

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

The regular quarterly meeting of the Board of Trustees of the Arkansas Public Employees' Retirement System was held on Wednesday, November 20, 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. Gary Carnahan (Other, Non-State Employee), Hot Springs, AR  
Mr. Joe Hurst, (City Employee), Van Buren, AR  
Mr. Dale Douthit, (State Employee), Russellville, 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  
Mr. Daryl Bassett (State Employee Member), Sherwood, AR

**VISITORS PRESENT:**

Ms. Brianne Weymouth, Callan LLC  
Mr. John Jackson, Callan LLC  
Mr. Jim Van Heuit, Callan LLC  
Mr. Paul Louthian, Department of Finance and Admin. (*proxy*)  
Mr. John Shelnutt, Department of Finance and Admin.  
Mr. Austin Grinder, Mullenix and Assoc.  
Ms. Julie Mullenix, Mullenix and Assoc.  
Mr. Kirkham Dearden, IMG  
Mr. Len Pitcock, The Perimeter Group  
Mr. Jack Critcher, Arkansas Municipal League  
Mr. Bill Stovall, WSG Consulting  
Mr. Rick Green, WSG Consulting  
Mr. Robbie Wills, WSG Consulting  
Ms. Camie Boggess, DBH Management  
Ms. Shauna Carpenter, ASEA  
Mr. Mike Knapp, Bureau of Legislative Audit  
Mr. Clint Rhoden, ATRS Director  
Ms. Fran Webb, APERS Retiree  
Mr. Lewis Leslie, APERS Retiree  
Ms. Tammy Ashley, APERS Retiree relative  
Mr. Michael Corley, APERS Retiree  
Mr. Mike Wickline, *Arkansas Democrat-Gazette*

**STAFF PRESENT:**

Mr. Carlos Borromeo, APERS Chief Investment Officer  
Ms. Usha Doolabh, APERS Investments Manager  
Ms. Laura Gilson, APERS General Counsel  
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. Jacobia Twiggs, APERS Retirement Section Manager  
Ms. Linda McGrath, APERS Administrative Specialist

### **WELCOME NEW BOARD MEMBER:**

Ms. Franks introduced and welcomed Mr. Dale Douthit to the APERS Board. He is currently the Chairman of the Arkansas Workers' Compensation Commission. Mr. Douthit will be filling the unexpired term of Mr. Steve Faris through March of 2023.

### **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.

### **MINUTES:**

Prior to the Board meeting, copies of the Minutes from the May 15, August 21 and the 2019 Educational Seminar were mailed to each APERS Board member for review.

Ms. Lea motioned to accept the Minutes as presented. She was seconded by Mr. Walther. Motion carried. Mr. Douthit abstained.

Additionally, Mr. Baird requested the Board approve some amended Minutes from the February 2018 and February 2019 meetings. He explained the reason for the amended Minutes and noted both copies would be kept so questions in the future could be fully addressed.

Ms. Lea motioned to adopt the amended Minutes for February 2018 and February 2019. Mr. Carnahan seconded and the motion passed. Mr. Douthit abstained.

### **QUARTERLY INVESTMENT REPORT FOR THE PERIOD ENDING SEPTEMBER 2019- Presented by Ms. Brianne Weymouth and Mr. John Jackson of Callan LLC**

Mr. Jackson introduced Mr. Jim Van Hewett and explained that he'd be assisting in the asset study Callan would be conducting after the regular Quarterly Investment Report. He then reviewed the performance of the APERS portfolio over the last quarter and last 12 months. Fixed Income market was having an outlier year and was up 10.3% over the year.

Ms. Weymouth described the portfolio's performance through September 30, noting the fund was overweight Domestic Equity and underweight Fixed Income due to market movements, but was still within the allowable range. No rebalancing was necessary.

The fund gained 0.45% over the quarter. Over the last year, the fund was up 2.71% while the policy target returned 4.14% and ranked in the 83% of its peers. However, over the last 3, 5 and 10 years, the fund has consistently been in the top third of similar-sized public funds.

