



**D A L L A S**  
**POLICE & FIRE**  
**PENSION SYSTEM**



**MINUTES SUMMARY**  
**Board Meeting**  
**Thursday, April 12, 2018**

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees was held at 8:30 a.m. on Thursday, April 12, 2018, in the Second Floor Board Room at 4100 Harry Hines Blvd., Dallas, Texas.

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

**A. MOMENT OF SILENCE**

The Board observed a moment of silence in memory of members and pensioners who recently passed away.

**B. CONSENT AGENDA**

Approved by the Board, subject to the final review of the staff.

**C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION**

1. The Board's actuary, Segal Consulting, discussed the assumptions to be used in preparing the January 1, 2018 actuarial valuation reports for the Plan and the Supplemental Plan. No motion was made.
2. The Board hired Meketa Investment Group as the Investment Consultant for DPF and authorized the Executive Director to enter into an investment management agreement with Meketa.
3. The Staff discussed investment-related items with the Board. No motion was made.
4. The Staff discussed the investment watchlist criteria with the Board. No motion was made.
5. Representatives from BDO, DPF's external independent audit firm, presented their audit plan for the year ended December 31, 2017. No motion was made.

**MINUTES SUMMARY**  
**Board Meeting**  
**Thursday, April 12, 2018**

6. The Chairman nominated and the Board confirmed the appointment of the following members of the Audit Committee: Bill Quinn (Chair), Nick Merrick, Gilbert Garcia.
7. The Executive Director presented the Board Agenda Planning Calendar and discussed the anticipated major agenda items for the remainder of the year. No motion was made.
8. The Board discussed the Board Resolution adopted on December 13, 2007 relating to Section 6.063 of Article 6243a-1 and Amendment of DROP Policy. No motion was made.
9. The Chairman updated the Board on the status of his discussions with the City of Dallas regarding contributions pursuant to USERRA. No motion was made.
10. The Board and staff discussed legal issues. No motion was made.
11. No discussion was held and no motion was made regarding Trustee education and travel.
12. No discussion was held and no motion was made regarding hardship requests from DROP members.
13. The Executive Director discussed the Minimum Educational Training Requirements and the timing of training with the Board.

**D. BRIEFING ITEMS**

1. No members or pensioners requested to speak to the Board.
2. The Executive Director's report was presented. No motion was made.

The regular Board meeting was adjourned at 12:33 p.m.

**MINUTES SUMMARY**  
**Board Meeting**  
**Thursday, April 12, 2018**

**SUPPLEMENTAL POLICE AND FIRE PENSION BOARD MEETING**

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

The meeting was reconvened at 12:33 p.m.

**CONSENT AGENDA**

Approved by the Board, subject to the final review of the staff.

The Supplemental Board meeting was adjourned at 12:36 p.m.

**Dallas Police and Fire Pension System**  
**Thursday, April 12, 2018**  
**8:30 a.m.**  
**4100 Harry Hines Blvd., Suite 100**  
**Second Floor Board Room**  
**Dallas, TX**

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

**ROLL CALL**

**Board Members**

Present at 8:30 a.m. William F. Quinn, Nicholas A. Merrick, Samuel L. Friar, Ray Nixon, Gilbert A. Garcia, Frederick E. Rowe, Joseph P. Schutz, Kneeland Youngblood

Present at 8:33 a.m. Tina Hernandez Patterson

Present at 8:49 a.m. Blaine Dickens

Absent: Robert C. Walters

**Staff** Kelly Gottschalk, Josh Mond, John Holt, Damion Hervey, Cynthia Thomas, Ryan Wagner, Milissa Romero, Greg Irlbeck, Linda Rickley

**Others** Chuck Campbell (via telephone), Leandro Festino, Alexandra Wallace, Aaron Lally, Jeff Williams, Jill Svoboda, Rachel Pierson, Janis Elliston, David Elliston, Darryl Wachsman, Carolyn Freeman, James Freeman, Jerry M. Rhodes, David Waks, Zaman Hemani

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

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**A. MOMENT OF SILENCE**

The Board observed a moment of silence in memory of active police officers Edward C. Gilliam, Tammy R. Huel, active firefighters Brian J. McDaniel, Randell E. Willmon, Angie Wilson, retired police officers Daniel L. Carpenter, Walter R. Colvin, Milton R. Jarvis, Charles H. King, Jr., Ronald E. Dummer, and retired firefighters C. E. Duncan, Robert P. McMahan, Paul L. Anderson, Ryle E. Sexton, Lewis D. Eppes.

No motion was made.

**Regular Board Meeting  
Thursday, April 12, 2018**

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**B. CONSENT AGENDA**

**1. Approval of Minutes**

Regular meeting of March 8, 2018

- 2. Approval of Refunds of Contributions for the Month of March 2018**
- 3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for April 2018**
- 4. Approval of Estate Settlements**
- 5. Approval of Survivor Benefits**
- 6. Approval of Service Retirements**
- 7. Approval of Payment of DROP Revocation Contributions**
- 8. Approval of Payment of Military Leave Contributions**
- 9. Denial of Hardship Requests**

After discussion, Mr. Garcia made a motion to approve the minutes of the meeting of March 8, 2018. Mr. Youngblood seconded the motion, which was unanimously approved by the Board. Mr. Dickens and Ms. Hernandez Patterson were not present for the vote.

After discussion, Mr. Youngblood made a motion to approve the remaining items on the Consent Agenda, subject to the final approval of the staff. Mr. Garcia seconded the motion, which was unanimously approved by the Board. Mr. Dickens was not present for the vote.

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**Regular Board Meeting  
Thursday, April 12, 2018**

**C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR  
INDIVIDUAL CONSIDERATION**

**1. January 1, 2018 Actuarial Valuation assumptions**

Jeff Williams, of Segal Consulting, the Board's actuary, reviewed the assumptions used in the January 1, 2017 actuarial valuation and recommended no changes in the assumptions to be used in preparing the January 1, 2018 actuarial valuation reports for the Plan and the Supplemental Plan.

No motion was made.

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**2. Investment Consultant finalist**

Ms. Gottschalk stated that at the March 8, 2018 Board meeting, the Chairman appointed a sub-committee to hold in-person interviews with three investment consultant candidate firms. After holding the interviews, the sub-committee and staff jointly selected Meketa Investment Group as the finalist to be interviewed by the full Board, subject to the staff conducting an on-site due diligence visit.

Leandro Festino, Managing Principal, Alexandra Wallace, Principal, and Aaron Lally, Executive Vice President, were present from Meketa Investment Group. They provided an overview of their firm, team, resources and capabilities to the full Board as part of the interview.

After discussion, Mr. Youngblood made a motion to hire Meketa Investment Group as the Investment Consultant for DFPF and to authorize the Executive Director to enter into an investment management agreement with Meketa. Ms. Hernandez Patterson seconded the motion, which was passed by the following vote:

For:	Youngblood, Hernandez Patterson, Quinn, Merrick, Friar, Dickens, Rowe, Schutz
Against:	None
Abstain:	Garcia and Nixon

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**Regular Board Meeting  
Thursday, April 12, 2018**

**3. Investment-related items**

- a. Consideration of the liquidation of GAA asset class
- b. Consideration of the redeployment of excess cash

The staff discussed the above investment-related items with the Board.

No motion was made.

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**4. Investment watchlist criteria**

At the March 8, 2018 Board meeting, the Board requested a briefing on the investment manager “watchlist” policy. Staff provided a review of the Investment Monitoring section of the current Investment Policy Statement and discussed the investment “watchlist” criteria with the Board.

No motion was made.

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**5. 2017 audit plan**

Jill Svoboda, Partner, and Rachel Pierson, Manager, representatives of BDO, DPFPP’s external independent audit firm, presented their audit plan for the year ending December 31, 2017.

No motion was made.

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**6. Appointment of Audit Committee**

Ms. Gottschalk stated that the Committee Policy and Procedure provides for the appointment by the Chairman and confirmation by the Board of an Audit Committee and that the Audit Committee meet privately with the independent auditor, without DPFPP staff present, at a minimum on an annual basis. The audit process is underway and the audit is expected to be finalized in June or July depending on the timing of the receipt of material asset audited financial statements and the actuarial valuation.

**Regular Board Meeting  
Thursday, April 12, 2018**

**6. Appointment of Audit Committee** (continued)

The Chairman nominated the following members for the Audit Committee: Bill Quinn (Chair), Nick Merrick, Gilbert Garcia.

After discussion, Mr. Youngblood made a motion to confirm the appointment of the following members of the Audit Committee: Bill Quinn (Chair), Nick Merrick, Gilbert Garcia. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

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**7. Board Agenda Planning Calendar**

Ms. Gottschalk presented the Board Agenda Planning Calendar and discussed the anticipated major agenda items for the remainder of the year.

No motion was made.

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Mr. Nixon left the meeting at 12:00 p.m.

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**8. Repeal of Board Resolution Relating to Section 6.063 of Article 6243a-1 and Amendment of DROP Policy**

The Board went into a closed executive session – legal at 8:58 a.m.

The meeting was reopened at 9:31 a.m.

No motion was made.

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**9. USERRA update**

Mr. Quinn updated the Board on the status of his discussions with the City of Dallas regarding contributions pursuant to USERRA.

No motion was made.

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**Regular Board Meeting  
Thursday, April 12, 2018**

**10. Legal issues**

- a. Claims against fiduciaries and other third-party advisors
- b. Degan et al. v. DPF (Federal suit)
- c. DPF v. The Townsend Group and Gary Lawson

The Board went into a closed executive session – legal at 12:14 p.m.

The meeting was reopened at 12:27 p.m.

No motion was made.

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

No discussion was held and no motion was made regarding Trustee education and travel.

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**12. Hardship Requests from DROP Members**

No discussion was held and no motion was made regarding hardship requests from DROP members.

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**13. Minimum Educational Training Requirements**

The Executive Director discussed the Minimum Educational Training Requirements and the timing of training with the Board.

No motion was made.

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**D. BRIEFING ITEMS**

**1. Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System**

No active member or pensioner requested to address the Board with concerns.

**Regular Board Meeting  
Thursday, April 12, 2018**

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**2. Executive Director's report**

- a. Associations' newsletters
  - NCPERS Monitor (March 2018)
  - NCPERS PERSist (Spring 2018)
- b. Employee Service Award
- c. Chief Financial Officer recruitment update
- d. Chief Investment Officer recruitment update
- e. State Affairs Committee Hearing

Ms. Gottschalk presented the Executive Director's report. She stated that John Holt, Information Technology Manager, had been recognized for 30 years of service to the City of Dallas and Dallas Police & Fire Pension System.

No motion was made.

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Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Garcia and a second by Ms. Hernandez Patterson, the meeting was adjourned at 12:33 p.m.

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William F. Quinn  
Chairman

**ATTEST:**

[signature]

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Kelly Gottschalk  
Secretary

**Regular Board Meeting  
Thursday, April 12, 2018**

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**Dallas Police and Fire Pension System**  
**Thursday, April 12, 2018**  
**8:30 a.m.**  
**4100 Harry Hines Blvd., Suite 100**  
**Second Floor Board Room**  
**Dallas, TX**

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

**ROLL CALL**

**Board Members**

Present at 8:30 a.m. William F. Quinn, Nicholas A. Merrick, Samuel L. Friar, Ray Nixon, Gilbert A. Garcia, Frederick E. Rowe, Joseph P. Schutz, Kneeland Youngblood

Present at 8:33 a.m. Tina Hernandez Patterson

Present at 8:49 a.m. Blaine Dickens

Absent: Robert C. Walters

**Staff** Kelly Gottschalk, Josh Mond, John Holt, Damion Hervey, Cynthia Thomas, Ryan Wagner, Milissa Romero, Greg Irlbeck, Linda Rickley

**Others** Chuck Campbell (via telephone), Leandro Festino, Alexandra Wallace, Aaron Lally, Jeff Williams, Jill Svoboda, Rachel Pierson, Janis Elliston, David Elliston, Darryl Wachsman, Carolyn Freeman, James Freeman, Jerry M. Rhodes, David Waks, Zaman Hemani

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

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**A. MOMENT OF SILENCE**

The Board observed a moment of silence in memory of active police officers Edward C. Gilliam, Tammy R. Huel, active firefighters Brian J. McDaniel, Randell E. Willmon, Angie Wilson, retired police officers Daniel L. Carpenter, Walter R. Colvin, Milton R. Jarvis, Charles H. King, Jr., Ronald E. Dummer, and retired firefighters C. E. Duncan, Robert P. McMahan, Paul L. Anderson, Ryle E. Sexton, Lewis D. Eppes.

No motion was made.

**Regular Board Meeting  
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**B. CONSENT AGENDA**

**1. Approval of Minutes**

Regular meeting of March 8, 2018

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- 7. Approval of Payment of DROP Revocation Contributions**
- 8. Approval of Payment of Military Leave Contributions**
- 9. Denial of Hardship Requests**

After discussion, Mr. Garcia made a motion to approve the minutes of the meeting of March 8, 2018. Mr. Youngblood seconded the motion, which was unanimously approved by the Board. Mr. Dickens and Ms. Hernandez Patterson were not present for the vote.

After discussion, Mr. Youngblood made a motion to approve the remaining items on the Consent Agenda, subject to the final approval of the staff. Mr. Garcia seconded the motion, which was unanimously approved by the Board. Mr. Dickens was not present for the vote.

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**Regular Board Meeting  
Thursday, April 12, 2018**

**C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR  
INDIVIDUAL CONSIDERATION**

**1. January 1, 2018 Actuarial Valuation assumptions**

Jeff Williams, of Segal Consulting, the Board's actuary, reviewed the assumptions used in the January 1, 2017 actuarial valuation and recommended no changes in the assumptions to be used in preparing the January 1, 2018 actuarial valuation reports for the Plan and the Supplemental Plan.

No motion was made.

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**2. Investment Consultant finalist**

Ms. Gottschalk stated that at the March 8, 2018 Board meeting, the Chairman appointed a sub-committee to hold in-person interviews with three investment consultant candidate firms. After holding the interviews, the sub-committee and staff jointly selected Meketa Investment Group as the finalist to be interviewed by the full Board, subject to the staff conducting an on-site due diligence visit.

Leandro Festino, Managing Principal, Alexandra Wallace, Principal, and Aaron Lally, Executive Vice President, were present from Meketa Investment Group. They provided an overview of their firm, team, resources and capabilities to the full Board as part of the interview.

After discussion, Mr. Youngblood made a motion to hire Meketa Investment Group as the Investment Consultant for DFPF and to authorize the Executive Director to enter into an investment management agreement with Meketa. Ms. Hernandez Patterson seconded the motion, which was passed by the following vote:

For: Youngblood, Hernandez Patterson, Quinn, Merrick, Friar, Dickens,  
Rowe, Schutz  
Against: None  
Abstain: Garcia and Nixon

\* \* \* \* \*

**Regular Board Meeting  
Thursday, April 12, 2018**

**3. Investment-related items**

- a. Consideration of the liquidation of GAA asset class
- b. Consideration of the redeployment of excess cash

The staff discussed the above investment-related items with the Board.

No motion was made.

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**4. Investment watchlist criteria**

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No motion was made.

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**5. 2017 audit plan**

Jill Svoboda, Partner, and Rachel Pierson, Manager, representatives of BDO, DPFPP’s external independent audit firm, presented their audit plan for the year ending December 31, 2017.

No motion was made.

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**6. Appointment of Audit Committee**

Ms. Gottschalk stated that the Committee Policy and Procedure provides for the appointment by the Chairman and confirmation by the Board of an Audit Committee and that the Audit Committee meet privately with the independent auditor, without DPFPP staff present, at a minimum on an annual basis. The audit process is underway and the audit is expected to be finalized in June or July depending on the timing of the receipt of material asset audited financial statements and the actuarial valuation.

**Regular Board Meeting  
Thursday, April 12, 2018**

**6. Appointment of Audit Committee** (continued)

The Chairman nominated the following members for the Audit Committee: Bill Quinn (Chair), Nick Merrick, Gilbert Garcia.

After discussion, Mr. Youngblood made a motion to confirm the appointment of the following members of the Audit Committee: Bill Quinn (Chair), Nick Merrick, Gilbert Garcia. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

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**7. Board Agenda Planning Calendar**

Ms. Gottschalk presented the Board Agenda Planning Calendar and discussed the anticipated major agenda items for the remainder of the year.

No motion was made.

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Mr. Nixon left the meeting at 12:00 p.m.

\* \* \* \* \*

**8. Repeal of Board Resolution Relating to Section 6.063 of Article 6243a-1 and Amendment of DROP Policy**

The Board went into a closed executive session – legal at 8:58 a.m.

The meeting was reopened at 9:31 a.m.

No motion was made.

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**9. USERRA update**

Mr. Quinn updated the Board on the status of his discussions with the City of Dallas regarding contributions pursuant to USERRA.

No motion was made.

\* \* \* \* \*



**Regular Board Meeting  
Thursday, April 12, 2018**

**10. Legal issues**

- a. Claims against fiduciaries and other third-party advisors
- b. Degan et al. v. DPF (Federal suit)
- c. DPF v. The Townsend Group and Gary Lawson

The Board went into a closed executive session – legal at 12:14 p.m.

The meeting was reopened at 12:27 p.m.

No motion was made.

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

No discussion was held and no motion was made regarding Trustee education and travel.

\* \* \* \* \*

**12. Hardship Requests from DROP Members**

No discussion was held and no motion was made regarding hardship requests from DROP members.

\* \* \* \* \*

**13. Minimum Educational Training Requirements**

The Executive Director discussed the Minimum Educational Training Requirements and the timing of training with the Board.

No motion was made.

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**D. BRIEFING ITEMS**

**1. Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System**

No active member or pensioner requested to address the Board with concerns.

**Regular Board Meeting  
Thursday, April 12, 2018**

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**2. Executive Director's report**

- a. Associations' newsletters
  - NCPERS Monitor (March 2018)
  - NCPERS PERSist (Spring 2018)
- b. Employee Service Award
- c. Chief Financial Officer recruitment update
- d. Chief Investment Officer recruitment update
- e. State Affairs Committee Hearing

Ms. Gottschalk presented the Executive Director's report. She stated that John Holt, Information Technology Manager, had been recognized for 30 years of service to the City of Dallas and Dallas Police & Fire Pension System.

No motion was made.

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Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Garcia and a second by Ms. Hernandez Patterson, the meeting was adjourned at 12:33 p.m.

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William F. Quinn  
Chairman

**ATTEST:**

[signature]

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Kelly Gottschalk  
Secretary

**Regular Board Meeting  
Thursday, April 12, 2018**

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## AGENDA



**Date:** April 6, 2018

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, April 12, 2018, in the Second Floor Board Room at 4100 Harry Hines Boulevard, Dallas, Texas.** 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 March 8, 2018

**2. Approval of Refunds of Contributions for the Month of March 2018**

- 3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for April 2018**
- 4. Approval of Estate Settlements**
- 5. Approval of Survivor Benefits**
- 6. Approval of Service Retirements**
- 7. Approval of Payment of DROP Revocation Contributions**
- 8. Approval of Payment of Military Leave Contributions**
- 9. Denial of Hardship Requests**

**C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION**

- 1. January 1, 2018 Actuarial Valuation assumptions**
- 2. Investment Consultant finalist**
- 3. Investment-related items**
  - a. Consideration of the liquidation of GAA asset class
  - b. Consideration of the redeployment of excess cash

- 4. Investment watchlist criteria**
- 5. 2017 audit plan**
- 6. Appointment of Audit Committee**
- 7. Board Agenda Planning Calendar**
- 8. Repeal of Board Resolution Relating to Section 6.063 of Article 6243a-1 and Amendment of DROP Policy**
- 9. USERRA update**
- 10. Legal issues**

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

- a.** Claims against fiduciaries and other third-party advisors
- b.** Degan et al. v. DPFP (Federal suit)
- c.** DPFP v. The Townsend Group and Gary Lawson

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

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

**12. Hardship Requests from DROP Members**

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.

**13. Minimum Educational Training Requirements**

**D. BRIEFING ITEMS**

- 1. Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System**

## **2. Executive Director's report**

- a.** Associations' newsletters
  - NCPERS Monitor (March 2018)
  - NCPERS PERSist (Spring 2018)
- b.** Employee Service Award
- c.** Chief Financial Officer recruitment update
- d.** Chief Investment Officer recruitment update
- e.** State Affairs Committee Hearing

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.





**ITEM #A**

**MOMENT OF SILENCE**

**In memory of our Members and Pensioners who recently passed away**

**(February 20, 2018 – March 26, 2018)**

<b>NAME</b>	<b>ACTIVE/ RETIRED</b>	<b>DEPARTMENT</b>	<b>DATE OF DEATH</b>
C. E. Duncan	Retired	Fire	Feb. 20, 2018
Daniel L. Carpenter	Retired	Police	Feb. 22, 2018
Robert P. McMahan	Retired	Fire	Feb. 22, 2018
Paul L. Anderson	Retired	Fire	Mar. 1, 2018
Walter R. Colvin	Retired	Police	Mar. 6, 2018
Ryle E. Sexton	Retired	Fire	Mar. 6, 2018
Edward C. Gilliam	Active	Police	Mar. 9, 2018
Milton R. Jarvis	Retired	Police	Mar. 10, 2018
Brian J. McDaniel	Active	Fire	Mar. 11, 2018
Lewis D. Eppes	Retired	Fire	Mar. 12, 2018
Tammy R. Huel	Active	Police	Mar. 15, 2018
Randell E. Willmon	Active	Fire	Mar. 15, 2018

*Regular Board Meeting – Thursday, April 12, 2018*



**ITEM #A**  
(continued)

**MOMENT OF SILENCE**

**In memory of our Members and Pensioners who recently passed away**

**(February 20, 2018 – March 26, 2018)**

<b>NAME</b>	<b>ACTIVE/ RETIRED</b>	<b>DEPARTMENT</b>	<b>DATE OF DEATH</b>
Charles H. King, Jr.	Retired	Police	Mar. 17, 2018
Ronald E. Dummer	Retired	Police	Mar. 22, 2018
Angie Wilson	Active	Fire	Mar. 26, 2018

*Regular Board Meeting – Thursday, April 12, 2018*

**Dallas Police and Fire Pension System**  
**Thursday, March 8, 2018**  
**1:00 p.m.**  
**4100 Harry Hines Blvd., Suite 100**  
**Second Floor Board Room**  
**Dallas, TX**

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

**ROLL CALL**

**Board Members**

Present at 1:00 p.m. William F. Quinn, Samuel L. Friar, Blaine Dickens (by telephone), Ray Nixon, Gilbert A. Garcia, Frederick E. Rowe, Tina Hernandez Patterson, Robert C. Walters (by telephone), Joseph P. Schutz

Present at 1:09 p.m. Kneeland Youngblood

Present at 2:20 p.m. Nicholas A. Merrick (by telephone)

Absent: None

**Staff** Kelly Gottschalk, Josh Mond, John Holt, Damion Hervey, Cynthia Thomas, Ryan Wagner, Milissa Romero, Greg Irlbeck, Linda Rickley

**Others** Chuck Campbell, Rhett Humphreys, Keith Stronkowsky, Greg Taylor, Mark Sales, Larry Williams, James Freeman, Lloyd D. Brown, Kenneth Sprecher, Janis Elliston, David Elliston, Tom Moore, Frank Ruspoli, Tom Moorman, Julian Bernal, Darryl Wachsmann, Jerry M. Rhodes, Kenneth Haben, Andy Acord, Zaman Hemani, Tristan Hallman

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The meeting was called to order at 1:00 p.m.

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**A. MOMENT OF SILENCE**

The Board observed a moment of silence in memory of active police officer Richard C. Harding, retired police officers Jeff D. Chappell, William W. Stanley, Robert O. Kirkpatrick, Billy J. Lawrence, John M. Mays, and retired firefighter Milton J. French.

No motion was made.

**Regular Board Meeting  
Thursday, March 8, 2018**

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**B. CONSENT AGENDA**

**1. Approval of Minutes**

Regular meeting of February 8, 2018

**2. Approval of Refunds of Contributions for the Month of February 2018**

**3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for March 2018**

**4. Approval of Estate Settlements**

**5. Approval of Survivor Benefits**

**6. Approval of Service Retirements**

**7. Approval of Alternate Payee Benefits**

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

**9. Denial of Hardship Request**

After discussion, Mr. Garcia made a motion to approve the minutes of the meeting of February 8, 2018. Mr. Nixon seconded the motion, which was unanimously approved by the Board. Messrs. Merrick and Youngblood were not present for the vote.

After discussion, Mr. Garcia made a motion to approve the remaining items on the Consent Agenda, subject to the final approval of the staff. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board. Messrs. Merrick and Youngblood were not present for the vote.

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**Regular Board Meeting  
Thursday, March 8, 2018**

**C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION**

**1. NEPC: Fourth Quarter 2017 Investment Performance Analysis and Third Quarter 2017 Private Markets and Real Assets Review**

The investment consultant, NEPC, represented by Rhett Humphreys, CFA – Partner and Keith Stronkowsky, CFA – Senior Consultant, presented the Fourth Quarter 2017 Investment Performance Analysis and Third Quarter 2017 Private Markets and Real Assets Review.

No motion was made.

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**2. Private asset briefing**

Staff discussed with the Board the current private asset holdings in the Private Equity, Private Debt, Infrastructure and Natural Resources asset classes.

No motion was made.

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**3. Legal issues**

- a. Potential claims involving fiduciaries and advisors
- b. DFPF v. The Townsend Group and Gary Lawson

The Board went into a closed executive session – legal at 2:43 p.m.

The meeting was reopened at 4:07 p.m.

No motion was made.

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**4. Confirmation of Chief Legal Officer**

The Board went into a closed executive session – personnel at 4:08 p.m.

The meeting was reopened at 4:37 p.m.

**Regular Board Meeting  
Thursday, March 8, 2018**

**4. Confirmation of Chief Legal Officer (continued)**

Mr. Friar made a motion to confirm Joshua Mond as the DFPF General Counsel. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

\* \* \* \* \*

Mr. Merrick left the meeting at 4:30 p.m.

\* \* \* \* \*

**5. Executive Director Evaluation Process**

The Board went into a closed executive session – personnel at 4:08 p.m.

The meeting was reopened at 4:37 p.m.

The Board discussed the timing of the Executive Director’s evaluation.

No motion was made.

\* \* \* \* \*

**6. Investment Consultant Search**

Staff provided an update on the Request for Proposal process, including a discussion of firms who submitted a proposal, evaluation criteria, and recommended next steps.

Mr. Quinn appointed Ms. Hernandez Patterson and Messrs. Dickens, Merrick and Quinn to an ad hoc committee to interview the three finalist firms and report to the full Board at the April 12, 2018 regular meeting.

No motion was made.

\* \* \* \* \*

**Regular Board Meeting  
Thursday, March 8, 2018**

**7. Committee Policy and Procedure**

Ms. Gottschalk stated that the Committee Policy and Procedure establishes the formation and roles of permanent and ad hoc committees of the Board. The policy was last amended in May 2016 and requires amendment to reflect the make-up of the new Board.

After discussion, Mr. Garcia made a motion to adopt the proposed revised Committee Policy and Procedure. Mr. Youngblood seconded the motion, which was unanimously approved by the Board.

\* \* \* \* \*

**8. Appointment of an Audit Committee**

Ms. Gottschalk stated that the Committee Policy and Procedure provides for the appointment by the Chairman and confirmation by the Board of an Audit Committee and that the Audit Committee meets privately with the independent auditor, without DFPF staff present, at a minimum on an annual basis. The audit process is underway and the audit is expected to be finalized in June or July depending on the timing of the receipt of material asset audited financial statements and the actuarial valuation. The Board discussed the possible appointment of members of the Audit Committee.

