MINUTES
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES

Monday, June 4, 2018
11:30 a.m.
1400 West Third Street
Little Rock, AR 72201

ATTENDEES

Board Members Present
Jeff Stubblefield, Chair
Danny Knight, Vice Chair
Dr. Richard Abernathy
Anita Bell
Lloyd Black
Jason Brady, designee for Hon. Dennis Milligan
Kelly Davis
Hon. Andrea Lea*
Susannah Marshall, designee for Candace Franks
Bobby Lester
Robin Nichols
Deborah Thompson

Board Members Absent
Johnny Key, Education Commissioner
Kathy Clayton
Janet Watson

Guest Present
Donna Morey, ARTA
Chae Hong, AHIC (Aon Hewitt)
P.J. Kelly AHIC (Aon Hewitt)
David Kizzia, AEA
Brent Standridge, Attorney
Forrest Montgomery

ATRS Staff Present
George Hopkins, Executive Director
Gail Bolden, Deputy Director
Curtis Carter, Chief Fiscal Officer
Mitzi Ferguson, Internal Audit/Risk Mgmt.
Vicky Fowler, Director, Human Resources
Laura Gilson, General Counsel
Rod Graves, Deputy Director
Wayne Greathouse, Assoc. Dir, of Investments
Rett Hatcher, Deputy Director
Manju, Director, Information Systems
Mike Lauro, Information Systems Manager
Jerry Meyer, Manager, Real Assets
Kevin Odum, Attorney Specialist
Tammy Porter, Executive Assistant
Michael Ray, Director, Member Services
Joseph Sithong, Software Support Analyst
Leslie Ward, Manager, Private Equity
Brenda West, Internal Audit/Risk Mgmt.

Reporters Present
Mike Wickline, AR DemGaz

**** via teleconference***

I. **Call to Order/Roll Call.** Mr. Jeff Stubblefield, Chair, called the Board of Trustee meeting to order at 12:40 p.m. Voice roll call was taken. Ms. Kathy Clayton, Ms. Janet Watson, and Mr. Johnny Key were absent.

II. Adoption of Agenda

> **Ms. Nichols *moved* for *adoption* of the Agenda. Ms. Bell *seconded* 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. Approval of April 2, 2018 Minutes.

> **Ms. Bell *moved* for *approval* of the Minutes of the Board of Trustees meeting of April 2, 2018. Mr. Knight *seconded* the *motion*, and the Board *unanimously approved the motion.***

V. 2018 Board of Trustee Election Results.

> **Ms. Nichols *moved* to *adopt* Resolution 2018-25, 2018 Board Of Trustee Election Results declaring Dr. Richard Abernathy of Position #5. Mr. Black *seconded* the *motion* and the Board *unanimously adopted the Resolution*.**

VI. Report of Member Interest Waived Under A. C. A. Section 24-7-205. Mr. Hopkins presented the member interest amount waived report. ATRS waives interest for members when there is a dispute between ATRS and the member as to whether ATRS made a mistake or otherwise did not do all that was required on the member's account. Since ATRS has implemented the actuarial cost method for the purchase of service credit, interest waived is slowly disappearing, as well as the number of members who purchase service credit No member interest was waived for this reporting period. This is a standard report for information and is not an action item.

VII. Report of Employer Interest and Penalties Waived Under A. C. A. Sec. 24-7-411. Mr. Hopkins presented the employer interest and penalties waived report. ATRS may also waive employer interest and penalties when reports or payments are late or have issues due to a new bookkeeper, inclement weather, sickness and other situations that justify a waiver. Two(2) employer penalties and interest were waived for this reporting period in the amount of $313.53. This is a standard report for information and is not an action item.

VIII. CBA Accounts.
In order to make the T-DROP Cash Balance Account (CBA) program more attractive to members, the executive director plans to authorize scheduled monthly CBA withdrawals. This means the executive director will

automatically authorize one additional withdrawal per quarter for all CBA participants to enable a scheduled monthly withdrawal (under the current rule, more than 2 distributions per quarter is permitted with executive director approval. The monthly withdrawals will be processed at the same time as the existing payroll schedule. CBA withdrawal requests in addition to the scheduled monthly withdrawals can be made but would require executive director approval. In the new process, the additional withdrawal will be made beforehand rather than at the time of the monthly withdrawal.

ATRS staff interpreted that the new T-DROP CBA interest schedule approved at the November 13, 2017 board meeting applied to all CBAs as a minimum floor for all CBA accounts and not just CBAs established after July 1, 2018, unless the Operations Committee and ATRS Board disagree.

