

**MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES  
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM  
AUGUST 15, 2018**

The regular quarterly meeting of the Board of Trustees of the Arkansas Public Employees Retirement System was held on Wednesday, August 15, 2018 at 9:00 a.m., in the Conference Room, 124 West Capitol, Little Rock, Arkansas. Mayor Morris presided.

**QUORUM PRESENT:**

Mayor Morris recognized the presence of a quorum.

**BOARD MEMBERS PRESENT:**

Mayor David Morris, (City Employee), *Chair*, Searcy, AR  
Mr. David Hudson, (County Employee), Fort Smith, AR  
Ms. Candace Franks (State Employee Member), Little Rock, AR  
Mr. Steve Faris (Retired State Employee), Little Rock, AR  
Mr. Gary Carnahan, (Other, Non-State Employee), Hot Springs, AR  
Mr. Jason Brady, State Treasurer's Office (proxy)  
Hon. Andrea Lea, (Ex-Officio Member), State Auditor (*via teleconference*)  
Mr. Larry Walther, (Ex-Officio Member), Department of Finance and Admin.  
Ms. Gail H. Stone (Executive Director), APERS

**BOARD MEMBERS ABSENT:**

Mr. Daryl Bassett (State Employee Member), Sherwood, AR  
Hon. Dennis Milligan, (Ex-Officio Member), State Treasurer

**VISITORS PRESENT:**

Mr. Ryan Ball, Callan Associates, Inc  
Ms. Brianne Weymouth, Callan Associates, Inc  
Mr. David Hoffman, Gabriel, Roeder, Smith  
Mr. John Shelnett, Department of Finance and Admin.  
Rep. Doug House, AR House of Representatives  
Rep. Les Warren, AR House of Representatives  
Ms. Cindy Frizzell, Municipal League  
Mr. John Wilkerson, Municipal League  
Mr. Marc Watts, AR State Employees Association  
Ms. Kelsi Hogg, Bureau of Legislative Audit  
Mr. Mike Wickline, *AR Democrat-Gazette*

**STAFF PRESENT:**

Mr. Jay Wills, APERS Deputy Director  
Mr. Carlos Borrromeo, APERS Chief Investment Officer  
Ms. Usha Doolabh, APERS Investments Manager  
Ms. Abbi Bruno, APERS Director of Operations  
Ms. Jane Nilz, APERS Assistant Personnel Manager  
Mr. Phillip Norton, APERS Director of Information Technology  
Ms. Jessica Middleton, APERS General Counsel  
Mr. John Owens, APERS Internal Auditor  
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.

**AFFIRM BOARD CHAIR AND VICE-CHAIR:**

Ms. Lea noted that in light of the upcoming elections, it would make more sense to affirm the Board Chair and Vice Chair at the November meeting. Mr. Faris seconded and the motion passed.

**MINUTES:**

Prior to the Board meeting, copies of the Minutes from the October 24, 2017, February 14, 2018 and May 16, 2018 meetings were mailed to each APERS Board member for review. Mr. Walther

commented that he was present at October seminar. Ms. Lea complimented the new Minutes format.

Mr. Brady motioned to accept the three sets of Minutes with the minor correction to October's attendance and he was seconded by Mr. Walther. Motion carried.

**PRELIMINARY 2018 ANNUAL VALUATION RESULTS – Presented by Mr. David Hoffman of Gabriel, Roeder Smith**

Mr. Hoffman presented the preliminary results of the Annual Valuation. Adopted new demographic and approved existing economic. Discussed APERS' Funding Policy and how it could potentially affect the Employer Contribution Rate.

**Employer Contribution Rate Discussion**

Judge Hudson thought 15.32% rate had been approved at the May meeting. Board discussed the length of the Amortization Period and its effect on the Employer's Contribution Rate.

Ms. Franks motioned to reaffirm the Employer Rate of 15.32%. Mr. Faris seconded and the motion passed unanimously.

