

AGENDA



Date: April 3, 2020

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, April 9, 2020, via telephone conference for audio at 214-271-5080 access code 588694 or Toll-Free (US & CAN):1-800-201-5203 and Zoom meeting for visual <https://zoom.us/j/675029231?pwd=STNkY0t1YU5CdUkzU0tBcGZHL3dnUT09>**. Items of the following agenda will be presented to the Board:

A. MOMENT OF SILENCE

B. CONSENT AGENDA

1. Approval of Minutes

- a.** Regular meeting of March 12, 2020
- b.** Emergency meeting of March 12, 2020

2. Approval of Refunds of Contributions for the Month of March 2020

- 3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for April 2020**
- 4. Approval of Estate Settlements**
- 5. Approval of Survivor Benefits**
- 6. Approval of Service Retirements**
- 7. Approval of Alternate Payee Benefits**
- 8. Approval of Payment of Military Leave Contributions**
- 9. Denial of Hardship Request**

C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

- 1. Monthly Contribution Report**
- 2. Trustee Terms Expiring in 2020 and 2020 Election Schedule**
- 3. DROP Policy Amendment**

- 4. Board approval of Trustee education and travel**
 - a. Future Education and Business-related Travel
 - b. Future Investment-related Travel
- 5. Operational Response to COVID-19**
- 6. Report on Investment Advisory Committee Meeting**
- 7. Portfolio Update**
- 8. Rebalancing and Liquidity**
- 9. Private Asset Cash Flow Projection Update**

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.

10. Real Estate Overview – AEW

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

11. Lone Star Investment Advisors Update

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

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

D. BRIEFING ITEMS

- 1. Public Comment**
- 2. Executive Director's report**
 - a. Associations' newsletters**
 - NCPERS Monitor (March 2020)
 - b. Open Records**

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

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



ITEM #A

MOMENT OF SILENCE

In memory of our Members and Pensioners who recently passed away

| NAME | ACTIVE/ RETIRED | DEPARTMENT | DATE OF DEATH |
|---------------------|----------------------------|-------------------|----------------------|
| B. A. McKenzie | Retired | Fire | Mar. 3, 2020 |
| Charles A. Stewart | Retired | Fire | Mar. 5, 2020 |
| T. J. Cockrill | Retired | Fire | Mar. 7, 2020 |
| William L. House | Retired | Police | Mar. 16, 2020 |
| William E. Clark | Retired | Fire | Mar. 20, 2020 |
| Michael R. Dorety | Retired | Fire | Mar. 20, 2020 |
| Grady R. Moore | Retired | Fire | Mar. 22, 2020 |
| Rickey C. Narramore | Retired | Fire | Mar. 22, 2020 |
| Joe D. Harrington | Retired | Police | Mar. 24, 2020 |

Regular Board Meeting – Thursday, April 9, 2020

**Dallas Police and Fire Pension System
Thursday, March 12, 2020
8:30 a.m.
4100 Harry Hines Blvd., Suite 100
Second Floor Board Room
Dallas, TX**

Regular meeting, William F. Quinn, Chairman, presiding:

ROLL CALL

Board Members

Present at 8:32 a.m. William F. Quinn, Joseph P. Schutz, Susan M. Byrne, Robert B. French, Gilbert A. Garcia (by phone), Mark Malveaux (present in person until 11:01 a.m. thereafter by phone), Armando Garza, Allen R. Vaught, Tina Hernandez Patterson:

Absent: Nicholas A. Merrick, Steve Idoux

Staff

Kelly Gottschalk, Josh Mond, Kent Custer, Brenda Barnes, John Holt, Cynthia Thomas, Ryan Wagner, Greg Irlbeck, Michael Yan, Milissa Romero

Others

David Elliston, Janis Elliston, Darryl Wachsman, Rick Salinas, Manet Schuman, Sheri Kowalski, Chuck Campbell, Leandro Festino, Aaron Lally (by phone), Alli Wallace (by phone), Bohdy Hedcock (by phone), Travis Stephens (by phone), David Harper (by phone)

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The meeting was called to order at 8:32 a.m.

The meeting was recessed at 10:49 a.m. and was reconvened at 11:08 a.m.

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A. MOMENT OF SILENCE

The Board observed a moment of silence in memory of retired police officers Armond C. Beaty, William F. Lovell, Richard O. Walker, Billy E. Barnes, and retired firefighters R. B. Kimzey, Raymond R. Rowe

No motion was made.

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**Regular Board Meeting
Thursday, March 12, 2020**

B. CONSENT AGENDA

1. Approval of Minutes

Regular meeting of February 13, 2020

2. Approval of Refunds of Contributions for the Month of February 2020

3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for March 2020

4. Approval of Estate Settlements

5. Approval of Survivor Benefits

6. Approval of Service Retirements

After discussion, Mr. Garza made a motion to approve the minutes of the meeting of February 13, 2020. Ms. Byrne seconded the motion, which was unanimously approved by the Board.

After discussion, Mr. Vaught made a motion to approve the remaining items on the Consent Agenda, subject to the final approval of the staff. Ms. Byrne seconded the motion, which was unanimously approved by the Board.

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C. DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

1. Chairman’s Discussion Items

Recap of the meeting with Dallas Citizens Council Representatives

No motion was made.

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**Regular Board Meeting
Thursday, March 12, 2020**

2. Report on Professional Services Committee

The Chairman reported that the Professional Services Committee met with Mr. Festino of Meketa Investment Group, DFPF’s investment consultant. The Chairman reported that the following issues of concern were raised by Mr. Festino; frequent change in the Board members, staff is stretched in a lot of different directions on multiple issues and tasks, the Investment Advisory Committee (IAC) is a work in progress, and the illiquid assets are not transitioning as quickly as expected.

No motion was made.

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3. Speakers at Board Meeting Policy

Staff recommended changes to the policy that reflected changes to the state law as well as instituted both time limits for speakers and discretion with respect to time limits for the Chairman.

After discussion, Ms. Byrne made a motion to adopt the Speakers at Board Meeting Policy as amended. Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

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4. Fiduciary Duties of Trustees

Chuck Campbell with Jackson Walker, fiduciary counsel for the Board, gave a presentation on fiduciary duties of trustees.

No motion was made.

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5. Monthly Contribution Report

Staff presented the Monthly Contribution Report.

No motion was made.

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**Regular Board Meeting
Thursday, March 12, 2020**

6. Peer Reviews

The Executive Director's 2020 Performance Objectives included conducting a peer review of staff compensation and an organizational and expense review.

The Board directed the Executive Director to hire Logic Compensation Group to conduct a peer review of staff total compensation and to internally conduct a review of organizational and expenses of DFPF compared to peer Texas plans.

No motion was made.

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7. Board approval of Trustee education and travel

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

No motion was made. No future investment-related travel is currently scheduled.

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8. Portfolio Update

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

No motion was made.

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9. Fourth Quarter 2019 Investment Performance Analysis and Third Quarter 2019 Private Markets & Real Assets Review

Leandro Festino, Aaron Lally and Alli Wallace with Meketa Investment Group and Investment staff reviewed investment performance.

No motion was made.

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**Regular Board Meeting
Thursday, March 12, 2020**

10. Investment Practices and Performance Review (SB 322)

Senate Bill 322 modified Section 802.109 of the Texas Government Code to require that a public retirement system shall select an independent firm to evaluate the appropriateness, adequacy, and effectiveness of the retirement system's investment practices and performance and to make recommendations for improving the retirement system's investment policies, procedures, and practices.

At the October 10, 2019 meeting, the Board approved hiring Meketa Investment Group to conduct the evaluation. Meketa discussed their evaluation and recommendations with the Board.

After discussion, Ms. Byrne made a motion to approve the report required by SB 322 submitted by Meketa and authorize submission of the report to the Texas Pension Review Board. Mr. Vaught seconded the motion, which was unanimously approved by the Board.

Mr. Malveaux was not present when the vote was taken.

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11. Asset Allocation Review

Meketa and Investment staff reviewed DFPF's strategic asset allocation, capital market assumptions, and expectations for performance and volatility.

No motion was made.

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Mr. Malveaux left the meeting at 12:01 p.m.

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**Regular Board Meeting
Thursday, March 12, 2020**

12. Real Estate Overview – Clarion Partners Portfolio

The Board went into closed executive session – Real Estate at 12:20 p.m.

The meeting was reopened at 12:37 p.m.

Bohdy Hedgcock, with Clarion updated the Board on the status and plans for DFPF’s investment in CCH Lamar.

No motion was made.

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13. Closed Session - Board serving as Medical Committee

Application for death benefits for disabled child

The Board went into closed executive session – Medical at 12:38 p.m.

The meeting was reopened at 12:39 p.m.

Staff presented an application for consideration by the Board of a survivor benefits for a disabled child in accordance with Section 6.06(n) of Article 6243a-1.

After discussion, Ms. Byrne made a motion to grant survivor benefits for a disabled child under the provisions of Article 6243a-1, Section 6.06 (o-2). Ms. Hernandez Patterson seconded the motion, which was unanimously approved by the Board.

Mr. Malveaux was not present when the vote was taken.

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14. Lone Star Investment Advisors Update

The Board went into closed executive session – Legal at 9:48 a.m.

The meeting was reopened at 10:49 a.m.

No motion was made.

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**Regular Board Meeting
Thursday, March 12, 2020**

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

The Board went into closed executive session – Legal at 9:48 a.m.

The meeting was reopened at 10:49 a.m.

No motion was made.

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D. BRIEFING ITEMS

1. Public Comments

No one requested to address the Board with concerns.

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2. Executive Director’s report

- a. Associations’ newsletters**
 - (1) NCPERS Monitor (February 2020)**
 - (2) NCPERS Monitor (Winter 2020)**
- b. Open Records**
- c. Staffing Update**

The Executive Director’s report was presented.

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**Regular Board Meeting
Thursday, March 12, 2020**

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Ms. Byrne and a second by Mr. Garza, the meeting was adjourned at 12:39 p.m.

William F. Quinn
Chairman

ATTEST:

Kelly Gottschalk
Secretary

DRAFT

**Dallas Police and Fire Pension System
Thursday, March 12, 2020
10:00 a.m.
Second Floor Board Room
4100 Harry Hines Blvd., Suite 100
Dallas, TX**

Emergency meeting, William G. Quinn, Chairman, presiding:

ROLL CALL

Board Members

Present at 10:49 a.m. William F. Quinn, Joseph P. Schutz, Susan M. Byrne, Robert B. French, Gilbert A. Garcia (by phone), Mark Malveaux, Armando Garza, Allen R. Vaught, Tina Hernandez Patterson

Absent: Nicholas A. Merrick, Steve Idoux

Staff

Kelly Gottschalk, Josh Mond, Kent Custer, Brenda Barnes, John Holt, Cynthia Thomas, Ryan Wagner, Greg Irlbeck, Michael Yan, Milissa Romero

Others

David Elliston, Janis Elliston, Darryl Wachsman, Rick Salinas, Manet Schuman, Sheri Kowalski, Chuck Campbell, Leandro Festino, Aaron Lally (by phone), Alli Wallace (by phone)

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The meeting was called to order at 10:49 a.m.

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DISCUSSION AND POSSIBLE ACTION REGARDING ITEMS FOR INDIVIDUAL CONSIDERATION

COVID-19 Office preparedness and possible grant of special authority to Executive Director

After discussion, Ms. Byrne made a motion to grant the Executive Director the authority during the pendency of the Covid-19 pandemic, to amend or suspend provisions of the DFPF Personnel Policy and, in the situation where the Board is prevented from meeting in a particular month, authorize the Executive Director to (i) approve any matter that would otherwise appear on the consent agenda and (ii) deny any DROP hardship request which the Executive Director believes is not authorized under the DROP Policy. Mr. Garza seconded the motion, which was unanimously approved by the Board.

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**Emergency Meeting
Thursday, March 12, 2020**

Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Schutz and a second by Ms. Byrne, the meeting was adjourned at 11:08 a.m.

William F. Quinn
Chairman

ATTEST:

Kelly Gottschalk
Secretary

DRAFT



DISCUSSION SHEET

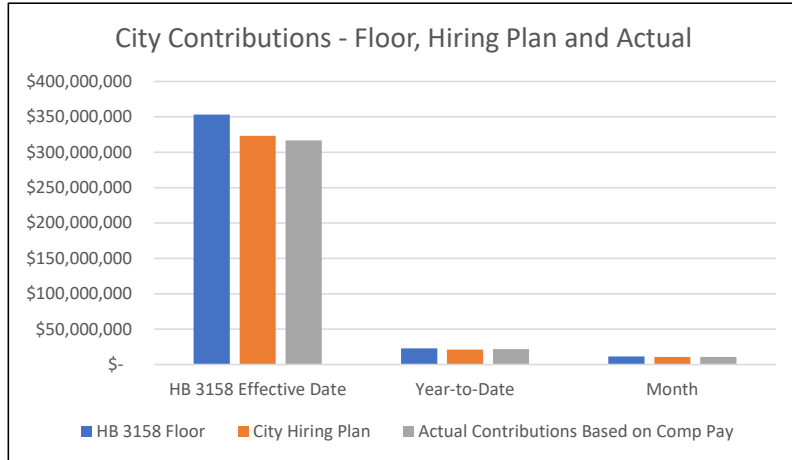
ITEM #C1

Topic: Monthly Contribution Report

Discussion: Staff will review the Monthly Contribution Report.

Regular Board Meeting – Thursday, April 9, 2020

Contribution Tracking Summary - April 2020 (February 2020 Data)



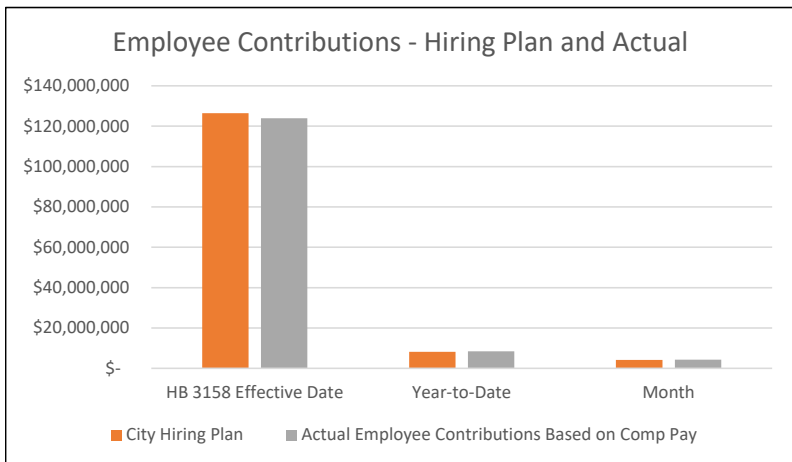
Actual Comp Pay was 98% of the Hiring Plan estimate since the effective date of HB 3158.

In the most recent month Actual Comp Pay was 103% of the Hiring Plan estimate and 95% of the floor amount.

The Hiring Plan Comp Pay estimate increased by 3.39% in 2020. The Floor increased by 2.75%.

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

The combined actual hiring was 51 higher than the Hiring Plan for the pay period ending March 3, 2020. Fire was over the estimate by 86 fire fighters and Police was short 35 officers.



Since the effective date of HB 3158 actual employee contributions have been \$2.5 million less than the Hiring Plan estimate. Potential earnings loss due to the contribution shortfall is \$454k at the Assumed Rate of Return.

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

There is no Floor on employee contributions.

