MINUTES
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES

Monday, December 1, 2014
1:00 p.m.
1400 West Third Street
Little Rock, AR 72201

ATTENDEES

Board Members Present
Dr. Richard Abernathy, Chair
Jeff Stubblefield, Vice Chair
Lloyd Black
Kathy Clayton
Hazel Coleman
Kelly Davis
Wes Goodner, designee for Charles Robinson
Danny Knight
Susannah Marshall, designee for Candace Franks
Robin Nichols
Deborah Thompson
Janet Watson

Members Absents
Bobby Lester
Tony Wood
Peggy Gram, designee for Hon. Charles Daniels

Reporters Present
Mike Wickline

ATRS Staff Present
George Hopkins, Executive Director
Gail Bolden, Deputy Director
Shane Benbrook, Internal Audit/Risk Mgmt.
Dena Dixson, Internal Audit/Risk Mgmt.
Mitzi Ferguson, Chief Fiscal Officer
Laura Gilson, General Counsel
Rod Graves, Manager Investment Dept.
Wayne Greathouse, Assoc. Dir. Investments
Clementine Infante, Staff Attorney
Linden Maurer, Legal Assistant
Jerry Meyer, Manager Real Assets
Tammy Porter, Administrative Assistant
Michael Ray, Dir. Member Services
Clint Rhoden, Assoc. Director of Operations
Leslie Ward, Manager, Private Equity
Brenda West, Internal Audit/Risk Mgmt.

Guests Present
Brian Murphy, Gabriel, Roeder, Smith & Co.
Judy Kermans, Gabriel, Roeder, Smith & Co.
Donna Morey, ARTA
Chris Caldwell, Legislative Audit
Jim Harris, State Treasurer Office
Michael Bacine, Franklin Park
Chae Hong, Hewitt EnnisKnupp
Sandy Becker, Little Rock, School District

I. **Call to Order/Roll Call.** Dr. Richard Abernathy, Chair, called the Board of Trustee meeting to order at 1:00 p.m. Roll call was taken. Mr. Wood and Ms. Gram were absent.

II. **Motion to Excuse Absences.**

Ms. Nichols *moved* to *excuse* Mr. Wood and Ms. Gram from the December 1, 2014 Board of Trustees meeting. Mr. Lester *seconded* the *motion*, and the Board *unanimously approved the motion.*

III. Adoption of Agenda.

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

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

V. Approval of October 6, 2014 Board Minutes.

Mr. Black *moved* for *approval* of the Minutes of the Board of Trustees meeting of October 6, 2014. Ms. Clayton *seconded* the *motion*, and the Board *unanimously approved the motion.*

VI. Preliminary Active Actuarial Valuation. Judy Kermans and Brian Murphy of Grabriel, Roeder, Smith & Co., gave a presentation of the preliminary active actuarial valuation for the 2013-2014 fiscal year.

ATRS went from 73% funded on June 30, 2013 to 77% funded on June 30, 2014.(On an unsmoothed basis, ATRS is now 86% funded). The estimated amortization period that exceeded 69 years on June 30, 2013 was reduced to 39 years on June 30, 2014. On an unsmoothed basis, ATRS is well below a 30 year amortization. ATRS also has an unrealized gain of $1.5 billion dollars to be realized over the next three (3) years.

Those numbers indicated that ATRS is headed in the right direction. The bottom line is that ATRS remains strong, and the cost-cutting measures that have been the nucleus of the last three (3) legislative sessions have and will continue to restore the system's financial condition.

VII. Statement of Financial Interest. Mr. Hopkins reminded the Board members that their Statement of Financial Interest filings are to be filed with the Secretary of State's office by Monday, February 2, 2015, for financial information for calendar year 2014.

VIII. Proposed 2015 Board of Trustees Schedule. The Board reviewed the proposed schedule. Mr. Hopkins discussed the possibility of a Board Retreat for 2015. The Board agreed to bring up suggested topics for a Board Retreat at the February Board meeting.

Mr. Goodner *moved* to *approve* the 2015 Board of Trustee Schedule with topics for a possible Board Retreat be brought to the February 2015 meeting. Ms. Watson *seconded* the *motion*, and the Board *unanimously approved the motion.*

IX. 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 on 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. There were no interest amounts waived for this reporting period.

X. **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 waive employer interest and penalties when reports/payments are late or have issues due to new bookkeeper, sickness, and other situations that justify a waiver. ATRS waived three (3) employer penalty amounts for this reporting period in the amount of $600.00 ATRS waived one (1) interest amount for this reporting period in the amount of $34.29.

XI. **Board Waiver of Penalties and Interest Greater than $1,000 in a Fiscal Year.** Mr. Hopkins reported that ATRS currently has one (1) employer with penalties and interest greater than $1,000 in a fiscal year. The Arkansas Department of Education (DOE) has taken over the Lee County School District which has been placed under academic distress. New management is in place to address the proper submission of reports and to ensure timely payments of all contributions. Since the DOE has taken over the district, ATRS executive staff recommends waiving all remaining penalties and interest above the executive staff's authority to waive.

Mr. Stubblefield *moved* to *approve* the Waiver of Penalties and Interest Greater than $1,000 in a Fiscal Year for Lee County School District. Ms. Marshall *seconded* the *motion*, and the Board *unanimously approved the motion*

XII. Manifest Injustice Report. Mr. Hopkins presented the Manifest Injustice Report. The MI Committee reviewed 15 cases. This is the second report of 2014.

