

## AGENDA



**Date:** July 9, 2021

The regular meeting of the Dallas Police and Fire Pension System Board of Trustees will be held at **8:30 a.m. on Thursday, July 15, 2021, via telephone conference for audio at 214-271-5080 access code 588694 or Toll-Free (US & CAN): 1-800-201-5203 and Zoom meeting for visual <https://us02web.zoom.us/j/89692363702?pwd=YTk4STdPUGZ5Q2dQNDFPTHpzRElMZz09> Passcode: 374893.** Items of the following agenda will be presented to the Board:

### **A. MOMENT OF SILENCE**

### **B. CONSENT AGENDA**

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

Regular meeting of June 10, 2021

#### **2. Approval of Refunds of Contributions for the Month of June 2021**

- 3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for July 2021**
- 4. Approval of Estate Settlements**
- 5. Approval of Survivor Benefits**
- 6. Approval of Service Retirements**
- 7. Approval of Payment of DROP Revocation Contributions**

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

**1. Chairman's Discussion Items**

Funding Committee Update

- 2. Portfolio Update**
- 3. Asset Allocation**
- 4. January 1, 2021 Actuarial Valuation Assumptions**
- 5. Report on the Investment Advisory Committee**

**6. US Small Cap Equity Manager Recommendation**

**7. 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.

**8. Financial Audit Status**

**9. Monthly Contribution Report**

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

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

**11. Board Chairman, Vice Chairman and Deputy Vice Chairman Election**

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

## **D. BRIEFING ITEMS**

- 1. Public Comment**
- 2. Executive Director's report**
  - a. Associations' newsletters
    - NCPERS Monitor (July 2021)
  - b. Open Records
  - c. Office Update and Reopening Status
  - d. CIO Recruitment

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.



## **MOMENT OF SILENCE**

**In memory of our Members and Pensioners who recently passed away**

<b>NAME</b>	<b>ACTIVE/ RETIRED</b>	<b>DEPARTMENT</b>	<b>DATE OF DEATH</b>
Carolyn J. Hovey	Retired	Police	Jun. 3, 2021
Howard E. Johnson	Retired	Police	Jun. 3, 2021
Joseph J. Kay	Retired	Fire	Jun. 17, 2021
R. F. Massingill	Retired	Fire	Jun. 18, 2021
Richard Mattingly	Retired	Police	Jun. 20, 2021
William F. Gentry	Retired	Police	Jun. 22, 2021
Donald D. Barree	Retired	Fire	Jun. 27, 2021
Raymond L. Jones	Retired	Fire	Jul. 1, 2021

*Regular Board Meeting –Thursday, July 15, 2021*

**Dallas Police and Fire Pension System  
Thursday, June 10, 2021  
8:30 a.m.  
4100 Harry Hines Blvd., Suite 100  
Second Floor Board Room  
Dallas, TX  
Via telephone conference**

Regular meeting, Armando Garza, Deputy Vice Chairman, presiding:

**ROLL CALL**

**Board Members**

Present at 8:34 a.m. Armando Garza, Michael Brown, Robert B. French, Gilbert A. Garcia, Kenneth Haben, Tina Hernandez Patterson, Steve Idoux, Mark Malveaux

Absent: William F. Quinn, Nicholas A. Merrick

**Staff**

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

**Others**

Leandro Festino, Aaron Lally, Jeff Williams, Caitlin Grice Chuck Campbell, Mark Sales, Greg Taylor

\* \* \* \* \*

The meeting was called to order at 8:34 a.m.

\* \* \* \* \*

**A. MOMENT OF SILENCE**

The Board observed a moment of silence in memory of retired police officers Ronald C. Nelson, Johnny C. Reid, retired firefighter David P. Ledbetter and active firefighter Marcus Evans.

No motion was made.

\* \* \* \* \*

**Regular Board Meeting  
Thursday, June 10, 2021**

**B. CONSENT AGENDA**

**1. Approval of Minutes**

- a. Required Public meeting #1 of May 13, 2021
- b. Regular meeting of May 13, 2021

**2. Approval of Refunds of Contributions for the Month of May 2021**

**3. Approval of Activity in the Deferred Retirement Option Plan (DROP) for June 2021**

**4. Approval of Estate Settlements**

**5. Approval of Service Retirements**

**6. Approval of Alternate Payee Benefits**

**7. Approval of Earnings Test**

After discussion, Mr. Haben made a motion to approve the minutes of the Required Public meeting #1 and the Regular meeting of May 13, 2021. Mr. Idoux seconded the motion, which was unanimously approved by the Board.

After discussion, Ms. Hernandez Patterson made a motion to approve the remaining items on the Consent Agenda, subject to the final approval of the staff. Mr. Brown 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. Portfolio Update**

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

No motion was made.

\* \* \* \* \*

**Regular Board Meeting  
Thursday, June 10, 2021**

**2. Asset Allocation**

Leandro Festino, Managing Principal and Aaron Lally, Executive Vice President of Meketa Investment Group and DPF investment staff provided an Emerging Markets equity educational presentation, discussed asset allocation feedback from the May 2021 Board meeting, presented updated asset allocation mixes for consideration, and reviewed implementation considerations.

No motion was made.

\* \* \* \* \*

**3. January 1, 2021 Actuarial Valuation Assumptions**

Jeff Williams Vice President and Actuary of Segal Consulting reviewed the assumptions for the January 1, 2021 Actuarial Valuation for the Regular Plan (Combined Plan) and the Supplemental Plan and the appropriateness of the current 7% discount rate/assumed rate of return given changing market factors and the asset allocation considerations.

No motion was made.

\* \* \* \* \*

**4. First Quarter 2021 Investment Performance Analysis and Fourth Quarter 2020 Private Markets & Real Assets Review**

Leandro Festino, Managing Principal and Aaron Lally, Executive Vice President of Meketa Investment Group and DPF investment staff reviewed investment performance.

No motion was made.

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**5. Chairman's Discussion Item**

**Trustee Resignation**

The Board was briefed on the resignation of Allen Vaught from the Board of Trustees.

No motion was made.

\* \* \* \* \*



**Regular Board Meeting  
Thursday, June 10, 2021**

**6. Board Chairman, Vice Chairman and Deputy Vice Chairman Election**

Section 3.01(g) of Article 6243a-1 requires the Board in June of every odd year to elect from among its trustees a chairman, vice chairman, and a deputy vice chairman, each to serve for two-year terms.

After discussion, Mr. Malveaux made a motion to elect the current Board Officers to their current positions as chairman, vice chairman and deputy vice chairman and direct that the item be brought back at the July Board meeting. Mr. Garcia seconded the motion, which was unanimously approved by the Board.

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**7. Legislative Update**

Staff briefed the Board on pension bills that have been filed which may bear on DFPF.

No motion was made.

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**8. Monthly Contributions**

The Executive Director reviewed the Monthly Contribution Report.

No motion was made.

\* \* \* \* \*

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

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

No motion was made.

\* \* \* \* \*

**Regular Board Meeting  
Thursday, June 10, 2021**

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

Mr. Haben reported on the TEXPERS 2021 Annual Conference.

No motion was made.

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**11. Financial Audit Status**

The Chief Financial Officer provided a status update on the annual financial audit.

No motion was made.

\* \* \* \* \*

**12. Legal issues - In accordance with Section 551.071 of the Texas Government Code, the Board will meet in executive session to seek and receive the advice of its attorneys about pending or contemplated litigation or any other legal matter in which the duty of the attorneys to 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 at 9:47 a.m.

The meeting was reopened at 10:56 a.m.

No motion was made.

\* \* \* \* \*

Mr. Garcia left the meeting at 9:48 a.m. and rejoined the meeting at 10:24 a.m.  
Mr. Brown left the meeting at 10:42 a.m.

\* \* \* \* \*

**Regular Board Meeting  
Thursday, June 10, 2021**

**D. BRIEFING ITEMS**

**1. Public Comments**

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

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**2. Executive Director's report**

- a. Associations' newsletters
  - 1) NCPERS Monitor (June 2021)
  - 2) NCPERS Monitor PERSist (Spring 2021)
- b. Open Records
- c. Office Update and Reopening Status
- d. CIO Recruitment

The Executive Director's report was presented.

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Ms. Gottschalk stated that there was no further business to come before the Board. On a motion by Mr. Garcia and a second by Ms. Hernandez Patterson, the meeting was adjourned at 11:35 a.m.

\_\_\_\_\_  
Armando Garza  
Deputy Vice Chairman

**ATTEST:**

\_\_\_\_\_  
Kelly Gottschalk  
Secretary



## DISCUSSION SHEET

### ITEM #C1

**Topic:** Chairman's Discussion Item

Funding Committee Update

**Discussion:** The Chairman will brief the Board on this item.

*Regular Board Meeting – Thursday, July 15, 2021*



## DISCUSSION SHEET

### ITEM #C2

**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, July 15, 2021*



D A L L A S  
POLICE & FIRE  
PENSION SYSTEM



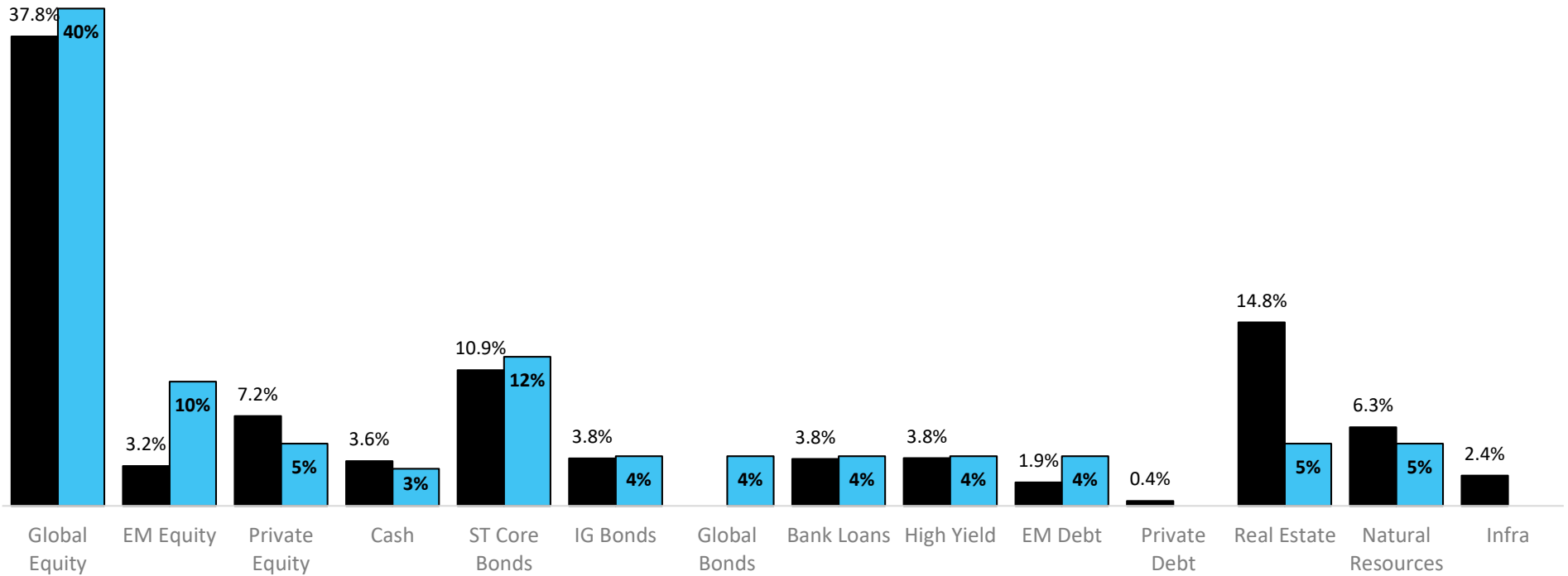
## Portfolio Update

*July 15, 2021*

# Adjusted Asset Allocation – Actual vs Target

*In this view staff adjusts reported private market values to roughly estimate the impact of events that have not yet been recognized.*

■ Adj. 6/30/21 ■ Target



# Adjusted Asset Allocation & Global Equity Detail

In this view staff adjusts reported private market values to roughly estimate the impact of events that have not yet been recognized.

DFPF Asset Allocation Using Stressed Private Market Values	6/30/2021		Adjustments		Adj. NAV 6/30/2021		Target		Variance	
	NAV	\$ mil.	% of NAV	\$ mil.	%	\$ mil.	%	\$ mil.	%	
<b>Equity</b>	<b>1,005</b>	<b>-46</b>	<b>-4.5%</b>	<b>959</b>	<b>48.2%</b>	<b>1,095</b>	<b>55.0%</b>	<b>-135</b>	<b>-6.8%</b>	
Global Equity	751	0	0.0%	751	37.8%	796	40.0%	-45	-2.2%	
<i>Boston Partners</i>	143	0	0.0%	143	7.2%	139	7.0%	4	0.2%	
<i>Manulife</i>	144	0	0.0%	144	7.3%	139	7.0%	5	0.3%	
<i>Invesco (OFI)</i>	135	0	0.0%	135	6.8%	139	7.0%	-4	-0.2%	
<i>Walter Scott</i>	140	0	0.0%	140	7.1%	139	7.0%	1	0.1%	
<i>Northern Trust ACWI IMI Index</i>	188	0	0.0%	188	9.5%	119	6.0%	69	3.5%	
<i>Future US Small Cap Mandate</i>	0	0	0.0%	0	0.0%	60	3.0%	-60	-3.0%	
<i>Future International Small Cap Mandate</i>	0	0	0.0%	0	0.0%	60	3.0%	-60	-3.0%	
<i>Russell Transition</i>	0	0	0.0%	0	0.0%	0	0.0%	0	0.0%	
Emerging Markets Equity	64	0	0.0%	64	3.2%	199	10.0%	-135	-6.8%	
Private Equity*	190	-46	-24.0%	144	7.2%	100	5.0%	44	2.2%	
<b>Fixed Income</b>	<b>563</b>	<b>0</b>	<b>0.0%</b>	<b>563</b>	<b>28.3%</b>	<b>697</b>	<b>35.0%</b>	<b>-134</b>	<b>-6.7%</b>	
Cash	72	0	0.0%	72	3.6%	60	3.0%	12	0.6%	
ST Investment Grade Bonds	217	0	0.0%	217	10.9%	239	12.0%	-21	-1.1%	
Investment Grade Bonds	76	0	0.0%	76	3.8%	80	4.0%	-4	-0.2%	
Global Bonds	0	0	0.0%	0	0.0%	80	4.0%	-80	-4.0%	
Bank Loans	75	0	0.0%	75	3.8%	80	4.0%	-4	-0.2%	
High Yield Bonds	77	0	0.0%	77	3.8%	80	4.0%	-3	-0.2%	
Emerging Markets Debt	38	0	0.0%	38	1.9%	80	4.0%	-42	-2.1%	
Private Debt*	8	0	0.0%	8	0.4%	0	0.0%	8	0.4%	
<b>Real Assets*</b>	<b>468</b>	<b>0</b>	<b>0.0%</b>	<b>468</b>	<b>23.5%</b>	<b>199</b>	<b>10.0%</b>	<b>269</b>	<b>13.5%</b>	
Real Estate*	294	0	0.0%	294	14.8%	100	5.0%	194	9.8%	
Natural Resources*	126	0	0.0%	126	6.3%	100	5.0%	26	1.3%	
Infrastructure*	49	0	0.0%	49	2.4%	0	0.0%	49	2.4%	
<b>Total</b>	<b>2,036</b>	<b>-46</b>	<b>-2.2%</b>	<b>1,990</b>	<b>100.0%</b>	<b>1,990</b>	<b>100.0%</b>	<b>0</b>	<b>0.0%</b>	
Safety Reserve ~\$270M=30 mo net CF	289	0	0.0%	289	14.5%	299	15.0%	-9	-0.5%	
*Private Mkt. Assets w/NAV Discount	666	-46	-6.8%	620	31.2%	299	15.0%	322	16.2%	

Source: Preliminary JP Morgan Custodial Data, Staff Estimates and Calculations

Individual target percentages for Global Equity managers based on Global Equity Structure Review approved by Board.

Numbers may not foot due to rounding



# Public Markets Performance Snapshot - Estimates

Net of fees	Index	Manager	Jun-21			YTD as of 6/30/21		
			Index	Excess		Manager	Index	Excess
<b>Total Public Portfolio (ex-Cash)</b>	<b>60% MSCI ACWI IMI / 40% BBG Global AGG</b>		<b>0.6%</b>	<b>0.4%</b>	<b>0.2%</b>	<b>7.7%</b>	<b>6.1%</b>	<b>1.6%</b>
<b>Global Equity</b>	<b>MSCI ACWI IMI</b>		<b>0.9%</b>	<b>1.2%</b>	<b>-0.3%</b>	<b>13.0%</b>	<b>12.6%</b>	<b>0.4%</b>
Boston Partners	MSCI World		-2.0%	1.5%	-3.4%	18.9%	13.0%	5.9%
Boston Partners vs. value index	MSCI World Value		-2.0%	-1.4%	-0.6%	18.9%	14.7%	4.2%
Manulife	MSCI ACWI		1.1%	1.3%	-0.3%	14.0%	12.3%	1.6%
Invesco (OFI)	MSCI ACWI		2.7%	1.3%	1.4%	11.2%	12.3%	-1.1%
Walter Scott	MSCI ACWI		1.8%	1.3%	0.5%	8.7%	12.3%	-3.7%
Northern Trust MSCI ACWI IMI	MSCI ACWI IMI		1.2%	1.2%	0.0%	9.7%	9.6%	0.1%
<b>EM Equity - RBC</b>	<b>MSCI EM IMI</b>		<b>-1.5%</b>	<b>0.5%</b>	<b>-2.0%</b>	<b>3.5%</b>	<b>8.8%</b>	<b>-5.3%</b>
<b>Public Fixed Income (ex-Cash)</b>	<b>BBG Multiverse TR</b>		<b>0.3%</b>	<b>-0.8%</b>	<b>1.1%</b>	<b>0.6%</b>	<b>-2.9%</b>	<b>3.6%</b>
S/T IG Bonds - IR+M	BBG 1-3YR AGG		-0.1%	-0.2%	0.0%	0.2%	-0.1%	0.3%
IG Bonds - Longfellow	BBG US AGG		0.9%	0.7%	0.2%	-0.7%	-1.6%	0.9%
Bank Loans - Pacific Asset Mmgt	CS Leveraged Loan		0.5%	0.4%	0.0%	3.1%	3.5%	-0.4%
High Yield - Loomis Sayles	BBG USHY 2% Cap		1.2%	1.3%	-0.1%	2.8%	3.7%	-0.9%
EM Debt - Ashmore*	50% JPM EMBI / 25% ELM I / 25% GBI-EM		-0.9%	-0.9%	0.0%	-1.7%	-2.0%	0.4%

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

\* - Ashmore Benchmark performance for prior month is equal to the manager return due to lag in benchmark reporting

# Asset Class Returns – JPM Guide to the Markets

																2006 - 2020	
2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD	Ann.	Vol.
REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Small Cap 20.0%	REITs 22.1%	Large Cap 9.9%	EM Equity 23.3%
EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	EM Equity 18.7%	Comdty. 19.4%	Small Cap 8.9%	REITs 23.1%
DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Large Cap 18.4%	Small Cap 17.4%	High Yield 7.5%	Small Cap 22.6%
Small Cap 18.4%	Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	Asset Alloc. 10.6%	Large Cap 15.1%	REITs 7.1%	DM Equity 19.1%
Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	DM Equity 8.3%	DM Equity 10.2%	EM Equity 6.9%	Comdty. 18.8%
Asset Alloc. 15.0%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Fixed Income 7.5%	Asset Alloc. 9.2%	Asset Alloc. 6.7%	Large Cap 16.7%
High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	High Yield 7.0%	EM Equity 7.8%	DM Equity 5.0%	High Yield 12.2%
Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Cash 0.5%	High Yield 2.1%	Fixed Income 4.5%	Asset Alloc. 11.8%
Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Comdty. -3.1%	Cash 0.0%	Cash 1.2%	Fixed Income 3.2%
Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	REITs -5.1%	Fixed Income -1.7%	Comdty. -4.0%	Cash 0.8%

Source: Barclays, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.  
 Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Bloomberg Barclays Global HY Index, Fixed Income: Bloomberg Barclays US Aggregate, REITs: NAREIT Equity REIT Index, Cash: Bloomberg Barclays 1-3m Treasury. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Bloomberg Barclays US Aggregate, 5% in the Bloomberg Barclays 1-3m Treasury, 5% in the Bloomberg Barclays Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period from 12/31/05 to 12/31/20. Please see disclosure page at end for index definitions. All data represents total return for stated period. The "Asset Allocation" portfolio is for illustrative purposes only. Past performance is not indicative of future returns.  
 Guide to the Markets – U.S. Data are as of June 29, 2021.



## Investment Activity

- Liquidation of private market assets remains the top focus.
  - Received \$76 million in distributions year to date.
  - ~\$25 million from in process sales expected by mid-August.
- Staff continuing evaluation of and engagement with end-of-life private equity funds.
- US Small Cap RFP responses received on May 7<sup>th</sup>. Finalist interviews completed with IAC in June.

# Investment Initiatives – 2021 Quarterly Plan

## July 2021

- Long-Term Asset Allocation Approval and Implementation Discussion
- US Small Cap Manager Selection

## Q3 2021

- Investment Policy Statement Update for Asset Allocation Targets, Ranges and Implementation
- Launch International Small Cap Search/RFP
- Global Equity Structure Review
- EM Equity Structure/Manager Review

## Q4 2021

- International Small Cap Manager Recommendation to Board

# 2021 Board Investment Review Plan\*

*Staff presentations targeted for 15 minutes, Manager presentations 30 – 60 minutes.*

January ✓	• Real Estate Reviews: Vista 7, King's Harbor, & Museum Twr.
February ✓	• Real Estate: Clarion Presentation
March ✓	• Natural Resources: Staff Portfolio Review - Forest Investment Associates and BTG Pactual
April ✓	• Real Estate: AEW Presentation
May ✓	• Natural Resources: Hancock Presentation
August	• Infrastructure: Staff review of AIRRO and JPM Maritime
September	• Staff review of Public Equity managers
October	• Staff review of Public Fixed Income managers
November	• Staff review of Private Equity and Debt

\*Presentation schedule is subject to change.



## DISCUSSION SHEET

### ITEM #C3

**Topic:** Asset Allocation

**Attendees:** Leandro Festino, Managing Principal - Meketa Investment Group

**Discussion:** Meketa and DPFP investment staff will discuss asset allocation feedback from the May 2021 Board meeting, review the Meketa asset allocation presentation from the June Board meeting that included additional mixes for consideration, and review implementation considerations.

**Staff**

**Recommendation:** **Approve** the long-term asset allocation and **direct** staff to bring amendments to the Investment Policy Statement reflecting the updated asset allocation back to the Board for its review and approval.

*Regular Board Meeting – Thursday, July 15, 2021*



# Dallas Police and Fire Pension System

June 2021

2021 Asset Allocation  
Additional Analysis



## Dallas Police and Fire Pension System

### 2021 Asset Allocation – Additional Analysis

#### History

- Meketa, Staff and the Investment Advisory Committee analyzed DFPF's expected future net cash flow requirements, the size of the Safety Reserve®, capital market expectations, liquidity, and other DFPF-specific constraints.
- Robust discussion occurred at the April 2021 special Investment Advisory Committee among Meketa, Staff, and IAC members.
- After much discussion, the IAC favored the asset mix with the largest reduction in the Safety Reserve® and the largest increase in target to public global equity.
- In May 2021, Meketa presented to the Board a comprehensive asset allocation and liability review.
- The Board requested additional analysis on emerging market equities and inclusion of additional asset mix(es) with "market weight" to emerging market equities (vs. the then proposed overweight).





## Dallas Police and Fire Pension System

### 2021 Asset Allocation – Additional Analysis

#### Possible New Target Asset Allocation Policies

	Adjusted NAV 5/31 DPFP Exposure (%)	Existing Target (%)	"Mix B" from May (%)	Mix C (%)	Mix D (%)
Global Equity	37	40	50	53	55
Emerging Market Equity	3	10	10	7	5
Private Equity	7	5	5	5	5
Cash	4	3	3	3	3
Short Term Investment Grade Bonds	11	12	6	6	6
Investment Grade Bonds	4	4	4	4	4
Bank Loans	4	4	4	4	4
High Yield	4	4	4	4	4
Global Bonds	0	4	0	0	0
Emerging Markets Debt	2	4	4	4	4
Private Debt	<1	0	0	0	0
Real Estate	15	5	5	5	5
DPFP Agriculture <sup>1</sup>	6	5	5	5	5
Infrastructure	2	0	0	0	0
<b>Total Exposure</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

<sup>1</sup> Custom DPFP Agriculture input has expected return of 10% and expected standard deviation of 18.2%. Expected return assumption provided by Staff (based on 30-year history with the strategy). Standard deviation of custom DPFP Agriculture based on Meketa's assumed standard deviation of Farmland, but scaled up by the ratio of 1.5 to account for the same degree of increase on the return assumption relative to Meketa's Farmland return assumption. Correlation of Farmland used.



## Dallas Police and Fire Pension System

### 2021 Asset Allocation – Additional Analysis

#### Possible New Target Asset Allocation Policies (continued)

	Adjusted NAV 5/31 DPFP Exposure <sup>1</sup> (%)	Existing Target (%)	"Mix B" from May (%)	Mix C (%)	Mix D (%)
Global Equity	37	40	50	53	55
Emerging Market Equity	3	10	10	7	5
Rest of the Portfolio	60	50	40	40	40
20 Year Expected Return	-	6.45%	6.98%	6.93%	6.89%
10 Year Expected Return	-	5.79%	6.25%	6.19%	6.14%
Expected Standard Deviation	-	12.62%	14.23%	14.10%	14.02%
Sharpe Ratio (20 YR)	-	0.42	0.41	0.41	0.41
Size of Safety Reserve	15%	15%	9%	9%	9%

<sup>1</sup> Expected return projections not run for current exposure because of the uncertainty of outcomes of the legacy assets



## Dallas Police and Fire Pension System

### 2021 Asset Allocation – Additional Analysis

#### Regional Look Through at Full Allocation

	MSCI ACWI IMI (%)	"Mix B" from May (%)	Mix C (%)	Mix D (%)
US and International Developed Equity	88	81	85	87
EM Equity	12	19	15	13

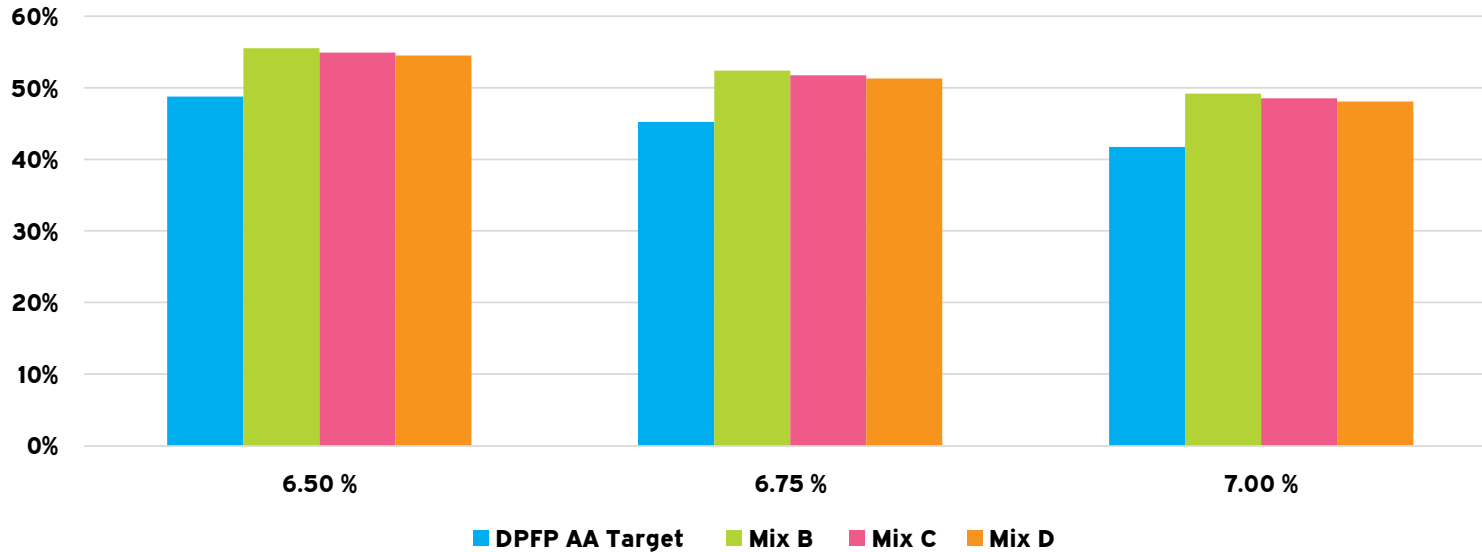
- Assumed Structure:
  - 7% weight to each global equity manager.
  - 4% weight to each small cap manager.
  - Remainder allocated to Northern Trust ACWI IMI Index and RBC as follows:
    - In Mix B: 10% weight to RBC, 14% weight to NT ACWI IMI Index.
    - In Mix C: 7% weight to RBC, 17% weight to NT ACWI IMI Index.
    - In Mix D: 5% weight to RBC, 19% weight to NT ACWI IMI Index.
- Variables/Assumptions:
  - Regional allocations are based on current exposure and may not hold into the future.
  - US small cap manager assumed to be 100% US.
  - International developed small cap equity manager assumed to be 100% non-US developed.
- Caveats:
  - Emerging markets targets above 5% may warrant hiring a complementary strategy to RBC.



