

**MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES  
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM  
FEBRUARY 19, 2014**

The regular quarterly meeting of the Board of Trustees of the Arkansas Public Employees Retirement System was held on Wednesday, February 19, 2014 at 9:00 a.m., in the Conference Room, 124 West Capitol, Little Rock, Arkansas. Mr. Artee Williams presided.

**QUORUM PRESENT:**

Mr. Williams recognized the presence of a quorum.

**BOARD MEMBERS PRESENT:**

Mr. Artee Williams (State Employee Member), *Chair*, Director, Dept. of Workforce Services  
Judge Mike Jacobs (County Employee), Clarksville, AR  
Ms. Ouida Wright (State Employee Member), Conway, AR  
Ms. Carol Bevis, (Other, Non-State Employee), Little Rock, AR  
Mr. Bill Gaddy (State Employee Member), Little Rock, AR  
Mr. Wes Goodner, State Treasurer Deputy (*proxy*)  
Ms. Janet Harris, Deputy State Auditor (*proxy*)  
Dr. John Shelnett, Dept. of Finance and Administration (*proxy*)  
Ms. Gail H. Stone (Executive Director), APERS

**BOARD MEMBERS ABSENT:**

Mayor Steve Northcutt (City Employee), Malvern, AR  
Hon. Richard Weiss (Ex-Officio Member), Dept. of Finance and Administration  
Hon. Charles Robinson, (Ex-Officio Member), State Treasurer  
Hon. Charlie Daniels (Ex-Officio Member), State Auditor

**VISITORS PRESENT:**

Mr. Ryan Ball, Callan Associates, Inc.  
Mr. Kevin Dolsen, Callan Associates, Inc.  
Mr. Mita Drazilov, Gabriel Roeder Smith & Company  
Mr. David Hoffman, Gabriel Roeder Smith & Company  
Mr. Kevin White, Bureau of Legislative Audit  
Mr. Marc Watts, Arkansas Municipal League  
Mr. Chris Villines, Association of Arkansas Counties  
Mr. Danny James, Arkansas State Employee Association

**STAFF PRESENT:**

Ms. Michele Williams, APERS Deputy Director  
Mr. Carlos Borromeo, APERS Chief Investment Officer  
Ms. Susan Bowers, APERS Associate Director of Investments  
Ms. Ellen Johnson, APERS Chief Fiscal Officer  
Mr. Jay Wills, APERS Attorney Specialist  
Ms. Becky Walker, APERS Administrative Service Manager  
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, copies of the Minutes from the meeting of November 20, 2013 were mailed to each APERS Board member for review. On a motion made by Judge Jacobs, seconded by Mr. Gaddy and the Minutes were approved as presented.

**CONSIDERATION FOR THE REAPPOINTMENT OF MR. ARTEE WILLIAMS**

Ms. Stone apprised the rest of the Board that Mr. Williams' term would be ending before the next quarterly meeting. Staff would be happy to write a letter of recommendation to the Governor, if that was the pleasure of the Board. Judge Jacobs motion for Staff to craft such a letter and he was seconded by Ms. Wright. Motion carried unanimously.

**QUARTERLY REPORT FOR THE PERIOD ENDING DECEMBER 31, 2013 - Presented by Mr. Ryan Ball and Mr. Kevin Dolsen of Callan Associates, Inc.**

Mr. Ball opened by recapping the investment environment of the past quarter. He noted that U.S. Equities had ended the year with an impressive 10.51% gain for the S&P 500. Non-U.S. Equities also turned in a nice profit for the quarter at 5.71%. Fixed Income continued to be fairly anemic, while Real Estate and Hedge Funds turned in positive quarters. Emerging Markets turned in a lackluster performance. The fund ended the calendar year with market value of \$7.4 billion.

Currently, the fund is overweight in Domestic Equity and International Equity due to strong market performances in those areas. Consequently, Domestic Fixed Income and Real Assets are underweight. The two value-added real estate funds have not called for the last of their funds. Mr. Ball indicated he would be discussing speeding up this investment later in the meeting and he pointed out that Baillie Gifford, APERS' newest manager (who replaced UBS), was funded during this quarter. This manager was given close to \$350 million for their initial mandate.

