

## MINUTES

### DEKALB COUNTY PENSION BOARD

July 17, 2014

The DeKalb County Pension Board held a meeting on July 17, 2014 at the Emory Conference Center Hotel, 1615 Clifton Road, Atlanta, GA. The following members were present: James Hendrix, Lee May, John McMullan, Robert Robertson, 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; Jelani Hooks; Larry Jacobs; Stefan Jaskulak; Louis McGregor; and Paul Wright.

Mr. Wall asked for an update on the Pension Board Election. Jelani Hooks stated that the election will be August 7, 2014. James Hendrix wanted to know what qualifications the employee needed to run. Mr. Hooks replied that all employees in the pension plan are eligible.

Ed Wall also asked for a change on Page 3 of the minutes to read "*Jay Kloepfer advised that the plan may have to take on more risk*" as opposed to "*The plan may have to take on more risk*" indicating that the statement was more of an opinion of the speaker, not a statement of fact. Mr. Wall asked to attach the Asset Allocation & Liability Study report (as a reference) to Page 3.

Robert Robertson motioned, James Hendrix seconded, and the Board approved the June 11, 2014 Pension Board meeting minutes, in its amended form.

Gale Walldorff motioned, John McMullan seconded, and the Board approved the ratification of payment of the following invoices:

Vendor	Service	Period	Amount
Antin, Todd M., MD	Disability Examination	June 25, 2014	\$1,522.50
Benefits Law Group	Legal Consulting	3/1/14 - 5/31/14	3,620.00
Callan Associates	Investment Consulting	1/1/14 - 3/31/14	16,085.56
Emory Conference Center	Pension Board Retreat	July 17, 2014	2,365.00
The Segal Company	Actuarial Consulting	3/1/14 - 5/31/14	8,375.00
Southeastern Asset Management	Investment Management	1/1/14 - 3/31/14	254,855.00
<b>Total</b>			<b>\$286,823.06</b>

The Board then listened to 2<sup>nd</sup> quarter investment results by Weston Lewis and Cody Chapman. Mr. Lewis stated that during the first quarter, GDP was at -1%; the final revision was -2.9%. Unemployment dropped to 6.1%. Some expect interest rates to increase in 2015. There is a continuing trend of low quality stocks. John McMullan doesn't believe that the Plan should take on more risk. Ed Wall expressed skepticism at the idea of someone telling plan fiduciaries that they need to take on more risk. Mr. Wall added that a typical cycle of the stock market is from boom to bust. Ten-year returns have averaged 7.5%. In the crash during 2008, the plan lost 28%. The plan is up 4.3% during 2014. The total Fund as of June 30 is \$1,351,625,068, 64% of which is in domestic equity; the target is 60%. Mr. Lewis recommended taking \$54M from large cap managers to distribute to fixed income. Domestic fixed income is 25% of the Fund; the target is 30%. International equity is 9.88%; the target is 10%. The total Fund for the last year returned 21%, 1.9% above the index. A passive

DeKalb County Pension Board

Minutes – July 17, 2014

Page 2

investment strategy would have earned ~19.1%. The Fund is overweight in equities, which could explain these numbers. For the last three years, the annual return was 12.17%, right in line with the benchmark; five years, 15.17%; this is 1% per annum ahead of the benchmark. The five-year return is not considered a “normal” return. The Board pays between 45 and 75 bps (basis points) to an active manager; and a passive manager would charge 2 bps. The average fee of all the managers is 45 bps. Mr. Lewis stated that Montag & Caldwell continue to struggle, producing a 20.10% return when the benchmark (Russell 1000 Growth) is 26.92%. Montag & Caldwell has not exceeded the five-year benchmark. Cody Chapman added that in 2008, Montag & Caldwell was down 32%, and their benchmark, the Russell 1000 Growth, was down 38.5%. Mr. Lewis added that in 2007, Montag & Caldwell’s losses were at 22%, and the benchmark was 11%. Mr. Lewis also suggested that Callan would be looking at all of the managers as a whole to see if the Plan has too many managers, etc. Stefan Jaskulak asked if it was possible to receive the report with “net of fees” information, and Mr. Lewis said yes. T. Rowe Price will not be put on “watch.”

Cody Chapman gave a presentation on trading cost analysis. Total trading costs for the quarter were \$69,100. This cost fluctuates as managers rebalance their portfolios. Three items to watch: the cost per share, getting the best price relative to other market participants, and how often managers are going out into the market to trade. Edgar Lomax had a 13% turnover for the quarter. Montag & Caldwell tend to have high execution costs and high turnover for the quarter (12.87%). Ed Wall complimented Mr. Chapman on his presentation.

