

CLAYTON COUNTY PENSION BOARD

Regular Meeting
8:30 A.M.

August 8, 2019

MINUTES

PRESENT: Terry Hicks, Chairman; Ramona Bivins, Secretary; Katherine Dodson and James Crissey, Members.

ALSO PRESENT: Jon Breth and Gwelda Swilley, AndCo Consultants; Rick Arenburg and Cass Hollis, Bryan Cave; Allison Halron, Clayton County Water Authority; Debbie Decker, Johnette Smith, Lucianna Farmer, Kerri Hathaway, and Patricia White, Finance Department; and Chris Butler, retiree.

1. Chairman Hicks called the regularly scheduled pension board meeting to order.
2. A motion to adopt the agenda was made by James Crissey and seconded by Katherine Dodson. The vote was unanimous.
3. A motion to adopt the Regular Meeting minutes from May 9, 2019, was made by Katherine Dodson and seconded by James Crissey. The minutes were unanimously approved and accepted.
4. Jon Breth of AndCo introduced a new colleague, Gwelda Swilley, who will be participating in the GAPPT. Ms. Swilley has worked with other consulting firms in the industry.

Mr. Breth updated the Pension Board on the transition to the new managers. Some of the delays and lack of progress revert back to TransAmerica. All contracts with the new managed accounts, Channing Capital, Eagle Capital, and Garcia Hamilton, have been executed. Those contracts and information have been sent to TransAmerican. AndCo has been waiting approximately 60 days for those accounts to be completed. This was accomplished approximately a week ago, but TransAmerica is not yet ready to receive any funds. AndCo has contacted all managers who will be terminated and directed them to continue managing assets until asked not to do so. All the managers will receive a letter telling them when services need to be terminated. At that time, they should halt trading in the accounts and move to liquidate the portfolio. Five to seven business days after receiving the letter, the portfolio should be liquidated. AndCo will then execute a transfer form with TransAmerica where by the money will move from the managed account into either a new managed account or a new mutual fund. Jon Breth stated that this process actually works very smoothly. James Crissey asked if the transition would be completed by September 30. Mr. Breth hopes that it will be completed by August 31. He anticipates all the new accounts will be open and ready by the end of this week.

Jon Breth proposes to break the process into three tiers. He is very cognizant that he does not want to liquidate portfolios, be in cash, and have the market go up significantly. A priority is to begin rebuilding the fixed income account which has become rather low in the overall allocation. Mr. Breth also wants to avoid any asset concentrations, such as all the Large Cap assets in cash, and to minimize partial liquidations. This will require approximately seven letters of termination and ten different forms with TransAmerica. TransAmerica has suggested more forms are better than fewer forms. Attempting to combine too many transactions on one form can cause problems. The plan involves moving monies directly from one account into another. For example the managed account of Congress Asset Management will be terminated, liquidated to cash, and the proceeds transferred into the Eagle Capital managed account. Most accounts will be moved in their entirety; however, there are a few instances where the money will be split into more than one account. When the Atlanta Capital managed account is terminated, five million dollars of those liquidated assets will be used to fund the Channing Capital managed account and the remaining cash will be invested in the Vanguard Total Stock Market Index Fund. Each set of transactions will be completed before another is begun. Mr. Crissey asked who maintained the documents which confirmed the transfers, such as the deposit slip he would receive when depositing funds into his bank. Ms. Decker explained she maintained those. Mr. Crissey also asked if she received those electronically. Ms. Decker said she might receive them electronically, but the transactions were always reflected on the TransAmerica statements. Jon Breth explained the process of confirmation from the initial letter notifying the manager to liquidate the account through TransAmerica receiving the funds and sending a final confirmation to Clayton County. Mr. Breth stated that the second quarter was very good and the pension fund is in a good position. He also feels the new managers are eager to receive their funds and begin serving Clayton County.

A copy of the *Clayton County ERS* and *Plan of Action for Funding Clayton County* are on file in the Chief Financial Officer's office.

