POLICY TYPE: Investment

POLICY TITLE: Introduction

This Investment Policy has been prepared within the context of applicable Arkansas laws and is intended to allow for sufficient flexibility in the investment process to capture opportunities, yet ensure that both prudence and care are maintained in the execution of the investment program. While safety of principal is given primary consideration, the Board may take appropriate levels of risk to earn higher levels of investment return.

The Board has arrived at this policy through careful study of the rates of return and risks associated with various investment strategies in relation to the current and projected liabilities of the Retirement System. This policy has been chosen as the most appropriate for achieving the financial objectives of the Retirement System.

The Board has adopted a long-term investment horizon so that the chances and duration of investment losses are carefully weighed against the long-term potential for appreciation of assets. The assets of the Retirement System will be invested in a manner that provides the safeguards and diversity to which a prudent investor would adhere. All transactions undertaken on behalf of the Retirement System will be in the sole interest of the members of the Retirement System.

The Retirement System shall manage those assets not specifically allocated to investment managers. Notwithstanding the provisions of this Investment Policy, the Board may direct a specific investment activity and shall be fully responsible for any such action.

Authority: A.C.A. § 24-2-613
Adopted: October 7, 2003
Amended:

POLICY TYPE: Investment

POLICY TITLE: Standard of Care

The standard of care for the Board and Executive Director of the assets of the Retirement System is: when investing and reinvesting monies in the fund and in acquiring, retaining, managing and disposing of investments of the fund there shall be exercised the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.

The standard of care for the Board and Executive Director of the assets of the Retirement System is: when investing and reinvesting trust assets and in acquiring, retaining, managing and disposing of investments of the trust assets, there shall be exercised the reasonable care, skill, and caution that a prudent investor would use after considering the purposes, terms, distribution requirements, and other circumstances of the trust. Investment and management decisions respecting individual assets shall be evaluated not in isolation but in the context of the trust portfolio as a whole and as a part of an overall investment strategy having risk and return objectives reasonably suited to the trust. The investments of the trust shall be diversified unless the trustees reasonably determine that, because of special circumstances, the purposes of the trust are better served without diversifying. The trust assets shall be invested and managed solely in the interest of the members and benefit recipients of the trust.

Investment and management functions may be delegated to an agent that a prudent trustee of comparable skills could properly delegate under the circumstances. When making such delegation, Trustees shall establish the scope and terms of the delegation, consistent with the purposes and terms of the trust, and shall monitor the agent's performance and compliance with the terms of the delegation. In performing a delegated function, an agent owes a duty to the trust to exercise reasonable care to comply with the terms of the delegation.

The standard of care set forth herein shall be applied by each party serving in a fiduciary capacity for the trust.

Authority:
The prudent investor rule set forth in A.C.A. §§24-2-610 – 619 (Act 151 of 2001).
Adopted: October 7, 2003
Amended:

It is the goal of the Retirement System to maintain the following asset allocation ranges:

Asset Category	Minimum	Target	Maximum
Domestic Equity	35.0%	40.0%	45.0%
International Equity	15.0%	17.5%	20.0%
Domestic Fixed Income	20.0%	25.0%	30.0%
Alternatives[1]	4.0%	6.0%	8.0%
Real Estate	3.0%	5.0%	7.0%
Timberland	0.0%	1.5%	3.0%
Arkansas-related Investments[2]	3.0%	5.0%	7.0%
Cash Equivalents	0.0%	0.0%	3.0%

Rebalancing

The asset allocation ranges established by this Policy represent the Board's judgment of a portfolio mix that provides the greatest risk/return value. Allowing the portfolio to exceed the Board limits strays from the financial discipline, which the Board believes will—over time—provide the appropriate risk-adjusted return to the Retirement System.

The Executive Director is responsible to rebalance among the allowable asset classes and individual portfolios at such time that any of the asset classes falls outside of the designated range. The Executive Director will monitor the asset values by classification and for each investment manager on a monthly basis, based on month-end data provided by the custodian bank. The Executive Director shall submit a report to the Board detailing the movement of funds necessary to carry out that rebalancing at the next scheduled meeting following the completion of such transactions.

