

Minutes

DeKalb County Pension Board

August 1, 2019

The DeKalb County Pension Board met on August 1, 2019 in the Hickory Room of the Emory Conference Center Hotel. The following members were present: James Hendrix, David Littlefield, John McMullan, Dianne McNabb, Benita Ransom, Robert Robertson, D'Lisa Stevens, and Edmund Wall. Others present: Rocky Joyner of Segal Consulting; Weston Lewis, Todd Carabisi, and Brad Penter of Callan LLC; Terri Taylor of Benefits Law Group; Ginny Harris of Nichols, Cauley & Associates, LLC; Larry Jacobs; Kenny Pinkerton; and Paul Wright.

Ed Wall called the meeting to order. John McMullan motioned, Eric Hendrix seconded, and the Board approved the May 16, 2019 minutes.

Mr. Robertson motioned, Mr. Hendrix seconded, and the Board approved payment of the following invoices.

Vendor	Service	Period	Amount
Earnest Partners	Investment Management	2Q 2019	\$125,930.17
Frontier Capital Mgt.	Investment Management	2Q 2019	151,295.16
Jennison Associates	Investment Management	2Q 2019	175,373.43
Loomis Sayles	Investment Management	2Q 2019	154,345.47
Southeastern Asset Mgt.	Investment Management	2Q 2019	166,310.00
Waddell & Reed (Ivy)	Investment Management	2Q 2019	13,500.81
Subtotal			\$786,755.04
ASM Consulting	Website Maintenance	May 2019	\$300.00
Benefits Law Group	Legal Consulting	May 2019	3,075.00
Benefits Law Group	Legal Consulting	June 2019	2,562.50
Callan LLC	Investment Consulting	June 2019	20,500.00
DeKalb County Finance Dept.	Pension Administration	2Q 2019	127,966.83
DeKalb County Voter Reg.	Election Services	1Q 2019	13,092.00
Elarbee, Thompson, et al.	Legal Consulting – C	March 2019	752.00
Elarbee, Thompson, et al.	Legal Consulting – C	April 2019	324.00
Emory Conference Center	Investment Retreat	August 2019	3,711.84
Pension Benefit Information	Death Audit Search	June 2019-May 2020	1,530.00
Nichols, Cauley & Assoc.	Plan Audit	June 2019	15,500.00
Segal Consulting	Actuarial Consulting	May 2019	8,375.00
Segal Consulting	Actuarial Consulting	June 2019	5,351.25
Subtotal			\$203,040.42
Total			\$989,795.46

Ginny Harris provided a summary of the plan's 2018 audit report. Mr. Wall inquired about the source of the \$1M fee for administrative costs. Ms. Harris will research further and provide the details behind this expense. Mr. McMullan asked about disclosure of the plan's benefit liability. Ms. Harris responded that the plan's benefit liability is reported on the county's balance sheet under GASB. Mr. Wall pointed out that the outstanding loan amount from the 2010 Early Retirement Window that is due to the pension fund by the county was \$688,194 as of December 31, 2018 and has since been paid in full. Mr. McMullan noted the average maturity of the short-term investments is listed as 32 years. Ms. Harris will look into the values. Mr. Wall noted that the real rates of return displayed with the target allocation percent are net of a 2.75% inflation rate, resulting in an average return that is less than the expected discount rate of 6.75%. Adding back the inflation rate, the rate of return is 8.14%. He also pointed out how much a 1% change in the discount rate would change the net pension liability. Rocky Joyner commented that for the pension funding financial statements, the GASB numbers are in the footnote, but for the plan sponsor the GASB numbers are in the balance sheet. Ms. Harris concluded by stating that there were no instances of noncompliance or material weaknesses found.

Brad Penter provided a summary of the economic landscape. The second quarter started well in April by continuing the strong earnings from the first quarter. In May, earnings were affected by several geopolitical items including additional tariffs on Chinese goods and ongoing trade talks, leadership changes in Great Britain, and immigration struggles with Mexico. Investors started to move toward fixed income as concerns increased. During June, the marketplace was affected by potential interest rate cuts by the Fed and the ongoing trading status with China. The Fed lowered rates on August 1 by .25% with much speculation of more rate cuts before year end. Overall returns for the quarter were up, with all sectors increasing except for energy.

Todd Carabisi discussed the performance of the fund portfolio. The fund is heavily weighted toward domestic equity, ranking first against Callan Public Fund Sponsor database. The fund returned 3.0% for the quarter but underperformed the target rate by .81% due primarily to the manager performance. A similar result was found in the one-year, three-year, five-year, and ten-year results, with the fund's earnings negatively affected by Southeastern and Frontier's performance. Mr. Carabisi noted that the upcoming Asset Allocation Report will help the Board further assess the impact of active management versus passive management as well as develop a strategic investment plan going forward.

Relative to other peer group public funds, the fund's total performance was similar except for a large drop over the past year, primarily due to manager performance and returns in late 2018. The fund's performance relative to peers with similar asset allocations is worse than that of the peer group, again pointing to poor manager results. The fund stands at \$1.4 billion, an increase of \$15 million during the quarter. Mr. Wall commented that the fund's balance on December 31, 2007 was \$1.4 billion. Mr. Carabisi noted that almost \$12 million in assets still exists at Ivy. Mr. Wall asked for an explanation of why these funds were not exhausted by now. Kenny Pinkerton will research and respond. He also indicated that it would be helpful to have better access to view fund balances at State Street. Mr.

Robertson motioned, Mr. McMullan seconded, and the Board approved the following draw down (\$25.8M) amount (previously made in June 2019): \$7M from Jennison, \$7M from Gabelli, \$5M from Southeastern, \$3.4M from Frontier, and \$3.4M from Earnest Partners.