5. Jon Breth, AndCo, presented the Quarterly Review and Performance Report. He began with the *Clayton County Georgia ERS, Investment Performance Review*. The Second Quarter was volatile but still demonstrated overall good growth. The U S Market was up about four percent. The Emerging Markets growth was considerably below that of the U S Market. At the same time, the bond and stock markets were both very strong. Bond expectations had been low, but interest rates dropped precipitously, causing Barclays US Aggregate to be up almost eight percent or double the expected annual return. Growth over value has been driving performance universally. Small Caps have lagged behind the Large Caps as companies moved to investments they felt were safe. Technology and Financials have done well while Energy has not, due to weakness in the price of oil and concerns over growth. A few large stocks, such as Microsoft, Apple, and Amazon, have driven the performance in the S & P 500, being responsible for 80% of the gains. Index funds continue to do really well because of the dominance of Large Cap stocks. The Fixed Income market environment has been strong as a result of interest rates dropping across the yield curve. Comparing AAA rated bonds to BBB rated bonds illustrates how a higher risk appetite has driven the outperformance for A and BBB rated bonds. In addition, the sensitivity of these areas to the interest rate movement has created a much better pricing environment for BBB rated bonds. High

yield bonds have not performed as well as might be expected because they are not as sensitive to fluctuation in the interest rates. This tendency did manifest itself in some of the bond managers in the pension portfolio. James Crissey asked for an explanation of "US TIPS". Mr. Breth explained that "TIPS" are the "Treasury Inflation Protected Securities". TIPS do not pay a coupon but reset over time based upon movements of inflation. Because they do not pay a coupon, they tend to be much more duration sensitive. They tend to move in line with the U S interest rates. When interest rates fall, that creates a positive environment for "TIPS".

From an asset allocation standpoint, compliance relative to their targets is a little ahead of maximum level within domestic equity and a little underweight in fixed income. The pension fund has been drawing down on fixed income to pay retiree benefits. By having TransAmerica transition to using US Equities to pay benefits, the fund had been put out of balance but improved overall. AndCo will continue to work to remedy that situation by rebalancing the portfolio with the new managers. Presently, the fund is overweight in US Equities versus International Equities. This has been positive as US Equities have outperformed International Equities. The fund is also a little underweight in US Fixed Income and slightly overweight in Global Balance. Unfortunately, this is not ideal for the portfolios because they are more exposed to equity risk. However, by the end of August the portfolios should be back in line with long term targets.

The Fiscal Year to Date Financial Reconciliation of the portfolio shows the Market Value on July 1, 2018, as 429.6 million, with a net out flow of 16 million when Contributions and Distributions are netted. This is offset with a gain of 29.4 million, resulting in a final Market Value of 442.7 million dollars on June 30, 2019. This was a good strong gain during the fiscal year which resulted in an Assumed Rate of Return of 7.1%, only slightly below the desired Assumed Rate of Return of 8%. Equities are the driving force of the overall performance. Atlanta Capital did very well while Glenmede under performed. Clearbridge, a growth manager, did well, but Vanguard Total Stock Market, which took the place of Alliance Bernstein, was only up 10 BPS. DePrince, Race & Zollow will be reduced and Paradigm Asset Management replaced. Congress Asset Management out-performed for the quarter. JP Morgan continues to perform close to the benchmark. The two Mid Cap allocations and two Small Cap allocations will be collapsed into two SMID Cap allocations, Channing and Jackson Square. Mesirow and Sawgrass both did well. International Developed Markets are up 4%. Oakmark International will have an increased allocation and an additional fund, American Funds EuroPacific Growth, will be added. At the same time, the portfolio will be moving away from the American Century Emerging Markets fund. The three managers, MFS International, Oakmark International, and American EuroPacific, will control the emerging markets allocation. Domestic Fixed Income managers combined to generate moderate out-performance relative to the aggregate index. MetWest Total Return was the most successful of the three. The portfolio will become more conservative by moving away from John Hancock, bringing in Garcia Hamilton, and combining Garcia with MetWest and JP Morgan. Templeton Global Bond will continue to be part of the portfolio, but its allocations will be reduced as part of the overall realignment. Going forward, the strategy is to continue to simplify the portfolio and bring the costs down.

Ms. Ramona Bivins asked why AndCo recommended leaving Paradigm Asset Management but keeping DePrince, Race & Zollow when the comparative performance chart showed Paradigm has out-performed DRZ on most of the indicators. Mr. Breth explained that Paradigm is charging the portfolio 55 annual BPS. In addition, they are a sector neutral manager that does not take any meaningful risks relative to the benchmark. Overall, they generate minimal relative performance.

