

**MINUTES  
ARKANSAS TEACHER RETIREMENT SYSTEM  
BOARD OF TRUSTEES**

**Monday, February 5, 2018  
10:30 a.m.  
1400 West Third Street  
Little Rock, AR 72201**

**ATTENDEES**

**Board Members Present**

Jeff Stubblefield, Chair  
Danny Knight, Vice Chair  
Anita Bell  
Lloyd Black  
Jason Brady, designee for Hon. Dennis Milligan  
Kathy Clayton  
Skot Covert, designee for Hon. Andrea Lea  
Kelly Davis  
Bobby Lester  
Susannah Marshall, designee for Candace Franks  
Robin Nichols  
Deborah Thompson  
Janet Watson

**Board Members Absent**

Dr. Richard Abernathy  
Johnny Key

**Guest Present**

Donna Morey, ARTA  
David Kizzia, AEA  
Chae Hong, AHIC (Aon Hewitt)  
Jay Wills, APERS  
Rep. Douglas House, House of Representatives

**ATRS Staff Present**

George Hopkins, Executive Director  
Gail Bolden, Deputy Director  
Curtis Carter, Chief Fiscal Officer  
Mitzi Ferguson, Internal Audit/Risk Mgmt.  
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.

- I. **Call to Order/Roll Call.** Mr. Jeff Stubblefield, Chair, called the Board of Trustee meeting to order at 10:32 a.m. Roll call was taken. Dr. Richard Abernathy and Mr. Johnny Key were absent. Mr. Jason Brady, designee for Hon. Dennis Milligan arrived at 10:40 a.m.

**II. Motion to Excuse Absences.**

**Mr. Knight *moved to excuse* Dr. Abernathy and Mr. Key from the February 5, 2018, Board of Trustees meeting. Ms. Thompson *seconded the motion*, and the Board *unanimously approved the motion*.**

**III. Adoption of Agenda**

**Ms. Nichols *moved for adoption* of the Agenda. Mr. Lester *seconded 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 December 4, 2017 Minutes.**

**Mr. Lester *moved for approval* of the Minutes of the Board of Trustees meeting of December 4, 2017. Ms. Watson *seconded the motion*, and the Board *unanimously approved the motion*.**

**VI. Staff Empowerment.** Mr. Hopkins explained the staff empowerment resolutions. Each year the ATRS Board authorizes ATRS staff to transact certain business to set the specific powers of the executive director and to appoint the executive director to manage and delegate operational duties to the limited liability companies that ATRS uses to manage its investments and Arkansas related property.

**A. Authority to Transact Business.**

**1. Resolution 2018-01.**

**Mr. Knight *moved to adopt* Resolution 2018-01, Authority to Transact Business on behalf of the ATRS Board of Trustees. Mr. Black *seconded the motion*, and the Board *unanimously adopted the resolution*.**

**B. Specific Powers of Executive Director.**

**1. Resolution 2018-02.**

**Mr. Knight *moved to adopt* Resolution 2018-02, Authorizing Specific Powers of Executive Director on behalf of the ATRS**

**Board of Trustees. Mr. Black *seconded the motion* and the Board *unanimously adopted the resolution*.**

**C. Appointment of ATRS as Manager of LLC's.**

**1. Resolution 2018-03.**

**Mr. Knight *moved to adopt* Resolution 2018-03, Appointment of ATRS as Manager of LLC's. Mr. Black *seconded the motion*, and the Board *unanimously adopted the resolution*.**

**VII. Authority to Reimburse Trustee Expenses for 2018.**

Mr. Hopkins explained the trustee reimbursement resolution. Every year, a resolution is adopted by the Board to reimburse Trustees for expenses such as long distance telephone calls, postage, and out of pocket expense associated with employing substitute personnel while performing official Board duties.

**A. Resolution 2018-04.**

**Ms. Nichols *moved to adopt* Resolution 2018-04, authorizing ATRS to reimburse ATRS Trustees for miscellaneous expenses and losses in salary resulting from Board of Trustees meeting attendance or other official Board duties. Ms. Clayton *seconded the motion*, and the Board *unanimously adopted the resolution*.**

**VIII. Authorization for Board Travel and Expense Reimbursement for 2018.** Mr.

Hopkins explained the Board travel and expense reimbursement resolution. Every year, a resolution is adopted by the Board to reimburse Trustees for travel expenses incurred for performing official Board duties during the calendar year.

