MINUTES

DEKALB COUNTY PENSION BOARD

June 11, 2014

The DeKalb County Pension Board held a meeting on June 11, 2014 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; Lisa Bowman and Tim Murray of BlackRock Investments; Todd Carabasi, Cody Chapman, Jay Kloepfer, and Weston Lewis of Callan Associates; Jelani Hooks; Larry Jacobs; Louis McGregor; and Paul Wright.

James Hendrix motioned, John McMullan seconded, and the Board approved the March 20, 2014 Pension Board meeting minutes.

Ed Wall wanted to know who attended the Callan College and a brief explanation of what the Board learned. In addition, Mr. Wall verified the date of the Pension Board election to fill the employee vacancy on the Board.

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

Vendor	Service	Period	Amount
Advent Capital Management	Investment Management	1/1/14 - 3/31/14	$69,785.55
Benefits Law Group	Legal Consulting	3/1/14 - 5/31/14	2,849.00
Callan Associates	Investment Consulting	1/1/14 - 3/31/14	22,085.56
Crawford Investment Counsel	Investment Management	4/1/14 - 6/30/14	18,985.30
Denver Investment Advisors	Investment Management	1/1/14 - 3/31/14	79,056.45
Earnest Partners	Investment Management	1/1/14 - 3/31/14	114,088.32
Edgar Lomax Company	Investment Management	1/1/14 - 3/31/14	31,927.83
Frontier Capital Management	Investment Management	1/1/14 - 3/31/14	130,462.47
Gabelli Asset Management	Investment Management	1/1/14 - 3/31/14	205,640.00
Jennison Associates	Investment Management	1/1/14 - 3/31/14	125,295.28
J.P. Morgan Asset Management	Investment Management	1/1/14 - 3/31/14	58,008.25
Montag & Caldwell	Investment Management	1/1/14 - 3/31/14	75,933.06
Pension Benefit Information	Death Audit Service	5/1/14 - 4/30/15	1,014.00
The Segal Company	Actuarial Consulting	12/1/13 - 2/28/14	8,375.00
Southeastern Asset Management	Investment Management	1/1/14 - 3/31/14	236,446.00
State Street	Custodial Supervision	1/1/14 - 3/31/14	39,322.64
Waddell & Reed	Investment Management	1/1/14 - 3/31/14	48,679.75
Total			**$1,267,954.46**

Ed Wall questioned the payment for Pension Benefit Information. Jelani Hooks explained that it was for the death audit, to ensure the Plan is not paying any deceased participants.

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:

- Bridgett Clark, an employee of Superior Court
- Deandra L. Elder, an employee of Roads & Drainage
- Lequetta C. Walker, an employee of Superior Court

John McMullan motioned, Gale Walldorff seconded, and the Board approved a request from Brianna Alexander, an employee of Property Appraisal, to pay contributions for employment on leave without pay, so as to receive credit for that service.

James Hendrix motioned, Gale Walldorff seconded, and the Board approved a request from David Hall, an employee of Watershed Management, to pay contributions for employment on military leave without pay, so as to receive credit for that service.

The Board then discussed benefit payment funding for June through August 2014. Ed Wall said that the plan needed $10,478,000 for those months. Mr. Wall asked for a recommendation from Weston Lewis of Callan Associates. Mr. Lewis recommended the following:

Manager	Amount to Take
Frontier Capital	$5.25 million
Earnest Partners	$5.25 million
Total	**$10.5 million**

James Hendrix motioned, Gale Walldorff seconded, and the Board approved taking $5.25 million from Frontier Capital, and $5.25 million from Earnest Partners, to fund June through August 2014 benefit payments.

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

James Hendrix motioned, Gale Walldorff seconded, and the Board approved a permanent disability pension for Daniel A. Morton.

James Hendrix motioned, Gale Walldorff seconded, and the Board approved a permanent disability pension for David R. Norman.

The Board then discussed Board members' attendance provisions. Patricia Keesler stated the Georgia Legislature passed a law in the prior session which allows board members to participate by telephone twice per year due to health issues or absence from the jurisdiction. It still requires that a quorum is physically present in the room. John McMullan added the entire Board could not miss the meetings and hold them over the phone. Ed Wall said the Pension Board consists of nine members, seven of whom can vote, and requires four members to have a quorum. Mr. Wall added that State agencies allow telephone voting, but local governments do not.