A. Texarkana School District. The MI Committee has found a manifest injustice after thorough review of a manifest injustice request by the executive director, related to contributions owed by the Texarkana School District. In 2012, Texarkana School District settled a lawsuit brought by a former employee related to discrimination. The claim involved statements by a school board member during the 2008-2009 school year. At the time of the settlement, the employee had left Texarkana School District and had received a total refund of contributions from ATRS which terminated all ATRS service. The total settlement was $750,000, of which $325,000 was paid as W-2 income. The claim did not relate to activity of supervisors, but of a non-employee school board member. The settlement was funded totally by an insurance company and was not related to employment practices of the school. The incident was an unfortunate name calling by a school board member to a staff member. Due to the totality of the circumstances that include the large amount of contributions owed ($45,000), unrelated to employment practices of supervisors, no continuing relationship between the member and ATRS, the unusually large size of the amount due, and the nature of the claim, a manifest injustice confirmation is requested at the Board level by executive staff. Executive staff recommends that the Board waive all employer contributions due on the settlement for a total of $45,000.

Mr. Knight *moved* to *approve* the Waiver of employer contributions due from Texarkana School District on the Settlement for a total of $45,000. Mr. Goodner *seconded* the *motion*, and the Board *unanimously approved the motion.*

XIII. Member Appeals

A. **Litigation Update – Palestine Wheatley School District and Bobbie Fingers**. A final action of the ATRS Board in this matter was appealed to St. Francis County Circuit Court. The issue involved whether or not the school district was responsible for paying employer contributions on a settlement amount from a lawsuit that an employee of the school district filed against the school district. The school district initiated the administrative action with ATRS to contest paying the employer contributions and the ATRS Board ruled that the school district must pay. ATRS law requires that the school district pay such employer contributions. The judge on appeal considered the administrative record and determined that the record supported the finding of the ATRS Board. This ruling means that the case is closed in favor of ATRS. A draft order has been prepared by ATRS General Counsel and sent to the Judge and we are awaiting action. The Judge has also indicated by letter that any action by the school district against the member would have to be filed in a separate lawsuit, and cannot be pursued as a continuation of this appeal.

B. **Board Action/Review - Lorease Love.** The ATRS General Counsel will present the Board with summary information on this Appeal. The Hearing Officer has ruled in his Proposed Order for final action by the Board that Ms.

Love's claim be dismissed under the ATRS "look-back" law, which prohibits relief for claims beyond five (5) fiscal years from the date of the claim. Ms. Love was seeking a change in her member's record to reflect payment of a repurchase of refunded contributions that she did not repay. The Hearing Officer's Proposed Order does not consider the merit (or lack thereof) of the member's claim because the ruling upholds the statutory deadline under the "look-back law". Ms. Love was granted extra time by the Hearing Officer to respond to his Proposed Order, and did not do so. Ms. Love has been notified of her matter on the Board's agenda and she has not responded to date.

Mr. Knight *moved* to *approve* the Hearing Officer's Proposed Order in the Lorease Love's appeal. Ms. Coleman *seconded* the *motion*, and the Board *unanimously approved the motion.*

XIV. **Audit Committee Report**. Ms. Nichols, Chair, gave a report on the Audit Committee meeting.

A. Fiscal Year 2015 Internal Audit Report – Employee/Employer Contributions Reconciliation Process. Shane Benbrook reported the Accounting/Reporting Department has a reconciliation process in place to ensure the required 6% employee and 14% employer contributions are received. Each month the employers submit reports to the system. The reports are reconciled to the money received. After a thorough review of the process, it was determined that the process in place was adequate and there were no findings or recommendations.

B. **Fiscal Year 2015 Special Report – Confirmation of Member's Receipt of Refund of Employee Contributions.** Ms. Brenda West explained the ATRS reconciliation process of employee and employer contributions identifies employee contributions that have been reported and paid to ATRS in error. ATRS refunds the erroneously collected contributions to the member or the employer. The employer is responsible for refunding the contributions to the member.

Ms. West explained that Internal Audit (IA) selected a sample of five employers and sent confirmations to 28 members to verify the member received the refund due them. Fourteen members responded they did not receive a refund. A second sample of letters was sent to 31 members, 15 members responded they did not receive a refund. IA worked with the employers to determine the status of the employee refunds.

Little Rock School District (LRSD) was one of the employers on our sample. IA sent 19 confirmations to their members to verify receipt of the refund. Twelve members responded they did not receive a refund. The second sample of confirmations was sent to 13 members, seven responded they did not receive a refund. The work performed on the first sample of confirmations revealed 12 of the 19 members were due a refund of contributions; two of the 12 members were due refunds for prior years back to fiscal year 2010. IA decided not to test the refunds to members noted in the second round of confirmations for fiscal year 2014. Instead, IA provided LRSD Internal Audit Department a list of an additional 171 members and asked for their assistance to verify refunds of these members going back to fiscal year 2010.

The results of the work performed on the status of refunds to members are as follows:

- LRSD – First sample of refunds to nineteen members
    1. Twelve of the 19 members were due refunds totaling $11,627 for fiscal year 2013 and two of the 12 were due refunds totaling $4,841 for priors years; total refunds $16,468. Refunds totaling $16,260 have been refunded to date. There is a refund totaling $209 still pending.
    2. Employee contributions withheld from member's salary were not properly reported to ATRS for 11 of the 19 members.
    3. Members were set up with the wrong status code and status codes were not corrected in a timely manner. ATRS repeatedly requested the status codes be changed to reflect the member's correct status.

