

# AGENDA



**Date:** May 6, 2016

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 12, 2016, in the Second Floor Board Room at 4100 Harry Hines Boulevard, Dallas, Texas.** Items of the following agenda will be presented to the Board:

## **A. MOMENT OF SILENCE**

## **B. CONSENT AGENDA**

### **1. Approval of Minutes**

- a. Special meeting of April 1, 2016
- b. Regular meeting of April 14, 2016

### **2. Approval of Refunds of Contributions for the Month of April 2016**

- 3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for May 2016**
- 4. Approval of Estate Settlements**
- 5. Approval of Survivor Benefits**
- 6. Approval of Service Retirements**
- 7. Approval of Alternate Payee Benefits**
- 8. Approval of Five-Year Certificates for the First Quarter 2016**
- 9. Approval of Payment of DROP Revocation Contributions**

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

- 1. AEW portfolio review**

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

**2. Cornerstone strategic review**

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

**3. Hancock portfolio review**

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

**4. Clarion: Four Leaf**

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.

**5. Hearthstone: Dry Creek**

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

**6. Recognition of outgoing Trustee**

**7. Global Asset Allocation structure study**

**8. Bank of America loan**

**9. Investment and financial reports**

**10. Board policies**

- a. Committee Policy and Procedure
- b. Executive Director's Performance Evaluation Policy
- c. Investment Policy Statement – Investment Advisory Committee Formation Process

**11. Ad hoc committee reports**

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

- a. State Pension Committee Meeting
- b. Society of Pension Professionals
- c. TEXPERS Secure Retirement for All
- d. Commerce Street Capital: Bank Conference
- e. Wharton: Portfolio, Concepts, and Management
- f. PRB Meeting

**13. Determination of Handicap Status of Dependent Child**

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

## **14. Legal issues**

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

- a.** Police Officer and Firefighter pay lawsuits
- b.** Potential claims involving fiduciaries and advisors
- c.** DROP amendment

## **15. Public relations consultant**

### **D. BRIEFING ITEMS**

- 1. Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System**
- 2. Executive Director's report**
  - a.** Future Education and Business Related Travel
  - b.** Future Investment Related Travel
  - c.** Associations' newsletters
    - NCPERS Monitor (May 2016)
    - TEXPERS Outlook (May 2016)

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

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



## ITEM #A

### MOMENT OF SILENCE

In memory of our Members and Pensioners who recently passed away

(April 7, 2016 – May 5, 2016)

FIRE	ACTIVE/ RETIRED	DATE OF DEATH	POLICE	ACTIVE/ RETIRED	DATE OF DEATH
Buddy K. Chambers	Retired	Apr. 30, 2016	Ronald E. Bardin	Retired	May 3, 2016
Phillip J. Foley	Retired	Apr. 25, 2016	Vernon C. Campbell	Retired	May 1, 2016
			Eddie C. Carlan	Retired	Apr. 28, 2016

*Regular Board Meeting – Thursday, May 12, 2016*

**Dallas Police and Fire Pension System**  
**Friday, April 1, 2016**  
**8:30 a.m.**  
**4100 Harry Hines Blvd., Suite 100**  
**Second Floor Board Room**  
**Dallas, TX**

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

**ROLL CALL**

**Board Members**

Present at 8:30: Samuel L. Friar, Lee M. Kleinman, Joseph P. Schutz, Scott Griggs, Brian Hass, Kenneth S. Haben, Erik Wilson, Tho T. Ho, Gerald D. Brown, Clint Conway, Philip T. Kingston

Absent: John M. Mays

**Staff**

Kelly Gottschalk, Joshua Mond, James Perry, Summer Loveland, Corina Terrazas, Damion Hervey, Pat McGennis, Christina Wu, Linda Rickley, Kevin Killingsworth

**Others**

Alan D. Johnson, Jerry M. Rhodes, Rick Salinas, Richard Dodge, Jackie E. Clower, David Franklin, Ken Sprecher, Dick Hickman, Dan Wojcik, Don Ham, Jim Aulbaugh, Ron Watkins, Edmundo Ponce, Robert Wilonsky, Sandy Alexander, Lori Brown, Walley Gurrea, Chris Evans, Brett Shipp, Melissa Kingston, Sean Kelly, Anna Lisa deBoisblanc, Teresa Gubbins, Bryan Titsworth, James Stanton, Ben Coffee, Greg Hausdorf, Richard Brink, Angela Hunt, Joshua Kamler, Catherine Garrison, Mary Warren

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

**A. DISCUSSION AND POSSIBLE ACTION REGARDING ITEM FOR INDIVIDUAL CONSIDERATION**

**1. Consideration of Board Action regarding statements by Trustee Philip Kingston during the interview with WFAA on March 13**

After discussion under Item #2, Mr. Brown made a motion that in exchange for (1) Mr. Kingston's written apology regarding his statements during the interview with WFAA on March 13, 2016 and (2) his agreement to drop all legal action against the Dallas Police & Fire Pension System and withdraw his request for information, the Board will not consider action against Mr. Kingston and will issue the following statement:

**Special Meeting  
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**1. Consideration of Board Action regarding statements by Trustee Philip Kingston during the interview with WFAA on March 13 (continued)**

The Board of Trustees of the Dallas Police and Fire Pension System has not directed that the remaining units in Museum Tower be marketed for bulk sale, nor has it sought such offers and no unsolicited credible offers have been received. The Pension System intends to sell its remaining units through individual sales and will continue to seek the highest price possible for such units. Actual sales prices for individual units are materially higher than the ranges previously cited by Mr. Kingston in his television interview.

Mr. Griggs seconded the motion.

Voting on the preceding motion was postponed by an amended motion:

Mr. Wilson made a motion that the Board allow DFPF members and pensioners present in the audience to speak before voting on the preceding motion. Mr. Kleinman seconded the motion, which passed by the following vote:

For: Friar, Kleinman, Schutz, Hass, Wilson, Haben, Ho, Brown, Conway

Against: Griggs, Kingston

The Board moved to the Briefing Items portion of the agenda and heard member and pensioner concerns. No action was taken.

The meeting was recessed at 10:28 a.m.

The meeting was reconvened at 10:40 a.m.

Subsequent to hearing from members, as approved by Mr. Wilson's motion, the Board voted on Mr. Brown's original motion, which passed by the following vote:

For: Brown, Griggs, Friar, Schutz, Hass, Haben, Conway, Kingston

Against: Kleinman, Wilson, Ho

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**2. Trustees' rights to investment information**

After discussion regarding Trustees' legal rights to all of DFPF's investment information, Mr. Kleinman made a motion to adopt the following Board Policy on Trustee Information Requests: "Any request by a Trustee for information that Trustees do not otherwise receive in the ordinary course or otherwise have access to shall be directed to the Executive Director. The Executive Director shall provide such information to the requesting Trustee except in the case where the Executive Director determines that the request, in his/her reasonable judgment, creates

**Special Meeting**  
**Friday, April 1, 2016**

**2. Trustees' rights to investment information (continued)**

potential confidentiality concerns, is not relevant to the exercise of the Trustee's fiduciary duties or is unduly burdensome. If the Executive Director makes such a determination, the Executive Director shall place the matter on the next upcoming Board agenda for determination by the full Board." Mr. Brown seconded the motion.

Voting on Mr. Kleinman's motion was postponed by an amended motion:

Mr. Griggs amended Mr. Kleinman's motion such that the Trustee whose request was denied has the right to request information or enter into legal action. An independent arbitrator will control the matter. Mr. Kingston seconded the motion, which failed by the following vote:

For: Griggs, Kingston, Hass, Schutz

Against: Friar, Kleinman, Haben, Wilson, Ho, Brown, Conway

Mr. Griggs made a motion to delay action and refer the matter to the Governance Committee. Mr. Kingston seconded the motion, which failed by the following vote:

For: Griggs, Kingston

Against: Friar, Kleinman, Schutz, Hass, Wilson, Haben, Ho, Brown, Conway

Mr. Griggs made a motion to call a special Board meeting on April 8, 2016 regarding Philip Kingston's request for information subsequent to Mr. Kingston receiving information from the Executive Director, and following the proposed Board Policy on Trustee Information Requests, to make a decision based on the policy. Mr. Kingston seconded the motion, which failed by the following vote:

For: Griggs, Kingston

Against: Friar, Kleinman, Schutz, Hass, Wilson, Haben, Ho, Brown, Conway

The Board voted on Mr. Kleinman's original motion, which passed by the following vote:

For: Friar, Kleinman, Schutz, Hass, Haben, Wilson, Ho, Brown, Conway

Against: Griggs, Kingston

Mr. Schutz made a motion to proceed with the decision-making process regarding releasing the information that has been requested by Philip Kingston based on the newly-adopted Board Policy on Trustee Information Requests. Mr. Ho seconded the motion, which passed by the following vote:

For: Friar, Kleinman, Schutz, Hass, Wilson, Haben, Ho, Brown, Conway

Against: Griggs, Kingston

**Special Meeting  
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**2. Trustees' rights to investment information (continued)**

Mr. Griggs made a motion that Philip Kingston be allowed to review the information that he requested within a certain time period in order to prepare his defense, but that he would not be permitted to keep copies of the material. Mr. Kingston seconded the motion. After discussion, Mr. Griggs withdrew his motion.

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**B. BRIEFING ITEMS**

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

The Board received comments during the open forum.

No motion was made.

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Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Brown and a second by Mr. Haben, the meeting was adjourned at 10:49 a.m.

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Samuel L. Friar  
Chairman

**ATTEST:**

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Kelly Gottschalk  
Secretary

**Dallas Police and Fire Pension System**  
**Thursday, April 14, 2016**  
**8:30 a.m.**  
**4100 Harry Hines Blvd., Suite 100**  
**Second Floor Board Room**  
**Dallas, TX**

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

**ROLL CALL**

**Board Members**

Present at 8:30 Samuel L. Friar, Lee M. Kleinman, Joseph P. Schutz, Kenneth S. Haben,  
Erik Wilson, Tho T. Ho, Gerald D. Brown, Clint Conway, John M. Mays  
Present at 8:34 Brian Hass  
Present at 8:40 Philip T. Kingston  
Present at 8:58 Scott Griggs

**Staff**

Kelly Gottschalk, Joshua Mond, James Perry, Summer Loveland, John Holt, Corina Terrazas, Carlos Ortiz, Damion Hervey, Pat McGennis, Ryan Wagner, Milissa Romero, Christina Wu, Greg Irlbeck, Linda Rickley, Kevin Killingsworth

**Others**

Rocky Joyner, Keith Stronkowsky, Jeff Roberts, Ed Ingalls, Matt Drasser, Ken Wallace, Justin Burden, Arthur Hollingsworth, John McGuire, Jill Svoboda, Rachel Pierson, Ken Sprecher, A. D. Donald, Keith Allen, Rick Salinas, Ron Pinkston, Jim Aulbaugh, Mike Jones, John T. Williams, Grant Edmondson, Dennis Johnson

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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 retired police officers, Max H. Abney and Ronnie C. Hawthorne, active firefighter, Marco A. Davila and retired firefighters, J. B. Allen and James T. Stewart.

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**Regular Board Meeting  
Thursday, April 14, 2016**

**B. CONSENT AGENDA**

- 1. Approval of Minutes**
  - a. Regular meeting of March 10, 2016
  - b. Special meeting of March 24, 2016
- 2. Approval of Refunds of Contributions for the Month of March 2016**
- 3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for April 2016**
- 4. Approval of Survivor Benefits**
- 5. Approval of Service Retirements**
- 6. Approval of Alternate Payee Benefits**
- 7. Approval of Payment of Military Leave Contributions**
- 8. Approval of Payment of DROP Revocation Contributions**

After discussion, Mr. Brown made a motion to approve the items on the Consent Agenda, subject to the final review of the staff. Mr. Mays 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. Performance review of the Executive Director**

The Board went into a closed executive session – personnel at 8:32 a.m.

The meeting was reopened at 10:12 a.m.

After discussion, Mr. Conway made a motion to approve a \$30,000 salary increase for the Executive Director. Mr. Hass seconded the motion, which passed by the following vote:

For: Conway, Hass, Friar, Kleinman, Schutz, Haben, Wilson, Ho, Mays  
Against: Brown, Kingston  
Absent: Griggs

**Regular Board Meeting  
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The meeting was recessed at 10:13 a.m.

The meeting was reconvened at 10:17 a.m.

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**2. Actuarial experience study**

Segal Consulting, DPF's actuary, presented the results of their actuarial experience study for DPF for the five-year period of January 1, 2010 to December 31, 2014 and recommended the Board consider modifying certain assumptions.

After discussion, Mr. Brown made a motion to adopt the changes to the actuarial assumptions as presented by Segal and to modify the actuarial smoothing method by resetting the actuarial value of assets to the January 1, 2016 market value of assets and begin a 5-year smoothing period for future years. Mr. Kingston seconded the motion, which was unanimously approved by the Board.

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The meeting was recessed at 11:29 a.m.

The meeting was reconvened at 11:35 a.m. Mr. Griggs was not present.

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**3. Investment Policy Statement**

At the March 10, 2016 Board meeting, staff updated the Board on the process for and status of drafting a new Investment Policy Statement. Staff and the Governance Committee presented the draft Investment Policy Statement, which has been reviewed by Champion Capital Research and NEPC. The Investment Policy Statement describes, in detail, the roles and responsibilities of the Board, Investment Advisory Committee, Executive Director, staff, consultants, investment managers and the investment custodian. The new Investment Policy Statement is intended to be a comprehensive document, and therefore would replace the current investment related policies, as follows:

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**3. Investment Policy Statement (continued)**

Brokerage Policy & Procedure, Derivatives Investment Guidelines for External Money Managers, Investment Implementation Policy, Investment Policy, Investment Structure Policy, Manager Selection & Monitoring Policy Excluding Real Estate, New Investment Registration Process, Potential Investment Review Process, Real Estate Investment Procedures & Guidelines, Strategic Investment Policy, Supplemental Investment Policy.

After discussion, Mr. Hass made a motion to have staff work with the investment consultant to determine the dollar amount threshold by asset class and sub asset class that requires a Board member to participate in due diligence. Mr. Mays seconded the motion, which failed by the following vote:

For: Hass, Conway, Mays, Brown  
Against: Ho, Haben, Schutz, Friar  
Absent: Griggs, Kleinman, Kingston, Wilson

Mr. Mays made a motion to terminate the investment policies listed above and adopt the Investment Policy Statement, as amended, as a comprehensive replacement for all previous investment policies. Mr. Haben seconded the motion, which was unanimously approved by the Board. Messrs. Griggs, Kleinman, Kingston, and Wilson were absent when the vote was taken.

The Board directed the staff to present a timeline procedure for the Investment Advisory Committee at the May 12, 2016 regular Board meeting.

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The meeting was recessed at 2:13 p.m.

The meeting was reconvened at 2:18 p.m.

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**4. Fixed Income structure study**

Mr. Perry stated that the liquid Fixed Income portfolio's target allocation increased from 15% to 28% when the asset allocation was approved at the March 10, 2016 Board meeting. Keith Stronkowsky, Senior Consultant, of NEPC, Mr. Perry and Ms. Romero presented the structure study which explained the build-out of the liquid portion of the Fixed Income portfolio and discussed each of the sub-asset classes in detail, such as which managers to retain or eliminate, the reasonable number of managers in each sub-asset class and the expected timeline to complete the build-out.

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**4. Fixed Income structure study**

After discussion, Mr. Brown made a motion that in accordance with the Fixed Income structure study, the Board approve terminating the position in Mondrian in order to fund a short duration core bond manager. Mr. Mays seconded the motion, which was unanimously approved by the Board. Messrs. Griggs, Kleinman, Kingston, and Wilson were absent when the vote was taken.

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**5. Income Research & Management**

NEPC and staff conducted a search for a high quality short duration core bond manager to fill this sub-allocation under the Fixed Income allocation, and staff selected Income Research + Management (IR+M) to present their 1-3 Year Strategy to the Board. NEPC concurred with staff's selection.

After IR+M's presentation and discussion, Mr. Brown made a motion to approve an initial investment of \$50,000,000 to the Income Research + Management (IR+M) 1-3 year strategy within DFPF's short duration core fixed income sub-asset allocation. Mr. Haben seconded the motion, which was unanimously approved by the Board. Messrs. Griggs, Kleinman, Kingston, and Wilson were absent when the vote was taken.

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**6. Industry Ventures**

NEPC has recommended a \$10 million allocation to venture/secondaries as part of the Private Markets Review and 2016 Strategic Investment Plan presented at the March 10, 2016 Board meeting. NEPC and staff reviewed several private equity funds involved with venture capital and secondaries and staff selected Industry Ventures to present their Secondary Fund VIII and Partnership Holdings IV offerings. NEPC concurred with staff's selection.

After the Industry Ventures presentation and discussion, Mr. Schutz made a motion to approve a commitment of \$5 million each to Industry Ventures Secondary Fund VIII and Industry Ventures Partnership Holdings IV within the Private Equity asset class, and authorize the Executive Director to negotiate and execute documentation, and perform all necessary acts and exercise all appropriate discretion to facilitate these investments. Mr. Mays seconded the motion, which was unanimously approved by the Board. Messrs. Griggs, Kleinman, Kingston, and Wilson were absent when the vote was taken.

**Regular Board Meeting  
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**7. North Texas Opportunity Fund extension**

Messrs. Perry and Irlbeck reviewed the background of the North Texas Opportunity Fund, LP. The fund commenced in May 2000 and is approaching the expiration of its term on May 13, 2016. The manager requests that DPFPP consent to a one-year extension in order to wind down the remaining assets in the fund and maximize investors' return. This extension of the fund is the seventh extension requested by the manager under the terms of the limited partnership and requires approval of two-thirds of the limited partners. The partnership ceased payment of management fees to the manager on July 1, 2013. DPFPP committed and funded \$10 million to the fund, and has received \$8.8 million in distributions, earning an IRR since inception of 3.56%. Staff and NEPC both recommended granting the extension.

