

**PUBLIC EMPLOYEES RETIREMENT SYSTEM
MINUTES OF THE MEETING OF THE BOARD OF TRUSTEES
28th ANNUAL EDUCATIONAL SEMINAR
TUESDAY, OCTOBER 24, 2017**

The Board of Trustees of the Arkansas Public Employees Retirement System held its Twenty-seventh Annual Educational Seminar beginning at 8:30 a.m. and concluding at 4:30 p.m. on Tuesday, October 24th at The Capital Hotel in Little Rock.

BOARD MEMBERS PRESENT:

Mayor David Morris, (City Employee), *Chair*, Searcy, AR
Judge David Hudson, (County Employee), Fort Smith, AR
Mr. Steve Faris (Retired State Employee), Little Rock, AR
Mr. Larry Walther, (Ex-Officio Member), Vice Chair, DF&A
Ms. Gail H. Stone (Executive Director), APERS

BOARD MEMBERS ABSENT:

Ms. Carol Bevis, (Other, Non-State Employee), Little Rock, AR
Ms. Candace Franks (State Employee Member), Little Rock, AR
Mr. Daryl Bassett (State Employee Member), Sherwood, AR
Hon. Andrea Lea, (Ex-Officio Member), State Auditor
Mr. Dennis Milligan, (Ex-Officio Member), State Treasurer
Mr. Larry Walther, (Ex-Officio Member), *Vice Chair*, DF&A

ADDITIONAL VISITORS PRESENT:

Mr. Ryan Ball, Callan Associates, Inc.
Ms. Brianne Weymouth, Callan Associates, Inc.
Mr. John Pirone, Callan Associates, Inc.
Mr. David Hoffman, Gabriel Roeder Smith
Mr. Mita Drazilov, Gabriel Roeder Smith
Dr. John Shelnett, AR Department of Finance & Administration
Mr. Paul Louthian, AR Department of Finance & Administration
Rep. Doug House, Co-Chair Joint Retirement Committee
Ms. Tracy Hudson, wife of Judge Hudson
Mr. Mike Wickline, *Arkansas Democrat-Gazette*
Mr. Aaron Kelley, AQR Capital Management
Mr. Aaron Roberts, Artisan Partners
Ms. Larysa Bemko, Baillie Gifford
Mr. Joe Faraday, Baillie Gifford
Ms. Rebecca Osborne, 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
Ms. Barbara Ziegler, DoubleLine
Mr. Jeff Mayberry, DoubleLine
Mr. David Bridges, Fidelity Institutional Assets Management
Mr. Yvette Friberg, Fidelity Institutional Assets Management
Mr. Lance McInerney, Fidelity Institutional Assets Management
Ms. Melissa Moesman, Fidelity Institutional Assets Management
Mr. Greg Golden, Golden Capital Management
Mr. Blaise Keane, Heitman Capital Management
Ms. Anne Westbrook, Heitman Capital Management
Ms. Jennifer McCracken, Heitman Capital Management
Mr. Scott Horrell, Horrell Capital Management
Ms. Kimberly Horrell, Horrell Capital Management
Ms. Leanne Schmitt, INTECH
Mr. Ben Utt, Invesco Real Estate
Mr. Mark Blackburn, Invesco Real Estate

Mr. Laler De Costa, Invesco Real Estate
Mr. Jim Hutchinson, LaSalle Investment Management
Mr. Matthew Walley, LaSalle Investment Management
Mr. Anthony Dote, Lazard Asset Management
Mr. Robert Failla, Lazard Asset Management
Mr. Scott Kemper, LSV Asset Management
Mr. Louis Cohen, MacKay Shields
Mr. Stephen Buckley, MacKay Shields
Ms. Heather Howell, MacKay Shields
Mr. Todd Bailey, Mellon Capital Management
Mr. Benjamin Williams, Newton Capital Management
Mr. Rupal Shah, PGIM Fixed Income
Mr. Michael Collins, PGIM Fixed Income
Mr. Barry Beers, Pinnacle Forest Investments
Mr. Hank Page, Pinnacle Forest Investments
Mr. Florian Eitner, SSI Investment Management
Ms. Wambui Lynch, SSI Investment Management
Mr. Patrick White, Stephens Investment Management
Mr. Ryan Crane, Stephens Investment Management
Mr. Doug Engelman, TA Associates Realty
Mr. James 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. Jay Wills, APERS Deputy Director
Mr. Carlos Borromeo, APERS Chief Investment Officer
Ms. Usha Doolabh, APERS Investments Manager
Ms. Jessica Middleton, APERS General Counsel
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.

WELCOME:

Mayor Morris welcomed everyone to the 28th Annual Trustee Educational Seminar and introduced the Trustees and Staff to all the investment managers. He noted that after 42 years of public service, he was extremely grateful to be a member of APERS and honored to be the Chairman of a retirement system that affected so many people in a positive fashion.

Mr. Borromeo explained the format of the seminar and introduced Ms. Usha Doolabh as Mr. Bowers replacement in Investments. Mr. Borromeo stated the theme for this year's Educational Seminar was "Change" and the panels would begin their discussions after a short discourse on Fiduciary Responsibility by APERS' Deputy Director.

MANIFEST INJUSTICE REPORT:

- Mr. Jay Wills, APERS Deputy Director

Mr. Wills introduced himself and Ms. Middleton. He explained that before he lectured on Trustee Fiduciary Duties, he would talk briefly about the "Manifest Injustice" rule that the ATRS Trustees have at their disposal. Mr. Wills noted that this rule permits the Teacher Retirement Board to work with hardship cases in their membership by allowing the Director and the Trustees discretion to modify the terms of the plan on an ad hoc basis. He described that this rule had recently come to light at an APERS hearing regarding beneficiary payments to a deceased member's daughter.