Mr. Lester *moved* to *approve* Monthly CBA Account Withdrawals. Mr. Knight *seconded* the *motion* and the Board *unanimously adopted the Resolution*.

IX. Contributory/Noncontributory Members. Due to some members beginning work in the middle of a school year it is possible for members to be setup at ATRS as noncontributory members since they started with a contract for less than 181 days. ATRS typically only learns about a member's contract days on the Membership Data Form, which is only submitted for new members. Therefore, it is likely that if they continue to work in the following years under a 181 day or more contract they may not get switched to contributory status.

At the April 2, 2018 Board meeting a motion was made to clarify the current law as being any member that first became a member after July 1, 2007 as a noncontributory member shall become a contributory member the first fiscal year they have a contract for 181 days or more.

Currently there are around 2,200 noncontributory members that first became ATRS members after July 1, 2007 that APSCN has reported as having a contract for 181 days or more this year. ATRS seeks a Manifest Injustice be found for this group of members that even though they are required to make contributions they should not be liable for any back contributions for service already rendered as noncontributory members. It would be unjust for this group of members to have to pay back contributions for the period they were erroneously allowed to remain noncontributory due to an inconsistent interpretation of the term "new member" in the law.

ATRS has modified its procedures to ask bookkeepers to send status verification sheets on members that have a change in their number of contract days. Once a noncontributory member is identified as having started after July 1, 2007 and has a contract for 181 days or more they will be made contributory the next fiscal year. Over the next year, ATRS will seek to verify the status of the 2,200 noncontributory members that first became ATRS members after July 1, 2007 and switch them to contributory members if they are working under a contract for 181 days or more.

> **Mr. Knight *moved* to *approve* that a Manifest Injustice be found for the group of members that even though they are required to make contributions they should not be liable for any back contributions for service already rendered as noncontributory members. Ms. Nichols *seconded* the *motion*, and the Board *unanimously approved the motion.***

X. Manifest Injustice Report. The Manifest Injustice Committee reviewed four (4) cases. One (1) case was not found to be a manifest injustice and three (3) cases were found to be a manifest injustice.

The case the MI Committee found no manifest injustice existed involved a Member who retired on 7/1/2014, annuitized 75% of T-DROP balance, and took 25% in cash. Member wanted to change the T-DROP distribution after retirement in order to receive more cash. The MI Committee found that no manifest injustice occurred. ATRS executive director agreed with the recommendation of the MI Committee.

The next three cases were found to be a manifest injustice. The first case involved a member who was an APERS member when she changed employers and failed to elect APERS as her retirement system. The MI Committee found that a manifest injustice did occur. ATRS and APERS concurred with the finding of the MI Committee, and gave the member a 30 day window to elect to participate in APERS, and the contribution in ATRS would be returned to the member and/or her agency.

The second case involved a member who elected Option A at retirement time. His wife passed away in 2016, and member failed to complete a form to pop up to SLA. ATRS was going to mail a form, but apparently did not. The member wants his pop-up benefit amount to begin in 2016 instead of 2018. The MI Committee found that a manifest injustice occurred, and recommended that the member receive a portion of the amount he would have received had his form been completed and received in 2016 and that the change of annuity option be given effect retroactively to the date of his former wife's death. ATRS executive director had contact with the Board Chair regarding this matter and both the executive director and Board Chair concur with the finding and recommendation of the MI Committee. The member received $5,300.70, which was 1/2 of the amount that would have been due to the member had a timely request been made. It appeared that both ATRS and the member had some responsibility. The member agreed to waive an appeal.

The third case involved a member who retired on 7/1/2017 and returned to work before her 6 month separation was over. Member was seeking any kind of financial relief available. The MI Committee found a manifest injustice occurred, and recommended to waive $8,000. This is approximately 2 months of benefits that the member will have to pay back. Two months represents the approximate delay in communicating with the member. ATRS executive director had contact with the Board Chair regarding this matter and both the executive director and Board Chair concur with the finding and recommendation of the MI Committee. The resolution was approved and accepted by ATRS member. The member agreed to waive her appeal in return for the MI relief.

This was the first report of 2018.

XI. Member Appeal

A. Marsha Montgomery. This member appeal came before the ATRS Board December 4, 2017. At that time, the Administrative Hearing Officer's recommendation to the Board was to affirm the executive director's finding that Ms. Montgomery was not eligible for ATRS disability retirement because she did not file an application during the time allowed by law (while she was active). Ms. Montgomery, represented by attorney Brent Standridge, argued that the Board should find a manifest injustice and waive the deadline for filing an application during the period of time she was considered active because she lacked the capacity to have filed timely due to her decompensated state of mind.