**A. Resolution 2018-05.**

**Mr. Knight *moved to adopt* Resolution 2018-05, authorizing ATRS to reimburse ATRS Trustees for expenses used in traveling for official Board duties. Ms. Nichols *seconded the motion*, and the Board *unanimously adopted the resolution*.**

**IX. Adoption Employer Contribution Rate.** Mr. Hopkins explained the 2018-2019 employer contribution rate resolution. Every year, a resolution is adopted by the Board to set the employer contribution rate prospectively for each fiscal year. The rate is based upon actuarial valuation and legislative restrictions.

**A. Resolution 2018-06.**

**Ms. Nichols moved to adopt Resolution 2018-06, Adoption Employer Contribution Rate at the current rate of 14% for the fiscal year starting July 1, 2018. Mr. Lester seconded the motion, and the Board unanimously adopted the resolution.**

- X. Adoption of 2018-2019 Member Contribution Rate.** Mr. Hopkins explained the member contribution rate has not changed in 43 years. By a resolution adopted by the Board in November, 2017, the member contribution rate is scheduled to begin increasing after the next fiscal year. In order to ensure continuity and continued focus on the member contribution rate amount as it is phased in, the member contribution rate has been added to the process like the employer rate adoption for the coming fiscal year. The member contribution rate remains at a 6% rate.

**A. Resolution 2018-07.**

**Mr. Lester moved to adopt Resolution 2018-07, Adoption of 2018-2019 Member Contribution Rate at the current rate of 6% for the fiscal year starting July 1, 2018. Ms. Davis seconded the motion, and the Board unanimously adopted the resolution.**

- XI. Adoption of Contribution Rate applied to Outsourced Positions.** In the 2017 Legislative session, a contribution rate now applies to outsourced salaries that are embedded positions as defined by that law. The law provides a "phased in" rate over several years. In order to process this rate like the employer and member contribution rate, it is also placed on the agenda for the Board to officially set the rate by Resolution. After the full phased in period, the Board has the authority to adjust the rate to a maximum rate 4%.

**A. Resolution 2018-08.**

**Ms. Bell moved to adopt Resolution 2018-08, Adoption of 2018-2019 Contribution Rate of 1% applied to Outsourced Positions. Ms. Davis seconded the motion, and the Board unanimously adopted the resolution.**

- XII. Actuarial Valuations, June 30, 2017.** Mr. Hopkins presented the annual reports prepared by the Actuaries concerning the valuation of liability to active and inactive members along with the valuation of liabilities for annuities being paid to current retirees and current beneficiaries.

- A. **Active & Inactive Members.** This report reflects the liabilities owed by ATRS to active and inactive members.
- B. **Retirees & Beneficiaries.** This report reflects the liabilities to ATRS retirees, beneficiaries, survivors, and incapacitated children.

**Ms. Nichols *moved to accept the Actuarial Valuations as of June 30, 2017. Ms. Watson seconded the motion, and the Board unanimously approved the motion.***

**XIII. Adoption of Interest Rate for T-DROP Accounts for 2018-2019 (June 30, 2018).** The ATRS Board annually sets the interest rates on T-DROP accounts. In November 2017, the Board set the T-DROP rate at a fixed 3% unless investment returns in the prior calendar year exceeded the current assumed rate of return by more than 2% (200 bp). The November 2017 resolution allows the Board to award an incentive rate of up to 3% which when combined with the 3% fixed rate provides a maximum T-DROP rate of 6%. This rate would apply in the fiscal year that ends on June 30, 2019. The rate for June 30, 2018 has already been set at 5%. Based upon a memorandum from ATRS General Investment Consultant, the assumed rate of return was 16.8% which is more than double the assumed rate of return. This means the Board is in a position to award an incentive rate for T-DROP participants to reflect the quality returns and to provide an incentive for members to remain and to continue to elect to participate in T-DROP which has remained a win for members and a win for ATRS. The executive staff recommends a high incentive rate due to the strong returns.

