

MINUTES OF THE REGULAR MEETING OF THE BOARD OF TRUSTEES  
ARKANSAS STATE POLICE RETIREMENT SYSTEM  
MAY 13, 2009

EXHIBIT

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The regular meeting of the Board of Trustees of the Arkansas State Police Retirement System was held at the State Police Headquarters, #1 State Police Plaza Drive, Little Rock, Arkansas at 1:00 p.m. on Wednesday, May 13, 2009. Due to several voting members running late, there was not an immediate quorum. Commissioner Allison called the meeting to order and asked if Mr. Krimmel would give the Quarterly Report while the delayed Trustees arrived.

QUARTERLY REPORT FOR THE PERIOD ENDING MARCH 31, 2009 – Mr. John Krimmel of Callan Associates, Inc.

Mr. Krimmel commented that, while it was not shown in their Callan books, the stock market had rallied fairly heavily in April, with the S&P 500 increasing 9.6%, Russell 2000 growing 15.5%, the MSCI EAFE (International Index) rising 12.8% and the BC Aggregate (Fixed Income) was up 0.5%. This comes on the heels of a small rally started in March, which brings the overall increase in the portfolio for the past two months to 13.01%. Through the close of business on May 12<sup>th</sup>, the fund had a market value of \$149.5 million, which is down slightly from the from the December 31, 2008 valuation of \$152.8 million. Subtracting the benefits paid out over the quarter, the portfolio is flat for 2009.

For the first quarter of calendar year 2009, the markets were very challenged with Small Cap being the worst place to be. Growth outperformed Value by a large divergence and in the International Equity markets the best performer was Emerging Markets with 1% returns. In Fixed Income, the BC Aggregate returned a meager 0.01%.

The Actual Asset Allocation was close to the Target Allocation, but was slightly overweight in Domestic Fixed Income, which actually helped the portfolio outperform for the quarter. Active managers also added value to the fund this quarter. Total fund return for the quarter was (8.08%), but outperformed its composite benchmark which returned (8.94%).

- **Golden Capital (Large Cap Equity):** collectively with T. Rowe Price outperformed the index by 1.3% this quarter and exceeded their benchmark. Callan has no issues with this manager.
- **T. Rowe Price (Large Cap Equity):** collectively with Golden Capital outperformed the index by 1.3% this quarter and exceeded their benchmark. Callan has no issues with this manager.
- **Frontier Capital (MID Cap Growth Equity):** outperformed its benchmark for the quarter. Callan has no issues or concerns with this manager and acknowledged it has been a difficult environment for U.S. Equities.
- **Washington Capital (Small Cap Growth Equity):** outperformed its benchmark for the quarter. Callan has no issues or concerns with this manager and acknowledged it has been a difficult environment for U.S. Equities.
- **Wedge Capital (SMID Cap Value Equity):** outperformed its benchmark for the quarter. Callan has no issues or concerns with this manager and acknowledged it has been a difficult environment for U.S. Equities.
- **Pyramis Global Equity (International Equity):** for the two months this fund has been invested it underperformed the index by 3.3%, but got some of that back in April. Overall, their long-term track record is still good and Callan believes they will pick up.
- **INVESCO (Global REITs):** had been challenged quite significantly and the fund is down fairly substantially, but has made back over 18% in April alone and have continued to perform quite well so far in May. These investments are marked-to-market and thus subject to dramatic swings.
- **MCM Intermediate Corporate Bond Fund:** has not yet been in the portfolio for a full quarter. For the month of March it returned (1.16%), but over the two and a half months it had been in the portfolio (through May 12<sup>th</sup>) this strategy has returned 3.5%. Mr. Krimmel

stated that the corporate spreads were starting to come in, as predicted, and this was going to the bottom line. He recommended keeping this program in place to capture more of this appreciation.

Dr. Shelnutt asked how the fund was doing compared to the Actuarial projection for losses and Ms. Stone answered that her best estimate at this time was that the fund would finish Fiscal Year 2009 down about 20%. She admitted she could not remember what the corresponding employer rate was but guessed it might run as high as 45-48%.

Dr. Shelnutt pushed for further details on how the ASPRS portfolio would be blended into the APERS fund and Mr. Krimmel explained more of the merger details. Final details of the merged funds would depend on the vote from the APERS Board. Staff is working out a plan for keeping the State Police dollars separate from APERS dollars in the accounting process, when the assets are merged.

Major Sparks wondered how soon the actuary's report would be available when so ASP would know employer rate. Ms. Stone responded that the Preliminary Actuarial Report would be ready about mid-August and would give a very close idea of the final numbers for Fiscal Year 2009 and the tentative employer rate(s) to Fiscal Year 2010.

**QUORUM PRESENT:**

With the delayed Board members finally in attendance, Commissioner Childers recognized the presence of a quorum and convened the May meeting of the Board of Trustees of the Arkansas State Police Retirement System.

