

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

Monday, June 2, 2014

10:45 a.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
Bobby Lester
Susannah Marshall, designee for Candace Franks
Dr. Tom Kimbrell
Robin Nichols
Deborah Thompson

Members Absent

Peggy Gram, designee for Charlie Daniels
Janet Watson

Guest Present

Donna Morey, ARTA
P. J. Kelly, Hewitt EnnisKnupp
Chae Hong, Hewitt EnnisKnupp
Jessica Middleton-Kurylo, Bureau of Legislative Research

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 Financial Officer
Vicky Fowler, Human Resources Director
Laura Gilson, General Counsel
Rod Graves, Manager Investment Dept.
Wayne Greathouse, Assoc. Dir. Investments
Manju, Dir. Data Processing
Mike Lauro, Information System Manager
Linden Maurer, Legal Assistant
Jerry Meyer, Manager, Real Assets
Tammy Porter, Administrative Assistant
Michael Ray, Dir. Member Services
Clint Rhoden, Operations Manager
Gaye Swaim, Operations Manager
Leslie Ward, Manager, Private Equity
Brenda West, Internal Audit/Risk Mgmt.

Reporters Present

Mike Wickline, AR Democrat Gazette

- I. **Call to Order/Roll Call.** Dr. Richard Abernathy, Chair, called the Board of Trustee meeting to order at 11:05 a.m. Roll call was taken. Ms. Gram and Ms. Watson were absent.

- II. **Motion to Excuse Absences.**

Mr. Knight *moved to excuse Ms. Gram and Ms. Watson from the June 2, 2014 Board of Trustees meeting. Mr. Lester seconded the motion, and the Board unanimously approved the motion.*

III. Adoption of Agenda.

Ms. Clayton *moved for adoption of the Agenda. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.*

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

IV. Approval of Board Minutes.

A. Minutes of April 14, 2014.

Mr. Lester *moved for approval of the Minutes of the Board of Trustees meeting of April 14, 2014. Ms. Coleman seconded the motion, and the Board unanimously approved the motion.*

B. Minutes of April 24, 2014.

Mr. Lester *moved for approval of the Minutes of the Board of Trustees meeting of April 24, 2014. Ms. Clayton seconded the motion, and the Board unanimously approved the motion.*

V. 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 was one interest amount waived for this reporting period in the amount of \$88.51.

VI. 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 \$9,978.82 in employer interest and penalties.

VII. Request for Board Approval to Waive Employer Interest and Penalties Exceeding \$1,000. Mr. Hopkins presented the request for approval to waive employer interest and penalties on old outstanding balances. ATRS has six (6)

employers with old outstanding balances of penalties and interest as of June 30, 2013. Many of these outstanding accounts are older accounts with balances that have been carried forward for years. It would be time consuming for ATRS to research the older records which are in paper form and stored at an off-site location. Often the paperwork is unclear and the basis of the claim is uncertain. ATRS has developed a training program for employers' reporting staff and has developed a comprehensive training manual to support the program. ATRS continues to look for areas of improvement to prevent penalties and interest occurrences in the future.

ATRS staff is recommending that the Board waive the penalties and interest amounts due for the six (6) employers. The total recommended amount to be waived is \$26,786.89.

Mr. Knight moved for approval to Waiver Employer Interest and Penalties Exceeding \$1,000. Mr. Lester seconded the motion, and the Board unanimously approved the motion.

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

A. **Internal Audit – Special Project Report: ATRS Workshops.** Mr. Shane Benbrook reported that ATRS membership counselors held 17 bookkeeper workshops during the 2013-2014 school year. This provided training for school districts, higher education facilities, and state agencies employers who provide information and member records to ATRS. ATRS counselors held 29 retirement workshops. The retirement workshops cover three areas: members retiring, members entering T-DROP, and member retiring from T-DROP.

Internal Audit staff attended a bookkeeper workshop and a retirement/T-DROP workshop. Internal Audit Staff found the information provided to members was accurate according to ATRS laws and policies and was very pleased with the counselors' knowledge and eagerness to provide information to the members.

