

**MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
MAY 15, 2013**

The regular quarterly meeting of the Board of Trustees of the Arkansas Public Employees Retirement System was held on Wednesday, May 15, 2013 at 9:00 a.m., in the Conference Room, 124 West Capitol, Little Rock, Arkansas. Recognizing Chairman Williams' absence, Vice-Chair Jacobs presided.

QUORUM PRESENT:

Judge Jacobs recognized the presence of a quorum.

BOARD MEMBERS PRESENT:

Judge Mike Jacobs (County Employee), Clarksville, AR
Ms. Ouida Wright (State Employee Member), Conway, AR
Mr. Bill Gaddy (State Employee Member), Little Rock, AR
Ms. Carol Bevis, (Other, Non-State Employee), Little Rock, AR
Mayor Steve Northcutt (City Employee), Malvern, AR
Mr. Wes Goodner, State Treasurer's Office (*proxy*)
Dr. John Shelnett, Dept. of Finance and Administration (*proxy*)
Ms. Gail H. Stone (Executive Director), APERS

BOARD MEMBERS ABSENT:

Hon. Richard Weiss (Ex-Officio Member), Dept. of Finance and Administration
Hon. Charlie Daniels (Ex-Officio Member), State Auditor
Hon. Martha Shoffner (Ex-Officio Member), State Treasurer
Mr. Artee Williams (State Employee Member), *Chair*, Director, Dept. of Workforce Services

VISITORS PRESENT:

Mr. Ryan Ball, Callan Associates, Inc.
Mr. Kevin Dolsen, Callan Associates, Inc.
Mr. Mike Knapp, Bureau of Legislative Audit
Ms. Jessica Middleton-Kurylo, Bureau of Legislative Research
Mr. Warren Readnour, Attorney General's Office
Ms. Ka Tina Hodge, Attorney General's Office
Mr. Danny James, Arkansas State Employee Association
Mr. Mike Wickline, *Arkansas Democrat-Gazette*

STAFF PRESENT:

Ms. Michele Williams, APERS Deputy Director
Mr. Carlos Borromeo, APERS Chief Investment Officer
Ms. Susan Bowers, APERS Associate Director of Investments
Ms. Ashley McAdoo, APERS Chief Fiscal Officer
Mr. Jay Wills, APERS Attorney Specialist
Mr. John Treloggen, APERS Internal Auditor
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, a copy of the Minutes from the meeting of February 20, 2013 was mailed to each APERS Board member for review. On a motion made by Mr. Goodner and seconded by Mayor Northcutt, the February Minutes were approved as presented.

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

Mr. Dolsen stated that the broad markets were very positive with US Equities up 10.61% for the quarter. Non-U.S. equity was up 5.13%, while Bonds were flat at (0.12%). Real Estate was up 2.57% for the quarter. He pointed out that one of the benefits of this rising equity market was that it was driving up the fund's returns. But unlike in years past, the portfolio had some that investments in place that, should the market suddenly correct, would not give as much back.

Asset Allocation was close to the Target Allocation with the overweight in Domestic Equities coming from market returns. \$15 million in benefit payouts for the last quarter were mostly being drawn from this sector, as was the \$6 million capital call from TA Realty, as we build towards the target. Currently, Real Assets comprise only 12% of the portfolio and Staff is slowing building that to 16% - the Target Allocation for that sector.

For the trailing 12-month period the fund is up 11.31% (more than 100 basis points over its benchmark) and ranking it in the top 12% of its peers. For the quarter, the portfolio grew by 6.43%, handily surpassing the benchmark of 5.91% and placing it in the top 10% of other public funds.

Mr. Ball reviewed the notable APERS' managers for this quarter.

- **SSI:** returned 6.79%, which was 0.8% behind their index, and still ranked at the top quartile of their peers
- **Lazard:** grew by 10.15%, but still underperformed the Russell 3000 Index by nearly 1% during the first quarter. Performance over longer time periods is above the benchmark and in top half of peers.
- **INTECH:** returned 9.65% for the quarter, slightly higher than their index and ranked in the top third of their peers.
- **Stephens:** had a stellar return of 14.33% that outpaced their benchmark and ranked them in the top 1% of their peers. Performance remains strong across the board as relative rankings over all measureable time periods remain above benchmark and in the top quartile.
- **AOR:** posted positive returns of 8.3% for the quarter and outperformed their benchmark by 129 basis points; this manager ranked in the top decile over all time periods.
- **Artisan:** handily outperformed the return of the MSCI EAFE Index by 317 basis points during the quarter and ranked at the 1st percentile of Callan's Core International Equity Style Group. Since inception, the portfolio is over 8% ahead of the benchmark and ranks in the top 1%.
- **UBS:** underperformed the MSCI EAFE Index by 2.84% and ranked at the bottom 10% of their peers during the latest quarter. Performance over the two- and three-year time periods has also been poor, trailing the benchmark and ranking in the bottom quartile of peers.

Mr. Dolsen told the Board that Callan continued to be unhappy with UBS' returns. Chronic poor returns coupled with the announcement of some key staff retiring led Callan to suggest terminating this manager and beginning a replacement search for this portfolio. Mr. Ball proposed that the funds be moved into an ACWI (All Country World Index) fund while Callan searched for a manager that was less growth-orientated than UBS, as well as utilizing more Emerging Markets.

Mr. Gaddy motioned to move the funds immediately into an Index Fund and begin the search for a replacement manager. Dr. Shelnett seconded and the proposal passed unanimously.

Mr. Dolsen concluded by discussing how the during the past three years, much of the portfolio's gains had come during the January-March quarter, only to give most of it back in the final fiscal quarter. He pointed out that was why Staff actively rebalanced, harvesting the funds from the

Equity portfolios and utilizing them elsewhere. Compared to three years ago, the fund held around 20% less equities and was invested in more defensive strategies.