After discussion, Mr. Conway made a motion to approve the extension and authorize the Executive Director to negotiate and execute documentation and perform all necessary acts and exercise all appropriate discretion to facilitate the extension. Mr. Brown seconded the motion, which was unanimously approved by the Board. Messrs. Griggs, Kleinman, Kingston, and Wilson were absent when the vote was taken.

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The meeting was recessed at 3:22 p.m.

The meeting was reconvened at 3:30 p.m.

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**8. Investment reports**

Mr. Perry reviewed the investment performance and rebalancing reports, for the period ending March 31, 2016, with the Board.

No motion was made.

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**9. 2015 audit plan**

Jill Svoboda, Partner, and Rachel Pierson, Manager, of BDO, DPFPP's external independent audit firm, were present and discussed their audit plan for the year ended December 31, 2015.

**Regular Board Meeting  
Thursday, April 14, 2016**

No motion was made.

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**10. Annual 2015 budget review**

Ms. Loveland reviewed actual expenses as compared to the budget for the calendar year 2015.

No motion was made.

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**11. Employee recognition – First Quarter 2016**

Mr. Friar and Ms. Gottschalk presented the performance award for Employee of the Quarter, First Quarter 2016, to Ryan Wagner, Investment Analyst.

No motion was made.



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**Regular Board Meeting  
Thursday, April 14, 2016**

**12. Disability recall process**

The Board went into a closed executive session – medical at 1:40 p.m.

The meeting was reopened at 2:10 p.m.

No motion was made.

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**13. Disability recall**

The Board went into a closed executive session – medical at 1:40 p.m.

The meeting was reopened at 2:10 p.m.

After discussion, Mr. Brown made a motion to approve continuance of this on-duty disability, Combined Pension Plan, Group B disability benefit, with no further recalls. Officer 2016-1-R is subject to the Annual Earnings Test Review as he was hired and suffered a disability after May 1, 1990. Mr. Haben seconded the motion, which passed by the following vote:

For: Brown, Haben, Mays, Ho, Schutz, Friar  
Against: Hass, Conway  
Absent: Griggs, Kleinman, Kingston, Wilson

\* \* \* \* \*

**14. Legal issues**

- a. Police Officer and Firefighter pay lawsuits
- b. Potential claims involving fiduciaries and advisors

No discussion was held. No motion was made.

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**15. Ad hoc committee reports**

Mr. Hass, Chair of the Long-Term Financial Stability Sub-committee, and Mr. Schutz, Chair of the Governance Sub-committee, gave updates on the ad hoc committees. Mr. Mond reported on the Legal Search Sub-committee.

No motion was made.

**Regular Board Meeting  
Thursday, April 14, 2016**

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**16. Business continuity update**

John Holt, IT Manager, provided an update on the business continuity plan to the Board. The update included a discussion of hot site options.

After discussion, Mr. Conway made a motion to approve decommissioning of the hot site after successful testing of cloud based disaster recovery. Mr. Brown seconded the motion, which was unanimously approved by the Board. Messrs. Griggs, Kleinman, Kingston, and Wilson were absent when the vote was taken.

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

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

**a. IFEBP: Investments Institute**

Messrs. Friar, Conway

**b. Society of Pension Professionals**

Messrs. Schutz, Brown, Irlbeck, Ms. Wu

**c. House Pension Public Hearing**

Messrs. Kingston, Schutz, Ms. Gottschalk

**d. TEXPERS Basic Trustee Training Course**

Mr. Conway

**e. TEXPERS Annual Conference**

Messrs. Friar, Haben, Schutz, Mays, Brown, Conway, Ho, Hass, Perry, Mond, Irlbeck, Wagner, Scoggins, Mmes. Gottschalk, Loveland, Wu, Romero

**f. Merit Energy Annual Meeting**

Messrs. Haben, Perry, Irlbeck, Ms. Wu

No motion was made.

**Regular Board Meeting  
Thursday, April 14, 2016**

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**D. BRIEFING ITEMS**

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

The Board received comments during the open forum.

No motion was made.

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**2. Executive Director's report**

- a. Associations' newsletters
  - NCPERS Monitor (March 2016)
  - NCPERS Monitor (April 2016)
  - NCPERS PERSist (Spring 2016)
  - TEXPERS Outlook (April 2016)
- b. Future Education and Business Related Travel
- c. Future Investment Related Travel

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

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**Regular Board Meeting  
Thursday, April 14, 2016**

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Ho and a second by Mr. Brown, the meeting was adjourned at 5:05 p.m.

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Samuel L. Friar  
Chairman

**ATTEST:**

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Kelly Gottschalk  
Secretary

DRAFT



## DISCUSSION SHEET

### ITEM #C1

**Topic:** AEW portfolio review

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

**Attendees:** Ron Pastore, Senior Portfolio Manager  
Mark Morrison, Assistant Portfolio Manager  
Robin Connors, Portfolio Controller

**Discussion:** AEW will update the Board on the status and plans for DFPF's investments in RED Consolidated Holdings ("RCH"), Creative Attractions, and Camel Square. The Board approved engaging AEW to take over management of these investments in February of 2015. AEW presented their strategic review of the portfolio to the Board in August of 2015.



# Dallas Police and Fire Pension System

BOARD PRESENTATION  
MAY 12, 2016

AEW

# **Dallas Police and Fire Pension System Board Presentation**

**May 12, 2016**

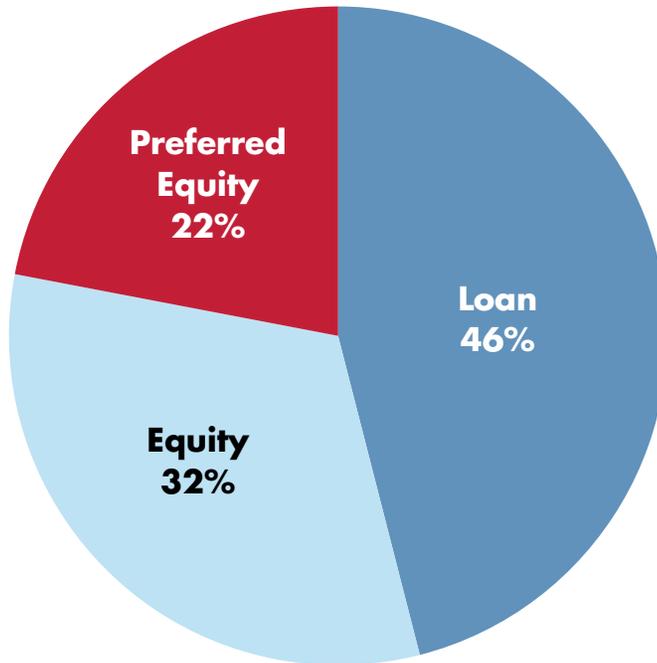
## Overview of AEW's Role

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

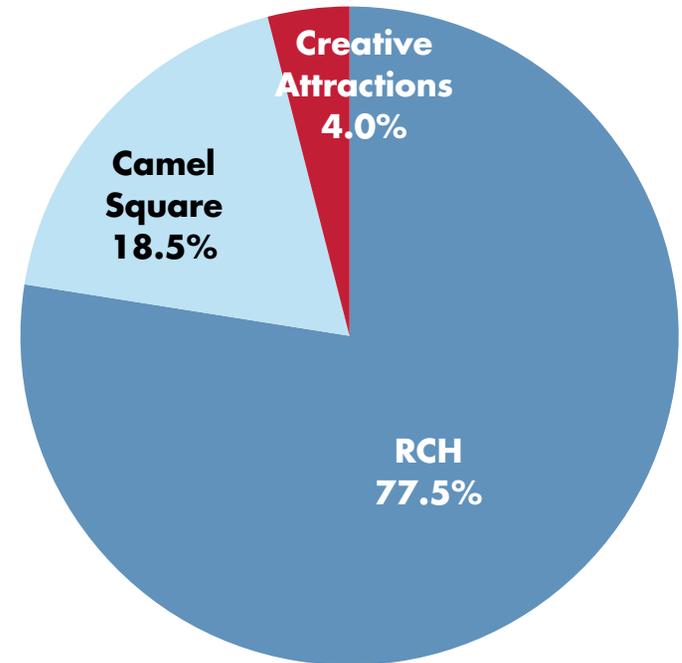
# Portfolio Overview

## Total DPF Net Investment Value

**BY INVESTMENT TYPE**  
as of 12/31/15



**BY HOLDING**  
as of 12/31/15





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

Two Seaport Lane  
Boston, MA 02210  
+1 617 261 9000



# DISCUSSION SHEET

## ITEM #C2

**Topic:** Cornerstone strategic review

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

**Attendees:** Marty Kane, Portfolio Manager  
John Kolb, Portfolio Manager  
Stuart Turner, Vice President – Hotel Acquisitions  
Eric Grossman, Assistant Vice President – Asset Manager  
John Philips, Vice President & Associate General Counsel

**Discussion:** Cornerstone was engaged on July 29, 2015 as the investment manager and fiduciary for DPF's investments in the Aetna Springs and Lake Luciana projects, located in Napa County, CA ("Napa Portfolio"). Prior to Cornerstone's engagement, DPF Investments staff managed the Napa Portfolio internally, overseeing the former development partner who handled on-site day to day management of the projects. Cornerstone will discuss the results of their review of the portfolio and provide a recommended course of action.

**Staff**

**Recommendation:** **Authorize** Cornerstone to engage a broker to market the Napa Portfolio for sale.



**Aetna Springs  
Investment Overview:  
Open Session**

*Presented To:*

**Dallas Police and Fire  
Pension System**

*May 12, 2016*



# Presentation Team



## Cornerstone Real Estate Advisers LLC

**John Kolb**

*Portfolio Manager*

**Marty Kane**

*Portfolio Manager*

**Eric Grossman**

*Assistant Vice President - Asset Manager*

**Stuart Turner**

*Vice President – Hotel Acquisitions*

**John Philips**

*Vice President & Associate General Counsel - Legal Services*



## **SECTION I**

# **Background**

## *Aetna Springs Investment*

# Background

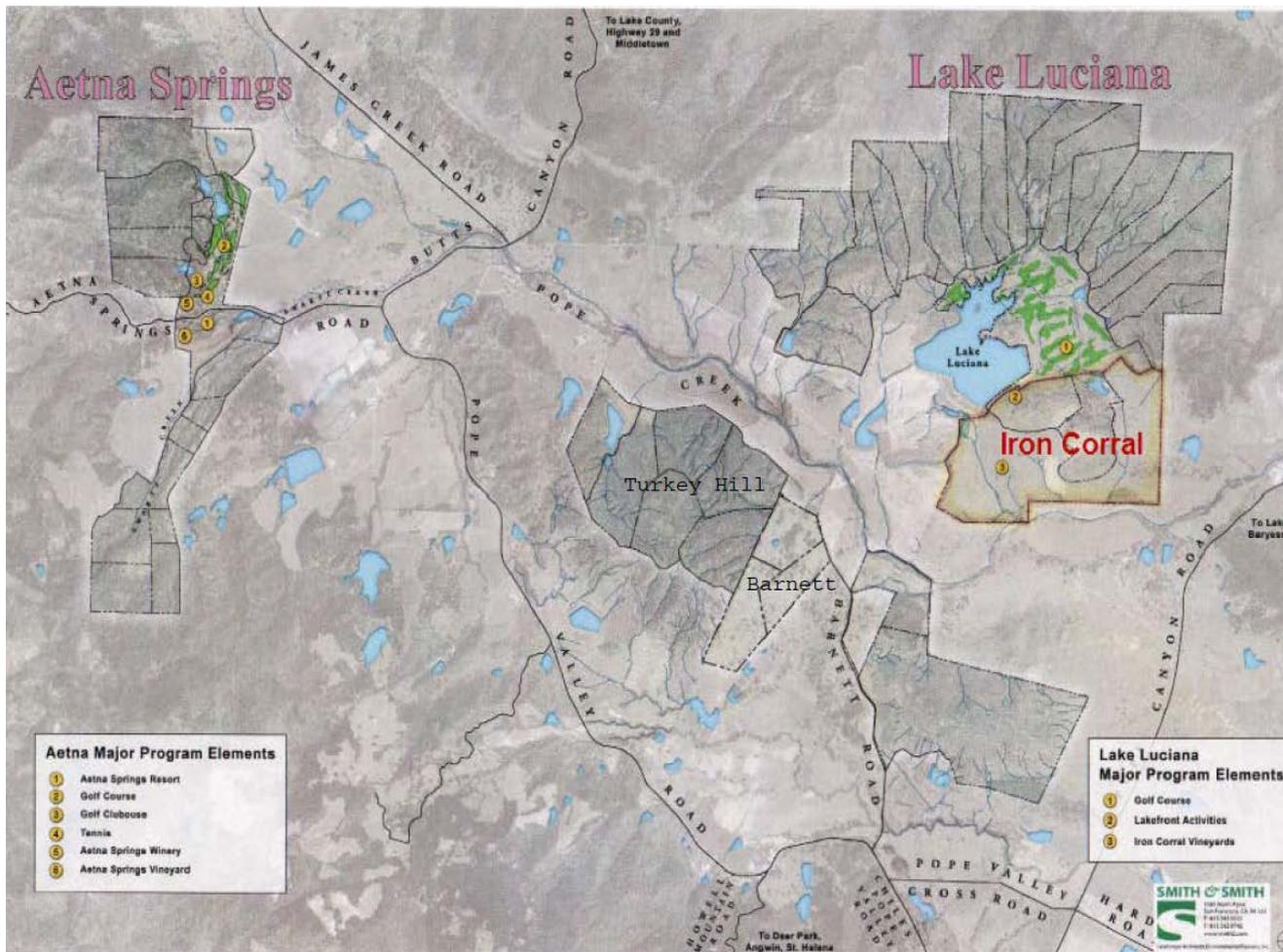
## Overview - Aetna Springs resort site, Aetna Springs lots and Lake Luciana lots

- Two related resort/golf/residential development sites (Aetna Springs and Lake Luciana)
- Located in the Pope Valley area of northeastern Napa County, California, approximately 65 miles north of San Francisco
- Approximately 3,000 acres of land which include the historic federally landmarked former Aetna Springs resort site, 44 luxury estate lots, two commercial vineyards, a restored 9-hole golf course and a newly constructed golf club house
- Entitlement and permits received for Aetna Resort development, construction documents prepared



# Background

## Aetna Springs Resort Site, Aetna Lot Sites & Lake Luciana Lot Sites



# Background

## Investment Timeline

### Key Events

- **2005-2006 Criswell/Radovan Original Development Plan:**
  - Re-permit/Renovate/Reconstruct historic Aetna Springs Resort
  - Renovate accompanying 9-hole Aetna Springs Golf Course
  - Re-configure/Develop luxury homes sites adjacent to Aetna Springs Resort and Lake Luciana
  - Permit/Develop new 18-hole golf course on Lake Luciana
  - Develop/Operate vineyards and winery near both golf courses
- **2006 - 2009** Dallas Police and Fire Pension System (“DPFP”) contributes equity.
- **2007 - 2012** Developers pursue entitlement for 18-hole golf course on Lake Luciana; ultimately not approved.
- **2008** Renovation complete and 9-hole golf course at Aetna Springs reopens.
- **2010 – current** DPFP supports operational short-falls, as well as on-going oversight, permitting and legal expenses, with additional capital investment.
- **January 2012** Redevelopment of the 80-bed Aetna Springs Resort is approved.
- **2012 - 2015** Developers continue to pursue permits for other aspects of the project including lot line adjustments for residential lots.
- **July 2015** DPFP engaged Cornerstone Real Estate Advisers LLC to manage DPFP’s interests in the investment.

# Background

## Cornerstone Team Assigned

### Cornerstone Team:

<u>Account Management</u>	John Kolb Marty Kane
<u>Asset Management</u>	Eric Grossman Rob Giffin
<u>Hotel Team</u>	Stuart Turner Jim O'Shaughnessy
<u>Accounting</u>	Rosa Epperson Nick Cioffi
<u>Legal</u>	John Phillips
<u>Valuation</u>	Tyler Brown
<u>Insurance</u>	William Andrade

### DPFP tasked Cornerstone to:

1. Recommend whether DPFP should continue to pursue the development as originally envisioned, or to consider an exit or another strategy.
2. Assess feasibility of additional vineyard development.
3. Provide asset management oversight of the investment.

**Conclusion:** Market the entire investment for sale.

# Disclosures

The information provided herein is believed to be obtained from sources deemed to be accurate, timely and reliable. However, no assurance is given in that respect. The reader should not rely on this information in making economic or other decisions.

Any opinions expressed herein reflect our judgment at this date and are subject to change without notice, as are statements of market conditions and trends.

Certain of the statements contained herein are statements of future expectations and other forward-looking statements that are based on our current views and assumptions and involve known and unknown risks and uncertainties that could cause actual results, performance or events to differ materially from those expressed or implied in such statements.

Real estate investments are subject to various risks, many of which are beyond the control of Cornerstone or its Clients, such as adverse changes in international, national or local economic and demographic conditions; adverse changes in financial conditions of buyers and sellers of properties; reduction or change in sources of debt or equity financing, including changes in interest rates; increases in real estate taxes and operating expenses, including energy prices; changes in law, regulations and governmental policies, including environmental laws, zoning laws and governmental fiscal policies; changes in the relative popularity of properties; risks due to dependence on cash flow; risks and operating problems arising out of the presence of certain construction materials; natural and unnatural disasters; acts of terrorism; uninsurable losses; condemnations; and others.



## DISCUSSION SHEET

### ITEM #C3

**Topic:** Hancock portfolio review

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

**Attendees:** Rick Bodio, Portfolio Manager  
Oliver Williams, President  
Kate Harkness, Investment Analyst

**Discussion:** Hancock Agricultural Investment Group, who manages a \$162 million portfolio of permanent and row crops for DPFP, will be present to review the portfolio and discuss their hold-sell recommendations on certain portions of the portfolio with the Board. The target allocation for Natural Resources (Timber/Agriculture) was lowered from 10% to 5% in the recent asset allocation update. Based on this change, Hancock conducted a hold-sell analysis, on a property-by-property basis, with the goal of reducing the size of the portfolio by disposing of select properties to get closer to the asset allocation ranges provided in the Investment Policy Statement.

