

**MINUTES OF THE QUARTERLY MEETING OF THE BOARD OF TRUSTEES
ARKANSAS PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FEBRUARY 16, 2022**

A regular meeting of the Board of Trustees of the Arkansas Public Employees' Retirement System was held on Wednesday, February 16, 2022 at 9:00 a.m., via ZOOM remote conferencing due to the COVID-19 crisis. Since Ms. Candace Franks was unavailable, Mr. Larry Walther presided.

QUORUM PRESENT:

Mr. Walther recognized the presence of a quorum.

BOARD MEMBERS PRESENT:

Mr. Larry Walther (Ex-Officio), Vice Chair, Department of Finance and Admin
Mr. David Hudson (Non-State Employee, County Judge), Fort Smith, AR
Mr. Gary Carnahan (Non-State Employee), Hot Springs, AR
Mr. Dale Douthit, (State Employee), Russellville, AR
Mr. Daryl Bassett (State Employee), Sherwood, AR
Mr. Joe Hurst, (Non-State Employee, Mayor), Van Buren, AR
Ms. Kaye Donham, (Retired), Benton, AR
Mr. Richard Wilson (Retired), Little Rock, AR
Mr. Gary Wallace (Retired Law Enforcement), Greenbrier, AR
Mr. Russell White (Retired Law Enforcement), Alma, AR
Mr. Jason Brady (State Treasurer's Office) *proxy*
Hon. Andrea Lea (Ex-Officio), State Auditor
Mr. Duncan Baird (Executive Director), APERS Executive Director

BOARD MEMBERS ABSENT:

Hon. Dennis Milligan, (Ex-Officio), State Treasurer
Ms. Candace Franks, (State Employee, Retired), Chair, Little Rock, AR

VISITORS PRESENT:

Ms. Brianne Weymouth, Callan LLC
Mr. John Jackson, Callan LLC
Mr. Avery Robinson, Callan LLC
Ms. Heidi Barry, GRS
Mr. Paul Louthian, DF&A
Mr. Chip Lippman, Carlyle Property Investors Fund
Mr. Chris Fogle, Carlyle Property Investors Fund
Mr. Roman Bas, Carlyle Property Investors Fund
Mr. Todd White, Principal Enhanced Property Fund
Mr. Mark Scholz, Principal Enhanced Property Fund
Mr. Brent Heemskerck, Principal Enhanced Property Fund
Ms. Becky Blaaid, Principal Enhanced Property Fund
Mr. Bill Grayson, Principal Enhanced Property Fund
Mr. David Confer, Clarion Lion Industrial Trust
Mr. John Killian, Clarion Lion Industrial Trust
Mr. Evans Anderson, Clarion Lion Industrial Trust
Mr. John Turek, Clarion Lion Industrial Trust
Ms. Barbara Brown, Governor's Office
Rep. Cindy Crawford, AR House of Representatives
Mr. John Bridges, ASEA
Ms. Cindy Frizzell, AR Municipal League
Ms. Aifric O'Raghallaigh, KBI Global Investors
Mr. John Balaod, Pageant Media
Ms. Lauren Albanese, FIN News
Mr. David Orsborn, Boone County Probation
Ms. Zona Maness, Retired
Mr. Lee Roy Brewer, Retired ATRS

STAFF PRESENT:

Ms. Allison Woods, APERS Deputy Director
Ms. Laura Gilson, APERS Chief Legal Counsel
Mr. Carlos Borromeo, APERS Chief Investment Officer
Ms. Usha Doolabh, APERS Investments Manager
Ms. Jennifer Taylor, APERS Director of Benefits Administration
Ms. Cheryl Wilburn, APERS Retirement Section Manager
Ms. Abbi Bruno, APERS Director of Operations
Mr. Jason Willett, APERS Chief Financial Officer
Mr. Craig Blackard, APERS Accounting Coordinator
Mr. Phillip Norton, APERS Director of IT
Mr. John Owens, APERS Internal Auditor
Mr. Jon Aucoin, APERS Retirement Section Manager
Ms. Shelly George, APERS Retirement Coordinator
Mr. Stefan Melikian, APERS Retirement Coordinator
Ms. Kristi Brown, APERS Retirement Coordinator
Ms. Phyllis Franklin, APERS Retirement Coordinator
Ms. Jacobia Bates, APERS Manager of Education Services
Ms. Linda McGrath, APERS Administrative Specialist