Dallas Police and Fire Pension System

2021 Asset Allocation – Additional Analysis

20 Year Return Probability Matrix- w/ 20-year capital market assumptions



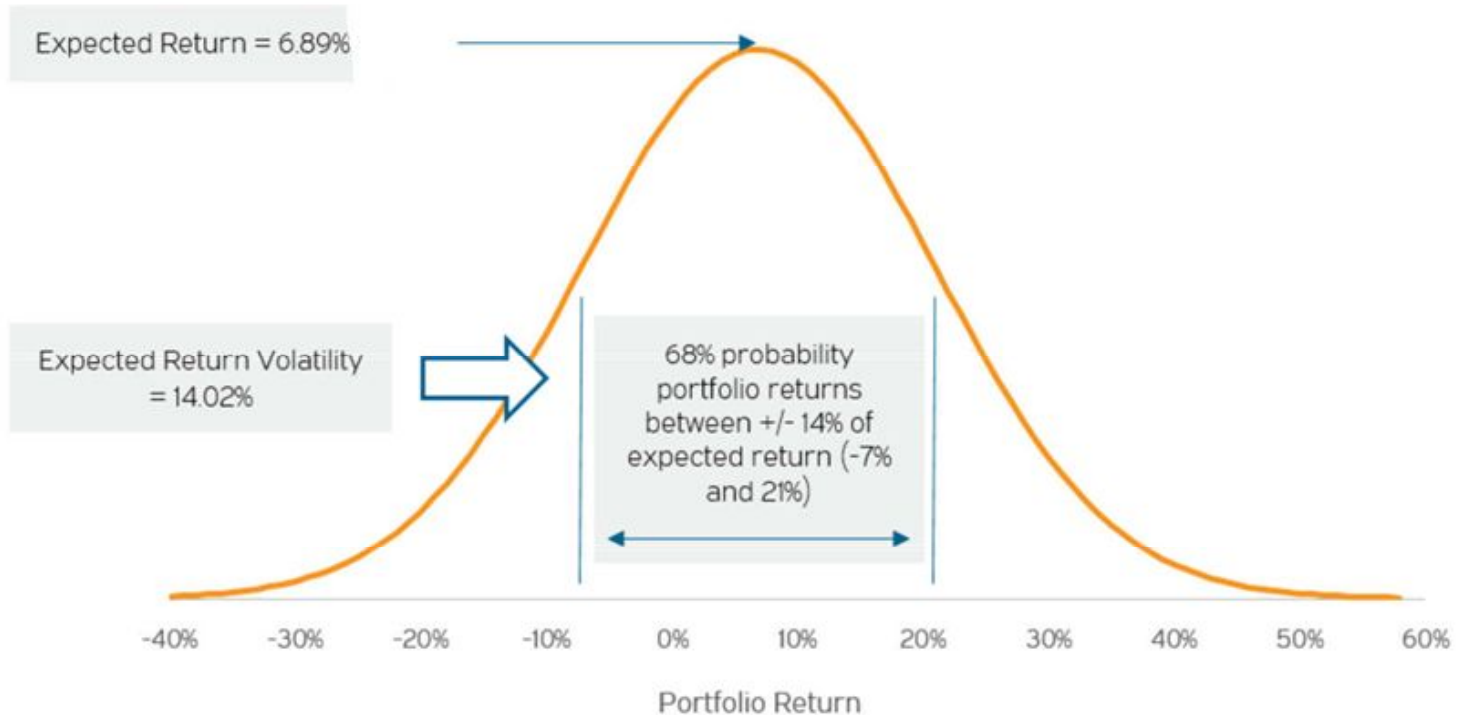
	DPFP AA Target (%)	Mix B (%)	Mix C (%)	Mix D (%)
6.5% or greater	48.8	55.5	54.9	54.5
6.75% or greater	45.2	52.4	51.7	51.3
7.0% or greater	41.7	49.2	48.5	48.1

- There is slightly less than 50% probability of earning 7.0% over twenty years with Mixes B, C and D.



**Dallas Police and Fire Pension System**  
**2021 Asset Allocation – Additional Analysis**

**Return Probability – Normal Distribution**



- There is a 68% probability<sup>1</sup> returns will fall within one standard deviation of the expected return, each year.
- This analysis is based on Mix D. We evaluated the other mixes but the results are not materially different.

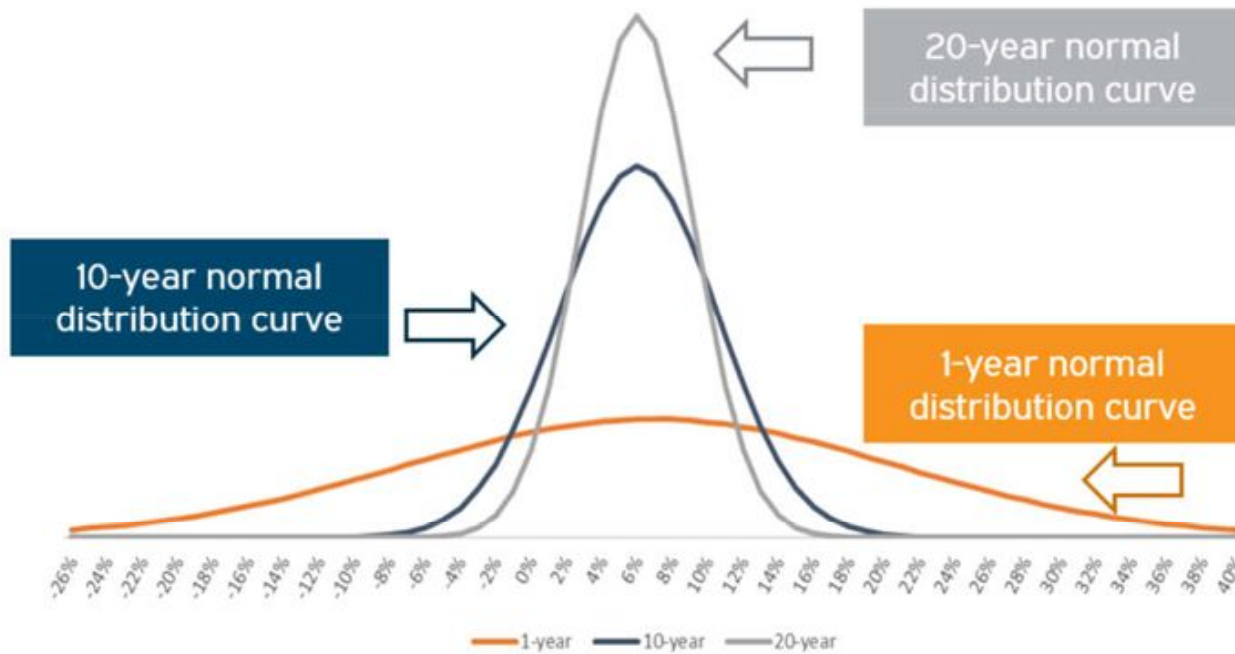
<sup>1</sup> Assuming normal distribution of returns.



## Dallas Police and Fire Pension System

### 2021 Asset Allocation – Additional Analysis

#### 10 and 20 Year Return Probability – Normal Distribution



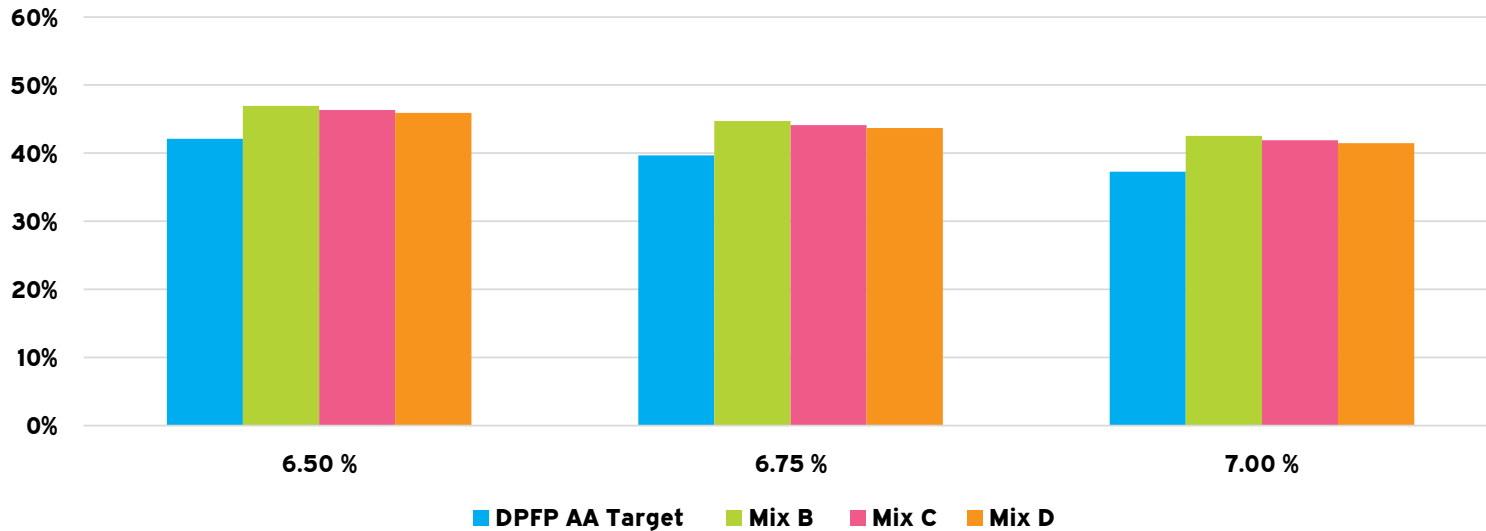
- Over the ten and twenty year periods, the range of outcomes moves closer to the expected return (based on the assumption of normal distribution of returns).



Dallas Police and Fire Pension System

2021 Asset Allocation – Additional Analysis

10 Year Return Probability Matrix- w/ 10-year capital market assumptions



	DPFP AA Target (%)	Mix B (%)	Mix C (%)	Mix D (%)
6.5% or greater	42.1	47.0	46.3	45.9
6.75% or greater	39.7	44.7	44.1	43.7
7.0% or greater	37.3	42.5	41.9	41.5

- The probability of achieving 7.0% over the next ten years (using the ten-year assumptions) is well below 50% for all the mixes.



## Dallas Police and Fire Pension System

### 2021 Asset Allocation – Additional Analysis

#### Summary

- Meketa and Staff consider each proposed allocation option as additive vs. the current Target Policy Allocation for meeting DPFP's investment objectives as defined in the IPS.
- The different weights to emerging market equities in the proposed mixes have a minor impact on expected long-term returns.
- Adjusted for risk, all three proposed mixes appear to be equivalent (similar Sharpe ratio).
- There are attractive and less attractive aspects to each allocation option.
- Meketa will be pleased to elaborate on these observations at the upcoming Board meeting.





## Dallas Police and Fire Pension System

### 2021 Asset Allocation – Additional Analysis

#### Appendix – Probability Matrix

##### Probability of Exceeding Given Return over a 20 Year Period

Return (%)	Probability Based on Current Target Asset Mix (%)	Probability Based on Mix B (%)	Probability Based on Mix C (%)	Probability Based on Mix D (%)
4.00	81	83	83	82
4.50	76	78	78	78
5.00	69	73	73	73
5.50	63	68	67	67
6.00	56	62	61	61
6.50	49	56	55	54
6.75	45	52	52	51
7.00	42	49	49	48

- Probabilities assume no additional return is generated from manager “alpha,” or tactical overweight/underweighting of select target asset classes over twenty-year period.



## Disclaimer

WE HAVE PREPARED THIS REPORT (THIS "REPORT") FOR THE SOLE BENEFIT OF THE INTENDED RECIPIENT (THE "RECIPIENT").

SIGNIFICANT EVENTS MAY OCCUR (OR HAVE OCCURRED) AFTER THE DATE OF THIS REPORT AND THAT IT IS NOT OUR FUNCTION OR RESPONSIBILITY TO UPDATE THIS REPORT. ANY OPINIONS OR RECOMMENDATIONS PRESENTED HEREIN REPRESENT OUR GOOD FAITH VIEWS AS OF THE DATE OF THIS REPORT AND ARE SUBJECT TO CHANGE AT ANY TIME. ALL INVESTMENTS INVOLVE RISK. THERE CAN BE NO GUARANTEE THAT THE STRATEGIES, TACTICS, AND METHODS DISCUSSED HERE WILL BE SUCCESSFUL.

INFORMATION USED TO PREPARE THIS REPORT WAS OBTAINED FROM INVESTMENT MANAGERS, CUSTODIANS, AND OTHER EXTERNAL SOURCES. WHILE WE HAVE EXERCISED REASONABLE CARE IN PREPARING THIS REPORT, WE CANNOT GUARANTEE THE ACCURACY OF ALL SOURCE INFORMATION CONTAINED HEREIN.

CERTAIN INFORMATION CONTAINED IN THIS REPORT MAY CONSTITUTE "FORWARD - LOOKING STATEMENTS," WHICH CAN BE IDENTIFIED BY THE USE OF TERMINOLOGY SUCH AS "MAY," "WILL," "SHOULD," "EXPECT," "AIM", "ANTICIPATE," "TARGET," "PROJECT," "ESTIMATE," "INTEND," "CONTINUE" OR "BELIEVE," OR THE NEGATIVES THEREOF OR OTHER VARIATIONS THEREON OR COMPARABLE TERMINOLOGY. ANY FORWARD-LOOKING STATEMENTS, FORECASTS, PROJECTIONS, VALUATIONS, OR RESULTS IN THIS PRESENTATION ARE BASED UPON CURRENT ASSUMPTIONS. CHANGES TO ANY ASSUMPTIONS MAY HAVE A MATERIAL IMPACT ON FORWARD - LOOKING STATEMENTS, FORECASTS, PROJECTIONS, VALUATIONS, OR RESULTS. ACTUAL RESULTS MAY THEREFORE BE MATERIALLY DIFFERENT FROM ANY FORECASTS, PROJECTIONS, VALUATIONS, OR RESULTS IN THIS PRESENTATION.

PERFORMANCE DATA CONTAINED HEREIN REPRESENT PAST PERFORMANCE. PAST PERFORMANCE IS NO GUARANTEE OF FUTURE RESULTS.



# Asset Allocation Implementation

## Implementation – Pace of Safety Reserve Reduction

### How quickly should we move to implement 6% reduction in Safety Reserve target?

Quarterly cash outflows expected to be ~1.5%. It would take about a year to reduce Safety Reserve by 6% to new target by simply funding cash outflows from this portfolio.

- **Staff recommends implementing the Safety Reserve reduction by end of 2021.** This is a reasonable amount of time to transition out of Safety Reserve through a combination of natural depletion from net benefit outflows and liquid asset reinvestment.
- Target 3% reduction to 12% level by end of Q3 and additional 3% reduction to 9% by end of year.
- Safety Reserve would be reduced from current level to new 9% target by
  - Benefit outflows thru year-end **AND** phased approach to reallocate ~\$61M from Safety Reserve into other liquid asset classes over the course of 2021.
- Staff would initiate monthly withdrawals from IR+M of approximately \$16M per month.

# Implementation – Reallocation Plan

## How to Reallocate Safety Reserve and Private Market Distributions into Liquid Asset Classes:

- Fund roughly equal amounts in Global Equity, EM Equity and EM Debt until:
  - EM Equity reaches 5% (Possible Asset Allocation target to EM Equity, Proposed cap to RBC), and
  - EM Debt reaches 4% target, then
  - Any excess flows into Global Equity.

# Safety Reserve Reduction / Reallocation thru Year End

Asset Allocation	6/30/2021 Adj. NAV		A	B	C	D	12/31/2021		Possible New Target
	\$ (M)	%	Net Benefit Outflows	Additional Safety Reserve Liquidation	Projected Private Market Distributions	Cash Redeployment	\$ (M)	%	%
<b>Equity</b>	<b>\$959</b>	<b>48.2%</b>			<b>(\$3)</b>	<b>\$119</b>	<b>\$1,075</b>	<b>55.5%</b>	<b>65%</b>
Global Equity	\$751	37.8%				\$86	\$837	43.2%	53%/55%
Emerging Markets Equity	\$64	3.2%				\$33	\$97	5.0%	7%/5%
Private Equity*	\$144	7.2%			<b>(\$3)</b>		\$141	7.3%	5%
<b>Fixed Income</b>	<b>\$563</b>	<b>28.3%</b>	<b>(\$54)</b>	<b>(\$61)</b>	<b>(\$6)</b>	<b>\$42</b>	<b>\$484</b>	<b>25.0%</b>	<b>25%</b>
Cash	\$72	3.6%	<b>(\$14)</b>				\$58	3.0%	3%
ST Investment Grade Bonds	\$217	10.9%	<b>(\$40)</b>	<b>(\$61)</b>			\$116	6.0%	6%
Investment Grade Bonds	\$76	3.8%				\$1	\$77	4.0%	4%
Bank Loans	\$75	3.8%				\$2	\$77	4.0%	4%
High Yield Bonds	\$77	3.8%					\$77	4.0%	4%
Emerging Markets Debt	\$38	1.9%				\$39	\$77	4.0%	4%
Private Debt*	\$8	0.4%			<b>(\$6)</b>		\$2	0.1%	0%
<b>Real Assets*</b>	<b>\$468</b>	<b>23.5%</b>			<b>(\$91)</b>		<b>\$377</b>	<b>19.5%</b>	<b>10%</b>
Real Estate*	\$294	14.8%			<b>(\$80)</b>		\$214	11.0%	5%
Natural Resources*	\$126	6.3%			<b>(\$6)</b>		\$120	6.2%	5%
Infrastructure*	\$49	2.4%			<b>(\$5)</b>		\$44	2.3%	0%
<b>NET ASSET VALUE</b>	<b>\$1,990</b>	<b>100.0%</b>	<b>(\$54)</b>	<b>(\$61)</b>	<b>(\$100)</b>	<b>\$161</b>	<b>\$1,936</b>	<b>100.0%</b>	<b>100%</b>
Safety Reserve	\$289	14.5%	<b>(\$54)</b>	<b>(\$61)</b>			\$174	9.0%	9%
Private Markets*	\$620	31.2%			<b>(\$100)</b>		\$520	26.9%	15%

- A) \$54M liquidation in Safety Reserve to pay net benefit outflows thru year-end
- B) \$61M liquidation from Safety Reserve over course of year to fund Equity and EM Debt reinvestment
- C) \$100M in estimated private market distributions thru year-end to be redeployed
- D) \$161M (\$61M + \$100M) redeployed into Global Equity, EM Equity (up to 5%) and EM Debt up to 4% target. Small rebalancing redeployments into other Fixed Income asset classes.

## Asset Allocation Next Steps

- Update Investment Policy Statement to reflect new Asset Allocation targets, ranges, implementation - August Board
- Update Global Equity Structure Study based on increased target - Q3 2021
- Possible EM Equity Structure Review based on ultimate target allocation. - Q3/Q4 2021
- International Small Cap Search - Q3/Q4 2021



## DISCUSSION SHEET

### ITEM #C4

**Topic:** January 1, 2021 Actuarial Valuation Assumptions

**Discussion:** An Actuarial Valuation is performed to determine whether the assets and contributions are sufficient to provide the prescribed benefits and it is an important part of the annual financial audit. Segal Consulting is preparing the January 1, 2021 Actuarial Valuation for the Regular Plan (Combined Plan) and the Supplemental Plan. Many economic and demographic assumptions are required to prepare the valuation. Pursuant to Article 16, Section 67 (f)(3) of the Texas Constitution, the Board determines the assumptions used in the valuation.

Segal presented a five-year Review of Actuarial Experience at the May 2020 Board meeting and based on that study, Segal recommended modifications to certain economic and demographic assumptions. Based on the Actuarial Experience Review and the recommendations of Segal, the Board revised the assumptions used to prepare the January 1, 2020 Actuarial Valuation. In addition, the Board lowered the discount rate/assumed rate of return from 7.25% to 7.00% for the January 1, 2020 Actuarial Valuation.

*Regular Board Meeting – Thursday, July 15, 2021*



## DISCUSSION SHEET

### ITEM #C4 (continued)

At the June 2021 Board Meeting the Actuary, Jeff Williams from Segal Consulting, discussed the assumptions for the January 2021 valuations and recommended no changes from the Assumptions used in the prior actuarial valuation except for possible consideration of lowering the 7% assumed rate of return. Mr. Williams presented the impact to DPF's funding level at various lower rates. The report from the June meeting has been provided with this agenda item.

#### **Staff**

**Recommendation:** Direct Segal to use its recommended assumptions in preparing the January 1, 2021 Actuarial Valuation for the Regular Plan (Combined Plan) and the Supplemental Plan and give Segal further direction on the assumed rate of return to be used.



Jeffrey S. Williams  
Vice President and Actuary  
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Atlanta, GA 30339-4053  
segalco.com

## Memorandum

**To:** Board of Trustees - Dallas Police & Fire Pension System

**From:** Jeffrey S. Williams, Vice President and Actuary

**Date:** June 4, 2021

**Re:** Discount Rate Assumption for January 1, 2021 Actuarial Valuation

The chart on the following page shows the impact of 0.25% drops in the discount rate/long-term investment return assumption from 7.00% to 6.00% based on the results of the January 1, 2020 actuarial valuation. Actual results will differ for the January 1, 2021 actuarial valuation, but the relative impact of each 0.25% drop in the discount rate should be approximately the same.

Each 0.25% decline in the discount rate represents increases of approximately 6.8% to 6.9% in the total normal cost, 2.7% to 2.8% in the actuarial accrued liability, and 4.4% to 4.5% in the actuarial determined contribution. The funding ratio on the market value of assets decreases approximately 110 to 114 basis points and on the actuarial value of assets decreases approximately 115 to 120 basis points for each 0.25% decline in the discount rate.

The actuarial calculations were completed under my supervision. I am a member of the American Academy of Actuaries and meet the Qualification Standards of the American Academy of Actuaries to render this actuarial opinion.

cc: Kelly Gottschalk  
Brenda Barnes  
Caitlin Grice - Segal

# Impact of Discount Rate Change on Total Recommended Contribution

Description	January 1, 2020 Valuation Results	Discount Rate Change to 6.75%	Discount Rate Change to 6.50%	Discount Rate Change to 6.25%	Discount Rate Change to 6.00%
1 Actuarial Accrued Liability (AAL)	\$4,723,972,480	\$4,851,136,772	\$4,981,917,597	\$5,118,891,463	\$5,262,443,801
2 Actuarial Value of Assets (AVA)	<u>2,160,125,611</u>	<u>2,160,125,611</u>	<u>2,160,125,611</u>	<u>2,160,125,611</u>	<u>2,160,125,611</u>
3 Unfunded Actuarial Accrued Liability (UAAL): [(1) – (2)]	\$2,563,846,869	\$2,691,011,161	\$2,821,791,986	\$2,958,765,852	\$3,102,318,190
4 Employer Normal Cost	15,495,082	19,609,463	24,022,785	28,797,445	33,965,045
5 Payment on UAAL	163,765,670	167,967,114	172,056,224	176,177,182	180,332,715
6 <b>Total Recommended Contribution, Adjusted for Timing: [(4) + (5) + Interest]</b>	<b>\$185,428,764</b>	<b>\$193,803,916</b>	<b>\$202,351,257</b>	<b>\$211,283,009</b>	<b>\$220,633,048</b>
7 Recommended Contribution as a % of Projected Payroll	46.71%	48.82%	50.98%	53.23%	55.58%
8 Projected Payroll	\$396,954,743	\$396,954,743	\$396,954,743	\$396,954,743	\$396,954,743
9 <b>Funded Ratio – AVA Basis</b>	<b>45.73%</b>	<b>44.53%</b>	<b>43.36%</b>	<b>42.20%</b>	<b>41.05%</b>
10 <b>Funded Ratio – MVA Basis*</b>	<b>43.56%</b>	<b>42.42%</b>	<b>41.31%</b>	<b>40.20%</b>	<b>39.10%</b>

For each scenario, all assumptions, plan provisions, and methods used are the same as those used in the January 1, 2020 valuation, other than the discount rates as noted

\* Based on market value of assets of \$2,057,857,317 as of January 1, 2020



## **DISCUSSION SHEET**

### **ITEM #C5**

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

**Discussion:** The Investment Advisory Committee met on June 24, 2021 and June 30, 2021. The Committee Chair and Investment Staff will comment on Committee observations and advice.

*Regular Board Meeting – Thursday, July 15, 2021*



## DISCUSSION SHEET

### ITEM #C6

**Topic:** US Small Cap Equity Manager Recommendation

**Discussion:** Working with Meketa, staff has conducted a search for a US Small Cap Core equity manager. The Investment Advisory Committee provided advice regarding the search and interviewed two finalists. Staff and Meketa will discuss the search process and the recommendation.

**Staff**

**Recommendation:** Available at meeting.

*Regular Board Meeting – Thursday, July 15, 2021*

**Eastern Shore Capital Management - Small Cap Core**

Updated as of 7/15/21



<b>PROPOSED NEW INVESTMENT</b>	
1) Name of investment and manager	Moody Aldrich - Eastern Shore Small Cap Core
2a) DPFP Asset Class	Global Equity
2b) Asset class allocation / target	38% current / 40% target
3a) DPFP Sub-Asset Class	US Small Cap
3b) Sub-Asset class allocation / target	0% current / 4% target
4) Proposed investment size	\$80M - 4% of DPFP
5) Projected funding date and schedule	Initial funding targeted by end of July 2021
<b>INVESTMENT STRATEGY/STRUCTURE</b>	
1) Investment strategy	US Small Cap Core focused on quality fundamentals, slight growth tilt.
2) Total fund or strategy size	\$911M
3) Firm assets under management	\$937M
4) Investment Legal Structure	Separately managed account
5) Liquidity	2 days
6) Proposed Benchmark	Russell 2000
7) Peer Group	eVestment US Small Cap Core Equity
<b>DUE DILIGENCE INFO</b>	
1) Staff meetings with manager	Staff interview 6/8/21, IAC interview 6/24/21
2) Consultant Recommendation	Attached
3) Staff Recommendation	Attached
4) IAC Approval Date	6/30/2021
5) Expected Board Approval Date	7/15/2021




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## US SMALL CAP SEARCH

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Date: July 15, 2021  
 To: DFPF Board of Trustees  
 From: DFPF Investments Staff  
 Subject: US Small Cap Manager Recommendation

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### **Recommendation**

Staff recommends hiring Moody Aldrich – Eastern Shore to actively manage the allocation to US Small Cap Equity within the Global Equity allocation. Staff expects the allocation to be 4% based on the proposed increase to the overall Global Equity target allocation. At current DFPF asset values, the 4% allocation would equate to approximately \$80 million and would be funded from a combination of the Northern Trust Passive Global Equity Fund, future cash flows from private market liquidations and rebalancing from the Safety Reserve. Members of the Investment Advisory Committee and Meketa concur with the recommendation. Detailed reference information and analysis is attached.

### **Information required by section 7.A.6 of the Investment Policy.**

The following is a summary of information required by section 7.A.6 of the Investment Policy. Expanded information is available in attached documentation.

#### **a. A description of the organization and key people:**

Eastern Shore is based in Marblehead, MA and was founded in 2007. The firm solely focuses on small cap equity and has \$937M in assets and 10 employees. The three Eastern Shore portfolio managers own 45% of the firm, with Moody Aldrich owning the other 55%. Additional information is available in attached documents.

#### **b. A description of the investment process and philosophy;**

Eastern Shore believes that companies with quality fundamentals will outperform the broader market over the long-term while exhibiting lower volatility. The cornerstone of Eastern Shore's approach is the "Quality Anomaly", a market phenomenon that refers to the consistent mispricing of quality companies that leads to outperformance over time. Higher quality stocks tend to have lower volatility and lower risk of capital loss; this unexpected risk/return trade-off has persisted through many market cycles and is especially prominent among small capitalization companies.