- LRSD – Second sample of refunds to one hundred seventy one members
    1. Eighty seven of the 171 members were due refunds totaling $120,816; LRSD refunded $118,692 on September 18, 2014, leaving a balance of refunds pending totaling $2,124.
    2. Employee contributions withheld from member salary was not properly reported to ATRS on 101 of the 171 members.
    3. Members were set up with the wrong status code and status codes were not corrected in a timely manner. ATRS repeatedly requested the status codes be changed to reflect the member's correct status.

- Remaining School Districts – There were 12 school districts, 27 confirmations sent. Ten members responded they did not receive a refund. There were ten members due a refund totaling $2,699. Eight members have been refunded a total of $2,629. Two member refunds totaling $70 have not been resolved. We have made several attempts to contact the Earl School District to resolve the two remaining refunds.

IA and the LRSD Internal Audit Department and staff have spent a considerable amount of time on this project. All of the work has not been completed. There are a few outstanding issues we need to resolve. IA will continue to work with the LRSD to complete the work and will update the Audit committee and the Board when the work is completed. The LRSD staff has met with ATRS staff to discuss the problems. The meetings were productive and IA believes going forward reporting and refunds will be done correctly and in a timely manner

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

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

1. **List of Recent Closing.**

a. **Lindsey Loan Pay-off.** Mr. Hopkins reported that the loans known as the "Lindsey Loans" were paid off in full on October 10, 2014, with a total final payment of $5,527,214.05. These loans originated in September of 1999 and initially carried a 7% coupon on $15,248,720 principal value. On October 10, 2009, the loan rate re-priced per the original loan agreement to 109 basis points over the 10 year treasury, yielding a 3.44% coupon to maturity. Over the life of the loans, the investment returned a 6.72% IRR. The current pay off of the Lindsey Loans ended all financial relationships between ATRS and Lindsey.

b. **KKR Global Infrastructure Investors II, L.P. (Real Assets, Global Infrastructure Fund Focused on Investments in Existing Assets with Core Features Such as Links to Inflation and Diversification From Equity Markets, $50 Million Dollar Allocation).** Mr. Hopkins reported that the ATRS commitment of $50 million dollars was accepted and closed on October 24, 2014. This investment was advanced from the 2015 pacing schedule to take advantage of first close fee reductions. The KKR investment completes ATRS's infrastructure investing until the second quarter of 2016.

c. **NGP Natural Resources XI, L.P., a Private Equity Buyout Fund Specializing in the Production and Development of Crude Oil and Natural Gas in North America.** Mr. Hopkins reported that the ATRS commitment of $30 million dollars was accepted and closed on September 30, 2014.

d. **Rose Law Firm Lease Extension.** The Rose Law Firm lease has been extended by an additional four (4) years to a total of 10 years. This is a double net lease where the Rose Law Firm pays for the insurance and maintenance of the building while ATRS pays the real estate taxes and certain agreed upon repairs of the property. Based on current building values, this lease should provide ATRS with an annual return of around 10%.

2. **Victory Building Update.** The Victory building is currently at an approximate 97% occupancy level. Additional leases are in the negotiation phase and, if successfully concluded, the building will reach close to a 100% occupancy level.

3. **PIMCO Transition.** Mr. Hopkins reported that the Board approved a Resolution to terminate the investment management agreement with Pacific Investment Management Company (PIMCO) at the October 6, 2014, scheduled meeting. The Board authorized the use of an approved transition manager to redeploy approximately $472 million dollars in ATRS assets from the separate account managed by PIMCO to the State Street Global Advisors U.S. Aggregate Bond Index Fund. Using State Street Global Markets as the transition manager, the transition is complete and the transition fell within the projected cost range. All PIMCO assets of ATRS are now fully transitioned into the State Street Global Advisors U.S. Aggregate Bond Index Fund.

B. General Investment Consultant Update – Hewitt EnnisKnupp.

1. **Preliminary Performance Report for the Month Ending October 31, 2014.** P. J. Kelly of Hewitt EnnisKnupp (HEK) presented the preliminary performance report for the month ending October 31, 2014. He reported that October was a very hectic month that started in September with the markets getting nervous about several issues, including global growth. This lead to higher oil and commodity prices, volatility in the market spiked up, the dollar dropped, and credit and high yield declined in small cap stocks. He reported that the stock market was down approximately 10% in early October, but the stock

market ended up positive for the month of October of about 3%. The total market value of ATRS fund was $14.5 billion dollars. The total fund had a return of 8.6% since inception, underperforming its benchmark of 8.7%.

2. **Informational Presentation on Liquidity Modeling.** P.J. Kelly of Hewitt EnnisKnupp (HEK) provided the Board an educational presentation on the recently developed liquidity model and how it may benefit ATRS. He stated the growth in the size of the ATRS portfolio presents an opportunity to increase diversification and decrease the reliance on returns generated by the public equity markets. Examples of diversifying investment types include real assets, private equity, and other alternative/opportunistic asset classes. In 2013, the Board approved the Real Assets Investment Policies and Procedures which established a 15% target allocation to investments in real estate, infrastructure, timber, and farmland. The Board has also approved a 10% target for private equity investments and a 5% target for opportunistic/alternative investments including the current investments in hedge funds.

