

**2009**  
**COMPREHENSIVE ANNUAL**  
**FINANCIAL REPORT**

PREPARED BY THE STAFF OF  
ARKANSAS TEACHER RETIREMENT SYSTEM  
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[WWW.ARTRS.GOV](http://WWW.ARTRS.GOV)



A PENSION TRUST FUND OF THE STATE OF ARKANSAS  
GEORGE HOPKINS, EXECUTIVE DIRECTOR

**2009**  
**COMPREHENSIVE ANNUAL**  
**FINANCIAL REPORT**



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# **INTRODUCTION**

May 17, 2010

Board of Trustees  
Arkansas Teacher Retirement System  
1400 West Third Street  
Little Rock, AR 72201

The Arkansas Teacher Retirement System (the 'System' or ATRS) is pleased to submit this Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2009, which provides comprehensive information on the retirement plan that we administer. Responsibility for both the accuracy of the data and the completeness and fairness of presentation rests with the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and presents fairly the System's financial status and changes in financial condition.

The 2009 Financial Report is presented in five sections. Contents are summarized below (a detailed Table of Contents may be found on Page 3).

**Introductory Section:**

Contains the transmittal letter, the Board of Trustees, and organizational chart.

**Financial Section:**

Provides the System's financial statements, required supplementary information, and supporting schedules with additional information about the System's expenses.

**Investment Section:**

Includes the investment consultant's report, investment policies, asset allocation, and investment results.

**Actuarial Section:**

Provides the certification letter from the independent actuary, supporting schedules, and a summary of plan provisions.

**Statistical Section:**

Presents schedules and tables of comparative data related to the membership, active and retired, of the System.

On March 17, 1937, ATRS was established by Act 266 of 1937. ATRS is a combination contributory/non-contributory retirement system governed by the State's retirement law, Chapter 24 of the Arkansas Code. ATRS is one of five State-supported retirement systems and provides retirement, disability and survivor benefits to employees of Arkansas public schools and educationally related agencies. The system consists of 343 participating employers.

**Investments**

Investments worldwide were dramatically affected by the implosion of the housing market, and subsequent sub-prime lending markets. Every major market in the world fell into a tumultuous state as the United States and the world faced the uncertain times.

Performance recorded by the Fund for the fiscal year, (18%), ranked in the top 50% of the funds in our peer group. The result was due to the asset allocation with major exposures to the stock and bond markets. ATRS has been in the process of reducing its US equity correlation, and increasing exposure to global markets. Although, events occurring before March 2009 were not favorable, some stability has been restored in the world markets. The world economy has regained some of the momentum lost during 2008 and early 2009.

**Additions/Deductions to Plan Net Assets**

As a retirement system matures, employer and employee contributions must be supplemented with investment earnings to fully fund retirement benefits and operating costs. This scenario leaves the investment nucleus untouched to continue providing the required investment income for future generations of plan participants.

Current year employer and employee contributions covered 74% of the benefits paid, compared with 78.2% coverage last year. The change is due to a 7.5% percent increase in retirees receiving benefits while the number of active members remained relatively level, only increasing by .7%. This is a trend that could continue for the next few years as the Baby Boomer generation reaches retirement age and schools continue to consolidate.



# LETTER OF TRANSMITTAL



## **Funding Status**

The System lost a little ground in pre-funding as result of the negative market returns. To reduce the impact of wild swings in the financial markets, annual results are spread over a four-year period. This means the 2009 fiscal year's negative results will be felt over the next three years. ATRS remains a healthy 75.7% funded. Amortization required to fund the unfunded accrued actuarial liability (UAAL) increased from 11 to 45.4 years.

## **Internal Control**

Internal controls are at the heart of safeguarding the System's assets. ATRS is reviewing and updating its control policies. As the System grows and technology advances, we feel it prudent to continuously monitor internal systems and policies to detect and correct potential errors before they occur.

## **Professional Services**

The ATRS Board of Trustees employs firms considered experts in their field to draw on their knowledge and to get views of policy administration. The System's independent traditional investment and real estate consultant is Ennis Knupp & Associates, headquartered in Chicago, IL; private equity consultant is Franklin Park, Associates, LLC of Bala Cynwyd, PA.; and the independent actuary is Gabriel Roeder Smith & Company, headquartered in Southfield, MI. The System also utilizes the services of local legal firms for various projects.

## **Acknowledgments**

This report is intended to provide complete and reliable information as a foundation for management decisions, determining compliance with legal provisions, and determining conscientious administration of the System's funds. Compilation of this report symbolizes the collective efforts of the staff, under the direction of the Board of Trustees.

Copies of this report are available to all members of the System via request, and copies will be mailed to each employer with members in the System.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "George Hopkins", is written over a light gray circular stamp.

George Hopkins  
Executive Director  
501-682-1820  
georgeh@artrs.gov

**Member and Retirant Trustees**

**Position #1**  
**Member Trustee**  
**1st Congressional District**  
Robin Nichols  
Jonesboro, AR  
Term Expires 6/30/2013

**Position #2**  
**Member Trustee**  
**2nd Congressional District**  
Linda Parsons  
Little Rock, AR  
Term Expires 6/30/2010

**Position #3**  
**Member Trustee**  
**3rd Congressional District**  
Janelle Riddle  
St. Paul, AR  
Term Expires 6/30/2013

**Position #4**  
**Member Trustee**  
**4th Congressional District**  
Beverly Leming  
Malvern, AR  
Term Expires 6/30/2011

**Position #5**  
**Member Trustee**  
**Superintendent Trustee**  
Dr. Richard Abernathy (Chair)  
Bryant, AR  
Term Expires 6/30/2012

**Position #6**  
**Member Trustee**  
**Administrator Trustee**  
Jeff Stubblefield  
Charleston, AR  
Term Expires 6/30/2015

**Position #7**  
**Member Trustee**  
**Non-Certified Trustee**  
David Cauldwell  
Rogers, AR  
Term Expires 6/30/2015

**Position #8**  
**Member Trustee**  
**Minority Trustee**  
Hazel Coleman (Vice Chair)  
Helena, AR  
Term Expires 6/30/2015

**Position #9**  
**Retirant Trustee**  
Dr. Paul Fair  
Little Rock, AR  
Term Expires 6/30/2010

**Position #10**  
**Retirant Trustee**  
Bobby Lester  
Jacksonville, AR  
Term Expires 6/30/2013

**Position #11**  
**Retirant Trustee**  
John Fortenberry  
Little Rock, AR  
Term Expires 6/30/2012

**Ex Officio Trustees**

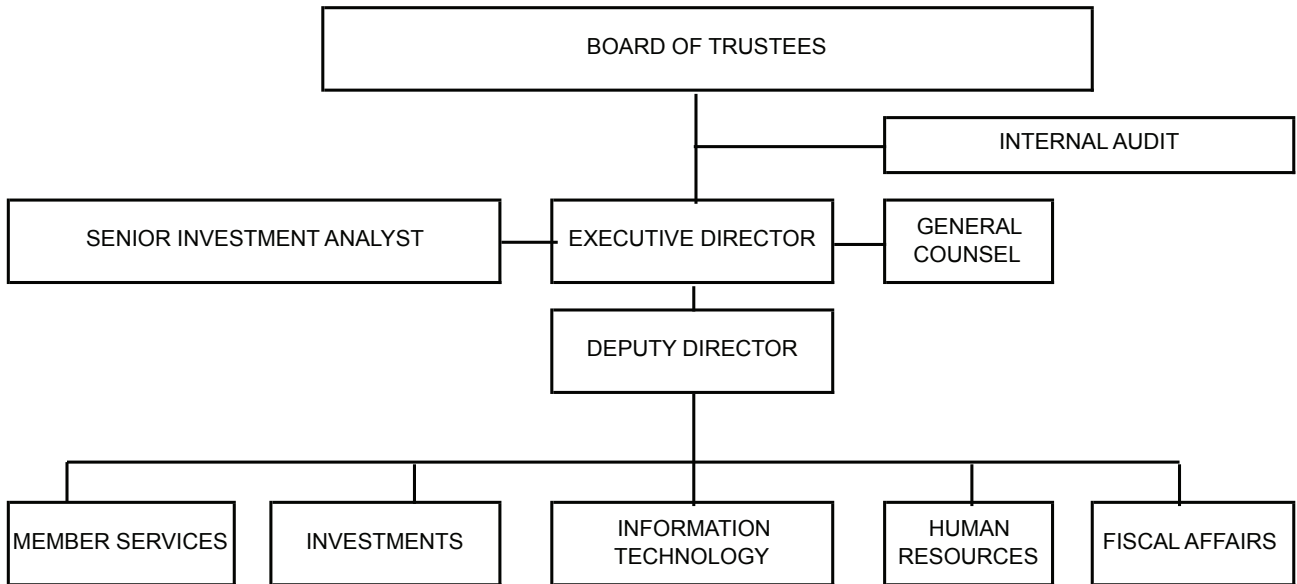
**Tom Kimbrell**  
**Commissioner of Education**  
Little Rock, AR

**Candace A. Franks**  
**State Bank Commissioner**  
Little Rock, AR

**Jim Wood**  
**Auditor of State**  
Little Rock, AR

**Martha Shoffner**  
**Treasurer of State**  
Little Rock, AR

# ORGANIZATIONAL CHART



## Administrative Staff

**George Hopkins**  
*Executive Director*

**Susan Crosby**  
*Senior Investment Analyst*

**Mullahalli Manjunath**  
*Director of Information Technology*

**Gail Bolden**  
*Deputy Director*

**James R. Berry, CPA**  
*Associate Director of Fiscal Affairs*

**Michael Ray**  
*Member Services Administrator*

**Laura Gilson**  
*General Counsel*

**G. Wayne Greathouse**  
*Associate Director of Investments*

**Brenda West, CPA**  
*Associate Director of Operations*

**Gaye Swain, SPHR**  
*Agency Human Resource Manager*

**ACTUARY**

**Gabriel Roeder Smith & Company**  
Southfield, MI

**MEDICAL DISABILITY ADVISORS**

**Dr. William Atkinson**  
Little Rock, AR

**Dr. William Hayden**  
Little Rock, AR

**Dr. John Stotts**  
Little Rock, AR

**LEGAL COUNSEL**

**Gill, Elrod, Ragon, Owen & Sherman**  
Little Rock, AR

**Kutak Rock, LLP**  
Scottsdale, AZ

**Mitchell, Williams, Selig, Gates & Woodyard, PLLC**  
Little Rock, AR

**Morgan, Lewis & Bockius, LLP**  
New York, NY

**Rose Law Firm, PA**  
Little Rock, AR

**SECURITIES MONITORING COUNSEL**

**Bernstein, Litowitz, Berger & Grossman, LLP**  
New York, NY

**Kaplan, Fox & Kilsheimer**  
New York, NY

**Labaton Sucharow, LLP**  
New York, NY

**Nix, Patterson & Roach, LLP**  
Daingerfield, TX

**INVESTMENT CONSULTANT**

**Ennis, Knupp & Associates, Inc.**  
Chicago, IL

**Franklin Park**  
Bala Cynwyd, PA

**CUSTODIAN  
(DOMESTIC AND INTERNATIONAL)**

**State Street Public Fund Services**  
Boston, MA

**State Street Fund Services Toronto, Inc.**  
Toronto, Ontario

**INVESTMENTS**

**Domestic Equity**

**Daruma Asset Management, Inc.**  
New York, NY

**ICC Capital Management**  
Danville, CA

**ING Management Americas**  
Prosper, TX

**Jacobs Levy Equity Management, Inc.**  
Florham Park, NJ

**Kennedy Capital Management**  
St. Louis, MO

**Pershing Square Capital Management, LP**  
New York, NY

**Oppenheimer Capital**  
New York, NY

**Relational Investors, LLC**  
San Diego, CA

**Stephens Investment Management**  
Houston, TX

**T. Rowe Price Associates, Inc.**  
Baltimore, MD

## **INVESTMENTS (Continued)**

### **Global Equity**

**Bedlam Asset Management plc**  
London, England

**Capital Guardian Trust Company**  
Los Angeles, CA

**Knight Vinke Asset Management, LLC**  
New York, NY

**Lincoln Vale European Partners Fund**  
Lincoln, MA

**UBS Global Asset Management  
(Americas) Inc.**  
Chicago, IL

**Wellington Management Co., LLP**  
Boston, MA

### **Convertible Bonds**

**Nicholas/Applegate**  
New York, NY

### **Fixed Income Managers**

**BlackRock  
Account Management Group**  
New York, NY

**FIGO Fund**  
Plainsboro, NJ

**Loomis Sayles & Company, LP**  
Boston, MA

**PIMCO/PIMCO PARS II**  
Newport Beach, CA

**Putnam Investments Management**  
Boston, MA

**Western Asset Management Company**  
Pasadena, CA

## **ALTERNATIVE INVESTMENTS**

### **Individual Partnerships**

**Blackstone Mezzanine Partners**  
New York, NY

**DLJ Investment Partners II**  
New York, NY

### **Private Equity**

**21<sup>st</sup> Century Group I, LP**  
Dallas, TX

**Advent International GPE VI, LP**  
Boston, MA

**Blackstone Mezzanine Partners, LP**  
New York, NY

**Boston Ventures VIII, LP**  
Boston, MA

**Second Cinven Fund, LP**  
London, England

**Credit Suisse Customized  
Fund Investment Group**  
New York, NY

**The Cypress Group, LLC**  
New York, NY

**Diamond State Ventures, LP  
Diamond State Ventures II, LP**  
Little Rock, AR

**DLJ Investment Partners II, LP  
DLJ Merchant Banking Partners III, LP**  
New York, NY

**Doughty Hanson & Company  
Doughty Hanson & Company Technology**  
London, England

**Franklin Park Venture Fund 2008, LP  
Franklin Park Venture Fund 2009, LP**  
Bala Cynwyd, PA

**ALTERNATIVE INVESTMENTS**

(Continued)

**Private Equity** (Continued)

**Hicks Muse Tate & Furst**  
Dallas, TX

**LLR Equity Partners III, LP**  
Philadelphia, PA

**Natural Gas Partners IX, LP**  
Irving, TX

**Oak Hill Capital Partners, LP**  
New York, NY

**TA XI, LP**  
Boston, MA

**VISTA Equity Partners, LLC**  
San Francisco, CA

**Real Estate**

**Real Estate General Consultant  
Ennis, Knupp & Associates, Inc.**  
Chicago, IL

**CB Richard Ellis Strategic Partners, LP**  
Los Angeles, CA

**DLJ Real Estate II, LP**  
New York, NY

**Doughty Hanson & Co.  
European Real Estate Fund**  
London, England

**Fidelity Real Estate Growth Fund III, LP**  
Smithfield, RI

**Heitman Capital Management, LLC**  
Chicago, IL

**ING ClarionDebt Opportunity Fund  
(Cayman) II, LP**  
**ING Clarion Debt Opportunity Fund II, LLC**  
**ING Clarion Debt Opportunity Fund III, LLC**  
New York, NY

**New Boston Fund VII, LP**  
Boston, MA

**O'Connor North American Property Partners II, LP**  
New York, NY

**Olympus Real Estate Fund III, LP**  
Addison, TX

**RMK Timberland Group**  
Atlanta, GA

**Rothschild Five Arrows Realty Securities V, LP**  
New York, NY

**UBS Realty Investors, LLC**  
Hartford, CT

**Westbrook Partners, LLC**  
New York, NY

**Open-End Funds**

**J.P. Morgan Strategic Property Fund**  
**J.P. Morgan Special Situation Fund**  
New York, NY

**Prudential Financial Investment Management, LLC**  
Parsippany, NJ

**DIRECT REAL ESTATE PARTNERSHIPS**

**CRI – Cooper Real Estate Investment**  
Rogers, AR

**Lindsey Management, Co., Inc.**  
Fayetteville, AR

**SECURITIES LENDING AGENT**

**State Street Bank & Trust**  
Boston, MA

# **FINANCIAL**

## STATEMENT OF PLAN NET ASSETS

As Of JUNE 30, 2009

### ASSETS

|   |                      |
|---|----------------------|
| Cash and cash equivalents                       | \$ 183,104,603       |
| Receivables                                     |                      |
| Employer contributions                          | 49,282,025           |
| Member contributions                            | 14,285,360           |
| Investment principal                            | 275,291,107          |
| Interest and dividends                          | 17,733,538           |
| Other   | 298,138              |
| Total Receivables                               | <u>356,890,168</u>   |
| Investments, at fair value                      |                      |
| U.S. Government and agency obligations          | 119,781,467          |
| International equities                          | 449,516,378          |
| Global corporate bonds                          | 27,492,496           |
| Forward currency contracts                      | (703,662)            |
| Domestic corporate bonds                        | 301,471,211          |
| Domestic equities                               | 1,830,614,238        |
| Domestic convertible bonds                      | 265,461,490          |
| Collateralized mortgage obligations             | 90,100,030           |
| Certificates of deposit                         | 3,125,000            |
| Mortgages                                       | 47,598,591           |
| Department of Education revolving credit notes  | 8,878,824            |
| Asset-backed securities                         | 23,945,648           |
| Domestic fixed-income commingled funds          | 710,564,774          |
| Domestic equity commingled funds                | 352,566,113          |
| Global fixed-income commingled funds            | 971,613,291          |
| Global equity commingled funds                  | 1,500,800,220        |
| Municipal bonds                                 | 1,429,268            |
| Partnerships                                    | 49,584,346           |
| Real estate                                     | 100,055,730          |
| Alternative investments                         | 1,597,176,267        |
| Total Investments                               | <u>8,451,071,720</u> |
| Securities lending invested cash collateral     | 785,368,267          |
| Capital assets, net of accumulated depreciation | 323,358              |
| Prepaid expenses                                | 83,642               |
| Total Assets                                    | <u>9,776,841,758</u> |

### LIABILITIES

|  |                    |
|--|--------------------|
| Accrued expenses and other liabilities | 7,891,275          |
| Investment principal payable           | 139,528,449        |
| Securities lending obligations         | 825,589,698        |
| Compensated absences payable           | 265,386            |
| Post employment benefit liability      | 579,725            |
| Total Liabilities                      | <u>973,854,533</u> |

### NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

\$ 8,802,987,225

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.



