MINUTES
ARKANSAS TEACHER RETIREMENT SYSTEM
BOARD OF TRUSTEES

Monday, April 4, 2018
12;30 p.m.
1400 West Third Street
Little Rock, AR 72201

ATTENDEES

Board Members Present
Jeff Stubblefield, Chair
Danny Knight, Vice Chair
Dr. Richard Abernathy
Anita Bell
Lloyd Black
Jason Brady, designee for Hon. Dennis Milligan
Kathy Clayton
Skot Covert, designee for Hon. Andrea Lea
Kelly Davis
Candace Franks, State Bank Commissioner
Bobby Lester
Robin Nichols
Deborah Thompson
Janet Watson

Board Members Absent
Johnny Key, Education Commissioner

Guest Present
Donna Morey, ARTA
David Kizzia, AEA
Chae Hong, AHIC (Aon Hewitt)
Jay Wills, APERS
Steve Faris
Larry Walthers, DF&A

ATRS Staff Present
George Hopkins, Executive Director
Gail Bolden, Deputy Director
Curtis Carter, Chief Fiscal Officer
Mitzi Ferguson, Internal Audit/Risk Mgmt.
Laura Gilson, General Counsel
Rod Graves, Deputy Director
Wayne Greathouse, Assoc. Dir. of Investments
Rett Hatcher, Deputy Director
Manju, Director, Information Systems
Mike Lauro, Information Systems Manager
Jerry Meyer, Manager, Real Assets
Kevin Odum, Attorney Specialist
Tammy Porter, Executive Assistant
Michael Ray, Director, Member Services
Joseph Sithong, Software Support Analyst
Leslie Ward, Manager, Private Equity
Brenda West, Internal Audit/Risk Mgmt

Reporters Present
Mike Wickline, AR DemGaz

I. **Call to Order/Roll Call.** Mr. Jeff Stubblefield, Chair, called the Board of Trustee meeting to order at 12:46 a.m. Voice roll call was taken. Mr. Johnny Key was absent.

II. Motion to Excuse Absences.

> **Ms. Nichols *moved* to *excuse* Mr. Key from the April 4, 2018, Board of Trustees meeting. Ms. Thompson *seconded* the *motion*, and the Board *unanimously approved the motion.***

III. Adoption of Agenda

> **Mr. Lester *moved* for *adoption* of the Agenda. Ms. Bell *seconded* 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 February 5, 2018 Minutes.

> **Mr. Lester *moved* for *approval* of the Minutes of the Board of Trustees meeting of February 5, 2018. Mr. Knight *seconded* the *motion*, and the Board *unanimously approved the motion.***

VI. 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 for 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. Since ATRS has implemented the actuarial cost method for the purchase of service credit, interest waived is slowly disappearing, as well as the number of members who purchase service credit No member interest was waived for this reporting period. This is a standard report for information and is not an action item.

VII. 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 also waive employer interest and penalties when reports or payments are late or have issues due to a new bookkeeper, inclement weather, sickness and other situations that justify a waiver. Eight (8) employer penalties and interest were waived for this reporting period in the amount of $3,159.69. This is a standard report for information and is not an action item.

VIII. Board Waiver of Penalties and Interest Greater than $1,000 in a Fiscal Year. Augusta Public Schools incurred in the amount of $1,050.00 for failure to remit the required December 2017 reports. Since executive staff only has authority to waive up to $1,000, ATRS staff has placed this item on the agenda. Augusta Public School stated that the person responsible for completing payroll and filing of the reports was involved in a car accident which caused her to be out of school when the reports were to be filed. This is the first penalty for August Public Schools in this fiscal year. Executive Staff recommends the waiver of all penalties and interest. **<u>This is an action item.</u>**

> **Mr. Knight *moved* to *approve* to waive $1,050.00 in Penalties and Interest due from the Augusta Public Schools for failure to remit required reports. Ms. Bell *seconded* the *motion*, and the Board *unanimously approved the motion.***

IX. Legislative Audit Report, June 30, 2017 – Official Review. The Division of Legislative Audit has provided ATRS staff with the 2017 fiscal year audit report for the fiscal year that ended on June 30, 2017. The audit report has been shared with the Board via email and also in the Board documents for this meeting. The law requires that the ATRS Board have the Legislative Audit report on the ATRS Board agenda and that the ATRS Board pass a motion reflecting that the audit report was received and reviewed by the Board in the event issues arise in the future related to the audit.

