

MINUTES

DEKALB COUNTY PENSION BOARD

March 3, 2011

The DeKalb County Pension Board held a meeting on March 3, 2011 in the Board of Commissioners Multi-Purpose Room. The following members were present: Thomas Brown, Joel Gottlieb, Anthony McBride, Robert Robertson, Ed Wall, and Gale Walldorff. Others present: Eric Atwater of The Segal Company, Weston Lewis of Callan Associates, Patricia Keesler of Benefits Law Group, Jelani Hooks, Larry Jacobs, Jay Vinicki, and Paul Wright.

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

Gale Walldorff motioned, Robert Robertson seconded, and the Board approved the minutes of the January 13, 2011 Pension Board meeting. Thomas Brown asked if a vote could be cast by those who were not on the Board at the time of the January 13th meeting. Ed Wall responded that he had seen it both ways – some believed they could vote on it, others not. Regarding the transition management and commission recapture vendors, Sheriff Brown wanted to know if State Street, Knight Capital and CastleOak Securities would be the only firms bidding. Mr. Wall explained transition management and what happens when a manager is terminated. He advised that a transition manager would sell the stock of the former money manager to give cash to the new money manager and charge pennies per share. Mr. Wall thought it was best to allow State Street to bid on transitions as well as Knight Capital and CastleOak Securities in order to get the best pricing. Sheriff Brown requested a briefing on the termination of Mesirow's contract. Weston Lewis explained that they were terminated because of underperformance.

Thomas Brown motioned, Gale Walldorff seconded, and the Board approved the minutes of the February 10, 2011 Special Called Pension Board meeting.

Ed Wall wanted to point out the invoice charge of \$104,380.15 from the Finance Department. He explained that it represents a portion of the salaries of those who administer the pension plan. It has been a part of the budget, but Robert Robertson requested that it be on the agenda, to be approved at each meeting. Joel Gottlieb pointed out the 2011 Pension Board Budget, which details the various expenses incurred by the pension plan. Gale Walldorff asked if the budget is what Jelani Hooks used as a review when the Board was considering outsourcing the plan to a third-party administrator. Mr. Gottlieb stated he believed this budget was used to help the Board understand the expense of plan administration. Mr. Hooks said that the statements would be received once per quarter. Ms. Walldorff asked if the Board was transparent. Robert Robertson said they were not always transparent. Mr. Hooks stated that the costs were comparable to other counties. Cost allocation and interdepartmental charges are the same. The total interfund / interdepartmental cost increase in 2010 was due to the Early Retirement Option. Mr. Gottlieb stated that the County's contribution to the Plan is 17% of payroll. Mr. Robertson

stated that the charge in 2010 for Paul Wright's position was approved by the Finance Department and not by the Pension Board. He also stated that the hiring of the Pension Administrator was not approved by the Pension Board and that several expenses on the budget were not approved prior to being paid. In addition, he never approved the \$86,181 charge for hardware in 2010. Mr. Robertson continued to express his frustration with the expenses and the reporting of the pension funds. Mr. Gottlieb affirmed that personnel are under the purview of the Finance Department. Mr. Robertson declared that it is not the purview of the Finance Department to spend the Pension Board's money. Thomas Brown asked if the Finance Department was adding charges without the knowledge of Pension Board members. Mr. Gottlieb stated that the benefits are administered; staff is present at all meetings; and the Finance Department is not doing anything that is not for the benefit of the retirees. Sheriff Brown wanted to know if it was appropriate to spend funds from the pension plan for program modifications or hardware and the Board is not privy to the expense. Mr. Gottlieb went on to explain that the hardware cost is the utilization of the IS Department and their staff; in addition, it is regular practice for Finance to charge other funds, such as Watershed Management, Airport, and Sanitation. Mr. Robertson stated that as "fiduciaries of the fund, we are required to approve every expenditure not after the fact, but prior to the fact." Mr. Robertson then called on the Pension Board attorney, Patricia Keesler, for a legal opinion. Ms. Keesler stated that as fiduciaries, the Board has a responsibility to make sure that the fees paid out of the fund for administration are reasonable; however, it is not necessary that each expense is approved in advance, unless an expense is going to change from something that was already approved. Ms. Walldorff stated that if a budget is approved for the current year, it gives the administrators a framework in which to work. If an expense goes over what was approved, then it would be necessary to ask for an explanation, vote, or amend the budget. Mr. Robertson indicated that some expenses had almost doubled. Ms. Keesler reminded him of the Early Retirement Option, which greatly increased costs in 2010. Mr. Wall stated that there was discussion, but nobody really knew how much more the ERO would cost. Anthony McBride stated that a monthly review of the budget would be helpful, but the Board should trust the Pension Administrator's judgment about expenses in the budget. Mr. Gottlieb stated that all records regarding the Pension Board expenses are available and all are welcome to come and view them. Mr. Robertson emphatically stated that the records need to be "delivered" to him, not for him to view them. Sheriff Brown stated he doesn't need to burden the Finance Department for detailed budgets.

