

**ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
MINUTES OF THE MEETING OF THE BOARD OF TRUSTEES
18TH ANNUAL STRATEGIC INVESTMENT RETREAT
OCTOBER 1, 2007**

The Board of Trustees of the Arkansas Public Employees Retirement System held its Eighteenth Annual Strategic Investment Retreat on Monday, October 1st starting at 8:00 a.m. and concluding at :30 p.m. at the Peabody Little Rock Hotel. During to the Retreat Program, the APERS Board of Trustees held a business meeting at 4:00 p.m., also at the Peabody Little Rock Hotel. Mr. Don Zimmerman, Chair, presided.

(18th Annual Investment Retreat - 8:00 a.m.)

BOARD MEMBERS PRESENT:

Mr. Don Zimmerman (Municipal Employee Member), *Chair*, North Little Rock, AR
Mr. Artee Williams (State Employee Member), *Vice Chair*, Director, Dept. of Workforce Services
Mr. Larry Fratesi (County Employee Member), Pine Bluff, AR
Mr. Maurice Henry (School Employee Member), Fulton, AR
Ms. Ouida Wright (State Employee Member), Retired, Conway, AR
Mr. Bill Gaddy (State Employee Member), Retired, Little Rock, AR
Mr. Steve Kelly, Deputy State Auditor (*proxy*)
Dr. John Shelnett, *designee for Mr. Richard Weiss, Director Dept. of Finance & Admin.*
Mr. Mike Creekmore, State Treasurer's Office (*proxy*)
Ms. Gail H. Stone (Executive Director), APERS

BOARD MEMBERS ABSENT:

Hon. Martha Shoffner (Ex-Officio Member), State Treasurer
Mr. Richard Weiss (Ex-Officio Member), Dept. of Finance and Administration
Hon. Jim Wood (Ex-Officio Member), State Auditor

ADDITIONAL VISITORS PRESENT:

Mr. Paul Troup, Callan Associates, Inc.
Mr. John Krimmel, Callan Associates, Inc.
Mr. Chris Gagnier, Aberdeen Asset Management
Mr. Bruce Rodio, Aberdeen Asset Management
Mr. Keith Bachman, Aberdeen Asset Management
Mr. David Blakeley, BNY Mellon Corp.
Mr. Mark Schafer, BNY Mellon Corp.
Mr. Kurt Zyla, BNY Mellon Asset Management
Mr. Jerry Castellini, CastleArk Management
Ms. Brande Davis, Frole, Revy Investment Company
Ms. Andrea O'Connell, Frole, Revy Investment Company
Mr. David Hoffman, Gabriel, Roeder, Smith & Company
Mr. Mita Drazilov, Gabriel, Roeder, Smith & Company
Mr. Norm Jones, Gabriel, Roeder, Smith & Company
Mr. Doug Angstrom, Goldman Sachs Asset Management

Mr. Gary Chropuvka, Goldman Sachs Asset Management
Mr. Michael Ray, Goldman Sachs Asset Management
Mr. Ellis Sloan, Horrell Capital Management
Mr. Russell Bjorkman, INTECH
Mr. Robert Hamilton, INTECH
Mr. Joe Rodriguez, INVESCO (REIT)
Mr. David Farmer, INVESCO Realty Advisors
Mr. Blaine Smith, INVESCO Realty Advisors
Ms. Donna Wilson, INVESCO Structured Core Equity
Ms. Jennifer An, INVESCO Structured Core Equity
Ms. Catherine Stodghill, INVESCO Structured Core Equity
Ms. Dorothy Buckley, J&W Seligman
Mr. Erik Voss, J&W Seligman
Mr. Anthony Dote, Lazard Asset Management
Mr. John Reinsberg, Lazard Asset Management
Mr. Gary Goodenough, MacKay Shields
Mr. Steve Hecht, MacKay Shields
Mr. Joseph Portera, MacKay Shields
Mr. Lou Cohen, MacKay Shields
Mr. Chris Burk, National Land Partners
Mr. Barry Beers, National Timber Partners
Mr. Hank Page, National Timber Partners
Mr. Robert Edgar, Northwinds Marketing Group
Mr. Jim Fernandez, Prudential Investment Corporation
Mr. Arthur McBride, Prudential Investment Corporation
Mr. William Lowndes, Threadneedle
Mr. Alexander Lyle, Threadneedle
Mr. Brett Collins, State Street Global Advisors
Mr. Chris McNeillie, State Street Global Advisors
Mr. Patrick White, Stephens Investment Management
Mr. Ryan Crane, Stephens Investment Management
Ms. Carrie Sublett, Stephens Investment Management
Ms. Tammy Acklin, Stephens Investment Management
Mr. Bruno Bertocci, UBS Global Asset Management
Ms. Katherine Martin, UBS Global Asset Management
Mr. Charlie Service, UBS Global Asset Management
Mr. Steve Wilde, UBS Global Asset Management
Mr. Zander Grant, Wellington Management Company
Mr. Connor McCarthy, Wellington Management Company
Mr. David Spika, Westwood
Ms. Kim Calhoun, Westwood
Ms. Erika Gee, Attorney General's Office

STAFF PRESENT:

Ms. Michele Williams, Deputy Director, APERS
Ms. Susan Bowers, Associate Director of Investments, APERS
Ms. Linda McGrath, Executive/Administrative Secretary, APERS

OPENING REMARKS BY MR. PAUL TROUP OF CALLAN ASSOCIATES, INC.