No action was taken.

\* \* \* \* \*

**9. Quarterly financial reports**

Staff reviewed the fourth quarter 2017 financial statements with the Board.

No motion was made.

\* \* \* \* \*

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

No discussion was held and no motion was made regarding Trustee education and travel.

\* \* \* \* \*

**Regular Board Meeting  
Thursday, March 8, 2018**

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

Harvard Business School: HBX Leading with Finance

No reports were given regarding meetings and seminars attended by Board members.

\* \* \* \* \*

**12. Hardship Requests from DROP Members**

Ms. Gottschalk discussed an Unforeseeable Emergency Request from a DROP member. The Board approved the Executive Director's recommendation to pay the maximum amount of the request payable based upon the remaining payments due to the DROP member.

\* \* \* \* \*

**D. BRIEFING ITEMS**

**1. Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System**

The Board heard member and pensioner comments.

\* \* \* \* \*

The meeting was recessed at 5:01 p.m.

The meeting was reconvened at 5:01 p.m.

\* \* \* \* \*



**Regular Board Meeting  
Thursday, March 8, 2018**

**2. Executive Director's report**

- a. Associations' newsletters
  - NCPERS Monitor (February 2018)
- b. Employee recognition – Fourth Quarter 2017
  - Employee of the Quarter award
  - Employee of the Year
- c. Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting
- d. DROP revocation update
- e. Chief Investment Officer recruitment update
- f. Chief Financial Officer recruitment update
- g. April Board Meeting start time

The Executive Director's report was presented. She stated that the performance award for Employee of the Quarter, for the Fourth Quarter, 2017, had been awarded to John Holt, Information Technology Manager. The Employee of the Year Award for 2017 also had been awarded to John Holt, Information Technology Manager.

No motion was made.

\* \* \* \* \*

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Garcia and a second by Mr. Nixon, the meeting was adjourned at 5:23 p.m.

\_\_\_\_\_  
William F. Quinn  
Chairman

**ATTEST:**

\_\_\_\_\_  
Kelly Gottschalk  
Secretary



## DISCUSSION SHEET

### ITEM #C1

**Topic:** January 1, 2018 Actuarial Valuation assumptions

**Attendees:** Jeff Williams, Segal Consulting

**Discussion:** An actuarial valuation is performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits and it is an important part of the annual financial audit. Segal Consulting is preparing the January 1, 2018 actuarial valuation reports for the Plan and the Supplemental Plan. Many economic and demographic assumptions are required to prepare the valuation. The Board determines the assumptions used in the valuation with the advice of the actuary.

Segal will review the assumptions used in the prior valuation and provide a recommendation about whether the assumptions should be modified for the January 1, 2018 valuation.

**Recommendation:** **Provide** direction to Segal on the assumptions to be used in preparing the January 1, 2018 actuarial valuation reports for the Plan and the Supplemental Plan.

*Regular Board Meeting – Thursday, April 12, 2018*



## DISCUSSION SHEET

### ITEM #C2

**Topic:** Investment Consultant finalist

**Attendees:** Leandro Festino, Managing Principal - Meketa Investment Group  
Alexandra Wallace, Principal - Meketa Investment Group  
Aaron Lally, Executive Vice President - Meketa Investment Group

**Discussion:** At the March Board meeting, the Chairman appointed a sub-committee to hold in-person interviews with three investment consultant candidates. After holding these interviews, the sub-committee and staff jointly selected Meketa Investment Group as the finalist to be interviewed by the full Board, subject to staff conducting an on-site due diligence visit.

Representatives from Meketa will provide an overview of their firm, team, resources and capabilities to the full Board as part of the interview.

**Recommendation:** Staff **recommends** the Board **hire** Meketa Investment Group as the Investment Consultant for DFPF and **authorize** the Executive Director to enter into an investment management agreement with Meketa Investment Group.

*Regular Board Meeting – Thursday, April 12, 2018*



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**INVESTMENT RECOMMENDATION**

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Date: April 12, 2018  
To: DPF Board  
From: DPF Investments Staff  
Subject: Investment Consultant Search

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**Recommendation**

Staff recommends the Board hire Meketa Investment Group as the Investment Consultant for DPF and authorize the Executive Director to enter into an investment management agreement with Meketa Investment Group.

**Investment Consultant RFP Update**

At the March 8, 2018 meeting, staff provided the Board with an update on the Investment Consultant Request for Proposal (RFP) process, timeline, evaluation criteria and recommended next steps. The staff memo from the March meeting is attached. At the March meeting, the Chairman appointed two additional board members, Blaine Dickens and Tina Hernandez-Patterson, to serve on the RFP sub-committee, along with the Chairman and Vice-Chairman. The Board concurred with the staff recommendation for the sub-committee and staff to conduct in-person interviews with the three candidates; Callan, Meketa and Verus.

The in-person interviews were held at DPF's offices on March 13<sup>th</sup>. Each of the candidates were allotted 2 hours for their interview which consisted of an overview of the firm, team, resources, capabilities and specific observations on DPF's portfolio, as well as in-depth questioning by sub-committee members and staff. The interviews enabled the sub-committee and staff to further assess each candidate's experience and capabilities.

The sub-committee and staff are in agreement that Meketa Investment Group should be selected as the finalist for the full Board to interview. The choice of Meketa was based in part on their specific experience related to troubled plans and complex assets, as well as their comprehensive initial fund review process.

The sub-committee recommended that staff conduct an on-site due diligence visit at Meketa's offices prior to the April Board meeting. Staff visited Meketa Investment Group's office in San Diego, California on March 19<sup>th</sup>. During the on-site visit, Staff had the opportunity to meet with several senior employees of Meketa, including the founder and



chairman Jim Meketa, as well as representatives from various departments such as asset allocation, research, performance reporting, and compliance. The on-site meeting confirmed to staff that Meketa has adequate organizational resources and expertise to serve as the investment consultant to DPFP.



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**INVESTMENT RECOMMENDATION**

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Date: March 8, 2018  
To: DPF Board  
From: DPF Investments Staff  
Subject: Investment Consultant Search

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**Recommendation**

Proceed with in-person interviews by staff and a Board subcommittee with Callan, Meketa, Segal Marco and Verus with the expectation of bringing one or two firms for a final interview and decision at the April 12<sup>th</sup> Board meeting.

**RFP Process and Timeline**

At the November 9, 2017 meeting, the Board directed staff to conduct a request for proposal (RFP) for a general investment consultant after staff reviewed the significant professional service advisors and providers (Service Providers) to the Board. In 2015, the Board gave direction to conduct a competitive selection process for Service Providers every five years unless the Board explicitly waives or extends the requirement. A phased-in approach was put in place by the Board for existing Service Providers starting with the general investment consultant. DPF has not conducted a RFP for a general investment consultant since 2006 when NEPC was hired.

The role of the consultant, who will be a fiduciary to DPF, is to provide:

1. Investment Performance Reporting & Monitoring
2. Asset Allocation Advice
3. Investment Manager Searches
4. Research & Education
5. Investment Policy Statement Development & Implementation

The RFP was posted on DPF's website on December 1, 2017 and a deadline for submission by January 15th. The full RFP is attached as an appendix. DPF received a total of eight responses to the RFP.



### **Evaluation Criteria**

Staff reviewed the RFP responses of each firm, discussed each firm's experience, capabilities and suitability to meet DPF's needs. Staff focused on the strength and experience of the proposed client team, as well as firm's personnel depth and capabilities in terms of investment research, especially as it relates to illiquid assets. Although DPF has no plans to invest in new private assets in the near term, DPF has a considerable allocation to private assets that are in the process of being divested. Also, staff concentrated on the responses and insights pertaining to DPF's portfolio, such as the investment policy and proposed asset allocation.

Staff members independently selected their top four firms. Staff's selection of the top four firms was unanimous. Staff conducted introductory calls with each of the four firms to review the RFP responses and have any outstanding questions answered. Additional follow up items were requested by staff and delivered by the firms. Thereafter, staff coordinated calls with references that the firms provided. Follow up calls with the four firms were conducted when necessary. Staff compiled supporting documentation and notes on each firm and assigned team, fee comparisons, client base profiles, model portfolios, and notes from reference calls.

The supporting documentation and analysis were presented to the Chairman and Vice Chairman of the Board. They requested that staff rank each of the firms submitting responses.

Collectively staff scored and ranked each firm based on the following broad categories:

- 20% Organization
- 20% Strength & Experience of Team
- 15% Fit with DPF & References
- 25% Investment Philosophy, Process and Research
- 15% Performance Reporting
- 5% Fees

Based upon staff's analysis, the Chairman and Vice Chairman concurred with the staff's recommendation to schedule in-person interviews with Callan, Meketa and Verus.

At the February Board meeting it was suggested that Segal Marco be contacted as three of the trustees are on a board where Segal Marco serves as consultant and it was noted their fees are fairly low. Segal Marco was not on the initial list of firms sent the RFP because of the potential conflict with the firm serving as DPF's actuary as well as investment consultant. Staff and the Chairman and Vice Chairman received and reviewed the RFP response from Segal Marco subsequent to the decision to interview Callan, Meketa and Verus. At the request of the Chairman, Segal Marco will also be included for an in-person interview.



In-person interview meetings with the four firms have been scheduled in DPF's offices. The Chairman and Vice Chairman plan on attending with staff. The Chairman will solicit interest from the full Board and select two additional Board members to join the subcommittee and be in attendance. The goal will be to bring one or two firms to the April 12<sup>th</sup> Board meeting for the full Board to interview and make a final decision. Staff plans on making an on-site visit to the firms selected prior to the April 12<sup>th</sup> Board meeting.





**PRESENTATION  
TO THE  
DALLAS POLICE & FIRE PENSION SYSTEM**

*April 12, 2018*

**Leandro A. Festino, CFA, CAIA**  
*Managing Principal*

**Alexandra B. Wallace, CFA**  
*Principal*

**Aaron Lally, CFA, CAIA**  
*Executive Vice President*

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**M E K E T A I N V E S T M E N T G R O U P**

BOSTON  
MASSACHUSETTS

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CALIFORNIA

LONDON  
UNITED KINGDOM

[www.meketagroup.com](http://www.meketagroup.com)

**Meketa Investment Group**  
Dallas Police & Fire Pension System

**Presenters**



**Leandro A. Festino, CFA, CAIA**  
Managing Principal

- 15 years' industry experience
- Joined the firm in 2003, Shareholder
- Lead consultant on various public pension funds for both general and private markets consulting
- Speaker at numerous industry events
- Member of the firm's Emerging Manager Committee
- Member of the Texas Association of Public Employee Retirement Systems (TEXPERS)
- MBA in Finance from Boston College; BA in Economics and Mathematics from University of Evansville



**Alexandra Wallace, CFA**  
Principal

- 9 years' industry experience
- Joined the firm in 2008, Shareholder
- Lead consultant on various Taft-Hartley and public retirement systems
- Co-Chair of the firm's Emerging and Diverse Manager Investment Committee and Member of the firm's Defined Contribution Investment Committee
- BS in Economics from the University of Massachusetts



**Aaron Lally, CFA, CAIA**  
Executive Vice President

- 9 years' industry experience
- Joined the firm in 2013
- Consultant for various public pension funds and non-profits
- Responsible for investment policy development and asset allocation studies
- Member of the firm's Emerging Manager Committee
- Member of the Texas Association of Public Employee Retirement Systems (TEXPERS)
- BS in Economics from Boston College

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**Firm Overview ..... 1**

**Scope of Work ..... 2**

**How Meketa Can Help DFPF? ..... 3**

**Case Study ..... 4**

**Proposed Transition and Implementation Plan ..... 5**

**Fee Proposal ..... 6**

**Summary..... 7**

**Appendix..... 8**

## Firm Overview

## Experienced, Independent Organization

- Since 1978, Meketa Investment Group has served as an independent investment fiduciary.
- We currently work with 166 clients and advise on \$590 billion.
- We derive no revenue from investment managers, commissions, or outside vendors with respect to the advice or recommendations we provide to our clients.
- We are 100% independently owned by senior professionals of the firm.
- We operate from six offices: Boston, Chicago, Miami, Portland, San Diego, and London.

### General Consulting Services

- Initial Fund Review
- Investment Policy Design
- Asset Allocation
- Liability & Liquidity Studies
- Manager Evaluation & Selection
- Fund Coordination
- Fund Reporting & Analysis
- Client Education

### Private Markets Advisory Services<sup>1</sup>

- Strategic Planning
- Pacing Analysis
- Partnership Analysis
- Legal Review
- Cash Flow Coordination
- Program Monitoring & Review
- Client Education

<sup>1</sup> Private Markets Advisory Services are not included as part of our retainer work for DPFP. These services are available as an add-on service in the future, at the discretion of DPFP.

## Significant Public Fund Experience

- We were hired by our first public fund client in 1998.
- We currently advise on over \$475 billion for 44 public fund clients throughout the nation.
- Representative public fund clients:

City of Ann Arbor Employees' Retirement System (MI)  
 Arizona State Retirement System  
 Town of Arlington OPEB Trust (MA)  
 Austin Fire Fighters Relief and Retirement Fund (TX)  
 Bloomington Fire Department Relief Association Pension Fund, MN  
 California's Valued Trust  
 CalOptima (CA)  
 California Public Employees' Retirement System  
 California State Teachers' Retirement System  
 Connecticut Retirement Plans and Trust Funds  
 District of Columbia Retirement Board  
 El Paso Firemen & Policemen's Pension Fund (TX)  
 Employees' Retirement System  
 of the Government of the Virgin Islands  
 Fire and Police Retiree Health Care Fund, San Antonio (TX)  
 Hingham Contributory Retirement System (MA)  
 Illinois State Board of Investment  
 Industrial Commission of Arizona  
 Los Angeles County Employees' Retirement Association (CA)  
 Town of Lexington Contributory Retirement System (MA)  
 City of Marlborough Contributory Retirement System (MA)

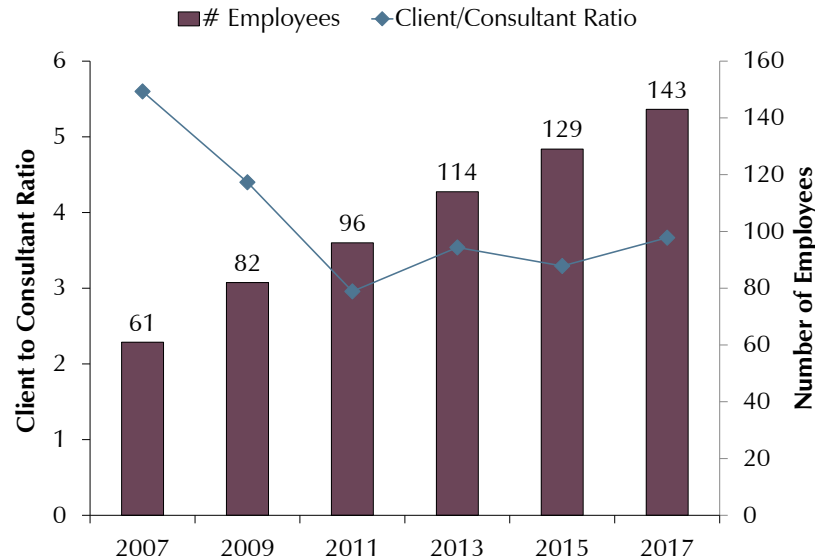
Maryland State Retirement and Pension System (MD)  
 Massachusetts Housing Finance Agency Employees' Retirement System  
 Massachusetts Housing Finance Agency Employees' OPEB Trust  
 Metropolitan Water District of Southern California  
 Montana University System  
 Municipal Employees' Retirement System of Louisiana  
 New Mexico Public Employees Retirement Association  
 Town of Norwood Retirement System (MA)  
 Orange County Employees Retirement System (CA)  
 Overseas Private Investment Corporation  
 City of Phoenix Employees' Retirement System (AZ)  
 Plymouth County Retirement Association (MA)  
 City of Quincy Retirement System (MA)  
 Regional Transportation Authority (IL)  
 Rhode Island Resource Recovery Corporation  
 City and County of San Francisco Retiree Health Care Trust Fund (CA)  
 City of San Jose Police and Fire Department (CA)  
 San Jose Federated City Employees' Retirement System (CA)  
 Washington State Investment Board  
 Worcester Retirement System (MA)  
 Wyoming Retirement System (MA)

*As of December 2017.*

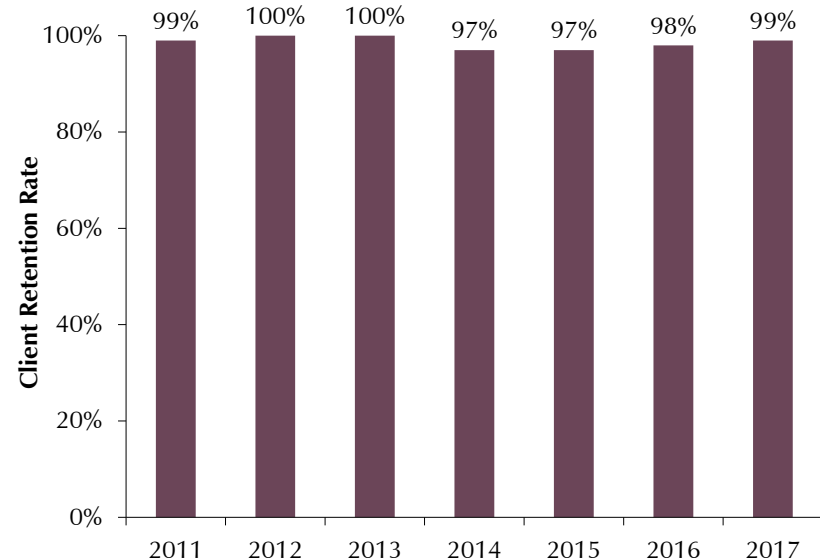
## Deep & Growing Team

- We have experienced consistent and controlled growth.
- Staff of 143, including 96 investment professionals.
- 45 consultants with an average of 9 years with the firm and 20 years in the industry.
- Highly experienced staff, including: 32 CFA Charterholders, 19 CAIAs, 1 FSA, 20 MBAs, 13 Masters, 1 PhD, and 2 JDs.
- We maintain a low client to employee ratio, resulting in high client retention.

**Client to Consultant Ratio**



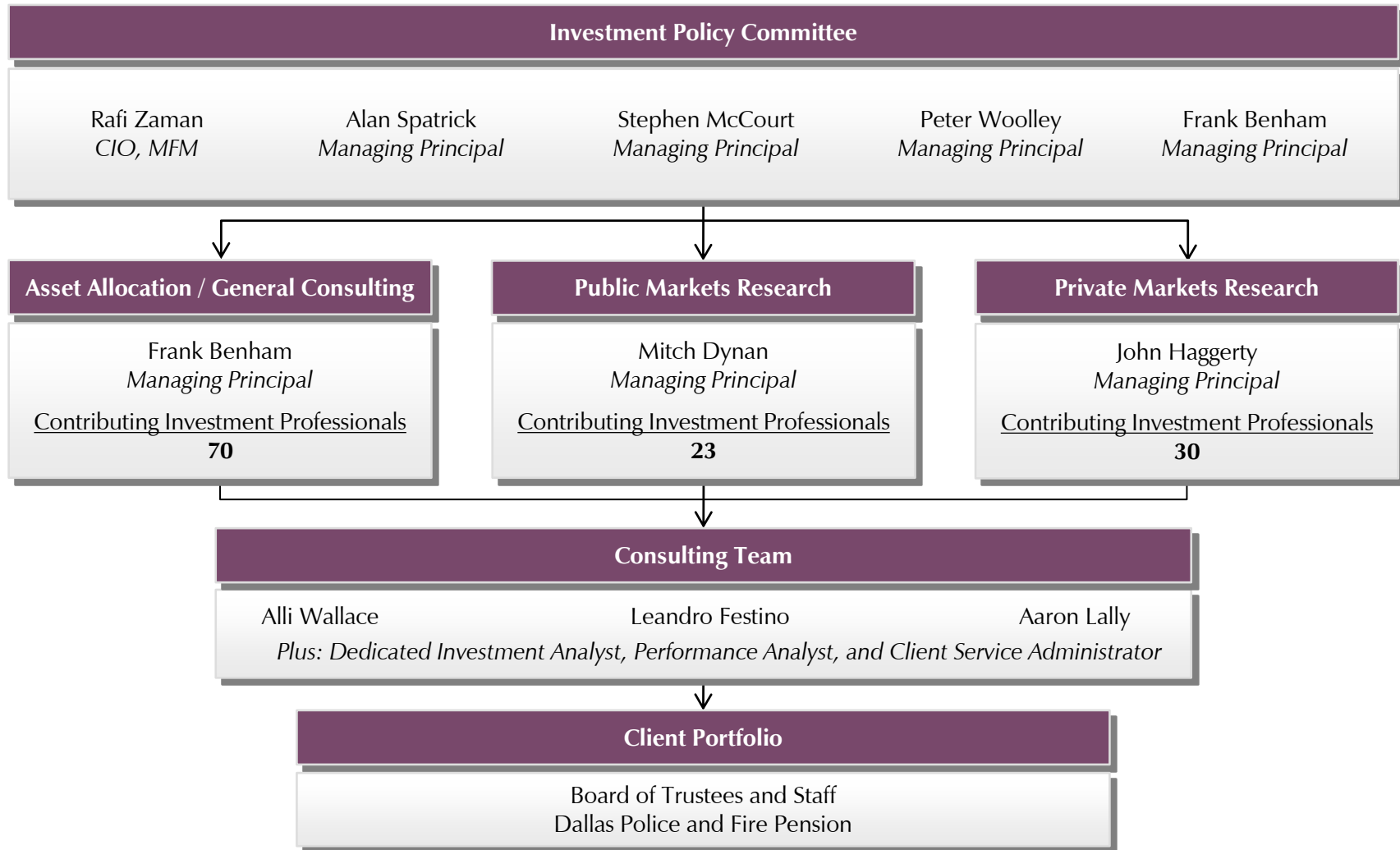
**Client Retention Rate\***



\* Client Retention Rate is one minus the number of clients lost divided by the number of clients at prior year-end.



**Institutionalized Approach to Ensure Best Ideas are Implemented Effectively & Efficiently**





## **Client Service Philosophy**

- Take an active role in the funds we serve – always fiduciaries.
- Be proactive in bringing our best ideas to clients.
- Provide continuing education on investment topics.
  - Clients should only invest in strategies they understand.
- Provide reports, analysis, and advice that are of the highest quality.
- Maintain open dialog and communication with our clients.

## Why is Meketa a Good Partner for DPFP?

- **Experienced, full-service consulting firm** – providing all of the services that DPFP needs to succeed. Ability to work collaboratively with Staff and Trustees.
- **Strong organization** – financially, organizationally, and operationally.
- **Objective, independent advice** – no canned recommendations and no conflicts of interest.
- **Investment recommendations, solutions and programs** – customized, proactive, and created exclusively for DPFP.
- **Significant Public Fund experience**
  - We have worked with public funds for 20 years and currently advise on \$475 billion for 44 public fund clients. Serving Texas-based public funds since 2009.
- **Low client to consultant ratio** – DPFP will receive personal attention from the client team.
  - We are proud of our high client satisfaction which has resulted in very high retention (~99%). Relationships are important to us and we want every client relationship to last the test of time as a partnership including DPFP's.
- **Research Focused** – Industry thought leaders, forward-thinking, producing value-added original research.

## Scope of Work

**DPFP Scope of Work**

Scope of Work	Why Meketa Investment Group?
Investment Strategies, Policies and Asset Allocation	Customized asset allocation framework, thought leadership, deep team and proactive recommendations. Significant experience developing policy and guidelines for public fund clients.
Public Markets Manager Search, Research, Due Diligence and Monitoring	Deep team of 23 research specialists. Ability to create searches to DPFP’s specifications. Proven history of negotiating attractive terms.
Performance Evaluation (includes public and private investments), Risk Analysis and Management	Simple transition using InvestorForce; ability to create custom slides and risk analysis, including peer ranking and manager monitoring comparisons. Monthly (summary) and quarterly (comprehensive) reports.
Client Service and Education	Success creating offsite and onsite customized educational presentations for clients; always available to our clients.
Research and Analysis	We are passionate about our work. We pride ourselves on conducting research on a broad number of topics, with ideas generated in-house as well as suggested by clients.
Asset Class Reviews	Long history of helping clients set up appropriate structures for each asset class. Full backing of all firm’s resources
Asset Liability Management	Considerable experience conducting Asset Liability Studies for clients, and collaborating with both internal and external actuaries and specialty consultants.
Communication	Excellent reputation for strong working relationships with Staff and Boards, desire to constantly raise the bar. Annual Survey to allow direct client feedback.
Assistance with Ad-Hoc Requests	Willing and able to assist with a variety of client requests. Available to attend regular meetings and annual workshops.
Private Markets Manager Due Diligence and Monitoring, Program Development, Annual Planning and Liquidity Studies (available as an add-on service, not part of the retainer scope of work)	Deep team of over 30 professionals with proven successful experience implementing and monitoring custom private markets programs. Ability to review and negotiate terms, conduct liquidity analyses, pacing studies and provide written recommendations.



**Comprehensive Initial Fund Review:**

- Examines existing Investment Policy Statement, asset allocation policy, and structure.
- Results in a useful guide for discussions and decision-making.
- Provides current status of the System, recommendations, and priorities.
- Use an iterative process and dialogue among our clients’ Staff, Board members, and consultants.

**M** MEKETA INVESTMENT GROUP  
CLIENT FUND

INITIAL FUND REVIEW  
SUMMARY INITIAL REVIEW

**SUMMARY INITIAL FUND REVIEW**

The table below summarizes Meketa Investment Group's initial review of the Client Pension Fund, including recommendations for action and priorities. Each recommendation is described in detail in the following pages.

Recommendation	Priority
<b>General Investment Policy</b>	
• Evaluate Investment Policy Statement	One
• Evaluate asset allocation policy	One
• Review asset class investment policies	Two
<b>Aggregate Structure Review</b>	
• Evaluate equity capitalization	One
• Broaden passive portfolios	One
• Expand fixed income exposure	One
• Establish private equity program	Two
• Review hedge fund program	Two
• Expand international equity exposure	Three
• Evaluate equity style exposure	Three
• Review real estate program	Three
<b>Performance Review</b>	
• Complete manager evaluation and conduct searches, as needed	One
• Review and update all investment guidelines & contracts	One
<b>Custody &amp; Related Services, Operating Expenses, &amp; Income Opportunities</b>	
• Review Pension Fund's custodian's services	One
• Review securities lending program	One
• Consider implementing a Crisis Response Plan	One
• Review operating expenses	Two
• Review commission recapture program	Two
• Review transition management	Three

Priority one areas will be addressed by the Trustees and Meketa Investment Group, and any recommendations implemented by Meketa Investment Group within the next nine months. Priority two areas will be addressed over the next six to eighteen months, and any recommended actions implemented within that timeframe. Priority three areas will be addressed over the next twelve to thirty-six months, and any recommended actions implemented within that timeframe.