## STATEMENT OF CHANGES IN PLAN NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2009

### ADDITIONS

|  |    |                        |
|--|----|------------------------|
| Contributions  |    |                        |
| Employer   | \$ | 359,061,671            |
| Member   |    | 111,512,948            |
| Total Contributions  |    | <u>470,574,619</u>     |
| Investment income  |    |                        |
| From investing activities:                                   |    |                        |
| Net appreciation (depreciation) in fair value of investments |    | (2,148,945,143)        |
| Interest   |    | 107,380,269            |
| Dividends  |    | 59,755,175             |
| Real estate operating income net real estate expense         |    | 3,533,565              |
| Other income   |    | 9,352,673              |
| Total investment income                                      |    | <u>(1,968,923,461)</u> |
| Less investment expenses                                     |    | 36,491,336             |
| Total income from investing activities                       |    | <u>(2,005,414,797)</u> |
| From securities lending activities                           |    |                        |
| Securities lending gross income                              |    | 16,071,890             |
| Less fees and rebates  |    | 7,528,277              |
| Unrealized loss on invested cash collateral                  |    | (40,221,431)           |
| Total income from securities lending activities              |    | <u>(31,677,818)</u>    |
| Total net investment income                                  |    | <u>(2,037,092,615)</u> |
| Miscellaneous income   |    | 618,725                |
| Total additions (losses)                                     |    | <u>(1,565,899,271)</u> |

### DEDUCTIONS

|                                   |  |                    |
|-----------------------------------|--|--------------------|
| Benefits                          |  | 635,878,958        |
| Refunds of employer contributions |  | 352,182            |
| Refunds of member contributions   |  | 6,056,834          |
| Administrative expenses           |  | 6,894,113          |
| Other deductions                  |  | 19,752             |
| Total deductions                  |  | <u>649,201,839</u> |
| Net increase (decrease)           |  | (2,215,101,110)    |

### NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

|                   |    |                             |
|-------------------|----|-----------------------------|
| Beginning of year |    | 11,018,088,335              |
| End of year       | \$ | <u><u>8,802,987,225</u></u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2009

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. REPORTING ENTITY/HISTORY**

Act 266 of 1937, as amended, established the Arkansas Teacher Retirement System, as an Office of Arkansas State government, for the purpose of providing retirement benefits for employees of any school or other educational agency participating in the system. Act 427 of 1973, as amended, provides that the general administration and responsibility for the proper operation of the System and for making effective the provisions of the Teacher Retirement law are vested in a board of trustees of 15 persons. The State Bank Commissioner, the Treasurer of State, the Auditor of State and the Commissioner of Education shall be the ex officio trustees. Act 418 of 1997 provides 11 members shall be elected to the Arkansas Teacher Retirement Board of Trustees, seven of whom shall be active members of the system with at least five years of actual service in force, three who are retired from the system and are being paid an annuity by the System and one active or retired member of a minority racial ethnic group. The seven members consist of one active member trustee elected from each of the four congressional districts; two active administrators, one of which must be a superintendent and one active member employed in a position that does not require state certification. The member and retirant trustees shall be elected in accordance with rules as have been adopted by the Board to govern the elections. Board members serve as trustees without compensation for their services; except that each trustee shall be reimbursed for any necessary expenses incurred in attending meetings of the Board or the performance of other duties authorized by the Board.

**B. PLAN DESCRIPTION**

Arkansas Teacher Retirement System (ATRS) is a cost-sharing multiple-employer defined benefit pension plan that covers any person employed by an employer covered by the System. Employer is any public school, public educational agency, or other eligible employer participating in the System. Employers include:

- Arkansas Activities Association
- Arkansas Department of Education
- Arkansas Department of Correction School
- Regional Education Service Cooperatives
- Arkansas Educational Television Commission
- Arkansas School for the Blind
- Arkansas School for the Deaf
- Arkansas Teacher Retirement System
- State Board of Education

Certain employees of other employers may qualify to participate in ATRS including area vocational-technical schools, public colleges and universities, enterprise privatized by a public school district, Department of Career Education, Easter Seals of Arkansas, and Arkansas Rehabilitation Services, a division of the Department of Career Education.

## NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2009

### B. PLAN DESCRIPTION (continued)

On June 30, 2009 the number of participating employers was:

|                                 |            |
|---------------------------------|------------|
| Public Schools                  | 261        |
| State Colleges and Universities | 40         |
| State Agencies                  | 11         |
| Other/Privatized                | 31         |
| Total                           | <u>343</u> |

On June 30, 2009, the System's membership was as follows:

|  |                |
|--|----------------|
| Retirees or beneficiaries receiving annuity benefits | 28,818         |
| T-DROP participants                                  | 4,631          |
| Inactive plan members (not receiving benefits)       | 11,766         |
| Active members:                                      |                |
| Fully vested   | 19,542         |
| Non-vested   | 51,113         |
| Total  | <u>115,870</u> |

Members are eligible for full retirement benefits at age 60 with five or more years of actual service or any age with 28 or more years of credited service. Members with 25 years of credited service who have not attained age 60 may receive an annuity reduced by 5/12 of one percent multiplied by the number of months by which time the early retirement precedes the earlier of (1) completion of 28 years of service or (2) attainment of age 60. The normal retirement benefit, paid on a monthly basis, is determined based on (1) the member's final average salary (computed using highest three years salary) and (2) the number of years of service.

ATRS has contributory and non-contributory plans. The contributory plan has been in effect since the beginning of ATRS. The non-contributory plan became available July 1, 1986. Act 81 of 1999, effective July 1, 1999, requires all new members to be contributory and allowed active members as of July 1, 1999 until July 1, 2000 to make an irrevocable choice to be contributory or non-contributory. Act 93 of 2007 allows any non-contributory member to elect contributory status at the beginning of each fiscal year.

Disability retirement benefits are payable to members who are vested and demonstrate total and permanent incapacity to perform the duties of his/her position while in active employment. The disability annuity is computed in the same manner as the age & service annuity.

Survivor benefits are payable to qualified survivors upon the death of an active, vested member. Eligible survivors receive a survivor annuity that is based on the member's years of service credit prior to his/her death.

ATRS also provides a lump sum death benefit for ATRS active and retired members with 10 years of credited service. The amount for contributory members will be up to \$10,000 and up to \$6,667 for non-contributory members.

**NOTES TO FINANCIAL STATEMENTS** (continued)

JUNE 30, 2009

**B. PLAN DESCRIPTION** (continued)

Act 1096 of 1995 created a teacher deferred retirement option plan (T-DROP) for members with 30 or more years of service credits. Act 1590 of 1999, allows for participation in the T-DROP after 28 years of credited service with a reduction of six percent for each year under 30 years. The T-Drop benefit is the member's normal retirement benefit reduced by one percent for each contributory year of service and 6/10 of one percent for each non-contributory year of service. For members entering T-DROP prior to September 1, 2003, a reduction of 1/2 of one percent for contributory service and 3/10 of one percent for non-contributory service for each year above 30 years of service was made to the benefit. The T-DROP account accrues interest at a variable rate that is set annually by the ATRS Board of Trustees based on the applicable rate of return. Employer and member contributions, if applicable, cease upon the member entering the T-DROP program. Effective September 1, 2003, employers are required to make contributions on behalf of all members in T-DROP at rates established by the Board of Trustees. A member may participate in T-DROP for a maximum of ten years. A member may continue employment after the ten years of participation but does not accumulate additional service credits or interest on their T-DROP account balance. The T-DROP account balance may be received as a lump-sum cash payment, an annuity, or rolled over into another tax-deferred account when the member terminates employment.

**C. BASIS OF ACCOUNTING**

Financial statements for ATRS are prepared using the accrual basis of accounting. Member and employer contributions and other revenues are recognized when due, pursuant to formal commitments and statutory requirements. Expenses, including benefits and refunds, are recognized when due and payable in accordance with provisions of law.

**Administrative Expenses**

Expenses incurred administrating the System are budgeted and approved by the Arkansas General Assembly. Funds expended by ATRS are from the trust and not taken directly from the general revenues of the state.

**Method Used to Value Investments**

Investments are reported at fair value. Cash and cash equivalents having a maturity of three months or less when purchased are reported at cost. Fair market is determined using pricing services, when available, historical costs adjusted for market trends, independent third-party appraisals, and independent brokers and industry experts. Publicly traded alternative investments are valued based on quoted market prices. When not readily available, alternative investment securities are valued based on a good faith determination of the General Partner. Given the inherent nature of investments it is reasonably possible that changes in the value of those investments will occur in the near term and that such changes could materially affect the amounts reported in the Statement of Plan Net Assets.

**Derivatives**

ATRS does not employ an active investing policy utilizing derivatives. Various managers are permitted to use foreign currency futures selectively to hedge risks in the markets caused by timing differences. As of June 30, 2009, ATRS had open forward exchange contracts with an unrealized loss of approximately \$703,662.

## NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2009

### II. CAPITAL ASSETS

Capital assets are reported at historical cost, including ancillary costs (such as professional fees and costs, freight costs, preparation or setup costs and installation costs). Infrastructure of public domain fixed assets such as roads, bridges, tunnels, curbs and gutters, streets and sidewalks, drainage systems and lighting systems are also capitalized. Gifts or contributions are generally recorded in the accounts at fair market value at the time received. Depreciation is reported for capital assets based on a straight-line method, with no salvage value.

Capital asset activity for the year ended June 30, 2009, was as follows:

|                                       | Beginning<br>Balance | Additions        | Retirements   | Ending<br>Balance |
|---------------------------------------|----------------------|------------------|---------------|-------------------|
| Fiduciary activities:                 |                      |                  |               |                   |
| Equipment                             | \$ 2,013,236         | \$ 64,669        | \$ 35,917     | \$ 2,041,988      |
| Less accumulated<br>depreciation for: |                      |                  |               |                   |
| Equipment                             | 1,714,440            | 39,996           | 35,806        | 1,718,630         |
| Fiduciary activities, net             | <u>\$ 298,796</u>    | <u>\$ 24,673</u> | <u>\$ 111</u> | <u>\$ 323,358</u> |

### III. DEPOSITS AND INVESTMENTS

#### A. DEPOSITS

Deposits are carried at cost and are included in "Cash and Cash Equivalents". Cash and cash equivalents include demand accounts, imprest accounts, cash in state treasury and short term investment funds (STIF). The STIF accounts are excess cash that is swept daily by the System's custodial bank into bank sponsored commingled funds that are invested in U.S. Government and Agency securities and other short term investments. State Treasury Management Law governs the management of funds held in the State Treasury and it is the responsibility of the Treasurer of State to ensure these funds are adequately insured and collateralized. Cash and cash equivalents totaled \$183,104,603 at June 30, 2009. The total consisted of cash deposits with financial institutions of \$9,648,412, STIF accounts in the amount of \$169,258,447, cash in state treasury of \$4,197,669 and a petty cash fund of \$75.

#### *Custodial Credit Risk*

Custodial credit risk for deposits is the risk that in the event of a financial institution failure, ATRS will not be able to recover deposits or collateral securities. ATRS maintains accounts in trust for the benefit of its members and is granted insurance coverage per participant in the System by the Federal Deposit Insurance Corporation (FDIC). On June 30, 2009, \$3,999,678 of the System's bank balance of \$9,822,653 was held in foreign banks and was exposed to custodial credit risk.

## NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2009

### B. INVESTMENTS

Arkansas Code Annotated 24-2-601 thru 24-2-619 authorizes the Board of Trustees of the Arkansas Teacher Retirement System to have full power to invest and reinvest monies of the system and to hold, purchase, sell, assign, transfer or dispose of any of the investments, or proceeds of the investments in accordance with the prudent investor rule. The Code also states the System shall seek to invest not less than five percent (5%) nor more than ten percent (10%) of the System's portfolio in Arkansas related investments. The System's investment policies and procedures can be found in the Investment Section of this report.

The fair values of investments held at June 30, 2009 are as follows:

| Investment Type                                | Fair Value             |
|--|------------------------|
| U.S. Government and agency obligations         | \$119,781,467          |
| STIF accounts                                  | 169,258,447            |
| International equities                         | 449,516,378            |
| Global corporate bonds                         | 27,492,496             |
| Forward currency contracts                     | (703,662)              |
| Domestic corporate bonds                       | 301,471,211            |
| Domestic equities                              | 1,830,614,238          |
| Domestic convertible bonds                     | 265,461,490            |
| Collateralized mortgage obligations            | 90,100,030             |
| Certificates of deposit                        | 3,125,000              |
| Mortgages                                      | 47,598,591             |
| Department of Education revolving credit notes | 8,878,824              |
| Asset-backed securities                        | 23,945,648             |
| Commingled funds - fixed                       | 1,682,178,065          |
| Commingled funds - equities                    | 1,853,366,333          |
| Municipal bonds                                | 1,429,268              |
| Partnerships                                   | 49,584,346             |
| Real estate                                    | 100,055,730            |
| Alternative investments                        | 1,597,176,267          |
|  | <hr/>                  |
| Total investments                              | 8,620,330,167          |
|  | <hr/>                  |
| Securities Lending Invested Cash Collateral    |                        |
|  | <hr/>                  |
| Quality D short term investment pool           | 785,368,267*           |
|  | <hr/>                  |
| Total  | <u>\$9,405,698,434</u> |

\* Cash collateral received totaled \$825,589,698. The amount reported in the GASB No. 40 footnote above is the market value of the cash collateral invested at June 30, 2009.

## NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2009

### B. INVESTMENTS (continued)

#### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Also, the terms of a debt investment may cause its fair value to be highly sensitive to interest rate changes. The System does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increased interest rates. As of June 30, 2009, the interest rate risk of debt investments using the weighted average maturity is as follows:

| Investment Type            | Fair Value             | Investment Maturities (In Years) |                       |                        |                       |
|----------------------------|------------------------|----------------------------------|-----------------------|------------------------|-----------------------|
|                            |                        | Less than 1                      | 1 - 5                 | 6 -10                  | More than 10          |
| U.S.Treasuries             | \$ 58,099,743          |                                  | \$ 11,515,008         | \$ 9,933,372           | \$ 36,651,363         |
| U.S. Government agency     | 61,681,725             | \$ 413,262                       | 1,228,136             | 11,444,580             | 48,595,747            |
| Convertible bonds          | 265,461,490            |                                  | 119,317,930           | 16,608,956             | 129,534,604           |
| Mortgage backed securities | 90,100,030             |                                  | 4,472,808             | 8,463,621              | 77,163,601            |
| Corporate bonds            | 328,963,707            | 5,454,398                        | 112,297,458           | 125,028,599            | 86,183,252            |
| Asset-backed securities    | 23,945,648             |                                  | 9,078,521             | 4,265,147              | 10,601,980            |
| Mortgages                  | 56,477,414             |                                  | 9,269,100             | 22,103,689             | 25,104,625            |
| Certificates of deposit    | 3,125,000              | 3,125,000                        |                       |                        |                       |
| Commingled funds           | 1,682,178,065          | 526,530,355                      | 207,935,618           | 808,707,805            | 139,004,287           |
| Municipal bonds            | 1,429,268              |                                  |                       |                        | 1,429,268             |
| STIF balances              | 169,258,447            | 169,258,447                      |                       |                        |                       |
| <b>Totals</b>              | <b>\$2,740,720,537</b> | <b>\$ 704,781,462</b>            | <b>\$ 475,114,579</b> | <b>\$1,006,555,769</b> | <b>\$ 554,268,727</b> |

#### Securities Lending Invested Cash Collateral

|                           |                |                |
|---------------------------|----------------|----------------|
| Quality D Investment Fund | \$ 785,368,267 | \$ 785,368,267 |
|---------------------------|----------------|----------------|

#### Mortgage-Backed Securities

As of June 30, 2009, the System held mortgage-backed securities with a fair value of \$90,100,030. The overall return or yield on mortgage-backed securities depends on the amount of interest collected over the life of the security and the change in the market value. Although the System will receive the full amount of principal if prepaid, the interest income that would have been collected during the remaining period to maturity, net of any market adjustment, is lost. Accordingly, the yields and maturities of mortgage-backed securities generally depend on when the underlying mortgage loan principal and interest are repaid. If market rates fall below a mortgage loan's contractual rate, it is generally to the borrower's advantage to prepay the existing loan and obtain new lower financing. In addition to changes in interest rates, mortgage loan prepayments depend on other factors such as loan types and geographic location of the related properties. At June 30, 2009 the System held no mortgage-backed securities that were considered as highly sensitive to changes in interest rates.



## NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2009

### B. INVESTMENTS (continued)

#### Asset-Backed Securities

As of June 30, 2009, the System held asset-backed securities with a fair value of \$23,945,648. These securities represent interests in various trusts consisting of pooled financial assets other than mortgage loans conveyed by the issuing parties. The System's ability to recover the amount of principal invested in these securities depends on the performance and quality of the trust assets. At June 30, 2009 the System held no asset-backed securities that were considered as highly sensitive to changes in interest rates.

#### Credit Risk

Credit risk of investments is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This credit risk is measured by the credit quality of investments in debt securities as described by nationally recognized statistical rating organizations. The System does not have a formal investment policy for credit risk. The System's exposure to credit risk as rated by Standard & Poor's (S&P) and Moody's Investors Service as of June 30, 2009, is as follows:

| Standard and Poor's                         |                        | Moody's Investors Service |                        |
|---|------------------------|---------------------------|------------------------|
| Rating                                      | Fair Value             | Rating                    | Fair Value             |
| AAA   | \$ 199,831,184         | Aaa                       | \$ 155,515,350         |
| AA  | 23,128,715             | Aa                        | 41,857,132             |
| A   | 59,847,019             | A                         | 40,116,531             |
| BBB   | 123,999,407            | Baa                       | 102,639,183            |
| BB  | 120,440,707            | Ba                        | 89,937,371             |
| B   | 97,949,744             | B                         | 63,207,576             |
| CCC or below                                | 40,096,325             | C or below                | 37,467,117             |
| Not Rated                                   | 2,007,662,785          | Not Rated                 | 2,142,215,626          |
| Total                                       | <u>\$2,672,955,886</u> | Total                     | <u>\$2,672,955,886</u> |
| Securities Lending Invested Cash Collateral |                        |                           |                        |
| Not Rated                                   | <u>\$ 785,368,267</u>  | Not Rated                 | <u>\$ 785,368,267</u>  |

#### Custodial Credit Risk

Custodial credit risk for investments is the risk that in the event of failure of the counterparty to a transaction, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the System, and are held by either the counterparty or the counterparty's trust department or agent but not in the System's name. The System does not have a formal investment policy for custodial credit risk. At June 30, 2009, none of the System's investments were exposed to custodial credit risk.



## NOTES TO FINANCIAL STATEMENTS (continued)

JUNE 30, 2009

### B. INVESTMENTS (continued)

#### Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer (not including investments issued or guaranteed by the U.S. Government, investments in mutual funds or external investment pools). The System does not have a formal investment policy for concentration of credit risk. At June 30, 2009, none of the System's investments in any one issuer, other than those issued or guaranteed by the U.S. Government, represented more than five percent of the total investments.

#### Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. ATRS does not have a formal investment policy for foreign currency risk. The exposure to foreign currency risk for investments and deposits at June 30, 2009, is as follows:

| Currency               | Fair Value    | Equities      | Forward Contracts | Cash        |
|------------------------|---------------|---------------|-------------------|-------------|
| Australian Dollar      | \$ 20,083,263 | \$ 14,483,976 | \$ 5,593,279      | \$ 6,008    |
| Brazilian Real         | 5,348,990     | 5,553,810     | (208,274)         | 3,454       |
| Canadian Dollar        | 22,982,600    |               | 22,981,179        | 1,421       |
| Swiss Franc            | 23,073,396    | 35,067,813    | (11,995,177)      | 760         |
| Danish Krone           | 670,898       | 2,224,550     | (1,555,302)       | 1,650       |
| Euro Currency          | 96,581,035    | 80,283,165    | 14,267,509        | 2,030,361   |
| British Pound Sterling | 80,862,111    | 97,332,680    | (16,919,533)      | 448,964     |
| Hong Kong Dollar       | 24,185,057    | 34,259,222    | (10,099,972)      | 25,807      |
| Hungarian Forint       | 1,558,664     | 1,322,204     | 236,186           | 274         |
| India Rupee            | 702,226       |               |                   | 702,226     |
| Indonesian Rupiah      | 16,547,076    | 16,547,076    |                   |             |
| Israeli Shekel         | 2,793,643     | 2,793,643     |                   |             |
| Japanese Yen           | 73,848,947    | 98,536,050    | (24,972,198)      | 285,095     |
| South Korean Won       | 3,954,556     | 3,954,555     |                   | 1           |
| Malaysia Ringgit       | 1,764,615     | 1,764,615     |                   |             |
| Mexican Peso           | 3,509,740     | 5,743,095     | (2,233,502)       | 147         |
| Norwegian Krone        | 6,102,472     | 13,086,650    | (7,078,084)       | 93,906      |
| New Zealand Dollar     | 2,628         |               |                   | 2,628       |
| Swedish Krona          | 24,277,685    | 2,862,811     | 21,414,846        | 28          |
| Singapore Dollar       | 3,455,872     | 10,620,859    | (7,165,114)       | 127         |
| South African Rand     | 7,295,459     | 1,612,933     | 5,682,512         | 14          |
| New Taiwan Dollar      | 15,303,382    | 14,942,012    |                   | 361,370     |
| Thailand Baht          | 2,054,036     | 6,517,552     | (4,524,197)       | 60,681      |
| Yuan Renminbi          | (25,244)      |               |                   | (25,244)    |
| Totals                 | \$436,933,107 | \$449,509,271 | \$ (16,575,842)   | \$3,999,678 |

Note – For Foreign Currency Contracts, a positive number represents the value of contracts to purchase that currency in excess of the value of contracts to sell that currency. A negative number therefore represents the value of contracts to sell foreign currency in excess of contracts to purchase that currency.