### **Investment Manager Organizational Developments**

Golden: One of the founders is stepping down and firm is now a Wells Fargo subsidiary; watch closely.

AQR: Top management retiring, but systematic and team-based process mitigates the impact of individual departures; watch closely.

Bailey Gifford: Manager retiring, deep bench and team-managed approach make this less of a concern.

MacKay: Senior Manager retiring, has groomed a replacement and will remain active through 2020; less of a concern.

### **Asset Study: Review of International Equities**

Ms. Weymouth outlined the asset allocation studies that Callan had conducted previously. She reminded the Trustees they would be reviewing the International Equities at this meeting, deciding how many managers have and the role of each of those managers. Due to terminating two active International Equity managers in the past and moving their assets into an Index Fund, Callan felt it was time to redistribute those funds for better diversification and earnings

Mr. Van Heuit, from the Callan Capital Markets Research Group, explained the process for deciding the structure within the asset class, followed by determining if and how the existing managers could be combined within that class while remaining as simple as possible. He explained the current benchmarks used and proposed expanding them and moving from the benchmark of MSCI EAFE Index to MSCI ACWI ex-US IMI.

Returning to the topic of active managers, Mr. Van Heuit led the Trustees through a spreadsheet of the current and three alternative allocations, detailing the differences in each. Staff and Callan recommend Alternative 2 which reduces passive to 15%, adds one additional All Country Small Cap manager, and reallocates a portion of the current passive allocation to the existing active managers thereby increasing their overall allocations.

After a discussion on current and projected manager fees, Mr. Carnahan motioned to follow the recommendations and adopt Alternative Allocation #2. He was seconded by Mr. Hurst and the motion carried.

#### **Review of the Investment Policy Statement (Section V)**

Mr. Baird explained the changes proposed to simplify and update the APERS Investment Policy. At the previous meeting, the board had adopted the revised Investment Policy with the exception of Section V (Asset Allocation). One of the amendments was eliminating the “annual Asset Liabilities: and substituting the term “periodically (3-5 years) for conducting the study. Once the Board approves this section, it will be combined with the previously approved Investment Policy sections

After several questions and short discussion, Mr. Brady motioned to adopt the changes to Section V. Second by Mr. Carnahan and motion passed.

#### **BREAK**

#### **2019 ANNUAL ACTUARIAL VALUATION RESULTS – Presented by Mr. David Hoffman and Mr. Mita Drazilov of Gabriel Roeder Smith and Company**

Mr. Drazilov explained to the Trustees that purpose of the Annual Valuation was to determine the Employer Contribution rate (tentatively approved at the August meeting at 15.32%, beginning July 1, 2021) and to measure the financial stability of the system. He detailed how the Actuarial Accrued Liabilities were compared against the assets that the system had on hand to calculate the Unfunded Actuarial Accrued Liabilities (UAAL). As of the valuation date, the UAAL is \$2.390 billion, and the funded ratio is 78.5%. At the time of last year’s valuation, the UAAL was \$2.278 billion, and the funded ratio was 78.7%. This was calculated using an amortization period of 24 years.

Mr. Hoffman noted that the number of members covered under APERS has grown from about 97,000 to over 99,000 and was set to break 100,000 APERS members currently earning or entitled to APERS benefits in the future. Annual covered payroll is approaching \$2 billion and benefit payouts are more than \$650 million yearly.

Mr. Drazilov described 3 future market scenarios and what effect it would have on the employer rate, amortization rate/period, and funded status of the plan. He emphasized how Investment Risk is the biggest Actuarial Risk that the system faces.

Mr. Hudson brought up the issue of raising the Employee contributory rate and asked if the Actuaries could show how this variable would affect the funded status of the plan. Mr. Baird agreed that this was a popular suggestion at the Town Hall meetings over reducing benefits. He noted that changes such as lowering the COLA or raising the Employee Contribution rate would require a statutory change.

