

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, December 5, 2019 in the LOPFI office located at 620 W. 3rd, Suite 200, Little Rock, Arkansas.

Members Present: John Neal, Retired Fire Employee Trustee, Vice-Chairman
J. Scott Baxter, Police Employee Trustee
Damon Reed, Fire Employee Trustee
Tim Hill, Retired Police Employee Trustee
Mayor Gary Baxter, Employer Trustee
Andrew Branch, Public Trustee

Excused Member: Mayor Mike Gaskill, Employer Trustee, Chairman

Staff Present: David Clark, Executive Director
Laura Nixon, Assistant Director
Lesley Weaver, Secretary to the Board

Vice-Chairman Neal called the meeting to order at 9:30 a.m. and recognized a quorum and notification of the news media. Vice-Chairman Neal advised Chairman Gaskill needed to be excused. Mr. G. Baxter made a motion, seconded by Mr. J. S. Baxter, to excuse Chairman Gaskill. The motion passed unanimously.

Approval of Minutes

Mr. J. S. Baxter made a motion, seconded by Mr. G. Baxter, to approve the September 12, 2019 LOPFI meeting minutes. The motion passed unanimously. The Board also reviewed the September 16, 2019 Disability Advisory Committee minutes and the November 7, 2019 Administrative Services Committee minutes.

Disability Advisory Committee Report

Mr. J. S. Baxter, Chairman of the Disability Advisory Committee (DAC) stated the DAC met on September 16, 2019 and is scheduled to meet again on Thursday, December 12, 2019. The DAC is currently working to formulate ways to reduce the frequency of disability retirements and the associated cost that is continuing to escalate. Mr. Clark advised that the Joint Retirement Committee (JRC) plans to schedule another series of regional meetings in the fall of 2020. These meetings will give the retirement systems the opportunity to present proposed legislative changes for the 2021 session. The DAC plans to propose possible legislative changes to LOPFI's disability provisions to the Board by the June 2020 Board meeting for review and/or approval. Then, LOPFI will be able to communicate the proposals at the fall 2020 JRC meetings.

Actuarial Assumptions Follow-Up

Mr. David Hoffman and Ms. Heidi Barry, actuaries with Gabriel, Roeder, Smith & Company (GRS) provided a follow up to the actuarial report that was presented at the September 2019 LOPFI Board meeting. GRS proposed a range of investment return assumptions from 7.00% to 6.25% for both paid and volunteer service at the September meeting. At that time, the Board asked GRS to provide an analysis at the December 5th meeting showing the near term effect to employer contribution rates and the impact to the current amortization period, funding ratio, and unfunded liability using the assumed rate of return and wage inflation percentages previously recommended. Ms. Barry presented the Board-requested analysis. Vice-Chairman Neal expressed his concern for the membership regarding an immediate movement from 7.50% to the proposed range of 7.00% to 6.25% and stated he is more comfortable remaining at 7.50% with the understanding that the Board continues to carefully monitor the system's investment performance. Mr. J. S. Baxter stated national trends and forecasters are not looking at LOPFI the way we are invested in terms of asset mix. Further, several years ago forecasters advised it was reasonable to increase the assumed rate of return to 8%. That advice was adopted and we now know those forecasts were incorrect. Therefore, they could be incorrect again. Mr. J. S. Baxter stated continual monitoring of the actual investment performance would be prudent. Mr. Reed noted the average assumed rate of return for peer group pensions that are being reviewed by the DAC is 7.35%; therefore, based on this information, remaining at 7.50% seems reasonable. After further discussion, Mr. G. Baxter made a motion, seconded by Mr. Reed, to remain at the current 7.50% assumed rate of return and re-review for possible changes at the March 2020 LOPFI meeting. The motion passed unanimously. The Board asked that Mr. Hoffman and Ms. Barry provide an analysis showing the effect of decreasing the wage inflation assumption from 3.25% to 3.00% using the current assumed rate of return of 7.50%. Mr. Hoffman stated this information will be provided to the Board at the March 2020 meeting.

Investment Consultant Report

Mr. Larry Middleton, Stephens Inc., presented the third quarter investment report. LOPFI's total portfolio value as of September 30, 2019 was \$2.286 billion. Mr. Middleton stated the year to date rate of return was 14.44%. As of close of business on December 4, 2019, the market value was \$2.357 billion. Mr. Middleton recommended the following additional allocations:

- \$5 million to Wellington Management Company Enduring Assets Strategy
- \$5 million to Snyder Capital Management
- \$10 million to Alternative Investment Management
- \$10 million to SSGA S&P Mid-Cap 400 Index

Mr. Middleton recommended terminating ClearBridge due to poor performance. And because of cultural aspects, Mr. Middleton recommended terminating the two Fisher mandates. Mr. Branch made a motion, seconded by Mr. G. Baxter, to approve all of Mr. Middleton's recommendations. The motion passed unanimously. The Board thanked Mr. Middleton for the report.

