

MINUTES

DEKALB COUNTY PENSION BOARD

November 4, 2010

The DeKalb County Pension Board held a meeting on November 4, 2010 in the Board of Commissioners Conference Room. The following members were present: Reginald Banks, Burrell Ellis, Joel Gottlieb, Christopher Prickett, Robert Robertson, Ed Wall, and Gale Walldorff. Others present: Eric Atwater of The Segal Company, Paul Troup and Gwelda Swilley-Burke of Callan Associates, Nicole Davenport of Chitwood Harley, Rod Norman of JP Morgan, Jelani Hooks, Louis McGregor, Richard Stogner, J. Jay Vinicki, and Paul Wright.

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

Christopher Prickett motioned, Robert Robertson seconded, and the Board approved the minutes of the September 2, 2010 Pension Board meeting.

Robert Robertson motioned, Christopher Prickett seconded, and the Board approved the ratification of payment of the following invoices:

Vendor	Service	Period	Amount
Benefits Law Group	Legal Consulting	August 31, 2010	\$5,250.00
Benefits Law Group	Legal Consulting	September 30, 2010	1,406.00
Callan Associates	Investment Consulting	4/1/2010 - 6/30/2010	13,750.00
Callan Associates	Manager Search	4/1/2010 - 6/30/2010	30,000.00
Decatur Capital Management	Investment Management	7/1/2010 - 9/30/2010	7,988.64
Denver Investment Advisors	Investment Management	4/1/2010 - 6/30/2010	117,644.85
Edgar Lomax Company	Investment Management	7/1/2010 - 9/30/2010	29,725.80
J.P. Morgan Asset Management	Investment Management	4/30/2010 - 6/30/2010	10,899.19
Jennison Associates	Investment Management	7/1/2010 - 9/30/2010	99,307.97
Kiley, James D., MD	Disability Examination	September 23, 2010	350.00
Lord Abbett & Co. LLC	Investment Management	7/1/2009 - 9/30/2009	101,788.99
Lord Abbett & Co. LLC	Investment Management	10/1/2009 - 12/31/2009	103,664.49
Lord Abbett & Co. LLC	Investment Management	1/1/2010 - 3/31/2010	104,316.11
Lord Abbett & Co. LLC	Investment Management	4/1/2010 - 6/30/2010	104,631.11
Lord Abbett & Co. LLC	Investment Management	7/1/2010 - 8/26/2010	89,018.11
Mazama Capital Management	Investment Management	7/1/2010 - 7/26/2010	18,626.06
Montag & Caldwell	Investment Management	7/1/2010 - 9/30/2010	105,018.16
The Segal Company	Consulting	7/1/2010 - 9/30/2010	8,375.00

Jelani Hooks elaborated on why there are five invoices for Lord Abbett. He explained that when the discrepancy of the performance based fees came about, the Board did not pay any invoices until Callan resolved the issue. Paul Troup of Callan Associates added that the Board saved \$50,000 - \$60,000 by re-negotiating the fees, a one-time savings. He also indicated that Lord Abbett's method of calculating performance based fees was inconsistent with industry practice. Gale Walldorff inquired as to whether other managers were improperly calculating their fees. Paul Troup stated that there were not.

Paul Troup of Callan Associates reviewed the 3rd quarter 2010 investment results. Three factors affect performance of any fund: policies, procedures, and guidelines set forth by the County and the Board. There are also restrictions on the kinds of fixed income investments that can be used in the portfolio which will affect how the Board manages the bond portfolio. The State of Georgia also limits the pension fund's exposure to international equity. These outside influences have an effect on performance results. The best and worst performers were up 12.22% and 8.43%, respectively. The median return was about 10%. DeKalb's portfolio return of 11.44%, which include gains, losses, and income, outperforms all but 81% of all public funds. Gale Walldorff asked when was the last time the Fund met the 8% rate of return. Joel Gottlieb pointed out that it was around 2007. Paul Troup then reviewed the manager effect, which is the selection of managers. If the fund was indexed, the return would have been 9.74%. The fund had an 11.44% return, approximately 1.5% due to the influence of the manager effect, and 11 basis points from the asset allocation.

