MINUTES

DEKALB COUNTY PENSION BOARD

January 30, 2015

The DeKalb County Pension Board held a meeting on January 30, 2015 in the Board of Commissioners Conference Room. The following members were present: Gwendolyn Brown-Patterson, James Hendrix, John McMullan, Benita Ransom, Robert Robertson (via telephone), Edmund Wall, and Gale Walldorff. Others present: Patricia Keesler of Benefits Law Group; Todd Carabasi, Cody Chapman, and Weston Lewis of Callan Associates; Eric J. Atwater of The Segal Company; Larry Jacobs; Stefan Jaskulak; Louis McGregor; and Paul Wright.

Ed Wall requested the following changes to the drafted December 18, 2014 minutes:

Page 2: "*[Callan's] maximum annual fee is $125,000.*" Mr. Wall requested adding Callan's base fee of $60,000, citing that in some years Callan does not charge the maximum fee.

Page 3: "*The Board then reviewed the proposed amendment to the DeKalb County Pension Code's disability provision. The proposal would require that the disability benefit would be lowered to 20% of the participant's pay rate, as opposed to the current 50%.*" Mr. Wall stated that he thought it was 50%. Larry Jacobs offered to confirm the percentage, and the Board tabled the approval of the minutes until then.

Page 4: "*John McMullan motioned, James Hendrix seconded, and the Board approved a lifetime pension starting at age 50 (as opposed to age 65) for Jeff Whyte.*" Ed Wall questioned the accuracy of this statement, and wanted to be careful so that no one could interpret it as an individual received special privileges. Paul Wright suggested elaborating it as to why he had to pay for missed contributions, and recommended adding, "provided he pays for his missed contributions for military leave without pay." Ed Wall agreed.

Ed Wall requested tabling of the minutes until Larry Jacobs returned.

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

Vendor	Service	Period	Amount
Earnest Partners	Investment Management	4Q 2014	$108,714.23
Frontier Capital Management	Investment Management	4Q 2014	124,084.85
Montag & Caldwell	Investment Management	4Q 2014	110,027.49
Southeastern Asset Management	Investment Management	4Q 2014	245,415.00
Waddell & Reed	Investment Management	4Q 2014	51,824.27
		Subtotal	**$640,065.84**
Benefits Law Group	Legal Consulting	Dec. 2014	$1,848.00
Elarbee, Thompson, Sapp & Wilson	Legal Consulting	Sept. 2014	39,528.30
ASM Consulting	Website Management	Jan. 2015	225.00
		Subtotal	**$41,601.30**
Total			**$681,667.14**

The Board then discussed the Investment Committee's overview of domestic equity manager structure, presented by Callan Associates. Currently, the target allocation is domestic equity 60%, international equity 15%, and domestic fixed income 25%. Actual return of the fund was 6.87% gross of fees, compared to the target return of 9.32%. Small cap managers outperformed the benchmark by 6% over the last year, 2.25% over the last three years, and 1.8% over the last five years. Small cap has the highest fees; however it offers better opportunities for outperformance. In the large cap world, the one-year return was 8.07% versus the benchmark of 13.69%, which is about 5.6% behind the index. Of the seven large-cap managers, Edgar Lomax was the only manager that outperformed for the year. Oil prices dropped about 40% in 2014. It was a difficult year for JP Morgan. Crawford has underperformed the benchmark consistently for the last five years; Weston Lewis stated that considering how little money they manage for the Plan, their losses are not significant. The last two quarters were difficult for Waddell & Reed. Gabelli and Southeastern have outperformed over the last 15-25 years. The Fund needs about $80M to add to international to meet the 15% target. The Investment Committee recommended moving $34M from domestic to international; the termination of Crawford, netting $22.5 million; and the remainder would come from Montag & Caldwell. The Board then discussed its comfort with their current international equity structure. GMO doesn't do well with junk stocks – they have had more a value tilt in recent years. In the last three years, small cap has performed better than large cap and international. For the last three years, EAFE small cap was 14.2% versus 11.6% for regular EAFE; for the last 5 years, 8.98% for EAFE small cap versus 5.33% for MSCI EAFE; and for ten years, 6.4% versus 4.43%.

