AGENDA

Date: April 7, 2017

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, April 13, 2017, 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

a. Regular meeting of February 9, 2017
b. Special meeting of February 14, 2017
c. Special meeting of February 20, 2017
d. Special meeting of February 27, 2017
e. Regular meeting of March 9, 2017

2. **Approval of Refunds of Contributions for the Month of March 2017**

3. **Approval of Estate Settlements**

4. **Approval of Survivor Benefits**

5. **Approval of Service Retirements**

6. **Approval of Alternate Payee Benefits**

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

8. **Denial of Unforeseen Emergency Requests**

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. **Trustee election**

   a. Certify election results
   b. Call for a run-off election and approve related ballot material, if necessary

2. Discussion and possible action on Legislative Matters

- **a.** Status of DPFP plan legislation
- **b.** Other pension-related legislative issues
- **c.** Consideration of Board support for proposal to reallocate sales tax from DART

3. Consideration of possible Deferred Retirement Option Plan (DROP) accounts distribution in accordance with DROP Policy Addendum

- **a.** Certification of reserve amount
- **b.** Certification of excess liquidity amount
- **c.** Determination of distribution amount

4. 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.** Police Officer and Firefighter pay lawsuits
- **b.** Potential claims involving fiduciaries and advisors
- **c.** Eddington et al. v. DPFP
- **d.** Rawlings v. DPFP
- **e.** DPFP v. Columbus A. Alexander III
- **f.** Degan et al. v. DPFP (Federal suit)

5. **AEW portfolio review**

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

6. **Clarion Partners: 1210 South Lamar**

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

7. **NEPC: Real estate portfolio review**

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

8. **Investment reports**

9. **Executive Director Authority under Investment Policy Statement**

10. **2016 audit plan**

11. **Annual 2016 budget review**

12. **Employee recognition – First Quarter 2017**

    a. Employee Service Award
    b. Employee of the Quarter award

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

    a. BTIG Value Manager Event/Berkshire Hathaway Shareholders Meeting
    b. Developing Managerial Skills
    c. TEXPERS Annual Conference

14. **Unforeseeable Emergency 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.

15. **Amendment of Group Trust Declaration**

16. **Performance review of the Executive Director**

    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.

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. Future Education and Business Related Travel
    b. Future Investment Related Travel
    c. Associations' newsletters
    - NCPERS Monitor (March 2017)
    - NCPERS PERSist (Winter 2017)

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

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

DALLAS POLICE & FIRE PENSION SYSTEM

ITEM #A

MOMENT OF SILENCE

In memory of our Members and Pensioners who recently passed away

(February 26, 2017 – April 3, 2017)

NAME	ACTIVE/ RETIRED	DEPARTMENT	DATE OF DEATH
James L. Almond	Retired	Police	Feb. 26, 2017
Daniel H. Davis	Retired	Police	Mar. 3, 2017
Joseph E. Dempsey	Retired	Fire	Mar. 4, 2017
J. L. Angell	Retired	Police	Mar. 6, 2017
Billy M. Bardwell	Retired	Fire	Mar. 6, 2017
Timothy R. Vought	Retired	Police	Mar. 18, 2017
Randall L. Dixon	Retired	Fire	Mar. 21, 2017
Timothy B. Casey	Active	Police	Mar. 27, 2017
Gary B. Price	Retired	Police	Mar. 29, 2017
Leonard L. Duncan, Jr.	Retired	Police	Mar. 31, 2017
Mitchell L. Hamm	Active	Police	Apr. 2, 2017
J. Harold Jones	Retired	Police	Apr. 3, 2017

Dallas Police and Fire Pension System
Thursday, February 9, 2017
8:30 a.m.
4100 Harry Hines Blvd., Suite 100
Second Floor Board Room
Dallas, TX

Regular meeting, Samuel L. Friar, Chairman, presiding:

ROLL CALL

Board Members

Present at 8:30 a.m.	Samuel L. Friar, Kenneth S. Haben, Joseph P. Schutz, Brian Hass, Erik Wilson, Tho T. Ho, Gerald D. Brown, Clint Conway, Kenneth Sprecher
Present at 8:32 a.m.	Jennifer S. Gates
Present at 8:46 a.m.	Scott Griggs
Absent:	Philip T. Kingston
Staff	Kelly Gottschalk, Josh Mond, Summer Loveland, John Holt, Damion Hervey, Pat McGennis, Christina Wu, Greg Irlbeck, Linda Rickley
Others	Chuck Campbell, John Turner, Ben Mesches, Jason Jordan, Jeff Williams, Rocky Joyner, Ron Pastore (by telephone), Larry Goldsmith, A. D. Donald, Paul Jarvis, Ron Weimer, Julian Bernal, Andy Acord, Marlin Price, Lloyd D. Brown, Larry Eddington, Thomas Payne, Stephen Walthall, Thomas D. Bowers, Jr., Tommy Ames, Phillip W. Brown, Joe Thompson, Gilbert Travis, Robert B. Baird, Raymond Bennett, Joel Lavender, David Slaughter, Jerry M. Rhodes, Jaysonn Mammeli, Frank Ruspoli, Mark Sittner, J. M. Dunn, Larry Williams, Tom Moore, Benjamin Irish, Dale Erves, Ernest Perez, W. R. Bricker, Dwayne K. Brown, Rick Salinas, Jack Clower, James D. Elliston, Roger Garcia, William Hunt, Cheryl Hunt, David Dodson, Michael Adamek, Robert Gage, Jerry Hejl, Tommy R. Buggs, John Hanes, Phillip Murray, Irving Butler, Charles Hale, George W. Bedford, Pete Bailey, Gary S. Beck, Sandy Alexander, Gary Sherman, Lori Brown, Wally Gurrera, Tim Ciesco, Tristan Hallman, Zaman Hemani, Steve Alexander, Barnard Woodruff, Jon Prior, Monica Hernandez, Bryan Titsworth, Ashleigh Barry, Lyle Davis, Tonya Eiserer, James Pultz, Courtney Gilmore, Charles Johnson, Andrea Rega, William Castro, Billy Bryant, Jack Fink, Manuel Villela

* * * * * * * *

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

* * * * * * * *

A. MOMENT OF SILENCE

The Board observed a moment of silence in memory of retired firefighter Grady M. Hudgens.

No motion was made.

* * * * * * * *

B. CONSENT AGENDA

1. **Approval of Minutes**

   Regular meeting of January 12, 2017

2. **Approval of Refunds of Contributions for the Month of January 2017**

3. **Approval of Activity in the Deferred Retirement Option Plan (DROP) for February 2017**

4. **Approval of Estate Settlements**

5. **Approval of Survivor Benefits**

6. **Approval of Service Retirements**

7. **Approval of Alternate Payee Benefits**

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

After discussion, Mr. Brown made a motion to approve the items on the Consent Agenda, subject to the final approval of the staff. Mr. Haben seconded the motion, which was unanimously approved by the Board. Ms. Gates and Mr. Griggs were not present when the vote was taken.

* * * * * * * *

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Discussion and possible action on Legislative Matters

a. City of Dallas plan, DPFP plan and status of negotiations
b. Other pension-related legislative issues

Staff updated the Board on the status of the City's and DPFP's proposed plans at the legislature as well as status of the discussions between the City and DPFP. Jeff Williams and Rocky Joyner, representatives of Segal Consulting, DPFP's actuary, were present to comment on the actuarial impact of the proposals.

Staff briefed the Board on pension bills that have been filed which may bear on DPFP.

No motion was made.

* * * * * * * *

2. Legal issues

a. Police Officer and Firefighter pay lawsuits
b. Potential claims involving fiduciaries and advisors
c. 2014 Plan amendment election and litigation
d. CDK Realty Advisors LP v. Dallas Police and Fire Pension System
e. 2016 Plan amendment litigation
f. Rawlings v. Dallas Police and Fire Pension System
g. DPFP v. Sandy Alexander
h. Degan et al. v. DPFP Board of Trustees (Federal suit)

The Board went into closed executive session – legal at 10:01 a.m.

The meeting was reopened at 10:46 a.m.

The meeting was recessed at 10:46 a.m.

The meeting was reconvened at 10:51 a.m.

2. Legal issues (continued)

After discussion, Mr. Griggs made a motion to seek an outside legal opinion regarding Haynes & Boone's conflict of interest with respect to the Degan et al. v. DPFP Board of Trustees Federal lawsuit. Mr. Wilson seconded the motion, which failed by the following vote:
For: Griggs, Wilson, Gates
Against: Friar, Haben, Schutz, Hass, Ho, Brown, Conway, Sprecher

Mr. Griggs objected to Jackson Walker's representation of the Board on this item. Mr. Campbell, DPFP's outside legal counsel, stated that there is not a conflict of interest for Jackson Walker to represent the entire DPFP Board on this item. Mr. Mond, DPFP's General Counsel, did not raise an objection to Jackson Walker's representation.

The Board directed staff to post a special Board meeting for Tuesday, February 14, 2017 to discuss legal issues regarding the Degan lawsuit and the Rawlings lawsuit.

After discussion, Mr. Conway made a motion to exclude the City Council Trustees from the closed session discussion of the Rawlings lawsuit. Mr. Hass seconded the motion, which was unanimously approved by the Board.

The Board went into a closed executive session – legal at 11:08 a.m. to discuss only the Rawlings lawsuit. Council Member Trustees Gates, Griggs, and Wilson left the meeting at 11:08 a.m. The remaining eight Police and Fire Service Trustees were present, as well as Ms. Gottschalk, Mr. Mond, Ms. Loveland, and outside legal counsel Chuck Campbell, John Turner, Ben Mesches, and Jason Jordan.

The meeting was reopened at 11:30 a.m.

No motion was made.

* * * * * * * *

3. RED Consolidated Holdings Capital Requirements

The Board went into closed executive session – legal at 11:53 a.m.

The meeting was reopened at 1:03 p.m.

No motion was made.

* * * * * * * *

4. Amendment of Bank of America loan agreement

The Board went into closed executive session – legal at 11:30 a.m.

The meeting was reopened at 1:03 p.m.

After discussion, Mr. Brown made a motion to direct the Executive Director to continue negotiations with Bank of America on the interest rate and extension to May or after the current legislative session. Mr. Griggs seconded the motion, which was approved by the following vote:
For: Brown, Griggs, Friar, Haben, Schutz, Gates, Wilson, Sprecher
Against: Hass
Abstain: Conway, Ho

* * * * * * * *

5. Investment and financial reports

Staff reviewed the investment performance and rebalancing reports for the period ending January 31, 2017 with the Board.

Ms. Loveland presented the preliminary 2016 financial statements.

No motion was made.

* * * * * * * *

6. Possible technical change to unitization of Trust

Staff discussed the possible use of an alternative method for purposes of allocating the assets of the Trust between the Combined Pension Plan and the Supplemental Plan. J.P. Morgan, custodian of DPFP's investment portfolio, has proposed the use of the "allocation" method as opposed to the current use of the "unitization" method. The "allocation" method is strictly based on dollar value, while the "unitization" method assigns a number of shares to each plan. The objective of the unitization of the Trust is to allocate the portfolio of assets and the related gains and losses pro-rata between the two plans. The results of the two methods do not differ and the proposed allocation method offers the ability for more transparent reporting from J.P. Morgan to staff on how the allocation is derived.

6. Possible technical change to unitization of Trust (continued)

After discussion, Mr. Brown made a motion to approve the use of the allocation method of allocating assets between the Combined Pension Plan and the Supplemental Plan as soon as administratively feasible. Mr. Hass seconded the motion, which was unanimously approved by the Board.

* * * * * * * *

7. 2017 Budget adjustments

a. Independent audit fees
b. Mileage

Staff briefed the Board on a change to anticipated expenditures for independent audit fees in 2017 as compared to the budgeted amount. In addition, staff proposed a modification to the 2017 budget to include mileage expenses incurred by Trustees for local meetings related to pension business.

After discussion, Mr. Hass made a motion to approve the proposed increases in the budget for independent audit fees and mileage for 2017. Mr. Brown seconded the motion, which was unanimously approved by the Board.

* * * * * * * *

8. Employee recognition – Fourth Quarter 2016

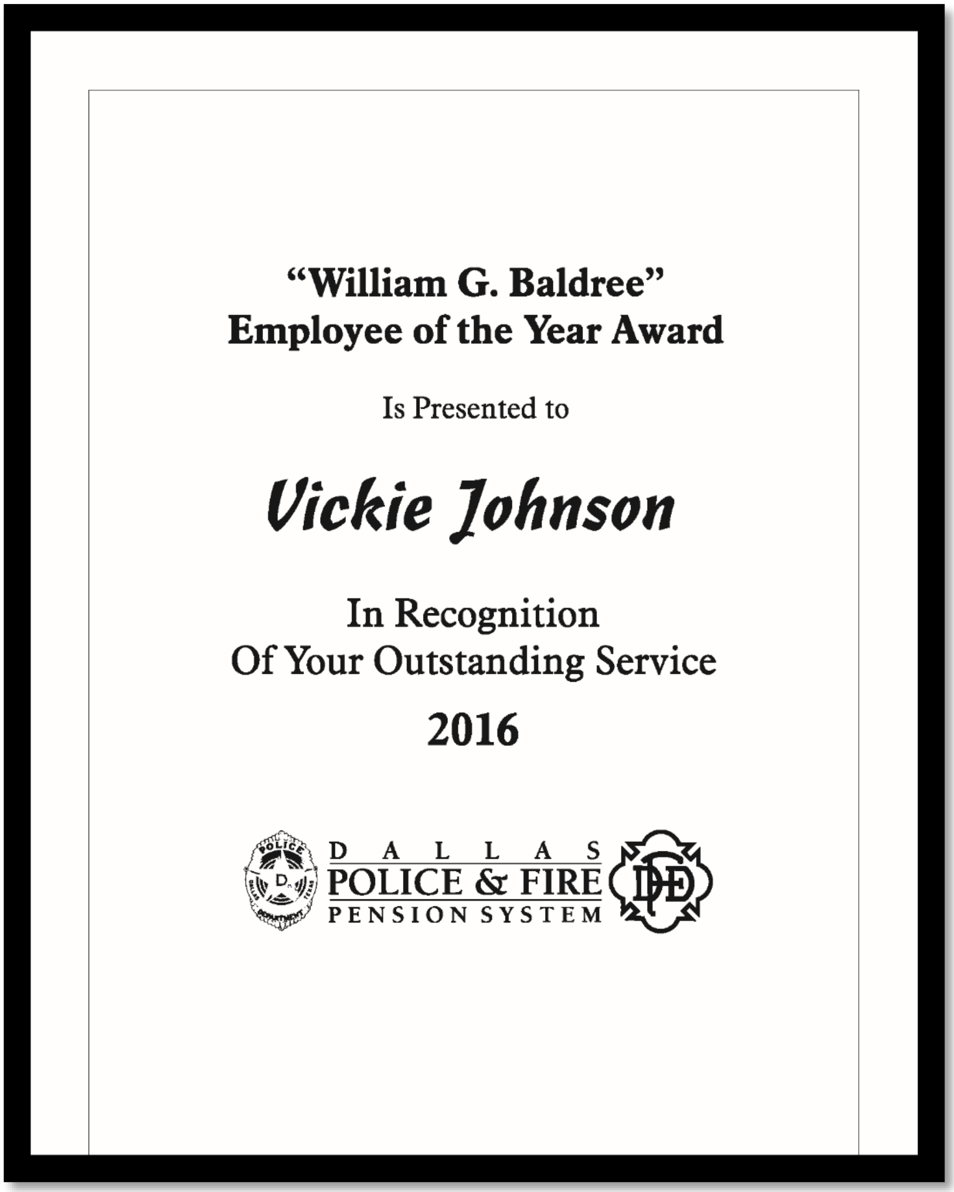
a. Employee of the Quarter Award
b. The William G. Baldree Employee of the Year Award

Mr. Friar and Ms. Gottschalk presented the performance award for Employee of the Quarter, Fourth Quarter 2016, to Vickie Johnson, Accounting Specialist, and the William G. Baldree Employee of the Year Award for 2016 to Vickie Johnson, Accounting Specialist. The Employee of the Year is chosen from among the four Employee of the Quarter Award recipients for the year.

No motion was made.

8. Employee recognition – Fourth Quarter 2016 (continued)

8. Employee recognition – Fourth Quarter 2016 (continued)


"William G. Baldree"
Employee of the Year Award

Is Presented to

Vickie Johnson

In Recognition
Of Your Outstanding Service

2016

D A L L A S
POLICE & FIRE
PENSION SYSTEM

* * * * * * * *

9. Possible revisions to or repeal of certain Board policies

The Board postponed discussion of Board policies until the March regular Board meeting.

No motion was made.

* * * * * * * *

10. Discussion of Investment Advisory Committee member appointment timing

Staff sought direction from the Board on how to proceed with the process to form the Investment Advisory Committee, given the uncertainty of the future Board structure under proposed legislation, the fact that DPFP is not currently making new investments and the role of NEPC serving as DPFP's investment consultant.

The Board directed staff to suspend the process to establish the Investment Advisory Committee until new legislation clarifies the Board composition.

* * * * * * * *

11. Ad hoc and permanent committee reports

a. Governance
b. Professional Services Committee

Mr. Haben, Chairman of the Professional Services Committee, reported to the Board on its meeting with the Actuary, Segal Consulting. The Governance Committee report was postponed to the March regular Board meeting.

No motion was made.

* * * * * * * *

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

a. PRB: MET Online Core Training: <u>Fiduciary Matters</u>
b. Meeting with Legislators
c. PRB meeting

Reports were given on the following meetings. Those who attended are listed.

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

a. PRB: MET Online Core Training: <u>Fiduciary Matters</u>

Mr. Sprecher

b. Meeting with Legislators

Mr. Friar, Ms. Gottschalk, Mr. Mond

c. PRB meeting

Messrs. Friar, Schutz, Ms. Gottschalk, Mr. Mond

No motion was made.

* * * * * * * *

13. Unforeseeable Emergency Requests from DROP Members

Ms. Gottschalk stated that in January, the Board adopted an addendum to the DROP Policy which includes a provision allowing for members to apply for DROP distributions due to unforeseeable emergencies. Following the Board's adoption of the addendum, staff issued a DROP Unforeseeable Emergency Policy (the Policy) following the guidelines in Section 6 of the DROP Policy Addendum. Per Section 6.d. of the Policy, the Executive Director reviewed with the Board for their consideration an application that had not been approved.

After discussion, Mr. Sprecher made a motion to confirm the Executive Director's decision to deny the Unforeseeable Emergency Request from a Member based on the DROP Unforeseeable Emergency Policy. Mr. Hass seconded the motion, which was unanimously approved by the Board.

* * * * * * * *

14. Closed Session - Board serving as Medical Committee

Disability recalls

The Board went into closed executive session – medical at 1:46 p.m.

The meeting was reopened at 1:54 p.m.

14. Closed Session - Board serving as Medical Committee (continued)

After discussion, Mr. Brown made a motion to approve continuance of the on-duty, Combined Pension Plan, Group B disability benefit, with no further medical recalls due, since the Member will attain the age of 50 within two years. Mr. Ho seconded the motion, which was unanimously approved by the Board. Mr. Wilson was not present for this vote.

* * * * * * * *

15. Executive Director's contract

The Board went into closed executive session – personnel at 1:54 p.m.

The meeting was reopened at 2:06 p.m.

After discussion, Mr. Conway made a motion to approve the proposed amendment to the Executive Director's contract. Mr. Ho seconded the motion, which was approved by the following vote:
For: Conway, Ho, Friar, Schutz, Hass, Gates, Brown, Sprecher
Against: Griggs
Messrs. Haben and Wilson were not present when the vote was taken.

* * * * * * * *

16. Internal Controls

Ms. Loveland presented a brief overview of internal controls in place at DPFP.

No motion was made.

* * * * * * * *

D. BRIEFING ITEMS

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

The Board received comments during the open forum.

No motion was made.

* * * * * * * *

2. Executive Director's report

a. Future Education and Business Related Travel
b. Future Investment Related Travel
c. Associations' newsletters

- NCPERS Monitor (January 2017)

The Executive Director's report was presented. No motion was made.

* * * * * * * *

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Conway and a second by Mr. Brown, the meeting was adjourned at 2:14 p.m.

____
Samuel L. Friar
Chairman

ATTEST:

____
Kelly Gottschalk
Secretary

Dallas Police and Fire Pension System
Tuesday, February 14, 2017
1:30 p.m.
Second Floor Board Room
4100 Harry Hines Blvd., Suite 100
Dallas, TX

Special meeting, Samuel L. Friar, Chairman, presiding:

ROLL CALL

Board Members

Present at 1:30 p.m.	Samuel L. Friar, Joseph P. Schutz, Scott Griggs, Brian Hass, Jennifer S. Gates, Tho T. Ho, Clint Conway, Kenneth Sprecher, Philip T. Kingston
Present at 1:34 p.m.	Gerald D. Brown
Present at 1:40 p.m.	Erik Wilson
Absent:	Kenneth S. Haben
Staff	Kelly Gottschalk, Josh Mond, Summer Loveland, John Holt, Linda Rickley
Others	Chuck Campbell (by telephone), John Turner, Ben Mesches, D. D. Pierce, Larry Goldsmith, Joseph Stephens, Lloyd D. Brown, Danny L. Millaway, A. C. Tarvez, James Freeman, Thomas Belcher, James Elliston, W. R. Bricker, Don Howard, Ennis Hill, Bryant Tillery, Larry Evans, James E. Baker, Tom Moore, J. Dunn, Thomas Moorman, Cindy Syes, James E. Bates, Kathy L. Bates, Martin Kemp, Felecia Kemp, Larry Williams, Jim Aulbaugh, Chris Peterson, Joel Lavender, Imogen Rose-Smith, Lori Brown, Bob Hawman, Cody W. Marcau, Zaman Hemani, Sandy Alexander, Jason Trahan, Tristan Hallman

* * * * * * * *

The meeting was called to order at 1:30 p.m.

A. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Legal issues

a. Rawlings v. Dallas Police and Fire Pension System
b. Degan et al. v. DPFP Board of Trustees (Federal suit)

1. Legal issues (continued)

The Board went into a closed executive session – legal at 1:48 p.m. to discuss only the Rawlings lawsuit. Council Member Trustees Gates, Griggs, Kingston, and Wilson left the meeting at 1:48 p.m. The remaining seven Police and Fire Service Trustees were present, as well as Ms. Gottschalk, Mr. Mond, Ms. Loveland, and outside legal counsel Chuck Campbell, John Turner, and Ben Mesches.

The meeting was reopened at 2:26 p.m.

Mr. Sprecher made a motion to retain Haynes & Boone in the matter of Degan et al. v. DPFP Board of Trustees (Federal suit). Mr. Brown seconded the motion, which was unanimously approved by the Board.

* * * * * * * *

2. Amendment of Bank of America loan agreement

After discussion, Mr. Sprecher made a motion to direct the Executive Director to pursue and close Option #2 previously presented, as modified. Mr. Conway seconded the motion, which was approved by the following vote:
For: Sprecher, Conway, Friar, Schutz, Hass, Ho, Brown
Against: Gates, Griggs, Kingston, Wilson

* * * * * * * *

B. BRIEFING ITEM

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

The Board received comments during the open forum.

No motion was made.

* * * * * * * *

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Brown and a second by Mr. Wilson, the meeting was adjourned at 2:33 p.m.

____
Samuel L. Friar
Chairman

ATTEST:

____
Kelly Gottschalk
Secretary

Dallas Police and Fire Pension System
Monday, February 20, 2017
8:30 a.m.
Second Floor Board Room
4100 Harry Hines Blvd., Suite 100
Dallas, TX

Special meeting, Samuel L. Friar, Chairman, presiding:

ROLL CALL

Board Members

Present at 8:30 a.m.	Samuel L. Friar, Joseph P. Schutz, Brian Hass, Tho T. Ho, Clint Conway, Kenneth Sprecher
Present at 8:33 a.m.	Jennifer S. Gates
Present at 8:35 a.m.	Scott Griggs
Present at 8:37 a.m.	Philip T. Kingston
Absent:	Kenneth S. Haben, Gerald D. Brown, Erik Wilson
Staff	Kelly Gottschalk, Josh Mond, Summer Loveland, John Holt, Linda Rickley, Carol Huffman
Others	Rocky Joyner (by telephone), Jeff Williams (by telephone), Bill Warrick, Thomas White, H. R. Andrews, Mark Gibbons, Marlin Price, Frank Varner, Thomas Bowers, Larry Goldsmith, Paul Jarvis, Judy Aloi, James Elliston, Joe Philpott, Brett Binford, A. D. Donald, Joe M. Spigner, Frank Ruspoli, Ingrid Spiotta, Jimmy Davis, James Freeman, Patrick Anderson, Sr., Vincent Aloi, Tom Taylor, Mike Adamek, Patrick Lewter, Don Howard, Lloyd D. Brown, Forrest Fenwick, Bill Knobel, Ennis Hill, Rick Thomas, David Thornton, Phil Ruzicki, Ron Acken, Kathy Acken, Ricky Quarles, Yvonne Quarles, D. D. Pierce, David J. Slavik, Michael Spiotta, Kenneth Campbell, Larry Williams, Mary Hershiser, Paul Ellery, Joseph Freeze, Laura Spray, Joel Lavender, Charles E. Luedeker, Tom Moore, Tom Moorman, Roselio Rodriguez, David E. Gibson, Lynn A. Reves, Mark Stovall, Dan Wojcik, James Thompson, Mike Dorety, Marcus Sharp, Jackie Brown, Ron Weimer, James Bates, Kathy Bates, William B. Smith, James R. Moore, Jr., William Murrell, Aaron Anderson, Kathy Jones-Anderson, Ron Pinkston, Jesse Aguirre, A. M. Vidal, Lingburge Williams, Reuben Millsaps, Roy Ferguson, Sheryl R. Scott, Billy Johnson, Carolyn Tillery, Tolvia D. Wilcoxson, Jill Muncy, Mark Moeller, Bryant Tillery, James Baker, Julian Bernal, Sandino L. Contreras, Charles W. Schmidt, Jr., Kenneth Seguin, Chris Peterson, Jack Clower, Rick Salinas, Pete Bailey,

Others (continued) J. Dunn, Travis Payne, Jerome Zabojnik, John Nichols, Joe Kay, Jeff Patterson, Mark Langford, Jack McClendon, Michael Gomez, Jim Aulbaugh, Victor Woodberry, Michael Cole, Felecia Kemp, Martin Kemp, Sr., Sal Morales, Melvin Thomas, Charles E. Gale, Nancy L. Webb, Dale Erves, Tom Miller, Octavio Saldana, Danny W. Robinson, Michael McGehee, Herman T. Sawyer, Jerry B. Williams, Morris Popeita, Joseph Martinez, Michael Mata, Leon Hollins, Michael Jones, Sandy Alexander, Thomas Costley, Jack Fink, John F. Thompson, Hannah Davis, Wally Guerra, Alex Boyer, Vanessa Brown, Andy Adams, Tristan Hallman, Ashleigh Barry, Scott Sidway, Barry Blonstein, Sandy Moncada

* * * * * * * *

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

A. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

Discussion and possible action on Legislative Matters

a. Compromise Proposal from Chairman Flynn
b. City of Dallas' plan

The Board and staff discussed the Flynn plan and the City of Dallas plan.

The meeting was recessed at 9:25 a.m.

The meeting was reconvened at 9:35 a.m.

After discussion, Mr. Kingston made a motion to authorize the Executive Director and General Counsel to continue to work with Representative Dan Flynn's plan for the most advantageous outcome for the Dallas Police & Fire Pension System beneficiaries. Mr. Griggs seconded the motion, which was unanimously approved by the Board.

* * * * * * * *

B. BRIEFING ITEM

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

The Board received comments during the open forum.

No motion was made.

* * * * * * * *

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Hass and a second by Mr. Schutz, the meeting was adjourned at 10:38 a.m.

