

CLAYTON COUNTY PENSION BOARD

Deferred Compensation Meeting
11:00 a.m.

May 14, 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; Elizabeth Miller and John Casmedes, Prudential; Dennis Baker, Retiree; Kerri Hathaway and Vanessa Sarden, Finance Department.

1. Chairman Hicks called to order the Deferred Compensation Meeting.
2. A motion was made by Ramona Bivins to adopt the agenda and seconded by Katherine Dodson. The vote was unanimous.
3. A motion was made by Ramona Bivins to adopt the minutes from February 13, 2020 as written and it was seconded by Ms. Pamela Ambles. The minutes were unanimously approved and accepted.
4. Chad Smith of Morgan Stanley, discussed the overview of the *Capital Markets* performance for the quarter located in the Clayton 457 DC Plan – Q120 Review. He explained the money markets in the 1st quarter were affected by COVID-19 significantly. The *S&P 500* started off the year with a historic quarter following a historic 2019 year. Equities were down 19.6% on the quarter following a year and gained 32.6%. International equities underperformed the US slightly with the exception of Japan, was down 16.5% on the quarter. *MS & Co. CIO and Chief US Equity Strategist*, Mike Wilson, has lowered his 2020 price target for the *S&P 500* to 2,700, citing the looming “sudden shock” recession. He stated in the 1st quarter *U.S. Equities* fell and the *S&P 500* declined by 19.6% and all 11 sectors finished in the red. Energy fell the most by 50.5%. Other laggards included Financials, Industrials and Materials, were down 31.9%, 27.0% and 26.1%, respectively. The *Dow Jones* lost 22.7% and the *NASDAQ* lost 14.2%, and *International* underperformed in the 1st quarter. The *MSCI EAFE Index* (a benchmark for international developed markets) lost 22.7% and the *MSCI Emerging Markets Index* lost 23.6%. The *U.S. Aggregate Bond Market* was positive for the quarter and outperformed on an absolute and relative basis as investors searched for “safe havens” and less risky assets. The *Bloomberg Barclays U.S. Aggregate Bond Index*,

increased 3.2%. Morgan Stanley & Co. economists expects U.S. real GDP will be -0.6% in the 1st quarter of 2020 due to a halt in economic growth around the world and amid concerns of a deeper recession surrounding COVID-19. Commodities were down for the 1st quarter and the *Bloomberg Commodity Index* dropped by 23.5%.

Mr. Smith briefed on the U.S. Economy quarterly update as of March 31, 2020, the real *Gross Domestic Product* increased at an annualized rate of 2.1% in the 4th Quarter. The *ISM's Non-Manufacturing Index* for February was 57.3%, up from December 54.9%.

The *U.S. Equity Markets* for the 1st Quarter, *Dow Jones Industrial* average lost 22.7%, while the *NASDAQ Composite Index* was down 14.2%. The *S&P 500 Index* dropped 19.6%. Mr. Smith stated the 5 years annualized return for the *S&P 500* is 6.72%, the *Russell 2000* is -23.99% for a 12 months and the 5 years annualized is -0.25%. The *Russell 1000* lost 20.2% as the *Large-Cap* growth -12.7% and outperform *Large – Cap Value* -24.4%; the *Russell Midcap* lost 27.1% on the quarter, with *Mid-Cap* growth -19.1%, outperforming *Mid-Cap Value* -33.7% and the *Russell 2000 Small-Cap Index* lost 30.6% with *Small – Cap* growth -25.4% outperforming *Small-Cap Value* -37.2%. He stated the U.S. stocks has outperformed the International Stocks.

The *Global Equity Markets International* underperformed in the 1st Quarter of 2020, as the US continued to outperform. The *MSCI EAFE Index* dropped 22.7% for U.S. currency investors. In the 1st quarter, the *MSCI Emerging Markets Index* fell 23.6% for U.S. currency investors. The *MSCI Europe Index* lost 24.2% for U.S. currency investors while the *MSCI Japan* outperformed other countries included the U.S. by dropping 16.5%.

The *U.S. Bond Market* was positive in the 1st quarter. The *Bloomberg Barclays U.S. Aggregate Bond Index* rose 3.2%. The *Bloomberg Barclays Capital High Yield Index*, a measure of lower-rated corporate bonds fell 12.7%. Mr. Smith stated the Clayton 457 Plan performed well versus its weighted average perspective benchmark, with the weighted average of the fund in the plan declining in value less than the weighted average of their perspective benchmarks. The *American Funds Investment Company of America* are on the watch list and slightly outperformed its applicable benchmark during the 1st quarter, and will remain on the watch list due to its longer-term rank. He stated the funds will continue to be monitored and if a material improvement doesn't occur in the upcoming quarter, he will evaluate potential replacement options. Mr. Smith recommended *JP Morgan Mid Cap Value Fund* and *Lord Abbett High Yield Fund* to be added to the watch-list. As outlined and proved in the previous quarterly meeting the following changes to the line-up within the *Target Date Fund* series were subsequently implemented by *Prudential*, but were not complete by quarter-end. He recommended replacing the current *Prudential Day One 2010 Fund* with the *Prudential Day One Retirement Income Fund*. The 2010 series is being dissolved by *Prudential* given that the target date is now 10 years aged past the current date. Adding into the line-up the *Prudential Day One 2065 target date series*. He stated this is necessary so that the County will have another option in the line-up that is 45 years out to expected retirement.

The Performance Summary, *ClearBridge International Growth IS* at -17.52% and *MFS International Intrinsic Value R3* at -13.54% for the quarter.

