Minutes

DeKalb County Pension Board

March 9, 2023

The DeKalb County Pension Board met on March 9, 2023 at the Marriott Courtyard in Decatur, Georgia. The following members were present: Michael Goff, David Littlefield, John McMullan, Benita Ransom, Robert Robertson, D'Lisa Stevens, and Edmund Wall. Others present: Brad Penter of Callan LLC, Terri Taylor of Benefits Law Group, Bob Killorin of Faruqi & Faruqi, Larry Jacobs, Kenny Pinkerton, and Paul Wright.

Ed Wall called the meeting to order.

Mr. Wall clarified that he touched base with Malichi Waterman of Segal about a change to the minutes and they are now good. Mr. Littlefield motioned, Mr. McMullan seconded, and the Board approved the January 12, 2022 minutes.

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

Vendor	Service	Period	Amount
Advent Capital Mgt.	Investment Mgt.	4Q 2022	$87,199.82
Earnest Partners	Investment Mgt.	4Q 2022	127,088.24
The Edgar Lomax Company	Investment Mgt.	4Q 2022	116,044.55
Frontier Capital Mgt.	Investment Mgt.	4Q 2022	155,177.78
GAMCO Asset Mgt.	Investment Mgt.	4Q 2022	108,584.00
Income Research + Mgt.	Investment Mgt.	4Q 2022	44,679.86
Jennison Associates	Investment Mgt.	4Q 2022	136,900.72
Loomis Sayles	Investment Mgt.	4Q 2022	194,660.85
Segall Bryant & Hamill	Investment Mgt.	4Q 2022	70,887.79
		Subtotal	**$1,041,223.61**
Benefits Law Group	Legal Consulting	February	$3,920.00
Callan LLC	Transition Mgt.	January 2023	35,000.00
Callan LLC	Investment	4Q 2022	24,000.00
DeKalb County Finance Dept.	Pension Admin.	4Q 2022	143,302.86
Koenig Law Group	Legal Consulting	Dec '22-Jan	1,080.00
State Street	Custodial Fee	4Q 2022	42,138.02
		Subtotal	**$249,440.88**
		Total	**$1,290,664.49**

Mr. Penter updated the Board on its investments. The investments hit the worst bond market in its history and were down around 13%. Rising interest rates during the year caused this worst loss ever. This created an environment where "no one could hide." The fund rebounded nicely in January and returned around 5% overall. There is speculation that the Federal Reserve will increase rates again, so 2022 ends in a sour way, but there is some uptick to 2023.

Mr. Penter also explained Callan's 10-year forecast. One part focuses on fixed income, and it is positive as interest rates have increased. Another area that helps is the inflation forecast was raised from 2.25% to 2.50%. Finally, the median expectation is that the fund will return 6.9% over 10 years with a probability of 51%, a positive rate. The previous expectation was only 5.9%, so this forecast has improved greatly in one year. Also, the downside of this graph that shows 75% or 90% withdrawal rates look much better than they did a year ago, due to the increase in the fund's fixed income representation. Mr. Wall asked what the plan could do to increase the probability of meeting the targeted 6.75%. Since the fund is heavily weighted in equity, the Board could reduce this weight through diversity and possibly reduce volatility. Mr. Penter replied that there is a problem with earning 6.75% and increasing the projected return. If the active managers start to earn more, that increases expectations. This is also a 10-year forecast versus the 30-year forecast that Malichi develops for the plan valuation, and his forecast runs slightly higher in their returns. Mr. Robertson asked if financing a small portion in "alternative" investments is worth the risk to the portfolio. Mr. Penter does not think it would, as Georgia law limits the fund to 5-10% in alternative assets, and the whole framework for installing this type of investment is complex and would cause further administrative difficulties.

Mr. Wall expressed concern about Chairman Powell's market comments. Mr. Penter shared that Mr. Powell stated that he will raise interest rates; that puts the U.S. market into a recession, resulting in lost jobs. The Federal Reserve has a limited tool set and should be focused on inflation and the job market. The job market is good, with some two openings per person. As for inflation, he can raise interest rates until the economy cools down, and he can then lower rates back down to 3-4%. Mr. Wall asked about the probability of rates being increased to 5.25% or 5.50%, and Mr. Penter agrees that is the level we will most likely see. The plan is expected to take some losses in the short term as bonds reprice. The bond managers will accept the losses and buy again at the higher rates. The rise in interest rates is good for the plan overall, as this money is reinvested at a higher rate. Right now, you can get a bond earning 5% yield. Mr. Wall expressed to the Board members that there is currently an inverted yield curve, normally leading to a recession.

Mr. Penter reviewed the allocation of plan assets against other pension plans. His data showed the plan being in 1st place in the asset group in domestic equity weighting. Given the sharp drop in equities, the plan performed poorly in 2022 but increased better the first month of 2023. There was a significant dollar loss during 2022 of around $370 million for the year, but the fund returned around $70 million of those assets this year. For this year, the plan is ranked #2 but was in the 95th percentile primarily due to equity exposure. Overall, the plan performed well, except for

Jennison, who was down 39% in 2022. Loomis still is in favor, as they are up 10% in 2023. The plan did well investing in the small caps this year and beat the market by 7%. But the large cap markets represent the biggest part of the portfolio, and their return just did not materialize.

Mr. Wall asked the status of the fund transition. Mr. Penter explained that they have contracts signed and should go to State Street and sign the investment manager agreements for the S&P 500 mandates. Then he'll go to the transition managers and ask them to bid on the transition services. He hopes to complete everything by the May meeting.

