MINUTES
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES

Monday, December 5, 2016
1:00 p.m.
1400 West Third Street
Little Rock, AR 72201

ATTENDEES

Board Members Present
Jeff Stubblefield, Chair
Danny Knight, Vice Chair
Anita Bell
Lloyd Black
Kathy Clayton
Kelly Davis
Bobby Lester
Robin Nichols
Deborah Thompson
Janet Watson
Luther Guinn, designee for Ms. Candace Franks.
Eric Saunders, designee for Mr. Johnny Key
Autumn Sanson, designee for Hon. Dennis Milligan

Board Members Absent
Dr. Richard Abernathy
Hon. Andrea Lea

Guest Present
Donna Morey, ARTA
Chris Caldwell, Div. of Legislative Audit
Judy Kerman, GRS
Brian Murphy, GRS
P.J. Kelly, AHIC (Aon Hewitt)
Chae Hong, AHIC (Aon Hewitt)
Andy Marshall, Attorney at Law
Linda Lance, Member

ATRS Staff Present
George Hopkins, Executive Director
Gail Bolden, Deputy Director
Shane Benbrook, Internal Audit/Risk Mgmt.
Curtis Carter, Chief Fiscal Officer
Mitzi Ferguson, Internal Audit/Risk Mgmt.
Vicky Fowler, Dir. Human Recourses
Laura Gilson, General Counsel
Rod Graves, Assoc. Dir. of Operations
Wayne Greathouse, Assoc. Dir. of Investments
Clementine Infante,
Mike Lauro, Information Systems Manager
Jerry Meyer, Manager, Real Assets
Tammy Porter, Executive Assistant
Michael Ray, Dir. Member Services
Clint Rhoden, Director of Operations
Joe Sithong, Software Support Analyst
Leslie Ward, Manager, Private Equity
Brenda West, Internal Audit/Risk Mgmt.

Reporters Present
Mike Wickline, Arkansas Democrat Gazette

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

II. Motion to Excuse Absences.

Ms. Nichols *moved* to *excuse* Dr. Abernathy and Hon. Lea from the December 5, 2016, Board of Trustees meeting. Ms. Clayton *seconded* the *motion*, and the Board *unanimously approved the motion.*

III. Adoption of Agenda

Mr. Lester *moved* for *adoption* of the Agenda. Ms. Davis 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 Minutes.

A. Approval of October 3, 2016.

Mr. Knight *moved* for *approval* of the Minutes of the Board of Trustees meeting of October 3, 2016. Ms. Davis *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 2015-2016 fiscal year.

The preliminary valuation showing that ATRS went from 80% funded on June 30, 2015, to 81% funded on June 30, 2016. (On an unsmoothed basis, ATRS is now 77% funded.) The estimated amortization period that was at 33 years on June 30, 2015, was reduced to 29 years on June 30, 2016. The bottom line is that ATRS remains strong, and the cost-cutting measures by the ATRS Board that have been the nucleus of the last three (3) legislative sessions have and will continue to help restore the system's financial condition.

As ATRS continues to adjust to new accounting rules, financial markets, and actuarial standards, ATRS must remain committed to making any needed changes to remain strong. Maintaining optionality and having mechanisms to make needed adjustments should remain a focus of ATRS.

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 Tuesday, January 31, 2017, for financial information for calendar year 2016.

VIII. Proposed 2017 Board of Trustees Schedule. The Board reviewed the proposed schedule.

> **Ms. Nichols *moved* to *approve* the 2017 Board of Trustee Schedule. Ms. Bell *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. No member Interest was waived 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 Five (5) employer penalties for this reporting period in the amount of $1,200.00. One (1) employer interest assessment was waived for this reporting period in the amount of $688.44.

XI. Member Appeals.

A. Linda Lance - ATRS 2016-MA-003. This appeal by the Member, Linda Lance, is in regard to the Arkansas Teacher Retirement System's (ATRS) review and rejection of an amended Qualified Domestic Relations Order (QDRO), allocating a portion of Linda Lance's ATRS retirement benefit to her ex-husband, Tim Lance.
On August 10, 2004, Ms. Lance and Mr. Lance were divorced and the decree awarded Tim Lance "1/2 of the account balance as of the date of this Decree of Divorce, which is $7,000.00, when Plaintiff retires." The first draft QDRO submitted by Mr. Lance's attorney was rejected by ATRS because it did not mirror the language of the model QDRO, contrary to A.C.A. Sec. 9-18-(b)(ii) which provides that ATRS "is not required to comply with a qualified domestic relations order that does not substantially follow the uniform legal form approved by the Legislative Council." Specifically, the draft attempted to cap the payments to Mr. Lance at $7,000, and ATRS legal counsel advised that "the 50% interest in the pension must be payable monthly over the life of either the alternative payee or the member". The second draft QDRO incorporated this change and was accepted by ATRS in 2006.

In 2008, Ms. Lance went back to court (without the knowledge of ATRS) and obtained an amended QDRO which was signed by the judge and capped Mr. Lance's benefit at $7,000. ATRS was not given a copy of this new order for over 6 years.

ATRS was not provided a copy of the 2008 QDRO until 2015, over six years after it had been filed with the Court. On April 3, 2015, within 3 days of receipt, ATRS advised the parties that the 2008 QDRO could not be accepted as "qualified" because it attempted to provide a type or form of benefit, or pay option not otherwise available under the ATRS plan, and did not substantially follow the uniform legal form approved by the Legislative Council. More specifically, the QDRO attempted to divide the member *contributions* rather than the member's benefit which would include a lifetime benefit for the alternate payee based upon a percentage or set amount of Mr. Lance's share of the benefit. ATRS cannot divide a benefit in that manner, since benefits are not realized until retirement, and once retired, a member cannot parse contributions.

As observed by the Executive Director in his decision, it is apparent that neither the parties nor their attorneys understood the difference between defined benefit plans, such as ATRS, and defined contribution plans, such as an IRA or 401k. It is this confusion and lack of understanding that lies at the heart of this appeal.

