



Arkansas Judicial Retirement System
Quarterly Board Meeting
(Thursday, February 22, 2024, 1:30 P.M.)
124 West Capitol Avenue, Suite 400, Little Rock 72201

The meeting will be held in the APERS conference room located on the 4th floor. The meeting will be a hybrid and can be attended via Zoom via the link on our website, www.apers.org.

AGENDA

1. Call to Order
2. Recognition of notification of meeting to news media pursuant to Act 93 of 1967 (AR Code 25-19-101) - Freedom of Information Act
3. Recognition of the Presence of a Quorum
4. **Action Item**: Approval of Minutes of the Meeting of November 16, 2023 **(Page 2)**
5. Administrative Expense Reports for October, November, and December 2023 **(Page 6)**
6. **Investments** - Ms. Brianne Weymouth and Mr. John Jackson from Callan LLC and Mr. Carlos Borromeo, Deputy Director of Investments and Finance
 - a. CIO Report **(Page 7)**
 - b. Quarterly Report for the Period Ending December 31, 2023 **(Page 15)**
 - c. Asset Allocation **(Page 37)**
 - d. Investment Policy Statement **(Page 54)**
7. **Finance** - Mr. Jason Willett, Chief Financial Officer
 - a. Financial Statements for the Quarter Ending December 31, 2023 **(Page 67)**
8. **Legal** – Mr. Richmond Giles, Staff Attorney
9. **Benefits** - Ms. Allison Woods, Deputy Director of Benefits
 - a. Summary of Retirees and Beneficiaries **(Page 69)**
10. **Executive Report** – Ms. Amy Fecher, Executive Director
 - a. Executive Report Review **(Page 71)**
 - b. Action Item: Annual Approval for Board travel Reimbursement (A.C.A. 25-16-902) **(Page 73)**
11. Next Quarterly Board Meeting: May 16, at 1:30 p.m.
12. Adjournment

**Arkansas Judicial Retirement System
Board of Trustees Meeting
November 16, 2023**

The regular meeting of the Arkansas Judicial Retirement System Board of Trustees was held on Thursday, November 16, 2023, at 1:30 p.m. in the 4th floor conference room, 124 West Capitol, Little Rock, Arkansas. This hybrid meeting was held via ZOOM remote conferencing in the conference room. Judge Yeargan presided.

Judge Yeargan recognized the presence of a quorum and welcomed the newest member of the board, Judge John Scott.

Board Members Present

Hon. Charles Yeargan (Retired Circuit Judge), Chair, Glenwood
Hon. Raymond Abramson (AR Court of Appeals), Holly Grove*
Hon. Herbert Wright (Circuit Judge), North Little Rock
Hon. Marcia Hearnberger (Circuit Judge), Hot Springs
Hon. John Scott (Circuit Judge), Fort Smith*

Visitors Present

Mr. John Jackson, Callan LLC*
Ms. Brianne Weymouth, Callan LLC
Ms. Heidi Barry, GRS
Mr. Mita Drazilov, GRS
Mr. Michael Knapp, Legislative Audit
Samuel Kauffman, Administrative Office of the Courts*

APERS Staff Present

Ms. Amy Fecher, Executive Director, Arkansas Judicial Retirement System
Ms. Allison Woods, Deputy Director of Benefits
Mr. Carlos Borromeo, Deputy Director of Investments & Finance
Ms. Ashley Golleher, Deputy Director of Operations
Ms. Usha Doolabh, Investments Manager*
Mr. Richmond Giles, Staff Attorney
Mr. Jason Willett, Chief Financial Officer
Ms. Patty Shipp, Assurance Officer
Ms. Jennifer Taylor, APERS Director of Benefits Administration*
Ms. Jacobia Bates, Director of Public Affairs
Ms. Cheryl Wilburn, APERS Benefits Operations Manager*
Ms. Phyllis Franklin, Retirement Coordinator*
*Denotes Remote Attendees

Notification of News Media

An e-mail notification of the Arkansas Judicial 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 copy of the minutes from the September 28, 2023, meeting was emailed to each AJRS Board member for review. Judge Wright made a motion to accept the minutes as presented. The motion was seconded by Judge Hearnberger. Without objection the motion carried.

Administrative Expense Reports for the Quarter

Judge Wright made a motion to accept the expense reports for June-September 2023 as presented. Judge Hearnberger seconded the motion. With no objection, the report was approved as submitted.

Investments

Ms. Weymouth, Callan LLC, reviewed the asset allocation schedule which includes the role of asset allocation, Callan 2023 Capital Market Assumptions, current strategic asset allocation, and actuarially assumed rate of returns. She reviewed the analysis of alternative asset mixes and long-term strategic asset allocations that the board can consider and establish at the next quarterly meeting in February 2024. Judge Yeagan asked for a definition of long-term. Ms. Weymouth explained that long-term is typically defined as five years to allow it to work through a full market cycle. Ms. Weymouth stated that the AJRS system is well funded with an actuarial rate of return of 5.5%. Callan considers this as well as liabilities when making recommendations to the board on asset allocation and overall investment policy. Asset allocation is the single most important component of the investment policy. Identifying asset classes for inclusion and liquidity are important considerations. AJRS portfolio's only liquid asset is real estate, and this is not a concern because the system is so well funded. Ms. Weymouth shared Callan's 10-year expected return and risk assumptions for asset classes for board consideration. She shared that the range of potential returns for AJRS asset allocation policy is 6.4%. She shared comparable benchmarks to assist the board in understanding AJRS allocation versus peers and other standard benchmarks. Mr. Borromeo explained that he will be prepared to present proposed updates to the Board's Investment Policy Statement in February.

Mr. Borromeo shared the CIO Report for the quarter ending September 30, 2023. The tone from June 2023 continued into the third quarter; The Fed remained hawkish on rates, the looming government shutdown was averted, a strike by autoworkers, and spikes in interest rates and oil prices. The Bloomberg Agg fell -2.49% for September for its 5th consecutive monthly loss. The S&P 500 fell 4.51%. The only two sectors that posted a positive return were energy and communication services due to the magnificent 7 stocks performance. In international markets, all indices were negative.

Ms. Weymouth reviewed negative fixed income markets which is a result of the fight against inflation. Judge Yeagan asked what factors contributed to the negative returns in the last quarter. Ms. Weymouth and Mr. Borromeo shared that it was due to a variety of factors such as fixed income (i.e., utilities, real estate), slowing of the magnificent 7, international markets, and headwinds from the global markets.

Ms. Weymouth reviewed the total fund performance. Last quarter, the fund performance was -3.4%, but up 8.4% from last year. She reviewed the investment manager performance which was led by Boston Partners. Baillie Gifford was down again (10.8%). The board questioned the reasoning for continued underperformance. The underperformance began when the central banks stated they would raise rates which has impacted international equities. Mr. Jackson, Callan LLC, stated that on a year-by-year breakdown, Baillie Gifford historically outperformed other managers. There has not been a change in key personnel or managers at the firm or other factors, therefore Callan still supports this manager but is monitoring closely. Callan suggested that the board should wait on a decision regarding Baillie Gifford following the asset review and the next few quarters of performance monitoring. Judge Scott requested

apple to apple comparison to see the calendar year and fiscal year side by side for performance monitoring. Ms. Weymouth explained the performance benchmarks for international equity management and peer comparisons. She stated that Callan will pull fiscal year performances for Baillie Gifford for the board to review in the future. The board agreed to wait to make a decision on Baillie Gifford based on Mr. Borromeo and Callan's recommendation.

Fixed income manager, McKay Shields, had a great quarter as well as Invesco. This was shared to highlight bright spots in APERS' portfolio for the quarter.

June 30, 2023, Actuarial Valuation Results

Heidi Barry, GRS Senior Consultant shared the purpose of the June 30, 2023, actuarial valuation to determine employer contribution rates for the fiscal year June 30, 2025, and to measure the funding progress in relation to the actuarial cost method. The board approves the reserve transfers from the Employer Accumulation Account to the Retirement Reserve Account and the Deferred Annuity Account. Ms. Barry explained that actuarial valuation is the mathematical process by which the level contribution rate is determined. She reviewed the census data, asset data, benefit provisions, actuarial assumptions, and funding method factors taken into consideration during this process. She noted that there was a 7% increase in pay that impacted the results. The funding value of assets (FVA) as of June 30, 2022, was \$313.2M, non-investment cash flow was negative \$8M, and market return was \$19.3M. This was better than was expected with a gain to be recognized in the next four years. The final funding value is \$322M. The difference between market and funding values results in a loss of \$14M that needs to be recognized over the next three years.

Mita discussed components of employer contribution rates which are normal cost and unfunded actuarial accrued liabilities. The pay increases which are great for the active members were greater than actuarial assumptions which resulted in a \$5.6m loss during this year's valuation. The actuarial experience for the year ended June 30, 2023, was unfavorable due to higher than assumed investment return on a funding value of assets basis offset by demographic losses, primarily the result of higher payroll increases than expected. AJR is 92.1% funded. The current employer contribution rate for the fiscal year ending June 30, 2025, is 37.54% of payroll.

Judge Wright made a motion to approve annual reserve transfers of \$1,836,212. Judge Hearnberger seconded the motion and with no objection the motion passed.

Financial Statements for the Quarter Ending September 30, 2023

Mr. Jason Willett, CFO, shared the quarterly financial statements with the board. AJRS's Fiduciary Net Position as of September 30, 2023, was \$301.6M. He noted a year-over-year increase of roughly \$15M in investment assets. Mr. Willett reviewed the AJRS statement of changes in fiduciary net position as of September 30, 2023, showing a loss in investment income for the quarter, but noted that year over year we are more favorable over 2022.

Legal Report

Mr. Richmond Giles shared an update on retired member Wendell Griffen's appeal. Judge Wright requested that APERS staff work to address the appeal and proceedings as quickly as possible.

Benefits Report

Ms. Allison Woods shared an update on retiree beneficiary totals. Judge Wright asked about future applications and numbers for the next quarter.

Executive Report

Director Fecher discussed the new format of the board packet and welcomed input from the board on additional items they would like to see in future board materials. Ms. Fecher shared that APERS will be considering the purchase of a new building versus leasing existing property long term. She shared that the staff is revising AJRS member handbooks and will share updates with the board in the next few months. Judge Wright stated that he would like to see more education on judicial retirement. He would like to ensure we provide helpful information to assist them in retirement planning.

The board reviewed the proposed 2024 board meeting schedule of:

- February 22, 2024
- May 16, 2024
- August 22, 2024
- November 21, 2024

There being no other business the meeting was adjourned.

Hon. Charles Yeargan, Ret. Circuit Judge
Chair Arkansas Judicial Retirement System

Amy Fecher
APERS Executive Director

ARKANSAS JUDICIAL RETIREMENT SYSTEM
STATEMENT OF ADMINISTRATIVE EXPENSES

Description	FY 23 Expenses	FY 24 Budget	Oct-23	Nov-23	Dec-23	Total YTD	Remaining Budget
<u>M & O Expenses</u>							
Office Supplies/Printing	1,075.87	2,460.00	-	-	-	-	2,460.00
Board Member Expense Reimbursement	1,266.72	6,000.00	137.28	150.80		398.33	5,601.67
Bank Charges	3,385.23	3,540.00	302.31	335.01	301.77	1,882.08	1,657.92
Total M & O Expenses	5,727.82	12,000.00	439.59	485.81	301.77	2,280.41	9,719.59
<u>Professional Fees</u>							
Veritext LLC (1)	-	-	125.00	186.60		311.60	-
Gabriel Roeder Smith (1)	33,800.00	35,000.00	-	28,400.00	-	28,400.00	6,600.00
Aristotle Capital (2)	139,851.49	155,000.00	34,326.08	-	-	34,326.08	120,673.92
Baillie Gifford (2)	126,814.22	210,000.00	33,238.73	-	-	33,238.73	176,761.27
Callan Associates (2)	75,226.36	75,000.00	-	19,558.85	-	19,558.85	55,441.15
Capital Guardian (2)	-	-	-	-	-	-	-
Invesco Real Estate (2)	98,900.04	95,000.00	-	-	29,301.59	56,096.55	38,903.45
MacKay Shields (2)	359,784.74	400,000.00	89,378.84	-	-	89,378.84	310,621.16
Robeco (Boston Partners) (2)	281,482.95	300,000.00	74,120.50	-	-	74,120.50	225,879.50
BNY Mellon (2)	14,877.93	20,000.00	3,127.55	-	-	3,127.55	16,872.45
Mellon Capital Management (2)	17,109.14	30,000.00		4,275.65	-	4,275.65	25,724.35
BatteryMarch / QS Investors (2)	-	-	-	-	-	-	-
Wellington Management (2)	-	-	-	-	-	-	-
Total Professional Fees	1,147,846.87	1,320,000.00	234,316.70	52,421.10	29,301.59	342,834.35	977,477.25
Transfers To APERS	113,708.00	115,000.00	-	-	-	115,000.00	-
Total Administrative Expenses	1,267,282.69	1,447,000.00	234,756.29	52,906.91	29,603.36	460,114.76	987,196.84

Notes:

- (1) Administrative Expense
- (2) Investment Expense



Chief Investment Officer Report

For the Quarter Ending December 31, 2023

Q4 2023 Summary

Investor optimism set the tone for a strong finish to 2023:

Economic strength and a changing outlook for interest rates assisted equities.

- In October, stocks retreated on hawkish Fed stance and geopolitical concerns.
- Stocks rallied in the final two months of 2023 as inflation slowed.
- In December, the markets rallied as the FOMC took a more dovish tone and discussions of Fed interest rate cuts in 2024 continued.
- S&P 500 was able to post positive return
- Fixed Income recovered in 4Q after a poor 3Q performance.

Q4 2023 Summary

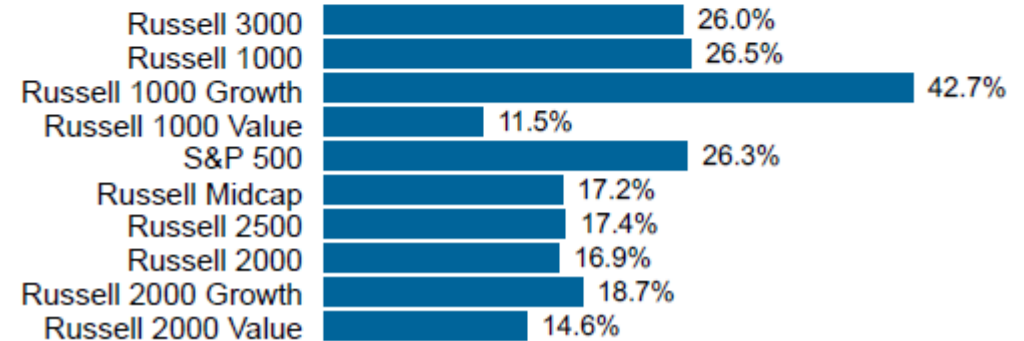
Domestic Equities - Key takeaways

- The concentrated performance (“Magnificent 7”) started to broaden out the last 2 months of 2023.
- In 4Q23 small cap performed better than large cap.
- However, for the complete year, it wasn’t even close, large cap dominated.
- Large cap growth outperforms large cap value.

