

MINUTES

DEKALB COUNTY PENSION BOARD

September 1, 2011

The DeKalb County Pension Board held a meeting on September 1, 2011 in the Board of Commissioners Multi-Purpose Room. The following members were present: Thomas Brown, Anthony McBride, Benita Ransom, Joel Gottlieb, Robert Robertson (via telephone), Ed Wall, and Gale Walldorff. Others present: Weston Lewis, Mike Sweeney, and Paul Troup of Callan Associates; Patricia Keesler of Benefits Law Group; Rocky Joyner of The Segal Company; John Desselle of Nationwide Retirement Solutions; Vincent Favaro and Thomas C. Raimondi of X-Change Financial Access (XFA); Nicole Davenport and Meryl Roper of Chitwood Harley; Jelani Hooks; Larry Jacobs; Louis McGregor; and Paul Wright.

Ed Wall, Chairman of the Pension Board, called the meeting to order.

Thomas Brown motioned, Anthony McBride seconded, and the Board approved the minutes of the July 14, 2011 Pension Board meeting.

Thomas Brown motioned, Gale Walldorff seconded, and the Board approved the ratification of payment of the following invoices:

Vendor	Service	Period	Amount
Advent Capital Management	Investment Management	4/1/2011 - 6/30/11	\$65,549.53
Benefits Law Group	Legal Consulting	July 2011	\$2,631.00
Caduceus Occupational Medicine	Disability Examination	July 5, 2011	\$310.55
Callan Associates	Investment Consulting	4/1/2011 - 6/30/11	\$14,300.00
<i>The Champion</i>	Legal Advertising	June 2011	\$61.00
Crawford Investment Counsel	Investment Management	7/1/2011 - 9/30/11	\$18,352.95
Decatur Capital Management	Investment Management	4/1/2011 - 6/30/11	\$10,752.03
DeKalb County Finance Department	Pension Administration	4/1/2011 - 6/30/11	\$63,945.18
Denver Investment Advisors	Investment Management	4/1/2011 - 6/30/11	\$75,474.23
Earnest Partners	Investment Management	4/1/2011 - 6/30/11	\$93,177.00
Frontier Capital Management	Investment Management	4/1/2011 - 6/30/11	\$92,244.88
Gabelli Asset Management	Investment Management	4/1/2011 - 6/30/11	\$157,598.00
Jennison Associates	Investment Management	4/1/2011 - 6/30/11	\$116,375.40
J.P. Morgan Asset Management	Investment Management	4/1/2011 - 6/30/11	\$7,638.00
Montag & Caldwell	Investment Management	4/1/2011 - 6/30/11	\$117,475.60
Southeastern Asset Management	Investment Management	4/1/2011 - 6/30/11	\$209,312.00
State Street	Custodial Supervision	4/1/2011 - 6/30/11	\$32,989.69

Gale Walldorff inquired about the legal advertising. Jelani Hooks explained that it was payment for the home rule ordinance related to repayment of the payments in lieu of annual leave that went before the Board of Commissioners. The Board of Commissioners has not taken action on the item as yet. Joel Gottlieb reiterated that payments are being made each pay period, and that next year, the Finance department will recommend to the CEO and the Board of Commissioners the County pay the "level" dollar amount to the pension fund. Ed Wall mentioned the County attorney believes that the existing payback arrangement is sufficient. Mr. Hooks added that the pension office received a bill from Segal for \$69,340.00; however, on May 5, 2011, the Board had approved a \$12,000 limit on Segal's charges. Mr. Wall asked Rocky Joyner if he could explain the charges. Mr. Joyner stated he

had no knowledge of them and would have Eric Atwater follow up with Mr. Hooks concerning them.

Thomas Brown motioned, Gale Walldorff seconded, and the Board approved requests from the following employees to pay contributions for employment on military leave without pay, so as to receive accredited service for these periods:

- Thomas E. Bozeman, an employee of Fleet Maintenance
- Joe F. Williams, an employee of Roads & Drainage

Thomas Brown motioned, Anthony McBride seconded, and the Board approved entering an Executive Session to discuss litigation.

