CLAYTON COUNTY PENSION BOARD

Regular Pension Board Meeting May 12, 2022
8:30 a.m.

MINUTES

PRESENT:	Terry Hicks, Chairman; James Crissey, Vice-Chair; Ramona Bivins, Secretary, Pamela Ambles, Member, and Katherine Dodson, Member.
ALSO PRESENT:	Jon Breth, AndCo Consulting; Rick Arenburg and Cass Hollis, Bryan Cave Leighton Paisner LLP; Kerri Hathaway, Pension Manager, and Kevin Spanier, Lisa Bjornson, Buck.

1. Chairman Terry Hicks called the regularly scheduled Pension Board Meeting to order.

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

3. A motion was made by Ms. Bivins to adopt the February 10, 2022, Regular Pension Board Meeting minutes as presented and her motion was seconded by Ms. Dodson. The minutes were approved unanimously with Ms. Bivins abstaining because she was absent at the February 2022 meeting.

4. Mr. Jon Breth of AndCo Consulting opened by presenting the "Investment Performance Review, Period Ending March 31, 2022, Executive Summary" for the quarterly performance review.

   Mr. Breth began with a recap of the first quarter of 2022. He discussed the negative numbers for the first quarter that have bled into April and May. While the US market set new all-time highs in early January, he noted that quickly gave way to persistent higher inflation readings, Federal Reserve statements focused on interest rate increases and the Russian invasion of Ukraine, which all led to a much more pessimistic investor perspective.

   Traditionally, Mr. Breth explained, that when you see the stock market selling off we are usually looking at the bond market to hold value. Unfortunately, what happened in the face of anticipated Federal Reserve interest rate hikes was the worst quarter for the US bond markets in about 40 years. Mr. Breth further explained that rising interest rates expectations have an immediate negative impact on bond pricing. He noted that one bright spot when you look at fixed income is the TIPS market. Another very effective hedge against inflation identified by Mr. Breth is core real estate which is the sector the plan moved into in the first week of April 2022.

   Mr. Breth stated that emerging markets underperformed the most among equities while value stock generally outperformed growth stock and bonds having their worst quarter in 40 years. He identified commodity-oriented sectors as a big factor in driving the outperformance for value stocks.

   In reaction to these developments, Mr. Breth indicated a need to revisit the investment strategies of the plan's investment managers given that the market currently has no patience for long duration assets. Areas of underperformance noted by Mr. Breth included technology, consumer oriented sectors, communications, services, and discretionary technology.

Turning to the international sector, Mr. Breth characterized that environment as negative with the exception of Latin America, given its concentration of natural resource producers. On the other hand, Russia no longer seems to provide an investible market.

Mr. Breth continued and moved on to a review of the plan's portfolio. He noted that, as of March 31, 2022, pension assets were $525,346,384 million. As of March 2022, the diversification of assets was within the guidelines of the plan's investment policy. He explained that Ms. Hathaway has identified an impending need to raise about $7 million from plan assets to meet upcoming benefit payments on June 1st and July 1st. To address that need, Mr. Breth recommended that the Pension Board move forward with a small rebalance of two sources, pulling $3.5 million from the Eagle Capital Account and $3.5 million from the Channing Capital Account. Mr. Breth reported that he would work with Ms. Hathaway and Ms. Bivins to execute that rebalance.

In conducting his review of plan performance, Mr. Breth said he was able to identify some underperformance among the plan's investment managers as compared to their respective peer groups, specifically mentioning Clearbridge and Alger Capital. He recommended a more thorough review of Clearbridge as well as a broader review of the plan's large cap allocation at the next quarterly meeting. On the positive side, Mr. Breth identified Jackson Square as the plan's best growth fund manager. Mr. Breth explained that the underperformance by the Eagle Capital manager was not as concerning because a more concentrated manager like Eagle Capital can be expected to go through some periods of underperformance. He characterized the plan's value funds as generally performing well especially on a fiscal year to date basis. DePrince is our most commodity oriented company as they have been a nice compliment in the portfolio. Lastly, after a brief individual review of the plan's fixed income investments, Mr. Breth declared himself to be satisfied with their overall performance.

In summary, Mr. Breth said that he is not recommending any action outside of Clearbridge. Mr. Breth stated that he would like to maintain its place on the watch list and bring to the Pension Board a peer review of that strategy relative to some other growth peers and present some ideas on how the plan's domestic equity portfolio could be simplified at the next quarterly meeting.

With Mr. Breth's planned presentation concluded, Chairman Hicks asked if there were any questions for Mr. Breth. Because Ms. Ambles had asked a question last quarter regarding AndCo's diversity efforts, Mr. Breth volunteered that he would like to inform Ms. Ambles about AndCo's initiative called Elevation Scholars, which he proceeded to do. Ms. Ambles said she appreciated the information and asked that he keep her posted on those initiatives.

5. Chairman Hicks then invited Mr. Kevin Spanier of Buck Consultants to begin his presentation. Mr. Spanier explained that he wished to discuss alternative funding methods using his presentation titled "Clayton County, Georgia Employee Retirement System, Presentation to the Pension Board, Alternative Funding Methods". Mr. Spanier began by noting that the Pension Board has done a number of things over the last several years to strengthen the actuarial view of the portfolio. As background, he noted that the plan has an actuarial value of assets of $501.1 million resulting in an unfunded liability of $281.8. He explained that the unfunded liability has to be paid over time like a mortgage, but the plan's liabilities continue to grow due to ongoing benefit accruals.

