

**PUBLIC EMPLOYEES RETIREMENT SYSTEM
MINUTES OF THE MEETING OF THE BOARD OF TRUSTEES
29th ANNUAL EDUCATIONAL SEMINAR
TUESDAY, OCTOBER 23, 2018**

The Board of Trustees of the Arkansas Public Employees Retirement System held its twenty-ninth Annual Educational Seminar beginning at 8:30 a.m. and concluding at 4:30 p.m. on Tuesday, October 23rd at The Capital Hotel in Little Rock.

BOARD MEMBERS PRESENT:

Mayor David Morris, (City Employee), *Chair*, Searcy, AR
Judge David Hudson, (County Employee), Fort Smith, AR
Mr. Gary Carnahan, (Other, Non-State Employee), Little Rock, AR
Ms. Candace Franks (State Employee Member), Little Rock, AR
Mr. Steve Faris (Retired State Employee), Little Rock, AR
Mr. Daryl Bassett (State Employee Member), Sherwood, AR (*arrived late*)
Mr. Dennis Milligan, (Ex-Officio Member), State Treasurer
Ms. Gail H. Stone (Executive Director), APERS

BOARD MEMBERS ABSENT:

Mr. Larry Walther, (Ex-Officio Member), *Vice Chair*, DF&A
Hon. Andrea Lea, (Ex-Officio Member), State Auditor

ADDITIONAL VISITORS PRESENT:

Mr. Ryan Ball, Callan Associates, Inc.
Ms. Brianne Weymouth, Callan Associates, Inc.
Mr. Avery Robinson, Callan Associates, Inc.
Mr. David Hoffman, Gabriel Roeder Smith
Ms. Heidi Barry, Gabriel Roeder Smith
Mr. Jason Brady, State Treasurer's Office
Dr. John Shelnett, AR Department of Finance & Administration
Mr. Paul Louthian, AR Department of Finance & Administration
Rep. Doug House, Co-Chair Joint Retirement Committee
Mr. Aaron Kelley, AQR Capital Management
Mr. Aaron Roberts, Artisan Partners
Ms. Julie Skedd, Baillie Gifford
Mr. Fraser Thomson, Baillie Gifford
Ms. Roberta Osborne, Blackstone Group
Mr. Carlos Pacheco, BNY Mellon Corp.
Mr. Mike McDermott, BNY Mellon Corp.
Ms. Nina Caruso, BNY Mellon Corp.
Mr. Jerry Castellini, CastleArk Management
Mr. Kevin Dolsen, CastleArk Management
Ms. Barbara Ziegler, DoubleLine
Mr. Jeff Mayberry, DoubleLine
Mr. Yvette Friberg, Fidelity Institutional Assets Management
Mr. Abhijeet Singh, Fidelity Institutional Assets Management
Ms. Melissa Moesman, Fidelity Institutional Assets Management
Mr. Blaise Keane, Heitman Capital Management
Ms. Anne Westbrook, Heitman Capital Management
Ms. Jennifer May, Heitman Capital Management
Mr. Scott Horrell, Horrell Capital Management
Ms. Kimberly Horrell, Horrell Capital Management
Ms. Leanne Schmitt, INTECH
Mr. Max Swango, Invesco Core Real Estate
Mr. Bill Grubbs, Invesco Core Real Estate
Ms. Sabrina Mickell, Invesco Core Real Estate
Mr. Joe Munoz, LaSalle Investment Management
Mr. Matthew Walley, LaSalle Investment Management
Mr. Anthony Dote, Lazard Asset Management
Mr. Robert Failla, Lazard Asset Management

Mr. Scott Kemper, LSV Asset Management
Mr. Louis Cohen, MacKay Shields
Mr. Steven Buckley, MacKay Shields
Ms. Stephen Cianci, MacKay Shields
Mr. Todd Bailey, Mellon Capital Management
Mr. Benjamin Williams, Newton Capital Management
Ms. Nicole Cifferello, Newton Capital Management
Mr. Steve Mamay, PGIM Fixed Income
Mr. Michael Collins, PGIM Fixed Income
Mr. Barry Beers, Pinnacle Forest Investments
Mr. Hank Page, Pinnacle Forest Investments
Mr. Florian Eitner, SSI Investment Management
Ms. Wambui Lynch, SSI Investment Management
Mr. George Douglas, SSI Investment Management
Mr. Patrick White, Stephens Investment Management
Mr. Ryan Crane, Stephens Investment Management
Mr. Doug Engelman, TA Associates Realty
Mr. James Raisides, TA Associates Realty
Mr. Zander Grant, Wellington Management Company
Mr. Jon Cangalosi, WFAM Golden Capital Management

STAFF PRESENT:

Mr. Jay Wills, APERS Deputy Director
Mr. Carlos Borromeo, APERS Chief Investment Officer
Ms. Usha Doolabh, APERS Investments Manager
Ms. Jessica Middleton, APERS General Counsel
Ms. Linda McGrath, APERS Administrative Specialist

NEWS MEDIA NOTIFIED:

An e-mail 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.