   To provide time for the investment manager to grow the investments and generate returns, assets in these types of investments are long term and not considered to be liquid or readily available. Hewitt EnnisKnupp has developed a program that looks at a portfolio's liquidity needs in a variety of economic conditions. This model takes into account the portfolio's asset allocation policy, maturity of the investments, and expected liabilities. The model categorizes investments by liquid, semi-liquid, and illiquid types along with the percentage of allocation to these liquidity types compared to the portfolio as a whole.

C. Real Assets Investment Consultant Update – Hewitt EnnisKnupp.

1. **2015 Real Assets Commitment Pacing.** Chae Hong of Hewitt EnnisKnupp (HEK) presented the 2015 pacing schedule for real assets. For calendar year 2015. Hewitt EnnisKnupp is advocating approximately $60 million dollars with focus on Non-Core Real Estate given continued compelling distressed opportunities.

   a. **Value Added Real Estate $30 Million Dollars.** These are funds that invest in properties and make improvements to fairly stable properties but are one step below the core funds in quality. These have slightly more risk but have a better return opportunity.

b. **Opportunistic Real Estate $30 Million Dollars.** These are funds that seek to take advantage of distressed opportunities and are higher in the risk profile but with strong managers, Opportunistic Real Estate provides the best return opportunity in real estate.

Ms. Nichols *moved* to *approve* the 2015 Real Assets Commitment Pacing. Ms. Marshall *seconded* the *motion*, and the Board *unanimously approved the motion.*

2. **Recommendation to Commit up to $30 Million Dollars in Almanac Realty Securities VII, L.P., a Real Estate Fund that Seeks to Pair Capital with Strong Operators that use Development, Redevelopment, or Active Leasing and Management Strategies to Seek Attractive Returns with Downside Protection.** Chae Hong of HewittEnnis Knupp (HEK) presented the recommendation of Almanac Realty Securities, VII, L.P. This fund is based in New York, and this strategy was initiated in 1996. The majority of the management team has worked together for over 24 years, with the highly experienced senior team being fully responsible for the track record of this series of funds. This successful team has collectively occupied 50 board seats on 33 different boards and this experience is essential to the investment objectives of these funds.

   This fund seeks companies that have strong management teams with stable cash flows. This strategy strives to provide attractive current yields coupled with additional returns by growing the already stable companies, along with downside protection. This team has produced above average returns in this space. ATRS has invested in two prior funds managed by this team, with an average return of 13% net IRR. To date, 35 transactions in this fund series have produced 19 fully realized investments that have generated a gross IRR of over 16%. Hewitt EnnisKnupp recommends an ATRS commitment to Almanac Realty Securities VII, L.P., of up to $30 million dollars. Mr. Hopkins stated that ATRS staff concurs with the recommendation.

   a. **Resolution 2014-45**

   Ms. Nichols *moved* to *adopt* Resolution 2014-45, Commit up to $30 Million Dollars in Almanac Realty Securities VII, L.P., a Real Estate Fund that Seeks to Pair Capital with Strong Operators that use Development, Redevelopment, or Active

Leasing and Management Strategies to Seek Attractive Returns with Downside Protection. Mr. Knight *seconded* the *motion*, and the Board *unanimously approved the motion.*

D. Private Equity Investment Consultant Recommendation.

1. **2015 Private Equity Pacing Schedule.** Michael Bacine of Franklin Park presented the 2015 pacing schedule for private equity. Typically, ATRS has been pacing up to 2% of its underlying value for private equity for the next calendar year. Based upon assumptions of the projected market value of total assets for the next ten years, Franklin Park recommends private equity pacing of $245 million dollars for 2015 in order to maintain a 10% allocation to private equity. The total pacing amount includes a $25 million dollar allocation to the Franklin Park Venture Fund 2015, and a $25 million dollar allocation to the Franklin Park International Fund 2015. Franklin Park also expects to commit approximately $25 million dollars to a debt/distressed asset fund as well as a total of $170 million dollars in four to six funds with buyout, growth equity, turnaround, or debt strategies.

   No additional commitment is planned for the Franklin Park Co-Investment Fund at this time due to the fact that there will be approximately $30-35 million dollars of remaining allocation available next year from the previous year's commitments. Co-investment deal flow has been slow, which left previous funds available for use in 2015. Mr. Hopkins stated that an allocation to Co-Investment may be made later in 2015 if deal flow picks up.

   If an additional commitment to the Franklin Park Co-Investment Fund becomes necessary due to very robust deal flow, then Franklin Park may request that the ATRS Board use some of the allocation for direct investments to increase the allocation to the Co-Investment Fund. These targets are subject to availability of quality investments and prevailing market conditions. Actual amounts may vary as pacing is subject to change over the year according to available investment opportunities.

   a. **Small/Mid Buyout/Growth/Turnaround $30 Million Dollars.** These are funds that seek to acquire controlling interests in companies. This is an allocation for one of these funds at a $30 million dollar level.

b. **Small/Mid Buyout/Growth/Turnaround $30 Million Dollars**. These are funds that seek to acquire controlling interests in companies. This is an allocation for one of these funds at a $30 million dollar level.

c. **Small/Mid Buyout/Growth Turnaround $30 Million Dollars.** These are funds that seek to acquire controlling interests in companies. This is an allocation for one of these funds at a $30 million dollar level.

