

## Minutes

### DeKalb County Pension Board

November 8, 2018

The DeKalb County Pension Board held a meeting on November 8, 2018 in the Board of Commissioners Conference Room. The following members were present: James Hendrix, David Littlefield, John McMullan, Dianne McNabb, Benita Ransom, Robert Robertson (via telephone), and Edmund Wall. Others present: Deborah Brigham and Rocky Joyner of Segal Consulting; Patricia Keesler of Benefits Law Group; Todd Carabasi, Weston Lewis, and Brad Penter of Callan LLC; Larry Jacobs, Kenny Pinkerton, and Paul Wright.

Ed Wall called the meeting to order. He addressed clarifications to the September 20 minutes regarding the plan audit and the T. Rowe Price International Fund. The clarifications were accepted and James Hendrix motioned, David Littlefield seconded, and the Board approved the September 20, 2018 minutes.

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

Vendor	Service	Period	Amount
Advent Capital Management	Investment Management	3Q 2018	\$78,205.13
Earnest Partners	Investment Management	3Q 2018	133,609.33
Edgar Lomax Company	Investment Management	3Q 2018	46,053.94
Frontier Capital Management	Investment Management	3Q 2018	161,888.83
Gabelli Asset Management	Investment Management	3Q 2018	234,193.00
Income Research + Mgt.	Investment Management	3Q 2018	40,120.43
Ivy Asset Management	Investment Management	3Q 2018	59,696.12
Jennison Associates	Investment Management	3Q 2018	176,089.13
Loomis Sayles	Investment Management	3Q 2018	144,457.83
Segall Bryant & Hamill	Investment Management	3Q 2018	75,758.31
Southeastern Asset Mgt.	Investment Management	3Q 2018	197,974.00
		<b>Subtotal</b>	<b>\$1,348,046.05</b>
ASM Consulting	Website Maintenance	October 2018	\$150.00
Benefits Law Group	Legal Consulting	September	5,112.50
Callan LLC	Investment Consulting	3Q 2018	20,500.00
DeKalb County Finance Dept.	Pension Administration	3Q 2018	135,885.77
		<b>Subtotal</b>	<b>\$161,648.27</b>
<b>Total</b>			<b>\$1,509,694.32</b>

Weston Lewis summarized a change to the Investment Policy Statement to clarify the allocation percent of international equities. A footnote is added to the international allocation stating, "For the purposes of compliance with the DeKalb Code, the Board does not consider an investment in a U.S. based mutual fund or commingled trust to be the security of a foreign person or entity." Mr. Wall stated that Patti Keesler concurs that the footnote complies with the Code. As a fiduciary the Board should include international assets in the fund but also must comply with the Code. The footnote is also consistent with the auditor's interpretation of the Code. Mr. Wall explained that the original intent of the Code pertained to the purchase of a foreign security, which is not the case in a commingled trust investment that is based in the U.S. He summarized the allocation threshold percentages as domestic Large Cap of 50%, domestic Small Cap of 10%, International Equities of 15% (with the new footnote), and Fixed Income of 25%. Mr. Lewis also noted in the statement that a new benchmark of Merrill Lynch Investment Grade Convertibles 5% Cap will now be utilized for consistency with the marketplace. He indicated that through October the portfolio is approaching the upper limits of the domestic large cap and small cap allocation thresholds, and rebalancing should be considered. Mr. Hendrix inquired if the Board has authority to independently change the Investment Policy, as needed, and Mr. Wall responded that it can. John McMullen motioned, David Littlefield seconded, and the Board approved the revised Investment Policy Statement.

Brad Penter provided a summary of 3<sup>rd</sup> Quarter investment results. Returns were strong among domestic markets. Quarterly GDP growth was 3.6%, unemployment remains low, inflation is 2.5%, and wages are increasing. International returns were affected by trade talks, especially with China. European markets remain uncertain amid Brexit concerns in the U.K. Large cap domestic returns outperformed small cap, and growth continues to outperform value. A new sector has been created called Communication Services that will encompass giant tech companies such as Alphabet and Facebook. International developed markets were up 1.35% while emerging markets were down 1.09%. The Federal Reserve raised interest rates to a range of 2.0% to 2.25%. All markets were down in October, primarily due to concerns over the elections, international trade talks, and risk sell-offs after the prolonged bull market. The yield curve steepened and interest rates will be closely watched as the Fed meets again in December.

Todd Carabasi provided a review of the portfolio investment status for the period ending September 30, 2018. The fund is almost 6% above the target allocation for domestic equity and below the target allocation for fixed income and international equity. Actual return for the third quarter was 4.09%, which was boosted by an overweight in domestic equity, while the manager effect reduced the portfolio by 74 basis points. Mr. Wall pointed out the manager effect over the one-year, three-year, and five-year returns are all negative. Mr. Carabasi noted that much of the cause for the five-year return is due to the performance of Southeastern. The fund ranking chart indicated that the portfolio did well on overall performance returns for five years against other public fund peers but ranked in the 82<sup>nd</sup> percentile when adjusted for the manager effect. Mr. Wall asked what the Board can do to

improve this ranking. Mr. Lewis responded that part of Callan's belief is to develop a strategy and stick with it. Callan encourages continued patience and believes that the current make-up of the portfolio is consistent with their recommendations. Mr. Hendrix asked how long a window should be provided to evaluate manager results. Mr. Carabasi indicated a general rule is three to five years. He further noted that the balance of the Ivy fund does not reflect benefit payments in October and November and recommends continuing to pay benefits from the Ivy fund over the next few months to liquidate it versus engaging a transition manager to move the remaining assets.

