

Minutes

DeKalb County Pension Board

May 10, 2018

The DeKalb County Pension Board held a meeting on May 10, 2018 in the Board of Commissioners Conference Room. The following members were present: James Hendrix, David Littlefield, John McMullan, Dianne McNabb, Robert Robertson (via telephone), Edmund Wall, and Cornelius Yarbro. Others present: Rocky Joyner of Segal Consulting, Patricia Keesler of Benefits Law Group, Todd Carabasi and Weston Lewis of Callan LLC, Larry Jacobs, Kenny Pinkerton, Commissioner Jeff Rader, Jay Vinicki, and Paul Wright.

Ed Wall opened the meeting to order. James Hendrix motioned, David Littlefield seconded, and the Board approved the March 15, 2018 minutes.

James Hendrix motioned, David Littlefield seconded, and Board approved payment of the following invoices.

Vendor	Service	Period	Amount
Advent Capital Management	Investment Management	1Q 2018	\$76,400.31
Denver Investments	Investment Management	1Q 2018	75,633.97
Earnest Partners	Investment Management	1Q 2018	128,728.08
The Edgar Lomax Company	Investment Management	1Q 2018	41,376.13
Frontier Capital Management	Investment Management	1Q 2018	154,787.24
Gabelli Asset Management	Investment Management	1Q 2018	222,139.00
Income Research + Mgmt.	Investment Management	1Q 2018	40,230.47
Ivy Asset Management	Investment Management	1Q 2018	58,765.99
Jennison Associates	Investment Management	1Q 2018	174,050.07
Loomis Sayles	Investment Management	1Q 2018	133,121.48
Southeastern Asset Mgmt.	Investment Management	1Q 2018	190,738.00
Subtotal			\$1,295,970.74
ASM Consulting	Website Maintenance	March 2018	\$150.00
Benefits Law Group	Legal Consulting	March 2018	4,462.50
Lawrence A. Bircoll, MD	Disability Examination	May 2018	2,000.00
Callan LLC	Investment Consulting	1Q 2018	20,500.00
DeKalb County Finance Dept.	Pension Administration	1Q 2018	137,058.09
Emory Conference Center	Investment Retreat	April 2018	4,148.55
RRM/Willis JV	Liability Insurance	May 2018-April 2019	57,500.00
Segal Consulting	Actuarial Consulting	Aug 2017-Feb 2018	8,103.75
State Street	Custodial Supervision	1Q 2018	39,403.84
Subtotal			\$273,326.73
Total			\$1,569,297.47

Todd Carabasi of Callan LLC provided a summary of the investment results for Quarter 1 2018. Mr. Carabasi noted that domestic equities are overweighted by 4.5% as compared to the allocation target of 60%, while fixed income (target allocation of 25%) and international equities (target allocation of 15%) are both underweighted by approximately 2.5%. Ed Wall asked about the asset allocation display related to cost, which displays fixed income at 31% and is well within

the minimum target amount of 25% based on cost. Mr. Wall indicated that the fund is compliant with policy guidelines since the investments are within 5% of the target, so no immediate action to shift assets is necessary. The total fund performance for the quarter was down 0.3% but there was a positive manager effect of 0.4%. Mr. Wall noted that the cost of manager fees for the year is 35 basis points, which translates to a positive quarterly rate for utilizing managed directed investments. Domestic equities were led by Jennison, Gabelli, Earnest Partners, and Ivy as the best performers and T. Rowe Price and Marathon had positive results from the international sector. Mr. Wall also pointed out the positive effect that active fund management has had on performance over the previous year. The fund is trailing the target over the longer periods of three to five years but exceeds performance relative to public fund peers.

Mr. Wall expressed concern with the low adjusted allocation rankings over the last three to five years. The rankings use the returns from Callan's public funds database and adjusts it to the fund's allocation mix. Weston Lewis described the five-year asset class rankings in comparison to the public fund peer group. The fund has done very well in fixed income (top 5%) and is in the median range for international performance (53%). The domestic equity sector has lagged behind the peer group and is in the 89% percentile. The performance of Southeastern, Gabelli, and Montag over the five-year period contributed to the low ranking. Over the past one year period, the fund has made significant improvement in domestic equity, moving up to the 32% percentile. Many peer group portfolios have adopted a passive asset strategy which has performed better the past five years than an actively managed portfolio. The fund has a bias toward value related managers, but there is considerable variation in the actual holdings that are growth oriented. Mr. Lewis warned against cancelling a bias if it hasn't worked and that the Board should decide to either stick to the strategy or remove it. As a learning exercise, Mr. Wall would like to review the adjusted rankings in past years.

Mr. Wall inquired about the number of managers for the portfolio. Mr. Lewis indicated that for a portfolio of this size, the number of managers is reasonable. He warned against too few managers, which could swing the performance. Rocky Joyner commented that the current fee structure is adequate, and having fewer managers would not necessarily lower fees.

