

**MINUTES OF THE QUARTERLY MEETING OF THE BOARD OF TRUSTEES
ARKANSAS PUBLIC EMPLOYEES' RETIREMENT SYSTEM
AUGUST 19, 2020**

A regular meeting of the Board of Trustees of the Arkansas Public Employees' Retirement System was held on Wednesday, August 19, 2020 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. Joe Hurst, (City Employee), Van Buren, AR
Mr. Dale Douthit, (State Employee), Russellville, AR
Mr. Daryl Bassett (State Employee Member), Sherwood, AR
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:

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

VISITORS PRESENT:

Mr. David Hoffman, GRS
Mr. Mita Drazilov, GRS
Ms. Heidi Barry, GRS
Ms. Brianne Weymouth, Callan LLC
Mr. John Jackson, Callan LLC
Mr. John Bridges, ASEA
Ms. Shauna Carpenter, ASEA
Mr. Nicholas Poole, ASEA
Mr. Gary Wallace, ASEA
Mr. Jack Critcher, Arkansas Municipal League
Ms. Cindy Frizzell, Arkansas Municipal League
Mr. Chris Villines, Association of Arkansas Counties
Ms. Lindsey French, Association of Arkansas Counties
Mr. John Shelnutt, Department of Finance and Admin.
Mr. Paul Louthian, Department of Finance and Admin.
Mr. Mike Wickline, *Arkansas Democrat-Gazette*
Mr. Matthew McCue, *FIN News*
Ms. Martha Diaz Mendez, *Pageant Media*
Ms. Erika Gee, Wright, Lindsey & Jennings LLP
Ms. Lee Ann Dietz, LAD Consulting
Mr. Rett Hatcher, Gilmore Strategy
Mr. Jon Gilmore, Gilmore Strategy
Mr. Len Pitcock, Perimeter Group
Mr. Adam Johnson, Ft. Chaffee FFA
Mr. Clayton Rogers, AR Wildlife Officers
Mr. Alan Johnson, *APERS Member*
Mr. Nicholas Poole, *APERS Member*
Ms. Zona Maness, *Retired*
Ms. Carole Good
Mr. David Quast
3 Unidentified Call-in Members

STAFF PRESENT:

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
Ms. Allison Woods, APERS Director of Benefits
Mr. John Owens, APERS Internal Auditor
Mr. Jason Willett, APERS Chief Financial Officer
Ms. Cheryl Wilburn, APERS Retirement Coordinator
Ms. Shelly George, APERS Retirement Coordinator
Mr. Keith Stillwell, APERS Media Specialist
Mr. Craig Blackard, APERS Accounting Coordinator
Ms. Nina Gettinger, APERS Retirement Coordinator
Ms. Jacobia Twigg, 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.

WELCOME AND AFFIRM BOARD CHAIR:

Ms. Franks welcomed everyone and noted the first item on the agenda was to affirm the Board Chair. Mr. Walther moved to nominate the current Chair and was seconded by Mr. Brady. Mr. Carnahan motioned to cease nominations and he was seconded by and the currently Chair be reappointed. Second by Mr. Brady and the motion passed unanimously.

MINUTES:

Prior to the Board meeting, a copy of the Minutes from the July 28, 2020 meeting was e-mailed to each APERS Board member for review. Ms. Lea motioned to accept the July Minutes and commented she was delighted to see how many members were attending the on-line ZOOM meetings. Mr. Walther seconded and the Minutes were approved.

INVESTMENTS

**QUARTERLY INVESTMENT REPORT FOR THE PERIOD ENDING JUNE 30, 2020-
Presented by Ms. Brianne Weymouth and Mr. John Jackson of Callan LLC**

Mr. Jackson gave a brief market overview. He noted the market had been spurred on by an unprecedented rebound after its precipitous drop during the last quarter. This rebound was shared abroad as central governments across the globe made strong efforts to battle COVID-19. The S&P 500 notched a 20.54% return for the quarter; its largest quarterly return since 1998. The Russell 2000 returned 25.42%. Emerging Markets were up 18%. The Fed has stated they will be holding rates at or near 0% for the foreseeable future. Small Cap outperformed Large Cap while Growth outpaced Value across market capitalizations.