Mr. Dolsen praised the status of the fund, noting that over the past calendar year the fund has grown by 20.58% and has ranked in the top decile of similar-sized public plans, not only this year, but also for the past 2, 3, 4 and 5-year rankings.

**INTECH:** repaid the patience that the Board had shown them during lean times with a 34.22% return for the past year; outperforming even its benchmark which logged a respectable 33.48%.

**Artisan:** had an outstanding quarter and year returning 7.30% and 32.61% respectively. For the past twelve month period, Artisan outperformed their benchmark by almost 10%.

**INVESCO (Real Estate):** had a much higher return than was expected a year ago, adding 14.24% to the fund over the past twelve months.

**LaSalle:** is approximately 50% funded and will call for the funds as they find investments.

**TA Realty:** is approximately 50% funded and will call for the funds as they find investments.

**Blackstone:** returned 13.58% for the last year and 3.9% for the quarter; doing better than expected.

**AOR:** performed slightly lower than expected. They encountered difficult months during May - June, and this was reflected in their final numbers for the year. However, the last quarter looks promising with a 3.37% return.

**Newton:** is a very defensive investment manager and would not be expected to outperform in the recent market. Callan felt that their 6.51% return for the past year was a very nice number.

In summary, the fund was performing above expectations. The abrupt market declines in January had been more than made up for with healthy returns in February.

Mr. Ball returned to the subject of the underweight in the Real Assets portfolio and an idea that Callan and Staff had come up with to realize the 16% investment level (which currently stands at approximately 11%). Originally, the goal had been to put 12% of that portfolio into Real Estate, but to date, only 9% had been invested. He proposed that Callan conduct a search for another U.S. Core Real Estate manager that would complement Invesco. The funds for this new manager would come mainly from the overweight equities, bringing the portfolio back in balance. Mr. Ball commented that they could start the search process and bring a list of suggested candidates to the Board meeting in May.

After a short discussion on comparative databases, Judge Jacobs motioned for Callan to begin a search for a Core Real Estate manager. He was seconded by Mr. Goodner and the motion passed.

**Renewal of Professional Services Contracts**

Ms. Stone distributed a page with the proposed contract limits and explained the formula, which uses generous Capital Market assumptions to project asset growth, for calculating the projected fees for each manager. She noted that except for State Street and CastleArk, who were both at the end of their 7 year contracts, this was just a renewal of the existing contract. After a short discussion, Mr. Gaddy motioned to ratify the estimated manager fees professional service contracts through Fiscal Year 2015. He was seconded by Ms. Harris and the motion carried unanimously.

**FIDUCIARY EDUCATION: ACTUARIAL 101 – Presented by Mr. Mita Drazilov and Mr. David Hoffman of Gabriel, Roeder, Smith and Company**

Ms. Stone reminded the Trustees that at the last Board meeting, Mr. Wills had presented one part of the Trustee's Fiduciary responsibility. With the large changes in accounting by public funds as dictated by GASB, she felt it was imperative for the board members to also have a deeper knowledge of the various components of the Actuary reports.

Mr. Drazilov began by explaining the three different types of retirement plans: Defined Benefit (like APERS), Defined Contribution and Hybrid Plans. He continued by explaining the basic formula that Defined Benefit Plans use to calculate a member's benefits. Actuaries must focus on risk characteristics which vary by plan type. In a DB plan, the major risk is in the investments doing poorly, however there are also mortality risks if members live longer than expected, and inflation risks due to pay increases, CPI COLA, etc. In a DB plan the employer bears all the risks, but the benefits are predictable. There are similar risks in a DC plan, but the employee bears all the risks and the benefits are not predictable.

Regardless of the type of plan, the Actuarial Mathematics is the same. Mr. Drazilov explained the basic retirement funding equation:  $C + I = B + E$  (Money in = Money Out)

C = Contribution Income	B = Benefits Paid
I = Investment Return	E = Expenses

He detailed the various components that made up each variable in the equation, noting the ones they could control/predict and how the actuarial assumptions were justified. Mr. Drazilov described how a member's annual pension funding changed from valuation date to their retirement date.