Contribution Summary Data

| City Contributions | | | | | | | |
|---|---|----------------------|-------------------------|---|---|---|---|
| Feb-20 | Number of Pay Periods Beginning in the Month | HB 3158 Floor | City Hiring Plan | Actual Contributions Based on Comp Pay | Additional Contributions to Meet Floor Minimum | Comp Pay Contributions as a % of Floor Contributions | Comp Pay Contributions as a % of Hiring Plan Contributions |
| Month | 2 | \$ 11,448,000 | \$ 10,509,231 | \$ 10,838,053 | \$ 609,947 | 95% | 103% |
| Year-to-Date | | \$ 22,896,000 | \$ 21,018,462 | \$ 21,633,572 | \$ 1,262,428 | 94% | 103% |
| HB 3158 Effective Date | | \$ 353,243,000 | \$ 323,158,846 | \$ 316,690,780 | \$ 36,552,220 | 90% | 98% |
| <p><i>Due to the Floor through 2024, there is no cumulative shortfall in City Contributions Does not include the flat \$13 million annual City Contribution payable through 2024. Does not include Supplemental Plan Contributions.</i></p> | | | | | | | |

| Employee Contributions | | | | | | | |
|--|---|-------------------------|--|--|--|---|--|
| Feb-20 | Number of Pay Periods Beginning in the Month | City Hiring Plan | Actual Employee Contributions Based on Comp Pay | Actual Contribution Shortfall Compared to Hiring Plan | Actuarial Valuation Contribution Assumption | Actual Contributions as a % of Hiring Plan Contributions | Actual Contributions as a % of Actuarial Val Assumption |
| Month | 2 | \$ 4,112,308 | \$ 4,240,981 | \$ 128,673 | \$ 4,112,308 | 103% | 103% |
| Year-to-Date | | \$ 8,224,615 | \$ 8,464,742 | \$ 240,127 | \$ 8,224,616 | 103% | 103% |
| HB 3158 Effective Date | | \$ 126,453,462 | \$ 123,933,823 | \$ (2,519,639) | \$ 121,344,254 | 98% | 102% |
| Potential Earnings Loss from the Shortfall based on Assumed Rate of Return | | | | \$ (454,043) | | | |
| <p><i>Does not include Supplemental Plan Contributions.</i></p> | | | | | | | |

Reference Information

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

The HB 3158 Bi-weekly Floor ends after 2024

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

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

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

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

City Contributions are based on the Floor through 2024, the Hiring Plan from 2025 to 2037, after 2037 an annual growth rate of 2.75% is assumed
 Employee Contributions for 2018 are based on the 2017 actual employee contributions inflated by the growth rate of 2.75% and the Hiring Plan for subsequent years until 2038, when the 2037 Hiring Plan is increased by the 2.75 growth rate for the next 10 years

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

| | Actuarial Valuation | GASB 67/68 |
|---|---------------------|------------|
| YE 2017 (1/1/2018 Valuation) | | |
| 2018 Employee Contributions Assumption - based on 2017 actual plus growth rate not the Hiring Plan Payroll | \$ (2,425,047) | * |
| 2019 Estimate (1/1/2019 Valuation) | | |
| 2019 Employee Contribution Assumption | \$ 9,278 | * |
| *90% of Hiring Plan was used for the Cash Flow Projection for future years in the 12/31/2017 GASB 67/68 calculation. At 12-31-17 and 12-31-18 this did not impact the pension liability or the funded percentage. | | |

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

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

| Comp Pay by Month - 2020 | Annual Divided by 26 Pay Periods | Actual | Difference | 2020 Cumulative Difference | Number of Employees EOM | Difference |
|--------------------------|----------------------------------|---------------|------------|----------------------------|-------------------------|------------|
| January | \$ 30,461,538 | \$ 31,291,360 | \$ 829,821 | \$ 829,821 | 5136 | 73 |
| February | \$ 30,461,538 | \$ 31,355,435 | \$ 893,897 | \$ 893,897 | 5114 | 51 |
| March | \$ 30,461,538 | | | | | |
| April | \$ 45,692,308 | | | | | |
| May | \$ 30,461,538 | | | | | |
| June | \$ 30,461,538 | | | | | |
| July | \$ 30,461,538 | | | | | |
| August | \$ 30,461,538 | | | | | |
| September | \$ 45,692,308 | | | | | |
| October | \$ 30,461,538 | | | | | |
| November | \$ 30,461,538 | | | | | |
| December | \$ 30,461,538 | | | | | |



DISCUSSION SHEET

ITEM #C2

Topic: **Trustee Terms Expiring in 2020 and 2020 Election Schedule**

Discussion: As required by the Trustee Election Procedures, this agenda item is intended to notify the Board that the terms of the following Trustees expire on August 31, 2020:

William Quinn, Mayoral Appointee
Nicholas Merrick, Mayoral Appointee
Susan Byrne, Mayoral Appointee
Joseph Schutz, Police Trustee
Armando Garza, Fire Trustee

Additionally, the Trustee Election Procedures require the Board to adopt an election schedule for election of the police and fire trustees.

Staff

Recommendation: **Adopt** the draft 2020 Trustee Election schedule.

Regular Board Meeting – Thursday, April 9, 2020



2020 Police Officer and Fire Fighter Trustee Election Schedule

| Date | Item |
|-------------------------|--|
| April 9 | Board approves election schedule. |
| May 14 | Email a notice to the City Manager, Police and Fire Department Chiefs and the Police Officer and Fire Fighter Association Presidents announcing call for candidates and post notice to DFPF Website. |
| May 14 | Distribute via mail, and email where possible, a notification to Members and Pensioners announcing the Trustee election and call for candidates. |
| May 14 – June 2 | Application packets are available on the DFPF website. www.DFPF.org or at the DFPF office at 4100 Harry Hines Blvd., suite 100. |
| June 2 | Applications for Police Officer and Fire Fighter Trustee candidates due at DFPF by 4:00 p.m. |
| June 11 | Board determines if the Police Officer and Fire Fighter candidates meet the required qualifications to be included on the ballot. If no candidate meets the required qualifications the Nominations Committee will be notified that the position must be filled by a Non-member Trustee. |
| June 12 | Candidates will be notified about whether or not their application was deemed qualified to be included on the ballot. |
| June 24 | Mail Police Officer and Fire Fighter voting packets to Members' and Pensioners' home addresses for those who have not elected eCorrespondence. |
| June 25 | Email Police Officer and Fire Fighter Trustee voting packets to Members' and Pensioners' electing eCorrespondence at 8 a.m. |
| June 25 – July 7 | Voting begins at 8 a.m. on Wednesday June 23, voting ends at noon on Sunday, July 5. |
| July 8 | Vendor reports election results. |

- July 8** Executive Director reports election results to the Board and posts the results on the DFPF website.
- July 9** Board of Trustees certify the election results from the election.
- July 20** If necessary, mail Police Officer and Fire Fighter Runoff Trustee voting packets to Members' home addresses for those who have not elected eCorrespondence.
- July 21** Email Police Officer and Fire Fighter Trustee Runoff voting packets to Members' electing eCorrespondence at 8 a.m.
- July 21 – August 4** Police Officer and Fire Fighter Trustee Runoff election, if necessary. Voting begins at 8 a.m. on Wednesday, July 8, Voting ends at noon on Wednesday, July 22.
- August 5** Vendor reports election results.
- August 5** Executive Director reports election results to Board and posts the results on the DFPF website.
- August 13** Board of Trustees certify Police Officer and Fire Fighter Trustee Runoff election results.
- September 1** New Trustees term begin.
- Definitions:**
- Police Officer Trustee:** One active or former Police Department representative to be elected by active members of the Police Department.
- Fire Fighter Trustee:** One active or former Fire Department representative to be elected by active members of the Fire Department.
- Nominations Committee:** A committee with voting representation from the organizations named in Section 3.011(b)(2) responsible for vetting, selecting and nominating Non-Member Trustee candidates.
- Non-Member Trustee:** Three trustees who cannot be a Member, Pensioner, a current City employee, a person who was formerly a City employee and who has been separated from the City for less than two years prior to becoming a Trustee or a currently elected City official.



DISCUSSION SHEET

ITEM #C3

Topic: DROP Policy Amendment

Discussion: Staff is proposing an amendment to the DROP Policy involving the circumstance where members are rehired after retirement. Currently, the policy does not address how to deal with DROP annuities of members who have retired and are subsequently rehired by one of the departments. Staff is proposing a methodology for dealing with these annuities upon the retirement of a member after a rehiring event.

Staff Recommendation: Approve the DROP Policy as amended.

Regular Board Meeting – Thursday, April 9, 2020



D A L L A S
POLICE & FIRE
PENSION SYSTEM



**DEFERRED RETIREMENT OPTION PLAN
POLICY
(DROP)**

| As Amended Through April 9, 2020~~September 12, 2019~~

**DEFERRED RETIREMENT OPTION PLAN
POLICY**

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DEFERRED RETIREMENT OPTION PLAN POLICY

Adopted December 10, 1992

Amended through ~~April 9, 2020~~ ~~September 12, 2019~~

A. PURPOSE

1. This policy provides rules governing the Deferred Retirement Option Plan of the Dallas Police and Fire Pension System (“DPFP”), as contemplated by Section 6.14 of Article 6243a-1 of Revised Statutes (the “Plan”) and the Supplemental Pension Plan for the Police and Fire Departments of the City of Dallas, Texas (the “Supplemental Plan”) where applicable. It is intended that DROP and the terms of this policy allow for the continued qualification of the Plan under Section 401 of the Internal Revenue Code (“Code”).
2. Any reference in this policy to a provision of the Plan shall also be considered a reference to the comparable provision of the Supplemental Plan if the applicant is a member of the Supplemental Plan.
3. The Executive Director may, if necessary, develop written procedures to implement this policy.
4. This policy may be amended at any time by the Board of Trustees (“Board”), consistent with the terms of the Plan.
5. Any capitalized terms not defined in this policy shall have the meaning ascribed to them in the Plan.

B. DEFINITIONS

1. **DROP** - The program whereby a Member while still in Active Service may elect to have an amount equal to the pension benefit that the Member would otherwise be eligible to receive be credited to a notional account on the Member’s behalf. A Member, as of his or her intended date of participation in DROP, must be eligible to retire and receive an immediate pension benefit. An election to enter DROP is irrevocable except for the one-time revocation window for certain Members that is described in Section D.
2. **DROP Account** - The notional account of a Member, retiree, beneficiary or Alternate Payee created pursuant to Section 6.14 of the Plan which existed or exists prior to any annuitization required under the Plan and in conformity with this policy.



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As amended through ~~April 9, 2020~~September 12, 2019
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B. DEFINITIONS (continued)

3. **DROP Annuitant** – The holder of a DROP Annuity.
4. **DROP Annuity** – The series of equal payments created when a DROP Account is annuitized as required under the Plan and in conformity with this policy.

C. ENTRY INTO DROP

1. The application of any Member applying for DROP participation will be placed on the agenda for a Board meeting as soon as administratively practicable following the date the application is received for consideration and approval.
2. If the Board approves a DROP application, the application will become effective on the first day of the month in which the Board approves the application.
3. At the time of entry into DROP, the Member must irrevocably select the Plan benefit he or she will receive at the time his or her pension benefit will commence upon retirement with the Member's pension benefit calculated as of the effective date of entering DROP. While on Active Service, these benefit amounts that the Member would have otherwise received if he or she would have retired on his or her effective date of DROP participation will be credited to the DROP Account.
4. Once a Member has elected to participate in DROP, that election is irrevocable except as further described in Section D.
5. A Group B Member who obtains a rank that is higher than the highest Civil Service Rank for the City of Dallas after the effective date of his or her participation in DROP will not participate in the Supplemental Plan.
6. As of the effective date of his or her participation in DROP, the Member will no longer be entitled to obtain additional Pension Service by repaying previously withdrawn contributions or paying for any Pension Service that could have been purchased under the Plan prior to DROP entry. However, a Member who is entitled, under Section 5.08 of the Plan, to purchase credit for Pension Service for any period he or she was on a military leave of absence may still purchase that Pension Service after entering DROP so long as the required contributions are made no later than the time provided by the Uniformed Services Employment and Reemployment Rights Act ("USERRA").
7. The Board shall interpret the Plan and this policy to ensure that Members' rights are fully protected as required by USERRA.



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D. DROP REVOCATION

1. A Member who was a DROP participant on or before June 1, 2017, has a one-time opportunity to revoke his or her DROP election. The revocation must be made before the earlier of February 28, 2018, or the date that the Member terminates Active Service. The revocation must be made by filing with the Executive Director a completed DROP revocation election form that has been approved by the Executive Director.
2. A DROP revocation eliminates the balance in a Member's DROP Account. The Member's benefit will then be established at the earlier of when the Member either (a) reenters DROP or (b) retires with DPFP, and will be calculated at that time under the Plan based upon the Member's total Pension Service and historic Computation Pay (highest 36 consecutive months for Pension Service prior to September 1, 2017 and highest 60 consecutive months for Pension Service on or after September 1, 2017.)
3. Any revocation of DROP participation described in this Section shall be for the entire period that the Member participated in DROP. No partial revocation of DROP participation shall be accepted.
4. No Member shall be entitled to revoke his or her DROP participation if any amount has been transferred out of such Member's DROP Account, except for any transfers related to corrections to DROP Accounts.
5. A Member will be credited with Pension Service for all or a portion (one-half) of the period relating to the revoked DROP participation if the Member who revoked the DROP participation purchases such Pension Service in an amount equal to the sum of: (a) the Member contributions that would have been made if the Member had not been a DROP participant during such period of DROP participation and (b) interest on such Member contributions, calculated on the contributions for the period from the dates the contributions would have been made if the Member had not been a DROP participant through the date of purchase. Interest will be calculated (a) through February 28, 2018 at the monthly rate of change of the U.S. City Average All Items Consumer Price Index (unadjusted) for All Urban Wage Earners and Clerical Workers for the applicable periods and (b) after February 28, 2018 at the interest rate used from time to time in DPFP's actuarial rate of return assumptions, compounded annually. Periods where the monthly rate of change was negative shall be computed as zero interest for such periods. DPFP staff shall be authorized to establish procedures for implementing the interest calculation required in this Section.



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 As amended through ~~April 9, 2020~~September 12, 2019
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D. DROP REVOCATION (continued)

6. A Member may purchase Pension Service relating to the period of revoked DROP participation in increments of one-half of his or her total Pension Service during DROP participation. If a Member elects to purchase one-half of his or her total Pension Service available to be purchased following the DROP revocation, (a) a Member may not elect to purchase Pension Service relating to specific time periods during his or her DROP participation and (b) the amount of the Member contributions for purposes of such purchase will be one-half of the total amount required to be paid pursuant to Section D.5. above.
7. If a Member elects to purchase one-half of his or her Pension Service available to be purchased following the DROP revocation, the Member may subsequently purchase the remaining one-half of the Pension Service available, but must complete such purchase prior to any election to reenter DROP or terminating Active Service. The amount to be paid for the remaining Pension Service to be purchased will be calculated pursuant to subsections 4 and 5 above, with interest continuing to accrue on the portion that has not yet been paid at the rate used from time to time in DPFP's actuarial rate of return assumptions, compounded annually, calculated from the date of the original Pension Service purchase through the date of the purchase of the remaining Pension Service.
8. Only full payment will be accepted for the amount of any Pension Service elected to be purchased under this Section. No partial payment will be accepted. Direct rollovers from other tax-qualified plans or similar employer plans, including governmental Section 401(k) (including the City of Dallas 401(k) Retirement Savings Plan) and 457(b) deferred compensation plans and Section 403(b) annuity arrangements will be accepted for payment to the extent such plans permit such rollovers. Payment is not permitted from the Member's DROP account.
9. For the purposes of calculating a Member's pension benefit in the case where a Member purchases only one-half of the total Pension Service available for the period relating to a DROP revocation, the purchased Pension Service attributable to time prior to September 1, 2017 shall be equal to the product of: (a) the amount of Pension Service purchased, multiplied by (b) a fraction of which the numerator equals the Pension Service available for purchase representing periods prior to September 1, 2017, and the denominator equals the total Pension Service available for purchase in connection with the DROP revocation.
10. All DROP revocation election forms must be received by DPFP in proper order by February 28, 2018 and will be considered effective as of September 6, 2017 after approval by DPFP staff that the form is in proper order. Approval of the Board shall not be required for a DROP revocation to become effective.



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E. ANNUITIZATION OF DROP ACCOUNTS

1. Methodology

DPPF staff, with the assistance of DPPF's Qualified Actuary, shall determine the annuitization of all DROP Accounts as required by the Plan and consistent with this policy.

2. Interest Rates

To reflect the accrual of interest over the annuitization period of a DROP Annuity as required under the Plan, the accrual of interest for all DROP Annuities shall be calculated utilizing an interest rate based on the published United States Department of Commerce Daily Treasury Yield Curve Rates ("Treasury Rates") for durations between 5 and 30 years, rounded to two decimal places. If an annuitization period for a DROP Annuity is between the years for which Treasury Rates are established, then a straight-line linear interpolation shall be used to determine the interest rate. The interest rates for purposes of this subsection E.2. will be set on the first business day of each quarter (January, April, July and October) and will be based upon the average of the Treasury Rates as published on the 15th day of the three prior months, or the next business day after the 15th day of a month if the 15th day falls upon a day when rates are not published. Based upon advice from DPPF's Qualified Actuary upon implementation of this policy, interest rates to be used in calculating DROP Annuities with an annuitization period that exceeds thirty years will be the Treasury Rate published for the 30-year duration as Treasury Rates beyond thirty years do not exist. The initial interest rates effective as of October 1, 2017, are attached to this policy as Exhibit 1.

3. Mortality Table

The Board shall, based upon the recommendation of DPPF's Qualified Actuary, adopt a mortality table to be utilized in determining life expectancy for purposes of calculating DROP Annuities. The mortality table shall be based on the healthy annuitant mortality tables used in the most current actuarial valuation and blended in a manner to approximate the male/female ratio of holders of DROP accounts and DROP annuities. The Board will review this table and male/female blended ratio upon the earlier of (i) the conclusion of any actuarial experience study performed by DPPF's Qualified Actuary or (ii) any change to mortality assumptions in DPPF's annual actuarial valuation. Actual ages used in calculating life expectancy will be rounded to two decimals. The life expectancy will be rounded to the nearest whole year. Life expectancy in whole years based on a 2017 annuitization date and the mortality table recommended by DPPF's Qualified Actuary is shown in Exhibit 2.



