

MINUTES

DEKALB COUNTY PENSION BOARD

January 13, 2011

The DeKalb County Pension Board held a meeting on January 13, 2011 in the Board of Commissioners Multi-Purpose Room. The following members were present: Reginald Banks, Joel Gottlieb, Christopher Prickett (via telephone), Robert Robertson, Bemetra Simmons, Ed Wall, and Gale Walldorff (via telephone). Others present: Eric Atwater and Jeff Johnson of The Segal Company, Weston Lewis and Gwelda Swilley-Burke of Callan Associates, Patricia Keesler of Benefits Law Group, Vincent Favaro of CastleOak Securities, Shauna Lambright of the Knight Capital Group, Maxine Daniels, Jelani Hooks, Larry Jacobs, Louis McGregor, Jay Vinicki, and Paul Wright.

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

Robert Robertson motioned, Gale Walldorff seconded, and the Board approved the minutes of the November 4, 2010 Pension Board meeting. Robert Robertson pointed out a correction that needed to be made in the minutes.

Maxine Daniels of Voters Registration & Elections then addressed the Board. Ms. Daniels stated that the special election was postponed late Sunday evening. The paper ballot that was mailed to all the retirees was considered complete; however, her department has not received any mail since the previous Friday, January 7. She proposed that any mail they receive today to be a part of that ballot is accepted. She offered to tally the results of the paper ballot and submit them to the Board by January 17, or wait until the special Pension Board election is completed. Ms. Daniels suggested that the Board close the paper ballot and tabulate the results later. Robert Robertson wanted to know if the ballots had a problem with extra postage, and Ms. Daniels said there was not. Robert Robertson motioned, Ed Wall seconded, and the Board approved picking a new date for the election. Robert Robertson motioned, Gale Walldorff seconded, and the Board approved February 1, 2011, as the new election date. Robert Robertson mentioned that one of the candidates had stated in her qualification application that she served on the Pension Board, and he wanted to know if that disqualified her from the election. Ms. Daniels stated that someone would have to challenge the employee to start the process of disqualification. The Board could then hear the challenge and then could decide whether to allow the candidate to stay on the ballot. Ms. Daniels stated that there has not been a challenge to this candidate, and that the matter had been brought to her attention, and that she had not had any discussion with the candidate. Larry Jacobs stated that he had spoken with her, and in her haste to fill out the application, she stated that she was on the Pension Board for 9½ years. She had no intention of stating that she had served on the Board. Ms. Daniels added that the issue the Board needs to consider is whether the application is a part of the affidavit. Bemetra Simmons inquired as to what the candidate meant to say, and Larry Jacobs responded that she had meant to say she was employed by the County for 9½ years. The Board took no action to disqualify the candidates.

The Board then listened to a presentation on transition management and commission recapture by Shauna Lambright of Knight Capital Group. This is a publicly traded firm. Ms. Lambright has over 15 years of experience in transition management. The company has been able to pick up more volume due to the change in the marketplace. They have offices throughout the world, with over 1,000 employees. Ms. Lambright holds Series 7, 63, 24,

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and 4 licenses.

The Board then listened to a second presentation on transition management and commission recapture by Vincent Favaro of CastleOak Securities. He has over 10 years' experience in transition management. Mr. Favaro holds Series 7, 63, 24, 55, and will have his Series 4 in four weeks.

Ed Wall asked the Board for their opinion. Robert Robertson indicated that he liked both managers. He also claimed that minority or women-owned firms tend to have higher prices because they are start-up firms. Mr. Wall agreed. Both firms have offices in the Atlanta area. Ms. Swilley-Burke stated that in the past, they would bid out the transition, and whoever had the best pre-trade bid would receive the transition. Robert Robertson motioned, Gale Walldorff seconded, and the Board agreed that each time they had a transition, the bidding would go out to State Street, Knight Capital, and CastleOak Securities. Ed Wall then instructed Jelani Hooks to contact Shauna Lambright and Vincent Favaro to let them know that they have been chosen to bid on transition services.

