



**MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES
ARKANSAS STATE POLICE RETIREMENT SYSTEM
NOVEMBER 18, 2010**

The regular meeting of the Board of Trustees of the Arkansas State Police Retirement System was held on Thursday, November 18, 2010 at 10:00 a.m. in the Arkansas State Police Commission Room at the State Police Headquarters, #1 State Police Plaza Drive, Little Rock, Arkansas. Commissioner John Allison presided.

QUORUM PRESENT:

Mr. Allison recognized the presence of a quorum.

BOARD MEMBERS PRESENT:

Mr. John W. Allison, *Chair, State Police Commissioner*
Mr. Kirk Bradshaw, *Vice Chair, Citizen at Large*
Lieutenant Brant Tosh, *ASP Tier II*
Corporal Blake Wilson, *ASP Tier I*
Mr. Donnie Underwood, *Citizen at Large*
Mr. Joe Miles, *Citizen at Large*
Dr. John Shelnett, *Designee for Mr. Richard Weiss, Director Dept. of Finance & Administration*

VISITORS PRESENT:

Mr. Norm Jones, Gabriel Roeder Smith
Mr. David Hoffman, Gabriel Roeder Smith
Major Kathy Sparks, ASP
Capt. Stan Witt, ASP
Capt. Gloria Cook, ASP
Capt. John Morrow, ASP
Lt. Glenn Sligh, ASP
Ms. Traci Boyd, Bureau of Legislative Audit

STAFF:

Ms. Gail H. Stone, Executive Secretary, Arkansas State Police Retirement System
Ms. Michele Williams, Deputy Director, APERS
Ms. Susan Bowers, Associate Director of Investments, APERS
Mr. Carlos Borromeo, Chief Investment Officer, APERS
Mr. Jay Wills, Attorney Specialist, APERS
Mr. Bill Dull, Chief Fiscal Officer, APERS
Ms. Linda McGrath, Administrative Specialist, APERS

ELECTION OF NEW BOARD CHAIR:

Ms. Stone reminded the Trustees that since Mr. Allison's term expired July 1, 2010 and he was not present at the August meeting, Mr. Bradshaw had suggested the Trustees table the discussion until this meeting. Mr. Allison apologized for missing the previous meeting, and explained he was out getting a knee replaced. Mr. Miles nominated Mr. Allison for the position of ASPRS Board Chair and was seconded by Mr. Underwood. Motion passed unanimously.

NEWS MEDIA NOTIFIED:

A letter of notification of the Arkansas State Police Retirement System Board meeting was sent to the Arkansas Democrat-Gazette, the Associated Press, Television Station KLRT/FOX16, Radio Station KARN, and Radio Station KAAZ. This letter of notification is pursuant to A.C.A. 25-19-101 (Act 93 of 1967) as amended-The Freedom of Information Act.

MINUTES:

A copy of the Minutes from the August 19, 2010 meeting of the ASPRS Board of Trustees was mailed to each member for review prior to the meeting. Mr. Miles motioned for the August Minutes to be approved with the noted corrections; he was seconded by Mr. Underwood. The motion passed.

SUMMARY OF RETIREES:

Sept. 1, 2010 – Charles Chastain
Maxcie Thomas III
Frances Evans, Beneficiary of Carroll B. Evans

Oct. 1, 2010 – Josiah Joseph

REQUEST FOR DROP PARTICIPATION:

November 1, 2010 – Charlie M. Edmonson III

On a motion by Cpl. Wilson and a second by Mr. Miles, the DROP application was approved.

REQUEST FOR DISABILITY FROM FRANCIS VACCO III:

The Board reviewed the doctors' statements and Cpl. Wilson motioned to approve the disability request from Francis Vacco III. Mr. Miles seconded the motion and it passed unanimously.

ANNUAL ACTUARIAL EVALUATION – Presented by Mr. Norm Jones and Mr. David Hoffman from Gabriel, Roeder, Smith and Company

Mr. Hoffman began by reminding the Board that the General Financial Objective of the System was to receive contributions that are approximately level from generation to generation, expressed as a percent of payroll, which will fund the benefits of participants of the System. These contributions are made of two components: current service costs and unfunded past service costs. He pointed out that there had been no benefit changes over the past year and no assumption changes since the June 30, 2007 valuation.