> **Ms. Watson *moved* to *approve* the Legislative Audit Report, June 30, 2017. Ms. Bell *seconded* the *motion*, and the Board *unanimously approved the motion.***

X. GASB Report after Legislative Audit Review. The Division of Legislative Audit and GRS Actuaries have completed their annual report required by the Governmental Accounting Standards Board (GASB) Statement No. 68 "Accounting and Financial Reporting for Pensions." This report allocates certain pension amounts to participating employers based on the employers' proportionate share of contributions received for the previous fiscal year. Employers use this information as a footnote in their financial statements as required by GASB 68.

> **Ms. Nichols *moved* to *approve* GASB Report after Legislative Audit Review. Mr. Jason Brady *seconded* the *motion*, and the Board *unanimously approved the motion.***

XI. Audit Committee Report. Kelly Davis, Chair, gave a report on the Audit Committee Meeting.

A. Internal Audit Report – Lump Sum Death Benefit. Ms. Mitzi Ferguson presented the audit report on the lump sum death benefit.

The audit included all lump sum death benefits paid for the period July 1, 2016 through September 30, 2017. To accomplish the objectives, IA obtained a listing of all lump sum benefits disbursed during the audit period. From the listing, a selected sample of 30 disbursements using a random number generator. Since the amount payable is based on the type of service credit for the deceased member, IA reviewed the sample to ensure all types of service credit were included. The selected payments were analyzed for the accuracy of the benefit paid; compliance with ATRS laws, rules and policies; and the appropriateness of beneficiaries paid. To evaluate the efficiency of payment procedures and the sufficiency of deceased member identification procedures, IA conducted interviews with Member Disbursement employees and walked through the payment process with the employees directly involved in processing lump sum death benefits.

IA provided its findings and recommendations to the Member Disbursement and Data Processing departments.

In conclusion, the lump sum death benefit paid to beneficiaries on behalf of eligible deceased ATRS members is being paid accurately and to the proper beneficiaries. Additionally, deceased retirees are being identified using effective tools and processes. However, the efficiency of the process to determine the eligibility of deceased members and the amount to be paid could be improved through ATRMIS programming changes.

B. Executive Session: Evaluation of Internal Auditor Brenda West. The Audit Committee went into executive session to discuss the evaluation of Ms. Brenda West. The committee moved to submit the evaluation of Ms. West to the appropriate agency for approval. Audit Committee will report back to the Board when approval is received.

XII. Investment Committee Report. Ms. Robin Nichols**,** Chair, gave a report on the Investment Committee Meeting.

A. Arkansas Related and Investment Update.

1. List of Fund Closings

a. Franklin Park Venture Fund Series 2018, L. P., a Fund of Funds Managed by Franklin Park Investing in Venture Capital Private Equity Funds, the Board Authorized Commitment of up to $25 Million Dollars

on December 4, 2017 was Accepted and Closed on March 22, 2018. The ATRS full commitment of $25 million dollars was negotiated, accepted, and closed on March 22, 2018.

b. **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 Authorized Additional Commitment of up to $25 Million Dollars on December 4, 2017 was Accepted and Closed on February 6, 2018. The Closing of this Allocation was Simultaneous with the Closing of the Expansion and Additional Allocation to this Fund Described Below in 3.** The ATRS full commitment of $25 million dollars was negotiated, accepted, and closed on February 6, 2017.

c. **Expansion of the Strategy of the ATRS/FP Private Equity Fund, L.P. to Include Appraisal Right Opportunities and to Make an Additional Commitment of up to $30 Million Dollars to the ATRS/FP Private Equity Fund, L.P., the Board Authorized Expansion and Additional Commitment of up to $30 Million Dollars with Imminent Need on February 5, 2018 was Accepted and Closed on February 6, 2018. The Closing of this Expansion and Allocation was Simultaneous with the Closing of the Additional Allocation to this Fund Described Above in 2.** The expansion of the strategy of the ATRS/FP Private Equity Fund to include appraisal rights and the full additional commitment of $30 million dollars were negotiated, accepted, and closed on February 6, 2018.