Robert Robertson motioned, Bemetra Simmons seconded, and the Board approved the ratification of payment of the following invoices:

| Vendor | Service | Period | Amount |
|------------------------------|------------------------|------------------------|---------------|
| Advent Capital Management | Investment Management | 7/1/2010 - 9/30/2010 | \$58,913.71 |
| Benefits Law Group | Legal Consulting | November 30, 2010 | \$5,460.00 |
| Callan Associates | Investment Consulting | 7/1/2010 - 9/30/2010 | \$14,300.00 |
| Callan Associates | Fee Review | November 30, 2010 | \$20,000.00 |
| Crawford Investment Counsel | Investment Management | 10/1/2010 - 12/31/2010 | \$16,069.92 |
| Decatur Atlanta Printing | Pension Board Election | December 29, 2010 | \$1,570.00 |
| Denver Investment Advisors | Investment Management | 7/1/2010 - 9/30/2010 | \$115,049.95 |
| Earnest Partners | Investment Management | 7/1/2010 - 9/30/2010 | \$84,139.00 |
| Frontier Capital Management | Investment Management | 7/1/2010 - 9/30/2010 | \$42,028.80 |
| Gabelli Asset Management | Investment Management | 7/1/2010 - 9/30/2010 | \$130,207.00 |
| J.P. Morgan Asset Management | Investment Management | 7/1/2010 - 9/30/2010 | \$16,570.11 |
| Mesirow Financial Investment | Investment Management | 4/1/2010 - 6/30/2010 | \$7,655.15 |
| Mesirow Financial Investment | Investment Management | 7/1/2010 - 9/30/2010 | \$5,922.93 |
| The Segal Company | Consulting | 9/1/2010 - 11/30/2010 | \$8,375.00 |
| Southeastern Asset Mgt. | Investment Management | 7/1/2010 - 9/30/2010 | \$178,260.00 |
| Southeastern Asset Mgt. | Investment Management | 10/1/2010 - 12/31/2010 | \$195,600.00 |

The Board then discussed rebalancing recommendations, and Callan Associates reviewed the Investment Committee meeting. Ms. Swilley-Burke deferred this presentation to Weston Lewis. The domestic equity composite is tilted toward mid-cap stocks. The fund is betting on growth. The Investment Committee agreed that the Board should take some money out of the growth pool and transfer it to a large cap value manager. He stated that Callan was commissioned to search for a Mega Large Cap Value Manager. As per the recommendation of the Investment Committee, Robert Robertson motioned, Gale Walldorff seconded, and the Board approved engaging Callan to perform a search for a Mega Large Cap Value Manager, at a cost of approximately \$30,000. Jelani Hooks mentioned the termination of Mesirow's contract. Robert Robertson motioned, Bemetra Simmons seconded, and the Board approved termination of Mesirow's contract, and to move \$18 million to J.P. Morgan.

The Board then listened to Eric Atwater of The Segal Company. The contribution in 2010 for County and employees is about \$61 million. Had the Plan's market value of assets earned the actuarial assumption rates of return over the 10-year period, the fund would be worth about \$1.77 billion today. The cost of the early retirement window is \$100,000 per year. The 2011 contributions would be about \$60 million, or 21.2% of pay. Investment gains and losses are smoothed over 10 years; however, there are still unrecognized losses to be included over the next several years. Eric Atwater spoke of several options: creating a defined contribution plan that replicates current benefit levels, creating a hybrid plan that replicates current benefit levels, and creating a defined contribution plan that provides roughly 25% less benefits. Segal assumed that all contributions would be mandatory. Robert Robertson added that it is not up to the Pension Board to decide what new plans need to be put in place, because the BOC would make the final decision anyway. He added that the only recommendation that needs to be coming from the Board is whether to keep the current defined benefit pension plan. Gale Walldorff wanted to know the impact of rehiring "pension employees." Robert Robertson stated that the impact was on the County budget. Joel Gottlieb stated that most of the people that were hired back were new. Eric Atwater stated that there is a cost associated with rehiring retirees. Mr. Atwater pointed out the impact on employees who were hired before September 2005, and how with Social Security, they could make up over 90% of their income; for those hired after September 2005, the level drops to 70%. Under open amortization, the only way to increase the funding percentage is to earn more than the target interest rate, which is 7.75%. Ed Wall tabled the discussion until Ms. Walldorff and Mr. Prickett could receive documentation from Segal. Robert Robertson requested the following report be included in the January 13 minutes:

Analysis of Contribution Increase for Fiscal Year 2011

Change in Recommended Contribution

| | |
|---|---------------------|
| Recommended County Contribution for Fiscal Year 2010** | \$33,900,000 |
| 1. Effect of Investment losses (-15.88%/-27.47% loss on Actuarial/Market Value of Assets from April 1, 2008 – March 31, 2009; totaling approx \$400 million) | 19,700,000 |
| 2. Effect of Changes in Actuarial Assumptions (i.e., lowering assumed investment return from 8.00% to 7.75%, updating mortality table, modifying salary scale and termination rates, etc.) | 1,900,000 |
| 3. Effect of Net Other Changes (includes experience gain, lower than expected budgeted payroll, employee contributions slightly more than expected and other changes) | 1,800,000 |
| 4. Effect of Widening Asset Valuation Method Corridor (asset valuation method corridor around Market Value of Assets widened from 20% to 50% for 2009, 40% for 2010 and 30% thereafter) | (10,500,000) |
| 5. Effect of Net Changes before Early Retirement Window (1 + 2 + 3 + 4) | \$12,900,000 |
| Recommended County Contribution for Fiscal Year 2011* (before Window) | \$46,800,000 |
| 6. Effect of Early Retirement Window (Estimated based on 842 participants electing Early Retirement Window) | \$100,000 |
| Recommended County Contribution for Fiscal Year 2011** (after Window) | \$46,900,000 |

* Updated from \$57.3 million that was shown to County July 15, 2009 before widening the asset corridor.