B. **Internal Audit Plan.** Ms. Brenda West presented the Internal Audit Plan for the Internal Audit Fiscal year 2015. Projects are identified for the audit plan by using ATRS Risk Assessment. Risk Assessments on each department at ATRS was completed in March 2014. Internal Audit reviewed the Risk Assessment and made the decision on which audit to perform first by determining which areas posed the greatest risks for the system. Conflict of

Interest Statements are signed and included in the audit plan package as required by auditing standards

- C. **2014 Risk Assessment.** Ms. Brenda West presented the 2014 Risk Assessment. Department of Finance and Administration requires Arkansas Teacher Retirement to perform a risk assessment every two (2) years. No areas were found to be "insufficient" in this 2014 Risk Assessment. Internal Audit is very happy with the good work the Agency is doing.
- D. **Internal Audit Update.** Ms. Brenda West reported the scheduled audits for fiscal year 2015 include two (2) audits started in fiscal year 2014: Employee/Employer Contributions Reconciliation Process and Review Implementation of 2013 Legislation; both audits are near completion. The budget for 2014 audits was exceeded due to extensive problems found.
- IX. **Investment Committee Report.** Ms. Nichols, Chair, gave a report on the Investment Committee meeting.
- A. Investment Update and Arkansas Related Update.
1. **Update and Groundbreaking on BlueOak Arkansas E-waste Recycling Facility.** Mr. Hopkins reported the groundbreaking ceremony on BlueOak Arkansas e-waste recycling facility, located near Osceola, Arkansas, is scheduled for June 10, 2014. ATRS and staff are excited about the opportunities this project will provide.
 2. **Rose Law Firm.** Mr. Hopkins reported that ATRS has reached an agreement with K-Loft properties concerning encroaching utilities on the Rose Law Firm parking lot. The agreement will protect ATRS's property rights and allow neighboring development which enhances ATRS's property values. Mr. Hopkins also report that Rose Law Firm was satisfied with the agreement.
 3. **Purchase of 1,902 acres of a Sweet Potato Farm in Louisiana.** Mr. Hopkins reported that ATRS' is the owner of a sweet potato farm in Louisiana which is approximately 1,900 gross acres with about 1,600 irrigated acres, including 100,000 square feet of refrigerated warehouse storage, 108,000 square feet of packing shed and warehouse, and 70,000 square feet of farm machinery storage. Jerry Meyer reported that most of the sweet potatoes are sold to Wal-Mart stores and grocery stores, with some being sold to Con-Agra and used for processing baby food.

4. List of Recent Fund Closings.

- a. **Reams Core Plus Bond Fund (Fixed Income).** Mr. Hopkins reported that the full commitment of \$300 million dollars was accepted and closed.
- b. **Wellington Global Total Return II (Fixed Income).** Mr. Hopkins reported that the full commitment of \$300 million dollars was accepted and closed.
- c. **Thoma Bravo Fund XI, L.P. (Private Equity).** Mr. Hopkins reported that a commitment of \$20 million dollars (of the \$25 million requested) was accepted and closed.
- d. **First Reserve Energy Infrastructure Fund II, L. P. (Real Assets).** Mr. Hopkins reported that the full commitment of \$50 million dollars was accepted and closed.
- e. **Antin Infrastructures Partners II., L. P. (Real Assets).** Mr. Hopkins reported that the full commitment of \$50 million dollars was accepted and closed.
- f. **Harris & Associates (Global Equity).** Mr. Hopkins reported \$350 million dollars in redeployment from the State Street Global Equity Index Fund using State Street Global Markets as a transition manager has begun.