**A. Resolution 2018-09.**

**Ms. Nichols *moved to adopt Resolution 2018-09, Adoption of Interest Rate for T-DROP Accounts for 2018-2019 (June 30, 2018) at 6%. Mr. Knight seconded the motion, and the Board unanimously adopted the resolution.***

**XIV. Adoption of Interest Rate for Post 10 Yr. T-DROP Accounts for 2018-2019 (June 30, 2018).** The ATRS Board annually sets the interest rates on Post 10 Year T-DROP accounts. In November 2017, the Board set the Post 10 Year T-DROP rate at a rate between 4% and 6% with an incentive rate available when the calendar year returns exceeded the current assumed rate of return by more than 2% (200 bp). The November 2017 resolution allows the Board to award an incentive rate of up to 1.5% which when combined with the 6% maximum rate provides a maximum Post 10 Year T-DROP rate of 7.5%. This rate would apply in the fiscal year that ends on June 30, 2019.

The rate for June 30, 2018 has already been set at 6%. As a reminder, participants in Post 10 Year T-DROP only receive interest on the accumulated T-DROP balance with no deposits and no monthly benefit payments. Post 10 Year T-DROP accounts create a meaningful gain for ATRS and that gain has increased due to much greater participation once ATRS started paying interest on Post 10 Year T-DROP Accounts. Based upon a memorandum from ATRS General Investment Consultant, the assumed rate of return was 16.8% which is more than double the assumed rate of return. This means the Board is in a position to award an incentive rate for Post 10 Year T-DROP participants to reflect the quality returns and to provide an incentive for members to remain and to continue to elect to participate in Post 10 Year T-DROP which has remained a win for members and a win for ATRS. The executive staff recommends an incentive rate be awarded due to the strong returns.

**A. Resolution 2018-10.**

***Mr. Knight moved to adopt Resolution 2018-10, Adoption of Interest Rate for Post 10 Yr. T-DROP Accounts for 2018-2019 (June 30, 2018) at 7%. Ms. Watson seconded the motion, and the Board unanimously adopted the resolution.***

**XV. CBA Incentive Interest Determination.** The ATRS Board now provides the CBA program for members who have retired out of T-DROP and wish to leave a cash balance at ATRS for ultimate distribution to the member after retirement based upon the members withdrawal request. The CBA program is additive to the actuarial status of ATRS since the highest CBA rate is 4% while ATRS assumes a 7.5% return. In the last fiscal year, the approximate \$110 million dollars in CBAs generated over \$17 million dollars in returns with interest payable to member of approximately \$3 million dollars for a net return in the program of over \$14 million dollars. The Board has historically awarded an incentive rate to encourage member to not withdraw CBA money unless needed and to encourage more participation in CBAs since the regular interest becomes a floor and not a ceiling rate. On June 30, 2017, ATRS will award a 1% incentive rate on all funds held in CBAs on that date. The strong returns for the 2017 calendar year that the investment consultant estimated to be 16.8% means that the Board should consider an incentive rate for CBAs to be paid for funds in the CBAs on June 30, 2019. ATRS executive staff recommends that the Board provide an incentive rate on CBAs as it has done in the past due to strong returns.

**A. Resolution 2018-11.**

**Mr. Lester moved to adopt Resolution 2018-11 adopting CBA Incentive Interest of 1%. Mr. Knight seconded the motion, and the Board unanimously adopted the resolution.**

**XVI. 2018 Board of Trustee Election Update.**

- A. Certification of Danny Knight, as Retirant Trustee, for a six year term commencing on July 1, 2018.** In accordance with the ATRS Board election rules, Mr. Knight's position was up for re-election in the Spring of 2018. After appropriate notification and following the election processes, Mr. Knight was the only candidate who submitted a petition for election that was determined to comply with all requirements to certify Mr. Knight as a candidate for the position. No other candidate filed in this position. According to the ATRS election rules, the first Board meeting after a candidate for the election is unopposed, the Board should certify Mr. Knight as an elected, retirant trustee.

**1. Resolution 2018-12.**

**Ms. Nichols moved to adopt Resolution 2018-12, certifying Danny Knight as Retirant Trustee for a six year term commencing on July 1, 2018. Mr. Lester Knight seconded the motion, and the Board unanimously adopted the resolution.**

- B. Administrator Position.** Two (2) candidates filed for the Administrator position that is up in this year's Board of Trustees election, Dr. John West and Dr. Richard Abernathy. This will require an election that will be conducted this Spring. An election vendor will need to be chosen, which is an action item below. In addition, clarification of eligible voters is also an action item since the state recently changed classification positions that were specifically set forth in the rules.

