

## Minutes

### DeKalb County Pension Board

**March 21, 2019**

The DeKalb County Pension Board met on March 21, 2019 in the Board of Commissioners Conference Room. The following members were present: James Hendrix, David Littlefield, John McMullan, Dianne McNabb, Benita Ransom, Robert Robertson (via telephone), D'Lisa Stevens, and Edmund Wall. Others present: Rocky Joyner of Segal Consulting; Bill Emmett and Brad Penter of Callan LLC; Terri Taylor of Benefits Law Group; Bob Killorin and James Wilson of Faruqi and Faruqi; Commissioner Jeff Rader; Larry Jacobs; and Kenny Pinkerton.

Ed Wall called the meeting to order. He welcomed D'Lisa Stevens as the new employee representative Board member. Mr. Wall led Ms. Stevens in her oath of office statement.

Mr. Wall clarified several items in the January 23, 2019 minutes regarding market returns, the fiscal year contribution, and the Board member count. All clarifications were accepted and James Hendrix motioned, John McMullan seconded, and the Board approved the January 23, 2019 minutes.

James Hendrix motioned, John McMullan seconded, and the Board approved payment of the following invoices.

Vendor	Service	Period	Amount
Advent Capital Management	Investment Management	4Q 2018	\$76,645.82
Earnest Partners	Investment Management	4Q 2018	112,148.63
Edgar Lomax Company	Investment Management	4Q 2018	41,781.05
Frontier Capital Management	Investment Management	4Q 2018	141,380.29
Gabelli Asset Management	Investment Management	4Q 2018	199,809.00
Income Research + Mgt.	Investment Management	4Q 2018	40,468.23
Ivy Asset Management	Investment Management	4Q 2018	40,862.79
Jennison Associates	Investment Management	4Q 2018	161,479.01
Loomis Sayles	Investment Management	4Q 2018	130,321.27
Segall Bryant & Hamill	Investment Management	4Q 2018	77,361.78
Southeastern Asset Mgt.	Investment Management	4Q 2018	158,197.00
		<b>Subtotal</b>	<b>\$1,180,454.87</b>
ASM Consulting	Website Maintenance	Jan - Feb 2019	\$300.00
Benefits Law Group	Legal Consulting	December 2018	722.50
Benefits Law Group	Legal Consulting	January 2019	2,780.00
Elarbee, Thompson, et al.	Legal Consulting – C	January 2019	607.50
DeKalb County Finance Dept.	Pension Administration	4Q 2018	122,170.13
Segal Consulting	Actuarial Consulting	Sept–Nov 2018	8,375.00
Segal Consulting	Actuarial Consulting	December 2018	6,110.00
Segal Consulting	Experience Study	December 2018	40,000.00
Segal Consulting	Actuarial Consulting	February 2109	8,375.00
State Street	Custodial Supervision	4Q 2018	36,333.49
		<b>Subtotal</b>	<b>\$225,773.62</b>
<b>Total</b>			<b>\$1,406,228.49</b>

Brad Penter provided a summary of investment returns. There was a security sell-off in the 4<sup>th</sup> quarter of 2018, driven by trade wars between the U.S. and China, monetary tightening, concern of rising interest rates, and investor flight to fixed income securities. The fund was adversely affected by a 65% allocation in domestic equities, with Southeastern experiencing the most losses, down 19% in the 4<sup>th</sup> quarter and down 16% for 2018. Concerns around Southeastern stem around their long-term care insurance selections and GE's power division. Only four managers outperformed the benchmark for the quarter and five managers outperformed the benchmark for the year, indicating that active management was not additive to the fund's performance. Active management can be reviewed further in the Asset Liability study later this year to determine its effectiveness. A call was made with T. Rowe Price in February to discuss their investment strategy. Mr. Penter indicated that their strategy is good for the plan because of the broad exposure of international investments. T. Rowe Price has a large team of global analysts around the world that provide input on various companies, which tend to be large cap, stable equities. Mr. Wall commented that T. Rowe Price removed the worst performing equities, they are staying with their strategy, and the Board will continue to watch their performance.