They will be replaced with Eagle Capital which is an excellent manager, has a substantially better portfolio, and pairs well with DMZ. Jon Breth believes the pension fund is over paying Paradigm. He also believes they are a manager that replicates an index fund which is not what is wanted. Ms. Bivins requested the performance comparisons for the new, recommended managers compared to the present managers. Mr. Breth stated he can resend those comparisons to her. He explained that next quarter, the long term histories of the new managers will be built into the comparative performance chart so their performance histories can be easily reviewed. Ms. Bivins stated she still has concerns with DMZ going forward. Mr. Breth assured her that they would continue to monitor the managers. AndCo has tried to pair companies that will pair well with each other and improve the overall portfolio.

At the next meeting, Jon Breth wants to discuss the Third Quarter Review and bring in an educational piece to talk about real estate. Real estate is the next asset class that they would like to add to the portfolio.

A copy of the *Investment Performance Review*, the *Investment Manager Review*, and the *Market Update* are on file in the Chief Financial Officer's office.

6. Ms. Debbie Decker was asked to review the top three Custodial candidates, Key Bank, US Bank, and Comerica. Ms. Decker and Mr. Breth developed a questionnaire which was sent to each institution. The results were then compiled. Ms. Decker was most concerned with the statements and the time required to respond to Clayton County's needs. Her favorite statement was produced by Comerica and her second favorite was US Bank. However, Comerica had a two to three day response time, while the other two banks had a twenty-four hour response time. Overall, Ms. Decker's favorite of the three candidates was US Bank. She spoke with Jon Breth who felt any of the three would be acceptable. When Mr. Breth reviewed the three banks, he found that US Bank was the most expensive. However, the pricing illustration was done on a worst-case scenario where advices were mailed to the pensioners with their monthly payments. If advices are not mailed, the costs drop by fifty cents per person, making it much less expensive. Ms. Bivins asked how many advices are mailed out by TransAmerica at this time. Ms. Decker explained that in the past, TransAmerica has mailed out advices, but this is no longer done. At this time, most retirees have direct deposit and are accustomed to not receiving advices; however, this information is available on TransAmerica's website. Ms. Bivins felt that this would not be an issue to retirees since they are not receiving them now. Katherine Dodson asked if all the banks had websites which could supply this information. Debbie Decker believes that the custodial firms do provide some benefit information to retirees. Jon Breth agreed that they would provide some limited information, but that would not be a priority as they would be trust custodians. They would hold the managed accounts, hold mutual funds, and execute benefit payments. Mr. Breth believes that the Pension Board should also partner with an actuarial firm for other services such as calculations for retirement benefits. Katherine Dodson suggested asking the custodial bank to load the historical data. Ms. Decker does not believe that will be done but arrangements should be made so retirees can access this data when needed. Because Ms. Decker is retiring and many of the managers are being changed, she suggested waiting until November when many of the changes would be in place. At that time, the Board could decide whom they would like to choose and Ms. Decker's replacement could have some input into the choice.

Chairman Hicks feels the RFP for an actuarial firm should be coordinated closely with the choice of a custodial bank. He believes that TransAmerica should not be changed at this time in spite of the difficulties they are experiencing with them. Ms. Bivins asked if anyone had spoken with TransAmerica about non-delivery of services. Ms. Decker explained that not all the required data had been supplied to TransAmerica because the programmers had to be pulled from the project for another project. However, parts of the same data had been supplied to TransAmerica multiple times. In addition, the team working with Clayton County had also changed several times. Recently, Ms. Decker received a statement from TransAmerica with multiple errors in it. Ms. Decker feels part of the difficulty is that TransAmerica is more skilled managing Deferred Compensation funds than mass mutual funds. Mr. Hicks suggested evaluating the services being provided by TransAmerica and determining whether or not they are the best providers of those services. Jon Breth also noted several problems he had dealt with involving TransAmerica, such as providing services in a timely manner and providing services that were not necessary or needed. As an example, he described services currently being provided that were expensive and only necessary when managing a Deferred Compensation account. In addition, TransAmerica's cost is significantly higher than all the new candidates currently being considered. Ramona Bivins would like to submit a list of expectations to TransAmerica. Terry Hicks would also like to lay the County's needs out and see if they can be met. Both agree that if the services required by the County cannot be provided now, the County should choose a different custodian.

Lucianna Farmer suggested switching the custodian before changing actuaries. Buck Consultants, the current actuary, is used by several other departments outside of Finance. Because the actuary works for the entire county, a better rate can be negotiated.

