

**MINUTES OF THE QUARTERLY MEETING OF THE BOARD OF TRUSTEES
ARKANSAS PUBLIC EMPLOYEES' RETIREMENT SYSTEM
AUGUST 17, 2022**

A regular meeting of the Board of Trustees of the Arkansas Public Employees' Retirement System was held on Wednesday, August 17, 2022, at 9:00 a.m. This hybrid meeting was held via ZOOM remote conferencing in the Conference Room, 124 West Capitol, Little Rock, Arkansas. Ms. Candace Franks presided.

(Remote attendees indicated with an asterisk *).

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. Joe Hurst, (Non-State Employee, Mayor), Van Buren, AR
Mr. Dale Douthit, (State Employee), Russellville, AR
Mr. Daryl Bassett (State Employee), Sherwood, AR
Ms. Kaye Donham, (Retired), Benton, 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
Ms. Amy Fecher (Executive Director), APERS

BOARD MEMBERS ABSENT:

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

VISITORS PRESENT:

Ms. Brianne Weymouth, Callan LLC
Mr. John Jackson, Callan LLC
Mr. Mita Drazilov, GRS
Ms. Heidi Barry, GRS
Mr. Nick Henry, Auditor's Office
Mr. Paul Louthian, DF&A
Mr. John Shelnett, DF&A
Mr. Michael Knapp, AR Legislative Audit
Ms. Barbara Brown, AR Bureau of Legislative Review*
Mr. Jack Critcher, AR Municipal League*
Mr. Chris Villines, AR Assoc. of Counties
Ms. Erika Gee, Wright, Lindsey & Jennings LLPC*
Mr. Eli Bauer, Wright, Lindsey & Jennings LLPC*
Mr. John Balaod, With Intelligence Media*
Ms. Lauren Albanese, FIN News*
Mr. Alex Johnson, APERS Member
Ms. Zona Maness, APERS Retired*
Ms. Teresa Grasser, APERS Retired*
Mr. Mike Wickline, *Arkansas Democrat-Gazette*

STAFF PRESENT:

Ms. Allison Woods, APERS Deputy Director
Ms. Laura Gilson, APERS General Counsel
Mr. Carlos Borromeo, APERS Chief Investment Officer
Ms. Tammy Shadwick, APERS HR Manager
Ms. Usha Doolabh, APERS Investments Manager*
Ms. Jennifer Taylor, APERS Director of Benefits Administration*
Ms. Cheryl Wilburn, APERS Benefits Operations Manager
Mr. Jason Willett, APERS Chief Financial Officer

Mr. Phillip Norton, APERS Director of IT*
Mr. John Owens, APERS Accounting Operations Manager
Mr. Jon Aucoin, APERS Retirement Section Manager*
Ms. Shelly George, APERS Retirement Coordinator*
Mr. Stefan Melikian, APERS Retirement Coordinator*
Mr. Ronald Barrick, APERS IT Specialist
Ms. Kristi Brown, APERS Retirement Coordinator*
Ms. Phyllis Franklin, 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 KAAZ. This notification is pursuant to A.C.A § 25-19-101 (Act 93 of 1967) as amended, *a.k.a.* the Arkansas Freedom of Information Act.

INTRODUCE APERS' NEW EXECUTIVE DIRECTOR: MS. AMY FECHER

Ms. Franks introduced Ms. Fecher to everyone at the meeting. Ms. Fecher commented her first seven weeks on the job had been very busy, meeting with all the APERS Staff and attending the NASRA Conference in California.

AFFIRM BOARD CHAIR AND VICE-CHAIR

Judge Hudson motioned to maintain the current Chair and Vice-Chair. He was seconded by Mr. Douthit and the motion passed unanimously.

MINUTES:

Prior to the Board meeting, copies of the minutes from the May 18 and June 1, 2022, meetings were e-mailed to each APERS Board member for review.

Mr. Bassett motioned to accept the minutes as they presented, and he was seconded by Judge Hudson. Motion carried.

INVESTMENTS

**QUARTERLY INVESTMENT REPORT FOR THE PERIOD ENDING JUNE 30, 2022-
Presented by Ms. Brianne Weymouth and Mr. John Jackson of Callan LLC**

Mr. Jackson gave an overview of the capital markets for the final quarter of FY2022. The second quarter of the year had many concerns for investors both domestically and globally. There was an uptick in COVID infections, notably in China, which slowed down the world's second-largest economy. China earned a positive 3.4% return for the quarter, but for the fiscal year, they were down (-31.8%). There were also concerns regarding the ongoing war in Ukraine and inflation, especially the Federal Reserve's determination to get inflation under control by raising interest rates and possibly causing a recession.

