

## Minutes

### DeKalb County Pension Board

March 5, 2020

The DeKalb County Pension Board met on March 5, 2020 at the Marriott Hotel in Decatur, Georgia. The following members were present: James Hendrix, David Littlefield, John McMullan, Dianne McNabb, Robert Robertson (via phone conference), D'Lisa Stevens, and Edmund Wall. Others present: Weston Lewis, Todd Carabasi, Brad Penter, and John Pirone of Callan LLC; Terri Taylor of Benefits Law Group; Kenny Pinkerton; and Paul Wright.

Ed Wall called the meeting to order. Mr. Littlefield motioned, Mr. McMullan seconded, and the Board approved the January 30, 2020 minutes.

Mr. McMullan motioned, Ms. Stevens seconded, and the Board approved payment of the following invoices:

Vendor	Service	Period	Amount
Advent Capital Management	Investment Management	4Q 2019	\$90,199.89
Earnest Partners	Investment Management	4Q 2019	134,602.77
Edgar Lomax Company	Investment Management	4Q 2019	52,182.74
Frontier Capital Management	Investment Management	4Q 2019	157,709.30
Gabelli Asset Management	Investment Management	4Q 2019	176,945.00
Income Research + Mgt.	Investment Management	4Q 2019	44,874.69
Jennison Associates	Investment Management	4Q 2019	182,936.00
Loomis Sayles	Investment Management	4Q 2019	165,417.26
Segall Bryant & Hamill	Investment Management	4Q 2019	83,535.05
Southeastern Asset Mgt.	Investment Management	4Q 2019	128,287.00
Waddell & Reed (Ivy Asset)	Investment Management	4Q 2019	977.37
		<b>Subtotal</b>	<b>\$1,217,667.07</b>
ASM Consulting	Website Maintenance	Jan 2020	\$600.00
Benefits Law Group	Legal Consulting	Jan 2020	1,725.00
Brandon Dawkins, M.D.	Disability Examination	Feb 2020	1,500.00
		<b>Subtotal</b>	<b>\$3,825.00</b>
<b>Total</b>			<b>\$1,221,492.07</b>

Brad Penter provided a recap of the market landscape for 2019. The fourth quarter was very strong among all asset types. GDP growth was 2% and unemployment remains low. International clarity was established by the completion of the Phase I trade deal with China and Great Britain's exit from the European Union. In all, 2019 will be remembered as an outlier of such strong performance that rarely occurs.

Since January the markets have been very volatile due the impeachment process and the expansion of the Coronavirus. The fixed income assets buffered much of the recent downturn. Until containment of the virus is under control, volatility will continue and growth for the year will be hindered.

Todd Carabasi provided a summary of the fund performance for 2019. The portfolio ended

with a slight overweight in domestic equity of 62% and slight underweight in International Equity of 13% as compared to the target allocations of 60% and 15%, respectively. Mr. Carabasi noted that the 62% allocation of domestic equity far exceeds the median allocation of 34% among public fund peers. The fund returned 7.21% for the fourth quarter, including a positive 0.27% manager effect. For the year, the fund returned 22.48%, which included a negative 1.75% manager effect as all domestic equity managers except Earnest Partners underperformed the benchmarks. The fund's total performance ranked in the top 5% against Callan's Public Fund Database on an absolute basis but ranked in the 83<sup>rd</sup> percentile on an adjusted allocation basis. Fixed income performed extremely well, beating the benchmark by 0.27% for the fourth quarter and 0.8% for the year. The international funds had strong returns of 9.86% for fourth quarter and 23.48% for the year.

Weston Lewis also noted that the fund's domestic equity performance compared to Public Plan funds ranked in the 95<sup>th</sup> percentile for the year and 98<sup>th</sup> percentile for five years. The performance of Southeastern and Gabelli contributed to the low ranking. The two main questions confronting the Board are "How much different do we want to be from the index?" and "How different do we want to be from our peers?" Mr. Wall commented that over the last five years, the fund is 1.2% below the target index and added another question of "How can we not repeat that over the next five years?" He stated that most of the large cap sector's underperformance the past five years was due to the returns of Southeastern and Montag & Caldwell.

