

Minutes

DeKalb County Pension Board

September 20, 2018

The DeKalb County Pension Board held a meeting on September 20, 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), and Edmund Wall. Others present: Rocky Joyner of Segal Consulting; Patricia Keesler of Benefits Law Group; Tammy Galvis of Nichols, Cauley, and Associates, LLC; 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. Several clarifications in the July 12 minutes were addressed regarding the investment policy allocation percent, the date for attending the Callan College seminar, the status of the audit report, and the valuation funding percent. These clarifications were accepted and John McMullan motioned, David Littlefield seconded, and the Board approved the July 12, 2018 minutes.

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

Vendor	Service	Period	Amount
Advent Capital Management	Investment Management	2Q 2018	\$76,670.26
Earnest Partners	Investment Management	2Q 2018	130,760.82
Edgar Lomax Company	Investment Management	2Q 2018	42,286.72
Frontier Capital Management	Investment Management	2Q 2018	152,580.11
Gabelli Asset Management	Investment Management	2Q 2018	224,409.00
Income Research + Mgt.	Investment Management	2Q 2018	39,824.11
Ivy Asset Management	Investment Management	2Q 2018	57,954.76
Jennison Associates	Investment Management	2Q 2018	172,564.50
Loomis Sayles	Investment Management	2Q 2018	136,411.17
Segall Bryant & Hamill	Investment Management	2Q 2018	75,700.42
Southeastern Asset Mgt.	Investment Management	2Q 2018	192,239.00
		Subtotal	\$1,301,400.87
ASM Consulting	Website Maintenance	Aug-Sept	\$450.00
Benefits Law Group	Legal Consulting	June-Aug	4,887.50
Lawrence Bircoll, MD	Disability Evaluation	August 2018	2,000.00
DeKalb County Finance Dept.	Pension Administration	2Q 2018	121,233.00
Dominion Orthopaedic Clinic	Disability Evaluation	August 2018	2,529.00
Elarbee, Thompson, et al.	Legal Consulting – C	June 2018	273.00
Elarbee, Thompson, et al.	Legal Consulting – T	June 2018	243.00
Nichols, Cauley & Associates	Plan Audit	2Q 2018	13,000.00
Sheila Robinson, MD	Disability Evaluation	August 2018	1,354.00
Segal Consulting	Actuarial Consulting	April-Aug	19,435.00
State Street	Custodial Supervision	2Q 2018	41,523.70
		Subtotal	\$206,928.20
Total			\$1,508,329.07

Eric Hendrix motioned, John McMullan seconded, and Board approved the buyback applications from Reginald Anderson, a Roads and Drainage employee; Steve Harris, a Fleet Maintenance employee; Terrence Ramsey, a Parks and Recreation employee; and Thurman Swift, a Sanitation employee.

Eric Hendrix motioned, John McMullan seconded, and the Board approved permanent disability for Mr. Brett King.

Eric Hendrix motioned, John McMullan seconded, and the Board approved permanent disability for Ms. Tracy Pitts.

Ms. Shannon McNeal addressed the Board regarding her request to repurchase service from two prior periods of employment. The Board reviewed her request under executive session and will research further to provide an update for the November 8 meeting.

Ms. Tammy Galvis of Nichols, Cauley, and Associates LLC provided a summary of the 2017 pension audit. The audit primarily consisted of the plan's financial status and a review of various compliance testing measures. Mr. McMullan inquired about the liability of benefits and Ms. Galvis indicated that the benefit liability is a liability of the county not the pension plan. Mr. Wall noted that the \$160M increase in the net financial position was very good and attributed primarily to the strong investment gains. He also mentioned that this increase in financial position is not expected to occur every year. The report also recognizes the additional payment of \$1,115,818 by the county for the early retirement incentive loan. For the year, the county made payments totaling \$10,660,203 toward the loan with \$1,693,593 still outstanding as of December 31, 2017 (see attachment below). Rocky Joyner indicated the difference in the funding level of 62.10% in the plan audit report vs. the 52.80% in the actuarial report is due to the audit report utilizing market value of assets and that the GASB methodology of determining benefit liability is slightly different from that used for the funding valuation. Ms. Galvis noted that there were no material weakness findings in the audit. She indicated that there is a recommendation to update the investment policy. The audit review also included testing of census data to the actuary, participant contributions, payroll records, retiree benefit payments, and pension refunds. All records are in order. Ms. Galvis explained the 2010 early retirement incentive loan amount does not have to be recognized as an asset under the GASB rules. Mr. Wall thanked Ms. Galvis for the accurate interpretation of the loan and recommended a resolution request to the county for payment of the remaining amount of the loan. Mr. Wall concluded the audit discussion by stating that the audit did not identify any deficiencies in internal control that are considered material weaknesses.

