

Investments Governance

March 10, 2016



D A L L A S
POLICE & FIRE
PENSION SYSTEM



Serving Those Who Protect the Dallas Community

PH 214.638.3863 or 800.638.3861 FAX 214.638.6403 4100 Harry Hines Boulevard, Suite 100, Dallas, TX 75219

Purpose

- ▶ Seeking Board direction on governance issues related to investments.
 - a. Make-up, function and authority of the Investment Advisory Committee (IAC)
 - b. Role of the Board, staff and consultant(s) in the investment process, including manager selection, due diligence, monitoring, and rebalancing.
 - c. Policy review process

- ▶ Board directions will be incorporated into the draft Investment Policy that will be presented first to the Governance Committee for comment and then to the Board for adoption, tentatively scheduled for April 2016.

IAC - Role

- ▶ The Governance Committee discussed possible IAC structures in February.
 - There was a desire to have an IAC that includes outside investment professionals to advise the Board
 - The IAC will have an advisory role only
 - Scope of advice from IAC will be:
 - Review recommendations from staff/consultants for hiring and terminating managers
 - Perform investment monitoring
 - Provide advice on asset allocation, target asset allocation ranges, appropriate benchmarks, investment strategies, investment policies, eligible securities, due diligence processes and procedures and other areas as necessary.

IAC - Members

- ▶ 7 members total - (Quorum of 4)
- ▶ Members of the committee could be nominated as follows: Two each nominated by the Fire Trustees, Police Trustees, and Council Trustees. Each group of Trustees may include a current Trustee as one of their nominations.
- ▶ One additional outside investment professional member, to create an odd number, perhaps nominated by Staff.
- ▶ The Board approves the nominations.
- ▶ The terms are generally 3-year staggered terms. The initial terms will be different lengths to create the stagger.
- ▶ The Chair and Vice Chair of the IAC will be elected from the IAC members.

IAC – Meetings – Two Options

Option 1 -

- ▶ IAC Meetings are held separately from the Board meetings, most likely during the 4th week of the month.
 - IAC members are at the table and participate in all discussions.
 - Non-IAC member Trustees may be at the table and may participate in discussions, but will not have a role in voting.
 - IAC members will vote on items for purposes of recommending to the Board. Following the IAC vote, an IAC recommendation of an item, or lack thereof, will be presented to the Board at the next Board meeting.
 - The Board will be presented an abbreviated version of the facts of the issue along with the recommendations by the IAC, staff, and the consultant for consideration of approval.

IAC – Meetings – Two Options

Option 2 -

- ▶ The Employees Retirement System of Texas Model
 - IAC meetings are held concurrently with the Board meeting.
 - Investment related items are scheduled first on the agenda.
 - All IAC members and Trustees are at the table and participate in all investment related discussions. In this model, it may not be necessary to have Trustees as members of the IAC.
 - IAC will vote first on a particular item. Only IAC members would be able to vote on IAC items. Following the IAC vote, an IAC recommendation of an item, or lack thereof, will be presented to the Board as the Board considers staff and consultant recommendations for approval.

Roles and Responsibilities

- ▶ As noted by Cortex in their governance review, the roles and responsibilities around the investment functions of staff, consultants, IAC and the Board are in need of clarification.
- ▶ The Investment Policy will describe in detail the roles and responsibilities of the Board, IAC, Executive Director, investment staff, consultants, investment managers and the custodian.



Roles and Responsibilities – High Level

- ▶ Investment Strategy and Manager Hiring/Redemption
 - The staff and consultants recommend items to be considered by the IAC for possible recommendation to the Board
 - IAC recommends items for Board approval
 - Board takes action on recommendation

- ▶ Portfolio Rebalancing
 - Staff implements, with consultant's concurrence, and IAC reviews

- ▶ Portfolio Due Diligence
 - Staff and consultants are responsible
 - IAC and Board monitor as part of hiring and redemption considerations

- ▶ Operational and Implementation Issues
 - Staff responsible

Policy Review Process

- ▶ Incorporate feedback from today into the draft investment policy.
- ▶ Have the draft policy reviewed by Champion Capital Research and NEPC and incorporate comments and changes into the draft policy.
- ▶ Submit the draft investment policy to the Governance Committee in late March for review.
- ▶ Submit the Investment Policy to the Board for possible approval in April.

