

**MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES
ARKANSAS PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FEBRUARY 19, 2020**

The regular quarterly meeting of the Board of Trustees of the Arkansas Public Employees' Retirement System was held on Wednesday, February 19, 2020 at 9:00 a.m., in the Conference Room, 124 West Capitol, Little Rock, Arkansas. 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. Joe Hurst, (City Employee), Van Buren, AR
Mr. Dale Douthit, (State Employee), Russellville, AR
Mr. Daryl Bassett (State Employee Member), Sherwood, 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
Ms. Candace Franks (State Employee Member), *Chair*, Little Rock, AR

VISITORS PRESENT:

Ms. Brianne Weymouth, Callan LLC
Mr. John Jackson, Callan LLC
Mr. David Hoffman, GRS
Mr. Mita Drazilov, GRS
Mr. Jody Carreiro, Osborn Carreiro
Mr. Jack Critcher, Arkansas Municipal League
Mr. Chris Villines, Arkansas Association of Counties
Mr. Paul Louthian, Department of Finance and Admin. (*proxy*)
Mr. John Shelnett, Department of Finance and Admin.
Rep. Kenneth Ferguson
Rep. Les Warren
Mr. James Atwater, Marathon
Mr. Rett Hatcher, Gilmore
Mr. Len Pitcock, Perimeter
Ms. Erika Gee, ASEA
Mr. Clint Rhoden, ATRS Director
Ms. Peggy Johnson, Hearing Officer
Ms. Cris Brasuell, Court Reporter
Ms. Vickie D. Asher, APERS Member
Ms. Deborah H. Drake, APERS Member
Ms. Terry L. Griffin, APERS Member
Ms. Rachel J. Sims, APERS Member
Ms. Veronica Young, APERS Member
Mr. Jason Owen, Attorney for Petitioners
Mr. Mike Wickline, *Arkansas Democrat-Gazette*

STAFF PRESENT:

Mr. Carlos Borromeo, APERS Chief Investment Officer
Ms. Usha Doolabh, APERS Investments Manager
Ms. Laura Gilson, APERS General Counsel
Ms. Abbi Bruno, APERS Director of Operations
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
Mr. Craig Blackard, APERS Accounting Supervisor
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.

MINUTES:

Prior to the Board meeting, a draft copy of the Minutes from the November 20, 2019 meeting was e-mailed to each APERS Board member for review.

Mr. Hudson requested that the Minutes be amended to include a transcript of a discussion with the Actuaries in the November Minutes. He also pointed out an error in the November Minutes, where it said "Employee" instead of "Employer". Other board members requested a chance to review the transcript before approving its inclusion in the Minutes. Mr. Hudson motioned to accept the November Minutes as presented, with the previously mentioned error corrected. He acknowledged the Minutes could be amended later after everyone had a chance to review the transcripts. Mr. Hurst seconded the motion and it passed.

INVESTMENTS

QUARTERLY INVESTMENT REPORT FOR THE PERIOD ENDING DECEMBER 31, 2019- Presented by Ms. Brianne Weymouth and Mr. John Jackson of Callan LLC

Mr. Jackson reviewed the outstanding market performance over the last quarter and the last 12 months, noting especially the 31.02% increase in the Russell 3000 Index and a 22.01% gain in MSCI EAFE. The big question was how much of an impact the Coronavirus would have on the Chinese and the world's economy. Mr. Jackson also discussed BREXIT and the upcoming Presidential election's possible effect on the markets. The Callan representatives advised the APERS' board to "stay the course" with their investments.

Ms. Weymouth described the portfolio's performance through end of 2019, noting the fund was overweight Domestic Equity and underweight Fixed Income due to market movements, but was still within the allowable range. No rebalancing was necessary.

The fund gained 5.92% over the quarter, closing out the year at \$9.6 billion in assets. Over the last 12-months, the fund was up 20.9% while the policy target returned 20.13% and ranked in the top 12% of its peers. Over the last 20 years, the fund has consistently been in the top third of similar-sized public funds.

