

**MINUTES OF THE QUARTERLY MEETING OF THE BOARD OF TRUSTEES  
ARKANSAS PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
FEBRUARY 15, 2023**

A regular meeting of the Board of Trustees of the Arkansas Public Employees' Retirement System was held on Wednesday, February 15, 2023, at 9:00 a.m. This hybrid meeting was held via ZOOM remote conferencing in the Conference Room, 124 West Capitol, Little Rock, Arkansas. Ms. Candace Franks presided.

(Remote attendees indicated with an asterisk \*).

**QUORUM PRESENT:**

Ms. Candace Franks recognized the presence of a quorum.

**BOARD MEMBERS PRESENT:**

Ms. Candace Franks, (State Employee, Retired), Chair, Little Rock, AR  
Mr. Larry Walther (Ex-Officio), Vice Chair, Department of Finance and Admin  
Mr. Dale Douthit, (State Employee), Russellville, AR  
Judge Barry Moehring (Non-State Employee, County Judge), Bentonville, AR  
Mr. Gary Carnahan (Non-State Employee), Hot Springs, AR  
Mr. Joe Hurst, (Non-State Employee, Mayor), Van Buren, AR\*  
Mr. Daryl Bassett (State Employee), Sherwood, AR  
Ms. Kaye Donham, (Retired), Benton, AR\*  
Mr. Richard Wilson (Retired), Little Rock, AR\*  
Mr. Gary Wallace (Retired Law Enforcement), Greenbrier, AR  
Mr. Jason Brady (State Auditor's Office) *proxy*  
Hon. Mark Lowery (Ex-Officio), State Treasurer  
Ms. Amy Fecher, APERS Executive Director

**BOARD MEMBERS ABSENT:**

Hon. Dennis Milligan, (Ex-Officio), State Auditor  
Mr. Russell White (Retired Law Enforcement), Alma, AR

**VISITORS PRESENT:**

Ms. Brianne Weymouth, Callan LLC  
Mr. John Jackson, Callan LLC  
Mr. Gary Robertson, Callan LLC\*  
Mr. Mita Drazilov, GRS\*  
Ms. Heidi Barry, GRS\*  
Mr. Andy Babbit, DFA *proxy*  
Mr. Will Cheatam, Treasurer's Office  
Mr. Jack Critcher, AR Municipal League\*  
Ms. Cindy Frizzell, AR Municipal League\*  
Mr. Chris Villines, AR Assoc. of Counties\*  
Mr. Alan Johnson, AR Department of Agriculture  
Mr. Seth Kallick, City of Lowell\*  
Ms. Lauren Albanese, FIN News\*  
Ms. Melissa Cahill, HarbourVest Partners\*  
Mr. Cliff Robison, APERS Member\*  
Ms. Zona Maness, APERS Retiree\*  
Unidentified User\*

**STAFF PRESENT:**

Ms. Allison Woods, APERS Deputy Director of Benefits  
Ms. Laura Gilson, APERS General Counsel  
Mr. Richmond Giles, APERS Staff Attorney  
Ms. Patty Shipp, APERS Assurance Officer  
Mr. Carlos Borromeo, APERS Deputy Director of Investments & Finance  
Ms. Usha Doolabh, APERS Investments Manager  
Ms. Jennifer Taylor, APERS Director of Benefits Administration  
Ms. Cheryl Wilburn, APERS Benefits Operations Manager  
Mr. Jason Willett, APERS Chief Financial Officer  
Mr. Phillip Norton, APERS Director of IT

Mr. John Owens, APERS Accounting Operations Manager  
Mr. Jon Aucoin, APERS Retirement Section Manager\*  
Ms. Shelly George, APERS Retirement Coordinator\*  
Mr. Stefan Melikian, APERS Retirement Coordinator\*  
Ms. Kristi Brown, APERS Retirement Coordinator\*  
Ms. Phyllis Franklin, APERS Retirement Coordinator\*  
Mr. Drake Rodriguez, APERS Retirement Coordinator\*  
Ms. Jacobia Bates, APERS Manager of Education Services  
Ms. Linda McGrath, APERS Administrative Specialist

**NEWS MEDIA NOTIFIED:**

An e-mail with notification of the Arkansas Public Employees' Retirement System Board meeting was sent to the Arkansas Democrat-Gazette, the Associated Press, Television Station KLRT-FOX16, Radio Station KARN, and Radio Station KAAY. This notification is pursuant to A.C.A. § 25-19-101 (Act 93 of 1967) as amended, *a.k.a.* the Arkansas Freedom of Information Act.

