

Minutes

DeKalb County Pension Board

November 14, 2019

The DeKalb County Pension Board met on November 14, 2019 in the Legislative Conference Room in the Maloof Building. The following members were present: James Hendrix, David Littlefield, John McMullan, Dianne McNabb, Robert Robertson (via phone conference), and Edmund Wall. Others present: Weston Lewis, Todd Carabisi, Brad Penter, and John Pirone of Callan LLC; Terri Taylor of Benefits Law Group; Karl Schneider and David Settles of State Street Global Advisors; Larry Jacobs; Kenny Pinkerton; and Paul Wright.

Ed Wall called the meeting to order. Mr. Littlefield motioned, Mr. McMullan seconded, and the Board approved the October 3, 2019 minutes.

Larry Jacobs reported that Benita Ransom discussed the inadequate disability examination service the Board has received with the owner of Caduceus USA. Caduceus has agreed to provide prompt, clear responses from their doctors for disability requests.

Mr. McMullan motioned, Mr. Littlefield seconded, and the Board approved payment of the following invoices:

Vendor	Service	Period	Amount
Advent Capital Mgt.	Investment Management	3Q 2019	\$85,784.98
Earnest Partners	Investment Management	3Q 2019	126,824.28
Edgar Lomax Company	Investment Management	3Q 2019	48,941.97
Frontier Capital	Investment Management	3Q 2019	147,998.19
Gabelli Asset Mgt.	Investment Management	3Q 2019	165,362.00
Income Research + Mgt.	Investment Management	3Q 2019	44,532.97
Ivy Asset Management	Investment Management	3Q 2019	10,662.73
Jennison Associates	Investment Management	3Q 2019	174,180.82
Loomis Sayles	Investment Management	3Q 2019	152,531.71
Segal Bryant & Hamill	Investment Management	3Q 2019	83,908.02
Southeastern Asset Mgt.	Investment Management	3Q 2019	131,346.00
		Subtotal	\$1,172,073.67
Benefits Law Group	Legal Consulting	October 2019	\$1,125.00
Callan LLC	Investment Consulting	3Q 2019	20,500.00
Callan LLC	Callan College	October 2019	2,350.00
DeKalb County Finance Dept.	Pension Administration	3Q 2019	136,102.50
Segal Consulting	Actuarial Consulting	3Q 2019	5,883.75
State Street	Custodial Services	2Q 2019	45,721.56
		Subtotal	\$211,682.81
Total			\$1,383,756.48

Weston Lewis provided a summary of the October 31, 2019 Investment Committee meeting. The Committee discussed a transition plan for replacing Southeastern's assets. Three options were discussed: move Southeastern's assets proportionally between Edgar Lomax and Gabelli, hiring a new active large cap value manager, or move the assets to a Russell 1000 Large Cap Value Index fund. The Committee elected to move Southeastern's assets to a Russell 1000 Large Cap Value Index fund.

The Board heard a presentation from representatives David Settles and Karl Schneider of State Street's Global Advisory group regarding State Street's investment services and their Russell 1000 Large Cap Value Index product. State Street Global Advisors is the investment management division of State Street Bank and Trust. They have almost three trillion dollars under asset management. State Street selects securities to create a commingled fund that is designed to mirror the Russell 1000 Large Cap Value Index. As a result, the two key factors in monitoring the fund are how well the fund mirrors the Russell 1000 Large Cap Value Index and how much the management costs are. Karl Schneider has been with State Street for 23 years, and most of his investment team has been with the company for 20+ years, providing a deep, experienced bench of support.

Mr. Wall inquired about the steps State Street takes to actively monitor the fund to increase value, even though it is passive by nature. State Street's management fees are 1.5 basis points for the first \$50 million and 1.0 basis points thereafter, which will be approximately \$15,000/year. There is a very small additional fee for operational expenses. Mr. Schneider commented that the biggest way State Street increases value is by reducing trading costs through their large scale commingled environment or with securities in other large cap funds they manage.

Mr. Settles reviewed State Street's tracking index to display how closely their fund mirrors the Russell 1000 Large Cap Index in both performance returns and sector classes, pointing out a very consistent measure that replicates the Russell Index. He also restated Mr. Schneider's earlier comment that due to State Street's vast pool of internal liquidity, they are able to significantly reduce trading costs.

Mr. Lewis advised that the county has a contract with the State Street Global Market division to make the transition change from Southeastern. The county can also engage a different transition provider. Mr. Hendrix motioned, Mr. Littlefield seconded, and the Board approved termination of Southeastern's approximately \$130 million assets to the State Street's Large Cap Value Index fund, less \$14 million as the drawdown for the December and January benefit payments.

Brad Penter provided a brief summary of the investment market landscape. Fixed income did well during the 3rd quarter as interest rates fell. There continues to be concerns in the international markets due to a lack of clarity on Brexit and the ongoing trade talks with China.