Mr. Carabasi reported on the market class performance with growth outperforming value, small cap equities outperforming large cap equities, and treasury based investments outperforming corporate bonds and mortgages. Jennison provided a very strong quarter, up 5.41%, which was fueled primarily by technology assets. This was the first full quarter for Loomis, which was down slightly against the benchmark. Edgar Lomax underperformed for the quarter but the past year has been strong. Gabelli, Southeastern, and Ivy all slightly outperformed the benchmark for the quarter.

Mr. Wall expressed concern about the performance of Frontier, down 2.37% for the quarter and consistently below the benchmark. They have a growth and reasonable price strategy, which has been out of favor recently. Mr. Carabasi indicated that the performance is related primarily to their style of investing. David Littlefield and Mr. Carabasi will be meeting with Frontier on May 14 to discuss their recent organization changes and outlook. One of the long-term portfolio managers is retiring in 2020, and it may make sense to bring in the new team before then. Drew Bennett is expected to remain on the new strategy team. Mr. Lewis indicated that Frontier's results have been positive until the last year and warned against making a decision based on one-year of poor performance. He indicated that performance typically reverts to the mean over

time and that Callan's opinion and conviction of Frontier has not changed. On fixed income, Denver Investments slightly exceeded the benchmark and has recently undergone new ownership. Advent Capital performed well but still below the convertible grade benchmark. International funds T. Rowe Price and Marathon both outperformed the benchmark. The T. Rowe Price fund is expected to move to the commingled fund investment during the second quarter, resulting in lower management fees.

Mr. Wall asked for information regarding recent changes at Ivy. Mr. Carabasi reported several recent departures had occurred, but none of the changes affect the fund's portfolio. Performance remains good but Callan will be watching closely. The recent name change from Waddell & Reed to Ivy was strictly a name change and not a purchase. Mr. Lewis commented that organizational changes had been occurring for some time. Callan will be investigating further to ensure no risk to the value investment team and will advise if a change in manager is necessary.

Mr. Wall described that there is an effort by the county to review the retirement provisions for public safety personnel, primarily due to recent staff losses. Rocky Joyner attended a recent BOC committee meeting to discuss potential changes and options to retirement benefits for public safety members. Mr. Wall indicated that the BOC typically decides on pension matters via a recommendation from the Pension Board. Jeff Rader confirmed that this is still their policy.

Mr. Joyner stated that on April 23, Mr. Wall asked for an analysis of adopting a new provision for public safety members of full retirement at any age with 20 years of service. This provision would increase the total annual contribution by approximately \$2M and increase the normal cost by 17%. This estimate includes an assumption of 10% attrition after 20 years of service, as Mr. Joyner indicated that he has seen other plans adopt a similar provision and many eligible members do not retire at 20 years. Mr. Wall expressed concern that many eligible public safety members leave the county, as was the case for the early retirement window in 2010. Mr. Joyner also discussed some of the retirement provisions of other metro counties and cities. He clarified that the definition of public safety personnel refers to POST certified staff members. The committee requested three or four options for changing retirement benefit provisions of public safety staff members. Option one is a full retirement at 25 years, with an additional .25% multiplier for service earned after 25 years. This option creates an incentive to retain members after they reach full retirement age. Comm. Rader indicated that the BOC does not have a final determination of what they would like to accomplish for the public safety staff. He expressed concern of older members remaining in some public safety positions in order to receive a larger pension benefit. He stated that the BOC needs to drill down further with the public safety staff to better understand what the goals are.

Recruitment is another area that must be considered, and the county wants the mid-career members to remain on staff. Mr. Hendrix reported initial feedback from the Fire Rescue staff indicating many members would accept the full employment provision of 20 years and leave the county. John McMullen asked why the Pension Board is reviewing these options if the BOC is going to implement the change. Mr. Wall responded that the BOC still wants feedback from the pension board regarding costs, etc. prior to making such a change. He stated that the problem is more on employment retention of the public safety staff and suggests that a salary study may be a more effective effort in determining ways to retain the members. Increasing salaries may require a tax levy to fund such a benefit.

Comm. Rader expressed concern that the Group 3 retirement benefit is not attractive in recruiting staff and suggests a retirement benefit similar to Group 2 participants. Mr. Hendrix indicated that salary levels are a more immediate problem for retaining staff. Cornelius Yarbrow agreed. He stated that new officers primarily look at their current salary and then when they've worked several years start looking at future benefits, and many Group 3 participants leave if they see a more adequate retirement option in a nearby county. The lack of salary increases has been an on-going problem in retaining staff. Mr. Joyner provided another option to help retain the Group 3 members by keeping the same 1% multiplier as a base benefit but increasing it after a certain number of years. Another option for Group 3 participants is to change their benefit to the same as Group 2 and increase their benefit after 20 or 25 years. This option may be appealing for recruiting as well as providing an increased benefit for long-term service. Mr. Wall expressed concern at the cost of this option. Mr. Yarbrow stated that this option is the type of change that is needed to recruit and retain staff. Mr. Joyner indicated today's discussion is more for presenting options that were requested and to solicit feedback on these options. Then he can drill down in providing a more detailed analysis of the cost when a specific option is considered. He also indicated that another option is an automatic COLA increase.

