

**MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
MAY 20, 2015**

The regular quarterly meeting of the Board of Trustees of the Arkansas Public Employees Retirement System was held on Wednesday, May 20, 2015 at 9:00 a.m., in the Conference Room, 124 West Capitol, Little Rock, Arkansas. Mr. Artee Williams presided.

QUORUM PRESENT:

Mr. Williams recognized the presence of a quorum.

BOARD MEMBERS PRESENT:

Mr. Artee Williams (State Employee Member), *Chair*, Maumelle, AR
Judge David Hudson, (County Employee), Fort Smith, AR
Ms. Ouida Wright (State Employee Member), Conway, AR
Mr. Bill Gaddy (State Employee Member), Little Rock, AR
Mr. Larry Walthers (Ex-Officio Member), Department of Finance and Administration
Mayor David Morris, (City Employee), Searcy, AR
Hon. Andrea Lea, (Ex-Officio Member), State Auditor
Mr. Jim Harris, Deputy State Treasurer (*proxy*)
Ms. Gail H. Stone (Executive Director), APERS

BOARD MEMBERS ABSENT:

Hon. Dennis Milligan, (Ex-Officio Member), State Treasurer
Ms. Carol Bevis, (Other Non-State Employee), Little Rock, AR

VISITORS PRESENT:

Mr. Ryan Ball, Callan Associates, Inc.
Ms. Brianne Weymouth, Callan Associates, Inc.
Dr. John Shelnett, Department of Finance and Administration (*proxy*)
Mr. John Allen, State Auditor General Counsel
Mr. Marc Watts, Arkansas State Employees Association
Mr. Paul Young, Arkansas Municipal League
Mr. Craig Schorr, A-B Global Investments
Mr. Mike Wickline, *Arkansas Democrat-Gazette*

STAFF PRESENT:

Ms. Michele Williams, APERS Deputy Director
Mr. Carlos Borromeo, APERS Chief Investment Officer
Ms. Susan Bowers, APERS Associate Director of Investments
Ms. Sheila Watts, APERS Chief Fiscal Officer
Mr. Jay Wills, APERS Attorney Specialist
Ms. Allison Woods, APERS Member Records Manager
Mr. Phillip Norton, APERS Information Services Manager
Ms. Becky Walker, APERS Administrative Service Manager
Ms. Linda McGrath, APERS Administrative Specialist

RECOGNITION OF NEW BOARD MEMBERS:

Mr. Williams recognized the two newest Board Members and asked Judge David Hudson and Mayor David Morris to introduce themselves. Mr. Williams also recognized Mr. Larry Walthers from Department of Finance and Administration; he replaced Mr. Richard Weiss on the APERS Board.

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 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.

MINUTES:

Prior to the Board meeting, copies of the Minutes from the regular meeting of February 18, 2015 were mailed to each APERS Board member for review. On a motion made by Ms. Lea and seconded by Mr. Gaddy, the Minutes were approved as presented.

QUARTERLY REPORT FOR THE PERIOD ENDING MARCH 31, 2015 - Presented by Mr. Ryan Ball and Ms. Brianne Weymouth of Callan Associates, Inc.

Mr. Ball began with a general market overview of the preceding quarter. He reviewed the broad market indices, noting that as the dollar strengthened, it gave a headwind to large cap companies. Fixed Income continued to fall, with Corporate Bonds being the best performer.

Looking at the Asset Allocation, Mr. Ball noted that the Domestic Equity allocation was outside the target range. This was partially due to a \$270 million Real Estate commitment made to Heitman last year. Callan anticipated a call for \$180 million in the next quarter which should bring the asset allocation closer to the target. He also acknowledged some of the overweight was due to the great run the fund had experienced recently with their domestic equities. Normally, Staff harvests from these overweights each month in order to pay benefits and keep the fund in line with its target allocation. During the past quarter, the portfolio added 2.62%, and for the last twelve months, the fund grew by 6.4% - slightly ahead of its target. Active managers, especially the International, added value to the portfolio.

In reviewing individual managers, Ms. Weymouth noted that Lazard had struggled during the last quarter as it had been a particularly difficult environment for Large Cap investors. The last quarter was also tough on Westwood and Stephens for similar reasons. Fixed Income managers have been defensively positioned which has paid off over the long run.

APERS' International Equity manager's returns were in the top quartile; the only one to consistently underperform is Manning and Napier. Ms. Weymouth commented that they had a high staff turnover recently, as well as poor sector choices. Callan had them on their radar and was keeping a close eye on this manager. If there was no improvement in their performance by the next quarter, Callan would make some recommendations to the APERS Board.

Reviewing the Real Asset class, Ms. Weymouth reminded the Board that Heitman would be calling for their funds during the next quarter. She also reminded the Trustees that LaSalle and TA Realty were closed-end real estate funds that generally have a 10-year lifespan. APERS has a \$30 million investment in each of these managers. Both of these "value-added" managers have been in the portfolio for over three years and are fully invested. Mr. Ball explained that at this point, the managers would begin repaying APERS, and the normal protocol would be to roll over that money into the next reiteration of the product, which in this case is the 7th for LaSalle and 11th for TA Realty. He commented that since there were so many new Board members, it might be helpful for these managers to explain their products at the next regular board meeting. After a short discussion, Judge Hudson directed Callan to invite LaSalle and TA Realty to present at the next Board meeting.