d. **CG Equity Opportunity Fund, LP, Managed by Circumference Group, an Opportunistic/Alternative Fund Specializing in Appraisal Right Opportunities, the Board Authorized Commitment of up to $30 Million Dollars with Imminent Need on February 5, 2018 was Accepted and Closed on February 6, 2018.** The ATRS full commitment of $30 million dollars was negotiated, accepted, and closed on February 6, 2018.

e. **Franklin Park International Fund 2018, L. P., a Fund of Funds Managed by Franklin Park Investing in International Private Equity Funds, the Board**

Authorized Commitment of up to $25 Million Dollars on December 4, 2017 was Accepted and Closed on February 15, 2018. The ATRS full commitment of $25 million dollars was negotiated, accepted, and closed on February 15, 2018.

2. **Merger of Colliers International and Irwin Saviers Ballard.** ATRS has used Colliers and Irwin Saviers Ballard (ISB) to manage and lease ATRS investment properties such as the Victory Building and ATRS headquarters for over 10 years. ISB was recently acquired by and merged with Colliers. The recent acquisition of ISB by Colliers requires ATRS to execute new agreements for the properties formerly managed by ISB to transfer the management and leasing of ATRS investment properties to Colliers. The management teams have been consolidated under one company and the same strong management teams are still in place to manage and lease the investment properties. Essentially from an operational standpoint, the delivery of services and management terms are unchanged.

   ATRS staff understands that mergers, reassignments, name changes, or other changes in business entities to service providers for ATRS investments do not require additional procurement procedures. Staff does not anticipate that changes to service providers require specific Board approval.

3. **ATRS Staff Interpretation of Using Recallable Distributions to Purchase the Revenue Stream Generated by the Final Tranche of Big River Steel Recycling Tax Credits.** Resolution 2016-11 authorized the purchase of up to $300 million dollars of recycling tax credits. At the time of the authorization to make the purchase the initial tranche of recycling tax credits was expected to be between $280 million dollars and $320 million dollars. ATRS finalized the initial purchase of the revenue stream generated by the initial tranche of $300 million dollars of recycling tax credits on January 20, 2017. The purchase at that time was based on recycling tax credits pending final authorization by the Arkansas Department of Environmental Quality (ADEQ). ADEQ has since issued the final certification authorizing $314,227,262.84 of recycling tax credits issued to Big River Steel (BRS).

   Act 862 of 2015 (Act 862) requires the state of Arkansas to purchase these Big River Steel recycling tax credits for 80% of the face value. The law sets a maximum tax credit submission per year of $20 million dollars. This establishes an annual state of Arkansas payment for the tax credits of $16 million dollars that should last for 15 to 16 years. ATRS began receiving the annual payment from the state for the initial tranche ($300 million dollars) of recycling tax credits of $16 million dollars in 2017. The next payment of $16 million dollars is expected to be received by June 30, 2018. ATRS now has the opportunity to purchase the final tranche of the revenue stream generated by the remaining $14,227,262.84 of recycling tax credits on very attractive terms.

The remaining actual dollar value of the revenue stream available for purchase is approximately $11.2 million dollars (80% of the remaining $14,227,262.84 recycling tax credits) and the expected purchase price is $3.2 million dollars. This purchase price would generate around a 9% return for ATRS with a state of Arkansas risk. This is a strong return for an investment with a state of Arkansas bond (fixed income) characteristics. Resolution 2014-41 clarified that dividends, distributions, return of capital, interest, tax credit payments, and other payments that arise from the BRS investment may be reinvested or recallable to BRS. ATRS staff is providing notice to the Board of staff's interpretation that Resolution 2014-11 allows for recallable distributions to be used to purchase the revenue stream generated by the final tranche of recycling tax credits and the language in Resolution 2016-11 was setting the maximum amount of recycling tax credits to be purchased under the initial terms and was not a prohibition on a separate tranche that could be purchased through separate and more favorable terms much later.

Ms. Nichols *moved* to *approve* that the limitation in Resolution 2016-11, that limited the purchase to $300 million dollars of recycling tax credits, was a limitation on the initial transaction, not the separate following negotiations for the remaining tax credits. The Board *unanimously approved the Motion*

B. General Investment Consultant.

1. PJ Kelly of Aon Hewitt Investment Consulting, provided the Committee with an overview of alternative risk premia investing. Alternative risk premia (ARP) investments are a broad range of investment strategies designed to capture the beta of traditional hedge funds with lower fees. The lower fees are due to these funds being more like index or passively managed funds as opposed to actively managed funds.

