CLAYTON COUNTY PENSION BOARD

Special Called Meeting
8:30 A.M.

March 14, 2019

MINUTES

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

ALSO PRESENT: Jon Breth, AndCo Consultants; Rick Arenburg, Bryan Cave; Debbie Decker and Rashida Fairley, Finance Department.

1. Chairman Hicks called the Special Called Pension Board meeting to order.

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

3. Chairman Hicks called for the review and discussion of the Actuarial Mid-Year Valuation findings which had been previously distributed to the Board members for their review. The mid-year valuation had been conducted to help the Pension Board understand and determine the funds needed from Clayton County and the Water Authority.

   Debbie Decker suggested that Ms. Bivins explain the summary of estimated contribution needed to meet the minimum funding requirements outlined on the last two pages of the exhibit. Ms. Bivins felt this would be better done after a discussion of the findings. Exhibit 1 shows different amounts of estimated payroll. The amount of funds that the County and Water Authority would have to contribute is contingent on the payroll. Ms. Bivins and Ms. Dodson agreed that the estimated annual return on assets assumptions should be 3%. Buck, the actuarial firm, included several scenarios on this report. For example, with a payroll of $123.7 million and a 0% return, $1.2 million would be needed to meet funding requirements; however, with a 3% return, only a little over $1 million would be required. Ramona Bivins asked Jon Breth about the return rate for this year. Through February of this year the rate was 2.3%. A continued rate of 3% to 3.1% is reasonable. Ms. Decker pointed out that in Exhibit 2, payroll was shown as $120 million. Ms. Bivins stated that in the upcoming budget Clayton County employees may have a merit and/or COLA increase. Buck did not budget a raise into the payroll figures. Increased employee salaries benefit the pension fund. Ms. Bivins also explained that Dennis Johnson, Deputy CFO, and she had discussed moving all the pension funds reserved for unfilled positions into the pension fund. As these funds were already budgeted and approved for pension, no additional Board approval would be required. Ms. Bivins believed that these funds, combined with other strategies being used, could make $1.5 to $2 million available for pension funding. The proposal showed that a total of $1,051,000 would be needed from Clayton County and the Water Authority, 85% and 15% respectively, to comply. Ms. Allison Halron, Water Authority Finance Director, also received the Mid-Year Valuation report. Ms. Bivins stated that the Water Authority's portion is $158,000. Chairman Hicks spoke with Ms. Halron after the February meeting. He believed that she had already proposed to include some of this amount in the current budget which would make the funds available at this time. Ms. Bivins believed the County could make their contribution without difficulty based on the plan that she and Mr. Johnson developed; however, she did feel that a conversation with the Board of Commissioners about additional funding was appropriate.

Ms. Decker reiterated that a 3% return was reasonable. She checked the market values and found that the Pension fund was $425 million as estimated. Also, funding was on track if things continue to go well until June. Ms. Bivins asked Chairman Hicks about potential salary increases at the Water Authority. He believed those employees would receive raises. Chairman Hicks asked for additional discussion on the Mid-Year Valuation report. As there was none, he moved to the next agenda item.

A copy of the Mid-Year Actuarial Valuation Report is on file in the Chief Financial Officer's office.

4. Mr. Breth reviewed the findings from a *Review of Morgan Stanley Inputs-2014 Return Study* conducted in 2014. In the 1988 to 2014 time period used for the study, annual returns were produced in a range from almost 7% for U.S. Core Bonds to almost 15% for Emerging Markets. This was a direct result of the government raising interest rates to control inflation. This produced a 30 year Bull Market which had ended, resulting in a shift from U.S. Core Bonds to Equities. The expected return would be 9.7% if historical returns were still being paid. Mr. Crissey noted that a comment on the study indicated that the 9.7% return was well above expectations going forward. Mr. Breth explained that Morgan Stanley had suggested changes, bringing the expected return to 8.3%, which justified the 8% assumed return used by the Pension Board.