**c. A description of historical performance and future expectations;**

The investment portfolio is focused on quality companies and has a slight growth tilt. Eastern Shore expects the strategy to keep pace in up markets and outperform in down markets. Eastern Shore has exhibited solid long-term performance returning 12.97% over the 10-year period ending March 31, 2021, as compared to a benchmark return of 11.68%, ranking the strategy in the 41<sup>st</sup> percentile compared to the US Small Cap Core universe. Over the trailing one-year period, as of 3/31/21, Eastern Shore underperformed the benchmark by over 25% (66% vs. 95%). Recent underperformance is due to the quality bias in the portfolio which lagged during the recent market beta rally. The long-term tracking error compared to the Russell 2000 benchmark is 4-6%.

**d. The risks inherent in the investment and the manager's approach;**

Due to the quality bias and growth tilt, the strategy may experience periods of underperformance compared to their benchmark. The Small Cap Equity strategy may have difficulty keeping up with the benchmark in highly speculative market rallies. Stocks with characteristics such as low price, low or negative ROE, non-earning companies, and micro-caps tend to lead these rallies and for the most part do not meet the criteria underpinning our investment process. These conditions occurred during the last three quarters of 2020 and the first quarter of 2021 when lower quality, higher beta companies rallied off of the pandemic-driven March lows.

**e. The proper time horizon for evaluation of results;**

Staff views trailing 3-year and 5-year perspectives as the appropriate time horizon for evaluation.

**f. Identification of relevant comparative measures such as benchmarks and/or peer samples;**

The benchmark is the Russell 2000 Index. Eastern Shore will be compared to the US Small Cap Core Equity peer universe.

**g. The suitability of the investment within the relevant asset class; and**

Eastern Shore is suitable for the US Small Cap Equity sleeve of the Global Equity allocation.

**h. The expected cost of the investment.**

Staff expects the annual fees to be \$571,500.





D A L L A S  
POLICE & FIRE  
PENSION SYSTEM



# US Small Cap Equity Search Process & Finalist Recommendation

*July 15, 2021*

# US Small Cap Search Screen Process



RFPs were sent to the following managers and all were received by the deadline of Friday May 7<sup>th</sup>.

1. Aristotle Capital Small Cap Equity
2. EARNEST Partners Small Cap Core
3. Fuller & Thaler Small Cap Core
4. GW&K Small Cap Core
5. Moody Aldrich - Eastern Shore Small Cap Equity Core
6. PanAgora US Small Cap Core Stock Selector
7. Silvercrest US Small Cap Opportunity

# US Small Cap Search Interview Process



After reviewing the RFPs, the following managers were interviewed for one hour each between June 7<sup>th</sup> and June 9<sup>th</sup>

1. EARNEST Partners Small Cap Core
2. GW&K Small Cap Core
3. Moody Aldrich - Eastern Shore Small Cap Equity Core
4. Silvercrest US Small Cap Opportunity

After the interviews, the following managers were selected as finalist candidates

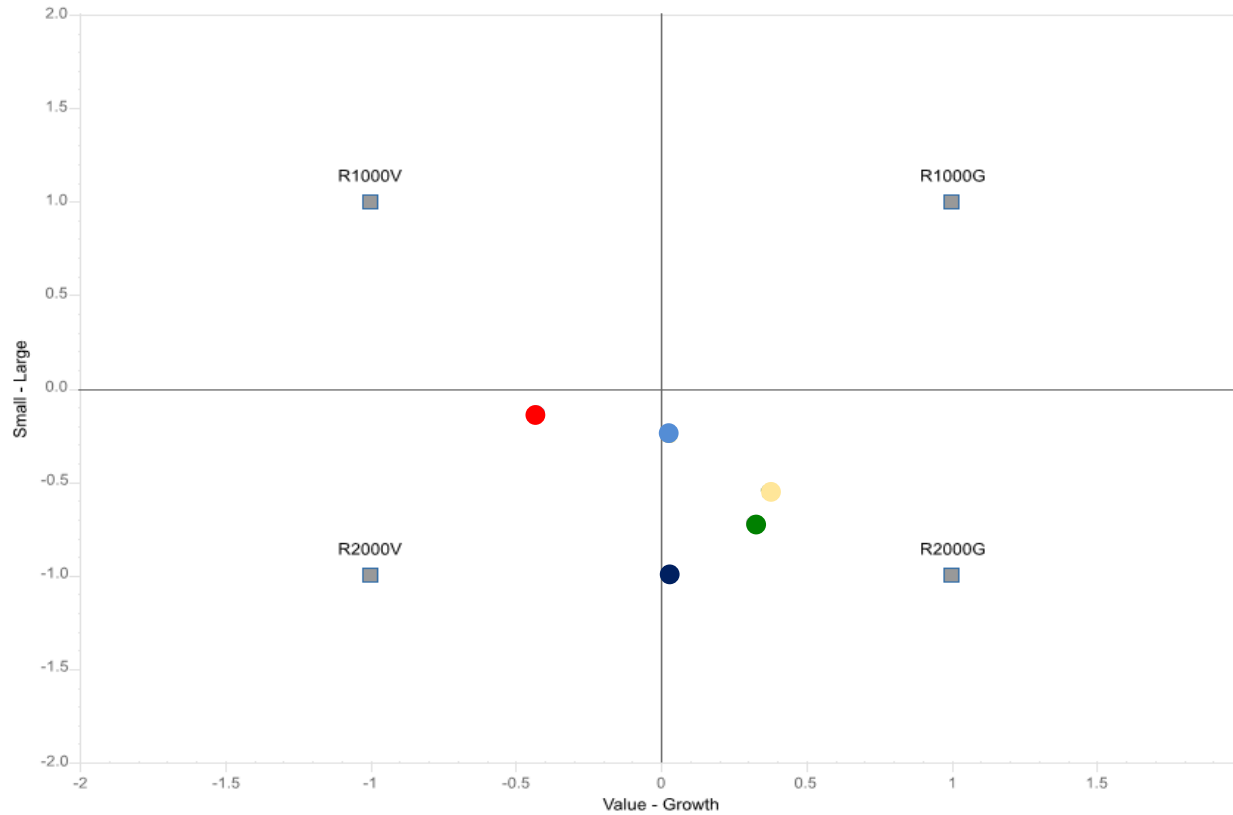
1. GW&K Small Cap Core
2. Moody Aldrich - Eastern Shore Small Cap Equity Core

# FINALISTS OVERVIEW AND PERFORMANCE COMPARISON

# GW&K vs. Eastern Shore Comparison

	GW&K	Moody Aldrich – Eastern Shore
<b>Firm AUM:</b>	\$45B	\$937MM
<b>Product AUM:</b>	\$3.2B	\$911MM
<b>Capacity:</b>	Nearing Soft-close with capacity held for DFPF	\$3.0B
<b>Strategy Inception:</b>	2000	2007
<b>Employee Ownership:</b>	GW&K employees own 30%	Eastern Shore PM's own 45%
<b>Firm Diversity:</b>	10% of GW&K partners are women 10% of employees are people of color	10% woman owned 8% Veteran owned
<b>Investment Team:</b>	Lead PM with 4 analysts	CIO with 2 Portfolio Managers
<b>Philosophy/Process:</b>	True Core composition (avoids deep-value & momentum-oriented stocks), Quantitative screen, Focus on long-term sustainable earnings	Modest Growth tilt, Quantitative screen, Focus on quality fundamentals (established and improving)
<b># of Holdings:</b>	82	98
<b>Annual Turnover (LTM):</b>	36.9%	97.1%
<b>Active Share:</b>	91.9%	87.1%
<b>Performance:</b>	Very consistent, above median in 3, 5 and 10-yr	Good long-term performance, 1-yr underperformance
<b>Meketa Bullpen:</b>	Yes	Yes

# Semi-Finalist 5-yr Style Summary (as of 3/31/21)



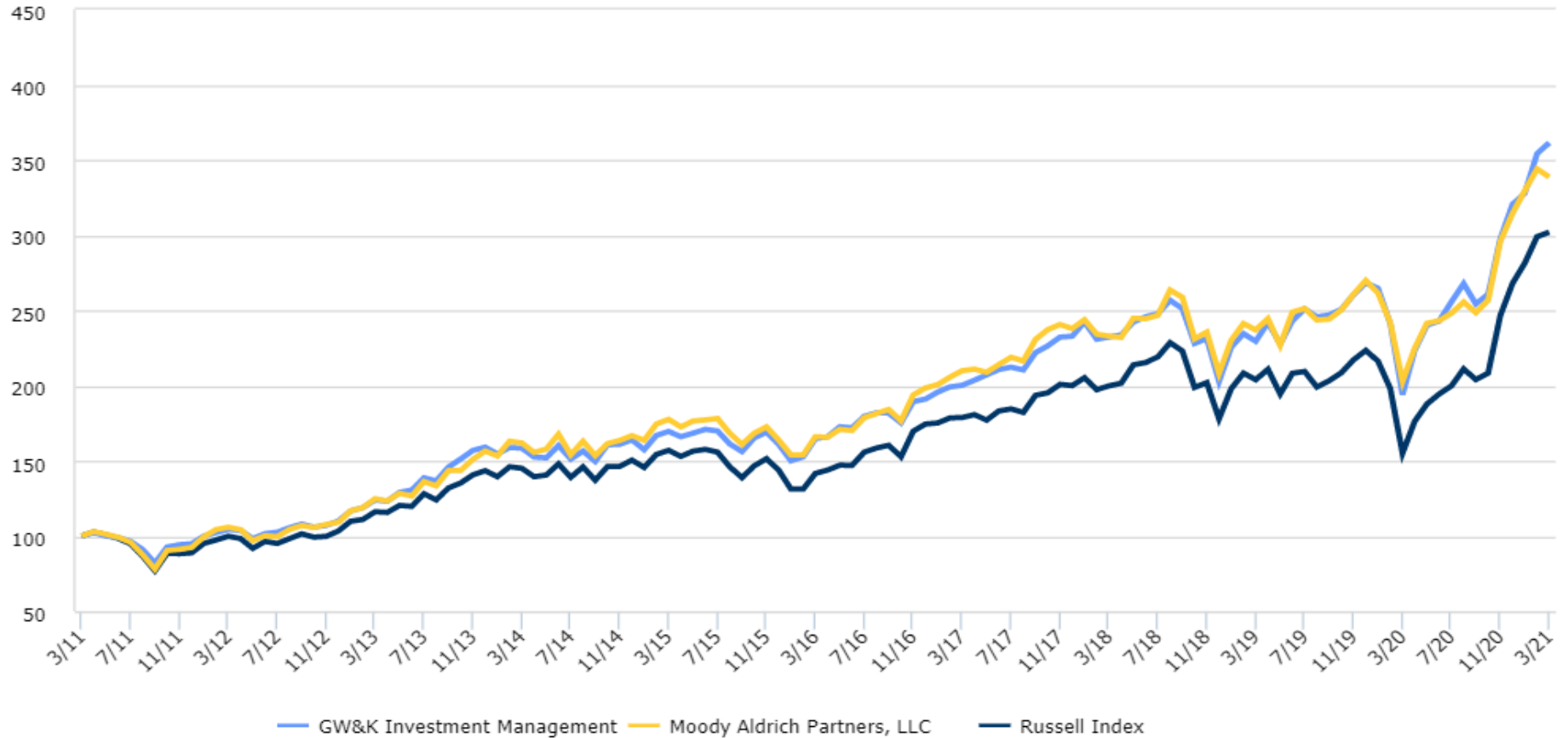
Source: eVestment

- EARNEST Partners - Small Cap Core
- Moody Aldrich: Eastern Shore Capital Management Small Cap Equity Composite
- GW&K Investment Management, LLC - Small Cap Core Composite
- Silvercrest Asset Management Group LLC - U.S. Small Cap Opportunity
- Russell 2000 - Total Return

**Value/Growth:**

- Earnest has a value tilt relative to the Russell 2000
- Eastern Shore and Silvercrest have a growth tilt relative to the Russell 2000
- GW&K has a core style composition as compared to the Russell 2000

# Finalists - Growth of \$100 (Trailing 10-yr)

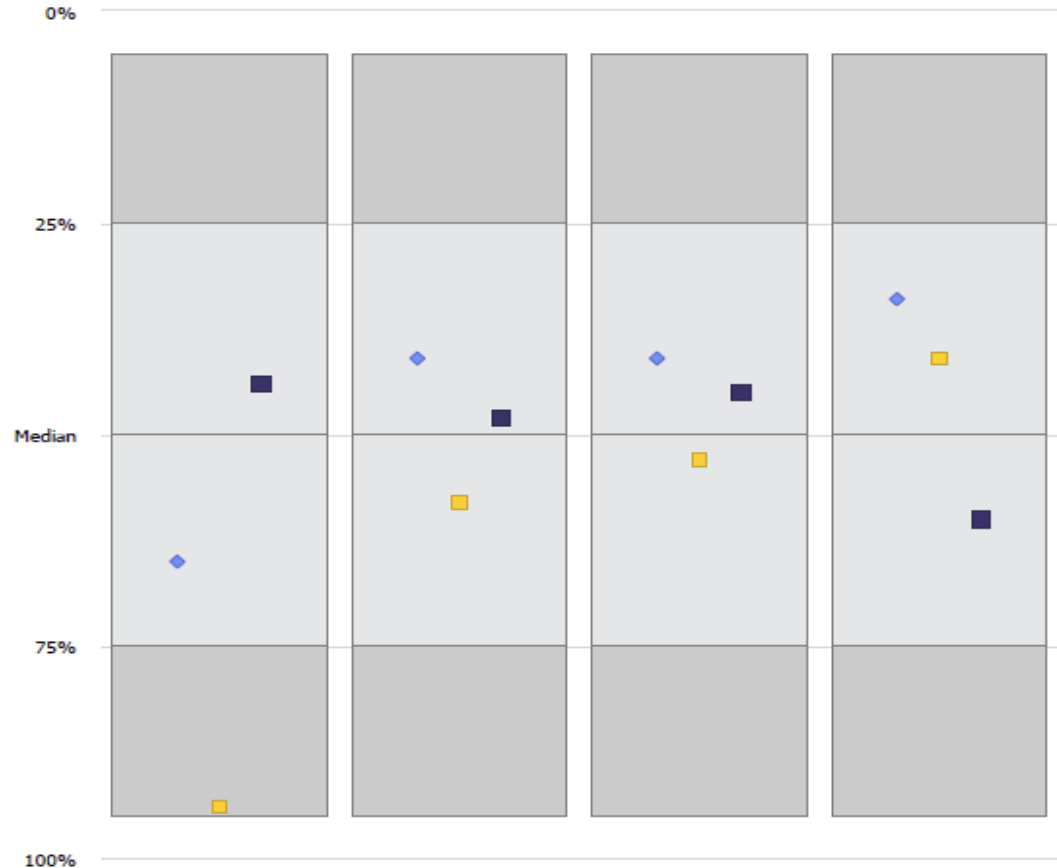


Source: eVestment

Over the long run, both GW&K and Eastern Shore have outperformed the Russell 2000

# Finalists – Performance Annualized Returns (as of 3/31/21)

Underperformance in 1-yr trailing returns are due to portfolios with focus on quality companies during an aggressive bull market led by junkier COVID names. End point bias a factor.



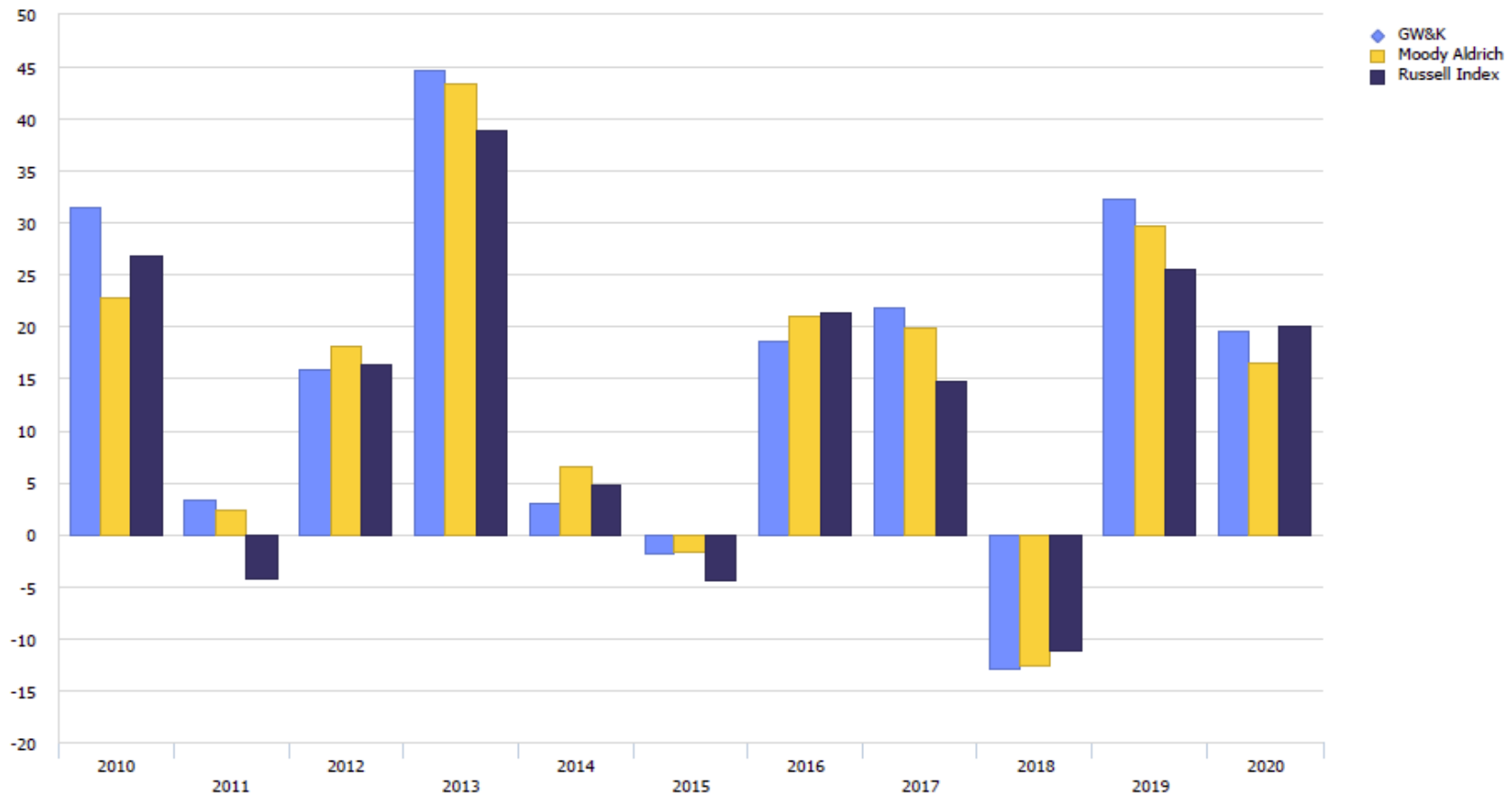
	1 Year		3 Years		5 Years		10 Years	
		Rk		Rk		Rk		Rk
◆ GW&K Investment Management: Small Cap Core Strategy	86.35	65	15.88	41	17.02	41	13.71	34
■ Moody Aldrich Partners, LLC: Eastern Shore Capital Management Small Cap Equity Composite	66.98	94	13.29	58	15.32	53	12.97	41
■ Russell Index: Russell 2000	94.85	44	14.76	48	16.35	45	11.68	60

Source: eVestment





# Finalists – Performance Calendar Year



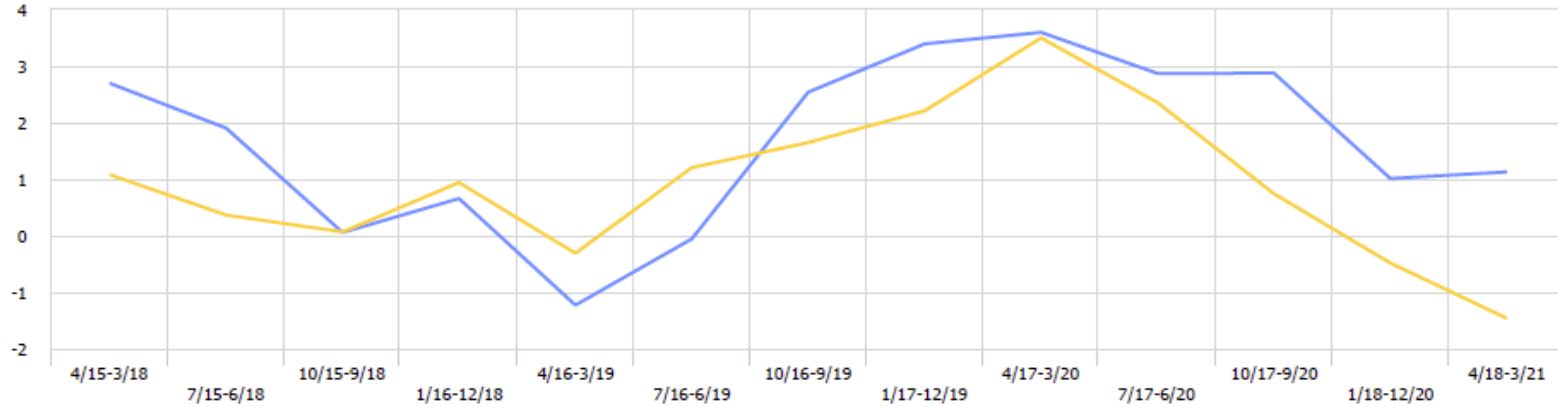
Firm Name	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
GW&K Investment Management	31.58	3.27	15.95	44.68	3.05	-1.83	18.71	21.88	-12.90	32.28	19.51
Moody Aldrich Partners, LLC	22.77	2.49	18.14	43.37	6.52	-1.73	21.13	19.89	-12.54	29.72	16.54
Russell Index	26.85	-4.18	16.35	38.82	4.89	-4.41	21.31	14.65	-11.01	25.53	19.96

Source: eVestment

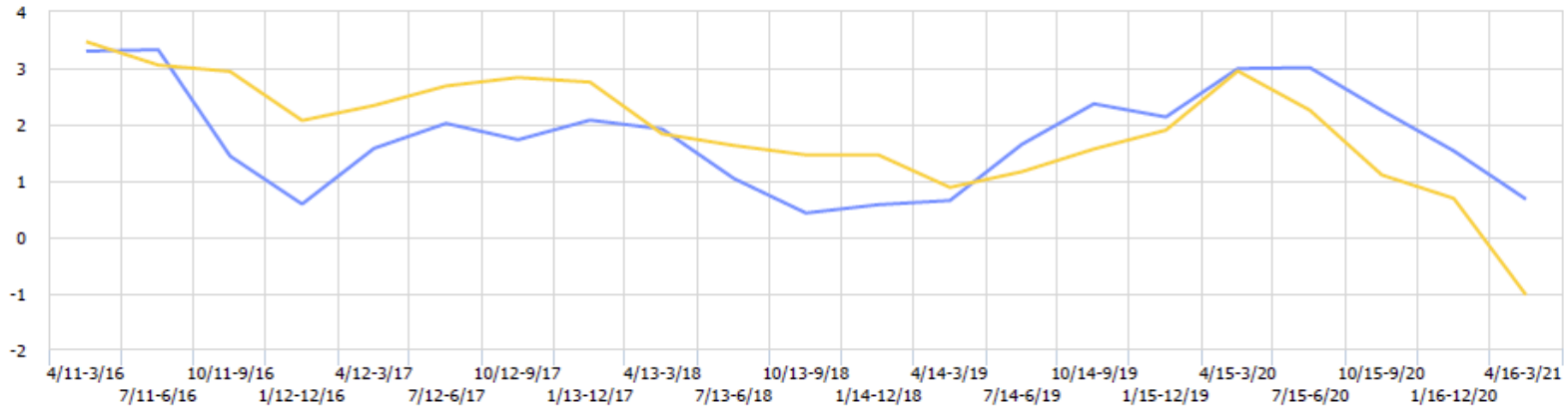


# Finalists – Rolling Excess Returns

**Rolling 3 Yrs.  
Excess Returns**



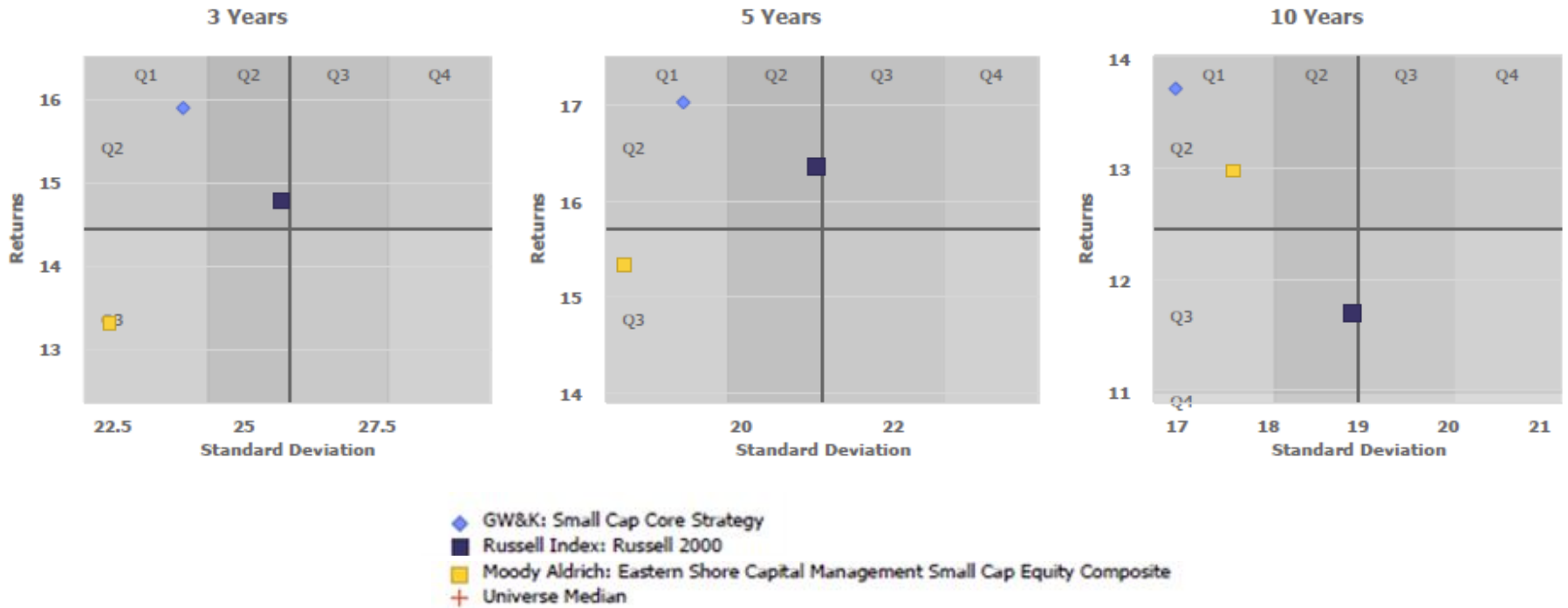
**Rolling 5 Yrs.  
Excess Returns**



Source: eVestment

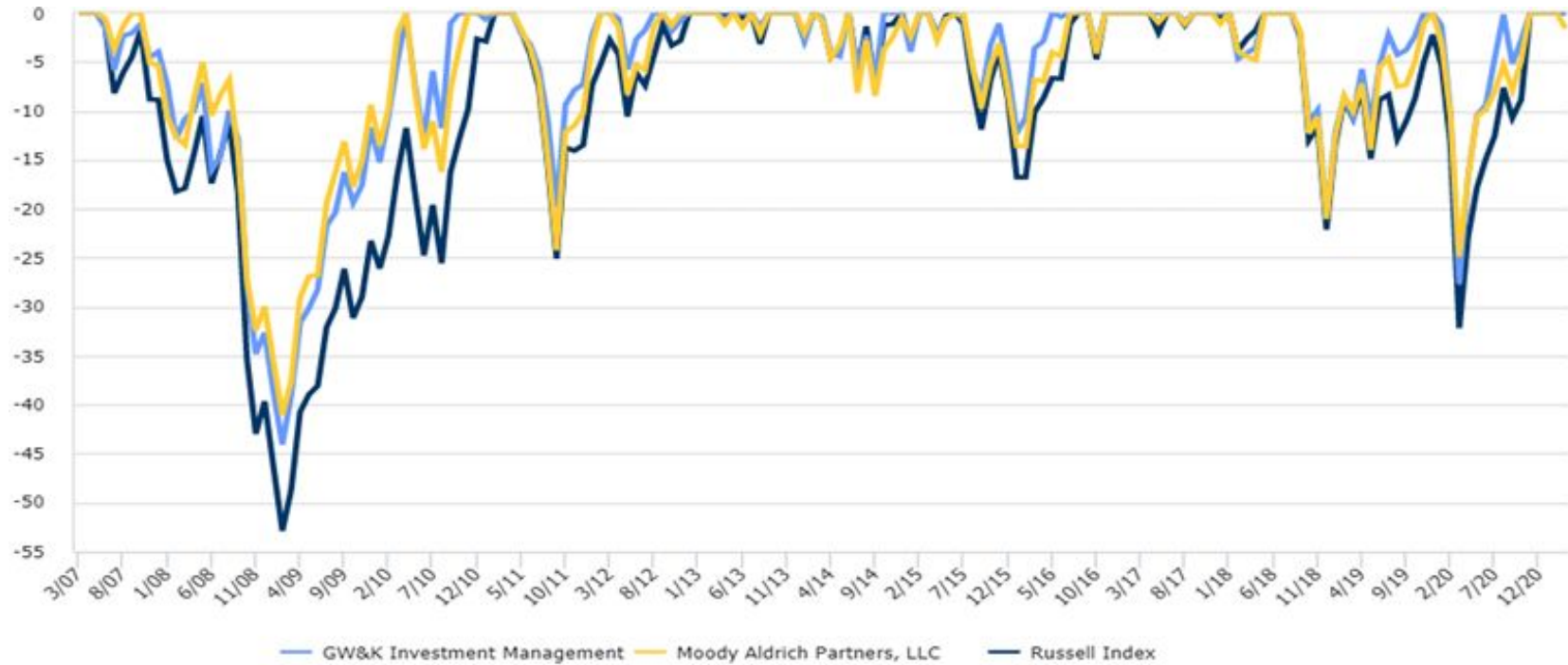
◆ GW&K      ■ Moody Aldrich

# Finalists – Return vs. Risk (as of 3/31/21)



Source: eVestment

# Finalists – Drawdown Insights



Source: eVestment

	GW&K	Moody Aldrich - Eastern Shore
<b>Max Drawdown:</b>	44.1	41.1
<b>Downside Market Capture:</b>	83.7	86.7
<b>Max Drawdown Length:</b>	21	16

Both managers have lower downside capture as compared to Russell 2000



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Suite 110  
Carlsbad, CA 92008

760.795.3450  
Meketa.com

## MEMORANDUM

**TO:** Investment Staff, Dallas Police & Fire Pension System  
**FROM:** Leandro Festino, Aaron Lally, Alli Wallace, Sidney Kawanguzi, Meketa Investment Group  
**DATE:** June 30, 2021  
**RE:** DPFP US Small Cap Core Manager Search Review

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### Background

At the December 2020 meeting, the DPFP Board approved the addition of a dedicated US small cap mandate, among other changes, to the Global Equity portfolio structure. In this document we provide a high-level review of the process followed by Staff in conjunction with Meketa under the guidance of the Investment Advisory Committee (IAC). The IAC will be recommending a manager to the Board.