Beta is the expected return of an investment that is produced by the returns of broad financial markets. Alternative risk premia or alternative beta are terms used to describe the expected returns produced by specialized markets often used by traditional hedge funds.

ATRS has investment allocations to passive equity index funds that are designed to capture the beta of the fund's underlying benchmark with lower costs than actively managed accounts. ATRS also has actively managed accounts where a quality investment manager seeks to add alpha or returns over the beta of the manager's benchmark. Similar to ATRS investment allocations to traditional passive index funds and active managers, ARP or alternative beta investments seek to produce returns by capturing the beta of hedge funds with the added benefit of lower costs than traditional hedge funds. ARP investments are another way ATRS can continue to add to the diversification of the ATRS investment portfolio while reducing structural fees.

a. Recommendation to Commit up to $100 Million Dollars in CFM Institutional Systematic Diversified Fund LP Series 1.5, an Open–End Opportunistic/Alternative Fund Focused on Alternative Risk Premia That Seeks to Take Advantage of Pricing Differences in Global Markets. Capital Fund Management (CFM) is an alternative asset manager based primarily in Paris, with other offices in London, Tokyo and New York. The firm was founded in 1991 and is headed by Jean Phillippe Bouchaud. The systematic investment approach of this fund uses computer models and rules-based algorithms to help in the investment decision making process. This approach requires investment managers to have strong backgrounds in related areas and many staff members hold PhDs in areas such as physics, applied mathematics and engineering.

CFM Institutional Systematic Diversified Fund LP Series 1.5 is an open-end alternatives fund investing in multiple markets that seeks to take advantage of pricing differences in global markets. Similar to other ARP funds, the CFM fund offers more liquidity and lower fees than traditional hedge funds. The portfolio is comprised of three buckets: long term trend following (ISF), risk premia capture (ISP) and an equity market neutral strategy (ISE).

Mr. Hopkins stated staff concurs with the recommendation.

Ms. Nichols *moved* to *adopt* Resolution 2018-17, to Commit up to $100 Million Dollars in CFM Institutional Systematic Diversified Fund LP Series 1.5, an Open–End Opportunistic Alternative Fund Focused on Alternative Risk Premia That Seeks to Take Advantage of Pricing Differences in Global Markets. The Board *unanimously adopted the Resolution*.

b. **Recommendation to Commit up to $100 Million Dollars in Man Alternative Risk Premia SP-Class A, an Open-End Opportunistic/Alternative Fund Focused on Alternative Risk Premia That Seeks to Take Advantage of Pricing Differences in Global Markets.** Based in London, Man Group plc (Man) is a large and well established provider of alternative investment products. The firm was established around Man AHL, a systematic investment manager that has been successfully investing for over 25 years using predominantly trend following strategies. Over the years the company has made a number of large acquisitions, the most important of these being GLG, Numeric and FRM. The acquisition of these investment management firms by Man has broadened the experience and skill set of Man to offer a wider opportunity set of investments for their funds while still having a strong background in systematic investing. Keith Haydon is CIO of Man Group and has been heavily involved in the creation and launch of this product. Before joining Man in 2004, Mr. Haydon held positions as a multi-asset proprietary trader at Morgan Stanley, HSBC and Deutsche Bank.

Man Alternative Risk Premia SP-Class A is an open-end liquid alternatives fund with eight strategies. Similar to other ARP funds and the CFM fund discussed above, the Man fund offers more liquidity and lower fees than traditional hedge funds. Each strategy's investment objective is to provide returns in a cost-effective manner. The strategies are varied but in general all seek to take advantage of pricing differences in global markets. Similar to the CFM fund described above the strategies include the use of equities and futures to generate cost effective returns through investments in equities, foreign exchange, and fixed income while also seeking to minimize the downside risk of the investments.

Mr. Hopkins stated staff concurs with the recommendation.

Ms. Nichols *moved* to *adopt* Resolution 2018-18, to Commit up to $100 Million Dollars in Man Alternative Risk Premia SP-Class A, an Open-End Opportunistic/Alternative Fund Focused on Alternative Risk Premia That Seeks to Take Advantage of Pricing Differences in Global Markets. The Board *unanimously adopted the Resolution*.

