

**MINUTES OF THE QUARTERLY MEETING OF THE BOARD OF TRUSTEES
ARKANSAS PUBLIC EMPLOYEES' RETIREMENT SYSTEM
AUGUST 18, 2021**

A regular meeting of the Board of Trustees of the Arkansas Public Employees' Retirement System was held on Wednesday, August 18, 2021 at 9:00 a.m., via ZOOM remote conferencing due to the COVID-19 crisis. Ms. Candace Franks presided.

QUORUM PRESENT:

Ms. Candace Franks recognized the presence of a quorum.

BOARD MEMBERS PRESENT:

Ms. Candace Franks, (State Employee, Retired), Chair, Little Rock, AR
Mr. Larry Walther (Ex-Officio), Vice Chair, Department of Finance and Admin
Mr. David Hudson (Non-State Employee, County Judge), Fort Smith, AR
Mr. Gary Carnahan (Non-State Employee), Hot Springs, AR
Mr. Dale Douthit, (State Employee), Russellville, AR
Mr. Joe Hurst, (Non-State Employee, Mayor), Van Buren, AR
Mr. Daryl Bassett (State Employee), Sherwood, AR
Mr. Richard Wilson (Retired), Little Rock, AR
Mr. Gary Wallace (Retired Law Enforcement), Greenbrier, AR
Mr. Russell White (Retired Law Enforcement), Alma, AR
Mr. Jason Brady (State Treasurer's Office) *proxy*
Hon. Andrea Lea (Ex-Officio), State Auditor
Mr. Duncan Baird (Executive Director), APERS Executive Director

BOARD MEMBERS ABSENT:

Hon. Dennis Milligan, (Ex-Officio), State Treasurer

VISITORS PRESENT:

Ms. Brianne Weymouth, Callan LLC
Mr. John Jackson, Callan LLC
Mr. Avery Robinson, Callan LLC
Mr. Mita Drazilov, GRS
Mr. David Hoffman, GRS
Ms. Shauna Carpenter, ASEA
Dr. John Shelnett, Department of Finance and Admin.
Mr. Clint Rhoden, AR Teacher Retirement
Ms. Karen Whatley, Governor's Office
Mr. Mike Knapp, Bureau of Legislative Audit
Ms. Wambui Lynch, SSI Investment Management
Mr. Aifric ORaghallaigh, KBI Global Investors Ltd
Mr. Cyril Espanol, Pageant Media
Ms. Lauren Albanese, FIN News
Mr. Benjamin Sherry, Mandate Wire
Mr. Mike Wickline, Arkansas Democrat-Gazette
Ms. Zona Maness, Retired

STAFF PRESENT:

Ms. Allison Woods, APERS Deputy Director
Mr. Carlos Borromeo, APERS Chief Investment Officer
Ms. Usha Doolabh, APERS Investments Manager
Ms. Laura Gilson, APERS Chief Legal Counsel
Ms. Abbi Bruno, APERS Director of Operations
Mr. Phillip Norton, APERS Director of IT
Mr. Jon Aucoin, APERS Retirement Section Manager
Ms. Jennifer Taylor, APERS Director of Benefits Administration
Mr. John Owens, APERS Internal Auditor
Mr. Jason Willett, APERS Chief Financial Officer
Ms. Cheryl Wilburn, APERS Retirement Section Manager
Ms. Nina Gettinger, APERS Retirement Coordinator
Mr. Craig Blackard, APERS Accounting Coordinator
Ms. Kristi Brown, APERS Retirement Coordinator
Ms. Jacobia Bates, APERS Manager of Education Services
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.

INTRODUCTION OF NEW TRUSTEES:

Act 686 of 2021 added four new positions for retirees to the APERS Board – two appointees from the House and two from the Senate, of which two are retired law enforcement. Mr. Richard Wilson, Chief Russell White and Mr. Gary Wallace exchanged introductions and gave a brief history of themselves and expressed pleasure at being included on the APERS Board. The final House appointee had yet to be announced.

ELECT BOARD CHAIR

Mr. Jason Brady motioned to nominate Ms. Franks as Chair and Mr. Walther as Vice Chair for another term. He was seconded by Mr. Bassett. Motion passed unanimously.