**INTRODUCE APERS' NEW BOARD MEMBER:**

Ms. Franks introduced Mark Lowery, the new State Treasurer, to everyone at the meeting. Dennis Milligan replaced Andrea Lea as the State Auditor and Jason Brady would continue to represent him at the APERS Board meetings.

**MINUTES:**

Prior to the Board meeting, a copy of the minutes from the November 16, 2022 meetings was e-mailed to each APERS Board member for review. Mr. Bassett motioned to accept the minutes as they presented, and he was seconded by Mr. Walther. The motion carried.

**INVESTMENTS**

**CIO REPORT – Presented by Carlos Borromeo, Deputy Director of Investments & Finance**

Mr. Borromeo gave his CIO Report for the last quarter of 2022. He summed up the results with the words: "Inflation and rate hikes." Mr. Borromeo noted that inflation had hit its highest rate in decades and the Fed had raised rates seven times in 2022. He read off notable headlines from the last quarter. Bloomberg Agg (fixed income benchmark) had its worst year ever (-13.01%). Most major indices posted positive returns last quarter, but for the calendar year, they were all lower. Value outperformed growth stocks, and large-cap outperformed small-cap.

**QUARTERLY REPORT FOR THE PERIOD ENDING DECEMBER 31, 2022 –**

**Presented by Brianne Weymouth & John Jackson from Callan LLC and Carlos Borromeo, APERS CIO**

Mr. Jackson presented the executive summary for the second quarter of FY 2023. He noted that for the last three quarters, both stocks and bonds had been in decline, which is highly unusual. He explained that GDP growth in 2022 slowed compared to 2021 but rebounded after declines in the first half of the year. More rate hikes from the Fed are expected to try and bring inflation under control. Around the world, geopolitical issues with Russia, Ukraine, and China continue to dominate the news. In the US, rising mortgage interest rates have resulted in a sharp slowdown in residential housing. Non-US Equities outperformed US Equities. The bond market was down significantly due to the Fed raising interest rates. Real estate (NAREIT) was up 5.24% for the quarter, but down (-24.37%) for the trailing 12 months. January 2023 provided a bright spot with most markets showing a positive return.

Ms. Weymouth detailed the Fund's performance for the last quarter stating it finished out 2022 with a value of just over \$10 Billion. The portfolio returned 5.73% for the quarter and finished in the top half of its peer group. The actual asset allocation and the target asset allocation are very close, with no rebalancing needed. For the year, the fund ranked in the 67<sup>th</sup> percentile among its peers and finished below its benchmark. Over the remaining trailing periods, the fund has outpaced the benchmark and ranked in the top half of its peer group,

Looking at individual managers, Ms. Weymouth pointed out that Intech lagged its benchmark and peers for this quarter and trailing time periods. Baillie Gifford has struggled as a growth manager over the last several years while growth has not been in favor but has begun to make up ground. In Fixed Income, Doubleline is the weak link with their high allocation to mortgages and has trailed their benchmark with the rising interest rates. Also, there was concern over the recent death of PM Suzanne Hutchins at Newton Investments and how it would affect the portfolio going forward.

**Asset Allocation & Pacing Study Report – Presented by Brianne Weymouth, John Jackson and Gary Robinson of Callan LLC and Carlos Borrromeo, Deputy Director of Investments & Finance**

Mr. Borrromeo opened with a recap of the Board's actions from the last meeting and explained the changes he was proposing after reviewing some of those discussions. He suggested increasing domestic equity from 33% to 36%, fixed income from 18% to 21%, and adding 5% for private equity. The funds for this would come from lowering international equity from 24% to 17%, convertible bonds from 4% to 3%, and diversified strategy from 5% to 3%. He showed how this new proposal had a higher expected return, but a similar risk to the November meeting's proposal and still carved out the 5% earmarked for private equity. This would require terminating AQR and Newton while retaining Blackstone.