Mr. Wall indicated that on March 5, 2019, the participants voted to increase the International allocation threshold to 15%. The Board typically shies away from international exposure and wants to invest only in countries where rule of law exists, such as Europe and Asia. There is no requirement that the Board must move the fund's international allocation to 15%, but the provision now allows the Board to do so if market conditions warrant it. Mr. Penter indicated that the current environment of international pricing versus domestic pricing represents an attractive time to purchase international equities. The fund follows the MSCI EAFE Index for the international equities benchmark, which does not include emerging markets. Mr. Penter noted that some of the pricing discount in international equities is due to the uncertainty around U.K.'s exit from the European Union. Mr. Wall commented that there is value in the international marketplace that should be considered. Mr. Littlefield mentioned that many of the indices are skewed because of U.S. based global companies like Amazon, Google, etc., which if not considered, would bring the domestic and international indices closer together. Bill Emmett commented that investing internationally presents an opportunity for access to more markets. Callan recommends that the Board continue to use the domestic equity funds to fund benefit payments, and over time the international allocation percent should move toward the 15% threshold from the current 12% level.

Mr. Penter commented that in 2019, there has been a market increase mainly due to the Federal Reserve announcing a cutback on proposed interest rate hikes, or perhaps no rate hikes at all in 2019, and optimism over a trade deal with China. The markets had the best January since 1987, and the portfolio was up 7.6% in January, with active managers adding value. GE is up about 40% for the year, helping Southeastern return 10.6% for January and another 2.0% in February. Southeastern's assets are approximately \$4 billion, down from \$15 billion ten years ago. Mr. Wall noted that the five-year return for Southeastern is only 0.56%, while the benchmark earned 5.95%. For 25 years, Southeastern has returned 9.61% while the benchmark returned 8.95%. Mr. Penter shared that Southeastern's strategy is to purchase equities as being 60% of what Southeastern believes they are worth. Mr. Wall commented that the three funds that have the largest allocation are Jennison, Gabelli, and Southeastern, and they all have had periods where their returns struggled. Mr. Penter

suggested that the Board can further evaluate an investment strategy as Callan completes the Asset Liability Study. The study will look at the current asset base and determine various investment allocation options that will best meet the future payment needs based on the Board's tolerance for risk. A separate study will also review the risk tolerance for selecting investment managers.

Mr. Penter reviewed Callan's Capital Market Projection summary. The summary projects investment returns over ten years among various asset classes. For example, U.S. Equities are projected to return 7.15% and Fixed Income 3.75% over the next ten years. Mr. Wall noted that private equity is expected to return 8.50% over ten years, but the standard deviation is 29.3%, representing enormous risk for the expected return. Since private equity is not a liquid asset, it also does not help the portfolio meet the needs of providing benefit payments. Given the illiquid nature of private equity assets, the subjective process used in valuing a private equity fund, and the due diligence needed to properly evaluate a private equity manager, the Board agreed to not add a private equity investment to the portfolio.

Mr. Penter also presented a summary of the projected range of returns based on DeKalb's current portfolio. Assuming the portfolio replicated the benchmark, the median expected return over the next year is 6.4% and 6.5% annually over five years. Over the next year, there is a 50% probability the portfolio will return more than 6.5%. With active fund management, the returns are expected to be higher and a greater chance of meeting the investment target.

Mr. Hendrix asked how long should the Board give a fund manager before making a change. Mr. Penter responded that when confidence is lost, it is typically time for a change. Mr. Wall indicated the general rule is three to five years of substandard performance before making a change.

Mr. McMullan inquired about the performance of Advent Capital, which has not met the benchmark for several years. Mr. Penter responded that there is not a good benchmark to evaluate convertible investments with many of them being skewed by a single investment such as Intel. Mr. Wall indicated that Advent Capital can be allocated as fixed income asset which has helped the portfolio but that has lagged behind the benchmark.

Kenny Pinkerton reported that the drawdown amount from State Street is \$0, primarily due a larger than normal cash position and the county's timing requirement of completing the monthly budget before being reimbursed by State Street.

