MINUTES
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES – CALLED MEETING

Thursday, April 21, 2016
10:15 a.m.
1400 West Third Street
Little Rock, AR 72201

ATTENDEES

Board Members Present
Jeff Stubblefield, Chair*
Danny Knight, Vice Chair*
Lloyd Black
Kathy Clayton*
Kelly Davis*
Bobby Lester
Susannah Marshall, designee for Candace Franks
Robin Nichols*

Members Absent
Dr. Richard Abernathy
Anita Bell
Hon. Andrea Lea
Johnny Key
Hon. Dennis Milligan
Deborah Thompson
Janet Watson

ATRS Staff Present
George Hopkins, Executive Director
Gail Bolden, Deputy Director*
Shane Benbrook, Internal Audit/Risk Management
Curtis Carter, Chief Financial Officer
Rod Graves, Assoc. Dir of Operations
Manju, Dir. Data Processing
Tammy Porter, Executive Assistant
Clint Rhoden, Director of Operations
Leslie Ward, Manager, Private Equity

Consultants Present
P. J. Kelly, Aon Hewitt Consulting*

Guest Present
David Kizzia, AEA

**** via teleconference***

I. **Call to Order/Roll Call.** Mr. Jeff Stubblefield, Chair, called the Board of Trustee meeting to order at 10:17 a.m. Voice roll call was taken by the Board Recorder. Dr. Abernathy, Ms. Bell, Ms. Lea, Mr. Key, Mr. Milligan, Ms. Thompson and Ms. Watson were absent.

II. **Adoption of Agenda.**

Mr. Knight *moved* for *adoption* of the Agenda. Ms. Davis s*econded* the *motion,* and the Board *unanimously approved the motion.*

III. **Executive Summary.** The Executive Summary was provided for reference with no questions or expansions on the written summary.

IV. Investment Committee Report. Ms. Nichols, Chair, gave a report on the Investment Committee meeting.

A. **Recommendation to Clarify the Use of Rebalancing in the ATRS Statement of Investment Policy.** The current SIP states the executive director is responsible for rebalancing the allowable asset classes and the individual portfolios if any one of the asset classes falls outside of the designated ranges around these target allocations. The SIP also states the general investment consultant shall provide guidance and advice to the executive director to best achieve the rebalancing. In addition to rebalancing across asset classes due to an asset class falling out of the designated ranges, rebalancing may also be needed between individual investment manager portfolios within an asset class to ensure the appropriate level of diversification by investment style, market capitalization or risk levels and to potentially take advantage of market conditions, fund manager expertise, special opportunities such as an NAV imbalance, or other circumstances that could be important or beneficial for ATRS to address.

The prudent use of rebalancing can help adjust ATRS allocations to asset classes or fund managers that have experienced significant increases or decreases. For asset classes or fund managers that have experienced significant increases in assets, rebalancing may be useful to help trim the gains from these assets or accounts to apply to other managers or asset classes to help keep the portfolio's risk level appropriate and to keep the portfolio as a whole in line with the Board's investment objectives. For asset classes or fund managers that have not experienced significant gains, rebalancing may also be useful in helping to bring these classes or fund managers in line with the Board's approved investment goals.

Market conditions may provide opportunity to increase or decrease allocations to some fund managers or holdings to take advantage of a manager's expertise during certain market cycles or imbalances in valuations. In some cases, rebalancing may require specialized trading through a transition manager. The Board has three approved transition managers (State Street, BlackRock Institutional Trust Company, and Russell Implementation Services) that could help manage any trading involved in a rebalancing transaction.

Changing market environments may require rebalancing across assets classes, ATRS fund managers within an asset class, or ATRS holdings within an asset class. ATRS staff and Aon Hewitt Investment Consulting (AHIC) prefer to clarify the language and duties described in the SIP to be more specific and recommend updating the SIP to reflect the clarifications. ATRS staff and AHIC recommend modifying the open ended language in the SIP language to allow the executive director to rebalance funds across all equity managers, all equity holdings, all fixed income managers, and all fixed income holdings due to market conditions, opportunities, manager expertise, or other reasonable circumstances. The amendment would also contain a few other minor edits. Removal of funds from a manager or an asset for needed liquidly will not be affected by this clarification and can be done without Board Chair notice. Once a rebalancing occurs and finished, ATRS will place the item on the next scheduled board meeting.

Ms. Nichols *moved* to *approve* to Clarify the Use of Rebalancing in the ATRS Statement of Investment Policy. A voice roll call vote was taken by the Board Recorder, and the Board *unanimously approved the motion.*

B. Recommendation to Commit up to $50 Million Dollars to a Revolving Line of Credit Loan to the Arkansas Institutional Fund, LLC., Backed by the Arkansas Development Finance Authority and a Revolving Line of Credit Loan up to $20 Million Dollars to the Arkansas Development Finance Authority. For many years, ATRS has had an ongoing investment relationship with the Arkansas Development Finance Authority (ADFA). ATRS has both loaned money to ADFA for investment programs and has used ADFA to provide underwriting for ATRS investments. Excellent lines of communication have been reopened between ATRS and ADFA in recent years as shown by recent joint projects such as Big River Steel and BlueOak Arkansas.