John Pirone from Callan provided a summary of the domestic equity structure of the portfolio. One of the concepts presented for domestic equity points to active management for small cap funds having a better historical chance to beat the benchmark versus large cap funds (on a gross basis). Additionally, the domestic equity portfolio has a high tracking error relative to its Russell 3000 benchmark, resulting from the portfolio's bias toward growth and small cap stocks relative to the benchmark. Part of the plan's style bias is attributable to Gabelli's being more core and smaller cap than its Russell 1000 Value benchmark, which could be reduced by shifting Gabelli into a true large cap value manager. Another observation revealed that Jennison has a higher exposure towards high growth names while Loomis is more quality focused. Reallocating the Jennison and Loomis split to a 50-50 mix could reduce the tracking error and reduce the bias toward growth.

Based on these observations, Mr. Pirone provided four potential options for changing the allocation mix of the domestic equity portfolio, with the intent of reducing tracking error by moving the portfolio closer to the Russell 3000 benchmark market cap and style. Two of the options include a new large cap value active manager to replace the current State Street Large Cap Index fund and fund it with additional monies from Gabelli and Jennison. A third option adds a new large cap value fund to replace the current State Street Large Cap Index fund as well as a new core large cap index fund that is funded with monies from Gabelli and Jennison. A fourth option introduces a new core index fund and shifts monies from all existing funds to bring the portfolio to a 55% indexed position.

For the international portfolio, active managers have historically outperformed the benchmark so there is no plan to move toward indexing. Callan presented two options for

consideration – increase the allocation to Marathon or establish a new emerging market fund encompassing 20% of the total international portfolio allocation.

Mr. Wall requested a separate Investment Committee meeting to review the options further and make a recommendation to the Board.

Mr. Penter provided a summary of the Southeastern transition to the State Street Large Cap Value Index Fund BlackRock completed in January 2020. BlackRock estimated an overall cost of the transition to be 45 basis points, with a wide range of +/- 50 basis points, due to high concentration of the Southeastern stocks. The actual cost was about 73 basis points but within the margin of error expected. Almost half the cost was attributable to CNX Resources being traded over a four-day period, during which time its value decreased.

Mr. Hendrix motioned, Mr. McMullan seconded, and the Board approved a drawdown of \$4.5M from Jennison and \$4.5M from Gabelli for the April and May benefit payments.

Mr. McMullan motioned, Mr. Hendrix seconded, and the Board approved the service buyback applications for the following employees:

- Dexter Dumas, a Fleet Maintenance employee
- Tanaha Hall, a Fire Rescue employee
- Milton Whitlow, a Watershed Management employee
- Travis Williams, a Fire Rescue employee (most recent period only)

Mr. Littlefield motioned, Mr. McMullan seconded, and the Board approved Ms. Shawana Bussey for permanent disability.

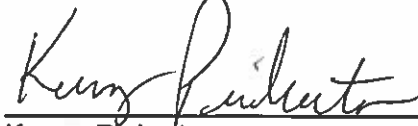
Mr. Hendrix motioned, Mr. Littlefield seconded, and the Board approved Ms. Marian Eisenberg for permanent disability.

Mr. Hendrix motioned, Mr. Littlefield seconded, and the Board tabled the permanent disability request for Mr. Russell Godwin until the next meeting.

Mr. Littlefield motioned, Mr. McMullan seconded, the Board approved moving to Executive Session to discuss personnel matters.

Upon returning from Executive Session, a request from Mr. Johnny Childs was tabled due to receiving more information.

With no further business the Board adjourned the meeting.



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Kenny Pinkerton  
Clerk, The DeKalb County Pension Board