

Minutes
The Arkansas Local Police and Fire Retirement System Board of Trustees
Quarterly Meeting

The Arkansas Local Police and Fire Retirement System Board of Trustees met on Thursday, March 10, 2016 in the LOPFI office located at 620 W. 3rd, Suite 200, Little Rock, Arkansas.

Members Present: Mayor Mike Gaskill, Employer Trustee, Chairman
John Neal, Retired Fire Employee Trustee, Vice-Chairman
Catherine Cook, Employer Trustee
Bev Lambert, Public Trustee
J. Scott Baxter, Police Employee Trustee
Tim Hill, Retired Police Employee Trustee
Damon Reed, Fire Employee Trustee

Staff Present: David Clark, Executive Director
Tracy Warfe, Assistant Director
Tiffiney Lewis, Secretary to the Board

Chairman Gaskill called the meeting to order at 9:01 a.m. and recognized a quorum and notification of the news media.

Notice of reappointments/appointment

Chairman Gaskill stated the Board is very pleased to announce that Mr. Neal and Mr. Hill have been reappointed to the Board of Trustees. Chairman Gaskill also recognized the appointment of a new member to the Board, Captain Damon Reed, Conway Fire Department. Chairman Gaskill welcomed Mr. Reed to the Board.

Approval of minutes

Mr. Neal made a motion, seconded by Ms. Cook, to approve the December 10, 2015 LOPFI minutes and the January 21, 2016 Investment Committee minutes. The motion passed unanimously.

Determination letter update

Mr. Richard Ramsay, legal counsel for LOPFI, advised the Board the plan is to seek technical changes in LOPFI's body of law in the 2017 Legislative Session. Markups which will address the Board's rule-making authority question raised by the Internal Revenue Service will be provided to the Board at the June meeting. No action was needed by the Board at this time.

Actuarial assumptions

Ms. Heidi Barry and Mr. David Hoffman, actuaries with Gabriel, Roeder, Smith & Company (GRS) discussed the Supplemental Valuation of Alternate Economic Assumptions and the projected Uniform Rate for calendar year 2017. Ms. Barry stated the increase in unfunded actuarial accrued liability from lowering the Investment Return Assumption from 8.0% to 7.75% are \$6.88 million and would be \$15.38 million if the Investment Return Assumption was further lowered to 7.50%. Mr. Hoffman recommended that the Board lower the current 7.75% Investment Return Assumption to 7.50%. After further discussion, Mr. Neal suggested that GRS should bring this topic back to the Board at the September meeting. The Board concurred.

Mr. Hoffman briefly discussed the projected Uniform Employer Contribution Rate for fiscal year 2017. Mr. Hoffman explained that the maximum employer contribution rate was increased from 22% to 23% of payroll and will ultimately become the Uniform Rate; however, many employer groups would still not be at the 23%. Mr. Hoffman stated that the Uniform Rate will change over time and if all assumptions are exactly realized in future experience the Uniform Rate would move toward 19% of payroll; however, there is no guarantee that this will actually happen. Mr. Hoffman recommended that the Board consider a change to code to amend the current 1% limitation on increases in employer contribution rates to reach the Uniform Rate sooner. Currently, the projection is it will be 2026 before all groups are at the Uniform Rate. If the limitation was increased 1½% to 2% all locations would be at the Uniform rate in five years. After further discussion, the Board recognized the likely resistance from employers to an increase in the current limitation. The discussion concluded with the understanding that this topic could be brought back up at a later date.

