



D A L L A S
POLICE & FIRE
PENSION SYSTEM



MINUTES SUMMARY
Thursday, May 10, 2018

The Required Public Meeting, Regular and Supplemental meetings of the Dallas Police and Fire Pension System Board of Trustees were held at 1:00 p.m. on Thursday, May 10, 2018, in the Second Floor Board Room at 4100 Harry Hines Blvd., Dallas, Texas.

All three meetings were called to order at 1:04 p.m.

The Regular and Supplemental meetings were recessed at 1:04 p.m.

The Required Public Meeting continued.

REQUIRED PUBLIC MEETING

1. The Chairman, Vice-Chairman and Executive Director reported on the operations and financial status of DPFP as required by Section 3.01 (j-9) of Article 6243a-1 of Vernon's Revised Civil Statutes and as discussed with the Texas House Pensions Committee at Dallas City Hall on the morning of May 10, 2018.
2. The Chairman extended an opportunity for public comment. No one requested to speak to the Board.

The Required Public Meeting was adjourned at 1:27 p.m.

REGULAR POLICE AND FIRE PENSION BOARD MEETING

The Regular meeting was reconvened at 1:27 p.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.

MINUTES SUMMARY
Thursday, May 10, 2018

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Staff and Meketa, DPF²'s Investment Consultant, discussed possible portfolio rebalancing with the Board. The Board voted to suspend portions of the Investment Policy Statement specifically (i) to allow for the Global Asset Allocation to be fully liquidated, (ii) to allow for a 15% allocation to be invested in a combination of approximately 12% allocation to IR+M and approximately 3% allocation to cash, and (iii) to remove the authority and requirement for staff to rebalance under the Investment Policy Statement and require staff and Meketa to seek the Board's approval on any rebalancing needs, including if the Safety Reserve allocation is in excess of 15% of the portfolio, until the Board has approved new long-term strategic asset allocation targets.
2. Staff and JPMorgan provided an overview of DPF²'s securities lending program. The Board directed Meketa to review the program and discuss it with the Board later.
3. The Board and staff discussed possible processes for identifying members of the Investment Advisory Committee and forming the committee. The Board provided direction to the staff.
4. Staff gave an overview for the Board of survivor benefits generally with respect to defined benefit plans and specifically with respect to the DPF² plan. No motion was made.
5. The Board voted to require continuation of the disability earnings test for any pensioner whose disability pension became effective on or after September 1, 2017, until the year the pensioner reaches the age of 58. For pensioners whose disability pensions were effective after May 1, 1990 and before September 1, 2017, the disability earnings test would be required until the pensioner reaches the age of 50.
6. The Executive Director presented the 2017 annual budget review. No motion was made.
7. The Executive Director presented the first quarter 2018 financial statements. No motion was made.
8. The Board discussed the Chief Investment Officer selection in closed executive session – personnel. No motion was made.
9. The Board approved the starting time of 8:30 a.m. for the regular monthly Board meetings for the remainder of 2018.
10. No discussion was held, and no motion was made regarding legal issues.

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Thursday, May 10, 2018

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.

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 4:21 p.m.

SUPPLEMENTAL POLICE AND FIRE PENSION BOARD MEETING

The meeting was called to order and recessed at 1:04 p.m.

The meeting was reconvened at 4:21 p.m.

A. CONSENT AGENDA

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

B. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

The Executive Director presented the 2017 annual Supplemental Plan budget review. No motion was made.

The Supplemental Board meeting was adjourned at 4:21 p.m.

Dallas Police and Fire Pension System
Thursday, May 10, 2018
1:00 p.m.
4100 Harry Hines Blvd., Suite 100
Second Floor Board Room
Dallas, TX

Required Public Meeting, William F. Quinn, Chairman, presiding:

ROLL CALL

Board Members

Present at 1:04 p.m. William F. Quinn, Nicholas A. Merrick, Samuel L. Friar, Ray Nixon, Gilbert A. Garcia, Frederick E. Rowe, Tina Hernandez Patterson, Robert C. Walters, Joseph P. Schutz, Kneeland Youngblood

Present at 1:08 p.m. Blaine Dickens

Absent: None

Staff

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

Others

Leandro Festino, Alexandra Wallace, Aaron Lally, James Freeman, Carolyn Freeman, James Elliston, Jill S. Muncy, Lloyd D. Brown, Larry D. Williams, Daryl Wachsman, Ken Sprecher, Armando Garza, Chris Harry, Joe Alexander, David Hines, Zaman Hemani

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The first of two annual public meetings of the Dallas Police and Fire Pension System Board of Trustees as required by Section 3.01 (j-9) of Article 6243a-1 of Vernon's Revised Civil Statutes was called to order at 1:04 p.m.

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1. Report on the health and performance of the Pension System

The Chairman, Vice-Chairman and Executive Director reported on the operations and financial status of DFPF as discussed with the Texas House Pensions Committee at Dallas City Hall on the morning of May 10, 2018.

No motion was made.

**Required Public Meeting
Thursday, May 10, 2018**

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2. Public comment

The Chairman extended an opportunity for public comment. No one requested to speak to the Board.

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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 Mr. Walters, the meeting was adjourned at 1:27 p.m.

[signature]

William F. Quinn
Chairman

ATTEST:

[signature]

Kelly Gottschalk
Secretary

Dallas Police and Fire Pension System
Thursday, May 10, 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 1:04 p.m. William F. Quinn, Nicholas A. Merrick, Samuel L. Friar, Ray Nixon, Gilbert A. Garcia, Frederick E. Rowe, Tina Hernandez Patterson, Robert C. Walters, Joseph P. Schutz, Kneeland Youngblood

Present at 1:08 p.m. Blaine Dickens

Absent: None

Staff

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

Others

Chuck Campbell (by phone), Leandro Festino, Alexandra Wallace, Aaron Lally, Eileen Fortis (by phone), Brad Fryer (by phone), Nicole Devine (by phone), James Freeman, Carolyn Freeman, James Elliston, Jill S. Muncy, Lloyd D. Brown, Larry D. Williams, Daryl Wachsman, Ken Sprecher, Armando Garza, Chris Harry, Joe Alexander, David Hines, Zaman Hemani

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The meeting was called to order and recessed at 1:04 p.m.

The meeting was reconvened at 1:27 p.m.

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A. MOMENT OF SILENCE

The Board observed a moment of silence in memory of active police officer Rogelio Santander, retired police officers William R. Perry, John P. Hollingsworth, Douglas Collins, Kenneth K. Anderson, Thomas H. Vannoy, Jr., James R. Pool, and retired firefighters Darla Sebastian, Reubin A. Chambers.

No motion was made.

**Regular Board Meeting
Thursday, May 10, 2018**

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B. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of April 12, 2018

2. Approval of Refunds of Contributions for the Month of April 2018

3. Approval of Estate Settlements

4. Approval of Survivor Benefits

5. Approval of Service Retirements

6. Approval of Alternate Payee Benefits

7. Approval of Payment of DROP Revocation Contributions

After discussion, Mr. Youngblood made a motion to approve the minutes of the meeting of April 12, 2018. Mr. Schutz seconded the motion, which was unanimously approved by the Board.

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

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C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Possible Portfolio Rebalancing

The Board approved engaging Meketa Investment Group as DPFP's investment consultant at the April 12, 2018 Board meeting. Leandro Festino, Managing Principal, Alexandra Wallace, Principal, and Aaron Lally, Executive Vice President, were present from Meketa. Meketa discussed liquidating the Global Asset Allocation (GAA) portfolio and using the proceeds to invest into a Safety

Regular Board Meeting
Thursday, May 10, 2018

1. Possible Portfolio Rebalancing (continued)

Reserve portfolio comprised of Short-Term Core Bonds and Cash. The GAA portfolio is composed of three sub-asset classes: Risk Parity, Global Tactical Asset Allocation (GTAA), and Absolute Return. The GAA portfolio represents approximately 7% of DFPF's assets. The Safety Reserve portfolio, with a target allocation of 15%, is designed to be able to pay approximately 2.5 years of net benefit outflows and operating expenses. The Safety Reserve portfolio would include a 12% allocation to Short-Term Core Bonds, which are currently managed by Income Research + Management in a separate account, and a 3% allocation to Cash.

After discussion, Ms. Hernandez Patterson made a motion, in light of the need to allow the newly engaged investment consultant and a new Chief Investment Officer to make permanent recommendations with respect to the asset allocation and the Investment Policy Statement, to suspend portions of the Investment Policy Statement specifically (i) to allow for the Global Asset Allocation to be fully liquidated, (ii) to allow for a 15% allocation to be invested in a combination of approximately 12% allocation to IR+M and approximately 3% allocation to cash, and (iii) to remove the authority and requirement for staff to rebalance under the Investment Policy Statement and require staff and Meketa to seek the Board's approval on any rebalancing needs, including if the Safety Reserve allocation is in excess of 15% of the portfolio, until the Board has approved new long-term strategic asset allocation targets. Mr. Garcia seconded the motion, which was unanimously approved by the Board.

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2. Securities Lending Review

At the request of a Board member at the March 8, 2018 meeting, staff and JPMorgan provided an overview of DFPF's securities lending program. JPMorgan participants by telephone were Eileen Fortis, Vice President – Securities Lending, Brad Fryer, Executive Director/Portfolio Manager on the Investment Desk, and Nicole Devine, from the Investment Desk. The Meketa representatives also participated in the discussion.

The Board directed Meketa to review the program and discuss it with the Board later. No motion was made.

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**Regular Board Meeting
Thursday, May 10, 2018**

3. Formation of the Investment Advisory Committee

At the November 2017 Board meeting, the Board provided direction about the formation and roles and responsibilities of the Investment Advisory Committee (IAC). The direction from the meeting was incorporated into the amended Investment Policy Statement which was adopted on December 14, 2017.

Staff discussed with the Board possible processes for identifying members and forming the committee.

The Board provided direction to the staff. No motion was made.

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4. Survivor Benefits

Staff gave an overview for the Board of survivor benefits generally with respect to defined benefit plans and specifically with respect to the DFPF plan.

No motion was made.

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5. Disability Earnings Test

Ms. Gottschalk stated that Section 6.055 of Article 6243a-1 provides for an earnings test for any pensioner who has been granted a disability benefit after May 1, 1990. The earnings test provides that the pensioner's disability benefit is reduced by the following formula:

\$1 for each \$1 that the sum of "a" + "b" is greater than "c," where "a" is the earned income of the pensioner attributable to the previous calendar year from the person's employments, "b" is the total amount of disability retirement payments received by the pensioner the previous calendar year, and "c" is the annualized amount of the average computation pay the pensioner received as of the date the person left active service, increased by a factor of 2.75% each year after the year the person left active service.

Staff collects from all pensioners receiving a disability pension information, including tax returns, to determine the applicability of this test to each person.

Section 6.055 does not address when or if this test should cease with respect to pensioners receiving a disability pension. The current policy is to cease the test

**Regular Board Meeting
Thursday, May 10, 2018**

5. Disability Earnings Test (continued)

at age 50 which was “normal retirement age” under the previous plan. Under 6243a-1, normal retirement age is age 58.

After discussion, Mr. Youngblood made a motion to require continuation of the disability earnings test for any pensioner whose disability pension became effective on or after September 1, 2017, until the year the pensioner reaches the age of 58. For pensioners whose disability pensions were effective after May 1, 1990 and before September 1, 2017, the disability earnings test would be required until the pensioner reaches the age of 50. Mr. Walters seconded the motion, which was unanimously approved by the Board.

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6. 2017 Final Budget Review

Ms. Gottschalk reviewed actual expenses as compared to the budget for the calendar year 2017.

No motion was made.

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7. First Quarter 2018 financial statements

Ms. Gottschalk presented the first quarter 2018 financial statements.

No motion was made.

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8. Chief Investment Officer selection

The Board went into a closed executive session – personnel at 3:48 p.m.

The meeting was reopened at 4:18 p.m.

No motion was made.

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**Regular Board Meeting
Thursday, May 10, 2018**

9. Board meeting start time for July through December 2018

Ms. Gottschalk requested Board direction on the start time for Board meetings for the remainder of 2018. The Board had previously determined that the January, February and March Board meetings would begin at 1:00, the April, May and June meetings would begin at 8:30 (although the May meeting was moved to 1:00 due to the House Pensions Committee meeting at 10:00) and the Board would later establish a start time for the remainder of the year.

The Board directed staff that the start time for the regular monthly meetings for July through December 2018 would be 8:30 a.m.

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10. Legal issues

- a. Claims against fiduciaries and other third-party advisors
- b. Eddington, et.al. v. DFPF, et.al.

No discussion was held, and no motion was made regarding legal issues.

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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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**Regular Board Meeting
Thursday, May 10, 2018**

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.

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2. Executive Director's report

- a. Associations' newsletters
 - NCPERS Monitor (April 2018)
- b. House Pensions Committee hearing
- c. Chief Financial Officer update
- d. June Board meeting start time

Ms. Gottschalk presented the Executive Director's report.

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. Youngblood and a second by Mr. Nixon, the meeting was adjourned at 4:21 p.m.

[signature]

William F. Quinn
Chairman

ATTEST:

[signature]

Kelly Gottschalk
Secretary

**Regular Board Meeting
Thursday, May 10, 2018**

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AGENDA



Date: May 4, 2018

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **1:00 p.m. on Thursday, May 10, 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 April 12, 2018

2. Approval of Refunds of Contributions for the Month of April 2018

3. Approval of Estate Settlements

4. Approval of Survivor Benefits

5. Approval of Service Retirements

6. Approval of Alternate Payee Benefits

7. Approval of Payment of DROP Revocation Contributions

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Possible Portfolio Rebalancing

2. Securities Lending Review

3. Formation of the Investment Advisory Committee

4. Survivor Benefits

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.

5. Disability Earnings Test

6. 2017 Final Budget Review

7. First Quarter 2018 financial statements

8. Chief Investment Officer selection

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.074 of the Texas Government Code.

9. Board meeting start time for July through December 2018

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. Eddington, et.al. v. DPFP, et.al.

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.

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 (April 2018)
 - b. House Pension Committee hearing**
 - c. Chief Financial Officer update**
 - d. June Board meeting start time**

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

(April 3, 2018 – April 30, 2018)

NAME	ACTIVE/ RETIRED	DEPARTMENT	DATE OF DEATH
William R. Perry	Retired	Police	Apr. 3, 2018
Darla Sebastian	Retired	Fire	Apr. 7, 2018
John P. Hollingsworth	Retired	Police	Apr. 8, 2018
Douglas Collins	Retired	Police	Apr. 18, 2018
Reubin A. Chambers	Retired	Fire	Apr. 20, 2018
Kennith K. Anderson	Retired	Police	Apr. 23, 2018
Thomas H. Vannoy, Jr.	Retired	Police	Apr. 24, 2018
Rogelio Santander	Active	Police	Apr. 25, 2018
James R. Pool	Retired	Police	Apr. 30, 2018

Regular Board Meeting – Thursday, May 10, 2018

**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 DPFP 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, DPF’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 DPF 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
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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. DFPF (Federal suit)
- c. DFPF 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.

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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.

William F. Quinn
Chairman

ATTEST:

Kelly Gottschalk
Secretary



DISCUSSION SHEET

ITEM #C1

Topic: Possible Portfolio Rebalancing

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

Discussion: The Board approved engaging Meketa Investment Group as DPF's investment consultant at the April 12, 2018 Board meeting. Meketa will discuss liquidating the Global Asset Allocation (GAA) portfolio and using the proceeds to invest into a Safety Reserve portfolio comprised of Short-Term Core Bonds and Cash. The GAA portfolio is composed of three sub-asset classes: Risk Parity, GTAA, and Absolute Return. The GAA portfolio represents approximately 7% of DPF's assets. The Safety Reserve portfolio, with a target allocation of 15%, is designed to be able to pay approximately 2.5 years of net benefit outflows and operating expenses. The Safety Reserve portfolio would include a 12% allocation to Short-Term Core Bonds, which are currently managed by Income Research + Management in a separate account, and a 3% allocation to Cash.