BOSTON MARIANNE WITTE MIAMI FLORIDA PORTLAND OREGON SAN DIEGO CALIFORNIA LONDON UNITED KINGDOM  
WWW.MEKETAGROUP.COM

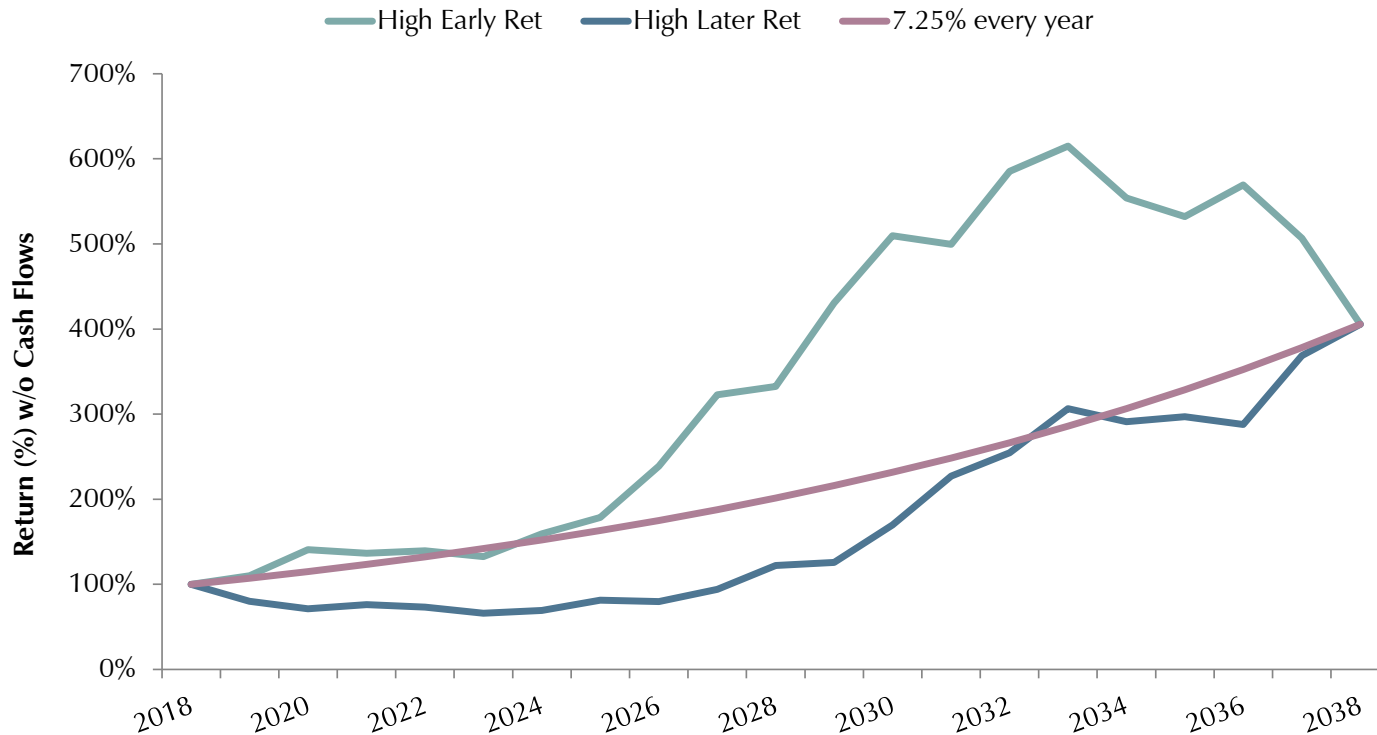
## **How Can Meketa Help DPFP?**

## **DFPF: What We Know**

- Mature plan, with similar number of active members to retirees.
- Negative cash flow position, to the tune of approximately \$120 million per year during the next 5 years.
- 7.25% assumed rate of return on investments (lower next couple of years).
- 50% funding ratio.
- 25% of assets categorized as “legacy” and “illiquid” assets.
- Another 25% of assets with limited liquidity.
- Performance below objectives.

**Key Concept: Sequence of Return, No Cash Outflows**

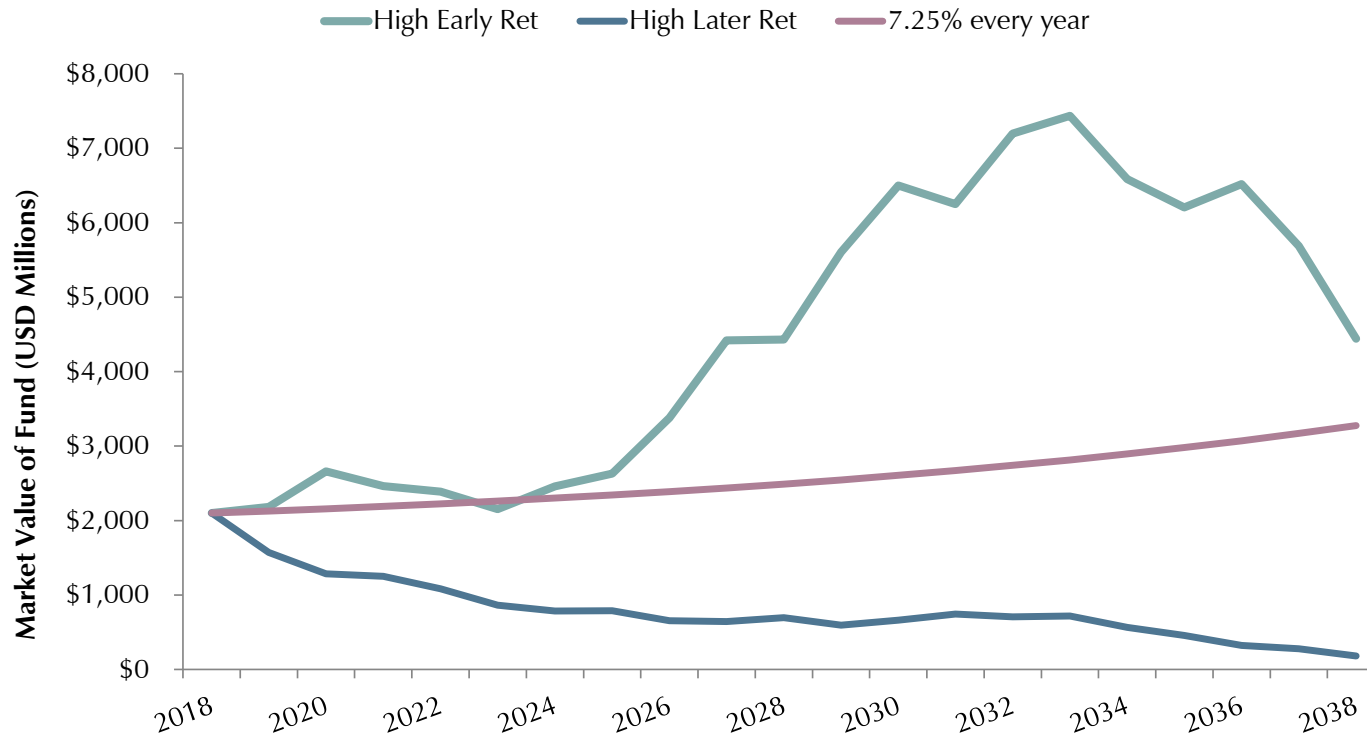
- All three scenarios have the same long-term actual return: 7.25% per annum.
- Scenario 1 (high early returns), Scenario 2 (high early losses), Scenario 3 (consistent).
- For a fund with no external cash flows, the ending value is the same.





**Key Concept: Sequence of Returns and Distressed Selling**

- The presence of cash flows leads to ending values that can differ greatly.
- Key Concept #1: (Negative) cash flows exacerbate the outcomes.
- Key Concept #2: The path of returns matters.



**Overweight downside protection and stability assets in the liquid portion of the portfolio given the risks in the “Legacy” portfolio. Add liquid growth assets as capital is returned from the “Legacy” illiquid pool of assets.**

- This is the most reasonable scenario of the three discussed at the Feb 8<sup>th</sup> DFPF meeting, and our meetings on March 13<sup>th</sup> and 19<sup>th</sup>.
- Rationale: The Fund cannot tolerate large drawdowns without a double hit to its corpus (as assets go down, withdrawals take place; the corpus becomes much smaller, so any rebound may not be meaningful in dollar terms). The higher the net cash outflow projection and the lower the funded status, the greater the downside protection needed. Given current portfolio, Fund dynamics, and market environment, it is not reasonable to expect the Fund status to be improved by investing in a high risk portfolio.
- Approach:
  - Ensure availability of assets to meet net cash outflows.
    - \$300 million (~ 15%) to be invested in cash/short duration/high quality bonds/TIPS).
    - Revisited yearly.
    - Safety Reserve<sup>®</sup>.
  - Balance to be invested more aggressively to offset the low return Safety Reserve<sup>®</sup> portfolio.

## Short-Term, Big Picture Considerations

	Target Allocation (%)	Expected Return (%)
<b>Safety Reserve / Risk Mitigation</b>	15%	3.0
<b>Global Equities / Liquid Growth Assets<sup>2</sup></b>	35%	8.0
<b>Illiquid Assets / Growth Assets</b>	25%	9.0
<b>Illiquid Legacy Assets</b>	25%	0.0
<b>DFPF</b>		5.6%

- Expected return of approximately 5.6% over the next five years.<sup>1</sup>
  - Risk mitigation assets ensure growth assets would not need to be sold under difficult times.
  - Down market still possible in a five-year period, so losses possible in the portfolio; however, cash would not need to be raised from depreciated assets at inopportune times during the first two and a half years.
  - As illiquid assets are sold/mature, liquid growth assets would increase in weight.
  - As the liquidity and status of the Fund improve, the barbell approach above (short-term allocation) would be migrated to a more efficient long-term mix with a superior risk/return profile.

<sup>1</sup> Expected return data based on Meketa Investment Group's 2018 Annual Asset Study.

<sup>2</sup> Growth Assets includes high yield, bank loans and non-U.S. Fixed Income.

## Return Progression as Legacy Assets are Sold

	Expected Return (%)
20% Legacy Assets	5.9
15% Legacy Assets	6.2
10% Legacy Assets	6.5
0% Legacy Assets	7.1

- As Legacy assets mature/are sold, forward looking returns improve.
- All scenarios assume the 15%, 2.5-year Safety Reserve<sup>®</sup> portfolio remains in place and is rolled over yearly.
- If Legacy assets were expected to lose on average 10% per year, for example, the annualized expected return drops from 5.6% to 3.1% during the next five-year period. It is therefore important to observe that the figures in the table represent the midpoint of a distribution of outcomes.

<sup>1</sup> Expected return data based on Meketa Investment Group's 2018 Annual Asset Study.

**Recap: How Can Meketa Help DFPF?**

<b>DFPF Today</b>	<b>Meketa</b>
High proportion of illiquid assets	We have the experience to plan an orderly reallocation of assets so as to maximize future returns and improve Fund liquidity. Suggest setting up short term asset targets and plan ahead for sources and uses of cash.
Complex portfolio given circumstances. Review GAA portfolio.	We feel the current GAA portfolio does not meaningfully diversify the Fund. Such portfolios are often costly and may not produce consistent, uncorrelated, strong risk-adjusted, net-of-fee returns. We can assist DFPF with a rebalancing plan into more liquid, low cost strategies that may produce similar long term risk adjusted returns.
All active mandates, could benefit from using complementary index funds.	The Fund could lower costs and improve liquidity via use of index funds in both equities and fixed income.
6% annual cash outflows. Could manage near term liquidity needs via Safety Reserve® portfolio.	We have been helping clients match/meet near term liquidity needs via implementation of customized high quality short duration fixed income portfolios.
50% funded status	We understand the implications of the ratio of assets to liabilities and can help set up an appropriate asset allocation to improve likelihood and timing for improved funded status
Performance has been subpar plotting at or near the bottom vs. peers	We have been hired in the past to turn around funds with difficult performance. We have experienced professionals who are available and believe can make a difference for the Fund.

## Case Study

## Disclosure Statement

- The following presentation is based on a specific request from Trustees of the Dallas Police and Fire Pension System to elaborate on a discussion held on March 13, 2018 about Meketa Investment Group's past experience with public pension systems with high exposure to alternative investments and legacy assets. Specifically, we were asked to provide attribution analysis since inception for a client inherited with a significant portfolio of non-performing illiquid assets.
- This document shall not create a client-advisor relationship. This document is for general information and educational purposes only, and must not be considered investment advice. Any such advice must be tailored to your situation and objectives. You should consult all available information, investment legal and accounting professionals, before making or executing any investment strategy.
- You must exercise your own independent judgment when making any investment decision. All information contained in this document is provided "as is", without any representations or warranties of any kind. We disclaim all express and implied warranties including those with respect to accuracy, completeness, timeliness or fitness for a particular purpose. We assume no responsibility for any losses, whether direct, indirect, special or consequential, which arise out of the use of this document.
- Nothing in this document should be interpreted to state or imply that past results are an indication of future performance. Investing involves substantial risk. It is highly unlikely that the past will repeat itself. Selecting an advisor, fund, or strategy based solely on past returns is a poor investment strategy. Past performance does not guarantee future results.

## Sample 5-Year Progress Report

- Meketa Investment Group started working with the Retirement System May 1, 2013. Since, the Board of Trustees has made significant progress in reducing complexity and fees.
- We estimate the Retirement System will save nearly \$5 mm per year<sup>1</sup>, in investment management fees as a result of the increase in passive strategies and decrease in hedge funds and other alternative asset classes.

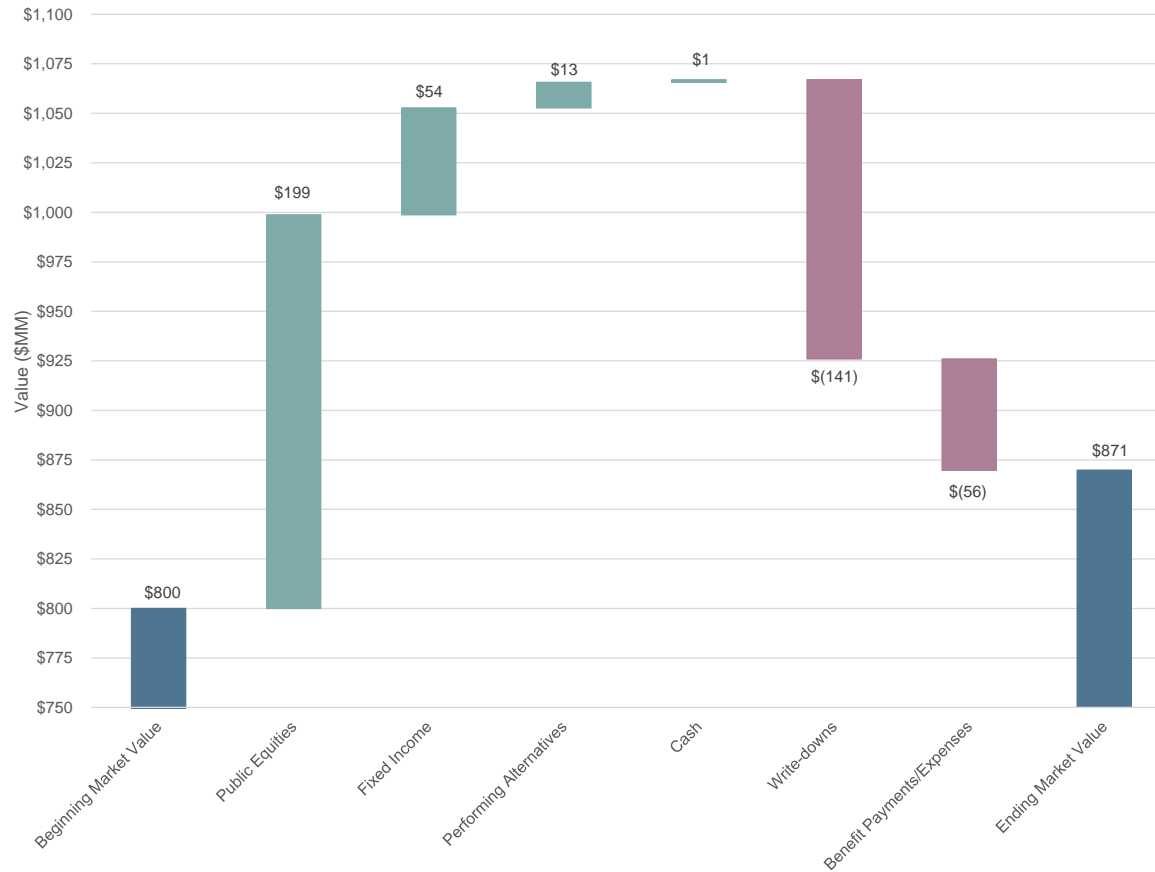
	March 31, 2013	January 31, 2018	Progress Summary
<b>Number of Strategies</b>	52	24 <sup>2</sup>	Number of strategies cut in half
<b>% in Alternatives</b>	52%	11%	Alternatives reduced by 75%
<b>% in Passive</b>	4%	59%	15x increase in passive strategies
<b>Estimated Annual Management Fees</b>	\$7.2 million	\$2.5 million	Nearly \$5 million in annual savings
<b>Estimated Annual Management fees</b>	0.90%	0.29%	Effective fee cut by 2/3ds
<b>Market Value</b>	\$800 million	\$871 million	+ \$87 million appreciation despite -\$141 million reduction from write-downs on legacy assets incurred during MIG tenure.

<sup>1</sup> Relative to the estimated fees paid annually prior to engaging Meketa Investment Group as consultant. Meketa Investment Group started working with the Retirement System May 1, 2013.

<sup>2</sup> Number includes two investments being sold on secondary market (signed LOI but have not closed yet) and one investment being liquidated (audit hold back period).



### Decomposition of Market Value Appreciation



- The majority of market value appreciation for this client<sup>1</sup> over the past five years was from public equities.

<sup>1</sup> Meketa Investment Group began working with this client in May 2013. The client has subsequently transitioned from a 50% target to alternatives to a 15% target. Current exposure is 11%. The client defines alternatives as everything other than public equity and public fixed income strategies.



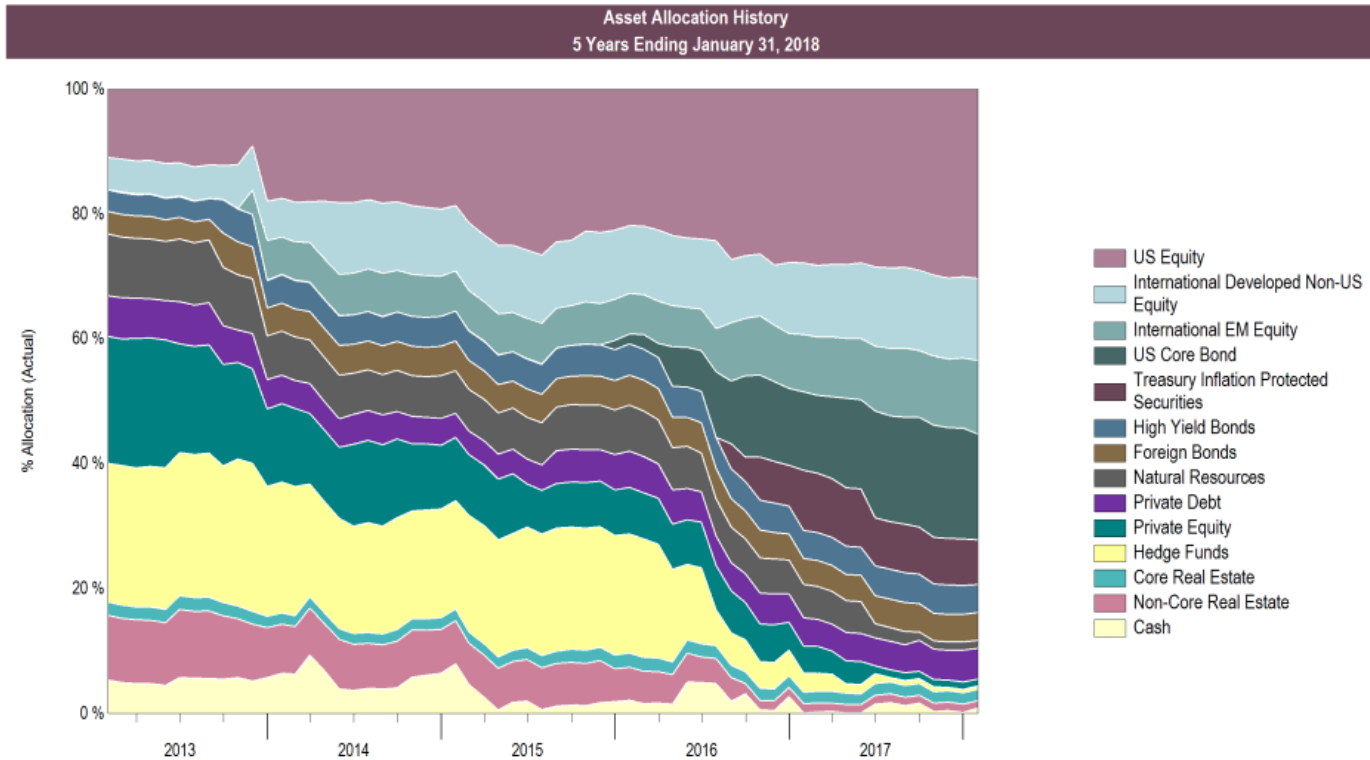
### Reduction in Alternatives<sup>1</sup>

Year	Amount	To
2014	-\$55 million	Equities (+\$35 mm), Cash (+\$5 mm), Benefit Payments/Outflows (\$15 mm)
2015	-\$14 million	Public Equities (+\$14 mm)
2016	-\$139 million	Fixed Income (+\$139 mm)
2017	-\$36 million	Fixed Income (+\$36 mm)

- The majority of alternatives distributions/liquidations occurred in 2016 when six hedge funds were terminated and a package of six non-core real estate funds were sold on the secondary market.
- Most proceeds from alternatives have been allocated to fixed income and public equities.

<sup>1</sup> Meketa Investment Group began working with this client in May 2013. The client has subsequently transitioned from a 50% target to alternatives to a 15% target. Current exposure is 11%. The client defines alternatives as everything other than public equity and public fixed income strategies.

## Asset Exposure Progression



- Meketa Investment Group started working with this client in May 2013. Portfolio exposure has evolved significantly over the past five years<sup>1</sup>.

<sup>1</sup> Meketa Investment Group began working with this client in May 2013. The client has subsequently transitioned from a 50% target to alternatives to a 15% target. Current exposure is 11%. The client defines alternatives as everything other than public equity and public fixed income strategies.

## **Proposed Transition and Implementation Plan**

**Once a contract is executed, we work at each client’s pace to ensure a smooth transition. A sample timeline is below.**

Week 1 to Week 4	Week 5 to Week 8	Week 9 to Week 12	Week 13 & Beyond
<ul style="list-style-type: none"> <li>☑ Gather all critical data for the System from current providers (managers, custodian, actuary, etc.)</li> <li>☑ Schedule due diligence meetings with each of the System’s managers</li> <li>☑ Begin review of investment policy, asset allocation, manager roster and other critical Fund components</li> </ul>	<ul style="list-style-type: none"> <li>☑ Complete initial investment policy review</li> <li>☑ Complete initial asset allocation review</li> <li>☑ Complete initial manager due diligence meetings</li> <li>☑ Finalize Initial Fund Review</li> </ul>	<ul style="list-style-type: none"> <li>☑ Present Initial Fund Review to Board</li> <li>☑ Review investment policy with Board</li> <li>☑ Review asset allocation policy with Board</li> <li>☑ Review manager roster analysis with Board</li> </ul>	<ul style="list-style-type: none"> <li>☑ Begin to implement Board decisions</li> <li>☑ Continue dialogue with Board regarding other components critical to running a successful investment program</li> </ul>

# Fee Proposal

## Fee Schedule

	Fee
<b>Year One</b>	\$325,000
<b>Year Two</b>	\$330,000
<b>Year Three</b>	\$335,000
<b>Year Four</b>	\$340,000
<b>Year Five</b>	\$345,000

- Fees will be billed in quarterly installments and in arrears.
- The annual fee covers all activities and expenses necessary to provide the Services. Travel and expenses to and from the Dallas vicinity will be included in the annual fee. Pre-approved travel outside of the Dallas vicinity will be billed at cost. Delivery charges, postage, and related expenses will be billed at cost.

## Additional Private Markets Services

	<b>Fee</b>
<b>Investment/Manager Searches (excluding secondary and co-investments)</b>	\$35,000 per search
<b>Secondary and Co-Investment Searches</b>	\$50,000 per search
<b>One-time Private Market Program Development</b>	Not to exceed \$100,000
<b>Private Market Pacing Study</b>	Not to exceed \$75,000 per study
<b>Annual Investment Plan</b>	Not to exceed \$75,000 per year, per plan
<b>Private Market Professional In-Person Meeting Attendance</b>	Four meetings included, \$5,000 per person per each additional meeting
<b>Attendance at Investor Advisory Board / Investor Annual Meetings</b>	\$5,000 per person, per meeting
<b>Other Private Market Services</b>	Fees to be mutually agreed upon by the parties.



# Summary

## Competitive Advantages

- Experienced, stable consulting firm
- Proactive, customized, team approach
- Fiduciary responsibility
- Deep resources
- High consultant to client ratio
- Full service consultant
- Objective, independent advice
- Research Focused – Industry Thought Leaders
- Significant Public Fund experience
- Customized investment solutions and programs
- Strong investment results

*Thank you for the opportunity to meet with you and present our capabilities.*

*We are excited about the prospect of serving the  
Dallas Police & Fire Pension System  
and believe we would be a great fit for your organization.*

*It would be an honor and a privilege to serve as your investment consultant.*

# Appendix

## Meketa Investment Group

### Dallas Police & Fire Pension System

## Representative Client List

### Public

City of Ann Arbor (MI) Employees' Retirement System  
 Arizona State Retirement System  
 Austin (TX) Fire Fighters Relief & Retirement Fund  
 Bloomington Fire Department Relief Association Pension Fund, MN  
 California Public Employees' Retirement System  
 California State Teachers' Retirement System  
 California's Valued Trust  
 District of Columbia Retirement Board  
 El Paso (TX) Firemen & Policemen's Pension Fund  
 Employees' Retirement System of the Government of the Virgin Islands  
 Fire and Police Retiree Health Care Fund, San Antonio (TX)  
 Hingham (MA) Contributory Retirement System  
 Illinois State Board of Investment  
 Industrial Commission of Arizona  
 Los Angeles (CA) County Employees Retirement Association  
 City of Marlborough (MA) Contributory Retirement System  
 Maryland State Retirement and Pension System  
 Massachusetts Housing Finance Agency Employees' Retirement System  
 Metropolitan Water District of Southern California  
 Municipal Employees' Retirement System of Louisiana  
 New Mexico Public Employees Retirement Association  
 Orange County (CA) Employees Retirement System  
 City of Phoenix (AZ) Employees' Retirement System  
 Plymouth County (MA) Retirement Association  
 City of Quincy (MA) Retirement System  
 Rhode Island Resource Recovery Corporation  
 City and County of San Francisco (CA) Retiree Health Care Trust Fund  
 San Jose (CA) Federated City Employees' Retirement System  
 Washington State Investment Board  
 Worcester (MA) Retirement System  
 State of Wyoming, Wyoming Retirement System

### Endowment, Foundation, and Non-Profit

Albuquerque Academy  
 Arizona's Permanent State Land Funds Endowment  
 Arizona State University  
 Coe College  
 Community College League of California  
 Gumpert Foundation  
 Illinois Wesleyan University  
 Jacksonville University  
 Joint Center for Radiation Therapy Foundation, Inc.  
 League of Voluntary Hospitals and Homes of New York Retired Employees  
 Massachusetts Medical Society  
 Neighborhood Health Plans of Rhode Island, Inc.  
 Pfaffinger Foundation  
 Rady Children's Hospital and Health Center  
 South Shore Hospital  
 USA Volleyball Foundation  
 United States Polo Association  
 University of Wyoming Foundation  
 Utah State University  
 Utah Valley University  
 Warren Wilson College  
 Wells College

### Corporate and Other For Profit

Argon Medical Devices, Inc.  
 Boston Herald, Inc.  
 Dedert Corporation  
 Fitch Even Tabin & Flannery  
 Gemalto, Inc.  
 The Marnell Companies, LLC  
 Marnell Sher Companies Associates, Inc.  
 The O'Connell Companies, Inc.  
 Solymer, Inc.

