

**PUBLIC EMPLOYEES RETIREMENT SYSTEM
MINUTES OF THE MEETING OF THE BOARD OF TRUSTEES
30th ANNUAL EDUCATIONAL SEMINAR
TUESDAY, OCTOBER 22, 2019**

The Board of Trustees of the Arkansas Public Employees Retirement System held its thirtieth Annual Educational Seminar beginning at 8:85 a.m. and concluding at noon on Tuesday, October 23rd at The Capital Hotel in Little Rock.

BOARD MEMBERS PRESENT:

Ms. Candace Franks (State Employee Member), *Chair*, Little Rock, AR
Judge David Hudson, (County Employee), Fort Smith, AR
Mr. Gary Carnahan, (Other, Non-State Employee), Little Rock, AR
Mr. Dale Douthit (State Employee), Little Rock, AR
Mr. Dennis Milligan, (Ex-Officio Member), State Treasurer
Hon. Andrea Lea, (Ex-Officio Member), State Auditor

BOARD MEMBERS ABSENT:

Mr. Larry Walther, (Ex-Officio Member), *Vice Chair*, DF&A
Mayor Joe Hurst, (City Employee), *Chair*, Searcy, AR
Mr. Daryl Bassett (State Employee Member), Sherwood, AR
Mr. Duncan Baird, (Executive Director), APERS

ADDITIONAL VISITORS PRESENT:

Ms. Brianne Weymouth, Callan Associates, Inc.
Mr. John Jackson, Callan Associates, Inc.
Mr. Avery Robinson, Callan Associates, Inc.
Mr. David Hoffman, Gabriel Roeder Smith
Ms. Heidi Barry, Gabriel Roeder Smith
Mr. Jason Brady, State Treasurer's Office
Mr. Martin Kelly, State Treasurer's Office
Dr. John Shelnett, AR Department of Finance & Administration
Mr. Paul Louthian, AR Department of Finance & Administration
Sen. Bill Sample, Co-Chair Joint Retirement Committee
Mr. Ryan Rampersaud, AQR Capital Management
Mr. Aaron Roberts, Artisan Partners
Mr. Ryan Wood, Artisan Partners
Ms. Joe Faraday, Baillie Gifford
Mr. Fraser Thomson, Baillie Gifford
Ms. Lucy Goodling, Blackstone Group
Mr. Carlos Pacheco, BNY Mellon Corp.
Mr. Mike McDermott, BNY Mellon Corp.
Ms. Nina Caruso, BNY Mellon Corp.
Mr. Jerry Castellini, CastleArk Management
Mr. Kevin Dolsen, CastleArk Management
Ms. Christine Chun, DoubleLine
Mr. Tom McCarthy, Heitman Capital Management
Ms. Jennifer May, Heitman Capital Management
Mr. Scott Horrell, Horrell Capital Management
Ms. Kimberly Horrell, Horrell Capital Management
Ms. Leanne Schmitt, INTECH
Mr. Adam Craig, INTECH
Mr. Max Swango, Invesco Core Real Estate
Mr. Bill Grubbs, Invesco Core Real Estate
Mr. Joe Munoz, LaSalle Investment Management
Mr. Matthew Walley, LaSalle Investment Management
Mr. Anthony Dote, Lazard Asset Management
Mr. Robert Failla, Lazard Asset Management
Mr. Scott Kemper, LSV Asset Management
Ms. Heather Howell, MacKay Shields
Mr. Steven Buckley, MacKay Shields
Ms. Stephen Cianci, MacKay Shields
Mr. Todd Bailey, Mellon Capital Management
Mr. James Blake, Newton Capital Management

Ms. Suzanne Hutchins, Newton Capital Management
Mr. Daniel Walsh, Newton Capital Management
Mr. Rupal Shah, PGIM Fixed Income
Mr. Michael Collins, PGIM Fixed Income
Mr. Barry Beers, Pinnacle Forest Investments
Mr. Hank Page, Pinnacle Forest Investments
Mr. Florian Eitner, SSI Investment Management
Ms. Wambui Lynch, SSI Investment Management
Mr. George Douglas, SSI Investment Management
Mr. Patrick White, Stephens Investment Management
Mr. John Keller, Stephens Investment Management
Mr. Tom Landry, TA Associates Realty
Mr. James Raisides, TA Associates Realty
Mr. Zander Grant, Wellington Management Company
Mr. Jon Cangalosi, WFAM Golden Capital Management
Ms. Amanda Leong, WFAM Golden Capital Management

STAFF PRESENT:

Mr. Carlos Borromeo, APERS Chief Investment Officer
Ms. Usha Doolabh, APERS Investments Manager
Ms. Laura Gilson, APERS General Counsel
Mr. Jason Willett, APERS Chief Financial Officer
Ms. Jennifer Taylor, APERS Member Service's Manager
Mr. Craig Blackard, APERS Accounting Coordinator
Mr. John Owens, APERS Internal Auditor
Ms. Linda McGrath, APERS Administrative Specialist

NEWS MEDIA NOTIFIED:

An e-mail 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 letter of notification is pursuant to A.C.A 25-19-101 (Act 93 of 1967) as amended -The Freedom of Information Act

Welcome – Opening Remarks

Mr. Borromeo welcomed everyone and noted the shortened agenda. He introduced Trustees, APERS Staff and other attending officials.