Additionally, staff will brief the Board on plans for an update to Hancock's Investment Management Agreement (IMA) which will revise the investment guidelines based on the expected reduction in the portfolio size and to conform with the rebalancing concepts in the new Investment Policy Statement. Staff will bring the recommended amendment to IMA back to the Board for approval.



## DISCUSSION SHEET

### ITEM #C3

(continued)

#### Staff

**Recommendation:** **Authorize** Hancock to sell portfolio properties, subject to the approval of the Executive Director.



# Hancock Agricultural Investment Group

Texas Municipal Plans Consortium Public Presentation



Hancock  
Agricultural  
Investment  
Group®

*A Manulife Asset Management Company*

May 12, 2015



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# I. Account Overview:

## Investment Policy and Guidelines

- Account established with allocation of \$25 million in July 1998 for permanent crops
  - \$6 million added for FARM Australia in September 2000
  - \$10 million added for Ironbark Australia in May 2005
  - \$20 million added for US row crops in July 2009
    - Final allocation completed October 2014
  
- Investment strategy
  - Higher risk/higher return approach for investment and management of the portfolio, where leverage, developmental strategies, and other opportunistic arrangements will be considered
  
- Account is levered
  - Current mortgage established December 2009
    - \$22.0 million 10-year fixed rate loan at 6.27%
    - Replaced \$14.2 million loan from March 2004



# I. Account Overview:

## Historic Performance

As of December 31, 2015	US Investments	Australian Investments	Combined Portfolio	
Net Asset Value	\$154,884,783	\$7,382,204	\$162,266,987	
Market Value of Farmland	\$158,788,159	\$7,382,205	\$166,170,364	
Book Value of Farmland	\$90,155,522	\$8,088,661	\$98,244,183	
Contributions, Since Inception	\$61,252,579	\$16,000,000	\$77,194,353	
Distributions, Since Inception	\$76,328,921	\$290,845	\$76,619,766	
Multiple on Invested Capital	1.25	0.02	0.99	
Multiple on Invested Capital, including real estate value	3.84	0.48	3.15	

US Portfolio Returns net of fees, as of December 31, 2015	Income	Capital	Total	
1 Year	4.40%	13.01%	18.03%	
3 Year	10.07%	13.85%	25.29%	
5 Year	10.75%	9.91%	21.70%	
10 Year	11.56%	7.52%	19.95%	
Since Inception	10.77%	3.85%	15.02%	

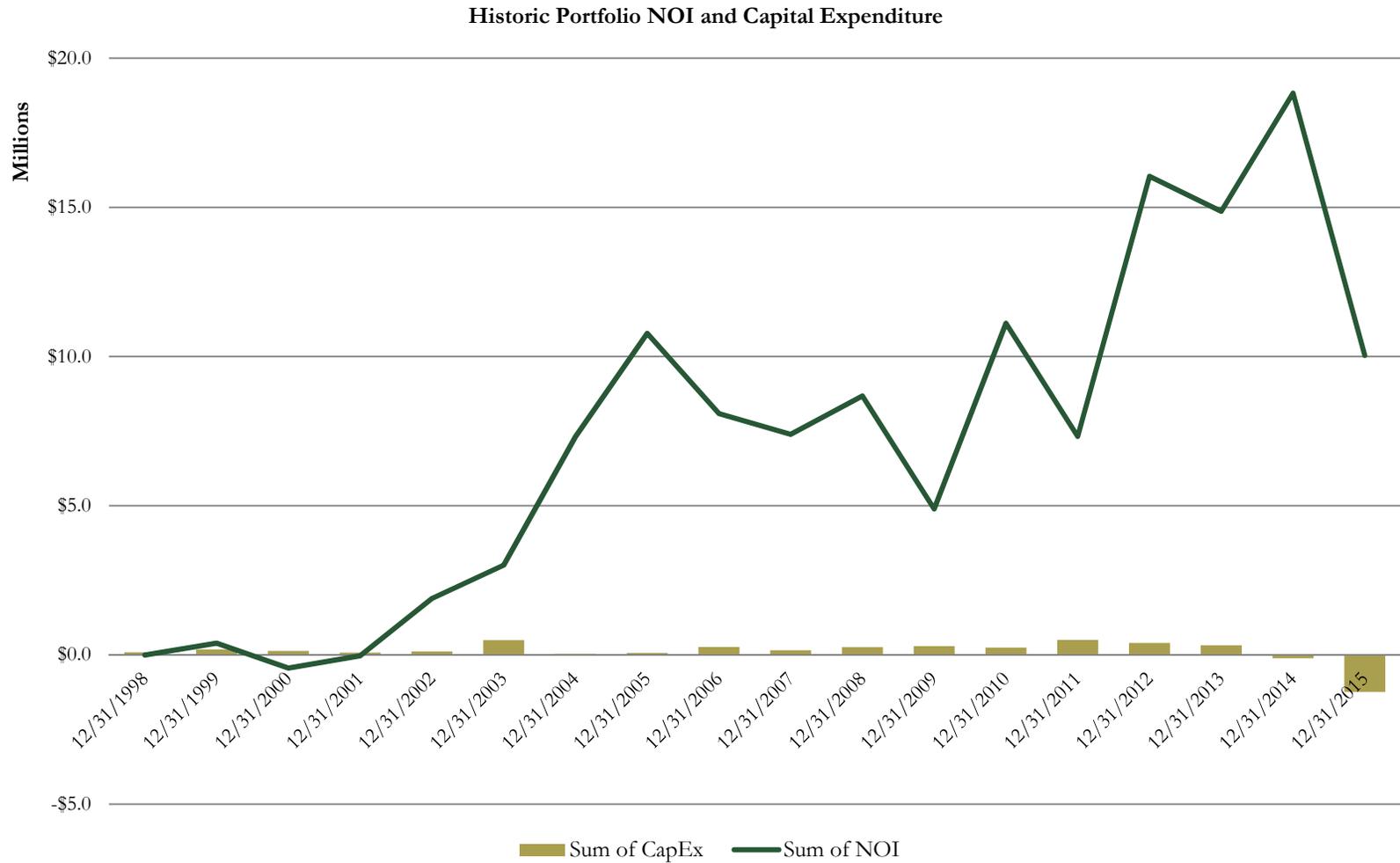
Global Portfolio Returns, net of fees, as of December 31, 2015	Income	Capital	Currency	Total
Since Inception	7.65%	3.24%	0.65%	11.82%

*\*All returns are calculated at the property level before deducting investment management fees consistent with NCREIF methodology. Please refer to fee addendum in the Appendix for a further description of investment performance calculations and fees. Past performance is no guarantee of future results. Potential for profit as well as loss exists. Inception period since 12/31/1998.*



# I. Account Overview:

## Historic Performance



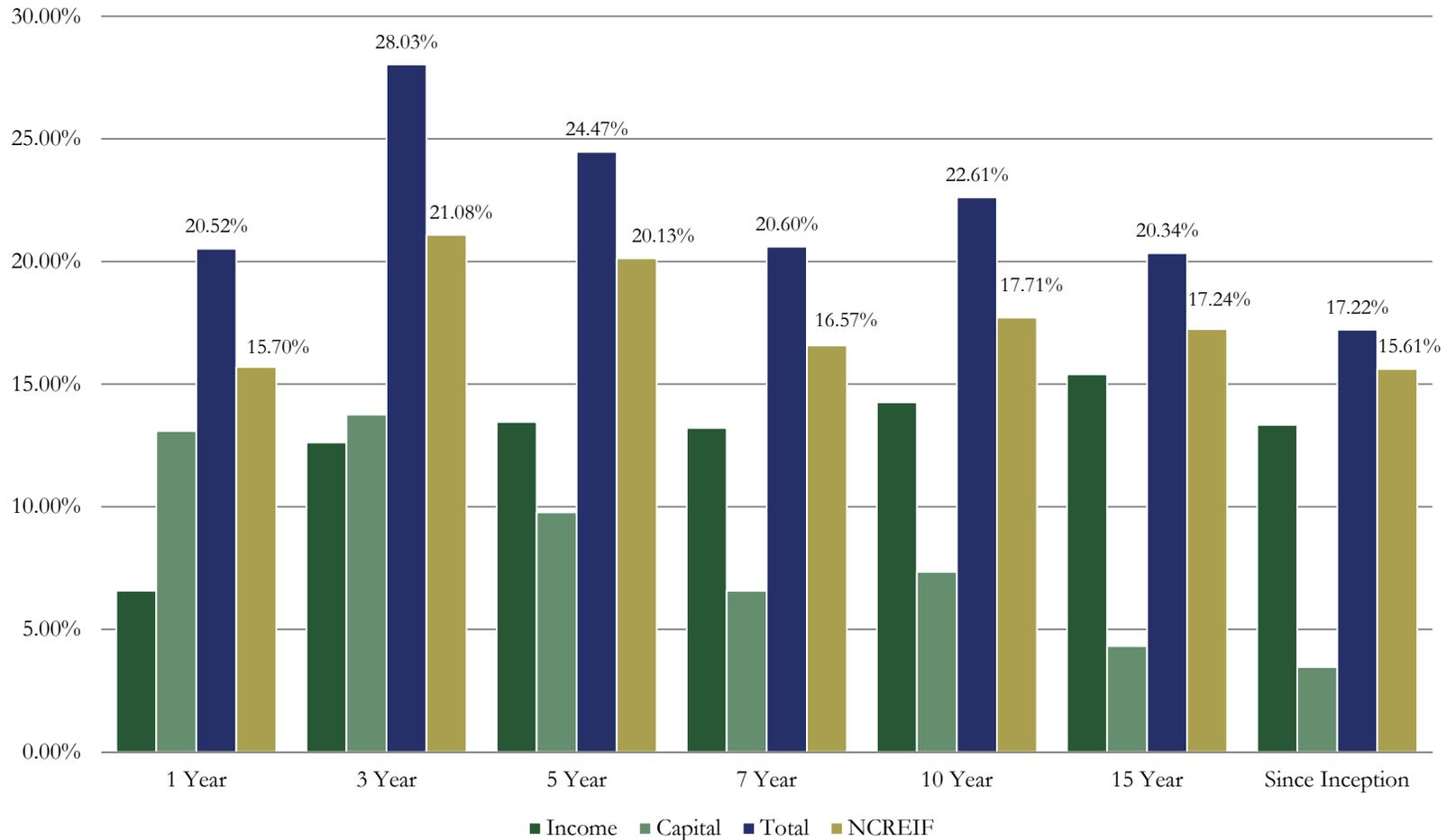
*\*All NOI are calculated at the property level, before deducting investment management fees. Past performance is no guarantee of future results. Potential for profit as well as loss exists.*



# I. Account Overview:

## Historic Performance

**TMPC Property Level Before Fee Returns vs. NCREIF**



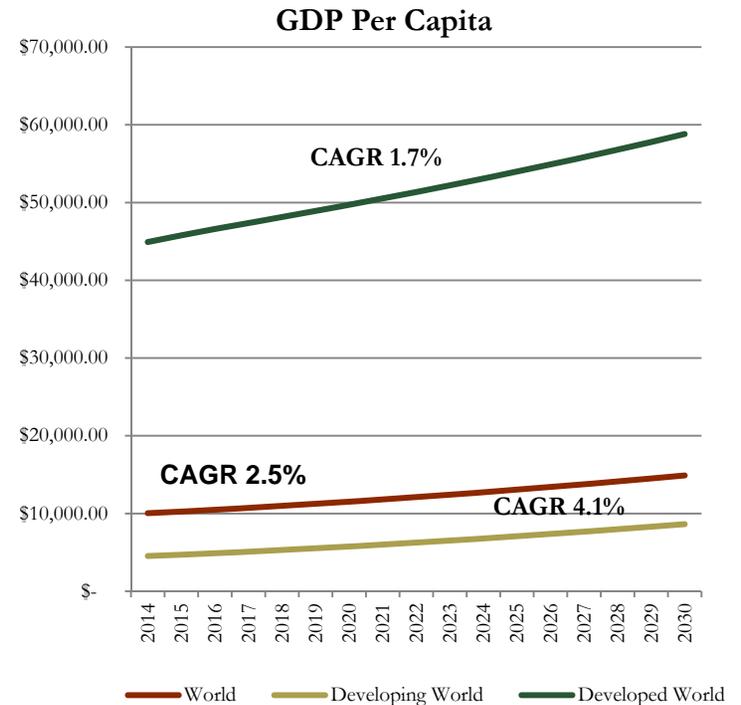
*\*All returns are calculated at the property level before deducting investment management fees consistent with NCREIF methodology. Please refer to fee addendum in the Appendix for a further description of investment performance calculations and fees. Past performance is no guarantee of future results. Potential for profit as well as loss exists. NCREIF and TMPC since inception returns are as of 3/31/1999. NCREIF benchmark is a customized index of 20% Annual Cropland Fixed and Variable Rent and 80% Directly Operated Permanent Crops as of 12/31/2009 and 100% Directly Operated Permanent Crops from 3/31/1999 to 9/30/2009*



# I. Farmland Thesis:

## Demand Drivers in Place

- Growing world population
  - 7.3 billion people in 2014
  - 9.7 billion people in 2050
  - CAGR 0.8% with most of growth occurring in the developing world
- GDP per capita increasing
  - GDP is projected to grow 1.7-fold by 2030
  - Per capita income is projected to grow 1.5-fold by 2030
  - Correlation between GDP per capita and agricultural consumption (1990-2014)
    - 0.95 row crops
    - 0.96 fruits
    - 0.965 tree nuts
- Rapid urban migration
  - 52% urban in 2010
  - 65% urban in 2050 with major growth occurring in India and China
- Biofuel consumption
  - Biofuel consumption is growing as nearly 60 countries have targets/mandates for biofuel consumption, particularly in the US, EU and South America. Many of these targets/mandates have not been met
  - This additional demand has impacted prices significantly and is likely to continue to do so as biofuels consumption continues to increase to meet the mandates/targets.



# I. Farmland Thesis:

## Natural Constraints Limit Supply

- Finite supply of farmland that is decreasing every year due to:
  - Urbanization
  - Water scarcity
  - Poor farming practices in the developing world
  
- Diminishing agricultural productivity
  - Yield growth at slower rate and expected to continue to decline
    - The new technologies are only in development stages and likely to take many years before they reach the scale to address yield growth improvements
  - Infrastructure in rural and port areas is poor on a global scale. This includes:
    - Communication and satellite devices
    - Transportation infrastructure (highway, barge, rail) is old/decrepit or non-existent, limiting market access.
    - Storage infrastructure is lacking in the developing world forcing many growers to sell at harvest when prices are generally at their lowest point
    - Port infrastructure and access is limiting agricultural trade





## Presenters

Oliver Williams, IV, CFA, President, directs the institutional farmland investment program and serves on the Investment Committee of the Hancock Natural Resource Group (HNRG). Previously, Mr. Williams coordinated asset management activities and was part of the senior management team. In this capacity he was directly involved in each of the acquisition and disposition decisions for all HAIG clients. His asset management responsibilities included development and oversight of property management relationships and operational activities, as well as risk management and asset valuation programs. Prior to joining HAIG in 1997, he spent 5 years with the First Pioneer Farm Credit, ACA, where he was responsible for evaluating and appraising farmland and farm businesses for potential loans. He also managed a farm loan portfolio, which included both row and permanent cropland. He is a member of the American Society of Farm Managers and Rural Appraisers, the Association for Investment Management and Research and the Boston Security Analysts Society. He has a B.S. in Agricultural Economics, with a concentration in finance, from Cornell University. Mr. Williams grew up on a poultry and grain farm in western New York.

Richard Bodio, CFA, Portfolio Manager, is responsible for investment analysis, portfolio monitoring/management, and acquisitions. Prior to joining HAIG in 2011, Mr. Bodio worked in Financial Strategy for Forest Systems Management Company. Mr. Bodio holds a B.A. in English and Philosophy from Providence College and a MBA in Finance and Real Estate from the University of Connecticut, where he managed a portion of the University's endowment. Mr. Bodio is a CFA Charterholder and a member of the Boston Security Analysts Society.

Katherine Harkness, Investment Analyst, assists with portfolio management, investment analysis and acquisitions. Prior to joining HAIG, Ms. Harkness worked as a credit analyst for Farm Credit East, ACA, one of the largest farm credit associations in the country. At FCE, she was responsible for credit analysis and underwriting of row and permanent crop farm businesses. She holds a B.S. with dual degrees in Animal Science and Applied Economics and Management from Cornell University and is currently pursuing a Masters of Economics and Masters of Business Administration from Boston University.



# Investment Performance Calculations

## Notes and Disclosures

Hancock Agricultural Investment Group is a division of Hancock Natural Resource Group, Inc., a registered investment advisor and indirect, wholly-owned subsidiary of Manulife Financial Corporation.

### Projected Performance

Projected performance figures are based on a model containing certain assumptions, including but not limited to assumptions as to appreciation of farmland, increases in cash rental rates, increases in production costs. They should not be construed as guarantees of future returns, nor should they be interpreted as implications of future profitability. Potential for profit as well as for loss exists. The impact of future economic, market and weather factors may adversely affect model results. Performance objectives and projections are based on information available to us at this time and are not meant to be interpreted as guarantees or commitments to future results. The economic outlook is developed by HAIG's professionals. Our outlook is based on the information available to us at this time and our analysis of same. While we are confident in our projections, one should not interpret them as a guarantee of performance.

### Before Fees Performance

Performance figures do not reflect the deduction of investment advisory fees. The client's return will be reduced by advisory fees and any other expenses it may incur in the management of its investment advisory account. Investment advisory fees of Hancock Natural Resource Group are described in Part II of Advisors Form ADV.