Mr. Robinson joined the meeting via ZOOM and reviewed the pacing study, detailing the commitment timeline and implementation. The Board has set a target allocation of 75% of the commitment to secondary investments and 25% to primary investments employing fund-to-funds vehicles. Mr. Robinson explained this would require two separate searches and he suggested conducting a search for the secondaries, to be followed by the primary fund-to-fund search. He showed a sample timeline of the cash flows expected in a typical private equity investment, noting that distributions generally do not begin until after the third year. Mr. Robinson stressed that patience is required for private equity portfolios to achieve full funding, with most reaching their target in seven to eight years. He anticipated APERS would hit their proposed target of 5% exposure in 2029.

Mr. Bassett expressed concern at locking up so much of APERS' capital for 10-15 years, noting if those funds were needed, they would come back sharply discounted. He agreed that the fund should investigate private equity, but the board members should go in with their eyes wide open. Mr. Brady questioned the decision over the 75/25 split that was being proposed and wondered about other percentages. Mr. Borrromeo responded that ATRS had been invested in a fund of funds since the late 1990s and his decision had been based upon conversations with them and other investment colleagues across the country.

After further discussion, Mr. Bassett motioned to terminate Newton and AQR. He was seconded by Mr. Brady and the motion passed unanimously.

Mr. Walther stated that he felt the next step in the process was to reaffirm the 5% allocation to private equity. Mr. Brady motioned for staff to begin a search for primary and secondary private equity managers and begin to move towards a 5% commitment to that program. Second from Mr. Bassett and the motion carried.

Mr. Borrromeo suggested a Callan refresher course on private equity for interested board members. He noted it would be a ZOOM meeting for everyone's convenience if they could agree on a date and time.

<BREAK>

Mr. Brady came back after the break and said he had one more motion to propose. He wanted to have Callan require any finalists in the primary or secondary fund search to do an in-person presentation for the Board so they can get a better idea of the managers under consideration. Mr. Bassett seconded the motion and it passed.

**FINANCE**

**Actuarial Funding Policy – Presented by Jason Willett, APERS' Chief Financial Officer, Mita Drazilov and Heidi Barry of GRS**

Mr. Willett reminded the Trustees that they had been presented with an Actuarial Funding Policy to approve at the November meeting. After much discussion, it had been decided to table further consideration until staff and the actuaries had time to address certain concerns of the Board. Mr. Drazilov noted the Board had expressed a strong desire to maintain the 15.32% employer rate that had been in effect since July 2018 (which would now be referred to as the "Minimum Employer Contribution Rate).

Should the Annual Valuation indicate that the employer rate be set higher than 15.32%, then the actuaries will extend the amortization period (up to 30 years) to lower the employer rate required down to 15.32%. The Board took such actions in the past, this merely puts the practice into policy and gives guidance to the Board in the future. Mr. Drazilov assured the Board that the way the

policy was written, they could still change the desired employer rate if desired. Mr. Brady motioned to adopt the Actuarial Funding Policy as presented, second by Judge Moehring. After a short discussion to clarify Section 3, the motion passed.

**Financial Statements for the Quarter Ending December 31, 2022 – Presented by Jason Willett, APERS' Chief Financial Officer**

Mr. Willett stated the net position of the plan at the end of December was just over \$9.71 billion, down roughly \$1.9 billion from a year ago. This was due mostly to a negative return on investments. Contributions, both employer and employee, were higher due to salary increases and should continue upward as the mandatory employee contribution rate increases. During the first half of the fiscal year, APERS paid out over \$324 million in benefit checks.

**LEGAL**

**Litigation Update – Presented by Laura Gilson, APERS' Chief Legal Counsel**

Ms. Gilson introduced Mr. Richmond Giles. She reported that currently there are currently no new member appeals or active securities litigation cases.