____
Samuel L. Friar
Chairman

ATTEST:

____
Kelly Gottschalk
Secretary

Dallas Police and Fire Pension System
Monday, February 27, 2017
6:30 p.m.
Second Floor Board Room
4100 Harry Hines Blvd., Suite 100
Dallas, TX

Special meeting, Samuel L. Friar, Chairman, presiding:

ROLL CALL

Board Members

Present at 6:30 p.m.	Samuel L. Friar, Kenneth S. Haben, Joseph P. Schutz, Scott Griggs, Brian Hass, Jennifer S. Gates, Tho T. Ho, Gerald D. Brown, Clint Conway
Present at 6:31 p.m.	Kenneth Sprecher
Present at 6:34 p.m.	Erik Wilson
Present at 6:39 p.m.	Philip T. Kingston
Absent:	None
Staff	Kelly Gottschalk, Josh Mond, Summer Loveland, John Holt, Linda Rickley
Others	Chuck Campbell (by telephone), David Dodson, Tristan Hallman

* * * * * * * *

The meeting was called to order at 6:30 p.m.

DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

Legal issues

Rawlings v. Dallas Police and Fire Pension System

After discussion, Mr. Conway made a motion to ask the Council Trustees to leave the Board room so that Haynes & Boone could discuss the case with the eight Police and Fire Trustees who they represent in the Rawlings case. Mr. Brown seconded the motion.

Legal issues (continued)

Mr. Griggs requested an amendment to the motion to stipulate that DROP lump sum disbursements not be discussed in closed executive session - legal without the Council Trustees being present. Ms. Gates seconded the amendment request. The amendment failed by the following vote:
For: Griggs, Gates, Wilson
Against: Friar, Haben, Schutz, Hass, Ho, Brown, Conway, Sprecher
Mr. Kingston was not present when the vote was taken.

Mr. Conway's original motion was approved by the following vote:
For: Conway, Brown, Friar, Haben, Schutz, Hass, Ho, Sprecher
Against: Gates, Griggs, Wilson
Mr. Kingston was not present when the vote was taken.

Mr. Wilson left the meeting at 6:39 p.m.

The Board went into closed executive session – legal at 6:39 p.m.

The meeting was reopened at 7:10 p.m.

* * * * * * * *

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Conway and a second by Mr. Hass, the meeting was adjourned at 7:11 p.m.

____
Samuel L. Friar
Chairman

ATTEST:

____
Kelly Gottschalk
Secretary

Dallas Police and Fire Pension System
Thursday, March 9, 2017
8:30 a.m.
4100 Harry Hines Blvd., Suite 100
Second Floor Board Room
Dallas, TX

Regular meeting, Samuel L. Friar, Chairman, presiding:

ROLL CALL

Board Members

Present at 8:30	Samuel L. Friar, Kenneth S. Haben, Joseph P. Schutz, Brian Hass, Jennifer S. Gates, Erik Wilson, Tho T. Ho, Gerald D. Brown, Clint Conway, Kenneth Sprecher
Present at 8:40	Philip T. Kingston
Present at 8:59	Scott Griggs
Absent:	None
Staff	Kelly Gottschalk, Josh Mond, Summer Loveland, John Holt, Damion Hervey, Ryan Wagner, Milissa Romero, Christina Wu, Greg Irlbeck, Linda Rickley, Cynthia Thomas, Ann Matthews, Trish Wiley, Aimee Crews
Others	Chuck Campbell, John Turner, Ben Mesches, Jason Jordan, Jeff Williams (by telephone), Rhett Humphreys, Michael Yang, Tony L. Speck, Larry Goldsmith, Jimmy C. Davis, Gilbert Travis, Lloyd D. Brown, Paul Jarvis, James H. Freeman, Thomas Belcher, Joe Don Philpott, Danny Millaway, Joseph Stephens, Nita Stephens, Thomas Moorman, Tony Moore, James David Elliston, Thomas M. Payne, Joel Lavender, Larry D Williams, Ennis Hill, William A. Paris, Jr., Thomas Bowers, Jr., Jill S. Muncy, David Henry, Julian Bernal, Jerry Minter, Rick Salinas, Dale Erves, Michael Adamek, Jerry M. Rhodes, Frank Ruspoli, Sharon L. Mosley, Sam Carr, Aaron Anderson, D. K. Brown, A. D. Donald, Armando Garza, Dan Wojcik, Ann T. Robinson, David Dodson, Philip Braun, Roy Ferguson, Gary S. Beck, James Hoyt Hubbell, Phillip Murray, David Williams, Charles V. Hale, Michael Gomez, Jim Aulbaugh, Sandy Alexander, Thomas Costley, Monica Hernandez, Phil Fleming, Lori Brown, Zaman Hemani, Ken Kalthoff, Tristan Hallman, Mike Grimm, Tom Fox, Chris Kang, Josh Womack, Tanya Eiserer, Robert Benites, Charles James, Trey Larkins, Andrea Rega, Sandy Moncada, Greg T. Johnson, Rebecca Lopez, Mike Botsford

* * * * * * * *

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

* * * * * * * *

A. MOMENT OF SILENCE

The Board observed a moment of silence in memory of retired police officers, Jimmy D. Holt, Jack T. Swafford, Kenneth B. Wolfe, and retired firefighters, John E. Abernathy, W. F. Haygood, L. A. Hiller, W.E. Montgomery, and W. E. Rieves.

No motion was made.

* * * * * * * *

B. CONSENT AGENDA

1. Approval of Minutes

- **a.** Regular meeting of February 9, 2017
- **b.** Special meeting of February 14, 2017
- **c.** Special meeting of February 20, 2017
- **d.** Special meeting of February 27, 2017

2. Approval of Refunds of Contributions for the Month of February 2017

3. Approval of Estate Settlements

4. Approval of Survivor Benefits

5. Approval of Service Retirements

6. Approval of Alternate Payee Benefits

7. Unforeseen Emergency Request Denials

After discussion, Mr. Brown made a motion to approve the items on the Consent Agenda, except all of the February minutes, subject to the final approval of the staff, with the February minutes to be revised as directed and presented to the Board at the April Board meeting. Mr. Haben seconded the motion, which was unanimously approved by the Board.

* * * * * * * *

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Certification of applications for Trustee for 2017 Trustee election ballot

At the January 12, 2017 meeting of the Board, the Board called for an election to fill the four Trustee positions whose terms expire on June 1, 2017:

Incumbent	**Place**
Kenneth Haben	Police Trustee (Place P-1)
Samuel Friar	Fire Trustee (Place F-1)
Gerald Brown	Fire Pensioner Trustee (Place 1)
Kenneth Sprecher	Police Pensioner Trustee (Place 1)

Ms. Gottschalk stated that Applications for Trustee candidacy were made available from 8:00 a.m. on February 13, 2017, through 4:00 p.m. on February 28, 2017 to members who are interested in running for an expiring term. She also stated that the following persons have met the qualifications to be placed on the ballot for the Trustee election, provided that they attend the required Trustee candidate class:

Police Positions

Police Place 1 (P-1)
Kenneth Haben - Incumbent

Police Pensioner, Place 1
Thomas D. Bowers, Jr.
Kenneth Sprecher - Incumbent
Joseph Thompson

Fire Positions

Fire Place 1 (F-1)
Samuel Friar - Incumbent

Fire Pensioner, Place 1
Jerry T. Minter
Larry D. Williams

The voting period is scheduled from 8:00 a.m. on Friday, March 24, 2017, through 12:00 p.m. on Friday, April 7, 2017.

After discussion, Mr. Conway made a motion to certify the Executive Director's report of trustee applicant names to be placed on the ballot. Mr. Schutz seconded the motion, which was unanimously approved by the Board. Messrs. Griggs and Kingston were not present when the vote was taken.

* * * * * * * *

2. Discussion and possible action on Legislative Matters

- **a.** Status of DPFP plan legislation
- **b.** Other pension-related legislative issues

Staff updated the Board on the status of the City's and DPFP's proposed plans at the legislature as well as status of the discussions between the City and DPFP. Jeff Williams, of Segal Consulting, DPFP's actuary, participated by telephone.

Staff briefed the Board on pension bills that have been filed which may bear on DPFP.

No motion was made.

* * * * * * * *

3. Consideration of possible Deferred Retirement Option Plan (DROP) accounts distribution in accordance with DROP Policy Addendum

- **a.** Certification of reserve amount
- **b.** Certification of excess liquidity amount
- **c.** Determination of distribution amount

a. The Staff presented the components of the reserve amount calculated in accordance with the DROP Policy Addendum for the Board's consideration. The reserve amount is used in determining whether DROP distributions are available for payment to eligible members for the current month and considers the following obligations that are essential to DPFP's efficient administration:

- i. No less than 12 months of monthly annuity benefit payments, less monthly contributions for the same period;
- ii. No less than 12 months of anticipated operating expenses;
- iii. No less than 12 months of Minimum Annual Distributions pursuant to the DROP Policy Addendum;
- iv. All anticipated Required Minimum Distributions for the coming year;
- v. All outstanding indebtedness; and

3. Consideration of possible Deferred Retirement Option Plan (DROP) accounts distribution in accordance with DROP Policy Addendum (continued)

vi. All outstanding capital commitments for existing private market investments as well as no less than 12 months of other anticipated investment-related expenditures.

b. The Staff presented the determination of the excess liquidity amount calculated in accordance with the DROP Policy Addendum for the Board's consideration. The excess liquidity amount represents the amount of total liquid assets in excess of 1) the reserve amount, and 2) the Minimum Annual Distributions to be paid for the current month.

c. The Staff discussed the possible effects of payment of excess liquidity amounts on the efficient administration of DPFP.

The meeting was recessed at 10:54 a.m.

The meeting was reconvened at 10:57 a.m.

After discussion, Mr. Kingston made a motion to certify the reserve amount of $885,962,471, the excess liquidity amount of $0.00, and pass a resolution that, as a result, no amounts are available for pro-rata distribution in March 2017 under Section 5 of the DROP Policy Addendum adopted by the Board on January 12, 2017. Mr. Griggs seconded the motion, which was approved by the Board by the following vote:
For: Kingston, Griggs, Friar, Haben, Schutz, Hass, Gates, Wilson, Ho, Brown, Conway
Against: Sprecher

The Resolution is shown in Minute Book ______ on Pages ______.

* * * * * * * *

Resolution

WHEREAS, the Board of Trustees adopted a DROP Policy Addendum at its meeting of January 12, 2017 to ensure that distribution of DROP accounts was consistent with the efficient administration of the System;

WHEREAS, Section 2.c. of the Addendum provides that the Board is to certify a "Reserve Amount" that is necessary to satisfy obligations essential to the efficient administration of the System, including obligations relating to outstanding indebtedness;

WHEREAS, Section 2.b. recognizes that the Reserve Amount will vary as the needs associated with the obligations comprising the Reserve Amount change and that it should include amounts necessary to ensure the System can satisfy its obligations in a prudent and efficient manner;

WHEREAS, the System currently has outstanding indebtedness in connection with its interest in Red Consolidated Holdings (RCH), and the terms of such debt require that the System maintain a certain level of assets;

WHEREAS, the Board has been presented with information that reveals that failure to maintain the required level of assets under the System would have an adverse impact on the System's interest in RCH that would be inconsistent with the efficient and prudent administration of the System;

WHEREAS, the Board has been presented with information by staff that sets forth a recommended Reserve Amount that includes an amount that the staff believes is reasonably necessary to ensure that the level of the System's assets do not fall below the level required under the outstanding indebtedness in connection with the System's interest in RCH;

WHEREAS, the Board otherwise finds that the recommended Reserve Amount is consistent with an appropriate liquidity reserve that should be retained by the System in its present circumstances;

WHEREAS, Section 3.b. of the Addendum provides that the Board is to certify an "Excess Liquidity Amount", which is equal to the amount that the total liquid assets held by the System exceed the Reserve Amount as of the date the Board certifies the Reserve Amount and any minimum annual distributions as described in Section 7 of the Addendum;

WHEREAS, Section 5.a of the Addendum provides that the Excess Liquidity Amount certified by the Board will be available for pro-rata distribution to eligible DROP participants that have made a valid request under the terms of the Addendum;

WHEREAS, the Board has been presented with information by staff that shows that the total liquid assets of the System will not exceed the Reserve Amount and the amount of minimum annual distributions, and thus no Excess Liquidity Amount is available for pro-rata distribution; and

WHEREAS, Section 7.c of the Addendum provides that the unavailability of the pro-rata distribution does not impact the minimum annual distributions under Section 7 of the Addendum;

NOW THEREFORE, BE IT RESOLVED that, pursuant to the Section 2.c. of the Addendum, the Board certifies a Reserve Amount equal to $885,962,471, which is the amount that the Board determines is necessary to satisfy the obligations essential to the System's efficient administration and includes amounts necessary for the System to retain an adequate level of total assets to ensure contractual obligations under outstanding indebtedness related to the System's interest in RCH are satisfied;

RESOLVED further that, pursuant to Section 3.b. of the Addendum, the Board certifies an Excess Liquidity Amount of $0.00, as total liquid assets held by the System do not exceed the Reserve Amount certified by the Board, and as a result, no amounts are available for pro-rata distribution under Section 5 of the Addendum.

RESOLVED further that the Board also acknowledges that the minimum annual distributions will still proceed and be unaffected by this action as provided under Section 7.c. of the Addendum.

4. Legal issues

- **a.** Police Officer and Firefighter pay lawsuits
- **b.** Potential claims involving fiduciaries and advisors
- **c.** 2014 Plan amendment election and litigation
- **d.** 2016 Plan amendment litigation
- **e.** Rawlings v. Dallas Police and Fire Pension System
- **f.** DPFP v. Columbus A. Alexander III
- **g.** Degan et al. v. DPFP Board of Trustees (Federal suit)

Mr. Brown made a motion that the Council Member Trustees be excluded from the closed session discussion of the Rawlings v. Dallas Police and Fire Pension System lawsuit (the Mayor's lawsuit), but not from the remainder of the closed session discussion of legal issues. Mr. Haben seconded the motion, which was approved by the following vote:
For: Brown, Haben, Friar, Schutz, Hass, Ho, Conway, Sprecher
Against: Griggs, Gates, Wilson, Kingston

The Board went into closed executive session – legal at 11:05 a.m. which included all 12 Trustees.

Council Member Trustees Griggs, Gates, Wilson, and Kingston left the closed executive session – legal at 11:24 a.m. during the discussion of the Rawlings lawsuit only. The remaining 8 Trustees were present for the discussion, as well as Ms. Gottschalk, Mr. Mond, Ms. Loveland, and outside legal counsel Chuck Campbell, John Turner, Ben Mesches, and Jason Jordan.

The meeting was reopened at 11:40 a.m.

No motion was made.

* * * * * * * *

5. NEPC

- **a.** Fourth Quarter 2016 Investment Performance Analysis
- **b.** Third Quarter 2016 Private Markets & Real Assets Review
- **c.** Current cash allocation

Rhett Humphreys and Michael Yang, of NEPC, DPFP's investment consultants, presented the Fourth Quarter 2016 Investment Performance Analysis, the Third Quarter 2016 Private Markets & Real Assets Review, and discussed the current cash allocation.

5. NEPC (continued)

No motion was made.

* * * * * * * *

The meeting was recessed at 1:25 p.m.

The meeting was reconvened at 1:31 p.m.

* * * * * * * *

Messrs. Kingston and Wilson left the meeting at 1:32 p.m.

* * * * * * * *

6. Possible sale of Sungate

The Board went into closed executive session – real estate at 11:41 a.m.

The meeting was reopened at 12:20 p.m.

After discussion, Mr. Haben made a motion to authorize the sale of Sungate, subject to the final approval of terms by the Executive Director. Mr. Conway seconded the motion, which was unanimously approved by the Board. Mr. Kingston was not present when the vote was taken.

* * * * * * * *

7. Investment reports

Staff reviewed the investment performance and rebalancing reports for the period ending February 28, 2017 with the Board.

No motion was made.

* * * * * * * *

8. 2017 Budget adjustment – Insurance

The staff briefed the Board on a change to anticipated expenditures for liability insurance coverage in 2017 as compared to the budgeted amount. Actual quotes were in excess of anticipated amounts. The increase is specific to fiduciary coverage and is related to recent legal filings against DPFP.

	2017 Budget	Proposed Revised Amount
Liability insurance	$ 372,000	$ 447,667

After discussion, Mr. Conway made a motion to approve the proposed increase in the budget for liability insurance for 2017. Mr. Schutz seconded the motion, which was unanimously approved by the Board. Messrs. Kingston and Wilson were not present when the vote was taken.

* * * * * * * *

9. CDK Multi-Family Fund

The Board went into closed executive session – real estate at 11:41 a.m.

The meeting was reopened at 12:20 p.m.

The Board authorized a sale of DPFP's interest in the CDK Multi-Family Fund at the October 13, 2016 Board meeting. Staff provided the Board with an update to the terms of the potential sale.

After discussion, Mr. Haben made a motion to authorize the Executive Director to enter into an agreement to sell DPFP's interest in the CDK Multi-Family Fund. Mr. Conway seconded the motion, which was unanimously approved by the Board. Mr. Kingston was not present when the vote was taken.

* * * * * * * *

Mr. Conway left the meeting at 1:57 p.m.

* * * * * * * *

10. Closed Session - Board serving as Medical Committee

Disability recalls

The Board went into closed executive session – medical at 1:57 p.m.

The meeting was reopened at 2:11 p.m.

After discussion, Mr. Brown made a motion to approve continuance of the on-duty, Combined Pension Plan, Group B disability benefits, for Police Officer 2017-3-R and Fire Officer 2017-5-R, with the requirement for both to undergo future medical examination(s) every two years until reaching the age of 50. Both are subject to the Annual Earnings Test Review, as they were hired and suffered a disability after May 1, 1990. Mr. Schutz seconded the motion, which was unanimously approved by the Board. Messrs. Conway, Kingston, and Wilson were not present for the vote.

After discussion, Mr. Brown made a motion to determine that Police Officer 2017-4-R can return to the Police department and to continue the disability pension until the date before the Pensioner returns to the active payroll of the former department. Mr. Schutz seconded the motion, which was unanimously approved by the Board. Messrs. Conway, Kingston, and Wilson were not present for the vote.

* * * * * * * *

11. Possible revisions to or repeal of certain Board policies

The Board postponed the discussion of possible revisions to or repeal of certain Board policies to the April regular Board meeting.

* * * * * * * *

12. Ad hoc and permanent committee reports

a. Governance
b. Professional Services Committee

Mr. Schutz, Governance Committee Chairman, gave a brief report. Mr. Haben, Chairman of the Professional Services Committee, reported to the Board on its meetings with the investment consultant, NEPC, and the outside legal counsel, Jackson Walker L.L.P.

No motion was made.

* * * * * * * *

13. Business Continuity Review

John Holt, IT Manager, reviewed the System's Business Continuity Plan and highlighted major features of the plan.

No motion was made.

* * * * * * * *

D. BRIEFING ITEMS

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

The Board received comments during the open forum.

No motion was made.

* * * * * * * *

2. Executive Director's report

a. Future Education and Business Related Travel
b. Future Investment Related Travel
c. Associations' newsletters

- NCPERS Monitor (February 2017)
- TEXPERS Pension Observer (Winter 2017)

The Executive Director's report was presented. No motion was made.

* * * * * * * *

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Brown and a second by Mr. Haben, the meeting was adjourned at 2:11 p.m.

____
Samuel L. Friar
Chairman

ATTEST:

____
Kelly Gottschalk
Secretary

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C1

Topic: **Trustee election**

a. Certify election results
b. Call for a run-off election and approve related ballot material, if necessary

Discussion:

a. At the January 12, 2017 regular meeting, the Board called an election to fill four Trustee positions that expire June 1, 2017. Voting for the 2017 Trustee Election began on Friday, March 24, 2017 at 8:00 a.m. and ended at 12:00 p.m. on Friday, April 7, 2017. The Board's Trustee Election Procedures require that the Board certify the results of the election. The Executive Director will notify the Board prior to the meeting on receipt of the results of the 2017 Trustee Election from the vendor conducting the election.

b. As required in Section 4 (f) of the Trustee Election Procedures, if the official election results show that no candidate for a Trustee Place received a majority of the votes cast for that position, the Board will call a run-off election between the two candidates who received the greatest number of votes cast for the Place. If necessary, a run-off election must be held and completed within 30 days after the Board certifies that that there was no winning candidate for the Place. Staff will provide a schedule for a run-off election as necessary.

Staff Recommendation:

a. **Certify** the results of the 2017 Trustee Election.
b. **Call** for a run-off election and **approve** run-off election schedule if necessary.

DALLAS POLICE & FIRE PENSION SYSTEM

TRUSTEE ELECTION PROCEDURES

As Amended Through January 12, 2017

DALLAS POLICE AND FIRE PENSION SYSTEM

TRUSTEE ELECTION PROCEDURES

Adopted January 9, 1997
As amended through January 12, 2017

Section 1 Authority to Promulgate Rules

Pursuant to Section 3.01(e) of the Combined Pension Plan ("Combined Plan"), the Board of Trustees ("Board") of the Dallas Police and Fire Pension System ("DPFP") has the authority to adopt appropriate rules and regulations governing the election of Trustees from the Police and Fire Departments of the City of Dallas as well as Pensioners, provided such rules and regulations are consistent with the Combined Plan and with generally accepted principles of secret ballot and majority rule.

Section 2 Definitions

(a) Member means a Member of any of the pension plans within the Pension System who is on Active Service with the Police or Fire Department.

(b) Pensioner means a former Member of the Pension System who is on either a service or disability retirement and includes Members who have left Active Service and elected to allocate any monthly retirement pension the Member could otherwise receive to a Deferred Retirement Option Plan (DROP) account pursuant to Combined Plan Section 6.14(d).

Section 3 Election Responsibilities

(a) Executive Director

The Executive Director of DPFP or the Executive Director's designee shall have the following responsibilities with respect to a Trustee election:

(1) Notify the Board of dates for election of those Trustee Places the terms of which are due to expire;

(2) Notify the Members and Pensioners of the dates for election of those Trustee Places the terms of which are due to expire, or are newly created, and the requirements a person must meet in order to be a candidate for each such position.

<u>Section 3</u> **<u>Election Responsibilities (continued)</u>**

(3) Notify the Police and Fire Departments of any pending Police or Fire Department Trustee Place election called by the Board;

(4) Supervise the election process and certify the names of persons who have been duly qualified to be placed on the official ballot;

(5) **(i)** Supervise the posting of notices of those names certified to run for a Trustee Place and calling of the election;

(ii) Supervise the notification to the Pensioners of those names certified to run for a Pensioner Trustee Place;

(6) Place the election results on the agenda of a special or regular Board meeting to certify the results of the election to the Board;

(7) Notify the membership of the results of the election(s); and

(8) Assure the integrity of the election process in order to avoid irregularities.

(b) <u>Electronic Balloting - Independent Auditor/ Ballot Counting</u>

The Board may appoint an independent electronic balloting service or in the case of written ballots, an auditor ("Independent Balloting Agent(s)") which may be a firm or business that specializes in the solicitation and compilation of ballots for public companies and the like or a public accounting firm that performs similar functions for the purpose of performing some or all of the following functions in connection with the Trustee election.

The Board or the Executive Director may from time to time assign to the Independent Balloting Agent some or all of duties which, absent such assignment, shall be performed by the Executive Director or DPFP’s staff including, but not limited to the following:

Section 3 Election Responsibilities (continued)

(1) **(i)** Issue simulated ballots identifying the Members running for a Trustee Place or in the event written ballots are used, the actual written ballots, along with ballot instructions to all Members on active service who are eligible to vote in the election. Issuance of voting instructions and, if written ballots are used, then such actual ballots may be by mail or other such means as the Board or the Executive Director believes best serves the interest of DPFP and its Members, and accommodates their potentially diverse service duties and work times;

(ii) Issue simulated ballots identifying the Pensioners running for a Pensioner Trustee Place or in the event written ballots are used, such written ballots, along with ballot instructions to all Pensioners who are eligible to vote in the election. Issuance of voting instructions and, if written ballots are used, then such actual ballots will be by mail;

(2) through its designated Independent Balloting Agent or otherwise:

(i) during the pendency of the election or otherwise, collect and safe-keep the evidence of the balloting;

(ii) conduct the election during the period designated by the Board;

(iii) count all ballots timely cast by whatever approved means; and

(3) Upon the completion of the election period, certify the results of the ballot count to the Executive Director in writing by secure and confidential means.

In the event the Board does not appoint an Independent Balloting Agent, then the Administrator shall carry out the Independent Balloting Agent's duties set forth above.

Section 4 Details of Trustee Election

(a) Calling the Election

The Board shall call an election and specify the voting period to elect Fire and Police Department Trustees and Pensioner Trustees at least sixty (60) calendar days before the term of any Police or Fire Department Trustee or Pensioner Trustee expires.

(b) Notice of Election

(1) The Executive Director or his designee shall send a notice of the Police or Fire Department Trustee Place election to the Chiefs of the Police and Fire Departments or their designees, which shall include information on the relevant dates, opportunity for obtaining an official application and any other relevant rules.

(2) This notice shall include a request that the Chiefs of the Police and Fire Departments or their designees post the notice at least thirty (30) days prior to the date of election at Police stations and Fire stations and other places where Police officers, Firefighters, and Fire Inspectors generally assemble for duty.

(3) Notice of an election for any Police or Fire Department Trustee Place position shall be announced on DPFP's website and by separate direct mailing at least sixty (60) days prior to the date of the election.

(4) The Executive Director or his designee shall send a notice of the Pensioner Trustee Place election to the Pensioners via DPFP's website and separate direct mailing, which shall include information on the relevant dates, opportunity for obtaining an official application and any other relevant rules. Such notice will be sent at least sixty (60) days prior to the date of the election.

(c) Application Process

(1) The Pension Office shall provide the original official application. The official application shall identify the specific Trustee Place for which the Member wishes to run or the specific Pensioner Trustee Place for which the Pensioner wishes to run. The Pension Office shall attach a copy of all

<u>Section 4</u> **<u>Details of Trustee Election (continued)</u>**

applicable rules and procedures with regard to the election process, including this election procedure, to the Member's or Pensioner's application. DPFP will not accept an application that is not an original official application, identifying the specific Trustee Place being sought and completed in full.

(2) Any Member on active service (including any Trustee whose Trustee Place term is expiring) and any Pensioner (including any Pensioner Trustee whose Trustee Place term is expiring) who wishes to become a candidate in a Trustee election and serve as a Trustee on the Board, must:

(i) personally obtain an original official application from DPFP's pension office ("Pension Office");

(ii) present adequate identification which must include both photo identification (the departmental photo identification in the case of a Member) and one other form of picture or other reliable identification;

(iii) sign a form acknowledging receipt of such application and all attachments including a copy of all applicable rules and procedures with regard to the election process, including this election procedure, and

(iv) attend one of two similar trustee education classes conducted at the Pension Office and designed to acquaint the candidates with the general laws, rules and guidelines governing trustee/fiduciary duties and governmental pension systems, investment principals and the time commitments generally associated with the Trustee position, except that any candidate who is a Trustee whose Trustee Place term is expiring is not required to attend a trustee education class.

(3) Candidates who are running for a Trustee position may, if they wish, write a brief description that will be included with the ballot. The description must:

(i) be 75 words or less;

<u>Section 4</u> **<u>Details of Trustee Election (continued)</u>**

(ii) include positive statements about the candidate such as why they are running, listing qualifications, reasons people should vote for them and any other relevant information;

(iii) avoid offensive or potentially defamatory language; and

(iv) not mention or in any manner refer to another person including, but not limited to the other candidates.

Candidates should keep in mind that what they write will be read by many people from different backgrounds and what they write is a public document that may be viewed by any Member, Pensioner, their families, including children, and the public as well.

To protect DPFP, the Executive Director will not print any description that violates any of the above listed rules (i-iv). If rules i-iv are not followed, an attempt will be made to contact the candidate for a rewrite, but the decision of the Executive Director is final. The Board and staff will not attempt to edit the description for grammar or spelling errors. If the Board and staff are unable to contact a candidate whose description exceeds the word maximum, the words in excess of the limit will be deleted from the end of the description.

(4) Under the privacy requirements of State law and the practice of DPFP, the names and addresses of the active or retired police officers or firefighters will not be released by DPFP to candidates. Instead, the mailing service used by DPFP will be available to such candidates to mail, at their own expense, any materials they wish to have mailed to eligible voters in consideration of their candidacy. Such written materials must also comply with the rules at Section 4(c)(3) and contain the statement in bold text at the end of Section 4(c)(5) immediately below.

