

Minutes

DeKalb County Pension Board

May 13, 2021

The DeKalb County Pension Board met on May 13, 2021 at the Hampton Inn Hotel in Decatur, Georgia and through a Zoom teleconference session. The following members were present: James Hendrix, David Littlefield, Dianne McNabb, John McMullan, Benita Ransom, Robert Robertson, D'Lisa Stevens, and Edmund Wall. Others present: Rocky Joyner and Amy Timmons of Segal Consulting; Todd Carabasi, Weston Lewis, and Brad Penter of Callan LLC; Terri Taylor of Benefits Law Group; Bob Killorin of Faruqi & Faruqi, LLP; Bob Atkins; Larry Jacobs; Kenny Pinkerton; Jeff Rader; and Paul Wright.

Ed Wall called the meeting to order.

John McMullan motioned, Eric Hendrix seconded, and the Board approved the March 25, 2021 minutes.

Robert Robertson inquired about the ADP fee since it is a new expense. Mr. Pinkerton responded that the county has been paying this, and it will now be a pension expense each year going forward. David Littlefield motioned, Mr. McMullan seconded, and the Board approved payment of the following invoices:

Vendor	Service	Period	Amount
Advent Capital Management	Investment Management	1Q 2021	\$87,096.69
Earnest Partners	Investment Management	1Q 2021	168,550.55
Edgar Lomax Company	Investment Management	1Q 2021	54,793.62
Frontier Capital Management	Investment Management	1Q 2021	207,288.29
Gabelli Asset Management	Investment Management	1Q 2021	112,559.00
Income Research + Mgt.	Investment Management	1Q 2021	48,293.81
Jennison Associates	Investment Management	1Q 2021	195,429.21
Loomis Sayles	Investment Management	1Q 2021	266,732.63
Segall Bryant & Hamill	Investment Management	1Q 2021	73,268.55
		Subtotal	\$1,214,012.35
ADP	1099-R Processing	1Q 2021	\$10,337.87
Benefits Law Group	Legal Consulting	March-April 2021	4,200.00
Callan LLC	Investment Consulting	1Q 2021	24,000.00
DeKalb County Finance Dept.	Pension Administration	1Q 2021	122,876.16
J. Smith Lanier	Fiduciary Liability Ins.	2021	62,076.00
Segal Consulting	Feasibility Study	1Q 2021	15,000.00
State Street	Custodial Services	1Q 2021	41,186.87
		Subtotal	\$279,676.90
Total			\$1,493,689.25

Brad Penter provided a summary of the market landscape through the first quarter of 2021. It was another strong quarter for the equity markets, with the S&P Index up 6.2%. Small cap equities performed very well, as the Russell 2000 Index increased almost 13% for the quarter. International markets returned 3.5%, as many countries experienced on-going challenges with COVID-19. From the market lows in April 2020, performance returns are highly skewed in the short term. Starting in the second quarter of 2021, some normalcy is expected in the GDP, and market performance should return to median values as the population becomes more vaccinated. Currently, about 45% of the U.S. population is partially vaccinated and 30% is fully vaccinated. About \$5 trillion in stimulus money has been injected into the economy during the pandemic and has contributed to the surge in the markets. Inflation is currently running at 4.6% annually. Mr. Wall asked if interest rates will increase should inflation continue to rise. Mr. Penter indicated the Fed wants to keep interest rates low through 2022 because they are focused right now on economic expansion and unemployment. Mr. Wall expressed concern that the 20% of the portfolio that is in fixed income will be negative should interest rates continue to rise and the fund would then be unable to meet the 6.75% discount rate. Mr. Penter responded that can happen, and it will be difficult for the fixed income portion of the portfolio initially. Over time, however, a larger coupon bond payment will result from the higher interest rate, which can help the portfolio. Rocky Joyner commented that not meeting the discount rate in one year is not a concern, as there is a 10-year asset smoothing assumption built into the plan funding.

