CLAYTON COUNTY PENSION BOARD

Regular Meeting
8:30 A.M.

May 9, 2019

MINUTES

PRESENT: Terry Hicks, Chairman; Pamela Ambles, Vice Chairman; Ramona Bivins, Secretary; and James Crissey, Member.

ALSO PRESENT: Jon Breth, AndCo Consultants; David Kershner and Kevin Spanier, Buck Consultants; Debbie Decker, Kathy Stargell-Clark, Lucianna Farmer, Kerri Hathaway, and Patricia White; Finance Department.

1. ~~Chairman Hicks called the regularly scheduled pension board meeting to order.~~

2. A motion to adopt the agenda was made by Ramona Bivins and seconded by Pamela Ambles. The vote was unanimous.

3. A motion to adopt the Regular Meeting minutes from February 14, 2019, and the Called Meeting minutes from March 14, 2019, was made by James Crissey and seconded by Pamela Ambles. The minutes were unanimously approved and accepted.

4. David Kershner and Kevin Spanier, Buck Consultants, discussed the five year projection results from the *Findings of the Actuarial Study Regarding Assumptions, Including Assumed Rate of Return*. Mr. Kershner explained the parameters of the study. The five year study, requested by the Board, looked at assets, liabilities, and contributions under three different scenarios. The financial data from July 1, 2018, was used to calculate the years 2019 through 2023. The three scenarios each made different assumptions about the future returns. Scenario #1, Baseline, assumed that everything remained as it was. No actuarial assumptions were changed, including the 8% investment return rate. It also assumed that all predictions were met. Scenario #2 also made no changes to the actuarial assumptions, keeping the 8% investment return rate. However, this projection assumed the asset returns were below expectations at 6.50%. Scenario #3 assumed that investment returns, asset returns, and salary increase rates would all be reduced over the five year time span of the study. It also assumed a 6.50% investment return rate. In each scenario, Buck Consultants assumed the minimum required contributions under Georgia statutes to fund the plan each year. The Projection Scenarios showed Scenario #1 with an 8% investment return, salary increases at 3% through 2023 and 4% thereafter, and asset returns of 8% each year. Scenario #2 showed an 8% investment return, salary increases at 3% through 2023 and 4% thereafter, and asset returns of 6.50% each year. Scenario #3 projected changes during the five year period in which investment returns declined from 8% to 6.50%, salary increases declined from 3% to 2.25%, and

asset returns remained steady at 6.50%. Chairman Hicks asked about the influence of mortality rates on the new figures. Ms. Decker also asked if the mortality tables were expected to change. Mr. Kershner explained that the mortality tables would change. He expected to move to a mortality table that predicted longer lifespans than the present one; however, the economic assumptions displayed in the graphs had a much greater impact than mortality would. Mr. Spanier explained a new mortality study had recently been completed and information from that study would be discussed at the next meeting. The Projection Results Summary, page 4, showed Clayton County and Water Authority contributions of 13.9% of employee salary over the five year period. The amounts remained the same in Scenarios #1 and #2 because the rate of salary increase remained the same. In Scenario #3, the projections decreased the contributions over time due to the assumption that the pay increases would decline. The additional contribution needed, that amount over the 13.9% required by Georgia Law to meet minimum funding requirements, was the amount sensitive to the funding changes. This amount increased substantially during the five year period. The additional contributions were the amount needed to amortize the unfunded liability over thirty years. The unfunded liability grew as assumptions become more conservative and asset losses were introduced by reducing earnings from 8% to 6.50%. Jon Breth asked why the rate had been dropped so dramatically to 6.50%. Ms. Decker and Mr. Kershner explained that this had been requested by the Board to illustrate the effects of a five year step-down from the 8% to 6.5%. The last two items on the Projection Results Summary chart showed the projected funded ration, the ratio of assets to actuarial liabilities. Scenario #1, #2, and #3 showed 71.2%, 68.0%, and 59.8% respectively. However, if the conservative assumptions were adopted in five years, the funded ratio drops approximately 10% in both Scenario #1 and Scenario #2. There was no change in Scenario #3 as the figures used there already anticipated the more conservative assumptions. The final analysis of all the figures would indicate that the increased contribution from 2019 to 2022 would result in additional assets of $20 million by 2023. Mr. Kershner explained that if the Board felt that the more conservative assumptions portrayed in Scenario #3 were the best estimates of future experience, they should consider making the changes now instead of using a step down approach or waiting five years. It was the opinion of Buck Consultants that 6.50% was too conservative. They believed that 7.50% was more appropriate and put the Board in line with other comparable Public Retirement Systems.

