

**MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES  
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM  
FEBRUARY 17, 2016**

The regular quarterly meeting of the Board of Trustees of the Arkansas Public Employees Retirement System was held on Wednesday, February 17, 2016 at 9:00 a.m., in the Conference Room, 124 West Capitol, Little Rock, Arkansas. Mr. Williams presided.

**QUORUM PRESENT:**

Mr. Williams recognized the presence of a quorum.

**BOARD MEMBERS PRESENT:**

Mr. Artee Williams (State Employee Member), *Chair*, Maumelle, AR  
Ms. Ouida Wright (State Employee Member), *Vice-Chair*, Conway, AR  
Judge David Hudson, (Municipal Employee), Fort Smith, AR  
Mr. Bill Gaddy (State Employee Member), Little Rock, AR  
Mayor David Morris, (City Employee), Searcy, AR  
Ms. Carol Bevis, (Other, Non-State Employee), Little Rock, AR  
Hon. Andrea Lea, (Ex-Officio Member), State Auditor  
Dr. John Shelnett, Department of Finance and Administration (*proxy*)  
Ms. Gail H. Stone (Executive Director), APERS

**BOARD MEMBERS ABSENT:**

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

**VISITORS PRESENT:**

Mr. Ryan Ball, Callan Associates, Inc.  
Ms. Brianne Weymouth, Callan Associates, Inc.  
Ms. Alisha Curtis, Office of the Governor  
Mr. Mike Knapp, Legislative Audit  
Mr. Chris Villines, Association of Arkansas Counties  
Mr. Marc Watts, Arkansas State Employees Association  
Mr. Mike Wickline, *Arkansas Democrat-Gazette*

**STAFF PRESENT:**

Mr. Carlos Borromeo, APERS Chief Investment Officer  
Ms. Susan Bowers, APERS Associate Director of Investments  
Mr. Jay Wills, APERS Chief Counsel  
Mr. John Owens, APERS Internal Auditor  
Ms. Becky Walker, APERS Director of Operations  
Ms. Linda McGrath, APERS Administrative Specialist

**NEWS MEDIA NOTIFIED:**

A letter of 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.

**MINUTES:**

Prior to the Board meeting, a copy of the Minutes from the November meeting was mailed to each APERS Board member for review. After a short discussion on procedural details, Mr. Gaddy motioned to accept the Minutes as presented. He was seconded Judge Hudson and the Minutes were approved.

**QUARTERLY REPORT FOR THE PERIOD ENDING DECEMBER 31, 2015 - Presented by Mr. Ryan Ball of Callan Associates, Inc.**

Mr. Ball offered a short synopsis of the stock market during the second quarter of Fiscal Year 2016. He noted the US had suffered from a weak GDP and inflation remained below the Fed's target of 2%. Oil continued its downward run. While it was a strong quarter for U.S. Equities, it was still the worst annual performance since 2008. Fixed Income eked out a barely positive 0.5%

over the past twelve months, while in the International Equities, developed non-US markets performed well but the dollar's strength eroded the returns. Emerging Markets were the worst performers for the quarter and also for the year.

APERS' Asset Allocation continued to be largely in-line with the Target Allocation.

The total fund returned 3.06% for the quarter and (0.17%) for the trailing 12-months, finishing out the calendar year with a market value of just over \$7.48 billion.

- **Golden Capital Management** posted the highest absolute return among active managers for the quarter, returning 6.65% and finishing at the 19th percentile. Golden has finished above median over the trailing one-, three-, and five-year periods.
- **Manning & Napier** also posted strong quarterly performance returning 5.74% during the quarter, 1.03% ahead of its benchmark. The portfolio has struggled over the last year, but remains ahead of the index and peers over the trailing seven year period.
- **Heitman** made its first call for capital this quarter.

Mr. Gaddy inquired about the two portfolios run by MacKay Shields (commonly referred to as Pareto Partners). After a short discussion on the company's practices with the different portfolios, Ms. Stone commented that it might be time separate the accounts further.

#### **Investment Manager Organizational Developments**

**Wellington** - In July 2015, Wellington informed clients that the US Securities and Exchange Commission (SEC) was conducting an investigation of their US affiliate, Wellington Management Company LLP's policies, procedures and practices regarding the handling of material non-public information. On December 18, 2015, the SEC notified Wellington that it had concluded its investigation and does not intend to recommend an enforcement action against our firm.

**Manning & Napier** – In December 2015, Manning & Napier, Inc. announced it had entered into an agreement to acquire majority interest in Rainier Investment Management, LLC. The investment teams and processes at both Rainier and Manning & Napier will not change. Rainier will remain located in Seattle, Washington. Under the agreement, Rainier key professionals will maintain a 25% ownership in Rainier with Manning & Napier acquiring the remaining 75%. Expected to close in the first half of 2016, subject to regulatory approvals and closing conditions, the transaction is structured with an initial upfront cash payment funded by Manning's available cash position with additional payments based on Rainier achieving certain financial targets over a four year period.

#### **Renewal of Professional Service Contracts**

Ms. Stone explained the contract limits and formula, which uses generous Capital Market assumptions to project asset growth (18%), and calculated the projected fees for each manager. She noted that the manager's fees (basis points) remained unchanged for numerous years. After a short discussion, Mr. Gaddy motioned to approve the estimated manager fees and professional service contracts through Fiscal Year 2017. Ms. Lea asked if approving the contracts would close the discussion on Horrell that was tabled at the last meeting and Ms. Stone explained by approving their contact now, it merely satisfied legislative procedure; any manager was subject to termination by the Board at any time.