Mr. Troup gave opening remarks and reviewed the fund's performance over the past year. He explained how the assets allocation of the fund was currently set to 46% Domestic Equity, 21% Fixed Income, 18% International Equity and 15% Alternative Investments. Currently, the Alternative Investments were only at 12% funding, but the remaining 3% would be assigned shortly. Mr. Troup stated that the challenge for this year's retreat would be to analyze the Fixed Income portfolio, as well as the quantitative managers to see if improvements could be made. The construction of the International Equities portfolios would also be examined and the new investment managers would be introduced.

Panel: "Quant Strategies: Busted?" Lead by Ms. Donna Wilson, INVESCO Structured Core Equity & Mr. Gary Chropuvka, Goldman Sachs Asset Management

- What Happened and the Implications for the Future, Goldman Sachs
- Perverse Performance of "Quant Strategies", INVESCO Structured Core Equities

Audience Questions:

1. How bad was the performance and which strategies got hit worst?
2. How crowded are "Quant Strategies"?
3. How will you treat this experience in the future?

Roundtable Discussion:

1. Are "Quant Strategies" Broken?
2. If so, how do we fix them?

Panel: "International Equities: What's the right construction?" Lead by Mr. John Reinhart, Lazard Asset Management & Mr. Connor McCarthy, Wellington Management Company

- Sector teams with a Global Mandate, Lazard Asset Management
- Emerging Markets: Equity Review & Outlook, Wellington Management

Audience Questions:

1. What role does currency management play in the portfolio?
2. Will the new EAFE Index be Growth, Value or Neutral?
3. What is the make-up of the APERS' portfolio currently?
4. How much Emerging Markets (EM) are the managers allowed?

Roundtable Discussion: Suggest Best International Allocation for APERS

There were nine discussion groups and nine relatively unique investment structures were presented. One common theme was agreement that the current structure is unlikely to satisfy APERS needs in the future.

1. Several respondents proposed that the benchmark be changed. The current benchmark is the Europe, Australia, Far East index (EAFE). The suggested benchmark is the All Country World Index – Ex US (ACWI).

A significant number of individual investment strategies were proposed as additions or substitutions for some or all, of the existing international program:

2. Enhanced Indexing
3. Small Cap Managers
4. Emerging Markets Managers
5. Pacific Basin specialists
6. Benchmark Agnostic managers
7. All cap managers
8. Currency overlay managers
9. 130/30 strategies

LUNCH BREAK

Panel: “Are There Fixed Income Alternatives?” Lead by Mr. Joe Portera, Mackay Shields, LLC, Mr. Keith Bachman, Aberdeen Asset Management, Inc. & Mr. Dave Bessey, Prudential Investing Corporation

- International Fixed Income Asset Allocation vs. Tactical Trade, MacKay Shields
- Evolution of the Fixed Income Market, Aberdeen Asset Management
- Fixed Income Hedge Strategy, Prudential Investment Corp.

Audience Questions:

1. How much leverage should you allow?
2. How is the risk management of a hedge fund tracked?
3. When you do leverage, do you invest in more of the same or a different vehicle?
4. Have you re-evaluated liquidity risk since the sub-prime fallout?

Roundtable Discussion:

1. List of concerns and risks anticipated with the Fixed Income Alternative portfolio?

Meet the New Managers:

1. Fayetteville Shale/Arkansas Energy - Mr. Jerry Castellini, CastleArk Management, LLC
2. 130/30 Strategy - Mr. Brett Collins, State Street Global Advisors
3. Global Tactical Asset Allocation - Mr. Charlie Service, UBS Global Asset Management

CLOSING REMARKS AND DOW JONES AWARDS BY MR. PAUL TROUP OF CAL-LAN ASSOCIATES, INC.

Mr. Troup thanked everyone for their participation in the eighteenth annual APERS Investment Retreat and announced the winners of the Bull and Bear trophies.

Bear: Doug Angstrom of Goldman Sachs
Bull: Bruno Bertocci of UBS

(Board Meeting - 4:00 p.m.)

QUORUM PRESENT:

Mr. Zimmerman recognized the presence of a quorum.

