

**MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
FEBRUARY 20, 2019**

The regular quarterly meeting of the Board of Trustees of the Arkansas Public Employees Retirement System was held on Wednesday, February 20, 2019 at 9:00 a.m., in the Conference Room, 124 West Capitol, Little Rock, Arkansas. Since Ms. Candace Franks could not be there in person, Mr. Larry Walther presided

QUORUM PRESENT:

Mr. Walther recognized the presence of a quorum.

BOARD MEMBERS PRESENT:

Ms. Candace Franks (State Employee Member), *Chair*, Little Rock, AR (*via tele-conference*)
Mr. David Hudson (County Employee), Fort Smith, AR
Mr. Steve Faris (Retired State Employee), Little Rock, AR
Mr. Gary Carnahan (Other, Non-State Employee), Hot Springs, AR
Mr. Daryl Bassett (State Employee Member), Sherwood, AR
Mr. Joe Hurst, (City Employee), Van Buren, AR
Mr. Jason Brady, *designee*, AR State Treasurer's Office
Mr. Skot Covert, *designee* (Ex-Officio Member), State Auditor
Mr. Larry Walther (Ex-Officio Member), *Vice Chair*, Department of Finance and Admin

BOARD MEMBERS ABSENT:

Hon. Dennis Milligan, (Ex-Officio Member), State Treasurer
Hon. Andrea Lea (Ex-Officio Member), State Auditor

VISITORS PRESENT:

Ms. Brianne Weymouth, Callan Associates, Inc
Ms. John Jackson, Callan Associates, Inc
Mr. Duncan Baird, Department of Finance and Admin.
Mr. Paul Louthian, Department of Finance and Admin.
Mr. John Shelnett, Department of Finance and Admin.
Mr. Mike Knapp, Bureau of Legislative Audit
Mr. Clint Rhoden, ATRS Director
Mr. Lewis Leslie, APERS Retiree
Ms. Sheila Weddington, APERS Retiree
Ms. Mary Grace Smith, APERS Retiree

STAFF PRESENT:

Mr. Jay Wills, APERS Deputy Director
Mr. Carlos Borromeo, APERS Chief Investment Officer
Ms. Usha Doolabh, APERS Investments Manager
Ms. Abbi Bruno, APERS Director of Operations
Mr. Jason Willet, APERS Chief Financial Officer
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 KAAZ. This notification is pursuant to A.C.A 25-19-101 (Act 93 of 1967) as amended-The Freedom of Information Act.

WELCOME NEW MEMBER: MR. JOE HURST

Mr. Walther welcomed Mayor Hurst to the APERS Board. Mr. Hurst is the Mayor of Van Buren, AR and replaces Mayor Morris, who retired at the end of December.

MINUTES:

Prior to the Board meeting, copies of the Minutes from the January 4, January 8 and January 16, 2019 Board Meetings were mailed to each APERS Board member for review.

Mr. Hudson motioned to accept the Minutes as presented. He was seconded by Mr. Brady. Motion carried.

QUARTERLY INVESTMENT REPORT FOR THE PERIOD ENDING DECEMBER 31, 2018 - Presented by Ms. Brianne Weymouth and Mr. John Jackson of Callan Associates

Brianne introduced Mr. Jackson and explained that Ryan Ball has taken a job outside Callan about a month ago. Mr. Jackson gave a brief history of his work at Callan before detailing the market performance for the last quarter.

Ms. Weymouth charted the APERS fund performance over the last quarter. US Equities fell drastically over the quarter and International Markets were driven down by global trade disputes and the Brexit impasse. For the quarter, the fund lost roughly \$700 million and had a Market Value of \$8.17 billion. Over the last 12-months, the Fund earned (5.13%) ranking it just above the bottom quarter (74%) of its peers.

APERS Asset Actual Allocation was very close to the Target Allocation and no rebalancing is needed.

Ms. Weymouth drew the Board's attention to Fidelity (International Equity - \$371 million). Callan has been watching changes in strategy, personnel and management and suggested the Board consider terminating this manager. Ms. Weymouth advised putting money in the Index Fund for now and Callan will look for a replacement in the future. Mr. Faris motioned to terminate Fidelity and put Wellington (Domestic Equity - \$372 million) on the "Watch List". Mr. Bassett seconded. Motion passed.

Investment Manager Organizational Developments

Wells Fargo acquired Golden Capital Management in 2017. Golden Capital operates as a fully autonomous business. There has been management shuffling at the top level, but Callan is watching.

SSI entered into an agreement with Resolute Investment Managers. Callan has no concerns at this point, just for board information.

Asset/Liability Study

Ms. Weymouth reminded the Board that back in December they had selected a less risky asset mix for the portfolio. She wanted to revisit the choice before Callan began to design optimal portfolio. The Board will also need to formalize a new investment policy.

	<u>Current Asset Mix</u>	<u>Proposed Asset Mix</u>
US Broad Equity	37%	33%
Global ex-US Equity	24%	21%
Real Assets (90-10)	16%	16%
Diversifying Strategies	5%	10%
Domestic Fixed	18%	20%

Ms. Weymouth noted that the Board has expressed desire to lower the unfunded liability and this Asset Mix was a step towards that goal. Mr. Jackson commented that the next step would be to work up a transitional management plan to change over the asset mix in the most cost-effective manner.

Mr. Bassett requested that Callan show a model of the Standard Deviation for the Board to review at the May meeting. Ms. Franks and Mr. Faris agreed the Board needed to see the model.

