

**MINUTES OF THE QUARTERLY MEETING OF THE BOARD OF TRUSTEES
ARKANSAS PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FEBRUARY 17, 2021**

A regular meeting of the Board of Trustees of the Arkansas Public Employees' Retirement System was held on Wednesday, February 17, 2021 at 9:00 a.m., via ZOOM remote conferencing due to the COVID-19 crisis. Ms. Candace Franks presided.

QUORUM PRESENT:

Ms. Candace Franks recognized the presence of a quorum.

BOARD MEMBERS PRESENT:

Ms. Candace Franks (State Employee Member), Chair, Little Rock, AR
Mr. Larry Walther (Ex-Officio Member), Vice Chair, Department of Finance and Admin
Mr. David Hudson (County Employee), Fort Smith, AR
Mr. Gary Carnahan (Other, Non-State Employee), Hot Springs, AR
Mr. Dale Douthit, (State Employee), Russellville, AR
Mr. Daryl Bassett (State Employee Member), Sherwood, AR (arrived late)
Mr. Jason Brady (State Treasurer's Office) *proxy*
Hon. Andrea Lea (Ex-Officio Member), State Auditor
Mr. Duncan Baird (Executive Director), APERS Executive Director

BOARD MEMBERS ABSENT:

Mr. Joe Hurst, (City Employee), Van Buren, AR
Hon. Dennis Milligan, (Ex-Officio Member), State Treasurer

VISITORS PRESENT:

Ms. Heidi Barry, GRS
Ms. Brianne Weymouth, Callan LLC
Mr. John Jackson, Callan LLC
Mr. Avery Robinson, Callan LLC
Ms. Shauna Carpenter, ASEA
Ms. Michelle Atkinson, ASEA
Ms. Claretta Newborn, ASEA
Mr. Jack Critcher, Arkansas Municipal League
Mr. John Wilkerson, Arkansas Municipal League
Ms. Cindy Frizzell, Arkansas Municipal League
Mr. Chris Villines, Association of Arkansas Counties
Mr. Paul Louthian, Department of Finance and Admin.
Dr. John Shelnett, Department of Finance and Admin.
Ms. Rhonda Patterson, DOC
Mr. David Johnson, Central Arkansas Water
Mr. Mike Knapp, Bureau of Legislative Audit
Mr. Mike Kennedy, Arkansas State Police
Ms. Rebekah Griffin, DHS
Ms. Wambui Lynch, SSI Investment Management
Mr. Cyril Espanol, Pageant Media
Ms. Lauren Albanese, FIN News
Mr. Mike Wickline, Arkansas Democrat-Gazette

Ms. Erika Gee, Wright, Lindsey & Jennings LLP
Ms. Jessie Wilson, Retired
Ms. Zona Maness, Retired
Ms. RoseAnn Smith Retired
Ms. Barbara King, Retired
Ms. Alice Sue LeMasters, APERS Member
Mr. Clifford Robison, APERS Member
7 Unidentified Attendees

STAFF PRESENT:

Ms. Allison Woods, APERS Deputy Director
Mr. Carlos Borromeo, APERS Chief Investment Officer
Ms. Usha Doolabh, APERS Investments Manager
Ms. Laura Gilson, APERS Chief Legal Counsel
Ms. Abbi Bruno, APERS Director of Operations
Mr. Phillip Norton, APERS Director of IT
Mr. Jon Aucoin, APERS Retirement Section Manager
Ms. Jennifer Taylor, APERS Retirement Section Manager
Mr. John Owens, APERS Internal Auditor
Mr. Jason Willett, APERS Chief Financial Officer
Ms. Cheryl Wilburn, APERS Retirement Coordinator
Mr. Keith Stillwell, APERS Media Specialist
Mr. Craig Blackard, APERS Accounting Coordinator
Ms. Jacobia Twiggs, APERS Retirement Section Manager
Ms. Linda McGrath, APERS Administrative Specialist

NEWS MEDIA NOTIFIED:

An e-mail with 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 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 November 18 and December 8, 2020 meetings were e-mailed to each APERS Board member for review. Mr. Brady motioned to accept the Minutes as presented. Mr. Walther seconded and the Minutes were approved.

INVESTMENTS

QUARTERLY INVESTMENT REPORT FOR THE PERIOD ENDING DECEMBER 31, 2020- Presented by Ms. Brianne Weymouth and Mr. John Jackson of Callan LLC

Mr. Jackson gave a quick overview of the capital markets for the last quarter of calendar year 2020. With the roll-out of the COVID vaccinations, there was a renewed confidence that life might soon be returning to normal and this optimism was reflected in the market returns. Despite the GDP growing by 4% for the last quarter of 2020, it finished out the year at -3.5% for the year – its lowest in 75 years. Inflation remains low and the Fed has indicated it has no plans to raise rates until 2023. Unemployment, which peaked in April 2020 with 22 million jobs lost, has seen just 12 million of these jobs return.