Mr. Wall introduced a resolution for the Board of Commissioners to repay the entire remaining the amount of the Early Retirement Incentive Program (ERIP). David Littlefield motioned, John McMullan seconded, and the Board approved the ERIP resolution.

Todd Carabasi summarized the action of the Investment Committee meeting held on September 18, 2018. The committee decided to terminate Ivy Investments, update the Investment Policy, and begin the process to replace Ivy Investments, which has approximately \$56M on June 30, 2018. Recent staff departures, the instability of the staff resources, and asset underperformance all contributed to the underlying reasons for Callan to recommend the termination of Ivy Investments. David Littlefield motioned, Eric Hendrix seconded, and the Board approved the termination of Ivy Investments. Kenny Pinkerton will notify Ivy Investments of the board's decision.

Eric Hendrix motioned, John McMullan seconded, and the Board approved the draw down amount of \$19.5M, entirely from Ivy Investments, to pay benefit payments through December 1, 2018.

Mr. Carabasi led a discussion of potential avenues to transition the remaining \$35.5M at Ivy Investments to a new money manager. The Board previously approved an International allocation of 15% in December 2014, but the pension code allows international securities only up to 10%. Weston Lewis pointed out that the T. Rowe Price International Core Fund is a Maryland group trust that can be considered a U.S. based entity. The Board has ownership rights only to the trust, not the underlying securities. Mr. Wall indicated that as fiduciaries, the Board is not acting as prudently as possible by excluding international exposure. Patti Keesler commented that the Board has no fiduciary responsibility to predict future returns, and the Board should follow the current law limiting international securities to 10%. She recommends having the participants vote to change the law to 15% at the earliest possible election. Mr. Lewis noted that the auditor considers the T. Rowe Price International Fund a domestic entity and therefore determines the portfolio as having only a 7.71% allocation of international securities. Mr. Wall stated that as fiduciaries, the most prudent place to allocate the remaining Ivy assets is in an international investment. Due to the audit statement, the portfolio is still within the 10% allocation threshold by moving the remaining Ivy assets to Marathon. He also recommends a vote by the participants to change the pension code international allocation to 15% at the next election. Rocky Joyner recommends carving out the T. Rowe Price International Fund from the international group for reporting purposes. Moving the remaining Ivy assets to Marathon would bring the international allocation to approximately 10.2%.

Mr. Lewis recommends starting the process to secure a transition manager to facilitate moving the remaining Ivy assets to a new money manager. He also noted that the transition manager can provide market exposure for the assets during the transition period to a new money manager, thereby being fully invested at all times. David Littlefield motioned, Eric Hendrix seconded, and the Board approved Callan to consider bids from transition managers and to move the remaining Ivy assets, after the \$19.5M drawdown, to Marathon.

Mr. Wall led a discussion pertaining to the allocation percent limitations in the Investment Policy statement. Although the Board previously approved an

International allocation of 15%, the pension code limit was never changed because it requires a vote of participant approval. As a result, the Investment Policy should still reflect the current 10% International allocation until a vote of participant approval changes it to 15%. Mr. Lewis mentioned the possibility of reclassifying the T. Rowe Price International Fund as a domestic equity asset since it is a U.S. based entity. This reclassification would then reduce the international exposure to approximately 10%. Additional research on the Investment Policy allocation limits will be conducted prior to the November 8 meeting.

Mr. Lewis noted that for the 12-month period ending on June 30, 2018, the portfolio returned 10.98%, ranking in the fifth percentile against other public funds. The heavily weighted allocation toward domestic equity provided a boost to the return. However, the manager effect was down .10% for the period but significantly improved from the three-year and five-year results. Brad Penter shared that the U.S. dollar appreciated 5% during the quarter against foreign currencies, and this does have an effect on the performance of the international equities. Mr. Lewis commented that the overweight of domestic equity has been a tailwind to the portfolio the past few years, while the active management of fund by the money managers continues to improve. Mr. Penter stated the economic indicators are very strong, with 2nd quarter GDP growth of 4.2%. All sectors are positive with growth outperforming value, small cap outperforming large cap, and international equities being affected by currency exchanges and political instabilities in the eurozone. The Federal Reserve is expected to raise interest rates again next week, which flattens the yield curve. This has caused concern in the marketplace as a flattened yield curve has preceded the last five recessions. August 21 signified the longest bull market on record and two companies, Apple and Amazon, reached one trillion in market capitalization. Dianne McNabb inquired about the average duration of our fixed income investments. Mr. Penter responded that it is 5.7 to 6.0 years.

