

**MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
MAY 16, 2018**

The regular quarterly meeting of the Board of Trustees of the Arkansas Public Employees Retirement System was held on Wednesday, May 16, 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
Mr. 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
Mr. Gary Carnahan, (Other, Non-State Employee), Hot Springs, AR
Mr. Daryl Bassett (State Employee Member), Sherwood, AR
Hon. Andrea Lea, (Ex-Officio Member), State Auditor
Hon. Dennis Milligan, (Ex-Officio Member), State Treasurer
Mr. Larry Walther, (Ex-Officio Member), Department of Finance and Admin.
Ms. Gail H. Stone (Executive Director), APERS

VISITORS PRESENT:

Mr. Ryan Ball, Callan Associates, Inc
Ms. Brianne Weymouth, Callan Associates, Inc
Mr. David Hoffman, Gabriel, Roeder, Smith
Mr. Mita Draziloviuo, Gabriel, Roeder, Smith
Mr. John Shelnutt, Department of Finance and Admin.
Mr. Paul Louthian, Department of Finance and Admin. (proxy)
Mr. Jason Brady, State Treasurer's Office (proxy).
Mr. Jerry Hudlow, APERS Member
Ms. Charlotte Hudlow, Wife of Jerry Hudlow
Mr. Tom Kieklak, Attorney for Mr. Hudlow
Ms. Morgan Doughty, Attorney for Mr. Hudlow
Mr. Mark R. Hayes, Municipal League
Ms. Tiffanie Harrison, Court Reporter
Mr. Charles Moulton, Atty. General's Office – Hearing Officer
Ms. Cindy Frizzell, Municipal League
Mr. Marc Watts, AR State Employees Association
Mr. Mike Knapp, Bureau of Legislative Audit
Mr. Mike Wickline, AR Democrat-Gazette

STAFF PRESENT:

Mr. Jay Wills, APERS Deputy Director
Mr. Carlos Borromeo, APERS Chief Investment Officer
Ms. Jessica Middleton, APERS General Counsel
Mr. John Owens, APERS Internal Auditor
Mr. Jason Willett, APERS Chief Financial Officer
Ms. Becky Walker, APERS Director of Operations
Ms. Linda McGrath, APERS Administrative Specialist

NEWS MEDIA NOTIFIED:

An e-mail with 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 notification is pursuant to A.C.A 25-19-101 (Act 93 of 1967) as amended-The Freedom of Information Act.

WELCOME NEW TRUSTEE: MR. GARY CARNAHAN:

Mayor Morris welcomed everyone and introduced Mr. Gary Carnahan from Hot Springs. Everyone on the board introduced themselves and welcomed Mr. Carnahan.

MINUTES:

Prior to the Board meeting, copies of the Minutes from the November 15, 2017 and February 14, 2018 meetings were mailed to each APERS Board member for review.

Mr. Walther requested several changes to the February Minute. After some discussion, it was agreed the February Minutes would be rewritten and resubmitted at the August meeting.

Mr. Hudson motioned to accept the November Minutes as presented; he was seconded by Ms. Franks. Motion carried.

Ms. Lea suggested that future Minutes be less detailed and just reflect the actions taken by the Board. The other Trustees agreed that the Minutes should be more concise going forward.

RESULTS OF 5-YEAR EXPERIENCE STUDY – Presented by Mr. Mita Drazilov and Mr. David Hoffman of Gabriel, Roeder Smith

The actuaries presented the results of their study with regards to updating the demographic and economic assumptions used annually to create system's Valuation Report. Mr. Drazilov focused extensively on the current Economic Assumptions. Their research suggested that APERS should be lowering their Annual Investment Return assumption from 7.15% to something between 6.5-7.0%. Mr. Hoffman reviewed all the assumptions used for the June 30, 2017 Valuation and remarked if the Board wished to continue to use the 7.15% Investment Return Assumption for the 2019 Valuation, they should adopt a 24.7 year amortization period as of June 30, 2017. Other options were discussed and the impact they would have on the Employer Contribution Rate (currently 15.32%).

After listening to the presentation, Mr. Walther suggested revisiting the list of possible plan revisions GRS had presented at the February 2017 meeting, in an effort to ease the upward pressure on the Employer Contribution rates.