U.S. Equity: Quarter Ended 12/31/23



U.S. Equity: One Year Ended 12/31/23

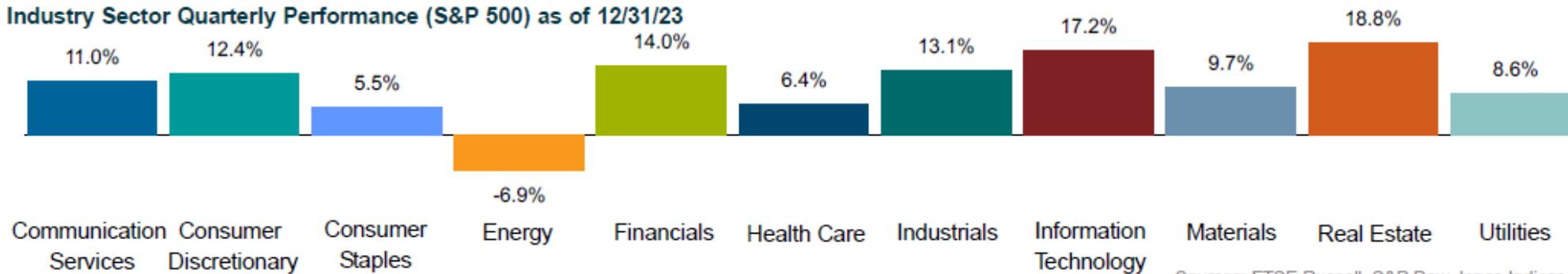


Q4 2023 Summary

International Markets experienced a strong finish to the calendar year. International Market Insights include:

- Signs of cooling inflation got help from a reversal in oil prices which pushed the expectations that restrictive monetary policy was coming to an end. European Central Bank rate cuts?
- Conflict in Middle East did drive strength in oil prices. But economic fundamentals do not support strong oil price which prompted OPEC+ to announce further supply cuts.
- Watch China. Their mounting economic problems could impact the global economy.
- Watch upcoming earnings. Results have been mixed. US is proving to be resilient. Europe’s outlook has worsened.

Industry Sector Quarterly Performance (S&P 500) as of 12/31/23

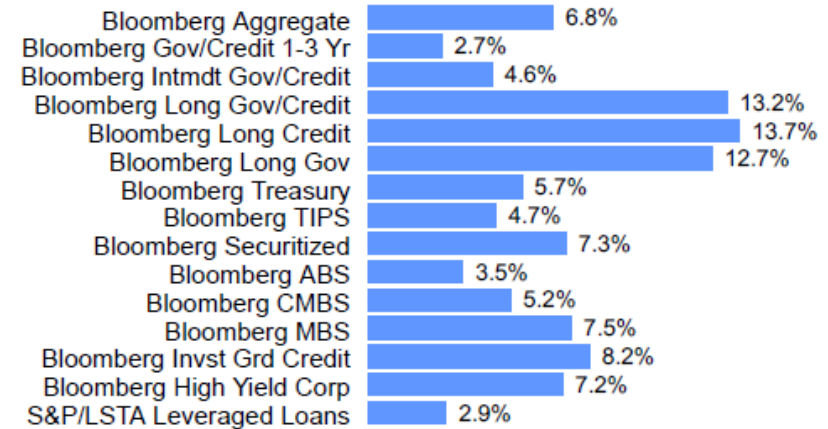


Q4 2023 Summary

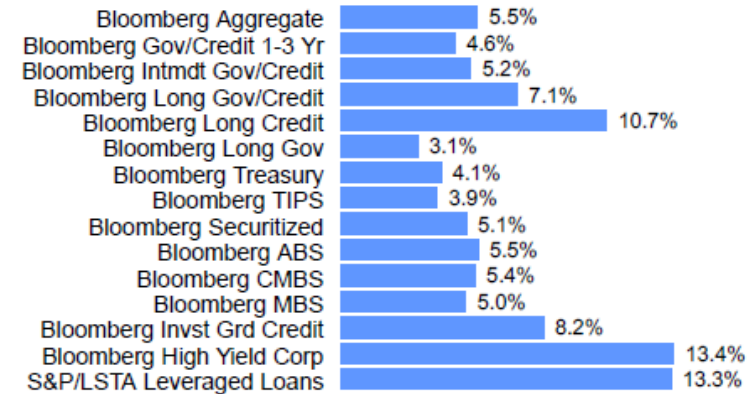
Fixed Income

- The Fed pivot was heard around the world. Their stance pivoted from “higher for longer” to possible rate cuts in 2024.
- Inflation over the past few months is below the Fed’s target of 2.00%
- The Bloomberg Aggregate Index was +6.67% for 4Q, the highest return since 2Q of 1989.
- High Yield soared as defaults remained low.

U.S. Fixed Income Returns: Quarter Ended 12/31/23



U.S. Fixed Income Returns: One Year Ended 12/31/23





Q4 2023 Summary

		Fiscal	Calendar			Fiscal	Calendar			
U.S. Equity	Q4 2023	Year	Year		Q4 2023	Year	Year		31-Dec-23	
S&P 500	11.69%	8.04%	26.29%	Domestic Equity	11.17%	9.37%	22.91%	\$	129,106,135	37.34%
Russell 2000 Index	14.03%	8.18%	16.93%	International Equity	11.66%	-0.39%	10.39%	\$	34,847,040	11.99%
Russell 3000	12.07%	8.43%	25.96%	Fixed Income	7.77%	5.02%	8.30%	\$	129,192,457	40.55%
Russell 1000 Growth	14.16%	10.59%	42.68%	Real Estate	-4.64%	-6.13%	-12.14%	\$	28,020,809	10.06%
Russell 1000 Value	9.50%	6.03%	11.46%	AJRS Total Portfolio	8.29%	4.96%	11.62%	\$	321,166,441	
International Equity				Cash				\$	321,687	
MSCI EAFE	10.42%	5.88%	18.24%					\$	321,488,128	
MSCI ACWI xUS	9.75%	5.61%	15.62%							
Fixed Income										
Bloomberg Agg	6.82%	4.22%	5.72%							

Q4 2023 Summary

Current Concerns			
2 U.S. Allies are involved in war/conflict - oil involved in both			
Ukraine			
Israel			
More bank failures? NY Community Bank fell 45%			
Commercial property losses causing bank problems globally			
China recently consolidated hundreds of rural lenders as financial risks mount			
Recent Houthi attacks causing unrest - oil & possible European inflation			
Positives			
Did the Fed avoid a recession?			
Rate cuts instead of rate hikes? If so, when?			



Q4 2023 Summary

The Super 6 = “MANMAT” = Microsoft, Apple, NVIDIA, Meta (facebook), Amazon, Tesla.

Magnificent 7 = “MANMAT” + Alphabet (Google) = MANMAAT

Fed = The U.S. Federal Reserve Bank

S&P 500 = Standard and Poor’s 500

Q4 = Fourth Quarter

YTD = Year to Date

Bloomberg Agg = Bloomberg Aggregate Index

U.S. T-bill = United States Treasury Bill

Value = Value Stocks

Growth = Growth Stocks

EAFE = Europe Asia Far East

ACWI = All Country World Index

IG = Investment Grade

February 22, 2024



Executive Summary Fourth Quarter 2023

Arkansas Judicial Retirement
System

Brianne Weymouth, CAIA
Senior Vice President

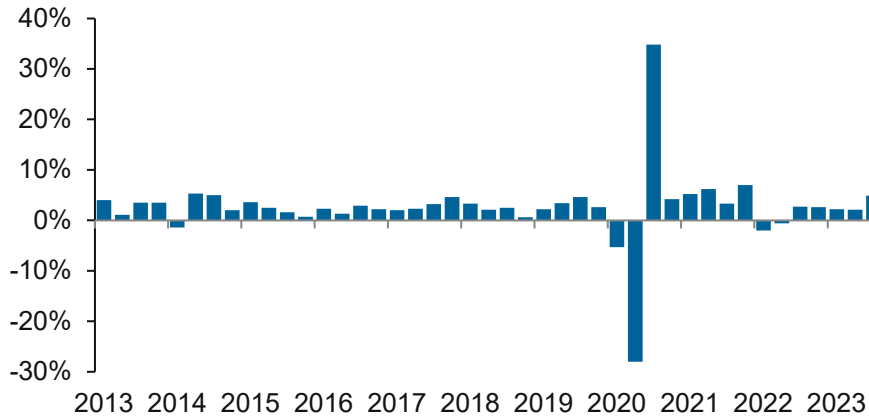
John Jackson, CFA
Senior Vice President

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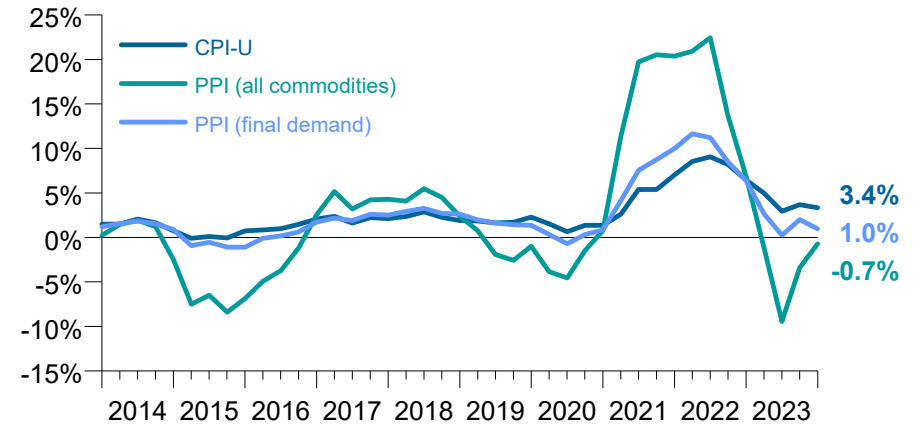
U.S. Economy—Summary

For periods ended 12/31/23 (Except GDP which is as of 9/30/23)

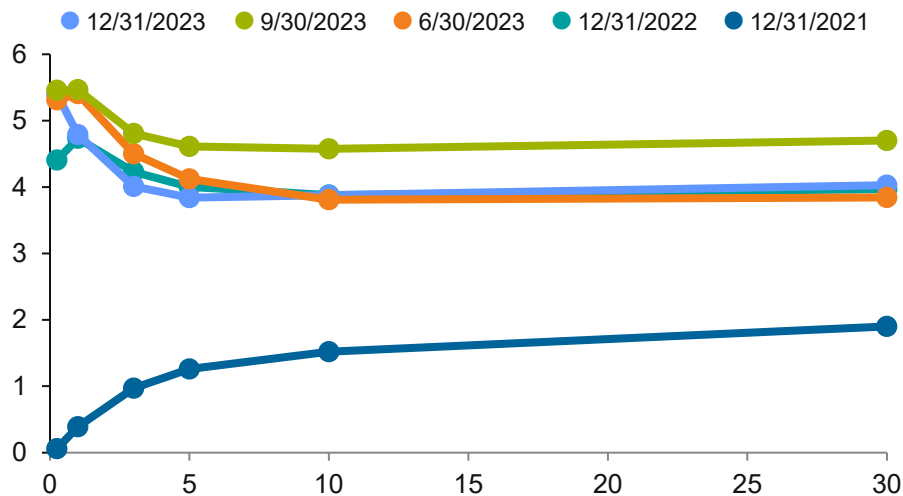
Quarterly Real GDP Growth



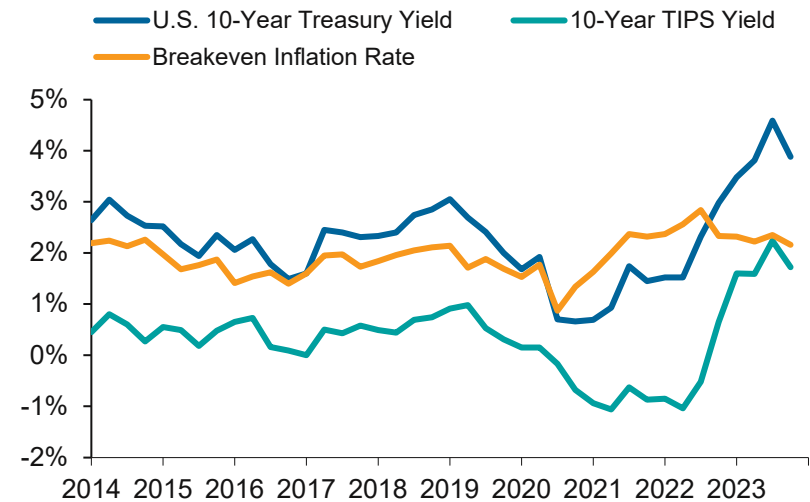
Inflation Year-Over-Year



U.S. Treasury Yield Curves



Historical 10-Year Yields Through 12/31/23



Sources: Bloomberg, Bureau of Labor Statistics, Callan

Equity Markets Recovered in 4Q, Posted Positive 2023 Returns

Stocks and bonds are recovering from 2022

S&P 500 soared 11.7% in 4Q23

- Loss through first three quarters of 2022 was 23.9%; the rebound in the following five quarters brought the index back to a positive return of 1.7% over the past two years.

Fixed income recovered in 4Q, up 6.8% after a sharp loss of 3.2% in 3Q

- The Bloomberg Aggregate was on track for another negative year through 3Q; softening Fed language on rates and a dot plot that showed cuts on the horizon in 4Q turned the market around.
- CPI-U declined in 4Q compared to 3Q, though up 3.4% year-over-year; the index is still 10% higher than it was at the start of 2022.

Economic data defied expectations of recession in 2023

- GDP growth came in at 2.1% in 1Q, 2.2% in 2Q, and jumped to a stunning 4.9% in 3Q. Preliminary 4Q forecasts have GDP over 2%.
- Job market remains solid, providing support to Fed efforts to fight inflation.

