

**MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES  
ARKANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM  
AUGUST 21, 2019**

The regular quarterly meeting of the Board of Trustees of the Arkansas Public Employees Retirement System was held on Wednesday, August 21, 2019 at 9:00 a.m., in the Conference Room, 124 West Capitol, Little Rock, Arkansas. Ms. Candace Franks presided.

**QUORUM PRESENT:**

Ms. Franks recognized the presence of a quorum.

**BOARD MEMBERS PRESENT:**

Ms. Candace Franks (State Employee Member), *Chair*, Little Rock, AR  
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. Daryl Bassett (State Employee Member), Sherwood, AR  
Mr. Joe Hurst, (City Employee), Van Buren, AR  
Mr. Jason Brady, State Treasurer's (*proxy*)  
Hon. Andrea Lea (Ex-Officio Member), State Auditor  
Mr. Duncan Baird (Executive Director), APERS

**BOARD MEMBERS ABSENT:**

Hon. Dennis Milligan, (Ex-Officio Member), State Treasurer  
Mr. Steve Faris (resigned July 3, 2019)

**VISITORS PRESENT:**

Ms. Brianne Weymouth, Callan Associates, Inc  
Mr. John Jackson, Callan Associates, Inc  
Mr. Paul Louthian, Department of Finance and Admin. (*proxy*)  
Mr. John Shelnett, Department of Finance and Admin.  
Mr. Skot Covert, State Auditor's Office (*proxy*)  
Mr. Richard Bearden, Impact Management  
Mr. Len Pitcock, The Perimeter Group  
Mr. Bill Stovall, WSG Consulting  
Mr. Rick Green, WSG Consulting  
Ms. Kami Boggess, DBH Management  
Mr. Bill Paschall, Paschall Strategic Communications  
Mr. James Atwater, Marathon  
Ms. Nicholas Poole, ASEA  
Mr. Mike Knapp, Bureau of Legislative Audit  
Mr. Clint Rhoden, ATRS Director  
Mr. Daniel Faulkner, Office of the Attorney General  
Mr. Jack Critcher, Arkansas Municipal League,  
Ms. Lindsey Bailey, Assoc. of Arkansas Counties  
Ms. Susan Bowers, APERS Retiree  
Ms. Fran Webb, APERS Retiree  
Mr. Mac Faulkner, APERS Retiree  
Ms. Tammy Ashley  
Mr. Mike Wickline, *Arkansas Democrat-Gazette*

**STAFF PRESENT:**

Mr. Jay Wills, APERS Deputy Director  
Mr. Carlos Borromeo, APERS Chief Investment Officer  
Ms. Usha Doolabh, APERS Investments Manager  
Ms. Abbi Bruno, APERS Director of Operations  
Mr. Phillip Norton, APERS Director of Information Technology  
Mr. Jon Aucoin, APERS Retirement Section Manager  
Ms. Jennifer Taylor, APERS Retirement Section Manager  
Mr. Allison Woods, APERS Director of Benefits  
Mr. John Owens, APERS Internal Auditor  
Mr. Jason Willet, APERS Chief Financial Officer  
Ms. Jacobia Twiggs, 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.

### **ELECT BOARD CHAIR AND VICE-CHAIR:**

Judge Hudson motioned to continue with Ms. Franks as Chair and Mr. Walther as Vice-Chair. He was seconded by Ms. Lea and the motion passed unanimously.

### **QUARTERLY INVESTMENT REPORT FOR THE PERIOD ENDING JUNE 30, 2019- Presented by Ms. Brianne Weymouth and Mr. John Jackson of Callan Associates**

Mr. Jackson reviewed the performance of the APERS portfolio over the last quarter and last 12 months. Most portions of the portfolio performed well with the portfolio growing by 3.6% for the quarter. At the end of September, the Market Value of the fund was just over \$9.15 billion, an increase of approximately \$253 million after paying out \$64 million in benefits. This return put APERS in the top quintile of similar-sized public funds.

APERS Asset Actual Allocation was very close to the Target Allocation with the 3% overweight in Domestic Equity coming from market movement. No rebalancing is necessary.

Ms. Weymouth did a quick review of selected manager's performances by asset classes. Heitman and the CastleArk Energy portfolios were the biggest underperformers for the past quarter.

### **Investment Manager Organizational Developments**

Paul Michaels, Head of Invesco North America, is planning to retire in April 2020 after 36 years at Invesco Real Estate. Bert Crouch will assume the role of Head of North America and will begin working alongside Paul to transition his responsibilities. Bill Grubbs will move into the role of CIO of North America as the first step in that process. Paul will continue to serve as chair of the global executive team. Bill Grubbs currently serves as the PM for Invesco USA Core Fund. Callan will closely monitor the transition and update APERS as further updates arise.

