The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at 8:30 a.m. on Thursday, February 11, 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

   Regular meeting of January 14, 2016

2. Approval of Refunds of Contributions for the Month of January 2016
3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for February 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 4th Quarter 2015

9. Approval of Payment of Military Leave Contributions

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Closed Session - Board serving as Medical Committee

Discussion of the following will be closed to the public under the terms of Section 551.078 of the Texas Government Code:

   Disability application
2. L & B Realty Advisors, LLP 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.

3. Open-ended Real Estate Funds queues

4. JPMorgan Long Term Capital Markets educational presentation

5. Government Finance Officers Association Certificate of Achievement for 
   Excellence in Financial Reporting

6. Investment and financial reports

7. Business Continuity Review

8. Internal Controls

   a. Employee of the Quarter Award
   b. The William G. Baldree Employee of the Year Award
10. **Ad hoc committee reports**

   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.

11. **Service Provider Review**

   a. Legislative consultants
   b. The Townsend Group
   c. Segal Consulting

12. **Qualified Domestic Relations Order policy**

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

   a. Society of Pension Professionals
   b. NEPC Public Funds Workshop
   c. Opal: Public Funds Summit
   d. Invesco Global Market Outlook
   e. Society of Pension Professionals
   f. NAPO Pension & Benefits Seminar
   g. NSIIP: The State of the U.S. Economy and the 2016 Outlook
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. Potential claims involving fiduciaries and advisors
b. 2014 Plan amendment election and litigation
c. Southern Cross personnel
d. Open records litigation
e. Police Officer and Firefighter pay lawsuits

15. **Process of the Executive Director Performance Evaluation**

D. **BRIEFING ITEMS**

1. **Reports and concerns of active members and pensioners of the Dallas Police and Fire Pension System**
2. Executive Director’s report

a. Associations’ newsletters
   - NCPERS Monitor (December 2015)
   - NCPERS Monitor (January 2016)
   - TEXPERS Outlook (January 2016)
   - TEXPERS Outlook (February 2016)

b. Future continuing education and investment research programs and conferences
ITEM #A

MOMENT OF SILENCE

In memory of our Members and Pensioners who recently passed away

(January 6, 2016 – February 4, 2016)

<table>
<thead>
<tr>
<th>FIRE</th>
<th>ACTIVE/ RETIRED</th>
<th>DATE OF DEATH</th>
<th>POLICE</th>
<th>ACTIVE/ RETIRED</th>
<th>DATE OF DEATH</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>William A. Smith</td>
<td>Retired</td>
<td>Jan. 6, 2016</td>
</tr>
</tbody>
</table>
Police and Fire Pension System  
Thursday, January 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


Absent: Kenneth S. Haben

Staff

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

Others


* * * * * *

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

* * * * * *

A.  MOMENT OF SILENCE

B. CONSENT AGENDA

1. Approval of Minutes

   Regular meeting of December 10, 2015

2. Approval of Refunds of Contributions for the Month of December 2015

3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for January 2016

4. Approval of Estate Settlements

5. Approval of Survivor Benefits

6. Approval of Service Retirements

7. Approval of Alternate Payee Benefits

8. Spouse Wed After Retirement (SWAR)

After discussion, Mr. Kleinman made a motion to approve the items on the Consent Agenda, as amended, subject to the final review of the staff. Mr. Wilson seconded the motion, which was unanimously approved by the Board.

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. AEW – Red Consolidated Holdings/The Union

   Ron Pastore, Senior Portfolio Manager, and Mark Morrison, Assistant Portfolio Manager, were present from AEW, as well as the Townsend Group representatives, Richard Brown, Principal, Martin Rosenberg, Principal, and Jeff Leighton, Associate, to discuss investment options regarding The Union, previously referred to as Akard Place, an RCH land holding located in Dallas, Texas.
1. **AEW – Red Consolidated Holdings/The Union (continued)**

   The Board went into a closed executive session – real estate at 8:45 a.m.

   The meeting was reopened at 10:14 a.m.

   AEW recommended that DPFPS authorize AEW to approve RCH’s investment in The Union. Staff and Townsend concurred with AEW’s recommendation.

   After discussion, Mr. Ho made a motion to authorize AEW to approve RCH’s investment in The Union. Mr. Wilson seconded the motion, which passed by the following vote:

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

   * * * * * * *

   The meeting was recessed at 10:14 a.m.

   The meeting was reconvened at 10:25 a.m.

   * * * * * * *

2. **The Townsend Group: Third Quarter 2015 Performance Report**

   Richard Brown, Martin Rosenberg and Jeff Leighton, of The Townsend Group, presented the Third Quarter 2015 Performance Report for DPFP’s real assets.

   The Board went into a closed executive session – real estate at 10:39 a.m.

   The meeting was reopened at 10:50 a.m.

   After discussion, Mr. Ho made a motion to receive and file The Townsend presentation. Mr. Schutz seconded the motion, which was unanimously approved by the Board.

   * * * * * * *
3. Closed Session – Board serving as Medical Committee

   Disability application

   Discussion was postponed to the February 11, 2016 meeting.

   * * * * * * *

4. GMO: Asset allocation education and market update

   Catherine LeGraw, Senior Portfolio Strategist, and Lisa Stanton, Client Relationship Manager, of GMO, provided an educational presentation on asset allocation and presented their 7-year asset class real return forecasts. Rhett Humphreys, Partner, NEPC, also was present during the discussion.

   After discussion, Mr. Ho made a motion to receive and file the GMO asset allocation educational session and market update. Mr. Schutz seconded the motion, which was unanimously approved by the Board.

   * * * * * * *

5. Investment reports

   Mark Weir, Senior Vice President, of Maples, and Mr. Perry reviewed the investment performance and rebalancing reports, for the period ending December 31, 2015, with the Board.

   After discussion, Mr. Brown made a motion to receive and file the December 2015 Dallas Police & Fire Pension System Investment Oversight Report as prepared by Maples Fund Services. Mr. Conway seconded the motion, which was unanimously approved by the Board.

   * * * * * * *

   The meeting was recessed at 12:38 p.m.

   The meeting was reconvened at 12:50 p.m.

   * * * * * * *

6. Ad hoc committee reports

   Discussion was postponed to the February 11, 2016 meeting.
7. Employee recognition – Fourth Quarter 2015

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

The employee recognition awards were postponed to the February 11, 2016 meeting.

8. Service Provider Review

a. Legislative Consultants

The service provider review of DPFP’s legislative consultants was postponed to the February 11, 2016 meeting.

b. Buck Consultants, Actuarial Services

After discussion, Mr. Kleinman made a motion to terminate the engagement of Buck Consultants as DPFP’s actuary, effective immediately, and authorize the Executive Director to engage one of the actuarial firms who previously presented to the Board. Mr. Griggs seconded the motion, which was unanimously approved by the Board.

9. Outside legal counsel

Staff requested direction from the Board regarding outside legal counsel. Gary Lawson, of Strasburger and Price, submitted his letter of resignation to DPFP on December 14, 2015. Other members of Strasburger & Price have provided legal services on various matters such as plan design changes, tax, open government issues, and a small number of ongoing investment-related issues.

After discussion, Mr. Griggs made a motion to terminate the engagement of Strasburger & Price as legal counsel for DPFP in all matters. Mr. Kleinman seconded the motion, which was unanimously approved by the Board.

Mr. Griggs made a motion to authorize the Executive Director to engage interim legal counsel as necessary and to issue a Request for Proposals for outside legal counsel. Mr. Brown seconded the motion, which was unanimously approved by the Board.
9. **Outside legal counsel (continued)**

Mr. Friar appointed a new Legal Search Committee with Scott Griggs as the Chair, and Tho Ho and John Mays as appointed members.

* * * * * * *

10. **Board policies**

   a. **DROP Policy**
   
   b. **Uniformed Services Leave Payback Policy & Procedure**

   a. Two changes to the DROP Policy were proposed. The first was to provide that a person who marries a Member in DROP does not automatically become the beneficiary of that Member’s DROP account upon such marriage. The Member’s named beneficiary would not automatically change after a marriage occurring while a Member is in DROP. A Member would need to change their beneficiary designation form for a marriage occurring while they are in DROP if they desired their new spouse to be their beneficiary. This change would not affect Members in DROP who are currently married.

   The second change was to limit the number of rollovers a retiree can make to two per calendar year. Rollovers are administratively complex and it is staff’s position that two is a sufficient number to allow retirees adequate flexibility in dealing with their DROP accounts.

   b. Staff proposed one change to the Uniformed Services Leave Payback Policy & Procedure. In order to simplify administration of this policy, staff proposed that Members be given until December 31 of the following year to repay any military leave contributions without interest. Staff believes that the cost of administering the current policy is greater than the benefit gained by the small amount of interest being received.

   After discussion, Mr. Brown made a motion to approve the proposed amendments to the DROP Policy and the Uniformed Services Leave Payback Policy & Procedure. Mr. Kleinman seconded the motion, which was unanimously approved by the Board.

* * * * * * *
11. **Staff and Board Members’ reports on due diligence meetings, seminars and/or conferences attended**

   a. Society of Pension Professionals  
   b. NEPC Public Funds Workshop

   Discussion was postponed to the February 11, 2016 meeting.

   * * * * * *

12. **Legal issues**

   a. Police Officer and Firefighter pay lawsuits  
   b. 2014 Plan amendment election and litigation

   The Board went into a closed executive session – legal at 4:57 p.m.  
   The meeting was reopened at 5:31 p.m. No motion was made.

   c. Potential claims involving real estate transactions  

   The Board went into a closed executive session – legal at 12:48 p.m.  
   The meeting was reopened at 4:07 p.m.

   After discussion, Mr. Conway made a motion to authorize the Executive Director to negotiate and execute an engagement agreement with Diamond McCarthy to pursue any relevant material claims. Mr. Ho seconded the motion, which was unanimously approved by the Board.

   * * * * * *

The meeting was recessed at 4:08 p.m.

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

   * * * * * *
D. BRIEFING ITEMS

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

Received comments during the open forum.

No motion was made.

* * * * * * *

2. Executive Director’s report

a. Associations’ newsletter
   - NCPERS Monitor (December 2015)
   - TEXPERS Outlook (January 2016)

b. Future continuing education and investment research programs and conferences

The topic was postponed to the February 11, 2016 meeting.

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. Mays, the meeting was adjourned at 5:31 p.m.

_______________________
Samuel L. Friar
Chairman

ATTEST:

_______________________
Kelly Gottschalk
Secretary
ITEM #C1

Topic: Closed Session - Board serving as Medical Committee

Discussion of the following will be closed to the public under the terms of Section 551.078 of the Texas Government Code:

Disability application

Discussion: Staff will present an application for an On-Duty disability pension for consideration by the Board in accordance with Section 6.03 of the Plan. Documentation will be available at the meeting.
DISCUSSION SHEET

ITEM #C2

Topic: L & B Realty Advisors, LLP 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: G. Andrews Smith, Chief Executive Officer
Christine M. Mullis, Executive Vice President - Portfolio Management
David Castillejos, Associate Director - Portfolio Management

Discussion: L&B Realty Advisors, who has been one of DPFP’s real estate investment managers since 1994, will provide an organizational update to the Board and review the current portfolio they manage for DPFP. L&B has completed a hold/sell analysis of each property in their portfolio and will discuss the results with the Board.

Staff Recommendation: Receive and file.
L&B Firm Performance v. NPI
As of 12/31/15

<table>
<thead>
<tr>
<th></th>
<th>1 YR</th>
<th>3 YRS</th>
<th>5 YRS</th>
<th>15 YRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>L&amp;B Total Return</td>
<td>16.3%</td>
<td>14.5%</td>
<td>14.2%</td>
<td>11.4%</td>
</tr>
<tr>
<td>L&amp;B Non-Core Return</td>
<td>23.4%</td>
<td>12.0%</td>
<td>16.2%</td>
<td>11.3%</td>
</tr>
<tr>
<td>NPI Total Return</td>
<td>13.3%</td>
<td>12.2%</td>
<td>16.2%</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

L&B’s Total firm and Non-Core returns include leverage and are gross of fees.

As of (4Q)2015 the NPI included 7,225 investments with an estimated net assets of $471.7 billion. The L&B Total aggregate real estate investment returns include 73 properties with an estimated net asset value of $5.5 billion as of the (4Q)2015. The L&B Non-Core aggregate real estate investment returns include 18 properties with an estimated net asset value of $864 million as of the (4Q)2015.

The National Council of Real Estate Investment Fiduciaries (NCREIF) Property Index (NPI) represents data collected from its Members. All properties have been acquired, at least in part, on behalf of tax-exempt institutions and held in a fiduciary environment. The properties include wholly owned and joint venture investments, operating properties only (no development properties), and only investment grade, non-agricultural, income-producing properties: apartment, hotels, industrial, office, and retail. The NCREIF Property Index is unleveraged and before the deduction of acquisition, asset management, and disposition fees. The results from this index are included for information purposes.

All investing involves the risk of loss. Past performance is no guarantee of future results. An investment in the Fund is suitable only for sophisticated investors for whom an investment in the Fund does not constitute a complete investment program and who fully understand and are willing to assume the risks involved with the Fund’s investment strategy.
Value Add Fund Index prior to 1Q13 was NCREIF Townsend All Value Added Value Weight Index. NCREIF suspended the All Value Added Value Weight Index in the 1st quarter of 2013. Starting 2nd quarter 2013, NCREIF Value Added Closed-end Value Weight was used. The NCREIF Value Added Closed-end Value Weight Index was terminated in 9/30/13. Beginning on 12/31/13, data is based on the NCREIF Fund Index Closed End Value Add (NFI-CEVA). The index values are a quarter in arrears. DPF Performance is as of 12/31/15.

Separate Account Performance
Outperforming The Market
Separate Account Performance
Moving Into Core Space

Portfolio transitions to Core

1 Yr | 3 Yr | ITD
--- | --- | ---
DP&F Income Producing (Gross) | 11.9% | 12.3% | 11.3% | 10.6% | 11.3% | 9.3%
DP&F Income Producing (Net) | 10.6% | 10.8% | 9.3% | 8.8% | 8.6% | 7.9%

DP&F (Gross) | 6.7% | 5.7% | 10.6% | 8.8%
DP&F (Net) | 7.9% | 6.6% | |
Real Estate Investment Market

Current Conditions

- Real estate still fairly priced, relative to historic averages
- Abundant capital for well-located core assets
- Gateway markets viewed most favorably; Houston market is out of favor
- US stability; Non-US instability
- Conclusion: An attractive time to sell in most markets

<table>
<thead>
<tr>
<th>Returns by Strategy</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Core</td>
<td>5.5%-7.0%</td>
</tr>
<tr>
<td>Core Plus</td>
<td>7.0%-10.0%</td>
</tr>
<tr>
<td>Value-add/Opportunistic</td>
<td>10.0% +</td>
</tr>
</tbody>
</table>
DISCUSSION SHEET

ITEM #C3

Topic: Open-ended Real Estate Funds queues

Attendees: Richard Brown, The Townsend Group (by phone)
           Jeff Leighton, The Townsend Group (by phone)

Discussion: At the January 8, 2015 meeting, the Board approved the Strategic Real Estate Allocation Plan (the “Plan”) which was presented by Townsend. The plan addresses the objectives, risk controls, real estate investment policy guidelines, and implementation of the DPFP’s global real estate investment program. The Plan recommends that over time DPFP should transition the real estate portfolio to include a minimum allocation to core real estate. To begin implementation of The Plan, at the June 18, 2015 meeting, the Board approved revocable commitments, of $50 million each to JP Morgan Strategic Property Fund (SPF) and Prudential PRISA funds, which are open-ended core real estate funds. The Townsend presentation from that meeting is included for your reference.

Based on the revocable nature of the commitments, the decision to enter the investment queues was made to give DPFP an option to confirm the investment or withdraw from the queue prior to any capital being called. DPFP has received notice that our commitments, if we were to invest, would be called sometime between March and June of this year. Given that the current allocation to real estate is 23% versus a target allocation of 15%, which may be reduced further based on the upcoming asset allocation recommendation, Staff is recommending that DPFP rescind the commitments to both funds, with the option to sell the PRISA commitment per Townsend’s attached recommendation. New investment opportunities in real estate will continually be reviewed by Staff and the consultant, but new commitments to the space will likely not be recommended until the actual allocation is within the target allocation range.

Regular Board Meeting – Thursday, February 11, 2016
ITEM #C3
(continued)

Staff
Recommendation: Authorize the Executive Director to revoke or sell commitments to JPM SPF and PRISA.

Consultant
Recommendation: See attached.
MEMORANDUM

To: Dallas Police & Fire Pension System

From: The Townsend Group

Date: February 3, 2015

Subject: Open-End Core Fund Commitment Considerations

BACKGROUND:

At the June 18, 2015 Board meeting, the Board of Trustees of Dallas Police & Fire Pension System (“DPFPS”) approved a recommendation from The Townsend Group (“Townsend”) to reserve a place in the deposit queues for $50 million to each of JP Morgan Strategic Property Fund (“SPF”) and PRISA (managed by Prudential). Townsend recommended both funds because they met certain conditions: (i) allow commitments to be rescinded at DPFPS’ election, (ii) have a very good chance of earning a place in a long-term core portfolio and (iii) are not projected to call capital from new investors for a year or more. The approval was contingent upon the Board being consulted and given the opportunity to reconsider (and the opportunity to rescind) its approval before capital is actually called.

Both managers have recently indicated that the pace of investments over the past couple of quarters has accelerated. As a result, the length of the deposit queues has reduced. SPF is projected to call DPFPS’ capital by the end of the first quarter 2016. PRISA’s first drawdown is expected to occur late second quarter or third quarter 2016.

DISCUSSION:

Through discussions with DPFPS Investment Staff, we collectively agree this is not the right time to be making any new investments in the Global Real Estate Portfolio. As a result, we have three options to consider for both of the commitments:

1. Rescind the entire commitment without penalty.
2. Rescind the entire commitment without penalty and enter back into the deposit queue (again, where capital is not projected to be called for a year or more).
3. Seek to sell some or all of the commitments on the secondary markets under certain conditions. To minimize risk, a secondary sale would be designed to close nearly simultaneously with DPFPS funding its investment.
**RECOMMENDATION:**

Townsend recommends the Board rescind the entire $50 million commitment without penalty for SPF. The projected first quarter timing for capital to be called is not sufficient timing to meet all conditions to seek a sale on the secondary market.

Townsend recommends the Board allow DPFPS Investment Staff and Townsend to seek a sale on the secondary market for its $50 million commitment to PRISA. Given the demand in the market for high-quality funds like PRISA and at least one quarter to attract a buyer, we feel there is potential for DPFPS to successfully execute a secondary sale of PRISA and capture a slight premium with very little risk. If timing or other issues prevent a secondary sale from being practical, we will default to rescinding the entire commitment without penalty.
Background
Overview

• Over the long run, the DPFPS Real Estate Program will be governed by two primary documents: (i) a Strategic Plan that establishes long-term goals and (ii) an Investment Plan that addresses near-term positioning.
• In January, the Board approved a framework for a Strategic Plan.
• Both the Strategic Plan and the Investment Plan will be taken to the Board after a new CIO has been hired. The Strategic Plan may also be impacted by the ongoing asset allocation study.

<table>
<thead>
<tr>
<th></th>
<th>STRATEGIC PLAN</th>
<th>INVESTMENT PLAN</th>
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<tbody>
<tr>
<td><strong>PURPOSE</strong></td>
<td>Establishes Long-Term Return Objectives</td>
<td>Frames Near-Term Objectives, Reflecting:</td>
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<tr>
<td></td>
<td>Establishes Other Strategic Objectives</td>
<td>- Strategic Objectives</td>
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<tr>
<td></td>
<td>Establishes Risk Controls</td>
<td>- Current Market Conditions</td>
</tr>
<tr>
<td></td>
<td>Establishes Roles and Responsibilities</td>
<td>- DPFPS' Existing Portfolio Composition</td>
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<tr>
<td><strong>UPDATES</strong></td>
<td>Typically Reviewed at Least Annually</td>
<td>Prepared Annually</td>
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<tr>
<td></td>
<td>Significant Revisions are Not Common</td>
<td>Reviewed on an Ongoing Basis</td>
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<tr>
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<td></td>
<td>Adapted to Market Conditions</td>
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<tr>
<td><strong>APPROVAL</strong></td>
<td>Reviewed and Approved by the Board</td>
<td>Reviewed and Approved by the Board</td>
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</table>
Strategic Plan

- In general, new investments will be very limited until the Strategic Plan and the Investment Plan have been adopted.
- However, based on the framework that has been approved and investment planning that has been conducted by Staff and Townsend, we can conclude that:
  1. Significant dispositions will be required to reach targets and create capacity for new investments; and
  2. The program will require additional core exposure to reach its long-term targets.
- The goal today is to lay groundwork that will provide the Board with additional flexibility once formal plans have been adopted.

<table>
<thead>
<tr>
<th></th>
<th>Balanced / Traditional</th>
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</thead>
<tbody>
<tr>
<td><strong>Core Exposure</strong></td>
<td>Range of 40% to 60%</td>
</tr>
<tr>
<td><strong>Benchmark and Return</strong></td>
<td>ODCE Net +75 bps Over Full Market Cycles; All in USD</td>
</tr>
<tr>
<td><strong>Diversification</strong></td>
<td>High Priority</td>
</tr>
<tr>
<td><strong>Inflation Hedging</strong></td>
<td>High Priority</td>
</tr>
</tbody>
</table>
| **Other Risk Controls** | Property Type: ODCE +/- 10%  
   Geography: ODCE +/- 10%  
   Ex-US Exposure: 20% Cap  
   Loan-to-Value: Core Max of 40%  
   Single Manager: 25% of Equity  
   Single Fund: 20% of Equity |
| **Implementation**      | Program May Differ from Plan Diversification and Return Targets During Extended Transition Periods. |
| **Required Approvals**  | Strict Board Oversight, With Written Recommendations From Consultant and Staff. |
| **Target Allocation**   | Plan Will Work With Allocation Target Set by the Board Based on Recommendations from the General Consultant (Currently 15%). |
Recommendation
Near-Term Execution

**IN GENERAL:**
- New investments are expected to be very limited:
- *There is no urgency to invest.* Market conditions are balanced. Substantial capital deployment is not compelled by either (i) a “rising tide” that increases values through shifts in capital markets or (ii) broad-based distress.
- Reducing exposure is an important goal.

**NON-CORE:**
- Very select non-core investments may be presented in an effort to maintain vintage year diversification and capture select opportunities.

**CORE:**
- Opportunity:
  - Open-end core funds provide a fair entry point to the market, with appraisal-based pricing.
  - Open-end core funds also provide access to a diversified pool of core (lower risk) investments.

- Access:
  - Deposit queues require long waits to access the most desirable funds.
  - Some managers allow investors to make a “revocable” commitment. A commitment to one or both of these funds would allow DPFPS to reserve a place in line with the ability to walk away if sufficient capacity is not created in the portfolio.

**LIQUIDITY:**
- Real estate currently represents just over 13% of the total DPFPS program. If the loan program debt is treated as equity, exposure rises to nearly 23%. Based on work completed by Staff and Townsend, significant liquidity can be created in the existing portfolio over the next 3-5 years.

---

Global Real Estate exposure includes the entity investment in RED Consolidated Holdings and excludes P&F Real Estate.
Core Portfolio Recommendation

• We believe that additional flexibility can be created for the Board by reserving a place in “deposit queues” for funds that meet the following conditions: (i) apply revocable deposit queues, (ii) have a very good chance of earning a place in the DPFPS’ long-term portfolio, and (iii) are not projected to call capital from new investors for a year or more.

• Townsend recommends that DPFPS submit revocable commitment of $50 million to JP Morgan Strategic Property Fund and a revocable commitment of $50 to PRISA (managed by Prudential).

• The Board will be consulted and given the opportunity to reconsider (and the opportunity to rescind) its approval before capital is actually called. Additional investment opportunities may be presented for consideration, and additional investment planning will be conducted, before capital is called.
Selected Funds

- Each recommended fund is a strong long-term performer.
- Each recommended fund has a strong portfolio management team and a deep platform.
- Each recommended fund is part of Townsend’s model core portfolio and a significant portion of the ODCE index (an index of core-oriented funds in the US).
- Each fund has a well-diversified, high-quality portfolio that is fairly valued.

A summary analysis of each fund can be found in the appendices.

ODCE Proxy Composition

Historical Rolling 1 Year Gross Income Return

Data as of 1Q15. ODCE Proxy represents the Townsend open-end core fund universe, which closely resembles the ODCE.
Selected Funds (Continued)

- Each fund is designed to track the ODCE (a widely used core fund index) closely.
- From a portfolio construction perspective, a portfolio consisting of both funds provides diversification benefits and attractive risk adjusted returns due to their complementary nature.
- Terms and fees are reasonable, and in-line with market practices.

Fee comparison is based on a long-term aggregate commitment of $50 million. Data as of 1Q15, except for valuation data which is as of 4Q14.
Selected Funds (Continued)

- Each fund has shown consistent execution over time and has generated strong results for investors.
- Townsend rates both managers highly as investors and as fiduciaries that operate with integrity.