d. **Small/Mid Buyout/Growth/Turnaround $30 Million Dollars**. These are funds that seek to acquire controlling interests in companies. This is an allocation for one of these funds at a $30 million dollar level.

e. **Small/Mid Buyout/Growth/Turnaround/Co-Investment $25 Million Dollars**. These are funds that seek to acquire controlling interests in companies. This is an allocation for one of these funds at a $25 million dollar level.

f. **Small/Mid Buyout/Growth/Turnaround/Debt $25 Million Dollars**. These are funds that seek to acquire controlling interests in companies. This is an allocation for one of these funds at a $25 million dollar level.

g. **Debt/Distressed Assets $25 Million Dollars**. These funds lend money at higher interest rates to companies with liquidity needs. These managers also purchase the debt obligations of a company at or below actual value using specialized skills. The purpose of the purchase of debt can be to make interest, get the value from the discount price of the debt, or to obtain the company's equity after a default on the debt. This is an allocation for one of these funds at a $25 million dollar level.

h. **Franklin Park Venture Capital Fund 2015 $25 Million Dollars.** This allocation is explained below in item B.

i. **Franklin Park International Fund 2015 $25 Million Dollars.** This item is explained below in item C.

Ms. Nichols *moved* to *approve* the 2015 Privatre Equity Investment Plan, Including Pacing Analysis. Mr. Knight *seconded* the *motion*, and the Board *unanimously approved the motion.*

2. **Recommendation to Commit up to $25 Million Dollars in Franklin Park Venture Fund 2015.** Michael Bacine presented the recommendation to commit up to $25 Million Dollars in Franklin Park Venture Fund 2015. This is the traditional annual Franklin Park Venture Fund. As a reminder, Franklin Park acts as the manager of a fund of funds in the venture space, since venture is a very volatile segment of private equity. In order to offset some of that risk, Franklin Park acquires an interest in several venture funds and spreads those through its investors to create greater diversity of managers and styles. Franklin Park does not charge a fee on the investment and only recovers its legal and accounting costs for ensuring the fund is set up properly and has appropriate accounting and auditing performed. This is a big win for Franklin Park's clients due to the availability of a fund of funds without the fee on fee cost that a fund of funds typically requires. Franklin Park recommends, and staff concurs, ATRS commit approximately ten percent of the pacing amount, or up to $25 Million Dollars, to the 2015 Franklin Park Venture Fund.

    a. **Resolution 2014-46.**

       Ms. Nichols *moved* to *adopt* Resolution 2014-46, Recommendation to Commit up to $25 Million Dollars in Franklin Park Venture Fund 2015. Ms. Marshall *seconded* the *motion*, and the Board *unanimously approved the motion.*

3. **Recommendation to Commit up to $25 Million Dollars in Franklin Park International Fund 2015**. Michael Bacine presented the recommendation to commit up to $25 Million Dollars in Franklin Park International Fund 2015. The International Fund has essentially the same model as the venture fund, except it is a vehicle for ATRS to get exposure to international private equity. Franklin Park created a fund of funds vehicle to invest in several private equity funds that invest internationally. The fund of funds is used to diversify and reduce risk for ATRS and the other clients of Franklin Park. Franklin Park charges no fee and only recovers the cost for legal and accounting fees required to properly operate the fund. This provides ATRS with diverse international private equity opportunities that otherwise would be difficult to obtain. Again, ATRS staff and Franklin Park recommend an ATRS commitment to the Franklin Park International Fund of up to $25 million dollars for 2015.

a. **Ms. Nichols *moved* to *adopt* Resolution 2014-46, to Commit up to $25 Million Dollars in Franklin Park International Fund 2015. Ms. Marshall *seconded* the *motion*, and the Board *unanimously approved the motion.***

XVI. Operations Committee Report. Mr. Lester, 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. General Open Forum. None.

B. Previously Approved Law Changes. Mr. Hopkins presented the Board with the following for the Committee and Board's review and approval.

1, Disability Benefit. The Arkansas Teacher Retirement System (ATRS) Board of Trustees directed staff to seek a way to balance the need for a fast, efficient, and effective ATRS disability process that supports the smooth operation of the public school system by allowing employees with significant disabilities to retire quickly while at the same time ensuring that the process continues to have integrity after a disability retirement is approved by the ATRS Medical Committee.

ATRS staff currently lacks the resources and legal authority to appropriately monitor ATRS disability retirees after a disability retirement is approved. With new medical treatments and time, some disability retirees may improve and no longer have a disability that prevents the retiree from working gainfully in the work force.

ATRS prohibits a disability retiree from returning to work at an ATRS employer to maintain integrity in the disability process. That rule is easily monitored by ATRS staff. ATRS staff has no method or legal authority to monitor if the disability retiree works elsewhere in the community, state, or otherwise. Occasionally a disability retiree may work full time at a factory or other community establishment. Many people in the school district area may know about the work and the disability status. This undermines the integrity and credibility of the disability process at ATRS.

The request was for ATRS staff to find a method to better monitor disability retirees after retirement. The solution should be one that would not unduly disrupt or penalize disability retirees who are often genuinely and critically ill, while at the same time providing a reasonable method to maintain the creditability and integrity of the program.

Most retirement systems require a member to be approved for Social Security disability in order to first qualify for disability retirement at the pension system. Since it is important to provide a quicker path for educators who are ill to exit the classroom and the education setting, the ATRS disability process provides a much swifter decision. The ATRS process uses a Medical Committee of 3 doctors to decide if a member is disabled using medical reports.

