

**ARKANSAS TEACHER RETIREMENT SYSTEM**

**Annual Financial Report**

**June 30, 2018**



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# Arkansas

**Sen. Jason Rapert**  
Senate Chair  
**Sen. Eddie Cheatham**  
Senate Vice Chair



**Rep. Richard Womack**  
House Chair  
**Rep. DeAnn Vaught**  
House Vice Chair

**Roger A. Norman, JD, CPA, CFE, CFF**  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

### INDEPENDENT AUDITOR'S REPORT

Arkansas Teacher Retirement System  
Legislative Joint Auditing Committee

#### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Fiduciary Pension Trust Fund of the Arkansas Teacher Retirement System, an office of Arkansas state government, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Arkansas Teacher Retirement System's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fiduciary Pension Trust Fund of the Arkansas Teacher Retirement System as of June 30, 2018, and the changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

#### ***Emphasis of Matter***

As indicated above, the financial statements of the Arkansas Teacher Retirement System are intended to present the financial position and the changes in financial position of only that portion of the Fiduciary Pension Trust Fund of the State that is attributable to the transactions of the Arkansas Teacher Retirement System. They do not purport to, and do not, present fairly the financial position of the State as of June 30, 2018, or the changes in its financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the required supplementary information, listed in the accompanying table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Governmental Accounting Standards Board requires that a Management's Discussion and Analysis be presented to supplement government-wide financial statements. However, as discussed in the "Emphasis of Matter" paragraph above, the financial statements of the Arkansas Teacher Retirement System are only for the specific transactions and activity of the Agency and not for the State as a whole. Therefore, the Management's Discussion and Analysis is not required to be presented for the Arkansas Teacher Retirement System individually. Our opinion on the basic financial statements is not affected by the omission of this information.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Arkansas Teacher Retirement System's basic financial statements. The Schedule of Selected Information is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Schedule of Selected Information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on this information.

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2019 on our consideration of the Arkansas Teacher Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Arkansas Teacher Retirement System's internal control over financial reporting and compliance.

ARKANSAS LEGISLATIVE AUDIT



Roger A. Norman, JD, CPA, CFE, CFF  
Legislative Auditor

Little Rock, Arkansas  
January 24, 2019  
SA1037518

# Arkansas

**Sen. Jason Rapert**  
Senate Chair  
**Sen. Eddie Cheatham**  
Senate Vice Chair



**Rep. Richard Womack**  
House Chair  
**Rep. DeAnn Vaught**  
House Vice Chair

**Roger A. Norman, JD, CPA, CFE, CFF**  
Legislative Auditor

## LEGISLATIVE JOINT AUDITING COMMITTEE ARKANSAS LEGISLATIVE AUDIT

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

#### INDEPENDENT AUDITOR'S REPORT

Arkansas Teacher Retirement System  
Legislative Joint Auditing Committee

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Fiduciary Pension Trust Fund of the Arkansas Teacher Retirement System (the "Agency"), an office of Arkansas state government, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Arkansas Teacher Retirement System's basic financial statements and have issued our report thereon dated January 24, 2019.

#### ***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Agency's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, pursuant to Ark. Code Ann. § 10-4-417, all reports presented to the Legislative Joint Auditing Committee are matters of public record, and distribution is not limited.

ARKANSAS LEGISLATIVE AUDIT

A handwritten signature in black ink that reads "Jon Moore". The signature is written in a cursive, flowing style.

Jon Moore, CPA, CFE, CFF  
Deputy Legislative Auditor

Little Rock, Arkansas  
January 24, 2019

ARKANSAS TEACHER RETIREMENT SYSTEM  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2018

Exhibit A

|  | Totals                |
|--|-----------------------|
| ASSETS   |                       |
| Cash and cash equivalents                        | \$ 318,615,761        |
| Receivables:                                     |                       |
| Member contributions                             | 8,384,828             |
| Employer contributions                           | 22,548,166            |
| Investment trades pending                        | 53,789,178            |
| Accrued investment income                        | 14,987,825            |
| Due from other funds                             | 3,126,606             |
| Other receivables                                | 248,822               |
| Total Receivables                                | 103,085,425           |
| Investments, at fair value:                      |                       |
| Domestic equities                                | 2,849,080,788         |
| International equities                           | 961,598,275           |
| U.S. Government obligations                      | 7,841,258             |
| Corporate obligations                            | 777,231,513           |
| Asset- and mortgage-backed securities            | 42,042,694            |
| Limited partnerships                             | 70,411,826            |
| Real estate                                      | 57,238,826            |
| Pooled investments                               | 7,041,685,885         |
| Alternative investments                          | 5,143,913,383         |
| State recycling tax credits                      | 208,000,000           |
| Investment derivatives                           | 981,576               |
| Total Investments                                | 17,160,026,024        |
| Securities lending collateral                    | 506,400,660           |
| Capital assets, net of accumulated depreciation  | 177,916               |
| Other assets                                     | 75,217                |
| <br>TOTAL ASSETS                                 | <br>18,088,381,003    |
| <br>LIABILITIES                                  |                       |
| Accrued expenses and other liabilities           | 12,827,364            |
| Compensated absences                             | 533,706               |
| Post-employment benefit liability                | 5,387,621             |
| Investment trades pending payable                | 68,389,221            |
| Securities lending liability                     | 506,308,705           |
| Due to other funds                               | 2,306,646             |
| <br>TOTAL LIABILITIES                            | <br>595,753,263       |
| <br>NET POSITION RESTRICTED FOR PENSION BENEFITS | <br>\$ 17,492,627,740 |

The accompanying notes are an integral part of these financial statements.

ARKANSAS TEACHER RETIREMENT SYSTEM  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2018

Exhibit B

|  | Totals            |
|--|-------------------|
| ADDITIONS  |                   |
| Contributions:   |                   |
| Member   | \$ 138,766,747    |
| Employer   | 424,488,126       |
| Total contributions  | 563,254,873       |
| Investment income  |                   |
| From investing activities:                                   |                   |
| Net appreciation (depreciation) in fair value of investments | 1,749,045,731     |
| Interest and dividends                                       | 106,577,219       |
| Real estate operating income                                 | 7,596,033         |
| Total investment income (loss)                               | 1,863,218,983     |
| Less investment expense                                      | 44,259,078        |
| Net investment income (loss)                                 | 1,818,959,905     |
| From securities lending activities:                          |                   |
| Securities lending gross income                              | 11,059,078        |
| Less: securities lending expense                             | 5,983,625         |
| Net securities lending income (loss)                         | 5,075,453         |
| Other income   | 59,337            |
| TOTAL ADDITIONS (LOSSES)                                     | 2,387,349,568     |
| DEDUCTIONS   |                   |
| Benefits   | 1,160,738,237     |
| Refunds of contributions                                     | 9,455,405         |
| Administrative expenses                                      | 9,336,430         |
| TOTAL DEDUCTIONS   | 1,179,530,072     |
| CHANGE IN NET POSITION RESTRICTED FOR PENSION BENEFITS       | 1,207,819,496     |
| NET POSITION - BEGINNING OF YEAR                             | 16,284,808,244    |
| NET POSITION - END OF YEAR                                   | \$ 17,492,627,740 |

The accompanying notes are an integral part of these financial statements.



ARKANSAS TEACHER RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies

A. Reporting Entity/History

Act 266 of 1937, as amended, established the Arkansas Teacher Retirement System (ATRS) 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 ATRS. Act 427 of 1973, as amended, provided that the general administration of ATRS, responsibility for its proper operation, and responsibility for making effective the provisions of the Teacher Retirement law are vested in a 15-member Board of Trustees. The State Bank Commissioner, Treasurer of State, Auditor of State, and Commissioner of Education are ex-officio trustees. The remaining 11 trustees are elected and consist of seven active members of ATRS with at least five years of actual service, three retired members receiving an annuity from ATRS, and one active or retired member from a minority racial ethnic group. The seven active trustees consist of one member from each of the four congressional districts; two administrators, of whom one must be a superintendent; and one member employed in a position that does not require state licensure. The trustees are elected in accordance with rules adopted by the Board. Board members serve as trustees without compensation but are reimbursed for any necessary expenses incurred to attend Board meetings or perform other duties authorized by the Board.

B. Plan Description

ATRS is a cost-sharing, multiple-employer defined benefit pension plan that covers employees of schools and education-related agencies, including Arkansas School for the Blind, Arkansas School for the Deaf, Arkansas Activities Association, State Board of Education, regional education service cooperatives, ATRS, Arkansas Educational Television Commission, area vocational-technical schools, Arkansas Rehabilitation Services, enterprises privatized by a public school district, and educational nonprofit organizations.

On June 30, 2018, the number of participating employers was as follows:

|                                 |                   |
|---------------------------------|-------------------|
| Public schools                  | 260               |
| State colleges and universities | 40                |
| State agencies                  | 11                |
| Other/privatized                | <u>29</u>         |
| Total                           | <u><u>340</u></u> |

On June 30, 2018, ATRS's membership consisted of the following:

|  |                       |
|--|-----------------------|
| Retirees or beneficiaries currently receiving benefits | 46,824                |
| T-DROP participants                                    | 3,696                 |
| Inactive plan members (not receiving benefits)         | 12,544                |
| Active members   |                       |
| Fully vested   | 45,491                |
| Non-vested   | <u>23,154</u>         |
| Total  | <u><u>131,709</u></u> |

Members are eligible for full retirement benefits at age 60 with five or more years of actual or reciprocal service or at any age with 28 or more years of credited service. Members with 25 years of actual or reciprocal service who have not attained age 60 may receive an annuity reduced by 10/12 of 1% multiplied by the number of months by which the early retirement precedes the earlier of (1) completion of 28 years of credited service or (2) attainment of age 60. The normal retirement benefit, paid monthly, is determined based on (1) the member's final average salary (effective April 1, 1998, computed using highest three years' salary) and (2) the number of years of service.

ARKANSAS TEACHER RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (Continued)

B. Plan Description (Continued)

ATRS has contributory and noncontributory plans. The contributory plan has been in effect since the beginning of ATRS. The noncontributory plan became available July 1, 1986. Acts 81 and 907 of 1999, effective July 1, 1999, require all new members under contract for 181 or more days to be contributory. Act 93 of 2007 allows any noncontributory member to make an irrevocable election to become contributory on July 1 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 their position while in active employment. The disability annuity is computed in the same manner as the age and service annuity.

Survivor benefits are payable to qualified survivors upon the death of an active, vested member. Eligible spouse survivors receive a survivor annuity that is based on the member's years of service credit prior to their death, and minor child survivors receive a percentage of the member's highest salary earned. ATRS also provides a lump sum death benefit for active and retired members with 10 years of actual service. The amount for contributory members will be up to \$10,000 and up to \$6,667 for noncontributory members. The amount will be prorated for members who have both contributory and non-contributory service; however, members with 15 or more years of contributory service will receive the full \$10,000.

A cost of living adjustment (COLA) is payable on July 1 of each year to retirees, certain survivors, and annuity beneficiaries who received monthly benefits for the previous 12 months. The COLA is calculated by multiplying 100% of the member's base retirement annuity by 3%.

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 at least 6% but not more than 12% for each year under 30 years. Effective September 1, 2003, Act 992 of 2003 requires employers to make contributions on behalf of all members participating in T-DROP at rates established by the Board of Trustees. Member contributions and accumulation of service credit will cease once a member enters T-DROP. During participation in T-DROP, ATRS will credit the member account with plan deposits and interest. The plan deposits are the member's normal retirement benefit reduced by 1% for each year of service. For members who entered T-DROP prior to September 1, 2003, the reduction is 1/2 of 1% (.5%) for contributory service and 3/10 of 1% (.3%) for noncontributory service for each year above 30 years of service. The T-DROP account accrues interest at a variable rate that is set annually by the ATRS Board of Trustees. T-DROP deposits into member accounts cease at the completion of 10 years of participation in the program; however, a member may continue employment and will continue to receive interest on the account balance at the 10-year plus interest rate that is also set annually by the Board of Trustees. When T-DROP participation ceases, the member may receive the T-DROP distribution as a lump-sum cash payment or an annuity or may roll it over into another tax-deferred account. A member may also elect to defer all or part of the distribution into a T-DROP cash balance account held by ATRS.

C. Basis of Presentation – Fund Accounting

The accounting system is organized and operated on a fund basis. A *fund* is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances and changes therein, which are segregated for purposes of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The following types of funds, if applicable to this Agency, are recognized in the accompanying financial statements.

ARKANSAS TEACHER RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (Continued)

C. Basis of Presentation – Fund Accounting (Continued)

Fiduciary Funds

Trust and Agency Funds – Trust and Agency Funds are used to report resources held by the Agency in a trustee capacity or as an agent for individuals, other governmental units, and other funds. These include Pension Trust Funds, Employee Health Trust Funds, Investment Trust Funds, Private-Purpose Trust Funds, and Agency Funds. The specific activity accounted for at this Agency includes the following:

Arkansas Teacher Retirement System Fiduciary Pension Trust Fund

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized and reported in the financial statements. The economic resources measurement focus and accrual basis of accounting are used in Fiduciary Fund financial statements. Under the accrual basis, contributions and other revenues are recognized when earned, and benefits, refunds, and other expenses are recorded when incurred.

E. Federal Income Tax Status

During the year ended June 30, 2018, ATRS was a qualified plan under 26 USC § 401(a) and was exempt from federal income taxes under 26 USC § 501(a).