After six months, when Ms. Lance and Mr. Lance could not agree about how to proceed, a Staff Determination Letter was issued, and both Lances appealed to the Director. The Director's Review determined that the 2008 QDRO had never been accepted as "qualified" and declared that the 2006 QDRO would be followed by ATRS unless another QDRO that complied with Arkansas law and ATRS' model was provided, or the parties resolved the matter by agreement without the use of an ATRS QDRO. Ms. Lance filed an appeal from the Director's decision and the matter was heard by an Administrative Hearing Officer.

The Administrative Hearing Officer reversed the Director's decision and ordered ATRS to accept as "qualified" and implement the 2008 QDRO. ATRS executive staff feels that an obvious error is in the Administrative Hearing Officer's decision. ATRS staff presented an alternative order to the Administrative Hearing Officer's proposed Order for the Board's consideration.

Mr. Andy Marshall, attorney for the member, Linda Lance, told the Board that the intent of the parties was that the alternate payee was to receive 50% of the contributions paid by the member at the time of the divorce, which amounted to approximately $7,000.00 That is was in both the divorce decree and property settlement agreement filed by the parties. Mr. Marshall asked that the Board taken the facts into consideration and approve the Order of the Administrative Hearing Officer.

Mr. Knight *moved* to *approve* the Alternative Order to the Administrative Hearing Officer's Proposed Order. Mr. Black *seconded* the *motion*, and the Board *unanimously approved* the *motion.*

XII. Manifest Injustice Report. Mr. Hopkins reported that the Manifest Injustice Committee did not review any claims for this reporting period, other than the special claims in the item below. The rule on Manifest Injustice requires reports to the Board at least two times per year. This is the second report of 2016.

XIII. Board Review of Manifest Injustice Finding.

A. Application Process for Minor Survivors. Legislative Auditors recently found an error in the interpretation of the survivor benefit law by ATRS. **The error and responsibility for the error rests solely on the executive director.** The executive staff's determination is that the Survivor Determination Form is a part of the survivor application and the following ten (10) surviving children's application for survivor benefits were received within the three (3) month window after the active member's death, benefits should have begun the month following the member's death, and no overpayments should be collected:

1.	**Brown**	$ 816.33
2.	**Cornell**	1,468.20
3.	**Cornell, Jr.**	1,468.20
4.	**Wheeler**	1,470.84
5.	**Branson**	1,569.20
6.	**Rickman**	1,579.80
7.	**Trotter**	1,808.35
8.	**Harris**	1,853.94
9.	**Martinez, V**	8,413.36
10.	**Martinez, J**	8,413.36
	Total	$28,861.58

B. Surviving Child Benefit Overpayments. The ATRS manifest Injustice Committee met and found that a manifest injustice would occur if a refund of benefits paid were required of the surviving children as a result of the incorrect interpretation of the survivor law. The executive staff's requested that the ATRS Board agree that a manifest injustice exists in all the applicable cases, and that all the applicable cases be treated as if the application in each case were submitted before the third month after death so that not only repayment of benefits is due but also no recalculation of benefits is required due to the COLA dates on the following thirteen (13) surviving children:

1.	**Cato**	$ 1,115.00
2.	**Johnson**	2,542.00
3.	**Metheny**	3,509.40
4.	**Mizell, K**	3,788.88
5.	**Mizell, A**	3,788.88
6.	**Jones, C**	6,388.64
7.	**Jones, T**	6,388.64
8.	**Jones, K**	6,388.64
9.	**Watson**	6,396.20
10.	**Gardner**	6,718.40
11.	**Scott**	7,343.07*
12.	**Funderburg**	8,829.87
13.	**Duncan**	18,602.64
	Total	$81,800.26

Mr. Knight *moved* to *approve* the Manifest Injustice Findings on Application Process for Minor Survivors and Surviving Children Benefit overpayments. Mr. Lester *seconded* the *motion*, and the Board *unanimously approved* the *motion.*

XIV. Investment Committee Report.

A. Arkansas Related and Investment Update.

1. List of Fund Closings

a. AllianzGI Structured Alpha Global Equity 350 L.L.C., a Total Equity Fund that Uses Options Based on Global Markets Designed to Enhance the Returns of the Underlying Global Benchmark, the Board Authorized Commitment of up to $200 Million Dollars on October 3, 2016, was Accepted and Closed on November 28, 2016. Mr. Hopkins reported that ATRS' full commitment of $200 million dollars was negotiated, accepted, and closed on November 28, 2016.

2. <u>**Transitions**</u>

a. **Consolidation of Assets Managed by Jacobs Levy Equity Management, Inc., by Closing the Jacobs Levy Core Equity Fund and Redeploying the Assets to the Existing Jacobs Levy 130/30 Core 3 Fund, LLC, the Existing BlackRock MSCI ACWI IMI Index Fund A, and Fund the Board Approved Allocation to the AllianzGI Structured Alpha Global Equity 350 L.L.C., the Board Authorized Consolidation and Closing of the Jacobs Levy Core Equity Fund on October 3, 2016, was Successfully Completed on December 1, 2016.** Mr. Hopkins reported that the consolidation and closing of the Jacobs Levy Core Equity Fund was successfully completed on December 1, 2016.

b. **Update on the Rebalancing Plan to Redeploy Approximately $150 Million Dollars from Existing Programs to Increase Global Opportunities, Reduce Small Cap Bias in the ATRS Portfolio, and Replenish Liquidity as Discussed at the October 3, 2016, Board Meeting was Completed on November 25, 2016.** Mr**.** Hopkins reported that the redeployment of $50 million dollars from Kennedy Capital, $50 million dollars from Wellington, and $50 million dollars from the Allianz convertible bond portfolio was successfully completed on November 25, 2016.