The proposed law change maintains a quick initial process, but also blends in a future use of Social Security disability for continued eligibility after an appropriate 3- 5 years to be approved for Social Security disability retirement. Under the proposed change, the member still submits a disability application that has the lightning fast review by the ATRS Medical Committee. If approved for disability, once the ATRS disability payments begin, the member would have a duty to also apply for Social Security disability and ultimately be approved for Social Security disability. If the member is not approved for Social Security disability after 3 – 5 years, then the member would keep all previous disability payments but the benefit payments would end until the member is eligible for retirement by reaching age 60

Mr. Stubblefield *moved* to *approve* Legislation on Disability Benefit. Mr. Black *seconded* the *motion,* and the board *unanimously* approved the *motion.*

2. **Private School Certification by ATRS Staff instead of Department of Education**. ATRS staff is aware that the Department of Education no longer tracks private schools, and therefore no longer has a reasonable basis to certify private school positions to ATRS as eligible for licensure as teachers whether in or out of Arkansas. ATRS staff regularly makes determinations about related items and that the staff could make an evaluation for private school certification in full compliance with federal law standards.

Mr. Stubblefield *moved* to *approve* Legislation on Private School Certification. Ms. Coleman *seconded*

the *motion,* and the board *unanimously* approved the *motion.*

3. **Expand Recycling Tax Credit.** In the 2013 session, the ability to reallocate the recycling tax credit by an Arkansas public retirement system was established in the Big River Steel legislative package. It was narrowly tailored to only apply to steel mills. The law change was necessary since ATRS invested in Big River Steel but had no ability to benefit from the tax credits since it is a tax exempt entity. The law change allows ATRS and its equity partners to shift the tax credits within the equity owners of the project so all the tax credits can be realized.

   Since that time, ATRS has made an equity investment in the Blue Oak Arkansas e-waste recycling plasma furnace process that will also have recycling tax credits available. Those tax credits should become available in late 2015. This project is much smaller with approximate total project capital of $35 million dollars with recycling equipment expected to be less than one-half of that amount.

   In order to encourage more of these specialized investments, ATRS would like to extend the transferability of the recycling tax credit within the equity owners to additional projects like Blue Oak Arkansas. Extending the tax credit beyond steel would be limited to just Arkansas public retirement systems and to apply only to the recycling tax credit. The tax impact of the Blue Oak project should have very slight nonmaterial impact on the overall state tax collections.

   Mr. Stubblefield *moved* to *approve* Staff and Dr. Abernathy drafting of Legislation on Expanding Recycling Tax Credit. Ms. Nichols *seconded* the *motion*, and the board *unanimously* approved the *motion*.

4. **Stop or Restrict Pension Advance Companies**. A growing concern in other states with a large senior citizen population are companies that provide retirees an advance based upon future monthly retirement payments. Often, the interest rate on these "advances" can exceed 100%. Typical interest rates vary from 25% to 90%. Most often targeted groups are elderly and low income retirees. An example would be like this: A retired cafeteria worker with 14 years of service with a $750.00 per month benefit would be contacted about the availability of an advance. The

typical amount of an advance is from $20,000 to $50,000. A part of the advance would be used to purchase term life in the amount of the advance for the length of the repayment on the retiree. The rest would be paid to the retiree immediately with all or a material portion of the retirees' monthly benefit being used to pay the monthly payment for the advance. (The member would send ATRS a deposit account number that would be controlled by the advance company.)

Based upon the length of the payments, an assumed interest rate can be determined. As stated above, the interest rates range from 25% to 100%. The State of Missouri is the first state to outlaw pension advances and the federal government through the Government Accountability Office (GAO) has written reports on the predatory aspects of these companies. The ATRS Board recommended legislation that would stop or restrict such companies from preying on ATRS retirees.

The initial reaction of the Arkansas Attorney General's Office is that there is adequate legislation and precedence to defend against pension advance companies if a problem arises. At this point, ATRS will stand down in developing legislation unless the Attorney General reevaluates the current position. The Operations Committee took no action on this matter.

5. **Annuity Option C Changes.** Annuity options are one of the great benefits of ATRS. Members derive great comfort by being able to provide for a family member or in some cases, a non-family member such as a close friend, or even a charitable organizational. Computing option amounts are pretty straight forward and easy to explain. However, the laws that apply if an option beneficiary predeceases the member vary between the spousal options (Option A and Option B) and the 10 year certain option for any beneficiary option (Option C).

   While reviewing an unrelated matter, ATRS staff discovered that there is a discrepancy in Option C retirees if the option beneficiary is a spouse, and the marriage ends prior to death, or a non-living entity is the Option C beneficiary and ceases to exist. Currently, the only way an Option C member can pop-up (return to a straight life annuity) is if the beneficiary predeceases the member. ATRS staff thinks this must have been an oversight by the option laws being amended over the years. In order to be consistent with how the option laws work for Option A and Option B members, the

ATRS staff recommends that an Option C retiree that divorces an Option C spouse can return to straight life annuity and additionally can pop up if an entity Option C beneficiary ceases to exist.

