AGENDA

DALLAS POLICE & FIRE PENSION SYSTEM

Date: May 3, 2024

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, May 9, 2024, in the Second Floor Board Room at 4100 Harry Hines Boulevard, Dallas, Texas and via telephone conference for audio at 214-271-5080 access code 588694 or Toll-Free (US & CAN): 1-800-201-5203 and Zoom meeting for visual https://us02web.zoom.us/j/83364156526?pwd=OG5CbEFhajN5V0hWaUFJMlhYcHQ2Zz09 Passcode: 923237.** Items of the following agenda will be presented to the Board:

A. MOMENT OF SILENCE

B. APPROVAL OF MINUTES

Regular meeting of April 11, 2024

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. **Quarterly Financial Reports**

2. **Monthly Contribution Report**

3. **Report on the Audit Committee Meeting**

4. **Audit Plan**

5. **Independent Actuarial Analysis and Recommendations and Section 2.025 Update**

   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.

6. **January 1, 2024 Actuarial Valuation Assumptions**

7. **Executive Director Approved Pension Ministerial Actions**

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

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

9. **Portfolio Update**

10. **Clarion – Possible sale of CCH 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.

11. **Lone Star Investment Advisors**

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

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

D. BRIEFING ITEMS

1. Public Comment

2. Executive Director's Report

a. Associations' newsletters
- NCPERS Monitor (May 2024)
- NCPERS PERSist (Spring 2024)

b. Open Records

c. Employee Service Awards

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

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

DALLAS POLICE & FIRE PENSION SYSTEM

MOMENT OF SILENCE

In memory of our Members and Pensioners who recently passed away

NAME	ACTIVE/ RETIRED	DEPARTMENT	DATE OF DEATH
John D. James	Retired	Police	03/25/2024
Jack D. Baxter	Retired	Fire	04/04/2024
Roland Kuykendall	Retired	Police	04/13/2024
Wallace J. Graves	Retired	Fire	04/15/2024
Jimmy E. Little	Retired	Police	04/17/2024
Clayton R. Heyse	Retired	Police	04/22/2024
Daryle E. Flood	Retired	Fire	04/28/2024

Regular Board Meeting –Thursday, May 9, 2024

Dallas Police and Fire Pension System
Thursday, April 11, 2024
8:30 a.m.
4100 Harry Hines Blvd., Suite 100
Second Floor Board Room
Dallas, TX

Regular meeting, Nicholas A. Merrick, Chairman, presiding:

ROLL CALL

Board Members

Present at 8:30 a.m.	Nicholas Merrick, Tina Hernandez Patterson, Michael Taglienti, Michael Brown, Anthony Scavuzzo, Tom Tull, Marcus Smith, Matthew Shomer, Steve Idoux, Nancy Rocha
Present at 8:35 a.m.	Mark Malveaux
Absent	None
Staff	Kelly Gottschalk, Josh Mond, Brenda Barnes, Ryan Wagner, Christina Wu, Akshay Patel, Kyle Schmit, John Holt, Nien Nguyen, Milissa Romero, Cynthia J. Thomas
Others	Ron Pastore, David Elliston, James Parnell, Tennell Atkins, Gay Donnell Willis, Maddy Madrazo, Brian Moody, Cara Mendelsohn
By telephone	Ken Haben

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

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A. MOMENT OF SILENCE

The Board observed a moment of silence in memory of active police officer Anthony C. Allen, retired police officers Nancy R. Cawthon, Kenneth R. Modglin, Ira D. Scott, and retired firefighters Frank H. Varner, Larry D. Patrick, Lewis D. Morris, Johnny M. Rushing, Paul D. Lynn, David Gill, Garth L. Campbell, Earnest P. Copeland, H.R. Ferguson.

No motion was made.

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Regular Board Meeting
Thursday, April 11, 2024

B. APPROVAL OF MINUTES

Regular meeting of March 14, 2024

After discussion, Mr. Taglienti made a motion to approve the Regular minutes of the meeting of March 14, 2024. Mr. Smith seconded the motion, which was unanimously approved by the Board.

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C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Independent Actuarial Analysis and Recommendations and Section 2.025 Update

The Executive Director provided an update on the process involving Section 2.025 of Article 6243a-1 and recommendations and the Board provided feedback on the recommendations.

No motion was made.

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2. Executive Director Approved Pension Ministerial Actions

The Executive Director reported on the March pension ministerial actions.

No motion was made.

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3. Monthly Contribution Report

The Executive Director reviewed the Monthly Contribution Report.

No motion was made.

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Regular Board Meeting
Thursday, April 11, 2024

4. Board approval of Trustee education and travel

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

The Board and staff discussed future Trustee education. There was no future Trustee business-related travel or investment-related travel scheduled.

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

Ms. Hernandez Patterson, Ms. Rocha, Mr. Taglienti, and Mr. Tull reported on the TEXPERS 2024 Annual Conference.

No motion was made.

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6. Portfolio Update

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

No motion was made.

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7. Report on Investment Advisory Committee Meeting

The Investment Advisory Committee met on March 28, 2024. The Committee Chair and Investment Staff commented on the Committee's observations and advice.

No motion was made.

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Regular Board Meeting
Thursday, April 11, 2024

8. Real Estate: AEW Presentation

The Board went into closed executive session – Real Estate at 10:37 a.m.

The meeting reopened at 11:49 a.m.

Ron Pastore, Senior Portfolio Manager for AEW Capital Management (AEW) updated the Board on the status and plans for DPFP's investments in RED Consolidated Holdings (RCH).

No motion was made.

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9. Lone Star Investment Advisors

The Board went into closed executive session – Legal at 10:37 a.m.

The meeting reopened at 11:49 a.m.

Investment staff updated the Board on investments managed by Lone Star Investment Advisors.

No motion was made.

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

The Board went into closed executive session – Legal at 10:37 a.m.

The meeting reopened at 11:49 a.m.

The Board and staff discussed legal issues.

No motion was made.

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Regular Board Meeting
Thursday, April 11, 2024

D. BRIEFING ITEMS

1. Public Comments

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

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2. Executive Director's Report

a. Associations' newsletters
- NCPERS Monitor (March 2024)

b. Open Records

The Executive Director's report was presented.

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Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Tull and a second by Mr. Taglienti, the meeting was adjourned at 11:50 a.m.

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Nicholas A. Merrick,
Chairman

ATTEST:

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Kelly Gottschalk
Secretary

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C1

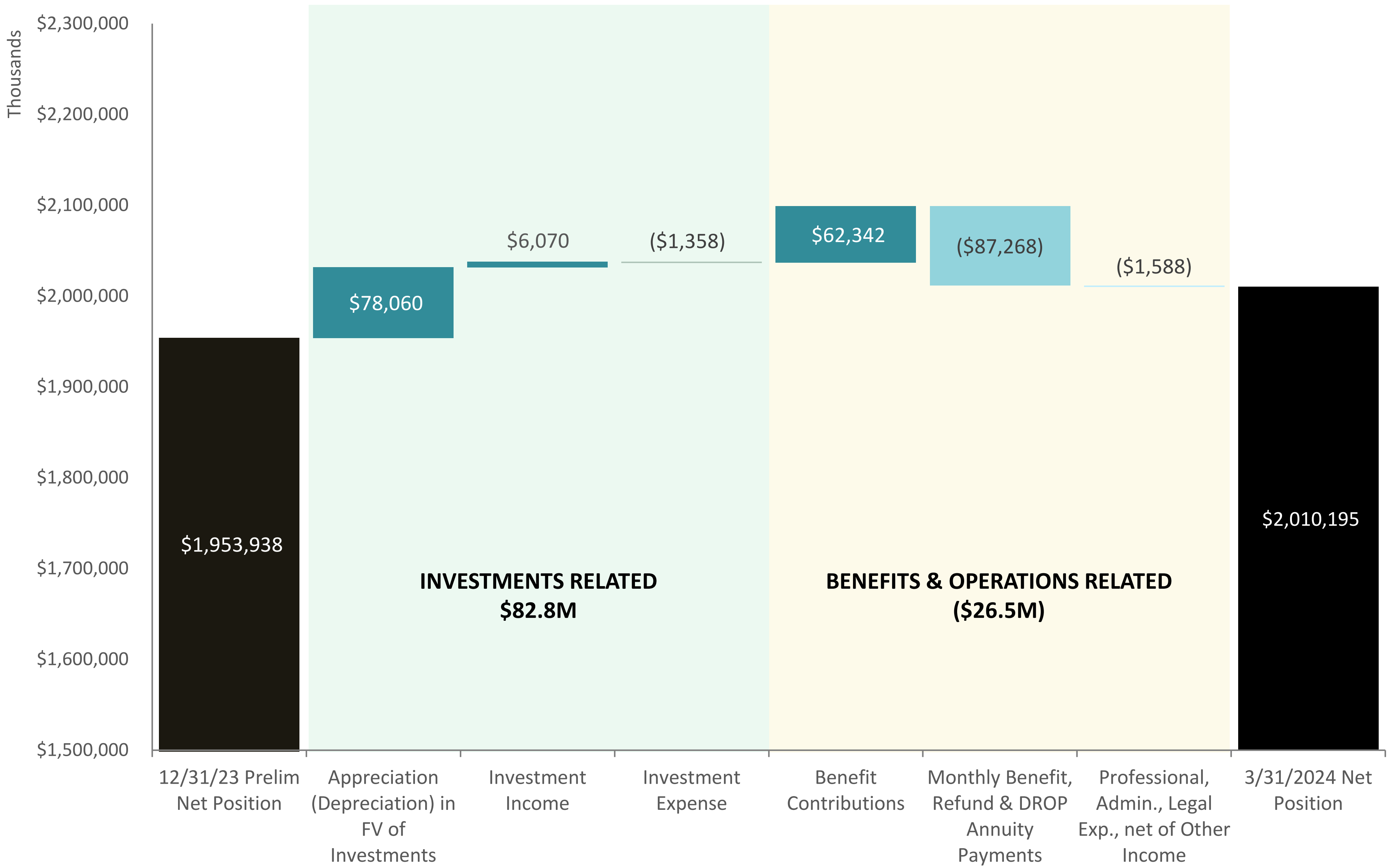
Topic: **Quarterly Financial Reports**

Discussion: The Chief Financial Officer will present the first quarter 2024 financial statements.

Regular Board Meeting – Thursday, May 9, 2024

Change in Net Fiduciary Position

PRELIMINARY - December 31, 2023 – March 31, 2024



Components may not sum exactly due to rounding.

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

	March 31, 2024	PRELIMINARY December 31, 2023	$ Change	% Change
Assets				
Investments, at fair value				
Short-term investments	$ 24,918,770	$ 16,982,561	$ 7,936,209	47%
Fixed income securities	370,844,861	365,809,375	5,035,486	1%
Equity securities	1,070,495,992	995,629,628	74,866,364	8%
Real assets	278,937,376	279,500,191	(562,815)	0%
Private equity	215,778,463	217,778,463	(2,000,000)	-1%
Forward currency contracts	(177)	-	(177)	0%
Total investments	1,960,975,285	1,875,700,218	85,275,067	5%
Receivables				
City	2,513,732	5,728,687	(3,214,955)	-56%
Members	923,838	2,083,312	(1,159,474)	-56%
Interest and dividends	4,369,172	4,668,499	(299,327)	-6%
Investment sales proceeds	2,230,108	1,963	2,228,145	113507%
Other receivables	115,288	95,848	19,440	20%
Total receivables	10,152,138	12,578,309	(2,426,171)	-19%
Cash and cash equivalents	42,411,699	62,346,331	(19,934,632)	-32%
Prepaid expenses	968,973	561,465	407,508	73%
Capital assets, net	11,446,438	11,455,745	(9,307)	0%
Total assets	$ 2,025,954,533	$ 1,962,642,068	$ 63,312,465	3%
Liabilities				
Payables				
Securities purchased	11,789,764	4,476,298	7,313,466	163%
Accounts payable and other accrued liabilities	3,969,423	4,228,132	(258,709)	-6%
Total liabilities	15,759,187	8,704,430	7,054,757	81%
Net position restricted for pension benefits	$ 2,010,195,346	$ 1,953,937,638 *	$ 56,257,708	3%

***The ending period amounts are preliminary and may change as the 2023 results are finalized.**

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

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023	$ Change	% Change
Contributions				
City	$ 45,558,137	$ 42,316,896	$ 3,241,241	8%
Members	16,784,131	15,421,728	1,362,403	9%
Total Contributions	62,342,268	57,738,624	4,603,644	8%
Investment income				
Net appreciation (depreciation) in fair value of investments	78,060,034	71,255,683	6,804,351	10%
Interest and dividends	6,069,586	5,696,968	372,618	7%
Total gross investment income	84,129,620	76,952,651	7,176,969	9%
less: investment expense	(1,357,980)	(1,515,716)	157,736	10%
Net investment income	82,771,640	75,436,935	7,334,705	10%
Other income	99,091	59,767	39,324	66%
Total additions	145,212,999	133,235,326	11,977,673	9%
Deductions				
Benefits paid to members	86,047,464	84,415,207	1,632,257	2%
Refunds to members	1,220,371	1,318,628	(98,257)	-7%
Legal expense	834	139,457	(138,623)	-99%
Legal expense reimbursement	-	-	-	0%
Legal expense, net of reimbursement	834	139,457	(138,623)	-99%
Staff Salaries and Benefits	979,185	980,093	(908)	0%
Professional and administrative expenses	707,437	697,125	10,312	1%
Total deductions	88,955,291	87,550,510	1,404,781	2%
Net increase (decrease) in net position	56,257,708	45,684,816		
Beginning of period	1,953,937,638 *	1,823,207,743		
End of period	$ 2,010,195,346	$ 1,868,892,559		

***The beginning period amounts are preliminary and may change as the 2023 results are finalized.**

DISCUSSION SHEET

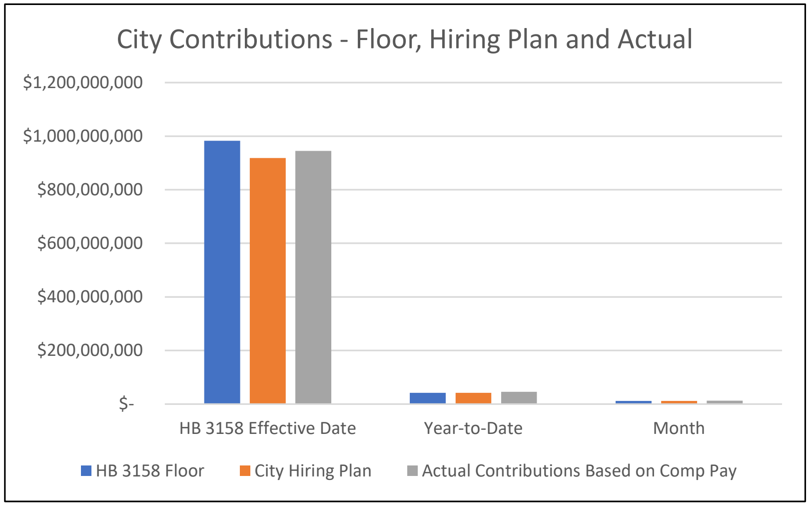
ITEM #C2

Topic: **Monthly Contribution Report**

Discussion: Staff will review the Monthly Contribution Report.

Regular Board Meeting – Thursday, May 9, 2024

Contribution Tracking Summary - May 2024 (March 2024 Data)

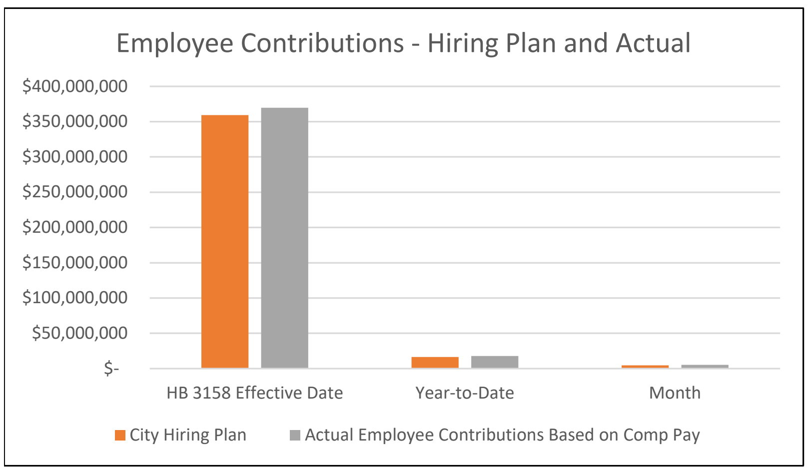


Actual Comp Pay was 103% of the Hiring Plan estimate since the effective date of HB 3158.

The Floor for 2024 is equal to the Hiring Plan estimate of $6,024,000 per pay period. The Hiring Plan increased by 3.65% in 2024. It is expected that actual contributions will exceed the Floor through 2024.

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

The combined actual employees were 17 **more** than the Hiring Plan for the pay period ending April 9, 2024. Fire was over the estimate by 287 Fire Fighters and Police was under by 270 Police Officers.



Employee contributions exceeded the Hiring Plan estimate for the month, the year and since inception.

There is no Floor on employee contributions.

Contribution Summary Data

City Contributions

Mar-24	Number of Pay Periods Beginning in the Month	HB 3158 Floor	City Hiring Plan	Actual Contributions Based on Comp Pay	Additional Contributions to Meet Floor Minimum	Comp Pay Contributions as a % of Floor Contributions	Comp Pay Contributions as a % of Hiring Plan Contributions
Month	2	$ 12,048,000	$ 12,048,462	$ 13,161,941	$ -	109%	109%
Year-to-Date		$ 42,168,000	$ 42,169,615	$ 45,785,014	$ -	109%	109%
HB 3158 Effective Date		$ 982,501,000	$ 918,390,000	$ 945,141,426	$ 48,990,866	96%	103%

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

Employee Contributions

Mar-24	Number of Pay Periods Beginning in the Month	City Hiring Plan	Actual Employee Contributions Based on Comp Pay	Actual Contribution Excess Compared to Hiring Plan	Actuarial Valuation Contribution Assumption	Actual Contributions as a % of Hiring Plan Contributions	Actual Contributions as a % of Actuarial Val Assumption
Month	2	$ 4,714,615	$ 5,152,738	$ 438,123	$ 4,236,924	109%	122%
Year-to-Date		$ 16,501,154	$ 17,918,387	$ 1,417,233	$ 14,829,234	109%	121%
HB 3158 Effective Date		$ 359,370,000	$ 369,657,710	$ 10,287,710	$ 346,648,912	103%	107%
Potential Earnings Loss from the Shortfall based on Assumed Rate of Return				$ 520,160			

Does not include Supplemental Plan Contributions.

Reference Information

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

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

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

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

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

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

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

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

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

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

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

City Hiring Plan - Annual Computation Pay and Numbers of Employees						
	Computation Pay			Number of Employees		
Year	Hiring Plan	Actual	Difference	Hiring Plan	Actual EOY	Difference
2017	$ 372,000,000	Not Available	Not Available	5,240	4,935	(305)
2018	$ 364,000,000	$ 349,885,528	$ (14,114,472)	4,988	4,983	(5)
2019	$ 383,000,000	$ 386,017,378	$ 3,017,378	5,038	5,104	66
2020	$ 396,000,000	$ 421,529,994	$ 25,529,994	5,063	4,988	(75)
2021	$ 408,000,000	$ 429,967,675	$ 21,967,675	5,088	4,958	(130)
2022	$ 422,000,000	$ 439,104,541	$ 17,104,541	5,113	5,074	(39)
2023	$ 438,000,000	$ 460,982,051	$ 22,982,051	5,163	5,136	(27)
2024	$ 454,000,000			5,213		
2025	$ 471,000,000			5,263		
2026	$ 488,000,000			5,313		
2027	$ 507,000,000			5,363		
2028	$ 525,000,000			5,413		
2029	$ 545,000,000			5,463		
2030	$ 565,000,000			5,513		
2031	$ 581,000,000			5,523		
2032	$ 597,000,000			5,523		
2033	$ 614,000,000			5,523		
2034	$ 631,000,000			5,523		
2035	$ 648,000,000			5,523		
2036	$ 666,000,000			5,523		
2037	$ 684,000,000			5,523		

Comp Pay by Month - 2024	Annual Divided by 26 Pay Periods	Actual	Difference	2024 Cumulative Difference	Number of Employees - EOM	Difference
January	$ 52,384,615	$ 56,848,897	$ 4,464,281	$ 4,464,281	5,183	(30)
February	$ 34,923,077	$ 37,710,735	$ 2,787,658	$ 7,251,939	5,166	(47)
March	$ 34,923,077	$ 38,150,554	$ 3,227,478	$ 10,479,417	5,230	17
April	$ 34,923,077					
May	$ 34,923,077					
June	$ 34,923,077					
July	$ 52,384,615					
August	$ 34,923,077					
September	$ 34,923,077					
October	$ 34,923,077					
November	$ 34,923,077					
December	$ 34,923,077					

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C3

Topic: **Report on Audit Committee Meeting**

Discussion: The Audit Committee met with representatives of BDO on May 9, 2024 to review the Audit Plan for the 2023 audit. The Committee Chair will comment on the meeting and the audit plan.

Representatives from BDO, DPFP's external independent audit firm, will be present at the meeting to answer any questions regarding the 2023 Audit Plan.

The Audit Plan is included in the board materials for review.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C4

Topic: **Audit Plan**

Attendees: Jody Hillenbrand, BDO, Partner

Discussion: Representatives from BDO, DPFP's external independent audit firm, will be present to discuss their audit plan for the year ended December 31, 2023.

Regular Board Meeting – Thursday, May 9, 2024

DISCUSSION SHEET

ITEM #C5

Topic: **Independent Actuarial Analysis and Recommendations and Section 2.025 Update**

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

Discussion: Section 2.025 of Article 6243a-1 requires the Texas Pension Review Board to select, and DPFP to hire, an independent actuary to perform an actuarial analysis of DPFP's most recently completed actuarial valuation to (i) determine if DPFP meets Texas statutory funding requirements and (ii) recommend changes to benefits and contribution rates for employees and the City of Dallas. This analysis is due on or before October 1, 2024.

