

**MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES  
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM  
AUGUST 20, 2014**

The regular quarterly meeting of the Board of Trustees of the Arkansas Public Employees Retirement System was held on Wednesday, August 20, 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  
Mr. Bill Gaddy (State Employee Member), Little Rock, AR  
Mayor Steve Northcutt (City Employee), Malvern, AR  
Hon. Richard Weiss (Ex-Officio Member), Dept. of Finance and Administration  
Mr. Wes Goodner, State Treasurer Deputy (*proxy*)  
Ms. Janet Harris, Deputy State Auditor (*proxy*)  
Ms. Gail H. Stone (Executive Director), APERS

**BOARD MEMBERS ABSENT:**

Ms. Carol Bevis, (Other, Non-State Employee), Little Rock, AR)  
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. Mita Drazilov, Gabriel Roeder Smith & Company  
Mr. David Hoffman, Gabriel Roeder Smith & Company  
Dr. John Shelnett, Dept. of Finance and Administration (*proxy*)  
Mr. Alan Purser, Heitman Real Estate  
Mr. Blaise Keane, Heitman Real Estate  
Mr. Matthew Walley, LaSalle Property Fund  
Mr. Wade Judge, LaSalle Property Fund  
Mr. Jim Garvey, LaSalle Property Fund  
Ms. Jessica Middleton-Kurylo, Bureau of Legislative Research  
Ms. Lindsey Bailey, Association of Arkansas Counties  
Mr. Paul Young, Arkansas Municipal League  
Mr. Mike Knapp, Bureau of Legislative Audit  
Mr. Jody Carreiro, Osborne & Carreiro  
Mr. Brent Cole, Disability Retiree  
Mr. Austin Williamson, Attorney for the ex-Mrs. Cole

**STAFF PRESENT:**

Ms. Michele Williams, APERS Deputy Director  
Mr. Carlos Borromeo, APERS Chief Investment Officer  
Ms. Susan Bowers, APERS Associate Director of Investments  
Ms. Jami Fisher, APERS Accounting Operations Manager  
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, a copy of the Minutes from the meetings of April 30 and May 21, 2014 were mailed to each APERS Board member for review. On a motion made by Ms. Harris and seconded by Mayor Northcutt, the Minutes were approved as presented.

Mr. Gaddy complimented Staff on the Minutes of the last two meetings, noting how complete and accurate they were, despite of the unusually long meetings.

**ANNUAL AFFIRMATION OF BOARD CHAIR AND VICE CHAIR:**

Mr. Weiss motioned to reaffirm Mr. Artee Williams' position as Chair and County Judge Mike Jacobs as Vice-Chair of APERS for another year. He was seconded by Judge Jacobs and the motion carried. Mr. Williams said he appreciated the confidence and support shown by the other board members.

Mr. Weiss continued with a motion to nominate Judge Jacobs to continue on as Vice-Chair for another year. Ms. Wright seconded that motion and it passed.

*(Mr. Weiss left the meeting at this time and was replaced at the table by Dr. Shelnett.)*

**CONSIDERATION OF DRAFT FUNDING POLICY – Presented by Mr. Mita Drazilov and Mr. David Hoffman of Gabriel, Roeder, Smith and Company**

Mr. Drazilov reminded the Trustees that at the May board meeting, the actuaries had discussed the importance of having a Funding Policy. Based upon the feedback from the Board, a draft of the proposed funding policy had been crafted. Once the copies had been distributed, Mr. Drazilov explained it should be reviewed by the Board annually until the next Experience Study (2018) and then reviewed only every five years in conjunction with that report.

Next, Mr. Drazilov detailed the funding objectives covered by the Funding Policy, stressing especially the need to maintain stable employer contributions and provide a reasonable margin for adverse experience to help offset risks. He continued by reviewing the Elements of the Actuarial Funding Policy including the 4-year smoothing process, the 25% "corridor" for recognizing the differences between Funding Value and the Market Value of the assets and finally how the District Judges Old Plan Still Paying would be factored in.