BOARD MEMBERS PRESENT:

Mr. Don Zimmerman (Municipal Employee Member), *Chair*, North Little Rock, AR
Mr. Artee Williams (State Employee Member), *Vice Chair*, Director, Dept. of Workforce Services
Mr. Larry Fratesi (County Employee Member), Pine Bluff, AR
Mr. Maurice Henry (School Employee Member), Fulton, AR
Ms. Ouida Wright (State Employee Member), Retired, Conway, AR
Mr. Bill Gaddy (State Employee Member), Retired, Little Rock, AR
Mr. Steve Kelly, Deputy State Auditor (*proxy*)
Dr. John Shelnett, *designee for Mr. Richard Weiss*, Director Dept. of Finance & Admin. Hon.
Mr. Mike Creekmore, State Treasurer's Office (*proxy*)
Ms. Gail H. Stone (Executive Director), APERS

BOARD MEMBERS ABSENT:

Mr. Richard Weiss (Ex-Officio Member), Dept. of Finance and Administration
Hon. Jim Wood (Ex-Officio Member), State Auditor
Martha Shoffner (Ex-Officio Member), State Treasurer

VISITORS PRESENT:

Ms. Erika Gee, Attorney General's Office

STAFF PRESENT:

Ms. Michele Williams, Deputy Director, APERS
Ms. Linda McGrath, Executive/Administrative Secretary, APERS

NEWS MEDIA NOTIFIED:

A letter of notification of the APERS Board Meeting was sent to the Arkansas Democrat-Gazette, the Associated Press, 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, copies of the Minutes from the meetings of August 15th and September 14th, 2007 were mailed to each APERS Board member for review. On a motion made by Mr. Gaddy and seconded by Mr. Williams, the Minutes were approved.

After re-reading the Minutes, Mr. Zimmerman stated that he was under the impression that the Board had agreed to merely ask their representative in the Attorney General's office for her recommendation and not seek a formal AG Opinion.

UPDATE/DISCUSSION OF RFQ PROCESS – Presented by Ms. Erika Gee of the Attorney General's Office

Ms. Stone distributed drafts of the RFQs for consulting and actuarial services. She discussed an e-mail from Ms. Foshee of State Procurement confirming that she approved of the RFQs. However, Ms. Foshee directed that Section 1.6 on page 4 of the consulting RFQ needed to be deleted as irrelevant. Ms. Stone stated it would be removed. Also in Section 3.0 on page 12, the language needs to be as follows:

“Responses will be reviewed by OSP to ensure that all mandatory requirements have been submitted. An evaluation team determined by APERS will review the documents to determine the ranking order of the vendors. The top three (3) ranked vendors will be interviewed in the order of ranking. After all the interviews are complete, and the final ranking of vendors has been determined, negotiations will begin with the best and final offer, beginning with the number one (1) ranked vendor.”

Ms. Gee then spoke of further conversations she's had with Mr. Joe Giddis of OSP who had indicated that a screening committee of staff who would then bring a recommendation to the Board for review, would be an optimal process. At most the Board should consider choosing just one Board member for the committee to avoid coming under the Open Meeting rules.

Mr. Zimmerman stated they would need to reverse action from last Board meeting and choose a screening committee to review the vendors. This committee would bring the top 3-5 candidates to the final selection committee.

Dr. Shelnett asked Ms. Stone to review the process that was used in 2004 when ASPRS hired a new consultant. Ms. Stone gave an overview of the procedure that was used, stating that OPM had not implemented the current rules at that point in time, but they were aware of and comfortable with the process that was used. There was further discussion on RFQ materials handling, deadlines, possible challenges and delays.

Mr. Zimmerman asked if the Board was satisfied with the RFQ at this point and the Trustees made favorable comments. Ms. Wright motioned for approval of the Requests for Qualifications and was seconded by Mr. Fratesi. Motioned carried.

There was a brief discussion of the time schedule and how long it would take to know the number of candidates. Ms. Stone stated that the positions would be advertised for at least two weeks. Ms. Williams commented that the purchasing procedures need to be reviewed.

When asked who would be on the screening committee, Ms. Stone named herself, Michele Williams, Susan Bowers and an APERS Board member, with possibly the APERS Internal Auditor included on the Actuarial screening.

Mr. Henry motioned for Dr. Shelnett to be the Board Representative on the Screening Committee. Mr. Williams seconded the motion and after a short discussion, the motion passed unanimously.

Mr. Henry motioned that Ms. Stone would bring the top three Actuarial candidates and the top three Financial Consulting candidates before the full Board for final selection. He was seconded by Ms. Wright and the motion passed. Ms. Stone stated that the decision would have to be made before the February 20, 2008 meeting, so she would have time to get the contract approved.

EXPOSURE TO LIABILITY - Presented by Ms. Erika Gee of the Attorney General's Office

Ms. Gee explained that Fiduciary Liability was not definitive in Arkansas law. She said that while there were a few protections in the Prudent Investor Rule for breach of fiduciary duty, if the Board was deemed not to have acted in the best interest of the membership, there could be some vulnerability. Mr. Zimmerman asked Ms. Stone what other systems and other states did. She replied that it varied widely dependent on each state's statutory and constitutional provisions. Ms. Gee added that LOPFI had liability insurance

Mr. Gaddy related his personal experience with this topic in a past situation.

Mr. Williams suggested that such insurance might be valuable in certain situations.

Mr. Zimmerman instructed Ms. Gee to report back at the November meeting with a more definitive answer as to the Board's vulnerabilities.

NEXT QUARTERLY BOARD MEETING – November 21, 2007 at 9:00 a.m.

ADJOURNMENT:

There being no further business, the 18th Annual Investment Retreat was adjourned.

MR. DON ZIMMERMAN, CHAIR

MS. GAIL STONE, EXECUTIVE DIRECTOR