**Meketa Investment Group**  
Dallas Police & Fire Pension System

**Representative Client List**

**Multi-Employer and Taft-Hartley**

I.A.T.S.E. Local 33  
 I.A.T.S.E. National Benefit Funds  
 Airconditioning and Refrigeration Industry  
 Alaska United Food and Commercial Workers  
 American Federation of Musicians and Employers  
 American Federation of Television and Radio Artists  
 Building Service 32BJ  
 Communication Workers of America  
 Five Rivers Carpenters  
 Heat & Frost Insulators Local 6  
 Heat and Frost Insulators and Allied Workers Local 25  
 Heat and Frost Insulators and Allied Workers Local 47  
 IBEW Local 117  
 IBEW Local No. 9 and Line Clearance Contractors  
 IBEW Local Union No. 461  
 International Brotherhood of Electrical Workers Local No. 150  
 International Union of Operating Engineers Local No. 98  
 Iron Workers of Western Pennsylvania  
 Laborers' District Council and Contractors of Ohio  
 Local 6 Club Employees  
 Local Union No. 131 International Brotherhood of Electrical Workers  
 Lucent Supplemental Healthcare Benefits Trust  
 for Formerly Represented Retirees  
 Massachusetts Construction Advancement Program  
 Massachusetts Laborers  
 Michigan Laborers  
 Minnesota Laborers  
 Minnesota Teamsters Construction Division  
 NECA-IBEW Local 364  
 New England Carpenters  
 New York State Nurses Association  
 New York State Teamsters

**Multi-Employer and Taft-Hartley, (cont.)**

New York State Teamsters Council –  
 United Parcel Service Retiree Health Fund  
 Northwest Ohio Carpenters  
 OCU Pension and Health & Welfare Trusts  
 Painters and Allied Trades District Council No. 35  
 Plumbers & Pipefitters, Local Union #51  
 Plumbers Local Union No. 1  
 Producer-Writers Guild of America  
 Retail Food Employers and UFCW Local 711  
 Rhode Island Carpenters  
 Service Employees 32BJ North  
 Sheet Metal Workers' Local No. 9  
 Sheet Metal Local 10  
 Sheet Metal Workers' Local 219  
 Social Service Employees Union Local 371  
 Southern California Pipe Trades  
 Southern California Plastering Institute  
 Southern California United Food & Commercial Workers Unions  
 Southern Nevada Carpenters  
 Teamsters Local 251  
 Teamsters Union 25  
 Teamsters Union Local 170  
 Twin City Iron Workers  
 UA Local 125  
 UNITE HERE Local 25 and Hotel Association of Washington, D.C.  
 Western States Insulators and Allied Workers

**VEBA**

Goodyear Retiree Healthcare Trust  
 National Steel Retiree VEBA Benefit Plan  
 VEBA for Retirees of Kaiser Aluminum  
 Union Pacific Railroad Employee Health Systems



**Meketa Investment Group**  
Dallas Police & Fire Pension System

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## DISCUSSION SHEET

### ITEM #C3

**Topic:**

**Investment-related items**

- a. Consideration of the liquidation of GAA asset class
- b. Consideration of the redeployment of excess cash

**Discussion:**

- a. The Chairman has requested that the Board review liquidating the entire Global Asset Allocation (GAA) portfolio and possible reinvestment options. The GAA portfolio is composed of three sub-asset classes; Risk Parity, GTAA, and Absolute Return. The GAA portfolio represents approximately 7% of DPFP's assets (\$144 million).
- b. The Chairman has requested staff to make a recommendation on redeploying excess cash, which is currently \$132 million or 6.4% of the portfolio. Staff recommends redeploying a portion of the excess cash to Income Research + Management (IR+M) up to 5%, which is the upper bound of the asset class target range for Short-Term Core Bonds. This will result in a cash allocation of 3.8% versus the target allocation of 2%. It is anticipated that the new investment consultant will have input on the use of excess cash as well as other allocation issues.

**Recommendation:**

- a. Available at meeting.
- b. Staff recommends **redeploying** a portion of the excess cash to IR+M up to 5%, which is the upper bound of the asset class target range for Short-Term Core Bonds.

*Regular Board Meeting – Thursday, April 12, 2018*



**DALLAS POLICE & FIRE GROUP**

Based on Prelim 4/4/18 Net Asset Value

	Liquidity	Actual		Rebalance	Post Rebalancing		Target	Target Range		
		\$ (M)	%	\$	\$ (M)	%	\$ (M)	Low	%	High
<b>EQUITY</b>										
Boston Partners	Daily	107.05			107.05					
Manulife	Daily	110.63			110.63					
OFI Global Institutional	Daily	107.68			107.68					
Walter Scott	Daily	109.57			109.57					
<b>GLOBAL EQUITY</b>		<b>435.13</b>	<b>20.93%</b>	-	<b>435.13</b>	<b>20.93%</b>	<b>415.86</b>	10%	20%	23%
RBC EM Equity	Weekly	50.27			50.27					
<b>EMERGING MARKET EQUITY</b>		<b>50.27</b>	<b>2.42%</b>	-	<b>50.27</b>	<b>2.42%</b>	<b>103.97</b>	0%	5%	8%
Hudson Clean Energy	Illiquid	8.30			8.30					
Huff Alternative Fund	Illiquid	33.57			33.57					
Huff Energy Fund LP	Illiquid	119.41			119.41					
Industry Ventures	Illiquid	1.93			1.93					
Lone Star CRA	Illiquid	39.22			39.22					
Lone Star Growth Capital	Illiquid	1.59			1.59					
Lone Star Opportunities V	Illiquid	32.94			32.94					
North Texas Opportunity Fund	Illiquid	2.02			2.02					
Yellowstone Capital	Illiquid	0.11			0.11					
<b>PRIVATE EQUITY</b>		<b>239.10</b>	<b>11.50%</b>	-	<b>239.10</b>	<b>11.50%</b>	<b>103.97</b>	4%	5%	15%
<b>TOTAL EQUITY</b>		<b>724.50</b>	<b>34.84%</b>	-	<b>724.50</b>	<b>34.84%</b>	<b>623.80</b>	20%	30%	40%
<b>FIXED INCOME</b>										
Income Research + Management	Daily	49.98		54.00	103.98					
<b>SHORT-TERM CORE BONDS</b>		<b>49.98</b>	<b>2.40%</b>	<b>54.00</b>	<b>103.98</b>	<b>5.00%</b>	<b>41.59</b>	0%	2%	5%
Brandywine	Daily	68.85			68.85					
<b>GLOBAL BONDS</b>		<b>68.85</b>	<b>3.31%</b>	-	<b>68.85</b>	<b>3.31%</b>	<b>62.38</b>	0%	3%	6%
Loomis Sayles	Daily	81.90			81.90					
<b>HIGH YIELD</b>		<b>81.90</b>	<b>3.94%</b>	-	<b>81.90</b>	<b>3.94%</b>	<b>103.97</b>	2%	5%	8%
Loomis Sayles Sr. Floating Rate	Bi-Weekly	60.24			60.24					
Pacific Asset Management	Monthly	51.42			51.42					
<b>BANK LOANS</b>		<b>111.66</b>	<b>5.37%</b>	-	<b>111.66</b>	<b>5.37%</b>	<b>124.76</b>	3%	6%	9%
Ashmore EM Blended Debt	Monthly	20.43			20.43					
<b>EMERGING MARKET DEBT</b>		<b>20.43</b>	<b>0.98%</b>	-	<b>20.43</b>	<b>0.98%</b>	<b>124.76</b>	0%	6%	9%
<b>ABSOLUTE RETURN &amp; STRUCTURED CREDIT</b>		<b>0.00</b>	<b>0.00%</b>	-	<b>0.00</b>	<b>0.00%</b>	<b>124.76</b>	0%	6%	9%
Highland Crusader Fund	Annual	2.30			2.30					
Oaktree Fund IV & 2x Loan Fund	Illiquid	0.01			0.01					
Riverstone Credit Partners	Illiquid	8.46			8.46					
<b>PRIVATE CREDIT</b>		<b>10.77</b>	<b>0.52%</b>	-	<b>10.77</b>	<b>0.52%</b>	<b>103.97</b>	2%	5%	7%
<b>TOTAL FIXED INCOME</b>		<b>343.59</b>	<b>16.52%</b>	<b>54.00</b>	<b>397.59</b>	<b>19.12%</b>	<b>686.18</b>	15%	33%	38%
<b>GLOBAL ASSET ALLOCATION (GAA)</b>										
Bridgewater All Weather	Monthly	44.01		-	44.01					
Putnam	Weekly	39.55			39.55					
<b>RISK PARITY</b>		<b>83.56</b>	<b>4.02%</b>	-	<b>83.56</b>	<b>4.02%</b>	<b>103.97</b>	2%	5%	8%
GMO	Monthly	23.80			23.80					
<b>GTAA</b>		<b>23.80</b>	<b>1.14%</b>	-	<b>23.80</b>	<b>1.14%</b>	<b>62.38</b>	0%	3%	6%
Bridgewater Pure Alpha	Monthly	36.84			36.84					
<b>ABSOLUTE RETURN</b>		<b>36.84</b>	<b>1.77%</b>	-	<b>36.84</b>	<b>1.77%</b>	<b>41.59</b>	0%	2%	5%
<b>TOTAL GAA</b>		<b>144.20</b>	<b>6.93%</b>	-	<b>144.20</b>	<b>6.93%</b>	<b>207.93</b>	5%	10%	15%
<b>REAL ASSETS</b>										
<b>LIQUID REAL ASSETS</b>		<b>0.00</b>	<b>0.00%</b>	-	<b>0.00</b>	<b>0.00%</b>	<b>62.38</b>	0%	3%	6%
Forest Investment Associates	Illiquid	14.64			14.64					
BTG Pactual Asset Management	Illiquid	36.73			36.73					
Hancock Agricultural	Illiquid	149.37			149.37					
<b>NATURAL RESOURCES</b>		<b>200.73</b>	<b>9.65%</b>	-	<b>200.73</b>	<b>9.65%</b>	<b>103.97</b>	3%	5%	10%
JP Morgan Asian Infrastructure	Illiquid	24.64			24.64					
JP Morgan Asian Infrastructure II	Illiquid	4.45			4.45					
JP Morgan Global Maritime	Illiquid	32.50			32.50					
<b>INFRASTRUCTURE</b>		<b>61.59</b>	<b>2.96%</b>	-	<b>61.59</b>	<b>2.96%</b>	<b>103.97</b>	3%	5%	10%
<b>REAL ESTATE (CONFIDENTIAL)</b>		<b>472.61</b>	<b>22.73%</b>	-	<b>472.61</b>	<b>22.73%</b>	<b>249.52</b>	10%	12%	25%
<b>TOTAL REAL ASSETS</b>		<b>734.93</b>	<b>35.34%</b>	-	<b>734.93</b>	<b>35.34%</b>	<b>519.83</b>	20%	25%	45%
<b>CASH</b>										
<b>CASH &amp; EQUIVALENTS</b>		<b>132.10</b>	<b>6.35%</b>	<b>(54.00)</b>	<b>78.10</b>	<b>3.76%</b>	<b>41.59</b>	0%	2%	5%
<b>NET ASSET VALUE</b>		<b>2,079.32</b>	<b>100%</b>		<b>2,079.32</b>	<b>100%</b>				<b>100%</b>



## DISCUSSION SHEET

### ITEM #C4

**Topic:** Investment watchlist criteria

**Discussion:** At the March 8, 2018 Board meeting, the Board requested a briefing on the investment manager “watchlist” policy. Staff will provide a review of the Investment Monitoring section of the current Investment Policy Statement.

*Regular Board Meeting – Thursday, April 12, 2018*



D A L L A S  
POLICE & FIRE  
PENSION SYSTEM



# Investment Watchlist Criteria

*April 12, 2018*

## Investment Policy Statement Summary Watchlist Criteria

- *Staff and Consultant are responsible for monitoring investment managers relative to peers*
- *Consultant will highlight underperforming investment managers in the quarterly report and staff and consultant will provide recommendations to “hold” or “sell”*

### **Criteria:**

- 1. Rolling 3-year return in excess of peer group average**
- 2. Rolling 3-year risk-adjusted returns in excess of peer group average**
- 3. Qualitative requirements to be satisfied in all time periods**

# Policy Compliance Test Example

## POLICY COMPLIANCE TEST: TRADITIONAL MANAGERS

### 3 Year Rolling Excess Return Violations:

Manager	Return Rank	NEPC Recommendation
<b>Global Equity</b>		
Walter Scott	58	HOLD
<b>Public Fixed Income</b>		
Brandywine	73	HOLD

### 3 Year Rolling Risk-Adjusted Excess Return Violations:

Manager	Sharpe Ratio Rank	NEPC Recommendation
<b>Public Fixed Income</b>		
IR&M	52	HOLD
Brandywine	80	HOLD
Loomis Sayles HY	88	HOLD
Loomis Sayles SBL	83	HOLD
<b>GAA</b>		
Bridgewater AW	60	HOLD

### Qualitative Concerns:

Manager	NEPC Status
GMO <sup>1</sup>	HOLD (No Searches)

<sup>1</sup>NEPC no longer has concerns regarding the overall stability of GMO and assets under management for the asset allocation team. During the time NEPC has had GMO on HOLD, Ben Inker has remained the sole head of the asset allocation team, and there have been no major changes to the group. NEPC remains confident in the investment process and personnel on the asset allocation strategies. Effective 2/12/18, NEPC has upgraded the strategies from HOLD to NO ACTION.

Note: 'N/A' denotes that the Board has voted to terminate the manager in question. However, market exposure will be maintained with managers that have previously been approved for liquidation and to rebalance if additional cash is needed.



## DISCUSSION SHEET

### ITEM #C5

**Topic:** 2017 audit plan

**Attendees:** Jill Svoboda, BDO, Partner  
Rachel Pierson, BDO, Manager

**Discussion:** Representatives from BDO, DPF's external independent audit firm, will be present to discuss their audit plan for the year ended December 31, 2017.

*Regular Board Meeting – Thursday, April 12, 2018*



# AUDIT PLANNING

DECEMBER 31, 2017

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

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April 12, 2018

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

Professional standards require us to communicate with you regarding matters related to the plan audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. This report provides an overview of our plan for the audit of the financial statements of the Dallas Police and Fire Pension System (the System) as of and for the year ending December 31, 2017, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work, including procedures applied to management's discussion and analysis (MD&A), required supplementary information and schedules and any other permitted services requested by the System.

We are pleased to be of service to the System and are always available to discuss our audit plan as well as other matters that may be of interest to you.

Respectfully,

/s/ BDO USA, LLP

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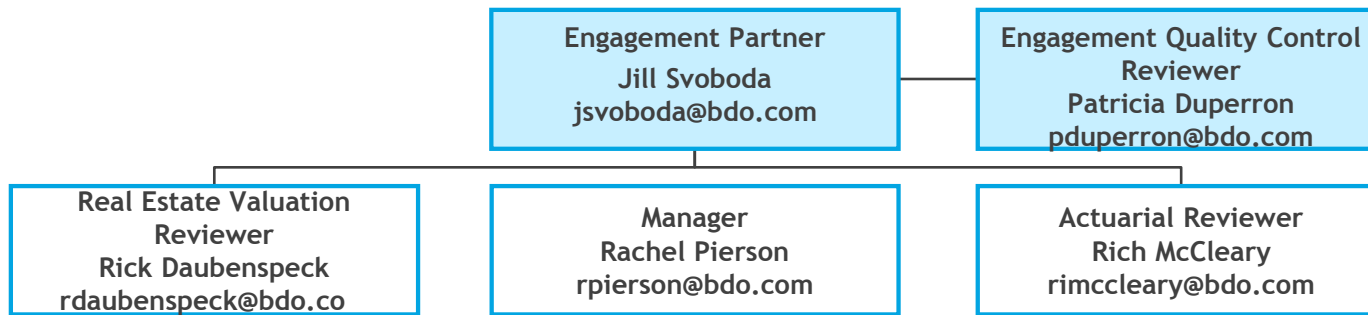
# Discussion Outline

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# Client Service Team

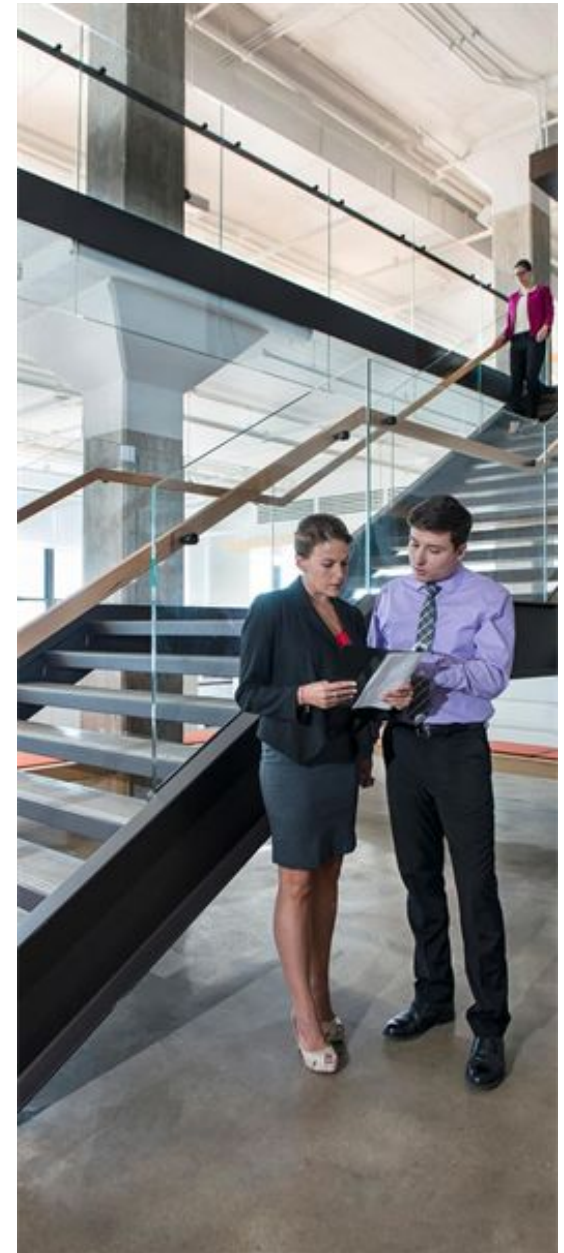
Our client service team members for this year's audit are listed in the organizational chart below. As a matter of policy, we attempt to provide continuity of service to our clients to the greatest extent possible in accordance with mandated partner rotation rules and other circumstances that may impact continuity. Where engagement team rotation is necessary, we will discuss this matter with those charged with governance and determine the appropriate new individual to be assigned to the engagement based on particular experience, expertise, and engagement needs.



# Management's Responsibilities

System management is responsible for preparing, with the oversight of those charged with governance, the financial statements and disclosures in conformity with accounting principles generally accepted in the United States of America (GAAP) and adhere to the guidance established by the Governmental Accounting Standards Board (GASB) as of December 31, 2017. The System management's responsibilities also include the following:

- ▶ Establish and maintain effective internal control over financial reporting and proper accounting records.
- ▶ Identify and ensure compliance with relevant laws and regulations.
- ▶ Safeguard the System's assets.
- ▶ Select appropriate accounting principles.
- ▶ Use reasonable judgments and accounting estimates.
- ▶ Complete GAAP and GASB disclosure checklists to ensure there are no significant financial statement disclosure deficiencies.
- ▶ Make all financial records and related information available to BDO.
- ▶ Record material audit adjustments and affirm to BDO that the impact of uncorrected misstatements, if any, is immaterial to the financial statements taken as a whole.
- ▶ Provide BDO with a letter confirming representations made during the audit.



# Engagement Objectives

Our objectives with respect to the audit of the System's financial statements are summarized below:

- ▶ Plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. An audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards does not provide absolute assurance relative to or any guarantee of the accuracy of the financial statements and is subject to the inherent risk that errors or fraud, if they exist, may not be detected.
- ▶ As part of our engagement, we will apply certain limited procedures to the required supplementary information (RSI) in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation, and comparing the information for consistency with management's responses to our inquiries. We will not express an opinion or provide any form of assurance on the RSI.
- ▶ Obtain a sufficient understanding of the System's internal control to plan the audit of the financial statements. However, such understanding is required for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.
- ▶ Communicate our responsibilities in relation to the audit and establish an understanding of the terms of the engagement, including our engagement letter dated November 8, 2017 previously reviewed and approved by management.
- ▶ Provide an overview of the overall audit strategy and planned scope and timing of the audit.
- ▶ Inquire of those charged with governance about risks of material misstatement, including fraud risks, and whether those charged with governance are aware of other matters that may be relevant to the audit such as, but not limited to, violations or possible violations of laws or regulations, and complaints or concerns raised regarding accounting or auditing matters.



# Engagement Objectives

- ▶ Communicate with System management and those charged with governance regarding significant deficiencies and material weaknesses identified during our audit, and other timely observations that are significant and relevant to the financial reporting process.
- ▶ Read information in other documents containing the System's audited financial statements (e.g., the Comprehensive Annual Financial Report). As we will perform only limited procedures on this information, we cannot and do not offer an opinion or any other form of assurance on such information. However, in accordance with professional standards, we will read the information included by the System and consider whether such information, or the manner of its presentation, is materially consistent with its presentation in the System financial statements. Our responsibility also includes calling to System management's attention any information that we believe is a material misstatement of fact.
- ▶ Consult regarding accounting and reporting matters as needed throughout the year.
- ▶ Work with System management toward timely issuance of financial statements.
- ▶ Maintain our independence with respect to the System.
- ▶ Ensure that those charged with governance are kept appropriately informed in a timely manner of the System's financial reporting matters; comply with professional standards as to communications with those charged with governance.

## OVERALL AUDIT STRATEGY

# Planned Scope

Overall, our audit strategy is to focus on higher risk areas of material misstatement (whether due to error or fraud) and other areas of concern for Plan management and those charged with governance.

Our audit strategy includes consideration of:

- ▶ Prior year audit results together with recent System results, investment industry results, regulatory changes, significant current year events, and discussions with management and those charged with governance regarding the System's operations, activities, and risks.
- ▶ Inherent risk within the System (i.e., the susceptibility of the financial statements to material error or fraud) before recognizing the effectiveness of the control systems.
- ▶ A continual assessment of materiality thresholds based upon qualitative and quantitative factors affecting the System.
- ▶ Recent developments within the industry, regulatory environment, and general economic conditions.
- ▶ Recently issued and effective accounting and financial reporting guidance- refer to "GASB standards Effective and/or Issued in 2017" later in this document.
- ▶ The System's significant accounting policies and procedures, including those requiring significant management judgments and estimates and those related to significant unusual transactions.
- ▶ The control environment, risk management and monitoring processes, and the possibility that the control systems and procedures may fail to prevent or detect a material error or fraud. We do not expect to perform tests of controls and will plan a substantive audit only.
- ▶ Information about systems and the computer environment in which financial records and related systems operate (including the custodian's service provider's systems as reported in their SOC 1 reports).
- ▶ Possible internal plan changes for the audited plan year, such as the following:
  - ✓ Accounting systems
  - ✓ System management personnel or those charged with governance
  - ✓ Internal control processes in accounting and financial reporting
  - ✓ Service providers (such as actuary, legal, custodian, investment managers, etc.)