Mr. Jackson noted that Wall Street is doing well while much of Main Street continues to suffer with hotels, restaurants, airlines and many small businesses being the hardest hit. Unemployment for June was around 11.1% and it remains elevated. As it nears time for schools to go back in session, many fear this will prompt a second spike in the infection rate. Only time will tell if the safeguards the schools have put into place will be effective.

Ms. Weymouth described the portfolio's performance through the end of Fiscal Year 2020; she pointed out that while Domestic and International Equities performed exceptionally well over the last quarter, the Diversified Strategies and Real Assets of the portfolio were challenged. She explained the managers Blackstone and AQR were mainly responsible for the poor performance in their respective asset classes. However, it was the Energy portfolio that had struggled the most on an absolute basis; despite having a very strong second quarter, there was still a lot of ground to be made up from the previous quarter's steep losses.

As of June 30, 2020 the Fund was up 14.61% and the Market Value was just over \$9 billion; slightly ahead of where it finished on December 31, 2019. The fund's Actual Asset Allocation was close to the Target Allocation. The fund continues to be slightly overweight in equities (3%) due to strong market performance and underweight in Real Assets (2%). No rebalancing is necessary.

Ms. Weymouth detailed some management changes at BNY Mellon, but Callan was comfortable with the transition plans. She promised to discuss it at a later meeting, when more information was available.

Mr. Hudson asked how did the Target Asset Allocate relate to the Board's goal of achieving 7.15% annual investment return and Ms. Weymouth explained these were the percentages the Board had agreed on after viewing the results of Callan's latest Asset Liability Study.

ACTUARIAL

PRELIMINARY 2020 ANNUAL ACTUARIAL VALUATION RESULTS — Presented by David L. Hoffman, and Heidi G. Barry of GRS

Mr. Hoffman explained that their presentation was slightly different this year as to fit the format of most people's computer screens. He began by reviewing the plan's participant data and he complimented Staff on their very speedy turn around, getting them the relevant data merely three weeks after the close of the fiscal year. While the number of APERS participants had dropped slightly (45,965 down to 44,373) their payroll had increased 3.2% with \$40,469 being the average. He noted that 15 years after the implementation of the Contributory Plan that over 75% of the membership is now participating.

He reminded the trustees that the asset valuation method smoothed the gains and losses over a 4-year period. APERS return for the fiscal year 2020 was calculated to be about 2%. As of June 30, 2020, the funding value of assets exceeded the market value by about \$352 million. These investment losses will have to be recognized over the next several years. As these losses are phased in, it will put upward pressure on the Employer Rate, or the amortization period will have to be increased to hold the Employer Rate at 15.32%.

Mr. Hoffman detailed the development of the Funding Value of Assets, noting that the ratio of Funding Value to Market Value for FY 2020 was 104%. The Valuation assets totaled \$9.09 Billion with Actuarial Accrued Liabilities of \$11.51 Billion. This gives APERS a funded ratio of 79%, which is the same as last year. On a market value basis, the funded ratio is 76%, down from 79% last year. This was about median for similar-sized public plans.

He broke down the normal costs and showed the calculated Preliminary Employer contribution rate beginning July 1, 2022 as 15.32%. This rate carried a UAAL of \$2.42 Billion that would be amortized over 23 years. This is down one year, from 24 years last year. Mr. Walther commented that he wanted to discuss how the changes APERS plans to include in the next General Session would affect the UAAL. Mr. Baird agreed that was an important consideration since there was a convergence of this tentative employer rate for July 1, 2022 and the implementation of the proposed reforms. Mr. Carnahan stated that when the board adopted Package 4 at last meeting, this data had been projected forward over the next 30 years.

Mr. Hudson raised the issue of the proposed legislative changes that were approved at the last meeting and asked that they be set in a resolution format with explanations of the rationale for each change. He also requested that Staff continue to provide the Board a history of the changes in APERS various planning factors and considerations over the years so that they could keep that in perspective. Mr. Hudson also commented on Mr. Hoffman's suggestion of rounding the Employer Contribution of 15.32% to a more even number like 15.4% or even 15.5%, should be considered since the employee contribution rate would probably be increasing, as well. Mr. Walther agreed with Mr. Hudson, but clarified that for now, the Board should approve the 15.32% Employer Contribution rate proposed by GRS.

