

MINUTES

DEKALB COUNTY PENSION BOARD

November 14, 2013

The DeKalb County Pension Board held a meeting on November 14, 2013 in the Board of Commissioners Conference Room. The following members were present: Thomas Brown, Gwendolyn Brown-Patterson, James Hendrix, Lee N. May, John McMullan, Robert Robertson (via telephone), Ed Wall, and Gale Walldorff. Others present: Todd Carabasi, Cody Chapman, and Weston Lewis of Callan Associates; Eric J. Atwater of The Segal Company; Jelani Hooks; Louis McGregor; and Paul Wright.

Gwendolyn Brown-Patterson, the newest member of the Board, took the Oath of Office.

James Hendrix asked for a correction in the July 18, 2013 minutes to note that the Board asked for a 2% increase as opposed to a 1% increase for retirees.

John McMullan motioned, James Hendrix seconded, and the Board approved the July 18, 2013 Pension Board meeting minutes.

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

Vendor	Service	Period	Amount
Advent Capital Management	Investment Management	4/1/2013 - 6/30/2013	\$63,970.55
Atlanta Eye Consultants, P.C.	Disability Examination	August 2013	235.00
Benefits Law Group	Legal Consulting	July 31, 2013	2,772.00
Benefits Law Group	Legal Consulting	August 31, 2013	269.50
Crawford Investment Counsel	Investment Management	3Q 2013	17,505.65
DeKalb County Finance Department	Pension Administration	4/1/2013 - 6/30/2013	69,687.79
Denver Investment Advisors	Investment Management	4/1/2013 - 6/30/2013	77,979.36
Earnest Partners	Investment Management	4/1/2013 - 6/30/2013	101,228.19
Edgar Lomax Company	Investment Management	4/1/2013 - 6/30/2013	28,703.06
Frontier Capital Management	Investment Management	4/1/2013 - 6/30/2013	106,877.27
Gabelli Asset Management	Investment Management	4/1/2013 - 6/30/2013	178,788.00
Jennison Associates	Investment Management	4/1/2013 - 6/30/2013	110,769.93
J.P. Morgan – Intermediate Bond Fund	Investment Management	4/1/2013 - 6/30/2013	58,013.99
Montag & Caldwell	Investment Management	4/1/2013 - 6/30/2013	96,848.45
Todd M. Antin, M.D.	Disability Examination	July 2013	1,487.50
State Street	Custodial Supervision	4/1/2013 - 6/30/2013	37,736.25
Waddell & Reed	Investment Management	4/1/2013 - 6/30/2013	44,181.29
Total			\$997,053.78

The Board then listened to the review of the 2nd quarter trading cost analysis and active versus passive management by Callan Associates. Ed Wall reminded the Board of the ongoing conversation about active vs. passive management in an attempt to cut down on fees. Three things impact trading costs:

1. Commissions – the hard cost of the trade, paid to the broker for executing the trade.
2. Execution – the measure of the manager's trading efficiency.
3. Turnover – how often they are going out in the market each quarter.

There was not a lot of trading during the quarter. Commissions of trading costs for the quarter were about \$68,000. Negative dollars execution is a benefit for the pension plan. Mr. Chapman mentioned that without the commission recapture program, commissions were reduced this quarter from last quarter by about \$47,000. He added that the managers are performing as expected. Over time, active management has added value to the fund. Montag & Caldwell continue to struggle. In the last 12 months, the fund earned 16.05%. The plan is in the top 4% of public funds over the last year. Asset allocation should be around zero over time. 100% of passive managers underperform their index. Weston Lewis added that active and passive management is a belief system, based on theory and grounded in data, looking at where, historically, markets are efficient. Large cap active managers can add value in some cases, and in others, they cannot. He recommended that the Board remain active in small cap. If \$115 million (10% of the fund) was invested in small cap managers, net of fees would go from 4.97% to 4.27%; subtract the index return of 5.82%, and the excess return is negative, so money is lost. In this case, passive management would have been more beneficial. In terms of international equity, active management has not done very well for the fund, some of which had to do with prior managers. Convertible bonds were not placed into the policy until November 2012. Passive management is used widely. In the last ten years, domestic equity ranked in the 11th percentile of all public funds. Active and passive management have different time horizons. Ed Wall stated he liked passive management, because active management fees are so high. For the last 7 years in large cap, the active managers have added value to the fund in what is considered a very difficult space. Weston Lewis offered to perform a Manager Structure Evaluation, which would make recommendations on the total investment equity structure. The evaluation costs \$30,000. Ed Wall suggested that the evaluation be deferred until the next Investment Committee meeting so that they could make a recommendation to the Board.