<table>
<thead>
<tr>
<th>NET TIME WEIGHTED RETURNS</th>
<th>JPM SPF</th>
<th>PRISA SA</th>
<th>ODCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 YEAR</td>
<td>11.8%</td>
<td>13.4%</td>
<td>12.4%</td>
</tr>
<tr>
<td>3 YEAR</td>
<td>12.3%</td>
<td>11.7%</td>
<td>11.6%</td>
</tr>
<tr>
<td>5 YEAR</td>
<td>13.4%</td>
<td>14.8%</td>
<td>13.4%</td>
</tr>
<tr>
<td>10 YEAR</td>
<td>6.7%</td>
<td>5.9%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>

Data based on net returns.

Data as of 1Q15.
Fund Performance

- DPFPS’ pooled fund composite is positioned higher on the risk-return spectrum than the open-end core funds that are being discussed.
- However, the pooled fund composite does reflect an ability to evaluate and select pooled vehicles well over time.

![Pooled Fund Net Performance Chart](chart.png)
Appendices:

A. What is an Open-End Core Fund?
B. Summary of JPM Strategic Property Fund
C. Summary of PRISA
D. Summary of Townsend’s Review Process
E. Liquidity Analysis
What is an Open-End Core Fund?

• An Open-End Core Fund (OECF) is a pooled, diversified fund of core real estate assets primarily located in the United States.
• Investments generally exhibit the following characteristics:
  - Institutional quality
  - Stabilized, income producing assets
  - Low leverage
• Investments are primarily concentrated within the apartment, office, retail, and industrial property types. Certain funds also provide exposure to difficult-to-access ‘trophy’ assets in major CBD locations across the U.S.
• Typically, OECFs have a small non-core element that provides a limited amount of exposure to higher risk/return strategies.

<table>
<thead>
<tr>
<th>ADDITIONAL ATTRIBUTES</th>
<th>LIMITATIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consistent and transparent valuation policies</td>
<td>Limited investor control</td>
</tr>
<tr>
<td>Deep and integrated back-office capabilities</td>
<td>Limited capital appreciation potential</td>
</tr>
<tr>
<td>Moderate liquidity</td>
<td></td>
</tr>
</tbody>
</table>
Appendix B: Summary of JPM Strategic Property Fund


### Fund Manager

<table>
<thead>
<tr>
<th>Manager</th>
<th>Portfolio Manager</th>
<th>Portfolio Manager</th>
</tr>
</thead>
<tbody>
<tr>
<td>JP Morgan Real Estate</td>
<td>Kim Adams</td>
<td>Ann Cole</td>
</tr>
</tbody>
</table>

### Fund Facts

- **Inception Date**: March 31, 1998
- **Gross Real Estate Assets**: $33,830,194,525
- **Net Asset Value**: $24,175,684,675
- **Leverage**: 29.8%
- **Cash Balance**: 2.5%
- **Number of Investments**: 173
- **Deposit Queue**: $1,708,700,000
- **Timing to Invest**: 5 Quarters
- **Redemption Queue**: $0

### Property Diversification (GAV)

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office</td>
<td>49.3%</td>
</tr>
<tr>
<td>Retail</td>
<td>25.8%</td>
</tr>
<tr>
<td>Apt</td>
<td>18.8%</td>
</tr>
<tr>
<td>Ind</td>
<td>6.1%</td>
</tr>
</tbody>
</table>

### Geographic Diversification (GAV)

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAC</td>
<td>34.9%</td>
</tr>
<tr>
<td>NE</td>
<td>26.8%</td>
</tr>
<tr>
<td>SW</td>
<td>14.1%</td>
</tr>
<tr>
<td>SE</td>
<td>8.6%</td>
</tr>
<tr>
<td>ME</td>
<td>7.5%</td>
</tr>
<tr>
<td>ENC</td>
<td>5.0%</td>
</tr>
<tr>
<td>MTN</td>
<td>2.8%</td>
</tr>
<tr>
<td>WNC</td>
<td>0.3%</td>
</tr>
</tbody>
</table>

### Fund Snapshot

#### Platform

After 34 years with the firm, Anne Pfeiffer retired in October 2013. She is succeeded by Co-Portfolio Managers Kim Adams and Ann Cole, who have been part of SPF’s portfolio management team since July 2012. As Co-Portfolio Managers, Ann Cole will focus on East regions and Kim Adams on West regions. Michael Kelly, Managing Director, Head of the Debt Capital Markets Group within Global Real Assets and the portfolio manager for the alternative real estate strategy and mezzanine debt strategy, replaced Anne Pfeiffer as the Head of U.S. Real Estate Commingled Funds upon her retirement. Douglas Doughty joined Global Real Assets (GRA) on January 6, 2014 as the Global Head of Business Development and Client Strategy.

#### Performance

The fund realized gross return of 2.74%, below the NFI-ODCE gross return of 3.26% for the quarter. Office and Retail were the best performing sectors on an unlevered basis. The Office sector returns were driven by increased valuations at assets in New York, San Francisco, and Los Angeles, while the Retail sector returns were driven by increased valuations in the fund’s DSRG and Edens entity investments. The fund continues to be overweight Office with a focus on CBD/urban locations. NOI for comparable properties grew by 5.0% year-over-year through higher occupancy and rent gains in various markets.

Debt mark to market adjustment resulted in -88bps to the fund’s total return for the quarter.

The fund’s return objective is NFI-ODCE. The fund is lagging NFI-ODCE gross of fees over a one-year and five-year period by approximately -135bps and -9bps respectively. The fund is outperforming NFI-ODCE gross of fees over three-, seven-, and ten-year measurement periods by approximately +58bps, +91bps, and +108 bps respectively.

#### Portfolio Characteristics

The fund is overweight Office and Retail. The fund’s portfolio leverage increased to 29.8% for the quarter, from 23.7% at the beginning of 2014. NFI-ODCE leverage is 22.2%. The increase in leverage YTD was primarily due to JV transactions where the partnership required leverage. Total occupancy for the fund was 93.7% at the end of the third quarter, versus 92.4% for NFI-ODCE.

The fund invested approximately $707.1 million to acquire four assets during the fourth quarter. Acquisitions included investment in a 49% interest of 1345 Avenue of the Americas, a trophy office asset in New York, NY; investment of $50 million towards the 555 11th Street NW mezzanine loan investment; Midtown Green, an apartment asset in Raleigh, NC; and Midtown Miami, a luxury high-rise apartment development in Miami, FL. The fund had $281.7 million of dispositions during the quarter. The fund sold three apartment assets: The Residences at Springfield Station in Springfield, VA, Glenmuir in Naperville, IL, and Lindbergh Vista in Atlanta, GA.

#### Policies

- The fund has a group trust structure, unlike the majority of the universe. Its return objective is the NFI-ODCE by pursuing a pure diversified core strategy. The fund will not invest outside the four major property types. There is flexibility for non-core investments up to 15% of the fund’s NAV of which 5% may be new development. There is a limit on leverage at 35% LTV at the fund level and 65% at the asset level.

In 2013, the fund changed its benchmark from NPI to NFI-ODCE.

#### Processes

The investment process is both top-down and bottom-up. The fund is supported by a respectable research group. The bottom-up approach benefits from significant sourcing capabilities where most transactions are off-market. The fund is further supported by deep resources across in-house asset management, acquisitions, development & engineering, and capital markets. Asset managers have sector assignments. Acquisition teams have assigned markets. Development & Engineering contributes risk management expertise on key asset management, acquisition, and other processes. The fund will continue to outsource all leasing and property management to qualified third parties.
**Quarterly Fund Returns**

<table>
<thead>
<tr>
<th>Date</th>
<th>Income</th>
<th>Appreciation</th>
<th>Gross</th>
<th>Net</th>
<th>ODCE Gross</th>
<th>ODCE Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/2014</td>
<td>1.31%</td>
<td>1.42%</td>
<td>2.74%</td>
<td>2.48%</td>
<td>3.26%</td>
<td>3.02%</td>
</tr>
<tr>
<td>9/30/2014</td>
<td>1.26%</td>
<td>1.09%</td>
<td>2.36%</td>
<td>2.10%</td>
<td>3.24%</td>
<td>3.00%</td>
</tr>
<tr>
<td>6/30/2014</td>
<td>1.26%</td>
<td>1.97%</td>
<td>3.25%</td>
<td>2.99%</td>
<td>2.93%</td>
<td>2.69%</td>
</tr>
<tr>
<td>3/31/2014</td>
<td>1.25%</td>
<td>1.11%</td>
<td>2.37%</td>
<td>2.11%</td>
<td>2.52%</td>
<td>2.29%</td>
</tr>
</tbody>
</table>

**Annualized Fund Returns**

<table>
<thead>
<tr>
<th>Period</th>
<th>Income</th>
<th>Appreciation</th>
<th>Gross</th>
<th>Net</th>
<th>ODCE Gross</th>
<th>ODCE Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>5.18%</td>
<td>5.71%</td>
<td>11.16%</td>
<td>10.03%</td>
<td>12.49%</td>
<td>11.46%</td>
</tr>
<tr>
<td>3 year</td>
<td>5.23%</td>
<td>7.45%</td>
<td>13.04%</td>
<td>11.87%</td>
<td>12.45%</td>
<td>11.38%</td>
</tr>
<tr>
<td>5 year</td>
<td>5.56%</td>
<td>7.89%</td>
<td>13.84%</td>
<td>12.65%</td>
<td>13.93%</td>
<td>12.86%</td>
</tr>
<tr>
<td>7 year</td>
<td>5.56%</td>
<td>-1.75%</td>
<td>3.71%</td>
<td>2.67%</td>
<td>2.80%</td>
<td>1.86%</td>
</tr>
<tr>
<td>10 year</td>
<td>5.67%</td>
<td>2.40%</td>
<td>8.19%</td>
<td>7.08%</td>
<td>7.11%</td>
<td>6.11%</td>
</tr>
<tr>
<td>SI (1Q98)</td>
<td>6.76%</td>
<td>2.60%</td>
<td>9.53%</td>
<td>8.40%</td>
<td>8.69%</td>
<td>7.67%</td>
</tr>
</tbody>
</table>

**Risk Adjusted Measures**

<table>
<thead>
<tr>
<th>Period</th>
<th>Std Dev</th>
<th>Peer Rank</th>
<th>Sharpe Ratio</th>
<th>Peer Rank</th>
<th>Information Ratio</th>
<th>Peer Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 year</td>
<td>1.23%</td>
<td>79%</td>
<td>10.086</td>
<td>84%</td>
<td>0.518</td>
<td>74%</td>
</tr>
<tr>
<td>5 year</td>
<td>2.04%</td>
<td>80%</td>
<td>6.470</td>
<td>80%</td>
<td>-0.069</td>
<td>53%</td>
</tr>
<tr>
<td>7 year</td>
<td>9.13%</td>
<td>80%</td>
<td>0.408</td>
<td>73%</td>
<td>0.446</td>
<td>80%</td>
</tr>
<tr>
<td>10 year</td>
<td>8.36%</td>
<td>77%</td>
<td>0.840</td>
<td>92%</td>
<td>0.546</td>
<td>100%</td>
</tr>
</tbody>
</table>

**Unlevered Property Type Returns**

<table>
<thead>
<tr>
<th></th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Gross</td>
<td>Excess</td>
<td>Gross</td>
</tr>
<tr>
<td>Apartment</td>
<td>8.6%</td>
<td>-1.7%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Office</td>
<td>11.3%</td>
<td>-0.1%</td>
<td>12.0%</td>
</tr>
<tr>
<td>Industrial</td>
<td>11.8%</td>
<td>-1.6%</td>
<td>12.6%</td>
</tr>
<tr>
<td>Retail</td>
<td>10.5%</td>
<td>-2.6%</td>
<td>11.9%</td>
</tr>
<tr>
<td>Hotel</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Total</td>
<td>10.6%</td>
<td>-1.3%</td>
<td>11.5%</td>
</tr>
</tbody>
</table>

**Annual Returns (Four Quarter Rolling)**

- **Gross Income**
- **Excess Return over ODCE**

**Calendar Year Returns**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Gross</th>
<th>ODCE Gross</th>
<th>Peer Group</th>
<th>Excess Return over ODCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018</td>
<td>11.16%</td>
<td>15.90%</td>
<td>12.11%</td>
<td>14.16%</td>
</tr>
<tr>
<td>2013</td>
<td>12.49%</td>
<td>13.94%</td>
<td>10.94%</td>
<td>15.99%</td>
</tr>
<tr>
<td>2012</td>
<td>12.60%</td>
<td>13.71%</td>
<td>11.72%</td>
<td>16.25%</td>
</tr>
<tr>
<td>2011</td>
<td>10.94%</td>
<td>15.96%</td>
<td>7.08%</td>
<td>16.77%</td>
</tr>
<tr>
<td>2010</td>
<td>12.55%</td>
<td>16.36%</td>
<td>7.97%</td>
<td>15.00%</td>
</tr>
<tr>
<td>2009</td>
<td>14.16%</td>
<td>10.00%</td>
<td>7.47%</td>
<td>10.32%</td>
</tr>
<tr>
<td>2008</td>
<td>10.00%</td>
<td>10.32%</td>
<td>7.40%</td>
<td>10.32%</td>
</tr>
</tbody>
</table>

**Risk Adjusted Measures**

- **Beta**
- **Peer Rank**
### Balance Sheet

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Real Estate</td>
<td>$33,830,194,525</td>
</tr>
<tr>
<td>Net Real Estate</td>
<td>$23,964,943,643</td>
</tr>
<tr>
<td>Net Asset Value</td>
<td>$24,175,684,675</td>
</tr>
<tr>
<td>Leverage</td>
<td>29.8%</td>
</tr>
<tr>
<td>Cash Balance</td>
<td>2.5%</td>
</tr>
<tr>
<td>Number of Investments</td>
<td>173</td>
</tr>
</tbody>
</table>

### Growth in Net Asset Value (millions)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Growth in Net Asset Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>3Q14</td>
<td>$18,129</td>
</tr>
<tr>
<td>4Q14</td>
<td>$24,176</td>
</tr>
</tbody>
</table>

### Geographic Diversification

<table>
<thead>
<tr>
<th>Region</th>
<th>GAV</th>
<th>NAV</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York</td>
<td>26.8%</td>
<td>23.2%</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>5.0%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Boston</td>
<td>7.5%</td>
<td>9.0%</td>
</tr>
<tr>
<td>San Francisco</td>
<td>2.8%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Houston</td>
<td>34.9%</td>
<td>36.4%</td>
</tr>
<tr>
<td>Washington</td>
<td>8.6%</td>
<td>9.1%</td>
</tr>
<tr>
<td>Miami</td>
<td>14.1%</td>
<td>14.5%</td>
</tr>
<tr>
<td>Chicago</td>
<td>0.3%</td>
<td>0.1%</td>
</tr>
<tr>
<td>Peer Group</td>
<td>26.8%</td>
<td>23.2%</td>
</tr>
</tbody>
</table>

### Top Ten MSA

<table>
<thead>
<tr>
<th>MSA</th>
<th>% of GAV</th>
</tr>
</thead>
<tbody>
<tr>
<td>New York-Northern NJ</td>
<td>17.3%</td>
</tr>
<tr>
<td>Los Angeles-Long Beach</td>
<td>11.0%</td>
</tr>
<tr>
<td>Dallas-Fort Worth</td>
<td>8.5%</td>
</tr>
<tr>
<td>Boston-Cambridge</td>
<td>8.1%</td>
</tr>
<tr>
<td>San Francisco-Oakland</td>
<td>5.4%</td>
</tr>
<tr>
<td>Houston-Sugar Land</td>
<td>4.8%</td>
</tr>
<tr>
<td>Washington-Arlington</td>
<td>4.7%</td>
</tr>
<tr>
<td>Miami-Fort Lauderdale</td>
<td>4.3%</td>
</tr>
<tr>
<td>Chicago-Joliet</td>
<td>4.1%</td>
</tr>
<tr>
<td>San Diego-Carlsbad</td>
<td>4.0%</td>
</tr>
</tbody>
</table>

### Non-Core Exposures

- **Percentage of NAV**: 4.2%
- Non core exposure limited to several development opportunities and land holdings.
- Fund does not utilize forward commitments and does not actively invest in hotels or other non-core property types.

### One Year Projections

- **Fund Performance**: 8.5%
- **NOI Growth**: 3.9%

### Fund Valuation

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Fund Discount Rate</th>
<th>Peer Group Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Apartment</td>
<td>6.7%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Industrial</td>
<td>6.7%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Office</td>
<td>6.9%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Retail</td>
<td>4.4%</td>
<td>4.9%</td>
</tr>
<tr>
<td>Hotel</td>
<td>4.6%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Total:</td>
<td>93.7%</td>
<td>93.0%</td>
</tr>
</tbody>
</table>

### Occupancy

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Fund</th>
<th>Peer Group Median</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office</td>
<td>93.3%</td>
<td>91.0%</td>
</tr>
<tr>
<td>Industrial</td>
<td>96.7%</td>
<td>93.9%</td>
</tr>
<tr>
<td>Retail</td>
<td>95.2%</td>
<td>93.8%</td>
</tr>
<tr>
<td>Apartment</td>
<td>92.0%</td>
<td>92.7%</td>
</tr>
<tr>
<td>Total:</td>
<td>93.7%</td>
<td>93.0%</td>
</tr>
</tbody>
</table>

### Property Type Diversification (GAV)

<table>
<thead>
<tr>
<th>Property Type</th>
<th>GAV %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other</td>
<td>0%</td>
</tr>
<tr>
<td>Retail</td>
<td>10.2%</td>
</tr>
<tr>
<td>Office</td>
<td>10.0%</td>
</tr>
<tr>
<td>Industrial</td>
<td>11.0%</td>
</tr>
<tr>
<td>Hotel</td>
<td>10.7%</td>
</tr>
<tr>
<td>Apartment</td>
<td>10.3%</td>
</tr>
</tbody>
</table>

### Top Ten Investments

<table>
<thead>
<tr>
<th>Property</th>
<th>Property Type</th>
<th>City</th>
<th>State</th>
<th>Fund GAV</th>
<th>% of GAV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edens - SPF</td>
<td>Retail</td>
<td>Various</td>
<td>Various</td>
<td>$1,345,126,807</td>
<td>3.9%</td>
</tr>
<tr>
<td>Valley Fair Mall</td>
<td>Retail</td>
<td>San Jose</td>
<td>California</td>
<td>$750,772,903</td>
<td>2.2%</td>
</tr>
<tr>
<td>Royal Hawaiian Center</td>
<td>Retail</td>
<td>Honolulu</td>
<td>Hawaii</td>
<td>$709,882,455</td>
<td>2.1%</td>
</tr>
<tr>
<td>DSRG - SPF</td>
<td>Retail</td>
<td>Various</td>
<td>Various</td>
<td>$1,412,193,322</td>
<td>4.1%</td>
</tr>
<tr>
<td>Alliance Texas - Industrial</td>
<td>Industrial</td>
<td>Fort Worth</td>
<td>Texas</td>
<td>$769,895,000</td>
<td>2.2%</td>
</tr>
<tr>
<td>1345 Avenue of the Americas</td>
<td>Office</td>
<td>New York</td>
<td>New York</td>
<td>$1,047,273,646</td>
<td>3.0%</td>
</tr>
<tr>
<td>1285 Avenue of the Americas</td>
<td>Office</td>
<td>New York</td>
<td>New York</td>
<td>$724,073,746</td>
<td>2.1%</td>
</tr>
<tr>
<td>Water Garden II</td>
<td>Office</td>
<td>Santa Monica</td>
<td>California</td>
<td>$506,730,464</td>
<td>1.5%</td>
</tr>
<tr>
<td>Southeast Financial Center - WO</td>
<td>Office</td>
<td>Miami</td>
<td>Florida</td>
<td>$495,547,734</td>
<td>1.4%</td>
</tr>
<tr>
<td>NorthPark Center JV</td>
<td>Retail</td>
<td>Dallas</td>
<td>Texas</td>
<td>$767,736,513</td>
<td>2.2%</td>
</tr>
</tbody>
</table>

### Total: $8,529,232,638 24.8%
## JP Morgan Strategic Property Fund

**Peer Group: Core Diversified**

<table>
<thead>
<tr>
<th>Structure</th>
<th>Fee Structure</th>
<th>Fee Analysis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legal Structure</strong></td>
<td>Acquisition</td>
<td>Estimated Fee at Investment Levels (bps)</td>
</tr>
<tr>
<td>Commingled Group Trust</td>
<td>Investment Management</td>
<td>Investment Level</td>
</tr>
<tr>
<td>Open to a tax-exempt pension trust or other kinds of employee benefit trusts, or funds that are qualified. Not available to foundations, endowments or taxable investors.</td>
<td>Net Asset Value</td>
<td>$0 - 10 m</td>
</tr>
<tr>
<td>Minimum Investment</td>
<td>Incentive</td>
<td>$10 - 25 m</td>
</tr>
<tr>
<td>$10,000,000</td>
<td>None</td>
<td>$25 - $50 m</td>
</tr>
<tr>
<td><strong>BENCHMARK</strong></td>
<td>Cash Management</td>
<td>$50 - 100 m</td>
</tr>
<tr>
<td>NFI-ODCE total return target, driven by income</td>
<td>Fee reduced to 15 bps for cash balances in excess of 7.5% of NAV.</td>
<td>$100 - 500 m</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$500 + m</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment Guidelines</th>
<th>Valuation Policy</th>
<th>Actual Fund Level Fee Differential</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target Leverage</td>
<td>Properties</td>
<td>1 year</td>
</tr>
<tr>
<td>25-30%</td>
<td></td>
<td>3 year</td>
</tr>
<tr>
<td>Maximum Leverage</td>
<td></td>
<td>5 year</td>
</tr>
<tr>
<td>35%</td>
<td></td>
<td>10 year</td>
</tr>
<tr>
<td>Non-Core Maximum</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Property Type Targets (GAV)**

<table>
<thead>
<tr>
<th>Retail</th>
<th>Office</th>
<th>Apartment</th>
</tr>
</thead>
<tbody>
<tr>
<td>20-25%</td>
<td>38-45%</td>
<td>18-25%</td>
</tr>
<tr>
<td>Office</td>
<td>Industrial</td>
<td></td>
</tr>
<tr>
<td>38-45%</td>
<td>10-15%</td>
<td></td>
</tr>
<tr>
<td>Apartment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>18-25%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Governance**

SPF does not have an outside investor board or committee.

**Redemption Policy**

Lock-out Period: None
Notice Requirement to the Manager: 45 days
Timing for Withdrawals: Quarter End

**Allocation Policy**

Rotational system. Allocation to client whose funds have been available, but not invested for the longest period.

**Contributions**

Deposit Queue: $1,708,700,000
Timing: 5 Quarters
JP Morgan Strategic Property Fund

Sponsor
J.P. Morgan Investment Management, Inc.

<table>
<thead>
<tr>
<th>Offices</th>
<th>Real Estate Professionals</th>
<th>Private Equity Core Real Estate AUM</th>
<th>Private Equity Non-Core Real Estate AUM</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>403</td>
<td>$34,440,935,557</td>
<td>$22,642,069,579</td>
</tr>
</tbody>
</table>

Contact Information

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Phone #</th>
<th>E-Mail</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kimberly A. Adams</td>
<td>Co-Portfolio Manager</td>
<td>(212) 732-6366</td>
<td><a href="mailto:kimberly.a.adams@jpmorgan.com">kimberly.a.adams@jpmorgan.com</a></td>
</tr>
<tr>
<td>Ann E. Cole</td>
<td>Co-Portfolio Manager</td>
<td>(212) 648-2152</td>
<td><a href="mailto:ann.e.cole@jpmorgan.com">ann.e.cole@jpmorgan.com</a></td>
</tr>
<tr>
<td>John Faust</td>
<td>Marketing Contact</td>
<td>(415) 315-5164</td>
<td><a href="mailto:john.f.faust@jpmorgan.com">john.f.faust@jpmorgan.com</a></td>
</tr>
</tbody>
</table>

Organizational Chart

JP Morgan Real Estate operates as a unit within J.P. Morgan Investment Management Inc. ("JPMIM"). JPMIM was founded in 1861 and has been providing services to tax exempt clients for over 80 years. It is a full service global asset management firm and an indirect, wholly owned subsidiary of JP Morgan Chase. In 2004, JP Morgan Chase merged with Banc One Corporation. It is one of the largest financial services firms globally, with assets under management of over $1 trillion. It operates in more than 50 countries and is publicly traded on the New York Stock Exchange under the symbol "JPM".

JP Morgan Real Estate is run by Joe Azelby (Head of Assets) and Ben Gifford (Chief Investment Officer). They are supported by over 200 investment professionals headquartered in New York with offices in Chicago, Houston, Los Angeles and London.