F. Cash and Cash Equivalents

Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, cash in State Treasury, all short-term instruments with maturities at purchase of 90 days or less, and deposits in the Short-Term Investment Fund (STIF). The STIF is created through daily sweeps of excess cash by the custodial bank into bank-sponsored commingled funds that are invested in U.S. Government and agency securities and other short-term investments.

G. Capital Assets

Capital assets purchased and in the custody of this Agency were recorded as expenditures at the time of purchase. Assets with costs exceeding \$5,000 and an estimated useful life exceeding one year are reported at historical cost, including ancillary costs (such as professional fees and costs, freight costs, preparation or setup costs, and installation costs). Gifts or contributions are generally recorded in the accounts at acquisition value at the time received. Acquisition value is the market value if the Agency would have purchased the item. Depreciation is reported based on a straight-line method, with no salvage value. Estimated useful lives generally assigned are as follows:

|                |              |
|----------------|--------------|
| <u>Assets:</u> | <u>Years</u> |
| Equipment      | 5-20         |

Capital assets activity for the year ended June 30, 2018, was as follows:

|                                | Beginning<br>Balance | Additions   | Retirements | Ending<br>Balance |
|--------------------------------|----------------------|-------------|-------------|-------------------|
| Fiduciary activities:          |                      |             |             |                   |
| Equipment                      | \$ 1,167,543         |             | \$ 42,053   | \$ 1,125,490      |
| Less: Accumulated depreciation | 954,984              | \$ 32,317   | 39,727      | 947,574           |
| Fiduciary activities, net      | \$ 212,559           | \$ (32,317) | \$ 2,326    | \$ 177,916        |

ARKANSAS TEACHER RETIREMENT SYSTEM  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (Continued)

H. Deposits and Investments

Deposits

Deposits are carried at cost and consist of cash in bank, cash in State Treasury, and Short-Term Investment Funds. At June 30, 2018, these totals were \$21,991,301, \$1,338,390, and \$295,285,994, respectively. State Treasury Management Law governs the management of funds held in the State Treasury, and the Treasurer of State is responsible for ensuring these funds are adequately insured and collateralized.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that, in the event of the failure of a depository institution, the Agency will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Agency has adopted the State Board of Finance Policy requiring the use of depository insurance and collateralization procedures to manage the risk that deposits may not be returned. As of June 30, 2018, \$4,896,068 of the Agency's bank balance of \$25,397,175 was exposed to custodial credit risk.

Investments

Ark. Code Ann. §§ 24-2-601 – 24-2-619 authorizes the ATRS Board of Trustees to have full power to invest and reinvest monies of ATRS and to hold, purchase, sell, assign, transfer, or dispose of any of the investments or investment proceeds in accordance with the prudent investor rule.

Each investment manager is required to invest within the specific guidelines and parameters set by the Board of Trustees. Asset allocation guidelines have been established as follows:

| <u>Asset Allocation</u> | <u>Minimum</u> | <u>Target</u> | <u>Maximum</u> |
|-------------------------|----------------|---------------|----------------|
| Total equity            | 50.0%          | 55.0%         | 60.0%          |
| Fixed income            | 13.0%          | 15.0%         | 17.0%          |
| Alternatives            | N/A*           | 5.0%          | N/A*           |
| Real assets***          | N/A*           | 15.0%         | N/A*           |
| Private equity          | N/A*           | 10.0%         | N/A*           |
| Cash equivalents        | 0.0%           | 0.0%          | 5.0%           |

\*Due to the illiquid nature of alternatives, real assets, and private equity, it is not prudent to set rebalancing ranges for these asset classes.

\*\*Additional allocations to total equity may be made beyond the maximum range to serve as a placeholder for unfunded and uncommitted alternatives, real assets, and private equity.

\*\*\*Real assets include real estate, timber, agriculture, and infrastructure.

Fair Value – ATRS implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, which will enhance comparability of financial statements among governments by requiring a consistent and more detailed definition of fair value and by providing information to financial statement users about the impact of fair value measurements on the government's financial position.

The fair value measurement of investments is categorized within the hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset and gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. In instances where inputs used to measure fair value fall into different levels, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation.

ARKANSAS TEACHER RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (Continued)

H. Deposits and Investments (Continued)

The hierarchy of inputs is defined as follows:

- Level 1 – Unadjusted quoted prices for identical instruments in active markets.
- Level 2 – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable.
- Level 3 – Valuations derived from valuation techniques in which significant inputs are unobservable.

For investments that do not have a readily determinable fair value and fall outside of the fair value hierarchy, the system establishes the value by utilizing the Net Asset Value (NAV) or its equivalent as a practical expedient.

The fair value measurement of plan investments and securities lending collateral as of June 30, 2018, was as follows:

| <u>Investments measured at fair value</u>            | <u>Total</u>             | <u>Level 1</u>          | <u>Level 2</u>        | <u>Level 3</u>        |
|--|--------------------------|-------------------------|-----------------------|-----------------------|
| <u>Equity investments:</u>                           |                          |                         |                       |                       |
| Domestic equities                                    | \$ 2,849,080,788         | \$ 2,849,080,788        |                       |                       |
| International equities                               | 961,598,275              | 961,598,275             |                       |                       |
| <u>Fixed income investments:</u>                     |                          |                         |                       |                       |
| U.S. Government obligations                          | 7,841,258                |                         | \$ 7,841,258          |                       |
| Corporate obligations                                | 777,231,513              |                         | 724,598,738           | \$ 52,632,775         |
| Asset- and mortgage-backed securities                | 42,042,694               |                         | 42,042,694            |                       |
| <u>Real estate investments:</u>                      |                          |                         |                       |                       |
| Limited partnerships                                 | 70,411,826               |                         |                       | 70,411,826            |
| Real estate  | 57,238,826               |                         |                       | 57,238,826            |
| State recycling tax credits:                         | 208,000,000              |                         | 208,000,000           |                       |
| <u>Derivative investments:</u>                       |                          |                         |                       |                       |
| Forward contracts                                    | 974,088                  |                         | 974,088               |                       |
| Rights   | 7,488                    |                         | 7,488                 |                       |
| Total plan investments at fair value                 | <u>4,974,426,756</u>     | <u>\$ 3,810,679,063</u> | <u>\$ 983,464,266</u> | <u>\$ 180,283,427</u> |
| <u>Investments measured at net asset value (NAV)</u> |                          |                         |                       |                       |
| <u>Pooled investments:</u>                           |                          |                         |                       |                       |
| Commingled domestic equities                         | 745,935,461              |                         |                       |                       |
| Commingled international equities                    | 4,281,998,415            |                         |                       |                       |
| Commingled domestic fixed income                     | 976,131,446              |                         |                       |                       |
| Commingled international fixed income                | 1,037,620,563            |                         |                       |                       |
| <u>Alternative investments:</u>                      |                          |                         |                       |                       |
| Private equity funds                                 | 2,077,355,724            |                         |                       |                       |
| Real estate funds                                    | 1,308,515,842            |                         |                       |                       |
| Timberland funds                                     | 269,203,647              |                         |                       |                       |
| Farmland funds                                       | 198,565,615              |                         |                       |                       |
| Infrastructure funds                                 | 190,268,021              |                         |                       |                       |
| Re-insurance funds                                   | 260,719,546              |                         |                       |                       |
| Hedge funds  | 694,543,747              |                         |                       |                       |
| Opportunistic funds                                  | 35,485,157               |                         |                       |                       |
| Partnership funds                                    | 109,256,084              |                         |                       |                       |
| Total plan investments at net asset value            | <u>12,185,599,268</u>    |                         |                       |                       |
| Total plan investments                               | <u>\$ 17,160,026,024</u> |                         |                       |                       |
| <u>Securities Lending Collateral:</u>                |                          |                         |                       |                       |
| Quality D short term investment pool*                | <u>\$ 506,400,660</u>    |                         |                       |                       |

\*Cash collateral received totaled \$506,308,705. The amount reported in the GASB 40 footnote above is the market value of the collateral received at June 30, 2018.

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NOTE 1: Summary of Significant Accounting Policies (Continued)

H. Deposits and Investments (Continued)

Cash equivalents invested in short-term investment funds are valued at amortized cost, which approximates fair value. The fund may issue and redeem shares at any time.

Equity investments are classified as Level 1 are exchange-traded securities whose values are based on published market prices and quotations from either national security exchanges or active markets for those securities.

Fixed income investments are classified as Level 2 and include publicly traded securities in inactive markets. Investments in this category are sourced from reputable pricing vendors using price matrix models and techniques. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. Fair value is defined as the quoted market value on the last trading day of the period.

Real estate and partnerships are classified as Level 3 and are comprised mostly of owned properties leased to commercial enterprises. These investments are valued using professional property valuations or appraisals, net of debt borrowed against the related assets. Appraisals and valuations are updated every three years.

Derivative investments include forward contracts and rights, are classified as Level 2, and are valued using observable exchange, dealer, or broker market pricing.

Pooled and alternative investments generally do not have readily obtainable market values and are valued using the net asset value (NAV) per share (or its equivalent). These values are based on the capital account balance of the general partner reports at the end of each reporting period, adjusted by subsequent contributions, distributions, management fees, and changes in values of foreign currency. There are inherent uncertainties in estimating fair values for these types of investments, and it is possible that the estimates will change in the near-term or the subsequent sale of assets will be different from the reported net asset value. Generally, the investments cannot be redeemed or have certain redemption restrictions, and distributions are from the liquidation of the underlying assets. The expected holding period is dependent on the discretion of the fund manager.

The valuation for investments measured at the net asset value (NAV) per share (or its equivalent) is presented in the following table (pages 13-28):

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| Net Asset Value (NAV) Investments                                      | Type                             | Strategy/Objective  | NAV            | Unfunded Commitments | Redemption Frequency             | Redemption Notice Period  |
|--|----------------------------------|---|----------------|----------------------|----------------------------------|---|
| <b>Pooled Investments</b>  |                                  |   |                |                      |                                  |   |
| <b>Commingled domestic equities</b>                                    |                                  |   |                |                      |                                  |   |
| AllianzGI Structured Alpha U.S. Equity 250, LLC                        | Commingled domestic equity       | To outperform the S&P 500 Index by 250 basis points by investing in futures, cash instruments, exchange-traded funds, and equity swaps or securities.   | \$ 159,039,871 | \$ -                 | Monthly                          | Notification by 5th day of month of withdrawal for withdrawal on last day of month. |
| Jacobs Levy 130-30 Core 3 Fund, LLC                                    | Commingled domestic equity       | To outperform the Russell 3000 Index and provide long-term capital appreciation by investing in long and short positions in U.S. equities.  | 586,895,590    | -                    | Monthly                          | Notification of at least 5 days for withdrawal on last day of month.                |
| <b>Commingled international equities</b>                               |                                  |   |                |                      |                                  |   |
| AllianzGI Structured Alpha Global Equity 500, LLC                      | Commingled international equity  | To outperform the MSCI ACWI Investable Market Index by 500 basis points by investing in futures, cash instruments, exchange-traded funds, and equity swaps or securities.   | 784,974,955    | -                    | Monthly                          | Notification by 5th day of month of withdrawal for withdrawal on last day of month. |
| AllianzGI Structured Alpha Global Equity 350, LLC                      | Commingled international equity  | To outperform the MSCI ACWI Investable Market Index by 350 basis points by investing in futures, cash instruments, exchange-traded funds, and equity swaps or securities.   | 260,868,600    | -                    | Monthly                          | Notification by 5th day of month of withdrawal for withdrawal on last day of month. |
| BlackRock MSCI ACWI IMI Index Fund                                     | Commingled international equity  | To approximate the performance of the MSCI ACWI Investable Market Index.  | 102,299,309    | -                    | Daily                            | 2 days  |
| D.E. Shaw World Alpha Extension Fund, LLC                              | Commingled international equity  | To outperform the MSCI ACWI using publicly traded equities.   | 672,569,307    | -                    | Daily                            | 10 days   |
| GMO Global Equity Allocation Fund III                                  | Commingled international equity  | To outperform the MSCI ACWI using a fund of funds approach in which the manager invests primarily in U.S. and non-U.S. equities using multi-year forecasts.   | 397,368,907    | -                    | Daily                            | Daily   |
| Pershing Square International, Ltd                                     | Commingled international equity  | To preserve capital and achieve long term capital appreciation through investment in long and short positions in equity and debt securities of public U.S. and non-U.S. issuers.  | 92,206,099     | -                    | Quarterly                        | 65 days   |
| State Street MSCI ACWI Investable Market Index Securities Lending Fund | Commingled international equity  | To approximate the performance of the MSCI ACWI Investable Market Index.  | 1,452,389,071  | -                    | Last business day of each month. | 15 days   |
| VOYA Absolute Alpha MSCI ACWI Trust Fund                               | Commingled international equity  | To outperform the MSCI ACWI Index using a fund of funds approach in which the manager invests in other collective trust funds, pooled vehicles and derivatives.   | 519,322,167    | -                    | Daily                            | Daily, 30 days for large redemptions  |
| <b>Commingled domestic fixed income</b>                                |                                  |   |                |                      |                                  |   |
| BlackRock U.S. Core Bond Fund  | Commingled domestic fixed income | To maximize total return by investing substantially all of its assets in a portfolio of U.S. fixed income securities with an average effective duration within 30% of the duration of the Barclays U.S. Aggregate Bond Index. | 374,678,274    | -                    | Daily                            | 2 days  |
| State Street U.S. Aggregate Bond Index Non-Lending Fund                | Commingled domestic fixed income | To approximate the performance of the Barclays U.S. Aggregate Bond Index by investing in other collectively managed investment funds.   | 601,453,172    | -                    | Daily                            | 15 days   |