Under Rule 13, the Board has the final authority to accept the Administrative Hearing Officer's Proposed Order, reject the Proposed Order, or accept the Proposed Order as modified by the Board. If the Board rejects the Proposed Order it may make its own Findings of Fact and Conclusions of Law and issue its own Order based upon those findings and conclusions and may consider manifest injustice as a basis for any remedy.

After hearing Ms. Montgomery's appeal, the Board referred the matter to the ATRS Medical Committee to determine whether she lacked the capacity to have filed an application within the time allowed by law.

The Medical Committee met on April 11, 2018, and reviewed her medical records dated from 2009 through May 29, 2013, her last day of employment, in order to respond to the following question:

> "On May 29, 2013 (the last day Ms. Montgomery worked for the Benton School district), was Marsha Montgomery legally incapacitated to such a degree that a court would have found that a guardianship was warranted?"

The Medical Committee answered the question in the affirmative and recommended that she be approved for ATRS disability benefits.

The issue now is whether the Board will find a manifest injustice and allow the member to receive disability retirement benefits back to the month that ATRS was contacted about her filing a disability application. **This is an action item**.

> **Ms. Nichols *moved* to *approve* Recommendation that a manifest injustice exists and allow the member to receive disability retirement benefits back to the month that ATRS was contacted about her filing a disability application. Ms. Knight *seconded* the *motion*, and the Board *unanimously approved the motion.***

XII. Audit Committee Report. Kelly Davis, Chair, gave a report on the Audit Committee Meeting.

A. 2018 Risk Assessment. Mitzi Ferguson discussed the 2018 Risk Assessment. The Department of Finance and Administration requires each agency to perform a risk assessment every 2 years**.** Managers and supervisors identify areas of risk in their departments and determine what controls are in place to mitigate the risk. This information is compiled by the Internal Audit Department and entered into the DFA reporting and tracking tool. The risk assessment allows DFA to address areas where assets may be at risk statewide. It also serves as a valuable tool for ATRS Administration and the Internal Audit Department in identifying areas within ATRS where the system of internal control needs review.

B. **2019 Audit Plan.** Brenda West, Internal Auditor, presented the committee with Audit Plan for FY2019.

1. **Audit Plan for FY2019.** As required by the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors (IIA), and by Arkansas Teacher Retirement Systems (ATRS) Internal Audit Charter, IA submitted the Internal Audit Plan for the Internal Audit Fiscal Year 2019. Projects were identified for this audit plan by using the ATRS risk assessment. As ATRS continues to grow in terms of responsibilities, assets, and membership, there are areas that require regular reviews to ascertain whether the system continues to operate in an effective and efficient, risk-controlled manner. Choices were made in determining which audits to perform first by determining which areas posed greater risks for the system. We have selected areas of processes for review where failure of the system to adequately perform could have serious consequences for ATRS, its members and stakeholders, and the Board.

    Ms. Davis *moved* to *approve* the Audit Plan for FY2019, and the Board *unanimously approved* the *motion*.

2 **FY 2018 Summary of Work Completed**. Brenda West presented the Committee with the summary of work completed for FY2018.

3. **Conflict of Interest Statement**. Signed copies from Internal Audit staff were included in the Board packet for the Board's review.

4. **Code of Ethics Acknowledgement Statement**. Signed copies from Internal Audit staff were included in the in the Board packet for the Board's review.

XIII. **Investment Committee Report.** Ms. Robin Nichols**,** Chair, gave a report on the Investment Committee Meeting.

A. **Arkansas Related and Investment Update. Mr. Hopkins gave an update on Arkansas Related.**

1. **List of Fund Closings**

a. Man Alternative Risk Premia SP-Class A, an Open-End Opportunistic/Alternative Fund Focused on Alternative Risk Premia That Seeks to Take Advantage of Pricing Differences in Global Markets, the Board Authorized

Commitment of up to $100 Million Dollars on April 2, 2018 was Accepted and Closed on May 23, 2018. The ATRS full commitment of $100 million dollars was negotiated, accepted, and closed on May 23, 2018.

b. DIF Infrastructure V Coöperatief U.A. and DIF Infrastructure V SCS (Collectively DIF V), Core Infrastructure Funds that Invest Primarily in Public-Private Partnership Projects Including Toll Roads, Regulated Utilities, and Renewable Energy Projects. DIF V is Divided into Two Entities to Separate the Equity and Debt Investments, the Board Authorized Commitment of up to €41 Million Euros (Approximately the Equivalent of $50 Million Dollars) on April 2, 2018 was Accepted and Closed on April 26, 2018. ATRS obtained €40.35 million euros of the recommended €41 million euros allocation (approximately the equivalent of $50 million dollars). As is typical with other funds that have multiple closings, ATRS is also required to pay approximately €225,000 euros as a catch up payment so that all investors are equalized since some investors had earlier closing dates in the fund. This brings the total ATRS payment to the fund (commitment of €40.35 million euros and catch up payment of approximately €225,000 euros) to €40.575 million euros. The commitment was negotiated, accepted, and closed on April 26, 2018.