- C. Selection of Election Vendor.** ATRS conducted a request for quotes and had two (2) responses to the request. The low bidder also has successfully completed an ATRS election in the past. Based upon SourceOne of Little Rock, Arkansas, providing the lowest bid with a previous successful election undertaken, ATRS staff recommends that the Board approve a resolution approving SourceOne as the election vendor.

**1. Resolution 2018-13.**

**Mr. Knight *moved to adopt* Resolution 2018-13, Selection of Election Vendor SourceOne of Little Rock, Arkansas, to conduct the 2018 Board of Trustees Election. Ms. Davis *seconded the motion*, and the Board *unanimously adopted the resolution*.**

- D. Technical Resolution regarding the 2018 Board of Trustees Election.** As noted above, the current ATRS Rule uses state classification grade numbers that are no longer applied to state employees and certain employees at colleges and universities. In order to neutrally evaluate this issue, ATRS staff engaged one of its regular outside law firms to provide a memorandum on whether it was appropriate to use the updated grade and service classifications that coincided with the old grade and classification designation to continue to vote in this election. In addition, the outside counsel was also asked to evaluate if a scrivener's error in the filler language to the election rule should be treated as a scrivener's error. Just as staff thought, it is appropriate for the Board to use the guidance from the Office of Personnel Management to have the equivalent of positions in the grade and service classification continue to vote despite the technical change in the position numbering. In addition, as expected, the guidance was that a scrivener's error had no impact on the rule and should be properly ignored. As an abundance of caution, to ensure no impact occurs on participation in the election due to technical changes, the resolution also includes a manifest injustice determination as a backup to the issue. In order to have the Board officially designate the adjustments, a resolution has been prepared that has the Board authorizing the appropriate election designations.

**1. Resolution 2018-14.**

**Ms. Davis *moved to adopt* Resolution 2018-14, Technical Resolution regarding the 2018 Board of Trustees Election. Ms. Watson *seconded the motion*, and the Board *unanimously adopted the resolution*.**

- XVII. 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.

**XVIII. 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. Five (5) employer penalties and interest were waived for this reporting period in the amount of \$680.22. This is a standard report for information and is not an action item.

**XIX. Manifest Injustice for Board Approval.**

A. **In Re: Jeanne Duffie-Pogue MI2017-021.** Ms. Duffie-Pogue was hired as a classified employee in the 1990s. Her classified status allowed her to be a non-contributory member. She remained at her original ATRS employer until about a year ago. After being a classified employee of the school in the 1990s, Ms. Duffie-Pogue became a certified teacher at new employer. The new employer did not submit a follow-up membership data form to inform ATRS of the status change. Since Ms. Duffie-Pogue's position was unknown to ATRS, she remained non-contributory throughout her career, although she should have been contributory according to the ATRS law and rules. ATRS became aware of the issue when Ms. Duffie-Pogue changed schools and became a certified teacher of an ATRS employer that submitted a new membership data form when she was hired. ATRS made Ms. Duffie-Pogue contributory and she has been making contribution since July 1, 2017. Ms. Duffie-Pogue objected and claim that she should be allowed to remain non-contributory since she had always been non-contributory. She has an appeal pending at this time. The executive director and Ms. Duffie discussed a potential manifest injustice claim since the executive director's position in the appeal appears likely that Ms. Duffie-Pogue not only is contributory in the current fiscal year and the remainder of her active membership in ATRS, but that using the limitations of the 5 year look back rule, Ms. Duffie-Pogue would owe back contributions for the past 4 fiscal years that would include fiscal years 2014, 2015, 2016, and 2017. Both Ms. Duffie-Pogue and the executive director submitted a manifest injustice request. Ms. Duffie-Pogue's request was that she remain non-contributory the rest of her career and that as a consequence, the contributions received in the 2017 fiscal year be returned to her. The executive director submitted a manifest injustice request with the proposed remedy that Ms. Duffie-Pogue not be required to make back payments on unpaid contributions

for the past 4 fiscal years, but that her status remain contributory for the current year.