### Manager Search Process

- February 2021 - In advance of the search, Staff and Meketa discussed and laid out the manager search process, including minimum requirements and evaluation criteria to ensure a robust and competitive process. These requirements and criteria are listed in the appendix to this document.
- March 2021 -
  - The IAC approved of the search process laid out and provided comments on emerging and minority-led managers for Staff to consider during the search.
  - Staff, using eVestment, came up with a list of 35 managers. Independently, Meketa identified from our ongoing manager research efforts, four high conviction managers (including GW&K and Eastern Shore) and six additional managers for DPFP's consideration.
  - On a conference call with Staff, Meketa gave high level views on the managers on the combined list, noting the ones with whom we are not familiar and therefore had no views.
- April 2021 -
  - Based on Staff's own reviews and Meketa's comments from the conference call, Staff narrowed down the list to seven.
  - Staff and Meketa reconvened to discuss the managers on the shortlist in greater detail. Meketa provided staff with one-pagers on each manager.
  - Staff updated the IAC on the progress made. The IAC supported issuing an RFP to the shortlisted managers and noted a preference for Staff to narrow down to 2-4 finalists to be interviewed by them.



June 30, 2021

- May 2021 - RFP issued, with all seven shortlisted firms responding. Staff reviewed the managers' responses and eliminated three candidates. Staff shared their views with Meketa, and also received Meketa's views on both eliminated and surviving managers.
- June 2021 -
  - Staff interviewed all four finalists. Meketa participated in interviewing Silvercrest, the only respondent that Meketa did not have coverage of.
  - Staff's analysis and reviews narrowed down the list to two finalists, Eastern Shore and GW&K. Meketa concurred with Staff. Both managers were on Meketa's original list of high conviction managers.
  - The IAC interviewed both Eastern Shore and GW&K at the June meeting, and after discussion and deliberation, voted to recommend that the Board hire Eastern Shore to manage the mandate.

### Summary

DPPF Investment Staff have carried out a thoughtful robust process to identify qualified firms to manage the US Small Cap mandate the Board approved. The process has been well documented, carried out under the guidance of the IAC and with extensive collaboration with Meketa. We believe that Staff, the IAC and Meketa's efforts on this search are in line with guidance provided in the Investment Policy Statement (IPS).

Meketa supports the recommendation to hire Eastern Shore, a high conviction manager in our bullpen.

We would be pleased to elaborate on this topic when we attend the July Board of Trustees meeting. In the meantime, if we can be of assistance, please don't hesitate to contact us at (760) 795-3450.



## APPENDIX

### Minimum Requirements:

1. Five-year product track record
2. Compliance with Global Investment Performance Standards (GIPS)
3. Clean legal and regulatory track record for past five years

### Evaluation Criteria focused on:

1. Separate account or commingled fund allowed
2. Small cap exposure preferred vs. SMID
3. Preference for "near-core" style
4. Clearly defined investment philosophy and process that engenders DPFP staff conviction
5. Clearly defined risk controls
6. Product AUM > \$200 million or higher with a diversified client base
7. Available product capacity >\$50 million
8. Capacity controls and limits
9. Organization strength and stability
10. Investment Team strength and stability
11. Risk measures including volatility, tracking error, absolute drawdown, and relative drawdown vs. benchmark index
12. Fit/diversification with existing DPFP public equity portfolio
13. Risk-adjusted alpha
14. Risk and Performance evaluation, including cumulative and rolling 3- and 5-year analysis
15. Quality of investment reporting to appropriately explain positioning and drivers of performance (absolute and relative)
16. Fees relative to the reporting universe, candidates under consideration and as a percentage of projected risk-adjusted alpha

LF/AL/AW/SK/sf

**DPFP US and Non-US Small Cap Equity Searches 2021****1) Search Process Definition**

- a) Section 7.A of the Investment Policy Statement (IPS) establishes guidelines and requirements for investment manager search and selection.
- b) IPS section 7.A.4 states that Staff and Consultant shall define and document the search process, including evaluation criteria, prior to initiating the search process.
- c) IPS sections 5.B.2.b and 7.A.3 establishes a requirement that the Investment Advisory Committee (IAC) will advise regarding the search and selection process for investment managers.

**2) Initial Screening**

- a) Meketa will recommend a preliminary “short list” of 6-12 managers for consideration. The short list recommendation shall include a discussion of how managers were selected and supporting information (e.g. organization, philosophy, process, returns, volatility, tracking error).
- b) Staff may identify additional managers for consideration.
- c) The short list will be refined following staff evaluation and discussions with Meketa. The rationale for any changes shall be documented.

**3) Due Diligence and Finalist Selection**

- a) Staff will run an invitation-only RFP process with managers on the short list.
- b) Staff will create the request documents with assistance from Meketa.
- c) Staff will evaluate proposals
- d) Staff and Meketa will then collaborate to determine semi-finalists (likely 2-4 managers)
- e) Staff will interview semi-finalists, preferably on one day with the same interview team.
- f) Staff and Meketa will then collaborate to recommend finalist(s) (likely 1 or 2 managers) for consideration by the Investment Advisory Committee (IAC).
- g) Staff and Meketa will evaluate the need for on-site or virtual due diligence and advise the IAC.

**4) Investment Advisory Committee (IAC) Evaluation**

- a) Meketa shall provide a search document that describes the criteria utilized for the search and a comprehensive review of each manager. The search document shall include the information required by section 7.A.6 of the Investment Policy.
- b) Staff shall provide a recommendation with supporting rationale.
- c) The IAC will evaluate the search document and recommendation.
- d) The IAC may request to interview the finalist(s).
- e) The IAC may vote to support or oppose the staff recommendation and may provide advice to staff and the Board.

**5) Board Evaluation**

- a) The Board of Trustees shall be provided with the same documentation provided to the IAC (Meketa search document and Staff recommendation) along with IAC advice and voting results.
- b) At the Board meeting, staff shall review the search process, the rationale for the recommendation, and key attributes of the recommended manager.
- c) The Board shall vote to approve or reject the staff recommendation.



## **DPFP US and Non-US Small Cap Equity Searches 2021**

### **Minimum Requirements:**

1. Five-year product track record
2. Compliance with Global Investment Performance Standards (GIPS)
3. Clean legal and regulatory track record for past five years

### **Evaluation Criteria:**

1. Separate account or commingled fund allowed
2. Small cap exposure preferred vs. SMID.
3. Preference for “near-core” style. Relative value and GARP may be acceptable, but deep value and aggressive growth products will not.
4. Clearly defined investment philosophy and process that engenders DPFP staff conviction
5. Clearly defined risk controls.
6. Product AUM > \$200 million preferred
7. Available product capacity
8. Capacity controls and limits
9. Organization strength and stability
  - a. Qualifications and stability of key firm personnel.
  - b. Employee diversity metrics, trends, and initiatives, including leadership roles
  - c. Firm AUM is stable or growing modestly and provides solid financial footing.
  - d. Organization structure is stable and appropriate.
  - e. Succession planning is clear.
  - f. Ownership plans and trends are clear and support organization strength and stability
  - g. No firm turmoil for past five years
  - h. Well-diversified client base across firm and product
10. Investment Team strength and stability
  - a. Qualifications of key investment personnel for strategy
  - b. Evaluation and compensation processes
11. Risk measures including volatility, tracking error, absolute drawdown, and relative drawdown vs. benchmark index.
12. Fit/diversification with existing DPFP public equity portfolio.
13. Risk-adjusted alpha.
14. Risk and Performance evaluation shall include cumulative and rolling 3- and 5-year analysis.
15. Investment reporting appropriately explains positioning and key drivers of performance (absolute and relative)
16. Fees will be evaluated relative to the reporting universe and candidates under consideration. Fees shall also be evaluated as a percentage of projected risk-adjusted alpha.



**EASTERN SHORE**  
CAPITAL MANAGEMENT  
*A Division of Moody Aldrich Partners*

## ***Prepared for: Dallas Police & Fire Pension System***



### **SMALL CAP EQUITY**

***Taking Advantage of a Durable Anomaly***

**First Quarter 2021**

*18 Sewall Street, Marblehead, MA 01945  
Main Office Line: 781.639.2750*



# About Eastern Shore



## Eastern Shore Capital Management

- Investment boutique specializing in long-only U.S. Small and Smid cap equities
- \$939M in assets as of March 31, 2021



## Small Cap Equity Strategy:

- 3.9% annualized alpha since inception, at lower than market volatility\*
- 14+ year track record\*



## Formed in 2012 as a division of Moody Aldrich Partners, LLC (MAP)

- MAP was established in 1988 and is an SEC registered, privately held asset management company with a history of developing successful investment management businesses.
- Eastern Shore is privately owned: 73.6% by active partners.

*\*Inception date is March 1, 2007. 18.4% standard deviation vs. 20.8% for the Russell 2000 as of 3/31/21. Alpha is calculated gross of fees using the Russell 2000 Index. Eastern Shore's co-founder and CIO, Robert Barringer, had served as the sole portfolio manager on the FBR Small Cap Fund (FBRYX) at FBR Asset Management from its inception in March 2007 until the formation of Eastern Shore. For the period of March 1, 2007 through October 26, 2012, the performance presented occurred while the Portfolio Manager was at a prior firm.*



# Eastern Shore Team

## Eastern Shore Capital Management

A division of Moody Aldrich Partners, LLC

### Management Committee

#### Investment Team

**Robert Barringer, CFA**

**CIO, Partner**  
**Portfolio Manager**  
Research Coverage: Health Care, Information Technology, Financials, Consumer Discretionary, Consumer Staples, Real Estate, Communication Services

**James O'Brien, CFA**

**Partner**  
**Portfolio Manager**  
Research Coverage: Industrials, Materials, Energy, Financials, Consumer Discretionary, Consumer Staples, Real Estate

**Sarah Westwood, CFA, CMT**

**Partner**  
**Portfolio Manager**  
Research Coverage: Utilities, Consumer Discretionary, Consumer Staples, Communication Services, Risk Management

#### Non-Investment Oversight

**Eli Kent**

**Partner**  
**Business Management**

**William Moody, CFA**

**Partner**  
**Business Management**

**Amanda Velluto**

**Partner, Chief Compliance Officer**

**Richard Bonzagni**

**Head of Business Development & Client Service**

**Jennifer Dunn, CFP®**

**Marketing & Client Service Associate**

**John Sherlock**

**Senior Trader & Portfolio Administrator**

**John Hemenway**

**Trade Specialist & Portfolio Administrator**



# Strategy Overview: Small Cap Equity

## Philosophy

- High-quality companies tend to outperform the market
- Positive change can be as profitable as persistent excellence
- Valuation discipline, when buying and selling, enhances returns



## Key Points

- Approach based on the **Quality Anomaly**
- **Forward-looking** definition of quality
- **Main differentiator:** invest in two types of quality stocks, Established and Improving
- Distinctive **return pattern:**
  - Keep up in up markets
  - Outperform in down markets



*“We invest in leaders and future leaders that are undervalued due to the unappreciated duration of positive fundamentals or positive change identified by qualitative and empirical factors.”*

**- Robert Barringer, CIO**



# Quality has Outperformed: The Evidence



## The Quality Anomaly:

- More risk does not lead to higher returns at the individual stock level.
- This unexpected risk/return trade-off has persisted through many market cycles and is prominent in small caps.
- Stocks with quality fundamentals – lower debt, higher and more stable profitability – tend to be less volatile than the broader market.
- These stocks tend to outperform strongly during down markets, contributing to higher long-term returns.

*Source: FTSE Russell Index Group. Performance presented from March 1, 2007 through October 26, 2012 occurred while Robert Barringer was the strategy's sole Portfolio Manager at FBR Asset Management. \*Inception date for Eastern Shore Small Cap Equity strategy. Past performance is not indicative of future returns.*

# How We Define Quality



## High-Return Business Model

- Unique value proposition
- Advantaged industry positioning
- Barriers to entry
- Large addressable market
- Pricing power



## Skilled Management

- Vision, leadership, execution
- Corporate culture focused on cultivating and protecting competitive positioning
- Capital allocation skill

*Focus on the sources of quality – these are generally subjective attributes that require fundamental analysis to develop knowledge of each business.*



# How We Define Quality



## Profitability – Persistently High or Improving

- Persistently high or improving ROE, ROA, and/or ROIC
- Defensibly high or improving margins
- High/improving cash flows
- Sustainable and/or accelerating revenue production



## Financial Strength and Flexibility

- Low financing needs
- Low fixed costs
- Low debt relative to industry/peers

*These are generally empirical attributes that can be observed and measured over time.*





# We Invest in Quality at Different Life Cycle Phases



## Established Quality

- Quality businesses with defensible market positions
- *Persistently* robust business economics
- Reliable performers that hold up well in down markets



## Improving Quality

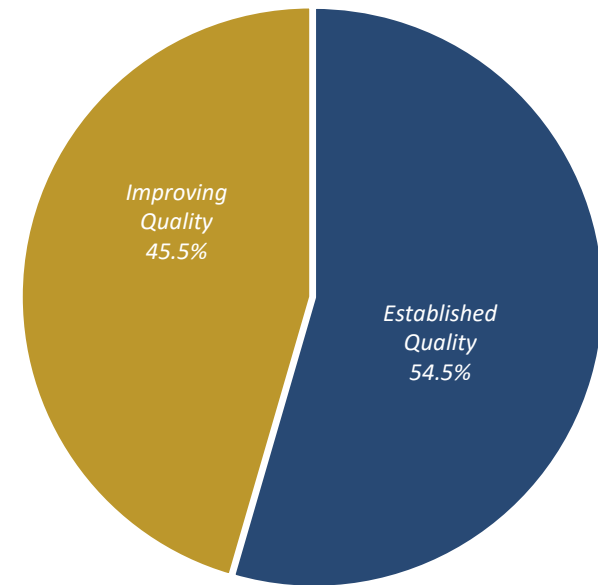
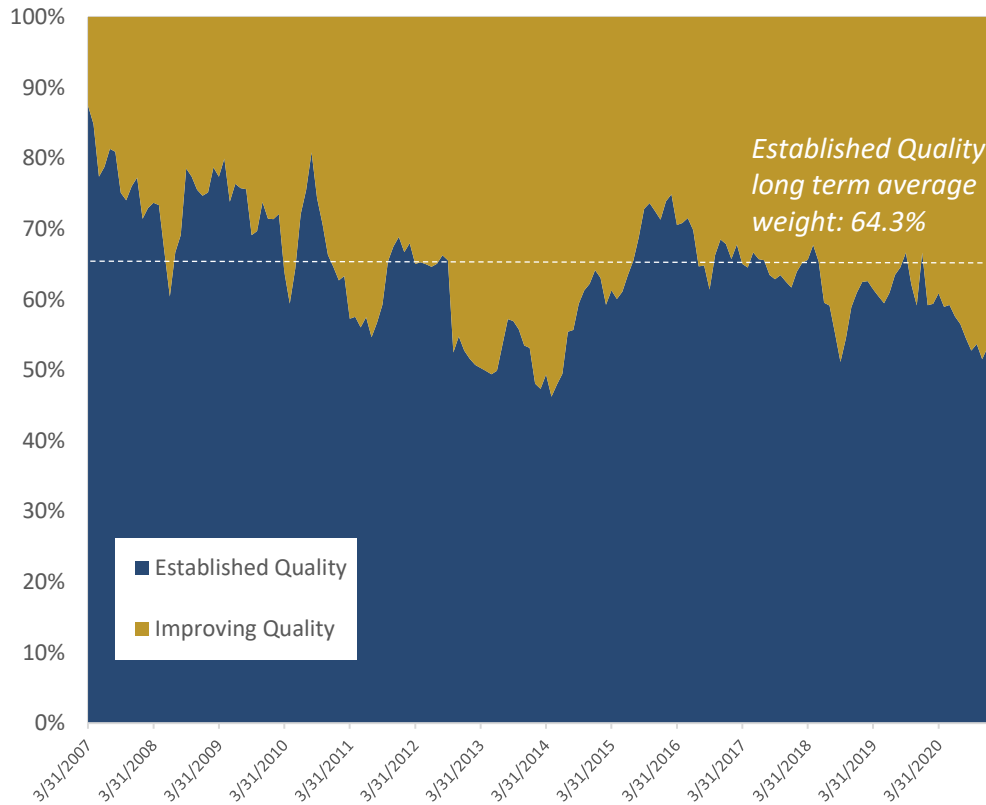
- Quality businesses experiencing *positive changes* in fundamentals and business economics
- Breeding ground for the next generation of leaders
- Innovative companies earlier in their life cycles



# Established & Improving Quality

Historical Exposure to Established & Improving Quality: Excludes Cash  
03/01/2007\* - 3/31/2021

Positioning as of  
3/31/2021



Average cash position since inception 3.1%

\*Inception date is: 3/01/2007 Source: Factset.

# Example of Established & Improving Quality Holdings



## Established Quality: Lancaster Colony (LANC)

*A steady and reliable grower – This market-share leading packaged food company is positioned for expansion across its businesses*

- Leading market share positions in several retail food categories - 54% of revenues from retail food products, 46% from foodservice.
- Supplier to 19 of the top 30 national restaurant chains, national accounts represent 77% of foodservice business.
- Licensing of foodservice sauces and dressings for retail sale represents a significant organic opportunity.
- Strong history of accretive tuck-in acquisitions and strong and stable margins and cash flows, long track record of sustained growth in organic sales.



## Improving Quality: Green Plains Inc. (GPRE)

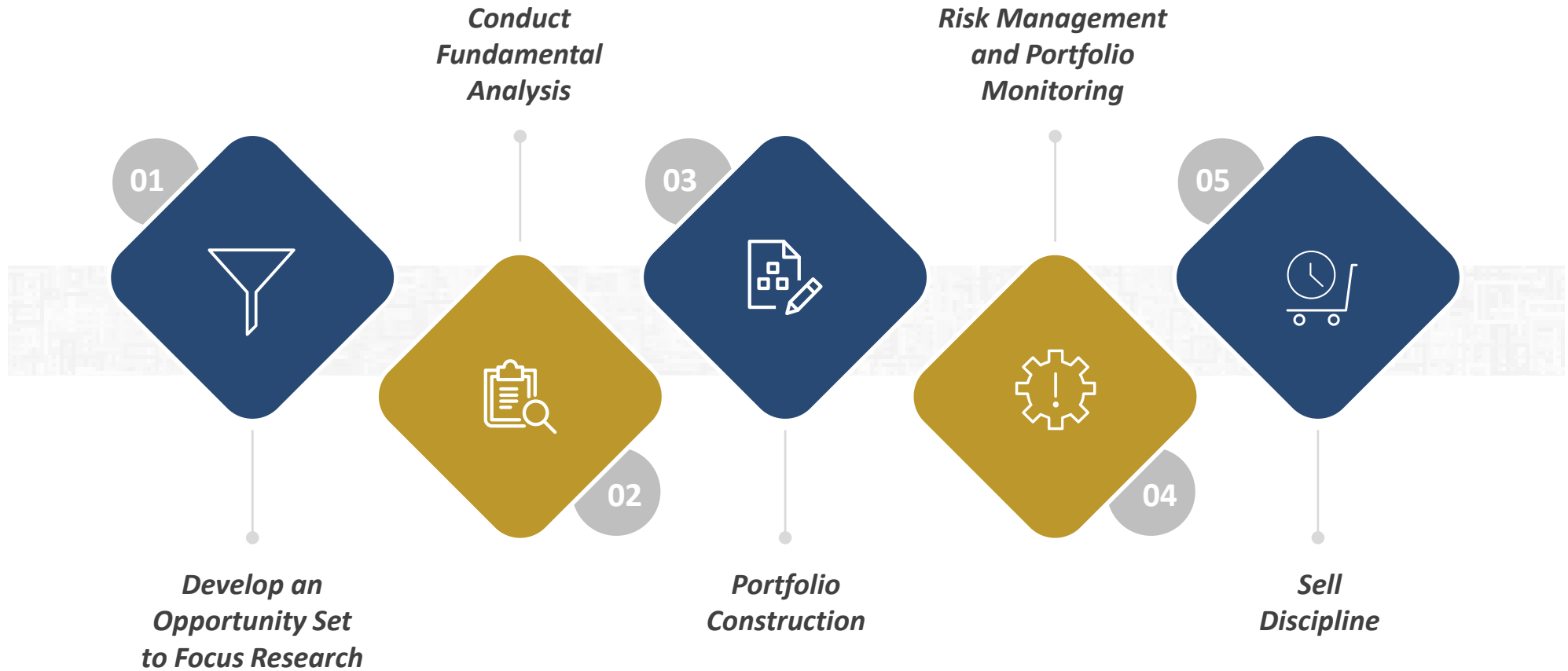
*A transformational firm – this company is transitioning from an ethanol fuel producer to bio-refiner producer*

- Undergoing a complete transformation from volatile ethanol fuel refiner to bio-refiner, producing high grade alcohol, proteins, and sugars.
- Control unique dry milling technology to produce high grade proteins for animal nutrition & aquaculture.
- Significantly higher margins and cash flow than legacy business should triple EBITDA by 2023.
- Growing addressable market for high grade alcohol for sanitization and clean sugars for biodegradable plastics.
- More stable and growing higher margin business profile should drive a re-rating of the company.

*\* The securities shown above were not selected based on performance but rather to help illustrate examples of established and improving quality companies in which we invest. The securities identified and described do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable. This information is presented as supplemental to the GIPS Report at the end of this presentation.*



# Investment Process Overview



# Develop an Opportunity Set



**The Strategy's universe consists of stocks within the market capitalization range of the Russell 2000**



**Quality Scoring System:** tracks our universe and provides a mechanism to monitor persistence and changes in quality metrics for each company.

- Profitability
- Financial Strength
- Growth
- Valuation



**Additional Sources:**

- Internal research
- Company meetings
- Sell-side research

**Focus research on about 200 companies that have high and/or Improving Quality attributes**



# Fundamental Research

## Financial Analysis

### Purpose:

To evaluate the persistence of a company's profitability and financial strength and its ability to flourish in a variety of environments

## Qualitative Analysis

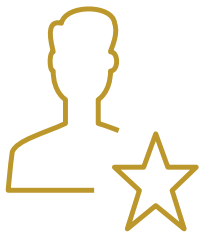
### Purpose:

To understand the business model, leadership and future prospects and to assess the sustainability of competitive advantage

## Valuation Analysis

### Purpose:

To identify quality businesses at prices below our assessment of fair value



## Portfolio Managers

**Robert Barringer, CFA**

**James O'Brien, CFA**

**Sarah Westwood, CFA**

## Research Coverage

Health Care, Information Technology, Financials, Consumer Discretionary, Consumer Staples, Real Estate, Communication Services

Industrials, Materials, Energy, Financials, Consumer Discretionary, Consumer Staples, Real Estate

Utilities, Consumer Discretionary, Consumer Staples, Communication Services, Risk Management

The team discusses new ideas as research is being conducted and prior to a buy or sell decision.

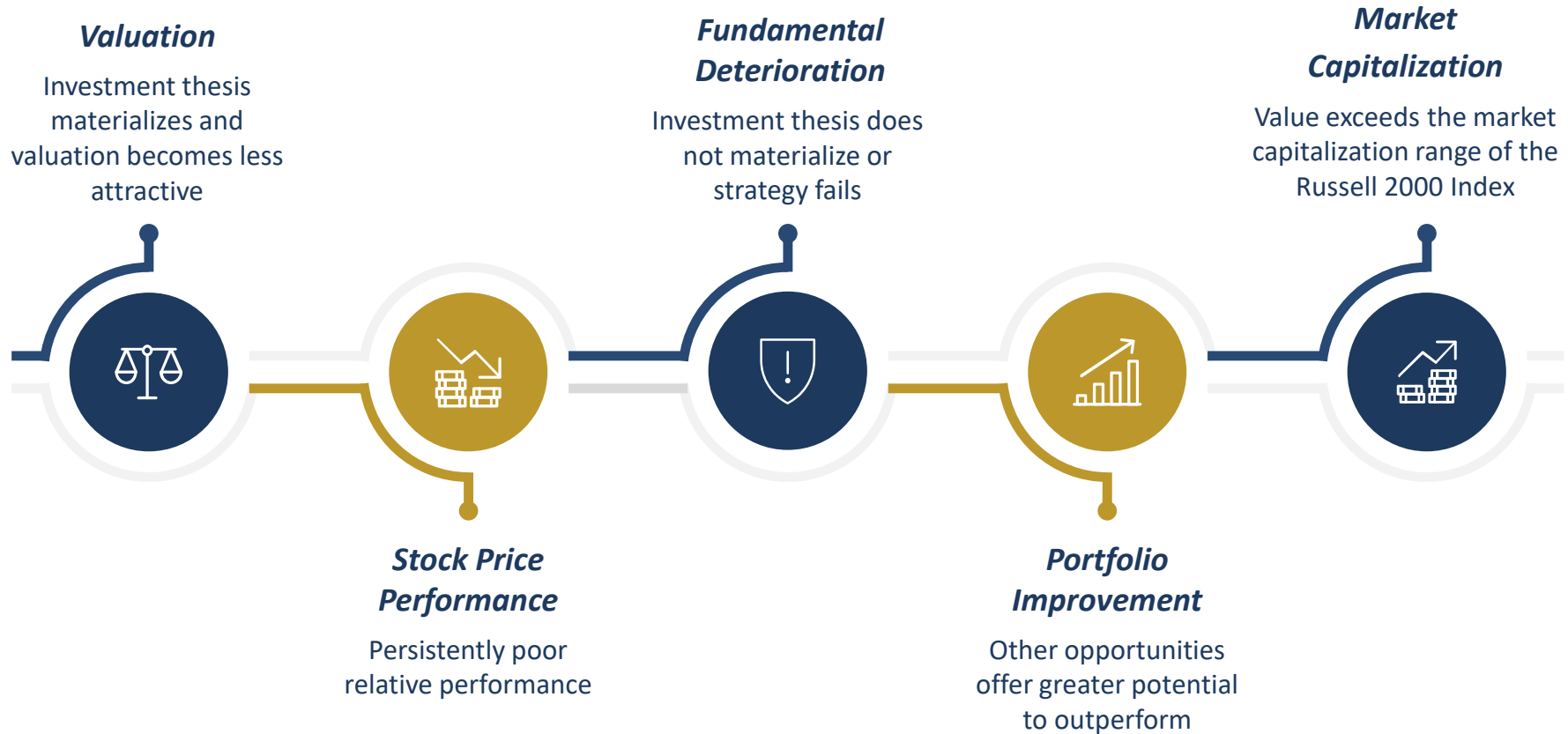


# Portfolio Construction

<b>Universe</b>	Stocks traded on the US exchanges that fall within the capitalization range of the Russell 2000 Index
<b>Number of holdings</b>	70-100
<b>Sector/Industry Weights</b>	<ul style="list-style-type: none"> <li>▪ Sector and industry weights are residuals of the process within certain parameters:</li> <li>▪ For larger sectors (Consumer Discretionary, Financials, Information Technology, Health Care, Producer Durables) the strategy will have at least 50% representation of the benchmark weight and a maximum of double the benchmark weight</li> <li>▪ For smaller sectors (Materials, Consumer Staples, Energy, Utilities, Communication Services, Real Estate) the strategy may hold a range of 0 to 20% weight in the portfolio</li> <li>▪ The strategy will never hold more than 20% in any one industry</li> </ul>
<b>Position size</b>	Maximum size 5%
<b>Cash exposure</b>	Typically under 5%
<b>Active Share*</b>	Typically 90%

\*Active share measures how much an equity portfolio's holdings differ from the benchmark index constituents.

