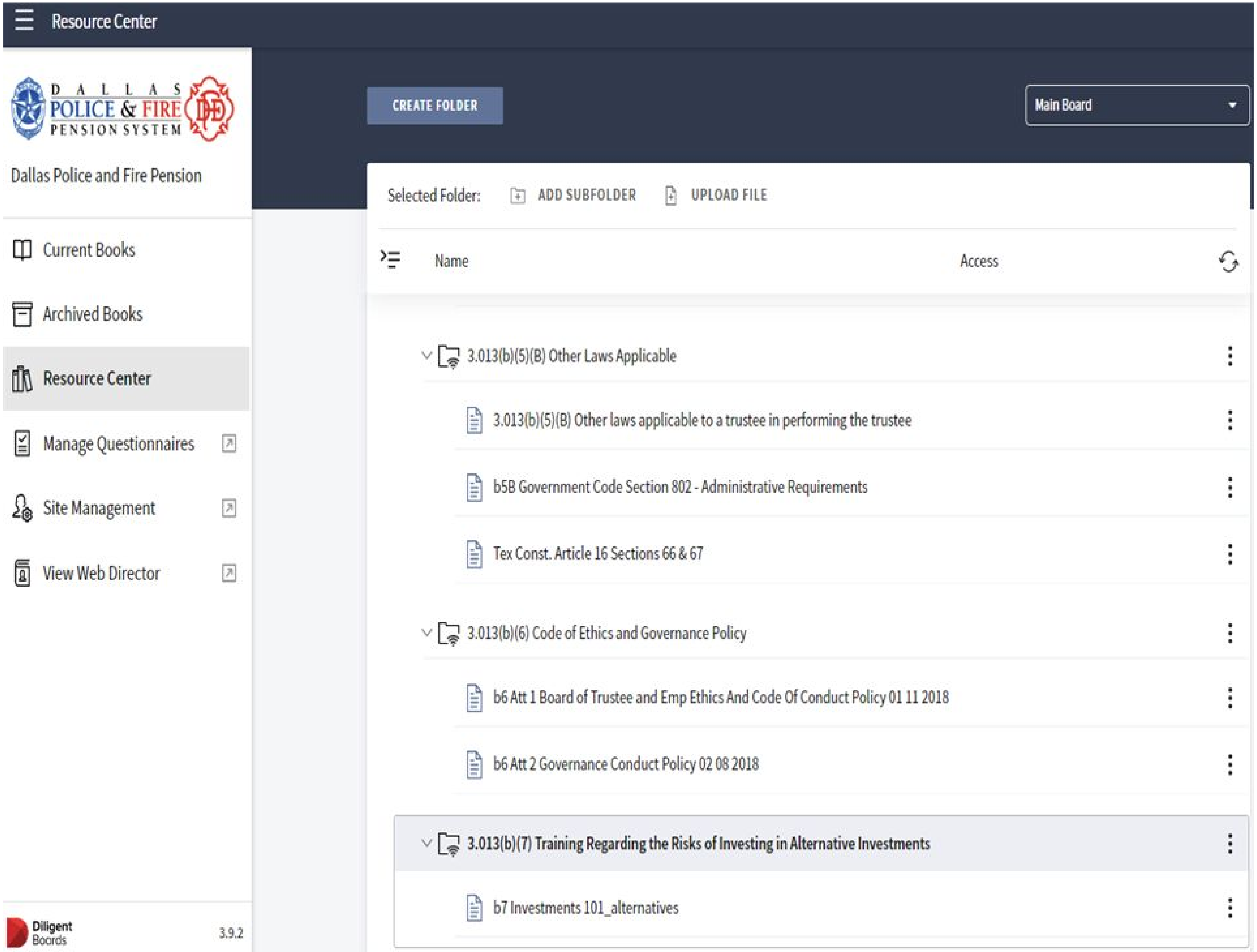
3.013(b)(5)(A) Laws, Open Meetings, Public Info, Admn Procedures, Conflicts
b5A Attorney General's Open Meetings_handbook_2018
b5A Attorney General's Public Information Act_handbook_2018_0
b5A Government Code Chapter 551 - Open Meetings
b5A Government Code Chapter 552 - Public Info Act_Open Records
b5A Local Government Code Chapter 171-Regulation Conflicts of Interest
b5A Local Government Code Chapter 176-Disclosure Certain Relationships
3.013(b)(5)(B) Other Laws Applicable
3.013(b)(5)(B) Other laws applicable to a trustee in performing the trustee
b5B Government Code Section 802 - Administrative Requirements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3.013(b)(5)(B) Other Laws Applicable
3.013(b)(5)(B) Other laws applicable to a trustee in performing the trustee
b5B Government Code Section 802 - Administrative Requirements
Tex Const. Article 16 Sections 66 & 67
3.013(b)(6) Code of Ethics and Governance Policy
b6 Att 1 Board of Trustee and Emp Ethics And Code Of Conduct Policy 01 11 2018
b6 Att 2 Governance Conduct Policy 02 08 2018
3.013(b)(7) Training Regarding the Risks of Investing in Alternative Investments
b7 Investments 101_alternatives

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

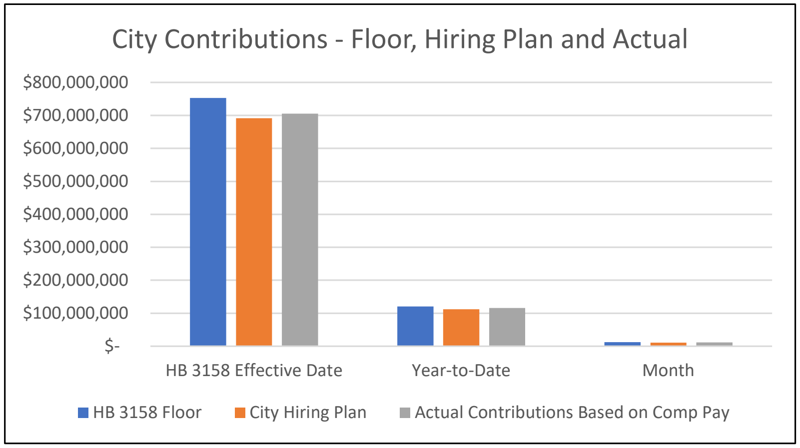
ITEM #C7

Topic: **Monthly Contribution Report**

Discussion: Staff will review the Monthly Contribution Report.

Regular Board Meeting – Thursday, November 10, 2022

Contribution Tracking Summary - November 2022 (September 2022 Data)



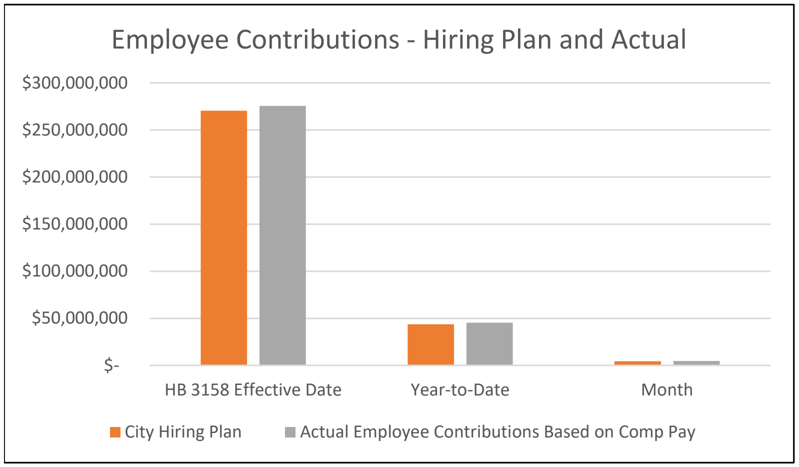
Actual Comp Pay was 102% of the Hiring Plan estimate since the effective date of HB 3158.

In the most recent month Actual Comp Pay was 105% of the Hiring Plan estimate and 97% of the Floor amount.

The Hiring Plan Comp Pay estimate increased by 3.43% in 2022. The Floor increased by 2.74%.

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

The combined actual employees was 184 less than the Hiring Plan for the pay period ending October 11, 2022. Fire was over the estimate by 48 fire fighters and Police under by 232 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

Sep-22	Number of Pay Periods Beginning in the Month	HB 3158 Floor	City Hiring Plan	Actual Contributions Based on Comp Pay	Additional Contributions to Meet Floor Minimum	Comp Pay Contributions as a % of Floor Contributions	Comp Pay Contributions as a % of Hiring Plan Contributions
Month	2	$ 12,086,000	$ 11,199,231	$ 11,727,454	$ 358,546	97%	105%
Year-to-Date		$ 120,860,000	$ 111,992,308	$ 116,135,845	$ 4,724,205	96%	104%
HB 3158 Effective Date		$ 752,963,000	$ 691,512,692	$ 704,948,669	$ 48,088,088	94%	102%

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

Employee Contributions

Sep-22	Number of Pay Periods Beginning in the Month	City Hiring Plan	Actual Employee Contributions Based on Comp Pay	Actual Contribution Shortfall Compared to Hiring Plan	Actuarial Valuation Contribution Assumption	Actual Contributions as a % of Hiring Plan Contributions	Actual Contributions as a % of Actuarial Val Assumption
Month	2	$ 4,382,308	$ 4,580,954	$ 198,646	$ 4,236,924	105%	108%
Year-to-Date		$ 43,823,077	$ 45,428,402	$ 1,605,325	$ 42,369,240	104%	107%
HB 3158 Effective Date		$ 270,591,923	$ 275,677,314	$ 5,085,391	$ 264,028,894	102%	104%

Potential Earnings Loss from the Shortfall based on Assumed Rate of Return $ (195,214)

Does not include Supplemental Plan Contributions.

Reference Information

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

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

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

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

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

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

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

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

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

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

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

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

Comp Pay by Month - 2022	Annual Divided by 26 Pay Periods	Actual	Difference	2022 Cumulative Difference	Number of Employees - EOM	Difference
January	$ 32,461,538	$ 33,363,143	$ 901,604	$ 901,604	4946	(167)
February	$ 32,461,538	$ 33,314,230	$ 852,692	$ 852,692	4943	(170)
March	$ 48,692,308	$ 50,179,220	$ 1,486,912	$ 1,486,912	4937	(176)
April	$ 32,461,538	$ 33,555,403	$ 1,093,864	$ 1,093,864	4930	(183)
May	$ 32,461,538	$ 33,573,492	$ 1,111,953	$ 1,111,953	4918	(195)
June	$ 32,461,538	$ 33,723,288	$ 1,261,749	$ 1,261,749	4915	(198)
July	$ 32,461,538	$ 33,881,549	$ 1,420,010	$ 1,420,010	4954	(159)
August	$ 48,692,308	$ 51,044,865	$ 2,352,557	$ 2,352,557	4935	(178)
September	$ 32,461,538	$ 33,992,621	$ 1,531,082	$ 1,531,082	4929	(184)
October	$ 32,461,538					
November	$ 32,461,538					
December	$ 32,461,538					

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C8

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

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

Discussion:

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

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

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

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

Future Education and Business Related Travel & Webinars
Regular Board Meeting – November 10, 2022

ATTENDING APPROVED

1. **Conference:** **TEXPERS Annual Conference**
   Dates: April 2-5, 2023
   Location: Austin, TX
   Est Cost: TBD

2. **Conference:** **NCPERS Accredited Fiduciary (NAF) Program**
   Dates: May 20-21, 2023
   Location: TBD
   Est Cost: TBD

3. **Conference:** **NCPERS Trustee Educational Seminar (TEDS)**
   Dates: May 20-21, 2023
   Location: TBD
   Est Cost: TBD

4. **Conference:** **NCPERS Annual Conference & Exhibition (ACE)**
   Dates: May 20-21, 2023
   Location: TBD
   Est Cost: TBD

Future Education and Business Related Travel & Webinars
Regular Board Meeting – November 10, 2022

ATTENDING APPROVED

5. Conference: **TEXPERS Summer Education Forum**
Dates: August 13-15, 2023
Location: The Woodlands, TX
Est Cost: TBD

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

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C9

Topic: **Board Members' Reports on Meetings, Seminars and/or Conferences Attended**

Discussion: NCPERS Public Safety Conference KH
October 25-28, 2022
Nashville, TN

Regular Board Meeting – Thursday, November 10, 2022

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C10

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, November 10, 2022

DALLAS POLICE & FIRE PENSION SYSTEM

Portfolio Update

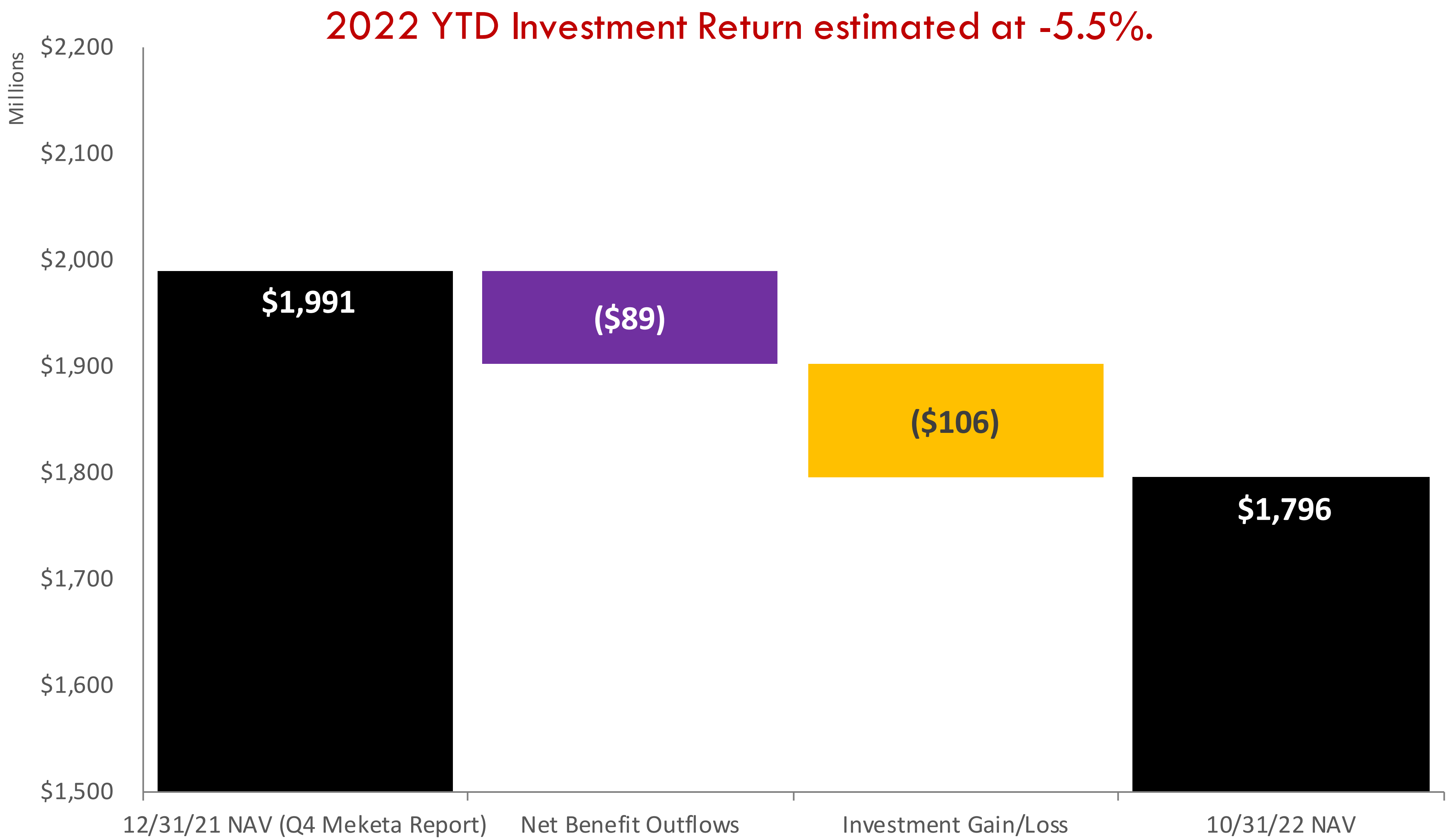
November 10, 2022

Executive Summary

- Liquidation of private market assets remains the top focus.
  - $100M in distributions received YTD (through 11/10). $26M received from AEW in early November.
- At the March Board meeting, staff notified the Board that the Safety Reserve would be drawn down to fund net benefit outflows.
- **Rebalancing actions:**
  - $30M was transferred from IR+M (Short Term IG Bonds) to Cash on 9/30/22 as part of the Safety Reserve Drawdown.
  - The Ashmore (EM Debt) investment was fully redeemed as of 9/30/22 and $57M was invested with the new EM Debt manager MetLife at the beginning of October.
  - Since August, DPFP has received ~$47M of private market proceeds to that can be rebalanced. Staff is proposing to rebalance $26M into Small Cap Equity and hold the remainder back in the Safety Reserve. Proposed rebalancing detailed on pg. 9.
- Estimated Year-to-Date Return (as of 10/31/22): -5.5% for DPFP portfolio; -15.2% for Public Markets (ex-Cash) which accounts for 60% of the assets.

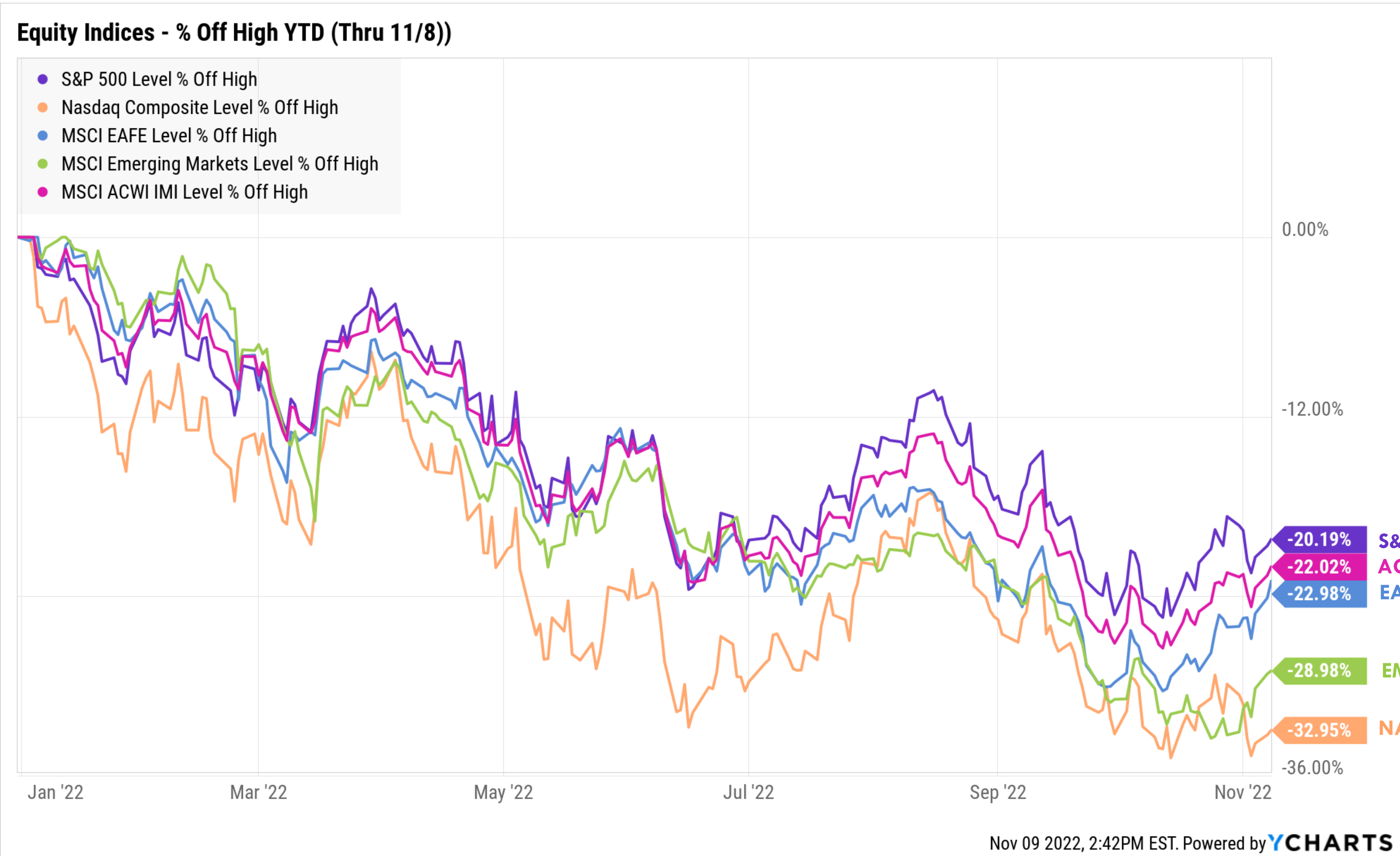
10/31/22 YTD - Change in Market Value Bridge Chart

In Millions



The beginning 12/31/21 value is from the Q4 Meketa report and includes a one-quarter lag on private assets, adjusted for cash flows.
Numbers may not foot due to rounding.

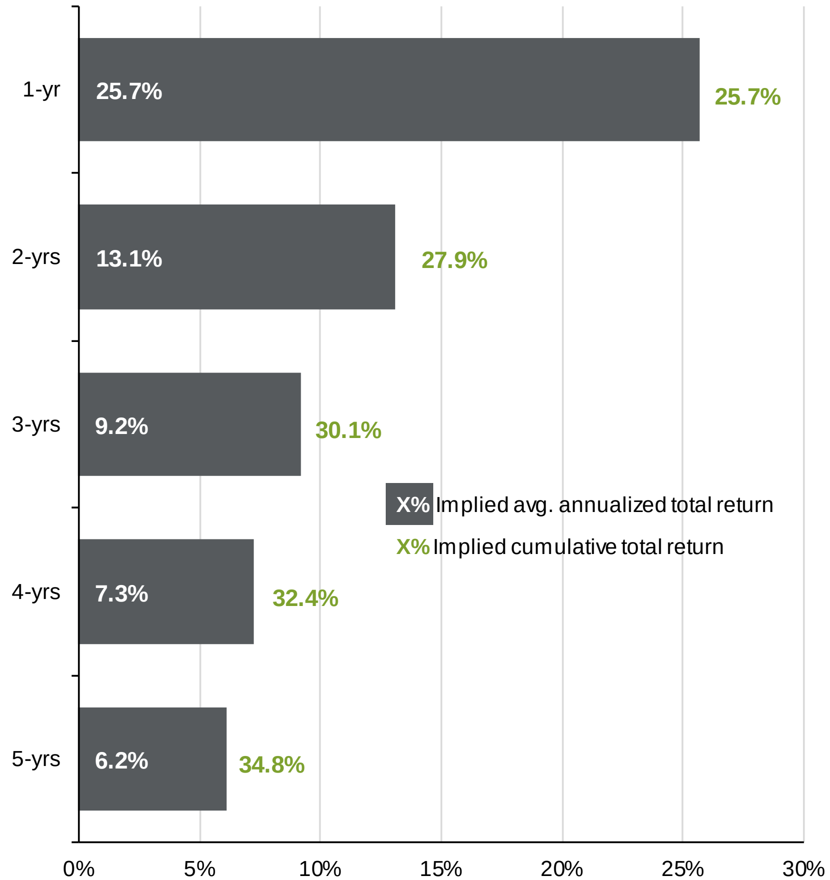
Equity Market Drawdown (as of 11/8/22)



S&P – Bull and Bear Markets & Go-Forward Return

Return needed to reach January 2022 peak of 4797

S&P 500 level as of October 31, 2022 is 3,872



Bull and bear markets

Bull markets			Bear markets		
Bull begin date	Bull return	Duration (months)	Market peak	Bear return*	Duration (months)*
Jul 1926	152%	37	Sep 1929	-86%	32
Mar 1935	129%	23	Mar 1937	-60%	61
Apr 1942	158%	49	May 1946	-30%	36
Jun 1949	267%	85	Aug 1956	-22%	14
Oct 1960	39%	13	Dec 1961	-28%	6
Oct 1962	76%	39	Feb 1966	-22%	7
Oct 1966	48%	25	Nov 1968	-36%	17
May 1970	74%	31	Jan 1973	-48%	20
Mar 1978	62%	32	Nov 1980	-27%	20
Aug 1982	229%	60	Aug 1987	-34%	3
Oct 1990	417%	113	Mar 2000	-49%	30
Oct 2002	101%	60	Oct 2007	-57%	17
Mar 2009	401%	131	Feb 2020	-34%	1
Mar 2020	114%	21	Jan. 2022**	-25%	9
Averages	**162%**	**51**	**-**	**-41%**	**20**

Source: FactSet, NBER, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management. (Left) The current peak of 4797 was observed on January 3, 2022. (Right) *A bear market is defined as a 20% or more decline from the previous market high. The related market return is the peak to trough return over the cycle. Bear and bull returns are price returns. **The bear market beginning in January 2022 is currently ongoing. The "bear return" for this period is from the January 2022 market peak through the current trough. Averages for the bear market return and duration do not include figures from the current cycle.
Guide to the Markets – U.S. Data are as of October 31, 2022.