The Board then listened to the CEO, Burrell Ellis. CEO Ellis stated that he was meeting with State representatives over various issues, including a change in leadership at the State. He was pleased to hear that the pension fund was ranked in the top 20% of all public funds and commended the Pension Board for the work that they do. The CEO mentioned the agenda item of the increase of the pension contributions to be brought before the Board of Commissioners for the first hearing and suggested that the administration provide this information as soon as possible to employees. The Board's input on the current pension plan and other options will be needed to determine if the plan can continue to operate. Ed Wall mentioned 12 years ago, the pension plan was 144% funded, and at that time the County dropped the contribution rates to 0.5% for both County and employee and kept it that way for several years. Mr. Wall believed that, coupled with the low returns, is the main reason the Plan is in its current state. CEO Ellis stated that the board need to make the most responsible decisions that we can now, and going forward. Ed Wall asked the CEO if he would like for our actuary, Segal, to look at other options to lower contribution rates. The CEO agreed and wanted to see options on how we can have a sustainable pension moving forward, as well as options that will lessen the burden on the employee and the County. Robert Robertson also asked the CEO to consider alternative investments for the plan. The CEO asked for a draft of specific language regarding that request. He then excused himself from the meeting.

Robert Robertson motioned, Christopher Prickett seconded, and the Board approved entering Executive Session for the purpose of litigation.

Christopher Prickett motioned, Robert Robertson seconded, and the Board approved hiring Chitwood Harley to pursue recovery of losses against Transocean.

The Board then discussed increasing Decatur Capital Management's holdings to \$5 million. Paul Troup noted that Decatur has substantially less dollars than the other managers, and that increasing their holdings to \$5 million was just to bring them up to an appropriate level. Joel Gottlieb noted that Decatur Capital's performance has been a little lower than the other managers. Paul Troup blamed the performance on tech stocks. Ed Wall stated that their performance has been mediocre. Robert Robertson motioned, Christopher Prickett seconded, and the Board approved increasing asset holdings for Decatur Capital

Management.

The Board then discussed the 30 million dollar cash position of the plan. Paul Troup stated the Fund has a negative cash flow due to benefit payments' being paid from the fund. The Board can either make a withdrawal every quarter, or once every six months. He also stated frequent withdrawals from the managers may present a drag on performance. Christopher Prickett indicated that the Board traditionally took money from managers who had subpar performance, and he wanted to know how the Board addresses that issue now. Robert Robertson motioned, Christopher Prickett seconded, and the Board approved holding the cash position to fund benefit payments for the next six months.

The Board then discussed the transfer of \$31 million in growth equity assets to value. Paul Troup stated that there is a growth bias in the portfolio. Ed Wall stated that he didn't want to give the worst performing managers more money. Paul Troup said he was prepared to fund a manager that the Board has confidence in, even when their performance is bad. Ed Wall tabled the item until the next meeting.

The Board then reviewed the Pension Fund managers' fee. Gwelda Swilley-Burke of Callan Associates presented their findings. Four managers have performance based fees: Denver, JP Morgan, Mesirow Financial and one equity manager, Edgar Lomax. Denver has the most fee schedule, likely because they have the most funds. The maximum they can earn is 30 basis points. Over time, using a straight fee schedule, the Fund would save about \$220,000 on an annualized basis. Ed Wall confirmed that Edgar Lomax beat the index last quarter and last year. Christopher Prickett motioned, Robert Robertson seconded, and the Board approved the proposed fee schedule presented by Callan Associates.

The Board then discussed the draft of the home rule ordinance for the Board of Commissioners to add comingled funds to the approved list of asset investments; however Patricia Keesler, the attorney for the Board, was not present so Ed Wall requested that the Board table this item until the next meeting. Ed Wall asked Gwelda Swilley-Burke to contact Patricia Keesler and get a copy of the draft and review it.

Robert Robertson motioned, Christopher Prickett 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:

- Cinnamon Hamilton, an employee of the Sheriff's Office
- Lionel A. Myers, an employee of the Sheriff's Office
- Tiffany V. Stephens, an employee of Police Services
- Telelech Desta, an employee of Solicitor's Court

Christopher Prickett motioned, Gale Walldorff seconded, and the Board approved a request from Darren A. Newton, an employee of Police Services, to pay contributions for employment on military leave without pay, so as to receive accredited service for the employment.

Robert Robertson motioned, Christopher Prickett seconded, and the Board approved a one-year disability pension for Larry D. Battle.

