

Minutes

DeKalb County Pension Board

July 12, 2018

The DeKalb County Pension Board held a meeting on July 12, 2018 in the Hickory Room of the Emory Conference Center Hotel. The following members were present: James Hendrix, David Littlefield, John McMullan, Dianne McNabb, Benita Ransom, Robert Robertson (via telephone), Cornelius Yarbrow, and Edmund Wall. Others present: Rocky Joyner of Segal Consulting; Patricia Keesler of Benefits Law Group; Todd Carabasi, Weston Lewis, and Brad Penter of Callan LLC; Commissioner Jeff Rader; Larry Jacobs; Kenny Pinkerton; and Paul Wright.

Ed Wall opened the meeting to order. Robert Robertson updated the Board that he was not able to attend due to a family illness. Mr. Wall inquired about the results of a May 14, 2018 meeting that Todd Carabasi and David Littlefield had with Frontier Capital. Mr. Carabasi explained that there is a new PM in transition at the firm. Weston Lewis reported that the fund strategy is risk aware and does not follow the benchmark, returning almost 10% less than the benchmark over the last year. If the benchmark is up, the fund's return will lag behind; if the benchmark is down, the fund will not drop as far. Since small cap growth is the riskiest area in the U.S. marketplace it makes sense to have a risk aware manager in place. The technology sector holdings returned only 1%, whereas the benchmark technology holdings returned 30% over the last year. Callan remains confident in the firm and would recommend them today if the fund was open. The fund is now closed to new investments, and they remain disciplined in their strategy.

Mr. Wall requested an update from Callan on the status of Ivy Investments (formerly Waddell & Reed) and some of the recent staff changes. Mr. Lewis indicated that Ivy was selected as a complement to Edgar Lomax in the large cap value sector because of the concern of size and resources at Edgar Lomax, even though Edgar Lomax continues to perform very well. Although Ivy's performance is 3% above the benchmark for the last year and there is a lot of organizational structure still needed, Callan recommends keeping Ivy on watch.

Rocky Joyner reported that there have been a couple of meetings with the BOC members to review goals and objectives regarding changes to the Public Safety employees. He is awaiting further direction from the County before generating more cost runs.

One idea expressed by the BOC is that an increase in salaries could be more effective in addressing recruitment and retention than seeking a pension solution. Eric Hendrix noted that the salary adjustment is a short-term solution that helps recruitment but does not go far enough to address retention. He favors a full benefit with 25 years of service and lowering the normal retirement age from age 62 in the Group 2 structure. Dianne McNabb inquired about a summary of retirement plans offered by neighboring cities and counties, which Segal has recently provided. Many of the newer incorporated cities in

DeKalb County have moved to defined contribution plans.

David Littlefield asked if there was a central database available listing retirement plan information of government organizations in our region. Mr. Joyner replied that no database exists with specific retirement plan information, but Segal does have a database of public sector employee information regarding salaries, length of service, etc. which is used more for salary study comparisons.

Cornelius Yarbrow motioned, David Littlefield seconded, and the Board approved the May 10, 2018 minutes.

Mr. Wall requested that the Board approve all requested invoices except the audit fee from Nichols, Cauley & Associates, as the audit report is still under review. John McMullan motioned, James Hendrix seconded, and the Board approved payment of the following invoices.

Vendor	Service	Period	Amount
Todd M. Antin, MD	Disability Evaluation	June 2018	\$2,400.00
ASM Consulting	Website Maintenance	May 2018	300.00
Benefits Law Group	Legal Consulting	April-May 2018	4,377.50
Callan LLC	Investment Consulting	2Q 2018	20,500.00
Elarbee, Thompson, et al.	Legal Consulting	May 2018	1,093.50
John I. Foster III, MD	Disability Evaluation	March 2018	800.00
Pension Benefit Information	Death Audit Search	June 2017 - May 2018	1,530.00
Sheila A. Robinson, MD	Disability Evaluation	May 2018	54.00
Segal Consulting	Actuarial Consulting	March-May 2018	8,375.00
Total			\$39,430.00