Comm. Rader stated that the county has a competitive pay structure, but they need to review how members are moving through that structure. As employees start to plateau out, then they look elsewhere for a higher salary. The request by the BOC to review retirement options was made as a possible solution to assist with retention. He indicated that the focus may need to be more on salary than on retirement. Mr. McMullen asked if service earned in DeKalb County can be used as benefit service in another county's pension plan. Mr. Wall responded that it cannot. Mr. Hendrix stated that many fire personnel are using DeKalb County as a training ground for several years and then leave for better pay in another county. Mr. Yarbrow indicated a similar trend for police staff, mostly attributable to the lack of opportunity to increase their salary. Diane McNabb asked where the county gets its recruits. Mr. Yarbrow indicated that most of the recruits are from high school or military and that our pay and training is very competitive.

Mr. Wall stated the county will be paying for Rocky's analysis of the public safety change. Comm. Rader expressed doubt the BOC will move toward a decision on pension changes if salary is determined to be a more pertinent issue for lack of staff retention. The BOC's goal is to retain the continuity and the high skill set of the staff, and the solution may fall more with salary than with retirement. He suggests the BOC should dig deeper into the compensation structure to review any weaknesses contributing to staff attrition. Mr. Hendrix commented that the staff realizes that senior management is not receiving increases either so it further entices employees to seek opportunities elsewhere. Mr. Yarbrow expressed that the County needs to review the pension solution as both a recruiting tool as well as a retention tool to prevent the 15-year employee from leaving. Mr. Joyner commented that the 20-year option would have a big impact on retiree medical, which has not been considered in the analysis. Comm. Rader expressed a continued desire to work with Segal on potential options. Mr. McMullen asked if there are any studies pertaining to the longevity of public safety staff. Comm. Rader responded stating that it depends on the job requirements. Mr. Hendrix commented that longevity is greatly diminished in the fire unit after age 50. He stated that 30% of the staff in fire and safety has been employed less than five years, creating a gap in critical skill areas. Robby Robertson supports the 25-year full benefit option. He expressed support for an automatic 1% COLA increase for retirees and would like the BOC to vote on such a measure. As next steps Rocky

suggested the BOC should narrow the focus on what options they would like to see, and then he can proceed with the cost projections and present comparison options.

Mr. Wall instructed Mr. Joyner not to proceed with further work until the county has clear direction on who will be paying for the cost study analysis. Mr. Joyner should also complete the January 1, 2018 valuation before conducting additional cost studies.

John McMullen motioned, Eric Hendrix seconded, and Board approved the following draw down amounts: \$10.5M from Jennison, \$1.5M from Earnest Partners, and \$1.5M from Frontier for benefit payments in May, June, and July.

The board members confirmed the Emory Conference Center for the July 12 Investment Retreat.

A change to the buyback application and participant letter was presented to the board to better communicate that service being purchased applies to the Group 3 plan.

David Littlefield motioned, Eric Hendrix seconded, and the Board retracted the approval of the buyback application for Stanley Peters, who was on leave without pay more than six months.

Eric Hendrix motioned, Cornelius Yarbro seconded, and the Board approved the most recent prior service period for the buyback application of Mr. Trevone Ford.

Cornelius Yarbro motioned, David Littlefield seconded, and the Board approved the buyback applications from Vicci Lee, a Watershed employee; Willie Lyman, a Sanitation employee; Michelle Otts, a Watershed employee; and Cory Owens, a Fire Rescue employee.

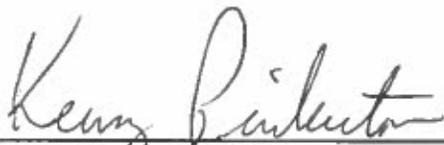
David Littlefield motioned, Cornelius Yarbro seconded, and the Board approved entering Executive Session to discuss disability re-evaluations.

Upon returning from Executive Session, Eric Hendrix motioned, John McMullen seconded, and the Board approved permanent disability for Ms. Harriett Grayson.

John McMullen motioned, Eric Hendrix seconded, and the Board approved a 12-month disability for Mr. Sowande Baruti.

Cornelius Yarbro motioned, Eric Hendrix seconded, and the Board approved deferring the disability re-evaluation of Mr. Paul Staton until the July meeting.

With no further business the Board adjourned the meeting.



Kenny Pinkerton

Clerk, The DeKalb County Pension Board