Staff

Recommendation: In light of the need to allow the newly engaged investment consultant and a new Chief Investment Officer to make permanent recommendations with respect to the asset allocation and the Investment Policy Statement, move to suspend portions of the Investment Policy Statement specifically (i) to allow for GAA to be fully liquidated, (ii) to allow for a 15% allocation to be invested in a combination of approximately 12% allocation to IR+M and

Regular Board Meeting – Thursday, May 10, 2018



DISCUSSION SHEET

ITEM #C1 (continued)

approximately 3% allocation to cash, and (iii) to remove the authority and requirement for staff to rebalance under the Investment Policy Statement and require staff and Meketa to seek the Board's approval on any rebalancing needs, including if the Safety Reserve allocation is in excess of 15% of the portfolio, until the Board has approved new long-term strategic asset allocation targets.

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Dallas Police and Fire Pension System
Meketa May 10th Meeting Materials

M E K E T A I N V E S T M E N T G R O U P
5796 ARMADA DRIVE SUITE 110 CARLSBAD CA 92008
760 795 3450 fax 760 795 3445 www.meketagroup.com

1. **Concept of Safety Reserve** - Why, how, and what size
2. **Termination of GAA** – Best source of funds for Safety Reserve
3. **IR+M Fee Reduction** – Current flat fee (0.18%) to sliding scale (reduced to 0.07% on assets over \$100 mm)
4. **Modification to Investment Policy Statement** – approval to increase short-term bonds and cash to 15%
5. **Summary**
6. **Appendix**

Concept of Safety Reserve

Executive Summary

- We recommend DFPF creates a Safety Reserve[®] portfolio primarily of short-term core bonds and cash.

What is a Safety Reserve[®]?

- A Safety Reserve[®] portfolio is a mix of high quality, low volatility, short duration fixed income instruments and cash. It is established to meet ongoing expenses and benefit payments, ensuring that no other assets would need to be sold at a potentially inopportune time/price during a market correction.

Why is it Necessary for DFPF?

- As discussed during the consultant search process in March and April 2018, DFPF cannot tolerate large drawdowns without a hit to its corpus (as assets go down and 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.

What is the Recommended Size and Composition?

- Typically Meketa Investment Group recommends enough capital to pay for approximately three years of net expected benefit payments and operating expenses.
- While the exact duration is not an exact science we can use recent history as a guide for an extreme market environment when a Safety Reserve® portfolio would have been beneficial. The global financial crisis was roughly 1.5 years in duration before equity markets rebounded. To be conservative we recommend maintaining at least one additional year's worth of expected outflows in the Safety Reserve®.
- Staff indicated DPFP's net cash outflow is expected to be about 6% per year for the foreseeable future.
- Based on analysis from Staff in consultation with the actuary, the estimated net benefit payments for the next 2.5 years is approximately \$292 million.
- If you add in an estimate of \$9.1 million per year in operating expenses, the total expected outflows for DPFP over the next 2.5 years are \$315 million ($\$9.1 \text{ million} \times 2.5 \text{ yrs} + \$292 \text{ million} = \$315 \text{ million}$).
- We recommend adopting a 15% target allocation to Safety Reserve®. While DPFP's total market value will fluctuate, 15% of current assets ($15\% \times \$2.074 \text{ billion} = \311 million) is quite close to the estimated \$315 million needed for next 2.5 years.
- We recommend 3% be allocated to cash and 12% to short term bonds.
 - The J.P. Morgan cash account pays a 1.35% interest rate on \$60 million, per the stated agreement. This cash account offers zero volatility and is the most conservative of all DPFP investments.
 - Short-term core bonds have small standard deviations, but can earn twice as much as the cash account on a long term basis (IR+M current YTM is approximately 2.7%).
- Meketa Investment Group is prepared to work with Staff and the Board to determine the appropriate rebalancing schedule for replenishing the Safety Reserve®.



Composition of Safety Reserve

Asset Class	Current¹/Recommended Amount (\$ mm)	Current/Recommended % of DPFP
JPM cash account yielding 1.35%	60 / 60	3.0 / 3.0
Excess cash at JPM – in lower yielding STIF account	54 / 0	2.6 / 0.0
GAA	145 / 0	7.0 / 0.0
Short-term bonds (IR+M account)	50 / 251	2.4 / 12.0
Total Safety Reserve²	164 / 311	8 / 15

¹ Based on preliminary April 25, 2018 net asset values provided by Staff.

² Total current Safety Reserve does not include GAA



Termination of GAA

Source of Proceeds for Safety Reserve

- As of mid-April 2018, DFPF's cash and short term bond position accounts for approximately 8% of the plan's assets, enough to cover about sixteen months' worth of net cash outflows. The remaining portfolio is exposed to a variety of risks (credit, growth, illiquidity, etc.).
- After reviewing DFPF's manager line-up, we view the assets in the GAA portfolio (currently 7% of assets) as the most appropriate source of funding for the balance of the Safety Reserve® portfolio.
- On its own, the current GAA portfolio may not meaningfully diversify the Fund, as most asset types owned in these portfolios (equities, bonds, currencies, etc.) are already present in other DFPF strategies.
- GAA portfolios are costly and may not be able to produce consistent, uncorrelated, strong risk-adjusted, net-of-fee returns.

Trailing Returns as of December 31, 2017

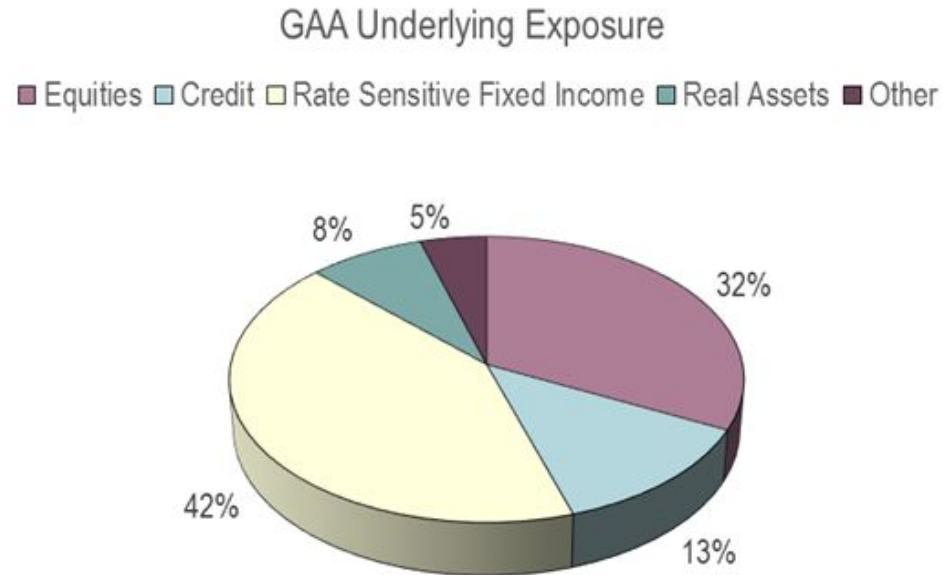
	1 YR (%)	3 YR (%)	5 YR (%)	10 YR (%)
DFPF GAA Portfolio	8.4	5.3	4.8	4.1
60% MSCI ACWI Index/40% Barclays Global Agg	17.1	6.5	6.8	4.3
Excess Returns	-8.7	-1.2	-2.0	-0.2

- Eliminating the GAA strategies will simplify portfolio oversight for the Board and Staff.
- While the current strategies are all run by well established firms, they carry some headline risk.



Current Exposure from GAA

- Most asset types within the GAA portfolio¹ are already present in other strategies.



- “Other” is Global Macro, Special Opportunities, Event Driven and Mean Reversion strategies (GMO).

¹ Analysis excludes the Bridgewater Pure Alpha strategy which represents approximately 24% of the total GAA portfolio.



Rebalance Options

- We recommend terminating the four strategies in the GAA allocation and reallocating the proceeds into the IR+M portfolio. Another option the Board could consider is using a short-term core bond index fund.

Terminations	Current Weight ¹ (%)	Manager	Current Dollar Amount ¹ (\$ mm)	Current Fee (%)	Current Fee (\$)
Risk Parity	4	Bridgewater All Weather and Putnam	83.7	0.52	438,224
GTAA	1	GMO	23.8	1.00	237,999
Absolute Return	2	Bridgewater Pure Alpha	34.8	3.00	1,042,780
Total Expected Proceeds	7		142.3	1.21	1,719,003

Rebalance Targets

Rebalance Target	Rebalance Amount (%)	Manager	Dollar Amount (\$ mm)	Fee (%)	Estimated Fee (\$)
Short-Term Core Bonds	7	IR+M ²	142.3	0.081	114,579
Change in Annual Mgmt Fees - ->>>					-1,604,424

¹ Based on preliminary April 25, 2018 net asset values provided by Staff. Analysis does not factor in additional potential fee savings by eliminating the possibility of performance based fees (20% performance fee on Bridgewater Pure Alpha and 10% for Bridgewater All Weather).

² Lower fee schedule is 0.18% on first \$50 mm, 0.10% on the next \$50 mm, and 0.07% on balance. For this analysis we assume the first \$50 mm threshold is already met by current assets in the strategy.



Expected Risk/Return Components

- The table below lists the long term expected risk and return assumptions for the impacted asset classes, according to Meketa Investment Group's 2018 Asset Study.
- Based on our estimates, all the GAA asset classes are expected to produce mid-single digit returns with standard deviation around 10% over the long term. Each is moderately correlated to global equity markets and global bond markets.
- Our long term expected return for short-term bonds is moderately lower (3.1%) but with substantially less expected risk. We also expect short term bonds to be uncorrelated with global equity markets in the long term.

	Expected Return ¹ (%)	Expected Risk (%)	Increase or Decrease Exposure	Correlation to Global Equity	Correlation to Global Bonds
Risk Parity	5.6	11.0	-	0.30	0.50
GTAA	4.6	12.5	-	0.65	0.40
Absolute Return	5.3	8.0	-	0.35	0.50
Short-Term Core Bonds	3.1	1.5	+	-0.05	0.60

¹ Expected returns are twenty year projections based on Meketa Investment Group's 2018 Asset Study.



Preliminary Total Expected Risk/Return Analysis

- The following table illustrates the expected long term impact of the proposed rebalancing on DPFP's expected return and expected standard deviation. Note that we intend to conduct a full asset allocation study before the end of the year, in which we will be revisiting short and long term return/risk projections in more detail.
- With the help of DPFP Staff we modeled 25% assets as non-performing "Legacy Assets" (with zero percent assumed return¹) in both asset mixes.
- Terminating the GAA program and moving the proceeds into short-term core bonds reduces the risk by approximately 2:1 relative to the potential return foregone.
- The expectation is that as the Legacy Assets mature or are sold, such proceeds would be invested in a mix of growth oriented assets that would seek to cover the shortfall in returns from the Safety Reserve[®] portfolio.

	Current Exposure as of 4/25/2018 ² (%)	Post Rebalance Expected Exposure (%)	Changes (%)
Preliminary Expected Return ³	5.31	5.15	-0.16
Preliminary Expected Standard Deviation	10.95	10.69	-0.27

¹ For the legacy assets we modeled an expected return of 0% but a standard deviation of 25% (our same standard deviation assumption for opportunistic real estate/private equity). Legacy assets were assumed to be uncorrelated to other asset classes for this analysis.

² Based on preliminary April 25, 2018 net asset values provided by Staff. For comparison purposes, the proposed reduction in cash and subsequent transfer to IR+M transfer is reflected as completed in both asset mixes.

³ Expected Return and Expected Standard Deviation are 20 year expectations based on the 2018 Meketa Investment Group Asset Study.



IR+M Fee Reduction

IR+M Fee Reduction

- Meketa and Staff jointly negotiated a fee reduction with IR+M.
- The current fee is 0.18% on all assets.
- The negotiated fee is 0.18% on the first \$50 million, 0.10% on the next \$50 million, and 0.07% thereafter.
- On a portfolio of \$250 million (roughly the anticipated allocation to short-term bonds in the Meketa Investment Group proposed Safety Reserve[®] portfolio) the estimated annual fee savings from the lower fee proposal would be \$205,000 per year.

	IRM Fee Schedule	Estimated Exposure (\$ mm)	Effective Fee (%)	Estimated Fee (\$)	Fee Peer Ranking ¹
Existing	0.18% on all assets	250	18.0 bps	450,000	52nd percentile
Proposed	0.18% on first \$50 mm, 0.10% on the next \$50 mm, and 0.07% thereafter	250	9.8 bps	245,000	3rd percentile
Proposed potential savings on \$250 mm allocation			8.2 bps	205,000	

¹ Based on the Short Duration Fixed Income peer group in eVestment for a \$250 mm separately managed account.



Modification to Investment Policy Statement

Investment Policy Statement Update

- As a result of the creation of the Safety Reserve® portfolio, the 5% upper band of the short-term bond target allocation would be breached.
- As part of the Initial Fund Review of the DPFP, Meketa Investment Group plans to conduct a full asset allocation study later this year, during which a full update of the Investment Policy Statement would be appropriate.
- Until that time, Staff has recommended the following:
 - Move to suspend portions of the Investment Policy Statement specifically
 - (i) to allow for GAA to be fully liquidated,
 - (ii) to allow for a 15% allocation to be invested in a combination of approximately 12% allocation to short term bonds and approximately 3% allocation to cash, and
 - (iii) to remove the authority and requirement for staff to rebalance under the Investment Policy Statement and require staff and Meketa to seek the Board's approval on any rebalancing needs, including the Safety Reserve portfolio, until the Board has approved new long-term strategic asset allocation targets.

Summary

Summary

- We were able to successfully negotiate a fee savings with IR+M for exposure over \$50 million.
- We recommend DFPF adopt a Safety Reserve® portfolio given its current funded status, illiquidity challenges and negative cash flow position. It would be used to meet ongoing expenses and benefit payments.
- The Safety Reserve® portfolio should be comprised of two accounts: a cash account, and a short duration bond fund.
 - The cash account should have a target of 3% of Fund assets.
 - Short duration bonds should have a target of 12% of Fund assets.
- 2.5 years of expected cash outflows is a reasonable timeframe for DFPF.
- We have identified the GAA portfolio as the best source of capital for the Safety Reserve based on the following reasons:
 - Repetitive exposures from current assets
 - Past performance
 - High fees
 - Headline risk

Appendix

IR+M vs. SSgA 1-3 Year Government/Credit Index**Common Period Returns and Risk Statistics¹**

January 2011 – March 2018

	Income Research & Management	SSgA 1-3 Year Government/Credit	Bloomberg Barclays U.S. 1-3 Year Government/Credit
Common Period Performance (%):			
Trailing Period Return	1.63	0.91	0.94
Best 3-Month Return	1.45	0.98	0.97
Worst 3-Month Return	-0.37	-0.46	-0.45
Risk:			
Standard Deviation	0.80	0.65	0.65
Tracking Error	0.33	0.02	NA
Beta	1.13	1.00	1.00
Correlation to Benchmark	0.91	1.00	NA
Downside Deviation	0.43	0.35	0.36
Upside Capture (%)	143	98	NA
Downside Capture (%)	82	102	NA
Risk-Adjusted Return:			
Sharpe Ratio	1.71	1.01	1.07
Information Ratio	2.04	-1.94	NA

¹ Data shown is gross of fees and for the longest common period available, from January 2011 through March 2018.