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E. ANNUITIZATION OF DROP ACCOUNTS (continued)

4. Initial Annuitization of Non-Member's DROP Accounts

- a. The first payment of DROP Annuities after annuitization of all DROP Accounts in existence on or after September 1, 2017, except those DROP Accounts of Members, shall commence the last business day of the month in which this policy is adopted, or as soon as practicable thereafter.
- b. The initial annuitization of all non-Member DROP Accounts existing on September 1, 2017 will be calculated and implemented on the basis of a monthly annuity. DPFP staff will send notices to the holders of such DROP Annuities to inform them that they have sixty (60) days from the date of such notice to make a one-time election to have the monthly DROP Annuity converted to an annual annuity. If a DROP Annuitant makes such an election, the monthly DROP Annuity payments will cease as soon as administratively practicable, and the first payment of the annual DROP Annuity will begin 12 months after the last monthly payment made to the DROP Annuitant.
- c. For purposes of the initial annuitization described in this subsection E.4., any DROP Account which is held by a non-Member at any time on or after September 1, 2017, but prior to the initial annuitization pursuant to subsection E.4.a. above, shall (i) be adjusted to reflect any distributions to such non-Member after September 1, 2017, but prior to the initial annuitization and (ii) accrue interest for the period from September 1, 2017 through the date of initial annuitization at the same rate as the interest rate applicable pursuant to subsection E.2. in the calculation of the initial DROP Annuity.
- d. Annuitization of any non-Member DROP Account under this subsection E.4. will be based on the age of the holder of such DROP Account as of the first day of the month when the annuitization of DROP Accounts under this subsection E.4. occurs. In the case of a DROP Account which is held by a trust, such DROP Account will be annuitized using the age of the oldest beneficiary of the trust.

5. Annuitization of Member DROP Accounts

- a. The DROP Annuity for a Member shall be calculated based upon the Member's age and DROP Account balance on the effective date of the Member's retirement. The interest rate applicable to the calculation of the Member's DROP Annuity will be the interest rate in effect under subsection E.2. during the month the Member terminates Active Service. Payment of the DROP Annuity shall commence effective as of the first day of the month in which the Member's retirement commences.



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E. ANNUITIZATION OF DROP ACCOUNTS (continued)

5. Annuitization of Member DROP Accounts (continued)

- b. Each Member as part of the retirement process shall be given the opportunity to elect either a monthly or annual DROP Annuity. If no election is made, the Member will be deemed to have elected a monthly DROP Annuity.

6. Annuitization of Alternate Payee's Account

The DROP Annuity for any Alternate Payee receiving a portion of a Member's DROP Account through a Qualified Domestic Relations Order after the date of this policy shall commence on the earlier of (i) the date the Member's DROP Annuity commences or (ii) the first day of the month the Alternate Payee reaches age 58. Calculation of the DROP Annuity of an Alternate Payee will be based on the age of the Alternate Payee and the interest rate in effect under subsection E.2 upon commencement of the DROP Annuity.

7. Annuitization and Payments to Beneficiaries

- a. Upon the death of a Member, the DROP Account of such Member shall be transferred to the Member's beneficiary(ies) pursuant to Section F of this policy. Such transferred account shall be annuitized as promptly as administratively practicable utilizing the interest rate in effect under subsection E.2. and the age of the beneficiary at the time of the Member's death in calculating the beneficiary's DROP Annuity.
- b. Upon the death of a DROP Annuitant, the remaining DROP Annuity shall be paid to the beneficiary designated by such DROP Annuitant and shall be divided if there are multiple beneficiaries as designated by the DROP Annuitant pursuant to Section F of this policy. DFPF shall only be responsible for payments to beneficiaries after DFPF has actual knowledge of the death of a DROP annuitant.

8. Revised Annuity in the Event of an Unforeseeable Financial Hardship Distribution

If any DROP Annuitant shall receive a distribution pursuant to Section G hereof, the DROP Annuity of such DROP Annuitant shall be re-annuitized through a calculation using (a) the interest rate utilized in the calculation of the original DROP Annuity, (b) the present value of the DROP Annuity on the date of the unforeseeable financial hardship distribution as calculated by DFPF's Qualified Actuary, and (c) the remaining number of months in the life expectancy utilized in the calculation of the original DROP Annuity.



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E. ANNUITIZATION OF DROP ACCOUNTS (continued)

9. Annuitization Procedure in the Event of a Rehiring

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If a DROP Annuitant is rehired and becomes a Member, such person's DROP Annuity will cease (the "Ceased DROP Annuity") effective upon the DROP Annuitant resuming Active Service. When the DROP Annuitant leaves Active Service, the Ceased DROP Annuity will be re-annuitized and recommence based upon the original interest rate and the remaining number of years in the existing DROP Annuity. If the DROP Annuitant shall be eligible under the Plan for additional credits to a DROP Account (the "Additional DROP Account") after recommencing Active Service, then upon the DROP Annuitant leaving Active Service, any amount in the Additional DROP Account shall be annuitized pursuant to subsection E.5.

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F. DESIGNATION OF BENEFICIARIES

1. A DROP participant will have the opportunity to designate a primary beneficiary (or primary beneficiaries) and a contingent beneficiary (or contingent beneficiaries) of his or her DROP Account either when filing the application for DROP participation, or thereafter, on a beneficiary form provided by DPFP for this purpose. The named beneficiary must be a living person at the time of the filing of the beneficiary form. No trusts may be named as a beneficiary, except for a trust established for a child who is entitled to benefits pursuant to Section 6.06 (n)(1) of the Plan ("Special Needs Trust"). Existing trusts which have a DROP Account as of the date of this policy will be permitted and will be annuitized pursuant to Section E.4. and the age of the oldest beneficiary of the trust will be utilized for purposes of the annuitization. Special Needs Trusts will be annuitized based upon the age of the child.
2. In the case of a holder of DROP Annuity who dies where no living person is named as a beneficiary, the remaining DROP Annuity will be paid to the deceased DROP Annuitant's estate. In the case of a Member who dies with a DROP Account where no living person is named as a beneficiary, the DROP Account will be annuitized based upon the life of the youngest heir to the deceased Member's estate and the resulting DROP Annuity will be paid to the estate.
3. Beneficiaries of a Member's DROP Account or a DROP Annuitant's DROP Annuity are not limited to the Qualified Survivors. Upon request, DPFP will divide a deceased participant's DROP Account or DROP Annuity among the designated beneficiaries at the time of the DROP participant's death.



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F. DESIGNATION OF BENEFICIARIES

4. Upon the death of a DROP participant, the DROP participant's DROP Account or DROP Annuity shall become the property of the surviving spouse unless either (i) the surviving spouse has specifically waived his or her right to such funds or (ii) the surviving spouse's marriage to the DROP participant occurred after January 14, 2016 and the participant had already joined DROP and named a beneficiary other than the surviving spouse who was not the participant's spouse at the time of the beneficiary election, and will be transferred to the name of the surviving spouse or such other named beneficiary or beneficiaries. DROP Annuities shall be paid to the designated beneficiaries in accordance with the last beneficiary form on file in the DFPF administrative office upon that office's receipt of sufficient evidence of the DROP participant's death.

G. HARDSHIPS

1. Pursuant to the Plan, a DROP Annuitant who was a former Member of the Plan (a "Retiree Annuitant") may apply for a lump sum distribution relating to his or her DROP Annuity in the event that the Retiree Annuitant experiences a financial hardship that was not reasonably foreseeable. To qualify for an unforeseeable financial hardship distribution, a Retiree Annuitant (or the estate of a Retiree Annuitant in the case of subsection G.2.e.) must demonstrate that:
 - a. a severe financial hardship exists at the time of the application (i.e., not one that may occur sometime in the future);
 - b. the hardship cannot be relieved through any other financial means (i.e., compensation from insurance or other sources, monthly annuity benefits, or liquidation of personal assets) unless using those other sources would also cause a financial hardship; and
 - c. the amount requested in the application is reasonably related to and no greater than necessary to relieve the financial hardship.
2. The Board shall only recognize the following circumstances as an unforeseeable financial hardship that is eligible for a lump sum distribution:
 - a. the need to repair damage to a Retiree Annuitant's primary residence not covered by insurance as the result of a natural disaster or significant event (i.e., fire, flood, hurricane, earthquake, etc.);
 - b. the need to make significant changes to a Retiree Annuitant's primary residence not covered by insurance because of medical necessity;



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G. HARDSHIPS (continued)

- c. the need to pay for medical expenses of the Retiree Annuitant, a Retiree Annuitant's spouse, or a dependent child or relative of the Retiree Annuitant as described under Code section 152(c) and (d), including non-refundable deductibles, as well as for the cost of prescription drug medication;
 - d. the need to pay for the funeral expenses of a parent, child, grandchild or spouse of the Retiree Annuitant, including reasonable travel and housing costs for the Retiree Annuitant, their spouse, parent, child or grandchild;
 - e. the need of the estate of a Retiree Annuitant to pay for the medical expenses or the funeral expenses of the Retiree Annuitant; or
 - f. other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Retiree Annuitant.
3. DFPF staff will develop procedures relating to the application for an unforeseeable financial hardship distribution, which will include, at a minimum, a notarized statement by the applicant relating to the requirements for eligibility and documentation sufficient to demonstrate such eligibility. Following submission of the required financial hardship distribution application, the notarized statement, and other required documentation as stated in the application form, DFPF staff shall review the materials and inform the Retiree Annuitant within thirty (30) days whether any additional information or documentation is required or requested. Once all required and/or requested documentation has been submitted, the Retiree Annuitant shall be informed within thirty (30) days if (i) the Retiree Annuitant is eligible for an unforeseeable financial hardship distribution or (ii) the matter has been referred to the Board for consideration at the next regular meeting. After an unforeseeable financial hardship distribution has been made to a Retiree Annuitant, a Retiree Annuitant may not request an additional unforeseeable financial hardship distribution for ninety (90) days from the date of distribution of any amount under this Section.
4. The Executive Director shall have the authority to approve an application for an unforeseeable financial hardship distribution. The Executive Director shall submit to the Board for final action by the Board any recommended denial, in whole or in part, of any request for an unforeseeable financial hardship distribution. Determinations of the Board and the Executive Director on applications for unforeseeable financial hardship distributions are final and binding. Once an unforeseeable financial hardship distribution has been approved by either the Executive Director or the Board, payment of the distribution shall be made to the Retiree Annuitant as soon as administratively practicable.



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G. HARDSHIPS (continued)

5. For the purposes of this Section G, the term “dependent” shall mean any person who is claimed by a Retiree Annuitant as a dependent on the Retiree Annuitant’s federal income tax return in any year for which a distribution is sought under this Section G.
6. Distributions under this Section G shall only be available for persons who (a) entered DROP prior to June 1, 2017 and (b) who have not revoked a DROP election under Section D. of this policy.
7. No claims for hardship distributions will be accepted for any circumstances which give rise to the hardship where such circumstances occurred more than six months (nine months in the case of a filing by the estate of a Retiree Annuitant pursuant to subsection G.2.e.) prior to the date of filing of the application pursuant to subsection G.3.

H. 100% Joint and Survivor Benefit

1. Coterminous with entry into DROP, a Member shall have the right to make the election provided for under Section 6.063(a)(1) of the Plan and such an election will not be subject to the requirement set forth in Section 6.063(e) of the Plan.
2. Subsequent to a Member’s entry into DROP, if the Member has not made the election provided for in Section H.1., the Member shall have the right to make the election provided for under Section 6.063(a)(1) and such an election will be subject to the requirement set forth in Section 6.063(e). If a Member shall die while on Active Service within one year after making the election under this Section H.2., then the Member’s DROP Account shall be increased by the reduced benefit amount which is contemplated by Section 6.063(e) to be paid to the surviving spouse.
3. If a Member makes an election under either Section H.1. or H.2., the amount credited to the Member’s DROP balance will be adjusted accordingly.
4. If a Member should remarry while on Active Service after making an election under Section H.1 or H.2, then the Member’s benefit shall be recalculated and adjusted based upon the age of the new spouse, effective as of the date of marriage as if the Member had made a new election under Section 6.063(a)(1); provided however, that (i) if the Member had made the election pursuant to Section H.1., the Member shall not be subject to the requirement set forth in Section 6.063(e) for such remarriage and recalculation and (ii) if the Member had the election pursuant to Section H.2., the one year requirement under Section 6.063(e) shall be deemed to have commenced upon the original election.



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H. 100% Joint and Survivor Benefit (continued)

5. Members who are in DROP as of the effective date of this Policy shall be afforded the opportunity through the first to occur of (i) their retirement date or (ii) October 31, 2018 to make the election provided for in Section H.1 and after October 31, 2018, such Members shall be entitled to make the election provided for in Section H.2.
6. Nothing in this DROP Policy shall affect or impair the right of a Member to make the election provided for in Section 6.063(a) upon or after the Member's retirement if the Member shall not make the election provided for in this Section H, provided, however, that any election made by a Member of Pensioner after their entry into DROP, notwithstanding any other provision of Section 6.063, shall be subject to the provisions of Section 6.063(e).

I. COMMENCEMENT OF RETIREMENT BENEFIT

For any Member retiring and commencing receipt of their monthly retirement benefit, other than Members who have participated in DROP for ten years or more and are subject to the limitation set forth in the last sentence of Section 6.14(c) (a "10 Year Limitation DROP participant"), such Member's retirement benefit shall commence on the first day of the month such Member's retirement becomes effective. For any 10 Year Limitation DROP participant, such Member's monthly retirement benefit shall commence on the effective date of such Member's retirement.

J. EFFECTIVE DATE

APPROVED on ~~September 12, 2019~~ ~~April 9, 2020~~ by the Board of Trustees of the Dallas Police and Fire Pension System.

William F. Quinn
Chairman

ATTEST:

Kelly Gottschalk
Secretary



Exhibit 1- Interest Rates

| Published Rate | 5 Yr | 7 Yr | 10 Yr | 20 Yr | 30 Yr |
|-----------------------|-------------|-------------|--------------|--------------|--------------|
| 7/17/2017 | 1.86 | 2.12 | 2.31 | 2.65 | 2.89 |
| 8/15/2017 | 1.83 | 2.09 | 2.27 | 2.60 | 2.84 |
| 9/15/2017 | 1.81 | 2.04 | 2.20 | 2.52 | 2.77 |
| Average | 1.83 | 2.08 | 2.26 | 2.59 | 2.83 |



**Exhibit 2 – Life Expectancies Based on a November 2017
DROP Annuity Commencement Date**

ii



**Expected Lifetime in Years Based on a November 2017
Commencement of Annuitization**

| Age | Expected Lifetime (Years) | Age | Expected Lifetime (Years) |
|------------|--------------------------------------|------------|--------------------------------------|
| 21 | 62 | 56 | 29 |
| 22 | 61 | 57 | 28 |
| 23 | 60 | 58 | 27 |
| 24 | 59 | 59 | 26 |
| 25 | 58 | 60 | 25 |
| 26 | 57 | 61 | 24 |
| 27 | 56 | 62 | 23 |
| 28 | 56 | 63 | 22 |
| 29 | 55 | 64 | 22 |
| 30 | 54 | 65 | 21 |
| 31 | 53 | 66 | 20 |
| 32 | 52 | 67 | 19 |
| 33 | 51 | 68 | 18 |
| 34 | 50 | 69 | 17 |
| 35 | 49 | 70 | 17 |
| 36 | 48 | 71 | 16 |
| 37 | 47 | 72 | 15 |
| 38 | 46 | 73 | 14 |
| 39 | 45 | 74 | 14 |
| 40 | 44 | 75 | 13 |
| 41 | 43 | 76 | 12 |
| 42 | 42 | 77 | 12 |
| 43 | 41 | 78 | 11 |
| 44 | 40 | 79 | 10 |
| 45 | 39 | 80 | 10 |
| 46 | 38 | 81 | 9 |
| 47 | 37 | 82 | 9 |
| 48 | 36 | 83 | 8 |
| 49 | 36 | 84 | 7 |
| 50 | 35 | 85 | 7 |
| 51 | 34 | 86 | 7 |
| 52 | 33 | 87 | 6 |
| 53 | 32 | 88 | 6 |
| 54 | 31 | 89 | 5 |
| 55 | 30 | 90 | 5 |

Note: The above factors are based on the sex-distinct RP-2014 Blue Collar Healthy Annuitant Mortality Tables, with the female table set forward two years, projected generationally using Scale MP-2015. The sex-distinct tables are blended 85% male and 15% female.





DISCUSSION SHEET

ITEM #C4

Topic: Board approval of Trustee education and travel

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

Discussion:

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

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

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

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

Regular Board Meeting – Thursday, April 9, 2020

**Future Education and Business Related Travel
Regular Board Meeting – April 9, 2020**

ATTENDING APPROVED

Conference: **TEXPERS Summer Education Forum**
Dates: August 16-18, 2020
Location: San Antonio, TX
Est. Cost: TBD



DISCUSSION SHEET

ITEM #C5

Topic: **Operational Response to COVID-19**

Discussion: The Executive Director will provide an update about DFPF's operational response during the COVID-19 pandemic.