### Effect of Advisory Fees Over 10-Year Period

If, for example, the gross total annualized return of a \$10 million investment over a 10-year period were 9.5% nominal, deducting an annual investment management fee of 100 basis points on the invested capital over a 10-year period would produce a total value of \$25.8 million after fees, versus \$26.8 million before fees.

### Representative Example of Compounded Effect of Investment Advisory Fee

A representative 1.00% management fee deducted from a portfolio quarterly (0.25% per quarter) would result in the following cumulative compound reduction of the portfolio time-weighted rate of return.

Years	Cumulative Fee	Years	Cumulative Fee
1	1.004%	6	6.176%
2	2.018%	7	7.241%
3	3.042%	8	8.318%
4	4.076%	9	9.405%
5	4.121%	10	10.503%



## DISCUSSION SHEET

### ITEM #C4

**Topic:** Clarion: Four Leaf

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

**Attendees:** Courtney Cahill Phelps, Senior Associate  
Stacey Magee, Director

**Discussion:** Clarion Partners will discuss a potential sale of Four Leaf, a 110-acre acre site located in Glendale, AZ, with the Board. At the June 18, 2015 meeting, the Board engaged Clarion Partners to take over the investment management on Four Leaf. The property was previously internally managed by DPFPP Investments staff. Clarion completed a strategic review of the property in December 2015 and recommended to the Board that DPFPP hold the property while the current improved industrial land supply is absorbed, while also listing the property to test the market. Clarion will discuss the marketing process to date and provide a recommended course of action.

**Staff**

**Recommendation:** **Authorize** Clarion to consummate the sale of the Four Leaf property, subject to the final approval of terms by the Executive Director.



## DISCUSSION SHEET

### ITEM #C5

**Topic:**                   **Hearthstone: Dry Creek**

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

**Attendees:**             Dennis Bush – Vice President, Investment Management (by phone)

**Discussion:**           At the March 10, 2015 meeting, the Board approved a sale of Dry Creek, subject to the final approval of terms by the Executive Director. Hearthstone will be available by phone to provide an update on the proposed sale.



## DISCUSSION SHEET

### ITEM #C6

**Topic:** Recognition of outgoing Trustee

**Discussion:** The Chairman and Executive Director, on behalf of the Board, will present a plaque of appreciation to Lee Kleinman for his dedicated service on the Board of Trustees as a Council Trustee. Mr. Kleinman was appointed to the Board on August 7, 2013. His last day of service will be May 24, 2016.



## DISCUSSION SHEET

### ITEM #C7

**Topic:** Global Asset Allocation structure study

**Attendees:** Rhett Humphreys, Partner

**Discussion:** The Global Asset Allocation (GAA) portfolio's target allocation decreased from 20% to 10% when the asset allocation was approved at the March 10, 2016 Board meeting. NEPC and Staff will present the structure study which will explain the build out of the GAA portfolio discussing each of the sub-asset classes in detail such as which managers to retain/eliminate, reasonable number of managers in each sub-asset class and the expected timeline to complete the build out.

#### Staff

- Recommendation:**
- a. Staff recommends terminating the position in PanAgora and AQR as a result of the over allocation to risk parity and to optimize the structure of the GAA portfolio.
  - b. Staff recommends decoupling the Bridgewater separately managed account in order to separate Bridgewater's All Weather (AW) into the risk parity sub-asset class and Pure Alpha Major Markets (PAMM) into the global macro sub-asset class for better visibility and to stop automatic rebalancing between the two strategies in order to gain more exposure in the PAMM which is a closed fund.

## INVESTMENT RECOMMENDATION

Date: May 12, 2016  
 To: DFPF Board  
 From: DFPF Investments Staff  
 Subject: Global Asset Allocation (GAA) Portfolio Structure Study

### Recommendation

- A. Staff recommends terminating the position in PanAgora and AQR as a result of the over allocation to risk parity and to optimize the structure of the GAA portfolio.
- B. Staff recommends decoupling the Bridgewater separately managed account in order to separate Bridgewater's All Weather (AW) into the risk parity sub-asset class and Pure Alpha Major Markets (PAMM) into the global macro sub-asset class for better visibility and to stop automatic rebalancing between the two strategies in order to gain more exposure in the PAMM which is a closed fund.

### Executive Summary

At the March 10, 2016 Board meeting the Board approved the new DFPF Strategic Asset Allocation which reduced the allocation to Global Asset Allocation (GAA) from a 20% to a 10% target allocation. This structure study will explain the build out of each sub-asset class within the GAA broader asset class such as which managers to retain/eliminate, reasonable number of managers in each sub-asset class and the expected timeline to complete the build out. The GAA Portfolio as of 4/15/16 is shown below.

### DALLAS POLICE & FIRE GROUP TRUST

As of April 15, 2016  
**ASSET ALLOCATION**

	Actual		Target	Target Range		
	\$	Net %		\$	Low	%
<b>Asset Allocation</b>						
AQR	17.23					
Bridgewater All Weather	94.59					
PanAgora	11.88					
Putnam	58.43					
<b>RISK PARITY</b>	182.13	6.67%	136.49	2%	5%	8%
GMO	100.69					
<b>GTAA</b>	100.69	3.69%	81.90	0%	3%	6%
Bridgewater Pure Alpha	33.01					
<b>ABSOLUTE RETURN</b>	33.01	1.21%	54.60	0%	2%	5%
<b>Total Asset Allocation</b>	315.83	11.57%	272.99	5%	10%	15%

\*Market values are as of 3/31/16 and adjusted for rebalancing end of April/beginning of May. A \$10m redemption was taken from PanAgora and \$20m from GMO.



## **Risk Parity**

Risk Parity is an investment strategy which allocates by risk levels versus by capital. The risk parity approach attempts to spread risk evenly across a set number of asset classes such as equities, credit, interest rates, commodities, etc.. These types of strategies typically use leverage to balance risk exposure and expect to earn the same returns with less overall risk and volatility or better returns with the same risk and volatility as traditional strategies.

DPFP's current allocation to risk parity is 6.67% and the target allocation is 5%. AQR, Bridgewater-All Weather, PanAgora and Putnam are DPFP's existing managers in the GAA portfolio. All 4 of these managers are on NEPC's preferred managers Focus Placement List (FPL). From a structural standpoint, an ideal number of managers in the risk parity sub-asset allocation would be 2 with the lower target allocation of 5%. Staff and NEPC have reviewed each manager in depth comparing their strategies, fees, track record, performance, risk allocations, and several other characteristics. Bridgewater's All Weather strategy and AQR's risk parity strategy are very similar, applying a passive strategic approach, systematically rebalancing their portfolios to their desired target risk exposures. PanAgora and Putnam's strategies are similar where they both exploit a dynamic tactical approach allowing for the investment manager to actively trade in order to take advantage of market conditions or shift away from overvalued/volatile asset classes within their set risk target ranges.

NEPC and Staff believe it's optimal to retain one manager that employs a strategic approach and one that utilizes a tactical approach to complement one another. Between AQR and Bridgewater, Bridgewater has stronger performance, lower forecasted risk, less leverage exposure, a longer track record and is also known for the origin of risk parity. While AQR's fees are somewhat lower (38 basis points) compared to Bridgewater's All Weather at 50 basis points, staff does not believe that the price differential overcomes the better risk/reward profile offered by Bridgewater.

In comparing PanAgora relative to Putnam, PanAgora has had better returns as shown in the manager search book as well as considerably higher forecasted risk and leverage exposure than Putnam. The performance on DPFP's investment reports differs from the manager search book because of the time the investment was made. PanAgora's fees (65 basis points) are also slightly less than Putnam's (75 basis points).

In conclusion, DPFP Investment Staff recommends terminating the position in PanAgora and AQR because their strategies utilize more leverage and significantly higher expected risk than their counterparts. Although, Bridgewater and Putnam's fees are slightly higher, Staff is more comfortable retaining them based on these factors and the market outlook.

In addition, Staff recommends reducing the Bridgewater All Weather allocation by approximately \$20 million to reduce the risk parity allocation to the 5% target and maintain the position in Putnam.



### **GTAA (Global Tactical Asset Allocation)**

Global tactical asset allocation (GTAA) is a flexible top-down investment strategy implemented through multiple global asset classes and approaches. GTAA funds are designed to offer risk reduction, uncorrelated returns, and liquidity. Return expectations are similar to a traditional portfolio, however, with limited drawdowns and underperformance in surging equity market environments. GTAA strategies are heavily reliant on a manager's ability to identify asset class mispricing and to tactically shift assets where there are pockets of value.

DPFP's current investment manager, GMO would be placed in the GTAA sub-asset class. However, the target allocation to GTAA is 3% and the current allocation is overweight by 0.69%. DPFP investment staff recommends maintaining the position in GMO with a reduction to the position to get to the target allocation. For May rebalancing, Staff has requested a \$20 million redemption effective May 31<sup>st</sup> with NEPC's approval which moves GTAA closer to target. Another approximate \$20 million redemption is to be expected in the near term for rebalancing.

### **Global Macro/Absolute Return**

Global Macro strategies utilize several investment techniques in a variety of equity, fixed income, currency, and futures markets based on global economic and political views of various countries to generate alpha.

The position in the Bridgewater-Pure Alpha Major Market strategy totals 1.21% of DPFP's portfolio and the target allocation to global macro is 2%. DPFP investment staff recommends decoupling the Bridgewater separately managed account in order to separate Bridgewater's All Weather (AW) into the risk parity sub-asset class and Pure Alpha Major Markets (PAMM) into the global macro sub-asset class for better visibility and to gain more exposure in the PAMM which is a closed fund. These two positions will stand alone and will show as two line items on investment reports going forward instead of being rolled up into one line item as previously reported. Currently, Bridgewater rebalances each month to maintain 25% of our portfolio in PAMM and 75% in AW, by stopping rebalancing DPFP will gradually increase its exposure to PAMM which will bring the allocation closer to target. Staff anticipates possibly adding an additional manager during the 3<sup>rd</sup> quarter 2016 to complete this build out.



NEPC, LLC

YOU DEMAND MORE. So do we.™



## **Dallas Police & Fire Pension System**

### ***Global Asset Allocation Structure Study & Recommendations***

May 12, 2016

Rhett Humphreys, CFA  
Partner

Keith Stronkowsky, CFA  
Senior Consultant

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**BOSTON | ATLANTA | CHARLOTTE | CHICAGO | DETROIT | LAS VEGAS | SAN FRANCISCO**

- **DPFP recently adopted a new long-term strategic Asset Allocation at the March 10<sup>th</sup>, 2016 meeting**
- **The new long-term targets include changes to existing asset classes and their target weights within the Global Asset Allocation part of the portfolio:**

<b>Asset Class</b>	<b>New Target</b>	<b>Current Weight*</b>	<b>~Current \$*</b>	<b>~Target \$*</b>
Risk Parity	5.0%	6.7%	\$182m	\$136m
Global Tactical AA	3.0%	3.7%	\$101m	\$82m
Absolute Return/Global Macro	2.0%	1.2%	\$33m	\$55m
<b>Total Global Asset Allocation</b>	<b>10.0%</b>	<b>11.6%</b>	<b>\$316m</b>	<b>\$273m</b>

\*Estimated values as of 4/15/16 provided by DPFP staff and after proposed rebalancing in the month of April.

Current weight and target \$ based on NAV of DPFP.

Target \$ will depend on market movements and timing of implementation.

Ranges established around new target weights (e.g., range for Risk Parity is 2% - 8%, range for GTAA is 0%-6%, range for Absolute Return/Global Macro is 0%-5%).

- **Description**

- Risk Parity is a financially-engineered, globally 'risk balanced' approach to the liquid capital markets...it's not an asset class – it's a blend of asset classes
- Based on allocating risk instead of capital. Risk Parity attempts to equalize the contribution of volatility (risk) from various asset classes – no single asset class dominates the portfolio.

- **Why include in a portfolio**

- Risk balance
- Increased portfolio efficiency
- Helps decouple portfolio from equity risk

- **Current State**

- Target of 5%, or ~\$136m of Plan assets
- Current weight of 6.7%, or ~\$182m

- **Implementation**

- Retain 2 of 4 existing managers - Bridgewater & Putnam
- For sizing and structural reasons, terminate PanAgora and AQR

- **NEPC's assumed return: 5.77%**

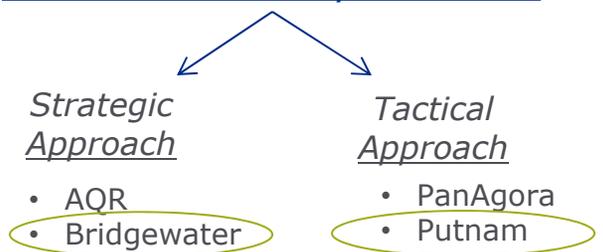
- **NEPC's assumed risk: 11.09%**

\*Based on a blend of NEPC 's 2016 Capital Market manager specific outlook and assumptions for DPFP current roster of managers. Risk and return assumptions are 5-7 year annualized forecasts.

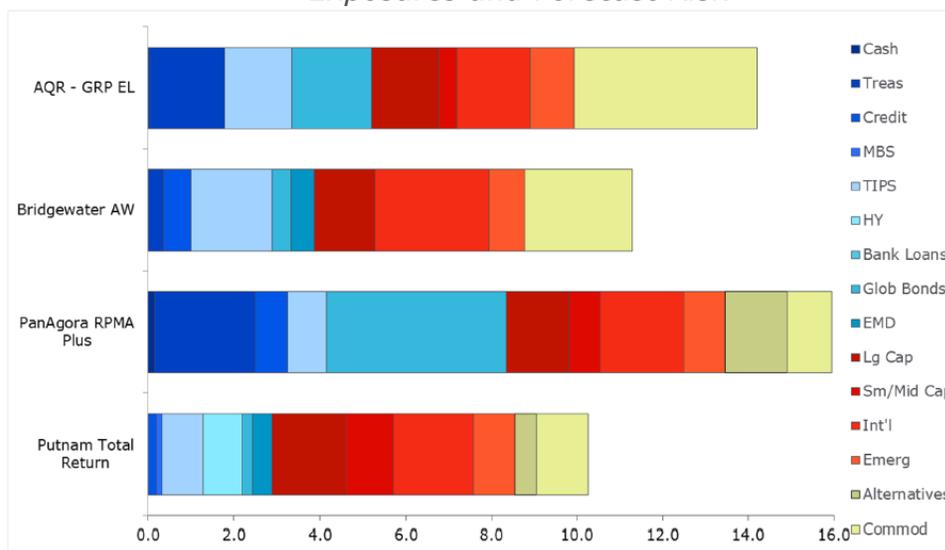


# DPFP: Risk Parity Structural Review

## Current Risk Parity Structure

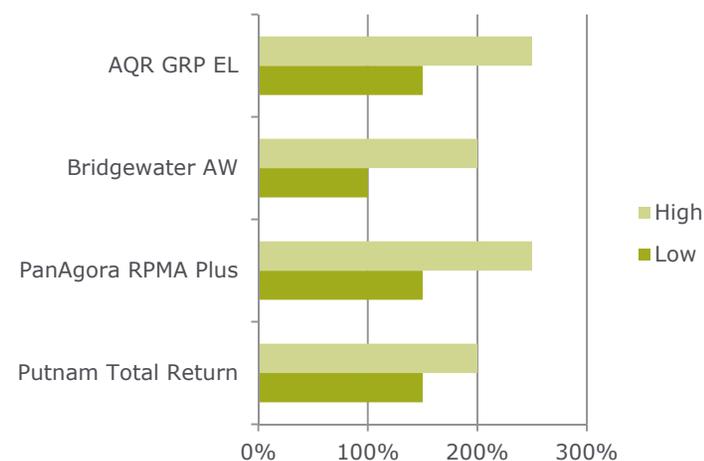


Exposures and Forecast Risk



\*Risk allocations do not include out of the money derivative and option positions used to manage downside risk

Appx' Asset Allocation Ranges w/ Leverage



- Structurally, NEPC advises DPFP to continue investments with two RP managers, one from the Strategic silo and one from the Tactical silo.
- Bridgewater and Putnam have the lowest portfolio forecasted risk.
- Bridgewater and Putnam have the lowest total portfolio market exposure/leverage

\*Based on a blend of NEPC's 2016 Capital Market manager specific outlook and assumptions for DPFP current roster of managers. Risk and return assumptions are 5-7 year annualized forecasts. Putnam Total Return is on NEPC's Research Watch List.

## DPFP: Risk Parity Managers Trailing Returns (periods ending 12/31/15)

	Benchmark	Qtr	YTD	1 Year	3 Year	5 Year	7 Year	10 Year
<b>Risk Parity</b>								
AQR Capital - GRP - EL	1	-3.3%	-9.1%	-9.1%	-1.9%	NA	NA	NA
Bridgewater - All Weather	1	-1.3%	-8.8%	-8.8%	-2.0%	5.0%	7.4%	4.0%
PanAgora - RPMA Plus	1	-0.6%	-6.9%	-6.9%	2.1%	6.3%	8.5%	NA
Putnam - Total Return	1	-1.1%	-5.1%	-5.1%	0.5%	3.4%	7.8%	NA

- **Description**
  - GTAA provides broad asset class exposure in one portfolio (e.g., stocks and bonds, real assets, commodities)
  - Strategies combine top-down asset class selection, portfolio construction & risk management techniques
  - Managers add value (alpha) through asset class rotation and security selection
- **Why include in a portfolio**
  - Better, more timely exploitation of market opportunities
  - Increased tactical ability
  - Diversification
- **Current State**
  - Target of 3%, or ~\$82m of Plan assets
  - Current weight of 3.7%, or ~\$101m
- **Implementation**
  - Currently within range (0%-6%) of target. Maintain exposure to GMO.
- **NEPC's assumed return: 5.59%**
- **NEPC's assumed risk: 9.71%**

\*Based on NEPC's 2016 Capital Market manager specific outlook and assumptions for DPFP current roster of managers. Risk and return assumptions are 5-7 year annualized forecasts.