Rule 14 Amendment

Mr. Clark reviewed the proposed amendments to Board Rule 14 that have been reviewed and approved by LOPFI legal counsel. Mr. Clark explained Rule 14 covers the handling of delinquent employer accounts. Pursuant to Act 988 of 2019, which will be effective January 1, 2020, any employer that fails to enroll in the retirement system a LOPFI retiree who is hired as a

police officer or firefighter (returnee) within ten (10) calendar days of their hiring shall be assessed an automatic penalty of \$250 for the initial reporting deficiency and an additional \$50 penalty for each subsequent day the employer fails to properly report the returnee's employment to LOPFI. It is important to note that these penalties only apply when an employer does not timely enroll a returnee. Correct reporting by the employer will not result in any penalties. After discussion by the Board, Mr. J. S. Baxter made a motion, seconded by Mr. G. Baxter, to approve the amendments to Board Rule 14. The motion passed unanimously.

September 2019 Financial Statements

Vice-Chairman Neal stated the financial statements have been available in the Board packet for review and shows current assets and liabilities and that the System is in good shape. Mr. J. S. Baxter made a motion, seconded by Mr. G. Baxter, to approve the September 2019 financial statements. The motion passed unanimously.

ASC Report

Vice-Chairman Neal stated the Administrative Services Committee (ASC) met on November 7, 2019, and approved:

1. A revision of the salary ranges for the Chief Financial Officer, Accountant II, and Membership Services positions to agree with the comparative salary ranges of their peers, effective January 1, 2020.
2. A COLA of 1.7% awarded to the Executive Director and Assistant Director, effective January 1, 2020.
3. An update to the Agency's career service award program, effective January 1, 2020.
4. A 70/30 configuration for the division of salaries between LOPFI and the PRB due to the declining number of Local Plans under purview of the PRB and the recent approval of reducing the number of meetings the PRB would hold, effective with the 2020 budgets. LOPFI will fund the 70% portion and the PRB 30%.

Mr. J. S. Baxter made a motion, seconded by Mr. Branch, to approve the ASC recommendations. The motion passed unanimously. Mr. Clark thanked the Board.

Proposed 2020 Budget

Mr. Clark reviewed the proposed 2020 LOPFI budget, which totals \$14,854,144. Mr. Clark stated the Employer Reporting platform will be significantly upgraded. The release of Employer Reporting Portal 2.0 will be the first major overhaul since the Employer Reporting Portal was released in 2008. The concept is to provide a more responsive reporting experience for the employers. Mr. Clark also advised the proposed budget allows for the replacement of one of the agency's servers, which has exceeded its warranty. The cost for purchasing, building, and installing the server will be shared equally with the PRB. LOPFI's portion of this cost will be \$11,375. Lastly, the proposed budget allows for the system to add redundant internet service. This will ensure, as best as possible, that internet connectivity will be available at all times. Mr. Branch made a motion, seconded by Mr. Hill, to approve the proposed budget for 2020. The motion passed unanimously.

Set Dates/Times for 2020 Meetings

The Board agreed on the following dates/times for their 2020 meetings:

- March 12 - at 9:30 a.m. - Quarterly Meeting
- May 7 - at 9:30 a.m. - Audit Committee Meeting
- June 11 - at 9:30 a.m. - Administrative Services Committee Meeting
- June 11 - at 10:00 a.m. - Quarterly Meeting
- September 9 - at 9:30 a.m. - Quarterly Meeting
- December 10 - at 9:30 a.m. - Quarterly Meeting

Elect Chair and Vice-Chair

Mr. Branch made a motion, seconded by Mr. J. S. Baxter, to re-elect Mr. Gaskill as Chairman and Mr. Neal as Vice-Chairman. The motion passed unanimously.

Upcoming Board Appointments

Mr. Clark stated there are three (3) Trustee positions up for re-appointment effective January 1st. Mr. Clark stated that Mr. Neal, Mr. Hill, and Mr. Reed have agreed to have their names submitted for consideration and that letters will be sent to the Governor and the JRC asking that all Trustees be considered for re-appointment.

With no further business to discuss, the Board adjourned at 10:45 a.m.

Respectfully submitted,

Approved 03/12/2020

Lesley Weaver
Secretary to the Board