WELCOME – OPENING REMARKS:

Carlos welcomed everyone before turning the floor over to Chair Morris. After greeting all the new attendees, Mayor Morris announced his retirement from politics at the end of the year. He stated that this annual Educational Seminar was one of the more rewarding benefits of the position and stressed the importance of safeguarding members' benefits. Finally, he introduced the attending Board Members and APERS Staff to the attending managers.

Ms. Stone distributed a handout to Trustees and explained the main purpose of the annual program was to educate and fulfill the educational requirement for Trustees. She introduced pension attorney Bob Clausner who would speak about Fiduciary Duty.

GUEST SPEAKER – MR. BOB CLAUSNER:

Mr. Clausner opened his lecture by relating how his first job as an attorney was suing the City of Miami (his employer) for raiding the City Pension Fund for sewer repairs. He used this example to highlight the importance of the Exclusive Duty of Loyalty and how a Trustee "cannot serve two masters". Board's job is to set policy and leave managing Staff to the Director.

Mr. Clausner discussed Prudent Investor Rule for Highest and Best Return. He noted that DB members have a contract with the fund and reminded everyone that 65% of member's check comes from Investments, while the other 35% was evenly split between Employer contributions and Member contributions. Mr. Clausner finished his presentation discussing Social and Environmental Investing, Sovereign Immunity and Plan Design before opening the floor for questions and answers.

BREAK

ACTUARY 101:

- Mr. David Hoffman, GRS Consulting
- Ms. Heidi Barry, GRS Consulting

Mr. Hoffman and Ms. Barry gave a broad overview of the Actuary's role in a retirement system. Beginning with the difference between Defined Benefit (DB) plans and Defined Contribution (DC) plans, the actuaries reviewed the mathematics involved in the basic retirement funding equation:

$$C + I = B + E$$

(Contributions + Investments = Benefits + Expenses)

Continuing on, they explained Actuarial Assumptions, Employer Normal Costs, Funded Ratios, and Experience Studies. Mr. Hoffman explained how to understand the Annual Actuarial Valuation Report. He stated that on June 30, 2018, APERS was 79% funded. Looking forward, he noted there were still investment gains to be recognized, but cautioned that Employer Rates could exceed 15% in the future, if the assumed investment return rate was not met.

LUNCH BREAK

CONSULTANT 101:

- Ms. Brianne Weymouth, Callan Associates
- Mr. Ryan Ball, Callan Associates
- Mr. Avery Ryan, Real Estate Specialist

The representatives from Callan discussed the lessons learned from past financial crisis. By reviewing Black Monday in 1987, Tech Bubble in 2000 and the Real Estate Crisis of 2008. Mr. Ball stressed the importance of the Fiduciary Process and urged the Trustees to "understand your investments" and "stay disciplined".

When asked, "What can Trustees do now?" he replied Accept the results, revise expectations, and continue to search for hidden nuggets in the capital markets. Mr. Ball stated that Callan planned a discussion at the November meeting which included Reviewing the Investment Policy. The Asset Allocation is reviewed every 5 years.

Finally, they explained how the Callan Search is run. Mr. Avery discussed the market cycles in Real Estate and the various components in that sector. APERS currently has 11.5 % in this mandate. The Real Assets Allocation permits up to 16%.

INVESTMENT MANAGER ROUNDTABLE:

- Mr. Jerry Castellini, CastleArk Management
- Mr. Robert Failla, Lazard Asset Management
- Mr. Michael Collins, PGIM
- Mr. Lou Cohen, MacKay Shields

Why are Equities all over the map right now?

What sort of returns to you predict in the next 10 years?

Where do interest rates go from here (3%)?

What will happen over the next 12 months?

Is it harder to find investments with the decline of publically traded companies?

CLOSING REMARKS & BULL/BEAR AWARD – Presented by Mr. Carlos Borrromeo

Mr. Borrromeo thanked everyone for participating at the Annual Educational Seminar and announced the 2018 Bull/Bear Award would go to Greg Golden from Golden Capital. He guessed the Dow would close at 24,340 on June 30, 2018. The actual number was 24,271.41.

Then, as there was no further business, he closed the 28th Annual Educational Seminar.



Mayor David Morris, Chair



Ms. Gail Stone, Executive Director