- **Description**
  - Global macro managers invest in multiple asset classes (e.g., stocks, bonds, commodities, currencies) and securities
  - Investment vehicles and structures are less liquid than traditional vehicles
- **Why include in a portfolio**
  - Can serve to reduce risk and/or increase return, or both
  - Diversification
- **Current State**
  - Target of 2%, or ~\$55m of Plan assets
  - Current weight of 1.2%, or ~\$33m
- **Implementation**
  - Currently within range (0%-5%) of target. Maintain current exposure to the Bridgewater Pure Alpha Fund but disaggregate the Alpha and All Weather components.
  - Potential to add an additional fund.
- **NEPC's assumed return: 6.00%**
- **NEPC's assumed risk: 9.50%**

\*Based on NEPC's 2016 Capital Market outlook and assumptions for Global Macro hedge funds. Risk and return assumptions are 5-7 year annualized forecasts.

- **Implementation of the new Asset Allocation targets will take place over the coming months mainly via rebalancing and termination of existing managers**
- **Rebalancing in April/May will bring GTAA closer to target weight**
- **Rebalancing in April/May and select terminations will bring Risk Parity closer to target weight**
- **NEPC and Staff will bring forth additional action items & recommendations as needed**



## DISCUSSION SHEET

### ITEM #C8

**Topic:** Bank of America loan

**Discussion:** Staff will brief the Board on the status of the Bank of America loan.



# DISCUSSION SHEET

## ITEM #C9

**Topic:** Investment and financial reports

**Discussion:** Review of investment and financial reports.



# DISCUSSION SHEET

## ITEM #C10

**Topic:**

**Board policies**

- a. Committee Policy and Procedure
- b. Executive Director's Performance Evaluation Policy
- c. Investment Policy Statement – Investment Advisory Committee Formation Process

**Discussion:**

- a. Based on recommendations received from Cortex Applied Research, prior discussions with the Board and input from the Governance Committee, staff is proposing revisions to the Committee Policy and Procedure. The key changes include the formation of an Audit Committee and a Professional Services Committee and termination of the Administrative and Audit Advisory Committee (AAAC) and the Actuarial Funding Advisory Committee (AFC).

The purpose of the Audit Committee and Professional Services Committee is to provide a forum for Trustees to obtain candid feedback from service providers and to report back to the full Board with any findings or recommendations for action.

As the Investment Policy Statement (IPS) addresses the roles and responsibilities of the Investment Advisory Committee, the Committee Policy and Procedure simply refers to the IPS for the policies which relate to this committee.



## DISCUSSION SHEET

### ITEM #C10

(continued)

In conjunction with the termination of the AAAC and AFC, the final minutes from each of these committees requires approval as follows (see attachment for minutes):

AAAC – September 24, 2015

AFC – February 19, 2015

- b. A draft of the Executive Director's Performance Evaluation Policy is attached for the Board's consideration. The draft was provided to the Governance Committee for review at the April 26 committee meeting.
- c. Staff will discuss a possible process for selection of members and formation of the Investment Advisory Committee, including the level of compensation for outside investment professionals, and seek feedback from the Board.

#### Staff

#### Recommendation:

**Approve** the Committee Policy and Procedure, as amended.

**Approve** minutes of the final meetings of the Administrative and Audit Advisory Committee and Actuarial Funding Advisory Committee.

**Approve** the termination of the Administrative and Audit Advisory Committee and Actuarial Funding Advisory Committee.

**Provide** appropriate direction, if any, related to the Executive Director's Performance Evaluation Policy.



D A L L A S  
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PENSION SYSTEM



**COMMITTEE  
POLICY AND PROCEDURE**

DRAFT

As Amended Through \_\_\_\_\_, 2016

# **COMMITTEE POLICY AND PROCEDURE**

**Adopted August 10, 1989  
As amended through \_\_\_\_\_, 2016**

## **A. PURPOSE**

The Board of Trustees shall create such permanent or ad hoc committees it deems appropriate to investigate options and clarify issues on matters that must be addressed at subsequent Board meetings.

## **B. PERMANENT COMMITTEE GUIDELINES**

1. Permanent committees that have been created by the Board are as follows:
  - a. Investment Advisory Committee
  - b. Audit Committee
  - c. Professional Services Committee
2. Any Board member may attend a committee meeting and take part in all discussions, except for such committee meetings that are specifically contemplated by this Policy not to be public meetings in accordance with the Open Meetings Law of the State of Texas .
3. The committees shall have the authority solely to gather information and to make recommendations to the Board. The committees shall have no authority to make binding decisions for the Board. The chair of each committee, or the chair's designee, will provide the Board a report of the committee's findings and/or recommendations for the Board's discussion and possible action.
4. Committee meetings involving a quorum of the Board shall be posted as public meetings. The committee may go into executive session as permitted by the laws of the State of Texas.
5. Minutes of all committee meetings involving a quorum of the Board will be maintained by the Secretary of the Board. These minutes will be maintained separate and apart from the minutes of the Board.
6. The Chair of the Board shall have the authority to nominate members to the committees, subject to Board approval. Upon Board approval of the committee members, the Chair of the Board will designate a committee chair.
7. The committee chair will schedule and call committee meetings.

## **C. INVESTMENT ADVISORY COMMITTEE**

The role and responsibilities of the Investment Advisory Committee are addressed in the Investment Policy Statement.

## **D. AUDIT COMMITTEE**

1. The Audit Committee is composed of four members including the Board Chair and one Board member from each of the three constituent Board groups: Dallas Police Department (active or retired), Dallas Fire Department (active or retired), and Dallas City Council.
2. An Audit Committee meeting requires a quorum of at least three members.
3. The Audit Committee shall meet privately with the independent auditor, without DFPF staff present, at minimum on an annual basis. The purpose of such a meeting is to provide a forum for the independent auditor to provide candid comments to the Audit Committee, in addition to any comments the auditor may give to the full Board during the course of providing services. In addition, the Audit Committee is allowed an opportunity to request additional information in a candid setting. All material information received at such a meeting shall be provided by the Audit Committee to the full Board.

The Audit Committee shall:

- a. receive draft copies of independent financial statement audit reports;
- b. review such reports, identify areas that may warrant improvement, if any, and make recommendations as deemed necessary;
- c. review and monitor timely implementation of recommendations and resolution of issues reported by the independent auditor findings;
- d. recommend to the Board any appropriate actions needed as a result of the independent audit.

## **E. PROFESSIONAL SERVICES COMMITTEE**

1. The Professional Services Committee is responsible for meeting privately with the external service providers listed below, without DPFPP staff present, at minimum on an annual basis. Meetings with additional service providers may be held as deemed necessary. The purpose of such a meeting is to provide a forum for the service provider to provide candid comments to the Professional Services Committee, in addition to any comments such service provider may give to the full Board during the course of providing services. In addition, the Professional Services Committee is allowed an opportunity to request additional information in a candid setting. All material information received at such a meeting shall be provided by the Professional Services Committee to the full Board.
  - a. Actuary
  - b. Investment Consultant(s)
  - c. Outside Legal Counsel
2. The Professional Services Committee is composed of four members including the Board Chair and one Board member from each of the three constituent Board groups: Dallas Police Department (active or retired), Dallas Fire Department (active or retired), and Dallas City Council.
3. A Professional Services Committee meeting requires a quorum of at least three members.
4. The Professional Services Committee shall recommend to the Board any appropriate actions needed as a result of the meetings with service providers.

## **F. AD HOC COMMITTEES**

The Chair of the Board shall have the authority to create ad hoc committees to address significant issues, as well as the authority to terminate such committees once it is determined by the Board their purpose has been served. The Chair of the Board shall have the authority to appoint and remove the members of such committees, including chairs for such committees. It shall be at the discretion of the ad hoc committee chair and the Chair of the Board as to whether such committee meetings shall be open to the entire Board. Any such committee meeting which may include a quorum of the Board shall be posted for a public meeting. Any committee created pursuant to this Section shall not have the authority to bind the Board. Such committee shall have the authority solely to gather information and make recommendations and it shall report all findings and/or recommendations to the Board for the Board's discussion and possible action.

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

---

Samuel Friar  
Chairman

Attested:

---

Kelly Gottschalk  
Secretary

DRAFT



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



## COMMITTEE POLICY AND PROCEDURE

As Amended Through ~~August 13, 2015~~ \_\_\_\_\_, 2016

# COMMITTEE POLICY AND PROCEDURE

Adopted August 10, 1989

As amended through ~~August 13, 2015~~, 2016

## A. PURPOSE

The Board of Trustees shall create such permanent or ad hoc committees it deems appropriate to investigate options and clarify issues on matters that must be addressed at subsequent Board meetings.

## B. ~~GENERAL~~PERMANENT COMMITTEE GUIDELINES

1. ~~Committees~~Permanent committees that have been created by the Board are as follows:

a. ~~\_\_\_\_\_~~Investment Advisory Committee

b. ~~\_\_\_\_\_~~~~Administrative and Audit Advisory~~ Committee

c. ~~\_\_\_\_\_~~~~Actuarial Funding Advisory~~Professional Services Committee

2. ~~Each committee shall have six voting members.~~ Any Board member may attend a committee meeting and take part in all discussions:

~~3. A quorum, except for a committee meeting shall~~such committee meetings that are specifically contemplated by this Policy not to be four voting members~~public meetings in accordance with the Open Meetings Law of the State of Texas.~~

~~43.~~ The committees shall have the authority solely to gather information and to make recommendations to the Board. The committees shall have no authority to make binding decisions for the Board. The ~~chairman~~chair of each committee, or the ~~chairman's~~chair's designee, will provide the Board a report of the committee's findings and/or recommendations for the Board's discussion and possible action.

~~54.~~ Committee meetings involving a quorum of the Board shall be posted as public meetings ~~according to the Open Meetings Law of the State of Texas.~~ The committee may go into executive session as permitted by the laws of the State of Texas.

~~65.~~ Minutes of all committee meetings involving a quorum of the Board will be maintained by the Secretary of the Board. These minutes will be maintained separate and apart from the minutes of the Board.

~~6.~~ The Chair of the Board shall have the authority to nominate members to the committees, subject to Board approval. ~~7.~~ Upon Board approval ~~the~~

~~Chairman~~ of the committee members, the Chair of the Board will designate a committee ~~chairman~~ chair.

~~7.~~ ~~8.~~ The committee ~~chairman~~ chair will schedule and call committee meetings.



## C. INVESTMENT ADVISORY COMMITTEE

- ~~1. The role and responsibilities of the Investment Advisory Committee ~~will be responsible for meeting periodically with consultants with whom DPFPP has an ongoing relationship, investment managers and others as the Committee and Board deem necessary, to discuss their respective fields of expertise.~~~~
- ~~2. The Committee ~~will review and/or interview potential and current investment managers and make recommendations to~~ are addressed in the Board.~~
- ~~3. The Committee, with the consultants' assistance, will analyze and recommend to the Board strategic asset allocations. This will include recommending revisions to the Board's Investment Policy: Statement.~~
- ~~4. The Committee will meet and review other areas of DPFPP's financial business, as it deems necessary.~~

## D. ~~ADMINISTRATIVE AND~~ AUDIT ADVISORY COMMITTEE

- ~~1. The Administrative and Audit Advisory Committee will meet periodically to review and provide recommendations to the Executive Director concerning yearly objectives, goals, and performance.~~
- ~~2. The Committee may conduct exit interviews for all pension staff employees who terminate employment either voluntarily or involuntarily.~~
- ~~3. The Committee will review the Annual Budget.~~
- ~~4. The Committee will review the policies and procedures and recommend revisions as needed.~~
  1. The Audit Committee is composed of four members including the Board Chair and one Board member from each of the three constituent Board groups: Dallas Police Department (active or retired), Dallas Fire Department (active or retired), and Dallas City Council.
  2. An Audit Committee meeting requires a quorum of at least three members.
  3. The Audit Committee shall meet privately with the independent auditor, without DPFPP staff present, at minimum on an annual basis. The purpose of such a meeting is to provide a forum for the independent auditor to provide candid comments to the Audit Committee, in addition to any comments the auditor may give to the full Board during the course of providing services. In addition, the Audit Committee is allowed an opportunity to request additional information in

a candid setting. All material information received at such a meeting shall be provided by the Audit Committee to the full Board.

The Audit Committee shall:

- ~~5. The Committee may review and/or interview potential and current independent auditors and make recommendations to the Board regarding the engagement of independent auditors, adoption of audit goals and objectives, and all auditing services and permitted non-audit services to be provided by the independent auditors.~~

**~~D. ADMINISTRATIVE AND AUDIT ADVISORY COMMITTEE (continued)~~**

- ~~6. The Committee may make recommendations to the Board on actions to assure that the independent auditor's independence from DPFP is maintained.~~
- ~~7. The Committee may:
  - a. receive draft copies of ~~appropriate internal and external audits, investigative and advisory independent financial statement audit reports of DPFP;~~
  - b. review such reports, identify areas that may warrant improvement, if any, and make policy recommendations ~~for areas under audit or investigation~~ as deemed necessary;
  - ~~c. review timely resolution of internal and external audit and investigative findings as reported;~~
  - d.c. review and monitor timely implementation of ~~management's corrective actions to internal and external audit and investigative~~ recommendations and resolution of issues reported by the independent auditor findings;
  - ~~e. recommend to the Board any appropriate corrective actions.~~~~
- ~~8. The Committee will meet and review other areas needed as a result of DPFP's administrative business and make recommendations to the board.~~

**~~E. ACTUARIAL FUNDING ADVISORY COMMITTEE~~**

- ~~1. The Actuarial Funding Advisory Committee will meet periodically with the actuary and others as the Committee and Board deem necessary to discuss DPFP's actuarial funding.~~
- ~~2. The Committee will review with DPFP's actuary the liability of DPFP.~~
- ~~3. The Committee, with the actuary's assistance, will analyze actuarial funding issues and recommend action as appropriate to the Board. This may include recommending revisions to the actuarial assumptions and plan amendments necessary to correct funding deficiencies, if any.~~

~~E. ACTUARIAL FUNDING ADVISORY COMMITTEE (continued)~~

- ~~d. The Committee periodically will review and/or interview potential actuaries and make recommendations to the Board regarding the need to engage an independent audit.~~

## E. PROFESSIONAL SERVICES COMMITTEE

1. The Professional Services Committee is responsible for meeting privately with the external service providers listed below, without DPFPP staff present, at minimum on an annual basis. Meetings with additional service providers may be held as deemed necessary. The purpose of such a meeting is to provide a forum for the service provider to provide candid comments to the Professional Services Committee, in addition to any comments such service provider may give to the full Board during the course of providing services. In addition, the Professional Services Committee is allowed an opportunity to request additional information in a candid setting. All material information received at such a meeting shall be provided by the Professional Services Committee to the full Board.
  - a. Actuary
  - b. Investment Consultant(s)
  - c. Outside Legal Counsel
2. The Professional Services Committee is composed of four members including the Board Chair and one Board member from each of the three constituent Board groups: Dallas Police Department (active or retired), Dallas Fire Department (active or retired), and Dallas City Council.
3. A Professional Services Committee meeting requires a quorum of at least three members.
4. ~~The actuarial firm to perform a general review of actuarial assumptions and method and, as appropriate, to replicate the actuarial results performed for DPFPP by DPFPP's actuary.~~
4. Professional Services Committee shall recommend to the Board any appropriate actions needed as a result of the meetings with service providers.

## **F. AD HOC COMMITTEES**

The ~~Chairman~~Chair of the Board shall have the authority to create ~~from time to time~~ ad hoc committees to address significant issues, ~~as well as the authority to terminate such committees once it is determined by the Board their purpose has been served.~~ The ~~Chairman~~Chair of the Board shall have the authority to appoint and remove the members of such committees, including ~~chairpersons~~chairs for such committees. ~~Such committees shall not be required to have six voting members.~~ It shall be at the discretion of the ad hoc committee ~~chairperson~~chair and the ~~Chairman~~Chair of the Board as to whether such committee meetings shall be open to the entire Board ~~and~~. Any such committee meeting which may include a quorum of the Board shall be posted for a public meetingsmeeting. Any committee created pursuant to this Section shall not have the authority to bind the Board. Such committee shall have the authority

solely to gather information and make recommendations and it shall report all findings and/or recommendations to the Board for the Board's discussion and possible action.

APPROVED on August 13, 2015, 2016, by the Board of Trustees of the Dallas Police and Fire Pension System.

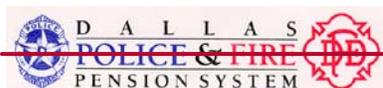
Samuel L. Friar

Samuel Friar  
Chairman

Attested:

Kelly Gottschalk

Kelly Gottschalk  
Secretary



Committee Policy as of [08/13/2015/3/2016](#)



**Dallas Police and Fire Pension System  
Thursday, September 24, 2015  
8:30 a.m.  
4100 Harry Hines Blvd., Suite 100  
Second Floor Board Room  
Dallas, TX**

Administrative and Audit Advisory Committee meeting, Kenneth S. Haben, Chairman, presiding:

**ROLL CALL**

**Committee Members**

Present: Kenneth S. Haben, Gerald D. Brown, Brian Hass, Tho T. Ho, Lee Kleinman

Absent: Erik Wilson

**Other Board Members Present**

Clint Conway, Samuel L. Friar, Joseph P. Schutz

**Staff**

Kelly Gottschalk, Joshua Mond, James Perry, Summer Loveland, John Holt, Pat McGennis, Ryan Wagner, Milissa Schmidt, Christina Wu, Greg Irlbeck, Linda Rickley

**Others**

Ken Sprecher

\* \* \* \* \*

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

\* \* \* \* \*

**A. CONSENT AGENDA**

**Approval of Minutes**

Meeting of March 19, 2015

Mr. Brown made a motion to approve the minutes of the meeting of March 19, 2015, subject to the final approval of the Executive Director. Mr. Kleinman seconded the motion, which was unanimously approved by the Committee.