# Sell Discipline





# Risk Management and Portfolio Monitoring



01

## Company Specific Risks

- Thorough vetting
- Businesses with low risk fundamentals

02

## Portfolio Risks

- Exposures to risk factors (beta, market cap, price/book, ROE and debt)
- Established and Improving Quality businesses
- Quality characteristics relative to the benchmark and strategy's history

03

## Macro Risks

- Market environment indicators by sector and industry such as bond yields, market volatility and asset correlations



>

Attribution report (daily) and risk report (monthly)

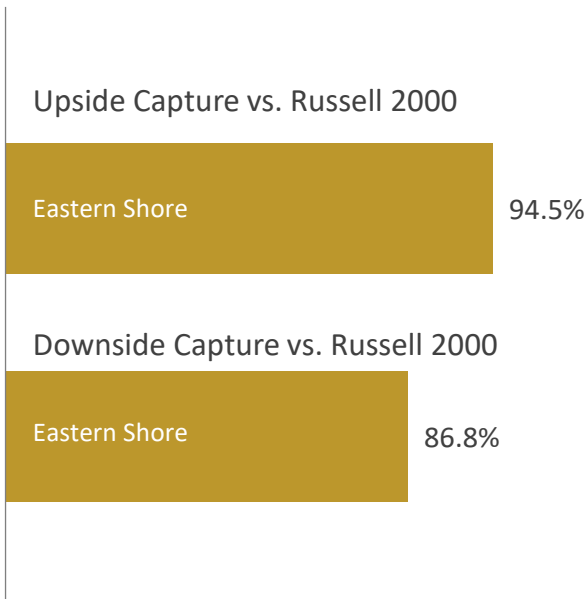
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Formal weekly investment team meeting

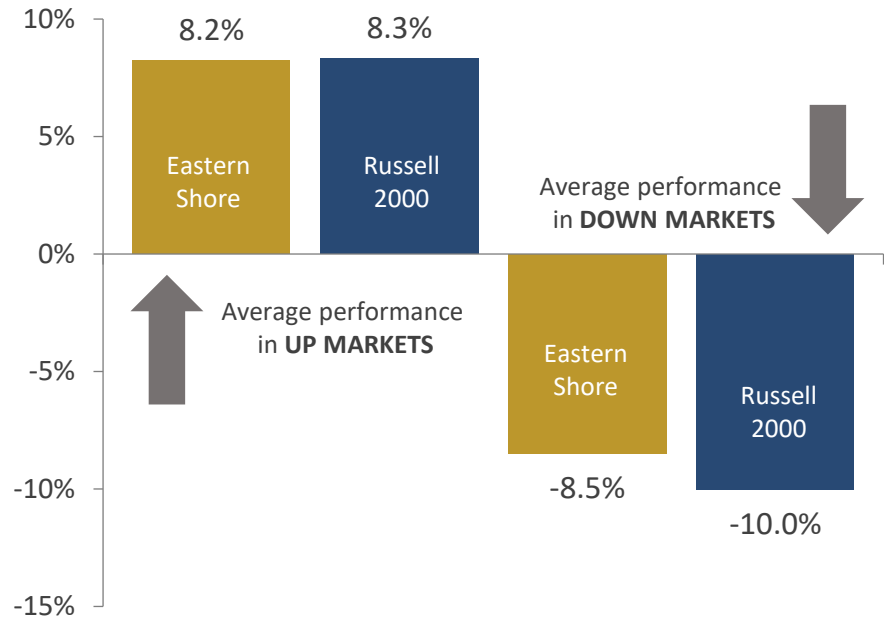


# Performance by Market Environment

## Upside & Downside Capture Since Inception\*



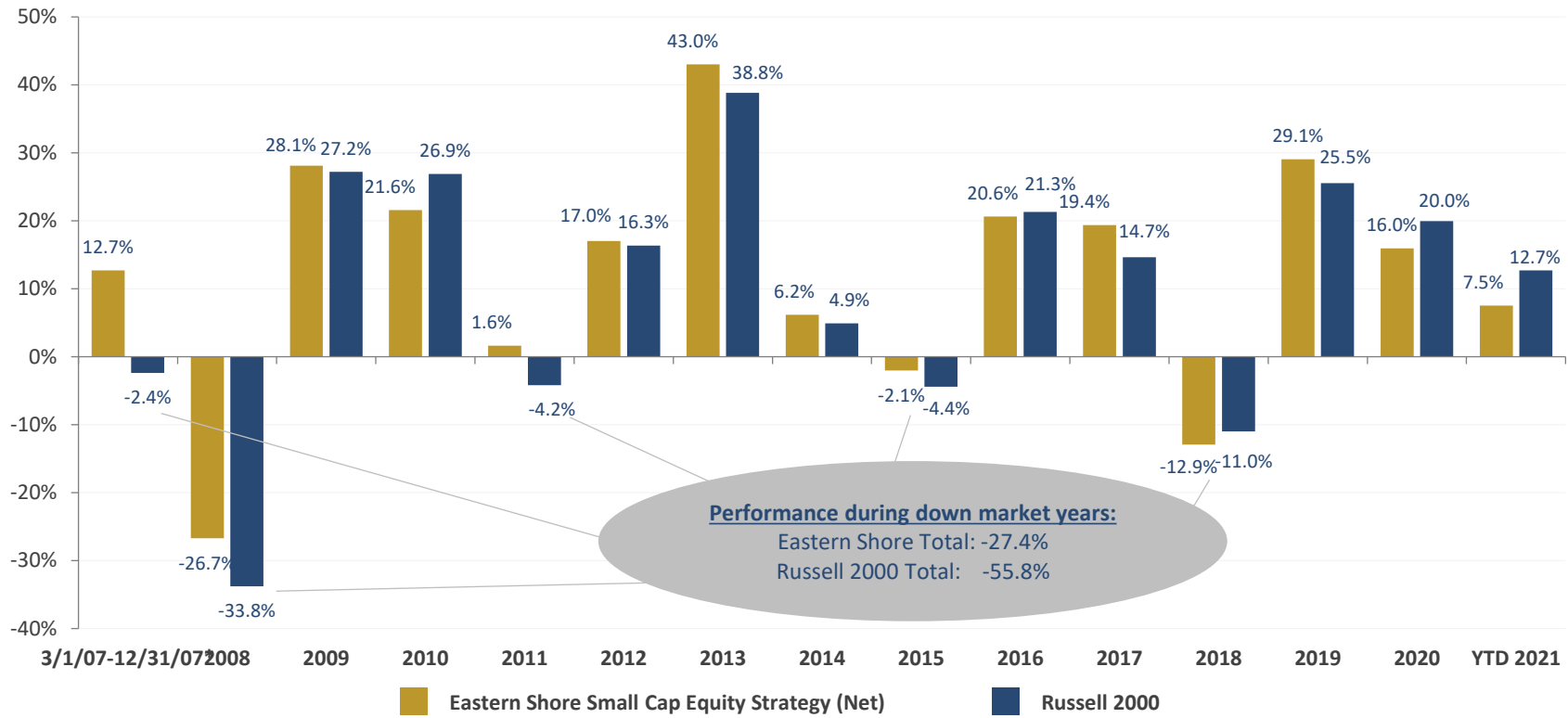
## Average Quarterly Net Return Since Inception\*



\*All information presented since inception March 1, 2007 through March 31, 2021. Source: Russell Investments Index Group. This information is presented as supplemental to the GIPS Report at the end of this presentation. Past performance is not indicative of future returns. Performance presented from March 1, 2007 through October 26, 2012 occurred while Robert Barringer was the strategy's sole Portfolio Manager at FBR Asset Management.

# Calendar Year Returns†

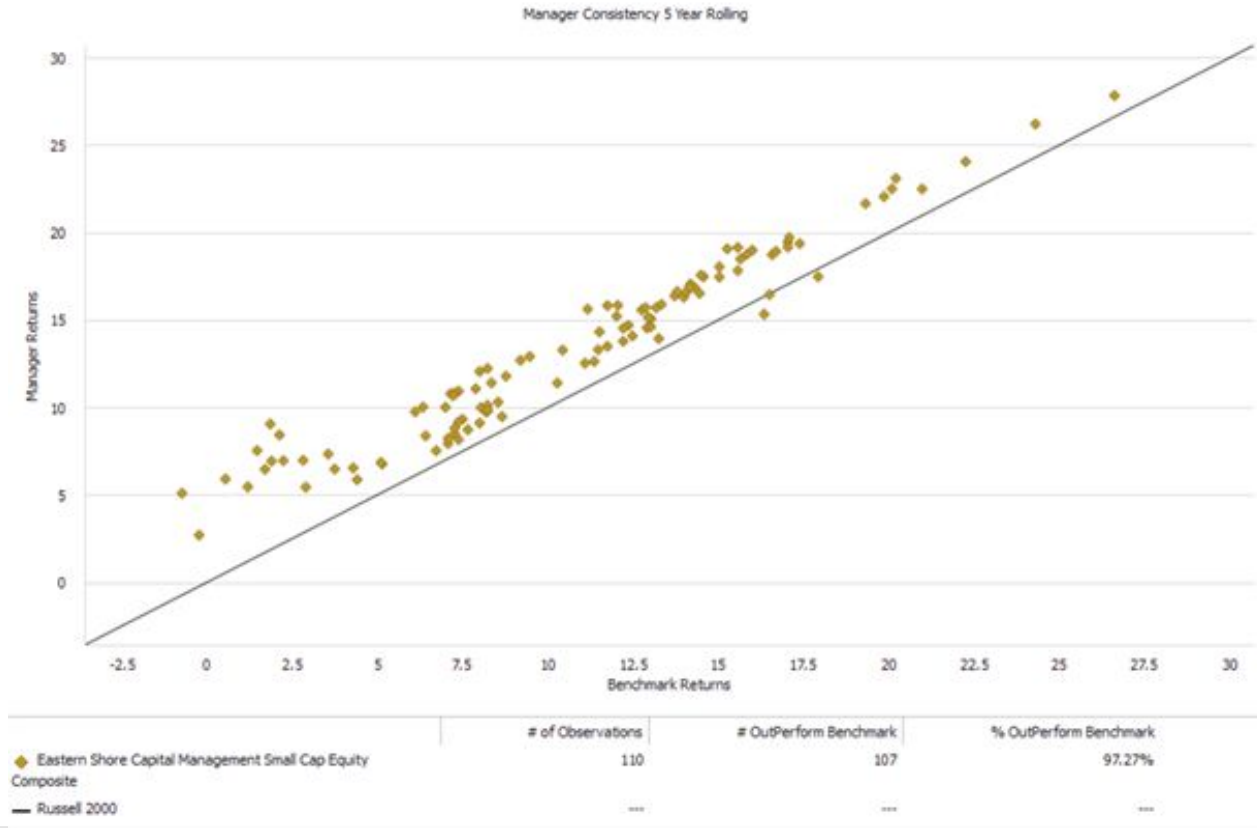
## Eastern Shore Small Cap Equity YTD & Calendar Net Returns vs. Russell 2000 Index 3/01/2007\*-3/31/2021



\*2007's return represents a partial year beginning at the inception of the fund on 3/01/2007 and is not annualized. Performance presented from March 1, 2007 through October 26, 2012 occurred while Robert Barringer was the strategy's sole Portfolio Manager at FBR Asset Management. Past performance is not indicative of future returns.  
 † Please see the GIPS Report at the end of this presentation.

# Eastern Shore's Consistency: 5 Year Rolling<sup>†</sup>

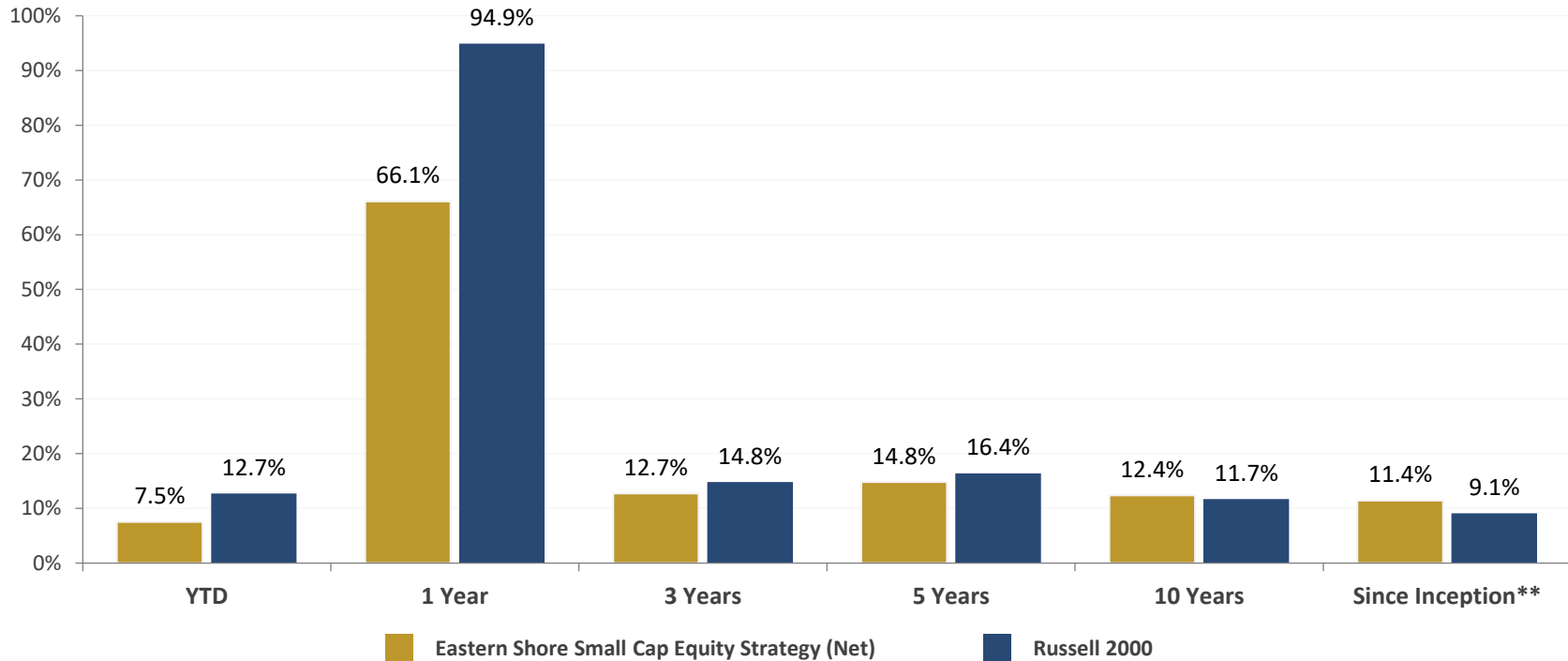
## Eastern Shore Small Cap Equity Net vs. Russell 2000 Index 3/01/2007\*-3/31/2021



\*2007's return represents a partial year beginning at the inception of the fund on 3/01/2007 and is not annualized. Performance presented from March 1, 2007 through October 26, 2012 occurred while Robert Barringer was the strategy's sole Portfolio Manager at FBR Asset Management. Past performance is not indicative of future returns.  
<sup>†</sup> Please see the GIPS Report at the end of this presentation. Source: eVestment.

# Performance Summary\*

## Eastern Shore Small Cap Equity YTD & Annualized Net Returns vs. Russell 2000 Index Periods ending 3/31/2021



\*Please see the GIPS Report at the end of this presentation. \*\*Performance presented from March 1, 2007 through October 26, 2012 occurred while Robert Barringer was the strategy's sole Portfolio Manager at FBR Asset Management Inception date is March 1, 2007. Past performance is not indicative of future returns. Periods less than a year are not annualized.



## What to Remember About Us

01

**Eastern Shore invests in Established and Improving Quality Businesses**

02

**We base our investments on enduring sources of quality**

03

### **Our Results:**

- 3.9% annualized alpha since inception\*
- Lower volatility since inception than benchmark\*

*\*Inception date is March 1, 2007. 18.4% standard deviation vs. 20.8% for the Russell 2000 as of 3/31/21. Alpha is calculated gross of fees using the Russell 2000 Index.*



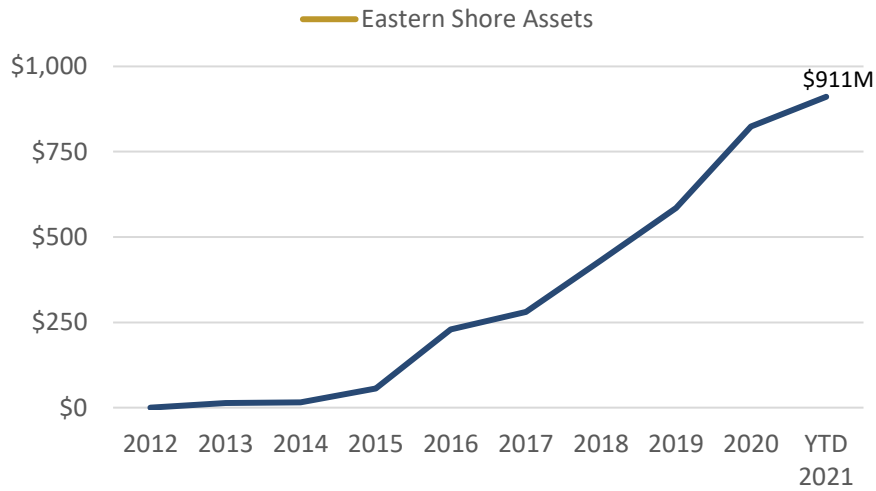
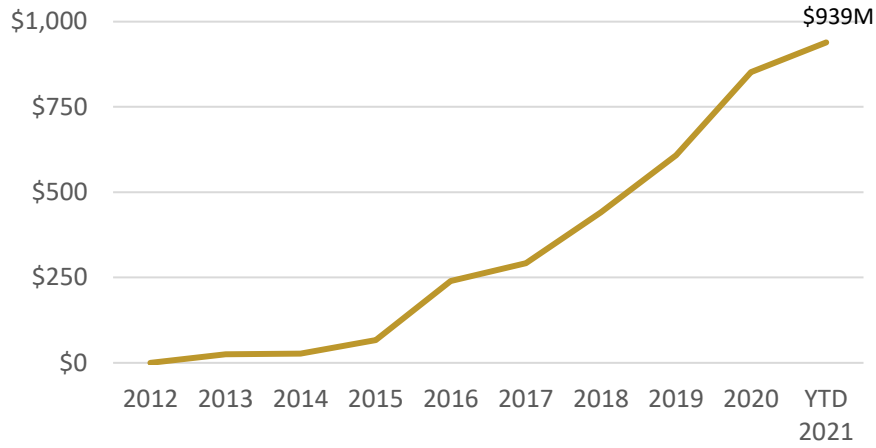
# Appendix

- **Small Cap Equity: Strategy Details**
- **Team Biographies**
- **Standard Fee Schedule**
- **Bibliography of Research on Quality Anomaly**
- **Disclosures**

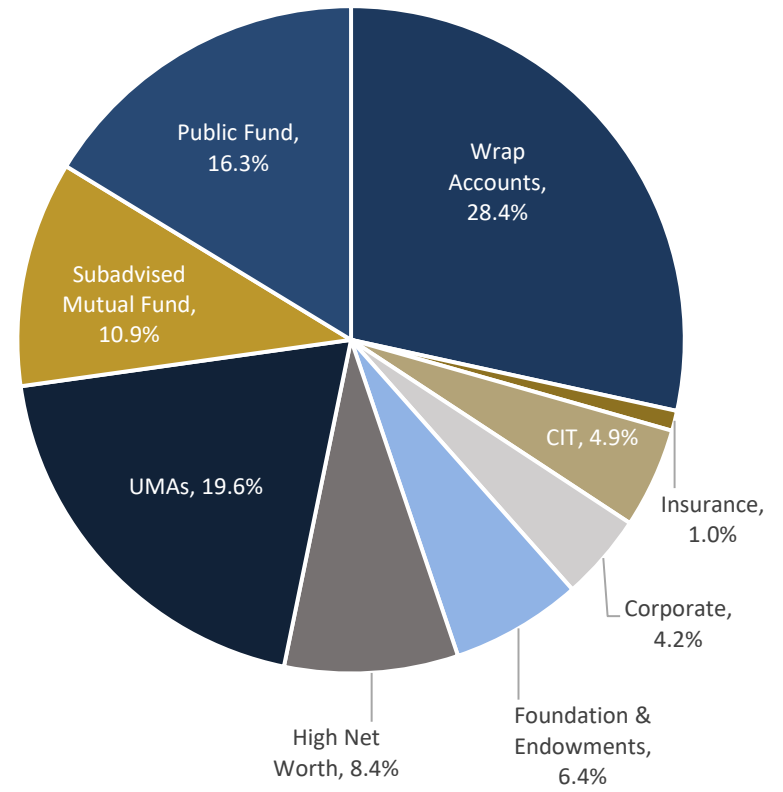


# Eastern Shore: Asset Base

**Eastern Shore Asset Growth**  
(in Millions)  
As of 3/31/21



**Eastern Shore Client Base**  
As of 3/31/21





# Strategy Attribution: 1<sup>st</sup> Quarter (12/31/20 – 3/31/21)

	Eastern Shore Small Cap Equity			Russell 2000			Variation			Attribution Analysis			
	Port. Average Weight	Port. Total Return	Port. Contrib. To Return	Bench. Average Weight	Bench. Total Return	Bench. Contrib. To Return	Average Weight Difference	Total Return Difference	Contrib. To Return Difference	Allocation Effect	Selection Effect	Interaction Effect	Total Effect
<b>Communication Services</b>	0.84	-17.52	-0.14	2.37	9.78	0.22	-1.53	-27.31	-0.36	0.05	-0.59	0.30	-0.24
<b>Consumer Discretionary</b>	12.14	15.87	1.65	14.11	26.07	3.33	-1.97	-10.20	-1.67	-0.25	-1.17	0.14	-1.26
<b>Consumer Staples</b>	1.91	5.95	0.12	3.22	15.39	0.48	-1.31	-9.44	-0.36	-0.05	-0.29	0.10	-0.23
<b>Energy</b>	1.30	12.72	0.05	2.51	41.79	0.88	-1.21	-29.07	-0.83	-0.25	-0.53	0.09	-0.68
<b>Financials</b>	20.65	15.56	2.91	15.10	18.62	2.67	5.55	-3.06	0.24	0.35	-0.46	-0.24	-0.34
<b>Health Care</b>	17.57	-2.62	-0.06	20.50	0.38	0.34	-2.93	-2.99	-0.40	0.33	-0.51	0.05	-0.13
<b>Industrials</b>	18.34	9.33	1.79	15.81	15.96	2.49	2.52	-6.63	-0.70	0.08	-0.91	-0.15	-0.97
<b>Information Technology</b>	15.53	-0.44	0.09	13.52	5.13	0.80	2.01	-5.57	-0.71	-0.17	-0.67	-0.11	-0.95
<b>Materials</b>	5.28	24.47	1.09	4.20	19.95	0.83	1.09	4.52	0.27	0.14	0.12	-0.03	0.23
<b>Real Estate</b>	4.00	3.03	0.02	5.92	10.05	0.55	-1.92	-7.02	-0.52	0.01	-0.40	0.03	-0.35
<b>Utilities</b>	1.29	-0.08	0.20	2.71	3.36	0.11	-1.42	-3.44	0.09	0.02	0.00	0.13	0.16
<b>Cash</b>	1.14	0.01	0.00	--	--	--	1.14	0.01	0.00	-0.18	--	--	-0.18
<b>Total</b>	<b>100.00</b>	<b>7.74</b>	<b>7.74</b>	<b>100.00</b>	<b>12.69</b>	<b>12.69</b>	<b>--</b>	<b>-4.95</b>	<b>-4.95</b>	<b>0.06</b>	<b>-5.42</b>	<b>0.31</b>	<b>-4.95</b>

- Q1 2021 composite results: 7.7%/7.5% gross/net of fees vs. Russell 2000 12.7%
- Largest contributors to relative return: Materials & Utilities
- Detractors from relative return: Consumer Discretionary & Industrials

\* Please note: Attribution total return for portfolio differs from composite results due to attribution methodology not taking intraday trading into account. Return data presented gross of fees. Past performance is not indicative of future returns. This information is presented as supplemental to the GIPS Report, which is available upon request at [information@eshorecap.com](mailto:information@eshorecap.com) or by calling (781) 639-2750.



# Strategy Attribution: 2nd QTD (3/31/21 – 5/31/21)

	Eastern Shore Small Cap Equity			Russell 2000			Variation			Attribution Analysis			
	Port. Average Weight	Port. Total Return	Port. Contrib. To Return	Bench. Average Weight	Bench. Total Return	Bench. Contrib. To Return	Average Weight Difference	Total Return Difference	Contrib. To Return Difference	Allocation Effect	Selection Effect	Interaction Effect	Total Effect
<b>Communication Services</b>	1.22	-2.56	-0.08	2.44	14.39	0.35	-1.22	-16.95	-0.43	-0.10	-0.37	0.08	-0.40
<b>Consumer Discretionary</b>	12.46	0.26	-0.03	15.01	5.85	0.84	-2.54	-5.59	-0.87	-0.11	-0.86	0.15	-0.82
<b>Consumer Staples</b>	2.67	4.20	0.09	3.30	2.61	0.09	-0.63	1.59	-0.00	0.02	0.04	-0.03	0.04
<b>Energy</b>	1.62	4.85	0.08	2.66	11.13	0.28	-1.04	-6.28	-0.20	-0.08	-0.09	-0.01	-0.17
<b>Financials</b>	21.72	7.59	1.60	15.97	4.19	0.66	5.75	3.39	0.94	0.11	0.51	0.19	0.81
<b>Health Care</b>	13.67	-5.37	-0.75	18.62	-4.47	-0.84	-4.95	-0.91	0.09	0.28	-0.15	0.04	0.17
<b>Industrials</b>	22.11	0.61	-0.01	16.06	1.60	0.24	6.05	-0.99	-0.25	-0.04	-0.16	-0.11	-0.31
<b>Information Technology</b>	13.00	0.01	0.11	12.47	-0.19	0.00	0.53	0.20	0.11	-0.03	0.07	0.02	0.06
<b>Materials</b>	6.01	9.65	0.51	4.65	10.44	0.45	1.36	-0.79	0.06	0.08	-0.03	-0.01	0.04
<b>Real Estate</b>	3.85	6.15	0.24	6.08	4.33	0.25	-2.23	1.82	-0.02	-0.04	0.11	-0.05	0.02
<b>Utilities</b>	0.46	18.07	0.07	2.75	-0.88	-0.02	-2.29	18.95	0.10	0.08	0.48	-0.40	0.15
<b>Cash</b>	1.21	0.00	0.00	--	--	--	1.21	0.00	0.00	-0.06	--	--	-0.06
<b>Total</b>	<b>100.00</b>	<b>1.83</b>	<b>1.83</b>	<b>100.00</b>	<b>2.31</b>	<b>2.31</b>	<b>--</b>	<b>-0.48</b>	<b>-0.48</b>	<b>0.11</b>	<b>-0.45</b>	<b>-0.13</b>	<b>-0.48</b>

\* Please note: Attribution total return for portfolio differs from composite results due to attribution methodology not taking intraday trading into account. Return data presented gross of fees. Past performance is not indicative of future returns. This information is presented as supplemental to the GIPS Report, which is available upon request at [information@eshorecap.com](mailto:information@eshorecap.com) or by calling (781) 639-2750.



