

**MINUTES OF THE SPECIAL MEETING OF THE BOARD OF TRUSTEES
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
APRIL 11, 2012**

A special meeting of the Board of Trustees of the Arkansas Public Employees Retirement System was held on Wednesday, April 11, 2012 at 9:00 a.m., in the Conference Room, 124 West Capitol, Little Rock, Arkansas. Mr. Artee Williams presided.

QUORUM PRESENT:

Mr. Williams recognized the presence of a quorum.

BOARD MEMBERS PRESENT:

Mr. Artee Williams (State Employee Member), *Chair*, Director, Dept. of Workforce Services
Ms. Ouida Wright (State Employee Member), Conway, AR
Mayor Steve Northcutt (City Employee), Malvern, AR
Mr. Bill Gaddy (State Employee Member), Little Rock, AR
Ms. Janet Harris, Deputy State Auditor (*proxy*)
Mr. Wes Goodner, Deputy State Treasurer (*proxy*)
Dr. John Shelnett, Dept. of Finance and Administration (*proxy*)
Ms. Gail H. Stone (Executive Director), APERS

BOARD MEMBERS ABSENT:

Hon. Richard Weiss (Ex-Officio Member), Dept. of Finance and Administration
Hon. Charlie Daniels (Ex-Officio Member), State Auditor
Hon. Martha Shoffner (Ex-Officio Member), State Treasurer
Judge Mike Jacobs (County Employee), Clarksville, AR
Ms. Carol Bevis, (Other, Non-State Employee), Little Rock, AR

VISITORS PRESENT:

Mr. Kevin Dolsen, Callan Associates
Mr. Ryan Ball, Callan Associates
Mr. Sarah Angus, Callan Associates
Mr. James McKee, Callan Associates
Ms. Pamela Herbst, AEW Capital
Ms. Maureen Joyce, AEW Capital
Mr. Michael Acton, AEW Capital
Mr. "Mac" McWhorter, AEW Capital
Mr. Vance Maddocks, CBRE Global
Mr. Cab Grayson, CBRE Global
Mr. James Raisides, TA Realty
Mr. James Buckingham, TA Realty
Mr. Matthew Walley, LaSalle Investment
Mr. Jim Hutchinson, LaSalle Investment
Ms. Jessica Middleton-Kurylo, Bureau of Legislative Research

STAFF PRESENT:

Ms. Michele Williams, APERS Deputy Director
Mr. Carlos Borromeo, APERS Chief Investment Officer
Ms. Susan Bowers, APERS Associate Director of Investments
Mr. Jay Wills, APERS Attorney Specialist
Ms. Linda McGrath, APERS Administrative Specialist

NEWS MEDIA NOTIFIED:

A letter of notification of the Arkansas Public Employees Retirement System Board meeting was sent to the Arkansas Democrat-Gazette, the Associated Press, Television Station KLRT/FOX16, Radio Station KARN, and Radio Station KAAY. This letter of notification is pursuant to A.C.A. 25-19-101 (Act 93 of 1967) as amended-The Freedom of Information Act.

MINUTES:

Prior to the Board meeting, a copy of the Minutes from the meeting of November 16, 2011 was mailed to each APERS Board member for review. On a motion made by Mayor Northcutt and seconded by Ms. Harris, the Minutes were approved as presented.

VALUE-ADDED REAL ESTATE MANAGER INTERVIEWS:

Ms. Sarah Angus of Callan reviewed the steps the Board had taken up to this point in search of a Value-Added Real Estate manager and how it would further diversify the Real Estate portfolio which already included Core and REIT exposure. She briefly compared the four candidates and detailed the unique features of each before they gave their presentations.

- AEW Capital – Presented by Pamela Herbst, Maureen Joyce, Michael Acton & "Mac" McWhorter
- CBRE Global – Presented by Vance Maddocks & Cab Grayson
- TA Realty – Presented by James Raisides & James Buckingham
- LaSalle Investment – Presented by Matthew Walley & Jim Hutchinson

After introductions, both candidates gave a brief history of their firm, assets under management, property types, investment periods, leverage limits, historical returns from previous funds, investment methodology and fee schedules.

The Board discussed all four candidates in great detail with input from the Callan consultants before Mayor Northcutt motioned to hire TA Realty for its emphasis on smaller properties, and LaSalle Investment for its high income stream, with an initial funding of \$30 million each. Dr. Shelnett seconded the motion and it carried.

CONTINUING FUND OF FUNDS EDUCATION

Mr. Dolsen reminded the board of the previous discussion with the people from Grosvenor at the last meeting regarding how Hedge Fund-of-Funds could assist the portfolio by smoothing the returns. He then introduced Mr. McKee of Callan Associates who addressed the Board's concerns of transparency and reporting issues, and concluded with detailed Risk Reports and various Strategy Allocations that would enhance the portfolio's diversification beyond GTAA managers, AQR and Newton.

Concerns regarding transparency and risk were voiced by Mr. Gaddy and Dr. Shelnett. Ms. Stone, Mr. Dolsen and Mr. Ball reminded the Trustees that they should not commit to an investment they were uncomfortable with and there were other avenues APERS could explore that would reduce volatility in the portfolio.

After much discussion and deliberation, Mr. Gaddy motioned to move forward with the search for a "Fund-of-One" Hedge Fund manager, who would be initially funded with \$100 million and subject to a 3-year "sunset clause" for renewal. The motion was seconded by Mayor Northcutt and carried unanimously. Callan will provide a booklet of semi-finalists at the regular May board meeting for the Trustees to review and a special meeting for interviews will be set at that time.

CUSTODIAL BANK RFI RESULTS:

Ms. Stone distributed a letter from Callan regarding the custody due-diligence and selection process of the APERS custodian bank. APERS Staff and Callan agreed that BNY/Mellon was the global custodian provider of choice. She announced that Staff's hard bargaining had paid off and BNY/Mellon had agreed to a \$2 million fee concession over the next 5 years. The other candidate in the search (State Street) could not offer the same level of services at such a competitive rate. Ms. Wright motioned to follow Staff's recommendation and continue with BNY Mellon and she was seconded by Ms. Harris. Motion passed.

NEXT QUARTERLY BOARD MEETING:

The next quarterly meeting of the APERS Board of Trustees is scheduled for Wednesday, May 16, 2012 at 9:00 a.m.

ADJOURNMENT:

There being no further business, the meeting was adjourned.

MR. ARTEE WILLIAMS, CHAIR

MS. GAIL STONE, EXECUTIVE DIRECTOR