MINUTES:

Prior to the Board meeting, copies of the Minutes from the May 19 and July 13, 2021 meetings were e-mailed to each APERS Board member for review. Mr. Carnahan pointed out that he had missed the July meeting, but the Minutes listed him as present. Mr. Brady motioned to accept the Minutes as amended. Mr. Carnahan seconded and both sets of Minutes were approved.

INVESTMENTS

QUARTERLY INVESTMENT REPORT FOR THE PERIOD ENDING JUNE 30, 2021- Presented by Ms. Brianne Weymouth and Mr. John Jackson of Callan LLC

Mr. Jackson reviewed the capital markets for the last quarter of Fiscal Year 2021. The U.S Equity markets continue to set all-time record-highs fueled by the rollout of COVID vaccines and another round of stimulus payouts. Fixed income posted some negative returns. Housing prices started to rise and there was concern about inflation. GDP was revised upwards to 4.3% putting the US into its deepest recession in 75 years. Consumer confidence hit a one-year high. Over the past 12 months the S&P 500 had a 56.35% return, while the Russell 2000 grew by 94.85%. Value stocks continue to outperform Growth stocks by a wide margin. Over the last quarter, Energy stocks began to surge gaining 30.9%, followed by Financials and Information Technology. He noted that 2020 marked the deepest recession in the market this country had seen in 75 years, however the Fed expects 6.5% growth in 2021 as the mega cap FAANG stocks continue to drive the market.

Ms. Weymouth detailed the portfolio's performance. As of June 30, 2021, the Fund had a Market Value of just over \$11.6 billion (another historic high) and over \$2 billion ahead of where it closed a year ago. Over the past 12 months the portfolio grew by 31.49%, strongly outperforming its benchmark of 25.82%. The fund's Domestic Equity portfolio continues to surge outside the Asset Allocation range due to the huge market movements. Staff will continue moving assets and using them to pay benefits to get the portfolio back to the Target Asset Allocation amounts.

APERS recently funded two new Small Cap managers and was able to capture some of the out-sized returns over the past quarter. Inflation was starting to creep up and the markets were keeping a close eye on those numbers. Value outperformed Growth for the quarter, but it has not managed to catch up with Growth for the trailing 12 months. Energy (up 30.9%) and Financial (up 16%) were the top sectors performing over the last quarter. The global economy had reacted in a similar fashion over the same time frame.

Ms. Weymouth reviewed new investment manager organizational developments. Newton Investment, MacKay Shields and Acadian Assets were transitioning people within their companies. Callan had no concerns with any of these planned changes but would continue to monitor.

Afterwards, she gave an update on the Investment Work Plan and reviewed steps the Board had taken so far with the Investment Policy, Non-US Equities and Real Assets. Later in the meeting they would be reviewing candidates for additional Core Plus real estate managers and farmland. Ms. Weymouth pointed out that the Board would also be taking a closer look at Domestic Equities, Diversified Strategies and Fixed Income at upcoming meetings.

CORE PLUS AND FARMLAND/AGRICULTURE MANAGER SEARCH OVERVIEW
Presented by Ms. Brianne Weymouth, Mr. John Jackson and Mr. Avery Robinson of Callan LLC

Mr. Jackson detailed the makeup of the Real Assets which currently comprises 11.2% or \$1.3 Billion of the APERS portfolio. The goal is to increase this allocation to 16% or \$1.85 Billion by adding more Core Plus Real Estate and Farmland. He explained how Non-Core portfolios were dynamic from year to year with certain funds invested while others liquidated. This made it imperative to continuously reinvest in newer offerings as the old ones reached their end dates. Mr. Jackson reminded the Trustees that at the May meeting they had committed \$75 million to Starwood and \$50 million to Harrison Street, both Non-Core Real Estate portfolios.

Mr. Robinson introduced himself and explained that they would be reviewing a \$250 million mandate to Core Plus open-end funds where capital would likely be called over the next 18 months. He identified four candidates and suggested the board narrow it down to two managers to interview at the next meeting.

- Carlyle Property Investors Fund (diversified)
- Clarion Lion Industrial Trust (industrial)
- Principal Enhanced Property Fund (diversified)
- Prologis U.S. Logistics Fund (industrial)

He gave a breakdown of how these candidates were selected and how they could compliment APERS existing portfolio.