Manager Search – International Small Cap Equity

Ms. Weymouth reminded the Board of the steps they had previously taken to get to this point. Callan had done a detailed study based on APERS Client profile and narrowed the candidates down to six semi-finalists. Mr. Jackson explained the Board needed to review these firms and select 2+ to interview. Mr. Weymouth gave a summary on each firm, touching on their strengths, strategy, assets under management and other considerations.

- * Acadian Asset Management
- * Franklin Templeton Investment
- * JO Hambro Capital Management
- * Lazard Asset Management
- TimesSquare Capital Management
- Wellington Management Company

After reviewing all the candidates and discussing various options, Mr. Brady motioned to interview the four candidates indicated above (*). He was seconded by Mr. Douthit. Motion passed.

ADMINISTRATIVE

SUMMARY OF RETIREES FOR DECEMBER 2019, JANUARY & FEBRUARY 2020:

Mr. Baird gave a summary of recent APERS retirees noting the number of Non-contributory and Contributory members that had retired during that month. APERS currently oversees the benefits for 36,147 retirees and pays out just over \$46 million in monthly benefits. Mr. Baird pointed out additional information added to the quarterly report showing the number of new DROP members and Contributory Refunds for the Board's review.

FINANCIAL STATEMENTS FOR THE QUARTER ENDING DECEMBER 31, 2019:

APERS assets totaled over \$9.18 billion; over \$500 million higher than a year ago. During the last 6-months, APERS collected over \$150 million in Employer Contributions and \$35.5 million from their Employees. During those same 6-months, the fund paid out over \$294 million in benefits; a new record for annual benefit payments.

Set DROP Interest Rate

Mr. Baird distributed a graph showing the 5-year history of the interest rate associated with a 10-year Treasury yields. Currently, this investment has roughly a 1.56% annual return. Staff recommends lowering the Interest Rate on DROP accounts from 2.5% to 2.0%. Mr. Brady motioned to set the rate at 2.0% and was seconded by Ms. Lea. Motion passed.

Annual Approval for Board Travel Reimbursements

Mr. Baird explained that ACA §25-16-902 requires the Board to approve travel reimbursement rates for Trustees performing official Board duties at the first meeting of each calendar year. Currently, the approved rate is 42 cents per mile. Mr. Hudson motioned to approve reimbursement for travel under the state's guidelines. Mr. Bassett seconded the motion and it passed.

LEGAL

Litigation Update – Ms. Laura Gilson, APERS General Counsel

Ms. Gilson stated that in the case of Michael Corley, no appeal had been filed and the case was now closed.

Regarding APERS Member's appeals, the case of Moore vs. APERS had been dismissed by the AR Claims Commission, so this matter was closed. The other three cases were still pending.

Ms. Gilson reviewed the active cases where APERS has been named lead plaintiff. The case against Sea World settled for \$65 million a week prior to the Board meeting. It remained to be seen how much APERS would collect from this case. The other pending U.S. case is Bristol Meyers with Bernstein, Litowitz, Berger & Grossman. APERS was still awaiting the Court's decision. The final case is against TESCO (U.K.) involving Labaton Sucharow.

Rule-making Update – Mr. Duncan Baird, APERS Executive Director

Ms. Gilson reminded the Board at the last meeting they had elected to change the "APERS Regulations" to "APERS Rules" to be compliant with Acts 315 and 893 of 2019. This change standardized the text throughout the Arkansas Code. Mr. Baird distributed copies of the newly approved APERS Rules to the Board members.

BREAK

HEARING - YOUNG ET AL.

Hearing Officer Peggy Johnson introduced herself and after listing all five of the petitioners, she introduced Ms. Gilson and Mr. Owen as the lawyers on record. Mr. Jody Carreiro and Ms. Allison Woods (witnesses for APERS), the five petitioners, and Robert Tolson, a former district judge (witnesses for the petitioners), were sworn in. Hearing Office Johnson noted that this was a Petition for a Declaratory Order contesting the Board's interpretation of a law governing the vesting and calculating of retirement benefits of court clerks who have service in both a "closed local plan" and APERS. A court reporter was present and transcribed the Minutes of the hearing, which will become a part of the administrative record for the hearing.