Cheiron, Inc., was hired as the independent actuary. In November 2023, Cheiron presented the preliminary report based on DPFP's January 1, 2022 actuarial valuation. In February 2024, Cheiron presented its official report under Section 2.025 based on DPFP's January 1, 2023 actuarial valuation. Staff presented recommendations to the Board in April 2024.

Staff will provide updates on the process and recommendations since the April meeting.

TEXAS PENSION REVIEW BOARD

Principles of Retirement Plan Design
(Adopted June 14, 2018)

The Pension Review Board (PRB) recognizes that offering a sustainable, secure retirement benefit is vital to achieving the objectives of multiple public-sector stakeholders including employers, employees, retirees, beneficiaries, and taxpayers, and that benefits should be protected through sound plan design and adequate funding. Therefore, the PRB intends for these Principles to guide and inform public retirement systems and their associated governmental entities on how to structure retirement plans.

Because:

- state and local government is a major employer in Texas;
- the state and its many political subdivisions–counties, cities, school districts, special districts, and others–rely on employees to deliver essential public services, including teaching at public schools; protecting public health and safety; planning, building, and maintaining transportation, utility and other infrastructure, parks and recreational facilities; protecting vulnerable individuals, including children, the elderly, and those with developmental disabilities; and protecting the state's natural resources;
- employee compensation is a vital component in the ability of the state and its political subdivisions to attract qualified workers to perform public services and to keep those workers employed as long as they continue to add value to their employer and to the public;
- a retirement benefit is a critical element of employee compensation, serving as an important tool in the ability of employers to recruit and retain qualified and experienced employees; and
- the design and prudent financial management of the retirement benefit provided to public employees can significantly affect the ability of employers to attract and retain employees and maintain budgetary stability while providing essential public services;

The PRB supports the following Principles of Retirement Plan Design for public retirement systems in Texas:

1. Public employers should offer a retirement benefit, and participation in the employer-sponsored primary retirement plan should be mandatory.

2. Contributions to retirement plans should be consistent with the PRB *Pension Funding Guidelines*.

3. Employers and employees should share the cost of the benefit.

4. Retirement plan vesting should occur over a short period, preferably five years or less.

5. Benefits should be designed to place employees on the path to financial security in retirement in consideration of participation or nonparticipation in Social Security.

6. A primary retirement plan should require annuitization of a substantial portion of retirement benefits.

7. In the absence of an immediate and heavy financial need, a retirement benefit should be used only for retirement. 8. Retirement benefits should be protected against the erosion of the benefit's value due to inflation; such benefits should not exceed actual inflation and should be funded in accordance with the Pension Review Board's *Pension Funding Guidelines*.

9. Employers should provide death and disability benefits.

10. Employers are encouraged to offer plans that are supplemental to the primary retirement plan.

11. Retirement plan governance should represent the interests of all stakeholders, respect fiduciary standards, and be transparent and publicly accountable.

12. Retirement plan assets should be pooled and professionally invested according to prudent investor standards, giving careful consideration to cost.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C6

Topic: **January 1, 2024 Actuarial Valuation Assumptions**

Discussion: An Actuarial Valuation is performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits and it is an important part of the annual financial audit. Segal Consulting is preparing the January 1, 2024 Actuarial Valuation for the Regular Plan (Combined Plan) and the Supplemental Plan. Many economic and demographic assumptions are required to prepare the valuation. Pursuant to Article 16, Section 67 (f)(3) of the Texas Constitution, the Board determines the assumptions used in the valuation.

Segal does not recommend changing any assumptions for January 1. 2024 Actuarial Valuation. After this Actuarial Valuation and before next Actuarial Valuation (January 1, 2025) an Experience Study is due which may result in recommendations for modifications to some assumptions.

Staff Recommendation: **Direct** Segal to use the same assumptions for the January 1, 2024 Actuarial Valuation that were used in January 1, 2023 Actuarial Valuation for the Regular Plan (Combined Plan) and the Supplemental Plan.

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C7

Topic: **Executive Director Approved Pension Ministerial Actions**

Discussion: The Executive Director approved ministerial membership actions according to the Retirement and Payments Approval Policy. Membership actions approved are summarized in the provided report.

Membership Actions -2024

	January	February	March	April	May	June	July	August	September	October	November	December	YTD Totals
Refunds	23	22	21	26	16								108
DROP - Join	1	1	2	0	5								9
Estate Payments	2	1	3	5	3								14
Survivor Benefits	4	6	3	8	5								26
Retirements	10	10	16	9	13								58
Alternate Payees	2	0	2	1	1								6
Spouse Wed After Retirement	0	0	0	0	0								0
Service Purchases	0	2	0	1	7								10
Earnings Test	0	0	0	0	0								0

Membership Actions -2023

	January	February	March	April	May	June	July	August	September	October	November	December	YTD Totals
Refunds	26	19	12	13	17	14	23	13	57	53	18	21	286
DROP - Join	3	3	0	2	2	2	0	0	3	0	3	0	18
Estate Payments	0	5	7	5	1	2	4	92	5	3	5	9	138
Survivor Benefits	1	6	8	6	4	3	5	6	6	2	3	6	56
Retirements	12	16	11	14	11	12	10	13	10	17	6	12	144
Alternate Payees	0	2	1	0	2	3	1	3	2	0	0	1	15
Spouse Wed After Retirement	1	0	0	0	0	0	0	0	1	1	1	0	4
Service Purchases	2	0	0	1	0	2	0	1	0	0	2	0	8
Earnings Test	0	0	0	0	0	9	0	0	0	0	0	0	9

Data is based on Agenda/Executive Approval Date
Service purchases include Military, DROP Revocation, and Previously Withdrawn Contributions
The increase in Refunds in September 2023 and October 2023 is due to the Refund Project
87 of the Estate Payments in August 2023 are approvals for the Pending Death Project

https://dpfps-my.sharepoint.com/personal/kellyg_dpfp_org/Documents/Membership Actions Data 2024 April 2024

DISCUSSION SHEET

ITEM #C8

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

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

Discussion:

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

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

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

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

Future Education and Business Related Travel & Webinars
Regular Board Meeting – May 9, 2024

ATTENDING APPROVED

1. **Conference:** **NCPERS Trustee Educational Seminar (TED)**
   Dates: May 18-19, 2024
   Location: Seattle, WA
   Est Cost: $700

2. **Conference:** **NCPERS Accredited Fiduciary (NAF)**
   Dates: May 18-19, 2024
   Location: Seattle, WA
   Est Cost: $1,100

3. **Conference:** **NCPERS Annual Conference (ACE)**
   Dates: May 19-22, 2024
   Location: Seattle, WA
   Est Cost: $1,250

4. **Conference** **NCPERS Chief Officers Summit**
   Dates: June 17-19, 2024
   Location: Nashville, TN
   Est Cost: $800

5. **Conference** **NCPERS Public Pension Funding Forum**
   Dates: August 18-20, 2024
   Location: Boston, MA
   Est Cost: $745

Future Education and Business Related Travel & Webinars
Regular Board Meeting – May 9, 2024

ATTENDING **APPROVED**

6. **Conference:** **TEXPERS Summer Educational Forum**
   Dates: August 18-20, 2024
   Location: San Antonio, TX
   Est Cost: TBD

7. **Conference:** **NCPERS Public Pension HR Summit**
   Dates: September 24-26, 2024
   Location: Denver, CO
   Est Cost: $750

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C9

Topic: **Portfolio Update**

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

Regular Board Meeting – Thursday, May 9, 2024

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C10

Topic: **Clarion – Possible sale of CCH 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.

Discussion: Staff will update the Board on the status of this sale.

Regular Board Meeting – Thursday, May 9, 2024

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C11

Topic: **Lone Star Investment Advisors**

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

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

DALLAS POLICE & FIRE PENSION SYSTEM

DISCUSSION SHEET

ITEM #C12

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

Discussion: Counsel will brief the Board on these issues.

DISCUSSION SHEET

ITEM #D1

Topic: **Public Comment**

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

Regular Board Meeting – Thursday, May 9, 2024

DISCUSSION SHEET

ITEM #D2

Topic: **Executive Director's Report**

a. Associations' newsletters
- NCPERS Monitor (May 2024)
- NCPERS PERSist (Spring 2024)

b. Open Records

c. Employee Service Awards

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

Regular Board Meeting – Thursday, May 9, 2024

THE NCPERS MONITOR

The Latest in Legislative News May 2024

NCPERS Executive Director's Corner

NCPERS Chief Officers Summit Offers Solutions to Challenges Faced by Public Pension Leaders

By Hank Kim, Executive Director and Counsel, NCPERS

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The first week of May is Public Service Recognition Week, so this seems like the perfect time to acknowledge the important work public pension staff, trustees, and stakeholders do each day to improve access to retirement security and administer key benefits to fellow public servants.

In particular, though, I would like to recognize the efforts of public pension executives. It has not been an easy few years for these leaders as they operate in an increasingly politicized and polarizing environment while facing scrutiny from all sides.

As the NCPERS staff liaison for our CEO and CIO Roundtables, I have the pleasure of regularly connecting with public pension executives as they discuss the challenges facing their plans and offer solutions to peers. And each year, I look forward to seeing both new and familiar faces come together in person to share ideas and best practices at the Chief Officers Summit. This year's event will take place June 17-19 in Nashville.

The Chief Officers Summit was created to provide a safe space for plan leaders to engage in open discussions and to learn from peers—with no trustees, vendors, or outsiders present to inhibit candid conversation. There's no other event that is completely driven by c-suite pension leaders. The agenda is created by CIO and CEO program directors, ensuring attendees walk away with new ideas, a deeper understanding of best practices, and valuable connections with peers.

Thanks to the contributions of this year's program directors, we have a great agenda lined up featuring a mix of general sessions, small group discussions, and dedicated CIO and CEO tracks. The CEO Summit Track will feature sessions focused on leadership, governance, technology, and human resources management, while the CIO Summit Track will delve into crucial topics such as technology, investments, and strategic planning.

The program kicks off on June 17 with introductions, giving attendees the opportunity to get to know the other pension executives in the room. Switching gears, Jean Boivin of the BlackRock Investment Institute will share his observations of domestic and international affairs for the coming year to aid in identifying geopolitical risks.

The program opens on day two with a general session where attendees will hear lessons learned from navigating the latest mine field of proxy access, divestments, and ESG/anti-ESG policies as panelists share tips for negotiating with policymakers and stakeholders on thorny issues. Attendees then part ways to join the CEO or CIO tracks to learn about key topics such as how to benchmark public plan costs, cybersecurity risks, effective usage of investment consultants, and more.

The final day of the program starts with a general session on the industry's progress with incorporating DEI practices so far and a discussion around the work that still needs to be done. Attendees then break out into the CEO and CIO tracks to learn about topics such as how to maximize plan efficiencies, succession planning and mentoring junior investment staff, and strategies for engaging plan participants early to educate them on their retirement needs.

The detailed agenda is available on our website here. I encourage you to consider sending at least one senior staff member to this highly valuable, one-of-a-kind event, but be sure to register by May 28th for early-bird savings. ◆

NCPERS **Feature**

2024 Public Pension Compensation Survey

By: Lizzy Lees, Director of Communications, NCPERS

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In 2022, NCPERS launched its Public Pension Compensation Survey in response to the industry's growing challenges with recruitment and retention. With more than 325 survey respondents over the past two years, this has proved to be an invaluable resource to help public pensions of all sizes make informed decisions about compensation, benefits, and hiring strategies.

This year, we're thrilled to announce a new partnership with CBIZ, one of the nation's leading providers of professional advisory services, to produce a comprehensive compensation survey with even *more* data and insights. Historically, both CBIZ and NCPERS have conducted individual surveys. By joining forces, we'll be able to deliver in-depth compensation data on over 80 commonly found positions at public pensions while reducing the number of surveys funds are asked to participate in. As always, *the survey data will be made available at no cost to participants*.

The 2024 Public Pension Compensation Survey will be distributed in early May to more than 600 funds across the United States. Please keep an eye out for the invitation, which will be sent to the designated survey contact at each organization from research@ncpers.org.

Keep reading to find answers to some of our most frequently asked questions and to learn about additional resources from NCPERS to support the evolving needs of human resources professionals at public pensions.

How will the Public Pension Compensation Survey change this year? The survey will again be distributed via email, so please be sure to mark research@ncpers.org as a safe sender. The primary difference this year will be the format. Rather than completing the online survey or PDF, you'll be asked to enter requested benefits and salary data into a spreadsheet. Detailed instructions will be shared with the survey instrument.

In the past, we've narrowed the focus of our surveys to focus on c-suite or mid- and senior-level positions. This year, we'll be asking for salary data on over 80 commonly found positions. We understand many smaller funds do not have these positions on staff, but participants only need to provide data for positions found at their organization. The spreadsheet format also makes it easier to collaborate internally and save progress.

The survey results will be made available for free to participants, while funds that do not participate can purchase for $2,500.

Who can I reach out to with contact updates for this year's survey? To confirm or update the survey contact on record for your organization, please reach out to compsurveys@cbiz.com.

Who is CBIZ? CBIZ is one of the nation's leading providers of professional advisory services. Their Talent & Compensation Solutions division has deep roots working with public pension funds both through compensation consulting and executive retained search (as EFL Associates). The Compensation Consulting team has a track record of working with public pension funds to benchmark market-competitive compensation and design compensation programs that are aligned with the compensation philosophy and help achieve total rewards goals and objectives. EFL Associates has successfully completed more public pension leadership and investment management searches than any firm in the country.

Why did NCPERS and CBIZ create this partnership? With both NCPERS and CBIZ producing annual public pension compensation surveys, we decided to combine our resources to better serve the public pension community. We'll be able to provide even more thorough data to public pensions while reducing the number of surveys funds are asked to complete.

What other resources does NCPERS have available for HR professionals? Our lineup of Pension Fund Roundtables—groups of pension fund staff who meet virtually on a regular basis to ask questions, share ideas, and discuss timely topics with peers—now includes a dedicated HR Roundtable.

On September 24-26, NCPERS will host its inaugural Public Pension HR Summit to bring HR professionals at pension funds together for peer-to-peer learning, networking, and hands-on training. The findings from the 2024 Public Pension Compensation Survey will be previewed at the event. ◆

NCPERS **Feature**

What to Know About the Latest House WEP-GPO Hearing

By: Tony Roda, Partner, Williams & Jensen

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On April 16, the House Ways and Means Subcommittee on Social Security held a hearing to examine the Social Security penalties known as the Windfall Elimination Provision (WEP) and the Government Pension Offset (GPO).

This second hearing by the Ways and Means Committee marks the most attention WEP and GPO have received in Congress in decades. Yet, many questions remain, including the two most on our minds today: Will this attention translate into action in the current Congress or the next Congress? And, if so, what will comprise the substantive components of WEP-GPO legislation?

As a quick refresher, WEP reduces your Social Security benefit if you also earn a retirement benefit from non-Social Security employment. Roughly 25 percent of state and local government employees across the U.S. are not covered by Social Security. Many of these workers also will separately earn a Social Security-covered benefit, particularly those in public safety and education, whose work schedules often allow them to hold a second job that is covered by Social Security. GPO reduces Social Security spousal or widow(er) benefits for those who receive a non-covered pension.

Following the April 16th hearing the Committee's majority Republicans released a press statement emphasizing three key points:

- Social Security has the data to improve WEP and GPO for retirees.
- Social Security is currently facing fiscal challenges.
- Solutions impacting four percent of beneficiaries will affect 100 percent of beneficiaries.

Digging deeper into these key points provides some insight into the two questions raised above, namely the timing and substance of WEP-GPO relief legislation.

The first bullet bears most on substance, and it coupled with statements made by Members and witnesses throughout the hearing lead me to conclude that the most viable path forward is not full repeal, which would cost approximately $180 billion over 10 years and accelerate the insolvency of the Social Security trust fund by one year, but formulaic changes to both WEP and GPO. By stressing the point that the Social Security Administration (SSA) now has the data necessary to implement a fairer formula for retirees, the Committee Republicans appear to be laying the groundwork for this type of policy change.

To further illustrate this point the press statement said, "WEP and GPO are both based on outdated and complicated formulas that act like a blunt instrument in adjusting Social Security benefits for retirees with non-covered employment. As Congress examines potential solutions, Social Security Subcommittee Chairman Drew Ferguson (R-GA) noted that the SSA now has data required for fairer solutions. These solutions also have the potential to reduce improper payments by the Social Security Administration, which totaled $16 billion over the last five years.

> Chairman Ferguson: *"As we've heard, the alternatives to WEP and GPO have been considered in the past, but some of these solutions relied on data that the Social Security Administration just didn't have. As a former Deputy Commissioner of SSA, does SSA have the data now that it needs to implement a better version of WEP and GPO?"*
>
> Dr. Jason Fichtner, former Deputy Social Security Commissioner (Witness): *"The answer in part is yes. We now have at least 35 years of history for everyone's earnings data, so they can do a better job if we implemented a proportional formula..."*

In my view, the second two points in the press statement bear more on the timing of any legislative relief. Taken together they lead me to conclude that tackling WEP and GPO in the context of a comprehensive overhaul of the Social Security program is more likely than addressing the two penalties in standalone legislation.

Keep in mind that there is a significant cost to changing the WEP and GPO formulas that will need to be offset. For instance, the cost range on a WEP-only formula change is approximately $23-29 billion over 10 years. Comprehensive Social Security legislation will be needed to absorb the costs associated with WEP and GPO formula changes. Also, be aware that for some there is a simple solution to offsetting the cost of WEP and GPO relief, namely mandatory Social Security coverage of all new state and local government hires. NCPERS is strongly opposed to mandatory coverage.

The remarks by Rep. Greg Steube (R-FL), which were highlighted in the press statement, tie WEP-GPO changes to the broader Social Security discussion:

> *"We recognize that all beneficiaries deserve fair treatment. The Windfall Elimination Provision and the Government Pension Offset were put in place over forty years ago with the intention to prevent preferential treatment for workers with employment exempt from Social Security. This policy impacts about 4 percent of Social Security beneficiaries, but any changes made by Congress to the Social Security Trust Fund affects 100 percent of Social Security beneficiaries."*

Admittedly, this article is devoted to the views of the Republicans on the House Ways and Means Committee. Whether the Republicans will be in the majority in either chamber of Congress next year or in the White House are open questions. However, whichever party controls the majority, we expect the margins in the House and Senate to be narrow, thereby necessitating a bipartisan agreement on any major legislation, including on WEP, GPO, and Social Security, in general. Therefore, the viewpoints expressed at the hearing by the Republicans on the Committee of jurisdiction are important guideposts as we attempt to forecast the timing and substance of any WEP and GPO legislation.

Please be assured that NCPERS will pay close attention to future developments in this area and will keep its members apprised of potential legislation. ◆

__Tony Roda__ is a partner at the Washington, D.C. law and lobbying firm __Williams & Jensen__, where he specializes in legislative, regulatory, and fiduciary matters affecting state and local pension plans. He represents the National Conference on Public Employee Retirement Systems and state-wide, county, and municipal pension plans in California, Colorado, Georgia, Kentucky, Ohio, Tennessee, and Texas. Tony has an undergraduate degree in government and politics from the University of Maryland, J.D. from the Catholic University of America, and LL.M (tax law) from the Georgetown University Law Center.

NCPERS **Feature**

From Public Pension CIO to Managing Director of Monroe Capital: Andy Kiehl Shares Perspective on Institutional Investor Landscape

By: Reshana Peters, Digital Media & Marketing Coordinator, NCPERS

Andy Kiehl

As part of an ongoing series of public pension executive profiles, NCPERS spoke with Andy Kiehl, Managing Director of Monroe Capital, and former Deputy CIO of the Kentucky Retirement System (now the Kentucky Public Pensions Authority). We dive into his career path, what to look forward to at the Annual Conference & Exhibition (ACE), and the investment risks and opportunities ahead.

Q: What initially drew you to the public pension space?

A: I first began working for an asset management firm, building and maintaining relationships with corporate and public pension plan investment staff. When I joined the Kentucky Retirement System, I was instantly engaged in the investment process. With an active allocation across multiple asset classes and a steady flow of capital from the state, our small staff needed to have a constant flow of current information. The transition from a narrow focus on the private side to developing a broader perspective of institutional investments as an asset allocator was a tremendous opportunity for me to expand my understanding of multiple asset classes and the industry as a whole.

Q: How did your time with the Kentucky Retirement System inform your current approach as the Managing Director at Monroe Capital?

A: As Deputy CIO in an understaffed public pension system, along with the CIO, I was responsible for overseeing multiple asset classes, overall portfolio construct and the governance and compliance structure—not just a single investment focus. My understanding of governance and fiduciary responsibility has been very helpful. Knowing how an investment committee operates and understanding the questions that trustees will be asking helps frame the conversation with a staff considering an investment in Private Credit. At Monroe, my conversations with pension plan staff and investment professionals go beyond just an investment allocation. Having been in their seat, my experience with Kentucky Retirement System gives me a unique perspective that allows me to expand my conversations with pension plans beyond a single investment consideration.

Q: Having worked in the institutional investing space for over 20 years both as a Limited Partner and Asset Manager, how has the industry evolved in this time?

A: The industry has evolved in many facets including technology, compliance, benchmarking, reporting, and portfolio construct among others. I believe the single characteristic of the institutional investment world that has changed the most is complexity. It is not just about equities, fixed income, and commodities when determining portfolio construct anymore. There are now additional asset classes and complex investments which have made portfolio construction more complicated. With the introduction of new investment types and asset classes, additional understanding and due diligence is required for nearly every allocation. Capital can be deployed in dozens of asset classes and sectors via investment vehicles and structures that are also more complex than ever before.

Q: In the ever-evolving investment landscape, what advice would you offer to a new trustee or staff member who wants to stay informed?

A: I would encourage staff and trustees to foster mutually beneficial relationships with members of the asset management community. This includes companies and individuals who are willing to share resources that can help you grow your understanding of a particular subject. For instance, a friend of mine in the public pension community used to include a clause in his asset manager contracts that allowed his staff to observe and learn the process on-site, with direct access to the resources of the firm. Another way to stay informed is by asking colleagues, vendors and asset managers to forward article recommendations and to be included in distribution lists. Leveraging others to be your "eyes and ears" can provide valuable perspectives from a number of resources.

