

**Quarterly Meeting  
Arkansas Public Employees' Retirement System  
Board of Trustees  
May 17, 2023**

A regular meeting of the Board of Trustees of the Arkansas Public Employees' Retirement System was held on Wednesday, May 17, 2023, at 9:00 a.m. This hybrid meeting was held via ZOOM remote conferencing as well as in person in the Conference room, 124 West Capitol, Little Rock, Arkansas. Ms. Candace Franks presided.

**QUORUM PRESENT:**

Ms. Candace Franks recognized the presence of a quorum and called the meeting to order.

**BOARD MEMBERS PRESENT:**

Ms. Candace Franks, (State Employee, Retired). Chair, Little Rock, AR  
Mr. Alan McVey DFA for Mr. Larry Walther's *proxy*  
Mr. Dale Douthit, (State Employee), Russellville, AR\*  
Judge Barry Moehring (Non-State Employee, County Judge), Bentonville, AR  
Mr. Gary Carnahan (Non-State Employee), Hot Springs, AR  
Mr. Joe Hurst (Non-State Employee, Mayor), Van Buren, AR\*  
Mr. Daryl Bassett (State Employee), Sherwood, AR  
Ms. Kaye Donham, (Retired), Benton, AR\*  
Mr. Gary Wallace (Retired Law Enforcement), Greenbrier, AR  
Mr. Russell White (Retired Law Enforcement), Alma, AR  
Mr. Jason Brady, (State Auditor's Office) *proxy*  
Ms. Amy Fetcher, APERS Executive Director

**BOARD MEMBERS ABSENT:**

Mr. Richard Wilson (Retired), Little Rock, AR  
Hon. Mark Lowery, State Treasurer

**VISITORS PRESENT:**

Mike Wickline, Arkansas Democrat-Gazette  
Mr. Mita Drazilov, GRS  
Ms. Heidi Berry, GRS  
Mr. John Shellnut, DFA  
Gary Robertson, Callan LLC\*  
John Jackson, Callan LLC  
Brienne Weymouth, Callan LLC  
Michael Knapp, Arkansas Legislative Audit\*  
Melissa Cahill\* HarbourVest Partners\*  
Seth Middleton\*  
Chris Villines AR Assoc. of Counties\*

Douglas Appell\*  
Randy Martin\*  
Unidentified User\*

**APERS STAFF PRESENT:**

Ms. Allison Woods, Deputy Director of Benefits  
Ms. Laura Gilson, General Counsel  
Mr. Richmond Giles, Staff Attorney  
Ms. Patty Shipp, Assurance Officer  
Mr. Carlos Borromeo, Deputy Director of Investments & Finance  
Ms. Usha Doolabh, Investments Manager  
Ms. Jennifer Taylor, Director of Benefits Administration  
Ms. Cheryl Wilburn, Benefits Operations Manager\*  
Mr. Jason Willett, Chief Financial Officer  
Mr. Phillip Norton, Director of IT  
Mr. Daryl Bussell, IT  
Mr. Jon Aucoin Retirement Section Manager\*  
Ms. Shelly George, Retirement Coordinator\*  
Ms. Jacobia Bates, Manager of Education Services  
Ms. Linda McGrath, Librarian and Archivist\*  
Ms. Stacey Roche, Administrative Specialist

\*Remote Attendees

**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, and Radio Station KAAY. This notification is pursuant to A.C.A. §25-19-101 (Act 93 of 1967) As amended, *a.k.a.* the Arkansas Freedom of Information Act.

**MINUTES:**

Prior to the Board meeting, a copy of the minutes from the February 15, 2023, meetings was e-mailed to each APERS Board member for review. Mr. Bassett made a motion to accept the minutes as they were presented. Mr. Carnahan seconded the motion. With no objection, the motion passed.

**INVESTMENTS:**

**CIO Report – Presented by Carlos Borromeo, Deputy Director of Investments & Finance**

Mr. Borromeo gave his CIO Report for the first quarter of 2023. He summed up the first quarter with "March did not come in like a lion and go out like a lamb. March came in like a bear and went out like a bull." Two of the four largest bank failures in the history of the U.S.A. occurred in March. The failures of the Silicon Valley Bank and Signature Bank, the run on First Republic

Bank (bankrupt in April 2023), and the near collapse of Credit Suisse, all in rapid succession, had the markets down.

What could have turned into a systemic meltdown of the U.S. financial and banking system and the financial markets were circumvented by the Federal Reserve, the Treasury Department, the FDIC, five foreign central banks, and a handful of other large banks. There are still more banks that face trouble.

Cash portfolios started to beat 60/40 for the first time since 2001. Cash is now a performing asset class. Stock returns were influenced by falling interest rates. Stocks with the greatest sensitivity to interest rate changes benefitted.