Investment Committee

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Real Estate Exp</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benjamin Gifford</td>
<td>Chief Investment Officer</td>
<td>42</td>
</tr>
<tr>
<td>Ann Cole</td>
<td>Portfolio Manager</td>
<td>25</td>
</tr>
<tr>
<td>Kim Adams</td>
<td>Portfolio Manager</td>
<td>20</td>
</tr>
<tr>
<td>Kevin Faxon</td>
<td>Head of Real Estate Americas</td>
<td>27</td>
</tr>
<tr>
<td>Al Dort</td>
<td>Head of Real Estate Financial Group</td>
<td>23</td>
</tr>
<tr>
<td>James Kennedy</td>
<td>Head of Real Estate Development &amp; Engineering Group</td>
<td>24</td>
</tr>
<tr>
<td>Steven Greenspan</td>
<td>Global Director of Product Development</td>
<td>29</td>
</tr>
<tr>
<td>Mark Bonapace</td>
<td>Head of Asset Management</td>
<td>21</td>
</tr>
<tr>
<td>Ellie Kerr</td>
<td>Director of Valuations</td>
<td>31</td>
</tr>
<tr>
<td>Andrea Pierce</td>
<td>Asset Management - East/South</td>
<td>26</td>
</tr>
</tbody>
</table>

JP Morgan Real Estate operates as a unit within J.P. Morgan Investment Management Inc. ("JPMIM"). JPMIM was founded in 1861 and has been providing services to tax exempt clients for over 80 years. It is a full service global asset management firm and an indirect, wholly owned subsidiary of JP Morgan Chase. In 2004, JP Morgan Chase merged with Banc One Corporation. It is one of the largest financial services firms globally, with assets under management of over $1 trillion. It operates in more than 50 countries and is publicly traded on the New York Stock Exchange under the symbol "JPM".

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Appendix C: Summary of PRISA
### Fund Manager
- **Manager**: Prudential
- **Senior Portfolio Manager**: Cathy Marcus
- **Portfolio Manager**: Joanna Mulford
- **Assistant Portfolio Manager**: Nicole Stagnaro

### Fund Facts
- **Inception Date**: March 31, 1978
- **Gross Real Estate Assets**: $17,826,691,830
- **Net Asset Value**: $14,579,334,462
- **Leverage**: 21.9%
- **Cash Balance**: 1.9%
- **Number of Investments**: 263
- **Deposit Queue**: $2,007,260,606
- **Timing to Invest**: 6 Quarters
- **Redemption Queue**: $0

### Property Diversification (GAV)

<table>
<thead>
<tr>
<th>Sector</th>
<th>0%</th>
<th>20%</th>
<th>40%</th>
<th>60%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office</td>
<td></td>
<td>21.9%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apt</td>
<td></td>
<td></td>
<td>21.9%</td>
<td></td>
</tr>
<tr>
<td>Retail</td>
<td></td>
<td></td>
<td>16.5%</td>
<td></td>
</tr>
<tr>
<td>Ind</td>
<td></td>
<td></td>
<td>13.9%</td>
<td></td>
</tr>
<tr>
<td>Self-Stor</td>
<td></td>
<td></td>
<td>3.0%</td>
<td></td>
</tr>
<tr>
<td>Hotel</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Geographic Diversification (GAV)

<table>
<thead>
<tr>
<th>Region</th>
<th>0%</th>
<th>20%</th>
<th>40%</th>
</tr>
</thead>
<tbody>
<tr>
<td>PAC</td>
<td></td>
<td>31.8%</td>
<td></td>
</tr>
<tr>
<td>NE</td>
<td></td>
<td>25.9%</td>
<td></td>
</tr>
<tr>
<td>ME</td>
<td></td>
<td>14.7%</td>
<td></td>
</tr>
<tr>
<td>SE</td>
<td></td>
<td>12.7%</td>
<td></td>
</tr>
<tr>
<td>SW</td>
<td></td>
<td>6.4%</td>
<td></td>
</tr>
<tr>
<td>ENC</td>
<td></td>
<td>5.6%</td>
<td></td>
</tr>
<tr>
<td>WNC</td>
<td></td>
<td>1.6%</td>
<td></td>
</tr>
<tr>
<td>MTN</td>
<td></td>
<td>1.3%</td>
<td></td>
</tr>
</tbody>
</table>

### Fund Snapshot
- **Platform**: PREI (Prudential Real Estate Investors) has undergone significant platform changes. Effective September 2013, Eric Adler became CEO of PREI in replacement of Allen Smith who left to become CEO of Four Seasons Hotels and Resorts after 26 years of service. Mr. Adler joined PREI in 2010 and received a subsequent promotion to the role of Global CIO in January 2013 under a long-term succession effort for the CEO role. In August 2013, Frank Garcia joined PREI as Portfolio Manager for PRISA; he was previously a portfolio manager at RREEF (now “DWAM”). In May 2014, Lee Menifee joined PREI from American Realty Advisors as Head of Americas Investment Research.

- **Performance**: Prudential Real Estate Investors (“PREI”) has combined its U.S. and Latin America businesses into one Americas platform. Kevin R. Smith, currently head of PREI’s U.S. business, will become the head of the Americas platform, and Alfonso Munk, currently head of PREI’s Latin America business, will become the chief investment officer of the Americas platform. Cathy Marcus, who is currently senior portfolio manager of PRISA, will be taking the role of global chief operating officer of PREI in January 2015. At that time, Frank Garcia will become senior portfolio manager of PRISA. Cathy will be aiding Frank in the transition of the Fund through the end of 2015. In the third quarter 2014, James Glen joined PREI as portfolio manager of PRISA. Mr. Glen previously served as Global Head of Research & Strategy at Blackrock’s real estate group.

- **Policies**: The Fund realized a gross return of 3.83% for the quarter, above the NFI-ODCE gross return of 3.26%. Office (38% of fund GAV) and self storage (6% of fund GAV) emerged as leading sector performers on an absolute basis. Debt mark to market adjustment was -6bps to the total return for the quarter. The Fund’s return objective is to meet or outperform NFI-ODCE over a full market cycle. PRISA is outperforming ODCE in the short and medium term, with the five-year net return +116bps ahead of NFI-ODCE. However, PRISA is underperforming ODCE for the seven- and ten-year measurement periods by -70bps and -17bps respectively.

### Portfolio Characteristics
- **Office and Industrial exposures are neutral to NFI-ODCE. There is a small underweight to Apartment and Retail. The fund is overweight to Self Storage (NFI-ODCE doesn’t report on this property type) and Hotel. The Fund’s fourth quarter portfolio leverage was approximately 22%, in line with NFI-ODCE. The Fund is targeting leverage just below 30% in the upcoming quarters. Total occupancy for the fund is 90.1%, versus 92.4% NFI-ODCE.**

- **Performance**: Office and Industrial exposures are neutral to NFI-ODCE. There is a small underweight to Apartment and Retail. The fund is overweight to Self Storage (NFI-ODCE doesn’t report on this property type) and Hotel. The Fund’s fourth quarter portfolio leverage was approximately 22%, in line with NFI-ODCE. The Fund is targeting leverage just below 30% in the upcoming quarters. Total occupancy for the fund is 90.1%, versus 92.4% NFI-ODCE.

- **The fund completed four acquisitions during the quarter for $377 million across office, industrial and apartment sectors. The largest acquisition was a joint venture investment to purchase interest in Tower 46, a newly constructed office asset in Midtown Manhattan for $300 million. The fund sold five investments during the quarter for $147 million across office, industrial and apartment sectors. The largest disposition was a joint venture investment to purchase interest in Tower 46, a newly constructed office asset in Midtown Manhattan for $300 million. The Fund benefits from the ability to segment large deals and utilize other Prudential capital sources to execute the transactions. Prudential’s deep network of partners has generated a significant deal pipeline, which is attractive in today’s market given the heightened competition for core properties.**

- **Processes**: The Fund benefits from the ability to segment large deals and utilize other Prudential capital sources to execute the transactions. Prudential’s deep network of partners has generated a significant deal pipeline, which is attractive in today’s market given the heightened competition for core properties.
### Quarterly Fund Returns

<table>
<thead>
<tr>
<th>Date</th>
<th>Income</th>
<th>Appreciation</th>
<th>Gross</th>
<th>Net</th>
<th>ODCE Gross</th>
<th>ODCE Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/2014</td>
<td>1.25%</td>
<td>2.58%</td>
<td>3.83%</td>
<td>3.64%</td>
<td>3.26%</td>
<td>3.02%</td>
</tr>
<tr>
<td>9/30/2014</td>
<td>1.32%</td>
<td>1.84%</td>
<td>3.16%</td>
<td>2.97%</td>
<td>3.24%</td>
<td>3.00%</td>
</tr>
<tr>
<td>6/30/2014</td>
<td>1.20%</td>
<td>2.08%</td>
<td>3.28%</td>
<td>3.10%</td>
<td>2.93%</td>
<td>2.69%</td>
</tr>
<tr>
<td>3/31/2014</td>
<td>1.18%</td>
<td>1.27%</td>
<td>2.45%</td>
<td>2.27%</td>
<td>2.52%</td>
<td>2.29%</td>
</tr>
</tbody>
</table>

### Annualized Fund Returns

<table>
<thead>
<tr>
<th>Period</th>
<th>Income</th>
<th>Appreciation</th>
<th>Gross</th>
<th>Net</th>
<th>ODCE Gross</th>
<th>ODCE Net</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>5.04%</td>
<td>7.99%</td>
<td>13.33%</td>
<td>12.52%</td>
<td>12.49%</td>
<td>11.46%</td>
</tr>
<tr>
<td>3 year</td>
<td>5.28%</td>
<td>6.99%</td>
<td>12.55%</td>
<td>11.68%</td>
<td>12.45%</td>
<td>11.38%</td>
</tr>
<tr>
<td>5 year</td>
<td>5.73%</td>
<td>8.89%</td>
<td>14.99%</td>
<td>14.01%</td>
<td>13.93%</td>
<td>12.86%</td>
</tr>
<tr>
<td>7 year</td>
<td>5.87%</td>
<td>-3.70%</td>
<td>2.02%</td>
<td>1.16%</td>
<td>2.80%</td>
<td>1.86%</td>
</tr>
<tr>
<td>10 year</td>
<td>6.11%</td>
<td>0.68%</td>
<td>6.83%</td>
<td>5.94%</td>
<td>7.11%</td>
<td>6.11%</td>
</tr>
<tr>
<td>SI (1Q78)</td>
<td>7.86%</td>
<td>0.93%</td>
<td>8.84%</td>
<td>7.76%</td>
<td>8.59%</td>
<td>7.52%</td>
</tr>
</tbody>
</table>

### Percentile Rank

<table>
<thead>
<tr>
<th>Period</th>
<th>Gross</th>
<th>Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 year</td>
<td>68%</td>
<td>41%</td>
</tr>
<tr>
<td>3 year</td>
<td>53%</td>
<td>63%</td>
</tr>
<tr>
<td>5 year</td>
<td>80%</td>
<td>73%</td>
</tr>
<tr>
<td>7 year</td>
<td>46%</td>
<td>100%</td>
</tr>
<tr>
<td>10 year</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Risk Adjusted Measures

<table>
<thead>
<tr>
<th>Period</th>
<th>Std Dev</th>
<th>Peer Rank</th>
<th>Sharpe Ratio</th>
<th>Peer Rank</th>
<th>Information Ratio</th>
<th>Peer Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 year</td>
<td>1.39%</td>
<td>69%</td>
<td>8.544</td>
<td>68%</td>
<td>0.094</td>
<td>53%</td>
</tr>
<tr>
<td>5 year</td>
<td>3.50%</td>
<td>13%</td>
<td>4.073</td>
<td>33%</td>
<td>0.422</td>
<td>73%</td>
</tr>
<tr>
<td>7 year</td>
<td>12.13%</td>
<td>20%</td>
<td>0.200</td>
<td>20%</td>
<td>-0.168</td>
<td>33%</td>
</tr>
<tr>
<td>10 year</td>
<td>10.76%</td>
<td>23%</td>
<td>0.549</td>
<td>23%</td>
<td>-0.028</td>
<td>54%</td>
</tr>
</tbody>
</table>

### Unlevered Property Type Returns

<table>
<thead>
<tr>
<th>Period</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
<th>1 Year</th>
<th>3 Year</th>
<th>5 Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Apartment</td>
<td>8.0%</td>
<td>-2.3%</td>
<td>10.0%</td>
<td>-0.7%</td>
<td>13.7%</td>
<td>0.7%</td>
</tr>
<tr>
<td>Office</td>
<td>15.6%</td>
<td>4.1%</td>
<td>10.9%</td>
<td>0.6%</td>
<td>12.8%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Industrial</td>
<td>11.2%</td>
<td>-2.2%</td>
<td>11.7%</td>
<td>-0.4%</td>
<td>11.2%</td>
<td>-0.9%</td>
</tr>
<tr>
<td>Retail</td>
<td>9.3%</td>
<td>-3.8%</td>
<td>9.9%</td>
<td>-2.6%</td>
<td>9.9%</td>
<td>-2.9%</td>
</tr>
<tr>
<td>Hotel</td>
<td>0.8%</td>
<td>-10.3%</td>
<td>10.0%</td>
<td>1.0%</td>
<td>11.9%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Total</td>
<td>11.4%</td>
<td>-0.4%</td>
<td>10.9%</td>
<td>-0.2%</td>
<td>12.3%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

### Annual Returns (Four Quarter Rolling)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Gross</td>
<td>13.33%</td>
<td>14.71%</td>
<td>9.66%</td>
<td>19.08%</td>
<td>18.43%</td>
<td>-34.25%</td>
<td>-12.96%</td>
</tr>
<tr>
<td>ODCE Gross</td>
<td>12.49%</td>
<td>13.94%</td>
<td>10.94%</td>
<td>15.99%</td>
<td>16.36%</td>
<td>-29.76%</td>
<td>-10.00%</td>
</tr>
<tr>
<td>Peer Group</td>
<td>12.60%</td>
<td>13.71%</td>
<td>11.72%</td>
<td>16.25%</td>
<td>16.77%</td>
<td>-29.76%</td>
<td>-10.32%</td>
</tr>
<tr>
<td>Excess Return over ODCE</td>
<td>0.84%</td>
<td>0.77%</td>
<td>-1.28%</td>
<td>3.08%</td>
<td>2.07%</td>
<td>-4.48%</td>
<td>-2.96%</td>
</tr>
</tbody>
</table>

### Calendar Year Returns

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Gross</td>
<td>13.33%</td>
<td>14.71%</td>
<td>9.66%</td>
<td>19.08%</td>
<td>18.43%</td>
<td>-34.25%</td>
<td>-12.96%</td>
</tr>
<tr>
<td>ODCE Gross</td>
<td>12.49%</td>
<td>13.94%</td>
<td>10.94%</td>
<td>15.99%</td>
<td>16.36%</td>
<td>-29.76%</td>
<td>-10.00%</td>
</tr>
<tr>
<td>Peer Group</td>
<td>12.60%</td>
<td>13.71%</td>
<td>11.72%</td>
<td>16.25%</td>
<td>16.77%</td>
<td>-29.76%</td>
<td>-10.32%</td>
</tr>
<tr>
<td>Excess Return over ODCE</td>
<td>0.84%</td>
<td>0.77%</td>
<td>-1.28%</td>
<td>3.08%</td>
<td>2.07%</td>
<td>-4.48%</td>
<td>-2.96%</td>
</tr>
</tbody>
</table>

### Risk Adjusted Measures

<table>
<thead>
<tr>
<th>Period</th>
<th>Std Dev</th>
<th>Peer Rank</th>
<th>Sharpe Ratio</th>
<th>Peer Rank</th>
<th>Information Ratio</th>
<th>Peer Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>3 year</td>
<td>1.39%</td>
<td>69%</td>
<td>8.544</td>
<td>68%</td>
<td>0.094</td>
<td>53%</td>
</tr>
<tr>
<td>5 year</td>
<td>3.50%</td>
<td>13%</td>
<td>4.073</td>
<td>33%</td>
<td>0.422</td>
<td>73%</td>
</tr>
<tr>
<td>7 year</td>
<td>12.13%</td>
<td>20%</td>
<td>0.200</td>
<td>20%</td>
<td>-0.168</td>
<td>33%</td>
</tr>
<tr>
<td>10 year</td>
<td>10.76%</td>
<td>23%</td>
<td>0.549</td>
<td>23%</td>
<td>-0.028</td>
<td>54%</td>
</tr>
</tbody>
</table>
### Balance Sheet
- **Gross Real Estate**: $17,826,691,830
- **Net Real Estate**: $14,930,191,581
- **Net Asset Value**: $14,579,334,462
- **Leverage**: 21.9%
- **Cash Balance**: 1.9%
- **Number of Investments**: 263

### Growth in Net Asset Value (millions)

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Net Asset Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>3Q12</td>
<td>$11,014</td>
</tr>
<tr>
<td>4Q12</td>
<td>$14,014</td>
</tr>
<tr>
<td>1Q13</td>
<td>$14,579</td>
</tr>
<tr>
<td>2Q13</td>
<td></td>
</tr>
<tr>
<td>3Q13</td>
<td></td>
</tr>
<tr>
<td>4Q13</td>
<td></td>
</tr>
<tr>
<td>1Q14</td>
<td></td>
</tr>
<tr>
<td>2Q14</td>
<td></td>
</tr>
<tr>
<td>3Q14</td>
<td></td>
</tr>
<tr>
<td>4Q14</td>
<td></td>
</tr>
</tbody>
</table>

### Fund Performance
- **Net Asset Value**: $14,579,334,462
- **Leverage**: 21.9%
- **One Year Projections**
  - **WNC**: 1.6%
  - **INT'L**: 0.0%

### Property Diversification
- **Gross Real Estate**: $17,826,691,830
- **Net Real Estate**: $14,930,191,581
- **Net Asset Value**: $14,579,334,462

### Geographic Diversification
- **GAV**: 85.5%
- **NAV**: 93.0%

### Top Ten MSA
- **MSA**: New York
- **% of GAV**: 14.6%
- **Peer Group Median**: 7.0%

### One Year Projections
- **Fund Performance**: 9.5%
- **NOI Growth**: 4.3%

### Non-Core Exposures
- **Percentage of NAV**: 7.6%
- **Lease-up**: 65.7%
- **Office - 46.8% (62.6% Leased)**
- **Retail - 6.9% (61.2% Leased)**
- **Industrial - 3.6% (28.1% Leased)**
- **Land: 13.7%**
- **Mezz & Loans: 14.5%**
- **Development: 14.5%**

### Property Type Diversification (GAV)

<table>
<thead>
<tr>
<th>Property Type</th>
<th>Office</th>
<th>Industrial</th>
<th>Retail</th>
<th>Hotel</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Real Estate</strong>: $17,826,691,830</td>
<td>$1,297,683,500 (7.0%)</td>
<td>$1,085,249,000 (6.0%)</td>
<td>$538,900,000 (3.0%)</td>
<td>$225,100,643 (1.2%)</td>
</tr>
</tbody>
</table>

### Top Ten Investments

<table>
<thead>
<tr>
<th>Property</th>
<th>Property Type</th>
<th>City</th>
<th>State</th>
<th>Fund GAV</th>
<th>% of GAV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eleven Times Square</td>
<td>Office</td>
<td>New York</td>
<td>New York</td>
<td>$1,297,683,500</td>
<td>7.0%</td>
</tr>
<tr>
<td>International Place</td>
<td>Office</td>
<td>Boston</td>
<td>Massachusetts</td>
<td>$1,085,249,000</td>
<td>5.9%</td>
</tr>
<tr>
<td>The Fillmore Center</td>
<td>Apartment</td>
<td>San Francisco</td>
<td>California</td>
<td>$538,900,000</td>
<td>2.9%</td>
</tr>
<tr>
<td>Post Montgomery Center</td>
<td>Office</td>
<td>San Francisco</td>
<td>California</td>
<td>$514,000,000</td>
<td>2.8%</td>
</tr>
<tr>
<td>100 Park Avenue</td>
<td>Office</td>
<td>New York</td>
<td>New York</td>
<td>$385,770,000</td>
<td>2.1%</td>
</tr>
<tr>
<td>1800 M Street</td>
<td>Office</td>
<td>Washington</td>
<td>District of Columbia</td>
<td>$291,000,000</td>
<td>1.6%</td>
</tr>
<tr>
<td>Annapolis Towne Centre</td>
<td>Retail</td>
<td>Annapolis</td>
<td>Maryland</td>
<td>$289,280,000</td>
<td>1.6%</td>
</tr>
<tr>
<td>Tower 46</td>
<td>Office</td>
<td>New York</td>
<td>New York</td>
<td>$225,100,643</td>
<td>1.2%</td>
</tr>
<tr>
<td>1111 Brickell</td>
<td>Office</td>
<td>Miami</td>
<td>Florida</td>
<td>$221,000,000</td>
<td>1.2%</td>
</tr>
<tr>
<td>Democracy Center</td>
<td>Office</td>
<td>Bethesda</td>
<td>Maryland</td>
<td>$217,000,000</td>
<td>1.2%</td>
</tr>
</tbody>
</table>

**Total**: $5,064,983,943 (27.5%)

### Percentages of NAV
- **Apartment**: 91.0%
- **Industrial**: 93.9%
- **Retail**: 93.8%
- **Office**: 92.7%

### Leasing Activity
- **New York**: 74.6%
- **Boston**: 64.7%
- **San Francisco**: 54.4%

### Rollover
- **Office**: 2015 - 6.8%, 2016 - 9.1%, 2017 - 8.7%, 2018 - 10.8%
- **Industrial**: 2015 - 9.9%, 2016 - 13.9%, 2017 - 11.7%, 2018 - 11.6%
- **Retail**: 2015 - 6.1%, 2016 - 12.8%, 2017 - 9.9%, 2018 - 10.1%

### Peer Group Average
- **Office**: 10.2%
- **Industrial**: 10.0%
- **Retail**: 11.0%
- **Hotel**: 10.7%
### Structure

<table>
<thead>
<tr>
<th>Legal Structure</th>
<th>Private REIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Open for investment by qualified pension plans, foundations, endowments, other tax-exempt institutional investors and taxable investors.</td>
<td></td>
</tr>
</tbody>
</table>

| Minimum Investment    | $1,000,000   |

### Benchmark

Meet or outperform NFI-ODCE over a full market cycle.

### Investment Guidelines

<table>
<thead>
<tr>
<th>Target Leverage</th>
<th>22-25%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum Leverage</td>
<td>30%</td>
</tr>
<tr>
<td>Non-Core Maximum</td>
<td>10%</td>
</tr>
</tbody>
</table>

#### Property Type Targets (GAV)

<table>
<thead>
<tr>
<th>Retail</th>
<th>15-17%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office</td>
<td>35-37%</td>
</tr>
<tr>
<td>Industrial</td>
<td>13-15%</td>
</tr>
<tr>
<td>Apartment</td>
<td>23-25%</td>
</tr>
<tr>
<td>Hotel</td>
<td>3-5%</td>
</tr>
<tr>
<td>Self Storage</td>
<td>5-7%</td>
</tr>
</tbody>
</table>

### Fee Structure

<table>
<thead>
<tr>
<th>Fee Structure</th>
<th>None</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquisition</td>
<td></td>
</tr>
<tr>
<td>Investment Management</td>
<td>Based on Invested Capital And Annual Rate Paid On NAV</td>
</tr>
<tr>
<td>First $10 m:</td>
<td>100 bps</td>
</tr>
<tr>
<td>$10-25 m:</td>
<td>95 bps</td>
</tr>
<tr>
<td>$25-50 m:</td>
<td>90 bps</td>
</tr>
<tr>
<td>$50-100 m:</td>
<td>85 bps</td>
</tr>
<tr>
<td>$100m or greater:</td>
<td>65 bps</td>
</tr>
<tr>
<td>Incentive</td>
<td>3% operating cash flow for first $100 million of NAV and 2.5% for $100 million +.</td>
</tr>
<tr>
<td>Cash Management</td>
<td>10 Bps of proportional share of PRISA’s cash position</td>
</tr>
</tbody>
</table>

### Valuation Policy

#### Properties

Third party appraisals completed at least once annually. Independent firm (PWC) to maintain day to day operations of appraisal process.

#### Debt

Utilizes methodology that reflects accepted practice within the industry. Mortgage debt marked to market.

### Redemption Policy

<table>
<thead>
<tr>
<th>Lock-out Period</th>
<th>None</th>
</tr>
</thead>
<tbody>
<tr>
<td>Notice Requirement to the Manager</td>
<td>90 Days</td>
</tr>
<tr>
<td>Timing for Withdrawals</td>
<td>Quarter End</td>
</tr>
</tbody>
</table>

### Allocation Policy

Allocation Committee, comprised of the managing directors, Portfolio Management, Transactions and Research, to allocate each investment opportunity to an interested account.

### Contributions

<table>
<thead>
<tr>
<th>Deposit Queue</th>
<th>$2,007,260,606</th>
</tr>
</thead>
<tbody>
<tr>
<td>Timing</td>
<td>6 Quarters</td>
</tr>
</tbody>
</table>
Prudential Real Estate Investors ("PREI") was founded in 1970 and operates primarily through Prudential Investment Management Inc., a registered investment advisor and a subsidiary of Prudential Financial, Inc. Prudential Investment Management, Inc. became a Registered Investment Adviser with the Securities and Exchange Commission in 1984. PREI’s parent company is Prudential Financial, Inc. which became a publicly traded company in 2001 and trades on the NYSE under the ticker symbol “PRU”. PREI is headquartered in Parsippany, New Jersey, and has seventeen additional offices located throughout the United States, Asia, and Latin America.