IR+M vs. SSgA 1-3 Year Government/Credit Index**Trailing and Calendar Year Performance¹**

As of March 31, 2018

	Income Research & Management	SSgA 1-3 Year Government/Credit	Bloomberg Barclays U.S. 1-3 Year Government/Credit
Trailing Period Returns (%):			
1 year	0.49	0.22	0.24
3 years	0.97	0.66	0.66
5 years	1.08	0.74	0.76
10 years	2.63	NA	1.56
Common Period	1.63	0.91	0.94
Calendar Year Returns (%):			
2017	1.21	0.83	0.84
2016	1.67	1.28	1.28
2015	1.03	0.66	0.65
2014	1.18	0.73	0.77
2013	0.96	0.59	0.64
2012	3.36	1.19	1.26
2011	2.66	1.52	1.59
2010	3.87	NA	2.80
2009	10.91	NA	3.83
2008	1.50	NA	4.97

¹ Data shown is gross of fees and for the longest common period available, from January 2011 through March 2018.

IR+M vs. SSgA 1-3 Year Government/Credit Index

Characteristics
 As of March 31, 2018

	Income Research & Management	SSgA 1-3 Year Government/Credit
Yield to Maturity (%)	2.7	2.5
Number of Bond Issues	100	1,355
Sector Exposure (%):		
U.S. Treasuries	34	63
Agencies	5	5
Investment Grade Corporates	40	24
Non-Agency ABS	13	0
Non-Agency MBS	4	0
Municipals	4	0
Other	1	8





DISCUSSION SHEET

ITEM #C2

Topic: Securities Lending Review

Attendees: Eileen Fortis, Vice President – Securities Lending, JPMorgan (by phone)

Discussion: At the request of a Board member at the March 8, 2018 meeting, staff will provide an overview of DPF's securities lending program.

Regular Board Meeting – Thursday, May 10, 2018



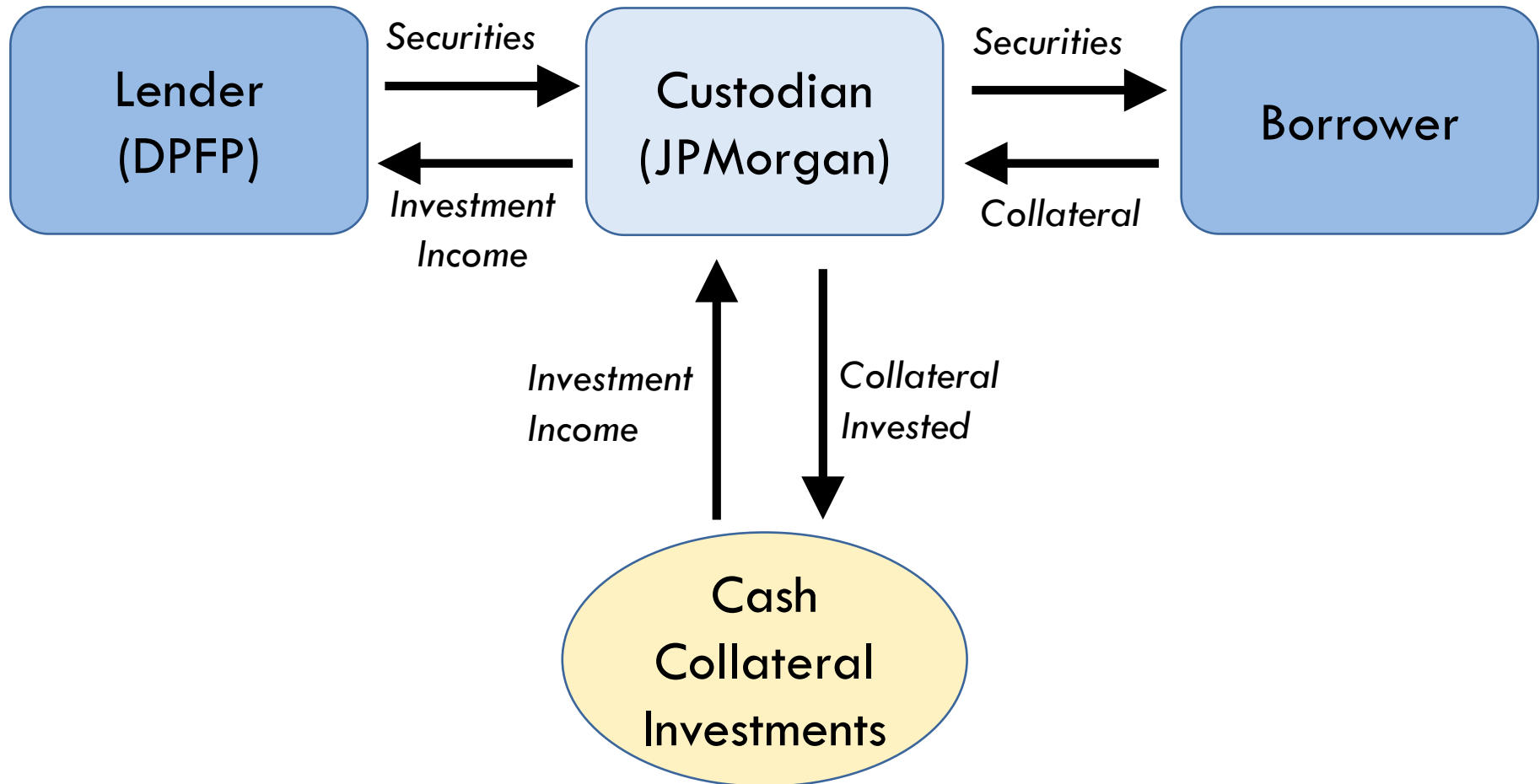
D A L L A S
POLICE & FIRE
PENSION SYSTEM



Securities Lending Overview

May 10, 2018

Securities Lending Basic Overview



- Custodian bank serves as a lending agent to facilitate the transactions
- Loaned security and collateral values are marked to market and adjusted daily

DPFP Securities Lending Key Metrics

Metric	Q1 2018	FY 2017	FY 2016	FY 2015
DPFP Earnings	20.7 K	101.4 K	402.1 K	543.7 K
Return on Loans (bps)	7.97	53.04	45.57	36.42
Loan Balances (avg)	26.0 MM	19.1 MM	88.2 MM	149.3 MM
Lendable Assets (avg)	458.2 MM	273.4 MM	417.5 MM	680.3 MM

- *Earnings, loan balances, and lendable assets declined in 2016 and 2017 due to redemptions, and have rebounded with funding of equity and fixed income mandates*
- *The overall market for securities lending has been challenged by the protracted equity rally resulting in lower demand, and recent regulatory actions have moved more lending activity to international banks*

Securities Lending Key Considerations

Collateral:

- *Collateral may be cash or securities*
- *102% for same-currency loans*
- *105% for cross-currency loans*
- *110% for equities as collateral*

Earnings and Costs:

- *Lender earns on the invested collateral, net of any rebates paid to borrower*
- *Borrowers may pay the lender to borrow scarce securities (negative rebate)*
- *Net earnings are split 70% to DPFP, 30% to JPMorgan*

Collateral Investment:

- *Objective is to provide preservation of principal and liquidity while maximizing income*
- *Managed by JPMorgan, similar to an SMA*
- *May be invested in a money market managed by JPMorgan*

Securities Lending Risks: Borrower Default

JPMorgan indemnifies DPFP against borrower default:

- *Replaces loaned securities, even when adverse market shift results in insufficient collateral to cover replacement costs*
- *Makes the lender whole if borrower fails to remit dividends and other entitlements*
- *Credits the lender with distributions on the day the distributions are made, regardless of borrower performance*

Securities Lending Risks: Invested Collateral

Investment risk of invested collateral is borne by the lender, and is mitigated in several ways:

- ***Permissible investments***
 - *Fixed income and debt securities, no equities*
 - *Money markets*
 - *USD denominated only*

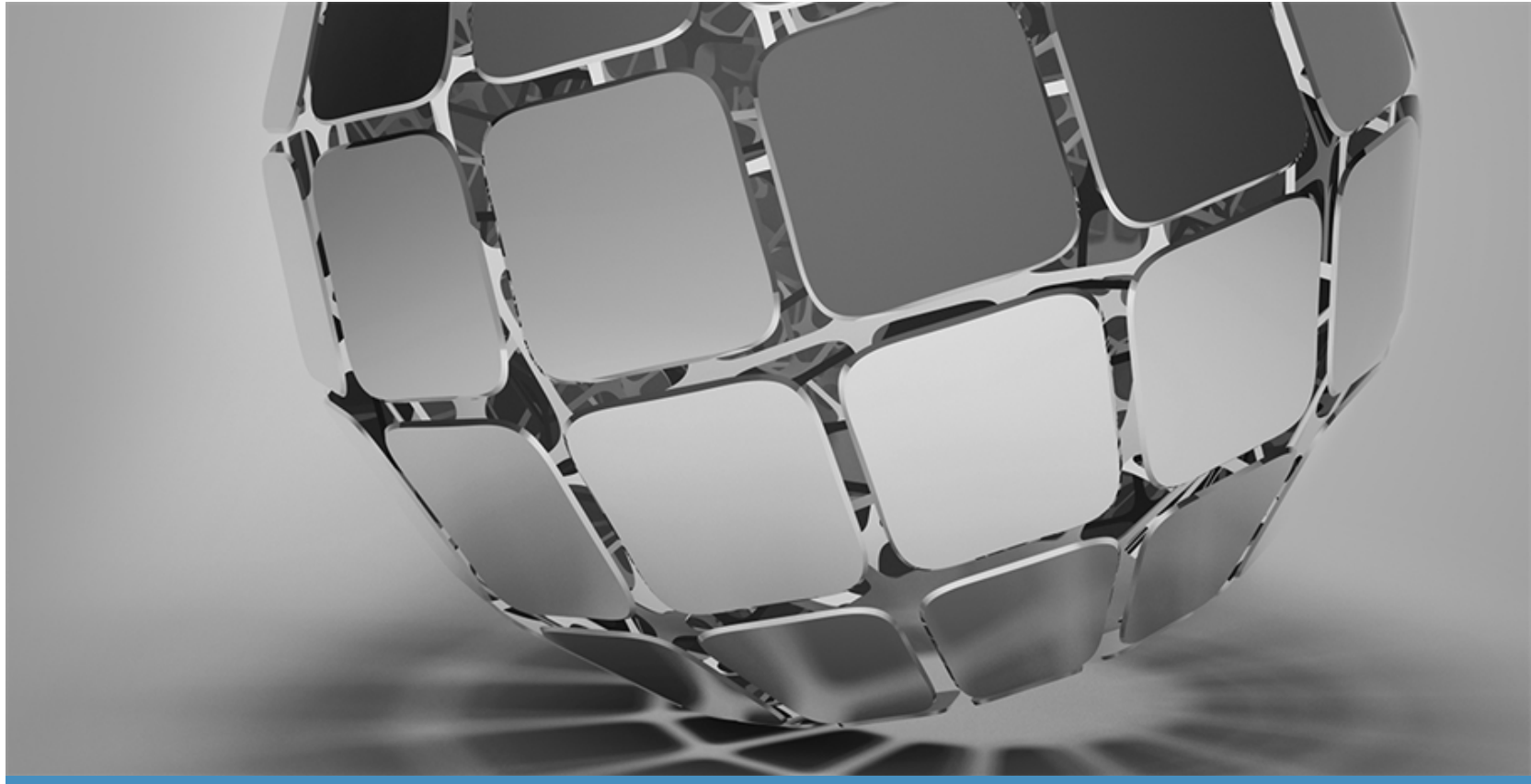
- ***Maturity guidelines - short term instruments only***
 - *Fixed rate < 2 years*
 - *Floating rate: US Government < 5 years, all others < 2 years*
 - *Maximum weighted average maturity < 120 days*

- ***Quality guidelines - minimum of A-***

- ***Concentration guidelines - issuer limit of 10%***
 - *Except US Government, repurchase agreements, and money markets*

Appendix

Additional information on securities lending program from JPMorgan, not intended to be covered in presentation



2017 Securities lending review

Dallas Police & Fire

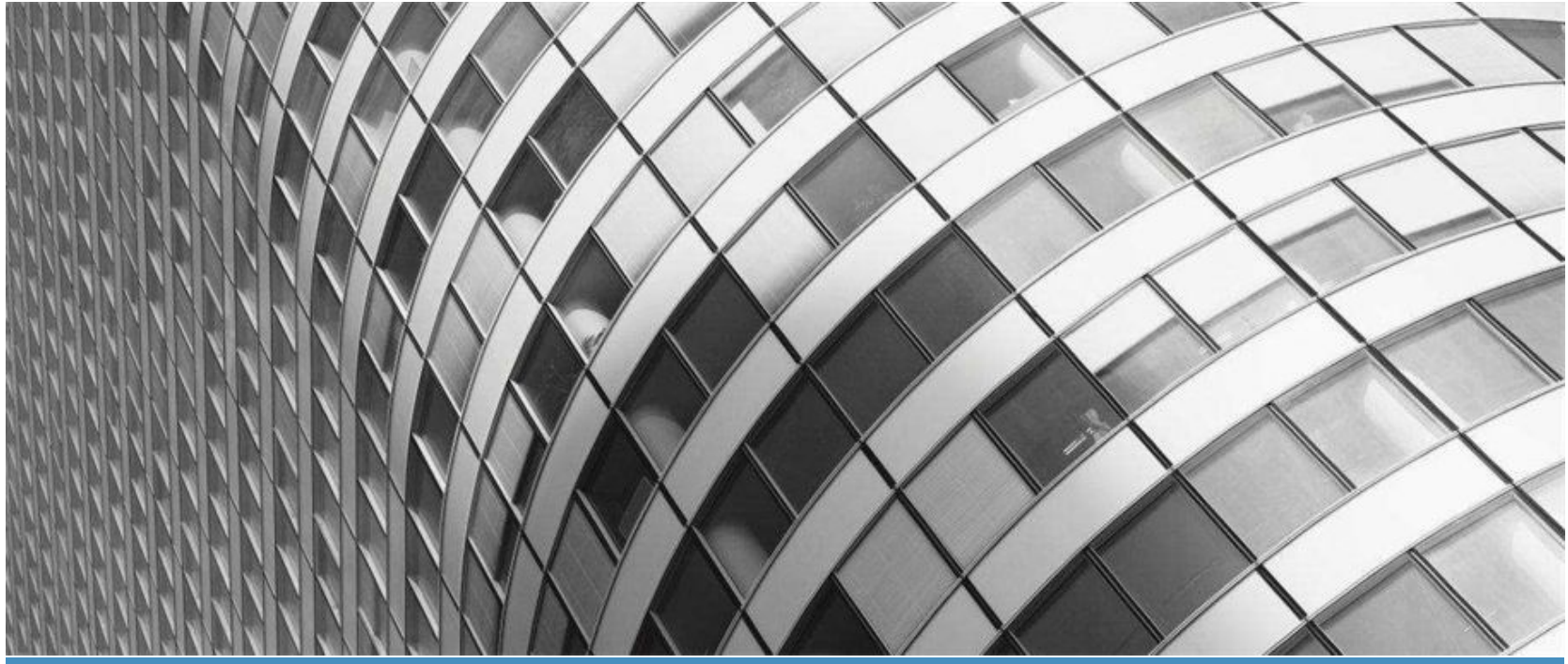
March 2018

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J.P.Morgan

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Executive summary

Executive summary

- ▶ As expected, the Fed raised the target range for the funds rate by 25 bps to 1.25-1.50% at their December meeting. While the market continues to look for three hikes in 2018, JP Morgan believes that four hikes is more likely, with a very good chance that incoming Chair Powell will hike in March.
- ▶ Rising equity markets, especially in the U.S., subdued hedge fund activity and fewer short positions has resulted in lower fees and fewer specials in the market.
- ▶ Across European markets, there has been continuing evolution of "Tax Harmonization" and other regulatory changes reducing yield trade opportunities.
- ▶ Various regulatory reforms which have been introduced over the last several years to address systemic risk, protect investors and increase transparency continue to impact the industry. Regulatory developments are ongoing and continue to restrict demand for fixed income general collateral loans versus cash, as well as the supply of overnight and very short dated investment products, particularly over reporting dates. Additionally, we continue to see a shift by US borrowers from cash to non-cash collateral, a shift in demand from borrowers international entities vs US and a demand for longer dated term trades.
- ▶ The vast majority of securities lending income continues to be derived from lending equities. In the US Directional trades again drove earnings, especially within the Communications and Consumer Discretionary sectors. In non Us markets we saw strong demand in scrip and cash dividend trades with in the French Market.