**Administrative and Audit Advisory Committee**  
**Thursday, September 24, 2015**

\* \* \* \* \*

**B. DISCUSSION OF ITEMS FOR INDIVIDUAL CONSIDERATION**

**1. Presentation and discussion of the 2016 Budget**

Ms. Loveland presented the proposed Budget for the Calendar Year 2016.

After discussion, Mr. Kleinman made a motion to direct staff to address any proposed amendments and present the proposed 2016 Budget to the Board at the October 8, 2015 Board meeting. Mr. Brown seconded the motion, which was unanimously approved by the Committee.

\* \* \* \* \*

**2. Presentation and discussion of the 2016 Supplemental Budget**

Ms. Loveland presented and discussed the initial proposal of the Calendar Year 2016 Supplemental Budget.

After discussion, Mr. Kleinman made a motion to direct staff to address any proposed amendments and present the proposed 2016 Supplement Budget to the Board at the October 8, 2015 Board meeting. Mr. Brown seconded the motion, which was unanimously approved by the Committee.

\* \* \* \* \*

**C. BRIEFING ITEMS**

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

A Member expressed comments to the Committee.

Mr. Brown made a motion to receive and file the member comments. Mr. Hass seconded the motion, which was unanimously approved by the Committee.

\* \* \* \* \*

**Administrative and Audit Advisory Committee**  
**Thursday, September 24, 2015**

Ms. Gottschalk stated that there was no further business to come before the Committee. On a motion made by Mr. Brown and a second by Mr. Kleinman, the meeting was adjourned at 9:42 a.m.

---

Kenneth S. Haben  
Chairman

**ATTEST:**

---

Kelly Gottschalk  
Secretary

DRAFT

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**Dallas Police and Fire Pension System**  
**Thursday, February 19, 2015**  
**8:30 a.m.**  
**Second Floor Board Room**  
**4100 Harry Hines Blvd., Suite 100**  
**Dallas, TX**

Actuarial Funding Committee meeting, Richard A. Salinas, Chairman, presiding:

**ROLL CALL**

**Board Members**

Present: George J. Tomasovic, Daniel W. Wojcik, Richard A. Salinas, Samuel L. Friar, Kenneth S. Haben, Tennell Atkins, Gerald D. Brown, Joseph P. Schutz, John M. Mays

**Staff**

Don Rohan, Brian Blake, Summer Loveland, Joshua Mond, John Holt, Corina Terrazas, Carlos Ortiz, Ryan Wagner, Milissa Schmidt, Christina Wu, Greg Irlbeck, Linda Rickley

**Others**

David Kent, Janie Shaw, Steve Umlor, Michael Flusche, Bill Hornick, Tristan Hallman

\* \* \* \* \*

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

\* \* \* \* \*

**A. CONSENT AGENDA**

**Approval of Minutes**

Meeting of May 20, 2014

After discussion, Mr. Haben made a motion to approve the minutes of May 20, 2014, subject to the final approval of the Administrator. Mr. Friar seconded the motion, which was unanimously approved by the Committee.

\* \* \* \* \*

**Actuarial Funding Committee Meeting  
Thursday, February 19, 2015**

**B. DISCUSSION AND POSSIBLE ACTION REGARDING ITEM FOR  
INDIVIDUAL CONSIDERATION**

**Reports and recommendations of Buck Consultants, Inc. including, but not limited to:**

- a. Estimated actuarial funding results
- b. IRS Code Section 415(b) benefit limitations

David Kent and Janie Shaw of Buck Consultants, Inc., were present to discuss estimated funding results for DFPF as of January 1, 2015, based on preliminary investment return, contribution and benefit payment information. Mr. Kent and Ms. Shaw also reviewed new procedures for determining compliance with Internal Revenue Code Section 415(b) benefit limitations.

After discussion, Mr. Brown made a motion to receive and file the Buck presentation. Mr. Haben seconded the motion, which was unanimously approved by the Committee.

\* \* \* \* \*

The Interim Administrator stated that there was no further business to come before the Board. On a motion by Mr. Tomasovic and a second by Mr. Wojcik, the meeting was adjourned at 9:36 a.m.

\_\_\_\_\_  
Richard A. Salinas  
Chairman

**ATTEST:**

\_\_\_\_\_  
Donald C. Rohan  
Secretary



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



**EXECUTIVE DIRECTOR'S  
PERFORMANCE EVALUATION  
POLICY**

Adopted \_\_\_\_\_

# Executive Director's Performance Evaluation Policy

Adopted \_\_\_\_\_

## A. **PURPOSE**

The evaluation of the Executive Director will be conducted annually during the anniversary month of date of hire by the full Board and semi-annually by the Chairman utilizing feedback from the Board. Prior to the annual evaluation, the Executive Director will provide the Chairman a copy of significant accomplishments achieved during the year.

## B. **Objectives**

1. To measure and evaluate job-related attributes, behaviors and results
2. To ensure the Executive Director and the Board are both clearly aware of the goals, performance measures, and results
3. To ensure that goals are realistic and attainable
4. To monitor the Executive Director's progress and communicate any ongoing issues to assist in reaching goals and aligning expected performance levels with the Board's goals and objectives
5. To ensure the fair and equitable compensation in relation to duties

## C. **General Guidelines**

1. The performance appraisal details should be confidential
2. The Executive Director's strengths should always be acknowledged and good performance reinforced
3. Weaknesses should be discussed and an action plan for development agreed upon
4. If the Executive Director has a conflict or concern with the review, this should be documented on the appraisal form
5. Executive Director and Board's comments should be recorded on the appraisal form

**C. General Guidelines** (continued)

6. The appraisal form should be signed by the Executive Director and the Chairman

**D. Execution**

1. The initial phase of the annual appraisal will begin with only the members of the Board and will be conducted as follows:
  - (a.) The Board's annual review will be conducted during a regular board meeting in closed executive session.
  - (b.) During the executive session, blank copies of the Executive Director Performance Appraisal and a written copy of his/her significant accomplishments will be distributed to each trustee to be utilized as working copies.
  - (c.) The Chairman will lead the discussion by walking the Board through the various sections of the Performance Appraisal Form.
  - (d.) The Chairman's copy of the Performance Appraisal Form will be utilized as the official appraisal form and will be annotated based on the discussions and general consensus of the entire Board.
  - (e.) As items are discussed, if there are areas of disagreement between trustees, the majority opinion will determine the evaluation for that category. If there should be a tie vote on an evaluation item, the least favorable rating will be utilized.
  - (f.) The Board will discuss performance objectives to be completed by the Executive Director during the upcoming appraisal period.
  - (g.) Once the discussion of the Executive Director's performance accomplishments are concluded, the Board will discuss whether an increase in salary is in order and, if so, the amount of the increase.
2. After the Board has thoroughly discussed the performance appraisal, the Executive Director will be brought into the Boardroom where the Board will provide verbal feedback.
  - (a.) The Chairman will provide the Official Appraisal Form to the Executive Director for his/her review.
  - (b.) The Chairman will lead the discussion; however, all board members are encouraged to provide feedback.

**D. Execution (continued)**

- (c.) The Chairman will lead the discussion on areas that were identified as areas of significant concern by at least three board members. Other board members will also provide comments as necessary.
- (d.) Objectives for the next appraisal period will be discussed and agreed upon by the Executive Director.
- (e.) After performance issues are thoroughly discussed, the Executive Director will be presented with his/her proposed salary increase or reasons why there would not be an increase.
- (f.) At the conclusion of the appraisal, all working copies will be accumulated by the Chairman.
- (g.) The signed Official Appraisal Form will be maintained by the Executive Director as well as a copy that will be maintained by the Chairman.

APPROVED on \_\_\_\_\_ by the Board of Trustees of the Dallas Police and Fire Pension System.

\_\_\_\_\_  
Samuel L. Friar  
Chairman

Attested:

\_\_\_\_\_  
Kelly Gottschalk  
Executive Director



# DISCUSSION SHEET

## ITEM #C11

**Topic:** Ad hoc committee reports

**Discussion:** A brief update on the ad hoc committees will be provided.



# DISCUSSION SHEET

## ITEM #C12

**Topic:** Board Members' reports on meetings, seminars and/or conferences attended

- a. **Conference:** State Pension Committee Meeting JS  
**Dates:** April 13, 2016  
**Location:** Austin, TX
  
- b. **Conference:** Society of Pension Professionals CW  
**Dates:** April 19, 2016  
**Location:** Dallas, TX
  
- c. **Conference:** TEXPERS Secure Retirement for All SF, CC, BH  
**Dates:** April 21-22, 2016  
**Location:** Washington, DC
  
- d. **Conference:** Commerce Street Capital: Bank Conference JB, KH  
**Dates:** April 28, 2016  
**Location:** Irving, TX
  
- e. **Conference:** Wharton: Portfolio, Concepts, and Management BH, CC  
**Dates:** May 2-5, 2016  
**Location:** Pennsylvania, PA
  
- f. **Conference:** PRB Meeting SF, JS, KG, JMond  
**Dates:** May 5, 2016  
**Location:** Austin, TX



## DISCUSSION SHEET

### ITEM #C13

**Topic: Determination of Handicap Status of Dependent Child**

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

**Discussion:** Retired Member died on January 13, 2014, leaving a surviving child, who is over the age of 18. The mother of the individual has applied for survivor benefits under the provisions of Plan Section 6.06(p). The mother adopted the child in 1980 and is the trustee of the Irrevocable D 4 A Special Needs Trust.

Definition 42 (B) of the Plan defines the term “Qualified Survivor” eligible to receive survivor pension benefits after the death of a Member to include:

**“(B) all surviving unmarried children who are either under age 19 or handicapped, as determined by the Board under Section 6.06 (p)...”**

Section 6.06 (p) provides for establishing eligibility of a handicapped child for participation in the division of death benefits upon the Board’s finding that the child is “so physically or mentally handicapped either congenitally or through injury suffered or disease contracted, as to be unable to be self-supporting or to secure and hold gainful employment or pursue an occupation.”



## DISCUSSION SHEET

### ITEM #C13

(continued)

Attached is medical documentation regarding the condition supporting the permanent disability.

Additional conditions of Section 6.06(p) as follows:

1. The condition was diagnosed prior to age 23;
2. Child is not married;
3. The handicap was not the result of an occupational injury;
4. The handicap was not the result of an intentional self-inflicted injury or a chronic illness resulting from an addiction through a protracted course of non-coerced indulgence to alcohol, narcotics or other substance abuse; and
5. The handicap did not occur as a result of participation in a commission of a felony.

#### **Staff**

**Recommendation:** Grant survivor benefits under the provisions of Plan Section 6.06(p).



# DISCUSSION SHEET

## ITEM #C14

**Topic:** Legal issues

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

- a. Police Officer and Firefighter pay lawsuits
- b. Potential claims involving fiduciaries and advisors
- c. DROP amendment

**Discussion:** Counsel will brief the Board on these issues.



# DISCUSSION SHEET

## ITEM #C15

**Topic:** Public relations consultant

**Discussion:** The Chairman would like to discuss public relations services.



# DISCUSSION SHEET

## ITEM #D1

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

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



# DISCUSSION SHEET

## ITEM #D1

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

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



# DISCUSSION SHEET

## ITEM #D2

**Topic:**

**Executive Director's report**

- b. Future Education and Business Related Travel
- b. Future Investment Related Travel
- c. Associations' newsletters
  - NCPERS Monitor (May 2016)
  - TEXPERS Outlook (May 2016)

**Discussion:**

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

**Future Education and Business Related Travel  
Regular Board Meeting – May 12, 2016**

- 1. Conference: NCPERS Accredited Fiduciary (NAF) Program**  
**Dates:** May 14-15, 2016  
**Location:** San Diego, CA  
**Est. Cost:** \$900
- 2. Conference: NCPERS Annual Conference**  
**Dates:** May 15-19, 2016  
**Location:** San Diego, CA  
**Est. Cost:** \$2,500
- 3. Conference: TEXPERS Basic Trustee Training Class (PRB rules for MET)**  
**Dates:** May 18, 2016  
**Location:** Houston, TX  
**Est. Cost:** \$300
- 4. Conference: Pharos Annual Investor Conference**  
**Dates:** June 7-8, 2016  
**Location:** Irving, TX  
**Est. Cost:** None

**Regular Board Meeting June 9, 2016**

- 5. Conference: Society of Pension Professionals**  
**Dates:** June 21, 2016  
**Location:** Dallas, TX  
**Est. Cost:** \$250.00 Per Person Annually

**Regular Board Meeting July 14, 2016**

- 6. Conference: Opal: Public Funds Summit East**  
**Dates:** July 18-20, 2016  
**Location:** Newport, RI  
**Est. Cost:** \$1,850

- 7. Conference: Society of Pension Professionals**  
**Dates:** July 19, 2016  
**Location:** Dallas, TX  
**Est. Cost:** \$250.00 Per Person Annually

- 8. Conference: Wharton: International and Emerging Market Investing**  
**Dates:** July 25-27, 2016  
**Location:** San Francisco, CA  
**Est. Cost:** \$6,000

**Regular Board Meeting August 11, 2016**

- 9. Conference: TEXPERS Basic Trustee Training Class (PRB rules for MET)**  
**Dates:** August 14, 2016  
**Location:** San Antonio, TX  
**Est. Cost:** \$100

**10. Conference: TEXPERS Summer Educational Forum**  
**Dates:** August 14-16, 2016  
**Location:** San Antonio, TX  
**Est. Cost:** TBD

**11. Conference: NCPERS Public Pensions Funding Forum**  
**Dates:** August 21-23, 2016  
**Location:** New Haven, CT  
**Est. Cost:** TBD

**Regular Board Meeting September 8, 2016**

**12. Conference: Society of Pension Professionals**  
**Dates:** September 20, 2016  
**Location:** Dallas, TX  
**Est. Cost:** \$250.00 Per Person Annually

**13. Conference: TLFFRA Pension Conference**  
**Dates:** October 2-4, 2016  
**Location:** McAllen, TX  
**Est. Cost:** TBD

**Regular Board Meeting October 13, 2016**

**Board and Staff Workshop October 17-19, 2016**

**14. Conference: NCPERS Public Safety Conference**

**Dates:** October 23-26, 2016

**Location:** Las Vegas, NV

**Est. Cost:** TBD

**15. Conference: Global ARC Annual Conference**

**Dates:** October 24-25, 2016

**Location:** Boston, MA

**Est. Cost:** \$1,775

**16. Conference: TEXPERS Basic Trustee Training Class (PRB rules for MET)**

**Dates:** October 31, 2016

**Location:** Irving, TX

**Est. Cost:** \$100

**Regular Board Meeting November 10, 2016**

**17. Conference: IFEBP: Annual Benefits Conference**

**Dates:** November 13-16, 2016

**Location:** Orlando, FL

**Est. Cost:** \$3,200

**Regular Board Meeting December 8, 2016**

**18. Conference: Society of Pension Professionals**

**Dates:** December 20, 2016

**Location:** Dallas, TX

**Est. Cost:** \$250.00 Per Person Annually

**19. Conference:** **PRB: MET Online Course: Benefits Administration**  
**Dates:** Anytime on line  
**Location:** PRB.org

**Future Investment Related Travel  
Regular Board Meeting – May 12, 2016**

**NONE**



## Supreme Court Victory in Dues Case Underscores High Stakes for Unions

The US Supreme Court on March 29 handed unions a victory in a closely watched case over public employees who benefit from union-negotiated contracts without paying dues.

In a tie vote of 4–4, the high court let stand California’s “fair-share service fee” for public employees who are covered by collective bargaining contracts but decline to join the union. The case, *Friedrichs v. California Teachers Association*, was brought by 10 teachers who sought to hobble the union by arguing that they could not be required to pay the fee.

The vote underscored the high stakes for public unions and downstream impact on public pensions as the Senate spars with President Obama over whether to even consider his nomination to fill the Supreme Court vacancy created by the February 13 death of Justice Antonin Scalia. Justice Scalia had been expected to vote in favor of the nonunion teachers.

More than 20 states and the District of Columbia have laws in place permitting unions to require public sector employees to pay fees to the unions that represent them, whether they join the union or not. The principle at stake is that union representation requires time and

money, regardless of whether employees join the union. Even employees who opt out of the union are represented by it and benefit from collective bargaining.

The US Court of Appeals for the Ninth Circuit had previously affirmed the existing system of fair-share service fees, citing as precedent a 1977 Supreme Court decision, *Abood v. Detroit Board of Education*. In the *Abood* case, the Supreme Court distinguished between forcing nonmembers to pay for a union’s political activities – which it held to be a violation of their First Amendment rights – and requiring them to help pay for collective bargaining efforts. The latter, the Supreme Court said in the 1977 decision, is constitutional because it prevents freeloading and ensures “labor peace.”

Two months after the Ninth Circuit’s decision was rendered in November 2014, the group of 10 teachers, with backing from the antiunion Center for Individual Rights, appealed the decision to the Supreme Court.

The matter could be revived when the Supreme Court begins its new session in the fall of 2016. On April 8 the 10 teachers and the Christian Educators Association International filed a petition for rehearing on grounds that the case should be

considered by a full complement of nine justices. Rehearings are exceptionally rare, however, and it is possible that the Supreme Court will wait until similar issues are presented in a future case to revisit questions about fair-share service fees.

### PEPTA and Legislation to Assist Puerto Rico

The Public Employee Pension Transparency Act (PEPTA) was first introduced on December 2, 2010, during the waning days of the 111th Congress. Since then, and especially beginning last December with its unwelcome insertion into the debate on assistance to Puerto Rico, its history has been an exercise in following the bouncing PEPTA ball. It would be humorous if it wasn’t so serious.

