

**MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
FEBRUARY 14, 2018**

The regular quarterly meeting of the Board of Trustees of the Arkansas Public Employees Retirement System was held on Wednesday, February 14, 2018 at 9:00 a.m., in the Conference Room, 124 West Capitol, Little Rock, Arkansas. Mayor Morris presided.

QUORUM PRESENT:

Mayor Morris recognized the presence of a quorum.

BOARD MEMBERS PRESENT:

Mayor David Morris, (City Employee), *Chair*, Searcy, AR
Judge David Hudson, (County Employee), Fort Smith, AR
Ms. Candace Franks (State Employee Member), Little Rock, AR
Mr. Steve Faris (Retired State Employee), Little Rock, AR
Ms. Carol Bevis, (Other, Non-State Employee), Little Rock, AR
Mr. Daryl Bassett (State Employee Member), Sherwood, AR
Hon. Andrea Lea, (Ex-Officio Member), State Auditor
Mr. Paul Louthian, Department of Finance and Admin. (*proxy*)
Mr. Jason Brady, State Treasurer's Office (*proxy*)
Ms. Gail H. Stone (Executive Director), APERS

BOARD MEMBERS ABSENT:

Mr. Dennis Milligan, (Ex-Officio Member), State Treasurer
Mr. Larry Walther, (Ex-Officio Member), Department of Finance and Admin.

VISITORS PRESENT:

Mr. Ryan Ball, Callan Associates, Inc.
Dr. John Shelnett, Department of Finance and Admin.
Mr. Hank Klein, Attorney for Cherriet Clark
Ms. Muriel Klein, wife of Hank Klein
Ms. Cherriet Clark
Ms. Cindy Frizzell, Municipal League
Mr. Marc Watts, AR State Employees Association

STAFF PRESENT:

Mr. Jay Wills, APERS Deputy Director
Mr. Carlos Borromeo, APERS Chief Investment Officer
Ms. Usha Doolabh, APERS Investments Manager
Ms. Jessica Middleton, APERS General Counsel
Mr. John Owens, APERS Internal Auditor
Ms. Becky Walker, APERS Director of Operations
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 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 September 29, 2017 and the Training Seminar of January 17, 2018 meeting were mailed to each APERS Board member for review. Mr. Faris motioned the Minutes be approved as presented. He was by seconded by Ms. Franks and the motion passed.

QUARTERLY REPORT FOR THE PERIOD ENDING DECEMBER 31, 2017 - Presented by Mr. Ryan Ball of Callan Associates, Inc.

Mr. Ball reviewed the new "snapshot" format Callan had prepared for the Trustees.

Mr. Ball stated that APERS might consider reducing their Equity exposure in REITS by moving more funds into Value-added Real Estate. Ms. Stone had two suggestions on how the Board could handle such a transition. Mr. Ball expanded on the idea and suggested continued

investments with LaSalle, TA Realty and/or Heitman. Due to manager's deadlines, this would need to be decided on at the May meeting.

Ms. Stone reminded the Board that APERS will be conducting an Asset Allocation Evaluation in the upcoming month that should coincide with moving the REITS funds.

Mr. Bassett commented that he thought that this a very well thought out plan and motioned to move the funds (\$150 million) in to a Global REIT index until capital calls by TA Realty and Heitman. He was seconded by Judge Hudson. Motion passed

SUMMARY OF RETIREES FOR DECEMBER, JANUARY & FEBRUARY 2018:

Ms. Stone noted that Staff processes about 220-240 retirees every month. APERS is currently paying out over a half-billion in benefits annually and the fund is at an all-time high.

FINANCIAL STATEMENTS FOR THE QUARTER ENDING DECEMBER 31, 2017:

Ms. Stone noted the APERS assets totaled \$8.6 billion and paid out \$264.3 million during the first six-months of this Fiscal Year on track for new record benefit payments.

There was an extended discussion regarding the constant pressure being applied by the Actuaries to lower the Assumed Rate even further and the subsequent impact this had on the Employer Rate.

Other Business – Non-Agenda Item

Mr. Faris motioned having an Executive Session, prior to April 15th, to conduct the Director's Evaluation. Ms. Lea pointed out that at ATRS, Board members receive the evaluation via e-mail and return it to the Chairman, so there would be no need for a special meeting. Mr. Faris felt that the April 15th deadline was problematic to doing this via e-mail and motioned call for a special meeting before April 15th for Director Stone's evaluation. He was seconded by Ms. Franks.