The Board then discussed the Pension Board Retreat. Jelani Hooks stated that the retreat was held at the Emory Conference Center Hotel in the prior year and that the accommodations were very good, so the Pension staff decided to hold the retreat at the same venue on July 17, 2014. Ed Wall confirmed that the date would be feasible for the Board.

The Board then listened to a presentation by Lisa Bowman and Tim Murray of BlackRock Investments on passive management for Large Cap Growth. Blackrock Investments is an asset management firm based in New York City with offices globally. They currently have $4.3 trillion in AUM (assets under management).

The Board then listened to 1st quarter investment results by Todd Carabasi, Cody Chapman, Jay Kloepfer and Weston Lewis of Callan Associates. Large and midcap stocks outperformed small cap stocks. GDP growth came in lower than expected. In the last quarter, the total fund was up 1.4%, representing about an $18 million return. For the last year, the fund was up 16.93%. Through active management, the fund was about 1% ahead of the index. In the total fund ranking, for the last year, the fund was in the top 1%; last 3 years, top 4%; last 5 years, top 3%. Mr. Lewis claimed that the factors that produced these results were asset allocation and how the managers are handled. Montag & Caldwell continued to have some challenges. T. Rowe Price underperformed in the last quarter. T. Rowe Price buys up to 10% in emerging markets. GMO is EAFE only; they do not invest in emerging markets.

Jay Kloepfer of Callan's Capital Markets Group reviewed the Asset Allocation and Liability Study. The plan may have to take on more risk. Three key policies that govern the pension plan are investment policy, funding/contribution policy, and benefits policy. The current policy is 70% equities, 30% fixed income (of which 5% is in convertible bonds). The State allows up to 75% in equities, and also allows investment in alternatives. The main countries that make up emerging markets are Brazil, Russia, India, and China (BRIC). The assumed return in the valuation is 7.5%. Ed Wall expressed interest in hiring Callan to do a search for passive investments, adding that the Board is risk averse. The Board continued discussion on the following Callan Asset/Liability Study report:

Memorandum

To: DeKalb County Pension Plan Board of Trustees
From: Weston Lewis, Cody Chapman and Jay Kloepfer
Date: June 6, 2014
Subject: Asset/Liability Study

Background
Callan Associates Inc. (Callan) has completed the asset allocation and liability study for the DeKalb County Pension Plan (DeKalb or Plan). The objective of the study is to help the DeKalb Board select an asset allocation policy that will provide an optimal balance between sustainable funded status volatility and minimization of funding costs over the long run.

To provide context for the evaluation of asset allocation choices, we modeled the Plan's liabilities as detailed in the valuation report prepared by Segal Consulting (Segal), the Plan's actuary. Funding and liability information was supplemented with research and assumptions developed in the experience study Segal delivered to the DeKalb Board of Trustees in November 2013. The study's results are displayed in the attached document and will be presented by the Callan consulting team to the DeKalb Board at the June 12, 2014 meeting.

Summary of Results
The DeKalb Plan is an open, active plan that faces many of the funding challenges that confront public plans generally. The plan is currently 63% funded on an actuarial basis, 60% on a market value basis, and recently adopted a funding policy of Normal Cost plus amortization of the unfunded liability over a closed 30-year period. Following the experience study conducted by Segal, the Board changed several Plan assumptions. These include demographic changes and lowering the investment return assumption to 7.5%.

Using deterministic projections where the new demographic and asset return (i.e. 7.5%) assumptions are fixed, we expect the Plan's funded status to improve modestly over the next 10- and 20-year periods. This scenario shows that the Plan's funded status on a market value basis will increase from 60% today to 70% by 2033. Net cash flow needs (benefit payments and expenses net of contributions) are substantial, and will hover near 5% of plan assets over the next 15 years.

In Callan's experience, annual net cash outflow that exceeds 5% of fund assets requires special attention paid to liquidity needs. One potential implication is a limit on illiquid investment strategies over time. We project liability growth to be moderate and actually slow over the next decade. Median simulated liability growth (net of benefit payments) starts at 2.2% per year and falls to 1.1% over the ten year horizon. Normal Cost is expect to fall over the next 20 years as new hires are placed in Tier II, decreasing the future cost of the Plan given the lower liabilities attached to future employees service records. The Plan's active liability, as a percentage of total liability, falls from 36% to 28% over the next 10 years. The volatility reflected in liability growth is based on inflation uncertainty since higher inflation may result in higher than expected future salary growth.