Q: What advice would you give to a CIO at a public pension plan today?

A: First, I would encourage them to evaluate and select asset managers and service providers with a single phrase in mind, "***Alignment of Interest***". Ensuring alignment of interest in issues like risk tolerance, time horizon, economics, performance, deliverables, ethics, and fiduciary responsibility increases the probability of achieving the desired objectives for the portfolio and the constituents. I believe it is critical that the interest of the plan and partners are as aligned as possible. Also, again, I would encourage them to leverage the asset management community, rely on service providers as an extension of staff, and ensure that we are all well-informed. So, my advice would be to use those service providers—many of whom are NCPERS members—as a resource to develop knowledge and expertise.

Q: How has your perspective on the value of educational conferences changed during your time in the institutional investing space?

A: Despite the different conference objectives as an LP or asset manager, there are similarities. Representing a thinly staffed public pension plan, I needed to be more of a generalist, so it was useful to be in a room with multiple asset managers with expertise in many different strategies. For instance, if a member fund of NCPERS allocates money to an asset manager, other members could use their experience as a basis for conducting their own due diligence. It was invaluable to be able to speak with so many asset managers and investors in one place. Now, as a representative of Monroe, I want to be not only a subject matter expert for Private Credit, but also a resource to plan staff on issues beyond my own asset class.

Q: What are you looking forward to most at the upcoming Annual Conference and Exhibition?

A: The agenda looks fantastic, and I'm excited to attend. During the sessions, I'll be gauging attendees' attitudes and finding out what the staff and trustees consider their most pressing concerns. I'm looking forward to every session, especially the "Behind the Scenes with Public Plan CIOs" session, but I'm confident that I'll enjoy all of them. I'm eager to learn about the current issues surrounding pension plans, including investment, governance, fiduciary and funding levels among others.

Q: What risks do you anticipate for institutional investors in the next five years?

A: Four years ago, the COVID-19 pandemic had a significant global impact, and although we have recovered swiftly, the ultimate effects on our society domestically and globally have yet to be realized. From an investment perspective specifically, the next five to seven years are likely to reveal the true impact to sectors such as commercial real estate, banking, housing, and transportation. At a minimum, I believe we will find there has been tremendous disruption and substantial shift in business structures and processes.

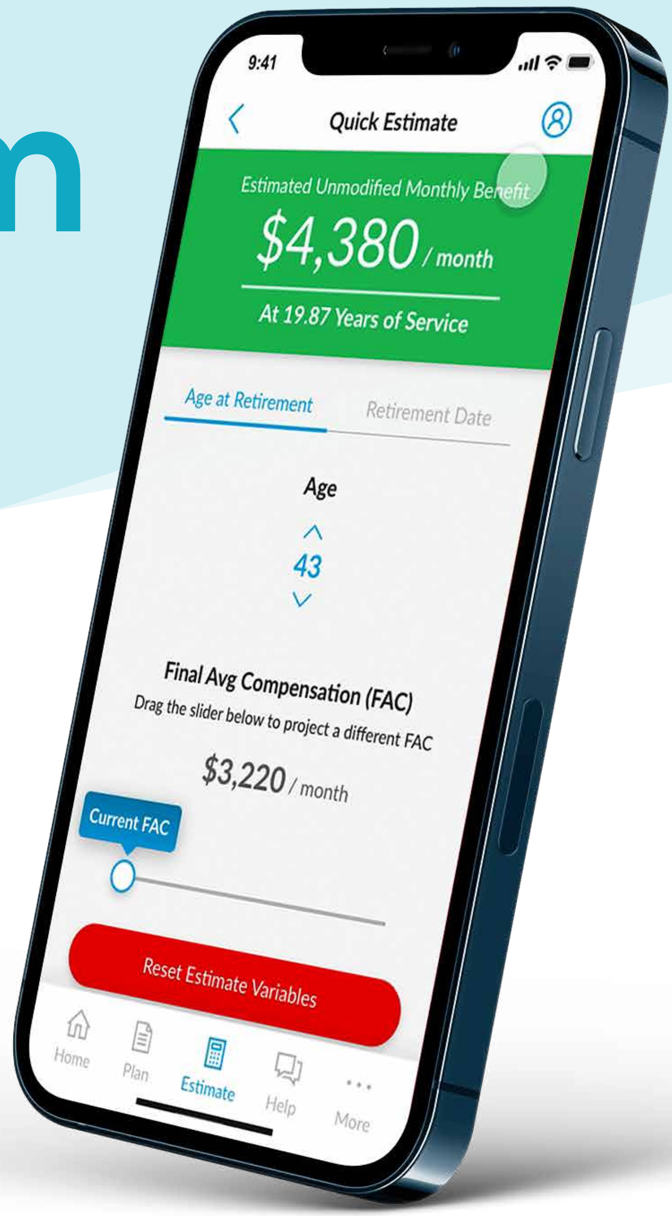
Additionally, considering the interconnectivity of the global economy, we must not disregard the existing geopolitical risks on the world stage. Events which are out of our control could likely have a direct impact on our capital markets.

Thirdly, the public markets. While the public equity markets continue to perform well, we must be mindful of its narrow leadership. There is increased vulnerability to the broader market when only a few companies are responsible for driving the indices forward. Interest rates, too, remain a challenging influence on the economy as a whole as inflation has proven to be more persistent than originally thought.

Q: Considering the risks you identified, what opportunities do you anticipate?

A: Despite the complexity of investment offerings and portfolio management, traditional sources of capital are either diminishing or disappearing entirely. There is a great opportunity for pensions to provide capital for more diverse and complex investment strategies. Providing capital where needed affords public plan investors the opportunity to receive returns in vehicles beyond the traditional public markets. ◆

NCPERS PensionX Digital Platform



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

NCPERS 1941 | pensionX

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

NCPERS Around the Regions

Mississippi Legislature Passes Bill to Slash State Pension Fund's Employer Contribution Increase

Both chambers of the Mississippi Legislature have passed a bill that will halt a 2% increase in the employer contribution to the $30 billion Mississippi Public Employees' Retirement System that was set to take effect in July. The Mississippi pension fund based in Jackson will instead receive a more modest 0.5% increase on July 1 of each year from 2024 through 2028.

READ MORE *Source: Pensions & Investments*

Louisiana's Boycott Against Financial Advisers Diluted, But Still Dangerous

Earlier this month, Louisiana lawmakers protected past and present public employees depending on pensions for their retirement security, but there is still some danger that politics could seep into the state's public finance. Legislators proposed joining other states that are boycotting financial advisers who allegedly spurn investments in oil and gas, firearms, and other industries lawmakers want to protect.

READ MORE *Source: Alliance for Prosperity & a Secure Retirement*

Tier 6 Reforms Included in New York State Budget

In a long-sought triumph for public-sector unions, state lawmakers and Governor Kathy Hochul have instituted changes to the Tier 6 retirement plan they said will make it easier to attract people to government jobs, an outcome critics have called unnecessary and expensive.

READ MORE *Source: The Chief*

Chicago Teachers' Pension Fund Adds $2.1 Billion to Illinois Economy in 2023

The Chicago Teachers' Pension Fund's $1.5 billion in payments to participants living in Illinois in 2023 had a $2.1 billion impact on the state's economy and supported more than 11,500 jobs, according to its 2024 Economic Impact Statement. The report found that each dollar it paid out in pension benefits generated $1.40 in economic activity for the state.

READ MORE *Source: Chief Investment Officer*

Protest at Alaska State Capitol By Police, Firefighters Calls for House to Pass Stalled Pension Bill

Among the main points of emphasis was restoring the pension system — eliminated in 2006 in favor of a 401(k)-style system — will provide financial security necessary to resolve the state's ongoing struggle to recruit and retain employees

READ MORE *Source: Juneau Empire*

'Breathtaking' Progress with Connecticut's Pension Fund That Was Once Second Worst in the Nation

As Wall Street continues to break records, the state pension fund's performance has reached its highest level in history at $55 billion. For the 2023 calendar year, the pension funds increased by 12.8%, pushing Connecticut up in the national rankings.

READ MORE *Source: Hartford Courant*

UPCOMING EVENTS

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May

NCPERS Accredited Fiduciary (NAF) Program

May 18–19
Seattle, WA

Trustee Educational Seminar (TEDS)

May 18–19
Seattle, WA

Annual Conference & Exhibition (ACE)

May 19–22
Seattle, WA

June

Chief Officers Summit

June 17-19
Nashville, TN

August

Public Pension Funding Forum

August 18-20
Boston, MA

September

Public Pension HR Summit

September 24-26
Denver, CO

October

NCPERS Accredited Fiduciary (NAF) Program

October 26–27
Palm Springs, CA

Program for Advanced Trustee Studies (PATS)

October 26–27
Palm Springs, CA

Public Safety Conference

October 27-30
Palm Springs, CA

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

The Voice for Public Pensions

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

PERSist
The Voice for Public Pensions
Spring 2024 | Volume 37 | Number 2

NCPERS Message

Understanding the Latest Developments in Pension Funding

Pension critics and allies alike will often reduce a fund's performance down to a single metric. However, funding ratios often don't tell the whole story of a pension's health. As noted in NCPERS' 2023 research paper, outdated metrics such as funding ratios often fail to account for a pension's long-term financial needs, leading to flawed analysis and recommendations.

We believe that it's crucial to engage in thoughtful, data-driven discussions around pension funding solutions to find effective strategies as we work to preserve and enhance public pension plans across the country. NCPERS Public Pension Funding Forum serves as the venue for these discussions.

The 2024 Public Pension Funding Forum will be held August 18-20 in Boston, Massachusetts. This annual event brings together trustees, pension administrators and staff, governmental officials, and other members of the public pension and investment community to network and learn about the most important trends and developments in pension funding.

Attendees will gain a deeper understanding of the fiscal challenges facing public pension plans and learn about cutting-edge solutions that can help ensure their long-term sustainability. This year's program puts a special emphasis on funding strategies for mature plans with negative cash flow.

Session highlights include a case study exploring how Connecticut's mature state employees' retirement system became a success story, not only improving its funding levels but also its net amortization position. Attendees will also hear about funding strategy best practices for mature plans from both the investment and actuarial perspective.

A topic of interest for many pension funds has been understanding how to best utilize artificial intelligence to drive efficiencies, increase returns, and mitigate risk. We'll explore these topics during the Forum as well. Demographic challenges facing the U.S. combined with emergence of AI are likely to make an increasing number of pension plans mature. Pia Malaney of the Institute for New Economic Thinking will provide a high-level overview of artificial intelligence and its potential use cases, then Frank Williams of the Teacher Retirement System of Texas will share insights about AI and the future of public pensions.

Registration for the Public Pension Funding Forum will open in May, so be sure to save the date (August 18-20 in Boston) and sign up here for event updates. We hope you'll take advantage of this unique opportunity to be part of the community that is driving innovation and change in the field of pension funding. ◆

In This Issue

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Capital Solutions: A Growing Opportunity

By: Barings' Capital Solutions Team

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The massive growth in private credit markets, combined with structural changes in public markets, have created opportunities to use creative financing structures and strategies. "Capital solutions" has become an increasingly popular term to describe some of these flexible new strategies, which are more credit-focused and provide the potential for both compelling and uncorrelated returns. In this Q&A, we shed light on the growing opportunity in this space.

How do you define "capital solutions" strategies?

At Barings, we view capital solutions as an opportunistic, "all-weather" credit strategy that seeks to deliver attractive risk-adjusted returns across all market environments. The volatile economic environment over the last few years has seen banks and other traditional lenders retreat from the market, and there are many situations where traditional capital is simply not available—but businesses still need financing. This presents an opportunity to provide these companies capital through a customized financing solution.

How does this differ from more traditional special situations or distressed strategies?

We think of capital solutions as an evolution of special situations investing. While the situations that we invest in are often similar—fundamentally good companies facing challenges or going through some kind of transition—the solutions toolkit has become much more developed. Whereas traditional special situations investing would target buying into an existing structure at a discount, the capital solutions model involves engaging with a business to understand its financing needs, and then structuring a transaction which solves for this and optimizes the position of our capital at the point when we invest. A capital solutions lens, therefore, sees possibilities in any market environment, making it less episodic and cycle-dependent than the traditional special situations approach.

What is the 'solutions' premium?

The investment appeal of capital solutions lies largely in the potential for attractive risk-adjusted returns with low correlation to traditional debt and equity markets. This stems from sourcing and structuring bespoke solutions to meet what are often idiosyncratic needs of companies. Through capital solutions investment strategies, managers—and by extension, investors—are positioned to capture the 'solutions' premium that comes with providing bespoke financings into situations where the supply and demand of capital is favorable (Figure 1).

Figure 1: The Solutions Premium

For illustrative purposes only. There are no assurances that the solution risk premium will be achieved.

Looking across the market today, where are you seeing opportunities?

In implementing capital solutions strategies, managers can choose from a wide variety of investment scenarios and structures. At Barings, we view opportunistic lending as the core of our capital solutions portfolio, which reflects our credit heritage and the experience of the team. We also seek opportunities across markets where we see strong relative value — including structured asset finance, such as healthcare royalties, or accessing the secondary market during periods of dislocation.

For example, in the U.S., we recently worked with an auto insurance brokerage who approached us seeking capital to satisfy some contingent liabilities which had become payable. While the business demonstrated a strong track record of generating operating cash flow, we were reluctant to invest in a junior debt position behind the banks. Instead, we proposed a full uni-tranche refinancing at an attractive margin, which put us in a senior position in the structure, and took an equity warrant alongside the shareholders. A year on, with management freed to focus on the business, the company's performance is strong, leverage has declined, and our warrant will enable us to share in the upside that the financing has helped to create.

What should investors keep top of mind when considering capital solutions?

Given the growing number of managers offering their own version of capital solutions strategies, there are some important questions for investors to be aware of when considering this space:

- *How is the manager seeking to achieve targeted returns?* At Barings, the protection of capital and careful attention to identifying and managing risk are important components to how we invest.
- *How does a manager source deals?* Having access to multiple sourcing channels in order to build a wide funnel of opportunities is a prerequisite when selecting and designing bespoke investments capable of delivering the attractive returns investors seek.
- *What is the manager's structuring experience?* Managers should have broad and deep experience crafting transactions over an entire market cycle and across a wide range of industries. At Barings, our capital solutions team have been negotiating and structuring transactions for over 15 years, enabling us to dig deep into situations and analyze risk, before structuring and pricing it appropriately. ◆

The Barings Capital Solutions team *is focused on providing investors attractive, through-the-cycle risk-adjusted returns that are less correlated with traditional debt and equity markets. We pursue public and private market opportunities across the capital structure, seeking to exploit market inefficiencies.*

Clouds Clearing in the Land of the Rising Sun

By: Kyle Concannon, William Blair Investment Management

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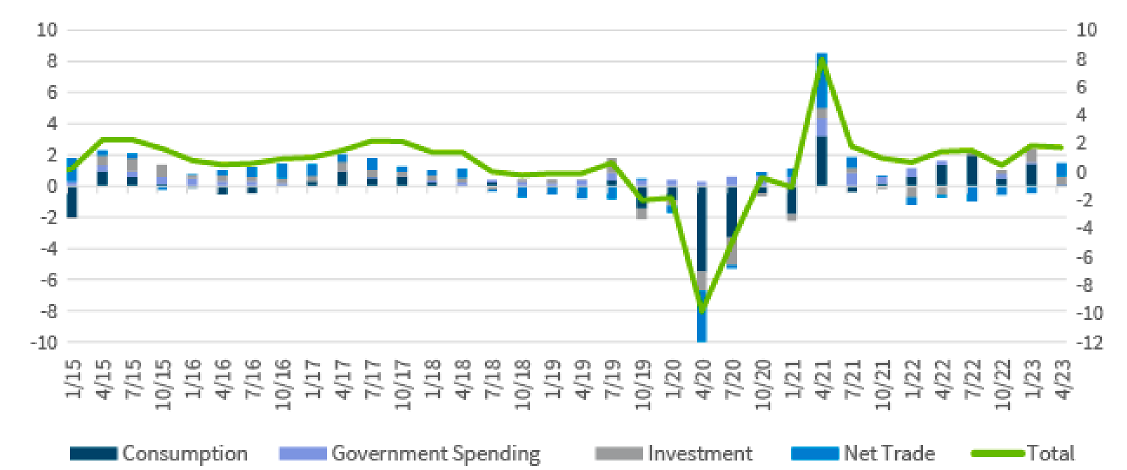
From the 1970s through the 1990s, Japan was a world leader. Its economy was growing, and it was a dominant player in a few different industries. Then its nominal gross domestic product (GDP) growth began to stagnate due to a complex interplay of factors. But we're now more bullish on Japan. In this article, I highlight three specific reasons.

An Improving Macro Environment—for the First Time in Decades

If we look at the decomposition of Japan's real GDP growth year over year, we can see that it's starting to come from consumption.

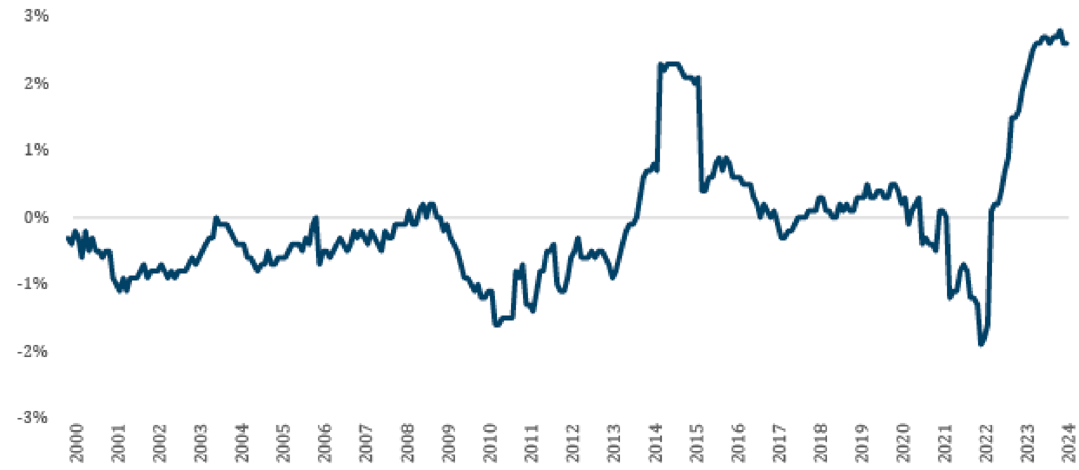
Decomposition of Japan's Real Year-Over-Year GDP Growth



Sources: Bloomberg and William Blair, as of September 2023.

That means people are actually spending money. And after decades of zero inflation or deflation, Japan is finally experiencing inflation.

Year-Over-Year Growth in Core CPI



Sources: Bloomberg and William Blair, as of September 2023.

Now the question is whether this growth in gross domestic product (GDP) and the uptick in inflation are sustainable? We believe it is because Japan's labor market has changed.

One of Abenomics' three arrows, which sought to revive the stagnant Japanese economy, involved structural reforms to increase labor force participation—in particular, to get more women into the workforce. This push was successful, but even with labor force participation increasing over the past decade, there are now roughly two job openings for every job seeker in Japan. The unemployment rate is 2.4%, down from 5% 15 years ago, and a tight labor market typically leads to wage growth.

This is similar to what we saw in the United States and Europe a couple of years ago. Real wage changes were initially negative as inflation increases outpaced wages. But then, as broader inflation normalized, those economies experienced positive real wage growth.

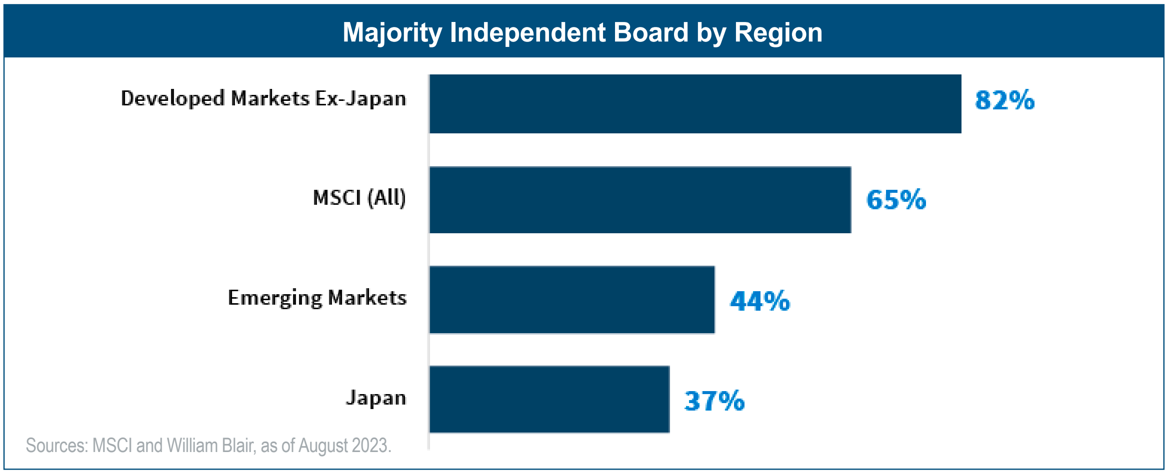
Structural Tailwinds Developing

A second reason we're increasing exposure to Japan is that we've seen several reforms that could act as structural tailwinds.

Real wage changes were initially negative as inflation increases outpaced wages.

Corporate Governance Reforms

In terms of board independence, separation of CEO and chair, and female directors, Japanese companies rank well behind its developed market peers and even behind most emerging markets. Japanese companies also have the highest number of directors over age 70. But recent revisions to Japan's corporate governance code, effective April 2022, seek to tackle all of this. For example, they seek to have a minimum of one-third of board directors be independent and more women on boards (setting a target of one female director by 2025 and 30% female directors by 2030). This should create better alignment between decision-makers and investors, which we believe will lead to enhanced risk management, better decision-making that focuses on value creation, and ultimately, better shareholder return.