The Funding Policy's most notable difference would be a change in the amortization method used to systematically pay off the UAAL (Unfunded Actuarial Accrued Liability). Each year, changes to the UAAL due to actuarial gains or losses for each annual actuarial valuation or from changes to actuarial assumptions will be amortized over a closed 20-year period. In the event the fund reached 120% funded ratio, all the previous valuations would be zeroed out and the excess would be amortized over a closed 30-year period. Mr. Drazilov also urged the Trustees to adopt a lower Investment Return Assumption, moving from 8.0% to 7.75%.

**PRELIMINARY ACTUARIAL VALUATION FOR FISCAL YEAR 2014 – Presented by Mr. Mita Drazilov and Mr. David Hoffman of Gabriel, Roeder, Smith and Company**

Mr. Hoffman outlined the Preliminary Actuarial Valuation for 2014. He noted that the number of active members was beginning to level off; staying between 45,000 and 46,000 for the past 5 years. The number of annuitants continued to swell as the bulk of the baby-boomers reaches retirement age. Over the past 5 years, this group has grown from 23,065 to 30,112 which figures about 1.5 active employees to every retiree/beneficiary. Annual payouts have more than doubled over the past ten years, growing from \$172.5 million to \$402.8 million.

The preliminary data for calculating the Employer Contribution Rate for Fiscal Year 2015 showed a decrease for the second year in a row, down from 14.88% to 14.5%. Mr. Hoffman continued by detailing the development of the Funding Value of Assets and quickly noted the next three years had excess investment gains to be recognized that would allow for some extra cushion in the system in the event of future poor investment experience.

Currently, APERS uses an annual 8% assumed rate of return with a 4% wage inflation rate. Using an 18-year closed amortization period Mr. Hoffman outlined three scenarios based on various investment returns through 2017 and how they would impact the system's Funded Ratio and the Employer Rate. Then he compared the results to the same set of investment return scenarios using a 23-year closed amortization period with 7.75% assumed rate of interest and 3.75% wage

inflation. The actuaries pointed out that by using the second, more conservative set of rates the system would enjoy enhanced stability should there be less favorable market returns.

There was a short discussion on future interest rates and expected investment returns before Judge Jacobs motioned to adopt the proposed actuarial funding policy, as well as preliminarily adopt the 14.5% Employer Contribution Rate, 7.75% Investment Return Assumption and 3.75% Wage Inflation. He was seconded by Mayor Northcutt and the motion passed. Staff questioned if the 14.5% contribution rate would go into effect immediately for Purchase of Service. Judge Jacobs agreed it should and amended his motion to include that fact. Mayor Northcutt seconded the amended motion and it carried. Ms. Stone stated that the Board Regulation 408 would need to be amended to reflect the Board's decision.

Ms. Stone related how earlier she and Mr. Drazilov had discussed showing employer's their share of the unfunded liabilities on a pro forma basis as will be required next year by GASB 68. The actuaries agreed to share those new unfunded liability numbers for employers in November, but only for some of the largest cities and counties. Ms. Stone pointed out the disjunction in timing might be problematic, since the actuaries would be using numbers from June 30, 2014 and those numbers could not be sent to the employers until they were approved by the legislature in February 2015.

During a short break, while Callan came to the table, Ms. Stone distributed a map of Arkansas that detailed the number of retirees and amount paid out annually (per county) from APERS. She confirmed that the entire state received almost \$420 million during the last fiscal year, with 73 of 75 counties each getting well over a million dollars. Calhoun County, with just 82 retirees and beneficiaries, received over \$693,000. As a strong defined-benefit plan, APERS continues to be a powerful economic engine across the state of Arkansas.

**QUARTERLY REPORT FOR THE PERIOD ENDING JUNE 30, 2014 - Presented by Mr. Ryan Ball and Ms. Brianne Weymouth of Callan Associates, Inc.**

Mr. Ball recapped the investing environment for the broad indices over the second quarter. Of main concern was when the Federal Reserve Bank might begin to raise interest rates again and most agreed it would not happen until after January 2015.

The fund enjoyed a 19.68% return for Fiscal Year 2014; this gave APERS the second highest return in its peer group. Over the past 5 years, the fund has consistently ranked in the top 10% of large (over \$1 billion in assets) public pension funds. Mr. Ball noted that only Oklahoma Teachers Retirement had better returns for the most recently ended fiscal year.

