EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS

2017

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED DECEMBER 31, 2017

2017 AT – A – GLANCE

(unaudited)

($ in thousands)

Active Members	7,838
Benefit Recipients	7,042
Inactive Members	1,248
Fund Net Position	$3,612,259
Benefits Paid	$253,535
Refunds	$8,156
Member Contributions	$55,175
City Contributions	$58,966
Investment Rate of Return	13.29%

COMPREHENSIVE ANNUAL FINANCIAL REPORT 2017

FISCAL YEAR ENDED, DECEMBER 31, 2017

Prepared by the Staff of The Employees' Retirement Fund

CHERYL D. ALSTON
EXECUTIVE DIRECTOR

Employees' Retirement Fund of the City of Dallas
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INTRODUCTORY SECTION

Employees' Retirement Fund
of the City of DALLAS ®

LETTER OF TRANSMITTAL

June 12, 2018

Board of Trustees
Employees' Retirement Fund of the City of Dallas
1920 McKinney Avenue - 10th Floor
Dallas, Texas 75201

Dear Board Members:

The comprehensive annual financial report (CAFR) of the Employees' Retirement Fund of the City of Dallas (ERF) for the fiscal year ended December 31, 2017 is submitted herewith. Our mission is to provide retirement benefits and superior service to advance the financial security of our members. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation rests with the staff of ERF.

Report Contents

This CAFR is divided into five sections:

1. **Introductory Section** contains a letter of transmittal, administrative organization, and the Plan Summary.

2. **Financial Section** contains the report of the Independent Auditors, the financial statements of ERF and certain required supplementary information.

3. **Investment Section** contains a report on investment activity, investment policies, investment results, and various investment schedules.

4. **Actuarial Section** contains an Actuary's Certification Letter and the results of the annual actuarial valuation.

5. **Statistical Section** contains significant data pertaining to ERF.

I trust that you and the members of ERF will find this CAFR helpful in understanding the retirement plan.

Plan Overview

ERF was established by ordinance in November 1943 and became effective in January 1944 after ratification by the voters of the City of Dallas. ERF is a single-employer defined benefit pension plan sponsored by the City of Dallas (the "City"), and it provides retirement, disability, and death benefits to its members. All employees of the City are members except police officers, firefighters, elected officers, non-salaried appointee members of administrative boards or commissions, temporary employees, individuals working under contract, and individuals whose salaries are paid in part by another government agency. Members are entitled to retirement benefits at the date of eligibility for retirement or to survivor benefits after two years of service.

Investments

The Board of Trustees oversees ERF's portfolio, managers, and performance, as well as reviews and approves potential investment opportunities, with input from the investment consultant and staff. The Board follows the "prudent person rule", which states that fiduciaries shall discharge their duties solely in the interest of ERF and its participants and beneficiaries with the degree of diligence, care and skill which prudent men and women would ordinarily exercise under similar circumstances in a such a position.

An integral part of the overall investment policy is the strategic asset allocation policy. This policy is designed to provide an optimal diversification to reduce risk and maximize the total rate of return relative to risk. This emphasizes a maximum diversification of the portfolio that protects ERF from declines that a particular asset class may experience in a given period. The Plan had a return of 13.29% for 2017, in comparison to 9.17% in 2016 and -1.77% in 2015. The Fund expects and assumes an investment rate of 7.75% over the long term, which encompasses many years in the future.

Employees' Retirement Fund
of the City of DALLAS ®

Additions To Plan Net Assets

The collection of employer and member contributions, as well as income from investments, is intended to provide the reserves needed to finance retirement benefits. Contribution and investment income, including unrealized gains and losses, for 2017 total $527,857,643. City and member contributions for the fiscal year were $114,141,155, an increase of approximately $4,575,016 from the prior year. This increase is attributed a slight change in the City's contribution rate to the Fund, merit raises and an increase in the number of active employees. The City's contribution rate toward the pension plan increased from 14.33% in 2016 to 14.39% in 2017. The total City's contribution rate was 22.68%, of which 8.29% was for debt service payments on pension obligation bonds. The member's contribution rate remained unchanged in 2017. City's contributions received in 2017 were $58,966,239 and members' contributions were $55,174,916.

Deductions To Plan Net Assets

The principal purpose for which ERF was established is to provide retirement benefits, survivor benefits, and total and permanent disability benefits to qualified members and their beneficiaries. The cost of such programs includes recurring benefit payments, refund of contributions to terminated employees, and the cost of administering ERF.

Deductions for fiscal year 2017 totaled $267,640,465, an increase of 4.96% over 2016. This increase is primarily due to an increased number of refund applicants and an increase in benefit payments. Administrative expenses, which are controlled by a budget approved by the Board of Trustees, increased from the prior year by $607,307.

Accounting System And Internal Controls

This CAFR was prepared to conform with the accounting principles generally accepted in the United States (GAAP) that apply to government accounting for fiduciary funds. The accompanying financial statements are prepared using the accrual basis of accounting. Member and employer contributions are recognized in the period in which employee services are performed. Expenses are recorded when the corresponding liabilities are incurred, regardless of when payment is made.

The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. The statistical section is a required part of a CAFR.

In developing and evaluating ERF's accounting system, it was determined that internal controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Funding

A pension fund is well funded when it is receiving enough money to meet all expected future obligations to its participants. ERF's funding objective is to meet long-term benefit payments through contributions that remain approximately level as a percent of member payroll. The actuarial accrued liability and actuarial value of assets of ERF as of December 31, 2017 amounted to $4.378 billion and $3.602 billion, respectively. A detailed discussion of funding is provided in the Actuarial Section of this report.

Professional Services

Consultants are appointed by the Board of Trustees to perform professional services that are essential to the effective and efficient operation of ERF. An opinion from the certified public accounting firm of Grant Thornton LLP, the actuarial firm of Gabriel, Roeder, Smith & Company, and the investment consultant firm of Wilshire Associates, Inc. are included in this report. The consultants appointed by the Board are listed in this Introductory Section.

Acknowledgments

The compilation of this report reflects the combined effort of the staff under the leadership of the Board of Trustees. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means of determining responsible stewardship of the funds of ERF.

Employees' Retirement Fund
of the City of DALLAS ®

The report is available to all members of ERF.

I would like to express my gratitude to the staff, the advisors, and others who have worked so diligently to assure the successful operation of ERF.

Respectfully submitted,

Cheryl D. Alston
Executive Director

BOARD OF TRUSTEES

As of December 31, 2017

John D. Jenkins, Chair
Employee Elected Member

Carla D. Brewer, Vice Chair
Employee Elected Member

Randy Bowman
Council Appointed Member

Craig D. Kinton, CPA
City Auditor

Lee Kleinman
Council Appointed Member

John W. Peavy III
Council Appointed Member

Tina B. Richardson
Employee Elected Member

ADMINISTRATIVE STAFF

Cheryl D. Alston
Executive Director

David Etheridge
Deputy Director

Saki Vimal
Senior Accounting Specialist

Naveed Khan
Senior Accounting Specialist

Nicole Spencer-Berry
Senior Pension Specialist

Micaela Galicia
Pension System Analyst

Natalie Jenkins Sorrell
Deputy Chief Investment Officer

Joshua Berman
Investment Analyst

Duc Lam
IT Manager

Jody Thigpen
Senior Web Developer

Jason Thompson
System Administrator

Ervin H. Frenzel
Security Administrator

Andrea Houston
Senior Pension Specialist

Re'Gine Green
Senior Pension Specialist

C. Kay Watson
Pension Officer

Susan Oakey
Pension Officer

Anita Gage
Senior Pension Specialist

Todd Green
Senior Pension Specialist

Patricia Jack
Senior Pension Specialist

Kaleb Jones
Senior Pension Specialist

Al Perez
Record Compliance Officer

Melissa Harris
Chief of Communications

Kate Shaw
Communications Specialist

Tearyne Glover
Web Developer

Margaret Lara
Administrative Specialist II

Yvonne Garcia
Administrative Specialist II

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PROFESSIONAL SERVICE PROVIDERS

MASTER CUSTODIAN
The Northern Trust Company

CONSULTING ACTUARY
Gabriel, Roeder, Smith & Company

INVESTMENT CONSULTANT
Wilshire Associates, Inc.

INVESTMENT ACCOUNTING FIRM
STP Investment Services

AUDITOR
Grant Thornton, LLP

LEGAL ADVISORS
Foster Pepper, PLLC
Locke Lord, LLP

PLAN SUMMARY

Summary of Key Provisions
Employees' Retirement Fund of the City of Dallas
As of December 31, 2017

Membership

An employee becomes a member upon permanent employment and contributes to the Fund. Tier A members were hired prior to January 1, 2017. An amendment to the governing documents passed by voters on November 8, 2016 to create a new tier of benefits, Tier B, for members hired on or after January 1, 2017.

Contributions

Member: 37% of the current adjusted total obligation rate. New rates effective October 1 after the valuation date.

City: 63% of the current adjusted total obligation rate. New rates effective October 1 after the valuation date.

Definitions

Final Average Salary
Tier A

Average monthly salary over the member's highest three years of service

Tier B

Average monthly salary over the member's highest five years of service.
Credited Service: Length of time as an employee of the City of Dallas and while making contributions to the Fund.

Retirement Pension

Eligibility:
Tier A

a. Attainment of age 60; or
b. Attainment of age 55 (if credited service began before May 9, 1972); or
c. At any age after completion of 30 years of credited service with a reduced benefit before age 50; or
d. Attainment of age 50, if the sum of an active member's age and credited service is at least equal to 78.

Tier B

a. Attainment of age 65 and 5 years of service; or
b. At any age after completion of 40 years of credited service; or
c. At any age if the sum of an active member's age and credited service is at least equal to 80 (under this eligibility the member's pension will be actuarially reduced for each year prior to the age of 65 that the member retires).

Retirement

Benefits:
Tier A

The retirement benefit equals 2-3/4% multiplied by average monthly salary multiplied by credited service limited to a maximum of 36.3636 years plus a monthly $125 health supplement (prorated for service less than 5 years).

Tier B

The retirement benefit equals 2-1/2% multiplied by average monthly salary multiplied by credited service limited to a maximum of 40 years (no monthly health supplement).

Form of Payment

Tier A

An unreduced pension benefit under a joint and one-half survivor option with 10 years guaranteed or a ten-year certain and life option. An actuarially equivalent joint and full survivor option is also available after 15 years of service.

Tier B

An unreduced pension payable for life with 10 years guaranteed. Actuarially equivalent joint and survivor options (50% and 100%) are also available.

Deferred Retirement

Eligibility: Deferred retirement pension benefit commencing at age 60 for Tier A members or at age 65 for Tier B members, with at least five (5) years of credited service, if accumulated contributions are left on deposit with the Fund.

Monthly Benefit: The deferred retirement benefit is equal to the retirement pension based on earnings and credited service at the time of termination.

Disability Retirement Pension

Non-Service Disability:

Eligibility: Five (5) years of service and totally and permanently incapacitated for duty.

Monthly Benefit: Computed based on average monthly earnings an credited service at time of disability but not less than 10 times the percentage multiplied by the average monthly earning.

Service Disability:

Eligibility: Totally and permanently incapacitated from the further performance of duty as a result of injury while in the course of employment for the City.

Monthly Benefit: Calculated as a non-service disability pension but not less than $1,000 per month.

Death Benefits

Form: Benefit paid in accordance with the option on file, or the eligible option, or if no eligible beneficiary, a lump sum equivalent of 10 years of benefit payments to the member's estate.

Monthly Benefit: Based on average monthly earnings and credited service at death but not less than 10 times the percentage multiplier multiplied by the average monthly earnings.

Minimum Service Death Benefit: Not less than $1,000 per month if death resulted from a service related injury.

Return of Accumulated Contribution

A member at the time of termination is entitled to be paid accumulated member contributions without interest.

Cost-of-Living Adjustment

An annual cost-of-living adjustment to the base pension benefit shall be made based on the greater of:

Tier A

a. The percentage of change in the price index for October of the current year over October of the previous year, up to 5% or
b. The percentage of annual average change in the price index for the 12-month period ending with the effective date of the adjustment, up to 5%.

Tier B

a. The percentage of change in the price index for October of the current year over October of the previous year, up to 3% or
b. The percentage of annual average change in the price index for the 12-month period ending with the effective date of the adjustment, up to 3%.

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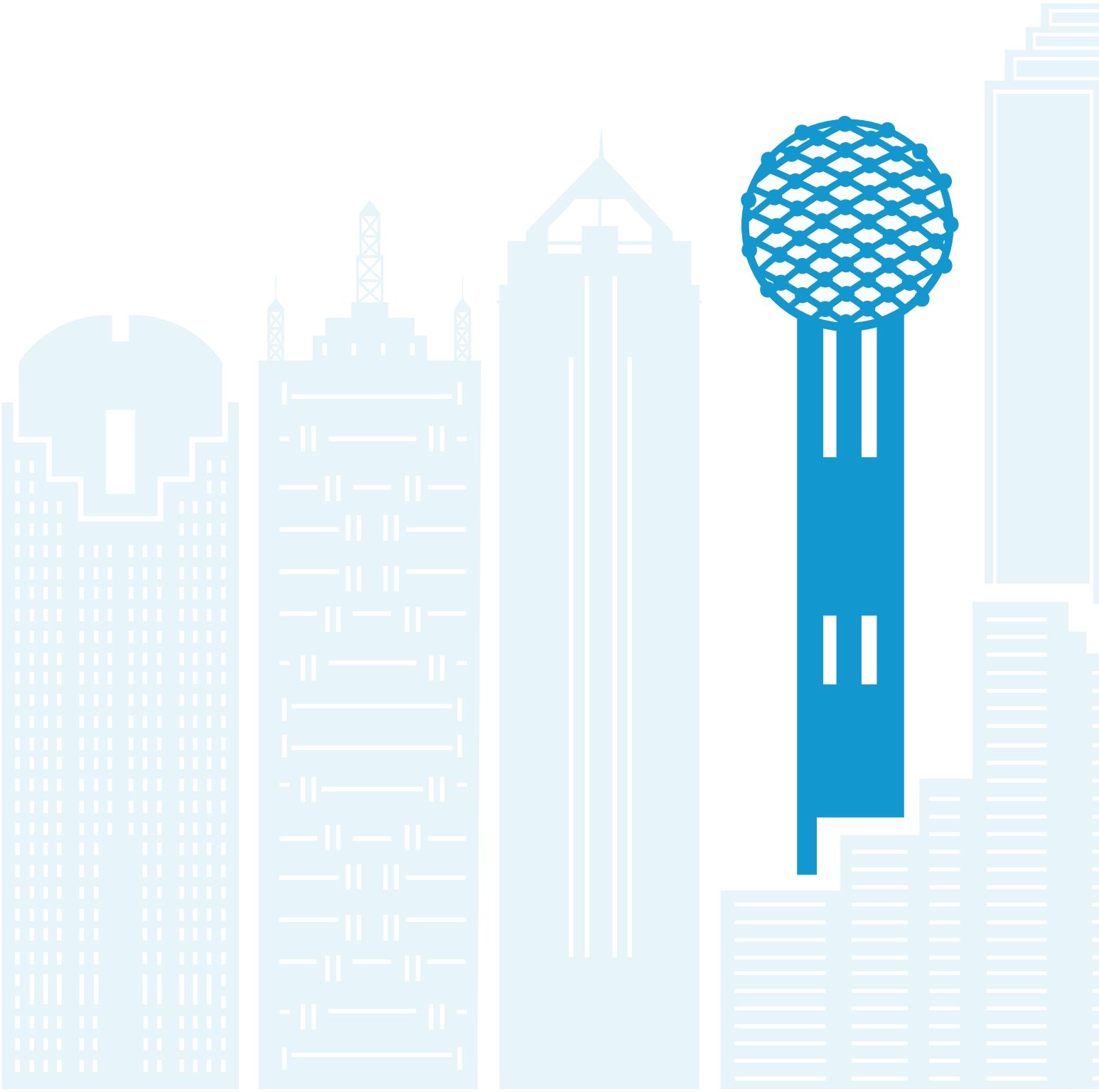

FINANCIAL SECTION

EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS

FINANCIAL STATEMENTS

As Of December 31, 2017 and 2016
With Independent Certified Public Accountant's Report Thereon

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Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

UPON BOARD APPROVAL
LETTER WILL BE PROVIDED

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Dallas, TX 75201-4667

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The Board of Trustees

Employees' Retirement Fund of the City of Dallas, Texas

We have audited the accompanying financial statements of Employees' Retirement Fund of the City of Dallas (the "Plan"), which comprise the statements of fiduciary net position as of December 31, 2016 and 2015 and the related statements of changes in fiduciary net position for the years then ended, and the related notes to the financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the information regarding the Employee's Retirement Fund of the City of Dallas' fiduciary net position as of December 31, 2016 and 2015, and changes therein for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Grant Thornton

Other Matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in Net Pension Liability and Related Ratios, the Schedule of the Net Pension Liability, and the Schedule of Contributions be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The introductory, investment, actuarial, and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements . Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

UPON BOARD APPROVAL
LETTER WILL BE PROVIDED

Grant Thornton LLP

Dallas, Texas

June 29, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Required Supplementary Information

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MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The management's discussion and analysis of the Employees' Retirement Fund of the City of Dallas (the Plan) financial performance provides an overview of the financial activities and funding conditions for the fiscal years ended December 31, 2017, 2016, and 2015. The intent of this discussion and analysis is to give a narrative overview and analysis of the Plan's financial performance as a whole. For more detailed information regarding performance, readers should also review the financial statements, notes to the financial statements, and required supplementary information in order to enhance their understanding of the Plan's financial performance.