Public Markets Performance Snapshot - Estimates

Public Markets (ex-Cash) currently make up 60% of DPFP Investment Portfolio.

Net of fees	Index	10/31/2022 NAV ($M)	MTD as of 10/31/22 Manager	MTD as of 10/31/22 Index	MTD as of 10/31/22 Excess	YTD as of 10/31/2022 Manager	YTD as of 10/31/2022 Index	YTD as of 10/31/2022 Excess	3 Year Trailing as of 10/31/2022 Manager	3 Year Trailing as of 10/31/2022 Index	3 Year Trailing as of 10/31/2022 Excess
Total Public Portfolio (ex-Cash)	**60% ACWI IMI/40% Global AGG**	**$1,083.5**	**4.9%**	**3.4%**	**1.5%**	**-15.2%**	**-20.9%**	**5.7%**	**1.9%**	**0.4%**	**1.5%**
Global Equity	**MSCI ACWI IMI**	**$698.9**	**7.2%**	**6.2%**	**1.0%**	**-21.8%**	**-21.2%**	**-0.6%**	**4.6%**	**4.8%**	**-0.2%**
Boston Partners	MSCI World	$119.2	12.3%	7.2%	5.1%	-8.0%	-20.1%	12.1%	8.1%	6.1%	2.0%
Manulife	MSCI ACWI	$119.7	8.9%	6.0%	2.8%	-16.7%	-21.1%	4.4%	5.2%	4.9%	0.4%
Invesco (OFI)	MSCI ACWI	$110.9	3.5%	6.0%	-2.5%	-35.5%	-21.1%	-14.3%	0.8%	4.9%	-4.0%
Walter Scott	MSCI ACWI	$117.9	6.0%	6.0%	-0.1%	-24.8%	-21.1%	-3.6%	4.4%	4.9%	-0.5%
Northern Trust ACWI IMI Index[1]	MSCI ACWI IMI	$159.8	6.4%	6.2%	0.3%	-20.8%	-21.2%	0.3%	5.1%	4.8%	0.3%
Eastern Shore US Small Cap[1]	Russell 2000	$36.8	8.6%	11.0%	-2.4%	-24.2%	-16.9%	-7.4%	2.9%	7.1%	-4.2%
Global Alpha[2]	MSCI EAFE Small Cap	$34.6	3.0%	4.2%	-1.2%	-29.1%	-29.2%	0.1%	-2.5%	-2.3%	-0.2%
EM Equity - RBC	**MSCI EM IMI**	**$73.3**	**-0.2%**	**-2.7%**	**2.5%**	**-24.3%**	**-28.8%**	**4.4%**	**-2.2%**	**-3.3%**	**1.1%**
Public Fixed Income (ex-Cash)	**BBG Multiverse TR**	**$311.3**	**0.6%**	**-0.6%**	**1.1%**	**-12.4%**	**-20.3%**	**7.9%**	**-2.2%**	**-6.0%**	**3.8%**
S/T IG Bonds - IR+M	BBG 1-3YR AGG	$53.4	-0.3%	-0.1%	-0.2%	-5.4%	-4.7%	-0.7%	-0.4%	-0.6%	0.2%
IG Bonds - Longfellow[1]	BBG US AGG	$63.9	-1.5%	-1.3%	-0.2%	-16.1%	-15.7%	-0.4%	-3.4%	-3.8%	0.4%
Bank Loans - Pacific Asset Mgmt.[3]	CS Leveraged Loan	$70.4	1.2%	1.6%	-0.4%	-2.0%	-1.7%	-0.3%	2.6%	2.8%	-0.2%
High Yield - Loomis Sayles[1]	BBG USHY 2% Cap	$67.3	2.7%	2.6%	0.1%	-12.9%	-12.5%	-0.5%	0.2%	0.4%	-0.3%
EM Debt - Metlife[2]	35% EMBI / 35% CEMBI / 30% GBI-EM	$56.2	-1.4%	-1.0%	-0.4%	-20.6%	-19.8%	-0.8%	-5.8%	-5.8%	0.0%

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

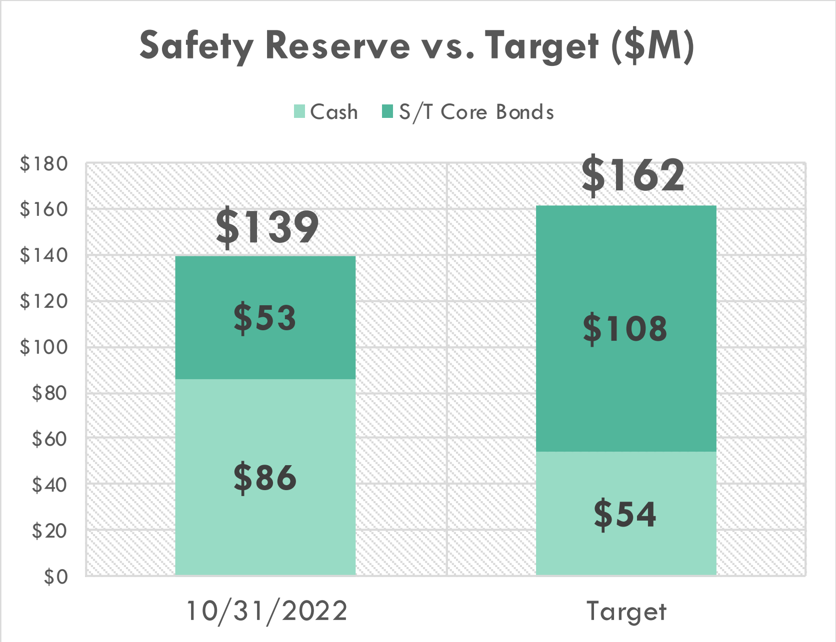
[1] - 3 yr trailing performance is based on composite data due to inception date with DPFP being less than 3 years.

[2] - YTD and 3 yr trailing performance is based on composite data as this is new manager funded during 2022.

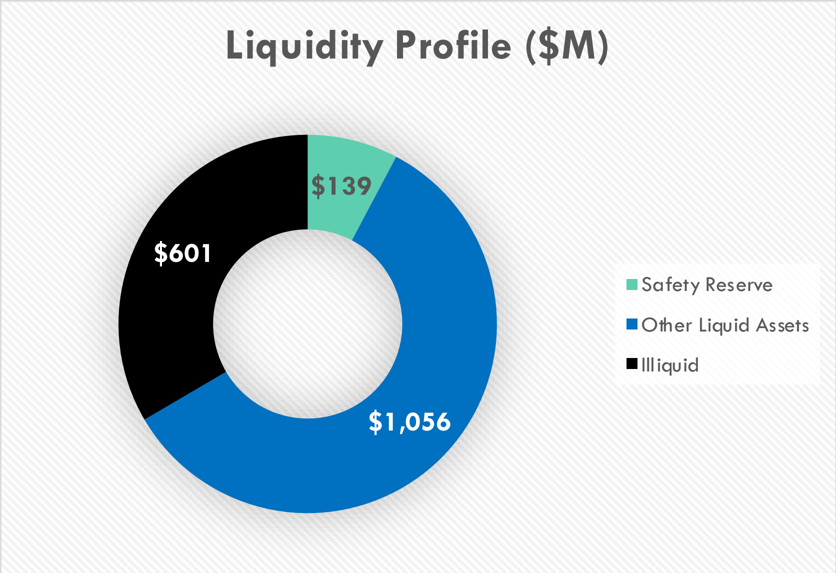
[3] - Benchmark for Bank Loans is proxied to S&P Leveraged Loans for current month performance.

DALLAS POLICE & FIRE PENSION SYSTEM

Safety Reserve Dashboard – Post Rebalance



Projected Net Monthly outflows of **$9.5M** per month. Safety Reserve of **$139M** would cover net monthly outflows for next **14 months** or through the end of **2023.**

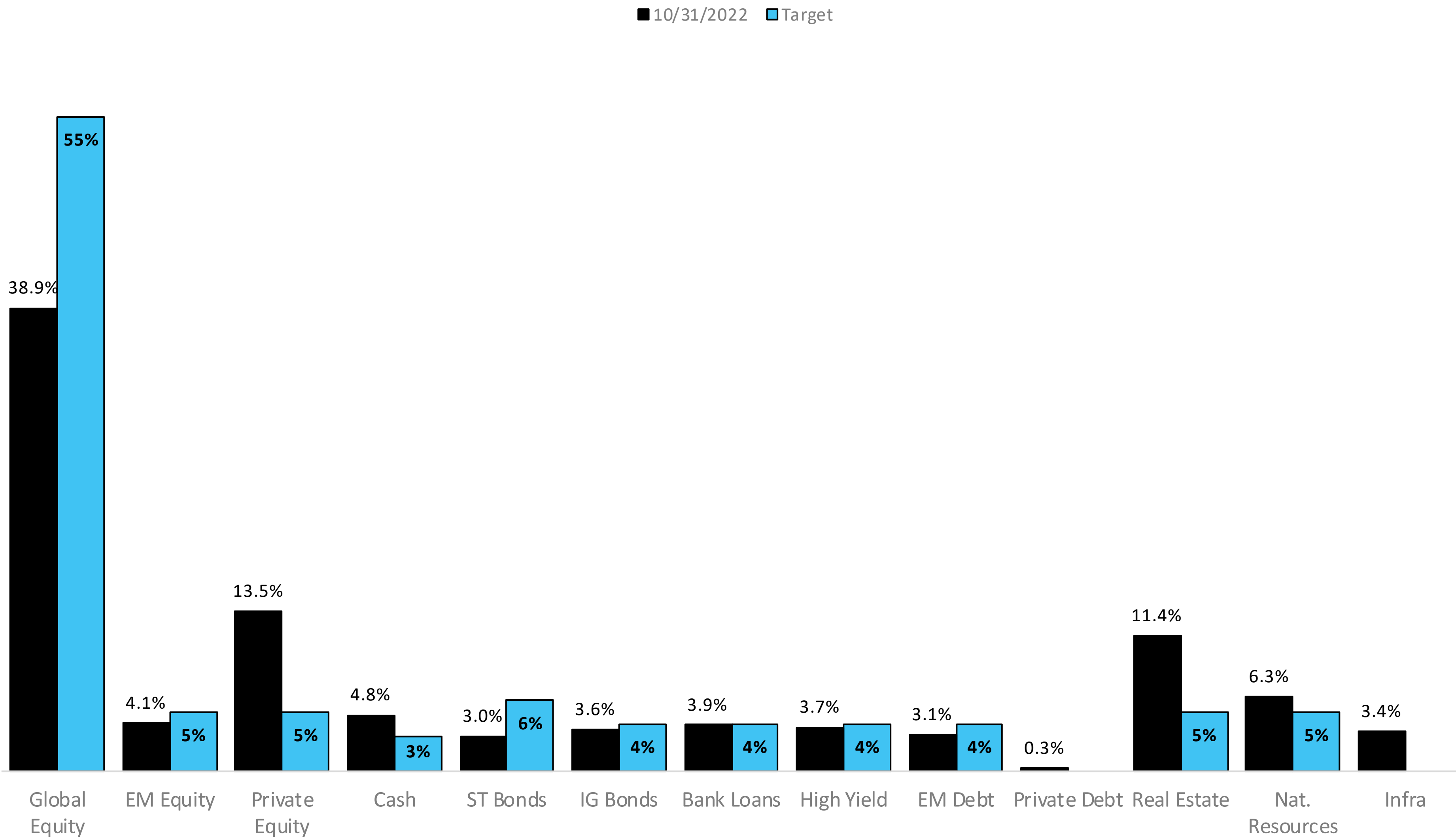


Expected Cash Activity	Date	Amount ($M)	Projected Cash Balance ($M)	Projected Cash (%)
	10/31/22		$85.8	4.8%
AEW Proceeds	11/7/22	$26.0	$111.8	6.2%
Equity Rebalancing	11/9/22	($26.0)	$85.8	4.8%
Cash Post Rebalance	11/9/22		$85.8	4.8%
City Contribution	11/11/22	$8.7	$94.5	5.3%
City Contribution	11/25/22	$8.7	$103.2	5.7%
Pension Payroll	11/28/22	($27.5)	$75.7	4.2%
City Contribution	12/9/22	$8.7	$84.4	4.7%
City Contribution	12/23/22	$8.7	$93.1	5.2%
Pension Payroll	12/28/22	($27.5)	$65.6	3.7%

Projected Cash activity includes expected benefit contributions, payments, and material expected capital calls or expenses.

Numbers may not foot due to rounding

Asset Allocation – Actual vs Target



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Asset Allocation & Rebalancing Detail (as of 10/31/22)

DPFP Asset Allocation	10/31/2022				Post Rebal. Pro Forma Actual		Post Rebal. Pro Forma Target		Post Rebal. Pro Forma Variance		
	NAV	%	% of Target	Rebalancing	NAV	%	$ mil.	%	$ mil.	%	% of Target
Equity	**1,014**	**56.5%**	**87%**	**26.0**	**1,040**	**57.9%**	**1,167**	**65%**	**-127**	**-7.1%**	**89%**
Global Equity	699	38.9%	71%	26.0	725	40.4%	988	55%	-263	-14.6%	73%
Boston Partners	*119*	*6.6%*	*83%*		*119*	*6.6%*	*144*	*8%*	*-24*	*-1.4%*	*83%*
Manulife	*120*	*6.7%*	*83%*		*120*	*6.7%*	*144*	*8%*	*-24*	*-1.3%*	*83%*
Invesco (OFI)	*111*	*6.2%*	*77%*		*111*	*6.2%*	*144*	*8%*	*-33*	*-1.8%*	*77%*
Walter Scott	*118*	*6.6%*	*82%*		*118*	*6.6%*	*144*	*8%*	*-26*	*-1.4%*	*82%*
Northern Trust ACWI IMI Index	*160*	*8.9%*	*59%*		*160*	*8.9%*	*269*	*15%*	*-110*	*-6.1%*	*59%*
Eastern Shore US Small Cap	*37*	*2.1%*	*51%*	*12.0*	*49*	*2.7%*	*72*	*4%*	*-23*	*-1.3%*	*68%*
Global Alpha Intl Small Cap	*35*	*1.9%*	*48%*	*14.0*	*49*	*2.7%*	*72*	*4%*	*-23*	*-1.3%*	*68%*
Emerging Markets Equity - RBC	73	4.1%	82%		73	4.1%	90	5%	-16	-0.9%	82%
Private Equity*	242	13.5%	270%		242	13.5%	90	5%	152	8.5%	270%
Fixed Income	**402**	**22.4%**	**90%**	**0.0**	**402**	**22.4%**	**449**	**25%**	**-46**	**-2.6%**	**90%**
Cash	86	4.8%	159%		86	4.8%	54	3%	32	1.8%	159%
S/T Investment Grade Bonds - IR+M	53	3.0%	50%		53	3.0%	108	6%	-54	-3.0%	50%
Investment Grade Bonds - Longfellow	64	3.6%	89%		64	3.6%	72	4%	-8	-0.4%	89%
Bank Loans - Pacific Asset Management	70	3.9%	98%		70	3.9%	72	4%	-1	-0.1%	98%
High Yield Bonds - Loomis Sayles	67	3.7%	94%		67	3.7%	72	4%	-4	-0.3%	94%
Emerging Markets Debt - MetLife	56	3.1%	78%		56	3.1%	72	4%	-16	-0.9%	
Private Debt*	5	0.3%			5	0.3%	0	0%	5	0.3%	
Real Assets*	**379**	**21.1%**	**211%**	**-26.0**	**353**	**19.7%**	**180**	**10%**	**173**	**9.7%**	**197%**
Real Estate*	205	11.4%	228%	-26.0	179	10.0%	90	5%	89	5.0%	199%
Natural Resources*	113	6.3%	126%		113	6.3%	90	5%	23	1.3%	126%
Infrastructure*	61	3.4%			61	3.4%	0	0%	61	3.4%	
Total	**1,796**	**100.0%**		**0.0**	**1,796**	**100.0%**	**1,796**	**100%**	**0**	**0.0%**	
Safety Reserve ~$162M=18 mo net CF	139	7.8%	86%	0.0	139	7.8%	162	9%	-22	-1.2%	86%
*Private Market Assets	627	34.9%		-26.0	601	33.4%	269	15%	331	18.4%	

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

DALLAS POLICE & FIRE PENSION SYSTEM

Asset Class Returns – JPM Guide to the Markets

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	YTD	2007 - 2021 Ann.	2007 - 2021 Vol.
EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	REITs 41.3%	Comdty. 15.8%	Large Cap 10.6%	REITs 23.2%
Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Large Cap 28.7%	Cash 0.8%	Small Cap 8.7%	EM Equity 22.9%
DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Comdty. 27.1%	Fixed Income -15.7%	REITs 7.5%	Small Cap 22.5%
Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Small Cap 14.8%	Asset Alloc. -16.2%	High Yield 6.6%	Comdty. 19.1%
Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	Asset Alloc. 13.5%	Small Cap -16.9%	Asset Alloc. 6.1%	DM Equity 18.9%
Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	DM Equity 11.8%	High Yield -17.4%	EM Equity 4.8%	Large Cap 16.9%
Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	High Yield 1.0%	Large Cap -17.7%	DM Equity 4.1%	High Yield 12.2%
High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	Cash 0.0%	DM Equity -22.8%	Fixed Income 4.1%	Asset Alloc. 11.7%
Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Fixed Income -1.5%	REITs -25.5%	Cash 0.8%	Fixed Income 3.3%
REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	EM Equity -2.2%	EM Equity -29.2%	Comdty. -2.6%	Cash 0.7%

Source: Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Global HY Index, Fixed Income: Bloomberg US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg US Aggregate, 5% in the Bloomberg 1-3m Treasury, 5% in the Bloomberg Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/2006 to 12/31/2021. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of October 31, 2022.

2022 Board Investment Review Plan*

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

November	• Staff review of Public Equity managers
December	• Staff review of Private Equity and Debt

*Presentation schedule is subject to change.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C11

Topic: **Private Market Considerations**

Attendees: Leandro Festino, Managing Principal - Meketa Investment Group
Colin Kowalski, Associate – Meketa Investment Group

Discussion: DPFP has an asset allocation of 15% to private markets asset classes, which include 5% to Private Equity, 5% to Real Estate and 5% to Natural Resources. Due to the overallocation to private markets, DPFP has not made a new investment into these asset classes since 2016. Staff and Meketa will discuss and seek advice on high level considerations that need to be addressed prior to reinvesting in new private market commitments.

DALLAS POLICE & FIRE PENSION SYSTEM

Private Market Considerations

November 10, 2022

Executive Summary

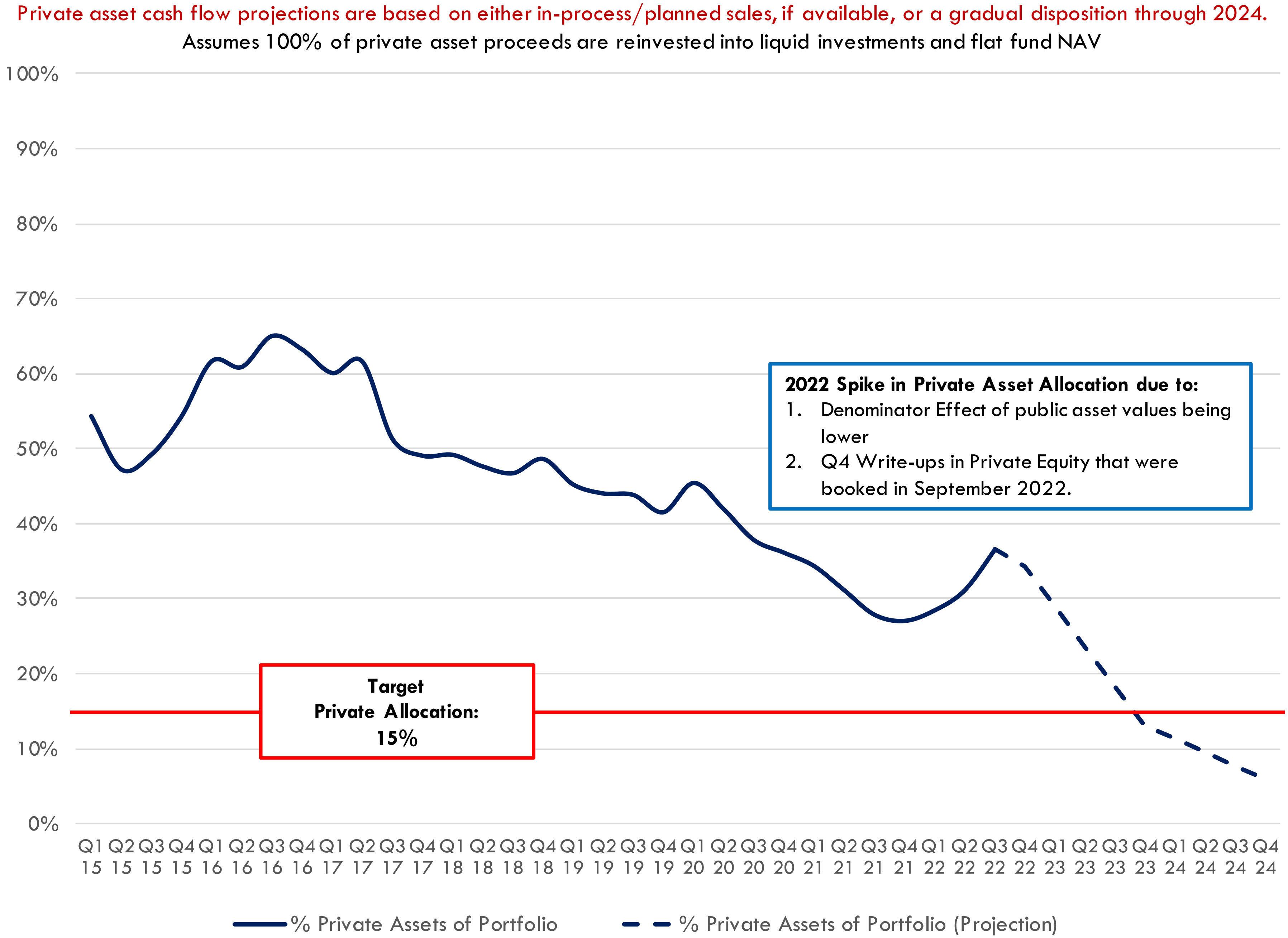
- DPFP has not made a new private markets investment since 2016, as the focus has been on right-sizing the over allocation to the space.
- DPFP's 15% target to private markets allocation consists of 5% to Real Estate, 5% to Natural Resources, and 5% to Private Equity.
    - This would amount to ~$90M to each asset class at $1.8B in total assets.
- DPFP's current portfolio remains overweight to private markets.
    - The target allocation to private markets is 15% while DPFP remains at 34.9%.
    - Though highly dependent on asset sales, it is possible that DPFP drops below the 15% target sometime in 2023.
- DPFP needs to have the processes, resources and planning in place prior to making new private market investments.
- At the 9/22 IAC meeting, staff and Meketa discussed some of these considerations along with initial thoughts on how to structure each asset class with the Committee.