3. <u>**Miscellaneous**</u>

a. **Recommendation to Allow Recallable Distributions in the ATRS/FP Private Equity Fund, L. P., a Co-Investment and Next Generation Manager Fund Focused on Co-Investments and Smaller Funds or Smaller Commitment Sizes to Funds Managed by Highly Skilled Teams.** A co-investment occurs when ATRS invests directly in a private company alongside a private equity manager. The benefit of private equity co-investment for ATRS is that Franklin Park as the fund manager does not charge management fees or any incentive fees that are also called "carried interest" or "carry". Therefore, the potential for return on co-investments is much greater since no fees are netted from the investment. The fund also focuses on "next generation" fund managers. Commitments to "next generation" fund managers often involve a smaller commitment to the fund due to the fund's size, experience with public pension plan investors, and investor demand for the fund. "Next generation" fund managers can offer opportunities for ATRS to invest with quality fund managers using commitments that are usually lower than the standard ATRS private equity commitment of $25 to $35 million dollars. ATRS has committed $160 million dollars to this fund since the fund's inception in 2012 and the fund has a strong net IRR of 12.4%.

This fund has distributed around $11.4 million dollars to ATRS since inception. ATRS is requesting Board concurrence in allowing the ATRS/FP Private Equity Fund, L.P., to recall distributions similar to other more direct investments by ATRS, such as Big River Steel, BlueOak, BTG Pactual, Halderman, and Highland. ATRS has the ability to reinvest in the projects through returning returned capital and distributions for reinvestment. The ability to accept distributions and later to redirect the distributions to the projects as needed versus having the currently unneeded capital held by outside management helps enhance ATRS returns by ATRS having the immediate use of the distributions for investments and cash flow.

ATRS staff and Franklin Park are requesting to make all distributions from the ATRS/FP Private Equity Fund recallable since inception of the account in 2011 with consent of ATRS staff and positive Board Chair notice. Due to the timing of the ATRS Board meeting and the potential amendment to the fund documents

Ms. Nichols *moved* to *approve* the Recommendation to Allow Recallable Distributions in the ATRS/FP Private Equity Fund, L. P., a Co-Investment and Next Generation Manager Fund Focused on Co-Investments and Smaller Funds or Smaller

Commitment Sizes to Funds Managed by Highly Skilled Teams. The Board *unanimously approved* the *motion*.

B. Private Equity Consultant Report.

1. **Emerging Manager Report for Fiscal Year Ended June 30, 2016.** Michael Bacine of Franklin Park provided the Committee with a report of Franklin Park's manager research process, including coverage of emerging managers, and provided an update on due diligence activities on emerging managers conducted on behalf of ATRS for the fiscal year ended June 30, 2016.

2. **2017 Private Equity Pacing Schedule.** Michael Bacine of Franklin Park will provide the 2017 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 and ATRS staff recommend private equity pacing of $260 million dollars for 2017 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 2017, and a $25 million dollar allocation to the Franklin Park International Fund 2017. Also included is an allocation of $25 million dollars to the ATRS/FP Private Equity Fund (formerly the "Franklin Park Co-Investment Fund"). The ATSR/FP Private Equity Fund will target to invest $15 million dollars in approximately three to five co-investment deals and $10 million dollars in one or more next-generation manager funds. Franklin Park also expects to commit approximately $30-65 million dollars in one or more debt/distressed asset funds as well as a total of $120 million dollars in four to six funds with buyout, growth equity, or turnaround strategies. If an additional commitment to the ATRS/FP PE 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 this 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 $35 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 $35 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. **Debt/Distressed Assets $30-65 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 or two of these funds at a $30 million dollar level.

f. **Franklin Park Venture Fund Series 2017 $25 Million Dollars.** This allocation is explained below in item C.

g. **Franklin Park International Fund 2017 $25 Million Dollars.** This item is explained below in item D.

h. **ATRS/FP Private Equity Fund (Co-Investment Fund) $25 Million Dollars.** This item is explained below in item E.

Ms. Nichols *moved* to *approve* the 2017 Pacing Schedule in Private Equity. The Board *unanimously approved* the *motion.*

3. **Recommendation to Commit up to $25 Million Dollars in Franklin Park Venture Fund Series 2017, L. P., a Fund of Funds Managed by Franklin Park Investing in Venture Capital Private Equity Funds.** 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. ATRS staff and Franklin Park recommend ATRS commit approximately ten percent of the pacing amount, or up to $25 million dollars, to the 2017 Franklin Park Venture Fund.

a. **Resolution 2016-33**

Ms. Nichols *moved* to *adopt* Resolution 2016-33, Recommendation to Commit up to $25 Million Dollars in Franklin Park Venture Fund Series 2017, L. P., a Fund of Funds Managed by Franklin Park Investing in Venture Capital Private Equity Funds. The Board *unanimously adopted* the *resolution.*

4. **Recommendation to Commit up to $25 Million Dollars in Franklin Park International Fund 2017, L. P., a Fund of Funds Managed by Franklin Park Investing in International Private Equity Funds.** 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 2017.

    a. **Resolution 2016-34**

    Ms. Nichols *moved* to *adopt* Resolution 2016-34, Recommendation to Commit up to $25 Million Dollars in Franklin Park International Fund 2017, L. P., a Fund of Funds Managed by Franklin Park Investing in International Private Equity Funds. The Board *unanimously adopted* the *resolution.*

5. **Recommendation to Commit up to $25 Million Dollars in ATRS/FP Private Equity Fund, L. P., a Co-Investment and Next Generation Manager Fund Focused on Co-Investments and Smaller Funds Managed by Highly Skilled Teams.** This is the same investment discussed above under item V. C. Miscellaneous. In addition to the ATRS staff and Franklin Park request to allow recallable distributions in this fund, ATRS staff and Franklin Park also recommend an additional commitment in this fund of up to $25 million dollars.

    A co-investment occurs when ATRS invests directly in a private company alongside a private equity manager. The benefit of private equity co-investment for ATRS is that Franklin Park as the fund manager does not charge management fees or any incentive fees that are also called "carried interest" or "carry". Therefore, the potential for return on co-investments is much greater since no fees are netted from the investment.