> **Mr. Stubblefield *moved* to *approve* Legislation on Annuity Option C Changes. Ms. Nichols *seconded* the *motion*, and the board *unanimously* approved the *motion*.**

6. **Repeal of Option of Receiving Annuities of a Small Monthly Amount (under $20 per month) as a Single One-Time Payment.** This section of the law involves retirement benefits payable of less than $20 per month. In earlier days when staff had to manually handle each retirement paper check to prepare for mailing, then run through a mailing machine, and take to the post office, the manual process was much more burdensome than the electronic fund transfer (EFT) of benefits that ATRS uses today.
   For the reasons stated earlier, ATRS used to pay out a lump sum actuarial value of benefits if the monthly benefit amount was less than $20. It is easy now to set up a retiree for EFT, and this process allows the retiree to spread out his or her payments to be monthly rather than a lump sum, as well as accrue an annual cost of living adjustment amount. ATRS staff recommends that this section be repealed from the law.

   ATRS currently has 16 members with monthly benefits of less than $20. Each member is reciprocal, which means he or she also draws benefits from another Arkansas public retirement system. The lowest paid member makes $3.01 per month for ¼ year of ATRS service credit.

> **Mr. Stubblefield *moved* to *approve* Legislation on Repeal of Option of Receiving Annuities of a Small Monthly Amount (under $20 per month) as a Single One-Time Payment. Mr. Black *seconded* the *motion*, and the board *unanimously* approved the *motion*.**

7. **Technical Corrections**. This is a standard bill that ATRS has every session. Over a two year period, ATRS staff and members find wording in the ATRS law that is unclear or may have a comma in a place that makes it hard to interpret. The technical corrections bill that ATRS has every session is a word and punctuation clean up to ensure the intended meaning of the ATRS law is not lost over time. In other instances, references to laws that were repealed or

modified by rules are deleted. The Technical Corrections bill should have no material impact on ATRS process but just clarifies it.

Mr. Stubblefield *moved* to *approve* Legislation on Technical Corrections. Ms. Davis *seconded* the *motion*, and the board *unanimously* approved the *motion*.

C. Potential Rule Changes.

1. **Memo Adjusting CBA Interest Rates for Entry into CBAs and Retention of CBA**. Mr. Hopkins presented a memo at the request of the Trustees concerning the two potential CBA rule changes. The bottom line is that the potential changes to the CBA should not be treated as a benefit enhancement since the changes are designed to create income for ATRS over time. This is especially true since the ATRS rule already provides an option for an ad hoc interest payment but lacks clarity on timing specific and purpose. This memo was for informational purpose and the Committee took no action.

2. **Rule 10-3 Teacher Deferred Retirement Option Plan (T-DROP) Regularly Monthly Interest Accrual on CBAs for Improved CBA Entry and Retention**. A potential rule change has been prepared for the Operations Committee review. The change is in the marked-up copy of the rule, 10-3-7, item VIII. T-DROP Cash Balance Account, letter C. This rule change would allow members who retire during any month to accrue interest on a monthly basis. Currently, a member who leaves all or a part of their T-DROP account balance in the CBA in August must wait 23 months to accrue interest on the account. The Board may also wish to consider issues about when interest rate enhancement occurs. Currently the interest rate payable increases by ¼ percent each full fiscal year. For instance, should an account that has been with ATRS nine (9) months be eligible for the ¼ percent rise on July 1st. ATRS accounting staff has requested that all interest rate changes occur on July 1st to prevent difficult programming and calculation issues. ATRS staff has not addressed this issue in the rule.

Mr. Stubblefield *moved* to *approve* drafting of rule changes on Rule 10-3 Deferred Retirement Option Plan (T-DROP) Regularly Monthly Interest Accural on CBAs for Improved CBA Entry and Retention. Mr.

Black *seconded* the *motion*, and the board *unanimously* approved the *motion*.

3. **Rule 10-3 Teacher Deferred Retirement Option Plan (T-DROP). Retention Incentive Interest for CBAs**. A potential rule change has been prepared for the Operations Committee review. The change is in the marked-up copy of the rule, 10-3-8, letter F. This rule change would allow the ATRS Board, by Resolution, to adjust an interest rate on CBAs by considering things such as current market conditions, competing financial offerings, or the return on investments. The current CBA rules allow for an ad hoc increase, but lacks clarity on the purpose or if a graduated interest can be paid. Any special ad hoc incentive payment could be applied to all CBAs or may be computed as a graduated amount based upon the length of time the CBA has been in existence

   Mr. Stubblefield *moved* to *approve* drafting of rule changes on Rule 10-3 Deferred Retirement Option Plan (T-DROP) Retention Incentive Interest for CBAs. Mr. Black *seconded* the *motion*, and the board *unanimously* approved the *motion*.

4. **Rule 11-1 Survivor Benefits**. The survivor benefits rule has changes to the Arkansas code cites that have changed over the years. The changes to the rule are to remove the lower levels of the rule so that it does not have to be adjusted as legislation changes over the years. There is no material change.

   Mr. Stubblefield *moved* to *approve* drafting of rule changes on Rule 11-1 Survivor Benefits. Ms. Nichols *seconded* the *motion*, and the board *unanimously* approved the *motion*.

5. **Rule 13-1 Administration Adjudications**: Staff Determinations and Appeals. There is one change I asked staff to draft to Rule 13-1. The change is in the marked-up copy of the rule, 13-1-7, letter H. What this change would accomplish is to keep a member, beneficiary of a member, retiree, guardian, administrator or executor of a member, retiree, or beneficiary, or any ATRS employer from filing additional claims relating to or arising from the same issue, regarding a decision of the Board. This section, if adopted, would save the Board and staff's time and expense of re-litigating the same claim.

