

## Minutes

### DeKalb County Pension Board

May 14, 2020

The DeKalb County Pension Board met on May 14, 2020 through a Zoom teleconference session. The following members were present: James Hendrix, David Littlefield, John McMullan, Dianne McNabb, Benita Ransom, Robert Robertson, D'Lisa Stevens, and Edmund Wall. Others present: Deborah Brigham of Segal Consulting; Weston Lewis, Todd Carabasi, and Brad Penter of Callan LLC; Terri Taylor of Benefits Law Group; Larry Jacobs; Kenny Pinkerton; and Paul Wright.

Ed Wall called the meeting to order. Mr. Robertson motioned, Mr. McMullan seconded, and the Board approved the March 5, 2020 minutes.

The Board discussed additional options of meeting in a different location from the Maloof Building due to the scarcity of conference rooms. Mr. Pinkerton will continue this search as the economy reopens from the virus threat.

Mr. Hendrix motioned, Mr. Robertson seconded, and the Board approved payment of the following invoices:

Vendor	Service	Period	Amount
Advent Capital Management	Investment Management	1Q 2020	\$85,955.81
Earnest Partners	Investment Management	1Q 2020	102,166.09
Edgar Lomax Company	Investment Management	1Q 2020	37,857.29
Frontier Capital Management	Investment Management	1Q 2020	135,158.77
Gabelli Asset Management	Investment Management	1Q 2020	117,135.00
Income Research + Mgt.	Investment Management	1Q 2020	46,136.26
Jennison Associates	Investment Management	1Q 2020	182,997.98
Loomis Sayles	Investment Management	1Q 2020	149,431.57
Segall Bryant & Hamill	Investment Management	1Q 2020	84,339.18
		<b>Subtotal</b>	<b>\$941,177.95</b>
ASM Consulting	Website Maintenance	March-May 2020	\$975.00
Benefits Law Group	Legal Consulting	Feb-April 2020	4,650.00
Callan LLC	Investment Consulting	1Q 2020	20,500.00
DeKalb County Finance Dept.	Pension Administration	1Q 2020	130,395.92
J. Smith Lanier	Fiduciary Liability	May 2020-April	62,076.00
Marriott Decatur	Pension Board Meeting	March 5, 2020	905.85
Segal Consulting	Actuarial Consulting	1Q 2020	8,375.00
		<b>Subtotal</b>	<b>\$227,877.77</b>
<b>Total</b>			<b>\$1,169,055.72</b>

Brad Penter provided a summary of the financial market landscape. The COVID-19 virus has had a devastating effect on everyone's lives, and the financial markets responded with sharp drops in equity prices. First quarter GDP declined 4.8% and could be significantly worse, perhaps as much as 20%, in the second quarter. Unemployment tripled from 4.5% to around 15%, with approximately 37 million filing for unemployment

benefits to date. The federal government has passed a series of economic relief packages, including the CARES Act which primarily provided stimulus checks to individuals and loans to small business owners. The financial markets took a significant hit, with the S&P 500 Index decreasing by 19.6%, its worst first quarter in history. The small cap market, Russell 2000, dropped around 30%, creating the largest disparity ever between the two indexes. Large cap companies typically have more diversified businesses and better access to credit, which buffered some of the losses. Value and growth also had a wide variation, with the Russell 3000 Growth index down 15% and the Russell 3000 Value index down around 27%. The information technology and health care sectors performed the best while the energy sector performed the worst. The international markets performed poorly with the MSCI index down 23%. The fixed income market rallied as investors moved U.S. Treasury securities, which were up more than 8%. Mr. Robertson indicated that the fund had an asset loss of around \$258 million for the quarter but has regained some of that loss through a sharp uptick in April.

Mr. Carabasi reviewed the first quarter fund performance. The portfolio ended the quarter with an asset allocation of 29% in fixed income, 59% in domestic equity, and 12% in international equity. The fund continues to have a large overweight to domestic equity as compared to other public fund peers. The fund was down 17.7% for the quarter, which includes a -1.2% relative manager effect to the target performance. Mr. Robertson noted that the 10-year average return is 7.06%, which is very close with the plan's discount rate of 6.75% and bears watching.

The fund balance at the end of first quarter is almost \$1.2 billion. Mr. McMullan questioned the return of the new State Street Global Advisor Index fund, which was down more than the Russell 1000 Value index. Mr. Carabasi noted the new fund transition completed in mid-January and did not quite experience the full quarter return, resulting in being caught more on the downside part of the quarter. Mr. Littlefield commented that Southeastern had a very bad quarter, and the fund's returns would have been worse without the transition to the new index fund. Deborah Brigham noted that the returns during 2020 would not be reflected until the 2021 plan year.

