ARKANSAS PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF TRUSTEES

INVESTMENT POLICY STATEMENT

Adopted by the Board of Trustees
November 15, 2023

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- ADOPTED 1985
- AMENDED NOVEMBER 2004
- AMENDED JULY 2007
- AMENDED NOVEMBER 2019
- REVIEWED NOVEMBER 2020
- AMENDED NOVEMBER 2023

ARKANSAS PUBLIC EMPLOYEES' RETIREMENT SYSTEM
INVESTMENT POLICY STATEMENT

I. INTRODUCTION

The Arkansas Public Employees Retirement System ("APERS" or "System") was established by the Arkansas General Assembly in 1957 as a multi-employer defined benefit retirement plan for State of Arkansas employees. The administration and control of the system shall be vested in a thirteen- member Board of Trustees ("board" or "trustees"). APERS is governed by the laws of the State of Arkansas and its governing statutes, rules, and regulations. Arkansas State Code "Title 24. Retirement and Pensions." contains the statutes that govern the Arkansas Public Employee Retirement System. Including other responsibilities, the Board of Trustees may do any and all things necessary for the proper administration of the system and carry out make effective the provisions of this Title 24. Arkansas Code §24-4-104(d)(2) states that the Board shall appoint an executive director who shall be the executive administrative officer of the Arkansas Public Employees Retirement System. Arkansas Code §24-4-105 provides for the administrative direction and control of the executive director and clerical staff as may be required in the administration of the system. Arkansas Code §24-2-201 et seq. and §§24-2-601 through 24-2-619 are the primary statutory authority for the investment activities of APERS.

II. STATEMENT OF PURPOSE

Arkansas Code § 24-2-613(b)(1) Trustees shall develop an investment policy. This policy shall be a written statement of goals for the fund and rules to be followed to achieve those goals.

The Investment Policy Statement ("IPS" or "Statement") incorporates the laws, documents, principles, and standards that guide the management of the System's investments. This IPS governs the investment assets of APERS and is established to provide a framework for the management of those assets. The Executive Director and Chief Investment Officer shall administer this Statement pursuant to laws of the State of Arkansas, and the investment policies adopted by the APERS Board of Trustees. This IPS is intended to be binding upon all persons with authority over the System's assets, including external investment managers/advisors, custodians, consultants, and staff.

The Board intends for this IPS to be a dynamic document subject to review and refinement. Policies may be modified to reflect changes in assets and investment strategy, benefit changes, and economic conditions.

The purpose of this Statement is to:

A. Set forth the investment policies, objectives, and guidelines the Board of Trustees determines to be appropriate, prudent, and in consideration of the System's needs, to comply with all current state laws and to direct the System's investment activities.
B. Establish criteria to evaluate the System's investment performance. (Section VIII)
C. Communicate investment policies, objectives, guidelines, and performance criteria to staff, external investment managers/advisors, consultants, custodians, and any/all other interested parties.
D. Serve as a review document to guide ongoing oversight of the System's investments for compliance with the laws of Arkansas and applicable federal laws.
E. Demonstrate the Retirement Board's fulfillment of its responsibilities to manage the investments of the System solely in the interest of members and their beneficiaries.
F. Document the Retirement Board's fulfillment of its overall fiduciary responsibilities with respect to the investment of System assets

III. STATUTORY GOVERNING AUTHORITY

Arkansas Code § 24-2-602 states that the boards of trustees of the Arkansas Public Employees Retirement System…shall have full power to invest and reinvest the moneys of the respective systems and to hold, purchase, sell, assign, transfer, or dispose of any investments so made as well as the proceeds of the investments and moneys.

Board of Trustees

The Board is responsible for establishing the policy for the system and overseeing the investment of the portfolio and the expenditures required to meet system obligations. Specifically regarding investments, the board takes action based upon information presented at Board and/or Investment Finance Subcommittee meetings and upon recommendations made by staff. Arkansas Code §24-2-611 states "Trustees shall invest and manage trust assets as a prudent investor would, by considering the purposes, terms, distribution requirements, and other circumstances of the trust. The trustees shall exercise reasonable care, skill, and caution. Investment and management decisions respecting individual assets must be evaluated not in isolation but in the context of the portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust."