*(verbatim transcript - start)*

*Mr. Hudson: I have a question related to the Employee Contributions. We don’t have that in this, where is.. am I missing that? We’re not looking at percentages... income from the employees.*

*Mr. Drazilov: Right, this is just Employer Contribution rate that we are focusing on.*

*Mr. Hudson: OK, so as a Board that’s another one of our policies. That’s another policy decision we are charged with, right? We have a policy decision to make of how much a percentage the Employers would contribute and we’re dealing with that. But we’ve talked about benefit reductions, we’ve talked about legislative changes, we’ve talked about all the things that we’ve talked about, including the options Teachers has where they’ve increased the Employee’s contribution rates. And so it seems that we’re missing a piece of valuable information as a total picture to understand how to make decisions.*

*Mr. Drazilov: Let me just try to address that. We don't view the Member Contribution Rate as a funding policy component. We view the Member Contribution Rate as part of the benefit provisions. It's no different than altering the COLA provision or the Benefit Multiplier provision, or whatever the cases may be. Because, correct me if I'm wrong, the non-contributory group has a zero percent contribution rate, the contributory group has a 5% member contribution rate. I don't think the Board could say: we're going to switch 5% to 6% today. We can't do that, we can change all the other things with the Employer Contribution Rate, but that would require Legislative action, no different than the COLA provisions or the Benefit Multiplier in those issues. And that's why we don't show that here. We do show the Employee Contribution rate in the results that David (Hoffman) presented back on Page 2, but we don't show the progression of that because those Employee Contribution rates aren't at the Board's discretion through the Funding Policy. And that's the reason we don't show it here. I mean we can show it, but it's just not under the Board's... it has to be through Legislative action.*

*Mr. Walther: If we wanted to look at the impact of that, would we go to you and ask for an analysis or would we go to Mr. Duncan Baird?*

*Mr. Drazilov: Well then Mr. Baird would then contact us, but the Board has asked us, I believe, to look at that in the past and we have looked at that at the Board's request.*

*Mr. Hudson: And the point of that is, that's on the table. That's on the table and has been on the table by this board. And then we've had the public hearings, all the presentations and all the concerns about "what are we going to do with the benefits" and so on. We have 3 sources of income: the member contributions (of which for some reason in the past were reduced), Employer contributions and earnings. Those are our three sources of income and we have the rest of it, so.. fill in the gaps. If it's not a part of your normal charge... It's a part of our normal discussion, it's a part of our challenge. We heard from the investment side, we hear from your side. How well does all this mesh? And as a board, how do we cypher all this out and make a proper decision? And then we have the legislature meeting to determine whatever they're going to determine. The size of this group here and benefits, and we want to have an appropriate voice in that and you're one of our consultants. If we need to amend you contract, if we need to do something. We need better... we need your reports to help us as a board deal with the challenges on our plate.*

*Mr. Drazilov: Duncan has went to Town Hall meetings across the state and has heard the memberships thoughts on some of the benefit changes that the Board has considered. We've had discussions resulting from those meetings. Member contributions, correct me if I'm wrong, are still an option being considered. And we are working with Staff to determine which packages to continue to look at based upon the discussions that Duncan has heard.*

*Mr. Baird: Absolutely. We've had the 11 Town Hall meetings and the Association of County meeting before that and Employee Contributions was a frequent topic of discussion. There were a few issues that we heard consistently and that was one of them. At least the people that were vocal saw that as a tool that it seemed in my view, they wanted us to look at and possibly use to strengthen the system. It is something that's on my mind. We've been through the process; you know when we first went out and listened to the constituents and now the next step is to start working with the actuaries. Very soon after the last Town Hall meeting we talked to GRS and just let them know that we wanted to start having those conversations. If you all have any ideas, any input, if you've heard anything from various constituents, let me know and we can start working on it with GRS. Whether it's providing you information in the interim, before the next meeting or even at the next meeting. Providing some information, brain-storming. I think now's really the time to do that.*