Asset Allocation – Actual vs Target

		Market Value 10/31/2022	Exposure %
Private Equity	**$**	**242,063,747**	**13.5%**
Hudson Clean Energy		730,638	0.0%
Huff Alternative		2,829,865	0.2%
Huff Energy		173,975,705	9.7%
Industry Ventures		10,457,525	0.6%
Lone Star CRA		52,563,120	2.9%
Lone Star Growth Capital		0	0.0%
Lone Star Opportunity Fund V		0	0.0%
Lone Star North TX Op. Fund		1,506,894	0.1%
Private Debt	**$**	**5,441,778**	**0.3%**
Highland Crusader		1,351,374	0.1%
Riverstone		4,090,404	0.2%
Real Assets	**$**	**379,017,785**	**21.1%**
Natural Resource	**$**	**113,273,454**	**6.3%**
BTG Pactual		19,887,756	1.1%
Hancock		93,385,698	5.2%
Infrastructure	**$**	**60,910,464**	**3.4%**
TRG AIRRO I		16,890,931	0.9%
TRG AIRRO II		4,300,110	0.2%
JPM Global Maritime		39,719,423	2.2%
Real Estate	**$**	**204,833,867**	**11.4%**
AEW Capital Management		171,199,421	9.5%
Clarion Partners		30,200,922	1.7%
Hearthstone		2,500,000	0.1%
P&F Holdings - Museum Tower		909,168	0.1%
RE Opportunistic Funds		24,356	0.0%
Total	**$**	**626,523,309**	**34.9%**
Legacy Assets (does not include AEW Camel Square)	**$**	**407,449,259**	**22.7%**

DALLAS POLICE & FIRE PENSION SYSTEM

Private Asset Allocation Over Time (as of 10/31/22)



Considerations for Reallocating to Private Markets

- High-Level Private Market Considerations:
  - Do private markets still make sense for DPFP given the current funding/liquidity situation?
  - Do we have the appropriate guidelines and risk controls in the IPS?
  - What should the Board approval/review process look like?
  - What should the consultant's role be in the private markets portfolio?
  - When should DPFP start re-investing in private markets?

Current IPS Guidelines for Private Market Investments

Private Market Provisions in the IPS

1. Will not invest in direct private market investments or co-investments.
2. DPFP cannot own more than 10% interest in any fund.
3. No private market fund may exceed 2% of the DPFP investment portfolio.
4. Limit of 5% of the DPFP investment portfolio invested in the same fund family.
5. The private market commitment limitations outlined above, do not prevent the Board from making contributions necessary to protect DPFP interests.

*Pursuant to Section 4.07 of Article 6243a-1, the vote of eight trustees is required to approve any Alternative Investment.

As we move forwards, staff will review these provisions with the consultant, discuss with the IAC and bring any recommended changes back to the Board.

Process/Selection Considerations for Private Markets

- Private market approval/selection process may look different based on the asset class and investment type. For example, a $40M+ open-ended real estate fund vs. sub-$10M commitment to a private equity fund.
- Focusing on Private Equity, staff expects it will take 4-6 new private commitments of ~$6-$9M each, per year to reach the 5% allocation with adequate diversification.
- Given the IAC only meets quarterly, it will be difficult to discuss every new Private Equity commitment with the IAC prior to sending to the Board for approval as we do for Public Markets.
- Board Approval Process: Board approval, in some form, is required for each individual private market investment. Two possible options:
  - One alternative is for the Board to approve specific dollar limits in specific private equity areas (growth, venture capital, buyout, energy, etc.) in an annual pacing plan. The IPS will be amended to give a little detail on these areas and give the ED the authority to consummate transactions within these approved limits and areas after consultation with the consultant and to the extent feasible the IAC. The consultant will be required to confirm the investment is within the area set out in the pacing plan.
  - The other alternative is for the Board to approve each individual investment. The staff would try to get feedback from the IAC to the extent feasible to provide to the Board. The consultant would also give their thoughts to the Board.

Consultant Role on Private Markets

- Meketa was hired as the general investment consultant in April 2018.
- At the time of Meketa hiring, DPFP did not expect to make any new private market investments over the near-term given the overallocation issue. Though Meketa has private markets capabilities, Meketa was not engaged to provide any private direct market services outside of performance reporting.
- Staff plans to conduct a consultant RFP in 2023 as the relationship with Meketa will be at the 5-year mark.
- Staff will use the consultant RFP process to further define the role of the consultant and level of services needed in private markets.
- Staff will also assess the need for additional internal resources. May be dependent on the investment model and level of consultant involvement in the private manager selection process.

When to Initiate New Investments?

- When should DPFP start re-allocating to Private Markets - after an individual asset class drops below the 5% target or once we are below 15% in total to Private Markets?
  - Near-term private markets proceeds should be utilized to build the Global Equity allocation up to the 55% target and to refill the Safety Reserve to the 9% target.
  - Staff recommends not making new private investments until DPFP is below 20% in total to private markets and trending towards the 15% target.

Private Markets Timeline

Highly dependent on Board feedback and timing of private asset sales.

September 2022

- Initial discussion with IAC

November 2022

- Board discussion around private market considerations/program development/governance.

Early-Mid 2023

- Consultant RFP process with focus on building out new private markets allocation, related services/costs.
- Review IPS governance and risk controls related to private markets.
- Assess any additional staffing needed.

Late 2023 – 2024

- Pacing Plan development.
- Initial new investments into private markets.

MEKETA
INVESTMENT GROUP

Private Markets Program Discussion

Dallas Police and Fire Pension System

November 10, 2022

Dallas Police and Fire Pension System

Background

- For the September IAC meeting, Meketa was asked to review various program models, with respect to accessing private market opportunities and increasing private markets exposure going forward.
- Our presentation provided a review of program models available to the Pension System with important considerations relative to each model.
  - A plan for how to build out and enhance private market exposure once a model is selected.
  - Information related to Meketa's experience advising and managing custom Private Market programs.
- Today, we are including this same presentation. We look forward to discussing with the Board this topic on November 10th and address any questions or concerns raised.

Dallas Police and Fire Pension System

Program Design Considerations

Ensure goals are appropriately outlined and establish a plan

- Revisit the Investment Policy Statement.
  - Review existing goals and objectives.
  - Confirm the role of each private markets asset class within the total portfolio.
  - Discuss desired approaches and exposures with corresponding risk/return characteristics.
  - Define approach to private markets benchmarking.
  - Update the Investment Policy/Asset Class Guidelines, as appropriate.
- Establish a go forward strategic plan.
  - Establish an annual commitment pacing target.
  - Determine appropriate diversification targets across private market asset classes.
  - Propose commitment sizing/ranges.
  - Build a road map.

Implementation

- Partnership identification, selection, and due diligence.
  - Review deal flow and potential opportunities.
  - Perform due diligence on prioritized opportunities.
  - Perform ongoing monitoring and performance reports.

Dallas Police and Fire Pension System

First Order Considerations

Portfolio Construction

- Vintage year diversification
  - Consistent deployment over time
- Commitment concentration
  - Number of manager relationships
  - Number of investments
- Geographic diversification
  - North America and Europe
  - Asia and Latin America
- Other considerations
  - Co-investments
  - Secondaries
  - Vehicle types and terms

Strategy Selection by Asset Class

- Private Equity
  - Buyout, venture, and growth equity
  - Deal size
  - Sector specialization
- Private Credit
  - Yield versus total return
  - Originated versus secondary market
  - Collateral: asset, corporate, mortgage
- Real Estate
  - Core versus non-core
  - Mix of equity and debt
- Infrastructure
  - Core versus non-core
  - Operating companies

Dallas Police and Fire Pension System

Private Equity Structures

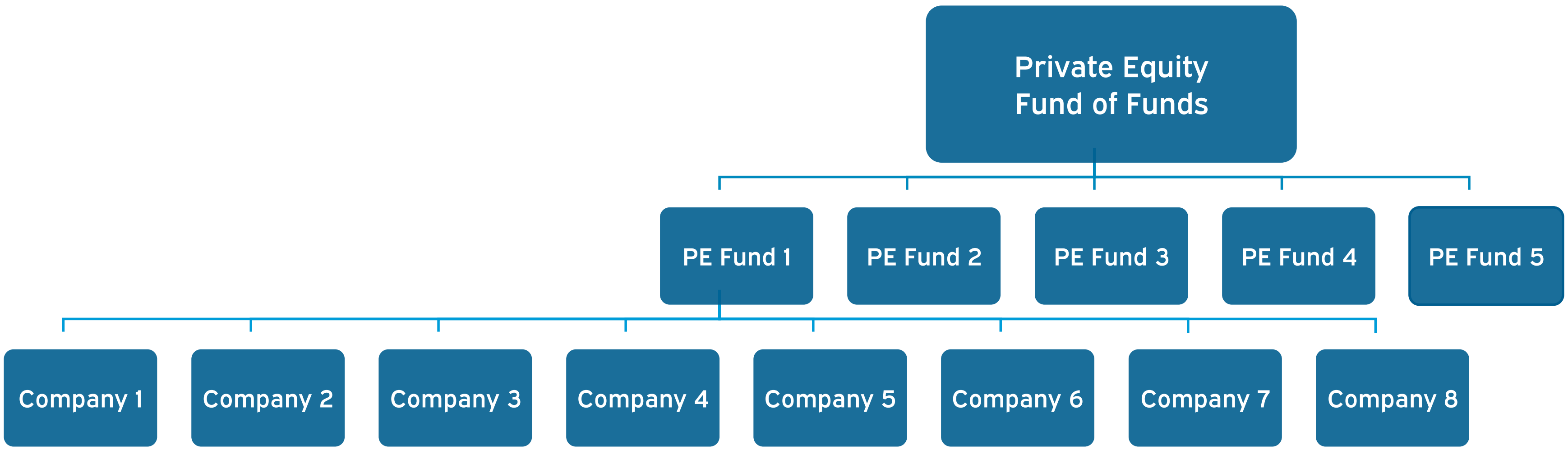
Primary Funds versus Fund of Funds

- Primary funds are commingled investment vehicles that make investments in *private companies or assets*.
- Fund of funds are commingled investment vehicles that invest in a *portfolio of primary funds*.

	Advantages	Disadvantages
Primary Funds	• Customizable portfolios (by strategy, geography, vintage). • Lower cost structure. • Influence or control over manager selection. • Control of commitment pacing.	• More governance or oversight may be warranted. • Potentially higher administrative burden. • Capital scale is required for a diversified portfolio. • In some cases, accessing high quality managers may be a challenge.
Fund of Funds	• In some cases, ease of oversight and administration. • Capital scale is not required for a diversified portfolio. • Generally, easier to achieve diversification.	• Limited influence or control over portfolio construction or manager selection. • Highest cost structure. • Inability to adjust commitment pacing. • 12-to-14-year fund life.
Hybrid	• Somewhat customizable portfolios. • Somewhat lower cost structure than FoF alone. • Some control over manager selection and pacing.	• Potentially higher governance and administrative burden than FoF alone. • Higher cost structure and less customization then through Primary program alone.

Dallas Police and Fire Pension System

Private Equity Structures



Dallas Police and Fire Pension System

Private Equity Structures

Which Approach is Right for My Institution?

Primary funds are most often selected by institutions that:	Fund of Funds are most often selected by institutions that:
• Have the ability to commit at least $2 million per fund, to at least five funds per year. • Have a board of trustees that is willing to nimbly select multiple managers per year or outsource selection to a discretionary manager. • Possess robust and sophisticated back-office capabilities or are willing to outsource program administration. • Are willing to evaluate, select, and monitor a large number of individual fund investments, or to outsource monitoring.	• Do not have the capital scale to build a custom primary program. • Are not comfortable making many fund selections per year or are not able to outsource that function. • Value the convenience of a fund manager handling all program implementation and administration. • Do not wish to have a large roster of fund investments to monitor.

- Institutions may also pursue a blend of the two models offered above, known as a “hybrid model”.
- The hybrid model offers a “core-satellite” approach through large commitments to diversified fund of funds and smaller targeted commitments to primary funds.

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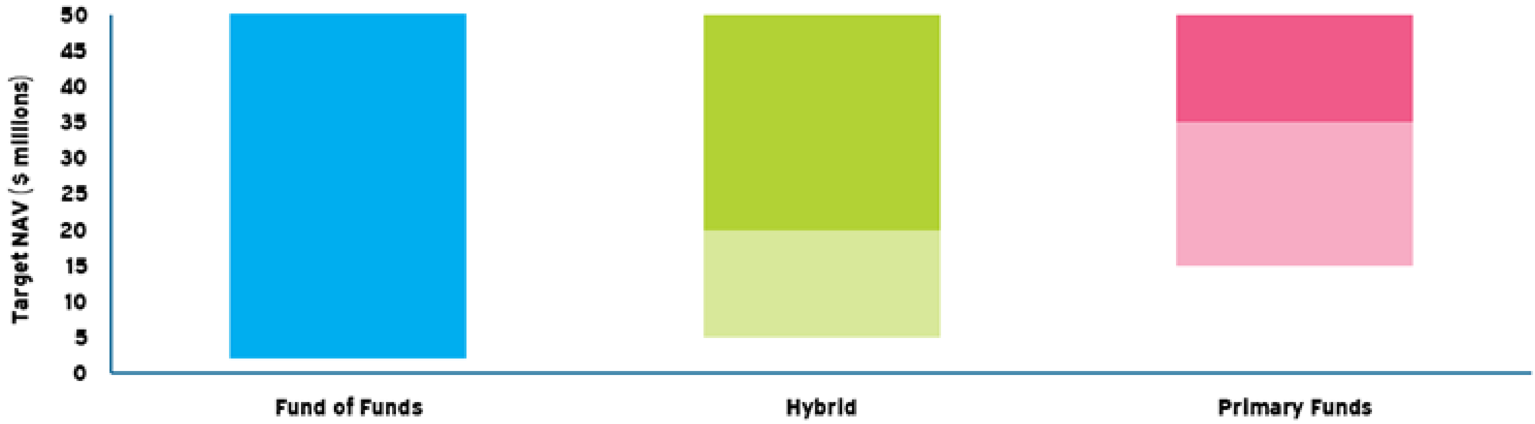
Private Equity Structures

Overview of the Three Models

- Investors with scale of at least $5 million to $15 million in target NAV have various options to design private market programs.
- All options have their benefits and drawbacks, including diversification, cost, and administrative considerations.
- Investors should carefully consider which option best fits their investment objectives.



Fund of Funds	Hybrid	Primary Funds
• Highest Cost Structure	• Mixed Cost Structure	• Lowest Cost Structure
• Highly Diversified	• Adequately Diversified	• More Concentrated
• No Customization	• Enhanced Risk/Return Profile	• Enhanced Risk/Return Profile
	• Limited Customization	• Highly Customized

Dark shading in the chart indicates Target NAV that commonly applies to each portfolio construction model, and light colored indicates Target NAV that warrants more careful consideration.

Dallas Police and Fire Pension System

Private Equity Structures

Custom Primary Program: Overview

A custom program could be one approach to lower costs relative to a fund of funds approach. Such a program could be structured as follows:

- The Pension System would establish a contract with a qualified asset manager, similar in nature to the existing contract between the System and its investment managers or its consultant.
- Unlike Fund of Funds or separate accounts, the contract could be altered, terminated, or have a customized duration.
- The contract would outline:
  - All covered services and costs.
  - Guidelines, limitations, and considerations governing account management.
  - Could or could not grant the manager discretionary authority to make investments and other actions on Pension Fund's behalf related to building and managing a portfolio of Private Equity investments.
- The Pension System would have direct ownership of each primary fund commitment.
- Quarterly performance reports provided to the System could include a separate comprehensive performance report specific to the Private Equity program, or the program could be a single line item within your existing performance reports.

Dallas Police and Fire Pension System

Private Equity Structures

Custom Primary Program: Discretionary vs Non-Discretionary Model

	Discretionary Management	Non-Discretionary Advisory
Flexible Annual Commitment Budgeting	Yes	Yes
Custom Program Design and Exposures	Yes	Yes
Flexible, Severable Contract	Yes	Yes
Investment Decisions	Made by account manager	Made by Pension Fund
Legal Documentation	Executed by account manager	Executed by Pension Fund legal counsel
Cash Transfer Management	Executed by account manager	Executed by advisor or by Pension Fund
Performance Reporting	Executed by account manager	Executed by advisor
Cost Structure	All costs associated with program covered by contract with account manager	Advisor costs Legal documentation costs Possible Pension Fund staffing costs for cash transfer management

- Both models can offer lower fee structures than what is typically available through use of Fund of Funds.
- The discretionary model is operationally efficient as all investment management, legal, operational, and administrative functions are outsourced to the account manager. Some pension funds hire a separate firm to oversee the discretionary manager.

Appendix:
Meketa Private Markets Experience

Dallas Police and Fire Pension System

Organization – Meketa Private Markets Overview

Heritage

- Over 20 years of investing in private markets. Recommended over $30 billion in commitments since 2000, including over $7 billion on a discretionary basis since 2006.
- Advisory and asset management services; no products or other conflicts of interest.
- Team of 47 professionals in seven offices across North America and the United Kingdom.
- Diverse client base; public and private pensions, endowments, foundations, and others. Client assets range from $100 million to $300 billion.

Approach

- Cover the full private markets opportunity: Private Equity, Private Credit, Real Estate, Infrastructure, and Natural Resources.
- Broad range of services: discretionary management, strategic & tactical advice, project due diligence, monitoring and reporting, and cash flow coordination.
- Proven philosophy: select top-quartile funds; emphasize value creation, market inefficiencies, and demonstrated manager skill.

Performance

- Strong discretionary account performance over multiple market cycles.

ASSET CLASS	VINTAGES	COMMITTED ($M)	INVESTED ($M)	REALIZED ($M)	TOTAL VALUE ($M)	NET TVPI	NET IRR	PUBLIC TWR
Meketa Composite[1]	2000 – 2021	9,072.4	6,944.1	5,185.0	11,436.7	1.6x	14.0%	5.4%
Private Equity	2000 – 2021	6,671.7	5,038.4	3,925.5	9,048.6	1.8x	15.7%	5.4%
Real Estate	2008 – 2021	2,053.6	1,390.6	797.2	1,878.9	1.4x	12.3%	4.8%
Infrastructure	2006 - 2021	1,270.5	1,035.0	715.6	1,367.9	1.3x	7.3%	5.2%

[1] Meketa Composite performance includes all Discretionary and Discretionary-Effective private equity, private credit, and extracted natural resources investments since inception as of 930/2021. For the first 6 years of the track record, the client retained an opt-out right for each investment but approved all that were recommended.

[2] Meketa performance figures are net of manager and Meketa fees. Public TWR returns represent MSCI ACWI for PE, NCREIF ODCE Equal Weighted (Net) for RE, and CPI + 3% for Infrastructure. Past performance is not indicative of future results.

Dallas Police and Fire Pension System

Organization - Experience

Significant Private Markets Expertise

We have been evaluating Private Markets strategies since 2000. We serve as a specialized Private Markets Advisor on many client relationships and are long-tenured in the space.

1994 — Real Estate inception
95+ clients with approximately $50 billion invested*

2000 — Private Equity inception
60+ clients with approximately $80 billion invested*

2002 — Private Credit inception
20+ clients with approximately $5 billion invested*

2006 — Natural Resources inception
20+ clients with approximately $2 billion invested*

2006 — Infrastructure inception
20+ clients with approximately $5 billion invested*

* Denotes both discretionary and non-discretionary assets as of September 30, 2021.

Dallas Police and Fire Pension System

Organization – Private Markets Services

Broad array of service models to meet the needs of investors seeking access to private markets investments

	Non-Discretionary Advisory	Strategic Advisory	Special Projects	Enhanced Portfolio Monitoring	Discretionary Asset Management
DETAILS	Complete solution for program implementation Client directs policy and approves investment selections	Meketa augments client staff in program implementation	One-time or periodic assignments to achieve specific goals	On-going or one-time fund reviews: Fee calculations Carry calculation Policy verifications Valuation reviews	Complete solution for outsourced private market program Meketa and client collaborate on policy and plan
ADVANTAGES	Full-service solution Retain decision authority Meketa resources & performance	Supplement existing resources Mandate tailored to needs Respond to shifting initiatives	Limited-term projects Supplement existing resources Scope customized for each project Rapid turnaround once goals are set	Supplement existing resources Meet heightened oversight needs Ensure manager compliance with legal requirements	Full-service solution Meketa resources & performance Fast decisions and efficient access Transfer fiduciary responsibility

Suite of available services covers all aspects of portfolio construction and monitoring.

Education	Strategic Planning	Investment Sourcing	Due Diligence	Reporting	Cash Management
Policy Development	Commitment Pacing	Investment Selection	Legal & Negotiations	Monitoring	Enhanced Monitoring

Dallas Police and Fire Pension System

Private Markets Due Diligence Teams

Private Markets Policy Committee

John Haggerty, CFA*
Chair, Director of Private Market Investments

Stephen McCourt, CFA
Co-CEO

Peter Woolley, CFA, CLU, ChFC
Co-CEO

Frank Benham, CFA, CAIA
Director of Research

Judy Chambers*
Private Markets Consultant

Christy Fields*
Head of Real Estate Portfolio Solutions

Alan Spatrick, CFA
Consultant

Jess Downer, CFA*
Private Markets Consultant

PRIVATE MARKETS DUE DILIGENCE TEAMS

PRIVATE EQUITY

Molly LeStage* Private Markets Consultant	John Haggerty, CFA* Director of Private Markets
Todd Silverman, CFA, CAIA* Private Markets Consultant	Judy Chambers* Private Markets Consultant
Steven Hartt, CAIA* Private Markets Consultant	Jess Downer, CFA* Private Markets Consultant
Tad Fergusson, CFA* Private Markets Consultant	Ethan Samson, JD Private Markets Consultant
Jed Constantino* Sr. Private Markets Analyst	Luke Riela, CFA* Macro Research & Data Analytics
Danny Chan, CFA* Sr. Private Markets Analyst	Andrew Gilboard* Sr. Private Markets Analyst
Bradley Dumais* Private Markets Analyst	Cristen Xhama, CFA Private Markets Analyst

PRIVATE DEBT

Mary Bates Private Markets Consultant
Todd Silverman, CFA, CAIA* Private Markets Consultant
Jed Constantino* Sr. Private Markets Analyst
Molly LeStage* Private Markets Consultant
John Haggerty, CFA* Director of Private Markets
Tad Fergusson, CFA* Private Markets Consultant
Luke Riela, CFA* Macro Research & Data Analytics
Andrew Gilboard* Sr. Private Markets Analyst

REAL ASSETS
(Infrastructure and Natural Resources)

Lisa Bacon, CAIA Infrastructure Program Lead	Gerald Chew, CAIA Private Markets Consultant
Judy Chambers* Private Markets Consultant	Adam Toczylowski, CFA Private Markets Consultant
Danny Chan, CFA* Sr. Private Markets Analyst	Steven Hartt, CAIA* Private Markets Consultant
John Haggerty, CFA* Director of Private Markets	Jed Constantino* Sr. Private Markets Analyst
Luke Riela, CFA* Macro Research & Data Analytics	Bradley Dumais* Private Markets Analyst

REAL ESTATE

Christy Fields Head of Real Estate	Colin Hill Real Estate Consultant
Karen Reeves Real Estate Analyst	David Glickman Real Estate Consultant
Derek Proctor Real Estate Consultant	Chris Andrulis Real Estate Analyst
Abigail Fischer Real Estate Analyst	Esther Lho Real Estate Analyst
Paige Junker Real Estate Perf. Analyst	Jess Downer, CFA* Private Markets Consultant
Steve Hartt, CAIA* Private Markets Consultant	John Haggerty, CFA* Director of Private Markets

INVESTMENT ASSOCIATES	LEGAL	OPERATIONS & ADMINISTRATION	TECHNOLOGY & DEVELOPMENT
Investment Associates (6 Professionals)	Inside Counsel (3 Professionals) + Outside Counsel	Operations (3 Professionals) Administration (4 Professional)	IT Ops / Net Infrastructure (8 professionals) Investment Software & Support (4 Professionals)

* Denotes an individual with multiple roles among asset classes.

As of March 2022.

