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Investments

~~501 - 1985 (12) - Investment Policy (as amended May 2010, August 2014)~~

~~Arkansas Public Employees Retirement System Investment Policy~~

~~I. Statement of Purpose~~

~~The assets of the Arkansas Public Employees Retirement System (APERS) shall be invested as determined from time to time by the APERS Board. This statement sets forth the investment objectives of APERS and the investment policies to be followed in carrying out those objectives.~~

~~Investment of the APERS' funds shall be made for the exclusive benefit of the participants and beneficiaries of the System. The purposes of investing APERS' funds are to provide benefits to participants and their beneficiaries and to defray the necessary expenses associated with investing APERS' funds and administering the System.~~

~~II. Background (history)~~

~~The Arkansas Public Employees Retirement System was established by the General Assembly in 1957 and is governed by a nine member Board of Trustees. From its inception until 1985, the investment of the trust fund was governed by Arkansas Statutes that provided for a permissible list of investments. However, Act 412 of 1985 repealed the permissible investment list and enacted the prudent investor rule. Act 412 of 1985 also allows the establishment of a custodial bank relationship. Act 412 of 1985 states that the System shall seek to invest at least five percent, but not more than ten percent of the System's portfolio in Arkansas related investments, but only when consistent with the fiduciary requirements of the trustees. Act 302 of 1989 allows the System to employ Multiple Discretionary Money Managers as appropriate. Act 1194 of 1997 revises and updates the investment policies and rules, including the prudent investor rule.~~

~~III. Statutory Authority~~

~~The primary statutory authority for the investment activities of APERS is found in Sections 24-2-601 through 24-2-619 of the Arkansas Code, as amended. 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. Trustees who have special skills or expertise, have a duty to use those special skills or expertise (24-2-611). The prudent investor rule shall be applied by each party serving in a fiduciary capacity for APERS.~~

~~IV. Investment Objectives~~

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~~The investment objectives shall be: (1) the protection of the APERS' Fund so that such assets are preserved for providing benefits to participants and their beneficiaries; and (2) to maximize total return—either in the form of income or capital appreciation or both—consistent with prudent risk taking on the amounts available to provide such benefits. For this purpose, short-term fluctuations in value shall be considered secondary to long-term investment results.~~

~~The long-term return objective for the APERS' Fund shall be to achieve a real rate of return of 4.0%. This is the return over the rate of inflation (as measured by the Consumer Price Index). This objective is not to be a goal from year to year, but is intended as a long-term guideline to those involved in investing the Trust's assets. The investments of the APERS' Fund shall be so diversified as to minimize the risk of large losses, unless under particular circumstances it is clearly prudent not to do so. Investments will be further diversified by hiring an appropriate number of managers whose investment styles are varied enough to provide a balance to the overall risk of the Fund.~~

~~V. Asset Allocation (by major categories)~~

~~To avoid extreme exposure to investment risk, the following percentages represent the minimum and maximum portion at market of the portfolio that may be invested by types:~~

Asset Class	Market Value Exposure	
	Target	Range
Domestic Equity	37%	32%–42%
International Equity	24%	19%–29%
Domestic Fixed Income	18%	13%–23%
Diversified Strategies	5%	0%–10%
Real Assets	16%	11%–21%

~~The Board of Trustees shall review its asset allocation at least annually to determine if the asset allocation is consistent with the level of risk and volatility acceptable to the Fund.~~

~~Should actual asset class percentages fall outside the target ranges, the Fund will rebalance to the target percentages. The re-balancing will necessitate the movement of funds from style to style. This re-balancing will occur at least annually unless circumstances dictate that it be done more frequently. Within these broader asset classes, the Trustees shall establish commitment levels to various investment styles, as the dynamics of the Plan's financial needs dictate.~~

~~VI. Portfolio Guidelines~~

~~Through selecting, timing and weighting investments, the Fund's objective is to maximize the total return of the account assets, through price appreciation and/or~~

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yield, consistent with the level of risk taken. In determining the appropriate risk posture for the Fund, consideration should be given to the overall risk characteristics of the Fund, and the extent to which components of the Fund are diversified. Additionally, the Board of Trustees establishes the following specific guidelines:

- ~~1. Securities may not be purchased on margin.~~
- ~~2. The System may establish a Securities Lending Program subject to restrictions established by the Board.~~
- ~~3. Each investment manager will be required to invest within the specific guidelines and parameters set by the Board of Trustees.~~
- ~~4. APERS recognizes a legal responsibility to seek to invest in the Arkansas economy, while realizing its primary, legal, and fiduciary commitment is to beneficiaries of the retirement system, under the prudent investor rule.~~
- ~~5. It is the intent of APERS to include qualified minority (African-American, Hispanic American, American Indian, Asian-American, or Pacific Islander-American), female, and disabled owned business enterprises in the Fund's investment manager selection process. The inclusion of the above managers in the selection process will be recorded and periodically reviewed by APERS staff and presented to the Board as requested. This process is intended to ensure all investment managers are given equitable consideration in the manager selection process in keeping with the fiduciary obligations of the APERS Board for the beneficiaries and annuitants of the System.~~

~~VII. Custodianship of Securities~~

~~Securities may be held by the State Treasurer or, under the authority granted by Arkansas Code 24-2-606, APERS may establish an arrangement with a financial institution, as specified by this Code, for the custodianship of its securities subject to the approval of the Board of a Request for Proposal as well as a proposed contract.~~

~~VIII. Roles and Responsibilities~~

~~Custodian Bank~~

~~The custodian bank shall, by nominee agreement, hold any and all securities for the beneficial interest of the APERS fund. Custodial activities will include, but are not limited to, the purchase, registration, and sale of stocks, bonds, notes, and other securities, as well as the collection of any income. In order to maximize the Fund's return, no money should be allowed to remain idle. Dividends, interest, proceeds from sales, new contributions and all other moneys are to be invested or reinvested promptly.~~

~~Administrative Staff~~

~~The Administrative Staff, at the direction of the, Board of Trustees, executes all~~

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~~investment transactions for any assets managed in-house. In addition, they are responsible for communicating with the investment professionals the information necessary to fulfill contractual obligations. The Administrative Staff also communicates decisions of the Board of Trustees to investment managers, custodian bank, actuary, and consultant.~~

~~Board of Trustees~~

~~The Board of Trustees shall review the total investment program. The Board shall approve the investment policy and provide overall direction to the administrative staff in the execution~~

~~of the investment policy. The Board of Trustees shall review and approve or disapprove investment recommendations not governed by Investment Policy prior to their execution. The Board shall also review and approve investment policy changes, deletions, or additions. The Board shall review and approve or disapprove any contracts of a financial nature, when performed by other than APERS' staff persons, such as, although not limited to, those for investment counselors, custodial arrangements, option programs, and security lending.~~

~~IX. Total Fund Performance Measurement Standards~~

- ~~1. The Fund's overall annualized total return (price change plus income) should exceed the return available from a policy of "rolling over" 90-day Treasury Bills (as a proxy for the inflation rate) by at least 4.0% percentage points per year measured over a period of 10 years.~~
- ~~2. The Total Fund should rank in the upper 50th percentile compared to the results of others similarly managed public fund portfolios measured over a five-year period.~~
- ~~3. The Fund's annualized total return over rolling five-year periods should, after manager's fees, exceed the return of the following Target Indices as established by the Board.~~

~~X. Proxy Voting~~

~~The Board has directed that the individual investment managers will be responsible for voting proxies in the best interest of APERS. Each investment counselor is responsible for maintaining records of how each proxy is voted. A written report of proxy voting will be provided to the Board within 30 days from the end of each quarter. In general, each investment counselor is expected to vote for improvements in corporate governance, for the alignment interests of corporate management with shareholder interests, and for equal access to the management proxy card. A detailed explanation will be given for each instance where the proxy is voted against these concepts or against management.~~

~~XI. Review of Investment Process~~

- ~~1. On a timely basis, but not less than twice a year, the Board will review actual investment results achieved by each manager (with a perspective toward a three~~

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~~to five-year time horizon or a peak-to-peak or trough-to-trough market cycle) to determine whether~~

- ~~a. The investment managers performed in adherence to the investment philosophy and policy guidelines set forth herein.~~
- ~~b. The investment managers performed satisfactorily when compared with
 - ~~i. The objectives set.~~
 - ~~ii. Other similarly managed funds.~~~~
- ~~2. In addition to reviewing each investment manager's results, the Board will re-evaluate, from time to time, its progress in achieving the total fund, equity, fixed income, and international equity segments objectives previously outlined.~~
- ~~3. The periodic re-evaluation also will involve an evaluation of the continued appropriateness of
 - ~~a. The manager structure;~~
 - ~~b. The allocation of assets among the managers; and~~
 - ~~c. The investment objectives for the Fund's assets.~~~~

~~The Board may appoint investment consultants to assist in the ongoing evaluation process. The consultants selected by the Board are expected to be familiar with the investment practices of other similar retirement plans and will be responsible for suggesting appropriate changes in the Fund's investment program over time.~~