   Mr. Breth also showed a comparison of returns from J.P. Morgan verses Morgan Stanley. The asset allocations projected by JP Morgan were lower than those projected by Morgan Stanley. Documents prepared by Mr. Breth show that the JPM forecasted return for 2019 was 6%-7%, significantly lower than those projected in 2014. Core Real Estate had not been utilized in the past; however, by doing so now, the rate of return could be improved. The proposed re-organization was expected to maintain a return level of 7%-7.75%, while managing risk.

   Ramona Bivins discussed the three state requirements that must be met before any Pension funds could be moved to alternative investments. Ms. Bivins wanted to be sure any alternative investments meet all three criteria before they were considered. Mr. Breth explained that the limited allocation of 5% would be more impactful in real estate and less nebulous than other investments. The funds focused on would have an approximate minimum of five billion dollars under management which would meet the state requirements. Chairman Hicks noted that alternative investments had been difficult to understand and that the suggestion to consider real estate had been made previously. He also noted that the Buck study was based on 8%. Ramona Bivins stated that Ms. Decker would be doing an RFI for actuarial services related to these changes. Ms. Decker indicated that she had called some individuals. She also explained that in order to do an accurate and complete study, the individual must have all the pertinent information in their system. The individual being discussed did not have all the required information and would not be able to receive it all quickly enough to generate a study by the May deadline. Buck Global would charge $10,000 to do the study. Ms. Bivins felt this was satisfactory and gave Ms. Decker permission to move ahead.

   A copy of the Review of Morgan Stanley Inputs-2014 Return Study is on file in the Chief financial Officer's office.

5. Mr. Breth presented the policy statement, *Statement of Investment Objectives and Policy Guidelines for Clayton County.* Mr. Arenburg and Ms. Decker helped identify and change language in the proposal. Language referring to Group Annuity Contracts had been removed. In addition, Mr. Breth included changes in provisions proposed by AndCo. Ms. Decker asked if the Board decided to lower the assumed rate, would the asset allocation need to be revised. Mr. Breth did not feel that would be necessary. Chairman Hicks asked if the Board was comfortable with the changes. As they were, Katherine Dodson made a motion to approve the policy statement and Jim Crissey seconded the motion. It was approved unanimously.

   A copy of the Statement of Investment Objectives and Policy Guidelines for Clayton County is on file in the Chief financial Officer's office.

6. Jon Breth presented information applicable to the manager changes suggested to the Board in February. He had identified three potential new managers: Eagle Capital, Channing SMID Value, and Garcia Hamilton. He requested draft agreements from these three with language applicable to Clayton County and Georgia law. Mr. Arenburg and his associates reviewed the documents and suggested provisions they felt necessary in all new agreements. All three recommended managers accepted these changes, eliminating any potential contract problems. Mr. Breth also contacted TransAmerica to discuss time frames for implementation. They indicated it would take three weeks to add a new fund to the platform and four to six weeks for managed accounts. He indicated that this time frame seemed excessive but could be acceptable. However, when these changes have been completed, he would like to revisit TransAmerica's services to Clayton County.

The recommendations were to simplify the portfolio, going from seventeen individual managed line items down to fourteen. Vanguard Total Stock Market Index Fund would replace two Large Cap Core managers, Atlanta Capital and Glenmeade. All that would be required to liquidate these funds would be letters to Atlanta Capital and TransAmerica. The cash from these funds would be placed into the Vanguard Total Stock Market Index. Clearbridge would be kept and Alger Capital Appreciation would be added. Alliance Bernstein Concentrated Growth would be liquidated and the majority of the funds transferred to Alger Capital with any remaining funds being distributed to Vanguard. DRZ Large Value would be kept and Eagle Capital added. Eagle Capital would be given the opportunity to keep any holdings from Paradigm they chose. Channing Capital and Jackson Square would be added while Congress Asset MCG, JP Morgan MCV, Sawgrass SCG, and Mesirow SVC would be liquidated. Some of these funds would be used to fund Channing and Jackson with the rest sent to TransAmerica for investment in mutual funds. International Value funds would require a letter to liquidate American Century and move the funds into EuroPacific Growth Fund. Emerging markets would be moving away from dedicated emerging markets and allowing the managers to have more independence in opportunistically investing on their own. Mr. Crissey was concerned with the affect England withdrawing from the European Union would have on international investments. Mr. Breth felt that most of the volatility was past and the Pension Board would see continued growth. The final recommendation was removing John Hancock Bond, keeping J.P. Morgan Core Plus and MetWest Total Bond, and adding Garcia Hamilton Core Bonds. The changes to the portfolio would have a significant fee reduction of approximately $360,000.