Mr. Bassett motioned to keep the Employer Contribution Rate at 15.32% and he was seconded by Mr. Brady. Motion passed.

Mr. Hoffman returned to his presentation and gave a variety of projected scenarios for the next 4 years based on different market returns for FY2021. He noted that none of these projections took into consideration the proposed benefit changes being sent to the legislature. All of these projections assumed a 15.32% Employer Rate and showed how possible market returns would impact the Funded Ratio, UAAL, and Amortization Period.

ADMINISTRATIVE

SUMMARY OF RETIREES FOR THE QUARTER ENDING JUNE 30, 2020:

Mr. Baird read from the report, noting that APERS had 164 members who retired in April, 175 in May and 179 retirees in June, for a total of 518 in the last quarter of FY2020. This brought the total number of retirees and beneficiaries receiving monthly checks from APERS to 36,446. The number of retirees during this period are slightly lower than the same time period a year ago.

FINANCIAL STATEMENTS FOR THE QUARTER ENDING JUNE 30, 2020:

Employer Contributions are up about \$6 million from the same time period a year ago to \$299 million, while Member contributions totaled \$71.4 million over that period. There has been about a 6% increase in payouts to retirees since a year ago. APERS paid out over \$587 million in benefit payments in FY 2020. Mr. Baird also noted the Administrative Expenses were down, but stated these tend to fluctuate from year to year.

MEDICAL REVIEW BOARD RESULTS:

The Medical Review Board met at 9:00 a.m. on Tuesday, August 11, 2020 in the APERS Library to discuss the case of Member XXX4725.

- After review and discussion, the Medical Review Board found that XXX4725 was suffering from an illness or injury at the time of her termination July 31, 2016, which subsequently led to the disability determination.

With APERS Board approval, in accordance with ACA 24-4-511(e)(3) benefits for the approved member will be effective retroactive to March 1, 2020. Ms. Lea motioned to accept the Medical Review Board's recommendations and was seconded by Mr. Hudson. Motion carried unanimously.

ANNUAL AUDIT RESULTS & PROPOSED AUDIT FOR FISCAL YEAR 2021 – Presented by Mr. John Owens, APERS Internal Auditor

Mr. Owens introduced himself to the Board and gave a summary of the SFY2020 Internal Audit. The work schedule consisted of nine audits and one special project for the audit period of July 1, 2019 through June 30, 2020.

- Review processing of DROP participants.
- Review processing of PAW participants.
- Review of benefit calculations with public safety service.
- Review process for collection of deceased retiree annuity process.
- Review calculations of monthly annuities for retirees.
- Review of benefit calculations with reciprocal service.
- Review processing of disability benefits.
- Review of workflow of employer reporting.
- Review process for handling employee termination refunds.
- Special Project: COMPASS – Assisted staff with software applications

He explained the SFY 2020 Audit Plan was revised from the original list of eleven planned audits to nine planned audits due to COVID and other time restraints from CSA. Each of the nine audits conducted resulted in the achievement of audit objectives and no audit findings were identified. The special project was assistance with the pension administration computer software application.

Mr. Bassett questioned if Mr. Owens felt that 60 was an adequate representation for sampling the collection of deceased retiree annuities. Mr. Owens stated he did not and in the future he planned to increase the sample size, however he was comfortable issuing this report.

Mr. Owens listed the 10 Planned Audits for FY2021 and described briefly what each would encompass. He spoke of increasing the sample sizes and institute audit procedures for the special project that could be used as guidelines in the future.

- Age and Service (5)
- Retired Members (1)
- Disability Benefits (1)
- Survivor Benefits (1)
- Refund of Contributions (1)
- Member Benefits (1)

The Trustees questioned Mr. Owens about any plans for audits on the security of the IT systems, including COMPASS and he explained those issues were examined annually by the Legislative Audit team. After some further discussion, Mr. Walther motioned to accept the Audit Report and he was seconded by Mr. Bassett. Motion passed.

LEGAL

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

Ms. Gilson noted that a litigation report was included in the board materials. She apprised the Board of some changes that had occurred since the May Board meeting. Recently there had been a request for an appeal of a Director's Decision. This would probably require scheduling a special ZOOM meeting for the hearing. Mr. Baird would be in touch with the Trustees regarding their availability.