Section 4 Details of Trustee Election (continued)

(5) In the event a written statement of a candidate is included along with a ballot pursuant to subsection 4(c)(3) above or in any mailing done pursuant to subsection 4(c)(4) above, the following statement will appear on such written materials. **"The views expressed by any Candidate are those of the Candidate alone and do not necessarily represent the views or opinions of the Dallas Police and Fire Pension System, its Board of Trustees or Staff. The Candidate is solely responsible for his/her remarks."**

(6) Trustee Place numbers have been designated as follows:

(i) Those Member Trustee Places the terms of which expire on May 31, 2001, and each fourth (4th) year thereafter are designated Police Place 1 (P-1) and Fire Place 1(F-1). Those Member Trustee Places the terms of which expire on May 31, 2003, and each fourth (4th) year thereafter are designated Police Place 2 (P-2), Police Place 3 (P-3), Fire Place 2 (F-2) and Fire Place 3 (F-3).

(ii) The Pensioner Trustee Places shall be designated as Fire Pensioner Place 1 and Police Pensioner Place 1. Only Pensioners retired from the Fire Department will be eligible to be elected to Fire Pensioner Trustee Place 1. Only Pensioners retired from the Police Department will be eligible to be elected to Police Pensioner Trustee Place 1.

(7) The completed application must be returned to the Pension Office at a date determined by the Board. DPFP shall advise applicants in writing of the date by which completed applications must be returned. The date shall be not less than twenty-one (21) days before the date that voting is to commence.

(8) The Executive Director will report to the Board the names of those persons who have been duly qualified to be placed on the official ballot and the Board will certify such report not less than fourteen (14) days before regular voting commences.

Section 4 Details of Trustee Election (continued)

(9) The Candidate Trustee education classes will be conducted on two different days and times in order to facilitate attendance by the candidates and the agenda for such classes will be provided to Candidates in advance. DPFP will notify the Chiefs of each Department of the importance of permitting candidates to attend such class.

(10) Any Member applying to run for a Trustee Place position shall comply with City of Dallas Administrative Directive 3-71, "Employee Participation on City of Dallas Boards of Trustees and Fiduciary Committees".

(d) Eligibility to Vote

(1) All Members on Active Service with the Police Department are eligible to vote in an election for those Member Trustee Places designated P-1, P-2 or P-3.

(2) All Members on Active Service with the Fire Department are eligible to vote in an election for those Member Trustee Places designated F-1, F-2 or F-3.

(3) All Pensioners retired from the Police Department are eligible to vote in an election for Police Pensioner Trustee Place 1.

(4) All Pensioner retired from the Fire Department are eligible to vote in an election for Fire Pensioner Trustee Place 1.

(e) Voting

(1) Voting shall be held either by electronic means or by written ballot as determined by the Board. Voting shall reasonably accommodate all departmental shifts or watches over at least three (3) consecutive twenty-four (24) hour periods. The Board shall approve the permissible method(s) and time of voting, which may include mailing ballot information to Members on active service. The ballot information shall conspicuously state the cut-off date after which ballots cast will not be counted. If mail balloting is authorized for an election, the cut off date for the return of ballots will allow a period to reasonably reflect the ordinary time that the U.S. Post Office takes to deliver ballots

Section 4 Details of Trustee Election (continued)

and the mail return of said ballots. If mail return ballots are authorized, then such ballots received by the Independent Balloting Agent shall be stamped with the date of receipt. If mail-in balloting is permitted and a ballot envelope is received beyond the cut-off date both the mailing envelope and ballot will be stamped with its receipt date and the envelope will be affixed to the ballot to evidence its date of postage cancellation by the U.S. Post Office. If the Board has deemed it practicable and in the best interest of DPFP and its Members and Pensioners to authorize balloting through electronic means, the Independent Balloting Agent shall make a record of the date ballots are cast and shall not accept as valid any ballot attempted to be cast before or after the ballot casting period.

(2) The Independent Balloting Agent, or in the event one is not appointed, the Executive Director or his designee, will safe keep evidence of the ballot results and maintain such evidence in secret until such time as the ballot count described in paragraph (3), immediately below, is conducted and the results conveyed to the Board.

(3) The Independent Balloting Agent, or in the event one is not appointed, the Executive Director or his designee, will count the ballots timely cast and certify the results of the ballot count to the Executive Director within two business days of the cessation of voting. The counting of ballots shall be open to all parties who are interested in the Trustee election. The Executive Director shall report the results of the Trustee election to the Board by a letter to be posted or delivered not later than one business day after the Independent Balloting Agent certified the results of the ballot count.

(e) Certification of the Election

The Board shall certify the results of the election at a duly called regular or special meeting of the Board.

Section 4 **Details of Trustee Election (continued)**

(f) Run-off Election

If no candidate for a Trustee Place receives a majority of the votes cast for that Place, a run-off election between the two (2) candidates receiving the greatest number of votes for that Place shall be held and completed no later than thirty (30) days after the Board certifies that no candidate received such a majority. With the exception of the application process, the procedure for holding such run-off election shall be the same as provided herein for the initial Trustee election. In the event of a tie in any run off election then the candidates who tie shall cast lots in the presence of the Board of Trustees in the open session of a Board Meeting to determine which shall be declared elected.

(g) Election Re-count

(1) Only a candidate for a particular Trustee Place or Pensioner Trustee Place can request to have a re-count of the ballots of their particular Trustee Place or Pensioner Trustee Place election, and if said candidate desires to have a re-count he or she must file a written request within five (5) days after the results that were certified by the Board have been confirmed in writing to the candidates. If the margin of difference in the announced vote total being contested is equal to or less than one percent (1%), then the recount will be done at DPFP's expense; however, if the margin is greater than one percent (1%) then the candidate requesting a re-count must pay a non-refundable two hundred dollar ($200) fee which must accompany the written request for the re-count.

(2) The Independent Auditor, or if none is appointed, the Executive Director or his designee, shall conduct the re-count, and upon its report, the Executive Director shall report and the Board shall certify the results of the re-count in the manner provided herein for the initial count of the Trustee election.

Section 5 **Retention of Ballots and Voter Registration Lists**

Evidence of the results of voting shall be kept by DPFP for a period of sixty (60) days after the date the Board certifies the results of an election or longer if required under any records retention policy adopted by the Board. If, after that time, there is no request for a re-count pending, then the ballots and other evidence of voting shall be destroyed.

Section 6 **Single Nominee**

If there is but one person who is a nominee for any Police or Fire Active or Pensioner Trustee Place, there shall be no election for said place, and when the Board certifies the results of the election the one nominee, if eligible, shall be deemed elected to the Board of Trustees.

Section 7 **Pensioner Trustees and Return to Employment**

If a Pensioner, while serving as a Pensioner Trustee returns to service as a Police Officer or Firefighter, that Trustee shall automatically be deemed to have tendered his resignation as Trustee and shall only continue to serve until such person's successor shall have been duly elected and affirmed in writing to faithfully perform Trustee duties to the Pension System.

Section 8 **Taking Office, Affirmation and Undertaking of Office**

A duly elected Trustee shall take office as a trustee as soon after:

(a) their affirming in writing their undertaking to faithfully perform their duties to the Pension System, and

(b) the expiration of the Term of the Trustee whose place they have been elected to fill.

Section 9 Vacancy in Trustee Position

(a) Six months or less remaining in term

(1) If a vacancy occurs for any reason in an Active Service Member Trustee Place and six months or less remains before the end of the term for the vacated Place, the position shall remain vacant until the next regularly scheduled Trustee election.

(2) If a vacancy occurs for any reason in a Pensioner Trustee Place and six months or less remains before the end of the term for the vacated Place, the position shall remain vacant until the next regularly scheduled Trustee election.

(b) More than six months remaining in term

(1) If a vacancy occurs for any reason in an Active Service Member Trustee Place and more than six months remains before the end of the term of the vacated Place, the Board shall call a special election to fill the unexpired portion of the term. The special election shall be conducted according to the procedures provided in Section 4 of these Trustee Election Procedures.

(2) If a vacancy occurs for any reason in a Pensioner Trustee Place and more than six months remains before the end of the term of the vacated Place, the Board shall call a special election to fill the unexpired portion of the term. The special election shall be conducted according to the procedures provided in Section 4 of these Trustee Election Procedures.

APPROVED on January 12, 2017 by the Board of Trustees of the Dallas Police and Fire Pension System.

[signature]

Samuel Friar
Chairman

Attested:

[signature]

Kelly Gottschalk
Secretary

DALLAS POLICE & FIRE PENSION SYSTEM

2017 Trustee Election Schedule

Date	Item
January 12	*Regular Board Meeting* — Board calls for election of Trustees and approves schedule in regular Board meeting
January 23	Send notice to Department Chiefs announcing call for Candidates and Post notice to DPFP Website
January 23	Distribute notification to members announcing the Trustee election and call for candidates
February 13 – 28	Applications can be obtained, in-person, from DPFP office
February 28	All applications due in Pension Office by 4 p.m.
March 9	*Regular Board meeting* — Board certifies Trustee applications for Ballot
March 13 & 14	Trustee candidate classes
March 22	Mail voting packets to Members' home addresses or email to members electing eCorrespondence
March 24 – April 7	Voting begins at 8 a.m. on Friday, March 24. Voting ends at 12 p.m. on Friday, April 7
April 10	Vendor reports ballot count
April 10	Executive Director reports election results to Board
April 13	*Regular Board Meeting* — Board of Trustees 1. Certify election results 2. Decide if a run-off election is needed 3. Review and approve ballot materials for run-off election, if necessary
April 26	Mail run-off election voting packets to members' home addresses and email to eCorrespondence members, if necessary
April 28 – May 8	Run-off election, if necessary. Voting begins at 8 a.m. on Friday, April 28. Voting ends at 12 p.m. on Monday, May 8
May 11	*Regular Board Meeting* — Trustees certify run-off election results
June 1	New Trustee terms begin
June 8	*Regular Board Meeting* — First Pension Board meeting of new Trustee terms. Trustees elect officers of the Board

DISCUSSION SHEET

ITEM #C2

Topic: **Discussion and possible action on Legislative Matters**

a. Status of DPFP plan legislation
b. Other pension-related legislative issues
c. Consideration of Board support for proposal to reallocate sales tax from DART

Discussion:

a. Staff will update the Board on the status of the DPFP plan legislation.

b. Staff will brief the Board on pension bills that have been filed which may bear on DPFP.

c. Staff will propose a resolution for the Board's consideration.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C3

Topic: **Consideration of possible Deferred Retirement Option Plan (DROP) accounts distribution in accordance with DROP Policy Addendum**

a. Certification of reserve amount
b. Certification of excess liquidity amount
c. Determination of distribution amount

Discussion: **a.** Staff will present the components of the reserve amount calculated in accordance with the DROP Policy Addendum for the Board's consideration. The reserve amount is used in determining whether DROP distributions are available for payment to eligible members for the current month and considers the following obligations that are essential to DPFP's efficient administration:

i. No less than 12 months of monthly annuity benefit payments, less monthly contributions for the same period;

ii. No less than 12 months of anticipated operating expenses;

iii. No less than 12 months of Minimum Annual Distributions pursuant to the DROP Policy Addendum;

iv. All anticipated Required Minimum Distributions for the coming year;

v. All outstanding indebtedness; and

DISCUSSION SHEET

ITEM #C3
(continued)

vi. All outstanding capital commitments for existing private market investments as well as no less than 12 months of other anticipated investment-related expenditures.

b. Staff will present the determination of the excess liquidity amount calculated in accordance with the DROP Policy Addendum for the Board's consideration. The excess liquidity amount represents the amount of total liquid assets in excess of 1) the reserve amount and 2) the Minimum Annual Distributions to be paid for the current month.

c. The Staff will discuss the possible effects of payment of excess liquidity amounts on the efficient administration of DPFP.

Staff Recommendation:

a. **Certify** the reserve amount.

b. **Certify** the excess liquidity amount.

c. To be provided at the meeting.

DISCUSSION SHEET

ITEM #C4

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. Police Officer and Firefighter pay lawsuits
b. Potential claims involving fiduciaries and advisors
c. Eddington et al. v. DPFP
d. Rawlings v. DPFP
e. DPFP v. Columbus A. Alexander III
f. Degan et al. v. DPFP (Federal suit)

Discussion: Counsel will brief the Board on these issues.

DISCUSSION SHEET

ITEM #C5

Topic:	**AEW portfolio review**
	Portions of the discussion under this topic may be closed to the public under the terms of Section 551.072 of the Texas Government Code.
Attendees:	Ron Pastore, Senior Portfolio Manager Mark Morrison, Assistant Portfolio Manager Robin Connors, Portfolio Controller
Discussion:	AEW will update the Board on the status and plans for DPFP's investments in RED Consolidated Holdings ("RCH"), Camel Square, and Creative Attractions. AEW took over management of these investments in February of 2015. AEW last presented a portfolio review to the Board in May 2016.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C6

Topic: **Clarion Partners: 1210 South Lamar**

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

Attendees: Bohdy Hedgcock (Clarion Partners) (by telephone)

Discussion: Clarion Partners will update the Board on the sale of the 1210 South Lamar multifamily investment. The Board approved a sale of the apartments at the October 13, 2016 Board meeting, subject to the final approval of the terms by the Executive Director. Development of the apartments began in May of 2014 and was completed in August of 2016.

DALLAS POLICE AND FIRE PENSION SYSTEM

BOARD PRESENTATION
April 13, 2017

aew.com

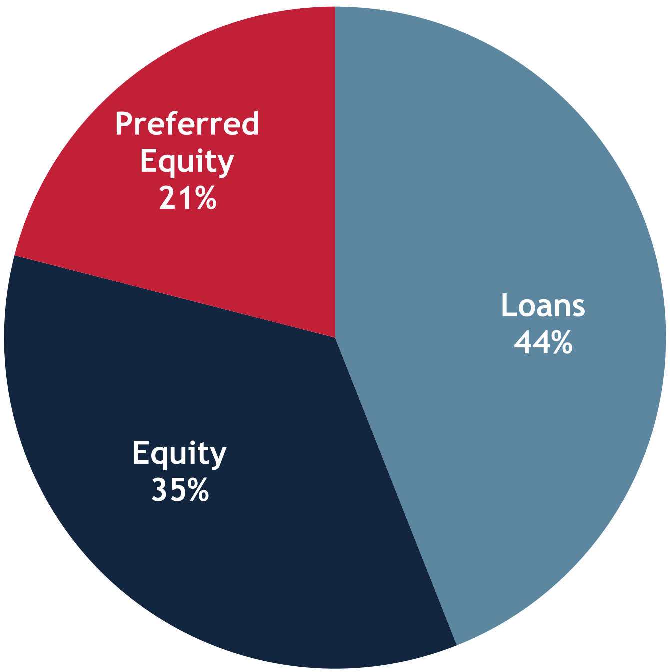
OVERVIEW OF AEW'S ROLE

- Hired on March 1, 2015 by Dallas Police and Fire Pension System ("DPF") as strategic advisor and successor investment manager for three of DPF's real estate and private equity investments. The three investments include:
  - **RED Consolidated Holdings** ("RCH"), a 50/50 operating company joint venture with RED Development ("RED"), a Phoenix-based retail and mixed-use development, management and leasing firm with owned and/or managed assets located throughout the southwest and midwest;
  - **Camel Square**, a 100% fee ownership interest in a 290,000-square-foot suburban office complex located on the corner of Camelback and 44th Street in Phoenix, Arizona that is slated for redevelopment into a mixed-used property that could feature a combination of residential, office, hotel, or restaurant uses; and
  - **Creative Attractions** ("CA"), a 45% private equity investment in a restaurant development and operating company that opened the 14,000-square-foot Boathouse Restaurant in the Disney Springs development in Orlando, Florida in April 2015.
- AEW is the strategic oversight manager on DPF's operating company investments in RCH and CA, with RED serving as asset manager, and AEW holding three of six seats on the RCH Management Committee
  - AEW directly asset manages Camel Square and has retained RED on a consulting basis for the rezoning effort.
- AEW's role is to clarify and meet DPF's goals and objectives while providing transparency in its strategic oversight of all three investments, including:
  - maximizing proceeds from sales, refinancing(s), and development projects while reducing the portfolio's overall risk profile and DPF liabilities with a significant downsizing of DPF's position in RCH and CA over a 3-5 year period.
  - developing a recapitalization strategy for DPF's 50% ownership in the RCH operating platform and its position in CA, with special emphasis on reducing DPF company level guarantees.
  - Identifying and implementing key corporate-level process and policy changes at RCH, specifically to establish institutional quality "best practices" to improve governance, balance sheet management, operational efficiency and profitability to position the company for recapitalization at the highest possible value.

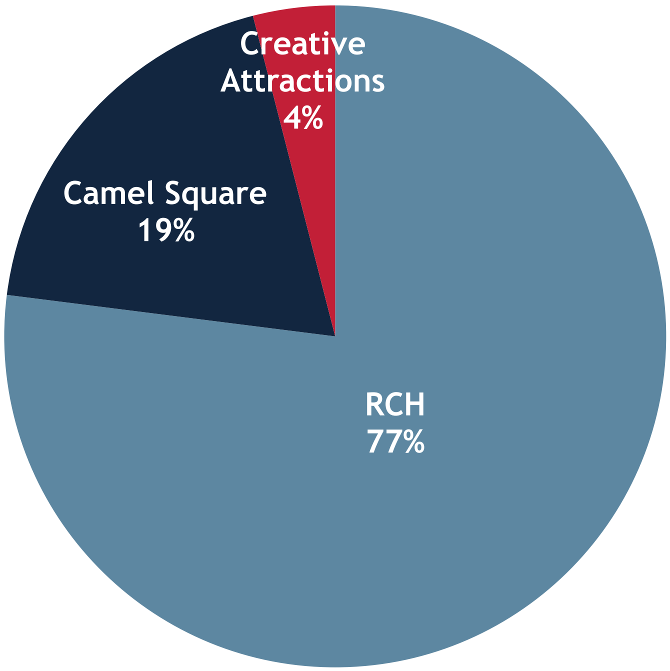
PORTFOLIO OVERVIEW

Total DPF Net Investment Value

BY INVESTMENT TYPE
as of 12/31/16



BY HOLDING
as of 12/31/16



DISCUSSION SHEET

ITEM #C7

Topic: **NEPC: Real estate portfolio review**

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

Attendees: Michael Yang, Consultant – Real Assets

Discussion: NEPC, DPFP's investment consultant, will present an overview of the real estate allocation including a detailed review of separate account holdings. NEPC's scope was expanded in March of 2016 to include the real estate portfolio.

DISCUSSION SHEET

ITEM #C8

Topic: **Investment reports**

Discussion: Review of investment reports.

Dallas Police and Fire Pension System - Net of Fees

Returns By Category
As of February 2017

Name	Market Value	Allocation	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Inception Date
Dallas Police And Fire Group Trust	**2,122,392,570**	**100.00**	**0.18**	**0.42**	**0.42**	**5.06**	**(3.46)**	**1.06**		**01-Jan-1995**
Equity	**486,628,442**	**22.93**	**0.68**	**0.93**	**0.93**	**6.58**				**01-Jan-2016**
MSCI AC 66.7%/EM 16.7%/R3000+3 16.7%			3.05	6.04	6.04	24.73				
Global Equity	**170,772,125**	**8.05**	**2.63**	**5.66**	**5.66**	**22.17**	**5.17**	**8.91**		**01-Jul-2009**
MSCI ACWI			2.85	5.68	5.68	22.76	5.38	8.84		
Private Equity	**315,856,316**	**14.88**	**(0.32)**	**(1.35)**	**(1.35)**	**(3.07)**				**01-Jan-2016**
Russell 3000 +3%			3.95	6.18	6.18	30.08				
Fixed Income	**265,139,559**	**12.49**	**(0.37)**	**1.07**	**1.07**	**13.95**				**01-Jan-2016**
Fixed Income Blended			0.99	2.32	2.32	12.60				
Global Bonds	**61,356,011**	**2.89**	**1.44**	**3.45**	**3.45**	**4.14**				**01-Jan-2016**
Barclays Global Aggregate			0.47	1.61	1.61	0.59				
High Yield	**78,322,929**	**3.69**	**1.31**	**3.86**	**3.86**	**29.76**				**01-Jan-2016**
Barclays Global High Yield			1.24	3.12	3.12	18.84				
Bank Loans	**56,921,204**	**2.68**	**0.69**	**1.31**	**1.31**	**16.27**				**01-Jan-2016**
S&P Leveraged Loan Index			0.18	0.33	0.33	10.00				
EM Debt	**18,131,357**	**0.85**	**2.67**	**5.10**	**5.10**	**19.47**				**01-Jan-2016**
EM Debt Blended			1.90	3.79	3.79	12.50				
Private Debt	**50,408,059**	**2.38**	**(7.29)**	**(7.48)**	**(7.48)**	**(4.66)**				**01-Jan-2016**
Barclays Global High Yield +2%			1.39	3.45	3.45	21.22				

Performance shown is net of manager fees

J.P.Morgan

Dallas Police and Fire Pension System - Net of Fees

Returns By Category
As of February 2017

Name	Market Value	Allocation	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Inception Date
Global Asset Allocation (GAA)	**136,522,392**	**6.43**	**1.51**	**1.93**	**1.93**	**15.28**	**4.82**	**4.55**		**01-Jul-2007**
GAA Blended			1.54	3.31	3.31	10.91	2.78	4.72		
Absolute Return	**37,592,537**	**1.77**	**0.91**	**(1.64)**	**(1.64)**					**01-Jun-2016**
HFRX Absolute Return Index			0.11	0.40	0.40					
Risk Parity	**77,835,072**	**3.67**	**1.61**	**3.37**	**3.37**	**13.82**				**01-Jan-2016**
MSCI ACWI 60%/Barclays Global Aggregate 40%			1.90	4.04	4.04	13.48				
GTAA	**21,094,783**	**0.99**	**2.23**	**3.28**	**3.28**	**8.12**				**01-Jan-2016**
MSCI ACWI 60%/Barclays Global Aggregate 40%			1.90	4.04	4.04	13.48				
Real Assets	**1,005,464,777**	**47.37**	**(0.06)**	**(0.15)**	**(0.15)**	**(2.07)**				**01-Jan-2016**
Natural Resources	**262,994,839**	**12.39**	**(0.64)**	**(0.58)**	**(0.58)**	**3.44**	**3.79**	**5.62**		**01-Jul-2009**
Infrastructure	**167,545,443**	**7.89**	**(0.74)**	**(0.17)**	**(0.17)**	**(5.15)**	**(2.55)**			**01-Jul-2012**
S&P Global Infrastructure Index			2.98	4.38	4.38	17.14	4.15			
Real Estate	**574,924,494**	**27.09**	**0.41**	**0.05**	**0.05**	**(3.44)**				**01-Jan-2016**
NCREIF Property			0.00	0.00	0.00	7.97				
Control/Holding Account	**358,637,401**	**16.90**	**0.06**	**0.13**	**0.13**	**0.47**	**0.22**	**0.20**		**01-Jan-1994**
Merrill Lynch 3 Month US T-BILL			0.04	0.09	0.09	0.39	0.16	0.14	0.73	
Master Loans	**(130,000,000)**	**(6.13)**								**01-Mar-2014**

Performance shown is net of manager fees

J.P.Morgan

Dallas Police and Fire Pension System - Net of Fees

Equity

As of February 2017

Name	Market Value	Allocation	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Inception Date
Dallas Police And Fire Group Trust	**2,122,392,570**	**100.00**	**0.18**	**0.42**	**0.42**	**5.06**	**(3.46)**	**1.06**		**01-Jan-1995**
Equity	**486,628,442**	**22.93**	**0.68**	**0.93**	**0.93**	**6.58**				**01-Jan-2016**
MSCI AC 66.7%/EM 16.7%/R3000+3 16.7%			3.05	6.04	6.04	24.73				
Global Equity	**170,772,125**	**8.05**	**2.63**	**5.66**	**5.66**	**22.17**	**5.17**	**8.91**		**01-Jul-2009**
MSCI ACWI			2.85	5.68	5.68	22.76	5.38	8.84		
Eagle Asset Management	55	0.00								28-Feb-2005
Mitchell Group	3	0.00								01-Nov-2001
OFI	81,852,606	3.86	3.94	7.27	7.27	22.15	4.34	10.34		01-Sep-2007
MSCI ACWI			2.85	5.68	5.68	22.76	5.38	8.84		
Pyramis Global Advisors (Fidelity)	161,751	0.01								01-Apr-2002
RREEF REIT	89,107	0.00								01-Jan-1999
Sustainable Asset Management	52,420	0.00								30-Nov-2008
Walter Scott and Partners	88,616,184	4.18	1.41	4.48	4.48	16.08	5.10	8.35		01-Dec-2009
MSCI ACWI			2.85	5.68	5.68	22.76	5.38	8.84		
Private Equity	**315,856,316**	**14.88**	**(0.32)**	**(1.35)**	**(1.35)**	**(3.07)**				**01-Jan-2016**
Russell 3000 +3%			3.95	6.18	6.18	30.08				
BankCap Opportunity Fund	0	0.00	0.00	0.00	0.00	2.95	(22.14)			01-Aug-2013
Bankcap Partners	5,714,193	0.27	0.00	0.00	0.00	(2.72)	0.58	(0.10)		01-Feb-2007

Performance shown is net of manager fees

Dallas Police and Fire Pension System - Net of Fees

Equity

As of February 2017

Name	Market Value	Allocation	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Inception Date
Hudson Clean Energy Partners LP	13,501,582	0.64	0.00	0.00	0.00	(25.04)	(8.01)	(11.72)		01-Aug-2009
Huff Alternative Fund LP	31,971,636	1.51	1.09	1.09	1.09	12.99	2.51	4.09		01-Jun-2001
Huff Energy Fd	131,208,655	6.18	0.00	0.00	0.00	19.14	(13.35)	(2.84)		31-Dec-2006
Industry Ventures Partnership Holdings IV LP	516,441	0.02	0.00	0.00	0.00					15-Jul-2016
Kainos Capital Partners	75	0.00	0.00	0.00	0.00	31.18	20.16			01-Jan-2014
Levine Leichtman Capital Partner IV LP	2	0.00	0.00	88.70	88.70	163.62	44.12	37.01		01-Apr-2008
Levine Leichtman Capital Partners V LP	129	0.00	0.00	0.87	0.87	19.98	15.74			06-Aug-2013
Lone Star CRA Fund LP	60,331,833	2.84	0.00	0.00	0.00	(36.55)	(20.64)	(7.13)		01-Jul-2008
Lone Star Growth Capital	10,750,759	0.51	0.00	0.00	0.00	(15.40)	(12.23)	2.19		31-Dec-2006
Lone Star Opportunities Fund V LP	54,328,102	2.56	0.00	0.00	0.00	(36.23)	(9.95)	10.62		01-Jan-2012
Merit Energy	0	0.00	0.30	(36.31)	(36.31)	(51.05)	(22.24)	(12.31)		31-Oct-2004
North Texas Opportunity Fund LP	4,567,930	0.22	0.00	0.00	0.00	(9.49)	(15.20)	(14.14)		01-Aug-2000
Oaktree Power Opportunities Fund III LP	757	0.00	(76.37)	(72.68)	(72.68)	(71.97)	(28.27)	(12.85)		01-Apr-2011
Pharos Capital	2,849,525	0.13	0.00	0.00	0.00	(51.09)	(17.03)	(6.22)		30-Aug-2005
Pharos Capital Partners III LP	0	0.00	0.00	0.00	0.00	(26.27)	(12.02)			01-Dec-2012
Yellowstone Energy Ventures II LP	114,697	0.01	0.00	0.00	0.00	(12.04)	(42.32)	(33.24)		01-Sep-2008