Stock Exchange Reforms

Many Japanese companies desperately need to improve returns and capital efficiency. For example, 43% of Japanese stocks listed on the TOPIX 500 have a price-to-book (P/B) ratio of less than one, meaning you can buy the company for less than its book value. In the United States (S&P 500 Index), that number is just 5%, and in Europe (STOXX 600 Index) it is 24%.

Similarly, 40% of Japanese stocks listed on the TOPIX 500 have a return on equity of less than 8%. In the United States, that number is just 14%, and in Europe it is 19%. The Tokyo Stock Exchange is leading reforms by urging all companies with a P/B ratio of less than one or return on equity of less than 8% to devise a plan to improve capital efficiency and promote investment. Companies that do not develop such a plan will be named and could be delisted. We believe this "name-and-shame" campaign should lead to good outcomes for the companies and its investors.

Tax Incentive Reforms

A third structural tailwind is a change to Nippon Investment Savings Accounts (NISAs), which are tax-exempt investment accounts designed to encourage personal investment in stocks and mutual funds by offering tax exemptions on capital gains and dividends from investments held within these accounts. New NISA rules that took effect in January 2024, when combined with an uptick in inflation, create a significant incentive to put cash into financial instruments rather than a savings account—which we believe will drive flows into domestic equities. This could be a multiyear liquidity event for Japanese financial instruments.

A Compelling Bottom-up Story

Lastly, groups of global equity team members have traveled to Japan five times since the fall of 2022, and all returned with a positive outlook—not just because of the macro-outlook, but because of the potential for multiples to expand. The companies we spoke to believe disinflation is dead, inflation is real, and they can finally pass on price increases to the consumer. They also plan to increase wages as prices are passed through. So, what we are seeing is bottom-up confirmation of a compelling top-down story. ◆

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

Kyle Concannon, CFA, CAIA, *is a portfolio specialist for William Blair's global equity strategies. In this role, he participates in the team's decision-making meetings, conducts portfolio analysis, and is responsible for communicating portfolio information to clients, consultants, and prospects. Previously, Kyle was an investment strategist on William Blair's Dynamic Allocation Strategies team where he contributed to portfolio management and was responsible for communicating the team's philosophy and process, portfolio positioning, and performance drivers to internal and external stakeholders. Before joining William Blair in 2015, Kyle spent eight years at UBS Global Asset Management, most recently as part of its global investment solutions team, where he was responsible for interacting with clients and prospects regarding the firm's multi-asset capabilities. Kyle is a member of the CFA Institute, the CFA Society Chicago, and the CAIA Association. He received a B.S. in finance from Boston College.*

Infrastructure is Holding Its Own: The Rise of the Infrastructure Asset Class

By: Luba Nikulina, IFM Investors

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For decades, governments have been eager to attract private capital – and especially pension capital – to help fund the infrastructure spend their communities need. Well-established as a standalone asset class in Australia and Canada, infrastructure has become a mainstay of pension portfolios in both countries due to its ability to act as a natural inflation hedge and its lack of correlation with returns generated by listed equity and debt, which for decades were the foundational asset classes for any portfolio. But as interest in infrastructure increases across the globe, the time has come to consider it as equally vital to the performance of institutional investors' portfolios as those more traditional asset classes.

Establishing infrastructure

With a track record spanning more than two decades, we can now conclusively say that the risks taken on by, and returns enjoyed from, infrastructure are significantly differentiated from any of the other asset classes that may sit within the private markets or alternatives sectors, meaning that infrastructure has truly come into its own as a standalone asset class.

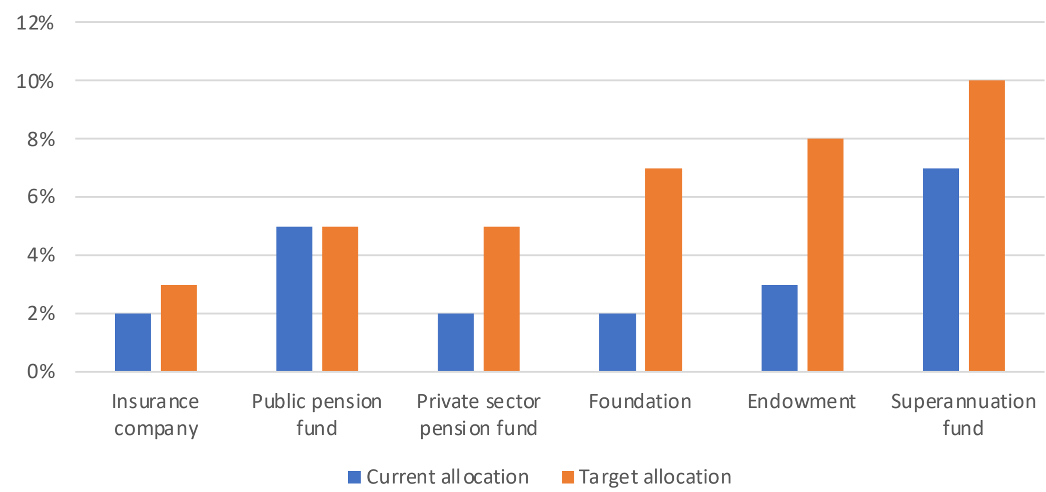
Unlike equities and bonds, unlisted infrastructure's underlying return streams are highly linked to regulatory or contractual frameworks, associated with the nature of these assets as providers of essential community services. As witnessed over the last couple of years of pandemic, war, and inflation, this means that the asset class can often continue to perform in such difficult economic climates, even where the macroeconomic environment will impact the returns of other mainstay assets. We therefore believe the infrastructure asset class has a role to play as a foundational portfolio asset class aimed at securing diversified, less volatile, low correlation long-term returns.

Expanding infrastructure opportunities

U.S. pension investors, and those wishing to grow their exposure to the U.S., will see an increase in infrastructure opportunities in coming years as the impact of the Inflation Reduction Act is fully felt. Half of the Act's $739bn in funding is allocated to clean energy and climate investments, resulting in a significant boost to renewable energy and energy security infrastructure, such as solar power and battery storage, and substantially invigorating a sector that has already become - and is likely to continue to be - the single-biggest growth opportunity in coming years.

It is clear that investor appetite for infrastructure is not fully sated. In many cases, institutions continue to fall short of their desired target allocation, as can be seen in Figure 1.

Figure 1: Investors' actual versus target allocation to infrastructure



Source: Preqin Global Report: Infrastructure 2024

Broadening the definition of infrastructure

Following decades of ownership by private investors, there is a better understanding of the infrastructure sector, one that has seen a re-interpretation of what defines 'core' infrastructure and the return expectations associated with it. Where airports were the foundation of many Australian infrastructure portfolios, they have since been joined by ports, energy transmission infrastructure and train stations.

Adjacent to these indispensable core infrastructure assets that often possess a strong market position, conservative leverage, predictable regulatory environment, and high barriers to entry, is an additional universe of opportunities. The adjacencies could be contractors or suppliers to core infrastructure assets, such as water treatment facilities servicing the sole water utility in a region, or an intermodal facility servicing a seaport.

This broadening definition of infrastructure allows more flexibility as investors navigate market cycles and consider the appropriate time to include this foundational asset class within their portfolios in ways similar to Australian investors, allocating to these adjacent sectors as they open up to pension capital. Based on the established track record of the asset class, its resilience to macroeconomic challenges, and its low correlation to other foundational asset classes, infrastructure's attraction becomes increasingly apparent.

The next decade of infrastructure

The global energy transition will arguably be the most significant structural change undertaken since the early Industrial Revolution. Over the next three decades, over $100trn will need to be deployed to completely restructure our economy – much of which will take the shape of infrastructure equity funding for renewable energy and climate change adaptation methods.

The re-evaluation of infrastructure, coupled with many countries transitioning from a legacy-defined benefit market with a limited investment horizon to one with large, dominant and cashflow positive defined contribution funds, will potentially allow investors to replicate the success of Australia's superannuation sector. The first-mover advantage that is associated with the strong returns in the 1990s and early 2000s could once again be available to these institutions emerging in countries. ◆

Luba Nikulina *is IFM Investors' Chief Strategy Officer, responsible for leading the development of IFM's global strategy with a focus on private markets solutions that meet the needs of Australian and global pension funds and their members. Luba joined IFM Investors from WTW, (previously known as Willis Towers Watson), where she was Global Head of Research, advising some of the world's largest asset owners on strategy, governance, and investments, managing a team of over 100 analysts. During her time at WTW, she worked in London and New York and was responsible for establishing WTW's private markets capabilities. Luba has over 25 years of investment industry experience and has served on the UK Government's Social Impact Investing Taskforce, City of London's Socioeconomic Diversity Taskforce, and co-chaired the Investment Consultants Sustainability Working Group.*

Disclosures:

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Exxon Proxy Statement Lawsuit May Chill Investor ESG Proposals

By: Domenico Minerva and James Fee, Labaton Keller Sucharow LLP

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In November 2021, the U.S. Securities and Exchange Commission published Staff Legal Bulletin No. 14L ("SLB 14L"), unveiling its restrictive position towards issuing no-action letters for excluding shareholder proposals from proxy statements. Following SLB 14L's implementation, companies obtained fewer shareholder proposal exclusions and the number of proposals, especially regarding ESG, rose from 186 in 2021 to 340 in 2023.[1] Notably, however, the number of ESG proposals adopted by shareholder votes declined from 2021 through 2023.[2]

In December 2023, Exxon Mobil investors Arjuna Capital, LLC and Follow This submitted an ESG proposal for inclusion in Exxon's 2024 proxy statement that, in part, directed Exxon to "accelerat[e] the pace of emission reductions in the medium-term for its greenhouse gas (GHG) emissions across Scope 1, 2, and 3."[3] The investors' similar proposals in Exxon's 2022 and 2023 proxy statements garnered 27.1% and 10.5% of shareholders' votes, respectively.[4]

On January 21, 2024, to exclude the investors' third proposal from its 2024 proxy statement, Exxon filed a federal lawsuit in the Northern District of Texas.[5] In its complaint, Exxon highlighted the investors' prior failed proposals and the 2024 proposal's nexus to Exxon's core business as grounds for exclusion. Indeed, SEC Rule 14a-8(i)(7) permits exclusion of proposals relating to ordinary business operations. Additionally, SEC Rule 14a-8(i)(12) permits exclusion if a proposal addresses substantially the same subject matter as prior proposals included in a company's proxy materials within the past 5 years, received a vote within the last 3 years, and, if voted on twice, garnered less than 15% in the second vote.

Shortly after filing a motion for an expedited summary judgment briefing schedule,[6] on February 1, 2024, Exxon notified the court that the investors had withdrawn the 2024 proposal but did not dismiss the case.[7] When the Court asked what issues remained in the case, Exxon stated "there is no good reason to believe [the investors] will not stop"[8] and blamed the SEC for "permit[ing] this type of conduct under its current application of the rules."[9]

As of March 6, 2024, briefing on a motion to dismiss the complaint is complete. The investors have argued that the case is moot following their withdrawal of the ESG proposal, while Exxon insists that the court must rule to prevent the investors from submitting similar proposals again.

Exxon's action against its own shareholders has captured investors' attention, causing many to ponder its impact on shareholder proposals, especially for ESG. Indeed, the lawsuit highlights companies' growing willingness to intimidate shareholders from advancing ESG proposals; yet, Exxon's resolve to continue the lawsuit after the investors withdrew their proposal raises serious concerns for participation in the corporate governance process.

Exxon's lawsuit against Arjuna and Follow This serves as a harbinger of the challenges for shareholders who submit ESG proposals companies oppose, especially if the SEC continues its restrictive approach to granting waivers under SLB 14L. Actions like Exxon's raise the costs – financial and reputational – for investors submitting a proposal, as litigation costs must be considered alongside proposal preparation and submission costs. In a perversion of the fundamental principles underpinning the shareholder-corporation relationship, these costs and the risks inherent in litigation may have a chilling effect on shareholders' willingness to advance ESG proposals in the first place.

Even so, companies may not litigate most shareholder proposals because they will weigh litigation costs and risks too. Yet, given Exxon's success in driving the investors to withdraw their proposal, other companies may adopt these litigious tactics when a shareholder submits a proposal they would prefer to exclude from their proxy statements. ◆

Domenico Minerva *is a Partner at Labaton Keller Sucharow LLP.* ***James Fee*** *is an Associate at Labaton Keller Sucharow LLP. With more than 60 years of experience, Labaton Keller Sucharow stands as a tenacious advocate for investors having secured billions of dollars in landmark recoveries. Renowned as a global leader in complex litigation, the Firm specializes in representing clients in securities and corporate governance and shareholder rights litigation. Labaton Keller Sucharow's successful reputation is built not only on its team of more than 70 attorneys, but also on its industry-leading in-house investigators, financial analysts, and forensic accountants. Recognized for excellence by both the courts and peers, the Firm is consistently ranked in leading industry publications. Labaton Keller Sucharow's offices are strategically located in New York, NY, Wilmington, DE, and Washington, D.C.*

Endnotes:

1 In Focus: Shareholder Proposals in the 2023 U.S. Proxy Season (issgovernance.com)

2 SEC Commission Mark T. Uyeda Remarks (June 21, 2023), SEC.gov | Remarks at the Society for Corporate Governance 2023 National Conference.

3 *Id.* at ¶¶8-9.

4 Complaint, ECF No. 1, at ¶¶100-104.

5 Complaint, *Exxon Mobil Corp. v. Arjuna Cap., LLC et al.* No. 4:24-cv-00069-P (N.D. Tex. Jan. 21, 2024) ECF No. 1 at 1.

6 Pl.'s Mot. to Set Expedited Summ. J. Briefing Schedule, *Exxon Mobil Corp. v. Arjuna Capital, LLC et al.* No. 4:24-cv-00069-P (N.D. Tex. Jan. 25, 2024), ECF No. 11; Mem. in Supp. of Pl.'s Mot. to Set Expedited Summ. J. Briefing Schedule, *Exxon Mobil Corp. v. Arjuna Cap., LLC et al.* No. 4:24-cv-00069-P (N.D. Tex. Jan. 25, 2024), ECF No. 12.

7 Notice of Withdrawal of Pl.'s Mot. to Set Expedited Summ. J. Briefing Schedule, *Exxon Mobil Corp. v. Arjuna Cap., LLC et al.* No. 4:24-cv-00069-P (N.D. Tex. Feb. 1, 2024), ECF No. 16.

8 *Id.* at 1.

9 *Id.* at 1-2.

Barclays' Failure to Implement Adequate Internal Controls to Track Sales of Securities Under Shelf Registration Statements: A Cautionary Tale

By: Robert C. Finkel, Wolf Popper LLP

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Shelf registration statements are used by issuers of securities to register and sell securities. Shelf registration statements customarily incorporate by reference historical SEC filings, such as Form 10-Ks, and otherwise do not contain significant investor information concerning the issuer. The ability to register the securities, and thereby have the securities "on the shelf," is advantageous for issuers because it expedites future sales of securities. An issuer with an effective shelf registration that desires to sell securities need not seek further approval from the SEC. Instead, the issuer can take the securities it already registered "off the shelf" and sell those to investors. This allows issuers to capitalize on changes in market conditions without delay.

To file a shelf registration statement, the issuer must meet the eligibility requirements defined in Form S-3.[1] To qualify as a "Well-Known Seasoned Issuer" (WKSI), an issuer must meet the criteria set forth in 17 CFR § 230.405, which, among other things, requires that the issuer not be an "ineligible issuer."[2] In May 2017, Barclays became an "ineligible" issuer and thereby lost its WKSI status, because Barclays was the subject of an administrative order arising out of a government action that required Barclays to cease and desist from violating the anti-fraud provisions of the federal securities laws.[3] Barclays continued to be eligible to file shelf registration statements, but not as a WKSI.[4]

Shelf registration statements are used by issuers of securities to register and sell securities.

Shelf registration is particularly advantageous for WKSIs, because WKSIs need not specify the quantity of securities the WKSI intends to sell or pay registration fees upfront. In 2016, for example, Barclays Bank PLC filed a shelf registration statement ("2016 Shelf") as a WKSI and therefore did not detail the quantity of securities it intended to sell. Due to the loss of its WKSI status in 2017, Barclays' 2016 Shelf was no longer valid. After Barclays lost its WKSI status, Barclays was required to identify the quantity of the securities to be sold pursuant to its shelf registration statements and pay the registration fees upfront.[5] Barclays did not amend the 2016 Shelf until March 2018 ("2018 Shelf").[6] Barclays' 2018 Shelf covered $21.3 billion in securities and was effective for the next 18 months. In 2019, Barclays filed another shelf registration statement, which covered up to $20.8 billion in securities ("2019 Shelf").[7]

Because Barclays had historically been a WKSI issuer, it lacked internal controls to track the market price of securities it had sold pursuant to its 2018 Shelf and 2019 Shelf. In March 2022, Barclays disclosed that it sold more securities than it registered in its 2018 Shelf and 2019 Shelf; therefore, Barclays sold unregistered securities. This revelation caused Barclays' stock price to fall, on March 28, 2021, from $9.05 to $8.09. Barclays' blunder could have been prevented if a proper system of internal controls was in place to track the quantity of securities sold pursuant to the 2018 Shelf and 2019 Shelf. The sale of unregistered securities not only harms the issuer's reputation, but also provides all the purchasers of said unregistered securities with a right of rescission.[8] A right of recission essentially provides the purchaser of an unregistered security with a put on the security for the price said security was purchased. The issuer is required to buy back all the securities it sold without proper registration. The issuer incurs a loss to the extent the securities repurchased fell in value after their issuance. In July 2022, Barclays acknowledged in its Form 6-K that the unregistered securities it sold had declined in value and that it would incur £1.3 billion in losses to buy back those securities.[9]

Because Barclays had historically been a WKSI issuer, it lacked internal controls to track the market price of securities it had sold pursuant to its 2018 Shelf and 2019 Shelf.

Barclays' failure to implement sufficient internal controls offers a cautionary tale for other issuers that use shelf registrations. It is crucial that issuers track the quantity of securities sold pursuant to the issuer's existing shelf registration. Failure to do so can lead to harm to the issuer's reputation and stock price, the issuer owing a right of recission to past purchasers of its stock, and liability for securities fraud to the issuer's own shareholders. ◆

Robert C. Finkel *is a senior partner and member of the executive committee at Wolf Popper LLP. Robert is a graduate of the Columbia Law School, Class of 1981 (where he was a Harlan Fiske Stone Scholar), and the University of Pennsylvania, Class of 1978, where he obtained a B.S. in accounting from the Wharton School of Business and a B.A. in history from the College of Arts and Sciences. Robert began his employment in the 1980s with two large New York City defense firms. Robert became a partner at Wolf Popper LLP effective January 1, 1992. He has been repeatedly designated a Super Lawyer in Securities Litigation. Robert has written for The New York Law Journal on subjects including shareholder voting rights and ERISA class actions.*

Endnotes:

1 17 CFR § 239.13.

2 17 CFR § 230.405 (Definition of a Well-Known Seasoned Issuer).

3 *In the Matter of Barclays Capital Inc.*, Adm. Proc. File No. 3-17978 (May 10, 2017).

4 *In the Matter of Barclays PLC and Barclays Bank PLC*, Adm. Proc. File No. 3-21181 (Sept. 29, 2022).

5 *Id.*

6 *Id.*

7 *Id.*

8 15 U.S.C.A. § 77l (West).

9 Barclays' July 2022 Form 6-K. https://home.barclays/content/dam/home-barclays/documents/investor-relations/ResultAnnouncements/HY2022/20220728-Barclays-PLC-H122-6K.pdf.

Why an Active Approach to Corporate Governance is Important in Today's Market

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

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Modern stock market investors take a variety of forms. Unfortunately, some of the largest investors on Wall Street (*i.e.*, hedge funds, high frequency traders, and passive index funds) may have among the smallest incentives to address failures in corporate governance. This stands in stark contrast to public pension plans that, for years, have led the charge against executive wrongdoing. The lack of incentives to spur these private funds to address corporate governance is a problem that affects everyone. Recently, certain market participants and commentators have recognized the risk of falling into a "cartoon version of market capitalism," where some of the largest private shareholders have essentially given up trying to monitor the companies in which they invest.[1] As a result, it remains as important as ever for public pension plans to remain active and vigilant.

Today's Wall Street is substantially influenced by large, private investment firms.[2] It has also been defined by a decades-long shift towards passive investment strategies, such as index funds.[3] However, there is real doubt that many of these private funds are properly incentivized to monitor and ensure good corporate governance. Index funds seek only to match the performance of a broad index or other specific benchmark, and therefore lack a strong financial incentive to ensure that any individual company is well-run.[4] Similarly, hedge funds and day traders, who often trade on volatility or proprietary algorithms, may quickly trade in and out of companies, or have closed their positions long before the fallout from corporate misdeeds.[5]

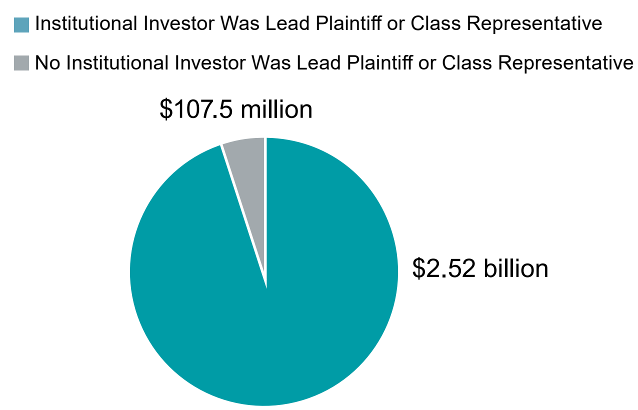
Unfortunately, some of the largest investors on Wall Street may have among the smallest incentives to address failures in corporate governance.

According to a report published by *The Wall Street Journal* on February 27, 2024, a market dominated by those with little incentive to engage in corporate oversight could lead to share prices disconnected from corporate profitability.[6] It also risks ensuring the best allocation of capital — one of the primary goals of our market system.[7] What's more, the failure to enforce good governance harms long-term investors, like public pension funds, who will be around to suffer the consequences of corporate wrongdoing. The situation is concerning enough that some large equity investors have begun to realize what many public pension plans have known for years: that institutional investors cannot freeride on the efforts of others to ensure that corporate misconduct is appropriately addressed.

