

**ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
MINUTES OF THE MEETING OF THE BOARD OF TRUSTEES
24th ANNUAL EDUCATIONAL SEMINAR
TUESDAY, OCTOBER 22, 2013**

The Board of Trustees of the Arkansas Public Employees Retirement System held its Twenty-fourth Annual Educational Seminar beginning at 8:30 a.m. with a brief Board meeting and concluding at 4:40 p.m. on Tuesday, October 22nd 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. Charles Robinson (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. David Hoffman, Gabriel Roeder Smith
Mr. Mita Drazilov, Gabriel Roeder Smith
Mr. Norm Jones, Gabriel Roeder Smith
Mr. Mike Wickline, *Arkansas Democrat-Gazette*
Mr. Aaron Roberts, Artisan Partners
Mr. David Samra, Artisan Partners
Mr. Gregor Andrade, AQR Capital Management
Mr. William Latimer, AQR Capital Management
Mr. Carlos Pacheco, BNY Mellon Corp.
Mr. Mike Davic, BNY Mellon Corp.
Mr. Mike McDermott, BNY Mellon Corp.
Ms. Larisa Bemko, Baillie Gifford
Ms. Jessie Wilson, Baillie Gifford
Ms. Emily Reycroft, Blackstone Asset Management
Mr. Ryan Thackstone, Blackstone Asset Management
Mr. Jerry Castellini, CastleArk Management
Mr. Ed 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
Mr. David Farmer, Invesco Real Estate
Mr. Bill Grubbs, Invesco Real Estate
Mr. Jim Hutchinson, LaSalle Investment Management
Mr. Matthew Walley, LaSalle Investment Management
Mr. Anthony Dote, Lazard Asset Management

Mr. Rob Failla Lazard Asset Management
Mr. Al Marley, Lombardia Capital Partners
Mr. Andy Absler, Lombardia Capital Partners
Mr. Louis Cohen, MacKay Shields
Mr. Stephen Buckley, MacKay Shields
Mr. Todd Bailey, Mellon Capital Management
Mr. Lex Huberts, Mellon Capital Management

Mr. Erik Schonberg, Manning & Napier Advisors, Inc.
Mr. Marc Tommasi, Manning & Napier Advisors, Inc.
Mr. Jon Ritz, Newton Capital Management
Mr. Paul Brain, Newton Capital Management
Mr. Barry Beers, Pinnacle Forest Investments
Mr. Hank Page, Pinnacle Forest Investments
Mr. Jim Fernandez, Prudential Investment Management
Mr. Mike Collins, Prudential Investment Management
Mr. Jim Sullivan, Prudential Investment Management
M. Sue Curran, Pyramis Global Advisors
Mr. Lance McInerney, Pyramis Global Advisors
Mr. David Settles, State Street Global Advisors
Mr. Chris McNeillie, State Street Global Advisors
Ms. Andrea O'Connell, SSI Investment Management
Mr. Steve Spare, SSI Investment Management
Mr. Florian Eitner, SSI Investment Management
Ms. Wambui Lynch, SSI Investment Management
Mr. Patrick White, Stephens Investment Management
Mr. Ryan Crane, Stephens Investment Management
Ms. Lindsey Madden, Stephens Investment Management
Mr. Tom Landry, TA Associates Realty
Mr. Jim Raisides, TA Associates Realty
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 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 October 22, 2013 were mailed to each APERS Board member for review. On a motion made by Mr. Goodner and seconded by Judge Jacobs, the Minutes were approved as presented.

CONSIDERATION OF THE ADJRS UNFUNDED LIABILITY EMPLOYER RATE FOR FY2014 - Presented by Mr. Mita Drazilov from Gabriel Roeder Smith and Company

Mr. Drazilov gave a brief history of the district judges and why they have been considered a "separately experience-rated division" within APERS since 2007. Currently, there are still 57 employers throughout the state paying off their UAAL (Unfunded Actuarial Accrued Liability) on the "Old Plan" which covers service before 2005. Once these entities have paid off their UAAL, they will move into a cost-sharing arrangement with the "New Plan". The 2013 Valuation shows the calculated employer contribution for those 57 em-

ployers (beginning July 1, 2014) as well as the percentage employer rate for the "New Plan" and the "Paid-off Old Plan".

He explained how those rates were calculated based on demographic and economic assumptions. Mr. Drazilov pointed out that in a closed-plan like the "Still-paying Old Plan" with only 44 members, as the older members died, the younger member's employers would be increasingly on the hook for the remainder of the unpaid liability since this is a closed plan. To rectify this, the actuaries proposed shortening the amortization period on that portion of the plan, so a larger group of the employers can share the payments. He showed how the "Still-paying Old Plan" had a balance of just over \$3.7 million, noting that Russellville and West Memphis had paid off their outstanding liabilities during the last fiscal year and had been moved into the "Paid-off Old Plan" category.

M. Drazilov detailed the Actuarial Value of Assets and how the 4-year smoothing helped keep the plan value stable despite the wildly swinging market rates. Finally, he showed how the Employer Contribution Rate was calculated. Using the method from previous years, it was calculated that the 2014 Employer Contribution Rate would be 23.86% based on 24-year amortization period. Mr. Drazilov stated that it was felt that based on the age distribution of the active membership in this closed plan that the amortization period was too long and recommended shortening it to a closed 15-year period. This would make the suggested Employer Contribution Rate to be 25.82% of payroll, up just slightly from last year's rate of 25.09%.