The Board then discussed the Asset/Liability Study Recommendations by Callan Associates. The study thoroughly reviewed the Plan’s present and future liabilities and offered asset allocation recommendations tailored to the Plan’s return needs and risk tolerance, while working within the parameters of Georgia law. Callan recommended **Mix 3A** as a way to increase expected return over time:

<b>Asset Class</b>	<b>DeKalb Target</b>	<b>Mix 3A</b>	<b>Mix 3B</b>	<b>Mix 3C</b>
Large Cap US Equity	50%	35%	33%	33%
Small/Mid Cap US Equity	10%	12%	11%	11%
International Equity	10%	28%	26%	26%
Domestic Fixed Income	25%	20%	20%	20%
Convertibles	5%	5%	5%	5%
Private Equity	0%	0%	5%	0%
Real Estate	0%	0%	0%	5%
Cash Equivalents	0%	0%	0%	0%
<b>Totals</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
10-Year Geometric Mean Return	6.76%	7.01%	7.14%	6.96%
Projected Real Return	4.51%	4.76%	4.89%	4.71%
Projected Standard Deviation	13.61%	14.67%	15.30%	14.33%
% Equity	70%	75%	75%	75%
% Fixed income	30%	25%	25%	25%

Adding more equity and hoping for a better return, however, adds risk. This would be a ten-year projection. CEO May wanted to know what is in the market that suggests one equity line is riskier than the other. Gale Walldorff wanted to know if the County is prepared to put more money into the Pension Fund. CEO May answered that was not a part of the conversation. Ms. Walldorff added that the retirees have not had a raise since 2007. The pension plan has a \$600 million unfunded liability. Ed Wall stated that the number will be greater and greater if the Plan doesn't earn 7.5% or better. CEO May doesn't know if historically the County has invested in the pension plan. Robert Robertson asked how the plan could be in the top quartile of performance, yet the plan needs to draw down \$2M a month to pay for benefits. Mr. Robertson added that he does not think that the risk is worth it. Currently the plan has 70% in stocks and 30% in bonds. The recommendation is to increase equity to 75%. Robert Robertson motioned, James Hendrix seconded, and the Board approved increasing the equity target from 70% to 75%. Robert Robertson motioned, James Hendrix seconded, and the Board approved lowering Callan's recommendation of a 28% allocation to international equity to a 10-15% allocation. Jelani Hooks added that the Plan is in the top quartile now, but that could change with a turn of the market; positioning the fund and diversifying sources of risk is practical. Robert Robertson motioned, James Hendrix seconded, and the Board approved tabling items 2 & 3 on the Asset / Liability Study Recommendations until a later date.

The Board then discussed benefit payment funding for September and October. Jelani Hooks said that the fund needed \$10.6 million. Ed Wall asked Weston Lewis to suggest which managers should fund the benefits.

<b>Manager</b>	<b>Amount To Take</b>
Advent Capital	\$5.6 million
Frontier	\$1 million
Earnest Partners	\$1 million
Southeastern	\$3 million

Weston Lewis stated that the plan has 1.2% cash holding. Mr. Hooks added that does not reflect what has been drawn down since June, so the actual cash on hand is \$6.6 million. Robert Robertson motioned, James Hendrix seconded, and the Board approved taking funds from the managers outlined above to pay benefits for September and October.

Patricia Keesler then discussed the Pension Code amendment for DOMA (Defense of Marriage Act). The Board does not have the ability to make changes to the Pension Code; it must go through the Board of Commissioners. The Supreme Court overturned the Defense of Marriage Act, and stated under federal law, legally married same-sex couples are recognized for federal law purposes, particularly income tax purposes. The IRS has put out rulings about how to treat legally married same-sex couples for filing joint tax returns, taking deductions, etc. A notice was released this past June on how this applies to retirement plans. Retirement plans have a special tax shelter. All retirement plans have to be amended to be consistent with the Windsor decision (*United States v. Windsor*). The problem with the DeKalb Pension plan

DeKalb County Pension Board

Minutes – July 17, 2014


Page 4

is that Georgia has a state constitutional ban on same sex marriages. For state law purposes, same-sex marriages cannot be recognized; but for Federal law purposes, same-sex marriages are required to be recognized. Under the IRS notice, the Plan must be amended to be consistent with the Windsor notice for Federal law purposes by the end of the calendar year. Ms. Keesler added that the current joint & survivor provisions will not change. Robert Robertson motioned, Gale Walldorff seconded, and the Board approved recommending a Home Rule Ordinance to make changes to the Pension Code based on the Defense of Marriage Act.

The Board then discussed a disability evaluation for one employee. Robert Robertson motioned, Gale Walldorff seconded, and the Board approved a one-year disability pension for Richard Joseph.

The Board then listened to comments from the public. Jeff Wiggs, a police sergeant, thanked the Board for all that it does. David Holcombe asked about the raise for the retirees. Ed Wall stated that the CEO did commit for the 2015 budget year to consider it. Robert Robertson said he would like to speak in favor of a raise for the retirees. As a fiduciary of the Pension Board, Mr. Robertson can only recommend a COLA and fund it with employee contributions. Mr. Robertson added that many older retirees are suffering and need a raise. CEO May stated that he is ready to seriously look at what the County can do for the retirees. Each 1% increase would cost \$700,000 per year. Mr. Robertson also suggested lowering the cost of insurance for retirees as opposed to a COLA. Ed Wall agreed.

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



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Jelani K. Hooks

Clerk, The DeKalb County Pension Board