Todd Carabisi provided a summary of the portfolio returns. The fund has a little less

than \$1.4 billion as of September 30. The total fund was down slightly at -0.16% for the 3rd quarter, lagging behind the benchmark of 1.06%, primarily due to the poor returns of the large cap funds. Edgar Lomax was the one large cap bright spot, as they are invested in large dividend paying organizations and returned 3.77% for the quarter. There are concerns, however, about the succession plan at Edgar Lomax, and this will be watched closely. Mr. Penter commented that Southeastern has cost the portfolio about 2% in annualized earnings over the past five years. The small cap funds were a positive sector, as Frontier and Earnest Partners outperformed the benchmark for the quarter. Fixed income investments provided a steady return, slightly ahead of the benchmark while the international sector outperformed the benchmark by about 1% for the quarter. Mr. Carabisi reported some structural and succession decisions by Income Research + Management and views the steps as a properly defined transition plan.

Weston Lewis reminded the Board that the review of the asset liability study leads to the most important investment decisions the Board makes as fiduciaries. Decisions made from this study will guide investment decisions over the next 5-10 years by defining an investment plan, finding managers to implement the plan, and then monitoring their performance.

John Pirone provided a summary of the Asset Liability Study. As a starting point, the current investment mix of U.S. equity, fixed income, and international assets is projected to earn 6.76% annually over the next 10 years. Mr. Wall commented that the Board made a good decision to lower the actuarial discount rate to 6.75%. The question now is how to get the portfolio to earn more without increasing risk.

One option that adds more diversification is real estate, typically REIT funds. These funds have a slightly lower risk tolerance compared to domestic equities but have higher management fees. The advantage is diversification in a market downturn. Another option to consider is adding exposure to the international sector. The current price-earnings ratio for international markets is around 13 compared with the S&P market of around 17, indicating the international markets may have greater upside potential. After reviewing real estate opportunities, the Board decided not to pursue real estate investments at this time. The study also determined the fund is expected to have a net outflow of 5.0% over the next ten years. When evaluating changes to the portfolio to reduce risk, it is important to note that the county is projected to contribute more since returns are projected to be lower.

Mr. Lewis commented that the next action step for the Board is to review the structure of investments to maximize returns and minimize risk in each asset class. The Investment Committee will schedule a separate meeting for this purpose.

Mr. Hendrix motioned, Mr. McMullan seconded, and the Board approved a drawdown of \$14M from Southeastern for the December and January benefit payments.

Mr. Wall reviewed a summary of the hours credited for the new trustee education requirement. The Board also reviewed a draft of the Board's educational policy with no

edits being made. Mr. Hendrix motioned, Mr. McMullan seconded, and the Board approved the trustee educational policy.

Mr. Hendrix motioned, Mr. Littlefield seconded, and the Board approved the service buyback applications for the following employees:

- Alayne Hightower, a Superior Court employee
- Keisha Jones, a Juvenile Court employee
- Titus Kimble, a Roads and Drainage employee
- Nahomie Lagardere, a Planning and Sustainability employee

Nahomie Lagardere appealed to the Board to reinstate her eligibility as a Group 2 participant upon her recent rehire. Since she rolled over her prior employee contributions to the Principal Financial Group, she will participate as a Group 3 employee upon rehire. Mr. Littlefield motioned, Mr. Hendrix seconded, and the Board denied her appeal.

The Board moved the next meeting to January 30, 2020 and approved the remaining dates for the 2020 meeting schedule.

Mr. Hendrix motioned, Mr. Littlefield seconded, and the Board deferred Antwan Jackson's disability application to the January 30, 2020 meeting. Terri Taylor will provide more research regarding his eligibility for the disability benefit. Kenny Pinkerton will ask WorkSource DeKalb for potential options of training and employment for Mr. Jackson.

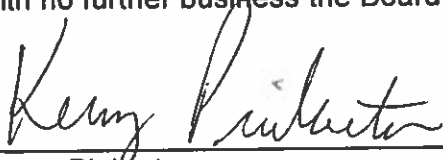
Mr. Hendrix motioned, Mr. Littlefield seconded, and the Board approved denied the disability application of Ms. Tonaya Moss based on the county doctor's opinion.

At Marian Eisenberg's request, Mr. McMullan motioned, Mr. Hendrix seconded, and the Board unapproved the October 3, 2019 disability application for Ms. Eisenberg with the stipulation that if she reapplies for disability before November 1, 2020, then the current medical records can be utilized for disability approval.

Mr. Hendrix motioned, Mr. McMullan seconded, and the Board approved, effective August 1, 2019, defunding of the Senior Benefits Specialist position to reduce expenses to the pension fund. Larry Jacobs reported that there has been no lapse in administration deliverables or participant servicing as a result of the staff reduction.

Mr. Robbie Robertson reported that he will meet with Ms. Laura Stein of Robbins Geller Rudman & Dowd next week in Chicago to discuss potential fund litigation monitoring.

With no further business the Board adjourned the meeting.



Kenny Pinkerton
Clerk, The DeKalb County Pension Board