Panel Discussion – “What’s going on?”

- Jerry Castellini, CastleArk Management LLC
- Suzanne Hutchins, Newton Investments
- Rob Failla, Lazard Asset Management
- Michael Collins, PGIM Fixed Income

Jerry Castellini – Outlined what pensions made historically since 1917 and stressed focusing on the long-term investment horizon. He noted that over the last 100-year period, there have only 2 times when the market returned less than 8%. Is there something different going on now?

Mr. Castellini noted there are 3 drivers if investment returns: Economy, Inflation and Innovation. A Trustees' job is to forecast returns for the next 30 years. He reviewed events of 1969, 1979, 1989 and current events noting short term events should not distract for long-term financial markets. Traditionally, APERS investments have been centered on Developed Markets, which are less than 40% of the world. He felt the Board needed to focus on Emerging (Dominant) Economies. These were poised to be powerful growth engines, similar to Europe coming out of WWII.

Finally, Mr. Castellini showed a slide with the top-ten companies to invest in from 30 years ago, today and brand-new ones that had potential that few recognized.

Michael Collins – Began his talk by agreeing with Mr. Castellini, but noted he failed to consider the productivity of today's workforce. He noted that Interest was coming down every 30-year period and Global Growth rate was slowing. As populations age, labor force is only growing at .5% and slowing. These numbers are the same around the world. He felt that regulations were sustaining the market longevity.

Rob Failla – Promoted International Equities, noted it was easy to be nervous about outside US because of lack of familiarity. He agreed with Mr. Castellini that the Board needed to focus on the long-term to maintain international returns. He noted that potential economic stimulus in Germany and other countries could provide a boost to earnings.

Suzanne Hutchins – Shared that there was lot of noise and unrest in the market and Trustees needed to take long term view. She opined that today is no different from the other historical cycles that have been shown. She outlined the 4Ds - Debt, Demographics, Disruption and Distortion, which created uncertainties in the market and noted that this led to opportunities.

Mr. Borromeo noted that Inflation seemed to be a common theme among investment analysts. He questioned why the panelists didn't seem to think inflation was a current concern.

Mr. Collins felt the "Amazon Effect" was largely responsible, noting how prices come down through revolutionary changes.

Mr. Castellini opined that 2-3% inflation supports 25-30% earnings. This powerful financial asset is set to drive returns much higher than expected. He noted he had a "white paper" available on this topic for those who were interested.

<BREAK>

Panel – "What's going on in Real Estate?"

- Tom McCarthy, Heitman Investment Management
- Joe Munoz, LaSalle Investment Management
- James Raisides, TA Realty
- William Grubbs, Invesco Real Estate
- with Avery Robinson, Callan RE

Mr. Robinson opened by discussed the attraction of adding RE for an institutional investor went beyond just monthly rent checks. The negative aspects were that they were illiquid, management intensive, and had higher fees. He noted that RE ranged from low to high risk in this order: CORE RE, Core+, Value-added, Opportunistic. Finally, Mr, Robinson pointed out that returns were dropping and questioned it this indicated the cycle was ending?

Tom McCarthy – His firm focuses on Closed End funds and Niche Investing. Heitman transforms assets in one of three ways: physically, operationally, financially. He used a recent an example of Nashville University student housing.

William Grubbs – Mr. Grubbs explained how the Invesco CORE fund operates using one of their properties, Harlo Fenway (Boston apartment building), as an example. He noted that it was in a very desirable area and came at discounted price. Invesco likes to focus on durable, growing and resilient markets.

Joe Munoz – Breaking down the process that defines Value-Add Funds, Mr. Munoz detailed how LaSalle specialized in older office buildings. He used for an example an older Boston office building that the fund had recently reworked. He discussed improvement and strategies to get the most out of various building.

James Raisides – He noted that TA Realty specializes in Industrial Real Estate such as warehouses and public storage centers. These types of properties are currently at historic lows. Mr. Raisides detailed the high e-commerce demands for space and what current users were looking for in warehouses.

Avery Robinson asked the panel where they thought we were at in the cycle and what metrics do they have to support this opinion. The panelists noted that technology aids tracking and pin-pointing customers. They discussed "Cap-rate Compression" which is now at historic lows and how this affected the current market.

Discussion – International Equities

Mr. Borromeo asked Ms. Weymouth and Mr. Jackson from Callan Associates to give an overview of portfolio construction and asset allocation. They explained at the next APERS Board meeting they would be reviewing International Equities with the Trustees. They broke down portfolio construction and focused on the International Equities sector. Ms. Weymouth explained the MSCI ACW ex US

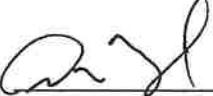
Emerging Markets and noted the difference between Developed Markets and Emerging Markets. Currently APERS has \$2.2 billion invested in International Equities.

Closing Remarks

Mr. Borromeo thanked everyone for their participation and noted that he'd let everyone know as soon as the date had been set for the 2020 Investment Educational Seminar.



Ms. Candace Franks, Chair



Mr. Duncan Baird, APERS Executive Director