- **CastleArk Energy-** Both the Arkansas Energy Fund and the Global Energy Fund were the top returning managers for the past quarter adding 12.49% and 11.52% respectively. For the past twelve months, those managers returned 37.92% and 30.16% handily outperforming their benchmarks.
- **Stephens-** This manager had a tough job in a challenging and volatile market. Their overweight in technologies hindered them during the last quarter and they returned (0.89). For the past year, this manager grew by 19.33% but still fell short of their benchmark by over 5%.
- **Baillie Gifford-** Stumbled in their first reported quarter. They were hindered by their focus on high-quality stocks (much like Stephens) but Callan expected them to improve in the coming months.
- **AQR-** Returning 9.65 for the quarter and 22.48% for the last year, AQR was one of the portfolio's top performing managers growing their portfolio by over \$10 million.

**MR. BRENT COLE DISABILITY HEARING – Presented by Mr. Jay Wills, APERS Attorney Specialist**

Mr. Wills distributed a copy of the exhibits to the Trustees. He introduced himself and Mr. Cole and stated that this was an appeal from a Staff determination. Mr. Cole's disability was not in question and he'd been approved for his disability in January 2013. APERS allows for a disabled member to work for up to nine months, however they cannot work for an APERS' covered employer. Mr. Cole self-reported that he went back to work for the City of England (an APERS'

covered employer) and under §24-4-511(d)(2) returning to work for such an employer would cause the retiree's service to be immediately restored as if he had not retired under disability and benefit payments will cease. Staff had notified Mr. Cole that he needed to return the \$4967.48 that he collected from APERS in retirement benefits. There was also a QDRO against Mr. Cole's benefits.

Mr. Cole indicated that he worked seven days as a part-time employee of the Police Department for the City of England before realizing he was not able to perform the physical work. For that time, he received \$400 which he reported to APERS. Mr. Cole said he thought that the Social Security income limitations were the only restrictions he had to follow and he apologized for his confusion. He offered to pay back the retirement monies for the month of October (\$1000.63) and in fact, Mr. Cole had already begun repaying the \$4967.48 requested by APERS Staff. Mr. Wills outlined what options were open to the Trustees and which were prohibited by code and by the IRS.

After further discussion on the history of the statutes, Ms. Wright motioned to accept Mr. Cole's proposal to repay his October 2013 disability check to APERS and reinstitute his disabled status, refunding him any additional monies he might have over-paid. She noted that was setting a precedent and any additional claims would have to be settled on a case-by-case basis. Ms. Harris seconded and the motion passed unanimously.

Ms. Harris asked if there was a regulation in place to cover reviewing such determinations on a case-by-case basis and Ms. Stone said there was not. She asked if the Board would like Staff to come back in November with a proposed regulation for the Trustees to review and adopt. It was decided such a regulation was not needed.

#### **CORE REAL ESTATE MANAGER INTERVIEWS**

Mr. Ball discussed finding a second Core Real Estate manager to complement the existing Invesco portfolio. With all the recent interest in this asset class, the "investment entry queue" of the various managers needed to be considered, since some were listed as much as two years out. He noted that APERS was looking to invest \$250 – 280 million with the selected manager.

- **Heitman Real Estate– Presented by Mr. Alan Purser and Mr. Blaise Keane**  
After introductions, Mr. Purser detailed the firm's history and growth, assets under management and sample clients. Mr. Keane detailed their investment strategy and objectives. He noted that Heitman Real Estate has a dedicated allocation to self-storage properties and has up to 20% of the portfolio invested in them. He stated that with a \$250 million mandate, APERS would be earning a substantial discount in annual fees.
- **LaSalle Property Fund – Presented by Mr. Matthew Walley, Mr. Wade Judge and Mr. Jim Garvey**  
The LaSalle Team introduced themselves then reviewed the firm's history, personnel, assets under management, their investment strategy and objectives. Mr. Garvey noted that LaSalle tended to favor medical-related properties over office properties.

*(Judge Jacobs left the meeting at this time.)*

After a short recap of the two managers by Mr. Ball, Mr. Gaddy motioned to hire Heitman Real Estate based on their length of experience and favorable returns. He was seconded by Ms. Wright and the motion carried.

