MINUTES

DEKALB COUNTY PENSION BOARD

May 19, 2011

The DeKalb County Pension Board held a meeting on May 19, 2011 in the Board of Commissioners Multi-Purpose Room. The following members were present: Thomas Brown, Anthony McBride, Benita Ransom, Robert Robertson (via telephone), Bemetra Simmons, and Ed Wall. Others present: Weston Lewis of Callan Associates, Patricia Keesler of Benefits Law Group, Jelani Hooks, Larry Jacobs, Louis McGregor, Jay Vinicki, and Paul Wright.

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

David McElroy and Mills Riddick from Ceredex Value Advisors gave a presentation on Large Cap Value. Ceredex Value Advisors is owned by RidgeWorth, whose parent company is SunTrust. The idea was to design a high performance investment management firm, which has $50 billion in assets under management. Mills Riddick described Ceredex as a "traditional bottom up value manager." They believe valuation is relative to fundamentals. They also have a dividend focus. In order for a stock to be in a portfolio, it has to have a dividend component, a valuation component, and a fundamental component. Dividends are a good indicator of management's confidence in the earnings potential of the company. They also provide an important source of total return and are less volatile than non-dividend paying stocks. Valuations are the second key factor. They look for companies that are in the lower third of their historical valuation. Fundamentals are where they spend the majority of their time. Ceredex's fee is 45 basis points.

Paul F. Stocking and Michael Chambers of Columbia Management Investment Advisers, LLC gave a presentation. Columbia Management is owned by Ameriprise Financial. This firm has $330.5 billion in assets under management. They have roughly a 50/50 balance between equities and fixed income. Columbia uses a "contrarian equity approach." The best returns for investors can be found by looking at companies that have some element that is either misunderstood by the marketplace or out of favor, typically reflected in low valuations. Dividends are an indicator of these. The firm employs managers with an average 19 years of experience. One of their philosophies is that the best opportunity to invest in good stocks is when there is a long enough timeframe. Usually, going into a new investment, their intention is to hold it for a long period of time. Mr. Stocking stated that just because an area is contrarian, does not immediately make it an opportunity. Valuation and momentum are clues to sell off a stock. Columbia has not underperformed the index. This is because the portfolio is managed to outperform the index by 300 basis points on a rolling three-year basis. Columbia's fee is 45 basis points.

John Campbell and Dean Morris of Cornerstone Investment Partners, LLC gave a presentation. Cornerstone, a large cap equity manager, is based in Atlanta, GA and was founded in August 2001. This firm has $2.6 billion in assets under management, and has just won a mandate for $500 million. Over each rolling three-year period since inception, Cornerstone has surpassed the S&P 500. They have fared 20% better in the down periods than the overall index has done. They believe that large companies change very gradually. An example would be Walmart, whose returns have been relatively consistent over several years. It is considered a low-risk approach to investing; they do not have to forecast that a company will do something that they have not done in the past. The whole premise of their investing is looking at a company's performance, assess the value, and when compared to the price, the price can be far away from the true value of the company. Over time, the price will revert to the true value of the company. The Fair Value Model is a computer program that picks stocks and appraises the value of a company. Ed Wall asked why they compare themselves to the S&P 500 instead of the Russell 1000 Value. Mr. Campbell stated that the S&P 500 is a better benchmark because it is market value driven, whereas the Russell 1000 Value is constructed, so it can change dramatically each June. They are overweight in financials, which are approximately 17.5% of the portfolio. The company has a concentrated 30 portfolio holdings. Cornerstone's fee is 45 basis points.

Ed Wall commented that the firm has good numbers; however he could not understand how they pick their stocks. He added that he disliked computer models, and each time a firm was hired that used one, he regretted the decision. Robert Robertson stated that Cornerstone was added last, and he has had situations with them where he could not get them to return phone calls.