The U.S. equity markets, as well as the International Equity markets, were all negative for the quarter. The S&P 500 was down (-16.1%) for the quarter and down (-10.6%) for the fiscal year. The developed international markets were down (-14.5%) for the quarter and (-17.8%) for the fiscal year. Emerging Markets (which includes Russia) were down (-11.4%) for the quarter and down (-25.3%) for the fiscal year. China was down (-31.8%).

Fixed Income suffered the worst six-month start on record for the Bloomberg Aggregate Index since 1975. Rare period when both Equity and Fixed Income were negative; statistically this occurs less than 10% of the time. The Federal Reserve has raised interest rates, and more rate increases are forecasted. The only bright spot was Real Estate. Open-End Diversified Core Index increased 4.5% for the quarter and 28.3% for the fiscal year.

Ms. Weymouth detailed the portfolio's performance. Virtually every asset class in the APERS' portfolio experienced negative returns for the quarter. It outperformed its index slightly for the quarter, returning (10.31%), while the benchmark was down (10.45%). Over the past 12 months the portfolio returned (10.54%) trailing its benchmark by 66 basis points and finishing below 2/3 of its peers. However, the Fund remains in the top third of its peers in all trailing time periods for the last 20 years. The month of July 2022 had seen a positive return for the portfolio. As of June 30, 2022, the Fund had a Market Value of just over \$10.09 billion, down roughly one billion from last quarter. The portfolio was very close to its target allocation.

Ms. Weymouth also noted that APERS' new farmland manager, PGIM, had made its first capital call this quarter for just over \$2 million. PGIM has been allotted \$50 million for farmland investments. LSV continued to benefit from the market shift to value and ranked in the top quarter of their peers and significantly outperforming their benchmark. Baillie Gifford struggled through another quarter, finishing at the bottom of their class for the quarter and for the fiscal year. Callan will continue to watch them closely but did not suggest APERS make any changes at this point.

Domestic Equity Structure Review

Mr. Jackson began with the basic tenets of manager structure and each manager's role in the portfolio, before focusing on the portfolio's Equity structures.

Ms. Weymouth reviewed the APERS US Equity structure. The current APERS US equity structure is well diversified. Due to market movements, over time, the US domestic equity portfolio has tilt towards growth. Ideally, the equity portfolio would be equally balanced between growth and value. Ms. Weymouth detailed where the tilt to growth was in the portfolio, as well as where the value exposure was contained. Callan suggested that the Board may want to rebalance the portfolio and search for another large-cap value manager to bring the portfolio back to parity between growth and value.

She detailed two alternative allocations to bring the portfolio back to the core. Mr. Walther and Mr. Bassett wanted to wait before making any decision. Carlos wanted to come up with some other allocation options.

On another topic, Mr. Brady wondered if APERS might be ready to get into Private Equity and suggested the October Education Conference feature Private Equity. Carlos suggested to the Trustees to also consider the private equity June data before making any decision.

Class Action Settlement Proceeds and Pending Report

Ms. Fecher referred the Board to the class action settlement proceeds information within the board material. There were no questions.

ACTUARIAL

PRELIMINARY 2022 ANNUAL ACTUARIAL VALUATION RESULTS - Presented by Mr. Mita Drazilov and Ms. Heidi Barry of Gabriel Roeder Smith

Mr. Drazilov began by encouraging the board to give GRS input and direction on their desired path for the employer contribution and to make a final decision at the November Board of Trustees meeting.

He reminded members that the annual valuation will be forthcoming. The two objectives of the annual valuation are to set the employer rate and calculate the financial position of the plan. He also noted that the expected return rate is set currently at 7.15%, and the next experience study will occur in February or May of 2023. These are conducted every five years.

His report included noting that there are approximately 6000 in the non-contributory closed plan and 36,728 contributory members, with 4% being increased annually.

The GRS team covered the APERS funded ratio on page nine of the report, the preliminary employer contribution rate on page 11, and the return scenarios on page 14 of the GRS quarterly report with the Board.

Tentative Employer Contribution Rate for FY2025

At the conclusion of his presentation, Mr. Hoffman asked for guidance from the trustees on the employer rate beginning July 1, 2024. After everyone had a chance to voice their opinions, Judge Hudson motioned to maintain the employer rate of 15.32% through the Fiscal Year 2025. He was seconded by Ms. Lea and the motion passed unanimously.

Actuarial Funding Policy Statement

Ms. Fecher reminded the Trustees that the last time an Actuarial Funding Policy had been presented to the Board was in February of 2020, and that a vote was never taken to make any edits to the policy. She explained that the staff and GRS had taken a look at the policy and made suggested updates and indicated that it would be reviewed more fully at the October workshop.