### **Review of the Investment Policy Statement**

Mr. Jackson explained the changes proposed to clean up and update the APERS Investment Policy. Working off the red-lined copy, he detailed the larger changes. Mr. Baird worked extensively with Callan in modernizing and cleaning-up this important APERS document. After several questions and short discussion Mr. Brady motioned to adopt the policy, except for Section 5. Staff and Callan will rework and bring back that section at next meeting. Second by Judge Hudson and motion passed.

### **Review of the Investment Work Plan for 2019 and 2020**

Ms. Weymouth outlined the strategic planning program that Callan was going to discuss at the upcoming Board meetings, concluding with a Structure Review after Asset Liability study. At the November meeting, they would review International Equities. In February, a review of Real Assets was planned. In May the Board would study Domestic Equities and in August, Callan would be reviewing Diversified Strategies. November 2020 would see work in the Fixed Income portfolio.

### **PRELIMINARY ANNUAL ACTUARIAL VALUATION RESULTS – Presented by Mr. David Hoffman of Gabriel Roeder Smith and Company**

After introductions Mr. Hoffman reminded the Trustees that purpose of the Annual Valuation was to determine the Employee Contribution rate, in this instance beginning July 1, 2021.

Mr. Hoffman stated that based upon the submitted financial information, the computed funding value rate of return for the year ending June 30, 2019 was 5.78%, less than the assumed rate of investment return of 7.15%. When all the variables were factored in the new recommended employer rate was calculated to be 15.14%, slightly less than the current 15.32% rate being charged. Mr. Hoffman noted if the Board desired to leave the Employer Rate constant, then the Amortization period could be dropped from 26 years to 24 years and leave the Employer Rate the same.

Mr. Brady motioned to continue the 15.32% employer rate, beginning July 1, 2021. He was seconded by Mr. Carnahan. Motion carries.

## BREAK

### 2019 AUDIT RESULTS AND 2020 PROPOSED AUDIT PLAN – Presented by Mr. Johnny Owens, APERS Internal Auditor

Mr. Owens introduced himself and explained the nine audits he had performed for FY 2019.

#### 2019 Internal Audit Risk

Assessment:

Counseling	Review process for calculation DROP/PAW benefit estimates
Employer Reporting	Review service and salary data.
Employer Reporting	Review of workflow of employer reporting.
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.
Personnel/Payroll	Review staff training requirements.
Purchasing (Compliance)	Review agency practices for compliance to State of Arkansas guidelines.
Purchasing (Segregation of Duties)	Review purchasing function for segregation of duties
Special Projects	COMPASS (APERS New Pension Administration System) -Review of internal controls and segregations of duties for system controls -Other testing and reviewing as requested during software design -Projects concerns identified prior to and after the “GO LIVE” date in March 2017 -Occasional meeting on design detail specific for APERS operations

All nine (9) of the audits conducted resulted in the achievement of audit objectives and no audit findings were identified. The special project conducted was assistance with the newly developed computer software applications.

Mr. Owens then detailed the (APERS) Internal Audit Plan for State Fiscal Year 2020 and explained he follows a seven-year cycle. A total of eleven internal audits are planned and one special project during this upcoming fiscal year. These audits will include reviews of the following audit areas:

- Age and Service (4)
- Benefit Accounting (1)
- Retired Members (2)
- Disability Benefits (1)
- Employer Reporting (1)
- Refund of Contributions (1)
- Member Benefits (1)

This planning document includes: scope, objective, goal, and audit methodology. It also includes the Audit Work Schedule, and the Audit Plan Hours. The Risk Assessment Matrix and the Audit Plan Questionnaire used to identify audit areas for the audit work schedule will be provided upon request.

Judge Hudson motioned to accept the Internal Auditor’s 2019 report and the 2020 planned audits. He was seconded by Ms. Lea and the motion carried.

**SUMMARY OF RETIREES FOR JUNE, JULY AND AUGUST:** Mr. Baird gave a summary of recent APERS retirees. APERS currently oversees the benefits for 36,297 retirees. Active members remained flat at between 46,000 and 47,000.

### **FINANCIAL STATEMENTS FOR THE QUARTER ENDING JUNE 30, 2019:**

APERS assets totaled over \$8.8 billion and paid out over \$555 million in benefits during the fiscal year. The fund set a record for annual benefit payments. Mr. Baird distributed a state map that identified the amount of annual benefits APERS paid out to each of the 75 Arkansas counties.

### **MEDICAL REVIEW BOARD RESULTS:**

The Medical Review Board met at 9:00 a.m. on Wednesday, August 7, 2019 in the APERS Library to discuss three (3) cases: Members XXX8275, XXX0274 and XXX4725.

- After review and discussion, the Medical Review Board found that XXX8275 was suffering from an illness or injury at the time of his termination in May 2016, which subsequently led to the disability determination.
- After review and discussion, the Medical Review Board found that XXX0274 was suffering from an illness or injury at the time of his termination in May 2018, which subsequently led to the disability determination.
- After review and discussion, the Medical Review Board recommended denial of disability retirement to member XXX4725 at this time, pending additional medical information.

With APERS Board approval, in accordance with ACA 24-4-511(e)(3) benefits for the approved members will be effective September 1, 2019. Judge Hudson motioned to accept the Medical Review Board's recommendations and was seconded by Ms. Lea. Motion carried unanimously.

### **OTHER BUSINESS:**

#### **Statewide Legislative Town Hall Meetings – Mr. Duncan Baird, APERS Executive Director**

Mr. Baird detailed the plans for the 11 "Town Hall Meetings" that he would be participating in with the directors from the other retirement agencies and members of the Joint retirement Committee. The Board discussed various items and topics he hoped he would address. All seemed to think this would be a positive form of engagement with members, both active and retired.

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

*(Ms. Lea recused herself from the table at this time and took a seat in the audience.)*

Mr. Wills noted the Bolding Administrative appeal still pending with Judge McGowen. Mr. Wills had moved to have the individual claims against the APERS' Board members dismissed.

At the November meeting, there was a possibility of another hearing regarding Public Safety credit. He opined it was a straight forward issue and he would keep the Board apprised.

Ms. Middleton, APERS former General Counsel, had left in July for the private sector and APERS is currently looking for a replacement.

Mr. Wills announced he would be retiring the end of August and Mr. Bassett thanked him for his dedicated service. Mr. Wills expressed his gratitude and his concerns for APERS in the future.

#### **RFQ – Mr. Jay Wills, APERS Deputy Director**

Mr. Wills detailed the procedure so far in selecting and rating the Securities Litigators that responded to the RFQ. He distributed a spreadsheet listing all responders, only one did not qualify: Berman Tobacco.

Mr. Wills distributed the final results of the RFQ evaluation. He explained that Laura Gilson from ATRS and David Withrow from State Purchasing volunteered to screen the candidates with him. Mr. Wills took the final number from each screener and averaged them. He noted that there was less than 4% difference in the numerical scores across all screeners, so he felt the three of them were measuring the candidates in a similar fashion.

Mr. Brady asked out of the 18 firms on the list, how many was APERS currently using and Mr. Wills responded that five firms were submitting data to APERS at this time. Those firms are: Bernstein Litowitz, Cohen Milstein, Kessler Topaz, Nix Patterson, and Labaton Sucharow. He reminded the Board that some of these firms had active cases for APERS and they would continue with those cases, regardless if they were rehired or not.

Mr. Wills affirmed that none of these firms received money from APERS or any other state agency pursuing these cases, but were paid out of the settlement, if they win the class action suit. The amount they are awarded is determined by the Judge along well-established lines for these types of lawsuits. Mr. Wills pointed out that regardless whether or not APERS is named Lead Plaintiff in these litigation cases, they would be awarded roughly the same amount as if they were simply Class Members. He took more questions from the Board members on typical number of litigation firms hired, how Staff winnowed out the possible cases to pursue, and possible Trustee interaction.

The Board members were undecided on how many firms to hire and several members wanted to delay any decisions until they had more time to study the information.

After further discussion, Mr. Hudson motioned to hire the top-scoring six firms. The motion failed for lack of a second.

Mr. Bassett moved to defer the selection until the November meeting. Mr. Hudson seconded and the motion passed.

**Meeting Materials Available Online:**

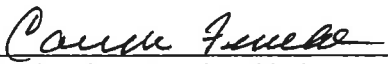
Mr. Walther stated he appreciated the material that was sent prior to the meeting.

**NEXT QUARTERLY BOARD MEETING:**

The next quarterly Board Meeting is scheduled for Wednesday, November 21, 2019 at 9:00 a.m. APERS Annual Trustee Educational Seminar is scheduled for Tuesday, October 22, 2019.

**ADJOURNMENT:**

There being no further business, the meeting was adjourned.

  
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Ms. Candace Franks, Chair

  
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Mr. Duncan Baird, APERS Executive Director