

CLAYTON COUNTY PENSION

Deferred Compensation Meeting
11:00 a.m.

November 10, 2022

MINUTES

PRESENT: Terry Hicks, Chairman; James Crissey, Vice-Chair; Stacey Merritt, Interim Secretary; Pamela Ambles, Member, and Katherine Dodson, Member.

ALSO PRESENT: Rick Arenburg, Bryan Cave Leighton Paisner LLP; Theodore Loew (T.J.), Graystone Consulting/Morgan Stanley; and Kerri Hathaway, Pension Manager.

1. Chairman Terry Hicks called the regularly scheduled Deferred Compensation Meeting to order.
2. A motion to adopt the agenda was made by Ms. Pamela Ambles and seconded by Mr. Jim Crissey. The vote was unanimous.
3. A motion was made by Ms. Katherine Dodson to approve and accept the August 11, 2022, Deferred Compensation Minutes. The motion was seconded by Mr. Jim Crissey. The vote was unanimous.
4. T.J. Loew (Graystone Consulting/Morgan Stanley) opened by presenting the Quarterly Review and Performance Report ending 9-30-2022.

Mr. Loew stated the markets have had another turbulent quarter led by inflation and the Federal Reserve. Inflation continues to come in at a record pace; the end of September 2022 inflation was recorded at 8.2% and 9.1% the previous quarter. Due to the market underperformance, the Federal Reserve has continued to increase interest rates. The Federal Reserve has two mandates: employment and price stability. They are concerned about the instability and are not afraid of putting the market into recession. Due to layoffs and many companies not hiring during the holidays, the economy is showing some slowdowns, which in turn could cause interest rates to come down.

Looking now at our equity markets within our portfolio, the market was down 4.8% for the quarter and down 15.5% over the last 12 months. For this quarter, the focus was on value versus growth. However, growth did outperform for the last quarter and value is down half as much over the last year.

Over the last three years, the fixed income market has shown negative returns. Returns have never been this extreme in the history of bond markets. In the last 12 months, Barclays has been down 15%, which is a direct result of the Federal Reserve increasing interest rates.

The underperformance in the portfolio over the last year, has been among our current watch list funds; Lord Abbett and JP Morgan Mid Cap. Due to volatility, Lord Abbett remains on the watch list, but as the market recovers, we expect them to be removed from the watch list. We are starting to see recovery in the high yield market and will give an update on Lord Abbett in the 4th quarter. JP Morgan Mid Cap has been on the watch list for a while. For now, they are outperforming and we expect them to come off the watch list in the next 18 months. AB Large Cap Growth Fund is not on the watch list, but they have negative returns due to index comparison.

Mr. Loew began discussing fees and expenses for each of the mutual funds. Just as the portfolio reporting is on a quarterly basis, so are the fees. He stated an analysis will be completed and an update will be given next quarter. The average Intermediate Core Bond manager charges 59 basis points, but our manager charges 5 basis points. Looking at JP Morgan Mid Cap Value Fund; the peer groups average fee is at .99 and our managers is at 1.14 slightly above the 70% percentile. Most of our mutual funds are low cost compared to the peer group.

In summary, Mr. Loew stated the following is going to matter next year: the market, income and generating cash flow. If the Federal Reserve is going to push the economy into a recession, we believe high quality managers should do well and mutual funds should hold up too. If we continue to have an up market, we will continue to monitor JP Morgan and focus on Lord Abbett.

Chairman Hicks stated JP Morgan has been on the watch list for three years. Mr. Loew agreed with Chairman Hicks, but responded by stating, we like to make a recommendation to change between 6 to 8 quarters, unless we see improvement. Since we are documenting the improvement, and receiving expected returns, we have not made the change to remove JP Morgan.

In addition, Ms. Pamela Ambles concurred with Chairman Hicks. She asked should there be concerns about JP Morgan Mid Cap Value at this point. Mr. Loew responded no for two reasons: JP Morgan was hired to be a defensive manager and for the last 10 years we have had a very strong up market and they have kept up. We are still earning an 8.7% return in that fund. When the market comes back, we are protecting our portfolio assets by having JP Morgan in the mix. We are in a market that JP Morgan thrives in and he believes they will outperform. If we see the market shift, then it would be time to make a change. Secondly, there are additional .25% fees for coming out of performance.

5. There was no Other Business to discuss.
6. Motion to adjourn the meeting by Ms. Katherine Dodson and seconded by Ms. Pam Ambles. The vote was unanimous.

Clayton County Pension Board

Terry Hicks, Chairman

Date

Stacey Merritt, Interim Secretary

Date