Mr. Carabasi summarized the manager performance. Jennison and Loomis both were down about 11% and beat the benchmark by almost 3%. Edgar Lomax was down 27.5% while Gabelli was down 31%, significantly less than the benchmark of 26.73%. Frontier was down more than 35% and some 12% lower than the benchmark. They were affected primarily by some airline and energy holdings that were directly affected by the virus outbreak. Earnest Partners was down 29% but beat the benchmark by more than 6%. Segall Bryant and Hamill and IRM underperformed the benchmark for the quarter but still added positive returns of 1.26% and 2.82%, respectively. Advent Capital was down almost 16% and will move in tandem to the market since it is a convertible bond fund. T. Rowe Price was down 24.61% and Marathon was down 24.45%, both underperforming the MSCI benchmark of 22.83%.

Mr. Wall raised the point that the Board selected money managers to pick strong, quality

companies that would perform well when the market has large drops, yet many of the managers continue to perform worse than the benchmarks. Weston Lewis responded that, due to lower pricing, value managers typically perform better in a down market but they have not seen that in this downturn. Mr. Wall asked if the Board should change their philosophy of selecting money managers based on a value bias. Mr. Lewis responded that no change in philosophy is needed, but the Board should consider the value component in selecting or evaluating managers. Value managers also perform better coming out of a recession, which has not been seen in a long time. If there is no improvement very soon then the Board should take a closer look at the value strategy. Mr. Robertson commented that Gabelli is the manager that brings down the large-cap value allocation – the other value funds are more in line with the benchmark.

Mr. Penter reported on some positive news regarding the returns in April, the best April returns since 1987. The S&P 500 Index was up 12.8%, Russell 2000 was up 13.7%, MSCI was up 6.5%, and the fund regained \$130 million in equity. Nine of the 11 managers beat the benchmark for the month, and six of the 11 are now exceeding the benchmark for the year. Overall, the fund increased by approximately 9.95% for April, a very strong month.

Mr. Lewis provided a follow-up to the recent Investment Committee meeting regarding the structure of assets. The fund has a significant tilt toward growth and smaller cap stocks. One item for the committee focused on Gabelli, primarily to reduce its allocation because of its effect on the small and mid-cap bias in the portfolio. Another item of consideration is to bring Jennison and Loomis to a 50/50 allocation in the portfolio as well as a reallocation of the international funds, T. Rowe Price and Marathon. Lastly, an option to introduce a new large cap core index fund was presented.

Gabelli presents problems because it is a large cap value manager, yet its holdings are more reflective of a small to mid-cap core manager. Except for the most recent period, Gabelli has outperformed the index over every rolling 10-year period since they have been part of the portfolio, yet the five-year rolling periods are much choppier against the benchmark. Due to their large allocation (21%), their performance affects the overall performance of the portfolio. Mr. Robertson commented that one of Gabelli's main holdings is in theaters and entertainment, and short-term outlook over the next 12 months does not look good for that business sector. Other Board members expressed a lack of confidence in Gabelli following a call earlier in the week. Continuation with Gabelli should encompass strict guidelines for performance against the benchmark and more involvement and delegation from Gabelli's staff into investment decisions.

Mr. Wall recommended having another Investment Committee meeting to further evaluate Mix 2 from the list of investment mixes presented in the asset structure review. Mr. Robertson expressed concern over additional transaction costs of moving the new State Street index fund to another manager so soon after the Southeastern transition. Mr. Lewis suggested a more simplified change of leaving the new State Street index fund as is and only reducing Gabelli assets by adding a new large cap value fund.

Mr. McMullan motioned, Mr. Robertson seconded, and the Board ratified a previous drawdown amount in April of \$3 million from Advent Capital for the May benefit payments.

Mr. Littlefield motioned, Mr. Robertson seconded, and the Board approved drawdown amounts of \$15 million from Segal Bryant & Hamill and \$10 million from Advent Capital for the June and July benefit payments.

Mr. Pinkerton reported that the payment date for the retiree COLA has been deferred to August 1 from July 1. Larry Jacobs indicated the delay is for the ability to have a virtual public hearing on the measure expected to take place in June. Mr. Robertson indicated the COLA is needed due to the large increase in pre-65 retiree medical premiums effective July 1.

Mr. Wall reported that a summary of each Board member's educational credits is included in the meeting package. Mr. Robertson asked if Callan's Regional Workshops are included in the DeKalb contract. Mr. Lewis indicated that they were.

The Board agreed to hold the next meeting on July 9 as scheduled as a Zoom meeting. In addition, the Board agreed to move the Investment Retreat to September.

Mr. Hendrix motioned, Mr. McMullan seconded, and the Board approved the service buyback application for Mr. Clayton Burkes, a Sanitation employee.

Mr. Hendrix motioned, D'Lisa Stevens seconded, and the Board approved Russell Godwin for permanent disability.

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

Upon returning from Executive Session, Mr. Wall stated that Board heard commentary from Judge Rhathelia Stroud and encourages the administration staff to respond to her Open Records request and to obtain additional data information regarding her inquiry before taking any action.

Mr. Robertson motioned, Mr. McMullan seconded, and the Board the approved filing as lead plaintiff of a class action lawsuit against Mesa Air Group, Inc.

With no further business the Board adjourned the meeting.



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Kenny Pinkerton  
Clerk, The DeKalb County Pension Board