In addition, at a previous meeting the Board had voted to expand the portfolio into Farmland while phasing out the Timberland fund. Callan had selected two Farmland Managers for the Board to review for a projected \$85 million mandate: International Farming and PGIM. Mr. Baird recommended the Board interview both farmland candidates and all four Core Plus candidates at an upcoming Board meetings.

Mr. Carnahan motioned to interview all the candidates. Second by Mr. Hudson and the motion carried.

ACTUARIAL

PRELIMINARY 2021 ANNUAL ACTUARIAL VALUATION – Presented by Mr. Mita Drazilov and Mr. David Hoffman of Gabriel Roeder Smith

Mr. Drazilov explained the purpose of the Annual Valuation to the new Trustees, noting that the valuation would determine the Employer Contribution Rate for the year beginning July 1, 2023. The final rate would be adopted at the November meeting when the final valuation was presented. He detailed the 4-year “smoothing” process and how it was used to stabilize the volatility of the plan.

Mr. Drazilov noted that this valuation reflected the changes in benefit provisions that were passed in the 2021 Legislative session, although they would have no impact on the valuation since they will not be implemented until July 1, 2022. He discussed the two types of assumptions that actuaries use to create the annual valuation: Demographic (Participant data) and Economic (Investment data). These actuarial assumptions are recalculated every 5 years during an Experience Study. APERS’ next Experience Study will take place in 2022 after the June 30 valuation is concluded.

At this point, Mr. Hoffman took over to review the actual results of the preliminary valuation. He highlighted the declining number of active members, while the number of retirees had increased by 25% over the last 10 years. He then moved on to the economic data section. As of June 30, 2021, the market value (MV) of assets exceeded the funding value (FV) of assets by approximately \$1.26 billion. He explained with this economic windfall the Trustees could choose to lower the contribution rate or decrease the amortization period while maintaining the 15.32% employer rate. Based on the preliminary valuation results, APERS funded ratio is 84%.

Mr. Hoffman explained the figures involved in calculating the Preliminary Employer Contribution Rate. If the board decided to continue with the 15.32% Employer Rate, then the UAAL of \$1.93 billion could be lowered to a 16-year amortization period, down from 23-years as of June 30, 2020. Finally, Mr. Hoffman showed a set of projected investment return scenarios, and they would affect the fund over the next 5 years.

Tentative Employer Rate for FY 2024

After the conclusion of the presentation, Mr. Hoffman asked for guidance from the trustees on the Employer Rate beginning July 1, 2023. After the trustees had a chance to express their opinions, to Mr. Bassett motioned to maintain the Employer Rate 15.32% through Fiscal Year 2024. He was seconded by Mr. Douthit and the motion passed unanimously.

BREAK

ADMINISTRATIVE

ANNUAL INTERNAL AUDIT RESULTS AND PROPOSED INTERNAL AUDIT FOR FY2022 – Presented by Mr. John Owens, APERS Internal Auditor

Mr. Owens introduced himself to the new Trustees and then explained the nine audits and one special project that he has performed over FY 2021.

- Review processing of DROP participants
- Review processing of PAW participants
- Review of benefit calculations with public safety service
- Review of FAC in benefit calculation
- Review Age 62 Temporary Annuity
- Review calculations of monthly annuities for retirees
- Review of agency practices regarding collection of required documents
- Review calculation of retroactive benefits for survivor annuities
- Review process for handling employee termination refunds
- (Special Project) Legislative changes

All ten of the audits conducted resulted in the achievement of the audit objectives and no audit findings were identified. The special project was assistance with the pension administration computer software applications.

Mr. Owens then explained the proposed areas he planned to audit during FY 2022. These included:

- Review the process of Non-Periodic Distribution (DROP, PAW, Refunds, etc.)
- Review of purchases of military service
- Review repayment of refund calculations
- Review of purchases of prior service
- Review process for collection of overpayments of annuities
- Review process of collection of deceased retiree annuity overpayments
- Review collection of deceased retirant annuities from beneficiaries
- Review of retiree overpayments
- Legislative changes
- COMPASS (Special Project)

Mr. Owens warned that the 2022 audit time would be cut into by two additional projects for the agency. The **Control Self-Assessment (CSA)** required by DFA to identify and assess all risks of the agency and create controls to mitigate each risk and the **Arkansas Continuity of Operations (ACOO)** to document a plan to ensure the continuity of operations for the agency in case of an emergency (disaster, pandemic, etc.).