**Investment Committee**

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Real Estate Exp</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philip Barrett</td>
<td>Chief Investment Risk Officer</td>
<td>22</td>
</tr>
<tr>
<td>Noah Levy</td>
<td>Senior PM, Senior Housing Partners</td>
<td>24</td>
</tr>
<tr>
<td>Damian Manolis, Chair</td>
<td>Head of U.S. Transactions Group</td>
<td>21</td>
</tr>
<tr>
<td>Cathy Marcus</td>
<td>Senior PM, PRISA</td>
<td>26</td>
</tr>
<tr>
<td>Terry McHugh</td>
<td>Senior PM, PRISA II &amp; III</td>
<td>36</td>
</tr>
<tr>
<td>Frank Nitschke</td>
<td>Head of U.S. Research</td>
<td>21</td>
</tr>
<tr>
<td>Kevin R. Smith</td>
<td>Head of U.S. Investment Business</td>
<td>33</td>
</tr>
<tr>
<td>Steve Vittorio</td>
<td>Senior PM, Single Client Accounts</td>
<td>30</td>
</tr>
</tbody>
</table>
Appendix D: Summary of Townsend’s Review Process
Townsend Due Diligence & Underwriting Process

RIGOROUS, SYSTEMATIC ANALYSIS YIELDS BETTER CLIENT OUTCOMES

**TRACK RECORD**
- Asset-by-asset review
- Peer group and vintage year (realized vs. unrealized)
- Study of mistakes
- Style drift
- Growth in fund sizes
- Capital pacing
- Pre-specified investments
- Pipeline

**PEOPLE & PLATFORM**
- Depth, breadth, turnover
- History, culture, ownership
- Experience in execution
- Sourcing
- Asset management
- Reference checks
- Performance attribution
- Focus on creating franchise value
- Parents/affiliates
- Prior litigation

**ALIGNMENT OF INTERESTS**
- Compensation structure
- Material co-invest capital
- Pooled carried interest
- Clawback provisions
- Moderate catch-up
- Sufficient carry dispersion
- Vesting schedule
- Exclusivity
- Investment allocation

**RISK CONTROLS**
- Portfolio constraints
- Investment guidelines
- Investment process
- Reporting and transparency
- Key person triggers
- Auditors and accountants
- Legal representation
- Insurance and liability
- Regulatory compliance

**MARKET RISK**
- Macro/micro economics
- Geographic focus
- Demographics
- Geopolitical issues
- Foreign direct investment
- Currency
- Concentration
## Townsend Due Diligence & Underwriting Process

**DISCIPLINED SELECTION DRIVES VALUE IN FUND AND DIRECT INVESTING**

Robust Pipeline | Unique Deal Access and Sourcing

### Townsend Global Investment Outlook

<table>
<thead>
<tr>
<th>Stage</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ORIGINATION</strong></td>
<td>2,791</td>
</tr>
<tr>
<td>Sourcing &amp; Initial Screening</td>
<td></td>
</tr>
<tr>
<td><strong>UNDER CONSIDERATION</strong></td>
<td>1,122</td>
</tr>
<tr>
<td>Investment Committee Review to Proceed</td>
<td></td>
</tr>
<tr>
<td><strong>DETAILED DUE DILIGENCE</strong></td>
<td>424</td>
</tr>
<tr>
<td>Comprehensive Research &amp; Underwriting</td>
<td></td>
</tr>
<tr>
<td><strong>APPROVED FOR INVESTMENT</strong></td>
<td>124</td>
</tr>
<tr>
<td>Investment Committee Review &amp; Approval for Investment</td>
<td></td>
</tr>
</tbody>
</table>

Data from 2007-2014
Townsend Global Investment Platform

A GLOBAL FOOTPRINT OF INVESTMENT SKILLS WITH REGIONAL AND SECTOR EXPERTISE

Cleveland  |  San Francisco  |  London   |  Hong Kong

**REGIONAL EXPERTS**

**North America**
- Jay Long
- John Schaefer
- Scott Booth
- Chris Lennon
- Tony Pietro
- Brian Woods

- Jeff Barone
- Ryan Komppa
- Zane Hemming
- Mate Zuzic

**Latin America**
- Mike Golubic
- Jack Koch

**Europe**
- Damien Smith
- Kieran Farrelly
- Vanessa Sloan
- Nick Rush
- Lu Liu

**Asia**
- Nick Wong
- Joseph Tang
- Min Lim
- Daniel Choi
- Kelson Cheng
- Hyun Tae Yim

**SECTOR EXPERTS**

**Public Markets**
- Chris Lennon
- Prashant Tewari

**Special Situations Investing**
- Rob Davies
- Rob Caravella
- Clark Seiling
- John Kropke
- Zachary Segal
- Disheng Lin

**Infrastructure, Agriculture, and Timber**
- Mike Golubic
- Jay Long
- Kevin Rivchun
- Dick Brown
- Prashant Tewari
- Morgan Angus
- Lilia Stoyanova
- Ishika Bansal
Appendix E: Liquidity Analysis
Liquidity Analysis

- We anticipate that substantial progress can be made over the next five years.
- Additional progress could be made during that time. Projections will be refined based on guidance from DPFPS’ fiduciaries.

Notes to Graph:
- Includes the equity investment in RCH, which is held in the private equity portfolio.
- For discussion purposes, this presentation uses portfolio classifications that differ from those used in standard reports.
- “Loans to RCH” include preferred equity investments that function as loans in many respects.
- Figures exclude (i) 4100 Harry Hines Office (which was transferred out of real estate), (ii) an Invesco asset that was sold in Q4, and (iii) assets that have been liquidated but are carrying a cash balance.
- Medium-Term Holdings includes the Museum Tower Funding Obligation.
- Excludes P&F Real Estate which was transferred to Farmland effective 2Q15.

Under evaluation by AEW. Loan payoffs would be consistent with strategic objectives and would improve alignment.

Expect significant liquidity in the next five years.

Assets that are likely to be liquidated in the next five years.

Under evaluation by Hearthstone. Likely a long-term hold.
Topic: JPMorgan Long Term Capital Markets educational presentation

Attendees: Patrik Schowitz, Global Strategist, Multi-Asset Solutions
Michael Smith, Client Advisor
Michael Edwards, Relationship Manager

Discussion: As DPFP prepares for an asset allocation recommendation, Staff invited JPMorgan to provide an educational session reviewing the company’s Long Term Capital Market Return Assumptions for 2016. They will provide an overview of the return assumptions for various asset classes and explain how they are derived.

Staff Recommendation: Receive and file.
Dallas Police & Fire Pension System

Long-Term Capital Market Return Assumptions 2016

February 2016

Patrik Schöwitz, Global Strategist, Multi-Asset Solutions
212-464-2069, patrik.h.schowitz@jpmorgan.com

Michael Smith, Client Advisor
214-965-3350, michael.e.smith@jpmorgan.com

Michael Edwards, Relationship Manager
214-965-3349, michael.f.edwards@jpmorgan.com
Today’s speaker

Patrik Schöwitz, executive director, is a global strategist in the Multi-Asset Solutions team responsible for communicating the group’s economic and asset allocation strategy, based in New York. He is also a member of the committee that produces the Long-Term Capital Market Returns Assumptions, which underpin J.P. Morgan’s strategic asset allocation process. An employee since 2012, Patrik previously worked as an equity strategist at Bank of America-Merrill Lynch focused on European markets. Prior to that, he was an equity strategist at HSBC, covering Global, European and U.S. markets. Patrik obtained a B.Comm. in business studies and economics from the University of Edinburgh and is a CFA charterholder.

There can be no assurance that the professionals currently employed by JPMAM will continue to be employed by JPMAM or that the past performance or success of any such professional serves as an indicator of such professional’s future performance or success.
2016 marks the 20th anniversary of the Long-term Capital Market Assumptions (LTCMA)

The Assumptions provide our annual assessment of the long-term outlook across asset classes and markets

- A guide for investors around the world to develop, review and analyze their strategic asset allocation and set realistic expectations for risks and returns over a 10- to 15-year time frame.

- Informed by a process that carefully balances quantitative and qualitative inputs, both of which have been rigorously researched and continuously refined.

- One of the most established, time tested and comprehensive sets of capital market estimates in the industry, covering more than 50 asset and strategy classes and available in 10 base currencies.
  - Datasets available: USD, EUR, GBP, CAD, CHF, JPY, AUD, SEK, BRL, MEX
Time-tested projections to build resilient portfolios

REFERENCE PORTFOLIO RETURN BASED ON LONG-TERM CAPITAL MARKET ASSUMPTIONS RELATIVE TO ACTUAL RETURNS

<table>
<thead>
<tr>
<th>Return</th>
<th>95th percentile*</th>
<th>LTCMA assumption (50th percentile)*</th>
<th>5th percentile*</th>
</tr>
</thead>
<tbody>
<tr>
<td>25%</td>
<td></td>
<td></td>
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<tr>
<td>20%</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>15%</td>
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<td>10%</td>
<td>11.5%</td>
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<td>7.1%</td>
<td>7.2%</td>
<td>6.4%</td>
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<td>6.9%</td>
<td>6.2%</td>
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<td>2.9%</td>
<td>2.7%</td>
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<td>10%</td>
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<td>5%</td>
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<tr>
<td>0%</td>
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<td></td>
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<tr>
<td>-5%</td>
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<tr>
<td>-10%</td>
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</table>

Assumptions with 10 years or more history

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<tbody>
<tr>
<td>7.1%</td>
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<td></td>
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<tr>
<td>6.9%</td>
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<tr>
<td>2.9%</td>
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<td></td>
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</table>

Note: This is a projection used for illustrative purposes only and does not represent investment in any particular vehicle. References to future returns are not promises or even estimates of actual returns you may experience. Past performance is no guarantee of future results. It is not possible to invest directly in an index.

* Denoted by the darkly shaded area the range in and around the 50th percentile. The “50th percentile” indicates median return of the entire range of probable returns. The “95th percentile” return indicates that 95% of the probable returns will be equal to or below that number; the “5th percentile” return indicates that 5% of the probable returns will be equal to or below that number.

** Returns assume annual rebalancing, no taxes, and no cash flows. All returns are based on index data and include no manager alpha. Indices used: Barclays Capital Global & U.S. Aggregate Bond Indices, S&P 500, Russell 1000 Value, Russell Midcap , Russell 2000, MSCI EAFE, MSCI Japan, MSCI Asia ex-Japan, MSCI Emerging Markets, HFRI Fund of Funds Diversified , HFRI Event Driven , HFRI Equity Hedge, HFRI Relative Macro, HFRI Macro, Venture Economics U.S. Buyouts, NCREIF Property TR, DJUBS Commodity. The asset allocation of the reference portfolio reflects JP Morgan Private Bank’s default Balanced Portfolio asset allocation mix of the respective year, with a risk profile equivalent to that of a portfolio with a 55/45 equity/bond mix.

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2016 vs. 2015 LTCMAs projected returns

**KEY FINDINGS**

- For a 60/40 portfolio return expectations have improved somewhat compared to 2015.
- Expected equity and credit risk premiums have increased from last year.
- Investors with low risk appetite will face increasing headwinds as TIPS and Treasury return expectations barely exceed those of cash.
- Return expectations for private equity and emerging markets suggest an improving entry point.

---

**Note:** This is a projection used for illustrative purposes only and does not represent investment in any particular vehicle. References to future returns are not promises or even estimates of actual returns you may experience. Past performance is no guarantee of future results. It is not possible to invest directly in an index. Source: J.P. Morgan Asset Management, as of September 30, 2015.

---

**FOR INSTITUTIONAL/WHOLESALE/PROFESSIONAL CLIENTS AND QUALIFIED INVESTORS ONLY – NOT FOR RETAIL USE OR DISTRIBUTION**
**Economic assumptions: 2016 vs. 2015**

<table>
<thead>
<tr>
<th></th>
<th>U.S.</th>
<th>Europe</th>
<th>U.K.</th>
<th>Japan</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2016</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real GDP</td>
<td>2.25</td>
<td>1.50</td>
<td>1.50</td>
<td>0.50</td>
</tr>
<tr>
<td>Core inflation</td>
<td>2.25</td>
<td>1.50</td>
<td>2.25</td>
<td>1.50</td>
</tr>
<tr>
<td><strong>2015</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real GDP</td>
<td>2.50</td>
<td>1.50</td>
<td>2.00</td>
<td>1.00</td>
</tr>
<tr>
<td>Core inflation</td>
<td>2.25</td>
<td>1.75</td>
<td>2.25</td>
<td>1.25</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Brazil</th>
<th>China</th>
<th>India</th>
<th>Russia</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2016</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real GDP</td>
<td>3.00</td>
<td>6.00</td>
<td>7.25</td>
<td>2.75</td>
</tr>
<tr>
<td>Core inflation</td>
<td>5.25</td>
<td>3.00</td>
<td>5.00</td>
<td>5.50</td>
</tr>
<tr>
<td><strong>2015</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real GDP</td>
<td>3.25</td>
<td>6.25</td>
<td>7.00</td>
<td>3.00</td>
</tr>
<tr>
<td>Core inflation</td>
<td>4.75</td>
<td>3.00</td>
<td>7.00</td>
<td>5.50</td>
</tr>
</tbody>
</table>

- We expect real GDP growth of 1.75% for developed economies over our forecast horizon.
- This projection has fallen slightly from last year, mostly because of ongoing demographic trends and narrower output gaps.
- We continue to expect DM inflation to run close to central bank targets.
- EM growth projections have slipped again this year, reflecting a difficult global backdrop and what looks like the start of a multi-year deleveraging cycle.
- We expect Chinese growth to continue decelerating gradually toward 4% by the end of our projections.
- Our forecast growth-inflation mix in India has improved.

Source: J.P. Morgan Asset Management, as of September 30, 2015.
Macro themes: Demographics and convergence

- Slow population growth by historical standards will characterize the entire developed world, with the U.S. and the U.K. looking relatively good in this area.

- Our EM growth projections show a loose inverse relationship between today’s income levels and expected future growth rates.

Source: United Nations, JPMSL, J.P. Morgan Asset Management; data through 2015
Fixed income: A staggered liftoff of interest rates for cash

- Government bond yields should also start to rise as the normalization of rates begins in the U.S. and the U.K..
- The normalization process for the euro area and Japan is expected to begin only after the U.S. has reached equilibrium levels in three and four years, respectively.

U.S. AND THE U.K.

The normalization process for the euro area and Japan is expected to begin only after the U.S. has reached equilibrium levels in three and four years, respectively.

Source: J.P. Morgan Asset Management estimates as of September 30, 2015. Forecasts, projections and other forward looking statements are based upon current beliefs and expectations. They are for illustrative purposes only and serve as an indication of what may occur. Given the inherent uncertainties and risks associated with forecasts, projections and other forward statements, actual events, results or performance may differ materially from those reflected or contemplated.
Fixed income: Equilibrium yield building blocks

U.S. Cash Yield = 2.50%
U.S. 10-year Treasury Yield = 4.00%
U.S. 30-year Treasury Yield = 4.25%
U.S. High Yield Spread = 475bp

Cash Yield: 250 bps
Curve: 150 bps
Cash Yield: 250 bps
Curve: 175 bps
Cash Yield: 250 bps
Curve: 100 bps
Cash Yield: 250 bps

Credit risk Premia: 275 bps
Expected credit loss*: 200 bps

Source: J.P. Morgan Asset Management as of September 30, 2015. * Expected credit loss = expected default rate times expected loss rate. Assuming the historical average recovery rate of 40%, the expected default rate would be 3.33%. Opinions, estimates, forecasts, projections and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.

FOR INSTITUTIONAL/WHOLESALE/PROFESSIONAL CLIENTS AND QUALIFIED INVESTORS ONLY – NOT FOR RETAIL USE OR DISTRIBUTION
Fixed income: Return in the time of normalization and policy divergence

<table>
<thead>
<tr>
<th>Equilibrium Yield and Return assumption for selected Fixed Income assets</th>
<th>U.S.</th>
<th>U.K.</th>
<th>Euro</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Equilibrium Yield</td>
<td>Return</td>
<td>Equilibrium Yield</td>
</tr>
<tr>
<td>Inflation</td>
<td>2.25%</td>
<td>-</td>
<td>2.25%</td>
</tr>
<tr>
<td>Cash</td>
<td>2.50%</td>
<td>2.25%</td>
<td>2.50%</td>
</tr>
<tr>
<td>10yr Bond</td>
<td>4.00%</td>
<td>3.00%</td>
<td>4.00%</td>
</tr>
<tr>
<td>Gov't Bond Market*</td>
<td>4.00%</td>
<td>3.00%</td>
<td>4.00%</td>
</tr>
<tr>
<td>Investment Grade Credit</td>
<td>5.25%</td>
<td>4.25%</td>
<td>4.25%</td>
</tr>
<tr>
<td>High Yield</td>
<td>8.50%</td>
<td>6.75%</td>
<td>7.50%</td>
</tr>
<tr>
<td>Emerging Market Debt</td>
<td>7.25%</td>
<td>6.50%</td>
<td></td>
</tr>
</tbody>
</table>

- **U.S. fixed income**
  - Cash equilibrium rate and real cash returns to remain low compared to history
  - Treasury/Gilt returns only marginally above inflation as yields rise from historical lows
  - Euro Gov’t bond return diminished by long period of zero rate policy

- **Corporate credit**
  - Credit spreads and low credit loss expectations offer some offset to rising rates

- **Emerging market debt**
  - Issuers still working to contain cyclical downward pressure on credit quality
  - Local currency yields to remain elevated due to sticky inflation and higher real yield requirements


Opinions, estimates, forecasts, projections and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.

FOR INSTITUTIONAL/WHOLESALE/PROFESSIONAL CLIENTS AND QUALIFIED INVESTORS ONLY – NOT FOR RETAIL USE OR DISTRIBUTION
## Equities: Building blocks

Local currencies; rounded to nearest 25bps *

<table>
<thead>
<tr>
<th></th>
<th>U.S. Large Cap</th>
<th>Euro Area Large Cap</th>
<th>Japan Large Cap</th>
<th>Emerging Markets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Return</td>
<td>7.00%</td>
<td>7.00%</td>
<td>5.75%</td>
<td>9.75%</td>
</tr>
<tr>
<td>Dividend Yield</td>
<td>2.0</td>
<td>3.0</td>
<td>1.5</td>
<td>2.5</td>
</tr>
<tr>
<td>Buybacks</td>
<td>2.5</td>
<td>0.7</td>
<td>3.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Revenue Growth</td>
<td>6.1</td>
<td>4.8</td>
<td>4.0</td>
<td>9.3</td>
</tr>
<tr>
<td>Margins Impact</td>
<td>-0.5</td>
<td>1.6</td>
<td>-0.7</td>
<td>-0.4</td>
</tr>
<tr>
<td>Gross Dilution</td>
<td>-2.0</td>
<td>-2.0</td>
<td>-2.0</td>
<td>-2.6</td>
</tr>
<tr>
<td>Valuation Impact</td>
<td>-0.9</td>
<td>-1.1</td>
<td>-0.8</td>
<td>0.5</td>
</tr>
</tbody>
</table>

**Expected yield (including dividends and buybacks) as a percentage of total return:**

- U.S. Large Cap: 64%
- Euro Area Large Cap: 53%
- Japan Large Cap: 91%
- Emerging Markets: 31%

Source: J.P. Morgan Asset Management as of September 2015. Note that final return assumptions are rounded to nearest 25bps, and sum of building blocks will therefore differ slightly. Opinions, estimates, forecasts, projections and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. There can be no guarantee they will be met. * Note: totals may not sum due to rounding.
Equities: Developed market returns still subdued

<table>
<thead>
<tr>
<th>Equity returns</th>
<th>Local</th>
<th>U.S.</th>
<th>U.K.</th>
<th>Euro</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. large cap</td>
<td>7.00</td>
<td>7.00</td>
<td>6.50</td>
<td>6.00</td>
</tr>
<tr>
<td>U.S. small cap</td>
<td>7.25</td>
<td>7.25</td>
<td></td>
<td></td>
</tr>
<tr>
<td>EAFE</td>
<td></td>
<td>7.50</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Euro Area</td>
<td>7.00</td>
<td>8.50</td>
<td>8.00</td>
<td>7.00</td>
</tr>
<tr>
<td>Japan</td>
<td>5.75</td>
<td>6.50</td>
<td>6.00</td>
<td>5.00</td>
</tr>
<tr>
<td>U.K.</td>
<td>7.25</td>
<td>7.75</td>
<td>7.25</td>
<td>6.25</td>
</tr>
<tr>
<td>Emerging markets</td>
<td>9.75</td>
<td>10.00</td>
<td>9.50</td>
<td>8.50</td>
</tr>
</tbody>
</table>

**U.S. EQUITY**
- Elevated valuations and margins remain as a drag on returns as they normalize going forward.
- Subdued earnings growth is to a large degree offset by high shareholder pay-outs; dividend yield is maintained while share buybacks decline only modestly.

**NON-U.S. EQUITY**
- Valuations remain a negative driver across almost all developed markets.
- EMU and U.K. returns benefit from recovering margins. This is a change for the U.K. vs. last year, following a drop in earnings.
- All DMs continue to benefit from EM-sourced revenue growth in excess of domestic revenue growth.
- Japanese returns are boosted by an assumption that recent rise in margins and profitability can be maintained, but still short of Western level. This shows up as high buybacks.
- Non-U.S. equity market returns boosted in USD terms due to assumption of falling USD going forward.
- Emerging markets revenue growth to decelerate amid weaker economic backdrop – but still well in excess of DM. Low aggregate valuations are now a positive return driver.

Source: J.P. Morgan Asset Management as of September 30, 2015. Opinions, estimates, forecasts, projections and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.
Equity real returns and fixed income yields below long-term averages

**U.S. LARGE CAP REAL TOTAL RETURN** Trailing 10-year return (annualized)

- **Long-term average, 1871-2015:** 6.8%
- **Assumption for next 10-15 years:** 4.75%

**U.S. 10-YEAR INTEREST RATES** (annualized)

- **Long-term average, 1871-2015:** 4.6%
- **Assumption for next 10-15 years:** 4.0%


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Alternative Assets: Equity/Public Market based beta strategies

- Private Equity and Hedge Fund strategy class returns driven primarily by public market beta
- Return assumptions generally positively impacted by increase in equity/public market projections

![Graph showing returns for various strategies]

**Private Equity**
- Private Equity as a strategy, not an asset class
- Alpha / residual risk taken flat for private equity year over year
- Asset flows, not cyclical factors, are the dominant consideration
- Dispersion remains the key message

**Hedge Funds**
- Equal weighted strategy alpha/residual risk taken increased approximately 75 basis points year over year
- Cross asset class and sectoral dispersion increase, correlation decrease improves alpha outlook
- Considerable manager dispersion

Source: J.P. Morgan Asset Management. HF manager returns are taken from HFRI as of 9/30/15. PE and Real Estate historical quartile returns are taken from Cambridge Associates data as of 03/31/15.
Alternative Assets: Private Equity

Rolling Four-Quarter Private Equity Alpha

Estimated Private Equity Dry Powder by Fund Type, U.S. Dollars


2. Source: Q2 2015 Preqin Quarterly Update; data as of June 30, 2015. Dry powder is defined as private equity funds that are committed and available for use during the respective investment period.

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Alternative Real Assets: Real Estate, Infrastructure, Commodities

Real asset returns attractive versus Equity/Fixed Income markets as demand for long-lived cash flowing assets remains robust

- **U.S. Real Estate**
  - Core returns marked lower as cycle ages even as supply still lags
  - Value added premium vs. core remains at 1.75% as no compression yet this cycle

- **European Real Estate**
  - 25 basis points compression of returns year over year

- **REITs**
  - Discount versus NAV sets up a small premium return outlook vs. real assets

- **Infrastructure**
  - Core regulated assets expensive, cyclical and alternative power assets still attractive
  - 25 basis points reduction year over year to primarily reflect pricing of regulated assets

- **Commodities**
  - Return expectation reduced in line with global growth and inflation

Source: J.P. Morgan Asset Management. HF manager returns are taken from HFRI as of 9/30/15. PE and Real Estate historical quartile returns are taken from Cambridge Associates data as of 3/31/15.
The U.S. Dollar has risen considerably since 2011

The FX market is already pricing in a significant amount of economic and monetary policy divergence

Source: J.P. Morgan Asset Management, U.S. PPI-Based Real Broad Effective Exchange Rate. Data through 9/30/2015.