Investment Finance Subcommittee (IFS)
The APERS Board of Trustees created the Investment Finance Subcommittee in 2023. The APERS Board of Trustees delegated the IFS with investment and finance

oversight responsibilities. The IFS makes recommendations to the Board and supports the Board's deliberations on topics covered and set forth in this policy. The IFS approves or disapproves investments recommended by the ED and CIO.

Executive Director (ED)
Arkansas Code §24-4-104(d)(2) and (3) authorize the board to appoint an executive director who shall be the executive administrative officer of the system and shall also be ex officio secretary of the board. The board may delegate to the executive director any of the powers and duties vested in or imposed upon it by law.

Chief Investment Officer (CIO)
The CIO is part of the investment staff, reports to the ED, works with the Board as well as the IFS on policy-related issues and directs the investment program consistent with this IPS and within applicable state and federal laws. The CIO and ED implement this policy and board decisions made in connection with this policy. The CIO and the investment staff manage daily cash-flow and liquidate assets as necessary to pay benefits. The board delegates duties to the CIO to perform that are consistent with this investment policy statement.

Investment Staff
The investment staff, under the direction of the CIO, are responsible for the daily operation and implementation of the investment program. Investment staff are also responsible for supporting the investment program at the strategic, compliance and operational levels through the establishment of appropriate procedures as well as implementation of tools and processes to implement, measure and monitor the investment program as further described in this IPS and the internal investment department policy and procedure document.

Custodian Bank

Arkansas Code §24-2-606: Securities may be held by the State Treasurer or, APERS may establish an arrangement with a financial institution for the custodianship of its securities subject to the approval of the Board.

The Custodian Bank serves as the master custodian of the System's assets and is responsible for maintaining the official book of record under the supervision of the CIO and the investment staff, calculating investment performance, and serving as an additional layer of risk control in the safekeeping of System's assets.

IV. DELEGATED AUTHORITY

The Board maintains the ultimate oversight of the system's assets. The Board requires all trustees, the executive director, the chief investment officer, and the investment staff to make all investment decisions in the best interest of the system.

The Investment Finance Subcommittee of the Board of Trustees is authorized to invest in or otherwise sell or dispose of any system asset, without regard to amount, when the transaction is recommended by the ED and the CIO and the transaction, in the judgement of the IFS, is in compliance with the IPS. All investments will be reported at a regular board meeting by the chair of their designee to the full board of trustees.

The ED and CIO are authorized to invest the funds of the system in accordance with the directions, and Investment Policy Statement established by the board. The ED and CIO are responsible to exercise the delegated investment decisions adopted by the board, and applicable laws of Arkansas, and the policies contained in the policy.

To improve the efficient use of its resources, the board delegates the day-to-day investment operations and implementation through the ED, CIO, and investment staff. The ED and CIO are responsible for performing these delegated duties consistent with the IPS and as otherwise directed by the Board.

The ED and CIO are authorized to: manage the assets so as to assure sufficient cash is available at all times to pay the system's benefits as they come due; assure that the system's asset allocation as approved by the board is achieved and maintained; and that sufficient funds are available for the funding of investments which have been authorized by the board, the Investment Finance Subcommittee, and the ED and CIO, and to take actions necessary or required to achieve the board's objectives.

The ED and CIO have investment discretion to invest the system's cash in short-term fixed income securities, and/or money market funds for the purpose to provide liquidity, enhance income, and provide for temporary investment of system funds.

The ED and CIO are authorized by the board to retain and terminate investment managers within each asset class, with the approval of the Investment Finance Subcommittee, as necessary to achieve the investment objectives of the system. The size of an investment made is subject to specific limitations provided for the asset class applicable to the investment. No existing investment manager shall be terminated without the Investment Finance Subcommittee approval, except for exigent circumstances that include, without limitation, departure of key persons, regulatory events, bankruptcy or insolvency, fraud or other bad acts, in each case, as determined by the ED and CIO exercising reasonable judgement.

V. INVESTMENT OBJECTIVES

The APERS Board of Trustees has a fiduciary responsibility to the members and beneficiaries of the system. All investment transactions undertaken on behalf of the System will be for the sole benefit of the members and their beneficiaries, for the exclusive purpose of providing benefits to them and defraying administrative expenses.

§24-1-101 All assets and income of any state-supported retirement system administered by an agency of the State of Arkansas shall be held, invested, or disbursed for the exclusive purpose of providing for benefits, investment management, and administrative expenses… and shall not be encumbered for or diverted to any other purposes.