Regular Board Meeting – Thursday, April 9, 2020



DISCUSSION SHEET

ITEM #C6

Topic: **Report on Investment Advisory Committee Meeting**

Discussion: Three members of the Investment Advisory Committee met by teleconference on March 23, 2020. Two members were unable to attend, preventing a quorum. Staff reviewed the agenda materials and received advice from the members present. The Committee Chair and Investment Staff will comment on committee member observations and advice.

Regular Board Meeting – Thursday, April 9, 2020



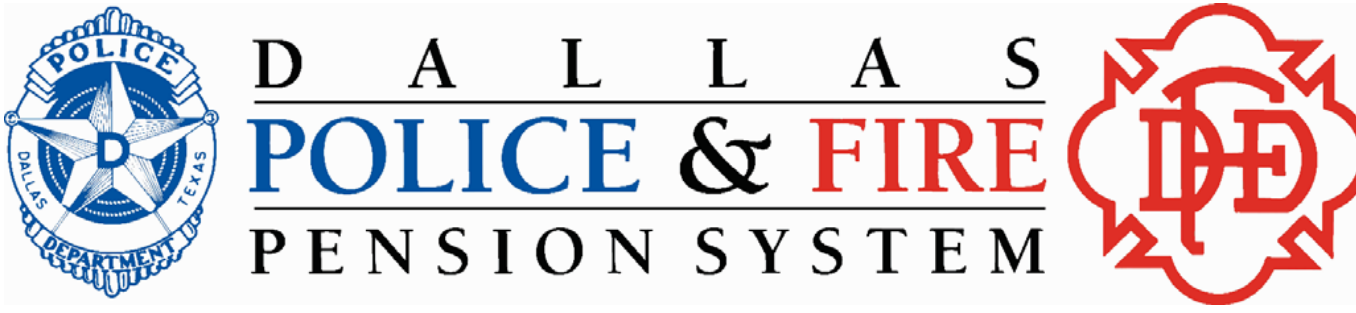
DISCUSSION SHEET

ITEM #C7

Topic: Portfolio Update

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

Regular Board Meeting – Thursday, April 9, 2020



Portfolio Update

April 9, 2020

3/31/20 Public Market Performance Preview

Preliminary Public Markets Performance Estimates

| | 1Q20 | | | 2019 | | |
|---------------------------------|---------|---------|---------|---------|--------|--------|
| | Manager | Index | Excess | Manager | Index | Excess |
| Net of fees | | | | | | |
| Global Equity | -21.79% | -22.44% | 0.64% | 28.45% | 26.35% | 2.09% |
| Boston Partners | -27.25% | -21.05% | -6.21% | 19.76% | 27.67% | -7.91% |
| Boston Partners vs. value index | -27.25% | -26.96% | -0.29% | 19.76% | 21.75% | -1.99% |
| Manulife | -22.80% | -21.36% | -1.44% | 30.33% | 26.60% | 3.73% |
| Invesco (fka OFI) | -20.46% | -21.36% | 0.90% | 32.34% | 26.60% | 5.74% |
| Walter Scott | -16.67% | -21.36% | 4.69% | 30.78% | 26.60% | 4.18% |
| RBC, EM Equity* | -22.84% | -24.38% | 1.53% | 17.93% | 17.65% | 0.28% |
| Fixed Income | -5.38% | -1.11% | -4.27% | 6.18% | 8.41% | -2.23% |
| IR+M, short term debt | 0.17% | 1.68% | -1.51% | 4.27% | 3.59% | 0.68% |
| Vanguard IG Bonds | 2.90% | - | - | - | - | - |
| Brandywine, global bonds | -10.62% | -0.32% | -10.30% | 9.44% | 6.87% | 2.57% |
| Loomis, High Yield | -14.66% | -15.03% | 0.37% | 8.57% | 12.56% | -3.99% |
| Loomis, Bank Loans | - | - | - | 5.20% | 8.64% | -3.44% |
| Pacific Asset Mgt., Bank Loans* | -10.75% | -9.07% | -1.68% | 8.74% | 8.17% | 0.57% |
| Ashmore, EMD* | -22.25% | - | - | 10.55% | 12.17% | -1.62% |

Source: JPM Morgan custody data, manager reports, Investment Staff estimates and calculations

*Mutual fund proxies used for RBC, PAM, & Ashmore

3/31/20 Public Market Impact Estimate

This table estimates the gain/loss contribution from public market investments including market contribution (equity and fixed income composite index returns), structural implementation (manager benchmark vs. composite benchmark), and the active contribution for each investment manager (manager relative performance vs. their benchmark). The loss from public market securities in 1Q20 is estimated at \$149 million, slightly less than the 2019 gain of \$155 million.

Public Markets Impact Estimate

| \$ millions | 1Q20 | | | | 2019 | | | |
|---------------------------------|------------|-----------|-----------|------------|----------|-----------|----------|----------|
| | Market | Structure | Active | Total | Market | Structure | Active | Total |
| Public Markets | (\$126.18) | (\$8.13) | (\$14.48) | (\$148.79) | \$146.89 | \$3.75 | \$4.28 | \$154.91 |
| Public Equity (GE+EM) | (\$126.91) | \$5.06 | (\$2.56) | (\$124.41) | \$118.21 | (\$1.77) | \$5.71 | \$122.15 |
| Global Equity (excludes EM) | (\$115.03) | \$6.12 | (\$3.36) | (\$112.27) | \$106.74 | \$1.62 | \$5.70 | \$114.07 |
| Boston Partners | (\$28.08) | \$1.79 | (\$8.59) | (\$34.88) | \$26.06 | \$1.03 | (\$7.04) | \$20.05 |
| Manulife | (\$28.76) | \$1.43 | (\$2.15) | (\$29.49) | \$27.35 | \$0.20 | \$3.30 | \$30.85 |
| OFI | (\$29.14) | \$1.45 | \$1.12 | (\$26.58) | \$25.63 | \$0.18 | \$5.33 | \$31.14 |
| Walter Scott | (\$29.04) | \$1.45 | \$6.26 | (\$21.33) | \$27.70 | \$0.22 | \$4.11 | \$32.03 |
| RBC, EM Equity* | (\$11.88) | (\$1.06) | \$0.80 | (\$12.14) | \$11.47 | (\$3.39) | \$0.00 | \$8.08 |
| Fixed Income (ex IR+M) | (\$3.44) | (\$13.19) | (\$8.18) | (\$24.80) | \$19.60 | \$5.51 | (\$3.13) | \$21.99 |
| Vanguard IG Bonds | (\$0.66) | \$2.87 | \$0.00 | \$2.21 | - | - | - | - |
| Brandywine, global bonds | (\$0.68) | \$0.53 | (\$7.26) | (\$7.40) | \$4.54 | (\$0.16) | \$1.62 | \$6.01 |
| Loomis, High Yield | (\$0.83) | (\$11.60) | \$0.26 | (\$12.17) | \$5.65 | \$4.21 | (\$3.07) | \$6.79 |
| Loomis, Bank Loans | - | - | - | - | \$4.34 | \$0.30 | (\$1.67) | \$2.97 |
| Pacific Asset Mgt., Bank Loans* | (\$1.26) | (\$4.99) | (\$1.18) | (\$7.43) | \$3.70 | \$0.20 | \$0.29 | \$4.19 |
| Ashmore, EMD* | - | - | - | (\$4.71) | \$1.37 | \$0.95 | (\$0.30) | \$2.02 |
| IR+M, short term debt | \$4.16 | \$0.00 | (\$3.74) | \$0.43 | \$9.07 | \$0.00 | \$1.70 | \$10.77 |

Source: JPM Morgan custody data, manager reports, Investment Staff estimates and calculations

*Mutual fund proxies used for RBC, PAM, & Ashmore

Investment Initiatives

- Liquidation of private market assets remains the top focus, however, significant delays are expected due to COVID-19 market disruption.
- Staff monitoring investment positioning and performance during correction.
- Rebalancing and liquidity initiatives and considerations presented separately.
- \$30 million contribution to PAM Bank Loans on Feb 29. \$32.9 million received from Loomis BL on Mar 17, remaining \$6.6 million expected mid-April. \$7 million contribution to PAM on Mar 30.
- Investment Grade Bond Search
 - Investment Advisory Committee (IAC) reviewed and concurred with search process, evaluation criteria, and short list at Mar 23 meeting.
 - RFPs sent to six firms. Five firms are expected to respond by April 13.
 - IAC plans to interview top 2-3 managers.
 - On track for June Board recommendation
- Reviewed High Yield guidelines and options at 3/23 IAC meeting.
- Staff working on evaluation of Boston Partners, Brandywine, and Huff.
- On deck - Public market manager IMA/fee reviews, securities lending review, Meketa reporting format.

2020 Investment Review Calendar*

| | |
|-----------|--|
| January ✓ | <ul style="list-style-type: none"> Real Estate Reviews: Vista 7, King's Harbor, & Museum Twr. |
| March ✓ | <ul style="list-style-type: none"> Real Estate: Clarion Presentation |
| April | <ul style="list-style-type: none"> Real Estate: AEW Presentation |
| May | <ul style="list-style-type: none"> Timber: Staff Review of FIA & BTG |
| June | <ul style="list-style-type: none"> Natural Resources: Hancock Presentation Real Estate: Hearthstone Presentation |
| July | <ul style="list-style-type: none"> Infrastructure: Staff review of AIRRO and JPM Maritime |
| August | <ul style="list-style-type: none"> Staff review of Private Equity and Debt |
| September | <ul style="list-style-type: none"> Global Equity Manager Reviews |
| October | <ul style="list-style-type: none"> Fixed Income Manager Reviews |

*Presentation schedule is subject to change.



DISCUSSION SHEET

ITEM #C8

Topic: Rebalancing and Liquidity

Discussion: In accordance with Investment Policy Statement section 6.C.7, staff will report on recent rebalancing recommendations and activity. During March 2020 staff, with the concurrence of the investment consultant, rebalanced short term bonds and global equity towards respective target allocations. \$36 million was contributed to global equity using \$20 million in proceeds from short-term bonds and cash. The attached memo details the recommendation and activity.

Staff, also with the concurrence of the investment consultant, has initiated monthly rebalancing transfers within the Safety Reserve, from short-term bonds to maintain cash at approximately \$50 million. Monthly transfers of \$10 million per month are expected for April, May, and June.

Staff will discuss rebalancing and liquidity considerations in the context of the significant investment decline related to COVID-19.

Regular Board Meeting – Thursday, April 9, 2020



INVESTMENT REBALANCING REPORT

Date: April 9, 2020
 To: DPFP Board of Trustees and Investment Advisory Committee
 From: DPFP Investments Staff
 Subject: Rebalancing Report

Executive Summary

During March 2020, DPFP rebalanced the Global Equity portfolio back to within the target asset allocation range. A total of \$36 million was contributed to the Global Equity portfolio, with the sources being \$20 million proceeds from IR&M and \$16 million from cash. The contributions to the Global Equity investment managers brought the managers back to their target equal-weight allocations (amounts detailed below).

Background

Section 6.C of the Investment Policy Statement addresses rebalancing requirements and guidelines as follows.

C. Rebalancing

1. In general, cash flows will be allocated to move asset classes toward target weights and shall be prioritized according to the Asset Allocation Implementation Plan detailed in Appendix B1.
2. Staff shall submit a rebalancing recommendation to the Consultant at least annually based on consideration of the entire portfolio, and additionally as soon as practicable when an asset class breaches an established rebalancing range or when deemed prudent by Staff or Consultant.
3. The allocations to Cash and Short-Term Investment Grade bonds are designed to provide liquidity during periods of investment market stress and are not required to be rebalanced to target if deemed prudent by Staff and Consultant.
4. Rebalancing recommendations should consider expected future cash flows, investment liquidity, market volatility, and costs.
5. Transition management shall be used when prudent to minimize transition costs.
6. Staff is responsible for implementing the rebalancing plan following Consultant approval.
7. Rebalancing recommendations and activity shall be reported to the Board and the IAC.

March 16 Staff Recommendation Regarding Global Equity Rebalancing

Staff submitted the following rebalancing recommendation to Meketa on March 16, 2020, which was approved by Meketa on the same day. [Please note that the \$30 million in proceeds from Loomis Sayles under sources relates to the Bank Loan transition that was already in process.]

Due the equity market selloff, Global Equity fell to 20.1% as of Thursday, March 12 which was below the lower rebalancing limit of 22%. Although the market was up substantially on Friday, today we are back at last Thursday's levels. In accordance with DFPF Investment Policy rebalancing provisions (section 6.C) and the Asset Allocation Implementation Plan (Appendix B1) we request approval of the following rebalancing recommendation.

Sources

- \$30 million in proceeds is expected from the Loomis Sayles Sr. Floating Rate and Fixed Income fund liquidation, to be distributed on Monday, March 16, which lowers the Bank Loans toward target from 5.8% to 4.2%.
- Redeem \$20 million from IR&M to which lowers the Short-Term Investment Grade Bonds allocation from 13% back to the 12% target.

Contributions

- Contribute \$36 million to Global Equity allocation which would increase Global Equity allocation from 20.1% to approximately the lower range of 22.0%. The cash would be contributed to the managers as below to reach the equal-weight targets of approximately \$105 million each:
 - \$16 million to Boston Partners
 - \$9 million to Manulife
 - \$6 million to Invesco (OFI)
 - \$4 million to Walter Scott
- There will be a \$14 million net contribution to cash, which will temporarily bring cash to a slight overweight, near 3.3%.

Considerations

1. The recent market decline has caused the Global Equity allocation to fall to 20.1%, which is below the lower band of the target allocation range and the minimum exposure per the Implementation Plan of 22%. Global Equity exposure was as high as 25% of DFPF as of the end of January. The proposed re-balance would bring the asset class back within range and slightly above the lower band.
2. Section 6.C.3 of the IPS states: " The allocations to Cash and Short-Term Investment Grade bonds are designed to provide liquidity during periods of investment market stress and are not required to be rebalanced to target if deemed prudent by Staff and Consultant." While Cash is currently underweight (2.6% vs 3% target), Staff deems it prudent to rebalance Global Equity modestly to approximately the lower rebalancing limit. Looking forward, Cash is expected to fall to approximately \$41 million (~2.1%) at the end of March and remain at that level through the end of April. No significant private market realizations are anticipated with a high degree of certainty. Additional cash needs will be funded from the Safety Reserve as it was intended during times of market duress.
3. If the market volatility seen over the past 2 weeks continues, stock prices may swing considerably during the time between funding the Global Equity managers and when they fully

invest the proceeds. Further, the actual ending allocation post-rebalance may differ from what is projected in the model and this recommendation.

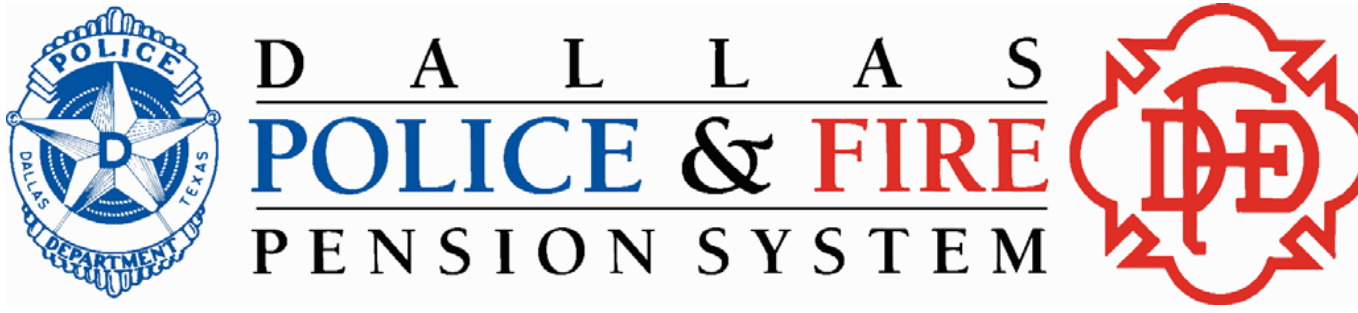
4. While we could receive the \$20 million from IR+M within the 5 days per the IMA, the manager recommended taking approximately 7 days to redeem to avoid excess transaction costs. IR+M cited larger bid-ask spreads and lower liquidity in the Treasury market over the past week.
5. The Bank Loans asset class will be at approximately target allocation. Staff expects to fund Pacific Asset Management up to the 4% Bank Loan target at the end of March and then receive final distribution (~\$10 million) from Loomis Sayles Sr. Floating Rate and Fixed Income in mid-April.

Fixed Income Rebalancing Activity

- A redemption notice was sent to IR&M on March 16 after transition approval by Meketa.
- IR&M requested 10 business days to fulfill the redemption due to the severe liquidity situation in markets, and staff approved.
- \$20 million was transferred from IR&M to control cash on March 30.
- \$32.9 million was received from the Loomis Sayles Sr. Floating Rate and Fixed Income fund liquidation as part of the Bank Loan transition in which \$30 million had been transferred from cash to Pacific Asset Management on February 28.