** Net of employee contributions of 4.50% of payroll.

The Board tabled Item 8, Cost of Living Increase for Retirees.

Robert Robertson motioned, Bemetra Simmons 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:

- Demetrius L. Howard, an employee of Sanitation
- Don Shirah, an employee of Sanitation
- LaShandra Robinson, an employee of Superior Court

Robert Robertson 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 accredited service for the employment.

The Board then considered a request from Ken Choate, a retiree who is interested in being able to receive information about the pension plan through a website independent of the County. Robert Robertson stated he was a big proponent of the website. Furthermore, he is bombarded with phone calls and e-mails from retirees wanting to know what's happening with the County pension. Mr. Robertson stated that every major pension plan in the country has a website. Christopher Prickett stated that the cost would be a "drop in the bucket compared to what we are paying these money managers." Gale Walldorff said that the website needs to be independent. Ms. Walldorff wanted some examples of websites that Mr. Robertson considered "excellent." Joel Gottlieb is in full support of the website. He stated it could cost a lot less than \$20,000, and staff could maintain it. Another point added was that the minutes need to be approved before they can be posted. Ed Wall wanted to know if anyone on staff had knowledge of website development, and Jelani Hooks stated that they did not. Robert Robertson motioned, and Gale Walldorff seconded, that within the next 90 days, the administration set up a website for the pension plan that is independent of the County and that it be funded by the Pension Board.

Robert Robertson mentioned the securities law firm, Robbins Geller Rudman & Dowd, LLP, and the Board has not received any correspondence from them. Robert Robertson motioned, Christopher Prickett seconded, and the Board moved to terminate the law firm of Robbins Geller Rudman & Dowd, LLP.

Patricia Keesler outlined items to update the Pension Code. Jelani Hooks stated he reviewed the changes, but he had no amendments to suggest.

Ed Wall suggested that the special called Pension Board meeting be held on February 10, 2011, at 10:00 a.m. In addition, he confirmed that Callan would have the 4th Quarter 2010 results ready.

Patricia Keesler requested that in the future, the notice that was mailed to retirees and participants about voting on investments be reviewed by the Board and her before it is mailed, and that her firm not be specifically named as recommending the changes, because

other consultants worked on them as well. This generated phone calls to her office, which took her by surprise. She added that it is something that the Board really should review in advance.

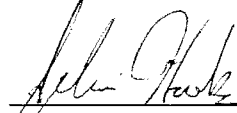
Gale Walldorff motioned, Ed Wall seconded, and the Board approved moving money from the T. Rowe Price Fund to the T. Rowe Price Institutional Mutual Fund, which lowers the fee from 97 basis points to 75 basis points.

Ed Wall thanked Christopher Prickett for his years of service to the DeKalb County Pension Board. Mr. Prickett thanked him for the kind words.

Eric Atwater continued with the presentation. Only the hybrid plans may save the County money. He further stated that the average corporate America defined contribution plan is in the 4-5% contribution range. Ed Wall felt that the County could not afford the defined benefit pension plan anymore. The cost of the plan will be \$60 million per year. Mr. Atwater stated that a DC only plan would cost more than a defined benefit plan over the next 10-15 years. If future hires do not receive any benefits at all, the savings would still take a few years to recognize. The county's excess funding ran out in 2010. Gwinnett County changed their plan for current employees. Joel Gottlieb stated that the County is scheduled to pay \$47 million into the pension plan, with a \$560 million County budget. Jeff Johnson states that there are no inherent cost differences in a DC versus a DB plan. Eric Atwater showed that there are several options, and several changes would not change the plan very much, mostly because of the size of the plan and the returns. Joel Gottlieb stated a lot of agencies have moved away from defined benefit plans.

Gale Walldorff stated she has not received a copy of the Home Rule Ordinance about the County repaying the Pension Board. Joel Gottlieb stated that money is in the budget to repay the pension fund. He stated that the 17% contribution that the County pays to the pension fund includes a .25% amount to re-pay the Fund for what the County borrowed during the Early Retirement Incentive.

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



Melani K. Hooks

Clerk, The Pension Board of DeKalb County