Ms. Pamela Ambles asked if there were any specific advantages or disadvantages to stepping down or moving immediately. Mr. Kershner mentioned that the consequence adopting the more conservative assumptions immediately was that more would be invested in the fund. This would cause the fund to increase more rapidly in the near term. However, if the Board felt that they could not afford the increase in contributions, a step down approach would be appropriate. Ms. Decker observed that the salaries increased until 2022 then decreased in 2023. Mr. Spanier explained this was due to the change in future salary. Ramona Bivins asked what the outcome would be if the actual salary increases were higher than the projected salary increases. She explained that the budget proposed a 3% Cost Of Living salary increase and an additional Merit Increase of up to 6.25%. The second phase of the compensation study would also result in an additional increase for some employees in the form of longevity raises. The salary changes would result in an actuarial loss which would increase contributions going forward. The plan would be revaluated based on the higher liabilities. The projections assume that the figures would change from year to year but the overall average would fall within the projected parameters. Mr. Kershner suggested that additional projections, incorporating the effects of higher than anticipated salary increases, could be run. Chairman Hicks explained that the future liability of higher potential retirement benefits outweighed the increased funds from higher salaries. Ms. Ambles also pointed out that the liability for the county would also be higher due to the 13.9% which the county contributed. Ms. Decker was curious about the inflation rate used in Scenario #3. Buck Consultants used standard, accepted interest rates. At this time, they felt the 3% was too high. Experts in the field were predicting 2.25% for the long term.

Kevin Spanier presented the *5-Year Projection Results* from each of the three scenarios. Scenario #1 showed the total employer contributions increasing in 2019 and 2020, but dropping steadily after that to 14.10%. Conversely, the funded ration was lower in 2019 and 2020, increasing to 71% in 2023. Scenario #2 was the same as Scenario #1, only with a 6.50% earning rate. On this graph, both the additional employer and the total employer contributions increased. The funded ratio decreased across all years. Scenario #3 displayed the additional employer contributions and the total employer contributions increasing to a high of 22%, then declining slightly. At the same time, the funded ratio dropped from 70% to 60%. Mr. Crissey commented that the rate lowered dramatically. Buck explained that the pension fund was 69.5% funded at this time if the rate of return was 8%; if not, the plan was not funded at that percentage. Mr. Crissey also observed that 2019 and 2020 seemed to be the years with the most impact. Kevin Spanier explained that asset return losses were averaged over a five year period. Currently, there are six million dollars in deferred losses from previous years still effecting the figures. Mr. Kershner explained that losses are averaged to avoid large spikes in the employer contributions. This allowed the employer to fund and budget for these additional expenses. Chairman Hicks asked if there were any positive aspects to the funding. There were years with high asset returns. As some previous years fell from the five year projection, the percentages would stabilize themselves. The last two slides in the presentation gave a final comparison of the total employer contribution percentages and the actual figures used to prepare the graphs.

Chairman Hicks felt that 6.50% was not affordable for the plan, but that the 8% rate should be lowered to a more realistic level. David Kershner felt that, 8% had been a historically achievable rate and might be again in the long term. Jon Breth stated that many of his clients had gone to 7.25% -7.50%. He felt that was a more realistic rate than the 6.50%. Ramona Bivins suggested increasing the county's contribution from 13.9% to 15%. Chairman Hicks believed the county had already been contributing this amount due to the additional funding required. He felt it was a good idea to continue. Mr. Crissey commented that he also felt this was the time to increase the percentage. Ms. Bivins did not think the increase could be finalized during the current fiscal year but could be put before the Board for the next fiscal year's budget. Chairman Hicks explained that the percentage contributed by the county was included in the pension plan documents. A change in the contributions would require the plan documents to be rewritten and submitted for approval. Ms. Bivins explained the process of moving the pension funds budgeted for unfilled positions into the pension fund. Mr. Crissey asked for clarification of this process. Mr. Kershner stated at this time the pension fund was cash flow negative. The additional funds suggested by Ms. Bivins would allow the county to keep a positive cash flow.