Mr. Penter continued discussing the specific results of the portfolio. For the quarter ending March 31, 2021, market assets are almost \$1.7 billion. Total fund return for the first quarter was 4.73%, exceeding the benchmark of 4.45%. Over the one-year period ending on March 31, 2021, the portfolio is up 50%. Mr. Penter noted that this return is coming off a historical low in early 2020, resulting in a significant rebound in performance. Over a 10-year period ending March 31, the fund returned 9.90% compared to the target of 10.41%. Mr. Wall commented that the 9.90% far exceeds the discount rate of 6.75% for funding. Mr. Penter noted that Callan runs 10-year projections to determine the likelihood of achieving the discount rate over the period. Assuming no active management, the projections estimate a return of 6.00% over the next 10 years. Mr. Wall indicated that the Board may have to lower the discount rate again, resulting in a larger contribution from the county. Mr. Penter noted that the 6.00% projection is the median outcome and that the fund could do even better due to active management. Mr. Robertson commented that despite the good report, he reminded the Board that the plan is only 54% funded so there is still a long way to go to reach a better funding level. Mr. Joyner indicated that 6.75% is a conservative discount rate as many public plans average 7.0% or more. He stressed the importance to being diversified with the assets and conservative in the funding over the long haul. Mr. McMullan asked how long it would take for the fund to earn less than 6.75% on a 10-year rolling average basis if the fund earned only 5% each year during that time. Paul Wright estimated that threshold to be around 6½ years.

Mr. Wall asked if it would make sense to take a more aggressive approach in the fixed income sector to allocate 10% to convertible bonds versus the current 5%. Weston Lewis

responded that the biggest risk is not the fixed income sector. The bigger risk is going ten years with an equity return of only 4%-5%.

Mr. Penter reviewed the public plan sponsor rankings, and the DeKalb Pension Fund has the #1 ranking over the last year. The fund performed well because the domestic equity market did well. Mr. Wall expressed concern that the portfolio has reached a level of too much risk and asked if it would be prudent to go to a 30% allocation of fixed income versus the current 20%. Mr. Penter responded that the fund still needs to make up ground on the funded status so there should be a higher level of risk in the portfolio. Mr. Joyner suggested the Board continue to keep aiming for the highest return possible to improve the funded status. Mr. Wall concluded that the Board should not make big changes right now.

Mr. Wall expressed his gratitude to Mr. Joyner for his counsel and service to the county over the years and especially his ability to communicate complex topics to the Board. The Board wishes him well in his upcoming retirement.

Mr. Wall also expressed his appreciation to Eric Hendrix for serving as a Board member. He is retiring from the county in June and will be missed.

Mr. Penter reviewed the individual managers. Jennison was down 1.80% for the quarter, primarily due to holdings in tech stocks and Tesla. This was offset by Loomis, which increased 3.15%. Gabelli has bounced back by with a strong quarter and returned almost 80% during the last year. Frontier also had an exceptional year with a 103.39% increase in the last 12 months, including 10.24% during the first quarter. Edgar Lomax turned over about one-third of the portfolio and return almost 12% in the first quarter. Earnest Partners underperformed against the index, which was skewed due to high profile selections such as GameStop. In fixed income, Advent returned more than 5%. In internationals, T. Rowe Price and Marathon both exceeded the benchmarks. Mr. Wall thanked Callan for the exceptional performance report.

Mr. Pinkerton recommended taking a drawdown of \$17 million. This amount was part of the portfolio restructuring announced in March 2021. Mr. Littlefield motioned, Mr. McMullan seconded, and the Board approved a drawdown in equal shares from the two small-cap managers, Earnest Partners and Frontier.

Mr. Wall informed the Board that he recently addressed the Green Committee, a new committee to oversee environmental issues formed by Commissioner Ted Terry of the county Board of Commissioners. Mr. Wall reviewed the proposed ESG statements included in the Investment Policy with the committee. The proposed changes are under further review by committee, so there is no action needed until the committee responds.