There was an extended discussion on the pros and cons of having committees with most Board members have a strong opinion one way or the other. Mayor Morris finally called for a vote on the issue and Ms. Lea restated the motion was to select a date between now and April 15th, the Board will meet in its entirety, in executive session, for the purpose of evaluating the Director. Motion carried unanimously to set a date. Ms. Lea asked for a copy of the evaluation form and was told it would not available until April 2nd.

OTHER BUSINESS

Set DROP Interest Rate for Fiscal Year 2019

After a short discussion, Mr. Bassett motioned raise the DROP Interest Rate at 2.75%. Ms. Franks seconded and the motion carried unanimously.

Annual Approval for Board Travel Reimbursements

Judge Hudson motioned to approve reimbursement for travel under the state's guidelines. Ms. Bevis seconded and the motion passed.

Cherriet Clark Request to Waive Regulation 221

Mr. Wills reviewed the discretionary matter that the Board needed to make a ruling upon. He stressed that under the current Regulation 221, Ms. Clark was not eligible to receive any of Mr. Newkirk's retirement since they were never married and she was not listed as a dependent on any Federal tax form. When he filled out his B-50 APERS retirement papers in 1998, Mr. Newkirk listed Ms. Clark as his fiancée. APERS regulations at that time required the beneficiary of a B-50 option to be either a spouse of more than one-years' time or a dependent who receives more than half of their support from the member. Ms. Clark was here today to appeal Staff's decision before the Board. The benefit amount in question is approximately \$300 a month.

Ms. Clark gave a short history of her last 25 years living with Mr. Larry Newkirk. She explained that when he passed away in March of 2017, she was surprised to learn there was a problem collecting his survivor's benefits. She noted that Regulation 221 was passed eleven years after Mr. Newkirk was approved for the B-50 retirement option listing her as his beneficiary. She allowed that she had never been listed on his federal tax forms as a dependent as they had never married. Ms. Clark had provided Staff with Mr. Newkirk's tax forms which showed he provided over 80% of the couple's income, which exceeded the Arkansas requirement of 50%. She asked that the Board honor Mr. Newkirk's desire when he selected the B-50 option and designated Ms. Clark as his beneficiary.

After a lengthy question and answer period by the Board with Ms. Clark, Ms. Lea questioned that if no motion was made, then it would be understood that the Board chose to follow Staff's recommendation. Mayor Morris concurred. Mr. Wills added the question was: Whether or not the Board would follow its own regulation.

Mr. Bassett moved that the Board waive the regulation and Mr. Faris seconded. Ms. Lea asked for a clarification on the motion. Mayor Morris state the motion was to waive Regulation 221 in this specific case and honor the beneficiary noted on the form. Mr. Bassett agreed with the restated motion. Mayor Morris called for a vote. There were ayes for both for and opposed. Ms. Stone reminded the Chair that five votes were needed and suggested a show of hands. In favor: Faris, Bassett, Bevis. Lacking five votes, the motion failed.

Mayor Morris thanked the petitioners for coming and stated that everyone was sympathetic to their plight but the will of the Board was to uphold their existing regulation.

Litigation Update – Presented by Mr. Jay Wills, APERS Deputy Director

Mr. Wills reminded the Board that they still needed to hear Mr. Hudlow's presentation of why he deserved enhanced service credit. Mayor Morris requested Staff set up the meeting on the same day as the Director Evaluation meeting.

Concerning other pending litigation, Mr. Wills gave updates on the nursing home cases, the Diane Harrison hearing and the Governor's directive to agency heads regarding the issue of Sovereign Immunity.

Renewal of Professional Services (Information Only):

Ms. Stone explained that last year APERS got permission from OSP to do 2-year contracts. This is the second year of the contracts and nothing has changed.

Executive Administrative Report:

Mr. Johnny Owens, APERS Internal Auditor, will be reporting on the completion of the evaluation of business controls, as requested by DF&A at the May meeting.

APERS Appropriation is a repeat of the Operating Budget half of the Biennial Budget that was approved last year. (HB 1055)


NEXT QUARTERLY BOARD MEETING:

The next quarterly meeting of the APERS Board of Trustees is scheduled for Wednesday, May 16, 2018 at 9:00 a.m.

Annual Trustee original Educational Seminar is scheduled for Tuesday, October 23, 2018 (all day) at the Capital Hotel, Little Rock.

ADJOURNMENT:

There being no further business, the meeting was adjourned.


MAYOR DAVID MORRIS, CHAIR


MS. GAIL STONE, EXECUTIVE DIRECTOR