



Annual Financial Report 2013

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Arkansas State Police Retirement System



A Pension Trust Fund of the State of Arkansas

Annual Financial Report **For the Year Ended** **June 30, 2013**

Gail H. Stone, Executive Secretary
Michele Williams, Deputy Director
Colonel Stan Witt, Director of State Police

Prepared by
Arkansas Public Employees Retirement System
124 West Capitol Avenue, Suite 400
Little Rock, AR 72201

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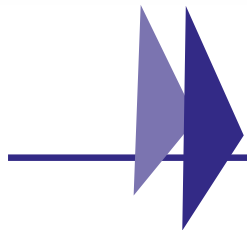
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Arkansas State Police Retirement System
124 West Capitol, Suite 400
Little Rock, AR 72201



ARKANSAS STATE POLICE RETIREMENT SYSTEM

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INTRODUCTION

A Brief History of ASPRS

System Highlights

Troop Headquarters

Letter of Transmittal

Board of Trustees

ASPRS Senior Staff

Outside Professional Service Providers

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A Brief History of ASPRS

Established on March 19, 1951 with the passage of Act 311 of 1951, the Arkansas General Assembly created the Arkansas State Police Retirement System (ASPRS). This System provides for the retirement of police officer employees of the Arkansas State Police.

In the beginning, all ASPRS members participated in a contributory plan whereby employers and employees made contributions to the System. However, in 1977, Act 793 was signed by then Governor David Pryor. This legislation offered a choice to employees who were currently under the contributory plan. They could remain under the contributory plan or change over to the new non-contributory plan in which only employers make contributions to the System. This choice was offered to employees who were ASPRS members at some previous time and returned to work for the System on, or after, January 1, 1978; however, anyone joining the System on, or after, January 1, 1978, who was not previously an ASPRS member, is automatically covered under the new non-contributory plan.

Act 1071 of 1997 created the Tier II Plan for all officers hired on or after April 3, 1997. Members of the Plan in effect before April 3, 1997 (hereafter referred to as Tier I) had one year from April 3, 1997 to elect participation in Tier II.

Act 1242 of 2009 merged the investable assets of ASPRS with those of the Arkansas Public Employees Retirement System (APERS). All authority over investment of the merged assets was granted to the APERS Board of Trustees. Investment schedules contained herein reflect the market values accruing to each system.

This annual financial report, which covers the period from July 1, 2012 through June 30, 2013, provides comprehensive information about the System including statements of financial condition, investment objectives and policy, an actuarial report, historical and statistical information on active members, annuitants and benefit payments, as well as a description of the retirement plan.

System Highlights

As of June 30, 2013

Active Members (Excludes DROP participants)

Tier 1		Tier 2	
Number	114	Number	350
Average Age (yrs.)	48.0	Average Age (yrs.)	37.0
Average Service (yrs.)	20.0	Average Service (yrs.)	7.9
Average Annual Salary	\$ 61,766	Average Annual Salary	\$ 47,106

Inactive Vested Members

Number	63
--------	----

2013 Retirees (Includes DROP participants)

	Age and Service	Disability
Retired Members	16	2
Average Age (yrs.)	53.50	38.00
Average Credited Service (yrs.)	36.56	18.00
Average Monthly Benefit	\$ 4,477.31	\$ 1,688.00

Total Retirees (Including DROP Participants, Disability Recipients, & Death-In-Service Beneficiaries)

Retired Members	659
Average Monthly Benefit	\$ 2,986.85

Troop Headquarters

Troop "A" 501-618-8282
1 State Police Plaza Drive
Little Rock, AR 72209
Captain Keith Eremea - Commander

Troop "G" 870-777-4641
2501 North Hazel
Hope, AR 71801
Captain Jeff Jester - Commander

Troop "B" 870-523-2701
3200 Highway 67 North
Newport, AR 72112
Captain Jeffrey Drew - Commander

Troop "H" 479-783-5195
5728 Kelly Highway
Fort Smith, AR 72914
Captain Steve Coleman - Commander

Troop "C" 870-935-7302
2216 Access Road
Jonesboro, AR 72403
Captain Jim Howington - Commander

Troop "I" 870-741-3455
2724 Airport Road
Harrison, AR 72602
Captain Mike Foster - Commander

Troop "D" 870-633-1454
3205 North Washington
Forrest City, AR 72335
Captain Jackie Clark - Commander

Troop "J" 479-754-3096
2700 West Main
Clarksville, AR 72830
Captain Dale Saffold - Commander

Troop "E" 870-247-1483
6816 Princeton Pike
Pine Bluff, AR 71602
Captain Leonard Hogg - Commander

Troop "K" 501-767-8550
200 Karen Drive
Hot Springs, AR 71901
Captain Shawn Garner - Commander

Troop "F" 870-226-3713
1237 North Myrtle
Warren, AR 71671
Captain Jimmy Smith - Commander

Troop "L" 479-751-6663
900 South 48th St.
Springdale, AR 72766
Captain Lance King - Commander

Letter of Transmittal



Arkansas State Police Retirement System

124 West Capitol Avenue • Suite 400 • Little Rock, AR 72201

Dear ASPRS Members:

The Arkansas State Police Retirement System (ASPRS) is pleased to present the Annual Financial Report for the period ending June 30, 2013. The report is designed to provide a clear and concise picture of the financial conditions of the System. The report includes the following six sections:

- The *Introduction Section* contains the administrative organization, a letter of transmittal, and the Chairman's report;
- The *Financial Section* contains the financial statements of the System and required supplementary information;
- The *Investments Section* contains a report on investment activity, investment policies, investment results, and various investment schedules;
- The *Actuarial Section* contains the Actuary's certification letter and the results of the Annual Actuarial Valuation;
- The *Statistical Section* includes significant trend data pertaining to the System;
- The *Appendix* contains combined ASPRS and APERS financial statements.

Accounting System

The accrual basis of accounting is used to record the assets, liabilities, revenues, and expenses of the ASPRS Trust Fund. Revenues are recognized in the accounting period in which they are earned, without regard to date of collection, and expenses are recorded when incurred, regardless of when payment is made. Investments are reported at market values determined by the Custodial Agent. The Agent's determination of market value includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates.

Revenues

The fiscal year 2013 revenue from employer contributions totaled \$6.18 million. This amount is \$341,475 less than the amount received in fiscal year 2012. Court fees and driver's license reinstatement fees for the fiscal year were \$2.11 million, a decrease of \$414,024 from fiscal year 2012. In 2013, motor vehicle title fees totaling \$4.36 million were collected in accordance with Act 718 of 2011.

In addition to the funding provided in previous years, Act 1071 of 1997 provided for a transfer from Insurance Premium Taxes to the State Police Retirement Fund. This transfer is equal to the difference between the actuarially computed contribution rate minus other funding sources (Employer contributions and Driver's License Reinstatement fees). The Fund received just under \$6.70 million from the Insurance Premium tax transfer during fiscal year 2013, and \$6.25 million in fiscal year 2012.

The System experienced a net investment gain of \$30.53 million in fiscal year 2013 after expenses of \$849,882, an increase of \$31.83 million from fiscal year 2012. Overall, the System's revenues increased \$31.64 million over fiscal year 2012.

Expenses

Benefit payments for fiscal year 2013 were \$23.72 million, which is \$2,068,345 more than fiscal year 2012. Administrative expenses were \$97,181 of which \$40,600 was for professional fees and \$59,158 was transferred to APERS for indirect administrative costs.

Funding

The System is funded through contributions from the state, and investment income. The general financial objective of the System is to establish and receive contributions which, expressed as a percent of active member payroll, will remain approximately level from generation to generation.