Ms. Decker asked about the figures on page 16. She was unclear whether or not the 2019 total contribution rate would be 15.87% after the assumptions had been lowered. The graph in question used 6.50% as the return rate. With a return rate of 7.75%, assets would be higher and the contribution rate would be less. David Kershner suggested that when they returned to present the July 1, 2019 figures, they present a baseline scenario with the current assumptions and another with an investment return of 7.50-7.25% to show what would happen to the total employer contribution percentage. Chairman Hicks believed lowering the return rate and acting upon Ms. Bivins suggestions would be further steps into getting the plan fully funded once again. Ms. Decker understood that the assumption would remain the same for the coming valuation but the rates would be revisited in November after the board received actual valuation results. Pamela Ambles asked if Board of Commissioners' permission would be required to move those unfilled position pension funds into the actual pension fund. The Board had already approved these funds for pension so no additional approval was necessary. Debbie Decker asked if the Board would like Buck to present 7.50% and 7.75% assumed return rates when they presented in November. Mr. Kershner also felt it was important to present the corresponding inflation rates associated with the rate of return, 7.50% rate of return with a 2.50% inflation rate and 7.75% rate of return with a 2.75% inflation rate. This would allow the information to be internally consistent. Mr. Crissey asked about the inflation rate rising. That was not an issue at this time as the government was controlling the inflation rates; however, forecasters would agree that a long term inflation rate of 3% was too high. Chairman Hicks thought all factors should be as realistic as possible.

Kevin Spanier reminded the Pension Board that they could supply training pertinent to HB196. Buck Consultants could supply applicable education on site. Ms. Bivins felt that on-site training could be a good, cost effective option. Chairman Hicks felt it was something the Pension Board would consider.

A copy of the Buck Consultant's *5-Year Projection Results* is on file in the Chief Financial Officer's office.

5. Chairman Hicks introduced Jon Breth of AndCo Consultants. Mr. Breth began with a discussion of the *Investment Performance Review*. The market performance for the first quarter of 2019 was very good. The S&P 500 was up 13.6%; while LargeCap and MidCap funds were up 14% and 17% respectively. SmallCap funds were up 15%. Small and MidCap funds were hit disproportionally harder during the 4th quarter of 2018 when people anticipating a recession avoided risk. At the time, the United States' stock market was strong which beget a strong international market. Fixed income also performed well. Barclay's US Aggregate was up 2.9%, while Barclay's Corporate Investment Grade bonds were up 5%. High yield bonds were up 7.5%. High risk assets yielded the highest first quarter returns. The reallocation of portfolio assets must be considered because the funding of benefits, mixed with a strong performance in the stock market, had pushed the US Equity allocation outside its upper boundary. As the stock market stabilized, it would be appropriate to look at rebalancing the equity allocation to bring it back in line with long term targets. The total fund value as of July 1, 2018, was $429.6 million. Net outflows of approximately $15 million were largely off-set by $13.8 million in returns, bringing the FYTD value as of March 31, 2019, to $428.3 million. The total fund overall return was up

10.42%. The FTYD was up 3.3%. April returns were up another 3.1%, bringing the total FYTD return to 6.6%. The pension fund had a 73% equity allocation which was necessary to produce returns. As the rate of return is dropped from 8% to 7.5%, a high equity allocation would still be necessary. Some equity funds could potentially be used to fund real estate investments. Overall performance was mixed with some strong out-performers such as Atlanta Capital and DePrince, Race & Zollow. Sawgrass had continued to underperform. International Equity, Developed and Emerging Markets, held up well with MFS International in a position to outperform. Total Domestic Fixed Income had also done well. John Hancock was the most aggressive of the bond managers, having good returns. Overall a great quarter which put the pension fund on track to earn the assumed rate of return.

A copy of the *Investment Performance Review* is on file in the Chief Financial Officer's office.