ADFA was created in 1985 as a means to allow the state of Arkansas to provide capital for quality economic development projects. ADFA funded investments are comprised of all types of economic development projects including the Arkansas Institutional Fund, LLC (AIF). The AIF is a structured fund of funds authorized to invest in professionally managed venture capital funds. ATRS has similar investments managed by Franklin Park through the Franklin Park Venture Capital Fund vehicles. ATRS and ADFA had a revolving line of credit agreement in the past that was mutually beneficial to both organizations. The AIF currently has a line of credit with a variable interest rate and this proposed line of credit would offer a fixed rate to ADFA's AIF vehicle on the revolving line of credit. The fixed rate benefits the AIF since it removes any uncertainty from the AIF's projections and cash flows. The fixed rate is beneficial to ATRS because the negotiated rate is **above** the projected rate of return for the ATRS fixed income portfolio and is backed by strong Arkansas government related collateral.

ATRS currently has a policy allocation to place 20% of its assets into fixed income investments. The amount invested is now below 20% due to increases in other areas. ATRS is in a position to address this under-allocation. The 10 year outlook for fixed income is an annual return of about 2.5%. ATRS now has an opportunity to establish a revolving line of credit issued to a fund of ADFA, the AIF, for up to $50 million dollars with a term of 10 years at 3.25% interest on all amounts drawn on the $50 million dollar revolving line of credit at any time.

ADFA may also seek to borrow an **additional** $20 million dollars for potential economic development projects on behalf of Arkansas. If approved, ATRS would provide any needed capital for the potential loan or loans to be made by ADFA. This loan likely would be structured as a revolving line of credit loan, would be up to $20 million dollars, up to a 10 year term, and secured by state of Arkansas type collateral. The interest rate for this loan may be negotiated as either a fixed or variable rate to be determined at the time of the loan request but will not be less than 3.25% interest at any time. Both revolving lines of credit will be secured using strong state of Arkansas related collateral. Essentially there should be no risk to the principal on either loan.

The $50 million dollar line of credit for AIF would be backed by two state of Arkansas related obligations. The first $10 million dollars on the AIF loan would be backed by the ADFA Bond Guarantee Reserve Fund. These funds are held in marketable securities and currently maintain an S&P credit rating of "A+". The remainder of any outstanding balance on the AIF loan would be backed by $60 million dollars in already issued Arkansas tax credits. These tax credits have been authorized by the Arkansas State Board of Finance and are transferable. Should the tax credits need to be transferred or sold, six Arkansas tax paying companies have already agreed to purchase approximately half of the credits at par or face value. The existence of this agreement means the tax credits held by ADFA could be liquidated (up to $10 million dollars per year) to substantially pay off the proposed AIF revolving line of credit.

If approved, the AIF loan would likely be approved first. The AIF loan or line of credit issued to AIF and backed by ADFA would involve up to $50 million dollars with a term of 10 years at 3.25% interest. If it were closing now, the AIF loan would only be for about $25 million dollars that is currently outstanding on the existing loan with a bank. The ADFA loan or the second revolving line of credit loan would be issued to ADFA, or its designee, for up to $20 million dollars with a length of ten years and a rate that would be negotiated but not less than 3.25% interest. The rate for the ADFA loan of up to $20 million dollars would be based upon the current rate of state of Arkansas general obligation bonds at the time of the loan request with a floor of 3.25% interest. This would allow ATRS to adjust the rate upward on the ADFA loan should interest rates change prior to the issuance of the loan. The expectation is the $50 million dollar AIF loan agreement will be finalized in the third quarter of 2016 with the $20 million dollar ADFA loan closing date remaining undetermined at this time.

The ATRS consultant on this investment, Simmons First National Bank (with leadership from the former Delta Trust team), and ATRS staff recommend ATRS commit up to $70 million dollars in two revolving lines of credit with AIF and ADFA.

Ms. Nichols *moved* to *adopt* Resolution 2016-17, to Commit up to $50 Million Dollars to a Revolving Line of Credit Loan to the Arkansas Institutional Fund, LLC., Backed by the Arkansas Development Finance Authority. A voice roll call vote was taken by the Board Recorder, and the Board *unanimously adopted the Resolution.*

Ms. Nichols *moved* to *adopt* Resolution 2016-18, Commit up to $20 Million dollar to a Revolving Line of Credit Loan to the Arkansas Development Finance Authority. A voice roll call vote was taken by the Board Recorder, and the Board *unanimously adopted the Resolution.*

VI. Other Business. None.

VII. Adjourn.

Mr. Lester *moved* to *adjourn* the Board of Trustees Meeting. Mr. Black *seconded* the *motion*, and the Committee *unanimously approved the motion.*

Meeting adjourned at 10:22 a.m.

George Hopkins, Executive Director	Mr. Jeff Stubblefield, Chair Board of Trustees
Tammy Porter, Recorder	Date Approved