Investments

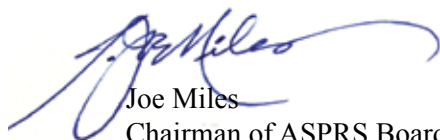
Act 1242 of 2009 effectively merged ASPRS investment program with that of APERS and granted the APERS Board of Trustees all investment authority. In accordance with the Investment Code contained in the Arkansas Code Annotated (A.C.A.), the APERS Board of Trustees has established a policy which requires that the funds be invested in conformity with the “prudent investor rule.” The Investment Code permits the fund to establish an investment policy based upon certain investment criteria and allows for delegation of investment authority to professional investment managers. The statement of investment policy outlines the responsibility for the investment of the fund and reflects the degree of risk that is deemed appropriate for the fund. Investment managers are to execute the investment policy in accordance with statutory authority, Board policy and their respective guidelines, but are to use full discretion within the policy and guidelines. Compliance by the current investment managers is monitored on a continuing basis by the investment consulting firm, Callan Associates Inc., and APERS staff. The investment managers retained by the Board are listed on page 14 and page 15 of this report.

Professional Services

Professional services are provided to ASPRS by firms selected by the Board of Trustees to aid in the efficient and effective management of the System. A list of firms retained during the year can be found on page 14 of this report.

Acknowledgments

This report is the result of the combined efforts of the Arkansas Public Employees Retirement System staff under the direction of the Arkansas State Police Retirement System Board of Trustees. Its purpose is to provide complete and reliable information as a basis for making management decisions, as a means for determining compliance with legal provisions, and as a means for determining responsible stewardship over the assets contributed by the members and employers.



Joe Miles
Chairman of ASPRS Board of Trustees



Gail H. Stone
Executive Secretary

Arkansas State Police Retirement System Board of Trustees

Expiration of Term

Mr. Joe Miles, Chair Mountain Home, AR Citizen-At-Large	July 1, 2017
Lt Brant Tosh, Vice-Chair Jonesboro, AR ASPRS Tier II member	July 1, 2013
Mr. John W. Allison Conway AR Arkansas State Police Commissioner	July 1, 2016
Mr. Richard Weiss Director, Department of Finance and Administration Chief Fiscal Officer	Ex-Officio Member
Corporal Blake Wilson Russellville, AR ASPRS Tier I member	July 1, 2015
Mr. Donnie Underwood Marion, AR Citizen-At-Large	July 1, 2014
Mr. Carl “Ned” Hendrix Winthrop, AR Citizen-At-Large	July 1, 2019

ASPRS Senior Staff

Ms. Gail Stone

Executive Secretary

Ms. Michele Williams

Deputy Director

Mr. Jay Wills

Staff Attorney

Ms. Ashley McAdoo

Chief Financial Officer

Mr. Carlos Borromeo

Chief Investment Officer

Ms. Susan Bowers

Assistant Director of Investments

Ms. Jacobia Twiggs

Manager, Member Services Section

Ms. Jennifer Taylor

Manager, Retiree Services Section

Ms. Allison Woods

Manager, Member Records Section

Ms. Becky Walker

Manager, Human Resources

Mr. Phillip Norton

Manager, Information Services Section

Mr. Jon Aucoin

Manager, Communications Section

Outside Professional Service Providers

Custodial Bank

The Bank of New York Mellon
One Mellon Center
500 Grant Street
Pittsburgh, PA 15258

Actuary

Gabriel, Roeder, Smith & Co.
Actuaries and Consultants
One Towne Square, Suite 800
Southfield, MI 48076

Investment Consultant

Callan Associates, Inc.
120 North LaSalle Street, Suite 2100
Chicago, IL 60602

Domestic Equity Investment Managers

CastleArk Management, LLC
One North Wacker Drive, Suite 3950
Chicago, IL 60606

Golden Capital Management
10715 David Taylor Drive, Suite 400
Charlotte, NC 28262

Horrell Capital Management
900 S. Shackleford Road, Suite 200
Little Rock, AR 72211

INTECH
525 Okeechobee Blvd., Suite 1800
West Palm Beach, FL 33401

Lazard Asset Management
30 Rockefeller Plaza
New York, NY 10020

Lombardia Capital Partners
55 South Lake Avenue, Suite 750
Pasadena, CA 91101

Mellon Capital Management
One Mellon Center, Suite 4200
Pittsburgh, PA 15258

SSI Investment Management
9440 Santa Monica Blvd., 8th Floor
Beverly Hills, CA 90210

State Street Global Advisors
3475 Piedmont Road, NE Suite 1920
Atlanta, GA 30305

Stephens Investment
Management Group
9 Greenway Plaza, Suite 1900
Houston, TX 77046

Wellington Management Company
280 Congress Street
Boston, MA 02210

Westwood Management Corp.
200 Crescent Court, Suite 1200
Dallas, TX 75201

Fixed Income Investment Managers

MacKay Shields	Prudential Investments, Inc.
1345 Avenue of the Americas	Two Gateway Center
New York, NY 10105	Newark, NJ 07102

Diversified Strategies Investment Managers

AQR Capital Management	Blackstone Alternative Asset Mgmt., LP	Newton Capital Management
Two Greenwich Plaza, 3 rd Floor	345 Park Avenue, 28 th Floor	A BNY Mellon Company
Greenwich, CT 06830	New York, NY 10154	200 Park Avenue
		New York, NY 10166-0005

Real Assets Investment Managers

CastleArk Management, LLC	Invesco Real Estate	Pinnacle Forest Investments, LLC
One North Wacker Drive, Suite 3950	Three Galleria Tower, Suite 500	650 South Shackleford, Suite 400
Chicago, IL 60606	Dallas, TX 75240	Little Rock, AR 72211
TA Associates Realty	LaSalle Investment Management	
28 State Street, 10 th Floor	One Front Street	
Boston, MA 02109	San Francisco, CA 94111	

International Equity Investment Managers

Artisan Partners	Manning & Napier Advisors	Lazard Asset Management
875 East Wisconsin Ave., Suite 800	655 Metro Place South, Suite 800	30 Rockefeller Plaza
Milwaukee, WI 53202	Dublin, OH 43017	New York, NY 10020
Pyramis Global Advisors		
900 Salem Street, OT3N1		
Smithfield, RI 02917		

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Little Rock, AR 72201



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FINANCIAL SECTION

Management's Discussion and Analysis

Basic Financial Statements

Statement of Plan Net Position

Statement of Changes in Plan Net Position

Notes to Basic Financial Statements

Required Supplementary Information

Schedule of Funding Progress

Schedule of Employer Contributions

Notes to Required Supplementary Information

Schedule of Administrative Expenses

Schedule of Investment Expenses

Schedule of Consultant Fee(s)

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Management's Discussion and Analysis

To help facilitate a better understanding of the Arkansas State Police Retirement System (the "System" and/or "ASPRS") financial condition as of June 30, 2013, the results of its operation for the fiscal year then ended and the fiscal policies that govern its significant business operations, management has prepared this narrative analysis. This narrative is intended to supplement the System's financial statements and, as such, should be read in conjunction with these statements, which are presented beginning on page 22.

As a reminder, Act 1242 of 2009 effectively merged the ASPRS investment program with that of the Arkansas Public Employees Retirement System, ("APERS"), and granted the APERS Board of Trustees all investment authority. The figures referred to in this section are ASPRS figures, unless specifically stated otherwise.

Overview of the Financial Statements

This overview is intended to serve as an introduction to the System's financial reporting. Collectively, all the information contained in the *Financial Section* of this Annual Report presents the net position held in trust for pension benefits as of June 30, 2013.

The basic financial statements contained in the *Financial Section* of the Annual Report consist of:

The *Statement of Plan Net Position*, which reports the pension trust funds' assets, liabilities, and resulting net position where Assets – Liabilities = Net Position at the end of the fiscal year. It is a snapshot of the financial position of the pension trust funds at that specific point in time. Below you will find a summary of total assets, total liabilities, and resulting net position for fiscal years 2013 and 2012.

	2013	2012
Total Assets	\$ 264,601,912	\$ 232,254,898
Total Liabilities	28,331,477	22,174,551
Net Position	<u>\$ 236,270,435</u>	<u>\$ 210,080,347</u>

The *Statement of Changes in Plan Net Position*, which summarizes the pension trust funds' financial transactions that have occurred during the fiscal year where Additions – Deductions = Net Change in Net Position. It supports the change that has occurred to the prior year's net position value on the *Statement of Plan Net Position*. Below you will find a summary of the financial transactions of the trust fund for fiscal years 2013 and 2012.

	2013	2012
Additions		
Employer Contributions	\$ 6,183,721	\$ 6,525,196
Plan Members Contributions	118,170	112,552
Supplemental	6,703,097	6,255,842
Court	1,229,390	1,362,937
Driver's License Reinstatement Fees	882,180	1,162,657
Motor Vehicle Title Fees	4,356,659	4,246,637
Net Investment Income	30,531,555	(1,302,063)
Total Other Additions	0	57
Total Additions	<u>50,004,772</u>	<u>18,363,815</u>
Deductions		
Benefits	23,717,503	21,649,158
Refunds of Contributions	0	0
Administrative Expenses	97,181	80,842
Total Deductions	<u>23,814,684</u>	<u>21,730,000</u>
Net Increase (Decrease)	26,190,088	(3,366,185)
Net Position		
Beginning of the year	<u>210,080,347</u>	<u>213,446,532</u>
End of the year	<u>\$ 236,270,435</u>	<u>\$ 210,080,347</u>

The *Notes to the Basic Financial Statements* are provided as an integral component of the financial statements to help explain in narrative form some of the more complex or less obvious elements of the statements. Further, the notes to the financial statements provide additional information (e.g., varying types of investment risk) that is essential for a comprehensive understanding of the System's financial condition and the results of its operations.

Note 1 provides a general description of the System. Information regarding membership and employers are provided.

Note 2 provides a summary of significant accounting policies, including the basis of accounting, management's use of estimates, and other accounting policies.

Note 3 describes deposits, discloses investment risks, addresses securities lending as well as derivative instruments.

Note 4 provides information regarding legally required reserves.

The *Required Supplementary Information* provides additional detail and historical information considered to be useful in evaluating the condition of the plan administered by ASPRS. The System provides certain required schedules and related note disclosures that collectively demonstrate the System's annual progress toward funding its actuarial accrued liability (i.e., Schedule of Funding Progress) and discloses any changes to employer contributions (i.e., Employer Contribution Rates).

Funding

The System's overall funding objective is to accumulate sufficient assets over time to meet its long term benefit obligations as they become due. Accordingly, collecting employer and member contributions as well as earning an adequate long-term rate of return on its investments are essential components of the System's plan for accumulating the funds needed to finance future retirement benefits.

ASPRS' overall pension fund net position increased during the fiscal year ended June 30, 2013 (FY13). The Systems' net position increased by \$26,190,088 during the fiscal year. It can be attributed to an increase in investment values and their associated income.

System Investments as of June 30, 2013

The investments of the combined pension trust funds generated a 15.58% return for the fiscal year, which is an improvement from the prior year's return of -0.33%. The 15.58% placed APERS/ASPRS in the top 5% when compared with a median large public plan return of 13.57%. Investment results over time compared with the combined System's benchmarks are presented in the *Schedule of Comparative Investment Results* located in the *Investments Section* of this annual report.

Domestic Equity

The combined Systems had \$2.693 billion in U.S. domestic equity securities which is approximately a 12% increase from fiscal year 2012. Domestic equity posted a return of 20.99% for the fiscal year. The benchmark used for the System posted a return of 22.09%.

International Equity

The combined Systems had \$1.637 billion in International equity securities which is approximately an 11.6% increase from fiscal year 2012. International equity posted a return of 20.88% for the fiscal year. The benchmark used for the Systems posted a return of 16.03%.

Fixed Income

The combined Systems had \$1.148 billion in Fixed Income securities which is approximately the equivalent amount the System had in fiscal year 2012. Fixed Income posted a return of 3.51% for the fiscal year. The benchmark used for the Systems posted a return of 1.07%.

Diversified Strategies

The combined Systems had \$319 million in Diversified Strategies which is approximately a 2% increase from fiscal year 2012. Diversified Strategies posted a return of 9.73% for the fiscal year.

Real Assets

The combined Systems had \$795 million in Real Assets which is approximately a 1.0% decrease from fiscal year 2012. Real Assets posted a return of 10.26% for the fiscal year. The benchmark used for the Systems posted a return of 5.76%.

Securities Lending

The System earns additional investment income by lending investment securities to broker-dealers. This is done by the System's custodial bank, Bank of New York Mellon (BNYM). The broker-dealers provide collateral to BNYM and generally use the borrowed securities to cover short sales and failed trades for their clients. BNYM invests cash collateral to earn interest. For the fiscal year 2013, securities lending income to the System amounted to \$65,152.

Actuarial Valuations and Funding Progress

An actuarial valuation of the System is performed annually as of June 30th. The funded status of the System is shown in the Schedule of Funding Progress. This table shows the funding ratios for the past 18 years. It also shows the actuarial value of assets as far back as 1995.

The actuarial accrued liability and actuarial value of assets of the System as of June 30, 2013, amounted to \$361.5 million and \$233.2 million, respectively.

As of June 30, 2013, the ASPRS plan experienced an increase in its funded status from 59% to 65% on a market value basis. On a funding basis, the System experienced an increase in its funded status from 61% to 65%.

Requests for information

This annual report is designed to provide a general overview of the finances of the System. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Arkansas State Police Retirement System, 124 W. Capitol, Suite 400, Little Rock, AR 72201.

Basic Financial Statements

Statement of Plan Net Position - As of June 30

	2013	2012
Assets		
Cash and Cash Equivalents	\$ 13,376,624	\$ 13,684,882
Receivables:		
Investment Principal Receivable	703,611	691,361
Accrued Investment Income Receivable	710,198	573,527
Other Receivables	757,483	13,267
Total Receivables	2,171,292	1,278,155
Investments, At Fair Value		
Government Securities:		
U.S. Government Securities	3,690,532	3,010,204
Futures	22,605	(11,265)
Government Agency Securities	4,821,236	5,477,613
Corporate Securities:		
Collateralized Obligations	5,957,682	6,338,221
Corporate Bonds	17,569,835	18,044,655
Convertible Bonds	6,089,892	5,363,050
Convertible Preferred Stock	1,409,407	1,368,582
Common Stock	72,768,540	64,629,134
Equity Index Funds	19,675,749	16,763,905
Equity Co-Mingled	2,312,753	1,921,333
High Yield Income Fund	1,991,055	1,821,251
International Securities:		
Global Fixed Income Fund	384,561	43,998
Corporate Fixed Income	1,288,978	328,439
Equity Securities	25,541,344	21,142,392
Equity Pooled Fund Units	21,784,653	31,429,624
Global Equity Index Funds	10,575,455	0
Global Collateralized Obligations	195,696	244,239
Emerging Markets	934,577	715,741
Emerging Markets Collateralized Obligations	8,395	0
Forward Contracts	28,058	4,893
Interest Rate Swaps	151	(1,531)
Real Estate	9,267,932	8,010,429
Diversified Strategies	7,761,045	0
Timberland	7,312,846	9,548,500
Municipal Bonds	184,483	185,088
Commercial Loans	770,229	658,734
Total Investments	222,347,689	197,037,229
Securities Lending Collateral Investments, At Fair Value:		
Repurchase Agreements	4,712,067	4,497,297
Asset Backed Floating Rate Notes	3,774,383	3,363,159
US Agencies	396,428	213,506
US Governments	0	8,327,878
Certificates of Deposit	1,537,454	345,893
Commercial Paper	2,513,824	1,383,470
Corporate Floating Rate Notes	10,388,005	2,123,429
Bank Obligations	3,384,146	0
Total Securities Lending Collateral Investments	26,706,307	20,254,632
Total Assets	<u>264,601,912</u>	<u>232,254,898</u>
Liabilities		
Accrued Expenses and Other Liabilities	378,576	329,704
Investment Principal Payable	1,246,594	1,590,215
Securities Lending Liability	26,706,307	20,254,632
Total Liabilities	<u>28,331,477</u>	<u>22,174,551</u>
Net Position Restricted for Pension Benefits	<u>\$ 236,270,435</u>	<u>\$ 210,080,347</u>

Totals may not add due to rounding. A schedule of Funding Progress is on page 42.