At its core, PEPTA is a mandatory, first-in-history requirement that sponsors of state and local governmental pension plans report to the federal Treasury Department regarding their plans’ funding status. With one notable exception, which is discussed below, all versions of

continued on page 2

PEPTA continued from page 1

PEPTA also include a hammer: if the plan sponsor fails to meet the burdensome, costly, and complicated reporting requirements, then that entity loses its ability to issue bonds that are exempt from federal tax.

Why is reporting such a bad idea? Well, beyond the argument that, on its face, PEPTA is an invasion of the rights of states and municipalities to manage their own affairs, PEPTA would require the production and public posting of funding status calculations that have nothing to do with reality.

PEPTA contains a requirement that the funding status of a plan, if it is not calculated using fair market value or

the specific interest rates prescribed in the legislation, be recalculated using those interest rates (U.S. Treasury bond yield curve). The result of such a recalculation will be that even well-funded pension plans will appear to be poorly funded. This recalculation does not reflect the actual rates of return of the plans or their diverse investments. It will serve only to create negative headlines that will be used by opponents of defined benefit plans.

Today the bouncing ball takes us to the Commonwealth of Puerto Rico, a US territory that is in dire financial straits and has come to the US Congress for help in restructuring its debt. The situation in Puerto Rico has now become the justification for some to

attempt to impose PEPTA-like reporting requirements on all state and local governmental plans in the 50 states. An orchestrated, well-funded political campaign is making the strained and nonfactual argument that as goe Puerto Rico's public pensions, so go the public pensions in the 50 states.

This link was initially made in legislation introduced in December 2015. At that time Senate Finance Committee chairman Orrin Hatch (R-UT) introduced S. 2381, his version of legislation to assist Puerto Rico. The bill contains PEPTA reporting requirements for all 50 states, but not the hammer discussed above. NCPERS, the public pension

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## Don't Miss NCPERS' Social Media

 **The Voice for Public Pensions**

PEPTA continued from page 2

community at large, and many individual state and local plans quickly mobilized in opposition to the inclusion of PEPTA in any legislation to provide assistance to Puerto Rico or in any other legislation. Our effort continues every day.

At the moment, the House is moving more quickly than the Senate on Puerto Rico legislation. In fact, some in Congress have recently suggested that the Senate will quickly pass, without amendment, any Puerto Rico legislation that the House is able to pass. This remains to be seen, but the House Natural Resources Committee is gearing up for a markup before the end of April, and Speaker Paul Ryan (R-WI) is in the midst of negotiating the details of the legislation with Minority Leader Nancy Pelosi (D-CA).

The latest bill, H.R. 4900, does not contain PEPTA for state and local plans but does require an analysis of public pensions in Puerto Rico. The provision is as follows:

Sec. 211. Analysis of Pensions.

(a) DETERMINATION – If the Oversight Board determines, in its sole discretion, that a pension system of the territorial government is materially underfunded, the Oversight Board shall conduct an analysis prepared by an independent actuary of such pension system to assist the Oversight Board in evaluating the fiscal and economic impact of the pension cash flows.

(b) PROVISIONS OF ANALYSIS –

- 1) An analysis conducted under subsection (a) shall include – an actuarial study of the pension liabilities and funding strategy that includes a forward looking projection of payments of at least 30 years of benefit payments and funding strategy to cover such payments;
- 2) sources of funding to cover such payments;
- 3) a review of the existing benefits and their sustainability; and
- 4) a review of the system’s legal structure and operational arrangements, and any other studies of the pension system the Oversight Board shall deem necessary.

(a) SUPPLEMENTARY INFORMATION – In any case, the analysis conducted under subsection (a) shall include information regarding the fair market value and liabilities using an appropriate discount rate as determined by the Oversight Board.

This provision was immediately attacked by the Heritage Foundation, an ultraconservative think tank, as weak, and the foundation urged that the provision be strengthened and extended to state and local governmental pension plans. Earlier drafts of this provision, indeed, were stronger. That draft language would have required Puerto Rico to file actuarial statements each plan year containing information regarding fair market value of the

plan’s assets and liabilities using U.S. Treasury bond rates. This is essentially the PEPTA approach. The earlier House draft, however, also would not have covered state and local governmental plans.

The House Natural Resources Committee is expected to mark up H.R. 4900 within the next few weeks. The Senate will take action soon thereafter, unless the entire legislative effort on Puerto Rico falls apart – as have so many things will in this politically driven election year. So the PEPTA ball keeps bouncing.

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

## Canadian Legislative Update

In both Canada and the United States, concerns about how workers can secure adequate retirement income continue to run high. On either side of the border, creative solutions are being proposed – with NCPERS’ Secure Choice Pension being one prominent example.

In keeping with their own distinct political culture, Canadians are looking at different solutions to what is essentially the same problem. For example, on April 14, the Province of Ontario’s current Liberal government

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announced the formal introduction of a piece of legislation entitled the Ontario Retirement Pension Plan Act. If passed, this legislation would pave the way for the formal setup of the long-contemplated Ontario Retirement Pension Plan (ORPP).

In creating this new pension plan, the provincial government's stated goal is "to strengthen retirement security for the more than 4 million Ontario workers – including 75 per cent of younger workers – who do not have access to an adequate workplace pension plan." These individuals will become members of the ORPP and make contributions to it, as will their employers.

If passed, the ORPP would begin enrolling members in January 2017 and then formally begin collecting contributions starting on January 1, 2018.

How will the ORPP affect existing pension plans? Take Ontario's public-sector defined benefit plans as an example: workers who already participate in one of those plans will **not** be required to participate in the ORPP. In the government's view, these plans are comparable to the ORPP in terms of the benefits they provide, and therefore members of those plans will be exempted from paying ORPP contributions.

Regarding **employee participation** in the new pension plan, the government's objective is for "every eligible worker aged 18 to 70 in Ontario" to "be part of the ORPP or a



comparable workplace plan." Members "would be required to stop contributing when they reach 70 years of age." This would in theory be in place by 2020; the current intention is that it would be on the **employer side** of the ledger, employers would be required to pay contributions on behalf of each of the eligible workers employed in Ontario and also to collect and remit contributions from those workers.

Per the government's April 14 statement, "employees and employers would each contribute 1.9 per cent of the employee's annual earnings up to \$90,000" [note: 2017 Canadian dollars]. Furthermore, "all contributions would be held in trust and invested for the benefit of the members of the plan and would not form part of general government revenues."

Regarding **benefits**, the ORPP will provide two benefits: a retirement benefit paid for life and a survivor benefit payable to a surviving spouse, a beneficiary, or an estate. "The ORPP

is designed to provide plan members a 15 per cent income replacement rate after 40 years of contributing to the plan. A member would be eligible to begin collecting a benefit at 65, with actuarially adjusted benefits as early as 60 or as late as 70. The ORPP would begin paying benefits in 2022," the government has said.

With a solid majority in the Ontario legislature, the Liberal government should have few difficulties in making the ORPP Act the law of the land. An important future milestone in the ORPP's development will likely be a large-scale, provincewide educational campaign helping employers and prospective members alike learn about how they will participate in the new pension plan.

The ORPP, as an organization, is not set up in the same way as NCPERS' Secure Choice Pension – but as far as objectives go, both initiatives aim to bring back pensions to the private sector and improve overall retirement security. ■

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## Oklahoma Senate Shelves Bill Weakening Teacher Pensions

A bill that would have allowed school districts to opt out of the Oklahoma Teachers Retirement System has been shelved, thanks in part to a strong opposition by parents, teachers, and coalition of public pension supporters in the state as well as the National Public Pension Coalition, of which NCPERS is a funder and board member.

Oklahoma House speaker Jeff Hickman announced on April 6 that Senate Bill 1187 would “lay over” until the next session, meaning that it is dead for the 2016 legislative session. The bill had already been approved in the Oklahoma Senate.

This toxic bill, ironically titled the School District Empowerment Act, would have effectively turned public schools into charter schools, damaging an already fragile education system. It would have exempted schools from a host of laws, including those requiring minimum teacher pay, participation in the retirement system, health insurance for teachers, teacher evaluation and due process protections, criminal background checks, student curriculum requirements, negotiations between



school districts and employees, and continuing education for local board of education members. School districts could have also opted out of meeting state academic requirements. In short, it would have torched public education in Oklahoma.

Such demoralizing attacks are nothing new to teachers in Oklahoma and elsewhere, yet teachers continue to sacrifice to help students succeed. Oklahoma is currently short a thousand teachers. SB 1187 would have only exacerbated this teacher shortage crisis.

The Oklahoma Education Association (OEA) took a firm stance against the bill. “Passage of this bill will hurt students because it fails to hold all schools to the highest standards. Instead it allows for shortcuts that weaken our education system, all because our state refuses to properly fund our schools,” said OEA President Alicia Priest.

Though the bill is on ice for now, we will need to remain vigilant. By statute, Oklahoma’s legislature meets between the first Monday of February and the last Friday of May in each year, so the bill could be resurrected come February 2017. ■

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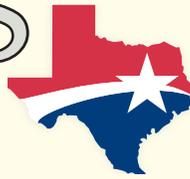
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May 2016

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## Public Pension Officials Warily Await the Treasury Department's Decision on Central States Request

The Treasury Department was expected at press time to announce a crucial decision on whether it would approve reductions to one of the country's largest multi-employer pension plans, the Central States Pension Fund, which handles the retirement benefits for current and former Teamster union truck drivers across various states, including Texas, Michigan, Wisconsin, Missouri, New York and Minnesota.

While this action would not directly affect public pension funds, it will be an important decision because pensions are being attacked across the country, and as one goes, so do the others.

The potential cuts are possible under legislation passed by Congress in 2014 that for the first time allowed financially distressed multi-employer plans to reduce benefits for retirees if it would improve the solvency of the fund. The 2014 law weakened federal protections that for more than 40 years shielded one of the last remaining pillars that workers could rely on for financial security in retirement.

For many workers, the promise of a guaranteed income stream for life – a benefit now nearly extinct for younger generations – was at times strong enough to convince them to sacrifice pay raises or other job opportunities. But after decades of challenges that left many pension funds in tough financial straits, some people are learning in retirement that the promises made to them may have to be broken.

Consumer advocates watching the case say the move could encourage dozens of other pension plans across the country that are facing financial struggles to make similar cuts.

On the Web at: <http://www.kansascity.com/news/business/article74302367.html>, <http://www.alternet.org/labor/teamsters-activists-move-prevent-slashing-hundreds-thousands-retirees-pensions>, <http://www.nytimes.com/2016/04/15/us/politics/retirees-rally-at-the-capitol-protesting-pension-cuts.html>, [https://www.washingtonpost.com/business/economy/congressional-leaders-hammer-out-deal-to-allow-pension-plans-to-cut-retiree-benefits/2014/12/09/4650d420-7ef6-11e4-9f38-95a187e4c1f7\\_story.html](https://www.washingtonpost.com/business/economy/congressional-leaders-hammer-out-deal-to-allow-pension-plans-to-cut-retiree-benefits/2014/12/09/4650d420-7ef6-11e4-9f38-95a187e4c1f7_story.html). 🇺🇸

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## Many Plan Sponsors Just Now Implementing GASB 67 and 68

The employment consulting firm Cowden Associates, Inc., of Pittsburgh, Pa., has released guidance, “GASB 68 Implementation War Stories,” to help stakeholders address potential pitfalls before implementing the Governmental Accounting Standards Board’s (GASB) Statements No. 67 and 68.

GASB issued both statements four years ago, in mid-2012, but set the implementation much later. As a result, many pension plan sponsors are just now implementing the standards.

The statements radically change the accounting standards for governmental pension plans: GASB 67 requires changes in the content of the financial statements issued by pension plans and GASB 68 dictates accounting changes for pension plans as presented in employer financial statements.

GASB 67 and 68 make significant changes to balance sheet disclosures, pension expense determinations, discount-rate selection, mandated actuarial methods, and required supplemental disclosures, Cowden said in its guidance.

The guidance points out that date selection is key. Two dates must be selected relative to the financial statement’s “reporting date,” which leads to the generation of asset and liability figures for both GASB 67 (plan) and GASB 68 (employer) financial reporting. They are:

- The Measurement Date – A snapshot date for determination of assets and liabilities.
- The Actuarial Valuation Date – The date of the most recently prepared actuarial report.

In addition, the guidance covers other topics related to GASB 67 and 68 implementation, such as discount rate selection techniques.

“While GASB 68 implementation will be a fading memory for all affected sponsors later this year, we have GASB 75 to look forward to, which will apply GASB 68-style accounting rules to retiree

medical (OPEB) benefits,” the guidance states. “GASB 75 will replace GASB Statement 45. It will be effective for fiscal years beginning after June 15, 2017.”

On the Web at: <http://www.cowdenassociates.com/blog/2016/03/31/gasb-68-implementation-war-stories/>.

## Guidance Offered on GASB Statement No. 82, Which Amends GASB Statements 67, 68 and 73

Cheiron, an actuarial and financial consulting firm, has issued guidance on GASB 82, the primary purpose of which is to more consistently apply financial reporting requirements to certain pension issues.

The Governmental Accounting Standards Board (GASB) issued Statement No. 82 to address pension issues raised by stakeholders under Statements No. 67, No. 68, and No. 73.

GASB 82 addresses three main areas: the presentation of payroll-related measures on which contributions to a pension plan are based; the selection of assumptions used in determining the total pension liability; and the classification of employer-paid member contributions.

“For some plans, Statement No. 82 will not result in any changes,” Cheiron observed. “Some plans already treated employee and employer contributions as now required by Statement No. 82 and some plans do not use actual employer contributions for determining proportionate shares in a cost-sharing plan. Also, some plans used pensionable compensation rather than total compensation of covered employees for purposes of Statements No. 67, 68, and 73 for prior years. These plans would appear to comply with the changes made by Statement No. 82.”

On the Web at: <https://www.cheiron.us/cheironHome/viewArtAction.do?artID=165> and [http://www.gasb.org/jsp/GASB/Document\\_C/GASB/DocumentPage?cid=1176168055954&acceptedDisclaimer=true](http://www.gasb.org/jsp/GASB/Document_C/GASB/DocumentPage?cid=1176168055954&acceptedDisclaimer=true).

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**TEXPERS Basic Trustee Training (BTT) meets the PRB rules:**

*May 18 in Houston, Aug. 14 in San Antonio, Oct. 31 in Irving*

## Illinois Court Rules Public Pension 'Reforms' Illegal: Worker Pensions Cannot Be Diminished

The Illinois Supreme Court has ruled that Chicago's public pension reform package, passed in 2014, is illegal because it violates the state constitution's prohibition on diminishing public pensions.

The ruling upholds a lower court decision from last July and follows a similar ruling by the Illinois Supreme Court last May preventing changes to the state's pension funds.

Much of the trouble facing the pension funds can be traced back to decisions made by Chicago officials.

The city, the third-largest in the nation, shortchanged its pensions over the last decade, creating a shortfall that's left it with a lower credit rating than any big U.S. city except once-bankrupt Detroit, Bloomberg reported.

The city's projected annual payment is now \$886 million, and is due this year to its four retirement funds. This is more than twice what it was a decade ago, prompting local officials to adopt a record property-tax increase to ease the impact on the budget. The defeat leaves officials racing to devise new ways to shore up retirement system and save the city's solvency.

Public employees praised the decision for eliminating the risk that promised benefits will be scaled back or eliminated.

The city's so-called "reforms" would have cut future cost-of-living increases and reduced the influence of public employee unions.

It is expected that city officials will launch a new reform effort in the hopes that it will pass muster with the courts.

The case is *Jones v. Municipal Employees Annuity and Benefit Fund of Chicago*, 119618, Supreme Court of Illinois, Springfield.

On the Web at: <http://www.illinoiscourts.gov/Opinions/SupremeCourt/2016/119618.pdf>, <http://www.bloomberg.com/news/articles/2016-03-24/chicago-s-plan-to-overhaul-city-pensions-ruled-illegal-im6djwqg> and <http://www.bloomberg.com/news/articles/2015-07-24/chicago-public-worker-pension-reform-plan-struck-down-by-judge>. 🇺🇸

## Why Opponents of Public Pension Funds Attack the Discount Rate Used by the Funds

In a blog for the National Public Pension Coalition (NPPC), Tyler Bond picks apart the arguments by Stanford economist Joshua Rauh and other anti-pension ideologues who are attacking the discount rate used by public pension plans as a way to diminish or eliminate them.

"For years, Rauh has promoted the idea that public pension plans are using an assumed discount rate that is too high. He wants them to use a rate that is much lower," Bond writes. "The reason you should care is because if the assumed discount rate is lowered, then it makes pensions appear to be more expensive because you are assuming that the pension fund will earn less money over time, meaning more money needs to be contributed now for the pension benefits that will be paid out in, say, 30 years."

Over the long term, public pensions have met, or exceeded, their investment target goals, Bond wrote. Rauh issued dire predictions years ago that several municipal pensions would go bankrupt but none of these warnings have turned out to be true.

"By using an interest rate that is unreasonably low, Rauh is creating the impression that pension funds are far worse off than they are," Bond wrote. "His so-called studies are then picked up and passed off as evidence in the political arena to justify closing pension funds down."

On the Web at: <https://protectpensions.org/2016/04/19/discount-rate-matter/>. 🇺🇸

## Recent Changes in Public Pension Oversight, Disclosure Requirements Summarized

The National Association of State Retirement Administrators (NASRA) and other organizations friendly to public pension funds have published a two-page brief explaining recent changes in the oversight and disclosure requirements for public pensions.

Most of these changes have been pronounced by the Governmental Accounting Standards Board (GASB) and NASRA says they could easily be misunderstood or create confusion.

The brief summarizes 10 key takeaways regarding existing disclosures, as well as the most notable changes to the rules, and their effects.

On the Web at: <http://slge.org/wp-content/uploads/2016/04/Pension-Reporting-Requirements-Flier.pdf>. 🇺🇸

## Each Dollar Contributed to Public Pension Funds Generates Eight Times as Much in Economic Output

State and local governments contribute 4.1 percent of direct government spending toward public pension funds on average. And each dollar invested in a public pension generates \$8.06 in economic output. Nationwide, this amounts to \$943 billion a year in economic activity, according to a blog post by Tyler Bond of the National Public Pension Coalition.