Gale Walldorff motioned, Christopher Prickett seconded, and the Board approved a one-year disability pension for David A. Thorne.

The Board then discussed the designation of polling places for the election of active employees. Jelani Hooks stated that the Board needs to designate polling places for active employees. Joel Gottlieb named several polling places that are available. Mr. Hooks stated that the Board needed to approve the use of those sites. Robert Robertson motioned, Gale Walldorff seconded, and the Board approved using the traditional locations as polling locations.

The Board then discussed transition management commission recapture. Robert Robertson stated that the Investment Committee discussed trying to recover the cash that the Plan pays for buying and selling stock. Ed Wall stated that when the Board fired Lord Abbett, State Street did a “terrible” job in the transition. Paul Troup said it cost \$100,000 on a \$52 million portfolio, the equivalent of 19 basis points. Joel Gottlieb wanted to know what fees are involved. Robert Robertson stated that it was $\frac{3}{4}$ of one cent to one cent per share. Ed Wall added that the fee the Board pays brokerage firms is huge. Robert Robertson suggested that the Board invite the two firms he suggested, CastleOak Securities and Knight Securities, to do a presentation on commission recapture and transition management. The Board advised Mr. Robertson to invite other firms as well.

Joel Gottlieb mentioned the upcoming Board of Commissioners meetings, November 16 and December 7, at which they would discuss the increase in pension contributions. He also stated that the Commissioners know that they have to increase the rates, and the rates are consistent with the actuary’s recommendations.

The Board then discussed Segal’s research for new benefit plan options. Ed Wall stated that the CEO’s office expressed interest in ending the defined benefit plan altogether. Ed Wall counseled them against that, stating that the County would have to increase their contributions in the future as a result. Ed Wall added that the only way he knew to resolve this problem was to add a third class of benefits. Robert Robertson stated that the BOC would consider the recommendation of the Board, but would vote as they please. He suggested that the Board not make any recommendations and work hard to keep the current plans in place, and meet the 8% target for returns. He claimed that having more than two tiers of plans could create animosity amongst employees. Christopher Prickett agreed, further stating that he would like to see only one tier of benefits. He continued to stress the importance of keeping a defined benefit plan, and that a defined contribution plan is not the answer. Ed Wall agreed, stating we the Board should ask Segal to complete a study and give the Board more options. Joel Gottlieb stated that the number of defined benefit plans in the public sector has declined dramatically. Ed Wall asked if the County’s shutting down the defined benefit plan would result in higher contributions, and Eric Atwater stated that they would be in the short term, the first 5-7 years. Mr. Atwater discussed a hybrid plan. Robert Robertson made it clear that he was not interested in a defined contribution plan. Gale Walldorff spoke of the increase in Medicare premiums and other health care costs.

Christopher Prickett mentioned that an HMO is no longer available. Robert Robertson motioned, Gale Walldorff seconded, and the Board approved asking Segal to look at other options in regards to the defined benefit plan. Eric Atwater agreed to look at other options and will present Segal's results to the Board.

The Board then welcomed comments from the members. James Butler (in absentia) wanted to know the status of the disability home rule change. Ed Wall asked Jelani Hooks to check with Patricia Keesler on that particular amendment. He also asked about the requirement for disability pensioners to come before the Board every 12 months; that too, needed to be checked with Patricia Keesler. In addition, Mr. Wall asked about the home rule amendment which would allow retirees who get a divorce to change their joint annuitant. Christopher Prickett stated that the Board has spoken about it, but it needs to be revisited. Lastly, he wanted to know the status of the pension estimator. Joel Gottlieb stated that disclaimer language has been added, and it should be placed on the County Intranet. Paul Wright verified that the pension estimator will not be on the external website. Robert Robertson asked about a 1% COLA for the retirees. He stated he is catching a lot of "heat" from the retirees due to the rising insurance costs. Christopher Prickett motioned, Robert Robertson seconded, and the Board agreed to discuss a cost of living adjustment for the retirees. Robert Robertson quoted minutes from the September 2, 2010 meeting regarding the COLA.

Because there was no further business, Gale Walldorff motioned, Christopher Prickett seconded, and the Board adjourned the meeting.



Jelani K. Hooks

Clerk, The Pension Board of DeKalb County