*Mr. Hudson: Well given the history where we had a lot of decision making through this board right... leading up to the legislative session, which is not the way we want to do business. And nobody wants to draft proposed legislation at the last minute and present it the way it was done ideally. The more practically engaged this board can be, having that as one of our goals and objectives so we can review it in a business-like fashion, and all those we serve can hear that as well, leading up to a lack of those pressure deadlines. If we're going to propose legislation or whatever is going to happen, I just hope we don't do it again the way we did it before. And once again, we have 3 sources of income. And that source of income and what they've done at Teachers (ATRS) where they've increased that somewhat. If you're a beneficiary, if you can pay more money to keep your benefits better. Is that not something you'd be interested in doing? Is it not a component that we should be considering as we move this forward? That's my perspective.*

*Mr. Carnahan: Judge, what I'm hearing there is that, it's like you say, it's going to be different this time. And that we probably need to... it's my belief that based on the hearings and the initiative the legislature is taking and the state Senators, that they're going to run with this. And they're going to look to people like Duncan for his opinions and guidance. But I think that they're not going to ask us to bring them any draft legislation. I think they're going to run with it. They are going to make up their mind what they're going to do and they're going to do it. That my gut feeling.*

*Mr. Hudson: Well I don't know... we don't control that other body. We control this group here and I think we define our goals and objectives, and what we're going to have on these agendas and what we're going to do as a board. And that's my focus, and if we can influence the legislature, let's do so.*  
(verbatim transcript - end)

Mr. Hudson motioned to reaffirm the 15.32% APERS Employer Rate, as well as the individual actuarial recommended rates for the District Judges, beginning July 1, 2021. He was seconded by Mr. Carnahan. Motion carries.

#### **HEARING FOR MR. MICHAEL CORLEY:**

Hearing Officer Peggy Johnson introduced herself and after swearing in Ms. Jennifer Taylor and Mr. Michael Corley, she explained the procedure they would follow for this administrative appeal. Mr. Corley was appealing the denial of enhanced (1½:1) service credit from APERS. A court reporter was present and transcribed the minutes of the hearing, which will become a part of the administrative record for the hearing.

At the conclusion of the evidence and testimony presented, Mr. Brady motioned to take Staff's recommendation to deny public safety service credit to Mr. Corley; also that the findings and facts contained in the order and notice of hearing have been substantiated by the evidence and testimony presented today. He was seconded by Mr. Carnahan. Motioned passed. (*Mr. Douthit opposed*).

#### **SUMMARY OF RETIREES FOR SEPTEMBER, OCTOBER & NOVEMBER:**

Mr. Baird gave a summary of recent APERS retirees noting that many of the Non-contributory members were retiring out and being replaced by Contributory members. APERS oversees the benefits for 36,361 retirees and pays out over \$45 million in monthly benefits.

#### **FINANCIAL STATEMENTS FOR THE QUARTER ENDING SEPTEMBER 30, 2019:**

APERS assets totaled over \$8.8 billion and is scheduled to pay out over \$600 million in benefits during the fiscal year; a new record for annual benefit payments.

#### **MEDICAL REVIEW BOARD RESULTS:**

The Medical Review Board met at 9:00 a.m. on Wednesday, November 6, 2019 in the APERS Library to discuss four (4) cases: Members XXX0018, XXX9369, XXXX3069 and XXX4725.

- After review and discussion, the Medical Review Board found that XXX0018 was suffering from an illness or injury at the time of her termination in October 2019, which subsequently led to the disability determination.
- After review and discussion, the Medical Review Board recommended denial of disability retirement to member XXX9369 at this time, pending additional medical information.
- After review and discussion, the Medical Review Board found that XXX3069 was suffering from an illness or injury at the time of his termination in February 2015, which subsequently led to the disability determination.
- After review and discussion, the Medical Review Board recommended denial of disability retirement to member XXX4725 at this time, pending additional medical information.

