Minutes

DeKalb County Pension Board

March 10, 2022

The DeKalb County Pension Board met on March 10, 2022 via a Zoom teleconference session. The following members were present: Mike Goff, David Littlefield, John McMullan, Dianne McNabb, Benita Ransom, Robert Robertson, D'Lisa Stevens, and Edmund Wall. Others present: Malichi Waterman of Segal Consulting, 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.

Mr. Littlefield motioned, Mr. McMullan seconded, and the Board approved the January 13, 2022 minutes.

Mr. Littlefield motioned, Mr. McMullan seconded, and the Board approved the following invoice payments:

Vendor	Service	Period	Amount
Advent Capital Mgt.	Investment Management	4Q 2021	$94,557.66
Earnest Partners	Investment Management	4Q 2021	154,067.43
Edgar Lomax Company	Investment Management	4Q 2021	62,088.51
Frontier Capital Mgt.	Investment Management	4Q 2021	199,157.75
Gabelli Asset Mgt.	Investment Management	4Q 2021	120,881.00
Income Research + Mgt.	Investment Management	4Q 2021	54,468.83
Jennison Associates	Investment Management	4Q 2021	197,063.65
Loomis Sayles	Investment Management	4Q 2021	269,232.92
Segall Bryant & Hamill	Investment Management	4Q 2021	77,821.36
		Subtotal	**$1,229,339.11**
Benefits Law Group	Legal Consulting	Dec 21-Feb 22	$2,200.00
Brandon Dawkins, M.D.	Disability Evaluation	1Q 2022	1,500.00
DeKalb County Finance Dept.	Pension Administration	4Q 2021	138,124.43
GAPPT	Membership Dues	1Q 2022	200.00
ISSI	Software Implementation	1Q 2022	23,833.00
State Street	Custodian Services	4Q 2021	41,306.35
		Subtotal	**$207,163.78**
Total			**$1,436,502.89**

Brad Penter provided a summary of the market landscape. 2021 was another stellar year for the markets with the S&P 500 up almost 29%, small caps up 15%, and internationals up 11%. The bond market was down 1.5% for the year. Since the start of 2022, there has been a significant shift in the markets due to inflation concerns and rise of the Russian invasion into Ukraine. Inflation was reported as 7.9% for the 12-month period ending in February, which will put pressure on the Federal Reserve to raise interest rates more frequently than was anticipated in 2022 and 2023. Price increases are up across all industries, with gasoline prices up 70% and wheat up 56% year to date. Sanctions against Russia's invasions include removal of some large Russian banks from the Swiss banking system that prevents conversion of their currency reserves as well as a ban on Russian oil in the U.S. Exposure to Russian oil is only 7% of the overall usage in the U.S. but significantly more in Europe. Russian financial exposure represents less than 1% of the EAFE index. Two avenues for protecting assets in this volatile environment include investments in Treasury Inflation Protected Securities (TIPS) and direct exposure to the commodity market. Although Callan sees the short-term benefit of such investments, they do not recommend either of these paths as a good long-term strategy.

Mr. Wall inquired about increasing inflation based on supply driven by the Russian invasion versus demand in the marketplace and whether that affects how the Federal Reserve raises interest rates. Mr. Penter stated that demand was already driven by global supply chain issues prior to the war conflict, which made supply even tighter. As a result, the war conflict may not necessarily affect the Fed's actions, but Callan does expect continued rising inflation. Mr. Wall asked about moving to a total cash position. Mr. Penter recommended not doing that and indicated that the portfolio has suffered 12 quarters of losses of at least 6% through the years, only to be followed by strong recoveries in subsequent quarters. He recommends sticking with the strategic targets and monitoring the allocations.

Mr. Robertson asked how the market can sustain with all the competing factors of inflation, higher interest rates, and now war conflicts. Mr. Penter indicated that the markets having done so well the last several years made it ripe for a correction in 2022. Mr. Littlefield stated that due to the substantial returns over the past decade, he expects the markets to have mediocre returns the next several years based on long-term averaging.

Mr. Wall noted that the total fund balance of $1.8 billion at 12/31/21 was remarkable and has come so far since 2008. Mr. Penter reviewed the 2021 results and noted that the active manager performance has been a drag on the overall performance, particularly in the large cap sector. Jennison and Loomis underperformed for the quarter and for the year. The large cap market has been a difficult benchmark to attain since it is primarily by a few equities controlling much of the returns. Mr. Wall expressed concern of the negative effect that the large-cap managers are having on the portfolio and the potential for change. Mr. Penter does not recommend doing that at this time, noting that the portfolio needs to have prospect for growth as the market recovers from the downturn. He noted that the small-cap, fixed income, and international fund managers have added value over the last ten years. The biggest headwind is due to the large-cap managers competing against a very high performing index consisting of a few dominant entities.