#### **LUNCH BREAK**

#### **SUMMARY OF RETIREES FOR JUNE, JULY & AUGUST 2014 :**

Ms. Stone commented that over 2800 people had retired through APERS this fiscal year (an all-time high) and was constantly moving upwards as the Baby-boomers continued to reach retirement age. APERS paid out over \$400 million in benefits during the last twelve months and still managed to close out the year at a new high-water mark in investment assets.

#### **MEDICAL REVIEW BOARD RECOMMENDATIONS:**

The Medical Review Board met at 10:00 a.m. on Tuesday, August 12, 2014 in the APERS Library to discuss 3 cases: Mr. Jimmy C. Slayden, Mr. Rickey McCarrell and Ms. Kathy P. Webb.

- After review and discussion, the Medical Review Board found that Mr. Slayden, the dependent of the deceased member, Jimmy D. Slayden, continues suffering from an illness or injury and should continue to be deemed a beneficiary of that member.
- After review and discussion, the Medical Review Board found that Mr. McCarrell was suffering from an illness or injury at the time of his termination in July 2012, which subsequently led to the disability determination.
- After review and discussion, the Medical Review Board found that Ms. Webb was suffering from an illness or injury at the time of her termination in July 2007, which subsequently led to the disability determination.

With APERS Board approval, in accordance with ACA 24-4-511(e)(3) benefits for all three (3) members will be effective September 1, 2014.

Mayor Northcutt motioned to accept the recommendation of the Medical Review. He was seconded by Mr. Bill Gaddy. Motion passed.

**PROPOSED 2015 AUDIT SCHEDULE – Presented by Ms. Gail Stone for Ms. Victoria Settles, APERS Internal Auditor**

Since Ms. Settles was out with an injury, Ms. Stone presented the proposed audit for Fiscal Year 2015. She noted that Ms. Settles would present her 2014 findings at the November meeting. A total of fourteen internal audits are planned during this upcoming fiscal year. These audits will include reviews of the following audit areas:

<u><i>Audit Area</i></u>	<u><i>Audit</i></u>
Member Records	<u>Review the processes for member history adjustments</u> Review the process for member history adjustments for AASIS employers
Member Records	Review the process for member history adjustments
Service Purchase	<u>Review the processes of employee service purchases and repayments</u>
Service Purchase	Review the purchases of prior service
Service Purchase	Review the purchases of military service
Service Purchase	Review the partial purchase of service payments
Service Purchase	Review the repayment calculation for refunded contributions
Retirement Contributions	<u>Review employer contributions for compliance and accuracy</u>
Retirement Contributions	Review employer contributions
Retirement Contributions	Review employer compliance to contributions rates
Retirement Contributions	Review employer contributions for AASIS employers
Benefit Accounting	<u>Review the processes for the collection of overpayments</u>
Benefit Accounting	Review the collection process for deceased retiree annuity payments
Benefit Accounting	Review the collection of erroneous annuity payments from deceased member beneficiaries
Benefit Accounting	Review the accounting of retiree overpayments
Benefit Accounting	Review the collection process for overpayment of annuities
Other Support Services	<u>Review agency practices for records retention</u>

After Ms. Stone finished reviewing the proposed audits for 2015, Mr. Gaddy motioned to accept them as suggested. He was seconded by Mr. Goodner and the motion passed.

**FINANCIAL STATEMENTS FOR THE QUARTER ENDING JUNE 30, 2014:**

Ms. Stone announced that at the end of Fiscal Year 2014 the fund stood at an all-time high of \$7.531 billion even after paying out a record \$414.5 million in benefits to retirees and beneficiaries. While the markets had lost ground in July, rough estimates through mid-August showed APERS had recouped more than half of those losses.

**OTHER BUSINESS:**

**Travel Report**

Ms. Stone noted that during her annual NASRA Conference earlier in the month, she had been elected Regional Vice-President and as such, would be on the NASRA Executive Committee representing Arkansas in the national discussions.

Mr. Wills' trip to Nashville and Mr. Davis' trip to New Orleans were briefly reviewed.

**NEXT QUARTERLY BOARD MEETING:**


The next quarterly meeting of the APERS Board of Trustees is scheduled for Wednesday, November 19, 2014 at 9:00 a.m. A special Hearing will be held in September with the date to be announced later.

**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

*(in his absence)*

  
MS. GAIL STONE, EXECUTIVE DIRECTOR