CLAYTON COUNTY PENSION BOARD

Deferred Compensation Meeting
11:00 a.m.

February 13, 2020

MINUTES

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

ALSO PRESENT: Mr. Rick Arenburg and Ms. Cass Hollis, Bryan Cave Law Firm; Chad Smith, Morgan Stanley; Kerri Hathaway, Patricia White, Shawannda Wilson, and Vanessa Sarden, Finance Department.

1. Chairman Hicks called to order the Deferred Compensation Meeting.

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

3. A motion was made by Ms. Dodson to adopt the minutes from November 14, 2019 as written and it was seconded by Ms. Ambles. The vote was unanimous.

4. Chad Smith of Morgan Stanley opened with a report from the *Clayton 457 DC Plan –Q419 Review,* advising the 4th Quarter and the completion of the DC Transition Plan to Prudential was successful. He said the transition has been a good process and the combined assets in the DC Investment Plan finished at $27.1 million combined assets for the quarter. He also advised the performance based on the investment and the investment vehicle for the Plan is performing well. Mr. Smith highlighted the American Fund Investment Company of America has out performed its benchmark in the 4th Quarter, but should remain on the watch list quantitatively. If it doesn't materialize they will have to look for other options. He continued by stating the American Fund Family has been in existence since the 1920's. They are one of the largest funds with multiple funds particular asset class, Investment Company of America is in the large green category.

   Mr. Smith recommended changing the Target Date Funds lineup. He defined the Target Date ~~Funds as funds that have within their structure, an automatic asset allocation to different parts~~ of the market. He continued by giving a description of Target Date Funds, as funds allocated and managed with the focus and objective to structure the Glide Path of the reallocation over time. He said, "Such will become more conservative, become more appropriate from a risk perspective for people as they get older and as they near retirement." He also explained the

Target Date Funds as placing something on autopilot which has a broad asset allocation to multiple parts in the market verses other sub-advisors or funds. He said, Target Date Series Funds have an automatic process for reallocating (changing the structure going more towards fixed income), less equity exposure, less stock market exposure and more bond market or conservative investment vehicles exposure over time. He further explained this structure is referred to as an Automatic Glide Path.

Mr. Smith said the Target Date Funds in the County's portfolio (also included the previous structure) are the vast majority of retirement assets held in participant directed retirement plans. He said Prudential Day One Retirement Series was implemented and they are conservative as to how they structure things from a Glide Path perspective. He stated as time progresses, 2060 is the longest dated series within the complex. Mr. Smith made a recommendation to the Board Members, to add the year 2065 to the Plan, due to future retirees that will be eligible to retire within the next 45 years. He stated the 2010 series has aged out and is now 10 years past the 2010 target date. He further explained, the Retirement Income Series was not included in the portfolio. This series is for someone who is in retirement and has elected to leave their assets in the Plan. He advised this is an appropriate allocation for someone who is currently in retirement. Mr. Smith is requesting approval to replace the phased out 2010 Fund with the Prudential Day One Retirement Income Fund and also recommends adding the Series Target Date 2065 to the plan. He described the current allocation to the Prudential Day One Income Fund as 65% fixed income, which is spread across multiple styles of fixed income exposures (Core Bond, Short Term Bond, Inflation and Securities, etc.). He stated the County has invested 11% in Alternatives (which are also known as Real Estate Exposure that includes a small amount of commodity). The remaining 25% investment is allocated to Stocks, this includes 17% shared with Large Cap US Stocks and a small investment in U.S. Mid Cap Stocks and International Stocks. He stated this is essentially a 75/25 blend for those in retirement who still need to have inflation protection.

Ms. Dodson asked, "Is this something that needs to be communicated to the retirees to be included in the 2010 fund?" Mr. Smith stated an email was sent to retirees who are automatically receiving notification. He stated due to the plan being a replacement plan for a series being phased out, Mr. Smith was not certain if sending notification to participants was a requirement, but he will obtain verification. Ms. Dodson stated her reason for asking, "It's going to provoke questions from retirees and they will probably have to be prepared to explain the difference in the investments." Mr. Smith stated, "the investments are similar." He informed the Board Members he will verify with Prudential if they are sending notifications to the participants.