Mr. Stubblefield *moved* to *approve* drafting of rule changes on Rule 13-1 Administration Adjudications. Mr. Black *seconded* the *motion*, and the board *unanimously* approved the *motion*.

D. Proposed New Legislation

1. **Comply with Non-Spousal Rollover Provisions**. There is a provision in the IRS code that allows a beneficiary that is not the spouse of a member to be eligible for a trustee-to-trustee transfer to an individual retirement account or an individual retirement annuity as described by the IRS. In order to make our plan qualified for an IRS determination letter, ATRS must include this language in our law. The ATRS outside tax counsel, Bryant Cranford, of the Rose Law Firm, has recommended that ATRS make this small change in our law in order to be in compliance with the IRS determination letter request.

Mr. Stubblefield *moved* to *approve* drafting of rule changes on Rule 13-1 Administration Adjudications. Ms. Coleman *seconded* the *motion*, and the board *unanimously* approved the *motion*.

2. **Potential Ad Hoc Benefit Increase for Retirees – Representative Hammer Legislative Issue.** At the October 6, 2014, Representative Hammer's proposal was reviewed, but questions arose as to the ad hoc increase being perceived as a benefit enhancement that would violate the current law. Because ATRS' unfunded liabilities were approximately 70 years as of June 30, 2013, and an updated preliminary actuarial valuation for June 30, 2014, shows the unfunded liabilities at approximately 39 years, the Operations Committee and Board may want to hold this potential ad hoc increase until the final actuarial numbers are received. The ATRS staff takes no position on this proposal, and can draft legislation quickly if so directed. The Board took no action

XII. **Staff Reports**.

A. Medical Committee Reports. Michael Ray presented the Medical Committee reports for October 2014 and November 2014. In October, 2014, there were 19 applicants, 16 were approved, and 3 needed more information. In November, 2014, there were 22 applicants, 21 were approved and 1 needed more information.

B. Financial Reports.

1. **Financial Statement Report.** Mitzi Ferguson gave the Board a summary for the financial reports for the year ending June 30, 2014. Plan net assets increased 11.72% or 1.345 billion for fiscal year 2014. This is a result from returns on ATRS investments which improved by $1.8 billion.

2. **Travel Report**. Ms. Ferguson presented the travel report showing the expenses for staff and Trustees for fiscal year ending June 30, 2014. Both Board and Senior Staff travel expenses decreased in 2014 as compared to fiscal year 2013. Other staff travel increased during 2014 due to Counselors being able to visit more schools than in 2013.

C. **Contract Review.** Rod Grave presented the Board with a list of contracts which is reviewed by ATRS Board annually.

> **Mr. Stubblefield *moved* to *approve* all current Contacts and authorize Staff to prepare the annual contracts and send to vendors for completion. Mr. Goodner *seconded* the *motion*, and the Board *unanimously approved the motion.***

D. **Personnel Report**. The personnel report is provided annually for information. For the second year of the current biennium (July 1, 2014 through June 30, 2015), ATRS currently has 104 appropriated positions with 98 budgeted. Currently 86 of the positions are filled, 12 are vacant, and 5 are advertised.

E. IRS Determination. As previously reported to the Board, Bryant Cranford submitted the ATRS plan documents to the IRS for a determination letter by the IRS that ATRS remains a tax qualified retirement plan. The IRS fully reviewed the ATRS planned documents and found that ATRS remains a tax qualified plan. The one action item that ATRS must undertake is to modify a roll-over law in the next session of the Arkansas General Assembly. That draft legislation was on the Operations Committee agenda and the Board agenda for approval to submit legislation. The tax qualified determination by the IRS is a great outcome for ATRS.

XVIII. Executive Session to Discuss Executive Director's Performance Evaluation. Chair, Dr. Abernathy, called the Executive Session of the Board of Trustees to order at 2:50 p.m. Dr. Abernathy, Chair, reconvened the Board of Trustees meeting at 3:03 p.m.

The Board expressed their satisfaction with Mr. Hopkins and praised him for his hard work and dedication to ATRS and its members.

Mr. Knight *moved* to *approve* Mr. Hopkins' current employment arrangement and provide the maximum salary as allowed by law. Mr. Black *seconded* the *motion*, and the Board *unanimously approved the motion.*

XIX **Other Business.**

A. **Recognition of Outgoing Board Member.**

1. Honorable Charlie Daniels, State Auditor
   a. Resolution 2014-48

2. Ms. Peggy Gram, Designee for State Auditor
   a. Resolution 2014-49

3. Ms. Janet Harris, Designee for State Auditor
   a. Resolution 2014-50

4. Honorable Charles Robinson, State Treasurer
   a. Resolution 2014-51

5. Mr. Wes Goodner, Designee for State Treasurer
   a. Resolution 2014-52

Ms. Davis moved to approve Resolutions 2014-48, 2014-49, 2014-50, 2014-51, and 2014-52 in Recognition of Outgoing Board Members and designees. Ms. Nichols *seconded* the *motion,* and the Board *unanimously approved* the *motion.*

XIV. **Adjourn.**

Mr. Stubblefield *moved* to *adjourn* the Board Meeting. Ms. Nichols *seconded* the *motion*, and the board *unanimously approved the motion.*

Meeting adjourned at 3:10 p.m.

George Hopkins, Executive Director	Dr. Richard Abernathy, Chair Board of Trustees
Tammy Porter, Recorder	Date Approved