## OVERALL AUDIT STRATEGY

# Planned Scope

- ✓ Custodian and/or investment advisor agreements
- ✓ System amendments
- ✓ System policies and practices (Considering all new policies put into place in 2017 and ensuring previous policies put into place are being adhered to)
- ✓ Workforce (significant layoffs, terminations, future reductions in force)
- ▶ Possible issues impacting the audit, such as the following:
  - ✓ System management's review of the recent System results when compared to the investment industry results
  - ✓ Regulatory reviews or communications and/or pending litigation
  - ✓ Errors or fraud related to the System
  - ✓ Misappropriation of System assets
  - ✓ Concerns about fictitious participants or distributions made to missing, ineligible, or incorrect individuals
  - ✓ Fees and expenses paid to inappropriate vendors
  - ✓ Significant assumptions used in the valuation of the System assets
  - ✓ Significant assumptions used in the actuarial determination of the total pension liability
  - ✓ Effect of 2017 activity and impact on the System's Net Position including effects on debt covenants, agreements and amendments

## OVERALL AUDIT STRATEGY

# Planned Scope

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

- ▶ Fraud Risk
- ▶ Entity/System Level Internal Controls Over Financial Reporting
- ▶ Actuarial Valuation
- ▶ Compliance with Plan Documents (eligibility, contributions/contribution receivables, and benefit payments)
- ▶ Investments (Existence and Valuation)
- ▶ Other Receivables, Payables and System Expenses, including compliance with debt covenants and new debt agreements and amendments
- ▶ Investment Income (Loss)
- ▶ Other Matters, Including Proper Disclosures, Accounting and Financial Reporting for Pensions, Legal Matter Disclosures
- ▶ Evaluation of Related Party Transactions





# Primary Areas of Focus and Audit Strategy

## FRAUD RISK

Consideration	Approach
<ul style="list-style-type: none"> <li>▶ Fraud risk may be impacted by the following characteristics:               <ul style="list-style-type: none"> <li>• Incentive or pressure</li> <li>• Opportunity</li> <li>• Rationalization or attitude</li> </ul> </li> <li>▶ Presence of fraud risk factors and how management's controls and programs to detect and prevent fraud may mitigate these risks.</li> <li>▶ Risk of management override of controls.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Review System management's controls and programs relating to fraud, and assess operating effectiveness of such programs.</li> <li>▶ Inquire of System management and other personnel as to their knowledge of any potential fraudulent or alleged fraudulent activities.</li> <li>▶ Inquire of those charged with governance about their views about risks of material misstatements, including fraud risk and whether they are aware of:               <ul style="list-style-type: none"> <li>✓ tips or complaints regarding the System's financial reporting; and</li> <li>✓ matters relevant to the audit including, but not limited to, violations or possible violation of laws or regulations</li> </ul> </li> <li>▶ Consider additional procedures to address any specific fraud risks identified, including management override of controls.</li> <li>▶ Introduce an element of unpredictability into our procedures by altering the nature, timing, or extent of the procedures when compared to procedures performed in the prior year.</li> <li>▶ Perform focused procedures on any significant unusual transactions, including gaining an understanding of the business purpose (or lack thereof) for the System entering into the transaction.</li> <li>▶ Obtain an understanding of the System's financial relationships and transactions with those charged with governance of the System and the System Executive Director for risk assessment purposes.</li> <li>▶ Exercise professional skepticism.</li> <li>▶ Communicate with System management, those charged with governance and the System Executive Director, as necessary.</li> </ul>

# Primary Areas of Focus and Audit Strategy

## ENTITY/SYSTEM LEVEL INTERNAL CONTROLS OVER FINANCIAL REPORTING

Consideration	Approach
<ul style="list-style-type: none"> <li>▶ System management has controls in place to maintain compliance with applicable rules and regulations and provisions of the Plan Document and Amendments.</li> <li>▶ The Staff or the Executive Director has controls to monitor the activities of the outside service providers.</li> <li>▶ Significant changes to personnel and internal control processes increase the risk that an internal control failure will occur due to either the design or operation of a particular control.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Consider the System's internal control environment for purposes of planning our audit.</li> <li>▶ Review the System's control processes in a number of areas to evaluate the design and implementation of controls in place.</li> <li>▶ Review SOC 1 reports for the custodian and the external investment accounting service provider to determine whether adequate controls are in place and functioning effectively.</li> </ul>

## ACTUARIAL VALUATION

Consideration	Approach
<ul style="list-style-type: none"> <li>▶ Significant judgement and expertise is required in developing assumptions and performing evaluations.</li> <li>▶ Actuarial valuation data is accurate and consistent.</li> <li>▶ The effects of amendments, terminations, curtailments or other System events on the calculation.</li> <li>▶ Whether the actuarial calculation appropriately applies current standards.</li> <li>▶ Whether actuarial provisions and assumptions are deemed reasonable.</li> <li>▶ Whether disclosures over actuarial assumptions and funding issues are appropriate.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Confirm the actuarial data directly with the actuary.</li> <li>▶ Have the actuarial report reviewed by the Actuarial Managing Director and the Actuarial Manager for reasonableness.</li> <li>▶ Perform census data reconciliations and review for completeness of the census data submitted to the actuary.</li> <li>▶ Evaluate the professional qualifications of the actuary.</li> <li>▶ Reviewed funding requirements, actuarial provisions and assumptions used for accuracy.</li> <li>▶ Ensure the changes under the new Bill for 2017 are appropriately reflected in the Actuarial calculations and review any new experience studies performed since the last one noted as of December 31, 2014, if applicable.</li> </ul>

# Primary Areas of Focus and Audit Strategy

## ELIGIBILITY

Consideration	Approach
<ul style="list-style-type: none"> <li>▶ Whether all covered employees have been properly included in employee eligibility records.</li> <li>▶ Whether accurate participant data for eligible employees was supplied to the custodian/service providers.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Test that participating employees are eligible per the Plan Document on a sample basis.</li> <li>▶ Review participant personnel files.</li> </ul>

## CONTRIBUTIONS/CONTRIBUTION RECEIVABLES

Consideration	Approach
<ul style="list-style-type: none"> <li>▶ Whether the amounts received or due to the Plan have been determined, recorded, and disclosed in the financial statements in conformity with the Plan Document and accounting principles generally accepted in the U.S.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Confirm the contributions made in 2017 directly with the City of Dallas.</li> <li>▶ Test and ensure the calculation of employer and employee contributions is in accordance with the Plan Document both prior to September 1, 2017 and subsequent to September 1, 2017.</li> <li>▶ Test the reasonableness of contribution receivables.</li> </ul>

# Primary Areas of Focus and Audit Strategy

## BENEFIT PAYMENTS

Consideration	Approach
<ul style="list-style-type: none"> <li>▶ Whether benefit payments are in accordance with the Plan Document.</li> <li>▶ Whether benefit payments are made to or on behalf of person entitled to them and only to such persons.</li> <li>▶ Whether transactions are recorded in the proper account, amount, and period.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Verify eligibility to receive the distribution.</li> <li>▶ For DROP distributions agree distribution to proper request.</li> <li>▶ Agree distributions to supporting checks or ACH transfer.</li> <li>▶ Test that proper tax withholdings were made, if any.</li> <li>▶ Review and recalculate benefit payments considering the System changes made before and after September 1, 2017.</li> <li>▶ Review new DROP policy put into place in 2017 and test the DROP annuitization.</li> <li>▶ Perform data analytics over annuity payments throughout the year.</li> </ul>

## INVESTMENTS

Consideration	Approach
<ul style="list-style-type: none"> <li>▶ Due to significant valuation issues with certain investments in the industry over the last several years, consider whether investments are properly valued and whether classified in conformity with accounting principles generally accepted in the U.S.</li> <li>▶ Whether investment transactions are recorded in conformity with accounting principles generally accepted in the U.S.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Confirm investments with third-party fund managers and/or custodians.</li> <li>▶ Test fair value of investments at year-end by comparing the carrying value to an outside third-party source, including audited financial statements presented at fair value, real estate appraisals, and partnership agreements.</li> <li>▶ Compare the investment income to rates of return per a third-party source, including audited financial statements at fair value, and test earning allocations.</li> <li>▶ Consider the System management's policy of reviewing valuation methodologies, inputs and assumptions.</li> <li>▶ Review the System's investment policy in correlation with the investments in place.</li> <li>▶ Assess the appropriateness of the classification of investment within the fair value hierarchy in accordance with GASB 72, Fair Value Measurement and Application and related disclosures</li> </ul>

# Primary Areas of Focus and Audit Strategy

## OTHER RECEIVABLES, PAYABLES AND SYSTEM EXPENSES

Consideration	Approach
<ul style="list-style-type: none"> <li>▶ Whether receivables and payables are appropriately recorded.</li> <li>▶ Whether liabilities recorded are complete and all expenses are captured.</li> <li>▶ Whether securities lending obligations are appropriately recorded.</li> <li>▶ Whether the System is in compliance with debt covenants and plans to alleviate violations of such covenants.</li> </ul>	<ul style="list-style-type: none"> <li>▶ For loans payable review maturity schedules and covenants, and send confirmations. Review debt agreements and amendments to ensure compliance with covenants and related disclosures are appropriately included in the financial statements</li> <li>▶ Review schedules of uncompensated liabilities.</li> <li>▶ Review securities lending arrangements.</li> <li>▶ Obtain forward currency contracts and review the appropriateness of the receivable and payable balances.</li> <li>▶ Perform a search of unrecorded liabilities.</li> <li>▶ Obtain a detail break out of System expenses.</li> <li>▶ Confirm fund management fees in correlation with the investment confirms.</li> <li>▶ Select a sample of expenses and agree them to invoices and payments.</li> </ul>

## INVESTMENT INCOME (LOSS)

Consideration	Approach
<ul style="list-style-type: none"> <li>▶ Whether the realized gain or loss on investments is appropriately recorded.</li> <li>▶ Whether dividends are appropriately recorded by the System.</li> <li>▶ Whether interest earned is appropriately recorded by the System.</li> </ul>	<ul style="list-style-type: none"> <li>▶ For a selection of transactions recalculate the realized gains and losses.</li> <li>▶ For a selection of transactions test dividends received by the System to independent market sources.</li> <li>▶ Test interest earned by recalculating or performing reasonableness tests.</li> </ul>

# Primary Areas of Focus and Audit Strategy

## OTHER MATTERS

Consideration	Approach
<ul style="list-style-type: none"> <li>▶ Ensure the financial report includes all appropriate disclosures.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Complete a disclosure checklist specific to Pension System and one specific to GASB standards.</li> <li>▶ Review the credit risk disclosure for appropriateness and adequacy.</li> <li>▶ Review legal expenses and obtain legal confirmations for any potential commitments and contingencies and/or litigation that may require disclosure.</li> </ul>

## EVALUATION OF RELATED PARTY TRANSACTIONS

Consideration	Approach
<ul style="list-style-type: none"> <li>▶ Consider the System's relationships and transactions with its related parties.</li> <li>▶ Example of related party transactions include those between an entity, affiliates of the entity, other parties that can significantly influence the management or operating policies of the other, management, or members of their immediate families.</li> <li>▶ Consider the susceptibility of the System financial statements to material misstatement (whether due to error or to fraud) that could result from the System's potential related parties.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Assess the risk of material misstatement associated with System related party relationships and transactions.</li> <li>▶ Perform inquiry of System management regarding the identity of the System's related parties, the nature of the System's relationships and transactions with related parties and the System's process for identifying, authorizing and approving, and accounting for and disclosing such relationships and transactions.</li> <li>▶ Perform inquiry and other procedures deemed appropriate to obtain an understanding of the controls, if any, that System management has established to identify, authorize and approve, and account for and disclose such relationships and transactions.</li> <li>▶ Evaluate whether the System financial statements 1) appropriately account for and disclose identified relationships and transactions with related parties and 2) are fairly presented given any such relationships and transactions identified.</li> <li>▶ Communicate to those charged with governance regarding significant matters arising from our audit.</li> </ul>

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

# Audit Readiness and Overall Audit Timeline

The following represents our anticipated schedule with regard to our audit of the System's financial statements:

Description	Date
Planning meeting; client assistance listings provided to System management	January 2018
Develop audit strategy; determine nature and scope of testing	Mid-March 2018
Confirmation procedures	Mid-March 2018
Fieldwork completion	April 30 through May 11, 2018 and May 28 through June 1, 2018
Procedures over and review of the draft of financial statements, including RSI	June 18 through June 29, 2018
Final communications with those charged with governance	Mid-July, 2018
Update subsequent event inquiries; release opinion on financial statements	Approximately July, 2018

# Independence Communication

Our engagement letter to you dated November 8, 2017 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the System with respect to independence as agreed to by the System. Please refer to that letter for further information.



# GASB Standards Effective and/or Issued in 2017

## GASB STATEMENT NO. 82, PENSION ISSUES

▶ Addresses three issues that arose during implementation of GASB 67 and 68.

1. The first relates to the definition of covered payroll included in Required Supplementary Information. Covered payroll is compensation paid to employees on which contributions are based.
2. The pronouncement also clarifies that a *deviation* from actuarial standards is not considered to be in conformity with the requirements of GASB 67 or 68 for selection of assumptions in determining the total pension liability.
3. The last issue relates to employer-paid member contributions, commonly referred to as employer “pick-up”. When an employer pays contributions on behalf of members they should be classified as member contributions for GASB 67 plan statements and as employee contributions for GASB 68 reporting and included in salary expense.

▶ The pronouncement was effective starting with years ended June 30, 2017.

## GASB STATEMENT NO. 86, CERTAIN DEBT EXTINGUISHMENT ISSUES

- ▶ Resolves issue of how to record in-substance defeasance of debt when solely existing resources are used.
- ▶ Current standards only address reporting requirements when debt is extinguished using bond proceeds.
- ▶ When cash or other existing resources are placed in an irrevocable trust to extinguish debt it is considered to be in-substance defeasance, assuming all criteria are met.
- ▶ The difference between the reacquisition price and the net carrying amount of the debt will be recognized as a separately identified gain or loss in the period of defeasance. This differs from current practice when debt is extinguished using bond proceeds, whereby the difference is deferred.
- ▶ Payments to the escrow agent from existing resources should be reported as debt service expenditures in governmental fund types.
- ▶ The pronouncement will be effective starting with years ending June 30, 2018.

# GASB Standards Effective and/or Issued in 2017

## GASB EXPOSURE DRAFT, CERTAIN DISCLOSURES RELATED TO DEBT, INCLUDING DIRECT BORROWINGS AND DIRECT PLACEMENTS

- ▶ Defines debt for purposes of disclosure as a liability that arises from a contractual obligation to pay cash or other assets in one or more payments to settle an amount that is fixed at date obligation is established.
- ▶ Would exclude pension and OPEB liabilities, leases and accounts payable as those should be disclosed in separate notes.
- ▶ Includes capital appreciation bonds and variable rate debt.
- ▶ **Expected effective date:** years ending June 30, 2019.

## GASB STATEMENT NO. 87, LEASES

- ▶ This standard will require recognition of certain lease assets and liabilities for leases that are currently classified as operating leases.
- ▶ Eliminates the distinction between operating and capital leases - all leases will be recorded on the statement of net position/balance sheet.
- ▶ New definition of a lease - a contract that conveys the right to use another entity's nonfinancial asset for a period of time in an exchange or exchange-like transaction.
- ▶ Excludes leases that transfer ownership under a bargain purchase option or service concession arrangements that are covered by GASB Statement No. 60.
- ▶ Lessees would recognize a lease liability and an intangible right-to-use lease asset which would be amortized in a systematic and reasonable manner over the shorter of the lease term or the useful life of the underlying asset. Short-term leases are excluded.
- ▶ Lessor would recognize lease receivable and deferred inflow of resources which would be recognized as revenue in a systematic and rational manner over the term of the lease.
- ▶ The pronouncement will be effective starting with years ending December 31, 2020.

# Cybersecurity

The board's role in the oversight of organizational risk is increasingly complicated by cybersecurity concerns. Trustees need to maintain continual knowledge about evolving cyber issues and management's plans for allocating resources and otherwise responding to cyber risks. Such knowledge helps boards assess the priorities and investment decisions made by management in critical areas. Often, particularly in smaller organizations, those charged with governance oversee and monitor management's strategy for protecting its digital assets.

Building on the growing market demand for information about the effectiveness of an entity's cybersecurity risk management program and the auditing profession's long history and skills with respect to external reporting and auditing information technology controls, the AICPA has formed an [initiative](#) and is currently developing auditing standards and a consistent approach to cybersecurity attestation to assist boards, management, and other pertinent stakeholders. The subject matter of such a cybersecurity examination engagement will be composed of three key elements:

1. Management's narrative description of the entity's cybersecurity risk management program.
2. Management's written assertion that the controls implemented as part of the program were effective to achieve the entity's cybersecurity objectives.
3. Practitioner's examination report expressing an opinion about whether management's description of the entity's cybersecurity risk management program and the effectiveness of controls within that program achieve the entity's cybersecurity objectives.

In April, the AICPA published the new [Cybersecurity Risk Management Framework](#) to its website.

# Cybersecurity

Here are recent tools/materials for use by those charged with governance in this area:

Recommended Resources	Release Date
<a href="#"><u>BDO Archived Webinar: What's on the Minds of Boards?</u></a>	November 2017
<a href="#"><u>Are You Cyber Aware?: 10 Cybersecurity Questions for Senior Executives?</u></a>	October 2017
<a href="#"><u>Cyber Risk Management: What You Need to Know Now</u></a>	October 2017
<a href="#"><u>2017 BDO Cyber Governance Survey</u></a>	September 2017
<a href="#"><u>Breaking Down the Equifax Data Breach</u></a>	September 2017
<a href="#"><u>BDO Knows Cybersecurity: Petya Cyber Attack</u></a>	June 2017
<a href="#"><u>BDO Highlights Important DHS - FBI Cyber Alert on North Korea - Hidden Cobra</u></a>	June 2017
<a href="#"><u>Introducing SOC for Cybersecurity: Translating Cyber Risk For Every Stakeholder</u></a>	June 2017
<a href="#"><u>The CPA's Role in Addressing Cybersecurity Risk</u></a>	May 2017
<a href="#"><u>A Cybersecurity Attack of Unprecedented Scale (WannaCry)</u></a>	May 2017
<a href="#"><u>Cybersecurity Officially Reaches the Board: 12 Questions Every Board Should Ask</u></a>	April 2017
<a href="#"><u>BDO Knows: Cybersecurity - NY Department of Financial Services Final Cybersecurity Regulation</u></a>	February 2017



## DISCUSSION SHEET

### ITEM #C6

**Topic:** Appointment of Audit Committee

**Discussion:** The Committee Policy and Procedure provides for the appointment by the Chairman and confirmation by the Board of an Audit Committee and that the Audit Committee meet privately with the independent auditor, without DFPF staff present, at a minimum on an annual basis. The audit process is underway and the audit is expected to be finalized in June or July depending on the timing of the receipt of material asset audited financial statements and the actuarial valuation.

**Recommendation:** The Chairman **nominate and the Board confirm** members of the Audit Committee, including the nomination and confirmation of a Chair of the Audit Committee.

*Regular Board Meeting – Thursday, April 12, 2018*



## DISCUSSION SHEET

### ITEM #C7

**Topic:** Board Agenda Planning Calendar

**Discussion:** Staff has prepared a draft Board agenda planning calendar to allow Board members to have some visibility into the anticipated major agenda items for the remainder of the year. Recurring monthly agenda items have not been included on the calendar.

*Regular Board Meeting – Thursday, April 12, 2018*

## Board Agenda Planning Calendar

As of April 12, 2018

May	2017 Final Budget Review Q1 Financial Statements Disability Policy Amendment CIO Recruitment Update Formation of the Investment Advisory Committee - Discussion of Roles/Responsibilities and Selection Process GAA Reallocation Securities Lending Review <b>HB 3158 Required Public Meeting 1 - (Public Meeting follows Regular Board Meeting)</b>
June	2017 Financial Audit Status & Preliminary Findings Qualified Domestic Relations Order Policy Revision Camel Square Update (rezoning) CIO Board Confirmation Formation of the Investment Advisory Committee - Interviews and/or Selection of Members New Consultant Quarterly Performance Report Content/Design Private Asset Cash Flow Projection Update Q1- IPA/Q4 PMR Core Fixed Income Search Actuarial METs training
July	2017 Financial Audit January 1, 2018 Actuarial Valuation 2017 Comprehensive Annual Financial Report Champion Capital Research - Dr. Mary Kathryn Campion Projected Change in Net Position Chart - Bridge Fiduciary METs training <i>Audit Committee Meeting (Committee meeting is held at a time/date prior to the Board Meeting)</i>
August	2018 Mid-Year Budget Review Asset Allocation Discussion US/International vs. Global Equity Approach Q2 Financial Statements Fund Review including Asset Allocation and Investment Policy Statement - Investment Consultant HB 3158 Required Training Delivered

## Board Agenda Planning Calendar

As of April 12, 2018

- September    Asset Allocation  
                  Due Diligence Protocol  
                  Hancock Portfolio Review  
                  Investment Policy Statement Amendments - concentration limits on PE & other  
                  Private Asset Cash Flow Projection Update  
                  Q2- IPA/Q1 PMR  
                  **HB 3158 Required Public Meeting 2 (Public Meeting Follows Regular Board Meeting)**
- October        2019 Budget Introduction  
                  Internal Controls Review  
                  Management Fees Review  
                  Personnel Policies Amendments  
                  *Professional Service Provider Meetings (Actuary, Fiduciary Attorney and General Investment Consultant)*  
                  *meetings held outside of Board Meeting, Report at Board Meeting*
- November     2019 Budget Member Comment and Possible Adoption  
                  Q3 Financial Statements  
                  Business Continuity Review  
                  Legislative Consultant Contract Renewal  
                  Overpayment Rules (3158 Requirement)
- December     2019 Budget Adoption  
                  Private Asset Cash Flow Projection Update  
                  Q3- IPA/Q2 PMR  
                  Executive Director Performance Evaluation  
                  Trustee Election, Vacancy and Removal Rules (3158 Requirement)





## DISCUSSION SHEET

### ITEM #C8

**Topic:** **Repeal of Board Resolution Relating to Section 6.063 of Article 6243a-1 and Amendment of DROP Policy**

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

**Discussion:** On December 13, 2007, the Board adopted a resolution providing for the surviving spouse of a Member to elect a 100% joint and survivor benefit in the situation where the Member dies on Active Service and has reached normal retirement age. After review of the effect of the changes to Article 6243a-1, Staff is recommending repeal of this resolution as it does not appear to be within the current statutory authority of the Board.

**Recommendation:** **Repeal** the Board resolution adopted on December 13, 2007 allowing for the election by a surviving spouse of a Member to elect a 100% joint and survivor benefit when the Member dies on Active Service and **Adopt** the DROP Policy as amended allowing members to elect a 100% joint and survivor benefit at or after the time they enter DROP.

*Regular Board Meeting – Thursday, April 12, 2018*

Sec. 6.063. AUTHORITY TO ELECT CERTAIN ACTUARIALLY REDUCED BENEFITS.

(a) The board shall adopt policies under which **a member who is leaving active service or a pensioner** may elect to accept actuarially reduced benefits to provide the following optional benefits:

- (1) a 100 percent joint and survivor annuity with the member's or pensioner's spouse;
- (2) a 50 percent joint and survivor annuity with a spouse who is not a qualified survivor because the marriage to the pensioner occurred after the pensioner terminated active service, provided the election is made not later than one year after the date of the marriage; or
- (3) a death benefit for a child who is not a qualified survivor because the child was born or adopted after the member left active service, but only if the child:
  - (A) is a dependent of the pensioner, within the meaning of Section 152(a)(1) of the code; and
  - (B) has not attained 18 years of age at the time of the election.

(b) An election under this section may not be revoked by the member or pensioner after it is filed with the pension system.

(c) Notwithstanding any other provision of this article, an election under this section shall result in benefits being paid as prescribed by this section instead of as prescribed by Section 6.01, 6.02, 6.04, 6.05, 6.07, or 6.08 of this article, as applicable.

(d) A pensioner who desires to make an election under Subsection (a)(1) of this section after having made an election under Subsection (a)(2) of this section shall incur a second actuarial reduction in benefits to pay for the increased survivor annuity.

(e) Except as provided by Subsection (f) of this section, a person is not entitled to the payment of benefits under this section with respect to a pensioner who makes an election after termination of active service and dies within one year after making the election, except the amount by which the pensioner's benefits were reduced are paid to the person who is entitled to receive payments under Section 6.064 of this article.

(f) Subsection (e) of this section does not apply to a person who makes an election under Subsection (a)(1) of this section to receive a 100 percent joint and survivor annuity with a spouse who is a qualified survivor at the time:

- (1) the board grants a retirement pension; or
- (2) a retirement pension would have been granted but for the fact that the person elected to participate in DROP after retirement.

(g) The actuarially reduced benefits being paid to the pensioner under this section will not be increased if the spouse dies before the pensioner, or if the child attains 19 years of age before the pensioner dies.

(h) The joint and survivor annuity or the pensioner's pension and child's death benefit payable under this section is the actuarial equivalent of the pension and death benefits, if any, that would have been payable, at the time of the election, if the election had not been made. On the death of the pensioner:

(1) the surviving spouse of a pensioner who made an election under Subsection (a)(1) of this section receives a pension that is equal to the reduced pension being received by the pensioner at the time of death; and

(2) a surviving spouse who is not a qualified survivor of a pensioner who made an election under Subsection (a)(2) of this section receives a pension that is 50 percent of the reduced pension being received by the pensioner at the time of death.

(i) A pensioner and surviving spouse receiving a death benefit payable under this section are eligible for adjustments under Sections 6.12 and 6.13 of this article, if the pensioner or surviving spouse, as applicable, is otherwise entitled to those adjustments, except that in each case the adjustment shall be calculated so that the total pension or death benefit paid is reduced by the same percentage the pensioner's pension is otherwise reduced under this section.

(j) A pensioner and surviving spouse receiving a death benefit payable under this section are not entitled to the minimum benefits provided under Section 6.10A, 6.10B, or 6.11 of this article.

(k) A surviving spouse receiving a death benefit payable under this section is not entitled to the special death benefit provided under Section 6.09 of this article.

(l) During a period in which there are two or more qualified survivors of a member who has made a joint and survivor annuity election under this section, the spousal benefit will be divided among the eligible survivors under Section 6.07 or 6.08 of this article, as applicable.

(m) A child's death benefit elected under Subsection (a)(3) of this section is treated the same way as a death benefit to a child who is a qualified survivor, except that it is based on the actuarially reduced pension.

**RESOLUTION OF THE BOARD OF TRUSTEES OF  
THE DALLAS POLICE AND FIRE PENSION SYSTEM**

WHEREAS, Section 6.08(o) of the Combined Pension Plan for the Dallas Police and Fire Pension System provides that the Board of Trustees ("Board") shall adopt policies under which a Pensioner or a Member who is leaving active service may accept actuarially reduced benefits in order to provide a 100 percent joint and survivor annuity with the Member's spouse; and

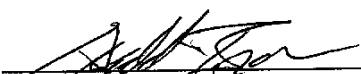
WHEREAS, the Board has adopted a policy that enables a Member who is leaving active service to elect a reduced pension and thereby provide a lifetime annuity to the Member's spouse, if the spouse survives the Member, equal to 100 percent of the reduced pension the Member was receiving at the time of death; and

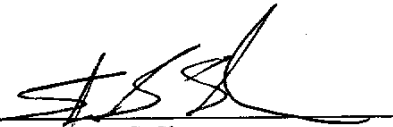
WHEREAS, the Board believes that a Member who has reached normal retirement age should not be forced to leave active service in order to provide a 100 percent joint and survivor annuity with the Member's spouse.

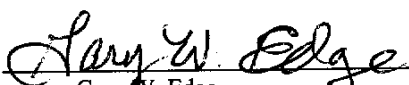
NOW THEREFORE, BE IT RESOLVED, that effective December 13, 2007, the surviving spouse of a Member, who dies after reaching normal retirement age but before leaving Active Service, shall be entitled to elect the survivors annuity equal to the survivor annuity the Member could have elected if such Member had left active service immediately before death.

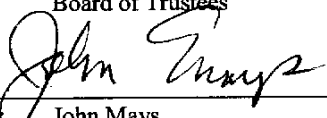
**DALLAS POLICE AND FIRE PENSION SYSTEM**

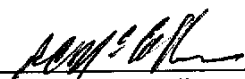
By: THE BOARD OF TRUSTEES ON BEHALF OF THE DALLAS POLICE AND FIRE PENSION SYSTEM

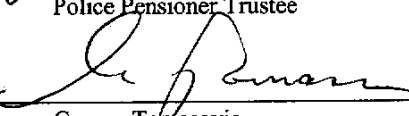
By:   
Name: Gerald Brown  
Title: Chairman of and on behalf of the Board of Trustees

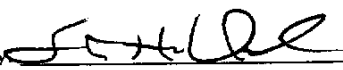
By:   
Name: Steven G. Shaw  
Title: Vice-Chairman of and on behalf of the Board of Trustees

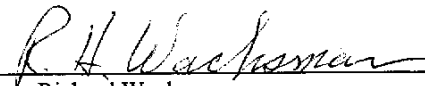
By:   
Name: Gary W. Edge  
Title: Deputy Vice-Chairman

By:   
Name: John Mays  
Title: Police Pensioner Trustee


By:   
Name: Rector McCollum  
Title: Police Trustee

By:   
Name: George Tomasovic  
Title: Fire Trustee

By:   
Name: Steven Umlor  
Title: Police Trustee

By:   
Name: Richard Wachsman  
Title: Fire Pensioner Trustee

ATTEST:

  
Richard L. Tettamant

APPROVED AS TO FORM:

  
Everard Davenport



D A L L A S  
**POLICE & FIRE**  
PENSION SYSTEM



## DEFERRED RETIREMENT OPTION PLAN POLICY

As Amended Through April~~December~~ 124, 20187

**DEFERRED RETIREMENT OPTION PLAN  
POLICY**

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# DEFERRED RETIREMENT OPTION PLAN POLICY

Adopted December 10, 1992  
Amended through ~~April~~December 124, 20187

## A. PURPOSE

1. This policy provides rules governing the Deferred Retirement Option Plan of the Dallas Police and Fire Pension System (“DPFP”), as contemplated by Section 6.14 of Article 6243a-1 of Revised Statutes (the “Plan”) and the Supplemental Pension Plan for the Police and Fire Departments of the City of Dallas, Texas (the “Supplemental Plan”) where applicable. It is intended that DROP and the terms of this policy allow for the continued qualification of the Plan under Section 401 of the Internal Revenue Code (“Code”).
2. Any reference in this policy to a provision of the Plan shall also be considered a reference to the comparable provision of the Supplemental Plan if the applicant is a member of the Supplemental Plan.
3. The Executive Director may, if necessary, develop written procedures to implement this policy.
4. This policy may be amended at any time by the Board of Trustees (“Board”), consistent with the terms of the Plan.
5. Any capitalized terms not defined in this policy shall have the meaning ascribed to them in the Plan.