The ASPRS and APERS Combined Statement of Plan Net Position can be found on page 83.

Basic Financial Statements

Statement of Changes in Plan Net Position - For the Year Ended June 30

	2013	2012
Additions		
Contributions		
Employer	\$ 6,183,721	\$ 6,525,196
Plan Member	118,170	112,552
Supplemental	6,703,097	6,255,842
Motor Vehicle Title Fees	4,356,659	4,246,637
Court Fees	1,229,390	1,362,937
Driver's License Reinstatement Fees	882,180	1,162,657
Total Contributions	19,473,217	19,665,821
Investment Income:		
Interest	1,905,364	2,558,334
Dividends	2,636,028	2,574,219
Investment Gain/(Loss)	26,774,893	(5,596,802)
Security Lending Income/(Loss)	65,152	31,534
Real Estate Income/(Loss)	0	(1,495)
Total Investment Income/(Loss)	31,381,437	(434,210)
Less: Investment Expense	849,882	867,853
Net Investment Income/(Loss)	30,531,555	(1,302,063)
Other Sources:		
Miscellaneous Additions	0	57
Total Other Additions	0	57
Total Additions	50,004,772	18,363,815
Deductions		
Benefits	23,717,503	21,649,158
Administrative Expenses	97,181	80,842
Total Deductions	23,814,684	21,730,000
Net Increase (Decrease)	26,190,088	(3,366,185)
Net Position Restricted for Pension Benefits		
Beginning of Year	210,080,347	213,446,532
End of Year	<u>\$ 236,270,435</u>	<u>\$ 210,080,347</u>

Totals may not add due to rounding.

See notes to Financial Statements beginning on page 24.

The ASPRS and APERS Combined Statement of Changes in Plan Net Position can be found on page 84.

Notes to Basic Financial Statements

Note 1: Plan Description

General Information

The Arkansas State Police Retirement System (a.k.a. the “System” and/or “ASPRS”) is a single employer, defined benefit pension plan that was established on March 19, 1951 with the passage of Act 311 of 1951. The System provides for the retirement of police officers employed by the Arkansas State Police. The laws governing operations of ASPRS are set forth in Arkansas Code of 1987 Annotated, Title 24, Chapters 2 and 6. Act 1071 of 1997 created a Tier II benefit plan for all police officers hired on or after April 3, 1997.

Effective July 1, 2009, Act 1242 of 2009 transferred the assets of ASPRS to the Arkansas Public Employees Retirement System (“APERS”) to hold in trust for ASPRS, as well as changed the composition of the ASPRS Board of Trustees. The Act also created a DROP for Tier II members. The Board of Trustees for ASPRS consists of seven trustees, which are listed on page 12 of this report. Arkansas Code 24-6-204 states that the Board of Trustees shall have one active member enrolled in the Tier I benefits program, one active vested member enrolled in the Tier II benefits program, one state police commissioner who shall be appointed by the Governor, the Chief Fiscal Officer of the State or his/her designee, and three citizens at large who shall be appointed by the Governor. Act 1242 of 2009 also states that the State Police Trust Fund shall not be treated as segregated funds but shall be commingled with the assets of APERS strictly for investment purposes, and the assets of ASPRS and APERS shall be invested as determined by the APERS Board of Trustees.

Membership

As of June 30, 2013 and 2012, membership was as follows:

	2013	2012
Retirees and beneficiaries receiving benefits	598	580
Terminated plan members entitled to but not yet receiving benefits	63	54
DROP participants	61	63
Active plan members (excludes DROP participants)	464	471
	<u>1,186</u>	<u>1,168</u>

Contributions

Contribution provisions are established by state law and may be amended only by the Arkansas General Assembly. As of June 30, 2013 and 2012, there were no contributory members of ASPRS. Plan member contributions listed in the financial statements are related to service purchase payments. For fiscal year 2013, the employer contribution rate was 48.28% of salaries paid (A.C.A. 24-6-209).

Act 1071 of 1997 provides for a transfer from Insurance Premium Taxes to the State Police Retirement Fund. The State Police Retirement Fund received \$6.70 million of Act 1071 funds in FY 2013 and \$6.25 million in FY 2012. Additional funds are collected from motor vehicle title fees in accordance with Act 718 of 2011. In 2013, \$4.36 million in Act 718 funds were received.

Plan Administration

Costs of administering the plan are paid out of investment earnings.

Benefits

Benefit provisions are established by state law and may be amended only by the Arkansas General Assembly. Members are eligible for full retirement benefits (1) under the Tier I contributory plan at age 50 with five (5) years of actual service; (2) at any age in either Tier I or Tier II with 30 years of actual service; (3) under the Tier I non-contributory plan, at age 52 with at least five (5) actual years of State Police service; or (4) under the Tier II plan, at age 65 with at least 5 actual years of service. The normal retirement benefit, paid on a monthly basis, is determined based on: (1) the member's final average salary and (2) the number of years of service. Under the contributory plan, a member may retire with a reduced benefit after twenty (20) years of service, regardless of age. Under the non - contributory plan, a member may retire with a reduced benefit with at least five (5) years of actual service if the member is within ten (10) years of normal retirement age.

Increases after Retirement

Retirees will receive a 3% cost of living adjustment increase in their benefit each July 1st. Eligibility for the COLA requires being retired from July 1st for a full 12 months.

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2013, the most recent actuarial date, is as follows (dollar amounts in millions):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age AAL (b)	UAAL (b)-(a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/(c)]
6/30/13 @	\$ 233.15	\$ 361.46	\$ 128.31	64.5%	\$ 28.01	458.1%

@After changes in actuarial assumptions or methods.

Actuarial accrued liabilities (AAL) are those future periodic payments including lump sum distributions that are attributable to the service employees have rendered to date and the plan provisions of the System. The present value of actuarial accrued liabilities is calculated based on the entry age actuarial cost method with benefits based on projected salary increases. The Actuarial Section, which starts on page 61, provides greater detail and information.

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

Actuarial Assumptions and Methods

The Board engages an independent firm of actuaries to estimate the present value of actuarial accrued liability and the pension benefit obligations for the purpose of determining required reserves for current and terminated participants, retired individuals and beneficiaries, and for the determination of employer contribution rates. Actuarial assumptions and methods utilized in the latest actuarial valuation are listed below.

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Percent-of-Payroll
Remaining Amortization Period	26-year closed
Asset Valuation Method	4-year smoothed market
Actuarial Assumptions:	
Investment Rate of Return	8.00%
Projected Salary Increases	4.0% - 11.0%
Including Wage Inflation at	4.00%
Cost-of-Living Adjustments	3.0% Annual compound increases

Note 2: Summary of Significant Accounting Policies

The following are the significant accounting policies followed by the retirement system:

Basis of Accounting

System accounts and records are maintained using fund accounting principles, and the financial statements are prepared using the accrual basis of accounting. Contributions and other revenues are recorded in the accounting period in which they are earned, and expenses are recognized when due and payable in accordance with the terms of the system.

Estimates

Preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to apply certain estimates and methods that affect the reported value of assets held in trust. Actual results could differ from estimates made by management.

Cash and Cash Equivalents

Cash and cash equivalents include demand accounts, imprest accounts, cash in state treasury, and short-term investment funds (STIF). The STIF accounts are created through daily sweeps of excess cash by the System's custodial bank into bank-sponsored comingled funds that are invested in US Government and agency securities and other short-term investments. The STIF accounts had an average weighted maturity of 90 days or less, and are stated at fair value.

Note 3: Deposits and Investment Risk Disclosures

Act 1242 of 2009 merged the investable assets of ASPRS with those of the Arkansas Public Employees Retirement System ("APERS"). All authority over investment of the merged assets was granted to the APERS Board of Trustees. Investment schedules reflect the market values accrued to each system.

