Minutes

DeKalb County Pension Board

January 11, 2024

The DeKalb County Pension Board met on January 11, 2024 at the Marriott Hotel in Decatur. 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, Weston Lewis and Brad Penter of Callan LLC, Terri Taylor of Benefits Law Group, Bob Killorin of Faruqi and Faruqi, Rachelle Christion, Larry Jacobs, and Kenny Pinkerton.

Ed Wall called the meeting to order.

Mr. Wall called attention to several items in the minutes and corrections were made as needed. Mr. Littlefield motioned, Mr. McMullan seconded, and the Board approved the November 9, 2023 minutes.

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

Vendor	Service	Period	Amount
Advent Capital Mgt.	Investment Mgt.	3Q 2023	$91,456.72
Earnest Partners	Investment Mgt.	3Q 2023	114,612.16
The Edgar Lomax	Investment Mgt.	3Q 2023	59,919.17
Frontier Capital Mgt.	Investment Mgt.	3Q 2023	156,175.51
GAMCO Asset Mgt.	Investment Mgt.	3Q 2023	111,713.00
Income Research + Mgt.	Investment Mgt.	3Q 2023	45,611.73
Jennison Associates	Investment Mgt.	3Q 2023	125,351.82
Loomis Sayles	Investment Mgt.	3Q 2023	148,060.06
Segall Bryant & Hamill	Investment Mgt.	3Q 2023	70,602.48
		Subtotal	**$923,502.65**
Benefits Law Group	Legal Consulting	Sept, 2023	$1,920.00
Callan LLC	Investment Consulting	3Q 2023	26,875.00
Koenig Law Group	Legal Consulting	Sept. and Oct. 2023	1,980.00
Segal Consulting	Actuarial Consulting	3Q 2022 and 1Q 2023	16,750.00
State Street	Custodial Fee	3Q 2023	61,314.56
		Subtotal	**$108,839.56**
Total			**$1,032,342.21**

Mr. Lewis provided an update on the 4th quarter's capital markets. The widely held sentiment for a recession never materialized during 2023. Mr. Wall stated that interest rates are still high, which could lead to a recession. Prime lending rates increased from 3% up to 8.5%. Mr. Lewis indicated that cyclical items such as housing have slowed but spending for items such as travel, and hotels continues to rise. For the 4th quarter returns, fixed income returned 6%, a glaring reversal from their negative returns during the first three quarters of 2022. Mr. Wall said that the Federal Reserve intends to have three .25% interest rate cuts in 2024. Mr. Lewis indicated that the market is very different from what the federal reserve is saying about interest rates. He indicated that a federal rate drop in March 2024 is likely and an 80% chance that rates could be at 3.5% to 4.0% by year end. Mr. Littlefield said that we don't really know what the federal government is going to do with interest rates. It's one thing to speculate on a year's worth of events but another thing to analyze things over a ten-year period. Callan raised the expected returns by one full percentage point to 5.5% for fixed income in their updated capital market assumptions.

The S&P Index was up 11.7% for the quarter and 26% for the year. The tech sector was up 17% for the quarter and 58% for the year. The magnificent seven was up 7% for the quarter and up 59% for the year. International equities returned strong results with the MSCI Index up 10% for the quarter and 16% for the year. Fixed income was up 6% for the quarter and up 5.5% for the year. Overall, the funds increased about 21% for the year, with the total fund value at $1.58 billion at the end 2023. Last year was the first year since 2012 that the S&P 500 Index did not reach a high-water mark and the fund is about where it was two years ago.

Mr. Penter briefly discussed the investment gains and the broader impact of the Magnificent Seven. The plan currently has 50% of its assets in large cap domestic equities. This market is controlled by about a dozen companies that make up nearly $12 trillion dollars in market capital. Together, these companies exceed the market cap values of China, Japan, U.K., and France. In fact, Apple's market cap is as large as the entire stock market of Canada. These firms are trading at 40-50 times earnings. Retirement plans have benefited from these gains. There's speculation of whether the future success of these companies has already been reflected in their stock prices, which brings us to the question of buying a good business versus a good stock.

Mr. Penter reviewed the stock market performance of previously concentrated markets, including during the Tech Bubble. While most of the top companies still exist, their returns have been subpar relative to the rest of the market. Mr. Wall mentioned a local enterprise that focuses on providing data centers for big tech companies. They build infrastructure to accommodate the growing demand for AI.

Mr. Penter explained the goal of looking at DeKalb's current asset allocation and deciding how to best go forward. Callan does not specifically have the right way to go but is willing to work with the Board to explore alternative asset mixes. Mr. Lewis explained that many plans have taken a two-step approach – lowered the discount rate and risked up in order to achieve their expected return target. Mr. Wall summed up the conversation by saying we want to be as passively active as we can be! Mr. Penter stated that 75% of the gain for the S&P 500 in 2023 came from the Magnificent Seven. Mr. Wall believes this is an aberration that will not last.

Mr. Wall asked Mr. Jacobs if $85 million would be enough to cover the anticipated funding needs in 2024. Mr. Jacobs mentioned that the proposed 2% COLA may require an increase.

Mr. Pinkerton reported that $14 million was needed for benefit payments. Mr. Penter recommended taking $7 million from each of Jennison and Loomis Sayles. Mr. McMullan motioned, Mr. Goff seconded, and the Board approved the asset sale for benefit funding.

Mr. Waterman presented the actuarial valuation. The county's recommended contribution for 2024 is 24.83% of projected payroll, or $75,02,291. The market rate of return for 2023 was -17.12%. There was no assumption or plan changes reflected in this valuation. Mr. Wall asked about the proposal to move Group 3 participants to the Group 2 pension plan. A substantive update was not available at this time.