The Board then discussed benefit payment funding for February-March 2015. Paul Wright reported that the fund needs $12.2M to fund benefit payments. Weston Lewis recommended taking the entire amount from Southeastern Asset Management, who is holding $40M in cash. James Hendrix motioned, John McMullen seconded, and the Board approved this recommendation.

Eric Atwater of The Segal Company then discussed a preliminary review of the 2014 actuarial valuation. The County's Annual Recommended Contribution (ARC) for fiscal year 2016 is $51.4 million, based on the actuarial valuation as of April 1, 2014. The $2.7 million increase in ARC over the last year is primarily the result of two factors: (1) an increase in the dollar amount due to level percent-of-pay funding, which is to be expected; and (2) an investment loss on the actuarial value of assets, as the market losses from 2008 and 2009 continue to be recognized at 10% annually for funding purposes. The investment rate of return on an actuarial ("smoothed") basis was 6.15%. Since the actuarial rate of return was less than the assumed annual rate of return of 7.50%, there was an investment loss of about $15.8 million. The rate of return on the market value basis was 16.51% for the year ended March 31, 2014. Due to recent favorable investment performance, the smoothed actuarial value of assets is currently 95.1% of the market value of assets. Thus, the Plan has roughly $62.1 million in deferred gains to recognize over the next nine years. The investment loss was partially offset by a $6.8 million non-investment gain. Thus the Plan experienced a net experience loss of about $9.0 million (~0.5% of liability). The unfunded liability increased by about $29.7 million, from $697.9 million to $727.6 million. The funded percentage decreased by 0.8%, from 63.3% to 62.5%. On a market value basis, the funded percentage is 65.7%, compared to 60.7% the prior year. John McMullen wanted to know if it would be cheaper to buy a retiree an annuity from an insurance company. Eric Atwater stated no, simply because it would cost a lot more. Paul Wright added that the insurance company would charge a commission. In 2005, the Plan was 96.6% funded. In 2009, it was 48.1% funded. Mr. Atwater then elaborated on GASB 67/68 financial reporting for pension plans. GASB 67 is disclosure for the Plan, and GASB 68 is disclosure for the County. The County determines the funding of the Plan through County ordinances. The Governmental Accounting Standards Board (GASB) determines the reporting and disclosure requirements for public pension plans and plan sponsors.

The Board then listened to a Securities Litigation presentation by Robbins Geller Rudman & Dowd. Gale Walldorff motioned, James Hendrix seconded, and the Board approved pursuing litigation against Volaris.

James Hendrix motioned, Gale Walldorff seconded, and the Board approved requests from the following employees to repay contributions withdrawn from the pension plan, so as to receive accredited service for prior employment:

- Donnie L. Baugh, an employee of Sanitation
- Candace G. Oakley, an employee of the State Court

John McMullen motioned, James Hendrix seconded, and the Board approved the December 18, 2014 meeting minutes with the understanding that disability pensions will be 20% of the employees pay starting with the new hybrid plan. Larry Jacobs added that the hybrid plan would realistically be in place no earlier than January 1, 2016.

James Hendrix motioned, Gale Walldorff seconded, and the Board approved a 12-month disability pension for Marty G. Martin.

The Board then listened to comments from Board members. John McMullen asked what the tax base of the County is. Ed Wall reported it as $19 billion. Robert Robertson wanted to know if the new customer service representative had been hired, and Larry Jacobs stated not as yet. Mr. Robertson asked if there is any raise for the retirees in the pipeline, stating that it has been over nine years since the retirees had a raise. He hoped that the Commissioners would move forward in funding the increase. A COLA would cost $700,000 for each 1% increase. The Board asked the Commissioners to place it in their budget, but this has not been done. James Hendrix motioned, Ed Wall seconded, and the Board approved recommending a 3% raise for retirees to be 100% paid by the County. Ed Wall asked Gwendolyn Brown-Patterson to alert the CEO that the Board requested the increase.

Because there was no further business, the Board adjourned the meeting.

Jelani K. Hooks
Clerk, The DeKalb County Pension Board