# Strategy Attribution: YTD (12/31/20 – 5/31/21)

	Eastern Shore Small Cap Equity			Russell 2000			Variation			Attribution Analysis			
	Port. Average Weight	Port. Total Return	Port. Contrib. To Return	Bench. Average Weight	Bench. Total Return	Bench. Contrib. To Return	Average Weight Difference	Total Return Difference	Contrib. To Return Difference	Allocation Effect	Selection Effect	Interaction Effect	Total Effect
<b>Communication Services</b>	0.99	-19.64	-0.23	2.40	25.58	0.57	-1.41	-45.21	-0.79	-0.05	-0.98	0.38	-0.65
<b>Consumer Discretionary</b>	12.27	16.17	1.66	14.47	33.45	4.25	-2.20	-17.28	-2.59	-0.37	-2.05	0.30	-2.11
<b>Consumer Staples</b>	2.22	10.40	0.21	3.25	18.40	0.58	-1.03	-8.00	-0.37	-0.03	-0.25	0.07	-0.20
<b>Energy</b>	1.43	18.19	0.13	2.58	57.33	1.18	-1.15	-39.14	-1.06	-0.33	-0.64	0.09	-0.87
<b>Financials</b>	21.08	24.33	4.57	15.45	23.59	3.39	5.63	0.73	1.18	0.46	0.04	-0.05	0.45
<b>Health Care</b>	16.00	-7.85	-0.81	19.75	-4.12	-0.49	-3.75	-3.73	-0.32	0.61	-0.67	0.08	0.03
<b>Industrials</b>	19.85	10.00	1.81	15.64	17.57	2.75	4.22	-7.57	-0.94	0.02	-1.03	-0.28	-1.28
<b>Information Technology</b>	14.52	-0.43	0.21	13.34	5.34	0.86	1.18	-5.77	-0.65	-0.19	-0.66	-0.10	-0.94
<b>Materials</b>	5.57	36.48	1.62	4.38	32.48	1.30	1.20	4.01	0.32	0.22	0.08	-0.04	0.27
<b>Real Estate</b>	3.94	9.36	0.26	6.01	14.84	0.82	-2.07	-5.48	-0.56	-0.04	-0.30	-0.02	-0.35
<b>Utilities</b>	0.95	17.98	0.28	2.72	2.45	0.09	-1.77	15.53	0.19	0.10	0.48	-0.28	0.31
<b>Cash</b>	1.17	0.01	0.00	--	--	--	1.17	0.01	0.00	-0.25	--	--	-0.25
<b>Total</b>	<b>100.00</b>	<b>9.71</b>	<b>9.71</b>	<b>100.00</b>	<b>15.30</b>	<b>15.30</b>	<b>--</b>	<b>-5.59</b>	<b>-5.59</b>	<b>0.15</b>	<b>-5.97</b>	<b>0.14</b>	<b>-5.59</b>

\* Please note: Attribution total return for portfolio differs from composite results due to attribution methodology not taking intraday trading into account. Return data presented gross of fees. Past performance is not indicative of future returns. This information is presented as supplemental to the GIPS Report, which is available upon request at [information@eshorecap.com](mailto:information@eshorecap.com) or by calling (781) 639-2750.



# Strategy Attribution: 1 Year Trailing (5/31/20 – 5/31/21)

	Eastern Shore Small Cap Equity			Russell 2000			Variation			Attribution Analysis			
	Port. Average Weight	Port. Total Return	Port. Contrib. To Return	Bench. Average Weight	Bench. Total Return	Bench. Contrib. To Return	Average Weight Difference	Total Return Difference	Contrib. To Return Difference	Allocation Effect	Selection Effect	Interaction Effect	Total Effect
<b>Communication Services</b>	1.12	11.40	0.35	2.39	63.41	1.41	-1.26	-52.01	-1.06	-0.09	-0.46	-0.23	-0.70
<b>Consumer Discretionary</b>	11.58	43.26	4.35	13.49	113.01	12.82	-1.91	-69.75	-8.47	-0.99	-6.49	0.77	-6.63
<b>Consumer Staples</b>	2.78	24.41	0.93	3.31	62.12	2.05	-0.53	-37.71	-1.12	-0.13	-1.13	0.17	-1.02
<b>Energy</b>	0.87	121.14	0.79	2.31	97.95	1.76	-1.44	23.19	-0.97	-0.16	0.58	-0.99	-0.50
<b>Financials</b>	18.78	82.07	12.61	15.43	67.86	9.96	3.35	14.22	2.65	0.08	1.52	-0.14	1.53
<b>Health Care</b>	16.94	22.87	5.79	20.39	36.35	9.55	-3.45	-13.48	-3.76	0.37	-2.22	-0.09	-1.87
<b>Industrials</b>	19.28	45.38	7.92	15.33	81.46	11.96	3.95	-36.08	-4.04	0.29	-4.28	-1.42	-5.35
<b>Information Technology</b>	14.27	44.69	7.19	13.66	51.07	7.50	0.61	-6.37	-0.30	-0.11	-0.51	-0.23	-0.78
<b>Materials</b>	4.91	89.94	3.56	4.23	105.31	3.90	0.68	-15.37	-0.34	0.07	-0.53	-0.18	-0.56
<b>Real Estate</b>	4.99	7.39	0.17	6.39	48.85	3.19	-1.40	-41.46	-3.02	-0.10	-2.68	0.27	-2.44
<b>Utilities</b>	3.22	10.14	-0.41	3.08	12.64	0.43	0.14	-2.50	-0.84	-0.75	-0.26	-0.65	-1.59
<b>Cash</b>	1.26	0.08	0.00	--	--	--	1.26	0.08	0.00	-1.17	--	--	-1.17
<b>Total</b>	<b>100.00</b>	<b>43.26</b>	<b>43.26</b>	<b>100.00</b>	<b>64.54</b>	<b>64.54</b>	<b>--</b>	<b>-21.28</b>	<b>-21.28</b>	<b>-2.90</b>	<b>-16.46</b>	<b>-2.72</b>	<b>-21.28</b>

\* Please note: Attribution total return for portfolio differs from composite results due to attribution methodology not taking intraday trading into account. Return data presented gross of fees. Past performance is not indicative of future returns. This information is presented as supplemental to the GIPS Report, which is available upon request at [information@eshorecap.com](mailto:information@eshorecap.com) or by calling (781) 639-2750.



# Contributors and Detractors: First Quarter 2021

## Q1 2021 Top 5 Contributors

Security	Ticker	Average Weight (%)	Contribution (%)
Louisiana-Pacific Corporation	LPX	1.75	0.70
Triumph Bancorp, Inc.	TBK	1.40	0.65
Stifel Financial Corporation	SF	2.63	0.60
Plug Power, Inc.	PLUG	0.53	0.55
SunPower Corporation	SPWR	0.89	0.49

## Q1 2021 Top 5 Detractors

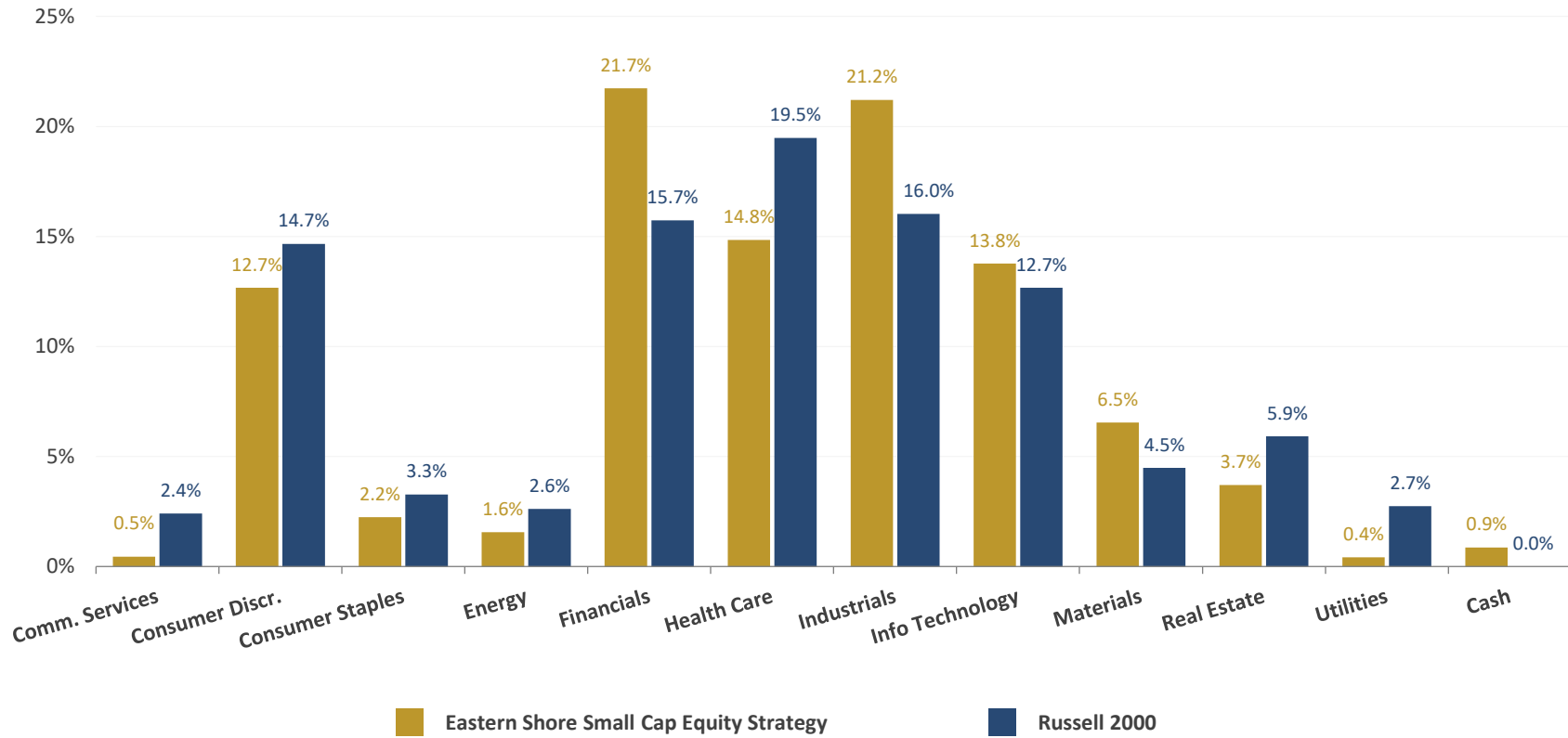
Security	Ticker	Average Weight (%)	Contribution (%)
Vertex, Inc. Class A	VERX	1.14	-0.49
Mesa Laboratories, Inc.	MLAB	1.69	-0.26
BlackLine, Inc.	BL	1.16	-0.22
KAR Auction Services, Inc.	KAR	0.63	-0.22
Array Technologies, Inc.	ARRY	0.57	-0.21

*The information provided above should not be considered a recommendation to purchase or sell any particular security. There is no assurance that any securities discussed herein will remain in an account's portfolio at the time you receive this presentation or that securities sold have not been repurchased. The securities discussed do not represent an account's entire portfolio and in the aggregate may represent only a small percentage of an account's portfolio holdings. It should not be assumed that any of the securities transactions or holdings discussed were or will prove to be profitable, or that the investment recommendations or decisions we make in the future will be profitable or will equal the investment performance of the securities discussed herein. A complete list of all securities recommended during the preceding year is available upon request. Past performance is not indicative of future results. The calculation methodology for the contributions to performance and a list showing all holdings' contribution to the overall strategy's performance during the measurement period is available upon request at [information@eshorecap.com](mailto:information@eshorecap.com) or by calling (781)-639-2750. The information is presented as supplemental to the GIPS Report at the end of this presentation.*



# Current Positioning: Sector Weights\*

**Eastern Shore Small Cap Equity Sector Weights vs. Russell 2000**  
As of 3/31/2021



\*This information is presented as supplemental to the GIPS Report at the end of this presentation. Sector weights for the Small Cap Equity Strategy were derived from FactSet.

# Perspectives

## Outlook:



- GDP growth likely to stay elevated through the year due to a combination of fiscal stimulus and progress on vaccinations
- New policies from incoming administration present many opportunities and risks for industries and companies
- Continued monetary & fiscal stimulus should provide some stability to markets

## Key risks:



- The inability of countries to control the virus or implement effective widespread vaccination programs
- Global political uncertainty may pose challenges for growth and stability
- Inflation may surpass muted expectations to the upside, pushing interest rates higher than expected

## Why Eastern Shore:



- Volatility is likely to persist
- Our quality approach provides strong downside protection and solid participation in up markets
- Stock selection critical given rapidly evolving conditions



# Performance Statistics\*

As of March 31, 2021

	3 Years	5 Years	Since Inception**
Alpha (Annualized)	0.4	1.1	3.9
Beta	0.9	0.9	0.9
Upside Capture	83.2	87.4	94.5
Downside Capture	90.3	89.9	86.8
Batting Average	0.5	0.5	0.6
Standard Deviation	22.5	18.5	18.4
Sharpe Ratio	0.5	0.8	0.6
Information Ratio	-0.2	-0.2	0.6

*\*This information is presented as supplemental to the GIPS Report at the end of this presentation. Performance statistics are calculated gross of fees using the Russell 2000 Index. The risk free rate used to calculate the Sharpe ratio is the FTSE 3-month T-Bill. Performance presented from March 1, 2007 through October 26, 2012 occurred while Robert Barringer was the strategy's sole Portfolio Manager at FBR Asset Management. \*\* Inception date is March 1, 2007. Source: eVestment.*





# Top Ten Holdings\*

As of March 31, 2021

Name	Ticker	Weight	Sector
Stifel Financial Corp.	SF	2.9	Financials
Wintrust Financial Corporation	WTFC	2.8	Financials
Focus Financial Partners, Inc. Class A	FOCS	2.3	Financials
Louisiana-Pacific Corporation	LPX	2.2	Materials
Independent Bank Corp.	INDB	2.1	Financials
Walker & Dunlop, Inc.	WD	2.1	Financials
Evercore Inc Class A	EVR	2.1	Financials
Wolverine World Wide, Inc.	WWW	2.0	Consumer Discretionary
Columbia Banking System, Inc.	COLB	1.9	Financials
Cohen & Steers, Inc.	CNS	1.8	Financials

*\*The securities identified and described do not represent all of the securities purchased, sold or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable. This information is presented as supplemental to the GIPS Report at the end of this presentation.*



# Portfolio Characteristics\*

As of March 31, 2021

	Eastern Shore Small Cap Equity Strategy	Russell 2000
Weighted Average Market Capitalization	\$4,265.3M	\$3,671.0M
5-Year Earnings Growth Est.	11.6%	9.3%
Dividend Yield (LTM)	0.7%	1.1%
Price/Earnings (FY1)	22.0x	24.8x
Price/Book	3.4x	2.8x
Standard Deviation (Since Inception)	18.4%	20.8%
Sharpe Ratio (Since Inception)	0.6	0.4
Active Share	87.3%	--
# of Holdings	98	2,056

\*Characteristics for the Russell 2000 Index were derived directly from Russell Investments and the characteristics for the Eastern Shore Small Cap Equity Strategy were derived from FactSet. This information is presented as supplemental to the GIPS Report at the end of this presentation.



# Portfolio Manager Biographies



Bob is a Co-Founding Partner of Eastern Shore Capital Management where he serves as Chief Investment Officer and Co-Portfolio Manager of the ESCM Small Cap Equity and Smid Cap Equity strategies. His research coverage includes Health Care, Information Technology, Financials, Consumer Discretionary, Consumer Staples, Real Estate, Communication Services. Bob brings over twenty-five years of investment experience to Eastern Shore and has held senior roles in several firms. Prior to co-founding ESCM he served as a Managing Director and Portfolio Manager at FBR Asset management, where he managed the FBR Small Cap and Large Cap funds. Before joining FBR, he was a Senior Portfolio Manager and Director of Research at Citizens Funds. Prior to joining Citizens, Mr. Barringer served as Director and Co-Portfolio Manager at AEW Capital Management. He began his career as a Research Analyst covering small and mid-cap banks and thrifts at Fidelity Investments.

Bob received his B.A. in Economics from Wesleyan University and his MBA from Harvard Business School. He is a member of the CFA Society Boston, Inc. and the CFA Institute.



Jim is a Co-Founding Partner of Eastern Shore Capital Management where he serves as Co-Portfolio Manager of the ESCM Small Cap Equity and Smid Cap Equity strategies. His research coverage includes Industrials, Materials, Energy, Financials, Consumer Discretionary, Consumer Staples, and Real Estate. Prior to co-founding ESCM, Jim served as a member of the investment team for eight years at Moody Aldrich Partners and served as the Lead Portfolio Manager on the firm's Small Cap Value strategy. Previously, he was an Equity Research Analyst at Citizens Funds for four years. Prior to that, he was a Financial Analysis Technology Strategist at Primark. Jim's experience also includes Financial Technology Business Development at One Source Information Services, Senior Fund Accountant at Fidelity Investments, and Account Specialist at Boston Safe Deposit & Trust Company.

Jim earned a Masters Certificate in Accountancy and a B.S. in Economics and Finance at Bentley University. He is a member of the CFA Society Boston, Inc. and the CFA Institute.



Sarah joined Eastern Shore Capital Management as a Partner in March of 2013, and serves as Co-Portfolio Manager of the ESCM Small Cap Equity and Smid Cap Equity strategies. Her research coverage includes Utilities, Consumer Discretionary, Consumer Staples, Communication Services, and Risk Management. Prior to joining the firm from Fidelity Investments, she served on the investment team at Moody Aldrich Partners as an Associate Portfolio Manager from 2008 to 2012. She joined Moody Aldrich following eight years at Putnam Investments, where she served as a Senior Vice President and Analyst on the firm's Strategic Research Team. She began her career as a Research Associate at Harvard Business School, and later joined Cobey, Jacobson, and Gordon, a boutique investment management firm serving high net worth clients. A former Captain, Military Intelligence, U.S. Army Reserve, Sarah served in Baghdad during Operation Iraqi Freedom, 2003-2004.

Sarah earned a B.A. in English and Art History, Phi Beta Kappa from Wellesley College. She is a member the CFA Society Boston, Inc., the CFA Institute, and the CMT Association.

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# Disclosures

Past performance is not indicative of future results. This document includes returns for various indices. These indices are not intended to be direct benchmarks for a particular strategy, nor are they intended to be indicative of the type of assets in which a particular strategy may invest. The assets invested on behalf of a client will likely be materially different from the assets underlying these indices, and will likely have a significantly different risk profile. Target holdings, actual holdings, sector/industry weights, portfolio characteristics, position size, cash exposure, volatility and Sharpe ratio figures, and other information quoted in this presentation are targets only and may change without notice to the client. The value of investments can go down as well as up. A client may not get back the amount initially invested.

The performance shown in this document partially reflects returns achieved by Robert Barringer while he was working at FBR Asset Management. There is no guarantee that returns achieved by FBR Asset Management will be generated by Eastern Shore.

The information contained in this document is subject to updating and verification and may be subject to amendment. No representation or warranty is expressed as to the accuracy of the information contained in this document and no liability is given by Moody Aldrich Partners, LLC as to the accuracy of the information contained in this document and no liability is accepted for any such information. This document and the information contained within it are confidential and intended solely for the use of the individual or entity to whom they are addressed. If you are not the named addressee you should not disseminate, distribute or copy this document or any of the information contained within it. If you are not the intended recipient you are notified that disclosing, copying, distributing or taking any action in reliance on the contents of this information is strictly prohibited.

Please see the GIPS Report at the end of this presentation.



# Eastern Shore Capital Management

## Small Cap Equity Composite – GIPS Report

Year End	Total Firm Assets Under Management	Total Firm Assets Under Management and Advisement Assets	Eastern Shore Capital Management Small Cap Equity Product	Eastern Shore Capital Management Composite Assets		Eastern Shore Capital Management Annual Performance Results					
						Composite				Russell 2000	
						Gross	Net	Dispersion <sup>v</sup>	External Std Dev <sup>+</sup>	Return	External Std Dev <sup>*</sup>
Assets* (millions)	Assets** (millions)	Assets*** (millions)	U.S. Dollars (millions)	Number of Accounts							
Q1 2021	920	1,104	910.9	458.5	69	7.65%	7.50%	-	22%	12.70%	25%
2020	826	975	824.4	407.8	60	16.57%	15.95%	0.54%	22%	19.96%	25%
2019	671	731	585.9	251.6	38	29.70%	29.06%	0.23%	16%	25.52%	16%
2018	442	454	431.3	90.2	32	-12.54%	-12.94%	0.08%	15%	-11.01%	16%
2017	284	292	280.6	231.1	14	19.88%	19.37%	0.04%	12%	14.65%	14%
2016	238	240	229.2	226.2	20	21.12%	20.63%	0.1%	15%	21.31%	16%
2015	66	66	55.9	54.1	10	-1.73%	-2.05%	0.2%	15%	-4.41%	14%
2014	26	27	14.6	11.6	6	6.53%	6.15%	N.A.	14%	4.89%	13%
2013	23	25	12.1	10.4	5	43.37%	43.02%	N.A.	17%	38.82%	16%
2012	18	21	3.4	3.4	1	18.14%	17.00%	N.A.	19%	16.35%	20%
2011			36.6	36.6	1	2.49%	1.62%	N.A.	22%	-4.18%	25%
2010			39.2	39.2	1	22.79%	21.59%	N.A.	23%	26.86%	28%
2009			11.9	11.9	1	29.41%	28.12%	N.A.		27.17%	
2008			4	4	1	-25.97%	-26.74%	N.A.		-33.79%	
2007			4.7	4.7	1						

\* As defined by the firm definition using the principles of Global Investment Performance Standards (GIPS®).

\*\* This information is presented as supplemental to the GIPS Report and includes Total Firm Asset plus Advisory Only Assets (such as Unified Managed Account (UMA) assets).

\*\*\* This information is presented as supplemental to the GIPS Report. Eastern Shore Capital Management maintains more than one composite for the Small Cap Equity product, each constructed of similarly managed accounts which do not meet the criteria for inclusion in the composite presented in this Disclosure Presentation (such as for bundled fee accounts or accounts below the composite minimum account size). Beginning in 2015, product assets also include advisory only assets managed to the Small Cap Equity strategy. Assets listed prior to 2012 represent the assets managed by Robert Barringer in a mutual fund (FBRYX) at FBR Asset Management.

<sup>+</sup> Three year annualized ex-post standard deviation (using gross monthly returns).

N.A. - Information is not statistically meaningful due to an insufficient number of portfolios in the composite for the entire year.

<sup>v</sup> Composite Dispersion is calculated using Gross of Fees.

The Eastern Shore Capital Management Small Cap Equity Composite contains all fully discretionary equity accounts managed in the Small Cap Equity style which seeks capital appreciation through stock selection by investing in 70-100 stocks with market capitalizations approximating those of the Russell 2000 Index at purchase. For comparison purposes, the Eastern Shore Capital Management Small Cap Equity composite performance is measured against Russell 2000 Index. There is no minimum account size for this composite. The strategy is managed by Eastern Shore Capital Management, a division of Moody Aldrich Partners. Past performance is not indicative of future results.



# Eastern Shore Capital Management

## Small Cap Equity Composite

### GIPS Report

Moody Aldrich Partners claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Moody Aldrich Partners has been independently verified for the periods October 26, 2012 through December 31, 2020. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. The Eastern Shore Capital Management Small Cap Equity Composite has had a performance examination for the periods October 26, 2012 through December 31, 2020. The verification and performance examination reports are available upon request. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

Moody Aldrich Partners is an independent SEC registered investment adviser. The long only divisions include Eastern Shore Capital Management effective 10/29/2012 and Global Value Advisors effective 03/31/2018. The firm maintains a complete list and description of composites, policies for valuing investments, calculating performance, and preparing GIPS Reports, which is available upon request. The firm's list of pooled fund descriptions for limited distribution pooled funds is also available upon request.

The Eastern Shore Capital Management Small Cap Equity Composite was created January 1, 2013. The inception date of composite performance is March 1, 2007. Composite results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Effective 10/29/2012, composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow of 50% of portfolio assets. Effective 1/1/2017, composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash or securities inflow or outflow of 30% of portfolio assets, or a securities inflow of 15%, if the securities deposited were not already held in the portfolio, or if they were held but deposited at unequal weights as the original portfolio. Past performance is not indicative of future results.

The U.S. Dollar is the currency used to express performance. Returns are presented gross and net of management fees and include the reinvestment of all income. Beginning March 1, 2007, net of fee performance was calculated by retroactively applying the composite fee schedule. Net of fee performance after October 26, 2012 is calculated using actual management fees. The annual composite dispersion is an asset-weighted standard deviation calculated for the accounts in the composite the entire year.

The investment management fee schedule for new business is as follows: 0.90% on the first \$25 million, 0.80% on the next \$25 million and all additional funds 0.70%. Management fees are paid quarterly in arrears. Actual investment advisory fees incurred by clients may vary.

For the period of March 1, 2007 through October 26, 2012, the performance presented occurred while the Portfolio Manager was at a prior firm. Performance for this period has been calculated using custodial transactions for the fund while it was managed as a mutual fund (FBRYX) at FBR Asset Management. Eastern Shore Capital Management has met the requirements for claiming performance record portability and keeps the appropriate books and records as well as a portability memo on file. The Eastern Shore Capital Management Small Cap Equity Composite has undergone a portability examination for the period of March 1, 2007 through October 26, 2012.