Whenever the minimum or maximum range on any major asset class has been exceeded, a transfer of funds will occur so as to bring the actual allocation within the prescribed range. Since many alternative, timberland and real estate investments are not liquid and valuations may be estimates or appraisals and may be time lagged, the Executive Director shall use best efforts to use commitments, capital calls, capital contributions and distributions to rebalance such investments.

Normal plan cash flows should be used to the extent possible to rebalance. Interest, dividends, and plan contributions should be used to the extent possible to fund asset

[1] In determining the asset allocation for Alternatives, the actual amount disbursed by ATRS, not the commitments, is applicable. (Includes domestic private equity, foreign private equity and mezzanine financing)

[2]. A.C.A. § 24-2-608 requires ATRS to seek to invest not less than 5% nor more than 10% of its portfolio in Arkansas-related investments when appropriate investment alternatives are available and when such investments may be made in accordance with the prudent investor rule.

classes that are below their target. Withdrawals should be made from asset classes that are above their target.

Authority: A.C.A. §§ 24-2-610 – 619
Adopted: October 7, 2003
Amended:

POLICY TYPE: Investment

POLICY TITLE: Goals

The overall goal is to achieve, over a period of years, the greatest rate of return for the Retirement System with due consideration being given to preserving capital and its purchasing power and to maintaining an element of risk at a prudent investor level.

The System's actuary sets an expected return based on the Board's policy decisions. Market cycles may result in the Retirement System earning a return materially above or below the actuarial rate of return for extended periods of time. Therefore, the actuarial rate of return will not be used for performance comparison purposes.

Total System Performance Goals

Specific investment goals for the Retirement System are:

1. To achieve a weighted average of the asset allocation (shown above) based on an appropriate broad market index that best represents investments in that particular asset class. The asset categories, targets and benchmarks will change over time pursuant to Board action. The current targets and asset class benchmarks are as follows:

Asset Category	Target	Benchmark
Domestic Equity	40.0%	Wilshire 5000 Index
International Equity	17.5%	MSCI All Country World Ex-U.S. Index
Fixed Income	25.0%	Lehman Bros. Universal Bond Index
Alternatives	6.0%	Wilshire 5000 Index plus 2.0% per annum
Real Estate	5.0%	The NCREIF Nat'l Property Index
Timberland	1.5%	The Southeast Timberland NCREIF Index
AR Related Investmts	5.0%	The Lehman Mortgage Index
Cash Equivalents	0.0%	90 Day Treasury Bills

2. To rank above the median in a universe of similar public funds

Authority: A.C.A. §§ 24-2-610 – 619
Adopted: October 7, 2003
Amended:

Domestic Equity

The Board has adopted a multiple manager equity investment strategy to increase diversification and enhance total rate of return.

The manager structure of the domestic equity portfolio’s risk and style exposure should resemble the aggregate domestic equity market as measured by the Wilshire 5000 Index. To help achieve this goal, the Board will employ managers utilizing various or multiple capitalization (small, mid and large) and investment styles (growth and value) so that the overall size and capitalization structure of the total component will approximate that of the broad market. To provide a broad base of low-cost diversification, the Board will allocate a portion of the domestic equity assets to a passive investment portfolio that approximates the return of the broad domestic equity market.

Domestic Equity Active/Passive Allocation (as a percent of the domestic equity portfolio)

	Minimum	Target	Maximum
Active Component	50%	70%	90%
Passive Component	10%	30%	50%

The investment consultant will provide an annual report to the Board on the overall absolute and relative risk of the domestic equity component versus the broad market.

The goal for domestic equity investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the aggregate domestic equity market as measured by the Wilshire 5000 Index over a full market cycle (approximately five years).

International Equity

The Board has adopted a multiple manager international equity investment strategy to increase diversification and enhance total rate of return.

The manager structure of the aggregate international equity portfolio’s risk and style exposure should resemble the aggregate international equity market as measured by the Morgan Stanley Capital International All Country World Ex-U.S. Index. To help achieve this goal, the Board will employ managers that invest in a broad array of countries (both developed and emerging markets), capitalization (small, mid and large) and style (growth and value) so that the overall style and capitalization structure of the total component will approximate that of the broad international market. An active management strategy for international equity investments will be used.