Paul Troup, Weston Lewis, and Mike Sweeney of Callan Associates reviewed the 2nd quarter investment results. The S&P 500 was down 7.36% for the quarter; corporate profits are as strong as they have been in years; and volatility is mild compared to August of this year. The EAFE index is down 10.5% for the quarter; however, emerging markets have performed well over the last 3-4 years. Investors have sought the safe haven of fixed income securities, and the Barclay's aggregate is up nearly 6%. Ed Wall wanted to know if the S&P downgrade would affect the treasury market. Mr. Sweeney stated if anything, it led to treasuries' rallying; the market expects rates to go up when securities are downgraded. Investors sought to invest in treasuries because they are considered safe. There is limited upside potential in fixed income securities. The fund was about 3% overweight in domestic equities; at the end of the quarter the value of the Fund was \$1.12 billion. The average rate of return for the last five years has been 5.78%. The DeKalb County pension fund is in the top quartile of other public funds in the nation. At least 15% of the total fund is managed by minority managers, which is defined as at least 51% owned by minorities, women, or disabled people. Weston Lewis mentioned that a few managers are lagging in terms of performance. Specifically, in the last three years, Decatur Capital earned 2.44% and the Russell 1000 Growth Index was 5.01%; in the past year they earned 30.58% and the benchmark was 35.01%; last quarter they earned 0.15% and the index was 0.76%. Ed Wall mentioned that it may have been more cost effective to place the money into an index fund, and save on manager fees. Decatur Capital uses a quantitative process, which looks at trends in the market or patterns that help overweight certain stocks they believe will do better by using historical data. Prior to 2009, they had outperformed every single year. Mr. Wall mentioned that he likes Decatur Capital and wants to work with them, but at some point the relationship may have to be terminated. Thomas Brown asked for clarification on the methods used to find minority managers. Mr. Wall stated that the Board consciously tried to obtain more minority managers because he believes that 15% is lower than it should be and encouraged Board members to include minority managers in their searches. Robert Robertson stated that when a manager is brought in, the Board should be cognizant of the fee. Paul Troup reminded him that the fee is for traditional searches, not due diligence. Mr. Wall stressed the importance of every potential manager being measured by the same standard. Since inception, Frontier Capital is down 40 basis points. Frontier uses a process called "GARP" which means "growth at a reasonable price." Most of their underperformance came in March, May and June. The fund exceeded 7.75 for the year ending March 31, 2011.

Vincent Favaro of X-Change Financial Access gave a presentation on transition

management. Robert Robertson spoke very highly of Mr. Favaro, who formerly worked for CastleOak Securities. Mr. Favaro spoke of transition managers to avoid, which are those who do not offer transition services as a formal product, use transitions to feed, block, and prop desk business, have rebate arrangements with other brokers, and do not have policies to secure client information. In addition, these managers lack transparency. There are hidden costs and the commissions are not disclosed on the trading ticket. Also, many managers limit their reporting by not providing a detailed transition strategy or a robust pre- and post-trade analysis. Mr. Favaro then detailed the transition process for the Board. Thomas Brown asked how a transition manager works. Ed Wall explained that a transition manager handles the sale of the existing stock. Gale Walldorff motioned, Anthony McBride seconded, and the Board approved adding X-Change Financial Access to the list of transition managers to bid on transitions.

The Board then discussed the designation of money managers to distribute benefit payments for October - December 2011. Jelani Hooks stated that the Board needed \$12.6 million to fund benefit payments for the remainder of the year, about \$4.2 million per month. The plan does not generate enough income between the employee contributions and the County contribution to pay benefit payments, so money is taken from the plan to supplement those payments. The plan earns dividends and interest; however those funds are reinvested by the managers. Ed Wall stated that the money is not taken in advance because it is possible for a manager that the funds are taken from may have significant missed earnings. Gale Walldorff suggested that 80-85% of contributions are not going to reducing the unfunded liability, but to pay benefits. Ed Wall added that the only way for the plan to get ahead is to earn more than 7.75% interest. Rocky Joyner stated that if the Plan does not make the minimum contribution, the State can withhold money from the County in the form of grants. Mr. Joyner offered a short presentation on actuarial mathematics for the Board members at the next meeting. Paul Troup of Callan Associates offered two scenarios for the Board to meet payment obligations for the remainder of the year: taking \$9M from Southeastern, and \$3M from Earnest Partners, or harvest gains from five managers – \$2M from Edgar Lomax, \$2M from Jennison Associates, \$2M from Montag & Caldwell, \$2M from Denver Investment Advisors, and \$4M from Gabelli Asset Management. Thomas Brown motioned, Anthony McBride seconded, and the Board approved taking \$12M total from five managers to supplement benefit payments for the remainder of the year.