> ***Taking an active approach to corporate governance, however, is not new or uncommon for many public pension funds, who often take the lead in securities class actions against companies.***

As Nicolai Tangen, the Chief Executive Officer of Norway's Government Pension Fund Global, told *The Wall Street Journal*, "[n]ot everyone can just be passive" and investors should not "free ride on a well-functioning market."[8] Mr. Tangen explained that taking an active approach in corporate governance is not based on trying to be a "global policeman," but rather a "shrewd capitalist" investor that aims to "enhance future long-term returns."[9]

Total Settlement Funds of Top 10 U.S. Securities Class Action Settlements of 2023



Note: nine of the ten largest securities class actions of 2023 involved an institutional investor as lead plaintiff or class representative.

Taking an active approach to corporate governance, however, is not new or uncommon for many public pension funds, who often take the lead in securities class actions against companies — the "ultimate way shareholders enforce control of big business," according to *The Wall Street Journal*.[10] Indeed, in 2023, institutional investors (including public pension plans) served as lead plaintiff or class representative in nine of the ten largest securities class action settlements and a number of successful derivative actions.[11]

In short, recent market commentary indicates that an active approach to corporate governance remains necessary to ensure the integrity of the market and maximize returns. This understanding is consistent with how public pension plans have acted for years, as they have led the way in achieving significant results in improving corporate governance practices and recovering plan assets through litigation. By continuing to take an active role in these matters, trustees and staff can help maximize asset values, work toward ensuring the integrity of the market, and keep corporate executives in check. ◆

Javier Bleichmar, Erin Woods, Nancy Kulesa, *and* ***William Massa*** *are attorneys at Bleichmar Fonti & Auld LLP, a law firm focusing on securities class action and shareholder litigation as well as settlement claim form filing on behalf of institutional investors. Each of their biographies is available at www.bfalaw.com.*

Disclosures:

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Endnotes:

[1] Mackintosh, James, *Why We Risk a Cartoon Version of Capitalism*, THE WALL STREET JOURNAL (Feb. 27, 2024), https://www.wsj.com/finance/investing/why-we-risk-a-cartoon-version-of-capitalism-83d8e7d4.

[2] Kardashian, Kirk, Why Institutions Should Be Active Investors, TUCK SCHOOL OF BUSINESS (May 16, 2018), https://www.tuck.dartmouth.edu/news/articles/why-institutions-should-be-active-investors.

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[6] *Id.*

[7] *Id.*

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Creating a Realistic Schedule for Your New Pension Administration Solution (PAS)

By: Jeffrey Mills and Meir Schecter, Segal

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In the Spring 2023 issue of PERSist, Laurie Mitchell of Tegrit Software Ventures, Inc. provided some sage advice about how to prepare for your new pension administration solution (PAS). We'd like to add another preparation item to Ms. Mitchell's list: Prepare yourself for how long your PAS will take. Replacing your PAS will likely take longer than what your selected vendor proposed. Depending on the size of your pension office, it could take significantly longer.

Understanding the likely duration of your project allows you to manage these aspects effectively:

- **Budgeting**. You'll be better able to predict the project's budgetary needs.
- **Staffing**. You'll be able to anticipate the amount of time needed to backfill for those staff members supporting the project.
- **Stakeholder communications**. You can communicate the project status with confidence — and avoid the pain of making prediction after prediction that doesn't work out as planned.

How much longer than originally scheduled do PAS replacement projects typically take?

Based on Segal's experience with 35 public sector PAS replacement projects in recent years, on average, the projects took 44% longer than originally planned.

It is important to note that this data should not be interpreted as meaning that these projects took longer than they should have taken — only, that they took longer than they were originally proposed to take.

What is the root cause of this experience?

It is tempting to attribute this experience to the "planning fallacy," a phenomenon which predictions about how much time will be needed to complete a future task (project) are biased by optimism. Consequently, the actual amount of time needed is underestimated.

Although the planning fallacy may be partially responsible, it is our opinion that the longer-than-planned duration of PAS replacement projects is primarily caused by an indirect "procurement incentive." The nature of the public sector procurement process is to publish, as part of the procurement documents (RFPs), the criteria against which vendor proposals will be evaluated. "Cost," a direct function of duration, is always one of the evaluation criteria, and typically represents at least 20% of the total evaluation. As such, responding vendors are incentivized to propose an aggressive timeline, to keep their bid low. Furthermore, the vendor likely anticipates they will be evaluated poorly by proposing a longer schedule, even if it more realistic.

How can the situation be managed?

Short of structurally changing the procurement process, we don't believe there is a simple way to prevent this situation, but there is a way to manage it.

We start with a premise that we believe to be almost always true: The responsibility for project extensions is shared between the client and its vendor, and assessing the responsible party for any project delay is complex and often contentious.

It is our recommendation to perform the procurement process, as follows:

- Do not evaluate the cost of a vendor proposal until the proposal is deemed acceptable from a functional/technical perspective.
- Evaluate cost and select a leading vendor with whom you will attempt to reach a contractual agreement.
- Discuss and clarify the assumptions used by the vendor to create the proposed schedule, including asking for their project duration history and understanding their expectations of your staff availability and capabilities.
- Ask the vendor for a best and final offer that represents the project duration and cost that aligns with their history and the revised assumptions.
- As part of the contract, negotiate the additional fees to be paid to the vendor for project extensions (not caused by additional client-requested functionality) in such a way as to incentivize the vendor, and the client, to minimize project extensions.

Although no one desires a long project, being realistic about what is likely to happen helps you to manage the project more effectively. ◆

Jeffrey S. Mills, PMP *is a Vice President and Leader of Segal's Administration and Technology Consulting (ATC) Practice. Jeff has more than 20 years of experience providing operational and technology consulting to benefit plans and specifically related to public pension administration system projects.*

Meir Schecter *is a Senior Consultant in Segal's ATC practice. Meir has been consulting in the public sector pension arena for over 15 years. Prior to that, he consulted in the private sector employee benefit space—including pensions—for 20 years.*

Four Tips for Creating Engaging User Training for Pension Fund Staff

By: Carole Jarvis and Nicole Matthews, Linea Solutions

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1. MAKING IT FUN

Compelling Trainers

Pensions are not the most exciting topics, which can make it hard to engage your audience. Having a dynamic trainer with knowledge of the topics important to participants can help and, besides, what good is a training session without an engaging trainer? After all, people want to attend a training class that is tailored to them, that helps them deliver measurable results, and that engages and stimulates them to learn.

Game or Competition

During a recent client engagement, we created a treasure map to encourage pension fund employees to log into the new system they were being trained to use and search for answers. Providing a game to increase familiarity with the new system helped them find member information more quickly and helped create a positive perception of that system. For more details on how we "gamified" or added game-like elements to encourage participation to this learning click here.

> *Providing a game to increase familiarity with the new system helped them find member information more quickly and helped create a positive perception of that system.*

2. TELLING A STORY

Would it surprise you to know that listening to a lecture is the least effective way to learn new material? By contrast, active learning (storytelling and practice by doing) is far more efficient, **with a retention rate that can reach 75% after 24 hours.**

Active learning boosts retention by:

- Creating a context for the information for retention purposes
- Incorporating a dynamic process that involves the listener as much as the speaker.

3. PICKING THE RIGHT APPROACH

A blended training approach provides pension organization employees with a mix of training modalities. This can consist of multiple training methods such as instructor-led training (ILT), eLearning (including web, video, and live streaming), gamification, microlearning (an approach where participants learn information in small chunks that take place in under ten minutes), and structured on-the-job-training (SOJT). If you are giving a training to call-center staff, you would probably use a different mix of methods than if you were giving a training to IT staff. Utilizing various combinations provides flexibility to customize training for the different learning styles of your trainees.

4. UTILIZING THE RIGHT RESOURCES

By including resources that are related to learning objectives, trainees can continue to explore topics that are of interest to them. These resources could include hyperlinks to other relevant content, a checklist for task completion, recommended podcasts or study guides, worksheets, or job aids.

You may have some trainees who are just starting out at the pension fund and every topic will be completely new to them, so the course materials will be sufficient. When designing for those who may have been with the organization for a long time — those who might have mastery of a module's objectives (or accelerate through them) — you can provide relevant additional resources they can select if they choose. Providing course-enhanced materials for self-study or group discussions also works for trainees who may have struggled in past offerings. ◆

Carole Jarvis, *Senior Training Specialist, is an accomplished trainer, marketer, and event planner. Carole works with our clients to develop coursework to enable staff and employers to efficiently and proficiently use the custom computer software developed for them. Carole is known for her practical, reusable training materials that become functional reference tools.*

Carole has a MS degree from the University of Houston in Occupational Education, as well as a bachelor's degree in Training and Development, and Industrial/Organizational Psychology.

Nicole Matthews, *Training & Development Specialist, is a training specialist with nearly a decade of experience maximizing employee performance by recognizing training needs and creating training to facilitate organizational turnaround. She has developed and implemented strategy to assist in the onboarding of New Hire learning and continuous improvement courses, including customized assessments and learning paths that inform future sessions. Nicole has recent experience training public pension staff as part of the go-live of a pension administration system implementation.*

During her tenure overseeing training for the customer service department at the Church Pension Group Episcopal, she reengineered the new hire onboarding process, including different training groups for temporary and permanent staff. She has utilized the ADDIE training methodology on multiple projects. Additionally, she has extensive experience mastering the intricacies of multiple database management systems and is proficient in Microsoft Office Suites, Adobe Captivate 2019, Adobe Connect, Adobe Dreamweaver, Articulate, Oracle CRM and KMS.

Unlocking Opportunity in Emerging Market Equity Income

By: Matt Williams, abrdn

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Not every dividend payer is created equal.

The challenge for income investors is finding a company that not only offers an attractive payout for its shareholders but can do so over the long term. Emerging market (EM) equities are increasingly exhibiting these characteristics. We explore three key developments that may help identify future opportunities:

- Technology as a platform
- Green transition
- Domestic brands

Which dividend payers provide a long-term answer?

Evidence is mounting that EMs are a fertile hunting ground for income, not just capital growth. The proportion of EM companies paying a dividend has grown significantly over the last two decades, with around 90% now doing so (and more than one-third of these yielding over 3%) (Chart 1).[1,2]

The proportion of dividend payers in EM is comparable to that in developed markets (DM). However, the key is unearthing the companies whose dividends are sustainable over the long term: Can the business thrive and survive in both good times and bad? Does it generate healthy levels of cash flow to maintain its dividend payments (or to start payouts in the future)?

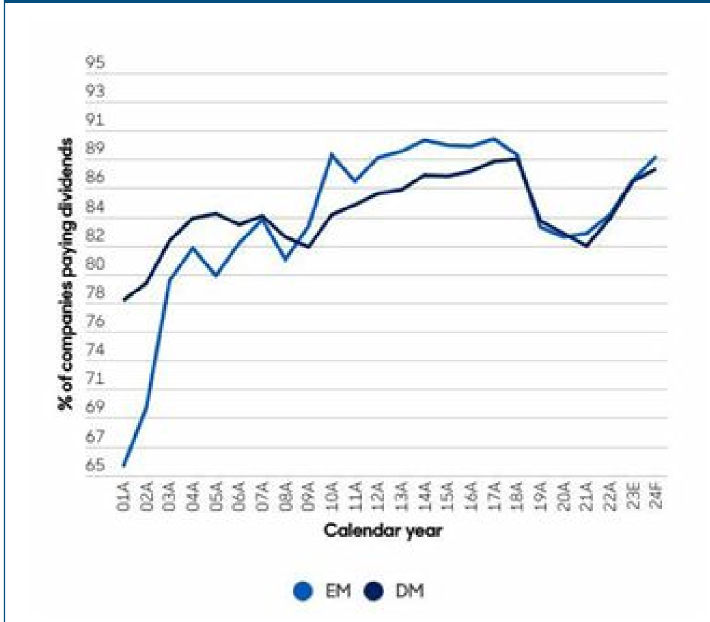
Making these judgements requires detailed fundamental analysis, but also consideration of external influences. No matter how well a business may be run, it needs to be in the right place at the right time to prosper. To do this, we've identified two essential microeconomic developments. Cross-sector and cross-region, these allow us to pinpoint the companies that are most capable of generating long-term shareholder income.

Technology as a platform

Technology has helped transform EM from economies dominated by commodities to something more diversified. Many EM companies have embraced leapfrog innovation, adopting more advanced technologies, such as digital payments, to bypass the more conventional routes to growth. This has allowed them to catch up – or even surpass – DM competitors.

We've entered a new digital era, powered by artificial intelligence (AI), affecting everything from how we travel to the way we spend our money. What makes growth in this new era such a powerful investment trend is that many key technologies are coming together at the same time.

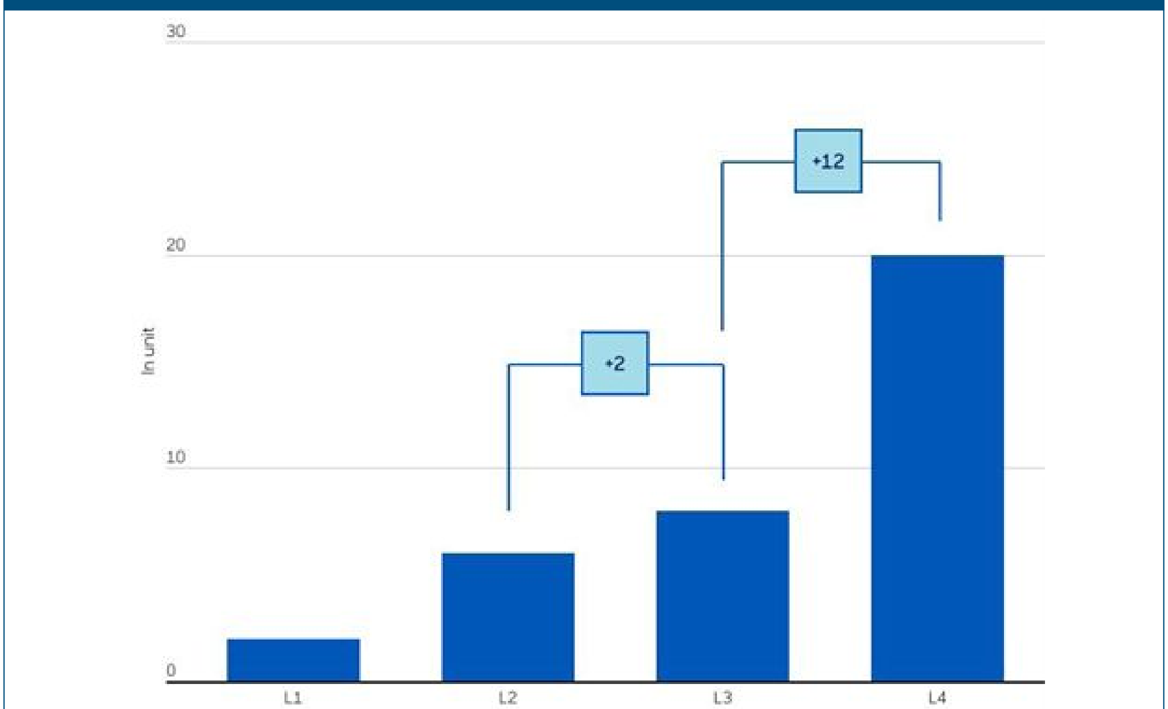
Chart 1. MSCI Universe: Dividend-Paying Companies



Source, Jefferies, Factset, February 2024.

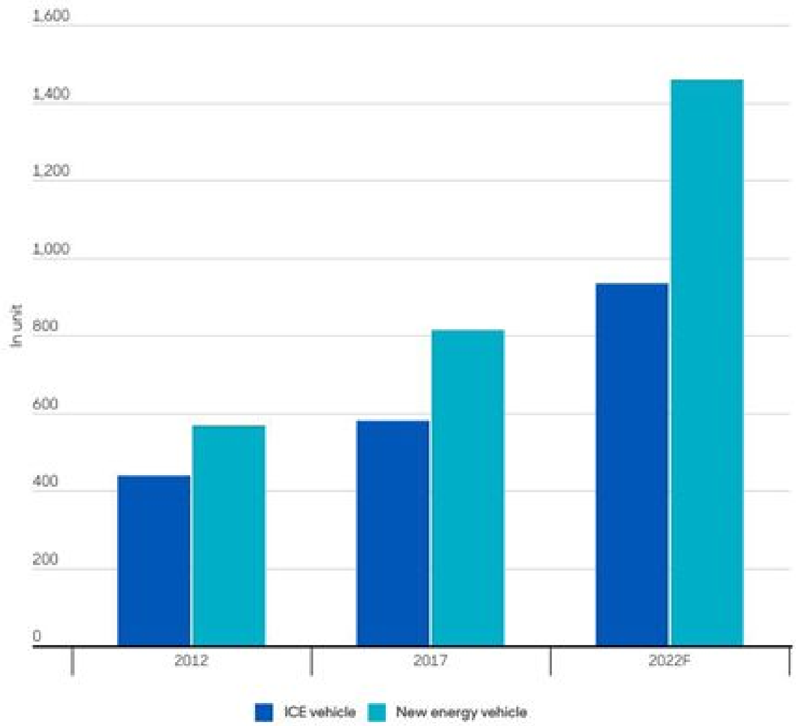
Smarter technology in transport also comes with huge demand for additional sensors and components. Electric vehicles need more sophisticated chips and in greater numbers than the more conventional internal combustion engine cars.[3] Autonomous vehicles require even more (Charts 2 and 3). Essential functions such as judging road positioning and making split-second safety decisions need large technology sets, including GPS, radar, and lidar.[4]

Chart 2. # of Sensor Chips Required for Different Levels of Autonomous Driving



Source: Deloitte analysis, February 2024.

Chart 3. # of Chips per Vehicle in China, 2012-2022

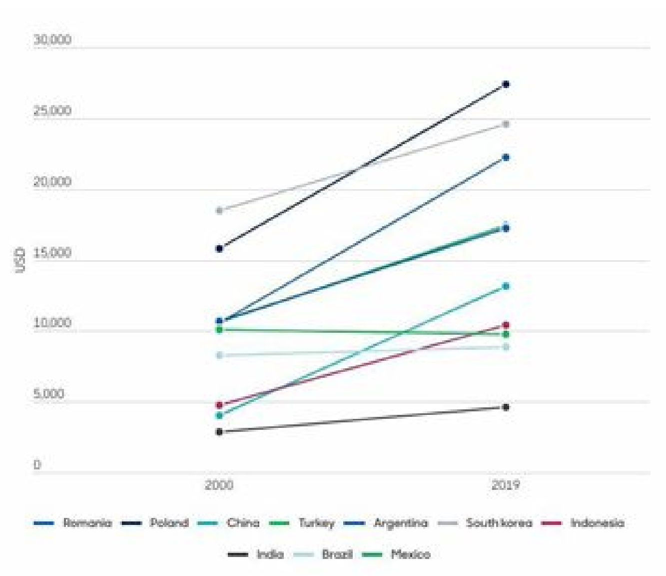


Source: Deloitte analysis, February 2024.

A new generation of consumers

Spending power is rising dramatically in EM. Nations including India and Indonesia have seen large increases in their working-age populations. Together with fewer people having to support dependents, this is a recipe for potentially much greater economic growth. While the precise definition of middle class can vary, median income has increased substantially across many EM countries in recent years (Chart 4).[5]

Chart 4. Rise in Median Inflation



Source: Haver, March 2021

Final thoughts

Taken together, these microeconomic pillars, which frequently overlap, help set the backdrop for well-run companies with established and loyal customer bases to sustain and grow their businesses. Alongside our follow-the-cash-flow analysis – focusing on companies with strong balance sheets and attractive fundamentals – we can stay alert to opportunities in cash-generative businesses that we believe can pay out sustainable and growing dividends to shareholders.

We believe the combination of high levels of income, and sufficient capital reinvestment, should result in attractive dividend yields for shareholders and a growing yield as the business continues to expand over time. ◆

Matthew Williams *is a Senior Investment Director on the Global Emerging Markets (GEM) desk at abrdn, where he is responsible for the GEM Income strategy. In terms of research responsibilities, Matt is currently sector lead for Industrials and Communication Services and also covers Industrials. Matthew joined the company in 1998. He has successfully managed country funds in both Japan and Asia Pacific. He moved from the GEM and Asia Pacific team based in Edinburgh to the London based GEM team in April 2018 following the restructuring of the equity division. Matthew holds a BA in Economics from Durham University in 1998 and a Diploma in Investment Analysis Associate of the Society of Investment Professionals (formerly AIIMR). He is also a CFA charterholder.*

Disclosures:

Foreign securities are more volatile, harder to price and less liquid than U.S. securities. They are subject to different accounting and regulatory standards, and political and economic risks. These risks are enhanced in emerging markets countries.

Dividends are not guaranteed and a company's future ability to pay dividends may be limited.

Projections are offered as opinion and are not reflective of potential performance. Projections are not guaranteed, and actual events or results may differ materially.

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[1] Factset, Jefferies Equities Research, January 2024.

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[4] Lidar is a method for determining ranges by targeting an object or a surface with a laser and measuring the time for the reflected light to return to the receiver.

[5] Haver, March 2021.

Electravision: 14th Annual Eye on the Market Energy Paper

By: Michael Cembalest, J.P. Morgan Asset Management

The fossil fuel share of global energy use is falling at ~0.40% per year as the renewable transition progresses. That's almost exactly the same pace of decarbonization that occurred from 1973 to 1988 during the nuclear buildout. To be clear, global CO2 emissions have not declined since energy consumption keeps rising; what's falling is the share of primary energy from fossil fuels, not their level.

The fossil-renewable gap should close at a faster pace given growing global initiatives to decarbonize; global transition spending has exceeded fossil fuel spending for the fourth year in a row and the gap is widening. Looking ahead, the fiscal costs of the U.S. energy bill could reach $900 billion by 2030 and $1.1 trillion by 2035. But as things stand now, renewable energy is used almost exclusively to decarbonize the grid and its main purposes: space cooling, lighting, refrigeration, data centers, electronics, and some space heating. The grid's use for industrial production and transport is still small.


