

**ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
MINUTES OF THE MEETING OF THE BOARD OF TRUSTEES
26th ANNUAL EDUCATIONAL SEMINAR
TUESDAY, OCTOBER 20, 2015**

The Board of Trustees of the Arkansas Public Employees Retirement System held its Twenty-sixth Annual Educational Seminar beginning at 8:30 a.m. and concluding at 4:30 p.m. on Tuesday, October 20th at The Capital Hotel in Little Rock.

QUORUM PRESENT:

Mr. Williams recognized the presence of a quorum.

BOARD MEMBERS PRESENT:

Mr. Artee Williams (State Employee Member), *Chair*
Judge David Hudson, (County Employee), Fort Smith, AR
Mr. Bill Gaddy (State Employee Member), Little Rock, AR
Mayor David Morris, (City Employee), Searcy, AR
Ms. Carol Bevis, (Other, Non-State Employee), Little Rock, AR
Hon. Andrea Lea, (Ex-Officio Member), State Auditor
Mr. Dennis Evans, (Ex-Officio Member), State Treasurer (*proxy*)
Mr. Larry Walthers, (Ex-Officio Member), Department of Finance and Administration
Ms. Gail H. Stone (Executive Director), APERS

BOARD MEMBERS ABSENT:

Ms. Ouida Wright (State Employee Member), *Vice-Chair*, Conway, AR

ADDITIONAL VISITORS PRESENT:

Mr. Ryan Ball, Callan Associates, Inc.
Ms. Brianne Weymouth, Callan Associates, Inc.
Ms. Sarah Angus, Callan Associates, Inc.
Mr. David Hoffman, Gabriel Roeder Smith
Ms. Kathleen Hays, Bloomberg Radio personality
Mr. Byron Wein, Vice Chairman of Blackstone Group
Mr. Joe Miles, Trustee for ASPRS
Mr. Mike Wickline, *Arkansas Democrat-Gazette*
Mr. Aaron Kelley, AQR Capital Management
Mr. Aaron Roberts, Artisan Partners
Ms. Jessie Wilson, Baillie Gifford
Ms. Larysa Bemko, Baillie Gifford
Mr. Joe Faraday, Baillie Gifford
Mr. Ryan Thackston, Blackstone Group
Mr. Carlos Pacheco, BNY Mellon Corp.
Mr. Mike McDermott, BNY Mellon Corp.
Ms. Nina Caruso, BNY Mellon Corp.
Mr. Jerry Castellini, CastleArk Management
Mr. Ed Clark, CastleArk Management
Mr. Kevin Dolsen, CastleArk Management
Mr. Greg Golden, Golden Capital Management
Mr. Jon Cangalosi, Golden Capital Management
Mr. Blaise Keane, Heitman
Mr. Alan Purser, Heitman
Ms. Mary Ludgin, Heitman
Mr. Scott Horrell, Horrell Capital Management
Ms. Kimberly Horrell, Horrell Capital Management
Ms. Leanne Smith, INTECH
Mr. Adam Craig, INTECH
Mr. David Farmer, Invesco Real Estate
Mr. Joe Rodriguez, Invesco Real Estate
Mr. Bill Grubbs, Invesco Real Estate
Mr. Joe Munoz, LaSalle Investment Management
Mr. Jim Hutchinson, LaSalle Investment Management
Mr. Matthew Walley, LaSalle Investment Management

Mr. Anthony Dote, Lazard Asset Management
Mr. Al Marley, Lombardia Capital Partners
Ms. Nora Harris, Lombardia Capital Partners
Mr. Louis Cohen, MacKay Shields
Mr. Stephen Buckley, MacKay Shields
Mr. Otto Odendahl, Manning & Napier Advisors, Inc.
Mr. Todd Bailey, Mellon Capital Management
Mr. James Blake, Newton Capital Management
Mr. Barry Beers, Pinnacle Forest Investments
Mr. Hank Page, Pinnacle Forest Investments
Mr. Michael Collins, Prudential Investment Management
Ms. Rupal Shah, Prudential Investment Management
Ms. Sue Curran, Pyramis Global Advisors
Mr. Lance McInerney, Pyramis Global Advisors
Mr. Florian Eitner, SSI Investment Management
Mr. Steve Spare, SSI Investment Management
Ms. Wambui Lynch, SSI Investment Management
Mr. David Settles, State Street Global Advisors
Mr. Patrick White, Stephens Investment Management
Mr. Ryan Crane, Stephens Investment Management
Mr. Jim Raisides, TA Associates Realty
Mr. Zander Grant, Wellington Management Company
Ms. Susan Schmidt, Westwood Management Company
Ms. Kim Calhoun, Westwood Management Company