Global Equity Rebalancing Activity

- The four global equity managers were advised regarding transition amounts and funded after market close on March 16, 2020, as follows:
 - \$16 million was transferred to the Boston Partners account from the control cash account.
 - \$9 million was transferred to the Manulife account from the control cash account.
 - \$7 million was transferred to the Invesco (OFI) account from the control cash account.
 - \$4 million was transferred to the Walter Scott account from the control cash account.
- Based on staff calculations from custodian trading reports for trade date March 17, we estimate transition explicit costs (broker commissions) at \$9,467.24, or 2.88 basis points on principal traded of approximately \$33 million.
- Explicit costs by manager were influenced by the amount of international trading, as international commissions are higher than domestic commissions.
- Implicit cost reports are still being collected at this time.
- Initial observations indicate that implementation timing was suboptimum, as funds were received late on March 16, and the markets rallied on March 17 with the US and UK governments announcing new financial stimulus measures.



Rebalancing and Liquidity

April 9, 2020

Observations (1 of 2)

- DFPF Global Equity value dropped from \$525 million in mid-February to \$403 million on Friday, March 13.
- DFPF contributed \$36 million to Global Equity on Monday, March 16 to bring the allocation back to the lower rebalancing threshold of 22%.
- Global Equity fell further in the following days but subsequently rebounded to \$439 million as of March 31, back above the lower rebalancing threshold.
- The safety reserve totaled \$269 million as of Mar. 31, representing 27 months of net outflows of approximately \$10 million per month, absent private market sales.
- Although the safety reserve target allocation is 15%, the true target is \$300 million, representing 2.5 years of net benefit payments.
- \$300 million is 15% of a \$2.0 billion fund, but 20% of a \$1.5 billion fund.

Observations (2 of 2)

- Similar to 2008, bond market liquidity was severely constrained during the mid-March 2020 market panic, causing extended liquidation times for short-term bonds.
- Fixed income ex-safety reserve and EMD is slightly below target in aggregate.
- Should equity markets decline again, additional rebalancing contributions to public equities from the safety reserve or public fixed income may not be feasible or prudent.
- Private market asset values are likely now lower than the most recent valuations, which in many cases are as of 9/30/19. This may make percentage allocation to public asset classes appear lower than reality.
- Private market realizations may be delayed for several months due to current market turmoil.

Asset Allocation View as of 3/31/20

| DPPF Asset Allocation | 3/31/20 | | Target | | Variance | |
|------------------------------|--------------|---------------|--------------|---------------|-------------|---------------|
| | \$ mil. | % | \$ mil. | % | \$ mil. | % |
| Equity | 773 | 41.0% | 1,035 | 55.0% | -263 | -14.0% |
| Global Equity | 439 | 23.3% | 753 | 40.0% | -314 | -16.7% |
| Emerging Markets | 41 | 2.2% | 188 | 10.0% | -147 | -7.8% |
| Private Equity* | 293 | 15.6% | 94 | 5.0% | 199 | 10.6% |
| Fixed Income | 554 | 29.4% | 659 | 35.0% | -105 | -5.6% |
| Safety Reserve - Cash | 41 | 2.2% | 56 | 3.0% | -15 | -0.8% |
| Safety Reserve - ST IG Bonds | 228 | 12.1% | 226 | 12.0% | 2 | 0.1% |
| Investment Grade Bonds | 58 | 3.1% | 75 | 4.0% | -17 | -0.9% |
| Global Bonds | 62 | 3.3% | 75 | 4.0% | -13 | -0.7% |
| Bank Loans | 70 | 3.7% | 75 | 4.0% | -6 | -0.3% |
| High Yield Bonds | 71 | 3.8% | 75 | 4.0% | -4 | -0.2% |
| Emerging Mkt Debt | 16 | 0.9% | 75 | 4.0% | -59 | -3.1% |
| Private Debt* | 7 | 0.4% | 0 | 0.0% | 7 | 0.4% |
| Real Assets* | 556 | 29.6% | 188 | 10.0% | 368 | 19.6% |
| Real Estate* | 371 | 19.7% | 94 | 5.0% | 277 | 14.7% |
| Natural Resources* | 131 | 6.9% | 94 | 5.0% | 37 | 1.9% |
| Infrastructure* | 55 | 2.9% | 0 | 0.0% | 55 | 2.9% |
| Total | 1,883 | 100.0% | 1,883 | 100.0% | 0 | 0.0% |
| Safety Reserve | 269 | 14.3% | 282 | 15.0% | -14 | -0.7% |
| *Private Market Assets | 856 | 45.5% | 282 | 15.0% | 574 | 30.5% |

Source: JP Morgan Custodial Data, Staff Estimates and Calculations

Adjusted* Allocation View as of 3/31/20

| DPFP Asset Allocation | 3/31/20 | | Target | | Variance | |
|-------------------------------------|--------------|---------------|--------------|---------------|-------------|---------------|
| | \$ mil. | % | \$ mil. | % | \$ mil. | % |
| Equity | 622 | 38.4% | 891 | 55.0% | -269 | -16.6% |
| Global Equity | 439 | 27.1% | 648 | 40.0% | -209 | -12.9% |
| Emerging Markets | 41 | 2.5% | 162 | 10.0% | -121 | -7.5% |
| Private Equity* | 142 | 8.8% | 81 | 5.0% | 61 | 3.8% |
| Fixed Income | 552 | 34.1% | 567 | 35.0% | -15 | -0.9% |
| Safety Reserve - Cash | 41 | 2.5% | 49 | 3.0% | -8 | -0.5% |
| Safety Reserve - ST IG Bonds | 228 | 14.0% | 195 | 12.0% | 33 | 2.0% |
| Investment Grade Bonds | 58 | 3.6% | 65 | 4.0% | -6 | -0.4% |
| Global Bonds | 62 | 3.8% | 65 | 4.0% | -3 | -0.2% |
| Bank Loans | 70 | 4.3% | 65 | 4.0% | 5 | 0.3% |
| High Yield Bonds | 71 | 4.4% | 65 | 4.0% | 6 | 0.4% |
| Emerging Mkt Debt | 16 | 1.0% | 65 | 4.0% | -48 | -3.0% |
| Private Debt* | 6 | 0.4% | 0 | 0.0% | 6 | 0.4% |
| Real Assets* | 447 | 27.6% | 162 | 10.0% | 285 | 17.6% |
| Real Estate* | 294 | 18.1% | 81 | 5.0% | 213 | 13.1% |
| Natural Resources* | 113 | 7.0% | 81 | 5.0% | 32 | 2.0% |
| Infrastructure* | 40 | 2.5% | 0 | 0.0% | 40 | 2.5% |
| Total | 1,621 | 100.0% | 1,621 | 100.0% | 0 | 0.0% |
| Safety Reserve | 269 | 16.6% | 243 | 15.0% | 25 | 1.6% |
| *Private Mkt. Assets w/NAV Discount | 595 | 36.7% | 243 | 15.0% | 352 | 21.7% |

Source: JP Morgan Custodial Data, Staff Estimates and Calculations

*Private market assets discounted to reflect staff estimated NAV.

Allocation Comparison

| DPFP Asset Allocation 3/31/20 preliminary | Book NAV | | Adjusted NAV | | Difference | |
|--|--------------|---------------|--------------|---------------|-------------|--------------|
| | \$ mil. | % | \$ mil. | % | \$ mil. | % |
| Equity | 773 | 41.0% | 622 | 38.4% | -151 | -2.7% |
| Global Equity | 439 | 23.3% | 439 | 27.1% | 0 | 3.8% |
| Emerging Markets | 41 | 2.2% | 41 | 2.5% | 0 | 0.4% |
| Private Equity* | 293 | 15.6% | 142 | 8.8% | -151 | -6.8% |
| Fixed Income | 554 | 29.4% | 552 | 34.1% | -1 | 4.7% |
| Safety Reserve - Cash | 41 | 2.2% | 41 | 2.5% | 0 | 0.4% |
| Safety Reserve - ST IG Bonds | 228 | 12.1% | 228 | 14.0% | 0 | 2.0% |
| Investment Grade Bonds | 58 | 3.1% | 58 | 3.6% | 0 | 0.5% |
| Global Bonds | 62 | 3.3% | 62 | 3.8% | 0 | 0.5% |
| Bank Loans | 70 | 3.7% | 70 | 4.3% | 0 | 0.6% |
| High Yield Bonds | 71 | 3.8% | 71 | 4.4% | 0 | 0.6% |
| Emerging Mkt Debt | 16 | 0.9% | 16 | 1.0% | 0 | 0.1% |
| Private Debt* | 7 | 0.4% | 6 | 0.4% | -1 | 0.0% |
| Real Assets* | 556 | 29.6% | 447 | 27.6% | -110 | -2.0% |
| Real Estate* | 371 | 19.7% | 294 | 18.1% | -77 | -1.6% |
| Natural Resources* | 131 | 6.9% | 113 | 7.0% | -18 | 0.0% |
| Infrastructure* | 55 | 2.9% | 40 | 2.5% | -15 | -0.4% |
| Total | 1,883 | 100.0% | 1,621 | 100.0% | -262 | 0.0% |
| Safety Reserve | 269 | 14.3% | 269 | 16.6% | 0 | 2.3% |
| *Private Market Assets | 856 | 45.5% | 595 | 36.7% | -262 | -8.8% |

Source: JP Morgan Custodial Data, Staff Estimates and Calculations

Staff Initiatives

- DFPF contributed \$36 million to Global Equity on Monday, March 16 to bring the allocation back to the lower rebalancing threshold of 22%.
- Staff recommended and Meketa approved monthly rebalancing transfers from short-term bonds to maintain cash at approximately \$50 million. Monthly transfers of \$10 million per month are expected for April, May, and June.
- Staff plans to incorporate private market valuation discounts into the rebalancing analysis to provide a better real-time allocation view.
- Consider alternate asset allocation schemes or IPS language that incorporate the dollar target for the safety reserve.

Allocation and Rebalancing Considerations

- IPS 6.C.3 – *The allocations to Cash and Short-Term Investment Grade bonds are designed to provide liquidity during periods of investment market stress and are not required to be rebalanced to target if deemed prudent by Staff and Consultant.*
- Public Market asset class allocations are higher using adjusted NAV.
- Fixed Income allocations are near target in aggregate.
- Safety reserve has higher % allocation, but still under \$300 million target.
- Additional rebalancing contributions to public equities appear unlikely in the near term.
- We could redeploy private market distributions to public equities rather than the safety reserve if we are still in an equity drawdown. However, no significant distributions are on the horizon.



DISCUSSION SHEET

ITEM #C9

Topic: **Private Asset Cash Flow Projection Update**

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

Discussion: Staff will provide the quarterly update on the private asset cash flow projection model first discussed at the February 2018 Board meeting. The cash flow model projects estimated contributions to, and distributions from, private assets through the end of 2023. These estimates are intended to assist the Board in evaluating the expected time frame to reduce DFPF's exposure to these assets and the implications for the public asset redeployment, overall asset allocation, and expected portfolio risk and return.

Regular Board Meeting – Thursday, April 9, 2020



D A L L A S
POLICE & FIRE
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Quarterly Private Asset Cash Flow Projection Update

April 9, 2020

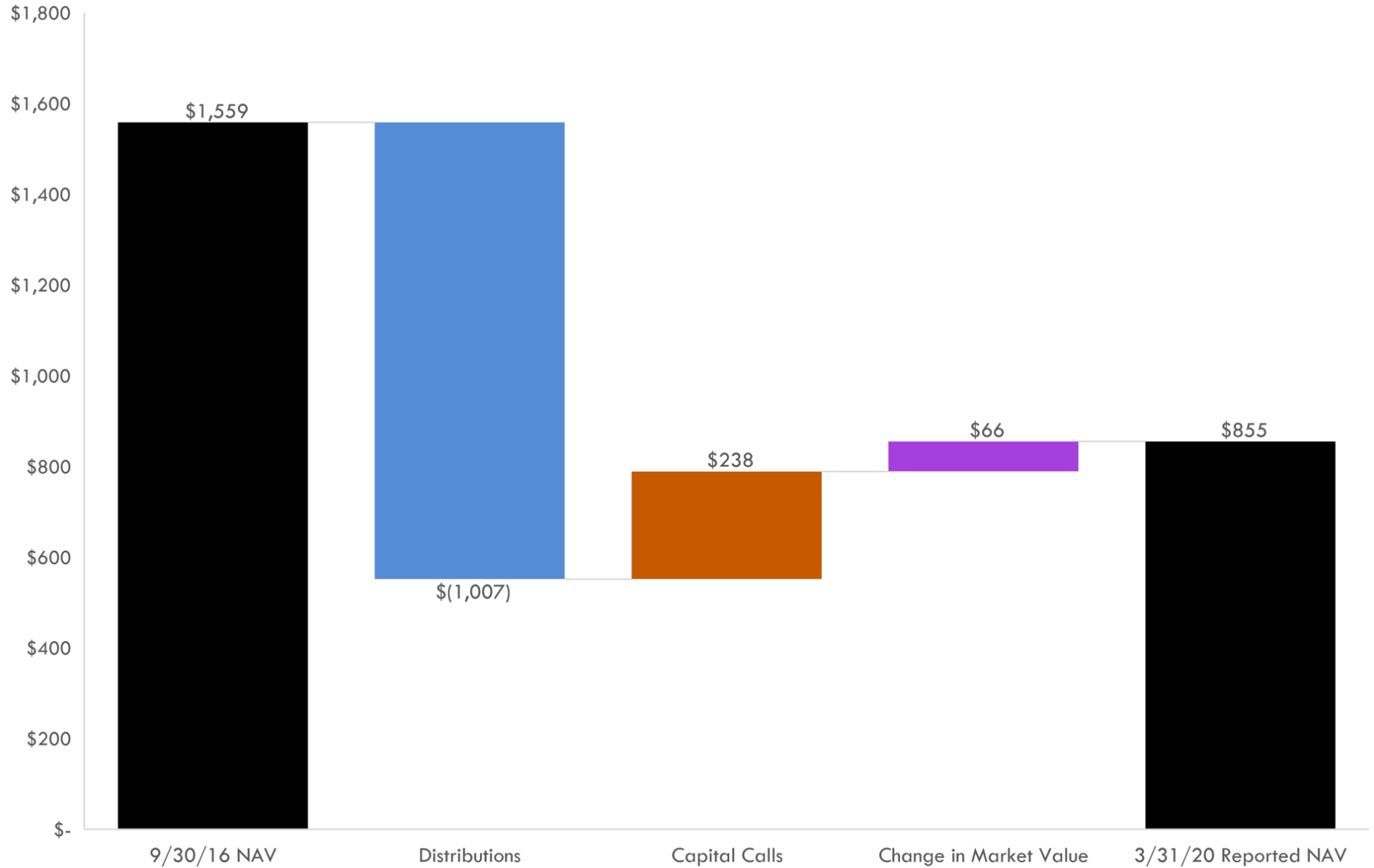
Private Asset Cash Flow Projections

Methodology Review

- Staff estimates capital calls and cash distributions from the Private Asset portfolio, built up by individual asset.
- DPFPP has more control over direct investments in Real Estate and Natural Resources, therefore should have more accuracy in forecasting cash flows based on planned sales. Private Equity fund investments are controlled by GP's, therefore DPFPP has little or no control over outcome – Staff incorporates GP insights but often uses an even distribution schedule over 2-4 years with these investments.
- **Cash flow estimates are inherently imprecise as they are often subject to events and forces outside of the manager's control. There is even less certainty now in the projections given the current market downturn. Many in-process sales have been put on hold indefinitely.**