2. **Notice of Pending Changes to the US Agriculture, LLC. (formerly Halderman Real Assets Management) Farmland Management Agreement.** As reported at the April 4, 2016 Board meeting, ATRS consented to a joint venture between Halderman Real Assets Management (HRAM) and US Agriculture. The joint venture is designed to increase the farmland manager's access to deal flow, expand the management team's skill set, and increase research capabilities. The process of combining the entities began in 2016 by HRAM using US Agriculture as a subadvisor. The joint venture was finalized on September 30, 2017 through an amendment to the Farmland Management Agreement that changed the manager's name from HRAM to US Agriculture and did not change any terms or increase any fees for ATRS. US Agriculture, ATRS staff, and Aon Hewitt Investment Consulting (AHIC) have negotiated further changes to the Farmland Management Agreement to adjust the fees associated with the

management of ATRS farmland and to make needed technical corrections to the agreement.

The changes to the management agreement terms include the way the management fee is calculated. The new calculation of the management fee is based on the gross value of the farmland instead of being based on the ATRS capital commitment or amount invested in the fund. By basing the management fee on the gross value rather than the invested capital, US Agriculture will be able to earn a management fee that increases or decreases based on changing market values of the associated farmland. This creates a potential for a slightly higher base management fee. To offset the potentially higher base fee, the management agreement also removes the ability of US Agriculture to participate in carried interest or incentive fees that could be earned. The end result is expected lower overall fees for ATRS while maintaining quality farmland management services. The changes also contain several clean up items, technical corrections to language from previous amendments, and the consolidation of previous amendments into one management agreement.

3. **Victory Building Update.** The Victory Building occupancy is a strong 99%. A lease is currently being negotiated that would bring the occupancy to essentially 100% if executed. The Victory Building continues to be a strong asset of ATRS.

B. General Investment Consultant*.*

1. **Preliminary Performance Report for the Month Ended April 30, 2018.** P. J. Kelly of Aon Hewitt Investment Consulting provided the Board with a preliminary portfolio update for the month ending April 30, 2018. The ATRS fund had a market value of approximately $16.9 billion dollars. The total fund had a return of 8.5% since inception, underperforming its benchmark of 8.6%. Total equity had a market value of approximately $9.59 billion dollars. Total equity had a return of 9.6% since inception, underperforming its benchmark of 9.8%.

2. **Recommendation to Redeploy the Remaining Assets of Approximately $25 Million Dollars Managed by Brevan Howard by Closing the ATRS Position in Brevan Howard, L.P., an Opportunistic/Alternative Global Macro Fund Focused on Fixed Income and Foreign Exchange**

Investments. The Board approved an investment of up to $50 million dollars in Brevan Howard in June 2013. The initial investment was subject to a five year lock-up period during which investors in the fund were not allowed to redeem any portion of their ownership in the fund. In exchange for committing to the lock-up period investors were given a significant management fee discount. The five year lock-up period for this fund ended in June 2018. As part of the portfolio rebalancing process, ATRS initiated a partial withdrawal of approximately $25 million dollars from Brevan Howard to occur in July 2018 and to be redeployed as partial funding for the two alternative risk premia funds (Man and CFM) approved at the April 2, 2018 Board meeting.

Due to changing market conditions and organizational changes at Brevan Howard, Aon Hewitt Investment Consulting (AHIC) has recently changed its view of the Brevan Howard fund as it relates to the overall ATRS investment strategy. Both ATRS staff and AHIC recommend closing the ATRS position in the fund managed by Brevan Howard and redeploying the remaining assets of approximately $25 million dollars. The closing and redeployment of the remaining funds would occur over time and is intended to continue to increase the diversification of the ATRS portfolio.

Mr. Hopkins stated staff concurs with the recommendation.