Mr. Carnahan asked if Staff could provide a timeline of the Investment Returns and Employer's Rate over the years. Ms. Stone stated that information was available and would be provided.

Ms. Lea stated the Board needed to focus on the Funded Ratio and getting it higher.

Mr. Hoffman asked if the Board wished GRS to use these rates to set the Employer Rate through June 30, 2021. The applicable valuation for future fiscal years with a 2-year lag is shown in the following table:

<u>Valuation Date</u>	<u>Applicable Fiscal Year Beginning</u>
June 30, 2017	July 1, 2018
June 30, 2018	July 1, 2019
<b>June 30, 2018</b>	July 1, 2020
<b>June 30, 2019</b>	July 1, 2021
<b>June 30, 2020</b>	July 1, 2022

Judge Hudson motioned to adopt the table. Second by Mr. Carnahan. Motion passed.

**Annuitized DROP Interest Discussion**

Ms. Stone explained that the question of DROP Annuitization Rates came from the new COMPASS program. Currently, APERS pays 8%, which is unrealistic and she suggested that APERS use the rate employed by the insurance industry: somewhere between 4 and 3%. After some discussion, Ms. Stone proposed a 3.25% rate be adopted for anyone not yet in the DROP or have not annuitized their DROP account, effectively immediately. Any DROP accounts currently annuitized would be undisturbed. Mr. Faris motioned and Mr. Carnahan seconded. Motion passed.

On a motion by Ms. Franks and a second by Mr. Faris, the Board ratified the 15.32% Employer Contribution Rate they had tentatively adopted at the previous meeting. This rate will take effect on July 1, 2019 and continue for **two fiscal years**. (See table above.)

*(Mr. Hoffman, Mr. Wilkerson, Ms. Nilz and Mr. Norton left)*

**QUARTERLY INVESTMENT REPORT FOR THE PERIOD ENDING JUNE 30, 2018 - Presented by Mr. Ryan Ball and Ms. Brianne Weymouth of Callan Associates, Inc.**

Mr. Ball detailed the investment environment for the last quarter, noting the strong U.S. rebound during that time period. Ms. Weymouth reviewed the fund's performance and selected managers' returns. APERS portfolio returned 1.8% for the quarter and 10.25% for Fiscal Year 2018. This performance put the Fund in the top 6% of all public funds. As of June 30<sup>th</sup> (the close of Fiscal Year 2018) the Fund had a market value of slightly over \$8.8 billion.

Actual Asset Allocation is close to the Target Allocation with the slight variations coming from market movement.

**Money Manager Recommendations:**

Mr. Ball explained that Westwood had been hired by APERS in 2004 and since then, the staff had completely turned over, resulting in a very different management team. Additionally, their performance has been below peers in the last 7 of 9 years. Ms. Weymouth noted that portfolio has steadily lost investors and APERS was one of the last ones in the portfolio. Callan suggested terminating Westwood and dividing the assets (\$178.5 million as of 6/30/2018) 60% to Wellington and 40% to LSV.

Mr. Brady motioned to follow Callan’s suggestion to terminate Westwood and he was seconded by Mr. Hudson. Passed unanimously.

Ms. Weymouth detailed recent developments within the Lazard and recommended that APERS transition their assets from the US Strategic Equity portfolio (currently \$332 million) to the US Concentrated Equity strategy. Mr. Walther motioned to follow Callan’s recommendation and he was seconded by Mr. Brady. Motion passed

**ANNUAL AUDIT RESULTS & PROPOSED AUDIT FOR FY 2019 – Mr. John Owens, APERS Internal Auditor**

Mr. Owens reviewed the 8 Audits and one Special Project he’d performed in the last 12 months. Those eight areas were:

- Custodian Bank
- Service Purchases
- Social Security
- Retirement Contributions
- Computer Systems/Applications
- Age and Service – Retirees
- Age and Service – PAW Participants
- Benefit Accounting

He also outlined the Special Project performed on COMPASS which dealt with Derived Data for Data integration process. Mr. Owens announced that all eight of the audits resulted in the achievement of audit objectives and there were no audit findings. The special project conducted was determined that no errors existed in the integration of data from the old to new computer software.