The System's long-term objective is to earn an average rate of return greater than the rate of return of representative indices for individual asset classes but no less than the actuarial assumption rate. The indices are identified in the Asset Allocation Policy. Volatility of returns, or risk, for the System, as measured by standard deviation of investment returns, should be commensurate with the level of returns expected to be achieved over a long period of time.

Assets will be invested with a total return posture given appropriate consideration for portfolio volatility (risk) and liquidity.

The actuarial consultant recommends the actuarial return assumption for the investment program after consulting with APERS staff regarding the expectations surrounding the long-term investment returns available from a well-diversified investment portfolio. The Board is responsible for approving an Actuarial Return Assumption and accepting that the commensurate risk posture of that portfolio is in line with the Board's Risk Tolerance.

The specific investment return objective is to maximize the probability of achieving the Actuarial Return Assumption without exceeding the Risk Tolerance of the Board. The Actuarial Return Assumption is adopted by the Board and will be evaluated annually by the Board.

VI. ASSET ALLOCATION POLICY

Asset allocation determines the different asset classes in the investment portfolio and the distribution of funds among those asset classes. As fiduciaries, the board of trustees have a duty to diversify the investments of the fund to minimize and manage risk, while maximizing the investment return. Arkansas Code §24-2-612. Trustees shall diversify the investments of the trust unless the trustees reasonably determine that, because of special circumstances, the purposes of the trust are better served without diversifying.

The Board recognizes that the most important determinant of long-term return and risk is the asset allocation decision. Approximately 80% to 90% of the variability in returns of a fund across time is expected to be attributable to the asset allocation decision. The remaining ten percent 10% to 20% is expected to be attributable to either selection of individual assets, investment managers, or market timing.

Strategic Asset Allocation is constructed based on long-term asset class forecasts with targets to maintain a set combination of asset classes. The Board's Strategic Target Allocation is intended to reflect, and be consistent with, the return objective and risk tolerance expressed in this IPS. It is designed to provide the highest probability of meeting or exceeding the Board's objectives at a controlled level of risk and liquidity that is acceptable to the Board. In establishing the asset allocation, the Board considers APERS' ability to withstand not only the long-term risk of underperforming its return objective but also short and intermediate-term volatility in investment performance and fluctuations in the financial condition of the fund.

Strategic Target Allocation should deliver:

1. A representation of the board's long-term return objective with its implied risk tolerance;
2. Sufficient confidence for the board to "stay the course" given extreme market moves;
3. A benchmark against which to measure performance.

The ED and CIO should ensure the risk representations in the capital markets models and assumptions used by the Board in setting the Strategic Target Allocation and Risk Tolerance are consistent internally, consistent with industry best practice, and consistent with the Board's investment risk philosophy and with the risk analytics used for monitoring portfolio risk.

The Executive Director and Chief Investment Officer consistently review the asset allocation as well as the asset class benchmarks and will recommend any changes/updates as deemed necessary.

The Strategic Target Allocation, asset classes, targets, and acceptable ranges as determined and approved by the Board to facilitate the achievement of long-term investment objectives within acceptable risk parameters are in the table to follow. Target allocations may not be attained at any specific point in time as actual asset allocation is often dictated by current and anticipated financial market conditions, as well as any actions and/or decisions by the board. Asset classes will not be "out of alignment" during any transition period, e.g., due to changes in asset allocation policy.

The Board approves and adopts the expected returns and risk assumptions, as well as the asset allocation mix. The most recent Expected Returns and Risk Assumptions, as well as the Asset Allocation are shown in Exhibits 1 and 2. The staff will continually updated these exhibits to reflect any action of the board.

Strategic Asset Allocation: Targets and Ranges (See Exhibits 1 and 2)

Note: All ranges for the asset class targets shall be +/- 5%

Asset Class Policy Benchmarks

Asset Class	Policy Benchmark
Domestic Equity + Convertible Securities	Russell 3000 Index
International Equity	MSCI ACWI ex US
Real Assets	CPI-U + 4%
Cash + Fixed Income	Bloomberg Aggregate
Private Equity + Diversified Strategy	each investment will have its own benchmark

Annual Review. The Executive Director and Chief Investment Officer will work with the investment consultant and prepare an Asset Allocation Review for the board to review. The strategic asset allocation will be reviewed annually to determine if the asset allocation remains acceptable to the Board. This annual review will include recent and historical investment experience and consider new developments. This includes a review and revision, where appropriate, of the long-term capital market assumptions regarding expected investment returns, standard deviations, and correlations, and the Board's long-term goals and objectives. A formal asset allocation will be conducted every three to five years, or as needed, or as directed by the board, to verify or amend the targets.