**BOARD MEMBERS PRESENT:**

Commissioner Charisse Childers, (*Chair*), Little Rock  
Major Kathy Sparks, Arkansas State Police  
Lieutenant David Rosegrant, Pine Bluff  
Sergeant Tim Carter, Greenbrier  
Sergeant Brant Tosh, Jonesboro  
Corporal Blake Wilson, Russellville  
TFC Phillip Hydron, Brinkley  
Commissioner John W. Allison, Conway  
Commissioner Lewis Shepherd, Arkadelphia  
Dr. John Shelnutt, *designee for Mr. Richard Weiss, Director Dept. of Finance & Administration*

**BOARD MEMBERS ABSENT:**

Colonel Winford Phillips, Director  
Lieutenant Jackie Clark, Wynne

**VISITORS PRESENT:**

Mr. John Krimmel, Callan Associates, Inc.  
Lt. Col. Tim K'Nuckles, ASP  
Ms. Janet Chappell, ASP  
Mr. Gary Prince, ASP CPA  
Ms. Emma French, ASP  
Mr. Cleve Barfield, ASP  
Ms. Gloria Cook, ASP  
Mr. Ed Wolf, ASP  
Corporal Les Brauns, ASP  
Ms. Erika Gee, Attorney General's Office  
Mr. Michael Wickline, *Arkansas Democrat-Gazette*

**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. Jay Wills, Legal Counsel, APERS

Ms. Linda McGrath, Executive/Administrative Secretary, APERS

**FINANCIAL STATEMENTS FOR THE PERIOD ENDING MARCH 31, 2009**

Ms. Stone pointed out that for the first nine months of Fiscal Year 2009 the fund has paid out over \$12.9 million in benefits

**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, 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:**

Prior to the Board meeting, copies of the Minutes from the February 11 and March 16, 2008 meetings of the ASPRS Board of Trustees were mailed to each member for review. Dr. Shelnutt motioned for the Minutes from February 11<sup>th</sup> to be approved and was seconded by Cpl. Wilson. The motion carried.

Dr. Shelnutt motioned for the Minutes from March 16<sup>th</sup> to be approved. He was seconded by Sgt. Carter. Motion passed

**NEW BUSINESS**

**Review and Consider:**

Retirants and Beneficiaries added to rolls since February 11, 2009

<b>February</b>	Margaret Duvall – Beneficiary
<b>April</b>	Vivian Meadows - Beneficiary
<b>March</b>	Ocie W. Rateliff
<b>April</b>	Weldon Hayes McWhirter, Jr.
<b>May</b>	Jerry L. Watts
<b>June</b>	Robert L. Meyer
<b>July</b>	Henry T. LaMar

Requests for Participation in the Deferred Retirement Option Plan

Comm. Childers read the list of requests for participation in the DROP. Cpl. Wilson motioned to approve the list and was seconded by Sgt. Carter. Motion passed unanimously.

**OTHER BUSINESS:**

**Legislation Update**

The Trustees were given a complete copy of Act 1242 which outlined the future of ASPRS. Ms. Stone explained that the Board, as it is currently configured, would not exist after July 1, 2009. The new Board would meet in August, presumably on the regular ASPRS meeting date. She pointed out that the newly composed Board will still have authority and review over retirees, disability determinations and benefits. Both the Actuaries and Staff will report to this Board. Also, effective with the implementation date of this Act, there will be a Tier 2 DROP; a significant accomplishment for ASP.

Ms. Stone noted that there would be an advisory committee made up of herself, the Director of ATRS (Mr. George Hopkins) and a State Police Commissioner appointed by the Governor. This committee would report to the Governor and work on ways to improve the funded status of State Police retirement.

Dr. Shelnutt wondered how the assets would be distributed across the APERS portfolio, especially in light of the fact that APERS had more and different asset classes from ASPRS. Ms. Stone responded that Staff had met with Mr. Troup and Mr. Krimmel from Callan, and put together a proposal for the APERS' Board to review at their next meeting. She said at this point, they were basically comparing like managers (Small Cap to Small Cap) and picking the "Best of Breed". A couple managers of were the same for both systems so their assets would simply be merged. Callan would advise that no changes be made to the portfolio at this time. After July 1<sup>st</sup>, the portfolio will

be in the hands of the APERS Board, who will be bound by their fiduciary duty to maximize the funds for the sole benefit of the beneficiaries. Mr. Krimmel promised to provide a detailed breakdown of exactly how the funds were merged at the August meeting.

#### Resignation of Board Members

Commissioner Childers commented that now might be a good time to discuss the makeup of the new ASPRS Board. Major Sparks listed the seven positions on the new Board:

- One active member enrolled in Tier I
- One active vested member in Tier II
- One State Police Commissioner - appointed by the Governor
- The Chief Fiscal Officer of the State or his designee
- Three citizens at large - appointed by the Governor.