Performance shown is net of manager fees

J.P.Morgan

Dallas Police and Fire Pension System - Net of Fees

Fixed Income
As of February 2017

Name	Market Value	Allocation	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Inception Date
Dallas Police And Fire Group Trust	**2,122,392,570**	**100.00**	**0.18**	**0.42**	**0.42**	**5.06**	**(3.46)**	**1.06**		**01-Jan-1995**
Fixed Income	**265,139,559**	**12.49**	**(0.37)**	**1.07**	**1.07**	**13.95**				**01-Jan-2016**
Fixed Income Blended			0.99	2.32	2.32	12.60				
Global Bonds	**61,356,011**	**2.89**	**1.44**	**3.45**	**3.45**	**4.14**				**01-Jan-2016**
Barclays Global Aggregate			0.47	1.61	1.61	0.59				
Brandywine Investment Management	61,356,011	2.89	1.44	3.45	3.45	5.10	0.70	1.51		01-Jan-2005
Barclays Global Aggregate Index			0.47	1.61	1.61	0.59	(0.47)	0.21	3.35	
High Yield	**78,322,929**	**3.69**	**1.31**	**3.86**	**3.86**	**29.76**				**01-Jan-2016**
Barclays Global High Yield			1.24	3.12	3.12	18.84				
Loomis Sayles Global Opportunity	78,322,372	3.69	1.31	3.96	3.96	32.32	4.14	7.21		01-Nov-1998
70% Merrill High Yield / 30% JPM Emerging Markets			1.72	3.11	3.11	19.06	5.16	6.37	7.24	
W.R. Huff High Yield	558	0.00								01-Jan-1995
Bank Loans	**56,921,204**	**2.68**	**0.69**	**1.31**	**1.31**	**16.27**				**01-Jan-2016**
S&P Leveraged Loan Index			0.18	0.33	0.33	10.00				
Loomis Sayles Senior Floating Rate and Fixed Income Trust	56,921,204	2.68	0.69	1.31	1.31	16.27	3.98			01-Nov-2013
S&P/LSTA Leveraged Loan Index			0.18	0.33	0.33	10.00	(0.02)			
EM Debt	**18,131,357**	**0.85**	**2.67**	**5.10**	**5.10**	**19.47**				**01-Jan-2016**
EM Debt Blended			1.90	3.79	3.79	12.50				
Ashmore Emerging Markets Debt Fund	1,396	0.00	3.47	5.61	5.61	20.52	5.17	4.97		01-Jan-2005
JP Morgan EMBI Global Diversified			2.00	3.48	3.48	12.05	6.58	5.80		

Performance shown is net of manager fees

J.P.Morgan

Dallas Police and Fire Pension System - Net of Fees

Fixed Income

As of February 2017

Name	Market Value	Allocation	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Inception Date
Ashmore Emerging Markets Local Currency Bond Fund	18,129,960	0.85	2.09	4.88	4.88	16.45	(1.87)	(2.46)		01-Mar-2011
JP Morgan GBI-EM Global Diversified			1.80	4.09	4.09	12.70	(2.44)	(2.41)		
Private Debt	**50,408,059**	**2.38**	**(7.29)**	**(7.48)**	**(7.48)**	**(4.66)**				**01-Jan-2016**
Barclays Global High Yield +2%			1.39	3.45	3.45	21.22				
Highland Capital Management Note Due 12-31-2017	6,215,935	0.29	0.00	0.00	0.00	4.40	2.37	14.40		01-Dec-2006
Highland Crusader Fund LP	2,527,649	0.12	(1.06)	(6.53)	(6.53)	(10.14)	(7.60)	(3.52)		01-Aug-2003
Levine Leichtman Capital	885,387	0.04	0.00	0.00	0.00	66.96	28.46	9.56		01-Oct-2006
Lone Star Partners VII LP	2,200,194	0.10	(7.97)	(7.97)	(7.97)	(23.81)	2.64	31.18		01-Jul-2011
Lone Star Fund VIII LP	9,123,208	0.43	(2.73)	(2.73)	(2.73)	(14.76)	12.79			01-Jun-2013
Lone Star Fund IX	23,848,906	1.12	3.02	3.02	3.02	22.64				01-Apr-2015
Oaktree Fund IV & 2x Loan Fund	162,323	0.01	(85.72)	(85.32)	(85.32)	(84.92)	(50.06)	(32.59)		01-Jan-2002
Riverstone Credit Partners LP	5,444,413	0.26	0.00	0.00	0.00					01-Jun-2016

Performance shown is net of manager fees

J.P.Morgan

Dallas Police and Fire Pension System - Net of Fees

Asset Allocation
As of February 2017

Name	Market Value	Allocation	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Inception Date
Dallas Police And Fire Group Trust	**2,122,392,570**	**100.00**	**0.18**	**0.42**	**0.42**	**5.06**	**(3.46)**	**1.06**		**01-Jan-1995**
Global Asset Allocation (GAA)	**136,522,392**	**6.43**	**1.51**	**1.93**	**1.93**	**15.28**	**4.82**	**4.55**		**01-Jul-2007**
GAA Blended			1.54	3.31	3.31	10.91	2.78	4.72		
Absolute Return	**37,592,537**	**1.77**	**0.91**	**(1.64)**	**(1.64)**					**01-Jun-2016**
HFRX Absolute Return Index			0.11	0.40	0.40					
Bridgewater-Pure Alpha Major Markets	37,592,537	1.77	0.91	(1.64)	(1.64)					01-Jul-2016
Risk Parity	**77,835,072**	**3.67**	**1.61**	**3.37**	**3.37**	**13.82**				**01-Jan-2016**
MSCI ACWI 60%/Barclays Global Aggregate 40%			1.90	4.04	4.04	13.48				
AQR Capital Management	927,465	0.04	0.00	0.00	0.00	77.07	19.03			30-Sep-2013
Bridgewater	41,143,801	1.94	2.29	3.71	3.71	12.94	5.12	4.45		01-May-2007
Putnam Total Return	35,763,806	1.69	0.89	3.07	3.07	12.49	2.68	3.83		01-Dec-2009
GTAA	**21,094,783**	**0.99**	**2.23**	**3.28**	**3.28**	**8.12**				**01-Jan-2016**
MSCI ACWI 60%/Barclays Global Aggregate 40%			1.90	4.04	4.04	13.48				
GMO	21,094,783	0.99	2.23	3.28	3.28	8.12	1.82	4.04		01-May-2007

Performance shown is net of manager fees

J.P.Morgan

Dallas Police and Fire Pension System - Net of Fees

Real Assets

As of February 2017

Name	Market Value	Allocation	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Inception Date
Dallas Police And Fire Group Trust	**2,122,392,570**	**100.00**	**0.18**	**0.42**	**0.42**	**5.06**	**(3.46)**	**1.06**		**01-Jan-1995**
Real Assets	**1,005,464,777**	**47.37**	**(0.06)**	**(0.15)**	**(0.15)**	**(2.07)**				**01-Jan-2016**
Natural Resources	**262,994,839**	**12.39**	**(0.64)**	**(0.58)**	**(0.58)**	**3.44**	**3.79**	**5.62**		**01-Jul-2009**
Infrastructure	**167,545,443**	**7.89**	**(0.74)**	**(0.17)**	**(0.17)**	**(5.15)**	**(2.55)**			**01-Jul-2012**
S&P Global Infrastructure Index			2.98	4.38	4.38	17.14	4.15			
J.P. Morgan AIRRO II	4,476,270	0.21	0.00	0.00	0.00	(17.17)	(11.46)			01-Mar-2014
JP Morgan Global Maritime Investment Fund	26,677,041	1.26	0.00	0.00	0.00	(36.34)	(16.04)	(41.14)		01-Jun-2010
JP Morgan IIF Tax-Exempt LP	30,367,374	1.43	(0.85)	(0.85)	(0.85)	1.35	1.16	3.60		01-Oct-2007
JPM Asian Infras And Related Resources Oppor Fd	19,053,179	0.90	(4.89)	(0.83)	(0.83)	(1.77)	(1.28)	1.82		01-Aug-2008
LBJ Infrastructure Group Holdings LLC	44,346,035	2.09	0.00	0.00	0.00	0.00	0.00	0.00		01-Jun-2010
NTE Mobility Partners	42,625,545	2.01	0.00	0.00	0.00	0.00	0.00	0.00		01-Dec-2009
Real Estate	**574,924,494**	**27.09**	**0.41**	**0.05**	**0.05**	**(3.44)**				**01-Jan-2016**
NCREIF Property			0.00	0.00	0.00	7.97				

Performance shown is net of manager fees

Disclaimer

This report is provided exclusively for the purpose of assisting the customer in monitoring the investment performance of its accounts. J.P. Morgan is providing a reporting service to the customer to assist it in the management of the accounts and, in doing so, is not acting in a fiduciary capacity for the accounts. J.P. Morgan has no responsibility for the selection, monitoring or termination of any investment manager with respect to any of the accounts. The reports are not intended to be considered the rendering of investment advice or in any way to influence any investment decisions or the selection of any investment managers for the accounts. The customer assumes sole responsibility for its use of the reports.

This report contains information that is the property of J.P. Morgan and/or its content providers, and is intended for use by the investment officers of our institutional clients. J.P. Morgan makes no warranty, express or implied, concerning the accuracy or completeness of this information and the information in this report should not be relied on in substitution for the exercise of independent judgment by any recipient. This report may not be copied, published, or used in whole or in part with third-parties for any purposes other than expressly authorized by J.P. Morgan.

The information furnished in this report may contain data obtained from third-party sources that J.P. Morgan believes to be reliable. However, J.P. Morgan makes no warranty, express or implied, concerning the accuracy or completeness of third-party data. Where J.P. Morgan relies on accounting, pricing and associated security data – or instructions for what accounts comprise composites – by the customer or its third party administrators, J.P. Morgan takes no responsibility for the accuracy of such information.

Third-party data is the intellectual property of those vendors and is subject to restrictions contained in the licenses, which J.P. Morgan cannot unilaterally change. If the third party supplier adds additional restrictions to data use, J.P. Morgan shall use reasonable efforts to notify the customer of such changes in writing. Customer's continued use of the report after receipt of notice shall constitute customer's acceptance of the revised usage provision.

The information contained in this report may be subject to change from time to time without prior notice to the Customer, for reasons including, but not limited to, the subsequent restating of accounting information or index returns.

The information furnished in this report does not constitute the provision of 'financial product advice' as defined under the Corporations Act 2001 (Cth) and does not take into account the financial situation, needs or objectives of individuals in Australia.

The information furnished in this report is available in New Zealand solely to persons who are wholesale clients for the purposes of the Financial Advisers Act 2008. If you do not meet this criterion, you are not entitled to this report.

J.P. Morgan shall not be liable to the customer or any other person for any direct or indirect liability, loss, claim, cost, damage, penalty, fine, obligation or expense of any kind whatsoever suffered or incurred by, or asserted against, the customer or any other person howsoever arising, whether in tort (including negligence), in contract or under statute, directly or indirectly from, or in connection with, the use of this report or report information, for any trading decision.

The Global Industry Classification Standard ("GICS") was developed by and is the exclusive property and a service mark of Morgan Stanley Capital International Inc. ("MSCI") and Standard's,' a division of The McGraw-Hill Companies, Inc. ("S&P") and is licensed for use by The JPMorgan Chase & Co. and its wholly owned subsidiaries.

Neither MSCI, S&P, nor any other party involved in making or compiling the GICS or any GICS classifications makes any express or implied warranties or representations with respect to such standard or classification (or the results to be obtained by the use thereof), and all such parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability and fitness for a particular purpose with respect to any of such standard or classification. Without limiting any of the foregoing, in no event shall MSCI, S&P, any of their affiliates or any third party involved in making or compiling the GICS or any GICS classifications have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

Standard and Poor's including its subsidiary corporations ("S&P") is a division of the McGraw-Hill Companies, Inc. Reproduction of S&P Index Alerts in any form is prohibited except with the prior written permission of S&P. Because of the possibility of human or mechanical error by S&P sources, S&P, or others, S&P does not guarantee the accuracy, adequacy, completeness or availability of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. S&P gives not express or implied warranties, including, but not limited to, any warranties or merchantability or fitness for a particular purpose or use. In no event shall S&P be liable for any indirect, special or consequential damages in connection with subscriber's or others' use of S&P Index Alerts.

The recipient of the credit ratings data (in any format other than locked, non-manipulable on-screen display) must ensure that a valid and fully paid license with the relevant credit ratings agency is in existence as at the time of receipt and throughout the period during which recipient retains or uses such credit ratings data.

This may contain information obtained from third parties, including ratings from credit ratings agencies such as Standard & Poor's. Reproduction and distribution of third party content in any form is prohibited except with the prior written permission of the related third party. Third party content providers do not guarantee the accuracy, completeness, timeliness or availability of any information, including ratings, and are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, or for the results obtained from the use of such content. THIRD PARTY CONTENT PROVIDERS GIVE NO EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE. THIRD PARTY CONTENT PROVIDERS shall not be liable for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including lost income or profits and opportunity costs OR LOSSES CAUSED BY NEGLIGENCE) in connection with any use of THEIR CONTENT, INCLUDING ratings. Credit ratings are statements of opinions and are not statements of fact or recommendations to purchase, hold or sell securities. They do not address the suitability of securities or the suitability of securities for investment purposes, and should not be relied on as investment advice.

Neither JPMorgan Chase & Co nor any of its affiliates, subsidiaries, or third party suppliers ("JPMorgan") accepts any liability for any losses, costs, claims, damages, liabilities or expenses (including, without limitation, loss of profits) (collectively, "Losses") which the recipient may incur as a result of its use of the data or its failure to hold a valid and fully paid license with the relevant credit rating agencies." SM

FTSE ® is a trade mark of London Stock Exchange Plc and The Financial Times Limited and is used by FTSE under license. All rights in the FTSE Indices vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE Indices or underlying data.

The Industry Classification Benchmark is a joint product of FTSE International Limited and Dow Jones & Company, Inc. and has been licensed for use. "FTSE" is a trade and service mark of London Stock Exchange and The Financial Times Limited."Dow Jones" and "DJ" are trade and service marks of Dow Jones Inc. FTSE and Dow Jones & Company do not accept any liability to any person for any loss or damage arising out of any error or omission in the ICB.

The Dow Jones Wilshire IndexesSM are calculated, distributed and marketed by Dow Jones & Company , Inc. pursuant to an agreement between Dow Jones and Wilshire and have been licensed for use. All content of the Dow Jones Wilshire IndexesSM © 2011 Dow Jones & Company, Inc. and Wilshire Associates Incorporated.

Frank Russell Company ("FRC") is the source and owner of the Russell Index data contained or reflected in this material and all trademarks and copyrights related thereto. The presentation may contain confidential information and unauthorized use, disclosure, copying, dissemination or redistribution is strictly prohibited. This is a USER presentation of the Russell Index data. Frank Russell Company is not responsible for the formatting or configuration of this material or for any inaccuracy in USER's presentation thereof.

The Merrill Lynch Indices are used with permission. Copyright 2011, Merrill Lynch, Pierce, Fenner & Smith Incorporated. All rights reserved. The Merrill Lynch Indices may not be copied, used, or distributed without Merrill Lynch's prior written approval. Merrill Lynch does not guarantee the quality, accuracy and/or completeness of the Merrill Lynch indices or any data included therein or derived therefrom and shall not be liable to any third party in connection with their use.

© UBS 2011. All rights reserved. The name UBS Global Convertible Bond Index and the names of the related UBS AG sub-indices (together the "UBS Indices") are proprietary to UBS AG ("UBS"). UBS and MACE Advisers Ltd (the UBS Global Convertible Bond Index Calculation Agent) are together the "Index Parties". SM

© IPD (Investment Property Databank Ltd.) 2011 All rights conferred by law of copyright, by virtue of international copyright conventions and all other intellectual property laws are reserved by IPD. No part of the Mercer / IPD Australian Pooled Property Fund Index - Wholesale Core may be reproduced or transmitted, in any form or by any means, without the prior written consent of IPD. This index is neither appropriate nor authorized by IPD for use as a benchmark for portfolio or manager performance, or as the basis for any business decision. IPD gives no warranty or representation that the use of this information will achieve any particular result for you. Neither Mercer nor IPD has any liability for any losses, damages, costs or expenses suffered by any person as a result of any reliance on this information.

The NZX indices referred to in this report are the property of NZX Limited ("NZX"). Any adaptation, reproduction or transmittance of the data or contents of the NZX indices in any form or by any means other than for private use is prohibited without the prior written permission of NZX. NZX and its affiliates, directors, officers, agents or employees do not make any warranty of any kind, either express or implied, as to the accuracy of the content of the NZX indices or fitness for a particular purpose or use. NZX hereby disclaims all liability to the maximum extent permitted by law in relation to the NZX indices. Neither NZX, its subsidiary companies, nor their directors, officers, agents or employees shall, under any circumstances, be liable to any person for any direct, indirect, consequential,

J.P.Morgan

Disclaimer

incidental, special or punitive damages, howsoever arising (whether in negligence or otherwise), out of or in connection with the content, any omission from the content, any use of the content or any actions taken or reliance by any person thereon.

The calculation of Value-at-Risk requires numerous assumptions that should be kept in mind when interpreting it. These limitations include but are not limited to the following: VaR measures may not appropriately convey the magnitude of sudden and unexpected extreme events, historical data that forms the basis of VaR may fail to predict content and future market volatility, and our VaR methodology does not fully reflect the effects of market illiquidity (the inability to sell or hedge a position over a relatively long period) and does not incorporate credit risk events that may affect its value.

The information furnished in this report may be based in part on services provided by Algorithmics (U.S.), Inc. and/or its affiliates ("Algorithmics"). Algorithmics does not make any express or implied warranty or representation regarding its services or contributions to this report, including any warranty of originality, accuracy, completeness, merchantability or fitness for a particular purpose, nor shall its services or contributions to this report be construed as providing any financial advice, auditing, accounting, appraisal, regulatory or compliance services. Algorithmics is not responsible for the data or assumptions that are processed through Algorithmics' services nor can Algorithmics guarantee the accuracy or validity of data received from third parties that enables the service to generate the information contained in this report. In no event shall Algorithmics have any liability for any direct, indirect, special, punitive, consequential or any other damages arising out or relating to its services or contributions to this report, or your reliance thereon. By accepting this report, the recipient is agreeing to the foregoing limitations on Algorithmics' responsibility and liability.

Please review this report carefully. The contents of this report will be considered correct and the recipient will be taken to have read, accepted and acknowledged the correctness and accuracy of this report, if no error is reported by the recipient within 3 business days of the issue of this report.

DISCUSSION SHEET

ITEM #C9

Topic: **Executive Director Authority under Investment Policy Statement**

Discussion: The current Investment Policy Statement (IPS), which was approved in May 2016, included asset class targets and ranges. Pursuant to the IPS, staff has authority to rebalance to the upper and lower bounds of the target asset class ranges with the investment consultant's approval.

At the November 2016 Board meeting, it was noted that since several asset classes were at or below the lower bound of the target range, rebalancing certain asset classes below the lower bound of the range would be required. At that meeting, the Board approved a motion allowing staff and the investment consultant, for a six-month period ending with the April 13, 2017 Board meeting, to (i) rebalance outside the target ranges set forth in the IPS or (ii) terminate managers for rebalancing purposes, in both situations where prior approval of the Board is not possible due to timing and it is the Executive Director's determination that such rebalancing is in DPFP's best interest, provided that if such actions are taken, the Board is advised at the next regularly scheduled Board meeting.

Staff Recommendation: **Approve** the above motion for an additional five-month period ending with the September 8, 2017 Board meeting.

INVESTMENT POLICY STATEMENT

As Amended through May 12, 2016

INVESTMENT POLICY STATEMENT

Adopted April 14, 2016
As Amended through May 12, 2016

TABLE OF CONTENTS

INVESTMENT POLICY STATEMENT

Adopted April 14, 2016
As Amended through May 12, 2016

Section I. Introduction and Purpose

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

A. Stating in a written document DPFP's expectations, objectives and guidelines for the investment of assets;

B. Setting forth an investment structure for managing the portfolio. This structure includes assigning various asset classes, investment management styles, asset allocation and acceptable ranges that, in total, are expected to produce an appropriate level of overall diversification and total investment return over the investment time horizon;

C. Encouraging effective communications between the Board, IAC, Staff, Consultant(s), Investment Managers and Custodian(s);

D. Set forth policy that will consider various factors, including inflation, consumption, taxes, liquidity and administrative expenses, that will affect the portfolio's short and long term total expected returns and risk;

E. Establishing formal criteria to select, evaluate, monitor, compare, and attribute the performance of Investment Managers on a regular basis; and

F. Complying with all applicable fiduciary and due diligence requirements experienced investment professionals would utilize, and with all applicable laws, rules and regulations from various local, state, federal, and international political entities that can impact DPFP.

Section II. Design, Goals, and Objectives

Staff and the Consultant(s) are expected to deliver excess return beyond the Policy Benchmark[1] through manager selection and asset allocation adjustments. By achieving allocation and performance objectives consistently, the long term investment goals of DPFP are expected to be achieved.

A. Goals

1. Ensure funds are available to meet current and future obligations of the plan when due while earning a long-term, net of fees investment return greater than the actuarial return assumption.

2. To consistently rank in the top half of the public fund universe over the rolling three-year period, net of fees.

B. Objectives

1. To maintain a diversified asset allocation;

2. To provide for an appropriate risk adjusted rate of return;

3. To allow for both passive and active investment management;

4. To monitor quarterly manager performance;

5. To monitor monthly asset allocation changes;

6. To outperform the Policy Benchmark over rolling three year periods;

7. To control and monitor the costs of administering and managing the investments;

8. Establish guidelines and procedures for selecting, monitoring and replacing investment vehicles; and

9. Re-evaluate annually the policies defined in this IPS.

---

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

Section III. Standards of Conduct and Fiduciary Responsibility

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

A. Place the interest of DPFP above personal interests;

B. Act with integrity, competence, diligence, respect, and in an ethical manner;

C. Use reasonable care, diligence, and exercise independent professional judgment when conducting analysis, making recommendations, and taking actions;

D. Promote the integrity of and uphold the rules governing DPFP;

E. Comply with all applicable laws, rules, and regulations of any government agency, regulatory organization, licensing agency, or professional association governing their professional activities;

F. Not assist or knowingly participate in any violation of governing laws, rules, or regulations;

G. Not accept gifts, benefits, or compensation that could be expected to compromise independence and objectivity;

H. Must not knowingly make any statement that misrepresents facts relating to investment analysis, recommendations, actions, or other professional activities;

I. Not engage in conduct involving dishonesty, fraud, deceit; and

J. Make full disclosure (annually) of all matters that could reasonably be expected to impair independence and objectivity with their respective duties to DPFP.

Section IV. Core Beliefs and Long Range Acknowledgements

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

A. A well-defined governance structure with clearly delineated responsibilities is critical in achieving consistent, long term performance objectives.

B. The strategic asset allocation determines the risk reward profile of the portfolio and thus drives overall portfolio volatility.

---

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

Section IV. Core Beliefs and Long Range Acknowledgements (continued)

C. The opportunity for active manager outperformance (alpha) is not uniformly distributed across asset classes or Investment Managers' strategies.

D. Leverage may improve a risk / return profile when structured appropriately.

E. Portfolio cash flow and income will be used to rebalance the asset allocation.

Section V. Roles and Responsibilities

A. Board

The Board is made up of twelve (12) Trustees. The Board has a fiduciary role as the representative of DPFP. The Board recognizes its fiduciary duty and acknowledges its responsibility to ensure that the management of plan and DPFP's fund is in compliance with state and federal laws. Additionally, the Board:

1. Establishes investment objectives consistent with the needs of DPFP and prepares the IPS of DPFP;
2. Prudently diversifies, selects, and maintains a general investment strategy consistent with allocation ranges and investment guidelines including an agreed upon risk/return profile;
3. Approves strategic asset allocation targets and ranges;
4. Prudently hires, monitors, & terminates Consultant(s), Investment Managers and other vendors;
5. Reviews investment related expenses;
6. Approves Board travel related to investment monitoring, and in exceptional cases due diligence;
7. Approves any expansion or renewals of the DPFP leverage facility and reviews existing facility;
8. Adopts the IPS and annually reviews in the last quarter of each calendar year and revises as needed; and
9. Avoids prohibited transactions and conflicts of interest.

B. Investment Advisory Committee

1. IAC Composition, Selection and Criteria:

    a. The IAC serves at the discretion of the Board of Trustees;

    b. The IAC is composed of seven members and represented by three constituent groups: Dallas Police Department, Dallas Fire Department, and Dallas City Council.

    c. Each constituent group will nominate at least one and up to two outside investment professionals to represent their group on the IAC;

    d. One of the two representatives from each group may be filled by an existing Board member;

    e. The Executive Director will nominate one additional outside investment professional to the IAC;

    f. The Board will vote on and approve all IAC nominations;

    g. To be eligible to serve on the IAC, an individual must live or work any county that contains a portion of the City of Dallas;

    h. An IAC meeting requires a quorum of at least four members, of which, at least two members must be outside investment professionals;

    i. An IAC member will serve staggered terms of three years. It is contemplated that the outside investment members of the IAC will sign an agreement and be compensated as determined to be reasonable by the Board. Compensation and expenses are reimbursable under the Education and Travel Policies and Procedure. The IAC selects a chair and vice chair from its members, for a two-year term, to serve as liaison to the Board and to preside over IAC meetings;

    j. Each outside investment professional member of the IAC will respond annually to a disclosure questionnaire, which the Board will review for any independence issues or potential conflicts of interest;

    k. If the Executive Director learns that potential ground for removal of an IAC member exists, the Executive Director shall notify the Chair of the Board of the potential grounds for removal;

B. Investment Advisory Committee (continued)

1. IAC Composition, Selection and Criteria: (continued)

   l. The Board of Trustees may elect to dismiss a member of IAC for any reason; and

   m. The IAC will meet at least quarterly at duly noticed public meetings.

2. IAC Roles and Responsibilities:

   a. The IAC will review all investment related items including, but not limited to, annual asset allocation updates and the hiring or termination of Investment Managers, Consultant(s), and Custodian;

   b. The IAC will vote on each investment related action item;

   c. The IAC chair or vice chair will update the Board with an abbreviated version of the facts and the IAC recommendation, or lack thereof, to the Board, which will accompany the Staff and Consultant recommendations;

   d. The IAC shall review Staff and Consultant recommendations on asset allocation targets and ranges at least annually, and provide an IAC recommendation to the Board; and

   e. Acts as fiduciaries to DPFP.

C. Staff

1. Executive Director

   a. The Executive Director is authorized to administer the operations and investment activities of DPFP under policy guidance from the Board;

   b. Manages the day to day operations of DPFP;

   c. Reports to Board when strategic asset allocation breaches target allocation bands;

   d. Oversees and reports to Board on investment and due diligence processes and procedures;

   e. Approves/declines all Staff travel related to all manager pre-hire & on-site due diligence;

Section V. Roles and Responsibilities (continued)

C. Staff (continued)

1. Executive Director (continued)

   f. Approval of Investment Staff recommendations for presentation to the IAC and Board; and

   g. Is not a fiduciary to DPFP.

2. Investment Staff

   The Staff is responsible for manager due diligence and recommendations, portfolio implementation consistent with the Board approved asset allocation, and will assess the activities of the Consultant(s). The Staff helps the Board to oversee Investment Managers, Consultant(s), Custodian(s), and vendors. Additionally, the Staff:

   a. Reports to Executive Director when portfolio asset classes exceed allowable strategic boundaries;

   b. Notifies Consultant(s) in writing of rebalancing needs and recommended implementation, so as to employ periodic cash flows to asset classes within target allocation ranges;

   c. Instructs Investment Managers to implement Consultant approved re-balance instructions;

   d. Submits to Executive Director for review, on annual basis, recommended asset allocation targets and ranges & oversees implementation of the approved asset allocation;

   e. Monitors and reports portfolio asset class balances;

   f. Assists in the preparation and annual review of IPS;

   g. Reviews Consultant(s)'s Investment Manager due diligence and recommendations;

   h. Prepares Staff Investment Manager recommendations, submits Staff and Consultant(s) recommendations to Executive Director for review;

   i. After Board approval of investment, Staff approves Investment Manager Strategy guidelines which will be outlined in the Investment Manager agreements, as applicable;

Section V. Roles and Responsibilities (continued)

C. Staff (continued)

2. Investment Staff (continued)

   j. Monitors all investments, Investment Managers and vendors;

   k. Monitors adherence to quantitative due diligence criteria;

   l. Accounts for and reviews annually all external management fees and investment expenses;

   m. Reviews, every two years, the eligibility status of members of the IAC;

   n. Ensures all fiduciaries to DPFP are aware of their fiduciary obligations annually;[3] and

   o. Is not a fiduciary to DPFP.