Returns for Periods ended 12/31/23

	Quarter	1 Year	2 Years	5 Years	10 Years	25 Years
U.S. Equity						
Russell 3000	12.07	25.96	0.88	15.16	11.48	7.74
S&P 500	11.69	26.29	1.69	15.69	12.03	7.56
Russell 2000	14.03	16.93	-3.55	9.97	7.16	7.91
Global ex-U.S. Equity						
MSCI World ex USA	10.51	17.94	0.54	8.45	4.32	4.62
MSCI Emerging Markets	7.86	9.83	-6.32	3.69	2.66	--
MSCI ACWI ex USA Small Cap	10.12	15.66	-3.79	7.89	4.88	7.28
Fixed Income						
Bloomberg Aggregate	6.82	5.53	-4.19	1.10	1.81	3.85
90-day T-Bill	1.37	5.01	3.22	1.88	1.25	1.90
Bloomberg Long Gov/Credit	13.24	7.13	-11.62	1.12	3.22	5.21
Bloomberg Global Agg ex-US	9.21	5.72	-7.29	-1.56	-0.79	2.25
Real Estate						
NCREIF Property*	-1.37	-8.39	3.12	5.26	7.40	8.31
FTSE Nareit Equity	16.22	13.73	-7.25	7.39	7.65	9.27
Alternatives						
HFRI Fund Weighted	3.59	7.52	1.52	7.00	4.53	6.30
Cambridge Private Equity*	1.60	2.78	3.19	15.18	14.78	13.61
Bloomberg Commodity	-4.63	-7.91	3.40	7.23	-1.11	2.83
Gold Spot Price	11.02	13.45	6.44	10.09	5.59	8.19
Inflation - CPI-U	-0.34	3.35	4.89	4.07	2.79	2.54

*Cambridge PE data as of 6/30/23; NCREIF Property data as of 9/30/23

Sources: Bloomberg, Callan, Cambridge, FTSE Russell, HFRI, MSCI, NCREIF, S&P Dow Jones Indices

U.S. Equity Performance: 4Q23

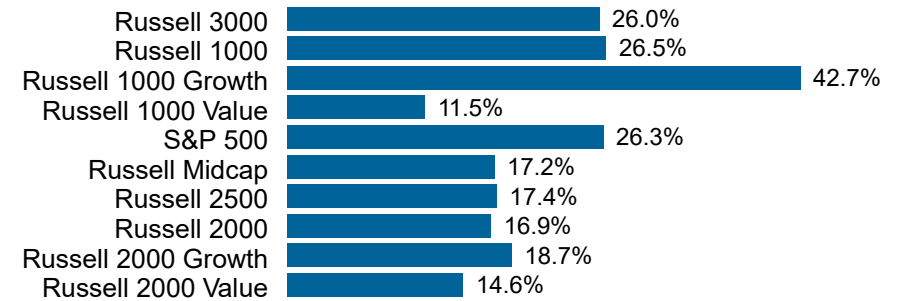
The U.S. equity market rallied in 4Q, closing the year near record highs

- ▶ U.S. equity markets rebounded in the last two months of the year as the impact of possible rate cuts in 2024 started to get priced in.
- ▶ 2023 saw the narrowest breadth of leadership (“the Magnificent Seven”) since 1987 with just 27% of stocks outperforming the S&P 500. Historically, such concentrated leadership has not been the sign of a healthy market. However, gains started broadening out in the last two months of the year with the equal-weighted S&P index outperforming the capitalization-weighted version.
- ▶ Smaller cap stocks also outperformed their large cap counterparts in 4Q23, further proof of the broadening out of returns; for the full year, large cap stocks outperformed small cap stocks by almost 10 percentage points.
- ▶ Growth vs. value performance was mixed across market capitalization during the quarter. Within large cap, growth outperformed value, while the opposite was true within small cap.

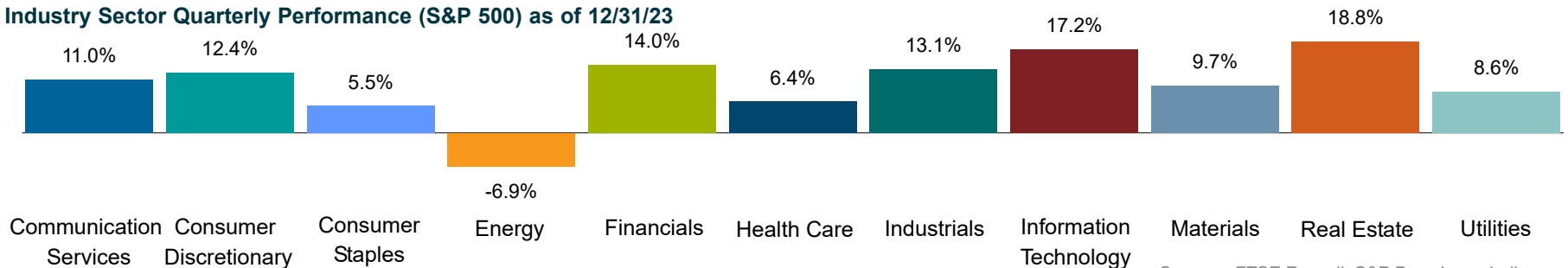
U.S. Equity: Quarter Ended 12/31/23



U.S. Equity: One Year Ended 12/31/23



Industry Sector Quarterly Performance (S&P 500) as of 12/31/23



Sources: FTSE Russell, S&P Dow Jones Indices

Global/Global ex-U.S. Equity Performance: 4Q23

Dovish central banks drove market higher

Global markets in the black for 4Q

Broad market

- ▶ Dovish signaling from central banks and dropping yields led to a broad market rally in 4Q.
- ▶ Global ex-U.S. small caps reclaimed some of their lagging performance in 4Q but ended the year as the worst-performing broad-based index, albeit up over 12%. Elevated borrowing costs and the persistent risk of a recession have kept investors away.
- ▶ Japan's low rates have benefited exporters, and the threat of being delisted spurred a stock buy-back spree. Coupled with an increased focus on governance, this spurred Japan to a multi-decade high.

Emerging markets

- ▶ Emerging markets underperformed developed markets.
 - India's rally couldn't overcome China's weakness, whose economic growth was near the government's target, but investor concerns around stimulus and a surprisingly sluggish reopening drove stocks lower.

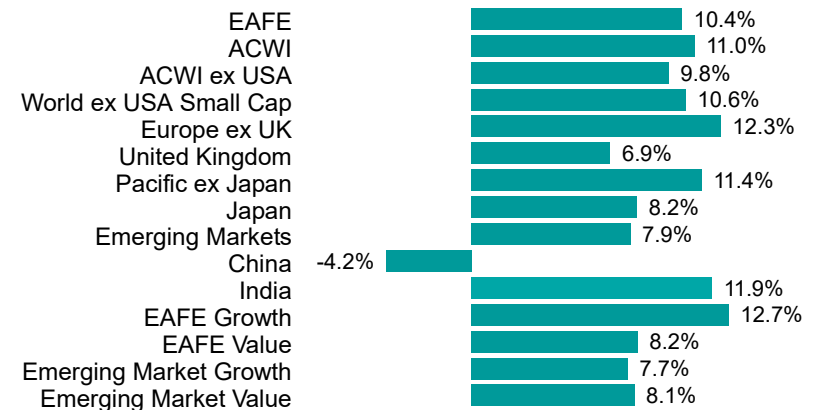
Growth vs. value

- ▶ Energy, a volatile area in the market, pulled back value's rally after having a strong 3Q. Global ex-U.S. growth rallied on lowering yields but couldn't overcome earlier underperformance and ended the year behind its value peers in both emerging and developed markets.

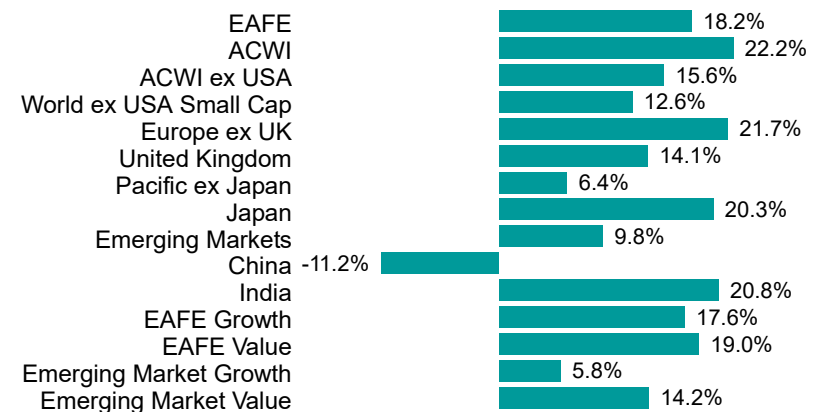
U.S. dollar vs. other currencies

- ▶ The U.S. dollar weakened in 4Q as investors believed that U.S. interest rates would fall faster than much of the developed world.

Global Equity Returns: Quarter Ended 12/31/23



Global Equity Returns: One Year Ended 12/31/23



Source: MSCI

U.S. Fixed Income Performance: 4Q23

Bonds bounce back at year-end; U.S. Treasury yield has volatile 2023

Strong returns at end of year

- ▶ Driven by falling rates and strong risk-on sentiment, the Aggregate returned 6.8%, the highest quarterly return since 2Q89
- ▶ 10-year U.S. Treasury yield closed the year at 3.88%.
 - A round trip from 12/2022, masking significant volatility during the year
 - High was 4.98% in October and low was 3.30% in April
- ▶ Corporates and mortgages outperformed Treasuries for the quarter and year.
- ▶ High yield corporates soared as defaults remained low, economy resilient.

U.S. Treasury yield curve remained inverted, but less so

- ▶ 1.06% as of 6/30; 0.44% as of 9/30; 0.35% as of 12/31

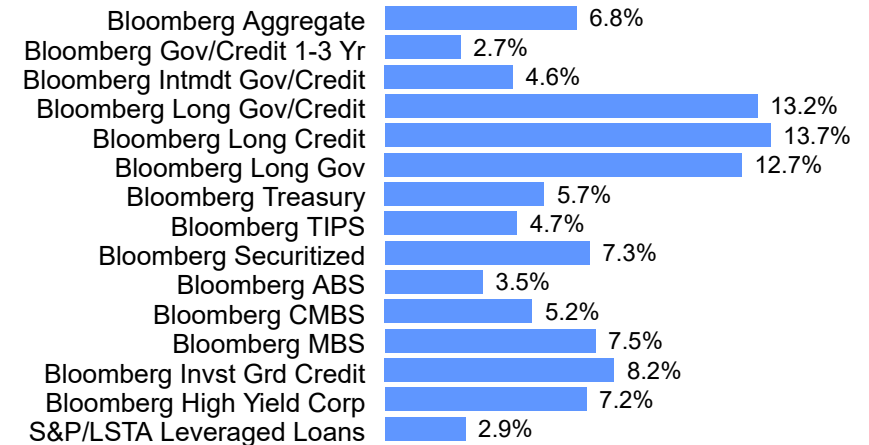
Fed kept Fed Funds rate on hold and softened language

- ▶ Pivoted from “higher for longer” to projected rate cuts in 2024
- ▶ Inflation over past six months below Fed’s 2% target
 - Core PCE Price Index was 1.9% annualized in November
- ▶ Markets expect six rate cuts in 2024 versus three in the Fed’s Summary of Economic Projections

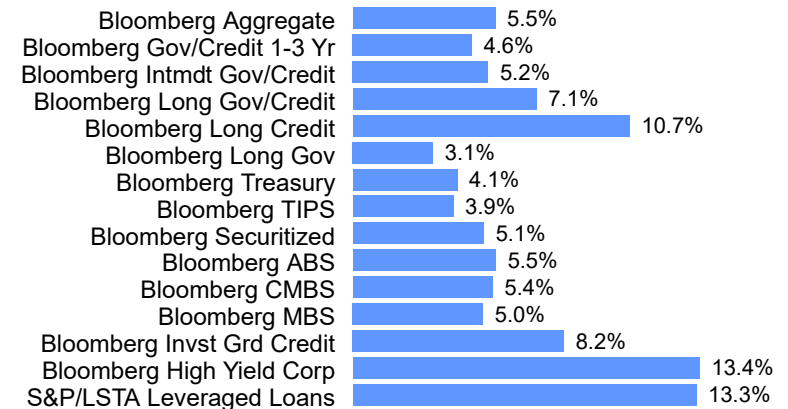
Valuations

- ▶ Investment grade and high yield corporate spreads now below 10-year averages

U.S. Fixed Income Returns: Quarter Ended 12/31/23



U.S. Fixed Income Returns: One Year Ended 12/31/23



Sources: Bloomberg, Callan, S&P Dow Jones Indices

Asset Allocation Review

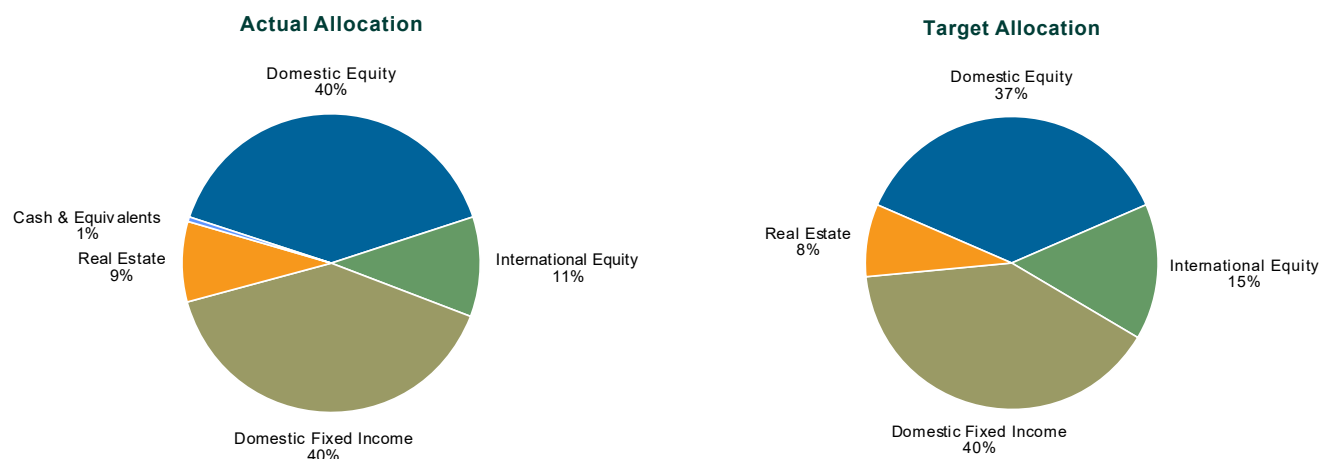
December 31, 2023

Change in AJRS Market Value during the Quarter :

Beginning-of-Quarter Market Value:	\$ 301,691,096
Net Increase in Market Value:	+ \$21,137,117
End-of-Quarter Market Value:	\$ 322,828,213

Asset Allocation of AJRS Assets as of December 31, 2023

As of quarter-end, all asset classes are within the target allocation range established in the Investment Policy. International Equity is the largest underweight asset class at 4.2% below the target allocation. This position is offset by overweights to Domestic Equity (+3.0%), Real Estate (+0.7%), and Cash (+0.5%).



