

Minutes

DeKalb County Pension Board

May 16, 2019

The DeKalb County Pension Board met on May 16, 2019 in the Legislative Conference Room. The following members were present: James Hendrix, David Littlefield, John McMullan, Dianne McNabb, Robert Robertson (via telephone), and Edmund Wall. Others present: Deborah Brigham of Segal Consulting; Weston Lewis, Todd Carabisi, and Brad Penter of Callan LLC; Terri Taylor of Benefits Law Group; Bob Killorin of Faruqi and Faruqi; Larry Jacobs; Kenny Pinkerton; and Paul Wright.

Ed Wall called the meeting to order. Mr. Wall clarified several items from the March 21, 2019 minutes, including the performance probability forecast, payment of legal fees from participants, and automatic COLAs. All clarifications were accepted and John McMullan motioned, James Hendrix seconded, and the Board approved the March 21, 2019 minutes.

James Hendrix motioned, John McMullan seconded, and the Board approved payment of the following invoices.

Vendor	Service	Period	Amount
Advent Capital Management	Investment Management	1Q 2019	\$80,063.27
Earnest Partners	Investment Management	1Q 2019	124,330.40
Edgar Lomax Company	Investment Management	1Q 2019	45,782.02
Frontier Capital Management	Investment Management	1Q 2019	151,667.83
Gabelli Asset Management	Investment Management	1Q 2019	223,723.00
Income Research + Mgt.	Investment Management	1Q 2019	41,759.39
Jennison Associates	Investment Management	1Q 2019	171,164.21
Loomis Sayles	Investment Management	1Q 2019	147,772.55
Segall Bryant & Hamill	Investment Management	1Q 2019	79,435.58
Southeastern Asset Mgt.	Investment Management	1Q 2019	174,147.00
Waddell & Reed (Ivy Asset)	Investment Management	1Q 2019	23,301.51
		Subtotal	\$1,263,146.76
ASM Consulting	Website Maintenance	March 2019	\$300.00
Benefits Law Group	Legal Consulting	February 2019	997.50
Benefits Law Group	Legal Consulting	March 2019	2,810.00
Benefits Law Group	Legal Consulting	April 2019	225.00
Callan LLC	Investment Consulting	March 2019	20,500.00
DeKalb County Finance Dept.	Pension Administration	1Q 2019	122,199.60
DeKalb County Voter Reg.	Election Services	1Q 2019	13,092.00
Frita Fisher, MD	Disability Examination	April 9, 2019	235.00
Elarbee, Thompson, et al.	Legal Consulting – C	February 2019	987.00
Segal Consulting	Actuarial Consulting	February 2019	8,375.00
		Subtotal	\$169,721.10
Total			\$1,432,867.86

Terri Taylor reported that there is nothing under Georgia Law preventing a court from ruling payment of legal fees by a retiree who lost a lawsuit against the pension plan, with payment made from the participant's retirement benefit. She has a concern that such a ruling could be a problem with the "definitely determinable" requirement under a pension plan. The pension benefit must be definitely determinable from the plan document and employment data. When benefit offsets are applied that are not determinable, then there could be compliance issues leading to disqualification. Georgia courts typically follow the American rule that litigation parties pay their own fees, unless a judge declares otherwise. A litigation contract could impose such a clause but it still does not address the definitely determinable benefit requirement. Ms. Taylor will take a further look at our specific cases to see if there is any prospect of introducing a measure for the losing plaintiff to pay legal fees in a litigation case against the pension plan or Pension Board.

Deborah Brigham provided a summary of the 1/1/2018 revised valuation report. The report was revised using a discount rate of 6.75% from the earlier version using a discount rate of 6.50%. The 2019 county contribution is \$61 million, or 20.91% of payroll, and meets the Georgia required minimum contribution amount. It includes a 25-year amortization of the unfunded liability. The other assumptions are the same as the previous year, as the new experience study assumptions will be initially reflected in the 1/1/2019 valuation. The funded status as of 1/1/2018 is 54.3% using the actuarial value of assets and 60.3% using market value of assets. Mr. Wall commented that the Board intentionally lowered the interest rate to 6.75% to increase the contribution level, to be conservative and consistent with recent returns, and is one of the lowest discount rates used by any public plan in the area.

Kenny Pinkerton reported that the 2% COLA is scheduled for payment on July 1, 2019, with a one-time retroactive amount to January 1, 2019. The system is being updated and a notice of the increase will be sent to all eligible retirees and beneficiaries. The COLA language has been approved for inclusion in *The Champion* publication, and the Home Rule ordinance is scheduled for presentation to the Board of Commissioners on June 11 and June 25. Mr. Wall asked if the extra \$2 million to fund the COLA is included in the 2019 county contribution of \$61 million. Ms. Brigham indicated that the 1/1/2019 valuation will reflect the COLA and cost increase starting in fiscal year 2020. The increase will be amortized over the remaining 24-year amortization period. Mr. Wall noted that the \$9 additional funding from the county in 2019 will reduce the effect to only \$7 million. Larry Jacobs will confirm the CEO's intent of the County's \$9 million additional contribution. The Home Rule ordinance also includes the voter approved change of the international allocation threshold to 15%.