**REPORT FOR THE PERIOD ENDING MARCH 31, 2023-Presented by Brianne Weymouth and John Jackson from Callan LLC and Carlos Borrromeo, APERS CIO.**

Looking at Callan Stock information, Mr. Borrromeo showed the board that Communication Services were up 20.5%, and Consumer Discretionary were up 16.1%, Consumer Staples were up .8%, Energy was down 4.7%, Financials were down 5.6%, Health Care was down 4.3%, Industrials were up 3.5%, Information Technology was up 21.8%, Materials were up 4.3% Real Estate was up 1.9%, and Utilities were down 3.2%.

Ms. Weymouth told the board that the APERS Investment Policy states that rebalancing to the target asset allocation should take place when the actual asset allocation falls outside of a +/- 5% range from the target asset allocation. All asset classes are within their allowable ranges. She said that Domestic Equity underperformed the benchmark in the first quarter and over the last five-year period. International Equity outperformed the benchmark in the first quarter and leads its benchmark over a longer time period.

Diversified Strategies underperformed the target return Looking at Callan Stock information, Mr. Borrromeo showed the board that Communication Services were up in the first quarter and trails the target over longer time periods. Domestic Fixed Income outperformed the benchmark in the first quarter and leads the index over longer trailing time periods due to its Core Plus orientation. Real Assets underperformed the benchmark in the first quarter but have outperformed over longer periods.

Ms. Weymouth explained to the board that Intech has steadily shown poor performance for the past five years plus the fact that they have had organizational changes. Callan would like to do a search to look for alternative large-cap managers for the portfolio. She said that they would need to get an ok from the board to go forward with the search to replace Intech.

Mr. Bassett said he has not been pleased with Intech's performance and asked Mr. Borrromeo his thoughts. He said that he is aware of the problem.

Mr. Brady made a motion to terminate the relationship with Intech and liquidate our funds with Intech and begin a search for a replacement for Intech and benchmark those funds until we find a replacement. Mr. Bassett seconded the motion. With no objection, the motion passed.

## PRIVATE EQUITY

Mr. Gary Robertson via ZOOM call went over Private Equity Commitment Pacing Requirements and Pacing Analysis.

Mr. Carnahan asked where the 5% Private Equity money would come from. Callan representatives explained that the money would gradually come from a cash set aside account. The target is to invest 5% of APERS' portfolio. Money will come in and out of the 5% but we will not take out more than the original allocation unless at some point the board decides to add more money.

Mr. Bassett told the board that we cannot just jump into private equity. This must be done strategically. We don't need to stick to just primary, but a significant amount should be secondary with a split of maybe 75/25, 60/40, or 50/50 to hedge ourselves against the whims of the market.

Mr. Brady asked Mr. Borromeo about the timing. Mr. Borromeo told the board the best timing for committing would be in 2023 or early 2024.

Mr. Brady asked APERS Executive Director, Ms. Fecher, about the process.

Ms. Fecher said that after discussing the 5% commitment at the last board meeting and Callan performing a pacing study, that we should move toward selecting a consultant. She added that she wanted to clarify manager versus consultant. A consultant would work with APERS on Private Equity like Callan has worked with us on the entire portfolio to date.

Director Fecher reported meeting with the Director of the Office of State Procurement, Mr. Ed Armstrong, to see what our options are for procuring a consultant. According to statute procurements on investment-related items is exempt from the regular procurement methods.

There are two paths:

- 1) The board could decide on a consultant, pass a resolution, and hire them.
- 2) The board could choose to issue a Request for Qualifications (RFQ). RFQs are not subject to just price. They simply evaluate qualifications.

Director Fecher indicated there are pros and cons to both. The RFQ is a longer process but has more transparency.

Mr. Brady commented that he feels strongly that this board needs a consultant to help us eventually find fund managers. It is also important not only for the legal liability of the board. His first instinct would be that we go with an RFQ because it is an extremely transparent process.

Mr. Bassett said that he agreed with being cautious with selecting a consultant. He said he liked the idea of going with an RFQ. The selection of a manager is critical.

Ms. Fecher asked if the board would like the Investment and Finance Subcommittee to review the RFQs and make recommendations to the full board.

Mr. Bassett made a motion that the board instructs the staff to issue an expedited RFQ to select a consultant. Judge Moehring seconded the motion. With no objection the motion passed.

Mr. Brady made a motion to leave it to the discretion of the chair to decide, depending on the number of applicants, whether we use the Finance Sub-Committee or the Board to look over the RFQs sent to us. Mr. McVey seconded the motion. With no objection the motion passed.

