INVESTMENT INTRODUCTION

A.C.A. § 24-2-613

This investment rule 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 ATRS System. This rule has been chosen as the most appropriate for achieving the financial objectives of the 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 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 System will be in the sole interest of its members.

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

Adopted: October 7, 2003

STANDARD OF CARE

Prudent Investor Rule set forth in A.C.A. §§ 24-2-610-619 as amended by Act 151 of 2001

The standard of care for the Board and Executive Director of the assets of the ATRS System is: When investing and reinvesting trust assets and in acquiring, retaining, managing, and disposing of investments of the trust assets, the reasonable care, skill, and caution exercised by a prudent investor should be used 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.

Adopted: October 7, 2003

ASSET ALLOCATION

A.C.A. § 24-2-410

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 ranges as necessary to provide an optimal allocation to obtain its target returns.

REBALANCING

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

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

Normal plan cash flows should be used to the extent possible to rebalance. Interest, dividends, and plan contributions should be used to the extent possible to fund asset classes that are below their target. Withdrawals should be made from asset classes that are above their target.

Adopted: October 7, 2003
Amended: February 11, 2008

RULE 5-4
INVESTMENT GOALS

A.C.A. §§ 24-2-610-619

The overall goal is to achieve, over a period of years, the greatest rate of return for ATRS by balancing risk at a prudent investor level to grow and preserve capital sufficient to pay benefits to members.

The Board may adopt or amend by motion or resolution at any board meeting the ATRS investment policies, investment procedures, and investment asset allocation targets consistent with the Board's fiduciary obligations under the prudent investor rule. ATRS sets performance goals that are approved by the Board after considering recommendations by the General Consultant and ATRS staff.

Adopted: October 7, 2003
Approved by Board: October 5, 2015
Amended: February 1, 2016
Effective: February 10, 2016

RULE 5-5
INVESTMENT STRATEGY

A.C.A. §§ 24-2-610-619

Adopted: October 7, 2003
Approved by Board: October 5, 2015
Amended: February 1, 2016
Effective: February 10, 2016

RULE 5-6
INVESTMENT CONSULTANTS

A.C.A. § 24-7-303 and §§ 24-2-610-619

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

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

Unless otherwise provided by contract, the investment consultants will:

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

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

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

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

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

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

Adopted: October 7, 2003
Approved by Board: October 5, 2015
Amended: February 1, 2016
Effective: February 10, 2016

INVESTMENT MANAGERS

A.C.A. § 24-7-303 and §§ 24-2-610-619

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

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

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

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

Adopted: October 7, 2003

SOFT DOLLARS

A.C.A. § 24-7-303 and §§ 24-2-610

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

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

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

Adopted: October 7, 2003