Ms. Nichols *moved* to *adopt* Resolution 2018-26, to Redeploy the Remaining Assets of Approximately $25 Million Dollars Managed by Brevan Howard by Closing the ATRS Position in Brevan Howard, L.P., an Opportunistic/Alternative Global Macro Fund Focused on Fixed Income and Foreign Exchange Investments. The Board approved an investment of up to $50 million dollars in Brevan Howard in June 2013. The Board *unanimously adopted the Resolution*.

C. Real Asset Consultant Report.

1. **Performance Report for the Quarter Ended December 31, 2017.** Chae Hong of Aon Hewitt Investment Consulting

presented the performance report for the quarter ended December 31, 2017. NCREIF's NPI registered at 1.8% and NFI-ODCE (net) returned 1.8%. The NPI return showed a 10 bps increase quarter over quarter while the NFI-ODCE showed a 20 bps increase as well. NCREIF Timberland Index returned 1.5% for the quarter and 3.6% for trailing one year. Timberland showed an increase of 90 bps quarter over quarter. NCREIF Farmland Index gained 2.9% for the fourth quarter of 2017, while posting a 6.2% return for the trailing one year. As of the fourth quarter of 2017, the real assets portfolio stands at 11.7% of ATRS' total assets, a decrease of 20 bps over the third quarter. Recent infrastructure, agriculture, and real estate commitments will help the portfolio continue to move towards its target allocation irrespective of the liquidating investments. The portfolio is in compliance with its Statement of Investment Policy with request to style, leverage, geographic region, and property type diversification. ATRS outperformed the real assets benchmark by 50 basis points for the fourth quarter.

2. **Recommendation to Commit up to $30 Million Dollars in FPA Core Plus Fund IV, LP, a Closed-End, Core Real Estate Fund Specializing in Multifamily Real Estate.** Founded by Greg Fowler in 1985 and based in Irvine, California, FPA Multifamily, LLC, has $3.6 billion dollars of assets under management and 150 experienced investment professionals. FPA Multifamily is continuing its successful series of funds with the launch of FPA Core Plus Fund IV. This series of funds began in 2007 and Fund IV is expected to raise $650 million dollars targeting the acquisition of existing apartment communities with upside potential in and around major metropolitan areas in the U.S. FPA Core Plus Fund IV is targeting a 9% to 11% net IRR and the total return of the previous funds has been 29.8% net IRR.

   The fund will focus on acquiring high quality properties that are undervalued or underperforming due to mismanagement, construction cost constraints, and other issues. The fund will use the team's extensive experience in multifamily real estate management to try to increase the value of assets held in the fund with professional management and better use of construction capital for renovations and other property improvements.

   Mr. Hopkins stated staff concurs with the recommendation.

Ms. Nichols *moved* to *adopt* Resolution 2018-27, to Commit up to $30 Million Dollars in FPA Core Plus Fund IV, LP, a Closed-End, Core Real Estate Fund Specializing in Multifamily Real Estate. The Board *unanimously adopted the Resolution*.

D. Private Equity Consultant Report.

1. **Private Equity Portfolio Review for the Quarter Ended December 31, 2017.** Michael Bacine of Franklin Park provided a portfolio review for the quarter ending December 31, 2017. The ATRS Legacy Portfolio is in the liquidating stage and has a remaining value of 0.1% with a total IRR of 9.2%. CSFB Portfolio is also liquidating and will continue to see distributions. CSFB has a remaining value of 12.1% with a net IRR of 8.8%. The Post 2006 Portfolio represents 2/3 of the ATRS private equity portfolio and will continue to grow as more commitments to capital are made. The Post 2006 Portfolio has a net IRR of 14.9%. The total fund had a net IRR of 10.3% for the quarter ended December 31, 2017.

2. **Recommendation to Commit up to $30 Million Dollars in WNG Aircraft Opportunities II, L.P., a Private Equity Hard Asset Fund Focused on Acquiring Commercial Aircraft on Lease.** Based in Dallas with an office in Dublin, Ireland, WNG Capital was founded in 2009 by Michael Gangemi and Al Nigro (principals). The principals are experienced investors with an average of twenty-nine years of experience in the aircraft industry and fifteen years in private equity. In addition to the principals, the team is made up of two marketing directors, a transaction director, three technical directors, legal counsel and four junior investment professionals. Through December 2017, the firm's previous fund has generated a net IRR of 14%.

   The fund has a unique strategy involving the acquisition of mid-life and older commercial aircraft approaching the end of lease terms. After acquisition, the general partner seeks to enhance returns by improving cash management; extending current leases or releasing to new lessees; leasing or selling aircraft components; selling individual or groups of aircraft to underlying lessees or outside parties; or selling aircraft to an airline, including new market entrants or carriers seeking to upgrade or add capacity to their existing fleet. The manager has an advantage in that there are only a few dedicated aircraft fund managers that have the required expertise and resources to invest in this market and many investment opportunities are exclusive to these types of experienced managers.