**NOTES TO FINANCIAL STATEMENTS** (continued)

JUNE 30, 2009

**B. INVESTMENTS** (continued)

**Forward Currency Contracts**

The Agency enters into various currency contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include movement in the value of the foreign currency relative to the U.S. dollar and the ability of the counterparty to perform. The contracts are valued at forward exchange rates, and the changes in value of open contracts are recognized as unrealized appreciation/depreciation in the statement of changes in plan net assets. The realized gain or loss on closed forward currency contracts represents the difference between the value of the original contracts and the closing value of such contracts and is included in net appreciation (depreciation) in fair value of investments in the statement of changes in plan net assets. At June 30, 2009, the Agency had outstanding forward exchange currency contracts to purchase foreign currencies with contract amounts of \$88,096,909. Market values of these outstanding contracts were \$87,887,944 resulting in a net loss of \$208,965. The Agency also had outstanding forward currency contracts to sell foreign currencies with contract amounts of \$103,969,090 at June 30, 2009. Market values of these contracts were \$104,463,786 resulting in a net loss of \$494,696.

**Securities Lending Transactions**

Arkansas Code Annotated and Board of Trustees policies permit the System to participate in a securities lending program, whereby securities are loaned to broker-dealers or other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. There were no restrictions on the amount of security loans that could be made. The System's securities lending program is administered by State Street Bank and Trust Company (the "custodian"). The legal and contractual authorization for the securities lending program is contained in the Securities Lending Discretionary Agency Agreement between the System and the Custodian. For the year ended June 30, 2009, there were no violations of the Agency Agreement. The Custodian provides for full indemnification to the System's funds for any losses that might occur in the program due to the failure of a broker to return a security that was borrowed (and if the collateral is inadequate to replace the securities lent) or failure to pay the trust funds for income of the securities while on loan. Collateral must be provided that is equal to at least 100% of the market value of the loaned securities at the time of transfer. At year-end, the System had no exposure to credit risk to borrowers due to the Custodian's indemnification. Securities on loan (Underlying Securities) to participating brokers at year-end include U.S. Government securities, corporate securities and international securities. Brokers who borrow the securities provide collateral in the form of cash and cash equivalents, U.S. Treasury or Government securities, sovereign debt rated A or better, Canadian provincial debt, convertible bonds or letters of credit (for the marginal percent collateralization only). The System cannot pledge or sell collateral securities received unless the borrower defaults. Cash collateral received is invested in the System's name; accordingly investments made with cash collateral appear as an asset on the Statement of Plan Net Assets. A corresponding liability is recorded, as the System must return the cash collateral to the borrower upon expiration of the loan. At June 30, 2009, the amount owed to borrowers was approximately \$40.2 million more than the fair value of the cash collateral invested. The loan maturity dates generally do not match the maturity dates of the investments made with the cash collateral received. The cash collateral investments had an average weighted maturity of 43 days on June 30, 2009, whereas the average loan maturity was one day.

## NOTES TO FINANCIAL STATEMENTS *(continued)*

JUNE 30, 2009

### IV. CONTRIBUTIONS AND RESERVES

#### A. CONTRIBUTIONS

Arkansas Teacher Retirement System's (ATRS) funding policy provides for periodic employer contributions at statutorily established rates, with a fundamental financial objective of having rates of contribution which remain relatively level from generation to generation of Arkansas citizens. All participating employers pay the employer contribution rate for eligible employees in accordance with ATRS laws and regulations. Ark. Code Ann. 24-7-401 states for the fiscal years ending June 30, 2008 and June 30, 2009, and each fiscal year thereafter, the employer contribution rate shall not exceed 14%. The employer contribution rate was 14% for the fiscal year ending June 30, 2009. To test the adequacy of the statutory rates and assess the extent to which the fundamental financial objective is being achieved, the system has actuarial valuations prepared annually. The entry age normal cost actuarial method was used to determine normal cost and actuarial accrued liabilities using the difference between the statutory rate and the normal cost as the amortization rate.

Contributory members are required by code to contribute six percent of gross wages to ATRS (by individual election, employees who became members before July 1, 1971, can contribute on only the first \$7,800 of their annual salaries). Employee contributions are refundable if ATRS covered employment terminates before a monthly benefit is paid. Employee contributions remaining on deposit with ATRS for a period of one or more years earn interest credits, which are included in the refund.

#### B. RESERVES

In accordance with the provisions of Ark. Code Ann. 24-7-405 and 24-7-1307, Arkansas Teacher Retirement System must maintain reserve accounts showing net assets available for benefits. At June 30, 2009, the reserve accounts were funded at a level, which complied with the code provisions. The reserve balances at June 30, 2009, are as follows:

|   | <u>Total</u>                  |
|---|-------------------------------|
| Members' deposit account reserve                        | \$4,311,316,825               |
| Employers' accumulation account reserve                 | (1,910,741,238)               |
| Retirement reserve                                      | 5,753,230,876                 |
| Teacher Deferred Retirement Option Plan account reserve | 571,965,465                   |
| Survivor benefit account reserve                        | 69,620,081                    |
| Income - expense account reserve                        | <u>7,595,216</u>              |
| Total   | <u><u>\$8,802,987,225</u></u> |

## NOTES TO FINANCIAL STATEMENTS *(continued)*

JUNE 30, 2009

### V. FUNDED STATUS AND FUNDING PROGRESS – PENSION PLANS

The funded status of the plan as of June 30, 2009, the most recent actuarial valuation date, is as follows (dollar amounts in millions):

| Actuarial Value of Assets<br>(a) | Actuarial Liability(AAL) - Entry Age<br>(b) | Unfunded AAL (UAAL)<br>(b-a) | Funded Ratio<br>(a/b) | Covered Payroll<br>(c) | UAAL as a Percentage of Covered Payroll<br>([b-a]/c) |
|----------------------------------|---|------------------------------|-----------------------|------------------------|--|
| \$10,617                         | \$14,019                                    | \$3,402                      | 75.7%                 | \$2,318                | 146.8%   |

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

Additional information as of the latest actuarial valuation follows:

|  |  |
|--|--|
| Valuation date                             | June 30, 2009                                |
| Actuarial cost method                      | Entry age                                    |
| Amortization method                        | Level percent of payroll                     |
| Remaining amortization period              | 45.4 years                                   |
| Asset valuation method                     | 4-year smoothed market 80%/120% corridor (1) |
| Actuarial assumptions:                     |  |
| Investment rate of return                  | 8.00%  |
| Projected salary increases                 | 4.00 - 10.10%                                |
| Inflation rate                             | 4.00%  |
| Post retirement cost-of-living adjustments | 3.00% - simple                               |
| Mortality table                            | 1983 Group Annuity Mortality Table           |

- (1) Present market conditions can lead to a situation where the recognized assets might deviate greatly from the market value. To prevent this, there is a requirement that the recognized assets must always be between 80% and 120% of the market value.

### VI. OTHER POSTEMPLOYMENT BENEFITS (OPEB)

GASB 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions (OPEB), requires that OPEB expense of fiduciary funds should be recognized on the accrual basis in the fund financial statements. The 2009 charge of \$317,313 is a prorated amount from the Department of Finance and Administration based on a State-wide actuarial study. The amount charged to ATRS is based on budgeted employees of the Agency and is composed of: (1) the annual required contribution (ARC) which is the normal cost and 1/30 of the unfunded actuarial accrued liability (UAAL), (2) one-year's interest on the net OPEB, (3) adjustments to the ARC to offset the effect of actuarial amortization of past under or over contributions, and (4) minus actual contributions. The State of Arkansas 2009 CAFR will contain the complete OPEB footnote required by GASB 45.

**NOTES TO FINANCIAL STATEMENTS** *(continued)*

JUNE 30, 2009

**VII. COMMITMENTS AND CONTINGENCIES**

As of June 30, 2009, ATRS was committed to purchase investments and return securities lending collateral at an aggregate cost of approximately \$1.701 billion.

**VIII. SUBSEQUENT EVENTS**

Subsequent to the June 30, 2009, fiscal year end, broad indexes continued to post strong gains advancing in all three months of the first quarter of fiscal year 2010. September marked the seventh consecutive monthly advance for U.S. equities, returning approximately 16% for the quarter. Better than expected earnings, particularly in financials, and an increase in M&A activity helped to increase investor confidence in light of the rise in the unemployment rate, which reached 9.8% in September. The Fed met twice during the quarter, to keep the federal funds rate within a range of 0.00% - 0.25%.

The non-U.S. stock market, as measured by the MSCI All Country World ex-U.S. Index, returned 19.7% during the first quarter of fiscal year 2010, outperforming the U.S. stock market. Emerging markets gained 20.9% during the quarter and outperformed developed countries (+19.5%). The Pacific ex-Japan and Europe ex-U.K. regions were the strongest performers, delivering returns of 27.4% and 25.0%, respectively. Every region in the Index with the exception of Japan generated a return greater than 10%.

The U.S. bond market, as measured by the Barclays Capital Aggregate Bond Index, returned 3.7% during the quarter. Treasuries were once again the worst performing sector of the Index as last year's flight to quality continued to reverse. Credit spreads declined further, boosting performance in the credit and asset-backed sectors of the market. The yield curve shifted downward and remained at historically steep levels.

The ATRS investment portfolio benefitted from the continued improvement in markets during the first quarter of fiscal year 2010 as the portfolio returned 11.2%. The total value of the portfolio also increased from \$8.8 billion at the end of fiscal year 2009 to \$9.7 billion at the end of the first quarter of fiscal year 2010. Positive relative performance continued as a result of strong performance from both the U.S. equity and fixed income asset classes.

**IX. REQUIRED SUPPLEMENTARY SCHEDULES**

The historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is required supplementary information. Required supplementary information is included immediately following the notes to the financial statements.

## REQUIRED SUPPLEMENTARY SCHEDULES

### SCHEDULE 1 - SCHEDULE OF FUNDING PROGRESS

(DOLLAR AMOUNTS IN MILLIONS)

| Valuation Date<br>June 30 | (1)<br>Actuarial<br>Value of<br>Assets | (2)<br>Entry Age<br>AAL | (3)<br>UAAL<br>(2)-(1) | (4) Funding<br>Ratio<br>(1)/(2) | (5)<br>Annual<br>Payroll | (6)<br>UAAL as %<br>of Payroll<br>(3)/(5) |
|---------------------------|--|-------------------------|------------------------|---------------------------------|--------------------------|---|
| 1991+*                    | \$2,434                                | \$ 2,762                | \$ 328                 | 88.1%                           | \$ 909                   | 36.1%                                     |
| 1992+                     | 2,729                                  | 3,329                   | 600                    | 82.0%                           | 1,077                    | 55.7%                                     |
| 1993+                     | 3,051                                  | 3,712                   | 661                    | 82.2%                           | 1,120                    | 59.0%                                     |
| 1994                      | 3,307                                  | 3,960                   | 653                    | 83.5%                           | 1,167                    | 56.0%                                     |
| 1995*                     | 3,626                                  | 4,257                   | 631                    | 85.2%                           | 1,234                    | 51.1%                                     |
| 1996                      | 4,186                                  | 4,635                   | 449                    | 90.3%                           | 1,260                    | 35.6%                                     |
| 1997+                     | 4,956                                  | 5,403                   | 447                    | 91.7%                           | 1,302                    | 34.3%                                     |
| 1998+*                    | 5,815                                  | 6,188                   | 373                    | 94.0%                           | 1,368                    | 27.3%                                     |
| 1999+                     | 6,740                                  | 6,834                   | 94                     | 98.6%                           | 1,429                    | 6.6%                                      |
| 2000+                     | 7,620                                  | 7,879                   | 259                    | 96.7%                           | 1,485                    | 17.4%                                     |
| 2001+                     | 8,166                                  | 8,561                   | 395                    | 95.4%                           | 1,557                    | 25.4%                                     |
| 2002*                     | 8,328                                  | 9,062                   | 734                    | 91.9%                           | 1,628                    | 45.1%                                     |
| 2003+                     | 8,113                                  | 9,445                   | 1,332                  | 85.9%                           | 1,683                    | 79.1%                                     |
| 2004                      | 8,424                                  | 10,050                  | 1,626                  | 83.8%                           | 1,748                    | 93.0%                                     |
| 2005                      | 8,817                                  | 10,973                  | 2,156                  | 80.4%                           | 1,962                    | 109.9%                                    |
| 2006                      | 9,332                                  | 11,623                  | 2,291                  | 80.3%                           | 2,080                    | 110.1%                                    |
| 2007+                     | 10,519                                 | 12,329                  | 1,810                  | 85.3%                           | 2,191                    | 82.6%                                     |
| 2008+                     | 11,319                                 | 13,334                  | 2,015                  | 84.9%                           | 2,268                    | 88.8%                                     |
| 2009                      | 10,617                                 | 14,019                  | 3,402                  | 75.7%                           | 2,318                    | 146.8%                                    |

+ Legislated benefit or contribution rate change.

\* Revised actuarial assumptions or methods.

## REQUIRED SUPPLEMENTARY SCHEDULES *(continued)*

### SCHEDULE 2 - SCHEDULE OF EMPLOYER CONTRIBUTIONS

(DOLLAR AMOUNTS IN MILLIONS)

| Fiscal Year Ended June 30 | Estimated Payroll | Annual Required Contribution Rate | (A) Annual Required Contribution* | (B) Actual Contributions | (B) (A) Percent Contributed |
|---------------------------|-------------------|-----------------------------------|-----------------------------------|--------------------------|-----------------------------|
| 1995                      | \$1,167           | 12.0%                             | \$140.04                          | \$139.80                 | 99.8%                       |
| 1996                      | 1,234             | 12.0%                             | 148.08                            | 132.60                   | 89.5%                       |
| 1997                      | 1,260             | 12.0%                             | 151.20                            | 153.50                   | 101.5%                      |
| 1998                      | 1,302             | 12.0%                             | 156.24                            | 159.00                   | 101.8%                      |
| 1999                      | 1,368             | 12.0%                             | 164.16                            | 166.80                   | 101.6%                      |
| 2000                      | 1,429             | 12.0%                             | 171.48                            | 175.70                   | 102.5%                      |
| 2001                      | 1,485             | 12.0%                             | 178.20                            | 181.10                   | 101.6%                      |
| 2002                      | 1,557             | 12.0%                             | 186.84                            | 191.35                   | 102.4%                      |
| 2003                      | 1,628             | 12.0%                             | 195.36                            | 200.46                   | 102.6%                      |
| 2004                      | 1,683             | 13.0%                             | 218.79                            | 224.18                   | 102.5%                      |
| 2005                      | 1,748             | 14.0%                             | 244.72                            | 286.44                   | 117.0%                      |
| 2006                      | 1,962             | 14.0%                             | 285.64                            | 311.71                   | 109.1%                      |
| 2007                      | 2,080             | 14.7%                             | 321.66                            | 331.89                   | 103.2%                      |
| 2008                      | 2,191             | 14.5%                             | 343.99                            | 350.32                   | 101.8%                      |
| 2009                      | 2,268             | 14.0%                             | 344.03                            | 359.06                   | 104.4%                      |

*\*Actual contributions will be based on pay actually paid throughout the year which may be different from the projected payroll used in this calculation. The final ARC should be based upon the actual active payroll, plus statutory contributions made on behalf of TDROP participants and retirees who have returned to work. Column A is an approximation of this based upon information available to the actuary.*

**SUPPORTING SCHEDULES**

**SCHEDULE 3 - SCHEDULE OF ADMINISTRATIVE EXPENSES**

*For the Year Ended June 30, 2009*

|                                      |                                |
|--------------------------------------|--------------------------------|
| Personnel Services                   |                                |
| Staff Salaries                       | \$ 3,272,852                   |
| Employee Benefits                    | 1,360,615                      |
| Total Personnel Services             | <u>4,633,467</u>               |
| Professional Services                |                                |
| Actuary                              | 219,200                        |
| Data Processing                      | 528,000                        |
| Legal Counsel                        | 65,236                         |
| Medical Board                        | 4,800                          |
| Accounting                           | 9,211                          |
| Other Professional Services and Fees | 43,803                         |
| Total Professional Services          | <u>870,250</u>                 |
| Miscellaneous                        |                                |
| Rent Expense                         | 601,394                        |
| Communication Expenses               | 310,566                        |
| Travel Expense                       | 123,871                        |
| Equipment Expense                    | 198,938                        |
| Other Operating Expense              | 175,379                        |
| Total Miscellaneous                  | <u>1,410,148</u>               |
| <br>Total Administrative Expenses    | <br><u><u>\$ 6,913,865</u></u> |



**SUPPORTING SCHEDULES** *(continued)***SCHEDULE 4 - SCHEDULE OF INVESTMENT EXPENSES***For the Year Ended June 30, 2009*

|                                       |                             |
|---------------------------------------|-----------------------------|
| Investment Counsel                    | <u>\$ 1,785,781</u>         |
| Professional Services                 |                             |
| Domestic Money Managers               | 13,867,830                  |
| International / Global Money Managers | 13,251,225                  |
| Alternative Investment Managers       | 9,235,556                   |
| Custodian Fees                        | 851,413                     |
| Total Professional Services           | <u>37,206,024</u>           |
| Other Investment Expenses             |                             |
| Real Estate Expense                   | 3,110,629                   |
| Security Lending                      | 7,528,277                   |
| Miscellaneous Investment Expense      | 206,357                     |
| Total Other Investment Expenses       | <u>10,845,263</u>           |
| Total Investment Expense              | <u><u>\$ 49,837,068</u></u> |



# INVESTMENTS

November 2009

Board of Trustees  
Arkansas Teacher Retirement System  
1400 West Third Street  
Little Rock, AR 72201

### Market Overview

With the exception of government debt, global capital markets registered one of the weakest-recorded returns in history during the fiscal year ending June 2009. U.S. equity markets, as measured by the Dow Jones U.S. Total Stock Market Index declined 24.1% during the year, while international equity markets fared even worse as the MSCI All Country World ex-U.S. Index declined 30.1%. Fixed Income was the only asset class that posted a positive return as the Barclays Capital Aggregate Bond Index increased 6.0% due primarily to strong returns from U.S. government securities.

Market weakness that began with widespread defaults on securitized mortgage loans to sub-prime borrowers, quickly escalated to a large-scale credit and liquidity crisis. The crisis reached its tipping point in September 2008 with the failures of major financial institutions that ultimately led to coordinated actions by policymakers across the world to stem the crisis. These market events exposed the use of excessive leverage and risk-taking embedded in the financial system. As conditions continued to worsen during the fourth quarter of 2008, investors sought the protection of Treasury securities. The impact of this flight to quality was felt across all capital market sectors associated with risk, including U.S. equity; non-U.S. equity; spread sectors of the fixed income market; money markets tied to short-term corporate paper; real estate; and commodities.