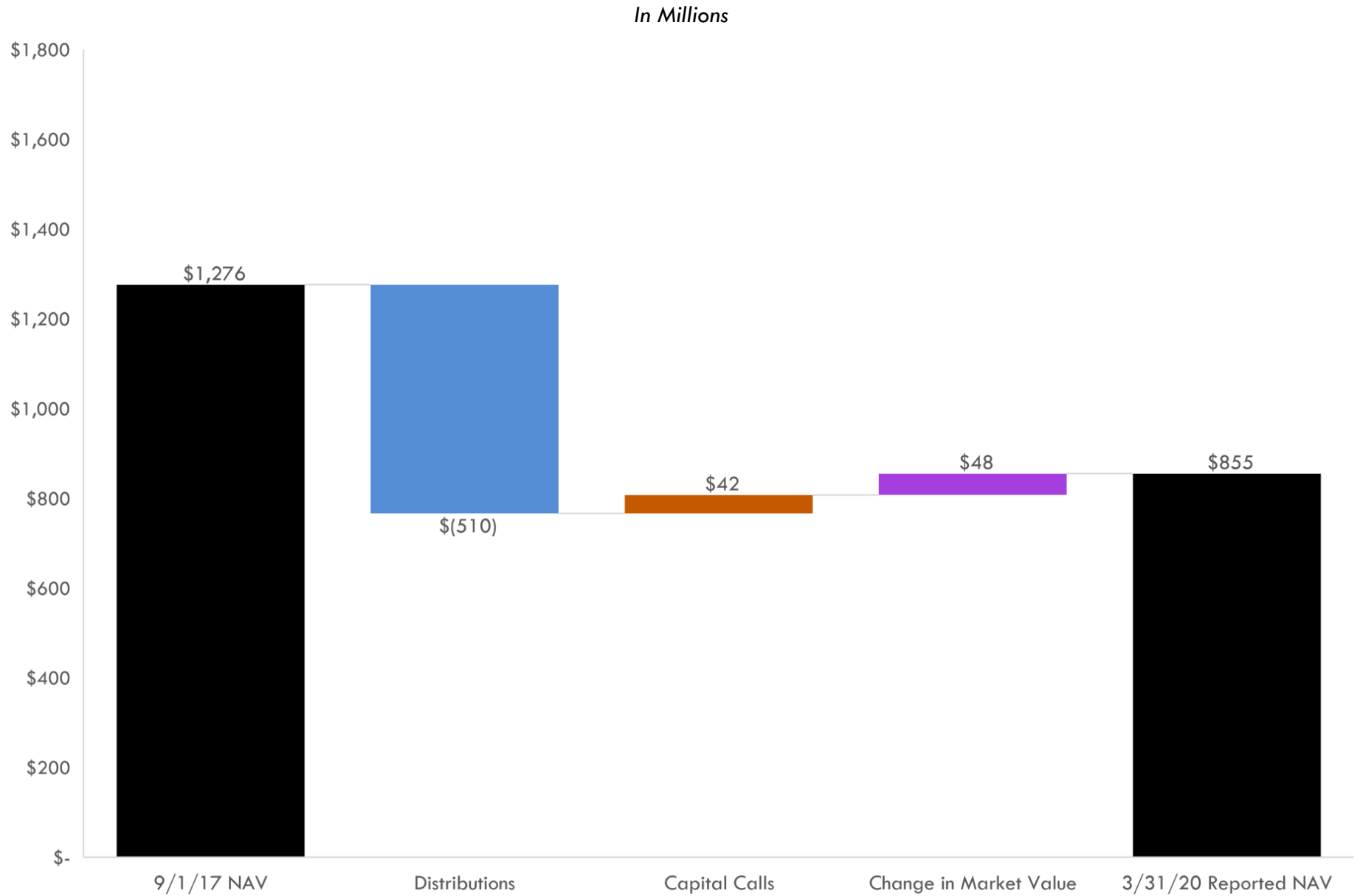
Private Asset Bridge Chart – Since 9/30/16

In Millions



Numbers may not foot due to rounding.

Private Asset Bridge Chart – Since 9/1/17 (New Board Formation)



Numbers may not foot due to rounding.

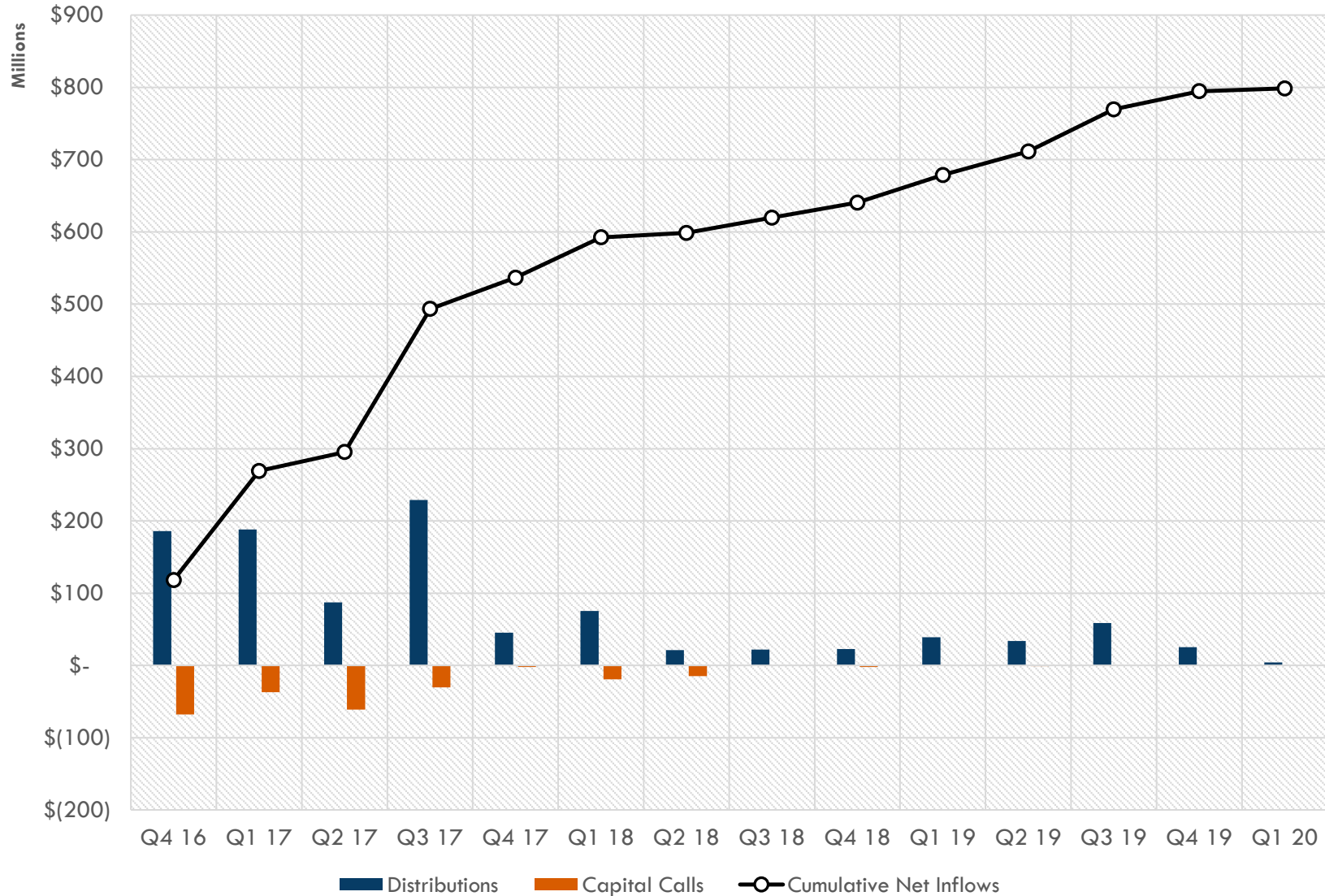
Private Asset Quarterly Cash Flows – Q1 2020

| TOTAL CAPITAL CALLS & CONTRIBUTIONS | | \$352,656 |
|--|---------------------|--------------------|
| TRG AIRRO | Capital Call | \$267,327 |
| TRG AIRRO II | Capital Call | \$85,328 |
| TOTAL DISTRIBUTIONS | | \$4,289,563 |
| Museum Tower | Distribution | \$2,000,000 |
| Riverstone | Fund Distribution | \$1,372,322 |
| Vista 7 | Monthly Income Dist | \$525,000 |
| Highland Crusader | Distribution | \$392,241 |

Numbers may not foot due to rounding.

Private Asset Quarterly Cash Flows – Since 9/30/16

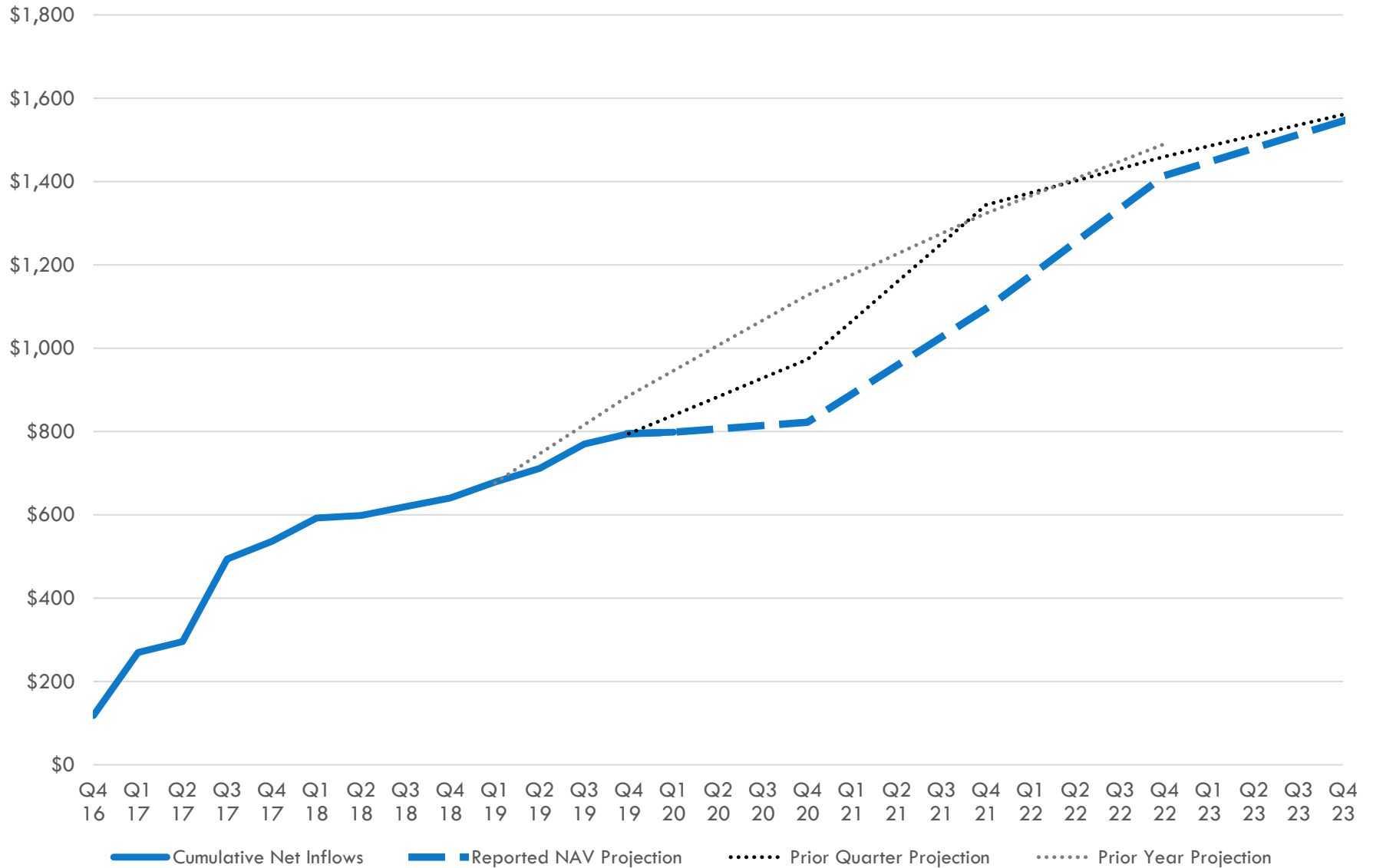
In Millions



Cumulative Actual and Projected Private Asset Net Inflows

Private asset cash flow projections are based on either in-process/planned sales, if available, or a gradual disposition through 2023.

In Millions

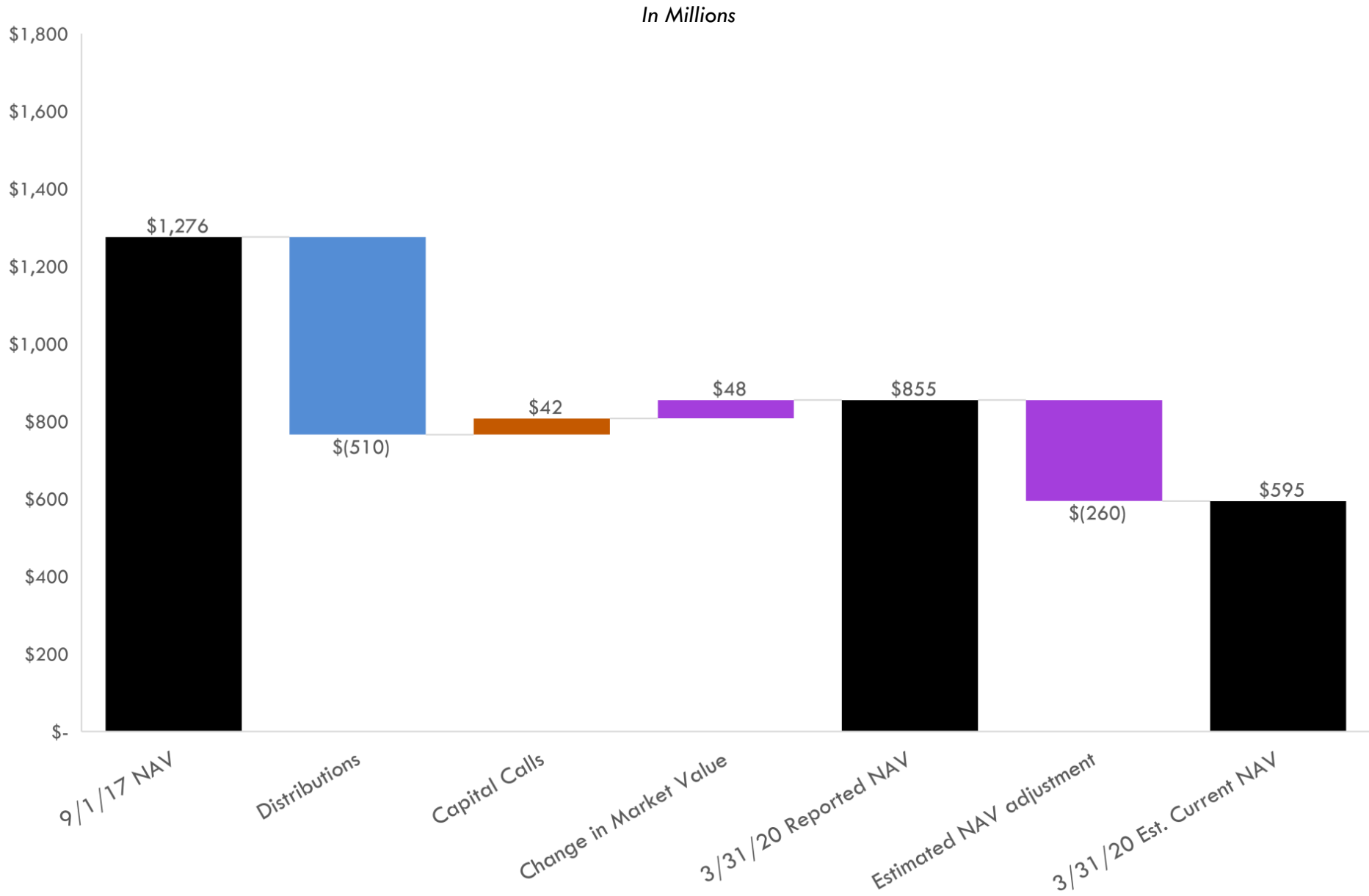


Private Asset Lagged NAV Adjustment

- Due to a lag in the reporting of private market valuations, the **“Reported NAV”** on Private Markets is based on either 9/30/19 or 12/31/19 statements.
- Due to the severity of current market decline, these reported NAVs are no longer a realistic picture of current market values.
- In order to get a more accurate and real-time picture of asset allocation and future distribution activity, Staff estimated Private Market values by discounting the reported NAVs on asset-by-asset basis (**“Estimated Current NAV”**). Heavier discounts applied to Private Equity assets with energy and energy services exposure.
 - The model assumes no investment growth from the Current NAV - staff is not making assumptions on timing of any possible NAV recovery or further losses.

| | Reported (Lagged) NAV | Market Value Adjustment | Estimated Current NAV |
|-----------------------------|--------------------------|----------------------------|--------------------------|
| Private Equity | 292,794,990 | -51.5% | 142,101,368 |
| Private Debt | 7,307,777 | -19.2% | 5,903,894 |
| Infrastructure | 53,267,056 | -25.0% | 39,950,292 |
| Natural Resources | 130,679,928 | -13.5% | 112,987,575 |
| Real Estate | 371,101,953 | -20.8% | 293,860,898 |
| TOTAL PRIVATE ASSETS | 855,151,704 | -30.4% | 594,804,027 |