## **FINANCE**

### **Actuarial**

Mr. Mita Drazilov and Ms. Heidi Barry, GRS went over the Five-Year Experience Study from July 1, 2017, through June 30, 2022.

The analysis seemed to indicate that people with higher retirement benefit levels seem to live longer. Fewer retirements were observed over the period than anticipated by the actuarial assumptions resulting in an actuarial gain. There were fewer disabilities than expected; however, 291 members' benefit types changed from deferred status to disability during the experience period. No change was recommended.

Based upon the results of the study they believe that the current investment return assumption of 7.15% is an option but given that capital market expectations in the next five years could revert back to expectation levels seen in calendar years 2019-2022. They believe the Board should consider lowering the investment return assumption. They presented 7.00% and 6.75% as investment return assumptions for the Board's consideration.

Mr. Brady made a motion to table the issue of changing the investment return assumption and amortization rate until the next special or regular meeting. Judge Moehring seconded the motion. With no objection, the motion passed.

### **Financial Statements for the Quarter ending March 31, 2023**

Mr. Willett went over the Financial Report for the Third Quarter of 2023. The balance at the end of the Quarter ending March 31, 2023, was \$10,080,159,874. Investments were the big change with numbers better this quarter than last year's. We still have ground to make up considering previous years. Employee contributions are up because of the increase to 5.25% last July and will go to 5.5% this July. While the employer rates did not go up, the amount was larger with salary increases. The increase in investments is driving the numbers up on our financial statements.

### **Internal Audit- Patty Shipp- Assurance Officer**

Director Fecher introduced Ms. Shipp saying she has been with APERS for six months. We had a vacancy in the internal auditor position when she was hired, and her vision was to expand the role of what an internal auditor does. Patti will serve as an internal auditor; however, she will have an expanded role to consider agency processes and looking to find ways to implement efficiencies in the agency.

Ms. Shipp provided a copy of a staff survey conducted on March 1, 2023, through March 23, 2023, on culture and the work environment. The goal was to measure what the culture is at this

time at APERS. It was an anonymous survey. The results were shared with all employees, and she review the information with the board.

Some outcomes of the survey that would be implemented included better communication across the agency and training for management and all staff.

Judge Moehring commented that he appreciates that this was done. It gives us a baseline and a path to work on improvements. He felt the survey showed good results.

### **Summary of Retirees for the Quarter Ending March 31, 2023**

Ms. Allison Woods, Deputy Director of Benefits, went over the numbers of new DROP participants, new retirees, and termination refunds. She stated that the ratio of Active to Retired is about even.

She mentioned that APERS has had six new employers join this past quarter.

### **Executive Director Reports**

Director Amy Fecher reviewed the Class Action Settlement Proceeds for 2023 of \$300,123.77.

She also discussed the Legislative Joint Auditing Committee's Annual Financial Report for June 30, 2022, for APERS. We also received an audit of the entire system. We had no findings on the financial audit. On the full audit, we had findings on overpayments which were in the board packet for review.

She discussed the 2023 legislative session. The APERS legislative package approved by the board passed. This included technical corrections and survivor benefits. The biggest issue the staff followed during the session was bills that focused on investments based on Environmental, Social, and Governance (ESG) principles. Some bills were passed during the session and staff is monitoring how they will be implemented.

The legislation that required a special meeting regarding Sheriff's benefits was pulled and recommended for an interim study proposal.

Ms. Fecher mentioned the annual report that each trustee should have. She praised the work that the staff had done to complete this task.

She mentioned mileage reimbursement for those that live an appropriate distance to travel to meetings should get with the CFO.

She discussed that the executive director is also the Social Security Administrator for the State of Arkansas which administers all the section 218 agreements of the Social Security Act to enroll or amend public entities in the plan. She expressed a desire to attend a training for all state Social Security Administrators on the same week as our next quarterly board meeting which would require moving the date of the next board meeting if it is the will of the board.

Mr. Brady made a motion for Ms. Fecher to attend the training and find an alternate date for the quarterly board meeting. Mr. McVey seconded the motion. With no objection, the motion carried.

**Legal Report**

Laura Gilson informed the board that there are no active securities litigation cases with APERS as the lead plaintiff.

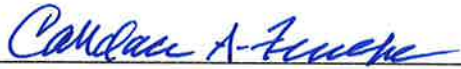
She addressed the need to promulgate rules following the legislative session to address changes in the law which requires a vote of the board to proceed.

Mr. Bassett made a motion to allow the APERS legal staff to go forward with rule promulgation.

Mr. Carnahan seconded the motion. With no objection, the motion passed.

**ADJOURNMENT**

There being no further business, the meeting was adjourned.



Ms. Candace Franks, Chair



Ms. Amy Fecher, APERS Executive Director