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| Net Asset Value (NAV) Investments                            | Type                                  | Strategy/Objective   | NAV           | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|--|---------------------------------------|--|---------------|----------------------|----------------------|--------------------------|
| <b>Pooled Investments (Continued)</b>                        |                                       |  |               |                      |                      |                          |
| <b>Commingled international fixed income</b>                 |                                       |  |               |                      |                      |                          |
| Loomis Sayles Full Discretion Institutional Securitized Fund | Commingled international fixed income | To generate current income and achieve long term performance by investing in a diversified portfolio of multisector global fixed income investments of various durations and credit qualities.             | \$ 36,969,770 | \$ -                 | Daily                | 1 day                    |
| Putnam Absolute Return Fixed Income Fund                     | Commingled international fixed income | To provide a total return of 8% over a full market cycle by investing in a diversified portfolio of global fixed income securities.  | 353,300,000   | -                    | Monthly              | 10 days                  |
| Columbus Core Plus Bond Fund, LLC                            | Commingled international fixed income | To preserve capital and maximize total return by investing in bonds of various maturities issued by U.S. and non-U.S. public and private sector entities.  | 326,087,061   | -                    | Monthly              | 3 days                   |
| Wellington CTF Global Total Return II                        | Commingled international fixed income | To generate excess returns over the Bank of America Merrill Lynch 3 month T-Bill Index on a total return basis.  | 321,263,732   | -                    | Daily                | Daily                    |
| <b>Alternative Investments</b>                               |                                       |  |               |                      |                      |                          |
| <b>Private equity funds</b>                                  |                                       |  |               |                      |                      |                          |
| Advent International GPE VI-A, LP                            | Buyout                                | To provide risk capital for and make investments in the securities of privately held and publicly listed companies in all stages of development in Europe and North America.                               | 20,440,016    | -                    | N/A                  | N/A                      |
| Altaris Constellation Partners, LP                           | Buyout                                | To invest in mid-size healthcare companies that provide products and services which improve patient outcomes, increase efficiency, eliminate unnecessary costs and align stakeholder incentives.           | 17,339,204    | 3,774,611            | N/A                  | N/A                      |
| Altaris Health Partners IV, LP                               | Buyout                                | To primarily invest in mid-size healthcare companies that provide products and services which improve patient outcomes, increase efficiency, eliminate unnecessary costs and align stakeholder incentives. | 4,962,067     | 18,951,088           | N/A                  | N/A                      |
| Altus Capital Partners II, LP                                | Buyout                                | To make acquisitions of small, profitable manufacturing companies in the U.S. with highly-engineered manufacturing processes and products and leading niche market positions.                              | 11,647,529    | 4,943,433            | N/A                  | N/A                      |
| American Industrial Partners Capital Fund VI, LP             | Buyout                                | To realize short-term and long-term capital appreciation through investments in North American-based industrial companies.   | 12,022,390    | 7,920,419            | N/A                  | N/A                      |
| Arlington Capital Partners IV, LP                            | Buyout                                | To target control private equity investments in middle-market companies that operate in government-regulated and adjacent industries.  | 10,503,197    | 13,026,336           | N/A                  | N/A                      |
| Atlas Capital Resources II, LP                               | Turnaround                            | To achieve long-term appreciation through acquisition of controlling interests in middle market companies undergoing financial distress or operational stress.   | 10,765,347    | 7,480,763            | N/A                  | N/A                      |
| Audax Mezzanine Fund III, LP                                 | Mezzanine                             | To achieve current income and long-term capital appreciation by investing in subordinated debt or debt-like securities that have conversion features or other rights or enhancements.                      | 7,633,641     | 2,035,715            | N/A                  | N/A                      |



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| Net Asset Value (NAV) Investments                 | Type               | Strategy/Objective  | NAV            | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|---|--------------------|---|----------------|----------------------|----------------------|--------------------------|
| <b>Alternative Investments (Continued)</b>        |                    |   |                |                      |                      |                          |
| <b>Private equity funds (Continued)</b>           |                    |   |                |                      |                      |                          |
| Big River Steel Holdings, LLC                     | Infrastructure     | To invest in the equity and debt of Big River Steel's steel-making enterprise and to receive equity allocations and interest.   | \$ 376,425,960 | \$ -                 | N/A                  | N/A                      |
| Bison Capital Partners V, LP                      | Structured Capital | To provide capital to successful businesses for growth initiatives such as capacity expansion, new product introduction, investment in sales and marketing, or for other accretive purposes.  | 12,990,825     | 22,482,648           | N/A                  | N/A                      |
| Boston Ventures Investment Partners, LP Fund VII  | Buyout             | To identify and execute control-oriented equity investments in middle-market media, information and publishing, entertainment, and communications companies, primarily in North America.  | 19,395,894     | 8,346,424            | N/A                  | N/A                      |
| Boston Ventures Investment Partners, LP Fund VIII | Buyout             | To identify and execute control-oriented equity investments in lower middle market information and business services and communications companies, largely in North America.  | 26,945,351     | 3,833,720            | N/A                  | N/A                      |
| Boston Ventures Investment Partners, LP Fund IX   | Buyout             | To identify and execute control-oriented equity investments in lower middle market business services and information technology and communications services companies, largely in North America.  | 407,327        | 28,697,548           | N/A                  | N/A                      |
| Castelake II, LP                                  | Distressed Debt    | To make and dispose of investments in the distressed credit and distressed asset markets with the objective of achieving risk-adjusted rates of return.   | 20,761,398     | 2,625,461            | N/A                  | N/A                      |
| Castelake III, LP                                 | Distressed Debt    | To make and dispose of investments in the distressed credit and distressed asset markets with the objective of achieving risk-adjusted rates of return.   | 24,217,051     | 1,864,884            | N/A                  | N/A                      |
| Clearlake Capitol Partners V, LP                  | Buyout             | To invest in both debt and equity in distressed and special situations while providing downside protection and preservation of investment principal and creating significant upside potential in order to maximize risk-adjusted returns. | 7,333,329      | 23,399,538           | N/A                  | N/A                      |
| Court Square Capital Partners III, LP             | Buyout             | To invest in and maximize value creation within middle market businesses in the business services, general industrial, healthcare, and technology and telecommunications sectors.   | 24,046,710     | 12,184,550           | N/A                  | N/A                      |
| Cypress Escrow Agent, LLC                         | Buyout             | To achieve long-term capital appreciation through equity-oriented investments acquired in connection with privately negotiated transactions.  | 27,648         | -                    | N/A                  | N/A                      |
| Diamond State Ventures II, LP                     | Multi-Strategy     | To provide capital appreciation potential by investing primarily in private placements of subordinated debt, preferred stock and related equity securities of small businesses in the expansion and later stages of development.          | 5,772,532      | 483,000              | N/A                  | N/A                      |
| DLJ Investment Partners II, LP                    | Mezzanine          | To invest in securities primarily of companies headquartered in the United States, whether or not such securities are readily marketable.   | 138,490        | -                    | N/A                  | N/A                      |

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| Net Asset Value (NAV) Investments          | Type           | Strategy/Objective  | NAV        | Unfunded<br>Commitments | Redemption<br>Frequency | Redemption Notice<br>Period |
|--|----------------|---|------------|-------------------------|-------------------------|-----------------------------|
| <b>Alternative Investments (Continued)</b> |                |   |            |                         |                         |                             |
| <i>Private equity funds (Continued)</i>    |                |   |            |                         |                         |                             |
| Doughty Hanson & Co Technology Fund        | Multi-Strategy | To make equity and other investments in technology and related growth industry entities which are headquartered, operating in, or seeking to expand in Europe.  | \$ 459,650 | \$ -                    | N/A                     | N/A                         |
| DW Healthcare Partners III, LP             | Buyout         | To make control or near-control investments in profitable companies in the specialty medical device, distribution, and healthcare service sectors.  | 20,853,956 | 4,305,637               | N/A                     | N/A                         |
| DW Healthcare Partners IV, LP              | Buyout         | To make control or near-control investments in profitable companies in the specialty medical device, distribution, and healthcare service sectors.  | 25,503,705 | 10,839,201              | N/A                     | N/A                         |
| EnCap Energy Capital Fund VIII, LP         | Hard Assets    | To provide partners with an opportunity to participate in privately negotiated equity and equity-related investments in the upstream and midstream independent oil and gas sector of North America.   | 16,428,762 | 4,457,146               | N/A                     | N/A                         |
| EnCap Energy Capital Fund IX, LP           | Hard Assets    | To provide partners with an opportunity to participate in privately negotiated equity and equity-related investments in the upstream and midstream independent oil and gas sector of North America.   | 18,802,852 | 2,312,993               | N/A                     | N/A                         |
| EnCap Energy Capital Fund X, LP            | Hard Assets    | To provide partners with an opportunity to participate in privately negotiated equity and equity-related investments in the upstream and midstream independent oil and gas sector of North America.   | 21,487,525 | 9,016,137               | N/A                     | N/A                         |
| EnCap Energy Capital Fund XI, LP           | Hard Assets    | To provide partners with an opportunity to participate in privately negotiated equity and equity-related investments in the upstream and midstream independent oil and gas sector of North America.   | 2,333,523  | 32,089,196              | N/A                     | N/A                         |
| Franklin Park International Fund 2011, LP  | Buyout         | To seek to realize long-term compounded returns in excess of those available through conventional investments in the public equity markets by making private equity investments primarily in portfolio funds that are investing in markets outside the United States. | 17,688,369 | 3,301,102               | N/A                     | N/A                         |
| Franklin Park International Fund 2012, LP  | Buyout         | To seek to realize long-term compounded returns in excess of those available through conventional investments in the public equity markets by making private equity investments primarily in portfolio funds that are investing in markets outside the United States. | 17,284,859 | 9,972,250               | N/A                     | N/A                         |
| Franklin Park International Fund 2013, LP  | Buyout         | To seek to realize long-term compounded returns in excess of those available through conventional investments in the public equity markets by making private equity investments primarily in portfolio funds that are investing in markets outside the United States. | 12,204,860 | 10,212,139              | N/A                     | N/A                         |
| Franklin Park International Fund 2014, LP  | Buyout         | To seek to realize long-term compounded returns in excess of those available through conventional investments in the public equity markets by making private equity investments primarily in portfolio funds that are investing in markets outside the United States. | 16,795,347 | 13,224,985              | N/A                     | N/A                         |

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| Net Asset Value (NAV) Investments          | Type            | Strategy/Objective  | NAV           | Unfunded<br>Commitments | Redemption<br>Frequency | Redemption Notice<br>Period |
|--|-----------------|---|---------------|-------------------------|-------------------------|-----------------------------|
| <b>Alternative Investments (Continued)</b> |                 |   |               |                         |                         |                             |
| <b>Private equity funds (Continued)</b>    |                 |   |               |                         |                         |                             |
| Franklin Park International Fund 2015, LP  | Buyout          | To seek to realize long-term compounded returns in excess of those available through conventional investments in the public equity markets by making private equity investments primarily in portfolio funds that are investing in markets outside the United States. | \$ 10,906,328 | \$ 14,436,220           | N/A                     | N/A                         |
| Franklin Park International Fund 2016, LP  | Buyout          | To seek to realize long-term compounded returns in excess of those available through conventional investments in the public equity markets by making private equity investments primarily in portfolio funds that are investing in markets outside the United States. | 10,390,017    | 15,264,992              | N/A                     | N/A                         |
| Franklin Park International Fund 2017, LP  | Buyout          | To seek to realize long-term compounded returns in excess of those available through conventional investments in the public equity markets by making private equity investments primarily in portfolio funds that are investing in markets outside the United States. | 4,720,048     | 21,227,837              | N/A                     | N/A                         |
| Franklin Park International Fund 2018, LP  | Buyout          | To seek to realize long-term compounded returns in excess of those available through conventional investments in the public equity markets by making private equity investments primarily in portfolio funds that are investing in markets outside the United States. | -             | 25,000,000              | N/A                     | N/A                         |
| ATRS/FP Private Equity Fund, LP            | Multi-Strategy  | To generate returns over the long-term by investing in private equity opportunities through co-investments, next generation manager funds, and appraisal rights opportunities.  | 209,182,753   | 105,962,233             | N/A                     | N/A                         |
| Franklin Park Venture Fund Series 2008, LP | Venture Capital | To seek to realize long-term compounded returns in excess of those available through conventional investments in the public equity markets by making private equity investments primarily in portfolio funds that are venture capital funds.                          | 30,293,846    | 785,519                 | N/A                     | N/A                         |
| Franklin Park Venture Fund Series 2009, LP | Venture Capital | To seek to realize long-term compounded returns in excess of those available through conventional investments in the public equity markets by making private equity investments primarily in portfolio funds that are venture capital funds.                          | 30,501,000    | 1,543,559               | N/A                     | N/A                         |
| Franklin Park Venture Fund Series 2010, LP | Venture Capital | To seek to realize long-term compounded returns in excess of those available through conventional investments in the public equity markets by making private equity investments primarily in portfolio funds that are venture capital funds.                          | 20,786,248    | 1,976,879               | N/A                     | N/A                         |
| Franklin Park Venture Fund Series 2011, LP | Venture Capital | To seek to realize long-term compounded returns in excess of those available through conventional investments in the public equity markets by making private equity investments primarily in portfolio funds that are venture capital funds.                          | 67,554,195    | 1,667,691               | N/A                     | N/A                         |