FINANCIAL STATEMENTS

The Plan is a defined benefit plan that provides retirement, disability, and death benefits to full- time and permanent part-time civilian employees of the City of Dallas (the City). The Plan has two basic financial statements:

- A statement of fiduciary net position that provides information about the fair value and composition of plan assets, plan liabilities, and fiduciary net position; and
- A statement of changes in fiduciary net position that provides information about the year-to-year changes in fiduciary net position.

There are also notes to the financial statements that include a brief plan description, a summary of significant accounting policies, and information about contributions, legally required reserves, and investment concentrations. The report also contains required supplementary information in addition to the basic financial statements. Collectively, this information presents the net position restricted for pension benefits and summarizes the changes in net position for those benefits.

FINANCIAL HIGHLIGHTS

Fiscal year 2017 experienced an increase in investments for the Plan year. This was preceded by the positive return for the Plan last year. The Plan's Financial highlights for fiscal year ended December 31, 2017 are as follows:

- The Plan had a return of 13.29% for the year, with a 3-year return of 6.74%, and a 5-year return of 8.65%.
- The net position restricted for pension benefits was $3.6 billion as of December 31, 2017. This amount reflects an increase of $260 million from last year. This increase is attributed to the better performing asset classes in 2017 such as international equity, global equity, domestic equity and global low volatility assets.
- Total contributions for fiscal year 2017 were $114 million, an increase of approximately $5 million from last fiscal year. This is attributed to an increase in the city's contribution rate and an increase in the number of active employees.
- Pension benefits paid to retirees and beneficiaries increased $10 million in 2017 compared to 2016 bringing the total benefit payments to $254 million. Refunds of contributions paid to former members upon termination of employment were $8.2 million for 2017 and $5.9 million for 2016.
- Net investment income (net appreciation/depreciation in the fair value of investments, plus interest and dividend income, less investment expenses) increased $119 million compared to last fiscal year.
- Administrative expenses of $6.0 million in 2017 were approximately $607 thousand more than 2016.

CONDENSED FINANCIAL INFORMATION
($ in 000s)

	2017	2016	2015
Assets	$4,381,561	$4,053,238	$3,715,408
Liabilities	769,302	701,195	513,200
Fiduciary Net Position Restricted for Pension Benefits	3,612,259	3,352,043	3,202,208
Contributions	114,141	109,566	101,463
Investment & other income, net	413,717	295,251	(53,182)
Benefit payments	253,535	243,775	235,106
Refund of contributions	8,156	5,864	4,854
Administrative expenses	5,951	5,344	4,598
Change in Fiduciary Net Position Restricted for Pension Benefits	$260,217	$149,835	$(196,277)

FINANCIAL POSITION AND RESULTS OF OPERATIONS

The Plan's total return for fiscal year 2017 was 13.29%, as compared to 9.17% in 2016 and -1.77% in 2015. The one year return was above the policy benchmark of 12.07%. The fund has performed well over longer time periods. The fund's 3 year return is 6.74% and the 5 year return is 8.65%.

The best performing asset class in 2017 was international equity, returning 29.91%. The fund's real estate investments generated 5.71% for the year. The real estate investments consist of publicly traded real estate funds called real estate investment trust ("REITS") and domestic private real estate funds. The investments in domestic equity returned 21.54% for the year. Overall, the Plan's investment portfolio increased from $3.2 billion in fiscal year 2016 to $3.5 billion in 2017, an increase of approximately $269 million.

Additions to fiduciary net position consist of employer and employee contributions, investment income, and net realized and unrealized gain on investments. For fiscal year 2017, additions to fiduciary net position reflect an increase of $123 million, in comparison to 2016. This increase is primarily due to an increase in the market value of investments specifically international equities, domestic equities, and global equities. City and employee contributions for fiscal year 2017 were $59 million and $55 million, respectively. Total contributions for 2017 were $114 million compared to $110 million in 2016 and $101 million in 2015.

Net investment income/(loss) is presented net of investment expenses and is comprised of interest, dividend income, gains/(losses) from the sale of investments, net unrealized appreciation/(depreciation) in the fair value of investments, and net income from securities lending activities. For fiscal year 2017, the Plan had a net investment gain of $414 million, (excluding non-investment income of $207 thousand) compared to a net investment gain of $ 295 million in fiscal year 2016.

Fiscal year 2017 liabilities of $769 million showed an increase of 10% over fiscal year 2016 liabilities of $701 million. Liabilities for 2016 increased $513 million or 37% over 2015 The increase in 2017 was primarily due to an increase in hedging activities and payable for securities purchased by three new managers. Hedging activities increased $75 million or 20% from 2016. Year end balances for securities purchased were $13 million in 2017, $4 million in 2016 and $8 million in 2015. Foreign currency exchange contracts at year end were $458 million in 2017, $383 million in 2016 and $195 million in 2015. The differences were due to investment managers' portfolio management.

Deductions from Fiduciary Net Position are largely from benefit payments. During fiscal year 2017, benefits paid were $254 million, an increase of $10 million over payments made in 2016. Benefits paid in fiscal year 2016 were $244 million, an increase of $10 million over payments made in 2015. The major cause of the 2017 increase is attributable to new retirements with higher base benefits, as was the increase between 2016 and 2015.

New retirements were 354, 324 and 287 respectively for fiscal years 2017, 2016 and 2015. Cost of living adjustments (COLA) were 1.4% in 2017 and 0.0% in 2016 and 1.6% in 2015 . A cost of living adjustment (COLA) is granted effective January 1 of each year if there is an increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) either from October of the prior year to October of the current year or if the monthly changes average is greater than zero. During fiscal year 2017, refunds of contributions amounted to $8.2 million (546 refunds), compared to 2016

refunds of $5.9 million (478 refunds) and 2015 refunds of $4.9 million (390 refunds). The fiscal year 2017 refund amount reflects an increase in the number of members requesting refunds as compared to fiscal year 2016. Administrative expenses of approximately $6.0 million represent approximately 2% of total deductions for the year.

CURRENT ENVIRONMENT

Plan membership for active members increased during fiscal year 2017. Active membership increased from 7,619 to 7,838 members, an increase of 2.87%. For 2017, the number of new retirements was 354 compared to 324 in 2016. The trend of benefit payments continues to increase. Similar to most mature plans, benefit payments exceed the level of contribution revenue received, and cash generated from investments is needed in order to meet benefit payments.

An actuarial valuation of the Plan's assets and benefit obligations is performed annually by an independent firm, Gabriel Roeder Smith & Company (GRS). Based on the actuarial value of assets, the funded ratio of the Plan increased from 80.4% in 2016 to 82.3% in 2017. The Unfunded Actuarial Accrued Liability decrease from $840 million as of December 31, 2016 to $776 million as of December 31, 2017. Based on governmental accounting standards board statements 67/68 calculation, the Plan fiduciary Net Position as a percentage of the Total Pension Liability was 82.51% in 2017 as compared to 78.10% in 2016. This is due to a slight increase in actuarial pension liability in 2017. See page 51 for more information regarding the discount rate.

EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS

Statements of Fiduciary Net Position
As of December 31, 2017 and 2016
($ in 000s)

	2017	2016
ASSETS:		
Cash and short-term investments	$117,468	$123,539
Collateral on loaned securities	288,565	303,141
	406,033	426,680
RECEIVABLES:		
Currency contracts	457,697	382,743
Currency gains	268	694
Accrued dividends	4,240	2,974
Accrued interest	9,255	9,102
Accrued securities lending	103	167
Securities sold	7,499	3,152
Employer contributions	1,788	1,779
Employee contributions	1,656	1,654
Total receivables	482,505	402,265
Investments, at fair value:		
Commingled index funds	163,761	219,247
Domestic equities	1,377,442	1,255,384
United States and foreign government fixed income	210,114	214,768
Domestic corporate fixed-income securities	720,300	658,962
International equities	508,457	476,224
Investments, at estimated fair value:		
Private equities	210,182	184,812
Real estate	302,767	214,895
Total investments	3,493,022	3,224,293
Total assets	4,381,561	4,053,238
LIABILITIES:		
Accounts payable	6,645	7,968
Payable for securities purchased	13,315	4,314
Investment fees payable	3,080	3,029
Currency contracts	457,697	382,743
Securities lending collateral	288,565	303,141
Total liabilities	769,302	701,195
Net position RESTRICTED for PENSION benefits	$3,612,259	$3,352,043

(A Schedule of Net Pension Liability is presented on page 50)

The accompanying notes are an integral part of these financial statements.

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS
Statements of Changes in Fiduciary Net Position
As of December 31, 2017 and 2016
($ in 000s)

	2017	2016
Additions:		
Contributions:		
Employer	$58,966	$56,130
Employee	55,175	53,436
Total contributions	114,141	109,566
Net investment income:		
Dividends	51,902	52,528
Interest	43,151	41,393
Real estate dividend income	6,917	4,397
Net appreciation/(depreciation) in fair value of investments	326,541	210,665
Securities lending rebates paid by (refunded to) borrowers	(2,376)	(530)
Securities lending income	4,261	2,277
Total investment income/(loss)	430,396	310,730
Less investment expenses:		
Investment management fees	(15,984)	(14,933)
Custody fees	(140)	(187)
Consultant fees	(385)	(343)
Securities lending management fees	(377)	(349)
Total investment expenses	(16,886)	(15,812)
Net investment income/(loss)	413,510	294,918
Other income	207	333
Total additions	527,858	404,817
Deductions:		
Benefit payments	253,535	243,774
Refund of contributions	8,156	5,864
Administrative expenses	5,951	5,344
Total deductions	267,640	254,982
Net increase/(decrease) in net position restricted for pension benefits	260,217	149,835
Net position RESTRICTED for PENSION benefits		
Beginning of year	3,352,043	3,202,208
End of year	$3,612,259	$3,352,043

The accompanying notes are an integral part of these financial statements.

EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS

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1) Description of the Plan

a) General

The Employees' Retirement Fund of the City of Dallas (the "Plan") is a single-employer defined benefit pension plan that provides retirement, disability, and death benefits to its members, and is sponsored by the City of Dallas, Texas (the "City"). All employees of the City are members in the Plan, except police officers, firefighters, elected officers, non-salaried appointee members of administrative boards or commissions, part-time employees working less than one-half time, temporary employees, individuals working under contract, and individuals whose salaries are paid in part by another government agency. Members are entitled to retirement benefits after five years of service and to survivor benefits after two years of service or at the date of eligibility for retirement. The Plan was established and derives its authority to continue in operation from Chapter 40A of the Dallas City Code. The description of the Plan provisions in this report is for financial disclosure only. It is not intended to create or reduce legal rights. The rights and responsibilities of the Board of Trustees, the Plan, the members and the retirees are governed by the Plan as set forth in Chapter 40A. As of December 31, 2017 and 2016, the Plan's membership consisted of:

	2017	2016
Retirees and beneficiaries currently receiving benefits and inactive members entitled to benefits but not yet receiving them	8,290	8,118
Current members:		
Vested	4,434	4,423
Non-vested	3,404	3,196
Total current members	7,838	7,619
Total membership	16,128	15,737

b) Pension Benefits - Tier A Benefits

Effective January 1, 2017 members of the Plan are entitled to pension benefits equal to 2.5% of the average monthly earnings of the member for each year of credited service. Average monthly earnings are determined based on the member's earnings for the five highest years. Normal retirement age is 65 with five years of credit service.

A member who has completed 40 years of credited service may elect retirement at age 65 and is entitled to full pension benefits. A member who has completed 30 years of service and elects retirement before age 65 is entitled to an actuarial pension benefits at a percentage of normal retirement benefits depending upon the age of the member. Effective January 1, 2017, active members may elect to retire after the attainment of age 50 once a combination of their age and years of service equal at least 80 ("Rule of 80"). They are then entitled to full pension benefits.

Cost-of-living adjustments for retirees are made each year on the first of January by adjusting the pension base by the percentage change of the Consumer Price Index, not to exceed 3%. The cost-of-living adjustment effective January 2017 was 1.4% and 0.0% effective January 2016 (for both Tier A & B).

c) Disability and Death Benefits

Members that become totally and permanently disabled may qualify for a service-connected disability with no minimum service requirement, or a non-service connected disability with five or more years of credited service. Non-service connected benefits are based on actual credited service or a minimum of 10 years. Service-connected benefits are equal to normal retirement benefits or a minimum of $1,000.

Upon the death of an active married member with less than 15 years of service, the joint and one-half survivor

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option is the automatic death benefit.

If an active member has at least 15 years of service and is eligible to retire, the member may elect the joint and full survivor option. Under this option, the member receives a reduced base pension payment which is actuarially computed based on the member's age, average monthly earnings, years of credited service at retirement, and the relative age of the spouse. Upon the death of the member, this option pays the full amount of the member's pension payment to the surviving spouse for life.

Upon the death of a member before retirement, death benefits equal to the normal retirement benefit will be paid to a qualified recipient: surviving spouse, minor child under age 18, a disabled child who became disabled before age 18, or a dependent parent. Death benefits vary depending on the beneficiary. The surviving spouse, the disabled child, or the dependent parent will receive a lifetime benefit unless the ten-year option is taken. The minor child under age 18 will receive the normal retirement benefit for ten years or until reaching age 18. If the member has less than two years of credited service, the member's contributions will be refunded.

Upon the death of a retired member, a death benefit is paid in accordance with the option selected by the member at retirement. If there are no qualified recipients at the time of death and benefits have not been paid for ten years, death benefits are paid to the designee (an estate, a person or an entity) named by the member. The designee will receive a lump-sum payment based on ten years of benefit payments when the member's death occurs before retirement. If death occurs after retirement, the designee will receive a commuted lump-sum payment representing the balance of a guaranteed ten-year period starting from the date of retirement.

If a member does not have an eligible beneficiary, death benefits will be paid to the designee or member's estate in one commuted value payment. Benefit payments will vary depending on whether death occurred before or after retirement. Upon the death of a member before retirement, the designee or member's estate will receive a lump-sum payment based on ten years of benefit payments. Upon the death of a retired member, the designee or estate will receive a commuted value lump-sum payment representing the balance of a guaranteed ten-year period starting from the date of retirement.

d) Contributions - Tier A & Tier B

If employment ends before attaining five years of service and before attaining eligibility for retirement, the member's contributions will be refunded upon written request to the Plan.