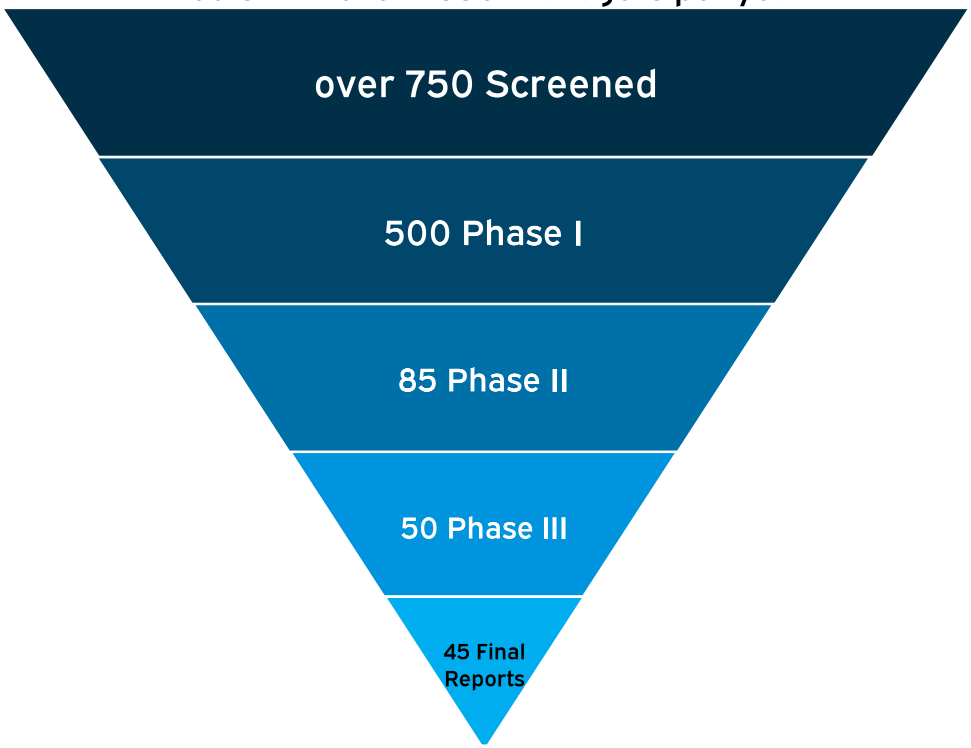
Dallas Police and Fire Pension System

Private Markets Research – Scale of Research

Private Markets Investment Review

- We have a strong flow of investment opportunities of which we recommend only a few for our clients:

Meketa reviews over 750 opportunities and meets with over ~350 managers per year.

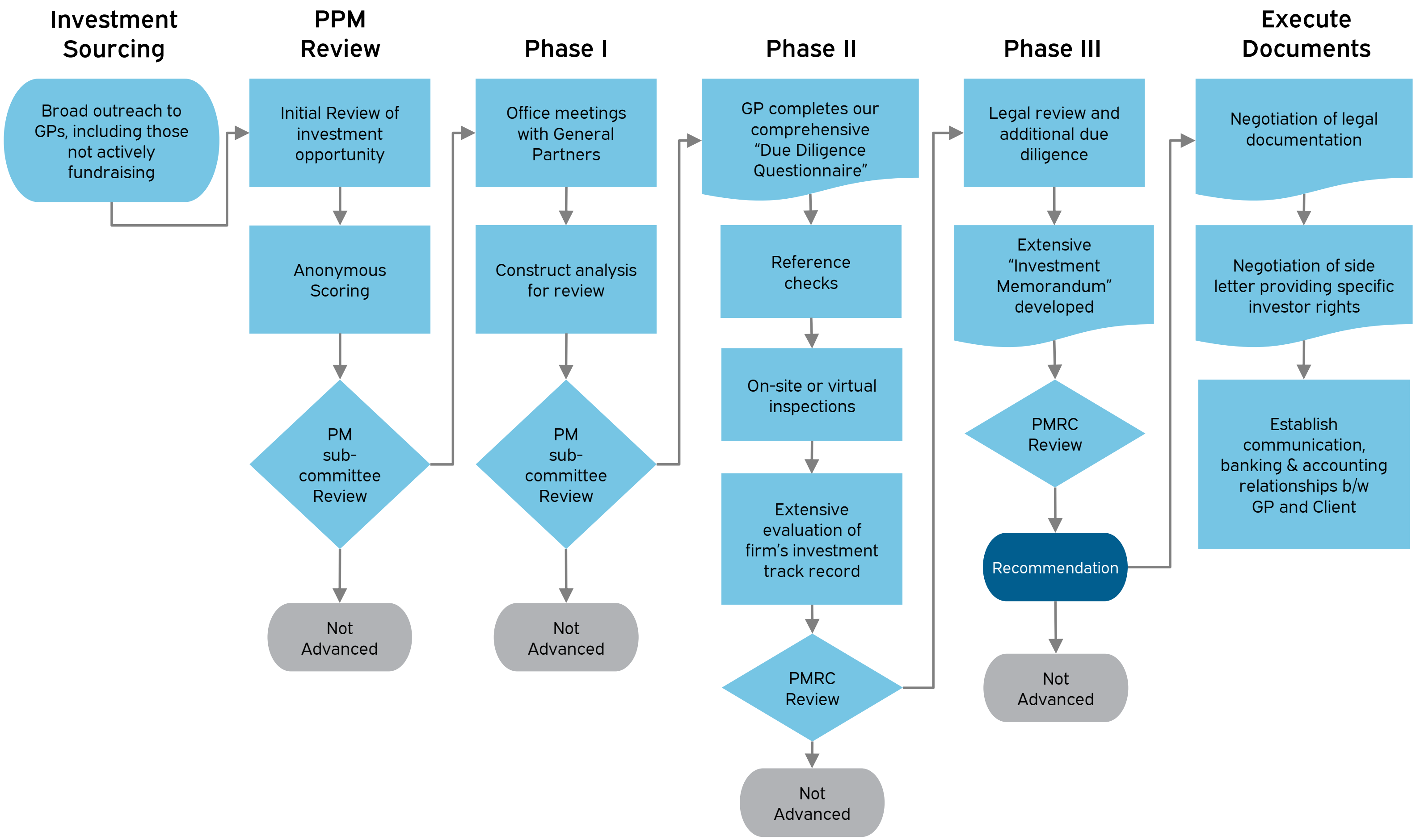


- We log formal reviews of all opportunities we receive into a custom database application. We have completed proprietary research on thousands of funds and log more than 750 new fund reviews each year.

Dallas Police and Fire Pension System

Private Markets Research – Due Diligence Process

We apply a rigorous review process to identify and evaluate the highest quality managers and strategies



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Private Equity – Representative Managers

Recent private equity commitments have included both well known and newer managers.

stellex CAPITAL MANAGEMENT

Waud Capital

SK CAPITAL

VITRUVIAN PARTNERS

K1

Riverside PARTNERS

Flagship Pioneering

Charlesbank

THE STERLING GROUP

HIDDEN HARBOR CAPITAL PARTNERS

THIRD ROCK VENTURES

PSL

Lightspeed

GREENBRIAR EQUITY GROUP, L.P.

STG

SCALE

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Dallas Police and Fire Pension System

GP Monitoring and Reporting – Investment Operations Overview

Program Monitoring & Review

- GPs are assigned to Private Markets Investment and Operations staff for continuous monitoring, covering over 800 partnerships and 14,000 documents annually:
  - Includes daily document storage of financial statements, K-1s, and reports on a secure server.
- Operations and Investment staff prepare quarterly private markets program evaluations.
- Fund amendments, accounting, and legal compliance are actively monitored.
- Use of Vantage Fund Accounting system for various operations functions:
  - Customized to meet client needs and build in-house reporting packages.

Cash Flow Coordination

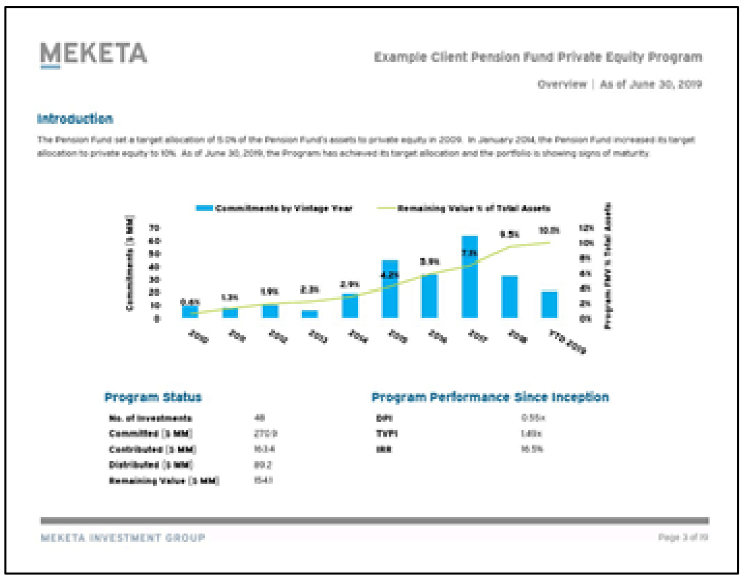
- Cash flows are managed internally, via Vantage Fund Accounting with a rigorous multi-step verification and approval process.
- Proactive coordination and communication seamlessly integrates cash flows to and from managers, along with foreign exchange and stock distribution processing.
- All cash flow transfers are confirmed and reconciled with General Partners and the custodian bank.
- Wire instructions and account numbers are monitored closely for changes to enhance security and execution by a staff of Operations and Investment Associates.

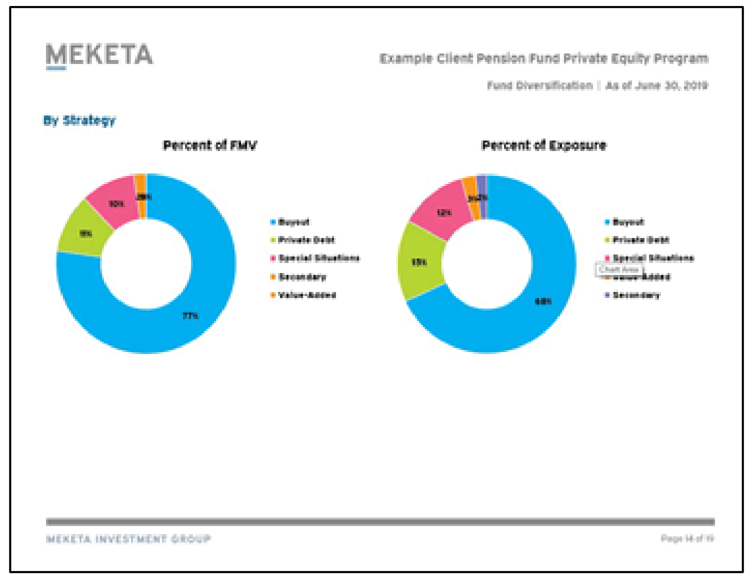
Dallas Police and Fire Pension System

GP Monitoring and Reporting – Reporting

Private Markets Reporting

- We provide comprehensive reports for our clients:
  - Detailed investment performance, diversification analysis, and qualitative review.
  - Quarterly, semi-annual and annual reports by Private Markets sector.
  - Timely oral presentations from our Consultants and Private Markets staff.
- Meketa provides General Partner cash flows and reports and timely news information available 24/7 in our secure, password-protected client access point on our client portal.





Dallas Police and Fire Pension System

Summary

Experience

- Over 20 years of investing in private markets; recommended over $30 billion in commitments since 2000.

Resources

- Team of 47 professionals in seven offices, with support from the broader firm.
- **100% independently owned** by senior members of the firm – **aligned with our clients as a true fiduciary – no conflict of interest** from outside shareholders or capital partners.

Focus

- Cover the full opportunity set, with emphasis on repeatable investment theses.
- High-touch **client service** philosophy within a top-to-bottom research driven practice.
- **Customized investment solutions** tailored to the specific needs of the Montgomery County Public Schools.
- **Proactively source investments** and maintain a robust pipeline.

Relationships

- Long-standing relationships with high conviction managers that are difficult to access.
- **Public fund experts** who can share our insights, best practices, specialized risks and their mitigation from lessons learned over decades of experience.

Performance

- Consistent and **controlled growth over our 43-year history**, which has provided our clients with demonstrated stability and success in achieving their goals.

Dallas Police and Fire Pension System

Disclaimer

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DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C12

Topic: **Public Equity Portfolio Review**

Discussion: Staff will provide an overview of DPFP public equity investments.

Regular Board Meeting – Thursday, November 10, 2022

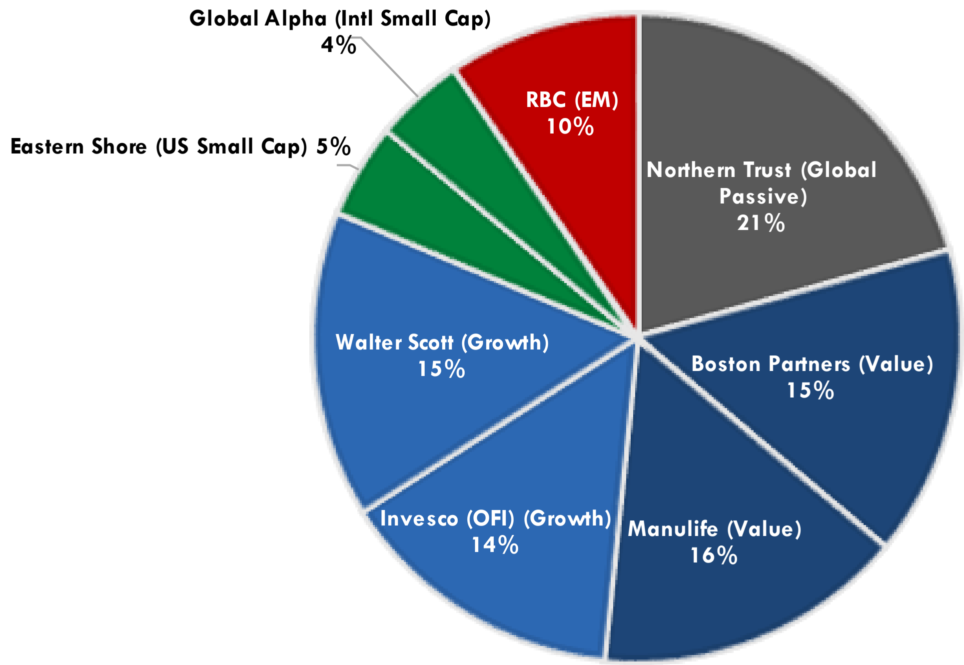
DALLAS POLICE & FIRE PENSION SYSTEM

Public Equity Portfolio Review

November 10, 2022

Public Equity Structure Overview

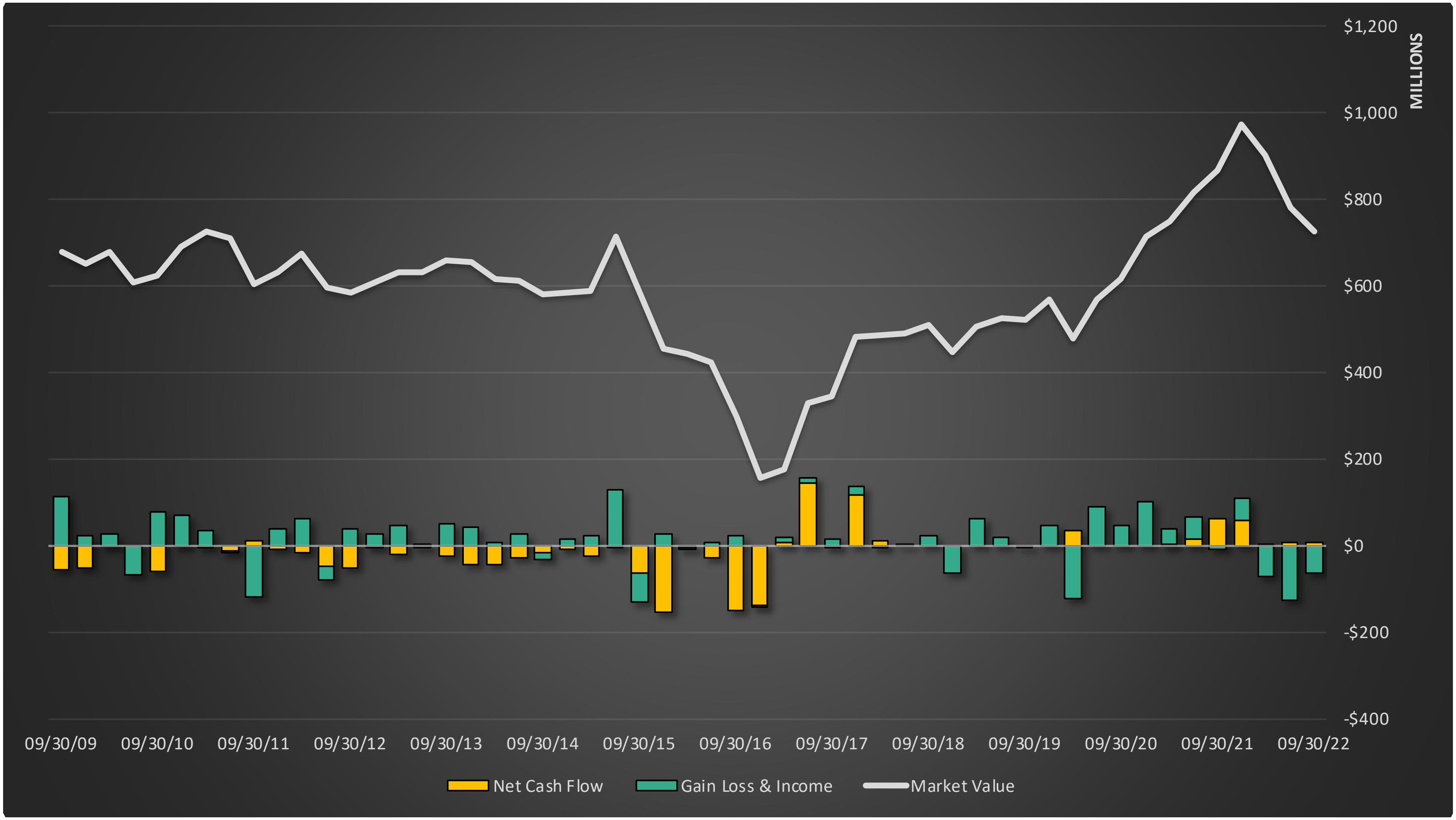
Total AUM: $772,250,523 (43% of DPFP) as of 10/31/22



- July 2017: Global Equity structure of 4 equally-weighted managers implemented
- January 2018: Emerging Markets manager (RBC) implemented
- March 2020: Northern Trust Passive index component implemented
- September 2021: US Small Cap (Eastern Shore) manager implemented
- June 2022: International Small Cap (Global Alpha) manager implemented

Public Equity Portfolio

$458M contributed since 2016 low of $155M in AUM
$148M redeployed into Public Equity in 2021 & 2022



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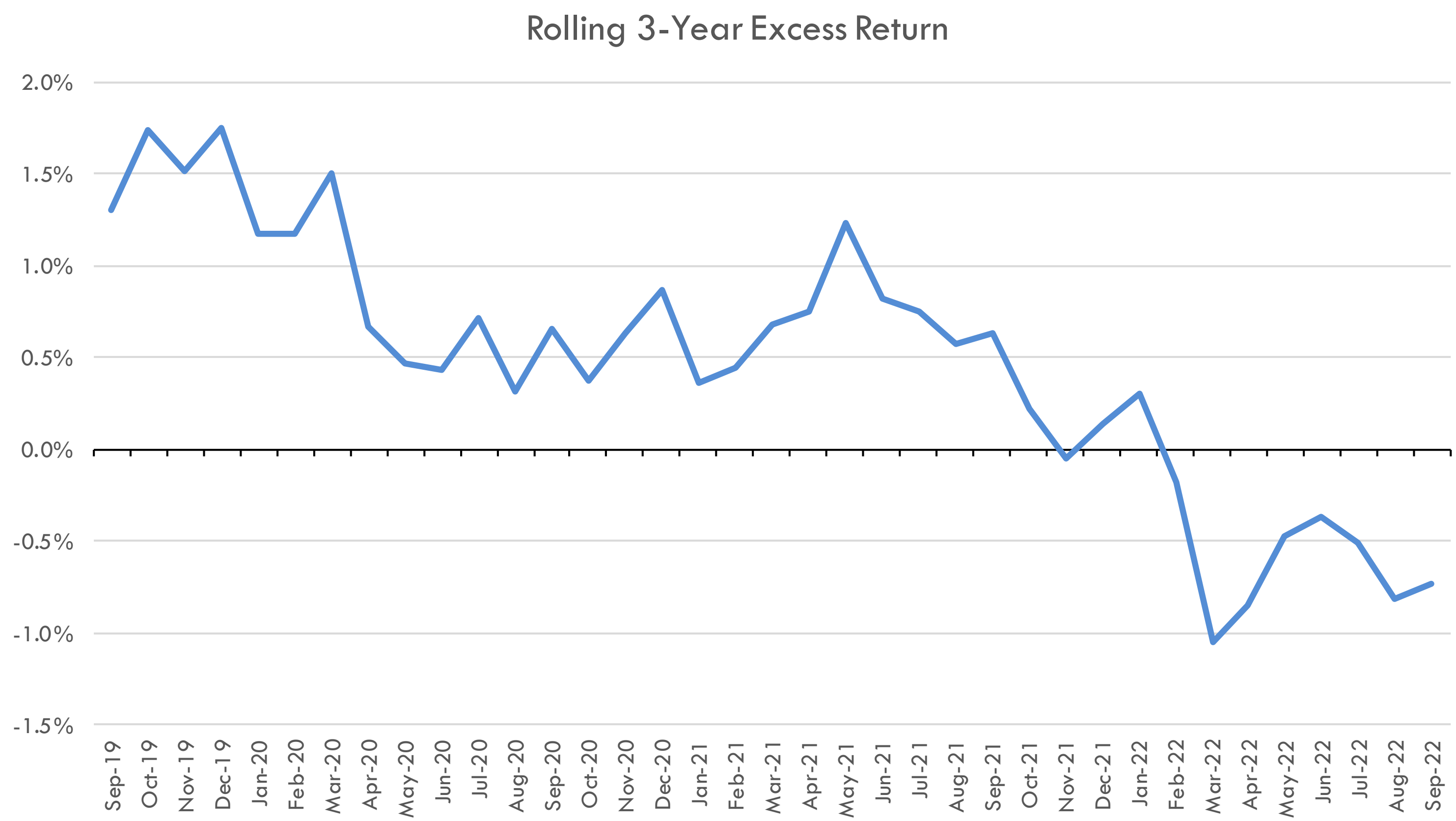
Public Equity Performance

As of 9/30/22 (net)	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	SI (07/2006)
Public Equity	-8.1%	-26.8%	-22.7%	2.9%	4.2%	7.8%	5.7%
MSCI ACWI IMI Net	-6.6%	-25.7%	-21.2%	3.6%	4.2%	7.2%	5.5%
Excess	*-1.5%*	*-1.1%*	*-1.5%*	*-0.7%*	*0.0%*	*0.6%*	*0.2%*



Source: Meketa

DALLAS POLICE & FIRE PENSION SYSTEM

Active Public Equity Manager Characteristics

As of 9/30/2022	Boston Partners	Manulife	Invesco	Walter Scott	*MSCI ACWI*
Number of Holdings	101	51	62	49	*2,895*
Weighted Avg. Market Cap ($B)	71.6	344.5	272.2	209.6	*306.8*
Price to Earnings	11.8	16.5	23.4	24.9	*14.9*
Primary Style Emphasis	Value	Value	Growth	Growth	-
Primary Capitalization	All Cap	Large Cap	Large Cap	Large Cap	-
3 Years as of 9/30/2022					
Active Share %	89.06	81.51	84.09	86.93	-
Up Market Capture %	93.18	90.68	117.86	100.51	-
Down Market Capture %	95.60	96.75	115.83	102.58	-

As of 9/30/2022	Eastern Shore	*Russell 2000*	Global Alpha	*MSCI EAFE Small Cap*	RBC EM	*MSCI EM*
Number of Holdings	95	*1,970*	67	*2,327*	49	*1,384*
Weighted Avg. Market Cap ($B)	3.8	*2.6*	2.0	2.3	73.1	*86.9*
Price to Earnings	19.1	*11.7*	11.6	*10.7*	13.5	*10.1*
Primary Style Emphasis	Core	-	Core	-	Core	-
Primary Capitalization	Small Cap	-	Small Cap	-	All Cap	-
3 Years as of 9/30/2022						
Active Share %	89.10	-	95.43	-	81.71	-
Up Market Capture %	97.06	-	102.38	-	73.01	-
Down Market Capture %	115.75	-	102.68	-	90.98	-

Public Equity Portfolio (as of 9/30/22)