Mr. Hopkins stated staff concurs with the recommendation.

Ms. Nichols *moved* to *adopt* Resolution 2018-28, to Commit up to $30 Million Dollars in WNG Aircraft Opportunities II, L.P., a Private Equity Hard Asset Fund Focused on Acquiring Commercial Aircraft on Lease. The Board *unanimously adopted the Resolution*.

3. **Recommendation to Commit up to $30 Million Dollars in SK Capital Fund V, L.P., a Private Equity Buyout Fund Focused on Middle Market Specialty Chemicals and Specialty Materials Companies.** The general partner was founded in 2007 by Barry Siadat and Jamshid Keynejad and has offices in New York and Boca Raton, Florida. Currently the firm is led by the founders as well as Jack Norris and Aaron Davenport (managing directors) who are supported by twelve additional investment professionals and other professionals with experience in certain functional areas such as talent management, operations, finance and transition management, and business development. The team has been very successful with its prior investments and has generated an average gross IRR of over 27% in its previous two funds.

   The fund is well-positioned compared to competing investors in its target market. The fund seeks to purchase companies in specialized commodity areas that require skill and expertise. This skill and expertise can produce strong returns. The founders have significant senior level operating experience and networks in the fund's target sectors, and the general partner has assembled an extensive network of corporate executives, entrepreneurs, operating partners, and other industry participants that it leverages for deal flow and assistance with diligence and post-investment value-add. Some of the types of products that will be considered include alloys, metals, plastics, fibers, and other industrial materials. Also, the general partner is one of only a few private equity firms focused exclusively on the specialty chemicals and specialty pharmaceuticals sectors and it has developed a strong reputation in its target sectors through its excellent track record to date. Both Franklin Park and ATRS staff recommend an investment of up to $30 million dollars in SK Capital Fund V, L.P.

Mr. Hopkins stated staff concurs with the recommendation.

Ms. Nichols *moved* to *adopt* Resolution 2018-29, to Commit up to $30 Million Dollars in SK Capital Fund V, L.P., a Private Equity Buyout Fund Focused on Middle Market Specialty Chemicals and Specialty Materials Companies. The Board *unanimously adopted the Resolution.*

XIV. Operations Committee Report. Bobby Lester, Chair gave a report on the Operations Committee meeting.

A. **Open Forum for Potential Rule or Law Changes by Committee Members and Board Members in Attendance.**

1. Open Forum. Deborah Thompson asked about vesting in 5 years instead of 10. Mr. Hopkins explained that at one time in Arkansas, each retirement system had 10 year vesting. There were no reciprocity rules in place like we have today. As an example, a person could work in a public school as a bus driver for 7 years. Then, they could go into another retirement system and work 7 years, and often not have a retirement from either. Around 1995, the legislature undertook to address that issue and there was a nationwide trend to have people vested earlier to give them an incentive for people to undertake a career in public service. We want to recruit people later in life and convince them once you have 5 years of service you have protection for your family including disability, lifetime benefit, and survivor benefit to name a few. The idea they have protection for their family encourages people to undertake a path in a career in public service. That has worked. The actuaries will tell you that a system moving from a ten (10) year vesting to a five (5) year vesting would not make that much difference. Average benefit is $2,000 a month. Surrounding states have people retiring as soon as they can to come to Arkansas to join our system. We have quality people who drive buses, etc who without our 5 year vesting would not come to Arkansas.

Ms. Bell added that in the delta area of Arkansas, they always need teachers. Some of those have retired from Tennessee and come to our system. Mr. Stubblefield said his district has lots of Oklahoma teachers. Mr. Hopkins stated that our board knows it member uniquely better than other boards. Our members have comfort knowing that they can retire at age 60. He has never asked the actuaries if we would have a savings if we went to age 65 to retire like some of the other retirement systems.

Auditor Lea stated that it's worth asking the Actuaries because it is information that is good to have. Mr. Hopkins stated that he intends to agree, but the actuaries can tell you in a vacuum what the savings would be, but they cannot tell you what member behavior will be. It's the rumors that kill you, not the reality. Actuaries cannot give a dollar number that is accurate

B. Update on 3 Year Disability Review for ATRS Members to Continue Receiving ATRS Disability. Mr. Hopkins introduced Anne Marie Lehman, Tammy Martin, and Mark Twyford. Anne Marie gave a report on the 3 year disability review to continue receiving disability benefits. Approximately 93 certified mail letters were mailed on Wednesday, May 23rd with members checks, along with another review application, example of a SS Disability awards letter, and a "more information needed" sheet to those that have sent in some information. 1 member is having her check suspended due to a bad address, so technically 93 checks/letters were done up. 46 checks have not been cashed as of June 4, 2018. Copies of both letters that were mailed to members are in your board packet.