Mr. Hoffman discussed the measurement of the fund's assets and how the 4-year smoothing was utilized to lessen the volatile market values. He outlined the development of the funded ratio and how it was used to calculate the employer rate. Finally, he drilled down and talked about actuarial assumptions, what they were and how they were developed. He noted that GRS did not plan to review the actuarial assumptions before 2018 (every 5 years), unless the Trustees specifically requested one.

At this time, the fund currently has a 25-year amortization rate (down from a 30-year rate which had been used for the last several years). There were still \$259 million in unrecognized investment gains, as of the last valuation. The Board could decide to use the money to further lower the amortization time period, drop the employer rate, or hold back to negate future investment losses.

Mr. Drazilov cautioned against the mistake that many retirement plans fell into during the 1990's of lowering required contributions during boom times or increasing benefits, only to find the fund in deep financial distress during the lean times.

Judge Jacobs asked when GASB's Unfunded Liability reporting was going to shift to the Counties and Ms. Stone replied it would be June 2015. She noted that was why she was so anxious to achieve a lower Amortization Period before that time.

**SUMMARY OF RETIREES FOR DECEMBER, JANUARY & FEBRUARY :**

These were noted without comment.

**MEDICAL REVIEW BOARD RECOMMENDATIONS:**

The Medical Review Board met at 2:30 p.m. on Tuesday, February 11, 2014 in the APERS Library to discuss the case of Mr. Floyd Sturgeon.

- After review and discussion, the Medical Review Board found that Mr. Floyd Sturgeon was suffering from an illness or injury at the time of his termination in August 2009, which subsequently led to the disability determination.

With APERS Board approval, in accordance with ACA 24-4-511(e)(3) benefits for this member will be effective March 1, 2014.

Ms. Wright motioned to accept the recommendation of the Medical Review. S/he was seconded by Ms. Harris. Motion passed.

## **FINANCIAL STATEMENTS FOR THE QUARTER ENDING DECEMBER 31, 2013:**

In the first six months of this fiscal year, APERS had paid out over \$209.4 million in benefits. The fund was on target to payout around \$420 million, which would exceed last year's high-water mark of \$397 million in payouts to members and beneficiaries.

### **OTHER BUSINESS:**

#### **Legal Updates – Mr. Jay Wills, APERS Attorney Specialist**

##### **Cycle C Update**

Mr. Wills reminded the Board that this was the year to resubmit the Cycle C paperwork to the IRS so the fund could continue with its tax deferred status. These filings were made in a timely fashion and no trouble was anticipated.

##### **National Timber Partners repayment**

Judge Fox has entered an amended judgment giving APERS everything requested and allowing National Timber Partners 45 days to submit a "schedule of assets" to the court. This list must include not only all their direct holdings, but also any being held by a third-part on their behalf. Mr. Wills noted that based on their lack of action to date, he expected NTP to ignore this request, as well. This would probably result in a finding of contempt and the Judge demanding a personal appearance by an NTP representative. Mr. Wills promised to keep the Trustees apprised of any action in this matter.

Ms. Stone noted that NTP had made another partial payment of \$197,000. Mr. Wills commented that under Arkansas law, the monies would go first against accrued interest before reducing the principal and the NTP account was currently accruing interest at roughly \$4000 a day. He was not sure that amount would even satisfy the interest that had been earned to date.

##### **Employer Garnishment Discussion:**

While there was nothing presently on this issue that needed the Board's attention, Mr. Wills wished to make them aware that more and more APERS' employers were invoking A.C.A. 24-4-1002(b) which is the "single exception rule to the anti-alienation rule" that allows an employer to get repayment against future benefits.

##### **24-4-1002. Benefit provisions — Subjection of annuity rights to process of law.**

- (a) The right of a person to an annuity, to the return of accumulated contributions, the annuity itself, any annuity option, any other right accrued or accruing under the provisions of §24-4-101 et seq., and all moneys belonging to a plan shall not be subject to execution, garnishment, attachment, the operation of bankruptcy or insolvency laws, or any other process of law whatsoever and shall be unassignable, except as is specifically provided in this chapter.
- (b) An employer shall have the right of setoff for any claim arising from embezzlement by or fraud of a member, retirant, or beneficiary.