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Sharpe ratios across asset classes

- As the return on cash rises U.S. treasuries and TIPS experience a significant decline in their expected Sharpe ratios
- Moderate declines in U.S. aggregate bonds, emerging market debt as higher carry partially offsets adverse impact from rising yields
- Diversified hedge fund strategy return expectations do not rise enough to fully offset the rise in the risk free rate
- Expected Sharpe ratios for equities improve and converge across regions
- U.S. high yield is the only fixed income asset class experiencing an improvement year over year

Source: J.P. Morgan Asset Management as of September 30, 2015. Opinions, estimates, forecasts, projections and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.
Subdued nominal performance prospects, but some attractive risk premiums

**SELECTED LTCMA RETURNS (%)**

<table>
<thead>
<tr>
<th>Category</th>
<th>2016 LTCMA projection</th>
<th>2015 LTCMA projection</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Investment Grade Corporate</td>
<td>4.25</td>
<td>4.75</td>
</tr>
<tr>
<td>U.S. High Yield</td>
<td>6.75</td>
<td>6.00</td>
</tr>
<tr>
<td>EM Equity</td>
<td>10.00</td>
<td>8.75</td>
</tr>
<tr>
<td>U.S. Small Cap Equity</td>
<td>7.25</td>
<td>6.75</td>
</tr>
<tr>
<td>U.S. Large Cap Equity</td>
<td>7.00</td>
<td>6.50</td>
</tr>
<tr>
<td>U.S. Intermediate Treasury</td>
<td>3.00</td>
<td>4.00</td>
</tr>
<tr>
<td>U.S. Cash</td>
<td>2.25</td>
<td>2.00</td>
</tr>
</tbody>
</table>

**SELECTED LTCMA RISK PREMIUMS (%)**

<table>
<thead>
<tr>
<th>Premium</th>
<th>2016 LTCMA projection</th>
<th>2015 LTCMA projection</th>
</tr>
</thead>
<tbody>
<tr>
<td>EM equity premium</td>
<td>3.00</td>
<td>2.25</td>
</tr>
<tr>
<td>Small cap premium</td>
<td>0.25</td>
<td>0.25</td>
</tr>
<tr>
<td>Equity risk premium</td>
<td>4.00</td>
<td>2.50</td>
</tr>
<tr>
<td>High yield premium</td>
<td>2.50</td>
<td>2.50</td>
</tr>
<tr>
<td>Investment grade premium</td>
<td>1.25</td>
<td>1.25</td>
</tr>
<tr>
<td>Duration premium</td>
<td>2.00</td>
<td>1.00</td>
</tr>
</tbody>
</table>

Appendix
Equities: Impact of share buybacks and dilution

Shareholder buybacks have picked up across most major developed markets, resulting in decreased dilution.

INDEX DIVISOR*, JANUARY 1975 = 100

ANNUALIZED RATE OF DILUTION, % PER ANNUM

Source: Thomson Reuters Datastream, monthly data from January 1975 to September 2015
Opinions, estimates, forecasts, projections and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. There can be no guarantee they will be met. * Note: Index divisor is the ratio of index market capitalization to the index level

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DM equity: Margin and valuation normalization

PROFIT MARGINS EXPECTED TO CONVERGE TO SOME DEGREE
Profit margins, %

PE NORMALIZATION ASSUMED TO BE A NEGATIVE FOR RETURNS
Ratio of price to trailing twelve months’ earnings per share

Sharpe Ratio: A cross check of expected risk adjusted returns

Expected 10–15 year Sharpe ratios

<table>
<thead>
<tr>
<th>Asset Class</th>
<th>Historical (10 Years)</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed World (USD)</td>
<td>0.38</td>
<td>0.37</td>
</tr>
<tr>
<td>U.S. large cap</td>
<td>0.50</td>
<td>0.38</td>
</tr>
<tr>
<td>U.S. small cap</td>
<td>0.44</td>
<td>0.33</td>
</tr>
<tr>
<td>EAFE (USD)</td>
<td>0.29</td>
<td>0.39</td>
</tr>
<tr>
<td>Europe ex-UK (USD)</td>
<td>0.28</td>
<td>0.41</td>
</tr>
<tr>
<td>U.K. (USD)</td>
<td>0.27</td>
<td>0.38</td>
</tr>
<tr>
<td>Japan (USD)</td>
<td>0.26</td>
<td>0.34</td>
</tr>
<tr>
<td>Asia ex-Japan</td>
<td>0.45</td>
<td>0.42</td>
</tr>
<tr>
<td>Emerging markets (USD)</td>
<td>0.40</td>
<td>0.40</td>
</tr>
<tr>
<td>Diversified</td>
<td>0.38</td>
<td>0.36</td>
</tr>
<tr>
<td>Event Driven</td>
<td>0.68</td>
<td>0.51</td>
</tr>
<tr>
<td>Long Bias</td>
<td>0.44</td>
<td>0.37</td>
</tr>
<tr>
<td>Relative Value</td>
<td>1.02</td>
<td>0.51</td>
</tr>
<tr>
<td>Macro</td>
<td>0.60</td>
<td>0.40</td>
</tr>
<tr>
<td>Commodities</td>
<td>0.27</td>
<td>0.13</td>
</tr>
<tr>
<td>Gold</td>
<td>0.54</td>
<td>0.16</td>
</tr>
<tr>
<td>U.S. Direct Real Estate (unlevered)</td>
<td>0.35</td>
<td>0.29</td>
</tr>
<tr>
<td>U.S. 10-year Treasury</td>
<td>0.40</td>
<td>0.08</td>
</tr>
<tr>
<td>U.S. municipals</td>
<td>0.83</td>
<td>0.32</td>
</tr>
<tr>
<td>U.S. corporates</td>
<td>0.47</td>
<td>0.30</td>
</tr>
<tr>
<td>U.S. high yield</td>
<td>0.66</td>
<td>0.53</td>
</tr>
<tr>
<td>Global Aggregate bonds (hedged)</td>
<td>1.08</td>
<td>0.36</td>
</tr>
<tr>
<td>Local sovereign emerging market debt</td>
<td>0.42</td>
<td>0.43</td>
</tr>
<tr>
<td>Emerging market debt</td>
<td>0.71</td>
<td>0.45</td>
</tr>
<tr>
<td>Corporate emerging market debt</td>
<td>0.61</td>
<td>0.51</td>
</tr>
</tbody>
</table>

- Government bonds see significant deterioration vs. history
- Credit likely to see more robust risk-adjusted returns in the near time
- Sharpe ratios for some of the “star” asset classes of the last decade — EM debt and commodities are reduced to normal
- Sharpe ratios for equities almost back to normal


By “star” asset classes, we are referring to some of the best performing asset classes of the decade.

Opinions, estimates, forecasts, projections and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. There can be no guarantee they will be met.
JPMAM Long Term Capital Market Assumptions: Given the complex risk-reward trade-offs involved, we advise clients to rely on judgment as well as quantitative optimization approaches in setting strategic allocations. Please note that all information shown is based on qualitative analysis. Exclusive reliance on the above is not advised. This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise of future performance. Note that these asset class and strategy assumptions are passive only—they do not consider the impact of active management. References to future returns are not promises or even estimates of actual returns a client portfolio may achieve. Assumptions, opinions and estimates are provided for illustrative purposes only. They should not be relied upon as recommendations to buy or sell securities. Forecasts of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. We believe the information provided here is reliable, but do not warrant its accuracy or completeness. This material has been prepared for information purposes only and is not intended to provide, and should not be relied on for, accounting, legal or tax advice. The outputs of the assumptions are provided for illustration/discussion purposes only and are subject to significant limitations. “Expected” or “Alpha” return estimates are subject to uncertainty and error. For example changes in the historical data from which it is estimated will result in different implications for asset class returns. Expected returns for each asset class conditional on an economic scenario; actual returns in the event the scenario comes to pass could be higher or lower, as they have been in the past, so an investor should not expect to achieve returns similar to the outputs shown herein. References to future returns for either asset allocation strategies or asset classes are not promises of actual returns a client portfolio may achieve. Because of the inherent limitations of all models, potential investors should not rely exclusively on the model when making a decision. The model cannot account for the impact that economic, market, and other factors may have on the implementation and ongoing management of an actual investment portfolio. Unlike actual portfolio outcomes, the model outcomes do not reflect actual trading, liquidity constraints, fees, expenses, taxes and other factors that could impact the future returns. The model assumptions are passive only—they do not consider the impact of active management. A manager’s ability to achieve similar outcomes is subject to risk factors over which the manager may have no or limited control.

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DISCUSSION SHEET

ITEM #C5

Topic: Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting

Discussion: DPFP’s comprehensive annual financial report for the year ended December 31, 2014 was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

This is the first year that DPFP has participated in the CAFR Program and it is one of only 14 public pension plans in the state of Texas to receive the certificate for 2014.

Staff Recommendation: Receive and file.
ITEM #C6

Topic: Investment and financial reports

Discussion: Review of investment and financial reports.

Staff Recommendation: Receive and file.
DISCUSSION SHEET

ITEM #C7

Topic: Business Continuity Review

Discussion: John Holt, IT Manager, will review the System’s Business Continuity Plan. The review will highlight major features of the plan.

Staff Recommendation: Receive and file.
Old Infrastructure

- Revision Backup – Version Restoration
  - Barracuda
- Payroll Assistance
  - Levi Ray and Shoup, Inc. will assist up to processing payroll during a business disruptive event
- Continuous Replication for system or facility restoration
  - Multiple replication strategies to the hot site
Old Infrastructure Diagram

- Off Site Barracuda Device 1
- On Site Barracuda Device
- Off Site Barracuda Device 2
- LRS
- FTP
- Active Directory
- Exchange Cluster
- Double Take
- DFS
- Harry Hines Virtual Servers (Private Cloud)
- Hot Site
New Infrastructure

- Revision Backup – Version Restoration
  - Barracuda
- Payroll Assistance
  - Levi Ray and Shoup, Inc. will assist up to processing payroll during a business disruptive event
- Continuous Replication for System or Facility Restoration
  - Multiple replication strategies to the hot site is replaced with single replication of virtual server to the cloud
  - Microsoft hosted email
New Infrastructure Diagram

- Off Site Barracuda Device 1
- On Site Barracuda Device
- Off Site Barracuda Device 2
- LRS
- FTP
- VMware
- VMware Cloud (Public Cloud)
- MS Hosted Email
- Hot Site
- Harry Hines Virtual Servers (Private Cloud)
New Infrastructure Enhancements

- vCloud Air Disaster Recovery
  - Single replication method
  - Failover in Minutes – Automatic
  - Can be used as active alternative to in-house servers
- Microsoft hosted email
  - MS handles redundancy and upgrades
  - Always accessible from Internet
- Both eliminate the need for a server room at the hot site
ITEM #C8

Topic: Internal Controls

Discussion: Summer Loveland, Chief Financial Officer, will present a brief overview of internal controls in place at DPFP. A portion of the time allotted will be available for questions from the Board.

Staff Recommendation: Receive and file.
Internal Controls
Overview

DALLAS POLICE AND FIRE PENSION SYSTEM
Primary Objectives

- Accurate financial information
- Compliance with policies and procedures
- Efficient use of resources
- Accomplishment of goals and objectives
- Safeguarding of assets
Control Environment

The control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure. Control environment factors include the integrity, ethical values and competence of the entity’s people; management's philosophy and operating style; the way management assigns authority and responsibility, and organizes and develops its people; and the attention and direction provided by the board.

-COSO Integrated Framework Executive Summary
Management’s Role

- Create the control environment
- Assess risk
- Develop processes and procedures
  - Approvals
  - Authorizations
  - Segregation of duties
  - Reconciliations
  - Security of assets
- Monitor compliance
Board’s Role

- Provide independent oversight of internal controls
- Provide a forum, separate from management, in which auditors can candidly discuss concerns
- Help ensure that management develops and adheres to a sound system of internal controls and that the auditors objectively report on any findings
Auditors’ Role

- Report directly to the Board (or Audit Committee)
- Communicate risk assessment to the Board
- Communicate corrected and uncorrected audit differences to the Board
- Report to Board of any lack of cooperation of management during the audit
- Audit opinion does not cover internal controls, however, any significant deficiencies or material weaknesses in internal control are reported to the Board in writing
Control Enhancements

DPFP has strengthened controls in the following areas:

- Creating a culture that expects accountability and transparency
- Valuation of real estate/reporting from external RE managers
- Transparency in budget process
- Frequency of financial reporting to Board
- Security of cash receipts
- Collection of overpayments to members, including enhancement of death audit process
- Accuracy of changes to member information
- Account reconciliations
- Segregation of duties related to operating cash disbursements
- Bank controls (enhanced positive pay and lowered transaction limits)
- Reconciliation of member contributions with City
- Documentation of Benefits related processes
- Elimination of manual processes where feasible
- Building management (review of vendor contracts, pre-approval of expenditures, reporting from property manager)
Questions?
DISCUSSION SHEET

ITEM #C9

Topic: Employee recognition – Fourth Quarter 2015

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

Discussion: a. The Chairman will present a performance award for Employee of the Quarter, Fourth Quarter 2015.
   b. The Chairman will present the William G. Baldree Employee of the Year Award for 2015. The Employee of the Year is chosen from among the four Employee of the Quarter Award recipients for the year.

Staff Recommendation: Receive and file.
DISCUSSION SHEET

ITEM #C10

Topic: Ad hoc committee reports

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

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

Staff Recommendation: Receive and file.
ITEM #C11

Topic: Service Provider Review

a. Legislative consultants
b. The Townsend Group
c. Segal Consulting

Discussion: The Executive Director will brief the Board on these service providers.

Staff Recommendation: Request direction from the Board.
DISCUSSION SHEET

ITEM #C12

Topic: Qualified Domestic Relations Order policy

Discussion: The Qualified Domestic Relations Order Policy is being amended to reflect the requirement that an alternate payee who receives a portion of a member’s DROP account is required to take a distribution in full of the account within six months of the date the DROP funds are transferred from the member’s account to the alternate payee’s account.

Staff Recommendation: Approve the Qualified Domestic Relations Order Policy as amended.
QUALIFIED DOMESTIC RELATIONS ORDER
POLICY

As Amended Through ________________
DALLAS POLICE AND FIRE PENSION SYSTEM
QUALIFIED DOMESTIC RELATIONS ORDER
POLICY

As Amended Through ___________

A. PURPOSE

1. This policy provides rules governing the partition of a Member’s or Pensioner’s interest under the Combined Pension Plan of the Dallas Police and Fire Pension System (“DPFP”) and of the Supplemental Pension Plan, where applicable, pursuant to a Qualified Domestic Relations Order (“QDRO”) and payments made to an Alternate Payee when a domestic relations order (“DRO”) is determined to be a QDRO. This policy will change from time to time as case law and legislation develop.

2. Any reference in this policy to a provision of the Combined Pension Plan shall also be considered a reference to the comparable provision of the Supplemental Pension Plan if the applicant is a Member of the Supplemental Pension Plan and such plans are collectively referred to in this policy as the “Plan.”

3. The Executive Director may develop written procedures to implement this policy.

B. DEFINITIONS

1. Alternate Payee: means a Member’s or Pensioner’s spouse, former spouse, child or other dependent who is recognized by a DRO as having a right to receive all or a portion of the benefits payable under the Plan with respect to such Member or Pensioner.

2. Domestic Relations Order (“DRO”): means any judgment, decree or order (including approval of a property settlement) which relates to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child or other dependent of a Member or Pensioner, and is made pursuant to any state domestic relations law (including a community property law).

3. Earliest Retirement Age/Earliest Benefit Commencement for Alternate Payee. Earliest Retirement Age means the earlier of:

(a) The date on which the Member is entitled to a distribution under the Plan,
B. DEFINITIONS (continued)

(b) The later of:

- The date the Member attains age 50, or
- The date the Member could begin receiving benefits under the Plan if the Member separated from service.

4. Qualified Domestic Relations Order or QDRO: means a DRO which creates or recognizes the existence of the rights of an Alternate Payee, or assigns to an Alternate Payee the right to receive all or a portion of the benefits payable to a Member or Pensioner under the Plan, and is determined by the Executive Director to satisfy the requirements of Section 414(p) of the Internal Revenue Code (the “Code”) and this policy.

Other terms used in this policy shall have the meaning those terms have in the Plan unless the context in which they are used indicates that a different meaning is intended.

C. APPLICABLE LAW

1. The Plan provides the general rule that benefits accrued under the Plan may not be assigned or alienated. However, the Plan also provides that benefits thereunder are subject to division pursuant to the terms of a QDRO. Further, the Executive Director is charged with determining the qualification of a DRO according to this policy as approved by the Board.

2. The Board has not elected to adopt the provisions of Subchapters A and C, Chapter 804 of the Government Code. Instead, the Plan provides that a QDRO shall have the meaning provided by Section 414(p) of the Code, provided, however, that death benefits that may become available to the survivors of a deceased Member or Pensioner are status benefits that are not community property and may not be awarded to an Alternate Payee under a QDRO.

3. A DRO will not be a QDRO if it provides or purports to provide benefits that have not been accrued at the time of the divorce of the Member or Pensioner and Alternate Payee or any earlier effective date of the DRO. For example, a DRO will not be a QDRO if it purports to award DROP benefits to an Alternate Payee that have not been credited to a Member’s DROP account on the date of divorce.
C. APPLICABLE LAW (continued)

4. Texas case law precludes an award to an Alternate Payee to the extent such an award would invade a Member’s or Pensioner’s separate property. See Berry v. Berry, 647 S.W.2d 945, 947 (Tex. 1983), citing Cameron v. Cameron, 641 S.W.2d 210 (Tex. 1982). Also, the community property interest in the Member’s retirement pension is determined as if the Member began to participate in the Plan on the date of marriage and ended that participation on the date of dissolution of the marriage. The Member has a separate property interest in the monthly accrued benefit the Member has a right to receive on normal retirement age, as defined by the Plan, based upon service performed prior to the date of the marriage, regardless of whether the benefit had vested.

5. An administrative order, or other document that is not a DRO, fails to meet the QDRO requirements of Section 414(p) of the Code and this policy.

D. ADDITIONAL RULES FOR DETERMINING AND ADMINISTERING A QDRO

In order for a DRO to be a QDRO it must clearly specify the information described in Paragraph 1, below, and may not contain any of the provisions described in Paragraph 2.

1. A QDRO must clearly specify the following:

   (a) The name and last known mailing address, if any, of the Member or Pensioner and the name and mailing address of each Alternate Payee covered by the DRO.

   (b) The amount or percentage of the Member’s or Pensioner’s benefits to be paid by DPFP to each Alternate Payee covered by the DRO, or the manner in which such amount or percentage is to be determined.

   (c) The number of payments or period to which such order applies.

   (d) Each plan (the Combined Pension Plan and the Supplemental Pension Plan) to which the DRO applies.

Although not a requirement for “qualification” of a DRO, for the purpose of calculating the relative property interests of an Alternate Payee(s) and a Member or Pensioner in a plan benefit, and for purposes of income tax reporting, DPFP will require written proof or a sworn and notarized statement signed by the Alternate Payee specifying the following:
D. ADDITIONAL RULES FOR DETERMINING AND ADMINISTERING A QDRO (continued)

- The Social Security number of the Alternate Payee(s).
- The birth date of the Alternate Payee(s).

2. A DRO will not be a QDRO if it requires any of the following:

   (a) Any type or form of benefit, or any option not otherwise provided under the Plan.
   
   (b) Increased benefits (determined on the basis of actuarial value), or
   
   (c) Benefits to be paid to an Alternate Payee that are required to be paid to another Alternate Payee under another DRO previously determined to be a QDRO.

3. Notwithstanding Paragraph 1, above, a DRO shall not fail to be a QDRO solely because it requires that payment of benefits to an Alternate Payee commence before the Member has terminated Active Service so long as payments are not required to commence before the Member’s earliest Retirement Age. Also, a DRO will not fail to be a QDRO solely because it provides for the payment to an Alternate Payee of some or all of the Group B member contributions of a member who is still in active service.

4. The Executive Director shall have no duty to determine whether a DRO that complies with Section 414(p) of the Code and this policy complies with any state domestic relations law, including any community property law. However, the Executive Director shall have discretion to briefly delay payments that he or she believes are inconsistent with any law, while providing notice of the perceived defect to the parties and the court.

5. Other than for a temporary support order, any portion of a Member’s or Pensioner’s monthly pension benefit that is payable to an Alternate Payee shall be paid in the form of an annuity over the life of the Alternate Payee unless the Member is still on Active Service and the Alternate Payee elects to satisfy the payment obligation by receiving all or a portion of the Member’s contributions. Any portion of a Member’s or Pensioner’s DROP account that is awarded to an Alternate Payee shall be split off into a separate account. The Alternate Payee shall be treated as the owner of the separate DROP account and may, subject to Paragraph D.6. below, elect to receive payment in any form that could have been elected by the Member or Pensioner, such as payable as a lump sum or payments upon request. However, the Alternate Payee may not elect to defer monthly payments into a DROP account.
D. ADDITIONAL RULES FOR DETERMINING AND ADMINISTERING A QDRO (continued)

6. DPFP will pay to an Alternate Payee the full distribution of the portion of a Member’s or Pensioner’s DROP account awarded to the Alternate Payee within six months after the transfer of funds to the Alternate Payee’s DROP account. However, an Alternate Payee owner of a DROP account as of May 14, 2015 shall take distributions from his or her DROP account in substantially equal amounts each year, as defined in the Board’s DROP Policy and Procedure, that will result in the total distribution of the DROP account before the tenth anniversary of the date such distributions commenced.

7. The benefit of the Member or Pensioner shall be reduced by the present value of the award to the Alternate Payee. However, a Member whose Member contributions are paid out pursuant to a QDRO shall have a right to restore those Member contributions so long as the Member has not terminated from Active Service or entered DROP.

E. PLAN PROCEDURES WITH RESPECT TO DRO’S

The Executive Director shall establish uniform and consistent procedures to determine whether a DRO meets the requirements of this policy and the applicable provisions of Section 414(p) of the Code and to administer payments under those DRO’s that are determined to be QDRO’s.

APPROVED on _________________, by the Board of Trustees of the Dallas Police and Fire Pension System.

________________________________________
Samuel L. Friar
Chairman

ATTEST:

________________________________________
Kelly Gottschalk
Secretary
QUALIFIED DOMESTIC RELATIONS ORDER
POLICY

As Amended Through October 14, 2010
A. PURPOSE

1. This policy provides rules governing the partition of a Member’s or Pensioner’s interest under the Combined Pension Plan of the Dallas Police and Fire Pension System ("SystemDPFP") and of the Supplemental Pension Plan, where applicable, pursuant to a Qualified Domestic Relations Order ("QDRO") and payments made to an Alternate Payee when a domestic relations order DRO ("DRO") is determined to be a QDRO. This policy will change from time to time as case law and legislation develop.

2. Any reference in this policy to a provision of the Combined Pension Plan shall also be considered a reference to the comparable provision of the Supplemental Pension Plan if the applicant is a Member of the Supplemental Pension Plan and such plans are collectively referred to in this policy as the “Plan.”

3. The Administrator Executive Director may develop written procedures to implement this policy.

B. DEFINITIONS

1. **Alternate Payee:** means a Member’s or Pensioner’s spouse, former spouse, child or other dependent who is recognized by a DRO as having a right to receive all or a portion of the benefits payable under the Plan with respect to such Member or Pensioner.

2. **Domestic Relations Order ("DRO"):** means any judgment, decree or order (including approval of a property settlement) which relates to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child or other dependent of a Member or Pensioner, and is made pursuant to any State domestic relations law (including a community property law).

3. **Earliest Retirement Age/Earliest Benefit Commencement for Alternate Payee.** Earliest Retirement Age means the earlier of:

   (a) The date on which the Member is entitled to a distribution under the applicable Plan(s), or
B. DEFINITIONS (continued)

(b) The later of:

- The date the Member attains age 50, or
- The date the Member could begin receiving benefits under the applicable Plan(s) if the Member separated from service.

4. **Qualified Domestic Relations Order or QDRO:** means a DRO which creates or recognizes the existence of the rights of an Alternate Payee, or assigns to an Alternate Payee the right to receive all or a portion of the benefits payable to a Member or Pensioner under the System DPEP, and is determined by the Administrator to satisfy the requirements of Section 414(p) of the Internal Revenue Code (the “Code”) and this policy.

Other terms used in this policy shall have the meaning those terms have in the Combined Pension Plan unless the context in which they are used indicates that a different meaning is intended.

C. APPLICABLE LAW

1. The Combined Pension Plan (Article 6243a-1 of the Civil Statutes of Texas), and by incorporation the Supplemental Pension Plan, provides the general rule that benefits accrued under the Plan may not be assigned or alienated. However, the Plan also provides that benefits thereunder are subject to division pursuant to the terms of a QDRO. Further, the Administrator is charged with determining the qualification of a DRO according to this policy as approved by the Board.

2. The Board has not elected to adopt the provisions of Subchapters A and C, Chapter 804 of the Government Code. Instead, the Combined Pension Plan provides that a QDRO shall have the meaning provided by Section 414(p) of the Code, provided, however, that death benefits that may become available to the survivors of a deceased Member or Pensioner are status benefits that are not community property and may not be awarded to an Alternate payee under a QDRO.

3. A DRO will not be a QDRO if it provides or purports to provide benefits that have not been accrued at the time of the divorce of the Member or Pensioner and Alternate Payee or any earlier effective date of the DRO. For example, a DRO will not be a QDRO if it purports to award DROP benefits to an Alternate Payee that have not been credited to a Member’s DROP account on the date of divorce.
C. APPLICABLE LAW (continued)

4. Texas case law precludes an award to an Alternate Payee to the extent such an award would invade a Member’s or Pensioner’s separate property. See Berry v. Berry, 647 S.W.2d 945, 947 (Tex. 1983), citing Cameron v. Cameron, 641 S.W.2d 210 (Tex. 1982). Also, the community property interest in the Member’s retirement pension is determined as if the Member began to participate in the Plan on the date of marriage and ended that participation on the date of dissolution of the marriage. The Member has a separate property interest in the monthly accrued benefit the Member has a right to receive on normal retirement age, as defined by the Plan, based upon service performed prior to the date of the marriage, regardless of whether the benefit had vested.