Mr. Lewis reported that the large cap funds performed well while the small cap sector continues to underperform. Frontier Capital is more risk aware in their strategy, which tends toward safer investments and results in lower performance against the benchmark. Callan recommends a close watch of Frontier going forward.

The Board moved to Executive Session to discuss personnel items.

Upon returning from Executive Session, Eric Hendrix motioned, John McMullan seconded, and the Board approved deferring the service purchase request by Shannon McNeal to the November 8 meeting.

The Board reviewed a request by the Board of Commissioners on behalf of former CEO Vernon Jones to amend the Pension Code to provide early retirement eligibility with less than ten years for term-limited elected officials. The plan's legal counsel advised that this request has the potential to violate the prohibited gratuity provisions under Georgia law for receiving a benefit for which no services are rendered. Eric

Hendrix motioned, John McMullan seconded, and the Board recommended not granting Mr. Jones' request to change the pension code.

Rocky Joyner indicated that there has been no further movement on potential plan design changes. He recommended Segal complete the experience study before revisiting the plan design proposals. The valuation report is in draft mode and pending a final summary of the amortization schedule for the early retirement window. Mr. Joyner responded to an earlier question from Dianne McNabb regarding the impact of county contributions at various interest rates. The changes would be as follows: at 6.5% the county contribution rate is 21.99M, using 7.0% the contribution rate would be 19.80%, using 7.25% contribution rate would go to 18.74M, and using 7.5% the contribution decreases to 17.71M.

Mr. Joyner also reported that no further activity has been on public safety plan design options. The Board of Commissioners is weighing the decision between one of salary and recruitment versus one of retainment. Mr. Joyner stated the experience study currently underway will provide some insight and guidance on how to best proceed. A two-step strategy may work best to implement salary adjustments first so they are competitive in the marketplace and then revisit the pension plan options for retainment. Robert Robertson inquired about using a DROP feature for public safety employees. Mr. Joyner responded that it has been considered already and can help in retention. The DROP provision is on hold until the experience study is completed. No further progress has been made on the possibility of a retiree COLA.

Kenny Pinkerton provided a summary income statement of the plan expenses versus the budgeted values. The Board will review further if other items should be added.

Mr. Hendrix inquired about any outstanding legal items. The county Law Department did respond to a request regarding eligibility of a service buy back. There was no further correspondence.

Mr. Robertson inquired about the research pertaining to changes in the municipal code being filed with the Secretary of State. The code provisions were passed by the Board of Commissioners and filed with the Secretary of State. The county Law Department is reviewing updates to the municipal code.



Kenny Pinkerton
Clerk, The DeKalb County Pension Board

**DeKalb County Early Retirement Window Payment Schedule
 Reflects Reamortization for Changes in Actuarial Discount Rate Assumption**

Fiscal Year	Annual Leave Balance Beginning of Year	Level Dollar Payment	Annual Leave Balance End of Year
2011	\$12,549,128	\$780,561	\$12,741,124.71
2012	\$12,741,125	\$1,115,482	\$12,613,080.07
2013	\$12,613,080	\$1,115,482	\$12,451,456
2014	\$12,451,456	\$1,115,482	\$12,269,833
2015	\$12,269,833	\$1,115,482	\$12,074,589
2016	\$12,074,589	\$1,115,482	\$11,864,701
Jan-2017	\$11,864,701	\$732,761	\$11,167,746
Feb-2017	\$11,167,746	\$728,606	\$10,506,649
Mar-2017	\$10,506,649	\$1,091,006	\$9,479,154
Apr-2017	\$9,479,154	\$735,956	\$8,796,786
May-2017	\$8,796,786	\$738,230	\$8,104,842
Jun-2017	\$8,104,842	\$746,694	\$7,400,793
Jul-2017	\$7,400,793	\$740,227	\$6,699,507
Aug-2017	\$6,699,507	\$772,293	\$5,962,465
Sep-2017	\$5,962,465	\$1,121,986	\$4,871,852
Oct-2017	\$4,871,852	\$615,326	\$4,282,160
Nov-2017	\$4,282,160	\$758,837	\$3,545,854
Dec-2017	\$3,545,854	\$762,463	\$2,802,048
Full 2017 Payment	\$2,802,048	\$1,115,818	\$1,693,593
2018	\$1,693,593		