Metrics (USD)

Parameter	4Q 2017	4Q 2016	FY 2016	FY 2017
Earnings	22.4 K	76.0 K	402.1 K	101.4 K
Lendable Assets (Avg.)	430.1 MM	236.2 MM	417.5 MM	273.4 MM
Loan Balances (Avg.)	14.2 MM	51.8 MM	88.2 MM	19.1 MM
Utilization Rates (Avg.)	3.29 %	21.93 %	21.14 %	6.99 %
Collateral Value (Avg.)	14.6 MM	53.5 MM	90.8 MM	19.7 MM
Cash vs. non cash (%)	85.91 % / 14.09 %	87.33 % / 12.67 %	86.33 % / 13.67 %	78.76 % / 21.24 %
Average Spreads(bps)	87.23	81.83	63.84	81.10
Return to Lendable(bps)	0.52	3.22	9.63	3.71
Return to Program(bps)	15.79	14.67	45.57	53.04

Shaping the future of J.P. Morgan's securities lending offering

Client experience

- ▶ **Continued improvements to Best in Class client reporting platform:**
 - ▶ New enhanced 'Spread Analysis' report
 - ▶ Additional MTD date rule in Cash Management report
 - ▶ Admin fee, split percentage and borrower attributes fields added to Monthly Statement Earnings template suite
 - ▶ 4 new reports built to support MiFID client reporting requirements
- ▶ **Legal Entity Identifiers:** integration of client, borrower and issuer LEIs into reporting being developed
- ▶ **Street side term trades:** giving clients the opportunity to participate in term trades to improve returns
- ▶ **Dynamic revenue sharing agreements:** clients benefit from attractive fee splits for Specials whilst Agent retains higher fee on lower yielding GC trades
- ▶ **Investment in next generation trading tools** to increase efficiencies with the market and access additional trade opportunities

Programme expansion

- ▶ **Tax Transparent Fund:** In the process of developing the ability to offer a fully comprehensive stock lending offering to tax transparent fund structures, building out the capabilities of providing blended MIR rates.
- ▶ **Monitor new emerging markets** (China, Indonesia, Vietnam, Philippines): review proposals for new lending models (e.g. Islamic Securities Lending and Borrowing model for Malaysia).
- ▶ **Expanding collateral**
 - Korean equities (live)
 - Corporate bonds (live)
 - Taiwan equities (in progress)
 - ETF's (in progress)

Development vision

- ▶ **Non-US Collateral via Pledge:** J.P. Morgan is actively participating in the creation of ISLA industry standard agreements, that when introduced, will aim improve RWA / Capital relief to borrowers that will translate in higher demand.
- ▶ **Agency Prime:** lending directly to high quality hedge funds (existing and new clients of JP Morgan Prime Custody [or (existing clients who may use JPMorgan Prime Brokerage)]) on an indemnified basis expanding the network of Borrowers and potentially increasing revenue for clients.
- ▶ **Hedge funds as approved repo counterparties:** investigating adding hedge funds for the cash reinvest programme to enable enhanced returns on USD cash on an indemnified basis.
- ▶ **Exploring Central Counterparties securities lending service offerings** (e.g. Eurex, EuroCCP) to define the securities lending service securities and cash collateral models as an additional lending platform to supplement J.P. Morgan's distribution strategies

Regulatory Summary – Key Points 1/2

June 2017

MiFID II

- What is it?**
- ▶ Update to the existing Markets in Financial Instruments Directive, in the form of revised regulation and directive from the European Union.
 - ▶ MiFID II will cover any activity conducted in an EU member state, or any activity conducted by an entity resident within an EU member state.

- Impact to Lending**
- ▶ JPMorgan, as agent lender, will have enhanced transactional reporting obligations
 - ▶ Additional annotations of client reporting will be added as a result of the Investor Protection elements of MiFID II
 - ▶ Quarterly receipt of position statements for all impacted Lenders
 - ▶ A revised "Best Execution" policy is being prepared
 - ▶ Additional notifications will be included within client agreements

- Status / Next Steps**
- ▶ Clients will receive letter advising of specific review timeline for contracts – Q3 2017
 - ▶ JPMorgan is working on completing internal project to meet all requirements ahead of January 2018 implementation deadline.

SFTR

- What is it?**
- ▶ EU interpretation of the FSB Shadow Banking work on transparency
 - ▶ Introduces measures to increase transparency of SFTs to regulators, investors and the public via reporting to a trade repository. It also introduces conditions on re-use of collateral provided by counterparties, and additional transparency obligations for investment funds in Europe.

- Impact to Lending**
- ▶ Lenders are obliged to report SFTs to a trade repository or to ESMA directly (if a trade repository has not obtained approval)
 - ▶ Final Regulatory Technical Standards outlining required data elements have been published; currently under review by European Commission and Parliament, before final legislative approval is provided (expect Q3 2017)
 - ▶ Whilst the Lender is responsible for the reporting, J.P. Morgan looking at current reporting protocols to assist Lenders in meeting the standards as defined. This includes the assessment of third party vendor solutions.

- Status / Next Steps**
- ▶ Elements of SFTR have already taken effect – recordkeeping (Jan 2016); notification of re-use of collateral (July 2016); elements of fund transparency (UCITS/AIF) (Jan / July 2017)
 - ▶ Awaiting publication of Level 2 RTS in Official Journal – estimated October 2017
 - ▶ Transparency reporting scheduled to commence in October 2018 – pending completion of the RTS publication.

Regulatory Summary – Key Points 2/2

June 2017

CSDR

What is it?	<ul style="list-style-type: none"> ▶ CSDR aims at increasing the safety and efficiency of cross-border settlement and ensuring a level playing field for competition for CSD services. CSDR aims to shorten the time for securities settlement and minimize settlement fails – cycle moved to T+2 in Q4 2014 (although officially effective 1 Jan 2015) ▶ In addition to this, CSDR will also impose a stringent penalty and a mandatory buy-in regime on market participants who fail to deliver their securities on the agreed settlement date.
Impact to Lending	<ul style="list-style-type: none"> ▶ Potential for penalties to be levied on transactions which are not settled within the timeframes ▶ Potential need for contractual arrangements with counterparties to be reviewed to ensure that appropriate language is in place to pass costs to failing party
Status / Next Steps	<ul style="list-style-type: none"> ▶ ESMA published a consultation on the alternative options for handling the settlement penalties – specifically the level at which buy-in procedures should apply. The consultation closed on August 6th 2015. ▶ ESMA published the final Regulatory Technical Standard for CSDR – with the exception of the document for mandatory buy-ins and settlement penalties – in September 2015. ▶ Further feedback is expected from ESMA on the mandatory buy-ins and settlement penalties – although implementation is expected to be delayed.

SEC Mutual Fund Disclosure

What is it?	<ul style="list-style-type: none"> ▶ SEC have proposed a number of changes to the reporting that a US based mutual fund (created under the 1940 Investment Company Act) is required to regularly provide.
Impact to Lending	<ul style="list-style-type: none"> ▶ Similar impact to the EU SFTR – close alignment to the reporting elements; ▶ Working with internal groups to determine what information is already included in existing reporting, and what enhancements might be needed ▶ Funds will be required to report additional information at the end of each month (using a new form N-PORT); note LEI will be part of this requirement. ▶ Additional information is required to be submitted via the N-CEN report – looking at capturing enhanced “census” style information (including lending details)
Status / Next Steps	<ul style="list-style-type: none"> ▶ JPMorgan Fund Accounting & Financial Reporting teams are working on an integrated solutions for Lenders who subscribed to these services. ▶ JPMorgan Agency Lending are preparing amended reporting for those clients who do not subscribe to this service, and who require the data directly in order to report and meet their obligations. ▶ The implementation dates for the new requirements, once finalized, will be tiered based on the asset size of the fund – large funds (those which have assets over \$1 billion once combined with other group related entities) have to comply by June 2018.

EU Financial Transaction Tax (FTT)

What is it?	<ul style="list-style-type: none"> ▶ European Commission proposal to introduce a financial transaction tax (FTT) in a subset of EU member states (Austria, Belgium, France, Germany, Greece, Italy, Portugal, Slovakia, Slovenia, Spain). ▶ Current proposal is a FTT of 0.1% on all share and bond transactions; 0.01% tax on derivatives trades
Impact to Lending	<ul style="list-style-type: none"> ▶ Proposal includes securities lending transactions, could potentially make certain transaction uneconomic. ▶ Impact is uncertain as discussions are ongoing at European Finance Minister level
Status / Next Steps	<ul style="list-style-type: none"> ▶ Further details on proposed scope, including whether securities lending remains captured, is still pending from European Commission ▶ Timing of next stage of legislative proposal remains unclear, whilst ongoing discussions are still taking place.

Upcoming events: Finadium Investors in Securities Lending Conference

Save the date

- ▶ Leading industry participants have joined together to give institutional investors a fresh look on securities finance in a changing regulatory environment
- ▶ Opportunity for investors and service providers to challenge and benefit from new ideas
- ▶ Free for Asset Owners, Asset Managers, Insurance Firms and hedge funds and similar participants in securities finance and asset servicing
- ▶ Thematically arranged around investor types
- ▶ Low service provider-to-investor ratio
- ▶ Event details
 - ▶ Venue: Marriott Downtown, 85 West Street, New York, NY
 - ▶ Starts April 11, 2018 12:45pm EDT
 - ▶ Concludes April 12, 2018 6pm EDT
- ▶ See the event website for more information & the agenda:
<http://finadium.com/conferences/fisl-nyc-2018>

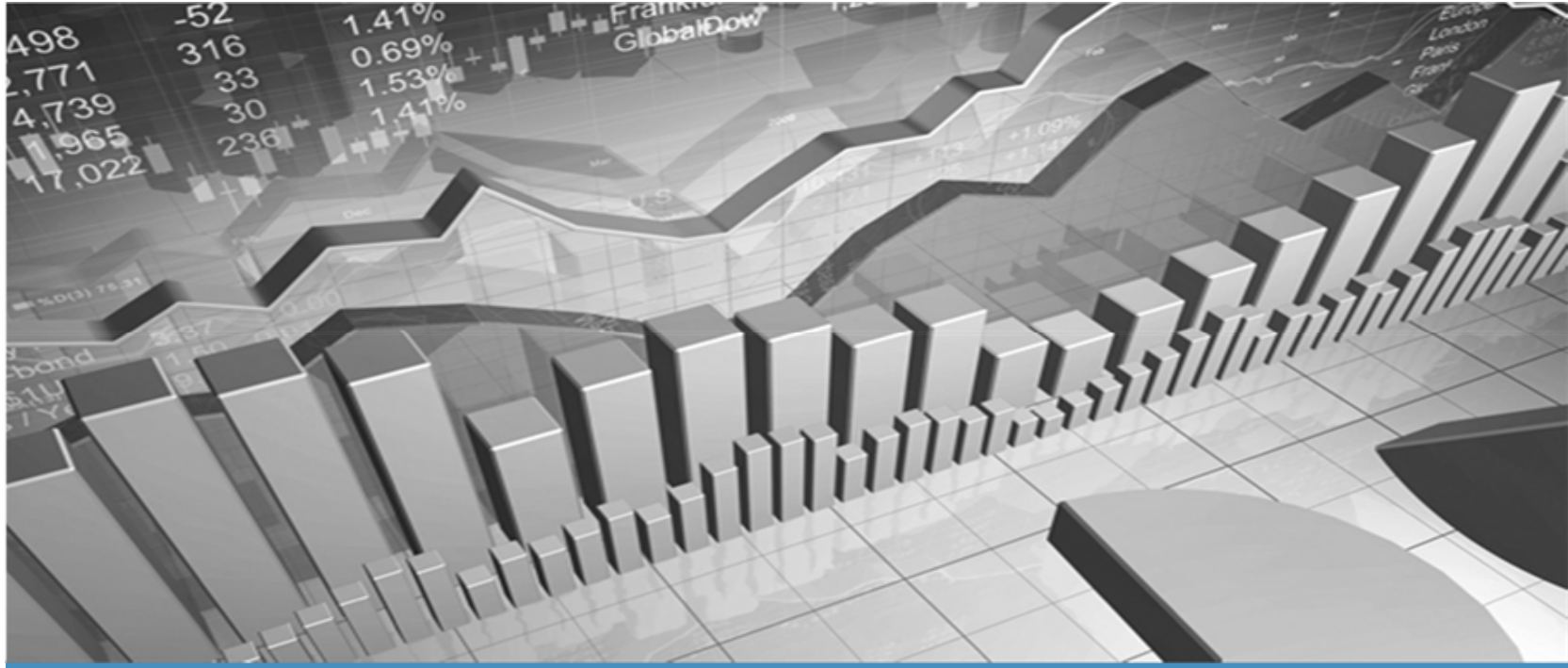
- ▶ As co-sponsor, J.P. Morgan can provide complimentary passes



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Performance

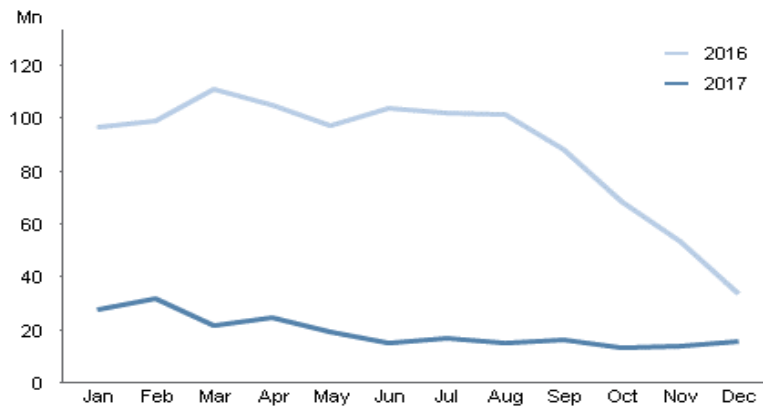
2017 Performance summary

Profile and performance overview (USD)