D. Consultant(s)

The Consultant(s) should monitor qualitative and quantitative criteria related to Investment Managers and aggregate portfolio activity and performance. The Consultant(s), through its continuous and comprehensive responsibilities to DPFP should acknowledge in its contract, its fiduciary responsibility to DPFP. Additionally, the Consultant(s):

1. Recommends annually to IAC and Board strategic asset allocation targets, ranges, and benchmarks for asset classes;

2. Documents asset allocation recommendations with asset class performance expectations including standard deviation, expected return and correlations for each asset class used by DPFP;

3. Establishes and follows due diligence procedures for Investment Manager candidate searches;

4. Conducts screens and searches for Investment Manager candidates;

5. Assists in the selection process and monitoring of Investment Managers;[4]

6. Reviews and recommends Investment Managers and peer groups to IAC and Board;

[3] *Verification of this may be through contract, agreement, or annual fiduciary acknowledgement letter.*
[4] *The specific screening criteria for investment managers can be found in Appendix B.*

Section V. Roles and Responsibilities (continued)

D. Consultant(s) (continued)

7. Documents and delivers to Staff written recommendations on Investment Manager new hire, hold and termination reviews;

8. Any new hire recommendation from the Consultant should include a recommended benchmark and an assessment of appropriate asset class and sub-allocation;

9. Approves and verifies in writing each of Staff's rebalancing recommendations and implementation;[5]

10. Reviews whether rebalancing was done consistent with best practices;

11. Monitors the diversification, quality, duration, and risk of holdings as applicable;

12. Assists Staff in negotiation of terms of vendor contracts;

13. Prepares quarterly investment reports, which include the information outlined in Appendix C; and

14. Acts as a fiduciary to DPFP.

E. Investment Managers

1. <u>Public Investment Managers</u>

   a. Acknowledge in writing acceptance of the objectives, guidelines, and standards of performance;

   b. Invest the assets of DPFP in accordance with its objectives, guidelines and standards;

   c. Exercise full discretionary authority as to all buy, hold and sell decisions for each security under management, subject to the guidelines as defined in this Statement;

   d. If managing a separate account, send trade confirmations to the Custodian;

   e. For separately managed accounts, deliver monthly report to Consultant(s)/Staff describing portfolio asset class weights, investment performance, security positions, and transactions;

---

[5] *Evidence of approval may be in electronic format*

Section V. Roles and Responsibilities (continued)

E. Investment Managers (continued)

1. Public Investment Managers (continued)

f. For commingled assets, this statement should show unit position and unit value;

g. Adhere to best execution and valuation policies;

h. Prices and fair market valuations will be obtained from a third party reporting service provider;

i. Communicate to Executive Director any material changes at firm;

j. Inform DPFP, as soon as practical, in writing of any breach of investment guidelines, ethic violations or violations of self-dealing;

k. Communicate significant changes in the ownership, organizational structure, financial condition, or personnel staffing; and

l. Acts as a fiduciary to DPFP.

2. Private Investment Managers

a. Acknowledge in writing acceptance of the objectives, strategy guidelines, and standards of performance as evidenced in investment manager, operating or partnership agreement;

b. Will ensure that financials statements undergo annual audits and that investments are reported at fair market value, as outlined in the Investment Management, Partnership or Operating Agreement(s);

c. Communicate to Executive Director any material changes in the ownership or management of the firm, and or the stability of the organization;

d. Inform DPFP, as soon as practical, in writing of any breach of investment guidelines, ethic violations or violations of self-dealing; and

e. Acts as fiduciary to DPFP, unless specified and acknowledged by Board at time of hire.

Section V. Roles and Responsibilities (continued)

F. Custodian

1. Safekeep and hold all of DPFP's assets in the appropriate domestic accounts and provide highly secure storage of physical stock certificates and bonds such that there is no risk of loss due to theft, fire, or accident;[6]

2. Maintain separate accounts by legal registration;

3. Arrange for timely execution and settlement of Investment Manager securities transactions made for DPFP;

4. Provide for receipt and prompt crediting of all dividend, interest and principal payments received as a result of DPFP portfolio holdings or securities lending activities;

5. Monitor income receipts to ensure that income is received when due and institute investigative process to track and correct late or insufficient payments, including reimbursement for any interest lost due to tardiness or shortfall;

6. At the direction of the Staff, expeditiously transfer funds into and out of specified accounts.

Section VI. Authorized Asset Classes & Investments Guidelines

A. Asset Class Guidelines

1. Asset allocation is the primary driver of the volatility of portfolio return. To achieve the goals and objectives of DPFP, the fund's assets will be invested in the categories listed in Appendix A. The assets shall be diversified, in order to minimize the concentration risk, both by asset class and within an asset class.

2. The strategic asset allocation shall be monitored on an ongoing basis and rebalanced when the lower and upper bounds on the ranges are breached, understanding the timing of the rebalancing may be delayed depending the liquidity of the asset class and costs of rebalancing, and otherwise at the discretion of Staff with concurrence of the Consultant.

3. Securities lending is permissible for separately managed accounts and commingled vehicles.

---

[6] *Electronic transfer records at the Depository Trust Company ("DTC'') are preferred.*

Section VI. Authorized Asset Classes & Investments Guidelines (continued)

B. Authorized Investments

1. Equities: Equity represents residual ownership of public and private companies after obligations to debt holders have been satisfied.

2. Fixed Income: Fixed-income instruments are securities or debt obligations issued by governments, government-related entities, structured debt facilities and public and private companies that contain contractual obligations from the issuer to make interest and/or principal repayments to investors over the duration of the negotiated term agreement.

3. Real Assets (Liquid and Illiquid): Liquid real assets are investments in tradable tangible/physical assets or related claims that may display a positive correlation to the rate of inflation. Illiquid real assets (natural resources and infrastructure) represent ownership claim to an actual, finite asset or property.

4. Global Asset Allocation: An investment strategy that actively invests in a variety of liquid assets including cash, equity, fixed income, credit, derivatives (interest rate, currency, index) and commodities.

5. Private Equity: A non-financial asset that is relatively illiquid and non-transparent. Private equity funds make investments directly into private companies.

6. Private Debt: Private debt funds typically provide capital to private sector borrowers.

7. Real Estate: Real estate represents investment in a range of properties which provide income and/or appreciation potential. Investments in real estate can be structured as public or private debt and/or equity, and can be in the U.S. or foreign countries.

8. Other Authorized Investments: Trade finance and reinsurance based strategies;

Section VII. Investment Due Diligence & Monitoring

A. Investment Due Diligence

Staff and Consultant(s) are responsible for recommending external Investment Managers to the IAC and Board for review for potential hiring. The following will be implemented:

1. Investment Manager candidate due diligence will be conducted by Staff & Consultant(s).

2. Due diligence criteria are defined in Appendix B.

Section VII. Investment Due Diligence & Monitoring (continued)

A. Investment Due Diligence (continued)

3. Selected candidate(s) will be presented to the IAC.

4. IAC will communicate their recommendation, or lack thereof, on the candidate(s) for consideration and final approval by the Board.

B. Investment Monitoring

1. Staff and Consultant(s) are responsible for monitoring external public & private Investment Managers. Public and private Investment Managers will be monitored relative to peers and benchmarks monthly and quarterly, respectively. Additionally, each current manager is expected to satisfy the due diligence criteria outlined in Appendix B. If the following criteria are not met, an Investment Manager is to be considered an underperformer:

   a. Investment Managers' 3 year rolling returns in excess of peer group average;

   b. Investment Managers' 3 year rolling risk-adjusted returns in excess of peer group average;

   c. Investment Managers' qualitative requirements must be satisfied at all time periods, as determined by Staff or Consultant;

2. Based on the criteria outlined above, the Consultant will highlight underperforming Investment Managers in their quarterly report to Board. If an Investment Manager is considered an underperformer, Staff and Consultant will provide recommendations to IAC and Board regarding whether to "hold" or "sell".

Section VIII. Risk Management

The Staff will work within these policies in order to mitigate the risk of capital loss. By implementing these policies the Board has addressed:

A. Custodial Risk for both public and private holdings;[7]

B. Interest Rate Risk through fixed income duration and credit monitoring;[8]

C. Concentration and Credit Risk through asset allocation targets and ranges, rebalancing, and the monitoring of investment guidelines.

[7] *Please review Custodian responsibilities in Section V.*
[8] *Please review Annual Review of IPS and Investment Manager strategy guidelines reviewed and approved by Staff.*

Section VIII. Risk Management (continued)

Through these policies, Staff has necessary monitoring criteria established for Custodian, Consultant(s) and Investment Managers, such that DPFP has in place policies that will mitigate interest rate, custody, concentration and credit risks.

APPROVED on May 12, 2016 by the Board of Trustees of the Dallas Police and Fire Pension System.

[signature]

Samuel L. Friar
Chairman

Attested:

[signature]

Kelly Gottschalk
Executive Director

SECTION IX.

APPENDICES

Appendix A

STRATEGIC ASSET ALLOCATION TARGETS & RANGES

Asset Class	Policy Benchmark	Target	Range
Cash	90-day T Bills	**2.0%**	**0% – 5%**
Plan Level Leverage	(LIBOR + 300)	**0%**	**0% - 15%**
Equity		**30.0%**	**20% – 40%**
Global Equity	MSCI AC World (gross)	20.0%	10% – 23%
EM Equity	MSCI EM Equity (gross)	5.0%	0% – 8%
Private Equity	R3000 +3% (Rolling 3 Mo.)	5.0%	4% – 15%
Fixed Income		**33.0%**	**15% – 38%**
Short-Term Core Bonds	Barclays UST 1-3 Year	2.0%	0% – 5%
Global Bonds	Barclays Global Aggregate	3.0%	0% – 6%
High Yield	Barclays Global HY	5.0%	2% – 8%
Bank Loans	S&P Leveraged Loan Index	6.0%	3% – 9%
Structured Credit & Absolute Return	HFRI RV: FI (50/50-ABS/Corp)	6.0%	0% – 9%
EMD (50/50)	50% JPM EMBI/50% JPM GBI-EM	6.0%	0% – 9%
Private Debt	Barclays Global HY + 2% (Rolling 3 Mo.)	5.0%	2% – 7%
Real Assets		**25.0%**	**20% – 45%**
Natural Resources	S&P Global Nat Res (Rolling 3 Mo.)	5.0%	3% – 10%
Infrastructure	S&P Global Infra (Rolling 3 Mo.)	5.0%	3% – 10%
Real Estate	NCREIF	12.0%	10% – 25%
Liquid Real Assets	CPI + 5.00%	3.0%	0% – 6%
Asset Allocation		**10.0%**	**5% – 15%**
Risk Parity	60% MSCI ACWI/40% Barclays Global Aggregate	5.0%	2% – 8%
GTAA	60% MSCI ACWI/40% Barclays Global Aggregate	3.0%	0% – 6%
Absolute Return	HFRX Abs Ret Index	2.0%	0% – 5%
	TOTAL	100.0%	

Appendix B

The public market Investment Manager screening criteria include:

1. Lead portfolio manager tenure/experience at least 5 years.
2. Firm level assets under management: 75 million or more under management.
3. Investment style should consistently match what is approved and outlined in the Investment Manager's guidelines, and will be compared and analyzed against peers/sub-asset class category.
4. Sharpe ratio generally would exceed .3, which may not be possible following a prolonged bear market in that respective market, and must exceed 50% of its peer group over a three year rolling period.
5. Three year rolling total return, on a net of fee basis, must exceed 50% of its peer group.
6. On site due diligence meeting is recommended.
7. Fiduciary acceptance and acknowledgement.

The private Investment Manager screening will focus on the key areas of:

1. Alignment of Interests: management fees and expenses, carry/waterfall, term of fund, General Partner commitment.
2. Governance: team, investment strategy, fiduciary duty, Limited Partner Advisory Committee responsibilities and makeup, changes of the fund.
3. Transparency: risk management, financial information, disclosure related to the GP, management and other fees.
4. Track Record: the firm or lead portfolio manager should have a track record of at least 5 years.
5. Performance: a majority of previous funds should rank in the top 50% of their vintage year and strategy fund universe.

The hedge-fund Investment Manager screening criteria include:

1. Lead portfolio manager tenure/experience at least 5 years.
2. Utilization of independent third-party administrator.
3. Sharpe ratio should exceed .5 and must exceed 50% of its peer group over a three year rolling period.
4. Three year rolling total return must exceed 50% of its peer group.
5. A well-defined and documented risk management process.
6. Leverage terms should be appropriate to strategy.
7. Liquidity of assets should match liquidity of fund.
8. Redemption terms consistent with peers.
9. Expected return compensates for illiquidity.

If any of the above due diligence criteria are not met, the Staff and Consultant will disclose this in their recommendations to the IAC and Board, along with an explanation of why the investment is still appropriate.

Appendix C

Investment Consultant Reporting Requirements

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

Quarterly (due in advance of the Investment Advisory Committee meeting)

1. A review of the current investment market environment.
2. DPFP's actual asset allocation relative to its target asset allocation as defined in Appendix A.
3. DPFP's return relative to its Policy Benchmark return as defined in Appendix A and other public pension funds.
4. DPFP's risk adjusted returns relative to the policy and other public pension funds.
5. Asset class performance relative to the benchmarks as defined in Appendix A.
6. Individual Investment Manager returns relative to their stated benchmark.
7. Report will specifically acknowledge any underperforming Investment Managers based on the criteria outlined in Section VII of the Investment Policy Statement.
8. Any reportable events affecting any of DPFP's Investment Managers.
9. Private Markets reports which covers Private Debt, Private Equity, Infrastructure, Real Assets and Real Estate.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C10

Topic: **2016 audit plan**

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

Discussion: Representatives from BDO, DPFP's external independent audit firm, will be present to discuss their audit plan for the year ended December 31, 2016.

DALLAS POLICE & FIRE PENSION SYSTEM

AUDIT PLANNING

December 31, 2016

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

BDO

Tel: 214-969-7007
Fax: 214-953-0722
www.bdo.com

600 North Pearl, Suite 1700
Dallas, Texas 75201

April 13, 2017

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

Professional standards require us to communicate with you regarding matters related to the plan audit that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. This report provides an overview of our plan for the audit of the financial statements of the Dallas Police and Fire Pension System (the System) as of and for the year ending December 31, 2016, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work, including procedures applied to management's discussion and analysis (MD&A), required supplementary information and schedules and any other permitted services requested by the System.

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

Respectfully,

/s/ BDO USA, LLP

Discussion Outline

Client Service Team

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

Engagement Partner
Jill Svoboda
jsvoboda@bdo.com

Engagement Quality Control Reviewer *
Patricia Duperron
pduperron@bdo.com

Real Estate Valuation Reviewer
Rick Daubenspeck
rdaubenspeck@bdo.com

Manager
Rachel Pierson
rpierson@bdo.com

Actuarial Reviewer *
Rich McCleary
rimccleary@bdo.com

* An Engagement Quality Control Reviewer (EQCR) has been assigned this year by our National office. In prior years we had used a Focused Consulting Reviewer (FCR). While the FCR focused on industry, regulatory and accounting matters specific to GASB, the EQCR will continue that focus as well as focus on areas deemed significant such as actuarial valuations and assumptions, disclosures, legal matters, and investment testing. An EQCR may review other areas as they deem necessary. Please see Patricia Duperron's bio included on the next slide.

In addition, as part of our engagement team, we will utilize Rich McCleary BDO Actuarial Managing Director and Jeffrey Zimmerman BDO Actuarial Manager to assist with the review and audit of the actuarial report provided by the System for the audit of the December 31, 2016 financial statements.

Client Service Team

Director, National Governmental Assurance Practice
BDO USA, LLP

Pat has over 25 years of experience in public accounting and has worked extensively with townships, cities, counties, schools, and other governmental entities and pension plans, as well as various businesses and nonprofit organizations. Pat has significant expertise in *Government Auditing Standards*, federal programs and single audit compliance, auditing a variety of federal programs for different agencies.

Pat is the technical A & A lead for BDO's *National Public Sector Industry Group*. She recently ended her three year term on the AICPA's *State and Local Government Expert Panel*. During that time the Panel dealt with various issues related to GASB's new pension standards, issuing several alerts and whitepapers to help governments and auditors resolve issues. She was a member of the *Michigan Department of Education's (MDE) A-133 Referent Group* which annually reviews and updates the Michigan School Auditing Manual, and the *MDE GASB 68 Implementation Committee* for school districts. She also provided assistance to the Michigan Municipal Employees Retirement System with their GASB 68 Implementation Guide.

Education and Professional Affiliations
Pat is a graduate of the University of Michigan with a B.B.A. degree in accounting. She is a licensed CPA in Michigan and is a member of the American Institute of Certified Public Accountants (AICPA) and the Michigan Association of Certified Public Accountants (MICPA). Pat received a certificate of achievement for successful completion of the AICPA's 64 hour *Governmental Accounting and Auditing Program*.

Pat instructs at local and national firm seminars and is a member of the Government Finance Officers Association and Michigan School Business Officials. Pat is Past President of the Board of Directors of Camp Blodgett.

Management's Responsibilities

System management is responsible for preparing, with the oversight of those charged with governance, the financial statements and disclosures in conformity with accounting principles generally accepted in the United States of America (GAAP) and adhere to the guidance established by the Governmental Accounting Standards Board (GASB) as of December 31, 2016. The System management's responsibilities also include the following:

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

Engagement Objectives

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

- Plan and perform an audit to obtain reasonable assurance about whether the financial statements are free of material misstatements, whether caused by error or fraud. An audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards does not provide absolute assurance relative to or any guarantee of the accuracy of the financial statements and is subject to the inherent risk that errors or fraud, if they exist, may not be detected.
- As part of our engagement, we will apply certain limited procedures to the required supplementary information (RSI) in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation, and comparing the information for consistency with management's responses to our inquiries. We will not express an opinion or provide any form of assurance on the RSI.
- Obtain a sufficient understanding of the System’s internal control to plan the audit of the financial statements. However, such understanding is required for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.
- Communicate our responsibilities in relation to the audit and establish an understanding of the terms of the engagement, including our engagement letter dated February 7, 2017 previously reviewed and approved by management.
- Provide an overview of the overall audit strategy and planned scope and timing of the audit.
- Inquire of those charged with governance about risks of material misstatement, including fraud risks, and whether those charged with governance are aware of other matters that may be relevant to the audit such as, but not limited to, violations or possible violations of laws or regulations, and complaints or concerns raised regarding accounting or auditing matters.
- Communicate with System management and those charged with governance regarding significant deficiencies and material weaknesses identified during our audit, and other timely observations that are significant and relevant to the financial reporting process.

Engagement Objectives

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

Overall Audit Strategy – Planned Scope

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

Our audit strategy includes consideration of:

- Prior year audit results together with recent System results, investment industry results, regulatory changes, significant current year events, and discussions with management and those charged with governance regarding the System's operations, activities, and risks.
- Inherent risk within the System (i.e., the susceptibility of the financial statements to material error or fraud) before recognizing the effectiveness of the control systems.
- A continual assessment of materiality thresholds based upon qualitative and quantitative factors affecting the System.
- Recent developments within the industry, regulatory environment, and general economic conditions.
- Recently issued and effective accounting and financial reporting guidance, including the disclosure requirements of GASB issued Statement No. 72, Fair Value Measurement and Application.
- The System's significant accounting policies and procedures, including those requiring significant management judgments and estimates and those related to significant unusual transactions.
- The control environment, risk management and monitoring processes, and the possibility that the control systems and procedures may fail to prevent or detect a material error or fraud. We do not expect to perform tests of controls and will plan a substantive audit only.
- Information about systems and the computer environment in which financial records and related systems operate (including the custodian's service provider's systems as reported in their SOC 1 reports).

- Possible internal plan changes for the audited plan year, such as the following:

  - ✓ Accounting systems – BDO notes effective November 4, 2016 Financial Controls Systems, Incorporated (FCS) was acquired by STP Investment Services, LLC (STP). We will review the SOC 1 report for the 2016 audit.
  - ✓ System management personnel or those charged with governance

Overall Audit Strategy – Planned Scope

- ✓ Internal control processes in accounting and financial reporting
- ✓ Service providers (such as actuary, legal, custodian, investment managers, etc.)
- ✓ Custodian and/or investment advisor agreements
- ✓ System amendments
- ✓ System policies and practices (Considering all new policies put into place in 2016 and ensuring previous policies put into place are being adhered to)
- ✓ Workforce (significant layoffs, terminations, future reductions in force)

- Possible issues impacting the audit, such as the following:

  - ✓ System management's review of the recent System results when compared to the investment industry results
  - ✓ Regulatory reviews or communications and/or pending litigation
  - ✓ Errors or fraud related to the System
  - ✓ Misappropriation of System assets
  - ✓ Concerns about fictitious participants or distributions made to missing, ineligible, or incorrect individuals
  - ✓ Fees and expenses paid to inappropriate vendor
  - ✓ Significant assumptions used in the valuation of the System assets
  - ✓ Significant assumptions used in the actuarial determination of the total pension liability
  - ✓ Effect of 2016 activity and impact on the System's Net Position including effects on debt covenants, agreements and amendments

BDO

Overall Audit Strategy – Planned Scope

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

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

Primary Areas of Focus and Audit Strategy

FRAUD RISK

Consideration	Approach
• Fraud risk may be impacted by the following characteristics: ✓ Incentive or pressure ✓ Opportunity ✓ Rationalization or attitude • Presence of fraud risk factors and how management's controls and programs to detect and prevent fraud may mitigate these risks. • Risk of management override of controls.	• Review System management's controls and programs relating to fraud, and assess operating effectiveness of such programs. • Inquire of System management and other personnel as to their knowledge of any potential fraudulent or alleged fraudulent activities. • Inquire of those charged with governance about their views about risks of material misstatements, including fraud risk and whether they are aware of: ✓ tips or complaints regarding the System's financial reporting; and ✓ matters relevant to the audit including, but not limited to, violations or possible violation of laws or regulations • Consider additional procedures to address any specific fraud risks identified, including management override of controls. • Introduce an element of unpredictability into our procedures by either altering the nature, timing, or extent of the procedures when compared to procedures performed in the prior year. • Perform focused procedures on any significant unusual transactions, including gaining an understanding of the business purpose (or lack thereof) for the System entering into the transaction. • Obtain an understanding of the System's financial relationships and transactions with those charged with governance of the System and the System Executive Director for risk assessment purposes. • Exercise professional skepticism. • Communicate with System management, those charged with governance and the System Executive Director, as necessary.

Primary Areas of Focus and Audit Strategy

ENTITY/SYSTEM LEVEL INTERNAL CONTROL OVER FINANCIAL REPORTING

Consideration	Approach
• System management has controls in place to maintain compliance with applicable rules and regulations and provisions of the Plan Document and Amendments. • The Staff or the Executive Director has controls to monitor the activities of the outside service providers. • Significant changes to personnel and internal control processes increase the risk that an internal control failure will occur due to either the design or operation of a particular control.	• Consider the System's internal control environment for purposes of planning our audit. • Review the System's control processes in a number of areas to evaluate the design and implementation of controls in place. • Review SOC 1 reports for the custodian and the external investment accounting service provider to determine whether adequate controls are in place and functioning effectively.

ACTUARIAL VALUATION

Consideration	Approach
• Significant judgement and expertise is required in developing assumptions and performing evaluations. • Actuarial valuation data is accurate and consistent. • The effects of amendments, terminations, curtailments or other System events on the calculation. • Whether the actuarial calculation appropriately applies current standards. • Whether actuarial provisions and assumptions are deemed reasonable. • Whether disclosures over actuarial assumptions and funding issues are appropriate.	• Confirm the actuarial data directly with the actuary. • Have the actuarial report reviewed by the Actuarial Managing Director and the Actuarial Manager for reasonableness. • Perform census data reconciliations and review for completeness of the census data submitted to the actuary. • Evaluate the professional qualifications of the actuary. • Reviewed funding requirements, actuarial provisions and assumptions used for accuracy.

Primary Areas of Focus and Audit Strategy

ELIGIBILITY

Consideration	Approach
• Whether all covered employees have been properly included in employee eligibility records. • Whether accurate participant data for eligible employees was supplied to the custodian/service providers.	• Test that participating employees are eligible per the Plan Document on a sample basis. • Review participant personnel files.

CONTRIBUTIONS/CONTRIBUTION RECEIVABLES

Consideration	Approach
• Whether the amounts received or due to the Plan have been determined, recorded, and disclosed in the financial statements in conformity with the Plan Document and accounting principles generally accepted in the U.S.	• Confirm the contributions made in 2016 directly with the City of Dallas. • Ensure that active eligible members in the Deferred Retirement Option Plan (DROP) contributions are in accordance with the Plan Documents. • Test and ensure the calculation of employer and employee contributions is in accordance with the Plan Document. • Test the reasonableness of contribution receivables.

Primary Areas of Focus and Audit Strategy

BENEFIT PAYMENTS

Consideration	Approach
• Whether benefit payments are in accordance with the Plan Document. • Whether benefit payments are made to or on behalf of person entitled to them and only to such persons. • Whether transactions are recorded in the proper account, amount, and period.	• Verify eligibility to receive the distribution. • For DROP distributions agree distribution to proper request. • Agree distributions to supporting checks or ACH transfer. • Test that proper tax withholdings were made, if any. • Review and recalculate benefit payments.

INVESTMENTS

Consideration	Approach
• Due to significant valuation issues with certain investments in the industry over the last several years, consider whether investments are properly valued and whether classified in conformity with accounting principles generally accepted in the U.S. • Whether investment transactions are recorded in conformity with accounting principles generally accepted in the U.S.	• Confirm investments with third-party fund managers and/or custodians. • Test fair value of investments at year-end by comparing the carrying value to an outside third-party source, including audited financial statements presented at fair value, real estate appraisals, and partnership agreements. • Compare the investment income to rates of return per a third-party source, including audited financial statements at fair value, and test earning allocations. • Consider the System management's policy of reviewing valuation methodologies, inputs and assumptions. • Review the System's investment policy in correlation with the investments in place. • Assess the appropriateness of the classification of investment within the fair value hierarchy in accordance with GASB 72, Fair Value Measurement and Application and related disclosures.

Primary Areas of Focus and Audit Strategy

OTHER RECEIVABLES, PAYABLES AND SYSTEM EXPENSES

Consideration	Approach
• Whether receivables and payables are appropriately recorded. • Whether liabilities recorded are complete and all expenses are captured. • Whether securities lending obligations are appropriately recorded. • Whether the System is in compliance with debt covenants and plans to alleviate violations of such covenants.	• For loans payable review maturity schedules and covenants, and send confirmations. Review debt agreements and amendments to ensure compliance with covenants and related disclosures are appropriately included in the financial statements • Review schedules of uncompensated liabilities. • Review securities lending arrangements. • Obtain forward currency contracts and review the appropriateness of the receivable and payable balances. • Perform a search of unrecorded liabilities. • Obtain a detail break out of System expenses. • Confirm fund management fees in correlation with the investment confirms. • Select a sample of expenses and agree them to invoices and payments.

INVESTMENT INCOME (LOSS)

Consideration	Approach
• Whether the realized gain or loss on investments is appropriately recorded. • Whether dividends are appropriately recorded by the System. • Whether interest earned is appropriately recorded by the System.	• For a selection of transactions recalculate the realized gains and losses. • For a selection of transactions test dividends received by the System to independent market sources. • Test interest earned by recalculating or performing reasonableness tests.

Primary Areas of Focus and Audit Strategy

OTHER MATTERS

Consideration	Approach
• Ensure the financial report includes all appropriate disclosures.	• Complete a disclosure checklist specific to Pension System and one specific to GASB standards. • Review the credit risk disclosure for appropriateness and adequacy. • Review legal expenses and obtain legal confirmations for any potential commitments and contingencies and/or litigation that may require disclosure.