Overall, Mr. Hoffman stated that based upon latest valuation, ASPRS continued to satisfy the general financial objective of level contributions, and would as long as the required contributions were met annually. Currently, the funded ratio of the System has been adversely affected by the recent market downturn and on a funding value of assets basis, it has a 63% funded ratio. On a market value of assets basis, the System has a 55% funded ratio.

The computed State Police Contribution Rate is 44.67% of covered payroll (approximately double the statutory rate) and takes effect June 30, 2010. It is almost identical to the computed rate for the last fiscal year. Tier 1 accounted for 63.08% while Tier 2 had a computed contribution rate of 22.67%. The weighted average of the two is 44.67% of covered payroll (approximately double the statutory rate) and takes effect June 30, 2010. Mr. Jones explained the disproportionate figures are largely due to Tier 1 being a closed system with declining membership; also most of the unfunded liabilities are associated with Tier 1. For 2010, ASPRS paid out over \$20 million to retirees, beneficiaries and DROP participants – far less than the amount collected through employer contributions.

There was a short discussion of ASPRS' Assumed Actuarial Rate, which prior to July 1, 2009 was set to 7.75%. Ms. Stone explained that once ASPRS' investment portfolio merged with APERS, it became 8% - identical to APERS. Mr. Miles questioned if the low number of anticipated new hires over the next several years would have an adverse impact on the System's financing. Mr. Jones admitted it would and stressed that more money would be needed from the Insurance Revenue to cover the shortfall.

Mr. Hoffman showed the development of the Funding Value of Assets. He reminded the Board that in 2009, they placed a corridor around the Market Value and the Funding Value to limit the spread between those two values. He pointed out that in the past year the difference had dropped from 130% to 114.4%, due largely to the 14.3% rate of return the fund enjoyed, however there was still over \$26 million in unrecognized losses still in the pipeline.

Finally, Mr. Hoffman summed up the Valuation stating that experience had been unfavorable this year; specifically investment return (measured on a funding value basis). However, the overall adverse experience was offset by an additional \$9.0 million contribution from the State. As a result, the funded status remained at 63%. On a market value basis, the funded status is 55% (up from 49% last year). As of June 30, 2010, \$26.5 million of remaining cumulative investment losses are to be recognized in the next three years. If there are no new gains to offset scheduled investment recognition during this coming period, the employer contribution will increase by over 4% of payroll from the current level.

Annual Transfers

Mr. Hoffman apologized to the Board and Staff, stating that the numbers in the Valuation were incorrect and he detailed the correct numbers. He promised that the corrected page would be sent directly.

Ms. Stone explained to the Trustees that every November meeting, GRS needed the Board's approval to make the annual transfers between the various reserve accounts. This was strictly a bookkeeping function and did not affect the financial status of the fund. After a short discussion, Mr. Miles motioned for the annual transfers to be approved. Mr. Underwood seconded and the motion passed.

Projected Valuation Results

Mr. Jones drew the Board's attention to a single page handout from GRS that broke down three different revenue scenarios and the resulting employer rates, funded ratios and accrued liabilities. Under poor market returns it projected the fund would slip from the current 63% funded ratio down to 52% funded over the next four years and increase the employer contribution rate to 51.39% of pay. Meeting the 8% assumed rate over the next four years would still have the fund slip to 55% funded, while holding the employer contribution rate to just under 50%. In Scenario C with excellent projected market returns, the funded rate bottomed out at 56% before coming back to 58% with the employer contribution rate wavering between 48.4% and 47.4%.

ASPRS needs roughly \$6 million from the Insurance Premium Tax annually to cover the gap between the Employer Contribution and the normal cost, but Mr. Jones commented that number could easily go as high as \$9 million to satisfy the funding requirements. He recognized that getting the full amount needed from this source was becoming more and more difficult and strongly suggested that the fund look for other areas of revenue. Mr. Allison asked if GRS could run a scenario of what an additional \$5 million annually would do for the valuation. Ms. Stone inquired if he anticipated these funds to be spread out in monthly or quarterly installments rather than a lump sum at the end of the year. He said they could be monthly or quarterly. Mr. Jones said he would work up the various numbers and have them to the Trustees for the next meeting.