## B. DEFINITIONS

1. **DROP** - The program whereby a Member while still in Active Service may elect to have an amount equal to the pension benefit that the Member would otherwise be eligible to receive be credited to a notional account on the Member’s behalf. A Member, as of his or her intended date of participation in DROP, must be eligible to retire and receive an immediate pension benefit. An election to enter DROP is irrevocable except for the one-time revocation window for certain Members that is described in Section D.
2. **DROP Account** - The notional account of a Member, retiree, beneficiary or Alternate Payee created pursuant to Section 6.14 of the Plan which existed or exists prior to any annuitization required under the Plan and in conformity with this policy.



**B. DEFINITIONS (continued)**

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

**C. ENTRY INTO DROP**

1. The application of any Member applying for DROP participation will be placed on the agenda for a Board meeting as soon as administratively practicable following the date the application is received for consideration and approval.
2. If the Board approves a DROP application, the application will become effective on the first day of the month in which the Board approves the application.
3. At the time of entry into DROP, the Member must irrevocably select the Plan benefit he or she will receive at the time his or her pension benefit will commence upon retirement with the Member's pension benefit calculated as of the effective date of entering DROP. While on Active Service, these benefit amounts that the Member would have otherwise received if he or she would have retired on his or her effective date of DROP participation will be credited to the DROP Account.
4. Once a Member has elected to participate in DROP, that election is irrevocable except as further described in Section D.
5. A Group B Member who obtains a rank that is higher than the highest Civil Service Rank for the City of Dallas after the effective date of his or her participation in DROP will not participate in the Supplemental Plan.
6. As of the effective date of his or her participation in DROP, the Member will no longer be entitled to obtain additional Pension Service by repaying previously withdrawn contributions or paying for any Pension Service that could have been purchased under the Plan prior to DROP entry. However, a Member who is entitled, under Section 5.08 of the Plan, to purchase credit for Pension Service for any period he or she was on a military leave of absence may still purchase that Pension Service after entering DROP so long as the required contributions are made no later than the time provided by the Uniformed Services Employment and Reemployment Rights Act ("USERRA").
7. The Board shall interpret the Plan and this policy to ensure that Members' rights are fully protected as required by USERRA.



#### **D. DROP REVOCATION**

1. A Member who was a DROP participant on or before June 1, 2017, has a one-time opportunity to revoke his or her DROP election. The revocation must be made before the earlier of February 28, 2018, or the date that the Member terminates Active Service. The revocation must be made by filing with the Executive Director a completed DROP revocation election form that has been approved by the Executive Director.
2. A DROP revocation eliminates the balance in a Member's DROP Account. The Member's benefit will then be established at the earlier of when the Member either (a) reenters DROP or (b) retires with DFPF, and will be calculated at that time under the Plan based upon the Member's total Pension Service and historic Computation Pay (highest 36 consecutive months for Pension Service prior to September 1, 2017 and highest 60 consecutive months for Pension Service on or after September 1, 2017.)
3. Any revocation of DROP participation described in this Section shall be for the entire period that the Member participated in DROP. No partial revocation of DROP participation shall be accepted.
4. No Member shall be entitled to revoke his or her DROP participation if any amount has been transferred out of such Member's DROP Account, except for any transfers related to corrections to DROP Accounts.
5. A Member will be credited with Pension Service for all or a portion (one-half) of the period relating to the revoked DROP participation if the Member who revoked the DROP participation purchases such Pension Service in an amount equal to the sum of: (a) the Member contributions that would have been made if the Member had not been a DROP participant during such period of DROP participation and (b) interest on such Member contributions, calculated on the contributions for the period from the dates the contributions would have been made if the Member had not been a DROP participant through the date of purchase. Interest will be calculated (a) through February 28, 2018 at the monthly rate of change of the U.S. City Average All Items Consumer Price Index (unadjusted) for All Urban Wage Earners and Clerical Workers for the applicable periods and (b) after February 28, 2018 at the interest rate used from time to time in DFPF's actuarial rate of return assumptions, compounded annually. Periods where the monthly rate of change was negative shall be computed as zero interest for such periods. DFPF staff shall be authorized to establish procedures for implementing the interest calculation required in this Section.

**D. DROP REVOCATION (continued)**

6. A Member may purchase Pension Service relating to the period of revoked DROP participation in increments of one-half of his or her total Pension Service during DROP participation. If a Member elects to purchase one-half of his or her total Pension Service available to be purchased following the DROP revocation, (a) a Member may not elect to purchase Pension Service relating to specific time periods during his or her DROP participation and (b) the amount of the Member contributions for purposes of such purchase will be one-half of the total amount required to be paid pursuant to Section D.5. above.
7. If a Member elects to purchase one-half of his or her Pension Service available to be purchased following the DROP revocation, the Member may subsequently purchase the remaining one-half of the Pension Service available, but must complete such purchase prior to any election to reenter DROP or terminating Active Service. The amount to be paid for the remaining Pension Service to be purchased will be calculated pursuant to subsections 4 and 5 above, with interest continuing to accrue on the portion that has not yet been paid at the rate used from time to time in DFPF's actuarial rate of return assumptions, compounded annually, calculated from the date of the original Pension Service purchase through the date of the purchase of the remaining Pension Service.
8. Only full payment will be accepted for the amount of any Pension Service elected to be purchased under this Section. No partial payment will be accepted. Direct rollovers from other tax-qualified plans or similar employer plans, including governmental Section 401(k) (including the City of Dallas 401(k) Retirement Savings Plan) and 457(b) deferred compensation plans and Section 403(b) annuity arrangements will be accepted for payment to the extent such plans permit such rollovers. Payment is not permitted from the Member's DROP account.
9. For the purposes of calculating a Member's pension benefit in the case where a Member purchases only one-half of the total Pension Service available for the period relating to a DROP revocation, the purchased Pension Service attributable to time prior to September 1, 2017 shall be equal to the product of: (a) the amount of Pension Service purchased, multiplied by (b) a fraction of which the numerator equals the Pension Service available for purchase representing periods prior to September 1, 2017, and the denominator equals the total Pension Service available for purchase in connection with the DROP revocation.
10. All DROP revocation election forms must be received by DFPF in proper order by February 28, 2018 and will be considered effective as of September 6, 2017 after approval by DFPF staff that the form is in proper order. Approval of the Board shall not be required for a DROP revocation to become effective.

## **E. ANNUITIZATION OF DROP ACCOUNTS**

### **1. Methodology.**

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

### **2. Interest Rates.**

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

### **3. Mortality Table.**

The Board shall, based upon the recommendation of DPFP's Qualified Actuary, adopt a mortality table to be utilized in determining life expectancy for purposes of calculating DROP Annuities. The mortality table shall be based on the healthy annuitant mortality tables used in the most current actuarial valuation and blended in a manner to approximate the male/female ratio of holders of DROP accounts and DROP annuities. The Board will review this table and male/female blended ratio upon the earlier of (i) the conclusion of any actuarial experience study performed by DPFP's Qualified Actuary or (ii) any change to mortality assumptions in DPFP's annual actuarial valuation. Actual ages used in calculating life expectancy will be rounded to two decimals. The life expectancy will be rounded to the nearest whole year. Life expectancy in whole years based on a 2017 annuitization date and the mortality table recommended by DPFP's Qualified Actuary is shown in Exhibit 2.

**E. ANNUITIZATION OF DROP ACCOUNTS (continued)**

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

- a. The first payment of DROP Annuities after annuitization of all DROP Accounts in existence on or after September 1, 2017, except those DROP Accounts of Members, shall commence the last business day of the month in which this policy is adopted, or as soon as practicable thereafter.
- b. The initial annuitization of all non-Member DROP Accounts existing on September 1, 2017 will be calculated and implemented on the basis of a monthly annuity. DFPF staff will send notices to the holders of such DROP Annuities to inform them that they have sixty (60) days from the date of such notice to make a one-time election to have the monthly DROP Annuity converted to an annual annuity. If a DROP Annuitant makes such an election, the monthly DROP Annuity payments will cease as soon as administratively practicable, and the first payment of the annual DROP Annuity will begin 12 months after the last monthly payment made to the DROP Annuitant.
- c. For purposes of the initial annuitization described in this subsection E.4., any DROP Account which is held by a non-Member at any time on or after September 1, 2017, but prior to the initial annuitization pursuant to subsection E.4.a. above, shall (i) be adjusted to reflect any distributions to such non-Member after September 1, 2017, but prior to the initial annuitization and (ii) accrue interest for the period from September 1, 2017 through the date of initial annuitization at the same rate as the interest rate applicable pursuant to subsection E.2. in the calculation of the initial DROP Annuity.
- d. Annuitization of any non-Member DROP Account under this subsection E.4. will be based on the age of the holder of such DROP Account as of the first day of the month when the annuitization of DROP Accounts under this subsection E.4. occurs. In the case of a DROP Account which is held by a trust, such DROP Account will be annuitized using the age of the oldest beneficiary of the trust.

**5. Annuitization of Member DROP Accounts**

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

**E. ANNUITIZATION OF DROP ACCOUNTS (continued)**

**5. Annuitization of Member DROP Accounts (continued)**

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

**6. Annuitization of Alternate Payee's Account**

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

**7. Annuitization and Payments to Beneficiaries**

- a. Upon the death of a Member, the DROP Account of such Member shall be transferred to the Member's beneficiary(ies) pursuant to Section F of this policy. Such transferred account shall be annuitized as promptly as administratively practicable utilizing the interest rate in effect under subsection E.2. and the age of the beneficiary at the time of the Member's death in calculating the beneficiary's DROP Annuity.
- b. Upon the death of a DROP Annuitant, the remaining DROP Annuity shall be paid to the beneficiary designated by such DROP Annuitant, and shall be divided if there are multiple beneficiaries as designated by the DROP Annuitant pursuant to Section F of this policy.

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

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

## **F. DESIGNATION OF BENEFICIARIES**

1. A DROP participant will have the opportunity to designate a primary beneficiary (or primary beneficiaries) and a contingent beneficiary (or contingent beneficiaries) of his or her DROP Account either when filing the application for DROP participation, or thereafter, on a beneficiary form provided by DFPF for this purpose. The named beneficiary must be a living person at the time of the filing of the beneficiary form. No trusts may be named as a beneficiary, except for a trust established for a child who is entitled to benefits pursuant to Section 6.06 (n)(1) of the Plan (“Special Needs Trust”). Existing trusts which have a DROP Account as of the date of this policy will be permitted and will be annuitized pursuant to Section E.4. and the age of the oldest beneficiary of the trust will be utilized for purposes of the annuitization. Special Needs Trusts will be annuitized based upon the age of the child.
2. In the case of a holder of DROP Annuity who dies where no living person is named as a beneficiary, the remaining DROP Annuity will be paid to the deceased DROP Annuitant’s estate. In the case of a Member who dies with a DROP Account where no living person is named as a beneficiary, the DROP Account will be annuitized based upon the life of the youngest heir to the deceased Member’s estate and the resulting DROP Annuity will be paid to the estate.
3. Beneficiaries of a Member’s DROP Account or a DROP Annuitant’s DROP Annuity are not limited to the Qualified Survivors. Upon request, DFPF will divide a deceased participant’s DROP Account or DROP Annuity among the designated beneficiaries at the time of the DROP participant’s death.
4. Upon the death of a DROP participant, the DROP participant’s DROP Account or DROP Annuity shall become the property of the surviving spouse unless either (i) the surviving spouse has specifically waived his or her right to such funds or (ii) the surviving spouse’s marriage to the DROP participant occurred after January 14, 2016 and the participant had already joined DROP and named a beneficiary other than the surviving spouse who was not the participant’s spouse at the time of the beneficiary election, and will be transferred to the name of the surviving spouse or such other named beneficiary or beneficiaries. DROP Annuities shall be paid to the designated beneficiaries in accordance with the last beneficiary form on file in the DFPF administrative office upon that office’s receipt of sufficient evidence of the DROP participant’s death.

**G. HARDSHIPS (continued)**

1. Pursuant to the Plan, a DROP Annuitant who was a former Member of the Plan (a “Retiree Annuitant”) may apply for a lump sum distribution relating to his or her DROP Annuity in the event that the Retiree Annuitant experiences a financial hardship that was not reasonably foreseeable. To qualify for an unforeseeable financial hardship distribution, a Retiree Annuitant (or the estate of a Retiree Annuitant in the case of subsection G.2.e.) must demonstrate that:
  - a. a severe financial hardship exists at the time of the application (i.e., not one that may occur sometime in the future);
  - b. the hardship cannot be relieved through any other financial means (i.e., compensation from insurance or other sources, monthly annuity benefits, or liquidation of personal assets) unless using those other sources would also cause a financial hardship; and
  - c. the amount requested in the application is reasonably related to and no greater than necessary to relieve the financial hardship.
2. The Board shall only recognize the following circumstances as an unforeseeable financial hardship that is eligible for a lump sum distribution:
  - a. the need to repair damage to a Retiree Annuitant’s primary residence not covered by insurance as the result of a natural disaster or significant event (i.e., fire, flood, hurricane, earthquake, etc.);
  - b. the need to make significant changes to a Retiree Annuitant’s primary residence not covered by insurance because of medical necessity;
  - c. the need to pay for medical expenses of the Retiree Annuitant, a Retiree Annuitant’s spouse, or a dependent child or relative of the Retiree Annuitant as described under Code section 152(c) and (d), including non-refundable deductibles, as well as for the cost of prescription drug medication;
  - d. the need to pay for the funeral expenses of a parent, child, grandchild or spouse of the Retiree Annuitant, including reasonable travel and housing costs for the Retiree Annuitant, their spouse, parent, child or grandchild;
  - e. the need of the estate of a Retiree Annuitant to pay for the medical expenses or the funeral expenses of the Retiree Annuitant; or
  - f. other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Retiree Annuitant.

**G. HARDSHIPS (continued)**

3. DPFPP staff will develop procedures relating to the application for an unforeseeable financial hardship distribution, which will include, at a minimum, a notarized statement by the applicant relating to the requirements for eligibility and documentation sufficient to demonstrate such eligibility. Following submission of the required financial hardship distribution application, the notarized statement, and other required documentation as stated in the application form, DPFPP staff shall review the materials and inform the Retiree Annuitant within thirty (30) days whether any additional information or documentation is required or requested. Once all required and/or requested documentation has been submitted, the Retiree Annuitant shall be informed within thirty (30) days if (i) the Retiree Annuitant is eligible for an unforeseeable financial hardship distribution or (ii) the matter has been referred to the Board for consideration at the next regular meeting. After an unforeseeable financial hardship distribution has been made to a Retiree Annuitant, a Retiree Annuitant may not request an additional unforeseeable financial hardship distribution for ninety (90) days from the date of distribution of any amount under this Section.
4. The Executive Director shall have the authority to approve an application for an unforeseeable financial hardship distribution. The Executive Director shall submit to the Board for final action by the Board any recommended denial, in whole or in part, of any request for an unforeseeable financial hardship distribution. Determinations of the Board and the Executive Director on applications for unforeseeable financial hardship distributions are final and binding. Once an unforeseeable financial hardship distribution has been approved by either the Executive Director or the Board, payment of the distribution shall be made to the Retiree Annuitant as soon as administratively practicable.
5. For the purposes of this Section G, the term “dependent” shall mean any person who is claimed by a Retiree Annuitant as a dependent on the Retiree Annuitant’s federal income tax return in any year for which a distribution is sought under this Section G.
6. Distributions under this Section G shall only be available for persons who (a) entered DROP prior to June 1, 2017 and (b) who have not revoked a DROP election under Section D. of this policy.
7. No claims for hardship distributions will be accepted for any circumstances which give rise to the hardship where such circumstances occurred more than six months (nine months in the case of a filing by the estate of a Retiree Annuitant pursuant to subsection G.2.e.) prior to the date of filing of the application pursuant to subsection G.3.



## **H. 100% Joint and Survivor Benefit**

1. Coterminous with entry into DROP, a Member shall have the right to make the election provided for under Section 6.063(a)(1) of the Plan and such an election will not be subject to the requirement set forth in Section 6.063(e) of the Plan.
2. Subsequent to a Member's entry into DROP, if the Member has not made the election provided for in Section H.1., the Member shall have the right to make the election provided for under Section 6.063(a)(1) and such an election will be subject to the requirement set forth in Section 6.063(e) ~~; provided, however, that if the Member shall subsequently be granted a retirement pension within one year after making the election under this Section H.2., then Section 6.063(e) shall cease to apply. If a Member shall die while on Active Service within one year after making the election under this Section H.2., then the Member's DROP Account shall be increased by the reduced benefit amount which is contemplated by Section 6.063(e) to be paid to the surviving spouse.~~
3. If a Member makes an election under either Section H.1. or H.2., the amount credited to the Member's DROP balance ~~Account~~ will be adjusted accordingly.
4. If a Member should remarry while on Active Service after making an election under Section H.1 or H.2, then the Member's benefit shall be recalculated and adjusted based upon the age of the new spouse, effective as of the date of marriage as if the Member had made a new election under Section 6.063(a)(1), if the recalculated benefit is lower than the benefit calculated based upon the previous marriage; provided however, that (i) if the Member had made the election pursuant to Section H.1., the Member shall not be subject to the requirement set forth in Section 6.063(e) for such remarriage and recalculation and (ii) if the Member had the election pursuant to Section H.2., the one year requirement under Section 6.063(e) shall be deemed to have commenced upon the original election.
54. Members who are in DROP as of the effective date of this Policy shall be afforded the opportunity through the first to occur of (i) their retirement date or (ii) October 31, 2018 to make the election provided for in Section H.1 and after October 31, 2018, such Members shall be entitled to make the election provided for in Section H.2.
65. Nothing in this DROP Policy shall affect or impair the right of a Member to make the election provided for in Section 6.063(a) upon or after the Member's retirement if the Member shall not make the election provided for in this Section H, provided, however, that any election made by a Member of Pensioner after their entry into DROP, notwithstanding any other provision of Section 6.063, shall be subject to the provisions of Section 6.063(e). ;

**III. EFFECTIVE DATE**

APPROVED on ~~December 14, 2017~~ by the Board of Trustees of the Dallas Police and Fire Pension System.

[signature]

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William F. Quinn  
Chairman

**ATTEST:**

[signature]

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Kelly Gottschalk  
Secretary

## Exhibit 1- Interest Rates

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

**Exhibit 2 – Life Expectancies Based on a November 2017  
DROP Annuity Commencement Date**

**Expected Lifetime in Years Based on a November 2017  
Commencement of Annuitization**

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

*Note: The above factors are based on the sex-distinct RP-2014 Blue Collar Healthy Annuitant Mortality Tables, with the female table set forward two years, projected generationally using Scale MP-2015. The sex-distinct tables are blended 85% male and 15% female.*





## DISCUSSION SHEET

### ITEM #C9

**Topic:** USERRA update

**Discussion:** The Chairman will update the Board on the status of his discussions with the City of Dallas regarding contributions pursuant to USERRA.

*Regular Board Meeting – Thursday, April 12, 2018*



## DISCUSSION SHEET

### ITEM #C10

**Topic:**

**Legal issues**

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

- a. Claims against fiduciaries and other third-party advisors
- b. Degan et al. v. DFPF (Federal suit)
- c. DFPF v. The Townsend Group and Gary Lawson

**Discussion:**

Counsel will brief the Board on these issues.

*Regular Board Meeting – Thursday, April 12, 2018*



## DISCUSSION SHEET

### ITEM #C11

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

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

**Discussion:**

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

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

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

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

*Regular Board Meeting – Thursday, April 12, 2017*



**Future Education and Business Related Travel  
Regular Board Meeting – April 12, 2018**

		<u>ATTENDING</u>	<u>APPROVED</u>
<b>1. Conference:</b>	<b>Harvard Business School: HBX CORE</b>	<b>BD</b>	<b>01/18/2018</b>
	<b>Dates:</b> February 6, 2018 (12 weeks)		
	<b>Location:</b> Online course		
	<b>Est. Cost:</b> \$800		
		<u>ATTENDING</u>	<u>APPROVED</u>
<b>2. Conference:</b>	<b>Harvard Business School: Leading with Finance</b>	<b>BD</b>	<b>01/18/2018</b>
	<b>Dates:</b> May 9, 2018 (6 weeks)		
	<b>Location:</b> Online course		
	<b>Est. Cost:</b> \$1,500		
<b>3. Conference:</b>	<b>NCPERS Trustee Educational Seminar (TEDS)</b>		
	<b>Dates:</b> May 12-13, 2018		
	<b>Location:</b> New York, NY		
	<b>Est. Cost:</b> \$1,000		
<b>4. Conference:</b>	<b>NCPERS Accredited Fiduciary (NAF) Program (Recommend taking TEDS first)</b>		
	<b>Dates:</b> May 12-13, 2018		
	<b>Location:</b> New York, NY		
	<b>Est. Cost:</b> \$1,000		

ATTENDING APPROVED

- 5. Conference: NCPERS Annual Conference**  
**Dates:** May 13-16, 2018  
**Location:** New York, NY  
**Est. Cost:** \$3,000
  
- 6. Conference: IFEBP: Wharton Alternative Investments**  
**Dates:** July 30-August 1, 2018  
**Location:** San Francisco, CA  
**Est. Cost:** \$5,500
  
- 7. Conference: TEXPERS Summer Educational Forum**  
**Dates:** August 12-14, 2018  
**Location:** San Antonio, TX  
**Est. Cost:** \$1,500



## DISCUSSION SHEET

### ITEM #C12

**Topic:**                   **Hardship Requests from DROP Members**

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:**           The Executive Director will review with the Board for their consideration any applications under the DROP Unforeseeable Emergency Policy that have not been approved.

**Staff**

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

*Regular Board Meeting – Thursday, April 12, 2017*



## DISCUSSION SHEET

### ITEM #C13

**Topic:** Minimum Educational Training Requirements

**Discussion:** The Executive Director will discuss the Minimum Educational Training Requirements and the timing of training with the Board.

*Regular Board Meeting – Thursday, April 12, 2018*

# Minimum Educational Training Requirements (METs)

April 12, 2018



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# Minimum Educational Training Requirements (METs)

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- Required by the Texas Government Code
- Core training must be completed within 1 year of the start of the Trustee's service
  - 7 hours in the areas of Fiduciary Matters, Governance, Ethics, Investments, Actuarial Matters, Benefits Administration, and Risk Management.
  - The 7 hours must include training in all of the 7 content areas. No less than half a credit hour and no more than 2 credit hours may be earned in any one core content area.
- Continuing Education is required every two years, beginning after the first year
  - 4 hours must be completed every two years in the Core subject areas listed above or non-core areas which include: Compliance, Legal and Regulatory Matters, Pension Accounting, Custodial Issues, Plan Administration, Texas Open Meetings Act, and Texas Public Information Act.

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# Minimum Educational Training Requirements (METs) - continued

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- Options for METs training:
  - completing training courses from an accredited sponsor
    - TEXPERs & other sponsors
    - TEXPERs has offered to provide a special training for the new Board
  - attending training that has been approved to receive credit with the Individual Course Approval Application (ICAA). The ICAA may be used by either the sponsoring organization or by the system on the behalf of the trustees or system administrator.
  - Online classes offered by the Pension Review Board, no cost

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# Based on the Direction from the January Board Meeting

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- DPFP to become an accredited sponsor to allow training at Board meetings to qualify towards the requirements – training must meet specific requirements.
- Segal to conduct the Actuarial Training at the June Board meeting.
- General Counsel/Fiduciary Counsel to conduct the Fiduciary training at the July Board meeting.
- Determine if it is possible/practical for the new investment consultant to provide the investment training at a Board meeting.
- The remaining training modules to be completed individually by Trustees completing the online Pension Review Board courses.





## DISCUSSION SHEET

### ITEM #D1

**Topic:** Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System

**Discussion:** This is a Board-approved open forum for active members and pensioners to address their concerns to the Board and staff.

*Regular Board Meeting – Thursday, April 12, 2018*



## DISCUSSION SHEET

### ITEM #D2

**Topic:**

**Executive Director's report**

- a. Associations' newsletters
  - NCPERS Monitor (March 2018)
  - NCPERS PERSist (Spring 2018)
- b. Employee Service Award
- c. Chief Financial Officer recruitment update
- d. Chief Investment Officer recruitment update
- e. State Affairs Committee Hearing

**Discussion:**

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

*Regular Board Meeting – Thursday, April 12, 2018*

THE NCPERS

# MONITOR

The Latest in Legislative News

MARCH 2018

## In This Issue

### 2 From Palm Beach, a Cautionary Tale On Fallout from Shutting Pension Plan



The National Institute on Retirement Security said its case study, “Retirement Reform Lessons: The Experience of Palm Beach Public Safety Pensions,” is a cautionary tale about “a failed experiment.”

### 3 Joint Select Committee on Solvency of Multiemployer Pension Plans



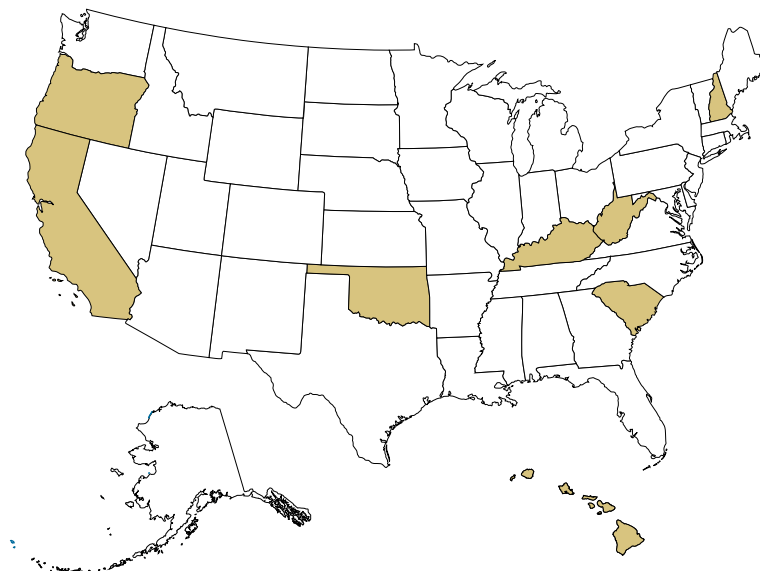
A new Joint Select Committee on the Solvency of Multiemployer Pension Plans was recently created by Congress as part of the bipartisan federal budget agreement.

### 6 Executive Directors Corner



We are proud to unveil a robust lineup of free, interactive webinars for late winter and early spring.

## State Update



Since our October 2017 installment, we have a fresh batch of adverse pension reform legislation to keep an eye on. New defined contribution legislation has been introduced in California, Kentucky, New Hampshire, Oklahoma, Oregon, and South Carolina. However, Hawaii has introduced Secure Choice legislation, which is a step in the right direction for retirement security for all Americans. Details on specific state legislation are as follows:

**California:** On February 13, 2018, Senator Steve Glazer (D) introduced Senate Bill (SB) 1149, which would allow new state employees the option of opting out of pension plan benefits and instead choose a “self-directed and portable retirement plan.” This bill would create a new defined contribution plan for members of the California Public Employee Retirement System (CalPERS) who choose not to participate in the defined benefit plan. It would require state employees to contribute the same contribution as the defined benefit plan. Also, the bill would also authorize an employee in the defined contribution plan after five years to stay in their current plan or switch to the traditional defined benefit plan, if the balance in the employee’s defined contribution account equals or exceeds the amount that would have been in their defined benefit account. The bill has been referred to the Standing Committee on Public Employment and Retirement as of February 23.

[CONTINUED ON PAGE 8](#)

# From Palm Beach, a Cautionary Tale On Fallout from Shutting Pension Plan

**W**hat happens to communities when a public pension plan reduces or eliminates its defined-benefit plans? A new empirical study provides powerful evidence of how hobbling one retirement system undermined a town's workforce in the long run, to the detriment of the community.