After a short question and answer period regarding the history of the district judge's retirement plan, Judge Jacobs motioned to adopt the 15-year amortization period with an Employer Contribution Rate for Fiscal Year 2015 of 25.82% (beginning July 1, 2014). Mr. Goodner seconded and the motion was adopted.

CONSIDERATION FOR IMMEDIATE FUNDING OF BAILLIE GIFFORD PER ACT 79 of 2009

Ms. Stone explained that this Act allowed for the immediate funding of Baillie Gifford, as opposed to leaving the money sitting in a passive index fund until January when the Review Committee could approve. Mr. Gaddy motioned to utilize this authority and immediately fund Baillie Gifford. With a second by Ms. Harris, the motion passed.

PEW/ARNOLD FOUNDATION CONFERENCE:

After the APERS Educational Seminar concludes Ms. Stone announced she would be attending a conference in Washington D.D. jointly hosted by the PEW Trust and the Arnold Foundation regarding "sustainable governmental retirement systems". The main thrust of the conference seems to be convincing attendees that Defined Benefit plans were too expensive for taxpayers, destined to eventually fail and should be replaced with Cash Balance plans.

She had recently been on a conference call with about 50 of her colleagues from across the country, some who have already been targeted by this group, and learned that a survey APERS had recently received from Stanford University/Rand Corporation requesting many details of the Trustees, was linked to this movement as well. This onerous survey requested name, age and gender of all Trustees, along with their professional/educational background, with the goal of making one question "How could these people possibly make intelligent investment decisions?" Ms. Stone felt the group's goal was to scare people into thinking that Defined Benefit public funds are not properly designed, inefficient, dangerous and should be converted to Cash Balance plans. This group has been successful in deconstructing retirement systems in Kentucky, Tennessee, Rhode Island, Montana and they have now set their sights on Nevada and Oklahoma. Arkansas was definitely on the group's radar.

ADJOURNMENT:

There being no further business, the meeting was adjourned to begin the Educational Seminar.

BREAK

WELCOME

Mr. Williams welcomed everyone and thanked them for attending 24th Annual APERS Educational Seminar, before turning the microphone over to Mr. Kevin Dolsen from Callan. Mr. Dolsen outlined the format for the day's session and noted that it was focused around Fixed Income. He commented on how difficult it had been lately to earn the actuarial assumed rate with just Fixed Income with its return rates being at an all-time historical low.

The session began with a presentation by Callan Associates entitled, "Anchor to Windward or Albatross – Sea Change in Fixed Income". This presentation discussed the current fixed income environment and major issues facing investors today. Low yields, the potential for rising rates, high fixed income valuations and uncertain political and macro factors were cited as the top issues in today's market. The presentation discussed how low but increasing interest rates have impacted investors and how APERS' fixed income managers have positioned their portfolios. A number of non-core or specialty fixed income strategies were discussed that potentially address some of the current concerns. Specifically, bank loans, emerging market debt, global fixed income and opportunistic strategies were reviewed. Callan discussed the pros and cons of these strategies and how the current fixed income managers use them in their portfolios.

Following the opening presentation, the session featured four different panels. These four panels discussed their views on the current environment as it relates to their particular strategy and asset class portfolio. Current APERS managers were the only participants. These firms gave a brief introduction to their organizations and outlined the history of their relationship with APERS. The questions asked of the panel focused on how the current interest rate environment and global and domestic economic outlook was impacting how they currently invest and are likely to invest going forward for APERS.

Real Assets Panel:

Mr. Jerry Castellini, CastleArk Management, Energy
Mr. Bill Grubbs, INVESCO Core Real Estate
Mr. Jim Hutchinson, La Salle Value Add Real Estate

LUNCH

EDUCATIONAL SEMINAR CONTINUES

International Equity Panel:

Mr. Ed Baldini, Wellington Management
Mr. Ron Failla, Lazard Asset Management
Mr. David Samra, Artisan Partners

Strategist Panel:

Mr. Paul Brain, Newton Capital Management
Mr. Lex Huberts, Mellon Capital Management
Mr. David Spika, Westwood Holdings Group

BREAK

Fixed Income Panel:

Mr. Lou Cohen, MacKay Shields
Mr. Mike Collins, Prudential Investment Management
Mr. Jim Sullivan, Prudential Investment Management

CLOSING REMARKS AND BULL/BEAR AWARD – Presented by Mr. Carlos Borromeo

Mr. Borromeo thanked everyone for their participation at the Annual Educational Seminar and announced that he was dropping the Bull Award due to ridiculously low submissions in an effort to guarantee the Bear Award. This year, there would be only one winner of the 2013 Bull/Bear Award, and that was Mr. Norm Jones from Gabriel Roeder Smith, who was winning it for the third time. Then, as there was no further business, he closed the 24nd Annual Educational Seminar.


Mr. Artee Williams, Chair


Ms. Gail Stone, Executive Director