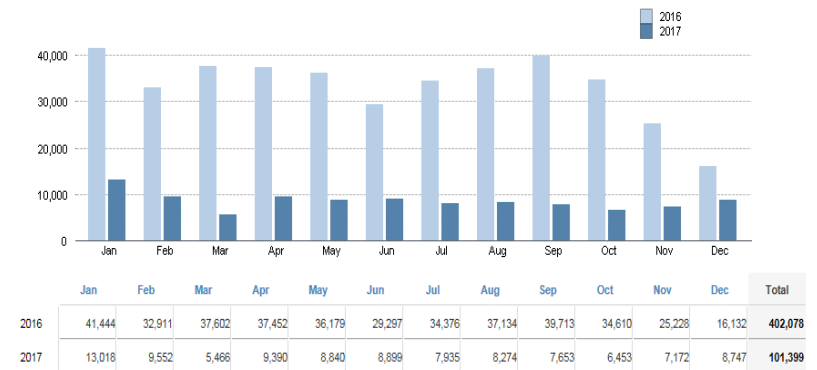
Profile and Performance Overview

	FY 2017	FY 2016	4Q17	3Q17	2Q17	1Q17	4Q16
Average Lendable Market Value	273.4 MM ▼	417.5 MM	430.1 MM ▲	295.7 MM	188.6 MM	176.1 MM	236.2 MM
Average on Loan	19.1 MM ▼	88.2 MM	14.2 MM ▼	15.9 MM	19.6 MM	26.9 MM	51.8 MM
Average Utilization Rate	6.99 % ▼	21.14 %	3.29 % ▼	5.38 %	10.41 %	15.30 %	21.93 %
Client Earnings	101.4 K ▼	402.1 K	22.4 K ▼	23.9 K	27.1 K	28.0 K	76.0 K
Return to program(bps)	53.04 ▲	45.57	15.79 ▲	15.00	13.82	10.41	14.67
Return to lendable(bps)	3.71 ▼	9.63	0.52 ▼	0.81	1.44	1.59	3.22

On loan balance 2016 – 2017 (USD)

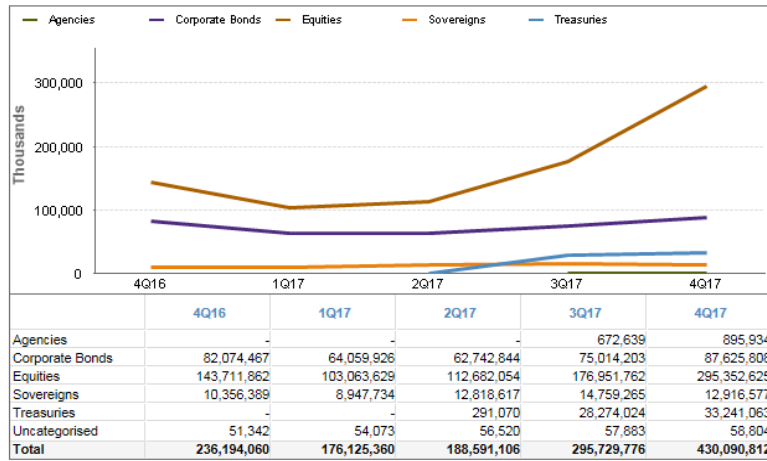


Year over year earnings (USD)

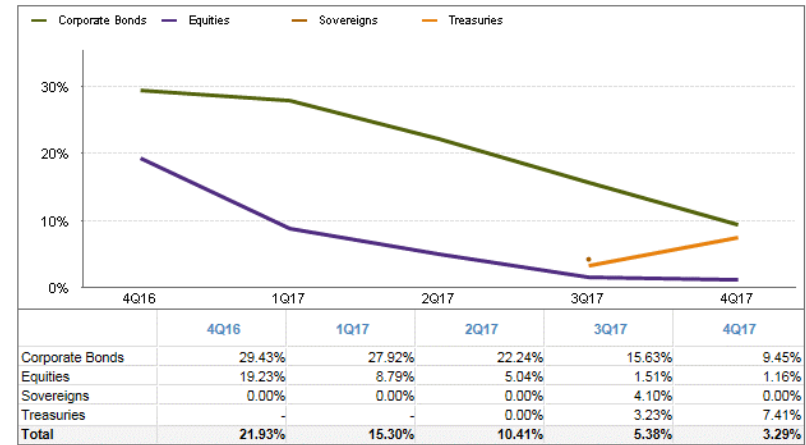


Quarterly loan activity overview

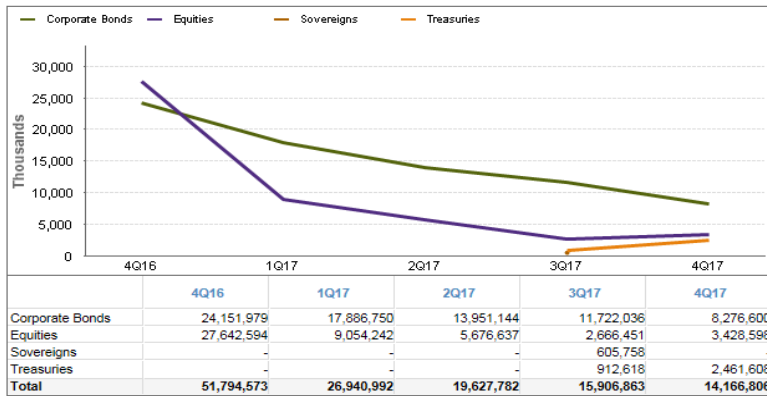
Lendable base by asset type (USD)



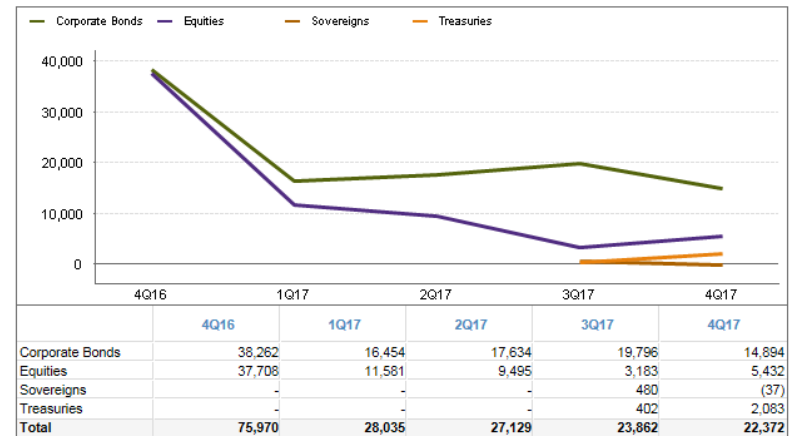
Average utilization by asset type



Average on loan by asset type (USD)



Earnings by security type (USD)

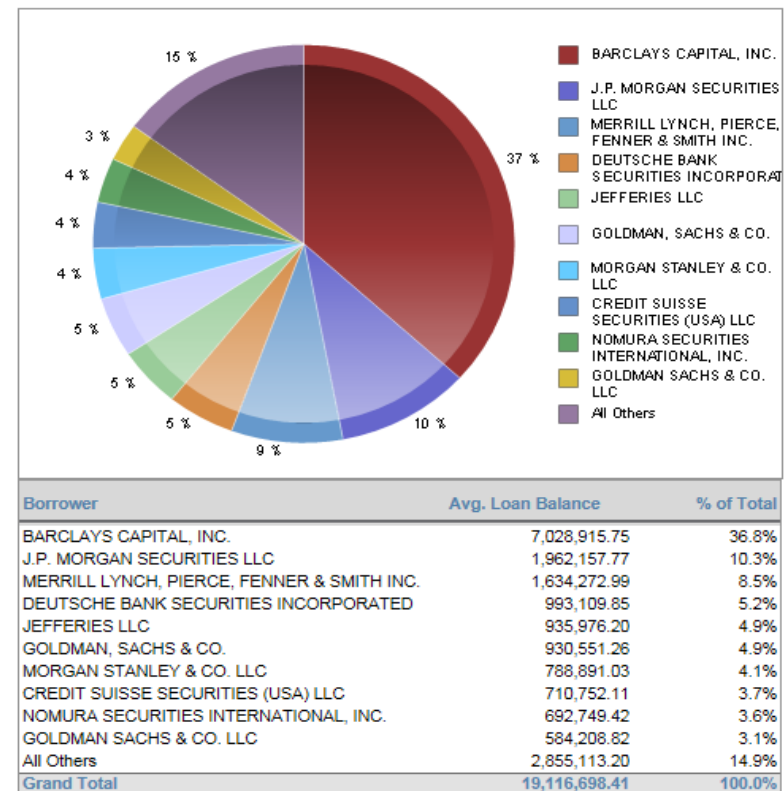


Top earning securities and borrower attribution

2017 top earning securities (USD)

Security ID	Security Description	Security Sector	Earnings	% of Earnings
595112AY9	MICRON TECHNOLOGY INC CALL/PUT CONVERTIBLE BOND ...	Semiconductors & Semico...	11,753.13	11.6%
966387AH5	WHITING PETROLEUM CORP CALLABLE NOTES FIXED 5.75%...	Oil, Gas & Consumable Fuels	8,700.39	8.6%
708130AD1	JC PENNEY CORP INC NOTES FIXED 5.65% 01/JUN/2020 USD...	Multiline Retail	5,189.03	5.1%
79970YAD7	SANCHEZ ENERGY CORP CALLABLE NOTES FIXED 6.125% 1...	Oil, Gas & Consumable Fuels	4,927.12	4.9%
88033GCN8	TENET HEALTHCARE CORP CALLABLE NOTES FIXED 6.75% ...	Health Care Providers & S...	4,721.81	4.7%
B15C557	TOTAL SA COMMON STOCK EUR 2.5	Oil, Gas & Consumable Fuels	4,170.00	4.1%
4643735	TOD'S SPA COMMON STOCK EUR 2	Textiles, Apparel & Luxury ...	3,923.75	3.9%
494580AF0	KINDRED HEALTHCARE INC CALLABLE NOTES FIXED 8.75% ...	Health Care Providers & S...	3,704.89	3.7%
B7K6D18	BRUNELLO CUCINELLI SPA COMMON STOCK EUR	Textiles, Apparel & Luxury ...	3,630.38	3.6%
4061412	LVMH MOET HENNESSY LOUIS VUITTON SE COMMON STOC...	Textiles, Apparel & Luxury ...	3,065.36	3.0%
All Others			47,612.70	47.0%
Grand Total			101,398.56	100.0%

2017 borrower exposure (USD)





Cash collateral reinvestment

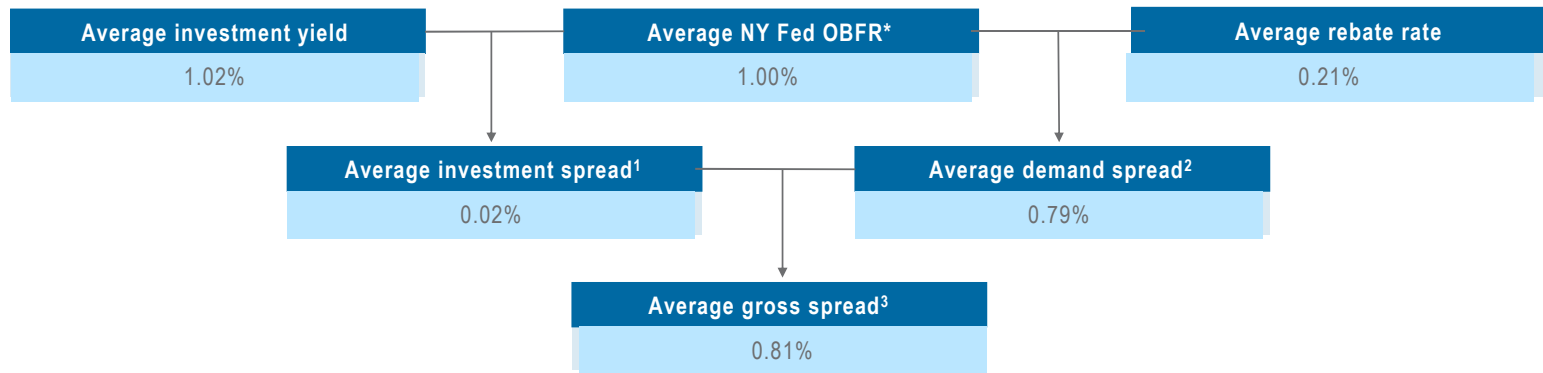
Cash collateral investment strategy – Q4 2017

Our objective is to provide preservation of principal and maintaining portfolio liquidity, while maximizing income in support of securities lending activities.

Program wide summary

- ▶ As was widely expected, the Fed raised the target range for the funds rate by 25 bps to 1.25-1.50% at their December meeting. While the median participant continues to look for three hikes in 2018, JP Morgan believes that four hikes is more likely, with a very good chance that incoming Chair Powell will hike in March, as not doing so against a backdrop of solid growth momentum would signal an unwelcome departure from continuity.
- ▶ As expected the ECB extended their QE program at their October meeting, with no further changes in December. The ECB retained its easing bias with QE scheduled to run until September 2018 (or longer if needed), with rates on hold until “well past” this date. ECB forecasts expect strong growth to continue, but declines in unemployment to slow, and headline inflation only reaching 1.7% in 2020. JP Morgan adjusted its forecast during 4Q17 now expecting a short tapering period in 4Q18 before a first hike in June 2019, followed by a rate hiking cycle of three per year.
- ▶ The RBA kept the official interest rate unchanged at 1.50% over the quarter. The central bank continues to maintain a neutral stance on monetary policy, with a finely balanced economic outlook ensuring the RBA remains firmly on hold into 2018. With GDP expected to pick up mid year, the central bank will be hoping that this will kick start growth in wages and consumption which they have identified as their two key uncertainties. JPMorgan is expecting the RBA to be on hold for the foreseeable future.
- ▶ Globally, term purchases were predominantly focused in layered, fixed rate one to three month tenors to maintain liquidity in the term structure of portfolios. Longer tenor investments were predominantly within six months though some purchases went out as long as 1 year. Purchases with durations of 6 months or longer were primarily floating rate in USD given the anticipation of further Fed hikes. In EUR and AUD a fixed rate bias was maintained given relative value and central bank outlook for rates, again with most attractive opportunities seen in the 3 to 6 month tenors.
- ▶ Demand for floating rate products 6 months and longer has remained strong in USD, although there was a decrease in demand as year end approached as investors protected liquidity and prepared for year end. Overall, USD liquidity remained high during Q4 as investors were content to either stay in overnight products or spend money past the 90 day tenor where levels had consistently priced in the December rate hike more accordingly. We anticipate this market environment to continue with rates expected to rise even further in 2018.
- ▶ Future activity may include selective purchases for core holdings in specific accounts, as long as one year for fixed rate and potentially two years for floating rate investments.
- ▶ Regulatory developments are ongoing and continue to restrict demand for fixed income general collateral loans versus cash, as well as the supply of overnight and very short dated investment products, particularly over reporting dates.
- ▶ In order to receive a more diversified and consistent collateral supply, efforts to expand repo collateral and counterparty options have continued alongside the usage of alternative products and layered short duration term, allowing the addition of incremental yield while maintaining appropriate account liquidity for eligible accounts.
- ▶ Investments for the program included reverse repo, time deposits, certificates of deposit, commercial paper (including asset backed), promissory notes, master notes, medium term notes, funding agreements and money market funds.

2017 Yields, rates and spreads – USD



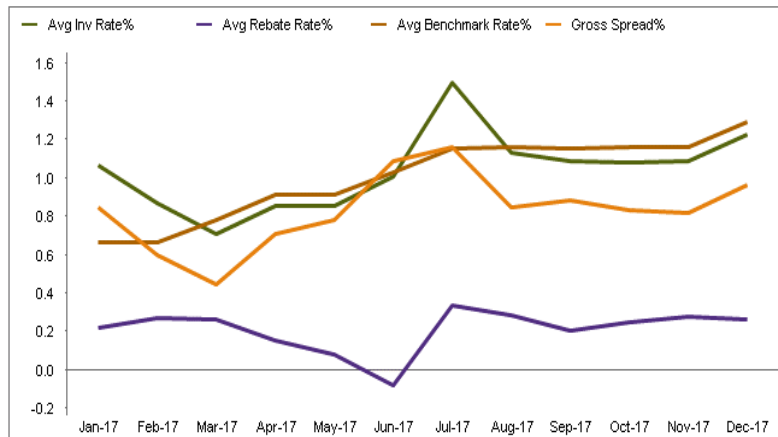
1 The average investment spread is the yield the lender earns on the invested cash collateral less a risk free rate (e.g., average Fed Funds Open).