Mr. Wall commented on the 2019 Proposed Budget, thanking CEO Michael Thurmond for the county's \$9 million increase in pension fund contributions. An arithmetic error was noted on the budget draft and will be corrected for further discussion at the next meeting.

Mr. Hendrix inquired about the status of legal cases. Mr. Wall responded that Yolanda Charles was paid a refund of contributions, which may close the case. Mr. McMullen asked if a participant's benefits can be used to pay for legal fees if they bring legal action against the pension plan and lose the case. Terri Taylor will research further.

Rocky Joyner reported that he has been in discussions with the ERPS Committee regarding retirement changes for public safety employees. One of the main issues is the County's inability to retain fire and police officers after considerable cost and effort to train them. Fire Rescue personnel are capturing information on where departing staff is going and how the salary and benefits at a competitor compares with DeKalb's. Many are departing within the first two to three years. Larry Jacobs noted that the ERPS Committee is only gathering information at this time and that the administration has not provided any direction for recommending policy. Mr. Robertson presented a request to the ERPS Committee of introducing a Home Rule amendment to provide an automatic annual COLA increase. Mr. Joyner indicated that an automatic COLA increase is part of the benefit changes being discussed with the ERPS Committee.

Mr. Wall explained that the county's additional \$9 million contribution brings the total contribution for 2019 to \$61 million. This amount represents the contribution that would be obtained using a discount rate of 6.75%. As a result, Mr. Wall recommends the Board change the discount rate from 6.50% to 6.75%, which is within the actuary's suggested range of 6.50% to 7.25%. Mr. Robertson appreciates the additional contribution from the county and supports the change to 6.75%. Mr. Hendricks inquired about the downside of not changing to 6.75%. Mr. Joyner responded that if a rate of 6.50% is used, the plan contribution for 2019 would be approximately \$3 million short of the required contribution. If the shortfall is reported to the state, the state could withhold monies from the county. Mr. Joyner recommends continued discussions with the county regarding the funded status of the plan and the possibility of lowering the rate to 6.5% in the future. This change does not affect the unfunded amortization amount, as it will continue to be paid down each year. Segal will have to redo the 1/1/2018 valuation at 6.75% and file this report with the state, as it was completed earlier using 6.50%. Mr. McMullen motioned and Mr. Littlefield seconded, and the Board approved a discount rate of 6.75% for the 1/1/2018 valuation.

Mr. Joyner clarified that the 2% COLA will be reflected in the 1/1/2019 valuation and reflected in the 2020 budget year. He mentioned that there are a variety of ways to implement an automatic COLA, such as waiting several years after retirement before receiving the first increase and reviewing benefit levels less than a certain threshold, all of which can be explored at future ERPS meetings. Mr. Wall indicated the county law department determined that automatic COLAs may not be allowed. Mr. Robertson stated that any COLA increase should be applied equally to all retirees, not to selected retiree groups.

Mr. Wall reported that House Bill 196 has been introduced in the Georgia Legislature requiring ongoing training for pension board members. The bill passed the Georgia House on March 5 and is being reviewed in the Georgia Senate. There are a variety of ways training can be achieved and the Board will explore further options if the bill is passed.

Mr. Littlefield motioned, John McMullen seconded, and the Board approved the eligible portion of the service buyback application for Dawn Brown, a Police employee, and the service buyback application for Stayce Evans, a Juvenile Court employee.

Mr. Littlefield motioned, John McMullen seconded, and the Board approved the military

service purchase applications for Polices Services employees Natasha Alexander and Adrian Williams.

Mr. Pinkerton reported that the disability appeal from Janaya Davis is rescheduled to the May meeting due to a death in her family.

The Board moved to Executive Session to discuss legal items.

Upon returning from Executive Session, John McMullan motioned, Eric Hendrix seconded, and the Board approved taking the lead plaintiff role against GE. The plan is represented by Faruqi & Faruqi, LLP.

With no further business the Board adjourned the meeting.



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Kenny Pinkerton  
Clerk, The DeKalb County Pension Board