

**Minutes**  
**DeKalb County Pension Board**

**May 12, 2022**

The DeKalb County Pension Board met on May 12, 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 and Weston Lewis 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. McMullan motioned, Mr. Littlefield seconded, and the Board approved the March 10, 2022 minutes.

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

<b>Vendor</b>	<b>Service</b>	<b>Period</b>	<b>Amount</b>
Advent Capital Mgt.	Investment Management	1Q 2022	\$94,981.74
Earnest Partners	Investment Management	1Q 2022	148,290.07
Edgar Lomax Company	Investment Management	1Q 2022	62,846.67
Frontier Capital Mgt.	Investment Management	1Q 2022	187,035.01
Gabelli Asset Mgt.	Investment Management	1Q 2022	118,913.00
Income Research + Mgt.	Investment Management	1Q 2022	49,636.03
Jennison Associates	Investment Management	1Q 2022	170,060.90
Loomis Sayles	Investment Management	1Q 2022	240,597.18
Segall Bryant & Hamill	Investment Management	1Q 2022	74,836.70
		<b>Subtotal</b>	<b>\$1,147,197.30</b>
Benefits Law Group	Legal Consulting	Mar-Apr 2022	\$1,440.00
Callan LLC	Investment Consulting	1Q 2022	24,000.00
ISSI	Software Implementation	1Q 2022	71,503.00
J. Smith Lanier	Fiduciary Insurance	2022	67,010.00
Segal	Actuarial Consulting	1Q 2022	8,375.00
Segal	Implementation Support	1Q 2022	13,708.75
State Street	Custodian Services	1Q 2022	42,683.47
		<b>Subtotal</b>	<b>\$228,720.22</b>
<b>Total</b>			<b>\$1,375,917.52</b>

Brad Penter provided an overview of the financial markets. It was a tough first quarter with the market indexes declining 4.0% to 7.0%. Large cap performed better than small cap and internationals fell 6%. Bonds fell significantly due to the sharp increase in interest rates. Bloomberg Aggregate index declined almost 6%, the third worst quarterly decline

reported by the index. The downturn has extended into the second quarter, with the S&P 500 Index down 13% year-to-date and the Bloomberg Aggregate Index down 10.6%. Inflation continues to run high with a one-year increase exceeding 8%. The Federal Reserve has made two interest rate increases this year with more expected. First quarter GDP was down 1.4%. One positive outcome of the interest rate increase is that the prospect of getting a decent return from the bond portfolio going forward, although the repricing transition could be painful. Mr. Robertson inquired to the Federal Reserve indicating that at least three or four more interest rate hikes are forthcoming. Mr. Penter responded that the widespread sentiment is there could be as many as six rate hikes during the year. Mr. McMullan asked about the supply chain problem being due to the supply of goods or in the distribution of goods. Mr. Penter noted that it is a little of both. China continues to shut down much of the population due to on-going COVID outbreaks while many suppliers are rethinking their processes on how to obtain the necessary goods for their businesses. The international markets performed similarly to the domestic markets, with value exceeding growth and emerging markets falling 7% in the first quarter.

Weston Lewis discussed the portfolio performance. He noted the sharp increase in the Treasury Yield Curve taking place in 2022. He referenced Callan's 2022 capital market assumptions report earlier this year that projected a rise in interest rates over a seven-year period, which has now been attained in the last four months. The rapid rise in interest rates in such a short period can be described as a "one-in-fifty-year" event. Echoing Mr. Penter's earlier comments, there is an opportunity to realize a higher return on fixed income securities going forward.

Mr. Lewis reported that the portfolio remains over-weighted in domestic equity and under-weighted in international and fixed income. The 60% target allocation in domestic equity is significantly more than other government plan peer groups utilizing alternative investments in their allocation portfolios. For the first quarter, the manager attribution analysis was very much in line with the market returns. Over the past year, the manager attribution analysis reflects a -3.08% manager effect, primarily due to the performance of Gabelli and Jennison. Over the past five years, the manager attribution analysis is close to the market returns. Compared to other government plans, the fund's performance ranked in the top 13% or better over the past five years and was primarily driven by the overweight in domestic equities. Over the past year however, the fund ranked in the lowest 30% of overall performance against its peers and in the lowest 7% pertaining to domestic equity.

