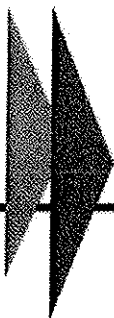


Actuarial Assumptions and Methods

The Board engages an independent firm of actuaries to estimate the present value of actuarial accrued liability and the pension benefit obligations for the purpose of determining required reserves for current and terminated participants, retired individuals and beneficiaries, and for the determination of employer contribution rates. Actuarial assumptions and methods utilized in the latest actuarial valuation are listed below.

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Percent-of-Payroll
Remaining Amortization Period	26-year closed
Asset Valuation Method	4-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	8.00%
Projected Salary Increases	4.0% - 11.0%
Including Wage Inflation at	4.00%
Cost-of-Living Adjustments	3.0% Annual compound increases

Chief Investment Officer's Report



Arkansas State Police Retirement System

124 West Capitol Avenue • Suite 400 • Little Rock, AR 72201

Dear Members,

On behalf of the ASPRS' Investments Department, it is my pleasure to present the *Investment Section* of the ASPRS' *Annual Financial Report* for the fiscal year ended June 30, 2013.

Performance and Stability

For fiscal year 2013, the ASPRS investment portfolio closed with investments of \$229.68 million. The investment return for the fiscal year was 15.58%. The second half of 2012 provided fiscal year 2013 with a nice start as global equity indices posted solid gains for the 3rd quarter of 2012, and the U.S. indices advanced 5-7% across the board.

During the fiscal year we saw the Dow Jones Industrial Average surpass its previous October 2007 all-time high of 14,198. But we also saw interest rates in the U.S. spike higher by over 100 basis points.

Fiscal Year 2013 Financial Market Recap

The third quarter of 2012 was dominated by macro events. The quarter started with the LIBOR fixing scandal and culminated with the Federal Reserve announcement of "open-ended" bond purchases, which was dubbed "QE3", or, "QE-Infinity", as the Fed displayed its intent to continue with quantitative easing. The Fiscal Cliff continued to loom; China's economy continued to slow; Iran and Israel continued to engage in an escalation of tension over nuclear capabilities; the European Central Bank continued to walk down a path of debt mutualization; and the U.S. Presidential election kicked into high gear.

With that background, domestic equities remained reasonably priced from a forward P/E perspective as the valuations remained at a discount to longer term averages. The same situation was also seen in the non-US equity markets. Despite, or perhaps due to, what appeared to be reasonable valuations, the S&P 500 index achieved a post-2008 high in mid-September. Strong corporate profit margins kept corporate earnings rising. Equity volatility remained fairly low. But the positives did not ease fears as equity mutual funds hemorrhaged capital. Investors worried about the possibility of another 2008-type market decline, or worse, a 1987-like collapse.

In the fixed income markets, the 10-year US Treasury opened and closed the third quarter with a yield of 1.60%, and stayed in a 50bp range, touching 1.39% in July and 1.90% in September. The 1.39% intraday low was the lowest reading in a generation. Concerns over a sputtering US economy coupled with woes in Europe caused rates to hit record lows in July before ECB President Mario Draghi made a bold proclamation to "do whatever it takes to preserve the Euro". In September, rates rose sharply after the Fed announced that it would spend \$40 billion per month to purchase mortgage securities, continue Operation Twist until the end of 2012, and keep rates low through mid-2015. The US central bank appeared committed to keeping the financial markets flush with liquidity while attempting to improve the labor markets. What was powerful about this stimulus was the fact that the Fed made their commitment open-ended. Interest rates fell going into quarter-end as concerns over the global economic slowdown mounted.