

**MINUTES OF THE QUARTERLY MEETING OF THE BOARD OF TRUSTEES
ARKANSAS PUBLIC EMPLOYEES' RETIREMENT SYSTEM
MAY 19, 2021**

A regular meeting of the Board of Trustees of the Arkansas Public Employees' Retirement System was held on Wednesday, May 19, 2021 at 9:00 a.m., via ZOOM remote conferencing due to the COVID-19 crisis. In Ms. Candace Franks absence, Mr. Larry Walther presided.

QUORUM PRESENT:

Mr. Walther recognized the presence of a quorum.

BOARD MEMBERS PRESENT:

Mr. Larry Walther (Ex-Officio Member), Vice Chair, Department of Finance and Admin
Mr. David Hudson (County Employee), Fort Smith, AR
Mr. Gary Carnahan (Other, Non-State Employee), Hot Springs, AR
Mr. Dale Douthit, (State Employee), Russellville, AR
Mr. Joe Hurst, (City Employee), Van Buren, AR
Mr. Daryl Bassett (State Employee Member), Sherwood, AR
Mr. Jason Brady (State Treasurer's Office) *proxy*
Hon. Andrea Lea (Ex-Officio Member), State Auditor
Mr. Duncan Baird (Executive Director), APERS Executive Director

BOARD MEMBERS ABSENT:

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

VISITORS PRESENT:

Ms. Brianne Weymouth, Callan LLC
Mr. John Jackson, Callan LLC
Mr. Avery Robinson, Callan LLC
Mr. Ethan Bing, Starwood Capital Group
Mr. Khalif Edwards, Starwood Capital Group
Ms. Melissa Brown, Harrison Street RE Partners
Mr. Robert Cook, Harrison Street RE Partners
Mr. John Bridges, ASEA
Ms. Shauna Carpenter, ASEA
Mr. James Abson, ASEA
Mr. Jack Critcher, Arkansas Municipal League
Mr. Chris Villines, Association of Arkansas Counties
Mr. Paul Louthian, Department of Finance and Admin.
Dr. John Shelnett, Department of Finance and Admin.
Mr. Clint Rhoden, AR Teacher Retirement
Mr. Randy Martin, ASU
Mr. Mike Knapp, Bureau of Legislative Audit
Ms. Faye Wilson, DHS
Mr. Loysl Crawford, DHS Retiree
Mr. Michael Keener, State Fire Department
Ms. Tricia Larson, Paschall Strategic
Ms. Camie Boggess DBH Management
Ms. Wambui Lynch, SSI Investment Management
Mr. Aifric ORaghallaigh, KBI Global Investors Ltd
Mr. Sam Weiss, Fiera Capital
Mr. Colton Dwyer, Eaton Vance
Mr. Cyril Espanol, Pageant Media
Ms. Lauren Albanese, FIN News
Mr. Benjamin Sherry, Mandate Wire
Mr. Mike Wickline, Arkansas Democrat-Gazette
Ms. Lee Ann Dietz, LAD Consulting
Ms. Bonni Hayes, SSA
Ms. Zona Maness, Retired
12 Unidentified Attendees

STAFF PRESENT:

Ms. Allison Woods, APERS Deputy Director
Mr. Carlos Borromeo, APERS Chief Investment Officer
Ms. Usha Doolabh, APERS Investments Manager
Ms. Laura Gilson, APERS Chief Legal Counsel
Ms. Abbi Bruno, APERS Director of Operations
Mr. Phillip Norton, APERS Director of IT
Mr. Jon Aucoin, APERS Retirement Section Manager
Ms. Jennifer Taylor, APERS Director of Benefits Administration
Mr. John Owens, APERS Internal Auditor
Mr. Jason Willett, APERS Chief Financial Officer
Ms. Cheryl Wilburn, APERS Retirement Section Manager
Ms. Nina Gettinger, APERS Retirement Coordinator
Mr. Craig Blackard, APERS Accounting Coordinator
Ms. Jacobia Bates, APERS Retirement Section Manager
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 KAAY. 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 February 17, 2021 meeting were e-mailed to each APERS Board member for review. Mr. Brady motioned to accept the Minutes as presented. Mr. Carnahan seconded and the Minutes were approved.

INVESTMENTS

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

Mr. Jackson reviewed the capital markets for the first quarter of calendar year 2021. The U.S Equity markets continue to set all-time record highs fueled by the rollout of COVID vaccines and another round of stimulus payouts. Fixed income posted some negative returns. Housing prices started to rise and there was concern about inflation. GDP was revised upwards to 4.3% putting the US into its deepest recession in 75 years. Consumer confidence hit a one-year high. Over the past 12 months the S&P 500 had a 56.35% return, while the Russell 2000 grew by 94.85%. Value stocks continue to outperform Growth stocks by a wide margin. Over the last quarter, Energy stocks began to surge gaining 30.9%, followed by Financials and Information Technology.