If a member's employment is terminated after five years of service, the member may elect a refund of contributions upon a written request, or the member may elect to receive pension benefits at normal retirement age equal to the amount accrued to the date of termination.

Based on the authorization in the Plan, the annual actuarial valuation will establish any new contribution rates for employees and the City. The new rates which became effective October 1, 2017 are 13.32% for employees and a combined rate of 22.68% of pay for the City. The City's 22.68% is divided into 14.39% cash to the Plan and 8.29% for debt service payments on the pension obligation bonds. The former rates, effective October 1, 2016, were 13.32% of pay for employees and a combined rate of 22.68% of pay for the City.

The percent contributed may vary from the legally required rate as the annual required contribution is based upon covered payroll as of the actuarial valuation date, January 1, whereas contributions are calculated and paid based upon actual payrolls throughout the year.

Certain factors, such as changes in benefit provisions, the size or composition of the population covered by the Plan or the actuarial assumptions used, may significantly affect the identification of trends in the amounts reported in the Schedule of Net Pension Liability and Schedule of Changes in Net Pension Liability located in the Required Supplemental Information section.

e) Plan Administration

The Plan is governed by seven members, consisting of three members appointed by the City Council who may be Council members, three employee members of the Plan (elected by the membership) and the City Auditor (serving ex officio). The Board has general powers and duties to administer the Plan, including appointing an administrator to carry out the business of the Board, investing the assets of the Plan, making expenditures from the Plan, and determining members' eligibility for benefits.

Based on a Plan amendment passed by the voters of the City of Dallas in November 2004, the Board annually

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increases or decreases contribution rates in a ratio where the City pays 63% and the employee pays 37% of the contribution rate as determined by the actuarial valuation. The Plan requires notice to the City of the contribution rates and provides procedures by which the City may review and challenge those rates; codifying the Board's policies and procedures relating to the Plan's actuarial process and the City's participation in the selection of an actuarial firm to perform a peer review/audit; increasing the Board from five members to seven by adding another employee elected representative and another council appointed representative effective March 1, 2005; increasing from three to four the number of board members required to constitute a quorum; increasing the terms of the employee elected representatives from two to three years; requiring Council approval before the Board may grant temporary or permanent discretionary adjustments to retirement benefits over and above the regular cost-of-living increases; correcting section references to the term "qualified recipient"; and authorizing either the Council or the Board to propose amendments to Chapter 40A, subject to approval by the Board, the Council, and the voters of the City.

The Plan may be terminated only by ordinance recommended by the Board, adopted by the City Council, and approved by a majority of the voters of the City voting in a general or special election. The Plan does not address allocation of the net position in the event of termination.

2) Summary of Significant Accounting Policies

a) Basis of Accounting

The accompanying financial statements are prepared on the economic resources measurement focus and accrual basis of accounting. Accordingly, interest earned but not received and dividends declared but not received as of the Plan's fiscal year end are recorded as accrued interest and dividends receivable, respectively. Contributions owed but not received as of the Plan's fiscal year end are recorded as contributions receivable. Benefits and refunds are recorded when paid. In addition, unsettled investment purchases and sales are accrued.

b) Administrative Expenses

Administrative expenses are paid from the Plan's contributions. The contribution rates calculated by the actuary take into consideration the expected administrative expenses.

c) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

d) Investments and Investment Income

The Plan's investment policy requires that investments comply at all times with applicable local, state and federal regulations. The Plan's investment policy is based upon an asset allocation study that considers the current and expected condition of the Plan, the expected long-term capital market outlook and the Plan's risk tolerance. Unless specifically permitted in the investment manager guidelines or other governing document, the investment policy prohibits the purchase of non-negotiable securities, short sales, selling on margin, puts, calls, straddles, options, or "letter" (restricted) stock. Also, unless specifically authorized in a manager's individual guidelines, the investment policy prohibits the use of derivatives (See derivatives disclosure in footnote 3).

Marketable securities are valued at fair value based on quoted market prices, where available. Purchases and sales of securities and any resulting gain or loss are recorded on a trade-date basis. Net appreciation/(depreciation) include the Plan's gains and losses on investments bought and sold as well as held during the year.

In July 2015, the Plan adopted a new asset allocation. The changes made to the investment policy allocations included adding Global Low Volatility Equity, Credit Opportunities Fixed income, and increasing the allocation to Master Limited Partnerships (MLPs). The Plan's asset allocation is shown in the following table.

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Asset Class	Allocation Percent
US Equity	
Domestic Equity	15.0
Real Estate	5.0
REITs	5.0
Private Equity	5.0
MLPs	10.0
Total US Equity	40.0
Non-US Equity	
International	15.0
Global	5.0
Global Low Volatility	10.0
Total Non-US Equity	30.0
Total Equity	**70.0**
Credit Opportunities	2.5
Global Investment Grade	15.0
High Yield	12.5
Total Fixed Income	**30.0**
Total Fund Allocation	**100.0**

e) Private Equity

To enhance the potential for earning higher rates of return relative to its other asset classes and to provide for broader portfolio diversification, the Plan, in 2009, allocated 5% of its total Plan portfolio to private equity. Recognizing that private equity investments have higher risk levels, this target of 5.0% is to be allocated within an acceptable range of 0.0% to 7.0% of private equity-oriented investments. Funding of committed capital in the private equity portfolio can occur over an extended time period and may take several years before the total allocation is fully invested. In order to reach the allocation target, a "committed" allocation up to 1.5 times the allocation is authorized. The Plan currently has three private equity managers.

Investments in these funds as a limited partner are carried at estimated fair value. Estimated fair values of investments in private limited partnerships are determined by the fund managers or general partner based on the latest investee information available, including audited financial statements and other similar data necessary to the valuation process. The private equity value at December 31, 2017 and December 31, 2016 was $210 million and $185 million, respectively.

f) Real Estate

The Plan allocates 5% of its portfolio to private real estate. The Plan has two managers that manage real estate funds for a value of $303 million at December 31, 2017 and $215 million at December 31, 2016. The Plan invests in Heitman's core real estate fund. The plan invests in Invesco's core fund and additionally has a direct investment in 1900 McKinney, LLC, managed by Invesco.

Estimated fair values of investments in these funds are determined by the fund managers based on their best

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estimates using fair value estimation techniques substantiated, in part, by their audited financial statements and supported by the due diligence of the Plan investment staff.

g) Foreign Currency Transactions

The Plan may enter into forward foreign currency exchange contracts for the purchase or sale of a specific foreign currency at a fixed price on a future date as a hedge against specific transactions or portfolio position to protect the Plan against adverse currency movements. Entering into these arrangements involves the risk of dealing with counterparties and their ability to meet the terms of the contracts. These contracts are valued at fair value at the financial statement date, and any realized and unrealized gains and losses are recorded when they are incurred.

Investments denominated in foreign currencies at December 31, 2017 and 2016 were converted to U.S. dollars at the foreign exchange rates quoted at December 31, 2017 and 2016. These foreign exchange gains and losses are included in net appreciation/(depreciation) in fair value of investments in the accompanying Statements of Changes in Fiduciary Net Position.

h) Securities Lending

The Board has authorized the Plan to enter into an agreement with The Northern Trust Company ("Northern") for the lending of certain of the Plan's securities (the "Securities Lending Program" or "Program") including, but not limited to, stocks and bonds to counterparty brokers and banks ("borrowers"), for a predetermined period of time and fee.

In 2009, the Board capped the securities lending exposure at $538.2 million.

i) Rate of Return

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investment, net of investment fees, was 13.08%. The money-weighted rate of return expresses investment performance, net of investment expenses, adjusted for the changing amounts actually invested.

Schedule of Money-Weighted Investment Returns

For Year Ended December 31	Annual Investment Returns*
2016	8.88%
2017	13.08%

* Annual money-weighted rate of return, net of investment fees and adjusted for the changing amounts actually invested.

3) Derivatives

Derivatives are generally defined as contracts whose values depend on, or are derived from, the value of an underlying asset, reference rate, or index. The Plan has classified the following as derivatives:

a) Currency Forward Contracts

A currency forward is a contractual agreement between two parties to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. Forward commitments are not standardized and carry credit risk due to the possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened; however, the likelihood of such loss is remote. No such losses occurred during fiscal years 2017 and 2016. Currency forwards are usually traded over-the-counter. These transactions are entered into in order to hedge risks from exposure to foreign currency rate fluctuation and to facilitate trade settlement of foreign security transactions. Currency forwards carry market risk resulting from adverse fluctuations in foreign exchange rates. Recognition of realized gain or loss depends on whether the currency exchange rate has moved favorable

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or unfavorable to the contract holder upon termination of the contract. Prior to termination of the contract, the Plan records the unrealized currency translation gain or loss based on the applicable forward exchange rates.

The Plan recognized a net realized gain on forward contracts of $0.83 million as of December 31, 2017 and a net realized gain of $4.6 million as of December 31, 2016. As of December 31, 2017, the Plan had a net unrealized gain on forward contracts of $268 thousand and a net unrealized gain of $720 thousand at December 31,2016. These gains and losses are included in net appreciation/(depreciation) in fair value of investments in the accompanying Statements of Changes in Fiduciary Net Position.

Currency forward contracts outstanding at December 31, 2017 and 2016 were approximately $458 million and $383 million, respectively.

Currency	2017 Currency Forward Contracts Outstanding (in thousands)	2016 Currency Forward Contracts Outstanding (in thousands)
Australian Dollar	$31,982	$20,114
Brazilian Real	1,574	8,155
Canadian Dollar	31,881	17,336
Chile Peso	3,425	2,331
Columbian Peso	100	1,593
Czech Koruna	4,102	898
Denmark Krone	525	252
Euro	28,659	12,568
Hong Kong Dollars	4,866	939
Hungary Forint	2,726	2,070
Indonesia-Rupiahs	114	2,205
Indian Rupee	5,255	7,892
Israel Shekel		259
Japanese Yen	38,122	23,501
Korean Won	1,722	2,329
Malaysia Ringgit		
Mexican Peso	5,564	8,982
New Zealand Dollar	14,107	10,503
Norwegian Krone	11,229	18,459
PEI	-	-
Peruvian Nuevo Sol	20	19
Philippine Peso	899	935
Poland Zloty	4,190	1,246
Russia Ruble	1,723	3,034
Singapore Dollar	2,252	1,056
Swedish Krona	9,021	14,231
Switzerland Franc	9,239	6,899
Thailand Baht	156	205

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Turkey Lira	5,315	1,364
Taiwan New Dollar	2,651	5
UK Pound	9,859	10,937
US Dollar	223,477	196,934
South Africa Rand	2,940	5,492
Total	$457,697	$382,743

b) Swaps

A swap is an agreement between two or more parties to exchange a sequence of cash flows over a period of time in the future. No principal is exchanged at the beginning of the swap. The cash flows that the counterparties exchange are tied to a "notional" amount. The agreements provide, at predetermined future dates, the Plan pays interest based upon a notional principal amount and receives a return based upon the underlying index. Notional amounts represent the volume of outstanding transactions and do not represent the potential gain or loss associated with market risk or credit risk of such instruments. Risk associated with swaps includes adverse movements in the underlying index. The Plan has one investment manager authorized to enter into swaps.

c) Futures

Financial futures are agreements to purchase or sell a specific amount of an asset at a specified delivery or maturity date for an agreed upon price. These derivative securities are used to improve yield, adjust the duration of the fixed income portfolio, circumvent changes in interest rates, or to replicate an index. Futures contracts are standardized and traded on organized exchanges, thereby minimizing the Plan's risk. There were no outstanding futures contracts at December 31, 2017 and December 31, 2016.

4) Deposit and Investment Risk Disclosures

Deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. The common deposit and investment risks include custodial credit risk, concentration of risk, credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The required disclosures related to these risks and the Plan's exposures to these risks are disclosed in the following sections.

a) Custodial Credit Risk

Custodial credit risk is the risk, in the event of the failure of the counterparty the Plan will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Plan's custodial credit risk policy is set forth in Chapter 40A of the Dallas City Code and in the master custody agreement which includes the securities lending program. All investments are registered in the name of Employees' Retirement Fund of the City of Dallas or in the name of the Plan's custodian established through a master trust custodial agreement. The securities are held by the custodian in the name of the Plan.

As of December 31, 2017 the Plan had $1.5 million or 0.04% of its approximate $3.2 billion total investments (excluding short term investments) exposed to custodial credit risk. The risk exposure at December 31, 2016 was $3.1 million or 0.07% of total investments (excluding short term investments) of approximately $3.4 billion. These exposures were uninsured and uncollateralized deposits held by custodian banks outside of the United States. The Plan has experienced no such losses on these deposits during the year.

b) Concentration of Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an investment in a single issuer. A concentration of investments in any one single issuer of debt securities presents a greater risk for loss in the event that the issuer fails on its obligations.

The Board has contracted with third party investment managers to manage the investment portfolio of the Plan, subject to the policies and guidelines established by the Board. As the Plan's custodian bank, Northern Trust has responsibility for the safekeeping of certain investments, handling of transactions based on the instructions of investment managers, and recordkeeping for the investment transactions.

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Investments that individually represent 5% or more of the net position available for Plan benefits and the total of investments that individually represent less than 5% of the net position restricted for pension benefits at December 31, 2017 and December 31, 2016 are as shown below (in thousands except per share amounts). The Plan's concentration of credit risk policy is communicated to individual managers in their guidelines through limitations or restrictions to securities, sectors, debt ratings, and other factors that may be applicable to a particular manager.

	2017		2016	
	Number of Shares/Units	Fair Value	Number of Shares/Units	Fair Value
Investments greater than 5% of net position, at fair value:	-	$1,269,566	-	$1,404,654
Investments less than 5% of net position (inclusive of cash):				
At fair value		$2,629,490		$2,246,318
Total cash and investments		$3,899,056		$3,650,972

c) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit quality ratings for the Plan's investments in fixed income securities as of December 31, 2017 and 2016 are included in the schedule below. Securities are rated using Standard and Poor's quality ratings as presented below in the rating scale.

The Plan's strategic fixed income investment policy allocates 30.0% of the total assets to fixed income. The policy provides for investment of up to 15% of the fixed income allocation in investment grade assets and up to 15% of the fixed income allocation in high yield (below investment grade) assets. The investment grade allocation also allows selected managers to invest in non-US dollar issues on an opportunistic basis up to 20% of their portfolio assets. Long term bond ratings as of December 31, 2017 and 2016 are as follows (in thousands):

	2017		2016	
Quality Rating	Fair Value	Percentage of Bond Portfolio	Fair Value	Percentage of Bond Portfolio
AAA	$60,609	6.51%	$78,788	9.02%
AA+	24,083	2.59%	14,721	1.68%
AA	5,514	0.59%	1,315	0.15%
AA-	7,119	0.77%	5,494	0.63%
A+	4,307	0.46%	2,689	0.31%
A	5,383	0.58%	12,699	1.45%
A-	22,797	2.45%	17,792	2.04%
BBB+	24,985	2.69%	26,140	2.99%
BBB	13,384	1.44%	32,203	3.69%
BBB-	19,979	2.15%	43,468	4.97%
BB+	33,752	3.63%	37,236	4.26%
BB	48,745	5.24%	54,485	6.24%

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BB-	76,529	8.23%	68,198	7.81%
B+	61,139	6.57%	64,763	7.41%
B	63,069	6.78%	66,057	7.56%
B-	48,224	5.18%	42,977	4.92%
CCC+	18,131	1.95%	27,760	3.18%
CCC	6,822	0.73%	5,620	0.64%
CCC-	1,874	0.20%	1,406	0.16%
CC	1,591	0.17%	627	0.07%
C	469	0.05%		0.00%
DDD	192	0.02%	257	0.03%
D	882	0.09%	1,519	0.17%
Not rated (NR)*	292,290	31.42%	156,899	17.96%
U.S. Government fixed income securities (NR)**	88,545	9.52%	110,617	12.66%
	$930,414	100.00%	$873,730	100.00%

* NR-Investments that are not rated.