Asset Class	\$000s Actual	Weight Actual	Target	Percent Difference	\$000s Difference
Domestic Equity	129,106	40.0%	37.0%	3.0%	9,660
International Equity	34,847	10.8%	15.0%	(4.2%)	(13,577)
Domestic Fixed Income	129,192	40.0%	40.0%	0.0%	61
Real Estate	28,021	8.7%	8.0%	0.7%	2,195
Cash & Equivalents	1,662	0.5%	0.0%	0.5%	1,662
Total	322,828	100.0%	100.0%		

Asset Allocation Review

December 31, 2023

	December 31, 2023			Inv. Return	September 30, 2023	
	Market Value	Weight	Net New Inv.		Market Value	Weight
Domestic Equity	\$129,106,135	39.99%	\$(112,722)	\$12,971,704	\$116,247,153	38.53%
Mellon Russell 1000 Growth Index	48,430,843	15.00%	(4,276)	6,028,503	42,406,616	14.06%
Boston Partners	61,635,919	19.09%	(74,120)	5,046,916	56,663,124	18.78%
Aristotle Capital Boston	19,039,373	5.90%	(34,326)	1,896,285	17,177,414	5.69%
International Equity	\$34,847,040	10.79%	\$(1,700,000)	\$3,804,880	\$32,742,161	10.85%
Baillie Gifford	34,847,040	10.79%	(1,700,000)	3,804,880	32,742,161	10.85%
Fixed Income	\$129,192,457	40.02%	\$(89,379)	\$9,315,371	\$119,966,465	39.76%
MacKay Shields LLC	129,192,457	40.02%	(89,379)	9,315,371	119,966,465	39.76%
Real Estate	\$28,020,809	8.68%	\$(29,302)	\$(1,365,632)	\$29,415,743	9.75%
Invesco Core Real Estate	28,020,809	8.68%	(29,302)	(1,365,632)	29,415,743	9.75%
Cash & Equivalents	\$1,661,772	0.51%	\$(1,690,280)	\$32,478	\$3,319,575	1.10%
AJRS Cash Account	1,661,772	0.51%	(1,690,280)	32,478	3,319,575	1.10%
Total Fund	\$322,828,213	100.0%	\$(3,621,683)	\$24,758,800	\$301,691,096	100.0%

Total Fund Performance Review

December 31, 2023

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 20 Years
10th Percentile	9.72	16.69	5.70	10.20	7.84	7.38
25th Percentile	8.75	14.69	5.04	9.58	7.39	7.24
Median	8.17	13.37	3.94	8.95	6.89	7.05
75th Percentile	7.70	12.07	3.04	8.07	6.38	6.78
90th Percentile	7.27	11.29	1.99	7.41	5.85	6.33
● Total Fund	8.27 (44)	11.64 (85)	2.04 (89)	8.24 (70)	6.57 (67)	6.87 (68)
● Total Fund Target	8.24 (46)	12.79 (65)	2.69 (82)	7.91 (80)	6.43 (72)	6.52 (85)

- The above chart shows the distribution of returns for the Callan Public Fund Mid DB (100M -1B) Peer Group across time periods ended December 31, 2023. Returns longer than one year annualized.
- The returns and peer group ranking for the APERS Total Fund and Total Fund Target are shown in the bottom two rows.
 - **The 25th percentile return** represents the value above which 25% of the returns fall. In other words, it's the point where a quarter of the peer group earned a higher return, and three-quarters of the peer group earned a lower return.
 - **The median return** represents the middle value in a distribution of returns. If we arrange all the returns in ascending order, the median is the value that separates the lower half from the higher half.
 - **The 75th percentile return** represents the value above which 75% of the returns fall. In other words, it's the point where three-quarters of the peer group earned a higher return, and a quarter of the peer group earned a lower return.

Policy Target consists of 40% Blmbg Aggregate Index, 37% Russell 3000 Index, 15% MSCI ACWI xUS GD, and 8% NCREIF NFI-ODCE Eq Wt Net

Investment Manager Performance Review

December 31, 2023

	Last Quarter		Fiscal YTD		Last Year		Last 3 Years		Last 5 Years	
Domestic Equity	11.17%	89	9.37%	8	22.91%	62	9.64%	15	15.18%	24
Domestic Equity Benchmark	12.07%	34	8.43%	22	25.96%	11	8.54%	55	15.16%	25
Russell 3000 Index	12.07%	34	8.43%	22	25.96%	11	8.54%	55	15.16%	25
S&P 500 Index	11.69%	65	8.04%	42	26.29%	7	10.00%	8	15.69%	9
Med Public Fd - Dom Eqty	11.82%		7.98%		23.66%		8.60%		14.71%	
Mellon Russell 1000 Growth Index	14.22%	48	10.64%	43	42.40%	38	8.74%	29	-	
Russell 1000 Growth Index	14.16%	51	10.59%	47	42.68%	35	8.86%	26	19.50%	10
Callan Large Cap Growth	14.19%		10.49%		40.49%		6.74%		17.14%	
Boston Partners	8.92%	79	9.78%	14	14.59%	34	13.09%	18	13.10%	31
Russell 1000 Value Index	9.50%	64	6.03%	85	11.46%	66	8.86%	90	10.91%	87
Callan Large Cap Value	10.04%		7.60%		12.99%		11.11%		12.61%	
Aristotle Capital Boston	11.07%	85	5.00%	87	7.53%	97	5.29%	69	-	
Russell 2000 Index	14.03%	19	8.18%	52	16.93%	61	2.22%	94	9.97%	90
Callan Small Cap Core	12.75%		8.35%		17.63%		6.83%		12.25%	
International Equity	11.66%	4	(0.39%)	99	10.39%	99	(8.19%)	99	6.57%	74
International Equity Benchmark	9.82%	30	5.78%	32	16.21%	50	2.04%	30	7.60%	60
Med Public Fd - Int Eqty	9.64%		5.36%		16.21%		1.37%		7.98%	
Baillie Gifford Intl Choice Fd	11.66%	23	(0.39%)	98	10.39%	98	(8.19%)	99	6.57%	93
MSCI ACWIxUS Gross	9.82%	55	5.78%	36	16.21%	72	2.04%	65	7.60%	78
Callan NonUS Eq	10.07%		5.09%		18.08%		3.36%		8.86%	

Domestic Equity Benchmark: Russell 3000 Index

International Equity Benchmark: MSCI ACWI xUS (Gross)

Investment Manager Performance Review

December 31, 2023

	Last Quarter		Fiscal YTD		Last Year		Last 3 Years		Last 5 Years	
Domestic Fixed Income	7.77%	8	5.02%	4	8.30%	4	(2.38%)	52	2.64%	16
Domestic Fixed Income Benchmark	6.82%	48	3.37%	93	5.53%	93	(3.31%)	93	1.10%	97
Med Public Fd - Dom Fixed	6.74%		3.81%		6.36%		(2.29%)		1.95%	
MacKay Shields LLC	7.77%	4	5.02%	6	8.30%	3	(2.38%)	39	2.64%	21
Blmbg Aggregate Index	6.82%	81	3.37%	87	5.53%	96	(3.31%)	90	1.10%	98
Callan Core Plus FI	7.17%		4.03%		6.90%		(2.52%)		2.23%	
Real Estate	(4.64%)	89	(6.13%)	73	(12.14%)	80	4.64%	61	3.75%	62
Med Public Fd - Real Est	(2.97%)		(5.07%)		(10.65%)		5.23%		4.10%	
Invesco Core Real Estate	(4.64%)	84	(6.13%)	76	(12.14%)	72	4.64%	58	3.75%	68
NFI-ODCE Equal Weight Net	(5.37%)	88	(7.37%)	84	(13.33%)	82	4.35%	62	3.78%	68
Callan OE Core Cmngld RE	(0.22%)		(2.08%)		(8.63%)		5.52%		4.70%	
Total Fund	8.27%	44	4.98%	59	11.64%	85	2.04%	89	8.24%	70
Callan Public Fd Mid DB	8.17%		5.15%		13.37%		3.94%		8.95%	
Total Fund ex Cash	8.29%	44	4.96%	59	11.62%	85	2.04%	90	8.29%	69
Target Benchmark*	8.24%	46	4.75%	71	12.79%	65	2.69%	82	7.91%	80
Callan Public Fd Mid DB	8.17%		5.15%		13.37%		3.94%		8.95%	

Domestic Fixed Income Benchmark: Bloomberg Aggregate Index

*Policy Target consists of 40% Blmbg Aggregate Index, 37% Russell 3000 Index, 15% MSCI ACWI xUS GD, and 8% NCREIF NFI-ODCE Eq Wt Net

Investment Manager Performance Review

December 31, 2023

	Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 16-1/2 Years
NET OF FEE RETURNS					
Domestic Equity					
Mellon Russell 1000 Growth Index	14.21%	42.34%	8.70%	-	-
Russell 1000 Growth Index	14.16%	42.68%	8.86%	19.50%	11.94%
Boston Partners	8.78%	13.99%	12.49%	12.49%	8.09%
Russell 1000 Value	9.50%	11.46%	8.86%	10.91%	6.61%
Aristotle Capital Boston	10.86%	6.68%	4.45%	-	-
Russell 2000 Index	14.03%	16.93%	2.22%	9.97%	6.99%
International Equity					
Baillie Gifford Intl Choice Fd	11.51%	9.84%	(8.65%)	6.04%	-
MSCI ACWIxUS Gross	9.82%	16.21%	2.04%	7.60%	2.99%
Domestic Fixed Income					
Mackay Shields LLC	7.69%	7.98%	(2.67%)	2.33%	-
Blmbg Aggregate Index	6.82%	5.53%	(3.31%)	1.10%	3.11%
Real Estate					
Invesco Core Real Estate	(4.71%)	(12.38%)	4.35%	3.42%	-
NFI-ODCE Equal Weight Net	(5.37%)	(13.33%)	4.35%	3.78%	4.33%
Total Fund	8.17%	11.25%	1.69%	7.84%	5.71%
Total Fund ex Cash	8.20%	11.23%	1.68%	7.89%	5.90%
Target Benchmark*	8.24%	12.79%	2.69%	7.91%	6.01%

*Policy Target consists of 40% Blmbg Aggregate Index, 37% Russell 3000 Index, 15% MSCI ACWI xUS GD, and 8% NCREIF NFI-ODCE Eq Wt Net

Total Fund Performance Attribution

December 31, 2023

Relative Attribution Effects for Quarter ended December 31, 2023

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	39%	37%	11.17%	12.07%	(0.35%)	0.07%	(0.28%)
Domestic Fixed Income	40%	40%	7.77%	6.82%	0.38%	0.00%	0.38%
Real Estate	10%	8%	(4.64%)	(5.37%)	0.07%	(0.24%)	(0.16%)
International Equity	11%	15%	11.66%	9.82%	0.20%	(0.06%)	0.14%
Cash & Equivalents	1%	0%	1.34%	1.34%	0.00%	(0.04%)	(0.04%)
Total			8.27%	= 8.24%	+ 0.30%	+ (0.27%)	0.03%

One Year Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	38%	37%	22.91%	25.96%	(1.07%)	0.08%	(1.00%)
Domestic Fixed Income	40%	40%	8.30%	5.53%	1.16%	(0.04%)	1.12%
Real Estate	10%	8%	(12.14%)	(13.33%)	0.14%	(0.61%)	(0.47%)
International Equity	11%	15%	10.39%	16.21%	(0.66%)	(0.14%)	(0.80%)
Cash & Equivalents	0%	0%	4.98%	4.98%	0.00%	0.00%	0.00%
Total			11.64%	= 12.79%	+ (0.44%)	+ (0.71%)	(1.15%)

Total Fund Performance Attribution

December 31, 2023

Three Year Annualized Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	38%	37%	9.64%	8.54%	0.39%	0.02%	0.42%
Domestic Fixed Income	40%	40%	(2.38%)	(3.31%)	0.36%	0.10%	0.46%
Real Estate	9%	8%	4.64%	4.35%	0.04%	(0.16%)	(0.12%)
International Equity	13%	15%	(8.19%)	2.04%	(1.38%)	(0.02%)	(1.39%)
Cash & Equivalents	0%	0%	2.17%	2.17%	0.00%	0.00%	0.00%
Total			2.04%	= 2.69%	+ (0.59%)	+ (0.05%)	(0.64%)

Five Year Annualized Relative Attribution Effects

Asset Class	Effective Actual Weight	Effective Target Weight	Actual Return	Target Return	Manager Effect	Asset Allocation	Total Relative Return
Domestic Equity	38%	37%	15.18%	15.16%	0.02%	(0.07%)	(0.05%)
Domestic Fixed Income	39%	40%	2.64%	1.10%	0.55%	0.03%	0.58%
Real Estate	9%	8%	3.75%	3.78%	0.00%	(0.18%)	(0.18%)
International Equity	14%	15%	6.57%	7.60%	0.02%	(0.00%)	0.02%
Cash & Equivalents	0%	0%	1.85%	1.85%	0.00%	(0.03%)	(0.03%)
Total			8.24%	= 7.91%	+ 0.59%	+ (0.26%)	0.33%

Investment Manager Performance Overview

December 31, 2023

The Total Fund fourth quarter return of 8.27% (gross of fees) was in line with the benchmark and ranked ahead of the peer group median. Equity and Fixed Income managers generated positive returns, and active management added value for the quarter. The Fund gained 4.98% fiscal year-to-date and exceeded the benchmark return of 4.75%. For the 2023 calendar year, the Total Fund returned 11.64% versus the benchmark return of 12.79% and ranked at the 85th percentile of peers. The Fund has outperformed the benchmark over the last 7-, 10-, 15-, 20-, and 32.5-year periods on an annualized basis.