STAFF PRESENT:

Mr. Carlos Borromeo, Chief Investment Officer, APERS
Ms. Susan Bowers, Associate Director of Investments, APERS
Mr. Jay Wills, Attorney Specialist, APERS

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.

WELCOME:

Mr. Borromeo welcomed everyone to the educational seminar and introduced the Trustees to all the investment managers. He then gave a brief summary of the guest speakers who would be presenting later in the day, before turning the microphone over to the two Callan consultants to speak on Fiduciary Duties from the consultant's point of view.

FIDUCIARY DUTIES:

Mr. Ball and Ms. Weymouth described the evolution of fiduciary standards from the 1830's to the present and how the investment consultant helps trustees fulfill their fiduciary duties. Next up, Mr. Dolsen from CastleArk Management, outlined the role investment managers serve and how they ensure they are adhering to their fiduciary duties. There was a question and answer period after each speaker.

MS. KATHLEEN HAYS' PRESENTATION:

After an introduction by Mr. Borromeo, Kathleen Hays, best known for her show on Bloomberg Radio, discussed the economy and the Federal Reserve. She joked that she should entitle her presentation as "Déjà vu All Over Again" as she read off headlines that seemed to be current but were actually from over a year ago. Discussing unemployment rates and inflation, Ms. Hays analyzed the various components the Fed considers before making any moves. She summed up her presentation as "the longer they wait, the harder it gets" and then opened the floor for questions and comments.

BREAK

FIDUCIARY DUTIES CONTINUED:

APERS Chief Legal Counsel, Jay Wills, continued the fiduciary discussion by focusing on the specific fiduciary responsibilities imposed on APERS trustees and staff. There are two sources of those fiduciary duties; one is contained in the APERS statutes and the second is the Arkansas Trust Act, adopted in 2005. Basically, it binds the Trustees to the “highest duty of fidelity and fair dealing recognized by the law in Arkansas.” The three principles and statutorily-enforced duties of the APERS Trustees are:

1. Duty of Loyalty – act for the exclusive benefit of the participants of the fund.
2. Duty of Care – administer the plan efficiently and properly, and monitor those actions.
3. Duty of Prudence – use the caution that a reasonably prudent person would take under a similar situation. A person with expertise in an area is expected to use that superior knowledge for the fund’s benefit.

Additional duties are imposed under the APERS’ code include:

1. Duties at the Inception of Trusteeship (A.C.A 24-2-613)
2. Duty to Avoid Conflicts of Interests (ACA 24-2-604)

The codes also reiterated:

3. Duty of Loyalty (A.C.A 24-2-614)
4. Duty of Impartiality (A.C.A 24-2-615)

Mr. Wills also suggested consulting Federal Laws, specifically ERISA. He noted that while it did not govern APERS, the courts often looked to ERISA for guidance on fiduciary matters whenever state law did not specifically address the situation presented.

He discussed to whom those previously mentioned duties were owed, and gave a cautionary example of a California pension plan that started “socially responsible investing”. This quickly breached the Duty of Loyalty to the fund members by looking first to the societal benefits of the investments. Lastly, APERS has Regulation 501, which imposes additional obligations to support the fiduciary duty owed to the members and retirees.

Mr. Wills finished up by discussing which of these duties could be delegated and which could not. He concluded the discussion with the possible consequences for breaching the Trustee’s Fiduciary Duties.

APERS BOARD MEETING

Mr. Williams convened the Special Board Meeting and recognized the presence of a quorum.