The Board then discussed the pension plan updates and loan repayment with Patricia Keesler. Ms. Keesler spoke of initially reviewing the Plan to make it compliant with federal law, but has not moved forward with the full restatement of the Code, which would add the federal law requirements. Ms. Keesler asked for the Board's approval to do so, and wanted to add the Board's right to request documents from the Pension code, the investment provision, the disability provision, and how an employee representative is replaced when they are no longer an employee. A Home Rule Amendment is needed to make these changes, for which Ms. Keesler is working on a draft. Benita Ransom asked why the Human Resources Director and the Finance Director were not voting members of the Board. Ms. Keesler stated that it is often ex-officio members, but not necessarily those positions. Ms. Ransom responded that in her own experience, those positions have been able to vote. She asked the Board if they are willing to consider the idea of the HR and Finance director being voting members. Ed Wall stated that the Board of Commissioners would have to create a Home Rule Amendment to make that change. Robert Robertson stated that the

history has been that the ex-officio members are present to represent the County's best interests, and their ability to vote could be swayed toward the County and the members not having the full authority on the Board, which he states has been traditional with all pension funds in the country. In addition, Mr. Robertson suggested that the Board not explore the issue further because the pension code was created in the best interest of the Plan. Ms. Ransom promptly disagreed; she said that is not the case across the country, so she would be happy to provide research; and that it was not an accurate statement he made. Mr. Robertson insisted that it is the case on pension plans, because he deals with thousands of them. Ms. Ransom replied that she served on a pension board for 16 years before coming to DeKalb County, so she knows that is not true, and offered research so they would not have to debate. Mr. Robertson agreed, stating that he is always happy to learn. Ms. Walldorff said that the CEO is an elected official, but also a member of the Pension Board by virtue of his position. Ms. Keesler firmly stated that any member of the Pension Board has a fiduciary responsibility to act in the best interest of the Plan participants regardless of their position away from the meeting room. Ed Wall said that the Board would talk to the Board of Commissioners about the issue and he would have a report at the next meeting.

The Board then discussed the designation of polling places for the 2012 Pension Board Election. Jelani Hooks stated that Thomas Brown and Anthony McBride are serving out the remaining terms of the former employee representatives on the Board (Christopher Prickett and James Butler). The retiree representative's position is also expiring, so there will be three open positions in January. Gale Walldorff motioned, Thomas Brown seconded, and the Board approved designating the locations listed on the last page of the September 1, 2011 agenda as polling places for the 2012 Pension Board Elections. Robert Robertson wanted to know the qualifying period. Jelani Hooks stated December 5-14. Rocky Joyner stated that Segal is on target for the April 1, 2011 valuation. Ed Wall inquired about the hybrid plan; Mr. Joyner stated that he did not know. Joel Gottlieb said that the current concentration is on health care issues; he believes that the hybrid plan will be addressed once the health care issues are resolved. Gale Walldorff asked when the last time the retirees had a COLA. Several board members gave various answers; Mr. Hooks stated December 2007. Paul Wright added that the last across the board COLA was January 2005. Anthony McBride wanted to know if there is a link from the Finance Department intranet to the Pension Board website. He asked Mr. Hooks to check because he could not find it. Ms. Walldorff suggested that when Mr. Hooks is working on the training for the next meeting, that counsel be present. Ed Wall added that he would also like to have Callan Associates and The Segal Company present as well.

The Board discussed the date of the next Pension Board meeting. They agreed on November 28, 2011.

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



Jelani K. Hooks

Clerk, The Pension Board of DeKalb County