Investments

Arkansas Code Annotated §24-2-601 thru §24-2-619 authorizes the Board of Trustees of the Arkansas Public Employees Retirement System to have full power to invest and reinvest monies of the system and to hold, purchase, sell, assign, transfer or dispose of any of the investments, or proceeds of the investment in accordance with the prudent investor rule. Security transactions and any resulting gains or losses are accounted for on a trade basis. Net investment income includes net appreciation in the fair value of investments, interest income, dividend income and total investment expense, which includes investment management and custodial fees and all other significant investment related costs.

Arkansas Code §24-2-608 also states the system shall seek to invest not less than five percent (5%) nor more than ten percent (10%) of the System's portfolio in Arkansas related investments. APERS recognizes a legal responsibility to seek to invest in the Arkansas economy, while realizing its primary, legal, and fiduciary commitment is to beneficiaries of the retirement system, as the Code does state that "Nothing in this section shall in any way limit or impair the responsibility of a fiduciary to invest in accordance with the prudent investor rule set forth in §24-2-610."

The following presents the fair value of investments, by type, as of June 30, 2013:

Statement of Invested Assets

Security Type	Fair Value*
Government Securities	
US Government Securities	\$ 107,055,728
Agency Debentures	10,328,570
Agency CMO	1,124,842
Agency Pooled Securities	128,402,061
Corporate Securities	
Collateralized Obligations	172,821,709
Convertible Bonds	176,656,875
Corporate Bonds	509,669,452
High Yield Income Fund	57,756,956
Common Stock	2,110,885,071
Conv Pref Stock	40,884,375
Equity Index funds	570,758,268
Equity - Commingled	67,088,842
International Securities	
Emerging Markets	27,110,423
Emerging Markets - Collateralized Obligations	243,527
Global - Collateralized Obligations	5,676,810
Global Corporate Fixed	37,390,972
Global Government Fixed	11,155,432
Global Equity	740,908,655
Global Equity Index Funds	306,775,026
Global Commingled	631,933,774
Forward Contracts	813,939
Futures	655,730
Diversified Strategies	225,134,037
Interest Rate Swaps	4,388
Real Estate Commingled	268,846,113
Timberland	212,132,582
Commercial Loans	22,342,987
Municipal Bonds	5,351,527
	<u>6,449,908,671</u>
Securities Lending Collateral	
Repurchase Agreements	136,688,623
US Agencies	11,499,653
Asset Backed Floating Rate Notes	109,488,095
Corporate Floating Rate Notes	301,337,424
Commercial Paper	72,921,535
Certificates of Deposit	44,598,800
Time Deposits	98,168,000
	<u>774,702,130</u>
	<u>\$ 7,224,610,801</u>

* Principal only, figures are ASPRS and APERS combined. Totals may not add due to rounding.

Asset allocation guidelines have been established as follows:

Asset Allocation	Target	Lower and Upper Limit
Equities	37%	32% - 42%
International Equities	24%	19% - 29%
Fixed Income	18%	13% - 23%
Diversified Strategies	5%	0% - 10%
Real Assets	16%	11% - 21%

Investments are reported at fair value as determined by the custodian bank. The custodian bank's determination of fair values includes, among other things, using pricing services or quotes by major independent brokers at current exchange rates, as available. The schedule on page 32 reflects the fair value of investments.

Custodial Credit Risk – Investments – Custodial credit risk for investments is the risk that in the event of failure of the counterparty to a transaction, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the System's name. Arkansas Code §24-2-606 does address the custodianship of assets, and the Investment Policy states that "The custodian bank shall, by nominee agreement, hold any and all securities for the beneficial interest of the APERS fund." As of June 30, 2013, there were no investments exposed to custodial credit risk.

Deposits

Deposits are carried at cost and are included in "Cash and Cash Equivalents". Cash and cash equivalents include demand accounts, cash in state treasury and short-term investment funds (STIF). As of June 30, 2013, these totals were \$8,197, \$52,909, and \$13,315,517 respectively. State Treasury Management Law governs the management of funds held in the State Treasury (Cash in State Treasury) and it is the responsibility of the Treasurer of State to ensure the 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 financial institution, the System will not be able to recover deposits or collateral securities. The System's deposit policy is to place deposits only in collateralized or insured accounts. As of June 30, 2013, the System did not have any exposure to custodial credit risk. The foreign currency balance of \$169,561 was subject to custodial credit risk.

Credit Risk – Credit risk of investments is the risk that the issuer or other counterparty will not fulfill its obligation to the holder of the investment. Credit risk exposure is dictated by each investment manager's agreement. This credit risk is measured by the credit quality of investment in debt securities as described by nationally recognized statistical rating organizations. Each portfolio is managed in accordance with investment guidelines that are specific as to permissible credit quality ranges, exposure levels within individual security quality rating tiers, and/or the average credit quality of the overall portfolio.

The System's exposure to credit risk as of June 30, 2013, was as follows:

Moody's Credit Rating Dispersion Detail by Credit Rating

Investment Type and Fair Value	Aaa	Aa	A
Government Securities			
US Government Securities	\$ 107,055,728	0	0
Agency Debentures	10,328,570	0	0
Agency CMO	1,124,842	0	0
Agency Pooled Securities	128,402,061	0	0
Corporate Securities			
Collateralized Obligations	82,498,210	7,354,817	11,100,257
Convertible Bonds	0	0	5,078,405
High Yield Income Fund	0	0	0
Corporate Bonds	1,277,780	4,881,539	89,068,815
International Securities			
Emerging Markets	0	816,197	3,361,781
Emerging Markets - Collateralized Obligations	0	0	0
Global - Collateralized Obligations	4,748,515	0	0
Global Corporate Fixed	0	635,830	5,153,025
Global Government Fixed	0	347,507	0
Commercial Loans	0	0	0
Municipal Bonds	244,097	1,720,275	3,387,155
	<u>335,679,803</u>	<u>15,756,165</u>	<u>117,149,438</u>
Securities Lending Collateral	\$ 105,295,171	224,297,720	292,941,459

S&P's Credit Rating Dispersion Detail by Credit Rating

Investment Type and Fair Value	AAA	AA	A
Government Securities			
US Government Securities	\$ 0	107,055,728	0
Agency Debentures	0	10,328,570	0
Agency CMO	0	1,124,842	0
Agency Pooled Securities	0	128,402,061	0
Corporate Securities			
Collateralized Obligations	79,725,178	19,400,234	25,276,389
Convertible Bonds	0	0	21,421,409
High Yield Income Fund	0	0	0
Corporate Bonds	0	12,825,724	124,404,633
International Securities			
Emerging Markets	0	607,010	2,935,626
Emerging Markets - Collateralized Obligations	0	0	0
Global - Collateralized Obligations	1,350,568	3,397,947	928,295
Global Corporate Fixed	0	979,762	5,512,436
Global Government Fixed	0	347,508	0
Commercial Loans	0	0	0
Municipal Bonds	244,097	1,313,757	3,793,673
	<u>81,319,843</u>	<u>285,783,143</u>	<u>184,272,461</u>
Securities Lending Collateral	\$ 69,239,345	221,579,046	306,946,366

* Principal only. Figures are APERS and ASPRS combined. Totals may not add due to rounding.