Mr. Penter shared the current 2023 environment with the group. The fund returned 7.5% in January as Jennison picked up. The volatile markets allowed the active managers to recapture some of their returns. Domestic equity was up 2.5% for the month, small cap was up around 2%, fixed income was up 20 basis points, and international equity was a little under. Overall, it was a good way to start the year.

Mr. Jacobs asked if the fund would be able to buy crypto stocks ten years from now. Mr. Penter explained that people investing in crypto stocks may be very disappointed. For starters, these investments are very lightly regulated. Another aspect is that these are binary investments which have a good return, or they are a complete failure. He advised staying away from these investments.

The Board then discussed the benefit payment funding request for March-May. Mr. Jacobs briefly justified why administration is requesting a higher-than-average amount from the Board to supplement these benefits. Mr. Penter recommends $10 million from State Street, $4 million from Frontier, and $6 million from Earnest Partners. Mr. Wall advised these amounts. Mr. McMullan motioned, Ms. Stevens seconded, and the Board approved the request.

Mr. Wall read the highlights from the continuing education section. He indicated that Ms. Ransom, Ms. Stevenson, and Mr. Thurmond need to work on their hours.

Mr. Littlefield motioned, Mr. McMullan seconded, and the Board approved the request from Pearly James Skipper, Jr., a Planning and Sustainability employee, to repurchase his prior benefit service.

Ms. Stevens motioned, Mr. McMullan seconded, and the Board approved the request for Orren Clay, a Roads & Drainage employee, to repurchase his most recent period of pension service. Mr. Clay is not eligible to repurchase his first period of credited pension service.

Mr. Littlefield motioned, Mr. McMullan seconded, and the Board approved the request from Antonio Taylor, a Sanitation employee, to repurchase his most recent period of past pension service. Mr. Taylor is not eligible to purchase his first two periods of credited pension service.

Mr. Robertson reported that he had been approached by numerous people that Group 3 participants could now fall under the Group 2 plan provisions. He suggested that the Board approve a request to see what it would cost the plan the do this. He suggested that the Board look at the cost of newly hired participants in Police and Fire to be included in Group 2 and then a second cost of having all recently hired participants move to Group 2. Mr. Wall then asked for comments from Mr. Goff and Ms. Ransom.

Mr. Goff stated as of March 4 his total vacancies were 21% in Fire Rescue. He claims that it is hard to fill vacancies when folks are leaving, and a better pension benefit would help. He said the 1% retirement benefit is not adequate and having to stay until age 67 is not feasible for Fire Rescue. He also mentioned that employees are jumping around and have no plans for the future.

Ms. Ransom indicated that the County would not be opposed for Fire Rescue to have their own pension benefit and to drop the 1% plan in favor of the 2.25% benefit. She indicated that the numbers are accurate, and there is a Fire Rescue class being prepared now that will come in April. She mentioned that many firefighters are leaving as retirees or when they complete their training. Mr. Robertson asked her how many people are being trained in the Police group; she responded that 295 are in training. She indicated that most districts are having a hard time recruiting employees in the police and fire areas and that is why the County upped the starting pay to $55,000, the highest in the region.

Mr. Wall stated that he would contact Segal to find out how much it would cost to convert the Group 3 people to Group 2 and have some idea of this by the next meeting. Mr. Robertson also indicated that firefighters work only 4.28 years, primarily after finding out about better work environments elsewhere. He also noted that Group 3 sworn police officers and firefighters receive an extra 3% paid to their 401(a) accounts.

Mr. Robertson suggested that the Board send another note to the CEO requesting a retiree COLA as part of the mid-year budget. Mr. Jacobs asserted that now is the time to send the letter, up to June. Mr. Robertson motioned, Mr. Goff seconded, and the Board approved the request to ask the CEO for a benefit increase for 2023.

Ms. Ransom indicated that there are 798 positions in the police force. With 295 in training, that makes a 37% improvement in the police force. She believes an increase in the dollar benefit in the plan may not go too far but would help subdue some of the downfall. Mr. Goff asked if this raise would be proposed anytime soon to the Board of Commissioners. Ms. Ransom indicated that is a decision that falls to Mr. Jacobs. Mr. Jacobs indicated that higher pay fixes a lot of things like rising healthcare costs and pension costs, and our Group 3 pension plan is a way to fund retirement by putting dollars into the 401(a) plan or other retirement vehicles.

Ms. Hicks, a County employee, took her turn addressing the Board, saying she was confused about the cost of her benefit. Mr. Wall and explained she was a Group 3 employee based on her hire date. This proposal of changing Group 3 employees to Group 2 would apply only to the police and fire departments. Her second question concerned an opinion on the Jennison fund and moving the funds around. Mr. Penter responded that Jennison owns the fund, and the Board would not move the money around without notifying them. For example, the Board could elect to take the assets from Jennison and invest them with another manager. Mr. Wall indicated that the Board hires the managers up-front but does not tell them which stocks to invest in.

Mr. McMullan motioned, Mr. Littlefield seconded, and the Board approved entering Executive Session to discuss disability retirement applicants.

Upon returning from Executive session, Mr. Littlefield motioned, Mr. Goff seconded, and Board approved a permanent disability application for Mr. Anderson Hood, Jr. This motion includes making him approved for permanent disability.

Mr. Littlefield motioned, the Mr. McMullan seconded, and the Board approved a motion to ask Mr. Paul Williams' doctor to clarify his opinion on Mr. Williams' ability to work for the next 12 months at any occupation for which he or she is reasonably qualified by education or experience.

Mr. Wall then adjourned the meeting.

Kenny Pinkerton
Clerk of the Pension Board