The five court clerks were appealing APERS' calculations of their retirement benefits and requesting APERS award them the same benefits they had earned in an unsustainable and underfunded plan that the Legislature closed in 2007. This appeal was based on their interpretation of "vesting" and "reciprocity".

At the conclusion of the evidence and testimony presented, Mr. Douthit motioned to take Staff's recommendation to deny the petition for a declaratory order for all five petitioners; also that the findings and facts contained in the order and notice of hearing have been substantiated by the evidence and testimony presented today. He was seconded by Mr. Brady and the motioned passed unanimously.

BREAK

ACTUARIAL:

Summary of Legislative Town Halls and Discussion of 2021 Legislative Session

Mr. Baird discussed the upcoming Legislative Session and explained how to best utilize the state-wide 2020 Town Hall meetings that were anticipated for later in the year, to introduce possible Legislative changes to the members. He felt the Board should start preparing any proposals for discussion during the May and August Board meetings. Mr. Baird stated that Rep. Warren gave him the impression that the Joint Retirement Committee was not interested in promoting any bills unless they came from the APERS' Trustees. The Board members were very encouraged by this information.

Actuarial Fundamentals Presentation – Mr. Mita Drazilov and Mr. David Hoffman from Gabriel, Roeder Smith

Mr. Drazilov explained GRS had a Power Point presentation featuring a brief history and overall operation of APERS, as well as a proposal for a modified version of the current Actuarial Funding Policy. He noted that since the poor investment returns in 2008-2009, there had been no increases to the member contribution rate and no benefit changes (reductions) to the system; something that is quite rare among US pension plans. Most plans had been forced to adopt a three-pronged approach to dealing with their sky-rocketing unfunded liabilities: raising employee contributions, cutting member benefits and increasing employer contributions.

Mr. Hoffman reviewed the investment and market history of the last 30-years of the plan. Unlike many pension plans, APERS never played with “contribution holidays” and has remained conservative with its benefits; two events that have been the downfall of many other public plans. He noted how APERS Employer Rate was set by statute at 10% until around 2001, at which point the Board was given authority to set the rate annually. In 2005, APERS adopted a 5% Employee Contribution to alleviate the upward pressure on the Employer Contribution rate and keep the plan sound. Mr. Hoffman detailed the returns and Board actions taken over the most recent 20 years and how the Board's ability to set the Employer Contribution rate leads to the need to have an Actuarial Funding Policy. Currently, APERS Funded Ratio stands at 79% (as of June 30, 2019).

Mr. Drazilov mentioned that it is the responsibility of the Board and Staff to determine the goals of the benefit redesign process i.e. lowering the actuarial accrued unfunded liability or holding the Employer Rate steady. He mentioned that the Actuarial Funding Policy was established back in 2014 and the Board had changed considerably since then. Once GRS understood the goals of the Board, they could formulate different packages for their review at a future meeting. This way there would be plenty of time to draft legislative changes and telegraph these changes to the members via Town Hall meetings.

Mr. Baird suggested the Trustees plan for an additional meeting, before the May meeting, to discuss goals for the next legislative session. He asked the Trustees to review their calendars and get back with him on dates that they were available/not available.

OTHER BUSINESS:

Establishment of APERS Retirement Committee

Mr. Walther proposed that this discussion be tabled until a future meeting.

NEXT QUARTERLY BOARD MEETING:

The next quarterly Board Meeting is scheduled for Wednesday, May 20, 2020 at 9:00 a.m.

ADJOURNMENT:

There being no further business, the meeting was adjourned.

Mr. Larry Walther, Vice-Chair

Mr. Duncan Baird, APERS Executive Director