Reviewing the fund managers, Mr. Weston called attention to Jennison. Jennison's under-performance over the past year was due to their stock selection criteria. However, Jennison's stock selections have an expectation of growing faster than the market, and if those stocks do not perform at that level, then a reduction occurs. Some of their largest holdings such as Netflix and Facebook contributed to the decline. Mr. Wall also noted that the other large cap growth manager, Loomis, was down only 7% for the quarter because their stock selection strategy aligns more with growth at a reasonable price. He recommended that the Investment Committee meet with Jennison.

Mr. Lewis reported that Edgar Lomax performed well over the past year while Gabelli struggled. Frontier exceeded the index by 13% the past year, while primarily focusing on companies with good earnings and positive cash flows. Mr. Wall added that the Board previously spoke with Frontier in the past and stuck with them and are being rewarded today for that decision. In fixed income, Advent performed very well as a convertible bond asset, declining less than 1% during the first quarter. Marathon and T. Rowe Price slightly underperformed but are in line with expectations.

Mr. Littlefield commented that natural gas costs have doubled since the start of the year, contributing to the inflation increase that will persist in the months ahead. He stated that the U.S. dollar remains strong and expects the Treasury yield rates to continue to increase. U.S. equity markets will remain the “go to” asset for investors.

Mr. Robertson motioned, Mr. McMullan seconded, and the Board approved a drawdown amount of \$12.5 million from State Street Global Advisors.

Mr. Wall reviewed the proposed pension budget for 2022. Mr. Wall requested clarification of the Segal consulting fee being one-half the 2021 amount and the item of “Other Professional Services.” Mr. Robertson noted the administration salaries and benefits should be limited to \$535,000 annually. Pending the mentioned changes, Mr. McMullan motioned, Mr. Robertson seconded, and the Board approved the proposed 2022 budget.

Mr. Jacobs reported that the Law Department is working through the home rule ordinance for the retiree COLA. This process is expected to go into July and will require two consecutive readings by the Board of Commissioners (BOC). Given the Secretary of State signature, September 1 could be the earliest date of the COLA increased payment. Mr. Robertson stated the COLA is much needed, as retiree medical premium rates have increased 12.8% for the upcoming plan year starting July 1, 2022. Mr. Jacobs shared that five years ago, the BOC determined the retiree medical population was the most costly to insure. As a result, the retiree medical expenses transitioned to their own risk pool, which had previously been commingled with the employee population. Starting in 2022, the retirees are looking at realizing the full cost of their claims in a self-insured plan where the county picks up about 60% of the premium cost. Given the marketplace increase in the medical expenses, retiree medical costs are expected to increase going forward. Paul Wright clarified that the County is subsidizing about 52% of the premium costs for the small population of retirees under age 65 in the Anthem POS plan. The rates decrease significantly once a retiree becomes Medicare eligible. Mr. Robertson questioned the additional expense of more than \$800 per month of a dependent or other family member under the Blue Cross plan. Mr. Jacobs noted that the County meets each year with Kaiser and Blue Cross to negotiate the best rates, but the County’s increase in claims has curtailed much of the bargaining power. Mr. Wright stated a large pent-up demand in office visits after the COVID outbreak also contributed to the rate increases. Mr. Jacobs noted that the vast majority of retirees will still see a net increase in pay when the COLA is applied. Mr. Robertson disputed this claim saying his net retiree payment is expected to decrease even with the COLA increase. This year’s COLA makes a total of 6% in increases the past 16 years while medical rates increased more than 60% over the same

period. Mr. Jacobs closed stating that the best advice to controlling at least some of the costs in the medical plans is to stay healthy.

Mr. Wall noted the continuing education requirements of the Board members. Kenny Pinkerton clarified that Mike Goff completed the 8-hour requirement for serving the first year as a Board member.

Mr. Pinkerton reported that the pension administration team is working through Phase II of the pension system transition to ISSI. Pension refunds were processed in March and April. Phase III is targeted the second half of the 2022 and includes a web portal for retirees to view retiree payment information as well as a self-service feature to change banking information and update tax withholding. Ms. McNabb noted the record time of implementing such a system change along with very few complaints and congratulated everyone on an excellent delivery.

Mr. McMullan motioned, Ms. Littlefield seconded, and the Board approved the service buyback application for Marcia Gibbs, a Police Services employee.

Mr. Wall commented that the Board is open to meeting again in person depending on the re-opening of County buildings to the public. He would like to hold an investment manager's meeting this fall if possible.

Bob Killorin reported that the Board is up to date on all fund monitoring activity.

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

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Kenny Pinkerton  
Clerk, The DeKalb County Pension Board