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| Net Asset Value (NAV) Investments   | Type            | Strategy/Objective  | NAV           | Unfunded<br>Commitments | Redemption<br>Frequency | Redemption Notice<br>Period |
|---|-----------------|---|---------------|-------------------------|-------------------------|-----------------------------|
| <b>Alternative Investments (Continued)</b>  |                 |   |               |                         |                         |                             |
| <b>Private equity funds (Continued)</b>   |                 |   |               |                         |                         |                             |
| Franklin Park Venture Fund Series 2012, LP  | Venture Capital | To seek to realize long-term compounded returns in excess of those available through conventional investments in the public equity markets by making private equity investments primarily in portfolio funds that are venture capital funds.                      | \$ 32,707,869 | \$ 3,997,180            | N/a                     | N/A                         |
| Franklin Park Venture Fund Series 2013, LP  | Venture Capital | To seek to realize long-term compounded returns in excess of those available through conventional investments in the public equity markets by making private equity investments primarily in portfolio funds that are venture capital funds.                      | 23,671,460    | 4,009,486               | N/A                     | N/A                         |
| Franklin Park Venture Fund Series 2014, LP  | Venture Capital | To seek to realize long-term compounded returns in excess of those available through conventional investments in the public equity markets by making private equity investments primarily in portfolio funds that are venture capital funds.                      | 26,894,439    | 4,625,346               | N/A                     | N/A                         |
| Franklin Park Venture Fund Series 2015, LP  | Venture Capital | To seek to realize long-term compounded returns in excess of those available through conventional investments in the public equity markets by making private equity investments primarily in portfolio funds that are venture capital funds.                      | 18,667,504    | 8,893,520               | N/A                     | N/A                         |
| Franklin Park Venture Fund Series 2016, LP  | Venture Capital | To seek to realize long-term compounded returns in excess of those available through conventional investments in the public equity markets by making private equity investments primarily in portfolio funds that are venture capital funds.                      | 9,225,321     | 16,342,768              | N/A                     | N/A                         |
| Franklin Park Venture Fund Series 2017, LP  | Venture Capital | To seek to realize long-term compounded returns in excess of those available through conventional investments in the public equity markets by making private equity investments primarily in portfolio funds that are venture capital funds.                      | 1,644,880     | 23,249,283              | N/A                     | N/A                         |
| Franklin Park Venture Fund Series 2018, LP  | Venture Capital | To seek to realize long-term compounded returns in excess of those available through conventional investments in the public equity markets by making private equity investments primarily in portfolio funds that are venture capital funds.                      | 73,314        | 24,926,686              | N/A                     | N/A                         |
| Greyrock Capital Group Investors IV, LP   | Mezzanine       | To earn substantial capital appreciation and current income primarily through investing in privately placed subordinated debt, preferred equity, and common equity or equity-related securities acquired or purchased in conjunction with such subordinated debt. | 10,196,967    | 19,640,067              | N/A                     | N/A                         |
| Grosvenor Capital Management - ATRS Private Equity Funds of Funds, LP (Series 2005-1) | Multi-Strategy  | To provide long-term returns by investing in a core group of high-quality private equity managers encompassing buyout, venture, and special situation.  | 60,933,932    | 8,174,605               | N/A                     | N/A                         |

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| Net Asset Value (NAV) Investments   | Type               | Strategy/Objective  | NAV            | Unfunded<br>Commitments | Redemption<br>Frequency | Redemption Notice<br>Period |
|---|--------------------|---|----------------|-------------------------|-------------------------|-----------------------------|
| <b>Alternative Investments (Continued)</b>  |                    |   |                |                         |                         |                             |
| <b>Private equity funds (Continued)</b>   |                    |   |                |                         |                         |                             |
| Grosvenor Capital Management - ATRS Private Equity Funds of Funds, LP (Series 2006-1) | Multi-Strategy     | To provide long-term returns by investing in a core group of high-quality private equity managers encompassing buyout, venture, and special situation.  | \$ 126,202,481 | \$ 61,806,435           | N/A                     | N/A                         |
| Highland LLC  | Hard Assets        | To invest in the equity and debt of Highland's wood pellet production facility and to receive equity allocations and interest.  | 25,054,571     | -                       | N/A                     | N/A                         |
| Insight Equity II, LP   | Turnaround         | To generate superior investment returns by acquiring and transforming underperforming, operationally-challenged or financially-distressed middle market companies.  | 25,861,396     | 2,118,334               | N/A                     | N/A                         |
| Insight Equity Mezzanine I, LP  | Mezzanine          | To invest in mezzanine securities issued by underperforming, operationally-challenged or financially distressed middle market companies in which Insight has an equity investment.  | 6,593,175      | 607,745                 | N/A                     | N/A                         |
| J.F. Lehman Equity Investors III, LP  | Buyout             | To make primarily control equity investments in lower middle market companies in the defense, aerospace and maritime industries.  | 33,847,889     | 1,419,382               | N/A                     | N/A                         |
| J.F. Lehman Equity Investors IV, LP   | Buyout             | To make primarily control equity investments in lower middle market companies in the defense, aerospace and maritime industries.  | 14,579,978     | 17,524,399              | N/A                     | N/A                         |
| KPS Special Situations Fund III, LP   | Turnaround         | To seek significant capital appreciation by making controlling equity investments in companies across a diverse range of manufacturing industries experiencing a period of transition or challenged by the need to effect immediate and significant change. | 17,047,682     | 15,019,534              | N/A                     | N/A                         |
| KPS Special Situations Fund IV, LP  | Turnaround         | To seek significant capital appreciation by making controlling equity investments in companies across a diverse range of manufacturing industries experiencing a period of transition or challenged by the need to effect immediate and significant change. | 8,616,890      | 16,021,978              | N/A                     | N/A                         |
| Levine Leichtman Capital Partners V, LP   | Structured Capital | To make debt and equity investments in middle market companies by purchasing senior debt, subordinated debt, preferred stock and common stock in growth companies.  | 19,097,040     | 3,258,499               | N/A                     | N/A                         |
| Lime Rock Resources III-A, LP   | Hard Assets        | To seek long-term capital gains by acquiring, operating and improving lower-risk oil and natural gas properties in the United States.   | 26,902,887     | 574,168                 | N/A                     | N/A                         |
| LLR Equity Partners III, LP   | Growth             | To pursue an investment objective that emphasizes capital preservation while generating attractive equity returns in lower middle market growth companies in the Mid-Atlantic region.   | 20,577,469     | 4,357,033               | N/A                     | N/A                         |
| Mason Wells Buyout Fund III, LP   | Buyout             | To make buyout investments of small and lower middle market companies in the specialty packaging and paper, engineered products and services, and outsourced business services sectors.   | 20,476,017     | 1,802,820               | N/A                     | N/A                         |

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| Net Asset Value (NAV) Investments              | Type               | Strategy/Objective   | NAV        | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|--|--------------------|--|------------|----------------------|----------------------|--------------------------|
| <b>Alternative Investments (Continued)</b>     |                    |  |            |                      |                      |                          |
| <b>Private equity funds (Continued)</b>        |                    |  |            |                      |                      |                          |
| Natural Gas Partners Natural Resources IX, LP  | Hard Assets        | To generate long-term capital gains through equity investments in companies engaged in the energy and resources related industries primarily in North American oil and gas companies.  | \$ 856,067 | \$ 384,617           | N/A                  | N/A                      |
| Natural Gas Partners Natural Resources X, LP   | Hard Assets        | To generate superior returns through investments in high-quality companies in the natural resources sector without having to rely on timing investments in conjunction with unpredictable commodity price and capital market cycles.                           | 18,342,759 | 1,912,218            | N/A                  | N/A                      |
| Natural Gas Partners Natural Resources XI, LP  | Hard Assets        | To generate superior returns through investments in high-quality companies in the natural resources sector that can capitalize on opportunities to increase value without incurring significant risk of loss of invested capital.                              | 31,143,495 | 5,350,726            | N/A                  | N/A                      |
| Natural Gas Partners Natural Resources XII, LP | Hard Assets        | To generate superior returns through investments in high-quality companies in the energy industry that can capitalize on opportunities to increase value without incurring significant risk of loss of invested capital.                                       | 6,297,679  | 23,875,975           | N/A                  | N/A                      |
| Oak Hill Capital Partners I, LP                | Buyout             | To make control (primarily private equity) investments in operating companies through acquisitions, build-ups, recapitalizations, restructurings, or significant minority stakes.  | 102,578    | -                    | N/A                  | N/A                      |
| One Rock Capital Partners II, LP               | Buyout             | To seek long-term capital appreciation by acquiring, holding, financing, refinancing and disposing of securities, primarily through privately negotiated equity and equity-related investments in persons operating primarily in the United States and Canada. | 8,643,432  | 21,075,494           | N/A                  | N/A                      |
| PineBridge Structured Capital Partners III, LP | Structured Capital | To make structured capital investments (an enhanced mezzanine strategy that prioritizes safety and investment income) in privately-owned small and middle-market companies in North America.   | 15,077,157 | 15,937,231           | N/A                  | N/A                      |
| Riverside Fund IV, LP                          | Buyout             | To invest primarily in control-oriented equity investments in established lower middle market companies with a focus on profitable healthcare and technology companies.  | 17,158,416 | 10,099,013           | N/A                  | N/A                      |
| Riverside Fund V, LP                           | Buyout             | To invest primarily in control-oriented equity investments in established lower middle market companies based in North America, with a focus on profitable healthcare and technology companies.  | 35,975,611 | 5,417,500            | N/A                  | N/A                      |
| Siris Partners III, LP                         | Buyout             | To make primarily control-oriented private equity, equity-related and similar investments in complex, middle-market technology companies.  | 21,571,712 | 8,439,920            | N/A                  | N/A                      |
| Siris Partners IV, LP                          | Buyout             | To make primarily control-oriented, private equity, equity-related and similar investments in middle-market, legacy technology companies in transition that have embedded next-generation assets and are primarily located in North America.                   | -          | 30,000,000           | N/A                  | N/A                      |

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|--|-----------------|---|---------------|----------------------|----------------------|--------------------------|
| <b>Alternative Investments (Continued)</b> |                 |   |               |                      |                      |                          |
| <b>Private equity funds (Continued)</b>    |                 |   |               |                      |                      |                          |
| Sycamore Partners II, LP                   | Turnaround      | To make investments in growth oriented industries and change intensive companies across multiple sectors using a wide range of sizes and types of transactions structures.  | \$ 17,482,966 | \$ 6,188,593         | N/A                  | N/A                      |
| Sycamore Partners III, LP                  | Turnaround      | To invest in middle-market and large enterprise companies at attractive valuations where there is a clear opportunity to create value by improving profitability.   | -             | 24,750,000           | N/A                  | N/A                      |
| TA Associates XI, LP                       | Growth          | To achieve first quartile capital appreciation with relatively modest risk by originating investments in profitable, private middle-market companies in growth industries.  | 27,611,380    | 700,000              | N/A                  | N/A                      |
| Tennenbaum Opportunities Fund VI, LP       | Distressed Debt | To invest in distressed securities (primarily corporate debt) of financially challenged companies that have strong, enduring business franchises either before or after Chapter 11 bankruptcy and then influence or lead the restructuring process. | 19,184,561    | 15,335,849           | N/A                  | N/A                      |
| Thoma Bravo Discover Fund II, LP           | Buyout          | To create value by transforming successful businesses in fragmented, consolidating industry sectors into larger, more profitable and more valuable businesses through rapid operational improvements and strategic add-on acquisitions.             | (53,905)      | 17,000,000           | N/A                  | N/A                      |
| Thoma Bravo Discover Fund, LP              | Buyout          | To create value by transforming successful businesses in fragmented, consolidating industry sectors into larger, more profitable and more valuable businesses through rapid operational improvements and strategic add-on acquisitions.             | 10,373,434    | 2,522,291            | N/A                  | N/A                      |
| Thoma Bravo Fund XI, LP                    | Buyout          | To create value by transforming successful businesses in fragmented, consolidating industry sectors into larger, more profitable and more valuable businesses through rapid operational improvements and strategic add-on acquisitions.             | 30,351,542    | 2,286,609            | N/A                  | N/A                      |
| Thoma Bravo Fund XII, LP                   | Buyout          | To create value by transforming successful businesses in fragmented, consolidating industry sectors into larger, more profitable and more valuable businesses through rapid operational improvements and strategic add-on acquisitions.             | 21,058,615    | 11,083,475           | N/A                  | N/A                      |
| Vista Equity Partners Fund III, LP         | Buyout          | To acquire controlling interests in middle-market enterprise software businesses and technology-enabled solutions companies.  | 13,963,410    | 4,021,632            | N/A                  | N/A                      |
| Vista Foundation Fund II, LP               | Buyout          | To acquire controlling interests in lower middle-market and middle-market enterprise software businesses and technology-enabled solutions companies.  | 19,295,523    | 5,364,484            | N/A                  | N/A                      |
| Vista Foundation Fund III, LP              | Buyout          | To acquire controlling interests in lower middle-market and middle-market enterprise software businesses and technology-enabled solutions companies.  | 12,778,604    | 16,795,230           | N/A                  | N/A                      |