The Board approved expanding the strategy of the ATRS/FP Private Equity Fund to include "next generation" fund managers at the April 6, 2015 meeting. A large number of private equity opportunities arise from smaller funds run by managers who are raising their first institutional fund. Additionally, some funds have never included public pension plans and this fund vehicle is better suited to encourage a fund to first allow public pension fund commitments. The funds are often concerned that competitors will use the public fund's reports to harm the manager's reputation in the early stages of a fund that is still in the J curve's negative return profile. Often, these funds are formed by skilled and experienced teams that have spun out of large, prosperous firms and have the attributes to be successful on their own and were successful in the original firm. Sometimes they are teams that have successfully invested their own money or that of high net worth individuals and are now capable of investing on a larger scale. The returns produced by some of these "next generation managers" in their first or their early funds are exceptional.

In some cases the expanded fund strategy would be used to invest in a fund that has a longer track record but is in high demand. These funds often look to investors that have been in their prior funds first when seeking investments for their next fund. The usual ATRS commitment to private equity funds is between $25 and $35 million dollars and sometimes these highly sought after funds can only offer ATRS a smaller commitment size due to their prior investors committing most of the capital needed by the fund. The expanded fund strategy also includes investments in funds with a commitment size smaller than the typical ATRS private equity fund commitment in order to gain investment opportunities in future funds managed by highly skilled fund managers.

Franklin Park will target to invest $15 million dollars in approximately three to five co-investment deals and $10 million dollars in one or more next-generation manager funds. As with the venture and international funds, Franklin Park does not charge a fee on the ATRS/FP Private Equity Fund and only recovers its legal costs and accounting costs for ensuring the fund is set up properly and has appropriate accounting and auditing performed. Both Franklin Park and ATRS staff recommend an additional investment of up to $25 million dollars in ATRS/FP Private Equity Fund, L.P.

a. Resolution 2016-35

Ms. Nichols *moved* to *adopt* Resolution 2016-35, Recommendation to Commit up to $25 Million Dollars in ATRS/FP Private Equity Fund, L. P., a Co-Investment and Next Generation Manager Fund Focused on Co-Investments and Smaller Funds Managed by Highly Skilled Teams. The Board *unanimously adopted* the *resolution.*

6. **Recommendation to Commit up to $30 Million Dollars in GCG Investors IV, L.P., a Mezzanine Fund Focused on Investments in Both Debt and Equity Securities in the Small and Lower Middle Market.** The General Partner, Greyrock Capital Group (GCG), was founded in 2001 by professionals who previously worked together in the corporate finance division of Bank of America Commercial Finance. Currently, GCG operates out of offices in Berkeley, CA and Wilton, CT and is led by five principals, Mark Shufro, Stephen Etter, Todd Osburn, Tracy Perkins and Steve Dempsey. The principals lead the deal sourcing effort and have regional focuses based on their office location. They average over twenty years each with the general partner and its predecessor. The firm has developed relationships and repeatedly partners with experts in certain industries such as specialty chemicals, software, food and electronics.

The general partner will focus on smaller company opportunities which tend to be more consistent across market conditions and are often sourced outside the auction process. Individual investments will usually consist of 70-75% mezzanine debt and 25-30% equity securities. These investments are generally considered to be lower risk because of their debt component. The debt portion of the investments will target returns in the 14-18% range while the target for equity investments will be 20-30%. GCG has generated an average return of approximately 22% in its prior three funds with no credit losses in the past two funds. Both Franklin Park and ATRS staff recommend an investment of up to $30 million dollars in GCG Investors IV, L.P.

a. Resolution 2016-36

Ms. Nichols *moved* to *adopt* Resolution 2016-36, Recommendation to Commit up to $30 Million Dollars in GCG Investors IV, L.P., a Mezzanine Fund Focused on Investments in Both Debt and Equity Securities in the Small and Lower Middle Market. The Board *unanimously adopted* the *resolution.*

7. **Recommendation to Commit up to $35 Million Dollars in EnCap Energy Capital Fund XI, L.P., a Private Equity Fund that Seeks to Make Control Investments in Oil and Natural Gas Exploration and Production Companies.** ATRS invested in EnCap's eighth, ninth and tenth funds in 2010, 2013, and 2015 respectively. While EnCap IX and X are on track to perform well, Fund VIII performance has been more modest due in part to depressed energy pricing in recent years. Since EnCap Fund X is almost fully committed, the general partner has commenced raising Fund XI. The firm based in Dallas and Houston was established in 1988 and is led by seven managing partners with an average of 22 years of investment experience each. Six of these partners have been with EnCap since 1999.

   EnCap is a firm in the energy acquisition field. Often these market segments are more volatile in that the investment is directly related to the underlying commodity price. However, EnCap has proven over several decades that its style works regardless of the underlying price of natural gas and petroleum. Essentially, EnCap has a team of experts and companies that will go into a proven reserve area and begin acquiring leases where production is known to exist and additional information might prove valuable in maximizing returns. The team then develops the leased area with additional wells and ultimately is able to sell the acquired leases upstream to larger energy companies. The market has shown that the larger players do not like to develop the leasing, but rather use players like EnCap to acquire the leases and, thereafter, focus their attention on ultimate production. Since EnCap is usually involved in the early production, most of the value is created, not from the underlying commodity, but from the lease development. EnCap's overall track record is impressive with four of its previous six funds generating returns over 20%. Again, EnCap has shown that it can be successful regardless of the underlying price of petroleum or natural gas and has been a winner in both market downturns and upswings in the energy industry.

Franklin Park has completed significant due diligence on EnCap XI at this time but still has a few remaining steps to complete before a full recommendation can be made to ATRS. The general partner will have its first closing for the fund in December and is targeting a final closing in early 2017. Both ATRS staff and Franklin Park recommend that ATRS invest up to $35 million dollars with EnCap Energy Capital Fund XI, L.P. subject to final due diligence.

a. Resolution 2016-37

Ms. Nichols *moved* to *adopt* Resolution 2016-37, Recommendation to Commit up to $35 Million Dollars in EnCap Energy Capital Fund XI, L.P., a Private Equity Fund that Seeks to Make Control Investments in Oil and Natural Gas Exploration and Production Companies. The Board *unanimously adopted* the *resolution.*

C. General Investment Consultant Report.

1. **Emerging Manager Report for Fiscal Year Ended June 30, 2016.** P.J. Kelly of Aon Hewitt Investment Consulting (AHIC) provided the Committee with the report of AHIC's manager research process, including coverage of emerging managers, and provided an update on due diligence activities on emerging managers conducted on behalf of ATRS for the fiscal year ended June 30, 2016.