J.P.Morgan

EYE ON THE MARKET | 14TH ANNUAL ENERGY PAPER

Electravision

Electravision. The predominant vision for the future involves the electrification of everything, powered by solar, wind, transmission and distributed energy storage. This vision primarily relies upon the greater efficiency of electric motors and heat pumps vs their fossil fuel counterparts. While the grid is getting greener, electrification is advancing at a much slower pace for reasons related to chemistry, physics, cost, politics and human behavior. Our 14th annual energy paper takes a closer look, and also includes sections on nuclear power, China, hydrogen, "net zero oil" and Gaza's energy future.

By **Michael Cembalest** | Chairman of Market and Investment Strategy for J.P. Morgan Asset & Wealth Management

The consensus path forward is Electravision, the electrification of everything. The reason: if something can be electrified, it can eventually be decarbonized via wind, solar, and energy storage. While this transition is underway, it will take time due to chemistry, physics, cost, human behavior, and politics. As a result, current human prosperity is difficult to imagine without substantial contributions from natural gas. This gas ecosystem needs sufficient investment to avoid electricity and natural gas outages, and its methane footprint needs greater attention (a topic covered in last year's 13th Annual Energy paper). This year's paper gets into the details of Electravision, along with sections on nuclear power, China, "decarbonized oil", levelized costs, hydrogen, bio-oil, EV emissions, the latest from Vaclav Smil, and concluding thoughts on solar power and Gaza's energy future.

Building wind/solar capacity and convincing owners of vehicles, furnaces, and other devices to electrify might not be the hardest part. Building more transmission might be. Utilities spend almost as much on transmission and distribution as they do on power generation. In October 2023, the Department of Energy released a report on transmission needed by 2035 in a scenario that sounds like Electravision: "higher load and high clean energy growth". The DoE's estimate of required growth in transmission and interregional transfer capacity is very large (see box/table), particularly compared to declining growth in new transmission shown on the next page. Notably, the DoE does not believe that more distributed storage necessarily results in lower transmission needs.

Without legislative and cultural changes allowing transmission to replicate the growth of the interstate highway system, fiber optic cables, national rail, civil aviation, waterways, and other infrastructure, **Electravision will remain just that: a vision**.

Transmission growth needed by 2035
Median growth vs 2020, high load & high clean energy scenario

Region	Growth	Interconnection	Growth
Plains (PL)	408%	PL-TX	3519%
Delta (DE)	231%	PL-SW	3238%
Midwest (MW)	174%	MO-PL	2102%
Mountain (MO)	173%	DE-PL	1019%
New England (NE)	126%	NE-NY	835%
Southwest (SW)	118%	MW-PL	730%
Texas (TX)	113%	DE-SE	572%
Southeast (SE)	102%	MA-MW	474%
Mid-Atlantic (MA)	61%	MW-SE	416%
New York (NY)	46%	MA-NY	412%
Northwest (NW)	31%	FL-SE	295%
Florida (FL)	24%	MO-NW	202%
California (CA)	4%	MA-SE	140%
		CA-MO	130%
		MO-SW	129%
		CA-SW	102%
		DE-MW	30%
		CA-NW	25%

Source: "*National transmission needs study*", DOE, October 2023

An important caveat: our Electravision scenario assumes that total U.S. energy needs will not change much over the next two decades. Unchanged U.S. energy demand is consistent with the last couple of decades; the energy needs of a growing U.S. population have been offset by improving energy efficiency. However, **the rise of AI might change that**. One illustrative example: the PJM (mid-Atlantic) region has made sharp increases to projections of future power demand. These increases are entirely due to an increase in data centers which serve advanced computing/AI needs. Constellation Energy estimates that the AI revolution could require more power in the U.S. than the future electric vehicle fleet. If that's the case, the productivity benefits from AI better be large enough to offset the increase power load. **Bottom line: the rise of AI could make the journey to Electravision longer, harder, and most costly.** ◆

Unchanged U.S. energy demand is consistent with the last couple of decades; the energy needs of a growing U.S. population have been offset by improving energy efficiency.

Please see link to explore the full research paper: 14th Annual Eye of the Market Energy Paper: Electravision.

Michael Cembalest *is the Chairman of Market and Investment Strategy for J.P. Morgan Asset Management, a global leader in investment management and private banking. He is responsible for leading the strategic market and investment insights across the firm's Institutional, Funds and Private Banking businesses.*

Mr. Cembalest is also a member of the J.P. Morgan Asset Management Investment Committee and a member of the Investment Committee for the J.P. Morgan Retirement Plan.

Mr. Cembalest earned an M.A. from the Columbia School of International and Public Affairs in 1986 and a B.A. from Tufts University in 1984.

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Private Capital: Four Themes for 2024

By: Randy Schwimmer and Jason Strife, Nuveen

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The U.S. Federal Reserve's battle against inflation, which triggered higher-for-longer interest rates, means investors and borrowers alike are dealing with a slowdown in dealmaking, valuation discrepancies, and higher borrowing costs. This has led to a pivot of buyout financings from public to private credit.

Since the 2008 financial crisis, investors have become accustomed to an ultra-low rate environment, though they are now faced with a new, higher rate landscape.

Private capital – both private credit and private equity – is in the spotlight.

Four trends for 2024 have been identified, emerging from the current market dynamics that will impact deal making and fundraising.

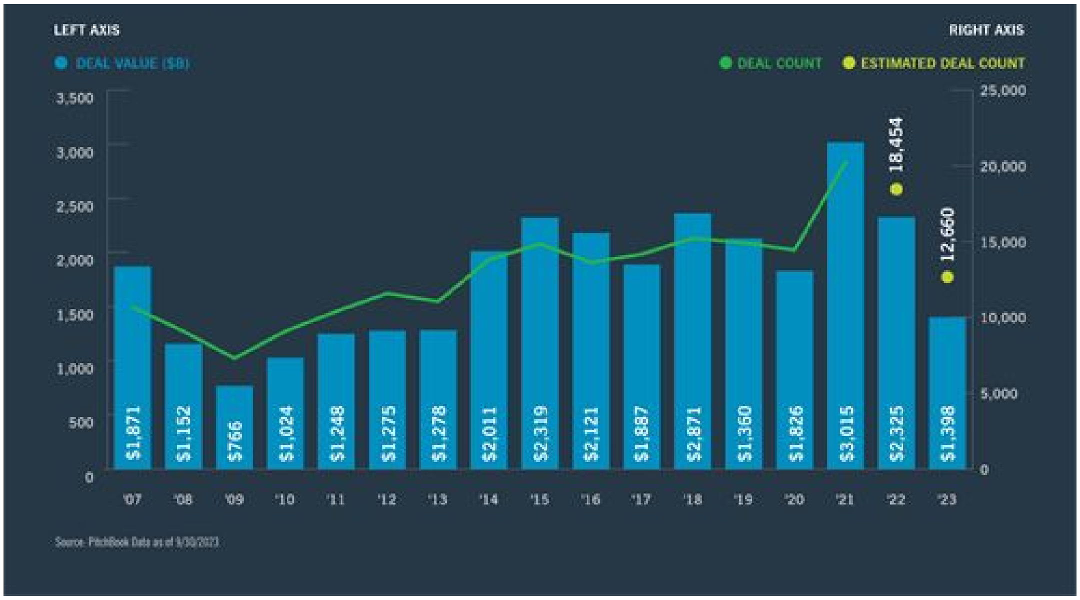
1. New normal rates: The new macro and what it means

Since the 2008 financial crisis, investors have become accustomed to an ultra-low rate environment, though they are now faced with a new, higher rate landscape.

Tighter systemic liquidity is seen as favorable to credit buyers, given the structures, lower leverage, and expanded pricing. It also keeps market conditions from becoming too frothy.

Considering the depressed levels of merger and acquisition activity during 2023, owners have been slower to achieve realizations. With more favorable all-in debt costs, equity returns should start improving, accompanied by a more accelerated deployment of dry powder for 2024.

Slower M&A activity



These trends are also tailwinds for portfolio performance. Lower benchmarks will bring interest and fixed charge coverages back to more comfortable levels and allow borrowers with payment-in-kind instruments to activate cash-pay options. In the first half of the year, the Fed is expected to avoid aggressive approaches to achieve a perfect 2% CPI landing. Investors could face a more balanced economy with rates closer to old averages.

2. Winners and losers: Continued dispersion from multiple market dimensions

In 2024, expect to see continued dispersion across three key market participants: private capital asset managers, private equity firms, and portfolio companies. The winners in today's market have a variety of distinct attributes.

For asset managers: Those with scale, diverse investment capabilities, diverse sources of dry powder, and sustainable deal-sourcing advantages will thrive.

For private equity firms: Those with ample dry powder and a proven track record of valuation discipline will prevail as the "buyer of choice" for the best platform investment opportunities.

For portfolio companies: Those who have adopted prudent balance sheet structures or leveraged bifurcated financing strategies that offer payment-in-kind flexibility will be best suited to pursue organic and inorganic growth opportunities.

The strategies adopted by winners – embracing scale, cultivating diverse capabilities, leading with true sourcing advantages, exercising valuation discipline, and maintaining conservative and flexible balance sheet structures – will highlight a brighter roadmap for success in 2024.

3. Stay alive to thrive: Portfolio excellence sustains investment activity

The gap between winners and losers will only accelerate as today's winners continue to thrive in the current market. Private capital managers with healthy, high-quality portfolios can and will continue to play offense and take market share.

What goes into creating portfolio excellence? We believe investors should follow the below principles:

Diversification as a shield: Diversification must be evaluated across numerous dimensions: sector, deal structure, leverage profile, sponsor relationships, company model, and so on. Absolutely fundamental is position-level diversification.

Flight-to-quality approach: Prioritizing high quality assets should always be a focus, irrespective of economic conditions. By consistently backing strong businesses (in both bull and bear markets), investors can have a durable portfolio that continues to see sustained growth despite a tough environment.

Clear alignment: Investing behind sponsor-backed portfolio companies has been crucial to mitigating risk. GPs not only bring deep experience creating value through market cycles, but more importantly have meaningful stakes in the outcome, typically through an equity investment.

Maintaining a diversified portfolio, focusing on resilient sectors and mitigating risk through strong alignment, private capital investors will not only survive challenges but can also thrive amidst uncertainty.

4. Next gen private capital: A new world of financial process

The Fed's efforts to tackle inflation all but drained liquidity from various sources. Buyout financings pivoted from public credit to private as a result. Lower interest rates will likely create advantageous conditions for liquid loans. Private debt managers today have armed themselves with attractive, covid era-styled loan terms. Middle market direct lenders have benefitted from a skewed ratio of private versus capital financing, and this will likely lead to refinancing and new leveraged buyouts for the long term.

Conditions may be just right

These themes present opportunity and risk for investors in today's market. However, we believe that with careful navigation, conditions could be the beginning of the "*Goldilocks era*" of private capital.

For a deeper dive into the outlook for private capital, visit: Nuveen.com/global/insights/alternatives/private-capital-themes ◆

Randy Schwimmer *is co-head of senior lending for Churchill, an investment specialist of Nuveen, the $1.1B asset manager of TIAA. Randy has broad experience in leveraged finance and is widely credited with developing loan syndications for middle market companies. Prior to joining Churchill, Randy served as a senior managing director and head of capital markets and indirect origination at Churchill Financial. In those positions, he took responsibility for all loan capital markets activities and for managing the firm's indirect origination platform. Before that, he worked as managing director and head of leveraged finance syndication for BNP Paribas. He spent 15 years at JP Morgan Chase in corporate banking and loan syndications, where he originated, structured and syndicated leveraged loans. Randy graduated with a B.A., cum laude, from Trinity College and an M.A. from the University of Chicago.*

Jason Strife, *Head of Junior Capital and Private Equity Solutions, leads Churchill's private equity and junior capital platform, including executing strategic initiatives, capital raising, sourcing investments, firm management, and portfolio construction for six mandates that provide debt and equity capital into the U.S. private equity middle market. Prior to joining Churchill, Jason was a Principal at Bison Capital focused on junior capital investments. Prior to Bison Capital, Jason was an Associate at Weston Presidio, a private equity firm focused on growth capital and LBOs. Prior to Weston Presidio, Jason worked in the M&A group of Wachovia, executing private equity transactions. Jason graduated from Wake Forest University with a Bachelor of Science in Analytical Finance and a Masters in Accounting, where he earned a scholarship for his graduate studies and passed the CPA examination.*

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Spring 2024 White Paper: Compelling Market Dynamics Within U.S. Private Credit

By: Turning Rock Partners

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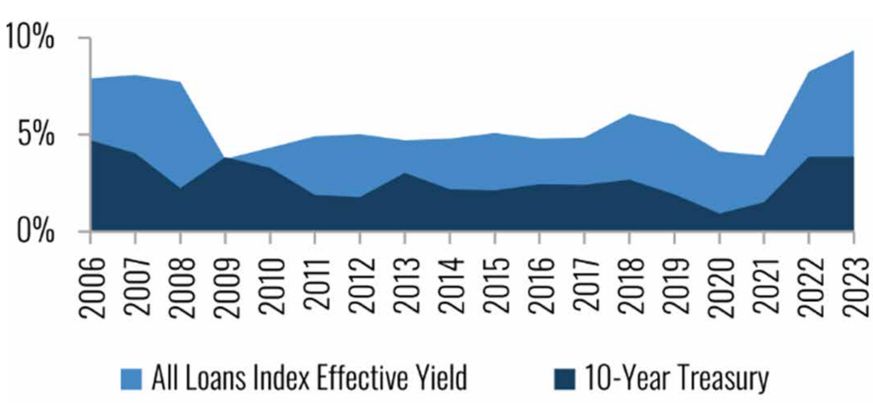
Market Dynamics:

Global economic growth outlook is muted, geopolitical conflicts abound, and recessionary fears remain. It is a challenging time to allocate capital.

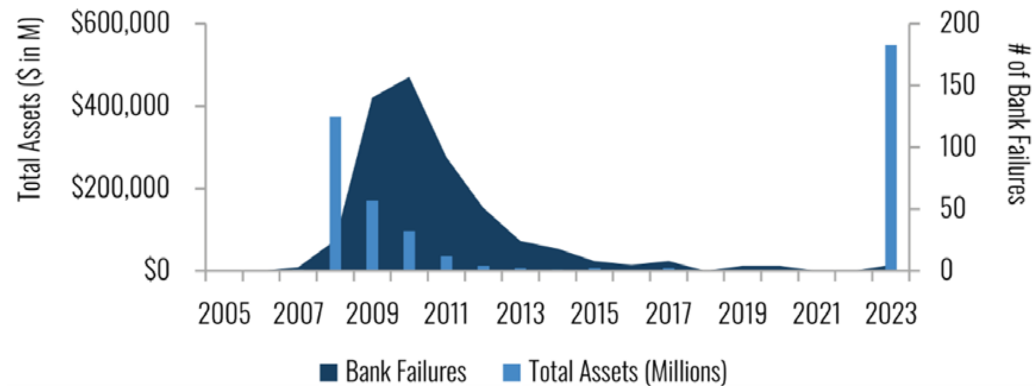
Effective yields in the loan market are at 15-year highs as spreads over nominal base rates have widened out and investor demand has picked up.[1]

Credit Yields at Historic Levels



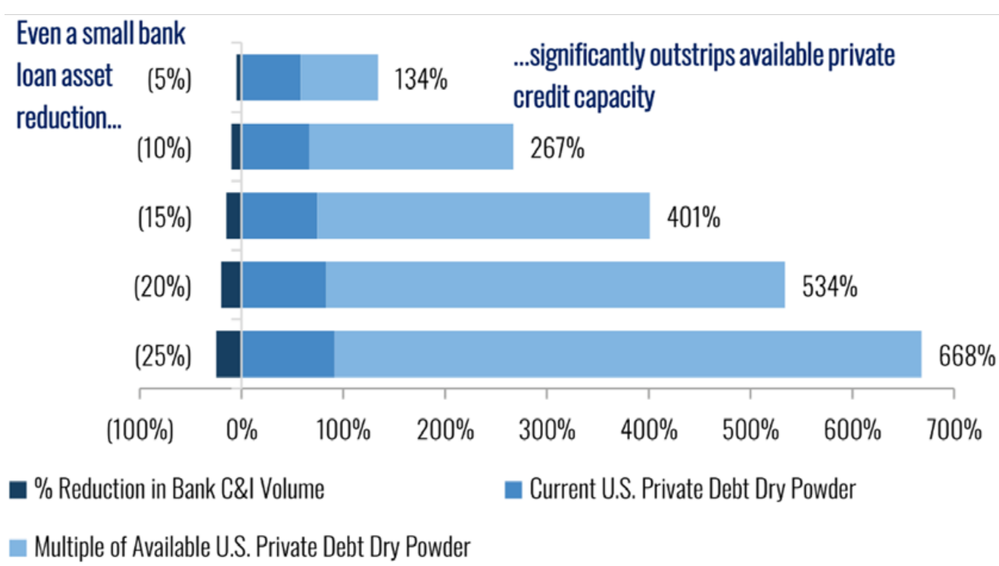
Given elevated base rates, uncertain growth expectations, and volatile equity markets, fixed income and credit strategies play a vital role in portfolios to provide ballast and income production. Credit investors in the U.S. can clearly see advantages on a risk-adjusted yield basis, but must also consider the systemic driver which is supporting overall demand – the secular retrenchment of bank lending and the recent regional banking market dislocation. Not only has there been a secular decline in bank lending, but the U.S. banking market experienced substantial volatility in 2023, with the total amount of assets involved in bank failures exceeding even the GFC.[2]

Bank Asset Dislocation in 2023 Shocked the System



Most lower middle market companies ("LMM") (defined herein as <$1bn in Enterprise Value) are too small to tap public credit markets for financing. These companies in the U.S. are frequent customers of smaller and regional banks and rely on these counterparties for working capital, revolving credit capacity, inventory financing, equipment purchases, real estate loans, and other needs. There are more than 200,000 middle market companies in the U.S. alone; with banks trimming lending, pursuing asset sales, and reducing risk, these corporates must turn to alternative credit financing to meet their needs.

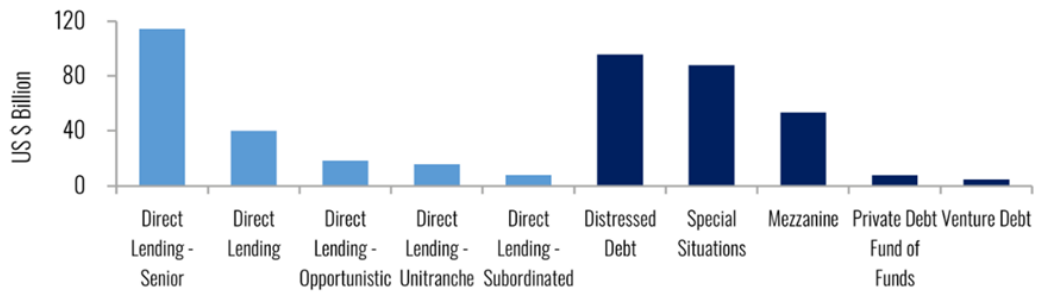
There is Not Enough Dry Powder Available



Quantifying the Opportunity:

A sensitivity analysis reveals that even a 5% reduction in loan assets from small U.S. banks (a primary source of financing for LMM businesses) would exceed the current dry powder available in U.S. direct lending private credit[3]. Given the heightened volatility and disruption in smaller and regional banks, the pullback could in instances be much greater than 5%, in which case the effect cascades.

Direct Lending Dominates Private Credit



The Rise of Non-Sponsor Lending:

Traditionally, private credit was dominated by sponsor-backed lending, focusing on dividend recapitalizations or traditional leveraged buyouts. This market tends to be more competitive, with 44% of all private credit AUM in direct lending strategies[4]. The non-sponsor lending market has emerged as a dynamic and attractive alternative. Non-sponsor lenders provide capital directly to companies, bypassing sponsors and supporting founder or family-owned/led businesses seeking capital. Beneficial characteristics can include:

In an environment of economic uncertainty, lower middle market private credit, particularly non-sponsor lending, presents a compelling investment opportunity.

(i) Lower competition: Fewer participants compared to the sponsor-backed market (based on amount of dry powder available), potentially leading to more attractive deal terms.
(ii) Unique deal flow: Founder-led businesses can offer strong fundamentals and compelling growth trajectories, and they may be tapping institutional capital for the first time.
(iii) Favorable alignment of interests: Direct relationships with borrowers who typically have substantial equity and cash at risk.

Conclusion:

The middle market is a deep, broad, and growing segment of the U.S. economy. There are over 200,000 middle market companies in the U.S., employing more than 48 million people. Of that segment, roughly 28,000 have revenues of $50-$250 million. At an assumption of $20-50 million in capital need per company, the market demand over the next three years could easily exceed $3 trillion.

In an environment of economic uncertainty, lower middle market private credit, particularly non-sponsor lending, presents a compelling investment opportunity. This market offers investors superior returns, lower volatility, diversification benefits, and access to a dynamic segment of the economy. With its unique characteristics and untapped potential, the LMM private credit market stands poised to deliver compelling returns for discerning investors seeking all-weather absolute returns in a challenging economic landscape. ◆

Turning Rock Partners *seeks to make long-term investments in debt and equity securities of North American small and mid-capitalization businesses. Turning Rock Partners has over $1.2B of committed capital and structures capital solutions for growing companies in need of flexible financing. The firm is based in New York, NY.*

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Endnotes:

[1] Pitchbook LCD Data – Represents the effective yield of the All Loans Index as of Q4 for each year from 2006-2023.

[2] FDIC: Bank Failures in Brief – 2023

[3] Source: Federal Reserve – Assets and Liabilities of Commercial Banks in the United States – H.8 as of March 31 2023. Dry powder represented as Preqin's North America Direct Lending dry powder estimate (US$29bn; funds <US$1bn;) as of May 25, 2023.

[4] Blackrock, Preqin, as of June 2022.

Which Equity Factors Perform Best When Interest Rates Are Falling?