The US Equity markets hit record highs in the last quarter of 2020. Since the low in March, the Index is up over 70%, with all sectors posting 40% or more increases. The S&P also had record

high during the last quarter, but they continue to remain concentrated around the FAAMG stocks (Facebook, Amazon, Apple, Microsoft & Google) accounting for 12.1% of the 18.4% increase. Cyclical sectors such as Energy (+28%), Financials (+23%), Industrials (+16%) and Materials (+15%) outperformed for the quarter. The Russell 3000 posted a 14.68% return for the quarter and 20.89% for all of 2020.

International Equity continued its rally with double-digit fourth quarter returns, while the dollar continues to weaken versus developed and emerging market currencies. Fixed Income had positive returns with high-yield sectors turning in the best performances.

Ms. Weymouth detailed the portfolio's performance through the end of 2020. She stated the fund had a very strong quarter returning 12.3% and 14.57% for the year. The fund outperformed its benchmark for the year and ranked in the top quartile of its peers over all trailing time periods. She noted the Real Assets portfolio was trailing its benchmark by 4% and reminded the Board that they would be examining this asset class in more detail later in the meeting.

As of December 31, 2020, the Fund had a Market Value of almost \$10.7 billion (a new, historic high) and over \$1.1 billion ahead of where it finished a year ago. The fund's Actual Asset Allocation was just within allowable range compared to the Target Allocation. The fund continues to be overweight in equities (4.9%) due to strong market performance and underweight in Real Assets (3%). Callan would be working with Staff to bring the asset classes closer in-line with the Target Allocation weights.

Manager updates

Ms. Weymouth commented that APERS' new International Small Cap manager, Acadian Asset Management had been funded over the past quarter and Franklin Templeton Investment was funded earlier. Performance reports for both will be shown in the next quarter's Callan report during the May meeting. Elsewhere in the portfolio, BNY Mellon announced on February 10th that they would be combining several of their investment firms. This would include blending Mellon's equity and multi-asset capabilities with Newton Investment Management, one of APERS Diversified Strategy managers. Newton had previously announced that their CEO would be stepping down Jan 4th and Euan Munro would be replacing him. Andrew Downs would continue in his role as interim CEO and had the full support of Newton's board and executive team. Callan was keeping their eye on these changes to see how it evolves but had no other recommendations at this time.

Real Assets Structure Review – Presented by Ms. Brianne Weymouth, Mr. John Jackson, and Mr. Avery Robinson of Callan LLC.

Mr. Jackson explained that the purpose of this discussion was to evaluate the Real Asset structure of the APERS portfolio in the same fashion as had been done previously with International Equities. Afterwards, Callan would evaluate if there should be some modifications to the structure of this portion of the portfolio. Currently, Real Assets comprise about 12% of the APERS portfolio with a value of roughly \$1.3 billion. The Fund Target calls for 16% of the portfolio to be comprised of Real Assets.

He reviewed the reason for holding Real Assets in the portfolio: Diversification, Return Profile and Inflation Protection. Mr. Jackson then discussed the considerations of this asset class including illiquid structures, higher fees and lack of investable indices/benchmarking issues. He showed the three major classifications of Real Assets: Real Estate, Infrastructure, Agriculture and Timberland.

Mr. Jackson detailed APERS current Real Asset holdings and noted that with roughly 70% exposure to Core Real Estate and Timber, the portfolio had a conservative tilt. There was also no exposure to Opportunistic Real Estate.

Mr. Robinson discussed Risk vs. Return of the four Private Real Asset Strategies and what investments were found in each category. He and Ms. Weymouth followed up examining Energy Stocks, Timber, Farmland and Infrastructure in the same fashion. Ms. Weymouth detailed the history of the CastleArk Energy Fund in the APERS portfolio. She pointed out that both APERS Domestic and International Equity managers already held various energy stocks in their portfolios. Mr. Robinson discussed the current APERS Timber portfolio, then detailed Farmland and Infrastructure investments. APERS presently has no exposure in either of these categories.

Callan provided a chart detailing APERS' current Real Assets portfolio and offered four new mixes for the Trustees to consider going forward. Ms. Weymouth detailed the strengths and weaknesses of each potential Asset Mix. When she concluded, there was a short discussion among Trustees before Mr. Brady motioned to accept Staff's recommendation and transition to Mix 2. Mix 2 would increase the core real estate target from approximately 61% to 70%, increase the non-core real estate target from approximately 14% to 20%, change Public REITS from approximately 6% with a target range of 0% to 5%, eliminate energy stocks, add farmland with a 5% target, and retain timber which will begin liquidating in 2026. Ms. Lea seconded the motion and it carried unanimously.

ADMINISTRATIVE

SUMMARY OF RETIREES FOR THE QUARTER ENDING DECEMBER 31, 2020:

Mr. Baird worked off the report pointing out that APERS had 208 members who retired in October, 166 in November and 148 retirees in December, for a total of 522 in the last quarter of calendar year 2020. This brought the total number of retirees and beneficiaries receiving monthly checks from APERS to 36,963.