**NR-U.S. Treasury Bonds and Notes are obligations of the U. S government or explicitly guaranteed by the U.S. government and therefore are not considered to have a credit risk.

d) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Plan's foreign currency risk policy is communicated to those managers who are authorized to hedge currencies in their guidelines and sets specific parameters for each manager individually.

The Plan's investment policies limit the aggregate amount that can be invested in each class of investments. The equity investment policy sets an allocation of 15% of assets to international equity, 5% of assets to global equity and 10% to global low volatility equity.

The Plan's positions in international equity securities, directly and through commingled funds, were 14.56% and 24.48% of invested assets at December 31, 2017 and 2016, respectively. The Plan's position in global equity securities was 3.24% and 4.80% of invested assets at December 31, 2017 and 2016, respectively. The Plan's position in global low volatility equity was 10.73% at December 31, 2017 and 10.10% at 2016. The Plan's positions in global fixed income assets were 6.02% and 14.1% of invested assets at December 31, 2017 and 2016, respectively.

Non-US Dollar denominated investments at December 31, 2017 and 2016 were as follows (in thousands):

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	2017			2016		
	U. S. Dollars Balance of Investments (in thousands)			U. S. Dollars Balance of Investments (in thousands)		
Currency	Equities	Fixed	Currency Forward	Equities	Fixed	Currency Forward
Australian Dollar	$10,605	$1,117	$31,982	$3,066	$9,760	$20,114
Australian Shilling	-	-	-	-	-	-
Belgium Franc	-	-	-	-	-	-
Brazil Real	3,350	-	1,574	6,093	-	8,155
British Pound Sterling	51,804	-	9,859	46,383	-	10,937
Canadian Dollar	36,062		31,881	30,917	1,961	17,336
Chile Peso	-	-	3,425	-	-	2,331
Colombian Peso	-	-	100	-	-	1,593
Czech Republic-Koruna	1,298	-	4,102	300	-	898
Denmark Krone	7,090	-	525	2,294	-	252
Dutch Guilder	-	-	-	-	-	-
Euro	106,143	2,316	28,659	84,051		12,568
Finland Markka	-	-	-	-	-	-
French Francs	-	-	-	-	-	-
German Marks	-	-	-	-	-	-
Hong Kong Dollars	42,838	-	4,866	31,539	-	939
Hungary-Forint	1,648	-	2,726	2,553	-	2,070
Indian Rupee	-	-	5,255	-	-	7,892
Indonesia-Rupiahs	3,713	-	114	4,816	-	2,205
Israel Shekel	5,218	-		3,999	-	259
Italian Lira	-	-		-	-	
Japanese Yen	87,550	-	38,122	70,865	-	23,501
Korean Won	-	-	1,722	-	-	2,329
Malaysia Ringgit	3,615	-		3,363	-	
Mexican Peso	2,847		5,564	2,119		8,982
New Zealand Dollar	4,072	-	14,107	5,837	-	10,503
Norwegian Krone	6,643	-	11,229	8,519	-	18,459
Peruvian Nuevo Sol	-	-	20	-	-	19
Philippines-Pesos	1,248	-	899	859	-	935
PEI	-	-	-	-	-	-
Poland-Zloty	1,389	-	4,190	1,104	-	1,246
Portuguese Escudos	-	-	-	-	-	-
Qatar-Ryal	18					
Russian Ruble	-	-	1,723	-	-	3,034
Singapore Dollar	4,689	-	2,252	1,874	-	1,056

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South Africa Rand	5,668	-	2,940	4,586	-	5,492
South Korea-Won	21,308	-	-	24,142	-	-
Spanish Pesetos	-	-	-	-	-	-
Swedish Krona	14,087	-	9,021	4,949	-	14,231
Swiss Franc	30,617	-	9,239	16,753	-	6,899
Taiwan New Dollar	3,876	-	2,651	5,621	-	5
Thailand Baht	11,924	-	156	9,469	-	205
Turkish Lira	1,763	-	5,315	1,449	-	1,364
United Arab-Dirham	11					
Total	$471,093	$3,433	$234,220	$377,520	$11,721	$185,809

As of December 31, 2017 and 2016 open currency forward contracts are as follows:

Derivative Type	Total Notional Value 12/31/2017 (in thousands)	Total Fair Value 12/31/2017 (in thousands)	Total Notional Value 12/31/2016 (in thousands)	Total Fair Value 12/31/2016 (in thousands)
Currency				
Forward Contracts	$457,697	$268	$382,743	$720

e) Interest Rate Risk

Interest rate risk is the risk that future changes in prevailing market rates of interest will have an adverse effect on the fair value of debt investments. The fair values of securities with long terms to maturity may be highly sensitive to interest rate changes.

EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS

Notes to the Financial Statements
December 31, 2017 and 2016

As of December 31, 2017 and 2016 the weighted-average maturity of the bonds by bond type are as follows:

Bond Category	Fair Value 12/31/2017 (in thousands)	Weighted Average Maturity (years) at 12/31/2017	Fair Value 12/31/2016 (in thousands)	Weighted Average Maturity (years) at 12/31/2016
Asset Backed Securities	$33,419	10.19	$36,051	10.20
Bank Loans	8,441	5.25	13,252	4.22
Commercial Mortgage-Backed	26,143	27.76	16,172	30.86
Corporate Bonds	516,203	7.64	545,368	7.62
Government Agencies	167,634	11.96	55,072	13.23
Government Bonds	57,660	10.66	88,567	12.43
Government Mortgage-Backed Securities	88,983	20.60	87,529	20.60
Government issued Commercial Mortgage-Backed Securities				
Index Linked Government Bonds	1,060	29.98	2,961	15.71
Municipal/ Provincial Bonds	20,832	16.20	18,157	15.45
Non-Government Backed CMOs	10,039	22.71	10,601	17.97
Total	$930,414		$873,730	
Portfolio weighted Average maturity		10.42		10.36

Government Mortgage Backed Securities are most sensitive to changes in interest rates as their prepayments can vary significantly with interest rate changes. This change in prepayments will generally cause the duration, or interest rate risk, of these securities to increase when interest rates rise and decrease when interest rates fall. These securities represent 10% and 12% of the total fixed income portfolio for 2017 and 2016. Their fair values at year end 2017 and 2016 were $26 million and $87.5 million, respectively. The Plan's interest rate risk policy is communicated to the fixed income managers through the Fixed Income Asset Policy and each manager's guidelines.

EMPLOYEES' RETIREMENT FUND OF
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Notes to the Financial Statements
December 31, 2017 and 2016

5) Appreciation or Depreciation of Investments

In 2017 and 2016, the Plan's investments, including investments bought, sold, and held during the year, appreciated (depreciated) in value as follows (in thousands):

	2017	2016
Investments, at fair value:		
Commingled index funds	$15,714	$9,869
Domestic equities	56,379	76,749
United States and foreign government fixed income securities	7,069	(11,772)
Domestic corporate fixed-income securities	3,203	47,974
International equities	219,894	55,878
Short-term investments	(407)	(220)
Currency contracts	385	4,706
	302,234	183,184
Investments, at estimated fair value:		
Real estate	(2,716)	9,338
Private equity and venture capital funds	27,023	18,143
	326,541	210,665

6) New Accounting Pronouncements

GASB Statement Number 72, "Fair Value Measurement and Application" is effective for financial statements for periods beginning after June 15, 2015. The Statement has been implemented by the Fund as required by GASB during fiscal year ending December 31, 2016

GASB Statement Number 72, "Fair Value Measurement and Application" addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes.

This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The plan measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and,
- *Level 3:* Unobservable inputs.

At December 31, 2017, the plan had the following recurring fair value measurements.

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS
Notes to the Financial Statements
December 31, 2017 and 2016

Investments at Fair Value Measurement
As of December 31, 2017

(Dollar Amounts in Thousands)		Fair Value Measurements Using		
	12/31/2017	**Level 1**	**Level 2**	**Level 3**
Investments by Fair Value Level				
Cash and Short Term Investment:				
Short-Term Investment Fund	117,468	117,468		
Total Cash and Short Term Investment	$117,468	$117,468	-	-
Fixed Income:				
Domestic Asset-Backed and Mortgage-Backed	$18,933		$18,933	
US Government and Agency Obligations	105,871		105,871	
Domestic Corporate and Taxable Municipal Bonds	720,643		643,873	76,770
International Fixed Income	3,433		3,433	
Total Fixed Income	$848,880		$772,110	$76,770
Equity:	-			
Domestic Common and Preferred Stock	$779,694	$771,928		$7,766
International Common and Preferred Stock	470,765	461,404		9,361
Total Equity	$1,250,459	$1,233,332		$17,127
Directly-Owned Real Estate	$302,767			$302,767
Total Investments by Fair Value Level	$2,519,574	$1,350,800	$772,110	$396,664
Investments Measured at Net Asset Value				
Collective Trust	$589,452			
Alternative Investments:				
Private Equity	419,612			
Private Debt	81,533			
Total Alternative Inestments	$501,145			
Equity:				
International Common and Preferred Stock	328			
Total Equity	$328			
Total Investments Measured at Net Asset Value	$1,090,925			

EMPLOYEES' RETIREMENT FUND OF
THE CITY OF DALLAS
Notes to the Financial Statements
December 31, 2017 and 2016

7) Securities Lending

During the year, Northern lent, on behalf of the Plan, securities held by Northern as Plan custodian and received cash, United States government securities, agency securities, and irrevocable bank letters of credit as collateral. Northern did not have the ability to pledge or sell collateral securities absent a borrower default. Northern Trust's Core USA Collateral Section establishes requirements for participation, collateralization levels, cash and non-cash collateral guidelines, and investment guidelines for the collateral received from borrowers. Borrowers were required to put up collateral for each loan equal to: (i) in the case of loaned securities, the collateral for which is all denominated in the same currency as the loaned securities, 102% of the fair market value of the loaned securities plus any accrued but unpaid distributions thereon, and (ii) in the case of loaned securities denominated in a different currency from the loaned securities, 105% of the fair market value of the loaned securities plus any accrued but unpaid distributions thereon. Additionally, the guidelines set maturity/liquidity requirements for the collateral received from borrowers. The following table shows for open loans at December 31, 2017 and 2016, the type of collateral held, the fair value of the securities on loan, and the fair value of the collateral held (in thousands except percentages).a

Collateral Type	Fair Value 12/31/2017	Collateral Market Value 12/31/2017	Collateral Percentage	Fair Value 12/31/2016	Collateral Market Value 12/31/2016	Collateral Percentage
Cash	$281,143	$288,566	103%	$295,494	$303,141	103%

The following represents the balances relating to the securities lending transactions as of December 31, 2017 and 2016 (in thousands):

Securities Lent	Underlying Securities 12/31/2017	Securities Collateral Value 12/31/2017	Cash Collateral Investment Value 12/31/2017	Underlying Securities 12/31/2016	Securities Collateral Value 12/31/2016	Cash Collateral Investment Value 12/31/2016
Lent for cash collateral:						
Domestic equities	$127,383	$-	$130,814	$123,305	$-	$126,614
Domestic corporate fixed income	88,621	-	90,933	86,054	-	88,251
Global corporate fixed income						
International equities	9,350	-	9,828	9,378	-	9,922
US Agencies	724		740	613		628
US government fixed	55,065	-	56,251	76,144	-	77,726
Subtotal	$281,143	$-	$288,566	$295,494	$-	$303,141

EMPLOYEES' RETIREMENT FUND OF
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Disclosure of securities lending income is shown gross with the associated reductions for investment expenses on the Statements of Changes in Fiduciary Net Position, and the cash collateral and associated securities lending payable is shown on the Statements of Fiduciary Net Position for December 31, 2017 and 2016. The net income from securities lending in 2017 was $1.5 million compared to $1.4 million in 2016.

8) Federal Income Tax Status

The Internal Revenue Service issued a determination letter dated August 15, 2016, stating that the Plan was designed in accordance with applicable Internal Revenue Code requirements as of that date. The Plan administrator believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, the Plan was qualified and the related trust was tax-exempt as of the financial statement dates.

9) Schedule of Net Pension Liability

a) The components of the net pension liability of the City at December 31, 2017 and 2016 respectively were as follows:

Description	2017	2016
Total Pension Liability	$4,377,844	$4,291,802
Plan Fiduciary Net Position	3,612,259	3,352,043
Net Pension Liability	765,585	939,759
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	82.51%	78.10%

b) Actuarial Methods and Assumptions:

Valuation date	December 31, 2016 for most ADEC shown on Schedule of contribution December 31, 2017 for Net Pension Liability
Actuarial cost method	Entry Age Normal
Asset valuation method	5-year smoothed market
Amortization method	The actuarially determined contribution (ADEC) is initially based on a 30-year open amortization period. As specified in City Ordinance No. 25695, the rate may not change from year to year if the calculated rate is less than 300 basis points different from the current rate.
Remaining Amortization Period	Not determined, see description of amortization method
Investment rate of return	7.75%
Salary increases	3.25% to 6.25%, including inflation
Inflation	2.75%

EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS

Notes to the Financial Statements
December 31, 2017 and 2016

Retirement Age	Experienced-based table of rates that are specific to the type of eligibility condition. Last updated for the December 31, 2014 valuation pursuant to an experience study of the 5-year period December 31, 2014.
Mortality	For Actives: Males – RP2000 Healthy Mortality Table for male employees, set forward 4 years. Females – RP2000 Healthy Mortality Table for female employees, set back 5 years. For Healthy Retirees: Males – RP-2000 Blue Collar Mortality Table for male annuitants, with a 109% multiplier and fully generational mortality using improvement Scale BB Females – RP-2000 Blue Collar Mortality Table for female annuitants, with a 103% multiplier and fully generational mortality using improvement Scale BB For Disabled Lives: RP 2000 Disabled Mortality Table for male annuitants, set forward one year.
Other Information	
Notes:	A new tier of benefits was created for employees hired after December 31, 2016. The assumptions described above were for the most recent ADEC shown in the schedule of contributions. The assumptions used in determining the Net Pension Liability as of December 31, 2017 were those used in the actuarial valuation as of December 31, 2017. Please see the actuarial valuation report for a complete description of those assumptions.

The long term rate of return on pension plan investments was estimated using a building block methodology in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long term expected rate of return by weighting the expected future real return rates by the target asset allocation percentage and by adding expected inflation. The following table shows the best estimates of arithmetic real rates of return for each of the Plan's asset classes.