2. **Performance Report for the Quarter Ended September 30, 2016.** P.J. Kelly of Aon Hewitt Investment Consulting presented the portfolio update for the quarter ending September 30, 2016. The ATRS fund had a market value of approximately $14.9 billion dollars. The total fund had a return of 8.4% since inception, underperforming its benchmark of 8.5%. Total equity had a market value of approximately $8.4 billion dollars. Total equity had a return of 1.4% since inception, underperforming its benchmark of 2.8%.

3. **Flash Performance Report for the Month Ended November 30, 2016.** PJ Kelly of Aon Hewitt Investment Consulting

provided the Board with a preliminary portfolio update for month ending November 30, 2016. The report was given to the Committee members as a hand-out. The ATRS fund had a market value of approximately $14.8 billion dollars. The total fund had a return of 8.3% since inception, slightly underperforming its benchmark of 8.4%. Total equity had a market value of approximately $8.4 billion dollars. Total equity had a return of 1.8% since inception, underperforming its benchmark of 2.6%.

4. **Update on the Annual Renewal of the Approximately $75 Million Dollar Commitment to the January Underwriting Season of the Aeolus Catastrophe Keystone PF Fund, LP, an Opportunistic/Alternative Reinsurance Fund Specializing in Property Catastrophe Insurance Coverage.** P.J. Kelly of Aon Investment Consulting gave an update on the Annual Renewal of Aeolus Catastrophe Keystone PF Fund, LP**.** The fund is expected to yield a gross return of the Treasury bill rate plus 15% and a net return of 10-11%. Prior funds managed by this team have a net average return of 18% for three years and 16.9% for four years. Reinsurance and retrocession markets underwrite in two seasons, January 1st and June 1st. The Board authorized commitment of up to $110 million dollars in the fund at the October 5, 2015 meeting was for the January 2016 underwriting season. The Board authorized commitment of up to $37 million dollars at the April 4, 2016 meeting was for the June 2016 underwriting season.

5. **Recommendation to Consolidate Assets Managed by Circumference Group by Closing the Circumference Group (CG) Concentrated Positions Fund, LP and Redeploying the Assets to the Existing, Circumference Group (CG) Core Value Fund, L.P. an Opportunistic/Alternative Fund that Seeks to Utilize the Firm's Operational Experience in the Fields of Information Technology, Telecommunications, and Business Services Industries to Generate Quality Returns.** The Board approved both the CG Core Value Fund and the CG Concentrated Positions Fund at the April 6, 2015 meeting. The initial commitment was intended to be $10 million dollars to each fund ($20 million dollars total) with $20 million dollars initially invested in the Core Value Fund to allow for funding of the Concentrated Positions Fund over time. The CG Core Value Fund, L.P. utilizes the extensive operational experience of the management team to identify possible investments using the firm's Core Value Assessment

methodology. This methodology is a value approach focused on fundamental values and cash flows of companies. The process is expected to generate a highly concentrated portfolio of approximately 10 to 15 stocks in the small to mid-cap range of companies involved in information technology, telecommunications, and business services industries. The management team may take an activist approach as opportunities are identified that could benefit from the team's extensive experience and expertise. The Core Value Fund seeks attractive opportunities that could lead to larger investments. The CG Concentrated Positions Fund, LP, is intended to leverage the Core Value Fund research to identify and acquire larger positions of the same industries. This fund could be considered a best ideas approach designed to make larger investments across 8 to 10 positions already held by the Core Value Fund.

As the funds have evolved over time it is apparent that there is and projected to be ongoing significant overlap in the investments held by the funds. This makes sense as the Concentrated Positions Fund was designed to hold larger positions of investments held by the Core Value Fund. The Circumference Group management team has recommended consolidating the ATRS assets held in the Concentrated Positions Fund and the Core Value Fund by closing the Concentrated Positions Fund and transferring those assets to the Core Value Fund. Combining the funds will help to reduce administrative, accounting, and legal expenses for both funds. Both funds have significantly outperformed their benchmarks and since fund expenses are passed on to the funds' investors, the reduction in fund expenses should help increase the overall return of the investment. The Circumference Group management team, ATRS staff, and Aon Hewitt Investment Consulting recommend consolidating assets managed by Circumference Group by closing the CG Concentrated Positions Fund and redeploying the assets to the CG Core Value Fund.

a. Resolution 2016-38

Ms. Nichols *moved* to *adopt* Resolution 2016-38, Recommendation to Consolidate Assets Managed by Circumference Group by Closing the Circumference Group (CG) Concentrated Positions Fund, LP and Redeploying the Assets to the Existing, Circumference Group

(CG) Core Value Fund, L.P. an Opportunistic/Alternative Fund that Seeks to Utilize the Firm's Operational Experience in the Fields of Information Technology, Telecommunications, and Business Services Industries to Generate Quality Returns. The Board *unanimously adopted* the *resolution.*

D. Real Assets Investment Consultant Report.

1. **Performance Report for the Quarter Ended June 30, 2016.** Chae Hong and Kirloes Gerges of Aon Hewitt Investment Consulting will provide the Board with a portfolio update for the quarter ending June 30, 2016.

2. **2017 Real Assets Commitment Pacing.** Chae Hong and Kirloes Gerges of Aon Hewitt Investment Consulting will present the 2017 Real Assets Commitment Pacing. For calendar year 2017, Aon Hewitt Investment Consulting is recommending approximately **$180 million dollars.**

   a. **Core Real Estate No New Allocation.** Core real estate funds employ low leverage, low-risk investment strategies that have predictable cash flows. The funds will generally invest in stable, fully leased, modern, multi-tenant properties within strong, diversified metropolitan areas. The ATRS real asset portfolio is within the upper range of the fund's target allocation to this type of real estate investment so no new allocation for core real estate is needed at this time.

   b. **Value Added Real Estate $80 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.

   c. **Opportunistic Real Estate $50 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.

d. **Infrastructure $50 Million Dollars.** Infrastructure funds invest in the fundamental facilities and systems serving a country, city, or area including the services and facilities necessary for its economy to function. Infrastructure funds typically invest in structures such as roads, bridges, tunnels, water systems, sewers systems, electric grids, ports and so forth.