2 The average demand spread is the difference between a risk free rate and the rebate paid back to the borrowers; it is generated from the intrinsic value of the securities as determined by supply and demand.

3 The average gross spread is the aggregate of the average investment spread and the average demand spread.

NB: Based on recommendation from the Risk Management Association (RMA) and Securities Industry and Financial Markets Association (SIFMA), the Federal Reserve Bank of New York's new Overnight Bank Funding Rate (OBFR) has replaced the previously used Federal Funds Open (FFO)

USD spread history



Average rebate rates

Time Period	Avg Inv Rate%	Avg Rebate Rate%	Avg Benchmark Rate%	Gross Spread%
Jan-17	1.06	0.22	0.66	0.85
Feb-17	0.86	0.27	0.66	0.60
Mar-17	0.70	0.26	0.78	0.44
Apr-17	0.85	0.15	0.91	0.70
May-17	0.86	0.08	0.91	0.78
Jun-17	1.01	(0.08)	1.03	1.08
Jul-17	1.49	0.34	1.15	1.16
Aug-17	1.13	0.28	1.16	0.85
Sep-17	1.08	0.20	1.15	0.88
Oct-17	1.08	0.25	1.16	0.83
Nov-17	1.09	0.28	1.16	0.81
Dec-17	1.22	0.26	1.29	0.96

Cash collateral investment portfolio – holdings

Mark to market as of December 29 2017

From Date: 29-Dec-2017 To Date: 29-Dec-2017

Agent Lending													Cash Investments			
Client Name : DALLAS-THE DALLAS POLICE AND FIRE PENSION																
As of Date : 29-Dec-2017																
Collateral Currency : USD																
Base Currency : N/A																
Issuer/Repo Counterparty	Product	Security ID	S&P	Moody's	Fitch	Maturity Date	Days to Maturity	CASS Protected	Par Amount	Principal Amount	Market Price	Market Value	Amortized Cost	Unrealized Gain Loss	Yield %	
<i>Investment Group: DALLAS</i>																
<i>Settled Investments</i>																
<i>Open / Fixed</i>																
ML PIERCE FENNER & SMITH INC	REPO - Treasury Notes		A-1	NR	F1	02-Jan-2018	4	N	3,652,707.80	3,652,707.80	100.00	3,652,707.80	3,652,708.00	(0.20)	1.400000	
DEUTSCHE BANK SECURITIES INC.	REPO - Treasury Notes		A-2	NR	F2	02-Jan-2018	4	N	3,000,000.00	3,000,000.00	100.00	3,000,000.00	3,000,000.00	0.00	1.400000	
HSBC SECURITIES, INC.	REPO - Treasury Notes		A-1+	NR	NR	02-Jan-2018	4	N	3,000,000.00	3,000,000.00	100.00	3,000,000.00	3,000,000.00	0.00	1.350000	
CITIGROUP GLOBAL MARKETS INC	REPO - Treasury Notes		A-1	A2	F1	02-Jan-2018	4	N	2,500,000.00	2,500,000.00	100.00	2,500,000.00	2,500,000.00	0.00	1.380000	
<i>Total - Open / Fixed</i>									12,152,707.80	12,152,707.80		12,152,707.80	12,152,708.00	(0.20)	1.383543	
<i>Total - Settled Investments</i>									12,152,707.80	12,152,707.80		12,152,707.80	12,152,708.00	(0.20)	1.383543	
<i>Total - DALLAS</i>									12,152,707.80	12,152,707.80		12,152,707.80	12,152,708.00	(0.20)	1.383543	
<i>Total</i>									12,152,707.80	12,152,707.80		12,152,707.80	12,152,708.00	(0.20)	1.383543	
<i>NAV</i>													1.000000			

"For Asset Backed Securities, references to "final maturity date" represent the "expected" final maturity date at the initial time of purchase based on the weighted average life calculation in the prospectus. The actual final maturity date may be longer. Expected final maturity date is extended in the event that the investment does not pay in full as anticipated."

Cash collateral investment portfolio – summary (USD)

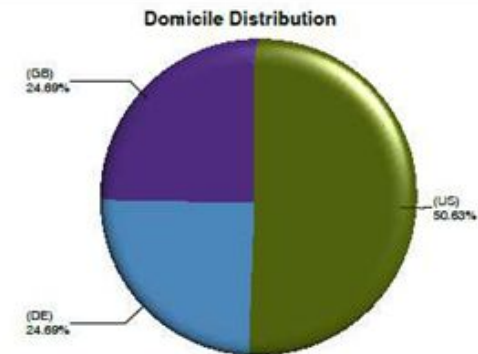
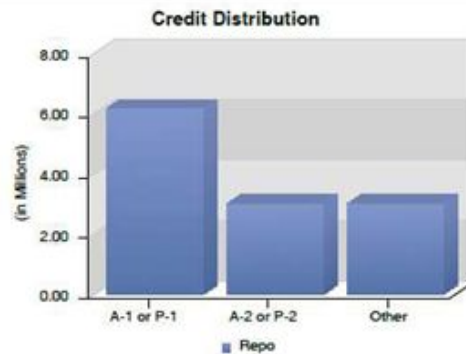
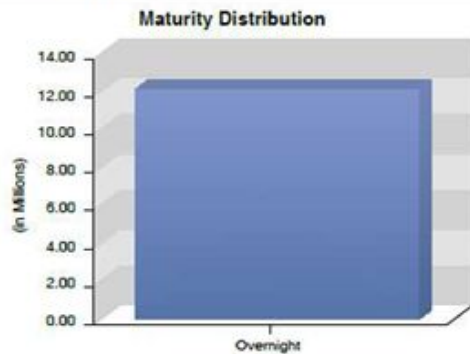
Portfolio characteristics as of December 29 2017

From Date: 29-Dec-2017 To Date: 29-Dec-2017

Agent Lending

Cash Investments

Client Name : DALLAS-THE DALLAS POLICE AND FIRE PENSION
 As of Date : 29-Dec-2017
 Collateral Currency : USD
 Base Currency : N/A



Maturity Distribution	Principal Amount	% of Principal Amount
Overnight	12,152,707.80	100.00%
2 to 30	0.00	0.00%
31 to 60	0.00	0.00%
61 to 90	0.00	0.00%
91 to 180	0.00	0.00%
181 to 365	0.00	0.00%
366 to 397	0.00	0.00%
398 to 732	0.00	0.00%
Over 732	0.00	0.00%
Total	12,152,707.80	100.00%
WAM (Open Investments) :	Reset : 4	Final : 4
WAM (Total Investments) :	Reset : 4	Final : 4

Credit Distribution	Principal Amount	% of Principal Amount
Repo	12,152,707.80	100.00%
A-1+ & P-1	0.00	0.00%
A-1 & P-1	0.00	0.00%
A-1 or P-1	6,152,707.80	50.63%
A-2 & P-2	0.00	0.00%
A-2 or P-2	3,000,000.00	24.69%
AAA or Aaa	0.00	0.00%
AA or Aa	0.00	0.00%
Other	3,000,000.00	24.69%
Total	12,152,707.80	100.00%

Domicile	Principal Amount	% of Principal Amount
U.S.A. - (US)	6,152,707.80	50.63%
Germany - (DE)	3,000,000.00	24.69%
United Kingdom - (GB)	3,000,000.00	24.69%
Total	12,152,707.80	100.00%



Securities lending parameters

Securities lending program parameters

Program parameters as of 12/31/2017

- ▶ Security Types Approved for Lending
 - List types
- ▶ Lending Restrictions
 - None
- ▶ Approved Borrowers
 - Refer to list (p. 20)
- ▶ Collateral Management
 - Separate account
- ▶ Approved Collateral
 - Cash and Securities
- ▶ Investment Guidelines Restrictions
 - None
- ▶ Revenue Share – 70% Dallas P&F / 30% JPM

▶ Approved Markets

AUSTRALIA	✓ GERMANY	✓ MEXICO	✓ SWEDEN
✓ AUSTRIA	GREECE	✓ NETHERLANDS	✓ SWITZERLAND
✓ BELGIUM	✓ HONG KONG	✓ NEW ZEALAND	TAIWAN
BRAZIL	HUNGARY	✓ NORWAY	✓ THAILAND
✓ CANADA	✓ IRELAND	✓ POLAND	TURKEY
✓ CZECH REPUBLIC	✓ ISRAEL	✓ PORTUGAL	UNITED KINGDOM
✓ DENMARK	✓ ITALY		✓ UNITED STATES
✓ EUROCLEAR	✓ JAPAN	✓ SINGAPORE	
✓ FINLAND	KOREA, REPUBLIC OF	✓ SOUTH AFRICA	
✓ FRANCE	MALAYSIA	✓ SPAIN	

Securities lending program parameters

Accounts enrolled in securities lending program

Account name	Lending account number
DALLAS POLICE & FIRE BRANDYWINE A	35343/P86753
DALLAS POLICE & FIRE FIDELITY MGT TR	27436/P84552
DALLAS POLICE & FIRE LOOMIS SAYLES	27435/P84551
DALLAS POLICE & FIRE MITCHELL GROUP	P 56940
DALLAS POLICE & FIRE PENSION SYSTEM - BOSTON PARTN	EIV41/P 40698
DALLAS POLICE & FIRE PENSION SYSTEM - INCOME RESEA	P 41434
DALLAS POLICE & FIRE PENSION SYSTEM - MANULIFE	EJG06/P 40699
DALLAS POLICE & FIRE PENSION SYSTEM - OFI INSTITUT	46830/P87903
DALLAS POLICE & FIRE PENSION SYSTEM EAGLE ASSET MGT	P 59681
DALLAS POLICE & FIRE RREEF REIT	48654/P 56936
DALLAS POLICE & FIRE SUSTAINABLE ASSET MANAGEMEN	52562/P 01772
DALLAS POLICE & FIRE Walter Scott	70314/P06078
DALLAS POLICE & FIRE WR HUFF	P 56929

Securities lending program parameters

Approved Borrowers

Legal entity	Legal entity
ABN AMRO SECURITIES (USA) LLC	MORGAN STANLEY & CO. LLC
BARCLAYS CAPITAL, INC.	MUFG SECURITIES AMERICAS INC.
BMO CAPITAL MARKETS CORP.	NATIONAL FINANCIAL SERVICES LLC
BNP Paribas Prime Brokerage, Inc	NOMURA SECURITIES INTERNATIONAL, INC.
BNP PARIBAS SECURITIES CORPORATION	PERSHING LLC
CITADEL CLEARING LLC	RBC Capital Markets LLC
CITADEL SECURITIES LLC	RBS SECURITIES INC.
COMMERZ MARKETS LLC	SG AMERICAS SECURITIES, LLC
CREDIT SUISSE SECURITIES (USA) LLC	SOCIETE GENERALE, NEW YORK BRANCH
DEUTSCHE BANK SECURITIES INCORPORATED	STATE STREET BANK AND TRUST COMPANY
FIRST TENNESSEE BANK NATIONAL ASSOCIATION	TD SECURITIES (USA) LLC
GOLDMAN SACHS & CO. LLC	UBS SECURITIES LLC
HSBC SECURITIES, (USA) INC.	Virtu AMERICAS LLC
INDUSTRIAL AND COMMERCIAL BANK OF CHINA FINANCIAL SERVICES LLC	WELLS FARGO CLEARING SERVICES, LLC
ING FINANCIAL MARKETS LLC	WELLS FARGO SECURITIES, LLC
J.P. MORGAN SECURITIES LLC	ABBAY NATIONAL TREASURY SERVICES PLC
Janney Montgomery Scott, LLC	CIBC WORLD MARKETS CORP.
JEFFERIES LLC	Citigroup Global Markets Inc.
MACQUARIE CAPITAL (USA) INC	SCOTIA CAPITAL (USA) INC.
MERRILL LYNCH, PIERCE, FENNER & SMITH INC.	TIMBER HILL LLC
MIZUHO SECURITIES USA LLC	



Investment Guidelines

Appendix 1

Dallas Police & Fire Pension System **JPMorgan Chase Bank** **Securities Lending** **Investment Guidelines**

A. FUND OBJECTIVE

This short term, fixed income fund (the "Fund") is designed to obtain an attractive yield on securities lending cash collateral by investing in securities that satisfy these guidelines, as applied at the time of purchase.

B. PERMISSIBLE INVESTMENTS

1. Instruments

The Fund is permitted to purchase both fixed-income securities and other securities with debt-like characteristics on a fixed rate and floating rate basis, including:

- Asset Backed Securities
- Bank Notes
- Bankers' Acceptances
- Certificates of Deposit
- Commercial Paper, including unregistered (so-called 4(2)) Commercial Paper
- Deposit Notes
- Investment Agreements, Funding Agreements, or GICs entered into, with, or guaranteed by an insurance company
- Loan Participations
- Master Notes
- Medium Term Notes
- Repurchase Agreements, subject to the requirements of paragraph G
- Time Deposits
- U.S. Government Securities, which shall include securities issued or guaranteed as to principal and interest by the United States Government, its agencies instrumentalities or establishments

2. Commingled Vehicles

In addition, for purposes of these guidelines, (a) shares of a money market mutual fund registered with the Securities and Exchange Commission as an investment company under the Investment Company Act of 1940, as amended, and (b) units in a

short term collective investment fund managed by JPMorgan Chase Bank shall be: (i) permissible investments, (ii) subject to no limitation under the Concentration Guidelines in paragraph E, (iii) deemed to have a "Final Maturity" (as defined below) of one day for purposes of the Maturity Guidelines in paragraph F and (iv) deemed to meet the applicable Quality Guidelines in paragraph H.

3. Certain Derivatives

The Fund shall not invest in any instrument whose coupon rate moves in the opposite direction of the index to which such instrument is tied. In addition, in the event that the Fund invests in any instrument whose coupon rate moves when the index to which such rate is tied moves, the Fund shall invest only in those of such instruments whose movements in the coupon rate are equivalent to movements in the index.

4. Currency

Only U.S. Dollar denominated securities shall be permissible under these guidelines.

5. Foreign Issuers

There are no limitations on foreign issuers, provided that they otherwise meet the criteria set forth in these guidelines.

C. PROHIBITED INVESTMENTS

1. Equity securities (except that equity securities, such as owner trust certificates, that have predominantly debt characteristics shall not be prohibited).
2. Floating rate securities with an interest rate cap, with the exception of those capped to comply with state usury laws.
3. No futures or options.
4. No security with a put letter issued by an investment bank.

**D. LIMITATIONS ON AMOUNTS INVESTED/CASH RESERVE;
PERMITTED BORROWING**

1. The Fund shall seek to be fully invested in permissible securities as of the close of business on each day.
2. On a temporary basis not to exceed seven days and solely for the purpose of liquidity, the Fund may enter into reverse repurchase agreements with respect to U.S. Government Securities. While any such repurchase agreement is outstanding, the Fund shall not make additional term investments.

E. CONCENTRATION GUIDELINES

1. The greater of \$25 million or 10% of the Fund's total assets, measured at the time of purchase, may be invested in the securities of a single issuer (other than U.S. Government Securities, repurchase agreements and the commingled vehicles identified in paragraph B, as to which there is no limitation).