Ms. Stone read from one page handout on the Actuarial items that needed Board approval. Bassett motioned to adopt the new set of economic and demographic assumptions recommended by the actuaries, using 7.15 % as the expected rate of investment return and the unfunded liabilities to be calculated over 24.7 year amortization period; second by Mr. Faris. Before a vote was called for Mr. Hudson asked for restating the motion. Mr. Drazilov restated the motion was for approval of the new demographic assumptions, maintain the 7.15% Investment Return Assumption, 3.25% Wage Inflation Assumption, 2.50% Price Inflation Assumption and lowering the amortization period from 30 years to 24.7 years. Motion passed unanimously.

(Mr. Milligan left the meeting and Mr. Brady took his seat at the table)

QUARTERLY INVESTMENT REPORT FOR THE PERIOD ENDING MARCH 31, 2018 - Presented by Mr. Ryan Ball and Ms. Brianne Weymouth of Callan Associates, Inc.

Mr. Ball detailed the investment environment for the last quarter. Ms. Weymouth reviewed the fund's performance and selected managers' returns. APERS portfolio returned 0.12% for the quarter and 11.85% for the trailing 12 months. As of March 31, the Fund had a market value of slightly over \$8.8 billion.

Actual Asset Allocation is close to the Target Allocation with the slight variations coming from market movement.

Mr. Ball recommended distributing \$75 million, per manager, to Heitman Fund 4 and TA Realty Fund 12 when they begin their capital calls. He reminded the Trustees that APERS previously invested in two LaSalle funds (LaSalle 6 and 7) and two TA funds (TA 10 and 11).

SUMMARY OF RETIREES FOR MARCH, APRIL & MAY 2018:

Ms. Stone reviewed the past quarter's retirees. APERS currently pays out over a half-billion in benefits annually.

MEDICAL REVIEW BOARD RESULTS:

The Medical Review Board met at 10:00 a.m. on Tuesday, August 8, 2017 in the APERS Library to discuss three (3) cases: Mr. James M. Hesterly, Ms. Gracie P. Bell and Ms. Terri L. Goodwin.

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

- After review and discussion, the Medical Review Board recommended denial of disability retirement to Ms. Gracie P. Bell at this time, pending additional medical information.
- After review and discussion, the Medical Review Board found that Ms. Goodwin was suffering from an illness or injury at the time of her termination in April 2015, which subsequently led to the disability determination.

With APERS Board approval, in accordance with ACA 24-4-511(e)(3) benefits for the two approved members will be effective June 1, 2018. Ms. Lea motioned to accept the Medical Review Board's recommendation and was seconded by Mr. Hudson. Motion carried unanimously.

FINANCIAL STATEMENTS FOR THE QUARTER ENDING MARCH 31, 2018:

Ms. Stone noted the APERS assets totaled \$8.5 billion and paid out over \$415 million during the first nine-months of Fiscal Year 2018 and is on-track for new record for annual benefit payments.

RECESS

EXECUTIVE SESSION:

Mayor Morris motioned for the Board to go into Executive Session for the Executive Director's evaluation. Mr. Walther seconded and the motion carried. After their business had been concluded, Mr. Faris motioned to resume the regular session and was seconded by Mr. Walther. Motion carried. Once the regular meeting resumed, the Chair announced that the evaluation results. Ms. Stone's performance evaluation had been conducted and reviewed with Director.

OTHER BUSINESS

Internal Audit of Business Controls – Mr. John Owens, APERS Internal Auditor

Mr. Owens explained that APERS had submitted their Controlled Self-Assessment for state agencies was due March 31st. He had to identify all the risks of the agency and make sure there were adequate controls in place. There were no material weaknesses found in the 250 page report which detailed over 180 risk areas.

As per the Governor's Executive Order 2018-01, a Risk Assessment was due June 30, 2019. DF&A is now requiring that the agency perform an external quality assurance review every 5 years, in compliance with the standards for the internal audit. APERS would be sharing the cost (roughly \$15,000) with ATRS.

Staff was commended on their thorough job and having no findings.