Investment Consultant report

Mr. Larry Middleton, Stephens Inc., presented the fourth quarter investment report. LOPFI's total portfolio value as of December 31, 2015, was \$1.626 billion. As of close of business on March 9, 2016, the unaudited total portfolio value decreased by \$4 million from the end of the fourth quarter. Mr. Middleton reported that the Investment Committee met on January 21, 2016 to determine the best course for reallocating assets to certain managers. The recommendation by the Investment Committee was to move \$50 million from the current mandate with Wellington and allocate to the following:

- \$15 million to Wellington Management– *new mandate* – International Quality Growth
- \$5 million to Wellington Management– *new mandate* – Commodities
- \$10 million to Alternative Investment Management (AIM) – *new mandate* – 13PE4 fund and \$5 million to Warlander, a global opportunistic investment– *new mandate* – both are new investments with AIM inside of the current 13PEA fund
- \$15 million to GoldenTree Asset Management – *new mandate* – Master Fund

Chairman Gaskill recognized Mr. Ramsay. Mr. Ramsay stated that in regards to GoldenTree, LOPFI is actually investing in a feeder fund to the GoldenTree Select Offshore Fund not the Master Fund, which is different from what was mentioned in the January 21, 2016 Investment Committee minutes. Mr. Neal made a motion, seconded by Ms. Cook, to approve the recommendation from the Investment Committee to reallocate assets to the respective mandates, as described. The motion passed unanimously.

Investment Monitor report

Mr. John McCann, Thistle Asset Consulting, reviewed the Executive Summary report as of December 31, 2015. Mr. McCann stated that the year to date rate of return for 2015 was 0.10%; the three year rate of return was 8.43%; and the five year rate of return was 7.35%, which overall were good numbers. Mr. McCann reviewed each of the twenty-seven (27) money managers' results. Mr. Hill made a motion, seconded by Mr. Baxter, to approve the Investment Monitor report. The motion passed unanimously.

Mr. McCann informed the Board that as of December 31, 2015, he partnered with The Bogdahn Group and stated that other than the merger there will be no changes. Both he and Brendon Vavrica will still handle the LOPFI account. Mr. McCann provided the Board with the consent agreement to transfer

the contract from Thistle to The Bogdahn Group. Mr. Neal made a motion, seconded by Mr. Lambert, to accept the consent agreement. The motion passed unanimously.

Service credit/wage discrepancy appeal

Chairman Gaskill stated that this item has been resolved, so no action is needed.

2017 legislative session initial discussion

Mr. Clark advised that other than the Determination Letter topic discussed earlier, staff does not have any items at this time and asked the Board if they had any items they would like to pursue. The Board did not have any items at this time to pursue.

Disability discussion

Chairman Gaskill stated that staff has asked to remove this item from the agenda, so no action is needed.

December 2015 financial statements

Mr. Clark made the Board aware of two items on the December financial statements. Mr. Clark advised that \$8,000.00 was reallocated from the Travel/Prof./Education/Conf. line item to the Office Supplies line item to cover additional expenses. This action is allowed in the Allocation Procedure behind LOPFI Rule #26 as long as the total budgeted amount for the category is not altered. Mr. Clark stated that the 59.02% of the 2015 LOPFI budget having been consumed is understated. This is due to nearly \$900,000 in additional Money Manager fees being invoiced after the December financial statements were closed. The auditors will make an adjustment to the Money Manager Fees line item to show the added expenses as charged to the 2015 year. With the increased allocations to alternative investments, it is not uncommon to have fourth quarter invoices received after the year has closed. Mr. Lambert made a motion, seconded by Mr. Reed, to approve the December 2015 financial statements. The motion passed unanimously.

Committee membership

Chairman Gaskill stated that with Terry Henson's departure from the Board, the membership of the following committees have changed:

- Investment Committee – Mr. Lambert, Chairman, Mr. Gaskill, and Mr. Neal
- Audit Committee – Mr. Neal, Chairman, Mr. Lambert, and Ms. Cook
- Administrative Services Committee – Mr. Gaskill, Chairman, Mr. Neal, and Mr. Baxter

With no further business, Mr. Neal made a motion, seconded by Mr. Baxter, to adjourn. The motion passed unanimously. The Board adjourned at 10:44 a.m.

Respectfully submitted,

Approved 06/02/16

Tiffiney Lewis
Secretary to the Board