The AJRS Domestic Equity Composite notched an 11.17% in the quarter but trailed the Russell 3000 Index (+12.07%). Fourth quarter returns for the composite ranked in the 89th percentile of peers. For the fiscal year-to-date, Domestic Equity gained 9.37%, ahead of the benchmark return (+8.43%) ranking in the top decile of peers. The composite outperformed its benchmark and peer group median over the last 3-, 5-, 15-, 20- and 32.5-year periods.

- The **Mellon** Russell 1000 Growth Index Fund is passively invested in the Russell 1000 Growth Index. The Fund (+14.22%) edged the index return for the quarter and finished at the 48th percentile of the Callan Large Cap Growth peer universe. Over the trailing year, the Fund returned a staggering 42.40% and ranked at the 38th percentile of peers.
- In large cap value equity, **Boston Partners** returned 8.92% and underperformed the benchmark (+9.50%) for the quarter. Fourth quarter performance ranked in the 79th percentile of the Callan Large Cap Value peer group. Over the last year, the Fund generated a return of 14.59% versus the benchmark return of 11.46% and ranked at the 34th percentile of peers. The Fund leads its benchmark and ranks in the top third of its peer group across longer time periods.
- In small cap equity, **Aristotle Capital's** 11.07% return trailed the benchmark (+14.03%) and placed at the 85th percentile of the Callan Small Cap Core peer group. For the last year, Aristotle returned 7.53% and underperformed the benchmark return of 16.93%. Despite near term underperformance, the strategy has outperformed the benchmark by 3.07% on an annualized basis over the last three years.

Investment Manager Performance Overview

December 31, 2023

The AJRS International Equity Composite returned 11.66% for the quarter and outperformed the benchmark return of 9.82%, ranking at the 4th percentile of peers. For the year, International Equity returned 10.39% versus the benchmark return of 16.21%. The Composite outperformed the benchmark over the trailing 15-year period, but recent underperformance has weighed on results across other trailing periods.

- **Baillie Gifford** is the only manager in the international equity composite. The Fund outpaced the benchmark and ranked in the top quartile of peers for the quarter. The strategy trails its benchmark and peers across longer time periods.

The AJRS Domestic Fixed Income Composite returned 7.77% for the quarter and outperformed the benchmark (+6.82%). The composite ranked in the top decile of its peer group for the quarter. Over the trailing year, Fixed Income returned 8.30% and outpaced the benchmark return of 5.53%. AJRS' Fixed Income return for the fiscal year-to-date and last year ranked in the 4th percentile of peers. The Composite has outperformed its benchmark across longer-term periods and ranks in the top half of its peer group over the last 5-, 7-, 10-, 15-, and 20-year periods.

- **Mackay Shields**, the only manager in the fixed income composite, outperformed the Bloomberg Aggregate and ranked at the 4th percentile of its peer group for the quarter. Over the last year, the Fund added value over the benchmark and earned a higher return than 94% of peers. The Fund leads its benchmark and ranks in the top half of peers across longer time periods.

The AJRS Real Estate Composite declined 4.64% for the quarter but held up better than the benchmark return of -5.37%. The fourth quarter return ranked in the 89th percentile of the Callan Medium Public Fund Real Estate peer universe. Real Estate was down 12.14% for the last year but managed to outperform the benchmark return of -13.33%.

- **Invesco Core Real Estate** is the lone fund within the real estate composite. The Fund ranked at the 84th percentile of peers for the quarter. Over the last year, the fund outperformed the benchmark and ranked at the 72nd percentile of peers. The Fund outpaced the benchmark across long-term periods and ranked in the top half of peers over the last 7 and 10 years.

Organizational Developments

4th Quarter 2023

Baillie Gifford – International Equity

Baillie Gifford announced that on March 1st, the strategy's Portfolio Construction Group (PCG) will be expanding from five to six members with the addition of Alex Summers, an experienced Emerging Markets investor. At the same point, existing PCG members Iain Campbell and Joe Faraday will establish a dedicated central desk for the strategy, focusing on additional portfolio monitoring, construction, and complimentary research. Iain and Joe will now only be responsible for this strategy with no other regional or client servicing focused responsibilities. Efforts have been made to refine portfolio construction and risk oversight, aiming to strike a balance between high-growth, pre-profit companies and quality compounders.

Overall, while the changes seem incremental, Callan views the heightened focus on risk management to aid in the portfolio balance as a positive development.

Boston Partners – Large Cap Value Equity

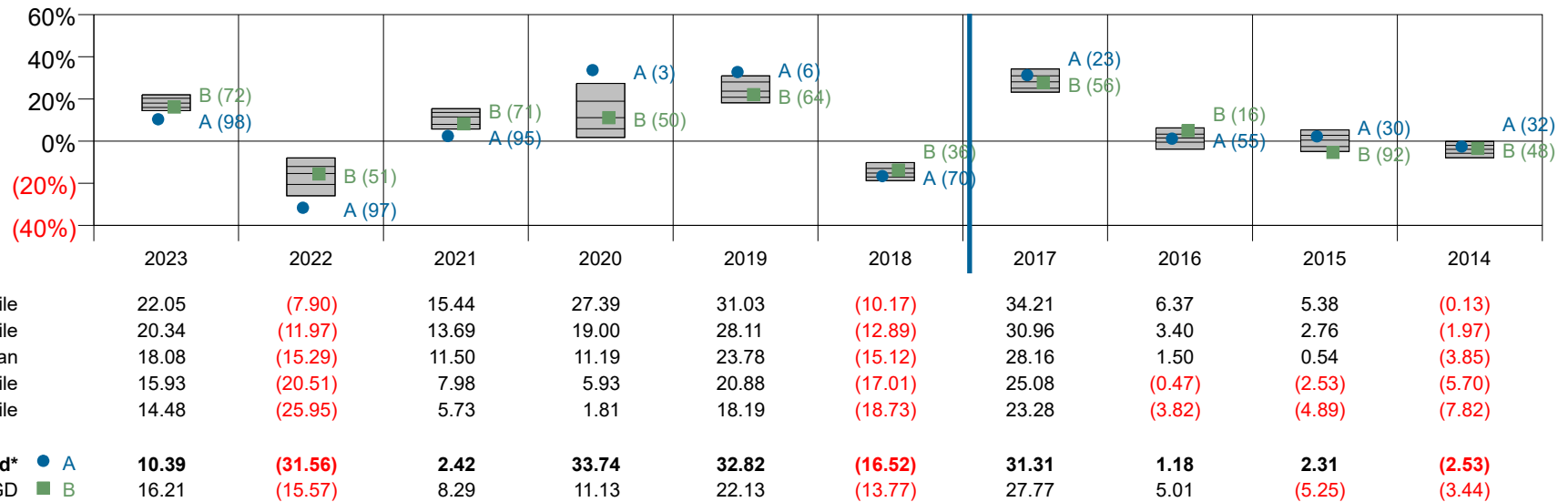
Boston Partners announced that David Pyle, a longstanding Large Cap Value Portfolio Manager (PM), will retire in the third quarter of 2024. He will remain with the firm until September 2024. Pyle's departure will lead to a reduction in the Large Cap Value PM team from four members to three. His duties within the team will primarily transition to portfolio managers Josh White (18 years of tenure at Boston Partners) and David Cohen (7 years of tenure at Boston Partners). Mark Donovan, a founder of Boston Partners, continues to serve as an active portfolio manager for the strategy, with no retirement timeline provided by the firm. Donovan is now the most experienced portfolio manager on the strategy, while Boston Partners has gradually promoted White and Cohen to portfolio manager roles over the past decade in preparation for future transitions.

Callan views this announcement as notable but not actionable given the presence of other tenured PMs who remain in their roles. We will continue to monitor the portfolio for incremental changes but do not foresee any significant deviations, given the collaborative structure and iterative research process in place.

Manager Spotlight

Baillie Gifford

Calendar Year Returns
Group: Callan Non-US Equity



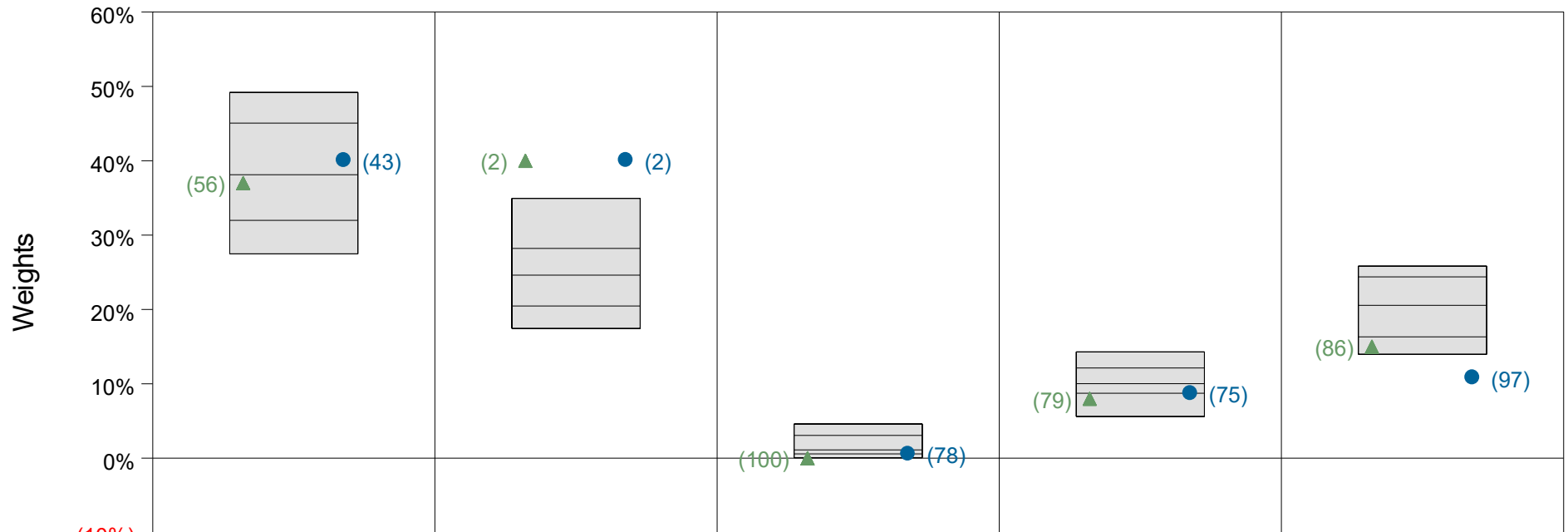
- Baillie Gifford outperformed the benchmark and placed in the top third of its peer group in 5 of the last 10 full calendar years.
- Recently, Baillie Gifford has underperformed the benchmark and ranked in the bottom decile of peers in two consecutive calendar years. The strategy trailed the benchmark and ranked in the 97th percentile of its peer group in 2023 despite positive 4Q performance.
- Performance in 2023 struggled due to some key detractors:
 - Japan: a strong value market was a headwind, and several holdings were hurt by their exposure to Chinese consumers and regulations.
 - Consumer Discretionary: luxury goods and cosmetics companies struggled post-COVID as the reopening economy in China was weaker than expected.

*AJRS investment occurred on 7/1/2017, prior returns represent strategy performance

Asset Allocation Review

December 31, 2023

Asset Class Weights vs Callan Public Fund Spons- Mid (100M-1B)



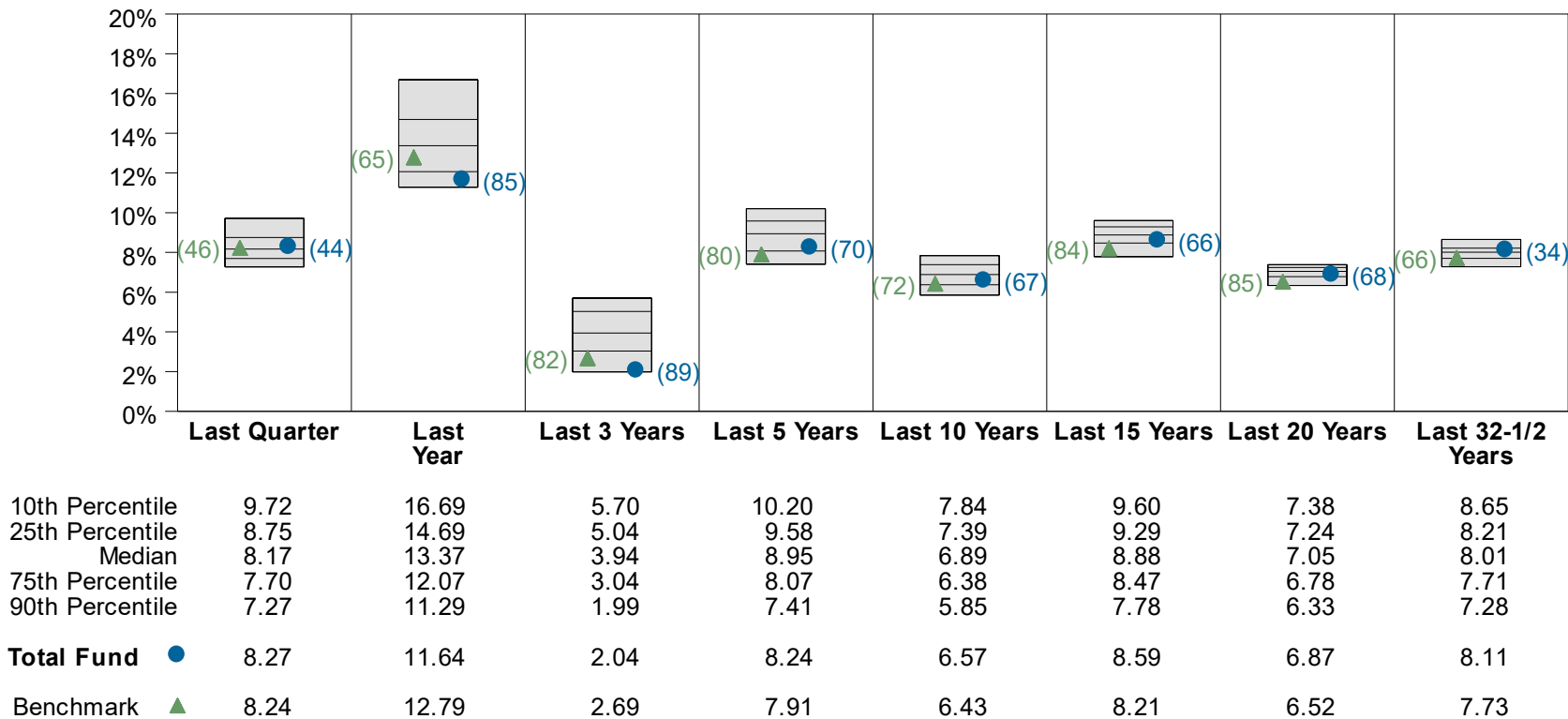
(10%)