Ms. Nichols *moved* to *approve* the Real Assets Commitment Pacing. The Board *unanimously approved* the *motion.*

XV. 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. Potential 2017 Legislation.

1. **Employment Buyout Incentive Programs Offered by Employers Should Not Require ATRS Retirement.** A proposed law change would prevent ATRS employers from requiring actual retirement from ATRS as a condition of participating in an employment buyout plan within a district. Some now require the employees to retire from ATRS to get the incentive payment. Normally ATRS does not see the buyout plan until it is in effect, and it is too late to request a modification at that time. By forcing members to retire from ATRS, the members draw benefits longer than if they were allowed to leave the district offering the employment buyout plan and work for another ATRS employer until ready to retire. This shifts a cost to ATRS that might not otherwise occur.

   Mr. Lester *moved* to *approve the* Recommendation to draft legislation for Employment Buyout Incentive Programs Offered by Employers Should Not Require ATRS Retirement. The Board *unanimously approved the motion.*

2. **Deadline for Receiving Documents Required for Survivor Benefits**. The deadline for receiving required documentation

after an application for regular retirement and for disability retirement is different than for survivor benefits. After six months, the applications for regular retirement and disability are cancelled and the process must start over again if the applicant does not finish the process by providing all necessary documents such as birth certificates, marriage licenses, and the like. An extension is granted in both disability and regular retirement for good cause shown. Survivor benefits have no deadline in the law for collecting all required documentation. Once received, a survivor application locks in the effective date of benefits, even if all other required documentation is not received for years, causing ATRS to keep a suspense file and potentially paying a large lump sum to survivors. Staff wants to treat all applicants consistently and fairly. This proposal would make survivor applications consistent with other programs.

Mr. Lester *moved* to *approve the* Recommendation to draft legislation for Deadline for Receiving Documents Required for Survivor Benefits. The Board *unanimously approved the motion.*

3. **Technical Corrections.** This bill makes minor changes in the wording of existing laws to clarify language and intent of laws affecting ATRS.

Mr. Lester *moved* to *approve the* Recommendation to draft legislation for Technical Corrections. The Board *unanimously approved the motion.*

CI. Pending Committee Approval.

1 **Permissive Legislation Changes to Expedite Faster Implementation of Rebalancing of Actuarial Liabilities if Needed.** In 2013, the General Assembly passed permissive legislation to allow the ATRS Board to make benefit changes to address financial issues like those caused by the 2008 and 2009 financial crisis throughout the world. The ATRS Board may make adjustments to the items by resolution at any Board meeting, so long as the system's actuary has certified to the Board that the amortization period exceeds thirty (30) years. Currently the 29 year amortization period of ATRS for the fiscal year that ended on June 30, 2016, would prevent the ATRS Board from addressing an unforeseen market or actuarial condition until over a year from now. The ATRS Board does not adopt the actuarial reports until the first regular meeting of the calendar year, for the preceding June 30 fiscal year. That means by the time the Board adopts the report, over six (6) months have passed in the fiscal year without any opportunity for the ATRS Board to take action. In retrospect, ATRS staff thinks the Board should be able to react sooner rather than later if there are expected market downturns or other changes in actuarial or accounting practices that would affect the actuarial status of the system. Staff recommends that the Operations Committee recommend changes to the law that would allow the Board to be more forward looking rather than reactive to address actuarial challenges or issues. The proposed changes allow the ATRS Board to proactively and prospectively make adjustments to protect ATRS and its members.

a. **Employer Contribution Rate Prospectively.** The ATRS Board currently has the authority to request a .25% increase in employer contributions, but only if the system's annual actuarial report provides that the system has a greater than thirty-year amortization period to pay unfunded liabilities. This proposed law change would grant the ATRS Board the authority to act proactively to request the .25% increase if actuarial soundness becomes an issue, based upon current and expected future assumptions, mortality tables, and accounting rules. The proposed law change would still require an appropriation by the General Assembly, but the ATRS Board could request the change sooner, if needed.

Mr. Lester *moved* to *approve* draft legislation for Employer Contribution Rate Prospectively. The Board *unanimously approved the motion.*

b. **Member Contribution Rate Prospectively.** The ATRS Board currently has the authority to set the member contribution rate by resolution at any Board meeting, but only if the system's annual actuarial report provides that the system has a greater than thirty-year amortization period to pay unfunded liabilities. This proposed law change would grant the ATRS Board the authority to act proactively to set the member contribution rate if actuarial soundness becomes an issue, based upon current and expected future assumptions, mortality tables, and accounting rules.

Mr. Lester *moved* to *approve* draft legislation for Member Contribution Rate Prospectively. The Board *unanimously approved the motion.*

c. **Multipliers for Future Service Credit.** The ATRS Board currently has the authority to set both the contributory and noncontributory multipliers by Board resolution. The current law requires that the system's annual actuarial report reflects that the system has a greater than thirty-year amortization period to pay unfunded liabilities. This proposed law change would grant the ATRS Board the authority to act proactively to set the multiplier rates if actuarial soundness becomes an issue, based upon current and expected future assumptions, mortality tables, and accounting rules.

Mr. Lester *moved* to *approve* draft legislation for Multipliers for Future Service Credit. The Board *unanimously approved the motion.*

d. **Benefit Stipend Adjustments and Removal from Benefit Base.** The ATRS Board currently has the authority to lower the benefit stipend by Board resolution to address actuarial issues, but only if the system's annual actuarial report provides that the system has a greater than thirty-year amortization period to pay unfunded liabilities. This proposed law change would grant the ATRS Board the authority to act proactively to set the stipend amount if actuarial soundness becomes an issue, based upon current and expected future assumptions, mortality tables, and accounting rules. Additionally, the benefit stipend amount is currently included in the retirement benefit base, which means the stipend is receiving cost of living adjustments. This has been a practice of ATRS, but is not specifically spelled out in law or policy. Based upon the current $75 per month stipend ($900 per year), an additional $2.25 per month ($27 per year) is added to the retirees' monthly benefit amount for the stipend. ATRS staff recommends that the ATRS Board have authority to remove the stipend from the base and if done, that the stipend impact on the base be removed from all retirees and future retirees. The proposed law change would provide that if the stipend were to be changed, that the impact of the change be spread in such a way so that retirees will not see an actual reduction of benefits at any time.