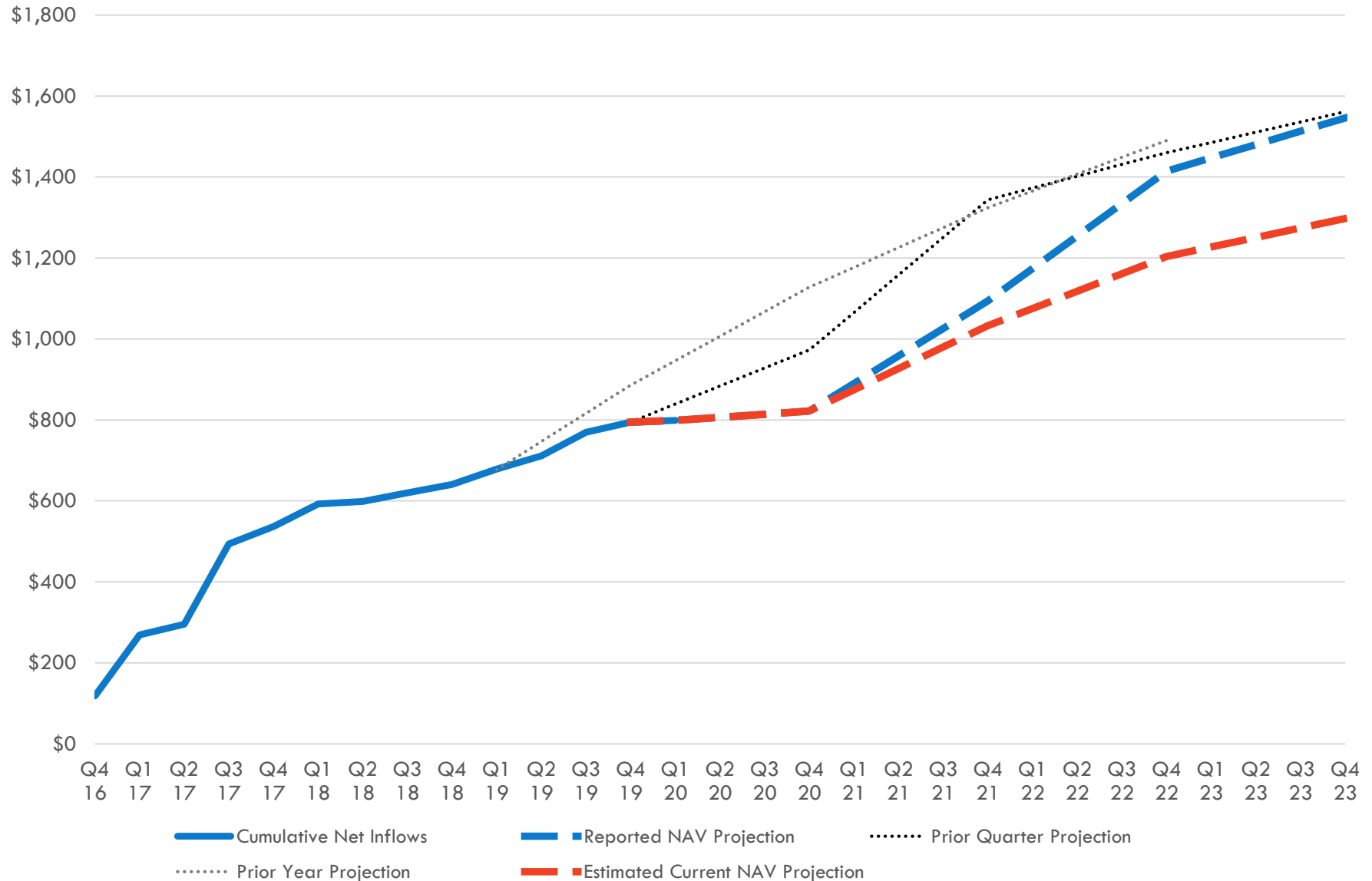
Private Asset Lagged NAV Adjustment



Updated PM NAV - Cumulative Actual and Projected Private Asset Net Inflows

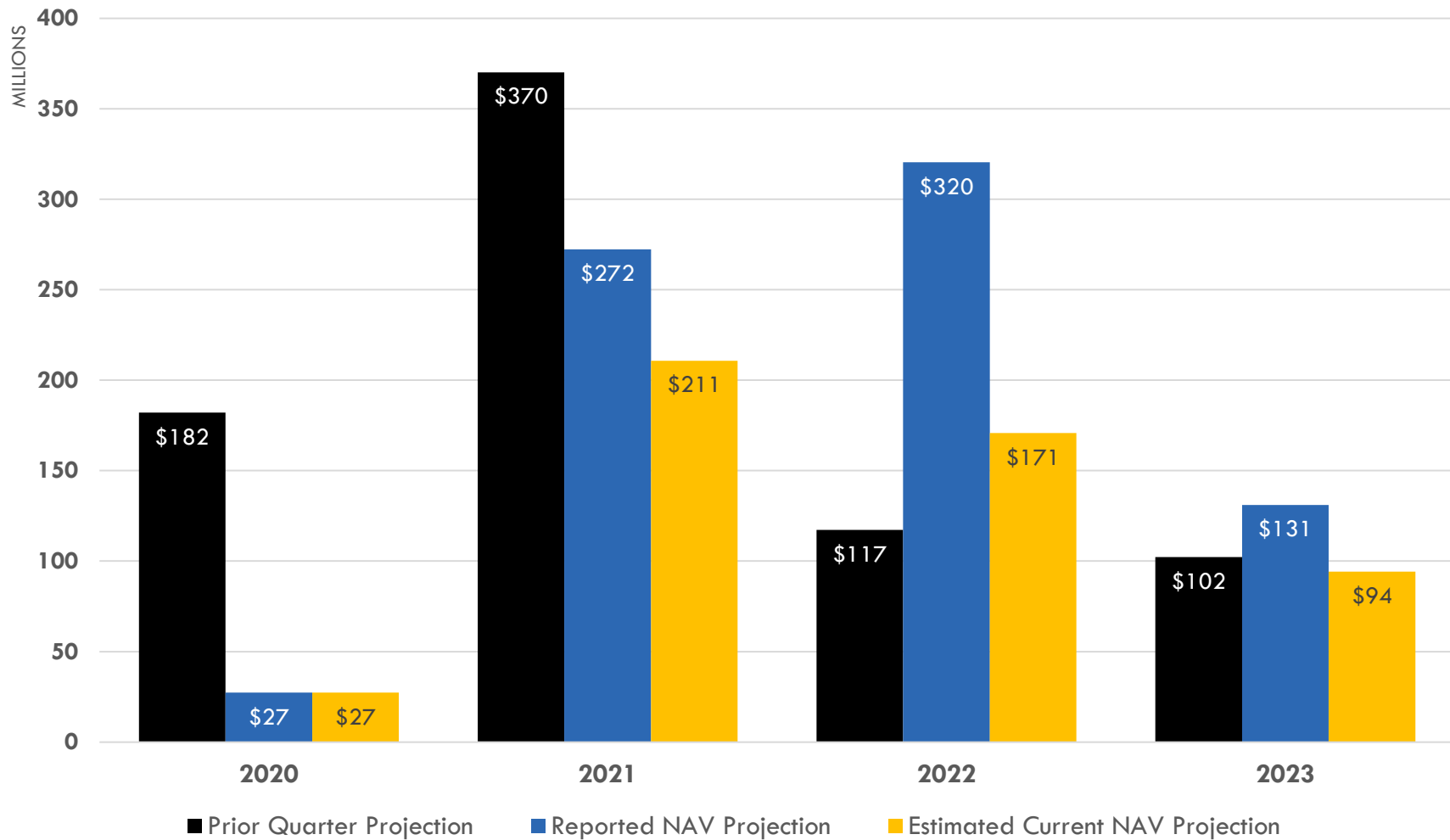
Private asset cash flow projections are based on either in-process/planned sales, if available, or a gradual disposition through 2023.

In Millions



Annual Net Cash Inflows Comparison

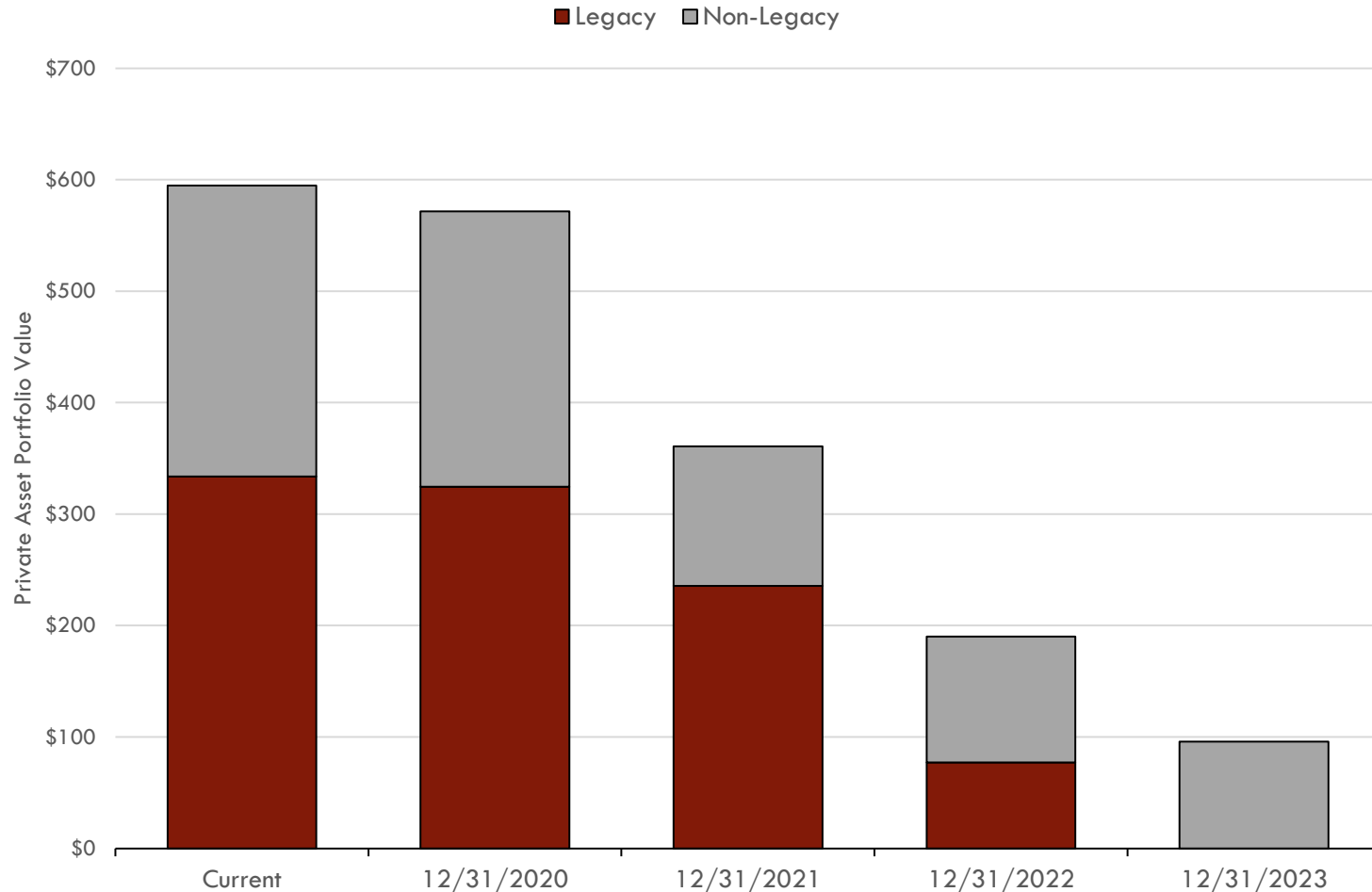
Private asset cash flow projections are based on either in-process/planned sales, if available, or a gradual disposition through 2023.



Est. Current NAV - Private Asset Disposition Timeline & Composition

Private asset cash flow projections are based on either in-process/planned sales, if available, or a gradual disposition through 2023.

In Millions



| | | | | | |
|-------------------------------|---------|------------|------------|------------|------------|
| Legacy NAV (M) | Current | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 |
| | \$334 | \$324 | \$236 | \$77 | \$0 |
| % of Private Portfolio | 56% | 57% | 65% | 41% | 0% |
| % of DFPF Portfolio | 21% | 20% | 15% | 5% | 0% |



DISCUSSION SHEET

ITEM #C10

Topic: Real Estate Overview – AEW

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

Attendees: Ron Pastore - Senior Portfolio Manager, AEW Capital Management
Mark Morrison - Portfolio Manager, AEW Capital Management
Robin McElligott – Vice President, AEW Capital Management

Discussion: Representatives of AEW Capital Management (“AEW”) will update the Board on the status and plans for DPFP’s investments in RED Consolidated Holdings (“RCH”) and Camel Square, an office development in Phoenix. AEW took over management of these investments in February of 2015. AEW last presented to the Board in March 2019.

Regular Board Meeting – Thursday, April 9, 2020

AEW Introduction

- AEW took over the management of 3 assets from CDK in 2015. Red Consolidated Holdings (RCH) and Camel Square remain.
- **RCH:**
 - 50/50 real estate operating company based in Phoenix, AZ. Holdings consist of retail and mixed-use focus concentration in the Southwest and Midwest.
 - Complex operating company with numerous underlying operating properties and partnerships with different partners, developmental properties and land holdings.
- **Camel Square:**
 - Wholly-owned 15.5 acre site located in Phoenix, AZ in the process of being redeveloped.
 - Rezoning approved in late 2019.



DISCUSSION SHEET

ITEM #C11

Topic: Lone Star Investment Advisors Update

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

Discussion: Investment Staff will update the Board on recent performance, operational, and administrative developments with respect to DFPF investments in funds managed by Lone Star Investment Advisors.

Regular Board Meeting – Thursday, April 9, 2020



DISCUSSION SHEET

ITEM #C12

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

Discussion: Counsel will brief the Board on these issues.

Regular Board Meeting – Thursday, April 9, 2020



DISCUSSION SHEET

ITEM #D1

Topic: **Public Comment**

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

Regular Board Meeting – Thursday, April 9, 2020



DISCUSSION SHEET

ITEM #D2

Topic: Executive Director's report

- a. Associations' newsletters
 - NCPERS Monitor (March 2020)
- b. Open Records

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

Regular Board Meeting – Thursday, April 9, 2020

THE NCPERS

MONITOR

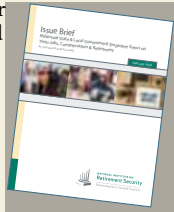
The Latest in Legislative News

March 2020

In This Issue

2 Executive Directors Corner

Who are the public sector leaders of tomorrow, and what will it take to keep them in their jobs? A new issue brief from the National Institute on Retirement Security, "Millennial State & Local Government Employee Views on Their Jobs, Compensation & Retirement," sheds light on this very important question.

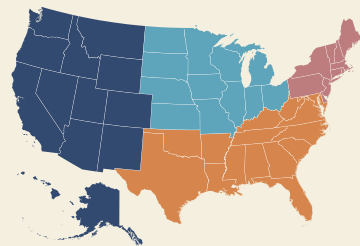


3 Implementation of the SECURE Act



As is always the case with new tax law, the actual statutory language once codified raises all kinds of questions. The SECURE Act is no exception. This article, while brief, is a follow up to my previous article on the SECURE Act and is intended to fill in some information gaps.

4 Around the Regions



This month, we will highlight Maryland, Michigan, Georgia and California.

Pension Systems and NCPERS Speak Against SEC Proposals That Trim Shareholder Rights



NCPERS was in good company as it [raised strong objections](#) to plans by the Securities and Exchange Commission to pare back shareholder rights under proxy rules.

The SEC received a tidal wave of critical comment on its proposals to change a pair of technical but significant regulations. The first proposal, the shareholder proposal rule, would make it harder for many shareholders to submit proposals for inclusion in proxy materials. The second, the proxy advisor rule, would add unnecessary disclosure hurdles for firms that use independent proxy voting advice. The SEC received more than 1,100 comment letters and more than 640 comment letters for the respective proposals before the February 3 deadline.

NCPERS argued that the proposed shareholder proposal rule, amending Exchange Act Rule 14a-8, should be revised, while the proxy voting advice rule should be scrapped altogether.

“Public pension plans owe a duty of care and trust to millions of public sector workers and retirees, and are committed to prudently exercising their rights as shareholders,” said [Hank Kim](#), executive director and chief counsel for NCPERS. “We believe the SEC is tipping the scales much too far in the favor of corporations with this pair of proposals. If implemented, these amendments would have a seriously negative impact on state and local governmental pension plans, and we urge the commission to reconsider.”

CONTINUED ON PAGE 6



Don't Underestimate Millennials' Commitment to Public Sector Work

Who are the public sector leaders of tomorrow, and what will it take to keep them in their jobs? A new issue brief from the National Institute on Retirement Security, "[Millennial State & Local Government Employee Views on Their Jobs, Compensation & Retirement](#)," sheds light on this very important question.

More than 6.3 million Millennials – members of the generation born between 1980 and 1995 – work in state and local government, making up 32% of the state and local workforce, NIRS notes.

And contrary to stereotypes that they are part of a restless, unfocused generation, Millennials in public service are overwhelmingly satisfied with their current job and intend to stay with their employers unless their benefits are cut.

“Unless,” of course, is the rub. We live in a time of rampant attacks on public pensions and other benefits provided to hardworking public servants during their careers and upon their retirement. The NIRS study deserves a close look, because it provides valuable insights into the workplace motivations and worries of the largest demographic group of working adults in the U.S.