5. An administrative order, or other document that is not a DRO, fails to meet the QDRO requirements of Section 414(p) of the Code and this policy.

D. ADDITIONAL RULES FOR DETERMINING AND ADMINISTERING IF A DRO IS A QDRO

In order for a DRO to be a QDRO it must clearly specify the information described in Paragraph 1, below, and may not contain any of the provisions described in Paragraph 2.

1. A QDRO must clearly specify the following:

   (a) The name and last known mailing address, if any, of the Member or Pensioner and the name and mailing address of each Alternate Payee covered by the DRO.

   (b) The amount or percentage of the Member’s or Pensioner’s benefits to be paid by the SystemDPFP to each Alternate Payee covered by the DRO, or the manner in which such amount or percentage is to be determined.

   (c) The number of payments or period to which such order applies.

   (d) Each plan (the Combined Pension Plan and the Supplemental Pension Plan) to which the DRO applies.
D. ADDITIONAL RULES FOR DETERMINING AND ADMINISTERING IF A DRO IS A QDRO (continued)

Although not a requirement for “qualification” of a DRO, for the purpose of calculating the relative property interests of an Alternate Payee(s) and a Member or Pensioner in a plan benefit, and for purposes of income tax reporting, the SystemDPFP will require written proof or a sworn and notarized statement signed by the Alternate Payee specifying the following:

- The Social Security number of the Alternate Payee(s).
- The birth date of the Alternate Payee(s).

2. A DRO will not be a QDRO if it requires any of the following:

   (a) Any type or form of benefit, or any option not otherwise provided under the Plan.

   (b) Increased benefits (determined on the basis of actuarial value), or

   (c) Benefits to be paid to an Alternate Payee that are required to be paid to another Alternate Payee under another DRO previously determined to be a QDRO.

3. Notwithstanding Paragraph 1, above, a DRO shall not fail to be a QDRO solely because it requires that payment of benefits to an Alternate Payee commence before the Member has terminated Active Service so long as payments are not required to commence before the Member’s earliest Retirement Age. Also, a DRO will not fail to be a QDRO solely because it provides for the payment to an Alternate Payee of some or all of the Group B member contributions of a member who is still in active service.

4. The administrator Executive Director shall have no duty to determine whether a DRO that complies with Section 414(p) of the Code and this policy complies with any state domestic relations law, including any community property law. However, the administrator Executive Director shall have discretion to briefly delay payments that he or she believes are inconsistent with any law, while providing notice of the perceived defect to the parties and the court.
D. ADDITIONAL RULES FOR DETERMINING AND ADMINISTERING IF A DRO IS A QDRO (continued)

5. Other than for a temporary support order, any portion of a Member’s or Pensioner’s monthly pension benefit that is payable to an Alternate Payee shall be paid in the form of an annuity over the life of the Alternate Payee unless the Member is still on Active Service and the Alternate Payee elects to satisfy the payment obligation by receiving all or a portion of the Member’s contributions. Any portion of a Member’s or Pensioner’s DROP account that is awarded to an Alternate Payee shall be split off into a separate account. The Alternate Payee shall be treated as the owner of the separate DROP account and may, subject to Paragraph D.6. below, elect to receive payment in any form that could have been elected by the Member or Pensioner, such as, payable as a lump sum, or payments upon request or annuity over the life of the Alternate Payee. However, the Alternate Payee may not elect to defer monthly payments into a DROP account.

6. Annuity payments shall be adjusted by taking into account the age of the Alternate Payee and the present value of the benefits actually accrued. The interest rate and mortality table used for this adjustment shall be the interest rate and mortality table used to determine optional benefits that may be elected by Members. DPFP will pay to an Alternate Payee the full distribution of the portion of a Member’s or Pensioner’s DROP account awarded to the Alternate Payee within six months after the transfer of funds to the Alternate Payee’s DROP account. However, an Alternate Payee owner of a DROP account as of May 14, 2015 shall take distributions from his or her DROP account in substantially equal amounts each year, as defined in the Board’s DROP Policy and Procedure, that will result in the total distribution of the DROP account before the tenth anniversary of the date such distributions commenced. Such distributions must commence no later than December 31, 2015.

7. The benefit of the Member or Pensioner shall be reduced by the present value of the award to the Alternate Payee. However, a Member whose Member contributions are paid out pursuant to a QDRO shall have a right to restore those Member contributions so long as the Member has not terminated from Active Service or entered DROP.

E. PLAN PROCEDURES WITH RESPECT TO DRO’S

The Administrator/Executive Director shall establish uniform and consistent procedures to determine whether a DRO meets the requirements of this policy and the applicable provisions of Section 414(p) of the Code and to administer payments under those DRO’s that are determined to be QDRO’s.
APPROVED on October 14, 2010, by the Board of Trustees of the Dallas Police and Fire Pension System.

George Tomasovic
Chairman

ATTEST:

Richard L. Tettamant
Kelly Gottschalk
Secretary
ITEM #C13

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

a. Conference: Society of Pension Professionals
   Dates: December 15, 2015
   Location: Dallas, TX
   GB, JS, CW

b. Conference: NEPC Public Funds Workshop
   Dates: January 11-12, 2016
   Location: Phoenix, AZ
   SF, JS, KG, JP

c. Conference: Opal: Public Funds Summit
   Location: Scottsdale, AZ
   KH

d. Conference: Invesco Global Market Outlook
   Dates: January 15, 2016
   Location: Dallas, TX
   JS

e. Conference: Society of Pension Professionals
   Dates: January 19, 2016
   Location: Dallas, TX
   JS, JB, CW
f. Conference: NAPO Pension & Benefits Seminar
   Dates: January 24-26, 2016
   Location: Las Vegas, NV
   Est. Cost: $1,300

   GH

   Staff
   Recommendation: Receive and file.
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. Potential claims involving fiduciaries and advisors
b. 2014 Plan amendment election and litigation
c. Southern Cross personnel
d. Open records litigation
e. Police Officer and Firefighter pay lawsuits

Discussion: Counsel will brief the Board on these issues.

Staff Recommendation: Receive and file.
Topic: Process of the Executive Director Performance Evaluation

Discussion: Chairman Friar would like to discuss the process the Board will use on an annual basis to evaluate the performance of the Executive Director.
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.

Staff Recommendation: Receive and file.
ITEM #D2

Topic: Executive Director’s report

a. Associations’ newsletters
   • NCPERS Monitor (December 2015)
   • NCPERS Monitor (January 2016)
   • TEXPERS Outlook (January 2016)
   • TEXPERS Outlook (February 2016)

b. Future continuing education and investment research programs and conferences

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

Staff Recommendation: Receive and file.
On November 16 the US Department of Labor (DOL) issued a proposed regulation and interpretive bulletin on a high priority for NCPERS members: facilitating state-sponsored retirement plans for private-sector workers. This action comes four months after President Obama directed DOL to revise federal pension regulations that hindered the creation of state-based retirement savings initiatives.

The proposed changes to the Employee Retirement Income Security Act (ERISA) of 1974 and the interpretive bulletin stand to benefit the 68 million US employees who currently lack access to retirement plans at work. In a clear victory for NCPERS, the interpretive bulletin clarifies that states may sponsor and administer multiple-employer plans, an approach NCPERS has advocated since it unveiled its Secure Choice Pension proposal in 2011.

Since NCPERS unveiled the Secure Choice Pension proposal in 2011, it has inspired more than a dozen state and local governments to explore and plan state-sponsored retirement programs for private-sector employees. Four states (Illinois, Massachusetts, Oregon, and Washington) are currently implementing such programs, and six more (California, Connecticut, Minnesota, Utah, Vermont, and Virginia) are studying their feasibility.

The proposed regulation, meanwhile, would establish a safe harbor under ERISA for states that require employers without retirement savings plans to automatically enroll their employees in individual retirement accounts funded by payroll deduction. The proposal clarifies that such “auto-IRAs” are not employee pension benefit plans for the purposes of ERISA.

NCPERS encourages you to familiarize yourselves with the contents and to advise it of any comments. During a 60-day period for public comment, NCPERS will be engaging with its members to review the proposed regulation and interpretive bulletin and to seek input. It will submit comments to DOL by the comment closing date of January 19, 2016. Please do not hesitate to contact NCPERS with your thoughts and questions.

Highlights from around the States

Arizona

The National Public Pension Coalition delivered grassroots training to prepare 40 activists for a likely fight over a bid to water down pension benefits for Arizona State University employees. The university’s leadership has been working to move employees out of the Arizona State Retirement System and into 401(k)-style plans – a move that could destabilize the whole system. Future trainings are being planned across Arizona.

Kentucky

The Republican governor-elect, Matt Bevin, advocates 401(k)-style retirement plans for state employees. In one of his first postelection speeches on November 20, he identified the state public...
retirement system as the “most critical” challenge his administration will face and said he intends to present a plan to state lawmakers in the legislative session that begins in January. Bevin takes office on December 8.

**Michigan**

On October 27, Governor Rick Snyder (R) issued an executive order to combine the management of the state’s pension systems. Executive Order 2015-13 created the State of Michigan Retirement Board, which would consolidate administration and oversight of the State Employees Retirement System Board, the Judges’ Retirement System Board, and the Military Retirement Provisions. There has been no movement on Senate Bill 102, which would convert the Michigan Public School Employee Retirement System’s pension program to a defined-contribution plan.

**Pennsylvania**

A five-month-long budget impasse was unresolved at the time of this publication. The contours of a tentative budget framework were laid out on November 10 by Democratic governor Tom Wolf and the Republican-led legislature. However, two weeks later, no legislation had been introduced, and proposed tax increases remained unresolved. The state has been operating without a budget since June 30. The delay means, however, that there’s still time to urge lawmakers to rethink a cornerstone of the framework – the creation of a side-by-side hybrid pension, which would cut pension benefits by as much as 23 percent for new workers.

**Wisconsin**

Sponsors have failed thus far to gain traction on two bills that would undercut state employee benefits. One bill (Senate Bill 329) would raise the minimum retirement age for employees in the state retirement system by two years. The second bill (Senate Bill 328) would alter the formula for calculating pension benefits by tweaking final average-salary calculations.

**Congressional Wrap-up**

This article outlines the legislative highlights of the first session of the 114th Congress related to state and local governmental pension plans. The session, which will conclude in a few days, also saw the election of a new House Speaker, Rep. Paul D. Ryan of Wisconsin, and new House Ways and Means Committee Chairman, Rep. Kevin Brady of Texas. The committee, which has jurisdiction over the federal tax code, plays a critical role in the development of any new law affecting public pension plans, which are tax-qualified entities under the Internal Revenue Code.

**Benefits for Public Safety**

NCPERS worked to enact and applauds two new federal tax laws related to benefits for public safety employees and their survivors that were signed into law in 2015. On May 22, President Obama signed H.R. 606, the Don’t Tax Our Fallen Public Safety Heroes Act. The measure, which is now Public Law 114-14, clarifies that federal and state law–based survivor benefits on behalf of a public safety officer who has died as the direct and proximate result of a personal injury sustained in the line of duty are exempt from federal tax. The legislation was approved on a 413–0 vote in the House and by voice vote in the Senate. It was sponsored by Reps. Erik Paulsen (R-MN) and Bill Pascrell (D-NJ).

In addition, on June 29, the president signed H.R. 2146, the Defending Public Safety Employees’ Retirement Act. The bill, which is now Public Law 114-26, strengthens the exemption in
Internal Revenue Code section 72(t)(10) for public safety employees from the early withdrawal penalty in three major ways: (1) adds federal public safety employees to the exemption, (2) includes distributions from defined-contribution plans, and (3) allows retirees to modify a stream of substantially equal periodic payments without incurring a recapture tax penalty. The changes are effective for distributions made after December 31, 2015. It is worth noting that new Ways and Means chairman Kevin Brady is the author of the original section 72(t)(10), which was widely supported in the public safety community.

**Tax Reform and Major Pension Legislation**

The 114th Congress has not yet considered or even seen the introduction of any major tax reform or pension legislation that could carry additional positive or negative retirement provisions. NCPERS has been concerned about Senate Finance Committee chairman Orrin Hatch’s (R-UT) annuity accumulation proposal, which is designed to replace state and local governmental defined-benefit plans with annual annuity contracts. Further, the public pension plan community has been concerned during recent years about the Public Employee Pension Transparency Act, which would require any state or local plan with an unfunded liability, however small, to recalculate its funded status based on a US Treasury obligation yield curve and report that number to the US Treasury Department. NCPERS will continue to closely monitor any developments on these issues.

**Funding for Teacher Pensions**

In February, the House approved legislation to reauthorize the Elementary and Secondary Education Act (ESEA). An amendment, which was successfully offered by Rep. Robert Dold (R-IL) on the House floor, sought to prevent the use of ESEA monies to address underfunding issues related to teacher pensions in Illinois. The amendment would bar any state that receives funds under ESEA from requiring a local education agency to use those funds to make contributions to a teacher retirement system in excess of normal cost. Normal cost is defined in the amendment to not include any accrued unfunded liabilities.

The amendment targets unfunded liabilities in Illinois that were caused by a sponsor’s failure to make actuarially determined pension contributions. However, it fails to take into account that unfunded liabilities may be caused by more factors than sponsor underfunding. For instance, investment performance, low interest rates, and actuarial assumptions are factors often found to create unfunded liabilities. The public pension community believes that the provision would have broad unintended consequences and would sweep into it states that are on a responsible and prudent path toward ensuring adequate pension funding. NCPERS worked with other national groups and individual pension plans in opposition to the amendment. I am pleased to report that the House and Senate conferees on the ESEA bill recently agreed to drop the provision. The conference report will be filed and voted on in December.

**Medicare Part B Premiums**

The recently enacted Budget Act of 2015 includes a provision to provide significant relief from a scheduled 52 percent increase in Medicare Part B premiums. Due to a hold-harmless provision in the Social Security Act that protects most beneficiaries from benefit reductions in years when there are no cost-of-living adjustments, the Part B premium increases will be borne by only about 30 percent of Medicare beneficiaries. The beneficiaries who are affected are those who are not enrolled in both Medicare and Social Security, that is, many state and local government employees.

Fortunately, a bipartisan deal was struck to lessen the impact. Instead of a monthly premium increase to $159.30 (up from $104.90 per month), the Budget Act provides for an increase to $123.00 per month. In other words, the increase will be approximately $18 per month
NCPERS and a coalition of education organizations have been lobbying on this issue throughout the fall. They have urged President Obama to halt an unusually steep increase in Medicare Part B premiums before it takes effect in January. Five organizations that signed an October 26 letter to the president pointed out that retired teachers and public safety employees would bear a disproportionate burden of the anticipated monthly increase.

The Budget Act of 2015 was signed into law by President Obama on November 2, 2015.

As the 114th Congress continues its work into next year, please be assured that NCPERS will be an active and vocal voice for state and local governmental pension plans in our nation’s capital.

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.
NCPERS’ amicus brief points out that not only are the arguments put forth by Governor Rauner and the Illinois Workers disingenuous but “they are flatly contradicted by recent findings of the Illinois Supreme Court,” which recently noted that the problem of inadequate funding of public pensions preceded collective bargaining and has been around for nearly 100 years in that state.

As for the state attorneys general brief, NCTR and NCPERS note that its “unsupported argument that collective bargaining by public-sector unions led to Detroit’s unfunded pension liability and eventual bankruptcy does not withstand scrutiny.” Instead, the major contributors to Detroit’s bankruptcy included depopulation and long-term unemployment, which caused Detroit’s property and income tax revenues to plummet; slashing of state-revenue sharing; unfavorable debt financing; and general cash-flow problems.

Furthermore, NCTR and NCPERS point out that the state attorneys general’s arguments attempting to blame the bankruptcy filings by the city of Stockton and the city of San Bernardino on public pensions and, by implication, collective bargaining and union activity are also not supported by the facts and fail to acknowledge the role of California’s housing bubble and the California housing bust on these two jurisdictions.

The NCTR/NCPERS amicus brief concludes by stating that “issues related to public-pension funding are not germane” to the underlying case before the Supreme Court, and that the arguments by certain amici “relating to public-pension funding should be rejected.”

Don’t Miss NCPERS’ Social Media
Countdown to Election Day 2016: Advancing the Public Pension Agenda

Election Day 2015 is behind us – and now the countdown to the 2016 presidential election and race for control of the House and Senate begins in earnest. During the next 11 months, NCPERS will closely monitor campaigns to gauge support of, or opposition to, the interests of public pension beneficiaries. It also will be deeply involved in providing candidates with information about and insight into critical issues.

The general election of November 3, 2015, was an off-year race, meaning no federal offices were in contention. Nevertheless, the election season underscored the challenges and opportunities that lie ahead. At the federal level, we are looking at at least one more year of divided government, with the House and Senate in Republican hands and a Democratic White House.

Three states elected governors in November. Kentucky flipped from Democratic to Republican control, Louisiana transitioned from Republican to Democratic, and Mississippi stayed in Republican hands.

Significantly, the gubernatorial race reinforced that Kentucky is a battleground state for public pensions. Kentucky’s newly elected governor, Matt Bevin, has argued that defined-benefit plans are not viable. He has advocated shifting future public employees into defined-contribution plans, such as 401(k) plans.

Four states – Louisiana, Mississippi, New Jersey, and Virginia – elected state lawmakers in 2015. In the New Jersey General Assembly, all 80 seats were up for election. (There was no Senate race.) New Jersey’s Democrats picked up four seats, increasing their majority over the Republicans to 52–28. In the other states, however, Republicans maintained control of both House and Senate chambers.

Meanwhile, over the course of 2015, three special elections were held for the US House of Representatives, in Illinois, Mississippi, and New York. These three Republican seats came open after one member died and two resigned. In each case, Republicans held onto the district.

Far more telling than the general and special election results was the upheaval in the House Republican leadership. Notwithstanding the Republicans’ legislative majority, the internal squabble showed that there are cracks in party solidarity and that a large portion of voters is alienated from the Republican establishment.

Speaker of the House John Boehner (R-OH) resigned from his leadership position and from Congress after years of fractious infighting in the House Republican Caucus, where mainstream Republicans are increasingly pitted against members of the far-right and libertarian movements. The subsequent withdrawal of majority leader Kevin McCarthy (R-CA) from the race for Speaker also demonstrated the rising power of the far right in the Republican Caucus.

As the presidential race plays out in 2016, the Republicans’ ability to create consensus within their own party will be sorely tested. At this writing, 14 candidates are still in the race for the Republican nomination, and three have already dropped out. Such division can accrue only to the benefit of the three Democratic candidates for the nomination.

Five Key Questions to Answer in 2016:

- To what degree will public pensions be a political football in state and local elections?
- Will presidential candidates make retirement security a big part of their campaigns?
- How many states will introduce and pass state-sponsored (Secure Choice–type) retirement savings plans for the private sector?
- Will the Department of Labor’s proposed regulation for state-sponsored retirement savings plans get finalized?
- Will Speaker Ryan and the Republican-controlled Congress start laying the foundation for Medicare privatization?
Healthcare Symposium
January 24, 2016 | Capital Hilton | Washington, DC

Legislative Conference
January 24–26, 2016 | Capital Hilton | Washington, DC

Visit www.ncpers.org/legislative for more information
Recent Studies Show Steady Improvement in Funded Ratios of Public Pension Systems

Two recent studies of public retirement systems—one conducted for NCPERS, the other undertaken by an actuarial consultant—provided fresh insights into the ability of public pension systems to ensure long-term sustainability for their stakeholders.

The 2015 Milliman Public Pension Funding Study, issued by Milliman Inc., found that overall funded ratios increased to 75% on a market-value basis in 2015, up from 70.7% a year earlier, an improvement it attributed to strong market performance. Milliman noted that the 100 largest public pension plans that made up the study saw the market value of their assets rise to $3.06 trillion in the 2015 study, versus $2.75 trillion a year earlier.

The Milliman study also noted that 20 of the 100 plans had reduced their investment assumptions since the previous year. Its analysis of the assumptions showed they had dropped to an average of 7.25% in the 2015 study, versus 7.34% in 2014, 7.47% in 2013, and 7.65% in 2012. Reported assumptions, by comparison, were slightly higher, at 7.65% in 2015, versus 7.75% in 2013 and 2014, and 8.0% in 2012. Despite the downward trend, the study advised that “for many plans that have not recently lowered their reported assumptions, some decrease in the investment return assumption may be appropriate.”

Meanwhile, the 2015 NCPERS Public Retirement Systems Study showed continuing financial strength for public funds, with healthy long-term investment returns and increased average funded ratios. At the same time, funds tightened their belts, with a significant numbers lowering their assumed rates of return and implementing more shared risk between employers and employees.

NCPERS partnered with Cobalt Community Research to survey 179 state, local and provincial government pension funds with more than 13.5 million active and retired members and with assets exceeding $2.0 trillion. The majority—68 percent—were local pension funds, while 32 percent were state pension funds. The data, collected in July, August, and September 2015, represents the most up-to-date information available.

The major findings of the 2015 NCPERS Public Retirement System Study include:

- Respondents were more confident about their readiness to address future retirement trends and issues. Their overall confidence rating measured 8.0 on a 10-point scale, up from 7.9 in 2014 and 7.4 in 2011.
- Funds experienced an increase in average funded level—74.1 percent, up from 71.5 percent in 2014. This is solidly above the 70 percent funded level that Fitch Ratings considers adequate, and it is directionally consistent with the Milliman study. In contrast to Milliman, NCPERS noted that three factors contributed to the change: average one-year investment returns of 11 percent, lower amortization periods, and distance from the 2008 market crash, which eroded actuarial assets of funds using a five-year investment smoothing period.
- Funds continue to produce healthy investment returns: 11.2 percent for one-year investments (compared to 14.5 percent in 2014); 10.7 percent for three-year investments (up from 10.3 percent last year); 11.2 percent for five-year investments (up from 9.8 percent last year); 7.0 percent for 10-year investments (versus 7.6 percent), and 8.5 percent for 20-year investments (up from 8.1 percent last year.) Funds continue to offset sharp losses from the Great Recession in 2008 and 2009 by strengthening investment

continued on page 2
Fund Ratios continued from page 1

related to state and local pension plans. We expect further action on these and other matters in 2016 before the end of the Obama administration, as the final year of a president’s administration always provides a great incentive to finalize regulatory projects that are underway.

Definition of Governmental Plan

On January 23, 2015, the Department of the Treasury and the Internal Revenue Service (IRS) released Treasury Notice 2015-7 (the Notice), which provides further information and direction on the regulatory project to define the term governmental plan under Internal Revenue Code section 414(d). The Notice relates directly to the November 2011 Advance Notice of Proposed Rulemaking (ANPRM).

The lion’s share of the Notice relates to the charter school question. Of the approximately 2,300 comments received on the ANPRM, some 2,000 were submitted by the charter school community. The comments centered on the question of whether participation by charter school employees would cause a governmental plan to fail to meet the definition outlined in the ANPRM.

The Notice states that the charter school community was concerned by the ANPRM because they believed “the autonomy granted to public charter schools would mean that charter school employees would not be able to continue participation in state or local retirement plans.” In response to this concern, the Notice states that the Treasury and IRS are considering issuing guidance that “would take into account the special and unique nature of public charter schools, the governance structure associated with these schools, the structure of many public school systems that permit or encourage public school teachers to move between public charter and traditional public schools, and the relationship between public charter schools and the agencies authorized by the state or political subdivision of the state ... that hold these schools accountable for academic results.” The Notice creates a five-part test that charter schools would need to satisfy in order to be considered established and maintained by a state (or political subdivision thereof) or by an agency or instrumentality of any of the foregoing.

The next step in this process is for the Treasury-IRS to release a proposed rule on the definition of governmental plan that would include the five-part test for public charter schools outlined in the January 2015 Notice. We do not expect the proposed rule to be released until at least the spring of 2016.

Secure Choice Plans

On November 16, the Department of Labor (DOL) released a proposed

Federal Regulatory Wrap-up

This article summarizes the major federal regulatory activities of 2015 related to state and local pension plans. We expect further action on these and other matters in 2016 before the end of the Obama administration, as the final year of a president’s administration always provides a great incentive to finalize regulatory projects that are underway.

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Secure Choice Plans

On November 16, the Department of Labor (DOL) released a proposed
rule establishing a new safe harbor from the Employee Retirement Income Security Act (ERISA) for state-sponsored programs involving automatic payroll deductions for workers to individual retirement accounts (IRAs). In other words, if the specific program meets the guidelines outlined in the proposed rule, then it would not be an ERISA-regulated plan and thus would not be preempted by the federal ERISA law. DOL officials are quick to point out, however, that the federal courts are the ultimate arbiters on the question of whether a plan is preempted by ERISA. The guidelines are not an ironclad guarantee; rather, they are designed to minimize the risk of a lawsuit. Comments are due on the proposed rule by January 19, 2016.

DOL also released an interpretive bulletin on November 16 that assists states interested in helping employers establish ERISA-covered plans for their employees.

**IRS Determination Letters**

This year the IRS also released Announcement 2015-19. Due to limited IRS resources, effective January 1, 2017, the staggered five-year determination letter remedial amendment cycles for individually designed plans will be eliminated. In addition, the scope of the program for individually designed plans will be limited to initial plan qualification and qualification upon plan termination.