In effort to have a smooth transition and assure the knowledge of the present Board is transferred to the new Board, some of the Trustees have elected to resign. Major Sparks stated that they had checked with the Attorney General's Office and found that it was permissible for any Board member to tender their resignation effective June 30, 2009. She said that although Lt. Clark was not in attendance, she did have his statement of resignation. TFC Phillip Hydron and Sgt. Tim Carter offered their resignations. Major Sparks stated that left Sgt. Brant Tosh, a Tier II member, and Cpl. Blake Wilson, a Tier I member, to transition to the new Board.

Lt. Rosegrant motioned to accept the resignations of Clark, Hydron and Carter effective June 30, 2009. He was seconded by Cpl. Wilson and the motion passed unanimously. Ms. Stone requested that Staff have copies of the three Trustees resignations for the files and acknowledged that Trustees Tosh and Wilson would be notified about the tentative August meeting date, along with the Governor's appointees and the representative from DF&A.

Commissioner Childers requested clarification of §24-6-505 which discussed the interest rates with which the ASPRS DROP accounts are credited. The current rate is 7.75% for Tier I, but the new Act stipulates that the Tier II Troopers shall earn interest at a rate set by the Board and be no more than 5% or less than 1%. She commented that AR Highway Retirement (ASHERS) had recently moved to reduce the interest paid on its DROP accounts by 2% to more accurately reflect the market.

Ms. Stone discussed the annual cost to the system for a variety of rates and Commissioner Allison proposed that the Board look into linking the DROP interest rate to the prime rate and reviewing it every six months. He acknowledged that 5% was a "great rate in today's market" when the rate on a 10-year Treasury note was currently 3%. Lt. Rosegrant pointed out that the new Board, which would take over July 1, 2009, had the power to revoke any financial decisions made by the current Trustees. Commissioner Allison agreed, but didn't believe that new Board would find it necessary to immediately change such a modest rate of return.

Cpl. Wilson to motioned set the DROP interest rate for both Tier I and Tier II at 3.25% and revisit the issue in six months. Ms. Stone asked for clarification on exactly when (to the month) that this would take effect. After a short discussion, it was agreed that, for accounting purposes, it would be simplest if the new rate took effect on July 1, 2009. Commissioner Allison asked if this motion was tied to the current prime rate and Cpl. Wilson agreed it was. After further discussion, Commissioner Childers asked if Cpl. Wilson wanted to withdraw his first motion and restate it. Cpl. Wilson agreed, withdrawing his original motion and then restating it. His new motion was that beginning July 1, 2009, for both Tier I and Tier II, the new DROP interest rate would be 3.25%. This rate would be revisited in six months and adjusted according to the prime interest rate. TFC Hydron seconded the motion and it passed unanimously.

Ms. Stone explained that a letter would go out from Staff detailing the change in DROP interest.

Major Sparks requested clarification on Act 1277 regarding Public Safety and two ASP employees that might have been effected. Ms. Stone stated that upon reviewing this legislation, Staff believed it was poorly constructed; it is not retroactive and does not tie itself properly to the multiple-service credit. She opined there was going to be a lot of arguments regarding this Bill, but lacking a

retroactive feature, there was no means for members with past Drug Task Force service to get additional credit. Ms. Stone was certain that this issue was going to require an Attorney General's opinion, but she didn't foresee any retroactive service credit for employment prior to August 2009.

**Litigation Update**

Ms. Stone asked for the Staff Attorney, Jay Wills, to describe the latest developments in case number CV 2005-14869 of *McLemore vs. Weiss*. He detailed how in the following week, Ms. Stone's deposition would be taken for discovery purposes. There is an early June hearing on the Plaintiff's motion for class certification, which all the defendants have resisted. After Judge Brantley makes her motion on the class certification, the defendants have a motion to dismiss all ready to file. Mr. Wills explained that this has not been done already, because according to Arkansas law, filing for dismissal prior to the judge's ruling on class certification would waive our objection to class certification. This matter has not yet been set for trial.

**Recognition of the Efforts of Past and Present Trustees**

Sgt. Carter thanked the past and present Board members for their effort and hard work on the ASPRS Board. Commission Childers echoed her appreciation and asked Ms. Stone to send out a letter of explanation to all the ASPRS members to help them understand the details of the fund's merger with APERS, especially explaining how it will affect future retirees. She was hopeful that Staff could get the letter out before the July 1<sup>st</sup> date and emphasized how important communication would be at this juncture.

Major Sparks asked if the new DROP interest rates would be reflected in the Preliminary Actuarial Valuation that was presented in August and Ms. Stone assured her that they would be shown.

**ADJOURNMENT:** There being no other business the meeting was adjourned.

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COMMISSIONER CHARISSE CHILDERS  
Chair, Arkansas State Police Board of Trustees

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GAIL H. STONE  
Executive Secretary