

**ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
MINUTES OF THE MEETING OF THE BOARD OF TRUSTEES
23rd ANNUAL EDUCATIONAL SEMINAR
MONDAY, OCTOBER 15, 2012**

The Board of Trustees of the Arkansas Public Employees Retirement System held its Twenty-third Annual Educational Seminar beginning at 8:30 a.m. and concluding at 5:00 p.m. on Monday, October 15th at The Capital Hotel in Little Rock.

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), *Vice-Chair*, 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
Ms. Carol Bevis, (Other, Non-State Employee), Little Rock, AR
Mr. Wes Goodner, State Treasurer's Office (*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:

Hon. Martha Shoffner (Ex-Officio Member), State Treasurer
Hon. Richard Weiss (Ex-Officio Member), Dept. of Finance and Administration
Hon. Charlie Daniels (Ex-Officio Member), State Auditor

ADDITIONAL VISITORS PRESENT:

Mr. Kevin Dolsen, Callan Associates, Inc.
Mr. Ryan Ball, Callan Associates, Inc.
Mr. Ron Peyton, Callan Associates, Inc.
Mr. Norm Jones, Gabriel Roeder Smith
Mr. Mita Drazilov, Gabriel Roeder Smith
Mr. David Hoffman, Gabriel Roeder Smith
Mr. Gregor Andrade, AQR Capital Management
Mr. David Kupersmith, AQR Capital Management
Mr. Aaron Roberts, Artisan Partners
Ms. Trina Spear, Blackstone Asset Management
Mr. John McCormick, Blackstone Asset Management
Mr. Jon Bangor, BNY Mellon Corp.
Mr. Carlos Pacheco, BNY Mellon Corp.
Mr. Mike Davic, BNY Mellon Corp.
Mr. Mike McDermott, BNY Mellon Corp.
Mr. Jerry Castellini, CastleArk Management
Mr. Ed Clark, CastleArk Management
Mr. Tim Clark, CastleArk Management
Mr. Greg Golden, Golden Capital Management
Mr. Jon Cangalosi, Golden Capital Management
Mr. Ellis Sloan, Horrell Capital Management
Mr. Scott Horrell, Horrell Capital Management
Mr. Christian McCormick, INTECH
Ms. Leanne Smith, INTECH
Ms. Dyice Ellis-Beckham, Invesco
Mr. David Farmer, Invesco Real Estate
Mr. Bill Grubbs, Invesco Real Estate
Mr. Harlan Stanley, LaSalle Investment Management
Mr. Matthew Walley, LaSalle Investment Management
Mr. Anthony Dote, Lazard Asset Management
Mr. Michael Bennett, Lazard Asset Management
Mr. Al Marley, Lombardia Capital Partners
Mr. Andy Absler, Lombardia Capital Partners

Ms. Cindy Emanuel, Lombardia Capital Partners
Mr. Ralph Canada, Lombardia Capital Partners
Mr. Louis Cohen, MacKay Shields
Mr. Stephen Buckley, MacKay Shields
Mr. John Akkerman, MacKay Shields
Mr. Todd Bailey, Mellon Capital Management
Mr. Erik Schonberg, Manning & Napier Advisors, Inc.
Mr. Jeff Coons, Manning & Napier Advisors, Inc.
Ms. Josephine Hart, National Timber Partners
Ms. Jin Hill, Newton Capital Management
Ms. Suzanne Hutchins, Newton Capital Management
Mr. Barry Beers, Pinnacle Forest Investments
Mr. Hank Page, Pinnacle Forest Investments
Mr. Jim Fernandez, Prudential Investment Corporation
Mr. Mike Collins, Prudential Asset Management
Mr. Lance McInerney, Pyramis Global Advisors
Mr. John Black, State Street Global Advisors
Ms. Andrea O'Connell, SSI Investment Management
Mr. Steve Spare, SSI Investment Management
Mr. Michael Opre, SSI Investment Management
Mr. Patrick White, Stephens Investment Management
Mr. Ryan Crane, Stephens Investment Management
Mr. Tom Landry, TA Associates Realty
Mr. Steve Wilde, UBS Global Asset Management
Ms. Katherine Martin, UBS Global Asset Management
Mr. Vince Willyard, UBS Global Asset Management
Mr. Zander Grant, Wellington Management Company
Mr. Ed Baldini, Wellington Management Company
Mr. David Spika, Westwood Management Company
Ms. Kim Calhoun, Westwood Management Company

STAFF PRESENT:

Ms. Michele Williams, Deputy Director, APERS
Mr. Carlos Borromeo, Chief Investment Officer, APERS
Ms. Susan Bowers, Associate Director of Investments, APERS
Mr. Jay Wills, Attorney Specialist, APERS

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 KAAZ. This letter of notification is pursuant to A.C.A. 25-19-101 (Act 93 of 1967) as amended -The Freedom of Information Act.

CONSIDERATION OF CONCLUSION AND TERMINATION OF NTP TIMBER PLUS LIMITED PARTNERSHIP AGREEMENT - Presented by Mr. Jay Wills

Mr. Wills gave a brief history of APERS' relationship with National Timber Partners (NTP). He explained that under the original contract, APERS entered into a limited partnership with NTP, giving them \$100 million for land/timber investments with an eight-year lockup. In return the fund was promised an annual 10% return on that amount. This arrangement worked fine for the first four years, but after the 2008 decline in the real estate market they declined to invest in any additional NTP projects. About a year ago, Staff was advised that NTP was planning on taking impairments of the assets of this limited partnership. As the limited partner, APERS does not actually own the assets directly and Staff has been increasingly concerned due to economic factors NTP was going to default on the original agreement. Over the past 6 months, Staff has been in frank discussions with NTP regarding this issue and prospects of holding them to the original contract were slight. As any problems with the agreement had to be settled in Massachusetts' courts, their home turf, Mr. Wills felt that attempting a lawsuit against NTP under those circumstances would only lead to more losses for APERS in legal fees.