Baa	Ba	B	C or below	NR	Fair Value*
0	0	0	0	0	\$ 107,055,728
0	0	0	0	0	10,328,570
0	0	0	0	0	1,124,842
0	0	0	0	0	128,402,061

9,638,425	7,926,973	6,570,796	9,498,427	38,233,804	172,821,709
9,500,869	14,110,504	18,910,391	0	129,056,706	176,656,875
0	0	57,756,956	0	0	57,756,956
279,015,524	90,707,981	39,807,300	3,912,645	997,868	509,669,452

16,108,280	4,374,398	1,418,517	0	1,031,250	27,110,423
243,527	0	0	0	0	243,527
928,295	0	0	0	0	5,676,810
16,859,837	8,887,803	5,490,956	0	363,521	37,390,972
5,391,247	4,072,065	0	125,937	1,218,676	11,155,432
182,832	871,875	17,387,643	3,424,145	476,492	22,342,987
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,351,527</u>
<u>337,868,836</u>	<u>130,951,599</u>	<u>147,342,559</u>	<u>16,961,154</u>	<u>171,378,317</u>	<u>1,273,087,871</u>
0	0	0	6,399,132	145,768,648	\$ 774,702,130

BBB	BB	B	CCC or below	NR	Fair Value*
0	0	0	0	0	\$ 107,055,728
0	0	0	0	0	10,328,570
0	0	0	0	0	1,124,842
0	0	0	0	0	128,402,061

18,619,987	5,503,265	397,935	9,321,986	14,576,735	172,821,709
32,130,250	39,017,916	26,753,580	3,776,285	53,557,435	176,656,875
0	57,756,956	0	0	0	57,756,956
223,044,636	98,547,066	36,619,095	2,159,101	12,069,197	509,669,452

13,066,475	6,241,921	457,892	0	3,801,499	27,110,423
243,527	0	0	0	0	243,527
0	0	0	0	0	5,676,810
20,889,816	3,901,150	4,485,266	0	1,622,542	37,390,972
4,559,959	2,759,313	411,592	0	3,077,060	11,155,432
0	182,832	3,504,147	2,267,084	16,388,924	22,342,987
<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>5,351,527</u>
<u>312,554,650</u>	<u>213,910,419</u>	<u>72,629,507</u>	<u>17,524,456</u>	<u>105,093,392</u>	<u>1,273,087,871</u>
0	6,119,863	0	6,399,132	164,418,378	\$ 774,702,130

Concentration of Credit Risk – The concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer (not including investments issued or guaranteed by the U.S. government, investments in mutual funds or external investment pools). The System does have a formal investment policy for concentration of credit risk. None of the System's investments in any one issuer (other than those issued or guaranteed by the U.S. Government) represented more than five percent (5%) of total investments.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. Investments can be highly sensitive to changes in interest rates due to their terms or characteristics. Interest rate risk is the greatest risk faced by an investor in the debt securities market since the price of a debt security will often move in the opposite direction of the change in interest rates.

The System's external fixed income investment managers use the measurement of effective duration to mitigate the interest rate risk of the fixed income investments. Each fixed income investment manager monitors and reports the effective duration on a monthly basis. The effective duration of the investment portfolio is required to be +/- 10% of the benchmark's duration. The benchmark for the U.S. fixed income markets is the Barclays Capital U.S. Aggregate Bond Index. As of June 30, 2013, the System had the following debt security investments and maturities:

Investment Type	Fair Value*	Investment Maturities (In Years)			
		Less than 1	1 - 5	6 - 10	More than 10
Government Securities					
US Government Securities	\$ 107,055,728	\$ 0	\$ 33,374,420	\$ 28,720,931	\$ 44,960,377
Agency Debentures	10,328,570	0	7,820,648	2,507,922	0
Agency CMO	1,124,842	0	172,272	952,570	0
Agency Pooled Securities	128,402,061	1,222,317	2,514,072	3,786,124	120,879,548
Corporate Securities					
Collateralized Obligations	172,821,709	64,257,745	1,617,525	2,486,634	104,459,805
Convertible Bonds	176,656,875	33,662,885	82,377,075	10,677,911	49,939,004
Corporate Bonds	509,669,452	14,025,223	192,105,563	190,112,751	113,425,915
High Yield Income Fund	57,756,956	0	57,756,956	0	0
International Securities					
Emerging Markets	27,110,423	371,495	10,571,707	9,840,230	6,326,991
Emerging Markets - Coll. Obligations	243,527	0	243,527	0	0
Global - Collateralized Obligations	5,676,810	5,676,810	0	0	0
Global Corporate Fixed	37,390,972	0	10,030,055	14,474,045	12,886,872
Global Government Fixed	11,155,432	0	7,410,700	1,644,993	2,099,739
Commercial Loans	22,342,987	0	22,157,229	185,758	0
Municipal Bonds	5,351,527	0	270,710	5,080,817	0
	<u>\$ 1,273,087,871</u>	<u>\$ 119,216,475</u>	<u>\$ 428,422,459</u>	<u>\$ 270,470,686</u>	<u>\$ 454,978,251</u>
Securities Lending Collateral					
Repurchase Agreements	136,688,623	136,688,623	0	0	0
US Agency Securities	11,499,653	11,499,653	0	0	0
Asset Backed Floating Rate Notes	109,488,095	49,487,044	53,601,919	0	6,399,132
Corporate Floating Rate Notes	301,337,424	178,554,721	122,782,703	0	0
Commercial Paper	72,921,535	72,921,535	0	0	0
Certificates of Deposit	44,598,800	44,598,800	0	0	0
Time Deposits	98,168,000	98,168,000	0	0	0
	<u>\$ 774,702,130</u>	<u>\$ 591,918,376</u>	<u>\$ 176,384,622</u>	<u>\$ 0</u>	<u>\$ 6,399,132</u>

*Principal only. Figures are APERS and ASPRS combined. Totals may not add due to rounding.

Foreign Currency Risk – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The System's currency risk resides within the international equity investments, as well as within the fixed income investments and the fixed income managers. The System's policy is to allow the external investment managers to decide what action to take regarding their respective portfolio's foreign currency exposure using currency forward contracts. The System does have a formal investment policy for foreign currency risk which limits foreign currency exposure to 10% of the investment manager's respective portfolio.

The System's exposure to foreign currency risk on June 30, 2013, was as follows:

Foreign Currency Risk

Currency	%	Fair Value*	Fixed Income	Equities	Cash	Forward Contracts
Australian Dollar	3.84%	\$ 28,440,671	0	28,077,903	3,173	359,595
Brazilian Real	0.46	3,437,618	0	2,527,969	0	909,649
British Pound Sterling	27.72	205,326,043	3,350,532	203,462,820	240,802	(1,728,111)
Canadian Dollar	3.13	23,186,933	0	22,630,066	2,416	554,451
Chilean Peso	0.13	952,735	0	0	0	952,735
Chinese Yuan Renminbi	1.46	10,823,994	0	10,047,011	0	776,983
Columbian Peso	0.08	562,770	0	0	0	562,770
Czech Koruna	0.00	(4,738)	0	0	0	(4,738)
Danish Krone	2.42	17,913,686	0	17,913,686	0	0
Euro Currency	31.52	233,517,900	20,899,902	218,139,760	4,215,030	(9,736,792)
Hong Kong Dollar	0.94	6,982,919	0	6,931,348	51,571	0
Hungarian Forint	(0.02)	(113,045)	0	0	0	(113,045)
Indian Ruphia	0.00	24,010	0	0	0	24,010
Japanese Yen	9.32	69,011,400	980,224	90,393,068	186,282	(22,548,174)
Malaysian Ringgit	0.05	380,998	0	0	0	380,998
Mexican New Peso	0.25	1,866,060	0	0	509	1,865,551
Norwegian Krone	2.58	19,101,940	0	16,977,854	0	2,124,086
New Zealand Dollar	0.19	1,441,951	0	0	0	1,441,951
Peru Neuvo Sol	0.00	(27,732)	316,227	0	0	(343,959)
Philippines Peso	0.02	154,847	350,049	0	0	(195,202)
Polish Zloty	0.05	379,229	0	0	0	379,229
Russian Rubel	0.66	4,861,777	0	4,816,720	0	45,057
Singapore Dollar	0.28	2,082,610	0	0	867	2,081,743
South African Rand	0.25	1,827,631	0	1,827,630	1	0
South Korean Won	0.90	6,637,066	0	6,256,325	0	380,741
Swedish Krone	3.04	22,530,918	0	20,276,174	66,145	2,188,599
Swiss Franc	10.47	77,543,435	0	77,543,435	0	0
Thailand Baht	0.26	1,930,222	0	1,778,348	151,874	0
	100.00%	<u>\$ 740,773,848</u>	<u>25,896,934</u>	<u>729,600,117</u>	<u>4,918,670</u>	<u>(19,641,873)</u>

*Principal only. Figures are APERS and ASPRS combined. Totals may not add due to rounding.