Primary Areas of Focus and Audit Strategy

EVALUATION OF RELATED PARTY TRANSACTIONS, INCLUDING TRANSACTIONS WITH RELATED PARTIES

Consideration	Approach
• Consider the System's relationships and transactions with its related parties. • Example of related party transactions include those between an entity, affiliates of the entity, other parties that can significantly influence the management or operating policies of the other, management, or members of their immediate families. • Consider the susceptibility of the System financial statements to material misstatement (whether due to error or to fraud) that could result from the System's potential related parties.	• Assess the risk of material misstatement associated with System related party relationships and transactions. • Perform inquiry of System management regarding the identity of the System's related parties, the nature of the System's relationships and transactions with related parties and the System's process for identifying, authorizing and approving, and accounting for and disclosing such relationships and transactions. • Perform inquiry and other procedures deemed appropriate to obtain an understanding of the controls, if any, that System management has established to identify, authorize and approve, and account for and disclose such relationships and transactions. • Evaluate whether the System financial statements 1) appropriately account for and disclose identified relationships and transactions with related parties and 2) are fairly presented given any such relationships and transactions identified. • Communicate to those charged with governance regarding significant matters arising from our audit.

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

Audit Readiness and Overall Audit Timeline

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

Description	Date
Planning meeting; client assistance listings provided to System management	Late January, 2017
Develop audit strategy; determine nature and scope of testing	Mid-March, 2017
Confirmation procedures	Mid-March, 2017
Fieldwork begins	Weeks of April 10 and April 17, 2017
Wrap-up Week, Review draft of financial statements and Report tie out	Week of June 5, 2017 and if needed week of June 26, 2017
Final communications with those charged with governance	Mid-June, 2017
Update subsequent event inquiries; release opinion on financial statements	Approximately June 30, 2017

Independence Communication

Our engagement letter to you dated February 7, 2017 describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the System with respect to independence as agreed to by the System. Please refer to that letter for further information.

BDO

Tel: 214-969-7007
Fax: 214-953-0722
www.bdo.com

600 North Pearl, Suite 1700
Dallas, TX 75201

February 7, 2017

Ms. Kelly Gottschalk, Executive Director
Ms. Summer Loveland, Chief Financial Officer
Dallas Police and Fire Pension System
4100 Harry Hines Blvd., Suite 100
Dallas, Texas 75219

Dear Ms. Gottschalk and Ms. Loveland:

Agreement to Provide Services

This agreement to provide services (the "Agreement") is intended to describe the nature and scope of our services.

Objective and Scope of the Audit

As agreed, BDO USA, LLP ("BDO" or "we") will audit the combining statements of fiduciary net position of the Dallas Police and Fire Pension System which comprise the financial statements of the Combined Pension Plan and the Supplemental Police and Fire Pension Plan of the City of Dallas (collectively, the "DPFP" or "you"), as of December 31, 2016 and the related combining statements of changes in fiduciary net position for the year then ended, and the related notes to the combining financial statements.

Accounting standards generally accepted in the United States of America provide for certain required supplementary information ("RSI"), such as management's discussion and analysis ("MD&A"), to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate context. As part of our engagement, we will apply certain limited procedures to the DPFP's RSI in accordance with auditing standards generally accepted in the United States of America ("GAAS"). These limited procedures will consist of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtain during our audit of the basic financial statements. We will not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The following RSI is required and will be subjected to certain limited procedures, but will not be audited:

- Management's Discussion and Analysis
- Schedule of Changes in the Net Pension Liability and Related Ratios and Notes to Schedule
- Schedule of Employer Contributions - Supplemental Plan and Notes to Schedule
- Schedule of Investment Returns and Notes to Schedule
- Administrative, Investment, and Professional Services Expenses and Notes to Schedule

Responsibilities of BDO

We will conduct our audit in accordance with GAAS and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States ("GAS"). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement, whether caused by error or fraud. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to error or fraud. Our work will be based primarily upon selected tests of evidence supporting the amounts and disclosures in the financial statements and, therefore, will not include a detailed check of all of DPFP's transactions for the period. Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS and GAS.

Also, an audit is not designed to detect errors or fraud that are immaterial to the financial statements. However, we will inform you of any material errors or fraud that come to our attention. We will also inform you of possible illegal acts that come to our attention unless they are clearly inconsequential. In addition, during the course of our audit, financial statement misstatements relating to accounts or disclosures may be identified, either through our audit procedures or through communication by your employees to us, and we will bring these misstatements to your attention as proposed adjustments. At the conclusion of our audit we will communicate to those charged with governance (as defined below) all uncorrected misstatements.

The term "those charged with governance" is defined as the person(s) with responsibility for overseeing the strategic direction of the DPFP and obligations related to the accountability of the DPFP, including overseeing the financial reporting process. For the DPFP, we agree that the Board of Trustees meets that definition.

In making our risk assessments, we consider internal control relevant to the DPFP's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the DPFP's internal control. Accordingly, we will express no such opinion. An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses in internal control. However, we will communicate to you and those charged with governance in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we identify during our audit.

We are also responsible for communicating with those charged with governance what our responsibilities are under GAAS and GAS, an overview of the planned scope and timing of the audit, and significant findings from the audit.

Responsibilities of Management and Identification of the Applicable Financial Reporting Framework

Our audit will be conducted on the basis that you acknowledge and understand that you have responsibility (1) for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; (2) for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to error or fraud; (3) for identifying and ensuring that the DPFP complies with the laws and regulations applicable to its activities; and (4) to provide us with access to all information of which you are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.

Management is responsible for adjusting the financial statements to correct material misstatements relating to accounts or disclosures, after evaluating their propriety based on a review of both the applicable authoritative literature and the underlying supporting evidence from the DPFP's files; or otherwise concluding and confirming in a representation letter (as further described below) provided to us at the conclusion of our audit that the effects of any uncorrected misstatements are, both individually and in the aggregate, immaterial to the financial statements taken as a whole.

As required by GAAS and GAS, we will request certain written representations from management at the close of our audit to confirm oral representations given to us and to indicate and document the continuing appropriateness of such representations and reduce the possibility of misunderstanding concerning matters that are the subject of the representations.

Expected Form and Content of the Auditor's Report

At the conclusion of our audit, we will submit to you a report containing our opinion as to whether the financial statements, taken as a whole, are fairly presented based on accounting principles generally accepted in the United States of America. If, during the course of our work, it appears for any reason that we will not be in a position to render an unmodified opinion on the financial statements, or that our report will require an Emphasis of Matter or Other Matter paragraph, we will discuss this with you.

Client Continuance Matters

BDO is retaining the DPFP as a client in reliance on information obtained during the course of our client continuance procedures. Jill Svoboda has been assigned the role of engagement partner and is responsible for directing the engagement and issuing the appropriate report on the DPFP's financial statements.

Email Communication and Confidentiality

In connection with this engagement, we may communicate with you or others via email. As emails can be intercepted, disclosed, used, and/or otherwise communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed, we cannot ensure that emails from us will be properly delivered and read only by the addressee. Therefore, we disclaim and waive any liability for interception or unintentional disclosure of email transmissions, or for the unauthorized use or failed delivery of e-mails transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage arising from the use of email, including any punitive, consequential, incidental, direct, indirect, or special damages, such as loss of revenues or anticipated profits, or disclosure of confidential information.

The DPFP desires to assure the confidentiality of all documents, information regarding vendors, employees, pensioners and affiliates, whether tangible or intangible and in whatever written or verbal medium provided, and whether furnished before or after the date of this engagement letter ("Information") transmitted to BDO and to keep the nature of their discussions confidential. BDO shall not disclose disseminate, communicate or divulge to any other person, firm, corporation or other entity except as required by regulators, the Information received from the DPFP, whether such Information is transmitted in written, verbal or in any other form except as necessary in furtherance of BDO's obligations to the DPFP in connection with the audit of the financial statements. The DPFP expressly authorizes the disclosure of Information to BDO's employees, partners, subcontractors and advisors and those of its affiliates as necessary for the sole purpose of BDO's engagement by the DPFP, provided such BDO representatives are required to keep the Information confidential as provided herein. BDO shall use the same degree of care to avoid disclosure or use of the Information provided by the DPFP as it employs with respect to its own proprietary Information that it considers important to the operation of its business.

External Computing Options

DPFP agrees that, except to the extent the parties may otherwise agree in a separate signed writing, BDO shall not use and will not request that DPFP use any external commercial services in connection with the provision of the Services, including but not limited to services for cloud storage, remote control, and/or file sharing options.

Ownership of Working Papers

The working papers prepared in conjunction with our audit are the property of BDO, constitute confidential information, and will be retained by us in accordance with BDO's policies and procedures. However, we may be required to make certain working papers available to various authorized regulators pursuant to authority given to it by law and regulation. Access to the requested working papers will be provided under the supervision of BDO audit personnel and at a location designated by BDO. Furthermore, we may be requested to provide photocopies of selected working papers to the various regulators. We will mark all information as confidential and maintain control over the duplication of all such information. However, the various regulators may intend, or decide, to distribute the photocopies or information contained therein to others, including other governmental agencies. You will be billed for additional fees as a result of the aforementioned work based on actual time and expenses incurred.

Reproduction of Audit Report

If the DPFP plans any reproduction or publication of our report, or any portion of it, a copy of the entire document in its final form should be submitted to us in sufficient time for our review and written approval before printing. You also agree to provide us with a copy of the final reproduced material for our written approval before it is distributed. If, in our professional judgment, the circumstances require, we may withhold our written approval.

Posting of Audit Report and Financial Statements on Your Website

You agree that, if you plan to post an electronic version of the financial statements and audit report on your website, you will ensure that there are no differences in content between the electronic version of the financial statements and audit report on your website and the signed version of the financial statements and audit report provided to management by BDO. You also agree to indemnify BDO from any and all claims that may arise from any differences between the electronic and signed versions.

Availability of Records and Personnel

You agree that all records, documentation, and information we request in connection with our audit will be made available to us (including those pertaining to related parties), that all material information will be disclosed to us, and that we will have the full cooperation of, and unrestricted access to, your personnel during the course of the engagement.

You also agree to ensure that any third-party valuation reports that you provide to us to support amounts or disclosures in the financial statements (a) indicate the purpose for which they were intended, which is consistent with your actual use of such reports; and (b) do not contain any restrictive language that would preclude us from using such reports as audit evidence.

Assistance by Your Personnel and Internet Access

We also ask that your personnel prepare various schedules and analyses for our staff. However, except as otherwise noted by us, no personal information other than names related to DPFP employees and/or customers should be provided to us. In addition, we ask that you provide high-speed Internet access to our engagement team, if practicable, while working on the DPFP's premises. This assistance will serve to facilitate the progress of our work and minimize costs to you.

Other Services

We are always available to meet with you and other executives at various times throughout the year to discuss current business, operational, accounting, and auditing matters affecting the DPFP. Whenever you feel such meetings are desirable, please let us know. We are also prepared to provide services to assist you in any of these areas. We will also be pleased, at your request, to attend your Board of Trustee meetings.

Independence

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to the DPFP in the performance of our services. Any discussions that you have with personnel of BDO regarding employment could pose a threat to our independence. Therefore, we request that you inform us prior to any such discussions so that we can implement appropriate safeguards to maintain our independence.

Dispute Resolution Procedure

If any dispute, controversy, or claim arises out of, relates to, or results from the performance or breach of this Agreement, excluding claims for non-monetary or equitable relief (collectively, the "Dispute"), either party may, upon written notice to the other party, request non-binding mediation. A recipient party of such notice may waive its option to resolve such Dispute by non-binding mediation by providing written notice to the party requesting mediation and then such parties hereto shall resolve such Dispute by binding arbitration as described below. Such mediation shall be assisted by a neutral mediator acceptable to both parties and shall require the commercially reasonable efforts of the parties to discuss with each other in good faith their respective positions and different interests to finally resolve such Dispute. If the parties are unable to agree on a mediator within twenty (20) days from delivery of the written notice, either party may invoke the mediation service of the American Arbitration Association (the "AAA").

Each party may disclose any facts to the other party or to the mediator that it, in good faith, considers reasonably necessary to resolve the Dispute. However, all such disclosures shall be deemed in furtherance of settlement efforts and shall not be admissible in any subsequent proceeding against the disclosing party. Except as agreed to in writing by both parties, the mediator shall keep confidential all information disclosed during mediation. The mediator shall not act as a witness for either party in any subsequent proceeding between the parties.

Unless waived, such mediation shall conclude after the parties have engaged in good faith settlement negotiations, but nonetheless are unable to resolve the Dispute through the mediation process. The attorneys' fees and costs incurred by each party in such mediation shall be borne solely by such party, except that the fees and expenses of the mediator, if any, shall be borne equally by the parties. To the extent the parties do not resolve any Disputes by mediation, then the parties agree to the following: Each of the parties hereto irrevocably and unconditionally waives any and all right to trial by jury in any legal proceeding arising out of or relating to this Agreement or relating to the subject matter hereof. The scope of this waiver is intended to be all encompassing of any and all disputes that may be filed in any court and that relate to the subject matter of this Agreement, including, but not limited to, contract claims, tort claims, breach of duty claims and all other common law and statutory claims. The parties agree to resolve any Disputes in any federal or state court sitting in Dallas County, Texas and the laws of the state of Texas, which shall be applied without reference to conflicts of law rules.

Fees

Our charges to the DPFP for the services described above will be $147,000. We will also bill you for our out-of-pocket expenses and our internal charges for certain support activities, not to exceed $2,500. Our internal charges include certain flat-rate amounts that reflect an allocation of estimated costs associated with general office services such as computer usage, telephone charges, facsimile transmissions, postage, and photocopying. We leverage our size to achieve cost savings for our clients in all areas of expense, including those covered by internal charges, and use this system of allocation to minimize total costs.

This engagement includes only those services specifically described in this Agreement; any additional services not specified herein will be agreed to in a separate letter. In the event you request us to object to or respond to, or we receive and respond to, a validly issued third party subpoena, court order, government regulatory inquiry, or other similar request or legal process against the DPFP or its management for the production of documents and/or testimony relative to information we obtained and/or prepared during the course of this or any prior engagements, you agree to compensate us for all time we expend in connection with such response, at our regular rates, and to reimburse us for all related out-of-pocket costs (including outside lawyer fees) that we incur.

Our fees and costs will be billed periodically, and are payable within 30 days of the invoice date. If we do not receive any written notice of dispute within 10 days of your receipt of the invoice, we will conclude that you have seen the invoice and find it acceptable. Invoices that are unpaid 30 days past the invoice date are deemed delinquent. We reserve the right to suspend our services, withhold delivery of any deliverables, or withdraw from this engagement entirely if any of our invoices are delinquent. In the event that any collection action is required to collect unpaid balances due to us, you agree to reimburse us for all our costs of collection, including without limitation, attorneys' fees.

If we elect to terminate our services for nonpayment, or for any other reason provided for in this Agreement, our engagement will be deemed to have been completed upon written notification of termination, even if we have not completed our report. You will be obligated to compensate us for all of our time expended, and to reimburse us for all of our out-of-pocket expenses and internal charges incurred, through the date of termination.

Assignment

BDO shall have the right to assign its rights to perform a portion of the services described above to any of its independent Alliance members, affiliates (including, where applicable, member firms of the international BDO network), agents, or contractors (a "Permitted Assignee") without the DPFP's prior consent. If such assignment is made, the DPFP agrees that, unless it enters into an engagement letter directly with the Permitted Assignee, all of the applicable terms and conditions of this Agreement shall apply to the Permitted Assignee. We agree that we shall not permit the Permitted Assignee to perform any work until it agrees to be bound by the applicable terms and conditions of this Agreement. We further agree that we will remain primarily responsible for the services described above, unless we and the DPFP agree otherwise, and we will properly supervise the work of the Permitted Assignee to ensure that all such services are performed in accordance with applicable professional standards.

From time to time, and depending on the circumstances, Permitted Assignees located in other countries may participate in the services we provide to the DPFP. In some cases, we may transfer information to or from the United States or another country. Although applicable privacy laws may vary depending on the jurisdiction, and may provide less or different protection than those of the DPFP's home country, we require that all Permitted Assignees enter into contractual agreements to maintain the confidentiality of the DPFP's information and observe our policies concerning any confidential client information that we provide to them.

Third-Party Use

BDO will perform the professional services provided in connection with this engagement solely for the benefit and use of the DPFP. BDO does not anticipate and does not authorize reliance by any other party on its professional services. Any amendment to this provision must be made through a written document signed by the DPFP and BDO.

Miscellaneous

This Agreement is intended to cover only the services specified herein, although we look forward to many more years of pleasant association with the DPFP. This engagement is a separate and discrete event, and any future services will be covered by a separate agreement to provide services.

Many banks have engaged a third party to electronically process cash or debt audit confirmation requests, and a few of those banks have mandated the use of this service. To the extent applicable, the DPFP thereby authorizes BDO to participate in this electronic confirmation process through the third party's website (e.g., by entering the DPFP's bank account information to initiate the process and then accessing the bank's confirmation response) and agrees that BDO shall have no liability in connection therewith.

Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable laws, regulations, or published interpretations, but if any provision of this Agreement shall be deemed prohibited, invalid, or otherwise unenforceable for any reason under such applicable laws, regulations, or published interpretations, such provisions shall be ineffective only to the extent of such prohibition, invalidity, or unenforceability and such revised provision shall be made a part of this Agreement as if it was specifically set forth herein. Furthermore, the provisions of the foregoing sentence shall not invalidate the remainder of such provision or the other provisions of this Agreement.

This Agreement may be transmitted in electronic format and shall not be denied legal effect solely because it was formed or transmitted, in whole or in part, by electronic record; however, this Agreement must then remain capable of being retained and accurately reproduced, from time to time, by electronic record by the parties to this Agreement and all other persons or entities required by law. An electronically transmitted signature to this Agreement will be deemed an acceptable original for purposes of consummating this Agreement and binding the party providing such electronic signature.

* * * * *

We believe the foregoing correctly sets forth our understanding; however, if you have any questions, please let us know. If you find the foregoing arrangements acceptable, please acknowledge this by signing and returning to us a copy of this Agreement and retaining a copy for your files.

Very truly yours,

BDO USA, LLP

Acknowledged:

DALLAS POLICE AND FIRE PENSION SYSTEM

By: ______________________ Date: 2-8-17
Kelly Gottschalk, Executive Director

By: ______________________ Date: 2/8/17
Summer Loveland, Chief Financial Officer

DISCUSSION SHEET

ITEM #C11

Topic: **Annual 2016 budget review**

Discussion: Attached is a review of the Calendar Year 2016 Budget detailing expenditures for the year. Actual expenses for the Regular Plan, net of expenses allocated to the Supplemental Plan, totaled $10.3M and were approximately 11.7%, or $1.37M, below the budget.

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 99.18% Regular Plan to .82% Supplemental Plan as of December 31, 2016.

BUDGET vs. ACTUAL
2016 YEAR END REVIEW

	DESCRIPTION	2015 ACTUAL	2016 BUDGET	2016 ACTUAL	BUDGET VARIANCE $ OVER/(UNDER)	BUDGET VARIANCE % OVER/(UNDER)
1	Salaries and benefits	4,309,819	4,248,074	3,741,187	(506,887)	-11.9%
2	Employment expenses	166,525	3,585	8,897	5,312	148.2%
3	Memberships and dues	15,776	19,107	16,695	(2,412)	-12.6%
4	Staff meetings	1,984	1,400	643	(757)	-54.1%
5	Employee service recognition	4,183	2,210	2,490	280	12.7%
6	Member educational programs	18,928	19,450	7,349	(12,101)	-62.2%
7	Member outreach programs	715	750	360	(390)	-52.0%
8	Disability medical evaluations	5,433	15,000	19,156	4,156	27.7%
9	Elections	26,222	40,000	67,508	27,508	68.8%
10	Board meetings	32,781	30,580	16,704	(13,876)	-45.4%
11	Conference registration/materials - Board	41,000	21,600	34,358	12,758	59.1%
12	Travel - Board	162,933	208,400	43,966	(164,434)	-78.9%
13	Conference/training registration/materials - Staff	52,000	52,320	13,898	(38,422)	-73.4%
14	Travel - Staff	42,467	131,700	37,093	(94,607)	-71.8%
15	Building expenses, incl capitalizable fixed assets	686,114	700,967	539,787	(161,180)	-23.0%
16	Office supplies	47,795	34,850	29,512	(5,338)	-15.3%
17	Leased equipment	26,268	25,000	22,515	(2,485)	-9.9%
18	Postage	31,045	30,400	25,157	(5,243)	-17.2%
19	Printing	67,875	47,825	3,524	(44,301)	-92.6%
20	Repairs and maintenance	42,510	60,450	114,114	53,664	88.8%
21	Subscriptions	2,184	1,726	2,003	277	16.1%
22	Records storage	942	960	1,097	137	14.2%
23	Liability insurance	293,769	326,378	327,713	1,335	0.4%
24	Bank/security custodian services	324,000	415,040	301,536	(113,504)	-27.3%
25	Actuarial services	207,308	600,000	612,675	12,675	2.1%
26	Accounting services	59,000	59,000	59,000	0	0.0%
27	Independent audit	177,450	165,000	142,500	(22,500)	-13.6%
28	Investment consultant and reporting	556,000	675,000	634,805	(40,195)	-6.0%
29	Real estate consultant	200,000	200,000	40,110	(159,890)	-79.9%
30	Legal fees	481,731	2,500,000	2,578,393	78,393	3.1%
31	Legislative consultants	260,000	260,000	250,014	(9,986)	-3.8%
32	Public relations	70,000	100,000	25,000	(75,000)	-75.0%
33	Miscellaneous professional services, incl capitalizable leasing commissions	183,306	52,250	92,171	39,921	76.4%
34	Communications (phone/internet)	78,000	76,800	68,359	(8,441)	-11.0%
35	Business continuity	36,901	48,700	40,176	(8,524)	-17.5%
36	Network security	53,839	50,000	29,849	(20,151)	-40.3%
37	Pension administration software & WMS	265,430	306,000	263,418	(42,582)	-13.9%
38	Information technology projects	134,646	145,000	125,756	(19,244)	-13.3%
39	IT subscriptions/services/licenses	22,000	59,125	37,791	(21,334)	-36.1%
40	IT software/hardware	44,192	43,400	22,543	(20,857)	-48.1%
41	Contingency Reserve	-	-	280	280	n/a
	Gross Total	9,233,071	11,778,047	10,400,102	(1,377,945)	-11.7%
	Less: Allocation to Supplemental Plan Budget*	60,938	96,050	84,813	(11,237)	-11.7%
	Total Regular Plan Budget	**9,172,133**	**11,681,997**	**10,315,289**	**(1,366,708)**	**-11.7%**

** Unitization split to Supplemental is based on unitization as of 12/31/16 (.816%)*

BUDGET
2016 - YEAR END REVIEW

Budget vs Actual variance (>5% and $5K)

	ITEM	BUDGET	ACTUAL	$ VARIANCE	% VARIANCE	EXPLANATION
1	Repairs and maintenance	60,450	114,114	53,664	89%	Building-related R&M was originally budgeted under Building expenses, but was expensed to Repairs and maintenance. Budget tracking was altered on these expenses in transition of building management. Building exp was under budget $161K.
2	Micellaneous professional services, incl capitalizable leasing commissions	52,250	92,171	39,921	76%	Consulting provided by Champion Capital Research related to drafting of Investment Policy Statement (9K). Leasing costs associated with 4100 Harry Hines 3rd flr were more than anticipated (23K) due to increased leasing activity. Graphics for '15 CAFR (5K). Property tax appeal costs for '17 (5K) which were offset by savings in Building expenses of 29K. Property tax appeal costs for '16 (4K) were offset by savings in Bldg exp of 19K.
3	Elections	40,000	67,508	27,508	69%	Member survey and informational video (including video updates as Plan amendments were revised).
4	Conference registration/materials - Board	21,600	34,358	12,758	59%	Wharton courses registration was higher than anticipated; mid-yr budget reduction was excessive considering remaining Wharton registrations (2 remaining)
5	Employment expense	3,585	8,897	5,312	148%	Relocation expenses originally budgeted as Salary & Benefits, but recorded as Employment expense. Actual expense is within budgeted amount.
6	Postage	30,400	25,157	(5,243)	-17%	Focused reduction on mailing of paper communications, including not sending paper ballots for those members on eCorrespondence
7	Office supplies	34,850	29,512	(5,338)	-15%	Focused effort on reducing volume of supplies
8	Communications (phone, internet)	76,800	68,359	(8,441)	-11%	Reduction in purchased cell phones
9	Business continuity	48,700	40,176	(8,524)	-18%	Removal of Double Take software from our maintenance agreement.

	ITEM	BUDGET	ACTUAL	$ VARIANCE	% VARIANCE	EXPLANATION
10	Member educational programs	19,450	7,349	(12,101)	-62%	Fewer classes conducted than originally planned (4 cancelled due to uncertainty in Plan changes); attendance significantly less than anticipated
11	Board meetings	30,580	16,704	(13,876)	-45%	Reduction in costs for meals
12	IT projects	145,000	125,756	(19,244)	-13%	Virtual desktop project cancelled
13	Network security	50,000	29,849	(20,151)	-40%	Penetration test and security assessment less costly than anticipated. New firewall is able to handle services previously handled by other devices.
14	IT software/hardware	43,400	22,543	(20,857)	-48%	Reduced purchase of new/replacement equipment due to focused expense reductions & reduction in staff
15	IT subscriptions/services/licenses	59,125	37,791	(21,334)	-36%	Savings by purchasing VMWare Air support in advance (3 yrs). Timing of incurring Office 365 license fees.
16	Independent audit	165,000	142,500	(22,500)	-14%	Base fees remained flat over prior year, with no overage costs
17	Conference/training registration/materials - Staff	52,320	13,898	(38,422)	-73%	Fewer conferences than anticipated; no attendance of Wharton programs; less tuition reimbursement than anticipated.
18	Investment consultant and reporting	675,000	634,805	(40,195)	-6%	Maples was 25K over budget due to start up costs; NEPC was 65K under budget due to decline in portfolio size
19	Pension administration software & WMS	306,000	263,418	(42,582)	-14%	Due to failure of Plan amendment election, no changes required to be made to Pension Gold
20	Printing	47,825	3,524	(44,301)	-93%	Elimination of printed newsletters; reduced costs in producing benefits counseling and course materials; focused reduction of paper communications
21	Public relations	100,000	25,000	(75,000)	-75%	Public relations firm was not engaged until late in the year.
22	Travel - Staff	131,700	37,093	(94,607)	-72%	Less due diligence travel than anticipated and fewer conferences attended than planned. Cancellation of workshop.

	ITEM	BUDGET	ACTUAL	$ VARIANCE	% VARIANCE	EXPLANATION
23	Bank/security custodian services	415,040	301,536	(113,504)	-27%	JPM online services contract did not start until June, although budgeted to start in January. Fewer accounts this year than at the time budget was prepared.
24	Real estate consultant	200,000	40,110	(159,890)	-80%	Termination of Townsend contract in Q1.
25	Building expenses, incl capitalizable fixed assets	700,967	539,787	(161,180)	-23%	Security savings (approx 100K); utilities less than anticipated; property tax refund received (19K); overall contract review by new building mgmt with savings gained; roof repairs budgeted for under Building exp, but expensed under Repairs & Maintenance.
26	Travel - Board	208,400	43,966	(164,434)	-79%	No due diligence travel and fewer conferences attended than expected. Cancellation of workshop.
27	Salaries & benefits	4,248,074	3,741,187	(506,887)	-12%	>20% headcount reduction over prior year end

DISCUSSION SHEET

DALLAS POLICE & FIRE PENSION SYSTEM

ITEM #C12

Topic: **Employee recognition – First Quarter 2017**

a. Employee Service Award
b. Employee of the Quarter award

Discussion:

a. The Chairman will present a performance award for Employee of the Quarter, First Quarter 2017.

Ann Matthews – 10 Years
Pat McGennis – 15 Years
Carol Huffman – 40 Years

b. The Chairman will present a performance award for Employee of the Quarter, First Quarter 2017.

DISCUSSION SHEET

ITEM #C13

Topic:	**Board Members' reports on meetings, seminars and/or conferences attended**			
Discussion:	**1.**	**Conference:**	**BTIG Value Manager Event/Berkshire Hathaway Shareholders Meeting**	JS
		Dates:	April 29-May 1, 2016	
		Location:	Omaha, NE	
	2.	**Conference:**	**Developing Managerial Skills**	JS
		Dates:	February 13, 2017 (5-week course)	
		Location:	Online (Michigan State University)	
	3.	**Conference:**	**TEXPERS Annual Conference**	SF, KH
		Dates:	April 9-12, 2017	KG, SL
		Location:	Austin, TX	

DISCUSSION SHEET

ITEM #C14

Topic: **Unforeseeable Emergency Requests from DROP Members**

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

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

Staff Recommendation: To be provided at the meeting.