Public Equity | As of September 30, 2022

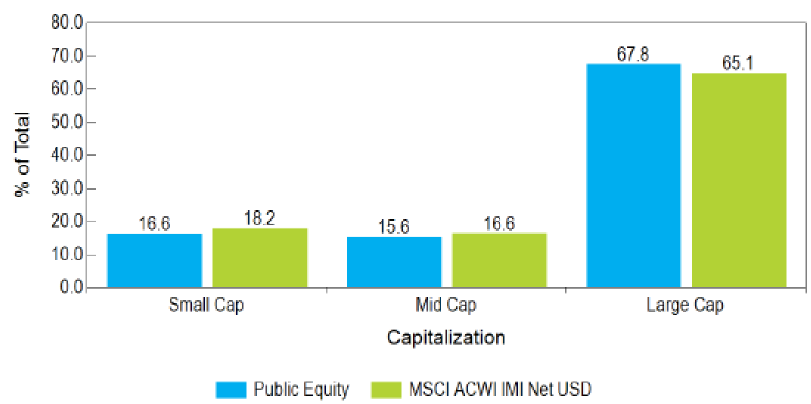
ACTIVE SHARE	Active Share
PUBLIC EQUITY vs MSCI ACWI IMI	
Public Equity Program	69%
GLOBAL EQUITY vs MSCI ACWI IMI	
Global Equity Program	68%
Manulife	82%
Walter Scott	87%
Invesco	84%
Boston Partners	89%
NT ACWI IMI	7%
Eastern Shore	89%
Global Alphal Int'l Small Cap	95%
EMERGING EQUITY vs MSCI EM IMI	
RBC Emerging Equity	82%

Top Holdings	
ALPHABET INC	2.7%
MICROSOFT CORP	2.4%
CASH - USD	1.5%
LVMH MOET HENNESSY LOUIS VUITTON SE	1.3%
JOHNSON & JOHNSON	1.3%
APPLE INC	1.2%
NOVO NORDISK 'B'	1.0%
INTUIT INC.	0.9%
UNITEDHEALTH GROUP INC	0.9%
ROCHE HOLDING AG	0.9%

Characteristics	Portfolio	MSCI ACWI
INDUSTRY SECTOR DISTRIBUTION (% Equity)		
Energy	3.8	5.2
Materials	4.9	4.7
Industrials	12.3	9.5
Consumer Discretionary	10.2	11.5
Consumer Staples	6.8	7.7
Health Care	14.9	13.0
Financials	12.7	14.5
Information Technology	21.4	20.7
Communication Services	7.7	7.4
Utilities	1.6	3.1
Real Estate	1.6	2.7

	QTD (%)	YTD (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)	S.I. (%)	S.I. Date
Public Equity	**-8.1**	**-26.8**	**-22.7**	**2.9**	**4.2**	**7.8**	**5.7**	**Jul-06**
MSCI ACWI IMI Net USD	*-6.6*	*-25.7*	*-21.2*	*3.6*	*4.2*	*7.2*	*5.5*	*Jul-06*

Market Capitalization
As of September 30, 2022

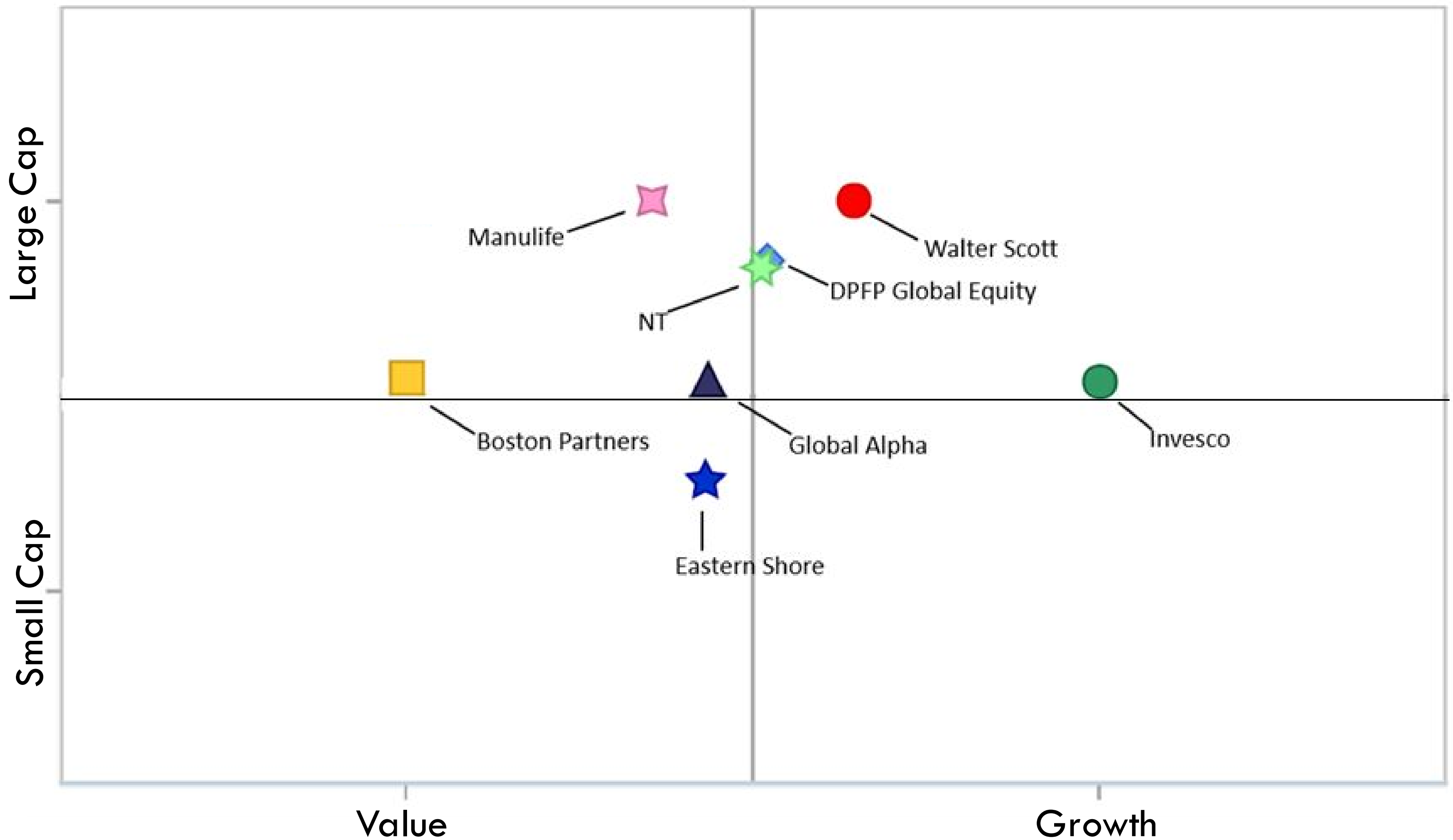


[1] Alphabet INC reflects only Alphabet A shares concentration.

[2] Eastern Shore active share is compared to the Russell 2000 Benchmark. Global Alpha active share is compard to the MSCI EAFE Small Cap Index.

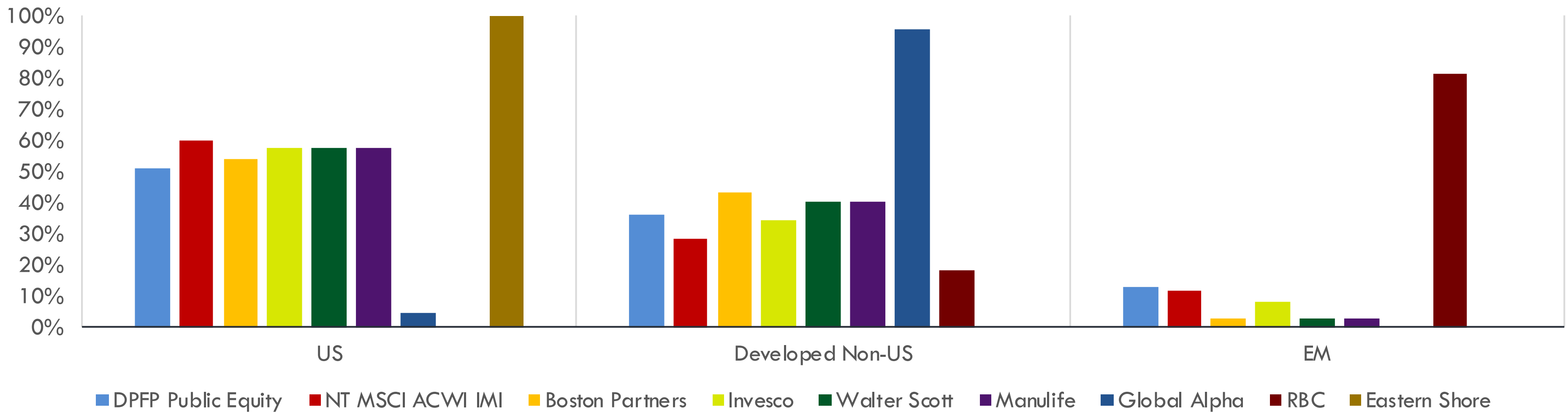
DALLAS POLICE & FIRE PENSION SYSTEM

MSCI ACWI Trailing 3 Year Style Map (as of 9/30/22)



Equity Regional Exposure (as of 9/30/22)

	Market Value ($)	% of DPFP Public Equity	US (%)	Developed Non-US (%)	EM (%)
NT MSCI ACWI IMI	150,197,802	21	60	29	12
Walter Scott	111,233,883	15	57	40	3
Manulife	109,988,896	15	57	40	3
Invesco	107,141,011	15	58	34	8
Boston Partners	106,106,373	15	54	44	3
RBC	73,470,192	10	0	19	82
Eastern Shore	33,914,118	5	100	0	0
Global Alpha	33,488,380	5	5	96	0
DPFP Public Equity	**725,540,655**	**100**	**51**	**36**	**13**
MSCI ACWI IMI			*60*	*29*	*12*



DALLAS POLICE & FIRE PENSION SYSTEM

Boston Partners Global Equity

Market Value (9/30/2022):	$106,106,373	Inception Date	July 2017
Investment Structure:	Separate Account	Style	Global All Cap Value

As of 9/30/2022 (Net)	QTD	YTD	1 Yr	3 Yr	5 Yr	SI (07/2017)
Boston Partners	-7.1%	-17.7%	-13.7%	4.7%	3.4%	3.9%
MSCI World	-6.2%	-25.4%	-19.6%	4.6%	5.3%	6.0%
Excess	*-0.9%*	*7.7%*	*5.9%*	*0.1%*	*-1.9%*	*-2.1%*

Manager Summary

- Founded: 1995; Firm AUM: $79.4B; Product AUM: $6.7B; 100% owned by ORIX corporation
- Value focused manager that maintains conviction in positions regardless of prevalent broader market trends.
- Provides more small and mid-cap exposure relative to other DPFP active managers and the benchmark.
- Will have large differences vs. the benchmark in sector and geographic allocations. Significant underweights to Information Technology and the United States.

Manulife Global Equity

Market Value (9/30/2022):	$109,988,896	Inception Date	July 2017
Investment Structure:	Separate Account	Style	Global Large Cap Value

As of 9/30/2022 (Net)	QTD	YTD	1 Yr	3 Yr	5 Yr	SI (07/2017)
Manulife	-7.9%	-23.2%	-17.5%	2.6%	4.2%	4.3%
MSCI ACWI	-6.8%	-25.6%	-20.7%	3.8%	4.4%	5.1%
Excess	*-1.1%*	*2.4%*	*3.1%*	*-1.2%*	*-0.2%*	*-0.7%*

Manager Summary

- Founded: 1887; Firm AUM: $444B; Product AUM: $2.7B; Subsidiary of Manulife Financial Corporation which is a publicly-held corporation.
- Strong quality bias with valuation considerations, predominately large-cap portfolio of companies with low leverage.
- Benchmark agnostic, bottom-up investment process that may result in large sub-industry and sector bets.
- Historically exhibited strong downside market protection, but generally lags in sharply growth/momentum and low-quality deep value driven markets.

Invesco Global Equity

Market Value (9/30/2022):	$107,141,011	Inception Date	October 2007
Investment Structure:	Separate Account	Style	Global Large Cap Growth

As of 9/30/2022 (Net)	QTD	YTD	1 Yr	3 Yr	5 Yr	SI (10/2007)
Invesco	-9.8%	-38.4%	-36.6%	0.9%	2.3%	5.0%
MSCI ACWI	-6.8%	-25.6%	-20.7%	3.8%	4.4%	4.3%
Excess	*-3.0%*	*-12.8%*	*-15.9%*	*-2.8%*	*-2.1%*	*0.7%*

Manager Summary

- Founded: 1935; Firm AUM: $1,323B; Product AUM: $13.8B; Publicly held corporation where 8% of shares are owned by employees
- High beta, high growth manager with outperformance driven by stock selection over the long-term, but considerable performance volatility in the short-term.
- Primarily large cap, but typically has some mid cap and emerging markets exposure.
- Position sizing driven by conviction, with high concentration in top ten holdings.

Walter Scott Global Equity

Market Value (9/30/2022):	$111,233,883	Inception Date	December 2009
Investment Structure:	Separate Account	Style	Global Large Cap Growth

As of 9/30/2022 (Net)	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	SI (12/2009)
Walter Scott	-7.1%	-28.8%	-23.2%	3.0%	6.8%	8.5%	8.3%
MSCI ACWI	-6.8%	-25.6%	-20.7%	3.8%	4.4%	7.3%	7.0%
Excess	*-0.3%*	*-3.1%*	*-2.5%*	*-0.7%*	*2.4%*	*1.2%*	*1.3%*

Manager Summary

- Founded: 1983; Firm AUM: $68B; Product AUM: $40B; 100% owned by BNY Mellon
- High quality focus, concentrated portfolio with low turnover and long-term hold periods as the intention is to buy and hold stocks for the long term to exploit the power of compound growth.
- Typically outperforms during down markets and when growth or momentum is out of favor. Lags during growth and momentum rallies. However, no exposure to energy is hurting them as energy sector has been the top performer this year.
- ESG considerations are an important part of the investment process.

Eastern Shore US Small Cap Equity

Market Value (9/30/2022):	$33,914,118	Inception Date	Product: Mar 2007 DPFP: Sept 2021
Investment Structure:	Separate Account	Style	US Small Cap Core

As of 9/30/2022 (Net)	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	SI (3/2007)
Eastern Shore	-3.9%	-30.1%	-25.3%	0.9%	1.5%	8.6%	8.2%
Russell 2000	-2.2%	-25.1%	-23.5%	4.3%	3.6%	8.6%	6.3%
Excess	*-1.8%*	*-5.0%*	*-1.8%*	*-3.4%*	*-2.1%*	*0.0%*	*1.9%*

**Composite Returns prior to Sept 2021*

Manager Summary

- Founded: 1988; Firm AUM: $647M; Product AUM: $492M; 48% is owned by a passive partner and 52% is employee owned.
- Modest growth tilt, focus on quality via company fundamentals, both established and improving.
- Generally, outperforms during periods of negative market performance but underperforms during speculative rallies.
- However, higher quality has been underperforming lower quality recently, which is unusual and has been a drag on QTD and YTD performance.

DALLAS POLICE & FIRE PENSION SYSTEM

EASTERN SHORE CAPITAL MANAGEMENT

Global Alpha International Small Cap

Market Value (9/30/2022):	$33,488,380	Inception Date	June 2022
Investment Structure:	Commingled Fund	Style	Intl Small Cap Core

As of 9/30/2022 (Gross)	QTD	YTD	1 Yr	3 Yr	5 Yr	10 Yr	SI (1/2010)
Global Alpha	-11.1%	-29.4%	-29.8%	-0.6%	0.9%	8.8%	8.9%
MSCI EAFE Small Cap	-9.8%	-32.1%	-32.1%	-2.2%	-1.8%	5.3%	5.4%
Excess	*-1.3%*	*2.7%*	*2.3%*	*1.6%*	*2.7%*	*3.5%*	*3.5%*

**Composite Returns*

Manager Summary

- Founded: 2008; Firm AUM: $5.1B; Product AUM: $3.5B; 100% owned by Global Alpha Capital Management Partnership
- The firm is headquartered in Quebec and only manages small cap equities.
- The investment team has an internationally diverse background with most of the analysts coming from countries outside of North America.
- This strategy has a core style, a quality bias, and does not allocate to emerging markets.

DALLAS POLICE & FIRE PENSION SYSTEM

GLOBAL ALPHA

RBC Emerging Markets Equity

Market Value (9/30/2022):	$73,470,192	Inception Date	Jan 2018
Investment Structure:	Commingled Fund	Style	Emerging Markets Core

As of 9/30/2022 (Net)	QTD	YTD	1 Yr	3 Yr	SI (1/2018)
RBC	-11.5%	-24.2%	-23.8%	-2.5%	-2.3%
MSCI EM IMI Net	-11.6%	-27.2%	-28.1%	-2.1%	-3.3%
Excess	0.0%	2.9%	4.3%	-0.4%	1.0%

Manager Summary

- Founded 1959; Firm AUM: $41.8B; Product AUM: $9.8B; Parent company is Royal Bank of Canada
- Concentrated portfolio focused on quality, ESG factors, and growth at a reasonable price (GARP).
- Typically provides downside protection in declining EM equity markets.
- Notable and consistent under-weight to China has been a considerable factor in relative performance the past few years. However, currently the underweight to China is the smallest it has ever been.
- Staff conducted analysis in mid-2021, concluding comfort in having as sole EM Equity manager.

DALLAS POLICE & FIRE PENSION SYSTEM

Global Asset Management

Historic Excess Return Correlation

Four Active Global Managers 3-year historic excess return correlation over longest common period (January 2010)

	Boston Partners	Invesco/OFI	Manulife	Walter Scott
Boston Partners	1.00			
Invesco/OFI	-0.23	1.00		
Manulife	0.26	-0.24	1.00	
Walter Scott	-0.33	0.07	0.24	1.00

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C13

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

Discussion: Counsel will brief the Board on these issues.

DISCUSSION SHEET

ITEM #C14

Topic: **Hardship Request**

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.078 of the Texas Government Code.

Discussion: Article 6243a-1 Section 6.14(e-3)(2) allows a lump-sum distribution from the DROP account in the event of a financial hardship that is not reasonably foreseeable. Section 6.14(e-4) required the Board to adopt rules related to hardship distributions. The Board's rules are contained in Section G of the DROP Policy.

A Retiree DROP Annuitant submitted an application for a lump sum distribution from his DROP balance in accordance with the DROP policy. The DROP Policy requires that:

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

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

DISCUSSION SHEET

ITEM #C14
(continued)

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

d. the hardship must relate to a circumstance authorized by the Board Policy or other similar extraordinary circumstances.

Staff Recommendation: To be **provided** at the meeting.

DISCUSSION SHEET

ITEM #D1

Topic: **Public Comment**

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

Regular Board Meeting – Thursday, November 10, 2022

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #D2

Topic: **Executive Director's report**

a. Associations' newsletters
- NCPERS Monitor (November 2022)
- NCPERS PERSist (Fall 2022)

b. Open Records

c. Disability Process

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

THE NCPERS

MONITOR

The Latest in Legislative News

November 2022

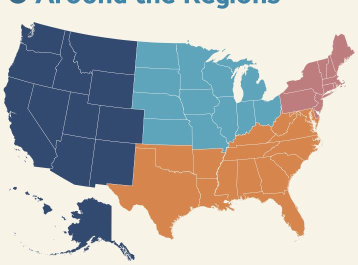
In This Issue

Photo Illustration © 2022, istock.com

Despite the mountain of evidence demonstrating that defined benefit pensions are a cost-effective tool to ensure retirement security and support employee retention rates, the media continues to paint a one-sided picture of long-term sustainability and value of pensions.

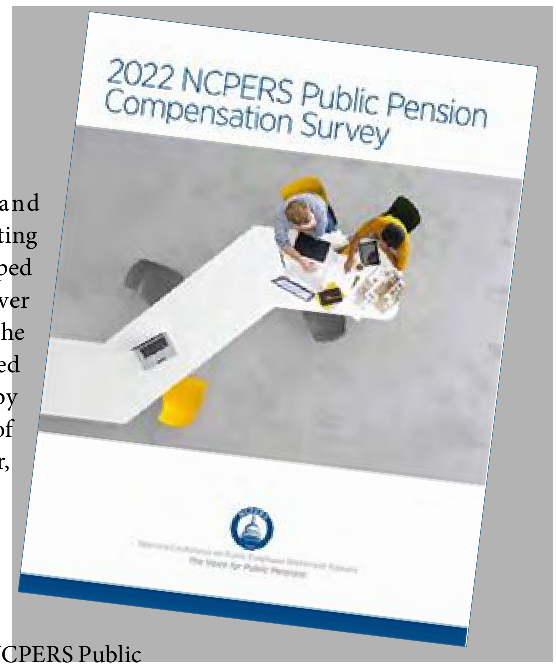
Photo Illustration © 2022, istock.com

The Congressional midterm elections of a first term president are typically negative for the party of the president, not always, but in recent history, yes.



This month, we will highlight New Jersey, Missouri, Florida, and Oregon.

2022 Public Pension Compensation Survey Now Available



The COVID-19 pandemic and historic levels of workers quitting their jobs have rapidly reshaped the American workplace over the last few years. At the same time, the makeup of the workforce has changed dramatically. Nearly 29 million baby boomers retired in 2020, an increase of more than 3 million from the year prior, according to Pew Research Center.

During this era known as "the Great Resignation," recruiting and retaining talent have been significant challenges across industries. In the most recent NCPERS Public Retirement Systems Study, 56 percent of reporting funds said they anticipate having a problem attracting and retaining skilled staff.

And—according to NCPERS newly released Public Pension Compensation Survey—that number has only continued to rise, with nearly 63 percent of respondents indicated that attracting and retaining skilled staff is a problem or is expected to become a problem soon.

The inaugural Public Pension Compensation Survey, conducted by Cobalt Community Research, was developed in response to the growing staffing challenges many public pension funds are experiencing. The report and corresponding interactive Tableau dashboard are intended to help funds benchmark their compensation and benefits packages against their peers.

The 2022 Public Pension Compensation Survey features in-depth data from 153 funds representing over 9 million active and retired individuals and almost 12,000 staff positions. The inaugural survey includes information on benefits provided to staff, union participation rates for senior executives, and detailed compensation data for executive staff, broken down by fund assets and employee tenure.

Last month, NCPERS hosted a webinar (available on demand) to explore the key findings from the survey and the current landscape for hiring in the public sector. William SaintAmour, Executive Director, Cobalt Community Research, discussed the survey methodology and shared insights from the report. The positions with the highest salaries are the chief investment officer (CIO) and the deputy CIO, while executive directors received the third highest salary overall, he noted. Many pension funds are also leaning into remote work as an employee benefit, with nearly sixty percent of survey respondents offering remote work and/or a flexible schedule.

Panelists agreed that flexibility is key to being able to attract and retain staff. “We're really pushing remote hybrid work arrangements within Oregon PERS. And we're seeing, particularly in the last few months, some very good quality candidates that are applying for our jobs because of that,” said Kevin Olineck, Director, Oregon Public Employees Retirement System.

Turning to recruitment strategies, Dan Cummings, EVP and Denver Managing Director, EFL Associates, noted that work in the public sector can be very fulfilling, and mission-driven work is very important for many professionals. He suggested that public pension systems showcase their entire compensation and benefits packages when hiring, thinking more in terms of ‘total rewards' such as professional development, flexibility, retirement benefits, or public service.

The 2022 Public Pension Compensation Survey can help public pensions evaluate their compensation and benefits packages to remain competitive with peers. With the interactive Tableau dashboard, funds are able to filter data in a number of ways to help optimize the mix of funds to which they would like to compare themselves. Filters include elements such as the type of participants served, size of fund by participant, number of systems administered, number of fund staff, number of fund investment staff, and how assets are managed.

NCPERS members can order a copy of the report and get access to the interactive dashboard by submitting this form to info@ncpers.org. Survey participants receive complimentary access to the report and dashboard. Please direct any questions or feedback about the survey to lizzy@ncpers.org. ◆

NCPERS Executive Director's Corner

Public Pension Communications: Advocacy During Ongoing Political, Market Turbulence

Photo illustration © 2022, istock.com

October was National Retirement Security Month, created to raise awareness about what Americans need to guarantee each worker a secure retirement. However, research continues to show that Americans are feeling less optimistic about their retirement.

Workers' retirement confidence has hit a five-year low, according to the Bank of America 2022 Workplace Benefits Report. Only 56 percent of employees are confident that they will be able to reach their retirement goals. As defined benefit pensions become increasingly rare in the private sector, it's clear there is a growing retirement crisis—and it will likely get worse.

Only 56 percent of employees are confident that they will be able to reach their retirement goals.