EMPLOYEES' RETIREMENT FUND OF THE CITY OF DALLAS

Notes to the Financial Statements
December 31, 2017 and 2016

Asset Class	Long-Term Expected Real Rate of Return
Domestic Equity	6.50%
International Equity	6.70
Global Equity	6.70
Low Volatility Global Equity	6.70
Private Equity	9.40
REITS	5.40
Private Real Assets	4.80
Investment Grade Fixed Income	3.65
High Yield Fixed Income	5.35
MLP's	9.00
Credit Opportunities	6.10

c) Discount rate - A blended discount rate of 7.75% was used to measure the total pension liability. This blended discount rate was based on the expected rate of return on pension plan investments of 8% and the municipal bond rate of 3.31%. The projection of cash flows used to determine this blended discount rate assumed that plan member contributions and employer contributions will be made at the projected future contribution rates assuming that the ERF annually earns 8% on its market value of assets and that the number of active members remains constant in the future. In addition, it is assumed that the contribution smoothing will be eliminated when the Pension Obligation Bonds are retired.

d) Sensitivity of the net pension liability to changes in the current single discount rate. Below is a table providing the sensitivity of the net pension liability to changes in the discount rate. In particular, the table presents the plan's net pension liability, if it were calculated using a single discount rate that is 1-percentage-point lower or 1-percentage-point higher than the single discount rate:

Sensitivity of the Net Pension Liability
To the Single Discount Rate Assumption
($000)

1% Decrease	Current Single Discount Rate	1% Increase
6.75%	7.75%	8.75%
$1,281,029	$765,585	$334,560

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REQUIRED SUPPLEMENTARY INFORMATION

(unaudited)

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

($ in 000s)

Fiscal Year ended December 31	2017	2016	2015
Total Pension Liability			
Service Cost	$81,178	$133,457	$78,020
Interest on the Total Pension Liability	325,620	305,826	313,847
Benefit Changes	-	-	-
Difference between Expected and Actual Experience	(59,066)	(38,327)	(26,829)
Assumption Changes	-	(1,227,079)	1,238,431
Benefit Payments	(253,534)	(243,775)	(235,106)
Refunds	(8,156)	(5,864)	(4,854)
Net Change in Total Pension Liability	**86,042**	**(1,075,762)**	**1,363,509**
Total Pension Liability – Beginning	4,291,802	5,367,564	4,004,055
Total Pension Liability – Ending (a)	**4,377,844**	**4,291,802**	**5,367,564**
Plan Fiduciary Net Position			
Employer Contributions	58,966	56,130	50,721
Employee Contributions	55,175	53,436	50,742
Pension Plan Net Investment Income	413,510	294,918	(53,344)
Benefit Payments	(253,534)	(243,775)	(235,106)
Refunds	(8,156)	(5,864)	(4,854)
Pension Plan Administrative Expense	(5,951)	(5,343)	(4,598)
Other	207	333	162
Net Change in Plan Fiduciary Position	**260,217**	**149,835**	**(196,277)**
Plan Fiduciary Net Position – Beginning	3,352,042	3,202,208	3,398,485
Plan Fiduciary Net Position – Ending (b)	**3,612,259**	**3,352,043**	**3,202,208**
Net Pension Liability – Ending (a)–(b)	**$765,585**	**$939,759**	**$2,165,356**
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	82.51%	78.10%	59.66%
Covered Employee Payroll	$421,269	$409,433	$393,186
Net Pension Liability as a Percentage of Covered Employee Payroll	181.73%	229.53%	550.72%

Notes to Schedule:

The covered employee payroll is the sum of the active members' pay for valuation purposes as of the measurement date. An active member's valuation pay is the greater of their actual pay for the just completed calendar year or their current annual rate of pay.

SCHEDULE OF THE NET PENSION LIABILITY (HISTORICAL)

Last 10 Fiscal Years
($ in 000s)

FY Ending December 31,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension Liability as a % of Covered Payroll
2015	$5,367,564	$3,202,208	$2,165,356	59.66%	$393,186	550.72%
2016	4,291,802	3,352,043	939,759	78.10%	409,432	229.53%
2017	4,377,844	3,612,259	765,585	82.51%	421,269	181.73%

Notes to Schedule:

The covered employee payroll is the sum of the active members' pay for valuation purposes as of the measurement date. An active member's valuation pay is the greater of their actual pay for the just completed calendar year or their current annual rate of pay.

SCHEDULE OF CONTRIBUTIONS

Last 10 Fiscal Years
($ in 000s)

FY Ending December 31,	Actuarially Determined Contribution	Actual Contributions	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a % of Covered Payroll
2008	$15,535	$22,720	(7,185)	$376,159	6.04%
2009	20,148	25,232	(5,084)	373,807	6.75%
2010	33,952	27,323	6,629	336,490	8.12%
2011	33,612	27,302	6,310	312,380	8.74%
2012	41,570	30,363	11,207	319,274	9.51%
2013	56,394	37,823	18,571	340,748	11.10%
2014	61,747	45,833	15,914	353,650	12.96%
2015	64,648	50,721	13,927	383,669	13.22%
2016	84,316	56,130	28,186	402,077	13.96%
2017	86,785	58,966	27,819	410,913	14.35%

Notes to Schedule:

1. The actuarially determined contribution (ADEC) shown is the employer contribution based on a 30-year open amortization period prior to fiscal year 2006. Beginning in fiscal year 2006, the current adjusted total obligation Rate (CATOR), as specified in City Ordinance No. 25695, reduced by the member contribution rate and the debt service on the pension obligation bonds is shown.

2. Since the City's fiscal year is October 1 to September 30 and the Fund's fiscal year is the calendar year, the contribution amounts shown above are a blend of the City's two fiscal year rates that occur during the calendar year.

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OTHER SUPPLEMENTARY INFORMATION

(unaudited)

SCHEDULE OF ADMINISTRATIVE EXPENSES

As of December 31, 2017
($ in 000s)

Personal Services:	
Salaries	$2,754
Retirement	416
Insurance	**187**
Total Personal Services	**$3,357**

Professional Services:	
Actuary Service	$77
Accounting & Audit Fees	101
Attorney Fees	583
Medical	9
Other	**17**
Total Professional Services	**$787**

Operating Services:	
Data Processing	$179
Election	-
Parking	40
Printing	53
Rent	267
Supplies and Services	218
Telephone	3
Travel and Training	168
Board of Trustees	20
Indirect and Other Costs	**474**
Total Operating Services	**$1,422**

Furniture & Fixtures	
Furniture	$233
Other	**151**
Total Furniture & Fixtures	**384**
Total Administrative Expenses	**$5,950**

SCHEDULE OF INVESTMENT EXPENSES

As Of December 31, 2017
($ in 000s)

Manager Fees	$15,983
Custodian Fees	140
Securities Lending Fees*	377
Investment Consultant Fees	385
Total Investment Expenses	$16,885

*Securities lending fees include broker rebates and the lending agent's fees.

SCHEDULE OF PAYMENTS FOR PROFESSIONAL SERVICES

As Of December 31, 2017
($ in 000s)

Accounting and Audit	
Grant Thornton LLP	$45
STP Investment Services	56
Actuarial	
Gabriel, Roeder, Smith & Company	77
Legal	
Foster Pepper PLLC	419
Locke Lord, LLP	137
Strasburger & Price, LLP	35
Carter Scholer Arnett Hamada LLP	1
Fisher Broyles	8
Investment	
Wilshire Associates, Inc.	385
Medical/Other	
Various	10
Total Professional Services Payments	**$1,173**

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INVESTMENT SECTION

Thomas Toth, CFA
Managing Director,
Wilshire Consulting

May 10th, 2018

Ms. Cheryl Alston
Executive Director
Employees' Retirement Fund of the City of Dallas
600 North Pearl Street #2450
Dallas, TX 75201

Re: 2017 Performance Results

Dear Cheryl:

The purpose of this letter is to review the 2017 investment performance results of the Employees' Retirement Fund of the City of Dallas ("ERF", "the Fund").

Investors enjoyed a combination of strong market returns and subdued risk in 2017 with major stock markets up 20% or more (Wilshire 5000 21.0%, MSCI EAFE 25.6%, MSCI EM 37.8%). Risk-assets have posted short-term returns that defy the nearly universally accepted understanding that global markets are stuck in a "low return" environment. What makes 2017's results even more impressive is the relative absence of risk underneath this upward climb. Across a variety of risk measures, the past year was one of the most tranquil in recent history. In terms of historical rankings, 2017 proved to be the first or second lowest in risk by annual volatility, largest drawdown and number of large down days over the past four decades.

Amid a synchronized world economic recovery, strong corporate earnings growth and central bank stimulus measures positively affected markets. Elections in Europe and Japan helped restore stability to previously struggling economies, while political uncertainty in the U.S. and elsewhere was largely ignored by resilient financial markets. Cyclical sectors led the way in 2017. Information technology stocks outpaced every other sector by a wide margin, followed by the industrials and materials sectors. Geographically, emerging markets stocks generated the strongest returns supported by tech-sector gains and rising commodities prices. Against this backdrop, the Fund posted a double digit return of 13.3% in large part thanks to a well-diversified investment portfolio that includes global equities, core fixed income, high yield bonds, real estate, and private equity. This balanced asset allocation allowed ERF to mitigate various risk exposures while still able to incrementally add value through careful manager selection.

On the heels of this favorable economic environment, international and global equities led all ERF asset classes and posted the highest returns at +29.9% and +24.5%, respectively. Comparable returns of +21.5% and +19.5% for the domestic equity and global low volatility segments rounded out the Fund's best performing assets classes for the year. Positive contributions were not limited to equity focused asset classes though, as the Fund saw additional gains from its high yield, real estate and fixed income exposures. In total, all but one of the Fund's asset class exposures ended the year in positive territory. The Fund's MLP segment, the lone laggard, posted a loss of -6.5% during the year despite a rise in the price of crude oil. Looking over the longer horizon, the Fund's track record remains in good shape as it continues to track closely with the policy benchmark while outperforming over the one-, three-, five- and ten-year time periods. The approved allocations as of the end of 2017 were:

Asset Class	Allocation
Domestic Equity	15.00%
International Equity	15.00%
Global Equity	5.00%
Global Low Volatility	10.00%
Investment Grade Fixed Income	15.00%
High Yield	12.50%
Credit Opportunities	2.50%
Public Real Assets	10.00%
Real Estate	10.00%
Private Equity	5.00%

Wilshire

Wilshire annually publishes a research paper detailing our long-term nominal return forecast for the next ten years. Our geometric return forecasts are shown below.

	Total Return			Risk		
	Dec. 2016	**Dec. 2017**	Change	Dec. 2016	**Dec. 2017**	Change
Investment Categories:						
U.S. Stocks	6.50%	**6.25%**	-0.25%	17.00%	**17.00%**	0.00%
Dev ex-U.S. Stocks	6.50	**6.25**	-0.25	18.00	**18.00**	0.00
Emerging Mkt Stocks	6.50	**6.25**	-0.25	26.00	**26.00**	0.00
Global Stocks	6.70	**6.45**	-0.25	17.15	**17.15**	0.05
Private Markets *	9.30	**8.75**	0.55	27.50	**28.00**	0.00
Cash Equivalents	1.55	**1.75**	0.20	1.25	**1.25**	0.00
Core Bonds	3.65	**3.55**	0.10	5.15	**5.15**	0.15
LT Core Bonds	4.10	**3.60**	0.50	9.85	**9.85**	-0.15
US TIPS	2.95	**2.95**	0.00	6.00	**6.00**	0.00
High Yield Bonds	5.35	**4.95**	-0.40	10.00	**10.00**	0.00
Non-U.S. Bonds (Hdg)	1.35	**1.30**	-0.05	3.50	**3.50**	0.00
U.S. RE Securities	5.40	**5.40**	0.00	17.00	**17.00**	0.00
Private Real Estate *	7.15	**6.90**	-0.25	14.00	**14.00**	0.00
Commodities	3.50	**3.70**	0.20	15.00	**15.00**	0.00
Real Asset Basket *	6.50	**6.60**	0.10	8.40	**8.40**	0.00
Inflation:	1.95	**1.95**	0.00	1.75	**1.75**	0.00
Total Returns minus Inflation:						
U.S. Stocks	4.55	**4.30**	-0.25			
U.S. Bonds	1.70	**1.60**	-0.10			
Cash Equivalents	-0.40	**-0.20**	0.20			
Stocks minus Bonds:	2.85	**2.70**	-0.15			
Bonds minus Cash:	2.10	**1.80**	-0.30			

* December 2016 returns are based on a revised model but using inputs consistent with that time period.

As always, we thank you for the opportunity to be of service to ERF.

Sincerely,

Best regards,

Thomas Toth, CFA

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INVESTMENT POLICIES SUMMARY

Statement of Goals

The general investment goals are broad in nature to encompass the purpose of the Fund and its investments. They articulate the philosophy by which the Board will manage the Fund's assets within the applicable regulatory constraints.

1. The overall goal of the Fund is to provide benefits, as anticipated under the Plan document, Dallas City Code Chapter 40A, to its participants and their beneficiaries through a carefully planned and executed investment program.
2. The Fund seeks to produce the highest return on investments which is consistent with sufficient liquidity and investment risk that are prudent and reasonable, given prevailing capital market conditions. While the importance of the preservation of capital is recognized, the theory of capital market pricing which maintains that varying degrees of investment risk should be rewarded with compensating returns is also recognized. Consequently, prudent risk taking is reasonable and necessary.
3. The Fund investment program shall at all times comply with existing and applicable local, state and federal regulations.

Investment Philosophy

The Fund is long term in nature, and the selection of investments is regulated by: the investment time horizon; the limits of acceptable risk; and the objective of optimizing the total rate of return. Each investment manager is authorized to execute investment transactions on behalf of the Board.

Investment decisions are made under the framework of the goal established for the rate of return, limits of acceptable risk, and Fund objectives. The goal is to optimize the return of the portfolio, as opposed to maximizing the rate of return.

The optimal portfolio mix is one that carefully equates expected rate of return with expected risk of all investment categories utilized in the portfolio. In setting the optimal mix of assets for the portfolio, the Board has developed a strategic asset allocation policy which incorporates a diversified asset mix. The strategic asset allocation is designed to provide an optimal diversification to reduce risk and maximize total rate of return relative to risk and the existing and projected liability structure.

The Board bases its investment strategy and goals on advice obtained from the investment consultant, the staff, and the external investment managers. The Board uses the annual external audit and annual actuarial valuation in its evaluation of the Fund's performance each year.

Article XVI, Section 67 of the Texas Constitution and Chapter 40A of the Dallas City Code, give complete responsibility for the management and investment actions of the Employees' Retirement Fund to the Board of Trustees. The Board is held to the standard of conduct of fiduciaries in discharging their responsibilities. According to Chapter 40A the Trustees, as fiduciaries, must carry out their functions solely in the interest of the members and beneficiaries.

Corporate Governance

The Board considers the active voting of proxies an integral part of the investment process. Proxy voting may be delegated to the discretion of investment managers retained by the Board. The managers shall be required to establish a proxy voting policy and maintain records of proxy votes, and shall make these records available quarterly to the Board or its designee. The Board may at its discretion establish an overall policy of voting proxies in which case the manager's' proxy voting policy shall be in accordance with that of the Board's. The Board recognizes that in certain non-U.S. markets, investment managers may, balancing the costs and benefits, not exercise proxy voting.

INVESTMENT RESULTS

The investment managers and the returns by investment category are shown in the following tables.

Investment Category	2017 Rate of Return
Public Real Assets (MLPs)	-6.51%
High Yield Bonds	6.55%
Credit Opportunities	9.73%
Domestic Equities	21.54%
Global Low Volatility	19.53%
Real Estate	5.71%
Global Equities	24.49%
International Equities	29.91%
Private Equity	16.21%
Global Fixed Income	4.23%
Cash Equivalents	0.85%
Total Portfolio	13.29%

INVESTMENT MANAGERS

Domestic Equities, REITs, Master Limited Partnerships, & Commingled Index Funds

Adelante Capital Management, LLC
Atlantic Trust
BlackRock, Inc.
Channing Capital Management, LLC
Harvest Fund Advisors
Northern Trust S&P 500
Redwood Investments LLC
Smith Graham & Co. Investments Advisors
Systematic Financial Management, LLP
T. Rowe Price Associates, Inc.