By: Pradeep Velvadapu, Russell Investments

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For pension plans, changes in interest rates can have outsized impacts on funded status, as liabilities are more sensitive to fluctuations in rates than assets. For plans that have not fully hedged their interest-rate risk, falling rates typically increase a plan's liabilities by more than its assets, leading to a deterioration in funded status. With the Fed poised to begin lowering interest rates soon, plan sponsors may need greater returns from their assets in order to offset swelling liabilities. Amid this backdrop, it's important for plan sponsors to evaluate different investing strategies to get the most out of their portfolio.

One potential strategy to consider is equity factor investing. Factors are the underlying characteristics that drive returns of stocks, bonds and other assets.

One potential strategy to consider is equity factor investing. Factors are the underlying characteristics that drive returns of stocks, bonds and other assets. For instance, Value, Momentum, Quality, and Low Volatility are four common equity factors that have the potential to deliver excess returns over the long term. Factor investing targets exposure to these factors to help maximize a portfolio's return and manage its risk.

With markets rallying on the likelihood of rate cuts by mid-year, we thought it would be prudent to assess how key equity factors typically perform during and after times of monetary policy changes. So, we examined historical periods of different interest rate regimes and inspected factor performance during and immediately after these regimes. The figures below show the results of our findings.

Figure 1: Cumulative performance during rising interest rates

START TO END	Mkt_Less_RF	SMB	HML	RMW	CMA	MOM	QMJ
September 1965 to November 1966	-7.3%	13.3%	3.6%	-3.1%	-2.3%	24.0%	-0.5%
October 1967 to August 1969	-5.0%	13.9%	7.9%	-3.9%	6.3%	17.3%	7.3%
February 1972 to July 1974	-35.5%	-26.7%	40.0%	-1.0%	25.6%	56.6%	19.5%
January 1977 to March 1980	-5.5%	59.3%	6.0%	4.3%	5.3%	70.8%	-1.7%
July 1980 to January 1981	11.2%	11.0%	-15.0%	9.5%	-7.4%	16.0%	6.7%
February 1983 to July 1984	-5.3%	1.6%	29.3%	13.8%	16.1%	-2.0%	18.5%
March 1988 to April 1989	11.7%	2.8%	10.0%	1.2%	7.9%	10.4%	0.7%
December 1993 to April 1995	7.5%	-5.4%	2.3%	8.3%	3.5%	6.0%	15.0%
January 1999 to July 2000	12.2%	11.5%	-19.5%	-26.6%	-0.4%	41.4%	0.4%
May 2004 to July 2006	13.7%	6.1%	27.1%	8.8%	-5.9%	16.9%	-1.3%
November 2015 to January 2019	36.5%	1.4%	-7.2%	1.8%	-4.1%	-9.0%	20.1%
March 2022 to July 2023	1.5%	-1.2%	-5.6%	13.1%	0.9%	-6.4%	13.8%
Average Return	**3.0%**	**7.3%**	**6.6%**	**2.2%**	**3.8%**	**20.2%**	**8.2%**
Positive Hit Rate	**56.6%**	**50.9%**	**56.6%**	**52.8%**	**53.6%**	**63.4%**	**55.1%**

Source: Fama French website, AQR

During periods of rising interest rates, Momentum (MOM) was the strongest performer with a +20.2% return and a high 63% hit rate. Quality (QMJ), Size (SMB), and Value (HML) were next, with positive performance of +8.2%, +7.3%, +6.6%, respectively. Investment (CMA, Conservative minus Aggressive) and Profitability (RMW) were significantly weaker with respective performances of +3.8% and +2.2%.

Figure 2: Cumulative performance during easing interest rates

START TO END	Mkt_Less_RF	SMB	HML	RMW	CMA	MOM	QMJ
December 1966 to April 1967	17.9%	17.4%	-3.3%	7.0%	-9.4%	-0.6%	-3.3%
March 1970 to February 1971	3.3%	-3.0%	14.1%	0.0%	17.4%	-13.1%	4.5%
August 1974 to May 1975	15.6%	6.5%	-2.0%	-6.9%	5.3%	-5.1%	-3.1%
April 1980 to June 1980	12.8%	4.6%	0.7%	-1.9%	-1.3%	0.0%	-3.8%
July 1981 to January 1983	0.8%	4.7%	17.0%	-0.6%	16.1%	33.2%	10.5%
August 1984 to August 1986	56.6%	-10.7%	13.5%	19.3%	1.4%	28.7%	17.8%
May 1989 to August 1992	18.1%	-14.2%	-6.5%	28.8%	-0.4%	50.6%	35.5%
December 2000 to December 2001	-13.7%	30.3%	23.8%	18.7%	16.4%	-4.4%	12.0%
September 2007 to December 2008	-38.3%	-0.1%	-4.5%	26.4%	1.0%	40.5%	39.1%
August 2019 to March 2020	-14.4%	-13.4%	-22.8%	-3.0%	-2.0%	8.7%	0.7%
Average Return	**5.9%**	**2.2%**	**3.0%**	**8.8%**	**4.4%**	**13.9%**	**11.0%**
Positive Hit Rate	**55.6%**	**50.3%**	**51.0%**	**63.6%**	**49.0%**	**62.9%**	**66.2%**

Source: Fama French website, AQR

Interestingly, when compared to a rising interest rate environment, we see that the same factors performed the best. When interest rates were going down, Momentum (MOM) and Quality (QMJ) were the highest performers with returns of +13.9% and +11%, respectively. However, we saw a change in the Profitability (RMW) factor with a positive return of +8.8%, compared to only +2.2% during rising interest rates. We saw the reverse with Value and Size, with those factors being the weakest performers with their average return down by -3.6% and -5.1%, respectively, compared to periods of rising interest rates. The Investment (CMA) factor didn't have a large change between the two regimes.

Figure 3: Cumulative performance during flat interest rates

START TO END	Mkt_Less_RF	SMB	HML	RMW	CMA	MOM	QMJ
July 1963 to August 1965	23.6%	2.5%	14.1%	1.1%	3.0%	16.7%	-0.7%
May 1967 to September 1967	4.7%	16.3%	3.6%	-1.4%	2.4%	6.8%	2.1%
September 1969 to February 1970	-7.7%	-0.9%	-3.6%	3.3%	2.0%	7.6%	8.5%
March 1971 to January 1972	7.3%	2.6%	-7.1%	8.2%	-3.7%	8.7%	5.8%
June 1975 to December 1976	17.2%	12.6%	28.8%	-7.0%	13.3%	6.6%	-10.7%
February 1981 to June 1981	-0.3%	8.8%	8.9%	-2.3%	4.0%	-3.8%	1.2%
September 1986 to February 1988	-1.6%	-8.5%	0.9%	8.4%	14.1%	-10.1%	12.1%
September 1992 to November 1993	14.8%	13.1%	13.8%	-5.7%	9.1%	29.6%	-12.6%
May 1995 to December 1998	101.0%	-29.1%	11.0%	24.2%	0.3%	61.1%	33.5%
August 2000 to November 2000	-12.1%	-4.0%	25.5%	23.0%	20.1%	0.6%	21.5%
January 2002 to April 2004	1.6%	29.2%	14.0%	10.4%	31.6%	1.6%	2.8%
August 2006 to August 2007	12.1%	-1.9%	-9.6%	0.8%	1.3%	-0.5%	3.4%
January 2009 to October 2015	169.9%	7.3%	-14.7%	8.5%	4.5%	-34.2%	6.4%
February 2019 to July 2019	9.4%	-5.9%	-7.2%	3.0%	-3.1%	8.2%	2.6%
April 2020 to February 2022	75.9%	16.7%	27.1%	25.2%	16.2%	-15.9%	2.4%
Average Return	**27.7%**	**3.9%**	**7.0%**	**6.7%**	**7.7%**	**5.5%**	**5.2%**
Positive Hit Rate	**64.9%**	**53.1%**	**53.1%**	**56.4%**	**54.8%**	**61.3%**	**51.8%**

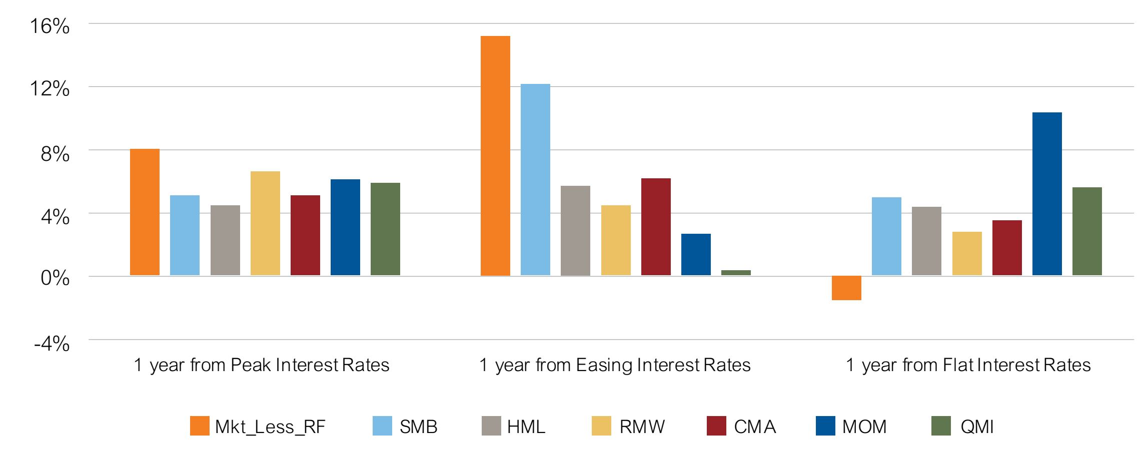
Source: Fama French website, AQR

Not surprisingly, the market experienced the strongest performance when monetary policy was in a static state, with a strong +27% return. During those periods, Investment (CMA), Value (HML), and Profitability (RMW) were the best performers. Momentum (MOM), Quality (QMJ), and Size (SMB) were the weakest performers.

Momentum (MOM) and Quality (QMJ) were the best performers in both rising and falling interest rate regimes.

Momentum (MOM) and Quality (QMJ) were the best performers in both rising and falling interest rate regimes. During periods when interest rates were flat and markets were in a recovery phase, Profitability (RMW), Value (HML), and Investment (CMA) were the best performers. Size only performed well in rising interest rate regimes and was the weakest performing factor in other regimes.

Figure 4: Average cumulative performance 1-year following the end of each regime



Finally, we looked at the performance of the factors one year after the end of each regime. Here, we observed a low distinction in returns following peak interest rates, with Value (HML) performing the worst (+4.5%), while Profitability (RMW), Momentum (MOM), and Quality (QMJ) were the best performers (+6.5%, +6.2%, +5.8%, respectively). During the market recovery phase, one year following the lowest point in interest rates, Size (SMB) was by far the best performer (+12%), followed by Investment (CMA) and Value (HML), with returns of +6.0% and +5.6%, respectively.

The one-year period following flat interest rates is typically associated with a shift from recovery to an expansion phase of the market. Here, we saw a shift in leadership, with Momentum (MOM) and Quality (QMJ) as the best performers, with returns of +10.3% and +5.4%, respectively. Size (SMB) and Value (HML) were next at +5% and +4%. Investment (CMA) and Profitability (RMW) were the weakest, with returns of +3.3% and +2.7%, respectively.

The bottom line

Our research shows that during periods of declining interest rates, the Momentum and Quality factors were the strongest performers, while the Value and Size factors were the weakest. Plan sponsors considering making tactical adjustments to their portfolios ahead of the Fed's shift to monetary easing should keep this in mind.

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Pradeep joined Russell Investments in 2006 as a research analyst within Russell's index business, where he was responsible for research and development of new index and investable products.

Insights from Active Management Review Research

By: Wilshire

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For over ten years, Wilshire has produced an Active Management Review research paper aimed at identifying the success of active management within public markets. The inaugural paper, published in 2010, was designed as a resource to asset owners when conducting manager searches or contemplating that role of active management within their portfolio. Leveraging the Wilshire Compass database, various statistics are calculated on the investment strategies within the defined universes to develop high level observations.

Wilshire's general expectations across the capital markets are for the average/median manager to generate long-term gross-of-fees performance that is market-like. As such, once accounting for fees, we would expect average active results to trail passive indexes. While much of the quantitative universe data contained within this report support that general expectation, we do not view this as an indictment against the pursuit of active management. Instead, we note that the challenges revealed through historical analysis are the consequence of the "arithmetic of active management," where the market return simply reflects the accumulation of all investors and underscores the importance of incorporating a robust qualitative manager due diligence process within an active management program.

The inaugural paper, published in 2010, was designed as a resource to asset owners when conducting manager searches or contemplating that role of active management within their portfolio.

It is difficult to glean an accurate perspective of the performance of active management without a clear understanding of the underlying market environment. Most active strategies, even those driven by bottom-up, security-specific processes, carry some persistent exposure to one or more systematic factors of the market. The table below ignores statistics that measure active management and instead focuses on the general market environment, the relative behavior of various market segments, and the underlying currents of certain systematic market factors. We hope to present a high-level perspective of important market drivers during the one, three, five and 10-year time periods that can be applied to reaching a better understanding of individual manager performance during these intervals.

Systematic Market/Factor Returns (Annualized)

Index Returns (thru Dec 2023)	1 Year	3 Years	5 Years	10 Years
Wilshire US Large Cap	26.8%	9.4%	15.8%	12.1%
Wilshire US Small Cap	19.1%	4.9%	11.3%	8.0%
Large minus Small	**7.7%**	**4.5%**	**4.5%**	**4.1%**
Wilshire US 2500 Value	9.6%	8.6%	11.9%	9.4%
Wilshire US 2500 Growth	43.6%	9.1%	18.5%	13.7%
Value minus Growth	**-33.9%**	**-0.4%**	**-6.6%**	**-4.3%**
MSCI Emerging Markets ($ Net)	9.8%	-5.1%	3.7%	2.7%
MSCI EAFE ($ Net)	18.2%	4.0%	8.2%	4.3%
Emerging minus Developed	**-8.4%**	**-9.1%**	**-4.5%**	**-1.6%**
MSCI ACWI-X US (LC Net)	14.1%	5.2%	8.3%	6.2%
MSCI ACWI-X US ($ Net)	15.6%	1.5%	7.1%	3.8%
Local minus USD	**-1.5%**	**3.7%**	**1.3%**	**2.4%**
Bloomberg US High Yield	13.5%	2.0%	5.4%	4.6%
Bloomberg US Aggregate	5.5%	-3.3%	1.1%	1.8%
High Yield minus Core	**7.9%**	**5.3%**	**4.3%**	**2.8%**

Source: Wilshire Compass

We also provide a comparison of periodic returns for various indicative market indexes, including a comparison of related index pairs.

To no surprise of the reader, U.S. Equity markets have provided the strongest returns in all time periods across the asset classes displayed, with the large-cap and growth segments leading the way. Within equity markets outside of the U.S., the developed markets have reigned supreme over emerging markets in all four time horizons. Lastly, within fixed income markets, high yield markets have provided superior returns over the core bond market in all time periods. Further observations within each of these markets pertaining to factors such as style, quality, volatility, momentum, and currency are explored within the paper in greater detail.

Shifting to a review of the relative success of active management, the table below displays the overall ranking of the index within each market segment. In addition to showing the index percentile rank, the shading of the ranking informs us of the overall likelihood of active management's success for a particular universe and time period. A high ranking, colored in red, reflects a benchmark that performed well versus the universe of active investment managers whereas a low ranking, colored in green, represents a universe where a majority of the active managers added value of the respective benchmark.

Index Quartile:	1st Quartile / 2nd Quartile / 3rd Quartile / 4th Quartile	Index Percentile Ranking (thru 2023)			
		1 Year	3 Years	5 Years	10 Years
Equity Segments					
Large Core Wilshire US Large Cap Index		17	54	27	25
Large Growth Wilshire US Large Growth Index		18	20	13	24
Large Value Wilshire US Large Value Index		79	76	64	47
Small Core Wilshire US Small Cap Index		24	76	70	67
Small Growth Wilshire US Small Growth Index		18	40	59	79
Small Value Wilshire US Small Value Index		56	76	82	69
REIT Wilshire REIT Index		19	19	77	76
EAFE MSCI EAFE Index ($N)		46	45	57	89
EAFE Small Cap MSCI - EAFE Small Index ($Net)		55	68	63	73
Emerging Markets MSCI Emerging Markets Index ($N)		71	64	83	91
Global MSCI - AC World Index ($N)		11	48	28	28
Fixed Income Segments					
Core Fixed Income Bloomberg US AG Index		56	91	88	77
US High Yield Bloomberg Barclays US HY Index		32	76	58	52

In review of the last year, active management in U.S. Equity was significantly challenged, with only one of the six style universes having an index that ranked in the fourth decile (Large-cap Value). Similarly, when looking at the Large-cap Growth universe, the index has ranked in the top quartile over each of the four time horizons reviewed, signifying a challenging environment for active management within that market segment. It should be noted that most of the red shaded cells occur within the U.S. Equity market, supporting the view of equity markets being most efficient within the states as compared to non- U.S. markets where the index consistently ranked in the third or fourth deciles, indicating the potential for active management to add value to investor's portfolios. A similar story can be told within the fixed income markets reviewed.

Additional insights into each of these universes are available within the Wilshire 2023 Active Management Review research paper available on our website (www.wilshire.com) which dives further into each universe to provide average and median excess returns and information ratios, as well as statistics around the consistency (or lack thereof) of active management to repeat performance on both an absolute and risk adjusted basis. ◆

When History is a Guide – The Case for Commodities Today

By: Shauna Hewitt, LGIM America

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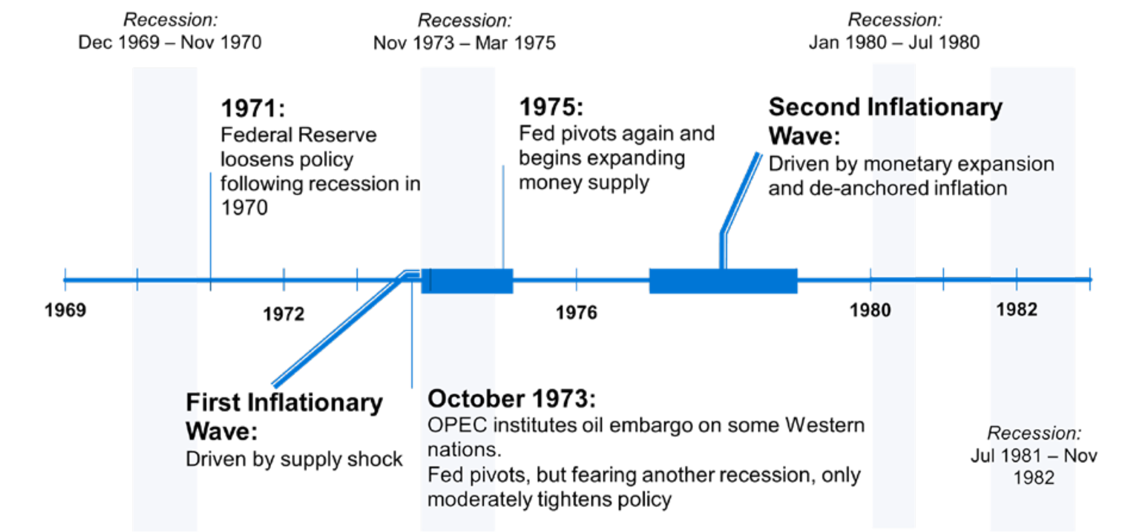
The challenges of a half-century ago bear an uncanny resemblance to the risks that we face today. In the 1970s, real returns on traditional 60/40 portfolios were eroded to almost nothing due to a mix of domestic political troubles, conflicts in the Middle East and, most directly, recurring waves of inflation. If this sounds familiar, institutional investors may need to consider allocating to an alternative asset class to preserve portfolio returns. Using history as a guide, we believe commodities may be an appropriate fit.

A brief history

The economic landscape facing the United States in the early 1970s was, to put it softly, challenging. Confronted by the complications of the costs of a hot war in Vietnam and a cold one with the Soviet Union, the Federal Reserve found it difficult to establish a consistent monetary policy to align with shifting political and economic conditions. As a result, the Fed pivoted several times during the decade in what historians now call the "stop-and-go" policies.

The challenges of a half-century ago bear an uncanny resemblance to the risks that we face today.

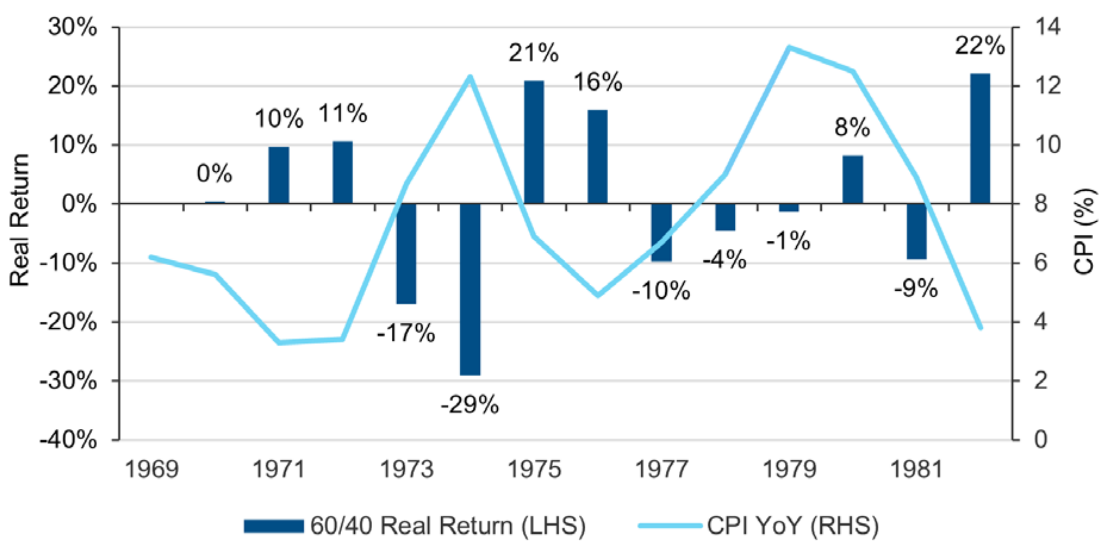
Figure 1: Timeline of US economic events (1969 – 1983)



Source: LGIM America. For illustrative purposes only.