QUARTERLY REPORT FOR THE PERIOD ENDING SEPTEMBER 30, 2010 – Presented by Ms. Gail Stone, ASPRS Executive Secretary

Ms. Stone said the quarter had shown good returns. It grew by 10.06% and had nicely beaten its 8% Actuarial Assumption. She reminded the Trustees that the 8% rate had been selected by the APERS Board and she would explain later why the Board had recently decided to maintain it. The fund was very close to its target allocation and no rebalancing was necessary.

She detailed the manager's allocations and returns; even after paying out \$38 million in benefits during the past quarter (APERS & ASPRS combined), the fund still managed to grow by \$495 million during the first quarter of Fiscal Year 2011.

At the request of Dr. Shelnut, Ms. Stone explained the recent split between Pinnacle Timber and National Timer, and how they would be reported separately in the future. She also gave details on the new CastleArk Global Energy portfolio and how it worked with the Arkansas Energy fund. She showed how the fund compared to its peers once the asset allocation had been adjusted. Over the long run, the fund performance was usually in the top half of other public funds, however it had recently slipped to the 65th percentile ranking. Ms. Stone explained that the APERS Board had recently reviewed the fund's asset allocation

It had been projected that Fixed Income returns going forward would be close to 3.75%; this was down from the 4.5% returns of last year. This was a huge drop for Fixed Income and came along with dropping projections for Domestic Equities as well as International Equities. In an effort to bring 8% from the portfolio, the consultant had run several scenarios for the APERS Trustees adding other investment options that the fund is not currently utilizing such as Farmlands, Hedge Funds, Yield Plays and Real Assets (Commodities). The Board voted to focus on Absolute Return by adding between 5-7% in these types of strategies. Ms. Stone said she would be visiting with the Callan office in the near future to study the pros/cons and risk profiles of various opportunities to see what is most suitable to bring before the APERS Trustees. Based upon her findings, the Trustees would decide which investment opportunities they wished to focus on. She anticipated hiring the selected managers during 2011 and their funding would come from the Fixed Income Allocation bringing it down to around 11-12% of the total portfolio. Ms. Stone admitted the fund would be taking on slightly more risk, increasing the volatility from approximately 12.5% to 13.2%, but the APERS Board would be approaching this in their usual cautious manner.

FINANCIAL STATEMENTS FOR THE QUARTER ENDING SEPTEMBER 30, 2010:

The ASPRS share of the APERS fund held a current value of \$204.7 million and accounted for 3.82% of the entire APERS portfolio. Ms. Stone pointed out that over the past quarter, ASPRS received almost \$2.3 million in contributions from employers, various fees and supplemental; however over the same time period it paid out \$6.9 million in benefits and administrative expenses. Some investments had to be liquidated in order to cover this shortfall. Ms. Stone anticipated getting some of this money back at the end of the year from the Insurance Premium Tax, but predicted a struggle over the funds.

Mr. Allison asked about the formula for calculating ASPRS' share of the Insurance Premium Tax and Ms. Stone gave a short explanation of the formula. He asked if another source of revenue was found, would it decrease the share of the Insurance Premium Tax the fund received. Ms. Stone pointed out that if the current formula was not changed, any additional revenues would not impact ASPRS's share of that tax.

OTHER BUSINESS:

Litigation Update – Mr. Jay Wills, APERS Attorney Specialist

Mr. Wills explained that he'd been contacted the prior day by Ms. Bell, of the Attorney General's Office, regarding the McLemore v. Weiss case. There was a disagreement over the class certification that would require a hearing before the case could move forward. A required notice to class members would probably be setting the hearing in the next couple of weeks and Mr. Wills anticipated that once it was concluded, he and Ms. Bell would be filing a motion for Summary Judgment. He explained that under Arkansas law, one could not file for Summary Judgment before Class Certification had been resolved or you were deemed to have agreed to the Class Certification. Other than that, there had been no material developments in the case.

TENTATIVE BOARD DATES FOR 2011:

The Board reviewed the dates listed on the handout and approved the proposed 2011 meeting dates. Mr. Allison indicated he wished to continue having the meetings at ASP Headquarters.

NEXT QUARTERLY BOARD MEETING:

The next regular quarterly Board meeting of the Arkansas State Police Retirement System will be held on February 17, 2011 at State Police Headquarters in Little Rock, Arkansas.

ADJOURNMENT:

There being no other business the meeting was adjourned.

COMMISSIONER JOHN W. ALLISON
Chair, Arkansas State Police Board of Trustees

GAIL H. STONE
Executive Secretary