FINANCIAL STATEMENTS FOR THE QUARTER ENDING DECEMBER 31, 2020:

Currently, APERS' net position is just over \$10.2 Billion; up over \$1 Billion from just a year ago. APERS has paid out over \$302 million in benefit payments for the first half of FY 2021; a 2.7% increase from last year.

Set DROP Interest Rate for Fiscal Year 2022:

Mr. Baird distributed a graph showing the 5-year history of the interest rate associated with a 10-year Treasury yields. Currently, this investment has roughly a 1.18% annual return. By design, APERS' DROP is fairly "actuarially neutral" but a new fiscal impact study would be carried out due to a bill that has been filed seeking to increase the length of DROP from 7 to 10 years. Staff recommends holding the Interest Rate on DROP accounts at 2.0%. Mr. Walther motioned to continue the rate at 2.0% for FY 2022. He was seconded by Mr. Douthit. Motion carried.

Annual Approval for Board Travel Reimbursements

Ms. Franks reminded the board that this was an annual requirement to approve travel reimbursement rates for Trustees performing official Board duties at the first meeting of each calendar year. Currently, the approved rate is 42 cents per mile. Mr. Brady motioned to approve reimbursement for travel under the state's guidelines. Mr. Walther seconded the motion and it passed.

Renewal of Professional Services Contracts

Mr. Baird explained the contracts needed to be reviewed and approved by the Board every two years. At this time, there were no changes being requested for any of the managers. Staff simply needs the Board's approval to take these numbers to the legislature to get these contracts renewed for another two years. Mr. Walther moved to approve the existing contracts; Mr. Hudson seconded. Motion passed.

LEGAL

Litigation Update – Ms. Laura Gilson, APERS Chief Legal Counsel

Ms. Gilson reported that in *Eldridge v. APERS Board of Directors*, there had been no appeal filed within 30 days of the December 8th hearing, so that is the end of that case. There is a new member appeal from Ms. Jolene Hammock that will need to be heard later this year.

In the case of the Court Clerks, Veronica Young, et al., the Counsel for the Court Clerks filed a motion for Summary Judgement and APERS filed a Motion to Dismiss. The hearing on the Appellant's motion was held February 3, 2021 and the Judge is considering the arguments.

Bolden v. APERS is another case in Circuit Court, and they have requested an in-person hearing. The original Judge has retired and Staff is waiting to see who is reassigned the case.

Ms. Gilson noted APERS' had two cases before the Claims Commission. In the case of Ms. Cherriet Clark, the Claims Commission at a ZOOM meeting October 23, 2020 and ruled in favor of APERS' Motion to Dismiss. Ms. Clark did not appeal the decision within the required 30 days. The other case pending before the Claims Commission is *Ellis Sloan v. APERS*. There is a hearing for April 16, 2021 and Staff is preparing their case.

Regarding APERS securities litigation cases, Ms. Gilson stated that there were no new litigations and she updated where APERS was in the four on-going cases.

Update on RFQ for Tax Attorney

Mr. Baird reminded the Board of the discussion on this topic at the last meeting. Staff had brought forth the idea of issuing an RFQ for a Tax Attorney to provide pension-related tax counsel and help maintain APERS' compliance with IRS statutes. Staff selected Mr. Bryan Smith from the Friday Firm as the top scorer and Staff is finalizing the paperwork with Procurement. This will give Staff and the Board an additional resource on pension-related tax matters going forward.

Signatory Authority Resolution

Mr. Baird explained that over the last six months, Staff had been asked about Signatory Authority and proof that the Director and other Staff members had the authority to sign certain documents. Currently, APERS has three various documents denoting this authority, but Staff felt it might be prudent to have one overarching document that the Board could review regularly (every 2 years) that outlined the Signatory Authority within APERS. The Board reviewed the resolution draft provided and Ms. Lea moved to pass the resolution as presented. Second by Mr. Brady and the motion carried.

Update on Legislation and the 2021 Legislative Session

Mr. Baird noted that Staff was tracking three sets of bills: bills that affected all state retirement systems, system bills that were filed on the recommendation of the Board and bills filed by others that impacted APERS. Mr. Baird stated that any bill the affected APERS had been sent to GRS for a cost analysis. He would be sending regular updates to the Board members with progress reports on all these bills throughout the session. The three APERS sponsored bills are: HB1346 –

Final Average Calculations, HB1347 – COLA, and HB1348 – Member Contributions. Staff is also tracking HB1352 which would allow APERS to more easily collect overpayments to deceased members.

NEXT QUARTERLY BOARD MEETING:

The next quarterly Board Meeting is scheduled for Wednesday, May 19, 2021 at 9:00 a.m.

ADJOURNMENT:

There being no further business, the meeting was adjourned.

Ms. Candace Franks, Chair

Mr. Duncan Baird, APERS Executive Director