Matthew T. Norris and Nikki F. Newton of Waddell & Reed Asset Management Group gave a presentation. Waddell & Reed is a large cap value publicly traded company started in 1937, and has been managing institutional portfolios since 1972. As of March 31, 2011, they have $90.2 billion in assets under management. The basic philosophy is that the present value of any investment is the sum of all its expected future cash flows discounted at some interest rate. Investments are made when the sum of future cash flows are cheap enough. When a stock is found that is trading at least 30% less than its intrinsic value, those stocks are candidates for investment. There are 21 analysts and 25-30 portfolio managers working for the company. A concentrated portfolio typically has 40 stocks. Put all the money in your best names, and you make money over time. The sell discipline is straightforward – when a stock reaches its value, you sell the stock, or when the fundamental outlook deteriorates or you have a better opportunity, you sell the stock. Ed Wall wanted to know how they handle a situation when they buy a stock and the value continues to drop. Mr. Norris stated that you become a "stubborn value guy." This means when everyone else is saying a stock is worth, say $20 and it is trading at $18, you decide that you are not going to buy the stock until it is at least 30% cheaper, and preferably, 50% cheaper than intrinsic value. Specifically, the Lowe's stock is not cheap enough. The global equity analysts are compensated on "dollars made and saved" basis. Waddell & Reed has registered representatives that sell mutual funds and retirement planning. Waddell & Reed's fee is 50 basis points negotiable.

Ed Wall then reviewed the five-year returns for each manager. Ceredex was 5.82%; Columbia was 5.77%; Cornerstone was 6.12%; and Waddell & Reed was 4.23%. Ed attributed Waddell & Reed's returns to the 2006 lag in the market. As far as the one-year returns, Ceredex was 19.27%; Columbia was 18.25%; Cornerstone was 13.10%; and Waddell & Reed was 18.28%. Mr. Wall stated he wished Matthew Norris had done a better job of explaining what happened in 2006. The Board agreed that he was not prepared for that question. Mr. Wall stated that in 2008 when the market crashed, Waddell & Reed outperformed the Russell 1000 Value by 500 basis points. Robert Robertson said that he would choose Ceredex and Waddell & Reed, and take the other two out of the equation. Benita Ransom added that Ceredex is a very good firm, she has hired them and they have been consistent and have done really well. Ms. Ransom also said that Cornerstone was a good company; her concern was that with only 30 holdings in the portfolio, if one does not do well, it could affect the entire portfolio. Mr. Wall said that Cornerstone could not accurately state how they achieve such high returns. Anthony McBride said that Ceredex was his choice. Waddell & Reed had the highest fee. The Board agreed that the rate could be negotiated. Thomas Brown agreed. He said that if he had to pick one, he would pick Ceredex. He was comfortable with their presentation and their approach to investing. Bemetra Simmons indicated that Waddell & Reed would be her choice. Ed Wall agreed. Ms. Simmons wanted to know the upmarket capture ratio for Ceredex versus Waddell & Reed. Weston Lewis replied that they are measured against the benchmark, rather than the capture ratio. In September 2007 through March 2009, Waddell & Reed was down 32.23%, whereas Ceredex was down 30.50%. Another declining market hit in 2010, and these companies were down 10.61% and 10.65%. Ms. Ransom said how important it is to ask about the demographics of a company. Robert Robertson suggested that the Board pick Waddell & Reed, with Ceredex as a backup, based on the fee structure. Ed Wall wanted Waddell & Reed's fee to be 40 basis points, and Ceredex's fee to be 45 basis points. Benita Ransom disagreed, saying both companies need to be held to the same standard. Anthony McBride motioned, Bemetra Simmons seconded, and the Board agreed to hire Waddell & Reed Asset Management Group at a fee not to exceed 45 basis points.

Thomas Brown motioned, Anthony McBride seconded, and the Board approved ratification of the following invoices:

Vendor	Service	Period	Amount
Advent Capital Management	Investment Management	1/1/2011 - 3/31/2011	$64,996.65
Caduceus Occupational Medicine	Disability Examination	April 30, 2011	$310.55
Denver Investment Advisors	Investment Management	1/1/2011 - 3/31/2011	$74,528.44
Gabelli Asset Management	Investment Management	1/1/2011 - 3/31/2011	$157,823.00

Because there was no further business, Bemetra Simmons motioned, Thomas Brown seconded, and the Board adjourned the meeting.

Jelani K. Hooks
Clerk, The Pension Board of DeKalb County