APERS received a request for an in person hearing on a Motion to Dismiss on the Bolding case. The Judge on the case offered to just rule on the motions, if both parties agreed. Both parties agreed.

Ms. Cherriet Clark has requested that the Claims Commission delay hearing her case until October, so that has been pushed back. The other case before the Claims Commission, Ellis Sloan, is waiting for word from Mr. Sloan's attorney if they are ready to schedule a hearing.

Ms. Gilson reviewed the securities litigation cases and noted that there had been a new addition to the list: Lobstein, Pro Se. This is not a new securities litigation case, but is related to a case that was settled years ago. Cohen Milstein handled the original complaint against Washington Mutual (WaMu). Ms. Lobstein, representing herself in what is generally considered a frivolous lawsuit, thinks she should have participated in the original suit since she lost her WaMu mortgage. Ms. Gilson opined the case would probably be dismissed eventually.

Review and Approve Securities Litigation Policy

Mr. Baird reminded the Board that a year ago, they had gone through the process of selecting Securities Litigation firms to represent APERS. This was the first time they had been reviewed in about seven years. Through that process, APERS went from six to eighteen law firms who were chosen to represent APERS. Previously, the Board had no Securities Litigation Policy to guide Staff and after going through the review, it seemed important to establish a written policy for Staff to work from.

After looking at the model policy put forth by National Association of Public Pension Attorneys (NAPPA) and the policies from a few other states, Staff combined them for what would work best for APERS. The board had been provided with a copy of what Staff had prepared for their consideration. Mr. Baird highlighted 2 sections in particular he wanted the Board to review. The first was Section 5 (Loss Threshold). APERS Policy was requiring at least 2 basis points or about \$1.8 million to trigger this threshold. However further in the draft, it was noted that this benchmark could be modified downward to pursue certain litigation. Mr. Baird asked the Board to consider if they wished to raise, lower or even eliminate the threshold trigger.

In Section 6 (Delegation of Authority), Mr. Baird noted that the first section authorized the Executive Director and Staff to review, evaluate and authorize litigation, then continued on permitting them administrative procedural and strategic decisions to use to meet the goals and objectives of the Board. The policy noted that before the Executive Director would seek Lead Plaintiff on any litigation, the case would be brought before the entire board as a regular agenda item for consideration.

Ms. Gilson assured the Board that historically APERS had handled about 2-3 cases a year in a prudent and responsible manner. She reminded everyone that Securities Litigation was a very small portion of the work that Staff was involved in daily. APERS recovers the same losses from winning litigation regardless if they are lead plaintiff or not. Ms. Gilson also noted that settlement money trickled into APERS years after the case was finally settled, making it very hard to flag exactly what was from Lead Plaintiff cases and what was from just being in the class. She noted that Securities Litigation counsel welcomed a set "lost threshold" so they could focus on bringing Staff cases that would be considered, and discourages law firms from presenting cases to Staff that APERS would never accept and allowing Staff to do their Fiduciary Duty.

Mr. Douthit spoke out against the current wording in Sections 6A and Section 9 as giving APERS Executive Director too much authority and wanted to see those sections rewritten giving the Board the final authority to decide. Ms. Lea didn't feel that those sections were an issue, as she read and interpreted them. Mr. Walther questioned if Mr. Douthit was proposing that the Trustees have to decide on every case APERS entered into regardless if they would be Lead Plaintiff or not and Mr. Douthit stated it was just the Lead Plaintiff status he was concerned about, especially if APERS received no financial gain from it.

Mr. Walther questioned the threshold as possibly too high, depending on how many other plaintiffs were involved. He also felt that APERS should have a much better accounting of how much was received from these cases. Mr. Baird agreed and said APERS was working on procedures to correct that issue. Mr. Walter continued, stating the Board wanted to be the final decider on when APERS became Lead Plaintiff in any case and that needed to be crystal clear in the policy. Mr. Baird said he felt that was the intention of the section, but if the wording needed to be changed to make it clearer, he could do that.