In addition, state and local government employers have contributed 19.4 percent of pension plan revenues, while 70.4 percent has come from investment returns, he wrote. That means that most pension benefits are paid for with investment earnings.

The evidence that pensions are a good investment of taxpayer dollars should tamp down the attacks of ideologues opposed to public pensions.

On the Web at: <https://protectpensions.org/2016/04/14/many-tax-dollars-go-public-pensions/>. 

## Public Pension Fund Officials Hit Back Against Opponents

A group of public pension fund CEOs, meeting during a Pension Bridge conference, criticized the politically motivated individuals and organizations that are attempting to influence politicians to eliminate defined benefit (DB) pension plans.

They specifically decried the Laura and John Arnold Foundation and the Koch brothers, billionaires who are known for funding conservative causes.

The Pension Bridge conference panel, moderated by Gary A. Amelio, CEO of the \$8.1 billion San Bernardino County (Calif.) Employees' Retirement Association, agreed that the toxic politics surrounding DB plan has been a huge problem.

"Politics and portfolios don't mix," said Gregory W. Smith, executive director of the \$43 billion Colorado Public Employees' Retirement Association, according to a report in Pensions & Investments. "What is most disturbing about politics is that there is money that entered the (political DB plan) battle ... (that) doesn't have beneficiaries' best interests at heart. It has to do with a predetermined agenda against public employee pension plans."

Steve Yoakum, executive director of the \$36.7 billion Missouri Public School and Education Employee Retirement Systems, was quoted by P&I as saying: "There are people who believe we should not exist and they are putting money where their mouths are. ... It's a very, very toxic environment."

Term limits are exacerbating the problem because public pension fund officials are constantly educating legislators that oversee them on the benefits of pension funds as well as complex investment ideas, said Brian Guthrie, executive director of the \$125 billion Texas Teacher Retirement System.

On the Web at: <http://www.pionline.com/article/20160406/ONLINE/160409911/pension-fund-leaders-condemn-political-attacks-on-db-plans>. 

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## **Pension Boards: Politicians and Government-Appointed Trustees May Be the Worst Investors**

The boards of public pension funds that are heavily made up of elected officials or members appointed by state representatives are among the worst performing boards, according to new research.

Public pension board composition had a strong impact on the fund's private equity performance. Elected officials and political appointees tended to have low financial expertise, which manifested itself in poor returns, according to Erasmus University's Aleksandar Antonov, Rice University's Yael Hochberg, and Stanford University's Joshua Rauh.

The study, "Pension Fund Board Composition and Investment Performance: Evidence from Private Equity," studied 210 U.S. public pension funds with more than 13,000 private equity investments from 1990 to 2011.

Specifically, state-appointed board members were linked to the lowest performance, with a 10-percentage point increase in the proportion of such members resulting in about a 0.9 percentage point drop in annual net internal rate of return (IRR).

At the same time, ex officio board members followed suit, with a 10-percentage point rise in their representation leading to a drop in annual net IRR of between 0.53 and 0.67 percentage points.

"This underperformance is related both to investment category allocation and to selection of managers within category," the authors wrote.

The research revealed that funds whose boards had more state officials and elected plan participants tended to invest more in real estate and fund-of-funds.

These funds were "strongly correlated" with poor investment decisions in private equity, including overweighting in small and in-state funds, as well as allocating to inexperienced general partners.

Despite associations to low performance and ill decision-making, these state-appointed and state-ex officio trustees represented 7.6% to 25.4% of board members of 34 studied pension funds on average, the research found.

Trustee background data also showed that 21% of members selected by government executives had asset management experience, and just 10% had any financial experience.

For elected officials serving on pension boards, the experience was worse, with 18% having asset management experience and 10% having financial experience.

On the Web at: [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2754820](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2754820). 

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## **Moody's Predicts Poor Public Pension Performance in the Year Ahead**

Public pension funds are on track to report a second straight year of weak investment performance, Tim Blake, managing director at Moody's Investors Service, says in a video posted by Bond Buyer.

In the first half of this fiscal year, funds have recorded negative investment performance, Blake said.

Blake also discussed the effect on state and local governments of the new Governmental Accounting Standards Board (GASB) public pension fund reporting rules as well as the credit implications of rising unfunded liabilities.

On the Web at: <http://www.bondbuyer.com/video/poor-public-pension-performance-ahead-moodys-1101800-1.html>. 

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## Actuaries Wade into Public Fund Transparency Debate After Rep. Nunes Reintroduces PEPTA

The American Academy of Actuaries hopes the reintroduction of the Public Employee Pension Transparency Act (PEPTA) on March 21 in the U.S. House of Representatives will launch a discussion of what types of disclosures would be meaningful for public employee pension plans.

Public pension funds have long opposed the bill, sponsored by Rep. Devin Nunes (R-Calif.), which he reintroduced for the fourth time. The latest PEPTA bill, H.R. 4822, appears to be virtually identical to versions of the bill he introduced in previous Congresses.

State and local government public pension organizations oppose PEPTA because they say the bill would provide an unfair accounting of the overall health of public funds. They worry that this unfair characterization would be used against them by opponents to diminish or eliminate public pensions.

With its proposal for a “discussion,” it sounds like the Academy might be intending to inject some rational thinking into the argument.

In a statement, the Academy said that one of the key points it tries to make when educating policymakers and the public is how different types of actuarial measurements of a pension plan’s financial health are used for different purposes.

“Some measures are intended to facilitate an orderly pattern of funding over time, and others are intended to estimate what it would cost to settle the plan’s obligations,” the Academy said in a statement. It pointed those interested to its issue brief called “Measuring Pension Obligations” to help clarify the different ways of measuring pension obligations.

“In addition, while a great deal of attention in the public arena is given to pension plan solvency, plan sustainability over time is an equally important consideration,” the Academy stated. For further explanation, it pointed stakeholders to its Public Interest Committee publication, “Sustainability in American Financial Security Programs,” which provides an overview of these issues.

On the Web at: <http://www.actuary.org/content/actuaries-welcome-discussion-meaningful-disclosures-public-employee-pension-plans>, [https://www.actuary.org/files/IB\\_Measuring-Pension-Obligations\\_Nov-21-2013.pdf](https://www.actuary.org/files/IB_Measuring-Pension-Obligations_Nov-21-2013.pdf) and [http://www.actuary.org/files/PIC\\_Sustainability\\_White\\_Paper\\_June2015.pdf](http://www.actuary.org/files/PIC_Sustainability_White_Paper_June2015.pdf). 

## Pension Plans, Other Investors to Benefit from New Rules Governing Security-Based Swap Entities

The Securities and Exchange Commission (SEC) on April 13 adopted final rules implementing a comprehensive set of standards of business conduct and requirements for chief compliance officers of security-based swap dealers and major security-based swap participants, known as security-based swap entities.

The rules are designed to enhance transparency, facilitate informed customer decision-making and heighten standards of professional conduct to better protect investors.

The over-the-counter derivatives market has for years operated without these basic customer protections.

The rules, which satisfy Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act, require security-based swap entities to deal fairly with potential counterparties by communicating in a fair and balanced manner, disclosing material information about the security-based swap, including material risks, characteristics, incentives and conflicts of interest, and adhering to other professional standards of conduct.

Additional requirements apply for dealings with special entities such as municipalities, pension plans, endowments, and similar entities.

The rules also establish specific requirements for chief compliance officers, and address the cross-border application of these requirements and the potential availability of substituted compliance.

The final rules will become effective 60 days after publication in the Federal Register.

On the Web at: <https://www.sec.gov/rules/final/2016/34-77617.pdf>. 

## N.Y.C. Funds Yank Hedge Funds

New York City’s public employee pension fund voted April 14 to pull its money from hedge funds, and weighed doing the same with private equity funds, The New York Post reported.

New York City Employees’ Retirement System – which manages about \$55 billion on behalf of 350,000 municipal employees – had 4 percent, or \$1.5 billion, of its investments allocated to hedge funds, and 7 percent, or roughly \$8 billion, earmarked for private equity.

The pension’s investments in hedge funds generated a 3.9 percent return after paying fees totaling \$40 million in the fiscal year ended June 30, 2015, the Post reported.

On the Web at: <http://nypost.com/2016/04/14/nyc-employees-pension-yanks-money-from-hedge-funds/> 

## Assets of Largest U.S. Public Pensions Rises Nearly 1% in Q4 2015

In the fourth quarter of 2015, the 100 largest public-employee pension systems in the country had assets (cash and investments) of \$3,243.3 billion, an increase of 0.9 percent from the third quarter level of \$3,215.9 billion, the U.S. Census Bureau reported March 31.

Compared to the same quarter in 2014, assets for these major public pension systems decreased 3 percent from \$3,343.6 billion, according to the department's Quarterly Survey of Public Pensions.

Quarter-over-quarter, investments in international securities and corporate stocks increased, while investments in corporate bonds decreased. However, year-over-year, investments in corporate bonds increased by 2.7 percent.

The summary is available at: <http://www.census.gov/content/dam/Census/library/publications/2016/econ/g15-qspp4.pdf> while the complete data set is available at: <http://www.census.gov/govs/qpr/>.

## SEC Charges Town Officials in New York of Fraud in Municipal Bond Offerings

The Securities and Exchange Commission (SEC) has filed fraud charges against the city of Ramapo, N.Y., its local development corporation, and four town officials who allegedly hid a deteriorating financial situation from their municipal bond investors.

The SEC alleged that Ramapo officials resorted to fraud to hide the strain in the town's finances caused by the roughly \$60 million cost to build a baseball stadium, as well as the town's declining sales and property tax revenues.

Town officials manipulated the books of the town's primary operating fund to falsely depict positive balances between \$1.4 million and \$4.2 million during a six-year period when the town had actually accumulated balance deficits as high as nearly \$14 million, the SEC alleged.

Inflated general fund balances were used in offering materials for 16 municipal bond offerings by Ramapo or the RLDC to investors, who consider the condition of a municipality's general fund when making investment decisions.

After town supervisor Christopher P. St. Lawrence purposely misled a credit rating agency about the town's general fund balance before certain bonds were rated, he told other town officials to refinance the short-term debt as fast as possible because "we're going to all have to be magicians" to realize the purported financial results, the SEC said.

"We won't stand for public officials and employees who resort to alleged accounting trickery to mislead investors who are investing in their financial futures as well as the future betterment of our communities," said Andrew J. Ceresney, Director of the SEC Enforcement Division.

On the Web at: <http://www.sec.gov/litigation/complaints/2016/comp-pr2016-68.pdf>.

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## Sen. Warren Blasts SEC over Decision to Register Firm Related to Hedge Fund Titan Steve Cohen

The Securities and Exchange Commission (SEC) is coming under fire for approving the registration of a new investment advisory firm run by hedge fund titan Steve Cohen, a high-profile fund manager whose previous hedge fund endeavor pled guilty in 2013 to insider trading violations.

Just four months ago, in January, the SEC barred Cohen from “supervising funds that manage outside money until 2018” as a result of the guilty plea by SAC Capital Advisors, which Cohen owns and formerly managed. As the firm’s manager, Cohen had “encouraged” the alleged unlawful insider trading of his portfolio managers, the SEC said in a statement.

In an April 21 letter to SEC Chairwoman Mary Jo White, Sen. Elizabeth Warren (D-Mass.) questioned the SEC’s decision to allow Cohen back to hedge fund business just a short time after it announced its “strong,” “significant” and “immediate” act of “investor protection” by approving the registration of his new investment advisory firm, Stamford Harbor Capital Management L.P.

Warren was reacting to media reports that the January settlement with the SEC left a loophole that rendered Cohen’s involvement with Stamford Harbor legal under the terms of the settlement.

This loophole has allowed Cohen to create “a shell management structure” that permits him reap more than 50% of the potential profits, Warren said. While Cohen is barred from directly supervising the activities of the employees at Stamford Harbor, they will be overseen by the same management team as Point72 Asset Management, Cohen’s family office that manages his \$11.2 billion fortune, Warren wrote in the letter, which was published by Politico.

“This is an unacceptable outcome from the nation’s primary enforcer of securities laws,” Warren wrote, “and it is the latest example of an SEC action that fails to appropriately punish guilty parties, deter future wrongdoing, and protect investors.”

Whether or not Warren’s letter leads to tangible changes, it may raise red flags for institutional investors and their consultants considering investments with Cohen’s new venture. Inquiries into the activities of asset managers, even if they are informal and non-binding, can create material risks for investors.

“Naturally, we look at things like whether a firm has incurred any citations, violations, but in the absence of anything official, we’ll still expand the

scope of review to any exchange or communication with a regulator or politician,” Alan Kosan, head of alpha investment research at Segal Rogerscasey, told FundFire.

“We don’t need an actual violation, a Wells notice or a legal letter to put us on notice – those are no brainers. But now when you have these softer inquiries that could raise suspicion or the probability that there could be a legal action, it is absolutely an element of our research,” he said.

A spokesman for Point72 Asset Management, Mark Herr, responded to Warren’s concerns in a written statement, saying: “The SEC imposed clear conditions in the settlement. We are not going to manage one dollar of outside money prior to January 1, 2018. We are fully meeting and continue to meet the letter and spirit of the agreement.”

Andrew Ceresney, director of the SEC’s Division of Enforcement, defended the SEC’s actions: “As the only law enforcement agency to charge Steven Cohen, the SEC imposed important restrictions, including a supervisory bar plus the additional oversight requirements in the settlement that are even stronger than typical remedies available under the securities law, particularly given the impact of the Second Circuit’s intervening Newman decision on the charge,” he said in a statement. “Under the settlement’s significant requirements, the SEC will scrutinize his trading activity closely going forward to protect investors.”

SAC Capital Advisors, the hedge fund founded and formerly run by Cohen, was ordered to shut down in November 2013. But late last December, the SEC, which is in charge of the process of winding down the firm, granted it a one-year extension. SAC apparently is having trouble exiting the business because of its difficulty in distributing proceeds from hard-to-sell assets to outside investors, called side pockets, without resorting to a fire sale. That wind-down is still in process.

On the Web at: <https://www.sec.gov/news/pressrelease/2016-3.html>, <http://www.politico.com/f/?id=00000154-368a-d2c9-a9fd-37de49460001>, <http://www.ft.com/intl/cms/s/0/0c3540a2-0260-11e6-99cb-83242733f755.html>, <http://www.wsj.com/articles/warren-criticizes-sec-for-allowing-steven-cohens-return-to-hedge-funds-1461229204>, <http://thehill.com/policy/finance/277085-warren-picks-fresh-fight-with-sec>, <http://www.reuters.com/article/stamfordharbor-warren-cohen-idUSL2N1700Y6>, and <http://www.marketwatch.com/story/illiquid-investments-slow-shutdown-of-sac-capital-2016-01-13>. 

## Increasing the Social Security Retirement Age Would Burden Those in Physically Demanding Jobs

Raising the retirement age for working individuals is one of the primary proposals public officials discuss when it comes to Social Security. This policy effort rests on the assumption that increases in life expectancy mean that workers can easily work beyond the current normal retirement ages.

However, this assumption ignores the fact that increases in longevity disproportionately apply to those in higher income brackets, and that many workers cannot continue to meet the physical demands of their jobs.

A new report from the Center for Economic and Policy Research (CEPR), using data from the Current Population Survey and Occupational Information Network, finds that, like the results of a similar study in 2009, many workers would face a serious hardship by working later into life.

The study compares the findings of the percentages of older workers in physically demanding jobs or difficult working conditions in 2014 with the percentages found in 2009.

The report, “Still Working Hard: An Update on the Share of Older Workers in Physically Demanding Jobs,” shows that although there was a significant decline in the share of older workers who worked in jobs that have high physical demands compared to 2009, those declines disproportionately went to better educated and higher paid workers.

The report found that about 10.2 million workers ages 58 and older (43.8 percent) were employed either in physically demanding jobs or jobs with difficult working conditions. There is a clear class dimension when it comes to raising the retirement age since workers who are most likely to be in physically demanding jobs are Latinos, those with less than a high school degree, immigrants, and the lowest wage earners.

According to the report, 51 percent of older Latino workers had physically demanding jobs, with 9.1 percent having jobs with high physical demands. By comparison, the percentages for African-Americans were 38.9 percent and 4.3 percent, respectively and for white workers 31.8 percent and 2.8 percent.

Older workers with less than a high school diploma represented the highest share of workers in physically demanding jobs, with 68.4 percent in jobs with some physical demands and 12.8 percent in jobs with high physical demands. In contrast, only 22.7 percent of workers with a college degree were

in physically demanding jobs, and 1.4 percent were in jobs with high physical demands.

The report also noted that 46.6 percent of immigrant workers ages 58 and older had physically demanding jobs, compared to 32.7 percent for non-immigrant workers.

From the standpoint of plans to increase the Social Security retirement age, these data indicate that many workers – especially racial and ethnic minorities, less educated workers, and lower earners – would face serious hardship by working later into life.

On the Web at: <http://cepr.net/publications/reports/still-working-hard>. 

## Underfunded Local Pension in Florida Can Seek Half-Cent Sales Tax to Provide Funding Relief

Florida has passed a law allowing cities and counties to fund the pension liabilities of government plans via a half-cent sales tax, according to Pension & Benefits Daily.

Municipalities will be able to propose a local sales tax to aid underfunded local pension plans, subject to approval by a voter referendum.

In order to take advantage of the tax, the pension plans seeking relief will be required to prohibit new enrollees from joining any defined benefit plan, must be below 80 percent funded and must require employees to contribute at least 10 percent of their salaries to the retirement plan.

Already, the Jacksonville City Council hopes to hold a citywide referendum later this year. The city faces a funding shortfall of \$2.6 billion across its various pension plans. The new law takes effect July 1.

On the Web at: <http://www.bna.com/new-florida-law-n57982069242/>. 



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