Mr. Wills cited several recent cases, most notable being the recently convicted Arkansas Lottery official, where the employers were seeking restitution. APERS will require either a confession, negotiated plea or a conviction. If the judge does not include a restitution order in the employee's sentencing, APERS will have to give the individual a hearing before the Board, if they request it. Since, typically the individual is already in jail, as in the Lottery case, Mr. Wills did not anticipate many requests for hearings by the APERS Board, but he just wanted to make the Trustees aware of the possibility.

##### **Public Hearings**

Mr. Wills notified the Board members that there would be a Public Hearing on the recently adopted the regulations in the APERS Conference Chamber on Friday, February 21<sup>st</sup> at 10:00 a.m. At this time, there had been no public comment on any of the changes and he didn't anticipate any attendees at the hearing.

##### **County Nursing Home Employees**

Recently, there had been a spate of lawsuits filed around the state by putative county employees suing nursing homes in their counties for failure to make payments on their behalf to APERS. In these cases, APERS has never considered these nursing homes to be APERS' covered employers, but the individuals assert that they should have been. Currently, the law dictates the final decision of who is/is not an APERS' employer to the APERS Board. At this time, Mr.

Wills had four pending requests and the deadline for the counties and nursing homes to respond was the end of February. He requested the Trustees check their calendars and he would try to coordinate a day in April when all four (plus one additional) requests could heard.

Mr. Wills commented that he'd reviewed all these cases and APERS had absolutely no involvement in these employers and he was distressed by the fact that the APERS Board was apparently being used as a hammer to wring out additional monies from the counties. He felt it would be useful to have all these hearings on the same day to give the plaintiffs' attorney a chance to tell both sides of the story. Mr. Wills acknowledged that these hearings would probably tie up most of the day, so lunch would be provided.

There will also be an additional short, hearing during the regular May Board meeting regarding the Jefferson County intercept. Mr. Wills apologized, but noted that the lawyer was unable to be ready before that time. He reminded the Board that this had to deal with a Jefferson County employee working off a Federal Grant and was getting ready to retire. It had come to this gentleman's attention that he was not being credited for all his time in the system. The Board will be asked to make a determination on whether or not he was an employee. This hearing should take up no more than an hour during the May meeting.

**DROP Interest Rate:**

Ms. Stone thanked Mr. Marc Watts of ASEA for bringing this to her attention. She reminded the Trustees that it was customary to review and set the DROP interest rate at each February meeting; currently the rate is at 2.50%. After a short analysis of the 10-year Treasury rate (the closest comparable investment vehicle) Judge Jacobs motioned to keep the DROP Interest Rate at 2.50% and was seconded by Ms. Bevis. Motion carried. (5:1 – Ms. Wright)

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

Ms. Stone announced to the Board that the new, computerized Pension Administration System that was being designed for APERS was coming along nicely; Staff was 6 weeks ahead of schedule on the data cleansing. Once this part of the project was complete, the data could be moved off the State's mainframe, cutting APERS' monthly costs as soon as October 2014. She cited several other cost-saving milestones that the new system (referred to as COMPASS) had passed.

**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 for the calendar year of 2014. This is currently set at 42 cents per mile. Judge Jacobs motioned to approve reimbursement for travel under the state's guidelines. Ms. Bevis seconded the motion and it passed unanimously.

**NEXT QUARTERLY BOARD MEETING:**

The next quarterly meeting of the APERS Board of Trustees is scheduled for Wednesday, May 21, 2014 at 9:00 a.m. Ms. Stone noted that this meeting would run slightly longer than usual and lunch would be provided.

**APERS ANNUAL EDUCATIONAL SEMINAR:**

Date is set for Tuesday, October 28, 2014

**ADJOURNMENT:**

There being no further business, the meeting was adjourned.

  
MR. ARTEE WILLIAMS, CHAIR

  
MS. GAIL STONE, EXECUTIVE DIRECTOR