## DISCUSSION SHEET

### ITEM #C7

**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, July 15, 2021*





D A L L A S  
POLICE & FIRE  
PENSION SYSTEM



# Quarterly Private Asset Cash Flow Projection Update

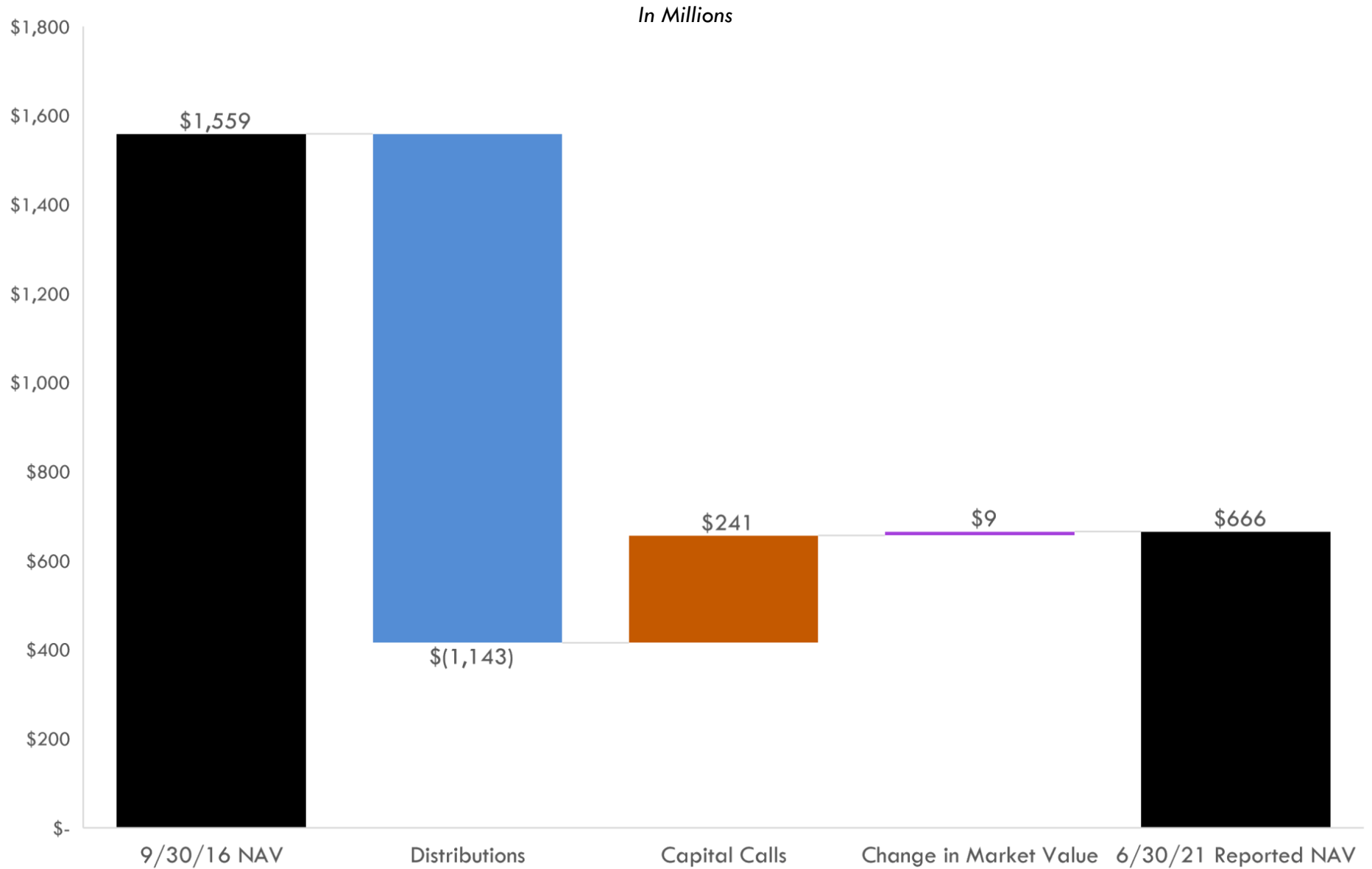
*July 15, 2021*

# Private Asset Cash Flow Projections

## Methodology Review

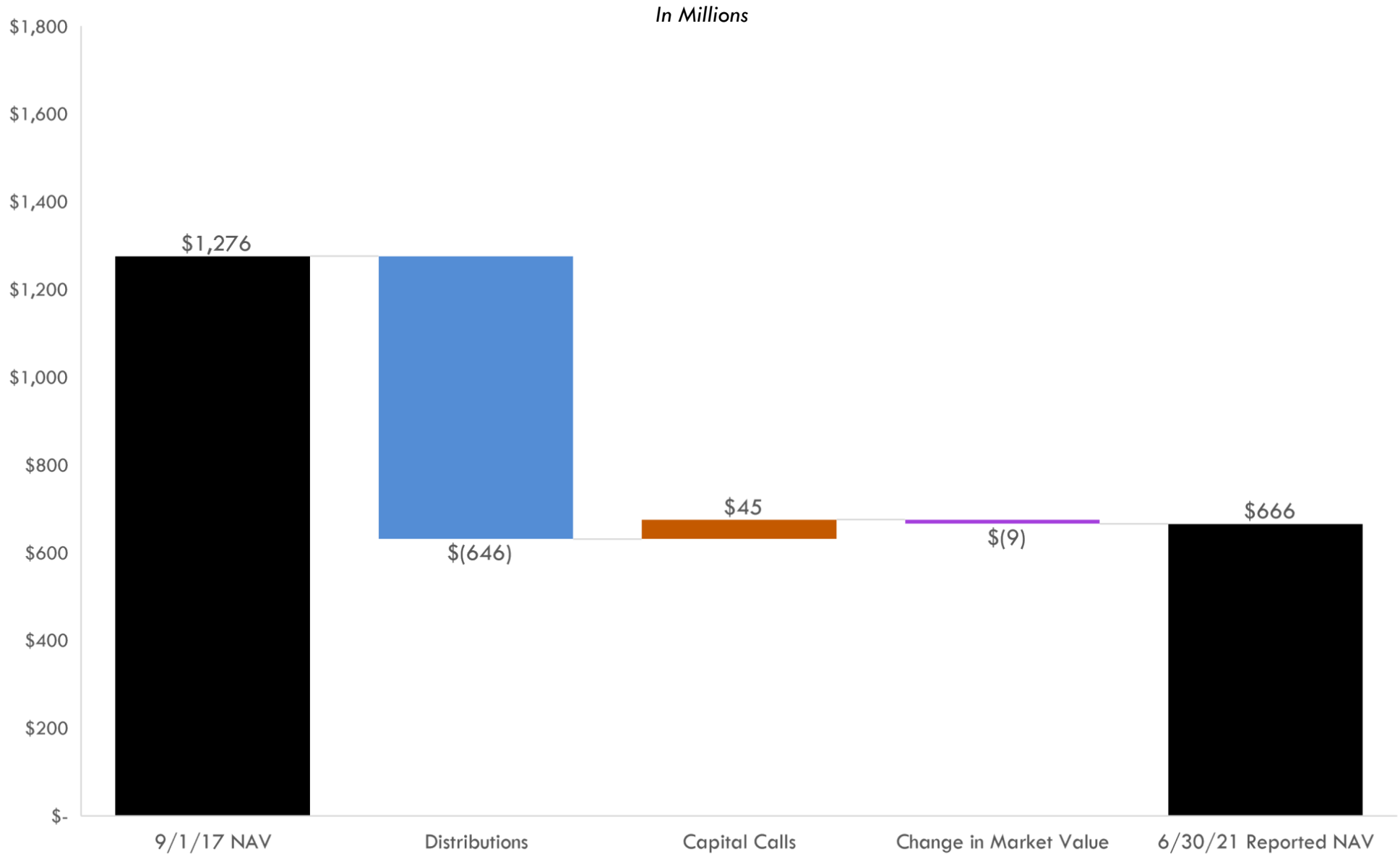
- Staff estimates capital calls and cash distributions from the Private Asset portfolio, built up by individual asset.
- DPFP has more control over direct investments in Real Estate and Natural Resources, therefore should have more accuracy in forecasting cash flows based on planned sales. Private Equity fund investments are controlled by GP's, therefore DPFP has little or no control over outcome – Staff incorporates GP insights but often uses an even distribution schedule over 2-3 years with these investments.
- **Cash flow estimates are inherently imprecise as they are often subject to events & forces outside of the manager's control.**

# Private Asset Bridge Chart – Since 9/30/16



*Numbers may not foot due to rounding.*

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



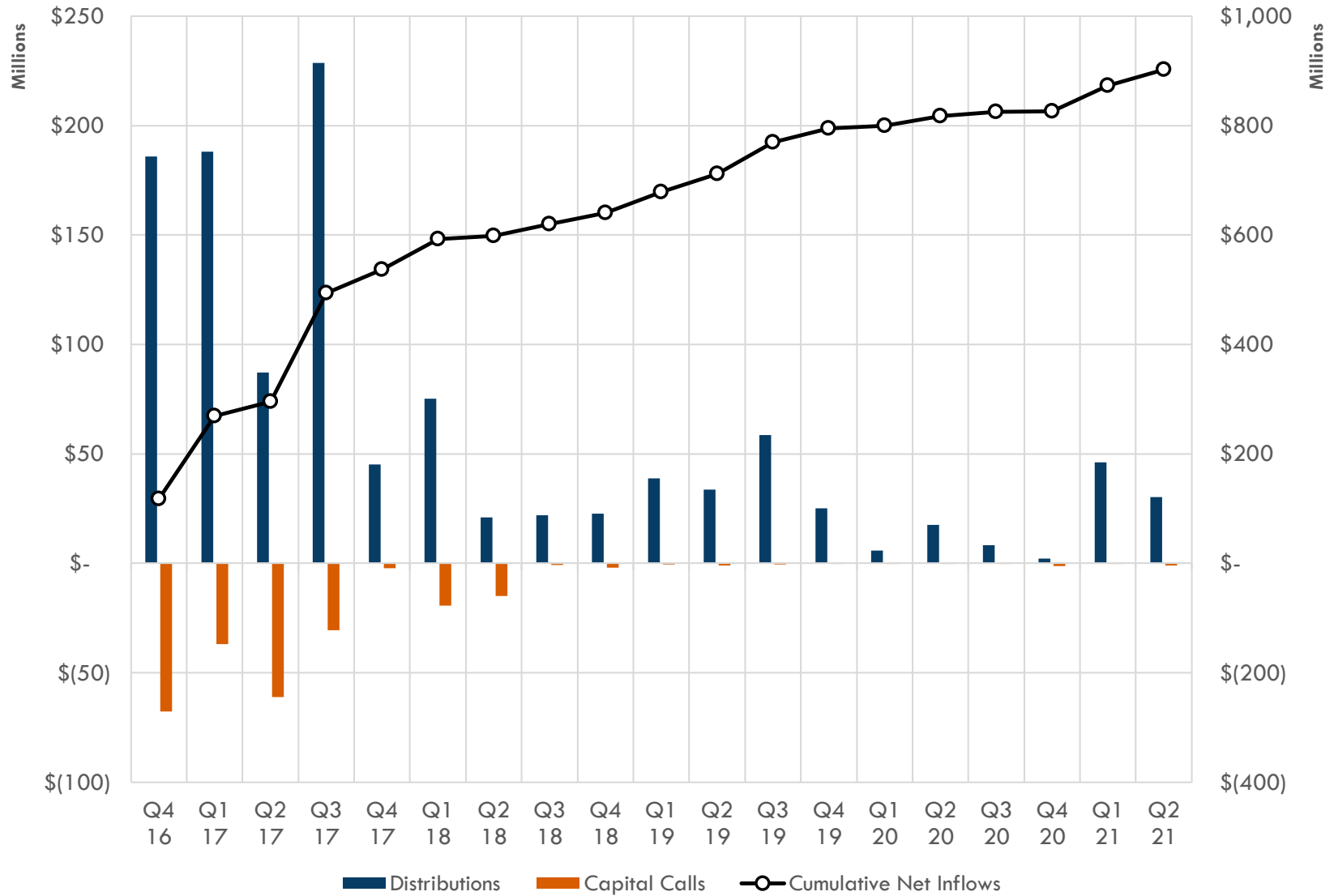
*Numbers may not foot due to rounding.*

# Private Asset Quarterly Cash Flows – Q2 2021

<b>TOTAL CAPITAL CALLS &amp; CONTRIBUTIONS</b>		<b>\$966,660</b>
Lone Star CRA Bridge	Bridge Loan Draw	\$775,000
JPM AIRRO	Capital Call	\$191,660
<b>TOTAL DISTRIBUTIONS</b>		<b>\$30,359,915</b>
RCH Notes	Distribution	\$9,570,000
Lone Star CRA	Distribution	\$5,882,353
Clarion	CCH Lamar Sale	\$4,454,000
Forest Investment	San Pedro Sale	\$3,094,878
Huff Alternative	Hispanic Foods Proceeds	\$2,577,957
Hancock	Income	\$2,500,000
Museum Tower	Distribution	\$1,700,000
L&B	Income	\$301,953
Industry Ventures IV	Distribution	\$178,160
Riverstone	Distribution	\$58,520
Hearthstone	Spring Valley Residual Cash	\$42,094

Numbers may not foot due to rounding.

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

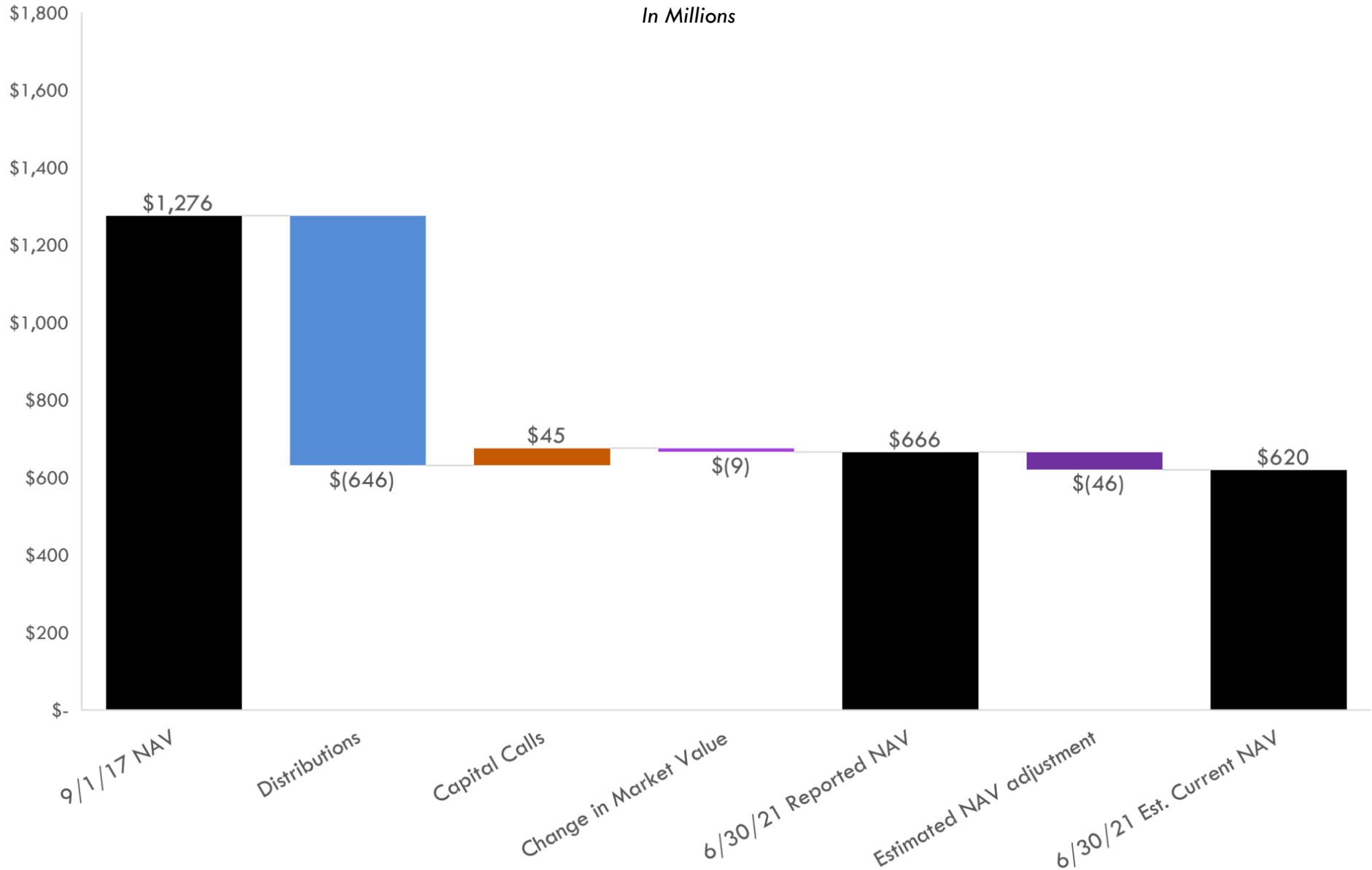


## Private Asset Lagged NAV Adjustment

- Due to a lag in the reporting of private market valuations, the **“Reported NAV”** (DPFP carrying value as of 6/30/21 based on most recent statements reported to JPM) on a few remaining Private Markets assets is stale and based on 2020 statements that have not been adjusted for changes in market value.
- In order to get a more accurate and real-time picture of asset allocation and future distribution activity, Staff estimated Private Market values by selectively discounting/increasing the reported NAVs on asset-by-asset basis (**“Estimated Current NAV”**). Heavier discounts were applied to Private Equity assets with energy and energy services exposure.
  - Only a handful of remaining private equity assets where adjustments are still being applied. Expect that this is the last quarter where we will have the need to adjust the Reported NAV.
  - The current blended market value adjustment of 6.8% compares with an adjustment of 30.4% in April 2020.
  - Compares to prior quarter Reported NAV of \$682M and Est. Current NAV of \$578M.

	Reported (Lagged) NAV	Market Value Adjustment	Estimated Current NAV
Private Equity	189,548,791	-24.0%	143,989,094
Private Debt	7,852,521	0.0%	7,852,521
Infrastructure	48,613,244	0.0%	48,613,244
Natural Resources	125,826,613	0.0%	125,826,613
Real Estate	293,767,142	0.0%	293,767,142
<b>TOTAL PRIVATE ASSETS</b>	<b>665,608,310</b>	<b>-6.8%</b>	<b>620,048,614</b>

# Private Asset Lagged NAV Adjustment

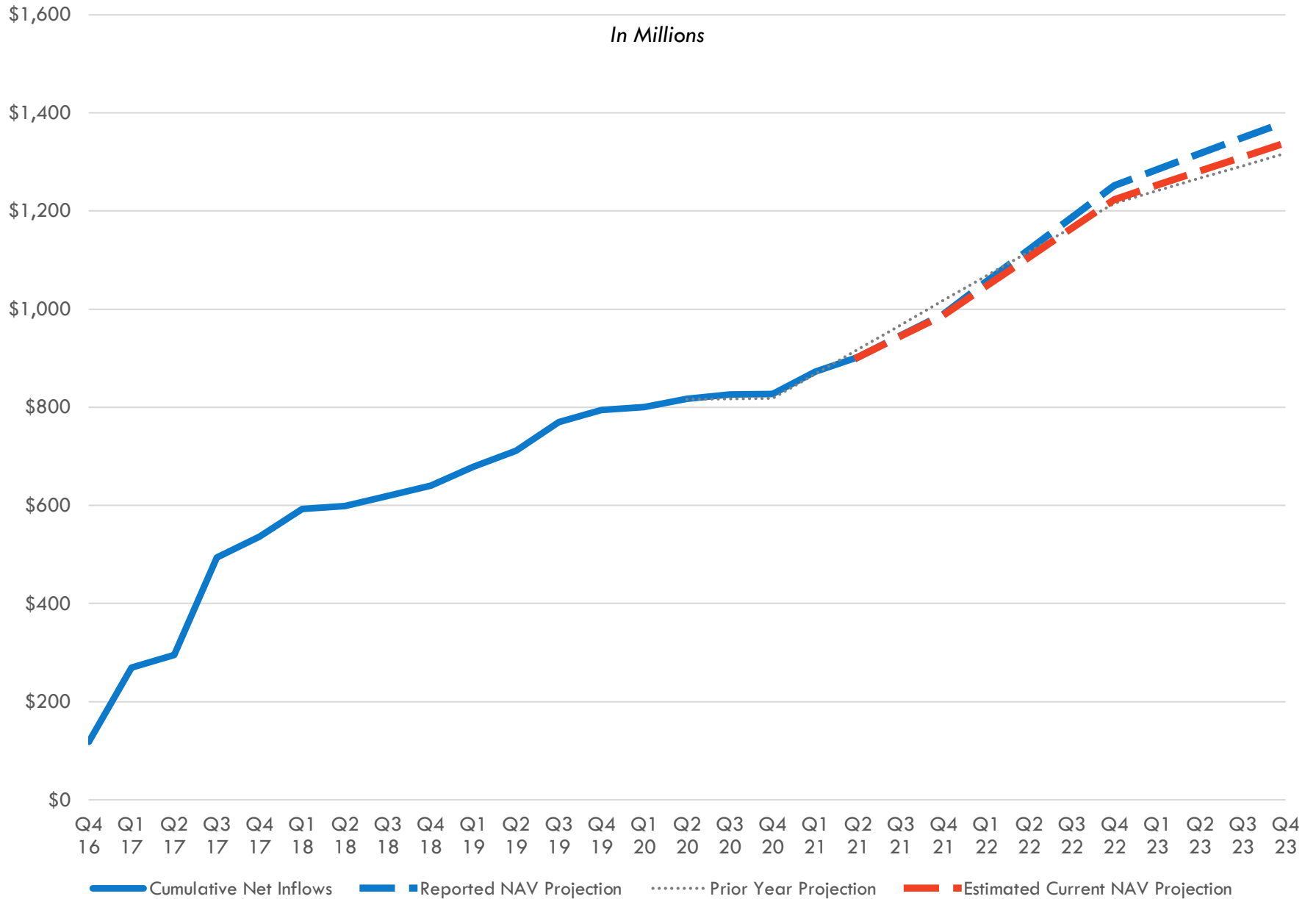


Numbers may not foot due to rounding.



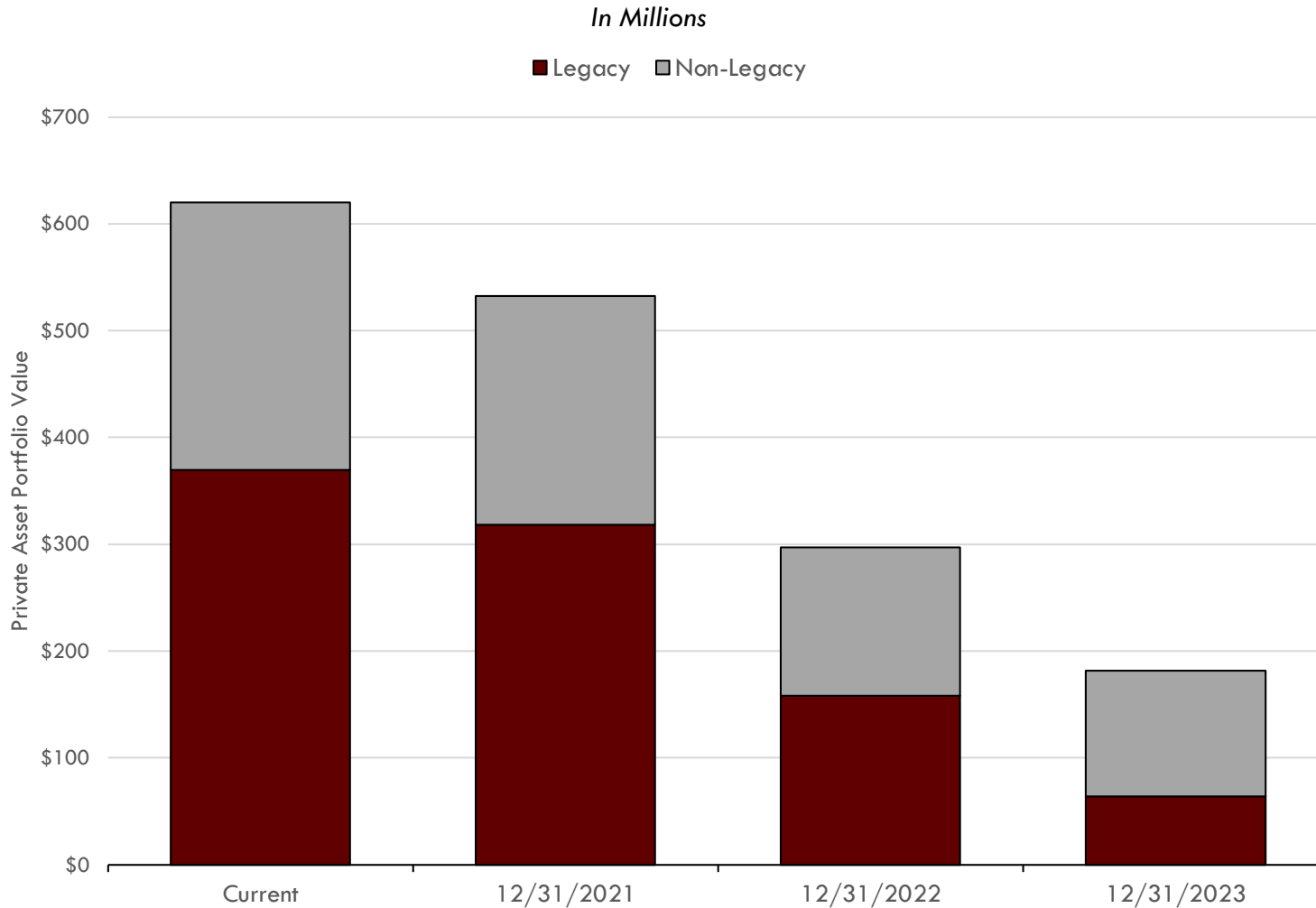
# Cumulative Actual and Projected Private Asset Net Inflows

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



# 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.

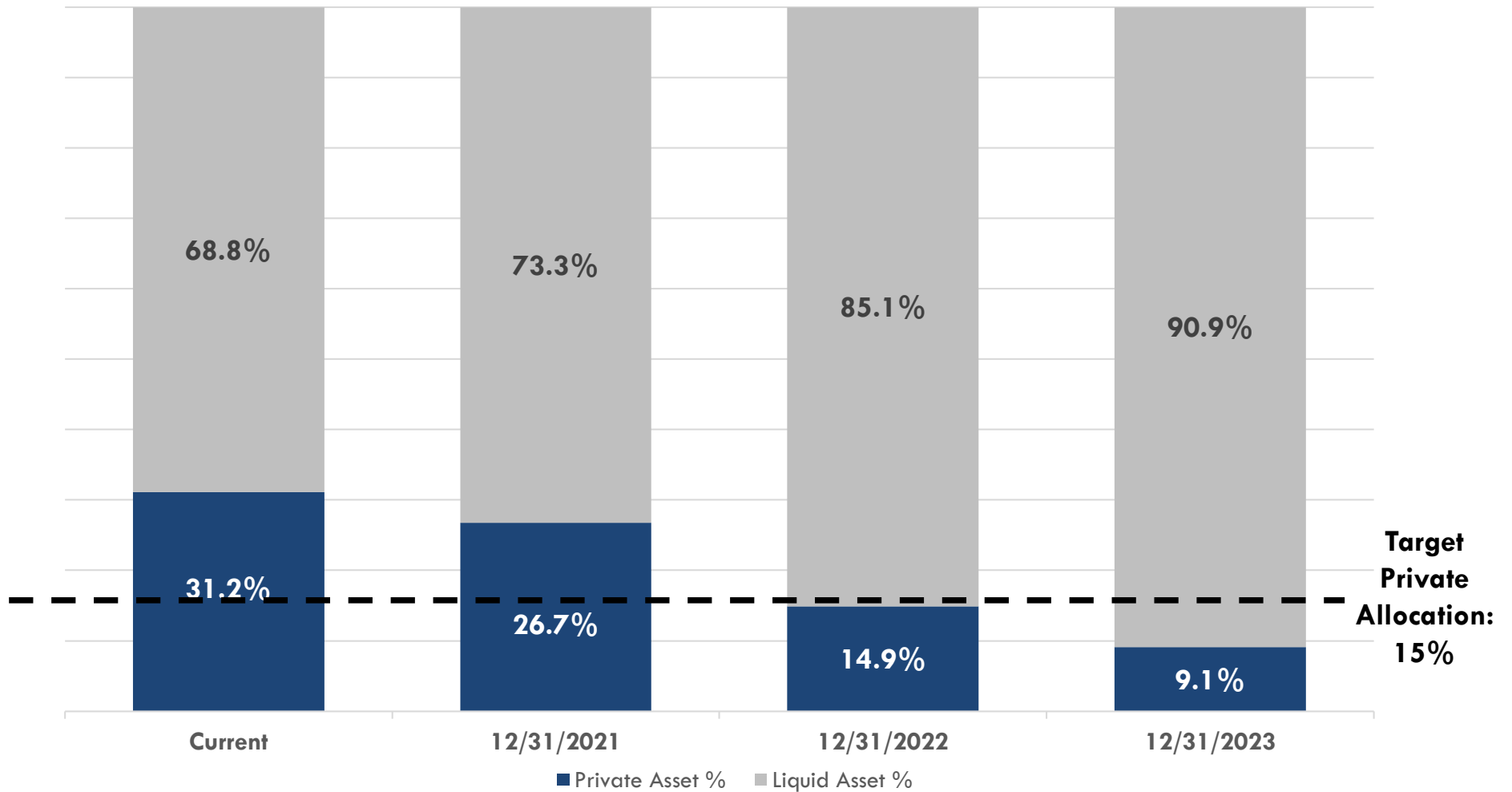


<b>Legacy NAV (M)</b>	\$369	\$318	\$158	\$64
<b>% of Private Portfolio</b>	60%	60%	53%	35%
<b>% of DFPF Portfolio</b>	19%	16%	8%	3%

# Est. Current NAV - Private Asset Allocation

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

Assumes 100% of private asset proceeds are reinvested into liquid investments and flat fund NAV





## DISCUSSION SHEET

### ITEM #C8

**Topic:** Financial Audit Status

**Discussion:** The Chief Financial Officer will provide a status update on the annual financial audit.

*Regular Board Meeting – Thursday, July 15, 2021*



## DISCUSSION SHEET

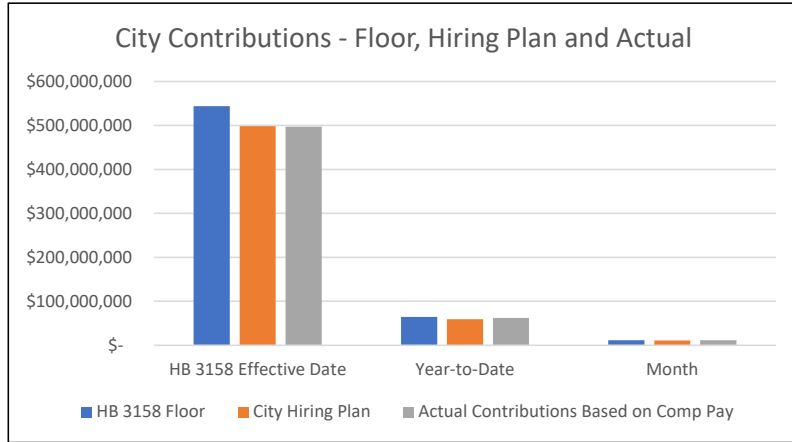
### ITEM #C9

**Topic:** Monthly Contribution Report

**Discussion:** Staff will review the Monthly Contribution Report.

*Regular Board Meeting – Thursday, July 15, 2021*

**Contribution Tracking Summary - July 2021 (May 2021 Data)**



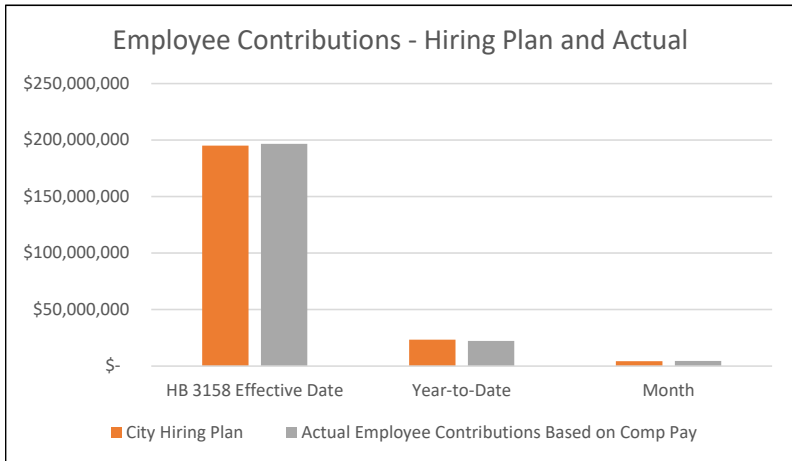
Actual Comp Pay was 100% of the Hiring Plan estimate since the effective date of HB 3158.