The manifest injustice committee met and found that it would be unjust for require Ms. Duffie-Pogue pay back payments, but made a recommended remedy of only waiver of the back payments and no relief from her contributory status in the current and future years. This matter is before the Board since waiver of her contributory status in 4 fiscal years amounts to more than \$10,000. As a reminder, the Board may find a manifest injustice exists and implement its own remedy and could include the remedy requested by Ms. Duffie-Pogue. The Board could also find a manifest injustice does not exist and award no remedy at all, or a modified remedy.

The executive staff recommendation is that a manifest injustice be found and at least Ms. Duffie-Pogue be given relief as to the prior fiscal years unpaid contributions.

**Mr. Knight *moved to approve the Recommendation of the Manifest Injustice Committee as presented to the Board in the memo from the Manifest Injustice Committee. Ms. Davis seconded the motion and the Board unanimously approved the motion.***

- XX. Setting De Minimis amount to waive payment or collection by Board motion.** The Board has authority pursuant to a law change in 2015 to set a de minimis amount that ATRS will collect or pay for things like interest, overpayments, underpayments, or other similar items. This is placed on the agenda for the purpose of allowing the Board to consider whether it would like to set a de minimis amount by motion at this Board meeting. Staff's position is that some de minimis amount should be set and the Board may have some discussion as to the amount it should be.

**Ms. Watson *moved to set the De Minimis Amount to Waive Payment or Collection at \$25.00. Ms. Clayton seconded the motion and the Board unanimously approved the motion.***

**XXI. Investment Committee Report.** Robin Nichols, Chair, gave a report on the Investment Committee meeting.

**A. Arkansas Related and Investment Update**

**1. List of Fund Closings**

- a. **U.S. Real Estate Credit Fund III, LP (Managed by Calmwater Asset Management), a Closed End, Value Added Real Estate Fund Investing in Commercial Real Estate Mortgages, the Board Authorized Commitment of up to \$30 Million Dollars on September 25, 2017 was Accepted and Closed on December 8, 2017.** The ATRS full commitment of \$30 million dollars was negotiated, accepted, and closed on December 8, 2017.
- b. **Clearlake Capital V, L.P. a Private Equity Fund that Makes Opportunistic Debt and Equity Investments in Middle Market Companies Undergoing Change and/or are in Underserved Industries or Markets in North America, the Board Authorized Commitment of up to \$30 Million Dollars on September 25, 2017 was Accepted and Closed on January 12, 2018.** The ATRS full commitment of \$30 million dollars was negotiated, accepted, and closed on January 12, 2018.
- c. **Thoma Bravo Discover Fund II, L.P., a Private Equity Buyout Fund Focused on U.S. Investments with a Specialization in Software Companies, the Board Authorized Commitment of up to \$25 Million Dollars on December 4, 2017. ATRS Obtained \$17 Million Dollars of the \$25 Million Dollar Recommended Allocation on December 20, 2017.** Due to high demand for this fund the General Partner would not accept the entire ATRS commitment. ATRS was only able to obtain \$17 million dollars of the \$25 million dollars authorized. The final agreement for \$17 million dollars was negotiated, accepted, and closed on December 20, 2017.
- d. **Sycamore Partners III, L.P., a Private Equity Turnaround Fund Specializing in Upper Middle Market Companies in the Retail Sector, the Board Authorized Commitment of up to \$25 Million Dollars**

**on December 4, 2017 was Accepted and Closed on December 21, 2017.** The ATRS full commitment of \$25 million dollars was negotiated, accepted, and closed on December 21, 2017.

- e. **Siris Partners IV, L.P., a Private Equity Buyout Fund Focused on U.S. Investments with a Specialization in Upper Middle Market Technology and Telecom Companies, the Board Authorized Commitment of up to \$30 Million Dollars on December 4, 2017 was Accepted and Closed on December 22, 2017.** The ATRS full commitment of \$30 million dollars was negotiated, accepted, and closed on December 22, 2017.
  - f. **Torchlight Debt Opportunity Fund VI, LP, an Opportunistic Real Estate Fund Focused on High Yield Debt Investments in Both the Public and Private Markets, the Board Authorized Commitment of up to \$25 Million Dollars on December 4, 2017 was Accepted and Closed on February 1, 2018.** The ATRS full commitment of \$25 million dollars was negotiated, accepted, and closed on February 1, 2018.
2. **Appraisal Rights used to Protect Minority Shareholders During the Conversion of Publicly Held Companies to Private Equity Companies.** Private equity is composed of funds or other investment vehicles that invest in private companies or buyout public companies to make them private companies. When a group does a buyout of a public company, the bought out public company has been privatized and its shares are no longer traded on public markets. A group may want to privatize a company for several reasons including the group's belief that the company will have more value if it is not traded on the public markets. Sometimes the company's existing management team is the group trying to privatize the company in order to maximize the management team's interest in the company.