Despite the mountain of evidence demonstrating that defined benefit pensions are a cost-effective tool to ensure retirement security and support employee retention rates, the media continues to paint a one-sided picture of long-term sustainability and value of pensions. As the voice for public pensions, NCPERS is here to set the record straight.

In September, Bloomberg published an op-ed arguing that pensions are overrated and workers should fully transition to 401(k) accounts. NCPERS quickly responded with research-backed points illustrating that DB pensions are broadly supported by Americans across party lines and are in fact *more* cost-effective for employers and taxpayers than defined contribution plans.

As the Pennsylvania Public School Employees' Retirement System faced a barrage of attacks from *The Philadelphia Inquirer* this year, NCPERS published a letter to the editor in the newspaper calling them out for their 'fishing expedition' that destroyed careers and ultimately ended with no charges following an investigation by the Department of Justice.

And, as Forbes contributor Edward Siedle continued to show his bias against public pensions in a recent article claiming that 94 percent of America's state and local government pensions are gambling on cryptocurrencies, we responded again with the facts. After dissecting the data, only 8 out of the more than 5,000 US-based public pension plans were part of the figure Siedle referenced.

With continued market turbulence and the midterms right around the corner, it's no surprise that there has been an uptick in negative sentiment towards public pensions in the news. As Tony Roda notes in this issue of *The Monitor*, the attacks on the funding levels of public pensions are imminent, and it is more important than ever for public pensions to have concise and consistent messaging on plan sustainability.

In addition to responding to misinformation and bias in the media on behalf of its members, NCPERS provides resources for communications professionals in the public pension community. The newly formed Communications Roundtable held its first virtual meeting last month, bringing together nearly 30 communications professionals to discuss day-to-day challenges, get advice from peers, and share best practices for internal and external communications strategies.

On January 23-24, we'll be hosting the inaugural Pension Communications Summit in Washington, DC. The agenda will be set by fellow public pension communications professionals—members of NCPERS Communications Roundtable—and will feature peer-to-peer learning, networking opportunities, and hands-on training from industry experts. Learn more and register here.

Now is the time to ensure you have a strong external communications strategy prepared as we face continued political and market turbulence. If you have any questions about the Pension Communications Summit or the Communications Roundtable, please contact our Director of Communications, Lizzy Lees, at lizzy@ncpers.org.

Positioning for the 118th Congress

By Tony Roda

Photo illustration © 2022, istock.com

The Congressional midterm elections of a first term president are typically negative for the party of the president, not always, but in recent history, yes. In President Trump's midterm, the Republicans lost 40 House seats and its majority. In President Obama's first midterm, his party lost 62 House seats and its majority. However, given the crosscurrents in our political climate today and the always important factors of voter enthusiasm and turnout, Republicans have been tempering their predictions. One Member of the House GOP leadership recently said that he thought a 20-30 seat pickup would be a very good night. Republicans need only to pick up five seats in the upcoming midterm elections to take the majority in the House.

In the Senate, it's a jump ball. Today's 50-50 Senate split could well be replicated after the November 8 elections or it could be a one or two seat majority in either direction. As of this writing, there appears to be an equal number of seats currently held by Democrats and Republicans that are too close to call.

One of the more interesting parts of working with Congress is that every two years the voters cast ballots that decide the political complexion of the next Congress. We are forced to play the hand that the voters deal us. For purposes of the public pension community and its positioning for the 118th Congress, which will be sworn on January 3, we should plan that the voters will deal us a Republican majority in at least one chamber of Congress. This way, we will be prepared for all eventualities.

Part of this preparation will be developing the key messages that our community can use in the upcoming policy debates. For example, it will be critical for the plan community to have a concise and consistent message on plan sustainability. We know that attacks will be coming on the funding levels of state and local governmental defined benefit plans. A working group on messaging is being assembled by the key stakeholders in Washington, D.C. This group will seek the input of public plans throughout the country as it crafts the key talking points and collects supporting data.

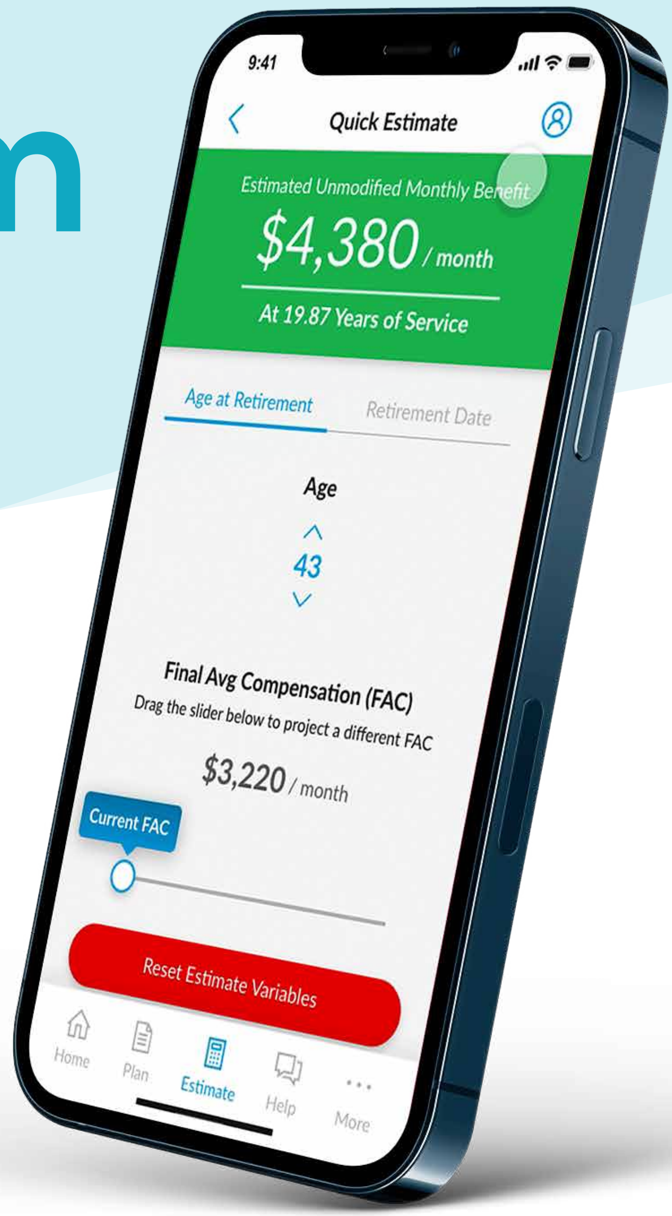
It is not a secret that over recent years public pension plans have faced more challenges in Republican-controlled Congresses. For more than a decade, Republicans introduced the Public Employee Pension Transparency Act (PEPTA), which would require for the first time that state and local governmental plan sponsors report their funded status to the federal Treasury Department. In 2017, a provision to specifically apply the Unrelated Business Income Tax (UBIT) to state and local governmental plans was approved by the House but did not become law. Other proposals, including those aimed at imposing funding requirements similar to those in place for private sector pension plans, have been discussed. Some of these proposals could be structured to offer federal assistance, provided the public pension plan took certain restrictive steps on funding, benefits, or discount rates. Also, the use of bankruptcy to allow states to get out from under their pension liabilities has been discussed in Congress and by think tanks. Finally, in the next Congress, we expect oversight hearings on states' use of federal assistance under the American Rescue Plan Act (ARPA), which will include an analysis on whether any of the funds were deposited into a state pension fund. Use of the federal monies for this purpose was specifically prohibited under ARPA.

Be aware, however, that the new Congress could bring opportunities as well. This is not just a half glass empty situation. We've had strong GOP support for removing the direct payment requirement under the Healthcare Enhancement for Local Public Safety (HELPS) Act, which is currently pending in the SECURE Act 2.0. I believe we could get traction on this issue again if the current Congress doesn't finalize the legislation. We will also be working to increase the current annual exclusion cap under HELPS from its current level of $3,000, and index that cap, as well as working to create a new tax credit for retired first responders for health care premiums, S. 4267, introduced by Sen. Michael Bennet (D-CO). This new legislation needs a Republican cosponsor in the Senate and a House companion bill. In addition, if the current Congress does not act on the Social Security Windfall Elimination Provision (WEP), we will be back at it again in the next Congress. Given the political climate and likelihood of a GOP-controlled House next year, it is important to note that the House legislation to repeal both WEP and the Government Pension Offset (GPO), H.R. 82, in this current Congress was introduced by a Republican, Rep. Rodney Davis of Illinois. While Rep. Davis will not be returning to Congress next year, this demonstrates that the WEP-GPO issues are bipartisan in nature.

The November 8 election will bring changes to Washington. Elections always do, and the public pension community will be prepared to take advantage of opportunities where they are presented and play tough defense where needed. As always, NCPERS will keep you informed of significant developments as they occur. ◆

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

NCPERS PensionX Digital Platform



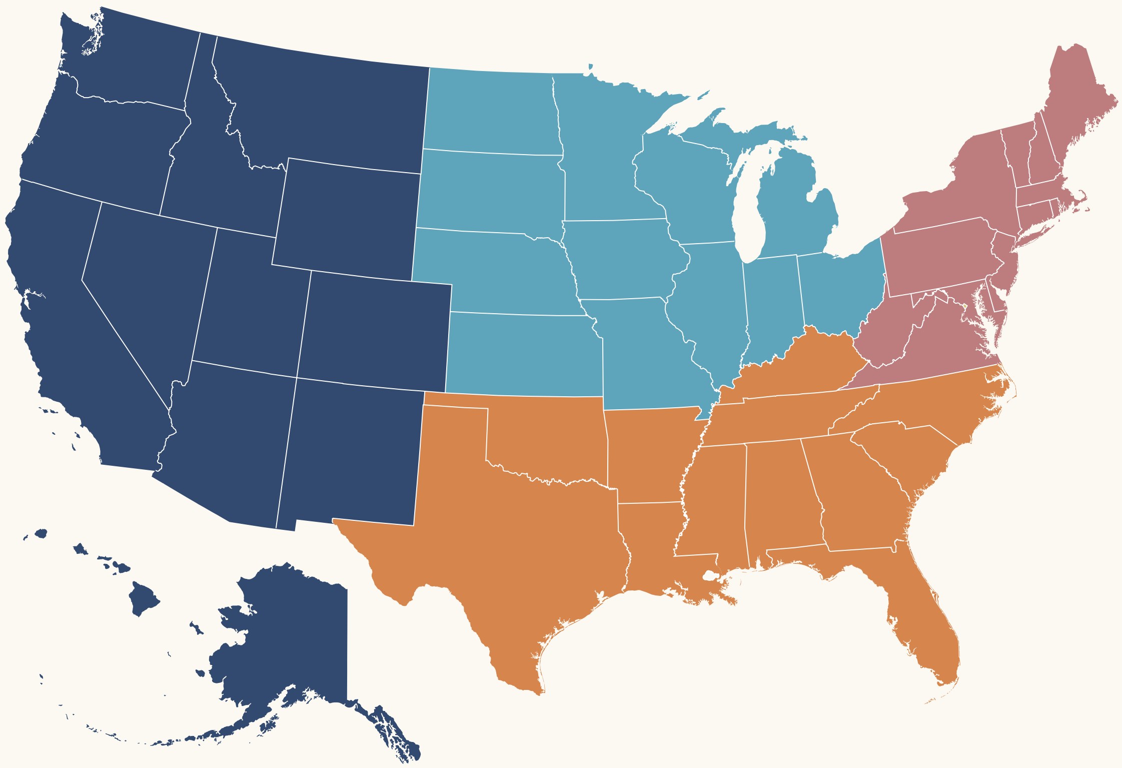
NCPERS has partnered with Digital Deployment to offer its members a **10% DISCOUNT** on PensionX, the premier digital platform that securely enables pensions to engage with active and retired participants via a mobile self-service app and portal.

NCPERS 1941 | pensionX

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

NCPERS Around the Regions

This month, we will highlight New Jersey, Missouri, Florida, and Oregon.



NORTHEAST: New Jersey

New Jersey's Assembly on October 3 unanimously approved a bill, A4641, that would make it easier to strip former government workers of their pension benefits if they are convicted of a crime.

Companion legislation was introduced in the state Senate on October 13. At press time, it was pending before the Senate's State Government, Wagering, Tourism & Historic Preservation Committee.

The measures would require pension forfeiture upon conviction of certain crimes, alter the factors determining honorable service, and open pension to garnishment upon conviction of select offenses.

If enacted into law, the legislation would expand the list of offenses that automatically disqualify public employees from receiving those benefits. Currently, New Jersey law stipulates 23 offenses that automatically cost public employees their pensions. The legislation would expand the list to encompass any job-related conviction for first- and second-degree crimes, a broad class of offenses that generally carry prison time, NJ.com reported. The effect would be to take more pension decisions out of the hands of the state's retirement boards.

The legislation was developed in response to a news investigation that found nearly 100 former state, county and local employees were receiving monthly retirement checks after being convicted of crimes. Governor Phil Murphy, a Democrat, has said that he is open to tightening the state's pension rules based on the news reports.

Tom Bruno, who heads the board of the Public Employees' Retirement System, was quoted by NJ.com as saying he would support expanding the list of disqualifying crimes, although he emphasized he had not reviewed the specific proposal.

"I think it is completely fair to do that, as long as everyone knows this is what it is," Bruno told NJ.com.

NCPERS Around the Regions

MIDWEST: Missouri

Ratcheting up anti-ESG rhetoric, State Treasurer Scott Fitzpatrick announced October 18 that Missouri State Employees' Retirement System (MOSERS) has pulled a $500 million investment portfolio from BlackRock Inc.

The move came after the MOSERS board of trustees in June directed staff to abstain from voting the plan's proxies, which it said BlackRock refused to do. "As a result, MOSERS proceeded with, and has now completed, the sale of all of its equity holdings with BlackRock," Fitzpatrick said in a news release.

Fitzpatrick said that BlackRock had elevated environmental, social and governance investment considerations above fiduciary duty, and attacked the company for pursuing a "left wing social and political agenda."

"This is the right thing to do for Missouri state employees who rely on the assets managed by MOSERS for their retirement," Fitzpatrick said. "We should not allow asset managers such as BlackRock, who have demonstrated that they will prioritize advancing a woke political agenda above the financial interests of their customers, to continue speaking on behalf of the state of Missouri."

BlackRock spokesman Ed Sweeney told Bloomberg News that the firm offers choices to clients on how to invest and that the company has attracted $248 billion in net new long-term assets this year.

"While the actions of some elected officials have attracted media headlines, they do not reflect the totality of our clients' investment decisions," Sweeney said in an emailed statement responding to Missouri's move.

While a number of states are actively pursuing investment policies that emphasize ESG considerations, there has been backlash as well.

SOUTH: Florida

Two North Miami Beach pension plans have filed a lawsuit seeking federal securities class action status against the multinational bank Barclays Plc on grounds that it harmed them by overselling $17.6 billion in unregistered securities. The case is seeking damages for holders of Barclays American depositary receipts from Feb. 18, 2021 to March 25, 2022.

The complaint alleges that the North Miami Beach Police Officers' and Firefighters' Retirement Plan and the North Miami Beach General Employees' Retirement Plan suffered "significant losses and damages" due to Barclays' error. Barclays disclosed in March that it had exceeded issuances permitted under a shelf registration, and in July disclosed additional details about the financial fallout.

The North Miami Beach retirement plans described the alleged harm in a 43-page complaint against Barclays filed September 23 in the U.S. District Court for the Southern District of New York. Prices of Barclay's American depositary receipts (ADRs) dropped and its costs mounted due to the errors. (ADRs are stocks that trade on U.S. exchanges but represent shares in a foreign corporation. They are intended to make it easier for U.S. investors to invest internationally.)

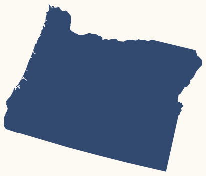
The court has set a November 22 deadline for receiving motions to serve as lead plaintiffs in the class, and ordered that the appointment should be made by December 7. A status conference has been scheduled for December 15.

In petitioning for class action status, the retirement plans alleged that Barclays made "materially false and misleading" assurances in its annual reports that its internal controls over financial reporting were effective. It also said the bank overstated profit, and understated operating and "litigation and conduct" expenses, by failing to disclose the overissuance in its 2021 earnings releases.

"The failure to have controls in place to account for the number of securities issued against the number of securities registered is such an elementary failure of internal control that is so obvious as to be deliberately reckless," the complaint said.

Barclays offered to buy back the excess securities, and on July 28 it announced it had reserved $1.73 billion related to the overissuance.

WEST: Oregon



State and local governments across the state will contribute more to Oregon's public pension fund in the next two years, but healthy 2021 investment earnings held the increases in check.

The new rates adopted September 30 by the board of the Oregon Public Employees Retirement System (PERS) cover the next two-year budget cycle, which runs from July 1, 2023, to June 30, 2025. The average collared base employer contribution rates will rise by 1.07% of pay on July 1, while average collared net employer contribution rates will increase 0.68% of pay. "Collared" means that that increases or decreases are limited during any two-year cycle.

Milliman, the actuary for PERS, said a decrease in the investment return assumption to 6.9% increased normal cost rates. The fund assumed a 7.2% return in the previous two-year cycle; the assumption has been trending down steadily from 8% in the 2013-2015 cycle.

The new employer contribution rates would have been higher had it not been for strong investment returns, exceeding 20% in 2021, Milliman noted in its presentation to the board. An updated rate collaring policy adopted mid-2021 resulted in no decrease in average collared base rates related to unfunded actuarial liability. Larger 2023-2025 side account offsets from strong 2021 returns lessened the net contribution rate increase.

PERS is now funded at 80%, but the figure rises to 86% if side accounts by some member governments are included. Two years previously, PERS was at 72% without side accounts and 79% with side accounts. Not all employers have side accounts, which are funds set aside to cover part of a government employer's pension liability, the Portland Tribune noted.

The board changed its policy in 2021 to prioritize increasing the funded status of the system to 90%. ◆

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Calendar of Events 2023

January

Legislative Conference

January 22–24
Renaissance Washington, DC
Washington, DC

Pension Communications Summit

January 23–24
Renaissance Washington, DC
Washington, DC

May

NCPERS Accredited Fiduciary (NAF) Program

May 20–21
New Orleans, LA

Trustee Educational Seminar (TEDS)

May 20–21
New Orleans, LA

Annual Conference & Exhibition (ACE)

May 21–24
New Orleans, LA

June

Chief Officers Summit

June 26–28
Chicago, IL

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

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PERSist

The Voice for Public Pensions

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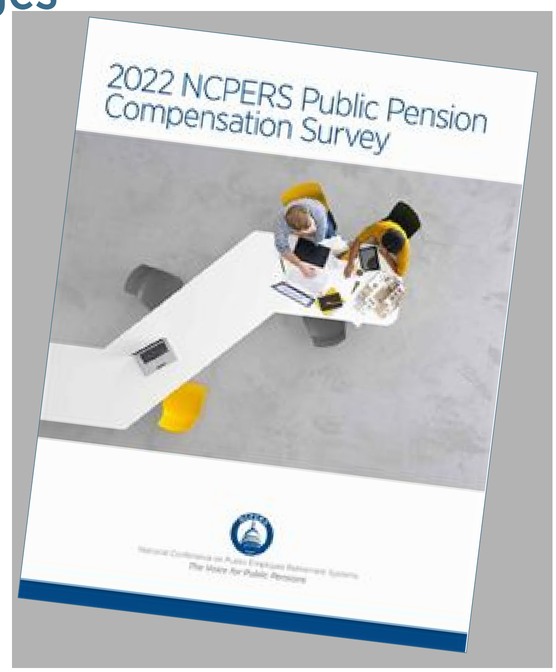
NCPERS Message

Public Pension Staffing: A New Tool to Benchmark Compensation and Benefits Packages



The COVID-19 pandemic and historic levels of workers quitting their jobs have rapidly reshaped the American workplace over the last few years. At the same time, the makeup of the workforce has changed dramatically. Nearly 29 million Baby Boomers retired in 2020, an increase of more than 3 million from the year prior, according to Pew Research Center.

During this era known as "the Great Resignation," recruiting and retaining talent has been a significant challenge across industries. In the most recent NCPERS Public Retirement Systems Study, 56 percent of reporting funds said they anticipate having a problem attracting and retaining skilled staff.

So, in early 2022, NCPERS met with a small group of member funds to explore a compensation study. The goal was to compare the compensation and benefits offered to senior employees to help ensure these key positions were filled with skilled and qualified staff.

Working with the non-profit research firm Cobalt Community Research, NCPERS developed the inaugural Public Pension Compensation Survey, which will be published this month. The report features data from 153 funds representing over 9 million active and retired individuals and almost 12,000 staff positions.

NCPERS will host a webinar on October 19 to present key findings from the Survey and discuss employee recruitment and retention trends in the public pension industry. Register here.

The Public Pension Compensation Survey is intended to help funds benchmark against their peers as they evaluate their compensation and benefits packages going forward. The data is available in an online interactive dashboard, where you can filter data in a number of ways to help optimize the mix of funds to which you would like to compare your organization. Survey participants should have already received information about how to access the dashboard and report.

Learn more about the survey and find out how to order a copy of the report here. If you have any questions, please email lizzy@ncpers.org. ◆

In This Issue

Liability Aware Investing (LAI) for Public Pension Plans

By: Michael Buchenholz, CFA, FSA and Jason Malinowski, CFA

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In 1959, Harvey Haddix pitched 12 perfect innings for the Pittsburgh Pirates. Despite what some consider to be the best pitching performance in baseball history, the Pirates actually ended up losing the game 1-0. In a similar respect, public pensions that focus solely on investment performance are only watching one-half of each inning. In order to truly gauge a winning performance, one must look up and occasionally check the scoreboard to see how the liabilities are performing. We believe public pension liabilities can, and deserve to, play a more central role in portfolio construction and holistic performance measurement.

Pension assets and liabilities are inextricably linked through the expected return on assets (EROA) discounting mechanism. Realized investment returns drive plan assets, but also plan liabilities as a consequence of their impact on asset valuations and thus forward-looking expected returns. For example, a 70 public equity / 30 fixed income portfolio would have lost roughly 10.5% for the fiscal year ending June 30th, 2022 due, in part, to rising interest rates and falling equity valuations. If we only mark down the assets while ignoring the positive revaluation impact of more favorable return expectations on liabilities, we may be perceiving a distorted view of plan health.

We define **Liability Aware Investing (LAI)** as a broad framework that explicitly recognizes the linkage between assets and liabilities and **funded status volatility** as a holistic measure of total plan risk that quantifies the co-movement or tracking error of plan assets and liabilities. Importantly, LAI is NOT corporate pension

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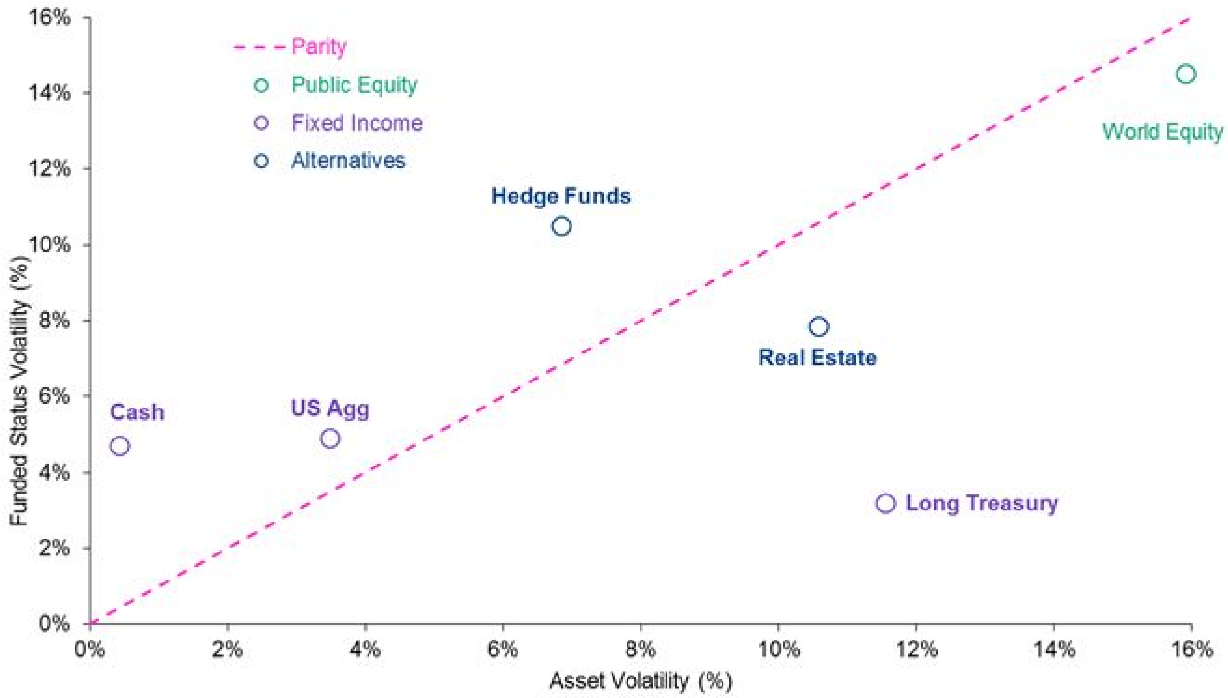
__Michael Buchenholz, CFA, FSA__, managing director, is Head of U.S. Pension Strategy in the Institutional Solutions Strategy & Analytics team at J.P. Morgan, helping pension funds design and implement asset allocations that achieve their specific objectives. Michael holds a B.S.B.A. in mathematics and finance from Washington University and an M.B.A. in finance and economics from Columbia University. He is a Fellow of the Society of Actuaries (FSA), a Chartered Enterprise Risk Analyst (CERA), and a CFA charterholder.