Mr. Carnahan congratulated the staff on their remarkable job under difficult times. Ms. Lea motioned to approve the Audit Report and Audit Plan, second by Mr. Bassett. Motion passed.

SUMMARY OF RETIREES FOR THE QUARTER ENDING JUNE 30, 2021:

Mr. Baird worked off the report pointing out that APERS had 211 members who retired in April, 215 in May and 209 retirees in June, for a total of 635 new retirees in the second quarter of 2021. This brought the total number of retirees and beneficiaries receiving monthly checks from APERS to 37,440. He noted there are still about 7,000 non-contributory members in the system.

FINANCIAL STATEMENTS FOR THE QUARTER ENDING IN JUNE 30, 2021:

Mr. Baird noted that the fund had gained roughly \$2.4 billion since June 2020. APERS' total assets as of June 30th were almost \$11.18 billion. Over the last fiscal year, there was an increase of roughly \$7 million in Employer Contributions and a \$3.5 million increase in Employee Contributions. During the last year, APERS paid out over \$608 million in benefit payments, an increase of about 3.5%.

MEDICAL REVIEW:

The Medical Review Board met at 9:00 a.m. on Tuesday, August 10, 2021 via ZOOM video conferencing to discuss the case of APERS Member XXX5463.

- After review and discussion, the Medical Review Board found that XXX5463 was suffering from an illness or injury at the time of his termination on November 20, 2020 which subsequently led to the disability determination.

With APERS Board approval, in accordance with ACA 24-4-511(e)(3) benefits for the approved member will be effective September 1, 2021.

Mr. Hudson motioned to accept the APERS Medical Review Board's recommendation and approve the disability request. Seconded by Ms. Lea. Motion passed.

LEGAL

Litigation Update – Ms. Laura Gilson, APERS Chief Legal Counsel

A copy of the August 18, 2021 Litigation Report was included in the Board materials. In reviewing the report before the Board, Ms. Gilson reported that since the last meeting Ms. Hammock did not appeal to the circuit court and that case is now closed. Another member, David Shelton, has requested an appeal before the board which will be scheduled at a later date.

In the case of the Court Clerks, Veronica Young, et al., the Court Clerks have withdrawn their efforts to appeal the circuit court's decision in favor of APERS, and that case is now closed.

In a case heard before the Claim Commission, Ms. Cherriet Clark did not appeal the decision of the commission, which ruled in favor of APERS, within the required 30 days. This decision by the commission will be reviewed in due course by legislative committee.

Bolden v. APERS case was appealed to Pulaski County Circuit Court to Judge Herbert Wright in late 2020. On March 11, 2021 the Court upheld the decision of the Board. Ms. Bolding filed an appeal to the Court of Appeals. APERS's brief is due October 1, 2021.

Regarding APERS securities litigation cases, Ms. Gilson stated that there were two active cases: 1) Bristol-Myers Squibb. This case was dismissed and APERS has filed an appeal; and 2) Lobstein, pro se. APERS is not lead plaintiff.

At the board's earlier request, Staff compiled a list of recent securities class action cases in which APERS was not a lead plaintiff but was a part of the class, and detailed the recovery amounts APERS receives. These claims are filed by APERS custodial bank. Ms. Gilson presented the information to the board.

Act 662 of 2019 required codification of rules by the Bureau of Legislation and that they resemble Arkansas law and be in a central location for the public to access. This huge project is expected to be completed around 2024. APERS has already submitted their rules and Staff is working to make sure the reformatted rules do not change substantively. If BLR uncovers obsolete rules that need to be removed, that will have to go through formal promulgation.

OTHER BUSINESS:

There was no other business.

NEXT QUARTERLY BOARD MEETING:


Educational Seminar tentatively planned for October 20, 2021.

The next quarterly Board Meeting is scheduled for Wednesday, November 17, 2021 at 9:00 a.m.

There will be a Member Appeal before the Board, scheduled sometime at a later date. Trustees would be notified when a date and time had been identified for the Hearing

ADJOURNMENT:

There being no further business, the meeting was adjourned.



Ms. Candace Franks, Chair



Mr. Duncan Baird, APERS Executive Director