ADMINISTRATIVE

ANNUAL INTERNAL AUDIT RESULTS – Presented by Mr. John Owens, APERS

Internal Auditor

Mr. Owens delivered the results of the nine 2022 audit areas, including the special project - tax tables. Three of the audits were regarding overpayments and were done at the same time. He reminded the Board that he had moved to a different position within APERS, and he indicated that the 2023 audit would be conducted when a new internal auditor is hired. There were no findings on any of the 2022 Audits.

The areas that were audited were as follows:

- Age and Service Benefits – Review the processing of periodic distributions
- Active Members – Review purchases of Military Service
- Active Members – Review repayments of Refunds
- Active Members – Review of purchases of prior year service
- Retired Members – Review process for collection of over payments
- Legislative Changes – Review the process of Legislative changes for FY2022
- Special Project – COMPASS

Mr. Brady motioned to accept the Internal Audit Report as presented. Mr. Walther seconded and the motion carried.

SUMMARY OF RETIREES FOR THE QUARTER ENDING JUNE 30, 2022:

Ms. Fecher read from her report, noting that APERS had 186 members who retired in April, 151 in May, and 166 more retirees in June, for a total of 512 new retirees over the last three months of FY2022. This brought the total number of retirees and beneficiaries receiving monthly checks from APERS to 38,120; up 145 since last quarter.

FINANCIAL STATEMENTS FOR THE QUARTER ENDING JUNE 30, 2022:

Mr. Willett noted that the fund had lost roughly \$1.04 billion since July 1, 2021. APERS' total assets as of March 31, 2022, were over \$11.7 billion. Contributions, both employer and employee, had increased slightly due to salary increases and should continue upwards as the mandatory employee contribution rate increases. During the first half of the fiscal year, APERS paid out over \$478 million in benefit checks; an increase of about \$12.5 million over this time last year.

Medical Review Board Results

Ms. Fecher noted the Medical Review Board met at 9:00 a.m. on Tuesday, August 9, 2022, via ZOOM video conferencing to discuss the case of APERS Member XXX0526.

- After review and discussion, the Medical Review Board recommended the denial of disability retirement to APERS Member XXX0526 pending additional medical information.

There was no further Trustee action needed at this time.

Board Resolution for Signature Authority

Ms. Fecher presented the Trustees with an updated signature authority resolution for the agency with the change in leadership. Ms. Lea motioned to approve the resolution as presented. Mr. Walther seconded and the motion carried.

LEGAL

Member Appeals

Ms. Gilson updated the board regarding the Bolding appeal. Bolding filed a Petition for Review with the Supreme Court, and APERS is awaiting the ruling of the court.

Ms. Gilson also informed the board that there is potential for a board appeal by a member in mid-October. We are awaiting a response from the member's attorney before we set the appeal.

Securities Litigation Cases

Ms. Gilson reported that there are currently no active securities litigation cases in which APERS is the lead plaintiff. "Lobstein, pro se" remains on the report, but it is the lawsuit that involves the plaintiff's objection to a settlement of a securities litigation case in which APERS participated, and it is not a securities litigation case. APERS' outside counsel considers this lawsuit to be

frivolous and will likely be dismissed. There have been no changes in this case since the last APERS meeting.

2023 Legislation

Director Fecher and Ms. Gilson discussed a draft APERS legislative package for the upcoming 2023 legislative session. APERS considers all proposed bills to be non-controversial, and a technical corrections bill will focus on aligning and cleaning up language in the Arkansas Code for ease of administration. Director Fecher indicated that APERS is finalizing the language in the bills and that she would send a draft version to the Trustees soon. The legislative package will be addressed again at the October workshop.

OTHER BUSINESS:

Upcoming Board Meetings

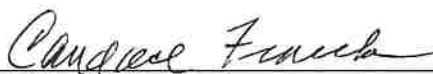
The Annual Trustee Workshop is scheduled for October 25, 2022.

The next quarterly Board Meeting is scheduled for Wednesday, November 16, 2022, at 9:00 a.m.


Mr. Walther motioned to go into executive session, but withdrew his motion after it was determined executive session was unnecessary. He indicated that the Board had hired the new executive director to begin on July 1, 2022, at the former director's salary. Doing so, had prohibited the annual performance raise to be added to the new director's salary. He motioned for the Board to increase Ms. Fecher's salary by 3% increase to \$170,357 as the former director would have been paid on July 1, 2022, and Mr. Bassett seconded. The motion carried.

ADJOURNMENT:

There being no further business, the meeting was adjourned.



Ms. Candace Franks, Chair



Ms. Amy Fecher, APERS Executive Director