FIGURE 1: Asset Volatility vs. Funded Status Volatility



Liability Aware Investing can augment and enhance the set of performance and risk metrics a plan evaluates.

liability-driven investing (LDI) applied to public plans. Rather, LDI can be conceptually understood as narrow application of the broader LAI framework where the liability reference is prescribed as a portfolio of high-quality bonds instead of based on the expected return of the actual portfolio held.

Traditionally, plans focus on asset volatility as the main barometer of portfolio risk. However, by ignoring the correlation between assets and liabilities, risk may in fact be overstated. Likewise, when shifting from a traditional asset-only framework to an LAI framework, the relative attractiveness of asset classes is repositioned. For example, Public Equity, whose expected return tends to rise in response to market drawdowns, becomes more attractive while others like Cash appear less attractive. Through LAI we are also led to the sensible conclusion that long-dated assets are a good match for long-dated pension liabilities. While these findings are notable, the utilization of LAI in portfolio construction leads only to moderate asset allocation changes without reshaping the typical public portfolio into something unrecognizable.

Rather than replace current practice, LAI can augment and enhance the set of performance and risk metrics a plan evaluates. In this way, it can be a useful tool for communicating with investment committees and other plan stakeholders. It can also be leveraged as a tool in portfolio construction. By expanding the set of available analytics, we can discern portfolios which are ostensibly similar through an asset-only lens but deviate under an LAI lens. LAI also gives credence to rebalancing while confronting market volatility. Not only are you "buying low" and "selling high," but also curbing liability values.

In short, the LAI framework offers an additional tool to measure risk and keep score. If plan sponsors want to maximize their chances of beating their liabilities, they must follow the whole game.

To learn more about liability aware investing for public pension plans, read the full white paper. ◆

The Importance of Private Enforcement of Federal Securities Laws: Institutional Investors Continue to Outpace SEC

By: Javier Bleichmar, Nancy Kulesa, and Erin Woods
Bleichmar Fonti & Auld LLP

Photo Illustration © 2022 shutterstock.com

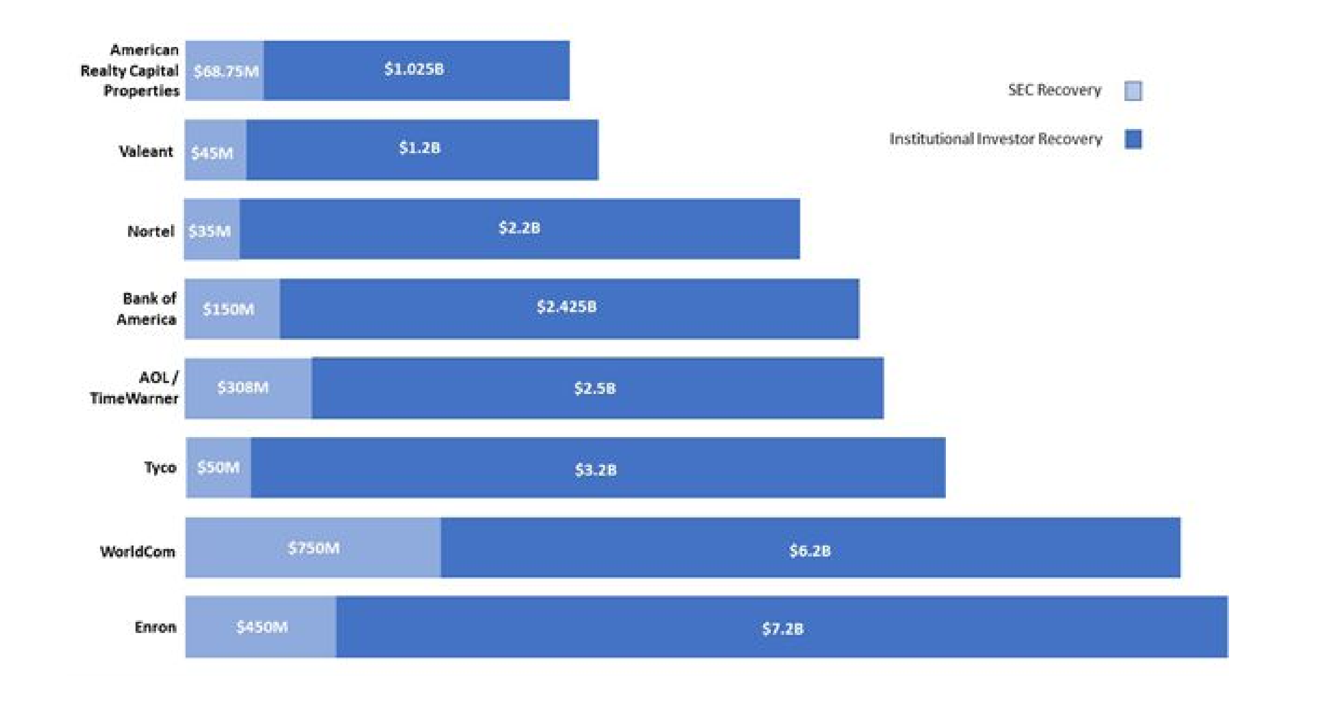
Pension trustees have the fiduciary responsibility to act in the best interests of plan participants. One of the most important responsibilities is to oversee fund investments. Trustees often seek to fulfill this oversight role, in part, by establishing procedures to monitor and participate in securities class action lawsuits that impact the fund's portfolio. By participating in these matters, a pension plan can recover funds lost as the result of misconduct and can enhance the value of plan assets.

Since the passage of the PSLRA, institutional investors have achieved tens of billions of dollars in recoveries.

The SEC serves as an important line of defense for investors against corporate malfeasance. However, since Congress enacted the Private Securities Litigation Reform Act of 1995 ("PSLRA"), expressing its clear preference that institutional investors lead shareholder actions, public pension plans have repeatedly demonstrated that they play an indispensable role protecting investors and recovering for corporate misconduct. Since the passage of the PSLRA, institutional investors have achieved tens of billions of dollars in recoveries. In many instances, the recoveries outpace those achieved by the SEC in related matters. The chart below shows the disparity.

This trend of outperformance has continued and suggests that institutional investors' participation in securities litigation is as important as ever. Take for example, the recent securities class action The Police Retirement System of St. Louis v. Granite Construction Incorporated, 19-cv-4744 (N.D. Cal.). In March 2022, a federal district court approved a $129 million resolution in the case, which concerned allegations of accounting fraud perpetrated by Granite and several of its senior executives.

FIGURE 1: Investor vs. SEC Recoveries



Consistent with the historical trend, on August 25, 2022, the SEC announced that it resolved similar claims of financial reporting fraud against Granite and several former executives for approximately 90 percent less than what investors achieved. Specifically, Granite agreed to pay $12 million to resolve the SEC's claims and the company's former CEO and two former CFOs agreed to return a total of roughly $1.9 million in bonuses and compensation to Granite. While the SEC is continuing to pursue claims against another former Granite executive, the results the SEC has achieved to-date suggests that the agency will not reach the level of renumeration achieved in the class action.

The disparity in the results achieved shows that it is not in pension plans' best interests to rely solely on public enforcement. Indeed, the SEC has different goals when instituting an action as compared to private investors. In private securities litigation, the goal of a plaintiff is generally to achieve the largest possible monetary recovery. The SEC has a broader mission which, in addition to protecting investors, includes maintaining fair, orderly and efficient markets and facilitating capital formation. Significantly, the SEC states that "[w]hile in some cases, ill-gotten gains disgorged by defendants are returned to defrauded investors," that is not always the case as it is with successful securities class actions.

The resolution of the Granite matters demonstrates that it remains essential for public pension funds to continue to monitor and participate in securities litigation matters, when warranted, so that plan assets can be maximized. ◆

Disclosure Statement

The views set forth herein are the personal views of the authors and do not necessarily reflect the views of Bleichmar Fonti & Auld LLP. This publication should not be construed as legal advice on any specific facts or circumstances. The contents are intended for general information purposes only and may not be quoted or referred to in any publication or proceeding without the prior written consent of the Firm. The mailing of this publication is not intended to create, and receipt of it does not constitute, an attorney-client relationship.

Javier Bleichmar, Nancy Kulesa, and Erin Woods *are Partners of Bleichmar Fonti & Auld LLP focusing on securities class action litigation and settlement claim form filing on behalf of institutional investors. Each of their biographies are available at www.bfalaw.com.*

NCPERS Asset Manager

Is Shipping Cost Inflation About to Peak?

By: Yan Krasov, CFA, Partner, William Blair Investment Management

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Trucking is the largest input into shipping costs across the U.S. economy and accounts for an estimated 80% of total freight spending, according to the American Trucking Association.

For goods that need to be shipped immediately by truck, the spot trucking rate serves as the prevailing price that shippers and trucking providers agreed upon.

According to DAT Freight and Analytics, trucking spot rates increased by more than 100% from their trough in May 2020 to their recent peak in January 2022 (both including and excluding the cost of fuel). In the first quarter of 2022, trucking spot rates were tracking up as much as 20% to 30% year-over-year, but they have been falling sharply since then.

Demand for trucking is more volatile than the overall economy due to the "bullwhip effect" of inventory movement.

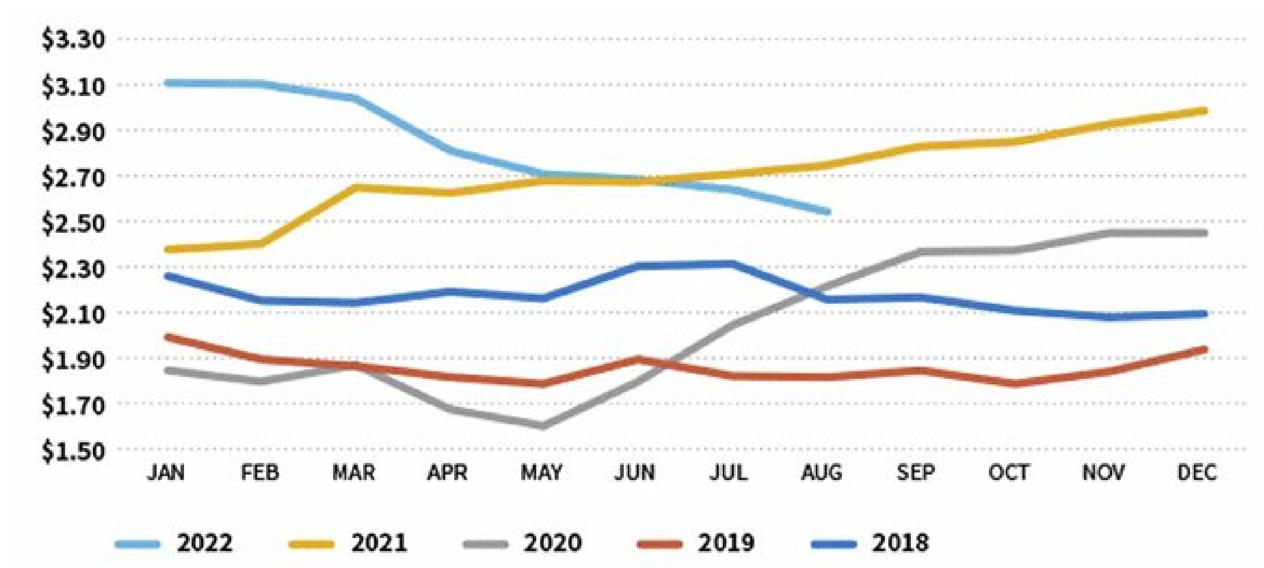
We expect spot rates to continue to trend lower year-over-year. All in, we believe trucking spot rates could fall 25% to 35% from their peak in early 2022 to their trough, potentially by the end of 2023.

What's Going On?

Unlike in normal boom-and-bust trucking cycles, the initial downtick in trucking spot rates in 2022 appears to have been mostly demand-driven. Normally, there is an influx of trucking supply that is chasing higher rates, within 6 to 12 months of the initial rate increases. However, this time, based on recent publication of new truck sales and orders from ACT Research, it appears that trucking supply had been growing at much more modest rates than in prior cycles, until recent months, when new truck sales began to accelerate.

To understand these supply-demand dynamics, recall that over the past two years we saw a surge in freight-cost inflation driven by a number of factors. An overall increase in consumer income from stimulus checks, coupled with a strong recovery in employment, drove consumer goods demand to record highs. During the pandemic much of that spending shifted away from services, like travel, concert attendance, and restaurant dining, and toward goods, like furniture, electronics, and home improvement products. As a result, retailers rushed to restock their shelves to meet the unexpected surge in demand, starting in the summer of 2020. However, the additional trucking supply needed to transport

FIGURE 1: Monthly Truck Spot Rates Ex-Fuel



Source: DAT.com, as of September 2022.

these goods was not available, as production of heavy-duty trucks was constrained by a shortage of parts, including semiconductors (as we saw in the automotive industry as well). This combination led to a significant increase in spot rates over the past two years.

According to ACT Research, recent months have shown an uptick in new truck sales above normal replacement levels, yet the order backlogs for original equipment manufacturers remain stretched, indicating further potential supply that could be added to the market, which may help relieve cost pressures. In addition, if consumer spending were to "normalize" to the pre-COVID mix of consumption between goods and services, an incremental 10% to 20% of freight demand could be removed from the system. This would further help alleviate the recent freight cost pressure for shippers, especially if the supply of new trucks continues to grow.

Investment Implications

Demand for trucking is more volatile than the overall economy due to the "bullwhip effect" of inventory movement. Therefore, not every downturn in freight demand necessarily leads to a broader economic recession. However, it does typically coincide with at least decelerating gross domestic product (GDP) growth, as inventories transition from being additive to GDP to being neutral or detracting, as seen in data from the first and second quarters of 2022.

Moreover, in our opinion, the fall in spot rates should meaningfully curtail the pricing power of transportation providers in the second half of 2022 and 2023, and that could benefit shippers by reducing their costs. For companies with stable revenue streams unaffected by swings in consumer and industrial demand, margin relief from falling transportation costs should begin in the second half of 2022 and carry into 2023.

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

__Yan Krasov, CFA__, partner, is a research analyst at William Blair Investment Management. He focuses on U.S. large-cap industrials and healthcare companies. Before joining William Blair in September 2006, Yan spent four years at JPMorgan Securities in Chicago, where he began his career in the firm's institutional equity sales and private client services groups. He is a member of the CFA Institute and the CFA Society Chicago. In addition, he holds the SASB Fundamentals of Sustainability Accounting (FSA) credential. Yan received a B.S. in speech and economics from Northwestern University and an M.B.A. from the University of Chicago's Booth School of Business.

NCPERS Legal

Recent Trends in Securities Litigation

By: Jonathon Saidel and Jack Stalzer, Rosen Law Firm

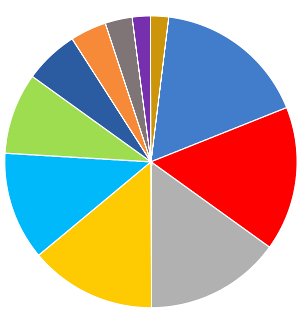
Photo illustration © 2022 shutterstock.com

Securities litigation, a paramount means through which pension funds and other investors can reclaim investment losses stemming from corporate misconduct, remains an active and thriving subset of litigation in the aftermath of the COVID-19 pandemic. In addition to an increase in the number of securities class action filings, maximum dollar loss and disclosure dollar loss, two measures of the damages incurred by plaintiffs in securities class action lawsuits, have grown to all-time highs. In fact, the maximum dollar loss index rose 150% in the first half of 2022, making it more than triple the 1997-2021 semiannual average. This indicates that investors are attempting to recover more of their losses through securities class action lawsuits than at any other time. Pension funds find themselves at the forefront of this legal arena as they increasingly act as lead plaintiff in such cases.

Historically, securities class action filings rise when markets decline because during these times, investors focus on identifying valid explanations for the fall in asset values, one of which is corporate misconduct. This makes the recent rise in securities class action suits particularly interesting, as it has taken place while financial markets boomed during 2020-21.

The growing popularity of price-volatile crypto currencies and initial coin offerings (ICOs) that often fail to disclose their associated risks, along with the rise of Special Purpose Acquisitions companies (SPACs), a quick way of going public or conducting a merger with minimal due diligence and transparency requirements, have created ample opportunities for litigation. Furthermore, the industry that has composed the largest share of securities filings since 1996, the biopharma and healthcare industry (see Figure 1), is home to another leading type of securities cases: COVID-19 filings, which deal with companies that created products to fill a demand generated by the virus. Half of the COVID-19 filings in the

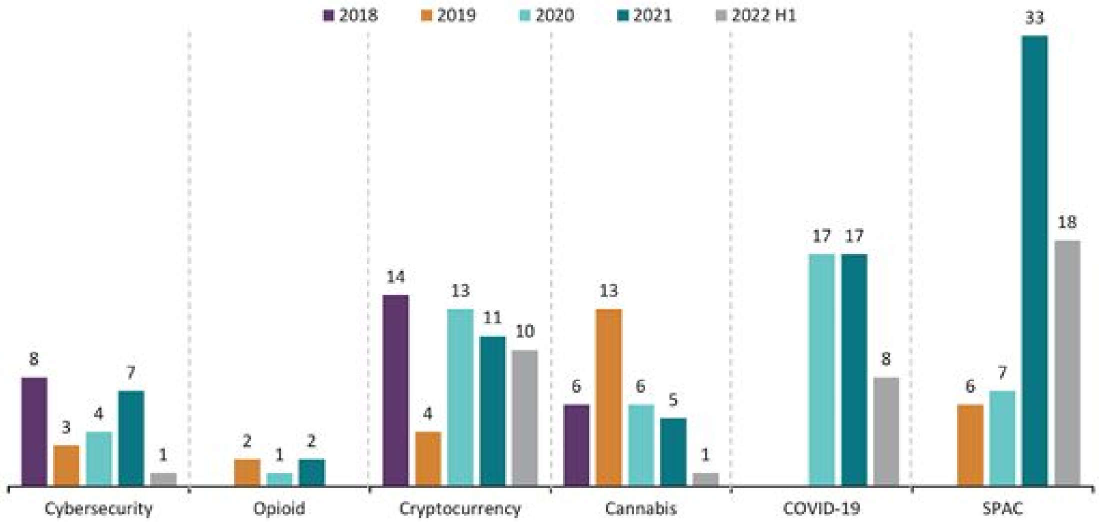
FIGURE 1: Securities Filings by Industry (1996-2022)



Biopharma/Healthcare	17%	Computer Hardware	6%
Misc. Financial Services	16%	Energy	4%
Consumer Cyclical	15%	Business Services	3%
Software/Programming	14%	Basic Materials	2%
Industrial	12%	Utilities	2%
Communications	9%		

From *Heat Maps & Related Filings* by Cornerstone Research and Stanford Law School Securities Class Action Clearinghouse, 2022, https://securities.stanford.edu/industry.html.

FIGURE 2: Trend Cases in Securities Class Action Lawsuits since 2018



From *Securities Class Action Filings 2022 Midyear Assessment* by Cornerstone Research and Stanford Law School Securities Class Action Clearinghouse, 2022, https://securities.stanford.edu/research-reports/1996-2022/Securities-Class-Action-Filings-2022-Midyear-Assessment.pdf.

first half of 2022 (four) were within the healthcare and biopharma industry. COVID-19-related cases continue to be filed at elevated levels in 2022.

Both SPACs and cryptocurrency cases compose larger shares of securities fraud class action cases in the first half of 2022 than they did in the past, with 18 and 10 filings, respectively. Therefore, these types of cases will likely exceed last year's totals, with technology-related SPAC filings already surpassing the 2021 total. This trend will likely persist, thereby providing numerous opportunities for securities class actions, regardless of the performance of financial markets.

Beyond the above case-types fueling securities litigation growth, dropping asset prices and the onset of a bear market also increase litigation, as investors experience losses more frequently, some of which can be recovered in instances of corporate wrongdoing in a class action. Therefore, securities litigation is growing (by dollars lost) and provides investors such as pension funds recourse to recover losses. This opportunity is especially important for underfunded plans. ◆

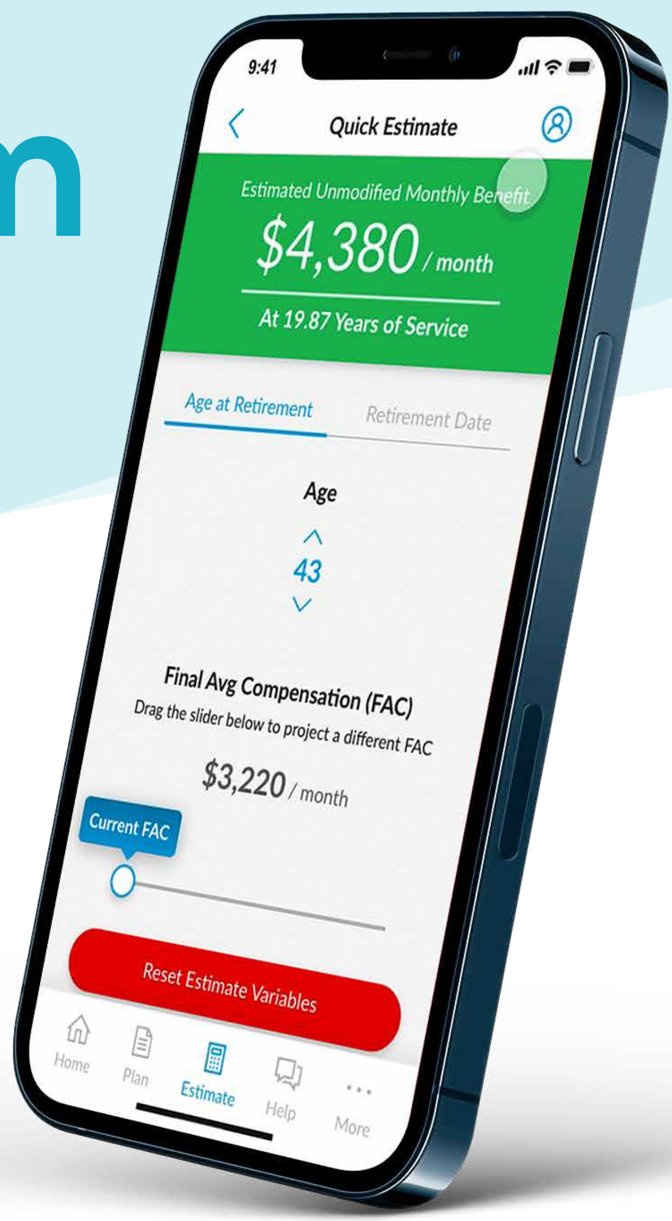
Reference:

Cornerstone Research and Stanford Law School Securities Class Action Clearinghouse, 2022, Securities Class Action Filings 2022 Midyear Assessment, https://securities.stanford.edu/research-reports/1996-2022/Securities-Class-Action-Filings-2022-Midyear-Assessment.pdf.