As activity in the financial system came to a near-halt, governments across the world intervened with coordinated measures to inject liquidity into the financial system and restore economic stability. Policy actions ranged from emergency liquidity measures to large monetary stimulus programs and explicit and implicit support to large financial institutions. In the U.S., the Federal Reserve reduced its target overnight lending rates to historic lows of between 0.00% and 0.25%. In addition, efforts to inject liquidity into the market and spur additional lending included the Federal Open Market Committee's (FOMC) plan to purchase up to \$1.25 trillion in agency mortgage-backed securities, \$200 billion in agency debt, and \$300 billion in Treasury securities by the end of 2009. The implicit goal of this program was to reduce mortgage rates and quell fears of deflation.

The U.S. Treasury implemented several policy initiatives aimed at improving liquidity in the credit markets. Programs included the Term Asset-Backed Securities Loan Facility (TALF), which was designed to support the new-issue asset-backed securities markets, and the Public-Private Investment Program (PPIP), which seeks to improve conditions of distressed securities such as non-agency residential mortgage-backed securities and commercial mortgage-backed securities. Governments across Europe and Asia also undertook efforts to shore up troubled financial institutions and improve liquidity in the financial system.

The various government policies and programs have effectively calmed market sentiment as confidence and liquidity appear to be returning. Investors once again sought risk-based assets as financial markets rebounded strongly in early March of 2009 through the end of the fiscal year 2009. Equity markets rallied nearly 50% between the first week of March and the end of June, with emerging market equities posting the strongest returns. Within the fixed income market, investors moved out of the safety of Treasuries and into more risky bonds. As a result, credit

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spreads narrowed across fixed income sectors – high yield bonds were among the best performing securities during the first half of 2009, posting a 30% gain. As the economic outlook improved, commodities rebounded significantly from their end of 2008 lows. Crude oil, which fell to below \$40/barrel towards the end of 2008, rebounded to nearly \$70/barrel by June 2009. The U.S. dollar, which benefited from the flight to quality as investors piled into the safety of U.S. Treasuries, began to show signs of weakness as investors increasingly moved assets into foreign currency denominated assets.

## Overview of Fund Structure

The ATRS portfolio is diversified across several asset classes including U.S. equity, global equity, fixed income, and alternative investments. Within these asset classes, the investments are further diversified amongst different investment types, vintage years and styles. A variety of investment firms are employed within each category to minimize manager- and firm-specific risk. We believe the diversification level and general risk level of the fund structure to be appropriate given its goals and objectives.

During the fiscal year 2009, an asset liability study was conducted and the findings supported a mix of equities and alternative investments of eighty percent and a twenty percent allocation to fixed income. The Plan continued to shift the asset allocation toward the 30% global equity allocation target as well as the 10% targets to private equity and real estate. Both real estate and private equity have provided strong returns over time. A global equity manager search was conducted to help fill the allocation to global equities. When prudent, certain investment managers were afforded further latitude in the management of their portfolio to add additional value above their respective performance benchmarks. To accomplish this, the following changes took place in fiscal year 2009.

- Pershing Square was funded on July 1, 2008 with \$100 million. Pershing Square is a U.S. equity activist manager, which attempts to affect change within a company by purchasing a significant portion of outstanding stock or actively engaging with management and other shareholders.
- Two fixed income strategies, Loomis Sayles and Putnam, were funded on July 2, 2008 with \$250 million each. These strategies were funded as a result of the Board's decision to increase exposure to broader and more opportunistic mandates in the fixed income asset class.
- On August 15, 2008, approximately one-third of the ING Small Cap Growth strategy (\$55.6 million) was transitioned to the ING Absolute Return strategy. The new mandate is consistent with the Plan's attempt to broaden a current manager's mandate where appropriate.
- Lincoln Vale was funded in October 2008 for \$15 million. Lincoln Vale is an activist strategy that invests in small cap European equities.
- The Oppenheimer Large Cap Value Strategy and the options overlay were transitioned to the Oppenheimer Structured Alpha Fund on April 30, 2008. The Board voted to change Oppenheimer's mandate due to underperformance of the Large Cap Value Strategy to one that exclusively utilized the options strategy as the sole source of value added – the Structured Alpha Fund. This fund overlays the option strategy on top of the return of the S&P 500 Index through the use of futures contracts and is considered a portable alpha strategy. The return pattern of this strategy has been positive and far more consistent than the traditional Large Cap Value Strategy.
- Bedlam was funded on May 31, 2009 in the global equity asset class for \$150 million. Funding came from the fixed income asset class in equal parts from Blackrock, PIMCO and Western.
- The Wellington Global Research Equity strategy was liquidated with \$150 million transitioned to the new Wellington Global Perspectives strategy and the balance transitioned to the existing Wellington Opportunistic strategy. The mandate change is consistent with the Plan's shift to broader mandates.

## ATRS PERFORMANCE OVERVIEW

|                                  | 1 Year Ending 6/30/09 |           | 3 Year Ending 6/30/09 |           | 5 Year Ending 6/30/09 |           |
|----------------------------------|-----------------------|-----------|-----------------------|-----------|-----------------------|-----------|
|                                  | Return                | Rank      | Return                | Rank      | Return                | Rank      |
| <b>Total Fund</b>                | <b>-18.0%</b>         | <b>47</b> | <b>-2.0%</b>          | <b>28</b> | <b>3.2%</b>           | <b>17</b> |
| Performance Benchmark            | -18.2%                | 51        | -2.9%                 | 45        | 2.2%                  | 42        |
| <b>Total U.S. Equity</b>         | <b>-22.0%</b>         | <b>8</b>  | <b>-6.2%</b>          | <b>13</b> | <b>0.1%</b>           | <b>12</b> |
| DJ U.S. Total Stock Market Index | -26.4%                | 41        | -8.1%                 | 36        | -1.6%                 | 41        |
| <b>Total non-U.S. Equity</b>     | <b>-28.5%</b>         | <b>43</b> | <b>-5.8%</b>          | <b>21</b> | <b>3.8%</b>           | <b>11</b> |
| MSCI ACWI ex-U.S. Index          | -29.3%                | 48        | -5.8%                 | 20        | 4.5%                  | 4         |
| <b>Total Global Equity</b>       | <b>-28.5%</b>         | <b>43</b> |                       | –         |                       | –         |
| MSCI ACW Index                   | -29.3%                | 48        |                       | –         |                       | –         |
| <b>Total Fixed Income</b>        | <b>-0.3%</b>          | <b>87</b> | <b>4.1%</b>           | <b>74</b> | <b>4.0%</b>           | <b>67</b> |
| Performance Benchmark            | 4.9%                  | 42        | 5.9%                  | 35        | 5.0%                  | 33        |
| <b>Total Private Equity</b>      | <b>-18.1%</b>         | –         | <b>7.8%</b>           | –         | <b>17.7%</b>          | –         |
| Private Equity Policy            | -24.9%                | –         | -6.2%                 | –         | 0.4%                  | –         |
| <b>Total Real Estate</b>         | <b>-22.7%</b>         | <b>26</b> | <b>0.7%</b>           | <b>23</b> | <b>9.8%</b>           | <b>6</b>  |
| NCREIF NPI                       | -19.6%                | 16        | 1.1%                  | 21        | 7.7%                  | 27        |
| <b>Total Alternatives</b>        | <b>-3.6%</b>          | –         | <b>8.9%</b>           | –         | <b>7.2%</b>           | –         |
| South Timberland Index           | 3.3%                  | –         | 11.5%                 | –         | 13.6%                 | –         |

During the fiscal year of 2009, the System's -18.0%, outperformed the -18.2% return of the Performance Benchmark, and ranked above the median of the Mellon Analytical Solutions Public Fund Universe. This universe is comprised of 90 public pension funds with aggregate assets of \$763.2 billion. Longer-term performance was also favorable as the System's return exceeded that of the Performance Benchmark over the three- and five-year periods and ranked 28<sup>th</sup> and 17<sup>th</sup>, respectively, in the Public Fund Universe for those periods.

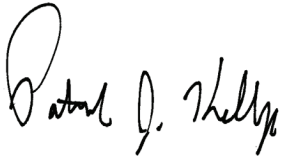
The U.S. equity asset class outperformed its benchmark over the one-, three-, and five-year periods and ranked at or near the top decile of plans in Mellon Analytics Public Fund U.S. equity asset class universe. The non-U.S. asset class, which was converted to a global asset class (U.S. and non-U.S. stocks combined) in fiscal year 2008, outperformed over the one-year period, but underperformed over the five-year period and ranked above median in the universe. The non-U.S. asset class represents the combined history of the global and non-U.S. asset class. This area of the portfolio ranked well among its peers but slightly trailed the index over the 5-year period. This is indicative of active managements' difficulty in beating the benchmark over this period.

The fixed income asset class fell short of the performance benchmark during the one-, three- and five-year periods due to underperformance amid the credit crisis and significant dislocation witnessed in the first half of fiscal year 2009. Relative to the index and peers, the ATRS-fixed income portfolio had heavier allocations to credit sensitive bonds at the expense of Treasury and other Government-backed bonds which is significantly detracting from performance during this period. The credit sensitive areas of the bond market rebounded sharply in the second half of the fiscal year and have continued to do so subsequent to year end.

The private equity asset class continued to outperform its benchmark during fiscal year 2009 and has significantly outperformed its benchmark during both the three- and five- year periods. Total real estate underperformed the NCREIF NPI during both the one- and three- year periods, but outperformed the benchmark during the five-year period, ranking in the top decile in the Public Fund Universe. Total alternatives, which consists of the timberland investments, underperformed the South Timberland Index during the one-, three- and five-year periods.

It is our pleasure to be serving the ATRS, and we look forward to many more years of service.

Sincerely,



Patrick J. Kelly, CFA  
Principal

PJK:cm

## INVESTMENT POLICIES AND PROCEDURES

### STATEMENT OF INVESTMENT POLICY

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.

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.

#### ***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 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.



## INVESTMENT POLICIES AND PROCEDURES *(continued)*

### ***Asset Allocation***

The Board of Trustees is responsible for the prudent investment of funds and to maintain a proper allocation of the System's investment assets. The Board of trustees, in conjunction with its advisors, shall set and adjust the System's asset allocation targets as necessary to provide an optimal allocation to obtain its target returns. It shall be the goal of the System to maintain the following asset allocation targets:

| <b>Asset Category</b> | <b>Target</b> |
|-----------------------|---------------|
| Domestic Equity       | 25.0%         |
| Global Equity         | 30.0%         |
| Domestic Fixed Income | 20.0%         |
| Alternatives          | 5.0%          |
| Real Estate           | 10.0%         |
| Private Equity        | 10.0%         |
| Cash Equivalents      | 0.0%          |

### ***Rebalancing***

The asset allocation targets established by the Board 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 targets should always be a consideration as the System makes investments and uses liquidity.

The Executive Director is responsible to rebalance among the allowable asset classes and the individual portfolios at such time that any of the asset classes falls outside a reasonable range of its target. The Executive Director will monitor the asset values by classification and for each asset manager on a monthly basis, based on month-end data provided by the custodial bank. The Executive Director shall submit a report to the Board detailing the process in place to keep the asset values within a reasonable target range.

Whenever the value of any major asset class exceeds its target, a transfer of funds may occur so as to bring the actual allocation back to within a reasonable range of its target. 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 classes that are below their target. Withdrawals should be made from asset classes that are above their target.

### ***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 maintain 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.

## INVESTMENT POLICIES AND PROCEDURES *(continued)*

### ***Domestic Equity***

The manager structure of the domestic equity portfolio's risk and style exposure should resemble the aggregate domestic equity market as measured by the Dow Jones Total Stock Market 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.

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 Dow Jones Total Stock Market Index over a full market cycle (approximately five years).

### ***Global Equity***

The manager structure of the aggregate global equity portfolio's risk and style exposure should resemble the aggregate global equity market as measured by the Morgan Stanley Capital International All Country World Index. To help achieve this goal, the Board will employ managers that invest in a broad array of countries (domestic, 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 global market. An active management strategy for global equity investments will be used.

The goal for global 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 global equity market as measured by the Morgan Stanley Capital International All Country World Index over a full market cycle (approximately five years).

### ***Fixed Income***

The manager structure of the aggregate fixed income portfolio's risk exposure should resemble the aggregate domestic fixed income market as measured by the Barclays Aggregate 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 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).

## **INVESTMENT POLICIES AND PROCEDURES** *(continued)*

### ***Alternative Investments***

Alternative investments currently include investment in timberland. 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).

In the future, this asset class may include additional asset strategies including, but not limited to, hedge fund of funds, infrastructure, commodities, and currency.

### ***Real Estate***

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 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).

### ***Private Equity***

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 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 Dow Jones Total Stock Market Index, plus a liquidity premium of 2.0% per year.

### ***Cash Equivalents***

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.

### ***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. Arkansas-related investments are now categorized according to the appropriate asset class for each investment.

**INVESTMENT POLICIES AND PROCEDURES** *(continued)*

***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.

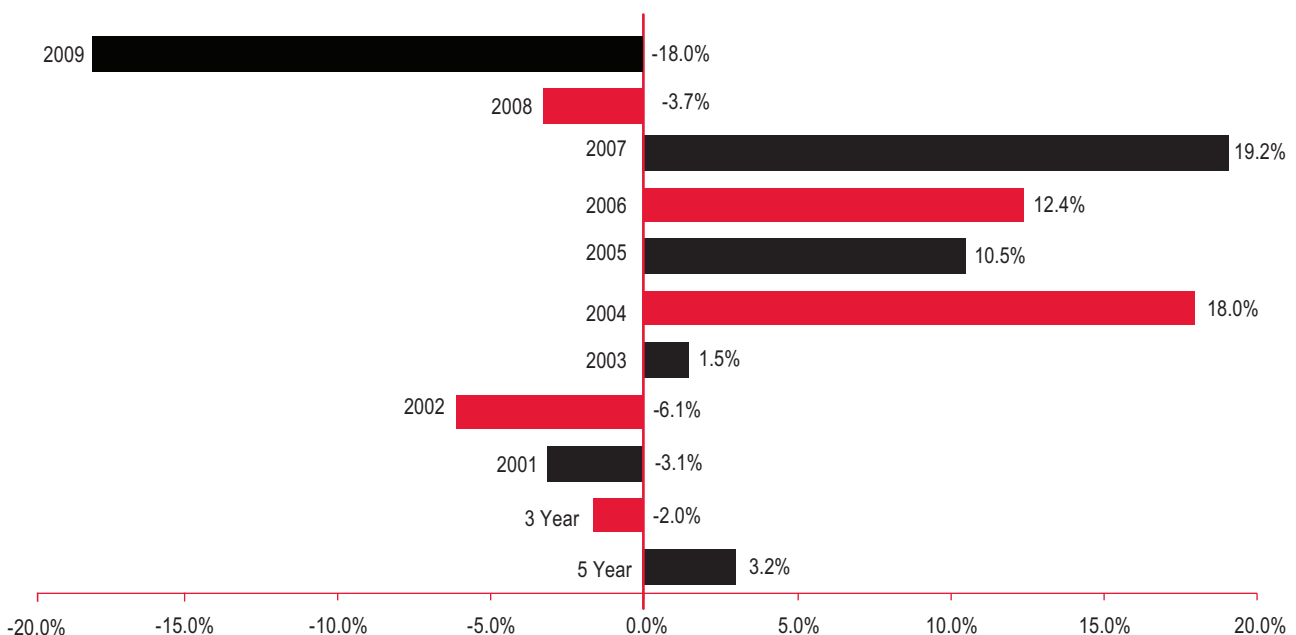
The use of futures and options shall be matched by cash or cash equivalent securities, and all short futures positions shall be matched by equivalent long security positions. Option premiums outstanding at any given time shall be limited to less than 5% of the market value of the total portfolio. The 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.

**ATRS Total Return by Fiscal Year**



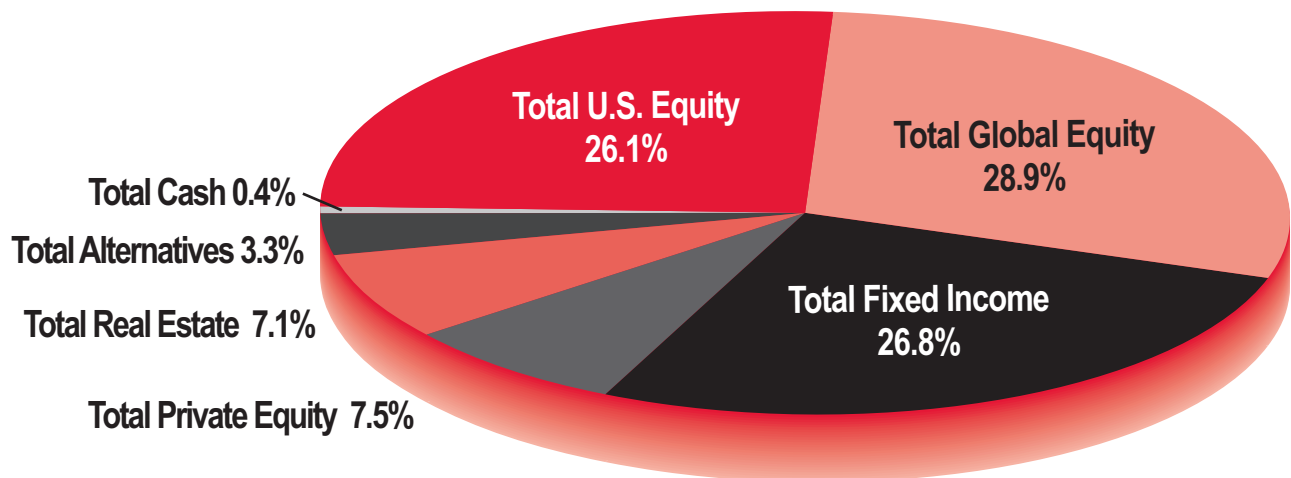
## ASSET ALLOCATION ANALYSIS

As of June 30, 2009

| Asset Class          | Market Value<br>(\$ in thousands) | Current %     |
|----------------------|-----------------------------------|---------------|
| Total U.S. Equity    | \$2,294,318                       | 26.1%         |
| Total Global Equity  | 2,542,601                         | 28.9%         |
| Total Fixed Income   | 2,360,734                         | 26.8%         |
| Total Private Equity | 657,254                           | 7.5%          |
| Total Real Estate    | 627,296                           | 7.1%          |
| Total Alternatives   | 286,864                           | 3.3%          |
| Total Cash           | 36,020                            | 0.4%          |
|                      | <b>\$8,805,087</b>                | <b>100.0%</b> |

## CURRENT ALLOCATION BY ASSET CLASS

As of June 30, 2009



## SCHEDULE OF INVESTMENT RESULTS

Returns for Period Ending June 30, 2009

The table below details the rates of return for the System's Investment managers over various time periods ending June 30, 2009. Note that the Oppenheimer Structured Alpha and ING Absolute Return did not yet experience a full fiscal year of returns. The Appendix at the end of this document provides a description of the benchmarks used for each manager as of the end of the fiscal year.