Weston Lewis provided a summary of the fund's performance. Callan suggested rebalancing will be needed soon, as the drawdown amount will create a little more buffer. The strategy is to rebalance as much as possible using the drawn down amounts from the U.S. equities and to bring the international allocation to 10%. The Board decided not to formerly rebalance the allocation, as it is still in compliance with the policy statement

Mr. Lewis reported a clean bill of health for the portfolio as Frontier Capital is the only fund underperforming over the 12 months ending May 31. Jennison had very strong earnings of 28.68% for the period, exceeding the benchmark by 7.66%, while Loomis Sayles lagged 3.08% over the last six months due to the start-up transition in 2017. Gabelli's results have struggled as they have shifted to an all-cap value approach which includes small and mid-cap holdings. Earnest Partners continues to have strong earnings, up 18.56%.

Denver Investment Advisors was acquired by Segall Bryant & Hamill on May 2, 2018. Ken Harris is expected to remain as investment manager.

Advent Capital returned 13.73% for the 12-month period, outpacing of the U.S.

Convertible 5% Cap Index but lower than the Investment Grade Convertible Index, which has a concentrated allocation consisting of only five holdings making up more than 50% of the index. Callan will determine a more realistic index as we review upcoming changes to the investment policy.

Eric Hendrix motioned, John McMullan seconded, and the Board approved the following draw down amounts: \$4.0M from Jennison, \$3.0M from Ivy, \$3.0M from Gabelli, and \$2.0M from Southeastern for benefit payments in August and September.

Todd Carabasi summarized the transition of the T. Rowe Price International Core Equity Fund to a commingled fund strategy on June 19, 2018. This transition reduces the management fees for the fund by 20 basis points, saving approximately \$276,000 per year. Mr. Hendrix expressed concern about the size of the other investors in the commingled group. Mr. Lewis indicated that Callan monitors the allocation portion of the other pooled investors. Mr. Wall expressed thanks to Mr. Carabasi for making the commingled recommendation and seeing through on the transaction.

Eric Hendrix motioned, David Littlefield seconded, and the Board approved the funding for John McMullan and Kenny Pinkerton to attend the Callan Institute Workshop on October 23 and 24, 2018 in Atlanta.

Mr. Wall reported the review of the pension audit report will be deferred to the September meeting. Robert Robertson inquired about any deficiency findings in the report. Mr. Wall responded that there are only a few minor deficiencies.

Rocky Joyner provided a preliminary summary of the January 1, 2018 valuation. Final results are not expected to deviate much, if any, from the preliminary values. The recommended contribution for 2019 is 21.99% of projected payroll. Mr. Joyner noted that the increased contribution rate should be favorable for the Moody's rating. Dianne McNabb indicated that Moody's rates plans on a consistent basis, thereby removing the variance of discount rates. Mr. Joyner stated that Moody's does provide a consistent measuring basis for their ratings, but it gives too much credit toward the current funded rate and not enough credit toward the entity's ability to pay the funded amounts in the future.

Mr. Joyner reported \$143.8M in deferred gains to be recognized over ten years due to ten-year asset smoothing. Pending review of the next experience study the Board may want to consider moving to five-year asset smoothing. Using the actuarial value of assets, the funded ratio is 52.8% but increases to 58.7% when using the market value of assets. Audit report indicates a 62.1% funded ratio which utilizes a slightly different methodology for GASB reporting.

Robert Robertson inquired about the minimum required contribution of \$64,235,139. Mr. Wall responded that that amount represents only the County portion.

Mr. Joyner noted that no new unfunded amortization bases are expected to be added until the current base reaches 20 remaining years or less. Mr. Joyner explain that the current assumptions use a 2.75% payroll increase, but this could change depending on

the upcoming experience study. Cornelius Yarbro expressed concern of some municipal districts exiting the county plan, thereby reducing the payroll costs. Mr. Joyner indicated there is a separate study designed to review costs associated with municipal districts. Mr. Wall indicated the County is trying to recover the associated legacy pension costs due to exiting municipal districts from the County.