	Domestic Equity	Domestic Fixed Income	Cash & Equivalents	Real Estate	International Equity
10th Percentile	49.20	34.93	4.62	14.30	25.83
25th Percentile	45.05	28.20	3.07	12.14	24.37
Median	38.12	24.62	1.12	10.03	20.54
75th Percentile	31.99	20.48	0.57	8.73	16.32
90th Percentile	27.48	17.44	0.07	5.62	13.98
Fund ●	39.99	40.02	0.51	8.68	10.79
Target ▲	37.00	40.00	0.00	8.00	15.00
% Group Invested	100.00%	100.00%	81.82%	66.67%	96.97%

AJRS Long-Term Performance

December 31, 2023

Performance vs Callan Public Fund Spons- Mid (100M-1B) (Gross)

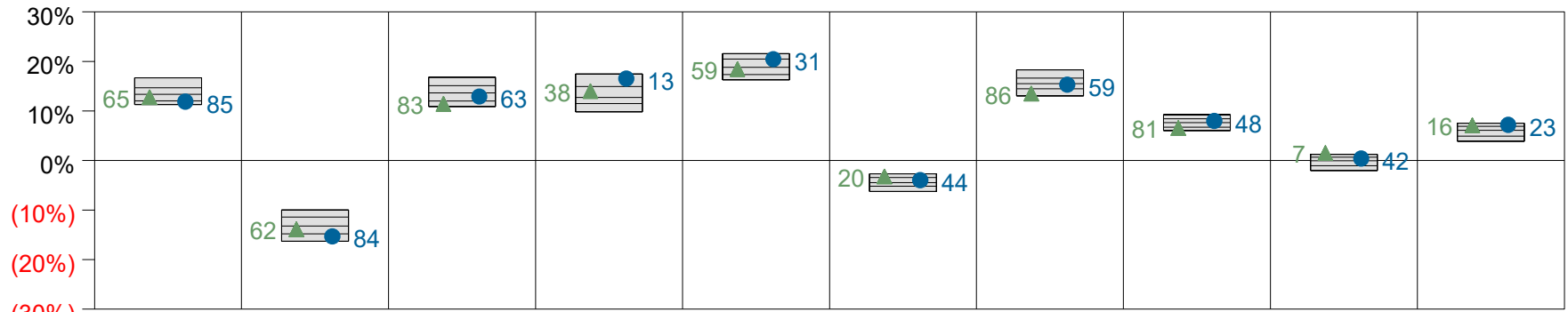


- The Total Fund and the Benchmark both rank in the bottom half of peers over the last 3-, 5-, 10-, 15-, and 20-year periods due to the asset allocation difference of AJRS versus peers.
 - The benchmark represents the market performance of the asset allocation for AJRS.
 - The peer group consists of public funds of similar size, but each constituent has a unique asset allocation that influences their risk/return profile. The peers largely have higher allocations to equities which have outperformed fixed income over the periods measured.

*Policy Target consists of 40% Blmbg Aggregate Index, 37% Russell 3000 Index, 15% MSCI ACWI xUS GD, and 8% NCREIF NFI-ODCE Eq Wt Net

AJRS Calendar Year Performance

Performance vs Callan Public Fund Spons- Mid (100M-1B) (Gross)



	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
10th Percentile	16.69	(9.97)	16.80	17.48	21.58	(2.68)	18.30	9.29	1.27	7.54
25th Percentile	14.69	(11.40)	15.11	14.95	20.48	(3.44)	16.63	8.44	0.67	6.92
Median	13.37	(13.23)	13.64	12.75	18.82	(4.47)	15.51	7.66	(0.03)	6.11
75th Percentile	12.07	(14.77)	12.03	11.49	17.36	(5.17)	14.48	6.75	(1.05)	4.93
90th Percentile	11.29	(16.26)	10.91	9.84	16.29	(6.24)	13.06	6.05	(2.00)	3.89
Total Fund ●	11.64	(15.54)	12.68	16.31	20.20	(4.23)	15.08	7.75	0.15	6.95
Benchmark ▲	12.79	(13.86)	11.45	14.03	18.48	(3.19)	13.53	6.58	1.54	7.13

- The Total Fund has outpaced the benchmark in 5 of the last 10 calendar years, but this does not always guarantee favorable performance relative to its peer group.

- AJRS' benchmark is a blended mix of asset class public indices that reflect the Fund's strategic asset allocation.

*Policy Target consists of 40% Blmbg Aggregate Index, 37% Russell 3000 Index, 15% MSCI ACWI xUS GD, and 8% NCREIF NFI-ODCE Eq Wt Net

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February 22, 2024



Asset Allocation Review – Phase II

Arkansas Judicial Retirement
System

Brianne Weymouth, CAIA
Senior Vice President

John Jackson, CFA
Senior Vice President

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AJRS Asset Allocation Schedule

Phase I: Introduction to Asset Allocation

- Examine Role of Asset Allocation
- Introduce Callan 2023 Capital Market Assumptions
- Analyze Current Strategic Asset Allocation
- Review Actuarial Assumed Rate of Return
- Scheduled Completion: **November 16, 2023**

Phase II: Asset Allocation Decisions

- Analyze Alternative Asset Mixes
- Establish Long-Term Target Asset Allocation
- Scheduled completion: **February 22, 2024**

Introduction

Asset Allocation Review

- The objective of this presentation is to establish AJRS' long-term strategic asset allocation target.
- We will assess the suitability of the current target asset allocation and explore alternative mixes to optimize AJRS' investment strategy.
- Based on the June 30, 2023 Actuarial Valuation Report, the Plan's funded ratio is 92%, and the actuarial assumed rate of return on Plan assets is 5.5%.
- Board approval of the asset allocation will establish target percentages for key asset classes such as Domestic Equity, Fixed Income, Non-U.S. Equity, and Real Estate.
- Upon completing the Asset Allocation Review, Structure Studies will examine the individual asset classes within the Total Fund.
- The Structure Study will focus on the implementation of an asset class, examining the appropriate mix of managers to ensure each asset class achieves its role within the Total Fund.

Interaction of Three Key Policies

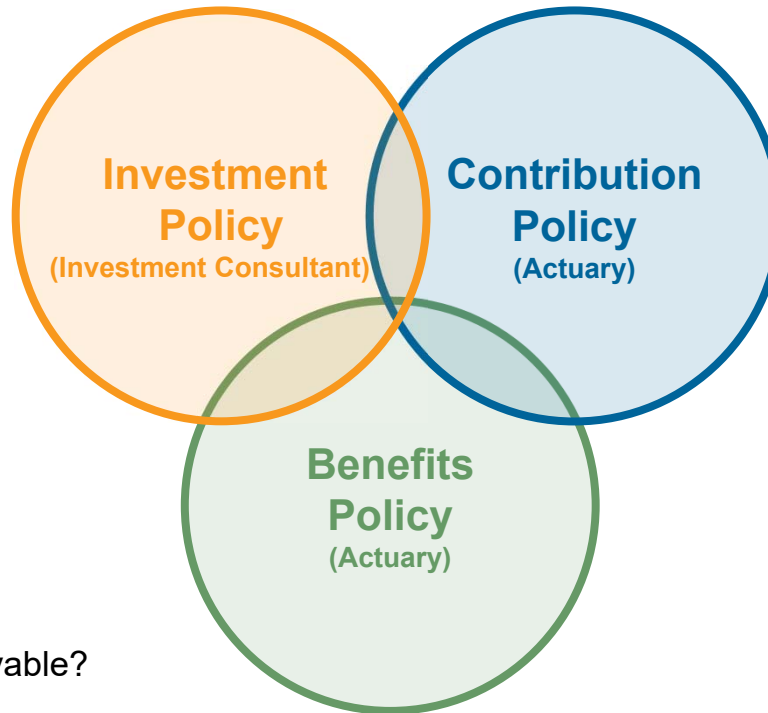
We evaluate the interaction of the three key policies that govern a pension fund with the goal of establishing the best investment policy.

Investment Policy

- How will the assets supporting the benefits be invested?
- What risk and return objectives?
- How to manage cash flows?

Benefits Policy

- What type/kind of benefits?
- What level of benefit?
- When and to whom are they payable?



Contribution Policy

- How will the benefits be paid for (funded)?
- Pension
 - Funding policy
 - Actuarial assumptions
 - Actuarial discount rate

What is Asset Allocation?

- Asset allocation is the key component of the Investment Policy.
 - It is the driver of the projected investment return and the risk profile of the program
 - It is the most important decision for trustees in influencing an investment program's success
- Asset allocation is the process of determining the optimal allocation of a portfolio among broad asset classes.

Why Make Capital Markets Projections?

Guiding objectives and process

The cornerstone of a prudent process is a long-term strategic investment plan.

- Capital markets projections are key elements to set reasonable return and risk expectations for the appropriate time horizon.
- Projections represent Callan's best thinking regarding the long-term (10-year) outlook, recognizing our median projections represent the midpoint of a range, rather than a specific number.

Callan's forecasts are influenced by current market conditions but are not built directly from them.

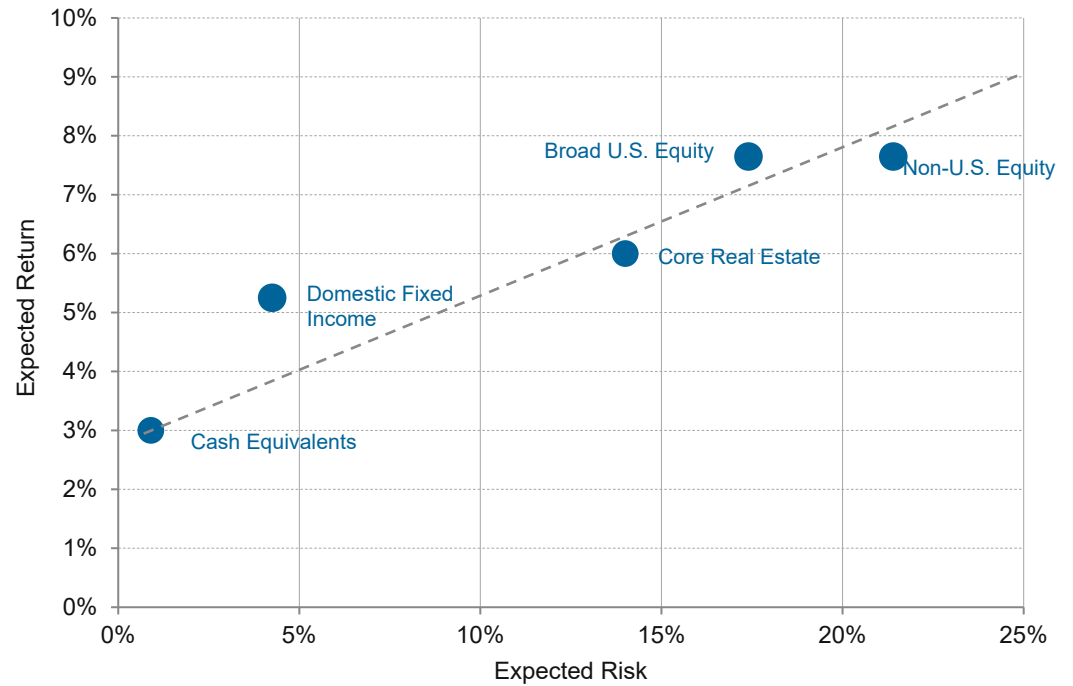
Callan's 2024-2033 Expected Return and Risk Assumptions

Asset Class	Expected Return	Standard Deviation (Risk)
Broad U.S. Equity	7.65%	17.40%
Non-U.S. Equity	7.65%	21.40%
Domestic Fixed Income	5.25%	4.25%
Core Real Estate	6.00%	14.00%
Cash	3.00%	0.90%
<i>Inflation (CPI-U)</i>	<i>2.50%</i>	

Risk Aversion

Visualizing Callan's Capital Market Projections

- Investors are rational – given a choice between two assets with the same level of return, an investor will select the asset with a lower level of risk.
- For example, investors demand a greater return from equities over bonds for the increased risk they are assuming



Expected return forecasts are annualized over a 10-year horizon. 2023 Callan assumptions as of January 1, 2023.

AJRS Asset Allocation Policy

Projected risk and return

- The expected (median) 10-year annualized return for AJRS is 7.1% using Callan’s 2024 capital market projections.
- The projected standard deviation (risk) is 9.9%.
- Based on Callan’s capital market projections, AJRS’ approved target allocation is expected to meaningfully exceed the actuarial assumed rate of return over a ten-year period.