Ms. Dodson, Ms. Bivins, and Mr. Hicks discussed a plan to lay out the County's expectations and present them to TransAmerica. Ms. Dodson suggested the concerns be written out so that they could not be misunderstood. All feel they need to speak with a TransAmerica representative in person and see if their expectations can be met. Mr. Hicks suggested the manager transitions be completed, a new Pension Manager hired, and then proceed with the custodial issues. Mr. Breth will work on identifying a person who can be contacted.

A copy of the *Custodian Follow Up Questions* is on file in the Chief Financial Officer's office.

7. Ms. Decker made the following requests for the approval of retirement benefits. Katherine Dodson made a motion that the benefits be approved. James Crissey seconded the motion. It was passed unanimously.

August 8, 2019

	Years of Service	Age	Form	Amount	Department
Normal Retirements					
Baker, Troy L.	30.08	54	100JS	4,789.05	Sheriff
Hankins, Cynthia R	22.00	59	10CC	2,428.22	E-911

Gardner, Robert M	18.17	64	10CC	2,087.89	Police
Hathaway, Leonard W	32.83	64	100JS	4,539.60	Police
Lane, Robert L	28.00	54	10CC	5,241.29	Sheriff
Nisoff, Joshua B	28.92	55	10CC	3,895.06	Fire
Page, Terry A	30.58	53	100JS	5,191.63	Fire
Richardson, Linda L	7.67	60	10CC	556.37	Tax Commissioner
Southerland, Joseph S	30.17	54	5CC	7,707.52	Sheriff
Vest, Mark A	25.00	56	75JS	3,035.72	Police
Walden, Betty A	12.83	65	5CC	198.11	Traffic Engineer
Walker, Timothy M	32.00	58	100JS	3,560.18	Water Authority

Early Retirement

Hamilton, Christopher S.	33.58	53	100JS	7,056.85	Water Authority
Dennis, Bobby E	20.67	58	5CC	2,062.17	Aviation
Maddox, Frank M	34.67	53	50JS	7,380.76	Water Authority
Patterson, John M	21.67	55	10CC	2,456.28	Sheriff
Tumlin, Donald L	20.00	57	100JS	2,482.78	Sheriff
Wilkie, Christopher E	15.92	55	10CC	1,095.57	EMS
Winters, Nikitisa D	16.50	55	10CC	1,244.89	Sheriff

Disability Retirement

None

Beneficiary Benefit

Barber, Catherine	1,960.75
Icenhour, Karen M	852.96
Lofton, Frankie L	1,528.52
McCullough, Elizabeth A.	1,520.40
Moss, Johnthan	1,284.87
Stewart, Barbara E	3,855.27

Vested Termination

Braxton, Jarvis T	9.67	35	5CC	1,015.83	Sheriff
Edmonds, Michael S.	8.58	41	5CC	815.84	Police
Hahn, Austin J	7.25	28	5CC	760.79	Fire
Hall, Frederick	7.08	36	5CC	674.65	Prison
Iwanoto, Augusto G	7.25	38	5CC	785.05	Police
Williams, Marina	8.33	58	5CC	474.60	Magistrate Court

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Atkinson, Jr., Curtis R.	8.25	53	R-I-L	14,193.36	Trans. & Development
Burton, Wanda	11.75	49	R-I-L	35,768.18	Sheriff
Cutts, Laquanda J	11.67	32	R-I-L	20,338.17	Sheriff
Grimwade, Daman A	11.00	33	R-I-L	32,735.82	Police

Humphrey, Scott R	12.17	52	R-I-L	26,940.40	Trans. & Development
Key, Marquitra L	12.25	49	R-I-L	29,268.08	Juvenile Court
Malloy, Charlotte A	12.08	37	R-I-L	42,016.63	Sheriff
McLean, Steven A	9.67	39	R-I-L	32,230.30	Sheriff
Ralls, Bryant L	8.17	37	R-I-L	25,861.95	Prison
Shumate, Juan T	8.50	71	R-I-L	16,235.91	Senior Services

8. Chairman Hicks reminded the Board Members that the GAPPT Conference was September 17-19, 2019. Registration has been completed and hotel reservations made for all members attending. Ms. Decker has emailed all Board Members their reservations.
9. Ramona Bivins made a motion to adjourn the meeting. It was seconded by Katherine Dodson. The vote was unanimous.

Clayton County Pension Board

Terry R Hicks
Terry Hicks, Chairman

11/14/19
Date

Ramona Bivins
Ramona Bivins, Secretary

11/14/19
Date