F. MATURITY GUIDELINES

1. Fixed rate instruments must have a Final Maturity at the time of purchase that does not exceed 2 years.
2. Floating rate instruments which are U.S. Government Securities must have a Final Maturity that does not exceed 5 years, and all other floating rate instruments must have a Final Maturity that does not exceed 2 years.
3. "Final Maturity" for purposes of these guidelines means the earliest of: (i) the date noted on the face of the instrument as the date on which the principal amount must be paid, (ii) in the case of an instrument with an unconditional put or unconditional demand feature, the date on which the principal amount of the instrument can be recovered by demand, or (iii) in the case of a floating rate instrument, the next readjustment of the interest rate, provided that, if the maturity of a floating rate instrument is determined by reference to an unconditional put or unconditional demand feature, the period remaining between adjustments of the interest rate must not exceed the period specified in paragraph F.1. For purposes of calculating days to maturity of the instrument and the portfolio's weighted average maturity, a floating rate instrument shall be deemed to have a maturity equal to the period remaining until the next readjustment of the interest rate.
4. A repurchase agreement shall be deemed to have a maturity equal to the period remaining until the date on which the repurchase of the underlying securities is scheduled to occur or, where no date is specified but the agreement is subject to a demand, the notice period applicable to a demand for the repurchase of the securities.
5. Adjustable rate mortgages shall have a maturity equal to the period remaining until the last principal payment is required by the terms of the underlying obligation to be paid.
6. The Fund's maximum weighted average maturity may not exceed 120 days.

G. REPURCHASE AGREEMENTS

(including term repurchase agreements, entered into using custodians deemed appropriate by JPMorgan Chase Bank)

1. Permitted Collateral

Bills, bonds or notes issued by the United States Treasury, or other securities guaranteed as to principal and interest by the Government of the United States, its agencies, instrumentalities or establishments; mortgage-backed securities sponsored by agencies of the Government of the United States; corporate obligations of domestic and foreign issuers with a minimum rating of AA- by Standard & Poor's Corporation ("S&P") or Aa3 by Moody's Investor Services, Inc. ("Moody's"); asset-backed securities with a minimum rating of AAA by S&P or Aaa by Moody's; or money market instruments (including, but not limited to, certificates of deposit, bank notes, deposit notes, bankers' acceptances and commercial paper issued by domestic issuers with a minimum rating of A-1 by S&P and P-1 by Moody's).

2. Diversification

A repurchase agreement shall be deemed to be an acquisition of the underlying securities, provided that the obligation of the seller to repurchase the securities from the Fund is fully collateralized.

H. QUALITY GUIDELINES

1. Ratings

Except as otherwise provided with respect to repurchase agreement collateral in paragraph G:

Specified rating categories at initial time of purchase shall be:

- a. Short-Term: Any two of the following: A-1 by S&P, P-1 by Moody's, F-1 by Fitch.
- b. Long-Term: At least A- by S&P and A-3 by Moody's.

A security without its own rating shall be considered to be rated if it has been issued by an issuer that is rated with respect to: (i) a class of short-term debt obligations, in the case of short-term ratings, or (ii) a class of long-term debt obligations, in the case of long-term ratings, or any security within the relevant class that is comparable in priority and security with the purchased security. Long-term ratings shall be used only if a security is not rated and no security of the same issuer that is comparable in priority with such security is rated.

2. Downgrades

The Fund may not purchase securities based on either an S&P, Moody's, or Fitch rating where the applicable rating organization has announced publicly that it is examining the rating for a possible downgrade. This limitation does not apply to securities rated A1+ by S&P.

In the event that a security held in the portfolio falls below the minimum guideline as detailed in this paragraph H as a result of being downgraded by any of S&P, Moody's or Fitch, JPMorgan shall notify the Lender and await instructions. In the absence of a contrary instruction, JPMorgan shall take no action in respect of the affected security. In no event shall JPMorgan be liable for any consequences of a rating downgrade, including, but not limited to, retention of the affected security in the absence of a sale instruction from the Lender. Lender acknowledges that any loss from a sale shall be for its account.

* * *

Each Lender should regularly analyze these guidelines to determine their continued appropriateness, recognizing that all investments bear risk and that return of principal is not assured.

By: 

Name: Gerald Brown

Title: Chairman of and on behalf
of the Board of Trustees

Date: August 22, 2002

Ver.121401

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DISCUSSION SHEET

ITEM #C3

Topic: Formation of the Investment Advisory Committee

Discussion: At the November 2017 Board meeting, the Board provided direction about the formation and roles and responsibilities of the Investment Advisory Committee (IAC). The direction from the meeting was incorporated into the amended Investment Policy Statement which was adopted on December 14, 2017.

Key points from the Investment Policy Statement related to the IAC are:

- The IAC is composed of five members: three outside investment professionals with broad portfolio management experience and two current Board members.
- The current Board members will serve staggered two-year terms on the IAC. Non-Board members will serve a staggered two-year term.
- The Board will vote on and approve all IAC members.
- IAC meetings will not be open to the public and will require a quorum of at least three IAC members.
- The IAC will review all investment-related items which are brought to the Board for action.
- The IAC will make non-binding recommendations to the Board.
- The IAC chair will discuss the IAC recommendation, or lack thereof, with the Board, as needed.
- If requested by the Board, IAC shall review Staff and Consultant recommendations on asset allocation targets and ranges, and provide an IAC recommendation to the Board.

Regular Board Meeting – Thursday, May 10, 2018



DISCUSSION SHEET

ITEM #C3 (continued)

- The IAC members are fiduciaries to DPFP.

Staff will discuss with the Board possible processes for identifying members and forming the committee.

Regular Board Meeting – Thursday, May 10, 2018



DISCUSSION SHEET

ITEM #C4

Topic: **Survivor Benefits**

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: Staff will overview for the Board how survivor benefits work generally with respect to defined benefit plans and specifically with respect to the DPFP plan.

Regular Board Meeting – Thursday, May 10, 2018

SURVIVOR BENEFITS

I. Often seen options in public pension defined benefit plans

- a. 50% Joint & Survivor – Surviving spouse gets 50% of the benefit that the deceased pensioner was receiving with no actuarial reduction. Often includes the ability to increase percentage up to 100% with actuarial reductions.
- b. 100% Joint & Survivor – Surviving spouse gets 100% of the benefit that the deceased pensioner was receiving with no actuarial reduction. This is more often seen in public safety plans.
- c. 10-year certain – Pensioner and any surviving spouse gets at least 10 years of benefits paid with no actuarial reduction.
- d. No “free” survivor benefits but the ability to choose options (a), (b) or (c) above with appropriate actuarial reduction. Option (c) is not often seen in public safety plans.

It is unusual for there not to be survivor benefits in public sector plans, but it happens. Even if there is an actuarial reduction, they are still considered survivor benefits. Not all public safety plans have free J&S benefits.

- e. Other matters affecting these benefits:
 - i. Generally approved survivors are spouses and children. Sometimes there is an ability to appoint a non-spouse beneficiary as the one entitled to receive survivor benefits. The children are often dependent or minor children under a certain age or permanently disabled adult children.
 - ii. Qualification for survivor benefits may depend on years of service.
 - iii. Survivor benefits may differ for people who die while still in active service or die on duty.

II. DFPF Plan

- a. Surviving spouses get 50% of a deceased pensioner's benefit.
- b. At retirement, the member can elect for their surviving spouse to get a 100% benefit on the death of the member, with an actuarial reduction.
- c. If a member dies while still in active service, the surviving spouse gets 50% of the benefit the member would have gotten if they had retired on the date of death. If the member has less than 20 years of the service, the plan provides the member is deemed to have 20 years of service.
- d. A surviving spouse gets an enhanced death benefit at age 55 if the member at the time of leaving active service or entering DROP, whichever is earlier, had 78 points (years of service + age.)
- e. If the member dies while still in active service with 20 years or more of actual service or is age 50, the Board resolution passed in 2007 allows the surviving spouse to increase the death benefit percentage from 50% to 100% as if the member had made the 100% J&S election the day before they died.
- f. Except for tax consequences, there is no effect on survivor benefits if a member dies while in the line of duty.

III. Differences

- a. No two pension plans are the same. It is difficult to compare plans because benefit structures vary greatly from plan to plan and each component part of the plan has an actuarial effect. Therefore, comparing one plan's survivor benefit provisions to another plan's provisions may require considerable effort.

Generally, however, it is safe to say that free J&S benefits have a greater cost to a plan than reduced J&S benefits.

- b. The funding status of plans are different. Because plans have different funding levels, including how they are funded (e.g. fixed contributions as opposed to contribution rates which vary based upon funding levels), it is difficult to compare one plan to another because one plan's benefits may be lower reflecting poor funding where the plan needs to pay off the past cost of accrued benefits.



DISCUSSION SHEET

ITEM #C5

Topic: Disability Earnings Test

Discussion: Section 6.055 of Article 6243a-1 provides for an earnings test for any pensioner who has been granted a disability benefit after May 1, 1990. The earnings test provides that the pensioner's disability benefit is reduced by the following formula:

\$1 for each \$1 that the sum of "a" + "b" is greater than "c," where "a" is the earned income of the pensioner attributable to the previous calendar year from the person's employments, "b" is the total amount of disability retirement payments received by the pensioner the previous calendar year, and "c" is the annualized amount of the average computation pay the pensioner received as of the date the person left active service, increased by a factor of 2.75% each year after the year the person left active service.

Staff collects from all pensioners receiving a disability pension information, including tax returns, to determine the applicability of this test to each person.

Section 6.055 does not address when or if this test should cease with respect to pensioners receiving a disability pension. The current policy is to cease the test at age 50 which was "normal retirement age" under the previous plan. Under 6243a-1, normal retirement age is age 58.

Staff Recommendation: **Require** application of Section 6.055 of Article 6243a-1 to any pensioner receiving a disability pension until the year the pensioner reaches the age of 58.

Regular Board Meeting – Thursday, May 10, 2018



DISCUSSION SHEET

ITEM #C6

Topic: 2017 Final Budget Review

Discussion: Attached is a review of the Calendar Year 2017 Budget detailing expenditures for the year.

Expense items which vary from the budget by at least 5% and \$5,000 are explained in the attached review.

Supplemental Plan expenses are deducted from total expenses in arriving at Regular Plan expenses. Expenses are allocated to the two plans on a pro-rata basis, according to the ratio of each plan's assets to the total Group Trust assets. The ratio is derived from the Unitization Report prepared by JPMorgan. The ratio is 99.16% Regular Plan to .84% Supplemental Plan as of December 31, 2017.

Regular Board Meeting – Thursday, May 10, 2018



DISCUSSION SHEET

ITEM #C7

Topic: First Quarter 2018 financial statements

Discussion: Staff will present the first quarter 2018 financial statements.

Regular Board Meeting – Thursday, May 10, 2018



DISCUSSION SHEET

ITEM #C8

Topic: Chief Investment Officer selection

Portions of the discussion under this topic may be closed to the public under the terms of Section 551.074 of the Texas Government Code.

Discussion: Section 3.025 of Article 6242a-1 allows the Executive Director to hire a Chief Investment Officer, subject to confirmation by the Board. The Executive Director will review with the Board one or more candidates for the position.

Regular Board Meeting – Thursday, May 10, 2018



DISCUSSION SHEET

ITEM #C9

Topic: Board meeting start time for July through December 2018

Discussion: Staff is seeking Board direction on the start time for Board meetings for the remainder of 2018. The Board had previously determined that the January, February and March Board meetings would begin at 1:00, the April, May and June meetings would begin at 8:30 (although the May meeting was moved to 1:00 due to the House Pensions Committee meeting at 10:00) and the Board would later establish a start time for the remainder of the year.

Regular Board Meeting – Thursday, May 10, 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. Eddington, et.al. v. DPFP, et.al.

Discussion:

Counsel will brief the Board on these issues.

Regular Board Meeting – Thursday, May 10, 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, May 10, 2018

**Future Education and Business Related Travel
Regular Board Meeting – May 10, 2018**

		<u>ATTENDING</u>	<u>APPROVED</u>
1. Conference:	Harvard Business School: HBX CORE	BD	01/18/2018
Dates:	February 6, 2018 (12 weeks)		
Location:	Online course		
Est. Cost:	\$800		
2. Conference:	Harvard Business School: Leading with Finance	BD	01/18/2018
Dates:	May 9, 2018 (6 weeks)		
Location:	Online course		
Est. Cost:	\$1,500		
3. Conference:	IFEBP: Wharton Alternative Investments		
Dates:	July 30-August 1, 2018		
Location:	San Francisco, CA		
Est. Cost:	\$5,500		
4. 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 Policy that have not been approved.

Staff

Recommendation: To be provided at the meeting.

Regular Board Meeting – Thursday, May 10, 2017



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, May 10, 2018



DISCUSSION SHEET

ITEM #D2

Topic: Executive Director's report

- a. Associations' newsletters
 - NCPERS Monitor (April 2018)
- b. House Pensions Committee hearing
- c. Chief Financial Officer update
- d. June Board meeting start time

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

Regular Board Meeting – Thursday, May 10, 2018

MONITOR

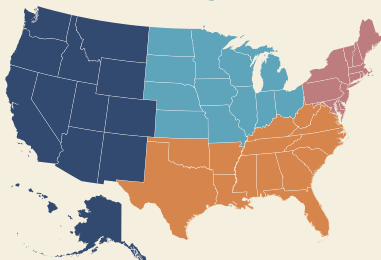
In This Issue

2 Retirement Enhancement and Savings Act



The Retirement Enhancement and Savings Act (RESA), S. 2526 and H.R. 5282, was introduced by Senate Finance Committee Chairman Orrin Hatch (R-UT), Finance Committee Ranking Member Ron Wyden (D-OR), and House Ways and Means Committee members Mike Kelly (R-PA) and Ron Kind (D-WI).

4 Around the Regions



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

6 Executive Directors Corner



Next month marks three years since NCPERS took a bold step to protect the interests of pension plan participants and beneficiaries.

Millennials Are Already Worried About Retirement Savings and They Should Be



Millennials are the largest living U.S. generation, totaling 83.2 million people born between 1981 and 1991. They're diverse, they're well educated, they're reasonably financially savvy—and they're already worried about retirement.

That's the message of a new research report from the National Institute of Retirement Security or NIRS. It found that nearly half of Millennials are concerned they won't be able to retire when they want to, and two-thirds are worried about outliving their savings. Two-thirds have no retirement savings. More than 90 percent agree that the U.S. retirement system is under stress and in need of reform.

Millennials, as a generation, have not had an easy transition into the working world. Many graduated from college and began their careers during the Great Recession, a time when unemployment was high, earnings were depressed, and the economy was undergoing structural changes. As a result, they are less likely than previous generations at the same stage in life to own a home, and they earn relatively less than their elders did.

The report found that two major obstacles facing Millennials are access to and eligibility for employer-sponsored retirement plans, the cornerstone of retirement for most workers. Two-thirds work for an employer that offers a retirement plan, on par with the two previous generations, Generation X, and the Baby Boomers. But only 55 percent are eligible to participate in plans, versus 77 percent for Gen-Xers and 80 percent for Baby Boomers. They

[CONTINUED ON PAGE 7](#)

Retirement Enhancement and Savings Act

By Tony Roda

The Retirement Enhancement and Savings Act (RESA), S. 2526 and H.R. 5282, was introduced by Senate Finance Committee Chairman Orrin Hatch (R-UT), Finance Committee Ranking Member Ron Wyden (D-OR), and House Ways and Means Committee members Mike Kelly (R-PA) and Ron Kind (D-WI). The bill would ease rules for private sector pension and savings plans in an effort to encourage small employer's to offer retirement coverage, increase retirement savings, enhance worker participation and strengthen overall retirement security.



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Department of Labor (DOL) safe harbor regulations for these plans, open-MEPs were often raised as a private sector alternative to the state-run model.

Similar legislation was approved by the Senate Finance Committee in November 2016 by a unanimous vote, but did not attract much attention in the House. This year, with bipartisan support in the House and Senate, there is hope among the bill's sponsors that the measure can make it across the finish line. There are no provisions included in RESA that are related to public pension plans. However, we are monitoring this legislation closely in case attempts are made to add any problematic proposals.

