

Minutes

DeKalb County Pension Board

September 21, 2023

The DeKalb County Pension Board met on September 21, 2023 at the Emory Conference Center Hotel in Atlanta. The following members were present: Mike Goff, David Littlefield, John McMullan, 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, Rachelle Christion, Larry Jacobs, and Kenny Pinkerton.

Ed Wall called the meeting to order.

Mr. Littlefield motioned, Ms. Stevens seconded, and the Board approved the July 13, 2023 minutes.

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

Vendor	Service	Period	Amount
Advent Capital Mgt.	Investment Mgt.	2Q 2023	\$89,591.63
Earnest Partners	Investment Mgt.	2Q 2023	118,987.49
The Edgar Lomax	Investment Mgt.	2Q 2023	60,201.46
Frontier Capital Mgt.	Investment Mgt.	2Q 2023	155,000.27
GAMCO Asset Mgt.	Investment Mgt.	2Q 2023	117,002.00
Income Research + Mgt.	Investment Mgt.	2Q 2023	46,452.95
Jennison Associates	Investment Mgt.	2Q 2023	157,658.68
Loomis Sayles	Investment Mgt.	2Q 2023	257,416.04
Segall Bryant & Hamill	Investment Mgt.	2Q 2023	72,209.00
		Subtotal	\$1,074,519.52
Benefits Law Group	Legal Consulting	May, June, Aug 2023	\$3,480.00
Koenig Law Group	Legal Consulting	July 2023	6,615.00
Segal Consulting	Actuarial Consulting	3Q 2023	8,375.00
State Street	Custodial Fee	2Q 2023	44,130.81
		Subtotal	\$62,600.81
Total			\$1,137,120.33

Brad Penter provided an update of the investment returns. The fund has struggled compared to the benchmark. Mr. Wall inquired about the August Flash Report and Brad stated it was not available, but the fund is down about \$20 million from June 30. Overall, the portfolio is up about 13% calendar year to date. The inflation rate continues to decrease, now near 3.7%. Mr. Penter suggested that interest rates may be higher for a longer period of time and short-term rates could see a gradual decline over the next

several years. Some investors see this as a good thing but others see this as a negative by having to refinance terms at a higher rate.

Several stocks – Google, Microsoft, Apple, Tesla, etc. – are up 70% year to date. These stocks represent the biggest weakness in our portfolio. Mr. Wall feels that it is a matter of time before these stocks fall in value. This is a textbook case for having a diversified portfolio. Mr. Wall expressed concern to the board that the fund managers need to stick to their investment styles. Callan will keep a dialog with the fund manager to see if there are any changes in their approach to investing. Mr. Wall discussed two issues – a potential shut down of the government on September 30 and the high interest rate environment may stay with us until 2026. Mr. Penter responded that the shut-down would only impact certain government operations. He does not see a shutdown as a problem. It is hard to tell what interest rates will be in a few years with unprecedented events along the way so his second concern may be overinflated. He does think that 5% inflation seems more likely than 0% inflation.

Mr. Wall asked if there is anything the board should do. Mr. Penter responded that there is nothing they would do right now, but the board may wish to review the plan's allocation as part of a study in the next year. Mr. Wall stated that we have convertible bonds and he wanted to know if we should scale back to achieve a better return over the long haul. Mr. Lewis stated that the path matters very much for us and reducing the portfolio risk a little bit could help.

Mr. Lewis provided a recap of the investment results through the 2nd quarter. Beginning with asset allocation relative to targets, the weight to fixed income was about 2% below the 25% target for the quarter. He also pointed out that the statutory minimum to fixed income is based on the cost of the assets as opposed to the market value of the plan so there is no rebalancing required. We will continue to rebalance from asset categories that are overweight, primarily the domestic equity market at 62.8% and with returns of about \$43 million. We grew into this position and continued to take benefit payments from domestic equity. The plan holds \$1.553 billion as of June 30, 2023. Mr. Lewis also pointed out that our allocation to domestic equity is higher than 98% of the other public funds in the index. This allocation has benefited the fund greatly over the past year.

Mr. Lewis discussed the relative attribution effects of the fund. The first graph showed a positive effect on the returns for the quarter, up 5.76%, with both the manager effect and asset allocation pieces showing up as positive. Over the 1-year period, the fund returned a total of 16.3%, with the manager effect adding more than 3%. The 10-year attribution showed that the manager effect was almost 1% negative for the fund but the overall fund still earned 8.5% over this 10-year period. Turning to the peer comparisons, the plan's total return ranked in the top 1% of results compared to other public plans' returns over the past year and ranks in the 18th percentile over the last 3 years.

Overall, the plan gained \$85 million for the quarter, paid out \$21 million in assets, and ended up at \$1.553 billion on June 30, 2023. Over the last quarter, the Large Cap Growth category gained 14% and 35% in the previous year. Most of the asset class composites exhibited strong results relative to the respective index except International equity, but results are still in line with expectations.