As of March 31, 2021, the Fund had a Market Value of just over \$11 billion (another historic high) and over \$3 billion ahead of where it closed a year ago. The fund's Actual Asset Allocation have slipped outside allowable range compared to the Target Allocation. The fund continues to be overweight in equities (5.4%) due to strong market performance and underweight in Real Assets (4.2%). Callan is working with Staff to bring the asset classes closer in-line with the Target Allocation weights. Ms. Weymouth noted the Real Assets portfolio was trailing its benchmark by 4% and reminded the Board that they would be discussing this asset class in more detail later in the meeting.

Ms. Weymouth detailed the portfolio's performance through the March 31, 2021. She noted the fund had a very strong quarter returning 4.22% and 42.17% for the last 12 months. Acadian and Franklin were both fully funded during the quarter. The fund significantly outperformed its benchmark for the year and ranked in the top quartile of its peers over all trailing time periods.

Manager updates

Ms. Weymouth gave organizational updates on BNY Mellon, AQR Capital, Acadian and Golden Capital. None of the changes caused Callan concern except for Golden Capital. Due to the continued ownership changes and personnel turnover, Callan suggested APERS terminate this strategy and liquidate the fund to pay benefits and/or rebalance by allocating any remaining assets to the S&P 500 Index Fund.

Mr. Brady motioned to liquidate the Golden Capital portfolio to pay benefits and rebalance the fund, with any remaining assets to be applied to the S&P 500 Index Fund. He was seconded by Mr. Hudson and the motion passed.

ADMINISTRATIVE
SUMMARY OF RETIREES FOR THE QUARTER ENDING MARCH 31, 2021:

Mr. Baird worked off the report pointing out that APERS had 302 members who retired in January, 205 in February and 148 retirees in March, for a total of 655 new retirees in the first quarter of 2021. This brought the total number of retirees and beneficiaries receiving monthly checks from APERS to 37,151.

Mr. Baird noted that the fund had gained roughly \$3 Billion since March 2020. APERS' total assets as of March 31st were almost \$11.4 Billion. During the last 9 months, APERS paid out over \$456 million in benefit payments. He noted there was an increase in pre-paid assets and post-employment benefits. The post-employment benefits amounts were provided to each agency by the Department of Finance and Administration. While the changes did not originate from APERS, they are reflected on the fund's financial statements.

REVIEW OF FY2020 LEGISLATIVE AUDIT REPORT:

Mr. Baird stated that each year the APERS Director reviews the Legislative Audit Report with the Board. This year there were two audit findings, both of which were related to overpayments. APERS continues to take steps to reduce the number of overpayments going forward. In the case of overpayments due to the death of retirees, it is likely to be a multi-year process. APERS currently utilizes three different sources to identify deceased members, but nothing is 100%. The audit findings and the management response are both contained in the attached packet. Mr. Baird commented that he felt the overpayment issue should be looked at as two separate issues. One is the overpayment, and the second issue is the recoupment of the funds. APERS is working to maintain closer contact with the retirees to limit the risk of overpayments. Recently passed legislation, which was proposed by APERS, will allow APERS to make claims against tax refunds to aid in recoupment of these overpayments. He thought it would be about 12 months before the success of these new programs could be evaluated. Staff was currently working with the Arkansas Department of Health and a private company to identify deceased retirees. He promised to report back at a later date and let the Trustees know how the various changes were working.

The second overpayment finding was a system error related to the COLA (Cost of Living Allowance). In July 2019, about a dozen members erroneously received a 6% increase, instead of the normal 3% and the result was about \$10,000 in overpayments. This was related to a system update that took effect in May 2019 and a subsequent system update in November 2019. The error was corrected, and all 2020 COLAs were correctly applied, but Staff is doing manual checks and working on an electronic comparison, so this or similar errors will not happen in the future.

After further discussion, Ms. Lea motioned to accept the Legislative Audit and Mr. Hudson seconded. Motion passed.

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

Ms. Gilson reported that since the last meeting Ms. Hammock has asked for an appeal before the Board. That appeal would probably be scheduled in late June.

The appeal the Board heard in December 2020 from Mr. Eldridge was not appealed to Circuit Court and so that case is closed.

In the case of the Court Clerks, Veronica Young, et al., the Counsel for the Court Clerks filed a motion for Summary Judgement and APERS filed a Motion to Dismiss. The hearing on the Appellant's motion was held February 3, 2021 and Court final Order upholding the decision of the Board was entered March 1, 2021. Court Clerks filed an untimely appeal on April 1, 2021 and the Court denied a request for extension. Court Clerks have filed an additional motion for the Judge to consider.