Dr. Shelnett asked for an update on MLP's that the Board had authorized earlier in the year. Mr. Dolsen stated that he didn't believe that any of the Equity managers had chosen to use MLPs since equities had outpaced that type of investment. The managers might still utilize that strategy in the future if they felt that equities had become "overheated".

SUMMARY OF RETIREES FOR MARCH, APRIL & MAY 2013 :

Ms. Stone noted that while these three months were not typically "high retiree" months, the average monthly volume continued to grow. She stated that the bulk of the baby boomers were expected to retire between 2017 and 2020.

MEDICAL REVIEW BOARD RECOMMENDATIONS:

The Medical Review Board met at 10:00 a.m. on Tuesday, May 7, 2013 in the APERS Library to discuss four (4) cases: Ms. Gina Keller, Ms. Deborah Tyler, Ms. Rebecca Clement and Mr. Bruce Davis

- After review and discussion, the Medical Review Board found that Ms. Gina Keller was suffering from an illness or injury at the time of the member's termination on September 2011, which subsequently led to the disability determination.
- After review and discussion, the Medical Review Board found that Ms. Deborah Tyler was suffering from an illness or injury at the time of the member's termination on May 2011, which subsequently led to the disability determination.
- After review and discussion, the Medical Review Board found that Ms. Rebecca Clement was suffering from an illness or injury at the time of the member's termination on September 2011, which subsequently led to the disability determination.
- After review and discussion, the Medical Review Board found that Mr. Bruce Davis was suffering from an illness or injury at the time of the member's termination on March 2011, which subsequently led to the disability determination.

With APERS Board approval, in accordance with ACA 24-4-511(e)(3) benefits for all four members will be effective June 1, 2013. On a motion made by Ms. Wright and seconded by Ms. Bevis, the Trustees approved the Medical Board Reviews' recommendations.

FINANCIAL STATEMENTS FOR THE QUARTER ENDING MARCH 31, 2013:

Ms. Stone announced that contrary to the Callan report that showed the fund at \$6.6 billion (this included ASPRS funds) the actual amount was closer to \$6.4 billion. For the first 9 months of Fiscal Year 2013, APERS has paid out just under \$300 million in benefits to retired Arkansans, and is on target to set an all-time high for annual benefit distribution.

OTHER BUSINESS:

LEGAL UPDATE – Presented by Mr. Jay Wills, APERS Attorney Specialist

Mr. Wills reported that Ms. Taylor's attorney satisfied the "cost award" and the fund had been made whole. At this point, he felt the matter was closed.

Turning to the audience, Mr. Wills introduced Mr. Warren Readnour and Ms. Ka Tina Hodge, both from the Attorney General's Office. He stated that Ms. Erika Gee had been promoted to Chief-of-Staff and Ms. Hodge would now be APERS liaison at the A.G.'s office.

LEGISLATIVE REVIEW:

Ms. Stone directed the Trustee's attention to a handout that summarized all the action considered during the last legislative session that might have impacted APERS. She noted that, as far as retirement legislation, it had been an extremely light session and nothing that could be considered "adverse to the system" had passed. Most were technical in nature, but one that might be of interest to the city and county representatives was a bill put forth by Rep. Allen Kerr that included *contributory* elected-officials, who were accidentally excluded in the Bill passed during the 2011 Legislative Session.

- **HB 1123** – An Act to restrict the amount of credited service earned by a contributory local elected public official to one (1) year of retirement credit for every year worked unless additional contributions are provided; to make technical corrections; and for other purposes.
Now Act 288 of 2013

Revisit DROP Interest Rate for Fiscal Year 2014

According to the Board Regulations, at the first meeting of each calendar year, the Board will set the DROP Interest Rate beginning July 1 of that year. At the February meeting, Board members chose to keep the rate at 2.5%, but acknowledged with the uncertainties of the current broad markets, they should revisit the issue in May.

After a brief discussion on the current rates for 10-year notes, which are running about 2%, Mr. Gaddy motioned to keep the rate at 2.5% for Fiscal Year 2014. He was seconded by Dr. Shelnett and the motion passed.

Amended Internal Audit for FY 2013 – Presented by Mr. John Treloggen, APERS Internal Auditor

Ms. Stone explained that after the August 2012 meeting in which the Board had approved the proposed audit put forth by Mr. Blackard, he had been promoted and it took over 6 months to refill the position. She introduced Mr. John Treloggen as APERS new Internal Auditor and stated that he'd reviewed the previous planned audit and had pulled out the vital items that needed monitoring.

Mr. Treloggen talked about how he selected the areas that needed to be audited and listed the ones he would be researching in the upcoming months.

- Disability Benefits
- Refunds of Contributions (employee)
- Benefit Accounting
- Refunds of Contributions (employer)

After detailing his plans, Mr. Treloggen asked for the Board's approval of the revised audit. Mr. Gaddy motioned to approve and was seconded by Mayor Northcutt. Motion carried. The results of this audit will be detailed at the August meeting. Ms. Stone also added that she was pleased to report that the Legislative Audit results had been announced and APERS had received a clean audit with nothing to note.

2013 Annual Educational Seminar

Ms. Stone reminded the Trustees that the APERS Annual Educational Seminar would be held on Tuesday, October 22nd at the Capital Hotel in Little Rock.

NEXT QUARTERLY BOARD MEETING:

The next quarterly meeting of the APERS Board of Trustees is scheduled for Wednesday, August 22, 2013 at 9:00 a.m.

ADJOURNMENT:

There being no further business, the meeting was adjourned.


MR. ARTEE WILLIAMS, CHAIR


MS. GAIL STONE, EXECUTIVE DIRECTOR