Minutes

DeKalb County Pension Board

August 11, 2022

The DeKalb County Pension Board met on August 11, 2022 via a Zoom session. The following members were present: Mike Goff, John McMullan, Dianne McNabb, Robert Robertson, D'Lisa Stevens, and Edmund Wall. Others present: Robert Burrell and Malichi Waterman of Segal Consulting, Weston Lewis and Brad Penter of Callan LLC, Terri Taylor of Benefits Law Group, Bob Killorin of Faruqi & Faruqi LLP, Larry Jacobs, and Paul Wright.

Ed Wall called the meeting to order.

Mr. Robertson motioned, Mr. McMullan seconded, and the Board approved the May 12, 2022 minutes.

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

Vendor	Service	Period	Amount
Advent Capital Mgt.	Investment Management	2Q 2022	$91,045.76
The Edgar Lomax Company	Investment Management	2Q 2022	58,128.34
Frontier Capital Management	Investment Management	2Q 2022	164,576.38
Income Research + Mgt.	Investment Management	2Q 2022	46,679.55
Jennison Associates	Investment Management	2Q 2022	142,924.15
		Subtotal	**$503,354.18**
Benefits Law Group	Legal Consulting	April-July 2022	$1,720.00
Callan LLC	Investment Consulting	2Q 2022	24,000.00
DeKalb County Finance Dept.	Pension Administration	1Q 2022	120,923.68
ISSI	Software	2Q 2022	47,666.00
ISSI	COLA Enhancement	2Q 2022	1,000.00
Nichols, Cauley, & Assoc.	Pension Audit	4Q 2021	10,000.00
Pension Benefit Information	Death Audit	2Q 2022	1,530.00
Segal	Implementation Support	2Q 2022	15,005.00
		Subtotal	**$221,844.68**
Total			**$725,198.86**

Weston Lewis reviewed the June 9 Investment Committee meeting, where the Committee interviewed large-cap growth manager Jennison Associates, whose recent returns had been subpar. Jennison reassured the Committee the operational performance of their portfolio companies remains strong. Higher interest rates had a negative effect on their companies' values. However, their July returns rebounded well, earning 1.6% above their benchmark, but their year-to-date results still lag the benchmark. Mr. Lewis pointed out that most large-cap managers are struggling, partially because two very successful stocks (Apple and Microsoft) comprise close to 25% of the index. If a manager did not own a large portion of those two companies, it probably struggled. At Callan's recommendation, the Board decided to take no action related to Jennison.

Brad Penter reviewed the 2nd-quarter results from Callan's valuation, beginning with the overall market. Through June 30, the S&P 500 was down nearly 20%, the Russell 2000 was down 23%, the MSCI EAFE international index was down almost 20%, and the Bloomberg bond index was down 11% for the year. All sectors were hurt, making diversification unsuccessful. Inflation and uncertainty from the Fed's potentially raising interest rates were chief reasons for the declines. The two consecutive quarters of negative growth defined a recession. Mr. Penter expects further interest rate hikes in future months. The domestic equity market is especially suffering, thereby hitting DeKalb's fund harder than most of its peers, since the fund is heavily weighted in domestic equity. The fund declined 14.73% during the quarter, as compared to -13.33% from the target indices; similarly, the fund declined 15.88% during the past year, as compared to -12.66% from the targets. The fund declined $276 million during the 2nd quarter and $378 million during 2022. The underperformance stemmed primarily from the large-cap managers. Compared to their benchmarks, the fund's large-cap managers cost the fund 1.33% during the quarter and 3.38% during the past year. Mr. Wall asked if the fund should simply index the equity holdings. Mr. Penter did not recommend this. Mr. Robertson observed that a recent publication reported that overall, other plans' five- and ten-year returns are relatively consistent with DeKalb's. Other plans can invest in alternative holdings such as real estate and private equity; DeKalb's investment policy prohibits such investments. These alternative investments yielded higher recent returns than DeKalb's allowed holdings. Mr. Lewis clarified that the majority of the equity managers' struggles evidenced in its five- and ten-year returns came primarily during the last five quarters. Mr. Penter continued his recap of the 2nd quarter. Seven of the 11 managers outperformed the index. However, three of the four underperforming managers are large-cap managers, where the majority of the fund's holdings are. On a positive note, Mr. Penter reported that the fund was up about 7% during July.

Mr. Wall requested that the Investment Committee meet to discuss active management in large-cap domestic equity. Specifically, he would like to know if the Board has selected the wrong large-cap managers, or if the market has become efficient so that it is too difficult to select managers and therefore, the fund should switch to passive management.

Bob Killorin reported that Loomis has sued Citigroup related to the speed at which Citigroup sold shares of Colgate-Palmolive. Allegedly, Citigroup sold the entire $70 million of the stock in one day instead of more slowly, as Loomis had requested. This caused Loomis to pay an additional $7.4 million to acquire the replacement stock, Shopify. Mr. Lewis reported that Loomis estimates the fund's share of this trade execution loss is approximately $290K and that they sound confident they will recoup a portion of this loss.

Mr. Wall requested that the next Pension Board meeting be rescheduled to October 13, thereby giving the Investment Committee more time to meet beforehand. The other Board members agreed.

Mr. Robertson motioned, Mr. McMullan seconded, and the Board retroactively approved drawdown amounts of $10 million from Earnest Partners and $6 million from Frontier to supplement funding the June-August 2022 benefit payments.

Mr. Jacobs updated the Board on the status of the retiree COLA, which is scheduled to go into effect on October 1, retroactive to January 1, 2022, pending approval by the Board of Commissioners at two consecutive meetings in September. Staff personnel are working hard to deliver on this schedule. He confirmed the COLA is a flat 2% to retirees.

Mr. Wall reported the updated continuing education requirements of the Board members. Attendance at the upcoming Investment Committee meeting can satisfy additional hours for Board members. Mr. Goff has already completed his eight-hour requirement.

Mr. Jacobs then apprised the Board on the status of updating ISSI, the new pension administration software. He is very satisfied with the new software and the associated team at ISSI. They report readiness to implement the COLA and the associated retroactive payment. The transition to the new software is labor-intensive but successful so far. Still pending is a new website for pensioners with a “do-it-yourself” portal. Mr. Jacobs elaborated on the continuing tedious difficulties in getting the County’s new HRIS software, CV360, to “talk” to ISSI, causing delays in refunding pension contributions to former employees. He added that he is bringing a former staff member to assist with the overload. Mr. Robertson questioned the fees that ISSI charged, and Mr. Jacobs believes they are predominantly due to implementation of the new software. Mr. Wall requested from Mr. Jacobs a more detailed breakdown of the costs from ISSI.

Mr. Robertson motioned, Mr. Goff seconded, and the Board approved the service buyback application for Miracle Davies, a Sanitation employee.

Mr. Killorin then updated the Board on the status of the suit against Pegasystems, Inc. The Board will not be the lead plaintiff, but Mr. Killorin believes they are well suited. He will update the Board on the progress of the Allergan case at the next meeting.

Mr. McMullan motioned, Mr. Robertson seconded, and the Board entered Executive Session to discuss a personnel issue.

Upon return, with no further business, Mr. Robertson motioned, Ms. Stevens seconded, and the Board adjourned the meeting.

____

Paul Wright
Employee Services Manager