Asset Liability. An Asset-Liability study will be conducted and presented to the board. The study will integrate the actuarial liability projections with the asset allocation model. It is an exercise that examines the financial condition of the fund for consistency with the investment planning horizon. This study should be conducted every three to five years, or when a significant change to the fund's assets or liabilities has occurred, or, as directed by the board.

Rebalancing Policy. The Executive Director and Chief Investment Officer are responsible for a periodic and orderly rebalancing of the portfolio so that asset classes remain within the strategic asset allocation range, and for establishing an orderly rebalancing should one or more of the asset classes fall outside the established range. The goal of the rebalancing policy is to maintain the Board-approved strategic allocation and its risk and return profile. The Board has chosen a rebalancing policy that is governed by allocation ranges rather than time periods. The ranges, specified in the table above, are a function of the volatility of each asset class and the proportion of the total fund allocated to the asset class.

Investment staff will ensure that the integrity of the board's strategic target allocation is preserved through a disciplined process that allows the flexibility to rebalance the portfolio between investment managers within an asset class and between asset classes, within the board-approved ranges, to adjust for market movements and consider current market conditions, or valuations, in portfolio allocations.

Investment staff is responsible for implementing all portfolio re-balancing activities, subject to approval by the CIO, that are appropriate for existing circumstances. Investment staff will consider cash flows, opportunity costs, transaction costs and portfolio disruptions in any rebalancing implementation.

The CIO will report the results of any rebalancing activity to the board upon completion of the rebalance at the next regularly scheduled Board meeting.

Risk Management. APERS will have a risk management program/system to help ensure that investment risk is managed to be consistent with the risk appetite established in this IPS. The CIO establishes and oversees risk management and compliance.

VII. INVESTMENT GUIDELINES

The following guidelines are applicable to the total fund.

A. Securities may not be purchased on a margin.
B. Securities may not be sold short.
C. No single investment may comprise more than 5% of an investment strategy. An exception is for passively managed index products where there is no limitation.
D. Each investment manager is expected to invest APERS' funds according to the mandate APERS retained them to fulfill and according to state and federal laws.
E. The fund may establish a Securities Lending Program subject to restrictions established by the Board. The objective of the securities lending program is to generate incremental income from overnight and certain term loans of securities held, subject to guidelines, utilizing a high-quality and reasonably conservative cash collateral re-investment program that safeguards the return of principal and maintains adequate daily liquidity to support trade settlement activity and portfolio restructuring activities. The Board may appoint the custodian bank or a third party to serve as the system's lending agent.
F. A transition manager may be retained to assist in the transfer of assets from one investment manager to another and serves as a liaison between the CIO and the investment staff, the Custodian, the investment manager distributing assets, and the investment manager receiving assets. This transition may occur either within an asset class or between asset classes. The transition manager will facilitate clear communication between all parties, work to minimize market impact, trading costs and opportunity cost and may include interim investment

management services of account assets for a limited period of time.

The transition manager is required to be a registered investment adviser under the Investment Adviser's Act of 1940 as amended (unless properly exempted from registration by the SEC) or otherwise regulated by an appropriate governmental regulatory oversight organization (unless exempt from such registration requirement), act as a fiduciary to APERS, not delegate such fiduciary responsibility, and provide agency-only execution services. The Transition Manager will provide a detailed post-trade analysis for investment staff.

G. A risk analytics system, or firm/advisor, may be retained to assist with the CIO with oversight, monitoring, and management of risk in the investment portfolio, as well as to assist to ensure risk representations are consistent.
H. Under Arkansas Code §24-2-608(b), the Board believes in investing in Arkansas related investments if the investment does not impair the board's fiduciary responsibility or violates §24-2-610, the prudent investor rule.
I. All investment transactions, which does include the investment manager selection process, will be for the sole benefit of the system. The Board believes that all investment managers should be given equitable consideration in their selection process.