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, Radio Station KARN, and Radio Station KAAZ. This 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 November 17, 2021 and February 2, 2022 meetings were e-mailed to each APERS Board member for review.

Mr. Bassett motioned to accept the November Minutes as they presented and was seconded by Mr. Carnahan. Motion carried.

Mr. Bassett motioned to approve the February 2, 2022 Minutes. Mr. Carnahan seconded and motioned passed.

INVESTMENTS

QUARTERLY INVESTMENT REPORT FOR THE PERIOD ENDING DEC. 31, 2021- Presented by Ms. Brianne Weymouth and Mr. John Jackson of Callan LLC

Mr. Jackson gave an overview of the capital markets for the last quarter of Calendar Year 2021. Concerns over the new Omicron variant, continued supply chain disruptions and renewed fears of persistent inflation pushed investors into the perceived safety of the largest stocks. The S&P 500 returned 11% for the quarter, while the Russell 1000 Growth grew by 11.6%. Emerging Markets struggled relative to developed markets as China (-6.1%) experienced significant pressure from economic slowdown and its regulatory crackdown. Fixed Income was relatively flat with High Yield being the best performer. Real Estate continues to turn in a strong performance with the index up 7.4% for the quarter

Ms. Weymouth detailed the portfolio's performance. As of December 31, 2021, the Fund had a Market Value of just over \$12 billion (a new all-time high). The portfolio was recently rebalanced so was close to its Target Allocation except in Real Assets, where it is still under-weight 4%. This should be corrected after the RE manager interviews today. Over the past 12 months the portfolio grew by 15.8%, strongly outperforming its benchmark of 14.03%. For the quarter, APERS' portfolio grew by 4.99%; slightly above their benchmark. The Fund remains in the top quartile of its peers in all trailing time periods for the last 15 years.

Mr. Bassett questioned Lazard's subpar returns and Ms. Weymouth agreed she had concerns and said Callan and Staff would be keeping a close eye on them over the next few quarters and report back at the next several board meetings.

Mr. Walther inquired about short term investment plans, based on geo-political happenings, especially the energy portfolio. Ms. Weymouth strongly suggested leaving managers in charge of tactical short-term allocations. AQR and Newton both have "go anywhere" strategies and they can do tactical, short-term energy investments.

Ms. Weymouth then reviewed a couple of investment manager organizational developments. INTECH announced in early February that they will be buying back 100% of the organization from Janus Henderson. They will continue to use Janus Henderson for certain aspects of their business and created two-year contracts to ensure these services continue smoothly.

ADMINISTRATIVE

SUMMARY OF RETIREES FOR THE QUARTER ENDING DECEMBER 31, 2021:

Mr. Baird read from his report noting that APERS had 215 members who retired in October, 168 in November and 182 more retirees in December, for a total of 565 new retirees over the last three months of 2021. This brought the total number of retirees and beneficiaries receiving monthly checks from APERS to 37,871. About 2/3 of the new retirees are non-contributory members; there are only about 7,000 active members that are non-contributory.

FINANCIAL STATEMENTS FOR THE QUARTER ENDING DECEMBER 31, 2021:

Mr. Baird noted that the fund had gained roughly half a billion since September 30th. APERS' total assets as of December 31, 2021, were over \$12.3 billion. Over the last fiscal year, there was an increase of roughly \$1.6 million in Employer Contributions and a 5% increase in Employee Contributions. During the first half of the fiscal year, APERS paid out over \$318 million in benefit payments, an increase of about \$16 million over this time last year.