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| <b>Alternative Investments (Continued)</b>                      |                          |  |               |                      |                      |                          |
| <b>Private equity funds (Continued)</b>                         |                          |  |               |                      |                      |                          |
| Wellspring Capital Partners V, LP                               | Buyout                   | To focus on value-oriented, control investments in the middle market principally in North America employing the firm's extensive expertise in revitalizing undermanaged or underperforming companies.  | \$ 17,677,731 | \$ 16,239,345        | N/A                  | N/A                      |
| Wicks Capital Partners IV, LP                                   | Buyout                   | To make privately negotiated control investments in the information, education, and media industries, primarily targeting lower middle market opportunities in the U.S. and Canada.  | 35,636,047    | 5,092,249            | N/A                  | N/A                      |
| WNG Aircraft Opportunities Fund II, LP                          | Special Assets           | To primarily make investments in mid-life and older narrow body commercial aircraft manufactured by Boeing and Airbus and related aircraft components.   | -             | 30,000,000           | N/A                  | N/A                      |
| <b>Real estate funds</b>  |                          |  |               |                      |                      |                          |
| Almanac Realty Securities V, LP                                 | Value Added Closed End   | To provide growth capital and organizational resources to private and public real estate operating companies with entity level debt and equity investments.  | 3,860,247     | -                    | N/A                  | N/A                      |
| Almanac Realty Securities VI, LP                                | Value Added Closed End   | To provide growth capital and organizational resources to private and public real estate operating companies with entity level debt and equity investments.  | 10,838,975    | 4,500,000            | N/A                  | N/A                      |
| Almanac Realty Securities VII, LP                               | Value Added Closed End   | To provide growth capital and organizational resources to private and public real estate operating companies with entity level debt and equity investments.  | 19,879,939    | 12,713,768           | N/A                  | N/A                      |
| Almanac Realty Securities VIII, LP                              | Value Added Closed End   | To provide growth capital and organizational resources to private and public real estate operating companies with entity level debt and equity investments.  | -             | 30,000,000           | N/A                  | N/A                      |
| Blackstone Real Estate Partners VII, LP                         | Opportunistic            | To acquire distressed and/or undermanaged properties at below market prices, execute a strategy to fix the issues, and thereby create assets that can be sold to core real estate owners at higher values.   | 40,529,420    | 7,548,335            | N/A                  | N/A                      |
| Carlyle Realty Partners VII, LP                                 | Opportunistic Closed End | To pursue a well-diversified portfolio of real estate investments primarily within the United States and focus on the current distressed real estate environment.  | 21,237,450    | 13,438,757           | N/A                  | N/A                      |
| Carlyle Realty Partners VIII, LP                                | Opportunistic Closed End | To pursue a broadly-diversified portfolio of U.S. real estate investments, largely focused on demographic-driven demand sectors while mitigating the fund's correlation to the GDP cycle.  | 47,585        | 24,503,288           | N/A                  | N/A                      |
| CB Richard Ellis Strategic Partners U.S. Opportunity Fund V, LP | Opportunistic Closed End | To purchase, reposition, develop, hold for investment and sell institutional quality real estate assets in the United States.  | 12,895,024    | 1,752,447            | N/A                  | N/A                      |
| CB Richard Ellis Strategic Partners U.S. Value 8, LP            | Value Added Closed End   | To purchase, reposition, lease and sell high-quality real estate in select U.S. markets, capitalizing on office recovery and evolution, multi-family demand, strong industrial absorption, dominance of experiential retail, and changing hospitality accommodation platforms. | 13,845,473    | 12,282,232           | N/A                  | N/A                      |



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|---|--------------------------|--|---------------|----------------------|----------------------|--------------------------|
| <b>Alternative Investments (Continued)</b>          |                          |  |               |                      |                      |                          |
| <b>Real estate funds (Continued)</b>                |                          |  |               |                      |                      |                          |
| Cerberus Institutional Real Estate Partners III, LP | Opportunistic Closed End | To achieve a gross annual compounded internal rate of return between 17%-20% over a one to five year holding period in investments including distressed securities and assets, special situations, direct equity, first mortgage loans and bridge financings, and mezzanine debt and preferred equity. | \$ 20,164,648 | \$ 7,307,395         | N/A                  | N/A                      |
| FPA Core Plus Bond Fund IV, LP                      | Core Closed End          | To make direct investments in multifamily core-plus real estate throughout the U.S., primarily in markets where FPA has an established presence and experience.  | -             | 30,000,000           | N/A                  | N/A                      |
| Harbert European Real Estate Fund IV                | Value Added Closed End   | To target institutional quality office, industrial, retail and select residential investments located in the major markets in Western Europe, particularly the UK, France and Spain.   | 24,652,146    | 5,136,403            | N/A                  | N/A                      |
| Heitman European Property Partners IV               | Opportunistic Open End   | To achieve long-term equity gains through the acquisition, development and re-development of real estate projects in Europe.   | 10,428,505    | 2,362,324            | N/A                  | N/A                      |
| JPMorgan Strategic Property Fund                    | Core                     | To invest primarily in equity and debt investments in various interests in improved real properties.   | 280,450,281   | -                    | Quarterly            | 45 days                  |
| Kayne Anderson Real Estate Partners V               | Opportunistic Closed End | To achieve strong, risk-adjusted returns with low correlation to traditional equities and low volatility, by focusing on attractive niches (primarily senior housing and medical office, real estate and off-campus student/multi-family housing) within the real estate asset class.                  | 6,457,799     | 18,750,000           | N/A                  | N/A                      |
| Landmark Real Estate Partners VI, LP                | Opportunistic            | The strategy for this fund of funds is to invest in seasoned secondary interests of primarily Value-Added and Opportunistic funds in order to achieve a net return to investors of 18-20%.   | 6,925,230     | 4,909,392            | N/A                  | N/A                      |
| Landmark Real Estate Partners VIII, LP              | Opportunistic Closed End | To acquire interests in real estate funds, private real estate partnerships and other structured investment vehicles that own real estate and real estate related assets.  | 2,688,199     | 22,196,325           | N/A                  | N/A                      |
| LaSalle Asia Opportunity Fund IV                    | Opportunistic Closed End | To take advantage of attractive real estate fundamentals in the Pan-Asian region by focusing on the growing demand for Core real estate assets and targeting opportunities resulting from growth and cyclical recoveries.  | 13,811,515    | 11,080,298           | N/A                  | N/A                      |
| LaSalle Asia Opportunity Fund V                     | Opportunistic Closed End | To take advantage of attractive real estate fundamentals in the Pan-Asian region by focusing on the growing demand for Core real estate assets and targeting opportunities resulting from growth and cyclical recoveries.  | 1,552,584     | 28,305,711           | N/A                  | N/A                      |
| LaSalle Income and Growth Fund VI                   | Value Added Closed End   | To focus on the current and growing demand for Core real estate assets by aggressively pursuing non-Core properties that can be leased, redeveloped or repositioned and later sold to Core buyers.   | 9,780,423     | 952,381              | n/a                  | N/A                      |

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| <b>Alternative Investments (Continued)</b>               |                          |  |               |                      |                      |                          |
| <b>Real estate funds (Continued)</b>                     |                          |  |               |                      |                      |                          |
| LaSalle Income and Growth Fund VII                       | Value Added Closed End   | To focus on the current and growing demand for Core real estate assets by aggressively pursuing non-Core properties that can be leased, redeveloped or repositioned and later sold to Core buyers.   | \$ 14,891,631 | \$ 7,435,269         | N/A                  | N/A                      |
| Lone Star Real Estate Fund IV, LP                        | Opportunistic Closed End | To focus on acquiring assets in developed markets that exhibit economic distress in order to capitalize on market dislocations and acquire portfolios of assets at a significant discount.   | 15,892,495    | 6,030,749            | N/A                  | N/A                      |
| Long Wharf Real Estate Partners V                        | Value Added Closed End   | To pursue a diversified portfolio of properties with a focus on acquiring assets at significant discounts to peak values with positive fundamental trends that offer the opportunity to increase returns through the execution of a value added strategy.  | 23,673,215    | 6,745,116            | N/A                  | N/A                      |
| MetLife Commercial Mortgage Income Fund, LP              | Core Open End            | To deliver consistent current income with risk-adjusted returns averaging 6-7% of the fund interest's net asset value over a 7-10 year market cycle and preserve principal by originating and managing a portfolio of institutional-quality commercial mortgage loans with high recovery and low loss rates. | -             | 50,000,000           | Quarterly            | 90 days                  |
| Metropolitan Real Estate Partners Co-Investment Fund, LP | Opportunistic Closed End | To seek to capitalize on current market imbalances and provide investors with access to both secondaries and coinvestments.  | 20,359,057    | 2,515,625            | N/A                  | N/A                      |
| New Boston Institutional Fund VII, LP                    | Value Added Closed End   | To achieve above market risk-adjusted returns through a well-diversified portfolio that blends cash flow from acquisitions with high-yields from risk-averse developments.   | 641,333       | -                    | N/A                  | N/A                      |
| O'Connor North American Property Partners II             | Opportunistic Closed End | To make real estate investments directly or indirectly through acquisitions interests in other partnerships, joint ventures, real estate mortgage investment conduits or real estate investment trusts assets.   | 12,533,351    | 5,000,000            | N/A                  | N/A                      |
| Olympus Real Estate Fund III, LP                         | Opportunistic Closed End | To make investments in a diversified portfolio of US real estate assets.   | 427,420       | -                    | N/A                  | N/A                      |
| Prudential Real Estate Investment Separate Account       | Core Open End            | To achieve a total return that exceeds the NCREIF Fund Index - Open-End Diversified Core Equity by focusing on acquiring and maintaining stabilized income-producing Core real estate assets.  | 289,820,213   | -                    | Quarterly            | 90 days                  |
| Rockwood Capital Real Estate Partners Fund IX, LP        | Value Added Closed End   | To focus on building a portfolio of U.S. real estate with a combination of strong in-place income and the potential for income growth through real estate related value creation activities.   | 12,912,730    | 4,081,464            | N/A                  | N/A                      |
| Torchlight Debt Opportunity Fund II, LP                  | Opportunistic Closed End | To focus on high yield real estate debt investments in both public and private markets and opportunistically invest across all real estate debt strategies including first-lien commercial mortgages, CMBS, mezzanine loans and commercial real estate backed CDO's.   | 6,074,338     | -                    | N/A                  | N/A                      |

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| <b>Alternative Investments (Continued)</b> |                          |  |             |                      |                      |                          |
| <b>Real estate funds (Continued)</b>       |                          |  |             |                      |                      |                          |
| Torchlight Debt Opportunity Fund III, LP   | Opportunistic Closed End | To focus on high yield real estate debt investments in both public and private markets and opportunistically invest across all real estate debt strategies including first-lien commercial mortgages, CMBS, mezzanine loans and commercial real estate backed CDO's. | \$ 200,395  | \$ -                 | N/A                  | N/A                      |
| Torchlight Debt Opportunity Fund IV, LP    | Opportunistic Closed End | To focus on high yield real estate debt investments in both public and private markets and opportunistically invest across all real estate debt strategies including first-lien commercial mortgages, CMBS, mezzanine loans and commercial real estate backed CDO's. | 18,640,001  | -                    | N/A                  | N/A                      |
| Torchlight Debt Opportunity Fund V, LP     | Opportunistic Closed End | To focus on high yield real estate debt investments in both public and private markets and opportunistically invest across all real estate debt strategies including first-lien commercial mortgages, CMBS, mezzanine loans and commercial real estate backed CDO's. | 17,824,824  | 10,000,000           | N/A                  | N/A                      |
| Torchlight Debt Opportunity Fund VI, LP    | Opportunistic Closed End | To focus on high yield real estate debt investments in both public and private markets and opportunistically invest across all real estate debt strategies including first-lien commercial mortgages, CMBS, mezzanine loans and commercial real estate backed CDO's. | 1,799,612   | 23,173,664           | N/A                  | N/A                      |
| U.S. Real Estate Credit Fund III, LP       | Value Added Closed End   | To focus primarily on making senior secured loans on transitional commercial real estate properties located in primary and secondary markets of the U.S. in the less efficient mid-market lending space.   | 11,831,908  | 18,742,382           | N/A                  | N/A                      |
| UBS Trumbull Property Fund                 | Core Open End            | To provide attractive returns by acquiring and managing high-quality real estate investments located throughout the United States.   | 277,600,887 | -                    | Quarterly            | 60 days                  |
| UBS Trumbull Property Income Fund          | Core Open End            | To build an actively managed portfolio of income-oriented real estate investments that have hybrid debt and equity return characteristics.   | 51,674,148  | -                    | Quarterly            | 60 days                  |
| Westbrook Real Estate Fund IX, LP          | Value Added Closed End   | To target existing properties, principally located within a select few gateway markets (specifically U.S., London, Paris and Tokyo), that are in need of repositioning and/or have distressed capital structures.  | 22,208,864  | 3,603,488            | N/A                  | N/A                      |
| Westbrook Real Estate Fund X, LP           | Value Added Closed End   | To target existing properties, principally located within a select few gateway markets (specifically U.S., London, Paris and Tokyo), that are in need of repositioning and/or have distressed capital structures.  | 9,463,977   | 16,856,882           | N/A                  | N/A                      |
| <b>Timberland funds</b>                    |                          |  |             |                      |                      |                          |
| American Timberland, LLC                   | Timber                   | To capitalize on the varying risk, return and liquidity characteristics found with forest life cycle stages and timberland markets.  | 269,203,647 | 24,891,933           | N/A                  | N/A                      |

