

**PUBLIC EMPLOYEES RETIREMENT SYSTEM
MINUTES OF THE MEETING OF THE BOARD OF TRUSTEES
31st ANNUAL EDUCATIONAL SEMINAR
WEDNESDAY, OCTOBER 21, 2020**

The Board of Trustees of the Arkansas Public Employees Retirement System held its thirty-first Annual Educational Seminar beginning at 9:00 a.m. and concluding at 11:30 a.m. on Wednesday, October 21, 2020 via ZOOM video conferencing. Ms. Franks presided.

BOARD MEMBERS PRESENT:

Ms. Candace Franks (State Employee Member), *Chair*, Little Rock, AR
Judge David Hudson, (County Employee), Fort Smith, AR
Mayor Joe Hurst, (City Employee), *Chair*, Searcy, AR
Mr. Paul Louthian, AR Department of Finance & Administration (*proxy*)
Mr. Jason Brady, State Treasurer's Office (*proxy*)
Mr. Duncan Baird, (Executive Director), APERS

BOARD MEMBERS ABSENT:

Mr. Gary Carnahan, (Other, Non-State Employee), Little Rock, AR
Mr. Daryl Bassett (State Employee Member), Sherwood, AR
Mr. Dale Douthit (State Employee), Little Rock, AR
Mr. Larry Walther, (Ex-Officio Member), *Vice Chair*, DF&A
Hon. Andrea Lea, (Ex-Officio Member), State Auditor
Hon. Dennis Milligan, (Ex-Officio Member), State Treasurer

ADDITIONAL VISITORS PRESENT:

Ms. Brianne Weymouth, Callan Associates, Inc.
Mr. John Jackson, Callan Associates, Inc.
Mr. Avery Robinson, Callan Associates, Inc.
Mr. David Hoffman, Gabriel Roeder Smith
Mr. Mita Drazilov, Gabriel Roeder Smith
Ms. Heidi Barry, Gabriel Roeder Smit
Dr. John Shelnett, AR Department of Finance & Administration
Mr. Matt Raimo, AQR Capital Management
Mr. Greg D'Alessandro, AQR Capital Management
Mr. Keith Ingram, AQR Capital Management
Ms. Rebecca King, Baillie Gifford
Mr. Jerome Thomas, BNY Mellon Corp.
Mr. Jerry Castellini, CastleArk Management
Ms. Nora Walsh, CastleArk Management
Mr. Quentin Ostrowski, CastleArk Management
Mr. Bob Takazawa, CastleArk Management
Mr. Dan Becker, CastleArk Management
Ms. Christine Chun, DoubleLine
Ms. Barbara Ziegler, DoubleLine
Mr. Tom McCarthy, Heitman Capital Management
Mr. Blaise Keane, Heitman Capital Management
Ms. Anne Westbrook, Heitman Capital Management
Mr. Scott Horrell, Horrell Capital Management
Ms. Kimberly Horrell, Horrell Capital Management
Mr. Brad Horrell, Horrell Capital Management
Ms. Leanne Schmitt, INTECH
Mr. Max Swango, Invesco Core Real Estate
Mr. Bill Grubbs, Invesco Core Real Estate
Mr. Joe Munoz, 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. Josef Lakonishok, LSV Asset Management
Ms. Heather Howell, MacKay Shields
Mr. Todd Bailey, Mellon Capital Management
Mr. James Blake, Newton Capital Management
Mr. Rupal Shah, PGIM Fixed Income

Mr. Michael Opre, SSI Investment Management
Ms. Wambui Lynch, SSI Investment Management
Mr. George Douglas, SSI Investment Management
Mr. Patrick White, Stephens Investment Management
Mr. Ryan Crane, Stephens Investment Management
Mr. Tom Landry, TA Associates Realty
Mr. James Raisides, TA Associates Realty
Mr. Zander Grant, Wellington Management Company
Mr. Jon Cangalosi, WFAM Golden Capital Management
Ms. Katie Wadley, WFAM Golden Capital Management
4 Unidentified Callers

STAFF PRESENT:

Mr. Carlos Borrromeo, APERS Chief Investment Officer
Ms. Usha Doolabh, APERS Investments Manager
Ms. Laura Gilson, APERS General Counsel
Mr. Jason Willett, APERS Chief Financial Officer
Ms. Allison Woods, APERS Director of Benefits
Ms. Abbi Bruno, APERS Director of Operations
Mr. Phillip Norton, APERS Director of IT
Ms. Jacobia Twiggs, APERS Retirement Section Manager
Ms. Linda McGrath, APERS Administrative Specialist

NEWS MEDIA NOTIFIED:

An e-mail 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 – Opening Remarks

Ms. Franks welcomed everyone to APERS 31st Educational Seminar and recognized the presence of a quorum before turning the meeting over to Mr. Baird. He noted this was the first virtual seminar for APERS and there were over 40 participants including money managers and APERS Staff. The topics that would be addressed today were chosen for their relevance to recent events, as well as feed-back from the Trustees.

Update on Callan Work Plan - Presented by Ms. Brianne Weymouth of Callan

Ms. Weymouth and Mr. Jackson reviewed the Callan Work Plan and gave a high-level overview of topics that would be addressed in more detail later in the seminar. She introduced the various speakers and urged the Trustees to chime in anytime if they had any questions.

Ms. Weymouth explained that the Callan workplan called for interviewing the finalists for the International Small Cap position at the November meeting, along with reviewing the Investment Policy Statement. She noted that it was a good practice to review it on an annual basis. After that, Ms. Weymouth noted that Callan would continue the portfolio structure studies; after the Asset Liability Study they would examine each of the asset classes in the portfolio. First up would be the Real Asset Structure review in February, followed by U.S. Equities in May and finish with Diversified Strategies at the August meeting. Fixed Income would be examined at the November 2021 meeting.

Passive versus Active Investing/Value versus Growth - Presented by Mr. Joe Jackson of Callan

Mr. Jackson discussed the differences between Active and Passive Investing. He explained how indexes grew from a benchmarking tool to a passive investment vehicle. He showed how historically Active Managers compared to the Index, and then applied the Active Manger fees to show the excess returns. Mr. Jackson noted that Small Cap stocks tended to outperform their benchmark, gross of fees. In the US Fixed Income market, Core and Core Plus substantially outperformed High Yield, with excess returns for the last 20 years. He noted that APERS portfolio contained a mix of Active and Passive and explained that despite their often-lower returns compared to actively managed portfolios, Passive investments offered less-expensive exposure and more liquidity, that the fund needed to pay benefits each month.

Ms. Weymouth used a chart to show where each of APERS' Domestic Equity Managers fell between Growth and Value, and Small to Large Cap investors. After a short description of Growth and Value and explaining Price-to-Earning theory, she showed sector weights in the Russell 3000 Index. Mr. Jackson detailed the types of stocks typically found in each sector and how the market affected them.

Growth Investing - Presented Mr. Ryan Crane of Stephens Investment

Mr. Crane stated that the framework of growth and value is an over-simplification of a very complex array of investment styles and strategies. He noted that Growth and Value are not mutually exclusive, and some stocks can appear in both indexes. Mr. Crane gave the history of the last 50 years, when Growth and Value became separately managed portfolios. Value is perceived to be less risky than Growth, but Growth has done much better in the past 10 years. He discussed “mean reversion” and commented that there was no such thing as “normal”. He argued that the way Growth and Value index providers defined themselves, resulted in significant differences across other factors that changed dramatically over time. Mr. Crane talked about how Beta affected the prices of stocks and why Growth stocks have recently outperformed. He summed up his belief that right now, Growth is secular and Value is cyclical. When that happens, Value should outperform if there is a cyclical recovery. Growth is actually more defensive, and much higher quality than Value. He also noted that the past 13-year shift of moving funds from Active to Passive portfolios has actually helped Growth stocks disproportionately due to “Cap weighting”.

Value Investing -Presented by Dr. Josef Lakonishok of LSV Asset Management

Dr. Lakonishok talked about how it was a very tough time to be a Value manager during the “Tech bubble” and also during the last 2-3 years. He said that most people define Value stock as “cheap on multiples” while Growth stock has higher multiples. However, it is very difficult to predict future growth rates, so paying for higher multiples is a dangerous game, as evidenced by what happened to many technology companies after the tech bubble burst. He discussed why there should be Value exposure in the portfolio by showing the Growth/Value Cycles in the US over the last 90 years. Dr. Lakonishok pointed out that in every instance, Value stocks always came back and outperformed Growth after every cycle of underperformance. Currently, Growth is trading at almost 50% premium to Core, which he felt was unjustifiable, while simultaneously Value has a 28% discount to Core. Finally, he showed a chart that listed the top 10 S&P Stocks for each of the last five decades. Names like IBM, General Electric, Exxon Mobil, Coca-Cola, Merck and AT&T populated the list of companies once thought to be invincible but have now dropped off the list. He felt that the multiples that companies like Amazon, Microsoft and Facebook were currently trading at was unsustainable and they were vastly over-priced.

<BREAK>

Core Real Estate Panel Discussion with Mr. Avery Robinson from Callan

Mr. Robinson introduced speakers for the next investment topic. The panelists would be discussing what benefits APERS found from investing Real Estate, what’s been happening in the market in 2020 and what the current returns are indicating. He gave a broad overview of the differences between Core Real Estate and Value-Add Real Estate investment managers.

- Mr. Bill Grubbs, INVESCO Real Estate
- Mr. Blaise Keane, Heitman America Real Estate Trust

Both managers showed actual examples of investments that are actually in the APERS’ portfolio and discussed their plans to turn a profit on those properties going forward.

Value Add Real Estate Panel Discussion with Mr. Avery Robinson from Callan

Mr. Robinson introduced the panelists for the Value-Add Real Estate discussion and talked about the cycles of Real Estate

- Mr. Joe Munoz, LaSalle Investment Management
- Mr. Tom McCarthy, Heitman Value Partners
- Mr. Jim Raisides, TA Realty

The Value-Added managers talked about trends in their sector and how they planned to capitalize on Value-Creation strategies that seemed to be trending using actual properties in the APERS’ portfolio as examples.

Closing Remarks

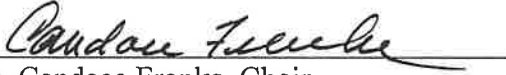
Ms. Weymouth thanks the panelists and hoped the discussions had been informative. Ms. Franks thanked all the participants and commented she had learned a lot and hoped the other Trustees had gotten as much out of the experience as she had.

NEXT QUARTERLY BOARD MEETING:

The next quarterly Board Meeting is scheduled for Wednesday, November 18, 2020 at 9:00 a.m.
There is a Member Appeal scheduled for Tuesday, December 8, 2020 at 9:00 a.m.

ADJOURNMENT:

There being no further business, the meeting was adjourned.



Ms. Candace Franks, Chair



Mr. Duncan Baird, APERS Executive Director