**Affordable Care Act Excise Tax**

The excise tax was enacted as part of the Affordable Care Act (ACA). This steep, 40 percent tax on the cost of health coverage exceeds certain statutory thresholds – $10,200 for individual coverage and $27,500 for family coverage. Higher thresholds ($11,850 and $30,950, respectively) apply to high-risk jobs, such as firefighters and police officers. The tax was designed to curb the proliferation of overly generous employer-provided healthcare plans and to partially fund the ACA.

In the recently enacted Omnibus Appropriations Bill, Congress and the president extended the effective date of the excise tax to 2020 – a two-year delay. Although there is a serious bipartisan effort in Congress to fully repeal the tax before 2020, the regulatory work related to implementation of the tax is likely to continue.

Looking back, in February 2015, the Treasury-IRS issued Treasury Notice 2015-16, which was the first Notice on the excise tax. It received more than 250 comments, including comments from several state and local pension plans. Issues raised in the comments included (1) the need to treat pre-Medicare-age and Medicare-age and older retired employees as similarly situated beneficiaries; (2) age and gender adjustment factors; (3) whether flexible spending accounts, health savings accounts, and health reimbursement arrangements should be included in applicable coverage; and (4) whether to use actuarial value when determining the cost of coverage. In the recently enacted Omnibus Bill, Congress required the US Government Accountability Office, in conjunction with the National Association of Insurance Commissioners, to report on the age and adjustment factors to the congressional tax-writing committees within 18 months of the bill’s enactment.

On July 30, 2015, the Treasury-IRS issued Notice 2015-52, which deals with additional issues that must be resolved before implementation of the excise tax. The issues include addressing which taxpayers are liable for the tax, the allocation of the tax among applicable employers, the cost of applicable coverage, and adjustments for age and gender. Given the importance of determining which entity is liable for the excise tax, there is little doubt that this Notice will generate a significant number of comments.

As the regulatory work on these and other issues continues, please be assured that NCPERS will remain active and will update you on any key developments.

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.
Harmful Public Pension Provisions Not Considered

On December 9, 2015, with about 10 days left in the congressional session for the year, Senate Finance Committee Chair Orrin Hatch (R-UT) introduced S. 2381, the Puerto Rico Assistance Act. The legislation contains two sections that have nothing to do with providing assistance to Puerto Rico but instead would affect all state and local governmental pension plans across the country.

Given that the economic situation in Puerto Rico is dire, there was great concern among the public pension community that this legislation might be on the fast track through Congress. It was also possible that, regardless of the progress of the Puerto Rico Assistance Act, the provisions could be attached to other must-pass, year-end legislation, such as the bill to extend the expiring tax provisions or the omnibus appropriations measure. In the end, after prompt and forceful lobbying by national public pension groups and individual plans from throughout the country (including California, Colorado, Illinois, Michigan, Minnesota, Ohio, South Dakota, and Texas), Congress did not consider the provisions prior to its adjournment for the year.

The first set of provisions was taken from legislation that had been previously introduced in Congress and was known as the Public Employee Pension Transparency Act (PEPTA). The provisions would require, for the first time, that sponsors of state and local governmental pension plans report their funded status to the federal Treasury Department. In addition, if the funded status of a plan were not calculated using either fair market value or certain interest rates designated in the legislation, then it would need to be recalculated using those interest rates. The recalculation would cause even well-funded pension plans to appear to be poorly funded. This recalculation would not reflect economic reality and would serve only to create negative headlines for public pension plans.

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The second set of provisions – the annuity accumulation plan – was taken from Senator Hatch’s legislation from the previous Congress, known as the Secure Annuities for Employees (SAFE) Retirement Act (S. 1270, 113th Congress). Although the annuity accumulation plan is purely optional for state and local governments, NCPERS and the public pension community see it being positioned as an alternative or replacement for defined-benefit plans. We see many deficiencies in the annuity accumulation plan. First, employee contributions are prohibited, which runs counter to the majority of funding streams for public plans in which both employees and employers contribute to the plans. Second, there are no survivor or disability benefits, which are critical to our nation’s first responders. Finally, the plan sponsor may choose to lower or not make any contribution to the plan in any given year, provided it is consistent among all participants. The uncertainty that this new plan would create for our nation’s public workers is unacceptable.

Although Congress did not consider the provisions in 2015, we expect them to be back on the table next year. Please be assured that NCPERS will continue to play a leading role in opposing these harmful public pension provisions. ■

Don’t Miss NCPERS’ Social Media

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.
Join NCPERS in Washington, D.C., During January for Healthcare and Legislative Conferences

In just a few weeks, hundreds of public pension leaders from around the United States will gather in the nation’s capital to drill down into emerging issues and share their views with lawmakers and regulators. Will you be among the engaged leaders of our industry? I hope your answer is yes. There is never a time for complacency in advocating for the interests of public pension system participants and beneficiaries. We got a taste of how quickly things can go south in mid-December, when Senate Finance Committee Chair Orrin Hatch (R-UT) revived his campaign to drive public pensions into the hands of private insurance companies. Although the bill has not yet to progress, we all need to acknowledge that the senator has made good on his promise to put his Secure Annuities for Employees (SAFE) Retirement Act proposal back into play.

We need you here in Washington, D.C., this month to participate in the NCPERS Healthcare Symposium (January 24), followed by the NCPERS Legislative Conference (January 25–26). You will come away with practical business ideas, strategic insights, and a deep perspective on the SAFE Act, as well as other issues confronting public pensions.

We kick off Day 1 on January 24 with the Healthcare Symposium, an all-day program focused on healthcare reform and the regulatory changes that affect plans across the United States. I am pleased to share that renowned healthcare policy expert Susan Dentzer of the Robert Wood Johnson Foundation will be on hand to share her insights on health policy and reform.

On Days 2 and 3, we focus our attention on advocacy, including bringing the firsthand perspective of NCPERS members to Congress and the Obama administration. January 25 will be your day for an in-depth briefing on key issues for 2016. We will kick off the day with an informative presentation by leading political analyst and journalist Howard Fineman, editorial director of the Huffington Post. Howard will set the stage for how our policy issues will fit into the national agenda in 2016, a year in which the presidential election campaign is certain to cast a long shadow. We will also hear from representatives of the congressional tax-writing committees, the US Treasury Department, and the Social Security Administration.

On January 26, it will be time to take our story to Capitol Hill. We need you out in force, because there is simply no substitute for in-person visits by constituents to their members of Congress and senators. It is the single most effective way to foster greater understanding of the vital role public pensions play in the financial security of millions of Americans.

Under the best of circumstances, it is difficult to be heard above the din in Washington, and 2016 will present special challenges. During any presidential election year, political parties are more focused than usual on drawing out their differences rather than on finding common ground. Furthermore, domestic issues are easily crowded out at times of turmoil on the international stage. The rising threat of terrorism, as well as the difficulties with setting refugee and immigration policy and determining the right approaches to fighting the Islamic State and ending conflict in Syria, will be front-of-mind concerns for lawmakers in 2016. Because lawmakers will be focused on global issues and the presidential contest, the onus is on public pension system leaders to be consistent, clear, and steady advocates for their domestic concerns. We can’t afford to go quiet just because there are other issues vying for public policy attention.

I hope you will take the time right now to visit the NCPERS website and sign up for the Healthcare Symposium and the NCPERS Legislative Conference. I look forward to seeing you here in Washington, and I know you’ll be glad you came.
Labor, Employee Groups Oppose Naming of Arnold Foundation’s Josh McGee to Texas Pension Board

A host of groups representing Texas’s police, firefighters, teachers and the public pension systems that serve them are vehemently opposed to Gov. Gregg Abbott’s appointment of an Arnold Foundation official to the State Pension Review Board.

Josh McGee, the vice president of public accountability for the Laura and John Arnold Foundation, has long advocated for a shift away from the traditional defined benefit (DB) public pension model in favor of a defined contribution (DC) or cash balance hybrid system.

Abbott also named McGee, who lives in Houston, as the Board’s presiding officer for a term set to expire on Jan. 31, 2021.

The Board is composed of seven members, appointed by the governor, with the advice and consent of the Texas State Senate. The Board reviews all Texas public retirement systems, both state and local, for actuarial soundness and compliance with state law.

Labor organizations characterized McGee’s appointment as a betrayal of trust by the governor.

A dozen labor groups representing police and firefighters called on Abbott to rescind the appointment, calling McGee one of the state’s harshest critics of public pensions.

“This appointment is a serious threat to the livelihood of officers who sacrifice so much for the people of Texas,” Charley Wilkison, executive director of the Combined Law Enforcement Associations of Texas, told the Austin American Statesman. “We are deeply
disappointed that the governor did not reach out to law enforcement before making this ill-advised appointment.”

Texas first responder groups also came out in strong opposition to McGee’s appointment, saying he is a paid advocate whose job it is to abolish traditional pension benefits for police officers and fire fighters.

They claim there is an ethical conflict of interest because of McGee’s executive position at the Arnold foundation and asked that — short of Gov. Abbott withdrawing the appointment — McGee should at the very least resign from his paid position at the foundation in which he advocates to end or curtail DB public employee pension benefits.

The following groups released a statement saying they “stand unanimously in opposition” to McGee’s appointment to serve on the Board: the Texas Municipal Police Association, Fraternal Order of Police Texas State Lodge, Harris County Deputies Association, Dallas Police Association, Houston Professional Fire Fighters Association Local 341, Dallas Fire Fighters Association, Texas State Association of Fire Fighters, Houston Police Retired Officers’ Association, and the Houston Police Officers’ Union.

“I am very concerned with the message that this kind of appointment sends,” said Meredith Williams, executive director of the National Council on Teacher Retirement (NCTR), according to a blog post by Leigh Snell, the NCTR’s director of federal relations. “Placing a very vocal advocate of converting public sector DB plans to a defined contribution or cash balance model in such a visible position could be viewed as a very powerful endorsement of that agenda.”

The saving grace might be that Keith Brainard, the director of research for the National Association of State Retirement Administrators (NASRA) and a supporter of the traditional DB pension model, also will be serving on the Board and could act as a check against McGee’s expected efforts to try to convert public funds to a DC or cash balance model.

“It is one thing to have a defender of the current public sector model on the board, but I am confident that Keith does not envision himself there to promote the conversion of the private sector to DB plans,” Williams was quoted by Snell as saying. “But make no mistake, that cannot be said of Mr. McGee’s motives, I fear.”

The Texas Retired Teachers Association sent out a strongly worded membership alert, telling its membership that protecting retirement benefits was, and would continue to be, the top priority of the association.

“As many of our members are aware, the Laura and John Arnold Foundation is the leading organization in the nation attacking public pension funds,” the alert stated. “Josh McGee serves as Vice-President of the LJAF and ‘leads the organization’s nationwide efforts to improve retirement security.’”

For his part, McGee said in a statement released by the Arnold Foundation that, “I am excited by the opportunity that the Governor has given me to help improve public workers’ retirement security and pension plan sustainability. I look forward to serving the Governor and the people of Texas on the Pension Review Board.”


Are you going off your Pension Fund Board soon?

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Two Texas Public Pensions Rank Among Top 10 in Private Equity Returns

Two Texas public pension funds made the Top 10 ranking of funds that generated the highest rate of return from their private equity portfolios, as compiled by the Private Equity Growth Capital Council (PEGCC).

The annual ranking found that the Teacher Retirement System of Texas (TRS) was second overall, with a 17.8 percent annualized 10-year return on private equity investments. The Houston Firefighters’ Relief and Retirement Fund (HFRRF) was fourth on the list, with a 16% annualized 10-year return on private equity.

The annual ranking of large public pension funds revealed which pensions generated the highest rate of return from their private equity portfolios and which ones invested the most in private equity.

TRS was ranked third in its total private equity investment, at $17.9 billion, while HFRRF did not make the Top 10 in that category.

The report found that the Massachusetts Pension Reserves Investment Trust Fund rose to first place based on its private equity returns, up from second place last year.

The report found that private equity delivered a 12.1 percent annualized return to the median public pension over the last 10 years, higher than any other asset class.

“This study shows that private equity is the best performing asset class for public pension funds over the long term,” Bronwyn Bailey, PEGCC vice president of research, said in a statement. “Private equity not only strengthens the performance of pensions’ investment portfolios, it is a critical component to the retirement security of millions of Americans.”

It was the fourth year in a row that HFRRF was recognized in the annual ranking. Linda Calnan, HFRRF’s senior investment officer, has managed the HFRRF private equity portfolio since 2003, spanning the entire period of the PEGCC’s study.

Periodic asset allocation studies are performed to assist the HFRRF Investment Committee with asset allocation decisions, including private equity. These studies have suggested that private equity should make up between 11% and 18% of the HFRRF portfolio.

The HFRRF was created by state statute and has been administered by its Board of Trustees since its founding in 1937.


GASB Issues New Pension Guidance Designed to Assist Certain Governments

The Governmental Accounting Standards Board (GASB) has issued guidance designed to assist governments that participate in certain private or federally sponsored multiple-employer defined benefit (DB) pension plans (such as Taft-Hartley plans and plans with similar characteristics).

The new guidance in GASB Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, assists these governments by focusing employer accounting and financial reporting requirements for those pension plans on obtainable information.

In lieu of the existing requirements under Statement 68, the new guidance establishes separate requirements for employers that participate in these pension plans.

Statement 78 establishes the criteria for identifying the applicable pension plans and addresses measurement and recognition of pension liabilities, expense and expenditures; note disclosures of descriptive information about the plan, benefit terms and contribution terms; and required supplementary information presenting required contribution amounts for the past 10 fiscal years.

Study Shows that Traditional DB Pensions Outperform 401(k)-Style DC Plans

New research by the Center for Retirement Research at Boston College (CRR) finds that defined benefit (DB) pension plans outperformed 401(k)-style defined contribution (DC) plans by an average of 0.7 percent per year from 1990 through 2012. The findings controlled for plan size and asset allocation.

In addition, much of the money accumulated in 401(k)s is eventually rolled over into IRAs, which earn even lower returns, according to the research by Alicia H. Munnell, Jean-Pierre Aubry and Caroline V. Crawford.

One reason for the lower returns in 401(k)s and IRAs was higher fees, which should be a major concern as they can sharply reduce a saver’s nest egg over time, the authors wrote.

The research was based on the U.S. Department of Labor’s Form 5500, which collects data related to employee benefits, taxes and economic trends and policies.

Data from the Investment Company Institute show that returns for IRAs, which hold the bulk of the money, are about 1 percent less than in DC plans. Forgoing returns over long time periods means that assets at retirement will be sharply reduced, the authors wrote. “Saving is too hard to have fees eat up such a large portion of investment earning.”


Market Rules for Resource Extraction Issuers Proposed

Resource extraction issuers would have to disclose payments made to the U.S. federal government or foreign governments for the commercial development of oil, natural gas or minerals, according to proposed rules issued by the Securities and Exchange Commission (SEC).

The proposed rules, mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act, are intended to further the statutory objective to advance U.S. policy interests by promoting greater transparency about payments related to resource extraction.

Under the proposed rules, an issuer would be required to disclose payments made to the U.S. federal government or a foreign government if the issuer is required to file annual reports with the commission under the Securities Exchange Act. The issuer also would be required to disclose payments made by a subsidiary or entity controlled by the issuer.

The proposed rules would implement a statutory mandate and require disclosure consistent with other payment transparency disclosure regimes around the world.


Compliance Outreach Program for Municipal Advisors to Be Held in Philadelphia

The Securities and Exchange Commission (SEC), Financial Industry Regulatory Authority (FINRA), and the Municipal Securities Rulemaking Board (MSRB) announced that registration is open for the Compliance Outreach Program for Municipal Advisors that will take place in Philadelphia on Feb. 3, 2016, and be webcast live on the SEC website.

The SEC’s Office of Compliance Inspections and Examinations, in coordination with the SEC’s Office of Municipal Securities, is partnering with FINRA and the MSRB to sponsor the program. Similar to the compliance outreach programs for broker-dealers and investment advisers, the municipal advisor program will provide municipal advisor professionals a forum for discussions with regulators about recent exam findings, regulatory issues, and compliance practices.

This year’s outreach program is designed to promote compliance with municipal advisor rules by providing municipal advisor professionals with the opportunity to interact with all three regulators and to discuss regulatory and compliance issues with their industry peers.

Public Funds Becoming More Cost-Effective; Funding Levels on the Rise, Study Finds

U.S. public pension funds continue to adopt substantial organizational and operational changes to ensure their long-term sustainability in the wake of the dramatic investment losses experienced after the 2008 financial crisis.

These efforts include increasing member contribution rates, expanding operational benchmarking and more diligent oversight.

However, some are still paying unusually high investment management fees, according to the 2015 annual study of public funds by the National Conference on Public Employee Retirement Systems (NCPERS), the largest trade association for public sector pension funds.

NCPERS’ annual study took the measure of 179 state and local pension funds with 13.5 million participants and $2 trillion in assets.

The average funded level for responding sponsors was 74.1 percent in the 2015 study, up from 71.5 percent in 2014.

The report maintained that public pension funds are becoming more cost effective. On average, funds paid 60 basis points in investment management and advisory fees, a decrease of 1 basis point from 2014 (100 basis points equals 1 percentage point).

But the study also showed that some funds pay exorbitantly higher fees. One fund with about 700 participants was paying 300 basis points in management fees. The NCPERS report did not break out the name of the funds or their specific value.

Several funds are paying more than 225 basis points in fees; and some funds with at least 10,000 participants are paying more than 100 basis points in fees, as are several other funds with more than 100,000 participants. The average of 60 basis points paid in fees on $2 trillion of assets amounts to $12 billion.

Investment returns were one reason behind the improved funding status, the report said. The one-year average return for the funds was 11.2 percent, despite lackluster equity markets in calendar year 2015.

Not all responding funds had the same fiscal-year ending date, however. Investment return data was measured for the fiscal year ending in September 2015, meaning some funds benefited from strong equity market returns into the end of calendar year 2014.

The three-year average return for investments was 10.7 percent; the five-year average 11.2 percent; the 10-year average 7 percent; and the 20-year average 8.5 percent, according to the study.

The average one-year assumed rate of investment return was 7.5 percent, down 0.2 percent from 2014. The inflation assumption remained steady at 3.2 percent.

Domestic equity was the most heavily weighted asset, with the funds averaging a 29.7 percent asset allocation to U.S. stocks. Domestic equity returned an average of 33.4 percent.

Domestic fixed-income was the second highest average asset allocation, at 15 percent. Its one-year average return was 11.9 percent.

Pension funds continue to lower their amortization periods, another factor in the improved average funding ratio. The average amortized time calculated was 25.2 years, down from 25.9 years in 2014.

Also, plans that use a five-year pension-smoothing period, which allows funds to spread out liabilities over five years, are now beyond the shadow of the financial crisis, a factor also aiding in improved funding status.

Investment returns accounted for 75 percent of average plan revenue in 2015, while employer contributions were 19 percent, and participant contributions were 7 percent, a 1 percent drop from 2014.

In the past two years, 41 percent of plans have increased employee contributions, and another 11 percent plan to in the next two years, according to the report.

2015 a Good Year for Public Employee Pensions: Head of Pension Coalition

When it comes to states paying their annually required contributions to their public pension systems, the math is pretty simple, according to a blog published in the Huffington Post by Bailey Childers, executive director of the National Public Pension Coalition. States that paid in full have the best funded plans, while those that skipped or reduced their ARCs are struggling with their finances.

Not surprisingly, responsible states that make their yearly required pension contributions have pensions that are fully funded and in some cases have surpluses, Childers wrote. Those that don’t, such as Illinois and New Jersey, have underfunded pension plans that are in crisis.

Traditional defined benefit pensions remain the best way to provide retirement security and attract and retain quality nurses, teachers, firefighters and other public employees, Childers wrote. “Pooled risk among pension participants means no one is left to fend for themselves against market forces.”

In addition, 401(k)s have proven to be “a tremendous failure at delivering retirement security – with the exception of the super-rich,” she wrote.

Hybrid proposals, usually comprised of a reduced defined benefit pension combined with a new 401(k)-style account may, on their face, sound like a good compromise for workers. But in reality, a hybrid results in reduced retirement security for workers, Childers wrote.

Many efforts to shift away from traditional pensions were thwarted in 2015, she added.

“All told, 2015 was a good year for working families that rely on pensions for a modest, secure retirement. The strength of funds is steadily improving and states rejected ideologically-driven attacks on pensions – and all of this is good for taxpayers. 2016 is sure to bring new challenges, but public employees and their families can look back on 2015 and feel a little more secure about their retirement.”


SEC Proposes a New Derivatives Rule

The Securities and Exchange Commission (SEC) has proposed a new rule designed to enhance the regulation of the use of derivatives by registered investment companies, including mutual funds, exchange-traded funds (ETFs) and closed-end funds, as well as business development companies. The proposed rule would limit funds’ use of derivatives and require them to put risk management measures in place which would result in better investor protections.

The proposal is designed to modernize the regulation of funds’ use of derivatives and safeguard both investors and the U.S. financial system. Derivatives can raise risks for a fund, including risks related to leverage, and that is why the SEC wants to require funds to monitor and manage derivatives-related risks and to provide limits on their use.

The Investment Company Act limits the ability of funds to engage in transactions that involve potential future payment obligations, including derivatives such as forwards, futures, swaps and written options. The proposed rule would permit funds to enter into these derivatives transactions, provided that they comply with certain conditions.

Under the proposed rule, a fund would be required to comply with one of two alternative portfolio limitations designed to limit the amount of leverage the fund may obtain through derivatives and certain other transactions.


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Ensure your plan is in compliance

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Watch for an announcement from the PRB about online classes coming soon.

Contact TEXPERS at texpers@texpers.org with questions.

TEXPERS Basic Trustee Training (BTT) meets the PRB rules

Next class: April 2 in Dallas
Public Accountants Suspended for Deficient Auditing Practices

The Securities and Exchange Commission (SEC) suspended five accountants and two audit firms from practicing or appearing before the SEC after they violated key rules that are designed to preserve the integrity of the financial reporting system.

According to the SEC's orders instituting the settled administrative proceedings, the accountants and firms at various times performed deficient audits of public companies, jeopardized the independence of other audits and falsified and backdated audit documents, among other misconduct.

The SEC's found violations by Peter Messineo and his firm Messineo & Co., Charles Klein and his firm DKM Certified Public Accountants, Robin Bigalke, Joseph Mohr, and Richard Confessore.

Messineo and his firm, which had more than 70 corporate clients, skipped mandatory quality reviews for their own audits and performed deficient quality reviews for audits by another audit firm, the SEC alleged.

To cover up these violations, Bigalke falsified and backdated audit documents in her role as Messineo & Co.’s senior accountant, the complaint alleged. She also arranged with Mohr, the firm’s quality reviewer, the backdating of quality review documents.

Mohr falsely identified himself as a certified public accountant during a time when was not licensed as a CPA, the SEC added.

Messineo served as the CFO of two public companies being audited by Klein and DKM. Messineo falsely certified the companies’ public filings despite knowing that auditor independence rules were being violated as Confessore was improperly serving conflicting roles as a member of the DKM audit team and an employee of Messineo & Co., the SEC said.

After Messineo resigned from his CFO positions at both public companies, he merged his audit firm into DKM and exacerbated DKM’s independence issues because he retained ownership interests in the two companies while DKM continued to audit them, the complaint alleged.


Audit Firm Grant Thornton Ignored Red Flags and Fraud Risks, SEC Claims

The national auditing firm Grant Thornton LLP and two of its partners agreed to settle charges by the Securities and Exchange Commission (SEC) that they ignored red flags and fraud risks while conducting deficient audits of two publicly traded companies that wound up facing SEC enforcement actions for improper accounting and other violations.

Grant Thornton admitted to the wrongdoing and agreed to forfeit approximately $1.5 million in audit fees and interest plus pay a $3 million penalty.

An SEC investigation found that Grant Thornton and two engagement partners repeatedly violated professional standards, and their inaction allowed the companies to make numerous false and misleading public filings.

The engagement partners were Melissa Koeppel, who worked on the deficient audits of both publicly traded companies, and Jeffrey Robinson, who worked on one of the deficient audits, which spanned from 2009 to 2011 and involved senior housing provider Assisted Living Concepts (ALC) and alternative energy company Broadwind Energy.

Pennsylvania House Rejects Effort to Create Hybrid Public Pension Plan

The Pennsylvania House in December voted 149-52 against a bill that would have forced newly hired teachers and state workers into a hybrid system made up of a traditional pension along with a 401(k)-style plan.

The bill would have established a hybrid pension plan for future state and school employees and modified future benefits of current members of the $51.7 billion Public School Employees’ Retirement System and the $27 billion State Employees’ Retirement System, both in Harrisburg. The two plans have combined unfunded liabilities of $60.1 billion.

House Majority Leader Dave Reed (R), who argued strongly in favor of the bill, said the pension changes were needed to address costs that have been increasing for school districts and state government.

In July, Gov. Tom Wolf (D) vetoed a pension reform bill that proposed all new state and public school employees be enrolled in a mandatory defined contribution plan, as well as offering an optional cash balance plan.