Drawing on a nationwide survey of 1,118 public sector employees, NIRS found that 84% of Millennials working in state and local government say they are satisfied with their job. Their job satisfaction is high even though most Millennials in state and local government (80%) believe they could earn a higher salary working in the private sector, and only about one on four see their salary as very competitive.

Keeping workers satisfied matters, because filling jobs is one of the biggest issues confronting state and local governments today. We all know that public employees perform crucial work in field

And contrary to stereotypes that they are part of a restless, unfocused generation, Millennials in public service are overwhelmingly satisfied with their current job and intend to stay with their employers unless their benefits are cut.



including public safety, healthcare and education. But the gap between open positions and the talent available to fill them is widening. A 2019 study by Accenture found that from 2013 through 2017, job postings in 27 states increased 11%, while the number of applicants fell 24%.

The NIRS issues paper finds that pensions are viewed positively by an overwhelming 97% of Millennials who work in state and local governments. It's not surprising that when Millennials are asked their opinion of the features of their state and governmental pensions, they give the highest marks to income that lasts through retirement (82%) and monthly checks (79%). But it's fascinating to

[CONTINUED ON PAGE 6](#)

Implementation of the SECURE Act

By Tony Roda

As is always the case with new tax law, the actual statutory language once codified raises all kinds of questions. The SECURE Act is no exception. This article, while brief, is a follow up to my previous article on the SECURE Act and is intended to fill in some information gaps.

At the outset it is important to note that plans must adhere to the new laws and their effective dates, as applicable. However, governmental plans have a generous deadline in which to make formal plan amendments. The deadline for amendments is on or before the last day of the first plan year beginning on or after January 1, 2024, or by a later date prescribed by the Secretary of the Treasury.

There are no new insights into the change to **Required Minimum Distributions (RMDs)**. The trigger for RMDs has been increased from age 70 ½ to 72, with respect to those turning 70 ½ on or after January 1, 2020. However, be aware that Congress may not be completely finished with raising the age trigger. Next generation retirement legislation, S. 1431, would raise the trigger to age 75 in 2023.

On the **Inherited Retirement Accounts** provision, which requires that with certain exceptions the entire interest of inherited accounts will now have to be distributed to non-spouse beneficiaries over 10 years of the death of the employee or account owner, it is now clear that the provision does not cover defined benefit plans. This was not clear under earlier descriptions of the legislation.

The **Portability of Lifetime Income Investments** provision allows plans to make direct trustee-to-trustee transfers to another employer-sponsored retirement plan or an IRA of guaranteed lifetime income investments (i.e., annuities or guaranteed withdrawal contracts), provided their plan no longer offers that investment option. In recent meetings with Treasury and the Congressional Joint Committee on Taxation, it is now certain that this is a permissive provision, meaning that plans are not required to allow these distributions.

There are two new insights into the provision allowing **Distributions Related to Birth or Adoption**. First, the distributions are permissive not mandatory. Second, this is an individual limit. For example, a



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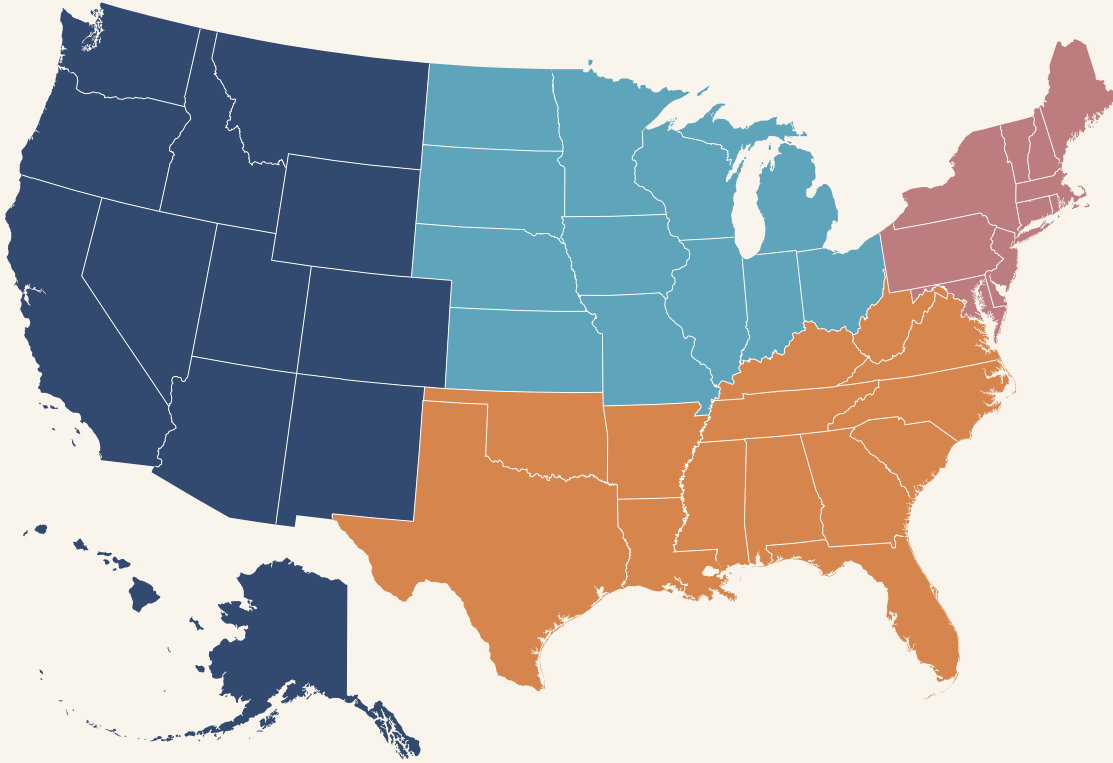
husband and wife could each take up to \$5,000 in distributions from their retirement accounts in the 12-month period beginning on the date on which a child of the individual is born or on which legal adoption of an eligible adoptee is finalized, provided, of course, the plan allows for the distributions.

Finally, the provision that lowers from 62 to 59 ½ the age at which an employee may receive an allowable **In-Service Distribution** has been confirmed by Treasury officials to be permissive. There was little doubt about this, but it is now clear. While not contained in the SECURE Act, this provision was also enacted at the end of 2019.

As implementation of the SECURE Act continues, please be assured that NCPERS will keep its members up to date on any significant insights or developments.

Tony Roda is a partner at the Washington, D.C. law and lobbying firm **Williams & Jensen**, where he specializes in federal legislative and regulatory issues affecting state and local governmental pension plans. He represents NCPERS and statewide, count, and municipal pension plans in California, Georgia, Kentucky, Ohio, Tennessee and Texas. He has an undergraduate degree in government and politics from the University of Maryland, J.D. from Catholic University of America, and LL.M (tax law) from Georgetown University.

This month, we will highlight Maryland, Michigan, Georgia and California.



NORTHEAST: Maryland

Republican Governor Larry Hogan has announced a plan to give 230,000 retirees who reside in Maryland a tax break of more than \$1 billion over five years to entice them to remain in the state. Hogan's plan would eliminate state income tax on those earning less than \$50,000 a year and would significantly reduce the tax on those earning up to \$100,000.

Hogan's proposal calls for the tax break to be phased in over five years beginning in fiscal year 2022.

"People who have been lifelong Marylanders and have contributed so much, and still have more to offer, are moving to other states for one reason—our state's sky-high retirement taxes," Hogan said in a statement issued on the governor's official website.

The proposal faces legislative hurdles, the *Washington Post* reported. The governor's proposed budget for fiscal year 2021 is projected to produce deficits over the next five years. "We're all sympathetic to people on a fixed income," Maryland House Majority Leader Eric G. Luedtke, a Democrat, told the *Washington Post*. "But I'd like to know how the governor plans to pay for it."

Hogan also introduced the Hometown Heroes Act of 2020, which would exempt law enforcement, fire, rescue, corrections, and emergency response personnel from state tax on all retirement income flowing from their service in those professions. It is the fifth consecutive year that Hogan has introduced legislation to eliminate state taxes on the retirement income of first responders. In 2017, the governor signed Hometown Heroes legislation enabling first responders to exempt the first \$15,000 of their retirement income from state taxes. The new legislation would fully exempt all retirement income for these occupations and to lower the age of eligibility from 55 to 50.

[CONTINUED ON PAGE 5](#)

NCPERS

Around the Regions

AROUND THE REGIONS CONTINUED FROM PAGE 4

**MIDWEST:
Michigan**



When Governor Gretchen Whitmer unveiled her proposed fiscal year 2021 budget on February 4, there was no sign of a plan to fulfill her campaign promise to restore state tax exemptions for retirement income.

Whitmer, a Democrat who took office in January 2019, campaigned on repealing the tax on Michigan pension income that was introduced by her predecessor, Republican Governor Rick Snyder. Last year, she did include a provision to restore the exemption in her first budget plan, for fiscal 2020. However, she did not get legislators to support her plan to fund the pension tax exemption by expanding the range of businesses subject to the 6% corporate income tax.

After the budget's release, Whitmer told a press conference that while she had not advanced a budget proposal to restore the exemption, "we must continue to work together to repeal the retirement tax," the *Detroit Free Press* reported.

In the Michigan legislature, Rep. Yousef Rahbi, a Democrat, is sponsoring a package of bills to repeal taxes on pension income and replace the revenue with higher business taxes. Whitmer expressed hope that the legislature would take a look at the Rahbi bills, according to the *Detroit Free Press*.

Michigan's Treasury Department said last year that repealing the exemption would cost the state \$320 million, \$248 million of which would come from the general fund.

**SOUTH:
Georgia**



State Representative Tommy Benton is retooling his pension reform proposal after receiving a massive backlash from educators and retirees.

Benton, chairman of the Georgia House's Retirement Committee, went back to the drawing board after receiving a flood of emails opposing the bill. The *Atlanta Journal-Constitution* report that he said the opposition made it unlikely the bill would pass in its original form.

Benton is dropping parts of House Bill 109 requiring teachers to work longer, possibly contribute more to their pensions and see lower cost-of-living increases in retirement, the Associated Press reported.

The remaining provisions include a proposal to change the Georgia's Teachers Retirement System current practice of giving a 1.5% cost-of-living increase twice a year. Benton wants to cut that to 3% once a year, which would cut \$17 million in costs by eliminating the compounding effect of twice-yearly adjustments. The savings would amount to a slim 0.7% of an estimated \$2.3 billion in annual state and local contributions. Additionally, new hires would lose the ability to cash in sick leave upon retirement.

The Georgia Teachers Retirement System covers nearly 400,000 public school, college and university employees and retirees. Benton has said he wants to preserve pensions but argues that the current system is unsustainable over the long haul and that changes will be less painful if they are made sooner rather than later.

CONTINUED ON PAGE 8

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SEC PROPOSALS CONTINUED FROM PAGE 1

NCPERS identified several key concerns under the shareholder proposal rule. Specifically, NCPERS criticized the SEC's plan to impose a tiered system of eligibility to submit proxy proposals, and said a proposal to limit proposals from a single shareholder or representative to one per proxy season would adversely affect shareholders. NCPERS also rejected a proposal to increase limits on resubmitting proxy statements as unwarranted.

As for the proxy voting advice rule, NCPERS argued it should be withdrawn because it would hinder state and local governmental pensions' access to timely, independent corporate governance research and would undermine the independence of proxy voting advice.

A trio of Morningstar executives said in comments to the SEC that the shareholder proposal rule "will stifle investors' voices." Additionally, they argued, the proxy voting advice rule currently in place does not overburden corporations. Only 831 shareholder proposals were submitted to U.S. companies in 2018, and this figure has fluctuated minimally over the past two decades, with a range from 745 to 1,136 proposals. "The annual cost for permitting these proposals is estimated to be around \$137,000 per company, an amount less than these companies often spend on the salary of one employee," the Morningstar commenters wrote.

Pension fund officials, along with many other investment managers, came out forcefully against the proposals.

"We are very concerned about the [proposal]. We think it's a bad idea," said Liz Gordon, executive director of corporate governance at the New York State Common Retirement Fund, the third-largest public pension scheme in the US, told the *Financial Times*. "We think they're trying to fix a problem that doesn't exist."

Ron Baker, executive director of the Colorado Public Employees' Retirement Association, voiced concern in a February 3 comment letter that the proposed amendments to Rule 14a-8 would undermine the value of shareholder rights and would pay more attention to the costs to issuers rather than the benefits to investors.

Aeisha Mastagni, a portfolio manager for California State Teachers' Retirement System, argued in a February 3 letter that while "the basic proxy infrastructure is desperately in need of reform," both proposals missed the mark widely. CalSTRS said it disagrees with the premise of the proxy voting advice rule, which assumes that proxy advisors could be "providing inaccurate or incomplete voting advice (including the failure to disclose material conflicts of interest) that could be relied upon to the detriment of investors." Regarding shareholder proposals, CalSTRS argued that current Rule 14a-8 is working fairly and equitably. CalSTRS also noted that fewer than 2% of voting items at U.S. shareholder meetings are shareholder proposals, "prompting us to ask whether the rulemaking is creating a problem that does not exist and therefore does not need to be fixed." ♦

EXECUTIVE DIRECTOR'S CORNER CONTINUED FROM PAGE 2

me that 67% cite the fact that pensions allow employees to focus on their jobs rather than worrying about retirement. We can't talk about this point enough.

The vast majority—92%—say pensions are an incentive to have a long career in public service, and 94% say pensions are an effective tool in recruiting.

The issue paper also taps into Millennials' worries. Fully 85% describe themselves as concerned that retirement benefits could be cut, and 78% fear the possibility of cost-of-living-adjustment cuts. And 84% worry about governments underfunding the plans.

Eliminating pensions would undermine state and local governments' ability to recruit and retain workers to deliver public services, according to 92% of respondents. Vast majorities say the effects of eliminating pensions would also be felt in education (86%) and public safety (82%).

These concerns deserve our scrupulous attention. Millennials are already one-third of the public sector workforce, and undermining their pensions and benefits is a dangerous game at a time when retention of highly qualified workers is a real challenge.

If policymakers listen now to Millennials and exercise caution when modifying benefits, we can avoid the unintended consequences of driving this generation out the door to the private sector. That outcome would be detrimental to a public that counts on dedicated workers to provide critical services.

Millennials are highly supportive of pensions and understand that eliminating them would have negative consequences. It's bound to be fascinating to watch as this generation comes into its own in the coming decades and begins to put its imprint on public policy. ♦



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AROUND THE REGIONS CONTINUED FROM PAGE 5

**WEST:
California**



The California State Teachers' Retirement System's investment committee has approved new environmental, social and governance (ESG) guidelines that it will use to screen investments for engagement. The guidelines are intended to help CalSTRS pick companies where it can make a difference by influencing change and driving the stock price up.

Under the new plan, CalSTRS staff would have to evaluate the system's ability to influence change in companies in its portfolio and to deliver measurable outcomes, *Chief Investment Officer* reported. The policy was approved at the January 30 investment committee meeting of CalSTRS, which has a \$248 billion global equity portfolio.

CalSTRS will also require investment staff to consider investment risks associated with climate change, an expansion of its current ESG policy. CalSTRS was already requiring investment staff to look beyond traditional financial metrics to assess material ESG factors in the investment process for every asset class, but did not specifically mention climate change.

In a January 31 update to its nine-point statement of investment beliefs, CalSTRS said it needs to understand how the ongoing transition to a lower-carbon economy affects companies, industries and countries and consider actions to mitigate risk and identify investment-related opportunities.

Kirsty Jenkinson, who CalSTRS' director of corporate governance since January 2019, oversees the ESG initiatives. At the January 30 meeting, she noted that the guidelines give the investment staff more direction on how to engage with companies in the portfolio, *Chief Investment Officer* reported. With the change, "We have a system that we can go through to determine, do we respond? Do we not respond?" ♦

Don't Miss NCPERS' Social Media

The graphic features a hand holding a tablet with a glowing globe and various social media icons (Facebook, Twitter, LinkedIn, YouTube, RSS) and the NCPERS logo with the tagline "The Voice for Public Pensions".



2020 Conferences

May

Trustee Educational Seminar (TEDS)
May 9 - 10
Las Vegas, NV

Program for Advanced Trustee Studies (PATS)
May 9 - 10
Las Vegas, NV

NCPERS Accredited Fiduciary Program (All modules)
May 9 - 10
Las Vegas, NV

Annual Conference & Exhibition (ACE)
May 10 - 13
Las Vegas, NV

July

Chief Officers Summit (COS)
July 22 - 24
Chicago, IL

August

Public Pension Funding Forum
August 23 - 25
Chicago, IL

October

NCPERS Accredited Fiduciary Program (All modules)
October 24 - 25
Location TBD

Public Safety Conference
October 25 - 28
Location TBD

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Kathy Harrell
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Second Vice President

Carol G. Stukes-Baylor
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Treasurer

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Emmit Kane
James Lemonda*

Educational Classification
*David Kazansky
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Ronald Saathoff*

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