C. Real Asset Consultant Report.

1. Recommendation to Commit up to $30 Million Dollars in Almanac Realty Securities VIII, L.P., a Closed-End, Value Added Real Estate Fund Targeting Investments in Both Private and Public Real Estate Operating Companies. Founded in 1996 and located in New York, Almanac was originally known as Five Arrows before changing the firm's name in 2011. ATRS has previously invested in Almanac Fund V (formerly known as Five Arrows Fund V), VI, and VII for an average net IRR of 12.4%. Overall Almanac’s funds have produced favorable and consistent risk adjusted returns. Almanac's experienced team of 14 real estate professionals is led by owners John McGurk, Matt Kaplan, Pike Aloian, Andrew Silberstein, and Justin Hakimian. The owners of the firm each have more than 20 years of real estate industry experience and the team currently has $2.6 billion dollars under management.

This fund focuses on real estate operating companies that have strong management teams with stable cash flows. This strategy strives to provide attractive current yields coupled with additional returns by continuing to grow already stable companies while providing downside protection. Almanac Realty Securities VIII will pursue a relatively unique strategy within the value added category and it is anticipated that roughly 50% of returns will be earned in the form of current income. The fund will make both equity and debt investments with a target net IRR to investors of 12%.

Mr. Hopkins stated staff concurs with the recommendation.

Ms. Nichols *moved* to *adopt* Resolution 2018-19, to Commit up to $30 Million Dollars in Almanac Realty Securities VIII, L.P., a Closed-End, Value Added Real Estate Fund Targeting Investments in Both Private and Public Real Estate Operating Companies. The Board *unanimously adopted the Resolution*.

B. **Recommendation to Commit up to $25 Million Dollars in Carlyle Realty Partners VIII, L.P., a Closed-End, Opportunistic Real Estate Fund Specializing in Distressed U.S. Commercial Properties.** The fund's parent company, Carlyle Group, is a global alternative asset manager with $195 billion of assets under management across 317 investment vehicles. The previous seven funds in this series have averaged a 14.6% net IRR. ATRS previously invested in Fund VII. Fund VII is still in the early stages and has produced a 7.9% IRR which is strong considering the fund is still in its investment period.

Founded in 1987 in Washington, DC, Carlyle has grown into one of the world's largest and most successful investment firms. Carlyle has more than 1,600 professionals operating in 31 offices in North America, South America, Europe, the Middle East, Africa, Asia and Australia. Fund VIII will be managed by the firm's U.S. real estate investment team that consists of 80 employees with in-house expertise including sourcing, transactions, asset management, construction, development and financial reporting. Rob Stuckey is the portfolio manager and this particular strategy originated in 1997.

Carlyle Realty Partners VIII, L.P., is a closed-end, opportunistic fund focused on commercial real estate (hotel, office, industrial, retail) as well as U.S. housing (apartments, senior living, self-storage, manufactured homes). Assets will primarily be located in the U.S. in both existing and new development. The fund will seek a net IRR of at least 15%.

Mr. Hopkins stated staff concurs with the recommendation.

Ms. Nichols *moved* to *adopt* Resolution 2018-20, to Commit up to $25 Million Dollars in Carlyle Realty Partners VIII, L.P., a Closed-End, Opportunistic Real Estate Fund Specializing in Distressed U.S. Commercial Properties The Board *unanimously adopted the Resolution*.

3. **Recommendation to Commit up to $25 Million Dollars in Kayne Anderson Real Estate Partners V, L.P., a Closed-End Opportunistic Real Estate Fund that Focuses on Acquiring or Developing Medical Office, Senior Housing and Student Housing Properties.** Based in Los Angeles, Kayne Anderson Capital Advisors, L.P., was founded in 1984 by Rick Kayne and John Anderson, and is an alternative asset management firm focused on investing in oil and gas companies, specialized real estate, energy infrastructure, middle market credit and growth private equity. Kayne manages approximately $26 billion in assets for institutional investors, family offices, high net worth and retail clients and employs 140 investment professionals in eight offices across the United States.