For the year to date through February 28, Jennison is down 16.69% and Loomis is down 10.42% as compared to the benchmark of -12.47%. Large cap value fund Edgar Lomax performed very well, down only 0.8% while Gabelli and State Street Global Advisors followed the index by declining 3.46%. Earnest Partners was down 2.84% while Frontier declined 5.20%, far better than the index of -12.93%. Fixed income funds IR+M and Segal Bryant Hamill performed slightly better than the index of -3.25%. T. Rowe Price was down 5.80% while Marathon was down 5.02% against the benchmark of -5.59%. Overall, the portfolio lost 6.13%, slightly better than the benchmark of -6.45%. Mr. Wall asked if there is more exposure for a downturn with internationals going forward. Mr. Penter agrees there could be more volatility in the foreign markets which could affect short-term results. Mr. Wall inquired about the possibility of investing in a small cap international fund. Mr. Penter stated that despite the short-term volatility, Callan supports a long-term strategy and believes it adds value to the international market component.

Going forward, Callan recommends no changes in the immediate future. Looking long-term, Callan suggests another look at active management in the large-cap sector. Mr. Wall concluded, with consensus of the Board, that the short-term outlook could be difficult. He requested that Callan provide a monthly summary of returns for closer monitoring and meet again in an Investment Committee meeting if that is warranted.

Mr. Robertson asked if the 6.75% discount rate is still reasonable. Malachi Waterman noted that 6.75% is adequate, as many of his clients are well above that rate and moving toward a lower rate. Mr. Wall stressed that the Board does not rest on its laurels if it has a good year and is constantly evaluating its funded status. Mr. Littlefield reminded the Board that the fixed income component can return only 2% at the most, which puts even more pressure on the equity funds to perform well enough to achieve the 6.75% discount rate. Mr. Waterman also commented the discount rate already includes an underlying inflation rate of 2.75%, and unless the inflation continues at 7% for the long-term, the current discount rate is within reason.

Mr. Littlefield motioned, Mr. Robertson seconded, and the Board approved a drawdown amount of $8.5 million from State Street Global Advisors.

Mr. Penter reported that the Investment Committee met on February 3 to further discuss investing in the small cap international marketplace. The Committee concluded not to move in that direction at this time but is open to continued evaluation.

Kenny Pinkerton announced that the Board of Commissioners (BOC) recently passed a 2% COLA for retirees and beneficiaries as part of the 2022 budget. Mr. Wall indicated there is ongoing discussion about the details of how the BOC will apply the increase. Mr. Robertson expressed support for the increase to be applied across the board, the most equitable method based on salary and service during the years as employees. Mr. McMullan inquired about the flexibility the county has in applying the increase based on different groups of retirees. Terri Taylor responded that since the county is not subject to ERISA rules, it does have flexibility to extend the increase in various ways if distinctions within the groups are clearly defined, which would require a plan amendment. Mr. Wall noted that this is the third COLA in the past four years, without having one for more than a decade, and he expressed thanks to the BOC. Mr. Robertson stated his appreciation to CEO Thurmond for his support in the COLA because every dollar matters to each retiree in these inflationary times.

Mr. Wall brought attention to the education hours for the Board. Mr. Pinkerton will reach out to Mr. Goff regarding attaining the required two additional hours by June 30. He also requested clarification on Benita Ransom's attendance at the December 3, 2021 Investment Committee meeting.

Mr. Pinkerton summarized the pension system transition to the ISSI platform. He noted that Phase I of the transition consisted of two items – data conversion to the ISSI database and making pension payments to the retirees and beneficiaries on February 1. The pension team successfully completed both items. Mr. Robertson expressed thanks for handling one retiree's issue over the weekend. Mr. Pinkerton also informed the Board that the pension administration group has undertaken at least 25% more responsibility during this transition by handling all pension and refund payments as well as the data management flow for retiree health and welfare benefits. In all, the county is positioning itself with a strong platform to administer pension benefits in an efficient and cost-effective way that bodes well for the long-term administration of the plan.

Mr. Wall inquired about a running budget total for the pension plan expenses for the Board. Mr. Pinkerton will look further into compiling this information.

Mr. Robertson motioned, Ms. Stevens seconded, and the Board approved the service buyback application for Sonja Baisden-Shell, a Workforce Development employee.

Mr. Robertson motioned, Mr. McMullan seconded, and the Board approved Mr. Larradus Burnett for permanent disability.

Mr. Robertson motioned, Mr. Goff seconded, and the Board approved Mr. Venjee Chambers for permanent disability.

Larry Jacobs reported that the county is reviewing manager feedback and options for opening the county offices to the public. Should the county reopen to the public, the Board anticipates having in-person meetings again at Maloof.

Mr. Robertson motioned, Mr. Littlefield seconded, and the Board approved moving to Executive Session to discuss legal items.

Upon returning from Executive Session, Mr. Robertson motioned, Ms. Stevens seconded, and the Board accepted a class-action $5 million litigation settlement from Mesa Air Group.

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

Kenny Pinkerton

Kenny Pinkerton
Clerk, The DeKalb County Pension Board