

## Minutes

### DeKalb County Pension Board

January 23, 2019

The DeKalb County Pension Board held a meeting on January 23, 2019 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; Todd Carabasi, Weston Lewis, and Brad Penter of Callan LLC; Bob Killorin and James Wilson of Faruqi and Faruqi; Larry Jacobs; Kenny Pinkerton; Commissioner Jeff Rader; and Paul Wright.

Ed Wall called the meeting to order. He welcomed Ms. Yamil Berard from the *Atlanta Journal Constitution*.

Mr. Wall clarified several minor items in the November 8, 2018 minutes. All clarifications were accepted and James Hendrix motioned, John McMullan seconded, and the Board approved the November 8, 2018 minutes.

Com. Rader confirmed receipt of a letter via certified mail from Mr. Wall requesting the Board of Commissioners to approve a COLA increase for all retirees.

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

Vendor	Service	Period	Amount
ASM Consulting	Website Maintenance	November 2018	\$ 375.00
Benefits Law Group	Legal Consulting	October 2018	1,147.50
Benefits Law Group	Legal Consulting	November 2018	1,190.00
Callan LLC	Investment Consulting	4Q 2018	20,500.00
Elarbee, Thompson, et al.	Legal Consulting – C	4Q 2018	1,312.00
Nichols, Cauley & Associates	Plan Audit	3Q 2018	4,500.00
State Street	Custodial Supervision	3Q 2018	39,546.01
<b>Total</b>			<b>\$68,570.51</b>

Brad Penter provided a summary of the marketplace results for the 4<sup>th</sup> quarter and for the 2018 calendar year. Despite strong economic indicators in the GDP, strong earnings, low employment, high consumer confidence, etc., all markets were down in the 4<sup>th</sup> quarter, which greatly affected yearly returns. U.S. markets were down 9% in December, and foreign markets struggled with poor performance all year. Bonds were up in the quarter as investors moved to safety. Reasons for the performance included a tighter monetary policy from the Federal Reserve; concerns surrounding trade disputes, especially with China; falling oil prices; and the government

shutdown. Fourth quarter returns experienced the worst quarter for U.S. investments since 2011 while December returns had the worst December performance since 1931. All sectors were down. The S&P 500 Index was down 13% for the 4<sup>th</sup> quarter, including 9% in December. Energy stocks were down 26% during the quarter. Fixed income indices were up 1.6% for the quarter.

Weston Lewis reviewed the fund's performance, pointing out that over the last ten years, the fund has a 10.2% annual return rate (gross of fees), beating the benchmark of 9.8%. Mr. Wall commented that the five-year return is only 4.71% and emphasized the use of the ten-year averaging of assets for the valuation versus a five-year average. Mr. Robertson indicated that the decision to lower the discount rate to 6.5% proved to be a more realistic rate. Mr. Wall noted that the fund had approximately \$1.4 billion at the beginning of the quarter and now has dropped to \$1.26 billion. In 2007, the fund also had approximately \$1.4 billion, so it is currently less than it was in 2007. Mr. Lewis noted that the returns of most of the investment sectors over ten years exceeded the benchmarks, except for the large cap value and international sectors.

Mr. Lewis reviewed the fund's performance for the year and noted that the large cap growth sector outperformed the benchmark by 1.5%, primarily due to the strong returns from Jennison. Loomis performed well by utilizing their downside protection strategy and beating the benchmark by 3.5% for the quarter. The fixed income sector provided protection in the down market, with Segall Bryant and Hamill (formerly Denver) beating the benchmark by almost 1% for the quarter, while Advent Capital lagged behind its benchmark. Mr. Lewis reported that the Investment Committee met with Southeastern in December 2018 to review their performance. Southeastern continues to follow a consistent and disciplined process and described their underperformance in a supportive way. Their cash position recently dropped from 25% of assets to 4%, so they appear to be taking advantage of discounted pricing in the current environment and is up sharply since January 1. The consensus of the Investment Committee is to stay with Southeastern in the short term and continue to watch them closely, as Callan believes patience will be rewarded. T. Rowe Price returns have been hurt by poor stock selection. Mr. Wall noted that the total plan portfolio lost 6.68% for the year using active management vs. a loss of 5.04% had the fund utilized index management. Mr. Lewis indicated the indexed return does not include rebalancing costs or trading costs, thus making the actual return less. Mr. Robertson asked if the quarterly drawdown accomplishes rebalancing in the portfolio. Mr. Carabasi replied that Callan does look at all funds and cash positions to achieve some rebalancing when recommending a drawdown strategy. He also reported one departure from Jennison that does not affect DeKalb's portfolio. Also, Loomis purchased McDonnell Investment, a fixed income manager, so the transaction is not expected to affect DeKalb portfolio.

Mr. Carabasi reviewed the 2019 Work Plan summary, outlining the services that Callan is expected to provide during the year. The Asset Allocation and Liability Study is performed periodically, typically every five years. The study examines the current asset allocation along with various asset mixes with varying risk and return expectations. This study also reviews the liability and will reflect changes from the last study, such as the lowering of the discount rate to 6.5% and the effects of more recent capital market expectations. The study will provide a report of how asset allocation can affect future liabilities looking at various metrics so the Board can better determine how much risk to assign to the portfolio. Mr. Carabasi also recommended, following the asset allocation and liability study, a Manager Structure Evaluation, focusing on domestic equity, to ensure that the fund's managers are best aligned to meet the plan's goals and objectives. James Hendrix motioned, John McMullan seconded, and the Board approved \$55,000 for the Asset Allocation and Liability Study and \$25,000 for the Manager Structure Evaluation.