The Board then discussed benefit payment funding for October and November pension payments. The Board needs \$6.5 million to fund payments. Ed Wall asked Weston Lewis to make a recommendation and return his findings to the Board.

The Board then discussed a COLA for retirees. Every 1% increase amounts to \$700,000 of additional liability for the fund. A motion was made at the prior meeting to give the retirees a 2% COLA, provided the County was able to fund it. This cost amounted to \$1.4

million. Ed Wall suggested that the Board defer the item until the next meeting so that a formal request could be made to the CEO.

The Board then listened to a presentation by Beacon Group Services, LLC, a real estate investment trust. The Board elected not to invest in any real estate investment trusts right now.

The Board then listened to a presentation by Robbins Geller Rudman & Dowd LLP, a securities litigation monitoring firm.

The Board then revisited a prior item, a cost of living adjustment for retirees. The CEO would like for the Board to make a formal request of his department to recommend a 2% COLA for retirees, which would cost the County \$1.4 million. James Hendrix motioned, Thomas Brown seconded, and the Board approved making a formal request of the CEO to recommend a 2% COLA for retirees, effective March 1, 2014, which would cost the County \$1.4 million. Gale Walldorff abstained from the vote.

The Board revisited a prior item, benefit payment funding for October and November payments. Weston Lewis of Callan Associates recommended the following:

Amount Needed	Manager To Take From
\$1.5 million	Jennison Associates
\$1.5 million	Montag & Caldwell
\$1 million	Gabelli Asset Management
\$1 million	Southeastern Asset Management
\$1 million	Waddell & Reed
\$250,000	Crawford
\$250,000	Edgar Lomax

Total: \$6.5 million

James Hendrix motioned, Gale Walldorff seconded, and the Board approved using cash from the managers listed above to fund benefit payments for October and November.

Gale Walldorff motioned, James Hendrix seconded, and the Board approved a request from Darnell Nixon, an employee of Watershed Management, to repay contributions withdrawn from the pension plan, so as to receive accredited service for prior employment.

Gale Walldorff motioned, Thomas Brown seconded, and the Board approved a request from Anson B. Evans, an employee of Police Services, to pay contributions for employment while on military leave without pay, so as to receive credit for that service. Mr. Evans was eligible only for one period of service for which he applied, September 13, 2010 through August 12, 2013.

The Board then discussed the internal organization of Pension Board members. Jelani Hooks explained that the Board has positions that they elect, for example Chairman, Vice-Chairman, and Secretary. He stated that there has not been an election since he was appointed Pension Administrator. Ed Wall noted that his term expired in January 2013. The Board elected to table this item until the November meeting.

The Board then discussed the adoption of the Conflict of Interest Policy. Ed Wall said that he thought the Board adopted this policy at the last meeting. Jelani Hooks answered that they did, but they did not sign it. Patricia Keesler stated that the Board Chairman should sign the actual policy, and each Board member should sign a statement.

The Board then listened to comments. Gale Walldorff wanted to thank Callan Associates for their fine work. James Hendrix asked Eric Atwater about the progress of the Experience Study. Mr. Atwater stated that they just received the final data questions the day prior. He expects to have it completed in November. A member of the audience wanted to know how much the plan was underfunded. The Board replied \$640 million.

James Hendrix motioned, Gale Walldorff seconded, and the Board approved entering Executive Session for the purpose of discussing disability.

Thomas Brown motioned, James Hendrix seconded, and the Board denied a one-year disability pension for Jennifer Mahon. The Board is asking that Ms. Mahon return to work, receive two months of donated leave, so that she can retire.

Gale Walldorff motioned, Thomas Brown seconded, and the Board tabled a one-year disability pension for Sowande Baruti, citing lack of information. Benita Ransom verified that it is difficult to find Mr. Baruti an alternate position.

Gail Walldorff motioned, James Hendrix seconded, and the Board approved tabling an additional one-year disability pension for Errick Piercy, pending his receipt of a certified letter from the Pension Office indicating that they have been trying to reach him for some time, and that he must contact the office or risk losing his benefits.

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

Jelani K. Hooks
Clerk, The DeKalb County Pension Board