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| <b>Alternative Investments (Continued)</b>                     |                           |   |                |                      |                      |                          |
| <b>Farmland funds</b>  |                           |   |                |                      |                      |                          |
| U.S. Agriculture, LLC  | Farmland                  | To identify and underwrite investment grade farmland properties and recommend acquisitions. To also manage and oversee properties to promote and produce period cash flow returns and capital gain profits. | \$ 144,415,707 | \$ 13,779,007        | Daily                | 30 days                  |
| UBS Agrivest Farmland Fund                                     | Farmland Open End         | To invest in a diversified portfolio of row, vegetable and permanent crop farmland in select major agricultural states.   | 54,149,908     | -                    | Quarterly            | 60 days                  |
| <b>Infrastructure funds</b>                                    |                           |   |                |                      |                      |                          |
| Antin Infrastructure Partners II, LP                           | Infrastructure Closed End | To pursue a strategy of acquiring majority or control minority equity positions in brownfield infrastructure investments, with a predominant focus on continental Europe.                                   | 44,721,261     | 6,499,774            | N/A                  | N/A                      |
| DIF Infrastructure V   | Infrastructure Closed End | To target high quality, low-risk investments in PPP/concessions, renewable energy and infrastructure assets with a similar risk profile across mainly Europe, North America and Australasia.                | 8,883,133      | 38,223,170           | N/A                  | N/A                      |
| First Reserve Energy Infrastructure Fund II, LP                | Infrastructure Closed End | To make control investments in long lived energy infrastructure assets and businesses that have low risk profiles.  | 28,062,005     | 17,053,964           | N/A                  | N/A                      |
| Global Infrastructure Partners III, LP                         | Infrastructure Closed End | To invest in core plus infrastructure assets in the energy, transport, and water/waste sectors.   | 27,752,858     | 24,530,491           | N/A                  | N/A                      |
| IFM Global Infrastructure, LP                                  | Infrastructure Open End   | To invest in core infrastructure assets with a long investment horizon in OECD countries by targeting regulated, contracted and PPP assets.   | -              | 50,000,000           | N/A                  | 90 days                  |
| KKR Global Infrastructure Investors II, LP                     | Infrastructure Closed End | To pursue global infrastructure investment opportunities with an emphasis on investments in existing assets and businesses located in OECD countries.   | 45,672,823     | 10,810,723           | N/A                  | N/A                      |
| Macquarie Infrastructure Partners III, LP                      | Infrastructure Closed End | To invest and earn income directly and indirectly from infrastructure assets principally located in the United States and Canada.   | 35,175,942     | 12,845,807           | N/A                  | N/A                      |
| <b>Re-insurance funds</b>                                      |                           |   |                |                      |                      |                          |
| Aeolus Property Catastrophe Keystone PF Fund, LP January 2016  | Re-insurance              | To achieve risk-adjusted returns by investing in collateralized reinsurance and retrocessional contracts primarily covering property catastrophe risk.  | 1,440,382      | -                    | Annually             | 60 days                  |
| Aeolus Property Catastrophe Keystone PF Fund, LP January 2017  | Re-insurance              | To achieve risk-adjusted returns by investing in collateralized reinsurance and retrocessional contracts primarily covering property catastrophe risk.  | 37,578,588     | -                    | Annually             | 60 days                  |
| Aeolus Property Catastrophe Keystone PF Fund, LP January 2018  | Re-insurance              | To achieve risk-adjusted returns by investing in collateralized reinsurance and retrocessional contracts primarily covering property catastrophe risk.  | 119,799,335    | -                    | Annually             | 60 days                  |
| Aeolus Property Catastrophe Keystone PF Fund, LP Mid-year 2016 | Re-insurance              | To achieve risk-adjusted returns by investing in collateralized reinsurance and retrocessional contracts primarily covering property catastrophe risk.  | 2,631,793      | -                    | Annually             | 60 days                  |

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| <b>Alternative Investments (Continued)</b>                               |              |  |               |                         |                                |                             |
| <b>Re-insurance funds (Continued)</b>                                    |              |  |               |                         |                                |                             |
| Aeolus Property Catastrophe Keystone PF Fund, LP<br>Mid-year 2017        | Re-insurance | To achieve risk-adjusted returns by investing in collateralized reinsurance and retrocessional contracts primarily covering property catastrophe risk.   | \$ 14,995,658 | \$ -                    | Annually                       | 60 days                     |
| Aeolus Property Catastrophe Keystone PF Fund, LP<br>Mid-year 2018        | Re-insurance | To achieve risk-adjusted returns by investing in collateralized reinsurance and retrocessional contracts primarily covering property catastrophe risk.   | 37,067,431    | -                       | Annually                       | 60 days                     |
| Nephila Rubik Holdings Ltd   | Re-insurance | To build a diverse portfolio of insurance risks through both traditional reinsurance contracts and insurance-based instruments, which collectively are priced to generate an acceptable rate of return in light of the risk being assumed. | 47,206,359    | -                       | Semi-annual (1<br>year lockup) | 90 days                     |
| <b>Hedge funds</b>   |              |  |               |                         |                                |                             |
| Anchorage Capital Partners, LP   | Hedge Fund   | To earn superior risk-adjusted returns while emphasizing preservation of capital by primarily investing in the leveraged issuer and distressed debt markets of North America and Europe and employing hedged investment strategies.        | 76,332,554    | -                       | Quarterly                      | 90 days                     |
| Brevan Howard, LP  | Hedge Fund   | To generate consistent long-term appreciation through active leveraged trading and investment on a global basis by using a combination of macro and relative value strategies.   | 54,007,949    | -                       | Monthly (5 year<br>lockup)     | 90 days                     |
| Capula Global Relative Value Fund Limited                                | Hedge Fund   | To earn a consistent, absolute return on assets that is generally not correlated with the return on traditional investment strategies. This is to be achieved through a combination of relative value and macro strategies.                | 76,282,458    | -                       | Quarterly                      | 45 days                     |
| Capital Fund Management Institutional Systematic<br>Diversified Fund, LP | Hedge Fund   | To achieve long-term capital appreciation through returns that seek to be uncorrelated with traditional asset classes.   | 98,542,893    | -                       | Weekly                         | 3 days                      |
| Graham Global Investment Fund II SPC Limited                             | Hedge Fund   | To achieve long-term capital appreciation through professionally managed trading in global fixed income, foreign exchange and other financial instruments.   | 59,168,813    | -                       | Monthly                        | 3 days                      |
| Man Alternative Risk Premia SP Class A                                   | Hedge Fund   | To provide absolute returns in a cost-effective manner by allocating capital to affiliated portfolio managers through portfolio funds that primarily implement alternative risk premia investment strategies.                              | 97,151,077    | -                       | Weekly                         | 3 days                      |
| Parametric Global Defensive Equity Fund, LLC                             | Hedge Fund   | To provide favorable performance relative to MSCI ACWI by employing a strategy that exchanges the global equity risk premium for an uncorrelated global volatility risk premium.   | 159,562,989   | -                       | Monthly                        | 5 days                      |
| York Credit Opportunities Fund, LP                                       | Hedge Fund   | To achieve consistent risk-adjusted results independent of the overall equity market by investing in the securities of companies undergoing credit-oriented restructuring and reorganization.  | 73,495,014    | -                       | Annually                       | 60 days                     |

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|---|------------------------|---|--------------------------|-------------------------|---------------------------|--------------------------|
| <b>Alternative Investments (Continued)</b>          |                        |   |                          |                         |                           |                          |
| <b>Opportunistic funds</b>                          |                        |   |                          |                         |                           |                          |
| Circumference Group Core Value Fund, LP             | Opportunistic          | To generate above average returns with below market portfolio risk by investing in equity and equity-related securities of information technology, telecommunications, and business services companies with market capitalizations less than \$2 billion. | \$ 27,614,793            | \$ -                    | Quarterly                 | 60 days                  |
| Circumference Group Equity Opportunity Fund, LP     | Opportunistic Open End | To utilize the extensive operational experience of the management team to identify possible investments related to merger and appraisal right opportunities   | 7,870,364                | 22,204,032              | N/A                       | N/A                      |
| <b>Partnership funds</b>                            |                        |   |                          |                         |                           |                          |
| Trian Partners, LP                                  | Partnership            | To generate capital appreciation by investing in public companies that Trian believes trade significantly below their intrinsic values.   | 59,086,563               | -                       | Annually (5 year lockup)  | 90 days                  |
| Trian Partners Co-Investment Opportunities Fund, LP | Partnership            | To identify companies whose securities prices can be improved through Trian's active influence.   | 50,169,520               | 45,281,522              | Quarterly (2 year lockup) | 65 days                  |
| <b>Total plan investments at net asset value</b>    |                        |   | <b>\$ 12,185,599,268</b> | <b>\$ 1,625,931,691</b> |                           |                          |

ARKANSAS TEACHER RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (Continued)

H. Deposits and Investments (Continued)

Securities lending collateral – Cash collateral received from borrowers in the securities lending program are invested in a Quality D short-term investment fund that consists of a liquidating account with a liquidity pool and a duration pool. The value of this fund has been determined by the fund administrator using the NAV per share (or its equivalent).

Rate of Return – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. For the year ended June 30, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 11.46%.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments can be highly sensitive to changes in interest rates due to their terms or characteristics. The Agency has not adopted a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The summary below indicates that 98% of the Agency's investment maturities are one year or longer.

| Investment Type                       | Fair Value              | Investment Maturities (In Years) |                         |                         |                       |
|---------------------------------------|-------------------------|----------------------------------|-------------------------|-------------------------|-----------------------|
|                                       |                         | Less than 1                      | 1 - 5                   | 6 - 10                  | More than 10          |
| U.S. Government obligations           | \$ 7,841,258            |                                  |                         | \$ 7,841,258            |                       |
| Corporate obligations                 | 777,231,513             | \$ 42,848,086                    | \$ 339,220,172          | 287,113,155             | \$ 108,050,100        |
| Asset- and mortgage-backed securities | 42,042,694              |                                  | 16,323,347              | 4,613,462               | 21,105,885            |
| Pooled investments                    | 2,013,752,009           |                                  | 711,533,502             | 1,302,218,507           |                       |
| State recycling tax credits           | 208,000,000             | 16,000,000                       | 64,000,000              | 80,000,000              | 48,000,000            |
| Total                                 | <u>\$ 3,048,867,474</u> | <u>\$ 58,848,086</u>             | <u>\$ 1,131,077,021</u> | <u>\$ 1,681,786,382</u> | <u>\$ 177,155,985</u> |
| <u>Securities Lending Collateral</u>  |                         |                                  |                         |                         |                       |
| Quality D short term investment pool  | <u>\$ 506,400,660</u>   | <u>\$ 505,187,352</u>            |                         | <u>\$ 1,213,308</u>     |                       |

Asset-Backed Securities – As of June 30, 2018, ATRS held asset-backed securities with a fair value of \$36,981,990. These securities represent interests in various trusts consisting of pooled financial assets other than mortgage loans conveyed by the issuing parties. ATRS'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, 2018, ATRS held no asset-backed securities that were considered highly sensitive to changes in interest rates.

Mortgage-Backed Securities – As of June 30, 2018, mortgage-backed securities had a fair value of \$3,090,568. The yields and maturities of mortgage-backed securities generally depend on when the underlying mortgage loan principal and interest are repaid. Although the full amount of principal will be received if prepaid, the interest income that would have been collected during the remaining period to maturity, net of any market adjustment, is lost. At June 30, 2018, no mortgage-backed securities were considered highly sensitive to changes in interest rates.

Corporate Bonds – As of June 30, 2018, ATRS held corporate bonds with a fair value of \$250,356,509. Corporate bonds are debt instruments that are issued by private corporations. These bonds have a term maturity and can have either a fixed or variable interest rate. Variable interest rate bonds have adjustments that are made periodically and vary directly with movements in interest rates. At June 30, 2018, ATRS held no corporate obligations that were considered highly sensitive to changes in interest rates.

ARKANSAS TEACHER RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (Continued)

H. Deposits and Investments (Continued)

Convertible Corporate Bonds – As of June 30, 2018, ATRS held convertible bonds with a fair value of \$474,242,229. Convertible bonds convey an option to the bondholder to exchange each bond for a specified number of shares of common stock of the corporation. Convertible bonds generally offer lower coupon rates and promised yields to maturity in exchange for the value of the option to trade the bond into stock. At June 30, 2018, ATRS held no convertible corporate bonds that were considered highly sensitive to changes in interest rates.

Promissory Notes – ATRS also held three promissory notes with a fair value of \$52,632,775 at June 30, 2018. Promissory notes are written promises to pay a stated sum at a specified date or on demand. Two unsecured promissory notes were issued to Big River Steel Holdings, LLC, and one secured note was issued to Highland Pellets, LLC. ATRS held no promissory notes that were considered highly sensitive to changes in interest rates at June 30, 2018.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This risk is measured by the credit quality of investments in debt securities as described by nationally-recognized statistical rating organizations. The Agency has not adopted a formal investment policy that limits investment in debt securities based on their statistical rating as a means of managing exposure to credit risk. The Agency's exposure to credit risk as of June 30, 2018, is as follows:

| Standard and Poor's                  |                         | Moody's Investors Service |                         |
|--------------------------------------|-------------------------|---------------------------|-------------------------|
| Rating                               | Fair Value              | Rating                    | Fair Value              |
| AAA                                  | \$ 11,728,395           | Aaa                       | \$ 20,725,108           |
| AA                                   | 18,581,685              | Aa                        | 14,758,363              |
| A                                    | 59,221,558              | A                         | 37,273,091              |
| BBB                                  | 146,137,954             | Baa                       | 104,074,212             |
| BB                                   | 101,759,953             | Ba                        | 89,343,446              |
| B                                    | 37,405,314              | B                         | 14,515,525              |
| CCC or below                         | 25,897,216              | Caa or below              | 3,320,840               |
| Unrated                              | 2,648,135,399           | Unrated                   | 2,764,856,889           |
| Total                                | <u>\$ 3,048,867,474</u> | Total                     | <u>\$ 3,048,867,474</u> |
| <u>Securities Lending Collateral</u> |                         |                           |                         |
| Unrated                              | <u>\$ 506,400,660</u>   | Unrated                   | <u>\$ 506,400,660</u>   |

Custodial Credit Risk – Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Agency has not adopted a formal investment policy that requires the use of depository insurance and collateralization procedures to manage the risk that investments may not be returned for any investments other than loaned securities. At June 30, 2018, \$1,022,625 of the Agency's investments were exposed to custodial credit risk.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of the Agency's investment in a single issuer. The Agency places no limit on the amount it may invest in any one issuer. As of June 30, 2018, none of the Agency's investments in any one issuer (other than those issued or guaranteed by the U.S. Government) represent more than 5% of 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 deposit. The Agency has not adopted a formal investment policy that limits investment in foreign currency.