**BENEFITS**

**Summary of Retirees for the Quarter Ending December 31, 2022 – Presented by Allison Woods, APERS' Deputy Director of Benefits**

Ms. Woods reported APERS had 192 members who retired in October, 120 in November, and 130 retirees in December, for a total of 442 new retirees over the last three months of the calendar year 2022. On December 31, 2022, APERS had 38,361 retirees and beneficiaries receiving monthly benefits from the agency: 48 more than last quarter. Discussed the large number of termination refunds and rate changes. Mr. Carnahan proposed a video regarding individual retirement benefits.

**EXECUTIVE REPORT**

**Set DROP Interest Rate for the Upcoming Fiscal Year**

Director Fecher distributed a graph showing the 10-year history of the interest rate associated with 10-year treasury yields. Currently, this investment has a 3.38% annual return. Staff recommends raising the current interest rate on DROP accounts from 2.0% to 3.0%. Mr. Carnahan motioned to raise the rate to 3.0% for FY 2024. He was seconded by Mr. Bassett. motion carried.

**Annual Approval for Board Travel Reimbursements**

Director Fecher reminded the board that this was an annual requirement to approve travel reimbursement rates for Trustees performing official Board duties at the first meeting of each calendar year. APERS normally mirrors the rates set by DF&A which currently uses a rate of 52 cents per mile. Judge Moehring motioned to approve reimbursement for travel under the state's guidelines. Mr. Douthitt seconded the motion and it carried.

**Class Action Report**

Director Fecher referred the Board to the class action settlement proceeds information within the board material. Currently, APERS is involved in 25 lawsuits but is not the lead plaintiff on any. For the first half of Fiscal Year 2023, over \$182,000 has been collected. There were no questions.

**Board of Trustees Sub-committees**

Ms. Franks stated her intention to the APERS Board in forming two subcommittees. She noted that in the past APERS had utilized committees and with the expanded board, it seemed like an appropriate time to reintroduce this practice. She proposed two committees: Member Appeals and Investments and Finance. These sub-committees will be tasked with focusing on specific areas and making recommendations to the full Board for discussion and approval.

Mr. Brady moved to take the Chair's recommendation and establish those two subcommittees. He was seconded by Mr. Wallace. Judge Moehring asked for details on how the committees would function and who would be on each committee. Ms. Franks suggested the following Trustees for each subcommittee with duties listed below:

**Appeals - Hear APERS' member appeals.**

- Kay Donham
- Richard Wilson
- Russell White
- Dale Douthitt

- Barry Moehring

**Investments and Finance - Hear private equity updates, lead plaintiff class action requests, and consult on any APERS litigation.**

- Gary Carnahan
- Jason Brady
- Daryl Bassett
- Gary Wallace
- Mark Lowry

There would be no set schedule for these subcommittees, but they would meet when there was a member appeal or class action lead plaintiff request. With no further discussion, the Chair called for a vote and the motion passed.

**2023 Legislation Session Update**

Director Fecher noted that Staff is following over 40 bills that affect retirement daily. She said there were basically three things they were focused on. First the APERS package (Board-approved legislation) has been filed, by Senator Hickey and Representative Maddox as the sponsors. February 27<sup>th</sup> is the expected date for the Retirement Committee to look at our package. The second group of bills staff is watching closely is the “ESG bills” and have been working meticulously with the other state retirement plans and actuaries to craft these into something the plans can handle. The third group of bills pertains to law enforcement which are awaiting an actuarial cost study before proceeding any further.

Mr. Carnahan asked specifically about the ESG bills and Director Fecher stated the Arkansas bills focused on a prohibition of discrimination against guns, ammunition, fossil fuel, and energy. There is a provision that retirement systems are opted out of indirect investing such as index funds.

**OTHER BUSINESS:**

There was no other business.

**UPCOMING MEETINGS:**

The next quarterly Board Meeting is scheduled for Wednesday, May 17, 2023, at 9:00 a.m.

**ADJOURNMENT:**

There being no further business, the meeting was adjourned.

  
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Ms. Candace Franks, Chair

  
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Ms. Amy Fecher, APERS Executive Director