B. Recommendation to Periodically Restore Pinnacle Mountain Holding Limited Liability Company—LLC Funding Level to Base Authorization. Mr. Hopkins reported that ATRS is the sole owner of Pinnacle Mountain Holding Limited Liability Company--II LLC. In November 2012, the Board approved a commitment of up to \$2 million dollars. The \$2 million dollar commitment to this LLC is unlikely to be used extensively but does provide flexibility as special opportunities arise from time to time. The availability of the commitment will ensure that ATRS can quickly move to evaluate or participate in an investment and do so in a means that has proper controls and reporting to the Board on any activity. The commitment is never funded unless an opportunity arises. If an opportunity arises in which a deposit, earnest money, place holder money, or seed money is necessary to evaluate or commence an investment opportunity, then the ATRS director would have to make the recommendation to draw on that commitment and that recommendation would have to be reviewed and affirmed by the ATRS Board of Trustees Chair.

Pinnacle Mountain Holding Limited Liability Company--II, LLC is only intended to be initial funding or earnest money in an investment. Once the investment closes or the earnest money is returned, the entire assets within Pinnacle Mountain Holding II, LLC are transferred out to the new investment or returned to the regular ATRS funds (in the event the advanced funding is earnest money).

Since the Resolution in November 2012 is unclear on ATRS intentions and to avoid problems with legislative audit, ATRS staff recommends a new resolution to clarify that the \$2 million dollar commitment to this LLC resets back (is an evergreen allocation instead of a one-time allocation) to \$2 million dollars as assets or earnest money is transferred out of Pinnacle Mountain Holding Limited Liability Company--II, LLC. In addition, the new resolution will align the name of the LLC with the name recorded by the Arkansas Secretary of State, Pinnacle Mountain Holding Limited Liability Company--II, LLC.

a. Resolution 2014-33.

Ms. Nichols moved to adopt Resolution 2014-33, Pinnacle Mountain Holding Limited Liability Company—II, LLC. Mr. Knight seconded the motion, and the Board unanimously approved the motion.

C. General Investment Consultant Update.

1. **Update on Arkansas Opportunity Fund.** P. J. Kelly of Hewitt EnnisKnupp (HEK) reported that they have narrowed the list to three (3) firms. A couple of the firms have organizational activities going on and HEK is doing diligence on those firms. HEK is waiting on their response before proceeding further
2. **Performance Report for Quarter Ending March 31, 2014.** Mr. P. J. Kelly of Hewitt EnnisKnupp (HEK) presented the performance report for the quarter ending March 31, 2014. Mr. Kelly reported the total market value of ATRS fund was \$14.3 billion dollars. The total fund had a return of 2.5% for the quarter, underperforming its benchmark of 2.6%, and a 14.7% return for fiscal year-to-date, outperforming its benchmark of 13.6%. ATRS had strong returns over a 1 year period.
3. **Performance Report for Month Ending April 30, 2014.** Mr. P.J. Kelly of Hewitt EnnisKnupp (HEK) presented the performance report for the month ending April 30, 2014. Mr. Kelly reported that the total fund was flat for the month

D. Real Assets Investment Consultant Report. Mr. Chae Hong of Hewitt EnnisKnupp (HEK) presented the performance report for the 4th Quarter ending December 31, 2013. Real estate is continuing to be moderate and there were successes in excess of the 3% quarterly return. One (1) year and 3 year are still above long term which we see are at 7 and 9%. Mr. Hong stated he does not expect to see a continued robust growth environment like we have over the last several years. Timber and Farmland had a very solid quarter at 5.9% and 9.3%. The total real assets portfolio is approximately \$106 million.

Mr. Hong reported that he would be traveling to BTG Pactual to review the timber portfolio and see what the manager has planned in regards to short term and longer term investments. Chairman Nichols requested that when Mr. Hong returns from meeting with BTG Pactual, that he provide the Board with an update on his visit