DISCUSSION SHEET

ITEM #C15

Topic:	**Amendment of Group Trust Declaration**
Discussion:	Staff will brief the Board on a technical amendment to the Group Trust Declaration.
Staff Recommendation:	**Adopt** the proposed amendment to the Group Trust Declaration.

DISCUSSION SHEET

ITEM #C16

Topic: **Performance review of the Executive Director**

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: The Board will meet with the Executive Director to review performance over the past year and provide recommendations concerning yearly objectives, goals, and performance.

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.

DISCUSSION SHEET

ITEM #D2

Topic: **Executive Director's report**

a. Future Education and Business Related Travel
b. Future Investment Related Travel
c. Associations' newsletters

- NCPERS Monitor (March 2017)
- NCPERS PERSist (Winter 2017)

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

Future Education and Business Related Travel
Regular Board Meeting – April 13, 2017

1. **Conference:** **Strategic Decision Making**
   Dates: March 13, 2017 (5-week course)
   Location: Online (Michigan State University)
   Est. Cost: $1,950.00

2. **Conference:** **NCPERS Accredited Fiduciary Program (Modules 1&2 and 3&4)**
   Dates: May 20 – 21, 2017
   Location: Hollywood, FL
   Est. Cost: TBD

3. **Conference:** **NCPERS Trustee Educational Seminar (TEDS)**
   Dates: May 20 – 21, 2017
   Location: Hollywood, FL
   Est. Cost: TBD

4. **Conference:** **NCPERS 2017 Annual Conference & Exhibition**
   Dates: May 21 – 24, 2017
   Location: Hollywood, FL
   Est. Cost: TBD

5. **Conference:** **IFEBP: New Trustee Institute: Level I: Core Concepts**
   Dates: June 26-28, 2017
   Location: San Diego, CA
   Est. Cost: $3,100

6. **Conference:** **IFEBP: Advance Trustee and Administrators Institute**
   Dates: June 26-28, 2017
   Location: San Diego, CA
   Est. Cost: $3,100

7. **Conference:** **TEXPERS 2017 Summer Educational Forum**
   Dates: August 13 – 16, 2017
   Location: San Antonio, TX
   Est. Cost: TBD

8. **Conference:** **Wharton: Refresher Workshop in Core Investment Concepts**
   Dates: September 24, 2017
   Location: Philadelphia, PA
   Est. Cost: $1,000

9. **Conference:** **Wharton: Advanced Investments Management**
   Dates: September 25-28, 2017
   Location: Philadelphia, PA
   Est. Cost: $6,000

10. **Conference:** **IFEBP: New Trustee Institute: Level I: Core Concepts**
    Dates: October 21-23, 2017
    Location: Las Vegas, NV
    Est. Cost: $3,100

11. **Conference:** **IFEBP: New Trustee Institute: Level II: Concepts in Practice**
    Dates: October 21-22, 2017
    Location: Las Vegas, NV
    Est. Cost: $2,700

12. **Conference:** **NCPERS Public Safety Employees' Pension & Benefits Conference**
Dates: October 29 – November 1, 2017
Location: San Antonio, TX
Est. Cost: TBD

13. **Conference:** **PRB: MET Online Core Training: <u>Benefits Administration</u>**
Dates: Anytime on line
Location: http://www.prb.state.tx.us/

14. **Conference:** **PRB: MET Online Core Training: <u>Risk Management</u>**
Dates: Anytime on line
Location: http://www.prb.state.tx.us/

15. **Conference:** **PRB: MET Online Core Training: <u>Ethics</u>**
Dates: Anytime on line
Location: http://www.prb.state.tx.us/

16. **Conference:** **PRB: MET Online Core Training: <u>Governance</u>**
Dates: Anytime on line
Location: http://www.prb.state.tx.us/

17. **Conference:** **PRB: MET Online Core Training: <u>Actuarial Matters</u>**
Dates: Anytime on line
Location: http://www.prb.state.tx.us/

18. **Conference:** **PRB: MET Online Core Training: <u>Fiduciary Matters</u>**
Dates: Anytime on line
Location: http://www.prb.state.tx.us/

Future Investment Related Travel
Regular Board Meeting – April 13, 2017

NONE

* New/No one has signed up

THE NCPERS
MONITOR
The Latest in Legislative News
MARCH 2017

In This Issue

Photo Illustration © 2017, Depositphotos

NCPERS is a diverse community. We don't all think the same and we don't all vote the same, yet we share a tremendous amount of common ground. When we differ among ourselves, we draw strength from our ability to debate and discuss critical issues in a civil and constructive manner.

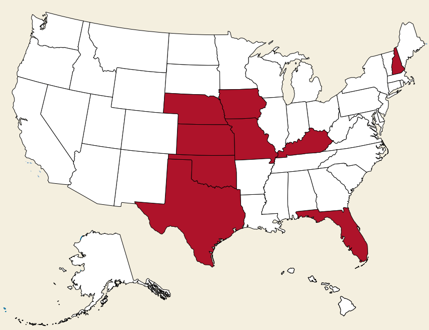


Photo Illustration © 2017, Depositphotos

2017 has already been a very busy year for the Republican majorities in state legislatures. Multiple states, including Missouri and Virginia, have proposed legislation to put new hires into "cash balance" or defined contribution plans.

Secure Choice Plans and the Congressional Review Act

Last year the Department of Labor (DOL) finalized two rules related to state or local government-run retirement plans for private sector workers. The rules are now the subject of a repeal effort in the 115th Congress.

Photo Illustration © 2017, Shutterstock.com

The DOL issued final rules on state-run savings arrangements, which established safe harbors from the Employee Retirement Income Security Act (ERISA) for certain, state-run, payroll deduction savings programs for private sector workers. The rule made clear that it was in the nature of a safe harbor and, consequently, did not prohibit states from taking additional or different action or experimenting with other programs or arrangements. DOL also issued a final rule that would extend the state-run plan rule to certain political subdivisions. In discussing the safe harbor-approach, DOL was always quick to point out that, while this was the position of DOL, the courts would be the ultimate arbiter of whether a plan triggered ERISA.

Now, fast forward to 2017, the 115th Congress, the Trump Administration, and the blunt legislative tool known as the Congressional Review Act (CRA). If the President and Congress are politically aligned, as they are today, the CRA is a powerful tool for rescinding recently-issued regulations of a prior Administration.

President Bill Clinton signed the CRA into law on March 28, 1996, establishing a process for Congress to review new federal regulations issued by government agencies and, by passage of a joint resolution, to repeal a regulation.

The law stipulates that any agency issuing a rule must submit a report to each house of Congress and to the Comptroller General of the Government Accountability Office (GAO) that contains a copy of the rule, a concise general statement describing the rule, and the proposed effective date of the rule. The CRA is not limited to major or significant rules. Congress can pass disapproval resolutions targeting any rule.

CONTINUED ON PAGE 4

NCPERS Executive Directors Corner

New Year, New Imperative: Make Your Voice Heard in DC and Your State

NCPERS is a diverse community. We don't all think the same and we don't all vote the same, yet we share a tremendous amount of common ground. When we differ among ourselves, we draw strength from our ability to debate and discuss critical issues in a civil and constructive manner. We take the long view, recognizing that there is a difference between occasional setbacks in pension funding and performance and fundamental changes in the case for public pensions.

One thing I believe we can all agree on is that public pensions are facing unprecedented attacks. And as the voice of public pensions, it is up to every one of us to speak up and make the case that pensions are sustainable and cost-effective. We have the history and the research to back it up.

We fight for public pensions on Capitol Hill, in state legislatures, and in regulatory agencies and courts all the time, and advocacy is always important. Nevertheless, I am hard-pressed to think of a time when political participation by public pension advocates was more urgent than it is today.

In the aftermath of the 2016 election, we face a raft of new challenges:

- The Trump Administration is delaying implementation of the Department of Labor's fiduciary rule, one of the Obama Administration's signature achievements. The rule would require retirement advisers to disclose conflicts of interest and eliminate hidden fees. The change is fundamentally unfriendly toward investors.
- The House on February 15 passed a joint resolution that aims to undo years of progress on duly-enacted, state-facilitated retirement savings programs for private-sector workers, which are better known to NCPERS members as Secure Choice Pensions. If the Senate also approves and the resolution is enacted, plans already under way in a dozen states and cities could be halted with the stroke of a pen. The initiative would deprive 55 million Americans of an innovative way to save for retirement through their workplace.
- The partisan breakdown in the states is severely lopsided, with

Photo Illustration © 2017, Depositphotos

25 states having Republican trifectas – that is, a Republican governor and Republican majorities in both chambers of the legislature. Six states have Democratic trifectas. While single-party dominance can eliminate gridlock, it also undermines accountability and reduces the impact of the checks and balances built into the system. Two Republican trifecta states – Missouri and Kentucky – have already enacted anti-union legislation.

We need you to make your voice heard with members of Congress and state legislators. Express your views as a pension participant, administrator, beneficiary, and American. You have the inalienable right to petition your elected officials and regulators. In January, about 60 of your colleagues spent a productive day on Capitol Hill, speaking with lawmakers and staff. Through personal stories back up by ample data, they drove home the message that public pensions play a critical role in providing a secure retirement for millions of Americans. In doing so, public pensions strengthen communities.

"One thing I believe we can all agree on is that public pensions are facing unprecedented attacks. And as the voice of public pensions, it is up to every one of us to speak up and make the case that pensions are sustainable and cost-effective."

Public pensions have an amazing and powerful story to tell, and there is no one more capable of telling it than you. Put your Representative, two Senators, and state lawmakers on speed dial. Write a letter. Visit them in person. Go to a Town Hall meeting. Make them listen – and never forget that they work for you. ◆

What's Going on In the States?

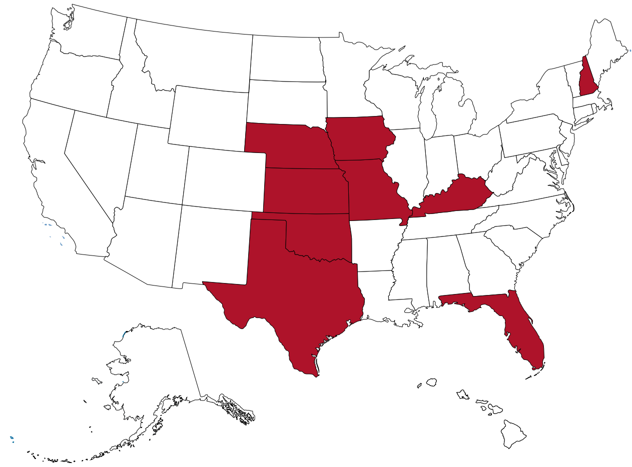
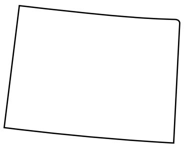


Photo Illustration © 2017, Depositphotos

2017 has already been a very busy year for the Republican majorities in state legislatures. Multiple states, including Missouri and Virginia, have proposed legislation to put new hires into "cash balance" or defined contribution plans. The one silver lining is the defeat of a pension reform bill in Illinois. Details about specific state legislations are as follows:



Colorado: On January 20, Representatives Justin Everett (R) and Jack Tate (R) sponsored HB 17-1114; the bill would allow the state treasurer to access all information and records related to the Public Employees' Retirement Association (PERA). The bill has been assigned to the State, Veterans, & Military Affairs Committee. Separately, SB 17- 113 was sponsored by Sen. Patrick Neville (R) and Rep. Justin Everett (R) on January 27. The bill will cap employer rates at their current percentage as of January 1, 2018. The bill passed the Senate on February 13 and is currently assigned to the State, Veterans, & Military Affairs Committee and the Appropriations Committee in the House.

Connecticut: On January 26, Senator Leonard Fasano (R) introduced Senate Bill (SB) 746; the bill would implement pension reform for the Municipal Employee Retirement System of Connecticut. The bill, for newly hired employees, would: exclude overtime from retirement benefit calculations, increase the retirement age to 62, limited the cost-of-living adjustments (COLAs) to zero to four percent, increase employee contributions, and create a retirement tier consistent with the state employee retirement system tier III. The bill had a public hearing on February 17 and is now waiting for a vote on the draft. Separately, Sen. Fasano and Sen. Michael McLachlan (R) introduced SB 368 on January 19th. SB 368 calls for removing pensions from the scope of collective bargaining agreements for state employees hired on or after July 1, 2012. The bill would also require all state employees hired on or after July 1, 2012 to participate in a defined contribution system instead of the current defined benefit system. SB 368 was reserved for a subject matter public hearing on February 15.

The republican party holds the governorship, a majority in the state senate, and a majority in the state house in a state's government.'

CONTINUED ON PAGE 6

NCPERS Code of Conduct Fills Important Role As Administration Freezes DOL Fiduciary Rule

The Department of Labor's fiduciary rule, due to be phased into effect beginning April 10, has been put on ice by President Trump. The rule requiring retirement advisers to act in the best interests of their clients, steer clear of all conflicts of interest, and clearly disclose fees and commissions in dollar amounts may be rescinded or revised after a six-month period for study.

The NCPERS Code of Conduct was developed in parallel to the fiduciary rule, and provides ethical guidance to public pension plans while uncertainty persists over whether and how the fiduciary rule will be implemented.

In a memorandum issued February 3, the president halted implementation and directed the Department of Labor to assess whether the rule would "adversely affect the ability of Americans to gain access to retirement information and financial advice." This process is expected to take about 180 days, meaning that the department could rescind or revise the rule by early August.

The fiduciary rule has some prominent supporters, including the CFP Board, the Financial Planning Association, and the National Association of Personal Financial Advisors. It also has detractors, however, including brokers, planners, and financial advisors. Labor Department estimates have put the cost of implementation at $5 billion in the first year and $1.5 billion annually thereafter.

Three out of three federal courts that have considered legal challenges to the fiduciary rule have sided with the Department of Labor, which developed the rule between April 2015 and April 2016. Indeed, just days after the presidential memorandum was issued, the U.S. District Court for the Northern District of Texas rejected a lawsuit by the U.S. Chamber of Commerce, the Securities Industry and Financial Markets Association and the Financial Services Roundtable seeking to stop the fiduciary rule.

Meanwhile, two years have passed since NCPERS unveiled the 10-point Code of Conduct for service providers to public pensions. Our members pushed for strong, consistent ethical expectations. The goal was to make sure that accountants, lawyers, custodians, investment managers, and others service providers were working in the best interests of plan participants and beneficiaries.

Our reputations and integrity rest on our ability to do the right thing in the right way. In the absence of proactive government guidance on conflicts of interest, the NCPERS Code of Conduct is a valuable resource for fostering ethical behavior toward pension plan participants and beneficiaries.

For further information about the NCPERS Code of Conduct, visit www.ncpers.org. ◆

SECURE CHOICE PLANS CONTINUED FROM PAGE 1

Most importantly, the CRA provides for expedited consideration of disapproval resolutions in the Senate. If the Senate agrees to the motion to proceed, debate on the floor is limited to 10 hours and no amendments to the resolution or motions to proceed to other business are in order. The 10 hours of debate may be waived by simple majority vote and the threshold for passage of the joint resolution is a simple majority.

If a disapproval resolution is passed and signed by the President, then the DOL rules would be deemed not to have had any effect at any time. Once Congress rescinds a rule through the CRA, the agency may not reissue another rule that is substantially the same form or issue a new rule that is substantially the same, unless Congress enacts specific statutory authorization to do so. The new statutory authority must be enacted subsequent to the enactment of the disapproval resolution.

Resolutions of disapproval, H.J. Res. 66 (state-run plans) and 67 (political subdivision-run plans), were approved by the House of Representatives on February 15. The votes were largely along party lines, with Republicans supporting the resolutions and Democrats opposed.

The Senate could consider the resolutions as early as the week of February 27. Offering a glimmer of hope that the vote in the Senate may have a different outcome, a letter was sent by 15 State Treasurers to Senate Majority Leader Mitch McConnell (R-KY) requesting that he vote against the resolutions. Of course, the letter will be disseminated widely in the Senate prior to the vote.

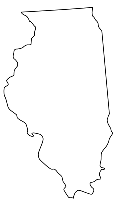
Importantly, the letter was signed by Treasurers of some very conservative states, such as Kentucky, Utah, Idaho, Indiana, Mississippi and Louisiana. The gist of the letter is to afford states the flexibility to implement their own, unique approaches to the growing retirement crisis.

With the Senate GOP majority standing at 52-48, proponents of the state and political subdivision-run plans need only three Republican votes to defeat the resolutions, provided that all Senate Democrats vote against the resolutions. ◆

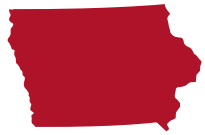

The data and

WHAT'S GOING ON IN THE STATES? CONTINUED FROM PAGE 3

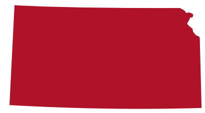
Florida: HB 353 was introduced on January 23 by Rep. James Grant (R) to close enrollment of the Florida Retirement System's defined benefit plan to any city that is not currently enrolled in the defined benefit plan. On February 6, the bill was referred to the Oversight, Transparency, & Administration Subcommittee, along with the Appropriations Committee and the Government Accountability Committee. Sen. Jeff Brandes (R) introduced its counterpart, SB 428 on the same day. The bill is on the Community Affairs agenda on March 6 at 4:00pm in 301 Senate Office Building.



Illinois: SB 11, introduced on January 11 by Sen. John Cullerton (D), was defeated in the Senate on February 8, with an 18 to 29 vote. The bill would have forced Tier I employees to agree to reduce their future COLAs or maintain their current benefit package but limit their pensionable income.



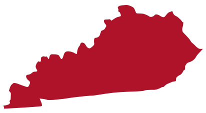
Iowa: Senate File (SF) 45 was introduced by Sen. Brad Zaun (R) on January 10 and would create a mandatory defined contribution pension for certain new hire employees (as of July 1, 2019), including some public safety officers. As of January 19 the bill was in subcommittee.



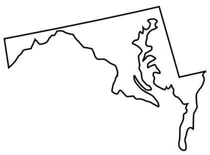
Kansas: The Kansas budget, proposed by Governor Sam Brownback (R), includes bills that are harmful to the Kansas Public Employee Retirement System (KPERS). On January 12, HB 2052 was sponsored by the House Committee on Appropriations. The bill freezes KPERS contributions at the current 2016 levels (approximately $300 million). The bill passed the first round of voting in the House on February 16, and is currently referred to the Committee on Ways and Means. In addition, another bill would borrow more than $317 million from the state- managed investment fund and freeze pension contribution levels. The House approved the bill with a voice vote on February 16.

CONTINUED ON PAGE 7

WHAT'S GOING ON IN THE STATES? CONTINUED FROM PAGE 6



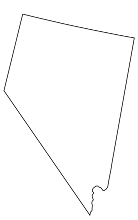
Kentucky: SB 2, introduced on January 3, will require Senate confirmation of the gubernatorial appointments to the Judicial Form Retirement System and amend the Kentucky Retirement System (KRS) to participate in new transparency laws. The bill passed the Senate on February 27 with a 35 to 0 vote, and at time of print is on the desk of Governor Matt Bevin (R).



Maryland: Maryland has multiple pension reform legislation under review. On February 8, HB 1064, sponsored by Delegate Susan Krebs (R) was introduced. The bill would lower assumptions from 7.55% to 6% for the Teachers' Pension System, and it would lower the state contributions to 5-8%. On the same day, SB 486 and HB 1072, were introduced by Sen. Andrew Serafini (R) and House Minority Whip Kathy Szeliga (R). This bill would create a cash balance pension plan, for state and teacher employees, where each will contribute 5% and the employee will become vested in three years.

Missouri: SB 228 was prefiled by Sen. Andrew Koenig (R) on December 20, 2016, and read for the first time on January 4. The bill would place all new state hires in a new, reduced defined benefit plan with a defined contribution component. The defined benefit multiplier will be reduced from the current 1.7% to 1.0% times the years of service, times the final average salary. The state will contribute 3% to the DC plan and the employee will be required to contribute 1%. As of February 16 the bill is on the formal Senate calendar for perfection.

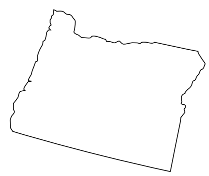
Nebraska: Legislative Bill 30, introduced on January 5 by Sen. Mark Kolterman (R), would require the cities of Lincoln and Omaha to put new public safety hires into a defined contribution pension plan. The Nebraska Retirement Systems Committee held a public hearing on the bill on February 7.



Nevada: Assembly Bill 71, prefiled on November 17, 2016 and read for the first time on February 6, creates a hybrid retirement plan for new hires of PERS after July 1, 2018. The bill is currently with the Committee on Government Affairs.

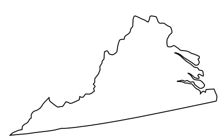
New Hampshire: HB 631, introduced by Rep. Neal Kurk (R) on January 5, would create a cash balance retirement plan for new hires and non- vested employees. The bill has been retained in the Executive Departments and Administration Committee since February 8.

Oklahoma: The first House Bill, HB 1162 would increase teachers' retirement age from 62 to 67. The bill was first read on February 6 by sponsors Rep. Randy McDaniel (?) & Gary Stanislawksi (R), and was referred to the Banking, Financial Services and Pensions Committee on February 7, where it has since been amended. The second House Bill, HB 1172, was also sponsored by Rep. Randy McDaniel on February 6, and is in the same committee. This bill would create an optional defined contribution plan for the all new hires of the teachers' retirement system after July 1, 2018.



Oregon: Oregon has two Senate Bills to watch out for, both sponsored by Sen. Tim Knopp (?) and Jeff Kruse (R) on January 9. The first, SB 560, would redirect PERS employees 6% supplemental contribution to the pension. The second bill, SB 559, would cap final salary benefits to $100,000, and change final salary calculations from 3 years to 5 years. Both bills have had public hearings and are in committee.

Texas: Sen. Paul Bettencourt (R) introduced SB 152 on November 14, 2016 and ready the bill for the first time on January 25. The bill would give municipalities the authority to control and change their pension systems. The bill has been referred to the State Affairs Committee.



Virginia: HB 2251 required the Virginia Retirement System (VRS) to establish an optional defined contribution plan for state and local new hires after January 1, 2020 and offer the plan to current hires after July 1, 2019. The bill, sponsored by Rep. S. Chris Jones (R), failed to pass the House on February 25, after a Senate finance amendments were added.

Stay tuned and visit www.NCPERS.org for more information on upcoming state pension reform battles. You can visit www.NCPERS.org/legislation%20maps to view our new membership feature. As always, if your state is facing pension reform efforts and you would like NCPERS' help, please let us know. ◆

Photo Illustration © 2017, Depositphotos

2017 Conferences

May

NCPERS Accredited Fiduciary Program (Modules 1&2 and 3&4)
May 20 – 21, 2017
The Diplomat Hotel
Hollywood, FL

Trustee Educational Seminar (TEDS)
May 20 – 21, 2017
The Diplomat Hotel
Hollywood, FL

Annual Conference & Exhibition
May 21 – 24, 2017
The Diplomat Hotel
Hollywood, FL

September

Public Pension Funding Forum
September 10 – 12
Stanford University
Palo Alto, CA

October

Public Safety Employees Pension & Benefits Conference
Oct 29 – Nov 1, 2017
Hyatt Regency San Antonio
San Antonio, TX

2016-2017 Officers

Daniel Fortuna
President

Kathy Harrell
First Vice President

Dale Chase
Second Vice President

Tina Fazendine
Secretary

Richard Wachsman
Treasurer

Mel Aaronson
Immediate Past President

Executive Board Members

State Employees Classification
Stacy Birdwell
Kelly L. Fox
Bill Lundy

County Employees Classification
Will Pryor
Sherry Mose

Local Employees Classification
Carol G. Stukes- Baylor
Robert McCarthy

Police Classification
Kenneth A. Hauser
Aaron Hanson

Fire Classification
Dan Givens
John Neimiec

Educational Classification
Patricia Reilly
Sharon Hendricks

Protective Classification
Peter Carozza, Jr.
Emmit Kane

Canadian Classification
Rick Miller

NCPERS 1941 *The Voice for Public Pensions*

The Monitor is published by the National Conference on Public Employee Retirement Systems.
Website: www.NCPERS.org • E-mail: legislative@NCPERS.org

NCPERS 1941

PERSist

National Conference on Public Employee Retirement Systems

The Voice for Public Pensions

Winter 2017 • Volume 30 • Number 1

Message From the President

Daniel Fortuna
NCPERS President

NCPERS is ringing in 2017 with robust online and onsite educational programming. I am excited to announce that NCPERS will be hosting 4 webinars and the NCPERS Legislative Conference in the first quarter. Additionally, in the second quarter we will host the NCPERS Accredited Fiduciary (NAF), TEDS, the Annual Conference & Exhibition (ACE) programs in May and a new CIO workshop currently scheduled for June.

The first webcast, discussing upcoming state and federal legislation that will impact public pension plans, was held on January 9, 2017. NCPERS Executive Director, Hank Kim, moderated the live broadcast, with Bailey Childers, the Executive Director of National Public Pension Coalition, and Anthony Roda, partner at Williams & Jensen. On January 24, 2017, at 1:00 pm to 2:00 pm EST, NCPERS will be hosting a webinar on the 2016 NCPERS Public Employee Retirement Systems Study and its dashboard. Pete Charette, from Colbalt Community Research, will discuss the findings of our survey and demonstrate how use the dashboard to manipulate and search the survey results so that the data is refined to your specifications.

The annual NCPERS Legislative Conference will take place on January 29 to 31, 2017, where members will convene in Washington, D.C. for two-and-a-half days of advocacy, strategy, and networking on the most pressing policy issues facing public pension funds. The Trump Administration is beginning to take shape, and we will be assessing the business, regulatory, and legislative implications of this Republican power shift.

The Center for Online Learning will continue to provide educational opportunities in February and March. NCPERS will host a webinar on the updated Code of Conduct and Schedule A, on February 7, 2017, at 1:00 pm to 2:00 pm EST. Finally, on March 7, 2017, at 1:00 pm to 2:00 pm EST, NCPERS will host a webinar explaining all of NCPERS endorsed insurance programs. Don Heilman, with Gallagher Benefit Services will explain all of NCPERS' insurance programs.

To register for any of our webinars or conferences, please click on the links inside the article. We look forward to "seeing you" at our online and in person events!. ❖

INSIDE THIS ISSUE (Click on Page Link)

Shareholder Activism: An Investment Opportunity

By Marlon Kimpson and Meredith Miller

Shareholder activism is one important way in which shareholders can influence a corporation's behavior by exercising their rights as owners.[1] This term has many different meanings, but for purposes of this article, shareholder activism refers to shareholders who are engaged in holding companies accountable through securities litigation.

For public pension fund trustees, being an engaged shareholder might be part of your fiduciary obligations to the fund, as corporate fraud can have a very real impact on the beneficiaries' financially-vulnerable retirement savings. The challenges faced by trustees of public employee retirement systems are increasing in number, so caring for trust assets now involves more than merely protecting the assets from diversion or mishandling. There are several ways – both tangible and intangible – that shareholder activism can be an investment opportunity for public pension funds.

Aside from holding accountable fraudulent corporations that mismanage shareholder's funds, perhaps the most obvious benefit of participating in securities class actions is receiving a share of any settlement against the company for its securities fraud violations. In 2015, there were 80 securities class action settlements with a total settlement value of $3 billion.[2] That is real money going back to investors. Board members should be proactive in ensuring that their portfolios are adequately monitored. That way, when they learn of a potential loss, plan fiduciaries and their staff can thoroughly consider the impact on the plan assets and weigh the costs and benefits of participating in any resulting shareholder litigation. At the very least, all possible settlement claims must be filed – don't leave money on the table.

Securities actions also benefit investors through less obvious means. For example, shareholders in a securities class action or in a shareholder derivative action can require that the settlement incorporate corporate governance reforms. Improvements in corporate governance are achieved to protect the value of the fund's ongoing investment in a particular company. Examples include measures relating to employee training and the creation of a compliance committee. If companies make the right decisions and govern responsibly, everyone wins. While the investment return is not as concrete as a settlement check, it is still a significant way that trustees can contribute and not allow the fraudulent actions to continue.