Jonathon (Jon) Saidel *has a long and distinguished career in Pennsylvania politics and in the roles of attorney, accountant and author. He served as Philadelphia city controller for four terms, each time earning reelection by a wide margin, and enacting financial reforms that have saved taxpayers upwards of $500 million. Later, in 2010, he went on to campaign for lieutenant governor of Pennsylvania, where he was runner-up to Scott Conklin. A lifelong resident of Northeast Philadelphia, Jon's tireless dedication to fiscal discipline reduced the city's tax burden and spurred economic development. Today, Jon is a partner at the Rosen Law Firm.*

Jack Stalzer *works as an associate at the Rosen Law Firm's Institutional Investor Relations division, providing individualized portfolio monitoring services to public and union pension funds, Taft Hartley, mutual funds, hedge funds, endowments, and family offices that identifies potential recoverable losses for our institutional clients' portfolios due to corporate fraud and misconduct.*

NCPERS PensionX Digital Platform



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

NCPERS 1941 | pensionX

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

Monitoring Global Class Actions as Part of ESG Policies

By: Noah Wortman, Pogust Goodhead

Photo illustration © 2022 shutterstock.com

The past few years have shown that the current social justice zeitgeist has increased market and shareholder attention to company ESG policies. Indeed, global class actions, ESG and investor stewardship principles have been developing on parallel tracks, but in the months and years to come, they are likely to intersect with increasing frequency. Empowered by evolving collective redress regimes, classes of claimants may bring a wide range of new cases against defendants who have acted unlawfully in matters related to environmental, social and corporate governance issues. That is why it is important for institutional investors, such as pension funds, to have policy and procedure in place to make sure that they are monitoring and managing global securities litigation and possible avenues of legal redress options across the world.

A growing number of lawsuits on the basis of ESG statements in securities filings, including bond offering documents, have been filed against corporations and governments. A stakeholder's right to pursue civil remedies varies depending on jurisdiction, but the scope of information that can form the basis of a lawsuit is expanding with greater inclusion of ESG.

ESG disclosures have historically been governed mostly by voluntary frameworks. But the voluntary nature of ESG reporting is on the wane, as evidenced for example, by the requirement (since March 2021) for banks, private equity firms, pension funds, hedge funds and other asset managers to comply with sweeping new European rules set forth in Regulation 2019/2088 on Sustainability-related Disclosures in the Financial Services Sector (EU Sustainable Finance Disclosure Regulation (SFDR)).

As ESG standards and disclosure become not just best practice, but mandated by various cross-cutting regulations, the opportunity for claims based on alleged negligent misstatement, misrepresentation or omissions in these disclosures has opened. Such claims have built on an existing body of case law establishing the clear liability of businesses for providing misleading information about their business practices.

> *A growing number of lawsuits on the basis of ESG statements in securities filings, including bond offering documents, have been filed against corporations and governments.*

As countries increasingly mandate disclosures through legislation such as the SFDR, the Modern Slavery Act 2015 (UK), Transparency in Supply Chains Act 2010 (California), and the Duty of Vigilance Act (France), the publicly available information about companies' ESG practices is likely to only increase.

Investor stewardship principles and practices are being adopted in many markets around the world, as the development of stewardship codes for investors complements the similar development of codes of corporate governance that have been established for companies. Indeed, the International Corporate Governance Network ("ICGN") defines stewardship as: "the responsible management of something entrusted to one's care. This suggests a fiduciary duty of care on the part of those agents entrusted with management responsibility to act on behalf of the end beneficiaries."

The growing importance of social factors within corporate sustainability frameworks may continue to create new areas where investors or consumers identify gaps between disclosures and practices. ◆

As Director – Global Collective Redress at Pogust Goodhead, Noah brings his extensive experience in assessing and analyzing corporate misconduct in the financial markets, as well as his commitment to finding global litigation and shareholder engagement solutions to investors across the world. He has extensive experience advocating for global investors, promoting corporate governance and investor stewardship, and implementing strategies to achieve collective redress.

Noah splits his time between Philadelphia and London with a global remit where he strives to provide access to justice for global institutional investors and others via engagement and litigation strategies in global shareholder litigation.

NCPERS Actuary

The Impact of Inflation on Public Pensions

By: Matthew Strom, FSA, MAAA, EA, Segal

Photo illustration © 2022 shutterstock.com

As consultants and advisors to public pension plans, we often receive this fair and intriguing question from stakeholders: "What impact will high inflation have on public pensions?" In this article we provide the most common considerations.

Cost-of-Living Adjustments (COLA)

Some plan designs tie increases to annuities in payment status to changes in the consumer price index (CPI). While many of these designs include "caps" or are based on a portion of CPI changes, the current level of inflation will likely generate additional unfunded liabilities for these plans. This could translate to a higher required contribution or delay the number of years until full funding. While a sizeable number of plans (47% of those providing increases, according to the June 2022 NASRA Issue Brief) provide automatic COLAs linked to inflation, many plans do not provide automatic increases or offer a fixed increase that is not tied to inflation. Most plans will see a decrease in purchasing power for their current retirees.

Salaries

Conventional economic theory states that a portion of an employee's annual salary increase is tied to current inflation. However, with CPI up over 9% for the year that ended in June, it is unclear how much of that will flow through to employees via wage increases, and how quickly. Larger-than-expected increases in salaries could result in increased unfunded liabilities and higher levels of "normal cost" funding. However, as many public systems receive contributions tied to payroll, if higher-than-expected contributions exceed the Actuarial Determined Contribution in expected dollars, that would partially mitigate the increase in unfunded liability.

While a sizeable number of plans provide automatic COLAs linked to inflation, many plans do not provide automatic increases or offer a fixed increase that is not tied to inflation.

Investment Return

Considering that nominal returns on investments can be thought of as real returns in excess of inflation, pension funds' total portfolio returns may be expected to increase in periods of high inflation. However, real returns on equities and fixed income are more nuanced and are subject to volatility from several economic factors. High inflation can be correlated with lower equity returns and can also erode the value of bonds that are not indexed to inflation. Other investments, such as commodities, may increase in value during periods of high inflation.

Demographics

Periods of high inflation may also have demographic effects. If active membership decreases due to layoffs, costs could be lower in the long run, but be inflated in the short run as a percentage of payroll (or result in a decreased contribution base), particularly for legacy unfunded liability. Delayed retirement dates caused by higher prices of consumer goods and healthcare could result in shorter periods of retirement and a decrease in unfunded liability, partially offset by potentially increased monthly benefits.

The Bottom Line

Except for some COLA designs and potential investment impacts, periods of high inflation generally do not have a direct, immediate impact on public pensions. Typically, the effect is delayed and is based on other factors related to inflation; and may not have as great an impact on plan costs as the prices of goods and services.

To understand the potential impact, plan sponsors and their actuaries could thoughtfully model projection scenarios where these factors are considered. However, the true impact will only be determined in hindsight as actual experience emerges over time. ◆

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NCPERS Asset Manager

ESG From the Practitioner Point of View

By: Ricardo Daley, Victory Capital Management

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Environmental, Social and Governance (ESG) investing has gained immense popularity in the last few years and there is a good likelihood the practice will continue to see rapid adoption in the future. For practitioners of ESG investing, the challenge of doing good and doing well often relies on an old routine.

Active portfolio managers who consider ESG and/or responsible investing principles, while also seeking to produce alpha, should start by getting the fundamentals down. This is especially the case for small cap managers.

Quality and the Role of Rating Agencies

From the perspective of THB Asset Management, a Victory Capital Investment Franchise (THB), the process should start with a focus on quality, which is typically revealed by fundamental security analysis.

Some managers, however, may delegate the ESG component of their research to third party rating agencies. But layering an ESG rating screen atop current investment processes may be imprecise. ESG ratings are somewhat subjective and rife with inconsistency.

For example, some rating agencies include controversies (e.g., bad behavior of management) in a rating. Others don't. They may disclose controversies, but they won't impact their rating.

Rating agencies don't produce consistent ESG scores because data collection processes are different from agency to agency. How they analyze data is also dissimilar. And the resources they devote to any individual company can often be constrained. The three big rating agencies are, after all, for-profit businesses.

An example of rating inconsistency is revealed by how often the agencies agree. Each offers an A rating to a host of companies. But

From the portfolio manager's perspective, relying solely on published ESG ratings filters out many small companies for whom compliance might be burdensome.

within that universe, only 16 percent share the same rating from all three providers.

There is also the fact that not all public companies get rated. For example, MSCI covers nearly all of the S&P 500 companies. That rating coverage applies to about two-thirds of Russell small-cap companies and slightly more than a quarter of the Russell micro-cap universe.

This creates opportunities for active portfolio managers.

A Holistic Approach to ESG

Rating agencies rely on compliance. And compliance can be expensive. A public company's ability to marshal the human and financial resources to compile information required by an ESG rating agency can have a meaningful impact on that company's ability to garner a favorable ESG score.

From the portfolio manager's perspective, relying solely on published ESG ratings filters out many small companies for whom compliance might be burdensome. A small company (even one with $1 billion in capital) that doesn't report to any of the agencies, may get overlooked or under-rated.

So, it is important for portfolio managers to maintain an active approach and engage with companies to explain what information they are looking for and why it's important in their investment decision-making process.

In this way, portfolio managers need to take a holistic approach to ESG.

The takeaway for portfolio managers is to not look at any given data point as purely black or white. There is plenty to be missed in the broader picture. Without delving deeper into the circumstances around a catalyst, managers might miss a very reasonable explanation for why an ESG issue exists. So, it's possible to miss how a company's management is addressing it.

ESG issues are not always black or white. There are myriad shades of gray that can reveal much more about a company than any single data point suggests.

Importantly, missing the shades of gray can constrain alpha for clients. This is especially the case with small cap companies.

To learn more, we invite you to listen in to this podcast as Chief Investment Officer of THB Asset Management, Chris Cuesta, talks about investing with purpose. ◆

Many Shades of ESG: A holistic view of the alpha opportunities

- Nuances in data when evaluating ESG in small caps
- Areas of greatest opportunity and greatest challenges
- Specific examples of why active management can offer advantages
- Where ESG investing might be headed in the next five years

Disclaimer

All investments carry a certain degree of risk including the possible loss of principal, and an investment should be made with an understanding of the risks involved with owning a particular security or asset class. Interested parties are strongly encouraged to seek advice from qualified tax and financial experts regarding the best options for your particular circumstances.

Ricardo Daley, MBA *is an associate of institutional markets for Victory Capital Management. In this role, he is primarily responsible for client reporting and servicing. Additionally, Mr. Daley will manage relationships and direct sales.*

Prior to joining Victory Capital in 2021, Mr. Daley worked at Equity Trust, where he was a Qualified Plan Consultant. He also has experience in wealth management having worked as a financial advisor for Merrill Lynch and Waddell & Reed as well as a Senior Investment Consultant within the former High Net Worth group at USAA.

Mr. Daley earned a B.A. in Business Administration and Accounting from Thiel College and an MBA in Finance from the Keller Graduate School of Management. He is currently a member of the Thiel College Board of Trustees, serving as Chair of the Investment & Finance committee. He holds the FINRA series 7 & 63 licenses.

NCPERS Asset Manager

Market Perspectives: The Secondary Market

By: Suzanne Gauron, Global Head of Private Equity Strategies, Alternatives Capital Markets & Strategy, Goldman Sachs Asset Management

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Many pension funds are finding that the strong performance of their private market portfolios coupled with declines in liquid asset prices have left them over-allocated relative to their private equity targets. Some are considering whether and how to rebalance their portfolios. Below are a few considerations for secondary market selling.

Given recent public market volatility, what can we expect to see when it comes to private market valuations?

Valuation changes in private markets generally take more time to reach investors, as the assets are only valued quarterly, and price changes tend to be more moderate than those in public markets. We have yet to observe significant decreases in private equity valuations through Q1 2022, but we are observing modest adjustments in Q2 marks, reflecting operating performance and the current exit environment.

What typically causes pension funds to sell?

Sellers rarely sell based on valuation. Rather, secondary market selling is usually strategic, as doing so takes time and incurs costs. Pension funds mainly sell in the secondary market because of changes to their portfolio. This may include, among other things, over-allocation to the asset class (common in 2022) or a desire to reduce the number of manager relationships. Organizational changes, such as a new CIO or asset allocation, may also prompt selling. Sellers typically receive a discount to the lagged unrealized net asset value ("NAV"), so there must be a non-financial value to making these changes. Since most investors are long-term private market participants, these considerations often lead them to sell more than once in the secondary market.

Valuation changes in private markets generally take more time to reach investors, as the assets are only valued quarterly, and price changes tend to be more moderate than those in public markets.

How liquid is the secondary market and what assets are salable?

It depends. The secondary market has grown exponentially. Transactions in 2021 were about $130 billion, a historic high, and this is just a fraction of the estimated $8–$9 trillion in private equity assets today. In times of market dislocation, secondary market activity tends to slow. We are starting to see this in H1 2022 activity, as buyers were bidding at discounts that sellers were unwilling to accept. Some of this is due to the NAV lag—the valuations LPs are looking at are three to six months old. This will adjust in the coming quarters. Also, GPs perceived to be higher quality are more saleable, provided the GP supports a secondary sale. Strategy is important, too. The majority of secondary buyers focus on buyout assets. Other private asset classes, including venture, energy, infrastructure, credit, and real estate, have a narrower buyer base and may receive fewer bids.

So you want to sell. Now what?

The secondary market is no longer just a "buy or hold" decision. Sellers have options, including financing, partial sales, deferred payments, and more structured solutions. It is important to define objectives upfront. What factors are you optimizing for? Price? Size? "Day one" cash? Liability reduction? Also, remember that secondary sales take time. GPs will have a say in most sales, so understanding their approach and guidelines is important. ◆

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Proposed Climate Change Disclosure Rule for Public Companies

By: Rachel A. Avan, Saxena White P.A.

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Regulators are finally beginning to recognize the materiality investors assign to the environmental practices of public companies. On March 21, 2022, the U.S. Securities and Exchange Commission voted 3 to 1 to implement sweeping rule changes that require companies to disclose climate-related risks, greenhouse gas emissions, and carbon footprints—metrics that were, until now, only reported voluntarily and without standardization.

Pursuant to the proposed rule[1], companies will need to disclose information about: (1) their governance of climate-related risks and related risk management processes; and (2) any actual or likely "material impact[s]" of climate risks on their business, strategy, expenditures, and outlooks. The rule would require that a company report direct and indirect emissions if they are deemed material to investors or if a company has pledged to reduce emissions going forward. These include "Scope 1" and "Scope 2" emissions, which are generated from a company's own operations and purchases of energy, and for larger companies, "Scope 3" emissions, which are generated by a company's supply chain. The SEC's Acting Chief Accountant, Paul Munter, has noted that the rule would also require an attestation report from an independent provider, which would offer an "additional degree of reliability" about emissions and provide the "key assumptions" and data informing a company's analysis.

The proposed rule was originally scheduled to be subject to public comment for 60 days, but due to significant public interest, the comment period was extended to June 17, 2022. Perhaps unsurprisingly, both sides of the aisle have criticized the rule. For example, Rep. Patrick McHenry (R-NC) claimed the rule mandated disclosure of information that "is not material for most companies," and Sen. Sheldon Whitehouse (D-RI) took issue with the rule's failure to require disclosures about "climate-related lobbying and influencing activities . . . the single most material disclosures a company could make to achieve climate safety." Then, in early April, a group of 40 members of Congress joined other Republicans in arguing the rule is "extremely burdensome," presents insurmountable compliance challenges, and exceeds the SEC's authority. In response, SEC Chair Gary Gensler emphasized that the SEC has "over the generations" always been a "disclosure-based" regulator that "step[s] in when there's a significant need for the disclosure of information relevant to investors' decisions." Gensler further noted that the proposed rule would benefit both investors and public companies by offering "consistent [and] comparable . . . information" for investors and "provid[ing] consistent and clear reporting obligations for issuers."

By the end of the comment period, the SEC received more than 14,000 comment letters, many more than the Commission typically receives upon announcing proposed rules. Given the volume of public feedback, the politically charged subject of the rule, and likely court challenges, the final rule may ultimately differ, perhaps substantially, from the proposed rule. ◆

Rachel A. Avan *is an attorney in Saxena White P.A.'s New York office. She specializes in representing public pension funds and other institutional investors in securities class action litigation.*

[1] "SEC Proposes Rules to Enhance and Standardize Climate-Related Disclosures for Investors" (Mar. 21, 2022), available at https://www.sec.gov/news/press-release/2022-46; see also Release Nos. 33-11042, 34-94478.

NCPERS Asset Manager

The Fed's "Summer of 75" Closes with Another Big Hike

By: Brian Nick, Nuveen

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Having staked a claim as an inflation fighter at any cost, Chair Jay Powell will now follow through on this commitment until the rate of price increases slows to something like its 2% target. Fed tightening is exerting an irresistible force on the U.S. economy. Having already brought the housing market to its knees, the Fed now wants to bring the U.S. growth rate below its 1.8% trend, which should discourage companies from hiring new workers. Lowering income and spending growth is now the Fed's only way to reduce inflation over the next 12 months.

On its mission to cool the economy, the Fed has run into an immovable force: U.S. consumers have thus far refused to reduce their spending from the overstimulated days of 2021. Indeed, the rate of household spending growth even in excess of inflation has remained solidly positive this year. How is this possible with inflation rising at close to a double-digit annualized pace?

A variety of factors have helped bolster U.S. consumers. First, households still have trillions in excess savings from the pandemic and the related stimulus programs. Second, household debt service costs are still close to all-time low levels thanks to the legacy of low interest rates over the past decade until this year. Third, falling gasoline prices have helped real income growth turn positive for the first time in a year. Last, job security is still unusually high, arming consumers with the confidence to spend more and save less.

In the near term, the Fed has the best chance at affecting the last of these. Debt service costs are slow to rise even when policy rates are moving up quickly. Most homeowners are paying off their mortgages at extremely low rates. Credit card balances are increasing

Lowering income and spending growth is now the Fed's only way to reduce inflation over the next 12 months.

but remain below their pre-pandemic trend, as consumers paid down debt during the first year of the pandemic. But by softening the labor market, the Fed can strike at the hidden heart of consumer confidence: workers' conviction that they are unlikely to lose their jobs and could find other gainful employment quickly. ◆

Endnotes

Sources: Federal Reserve Statement, September 2022.

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Nuveen provides investment advisory solutions through its investment specialists.

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Brian Nick *has over fifteen years of experience analyzing economic and market data and developing investment strategies for client portfolios. As Chief Investment Strategist, Brian is a member of Nuveen's Global Investment Committee, where he works closely with the firm's investment leaders to identify investment trends and provide insights on events driving market activity. He is also a voting member of the asset allocation committee of Nuveen's parent company, TIAA. Previously, Brian served as Head of Tactical Asset Allocation for UBS Wealth Management Americas, and as a senior investment strategist at Barclays Wealth. He began his career in the Markets Group at the Federal Reserve Bank of New York.*

Brian graduated with a bachelor's degree in Economics and Government from Dartmouth College and a master's degree in Economics from New York University, and holds the designation of Chartered Alternative Investment Analyst® (CAIA®).

Growth Pains Lead to Lessons Learned

By: Jason Williams, CFA, Lazard Asset Management

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The Inflation Catalyst

When we roll the clock back to 2021, the predominant narrative in the market was that rising inflationary pressures would ultimately subside as supply constraints believed to be caused largely by the COVID-19 pandemic righted themselves. However, that didn't happen. Mismatches between supply and demand persisted, exacerbating inflationary pressures and by the end of last year the market began to wake up to the fact that inflation trends were getting worse, not better (Exhibit 1).

Style Shock

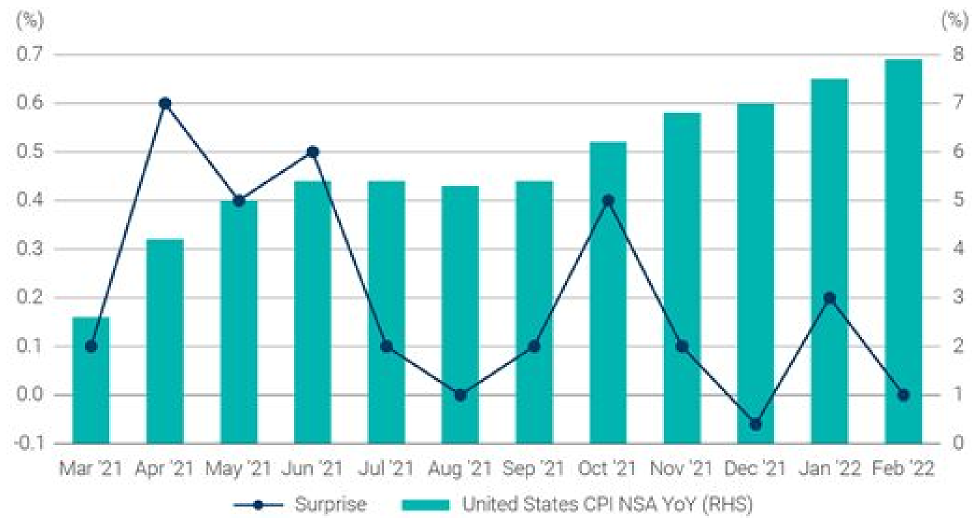
While the growth complex began to weaken last year, which was also about when it started to dawn on markets that inflation wasn't subsiding as hoped, some pockets of growth performed significantly worse than others during the downturn. We believe the difference between the stocks that held their value and those that fell the farthest is quality.

We can tease out this quality distinction in different ways. We can simply compare the performance of growth stocks with a positive return on equity and those with a negative return on equity. High-growth stocks with a positive return on equity have generally performed significantly better than stocks with negative returns since September 2020, well before the growth complex as a whole started to falter (Exhibit 2).

Identifying attractive fundamentals and teasing out uncertainty are also strong markers. For example, investors have become much more discerning about how much they can count on future returns from a high-growth business. If analysts, collectively, simply have no idea what the future holds for a given business, investors have beat a hasty retreat. We can proxy this lack of predictability, or uncertainty, using the dispersion of analysts' earnings-per-share forecasts. The greater the dispersion, the more uncertain the outlook for a given stock (Exhibit 3).

We believe the difference between the stocks that held their value and those that fell the farthest is quality.

EXHIBIT 1: Inflationary Shocks Broaden and Accelerate



As of 31 March 2022. This chart illustrates monthly year-on-year changes to consumer price indices (CPI) indices for the US with associated surprises to consensus estimates at the time of the report. Source: Lazard, FactSet.

EXHIBIT 2: Growth Sell-Off Was Deeper for Loss-Making Companies

As of 31 March 2022. This chart reflects the performance of high-growth stocks versus the equal-weighted market return, daily, indexed to 30 September 2020. High-growth stocks are the top 20% of stocks ranked according to an equal-weighted combination of 5-year sales growth, 3-year backward looking earnings growth, and 3-year forward looking earnings growth. Stocks are screened for positive ROE and negative ROE, respectively. Source: Lazard, FactSet, S&P Global BMI.

EXHIBIT 3: Growth Sell-Off Was Deeper for Stocks with Perception of More Uncertain Future

As of 31 March 2022. This chart reflects the performance of high-growth stocks versus the equal-weighted market return, daily, indexed to 30 September 2020. High-growth stocks are the top 20% of stocks ranked according to an equal-weighted combination of 5-year sales growth, 3-year backward looking earnings growth, and 3-year forward looking earnings growth. Stocks are screened for positive ROE and negative ROE, respectively. Source: Lazard, FactSet, S&P Global BMI.

What Does This Mean for Investors?

It has been interesting to see that the market has drawn some clear distinctions among different types of growth stocks. Those that are profitable, have stronger fundamentals, and enjoy more certainty from the analyst community about the future of their returns have held up significantly better.

As we go forward into a rising-rate environment amid sustained inflation, we believe that both growth and core equity investors will be much less impacted by the ongoing and steep underperformance of growth stocks if they focus their search on companies that seem more likely to sustain their growth over a long period of time. ◆

Disclosure:

Jason Williams *is an Investment Strategist on Lazard's Equity Advantage team. In this role, he focuses on delivering quantitative macro and factor based analytical insights for the investment team to facilitate performance evaluation and client communications. He began working in the investment field in 2001. Prior to his current role, Jason served 17 years as a portfolio manager of quantitative UK, European and Small cap portfolios, first at State Street Global Advisors and then, from 2008, at Lazard. He has an MA in Finance and Investment from the University of Exeter and a BSc Honours in Mathematics from Coventry University. Jason is a member of the CFA Institute and the UK Society of Investment Professionals (UKSIP).*

Calendar of Events 2022

October

NCPERS Accredited Fiduciary (NAF) Program
October 22 – 23
Nashville, TN

Public Safety Conference
October 23 – 26
Nashville, TN

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