Mr. Wall reported that \$16.7 million will be drawn from Ivy to fund February and March 2019 benefit payments. No Board action is necessary as these drawdown amounts were previously approved. There was approximately \$32 million in the Ivy fund at the end of 2018.

Mr. Joyner provided an update on the experience study, performed every five years to assess the reasonableness of the assumptions used in the plan's funding valuation. Mortality improvements and larger than expected salary increases will increase plan contributions. Significantly higher withdrawal rates and lower than expected retirement rates will decrease plan contributions. Together, the recommended assumptions would increase the County's contribution rate as of January 1, 2018 by 0.23% and applied to the 2019 plan year.

Mr. Wall reminded the Board that the current funding percent of 52.8% uses a 6.5% discount rate, a very conservative rate which raises the County's contribution level. Thus, it is difficult to compare funding percentages among local municipal plans without a common discount rate. Mr. Joyner indicated that a positive aspect to future funding is the closed amortization period, currently down to 25 years, that will have a great impact on improving the future funding level. Mr. Rader encouraged the Board to summarize the rationale around the change to the 6.5% discount rate to provide a funding plan going forward so the Commissioners have an understanding of the strategy in place. He also suggested an annual report to the BOC to improve communication of the plan's funded status, contribution level, proposed changes, etc. Mr. Jacobs announced a Committee of the Whole meeting on February 5 to present these findings to the BOC. Mr. Rader further pointed out that there is no line item for pension contributions in the budget. They are shared among all County departments.

Mr. Joyner reported that the turnover rates for fire and police are greater than what they have seen at other localities. General employee turnover was higher than expected. Ms. McNabb noticed that a large number of employees terminate with less than two years of service. Mr. Joyner concluded by stating that a discount rate between 6.5% and 7.25% is a reasonable assumption. He stated that the closed amortization period of the unfunded liability was a positive step toward improving the plan's funding percent in the years ahead. There are 25 years remaining in the amortization period as of January 1, 2018. Mr. Joyner recommends continuing the use of the 10-year asset smoothing method, which has deferred gains of approximately \$144 million on January 1, 2018. James Hendrix motioned, John McMullan seconded, and the Board approved adopting the recommended assumptions provided in the 2018 experience study.

James Hendrix motioned, David Littlefield seconded, and the Board approved retaining Nichols, Cauley and Associates, LLC as the 2018 pension auditor. Mr. Robertson reminded the members that the Board's pension plan audit is in addition to the normal county audit, so it further increases transparency of the plan. Mr. Wall stated that many retirees have asked for the plan audit, and it has been a positive step toward ensuring compliance and funding of the plan.

Mr. Wall announced that an election for the open employee representative Board member is scheduled for March 5, 2019.

Eric Hendrix motioned, John McMullen seconded, and the Board approved the service buyback applications for Ronnie Crenshaw, a Police employee; Timmy Freeman, a Beautification Department employee; and Vathia Shears, a Sheriff's Office employee.

John McMullen motioned, Eric Hendrix seconded, and the Board approved the 12-month disability application for Edgar Zavala.

Eric Hendrix motioned, David Littlefield seconded, and the Board denied the disability re-evaluation application for Janaya Davis.

Eric Hendrix motioned, David Littlefield seconded, and the Board approved permanent disability for Thomas Simmons, Jr.

Mr. Robertson recommended improvements to the website to direct persons to the proper contact. Kenny Pinkerton will review the current contacts and make needed adjustments.

Mr. Wall reviewed his responses to concerns and questions raised in the December 13, 2018 meeting of the DeKalb County Retired Employees Association. He corrected their minutes as such: the county contribution amount is 21.99% of payroll, not \$21.99 million. When former CEO Liane Levetan left office in 2000 the plan was 125% funded, not 100% funded. The plan experienced two major once-in-a-lifetime

events within a decade and had a very low (0.5%) contribution level from employees and the County from 1998 through 2004, all of which contributed to the reduction in funding status. The plan previously used an 8.0% discount rate and would be 75% funded today using an 8.0% discount rate. Various COLAs have been provided through the years, including a 3% COLA to all retirees in 2005 and a 2% COLA to approximately 60% of retirees in 2007. Former Sheriff Thomas Brown stated that Robbie Robertson is an effective member of the Pension Board. Approximately 850 employees accepted the 2010 early retirement window, but only 400 were expected, thus adding liability of \$46 million. The Pension Code of 1945 established a Board of Directors consisting of seven members and in the late 1990s added a retiree member and a second employee member to serve.

The Board moved to Executive Session to discuss legal items.

Upon returning from Executive Session, John McMullan motioned, Eric Hendrix seconded, and the Board approved acting as lead plaintiff against Allergan plc. The plan is represented by Faruqi & Faruqi, LLP.

With no further business the Board adjourned the meeting.



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Kenny Pinkerton

Clerk, The DeKalb County Pension Board