Mr. Wall opened discussion around a proposed contract between the county administration and the Pension Board. He indicated that to adopt any contract arrangement at the county, the contract must go through the county procurement process, including legal review and approval by the CEO and by the Board of Commissioners. An alternative is to adopt a Service Level Agreement between the county and the Pension Board describing selected services. Kenny Pinkerton drafted the proposed agreement using the original contract

material and provided it to the Board for review. Mr. Robertson stressed that the county enters in to contracts with every other vendor, and this arrangement should be no different. He said it should not take months to resolve the agreements and finalize them; if the Board cannot work out a contract arrangement, then the Board should engage a third-party administrator to administer the plan. Mr. Wall proposed that Mr. Robertson work with Terri Taylor and Larry Jacobs to construct an agreement that will satisfy the Board without having to go through the formal county procurement process. Mr. Robertson requested that there be stipulations for underperformance.

Mr. Jacobs described that the county has not made an investment in HRIS technology in more than 20 years. As a result, much of the pension administration is performed manually as well as the use of spreadsheets for pension calculations. The solution is to purchase a new pension system that will facilitate administration of the plan. The administration group is working with Segal to identify suitable vendors who can provide a comprehensive system for administration. The biggest risk is meeting the January 1, 2022 target date for implementing the pension system concurrently with the county's new Oracle HCM system. He noted that the HCM project is on schedule for the January 1 delivery and that the pension solution could derail everything.

Amy Timmons is completing an RFP process, of which a dozen vendors expressed interest. She indicated that, due to the aggressive timeline and as well as concern over competing resources in two major systems projects, only five vendors are responding to the RFP. Mr. Robertson expressed dissatisfaction in CBIZ as potential vendor due to prior inquiry where they brought in the Association of County Commissioners of Georgia (ACCG) without notice. Ms. Timmons acknowledge that CBIZ did contact her and inquired if they could make a bid with ACCG. She responded that there was nothing in the RFP that precluded them from doing that. Mr. Robertson proposed that the Board disqualify the RFP response from CBIZ should they present one. Mr. Joyner recommended leaving them in RFP response in the event that they could be considered at a later time. Mr. Robertson understands that logic but that the problem is more with CBIZ, who was not forthcoming, than with ACCG. Mr. Robertson motioned, Mr. Hendrix seconded, and the Board approved removing CBIZ from consideration as a software solution.

Ms. Timmons explained that her team is combing through all the RFP responses and scoring each vendor based on technical capability (70% weight) and price (30% weight). This analysis results in final score for each vendor, that narrows the field to a finalist group. Two vendor demos are scheduled for next week to review system capabilities. All the responding vendors have been in business for more than 15 years. Segal is prepared to do a best and final if needed. Mr. Jacobs commented that a previous software solution presented by Deloitte is not part of the RFP process. The Deloitte solution is highly customized and would be even more expensive in the long run when fully implemented. Mr. Jacobs recommended a special called Board meeting to discuss approval of a recommended software vendor. Mr. Wall asked that they also resolve the contract agreement at the special called meeting.

Mr. Wall reported that all Board members except the CEO have completed the continuing education requirements for the two-year cycle ending on June 30, 2021. Mr. Wall recommended that Ms. Taylor write a letter to the county attorney to inquire about the CEO's obtaining the credits.

Mr. Robertson motioned, Mr. McMullan seconded, and the Board approved the military service purchase application for Eric Hunt, a Police Services employee.

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

- Andrea Johnson, a Watershed Management employee
- Ruby Martin-Biggers, a Planning and Sustainability employee

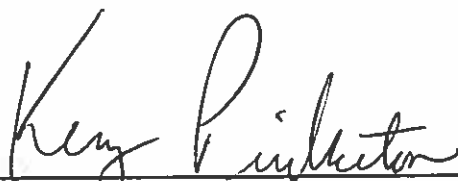
Mr. Joyner reported that the valuation process is underway and expected to be completed by the July meeting. The GASB information will be available in a few days, and the OPEB information is coming in next couple of weeks. He expressed his appreciation serving as consultant and wishes everyone all the best going forward.

The Board agreed to meet on July 8 for the next regular Board meeting as originally scheduled.

Mr. Robertson motioned, Mr. McMullan seconded, and the Board approved going to Executive Session to discuss a personnel matter.

Upon returning from Executive Sessions, Mr. Wall reported that there was no action needed from the Board.

With no further business, Mr. Wall adjourned the meeting.



Kenny Pinkerton
Clerk, The DeKalb County Pension Board