E. Private Equity Investment Consultant Report.

1. **Private Equity Portfolio Review for the Quarter Ended December 31, 2013.** Mr. Michael Bacine of Franklin Park presented the portfolio review for the 4th quarter ending December 31, 2013. The legacy portfolio continues to be liquidated. It represented about 26% of ATRS' portfolio in 2006 and is now down to approximately 8% for year-end 2013. Since inception, total fund net IRR is 9.7%. The year 2013 was the first since 2007 that ATRS received more capitol back than contributed. Total net cash flow for 2013 was \$95.2 million. The fourth quarter was strong with a 6.8% change in value. ATRS total commitments for 2013 were \$185 million dollars.
2. **Recommendation to Commit up to \$30 Million Dollars in BVIP Fund VIII, L. P. , a Private Equity Buyout focused on U. S. Investments with a Specialization in Information and Business Services.** Mr. Michael Bacine, of Franklin Park, presented the recommendation of BVIP Fund VIII, L.P. This fund is targeting capital commitments of \$400 million dollars. To date, this fund has closed on approximately \$260 million dollars in commitments. The strategy of this fund is to make investments in lower middle market companies in information and business services, and communication sectors. This fund has a very compelling strategy and is well positioned in its target

sectors. The team has a deep experience and an attractive track record.

Franklin Park and ATRS staff both recommend an investment of up to \$30 Million Dollars in BVIP Fund VIII, L. P., a private equity buyout fund focused on U.S. investments with a specialization in information and business services

a. Resolution 2014-34.

Ms. Nichols *moved to adopt* Resolution 2014-34, to commit up to \$30 Million Dollars in BVIP Fund VIII, L. P., a private equity buyout fund focused on U.S. Investments with specialization in information and business. Ms. Davis *seconded the motion*, and the Board *unanimously approved the motion*.

- 3. Recommendation to Commit up to \$30 Million Dollars in 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 (ATRS is in 2 other NGP Funds).** Mr. Michael Bacine, of Franklin Park, presented the recommendation of NGP Natural Resources XI, L.P. This fund is targeting capital commitments of \$4.5 billion dollars, with the first closings on 06/30/2014 and 09/30/2014. The strategy of this fund is to invest in upstream oil and gas companies and assets in the U. S. and Canada. The fund will target consolidation, enhancement, and development of oil and gas assets in partnership with experienced management teams to increase reserves. The fund will also have a secondary focus on midstream and oilfield services businesses. The general partner is well positioned competitively, has an attractive track record, and has an experienced and deep team.

Franklin Park and ATRS staff both recommend an investment of up to \$30 Million Dollars in 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

a. Resolution 2014-35.

Ms. Nichols *moved to adopt* Resolution 2014-35, to commit up to \$30 Million Dollars in 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 (ATRS is in 2 other NGP Funds). Mr. Knight *seconded the motion*, and the Board *unanimously approved the motion*.

X. Operations Committee Report. Mr. 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. The Operations Committee had the opportunity to discuss potential rule or law changes. Dr. Abernathy asked for Mr. Hopkins' vision on things possible upcoming in future. Mr. Hopkins reported on other states where things happen that may be considered in Arkansas. One issue concerned the governance of the ATRS Board. Currently ATRS has been served well by the number of trustees which are very tuned in to the members of the state of Arkansas. The Board is balanced. ATRS should always be concerned that possible legislation could be presented that could fundamentally change the nature of the relationship of ATRS members and the well-being of the state, most importantly, making sure the best people are in the classroom teaching the children of Arkansas. A change of governance of this Board could signal how ATRS delivers services to the members.

The second concern is recent legislation passed in Oklahoma which moved new state workers from a defined benefit plan to a defined contribution system. The change was not made for the public safety workers and teachers. The changes were essentially for state system members, much like APERS. ATRS needs to be aware that changes could occur in Arkansas

B. Update on Outsourcing. Mr. Hopkins reported that Executive Staff researched the active member and covered payroll numbers by developing queries that ATRS DP Staff used to break down membership data to find trends. The data, although tied back to the actuary's numbers, could not prove that the decline in members and payroll was linked to outsourcing. Since the data cannot show the cause of the decline to be outsourcing, outsourcing is not a high level of importance at this time. However, it may become more important in the future. Ms. Coleman suggested the Committee come up with a plan for reimbursement from outsourcing. The Committee decided to continue studying this matter and requested Mr. Hopkins and staff continue doing reports and monitoring.