In light of this, it was Staff's conclusion that a termination agreement, payback \$85 million by December 31, 2012, followed by two more payments that will bring the total repaid up to \$110 million by December 31, 2013; the original amount plus 10% simple interest. Mr. Wills opined that while this was less than Staff originally assumed the investment would produce, it would get back

all the funds several years ahead of schedule to be reinvested with other managers. He showed the Board a termination agreement that he had drafted, which stipulated that if the funds were not paid on schedule to APERS, NTP consented to the jurisdiction of the Courts of Arkansas.

After a short discussion, Mr. Goodner motioned for Staff to execute the termination agreement with NTP. He was seconded by Mr. Gaddy and the motion was passed by a unanimous vote.

CONSIDERATION OF APERS BOARD REGULATION 203 REGARDING DISABILITY DETERMINATION - Presented by Mr. Jay Wills

Mr. Wills led the Board through the unusual circumstances of a member who has both railroad retirement and APERS. He noted that in order for someone to be considered permanently disabled by APERS, the case must be approved by the three reviewing APERS doctors or the member must be already approved for disability by Social Security. In this case, the member has retirement through the Railroad Retirement Act, not Social Security. The railroads determine disability under the same standards and regulations as Social Security, however it is mutually exclusive. This member is applying for disability from APERS after already being approved and collecting disability retirement from the railroad.

Mr. Wills continued, stating that Social Security will not issue a statement on someone who is covered by the Railroad Retirement since the railroad has already issued it. This leaves the member's only option to have his case examined by the APERS Disability Board doctors. Mr. Wills commented that this is particularly redundant since the Railroads use the same determination standards as Social Security. He suggest the Trustees take two actions at this time: first, to allow this particular case to accept the RR determination to stand in place of Social Security and second, amend APERS Regulation 203 to make a proviso addressing cases like this in the future. He proposed that any governmental disability finding be accepted in lieu of Social Security's determination.

Judge Jacobs motioned to accept Mr. Wills' suggestions and accept the Railroad Disability determination on the individual in place of Social Security, now and in the future. He was seconded by Mayor Northcutt. The motion carried. Mr. Wills was instructed to prepare an amended version of Regulation 203 for the Board's approval at the November board meeting.

CONSIDERATION OF ADJRS UNFUNDED LIABILITY EMPLOYER RATE FOR FISCAL YEAR 2014 – by Mr. Mita Drazilov, Gabriel Roeder Smith

Mr. Drazilov led the Board through a series of computations and commented this was the first time in a long time he was actually recommending to a Board that they lower the Employer Contribution Rate for district judges to 25.09% (down from 25.30%). This decrease was largely due to lower-than-expected salary increases and individuals delaying their retirement. Under the Old Plan, there are still 59 counties/cities that are still paying off their liabilities. The outstanding liability owed to APERS under that plan is \$968,017 for 2012.

Ms. Wright moved to accept the actuarial suggestion of 25.09% for the Employer Rate for district judges beginning July 1, 2013 and was seconded by Ms. Bevis. Motion was adopted.

WELCOME

Mr. Dolsen greeted all those in attendance and thanked the managers for coming to the 23rd Annual Educational Seminar. Focusing on the future, this seminar would be touching on various topics across several asset classes, however to start off the presentations, Mr. Peyton from Callan would discuss the status of Defined Benefit Plans and the special challenges faced by systems like APERS. Following that, Ms. Ball would discuss the current Asset Allocation and what adjustments Callan might recommend.

The rest of the presentations would be from various APERS' investment managers explaining not only who they are, but also what they do for the retirement system. Callan and APERS staff had organized a representative group of investment managers to participate in roundtable discussions and the APERS Trustees were encouraged to ask questions during these discussions.

- Public Defined Benefit (DB) Pensions – Presented by Mr. Ron Peyton, Callan Assoc.
- Asset Allocation – Presented by the Callan Associates
- Diversified Strategy Panel – Presented by AQR, Blackstone and Newton

LUNCH

EDUCATIONAL SEMINAR CONTINUES

- Domestic Equity Panel – CastleArk, Lombardia and Wellington
- International Equity Panel – Pyramis, Manning & Napier, UBS and Lazard
- Fixed Income Roundtable – Prudential Fixed Income and MacKay Shields

CLOSING REMARKS AND DOW JONES AWARDS BY MR. PAUL TROUP OF CALLAN ASSOCIATES, INC.

Mr. Ball thanked everyone for their participation. Lastly, Mr. Carlos Borrromeo announced the winners of the 2012 Bull and Bear trophies.

Bull: Ms. Cindy Emanuel & Mr. Andy Ablser, Lombardia
Bear: Mr. Aaron Roberts, Artisan Partners

Mr. Borrromeo thanked the attendees as well as the APERS Staff for delivering another successful conference. Then, as there was no further business, he closed the 23rd Annual Educational Seminar.

Mr. Artee Williams, Chair

Ms. Gail Stone, Executive Director