Asset Class	AJRS Target
U.S. Equity	37%
Non-U.S. Equity	15%
Domestic Fixed Income	40%
Core Real Estate	8%
Cash & Equivalents	0%
Total Portfolio	100%

2024 Statistics	
Projected 10-Year Geometric Return	7.1%
Projected Standard Deviation (Risk)	9.9%

GRS Actuarial Valuation	
Actuarial Assumed Rate of Return	5.5%
Funded Ratio	92.1%

Projected Return Above 5.5%	
Projected 10-Year Return	+1.6%

Note: Callan projection horizon is 2024 to 2033.
 Source: GRS: “Arkansas Judicial Retirement System Valuation Results as of June 30, 2023”
 Funded Ratio based on Actuarial Value of Assets

Candidate Asset Allocation Mixes

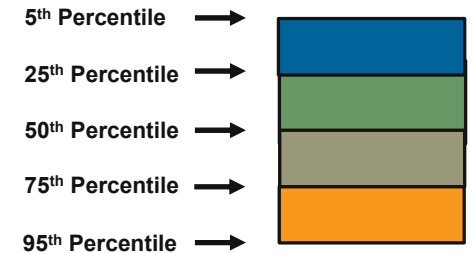
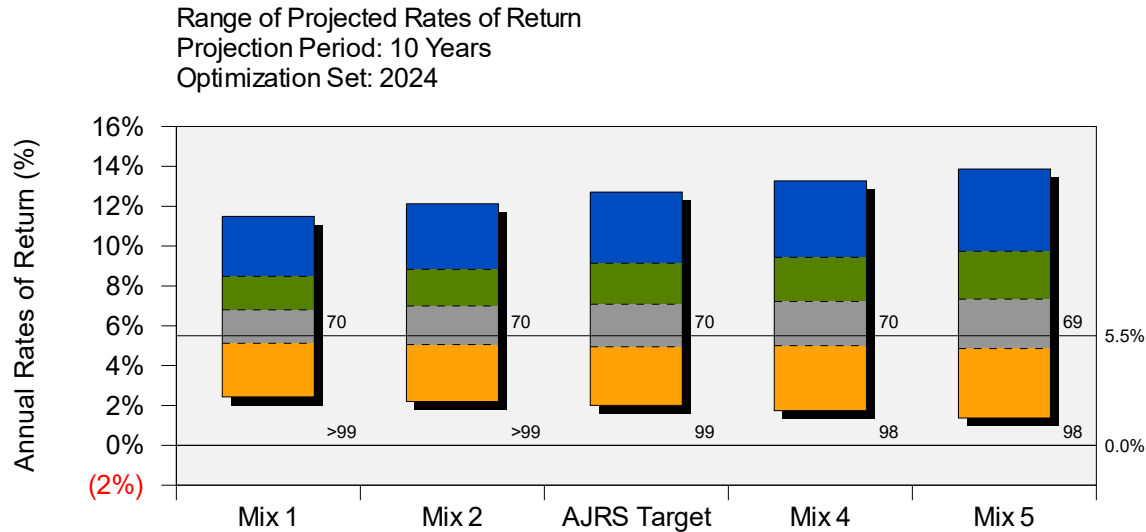
	Mix 1	Mix 2	AJRS Target	Mix 4	Mix 5
Broad U.S. Equity	30%	34%	37%	41%	44%
Non-U.S. Equity	12%	13%	15%	16%	18%
Fixed Income	50%	45%	40%	35%	30%
Core Real Estate	8%	8%	8%	8%	8%
Cash	0%	0%	0%	0%	0%
Total Portfolio	100%	100%	100%	100%	100%
Mix Characteristics:					
Expected Return	6.8%	7.0%	7.1%	7.2%	7.3%
Standard Deviation	8.4%	9.2%	9.9%	10.8%	11.6%

- Mixes range from more conservative (Mix 1) to more aggressive (Mix 5)
- All mixes are expected to return more than the assumed rate of return of 5.5%

Candidate mixes are constrained to keep Real Estate allocation at its current 8% target

Range of Potential Returns for AJRS Asset Allocation Policy

10 Year Projection



Interpreting Stochastic Results

- 5th Percentile**
 - Optimistic outcome
- 25th Percentile**
 - Good outcome
- 50th Percentile**
 - Median outcome
 - Reflects expected 10-year return
- 75th Percentile**
 - Pessimistic outcome
- 95th Percentile**
 - Very pessimistic outcome

5th Percentile	11.5%	12.1%	12.7%	13.3%	13.9%
25th Percentile	8.5%	8.8%	9.1%	9.4%	9.7%
Median	6.8%	7.0%	7.1%	7.2%	7.3%
75th Percentile	5.1%	5.1%	4.9%	5.0%	4.9%
95th Percentile	2.4%	2.2%	2.0%	1.7%	1.4%
Prob > 5.5%	70.2%	69.7%	69.6%	69.6%	69.0%
Prob > 0.0%	>99.0%	>99.0%	98.9%	98.4%	98.0%

Callan's 2024 capital market projections used to forecast likelihood of achieving a 5.5% rate of return (AJRS' assumed actuarial rate of return) over the next ten years

- All mixes show at least a 69% probability of achieving the assumed rate of return of 5.5% over the next ten years
- More conservative mixes (Mix 1-2) have a smaller potential downside, but less expected upside

Note: Callan projection horizon is 2024 to 2033.

Summary and Next Steps

AJRS long-term strategic asset allocation

- Based on the June 30, 2023 Actuarial Valuation Report, the Plan's funded ratio is 92%, and the actuarial assumed rate of return on Plan assets is 5.5%
- Given the Plan's well-funded status, the current AJRS Target allocation is reasonable as it is projected to exceed the actuarial return assumption of 5.5% at an acceptable level of risk.
 - This suggests that AJRS does not need to take on additional risk in pursuit of higher returns.
- Investing more aggressively (greater allocation to equity) provides greater potential return upside, but it also increases the risk of negative outcomes.
- More conservative Mixes 1 and 2 are projected to exceed the 5.5% actuarial assumed rate of return while lowering the Plan's projected risk.

Recommendation:

- Callan recommends adopting Mix 2 as the AJRS strategic asset allocation target.
 - Mix 2 exhibits less risk than the current target while maintaining a similar expected return.

Next Steps:

- Conduct an International Equity Structure Study to evaluate the suitability of Baillie Gifford as a standalone allocation within the asset class.

Appendix

2024 vs. 2023 Risk and Returns Assumptions

Summary of Callan's Long-Term Capital Markets Assumptions (2024–2033)

Asset Class	Index	Projected Return			Projected Risk	Projected Yield**	2023–2032		
		1-Year Arithmetic	10-Year Geometric*	Real	Standard Deviation		1-Year Arithmetic	10-Year Geometric*	Standard Deviation
Equities									
Broad U.S. Equity	Russell 3000	8.85%	7.65%	5.15%	17.40%	1.95%	8.75%	7.35%	18.05%
Large Cap U.S. Equity	S&P 500	8.70%	7.50%	5.00%	17.00%	2.00%	8.60%	7.25%	17.75%
Smid Cap U.S. Equity	Russell 2500	9.80%	7.70%	5.20%	22.00%	1.75%	9.60%	7.45%	22.15%
Global ex-U.S. Equity	MSCI ACWI ex USA	9.65%	7.65%	5.15%	21.40%	3.70%	9.45%	7.45%	21.25%
Developed ex-U.S. Equity	MSCI World ex USA	9.25%	7.50%	5.00%	20.15%	3.75%	9.00%	7.25%	20.15%
Emerging Markets Equity	MSCI Emerging Markets	10.65%	7.70%	5.20%	25.60%	3.55%	10.45%	7.45%	25.70%
Fixed Income									
Short Duration Gov/Credit	Bloomberg 1-3 Year Gov/Credit	4.25%	4.25%	1.75%	2.40%	3.70%	3.75%	3.80%	2.30%
Core U.S. Fixed	Bloomberg Aggregate	5.25%	5.25%	2.75%	4.25%	4.70%	4.25%	4.25%	4.10%
Long Government	Bloomberg Long Gov	6.20%	5.40%	2.90%	13.75%	4.80%	4.55%	3.70%	13.50%
Long Credit	Bloomberg Long Credit	6.85%	6.30%	3.80%	11.90%	6.20%	5.75%	5.20%	11.75%
Long Government/Credit	Bloomberg Long Gov/Credit	6.55%	6.00%	3.50%	11.70%	5.55%	5.20%	4.65%	11.40%
TIPS	Bloomberg TIPS	5.10%	5.05%	2.55%	5.40%	4.30%	4.10%	4.00%	5.30%
High Yield	Bloomberg High Yield	7.30%	6.80%	4.30%	11.75%	8.45%	6.75%	6.25%	11.75%
Global ex-U.S. Fixed	Bloomberg Global Agg ex US	3.60%	3.15%	0.65%	9.80%	2.70%	2.70%	2.25%	9.80%
Emerging Markets Sov Debt	EMBI Global Diversified	6.75%	6.35%	3.85%	10.65%	7.70%	6.25%	5.85%	10.65%
Alternatives									
Core Real Estate	NCREIF ODCE	6.85%	6.00%	3.50%	14.00%	4.00%	6.60%	5.75%	14.20%
Private Infrastructure	MSCI GI Infra/FTSE Dev Core 50/50	7.30%	6.35%	3.85%	15.20%	4.80%	7.15%	6.15%	15.45%
Private Equity	Cambridge Private Equity	12.15%	8.75%	6.25%	27.60%	0.00%	11.95%	8.50%	27.60%
Private Credit	Cambridge Senior Debt Index	8.40%	7.40%	4.90%	15.70%	7.40%	8.00%	7.00%	15.50%
Hedge Funds	Callan Hedge FOF Database	6.25%	6.05%	3.55%	8.20%	0.00%	5.80%	5.55%	8.45%
Commodities	Bloomberg Commodity	5.45%	3.90%	1.40%	18.05%	3.00%	5.05%	3.50%	18.00%
Cash Equivalents	90-Day T-Bill	3.00%	3.00%	0.50%	0.90%	3.00%	2.75%	2.75%	0.90%
Inflation	CPI-U		2.50%		1.60%			2.50%	1.60%

* Geometric returns are derived from arithmetic returns and the associated risk (standard deviation).

** Projected Yields represent the expected 10-year average yield

Source: Callan

2024–2033 Callan Capital Markets Assumptions Correlations

Large Cap U.S. Equity	1.00																																										
Smid Cap U.S. Equity	0.87	1.00																																									
Dev ex-U.S. Equity	0.70	0.81	1.00																																								
Em Market Equity	0.81	0.88	0.92	1.00																																							
Short Dur Gov/Credit	0.05	0.01	0.04	-0.01	1.00																																						
Core U.S. Fixed	0.09	0.03	0.06	0.00	0.78	1.00																																					
Long Government	0.01	0.00	0.03	0.00	0.65	0.82	1.00																																				
Long Credit	0.40	0.35	0.35	0.35	0.62	0.80	0.69	1.00																																			
TIPS	-0.02	-0.05	-0.04	-0.07	0.55	0.70	0.54	0.52	1.00																																		
High Yield	0.74	0.74	0.71	0.74	0.13	0.15	0.02	0.45	0.06	1.00																																	
Global ex-U.S. Fixed	0.12	0.11	0.14	0.10	0.50	0.50	0.42	0.53	0.40	0.16	1.00																																
EM Sovereign Debt	0.59	0.60	0.61	0.65	0.17	0.23	0.11	0.47	0.11	0.62	0.17	1.00																															
Core Real Estate	0.33	0.33	0.33	0.33	0.17	0.22	0.08	0.31	0.12	0.30	0.14	0.22	1.00																														
Private Infrastructure	0.47	0.47	0.45	0.47	0.14	0.18	0.10	0.33	0.08	0.34	0.18	0.32	0.65	1.00																													
Private Equity	0.79	0.77	0.76	0.76	-0.04	-0.04	-0.08	0.27	-0.12	0.55	0.07	0.44	0.46	0.52	1.00																												
Private Credit	0.67	0.67	0.64	0.68	0.04	0.06	-0.02	0.32	-0.05	0.55	0.11	0.47	0.26	0.27	0.65	1.00																											
Hedge Funds	0.60	0.50	0.50	0.50	0.28	0.39	0.25	0.52	0.23	0.50	0.24	0.47	0.24	0.31	0.34	0.47	1.00																										
Commodities	0.20	0.20	0.20	0.20	-0.04	-0.05	-0.10	0.04	0.00	0.18	0.05	0.15	0.16	0.15	0.16	0.14	0.17	1.00																									
Cash Equivalents	-0.02	-0.07	-0.08	-0.08	0.27	0.16	0.12	0.04	0.14	-0.03	0.10	-0.02	0.02	-0.04	-0.04	-0.04	0.00	-0.02	1.00																								
Inflation	0.00	0.02	0.00	0.02	-0.20	-0.22	-0.30	-0.20	0.25	-0.03	-0.12	-0.04	0.20	0.10	0.04	-0.04	-0.01	0.35	0.02	1.00																							
	Large Cap	Smid Cap	Dev	Em Mkts	Short Dur	Core Fixed	Long Gov	Long Credit	TIPS	High Yield	Global ex-US Fixed	EM	Core Real Estate	Private Infra	Private Equity	Private Credit	Hedge Funds	Comm	Cash Equiv	Inflation																							

Source: Callan

Callan's 2024-2033 Expected Return and Risk Assumptions

Asset class correlations

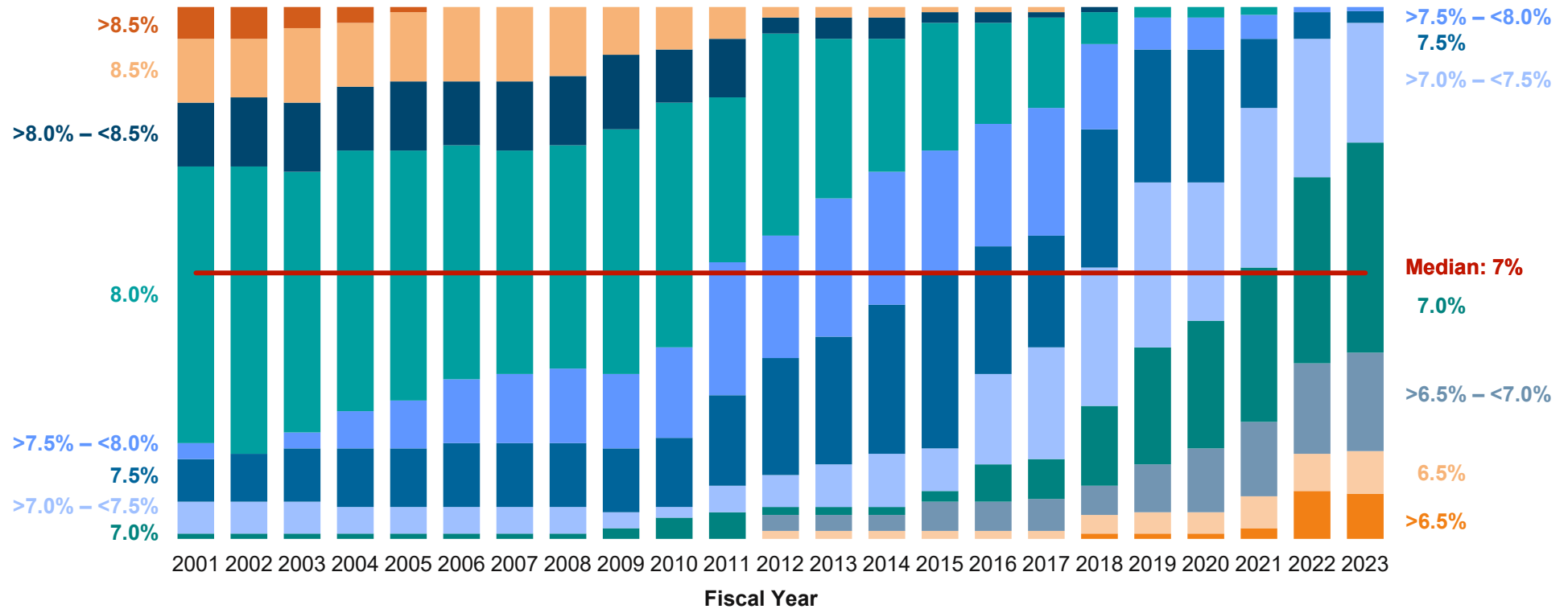
Correlation measures the degree to which two investments move in relation to each other

- **+1 correlation:**
 - Returns are “perfectly correlated” or synchronized
 - No diversification benefit so or reduction in volatility
- **0 correlation:**
 - The relationship between the returns of two investments is completely random
 - Substantial reduction in volatility
- **-1 correlation:**
 - Returns are completely unsynchronized
 - Good and bad returns exactly cancel out, leaving no volatility

Broad U.S. Equity	1.00				
Non-U.S. Equity	0.79	1.00			
Domestic Fixed Income	0.08	0.04	1.00		
Core Real Estate	0.34	0.34	0.22	1.00	
Cash Equivalents	-0.03	-0.08	0.16	0.02	1.00
	Broad U.S. Equity	Non-U.S. Equity	Domestic Fixed Income	Core Real Estate	Cash Equivalents

Historical Changes to Long-Term Return Assumptions

Public fund investment return assumptions



- ▶ Industry consensus has trended toward lower return expectations, leading to a steady decline in actuarial discount rates over the last 20 years
- ▶ The 2023 median actuarial discount rate is 7.0%
- ▶ AJRS' actuarial assumed rate of return is still well below the median public fund at 5.5%.