Renewal of Professional Services Contracts

Mr. Borromeo contracts presented every 2 years. He needed to request approval for more money for LSV. This was simply due to a math error; nothing had changed. Mr. Hudson moved to approve the additional funds for LSV; Mr. Brady seconded. Motion passed.

SUMMARY OF RETIREES FOR DECEMBER, JANUARY AND FEBRUARY:

Mr. Wills gave a summary of recent APERS retirees.

MEDICAL REVIEW BOARD RECOMMENDATIONS:

The Medical Review Board met at 10:00 a.m. on Wednesday, February 13, 2019 in the APERS Library to the case of Mr. Ray Quick.

- After review and discussion, the Medical Review Board found that Mr. Quick was suffering from an illness or injury at the time of his termination in May 2012, which subsequently led to the disability determination.

With APERS Board approval, in accordance with ACA 24-4-511(e)(3) benefits for Mr. Quick will be effective March 1, 2019. Motion to approve by Mr. Hudson. Second by Mr. Brady. Motion passed.

FINANCIAL STATEMENTS FOR THE QUARTER ENDING SEPTEMBER 30, 2018:

APERS assets totaled over \$7.9 billion and paid out over \$277 million during the first half of the fiscal year. The fund remains on target to set a new record for annual benefit payments.

OTHER BUSINESS

Legislation Review

Mr. Wills commented that all the APERS sponsored bills seem to be moving through except for the COLA bill (for lack of a sponsor). He then updated the Trustees on what was happening with other retirement-related bills that the Board had not sponsored and asked their position on them.

HB1256 – Rep. House’s COLA bill. Move APERS to simple COLA. Board takes no position.

HB1336 – Gives the Board the authority to decide on reduction for early retirements. Sen. Bragg proposed, currently set in statute. No position.

HB1337 – Member with more than 28 years of service, Board could give a bonus. No position.

HB1339 – Senator Bragg’s bill to change “Final Average” from 3 to 5 years. No position.

SB219 – Senator Cheatham’s bill reducing the length of time death in service. Spouse only needs to be married 6 months instead of 12 months to collect benefits. This bill contained a retroactivity clause that Mr. Wills felt could be illegal. Board chose to take no position.

SB239 – Forfeiture of retirement benefits for State officials when convicted. State already has mechanisms for getting money back, but requires judicial intervention.

SB242 – Paralleled a Federal Act called USERRA (Uniformed Services Employment and Reemployment Right Act) that gives re-employment security for military people who are pulled out of their job involuntarily, to preserve their place there so they can come back to their jobs with the same advantages. Mr. Wills commented he would wait until he saw the cost from the actuaries. He did not believe it would be cost neutral.

After the last meeting, Mr. Wills began the process to send out an RFQ for Securities Litigators. When Senator Hammer introduced SB173, Mr. Wills wanted to know how this would affect potential RFQs before continuing. After talking to Senator Hammer, Mr. Wills says this bill will be pulled if individual agencies agree to proceed with the RFQs.

Legislative Audit Findings

Mr. Wills stated that APERS had two audit findings, however they both sides of the same coin. He noted that the Trustees should already have a copy of both findings, as well as APERS’ response. Starting with the day APERS received these findings, staff procedures have been changed to bring the agency into compliance with the regulation and statute.

Mr. Wills noted that he had been in discussion with Ms. Franks regarding the banks refusing to tell Staff who was withdrawing money from deceased member’s account. He proposed initiating legislation at the next session to amend the banking code to give that information to retirement systems in the case of a deceased retiree.

Litigation Update – Mr. Jay Wills, APERS Deputy Director

Mr. Wills was pleased to state that for the first time in a long time, the Board had no threatened or pending hearings. The Nursing Home case is still waiting for the Court of Appeals to decide. It has been sitting out there for over a year.

At the May meeting, there would probably be two cases of people seeking enhanced benefits. Mr. Wills gave a brief breakdown of each case.

Set DROP Interest Rate

Mr. Wills referred a graph showing the 20-year history of the interest rate associated with a 10-year Treasury yields. Currently, this investment offers about 2.38% annual return. Staff recommends staying at 2.5% on DROP interest. Mr. Bassett motioned to keep the rate at 2.5% and was seconded by Mr. Faris. Motion passed.

Amended for clarity - November 20, 2019 to read:

Mr. Wills referred a graph showing the 20-year history of the interest rate associated with a 10-year Treasury yields. This investment offers about 2.38% annual return. **Staff recommends lowering the Interest Rate on DROP accounts from 2.75% to 2.5%.** Mr. Bassett motioned to set the rate at 2.5% and was seconded by Mr. Faris. Motion passed.

Annual Approval for Board Travel Expenses

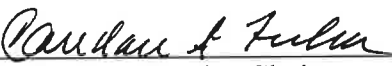
Mr. Wills explained that according to *ACA §25-16-902* during the first meeting of each calendar year, the Board will establish travel reimbursement rates for Trustees performing official Board duties that take them over 50 miles from home or for educational purposes during 2018. This rate is currently set at 42 cents per mile. Mr. Faris motioned to approve reimbursement for travel under the state’s guidelines. Mr. Brady seconded and the motion passed.

NEXT QUARTERLY BOARD MEETING:

The next quarterly Board Meeting is scheduled for Wednesday, May 15, 2019 at 9:00 a.m.
APERS Annual Trustee Educational Seminar is scheduled for Tuesday, October 22, 2019 (*all day*)

ADJOURNMENT:

There being no further business, the meeting was adjourned.



Ms. Candace Franks, Chair



Mr. Duncan Baird, APERS Executive Director