International Equities

Acadian Asset Management, LLC
AQR Capital Management, LLC
Ativo Capital Management LLC
Baring International Investment Limited

Global Equity

Acadian Global Low Volatility
Ariel Investments
BlackRock, Inc.
Northern Trust ACWI IMI
Wellington Management Company, LLP

Fixed Income

Advantus Capital Management, Inc.
Aberdeen Asset Management, Inc.
BlackRock, Inc.
Oaktree Capital Management, LLC
Garcia Hamilton & Associates, L.P.
Neuberger Berman

Cash Equivalents

The Northern Trust Company

Private Equity

Fairview Capital Partners
Grosvenor Capital Management
Hamilton Lane

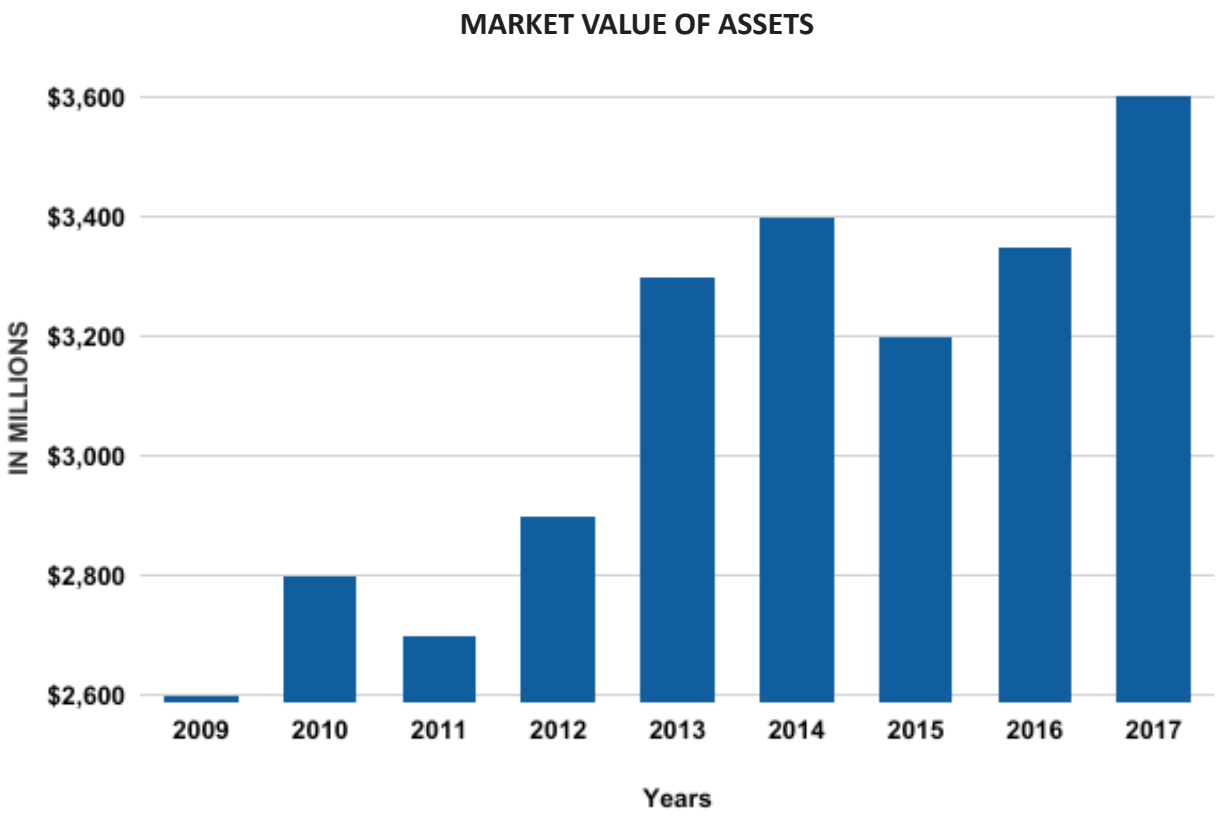
Real Estate

Heitman Real Estate Investment Management
Invesco II
Invesco Real Estate

TOTAL PLAN RESULTS

Fiscal year 2017 was up 13.29%. Investments in International Equity had a strong return of 29.9% exceeding the MSCI ACWI ex US IMI Index of 27.8%. Global Equity earned 24.5% vs the MSCI ACWI of 23.9%. Global Low Volatility return was 19.53% exceeding the benchmark MSCI ACWI Minimum Volatility Index of 17.9% .

At December 31, 2017, the Net Assets of the Plan was $3.6 billion. This value represents a 7.76% or $260 million increase over last year's value. The Net Assets of the Plan graph below provides a pictorial history of the Plan's growth over the past 10 years.



ASSET ALLOCATION

The Plan's long-term strategic asset allocation policy sets the following targets: 70% in equity and 30% in fixed income. Although no specific allocation to cash and equivalents is targeted, cash must be available for the payment of benefits and other expenses of the Plan. To accommodate constantly changing market values, the Board has approved ranges for each of the asset classes.

ASSET ALLOCATION

As Of December 31, 2017

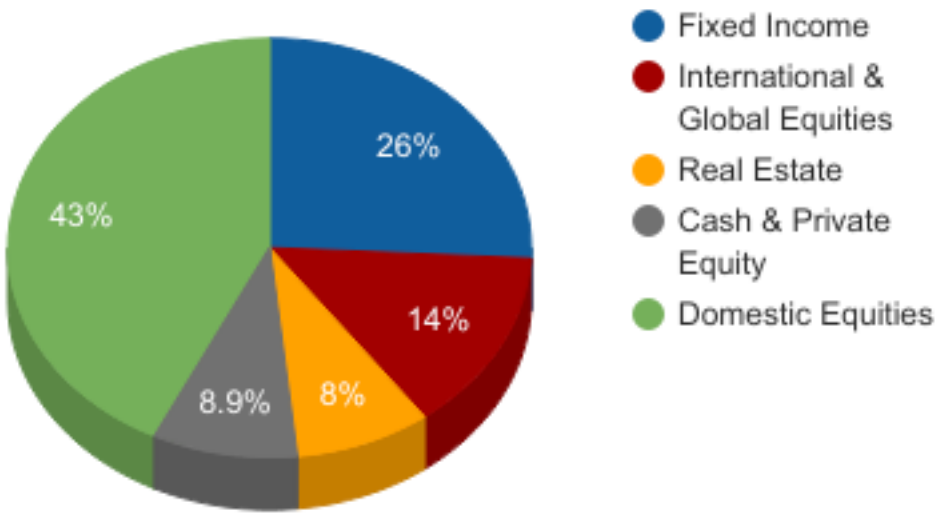
Investment Category	% of Total Fund
US Equity	
Domestic Equity	15.0
Real Estate	5.0
REITs	5.0
Private Equity	5.0
MLPs	10.0
Total US Equity	**40.0**
Non-US Equity	
International	15.0
Global	5.0
Global Low Volatility	10.0
Total Non-US Equity	**30.0**
Total Equity	**70.0**
Fixed Income	
Global Investment Grade	15.0
Credit Opportunities	2.5
High Yield	12.5
Total Fixed Income	**30.0**
Total Fund	**100.0**

DOMESTIC, INTERNATIONAL AND GLOBAL EQUITY

The Plan's allocation to US domestic equity is targeted at 40% of the Plan's total assets including 15% to domestic equity, 10% allocated to real estate securities and private real estate, 5% to private equity, and 10% to MLPs. Passively managed index funds totaled 16.68% of domestic equity assets at year end, and actively managed portfolios represented the remaining 83.32% of domestic equity investments. Total US equity returned 21.54% for the year while the benchmark Wilshire 5000 Index had a return of 20.99%.

Non-US equity has a target allocation of 30%, and it is split between international equity 15%, global equity 5% and 10% Global Low Volatility. The Plan's international equity composite return was 29.91 % while the MSCI All World ex-US Index reported a return of 27.81% for the year, and the MSCI EAFE Index reported 25.03%. The global equity funds allocation reported a return of 24.49%

ASSET ALLOCATION



GLOBAL FIXED INCOME

Global fixed income has a target of 15% of total assets allocated amongst three investment managers. During the year the global fixed income returned 4.23% while the Barclays Aggregate Bond Index returned 3.54%.

HIGH YIELD FIXED INCOME

High yield fixed income has a target of 12.5%. This allocation is evenly split between two investment managers. The high yield return for 2017 was 6.55% and the Citigroup High Yield Cash Pay Index returned 7.01%.

PRIVATE EQUITY

Private equity has a target allocation of 5.0%. This allocation is split between three investment managers. At year end the market value was approximately 6.00% of the Fund. The rate of return for the year was 16.21%.

REAL ESTATE

Real estate is comprised of real estate securities (REITs) and private real estate. REITs and private real estate both have a 5.0% allocation each for a total real estate allocation of 10.0%. REITs had a return of 5.17% against the Wilshire RE Securities Index of 4.84%, and the private real estate returned 6.10% against the NCREIF Property Index returned 6.66%.

PUBLIC REAL ASSETS (MLPs)

Public real assets have a target allocation of 10.0%. The allocation is split between two investment managers. Public real assets returned -6.51% against the Alerian MLP index of -6.52%.

ANNUALIZED RATE OF RETURN

As Of December 31, 2017

	1-Year	3-Year	5-Year
Total Fund	**13.29%**	**6.74%**	**8.65%**
Domestic Equity	21.54	11.53	15.48
S&P 500 Index	21.83	11.41	15.79
Wilshire 5000 Index	20.99	11.36	15.67
International Equity	29.91	10.02	9.03
MSCI ACWI ex US Index	27.19	7.83	6.80
MSCI EAFE Index	25.03	7.79	7.90
Global Equity	24.49	8.64	10.03
MSCI ACWI	23.97	9.29	10.80
Global Low Volatility	19.53		
MSCI ACWI Minimum Volatility	17.93		
MSCI ACWI	23.97		
Global Fixed Income	4.23	2.87	2.67
Barclays Aggregate Bond Index	3.54	2.24	2.10
High Yield Fixed Income	6.55	5.79	5.19
Citigroup High Yield Cash Pay	7.01	5.97	5.35
Cash Equivalents	0.85	3.40	0.27
T-Bills	0.85	0.41	0.27
Real Estate	5.71	7.03	9.67
Wilshire RE Securities Index	4.84	5.75	9.70
NCREIF ODCE INDEX	6.66	9.42	10.51
Private Equity	16.21	11.09	11.99
S&P 500 Index	21.83	11.41	15.79
Public Real Assets	-6.51	-7.94	4.79
Alerian MLP Index	-6.52	-9.33	-.0.6

INVESTMENT MANAGEMENT FEES

As Of December 31, 2017
($ in 000s)

Investment*	Assets Under Management	Fees	Basis Points
Domestic Equity	$1,276,541	$1,636	12.8
International Equity	322,314	2,827	87.7
Global Equity	186,143	1,401	75.3
Global Fixed Income	500,360	1,335	26.7
High Yield Fixed Income	429,644	2,041	47.5
Real Estate	220,164	2,184	72.1
Real Assets (MLPs)	264,663	998	37.7
Private Equity	210,182	2,661	126.6
REITS	168,365	885	52.6
Cash Equivalents	116,004	15	1.3
Subtotal	$3,694,380	$15,983	540.3

OTHER INVESTMENT SERVICES

As Of December 31, 2017
($ in 000s)

Investment Consultant	$385
Custodian	140
Security Lending**	377
Subtotal	$902
Total Investment Management Fees	**$16,885**

**Excludes cash (see Investment Holdings for cash value)*

***Securities lending fees include broker rebates and the lending agent's fees.*

TEN LARGEST HOLDINGS

As Of December 31, 2017
($ in 000s)

Equity	Shares	Fair Value
CF BLACKROCK MSCI ACWI MINIMUM	12,259,312	$186,875,896
MFB NTGI-QM COLTV DAILY S&P 50	17,882	163,761,011
CF HEITMAN AMERICA REAL ESTATE	74,813	89,602,168
CF BLACKROCK US REAL ESTATE	1,187,294	82,602,168
CF INVESCO CORE RE FUND	416	73,372,017
1900 MCKINNEY HARWOOD, LLC	61,978,704	62,257,305
CREDIT SUISSE DALLAS ERF PARTN	45,730,394	50,775,346
GCM GROSVENOR - DALLAS ERF PAR	39,298,962	39,731,452
CF NEUBERGER HIGH INCOME FUND	822,728	38,177,223
MLP ENTERPRISE PRODS PARTNERS	1,375,057	29,760,300

Fixed Income	Par Value	Fair Value
UTD STATES TREAS 2% 10-31-2022	12,450,000	$12,341,561
U.S.A. TREASURY BOND & 2.875 % due 08/15/2045.	9,810,000	10,060,646
FHLMC FLTG RT 1.135 % due 07/05/2019	5,535,000	5,529,686
PVTPL FIRST DATA CORP NEW 5.750 % due 01/15/2024	5,004,000	5,179,140
US NO 1.625 % due 10/15/2020 1.625 % due 10/15/2020	4,560,400	4,519,949
U.S.A. TREASURY NOTES 1.500 % due 04/15/2020	4,433,200	4,391,971
U.S.A. TREASURY NOTES 2.250 % due 08/15/2027	4,241,000	4,181,372
U.S.A. TREASURY BONDS 2.750 % due 08/15/2042	4,080,000	4,108,356
CITIGROUP 8.125 % due 07/15/2039	2,175,000	3,477,673
U.S.A. TREASURY NOTE 0.875 % due 10/15/2018	3,370,000	3,348,162

INVESTMENT HOLDINGS SUMMARY

As Of December 31, 2017
($ in 000s)

	Market Value	Percentage of Market Value
Fixed Income		
Government Bonds	$210,114	5.83%
Corporate Bonds	720,300	19.98%
Total Fixed Income	$930,414	25.81%
Equity		
Common Stock	$1,885,899	52.31%
Index & Commingled	163,761	4.54%
Total Equity	$2,049,660	56.86%
Real Estate		
Real Estate	302,767	8.40%
Total Real Estate	$302,767	8.40%
Alternative Investments		
Private Equity	210,182	5.83%
Total Alternative Investments	$210,182	5.83%
Cash and Equivalents		
Cash	$(4,106)	-0.11%
Cash Equivalents	116,005	3.22%
Total Cash and Equivalents	$111,899	3.10%
Total Fund	**$3,604,921**	**100.00%**

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ACTUARIAL SECTION

The Report of the December 31, 2017 Actuarial Valuation of the Employees' Retirement Fund of the City of Dallas

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GRS

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May 7, 2018

Board of Trustees
Employees' Retirement Fund of the City of Dallas, Texas
1920 Mckinney Avenue - 10th Floor
Dallas, Texas 75201

Dear Members of the Board:

We are pleased to present our report of the actuarial valuation of the Employees' Retirement Fund of the City of Dallas, Texas ("ERF" or the "Fund") as of December 31, 2017.

This valuation provides information on the funding status of ERF. It includes a determination of the actuarially calculated contribution rates for the 2018 calendar year. In addition, it also contains the information necessary to determine the current total obligation rate and the current adjusted total obligation rate for the fiscal year beginning October 1, 2018 per City Ordinance. This rate is a function of the previous year's adjusted total obligation rate, this year's actuarially calculated contribution rate, and the rate necessary to make the debt service payment on the previously issued pension obligation bonds for fiscal year 2019.

In addition, the report provides various summaries of the data. A separate report is issued with regard to valuation results determined in accordance with Governmental Accounting Standards Board (GASB) Statements 67 and 68. Results of this report should not be used for any other purpose without consultation with the undersigned. Valuations are prepared annually as of December 31st, the last day of the ERF plan year. This report was prepared at the request of the Board and is intended for use by the ERF staff and those designated or approved by the Board. This report may be provided to parties other than ERF staff only in its entirety and only with the permission of the Board.

As authorized in Chapter 40-A(4)(16) of the Dallas City Code, the actuarial assumptions and methods are set by the Board of Trustees, based upon recommendations made by the plan's actuary. An experience investigation was performed for the five year period ending December 31, 2014. As a result of that study, revised assumptions were adopted by the Board effective with the valuation as of December 31, 2014. These assumptions were further modified effective December 31, 2016. We believe the assumptions are internally consistent, reasonable, and, where appropriate, based on the actual experience of the ERF. All of the assumptions and methods used in this valuation were selected in compliance with the Actuarial Standards of Practice. All actuarial assumptions and methods are described under Section O of this report.

The results of the actuarial valuation are dependent on the actuarial assumptions used. Actual results can and almost certainly will differ, as actual experience deviates from the assumptions.