ARKANSAS TEACHER RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (Continued)

H. Deposits and Investments (Continued)

The Agency's exposure to foreign currency risk in U.S. dollars for investments and deposits at June 30, 2018, was as follows:

| Currency               | Fair Value | Investments           |                      | Forward Contracts     | Cash Deposits          |                     |
|------------------------|------------|-----------------------|----------------------|-----------------------|------------------------|---------------------|
|                        |            | Fixed Income          | Equities             |                       |                        |                     |
| Argentine Peso         | ARS        | \$ 4,155,946          | \$ 3,874,080         |                       | \$ 281,866             |                     |
| Australian Dollar      | AUD        | 14,367,404            |                      | \$ 14,367,404         |                        |                     |
| Brazilian Real         | BRL        | 8,217,845             |                      | 8,172,885             | 44,960                 |                     |
| British Pound Sterling | GBP        | 291,324,060           |                      | 288,583,883           | \$ (615,270)           |                     |
| Canadian Dollar        | CAD        | 31,450,460            |                      | 31,450,410            | 50                     |                     |
| Columbian Peso         | COP        | 4,066,425             | 4,066,425            |                       |                        |                     |
| Euro                   | EUR        | 204,393,921           |                      | 203,618,030           | 604,479                |                     |
| Hong Kong Dollar       | HKD        | 54,925,403            |                      | 55,299,933            | (374,531)              |                     |
| Indian Rupee           | INR        | 474,879               |                      |                       | 474,879                |                     |
| Indonesian Rupiah      | IDR        | 7,464,998             |                      | 7,464,998             |                        |                     |
| Japanese Yen           | JPY        | 131,989,630           |                      | 125,438,435           | 5,983,530              |                     |
| Malaysian Ringgit      | MYR        | 3,391,323             |                      | 3,391,775             | (452)                  |                     |
| Mexican Peso           | MXN        | 17,090,802            | 10,962,038           | 6,128,764             |                        |                     |
| New Taiwan Dollar      | TWD        | 26,973,335            |                      | 26,973,334            | 1                      |                     |
| New Zealand Dollar     | NZD        | 6,454,387             |                      | 6,454,387             |                        |                     |
| Norwegian Krone        | NOK        | 8,334,828             |                      | 8,784,894             | (450,066)              |                     |
| South African Rand     | ZAR        | 48,043,332            | 4,250,879            | 47,197,986            | (3,405,533)            |                     |
| South Korean Won       | KRW        | 4,575,164             |                      | 4,575,163             | 1                      |                     |
| Swedish Krona          | SEK        | 48,516,383            |                      | 48,516,383            |                        |                     |
| Swiss Franc            | CHF        | 61,696,463            |                      | 74,460,868            | (12,764,643)           |                     |
| Turkish Lira           | TRY        | 718,743               |                      | 718,743               | 238                    |                     |
| Totals                 |            | <u>\$ 978,625,731</u> | <u>\$ 23,153,422</u> | <u>\$ 961,598,275</u> | <u>\$ (11,022,034)</u> | <u>\$ 4,896,068</u> |

For Forward Currency Contracts in the schedule above, a positive number represents the market value of contracts to purchase that currency in excess of the market value of contracts to sell that currency. A negative number, therefore, represents the market value of contracts to sell foreign currency in excess of contracts to purchase that currency.

**Derivatives** – Derivative instruments are financial contracts or agreements whose values depend on the values of one or more underlying assets, reference rates, and/or financial indexes. Derivative instruments include futures contracts, forward contracts, swap contracts, options contracts, forward foreign currency exchange, and rights. ATRS investment guidelines state that derivatives may be used to reduce the risk in a portfolio but should not be used to create a position of leverage or substantially increase the risk of the overall portfolio. Futures and options should be matched by cash or cash equivalent securities, and all short futures positions should be matched by equivalent long security positions. Each investment manager's derivative usage is specified in the investment management agreement or specific guidelines.

**Forward Currency Contracts** – ATRS 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 position. 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 position. At June 30, 2018, ATRS had outstanding forward exchange currency contracts to purchase foreign currencies with contract amounts of \$8,798,622 and market values of \$8,753,617, resulting in a net loss of \$45,005. Outstanding forward exchange currency contracts to sell foreign currencies with contract amounts of \$20,794,744 had market values of \$19,775,650, resulting in a net gain of \$1,019,094.

ARKANSAS TEACHER RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (Continued)

H. Deposits and Investments (Continued)

The fair value balances and notional amounts of derivative instruments outstanding at June 30, 2018, classified by type, and the changes in fair value of such derivative instruments for the year then ended, as reported in the 2018 financial statements, are as follows:

|                         | Changes in Fair Value |                     | Fair Value at June 30, 2018 |                   | Notional        |
|-------------------------|-----------------------|---------------------|-----------------------------|-------------------|-----------------|
|                         | Classification        | Amount              | Classification              | Amount            |                 |
| <b>Fiduciary funds</b>  |                       |                     |                             |                   |                 |
| Derivative investments: |                       |                     |                             |                   |                 |
| Foreign currency        |                       |                     |                             |                   |                 |
| forwards                | Investment revenue    | \$ (289)            |                             |                   |                 |
|                         | Investment revenue    | 950,062             | Investments                 | \$ 656,525        | CAD 12,948,000  |
|                         | Investment revenue    | (2,502)             |                             |                   | CHF             |
|                         | Investment revenue    | (4,620)             | Investments                 | (4,625)           | EUR 466,025     |
|                         | Investment revenue    | (41)                | Investments                 | (41)              | GBP 2,938,363   |
|                         | Investment revenue    | (7,093)             | Investments                 | 2,033             | JPY 139,086,046 |
|                         | Investment revenue    | 3,234               |                             |                   | MXN             |
|                         | Investment revenue    | (899)               | Investments                 | (899)             | NOK 3,668,221   |
|                         | Investment revenue    | 423                 |                             |                   | SEK             |
|                         | Investment revenue    | (30,843)            | Investments                 | (45,006)          | USD 8,798,622   |
|                         | Investment revenue    | 366,101             | Investments                 | 366,101           | ZAR 54,385,000  |
|                         |                       | <u>\$ 1,273,533</u> |                             | <u>\$ 974,088</u> |                 |
| Rights                  | Investment revenue    | \$ 7,488            | Investments                 | \$ 7,488          | 299,500         |

Securities Lending Transactions – Arkansas Code Annotated and Board policy permit ATRS to participate in a securities lending program administrated by State Street Bank (the “Custodian”). The Custodian enters into agreements with broker-dealers or other entities to loan securities for collateral and have the same securities redelivered in the future. There were no restrictions on the dollar amount of securities loaned by ATRS. Securities on loan to participating brokers at year-end include U.S. Government securities, corporate securities, and international securities. Brokers who borrow the securities provide cash or other collateral, including securities issued or guaranteed by the U.S. Government. Collateral must be provided in the amount of at least 100% of the market value of the loaned securities. ATRS cannot pledge or sell collateral securities received unless the borrower defaults. The cash collateral received on each loan is invested in a collective investment fund comprised of a liquidity pool and a duration pool. As of June 30, 2018, the liquidity pool had an average duration of 27.21 days and an average weighted final maturity of 113.66 days for USD collateral. The duration pool had an average duration of 19.63 days and an average weighted final maturity of 1,999.35 days for USD collateral. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. At year-end, ATRS had no credit risk exposure to borrowers due to the custodian’s indemnification. The custodian indemnified ATRS by agreeing to purchase replacement securities or return cash collateral in the event a borrower failed to return a loaned security or failed to pay the trust funds for income of the securities while on loan. No borrowers failed to return loaned securities or pay distributions during the year. Investments made with cash collateral appear as an asset on the Statement of Plan Net Position. Corresponding liabilities are recorded, as ATRS must return the cash collateral to the borrower upon expiration of the loan. ATRS is exposed to investment risk, including the possible loss of principal value in the cash collateral pool, due to fluctuation in the market value of the assets held by the cash collateral pool. As of June 30, 2018, the fair value of the securities lending assets exceeded the securities lending liabilities by \$91,955.

ARKANSAS TEACHER RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (Continued)

I. Contributions

The Agency's funding policy provides for periodic employer contributions at statutorily-established rates based on annual actuarial valuations. The employer contribution rate was 14% for the fiscal year ending June 30, 2018. Contributory members are required to contribute 6% of gross wages to ATRS. Employee contributions are refundable if ATRS-covered employment terminates before a monthly benefit is payable. Employee contributions remaining on deposit with ATRS for a period of one or more years earn interest credits, which are included in the refund.

J. Reserves

In accordance with the provisions of Ark. Code Ann. § 24-7-405, ATRS must maintain reserve accounts showing net assets available for benefits. At June 30, 2018, the reserve accounts were funded at a level that complied with the code provisions.

|   | Total             |
|---|-------------------|
| Members' deposit account reserve                        | \$ 11,042,863,095 |
| Employers' accumulation account reserve                 | (5,509,752,789)   |
| Retirement reserve                                      | 11,378,864,909    |
| Teacher deferred retirement option plan account reserve | 468,456,672       |
| Survivor benefit account reserve                        | 102,835,207       |
| Income - expense account reserve                        | 9,360,646         |
| Total   | \$ 17,492,627,740 |

The Code provisions define each of the reserve accounts as follows:

Members' Deposit Account Reserve – The account in which members' contributions shall be accumulated with regular interest and from which shall be made transfers and refunds of contributions.

Employers' Accumulation Account Reserve – The account in which shall be accumulated the employer's contributions to ATRS and from which shall be made transfers as provided in the code.

Retirement Reserve – The account from which shall be paid all annuities and benefits in lieu of annuities payable as provided in this act to retirants who retired on account of superannuation or disability and to beneficiaries of such retirants.

Teacher Deferred Retirement Option Plan Account Reserve – The account in which shall be accumulated plan deposits made on behalf of the member with plan interest.

Survivor Benefit Account Reserve – The account from which shall be paid survivor benefits payable as provided in this act.

Income - Expense Account Reserve – The account to which shall be credited all investment income from invested assets of ATRS. It shall also be the account in which shall be accumulated the contributions made by employers for the administrative expenses of ATRS, from which shall be made annual transfers of interest credits and excess amounts to the other accounts of ATRS, and from which shall be paid all the expenses of the Board necessary for the administration and operation of ATRS.

ARKANSAS TEACHER RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (Continued)

K. Net Pension Liability

The components of the net pension liability of the participating employers at June 30, 2018, were as follows:

|  |                         |
|--|-------------------------|
| Total pension liability  | \$ 21,131,589,859       |
| Plan net position  | <u>(17,492,627,740)</u> |
| Net pension liability  | <u>\$ 3,638,962,119</u> |
| Plan net position as a percentage of the total pension liability | 82.78%                  |

Actuarial Assumptions – The total liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all prior periods included in the measurement:

|                           |              |
|---------------------------|--------------|
| Wage inflation rate       | 2.75%        |
| Salary increases          | 2.75 - 7.75% |
| Investment rate of return | 7.50%        |

Mortality rates were based on the RP-2014 Mortality Tables for Males and Females adjusted using projection scale MP-2017 Table from 2006.

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period July 1, 2010 through June 30, 2015.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return were adopted by the plan's trustees after considering input from the plan's investment consultant and actuary.

For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2018, these best estimates are summarized in the following table:

| <u>Asset Allocation</u> | <u>Target</u> | <u>Long-Term<br/>Expected Real<br/>Rate of Return</u> |
|-------------------------|---------------|---|
| Total equity            | 55.0%         | 4.9%  |
| Fixed income            | 15.0%         | 1.2%  |
| Alternatives            | 5.0%          | 4.3%  |
| Real assets             | 15.0%         | 4.2%  |
| Private equity          | 10.0%         | 6.0%  |
| Cash equivalents        | <u>0.0%</u>   | 0.3%  |
|                         | 100.0%        |   |

ARKANSAS TEACHER RETIREMENT SYSTEM  
 NOTES TO FINANCIAL STATEMENTS  
 JUNE 30, 2018

NOTE 1: Summary of Significant Accounting Policies (Continued)

K. Net Pension Liability (Continued)

Single Discount Rate – A single discount rate of 7.50% was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.50%. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be 14% of payroll. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Regarding the sensitivity of the net pension liability to changes in the single discount rate, the following presents the plan’s net pension liability, calculated using a single discount rate of 7.50%, as well as what the plan’s net pension liability would be if it were calculated using a single discount rate that is 1% lower or 1% higher:

Sensitivity of the Net Pension Liability to the Single Discount

|                       | 1% Decrease      | Current Rate     | 1% Increase      |
|-----------------------|------------------|------------------|------------------|
|                       | 6.50%            | 7.50%            | 8.50%            |
| Net pension liability | \$ 6,241,311,395 | \$ 3,638,962,119 | \$ 1,480,855,759 |

L. Compensated Absences – Employee Leave

Annual leave is earned by all full-time employees. Upon termination, employees are entitled to receive compensation for their unused accrued annual leave up to 30 days. Liabilities for compensated absences are determined at the end of the year based on current salary rates.