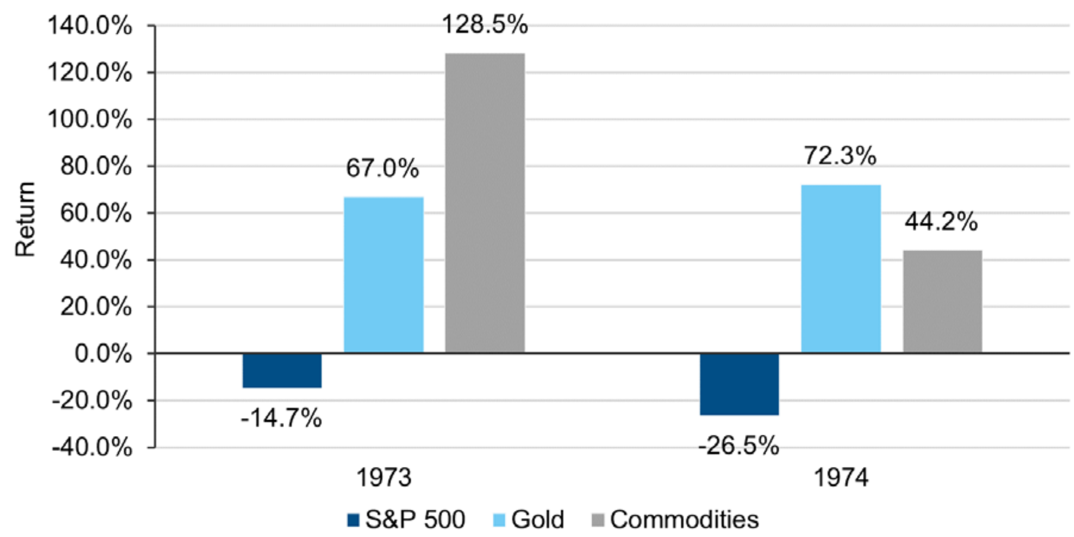
The back-and-forth positioning at the Fed had a tremendous impact on the economy, as policy was not sufficiently tight enough to quell long-term inflation. In addition, policy mismanagement substantially restrained traditional investor returns. By virtue of the several recessions and two substantial inflationary waves brought on by the stop-and-go policies, the real return on a 60/40 portfolio was a paltry 0.19% per year from 1969-1982. At the same time, however, commodities experienced substantial real returns of 15.10% per year, driven at first by the energy supply shock, and then during the second inflationary wave, by gold.

Figure 2: 60/40 Portfolio returns and inflation (1969-1982)



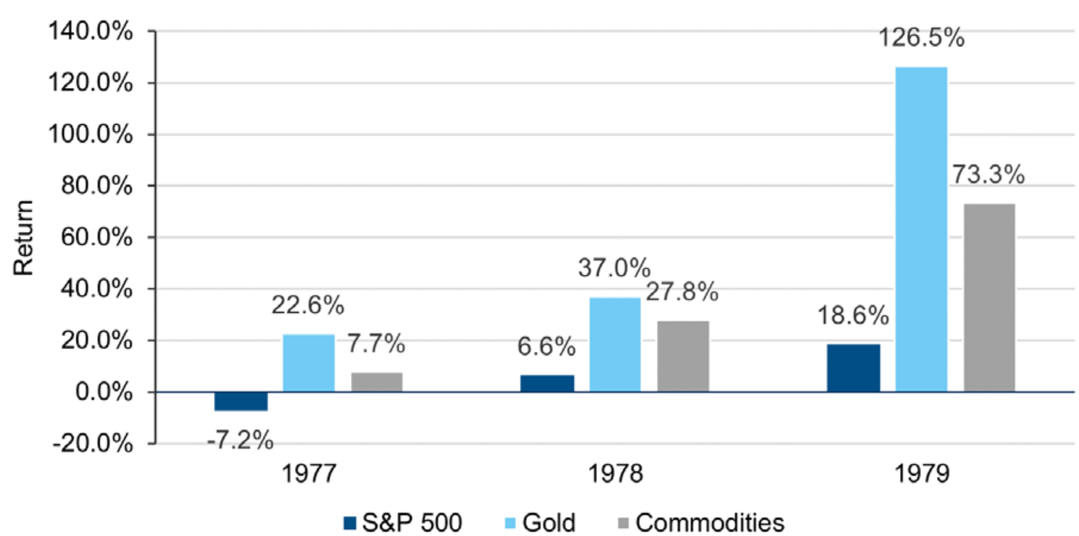
Source: Bloomberg, JP Morgan Asset Management.

Figure 3: First inflationary wave (1973-1974) – Annual returns



Source: Bloomberg.

Figure 4: Second inflationary wave (1977-1979) – Annual returns



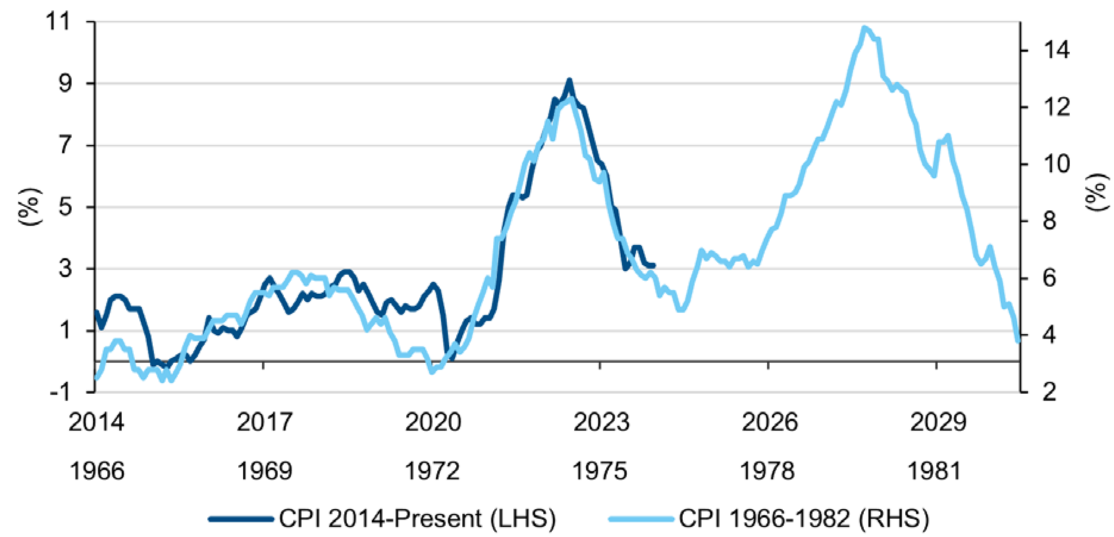
Source: Bloomberg.

The strong rhymes of history

Though not exact, it's hard not to notice the substantial similarities between the economic and political circumstances of today and of a half-century ago. Proxy conflicts with Russia, ongoing wars in the Middle East, and a bitterly divided government and electorate dominate the headlines today as they did in the 1970s. But perhaps the most striking resemblance is reflected by the current economic situation and expected path forward.

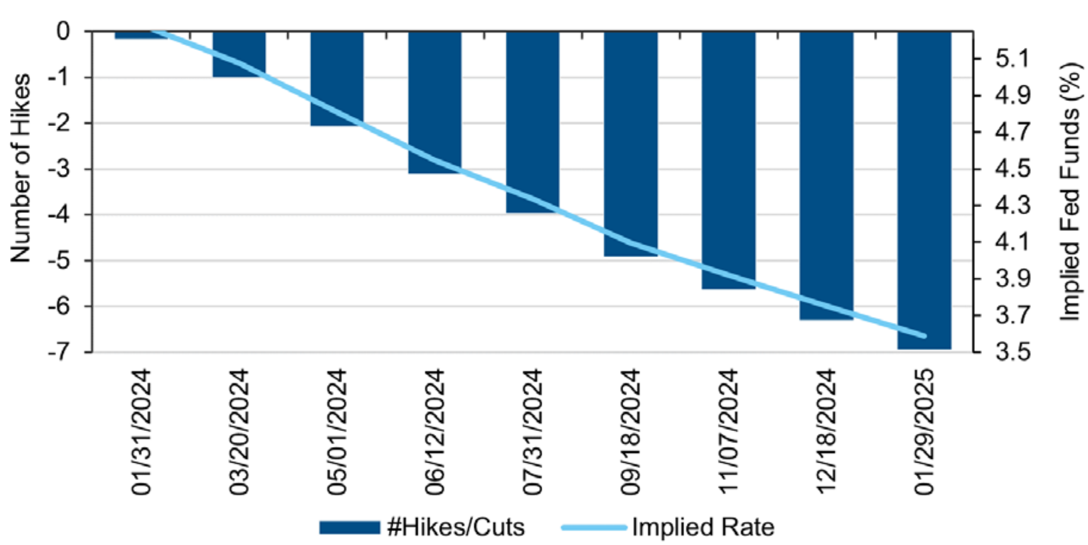
In 1975, the Federal Reserve eased policy with inflation on the decline. The subsequent money supply growth drove inflation slowly higher at first, until expectations became de-anchored and inflation exploded. Now, following an eerily similar disinflationary trajectory, market participants are betting that the Fed will begin easing with a series of interest rate cuts soon. The question remains: if the Fed follows through, will it have kept policy restrictive enough to avert another inflationary relapse, unlike 50 years ago?

Figure 5: Consumer Price Index (year-over-year)



Source: Bloomberg, Apollo Global Management, The Kobeissi Letter.

Figure 6: Market-implied Fed Funds Rate



Source: Bloomberg. Data as of December 29, 2023.

An appealing hedge amidst today's uncertainty

While it is impossible to predict the future, it is worth looking to history to create a plan for potential outcomes. If the Fed does indeed move too early, it is possible that excessive monetary growth could lead to de-anchored inflation expectations as it did in the late 1970s. Therefore, we believe institutional investors should consider an allocation to a diversified basket of commodities. This could increase the resiliency of the portfolio and, if history is a guide, the asset class may be well positioned to outperform in this scenario.

To address this, institutional investors should investigate a commodities strategy that offers several key features:

- Efficient exposure to a diversified commodities benchmark.
- TIPS exposure to deliver real yield returns.
- Overweighted exposure to gold, which we believe may offer an incremental hedge to geopolitical uncertainty, monetary policy decisions, and recurrent inflation. ◆

Shauna Hewitt *is a Senior Investment Director at LGIM America. In her role, she focuses on Consultant Relations and Institutional Sales efforts in the Midwest Region. She covers Corporate Defined Benefit and Defined Contribution clients, Public Plans, Taft-Hartley as well as Endowments and Foundations.*

Shauna has over 25 years of investment industry experience. Prior to joining LGIM America in 2018, she served as Managing Director at Pavilion Global Markets. Shauna founded Lambright Financial Solutions which was later acquired by Knight Capital Americas. She has also held senior roles at Loop, BNY Brokerage and CRA Rogerscasey. Shauna began her career with Donaldson, Lufkin & Jenrette.

Shauna serves on various committees of community outreach services in Chicago in addition to being a former board member of Women Investment Professionals (WIP), current WIP Professional Development committee member and member of National Association of Securities Professionals. She is also the past chair of LGIMA's Women's Collective, served on LGIMA's Culture Working Group SteerCo and current member of the DEI SteerCo. Shauna was honored as a NASP Trailblazing Woman in 2023.

Disclosures:

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Focusing on Companies with Good Labor Practices is a Sound Investment Strategy

By: Marina Severinovsky, Schroders

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Common sense suggests that companies who treat their employees well perform better. They experience lower turnover and have a highly motivated, and therefore more productive, staff. But we looked to quantify those benefits by undertaking research with the California Public Employees Retirement System (CalPERS) and the University of Oxford's Said Business School.

To gauge the impact of good labor practices, we developed a set of key metrics, including the Human Capital Return on Investment (HCROI) that considers the returns companies realize from the investment they make in employees through salaries and benefit packages.

Our research shows that human capital returns are positively correlated with forward excess returns over multiple time horizons and across the majority of sectors. Clearly, offering high salaries is not the only way to manage human capital well. In fact, companies on the high end for compensation often underperform, if they do not excel at the other aspects of human capital management.

While understanding the effects of different human capital management systems requires a mix of quantitative and qualitative assessments, we have found that having a strong culture and inclusive workplace has a high or very high material impact on company performance in sectors like healthcare, information technology, consumer staples, and consumer discretionary. Investing in talent and learning systems has a significant impact on companies in the energy sector, as well as those in the consumer staples and healthcare sectors.

Our research confirms other studies that have also demonstrated the importance of effective human capital management. For example, a study by Barclays showed a high correlation between a company's safety records and its profit margins. Another study by McKinsey found that companies that rank in the top quartile for gender diversity among executives were 25% more likely to have above-average profitability than those that rank in the fourth quartile for the diversity of their leaders.

For investors, there are a variety of metrics that can be assessed to determine how effectively companies manage their human capital. These range from firms' health and safety records to the diversity of their workforces and the existence of any gender wage gaps.

While each of these considerations is critical on its own, we have also found the companies that have the best human capital management practices take a holistic approach and recognize that all of these factors are interrelated and work together to create an environment of trust that enables employees to do their best and make significant contributions to the success of companies. Clearly, there is also a material benefit for investors to focus on the companies with these strong labor practices. ◆

Marina Severinovsky *is the Head of Sustainability, North America, at Schroders. She leads the sustainability and environmental, social, and governance (ESG) integration for Schroders investments in North America. Marina collaborates with senior managers on market strategy, client communications, product development, sales, and investor management.*

Previously, Marina served as the Investment Director for North America for the Quantitative Equity Products (QEP) team from 2020. In this role, she was responsible for communicating QEP's investment policy and strategy with clients, as well as business management in the Americas.

Marina joined Schroders in 2010 and has 18 years of professional experience, including economic analysis, research, financial modeling, product development, strategy, and client relationship management. She is conversationally fluent in Russian and is based in New York.

Disclosures:

Improving Members' Well-Being: The Benefits from Time Management Training

By: Thomas Anichini, CFA, CFP, GuidedChoice/3Nickels

Photo Illustration, Jason Goodman © 2024, Unsplash.com

When people think of learning time management, they likely think of it as a productivity enhancement.

This article suggests instead you think of learning time management skills as a wellness enhancement, regardless of whether it makes people economically more productive. It makes them feel better: feeling more in control of their time, they have lower stress and greater well-being.

To understand how time management training enhances well-being, consider whether it is already part of an employer's benefits and culture.

Do Employers' Emphasis on Work-Life Balance Include Time Management Training?

Employers who emphasize work-life balance do so via benefits and culture, which might be missing time management training.

Employers who emphasize work-life balance do so via benefits and culture, which might be missing time management training.

Benefits pertaining to time may include flexible work arrangements, paid time off policies, and parental and caregiver leave.

Culture also matters. A culture that respects work-life balance allows people to use their benefits appropriately. Additionally, affording employees autonomy in terms of how they get their work done can enhance their sense of agency.

Help Employees Enjoy a Sense of Control Over Their Time

While employers provide the necessary framework for well-being through benefits and culture, the individual employee's skills in managing time play a critical role in their own well-being. Specifically, employees arrive with varying levels of proficiency in time management.

Unfortunately, time management is not commonly taught in school. Thus, choosing how to plan, prioritize, and budget time is a skill employers should offer to teach.

Acquiring Time Management Skills Can Improve Employees' Sense of Empowerment

Workers can have an improved sense of empowerment via:

Skills Development: Employees can learn how to prioritize tasks, set realistic deadlines, and manage distractions.

Enhanced Autonomy: Employees feel more in control of their workloads: they can better negotiate work dynamics, manage expectations, and assert boundaries (i.e., say "No"), which are essential for maintaining balance.

Stress Reduction: In applying their skills and sensing their autonomy, their stress declines.

Now let's explore how literature and empirical studies reinforce the positive outcomes associated with these competencies.

Literature Support

Popular Nonfiction Books

In Stephen R. Covey's The Seven Habits of Highly Effective People[1], Covey stipulated that by applying his method of habitually organizing and prioritizing, people would live more organized, purposeful, and effective lives, in others word, their wellness would improve.

In David Allen's Getting Things Done[2], Allen observes when people use a productivity system they know they can trust, stress falls and creativity ensues.

While seminal books provide compelling narratives, empirical studies offer concrete evidence to these claims.

Evidence from Psychological Studies

Time Management Training and Perceived Control of Time at Work[3]
Researchers found that after receiving time management training, subjects' perception of their control of time improved and their stress levels dropped.

Does Time Management Training Work?[4]
Researchers found that workers who received time management training became more productive (as scored by their managers), and their perception of their own time management skills improved, resulting in lower stress.

A sense of lack of control over one's time can be debilitating for stress and well-being.

The insights from both popular literature and rigorous studies converge on a critical point: time management training transcends mere productivity, fostering substantial improvements in an employee's well-being.

Takeaways

A sense of lack of control over one's time can be debilitating for stress and well-being. By recognizing that time management is a skill that many did not learn in school, employers can improve their employees' sense of well-being by providing time management training.

Although a secondary benefit of time management training may manifest as improved efficiency during work hours, the principal aim is to equip employees with skills that extend far beyond the workplace.

We should communicate the intent of such training clearly: it is designed not for the company's gain in output but for the individual's mastery over their own schedule, thereby fostering a robust sense of well-being.

When employees understand that the training is invested in their personal empowerment—not just their professional productivity—they are likely to value and embrace it more fully.

We encourage employers not only to adopt these practices but also to evaluate their impact through systematic feedback and assessments. ◆

Thomas M. Anichini, CFA, *joined GuidedChoice in 2011 and is currently the chief investment strategist. He is responsible for articulating our investment philosophy and methodology. Additionally, he serves on our Investment Committee and is involved in research, investment processes, and operational risk management. Prior to joining GuidedChoice, Tom held a variety of investment positions, including leading the U.S. manager research team at Mercer, managing portfolios at Westpeak Global Advisors, and as partner, director of portfolio management at Freeman Investment Management. In addition, from 2011 to 2014 he served on the Society of Actuaries Investment Section Council, including one year as chair.*

Mr. Anichini holds an M.B.A. Finance from the University of Chicago and a B.S. Actuarial Science from the University of Illinois.

Endnotes:

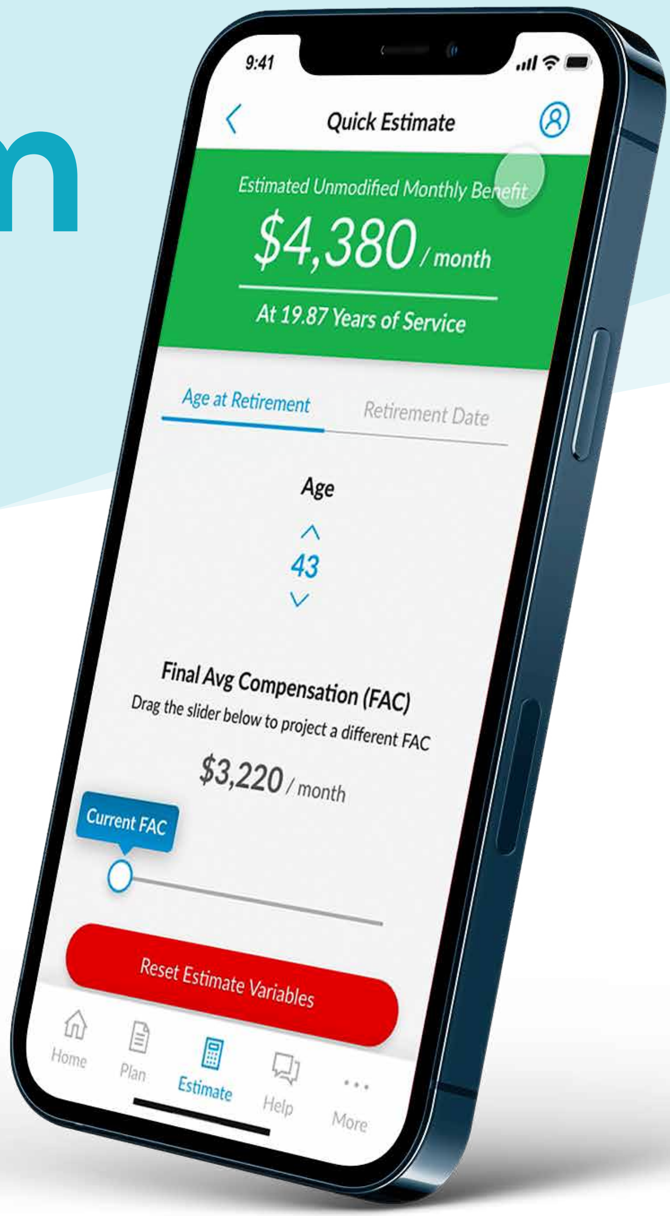
[1] Stephen R. Covey, The Seven Habits of Highly Effective People: Restoring the Character Ethic (New York: Simon and Schuster, 1989)

[2] David Allen, Getting Things Done: The Art of Stress-Free Productivity (New York: Viking, 2001)

[3] Alexander Häfner and Armin Stock, "Time Management Training and Perceived Control of Time at Work," The Journal of Psychology 144, no. 5 (2010): 429-447, https://doi.org/10.1080/00223980.2010.496647

[4] Peter Green and Denise Skinner, "Does time management training work? An evaluation," International Journal of Training and Development 9, no. 2 (2005): 124-139

NCPERS PensionX Digital Platform



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

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

UPCOMING EVENTS

May

NCPERS Accredited Fiduciary (NAF) Program

May 18–19
Seattle, WA

Trustee Educational Seminar (TEDS)

May 18–19
Seattle, WA

Annual Conference & Exhibition (ACE)

May 19–22
Seattle, WA

June

Chief Officers Summit

June 17-19
Nashville, TN

August

Public Pension Funding Forum

August 18-20
Boston, MA

September

Public Pension HR Summit

September 24-26
Denver, CO

October

NCPERS Accredited Fiduciary (NAF) Program

October 26–27
Palm Springs, CA

Program for Advanced Trustee Studies (PATS)

October 26–27
Palm Springs, CA

Public Safety Conference

October 27-30
Palm Springs, CA

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