The Plan is invested solely in liquid public markets. The Plan has not thus far chosen to gain exposure to illiquid assets (i.e.—asset classes and investment strategies which are not readily convertible to cash). Georgia law was recently changed to allow the Plan to invest up to 5% in alternatives, including illiquid strategies such as private equity, hedge funds and private real estate.

The Plan's liability and demographic profiles suggest a sufficiently long time horizon to assume investment risk. Because of the current funding gap, the Plan needs return-seeking assets to supplement contributions in order to help improve the funding status. The Plan is limited by Georgia statute to 75% in equity investments and 5% in alternatives, but we do not believe these laws prevent the plan from seeking exposure to return-seeking assets in sufficient quantity.

Callan believes the current target contains an appropriate tilt toward growth assets, and is close to the upper limit prescribed by Georgia law. The Plan could consider a move to the full legal limit of equity exposure, a mix similar to that of Mix 3A, with 75% in equity. The Plan has an underweight to international stocks at 10%, or 14% of total public equity, with little exposure to emerging markets. The need to pursue growth investments and limits on alternatives leads to a high concentration in public equity within the DeKalb portfolio. International stocks diversify a U.S. equity portfolio, and the opportunity set outside the U.S. is now larger than the U.S. equity market. Callan believes international equity provides direct exposure to faster growing economies around the globe, and that active international equity management offers the opportunity for value-added to the plan. The plan could increase the allocation to international equity, and broaden the exposure to include emerging markets. Mix 3A suggests a weighting to international stocks of 28%, with an implied allocation to emerging within the international portfolio of 5%.

We believe there may be some capacity to add illiquid investments in the newly allowed alternatives bucket, and in particular, suggest two investments that may serve two different purposes, depending on the preference of the board: private equity and private real estate.

Private real estate can be a great diversifier to a large equity exposure and provides a source of inflation protection. The return expectation lies between that of stocks and bonds. Real estate imposes illiquidity on the investor, and requires a long time horizon. Substantial board education would be required.

Private equity is one of the few assets that is expected to generate higher return than public equity, and could be added to pursue greater return. Private equity's expected return premium comes at the cost of greater illiquidity and long time horizon (10 to 15 years). Substantial education for the Board would be required to become both knowledgeable and comfortable with the characteristics of private equity investing.

Other strategies to enhance the potential for higher return short of a greater exposure to return-seeking assets include shifts in the implementation of existing asset classes: more active risk and/or tilts toward higher returning segments within asset classes. Following this asset allocation and liability study, Callan plans to address implementation through manager structure studies for each asset class. Specific implementation ideas for return enhancement within the appropriate asset allocation policy include:

1. Domestic equity
    a. Maintain commitment to active management
    b. Tilt toward small cap in pursuit of return, alpha

2. International equity
    a. Increase allocation to international
    b. Broaden exposure to include emerging markets
    c. Maintain commitment to active management

3. Fixed income
    a. Take on spread/sector risk to improve yield and return:
        i. Credit
        ii. Global bonds
    b. Take on greater risk such as equity factor risk within the bond portfolio
        i. Convertible bonds

Conclusion
The preceding paragraphs highlight several considerations that we believe are relevant to the selection of an appropriate asset allocation policy to meet the Plan's future funding and liquidity needs. We look forward to an interactive discussion with you during the June 11 DeKalb Pension Board meeting. If you have any questions prior to the upcoming meeting, please call either Weston Lewis or Cody Chapman at (770) 618-2140.

Retiree David Holcombe asked Robert Robertson if he would be able to attend the meeting on July 17, and Mr. Robertson said that he planned to, but is not able to guarantee that he will attend. In addition, Mr. Holcombe asked about the raise for retirees. Ed Wall responded that the CEO did not put it in his budget, but when the tax digest is finalized in late June, if it had increased significantly, he would consider it in his amended budget to the Board of Commissioners.

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

Jelani Hooks

Jelani K. Hooks
Clerk, The DeKalb County Pension Board