|                                    | 1 Year | 3 Years | 5 Years |
|------------------------------------|--------|---------|---------|
| <b>TOTAL FUND</b>                  | -18.0% | -2.0%   | 3.2%    |
| Performance Benchmark              | -18.2% | -2.9%   | 2.2%    |
| <b>LARGE CAP GROWTH EQUITY</b>     |        |         |         |
| T. Rowe Price                      | -20.3% | -4.5%   | -       |
| Russell 1000 Growth Index          | -24.5% | -5.5%   | -       |
| <b>LARGE CAP VALUE EQUITY</b>      |        |         |         |
| Oppenheimer Structured Alpha       | -      | -       | -       |
| Russell 1000 Value Index           | -      | -       | -       |
| <b>SMALL CAP VALUE EQUITY</b>      |        |         |         |
| Kennedy Capital Management         | -27.8% | -5.6%   | 2.6%    |
| Daruma Asset Management            | -21.6% | -6.2%   | 1.2%    |
| Russell 2000 Value Index           | -25.2% | -12.1%  | -2.3%   |
| <b>SMALL CAP GROWTH EQUITY</b>     |        |         |         |
| Stephens Investment Management     | -22.0% | -       | -       |
| ING Investment Management          | -25.7% | -5.9%   | 0.0%    |
| Russell 2000 Growth Index          | -24.8% | -7.8%   | -1.3%   |
| <b>ALL CAP DOMESTIC EQUITY</b>     |        |         |         |
| ICC Capital Management             | -12.1% | 0.8%    | 6.6%    |
| Performance Benchmark <sup>1</sup> | -26.6% | -8.1%   | -1.8%   |
| Jacobs Levy                        | -30.6% | -10.6%  | -       |
| Performance Benchmark              | -26.6% | -7.0%   | -       |
| Jacobs Levy 130/30                 | -32.8% | -       | -       |
| Russell 3000 Index                 | -26.6% | -       | -       |
| Pershing Square                    | -5.5%  | -       | -       |
| DJ Total Stock Market Index        | -26.4% | -       | -       |
| Relational Investors               | -20.3% | -       | -       |
| DJ Total Stock Market Index        | -26.4% | -       | -       |
| ING Absolute Return                | -      | -       | -       |
| S&P 500 Index                      | -      | -       | -       |

## SCHEDULE OF INVESTMENT RESULTS *(continued)*

Returns for Period Ended June 30, 2009

The table below details the rates of return for the System's investment managers over various time periods ending June 30, 2009. Note that Bedlam and Lincoln Vale did not yet experience a full fiscal year of results.

|                                    | 1 Year | 3 Years | 5 Years |
|------------------------------------|--------|---------|---------|
| <b>CONVERTIBLES</b>                |        |         |         |
| Nicholas Applegate                 | 14.6%  | 1.2%    | 4.5%    |
| Performance Benchmark <sup>1</sup> | -18.8% | -4.7%   | -1.2%   |
| <b>GLOBAL EQUITY MANAGERS</b>      |        |         |         |
| Bedlam                             | –      | –       | –       |
| MSCI ACWI                          | –      | –       | –       |
| Capital Guardian                   | -30.7% | –       | –       |
| Performance Benchmark              | -29.3% | –       | –       |
| UBS Global Asset Management        | -22.3% | –       | –       |
| Performance Benchmark <sup>2</sup> | -29.3% | –       | –       |
| Knight Vinke                       | 0.0%   | –       | –       |
| FTSE Europe Index                  | 5.3%   | –       | –       |
| Lincoln Vale                       | –      | –       | –       |
| MSCI ACWI                          | –      | –       | –       |
| Wellington GRE                     | -31.9% | –       | –       |
| Performance Benchmark              | -29.3% | –       | –       |
| Wellington Opportunistic           | -29.2% | –       | –       |
| Performance Benchmark              | -29.3% | –       | –       |

1 Nicholas Applegate Performance Benchmark is the Merrill Lynch Convertible Securities (All Quality) Index. Prior to January 1, 2005, it was the CSFB Convertible Securities Index. Prior to May 1, 2004, it was a blend of 90% CSFB Convertible Securities Index and 10% Salomon High Yield Market Index. Prior to November 1, 2000, the benchmark was the CSFB Convertible Securities Index.

2 UBS Performance Benchmark represents the MSCI All Country World Ex-U.S. Index beginning March 1, 2004. Returns through February 29, 2004 represent the MSCI World Ex-U.S. Index.

## SCHEDULE OF INVESTMENT RESULTS *(continued)*

Returns for Period Ended June 30, 2009

The table below details the rates of return for the System's investment managers for the period ending June 30, 2009. Note that Loomis Sayles and Putnam did not yet experience a full fiscal year of returns.

|                                | 1 Year | 3 Years | 5 Years |
|--------------------------------|--------|---------|---------|
| <b>FIXED INCOME MANAGERS</b>   |        |         |         |
| BlackRock                      | 1.4%   | 4.9%    | 4.5%    |
| PIMCO                          | 5.7%   | 7.0%    | 5.8%    |
| Western                        | -2.2%  | 2.1%    | 3.0%    |
| Loomis Sayles                  | -      | -       | -       |
| Putnam                         | -      | -       | -       |
| Performance Benchmark          | 4.9%   | 5.9%    | 5.0%    |
| Blackrock FIGO                 | -11.2% | -       | -       |
| PIMCO PARS II                  | 0.9%   | -       | -       |
| Western Absolute Return        | -1.5%  | -       | -       |
| LIBOR                          | 2.5%   | -       | -       |
| <b>ALTERNATIVE INVESTMENTS</b> |        |         |         |
| Total Real Estate              | -22.7% | 0.7%    | 9.8%    |
| NCREIF NPI                     | -19.6% | 1.1%    | 7.7%    |
| Total Private Equity           | -18.1% | 7.8%    | 17.7%   |
| Private Equity Policy          | -24.9% | -6.2%   | 0.4%    |

|                                | Inception Date | Annualized Internal Rate of Return |
|--------------------------------|----------------|------------------------------------|
| <b>INDIVIDUAL PARTNERSHIPS</b> |                |                                    |
| <b>Mezzanine</b>               |                |                                    |
| Blackstone Mezzanine Partners  | 11/30/1999     | 10.9%                              |
| DLJ Investment Partners II     | 10/31/1999     | 11.2%                              |



## **SCHEDULE OF INVESTMENT RESULTS** *(continued)*

Returns for Period Ended June 30, 2009

The table below details the rates of return for the System's investment managers for the period ending June 30, 2009.

|                                  | <b>Inception Date</b> | <b>Annualized Internal Rate of Return</b> |
|----------------------------------|-----------------------|---|
| <b>PRIVATE EQUITY</b>            |                       |   |
| 21st Century Group Equity Fund   | 4/30/2000             | 2.7%                                      |
| Advent GPE VI-A                  | 3/12/2008             | -31.7%                                    |
| Boston Ventures VII              | 12/14/2007            | -0.5%                                     |
| Blackstone Mezzanine I           | 12/22/1999            | 10.6%                                     |
| CSFB-ATRS 2005-1 Series          | 5/1/2005              | -5.2%                                     |
| CSFB-ATRS 2006-1 Series          | 8/1/2006              | -21.8%                                    |
| Cypress MBP II                   | 6/18/1999             | -6.5%                                     |
| DH Tech I                        | 1/12/2000             | -1.0%                                     |
| Diamond State                    | 4/15/2000             | 6.1%                                      |
| Diamond State II                 | 1/4/2007              | -28.5%                                    |
| DLJ Investment II                | 11/10/1999            | 10.6%                                     |
| DLJ MBP III                      | 7/19/2000             | 18.7%                                     |
| Doughty Hanson III               | 10/20/1997            | 16.9%                                     |
| FP Venture 2008                  | 1/18/2008             | -23.5%                                    |
| FP Venture 2009                  | 1/16/2009             | -66.3%                                    |
| Hicks Muse Tate & Furst Fund III | 2/28/1997             | -0.2%                                     |
| Hicks Muse Tate & Furst Fund IV  | 7/31/1998             | -9.0%                                     |
| Hicks Muse Tate & Furst Fund V   | 11/31/2000            | 17.5%                                     |
| LLR III                          | 5/9/2008              | -17.7%                                    |
| NGP IX                           | 2/27/2008             | -33.4%                                    |
| Oak Hill Capital Partners        | 3/31/1999             | 9.6%                                      |
| Second Cinven                    | 4/30/1998             | 8.9%                                      |
| TA XI                            | 4/30/2009             | 0.0%                                      |
| Vista Equity III                 | 7/11/2008             | 11.7%                                     |

## **SCHEDULE OF INVESTMENT RESULTS** *(continued)*

Returns for Period Ended June 30, 2009

|                                      | Inception Date | Annualized Internal Rate of Return |
|--------------------------------------|----------------|------------------------------------|
| <b>LIMITED PARTNERSHIPS</b>          |                |                                    |
| Real Estate                          |                |                                    |
| Doughty-Hanson-Euro real estate      | 6/30/1999      | 28.9%                              |
| Westbrook Fund II                    | 4/30/1997      | 13.5%                              |
| Westbrook Fund III                   | 8/31/1998      | 9.2%                               |
| Westbrook IV                         | 4/30/2001      | 19.9%                              |
| Olympus                              | 7/31/2000      | -5.7%                              |
| Fidelity RE Growth Fund III          | 3/31/2008      | N/A                                |
| ING Clarion DOF II                   | 12/31/2007     | N/A                                |
| Rothschild FARS V                    | 3/31/2008      | N/A                                |
| CBRE SP U.S. Opportunity V           | 3/31/2008      | N/A                                |
| DLJ Real Estate Capital Partners     | 9/30/1999      | 20.2%                              |
| O'Connor NAPP II                     | 3/31/2008      | N/A                                |
| <b>OPEN-END FUNDS</b>                |                |                                    |
| PRISA                                | 6/30/2005      | -27.6%                             |
| UBS                                  | 3/31/2006      | -19.1%                             |
| JP Morgan Strategic Property         | 3/31/2007      | -22.0%                             |
| JP Morgan Special Situation Property | 3/31/2007      | -36.7%                             |

## DESCRIPTION OF BENCHMARKS

**Total Fund** – The Performance Benchmark for the Total Fund represents the performance of the asset class benchmarks as a weighted average of the Target Policy Allocations approved by the investment committee. The components of the benchmark are shown in the table below. Returns prior to September 30, 1996, consist of the actual allocations to the seven different asset classes included in the Arkansas Teacher Retirement System over time. The benchmarks used for each asset class are noted below.

| Date                    | DJ U.S. Total Stock Market Index | Russell 3000 Index | MSCI ACW ex-US Index | MSCI ACWI | Barclays Capital Universal Bond Index | Barclays Capital Aggregate Bond Index | Alternative Policy <sup>1</sup> |
|-------------------------|----------------------------------|--------------------|----------------------|-----------|---------------------------------------|---------------------------------------|---------------------------------|
| 10/31/2007 – 06/30/2009 | 25.0%                            | –                  | –                    | 30.0%     | 20.0%                                 | –                                     | 25.0%                           |
| 03/31/2004 – 09/30/2007 | 40.0%                            | –                  | 17.5%                | –         | 25.0%                                 | –                                     | 17.5%                           |
| 06/30/2003 – 02/29/2004 | 40.0%                            | –                  | 17.5%                | –         | –                                     | 25.0%                                 | 17.5%                           |
| 10/31/2001 – 07/31/2003 | –                                | 40.0%              | 17.5%                | –         | –                                     | 25.0%                                 | 17.5%                           |
| 08/31/1998 – 09/30/2001 | –                                | 40.0%              | 17.0%                | –         | –                                     | 28.0%                                 | 15.0%                           |
| 10/31/1996 – 07/31/1998 | –                                | 40.0%              | 20.0%                | –         | –                                     | 28.0%                                 | 12.0%                           |

**U.S. Equity** – The Dow Jones U.S. Total Stock Market Index.

**Non-U.S. Equity** – The MSCI All Country World Ex-U.S. Index.

**Global Equity** – The MSCI All Country World Index.

**Fixed Income** – The Barclays Capital Universal Bond Index as of March 1, 2004.

<sup>1</sup> The alternative benchmark represents Private Equity, Real Estate, Timberland, and Arkansas-related Investments. The benchmark is comprised of 34.3% of the Dow Jones Total Stock Market Index + a 2% premium per year, 28.6% of the Barclays Capital Mortgage Bond Index, 8.6% of the NCREIF South Timberland Index and 28.6% of the NCREIF Index. Prior to July 31, 2003 the alternative benchmark consisted of 57.0% of the Russell 3000 + a 2% Premium per year, 8.5% of the NCREIF Southeast Timberland Index, 28.5% of the Real Estate Index, 6% of the EnnisKnupp STIF Index.

## DESCRIPTION OF BENCHMARKS *(continued)*

**Alternatives** – The Dow Jones Total Stock Market Index plus 2.0% per year.

**Real Estate** – The NCREIF Index.

**Timberland** – The South Timberland NCREIF Index.

**Cash Equivalents** – The Citigroup 90 day T-bill.

**Citigroup 90 day T-bill Index** – Treasury bill rates of return, as reported by Citigroup (Salomon Smith Barney), for bills with a maximum time remaining to maturity of 90 days.

**Barclays Capital Aggregate Bond Index** – A market-value weighted index consisting of the Barclays Capital Corporate, Government and Mortgage-Backed Securities Indices. The Index also includes credit card-, auto- and home equity loan-backed securities, and is the broadest available measure of the aggregate U.S. fixed income market.

**Barclays Capital Universal Bond Index** – A market-value weighted index consisting of the components of the Barclays Capital Bond Index, plus EuroDollar bonds, emerging markets bonds, 144A fixed income securities, and U.S. credit high yield securities.

**Barclays Capital Mortgage Index** – A market value-weighted index consisting of the mortgage pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA) and Freddie Mac (FHLMC).

**MSCI All Country World ex-U.S. Index** – A capitalization-weighted index of stocks representing 48 developed and emerging country markets, excluding the U.S. market.

**MSCI All Country World Index** – A capitalization-weighted index of stocks representing 48 developed and emerging country markets.

**MSCI Europe, Australasia, Far East (EAFE) Non-U.S. Stock Index** – A capitalization-weighted index of stocks representing 21 developed and emerging country markets in Europe, Australia, Asia and the Far East.

**MSCI World Index** – A capitalization-weighted index of stocks representing 22 developed stock markets in Europe, Asia and Canada.

**NCREIF Index** – The National Council of Real Estate Investment Fiduciaries (NCREIF) Net Property Index is an unlevered, market-value weighted Index consisting of \$128 billion in domestic institutional real estate assets. The Index is representative of the national real estate market, across all property types and regions.

**Jacobs Levy Performance Benchmark** – On January 1, 2008, the benchmark for the portfolio was changed to the Russell 3000 Index. Prior to January 1, 2008, the portfolio benchmark was the Russell 1000 Growth Index.

**ICC Capital Management Performance Benchmark** – On October 1, 2007, the benchmark for ICC Capital Management was changed to the Russell 3000 Index. Prior to October 1, 2007, the portfolio benchmark was the Russell 1000 Index.

**Nicholas Applegate Performance Benchmark** – On January 1, 2005, the benchmark for the portfolio was changed to the Merrill Lynch Convertible Bond (All Quality) Index. Prior to January 1, 2005, the performance benchmark for the Nicholas Applegate portfolio was the CSFB Convertible Securities Index. Prior to May 1, 2004, the performance benchmark consisted of 90% CSFB Convertible Securities Index and 10% Salomon High Yield Index.

## DESCRIPTION OF BENCHMARKS *(continued)*

**Capital Guardian Performance Benchmark** – On November 1, 2007, the portfolio benchmark was changed to the MSCI All Country World Index. Prior to November 1, 2007, the benchmark was the MSCI EAFE Index.

**UBS Performance Benchmark** – On February 1, 2008, the UBS Performance Benchmark was changed to the MSCI All Country World Index. Prior to February 1, 2008, the portfolio benchmark was the MSCI All Country World ex-U.S. Index.

**Wellington Performance Benchmark** – On January 1, 2008, the portfolio was changed to the MSCI All Country World Index. Prior to January 1, 2008, the Wellington portfolio was the MSCI All Country World ex-U.S. Index.

**BlackRock Performance Benchmark** – The Barclays Capital Universal Bond Index as of March 1, 2004.

**PIMCO Performance Benchmark** – The Barclays Capital Universal Bond Index as of March 1, 2004.

**Western Asset Performance Benchmark** – The Barclays Capital Universal Bond Index as of March 1, 2004.

**LIBOR Index** – London Interbank Offered Rate. A filtered average of the world's most creditworthy banks' interbank deposit rates with maturities between overnight and one full year.

**Russell 3000 Index** – An index that measures the performance of the 3000 stocks that make up the Russell 1000 and Russell 2000 Indices.

**Russell 1000 Index** – An index that measures the performance of the largest 1,000 stocks contained in the Russell 3000 Index.

**Russell 1000 Value Index** – An index that measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower I/B/E/S growth forecasts.

**Russell 2000 Index** – An index that measures the performance of the smallest 2000 companies contained in the Russell 3000 Index.

**Russell 2000 Growth Index** – An index that measures the performance of those Russell 2000 companies with greater price-to-book ratios and greater I/B/E/S growth forecasts.

**Russell 2000 Value Index** – An index that measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower I/B/E/S growth forecasts.

**S&P 500 Stock Index** – A capitalization-weighted stock index consisting of the 500 largest publicly traded U.S. stocks.

**DJ U.S. Total Stock Index** – A capitalization-weighted stock index representing all U.S. common stocks traded regularly on the organized exchanges. The Index is the broadest measure of the aggregate U.S. stock market.

**FTSE Europe** – A tradable index, designed to represent the performance of the 100 most highly capitalized blue chip companies in Europe.

**Loomis Sayles Performance Benchmark** – An Index that splices 65% of the Barclays Capital Government/Credit Index and 35% Barclays Capital High Yield Index.

**DESCRIPTION OF UNIVERSES**

**Total Fund** - The Total Fund and its benchmark are ranked in our Public Fund Universe. The universe is calculated based on data provided by BNY Mellon Performance & Risk Analytics, LLC, and includes 106 funds with an aggregate market value of \$939.3 billion.

**Total Domestic Equity** - The total domestic equity component and its benchmark are ranked in our domestic equity component universe. The universe is calculated based on data provided by BNY Mellon Performance & Risk Analytics, LLC, and includes 477 funds with an aggregate market value of \$496.6 billion.

**Total Global Equity** - The total global equity component and its benchmark are ranked in our global equity component universe. The universe is calculated based on data provided by BNY Mellon Performance & Risk Analytics, LLC, and includes 66 global equity portfolios with an aggregate market value of \$142.6 billion.

**Total Fixed Income** - The total fixed income component and its benchmark are ranked in our fixed income component universe. The universe is calculated based on data provided by BNY Mellon Performance & Risk Analytics, LLC, and includes 475 funds with an aggregate market value of \$409.0 billion.