Kayne Anderson Real Estate Partners V (KAREP V) is a closed-end, opportunistic fund targeting specialized real estate sectors including medical office, senior housing and student housing within the U.S. KAREP V will focus on these specialized areas with strong operating partners and joint ventures through development, acquisition, and management of the properties. The fund is targeting a net IRR of 15% to 17%.

Mr. Hopkins stated staff concurs with the recommendation.

Ms. Nichols *moved* to *adopt* Resolution 2018-21, to Commit up to $25 Million Dollars in Kayne Anderson Real Estate Partners V, L.P., a Closed-End Opportunistic Real Estate Fund

that Focuses on Acquiring or Developing Medical Office, Senior Housing and Student Housing Properties. The Board *unanimously adopted the Resolution*.

D. Recommendation to Commit up to $50 Million Dollars in MetLife Commercial Mortgage Income Fund, LP, a Core Real Estate Open-End Debt Fund that Focuses on Originating and Actively Managing Debt Investments Secured by Institutional Quality Assets to be Funded by a Rebalancing of Existing Core Real Estate Assets. Based in New Jersey, MetLife, Inc. is a publicly-traded global provider of life insurance, annuities, employee benefits and asset management. MetLife Investment Management (MIM) is the institutional investment advisor for MetLife, Inc. As of December 31, 2016, MIM had approximately $559 billion dollars in assets under management which included $66 billion in real estate related investments. Although MIM is part of a larger insurance company owned platform, the scale, stability, reputation, and capabilities in the debt origination and management space is considered to be well above average as compared to its peers. Mike Roch is the portfolio manager and this particular fund was opened in 2015.

MetLife Commercial Mortgage Income Fund, LP (MCMIF) is an open-end, core real estate mortgage fund originating and actively managing debt investments secured by institutional-quality real estate located predominantly in large markets throughout the U.S. The fund will focus on originating commercial mortgage loans and investing up to 30% in debt with the goal of providing consistent current income and preserving principal. MCMIF seeks to provide an average annualized distribution of 6% to 7% over a full market cycle (7 to 10 years). Both ATRS staff and Aon Hewitt Investment Consulting recommend an investment of up to $50 million dollars in MetLife Commercial Mortgage Income Fund. The recommendation includes funding for the proposed investment to come from a rebalancing of existing core real estate assets from the ATRS investment in the Prudential Real Estate Investors Fund (PRISA).

Mr. Hopkins stated staff concurs with the recommendation.

Ms. Nichols *moved* to *adopt* Resolution 2018-22, to Commit up to $50 Million Dollars in MetLife Commercial Mortgage Income Fund, LP, a Core Real Estate Open-End Debt Fund that Focuses on Originating and Actively Managing Debt Investments Secured by Institutional Quality Assets to be Funded by a Rebalancing of Existing Core Real Estate Assets. The Board *unanimously adopted the Resolution*.

5. **Recommendation to Commit up to a Total of €41 Million Euros (Approximately the Equivalent of $50 Million Dollars) in DIF Infrastructure V Coöperatief U.A. and DIF Infrastructure V SCS (Collectively DIF V), Core Infrastructure Funds that Invest Primarily in Public-Private Partnership Projects Including Toll Roads, Regulated Utilities, and Renewable Energy Projects. DIF V is Divided into Two Entities to Separate the Equity and Debt Investments.** DIF Management is a globally operating infrastructure investor headquartered in the Netherlands. DIF was established in 2005 by Maarten Koopman and Menno Witteveen and is currently fully owned by Mr. Koopman and Mr. Witteveen along with Wim Blaasse. The fund is led by Mr. Blaasse, who has been with DIF since 2005. He is supported by 10 partners who have well-defined responsibilities across a wide range of roles. The overall team is comprised of 78 individuals that are located across eight offices in Europe, North America and Australia.

   DIF V is a closed-end infrastructure fund targeting high quality, low-risk investments across Europe, North America and Australia. The strategy is designed to deliver stable, long-term cash flows and high quality returns to investors. The fund (called and valued in euros) will target significant equity positions and typically invest in 40 to 50 infrastructure projects for the fund. DIF V is targeting a 13% net IRR which is in line with the previous four funds.