The National Institute on Retirement Security said its case study, "Retirement Reform Lessons: The Experience of Palm Beach Public Safety Pensions," is a cautionary tale about "a failed experiment."

The case study spotlights the Florida town of Palm Beach, which in 2012 closed its existing defined-benefit pension systems for its employees, including police and firefighters. Instead, the town offered a "combined" retirement system consisting of dramatically reduced DB pensions and new individual defined-contribution retirement accounts.

The impact was swift, as a "mass exodus" of public safety officers ensued:

- In addition to 20 percent of the town's workforce who retired after the change, 109 trained officers left for other jobs. The damage was particularly bad at the mid-career level. In all, 53 vested police officers and firefighters departing Palm Beach's forces from 2012 to 2015, compared to just two such experienced employees in the four years from 2008 to 2011. At the peak of the crisis, more than 60 percent of the town's employees had less than three years of service.
- Neighboring towns, meanwhile, benefitted from the departures as they hired fully trained officers.
- Costs increased in other areas because the town of Palm Beach "didn't anticipate the financial impact of the high attrition," the



Photo Illustration © 2018, Depositphotos

study found. Firefighters had to work overtime at high levels to cover gaps created by the departures, and training costs for hiring rookie officers soared.

By 2016 the Palm Beach Town Council had seen enough. It voted to abandon the DC plans and improve the DB pensions for police officers and firefighters by raising benefits substantially and lowering the retirement age. To offset the cost of the police and fire DB pension improvements, it increased employee contributions. The town also eliminated the DC plan with its employer match.

"The decision to decimate the retirement benefits that public safety workers need when they no longer can perform their risky jobs had costly consequences that can rival funding challenges of pension plans," said the study, authored by Diane Oakley, executive director of NIRS. By 2016, the town faced a new crisis – "stopping the hemorrhaging from employee turnover," Oakley wrote.

"The healing process in Palm Beach is underway, but restoring trust in the employee-employer relationship is a slow process," she wrote. ◆

## DON'T DELAY!

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# Joint Select Committee on Solvency of Multiemployer Pension Plans

By Tony Roda

A new Joint Select Committee on the Solvency of Multiemployer Pension Plans was recently created by Congress as part of the bipartisan federal budget agreement. The Select Committee is charged with providing recommendations and draft legislation designed to significantly improve the solvency of multiemployer pension plans and the federal insurance backstop for these plans, the Pension Benefit Guaranty Corporation (PBGC).

Often referred to as “Taft-Hartley plans,” multiemployer pension plans are collectively-bargained plans maintained by more than one private sector employer, usually within the same or related industries, and a labor union. Despite sometimes confusing names, these are not public pension plans. For example, the Central States, Southeast and Southwest Areas Pension Fund is a pension fund for 400,000 teamsters. There are about 1,400 multiemployer plans in the country, covering some 10 million employees. Of these plans, 114 plans appear to be headed toward insolvency. Those plans cover some 1.5 million workers and retirees.

The reason public sector plans should care about this Select Committee and its ultimate recommendations, which are due by November 30, 2018, is because the policies applied to the multiemployer plan crisis could be borrowed by Congress if public pension plans were ever to seek financial assistance from the federal government. Of course, a request by a state or local plan for federal financial assistance would not be a welcome occurrence. It would invite the federal government to become deeply embedded in our benefit structures, operations and investment decisions.

In 2014, Congress and President Obama enacted the Multiemployer Pension Reform Act (MEPRA), which is at its core a benefit reduction mechanism. It is important to emphasize that this initial bipartisan Congressional foray into solving the multiemployer plan funding issue – MEPRA – was statutory flexibility for benefit cuts.

While MEPRA has not been sufficient to resolve the problem, only four pension plans have received approval from the Treasury Department to reduce benefits, the Select Committee is likely to review MEPRA to determine if it should be revised. In addition to other proposals, the Select Committee is expected to closely examine two pieces of legislation: (1) [S. 2147](#), the Butch



Photo Illustration © 2018, iStockphoto

Lewis Act, introduced by Sen. Sherrod Brown (D-OH) and (2) H.R. 4997, the Give Retirement Options to Workers (GROW) Act, introduced by Rep. Phil Roe (R-TN). Both Sen. Brown and Rep. Roe have been named to the Select Committee.

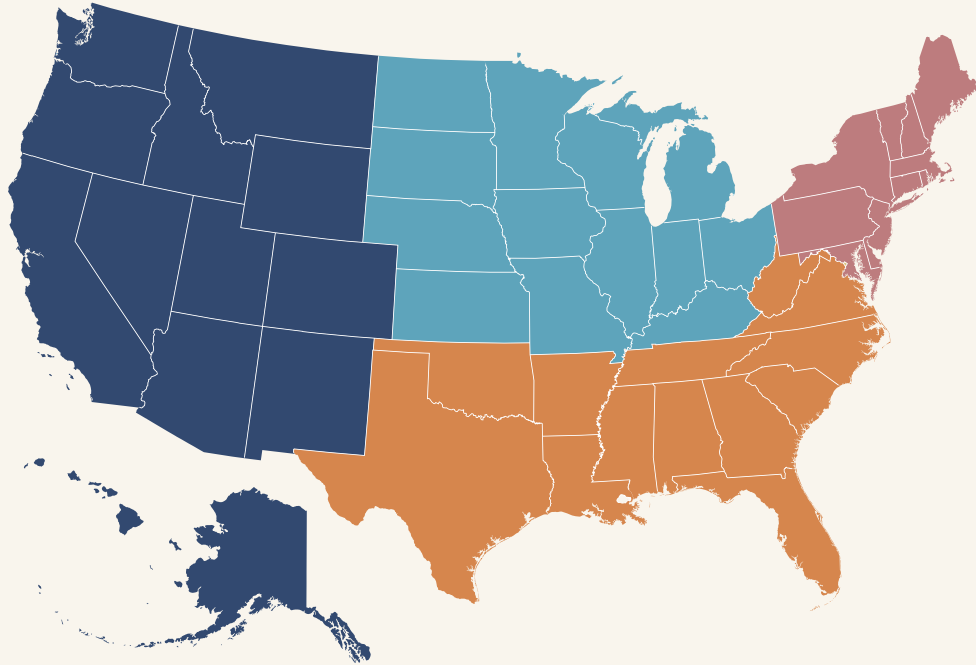
- The Butch Lewis Act, named after the former Teamsters Local 100 president who passed away in 2015, has 18 cosponsors, all Democrats. For purposes of making loans to multiemployer plans the bill would create a Pension Rehabilitation Trust Fund in the Department of the Treasury, which would be funded by proceeds from Treasury bonds issued under the Act, amounts appropriated by Congress, and interest and principal amounts paid by the borrowing pension funds. Loans would be for 30 years, with only interest payments due for the first 29 years. Loan proceeds can be used only for the purchase of annuity contracts or a specific portfolio described in the bill. Similar legislation, H.R. 4444, has been introduced by Rep. Richard Neal (D-MA), who is the senior Democrat on the House Ways and Means Committee. H.R. 4444 has 151 cosponsors, with nine Republicans among them. At the moment, however, most Republicans are opposed to the creation of a loan program, which they characterize as a bailout.
- The GROW Act has been introduced by a bipartisan pair of House members, Reps. Roe and Don Norcross (D-NJ). The bill would amend the Employee Retirement Income Security Act (ERISA) to allow multiemployer plans to freeze their

CONTINUED ON PAGE 9

## NCPERS

## Around the Regions

As a new Monitor feature, we will highlight pension news in one state in each of these four regions each month.



### SOUTH: North Carolina



Pension beneficiaries in the Tarheel State got a head start on enjoying their federal tax rate cuts thanks to an initiative by the \$93.9 billion North Carolina Retirement Systems Division.

The state retirement system beat the deadline for implementing tax withholding tables used to calculate paychecks and paid out an additional \$5.7 million in benefits during January, said Steve Toole, executive director of NCRSD. The federal tax reform law that was enacted December 22, 2017, required the Internal Revenue Service to issue new withholding tables, with an implementation deadline of February 15, 2018.

“Our payroll processing team recognized that the tax reform legislation could have an immediate impact on our members,” Toole said in an interview. “We are always looking for ways to increase the value of the service we provide, and this was a great way to accomplish that goal.”

NCRSD was able to move nimbly because it has made an investment

in streamlining its processes in recent years, Toole said. As a result, moving the tax schedules “from concept to implementation” was a surmountable hurdle. “We had to perform a series of tests and validations to ensure we were implementing the correct figures. It’s very easy to transpose one digit and throw off an entire withholding bracket,” he said.

In other process improvements, NCRSD said it had released 2017 tax forms “six weeks ahead of schedule and at the fastest pace in six years.” NCRSD said it paid out a record \$500 million in retirement benefits to 312,000 retirees and benefit recipients in January.

### MIDWEST: Kansas



Michael Scribner has been a potent advocate for public pensions in Kansas. As president of Teamsters Local No. 696 and chairman of the public pension coalition Keeping the Kansas Promise, Scribner has forcefully advocated for accountability and fairness even as state lawmakers have failed to honor their commitments

to properly fund the Kansas Public Employees Retirement System.

The inauguration of Jeff Colyer as governor on February 1 is an opportunity for change, Scribner says, though he is not optimistic. Colyer's predecessor, Sam Brownback, engineered a tax cut experiment that has been widely acknowledged as a failure. The Brownback legacy includes a raid on state pension funds that may take years to counteract.

"It is too early to tell how Governor Colyer will be," Scribner said in an interview. "In his recent State of the State address, it was clear that his policies will be the same as Brownback's. Kansans deserve better leadership than this."

For pensions, time is short for meaningful action, given that the legislative session runs only January through April. "I expect Governor Colyer will kick the can down the road as they have in the past," Scribner said. Funding will be tight because of the urgent need to find a way to fund schools, he noted. The Kansas Supreme Court in October 2017 overturned the state's school finance formula, and the legislature is scrambling for \$600 million in funding to fill the hole.

## WEST: Oregon



In a strong year for public pension fund performance, the Oregon Public Employees Retirement Fund was one of the standouts, posting a 15.3 percent return in 2017. It was the fund's best year since 2013.

The results were fueled by a strong year for the domestic and international public equity markets, said James Sinks, communications director at the Oregon State Treasury.

The fund is invested on behalf of more than 350,000 public workers, retirees and beneficiaries, and is managed for long-term, positive risk-adjusted returns. The fund is diversified across many different kinds of assets including stocks, bonds, private equity and real assets like property and timberland.

"While the strongest performance realized was in public equities (stocks), all of the asset classes in the Oregon portfolio posted positive returns in 2017," Sinks said in an interview.

"The strong returns are good for beneficiaries and also for the state as a whole," Sinks added. "Retirees who receive benefit checks, which average about \$2,500 a month, are important consumers in Oregon's economy. And the improved health of the pension fund is good for the state's overall fiscal position."

Bullish markets notwithstanding, the fund must constantly prepare for turbulent conditions. "The Oregon Investment Council is taking steps to build a more resilient portfolio that is better insulated in the event of a market downturn," Sinks said. "We are looking to the future, being strategic, and investing long term for our fund beneficiaries," he added.

## NORTHEAST: New Jersey



A bill to spin off and restructure oversight and management of New Jersey's Police and Firemen's Retirement System has hit a speed bump in the state Senate, but is still expected to progress.

The Senate on February 26 declined to take up the bill to establish a 12-person board to manage the retirement system, which holds \$27 billion in assets. State Senate President Stephen Sweeney said the bill "remains on track for approval with a few 'reasonable' changes that he declined to specify," according to a report on The Record's website, Northjersey.com

The bill, S. 5, would transfer all functions, powers, and duties relating to investment and reinvestment of the retirement system's assets to the new board. The new board will then be responsible with hiring its own executive director, actuary, CIO, and ombudsman. The Division of Investment in the Department of the Treasury currently performs all oversight functions for the state's \$78 billion retirement system. ♦



## NCPERS Webinars for February and March Spotlight Tax Reform, GASB, Secure Choice

Education is a cornerstone of the NCPERS mission, complementing the important work we do in the areas of advocacy and research. As new developments affecting public pensions surface, we are responding to members' demands for more ways to stay up to speed. Webinars have been a popular addition to the educational offerings of NCPERS, because they enable members to get a crash course in a timely topic in about an hour without ever leaving the office.

We are proud to unveil a robust lineup of free, interactive webinars for late winter and early spring, covering tax reform, the new accounting standard for post-employment benefits other than pensions (OPEB), and state and local government initiatives to enhance retirement security for millions of private-sector employees. All webinars allow time for audience questions, enabling you to get answers to your most pressing concerns.

First up, on March 6, is a [tax reform webinar](#) featuring experts from K&L Gates. NCPERS scored a victory in the 2017 tax reform legislation by defeating a plan to raise more than \$1 billion in new taxes by imposing a tax provision known as the unrelated business income tax, or UBIT, on public pension plans. But UBIT and other negative developments could surface in 2018 in a technical corrections bill or a benefits bill. Charles Purcell and Won-Han Cheng will provide an outlook and answer your questions.

On March 13, we take an in-depth look at how the new OPEB standard will affect financial statements. The GASB team, including Dean Mead and Emily Paul, will offer their perspective and insights on compliance with these rules, which have been germinating for years. GASB Statement No. 74 has already taken effect for plans with fiscal years beginning after June 15, 2016, and GASB Statement No. 75 is now taking effect for plans with fiscal years beginning after June 15, 2017. You can register for this webinar [here](#).

*Webinars have been a popular addition to the educational offerings of NCPERS, because they enable members to get a crash course in a timely topic in about an hour without ever leaving the office.*



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On April 6, we turn our attention to a [Secure Choice update webinar](#), featuring Angela Antonelli, executive director of the Georgetown University Center for Retirement Initiatives. The center has become a vital resource for detailed information on Secure Choice implementation status, legislative action, and summaries of bills introduced at the state and local level. Antonelli will discuss the new, innovative programs and proposals that have been in discussion across the U.S., including in nine states and one city that have enacted retirement savings programs for private-sector workers.

And in case you missed it, don't forget to check out our [February 13 webinar](#) on the 2017 NCPERS Public Retirement Systems Study. You can listen to a replay to learn the highlight of the seventh annual edition of our widest-ranging industry analysis. You'll also learn how to use the dashboard, a dynamic and interactive tool that enables you to adapt the study's data on fiscal and operational practices to your organization's analytical needs. ♦



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STATE UPDATE CONTINUED FROM PAGE 1



**Hawaii:** On January 19, Sen. Laura Thielen (D) introduced Senate Bill 2333, legislation that would create a state-run retirement savings fund. The bill establishes a retirement savings board to administer the plan and requires the board to report to the legislature before establishment of the plan. The bill also required a market analysis before the establishment of the retirement savings plan. As of February 23, the Ways and Means Committee have recommended that the bill is passed with amendments.




**Kentucky:** After much discussion ([and interference from the Laura & John Arnold Foundation](#)), public pension reform has officially come to Kentucky. SB 1 was introduced on February 20, by Sen. Joe Bowen (R). While this bill does not require current or future teachers to transfer to a 401 (k)-style plan, new teachers will have to go into a hybrid cash balance plan. New teachers will not see cost-of-living-adjustments (COLAs) increases and current teachers will have their COLAs cut in half from 1.5% to .75% for a 12- year duration. In addition, teachers will not be required to contribute 3% more of their salaries for health care for retired teachers; Sen. Bowen has said that the cost of retired teachers' health care will be dealt with in the budget but has not said how it will be done. The law does not prevent teachers from retiring earlier than age 60 or with less than 35 years of service. However, teachers will have a retirement factor of 2.5 and have to calculate benefits on the high five years. Teachers with more than 20 years of service would not see a change in their calculation. At the time of print, the Senate committee plans to vote on the measure in the upcoming week (last week of February).




**New Hampshire:** As previously reported last June, H.B. 631 would create a cash balance retirement plan for new hires and non-vested employees. As of January 3, 2018, the bill has been referred to interim study. Separately, H.B. 1756, introduced by Representative Stephen Shurtleff (D) on November 20, 2017, is currently in executive session. The bill proposes a one-time \$500 payment, effective July 1, 2019, to retirees and beneficiaries receiving an annual benefit of \$30,000 or less and who have been retired more than five years. In addition, H.B. 1754 would establish a defined contribution plan for


state employees. The bill, introduced by Rep. Robert Graham (R) on November 20, 2017, is currently in subcommittee. Stay tuned to the NCPERS website as these bills progress.




**Oklahoma:** On February 6, Rep.'s Randy McDaniel (R) and Gary Stanislawski (R) re-introduced H.B. 1172, which would create an optional defined contribution plan in the Oklahoma Teacher's Retirement System. The bill is currently in the Banking, Financial Services, and Pensions Committee.



**Oregon:** On January 22, Rep.'s Julie Parrish (R) and Cedric Hayden (R) introduced H.B. 4070, a bill that would place new hires into a 401 (k)-style retirement plan. Currently, the bill has been referred to the Business and Labor committee with a referral to Ways and Means.



**South Carolina:** On February 22, Sen. Tom Davis (R) introduced H 5000, legislation that would place all new public-sector hires into a defined contribution plan, instead of the current defined benefit plan. The bill has been referred to the Committee on Ways and Means. Separately, the Joint Pension Review Committee of House and Senate members is researching its plan for public pensions. The final version is expected to be a hybrid plan.



**West Virginia:** At the beginning of 2018, Sen. Mike Romano (D) introduced S.B. 56; this legislation will increase state employees' pay over two years. The bill will provide teachers, school service personnel, and state police with a 2 percent pay increase starting in July, and steps were taken in the budget to include a 2 percent pay raise for all other state employees effective July. Teachers are also scheduled to get an additional 1 percent hike in each of the following two years. Both the House and Senate approved the bill, and it was signed by Governor Jim Justice (R) on February 21.

Stay tuned and visit [www.NCPERS.org](http://www.NCPERS.org) for more information on upcoming state pension reform battles. You can visit the [legislation maps](#) on [www.NCPERS.org](http://www.NCPERS.org) to view our latest membership feature. As always, if your state is facing pension reform efforts and you would like NCPERS' help, please let us know. ♦



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**MULTIEMPLOYER PENSION PLANS CONTINUED FROM PAGE 3**

traditional, defined benefit pension plan and then establish a composite plan for new hires. If the composite plan's funded status drops below 120 percent, trustees would be required to cut benefits to a level that restores the funded status to 120 percent. The composite plan would not pay premiums to the PBGC and would not have access to PBGC insurance. Also, employers would not incur a withdrawal liability if they exited a composite plan.

The Select Committee will be comprised of 16 Members of Congress, equally divided by party and chamber. If four from each party vote to approve the Committee's recommendations and legislative language, then the legislation would be guaranteed

a vote in the House and Senate. Under this procedure, no floor amendments would be allowed.

Please know that NCPERS will closely monitor the activities of the Select Committee for their potential implications on state and local governmental pension plans. ♦

***Tony Roda** is a partner at the Washington, D.C. law and lobbying firm **Williams & Jensen**, where he specializes in legislative and regulatory issues affecting state and local pension plans. He represents NCPERS and individual pension plans in California, Ohio, Tennessee and Texas.*

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## 2018 Conferences

### May

**NCPERS Accredited  
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(All modules)**  
May 12 – 13  
New York, NY

**Trustee Educational Seminar**  
May 12 – 13  
New York, NY

**Annual Conference &  
Exhibition**  
May 13 – 16  
New York, NY

### June

**CIO Summit**  
June 14-15  
Chicago, IL

### September

**Public Pension Funding  
Forum**  
September 10 – 12  
Cambridge, MA

### October

**NCPERS Accredited  
Fiduciary Program  
(All modules)**  
October 27 – 28  
Las Vegas, NV

**Public Safety Conference**  
October 27 – 31  
Las Vegas, NV

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# PERSIST

The Voice for Public Pensions

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## Message from the President



Daniel Fortuna  
NCPERS President

I am excited to preside over my second NCPERS Annual Conference & Exhibition (ACE) Program, held on May 12-16, 2018, in New York, New York. During these uncertain economic times, it is more important than ever for us to come together as a public pension community.

We have been continually improving and adding new valuable educational programming to our flagship event. TEDS is a pre-conference staple in the NCPERS curriculum for new and novice trustees who are seeking a better understanding of their new role as trustees of a pension fund. NCPERS Accredited Fiduciary (NAF) is in its third year. With 47 experienced trustees now accredited, I encourage you to attend and begin earning your Accredited Fiduciary (AF) designation.

For the second year, we will offer all four NAF modules simultaneously. This year's ACE program is designed to inform

attendees of the issues facing the public pension community and give you the tools to face these issues. NCPERS will address these issues of public pension plans, with the following ACE highlights:

**Module 1: Governance and the Board's Role-** In this module, attendees will learn the role, responsibilities and accountabilities of their public pension board, as well as the differing governance models and principles that exist. How to become a "high-functioning Board" will also be discussed.

**Module 2: Investment, Finance, and Accounting-** In module 2, attendees will learn the proper administration of their fund's investments, ensuring compliance with investment policies, performance management, and adequate reporting. Attendees will also learn how to access the required information they need to make informed financial decisions.

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# Ideas to Put More ESG Impact into Your Portfolio

By Mamadou-Abou Sarr

The United Nations has made progress in helping investors measure what qualifies as positive impact with 17 sustainable development goals. These ambitious global goals include no poverty, zero hunger, quality education, gender equality and others listed in Exhibit 1.

Investors can look to maximizing positive intentional impacts, considering quantitative aspects such as the proportion of revenues coming from sustainable products. These are solutions contributing to sustainable development goals in the most direct way. They include production of renewable energy and engineering systems for it, energy efficient



equipment such as LED lighting, water technologies and infrastructure.

Revenue breakdown data related to sustainable development goals are available in various indices, such as the FTSE-Russel Green Revenues, Environmental Opportunities and Environmental Technologies Index families, MSCI and Solactive sustainable impact indices, S&P Global Eco Index, and, to a certain extent, the EuroNext Low Carbon 100 Europe Index and STOXX Climate Change Leaders Index. It's important to note that some indexes can be concentrated given the limited number of companies that meet sustainable criteria, which may increase volatility somewhat versus a broader index.

However, in pursuing impactful investing strategies, investors do not have to take a niche approach, focusing on pure-play companies or green projects. The United Nation's sustainability goals have provided a framework of areas where large-scale investments can be channeled. While measuring and comparing the exact positive impacts of investment portfolios remains a challenge given the variety of locations and specific circumstances, we believe that

[CONTINUED ON PAGE 10](#)

## Exhibit 1: United Nations Sustainable Development Goals

*The creation of the sustainable development goals in 2015 was designed to address the negative side effects of profit taking economic activities by 2030.*

No poverty
Zero Hunger
Good Health and Well Being
Quality Education
Gender Equality
Clean Water and Sanitation
Affordable and Clean Energy
Decent Work and Economic Growth
Industry, Innovation and Infrastructure
Reduced Inequalities
Sustainable Cities and Communities
Responsible Production and Consumption
Climate Action
Life Below Water
Life on Land
Peace, Justice and Strong Institutions
Partnerships for the Goals
Source: United Nations

**Mamadou-Abou Sarr** is the Director of Product Development and Sustainable Investing at Northern Trust Asset Management where he is responsible for ESG innovation and product development across our full array of asset classes and capabilities for both institutional and wealth management investors. Mamadou has a key role within Northern Trust to proactively develop new ideas to ensure that ESG thinking remains central to our business development.

Mamadou received his B.A. in economics from the Université Jean Monnet and holds a Specialised Master in international project management from the European School of Management (ESCP Europe), Paris. Additionally, he holds the Investment Management Certificate (IMC) and received the Islamic Finance Qualification (IFQ), Mamadou is an Associate of the Chartered Institute for Securities & Investment (ACSI) and a member of the CFA UK Institute. He was named in Crain's Chicago Business, "Crain's Chicago Top 40 under 40" for 2017.

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# Limited Partner Advisory Committees: Mitigating Manager Conflicts

By Peter Mixon

Limited partner investors in private fund partnerships have limited liability because they do not participate in the management of the fund's operations. The general partner is responsible for overseeing the management and investment of fund assets. This separation of ownership from management creates inherent conflicts of interest for fund managers – they have economic incentives to favor their own financial interests over the interests of the fund investors. To mitigate some of these “agency” risks, limited partnerships often include provisions for the creation of a committee consisting of fund limited partners --the limited partner advisory committee (LP Advisory Committee).



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While not mandatory, LP Advisory Committees can perform important functions in the governance of the fund. And if properly organized and managed, these committees can provide advantages to limited partners by mitigating agency risks in the management of their investments in the fund.

## Advisory Committee Purposes

LP Advisory Committees are created and defined by the partnership documents. Typically, the committee performs several important roles, including: 1) evaluation of “conflicted” fund transactions, and 2) approval of valuation methods. Conflicts of interest arise when the general partner owes dual loyalties between funds or between investors, when the general partner has a personal financial stake in a fund investment, and when the general partner obtains services for the fund from an entity affiliated with the general partner. Similarly, the general partner has a strong financial incentive in the valuation of fund assets because manager compensation (fees and carry) is almost always tied to these valuations. If properly structured, the LP Advisory Committee will have the power to review these “conflicted” transactions as well as the asset valuation methodology and approve or disapprove them in the best interests of the fund and its investors. Having this right brings more transparency to the management of the fund and helps mitigate the risk that investors will be disadvantaged in “conflicted” transactions and asset valuations.

## Well Drafted Provisions

There are several issues that should be addressed in the fund documents. First, voting membership on the committee should be restricted to limited partners not affiliated with the general

partner to avoid biased votes. Second, the scope of the committee's authority should be well defined. Unless the general partner has a clear obligation to bring an issue to the committee, the issue likely will not surface and the LPAC will remain in the dark.

In addition, the potential liability of committee members should be very limited. The partnership agreement should provide that committee members are not considered fiduciaries to other limited partners and should allow committee members to represent the interests of their pension plan investor while serving on the committee. The members should also be entitled to a legal defense and indemnity from the fund for all but the most egregious actions (such as fraud or bad faith) as well as insurance coverage provided by the fund.

[CONTINUED ON PAGE 10](#)

***Peter Mixon** is a partner at Nossaman, LLP. He has more than twenty years of experience advising public pension plans and other institutional investors on operations, investments, and dispute resolution. As a member of the firm's Public Pensions and Investment Group, he concentrates on trust law, investment transactions, benefits, and funding issues. Mr. Mixon also has extensive experience advising public boards and committees on fiduciary and governance issues. Mr. Mixon is a well-known speaker on public pensions and has testified in state court as an expert on public pension fiduciary standards.*

# Fiduciary Responsibility For Worldwide Claims Filing

By now, most institutional investors have concluded their fiduciary duty requires filing proof of claim forms in U.S. securities class action settlements. However, many have not yet implemented similar claims filing protocols for U.S. antitrust and non-U.S./Canada securities matters. If fiduciary duty compels the former, it also requires the latter; and none require funds to become named parties to active litigation.