Mr. Carabasi summarized the returns for individual funds. Jennison had another strong quarter, returning 7.98%. Loomis struggled, returning 7.06% which is almost 2.0% below the benchmark. Edgar Lomax had strong returns and continues to beat the benchmark for all lookback periods. Gabelli returns remain very good and consistent with the benchmark. Southeastern continues to underperform. Mr. Lewis disclosed that Southeastern is being removed as a fund option from Callan's 401(k) investment offerings, primarily due to underperformance relative to the other value funds. He mentioned that Callan's decision did not involve Southeastern personnel and does not mean that DeKalb County should make changes. Mr. Wall recommends that the Investment Committee meet with Southeastern to discuss their performance. Mr. Carabasi mentioned that Southeastern has had difficulty finding deeply discounted companies and, until recently, has held a large amount of cash. Frontier underperformed for the quarter and over the past year and remains on watch. Earnest Partners had strong results and continues to outperform the benchmark. In fixed income, Denver Investments, Income Research & Management, and Advent Capital all performed close to their benchmarks. International funds T. Rowe Price and Marathon both underperformed for the quarter. T. Rowe Price was primarily affected by poor stock selection.

John McMullen motioned, David Littlefield seconded, and the Board approved the following changes to rebalance the portfolio and move it toward the target balance thresholds: \$20M from Jennison, \$7M from Frontier, and \$7M from Earnest Partners (total \$34M) to Income Research & Management.

Ivy has about \$35M remaining and will be used exclusively for future monthly benefit payments. Mr. Wall indicated that Ivy was being terminated due to staff concerns and the update report provided at the July retreat. David Littlefield motioned, John McMullen seconded, and the Board approved depleting the Ivy Fund, on a monthly basis, for benefit payments until it is exhausted.

Larry Jacobs and Kenny Pinkerton expressed thanks to the Board for attending the recent Callan College seminar.

Mr. Wall reviewed the pension budget summary as of September 30. He requested a balancing item between income and expenses, i.e. the additional amount the plan is paying to cover the plan's costs, on each quarterly budget update.

Deborah Brigham and Rocky Joyner provided an update on the preliminary experience study. Mr. Joyner stated that the recommended assumptions were not too different from the current assumptions, primarily because the plan has not experienced huge year-to-year gains and losses. Applying the recommended assumptions to the January 1, 2018 valuation indicated a small decrease in the county contribution rate of 1.55%. The recommended change for the actuarial asset method is to adopt a five-year smoothing period for assets, providing a 1.78% decrease in the county contribution rate. The five-year asset smoothing method reflects approximately 95% of the market value of assets and provides a buffer should there be another drop in the market. Mr. Wall recommends keeping the ten-year asset smoothing. The pop-up assumption is slightly better than anticipated and results in a .15% decrease in the contribution rate. Salaries increased more than anticipated, resulting in a .58% contribution increase. The recent 4% increase provided to public safety employees is consistent with the recommended salary assumption. The disability experience was very close to the recommended assumption, decreasing the contribution rate by .02%. Withdrawal rates for police were almost three times higher than expected, 25% higher than expected for fire employees, and 50% greater than expected for general employees. A higher withdrawal rate creates a gain for the plan because the liability is removed for non-vested employees who leave the county. The recommended withdrawal assumption for police was increased to about twice the current rate. Mortality improvements were reflected in updated mortality tables and increased the contribution rate by 1.39%. The study found that the post-retirement deaths were about 84% of expectation. For retirements, the study showed that police employees are retiring earlier when reaching retirement age while fire and general employees are delaying retirement after reaching retirement age, resulting in a contribution rate decrease of .19%. The preliminary study does not include Callan's capital market assumption which compares it to the 6.5% funding assumption. Segal is targeting delivery of a final experience study for the January 2019 meeting and potentially adopting the recommended changes. Mr. Joyner also noted that a proposed ASOP (Actuarial Standards of Practice) ruling in the next couple of years would increase the contribution rate by more than 4% if adopted.

James Hendrix motioned, John McMullen seconded, and the Board approved the military service purchase for David Hall, a Watershed employee.

James Hendrix motioned, David Littlefield seconded, and the Board approved the 2019 Pension Board meeting schedule.

James Hendrix motioned, David Littlefield seconded, and the Board approved a 12-month disability benefit for Antwan Jackson.

The Board moved to Executive Session to discuss personnel items.

Upon returning from Executive Session, James Hendricks motioned, John McMullan seconded, and the Board approved Shannon McNeal's request to purchase two years of prior State Court service. The Board denied her request to purchase one year of prior

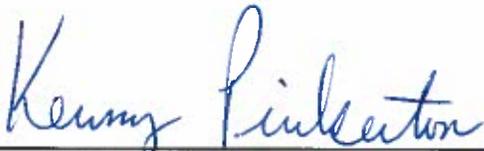
county service for which she was refunded her contributions. The Board approved that all service is accrued under the Group 2 plan provisions under which she is currently covered.

Robbie Robertson requested a letter to the Board of Commissioners asking them to consider applying any COLA increase to include all retirees. Mr. Pinkerton will draft a letter for delivery in December.

Mr. Pinkerton reported that work is underway with the county Voters Registration Department staff to hold a special election for the vacant employee representative seat. A March 2019 election date is targeted. Mr. Pinkerton will provide a list of the Board members' service status to review for upcoming elections.

A retired participant in the audience asked if a record of the Board members' votes is recorded. Mr. Pinkerton replied only if the vote is not unanimous will the minutes reflect how each Board member voted on a measure.

With no further business the Board adjourned the meeting.

A handwritten signature in blue ink that reads "Kenny Pinkerton". The signature is written in a cursive style and is positioned above a horizontal line.

Kenny Pinkerton  
Clerk, The DeKalb County Pension Board