BOARD MEMBERS PRESENT:

Mr. Artee Williams (State Employee Member), *Chair*
Judge David Hudson, (County Employee), Fort Smith, AR
Mr. Bill Gaddy (State Employee Member), Little Rock, AR
Mayor David Morris, (City Employee), Searcy, AR
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ADDITIONAL VISITORS PRESENT:

Mr. Ryan Ball, Callan Associates, Inc.
Ms. Brianne Weymouth, Callan Associates, Inc.
Mr. David Hoffman, Gabriel Roeder Smith
Mr. Mita Drazilov, Gabriel Roeder Smith

CONSIDERATION OF THE ADJRS UNFUNDED LIABILITY EMPLOYER RATE FOR FY2016 - Presented by Mr. David Hoffman, Gabriel Roeder Smith and Company

Ms. Stone gave a short review of the district judges and why they have been considered a "separately experience-rated division" within APERS since 2007. Within this closed-plan, there are still 55 employers throughout the state paying off their UAAL (Unfunded Actuarial Accrued Liability) on the "Old Plan" which covers service before 2005. Once these entities have paid off their UAAL, they will move into a cost-sharing arrangement with the "New Plan".

Mr. Hoffman explained that the 2015 Valuation showed the calculated employer contribution for those individual employers (beginning July 1, 2016) as well as the percentage employer rate for the "New Plan" and the "Paid-off Old Plan". Finally, he showed how the Employer Contribution Rate was calculated. Using the method from previous years, it was calculated that the 2015 Employer Contribution Rate would be 25.55% based on 20-year amortization period (down 4 years from last year). Mr. Hoffman noted that the third piece of this plan, the "Still Paying Old Plan" UAAL was down to \$866,794 and had a closed 13-year pay-off period. This would make the suggested Employer Contribution Rate to be 25.82% of payroll, increasing from last year's rate of 24.69% because of poor market returns. Ms. Stone pointed out that small closed-plans are notoriously volatile and as with a credit card, amortizing the balance over many years leads to paying much more in interest, than the original balance.

After a short discussion, Mr. Gaddy motioned to follow the actuaries' suggestion and adopt the 13-year amortization period with an Employer Contribution Rate for Fiscal Year 2016 of 25.82% (beginning July 1, 2016). Judge Jacobs seconded and the motion passed.

ADJOURNMENT:

There being no further business, the board meeting was adjourned.

BREAK FOR LUNCH

MR. BYRON WIEN'S PRESENTATION:

After lunch, Mr. Borromeo introduced Mr. Byron Wien, Vice Chairman of Blackstone, who presented his view on current market events and his optimistic outlook for the global economy. Mr. Wien also detailed his 20 Life Lessons, before leading a lively question & answer session.

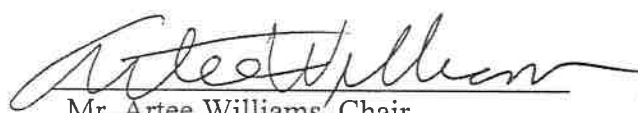
ASSET CLASS REVIEWS:

The seminar concluded with investment managers from APERS major asset classes providing their reviews and expectations for the future on their respective asset classes:

Domestic Equity:	Mr. Ryan Crane, Stephens Investment Management
Energy: Mr. Jerry	Castellini, CastleArk Management
International Equity:	Mr. Lance McInerney, Pyramis Global Advisors
Real Estate:	Ms. Mary Ludgin, Heitman
Fixed Income:	Mr. Lou Cohen, MacKay Shields
	Mr. Michael Collins, Prudential Fixed Income

CLOSING REMARKS & BULL/BEAR AWARD – Presented by Mr. Carlos Borromeo

Mr. Borromeo thanked everyone for their participation at the Annual Educational Seminar and announced the 2015 Bull/Bear Awards. Both winners had guessed within 25 points of the Dow Jones closing number on June 30, 2015. Actual closing number was 17,619. Mr. Ryan Crane from Stephens Investments guessed 17,641 and Trustee Bill Gaddy guessed 17,643. Mr. Borromeo congratulated both winners and encouraged everyone to leave their guesses for the Dow Jones closing number on June 30, 2016. Then, as there was no further business, he closed the 26th Annual Educational Seminar.



Mr. Artee Williams, Chair



Ms. Gail Stone, Executive Director