

Minutes

DeKalb County Pension Board

November 9, 2017

The DeKalb County Pension Board held a meeting on November 9, 2017 in the Board of Commissioners Conference Room. The following members were present: James Hendrix, David Littlefield, John McMullan, Dianne McNabb, Robert Robertson (via telephone), Cornelius Yarbro, and Edmund Wall. Others present: Patricia Keesler of Benefits Law Group, Weston Lewis and Brad Penter of Callan Associates, Beth Grimes of Bates Carter, Commissioner Jeff Rader, Kenny Pinkerton, Larry Jacobs, and Paul Wright.

Mr. Wall reminded everyone that the county contribution is based on 18% of budgeted payroll, which typically results in a smaller contribution amount, since the actual payroll is usually less than that used for actuarial funding and projections. This amount still exceeds the 15% minimum contribution requirement. An additional required payment is an amortization of the loan to the county as part of the 2010 early retirement window. Jeff Rader explained that the 18% county contribution is directed by policy.

James Hendrix motioned, David Littlefield seconded, and the Board approved payment of the following invoices:

Vendor	Service	Period	Amount
Advent Capital Management	Investment Management	3Q 2017	\$71,154.57
Denver Investments	Investment Management	3Q 2017	76,866.54
Earnest Partners	Investment Management	3Q 2017	123,816.24
The Edgar Lomax Company	Investment Management	3Q 2017	40,223.20
Frontier Capital Management	Investment Management	3Q 2017	147,657.12
Gabelli Asset Management	Investment Management	3Q 2017	225,585.00
Income Research + Mgt.	Investment Management	3Q 2017	41,335.28
Ivy Asset Management	Investment Management	3Q 2017	55,750.45
Jennison Associates	Investment Management	3Q 2017	155,980.42
Montag & Caldwell	Investment Management	3Q 2017	98,919.26
Southeastern Asset Mgt.	Investment Management	3Q 2017	200,240.00
Subtotal			\$1,237,328.08
ASM Consulting	Website Maintenance	September 2017	\$300.00
Benefits Law Group	Legal Consulting	September 2017	4,190.50
Callan Associates	Investment Consulting	3Q 2017	20,500.00
DeKalb County Finance Dept.	Pension Administration	3Q 2017	82,672.81
Elarbee, Thompson, et al.	Legal Consulting – C	September 2017	14,350.86
Elarbee, Thompson, et al.	Legal Consulting – S	September 2017	2,482.50
Erich G. Randolph, MD	Disability Examination	October 23, 2017	400.00
Segal Consulting	Consulting	June-August 2017	8,375.00
Segal Consulting	Consulting	12/2016 - 7/2017	6,628.75
State Street	Custodial Supervision	3Q 2017	39,289.89
Subtotal			\$179,190.31
Total			\$1,416,518.39

Brad Penter of Callan Associates provided a summary of the 3rd Quarter investment results. The fund had a very strong quarter, 4.56%, contributing to a 12-month return of 15.88%. Growth stocks outperformed value stocks, and international stocks were boosted by a weaker dollar. An interest rate hike is expected in December with more potential hikes during 2018. Other than completing the Montag & Caldwell transition to Loomis Sayles, there are no recommendations for fund changes to the portfolio at this time.

Weston Lewis of Callan Associates described a new display in the quarterly report designed to meet compliance with Section 921(c)(iii) of the Pension Code, which limits any single asset or affiliated group to 5% of the portfolio. The new display lists the ten largest holdings of equity, all of which are less than 2.0%. Combining holdings under their parent name still falls well short of the 5% threshold, thus ensuring the plan is in compliance. This new display will serve as the mechanism for reviewing ongoing compliance of this provision.

Mr. Lewis discussed the Asset Attribution Effects displayed as part of the asset allocation and manager performance in the quarterly report. The fund is overweighted in domestic equity and underweighted in international equity, having a slight negative effect on performance. The report also highlights the Fund Rankings, showing the fund is within the top 2% in investment performance of all large public funds for the 12 months ending September 30, 2017. Mr. Lewis indicated that money manager fees for the fund were very much in line with the median fee of 38 basis points for large public plans. There is marketplace pressure to reduce fees through passive investment strategies and alternative investments, indicating that fee negotiation is more commonly expected. The Board asked Callan to inquire about a fee review with our money managers.

John McMullen asked who is responsible for assigning the benchmark. The Board can select any desired benchmark as long as it is relevant and consistent with the funds they are trying to measure.

James Hendrix motioned, John McMullen seconded, and the Board approved \$12 million funding (\$5 million from Montag, \$4 million from Gabelli, and \$3 million from Southeastern) for benefit payments in December 2017 – January 2018.

Robert Robertson commented that the fund market value is approximately where it was in 2004/2005 and that there has been no gain on the unfunded liability. Mr. Wall added that the contributions made by the county and the employees include the cost of approximately \$60 million per year in benefit payments to retirees plus an amount toward the unfunded liability.