Audits planned for FY 2019 included:

Counseling	Review process for calculating DROP/PAW benefit estimates
Personnel/Payroll	Review staff training requirements
Employer Reporting	Review Service and Salary Data
Employer Reporting	Review Workflow of Employer Reporting
Purchasing	Review agency practices for compliance to State guidelines
Purchasing	Review purchasing function for segregation of duties
Age and Service Benefits	Review agency practices for verification of retiree spouse for benefits
Disability Benefits	Review processing of Disability Benefits
Survivor Benefits	Review calculations of retroactive benefits for survivor annuities
Investments	Review accounting transactions in Domestic and International Fixed Income
	Review accounting transactions in Domestic and International Equities

Special Project                      Prepare for Quality Assurance Review

Mr. Hudson motioned to accept the Internal Auditor’s report with recommendations and the 2019 planned audits. He was seconded by Mr. Walther and the motion carried.

**SUMMARY OF RETIREES FOR JUNE, JULY & AUGUST 2018:**

Ms. Stone noted that June was a traditionally heavy month for retirees and the heavy retirement of Baby Boomers is expected to continue through 2021-2022.

**FINANCIAL STATEMENTS FOR THE QUARTER ENDING MARCH 31, 2018:**

Ms. Stone noted the APERS assets totaled over \$8.6 billion (a new, all-time high) and paid out almost \$531 million during Fiscal Year 2018, new record for annual benefit payments. She pointed out that the Callan number is higher since it includes the ASPRS (State Police) investments. Ms. Stone promised to include the county breakdown map at the Annual Educational Seminar in October.

**OTHER BUSINESS**

**Litigation Update – Mr. Jay Wills, APERS Deputy Director**

Mr. Wills was pleased to state that for the first time in a long time, the Board had no threatened or pending hearings. The Nursing Home case is still waiting for the Court of Appeals to resume after their summer break.

Mr. Hudlow decided not to appeal the Board’s determination that he was not entitled to elected-official enhanced service credit because he had never been an elected official. This case is over.

Ms. Diane Harrison did appeal from the Board’s determination that she was not eligible to receive survivor benefits from her mother. Judge Gray has upheld the Board, but we expect an appeal to circuit court.

**Review Travel Policy**

Ms. Stone noted that this had been adopted over 13 years ago. Rep. House urged boards to adopt and follow a travel policy. For Board’s review and possible updates at a future meeting. Ms. Lea noted that any travel like that would need to be reported on the annual Statement of Interest.

Mayor Morris praised the APERS newsletter and recognized MS. Stone’s election to the President of NASRA and said it was an honor to have her representing Arkansas at this national level.

Mr. Carnahan discussed FOI and asked for Gail to follow up in November.

Ms. Stone commented that roughly 6500 calls a month are answered by the APERS Call Center. She was thrilled to announce that three new Call Center positions were approved the previous day.

**NEXT QUARTERLY BOARD MEETING:**

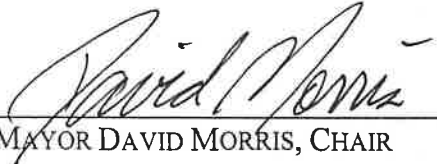
The next quarterly meeting of the APERS Board of Trustees is scheduled for Wednesday, November 14, 2018.

Annual Trustee Educational Seminar is scheduled for Tuesday, October 23, 2018 (all day) at the Capital Hotel, Little Rock. Mayor Morris strongly encouraged everyone to attend and plan to spend the whole day at this highly engaging event. Mr. Walther echoed his approval of the seminar.

Mayor Morris asked for a moment of silence in honor of previous APERS’ Board Chair Don Zimmerman’s passing.

**ADJOURNMENT:**

There being no further business, the meeting was adjourned.

  
MAYOR DAVID MORRIS, CHAIR

  
MS. GAIL STONE, EXECUTIVE DIRECTOR