Mr. Penter provided a summary of the asset transition. The Board hired Russell Investments Implementation Services to complete the transition to the S&P 500 Index. They reviewed the impact of what it will take to move the assets from point A to point B. Their expected cost prior to the trade was 3.4 basis points and the overall cost to transition was 3.9 basis points to complete the work, a very favorable report being so close to expectations. The cost was \$158,000 to transition a \$360 million portfolio. Mr. Robertson claimed it was a good effort by everyone with the transition being completed on July 18th.

Mr. Wall noted that the fund has approved \$15 million, \$20 million, \$14 million, and \$17 million this year as drawdown amounts. We are asking for \$14 million in September and \$15 million in November to complete this year at \$81 million. The plan is paying around \$80 million even after contributions of \$100 million. Mr. Wall is pleased with this. Mr. Penter suggested that we extract \$13 million from Loomis and \$1 million from Jennison. Mr. McMullen motioned, Mr. Littlefield seconded, and the Board approved this draw down transaction.

Mr. Wall discussed the Segal study which projects the cost of moving Group 3, public safety employees to Group 2 which has a 2.25% multiplier. There approximately 507 active public safety participants in Group 3. The goal of this proposed change is to improve retention of public safety employees. Mr. Jacobs noted that the County has already increased the 401(a) contribution to 6% for this group. This study includes all police, fire fighters, as well as the emergency 911 employees. The total cost of doing this will be \$2.3 million dollars to be amortized over 21 years. The employee's contribution would rise from 6.42% to 8.5% for the higher pension benefit. Ms. Ransom asked if employees could opt out of this proposed change. The Segal study assumes that everyone would move to the Group 2 plan. Mr. Waterman stated that the unfunded liability would decrease by \$17 million. Mr. Robertson believes this could be an easy sell. He also asked about the administration and their plan to review this. Mr. Robertson indicated that he felt that both police and fire should be included in any plan improvements. He believes that if the county adopted this plan we'd have folks lined up ready to be hired and trained. Mr. Goff indicated that all firefighters are very interested in a potential pension enhancement.

Mr. Waterman confirmed that this new plan would use the higher multiplier for the entire term of service. Mr. Roberson inserted that we should not cloud the issue with too many loose ends and try to keep our conversation cut and dry. Mr. Goff asked when we would have a chance to present this. Mr. Jacobs responded that the budget will be finalized by

the end of February and have. Mr. Wall suggested that we write this up and present it to the CEO for inclusion into their budget. Mr. Goff motioned, Mr. McMullan seconded, and the Board approved this transaction of making the indicated 507 participants Group 2.

Mr. Wall checked in with the team regarding the continued credits. Everyone completed the requirements except Ms. McNabb. Ms. Taylor will reach out to her to find out her status. Board members staying this afternoon will receive credit for attending our seminar with the fund managers. Mr. Wall also stated that Board members may also wish to attend the Callan seminars for additional credit.

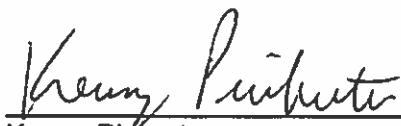
Mr. Jacobs provided a summary of our plan administration costs. The initial contract was presented in October 2021 with a \$535,000 annual fee. Since then, the County has seen increased personnel cost. This includes double filling the pension administrator position for training purposes. Post-employment benefit payments, and rising health care cost contributed to the increase. A request was submitted to amend the contract for an additional \$67,445 for 2023 and \$55,350 for 2024. Mr. Robertson noted that an increase of 10% to the pension staff is higher than the recent COLA's for retirees. He stated that Larry and others have been very responsive to him and he appreciates that. Mr. Jacobs responded that our pension estimates are current and that great progress is being made on the on-line pension estimator. Mr. Robertson asked about Paul working every week vs. one-day a month and Mr. Wall admitted that was an oversight. Mr. Robertson is fine with this. Mr. McMullen motioned, Mr. Littlefield seconded, and the Board approved this increase to our internal services contract.

Mr. Pinkerton stated that he will have more to report on the upcoming election in the next meeting in November. He stated that the election day is January 16th and will take all questions around the election. We will be voting on two active board members and one retired board member. Mr. Robertson indicated that qualification of the retiree ballots is done via US mail.

Mr. Wall indicated that all the people wanting to buy back their service in the plan are good. Mr. Goff motioned, Mr. Littlefield seconded, and Board approved all the buy-back requests included in this meeting.

Mr. Holcomb asked about board members that do not attend meetings in person. Ms. Terri Taylor responded to the question and clarified the policy.

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



Kenny Pinkerton
Clerk, The DeKalb County Pension Board