The investment consultant will provide an annual report to the Board on the overall absolute and relative risk of the international equity component versus the broad market.

The goal for international equity investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the aggregate international equity market as measured by the Morgan Stanley Capital International All Country World Ex-U.S. Index over a full market cycle (approximately five years).

Fixed Income

The Board has adopted a multiple manager fixed income investment strategy to increase diversification and enhance total rate of return.

The manager structure of the aggregate fixed income portfolio's risk exposure should resemble the aggregate domestic fixed income market as measured by the Lehman Brothers Universal Bond Index. To help achieve this goal, the Board will employ managers that invest assets in a broad array of sectors (Government, mortgage backed, credits, asset backed and commercial mortgage backed bonds), maturities, and credit qualities so that the overall portfolio structure is not materially different from that of the domestic fixed income market. To provide a broad base of low-cost diversification, the Board will allocate a portion of the fixed income assets to a passive investment portfolio that approximates the return of the broad fixed income market.

Fixed Income Active/Passive Allocation (as a percent of the fixed income portfolio)

	Minimum	Target	Maximum
Active Component	85%	90%	95%
Passive Component	5%	10%	15%

The investments consultant will provide an annual report to the Board on the overall absolute and relative risk of the fixed income component versus the broad market.

The goal for fixed income investments shall be to achieve a total rate of return that will exceed, net of all costs and fees, the return of the aggregate domestic fixed income market as measured by the Lehman Brothers Universal Bond Index over a full market cycle (approximately five years).

Alternative Investments

The Board has adopted a multiple manager alternative investment strategy to increase diversification and enhance total rate of return.

The structure of alternative investments should include domestic and foreign private equity partnerships, venture capital and mezzanine financing partnerships to diversify the assets and reduce the likeliness of material losses in any individual investment classification.

The investment consultant will provide an annual report on the overall absolute and relative risk of alternative investments to ensure that appropriate diversification is being achieved.

The goal for alternative investments is to achieve a total rate of return that will exceed, net of all costs and fees, the return of the public equity markets, as measured by the Wilshire 5000 Index, plus a liquidity premium of 2.0% per year.

Real Estate

The Board has adopted a strategy to increase diversification and enhance total rate of return.

The system may initiate direct ownership in raw land, commercial, industrial, and residential properties or indirect investments in fund of funds, partnerships, corporations or real estate investment trusts investing in investment grade properties of like kind.

Total real estate investments shall not exceed the system's approved asset allocation as determined by the Board at the beginning of each fiscal year. Should the real estate allocation be exceeded, no additional real estate investments shall be entered into until the asset allocation exceeds the total real estate investments.

The Executive Director, subject to the approval of the Board, will appoint and retain a Real Estate Consultant to provide the necessary expertise and advice on such investments.

The goal of the real estate investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the aggregate domestic real estate market as measured by the NCREIF National Property Index over a full market cycle (approximately five years).

Timberland

The Board has adopted a strategy to increase diversification and enhance total rate of return.

The system may initiate direct ownership in timberland or indirect investments in fund of funds, partnerships, corporations or real estate investment trusts investing in investment grade properties of like kind.

The goal of the timberland investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the Southeast Timberland NCREIF index over a full market cycle (approximately five years).

Arkansas-Related Investments

The Board has adopted a strategy to meet the requirement of Arkansas statutes for Arkansas related investments.

The System may initiate Arkansas related mortgage loans, direct real estate investments, or purchase insured certificates of deposit or short term securities of Arkansas financial institutions to meet the goals of the mandated requirements.

The Board has directed that Arkansas related investments be in strict conformity with guidelines established by the Board.

The goal of Arkansas-related investments shall be to achieve a total rate of return that will exceed, net of all fees and costs, the return of the Lehman Mortgage Index as measured over a full market cycle (approximately five years).

Cash Equivalents

The Board has adopted a strategy to preserve capital and maintain liquidity to meet the needs of the System.

The system may hold direct ownership in short-term investments or may permit or require managers to hold cash or cash equivalents to meet liquidity needs of the manager or of the System.

The goal of the cash management shall be to preserve capital and maintain liquidity.