The first recommendation from staff was that anyone that has a denial letter from Social Security be allowed to go in front of medical committee if they file an application and submit us medical records, anytime between now and September 30, 2018.

Mr. Lester *moved to approve* that any member with a denial letter from Social Security be allowed to go in front of medical committee if they file an application and submit us medical records, anytime between now and September 30, 2018. The Board *unanimously approved* the *motion.*

The second recommendation from staff is that the Committee not make a blanket recommendation on the members who are turning age 60 in the first 3 months. The Committee took no action.

The third recommendation from staff is to allow the Manifest Injustice process for all members who are about to lose their benefits by September 30, 2018.

> **Mr. Lester *moved* to *approve* to allow the Manifest Injustice process be used for all members who are about to lose their benefits by September 30, 2018. The Board *unanimously approved the motion.***

C. Unused Sick Leave to be Used to Enhance Salary before Termination of Employment. The actuaries stated that each year in the gain/loss study, unexplained gains and more often losses occur that cannot be attributed to an assumption or return issue. For instance, a recent gain/loss study showed approximately $90 million dollars of loss in one (1) year. For a fund the size of ATRS, this size loss is not unusual. However, issues like how some employers are using sick leave can account for these type losses.

ATRS has always allowed members to have salary credit when unused sick leave of the member is compensated by the ATRS employer, typically at retirement and when a member has reached the maximum number of sick days that can be carried forward and the employer annually compensates the member for all unused sick leave back to the maximum number of sick days allowed. A recent trend has been for some employers to allow members to sell sick days back to the employer in years chosen by the member and the sick days are not just back to the maximum number of days but include additional days. For instance, if an employer allows members to accrue 120 sick days, a member could sell 40 days of sick leave in year 26 of service, 40 days in year 27 of service, and 40 days in year 28 of service, and then enter T-DROP with a materially higher final average salary due to the voluntary and targeted sale of sick days. All members not in a position to participate are subsidizing the added liability caused by this anti-selective manipulation of sick leave sales by those afforded the opportunity at the expense of other members and ATRS.

ATRS always wants to encourage members to retain sick days. Not using sick days means the member is delivering the educational curriculum directly. Therefore, it is important to allow members the opportunity to benefit when selling unused sick days that would otherwise be lost due to the employers cap on the number of sick days that can be accrued. This also prevents anti-selection since the member cannot target when sick days will be over the maximum allowed, and even then it is limited in scope to how many could be accrued in a since fiscal year. In addition, ATRS does not wish to impact the ability of a member at the point of retirement and separation from employment at the employer to have a one-time payment of all sick days according to the employer's policy. What ATRS should prohibit is the voluntary and targeted sale of sick days that are not in excess of the maximum allowed and targeted specifically to enhance final average salary. ATRS staff believes the best way to address this is for the Board to adjust the definition of salary to continue to include compensation for sick days over the maximum allowed and payments for sick days at point of separation of employment while prohibiting salary credit for the voluntary and targeted sale of sick days that are not due to separation from employment for the purpose of retirement or for compensation of sick days above the maximum allowed. No action was taken on this matter.

D. **Potential Rule Changes.** The following rules are candidates for repeal under Act 781 of 2017:

1. Rule 1-18: Audit Committee Charter
2. Rule 5-1: Investment Introduction
3. Rule 5-2: Standard of Care
4. Rule 5-3: Asset Allocation
5. Rule 5-4: Investment Goals
6. Rule 5-6: Investment Consultants
7. Rule 5-7: Investment Managers
8. Rule 5-8: Soft Dollars
9. Rule 12-1: Protection of "Qualified Trust" Status
10. Rule 14-1: Retirement Fund Asset Accounts

These rules should be classified as board policies since they concern the internal management of the agency and do not affect the private rights or procedures available to the public, as proscribed in A.C.A. § 25-15-202(9)(B)(i). Since these policies were filed as rules under the Administrative Procedures Act (A.P.A), ATRS has treated any changes as amendments, which also must be promulgated under the A.P.A. rulemaking procedures. This delay limits the Board's ability to be flexible and creates unnecessary red tape. These Board policies will remain in force and continue to be published on the ATRS website under the Board Policy Manual.