Brad Penter provided a summary of the financial markets during the first quarter, indicating much of the current climate revolves around the Federal Reserve interest rates and China. Earlier optimism around a potential trade deal with China waned in recent days, as talks ended with no progress. Tariff measures begin June 1 with additional talks scheduled for late June. All sectors were up during the first quarter and gains continued into April. U.S. markets had strong gains across the board, causing the GDP

to rise 3.2%. Companies reported strong earnings with inflation being muted. Growth stocks outperformed value stocks and small-cap outperformed large-cap. The pension fund benefited from a bias toward growth stocks. The S&P Index was up 14% for the quarter, and interest rates have risen during the second quarter. European markets performed well, in spite of concerns around a recession in Italy and the failed Brexit negotiations. International stocks continue to be less expensive than U.S. stocks. Robbie Robertson noted that the manager effect on performance has not provided the value that was expected, with the effect of some managers being worse than the fees they are charging. He suggested a call to Southeastern and Gabelli to see if the Board can negotiate lower fees based on the poor performance. Callan will contact them and discuss options.

Todd Carabisi reported that Callan noticed a difference in the March 31 performance return for Advent Capital versus that reported by State Street. Callan provided an insert using their calculated return, which is consistent with Advent Capital's return and will resolve the issue separately with State Street.

Mr. Carabisi noted that the portfolio is within the recommended allocation thresholds, and no rebalancing is needed at this time. For the quarter ending March 31, 2019 the fund returned 11.06%, which included a .23% improvement due to the manager effect. Mr. Wall commented that annualizing the manager effect represents almost a 100-basis point impact on the fund for a full year, significantly better than the cost of the manager fees of 35 basis points. However, the one-year return of -1.92% included a -2.11% manager effect, confirming the concern of manager underperformance. Mr. Carabasi stated the fund increased to almost \$1.4 billion as of March 31, which included \$139 million in investment gains for the quarter. U.S. equities performed well for the quarter, which provided a tailwind for the portfolio. The Ivy Large Value fund has now been exhausted. Frontier's return lagged the benchmark and is due primarily to their strategy. International funds T. Rowe Price and Marathon slightly underperformed, mostly to stock selection and will continue to be watched.

Weston Lewis discussed the status of Southeastern. Southeastern is a deep value manager who makes selections based on business quality, management personnel, and price, which has typically been a 60% threshold using their valuation of the company. Callan does not recommend termination at this time. Southeastern rebounded in the first quarter with strong returns from GE and Mattel but was hurt by holdings in CenturyLink. In a recent call with Callan and Mr. Littlefield, Southeastern disclosed that CenturyLink is consistent with their business selection criteria and that some unprofitable sectors are being sold off, which should improve their earnings going forward. Southeastern's portfolio also has a favorable price compared to earnings growth which could provide improved performance going forward. Mr. Robertson asked if the pending lawsuits against GE are already reflected in their price. Bob Killorin reported that the price of GE does represent the hit taken when the allegations and wrongdoing were previously announced.

Mr. Wall reviewed the proposed 2019 Pension Budget and questioned the amount of \$162 million being transferred from State Street to the County. He also questioned the Net Position value of \$89 million. Mr. McMullan stated that the Net Position value should be \$0. Mr. Wall suggested further clarification on these items at the next meeting.

Mr. Wall announced that the pension loan to the county has been paid in full.

Mr. Jacobs reported that the pension plan audit is underway and a draft version is expected to be available prior to the next meeting.

Mr. Wall discussed the recently passed Georgia House Bill 196 requiring pension board members to participate in continuing education. Various options were presented including seminars provided by Callan College (in Atlanta on October 8 and 9), Georgia Association of Public Pension Trustees, and Georgia State University. Segal Marco offered an option to meet in-house with the board members and conduct an all-day, private education and training seminar. Mr. Pinkerton will provide a summary of options at the next meeting.

The Board rescheduled their next meeting and retreat for August 1 at the Emory Conference Center.

Mr. Hendrix motioned, Mr. Littlefield seconded, and the Board approved the service buyback application for Dylan Curtis, an Innovation & Technology employee.

Mr. Hendrix motioned, Mr. Littlefield seconded, and the Board approved the military service purchase application for Polices Services employee Guy Smith.

Mr. McMullan motioned, Mr. Littlefield seconded, and the Board approved the service purchase application for Burlinda Hardnett, a Sheriff's Office employee.

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

Mr. Hendrix motioned, Mr. McMullan seconded, and the Board approved permanent disability for Mr. Paul Staton.

Bob Killiorin reported that the Department of Justice has contacted him about an additional \$12.5 million of forfeited funds that is now available for distribution to plaintiffs in the ArthroCare case. He will work with them to see that DeKalb County receives its share.

Mr. Littlefield motioned, Mr. Hendrix seconded, and the Board moved to Executive Session.

Upon returning from Executive Session, Mr. Wall reported the ruling of the Pension Board's disability appeal by Ms. Janaya Davis. He stated that the rule for continuing a disability benefit after the initial 12-month period is the inability to work at any job. He explained that the Board's doctor reported that Ms. Davis was able to work light duty. Based on that

opinion, the Board ruled that Ms. Davis was not eligible for continuing disability benefits. He informed Ms. Davis that if she is approved for Social Security Disability then the Board would reconsider her for the pension disability benefit.

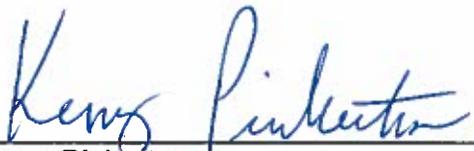
Mr. Hendrix motioned, Mr. McMullan seconded, and the Board approved a 12-month disability for Mr. Russell Godwin.

Mr. Robertson commented about the rising cost of medical insurance, which should be considered with any future COLA provision.

Andrew Myers, a Watershed employee, commented about the need for better retirement communication for employees.

Retiree David Holcombe inquired about the rules for Executive Session. Mr. Wall replied that the Executive Session is used for personnel and medical discussions, real estate transactions, and legal items.

With no further business the Board adjourned the meeting.



Kenny Pinkerton
Clerk, The DeKalb County Pension Board