VIII. PERFORMANCE MONITORING

Performance measurement will be based on total rate of return and will be monitored over a sufficient time period to reflect the investment expertise of the investment manager(s) over three to five years. Performance results and evaluation relative to objectives will be reported to the Board on a quarterly basis.

A. <u>Return Expectations</u>
   1. Total Portfolio specific performance objectives include, but may not be limited to, the following:
      a) Achieve a total rate of return over rolling five-year periods meeting or exceeding the Actuarial Return Assumption.
      b) Exceed an appropriate benchmark reflective of asset class participation over rolling five-year periods (i.e., actual allocation index during the implementation period and Policy Index once fully implemented).

   2. <u>Individual Investment Managers</u>
      The CIO and the investment consultant(s) will determine performance expectations for each manager. Specific performance objectives for actively managed strategies include, but may not be limited to, the following:

a) Exceed an appropriate index or benchmark over rolling five-year periods.
b) Rank above median in an appropriate universe of managers possessing a similar style over rolling five-year periods.
c) The CIO and investment consultant will evaluate performance relative to expectations and appropriate peer groups for each private market investment manager.

There may be short-term variations from these objectives. The board believes that over the long-term (market cycle to market cycle), these goals should be attainable.

B. Consequences of Underperformance

If an investment manager's performance falls below expectations, and if the performance fails to improve relative to the standards detailed above and/or qualitative factor changes remain unresolved, the manager may be terminated or the investment redeemed.

IX. PROXY VOTING

The Board has directed that the individual investment managers will be responsible for voting proxies solely in the pecuniary interest of the pension plan. Each investment manager is responsible for maintaining records of how each proxy is voted. A written report shall be provided to the investment staff within 45 days from the end of each quarter. For each vote the report shall contain a vote caption, the plan's vote, the recommendation of company management and, if applicable, the proxy advisor's recommendation. The report(s) shall be posted on the APERS' website.

X. INVESTMENT POLICY STATEMENT

- ADOPTED 1985
- AMENDED NOVEMBER 2004
- AMENDED JULY 2007
- AMENDED MAY 2010
- AMENDED NOVEMBER 2019
- REVIEWED NOVEMBER 2020
- AMENDED NOVEMBER 15, 2023

Exhibit 1

2023 Expected Return and Risk Assumptions

Approved and Adopted
February 15, 2023 Board Meeting

Asset Class	2023 Expected Return	2022 Expected Return	Change in Expected Return	Risk
Domestic Equity	7.35%	6.60%	0.75%	18.05%
International Equity	7.45%	6.80%	0.65%	21.25%
Convertible Bonds	7.15%	6.25%	0.90%	14.25%
Fixed Income	4.25%	1.75%	2.50%	4.10%
Real Assets	6.40%	5.80%	0.60%	13.80%
Real Estate	*5.75%*	*5.75%*	*0.00%*	*14.20%*
Timber	*5.40%*	*5.40%*	*0.00%*	*15.60%*
Farmland	*5.55%*	*5.50%*	*0.05%*	*15.95%*
Diversified Strategies	5.55%	4.10%	1.45%	8.45%
Private Equity	8.50%	8.00%	0.50%	27.60%
Cash	2.75%	1.20%	1.55%	0.90%
Inflation (CPI-U)	*2.50%*	*2.25%*	*0.25%*	

Exhibit 2

Asset Allocation

Approved and Adopted Feb. 15, 2023

	Current Policy	Nov 16 Board Meeting: 5% PE (Mix 2)	Change	Today's proposal: 5% PE, 3%Converts	Change
Domestic Equity	33%	35%	2%	36%	3%
International Equity	24%	19%	-5%	17%	-7%
Convertible Bonds	4%	0%	-4%	3%	-1%
Fixed Income	18%	20%	2%	21%	3%
Real Assets	16%	16%	0%	16%	0%
Diversified Strategies	5%	5%	0%	2%	-3%
Private Equity	0%	5%	5%	5%	5%
	100%	100%		100%	
Portfolio Charactersitics:					
Expected Return	7.00%	7.07%	0.07%	7.08%	0.08%
Risk	12.60%	12.63%	0.03%	12.65%	0.05%
Sharpe Ratio	0.317	0.322	0.005	0.323	0.006
% Domestic Equity of Public Equity	58%	65%	7%	68%	10%