Sick leave is earned by all full-time employees and may be accrued up to 120 days. Compensation up to a maximum of \$7,500 for unused sick leave is payable to employees upon retirement.

Compensated absences are reported in the State’s “Government-Wide” financial statements but are not reported as liabilities or expenditures in the governmental funds. However, the compensated absences payable attributable to this Agency’s employee annual and sick leave as of June 30, 2018 and 2017, amounted to \$533,706 and \$547,824, respectively. The net changes to compensated absences payable during the year ended June 30, 2018, amounted to \$14,118.

NOTE 2: Other Post-Employment Benefits (OPEB)

Arkansas State Employee Health Insurance Plan (Plan)

Plan Description – The Department of Finance and Administration – Employee Benefits Division (DFA-EBD) provides medical and prescription drug benefits for eligible state employees and retirees. Policies for DFA-EBD related to medical and prescription drug plans are established by State and Public School Life and Health Insurance Board (Board) and may include ad hoc benefit changes or annual cost redeterminations. For the current year, no ad hoc or cost redetermination changes occurred. The Constitution of Arkansas, Article 5, vests the General Assembly with legislative power to enact and amend duties of and benefit provisions of the board and DFA-EBD, respectively, as published in Subchapter 4, Chapter 5 of Title 21 of the Arkansas Code Annotated. DFA-EBD is included in the State of Arkansas’s Comprehensive Annual Financial Report that includes all applicable financial information, notes, and required supplementary information. That report may be obtained by writing to Department of Finance and Administration, 1509 West Seventh Street, Suite 403, Little Rock, Arkansas 72201 or by calling 1-501-682-1675.

NOTE 2: Other Post-Employment Benefits (OPEB) (Continued)

ARKANSAS TEACHER RETIREMENT SYSTEM  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018

Arkansas State Employee Health Insurance Plan (Plan) (Continued)

The Agency contributes to the Plan, a single employer defined benefit OPEB plan administered by the DFA-EBD, on a monthly basis. The Board establishes medical and prescription drug benefits for three classes of individuals covered as follows: active employees, terminated employees with accumulated benefits, and retirees and beneficiaries. The Plan is established on the basis of a pay-as-you-go financing requirement, and no assets are accumulated in a trust as defined by GASB Statement No. 75. The State's annual OPEB cost for the Plan is based on an actuarially-determined, calculated amount made in accordance with GASB Statement No. 75.

Funding Policy – Employer contribution for the Plan are established by Ark. Code Ann. § 21-5-414 not to exceed \$450 per budgeted position. Employees, retirees, and beneficiaries contribute varying amounts based on the type of coverage and inclusion of family members. Retirees that are Medicare eligible will have their benefits coordinated with Medicare Part A and B with the Plan being the secondary payer. The portion of the State's annual OPEB liability attributable to ATRS as of June 30, 2018, is \$5,387,621

NOTE 3: Required Supplementary Schedules

Detailed historical information about the pension liabilities for which the pension plan's assets are being held and managed and the significant assumptions used to measure these liabilities are required supplementary information. This required supplementary information, prepared in accordance with the parameters of GASB Statement No. 67, is included immediately following the notes to the financial statements.

ARKANSAS TEACHER RETIREMENT SYSTEM  
 SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
 FOR THE TEN-YEAR PERIOD ENDED JUNE 30, 2018

Schedule 1

|   | 2018                     | 2017                     | 2016                     | 2015                     | 2014                     | 2013* | 2012* | 2011* | 2010* | 2009* |
|---|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|-------|-------|-------|-------|-------|
| <b>TOTAL PENSION LIABILITY</b>                                    |                          |                          |                          |                          |                          |       |       |       |       |       |
| Service cost  | \$ 315,864,318           | \$ 307,786,503           | \$ 305,086,337           | \$ 298,134,477           | \$ 326,999,276           |       |       |       |       |       |
| Interest  | 1,504,613,059            | 1,485,759,965            | 1,433,768,167            | 1,371,168,271            | 1,326,709,192            |       |       |       |       |       |
| Changes in benefit terms  |                          | (469,205,711)            |                          |                          | (27,405,705)             |       |       |       |       |       |
| Difference between actual and expected experience                 | (7,365,993)              | (76,812,667)             | (15,341,738)             | 123,519,055              | (103,017,525)            |       |       |       |       |       |
| Changes in assumptions  |                          | 1,374,950,899            |                          |                          |                          |       |       |       |       |       |
| Benefit payments  | (1,160,738,238)          | (1,092,952,357)          | (1,035,958,950)          | (970,719,484)            | (914,250,015)            |       |       |       |       |       |
| Refunds   | (9,455,405)              | (10,874,003)             | (10,145,471)             | (10,774,122)             | (10,485,103)             |       |       |       |       |       |
| <b>NET CHANGE IN TOTAL PENSION LIABILITY</b>                      | <b>642,917,741</b>       | <b>1,518,652,629</b>     | <b>677,408,345</b>       | <b>811,328,197</b>       | <b>598,550,120</b>       |       |       |       |       |       |
| <b>TOTAL PENSION LIABILITY - BEGINNING OF YEAR</b>                | <b>20,488,672,118</b>    | <b>18,970,019,489</b>    | <b>18,292,611,144</b>    | <b>17,481,282,947</b>    | <b>16,882,732,827</b>    |       |       |       |       |       |
| <b>TOTAL PENSION LIABILITY - END OF YEAR (A)</b>                  | <b>\$ 21,131,589,859</b> | <b>\$ 20,488,672,118</b> | <b>\$ 18,970,019,489</b> | <b>\$ 18,292,611,144</b> | <b>\$ 17,481,282,947</b> |       |       |       |       |       |
| <b>PLAN NET POSITION</b>  |                          |                          |                          |                          |                          |       |       |       |       |       |
| Contributions - employer  | \$ 424,488,126           | \$ 414,954,939           | \$ 410,358,229           | \$ 408,230,472           | \$ 404,920,440           |       |       |       |       |       |
| Contributions - member  | 138,766,747              | 133,109,939              | 131,100,983              | 128,555,684              | 125,225,906              |       |       |       |       |       |
| Net investment income   | 1,824,094,695            | 2,289,818,591            | 35,579,657               | 632,166,951              | 2,429,334,097            |       |       |       |       |       |
| Benefit payments  | (1,160,738,237)          | (1,092,952,357)          | (1,035,958,950)          | (970,719,484)            | (914,250,015)            |       |       |       |       |       |
| Refunds   | (9,455,405)              | (10,874,003)             | (10,145,471)             | (10,774,122)             | (10,485,103)             |       |       |       |       |       |
| Administrative expense  | (9,336,430)              | (7,825,595)              | (8,059,030)              | (8,034,857)              | (8,034,236)              |       |       |       |       |       |
| <b>NET CHANGE IN PLAN NET POSITION</b>                            | <b>1,207,819,496</b>     | <b>1,726,231,514</b>     | <b>(477,124,582)</b>     | <b>179,424,644</b>       | <b>2,026,711,089</b>     |       |       |       |       |       |
| <b>PLAN NET POSITION - BEGINNING OF YEAR</b>                      | <b>16,284,808,244</b>    | <b>14,558,576,730</b>    | <b>15,035,701,312</b>    | <b>14,856,276,668</b>    | <b>12,829,565,579</b>    |       |       |       |       |       |
| <b>PLAN NET POSITION - END OF YEAR (B)</b>                        | <b>\$ 17,492,627,740</b> | <b>\$ 16,284,808,244</b> | <b>\$ 14,558,576,730</b> | <b>\$ 15,035,701,312</b> | <b>\$ 14,856,276,668</b> |       |       |       |       |       |
| <b>NET PENSION LIABILITY - END OF YEAR (A) - (B)</b>              | <b>\$ 3,638,962,119</b>  | <b>\$ 4,203,863,874</b>  | <b>\$ 4,411,442,759</b>  | <b>\$ 3,256,909,832</b>  | <b>\$ 2,625,006,279</b>  |       |       |       |       |       |
| Plan net position as a percentage of total pension liability      | 82.78%                   | 79.48%                   | 76.75%                   | 82.20%                   | 84.98%                   |       |       |       |       |       |
| Covered employee payroll  | \$ 2,986,026,715         | \$ 2,921,965,125         | \$ 2,888,392,668         | \$ 2,873,988,053         | \$ 2,850,860,174         |       |       |       |       |       |
| Net pension liability as a percentage of covered employee payroll | 121.87%                  | 143.87%                  | 152.73%                  | 113.32%                  | 92.08%                   |       |       |       |       |       |

\* ATRS is only required to present those years for which information is available until the full 10-year trend is completed.

ARKANSAS TEACHER RETIREMENT SYSTEM  
 SCHEDULE OF CONTRIBUTIONS  
 FOR THE TEN-YEAR PERIOD ENDED JUNE 30, 2018

Schedule 2

|   | 2018                  | 2017                | 2016                 | 2015                 | 2014                 | 2013* | 2012* | 2011* | 2010* | 2009* |
|---|-----------------------|---------------------|----------------------|----------------------|----------------------|-------|-------|-------|-------|-------|
| Actuarially-determined contribution                             | \$ 422,365,685        | \$ 423,846,831      | \$ 437,434,470       | \$ 474,773,530       | \$ 485,904,529       |       |       |       |       |       |
| Actual contribution   | <u>424,488,126</u>    | <u>414,954,939</u>  | <u>410,358,229</u>   | <u>408,230,472</u>   | <u>404,920,440</u>   |       |       |       |       |       |
| Contribution deficiency (excess)                                | <u>\$ (2,122,441)</u> | <u>\$ 8,891,892</u> | <u>\$ 27,076,241</u> | <u>\$ 66,543,058</u> | <u>\$ 80,984,089</u> |       |       |       |       |       |
| Covered employee payroll  | \$ 2,986,026,715      | \$ 2,921,965,125    | \$ 2,888,392,668     | \$ 2,873,988,053     | \$ 2,850,860,174     |       |       |       |       |       |
| Actual contribution as a percentage of covered employee payroll | 14.22%                | 14.20%              | 14.21%               | 14.20%               | 14.20%               |       |       |       |       |       |

\* ATRS is only required to present those years for which information is available until the full 10-year trend is completed.



ARKANSAS TEACHER RETIREMENT SYSTEM  
 SCHEDULE OF INVESTMENT RETURNS  
 FOR THE TEN-YEAR PERIOD ENDED JUNE 30, 2018

Schedule 3

|                                      | 2018   | 2017   | 2016  | 2015  | 2014   | 2013* | 2012* | 2011* | 2010* | 2009* |
|--------------------------------------|--------|--------|-------|-------|--------|-------|-------|-------|-------|-------|
| Annual money-weighted rate of return | 11.46% | 16.09% | 0.24% | 4.34% | 19.27% |       |       |       |       |       |

\* ATRS is only required to present those years for which information is available until the full 10-year trend is completed.

ARKANSAS TEACHER RETIREMENT SYSTEM  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2018

NOTE 1: Summary of significant information related to required supplementary schedules

A. Changes in benefit terms

There were no significant changes in benefit terms for the year ended June 30, 2018.

B. Changes in assumptions

There were no significant changes in assumptions for the year ended June 30, 2018.

C. Method and assumptions used in calculations of actuarially-determined contributions

Valuation date: June 30, 2018

The actuarially-determined contribution rates are calculated as of June 30 of every year, which is one year prior to the beginning of the fiscal year in which contributions are reported.

The following actuarial methods and assumptions were used to determine contribution rates reported in the schedule of contributions:

|                               |   |
|-------------------------------|---|
| Actuarial cost method         | Entry age normal  |
| Amortization method           | Level percentage of payroll, closed   |
| Remaining amortization period | 28 years  |
| Asset valuation method        | 4-year closed period; 20% corridor  |
| Wage inflation                | 2.75%   |
| Projected salary increases    | 2.75 - 7.75%  |
| Investment rate of return     | 7.50% compounded annually   |
| Mortality table               | RP-2014 Healthy Annuitant, Disabled Annuitant, and Employee Mortality Tables were used for males and females. Mortality rates were adjusted using projection scale MP-2017 from 2006. |

| Table              | Scaling Factor |         |
|--------------------|----------------|---------|
|                    | Males          | Females |
| Healthy Annuitant  | 101%           | 91%     |
| Disabled Annuitant | 99%            | 107%    |
| Employee Mortality | 94%            | 84%     |

ARKANSAS TEACHER RETIREMENT SYSTEM  
 SCHEDULE OF SELECTED INFORMATION  
 FOR THE FIVE-YEAR PERIOD ENDED JUNE 30, 2018

Schedule 4

|  | For the Year Ended June 30, |                   |                   |                   |                   |
|--|-----------------------------|-------------------|-------------------|-------------------|-------------------|
|  | 2018                        | 2017              | 2016              | 2015              | 2014              |
| Total Assets                                 | \$ 18,088,381,003           | \$ 16,792,590,856 | \$ 15,236,170,821 | \$ 15,746,448,807 | \$ 15,587,124,060 |
| Total Liabilities                            | 595,753,263                 | 507,782,612       | 677,591,091       | 710,747,795       | 730,847,392       |
| Net Position Restricted for Pension Benefits | 17,492,627,740              | 16,284,808,244    | 14,558,576,730    | 15,035,701,312    | 14,856,276,668    |
| Total Additions (Losses)                     | 2,387,349,568               | 2,837,883,469     | 577,038,869       | 1,168,953,107     | 2,959,480,443     |
| Total Deductions                             | 1,179,530,072               | 1,111,651,955     | 1,054,163,451     | 989,528,463       | 932,769,354       |