## TEN LARGEST HOLDINGS

(By Market Value)  
As of June 30, 2009

### Fixed Income

| Security Name                        | Market Value   |
|--------------------------------------|----------------|
| WESTERN ASSET CORE                   | \$ 288,048,147 |
| PIMCO PARS II                        | 272,957,730    |
| WESTERN ABSOLUTE RETURN              | 232,992,320    |
| BLACKROCK FIGO                       | 225,963,243    |
| PIMCO PRV MORTGAGE SECTOR FUND (722) | 173,708,695    |
| PIMCO PRV GRD CORP SECTOR FUND (702) | 61,185,158     |
| PIMCO US GOVT SECTOR FUND (712)      | 53,746,411     |
| PIMCO PRV INTL SECTOR FUND (780)     | 28,153,250     |
| PIMCO PRV HIGH YIELD SEC FUND        | 16,139,147     |
| PIMCO PRV SHORT TERM SECT FUND (742) | 13,872,621     |

## TEN LARGEST HOLDINGS

(By Market Value)  
As of June 30, 2009

### Domestic Equities

| Security Name        | Market Value   |
|----------------------|----------------|
| OPCAP ENHANCED INDEX | \$ 211,316,384 |
| ING ABSOLUTE ALPHA   | 72,206,375     |
| FORD MOTOR CO        | 69,094,822     |
| JACOBS LEVY 130/30   | 69,043,350     |
| BARRICK GOLD         | 56,229,800     |
| GOLDCORP INC         | 54,983,187     |
| WYETH                | 40,555,965     |
| COCA COLA            | 27,594,250     |
| COPART               | 26,794,709     |
| LILLY ELI & CO       | 22,567,960     |



## TEN LARGEST HOLDINGS

(By Market Value)  
As of June 30, 2009

### International Investments

| Security Name              | Market Value  |
|----------------------------|---------------|
| KNIGHT VINKE INST PARTNERS | \$ 38,687,642 |
| ROCHE HOLDINGS             | 11,125,950    |
| VODAFONE GROUP             | 10,987,947    |
| JAPAN TOBACCO INC          | 9,975,374     |
| CRH                        | 9,784,176     |
| NOMURA HOLDINGS            | 9,534,983     |
| KONINKLIJKE KPN            | 6,325,156     |
| NOVARTIS                   | 6,098,298     |
| SYNGENTAAG                 | 5,657,562     |
| BAYER                      | 4,601,715     |

## TEN LARGEST HOLDINGS

(By Market Value)  
As of June 30, 2009

### Real Estate

| Security Name                          | Market Value  |
|--|---------------|
| LINDSEY (PARTNERSHIP)                  | \$ 42,428,103 |
| WOODLAND HEIGHTS                       | 35,200,000    |
| THE PEABODY HOTEL (MORTGAGE)           | 25,104,625    |
| THE VICTORY BUILDING                   | 21,800,000    |
| SOUTHCENTER SHOPPING CENTER            | 13,700,000    |
| ARKANSAS DEPT OF EDUCATION (MORTGAGE)  | 8,878,824     |
| AMERICAN CENTER 1 & 2 (PARTNERSHIP)    | 7,156,243     |
| ARKANSAS TEACHERS RETIREMENT BUILDING  | 5,000,000     |
| ARKANSAS INSURANCE DEPARTMENT BUILDING | 4,800,000     |
| ROSE LAW FIRM BUILDING                 | 4,203,000     |

# ACTUARIAL

**ACTUARY'S CERTIFICATION LETTER**

**GRS**

**Gabriel Roeder Smith & Company**  
Consultants & Actuaries

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Southfield, MI 48076-3723

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February 23, 2010

Board of Trustees  
Arkansas Teacher Retirement System  
1400 West Third Street  
Little Rock, Arkansas 72201

Dear Board Members:

The basic funding objective of the Arkansas Teacher Retirement System (ATRS) is to establish and receive contributions which:

- When expressed in terms of the percentage of active member payroll, will remain approximately level from generation to generation, and
- When combined with present assets and future investment return, will be sufficient to meet the financial obligations of ATRS to present and future retirees and beneficiaries.

The progress being made toward the realization of the financing objectives of the System through June 30, 2009, is illustrated in the attached Exhibits 1 and 2. The funding objective is currently being realized. The valuation process develops contribution rates that are sufficient to fund the plan's current cost (i.e., the cost assigned by the valuation method to the year of service about to be rendered), as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll. The actuarial valuations are performed each year and the most recent valuations were completed based upon census data, asset data, and plan provisions as of June 30, 2009.

The System's administrative staff provides the actuary with data for the actuarial valuations. The actuary relies on the census data after reviewing it for internal and year-to-year consistency. The actuary summarizes and tabulates population data in order to analyze longer term trends. Asset information was accepted without further audit.

The figures disclosed in the Supplementary Schedules to the Financial Section were provided by Gabriel, Roeder, Smith & Company, as were the Notes to Trend Data. In addition, Gabriel, Roeder, Smith & Company was responsible for the following schedules found in the Actuarial Section:

Computed Actuarial Liabilities  
Employer Contribution Rate Computed as of June 30, 2009  
Active Members in Valuation Data

Board of Trustees  
February 23, 2010  
Page 2

- Retirees and Beneficiaries added to and removed from rolls
- Short Condition Test
- Summary of Actuarial Assumptions and Methods
- Single Life Retirement Values
- Probabilities of Retirement for Members
- Assumed Duration in T-DROP for Members
- Teachers Separations and Individual Pay Increases
- Support Employees Separations and Individual Pay Increases
- Analysis of Financial Experience
- Comments and Conclusion
- Schedule of Funding Progress
- Schedule of Employer Contributions
- Schedule of Retired Members by Benefit Type
- Schedule of Average Benefit Payments

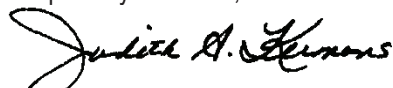
Assets are valued on a market related basis that recognizes each year's difference between actual and assumed investment return over a closed four year period.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. The Board adopts these assumptions after considering the advice of the actuary and other professionals. The assumptions and methods comply with the requirements of Statement No. 25 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The June 30, 2009 valuations were based upon assumptions that were recommended in connection with a study of experience covering the 1997-2002 period.

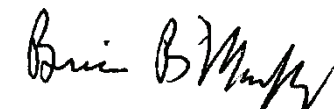
Even though these are difficult economic times, the Arkansas Teacher Retirement System remains strong with a 75.7% funded position as of June 30, 2009. The amortization period as of June 30, 2009 is 45.4 years. In the absence of an increase in the contribution rate or an extended period of significant investment gains, it is likely that the amortization period will remain above 30 years for an extended period.

Based upon the results of the June 30, 2009 valuations, we are pleased to report to the Board of Trustees that the Arkansas Teacher Retirement System is meeting its basic financial objective and is operating in accordance with actuarial principles of level percent of payroll financing.

Respectfully submitted,



Judith A. Kermans, E.A., M.A.A.A.



Brian B. Murphy, F.S.A., M.A.A.A.

**EXHIBIT 1  
COMPUTED ACTUARIAL LIABILITIES  
AS OF JUNE 30, 2009**

| Actuarial Present Value of  | (1)<br>Total<br>Present<br>Value | Entry Age Actuarial Cost Method                                     |   |
|---|----------------------------------|---|---|
|   |                                  | (2)<br>Portion<br>Covered By<br>Future Normal<br>Cost Contributions | (3)<br>Actuarial<br>Accrued<br>Liabilities<br>(1)-(2) |
| Age and service retirement and T-DROP allowances based on total service likely to be rendered by present active and T-DROP members. | \$ 9,703,791,208                 | \$2,359,896,462   | \$ 7,343,894,746                                      |
| Vested deferred benefits likely to be paid present active and inactive members.   | 857,416,900                      | 321,432,231   | 535,984,669   |
| Survivor benefits expected to be paid on behalf of present active members.  | 144,138,605                      | 59,498,695  | 84,639,910  |
| Disability benefits expected to be paid on behalf of present active members.  | 232,339,198                      | 132,699,065   | 99,640,133  |
| Refunds of member contributions expected to be paid on behalf of present active members.  | 17,137,389                       | 103,762,710   | (86,625,321)  |
| Benefits payable to present retirees and beneficiaries.   | 5,962,746,516                    | 0   | 5,962,746,516   |
| Lump sum death benefits payable to present retirees and beneficiaries.  | 78,669,299                       | 0   | 78,669,299  |
| <b>Total</b>  | <b>\$16,996,239,115</b>          | <b>\$2,977,289,163</b>  | <b>\$14,018,949,952</b>                               |
| Applicable assets   | 10,616,711,074                   | 0   | 10,616,711,074  |
| Liabilities to be covered by future contributions   | \$ 6,379,528,041                 | \$2,977,289,163   | \$ 3,402,238,878                                      |

**EXHIBIT 2  
EMPLOYER CONTRIBUTION RATE COMPUTED AS OF JUNE 30, 2009  
FOR THE FISCAL YEAR BEGINNING JULY 1, 2010**

| Computed Contributions for             | Percents of Active Member Full Payroll |         |               |            |
|--|--|---------|---------------|------------|
|  | Teachers                               | Support | Combined      | Prior Year |
| Normal Cost                            |  |         |               |            |
| Age & Service Annuities                | 10.90%                                 | 8.45%   | <b>10.17%</b> | 10.13%     |
| Deferred Annuities                     | 1.30%                                  | 1.60%   | <b>1.39%</b>  | 1.38%      |
| Survivor Benefits                      | 0.28%                                  | 0.22%   | <b>0.26%</b>  | 0.29%      |
| Disability Benefits                    | 0.63%                                  | 0.53%   | <b>0.60%</b>  | 0.59%      |
| Refunds of Member Contributions        | 0.38%                                  | 0.73%   | <b>0.48%</b>  | 0.48%      |
| Total                                  | 13.49%                                 | 11.53%  | <b>12.90%</b> | 12.87%     |
| Average Member Contributions           | 4.99%                                  | 3.74%   | <b>4.62%</b>  | 4.54%      |
| Net Employer Normal Cost               | 8.50%                                  | 7.79%   | <b>8.28%</b>  | 8.33%      |
| Unfunded Actuarial Accrued Liabilities |  |         | <b>5.72%</b>  | 5.67%      |
| <b>Employer Contribution Rate</b>      |  |         | <b>14.00%</b> | 14.00%     |
| <b>Amortization Years</b>              |  |         | <b>45.4</b>   | 21.0       |

The amortization period is the number of years it will take to pay off the unfunded liability of \$3.4 billion assuming that the employer contribution rate remains at the 14% of payroll level. In recent times the period has varied from a low of 4 years to a high of 125 years. Given the investment losses that occurred during fiscal years 2008 and 2009, it is very likely that the amortization period will increase significantly in the next valuation.

## SCHEDULE OF ACTIVE MEMBER VALUATION DATA

| Valuation Date<br>June 30 | Active Members<br>in Valuation |                              | Average Annual Pay |             |
|---------------------------|--------------------------------|------------------------------|--------------------|-------------|
|                           | Number                         | Annual Payroll<br>(Millions) | Amount             | % Change    |
| <b>2009</b>               | <b>70,655</b>                  | <b>\$2,318</b>               | <b>\$32,804</b>    | <b>1.5%</b> |
| 2008                      | 70,172                         | 2,268                        | 32,319             | 2.1%        |
| 2007                      | 69,226                         | 2,191                        | 31,645             | 3.0%        |
| 2006                      | 67,710                         | 2,080                        | 30,714             | 3.0%        |
| 2005                      | 65,793                         | 1,962                        | 29,826             | 7.8%        |
| 2004                      | 63,185                         | 1,748                        | 27,660             | 2.6%        |
| 2003                      | 64,432                         | 1,683                        | 26,963             | 2.7%        |
| 2002                      | 62,011                         | 1,628                        | 26,254             | 3.5%        |
| 2001                      | 61,389                         | 1,557                        | 25,365             | 2.7%        |
| 2000                      | 60,147                         | 1,485                        | 24,696             | 2.8%        |

## SCHEDULE OF RETIREES AND BENEFICIARIES ADDED TO AND REMOVED FROM ROLLS

| Year        | Estimated Number |            | Total Retirees | Annual Allowances<br>(Millions) | % Increase<br>in Annual Allowances | Average Annual Allowances |
|-------------|------------------|------------|----------------|---------------------------------|------------------------------------|---------------------------|
|             | Added            | Removed    |                |                                 |                                    |                           |
| <b>2009</b> | <b>2,721</b>     | <b>704</b> | <b>28,818</b>  | <b>\$564.59</b>                 | <b>9.5%</b>                        | <b>\$19,591</b>           |
| 2008        | 1,703            | 513        | 26,801         | 515.56                          | 6.4%                               | 19,237                    |
| 2007        | 2,017            | 559        | 25,611         | 484.55                          | 7.7%                               | 18,920                    |
| 2006        | 1,958            | 485        | 24,153         | 449.77                          | 8.4%                               | 18,622                    |
| 2005        | 1,822            | 570        | 22,680         | 415.04                          | 7.5%                               | 18,300                    |
| 2004        | 1,692            | 535        | 21,428         | 386.23                          | 7.3%                               | 18,025                    |
| 2003        | 1,621            | 548        | 20,271         | 360.00                          | 7.7%                               | 17,759                    |
| 2002        | 1,989            | 568        | 19,199         | 334.15                          | 8.1%                               | 17,404                    |
| 2001        | 1,571            | 450        | 17,778         | 309.03                          | 10.3%                              | 17,383                    |
| 2000        | 1,249            | 479        | 16,657         | 280.14                          | 12.6%                              | 16,818                    |

The above schedules do not include any members currently participating in T-DROP.



## SHORT CONDITION TEST

The ATRS funding objective is to meet long term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will **pay all promised benefits when due -- the ultimate test of financial soundness**. Testing for level contribution rates is the long term test.

**A short condition test** is one means of checking a system's progress under its funding program. In a short condition test, the plan's present assets (cash and investments) are compared with: 1) Member contributions on deposit; 2) The liabilities for future benefits to present retired lives; 3) The liabilities for service already rendered by members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by members (liability 3) will be partially covered by the remainder of present assets. The larger the funded portion of liability 3, the stronger the condition of the system. Liability 3 being fully funded is unusual.

The schedule below illustrates the history of liability 3 of the System and is indicative of the ATRS objective of following the discipline of level percent of payroll financing.

| Val. Date<br>June 30 | (1)<br>Member Contrib. | (2)<br>Retirees and Benef. | (3)<br>Active and Inactive Members (Employer Financed Portion) | Present Valuation Assets | Portion of Present Values Covered by Present Assets |      |     |       |
|----------------------|------------------------|----------------------------|--|--------------------------|---|------|-----|-------|
|                      |                        |                            |  |                          | (1)   | (2)  | (3) | Total |
| \$ Millions          |                        |                            |  |                          |   |      |     |       |
| 1994                 | \$ 403                 | \$ 1,334                   | \$2,223  | \$ 3,307                 | 100%  | 100% | 71% | 84%   |
| 1995*                | 415                    | 1,488                      | 2,354  | 3,626                    | 100%  | 100% | 73% | 85%   |
| 1996                 | 424                    | 1,634                      | 2,577  | 4,186                    | 100%  | 100% | 83% | 90%   |
| 1997#                | 426                    | 1,918                      | 3,059  | 4,956                    | 100%  | 100% | 85% | 92%   |
| 1998#                | 435                    | 2,173                      | 3,553  | 5,815                    | 100%  | 100% | 90% | 94%   |
| 1999#                | 447                    | 2,566                      | 3,821  | 6,740                    | 100%  | 100% | 98% | 99%   |
| 2000#                | 454                    | 2,888                      | 4,537  | 7,620                    | 100%  | 100% | 94% | 97%   |
| 2001#                | 470                    | 3,200                      | 4,891  | 8,166                    | 100%  | 100% | 92% | 95%   |
| 2002*                | 490                    | 3,464                      | 5,216  | 8,328                    | 100%  | 100% | 84% | 91%   |
| 2003#                | 521                    | 3,706                      | 5,218  | 8,113                    | 100%  | 100% | 74% | 86%   |
| 2004#                | 547                    | 3,985                      | 5,518  | 8,424                    | 100%  | 100% | 71% | 84%   |
| 2005                 | 586                    | 4,276                      | 6,111  | 8,817                    | 100%  | 100% | 65% | 80%   |
| 2006                 | 630                    | 4,617                      | 6,376  | 9,332                    | 100%  | 100% | 64% | 80%   |
| 2007#                | 679                    | 4,960                      | 6,690  | 10,519                   | 100%  | 100% | 73% | 85%   |
| 2008#                | 732                    | 5,544                      | 7,058  | 11,319                   | 100%  | 100% | 71% | 85%   |
| 2009                 | 790                    | 6,041                      | 7,188  | 10,617                   | 100%  | 100% | 53% | 76%   |

\* Revised actuarial assumptions or methods.

# Legislated benefit or contribution rate change.

## SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS

|                                     |                                    |
|-------------------------------------|------------------------------------|
| Valuation Date .....                | June 30, 2009                      |
| Actuarial Cost Method .....         | Entry Age                          |
| Amortization Method .....           | Level percent of payroll           |
| Remaining Amortization Period ..... | 45.4 years                         |
| Asset Valuation Method .....        | 4-year smoothing 80%/120% corridor |
| Actuarial Assumptions:              |                                    |
| Investment Rate of Return .....     | 8.0%                               |
| Projected Salary Increase .....     | 4.0% to 10.10%                     |
| Cost-of-Living Adjustments .....    | 3% Simple                          |
| Includes Wage Inflation at .....    | 4%                                 |

An actuarial valuation is based upon an actuarial cost method, an asset valuation method, and actuarial assumptions. These methods and assumptions are chosen by the Board of Trustees after consultation with the Actuary and other advisors.

The actuarial cost method is called the Entry Age Actuarial Cost Method. This method is consistent with the Board's level percent of payroll funding objective. With this method, the level percent of payroll is determined that will fund a member's retirement benefit over the member's entire working lifetime, from date of hire (Entry Age) to date of exit from the active member population. Differences in the past between assumed and actual experience become part of unfunded actuarial accrued liabilities and are amortized with level percent of payroll contributions. This cost method was first used in the **June 30, 1986** valuation.

The asset valuation method is a four year smoothed market value method in which assumed investment return is recognized immediately each year and differences between actual and assumed investment return are phased in over a closed four year period. This asset valuation method is intended to give recognition to the long term accuracy of market values while filtering out and dampening short term market swings. This method was first used in the **June 30, 1995** valuation. It was modified in conjunction with the 2002 valuation to include a corridor.

The actuarial assumptions used in producing the valuation fall into two broad classes: economic assumptions, and demographic assumptions. Economic assumptions refer to long term rates of investment return, wage growth, covered population growth, and inflation. Demographic assumptions refer to retirement rates, turnover rates, disability rates, merit and seniority pay increases, and mortality rates. The current assumptions are based upon a 1997-2002 study of experience of the ATRS. The assumptions are reviewed from time to time to keep them reasonably current with expected experience.

### **Economic Assumptions**

**The investment return rate** used in making the valuation was 8.0% per year, compounded annually (net after administrative expenses). This rate of return is not the assumed real rate of return. The real rate of return over wage inflation is defined to be the portion of investment return which is more than the wage inflation rate. Considering wage inflation recognition of 4.0%, the 8.0% rate translates to an assumed real rate of return over wage inflation of 4.0%. This rate was first used for the **June 30, 2002** valuation.

## SUMMARY OF ACTUARIAL ASSUMPTIONS AND METHODS (CONTINUED)

**Pay increase assumptions** for individual active members are shown on Tables IV and V. Part of the assumption for each age is for a merit and/or seniority increase, and the other 4.0% recognizes wage inflation. These rates were first used for the **June 30, 2002** valuation. No specific **Price Inflation** is needed for this valuation. However, the wage inflation and interest rate assumptions would be compatible with a price inflation assumption of 3.0% or 3.5%. It is assumed that the 3% COLA will always be paid.

The Active Member Group size is assumed to remain constant at its present level.

**Total active member payroll** is assumed to increase 4.0% a year, which is the portion of the individual pay increase assumptions attributable to wage inflation. This rate was first used for the **June 30, 2002** valuation.

### **Non-Economic Assumptions**

**The mortality table** used to measure retired life mortality was the 1983 Group Annuity Mortality Table. Related values are shown on Table I. This table was first used for the June 30, 1998 valuation. It was reviewed as part of the June 30, 2002 valuation and deemed to still be an appropriate measurement of mortality for the plan. For disabled lives, the mortality table is set forward 5 years. This set forward of 5 years was first used for the **June 30, 2002** valuation.