Even seemingly minor changes in the assumptions can materially change the liabilities, calculated contribution rates and funding periods. Due to the limited scope of this assignment, GRS did not perform an analysis of the potential range of such possible future differences. The actuarial calculations are intended to provide information for rational decision making.

This valuation is based on the provisions of ERF in effect as of the valuation date, data on the ERF membership and information on the asset values of the Fund as of December 31, 2017. The member, annuitant and asset data used in the valuation were all prepared and furnished by ERF staff. While certain checks for reasonableness were performed, the data used was not audited.

To the best of our knowledge, this report is complete and accurate and was conducted in accordance with the Actuarial Standards of Practice as set forth by the Actuarial Standards Board and in compliance with the provisions of the Dallas City Code. The undersigned are independent actuaries and consultants. Mr. Randall is an Enrolled Actuary and a Member of the American Academy of Actuaries and he meets the Qualification Standards of the American Academy of Actuaries. Both Mr. Randall and Mr. Ward have significant experience in performing valuations for large public retirement systems.

GRS

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We would like to thank the ERF staff for their assistance in providing all necessary information to complete this valuation. Their courteous help is very much appreciated. We look forward to discussing this actuarial valuation report with you at your convenience. Please do not hesitate to let us know if you have any questions or need additional information.

Respectfully submitted,

Lewis Ward

Mark R. Randall

Lewis Ward
Consultant

Mark R. Randall, MAAA, FCA, EA
Chief Executive Officer

SUMMARY OF THE VALUATION

(This summary is an excerpt of the 2017 Actuarial Valuation Report. Sections referenced in this summary are available in the full report.)

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EXECUTIVE SUMMARY

($ in 000's)

The key results from the actuarial valuation of the Employees' Retirement Fund of the City of Dallas as of December 31, 2017 may be summarized as follows:

	December 31, 2016	December 31, 2017
Actives	7,619	7,838
Benefit recipients	6,903	7,042
Deferred vested*	768	793
Other terminated*	447	455
Total	15,737	16,128
Covered payroll (including overtime)	$409,433	$421,269
Normal cost	$83,387	$82,871
as % of expected payroll	20.75%	20.04%
Actuarial accrued liability	$4,291,802	$4,377,844
Actuarial value of assets	$3,451,463	$3,601,612
Market value of assets	$3,327,681	$3,601,612
Unfunded actuarial accrued liability (UAAL)	$840,339	$776,232
Estimated yield on assets (market value basis)	8.65%	12.34%
Estimated yield on assets (actuarial value basis)	8.51%	8.99%
Contribution Rates		
Prior Adjusted Total Obligation Rate	36.00%	36.00%
Current Total Obligation Rate	43.46%	41.41%
Current Adjusted Total Obligation Rate	36.00%	36.00%
Actuarial gains/(losses)		
Assets	$16,405	$19,847
Actuarial liability experience	$32,351	$61,019
Assumption and method changes	$(41,157)	$21,916
30-year level % of pay funding cost	$144,114	$139,484
as % of payroll (Employee + City)	35.18%	33.12%
Funded ratio		
Based on actuarial value of assets	80.40%	82.30%
Based on market value of assets	77.50%	82.30%

** Deferred vested are members who have applied for a deferred pension. Other terminations are members who have terminated and still have contribution balances in the Fund*

ACTUARIAL ASSUMPTIONS

Costs are determined using the Entry Age Normal actuarial cost method. The assumed annual investment return rate is 7.75% and includes an annual assumed rate of inflation of 2.75%.

The Board approved a new method for determining the actuarial value of assets. As part of this change,the actuarial value of assets was reset to the market value of assets as of December 31, 2017. All other actuarial assumptions and methods are the same as in the prior valuation report. Please see Section O for a complete description of these assumptions and methods

Vacation Leave Conversions

Members with 20 or more years of service are assumed to convert unused vacation leave to 1.5 months of service. Other members are assumed to convert unused vacation leave to 1 month of service. No vacation leave conversion is assumed for disability retirement.

Spouse Age

The female spouse is assumed to be 3 years younger than the male spouse.

Payroll Growth Rate

In determining the level percent amortization of UAAL rate, the payroll of the entire system is assumed to increase at 2.75% each year.

Member's Pay

In determining the member's valuation salary, the greater of the prior calendar year's gross pay and the member's rate of compensation is used.

Form of Payment

For Tier A It is assumed that 60% of married active male members and 84% of married active female employees will elect a Joint & 50% Survivor form of payment. Taking into consideration the marriage assumption and the inherent subsidy in the System's Joint & 100% Survivor factors, the male employees are valued with Joint and 29.0% Survivor annuities and the female employees are valued with Joint and 16.5% Survivor annuities. It is also assumed that 100% of tier B employees will elect the normal form of payment under Tier B.

Changes in Assumptions and Methods Since Prior Valuation

Board of Trustees adopted a new method for determining the actuarial value of assets. As of part of the method changed, the actuarial value of assets was set equal to the market value of assets as of December 31, 2017.

ANALYSIS OF ACTUARIAL (GAINS) AND LOSSES FOR 2017

($ in 000's)

	2017
Investment Return	$(19,847)
Salary Increase	(20,424)
Age and Service Retirement	(7,608)
General Employment Termination	(1,457)
Disability Incidence	(317)
Active Mortality	(202)
Benefit Recipient Mortality	(9,273)
Actual vs. Expected Cost of Living Adjustment (COLA)*	(12,980)
Other	(8,758)
Total Actuarial (Gain)/ Loss	$(80,866)

* Actual COLA of 2.05% versus expected COLA of 2.75%

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SCHEDULE OF FUNDING STATUS

($ in 000's)

End of Year	Actuarial Value of Assets (a)	AAL (b)	UAAL (b-a)	Funding Ratio (a/b)	Payroll* (c)	UAAL as % of payroll ((b-a)/c)
1998	1,617,468	1,750,430	132,962	92.40%	275,547	48.30%
1999	1,862,644	1,873,998	11,353	99.39%	282,127	4.00%
2000	1,997,828	2,038,078	40,250	98.03%	298,355	13.50%
2001	2,017,041	2,276,488	259,447	88.60%	332,842	77.90%
2002	1,863,701	2,399,569	535,868	77.67%	324,615	165.08%
2003	1,843,099	2,489,071	645,972	74.05%	318,492	202.82%
2004	2,482,082	2,488,270	6,188	99.75%	331,201	1.87%
2005	2,739,269	2,606,173	(133,096)	105.11%	332,446	-40.04%
2006	2,998,099	2,761,404	(236,695)	108.57%	344,997	-68.61%
2007	3,183,260	2,915,164	(268,096)	109.20%	370,150	-72.43%
2008	2,957,506	3,075,385	117,879	96.17%	389,362	30.27%
2009	3,031,652	3,192,120	160,468	94.97%	375,164	42.77%
2010	3,027,439	3,282,126	254,687	92.24%	332,045	76.70%
2011	2,916,946	3,391,652	474,906	86.00%	318,972	148.89%
2012	2,846,124	3,518,356	672,232	80.89%	340,452	197.45%
2013	3,074,284	3,610,845	362,477	85.14%	352,486	102.83%
2014	3,241,053	4,004,055	763,002	80.94%	374,002	204.01%
2015	3,320,387	4,129,133	808,746	80.41%	404,981	199.70%
2016	3,451,463	4,291,802	840,339	80.42%	420,693	199.75%
2017	$3,601,612	$4,377,844	$776,232	82.27%	$432,854	179.33%

* Projected to following year.

ACTUARIAL METHOD AND ASSUMPTIONS

Entry Age Normal Method

The Entry Age Normal actuarial cost method is the actuarial valuation method used for all purposes under ERF. The concept of this method is that funding of benefits for each member should be effected as a, theoretical, level contribution (as a level percentage of pay) from entry into ERF to termination of active status. The Normal Cost (NC) for a fiscal year under this method is determined as described in the prior paragraph for each member. The ERF NC for the year is the total of individual normal costs determined for each active member.The Actuarial Accrued Liability (AAL) under this method is the theoretical asset balance of the NC that would have accumulated to date based upon current actuarial assumptions. To the extent that the assets of the fund are insufficient to cover the AAL, an Unfunded Actuarial Accrued Liability (UAAL) develops. The actuarially calculated contribution for a year is the NC for that year plus an amount to amortize the UAAL over 30 years as a level percentage of pay.

Actuarial Value of Asset Method

The actuarial value of assets was reset to equal the market value of assets as of December 31, 2017. The method for determining the actuarial value of assets in future years is equal to the market value of assets less a five-year phase in of the excess (shortfall) between expected investment return and actual income. The actual calculation is based on the difference between actual market value and the expected actuarial value of assets each year, and recognizes the cumulative excess return (or shortfall) at a minimum rate of 20% per year. Each year a base is set up to reflect this difference. If the current year's base is of opposite sign to the deferred bases then it is offset dollar for dollar against the deferred bases Any remaining bases are then recognized over the remaining period for the base (5 less the number of years between the base year and the valuation year). This is intended to ensure the smoothed value of assets will converge towards the market value in a reasonable amount of time.

***Annual Rate of Investment Return**:*

For all purposes under the Fund, the rate of investment return is assumed to be 7.75% per annum, net of investment expenses. This rate includes an annual assumed rate of inflation of 2.75%. In addition, annual cost-of-living adjustments are assumed to occur on average at the rate of 2.75% per annum for Tier A members and 2.35% for Tier B members (due to the lower maximum on cost-of-living-adjustments).

Annual Compensation Increases

Each member's compensation is assumed to increase in accordance with a table based on actual ERF experience. Sample rates follow:

Years of Service	Merit, Promotion, Longevity	General	Total
0	3.00 %	3.25 %	6.25 %
1	3.00	3.25	6.25
2	2.75	3.25	6.00
3	2.00	3.25	5.25
4	1.50	3.25	4.75
5	1.50	3.25	4.75
6	1.50	3.25	4.75
7	1.00	3.25	4.25
8	1.00	3.25	4.25
9	0.75	3.25	4.00
10	0.75	3.25	4.00
11	0.75	3.25	4.00
12	0.50	3.25	3.75
13	0.50	3.25	3.75
14	0.50	3.25	3.75
15	0.50	3.25	3.75
16	0.50	3.25	3.75
17	0.50	3.25	3.75
18	0.25	3.25	3.50
19 & Over	0.00	3.25	3.25

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SCHEDULE OF ACTIVE MEMBER VALUATION DATA

Year Ending December 31,	Active Participants	Percent Change	Covered Payroll	Percent Change	Average Salary	Percent Change
(1)	(2)	(3)	(4)	(5)	(6)	(7)
2007	8,117	-	$359,369,000	-	$44,274	-
2008	8,371	3.1%	378,021,000	5.2%	45,158	2.0%
2009	7,654	-8.6%	364,237,000	-3.6%	47,588	5.4%
2010	7,034	-8.1%	322,374,000	-11.5%	45,831	-3.7%
2011	6,745	-4.1%	309,682,000	-3.9%	45,913	0.2%
2012	6,864	1.8%	330,536,000	6.7%	48,155	4.9%
2013	6,993	1.9%	342,219,000	3.5%	48,937	1.6%
2014	7,180	2.7%	363,109,000	6.1%	50,572	3.3%
2015	7,477	4.1%	393,186,000	8.3%	52,586	4.0%
2016	7,619	1.9%	409,433,000	4.1%	53,738	2.2%
2017	7,838	2.9%	421,269,000	2.9%	53,747	0.0%

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SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

Year Ending December 31,	Added to Rolls		Removed from Rolls		Rolls-End of Year		% Increase in Annual Allowances	Average Annual Allowances
	Number	Annual Allowances	Number	Annual Allowances	Number	Annual Allowances		
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2007	239	$9,484,039	205	$4,064,965	5,304	$142,267,609	-	$26,823
2008	383	12,144,419	211	4,287,869	5,476	154,692,846	8.7%	28,249
2009	446	15,663,920	216	4,530,438	5,706	165,826,328	7.2%	29,062
2010	508	15,996,695	221	4,635,309	5,993	179,730,384	8.4%	29,990
2011	404	13,636,816	198	4,216,579	6,199	193,851,170	7.9%	31,271
2012	325	9,615,428	204	4,457,973	6,320	202,120,582	4.3%	31,981
2013	324	10,291,868	197	4,327,990	6,447	210,027,512	3.9%	32,578
2014	370	11,692,776	219	4,821,713	6,598	219,150,070	4.3%	33,215
2015	385	11,757,189	227	4,887,969	6,756	226,019,290	3.1%	33,455
2016	384	16,170,053	237	6,375,641	6,903	237,992,528	5.3%	34,477
2017	385	(2,726,021)	244	531,303	7,044	237,992,528	0.0%	33,787

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SOLVENCY TEST

	Aggregated Accrued Liabilities for				Portions of Accrued Liabilities Covered by Reported Assets		
Valuation Date	Active and Inactive Members Contributions	Retirees and Beneficiaries	Active and Inactive Members (Employer Financed Portion)	Reported Assets	(5)/(2)	[(5)-(2)]/3	[(5)-(2)-(3)]/(4)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
December 31, 2007	$205,700	$1,591,731	$1,117,733	$3,183,260	100%	100%	100.0%
December 31, 2008	221,414	1,707,599	1,146,372	2,957,506	100%	100%	89.7%
December 31, 2009	228,445	1,834,491	1,128,963	3,031,652	100%	100%	85.8%
December 31, 2010	232,727	2,041,322	1,008,077	3,027,439	100%	100%	74.7%
December 31, 2011	240,821	2,181,731	969,100	2,916,746	100%	100%	51.0%
December 31, 2012	257,716	2,250,533	1,010,107	2,846,124	100%	100%	33.4%
December 31, 2013	278,892	2,319,424	1,012,529	3,074,284	100%	100%	47.0%
December 31, 2014	301,567	2,578,071	1,124,417	3,241,053	100%	100%	32.1%
December 31, 2015	325,607	2,650,638	1,152,888	3,320,387	100%	100%	29.9%
December 31, 2016	350,646	2,770,533	1,170,623	3,451,463	100%	100%	28.2%
December 31, 2017	373,193	2,854,818	1,149,833	3,601,612	100%	100%	32.5%

Mortality:

Disabled Lives:

RP-2000 Disabled Mortality Table for male annuitants, set forward one year.

Sample rates follow (rate per 1,000):

Age	Male	Female
20	23	23
30	23	23
40	23	23
50	30	30
60	43	43
70	66	66
80	116	116
90	200	200

MORTALITY

Active Members

a. Males – RP2000 Healthy Mortality Table for male employees, set forward 4 years.

b. Females – RP2000 Healthy Mortality Table for female employees, set back 5 years.

Sample rates follow (rate per 1,000):

	Mortality Rate	
Age	**Male**	**Female**
30	0.7	0.2
40	1.4	0.5
50	2.8	1.1
60	7.0	2.5
70	33.9	5.8
80	99.8	28.1
90	250.7	77.4

10% of active deaths are assumed to be service related.

Other Benefit Recipients

a. Males – RP-2000 Blue Collar Healthy Mortality Table for male annuitants, with a 109% multiplier and fully generational mortality using improvement Scale BB.

b. Females – RP-2000 Blue Collar Healthy Mortality Table for female annuitants, with a 103% multiplier and fully generational mortality using improvement Scale BB.

Sample rates follow (rate per 1,000), with projected mortality applied:

Age	Male	Female
30	**0.8**	**0.3**
40	1.4	0.9
50	2.5	1.9
60	8	4.3
70	22.6	15.6
80	59.5	41.6
90	164.2	116.7

DISABILITY

A client-specific table of disability incidence with sample rates follows (rate per 1,000):

Age	Disability Rate
30	0.3
40	0.6
50	2.4
60	6.0

20% of disabilities are assumed to be service related. There is a 0% assumption of disabilities for members who have over 10 years of service and are eligible for retirement.