In order to buyout shareholders of a publicly traded company, the group that wants to privatize the company will make the shareholders an offer to purchase the outstanding public shares of the company. The price of the offer is often higher than the current value of the shares on the public markets. The higher price is designed to entice shareholders to accept the offer in

hopes of a majority of the shareholders accepting the offer and finalizing the privatization of the company at the price offered by the entity intending to take the company private. Sometimes the offer to shareholders, even at a better price than available on public markets, may not reflect the actual value of the shares to the shareholder. Since the majority shareholders of some companies may be that company's management team, the privatization and offer price may be done in a manner that is potentially unfair to the minority shareholders. In these instances the minority shareholders can ask for appraisal rights to determine if they are due more than the initially offered price.

An appraisal right is the right of a company's minority shareholders to request a fair offer price for their shares. The fair offer price is determined by the law of the state or country involved. The process may include a judicial proceeding, independent valuator, or a combination of both. Appraisal rights are used to help protect minority shareholders from being underpaid by companies involved in privatization or mergers. Independent valuers use various means to determine a fair price for the minority shareholders and try to ensure the minority shareholder is fairly compensated for being overridden by the majority shareholders in a merger or privatization.

Due to the potentially smaller size of companies going through the transition process, shares for companies going through the privatization or merger process may not have adequate trading volume on public markets to acquire adequate holdings of the company. A lack of trading volume for a company's shares is known as that company being "thinly traded" and fund managers wanting to buy shares of thinly traded companies can sometimes buy shares directly from existing owners through private transactions. Buying shares directly from existing owners privately can benefit the strategy by allowing the fund manager to purchase adequate amounts of shares at a beneficial price. Fund managers for appraisal right strategies will benefit from their ability to seek out and identify potential sources for direct purchases.

Another important aspect of acquiring and holding shares through the privatization or merger process is the ability to limit the effect of market price movement of the shares. This can be done through various put and call option strategies to limit the volatility of the price movement. These strategies are designed

to offset potential downward price movement of shares going through a transition by allowing the owner of the shares to exercise certain rights to maintain the owner's approximate cost of the shares through finalization of the privatization or merger process.

Similar to other investment strategies used by ATRS such as small cap equity, multiple managers in a particular strategy help diversify, add varying skill sets, and increase potential deal flow and sources for purchases of shares.

- a. **Recommendation to Expand the Strategy of the ATRS/FP Private Equity Fund, L.P. to Include Appraisal Right Opportunities and to Make an Additional Commitment of up to \$30 Million Dollars to the ATRS/FP Private Equity Fund, L.P. with Imminent Need.** The ATRS private equity consultant, Franklin Park, has managed private equity funds for ATRS since 2008. These funds include venture capital funds and international private equity funds along with a co-investment/next generation manager fund (ATRS/FP Private Equity Fund, L.P.). A co-investment occurs when ATRS invests directly in a private company alongside a private equity manager. Appraisal right opportunities could be generated as companies that this fund might invest in after privatization occurs are being privatized or merged with other companies. Expanding this investment vehicle to include appraisal right opportunities along with Franklin Park's experience in managing co-investments would provide additional opportunities to ATRS.

The proposed expansion of the strategy of this fund would require additional work and expenses for Franklin Park to source deals, properly acquire shares, track, monitor, and record appraisal right opportunities. The expanded strategy and associated additional expenses and fees for appraisal right opportunities would require modifications to the existing legal documents for this fund. The modifications to the legal documents may include the addition of management fees and carry for the portion of the fund investing in appraisal right opportunities. The fees and carry will be materially less than those normally associated with other private equity and closed end funds.

The ATRS specialty consultant, Simmons Bank, and ATRS staff recommend expanding the strategy of the ATRS/FP Private Equity Fund, L.P. to include appraisal right opportunities and make an additional commitment to this fund of up to \$30 million dollars to accommodate the new opportunities with appraisal rights, if acceptable terms are reached. The additional allocation could also be used to fund new co-investment and next generation managers. Similar to the main fund, the allocation for appraisal right opportunities would also have the ability to recall distributions. Since the anticipated close for this investment is expected to take place before the next scheduled meeting of the ALC, Imminent Need is being requested.