   Next, Mr. Spanier explained how the plan funds for these liabilities under its currently chosen methodology: under the County ordinance setting forth the plan's terms, the County pays 13.9% of payroll as the minimum employer contribution with a portion of that amount allocated to fund ongoing accruals and the remaining portion applied to reduce unfunded liabilities. Applying the Georgia minimum funding standards, Mr. Spanier continued, a determination is then made as to whether an additional ad hoc contribution is required to pay down the unfunded liability based on Georgia's minimum requirements for the annual funding period.

At the invitation of Mr. Spanier, Ms. Lisa Bjornson led a discussion of the concepts of "funding method" and "amortization policy". She explained that the funding method does not determine the overall cost of a plan because those costs are always going to be determined by the level of benefits and expenses. Instead, she continued, a plan's funding method determines what will be paid over time and a plan's amortization policy are the rules and the processes that determine the length and time that will pay off any liability shortfalls. Ms. Bjornson elaborated on the plan's current amortization policy, which is the Georgia minimum, which is a 30-year amortization of a plan's unfunded liability that is recalculated annually. Because this method recalculates a 30 year payment ever year to pay off a plan's unfunded liability, she explained that an unfunded liability would likely never be fully paid using that methodology.

Ms. Bjornson went on to review the other two most common amortization methods. The first alternative she identified was the closed amortization method, which amortizes more quickly than the open amortization method because it reduces the amortization period by one each year, forcing the unfunded liability to be paid off in a selected number of set years. The second alternative she identified is the layered amortization method, which is similar to the first alternative with the refinement that it allows for adjustments over the amortization period based on actuarial gains and losses occurring over time. Mr. Spanier interjected to note that the open amortization method is no longer common and that Buck has witnessed a movement towards the layered amortization approach.

Ms. Bjornson reviewed the pros and cons of the various amortization methods. She explained that with the open amortization method, there is the potential for contribution rate volatility and has the effect of pushing unfunded liabilities into the future, which can cause intergenerational inequity. Conversely, she noted that while the closed amortization method retains the potential for contribution rate volatility, that method will result in fully eliminating unfunded liabilities over the policy's funding period; however, towards the end of the closed period, it also causes remaining unfunded and subsequent experience losses and/or assumption changes amortized over a short timeframe. Finally, Ms. Bjornson explained that the layered amortization method manages contribution volatility more effectively.

Next, Ms. Bjornson referenced guidance for actuaries serving public pension effectively promoting use of a layered amortization method for public pension plans.

Mr. Spanier then continued with a presentation of some numerical examples of the amortization alternatives pausing at intervals to address the questions of Pension Board members.

Ms. Pamela Ambles raised a concern about a situation where a plan experiences more participants retiring than contributing. While Mr. Spanier said he has not looked at this specific issue recently with respect to the plan, he noted that much of Buck's presentation today was intended to make sure the contributions are right so that the County did not get to a point where it has a large unfunded retiree population.

Chairman Hicks asked Mr. Spanier about what beneficial impact the plan could expect from its revisions to the plan benefit formula in 2016. While Mr. Spanier indicated that the plan would see a funding benefit from the change it would take many years for that impact to have a material impact. Ms. Ambles then asked about the impact of pay raises on funding. Mr. Spanier replied that pay raises do have an effect on both the benefit liability side and funding side but that those impacts must be measured against non-pension impacts such as the need to attract, hire, and retain employees. Ms. Ambles also asked whether there was any benefit in allowing employees to opt out of the plan. Mr. Spanier responded that there may not be any benefit derived from such an approach, particularly if those opting out were provided with an individual account plan. Mr. Rick Arenburg added that giving employees a choice of pensions in a governmental plan with pick-up contributions presented some issues that would need to be flushed out if the Pension Board were to take up the matter more seriously.

Mr. Spanier concluded Buck's presentation by stating that the Pension Board should consider making a change to a new amortization policy. Mr. Spanier warned that, commencing with the July 1, 2023 valuation, Actuarial Standards of Practice 4 (ASOP 4) will impose stricter standards on actuaries in confirming whether a reasonably determined contribution has been made to a plan. He indicated that continued use of an open amortization method by the Pension Board may prevent Buck from reaching that conclusion.

6. With Buck's presentation concluded, Chairman Hicks requested the approval of quarterly benefits. A motion was made by Ms. Bivins and seconded by Ms. Ambles to approve the benefits as presented to the Board. The vote was unanimous.

7. In other business, Chairman Hicks discussed with members the matter of attendance at the March 2022 GAPPT conference as well as the status of members' continuing education credits. .

   In response to concerns raised by Ms. Katherine Dodson and Mr. James Crissey, Ms. Bivins asked Ms. Hathaway to reach out to US Bank concerning its cybersecurity policy. Mr. Crissey suggested investigating what protections might be afforded by the County to the plan and Pension Board members. Chairman Hicks agreed. Ms. Bivins offered to try and have someone from the County come to the next Pension Board meeting and asked Ms. Hathaway to facilitate that. Mr. Arenburg and Ms. Cass Hollis offered their services to review any contracts or policies to determine the coverage.

8. There being no further business, Chairman Hicks made a motion to adjourn the meeting, which was seconded by Ms. Bivins. The vote was unanimous

Clayton County Pension Board

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Terry Hicks, Chairman Date

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[●], Member Date