**The probabilities of retirement** for members eligible to retire are shown on Tables II and III. The rates for full retirement were first used in the **June 30, 2005** valuation. The rates for reduced retirement were first used in the **June 30, 2002** valuation.

**The probabilities of withdrawal** from service, **death-in-service** and **disability** are shown for sample ages on Tables III and IV. The withdrawal and disability rates were first used in the **June 30, 2002** valuation. The death-in-service rates were first used in the **June 30, 2002** valuation.

**The data about persons now covered and about present assets** was furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the Actuary. Members whose dates of birth were not supplied were assumed to be 40 years old on the valuation date.

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The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (M.A.A.A.).

**TABLE I**

**SINGLE LIFE RETIREMENT VALUES**

| Sample Attained Ages | Present Value of \$1.00 Monthly for Life |          | Present Value of \$1.00 Monthly for Life Increasing 3.0% Annually |          | Future Life Expectancy (years) |       | Percent Dying within Next Year |       |
|----------------------|--|----------|---|----------|--------------------------------|-------|--------------------------------|-------|
|                      | Men                                      | Women    | Men   | Women    | Men                            | Women | Men                            | Women |
| 40                   | \$142.98                                 | \$147.82 | \$184.74  | \$193.70 | 38.46                          | 44.52 | 0.12%                          | 0.07% |
| 45                   | 138.18                                   | 144.67   | 176.24  | 187.61   | 33.74                          | 39.69 | 0.22%                          | 0.10% |
| 50                   | 132.10                                   | 140.42   | 165.94  | 179.79   | 29.18                          | 34.92 | 0.39%                          | 0.16% |
| 55                   | 124.57                                   | 134.74   | 153.75  | 169.90   | 24.82                          | 30.24 | 0.61%                          | 0.25% |
| 60                   | 115.04                                   | 127.24   | 139.16  | 157.58   | 20.64                          | 25.67 | 0.92%                          | 0.42% |
| 65                   | 103.26                                   | 117.61   | 122.19  | 142.67   | 16.69                          | 21.29 | 1.56%                          | 0.71% |
| 70                   | 90.18                                    | 105.53   | 104.27  | 125.11   | 13.18                          | 17.13 | 2.75%                          | 1.24% |
| 75                   | 76.40                                    | 91.57    | 86.27   | 105.96   | 10.15                          | 13.37 | 4.46%                          | 2.40% |
| 80                   | 62.65                                    | 77.16    | 69.17   | 87.10    | 7.64                           | 10.20 | 7.41%                          | 4.29% |
| 85                   | 50.59                                    | 62.99    | 54.72   | 69.36    | 5.73                           | 7.58  | 11.48%                         | 6.99% |
| Ref.                 | 30 x 100                                 | 31 x 100 | 30 x 100  | 31 x 100 |                                |       |                                |       |

| Sample Attained Ages | Benefit Increasing 3.0% Yearly | Portion of Age 60 Lives Still Alive |       |
|----------------------|--------------------------------|-------------------------------------|-------|
|                      |                                | Men                                 | Women |
| 60                   | \$100.00                       | 100%                                | 100%  |
| 65                   | 115.00                         | 94%                                 | 97%   |
| 70                   | 130.00                         | 85%                                 | 93%   |
| 75                   | 145.00                         | 72%                                 | 86%   |
| 80                   | 160.00                         | 54%                                 | 73%   |
| Ref.                 |                                | 30                                  | 31    |

**TABLE II**

**PROBABILITIES OF RETIREMENT FOR MEMBERS**

| Retirement<br>Ages | % of Active Participants Retiring with Unreduced Benefits |        |         |        |
|--------------------|---|--------|---------|--------|
|                    | Education   |        | Support |        |
|                    | Male  | Female | Male    | Female |
| 48                 | 50%   | 40%    | 50%     | 30%    |
| 49                 | 50%   | 40%    | 50%     | 30%    |
| 50                 | 13%   | 8%     | 5%      | 9%     |
| 51                 | 10%   | 8%     | 5%      | 9%     |
| 52                 | 9%  | 8%     | 12%     | 8%     |
| 53                 | 9%  | 9%     | 13%     | 12%    |
| 54                 | 9%  | 9%     | 8%      | 10%    |
| 55                 | 9%  | 11%    | 8%      | 12%    |
| 56                 | 12%   | 11%    | 9%      | 11%    |
| 57                 | 10%   | 13%    | 14%     | 9%     |
| 58                 | 11%   | 13%    | 15%     | 16%    |
| 59                 | 14%   | 18%    | 11%     | 28%    |
| 60                 | 14%   | 17%    | 9%      | 14%    |
| 61                 | 14%   | 15%    | 10%     | 14%    |
| 62                 | 28%   | 25%    | 28%     | 21%    |
| 63                 | 17%   | 18%    | 20%     | 17%    |
| 64                 | 17%   | 17%    | 20%     | 16%    |
| 65                 | 27%   | 38%    | 30%     | 30%    |
| 66                 | 30%   | 30%    | 30%     | 30%    |
| 67                 | 30%   | 30%    | 30%     | 30%    |
| 68                 | 30%   | 30%    | 30%     | 30%    |
| 69                 | 30%   | 30%    | 30%     | 30%    |
| 70                 | 30%   | 30%    | 30%     | 30%    |
| 71                 | 30%   | 30%    | 30%     | 30%    |
| 72                 | 30%   | 30%    | 30%     | 30%    |
| 73                 | 30%   | 30%    | 30%     | 30%    |
| 74                 | 30%   | 30%    | 30%     | 30%    |
| 75                 | 100%  | 100%   | 100%    | 100%   |
| Ref                | 1016  | 1017   | 1018    | 1019   |

## TABLE III

### PROBABILITIES OF REDUCED RETIREMENT FOR MEMBERS

| Retirement<br>Ages | % of Active Participants Retiring with Reduced Benefits |        |         |        |
|--------------------|---|--------|---------|--------|
|                    | Education   |        | Support |        |
|                    | Male  | Female | Male    | Female |
| 50                 | 2%  | 2%     | 2%      | 2%     |
| 51                 | 2%  | 2%     | 2%      | 2%     |
| 52                 | 3%  | 3%     | 3%      | 3%     |
| 53                 | 4%  | 4%     | 4%      | 4%     |
| 54                 | 4%  | 4%     | 4%      | 4%     |
| 55                 | 6%  | 6%     | 6%      | 6%     |
| 56                 | 9%  | 5%     | 9%      | 5%     |
| 57                 | 9%  | 5%     | 9%      | 5%     |
| 58                 | 9%  | 5%     | 9%      | 5%     |
| 59                 | 9%  | 5%     | 9%      | 5%     |
| Ref                | 826   | 825    | 826     | 825    |

### DURATION OF T-DROP FOR MEMBERS

Members entering T-DROP are assumed to remain in T-DROP according to the following table:

| Entry Age | Assumed Duration Years |
|-----------|------------------------|
| 50-56     | 6                      |
| 57        | 5                      |
| 58        | 4                      |
| 59+       | 3                      |

Future T-DROP members are assumed to enter T-DROP at the time that is to their greatest financial advantage, based on the schedule above.

**TABLE IV**  
**TEACHERS**  
**SEPARATIONS FROM ACTIVE EMPLOYMENT BEFORE AGE AND SERVICE**  
**RETIREMENT & INDIVIDUAL PAY INCREASES**

| Sample Ages | Percent of Active Members Separating Within Next Year |          |          |            |           |        |        |
|-------------|---|----------|----------|------------|-----------|--------|--------|
|             | Service   | Death    |          | Disability |           | Other  |        |
|             |   | Men      | Women    | Men        | Women     | Men    | Women  |
|             | 0   |          |          |            |           | 32.00% | 25.00% |
|             | 1   |          |          |            |           | 15.00% | 12.00% |
|             | 2   |          |          |            |           | 11.00% | 9.00%  |
|             | 3   |          |          |            |           | 7.50%  | 9.00%  |
|             | 4   |          |          |            |           | 5.00%  | 7.00%  |
| 25          | 5 & UP  | 0.02%    | 0.01%    | 0.10%      | 0.09%     | 4.60%  | 4.84%  |
| 30          |   | 0.03%    | 0.02%    | 0.08%      | 0.07%     | 3.94%  | 4.40%  |
| 35          |   | 0.04%    | 0.02%    | 0.08%      | 0.07%     | 3.20%  | 3.10%  |
| 40          |   | 0.06%    | 0.03%    | 0.14%      | 0.13%     | 2.70%  | 2.20%  |
| 45          |   | 0.11%    | 0.05%    | 0.24%      | 0.22%     | 2.08%  | 2.00%  |
| 50          |   | 0.20%    | 0.08%    | 0.53%      | 0.47%     | 1.62%  | 1.70%  |
| 55          |   | 0.31%    | 0.13%    | 0.88%      | 0.79%     | 1.50%  | 1.50%  |
| 60          |   | 0.46%    | 0.21%    | 1.00%      | 0.90%     | 1.50%  | 1.50%  |
| 65          |   | 0.78%    | 0.35%    | 1.00%      | 0.90%     | 1.50%  | 1.50%  |
| REF.        |   |          |          |            |           | 136    | 272    |
|             |   | 30 x 0.5 | 31 x 0.5 | 135 x 1    | 135 x 0.9 | 556    | 558    |

| Age | Pay Increase Assumptions for an Individual Member |                 |                    |
|-----|---|-----------------|--------------------|
|     | Merit & Seniority                                 | Base (Economic) | Increase Next Year |
| 20  | 5.4%  | 4.0%            | 9.4%               |
| 25  | 4.4%  | 4.0%            | 8.4%               |
| 30  | 3.4%  | 4.0%            | 7.4%               |
| 35  | 2.4%  | 4.0%            | 6.4%               |
| 40  | 1.7%  | 4.0%            | 5.7%               |
| 45  | 1.2%  | 4.0%            | 5.2%               |
| 50  | 0.8%  | 4.0%            | 4.8%               |
| 55  | 0.4%  | 4.0%            | 4.4%               |
| 60  | 0.3%  | 4.0%            | 4.3%               |
| 65  | 0.3%  | 4.0%            | 4.3%               |
| Ref | 197   |                 |                    |

**TABLE V**  
**SUPPORT EMPLOYEES**  
**SEPARATIONS FROM ACTIVE EMPLOYMENT BEFORE AGE AND SERVICE**  
**RETIREMENT & INDIVIDUAL PAY INCREASES**

| Sample Ages | Percent of Active Members Separating Within Next Year |          |          |            |           |        |        |
|-------------|---|----------|----------|------------|-----------|--------|--------|
|             | Service   | Death    |          | Disability |           | Other  |        |
|             |   | Men      | Women    | Men        | Women     | Men    | Women  |
|             | 0   |          |          |            |           | 40.00% | 40.00% |
|             | 1   |          |          |            |           | 30.00% | 25.00% |
|             | 2   |          |          |            |           | 22.00% | 18.00% |
|             | 3   |          |          |            |           | 18.00% | 14.00% |
|             | 4   |          |          |            |           | 13.00% | 11.00% |
| 25          | 5 & UP  | 0.02%    | 0.01%    | 0.10%      | 0.08%     | 12.00% | 11.00% |
| 30          |   | 0.03%    | 0.02%    | 0.08%      | 0.07%     | 10.80% | 7.60%  |
| 35          |   | 0.04%    | 0.02%    | 0.08%      | 0.07%     | 8.20%  | 5.40%  |
| 40          |   | 0.06%    | 0.03%    | 0.14%      | 0.12%     | 5.80%  | 4.70%  |
| 45          |   | 0.11%    | 0.05%    | 0.24%      | 0.19%     | 4.10%  | 4.20%  |
| 50          |   | 0.20%    | 0.08%    | 0.53%      | 0.42%     | 2.90%  | 2.80%  |
| 55          |   | 0.31%    | 0.13%    | 0.88%      | 0.70%     | 1.90%  | 1.70%  |
| 60          |   | 0.46%    | 0.21%    | 1.00%      | 0.80%     | 1.50%  | 1.50%  |
| 65          | 0.78%   | 0.35%    | 1.00%    | 0.80%      | 1.50%     | 1.50%  |        |
| REF.        |   |          |          |            |           | 273    | 274    |
|             |   | 30 x 0.5 | 31 x 0.5 | 135 x 1    | 135 x 0.8 | 560    | 559    |

| Age | Pay Increase Assumptions for an Individual Member |                 |                    |
|-----|---|-----------------|--------------------|
|     | Merit & Seniority                                 | Base (Economic) | Increase Next Year |
| 20  | 6.1%  | 4.0%            | 10.1%              |
| 25  | 5.2%  | 4.0%            | 9.2%               |
| 30  | 4.2%  | 4.0%            | 8.2%               |
| 35  | 3.6%  | 4.0%            | 7.6%               |
| 40  | 2.9%  | 4.0%            | 6.9%               |
| 45  | 1.5%  | 4.0%            | 5.5%               |
| 50  | 0.6%  | 4.0%            | 4.6%               |
| 55  | 0.2%  | 4.0%            | 4.2%               |
| 60  | 0.0%  | 4.0%            | 4.0%               |
| 65  | 0.0%  | 4.0%            | 4.0%               |
| Ref | 198   |                 |                    |



## ACTUARIAL GAINS (LOSSES) BY RISK AREA

DURING THE PERIOD JULY 1, 2008 TO JUNE 30, 2009

| Type of Risk Area  | Gain(Loss) in Period |                        |
|--|----------------------|------------------------|
|  | \$ Millions          | Percent of Liabilities |
| Beginning of Year Accrued Liabilities  | \$13,334.2           | 100.0%                 |
| <b>ECONOMIC RISK AREAS</b>   |                      |                        |
| <b>Pay increases.</b> If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.                                | \$141.5              | 1.1%                   |
| <b>Gross Investment Return.</b> If there is greater investment return recognition than assumed, there is a gain. If less return recognition, a loss. | (1,429.6)            | (10.7)%                |
| <b>NON-ECONOMIC RISK AREAS</b>   |                      |                        |
| <b>Retirements.</b> If members retire at older ages, there is a gain. If younger ages, a loss.   | 5.6                  | 0.0%                   |
| <b>Disability Retirements.</b> If there are fewer disabilities than assumed, there is a gain. If more, a loss.                                       | 2.6                  | 0.0%                   |
| <b>Death-in-Service Benefits.</b> If there are fewer claims than assumed, there is a gain. If more, a loss.  | 1.0                  | 0.0%                   |
| <b>Withdrawal.</b> If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.                 | 6.0                  | 0.0%                   |
| <b>Death After Retirement.</b> If there is higher mortality than assumed, there is a gain. If lower mortality, a loss.                               | (14.1)               | (0.1)%                 |
| <b>ACTUARIAL GAIN (LOSS) DURING PERIOD</b>   | <b>\$(1,287.0)</b>   | <b>(9.7)%</b>          |

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**COMMENTS**

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**General Financial Objective.** Section 24-3-103 of the Arkansas Code provides as follows (emphasis added):

6.01. (1) The general financial objective of each Arkansas public employee retirement plan shall be to **establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation of Arkansas citizens.** More specifically, contributions received each year shall be sufficient both to (i) fully cover the costs of benefit commitments being made to members for their service being rendered in such year and (ii) make a level payment which if paid annually over a reasonable period of future years will fully cover the unfunded costs of benefit commitments for service previously rendered...

**Arkansas Teacher Retirement System Status:** Based upon the results of June 30, 2009 actuarial valuations, **ATRS is satisfying the financial objective of level-contribution-percent financing.**

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The amortization period this year is 45 years, an increase from last year's 21-year period. The increase occurred primarily because investment experience for the year ending June 30, 2009 was very unfavorable. The annual market rate of return was (18.29)% compared to an assumed rate of 8.0%. The loss was substantial enough for the 20% corridor to affect the results. Investment gains and losses that occur each year are smoothed in over a 4-year period. Although there were carryover gains from prior years that were recognized this year, the unfavorable experience this year more than offset those gains. As of June 30, 2009, the actuarial value of assets exceeds the market value of assets by \$1.8 billion. Given the loss this year and prior years' loss, it is very likely that the amortization period will increase significantly in the next valuation.

There were no changes in benefit provisions since the previous actuarial valuation.

The Arkansas Teacher Retirement System remains stable with a 75.7% funded position as of June 30, 2009. However without sustained investment gains over the next few years, it is not likely that the 14% employee rate can return ATRS to a 30 year amortization period.

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# STATISTICAL

## SCHEDULE OF REVENUE BY SOURCE

| Year Ending<br>June 30, | Member<br>Contributions | Employer Contributions    |                                | Investment and<br>Miscellaneous<br>Income | Total           |
|-------------------------|-------------------------|---------------------------|--------------------------------|---|-----------------|
|                         |                         | Employer<br>Contributions | % of Annual<br>Covered Payroll |   |                 |
| 2000                    | \$55,633,069            | \$175,686,958             | 11.8%                          | \$638,534,760                             | \$869,854,787   |
| 2001                    | 68,717,889              | 181,115,569               | 11.6%                          | (254,206,596)                             | (4,373,138)     |
| 2002                    | 71,893,349              | 191,352,910               | 11.8%                          | (461,538,652)                             | (198,292,393)   |
| 2003                    | 76,734,478              | 200,455,916               | 11.9%                          | 72,259,296                                | 349,449,690     |
| 2004                    | 77,772,019              | 224,184,274               | 12.8%                          | 1,195,341,063                             | 1,497,297,356   |
| 2005                    | 86,102,842              | 286,442,709               | 14.5%                          | 779,443,553                               | 1,151,989,104   |
| 2006                    | 92,005,600              | 311,713,735               | 15.0%                          | 1,173,286,760                             | 1,577,006,095   |
| 2007                    | 100,093,372             | 331,891,210               | 14.1%                          | 1,892,393,365                             | 2,324,377,947   |
| 2008                    | 108,872,293             | 350,319,504               | 15.4%                          | (477,579,443)                             | (18,387,646)    |
| 2009                    | 111,654,256             | 359,061,671               | 15.5%                          | (1,996,871,185)                           | (1,526,155,258) |

## SCHEDULE OF EXPENSE BY TYPE

| <u>Year Ending<br/>June 30,</u> | <u>Benefit<br/>Payments</u> | <u>Refunds</u> | <u>Administrative<br/>and Other<br/>Expenses</u> | <u>Total</u>   |
|---------------------------------|-----------------------------|----------------|--|----------------|
| 2000                            | \$ 284,356,092              | \$ 3,317,881   | \$ 9,729,999                                     | \$ 297,403,972 |
| 2001                            | 323,392,426                 | 2,975,138      | 8,254,731  | 334,622,295    |
| 2002                            | 354,949,683                 | 2,744,684      | 7,354,162  | 365,048,529    |
| 2003                            | 383,071,936                 | 3,585,188      | 7,973,933  | 394,631,057    |
| 2004                            | 413,433,516                 | 4,017,884      | 8,197,465  | 425,648,865    |
| 2005                            | 451,978,547                 | 4,413,077      | 6,454,762  | 462,846,386    |
| 2006                            | 507,641,961                 | 6,207,622      | 5,991,755  | 519,841,338    |
| 2007                            | 545,220,337                 | 5,179,850      | 5,854,557  | 556,254,744    |
| 2008                            | 587,319,942                 | 6,462,122      | 6,676,667  | 600,458,731    |
| 2009                            | 635,878,958                 | 6,409,016      | 6,913,865  | 649,201,839    |