Source: NASRA as of March 2023

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**ARKANSAS JUDICIAL RETIREMENT SYSTEM
BOARD OF TRUSTEES**

INVESTMENT POLICY STATEMENT



Adopted by the Board of Trustees
February 22, 2024

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- I. PREAMBLE
- II. STATEMENT OF PURPOSE
- III. STATUTORY GOVERNING AUTHORITY
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- VII. INVESTMENT GUIDELINES
- VIII. PERFORMANCE MEASUREMENT STANDARDS
- IX. PROXY VOTING
- X. INVESTMENT POLICY STATEMENT
 - ADOPTED FEBRUARY 05, 1998
 - AMENDED FEBRUARY 01, 2007
 - AMENDED MAY 03, 2012
 - AMENDED FEBRUARY 2024

ARKANSAS JUDICIAL RETIREMENT SYSTEM

INVESTMENT POLICY STATEMENT

I. PREAMBLE

The Arkansas Judicial Retirement System ("AJRS" or "System") was established by the Arkansas General Assembly by Act 365 of 1953, as a defined benefit retirement plan. Arkansas Code §24-8-207 (a) All chancery judges, circuit judges, judges of the Court of Appeals and justices of the Supreme Court, whether elected or appointed to office, shall participate in the Arkansas Judicial Retirement System.

The administration and control of the system shall be vested in a five-member Board of Trustees ("board" or "trustees") appointed by the Arkansas Judicial Council. AJRS 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 Judicial Retirement System. The AJRS Board of Trustees may make all rules necessary and proper for carrying out the provisions for the proper administration of the system.

Arkansas Code §24-8-203(b)(2) states one of the members of the Board shall be elected to serve as chair. Arkansas Code §24-8-204 states that the Executive Director and administrative staff of APERS shall be the Executive Director and administrative staff of AJRS.

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 AJRS.

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 AJRS and is established to provide a framework for the management of those assets. The Executive Director and Chief Investment Officer of AJRS/APERS shall administer this Statement pursuant to the laws of the State of Arkansas, and the investment policies adopted by the AJRS 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 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 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 scheduled Board 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."

Executive Director (ED)

Arkansas Code §24-8-204(a)(1) The executive director and administrative staff of the Arkansas Public Employees' Retirement System shall be the executive director and

administrative staff of the Arkansas Judicial Retirement System. The AJRS Board provides administrative direction to the executive director and staff.

Chief Investment Officer (CIO)

The CIO is part of the investment staff, reports to the ED, works with the Board 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, AJRS 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 Executive Director and the CIO are authorized to invest in or otherwise sell or dispose of any system asset, without regard to amount. All investments will be reported at a scheduled board meeting. 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 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, 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 Board 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 AJRS/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. Arkansas Code §24-8-206 states that an actuarial valuation shall be made annually to determine how well the Arkansas Judicial Retirement System is meeting the financial objectives applicable to all state-supported retirement systems.

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 AJRS' 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 update 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	Russell 3000 Index
International Equity	MSCI ACWI ex US
Real Estate	NFI-ODCE Eq Weight Net
Cash + Fixed Income	Bloomberg Aggregate

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 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. 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.

- F. 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.
- G. 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.
 - H. 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. Return Expectations

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. Individual Investment Managers

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 FEBRUARY 05, 1998
- AMENDED FEBRUARY 01, 2007
- AMENDED MAY 03, 2012
- AMENDED FEBRUARY 2024

Will update as needed

Asset Class	Expected Return	Standard Deviation (Risk)
Broad U.S. Equity	7.65%	17.40%
Non-U.S. Equity	7.65%	21.40%
Domestic Fixed Income	5.25%	4.25%
Core Real Estate	6.00%	14.00%
Cash	3.00%	0.90%

Inflation (CPI-U) 2.50%

	Mix 1	Mix 2	AJRS Target	Mix 4	Mix 5
Broad U.S. Equity	30%	34%	37%	41%	44%
Non-U.S. Equity	12%	13%	15%	16%	18%
Fixed Income	50%	45%	40%	35%	30%
Core Real Estate	8%	8%	8%	8%	8%
Cash	0%	0%	0%	0%	0%
Total Portfolio	100%	100%	100%	100%	100%
Mix Characteristics:					
Expected Return	6.8%	7.0%	7.1%	7.2%	7.3%
Standard Deviation	8.4%	9.2%	9.9%	10.8%	11.6%



Quarterly Board Meeting

Statement of Fiduciary Net Position as of December 31, 2023

ASSETS	
Cash and Cash Equivalents	\$ 1,669,009
Receivables	
Contributions Receivable	\$ 197,824
Overpayment Receivable	33,142
Allowance for Doubtful Accounts	<u>(17,748)</u>
Total Receivables	213,218
Investment Assets	<u>321,172,892</u>
TOTAL ASSETS	<u>323,055,119</u>
LIABILITIES	
Accrued Expenses and Other Liabilities	<u>209</u>
TOTAL LIABILITIES	<u>209</u>
NET POSITION RESTRICTED FOR PENSION BENEFITS	<u><u>\$ 323,054,910</u></u>



Quarterly Board Meeting
Statement of Changes in Fiduciary Net Position
for the Period Ending December 31, 2023

ADDITIONS

Contributions	
Employer	\$ 8,240,053
Employee	653,569
Court Fees	135,420
Total Contributions	9,029,041
Investment Income	
Less: Investment Expense	15,431,995
Net Investment Income	(314,123)
Other Additions	
Miscellaneous Additions	156
TOTAL ADDITIONS	24,147,070

DEDUCTIONS

Benefits	9,040,974
Refunds of Contributions	-
Administrative Expenses	145,992
TOTAL DEDUCTIONS	9,186,966

NET CHANGE IN NET POSITION	14,960,105
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NET POSITION RESTRICTED FOR PENSION BENEFITS

Beginning of Fiscal Year	308,094,805
End of 2nd Quarter	\$ 323,054,910



Quarterly Board Meeting

Benefits Summary

Membership

Whether elected or appointed to office, all circuit judges, judges of the Court of Appeals, and justices of the Supreme Court must participate in the Arkansas Judicial Retirement System.

- **Tier One:** A person who became a member of the system before July 30, 1999, participates in the benefit plan referred to as Tier One.
- **Tier Two:** A person who becomes a member of the system on or after July 30, 1999, must participate in the Tier Two Actual Judicial Service Benefit Plan.

Members - Historical

	1 year	5 years	10 years	20 years
Number	142	139	140	134
Average Age	58.1	60.0	58.7	54.9
Average Service	15.1	16.9	15.9	10.0
Average Pay	\$193,869	\$168,595	\$139,898	\$118,915

Eligibility for Benefits

- **Normal retirement:** Any member may retire and be eligible for benefits after attaining:
 - A minimum of 20 years of actual service, regardless of age, or
 - At least eight (8) years of service, upon reaching age 65.
 - Generally, judges or justices must retire by their seventieth birthday or lose their retirement benefits.
- **Early retirement:** Any member may elect to retire and receive benefits after attaining:
 - Eight (8) years or more of actual service, after reaching age 62 and before reaching 65.
 - Retirement benefits are reduced six percent (6%) for each full year that the judge or justice retires before reaching age 65.
- **Disability retirement:** Members who have served a minimum of three (3) consecutive years will receive retirement benefits if the Board determines an incapacitating disability occurs.
- **Survivor retirement:** Survivors of members who have served at least three (3) years may receive survivor benefits. Eligible survivors include a spouse and minor children.



Quarterly Board Meeting

Benefits Summary

Eligibility for Benefits *cont.*

Retirees – New This Quarter

	Oct 2023	Nov 2023	Dec 2023	Jan 2024
Number	0	0	0	1
Avg. Monthly Benefit	n/a	n/a	n/a	\$12,057
Total Retirees	178	178	177	177
Total Monthly Benefits	\$1.4m	\$1.4m	\$1.4m	\$1.4m

Retirement Benefits

- **Retirement Benefits:** The retirement benefits paid to an eligible and qualified member is 3.2% of the annual salary payable to the last judicial office held multiplied by the number of years of actual service, not to exceed 80% of salary. These benefits are payable for the recipient’s life.
- **Benefit calculation example:** Annual Salary X 3.2% X Actual Service
 $\$192,918 \times 3.2\% \times 21.67 \text{ yrs.} = \$133,777 \text{ annually/ } \$11,148 \text{ monthly}$
- **Survivors’ Benefits:** Survivors’ benefits are 67% of the amount of a member’s retirement benefits.
- **Cost-of-living adjustments:** Each July 1, the system redetermines the amount of each monthly benefit paid for at least twelve months. The amount of the redetermined benefit – a cost-of-living adjustment (COLA) – is the previous July 1 benefit amount increased by three percent (3%).

Retirees - Historical

	1 year	5 years	10 years	20 years
Number	178	147	125	98
Total Annual Benefits	\$18.1m	\$13.0m	\$10.0m	\$6.4m
Average Age*	70.6	67.0	65.7	N/A
Average Service*	25.3	9.4	18.5	N/A
Avg. Annual Benefit*	\$149,373	\$111,188	\$95,268	N/A

* New retirees



Quarterly Board Meeting

Executive Report

Annual Comprehensive Financial Report

The Annual Comprehensive Financial Reports for APERS, ASPRS, and AJRS have been completed. Printed copies are available for your review.

Building Lease and Purchase update

Following the November APERS Board meeting, the APERS executive team toured several properties in the Little Rock area to explore the options of purchasing a building to compare with existing our existing lease with Moses Tucker.

Education and Outreach

ASPRS Collaborative Training: APERS joined the Arkansas State Police at Camp Robinson to partner in providing retirement education and counseling from January 2- January 31st. Over 500 troopers participated in this collaborative training.

Employer Training and Outreach: APERS conducted an employer outreach survey in November 2023 resulting in partnership with 26 employers to host onsite member education seminars across the state. In addition, APERS staff continues to offer ongoing virtual member education seminars as well as regularly scheduled training with employers.

Website Update

The Public Affairs team continues to work with Tyler Technologies to load APERS, ASPRS, and AJRS content into our new website platform. We anticipate our new improved website will be live by our next board meeting in May. We will be meeting with stakeholder groups in March and April to gather input and make final edits to ensure ease of use for our active members and retirees. I will share the website with the board as well for your input.

Staff Training

The APERS IT department conducted in-house training for staff during the month of December. The training provided insight into Microsoft and windows navigation and use. The APERS IT department is currently providing cyber security awareness training for all staff.

Operational Improvements:

Return Mail:

APERS Digital Services and the benefit division are diligently working to implement new processes to ensure effective communication with our members. They have implemented a process to reach members with return mail to ensure we have the right contact information on file for correspondence. This is very important to ensure members are notified of any changes and to ensure member benefits are received by intended recipients. This operational improvement will also assist us in identifying cases where a member is deceased, and we have not been provided with a notice of death.



Quarterly Board Meeting

Executive Report

Retirement Support Center:

The APERS Call Center has been re-branded to the Retirement Support Center (RSC) and is now under the Public Affairs department within our Operations Division. We are working with DIS to update our IVR to route calls more appropriately and better serve our members. The RSC will handle all incoming member calls to address questions related to retirement planning. Retiree calls will be routed to retirement counselors to address retiree needs.



STATE OF ARKANSAS
**Department of Finance
 and Administration**

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 www.arkansas.gov/dfa

MEMORANDUM

TO: All State Agencies, Boards and Commissions,
 and Institutions of Higher Education

FROM: Larry W. Walther, Secretary *Larry W Walther*

SUBJECT: Rate of Mileage Reimbursement for Use of Privately-Owned
 Motor Vehicles on Official Business of the State

DATE: March 17, 2022

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Effective immediately, due to the increasing gas prices, the maximum authorized State rate of mileage reimbursement for the use of privately-owned motor vehicles on official business of the State will be **temporarily** increased to fifty-two (52) cents per mile. Reimbursement for travel performed on or after March 17, 2022, is authorized at the new temporary rate of fifty-two (52) cents per mile until further notice. Reimbursement for any travel before March 17, 2022, is authorized at the rate of forty-two (42) cents per mile.

The Office of Accounting will continue to monitor average gasoline prices and the reimbursement rate will be re-evaluated for possible reduction when the average gasoline price declines below \$3.50 per gallon.

It is the responsibility of the agency director to ensure that their agency budget is sufficient to fund this increase in mileage reimbursement. The agency director may authorize reimbursement for the use of privately-owned automobiles at amounts less than the authorized State maximum rate if the agency budget is insufficient to fund the increase in rate. If your agency decides to reimburse at a rate less than fifty-two (52) cents per mile, please notify your DFA Budget Analyst before implementation of the rate increase.

If you have any questions, please contact the Office of Accounting at 501 682-1675.

LWW: pl

2020 Arkansas Code

Title 25 - State Government

Chapter 16 - State Officers

Subchapter 9 - State Boards — Compensation

§ 25-16-902. Expense reimbursement

Universal Citation: AR Code § 25-16-902 (2020)

(a) Every state board may, by a majority vote of the total membership of the board cast during its first regularly scheduled meeting of each calendar year, authorize expense reimbursement for each board member for performing official board duties.

(b) The expense reimbursement shall not exceed the rate established for state employees by state travel regulations.

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