With no further discussion, Mr. Gaddy repeated his motion to approve the list of contacts. He was seconded by Ms. Bevis and the motion carried.

#### **SUMMARY OF RETIREES FOR DECEMBER 2015, JANUARY & FEBRUARY 2016 :**

Ms. Stone commented that APERS was still experiencing accelerated retirements by the baby-boomers and this trend was expected to continue until 2020.

#### **MEDICAL REVIEW BOARD RECOMMENDATION:**

The Medical Review Board met at 1:30 p.m. on Thursday, February 11, 2016 in the APERS Library to discuss two (2) cases: Mr. Roger Cogburn and Mr. Thomas Krigbaum.

- After review and discussion, the Medical Review Board found that Mr. Cogburn was suffering from an illness or injury at the time of his termination in May 2015, which subsequently led to the disability determination.
- After review and discussion, the Medical Review Board found that Mr. Krigbaum was suffering from an illness or injury at the time of his termination in September 2013, which subsequently led to the disability determination.

With APERS Board approval, in accordance with ACA 24-4-511(e)(3) benefits for both members will be effective March 1, 2016. Mayor Morris motioned to accept the recommendations of the Medical Review. He was seconded by Judge Hudson. Motion passed.

**FINANCIAL STATEMENTS FOR THE QUARTER ENDING DECEMBER 31, 2015:**

At the end of December, APERS' value had declined from where it stood at the end of Fiscal Year 2015, by about \$300 million. As of December 31<sup>st</sup> the market value of the fund stood just under \$7.24 billion. Ms. Stone commented that despite the market fluctuations since then, the fund's value had remained relatively unchanged. APERS had paid out \$245 million in benefits in the first six months of Fiscal Year 2016.

**OTHER BUSINESS:**

**Litigation Update – Presented by Mr. Jay Wills, APERS Chief Counsel**

Mr. Wills updated the Trustees on the status of National Timber Partners (NTP), reminding them that NTP had been judged to be in breach of contract. While they have been making small, sporadic payments to APERS on the judgment against them, the judge had also awarded the retirement system pre- and post-judgment interest. Mr. Wills explained that in Arkansas, all payments made against a judgment are applied first to the interest. The amount that NTP has paid towards the APERS' settlement so far has satisfied the amount they would have paid under the contract, had they fulfilled it before their deadline. However, the intermittent payments had not come close to satisfying the accumulating interest on the judgment, much less touched the \$10 million judgment APERS had gotten against NTP.

In regards the Nursing Homes cases, Mr. Wills noted that all are on appeal to Circuit Court and are at various stages of administrative appeal proceedings. Two have been consolidated into Judge Gray's courtroom and the plaintiff has asked for two days of oral argument to explain his reasons for asking the Judge to reverse the earlier decision. Mr. Wills stated that he had not yet responded to the request, as he'd only received the notice yesterday.

Separately, the Woodruff County judge has given no indication of when she might address the Woodruff County Nursing Home case and Mr. Hall has not requested any oral arguments, as of yet.

Mr. Wills assured the Trustees that APERS had fulfilled all the legal requirements for all the nursing home appeals and everything was waiting for decisions from their respective judges.

**Set DROP Interest Rate for Fiscal Year 2017**

Ms. Stone reminded the Trustees that in accordance to Board regulation, they would review and set the DROP interest rate at each February meeting for the upcoming fiscal year. She noted that the current rate is at 2.50%. She distributed a graph showing the 20-year history of the interest rate associated with a 10-year note. Currently, this investment offers 1.74% annual return. Ms. Stone opined that APERS' DROP Interest Rate should be somewhat in-line with this risk-free investment. Ms. Lea agreed, stating "The overall health of the fund helps everyone."

After a short discussion, Ms. Wright motioned not to lower the DROP Interest Rate at this time (currently at 2.50%). Ms. Lea seconded and the motion carried.

**Technology Project Update – Presented by Ms. Gail Stone, APERS Executive Director**

The project for the new member record system, COMPASS, is progressing on time and on budget. Project is scheduled for completion the third week of January 2017, but the Development Team is looking a "go live date" to coincide with most of the payrolls across the state. Staff is working with focus teams to help ensure that everyone is able to report electronically, before the July 2017 deadline.

**Annual Approval for Board Travel Reimbursements**

Ms. Stone explained that according to *ACA §25-16-902* during the first meeting of each calendar year, the Board will establish travel reimbursement rates for Trustees performing official Board duties that take them over 50 miles from home or for educational purposes during 2016. This rate is currently set at 42 cents per mile. Judge Hudson motioned to approve reimbursement for travel under the state's guidelines. Mayor Morris seconded the motion and it passed unanimously.

**Legislative Audit Report**

Ms. Stone noted that Legislative Audit had concluded APERS' annual audit and there had been no finding. Several Trustees commented that they had already received their copies. Ms. Stone also took the opportunity to introduce Mr. John Owens, APERS' new Internal Auditor.

**NEXT QUARTERLY BOARD MEETING:**

The next quarterly meeting of the APERS Board of Trustees is scheduled for Wednesday, May 18, 2016 at 9:00 a.m.

The Annual Trustee Educational Seminar will be held October 25, 2016 at the Capital Hotel in Little Rock. AR.

**ADJOURNMENT:**

There being no further business, the meeting was adjourned.

  
MR. ARTEE WILLIAMS, CHAIR

  
MS. GAIL STONE, EXECUTIVE DIRECTOR