- C. Fiscal year 2015, Retirements and T-DROPS, compared to the previous 3 Years.** Mr. Hopkins reported the number of July 1st retirees for 2014 was 1,510 which is down from 1,704 July 1st retirees in 2013. The total number of T-Drop participants in 2014 is 620 compared to 676 participants in 2013. Executive Staff attributes the fewer retirements to health insurance costs for retirees, overall economic uncertainty, better educational information available from ATRS about retiring too early, and member delaying entry in the T-DROP due to knowledge about the early entry penalty.
- D. Staff Recommendation to Extend CASH Program through June 30, 2015 or Until CASH Program is Modified, whichever occurs first.** Mr. Hopkins reported that the CASH Program continues to reduce ATRS liabilities but the pace has fallen the last couple months. A new group of members who are considered inactive, noncontributory vested will be established on July 1, 2014. ATRS Executive staff will work with the Actuaries to develop and expand the cash offering to include contributory members during this summer and fall. ATRS Staff recommends extending the CASH Program to June 30, 2015.
- a. Resolution 2014-37.**
- Mr. Lester *moved to adopt* Resolution 2014-37, to Extend CASH Program through June 30, 2015 or until CASH Program is modified, whichever occurs first. Ms. Clayton *seconded the motion*, and the Board *unanimously approved the motion*.**
- E. Potential Legislation.** None.
- F. Demonstration of Potential Internet Access to Member Accounts.** Associate Director of Operations, Mr. Clint Rhoden, presented the Committee with a demonstration of an interactive presentation on member access to ATRS accounts. Access would be through ATRS' website. Information will be available to members through the Internet for active members, T-DROP participants, and retirees. Mr. Rhoden demonstrated the step-by-step process for members to set up an account on the website. The start date for the internet access could be as early as August 1, 2014, if approved by the Board.

- G. Board Direction and Input of Internet Access for Members.** Mr. Hopkins told the Committee that the forum is intended to give the Board ultimate control over the Internet process. The DP department has added additional staff and resources to begin the project. The ATRS Call Center has also been enhanced and is ready for calls from members regarding internet access. ATRS staff received the necessary positions and resources in the 2013 Session to make Internet access available while providing adequate staff to give the members additional information that internet access will allow. Staff expects member contact will increase by 40%. The additional contacts and information available means that members will have more knowledge and information about their accounts which gives them the basis for more questions and information.

Mr. Lester *moved to approve* Implementation of Internet Access of ATRS Members beginning August 1, 2014. Mr. Knight *seconded the motion*, and the Board *unanimously approved the motion*.

XI. Staff Reports.

- A. Medical Committee Reports.** Michael Ray presented the Medical Committee reports for April 2014 and May 2014. In April 2014, there were 26 applicants, 21 were approved, and 5 needed more information. In May, 2014, there were 21 applicants, 19 were approved, and 2 needed more information.

Mr. Lester *moved to approve* the April 2014 and May 2014 Medical Committee reports. Mr. Knight *seconded the motion*, and the Board *unanimously approved the motion*.

- B. Personnel Report.** Vicky Fowler presented the Board with the personnel report. For the first year of the current biennium (July 1, 2013 through June 30, 2015), ATRS will have 101 positions to be filled. Currently, 89 of the positions are filled, 5 are in the process of being filled, and 7 are vacant.

For the period January 1, 2014, through May 23, 2014, 17 positions are advertised at this time, 1017 applications have been received, and 61 applicants have been interviewed. ATRS will receive 3 additional full time positions for FY15 on July 1, 2014.

- XII. **Special Recognition Resolution.** Dr. Abernathy recognized Dr. Tom Kimbrell for his dedication and service to the ATRS Board of Trustees.

a. **Resolution 2014-36**

Ms. Nichols *moved to adopt* Resolution 2014-37, commending Dr. Tom Kimbrell for his service to the ATRS Board of Trustees. Mr. Stubblefield *seconded the motion*, and the Board *unanimously adopted the resolution*.

- VI. **Other Business.** None

- VII. **Adjourn.**

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

Meeting adjourned at 11:28 a.m.

George Hopkins,
Executive Director

Dr. Richard Abernathy, Chair
Board of Trustees

Tammy Porter,
Recorder

Date Approved