~~Chairman Hicks confirmed he'd received notification from Prudential on February 5, 2020.~~ He assumed the Pension Board Members had also received their notification. Chairman Hicks clarified he was not a participant, but it looked as if it was a participant email and he volunteered to forward a copy of the email to the Pension Board Members.

Chad Smith explained the allocation structure of the Plan had no changes compared to the previous quarter. He stated the assets are in the Target Date Fund Series approximately 25%. Core and Large Cap growth there was not much change in the allocation structure. The more assets out of the Target Date Series, rather than individual funds, it will be more important for the Board to monitor greater utilization of the Target Date Series in participant directive Plans. There are several bond funds for participants to choose from, with the focus on Investment Grade Bonds High Quality Bonds. The primary asset classes that you want to make sure there is adequate exposure to, meaning Large Cap, Mid Cap and Small Cap Stocks. Mr. Smith acknowledge keeping the DC Plan allocated and designed is to have a broad exposure to the entire Index Funds will represent the Large, Mid and Small Cap Stocks in the United States. He stated the Investment Company of America is on watch and recommends it to remain on the watch list. In the foreign category, Mr. Smith advised there were a large category for participants to choose from and there is also Real Estate Securities available for participants to choose from.

Mr. Smith stated the "*Performance Summary*" has no relative performance during the quarter. During the last quarter, every investment in the lineup were up for the quarter, with the exception of the PIMCO International Bond USA-Hedge which ranked -0.61%. Using the YTD column for 2019 reports the following: the S&P were up 31%, the DOW was up 25%, Small Cap Stocks up 25% and Russell 1000 Growth TR USD up 31%. The foreign stocks were not as robust and the MSCI up 22%. There was a greater performance from foreign growth stocks than foreign value stocks. One of the outstanding returns was the Virtus KAR Small Cap Growth R6 up 40% for the year.

Mr. Smith stated, of the 2019 Plan Investments the highest weighted investment of asset balances is as follows: Prudential Stable Value Fund market value at $6,189,334, which is up 22.8%, the second highest in the plan is the *AB Large Cap Growth Z* Market Value $2,955,048, which is up 10.9% and the third highest in the Plan is the *PruDC-Pru Ret Dryden S&P 500 Index SP* Market Value is $2,248,875, which increased by 8.3% (the figures are broken down in the Plan by an asset balance). Mr. Smith said the best representation of the higher weigh of exposure in most of the higher performing funds is Virtus KAR Small Cap and the highest weighted Target Date Fund is the 2030 Fund. The 2030 Glide Path is approximately 65% - 70% equity exposed, and the next 5 years drop will be significant because of the equity allocation.

Mr. Smith explained the series of passively exposed funds that's being managed by an individual or a team will underperform to the passive bench mark. This is because the passive bench mark does not have management fees included in their plan. He advised that some of the statistics of the target dates fell in the middle of the measurement. Mr. Smith said he is working on a target date specific criteria set to be implemented and rolled out.

In closing, Mr. Smith said the American Funds Investment Company of America performed at 9.51% last quarter, based on the S&P 500 of 9.07%. For the quarter, it outperformed, but for the year it under performed. If it doesn't improve, it will be recommended for the watch list.

5. Mr. Smith advised the Pension Board of a new Relationship Manager replacing Ms. Stephanie Carter of Prudential. This will be the person interacting with Mrs. Kerri Hathaway moving forward.

   A copy of Morgan Stanley's "Clayton 457 DC Plan – Q419 Review is on file in the Chief Financial Officer's office.

6. Mrs. Bivins made a motion to end the Deferred Compensation Meeting and seconded by Ms. Pamela Ambles. The vote was unanimous.

Clayton County Pension Board

Terry R. Hicks

Terry Hicks, Chairman

5/14/2020

Date

Ramona Bivins

Ramona Bivins, Secretary

5/14/2020

Date