Mr. Lester *moved* to *approve* rule changes on Rule 1-18, Rule 5-1, Rule 5-2, Rule 5-3, Rule 5-4, Rule 5-6, Rule 5-7, Rule 5-8, Rule 12-1, and Rule 14-1 as presented to the Committee. The Board *unanimously approved the motion.*

E. Potential 2019 Legislation.

1. **Disability: Service Credit of 40 Days to 80 Days.** Potential legislation has been drafted and is presented at the request of the Committee. ATRS currently allows a disability retiree to work up to 40 days in any position at a public school or ATRS employer, including the position that the disability member previously held. This legislation would allow a disability member to work up to 80 days to assist schools that are having difficulty finding specialized employees, especially in the area of bus drivers, testers and related functions. No action on this item.

F. Proposed Adjustment to T-DROP Annuitization Factor. Due to interaction with members at school hall meetings and member contact with ATRS staff, executive staff recommends tweaking the formula for annuitization for T-DROP balance at the time of retirement to lessen the likelihood that more than expected retirements out of T-DROP will occur due to the annuitization formula flat lining or actually causing a reduction in the annuitization amount if a person in T-DROP delayed retirement to future years. After meeting with actuaries about 10 days ago, I now recommend that all T-DROP balances accrued through fiscal year 2018 have an assumed rate of return 7% for all the percentage of T-DROP annuitized at the point of retirement. This will prevent the annuitization amount per month from flat lining or actually decreasing. In addition, the most likely group who might retire in the next few years, even with the 7%, are members with 5 or more years of participation in T-DROP as of June 30, 2018. I also recommend the minimum assumed rate of return on all balances annuitized by members with five or more years of participation in T-DROP as of June 30, 2018 be no lower than 5%. This should eliminate the pressure on this group of members to retire due to benefit projections on annuitization of T-DROP that show declining annuitized monthly benefits by not retiring.

Mr. Lester *moved* to *approve* that all T-DROP balances accrued through fiscal year 2018 have an assumed rate of return 7% for all the percentage of T-DROP annuitized at the point of retirement and the minimum assumed rate of return on all balances annuitized by members with five or more years of participation in T-DROP as of June 30, 2018 be no lower than 5%. The Board *unanimously approved the motion.*

XV. Staff Reports.

A. **Medical Committee Reports.** Michael Ray presented the Medical Committee reports. A total of twenty-one (21) disability applications were received and twenty-one (21) were approved for disability benefits.

> **Dr. Abernathy *moved* to *approve* the Medical Committee Reports. Ms. Nichols *seconded* the *motion*, and the Board *unanimously approved the motion.***

B. **ATRS Medical Committee Fees and Expenses.** In addition to the regular monthly reviews conducted by the Medial Committee, the Medical Committee is now being asked to review applications resulting from the 2017 law. The increased number of reviews may require more than one Medical Committee meeting per month to ensure all ATRS members that have applied for disability have an opportunity for a timely review by the Medical Committee. The added reviews will increase the time and travel requirements of Medical Committee members resulting in more fees or expenses. ATRS staff is recommending the Board consider increasing the Medical Committee fees in consideration of the additional time, travel, and work that will be required by Medical Committee members to review the additional disability applications.

> **Mr. Knight *moved* to *approve* $300.00 per meeting for the Medical Committee. Mr. Brady *seconded* the *motion*, and the Board *unanimously approved the motion.***

XVII. Other Business: Mr. Hopkins gave the Board a report on the State Street litigation. While much of the record remains under seal, Mr. Hopkins could comment that Chief Counsel for the Judge involved in the case said that the ATRS work was instrumental in obtaining a great return for the class. Mr. Hopkins stated that he regrets most of the record is still under seal because of important information provided in the record that would reflect the positive contributions ATRS made in resolving this complicated matter**.**

> **Mr. Stubblefield *moved* to *recommend* that Mr. Hopkins consider withdrawing himself as Class Representative in the State Street matter and consider removing himself from other cases that ATRS is lead plaintiff or class representative. Dr. Abernathy *seconded* the *motion* and the Board *unanimously approved* the *motion*.**

After the motion passed, Auditor Lea made a recommendation to Mr. Hopkins that he bring other staff members up to speed and trained on these cases to help with the work load.

XVIII. Adjourn.

Ms. Bell moved to *adjourn* the Board Meeting. Mr. Black *seconded* the *motion*, and the Board *unanimously approved the motion.*

Meeting adjourned at 2:03 p.m.

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