   The fund is split into two entities to divide the equity and debt investments of the fund for the managing partner's tax purposes; DIF Infrastructure V Coöperatief U.A. (equity) & DIF Infrastructure V SCS (debt). Both funds will require separate subscription agreements and this recommendation includes requesting authority to execute both agreements to allow up to €41 million euros (approximately the equivalent of $50 million dollars) to each fund to allow the manager flexibility in the allocation between equity and debt investments. The subscription agreements have a bridge agreement that no more than €41 million euros (approximately the equivalent of $50 million dollars) can be called in total between the two funds. This fund should be viewed as one infrastructure fund with a total commitment of up to €41 million euros. The closing documents will reference euros (not dollars) in the commitment amount. Since the fund is called and valued in euros the foreign exchange rate between the dollar and the euro may vary over the life of the fund and the recommended euro amount will be the control amount of the ATRS commitment. The recommended euro amount is approximately $50 million dollars using the current conversion rate but the dollar amount may vary over time.

Mr. Hopkins stated staff concurs with the recommendation.

Ms. Nichols *moved* to *adopt* Resolution 2018-23, to Commit up to a Total of €41 Million Euros (Approximately the Equivalent of $50 Million Dollars) in DIF Infrastructure V Coöperatief U.A. and DIF Infrastructure V SCS (Collectively DIF V), Core Infrastructure Funds that Invest Primarily in Public-Private Partnership Projects Including Toll Roads, Regulated Utilities, and Renewable Energy Projects. DIF V is Divided into Two Entities to Separate the Equity and Debt Investments. The Board *unanimously adopted the Resolution*.

D. Private Equity Consultant Report.

1. **Recommendation to Commit up to $30 Million Dollars in Riverside Partners VI, L.P., a Private Equity Buyout Fund Specializing in Small Healthcare and Technology Companies in the U.S.** Based in Boston, Riverside was formed in 1989 and has a history of successful investments in small healthcare and technology companies in the U.S. ATRS invested in Riverside's fourth fund that has generated a net IRR

of over 21%. ATRS also invested in the fifth fund which is still maturing but on track to perform well.

The firm is led by David Belluck, Steven Kaplan, Ian Blasco, Michelle Noon and Max Osofsky (principals). The principals are experienced investors with an average of over seventeen years of private equity experience and an average firm tenure of twelve years. In addition to the principals, the team is made up of twenty investment professionals and four operating partners. The fund will focus on small profitable family and management owned companies with enterprise values between $50 and $200 million whose owners lack the financial, strategic or operational expertise to grow the business. Smaller companies often attract less attention from larger strategic buyers, and consequently can be purchased at more attractive prices. The team will be seeking companies that can be acquired at conservative valuations and thereafter improve the value through both organic and acquisition-led growth initiatives and operational improvements.

Mr. Hopkins stated staff concurs with the recommendation.

Ms. Nichols *moved* to *adopt* Resolution 2018-24, to Commit up to $30 Million Dollars in Riverside Partners VI, L.P., a Private Equity Buyout Fund Specializing in Small Healthcare and Technology Companies in the U.S. The Board *unanimously adopted the Resolution*.

XII. 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. Dr. Abernathy asked Mr. Hopkins to share his thoughts on the Governor's proposal for consolidating state agencies. Mr. Hopkins told the Committee that he had not been contacted by the Governor's office as to whether there might be any potential for ATRS to be consolidated with any other agency. He stated that once they looked at what ATRS does and how specialized we are, the chances of it consolidating would be unlikely. Each system is so unique in terms of benefits and how they operate. ATRS has reduced its workforce the last 9 years. ATRS will work cooperatively with the Governor's office and anyone else to see if there are things we can do differently to save money. The Board has demanded that Staff do everything they can to save money. Mr. Hopkins stated that he doesn't want to take on the challenge of managing five systems. Staff will do everything possible to work with state government.

Another issue Mr. Hopkins discussed was the rumors regarding T-DROP. T-DROP participants are saying they are getting cut $500-$600, and other members hear the rumors and think that they are getting cut.

B. **Implementation of 3 Year Disability Review for ATRS Members to Continue Receiving ATRS Disability**. Mr. Hopkins stated that in the 2015 session, ATRS tightened up continued eligibility for disability benefits for members under age 57 by requiring the member to obtain Social Security disability benefit qualification within three years in order to continue receiving ATRS disability payments. In the 2017 session, the 2015 law was modified to provide that if a member had applied for Social Security disability and had been denied, the member would have a window of opportunity to seek an ATRS Medical Committee review based upon updated medical information. In addition those members who applied for Social Security disability within the one year allowed timeframe and still have an active case would be granted an extension of benefits until the case is resolved.