Mr. Joyner stated the county added 100 active participants, but the average age and service both declined, indicating the county is replacing experienced workers with those who are younger. He also noted that assets have increased from approximately \$800M to \$1.4B over the last ten years, a big boost to funding increased benefit payments. The projected funded percent is expected to improve to 63.3% in 2028 assuming payment of the required minimum contribution each year.

Mr. Joyner recommends another experience study to verify the plan assumptions, since the last experience study was conducted in 2013. The study includes a review of terminations, deaths, disabilities, retirements, salary increases, etc. in order to validate the consistency of the plan assumptions. Any significant differences will be recommended to the Board for adoption of revised plan assumptions. Eric Hendrix motioned, David Littlefield seconded, and the Board approved the \$40,000 funding to Segal for completing the experience study. The target date is the November 2018 meeting in order to apply changes for the 2019 valuation.

Mr. Joyner expressed that the County is moving in the right direction by closing the amortization period and lowering the discount rate. Additional changes may be directed by the forthcoming experience study. Commissioner Rader inquired about the prospect of using the experience study to assist with plan design proposals. Mr. Joyner indicated that it may not directly help those decisions, but it would establish a better baseline for projecting any proposed plan changes. Benita Ransom asked if the experience study would help the decision-making process of potentially changing the retirement plan for public safety employees. Mr. Joyner responded that it would help. Commissioner Rader agreed to be an advocate for requiring payment of unfunded liabilities for any new municipality electing to incorporate from the county.

Mr. Wall attended a recent Employee Relations Public Safety (ERPS) Committee meeting which approved a 3% COLA for retirees to be included in the mid-year budget. However, the final budget did not include the COLA. The Board of Commissioners (BOC) discussed the increase and decided to review it again in 2019. Commissioner Rader stated that the discussion centered around the County being responsible for the full cost of the increase and that it would most likely not be able to provide an across the board increase to every retiree. The BOC is open to reviewing benefits of long-standing retirees to determine the adequacy of their income and devise a framework to potentially increase their benefit.

Mr. Robertson expressed that many retirees are frustrated that there has been no COLA in 13 years. He also stated that medical costs continue to rise far ahead of inflation.

Mr. McMullan indicated that an automatic COLA is compounded each succeeding year. Mr. Robertson replied that county can budget for the increase when it is a known amount. Ms. McNabb stated that the base for the retiree increases will also grow each year while there are declining contributions from incorporating municipalities. Commissioner Rader commented that the BOC will continue to review the COLA, but that the discussion will be focused primarily on those retirees receiving the least.

Eric Hendrix motioned, John McMullan seconded, and the Board approved the buyback applications from Clyburn Halley, a Sheriff's Office employee; Antoine Jefferson, a Watershed employee; and Kristopher Kinnemore, a Watershed employee.

Cornelius Yarbro motioned, Eric Hendrix seconded, and the Board approved the payment of contributions due to military leave from Joshua Crawford, a Fire Rescue employee.

Eric Hendrix motioned, Cornelius Yarbro seconded, and the Board approved a 12-month disability for Mr. Larradus Burnett.

Cornelius Yarbro motioned, David Littlefield seconded, and the Board approved a 12-month disability for Mr. Anderson Hood.

Cornelius Yarbro motioned, Eric Hendrix seconded, and the Board approved a 12-month disability for Ms. Brenda Raspberry.

Eric Hendrix motioned, Cornelius Yarbro seconded, and the Board approved a 12-month disability for Mr. Paul Staton.

Eric Hendrix motioned, Cornelius Yarbro seconded, and the Board approved permanent disability for Ms. Belinda D. Williams.

Cornelius Yarbro motioned, John McMullan seconded, and the Board approved entering Executive Session to discuss litigation matters.

Upon returning from Executive Session, no action was taken.

Mr. Wall requested a year-to-date asset summary of contributions, benefit payments, etc. Kenny Pinkerton will research to provide this information.

With no further business the Board adjourned the meeting.



Kenny Pinkerton
Clerk, The DeKalb County Pension Board