Bank of America Resolution

Ms. Stone explained that Staff needed a Resolution to move the location of APERS' Safety Deposit Box from the Bank of America (across the street) which is closing, to another Bank of America building in North Little Rock. The bank was requiring Board Minutes to show the names of three individuals who were permitted to access the safety deposit box. Ms. Stone stated she had selected herself, Mr. Wills and the current CFO, Jason Willett.

There was a motion to approve the Resolution by Judge Hudson and second by Mr. Bassett. Resolution passed.

Litigation Update – Mr. Jay Wills, APERS Deputy Director

Mr. Wills updated the Trustees on the Nursing Homes case. The appeals had been filed on time and he estimated it would be about 3 months before any decision was made.

He also apprised the Board that the Court of Appeals had recently overturned the lower court's decision regarding the Administrative Procedures Act in the Capital Zoning Case. This was important to APERS as this statute gives the APERS Board the final say as to who is included in membership. The Circuit Court did not defer to that and would not allow Capital Zoning to have the final decision. The Court of Appeals reversed the Circuit Court's decision, which Mr. Wills opined was a good sign for APERS in the pending Nursing Homes case.

Retirement Seminar Planned:

Ms. Stone announced that Representative Doug House had spoken at the recent AJRS meeting about an event he was coordinating on September 11-12 based on the APERS Educational training held last January. Rep. House wished to expand on that knowledge and planned to invite

a variety of speakers from the Pew Foundation, Director of Research/NASRA among others. She encouraged Board members to attend.

(Mr. Walther left and Mr. Louthian took his seat at the table.)

Staff Travel Report:

The report was noted without comment.

Mayor Morris' Announcement of Impending Retirement:

Mayor Morris notified the Board that he did not intend to seek re-election this fall. His term as the Mayor of Searcy would expire on January 1, 2019. Ms. Stone observed that the way the board was currently configured allowed for only one state and one non-state member, so Mayor Morris would have to leave the APERS Board when he retired.

NEXT QUARTERLY BOARD MEETING:

The next quarterly meeting of the APERS Board of Trustees is scheduled for Wednesday, August 15, 2018.

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

Jerry Hudlow - Hearing Conclusion:

Mr. Wills explained that this would be a continuation of the Hearing for Mr. Jerry Hudlow that began at the meeting on September 29, 2017. He introduced the hearing officer, Mr. Charles Moulton from the Attorney General's Office. Mr. Carnahan stated that he would not be voting on the matter as he had not been present for the first part of the hearing and didn't think it would be appropriate.

Mr. Moulton identified the hearing intent, named those involved and swore in the Witnesses before turning the procedure over to Mr. Kieklak. Paper copies of all the Exhibits were handed out to all Board Members and Mr. Kieklak gave an overview of Mr. Hudlow's argument for why he should be given enhanced, elected-official service credit from APERS.

Mr. Kieklak focused on the definition of the terms "appointed" and "elected" as they pertained to Arkansas state law using Attorney General's opinions and statutes in Arkansas law. He summarized that in state law the two terms were used interchangeably.

Ms. Middleton was given a chance to address these arguments. She stated that it was an undisputed fact that Mr. Hudlow had never been elected by the general public for either of his positions as City Treasurer. He had been appointed by the City Council, in both cases, and they alone had the sole authority to appoint and remove him. Mr. Hudlow had never been appointed to fill the unexpired term of an elected-official.

Mr. Kieklak called Ms. Stone, Mr. Hudlow, and Mr. Hayes as his witnesses. Ms. Middleton cross-examined the witnesses in turn and the Board members got to ask questions of each witness afterward.


With no more witnesses, both sides rested.

Mr. Kieklak gave his closing argument followed by Ms. Middleton's closing argument.

The Board deliberated the issue. Mayor Morris reminded the Board that no vote was required to support Staff's decision to remove Mr. Hudlow's enhanced, elected-official service credit. A motion was only required to rule in Mr. Hudlow's favor. After a lengthy discussion, the APERS Trustees opted to support Staff's decision and no motion was made.

ADJOURNMENT:

There being no further business, the meeting was adjourned.


MAYOR DAVID MORRIS, CHAIR


MS. GAIL STONE, EXECUTIVE DIRECTOR