Mr. Baird noted that in the year-and-a-half he'd been the Director at APERS, the agency had engaged in no new Securities Litigation cases and he wanted to make sure he was following the board's intentions completely before moving forward with any. Mr. Bassett applauded Staff for working to create a policy where none had existed before and felt the construct that Mr. Baird had presented to the board could be amended as the Trustees wished. He stated this discussion highlighted areas of the policy that might need to be adjusted; reduce the loss threshold and clarify final decision maker. Mr. Bassett felt that these were minor tweaks to the policy.

Ms. Gilson offered some legal points. She pointed out that "Lead Plaintiff" was a designation awarded by the Judge in the case, if the judge decided you would best represent all the plaintiffs. APERS could also become a plaintiff in a case through a direct action, and the Loss Threshold would not apply to such cases, since it was not a Class Action. This was what was being referenced in paragraph 3C.

Mr. Douthit motioned to table the approval of the Securities Litigation Policy until Staff could make changes to align it more with the board's stated desires and review it later. He was seconded by Mr. Walther. Ms. Lea commented that she agreed the board needed to review the policy and she trusted Staff to deal with the many legal nuances that had to be considered. Her concern went back to a statement that Interim Director Jay Wills had imparted to the board at his final meeting. Mr. Wills noted that he had never seen such so much action from lobbyists that board members were having to handle, as what he was currently witnessing. She felt that Staff was better prepared to handle lobbyist activity than board members and hoped that board members would take that into consideration.

Mr. Brady cited specific points he wished Mr. Baird to address in reworking to policy. Section 5B regarding Lead Plaintiff, needs to be clarified about only if APERS has the most losses. Section 6 – He asked if APERS maintain a list of lawsuits they are involved in or have an interest in and suggested that, if not, there needs to be one. Accompanying this list needs to be a report of settlement dollars received by APERS from the various cases. Mr. Baird responded that in 5B he acknowledged the loss threshold but felt APERS needed leeway for cases where a loss was lower than the threshold but APERS was best suited to be lead plaintiff for one reason or another. He agreed the policy could be more specific. As far as reporting litigation payback, Staff had run numbers from 2009-2018 on every deposit related to a Class-Action settlement; there were hundreds of these deposits. Unless APERS opted-out of a class, the fund received checks from many settlements. But Staff could work harder on tracking and reporting this activity at the quarterly board meetings, if that was the desire of the trustees.

Mr. Baird reiterated that the goal of Securities Litigation Policy was to allow Staff to do the groundwork and bring the Board proposals, so they were not forced to spend hours evaluating a case or interviewing firms. Ideally, that would be delegated to Staff so they could bring the Board concise and relevant material to work from, ensuring the Board met its fiduciary and oversight responsibility.

Mr. Bassett noted that there had been 428 filed Securities Litigation claims filed last year. The Board did not need to put itself in the position of micro-managing Staff. He felt the construct Mr. Baird had provided was very good, since this was totally new territory for both Staff and Trustee responsibilities. He agreed that the policy needed some adjustments and this meeting had provided good suggestions.

Chair Franks reminded the board members that she had a motion and a second to table adopting this policy until it could be reworked and presented again at the next board meeting. She called for a vote and the motion passed.

Review and Approve Staff Legislation

Mr. Baird had a short list of items Staff noted needed to be cleaned up or changed in the code. With the Board's approval, Staff would begin drafting legislation for the 2021 session. Ms. Gilson

went through the two Substantive Changes, three Technical Corrections and three other sections of the Arkansas Code that affect APERS that were under consideration. All the changes were consistent with APERS' practices and internal procedures, but there may be a section of Code that Staff feels needs to be clarified.

The final three items affected other state pension plans and APERS would work with them and coordinate the changes with all the other retirement systems.

Mr. Brady motioned to accept suggested changes. He was seconded by Mr. Douthit and the motion carried.

OTHER BUSINESS

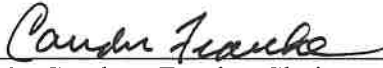
There was no other business.

NEXT QUARTERLY BOARD MEETING:

The next quarterly Board Meeting is scheduled for Wednesday, November 18, 2020 at 9:00 a.m. The Annual Trustee Educational Seminar is scheduled for October (date TBD).

ADJOURNMENT:

There being no further business, the meeting was adjourned.



Ms. Candace Franks, Chair



Mr. Duncan Baird, APERS Executive Director