Mr. Wills distributed a copy of ATRS' Manifest Injustice to the APERS Trustees and detailed his visit over to the other retirement agency. Their staff explained the origin of the Manifest Injustice rule, as well as its application and potential pitfalls.

ATRS' rule came about from a 5-year statute of limitations on "look-back" on the system errors. This resulted in some hardship cases for some members and retirees which the Manifest Injustice rule was created solely to correct. APERS has never had a statute of limitations and has always had a policy of going back, as far as needed, and correcting the records based on satisfactory proof.

Secondly, ATRS was required to obtain legislative approval to use their Manifest Injustice policy and APERS cannot just adopt such a policy without enabling legislation. Mr. Wills explained how the Manifest Injustice Rule was utilized at ATRS with Staff identifying and addressing those issues on amounts less than \$10,000 and the Board merely hears a summary report; only items over that amount would the Board hear and vote upon.

He also noted that before ATRS exercises any Manifest Injustice ruling, they have an outside tax counsel sign off that such a ruling will not affect the plans' tax exempt status. Mr. Wills commented that while he had successfully negotiated all the Cycle C papers with the IRS, he did not hold himself out to be a qualified tax lawyer and this would be an additional expense to the fund, if implemented.

Mr. Wills also stated another of his concern was regarding the fact that it was specifically stated in the rule itself, that this was exempt from the Administrative Procedures Act. A finding of Manifest Injustice or a refusal to find a Manifest Injustice has been specifically carved out in both legislation and in their rule, as "there is no appeal". He commented that that only reason State agencies had Sovereign Immunity was because they work through the Administrative Procedures Act so that a court may address any decision. Mr. Wills felt that without an avenue of appeal that any competent lawyer would attack it on the basis that it was insulating itself from the Administrative Procedures Act improperly. He also commented that Mr. Hopkins admitted that it did increase political pressure on the Board Members for specific actions

Mr. Wills distributed copies of "Rule 17-1 Manifest Injustice" that ATRS had provided. He noted that should APERS' Trustees desire the ability to use something similar, they would first need enabling legislation and secondly, the Board would need to hire a seasoned tax lawyer to make sure any decision did not jeopardize APERS' tax qualified status.

FIDUCIARY DUTIES AND RESPONSIBILITIES:

- Mr. Jay Wills, APERS Deputy Director
- Ms. Jessica Middleton, APERS Chief Legal Counsel

Mr. Wills explained that this annual review of Fiduciary Duties was to provide protection to Board Members against claims they were unaware of their responsibilities. Touching on the highlights of his 21-page handout, he explained the three general duties. Mr. Wills noted it was helpful to look at the source of these three general duties, as it would often inform you on how those duties may be discharged and suggested the Trustees reference A.C.A. §24-2-613 for more details.

Mr. Borromeo thanked APERS Mr. Wills and Ms. Middleton for their presentation and in keeping with the theme of the seminar, ran through a brief slide show touching on a number of changes that had taken place over the last 10 years.

APERS THEN AND NOW:

- Ms. Brianne Weymouth, Callan Associates, Inc.
- Mr. Ryan Ball, Callan Associates, Inc.
- Mr. John Pirone, Callan Associates, Inc.

The consultants introduced themselves and discussed effective ways for boards to continue to meet their objectives and the importance of tweaking asset allocations as the market changes. Mr. Ball noted that every 5-years APERS reviewed their asset allocation and makes adjustments.

LUNCH

KEYNOTE SPEAKER:

After lunch, Mr. Borrromeo introduced Mr. David Bridges, a security analyst at Fidelity Institutional Assets Management, who presented his views on how geopolitical changes could affect future market events and his outlook for the global economy going forward.

RELATIONSHIP MANAGEMENT PANEL:

- Mr. Tony Dote, Lazard Asset Management
- Mr. Zander Grant, Wellington Management Company
- Ms. Kim Calhoun, Westwood Holding Group
- Ms. Larysa Bemko, Baillie Gifford International

The four speakers discussed the changes they had witnessed in public fund client relationships over the last 25+ years, specifically the management of DB plans and the cost management and the complexity of these retirement plans. Finally, they discussed what changes they expected to see in the future.

PORTFOLIO MANAGEMENT PANEL:

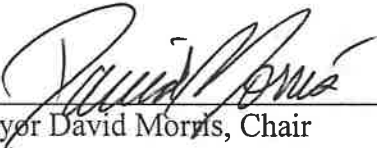
- Mr. Lou Cohen, MacKay Shields LLC
- Mr. Michael Collins, Prudential Fixed Income
- Mr. Jerry Castellini, CastleArk Management
- Mr. Rob Failla, Lazard Asset Management

The four managers presented their views on the biggest changes in portfolio management from both the Equity and Fixed Income side. They examined inflation, market cycles, credit growth and the labor market. They closed by speculating on what managers could be seeing in the future.

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

Mr. Borrromeo thanked everyone for their assistance and participation at the Annual Educational Seminar and announced the 2017 Bull/Bear Award would go to Patrick White from Stephens.

He thanked everyone for their speculations last year and encouraged participants to leave their best guess for the Dow Jones closing number on June 30, 2018. The date for the 2018 Educational Seminar had already been set: October 23th. Then, as there was no further business, he closed the 28th Annual Educational Seminar.



Mayor David Morris, Chair



Ms. Gail Stone, Executive Director