The plan is compliant with the Georgia minimum funding standards. There was a small actuarial loss, 0.2% of actuarial liability, due to salary and retirement experience. There were 158 deaths during 2022 from the expected deaths of 130, the increase primarily due to COVID.

Mr. Wall stated that the county's minimum contribution went up from $74 million to $76 million. This was due to the COLA, additional retirees, and salary increases. He stated this amount is the county's contribution with an additional $30 million paid by county employees. Mr. Waterman stated that total normal cost decreased from $19 million to $17 million. The market value of assets decreased to $1.4 billion, a result of losing 17%. However, the unfunded actuarial liability was $1.11 billion, a small decrease from $1.13 billion last year. The plan's actuarial funded ratio increased to 58.3% from 57.2% last year. Mr. Wall asked when will the unfunded liability decrease to under $1 billion. Mr. Waterman answered that in the next two or three years he expects it to drop to less than $1 billion. Mr. Wall stated that the 58% number is a reflection of all the future payments into the system and that the ratio would be higher if our discount rate of 6.75% was raised. Mr. Waterman had no concerns about the current discount rate.

Mr. Waterman explained that the number of active participants decreased to 5,638 with a $297 million payroll. Ms. McNabb felt that this could be the result of additional COVID pay that is not being paid this year. Ms. Ransom explained that this was mostly due to a reduction in police department staff. Mr. Robertson indicated that pensioners' buying power decreased by $11,000 from 2021 and that a COLA is needed to address inflation. Terminated Vested participants increased to 563, up about 12%.

Mr. Waterman led the group through the historical results and actuarial cost methods. For 2022, he illustrated the 17% decrease in plan asses compared to an 8% increase in the actuarial value. Overall, the fund's 19-year average return is 6.94% on a market value basis and 6.19% on an actuarial basis. Next, he discussed the GASB Accounting disclosure. It showed that Plan Fiduciary Net Position was 54.9% and the Pension

Expense was $136 million. The illustration demonstrated the impact of smoothing gains and losses.

Mr. Waterman discussed the plan's cost methods. He stated that the current normal cost is lower, and the actuarial liability is higher than they would be using the Traditional Entry Age Method. As a result, starting with the 1/1/2024 valuation, the actuary must determine a contribution based on the Traditional Entry Age Method. Using this method in 2024, the plan's contribution would be 28.5% of pay rather than 24.8% of pay. Additionally, the funded ratio would climb to 60% vs 58% on an actuarial basis, the funded ratio would be 54.00 % rather than 53.4% on a market basis. The Low-Default-Risk Obligation Measure (LDROM) will be included in the valuation.

In addition, Mr. Waterman included two sets of projections. The first showed three scenarios of potential market returns in FYE 2023. The baseline projection, assuming the valuation assumption of 6.75% is earned in all years, shows a gradual increase in the contribution rate that levels out by 2031 to roughly 32% of projected payroll. This same chart reflects that if the return is 0% in 2023, and 6.75% thereafter, the rate would increase more rapidly, and level off at around 36% by 2031. Alternatively, if the 2023 return is double the assumed return at 13.5% for 2023 with 6.75% thereafter, the rate would still increase over time, as deferred asset losses are recognized, but it would level out by 2031 at about 29%.

The second set of projections considered the actual estimated return for 2023 of 20.77%. For these, Segal included three scenarios for alternative returns in 2024, given the 20.77% returns in 2023. These projections showed more stable contributions to 2032, then remaining flat or declining thereafter.

Mr. Waterman discussed the benefits of performing a 5-year experience study. The study compares actual results with the assumptions used in the valuation. Conducting the study would improve the accuracy of the valuation going forward. The cost is $45,000 for the study. Mr. McMullan motioned, Ms. Stevens seconded, and the Board approved conducting the 5-year experience study.

Mr. Wall reviewed the continuing education requirements and reminded the board of the June 30, 2025 deadline to complete them.

The Pension Board election will be held on January 16, 2024. Mr. Pinkerton reported that the ballots had been mailed to the retirees. A few retirees reported not receiving a ballot. A second ballot was mailed to those individuals. Mr. Wall expressed his support of the incumbents that were seeking reelection.

Mr. Littlefield motioned, Mr. McMullan seconded, and the Board approved Kristopher Bloom and Charles Lister for buying back their prior service.

Mr. Goff motioned, Mr. McMullan seconded, and the Board approved Gregory Vanderpool for purchasing his prior military service.

Mr. Wall recommends that the Board review the disability application in executive session.

Mr. Robertson reported that the fund received a $184,000 settlement payment from the Mattel case. Mr. Wall thanked Mr. Robertson for all his efforts to help settle the litigation on behalf of the board.

Mr. Myers (Watershed Employee) stated that employees need to understand their pension benefit. He suggested that a better understanding of their pension benefits might encourage employees to work longer, thereby improving retention. He also asked the County do more to educate employees about the pension plan. He asked specifically to focus on the employees at the Roadhaven Water Treatment plant. Mr. Morris, another county employee, also introduced himself as an attendee.

Mr. Littlefield motioned, Ms. Stevens seconded, and the Board approved moving the meeting to executive session.

Upon returning from executive session, Mr. Littlefield motioned, Mr. McMullan seconded, and the Board denied continuing the disability benefit for Ms. Fiorella Soto.

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

Kenny Pinkerton
Clerk, The DeKalb County Pension Board