## SCHEDULE OF BENEFIT EXPENSES BY TYPE

| Type of Benefit               | For the Year Ending June 30, |                      |                      |                      |                      |
|-------------------------------|------------------------------|----------------------|----------------------|----------------------|----------------------|
|                               | 2009                         | 2008                 | 2007                 | 2006                 | 2005                 |
| Age and Service               | \$494,967,987                | \$459,079,932        | \$426,379,481        | \$395,446,232        | \$363,872,024        |
| Disablility                   | 27,437,418                   | 26,073,257           | 24,531,282           | 23,489,045           | 22,637,834           |
| Option                        | 14,812,631                   | 13,613,226           | 12,388,887           | 11,081,484           | 10,188,011           |
| Survivor                      | 6,856,877                    | 6,684,337            | 6,545,304            | 5,925,441            | 5,677,528            |
| Reciprocity                   | 22,046,165                   | 19,588,246           | 16,732,846           | 14,726,557           | 13,027,579           |
| Active Members Death Benefits | 303,905                      | 381,089              | 950,829              | 658,633              | 831,792              |
| T-DROP                        | 65,284,163                   | 57,617,146           | 53,462,931           | 51,961,787           | 31,457,198           |
| Act 808                       | 4,169,812                    | 4,282,709            | 4,228,777            | 4,278,617            | 4,286,580            |
| <b>Total</b>                  | <b>\$635,878,958</b>         | <b>\$587,319,942</b> | <b>\$545,220,337</b> | <b>\$507,567,796</b> | <b>\$451,978,546</b> |

## SCHEDULE OF RETIRED MEMBERS BY TYPE OF BENEFIT

| Monthly Benefit | No. of Retirants | Type of Retirement* |            |            |              |            | Option Selected # |              |              |            |
|-----------------|------------------|---------------------|------------|------------|--------------|------------|-------------------|--------------|--------------|------------|
|                 |                  | 1                   | 2          | 3          | 4            | 5          | Life              | Opt. A       | Opt. B       | Opt. C     |
| \$1-250         | 3,391            | 2,895               | 79         | 129        | 272          | 16         | 2,775             | 449          | 30           | 137        |
| 251-500         | 3,277            | 2,630               | 60         | 170        | 371          | 46         | 2,711             | 404          | 65           | 97         |
| 501-750         | 2,173            | 1,756               | 63         | 49         | 256          | 49         | 1,730             | 285          | 81           | 77         |
| 751-1,000       | 1,657            | 1,283               | 77         | 22         | 237          | 38         | 1,281             | 233          | 85           | 58         |
| 1,001-1,250     | 1,530            | 1,186               | 62         | 36         | 205          | 41         | 1,194             | 197          | 104          | 35         |
| 1,251-1,500     | 1,568            | 1,265               | 53         | 35         | 189          | 26         | 1,219             | 217          | 102          | 30         |
| 1,501-1,750     | 1,649            | 1,358               | 46         | 35         | 185          | 25         | 1,268             | 223          | 112          | 46         |
| 1,751-2,000     | 2,036            | 1,797               | 31         | 22         | 168          | 18         | 1,511             | 281          | 181          | 63         |
| Over \$2,000    | 11,243           | 10,667              | 195        | 92         | 263          | 26         | 8,477             | 1,383        | 1,091        | 292        |
| <b>Total</b>    | <b>28,524</b>    | <b>24,837</b>       | <b>666</b> | <b>590</b> | <b>2,146</b> | <b>285</b> | <b>22,166</b>     | <b>3,672</b> | <b>1,851</b> | <b>835</b> |

\* Type of Retirement

1. Normal retirement for age and service
2. Survivor payment - normal or early retirement
3. Survivor payment - death-in-service
4. Disability retirement
5. Survivor payment - disability retirement

# Option Selected at Retirement

- Life - Straight life annuity  
 Opt. A - 100% survivor annuity  
 Opt. B - 50% survivor annuity  
 Opt. C - annuity for 10 years certain and life thereafter

Excludes Act 793 and Act 808 retirees.

## SCHEDULE OF AVERAGE BENEFIT PAYMENTS

| Retirement Effective Date<br>July 1, 1999 to June 30, 2009 |                           | Service at Retirement |          |          |          |          |          |          |
|--|---------------------------|-----------------------|----------|----------|----------|----------|----------|----------|
|  |                           | 0-4#                  | 5-9      | 10-14    | 15-19    | 20-24    | 25-29    | 30+      |
| 07/01/99 – 06/30/00  | Average Monthly Benefit   | \$ 193                | \$ 204   | \$ 362   | \$ 860   | \$ 1,226 | \$ 1,743 | \$ 2,361 |
|  | Average Final Salary      | \$25,045              | \$13,612 | \$17,288 | \$28,523 | \$30,543 | \$36,513 | \$37,919 |
|  | Number of Active Retirees | 27                    | 219      | 138      | 102      | 137      | 308      | 318      |
| 07/01/00 – 06/30/01  | Average Monthly Benefit   | \$ 194                | \$ 210   | \$ 422   | \$ 920   | \$ 1,333 | \$ 1,887 | \$ 2,459 |
|  | Average Final Salary      | \$21,910              | \$14,772 | \$19,899 | \$31,531 | \$33,529 | \$39,490 | \$39,512 |
|  | Number of Active Retirees | 50                    | 315      | 229      | 125      | 132      | 387      | 333      |
| 07/01/01 – 06/30/02  | Average Monthly Benefit   | \$ 173                | \$ 209   | \$ 363   | \$ 797   | \$ 1,348 | \$ 1,920 | \$ 2,528 |
|  | Average Final Salary      | \$31,558              | \$13,507 | \$17,606 | \$27,482 | \$34,586 | \$39,498 | \$40,211 |
|  | Number of Active Retirees | 78                    | 477      | 376      | 195      | 171      | 423      | 269      |
| 07/01/02 – 06/30/03  | Average Monthly Benefit   | \$ 131                | \$ 213   | \$ 439   | \$ 824   | \$ 1,321 | \$ 1,982 | \$ 2,530 |
|  | Average Final Salary      | \$25,178              | \$16,577 | \$21,197 | \$28,856 | \$34,031 | \$40,871 | \$39,797 |
|  | Number of Active Retirees | 48                    | 304      | 225      | 155      | 151      | 473      | 265      |
| 07/01/03 – 06/30/04  | Average Monthly Benefit   | \$ 200                | \$ 252   | \$ 456   | \$ 804   | \$ 1,396 | \$ 2,044 | \$ 2,602 |
|  | Average Final Salary      | \$26,511              | \$17,293 | \$21,690 | \$29,722 | \$37,471 | \$41,637 | \$41,256 |
|  | Number of Active Retirees | 46                    | 333      | 254      | 185      | 163      | 486      | 225      |
| 07/01/04 – 06/30/05  | Average Monthly Benefit   | \$ 117                | \$ 245   | \$ 451   | \$ 851   | \$ 1,413 | \$ 2,085 | \$ 2,561 |
|  | Average Final Salary      | \$21,778              | \$17,230 | \$21,509 | \$31,146 | \$38,529 | \$42,106 | \$39,786 |
|  | Number of Active Retirees | 44                    | 384      | 239      | 215      | 136      | 562      | 242      |
| 07/01/05 – 06/30/06  | Average Monthly Benefit   | \$ 178                | \$ 249   | \$ 486   | \$ 796   | \$ 1,472 | \$ 2,146 | \$ 2,860 |
|  | Average Final Salary      | \$23,915              | \$17,531 | \$24,252 | \$29,291 | \$39,726 | \$43,432 | \$42,735 |
|  | Number of Active Retirees | 44                    | 371      | 263      | 207      | 150      | 633      | 290      |
| 07/01/06 - 06/30/07  | Average Monthly Benefit   | \$ 193                | \$ 269   | \$ 489   | \$ 810   | \$ 1,470 | \$ 2,168 | \$ 2,791 |
|  | Average Final Salary      | \$30,693              | \$19,693 | \$24,448 | \$29,479 | \$40,437 | \$44,736 | \$43,192 |
|  | Number of Active Retirees | 31                    | 447      | 251      | 215      | 157      | 665      | 251      |
| 07/01/07 - 06/30/08  | Average Monthly Benefit   | \$ 299                | \$ 290   | \$ 526   | \$ 954   | \$ 1,440 | \$ 2,303 | \$ 2,778 |
|  | Average Final Salary      | \$25,406              | \$20,153 | \$25,808 | \$36,169 | \$41,295 | \$45,077 | \$42,414 |
|  | Number of Active Retirees | 12                    | 402      | 187      | 187      | 180      | 518      | 217      |
| 07/01/08 - 06/30/09  | Average Monthly Benefit   | \$ 162                | \$ 248   | \$ 532   | \$ 902   | \$ 1,378 | \$ 2,399 | \$ 2,949 |
|  | Average Final Salary      | \$24,871              | \$22,873 | \$26,844 | \$33,190 | \$40,876 | \$47,821 | \$46,900 |
|  | Number of Active Retirees | 47                    | 360      | 265      | 235      | 235      | 654      | 245      |

# May include cases where the service was not reported.



# SCHEDULE OF PARTICIPATING EMPLOYERS

As of June 30, 2009



|                            |                               |                            |                           |
|----------------------------|-------------------------------|----------------------------|---------------------------|
| Academics Plus Charter Sch | Bergman School Dist           | Dawson Educ Service Coop   | Green Forest Sch          |
| Alma School Dist           | Berryville Sch Dist           | Decatur School Dist        | Greenbrier Sch Dist       |
| Alpena School Dist         | Bismarck School Dist          | Deer/Mt. Judea School Dist | Greene Co Tech Sch        |
| Ar Association Edu Admin   | Black River Technical Col     | Delight School Dist        | Greenland Sch Dist        |
| Ar Dept Of Economic Dev    | Blevins School Dist           | Dequeen School Dist        | Greenwood Sch Dist        |
| Ar Dept Of Education       | Blytheville Sch Dist          | Dequeen-Mena Ed Co-Op      | Gurdon School Dist        |
| Ar Dept Of Higher Ed       | Booneville Sch Dist           | Dermott School Dist        | Guy-Perkins Sch Dist      |
| Ar Dept of Workforce Educ  | Boston Mts Ed Coop            | Des Arc School Dist        | Haas Hall Academy         |
| Ar Educational TV          | Bradford School Dist          | Dewitt School Dist         | Hackett School Dist       |
| Ar Northeastern College    | Bradley School Dist           | Dierks School Dist         | Hamburg School Dist       |
| Ar Rehabilitation Services | Brinkley School Dist          | Dollarway Sch Dist         | Hampton School Dist       |
| Ar River Ed Srvs Coop      | Brookland Sch Dist            | Dover School Dist          | Harmony Grove Sch-Benton  |
| Ar Sch Brds Ins Trust      | Bryant School Dist            | Dreamland Academy          | Harmony Grove Sch-Camden  |
| Ar School For The Blind    | Buffalo Island Central        | Drew Central Sch Dist      | Harrisburg Schools        |
| Ar School For The Deaf     | Cabot School Dist             | Dumas School Dist          | Harrison School Dist      |
| Ar State Univ              | Caddo Hills Sch Dist          | Earle School Dist          | Hartford School Dist      |
| Ar State Univ, Mtn Home    | Calico Rock Sch Dist          | East Ar Comm College       | Hazen School Dist         |
| Ar State Univ, Beebe       | Camden-Fairview Sch Dist      | East End School Dist       | Heber Springs Sch         |
| Ar State Univ, Newport     | Carlisle Sch Dist             | East Poinsett Sch Dist     | Hector School Dist        |
| Ar Teacher Ret Sys         | Cave City Sch Dist            | El Dorado Sch Dist         | Helena-West Helena        |
| Ar Tech University         | Cedar Ridge Sch Dist          | Elkins School Dist         | Henderson State Univ      |
| Arch Ford Coop             | Cedarville Sch Dist           | Emerson - Taylor Sch Dist  | Hermitage Sch Dist        |
| Area Career And Tech Ctr   | Centerpoint Sch Dist          | England School Dist        | Highland School Dist      |
| Ark Correctional Sch       | Charleston Sch Dist           | E-Stem Elementary P.C.S.   | Hillcrest School District |
| Ark Easter Seals           | Clarendon Sch Dist            | E-Stem High P.C.S.         | Hope Academy              |
| Ark Virtual Acad           | Clarksville Sch Dist          | E-Stem Middle P.C.S.       | Hope School Dist          |
| Ark Workforce Invest Board | Cleveland Co Sch Dist         | Eureka Springs Sch         | Horatio School Dist       |
| Arkadelphia Sch Dist       | Clinton School Dist           | Farmington Sch Dist        | Hot Springs Sch Dist      |
| Arkansas Activities        | Concord School Dist           | Fayetteville Schools       | Hoxie School Dist         |
| Armored School District    | Conway School Dist            | First Student              | Hughes School Dist        |
| Ashdown School Dist        | Conway Voc Ctr                | Flippin School Dist        | Huntsville Sch Dist       |
| Atkins School Dist         | Corning School Dist           | Fordyce School Dist        | Imboden Area Charter Sch  |
| Augusta School Dist        | Cotter School Dist            | Foreman School Dist        | Izard Co Cons School      |
| Bald Knob Sch Dist         | County Line Sch Dist          | Forrest City Sch Dist      | Jackson County Sch Dist   |
| Barton-Lexa Sch Dist       | Covenant Keepers College Prep | Fort Smith Sch Dist        | Jasper School Dist        |
| Batesville Sch Dist        | Craighead Co Sd Exe Cncl      | Fouke School Dist          | Jessieville Sch Dist      |
| Bauxite School Dist        | Cross Co Sch Dist             | Fountain Lake Sch          | Jonesboro Sch Dist        |
| Bay School Dist            | Crossett School Dist          | Genoa Central Sch Dist     | Jonesboro Voc Ctr         |
| Bearden School Dist        | Crowleys Ridge Coop           | Gentry School Dist         | Junction City Sch         |
| Beebe School Dist          | Crowleys Ridge Tech Inst      | Glen Rose Sch Dist         | Kipp Delta College Prep   |
| Benton Co Sch Of Arts      | Cutter Morning Star           | Gosnell School Dist        | Kirby School Dist         |
| Benton School Dist         | Danville School Dist          | Gravette School Dist       | Lafayette Co Sch Dist     |
| Bentonville Sch Dist       | Dardanelle Sch Dist           | Great Rivers Ed Coop       | Lake Hamilton Sch         |

|                                |                             |                             |                               |
|--------------------------------|-----------------------------|-----------------------------|-------------------------------|
| Lakeside Sch-Hot Springs       | Nashville Sch Dist          | Pulaski Co Sch Dist         | Turrell School Dist           |
| Lakeside Sch-Lake Village      | Natl Park Comm Coll         | Pulaski Technical Col       | Twin Rivers Sch Dist          |
| Lamar School Dist              | Nemo Vista Sch Dist         | Quitman School Dist         | Two Rivers Sch Dist           |
| Lavaca School Dist             | Nettleton Sch Dist          | Rector School Dist #1       | U Of Ar-Little Rock           |
| Lawrence Co School Dist        | Nevada School Dist #1       | Rich Mtn Comm College       | U Of Ar-Fort Smith            |
| Lead Hill Sch Dist             | Newport School Dist         | River Valley Tech (Voc) Ctr | U Of Ar-Com Col At Batesville |
| Lee County Schools             | Norfolk School Dist         | Riverside School Dist       | U Of Ar-Com Col Morrilton     |
| Lincoln School Dist            | Norphlet School Dist        | Riverside Vo-Tech School    | U Of Ar-Comm Col, Hope        |
| Lisa Academy                   | North Arkansas College      | Riverview School Dist       | U Of Ar-Cooperative Extension |
| Lisa Academy-North Little Rock | North Central Career Ctr    | Rogers School Dist          | U Of Ar-Cossatot Com Col      |
| Little Rock Sch Dist           | North Central Educ Coop     | Rose Bud School Dist        | U Of Ar-Medical Sciences      |
| Lonoke School Dist             | North Little Rock Sch Dist  | Russellville Sch Dist       | U Of Ar-Sch Math, Science     |
| Magazine School Dist           | Northeast Ar Educ Coop      | Salem School Dist           | U Of Ar-Monticello            |
| Magnet Cove Sch Dist           | Northwest Ar Comm Coll      | School Of Excellence        | U Of Ar-Pine Bluff            |
| Magnolia School Dist           | Northwest Ar Ed Svc Coop    | Scranton School Dist        | U Of Ar-Fayetteville          |
| Malvern School Dist            | Northwest Tech Inst         | Searcy County Sch Dist      | Univ Of Central Ar            |
| Mammoth Spring Sch             | NW Ark Academy of Fine Arts | Searcy School Dist          | Valley Springs Sch            |
| Manila School Dist             | Omaha School Dist           | Sheridan School Dist        | Valley View Sch Dist          |
| Mansfield Sch Dist             | Osceola Communication, Arts | Shirley School Dist         | Van Buren Sch Dist            |
| Marion School Dist             | Osceola School Dist         | Siloam Springs Sch          | Van-Cove School Dist          |
| Marked Tree Sch Dist           | Ouachita River Sch Dist     | Sloan-Hendrix Sch Dist      | Vilonia School Dist           |
| Marmaduke Sch Dist             | Ouachita School Dist        | Smackover Sch Dist          | Viola School Dist             |
| Marvell School Dist            | Ouachita Technical Col      | So Ar Developmental Ctr     | Waldron School Dist           |
| Mayflower Sch Dist             | Ozark Mountain Sch Dist     | South Ar Comm Coll          | Warren School Dist            |
| Maynard School Dist            | Ozark School Dist           | South Ar Univ-East Camden   | Warren Voc Ctr                |
| Mccrory School Dist            | Ozark Unlimited Res Coop    | South Ar Univ-Magnolia      | Watson Chapel Schools         |
| Mcgehee School Dist            | Ozarka College              | South Central Svc Coop      | Weiner School Dist            |
| Melbourne Sch Dist             | Palestine-Wheatley Sd       | South Conway Co Sch Dist    | West Fork Sch Dist            |
| Mena School Dist               | Pangburn School Dist        | South Mississippi Co        | West Memphis Sch Dist         |
| Metropolitan Voc Ctr           | Paragould Sch-Dist          | Southeast Ark Ed Coop       | West Side Sch Dist            |
| Midland School Dist #19        | Paris School Dist           | Southeast Ark Tech Col      | Western Ar Educ Coop          |
| Mid-So Comm Tech Col           | Parkers Chapel Sch          | Southside Sch Dist          | Western Yell Co #9            |
| Mineral Springs                | Pea Ridge Sch Dist          | Southside School Dist       | Westside School Dist          |
| Monticello Sch Dist            | Perryville Sch Dist         | Southwest Ark Ed Coop       | Westside School Dist #40      |
| Monticello Voc Ctr             | Phillips Com Col-Dewitt     | Spring Hill Sch Dist        | White Co Central Sch Dist     |
| Mount Ida Sch Dist             | Phillips Comm Col-Ua        | Springdale Sch Dist         | White Hall Sch Dist           |
| Mountain Home Sch              | Piggott School Dist         | Star City Sch Dist          | Wickes School Dist            |
| Mountain Pine Sch              | Pine Bluff Sch Dist         | Stephens School Dist        | Wilbur D Mills Ed Svs         |
| Mountain View Sch              | Pocahontas Sch Dist         | Strong School Dist          | Wonderview Sch Dist           |
| Mountainburg Sch Dist          | Pottsville Sch Dist         | Stuttgart Sch Dist          | Woodlawn School Dist          |
| Mt Vernon-Enola Sch Dist       | Poyen School Dist           | Texarkana Sch Dist          | Wynne School Dist             |
| Mulberry School Dist           | Prairie Grove Sch           | Texarkana Voc Ctr           | Yellville-Summit Sch          |
| Murfreesboro Sch Dist          | Prescott School Dist        | Trumann School Dist         |                               |





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