Commingled or Mutual Funds

If a commingled fund or mutual fund is utilized, it is understood that the portfolio will be governed by the prospectus or similar document for the fund. In those cases, the System will utilize the ATRS Investment Guidelines in selecting and evaluating funds initially and in monitoring them on an on-going basis for continued suitability. If the assets of the commingled or mutual fund participate in securities lending, the cash collateral should be prudently invested to avoid risk of loss.

Derivatives

Derivatives may be used to reduce the risk in a portfolio. At no time shall derivatives be used to create a position of leverage or substantially increase the risk of the overall portfolio. Each investment manager's derivative usage shall be specified in the investment management agreement or specific guidelines.

The use of futures and options shall be matched by cash or cash equivalent securities, and all short futures positions shall be matched by equivalent long security positions. Option premiums outstanding at any given time shall be limited to less than 5% of the market value of the total portfolio. The notional value of the underlying securities of the futures contracts shall not exceed 15% of the market value of the total portfolio.

Loaning of Securities

To increase investment income with minimal risk, the Board may loan bonds, stocks, or other securities provided at least 102% of the full market value of the security loaned is collateralized by cash or securities at the time the loan is executed.

At all times during the term of each loan, the collateral shall be equal to not less than 100% of the full market value calculated on the total value of all securities on loan.

Authority: A.C.A. §§ 24-2-610 – 619
Adopted: October 7, 2003
Amended:

POLICY TYPE: Investment

POLICY TITLE: Investment Consultant(s)

To achieve the overall goal of the Retirement System as it pertains to investments, one or more investment consultants may be retained by the Board.

The scope of duties, together with the terms and conditions of engagement, of any investment consultant will be set forth in a contract approved by the Board.

Unless otherwise provided by contract, the investment consultants will:

- Assist the board in developing investment policy and making modifications thereto based on broad economic conditions and statutory changes.

- Provide general economic information and information on the market environment.

- Be responsible for the development and articulation of investment strategy, which will be a topic in quarterly reports to the Board.

- Assist the Board and Executive Director in the selection and supervision of investment managers.

- Provide recommendations on asset allocation, portfolio structure, retention or removal of investment managers and various other topics that better equip the Board to make investment decisions for the Retirement System.

- Monitor and report periodically to the Board on the performance of the investments, the performance of the investment managers, any material changes within the investment management firms employed by the Board, and such other matters that are called for by this Investment Policy.

Authority: A.C.A. § 24-7-303; §§ 24-2-610 – 619
Adopted: October 7, 2003
Amended:

POLICY TYPE: Investment

POLICY TITLE: Investment Manager(s)

Investment managers may be employed pursuant to procedures established by the Executive Director with advice from the Investment Consultant and as approved by the Board.

Investment managers will be given discretion to execute transactions on behalf of the Retirement System within the parameters set forth in their respective investment strategies.

The assets of the System allocated to the Investment Managers shall be diligently managed, which may include selling investments and realizing losses, if such action is considered advantageous to longer-term return maximization.

Investment managers shall file with the Investment Consultant such reports and information as may be requested, and they may be requested to report in person to the Board.

Authority: A.C.A. § 24-7-303; §§ 24-2-610 – 619
Adopted: October 7, 2003
Amended:

"Soft dollars" or "soft commissions" include any third-party or broker services an investment manager receives in addition to execution, whether these arrangements are explicit or implicit.

Commissions paid by investment managers for the purchase of equity securities are Retirement System assets and must be used for the sole benefit of the System members. Whenever possible, investment managers should seek to execute trades at the lowest possible commission rate but not to the detriment of best execution, which can result in a higher cost to the Retirement System.

So that the Board may fulfill its obligation to ensure that Retirement System assets are being used appropriately, equity investment managers shall provide a comprehensive quarterly report to the Investment Consultant on brokerage activity, commissions, services, and such other information as may be requested by the Investment Consultant or the Board. The Investment Consultant shall provide a periodic report to the Board summarizing such equity investment managers' reports and highlighting any questionable or problem areas.

Authority: A.C.A. § 24-7-303; §§ 24-2-610 – 619
Adopted: October 7, 2003
Amended: