

**MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
MAY 15, 2019**

The regular quarterly meeting of the Board of Trustees of the Arkansas Public Employees Retirement System was held on Wednesday, May 15, 2019 at 9:00 a.m., in the Conference Room, 124 West Capitol, Little Rock, Arkansas. Ms. Candace Franks presided

QUORUM PRESENT:

Ms. 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. 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, State Treasurer's (*proxy*)
Hon. Andrea Lea (Ex-Officio Member), State Auditor
Mr. Duncan Baird (Executive Director), APERS

BOARD MEMBERS ABSENT:

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

VISITORS PRESENT:

Ms. Brianne Weymouth, Callan Associates, Inc
Mr. John Jackson, Callan Associates, Inc
Mr. Jay Kloepfer, Callan Associates, Inc
Mr. Paul Louthian, Department of Finance and Admin.
Mr. John Shelnutt, Department of Finance and Admin.
Mr. Rhett Hatcher, Lobbyist
Mr. Richard Bearden, Lobbyist
Mr. Mike Knapp, Bureau of Legislative Audit
Mr. Clint Rhoden, ATRS Director
Ms. Cindy Frizzell, Arkansas Municipal League,
Ms. Lindsey Bailey, Assoc. of Arkansas Counties
Mr. Mike Wickline, *Arkansas Democrat-Gazette*
Mr. Charlie Moulton, Hearing Officer.
Mr. Lewis Leslie, APERS Retiree
Ms. Linda Bolding, APERS Retiree
Mr. Ross Bolding, Husband of Linda Bolding
Ms. Kristi Gray, Court Reporter

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. Phillip Norton, APERS Director of Information Technology
Mr. Jon Aucoin, APERS Retirement Section Manager
Ms. Jennifer Taylor, APERS Retirement Section Manager
Mr. Allison Woods, APERS Director of Benefits
Mr. John Owens, APERS Internal Auditor
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 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 December 5, 2018 and February 20, 2019 Board Meetings were mailed to each APERS Board member for review.

Mr. Bassett motioned to accept the Minutes as presented. Mr. Steve Faris seconded and the motion carried.

**QUARTERLY INVESTMENT REPORT FOR THE PERIOD ENDING MARCH 31, 2019-
Presented by Ms. Brianne Weymouth and Mr. John Jackson of Callan Associates**

Ms. Weymouth detailed the last quarter's investing environment and the overall market performance.

Mr. Jackson reviewed the performance of the APERS portfolio over the last quarter and last 12 months. Most portions of the portfolio performed extremely well. At the end of March, the Market Value of the fund was just over \$8.89 billion.

APERS Asset Actual Allocation was very close to the Target Allocation with the 3% overweight in Domestic Equity coming from market movement. No rebalancing is necessary.

Asset Allocation and Liability Study – Mr. Jay Kloepfer of Callan Associates

Mr. Kloepfer discussed Risk Tolerance and Asset Allocations. In December, the Board selected a less risky asset mix for the portfolio. He reviewed the process that Callan takes to project future assets and liabilities in order to determine risk.

	<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%

Mr. Kloepfer continued, explaining the current Unfunded Liability and how it would be affected using the various asset mixes. He admitted that APERS' 7.15% assumed investment return was a bit higher than what Callan expected over the next 10 years but was in line with what the fund would probably earn over a longer time horizon.

Currently, the portfolio would be considered "global" with a US overweight with a 60/40 break.

Ms. Weymouth noted that the one asset class that the APERS Board had avoided in the past was Private Equity. Callan would be happy to educate the Trustees on investing opportunities and pitfalls in that area if they wished to explore.

Driving the Fund into the Future:

The subject moved from expected returns to the possibility of legislative changes in the future. Most agreed that before anything was considered, public outreach was needed make the public more aware of the state of the retirement system. It was proposed that "town meetings" might be held at various places in the state so the public would be more aware of needed changes. Mr. Faris suggested including representatives from the Municipal League, AAC, ASEA and other related agencies in the town hall meetings.

Mr. Walther stated that 15 years ago the fund had no unfunded liability and felt that the board needed to work on driving it back in that direction. Mr. Baird said the Board was not in a hurry and they could take their time deciding on the asset mix. Mr. Carnahan said it was up to the Board to give the Director and Staff some direction on how they wished to proceed. This might mean having Board meetings more often. Judge Hudson agreed with having more meetings, stating that there was a problem with continuity when you only met quarterly. He stated the Board needed to have agreed upon Goals and Objectives. Mr. Baird commented that he and Mr. Borromeo would be meeting extensively in the future to provide answers to the questions the Trustees had asked today. Mr. Bassett stated that the Board needed to trust the Director and Staff, since they worked on these issues 40+ hours every week, not just a few hours every quarter, and he had the utmost faith in Mr. Baird to make the correct decisions.

BREAK

BOLDING HEARING

There was a motion from Ms. Franks to move the Bolding hearing forward in the schedule now that the Hearing Officer had arrived. Seconded by Mr. Bassett. Motion passed.

Mr. Walther recused himself from the hearing, stating he had a personal relationship with the Boldings.

Mr. Wills introduced the Hearing Officer, Mr. Charlie Moulton to the meeting attendees and the parties involved in the hearing identified themselves. Mr. Moulton asked for the relevant documents to be distributed. Mr. Wills stated that Mr. Bolding and the Board had received copies more than a week prior, so they'd had time to study them. Mr. Bolding was handling the case for his wife since she was disabled. He had no objections to Mr. Wills presentation of the evidence.

Mr. Moulton recognized Ms. Middleton, Attorney for APERS. She called her only witness, Mr. Jay Wills and he was sworn in. Mr. Wills stated there no facts in issue, just disagreement over application of the law. Mr. Wills outlined the case: Ms. Bolding had retired from the City of Dermott in 1991. She was subsequently brought into APERS under legislation passed in 2005. She was never vested in APERS and the City of Dermott never offered a COLA to their retirees. Based on 24-8-903(a), Mr. Wills determined Ms. Bolding was not eligible to receive a COLA.

Mr. Bolding had no questions for Mr. Wills. Several Trustees questioned Mr. Wills before Ms. Middleton rested.

Mr. Mouton recognized Mr. Bolding; he gave the history of Ms. Bolding's case and stated that based on §24-8-903, Ms. Bolding **is** a member of APERS and **all** members of APERS are entitled to a COLA. Therefore, Ms. Bolding is due a COLA.

Ms. Middleton had no questions for Mr. Bolding. Ms. Lea asked if Ms. Bolding had been given a "retirement packet" by Dermott and Mr. Bolding said he had no recollection.

Mr. Moulton asked if the Board wanted a summation, Ms. Franks stated it was not needed. The Board discussed the issue thoroughly off the record before coming to a decision and coming back on the record. Ms. Lea motioned to accept Interim Director's recommendation to deny a COLA to Ms. Bolding. Mr. Faris seconded and the motion was unanimous.

SUMMARY OF RETIREES FOR MARCH, APRIL AND MAY:

Mr. Baird gave a summary of recent APERS retirees. APERS currently oversees the benefits for 36,297 retirees.

FINANCIAL STATEMENTS FOR THE QUARTER ENDING MARCH 31, 2019:

APERS assets totaled over \$8.89 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.

APPROVAL OF NEW MEDICAL REVIEW BOARD:

Mr. Baird explained the previous set of doctors had elected to retire and Ms. Bruno reached out to DDSSA and requested a list of possible candidates. This was the team that she selected.

- Dr. James Hazlewood (internal medicine)
- Dr. Kay Cogbill (psychiatry)
- Dr. David Hicks (family medicine)

Motion to approve the new doctors by Mr. Brady and second by Mr. Carnahan. Motion passed.

OTHER BUSINESS:

Review of Newly Enacted Legislation – Mr. Jay Wills, APERS Deputy Director

Mr. Wills reviewed the Bills that had passed during the recent Legislative Session that pertained to retirement:

ACT 448 Technical Corrections

ACT 449 Public Water Authority entitled to membership

ACT 474 Extends USERRA place-holding protections to National Guard members

ACT 526 Interest paid on Member Contributions lowered from 4% to 2%

ACT 624 DROP Exit provisions. Passed with emergency clause, so immediately effective.

ACT 625 Survivor must be married 6 months to collect Survivor benefits (used to be a year)

ACT 638 Certain cancers presumed to be duty related for Firefighter disability claims.

ACT 826 Legislative members having at least 5 years of actual service eligible to buy 5 years of military time

New/Updated Board Regulations – Mr. Jay Wills, APERS Deputy Director

Mr. Wills stated due to the emergency clause in Act 624, Staff had crafted Regulation 214. He explained the details of the proposed regulation and asked the Board's permission to present the regulation to the Governor and begin promulgation.

Motion by Mr. Faris and second by Mr. Walther. Passed.

Litigation Update – Ms. Jessica Middleton, APERS Chief Counsel

Ms. Middleton announced that two of the cases had finally been settled, both in APERS favor. The Court of Appeals decided the Garrison case (nursing home case) in APERS' favor. The second win was affirmed by the Court of Appeals regarding the Ms. Harrison case and they agreed her mother's death should be treated as a "Death in Service."

On a side note, APERS has two matters pending under the Claims Commission: the Cherriot Clark case and a Psychiatric disability for Ms. Doris Binecki. Ms. Middleton noted that there was statute that the Claims Commissions had no jurisdiction over the Retirement System's funds, so she did not anticipate these cases gaining any traction.

RFQ – Mr. Jay Wills, APERS Deputy Director

After the last meeting, Mr. Wills began the process to send out an RFQ for Securities Litigators. He distributed a spreadsheet listing all responders and only one did not qualify: Berman Tobacco. He said that selected Staff and Ms. Lea would rate the candidates and bring the results to August meeting. Motion by Judge Hudson for Mr. Wills to proceed as planned. Seconded by Mr. Carnahan. Motion passed.

Meeting Materials Available Online:

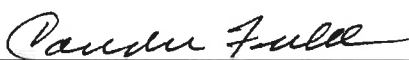
Judge Hudson stated he would like to have the agenda and other meeting material posted on the website prior at least five days prior to the meeting. Second by Ms. Lea and motion passed.

NEXT QUARTERLY BOARD MEETING:

The next quarterly Board Meeting is scheduled for Wednesday, August 21, 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