Set DROP Interest Rate for Fiscal Year 2022:

Mr. Baird distributed a graph showing the 10-year history of the interest rate associated with a 10-year Treasury yields. Currently, this investment has a just over 2% annual return. Staff recommends maintaining the current Interest Rate on DROP accounts at 2.0%. Mr. Brady motioned to continue the rate at 2.0% for FY 2023. He was seconded by Mr. Bassett. Motion carried.

Annual Approval for Board Travel Reimbursements

Mr. Baird reminded the board that this was an annual requirement to approve travel reimbursement rates for Trustees performing official Board duties at the first meeting of each calendar year. APERS normally mirrors the rates set by DF&A that currently uses a rate of 42 cents per mile. Mr. Bassett motioned to approve reimbursement for travel under the state's guidelines. Mr. Brady seconded the motion and it passed.

LEGAL

Litigation Update – Ms. Laura Gilson, APERS Chief Legal Counsel

A copy of the February 16, 2022, Litigation Report was included in the Board materials. In reviewing the report before the Board, Ms. Gilson noted:

There was still an open appeal from Mr. David Shelton, which was presented to the Board February 2, 2022. The matter was adjourned by the board while the member and Staff evaluate the new information presented that day.

Bolden v. APERS case was appealed to Pulaski County Circuit Court to Judge Herbert Wright in late 2020. On March 11, 2021, the Court upheld the decision of the Board. Bolding appealed April 5, 2021, to the Court of Appeals. Both APERS and Bolding have filed briefs and are awaiting the decision of the court.

Regarding APERS securities litigation cases, Ms. Gilson stated that there were still two active cases, but nothing had changed since the last report.

- 1) Lobstein, pro se. APERS is not lead plaintiff. There have been no changes since APERS August Board meeting.
- 2) Bristol-Myers Squibb. This case was dismissed and APERS has filed an appeal.

<BREAK>

CORE PLUS REAL ESTATE MANAGER INTERVIEWS - Presented by Mr. Avery Robinson of Callan LLC

Mr. Baird and Mr. Robinson reviewed the steps the Trustees had been through to get to this point in APERS Asset Allocation and gave a brief overview of the three presenting Real Estate managers vying for the proposed \$250 million mandate.

Carlyle Property Investors Fund - Presented by Mr. Chip Lippman, USRE Partner & Director
Mr. Chris Fogle, USRE Partner
Mr. Roman Bas, Investor Relations Managing Director

Principal Enhanced Property Fund - Presented by Mr. Todd White, Man. Director - Portfolios
Mr. Mark Scholz, Portfolio Manager
Mr. Brent Heemskerck, Portfolio Manager
Ms. Becky Blaalid, Analyst
Mr. Bill Grayson, Managing Director

Clarion Lion Industrial Trust – Presented by Mr. David Confer, Managing Director
Mr. John Killian, Managing Director, CFO
Mr. Evans Anderson, Managing Director, Client Cap. Mgmt.

The managers discussed their firm’s history and management teams. They detailed their research, sector exposure, fund construction, and average occupancy/returns. Finally, fees and investment strategies were discussed. The managers fielded a variety of questions from Trustees. Mr. Robinson wrapped up the interviews, summarizing the presentations. He proposed splitting the allocation, since the managers were very complimentary to each other. Mr. Baird offered that APERS could split the mandate and hire two or all three candidates.

Mr. Brady motioned to split the mandate between the three presenters giving them \$83 million each. Second by Mr. Bassett. After a short discussion, Mr. Brady amended his motion to give each manager \$85 million, Mr. Bassett seconded the amendment and the motion passed.

NEXT QUARTERLY BOARD MEETING:

The next quarterly Board Meeting is scheduled for Wednesday, May 18, 2022 at 9:00 a.m.

ADJOURNMENT:

There being no further business, the meeting was adjourned.



Ms. Candace Franks, Chair



Ms. Allison Woods, APERS Interim Director