6. Chairman Hicks gave a summary of the proposed Investment Manger interviews. Ms. Bivins, Ms. Decker, and Chairman Hicks interviewed the three prospective account managers: Channing Capital, Eagle Capital, and Garcia Hamilton. Channing Capital, a SMID CAP manager, was based in Chicago with an office in Atlanta. They currently had 1.9 billion in assets under management in the public sector. Eagle Capital, a Large CAP Value manager, was based in New York. This company currently had 28 billion in assets under management. Eagle's investment strategy used an eight member investment team which followed a very focused approach. The last firm, Garcia Hamilton, was based in Houston. They had 13.4 billion in assets. They only invested in very high quality United States bonds, "A" or better, and no foreign or junk bonds of any kind. They were aggressive in interest rate positions with a proven history of managing interest rate risk well. Also, Garcia Hamilton was very liquid, allowing funds to be available within a few days. Both Channing Capital and Garcia Hamilton were MBE certified. Chairman Hicks felt comfortable with all the managers.

7. Jon Breth, representing AndCo, discussed the proposed manager changes. He explained that AndCo was not significantly changing the plan's asset allocations but was focused on simplifying the plan. Their approach was to reduce the number of managers and replace those that were not performing as desired with new managers or index funds. In Large Growth Funds, Alger Capital was suggested to compliment Clearbridge LCG, and in Large Value Funds, Eagle Capital complimented DRZ Large Value. Both Small/Mid Cap managers, Jackson Square and Channing Capital, were new. In International markets there was volatility around the dedicated allocation to emerging markets. American Funds EuroPacific Growth was brought in to counter balance the value volatility of Oakmark International and to maintain a high allocation in emerging markets at a cost effective fee. These and other minor changes would reduce the number of managers, replace weaker managers with index funds or new managers, and reduce costs by 10 bps, saving approximately $300,000. Paradigm, Mesirow, and Sawgrass would be removed and three new managers, Eagle Capital, Channing Capital, and Garcia Hamilton, would be added. Jon Breth would also work with TransAmerica to implement the new accounts. Mr. Crissey asked if the Pension Board or TransAmerica controlled the time frame for the account implementation. Mr. Breth explained that TransAmerica did so, but he felt the changes could be completed in

approximately forty-five days. Ms. Bivins wanted to know the advantages of choosing DRZ over Paradigm. Mr. Breth explained that he did not expect Paradigm to out-perform going forward. In addition, Ms. Decker reminded the Board that DRZ had continued to give a reduction in their fees. Ms. Ambles asked if Chairman Hicks, Ms. Bivins, and Ms. Decker felt comfortable with the new proposed managers. Chairman Hicks stated that he did. Jon Breth commented that the new managers would be very responsive to the needs of the Board. In addition, Mr. Crissey was pleased that approximately half a million dollars would be saved by these changes. Ms. Ambles made a motion to accept the changes proposed by AndCo. Mr. Crissey seconded the motion. The vote was unanimous.

A copy of the *AndCo Recommended Clayton County Manager Lineup* is on file in the Chief Financial Officer's office.

8. Jon Breth presented the findings of the *Custodian RFQ Review* conducted in April. TransAmerica charged the Pension Fund approximately $250,000 a year to administer the plan. In an effort to reduce custodial fees, AndCo targeted six national custodians, all of which responded with quotes. PNC offered an estimated custody total of $53,533.82, with 1.25 bps in lieu of account charges. They would not submit a flat fee quote and they do not offer GASB reporting services. Comerica Bank's estimated custody total was $48,915.58 with a flat fee quote of $55,000.00. However, they charged a variety of other benefit fees which Mr. Breth did not recommend. BMO Harris also does not offer flat fee quotes. Their estimated custody total of $32,500.00 was lower but other benefit fees were higher. Mr. Breth felt the Northern Trust estimated custody quote of $60,430.72 was very outsized. Key Bank supplied an estimated custody total and a flat fee quote, $47,085.29 and $50,000.00 respectively. Their benefit fee structure was among the lowest. U.S. Bank's estimated custody total was $48,370.29, with a flat fee quote of $55,344.00. The custodian who stood out most for Mr. Breth was Key Bank. Comerica is another bank he felt comfortable recommending. He also liked US Bank but was disappointed in the high benefit numbers. He suggested the Board might want to work with Buck Consulting on determining costs for generating benefit calculations. Even with this addition, there would be a significant savings in custodial fees. Ms. Bivins and Ms. Ambles expressed interest in knowing if these were the three banks Mr. Breth would recommend and in what order he would rank them. He stated that he had clients who worked with all three and he would recommend them. Key Bank, US Bank, and Comerica was the order in which he would place them. He favored US Bank over Comerica because some of his clients have had minor difficulties with Comerica. Ms. Bivins would like Ms. Decker to speak with each of these banks. After a discussion, it was determined that Ms. Decker would like to see statements from each institution, determine the quality of the customer service, evaluate the relationship the Board might have with the manager, and determine any additional costs for employee benefit calculations.