In September, Wolf proposed a new pension system that included a mandatory 401(k)-style plan for all new employees making at least $75,000 in annual income. In addition, all employees would be given the option to participate only in a defined contribution plan at their time of hire. The plan also featured a risk-sharing component for all new employees.

Every Democrat voted against the bill, along with a majority of Republicans.

The legislative defeat also collapsed a proposed deal to solve the state’s six-month-old budget impasse. The pension changes were part of a framework that Wolf had negotiated with the Republican-controlled General Assembly, along with higher taxes to increase education funding and reforms to the state-controlled system of selling wine and liquor.

Pennsylvania has been without a budget since the start of July, leaving schools and government agencies scrambling to pay bills.

The vote represents a win for unions that represent teachers and government workers, as well as for those who fought the tax increase.


States Have Been Paring Public Pension Plan COLAs, Report Finds

At least 29 states have attempted to pare public pension costs by reducing, suspending or eliminating post-employment cost-of-living adjustments (COLAs) for new hires, current workers or current retirees since 2009, according to new research.

Several states have revised their COLA formulas multiple times during this period. Many of the COLA changes have taken place in states that had guaranteed a fixed percentage pension COLA, regardless of inflation.

The financial pressures of the Great Recession, combined with a relatively low-inflation environment, made reducing or eliminating these guaranteed rates or shifting to a different type of formula attractive to states such as Colorado, Hawaii, Florida, Kansas, Illinois, Minnesota, Montana, New Mexico, Ohio and South Dakota, according to the report, “Recent Reductions in Public Pension COLAs.”

Some states – including Kentucky, Minnesota, Montana, New Jersey and Wyoming – tied their COLAs to pension plan funding levels, while others, such as Colorado, tied them to investment performance. Other types of cuts have involved skipping or delaying COLAs so they apply only after a worker has been retired for a certain period of time or reached a certain age. Some states, including Rhode Island and Louisiana, have developed complex COLA arrangements that combine several of these features.

Recent state cuts to pension COLAs have faced legal challenges, and courts have expressed a wide range of sometimes conflicting views on the constitutional issues involved. Reductions in COLAs have withstood constitutional challenges in Colorado, Minnesota, New Jersey, New Mexico, South Dakota and Washington state courts, as well as in the First and Fourth Circuits of the U.S. Courts of Appeals. Similar reductions have been struck down in Arizona and Illinois and, in part, in Oregon.

Most states protect pensions for their public employees under a contracts-based approach, and the limits of states’ ability to change future benefits for current workers and retirees has formed the basis of several lawsuits.

Whether legislative COLA cuts pass constitutional muster can depend on how courts view COLAs in the first place: whether or not they are the same as, or different from, core retirement benefits that are entitled to state protection.

TEXPERS argues against local control at Texas Public Policy Foundation forum

Max Patterson, the executive director of TEXPERS, challenged the notion that state and local pension funds are performing poorly and need reform at a panel presentation at the Texas Public Policy Foundation annual policy orientation meeting in early January.

“The data shows that Texas state and local pension funds are in very good financial condition,” Patterson told panel moderator James Quintero, the TPPF policy analyst pushing for pension fund reform. “We chalk that up to the fact that most offer modest pension benefits and most have received good financial support from their sponsors. We believe that calls for local control of those pension funds in statute are misguided based on the financial performance of those systems. Local control could produce unintended consequences.”

Patterson provided Pension Review Board and TEXPERS research data to counter various assertions about unfunded liabilities, pension fund health, and the effects of statute on the performance of 12 pension funds. He demonstrated how the TPPF has hyped the unfunded liabilities of all Texas state and local systems to produce an unwarranted sense of fear. He presented a TEXPERS study showing significant improvements in amortization periods by all state and local pension funds in the last five year period. And he demonstrated how the pension funds in statute are meeting or exceeding assumed rates of return and improving amortization periods.

“Using PRB data we found that 9 of 11 pension funds in statute improved their amortization periods in the past year, and the two that declined only worsened 1.6 years combined,” Patterson said.
Other panelists included Rep. James Murphy, (R-Houston), the author of a bill to remove 12 pension systems from statute, Rep. Roberto Alonzo, the vice-chair of the House Pensions Committee, and Bob Williams, the president of State Budget Solutions which advocates for defined contribution plans for public employee pension systems.

A video of Patterson’s presentation is available at http://tinyurl.com/Patterson-TPPF and is also posted on the TEXPERS Facebook page, www.Facebook.com/TEXPERS.

TEXPERS readies for first meeting of PRB with Josh McGee as Chair

Josh McGee, the nation’s leading advocate for the conversion of defined benefit pension plans, will debut as chairman of the Texas Pension Review Board at its February 11 meeting in Austin. The plan, says TEXPERS executive director Max Patterson, is not to panic.

“There is no doubt that McGee is controversial in the way he uses select facts to position pension funds as being unsustainable,” Patterson said. “We at TEXPERS strongly disagree and have been following his work closely for at least four years. When possible we have tried to correct inaccurate statements. We and others will continue to do the same going forward.”

Shortly after McGee’s appointment, TEXPERS reminded its members that a PRB chairman has limited powers. The PRB itself is a monitoring organization and can only recommend changes that must be brought to the Texas Legislature. McGee cannot make unilateral changes.

TEXPERS also recounted how several past PRB chairs have opposed defined benefit plans. The state and local pension plans have been able to weather those storms through coordinated efforts.

In addition, other PRB board members who are knowledgeable and skillful will debate misleading assertions that McGee may make and take him to task on any problematic tactics he initiates.

“Obviously, TEXPERS will do everything in our power to continue in our work as the leading education and legislative organization for state and local pension funds in Texas,” Patterson said. “We will make ourselves available to the media just as we always have, and other groups are stepping forward to help in the public relations battle. I have every confidence that McGee will not be able to push forward any rash, ill-advised measures. He has not been entirely successful in the other states where his employer, the Laura and John Arnold Foundation, have pushed for change. They simply don’t have facts on their side.”

IRIS Proposes Regulations on Applicability of Normal Retirement Age for Governmental Plans

The Internal Revenue Service (IRS) has released proposed normal retirement age regulations for governmental plans.

The proposed regulations would fall under section 401(a) of the Internal Revenue Code, which sets forth the qualification requirements for a trust forming part of a stock bonus, pension or profit-sharing plan of an employer.

Several of these qualification requirements are based on a plan’s normal retirement age, including the regulatory interpretation of the requirement that the plan provide for “definitely determinable benefits,” generally after retirement.

Final regulations defining normal retirement age for the definitely determinable requirement were published in the Federal Register as TD 9325 on May 22, 2007.

The proposed regulations would provide rules for determining whether the normal retirement age under a governmental plan (within the meaning of section 414(d) of the Code) that is a pension plan satisfies the requirements of section 401(a) and whether the payment of definitely determinable benefits that begin at the plan’s normal retirement age satisfies these requirements.

The regulations affect sponsors and administrators of governmental pension plans, as well as participants in such plans.


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Falling Stock Markets Hit Public Pensions Hard in 2015

The improvements to state and local government pension funding levels over the past year and a half were largely undone in the third quarter of 2015, driven mostly by a stock market slide that began in the summer, according to the Rockefeller Institute of Government. Moreover, the historically bad market start to 2016 suggests that pension conditions could worsen even more.

State and local pension fund investments have been heavily tied to stocks so when the market tanked, the gap between a pension’s present value and its expected future obligations grew. When that gap – known as the unfunded liability – increases, lawmakers are pressured to get involved.

“When pension investments fall short, government contributions rise, leading to tax increases or spending cuts and sometimes even to cuts in promised benefits for workers and retirees,” authors Donald J. Boyd and Yimeng Yin write in their analysis from the Rockefeller Institute of Government at the State University of New York.

In Illinois, a recent report by the state Auditor General confirmed the general findings of the Rockefeller report: that there was a $1.7 billion increased unfunded liability in the state’s various pension funds over the past year. The Auditor General’s report indicated that the market value funded ratio for all five funds combined went from 42.9% in 2014 down to 41.9% in 2015. The state now is responsible for nearly $113 billion dollars in unfunded liability for the funds.

In light of the stock market decline in 2015, the historically bad market start to this year – the Dow, S&P 500 and Nasdaq are each down more than 9% – does not bode well for pensions. Of course the markets can rebound by the end of the first quarter, but the slide means they’re starting from behind.

The research shows that investment shortfalls over the third quarter of 2015 caused unfunded pension liabilities – that gap between current value and future obligations – to grow by $268 billion, to $1.7 trillion, according to Federal Reserve Board data.

In other words, unfunded liabilities ended the third quarter about equal to 9.5% of economic output (otherwise known as gross domestic product) for that quarter. That’s a 1.4 percentage point rise from the quarter before.


State and Local Governments Continue to Face Fiscal Challenges, GAO Annual Report Says

In an update to its annual report, the U.S. Government Accountability Office (GAO), reported that the fiscal outlook for state and local governments continues to face challenges.

In the absence of significant policy changes, the report projects that the long-term fiscal outlook will continue deteriorating through 2065. The GAO, the investigative arm of Congress, created simulations that indicated that state and local governments likely will continue to face a gap between revenue and spending over the next 50 years.

Moreover, the effort needed to eliminate the gap, if taken today and maintained yearly, would be equivalent to a 5% reduction in current expenditures or a similar increase in tax revenues or some combination of the two, according to State and Local Governments’ Fiscal Outlook, 2015 Update.

The report uses data from the U.S. Bureau of Economic Analysis (BEA) to forecast the receipts and expenditures for state and local governments through 2064, based on current and historical trends.

The report warns that the continuing near-term and long-term fiscal pressures facing state and local governments are primarily driven by health care costs.

The GAO also noted that while most state and local government pension plans have sufficient assets to cover benefit payments to retirees for 10 or more years, public pension plans have experienced a growing gap between assets and liabilities. State and local governments are working to manage their pension obligations and have implemented pension reforms, including reducing benefits and increasing employees’ contributions, GAO said.

Assets of Largest U.S. Public Pension Systems Fall, Due to Negative Earnings

Total holdings and investments for the 100 largest state and local government pension systems decreased 4.9%, from $3,377.7 billion at the end of the second quarter of 2015 to $3,211.8 billion at the end of the third quarter of 2015, according to the U.S. Census Bureau.

The decline in assets for the quarter was due to negative earnings. However, compared with the third quarter of 2014, assets decreased only 2.5%.

During the third quarter of 2015:
• Earnings on investments were -$145.9 billion, down from $32.6 billion in the second quarter of 2015;
• Government contributions were $30 billion, up from $26.1 billion in the second quarter of 2015; and
• Employee contributions were $9.2 billion, down from $11.4 billion in the second quarter of 2015.

The results come from the U.S. Census Bureau’s Quarterly Survey of Public Pensions which surveys the revenues, expenditures and composition of assets for the 100 largest U.S. public employee retirement systems.

The report also provides a table showing the quarterly percentage changes in cash and investment holdings by major investment category from the first quarter of 2009 to the third quarter of 2015.


State Budget Officers Expect Improved Fiscal Conditions in 2016

After several years of relatively weak economic activity, most states’ fiscal conditions are expected to show a moderate improvement in fiscal year 2016, according to a new report.

Most states expect revenues and expenditures to exceed FY2015 levels. However, fiscal challenges will likely continue due to long-term spending pressures for health care, education, infrastructure and pensions, according to the Fiscal Survey of States, Fall 2015, published by the National Association of State Budget Officers (NASBO).

The report updates information on the states’ fiscal conditions, including aggregate and individual state data on general fund receipts, expenditures and balances. The survey was conducted by NASBO and completed by state budget officers in all 50 states from August 2015 through October 2015.

Total general fund revenues were estimated to increase by 4.8% in FY2015, and in FY2016, general fund revenues were projected to increase by 2.5% to $785 billion, up from $765 billion in FY2015, the report found.

In addition, enacted state budgets for FY2016 show general fund expenditures increasing 4.1% to $790.3 billion, up from $759.4 billion in FY2015. The NASBO report indicates that increases in state general fund spending for FY2016 will be directed mainly to K-12 education and Medicaid, which accounted for 35% and 19%, respectively, of general fund expenditures in FY2015.

GASB Proposes Amending Statements No. 67, 68 and 73

The Governmental Accounting Standards Board (GASB) has released proposed new guidance intended to assist government entities with accounting and financial reporting requirements for defined benefit (DB) pension plans.

The proposal, known as an Exposure Draft (ED) and titled Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73, is related to certain pension issues that have been raised regarding: 1) Statement No. 67, Financial Reporting for Pension Plans; 2) Statement No. 68, Accounting and Financial Reporting for Pensions; and 3) Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.

Specifically, the proposal would address issues regarding: 1) the presentation of payroll-related measures in required supplementary information; 2) the selection of assumptions and the treatment of deviations from the guidance in Actuarial Standards of Practice for financial reporting purposes; and 3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of the proposed Statement would be effective for reporting periods beginning after June 15, 2016. Written comments are due Feb. 12.


GASB Seeks to Set Standards for State and Local Fiduciary Activities

The Governmental Accounting Standards Board (GASB) has proposed new criteria for identifying and reporting fiduciary activities of all state and local governments.

The proposed Statement, known as an Exposure Draft (ED), aims to improve guidance regarding what constitutes fiduciary activities for accounting and financial reporting purposes and how they should be reported.

The proposal describes four fiduciary fund types that would be required to be reported, if applicable: 1) pension (and other employee benefit) trust funds; 2) investment trust funds; 3) private-purpose trust funds; and 4) custodial funds. A custodial fund would report fiduciary activity resources that are not held in a trust agreement or equivalent arrangement that meets specific criteria.

The focus of the criteria for identifying and reporting fiduciary activities generally would be whether a government is controlling the assets of the fiduciary activity and the beneficiaries with whom a fiduciary relationship exists.

An activity meeting the proposed criteria would be required to be reported in a fiduciary fund in the basic financial statements, GASB said in the proposal. Governments with activities meeting the criteria would be required to present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that expects to hold assets in a custodial fund for three months or less.

The proposed Statement also would require that a government recognize a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action or condition is required to be met by the beneficiary to be entitled to receive the resources.

A public hearing on the proposal is scheduled for April 21. The deadline for submitting written comments is March 31. The requirements of the proposed Statement would be effective for reporting periods beginning after December 15, 2017.

Research Examines How GASB 68 May Affect Pension Liabilities of Large Cities

New research from the Center for Retirement Research at Boston College (CRR) examines how the provisions of GASB Statement No. 68 may affect the financial statements of cities and towns. More specifically, it examines how the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 68 related to employers in cost-sharing multiple-employer pension plans may affect the employers’ financial statements.

The research is described in an issue brief, GASB 68: How Will State Unfunded Liabilities Affect Big Cities? It notes that GASB Statement No. 68 made major changes related to how state and local governments recognize and report their pension liabilities and expenses in their financial statements.

Cities are now required to include on their balance sheets the pension accounting information currently in the footnotes of their financial statements and to report their share of the unfunded liability in cost-sharing plans. This calculation does not create new liabilities; it simply reallocates them from the state to the city.

The total impact of this reallocation for CRR’s sample of 173 major cities is small – about a 12% increase in the unfunded liability – because the largest cities generally do not participate in state plans. However, for the 92 cities in the sample that do participate in cost-sharing state plans, the unfunded liability burden almost doubles.

The researchers said the key question is whether the reallocation of pension burdens from states to cities will have any impact. Simply reporting part of state plan unfunded liabilities on local government balance sheets will not change the required payments made by local governments: their annual required contributions (ARCs) already reflect their share of both the normal cost and the payment to amortize the unfunded liability of the state plan.


GASB Statement No. 78 to Help Guide Governments Operating Certain Multi-Employer DB Plans

The Governmental Accounting Standards Board (GASB) has issued new guidance in the form of Statement No. 78, which aims to assist governments that participate in certain multiple-employer defined benefit (DB) pension plans to meet the reporting requirements of GASB Statement No. 68, Accounting and Financial Reporting for Pensions.

Statement No. 78, Pensions Provided through Certain Multi-Employer Defined Benefit Pension Plans, applies to governments that participate in certain nongovernmental, multiple-employer DB plans covered by the Employee Retirement Income Security Act of 1974 (ERISA), such as Taft-Hartley plans or other collectively bargained plans.

GASB 78, which is effective for reporting periods beginning after December 15, 2015, establishes the criteria for identifying the applicable pension plans, among other things.

The guidance would apply to state and local governmental employers that provide DB pensions to their employees through a cost-sharing multiple-employer DB pension plan that “meets the criteria of paragraph 4 of Statement No. 68,” or holds its assets in trust, and: 1) is not a state or local government pension plan; 2) is used to provide DB pensions to employees of state or local governments and to employees of employers that are not state or local governments; and 3) has no predominant state or local government employer.

Some governmental employers participating in these plans found that the plans did not provide the accounting and financial reporting information needed to comply with GASB Statement No. 68. Therefore, the GASB issued new guidance that establishes separate requirements for these employers.


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SEC Charges Superior Bank Officers

The Securities and Exchange Commission (SEC) has brought fraud charges against 11 former executives and board members at Superior Bank and its holding company involved in various schemes to conceal the extent of loan losses as the bank was faltering in the wake of the 2008-09 financial crisis.

The SEC alleges the high-ranking officers and directors schemed to mislead investors and bank regulators by propping up Superior Bank’s financial condition through straw borrowers, bogus appraisals, and insider deals. The bank officials improperly extended, renewed and rolled over bad loans to avoid impairment and the need to report ever-increasing allowances for loan and lease losses (ALLL) in its financial accounting, the SEC said.

As a result, Superior Bank overstated its net income in public filings by approximately 99% for 2009 and 50% for 2010. The Birmingham, Ala.-based bank failed in 2011.

Nine of the 11 bank officers and directors have agreed to settle the SEC’s charges. The other two are contesting the SEC’s complaint.


SEC Publishes Reports on Credit Rating Agencies

The Securities and Exchange Commission (SEC) has issued its two annual staff reports on credit rating agencies registered as nationally recognized statistical rating organizations (NRSROs). The reports show that NRSROs have made operational improvements and have enhanced process accountability, controls and governance, and that smaller NRSROs have made competitive inroads in certain rating categories.

The annual examination report summarizes the staff’s findings from the examinations of each NRSRO as required by the 2010 Dodd-Frank Act. SEC examiners performed risk assessments on specific areas in addition to examining the eight required review areas. The report showed that all of the NRSROs have enhanced their understanding of their obligations as regulated entities and that at many of the firms, operational improvements made in prior years are being further integrated and enhanced.

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SEC’s 2016 Examination Priorities Include Public Pension Advisers, Among Other Topics

The Securities and Exchange Commission (SEC) has released its examination priorities for 2016 and they include a focus on public pension advisers, liquidity controls, product promotion, and two popular investment products – exchange-traded funds and variable annuities.

The 2016 examination priorities, announced by the SEC’s Office of Compliance Inspections and Examinations’ (OCIE), also reflect the regulator’s focus on protecting investors in risk areas such as cybersecurity, microcap fraud, fee selection, and reverse churning.

The priorities address issues across a variety of financial institutions, including investment advisers, investment companies, broker-dealers, transfer agents, clearing agencies, and national securities exchanges.

Areas of examination include: protecting retail investors; cybersecurity controls at broker-dealers and investment advisers; and assessing anti-money laundering compliance, detecting microcap fraud, and watching for excessive trading.

The priorities for 2016 are a guideline and may be adjusted in light of market conditions, industry developments and ongoing risk assessment activities.


Various Investment Management Firms Dealing with SEC charges

Investigations by the Securities and Exchange Commission have found a number of issues among various investment firms.

Two J.P. Morgan wealth management subsidiaries have agreed to pay $267 million and admit wrongdoing to settle charges that they failed to disclose conflicts of interest to clients.

J.P. Morgan Securities LLC (JPMS), and nationally chartered bank, JPMorgan Chase Bank N.A. (JPMCB), preferred to invest clients in the firm’s own proprietary investment products without properly disclosing this preference.

This preference impacted two fundamental aspects of money management – asset allocation and the selection of fund managers – and deprived JPMorgan’s clients of information they needed to make fully informed investment decisions, the SEC alleged.

In a parallel action, JPMorgan Chase Bank agreed to pay an additional $40 million penalty to the U.S. Commodity Futures Trading Commission (CFTC).

J.P. Morgan’s brokerage business – J.P. Morgan Securities LLC (JPMS) – has agreed to pay $4 million to settle charges that it falsely stated on its private banking website and in marketing materials that advisors are compensated “based on our clients’ performance; no one is paid on commission.”

Although JPMS did not pay commissions to registered representatives in its U.S. Private Bank, compensation was not based on client performance. Advisors instead were paid a salary and a discretionary bonus based on a number of other factors.

State Street Bank and Trust Company has agreed to pay $12 million to settle charges by the SEC that it conducted a pay-to-play scheme through its then-senior vice president and a hired lobbyist to win contracts to service Ohio pension funds.

The SEC alleges that Vincent DeBaggis, who headed State Street’s public funds group responsible for serving as custodians or sub-custodians to public retirement funds, entered into an agreement with Ohio’s then-deputy treasurer to make illicit cash payments and political campaign contributions. In exchange, State Street received three lucrative sub-custodian contracts to safeguard certain funds’ investment assets and effect the settlement of their securities transactions, the SEC alleged.

Goldman, Sachs & Co. has agreed to pay $15 million to settle charges that its securities lending practices violated federal regulations.

Broker-dealers such as Goldman Sachs are regularly asked by customers to locate stock for short selling, according to the SEC settlement order. Granting a “locate” represents that a firm has borrowed, arranged to borrow, or reasonably believes it could borrow, the security to settle the short sale.

Morgan Stanley Investment Management has agreed to pay $8.8 million to settle SEC charges that one of its portfolio managers unlawfully conducted prearranged trading known as “parking” that favored certain advisory client accounts over others.

The portfolio manager and a brokerage firm trader who assisted the schemes agreed to be barred from the securities industry and pay penalties in the settlement. The brokerage firm, SG Americas, agreed to pay more than $1 million to settle the SEC’s charges.

## Regular Board Meeting March 10, 2016

<table>
<thead>
<tr>
<th>Conference</th>
<th>Dates</th>
<th>Location</th>
<th>Est. Cost</th>
</tr>
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<tbody>
<tr>
<td><strong>1. Conference:</strong> IFEBP: Investments Institute</td>
<td><strong>March 14-16, 2016</strong></td>
<td>Las Vegas, NV</td>
<td><strong>$2,660</strong></td>
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<tr>
<td><strong>2. Conference:</strong> Society of Pension Professionals</td>
<td><strong>March 15, 2016</strong></td>
<td>Dallas, TX</td>
<td><strong>$250.00 Per Person Annually</strong></td>
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<td><strong>3. Conference:</strong> Oaktree Conference</td>
<td><strong>March 16-17, 2016</strong></td>
<td>Beverly Hills, CA</td>
<td><strong>TBD</strong></td>
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<tr>
<td><strong>4. Conference:</strong> TEXPERS Basic Trustee Training Course</td>
<td><strong>April 2, 2016</strong></td>
<td>Dallas, TX</td>
<td><strong>TBD</strong></td>
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5. Conference: TEXPERS Annual Conference
   Dates: April 3-6, 2016
   Location: Dallas, TX
   Est. Cost: TBD

6. Conference: Merit Energy Annual Meeting
   Dates: April 12-13, 2016
   Location: Dallas, TX
   Est. Cost: TBD

Regular Board Meeting April 14, 2016

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

8. Conference: TEXPERS Secure Retirement for All
   Dates: April 21-22, 2016
   Location: Washington, DC
   Est. Cost: TBD

   Dates: April 28, 2016
   Location: Irving, TX
   Est. Cost: $275
   Dates: May 2-5, 2016
   Location: Pennsylvania, PA
   Est. Cost: $5,000

Regular Board Meeting May 12, 2016

11. Conference: NCPERS Trustee Educational Seminar (TEDS)
   Dates: May 14-15, 2016
   Location: San Diego, CA
   Est. Cost: $750

12. Conference: NCPERS Accredited Fiduciary (NAF) Program
   Dates: May 14-15, 2016
   Location: San Diego, CA
   Est. Cost: $900

13. Conference: NCPERS Annual Conference
   Dates: May 15-19, 2016
   Location: San Diego, CA
   Est. Cost: $1,100

Regular Board Meeting June 9, 2016

   Dates: June 7-8, 2016
   Location: Irving, TX
   Est. Cost: None
15. 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

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

   Dates: July 25-27, 2016
   Location: San Francisco, CA
   Est. Cost: $6,000

Regular Board Meeting August 11, 2016

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

19. Conference: NCPERS Public Pensions Funding Forum
   Dates: August 21-23, 2016
   Location: New Haven, CT
   Est. Cost: TBD
Regular Board Meeting September 8, 2016

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

Regular Board Meeting October 13, 2016

Board and Staff Workshop October 17-19, 2016

   Dates: October 23-26, 2016
   Location: Las Vegas, NV
   Est. Cost: TBD

Regular Board Meeting November 10, 2016

Regular Board Meeting December 8, 2016

22. Conference: Society of Pension Professionals
   Dates: December 20, 2016
   Location: Dallas, TX
   Est. Cost: $250.00 Per Person Annually