Bolden v. APERS case was transferred to Judge Herbert Wright in late 2020. On March 11, 2021 the Court upheld the decision of the Board. Ms. Bolding filed an appeal on April 5, 2021 to the Court of Appeals.

Ms. Gilson noted APERS' had two cases before the Claims Commission. In the case of Ms. Cherriet Clark, she did not appeal their decision within the required 30 days so that case is closed. The other case that had been pending before the Claims Commission is Ellis Sloan v. APERS. On March 17, 2021, Mr. Sloan voluntarily non-suited without prejudice and the Claims Commission dismissed the case. Case is closed.

Regarding APERS securities litigation cases, Ms. Gilson stated that there was one active case: Bristol-Myers Squibb. This case was dismissed and APERS has filed an appeal. Tesco and Sea World cases have been settled.

There was a short discussion on how much APERS had collected from the settled cases. Mr. Brady asked that the total numbers of cases APERS was involved in, not just as lead-plaintiff, be included in the quarterly reports going forward. Mr. Baird said he would check with the custodial bank and see what information was available, since they were the one that initiated entering APERS as a plaintiff in most of the cases. Mr. Walther said he looked forward to seeing that data at the next meeting.

Update on Legislation and the 2021 Legislative Session

Mr. Baird highlighted a page in the Board packet that gave a summary of the twelve Acts passed during the 2021 Legislative session which impacted APERS. He congratulated the Trustees and thanked everyone for all their hard work over the past year, including the organizing of statewide townhall meetings by the legislature and the work by the Board through special meetings to make these changes a reality. Mr. Baird stated these changes would improve the long-term health of the system and overall they would be good for the members going forward.

Staff is currently looking at each of these Acts and working quickly to implement them. Act 518 extending the APERS DROP from 7 to 10 years has already gone into effect. In addition to sending out notification letters to APERS members currently in the DROP, Staff is adjusting the computer system to reflect this change.

Act 686 expanded the APERS Board by 4 more retired Trustees. The August meeting will be the first time for the new, expanded board to meet and introduce themselves.

BREAK

REAL ASSET PRESENTATION AND REAL ESTATE MANAGER PRESENTATIONS:

Real Assets Manager Search Overview – Presented by Ms. Brianne Weymouth, Mr. John Jackson, and Mr. Avery Robinson of Callan LLC

Callan provided a presentation that gave details on the recommended next steps for the Real Assets portfolio. In their presentation, they discuss diversification across strategies and the pacing of contributions and distributions in real asset investing. They also provide a recommended allocation timeline to bring Core, Non-Core, REITS and Farmland in line with the investment targets established by the Board. As part of the allocation recommendations, APERS would allocate \$125M to non-core real estate managers each year for the next 6 years. Mr. Robinson discussed the Pacing Schedule Callan suggested to deploy these funds over that time period.

Non-CORE Real Estate Manager Presentations

At this meeting, two non-core real estate fund managers had been selected by Callan to present to the Board. This is the first step in the process of allocating funds to non-core real estate managers. These managers were selected based on a review by Callan and APERS staff of ideal investment options for consideration. If the Board approves the managers, Staff recommends allocating total of \$125M between the two managers.

- **Harrison Street Fund VIII** - Presented by Mr. Rob Cook, Senior Managing Director and Ms. Melissa Brown, Director Investor Relations
- **Starwood Capital Group** – Presented by Mr. Ethan Bing, Managing Director, Acquisitions and Mr. Khalif Edwards, Managing Director, Capital Raising and Investor Relations

Both managers introduced their platforms and history of their firms, before discussing their investment strategy guidelines, actual investments, historical returns and fee schedules.

After the presentations, there was a very detailed discussion before Mr. Brady motioned to authorize APERS Staff to invest \$50 million to Harrison Street VIII, this year. Mr. Hudson seconded. Motion passed. Mr. Brady then motioned to commit \$75 million to Starwood XII and Mr. Hudson seconded. That motion also passed.

Ms. Weymouth asked for permission to move forward both Non-Core and Farmland searches. Mr. Walther gave approval for Staff to work on those searches and bring back the results at the next (August) meeting.

NEXT QUARTERLY BOARD MEETING:

The next quarterly Board Meeting is scheduled for Wednesday, August 18, 2021 at 9:00 a.m.

There will be a Member Appeal before the Board scheduled for June. Trustees would be notified when a date and time had been identified.

ADJOURNMENT:

There being no further business, the meeting was adjourned.



Ms. Candace Franks, Chair



Mr. Duncan Baird, APERS Executive Director