Mr. Hopkins confirmed staff supports recommendation.

**Ms. Nichols *moved to adopt Resolution 2018-15, to Expand the Strategy of the ATRS/FP Private Equity Fund, L.P. to Include Appraisal Right Opportunities and to Make an Additional Commitment of up to \$30 Million Dollars to the ATRS/FP Private Equity Fund, L.P. with Imminent Need. The Board *unanimously adopted the Resolution.****

- b. **Recommendation to Commit up to \$30 Million Dollars in CG Equity Opportunity Fund, LP, managed by Circumference Group, an Opportunistic/Alternative Fund Specializing in Appraisal Right Opportunities with Imminent Need.** The Circumference Group, founded by Jeff Fox in 2009 and headquartered in Little Rock, Arkansas, has managed an opportunistic/alternative fund for ATRS since 2015. Prior to founding the Circumference Group (CG), Mr. Fox was part of the team involved in the \$27 billion dollar acquisition of Alltel by TPG Capital and Goldman Sachs. Mr. Fox and his team have unique experience in the privatization and merger of companies. This experience and the CG team's unique skill sets are complimentary to appraisal right opportunities. The process and timing of acquiring shares in companies that have announced pending privatization or merger is important to the success of the opportunity. Share prices

for companies going through transitions can be volatile. Experienced managers can offset the volatility through strategic timing and sources of the purchases of shares and the use of options to level the share price during the transition process. The management team at CG has extensive experience in sourcing and managing the acquisition of shares in public companies. Similar to the proposed expansion of the ATRS/FP Private Equity Fund, L.P. described above, the fees and carry will be materially less than those normally associated with other private equity and closed end funds. Both Simmons Bank and ATRS staff recommend a commitment of up to \$30 million dollars with callable distributions to CG Equity Opportunity Fund, LP, if acceptable terms are reached. Since the anticipated close for this investment is expected to take place before the next scheduled meeting of the ALC, Imminent Need is being requested.

Mr. Hopkins confirmed staff supports recommendation.

**Ms. Nichols moved to adopt Resolution 2018-16, to Commit up to \$30 Million Dollars in CG Equity Opportunity Fund, LP, managed by Circumference Group, an Opportunistic Alternative Fund Specializing in Appraisal Right Opportunities with Imminent Need. The Board unanimously adopted the Resolution.**

**B. General Investment Consultant Update – Aon Hewitt Investment Consulting.**

- 1. Preliminary Performance Report for the Quarter Ended December 31, 2017.** Chae Hong of Aon Hewitt Investment Consulting presented the preliminary report for the quarter ending December 31, 2017. The ATRS fund had a market value of approximately \$16.9 billion dollars. The total fund had a return of 8.6% since inception, underperforming its benchmark of 8.7%. Total equity had a market value of approximately \$9.78 billion dollars. Total equity had a return of 10.8% since inception, underperforming its benchmark of 11.2%.

**C. Real Assets Investment Consultant Report.**

1. **Performance Report for the Quarter Ended September 30, 2017.** Chae Hong of Aon Hewitt Investment Consulting presented the performance report for the quarter ended September 30, 2017. NCREIF's NPI registered at 1.7% and NFI-ODCE (net) returned 1.6%. The NPI return showed no change quarter over quarter while the NFI-ODCE showed a 10 bps increase. NCREIF Timberland Index returned 0.6% for the quarter and 3.3% for trailing one year. Timberland showed an increase of 10 bps quarter over quarter. NCREIF Farmland Index gained 1.0% for the third quarter of 2017, while posting a 6.2% return for the trailing one year. As of the third quarter of 2017, the real assets portfolio stands at 11.9% of ATRS' total assets, a decrease of 20 bps over the first quarter. Recent infrastructure, agriculture, and real estate commitments will help the portfolio continue to move towards its target allocation irrespective of the liquidating investments.