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ACTIVE MEMBERS ELIGIBLE FOR RETIREMENT (TIER A)

Upon eligibility, active members are assumed to retire as follows (rate per 1,000)

Age	Male		Female	
	First Year Eligible	Thereafter	First Year Eligible	Thereafter
48-49	100	100	100	100
50	600	550	400	350
51	500	450	400	350
52	500	330	400	350
53	450	300	400	300
54	400	280	400	250
55	350	280	300	250
56	350	280	300	250
57	350	280	300	220
58-59	350	280	300	220

Age	Service < 18 yrs	Service 18 yrs	Service < 18 yrs	Service 18 yrs.
60	80	250	100	300
61	90	250	150	220
62	100	250	150	200
63	150	250	150	150
64	150	250	100	100
65	180	250	200	200
66	200	250	250	250
67	200	250	250	250
68	200	250	150	250
69	200	250	150	250
70	1,000	1,000	1,000	1,000

GENERAL TURNOVER

A table of termination rates based on ERF experience. A sample of the ultimate rates are as follows

Years of Service	Terminations (per 1,000)
0	210.0
1	160.0
2	130.0
3	105.0
4	85.0
5	67.5
6	62.5
7	57.5
8	49.0
9	46.0
10-14	37.0
15-19	22.0
20 & Over	14.0

There is 0% assumption of termination for members eligible for retirement.

Mortality Improvement: Scale BB is used to project mortality improvements for Healthy Retirees on a fully generational basis. There is no projection of mortality improvement before or after the measurement date for disabled lives or active employees.

Refunds of Contributions: Members are assumed to choose the most valuable termination benefit.

Operational Expenses: The amount of estimated administrative expenses expected in the next year is assumed to be equal to the prior year's expenses and is incorporated in the Normal Cost.

Marital Status: 75% of active male members and 50% of active female employees are assumed to be married.

FUNDING PROCESS

Based on the previous work of the Employees' Retirement Fund Study Committee, which was ratified by both the City Council and the voters of Dallas, a new funding process commenced October 1, 2016. From this date forward, a new "current adjusted total obligation rate" will be contributed jointly by the City (63%) and the Membership (37%). This current adjusted total obligation rate will cover both the debt service tied to the pension obligation bonds issued in 2005 and the contributions to the ERF. In subsequent years, the contribution rate changes only if the actuarial valuation develops a "current total obligation rate" which differs from the "prior adjusted total obligation rate" by more than 3.00%.

The current total obligation rate exceeds the prior adjusted total obligation rate as of December 31, 2016. This means that the "current adjusted total obligation rate" will remain at 36.00% of active member payroll for the fiscal year beginning October 1, 2017. It should be noted that under the contribution corridor methodology, the "current adjusted total obligation rate" would have been higher if not for the maximum rate of 36.00% allowed under Chapter 40-A of the Dallas City Code.

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EXPERIENCE DURING 2017

An Actuarial (Gain)/Loss Analysis [(G)/L] reviews the effects of the actual experience that differs from the assumed experience based on the actual results for the year. If any difference increases assets or reduces liabilities, we have an actuarial gain. The reverse is an actuarial loss.

On a market value return basis, the Fund returned approximately 8.65% (calculated on a dollar-weighted basis, net of investment expenses). Given this return, the actual investment income was less than the expected investment income on the actuarial value of assets; therefore, an investment income loss is being partially recognized this year (1/5) and partially deferred into the near future (4/5). After also recognizing prior 5 years' deferred investment gains and losses (years 2015 - 2012), there was an overall actuarial gain of $16 million on the actuarial value of assets as of December 31, 2017. The rate of return on the actuarial value of assets for 2017 was 8.99% (calculated on a dollar-weighted basis, net of investment expenses). This result was more than the current investment return assumption of 7.75%.

During 2017 there was a liability actuarial gain of about $61.0 million derived from demographic assumptions and non-investment economic assumptions (cost-of-living-adjustment). As seen below, ERF experienced an overall experience actuarial gain in calendar year 2017 in the amount of $48.8 million.

The total (G)/L for the prior 4 years is broken down as follows ($ in millions):

	2014	2015	2016	2017
1) Actuarial (Gain)/Loss on Assets	$(61.00)	$31.24	$(16.41)	$(19.85)
2) Actuarial (Gain)/Loss on Liabilities	$(21.97)	$(26.83)	$(32.35)	$(61.02)
3) Total Actuarial (Gain) or Loss (1+2)	$(82.97)	$4.41	$(48.76)	$(80.87)

The unfunded actuarial accrued liability (UAAL) also increased $27.8 million due to the difference between the calculated contribution rate and the actual contributions during 2016.

FUNDED STATUS

The funded status of ERF is measured by the Funded Ratio and the Unfunded Actuarial Accrued Liability (UAAL). The Funded Ratio is the ratio of the actuarial value of assets available for benefits to the actuarial accrued liability (AAL) of the Fund on the valuation date. Therefore, it reflects the portion of the AAL that is covered by ERF assets. The UAAL is the difference between these two amounts.

A Funded Ratio of 100% means that the funding of ERF is precisely on schedule as of the particular valuation date. In addition, an increasing funded ratio from year-to-year may also mean that the funding of ERF is on schedule. By monitoring changes in the Funded Ratio each year, we can determine whether or not funding progress is being made.

Based on the actuarial value of assets, the Funded Ratio of ERF increased from 80.4% as of December 31, 2016 to 82.3% as of December 31, 2017.

The UAAL increased from $840.3 million as of December 31, 2016 to $776.2 million as of December 31, 2017. Since the UAAL is positive, this implies the actuarial accrued liabilities exceed the actuarial assets of the Fund as of December 31, 2017.

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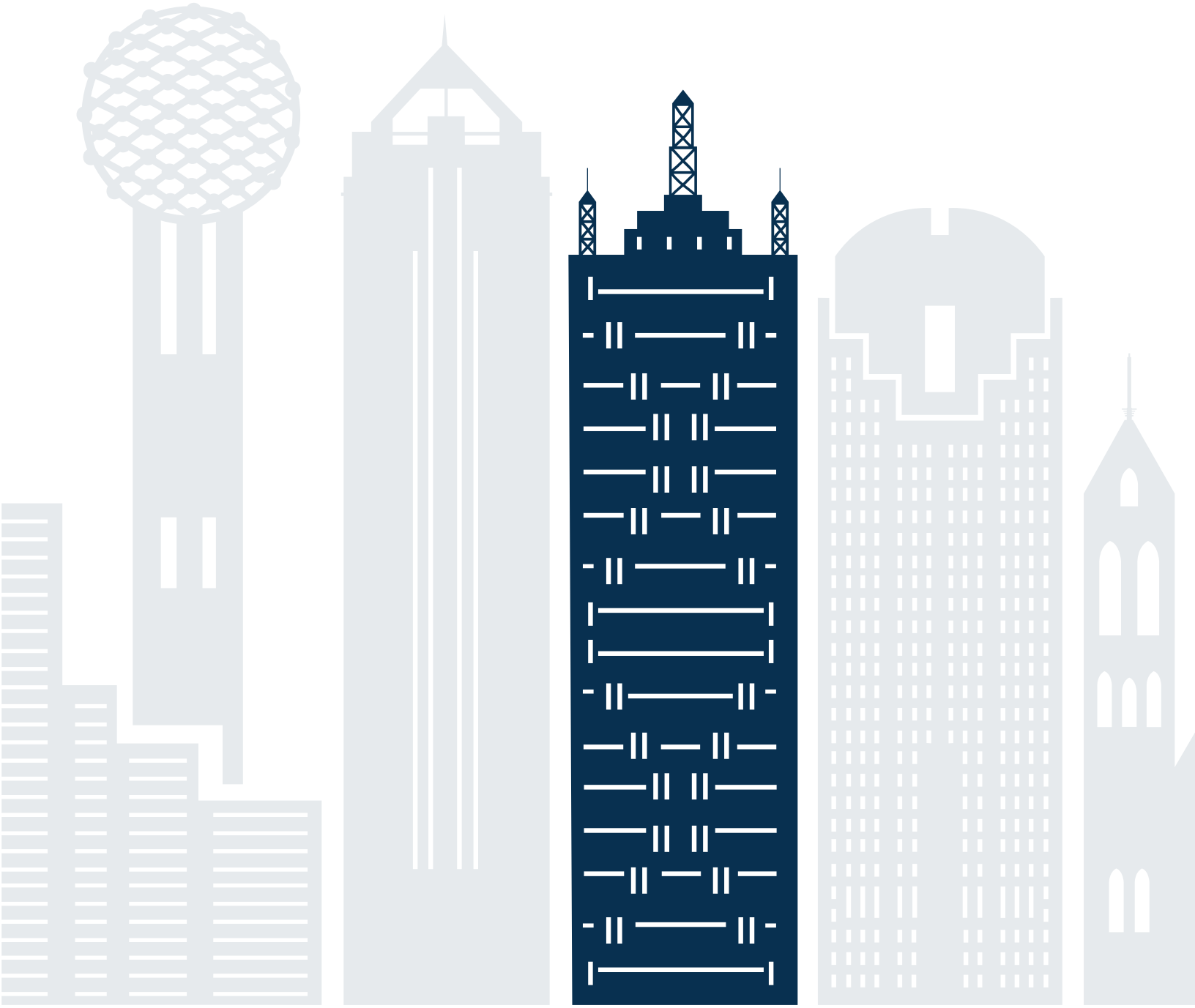

STATISTICAL SECTION

SCHEDULE OF REVENUE BY SOURCE

($ in 000s)

Year Ending	Member Contributions	Employer Contributions	% of Annual Covered P/R	Investment Income	Total
2008	31,839	22,720	5.8	(975,641)	(921,082)
2009	32,229	25,265	6.7	619,177	676,671
2010	31,666	27,323	8.2	398,713	457,702
2011	31,748	27,302	8.6	24,554	83,604
2012	35,644	30,371	9.6	385,678	451,693
2013	41,730	37,823	11.0	493,498	573,051
2014	46,536	45,833	12.6	207,992	300,361
2015	50,742	50,721	13.2	(53,343)	48,120
2016	53,436	56,130	13.9	294,918	404,484
2017	55,175	58,966	14.4	413,511	527,652

SCHEDULE OF EXPENSES BY TYPE

($ in 000s)

Year Ending	Benefit Payments	Administrative Expenses	Refunds	Investment Professional Expenses	Total
2008	156,575	3,255	2,742	20,926	$183,498
2009	172,493	3,315	4,273	9,637	$189,718
2010	182,883	3,235	4,476	11,173	$201,767
2011	195,270	3,492	4,982	14,026	$217,770
2012	209,097	3,446	4,369	15,854	$232,766
2013	216,988	3,595	4,405	16,286	$241,274
2014	225,614	4,150	4,629	18,678	$253,071
2015	235,106	4,594	4,854	18,185	$262,739
2016	243,775	5,343	5,864	15,812	$270,794
2017	253,535	5,951	8,156	16,886	$284,528

SCHEDULE OF BENEFIT EXPENSES BY TYPE

($ in 000s)

Year Ending	Retiree	Beneficiary	Disability	Supplement	Total
2008	138,695	5,959	3,979	7,942	156,575
2009	150,843	9,340	4,149	8,161	172,493
2010	162,042	7,984	4,322	8,535	182,883
2011	176,028	5,767	4,536	8,939	195,270
2012	187,712	7,561	4,677	9,147	209,097
2013	196,525	6,470	4,656	9,337	216,988
2014	205,172	6,147	4,743	9,552	225,614
2015	214,343	6,101	4,908	9,754	235,106
2016	220,977	7,926	4,884	9,986	243,773
2017	229,843	8,317	5,194	10,180	253,534

AVERAGE BENEFIT PAYMENT

As of December 31, 2017

Retirement Effective Dates	Years of Credited Service						
	0 - 5	5 - 10	10 - 15	15 - 20	20 - 25	25 - 30	30+
Period 01/01/2017 to 12/31/2017							
Average monthly benefit	$395	$840	$1,456	$2,422	$3,366	$4,441	$5,039
Average final average salary	$4,260	$1,821	$3,470	$4,985	$5,367	$6,123	$5,798
Number of retired members	12	41	51	44	53	56	37
Period 01/01/2016 to 12/31/2016							
Average monthly benefit	$325	$763	$1,488	$2,427	$2,489	$4,170	$4,974
Average final average salary	$4,290	$3,561	$4,840	$5,274	$4,943	$5,651	$5,720
Number of retired members	20	37	40	65	45	50	65
Period 01/01/2015 to 12/31/2015							
Average monthly benefit	$145	$882	$1,365	$2,126	$3,025	$4,106	$4,922
Average final average salary	$3,347	$4,697	$4,059	$4,582	$4,948	$5,592	$5,691
Number of retired members	4	33	24	50	46	62	57
Period 01/01/2014 to 12/31/2014							
Average monthly benefit	$327	$644	$1,451	$1,934	$2,949	$4,012	$5,568
Average final average salary	$3,845	$3,211	$4,109	$4,165	$4,888	$5,445	$6,371
Number of retired members	7	42	36	56	45	71	38
Period 01/01/2013 to 12/31/2013							
Average monthly benefit	$302	$578	$1,689	$2,012	$2,909	$3,823	$4,639
Average final average salary	$3,892	$3,100	$4,954	$4,223	$4,764	$5,260	$5,390
Number of retired members	8	29	33	33	49	62	44
Period 01/01/2012 to 12/31/2012							
Average monthly benefit	$325	$845	$1,591	$2,010	$2,829	$3,964	$4,517
Average final average salary	$2,933	$4,442	$4,633	$4,118	$4,570	$5,397	$5,269
Number of retired members	12	39	32	26	39	61	32
Period 01/01/2011 to 12/31/2011							
Average monthly benefit	$323	$787	$1,259	$2,027	$3,099	$3,754	$4,263
Average final average salary	$3,798	$3,757	$3,702	$4,261	$5,052	$5,105	$4,990
Number of retired members	15	33	41	48	58	105	61
Period 01/01/2010 to 12/31/2010							
Average monthly benefit	$224	$734	$1,303	$1,830	$2,995	$3,711	$4,116
Average final average salary	$2,595	$3,679	$4,364	$4,784	$4,904	$5,040	$4,772
Number of retired members	8	36	49	44	70	133	91

RETIRED MEMBERS BY TYPE OF BENEFIT

As of December 31, 2017

Amount of Monthly Benefits		Type of Retirement 1	2	3	4	5	6	7	Option Selected #1	#2	#3
$1	$250	50		12					19	16	39
$251	$500	116		41	28			8	31	78	95
$501	$750	212	5	55	59		6	24	52	152	164
$751	$1,000	252	9	75	27		16	20	56	184	163
$1,001	$1,250	218	9	67	25	6	13	15	65	146	160
$1,251	$1,500	234	15	64	15	8	18	5	69	125	159
$1,501	$1,750	225	11	64	15	12	16	5	86	115	162
$1,751	$2,000	232	20	50	17	11	8	6	95	116	133
over	$2,000	3,989	137	329	70	11	47	21	1,123	1,849	1,583
Total		**5,547**	**206**	**757**	**256**	**48**	**124**	**104**	**1,603**	**2,781**	**2,658**

a) Type of Retirement

1) Normal retirement for age, service or Rule of 80
2) Early retirement
3) Beneficiary payment, normal or early retirement
4) Beneficiary payment, service connected death
5) Service connected disability retirement
6) Non-Service connected disability retirement
7) Beneficiary payment, disability retirement

b) Option Selected

1) Joint & 100%- beneficiary receives 100% of member's benefit
2) Joint & 50%- beneficiary receives 50% of member's benefit
3) 10 Year Certain- beneficiary receives member's unused benefits

AVERAGE AGE AND PENSION AT RETIREMENT

As of December 31, 2017

Status	Average Age	Average Pension	Average Age at Retirement
Members Only	69	$3,216.35	57
Members and Survivors	70	$3,004.24	N/A
Survivors Only	73	$1,886.60	N/A

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