The initial group subject to the additional requirements to obtain ATRS disability (for those under the age of 57) is approximately 155 members. Every month from this point forward, a much smaller group of members approved three years earlier when under age 57 at the time disability payments commenced will be subject to the same review. In a typical month, ATRS approves 15 new disability retirements. Those under age 57 should be at least or a little more than half of that number.

The Board will receive updated information from ATRS, and will determine if a special Operations and Board meetings are necessary.

C. **Contributory/Noncontributory Determination**. Mr. Hopkins explained that due to an interaction with a member at a town hall meeting, an interpretation issue was discovered on the determination for contributory/noncontributory status in a very narrow application. From the early 1990s through 2007 the process for contributory and noncontributory status underwent numerous law changes and rule changes. The last major change occurred in 2007 that stated that members who elected to be noncontributory in the 1990s may remain noncontributory by a grandfathering process, but that all new members with a 181 day contract or more must be contributory.

The interpretation issue came from the last major law rewrite in 2007. That law rewrite used the term "new members" in various places regarding the right to remain noncontributory. Two different interpretations for the phrase "new members" are possible. One interpretation is a person who became an ATRS member after July 1, 2007 is a new member. A second interpretation is that the person is a new member when first hired by an ATRS employer. The narrow place this comes into play is when a person is first hired to be a certified teacher (not coming from a classified position) and begins work under a contract that includes less than 181 days since the school year is already underway at the time of hire. Typically the person is given a contract 181 days or more in the following fiscal years and thereafter. The interpretation issue is as follows.

> "Effective July 1, 2007, new members who are under contract with a covered employer for one hundred eighty days (180) or less"

The issue is that executive staff had never been involved in interpreting the meaning of "new members" in the context of this law. If a person is hired as a certified teacher on January 1 under a 90 day contract and thereafter continuously works as a certified teacher for more than 181 days from that point on an interpretation at a line staff level has been that a person would remain noncontributory even when changing position or employers. Executive staff when reading the entire section as a whole believes the proper interpretation relates to individuals becoming members after July 1, 2007. This would mean that in the example above the certified teacher would become mandatorily contributory the following fiscal year when the 181 day or greater contract becomes effective. Executive staff feels a fair and complete four corners reading of this section should be interpreted that once any member who became a member after July 1, 2007, obtains a contract for 181 days or more, that person becomes mandatorily contributory in the fiscal year that contract became effective.

Mr. Lester *moved* to *approve* the Proper Interpretation of ATRS law is that Members who Work Under a 181 Initial Contract after 2007 and begin as a Noncontributory Member shall

become Contributory the first Fiscal Year the Member has a 181 Day Plus Contract. The Board *unanimously approved the motion.*

D. Potential 2019 Legislation

1. Disability: Service Credit of 40 Days to 80 Days. This issue was tabled until the next Committee Meeting in June.

XIV. Staff Reports.

A. Medical Committee Reports. Michael Ray presented the Medical Committee reports. A total of twenty-one (21) disability applications were received and twenty-one (21) were approved for disability benefits.

Dr. Abernathy *moved* to *approve* the Medical Committee Reports. Mr. Lester *seconded* the *motion*, and the Board *unanimously approved the motion.*

XV. Executive Session to Discuss Executive Director's Performance Evaluation. Mr. Stubblefield, Chair, called the Executive Session of the Board of Trustees to order at 1:10 p.m. Mr. Stubblefield, Chair, reconvened the Board of Trustees meeting at 1:45 p.m.

The Board expressed their satisfaction with Mr. Hopkins and praised him for his hard work and dedication to ATRS and its members.

Dr. Abernathy *moved* to *approve* the Board's recommendation of the Executive Director's performance evaluation and forwarding on to the appropriate entity. Mr. Knight *seconded* the *motion*, and the Board *unanimously approved the motion.*

Mr. Black *moved* to *accept* Mr. Hopkins' request that all financial incentives associated with this performance evaluation be denied. Mr. Lester *seconded* the *motion*, and the Board *by majority approved the motion.*

XVII. Other Business: None

XVIII. Adjourn.

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

Meeting adjourned at 1:46 p.m.

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