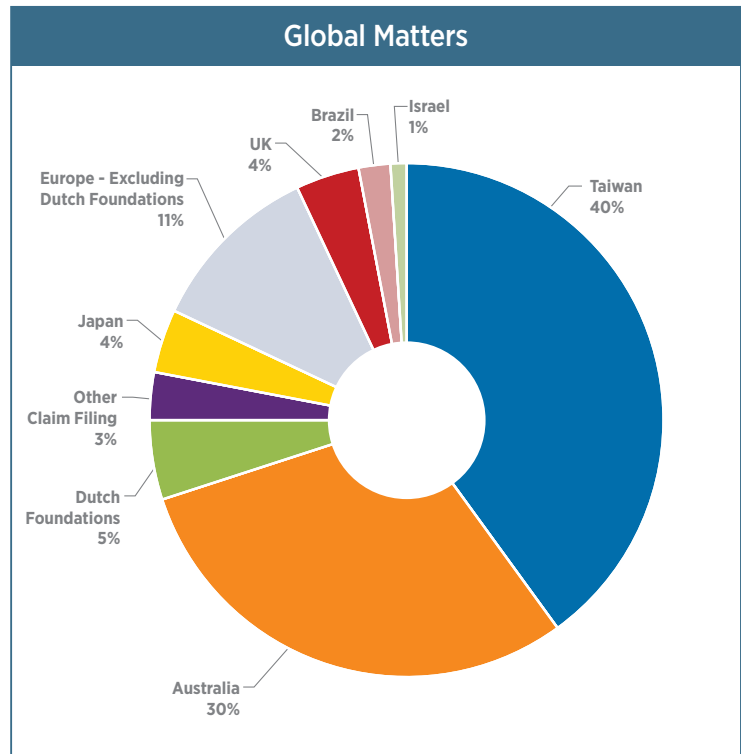
Custodians won't file these claims for clients, leaving fiduciaries to either devote internal time and resources or outsource this function to third party filers. Either way, best practices suggest that fiduciaries take steps now to ensure their funds do not miss recovery dollars for lack of submitted paperwork.

## U.S. ANTITRUST CLASS ACTION CLAIMS FILING

In the U.S., antitrust class actions cover investments in non-securities financial instruments. At the end of 2016, the credit default swaps (CDS) settlement distribution showed fiduciaries that these claims can yield substantial dollars. For just nine (9) antitrust matters there is currently \$3.7+ billions and still millions more dollars may be recovered in the future from non-settling defendants. There are also 50+ antitrust class actions in active litigation which could yield filing opportunities and substantial recoveries for years to come.

## NON-U.S./CANADA SECURITIES CLAIMS FILING

There is a common misconception that non-U.S./Canada securities recovery efforts require funds to be named parties in active litigation.



Since 2015, roughly 100 non-U.S./Canada securities matters were pursued. More than 70% were in jurisdictions using 'opt-out' classes and/or analogous administration processes.

[CONTINUED ON PAGE 11](#)

CASE	SETTLEMENT AMOUNTS	FILING DEADLINE	TYPE
LIBOR	\$460m	December 21, 2017 - March 29, 2018	Blank
Euroyen Based Derivatives	\$236m	February 20, 2018 - excluding Mitsubishi (extension from January 24, 2017)	Blank
FOREX	\$2.3b	March 22, 2018	Constructed
ISDAfix	\$408m	July 16, 2018	Blank
Euribor	\$139m	August 1, 2018	TBD
Silver Fixing	\$38m	TBD	TBD
Gold Fixing	\$60m	TBD	TBD
FX Canada	\$39.2m	TBD	TBD
BARX/Last Look	\$50m	Past - July 7, 2017	Constructed
<b>TOTAL</b>	<b>\$3.7b</b>		





## NCPERS Files Amicus Brief in Important U.S. Supreme Court Shareholder Rights Case

By Robert D. Klausner, NCPERS General Counsel

On February 28, 2018, NCPERS filed a friend of the court (amicus curiae) brief the case of *China Agritech v. Resh*. The case concerns the right of a class member to the tolling (suspension) of the statute of limitations on a claim once another member of the class has filed a class action. Without this rule, first announced by the Supreme Court in 1974 in the case of *American Pipe & Construction Company v. Utah*, every potential member of a class would have to file a claim in every case or risk being prohibited from recovering losses in securities fraud situations. The rule is a common sense approach to preserve judicial resources by not flooding the courts with tens of thousands of unnecessary suits when the filing of a single class action can preserve the rights of all investors.



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When a class action is filed, the court must certify that the case is properly brought as a class action and whether the class representative can adequately represent the class. In this particular case, the original class motion had a defect which was capable of being corrected. The question the court is considering is whether in such a case, the potential class members can still rely on the *American Pipe* rule and the statute of limitations is still suspended. The United States Court of Appeals for the Ninth Circuit ruled for the investors and held that the statute of limitations continued to be tolled. The Supreme Court agreed to review the case.

The NCPERS brief pointed out the importance of protecting pension assets from securities fraud and the vital role that public pensions play in the national economy and, most importantly, in the lives of public employees. The case is scheduled for oral argument in late March and a decision is expected before the end of the current Court term in June.

### FEDERAL FIRST CIRCUIT COURT OF APPEALS TAKES NARROW VIEW OF MEMBER RIGHTS

In a January decision, the United States Court of Appeal for the First Circuit took a particularly unfavorable view of employees' federal constitutional contract rights in retirement benefits. In *Cranston Firefighters, IAFF Local 1363 v. City of Cranston*, 880 F.3d 44 (1<sup>st</sup> Cir. 1/22/18), the court of appeals considered whether

modifications to the state retirement system impaired the obligation of contract in violation of Article 1, Section 10 of the United States Constitution. The case arose from state legislation in 2011 allowing city firefighters and police officers to opt into the state retirement system in return for waiving rights under the city pension plan. A federal trial court dismissed a lawsuit by the fire and police unions claiming that the modifications repudiated contractual obligations owed to Cranston firefighters and police officers.

The 2011 law reduced benefits under the state retirement system into which Cranston public safety employees had enrolled under

**CONTINUED ON PAGE 12**

*This article is a regular feature of PERSIST. **Robert D. Klausner**, a well-known lawyer specializing in public pension law throughout the United States, is General Counsel of NCPERS as well as a lecturer and law professor. While all efforts have been made to insure the accuracy of this section, the materials presented here are for the education of NCPERS members and are not intended as specific legal advice. For more information go to [www.robertdklausner.com](http://www.robertdklausner.com).*

# A Framework for an Investor’s Approach to Climate Change

**A**s The question on many investors’ minds is not whether climate change is happening or not – instead, it is what does climate change mean for my investment portfolio? The challenge for investors is how to balance risks and potential opportunities that will materialize over coming decades with the mandate to make investment decisions that are prudent for a fiduciary today given currently available information. The climate transition will likely result in significant physical, market, and policy changes. While various scenario projections can demonstrate the wide array of potential outcomes, it will be difficult to identify the timing, magnitude, and precise outcomes of the climate transition. Hence these scenarios may provide limited information in which to ground investment decisions made today. Against this backdrop, simply doing nothing may seem imprudent to some, but taking large directional bets based on rapidly changing variables may also seem unwise.

Therefore, we believe investors may wish to manage climate risk and reward across the distribution of investable assets through a three part framework:

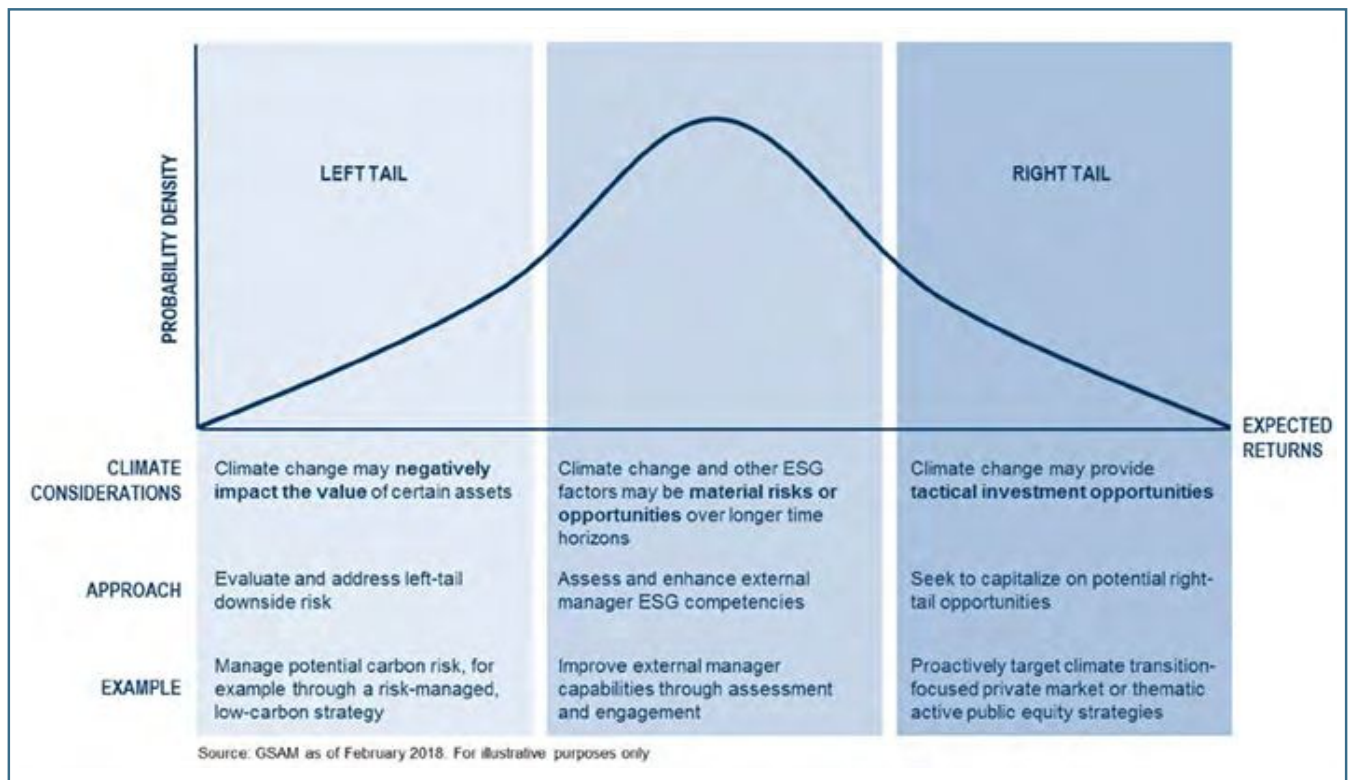
- **Address, and potentially manage, “left tail” downside risks from climate change:** the various risks associated with climate change will manifest in different ways; instead of making a large directional bet, investors may look

for ways to reduce or eliminate the riskiest portfolio exposures through a small tracking error budget, for example through risk-managed, low-carbon equity strategies

- **Integrate best practices in climate change competencies across external managers:** climate change can have a variety of both positive and negative impacts on long term value; using deeper diligence to assess managers’ competencies in navigating these changes and creating ongoing engagement to improve capabilities in managing these risks and opportunities can be additive
- **Seek to capitalize on potential “right tail” upside from the transition to a lower-carbon economy:** strategically positioning a portfolio to capture some of the areas of opportunity created by this transition – through private markets investments in themes such as renewable energy, resource efficiency, and water – may result in alpha capture

Through this approach we believe that investors can make investment decisions that they believe are both prudent today, and which can also better position an investment portfolio for the range of impacts climate change may bring to it. ♦

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# Maximizing Performance of Comingled Fund Structures

By Tom Grande

**A**lthough ERISA ensures that employee retirement plans are appropriately funded, the legislation comes with a downside. It imposes restrictions on eligible investment classes—foreign assets chief among them—limiting the diversification and performance benefits that stem from foreign exposure.

Over time, pension managers have tapped comingled fund structures as ERISA-approved vehicles for accessing foreign securities. Although such structures offer access, the exposure does not come free. Because foreign tax authorities struggle to understand underlying owners in pooled vehicles, pensions can be denied the benefits of their domestic tax-exempt status. As a result, they can find themselves on the hook for hefty foreign withholding tax, often leading to an annual performance drag in excess of 50 bps.

By recovering foreign withholding tax, however, pensions invested through certain comingled structures can have the best of all worlds. They can secure exposure to the performance and diversification benefits of foreign securities, while meeting fiduciary obligations to maximize returns.

## Choosing the Right Comingled Vehicle

In recent years, pensions have moved away from separately managed accounts, embracing pooled structures like 40 Act funds, registered funds, and group trusts. However, not all comingled funds are created equal. Registered and 40 Act funds are subject to more regulation than group trusts, adding a layer of legal and operational costs that make the latter relatively cheaper—and thus more appealing—to pension investors.

Treatment of foreign withholding tax represents another potential advantage of group trusts. While pensions are usually considered tax-exempt in their country of residence, foreign tax authorities often demand documentation of plan participants and fund structures before granting exemption. As corporate vehicles, 40 Act and registered funds are “opaque”; their non-transparent nature subjects underlying investors to foreign withholding tax. Group trusts, by contrast, are “transparent,” allowing tax authorities the opportunity to “look through” to the beneficial owner level to confirm eligibility for foreign tax exemption.

## Developing a Foreign Withholding Tax Recovery Strategy

To secure these entitlements, pensions invested in group trusts must navigate the varied processing and documentation requirements



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of each applicable market. The French Tax Authority, for example, requires a certification of residency from every comingled vehicle investor, otherwise none can obtain relief. While Switzerland has recently shifted their views on this particular matter, tax authorities have changed the policy at least three times in last two years—a normal occurrence.

Unfortunately, pensions are often left to fend for themselves. Custodians and prime brokers find it expensive and time-consuming to keep up with the ever-changing withholding tax treaty landscape, rendering them hesitant to offer such services. When they do offer services, they rarely provide support for supplemental matters such as audits, adding another challenge to pension managers’ ever-growing list of regulatory and fiduciary requirements.

Help is available, however. Dedicated tax experts specialize in foreign withholding tax recovery, working with pension managers to qualify for foreign withholding tax exemption. Pensions should speak with their tax advisor, custodian(s), and fund manager(s) to confirm that a withholding tax strategy is in place. ♦

**Tom Grande** is a Director of GlobeTax’s Sales team. With over 25 years of experience in the asset servicing industry, he focuses on promoting the company’s services to pensions and other tax-exempts seeking to recover over-withheld taxes on foreign investments.

# Courts Continue to Explore What it Means to Be “Governmental”

By Tyson Crist

As The IRS has not yet issued regulations under section 414(d) of the IRC to further define what it means to be “governmental.” Yet it has been over six years since it issued the Advanced Notice of Proposed Rulemaking (ANPRM), titled “Determination of Governmental Plan Status.” The only limited guidance has come in the form of Treasury Notice 2015-7, titled “Relief for Certain Participants in § 414(d) Governmental Plans,” concerning the participation of charter schools in governmental plans. The IRS recognizes this is a complex issue and has been seemingly cautious to act; however, this is an important issue that looms on the horizon.



not carry out governmental functions. Rather, it was a commercial enterprise that competed with others in the hotel and convention center industry. Thus, under the Bankruptcy Code and the scant body of bankruptcy case law, the court determined it was not a “governmental unit,” and therefore, it was not excluded from seeking bankruptcy relief.

As the number of quasi-governmental entities has proliferated—entities that might not neatly fit into the

traditional understanding of what it means to be governmental—and given concerns about pension funding issues, the question of “governmentalness” may arise with more frequency. Forthcoming action by the IRS, presuming it comes to fruition, will also bring this issue to the forefront. In the meantime, court decisions continue to be a vehicle by which the boundaries of what it means to be governmental are being explored.

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Bankruptcy courts have likewise been grappling with the complexities of what it means for an entity to be governmental, addressing it in the context of deciding whether an entity is non-governmental (or governmental), and therefore, permitted to file bankruptcy (or barred from filing bankruptcy, leaving the issue to local government). This is precisely what happened in a recently decided case that adds to the still sparse, but growing, body of bankruptcy court decisions that sometimes, although not in this case, reference prior IRS rulings on the topic of being qualified to establish and maintain a governmental plan.

In *In re Lombard Public Facilities Corporation*, Case No. 17 B 22517, the United States Bankruptcy Court for the Northern District of Illinois was given the task of deciding whether the Debtor was a “governmental unit” under the Bankruptcy Code. The Lord Abbett Municipal Income Fund and the United States Trustee had moved to dismiss the case on the basis that the Debtor was governmental, and therefore, not eligible for bankruptcy relief.

The Debtor was created by the Village of Lombard to finance, own and operate a hotel and convention center. It was funded through several bond offerings. It had no employees, and the property was managed by Westin. Key to the court’s analysis was that Debtor “was organized to strengthen the Village’s economic base, not to provide essential governmental services, such as police, fire and health care services,” and the Debtor was not publicly funded. The court concluded, based in part on prior rulings of the Illinois Department of Revenue and an Illinois Appellate Court, that the Debtor did

**Tyson Crist** is a partner in Ice Miller’s Bankruptcy & Financial Restructuring Group. He represents clients who need assistance in navigating the bankruptcy process and various debtor-creditor issues, to understand how it may impact their business or operations, as creditors and other affected parties and to assert and protect their rights. He represents both governmental and private entities. He has litigated a variety of unique matters at both the trial and appellate levels, and regularly writes and speaks on current bankruptcy and related state law issues. Tyson received a B.A., Political Science from The College of Wooster (Ohio) and a J.D. from The Ohio State University Moritz College of Law, following which he served as a law clerk in the Eastern District of North Carolina, U.S. Bankruptcy Court.

# Financial System and Corporate Governance Impacts of Passive Management

By Maureen O'Brien and Julian Regan

The rapid rise in investors' use of low cost equity indexing is helping investors implement increasingly cost-effective investment programs. However, at the same time, asset flows to passive management are raising questions about potential impacts on the U.S. financial system, the financial services industry and the corporate governance movement.

## Passive Managers' Increasing Share of the Equity Market

As passive management's share of the U.S. equity market has grown to around 40%, investors and corporate boards are awakening to a market where capital flows to equity securities are almost as likely to be determined by index weights as by traditional measures of corporate performance. Consider the following:

- Between 1995 and 2015, assets held in passive equity mutual funds grew from \$55 billion, or 4% of U.S. equity mutual funds, to \$4 trillion or 34%<sup>1</sup>.
- A 2017 Moody's study predicted that passively managed assets will exceed actively managed assets by 2024<sup>2</sup>.



Photo Illustration © 2018 iStockphoto

highest tally, with 85% of shares voting in favor at Hudson Pacific Properties, received BlackRock's support. Despite State Street's move to erect the defiant girl statue squaring off against the Wall Street bull to celebrate the launch of its engagement with firms

## Financial System and Concentrated Ownership

While indexing's impact on corporate performance is debated, concerns about volatility and concentrated control are supported by some evidence. Exchange traded index funds, for example, reportedly accounted for 38% of total equity trading on some days during the volatile week of February 5, 2018.<sup>3</sup> The largest U.S. index fund managers, BlackRock, State Street Global Advisors (SSGA) and Vanguard, manage 90% of indexed equity assets<sup>4</sup>. Collectively, the firms are reportedly the largest owner at 88% of U.S. companies<sup>5</sup>.

## Corporate Governance Impacts

Indexing is a low cost, modest margin, price-sensitive business. Devoting deep expertise to analyzing stewardship at thousands of companies is a capacity challenge that critics cite in reasoning that indexers are weak on corporate governance.

Proxy vote results in 2017 tell a mixed story. To cite board diversity as one example, the year marked an all-time high for the number of shareholder proposals filed and for record support. BlackRock and SSGA announced plans to raise diversity as an issue and to oppose certain directors if companies are not responsive. In 2017, the average level of support for a proposal on board diversity was approximately 28 percent, up from approximately 22 percent in 2016. Not surprisingly, the 2017 board diversity vote that received the

[CONTINUED ON PAGE 12](#)

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*He previously served as Executive Director, New York State Deferred Compensation Board and Budget Director, Massachusetts Bay Transportation Authority (MBTA).*

**MESSAGE FROM PRESIDENT THE CONTINUED FROM PAGE 1**

**Module 3:** Legal, Risk Management, and Communication- In this module, attendees will learn the legal and risk oversight duties of their board and as an individual trustee; the roles of the audit committee; how to respond to the media; and how to take part in effective stakeholder communication.

**Module 4:** Human Capital- In the final module, attendees will learn the fundamentals of total executive compensation design; how to use compensation strategies and performance management plans to guide behavior and maximize fund performance; and the importance of ongoing development and active succession planning for key roles within your fund.

Economic Outlook Panel- Public plans face many uncertainties in 2018. Answers to questions such as “will the unprecedented economic expansion continue?”, “What will be the effect of the TCJA on investment and the economy?”, “Will there be a trade war in the coming year?”, “What will central banks do?” and many more are what pensions will need to best navigate the economic seas in 2018. This panel of experts will offer insights to these questions and provide forecasts for 2018.

Administrator’s Forum- Recognizing the need for small plan administrators to meet and discuss issues with peers who have similar challenges, this session is devoted to the needs of municipal and county public plan administrators and staff. This session will be moderated by David Clark, executive director of the Arkansas Local Police & Fire Retirement System. Attendees will ask questions, discuss issues related to their funds, and learn how their peers are addressing mutual concerns.

NEW Small Plans Forum- This new panel will give attendees from small plans the opportunity to discuss issues with peers from similar plan sizes. This session will be moderated by John Girard, from the Boca Raton Police and Fire System.

As trustees, you can earn up to 16.5 continuing education (CE) credits with these sessions and more. An additional 8 CE credits can be earned at TEDS, and 6 CE credits at NAF. For more information about the ACE program, please visit [www.NCPERS.org/ace](http://www.NCPERS.org/ace). I look forward to seeing you at the 2018 ACE program in May! ♦

**ESG CONTINUED FROM PAGE 2**

controlling for negative externalities is necessary, too. We consider broad-based ESG-focused investments aiming to minimize negative externalities, simultaneously to looking at positive impacts, represent a useful tool. Additional overlay focusing on positive efforts by companies can be achieved via indices and assessments based on revenue exposure to sustainable products. ♦

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**LP ADVISORY COMMITTEE CONTINUED FROM PAGE 3**

Finally, the general partner should be required to provide full information to the committee to carry out its responsibilities. This should include details about any proposed transaction as well as sufficient notice to allow informed decision-making. For more complex transactions, many committees have the ability to hire outside counsel at fund expense to provide independent advice. And of course committee members should be allowed to conduct “in camera” sessions outside the presence of the general partner and its affiliates.

**Conclusion**

An effective LP Advisory Committee can mitigate many of the risks of manager conflicts of interest. Limited partners who serve on these committees must be willing to commit the time and resources necessary to function as an independent decision-making body. This includes attending all committee meetings, being properly prepared, and fulfilling the responsibilities of committee membership. Committees that are not properly structured or resourced will be ineffective or will be perceived as “rubber stamps” for manager decisions. ♦

**FIDUCIARY RESPONSIBILITY CONTINUED FROM PAGE 4**

Here are few examples:

- **Australia/Israel:** Roughly 30 matters were pursued in Australia and Israel. Both countries use ‘open’ or opt- out classes that like U.S. class actions, encompass all investors affected by alleged frauds during relevant time periods and/or utilize claim registration processes similar to U.S. class action administrations.
- **Netherlands:** The five matters brought in this country fall into two categories:
  1. **Collective action:** These suits are prosecuted by representative plaintiffs. If they prevail on questions about defendants’ liability, they are followed by individual claim resolution procedures; or
  2. **Collective settlements:** Dutch Foundations are special purpose entities created to litigate in their own name questions about the defendants’ liability. When settlements are reached, Dutch Foundations use claims filing and administration processes like those in the U.S.

Dutch law includes other legal mechanisms that don’t require funds to be active litigants including court investigations that can be triggered by requests from at least 1% of company shareholders.

- **Other:** Beyond these three countries, other examples of non-U.S./Canada matters that involve claim submission include regulatory enforcement resolutions with investor compensation aspects like the Tesco Comp Scheme in the UK, which resembles an SEC Fair Funds administration in the U.S.

**CONCLUSION**

For fiduciaries, the key is to have a system in place to identify non-U.S./Canada matters that involve claims filing, as opposed to active participation as a litigant. As with U.S. securities settlements, claims filing for U.S. antitrust class actions and non-U.S./Canada securities matters can be automated thus maximizing recovery dollars and efficiently allocating staff time and resources. ♦

Financial Recovery Technologies (FRT) is a leading technology-based services firm that helps institutional investors identify eligibility, file claims and collect funds made available in securities class action settlements and litigations impacting global investors. Offering the most comprehensive range of services, we provide best-in-class eligibility analysis, disbursement auditing and client reporting.

**Claims Filing:** Identify eligibility, file claims and collect funds made available in U.S. securities class action settlements.

**Global Group Litigation:** Identify and monitor non-U.S. securities litigation to make timely participation decisions.

**Antitrust:** Access insight and case participation assistance into Antitrust, Commodity Exchange Act and non-securities based litigations.

**Litigation Monitoring:** Access real-time securities class action information to make independent, timely participation and lead-plaintiff decisions.

**Buyouts:** Monetize the value of a liquidating fund’s class action claims.

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**LEGAL REPORT CONTINUED FROM PAGE 5**

a special law passed in 1996 when the local plan was severely underfunded. A lawsuit was filed in state court by a number of unions and retirees challenging the 2011 law and a class wide settlement was reached. In return, in 2015 the state legislature restored some but not all of the 2011 cuts.

The federal case filed by the Cranston unions challenged the state court settlement (which they declined to join) and raised various constitutional claims. The U.S. District Court dismissed the federal

claims and declined to exercise jurisdiction over the state law claims. On appeal, the First Circuit Court held that the Rhode Island state law did not unmistakably create contract rights which could not be altered by a future legislature. Of even greater concern was the Court's observation that the contract rights might only extend to member contributions and possibly interest. The Court left open the possibility of a claim against the City in state court for possible violation of collective bargaining agreements, but upheld the dismissal of all federal claims against the city, the state and the retirement system. ♦

**CLIMATE CHANGE CONTINUED FROM PAGE 6****Important Disclosures:**

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**PASSIVE MANAGEMENT CONTINUED FROM PAGE 9**

on board diversity, most SSGA funds voted to abstain at Hudson Pacific Properties.

With increasing frequency, the sizable stakes of the "big three" index funds positions them to determine outcomes on votes that raise emerging governance issues.<sup>6</sup> BlackRock and SSGA have pushed back on skeptics of their commitment to capital stewardship. Both firms announced plans to grow their corporate governance units. In January 2018, BlackRock Chairman and CEO Larry Fink penned a letter communicating the need for a new model of engagement and asserting that companies must do a better job on environmental, social and governance (ESG).

**Gauging Long-term Impacts**

It is early to assess whether pronouncements from the "big three" will be followed by action on shareholder initiatives. Similarly, conclusive evidence of potential systemic impacts, including the potential for a self-perpetuating market bubble, is not yet available. Theories abound about the future of a market where passively managed assets exceed active management. One point is not up for debate – the effects warrant close monitoring and study. ♦

<sup>1</sup> CFA Institute, John C. Bogle, January/February 2016

<sup>2</sup> Moody's, February 2, 2017

<sup>3</sup> New York Times, February 9, 2018

<sup>4</sup> Fichtner, Heemskerck and Garcia-Bernardo, Cambridge University Press, April 25, 2017

<sup>5</sup> The Case Against Passive Shareholder Voting, Dorothy Shapiro Lund, Oxford Business Law Blog, September 11, 2017

<sup>6</sup> New York Times, July 20, 2017



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May 12 – 13  
New York, NY

**Annual Conference & Exhibition**  
May 13 – 16  
New York, NY

### June

**CIO Summit**  
June 14-15  
Chicago, IL

### September

**Public Pension Funding Forum**  
September 16 – 18  
Boston, MA

### October

**NCPERS Accredited Fiduciary Program (All modules)**  
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