   A copy of the *Custodian RFQ Review, May 9, 2019* is on file in the Chief Financial Officer's office.

9. Ms. Decker made the following requests for the approval of retirement benefits. Pam Ambles made a motion the benefits be approved. Mr. Bivins seconded the motion. It was passed unanimously.

May 9, 2019

	Years of Service	Age	Form	Amount	Department
Normal Retirements					
Eula Karen Ammons	16.25	62	75JS	1,049.87	Police 911
Mitchell E. Burkdoll	8.25	60	100JS	399.63	Sheriff
Ramona P. Clark	17.42	59	10CC	1,249.32	Library
John M Foster	25.08	55	75JS	3,809.27	Fire
Craig S Hammer	31.92	55	10CC	5,953.28	Police
Claudia Gail Morris	11.83	65	5CC	373.85	Sheriff
Anthony G. Oglesby	16.25	62	50JS	1,565.86	Corrections/Prison
Constance F. Rocker	25.08	56	10CC	2,442.94	Superior Court
Early Retirement					
Eric T. Hein	21.50	57	100JS	1,738.45	Sheriff
Disability Retirement					
None					
Beneficiary Benefit					
Brenda L. Hill				580.06	
Janice J. Northcutt				2,347.33	
Denise J. Lawhon Powers				4,671.19	
Janet F. Tyler				967.74	
Vested Termination					
Sherry A Amerman	17.58	43	5CC	2,195.40	EMS
Anthony D. Bird	7.42	39	5CC	795.57	Police
Steve A. Brown	7.42	49	5CC	782.00	Sheriff
Wesley R. Brown	17.00	45	5CC	1,417.58	Trans. & Dev.
Jenitha L Gouch	14.58	46	5CC	1,460.62	Solicitor General
Traci M. Harris	11.25	49	5CC	1,122.11	Sheriff
Scott R. Humphrey	12.17	52	5CC	840.16	Trans. & Dev.
Michael R. Johnson	22.83	44	5CC	3,784.76	Sheriff
Steven A Mclean	9.67	39	5CC	1,190.01	Sheriff
Larance R Palmer	12.33	56	5CC	1,309.84	Sheriff
Robert B Royl	15.58	38	5CC	2,109.12	EMS Rescue
Mattie L. White	7.00	42	5CC	491.08	Solicitor General
Refund - in - Lieu					
Justin S Basnight	9.25	35	R-I-L	30,308.36	Fire
Juanita K Brawner	8.17	51	R-I-L	15,029.98	Parks & Recreation
Tamara E. Clark	8.58	45	R-I-L	26,449.79	Sheriff
Aaron D. Fried	17.42	45	R-I-L	45,699.64	Police

Kevin A Mitchell	12.83	32	R-I-L	42,670.64	EMS Rescue
Claude P. Neely	12.00	50	R-I-L	38,258.24	Sheriff

10. Chairman Hicks asked that Board Members to let Debbie know as soon as possible if they plan to attend the GAPPT Conference in September so she can make reservations. Ms. Bivins also made it clear that, contrary to rumors, the Pension Board was not offering any early retirements.

11. Ramona Bivins made a motion to adjourn the meeting. It was seconded by Pam Ambles. Vote was unanimous.

Clayton County Pension Board

Terry R Hicks — 11/14/19

Terry Hicks, Chairman — Date

Ramona Bivins — 11/14/19

Ramona Bivins, Secretary — Date