Pam Ambles expressed interest in obtaining additional information explaining the reasons for and benefits of the changes. Mr. Breth reviewed the information supplied in February. He explained the portfolio needed to be simplified. Many managers had been consistently underperforming while charging high fees. Also, there were too many managers in high volatility areas of the portfolio. The long term returns for the plans could be improved by consolidation, a reduction of the fees, and not lowering expected returns. Mr. Crissey asked about the reduction in fees which would be approximately $360,000. Ms. Bivins stated that the board was required to receive multiple recommendations. She and Chairman Hicks felt they would like to speak with representatives from the six new managers. Mr. Breth stated he could arrange a presentation or representative from each firm. Pam Ambles recommended having a representative on-site to speak with the Board. Ms. Bivins asked if it would be possible to get references for the proposed new managers from current clients.

Debbie Decker had concerns about the ability to continue using Alliance Bernstein while the selection process was being completed. A solution was to open the Vanguard Total Stock account, since they would not be interviewed, and move Alliance Bernstein into it. Mr. Breth suggested moving forward with terminating Atlanta Capital and Glenmeade Large Cap. These two and Alliance Bernstein could be used to fund the Vanguard Total Stock allocation. Ms. Bivins reviewed the recommendation to terminate Alliance Bernstein, Atlanta Capital, and Glenmeade; open the Vanguard Total Stock Market Index Fund; and use the funds from the three terminated managers to fund Vanguard.

A copy of the AndCo Recommendation Summary is on file in the Chief Financial Officer's office.

7. Chairman Hicks reviewed the desire to interview six new managers and proceed with the proposed terminations, additions, and transference of funds. Ramona Bivins made a motion to proceed with the terminations of Alliance Bernstein, Atlanta Capital, and Glenmeade, and to move these funds into Vanguard. Katherine Dodson seconded the motion. The motion was unanimously approved.

8. Jon Breth shared the gains made in February which brought the overall year to date portfolio gains to approximately 10%. He also wanted to share more information about TransAmerica. At this time, TransAmerica was the Pension Fund's custodial bank and handled benefit payments. They had promised other services which had not materialized. He would like to get some specifics about the benefit plan and release a blind RFI to the custodial market place. He felt that the current cost was double the actual market price. Ms. Decker and Ms. Bivins discussed problems that had occurred during the six years the Pension Board had used TransAmerica. Ms. Decker and Mr. Breth had previously discussed using actuaries for benefit calculations. Clayton County had done so in the past. While the actual pricing was not known, it was thought that this would also result in substantial savings. Jim Crissey asked why TransAmerica was going to be presenting at the next meeting. Ms. Decker explained that their presentation was for the Deferred Compensation plan. She felt they had more expertise at administering this type of account. Ms. Decker also believed TransAmerica's reporting was inferior. Some further discussion about special benefit calculation issues followed. Pam Ambles asked if Clayton County Pension had access to the TransAmerica data. Ms. Decker said that they did.

9. Chairman Hicks discussed changes made in the time line for education and certification for new and existing Pension Board trustees. Ms. Decker will notify Board members of conferences and educational opportunities.

10. Chairman Hicks asked for a motion to adjourn the meeting. Ramona Bivins made the motion which 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