Mr. Lester *moved* to *approve* draft legislation for Benefit Stipend Adjustments and Removal from Benefit Base. The Board *unanimously approved the motion.*

e. **Reverse 2009 Compounding of the COLA.** The ATRS Board currently has the authority to reverse the 2009 compounding of the cost of living adjustment (COLA) by Board resolution, but only if the system's annual actuarial report provides that the system has a greater than thirty-year amortization period to pay unfunded liabilities. This proposed law change would grant the ATRS Board the authority to act proactively to reverse the compounding of the COLA if actuarial soundness becomes an issue, based upon current and expected future assumptions, mortality tables, and accounting rules. The COLA was compounded on July 1, 2009, by taking the total monthly benefit on July 1, 2008, and multiplying that monthly benefit by 103%. The new benefit calculated became not only the July 1, 2009 benefit, but also became the new "base" benefit for calculating future COLAs. The proposed law change would provide that if the uncompounding of benefits were to be implemented, that the impact of uncompounding the COLA be spread in such a way so that retirees will not see an actual reduction of benefits at any time.

Mr. Lester *moved* to *approve* draft legislation for Reverse 2009 Compounding of the COLA. The Board *unanimously approved the motion.*

f. **Authority to Adjust T-DROP Interest Rates by Board Resolution.** ATRS rules currently define the method the Board uses to set interest rates for both regular T-DROP participants and post 10-year plan participants. The T-DROP law grants authority to the ATRS Board to set regular plan interest "from time-to-time" and post 10-year plan interest "as appropriate". This proposed law change would grant authority to the ATRS Board to continue using the existing rule, modify the existing rule, or to set a fixed interest rate by Board resolution. This will provide the ATRS Board more flexibility to make needed adjustments and adapt to market and actuarial conditions.

Mr. Lester *moved* to *approve* draft legislation for Authority to Adjust T-DROP Interest Rates by Board Resolution. The Board *unanimously approved the motion.*

g. **Authority to Adjust Final Average Salary Anti-Spiking Percentage by Board Resolution.** Currently, the law on anti-spiking within the highest years of the final average salary is fixed at 120% of the next highest year, unless the difference in value between the next-highest year and the base year is $5,000 or less. This proposed law change would grant the ATRS Board the authority to set the percentage from 105% and 120% by resolution if actuarial soundness becomes an issue, based upon current and expected future assumptions, mortality tables, and accounting rules. The 105% to 120% range gives the Board broad authority to ensure actuarial soundness and minimize anti-selection activity.

Mr. Lester *moved* to *approve* draft legislation for Authority to Adjust Final Average Salary Anti-Spiking Percentage by Board Resolution. The Board *unanimously approved the motion.*

h. **Authority to Adjust Early Retirement Reduction by Board Resolution.** This proposed law change would grant the ATRS Board authority to adjust the early retirement reduction from 5% and 12% by Board resolution. The current 5/12 of 1% for each month's reduction for the lesser of the number of months to 28 years of service or the member's age to 60 has never been amended since it was implemented by ATRS. Based upon new mortality tables, members living longer may require an adjustment to keep the reduction actuarially sound. The 5% to 12% range gives the Board broad authority to ensure actuarial soundness.

Mr. Lester *moved* to *approve* draft legislation for Authority to Adjust Early Retirement

Reduction by Board Resolution. The Board *unanimously approved the motion.*

i. **Authority to Adjust Early T-DROP Reduction by Board Resolution.** A proposed law change would grant the ATRS Board authority to adjust the early T-DROP participation reduction rate percentage from 6% and 10% by Board resolution for years of entry into T-DROP earlier than 30 years of service. Currently a member can enter T-DROP at 28 years of service with 30 years required for full participation with an early entry reduction. Early T-DROP participation was enacted in July 1, 1999, four years after T-DROP was implemented, with a 6% reduction per year for early entry reduction. It has been ATRS' experience that more often than not, members enter T-DROP with an early entry reduction. Of the 603 non-reciprocal service members who entered T-DROP on July 1, 2016, 89% entered with less than 30 years of service credit. Based upon new mortality tables, members living longer may require an adjustment to keep the reduction actuarially sound. The 6% to 10% range gives the Board broad authority to ensure actuarial soundness if the ATRS Board decides to address the issue.

Mr. Lester *moved* to *approve* draft legislation for Authority to Adjust Early Retirement Reduction by Board Resolution. The Board *unanimously approved the motion.*

j. **CASH Buyout Program Modifications and Expansions to be Implemented by Board Resolution.** This proposed law change to the voluntary buyout plan for inactive members would allow the plan to be modified or expanded by Board resolution rather than the current requirement to be modified or expanded by rules. The time frame for getting rules changed is approximately six months, and could be longer depending upon the timing of meetings by the Administrative Rules & Regulations meetings, Public Retirement Committee meetings, and Arkansas Legislative Council meetings. Once the Board agrees to a buyout plan for either all noncontributory, all contributory, or mixed service credit, then a Board resolution would allow faster implementation and provide for a reduction in liabilities off the books of ATRS at a more rapid pace.

Mr. Lester *moved* to *approve* draft legislation for CASH Buyout Program Modifications and Expansions to be Implemented by Board Resolution. The Board *unanimously approved the motion.*

k. **Authority to Remove Stipend from Options A, B, or C Benefits by Board Resolution.** A proposed law change would grant the ATRS Board the authority to remove the stipend that is currently being paid to option A, B, or C beneficiaries (nonmember benefits) by Board resolution. If the stipend were removed by Board resolution from option beneficiary benefits, then the stipend would only be payable to members of ATRS that qualify for the stipend based upon the members' service credit. The proposed law change would provide that if the stipend were to be changed, that the impact of the change be spread in such a way so that option beneficiaries will not see an actual reduction of benefits at any time.