Weston Lewis commented that the large tier-one custodians in the marketplace included J.P. Morgan, BNY Mellon, Northern Trust, and State Street. Each has their own strengths and weaknesses. He suggested that the county review their services agreement with State Street to confirm the level of service provided. Mr. Pinkerton reported that there is currently no way to know when or if the plan is ever awarded any amount from the settlement of a class action lawsuit. There could be work to do on the county's side to facilitate the process with the litigating attorneys, but State Street may also play a large part in receiving amounts due from these settlements. Mr. Wall recommends having a meeting with State Street to discuss the access issues and how we can obtain better fund information. The county will work with Callan to organize a meeting with State Street and perhaps a second vendor.

Reviewing the portfolio, Mr. Carabisi noted that domestic equity was up 3.1% for the quarter but still below the benchmark of 4.1%, primarily due to manager performance. Jennison lagged the benchmark for the quarter by almost 1% but continues to have strong long-term performance. Loomis had a very strong quarter, returning 5.25% and beating the benchmark by .6%. Edgar Lomax and Gabelli were slightly below the benchmark for the quarter but remain strong long-term. Southeastern had the worst performance at -1.22%, more than 5% below the benchmark for the quarter and 17% below the benchmark over the last year. Mr. Carabisi commented that Southeastern continues to stick to their core investment philosophy, but that view is simply not working. David Littlefield has spent the last several months communicating with Southeastern regarding performance, stock selection, strategy, etc. and now recommends that a change is needed. Much of Southeastern's strategy is invested with companies in eroding industries. Mr. Lewis commented that if the Board is ready to move toward termination, then a decision must be made on where to place the assets. Mr. Pinkerton will work with Callan to schedule an Investment Committee meeting.

Mr. Carabasi reported that fixed income had a good quarter, returning 3.3%, with Advent Capital leading the group at 3.89%. He noted that there is still an outstanding issue with one security in the Advent portfolio being reported differently by State Street and that Callan is working to resolve it. Over the last year, the fixed income managers provided a strong 9.08% return, despite a very large market downturn in late 2018. International managers returned 2.31% during the quarter, as compared to the benchmark of 3.68%.

Mr. Hendrix motioned, Mr. McMullan seconded, and the Board approved a \$4 million drawdown amount from Ivy for benefit payments in July-August 2019.

Mr. Littlefield motioned, Mr. McMullan seconded, and the Board approved the 2019 proposed Pension Budget.

Mr. Joyner provided a summary of the 1/1/2019 valuation. The recommended contribution for 2020 is 21.06% of payroll, or \$66 million. The employee payroll increased by 8%, primarily due to raises and new budgeted positions. The valuation includes all updated assumption changes from the approved 2018 Experience Study as well as the 2% COLA in 2019. There is a 24-year amortization period for all unfunded liabilities that will help reduce the unfunded percentage over the long term. In about 10 years, contribution amounts will more directly apply to the unfunded liability and start to make a positive effect on the unfunded percentage.

Mr. Joyner discussed various options for implementing COLAs for retirees. The most popular option is to apply a fixed increase percent, such as 1%, each year. This is the most expensive option. Another option is a delayed increase to apply a COLA to retirees who have been retired for a certain period of time, such as five years, or when the retiree attains a certain age, such as age 65. A third option is to apply a COLA each year up to Social Security Full Retirement Age and then it stops, the reason being that Social Security already has a COLA applied each year. A fourth option is to allow retirees to choose a lower benefit with the guarantee of COLA each year. A final option would be to apply a certain COLA every two or three years instead of annually. Mr. Jacobs indicated that the county has looked at applying a partial COLA to retirees meeting a certain minimum wage that will benefit those with a smaller retirement income. Mr. Robertson motioned, Mr. McMullan seconded, and the Board approved writing a letter to the Board of Commissioners requesting a 1% annual COLA or a temporary 1% annual COLA each of the next five years.

The Board approved moving to Executive Session to discuss personnel issues and disability applications.

Upon returning from Executive session, Mr. Hendrix motioned, Mr. McMullan seconded, and the Board approved the service buyback application for the following employees: Julian Brim, a Police Services employee; Brenda Hemingway, a Solicitor's Office employee; Randolph Pitts, a Sanitation employee; and Faye Vinson, a WorkSource employee.

Mr. Hendrix motioned, Mr. McMullan seconded, and the Board approved the service purchase application for Lisa Gresham, a Marshal's Office employee.

Mr. Hendrix motioned, Mr. McMullan seconded, and the Board approved the 12-month disability application for Jonathan Senter.

Mr. Hendrix motioned, Ms. D'Lisa Stevens seconded, and the Board approved the 12-month disability application for Erica Nowells.

Mr. Hendrix motioned, Mr. McMullan seconded, and the Board approved the 12-month disability re-application for Larradus Burnett.

Mr. Hendrix motioned, Mr. McMullan seconded, and the Board denied continuation of the disability benefit for Brenda Raspberry.

Mr. Wall reported that the Pension Board seats for the two employee representatives and the retiree representative will expire in January 2020. An election for these seats will be held in January 2020.

Mr. Wall reported that all Pension Board members are subject to the new continuing education requirements. He noted that the afternoon session today with the money managers will count as four hours of continuing education credit. Going forward it may be more advantageous to have Callan come to the Board and hold an internal seminar than for members to attend a particular outside conference.

The Board agreed to move the next meeting to October 3, 2019.

With no further business the Board adjourned the meeting.



Kenny Pinkerton
Clerk, The DeKalb County Pension Board