In the most recent month Actual Comp Pay was 105% of the Hiring Plan estimate and 97% of the Floor amount.

The Hiring Plan Comp Pay estimate increased by 3.03% in 2021. The Floor increased by 2.76%.

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

The combined actual employees was 175 less than the Hiring Plan for the pay period ending June 8, 2021. Fire was over the estimate by 31 fire fighters and Police under by 206 officers.



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

There is no Floor on employee contributions.

**Contribution Summary Data**

<b>City Contributions</b>							
<b>May-21</b>	<b>Number of Pay Periods Beginning in the Month</b>	<b>HB 3158 Floor</b>	<b>City Hiring Plan</b>	<b>Actual Contributions Based on Comp Pay</b>	<b>Additional Contributions to Meet Floor Minimum</b>	<b>Comp Pay Contributions as a % of Floor Contributions</b>	<b>Comp Pay Contributions as a % of Hiring Plan Contributions</b>
Month	2	\$ 11,764,000	\$ 10,827,692	\$ 11,389,020	\$ 374,980	97%	105%
Year-to-Date		\$ 64,702,000	\$ 59,552,308	\$ 62,347,969	\$ 2,196,031	96%	105%
HB 3158 Effective Date		\$ 543,873,000	\$ 498,312,692	\$ 497,446,863	\$ 40,617,844	91%	100%
<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>							

<b>Employee Contributions</b>							
<b>May-21</b>	<b>Number of Pay Periods Beginning in the Month</b>	<b>City Hiring Plan</b>	<b>Actual Employee Contributions Based on Comp Pay</b>	<b>Actual Contribution Shortfall Compared to Hiring Plan</b>	<b>Actuarial Valuation Contribution Assumption</b>	<b>Actual Contributions as a % of Hiring Plan Contributions</b>	<b>Actual Contributions as a % of Actuarial Val Assumption</b>
Month	2	\$ 4,236,923	\$ 4,456,906	\$ 219,983	\$ 4,236,924	105%	105%
Year-to-Date		\$ 23,303,077	\$ 22,373,356	\$ 1,188,741	\$ 23,303,082	96%	96%
HB 3158 Effective Date		\$ 194,991,923	\$ 196,724,801	\$ 1,732,878	\$ 189,882,724	101%	104%
Potential Earnings Loss from the Shortfall based on Assumed Rate of Return				\$ (497,343)			
<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
<b>YE 2017 (1/1/2018 Valuation)</b>		
2018 Employee Contributions Assumption - based on 2017 actual plus growth rate not the Hiring Plan Payroll	\$ (2,425,047)	*
<b>2019 Estimate (1/1/2019 Valuation)</b>		
2019 Employee Contribution Assumption	\$ 9,278	*
*90% of Hiring Plan was used for the Cash Flow Projection for future years in the 12/31/2017 GASB 67/68 calculation. At 12-31-17, 12-31-18 and 12-31-2019 this did not impact the pension liability or the funded percentage.		

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

<b>City Hiring Plan - Annual Computation Pay and Numbers of Employees</b>						
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	\$ 421,529,994	\$ 25,529,994	5,063	4,988	(75)
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 - 2021	Annual Divided by 26 Pay Periods	Actual	Difference	2020 Cumulative Difference	Number of Employees EOM	Difference
January	\$ 31,384,615	\$ 33,074,493	\$ 1,689,878	\$ 1,689,878	4960	(128)
February	\$ 31,384,615	\$ 33,017,462	\$ 1,632,847	\$ 3,322,725	4926	(162)
March	\$ 31,384,615	\$ 32,960,217	\$ 1,575,602	\$ 4,898,327	4929	(159)
April	\$ 47,076,923	\$ 49,564,745	\$ 2,487,822	\$ 7,386,148	4935	(153)
May	\$ 31,384,615	\$ 33,011,653	\$ 1,627,037	\$ 9,013,186	4913	(175)
June				\$ 9,013,186		
July				\$ 9,013,186		
August				\$ 9,013,186		
September				\$ 9,013,186		
October				\$ 9,013,186		
November				\$ 9,013,186		
December				\$ 9,013,186		



## DISCUSSION SHEET

### ITEM #C10

**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, July 15, 2021*

**Future Education and Business Related Travel &  
Webinars Regular Board Meeting – July 15, 2021**

ATTENDING APPROVED

- 1. Conference:** **TEXPERS Summer Conference**  
**Dates:** August 29-31, 2021  
**Location:** San Antonio, TX  
**Cost:** TBD
  
- 2. Conference:** **NCPERS Accredited Fiduciary (NAF) Program**  
**Dates:** September 25-26, 2021  
**Location:** Scottsdale, AZ  
**Cost:** TBD
  
- 3. Conference:** **NCPERS Fall Conference**  
**Dates:** September 26-28, 2021  
**Location:** Scottsdale, AZ  
**Cost:** TBD



## **DISCUSSION SHEET**

### **ITEM #C11**

**Topic:** **Board Chairman, Vice Chairman and Deputy Vice Chairman Election**

**Discussion:** Section 3.01(g) of Article 6243a-1 requires the Board in June of every odd year to elect from among its trustees a chairman, vice chairman, and a deputy vice chairman, each to serve for two-year terms. At the June 2021 Board meeting, the Board reelected the current officers but directed that this item be brought back for the July meeting.

*Regular Board Meeting – Thursday, July 15, 2021*



## **DISCUSSION SHEET**

### **ITEM #C12**

**Topic:**                    **Legal issues - In accordance with Section 551.071 of the Texas Government Code, the Board will meet in executive session to seek and receive the advice of its attorneys about pending or contemplated litigation or any other legal matter in which the duty of the attorneys to 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, July 15, 2021*



## DISCUSSION SHEET

### TEM #D1

**Topic:** Public Comment

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

*Regular Board Meeting – Thursday, July 15, 2021*

# THE MONITOR

JULY 2021

NCPERS

NO. 7

The Latest in Legislative News



## Voluntary Medicare Buy-In for Retired First Responders

On June 24, Senator Sherrod Brown and Congressman Tom Malinowski reintroduced the Expanding Health Care Options for Early Retirees Act.

## View from the Top: An Interview with NCPERS President Kathy Harrell

NCPERS executive director, Hank Kim, sits down with new NCPERS president Kathy Harrell for a chat about her career and NCPERS goals.



*Also in this issue: Pension Funding Levels Rallied, Defying Predictions of Setbacks During COVID; Around the Regions features California, Delaware, Illinois, and Tennessee this month.*



# Pension Funding Levels Rallied, Defying Predictions of Setbacks During COVID

Public pension funding levels improved amid the pandemic, defying dire forecasts about state and local government finances, the Center for Retirement Research at Boston College reported.

The center said the aggregate level of funding among public pension plans rose to 74.7% in 2021, up from 72.8% a year earlier.

Two factors helped to bolster funding levels, the center said in its annual report on public pension funding. First, markets rebounded after falling sharply at the start of the COVID-19 shutdown in March 2020, lifting investment performance and resulting in better-than-expected returns for public pension assets.



Second, declines in state and local government tax revenue due to the economic fallout from the pandemic were less sharp than expected.

However, the findings were not all rosy. The center noted that 1.5 million state and local government jobs were cut between March and August 2020, for a 0.5% decline (to between 5.5% and 5.75%) in state and local government employment as a share of the U.S. economy.

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This is similar to the decline experienced during the financial crisis of 2008 and 2009, but the COVID-19 job cuts occurred over a shorter span of time, according to the report.

This decline can negatively affect public pensions in two ways, the center said in its report. “The first impact is real, in that it can lead to less funding and higher subsequent required pension contributions. The second is more cosmetic in that reduced employment increases the required contribution rates by lowering the payroll base.”

“The decline in payrolls during COVID caused funded ratios and required contribution amounts to be only slightly worse than they would have been if payrolls had grown as expected,” the center found. “That said, the required contribution rate increased more noticeably due to the lower payroll base over which the slightly higher required contributions are now expressed.”

The center noted that approximately 100 major state and local government pension plans had reported their 2020 funded levels when it compiled its plan-by-plan projections.

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Based on this information—by about half the pension plans in its Public Plans Database—the center concluded that the actuarially determined employer contribution rate will rise slightly, from 21.3% in 2020 to 22% in 2021.

Virtually all of the increase in the 2021 contribution rate stems from an increase in the amortization rate – the portion of the required contribution dedicated to paying down unfunded liabilities – from 14.4 to 15.0 percent of payroll,” the report said.

Separately, MarketWatch noted that plans with March 31 fiscal year ends have posted strong double-digit returns. The New York State Common Retirement Fund returned 33.5%, its best fiscal year result ever, and the Arkansas Teachers Retirement System returned 38.8%. Fiscal year performance results for the majority of pension plans were being calculated at press time, as most plans operate on a July 1-June 30 fiscal year.

# Executive Director's Corner



## View from the Top: An Interview with NCPERS President Kathy Harrell

Kathy Harrell, who was elected president of NCPERS in June, remembers the day she threw her hat in the ring for a seat on the board of trustees of the Ohio Police & Fire Pension Fund. It was 2006, and she was in her nineteenth year as a police officer and her second year as president of the Cincinnati chapter of the Fraternal Order of Police. Her mentor had urged her to apply for an opening that had occurred when a trustee unexpectedly died.



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Harrell was keenly interested and didn't want to risk her application going astray. So she hopped in the car for the 100-mile drive from her Cincinnati hometown to the state capital of Columbus, bringing her mother along for company. When they got to the OP&F office, she handed over her application to a clerk, who informed her, "We're not hiring."

The clerk assumed she was there for a job—a reasonable assumption given that there had not been a female trustee in OP&F's history. And that was only one of the ways in which the job was a stretch.

"I didn't have an investment background at all," Harrell recalls. What she did have was the willingness to engage in a dialogue with the professional investment staff hired by the trustees, weigh their recommendations, and reach informed conclusions, as trustees are expected to do.

In a recent conversation, Kathy and I talked about her trailblazing career as a woman in the police department and in the pension community, and discussed her aspirations for her tenure as NCPERS president.

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**Q. Kathy, congratulations on becoming the first woman president to lead NCPERS. How did you get started on your career?**

**Harrell.** Thank you, Hank! It's a big honor. I got hired as a police officer in 1987 at a time when the Cincinnati Police Department was overwhelmingly male. Around 99% is not an exaggeration. There were not a lot of women, and there were no women in leadership. I did have a female colleague who'd joined the force about six months before I did. We were able to ride together and she really helped me out with safety issues and other factors that are unique to being a female police officer.

I retired in June after 34 and a half years on the force, and it is a completely different place today. There are female captains, lieutenants, assistant chiefs, high ranking African-American women. At every phase and stage, there are women in leadership.

**Q. How did you advance, being one of the few women?**

**Harrell.** The culture helped. Although I was in a minority, never once did I feel diminished. I had great assignments that helped me earn respect. I spent the majority of my career doing undercover drug work, then went back into uniform as a neighborhood officer. Along the way, I had a strong mentor, Bill Bennett, who encouraged me to seek election as president of an FOP Lodge. I won in 2005 and became the first woman in that position, which I held until 2015.

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**Q. FOP Queen City Lodge No. 69 president is a big job. Why did you volunteer?**

**Harrell.** It was that desire to help people, which is what drives a lot of us into public service in the first place. I had a job that I loved doing, with benefits that many people who came before me fought hard to obtain for us. As I settled into my career as a police officer, I found myself talking to younger officers about the big picture issues of safety, benefits, and job security, and that led to my interest in a leadership role with FOP. I also talked a lot to retirees, and they urged me to run.

**Q. How did your role on the OP&F Board come about?**

**Harrell.** That was a direct outgrowth of serving as head of the FOP. I didn't have an investment background, but I knew pension benefits were critically important to our members. Once I became FOP president, I started regularly attending OP&F's open board meetings so I could understand their process for making decisions about our pensions. The more I learned, the easier it was to see myself in a board role. I was the first woman elected to the board, and it was a very satisfying way to serve my fellow public safety officers.

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**Q. How did you become active with NCPERS?**

**Harrell.** Education! As a member of the OP&F board from 2006 to 2011, I was sent to NCPERS training programs. I saw for myself that NCPERS delivers top-quality education to members. I was invited to join the NCPERS executive board in 2007, and in 2011 I became second vice president. From there, it was a straight line to the larger position I now occupy as president.

**Q. What are your hopes for your term as president?**

**Harrell.** Right off the bat, I'm very excited to see us returning to in-person education. Coming together in person is so important to fostering our community. But I also want to see us continue with our successful remote education offerings, such as webinars. I'm so pleased that we were already expanding remote education in 2018 and 2019, because it served us very well when the pandemic struck in 2020. The key now is to keep the momentum going. We saw how important remote delivery of education was, and how many new people we were able to bring in and educate. We've got to get information to as many members as we can.



**Q. What advice do you have for other members?**

**Harrell.** Get involved with NCPERS. Come to meetings. Attend webinars. Read our newsletters and research. We can help you be a more effective advocate for public pensions. As public servants, we all have a passion to serve people. You wouldn't take on these jobs if you didn't truly have it in your heart that you want to help others. You can help others in your profession by being an engaged member of NCPERS.

# Voluntary Medicare Buy-In for Retired First Responders

On June 24, Senator Sherrod Brown (D-OH) and Congressman Tom Malinowski (D-NJ) reintroduced the Expanding Health Care Options for Early Retirees Act, S. 2236 and H.R. 4148, respectively.

Coverage provided under this bill would be identical to the coverage provided under the existing Medicare program. Retirees would be eligible for tax credits, subsidies, and tax-advantaged contributions from their former employer or pension plan. Further, this bill specifically requires implementation in such a way that it will not negatively impact the existing Medicare program, beneficiaries, or trust fund.

The term “qualified first responder” is defined as a first responder (firefighter, police, or EMT as defined in the U.S. code) between the ages of 50-64 who has been separated from service as a result of retirement or disability. The legislation is a recognition that our nation’s first responders generally retire well before the Medicare eligibility age of 65.

“Ohio firefighters and other first-responders wear their bodies out protecting our families and communities, and they should have access to affordable health care when their service comes to an end,” said Senator Brown. “This is a simple solution for first responders who are forced to retire but aren’t yet eligible for Medicare.”

“First responders always come when we need them, and they have stepped up in truly heroic ways throughout the course of the pandemic,” said Rep. Malinowski, who is a member of the Congressional Fire Services Caucus and the Congressional Law Enforcement Caucus. “This bill would ensure that when first responders retire, they have access to the quality, reliable health coverage they have earned and deserve.”

NCPERS is among the national and state organizations that have endorsed this legislation. Other endorsers of the legislation are the International Association of Fire Fighters, the Fraternal Order of Police, the National Association of Police Organizations, the National Troopers Coalition, the International Union of Police Associations, the Ohio Police and Fire Pension Fund, the Professional Firefighters Association of New Jersey, and the New Jersey Firefighters Mutual Benevolent Association.

The bill directs the Secretary of the Department of Health and Human Services (HHS) to determine monthly premiums for individuals enrolled under this provision by estimating the average annual per capita amount for benefits and administrative expenses for all estimated enrollees under the section. Coverage would be considered minimal essential coverage, as required by the Affordable Care Act. The bill would prohibit states from buying Medicaid-eligible individuals into the program.

It would also instruct the Secretary of HHS to establish a Medicare Buy-In Oversight Board to monitor and oversee implementation, including the experience of individuals purchasing coverage. Representatives from industry, consumer advocates, and individuals representing the first responder community, would participate on the board.

Finally, the federal government would provide funding for states, nonprofit organizations, and nonprofit first responder organizations to engage in education and outreach activities. Funding would be prioritized in locations at risk of having no qualified health plans in the individual market.

“As early retirees, too many fire fighters and emergency medical personnel lack affordable healthcare before reaching the age for Medicare eligibility,” said Edward Kelly, General President of the International Association of Fire Fighters. “As healthcare costs steadily increase, finding quality healthcare options during these gap years can be a real hardship. On behalf of the 324,000 members of the International Association of Fire Fighters, I am proud to support the Expanding Health Care Options for Early Retirees Act to allow fire fighters and EMS personnel the right to buy into Medicare at age 50, and thank Representative Malinowski for its introduction. I urge its passing as this bill will close the healthcare gap facing our retirees and provide certainty and peace of mind for our members - allowing them to enjoy the dignified retirement that they earned.”

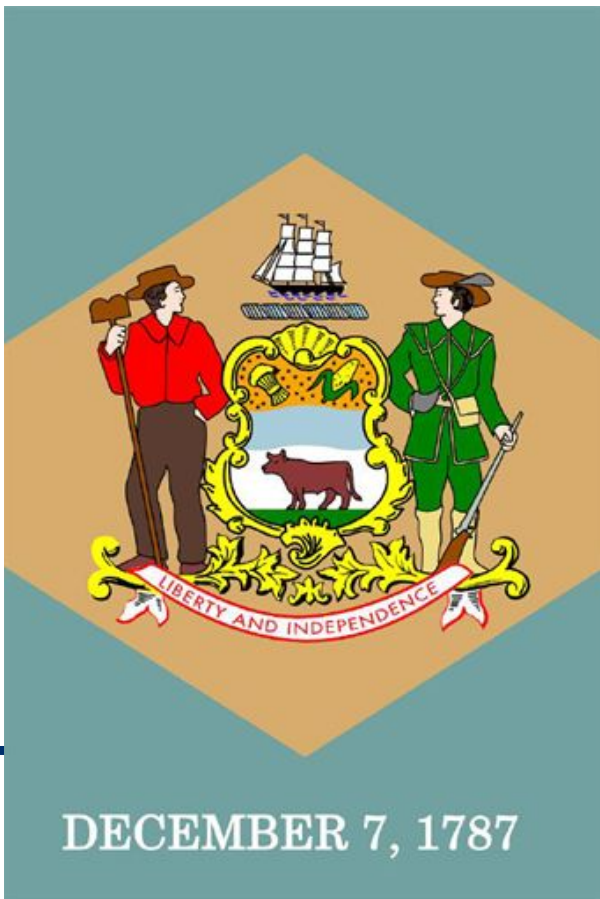
“We believe this legislation addresses a very real and critical need for the men and women who served their communities as public safety officers by providing them with a bridge of coverage following their retirement until they reach the age of 65,” said Pat Yoes, National President of the Fraternal Order of Police.

We applaud Senator Brown and Congressman Malinowski, both of whom recently received NCPERS’ Legislator of the Year award, for their continued commitment to the public safety community and their leadership on this important issue.

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, county, and municipal pension plans in California, Colorado, 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.

# Around the Regions

This month, we will highlight California, Delaware, Illinois and Tennessee.



## Northeast: Delaware

Delaware has joined the growing list of states that are considering offering workplace retirement savings programs for private-sector employees, but in a significant twist, it may require that employees opt into the program.

Bipartisan legislation has been introduced in the Delaware House of Representatives to create the Delaware EARNNS program, short for “Expanding Access for Retirement and Necessary Savings.” The bill, H.B. 205, originally provided for automatic enrollment, like other so-called auto-IRA plans.

However, it was amended in the House Appropriations Committee on June 21 to require that employees must affirmatively opt in to the program. Amendments also clarified that employees aren’t covered until they’ve been with their employer for at least 90 consecutive days.

In announcing the program in May, Delaware State Treasurer Colleen Davis had emphasized the importance of the auto-enrollment feature. “Workers benefit immediately by being automatically included in a retirement plan,” she said. “Programs like Delaware EARNNS that use auto-enrollment have a 92% participant rate compared to 61% for plans with just a voluntary rate,” she explained before the amendment was made.

According to Davis, nearly 54% of Delaware businesses don’t offer employees a way to save for retirement, leaving 200,000 without this benefit. Payroll deduction is widely recognized as the most effective method to encourage long-term savings.

Delaware EARNNS would be modeled the SecureChoice plan advocated for more than a decade by NCPERS. Businesses with more than five employees would be required to participate in Delaware EARNNS through a simple payroll process; the state Treasurer’s Office would take it from there.

The proposed legislation, H.B. 205, was introduced May 20 and sent to the House Appropriations Committee on June 10, where it was been amended twice. On June 11, language was added to clarify the responsibilities and authority of the program board.

## Midwest: Illinois

The Illinois General Assembly on June 29 sent legislation to revise pension funding for Chicago's park employees to Governor J.B. Pritzker for his signature.

House Bill 417 authorizes the Chicago Park District to issue bonds totaling \$250 million, in increments of no more than \$75,000 per year, to decrease unfunded liabilities of the Park Employees' Annuity and Benefit Fund of Chicago, known as the Park District pension. The fund cannot be used to defray the employer contribution.

The Park District pension's year-end 2020 actuarial valuation and review, conducted by Segal and published in May, concluded that employer contributions to the fund "are insufficient to prevent insolvency," and said that without a change its assets could be depleted within eight years.

The legislation also establishes a new schedule for the Park District's required annual contributions to the fund to gradually cover 100% of total accrued liabilities over 35 years, starting with a \$40 million contribution no later than November 1, 2021.

It also establishes a pension contribution equal to 9% of salary for employees who join on or after January 1, 2022, versus 7% for those hired previously.



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## South: Tennessee

The Tennessee General Assembly voted to allocate \$250 million to the state's pension system in the fiscal year that began July 1.

The one-time contribution to the Tennessee Consolidated Retirement System State and Higher Education plan is the largest single contribution in the history of TCRS.

TCRS is frequently cited as one of the best-funded public pension plans in the nation, in large part because the state government has consistently honored its financial obligations. The pension plan serves approximately 369,000 active and retired state, higher education, and participating local government employees, as well as K-12 public teachers.

“It is impossible to overemphasize the importance of this year's \$250 million appropriation to the state's pension fund,” said Lt. Governor Randy McNally. “One of the linchpins of our state's nearly immaculate Triple A credit rating is our fully funded retirement system.

Last fiscal year, TCRS paid \$2.75 billion in benefits to 146,382 retirees across the state, over 92% of whom remain in Tennessee, the Overton County News reported. The retirement benefits paid by TCRS have a significant economic impact in all 95 counties.

## West: California

The Ninth Circuit Court of Appeals has rejected the Howard Jarvis Taxpayers Association's petition for a rehearing before the full court of its unsuccessful bid to strike down the California Secure Choice Retirement Savings Program.

A three-judge panel on June 15 denied the petition, noting that no judge requested a so-called en banc rehearing. The decision lets stand the Ninth Circuit's May 6 determination that the CalSavers program for private-sector workers is not governed or pre-empted by ERISA, the federal law on employee benefits. CalSavers was created in 2017.

Federal appeals cases are heard by panels of three judges, and appellants can request a rehearing by the full court. In the case of the Ninth Circuit, an en banc hearing involves 11 of its 29 active judges including the chief judge. The process is regularly used for unusually important or complex cases.

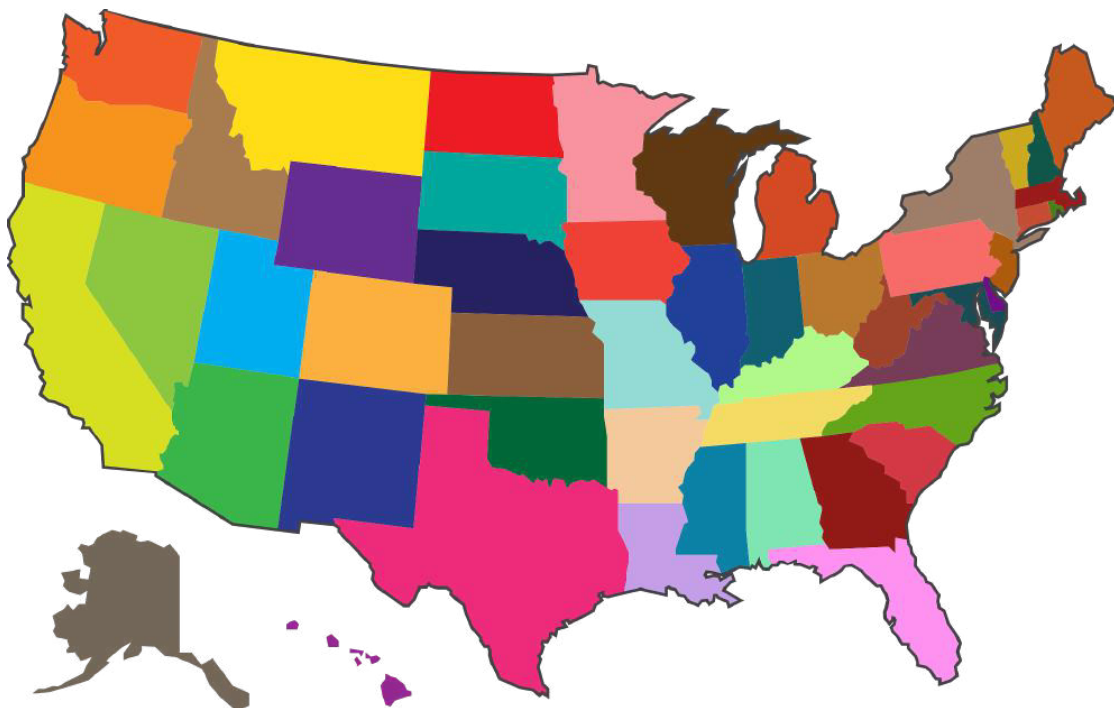
Having failed in its request for a rehearing, the Howard Jarvis Taxpayers Association's remaining option would be to appeal the decision to the U.S. Supreme Court. As of press time, the association had not made any public statements as to its intentions.

The CalSavers board discussed the litigation during a 20-minute closed session at its June 22 board meeting, but took no action, according to board meeting minutes.



Separately, CalSavers on June 30, 2021, passed a milestone: California companies with 50 or more workers were required to register to facilitate enrolment by that date if they do not already sponsor a retirement savings plan. The next milestone occurs on June 30, 2022, when companies with five or more workers must register. The deadline for companies with 100 or more workers to register was September 30, 2020.

More than 200,000 accounts, representing 11,000 employers, were enrolled in CalSavers as of May 31, with combined assets of \$77.2 million.





## Calendar of Events 2021

### July

July 13

Webinar: Demystifying  
Operational Due Diligence-  
Due For A Change? With Aon

### September

September 26-28

2021 FALL Conference  
Scottsdale, Arizona

### August

August 22- 24

2021 Public Pension Funding  
Forum

New York, New York

The Monitor is published by the National Conference on Public Employee Retirement Systems.

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## DISCUSSION SHEET

### ITEM #D2

**Topic:** Executive Director's report

- a. Associations' newsletters
  - NCPERS Monitor (July 2021)
- b. Open Records
- c. Office Update and Reopening Status
- d. CIO Recruitment

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

*Regular Board Meeting – Thursday, July 15, 2021*