Robert Robertson 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	10/1/2010 - 12/31/2010	\$61,607.29
Callan Associates	Investment Consulting	10/1/2010 - 12/31/2010	\$14,300.00
DeKalb County Finance Department	Pension Administration	10/1/2010 - 12/31/2010	\$104,380.15
Denver Investment Advisors	Investment Management	10/1/2010 - 12/31/2010	\$74,990.01
State Street	Custodial Supervision	10/1/2010 - 12/31/2010	\$33,486.20

The Board then discussed the 2011 Pension Board Budget. Joel Gottlieb said that many expenses in the 2011 Budget are based on the fee schedules contracted between the Board and the money managers. As the assets grow, either by earnings or transfers, the fee grows. Ed Wall hoped for a proposed 2011 budget. Mr. Gottlieb stated that the 2011 numbers may actually increase due to the 841 new retirees created by the Early Retirement Option. Normally, there are 200-300 new retirees in a year. Robert Robertson had concerns that by the time the Board meets again in May, they would only then have a budget to approve. Anthony McBride inquired the portion of the budget the Board can control, i.e., anticipated costs. Mr. Gottlieb indicated that such costs were fees for money managers, staff salaries, disability examinations, pension payments, and refunds of contributions. Ed Wall suggested that the staff create a proposed 2011 budget, and the Board call a special meeting to approve it. Mr. Robertson wanted the budget to be clear about the cost of a Pension Board website and the associated costs of operation. The Board of Commissioners would have to approve any training provided by the Pension Board because it would require a Home Rule Amendment.

Robert Robertson motioned, Gale Walldorff 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:

- Juan C. Lorenzo, an employee of Sanitation
- Ronald K. Lyon, an employee of Watershed Management

Gale Walldorff motioned, Robert Robertson seconded, and the Board approved entering Executive Session for the purpose of discussing disability.

Robert Robertson motioned, Gale Walldorff seconded, and the Board approved a one-year disability pension for Leonard Martin.

Weston Lewis of Callan Associates reviewed the money managers' fee schedules. Jennison Associates charges 38 bps (basis points) on assets of \$116 million; the median in their peer group is 51 bps. Gabelli's fees are above median, but they are one of the better performing managers. Decatur Capital has higher fees, partly because they are a startup firm. Robert Robertson stated as an average, the Board pays low fees. Mr. Lewis agreed the fee program is very competitive.

Mr. Lewis then spoke of capital market projections. Callan develops projections of capital market performance at the start of each year. Expected return for the fund is 7.15% and does not include any extra return for active management. Large cap stocks are predicted to earn 7.85% and the small cap 8.25%. Mr. Lewis suggested adding convertible bonds, which would enhance the returns. According to Segal, the pension plan is about average with the expected returns assumption of 7.75%. The capital projections Callan forecasts

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each year have been lowered considerably based on economic performance over the last two years.

Jelani Hooks stated he was gathering documents to put into the forthcoming website, and would be sending out proposals for the website development. The Board requested that the cost of the website be less than \$25,000 and operating by April 30, 2011.

Joel Gottlieb stated that the Board of Commissioners has asked the staff to look at options concerning pension, sick leave, annual leave, and health insurance. These changes would affect new employees. The Plan in its current form is too difficult to sustain for new employees. The administration will comply with the Board's request to effect some changes to the plan, particularly new employees. There has even been suggestion to convert all employees to a defined contribution plan. David Holcombe, a retiree, wanted to know if the dates for the pension board meetings will be on the website. Ed Wall stated that all of the meeting dates will be posted on the website.

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



Jelani K. Hooks

Clerk, The Pension Board of DeKalb County