Weston Lewis of Callan Associates discussed potential changes to Section 921 of the Pension Code to harmonize the Code, Georgia law, and the investment policy. On the investment side, the Code is presenting challenges for the money managers due to restrictions to make certain investments in line with the Code. There needs to be more flexibility in managing the securities allowed for investments against the benchmark. The Board should review options to remove judgment calls and create a more workable investment environment for the money managers. Ed Wall commented that a restrictive code can be good policy. Any change to the Code will require a vote by the participants, with the next election scheduled for January 2020. Callan Associates is responsible for informing the Board when the fund is not compliant with the Code. The fund is currently investing in mutual funds and exceeds the international equity threshold of 10%, making it not compliant. James Hendrix asked about the effect the Code is having on performance returns and the effect is minimal. Dianne McNabb indicated that a compliance officer has not been hired

and that some internal audit staff have been moved to compliance. The board requested a sample report from State Street displaying a variety of compliance measures. A separate Investment Committee meeting will be set up in December to continue discussion of potential modifications of Pension Code Section 921.

Larry Jacobs reported that the transition of assets from Montag & Caldwell to Loomis Sayles is underway with Blackrock overseeing the change. Montag & Caldwell will cease trading on November 13, and termination will occur on November 15. The transition to Loomis Sayles is expected to be completed by November 22. A Certificate of Incumbency was signed by Ed Wall today. Robert Robertson requested that a final transition report be provided to the Board members.

Robert Robertson provided a summary of previous COLA increases to retirees and indicated that no COLA has been provided in 12 years. Meanwhile, there has been a significant increase in health care costs during this time, and he recommends a 3% COLA increase. A proposal for an annual, automatic 1% COLA increase has been presented multiple times but has been rejected by the Law Department due to legality concerns. A 2% COLA would cost approximately \$1.4 million annually over 30 years. The Pension Board can only make a recommendation for the increase, with the Board of Commissioners providing final approval. Jeff Rader suggested that the first priority should be to reduce the plan liabilities before making any increases to benefits.

Beth Grimes of Bates Carter presented the 2016 audit report. This is the first audit completed by Bates Carter and the report is classified as unmodified, representing the highest level of assurance for reporting. There are no reported compliance items and several recommendations are made for improved audit controls. John McMullan inquired about repayment of the 2010 loan amount provided to the county for the early retirement window. This loan amount was not reflected because Bates Carter did not realize it existed. The annual repayment amount of the loan is listed, and Bates Carter will add a footnote to disclose the full loan amount. Due to improved investments results, there was a big swing of \$28 million in the net position of the plan compared to a decrease of \$86 million last year. Ed Wall commented that the plan's actuarial funding assumptions are conservative and that the net pension liability has increased each of the past three years. The internal controls revealed a delay in bank reconcilements, and Dianne McNabb indicated that the Finance Department now has plan reconcilements back to 2004. The actuarial report was also delayed, primarily due to census data issues. This is being addressed with IT. Due to changing the plan to a calendar year plan year, the valuation data for the short plan year April 1, 2016 to December 31, 2016 is being completed now. Going forward, a six-month target after year-end is proposed for completing the valuation and audit at the same time. A tracking process is suggested to keep track of participant files. A recommendation is made to make more timely inter-fund transactions between the payroll and the plan. Diane McNabb reported improvements are in place for quarterly disclosures and statements. Expanded security restrictions have taken place in PeopleSoft, limiting access to selected, approved users. Year-by-year reconcilements are now being completed for expanded disclosure.

The Board approved the 2018 schedule of Pension Board meetings:

- January 11, 2018
- March 8, 2018
- May 10, 2018
- July 12, 2018
- September 13, 2018
- November 8, 2018

Employee Joyce Hill provided information that she found evidence of receiving a refund amount for previous service. As a result, no prior service will be restored and no further action is needed.

Rehired Fire Rescue employee Hakeem Ferguson made a request and payment of \$6,554.56 to buy back previous pension service. He will be notified that he is rehired as a Group 3 participant and his prior service is restored. The Board discussed revisiting the rehire provisions in the Code to clear up any ambiguity of rehires who buy back prior service as a Group 3 participant. James Hendrix motioned, David Littlefield seconded, and Board approved the prior service buy back for Mr. Ferguson.

James Hendrix motioned, David Littlefield seconded, and Board approved the service purchase for the leave of absence period for Ammie Rucker, a Sheriff's Office employee.

David Littlefield motioned, James Hendrix seconded, and Board approved the appointment of Kenny Pinkerton to Clerk of the Pension Board, effective immediately.

Robert Robertson suggested clarification of the earlier comments made by Jeff Rader regarding the expectation of improving the unfunded liability prior to pursuing a COLA increase for retirees. Ed Wall will follow up with Mr. Rader.

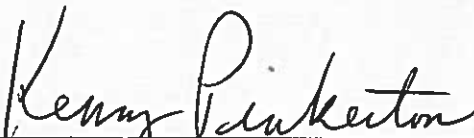
The discount rate analysis provided by Rocky Joyner of Segal Consulting did not include an increase in contributions due to a lower discount rate. Ed Wall will request a revision of the analysis with an increased contribution amount. Segal will present the revised analysis at the special Investment Committee meeting in December.

James Hendrix motioned, David Littlefield seconded, and Board approved entering Executive Session to discuss disability applications and a disability appeal.

Upon returning from Executive Session, James Hendrix motioned, John McMullan seconded, and Board approved the disability benefit for Tracy Pitts, retroactive to October 1, 2017. Ms. Pitts is encouraged to meet with Paul Wright to review the possibility of receiving an early retirement benefit rather than the disability benefit.

James Hendrix motioned, David Littlefield seconded, and Board approved a 12-month disability benefit for Belinda Williams, effective December 1, 2017.

With no further business the Board adjourned the meeting.



Kenny Pinkerton
Clerk, The DeKalb County Pension Board