Mr. Smith stated in the *Plan Asset Allocation* at the end of the quarter, the *Money Market/Stable Value* makes up 26.67% of the portfolio; the *Target Date Fund Series* is 24.347%, *Large Cap Core* 10.84%, and *U.S. EQ Large Growth* 10.05%, and the participants were more stable than aggressive.

According to the scorecard details, Mr. Smith described *Virtus KAR Small-Cap Growth R6* as an amazing manager in both growth and core, their return averages 17.95% per year. Mr. Smith concluded by reiterating adding *Lord Abbett High Yield R5* and *JP Morgan Mid Cap Value A* to the watch list. Also to continue to watch the American Funds Investment Company of America A, potentially make a recommendation of a replacement in the upcoming quarter.

A motion was made by Mrs. Dodson to add *Lord Abbett High Yield R5* and *JP Morgan Mid Cap Value A* to the watch list and seconded by Mr. Crissey. The vote was unanimous.

A copy of Morgan Stanley's "Clayton County Prudential 457 Plan – Plan Investment Review January 1 – March 31, 2020 and the Clayton 457 DC Plan – Q120 Review is on file in the Chief Financial Officer's office.

5. Chairman Hicks opened the meeting to discuss other business. Mr. Baker opened by stating he'd presented a question to Mrs. Kerri Hathaway and Mr. Chad Smith of Morgan Stanley, on how to retrieve documents from Prudential and expressed how the shortcuts he'd received from Mr. Smith has been beneficial. He continued by giving accolades to Mr. Smith for the removal of the \$5 monthly service charge fees. Mr. Baker further stated he would like to know the amounts of the quarterly administrative fees, also requested to obtain a fee schedule from Prudential in order to keep track of all expected fees. He stated he'd assumed some of the fees are associated with participating in the Plan. Mr. Baker requested information that would give him a guideline of all expected fees, and he feels this should be provided by Prudential. Secondly, Mr. Baker stated Deferred Compensation members received emails from Prudential notifying them their accounts was \$.02, \$.05 and etc., remaining in their account. He stated some retirees were informed it was due to a software glitch. He stated whatever the glitches were, retirees should not receive this type of notification.

Mrs. Hathaway introduced Ms. Elizabeth Martin and John Casmedes, Representatives of Prudential to assist Mr. Baker with answers to his questions. Mr. Casmedes addressed Mr. Baker's question by explaining the quarterly administrative fees of .04% are all participants pay for service in the plan. He stated there was a pricing issue with the stable value fund which allowed participants to see those funds. Mr. Casmedes assured Mr. Baker this issue has been resolved and steps have been put in place to assure this will not reoccur.

Mr. Baker explained he's looking for ways that would allow him to review his fees, and also allow him to know which fees he should be expecting. Mr. Casmedes agreed to provide a copy of the fee allocations to Mr. Baker.

Chad Smith of Morgan Stanley asked Mr. Casmedes to speak on fee disclosure documents that is on the website. Mr. Casmedes stated he would send participants a fee disclosure notice that lists all of the participants' fees. Mr. Smith asked Mr. Casmedes if the participant's portal lists the fee disclosure and if it is visible for the participant to see? Mr. Casmedes informed Mr. Baker he would have to research. He continued by stating the participants are a part of a 457 Plan that do not receive a 404A notice. Mr. Casmedes assured Mr. Baker he will send what material he has.

Chairman Hicks requested Mr. Casmedes to forward copies of all the material to Kerri Hathaway, Ramona Bivins and Chad Smith to ensure the administrators of the Plan would have the same access as the participants. Mr. Casmedes confirmed he would.

Mrs. Hathaway asked Chad Smith of Morgan Stanley to disclose the locations of the two funds that were placed on the watch list located. She ask about other funds currently on the watch list. Mr. Chad Smith stated the funds were referenced on page 21 of the Executive Summary. He clarified the *Investment Company of America* is currently on the watch list. Mr. Smith further explained all funds on the watch list, in the column next to them are generated when a fund scores below 60%. He further explained the quantitative screening process is the amount of screening done uniformly across all screens. When they are looked upon from a scoring system methodology based on the IPS, the Target Day Funds will never score because they are asset allocation benchmarks which they are measured against; all the numbers on the relative basis are based on a passive exposure.

Chairman Hicks affirmed to Mr. Smith the Board would continue to vote on what goes on the watch list and advised him to continue to provide Kerri Hathaway with any information she may need.

Mr. Smith reaffirmed Mrs. Hathaway, officially the *American Fund Investment Company of America* was previously on watch, and with the current votes, *Lord Abbett High Yield R5* and *JP Morgan Mid Cap Value A* were added. He stated he would make the points clearer on the Executive Summary pertaining what funds he recommends to be added on the watch list.

Chairman Hick informed the Board, Mr. Dennis Baker was requesting a copy the document Mr. Smith presented and asked Mrs. Hathaway if he was permitted to email the report to Mr. Baker.

Mrs. Hathaway agreed Mr. Baker posted a question asking how to obtain a copy of the information Mr. Smith presented. Mrs. Hathaway informed Mr. Baker she would gladly send him a copy of the report.

6. Mrs. Katherine Dodson made a motion to adjourn the Deferred Compensation Meeting and the motion was seconded by Mr. Crissey. The vote was unanimous.

Clayton County Pension Board

Terry R Hicks
Terry Hicks, Chairman

8/13/2020
Date

Ramona Bivins
Ramona Bivins, Secretary

8/13/2020
Date