Another way that shareholder activism can be an investment opportunity is that it can combat loss of investor confidence in the stock market. A 2013 study by two economics professors concluded that corporate fraud damages investors in two distinct ways.[3] Following a corporate scandal, household investors not only decrease their stock holdings in these fraudulent companies, but they

continued on page 6

*As part of the Securities Fraud Litigation practice group, member attorney **Marlon E. Kimpson** and associate **Meredith Miller** represent victims of corporate malfeasance, including investors in securities and consumer fraud cases. They work with unions and institutional and individual investors to better identify potential securities fraud and improve corporate governance through litigation. Best Lawyers® has repeatedly recognized Kimpson as one of the best plaintiffs' attorneys in South Carolina for mass tort litigation for the years 2015-2017. He currently serves as South Carolina State Senator of District 42, representing citizens of Charleston and Dorchester counties. Kimpson is a lifetime member of the NAACP, and is also a member of the American Association for Justice, American Bar Association, National Bar Association, South Carolina Association for Justice, Sigma Pi Phi Boulé and Omega Psi Phi fraternity. He received a B.A. from Morehouse College and a J.D. from the University of South Carolina School of Law and is licensed in the state of South Carolina. Miller is a member of the Charleston County Bar Association and is licensed in South Carolina and Texas, having received a B.A. from the University of North Carolina at Chapel Hill, and J.D. from the University of Texas School of Law.*

Cyber Liability Insurance

By Brandon Cole

Photo Illustration ©2017 Depositphoto.com

Privacy and data breaches continue to make the news on a regular basis. This has caused an uptick in the purchase and conversation around cyber liability insurance. A lot of organizations assume cyber and privacy liability claims will be covered under their existing insurance policies. While liability coverage for data breach and privacy claims have been found in limited instances through General Liability Insurance, Commercial Crime insurance and some Directors & Officers insurance policies, these forms were not intended to respond to the modern threats posed in today's 24/7 information environment. Where coverage may have been afforded in the past, insurance carriers are taking great measures to include exclusionary language in in their policy form updates to make clear their intentions of not covering these claims going forward. Even if coverage can be found through other policies, we have found these policies lack expert resources and critical first party coverages. This is a problem in that the experts and first party coverages help mitigate the financial, operational and reputational damages a data breach can inflict on an organization. The news and lack of other insurance coverage has pushed a lot of organizations to purchase a separate cyber liability insurance policy.

"Cyber" Liability is insurance coverage specifically designed to protect a business or organization from:

- Liability claims involving the unauthorized release of information for which the organization has a legal obligation to keep private
- Liability claims alleging invasion of privacy and/or copyright/trademark violations in a digital, online or social media environment
- Liability claims alleging failures of computer security that result in deletion/alteration of data, transmission of malicious code, denial of service, etc.
- Defense costs in State or Federal regulatory proceedings that involve violations of privacy law; and
- The provision of expert resources and monetary reimbursement to the Insured for the out-of-pocket (1st Party) expenses associated with the appropriate handling of the types of incidents listed above

The term "Cyber" implies coverage only for incidents that involve electronic hacking or online activities, when in fact cyber liability insurance is much broader, covering private data and communications in many different formats – paper, digital or otherwise.

We do hear that several public entities feel they have immunity laws in

continued on page 6

***Brandon Cole** joined Arthur J. Gallagher & Co. as an Area Vice President in 2011. He has over 10 years of experience in the proper and casualty insurance industry, and previously served as a D&O, Employment Practices and Cyber liability underwriter for a national insurance company.*

The majority of Brandon's work has been with nonprofit and governmental entities. He has extensive experience in the design, financing and implementation of comprehensive insurance programs.

Brandon is an active participant in Gallagher's Public Entity & Scholastic Practice, and previously serves as National Program Leader. This practice represents Gallagher's largest industry segments, and is designed to share insight and best practices, as well as create purchasing leverage for our governmental clients.

Virtual Reality

By Jon Grabel

It is important to play games. We view gameplay as imperative for children because it helps with cognitive and physical development. Competitions teach children patience, social skills, negotiation, strategy, confidence and how to win and lose. Games are also important for adults. As we age, these activities help relieve stress, maintain brain function, stimulate creativity and help us feel young and energetic. In addition, games enhance our professional development. For example, the military conducts war games to teach our soldiers the complexity of their craft and prevent catastrophic outcomes. Airlines make a significant investment in flight simulators such that the 87,000 flights that cross our skies each day take us safely to our destination. Lawyers hone their skills in mock trials to better advocate for their clients. Professional athletes go through a series of preseason games such that they can deliver the most victories to their fans. Throughout our lives and across settings, games benefit us in multiple dimensions.

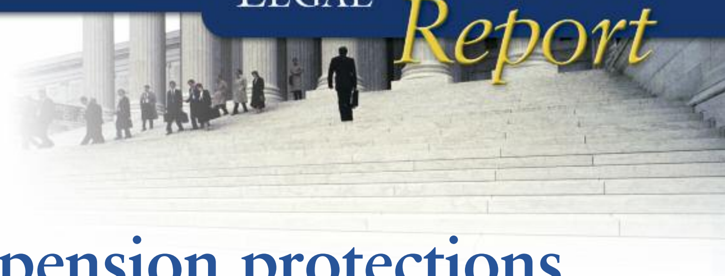
Photo Illustration ©2017 Depositphoto.com

In this spirit, the PERA investment division has an internal investment competition. Each member of the team constructs a hypothetical portfolio based upon agreed upon criteria. The portfolios run throughout the calendar year with weekly checkpoints. This annual exercise began in January 2015 as a way to facilitate an *esprit de corps* and instigate incremental investment acumen and discipline. It is a highly productive exercise as it creates an environment in which each member of the team can challenge one another's hypotheses. Moreover, this atmosphere facilitates constructive feedback in which people formulate ideas and defend their position. Improving investment knowledge, skill and discipline across the team benefits of PERA's 100,000 members as we continually strive to improve the processes through which we administer the pension trust fund. As we near the end of this year's competition, several themes and behaviors have emerged that are very similar to those that we see in the institutional investment marketplace. Thus, our friendly simulation has become a microcosm of the asset management space. This virtual reality helps flag behavioral biases across PERA's roster of money managers and allows us to minimize the impact of potential adverse influences.

Rules

Each participant begins the investment period with a fictional $10,000 portfolio. A virtual exchange prices securities and processes trades. Accounts must contain at least 1) three distinct asset categories (i.e. equities, fixed income and real estate), 2) 10 five percent positions, 3) no single holding greater than 20 percent, and 4) one-third invested internationally. Eligible investments include stock, bond, real estate, real asset and commodity indices. Team members can invest in publicly traded securities and exchange traded funds (ETFs). Players must choose their own portfolios and cannot adopt actively managed mutual funds. In addition, portfolio rebalancing is required each month. To create a dynamic competition, the portfolios must change by at least 10 percent as part of this monthly rebalancing exercise. Moreover, the competition does not allow for borrowing funds against assets. The group serves as its own watchdog and monitors compliance.

continued on page 8



Just How Far do they go? Recent cases clarify public pension protections under the Texas Constition

By Robert D. Klausner, NCPERS General Counsel

In 2003, the Texas Constitution was amended to add Article XVI, Section 66, "Protected benefits under certain public retirement systems." The protections under this section would only apply to a "public retirement system that is not a statewide system that provides services and disability retirement benefits and death benefits to public officers and employees." Additionally, the provisions specifically outlined certain benefits that would not receive protection.

Since its approval by the voter is November 2003, there had been virtually no interpretation. In 2008, the Attorney General (now Governor) issued an opinion broadly interpreting the provision and derailed an effort to curtail disability pensions.

The Attorney General and the legislative history of the amendment make it clear that it was intended to rectify the much criticized precedent set by *City of Dallas v. Trammell*, 129 Tex. 150 (1937), by ensuring that no previously earned benefit can be reduced. In the *Trammel* case, the legislature authorized a reduction in benefits then being paid to retired firefighters in light of an impending insolvency of the plan at the height of the Great Depression.

The heart of the 2003 amendment was to restrict Texas cities from adopting legislation to "reduce or otherwise impair" certain accrued benefits for vested members of the plan. While there was no doubt that the constitution provides protections for these accrued benefits, there was confusion as to just how far this protection extended. A pair of 2016 cases addressed that confusion and, in the process, limited the effect of the constitutional protection.

In *Eddington v. Dallas Police and Fire Pension System,* 2016 WL 7217239 (Tex. App. December 13, 2016), a number of current and retired Dallas Police Officers filed suit against the Pension System and its chair, alleging that certain recent plan amendments violated pension clause of the Texas Constitution. Specifically, the plan amendments called for the reduction of the future interest rate on accounts established for DROP participants under the Plan, including those members already in DROP or whose accounts remained on deposit after separation from service. After a bench trial, the court determined that the plan amendments did not violate the Constitution.

The legal issue in *Eddington* was whether the term "service retirement benefits" included DROP benefits and calculation. In its reasoning, the court looked to the decision of the United States Court of Appeals for the Fifth Circuit in *Van Houten v. City of Fort Worth* 827 F.3d 530 (5th Cir. 2016). In *Van Houten*, an ordinance was passed by the City of Fort Worth which prospectively lowered certain benefit calculations for both future and present employees. Present, vested employees argued that these changes were unconstitutional in that having vested in the plan; they were entitled to the level of benefits in effect on the date of vesting, even for service after the ordinance changes. Essentially, the court had to determine whether benefits that were expected, but not yet earned, were protected under the Texas Constitution. Ultimately, the Court concluded that Section 66, "prohibits the impairment of accrued benefits for vested employees." To

continued on page 6

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

Shareholder Activism continued from page 2

also decrease their holdings in "non-fraudulent" companies. Thus, shareholders need to be engaged in stopping securities fraud to ensure the health and stability of the entire market.

Finally, public pension trustees who are engaged in this discourse of deterring corporate fraud will become better investors and advocates for their beneficiaries. Knowledge is power, and trustees will be able to ask better questions of their investment managers, such as how the portfolio's risk is spread, and how certain companies' securities are chosen to be included. Ultimately, shareholder engagement can provide a material return to plan assets that is invaluable to the members for which a trustee serves. ❖

---

[1]http://www.investopedia.com/terms/s/shareholderactivist.asp
[2]http://securities.stanford.edu/research-reports/1996-2015/Settlements-Through-12-2015-Review.pdf
[3]http://bus.miami.edu/docs/UMBFC-2013/sba-ecommerce5214cd9c94b15/giannetti_wang_corporate_scandals_May_2013.pdf

---

Cyber Liability continued from page 3

their favor we would still recommend public agencies look further into this coverage. Immunity laws generally extend to the specific state the fund is located in. Where cyber laws are based on where the affected individual currently lives. So when a retiree moves from state A to state B the fund needs to respond to the laws of both state A and state B. Also, cyber liability policies provide coverage for damage to digital information and losses arising out of things like ransomware. For all of these reasons we would encourage all governmental entities to look at purchasing coverage. ❖

Legal Report continued from page 5

put it more simply, the protection only extends to those benefits actually earned by a vested member up to the date of the amendment, and benefit accruals after that date would be governed by the new ordinances. The Court made it clear that the retroactive reductions which were approved in 1937 could no longer be made, but that was as far as the constitutional provision went "…and no farther."

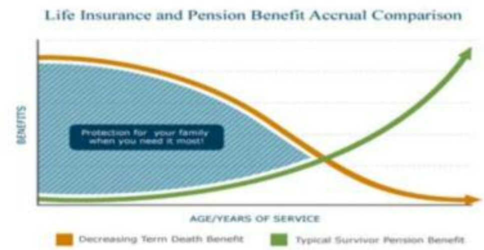
Federal court decisions, other than those of the United States Supreme Court, are not binding on state courts concerning questions of state law. With guidance from the *Van Houten* case, the Texas appeals court in *Eddington* had to determine whether the prospective lowering of the interest rate used in the DROP benefit calculation was considered an unconstitutional reduction of benefits. Using the analysis in *Van Houten*, the court concluded, "'benefits' as used in Section 66 'refers to payments and does not encompass the formula by which those payments are calculated.'" As a result, the plan changes were held to be constitutional.

The decisions in *Eddington* and *Van Houten* seem make it clear where the limits of the Texas Constitution pension clause begin and end. As the *Eddington* Court concluded, "Section 66 reverses the core unfairness of the *Trammell* decision by ensuring that earned benefits cannot be reduced. By going no further, our interpretation of Section 66 stays true to Texas' long-held flexible approach permitting municipalities to revise their pension plans in light of changing economic conditions."

Litigation of a similar nature continues in Florida, Maryland, and California. The California Supreme Court has recently agreed to look at a recent appeals court decision, discussed in an earlier *Persist* article, which suggested that pensioners were not necessarily entitled to benefits earned, but instead were only entitled to a "reasonable pension." 2017 is likely to see continuing efforts at narrowing the constitutional protections for retirement benefits. ❖

Group Voluntary Decreasing Term Life Insurance

Designed especially for public safety personnel, this voluntary plan offers a supplementary survivor's benefit to augment your retirement system's benefits. It currently serves the needs of over 85,000 public employee retirement system members.



Product Features Include:

- ✓ Decreasing term life insurance with benefits of up to $325,000
- ✓ Includes spouse and dependent child benefits
- ✓ Guaranteed issue (**no medical underwriting**)
- ✓ No minimum number to participate
- ✓ First offering includes existing retirees
- ✓ Active participants can continue into retirement
- ✓ No employer/retirement plan contributions required
- ✓ Minimal employer/retirement system involvement to implement and maintain
- ✓ Simple online enrollment available

Identity Guard

NCPERS has partnered with Identity Guard — an industry pioneer — to provide affordable identity theft protection plans especially for NCPERS members and their families at exclusive discounts.

Identity Guard Essentials	Identity Guard	Identity Guard Gold
✓ IDVerification Alerts ✓ Online “Black Market” Monitoring ✓ $1 Million Identity Theft Insurance with No Ded. ✓ Victim Recovery Specialist ✓ Social Security Monitoring ✓ Account Takeover Alerts ✓ ID Vault® Password Protection ✓ Mobile App ✓ Family Plans Available	✓ 1-Bureau Credit Monitoring and Alerts ✓ Credit Report - 1 Bureau with Quarterly Update ✓ Credit Score – Quarterly Updates One Bureau ✓ Credit analyzer – “What if” Tool – One Bureau ✓ $1 Million Identity Theft Insurance with No Ded. ✓ Victim Recovery Specialist ✓ Family Plans* Available – Covers up to 2 Adults and 6 Children	✓ IDVerification Alerts ✓ 3-Bureau Credit Monitoring and Alerts ✓ Online “Black Market” Monitoring ✓ $1 Million Identity Theft Insurance with No Deductible ✓ Credit Report –Monthly Updates One Bureau ✓ Credit Score – Monthly Updates One Bureau ✓ Victim Recovery Specialist ✓ Social Security Monitoring ✓ Account Takeover Alerts ✓ Lost Wallet Protection ✓ Address Change Monitoring ✓ Credit Analyzer – “What if” Tool One Bureau ✓ PC Keyboard Encryption Software ✓ Mobile App ✓ Family Plans Available – Covers up to 2 Adults and 6 Children

Fiduciary Liability Insurance

The NCPERS Fiduciary Liability insurance program protects public fund trustees and other fiduciaries when they face claims of breach of fiduciary duty in their service as trustees.

Product Features Include:

- ✓ Broad definition of “insured” to include trustees
- ✓ Broad definition of “wrongful act”
- ✓ Coverage for Fiduciary Exposures: improper advice or disclosure; inappropriate selection of advisors or providers; imprudent investments; breach of responsibilities imposed upon fiduciaries of a plan; conflict of interest with regards to investments; lack of investment diversity; negligence in the administration of a plan
- ✓ Coverage for voluntary compliance programs (sub-limited)
- ✓ Up to full policy limits provided for HIPAA and PPACA penalties

Cyber Liability Insurance

The NCPERS Cyber Liability insurance program is designed to provide limits ranging from $250,000 to $2MM with higher limits available upon request and a broad range of deductibles beginning as low as $2,500. The program offers a preferred member rate and a simplified 5-question application process.

Product Features Include:

- ✓ Privacy liability –failure to protect sensitive personal or health information in electronic or hard copy format includes regulatory defense and settlement
- ✓ Breach Notification – Data Breach counsel to provide immediate triage and consultation. Access to experts providing crisis management services including legal, computer forensics, regulatory and individual notification guidance, call center, credit monitoring and identity restoration services
- ✓ Multimedia Liability – Coverage for claims related to multimedia activities such as defamation, libel, plagiarism or copyright infringement
- ✓ System Damage – Cost to restore, re-collect, and replace data. Hire specialists to review to substantiate the loss
- ✓ Business Interruption – Net income policyholder would have earned. Loss of Business Income including normal operating expenses that were incurred or affected by the event Regulatory Actions
- ✓ Regulatory Actions – Coverage for civil regulatory actions, expenses related to information requests, compensatory awards, and regulatory penalties and fines to the extent permitted by law
- ✓ Cyber Threats & Extortions – Monies paid by policyholder following threat
- ✓ PCI Fines – Fines and penalties from non-compliance with Payment Card Industry Data Security Standards

Group Voluntary Decreasing Term Life & Identity Guard: Don_Heilman@ajg.com | 303.889.2686
Fiduciary Liability Insurance & Cyber Liability Insurance: James_Martinez@ajg.com | 303.889.2526

Arthur J. Gallagher & Co.
BUSINESS WITHOUT BARRIERS™

Virtual Reality continued on page 4

Performance

Observing how fluctuations in the markets affected each player's portfolio teaches a great lesson about investing. 2016 had a horrific start with the broad MSCI All Country World Index down over 10 percent through the first six weeks of the year. Markets also exhibited dramatic drawdowns across most asset categories in June with the unanticipated decision by British voters to leave the European Union. In addition, there was significant volatility on either side of the US Presidential election. Notwithstanding these and other market gyrations during 2016, the investment challenge highlighted the benefits of broad asset category diversification. Recalling the guidelines, portfolios could have no position greater than 20 percent (including cash) and had to maintain diversification across asset categories and geographies. The result of these guidelines is the virtual portfolios weathered the difficult capital market environment. This philosophy is consistent with that of the PERA fund. PERA diversifies its investments across asset categories and geographies. PERA does not try to time markets. Asset category diversification provides risk mitigation across cycles. A second critical element to investing success in uncertain markets is rebalancing. Rebalancing is the process of realigning the weightings of a portfolio of assets. It involves periodically buying or selling assets in a portfolio to maintain a desired asset allocation and risk tolerance. Specifically, an investor would sell above weight investment strategies in order to buy those that are below the target amount. This is a key investment tenet of the PERA fund. As the virtual portfolios generated gains following market downturns, so too does the PERA fund benefit from rebalancing over the course of a full cycle.

The importance of investment operations emerged as a key element in the competition. For example, the virtual exchange we used to manage our friendly competition failed to account for stock splits. It also did not properly return cash for an ETF that was delisted. These operational flaws impacted the reported values of several portfolios in the simulation. As our team is quick to note, investment operations should be front and center. It is naïve to refer to these important functions as back office as they are critical to the proper function of a complex institutional investment program. Good investment performance is dependent upon the right operational infrastructure.

Observations and Lessons

Many patterns emerged from the 2016 investment competition. These items stimulated much debate among the group. This essay details some of the issues we discussed combined with a commentary on our observations.

Active vs. Passive Strategies

Observation – The principal difference in the portfolio models employed by the group was the use of active versus passive investment strategies. Active strategies try to beat a market benchmark through skillful security selection. Passive or indexed strategies embrace a benchmark predicated upon the belief that markets are efficient over time, especially when adjusted for risk and fees. Many people invested in a collection of passive indices. Others created concentrated portfolios of individual securities. The latter group embraced volatility and the former shied from it. There were nuances across implementations. Some of the participants were very active within their asset category specialty and passive across other strategies. Others took the opposite approach and embraced risk in the areas outside their subject matter expertise.

Lesson – We believe that asset allocation is the principal driver of the variance in performance for diversified portfolios. While picking an individual security may be more exciting, it is not the winning solution over an extended period for a public pension plan. Absent proprietary research, broad exposure to multiple asset categories is a better long-term investment approach for an institution such as PERA. Our mandate is to distribute benefit payments today and into the future. Accordingly, spreading capital across various asset category indices or betas provides better downside protection. The decision to invest in an index versus picking individual securities provides valuable insight into the actual marketplace. For efficient asset categories such as large capitalization US public equities, active managers have trouble beating the comparable passive strategy. Moreover, those managers who beat the index in a given period often trail it in subsequent ones. Yet, active managers have an allure that is akin to a good story. From a marketing perspective, these story-based strategies attract much attention because they are fun and appeal to the adventurer in all of us. Said different, we all want to win and active strategies give us a chance to beat the odds. At the same time, many of these storytellers belittle passive strategies as boring and pedestrian. The challenge is to rise above the noise by optimizing the expected return per measure of expected risk. Adventures are fun, but for the most efficient asset categories over extended periods, indexing may be the optimal strategy.

Crowding

Observation – Another behavioral theme relates to crowding. Each portfolio in the competition is trans-

continued on page 9

Virtual Reality continued on page 8

parent and visible to every participant. Crowding exists when many people invest in similar securities and strategies. With similar trades come like outcomes. Like outcomes yield blurry information and a lack of differentiation. Said differently, there is safety in numbers.

Lesson – As we see with commonplace trades in the money management space, crowding benefits money managers through consistent peer performance. As a positive, this may allow someone to win by not losing. Alternatively, this is akin to benchmark hugging (when an active manager closely mimics its underlying index) or survival through conformity. One motivation for such risk averse professional portfolios is asset and fee maximization. Specifically, managers that move with the herd may have a better survival rate. Clients may not fire them based on undifferentiated peer comparisons.

From the perspective of the PERA portfolio, our most significant form of risk management is diversification. In addition to diversifying our investment strategies, we also employ multiple money managers to avoid organizational risk within a single investment firm. Our money managers' peer rankings are not particularly relevant. We do not benefit from overlap or crowding within like mandates. Crowding solely helps our money managers. It shifts the focus from what is an optimal investment structure to what is safe in the context of peers and universe rankings. Where we employ active money management, we expect our managers to express an educated point of view and develop the best collection of securities in a category. We encourage our managers to think and execute as opposed to just surviving against their peers. We want our managers to be hungry and motivated to generate appropriate risk-adjusted returns for PERA. We are vigilant towards this end. We structure tight investment guidelines with each money manager. Investment guidelines are a list of do's and don'ts for each manager. We also hold the vast majority of our investment securities at PERA's custody bank. This account structure gives us greater visibility into the whole PERA fund and helps us avoid unintentional positional biases such as crowded trades.

Quartile Rankings

Observation – In contrast to the crowded portfolios, some within the investment challenge went their own way and tended to perform at either the high or the low end of the spectrum. People in this group changed in the standings throughout the year and readily moved from top 25 percent to bottom 25 percent and vice versa. It is noteworthy that some within the go-it-alone cohort tended to reduce risk and join the benchmark huggers after periods of success.

Lesson – Once again, this is a common observation in the money management space. Managers often gain attention subsequent to a period of outperformance. Asset owners and their advisors flock to investment managers based on historical performance. However, mediocre performance often follows success as a manager may have incentives to play it safe. We see this in sports when a football team puts in the prevent defense to avoid losing a game. In investing, like football, there may be a victory despite changing from successful tactics. Specifically, the money manager may gain additional investors. With additional clients comes additional wealth and fame. Losing this source of income would not be a rational action by a money manager. Unfortunately for incremental investors, the desired outcome may be disappointing as the previous success often yields mean reversion. S&P Global publishes this data in its persistence scorecard. This report details the lack of consistent placement in the top quartile by money managers. In many cases, the passive strategy produces the most reliable performance.

Distribution

Observation – The dispersion of portfolio returns over the course of the year is somewhat related to the preceding theme, yet the observation is different. Typically, the majority of balances resided in a tight band throughout the year. The median portfolio (the middle one) moved up and down based on overall market conditions and at of the year it generated a positive return. The concentrated nature of the set of portfolios is representative of a distribution curve taught in an introductory statistics class. The shape, however, was not normally distributed. There was a significant difference between the median and the mean (average). In our case, more people performed above the average. The underperformance was greater than the outperformance indicating the risk-taking incentives for those in the bottom quartile.

Lesson – The analog from our virtual world to the real one is instructive. The existence of a distribution curve is also highly relevant for institutional investors. Too many mangers and institutions refer to their portfolios as being in the top quartile. Mathematically, not everyone can be in the top quartile, let alone above the median. There is excessive marketing accompanying peer standings. Institutional investment mandates are too important to award participation trophies to all managers. Balancing qualitative and quantitative factors in an unemotional manner enables investors to better position a portfolio.

Risk-taking Incentives

Observation – As illustrated above and much like the ending scene in *Thelma*

continued on page 10

Virtual Reality continued on page 9

& Louise, team members with diminishing chances of winning the competition took uncompensated risks as we neared the end of the year. Whether it was panic or a refusal to accept defeat, this group dramatically increased risk. By investing in higher beta strategies such as IPOs, companies in crisis and countries with geopolitical turmoil these participants hoped for a big pay-off. These last chance strategies had mixed success, but were arguably rational decisions from the point of view of game theory.

Lesson **–** In a simulation it is easy to adopt the mantra of "go big or go home." The PERA investment team realizes that we cannot take this type of cavalier approach to managing a portfolio as important as the PERA fund. The lessons from the investment competition are vital to remaining humble, focused and disciplined. As for the takeaway, it is imperative to understand manager and/or strategy underperformance and evaluate it in the context of a larger portfolio. Underperformance can be a result of an out of favor strategy detracting from returns, such as energy in 2015. Alternatively, poor performance can be an indicator of excessive risk within a strategy. Judgment based on experience and collaboration is necessary to recognize that strategies that are currently out of favor may be attractive in the future. This is the premise behind rebalancing programs that foster a buy-low/sell-high philosophy. In contrast, it is prudent to avoid managers that incur excessive risk much like Thelma and Louise in trying to elude a bad outcome. Hope is not an investment strategy and may lead to unintended consequences. At PERA, our systems and processes help determine the positive and negative contributors to performance. We recognize that positive returns require the same level of review as do negative ones. Specifically, a true performance evaluation requires a comprehensive analysis that evaluates both risks and returns. This multi-dimensional framework, helps us flag and eliminate excessive risk-taking motivations by our managers.

Conclusion

We are nearing the end of our second annual investment competition. With a minimal commitment of time, the exercise yields impressive results. The investment challenge helps us to better interact as a group. We find common ground around our core function as stewards for PERA members. Investments should occupy the majority of our discourse and the challenge enhances that commonality of purpose. It also creates a healthy desire and discipline to be the best at what we do by enabling us to identify behavioral biases that exist in the broader investment world. The resulting awareness improves our overall skill and judgment as a team. We look forward to continuing this competition in 2017 and beyond. ❖

Jon Grabel *is the Chief Investment Officer at the Public Employees Retirement Association of New Mexico.*

The Voice for Public Pensions

PERSist National Conference on Public Employee Retirement Systems

Calendar of Events 2017

Legislative Conference
January 29 – 31, 2017
Capital Hilton
Washington, DC

Trustee Educational Seminar (TEDS)
May 20 – 21, 2017
The Diplomat Hotel
Hollywood, FL

NCPERS Accredited Fiduciary Program (Modules 1&2 and 3&4)
May 20 – 21, 2017
The Diplomat Hotel
Hollywood, FL

Annual Conference & Exhibition
May 21 – 24, 2017
The Diplomat Hotel
Hollywood, FL
September

Public Pension Funding Forum
September 10 – 12
Stanford University
Palo Alto, CA

Public Safety Employees Pension & Benefits Conference
Oct 29 – Nov 1, 2017
Hyatt Regency San Antonio
San Antonio, TX

National Conference on Public Employee Retirement Systems
444 North Capitol St., NW Suite 630
Washington, D.C. 20001
...The Voice for Public Pensions

NCPERS OFFICE

444 North Capitol St., NW
Suite 630
Washington, D.C. 20001
ph: 1-877-202-5706
fax: 202-624-1439
www.NCPERS.org
info@NCPERS.org