MEDICAL REVIEW BOARD RECOMMENDATIONS:

The Medical Review Board met at 10:00 a.m. on Tuesday, May 12, 2015 in the APERS Library to discuss the case of Ms. Valerie A. Walker.

- After review and discussion, the Medical Review Board recommended the denial of disability retirement for Ms. Valerie A. Walker at this time, pending further information.

Ms. Wright motioned to accept the recommendation of the Medical Review. She was seconded by Mr. Gaddy. Motion passed.

SUMMARY OF RETIREES FOR MARCH, APRIL & MAY 2015 :

Ms. Stone commented that during a normal month the number of retirements had grown from 40-50 people to 120 people. She did not have the final numbers for July, which is traditionally a peak month for retirements. Currently, there are about 2500 to 3000 APERS members retiring annually.

FINANCIAL STATEMENTS FOR THE QUARTER ENDING MARCH 31, 2015:

The APERS portfolio has a current value of just over \$7.5 billion. Ms. Stone projected that it could be worth \$7.75 billion by the end of the fiscal year if the markets held. For the first nine months of the year, APERS has paid out in excess of \$340 million while still managing to grow the fund to new, all-time highs. In answer to questions regarding contributory members, Ms. Stone reminded the Board that between 1977 and 2005 employees were non-contributory. Starting July 1, 2005, all new employees entering the system are contributory. Older members could also opt to become contributory. Currently, about 68% of APERS membership is contributory.

OTHER BUSINESS:

Technology Project Update

Ms. Stone reiterated for the benefit of the new board members that APERS began the arduous process of hiring vendor and project oversight managers to develop a new pension administration system called COMPASS. Staff is working closely with the vendor to translate benefit programs from law into computer code. If APERS is able to stay on schedule, the system is planned to go live in early 2017. She explained how the new system would have both a “member portal” as well as an “employer portal”. Members will be able to check their accounts and see where they stand 24/7. Employers will be able to remit and report electronically, rather than depending upon the mail service, which should cut down on late filings. Overall, COMPASS should make interacting with the agency much more streamlined and efficient for its members. She anticipated a savings to the agency through attrition and redeployment of Staff to other areas.

At the moment, COMPASS development was on-time and on-budget. Staff was focused on “data cleansing” to ensure that all the information going into COMPASS was correct and complete; a very labor intensive process. Ms. Stone explained that APERS had approval for a temporary pool of positions, so that employer contributions could be reconciled to make sure the figures were exactly what was listed in the general ledger. These positions would end in 2017. She noted that APERS was in active communication with the Governor’s Office regarding the hiring freeze and she was hoping to move forward on that quickly.

Ms. Stone introduced some of the key staff from APERS that were in attendance. She also took the opportunity to formally announce that Ms. Michele Williams would be retiring as the Deputy Director of APERS on June 30th.

In consideration of a Special Meeting Regarding Woodruff County Nursing Home

Ms. Stone reminded the Board that there had been a hearing planned on April 30th regarding Woodruff County that had been postponed. Mr. Wills gave a short review of the events explaining that this would be the last in a series of board hearings concerning several county nursing homes’ lack of membership in APERS. The previously heard cases are currently on appeal to the Circuit Court of Pulaski County. In each of those three cases, the Board decided the applicants were not entitled to membership simply because their compensations were not “paid for by county-appropriated funds” (which is the current definition of a “county employee” eligible for APERS). The Board still needs to hear and make a determination on the final nursing home in question – Woodruff County Nursing Home, before any Circuit Court decision can be rendered.

Mr. Wills stated he expected the hearing with Attorney Randy Hall to last no more than 3 hours. After a short discussion, it was agreed to hold the hearing on July 30, 2015 at 9:00 a.m.

Staff Travel Report

The Trustees reviewed write-up from the investment conference written by Mr. Borromeo.

Annual Legislative Audit Report

Ms. Stone announced that APERS’ annual Legislative Audit Report had been published. Most of the Trustees confirmed that they had received their copy already. She noted that the agency had no findings and complimented Staff on all their hard work complying with all the rules.

NEXT QUARTERLY BOARD MEETING:

The next quarterly meeting of the APERS Board of Trustees is scheduled for Wednesday, August 19, 2015 at 9:00 a.m. A Special Hearing is scheduled for June 30, 2015 to hear from the Woodruff County Nursing Home litigants. Mr. Williams also pointed out that the Annual Educational Seminar would be held October 20, 2015 at the Capital Hotel in Little Rock, AR.

ADJOURNMENT:

There being no further business, the meeting was adjourned.


MR. ARTEE WILLIAMS, CHAIR


MS. GAIL STONE, EXECUTIVE DIRECTOR