RESA also would repeal the prohibition on contributions to a traditional IRA by an individual who has attained age 70 ½. This provision is in recognition that Americans are living longer and some may wish and be in a financial position to make contributions to traditional IRA accounts beyond the current age limit. The bill would also remove the cap that requires automatic escalation of employee deferrals to 401(k) plans go no higher than 10 percent of employee salary.

Among the bill's numerous provisions, the legislation would provide an opportunity for small employers to create multiple employer plans (MEPS), which would provide pooled investments and lower administrative fees. This provision, which is commonly known as "open-MEPs," is in many ways a federal response to the movement in the states to establish secure choice retirement plans – state-run, retirement plans for private sector workers who do not have access to an employer-provided retirement plan. In the course of the debate in Congress early last year to repeal the Obama Administration's

One provision that continues to draw some concern from the financial services sector is the lifetime income disclosure requirement. RESA would require benefit statements to defined contribution plan participants to include a lifetime income disclosure at least once during every 12-month period. Advocates believe that the lifetime income disclosures would provide useful information to participants as they attempt to plan for their retirement years. The

[CONTINUED ON PAGE 7](#)



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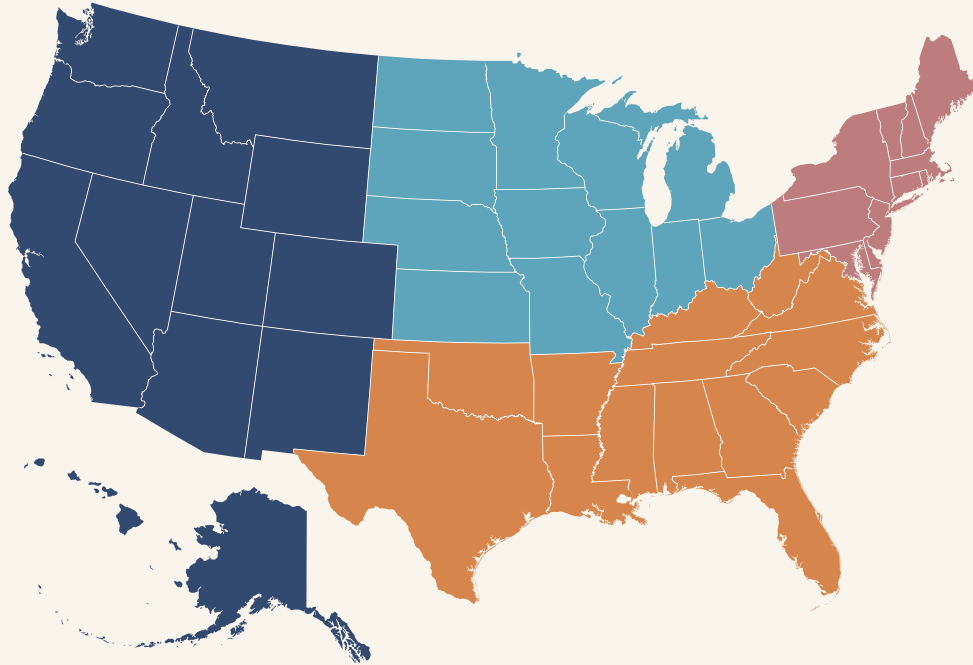
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NCPERS Around the Regions

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



MIDWEST: Iowa



Can government transparency initiatives boomerang and inadvertently help criminals identify likely victims? The Iowa Public Retirement System is raising that question in its latest update on the account takeover attack that affected 103 retirees last year.

Attackers may have used readily available public records from the State of Iowa Salary Book to take over retirees' accounts, according to IPERS. In the update on actions it has taken in the aftermath of the attack, IPERS noted that all 103 compromised accounts belonged to state employees whose salary, department, and termination access could easily be accessed online.

"While we cannot say with certainty that this was the source used by the criminals, the opportunity existed there," IPERS said in the update. IPERS called for steps to be taken to eliminate this exposure, adding, "Transparency in government is important, but it cannot come at the expense of compromising citizens' personally identifiable information."

IPERS noted that it was able to quickly restore accounts after the attacks came to light, and said it has since made numerous changes to safeguard plan participants' identities and accounts. Among

other things, IPERS now prevents members from changing direct deposit bank account information online and has intensified its internal reviews of online account activity.

Further steps are planned. IPERS said it is in the process of incorporating two-factor authentication into its online access portal and is considering even more enhanced security for certain actions that trigger "the greatest risk for fraudulent activity." It also intends to remove the self-registration option from the portal; assign authentication credentials and an initial password for the online account access for new IPERS members; assign authentication credentials and an initial password for current members who have not signed up for online access, and allow members to permanently opt out of online access.

NORTHEAST: Rhode Island



The "back-to-basics" investment strategy championed by Rhode Island's General Treasurer Seth Magaziner is showing encouraging results.

As part of the push to improve growth and protection for the state pension fund, Magaziner pulled the state's investments from seven hedge

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AROUND THE REGIONS CONTINUED FROM PAGE 4

funds in 2017, reallocating \$500 million into more traditional investments. His predecessor, Governor Gina M. Raimondo, had increased the state's position in hedge funds when she served as general treasurer.

During 2017 – the first year of the back-to-basics initiative – “the state pension fund earned more than \$1 billion and is stronger today than it has been in decades,” Magaziner said in an annual report issued in March.

According to the annual report, the pension fund earned more than \$1.09 billion, a return of 14.5 percent from investments in 2017. As of December 31, 2017, the fund had outperformed its annual 7 percent average investment target over one, three, and five years. The fund finished 2017 with \$8.4 billion in assets, its highest level in a decade.

For the seven months from July 1, 2017, to January 31, 2018, the fund earned \$831.1 million, for a return of 10.5% net of fees. In January alone, the fund earned \$254.8 million, a 3% return net of fees.

Robust market growth has also been a factor in performance, and it remains to be seen how performance will hold up in the wake of the market volatility that has intensified since February.

Magaziner has made his commitment to a strong retirement system a hallmark of his tenure. “Every Rhode Islander deserves the dignity of a secure retirement, especially those who have spent their careers serving the public,” he said in the annual report.

**SOUTH:
Kentucky**

Kentucky's legislature on March 29 used a sewage bill to slip through legislation to radically alter the state's public pension system and sent the measure to Republican Governor Matt Bevin for his signature. The next day, the actions triggered a shutdown of public schools in 25 of

Kentucky's 120 counties—including the two largest school systems, in Louisville and Lexington—as teachers walked out in protest.

The action came just weeks after the state's Democratic attorney general, Andy Beshear, warned that an earlier pension proposal, if enacted, would likely draw numerous lawsuits and fail in court. Beshear argued that reducing or altering guaranteed benefits would be viewed by the judiciary as a breach of contract between the state and its public employees.

Language from the Kentucky Senate's pension bill was swapped into the sewage legislation, SB 151, enabling Republican sponsors of the legislation to bypass debate and analysis. Governor Bevin

has been advocating a radical overhaul of public pensions since he took office in December 2015.

The “pension reform” legislation was rammed through both chambers of Kentucky's legislature in just seven hours before the legislature began a two-week recess. The legislature is slated to return April 14 for one final working session before adjournment. Bevin is expected to sign the law. He took to Twitter to praise 71 lawmakers for their votes, saying they had chosen “not to keep kicking the pension problem down the road.”

Teachers and other public employees have fought the proposed changes, such as transitioning new hires into a “hybrid” system modeled on a 401(k) plan. Such changes amount to a steep cut in the retirement system. Some provisions opposed by public employees – including cuts to annual cost-of-living adjustments for teachers and an increase in the amount teachers would have to pay into their health insurance funds—were dropped from the 291-page bill.

However, the bill contains numerous negative provisions. For example, it would take longer for new teachers to become eligible for retirement benefits. And the bill seeks to specifically negate statutory “inviolable contract” provisions that prevent legislators from changing pension plans or reducing retirement benefits for any teacher already under contract, according to the *Lexington Herald-Leader*.

**WEST:
Nevada**

The Public Employee Retirement System of Nevada (PERS) is going toe-to-toe with the Nevada Policy Research Institute (NPRI) over how much personal information about public pension plan beneficiaries belongs in the public domain.

Chris Nielsen, general counsel of PERS, said in an interview that PERS provides “a cornucopia of information in response to public requests each year including our financials, vendor information, the valuation of our system, investment contracts, employee salaries, and so on.” However, it also has a statutory and fiduciary obligation to keep individual member information confidential.

The free market/libertarian NPRI sought in 2015 to obtain details on public pension beneficiaries, including the names of retirees who receive benefits, as well as other personally identifiable information about them. In response, PERS provided a report without any employee names.

Both parties presented oral arguments in the case on March 7 before the Nevada Supreme Court.

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NCPERS Code of Conduct Continues to Gain Traction

Next month marks three years since NCPERS took a bold step to protect the interests of pension plan participants and beneficiaries. In May 2015, we unveiled the *NCPERS Code of Conduct for Pension Service Providers*. Our goal was to shine a spotlight on conflicts of interest by helping pension administrators and trustees ask their vendors tough questions about their ability to act independently and objectively.

It seems to be working. Just last month, the American Federation of Teachers urged pension trustees to adopt the code of conduct. Writing in the sixth edition of its report, “Ranking Asset Managers,” the AFT noted that the code of conduct “articulates strong, consistent ethical expectations for service providers, including asset managers.” It urged administrators and trustees to incorporate the code of conduct into their service provider searches and request-for-proposal processes and to ask current providers to formally adopt it.

The code of conduct outlines ethical behaviors that pension administrators and trustees have every right to expect when they hire vendors—which they constantly must do, in areas as disparate as legal, financial, accounting, investment, and custody services.

The elements of the 10-point code are familiar by now to most NCPERS members. The code of conduct stipulates that vendors should act in a professional and ethical manner, act for the benefit of their clients, and do so with independence and objectivity. They should disclose any conflicts of interest that may interfere with their ability to do so. They should act with reasonable care, skill, and competence when engaging in professional activities. They should communicate with their clients in a timely and applicable manner, uphold the applicable law, rules, and regulations governing their sector and profession, and fully disclose to public plan clients all fees charged for their products or services.

Those are the first eight points, and many ethical frameworks are



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built around similar expectations. Where the code of conduct breaks new ground is with its last two points.

They assert that vendors should not advocate for the diminishment of public defined benefit plans, and should fully disclose all contributions to organizations that do so. Unfortunately, these are bold ideas because of the times we live in.

In May 2015, we unveiled the NCPERS Code of Conduct for Pension Service Providers.

Our goal was to shine a spotlight on conflicts of interest by helping pension administrators and trustees ask their vendors tough questions about their ability to act independently and objectively.

In recent years, we have watched in dismay as politically motivated foundations and donors have weaponized paid research to attack public pensions. Organizations such as the Reason Foundation, the Laura and John Arnold Foundation, and the Manhattan Institute for Policy Research have built a cottage industry of financing anti-pension screeds based on a distorted and lopsided analysis.

Invariably, their pre-determined conclusion is some variant on “dismantle public pensions.” A complete list of these organizations, known as “Schedule A,” is part of the *NCPERS Code of Conduct* and can be found on our website.

If these organizations were spreading lies through dishonest research all on their own, that would be bad enough. But many

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MILLENNIALS CONTINUED FROM PAGE 1

are as likely as the two previous generations to participate in a plan if they are eligible. But because they are less often eligible, only 34 percent of Millennials participate in a plan, versus slightly more than 50 percent for Gen-Xers and Baby Boomers.

Millennials' participation in plans tends to be restricted by two factors: They are employed part-time more at nearly double the level of the previous two generations, and many plans limit or exclude part-time employees. And half have worked for their current employer for one year or less, and thus fall short of tenure requirements imposed by some plans.

Millennials in the public sector face a particular challenge. In states that have altered pension benefits by closing or cutting plans, Millennials may fall into the "new hire" category and be ineligible to participate or be pushed into a higher-cost, lower-benefit alternative plan.

The report lays out several policy options to strengthen the retirement system to aid Millennials. They include: Expand defined-contribution plan eligibility for part-time workers; reduce waiting periods for employer-sponsored plan eligibility; increase auto-enrollment into plans; increase employer matches and default contribution rates; protect and strengthen Social Security; and enhance financial education targeted to Millennials. ♦

RETIREMENT ENHANCEMENT CONTINUED FROM PAGE 2

disclosures would be in the form of illustrations that would show the monthly payments a participant would receive if the total account balance were used to provide lifetime income streams, including a qualified joint and survivor annuity for the participant and the participant's surviving spouse and a single life annuity. The Secretary of Labor is directed to develop a model disclosure.

RESA's sponsors had hoped to attach the measure to the final omnibus appropriations bill for fiscal year 2018, which has now been signed into law by President Trump. However, that did not occur. Some speculate that the tremendous number of requests to include non-spending, policy items on the appropriations bill led to most not being included. There was also a general reluctance to include new tax measures.

Senators Hatch and Wyden and the House sponsors will now at-

tempt to move RESA separately or as part of a larger package of retirement-related provisions before the end of the Congress.

As mentioned earlier, we will be closely monitoring this and other tax legislation to ensure that they do not include any problematic provisions related to state and local governmental pension plans. As we learned in last year's tax bill through the debate on the unrelated business income tax (UBIT), we have to be vigilant in the defense of our interests. ♦

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.

AROUND THE REGIONS CONTINUED FROM PAGE 5

Nielsen said NPRI requested the retirement system's raw data actuarial feed, and PERS provided it. "It did not contain names as our actuary does not need them to value the system each year," Nielsen said. "But it does contain a lot of sensitive information, including service credit, birth dates, and sex of the member. And our Supreme Court has unequivocally stated that we do not need to create a record that does not exist."

He noted that PERS does provide retiree names and monthly benefit amounts upon request. Additionally, it issues a payment registry report to its bank to mitigate fraud. The information in that report, which includes names and gross and net payments, is part of the public record, and it appears that NPRI has matched up that information with other information provided on the raw data feed.

Nielsen said the issue is challenging because it weighs the public's interest in transparency against the privacy rights of tens of thousands of state employees. The stat also has a confidentiality statute and Supreme Court precedent that PERS must consider. "I think both parties would agree that a clear, concise opinion from our Supreme Court could resolve the issue," he said.

He added that public employees have a great deal at stake. "Identity theft and cybercrimes are more prevalent now than ever before," Nielsen observed. "So, the more information that is publicly available, the more likely that one of our retirees could become a victim of a bad actor, especially given the demographics of our members and retirees." ♦

EXECUTIVE DIRECTORS CORNER CONTINUED FROM PAGE 6

service providers, such as asset managers, were supporting the work of these organizations with regular donations. Maybe they believed the arguments; maybe they were duped. Either way, we knew we had to call attention to the hypocrisy.

Pension administrators and trustees have every right to know if the money they spend on services is being used to finance anti-pension research. If they find it is, they should feel empowered to open up a dialogue with vendors or to look elsewhere. The first obligation of a fiduciary is to protect pension participants and beneficiaries. It's simply good governance to screen vendors for conflicts, including

political activities that undermine the plans and people that pension fiduciaries are sworn to protect.

Pension systems should not be expected to retain vendors whose policy positions conflict with their obligations to the pension plan. The *NCPERS Code of Conduct* is an important tool for any pension system that understands this. If you haven't already endorsed the code of conduct or asked your vendors to do so, we hope you will step up and do so. Please consider putting the code of conduct on your next meeting agenda, and don't hesitate to contact me directly to answer any questions or concerns you may have. ♦

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May 12 – 13
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Exhibition**
May 13 – 16
New York, NY

June

CIO Summit
June 14-15
Chicago, IL

September

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