Mr. Lester *moved* to *approve* draft legislation for Authority to Remove Stipend from Options A, B, or C Benefits by Board Resolution. The Board *unanimously approved the motion.*

l. **CASH Program Benefit Designation for Certain Inactive Vested Members by Board Resolution.** A proposed law change would grant authority to the ATRS Board to give a CASH program benefit designation for certain inactive vested members by Board resolution. The designated inactive vested members would be eligible for a one-time lump sum CASH value based upon the CASH plan in effect, or the value of contributions plus interest, whichever is greater.

Mr. Lester *moved* to *approve* draft legislation for CASH Program Benefit Designation for Certain Inactive Vested Members by Board Resolution. The Board *unanimously approved the motion.*

m **Outsourcing Participation and Financial Recovery through Board Resolution.** A proposed law change would grant authority to the ATRS Board to address outsourcing of employees through Board resolution. There were three options for consideration to address the funding issue:

a. **Make Embedded Employees Become Mandatory Members of ATRS.**
b. **Access a Surcharge on Salaries on Embedded Employees.**
c. **Blended Mandatory and Surcharge.**

Mr. Lester *moved* to *approve* draft legislation for Blended Mandatory and Surcharge on Outsourcing Participation and Financial Recovery through Board Resolution. The Board *unanimously approved the motion.*

D. **Previous Board Approved Legislation.** Mr. Hopkins presented the committee with a copy of the legislation which has already been approved by the Committee and Board.

1. **Accrued Sick Leave.**
2. **Disability – SSA.**
3. **Disability – Return to Work Disability with Waivers.**
4. **Disability – Reciprocal Service Credit.**
5. **Disability – Incentive to Work.**
6. **Survivor Benefits - Reciprocal Service / Prorated Surviving Child benefit.**
7. **Concurrent Reciprocal Service Credit**.
8. **Pension Advance Companies Prohibition.**
9. **Settlement Agreements.**
10. **Spousal Survivor Benefits.**
11. **DROP Transfers Between Retirement Systems.**

E. **Rapid Response Authority for Legislative Session.** As in past legislative sessions, at times new issues arise or amendments to existing legislation need to be adopted to address concerns and resolve opposition. In the past, ATRS staff with affirmative notice with the Board Chair, has had such rapid response authority. Typically soon after a change is made, the entire Board is sent an email to allow input. To clarify the process and ensure the authority to act within the proper bounds of staff authority, ATRS staff recommended to the Committee to recommend to the Board approval of the process of allowing introduction of new issues and amendments after affirmative notice with the Board Chair.

Mr. Lester *moved* to *approve* the Recommendation to have Rapid Response Authority for Legislative Session. The Board *unanimously approved the motion.*

X. Reduction in Paper Checks produced by State Auditor's Office. Gail Bolden, Deputy Director, gave a report on staff's review of the State's procedures. New or rehired employees hired by state agencies after August 12, 2005, must use direct deposit as a condition of employment. Any exemption request must be made using the Direct Deposit Hardship Exemption Request form, a Department of Finance and Administration (DF&A) Office of Personnel Management (OPM) form. If the employee is a potential new-hire or rehire, the hiring process is halted until the request for an exemption is completed by OPM. A current employee must continue to use direct deposit until the exemption request is completed by OPM.

Retirement packets on the ATRS website or sent from ATRS include a Direct Deposit Authorization form. Letters from ATRS state that retirement benefits will be electronically wired from ATRS near the end of each month. The ATRS website is scheduled to change on January 1, 2017, to state that Direct Deposit is required for new retirees unless an exemption is approved by the ATRS Executive Director. ATRS is moving forward to reduce the number of paper checks printed for retirees.

XVI. Staff Reports.

A. Medical Committee Reports. Michael Ray presented the Medical Committee reports. A total of twenty-nine (29) disability applications were received, twenty-six (26) were approved for disability benefits, and three (3) needed more information.

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

B. Financial Reports.

1. Financial Statement Report. The ATRS Chief Financial Officer will give the Board summary information for the financial reports for the year ending June 30, 2016. Plan net assets were $14.6 billion dollars in fiscal year 2016

2. **Travel Report.** The ATRS Chief Financial Officer will present a standard travel report showing the expenses for staff and Trustees for fiscal year ending June 30, 2016. Board travel expenses increased slightly in 2016 as compared to fiscal year 2015. Other staff travel also increased slightly in fiscal year 2016 as compared to fiscal year 2015.

C. **Contract Review.** The ATRS Assoc. Director of Operations handles coordinating the ATRS' contracts with the Office of State Purchasing (OSP). The ATRS Board reviews the agency's contracts up for renewal annually as a part of the ATRS contract process. This process provides an opportunity for the Trustees to ask questions about any of the contracts on the list, approve or reject any contract being reviewed as a whole, approve or reject them individually, or ask for more information as needed. Once reviewed by the Board, staff prepares annual contracts and sends the contracts to the vendors for completion. Once the contracts are returned, the contracts are sent to the Arkansas Legislative Council for a legislative review. ATRS contracts are approved for a two year period and approximately 32 contracts are up for review this time.

D. **Personnel Report.** The personnel report is provided annually for information. For the second year of the current biennium (July 1, 2015 through June 30, 2016), ATRS currently has 101 appropriated positions with 96 budgeted. Currently, 20 are vacant, and 11 are advertised.

XVII. **Executive Session to Discuss Executive Director's Performance Evaluation**. Mr. Stubblefield, Chair, called the Executive Session of the Board of Trustees to order at 3:19 p.m. Mr. Stubblefield, Chair, reconvened the Board of Trustees meeting at 3:35 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. Ms. Nichols *seconded* the *motion*, and the Board *unanimously approved the motion.*

XV. **Other Business:** None

XVII. Adjourn.

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

Meeting adjourned at 3:38 p.m.

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