With APERS Board approval, in accordance with ACA 24-4-511(e)(3) benefits for the approved members will be effective December 1, 2019. Lea motioned to accept the Medical Review Board's recommendations and was seconded by Mr. Carnahan. Motion carried unanimously.

#### **OTHER BUSINESS:**

##### **Statewide Legislative Town Hall Meetings – Mr. Duncan Baird, APERS Executive Director**

Mr. Baird discussed the results of the eleven Retirement Town Hall meetings. He and the directors from the other retirement agencies and members of the Joint retirement Committee had

traveled around the state and had gotten lots of feedback from membership. He noted the Chair of the Joint Retirement Committee had stated that they would do another round of Retirement Town Hall meetings across the state in 2020. This would be a chance to advance protentional legislative changes for 2021. Mr. Carnahan asked if the 5 changes that were legislatively proposed in 2019 could be reviewed at the next meeting. Mr. Walther suggested that Mr. Baird look at what was started last year and combine it with what he gleaned from the statewide meetings.

### **Educational Training**

Mr. Hudson discussed Trustees going to “Callan College” to educate themselves, but felt it might be better to have another “inhouse eductional session” as was held in January 2018 with Callan and GRS for all the trustees and legislators. He even suggested that APERS Staff might benefit from such training. Ms. Lea noted that in 2022, it would be an all new Joint Retirement Legislation Committee with up to 25 new people. She hoped many would carry over, but they would need training to bring them up to speed.

### **RFQ – Mr. Duncan Baird, APERS Executive Director**

*(Ms. Lea recused)*

Mr. Baird summarized the procedure so far in selecting and rating the Securities Litigators that responded to the RFQ. He distributed a spreadsheet listing all responders and explained that earlier in the year Jay Wills, Laura Gilson (now General Counsel for APERS) and David Withrow from Office of State Procurement had graded all the candidates and ranked them. Currently, APERS utilizes six different Securities Litigator firms and is lead plaintiff in two ongoing cases.

After further discussion, Mr. Brady motioned to accept all 18 firms on the list and let the APERS Staff use their best judgement on who to use. Mr. Hudson seconded. Mr. Walther commented that he hoped Staff would consider the reputation of each firm before engaging them with a controversial lawsuit. Motion carried. *(Mr. Douthit abstained)*

*(Mr. Walther left and Mr. Louthian took his place at the board table.)*

### **Litigation Update – Ms. Laura Gilson, APERS General Counsel**

Ms. Gilson noted the Bolding Administrative appeal still pending with Judge McGowen.

In the matter of Clark vs. State of Arkansas, which is before the Arkansas Claims Commission, the Claims Commission is trying to determine where their jurisdiction lies.

There are currently two active cases with the Securities Litigators where APERS has been named lead plaintiff. The first is against Sea World with Kessler Topaz and Nix, Patterson & Roach. The second case is against Bristol Meyers with Bernstein, Litowitz, Berger & Grossman.

APERS has several cases pending at the Claims Commission, including Mr. Ellis Sloan’s case regarding the “Arkansas Index”.

### **RULE MAKING**

Ms. Gilson explained the changes she was proposing for the APERS Rules are so that APERS will be compliant with Acts 315 and 893 of 2019. The legislature is standardizing the use of the word “Rule” and removing the term “Regulation” throughout the Arkansas Code, and is requiring agencies that have regulations to now refer to them as rules. Since the definition of “rule” includes regulations, this change would merely standardize the text. After a short discussion, Mr. Brady motioned to support the changes and was seconded by Mr. Louthian. Motion passed.

### **2020 BOARD MEETING DATES**

- February 19, 2020
- May 20, 2020
- August 19, 2020
- November 18, 2020

### **NEXT QUARTERLY BOARD MEETING:**

The next quarterly Board Meeting is scheduled for Wednesday, February 19, 2020 at 9:00 a.m.

### **ADJOURNMENT:**

There being no further business, the meeting was adjourned.

---

Mr. Larry Walther, Vice-Chair

---

Mr. Duncan Baird, APERS Executive Director