**D. Private Equity Consultant Report.**

1. **Private Equity Portfolio Review for the Quarter Ended September 30, 2016.** Michael Bacine of Franklin Park presented the private equity report for the quarter ended September 30, 2017. The ATRS Legacy Portfolio is in the liquidating stage and has a remaining value of 0.2% with a total IRR of 9.2%. CSFB Portfolio is also liquidating and will continue to see distributions. CSFB has a remaining value of 13.3% 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 14.5%. The total fund had a net IRR of 10.2% for the quarter ended September 30, 2017.

**XXII. 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. None.

**B. Update on School Hall Meetings.** Mr. Hopkins gave a report on the School Hall Meetings. He has attended several school hall meetings throughout the state. School hall meetings have been at both large and small schools, and varied geographically. The meetings have typically been after school, however some are during an in-service day for staff. Between now and the end of March, additional school hall meetings are scheduled throughout the state at various ATRS employers. The school hall meetings provide members useful information and are important to maintain the confidence and support of members as ATRS continues to take all necessary action to maintain quality benefits and stay current with all actuarial requirements. Mr. Hopkins will continue having school hall meetings from this point forward to provide employers with important access to ATRS and its processes.

**C. Final Adoption of Rule Changes:**

1. Rule 6-2: Reciprocity.
2. Rule 9-2: Age and Service (Voluntary) Retirement.
3. Rule 9-4: Disability Retirement.
4. Rule 9-8: Error Corrections and Collection of Overpayments.
5. Rule 9-9: Retirement Applications Rules and Deadlines.
6. Rule 10-3: T-DROP.
7. Rule 11-1: Survivor Benefits.
8. Rule 13-1: Administrative Adjudications.

**Mr. Lester *moved to approve of the Final Adoption of Rule Changes to Rule 6-2, Rule 9-2, Rule 9-4, Rule 9-8, Rule 9-9, Rule 10-3, Rule 11-1, and Rule 13-1, and the Board unanimously approved the motion.***

**D. Potential Rule Change.**

1. **Rule 4-1: Board of Trustees Composition and Elections.** The General Assembly, working with the Governor, adopted new grade and service classifications for state employees on

July 1, 2017. New grade and service classifications replaced the old ones. As ATRS staff was preparing for the two (2) Board positions up for this fiscal year, the staff recognized that for ACTIVE MEMBER elections, the existing rule used position classifications that are no longer applicable to state employees and employees at certain colleges and universities. Staff also noted that a minor adjustment needed to be made to catch the rule up with the law that treated an educational cooperative director as the equivalent of a school superintendent.

In addition, the certification process revealed that the positions filled at the public schools by administrators are more numerous and complicated than just positions designed as some type of principal or superintendent. Finally, staff learned that some employers are not always contacting ATRS when positions of staff members are changed at the school. All of these changes should be addressed in a rule revision to keep the ATRS election process up with current trends in school operations.

**Mr. Lester *moved to approve Potential Rule Changes to Rule F-1: Board of Trustee Composition and Election, and the Board *unanimously approved the motion.****

#### **E. Potential 2019 Legislation**

- 1. Service Credit: 40 Days to 80 Days.** This issue has already been discussed in the Committee and remains on the agenda for any additional input or thoughts before it is placed into legislation. As a reminder, 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 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.

The Committee instructed staff to draft potential legislation and bring back to the Committee.

**XVI. Staff Reports.**

- A. Medical Committee Reports.** Michael Ray presented the Medical Committee reports. A total of twenty-two (22) disability applications were received and twenty-two (22) were approved for disability benefits.

**Ms. Nichols moved to approve the Medical Committee Reports. Mr. Lester seconded the motion, and the Board unanimously approved the motion.**

- B. New Performance Evaluation Process for use by ATRS and all other State Agencies.** Rett Hatcher, Deputy Director, gave a report regarding the new performance evaluation process. Effective immediately, all performance evaluations are conducted in April of each fiscal year. This means that the Board will have the executive director's evaluation in the April Board meeting instead of the December Board meeting as has been in the past. This change also means that the Audit Committee will conduct the Internal Auditor's evaluation in the Audit Committee meeting in April also. Mr. Hatcher provided insight into the evaluation process and how the process would impact staff evaluations.

**XVII. Other Business: None**

**XVIII. Adjourn.**

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

**Meeting adjourned at 11:39 a.m.**

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George Hopkins,  
Executive Director

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Mr. Jeff Stubblefield, Chair  
Board of Trustees

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Tammy Porter,  
Recorder

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Date Approved