Mortgage-Backed Securities –The System does invest in mortgage-backed securities (MBS) which are reported at fair value in the *Statement of Plan Net Position*. MBS entitle their holders to receive both principal and interest payments from the payments made by the borrowers of the underlying mortgages over the lives of those loans. A MBS depends on the underlying pool or mortgage loans to provide cash flow to make principal and interest payments on the security. The life of a mortgage that underlies a MBS can be shortened by several economic events, including borrower refinancing. When interest rates decline and remain low, borrowers could refinance their existing loans which causes MBS holders to be repaid more quickly than originally anticipated, which is known as “prepayments.” Prepayments reduce the weighted average life of the security, and are a form of market risk assumed by the holders of MBS. Alternatively, when interest rates rise, the refinancing of existing mortgages slows. If interest rates remain high for long periods of time fewer borrowers refinance their mortgages. As a result MBS holders are repaid over longer periods of time, which is known as “extension risk.” Extension risk increases the weighted average life of the security and is another form of market risk assumed by holders of MBS.

A collateralized mortgage obligation (CMO) is a MBS that is comprised of classes of bonds created by prioritizing the cash flows of the underlying mortgage pool. This redistributes prepayment risk and/or credit risk among the various bond classes in the CMO structure. Income is derived from payments and prepayments of principal and interest generated from collateral mortgages. CMOs may be collateralized by whole-loan mortgages, mortgage pass-through securities, or stripped mortgage-backed securities.

The System does invest in MBS and CMO for diversification and to enhance fixed income returns. MBS are subject to credit risk, the risk that the borrower will be unable to meet its obligations. They are also subject to prepayment risk, which is the risk that a payment will be made in excess of the regularly scheduled principal payment. Prepayment risk is comprised of two risks: call risk, the risk that prepayments will increase when interest rates have declined, and extension risk, the risk that prepayments will decrease when interest rates have increased.

Asset-Backed Securities – Asset-Backed Securities (ABS) are bonds or notes backed by loan paper or accounts receivable originated by banks, credit card companies, or other credit providers. The originator of the loan or accounts receivable paper sells it to a specially created trust, which repackages it as securities. Similar to CMOs, asset-backed securities have been structured as pass-through securities and as structures with multiple bond classes. The System’s ability to recover the amount of principal invested in these securities depends on the performance and quality of the trust assets.

Corporate Bonds – Corporate bonds are a debt security issued by a corporation. The backing for the bond is usually the payment ability of the company, which is typically money to be earned from future operations. In some cases, the company’s physical assets may be used as collateral for bonds. They usually have a fixed 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.

Convertible Corporate Bonds – Convertible bonds convey an option to the bondholders to be exchanged for another asset, generally a fixed number of shares of common stock at a pre-stated price.

Pooled Funds - The System could be indirectly exposed to credit and market risks associated with forward currency contracts to the extent that these pooled funds hold forward currency contracts for purposes of managing exposure to fluctuations in foreign exchange rates. APERS/ASPRS has approximately \$632 million invested in international pooled funds.

Securities Lending

Arkansas Code §24-2-602 and the Board of Trustees Investment Policy permits the System to participate in a securities lending program to augment investment income. The System lends its securities to brokers-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The System has entered into an agreement with BNY Mellon to act as agent for the System in securities lending transactions. BNY Mellon serves as the “Custodian” for the System, and therefore they are the counterparty to securities lending transactions. The legal and contractual authorization for the securities lending program is contained in the Securities Lending Discretionary Agency Agreement executed between APERS and the Custodian.

Whoever borrows the securities provide collateral in the form of cash and cash equivalents, U.S. Treasury or Government Agency securities, or letters of credit (for the marginal percent collateralization only). U.S. securities are loaned versus collateral valued at 102.97% of the market value of the securities plus any accrued interest for domestic loans. Non-U.S. securities are loaned versus collateral valued at 105.38% of the market value of the securities plus any accrued interest. Collateral is marked-to-market daily if price movements exceed certain minimal thresholds.

The Custodian provides for full indemnification to the System funds for any losses that might occur in the program due to the failure of a broker to return a security that was borrowed (and if the collateral is inadequate to replace the securities lent) or failure to pay the trust funds for income of the securities while on loan. The System cannot pledge or sell collateral securities received unless the borrower defaults. Cash collateral received is invested in APERS’ name; accordingly, investments made with cash collateral appear as an asset on the *Statement of Plan Net Position*. A corresponding liability is recorded as APERS must return the cash collateral to the borrower upon expiration of the loan. The loan maturity dates generally do not match the maturity dates of the investments made with cash collateral received.

As of June 30, 2013, the cash collateral investments had an average weighted maturity of 25 days, whereas the weighted average loan maturity was 1 day(s). Investments with cash collateral were approximately \$774.7 million.

Derivative Instruments

The System does adhere to GASB Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments,” which addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments.

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, and forward foreign currency exchange. APERS, through its external investment managers, could hold such instruments. The external investment managers may enter these certain investments on behalf of APERS, primarily to enhance the performance and reduce the volatility of its portfolio. The external investment managers could enter into swaps and futures contracts to gain or hedge exposure to certain markets and to manage interest rate risk and they use forward foreign exchange contracts primarily to hedge foreign currency exposure. APERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts. APERS’ external investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, and exposure monitoring procedures. APERS’ external investment managers anticipate that the counterparties will be able to satisfy their obligations under the contracts. Investments in limited partnerships and commingled funds may include derivatives that are not shown in any derivative totals.

The external investment managers do invest in mortgage-backed securities which are reported at fair value in the *Statement of Plan Net Position*, and are based on the cash flows from interest and principal payments by the underlying mortgages. Therefore, they are sensitive to prepayments by mortgages which are likely in a declining interest rate environment, therefore reducing the value of the securities. The external investment managers invest in mortgage-backed securities to diversify APERS’ portfolio and increase return while minimizing the extent of risk.

Swaps - APERS’ investment managers have entered into various swap including, but not limited to, interest rate swaps, credit default swaps, and foreign currency swaps. Interest Rate Swaps are the exchange of one set of cash flows based on interest rate specifications, for another, based on a specified principal amount, over a period in the future. Interest Rate Swaps typically exchange a fixed payment for a floating payment. The floating payment is usually the London Interbank Offering Rate (LIBOR). In the most common interest rate swap arrangement, one party agrees to pay fixed interest rate payments on designated dates to a counterparty who, in turn, agrees to make return interest rate payments that float with a specified reference rate. Long swap positions (receive fixed) increase exposure to long-term interest rates, and, short positions (pay fixed) decrease interest rate/risk exposure. A credit default swap is a contract whereby the credit risk associated with an investment is transferred by entering into an agreement with another party, who in exchange for periodic fees, agrees to make payments in the event of a default or predetermined credit event. A foreign currency swap is an agreement to swap principal and interest payments on a loan made in one currency for principal and interest payments of a loan of equal value in another currency.

The System had the following credit default swaps at June 30, 2013:

Credit Default Swaps					
Country/Currency	Description	Counterparty	Counterparty Credit Rating	Exposure	Pay/Receive
European Union Euro	ITRAXX.EUR.18.V1	Barclays Bank, PLC	A1-/A/A	\$ (8,545,574)	Pay Fixed/Receive Float
U.S. Dollar	CDX/NA.IG.19.V1	Citigroup Inc.	NR/A-/A	(23,241,955)	Pay Fixed/Receive Float
European Union Euro	ITRAXX.EUR.18.V1	Deutsche Bank AG	Aa3/A+/A+	(8,545,574)	Pay Fixed/Receive Float
				<u>\$ (40,333,102)</u>	

On the next page, the System had the following interest rate swaps at June 30, 2013:

Interest Rate Swaps

Country/Currency	Description	Counterparty	Counterparty Credit Rating	Exposure	Pay/Receive
European Union Euro	EUR 2.065% 12/13/2027	Barclays Bank, PLC	A1-/A/A	\$ (617,520)	Pay Fixed/Receive Float
U.S. Dollar	USD 0.5025% 01/25/2016	Citigroup Inc.	NR/A-/A	(3,461,611)	Pay Fixed/Receive Float
U.S. Dollar	USD 0.750950 08/31/2017	Bank of Nova Scotia	Aa1/A+/AA-	(5,271,242)	Pay Fixed/Receive Float
U.S. Dollar	USD 0.974690 08/31/2016	JPMorgan Chase & Co.	Aa3/A/A+	(5,263,279)	Pay Fixed/Receive Float
U.S. Dollar	USD 0.978190% 08/31/2016	JPMorgan Chase & Co.	Aa3/A/A+	(5,263,916)	Pay Fixed/Receive Float
U.S. Dollar	USD 0.986 04/18/2018	Citigroup Inc.	NR/A-/A	(165,331)	Pay Fixed/Receive Float
U.S. Dollar	USD 1.106970% 11/30/2017	Barclays Bank, PLC	A1-/A/A	(9,137,140)	Pay Fixed/Receive Float
U.S. Dollar	USD 1.17 11/30/2017	Credit Suisse Group AG	NR/A/A	(7,551,609)	Pay Fixed/Receive Float
U.S. Dollar	USD 1.334390 11/15/2019	Citigroup Inc.	NR/A-/A	(13,084,709)	Pay Fixed/Receive Float
U.S. Dollar	USD 1.417120 11/30/2017	Citigroup Inc.	NR/A-/A	(9,309,312)	Pay Fixed/Receive Float
U.S. Dollar	USD 1.418290 11/30/2017	Barclays Bank, PLC	A1-/A/A	(9,229,844)	Pay Fixed/Receive Float
U.S. Dollar	USD 1.4375% 04/19/2020	Goldman Sachs Group	A1-/A-/A	(552,710)	Pay Fixed/Receive Float
U.S. Dollar	USD 1.441% 04/19/2020	Citigroup Inc.	NR/A-/A	(390,805)	Pay Fixed/Receive Float
U.S. Dollar	USD 2.20% 12/13/2027	Barclays Bank, PLC	A1-/A/A	561,054	Pay Fixed/Receive Float
European Union Euro	EUR-USD 3M Euribor 01/25/2015	Barclays Bank, PLC	A1-/A/A	(7,396,147)	Pay Float
Australian Dollar	AUD 2.82% 12/31/2013	Barclays Bank, PLC	A1-/A/A	3,663,372	Pay Float/Receive Fixed
Australian Dollar	AUD 4.42% 12/19/2032	Barclays Bank, PLC	A1-/A/A	205,844	Pay Float/Receive Fixed
Australian Dollar	AUD 4.42% 12/20/2032	Citigroup Inc.	NR/A-/A	268,373	Pay Float/Receive Fixed
Brazilian Real	BRL DI OIS Jan 2014	Barclays Bank, PLC	A1-/A/A	1,743,573	Pay Float/Receive Fixed
Brazilian Real	BRL DI OIS Jan 2017	Barclays Bank, PLC	A1-/A/A	1,052,924	Pay Float/Receive Fixed
Brazilian Real	BRL DI OIS Jan 2017	Citigroup Inc.	NR/A-/A	653,653	Pay Float/Receive Fixed
Canadian Dollar	CAD 1.32225% 06/13/2014	Bank of Nova Scotia	Aa1/A+/AA-	4,483,082	Pay Float/Receive Fixed
Chilean Peso	CLP OIS 4.70% 07/23/2013	Barclays Bank, PLC	A1-/A/A	1,822,374	Pay Float/Receive Fixed
Chinese Yuan Renminbi	CNH 3.12% 10/26/2013	Deutsche Bank AG	Aa3/A+/A+	1,957,911	Pay Float/Receive Fixed
Columbian Peso	COP 4.74% 07/24/2013	JPMorgan Chase & Co.	Aa3/A/A+	1,774,946	Pay Float/Receive Fixed
Czech Koruna	CZK 0.62% 09/14/2013	Barclays Bank, PLC	A1-/A/A	2,514,965	Pay Float/Receive Fixed
European Union Euro	EUR 0.349% 12/14/2014	Citigroup Inc.	NR/A-/A	(5,455,604)	Pay Float/Receive Fixed
European Union Euro	EUR 0.695% 01/25/2016	Citigroup Inc.	NR/A-/A	3,760,482	Pay Float/Receive Fixed
Hungarian Forint	HUF 3.88% 05/17/2014	Citigroup Inc.	NR/A-/A	2,196,588	Pay Float/Receive Fixed
Hungarian Forint	HUF 6.10% 10/15/2013	Barclays Bank, PLC	A1-/A/A	2,060,544	Pay Float/Receive Fixed
Indian Rupee	INR 7.00% 05/03/2023	Barclays Bank, PLC	A1-/A/A	570,322	Pay Float/Receive Fixed
Japanese Yen	JPY 0.42% 04/18/2018	HSBC Holdings PLC	NR/A+/AA-	401,323	Pay Float/Receive Fixed
Japanese Yen	JPY 0.52% 04/19/2020	Goldman Sachs Group	A1-/A-/A	1,440,528	Pay Float/Receive Fixed
Japanese Yen	JPY 0.5625% 04/19/2020	Citigroup Inc.	NR/A-/A	1,096,176	Pay Float/Receive Fixed
Japanese Yen	JPY 0.689% 05/21/2020	Credit Suisse Group AG	NR/A/A	3,114,796	Pay Float/Receive Fixed
Japanese Yen	JPY 0.70% 05/20/2020	Credit Suisse Group AG	NR/A/A	753,946	Pay Float/Receive Fixed
Japanese Yen	JPY 0.785% 04/16/2023	Citigroup Inc.	NR/A-/A	541,016	Pay Float/Receive Fixed
Malaysian Ringgit	MYR 2.965% 07/23/2013	HSBC Holdings PLC	NR/A+/AA-	1,929,469	Pay Float/Receive Fixed
Mexican Peso	MXN 5.09% 12/02/2015	JPMorgan Chase & Co.	Aa3/A/A+	849,178	Pay Float/Receive Fixed
Mexican Peso	MXN 5.10% 04/28/2023	Barclays Bank, PLC	A1-/A/A	828,944	Pay Float/Receive Fixed
Mexican Peso	MXN 5.48% 07/05/2013	Barclays Bank, PLC	A1-/A/A	2,328,278	Pay Float/Receive Fixed
Mexican Peso	MXN 6.02% 06/20/2018	Credit Suisse Group AG	NR/A/A	1,106,180	Pay Float/Receive Fixed
Mexican Peso	MXN 6.37 05/25/2022	Barclays Bank, PLC	A1-/A/A	989,769	Pay Float/Receive Fixed
New Zealand Dollar	NZD 2.70 04/29/2014	Barclays Bank, PLC	A1-/A/A	1,543,932	Pay Float/Receive Fixed
New Zealand Dollar	NZD 3.79% 09/25/2022	Citigroup Inc.	NR/A-/A	259,630	Pay Float/Receive Fixed
New Zealand Dollar	NZD 3.81% 03/26/2017	HSBC Holdings PLC	NR/A+/AA-	494,269	Pay Float/Receive Fixed
New Zealand Dollar	NZD 4.1725% 08/18/2016	Citigroup Inc.	NR/A-/A	1,594,623	Pay Float/Receive Fixed
Norwegian Krone	NOK 1.96% 01/31/2014	Deutsche Bank AG	Aa3/A+/A+	3,625,075	Pay Float/Receive Fixed
Norwegian Krone	NOK 2.255 08/30/2013	Barclays Bank, PLC	A1-/A/A	1,094,104	Pay Float/Receive Fixed
Polish Zloty	PLN 3.12% 01/15/2014	Barclays Bank, PLC	A1-/A/A	1,503,305	Pay Float/Receive Fixed
Polish Zloty	PLN 3.49% 01/31/2014	Barclays Bank, PLC	A1-/A/A	912,620	Pay Float/Receive Fixed
Polish Zloty	PLN 3.726% 06/28/2018	Citigroup Inc.	NR/A-/A	1,796,339	Pay Float/Receive Fixed
Russian Ruble	RUB 7.25% 05/20/2023	Credit Suisse Group AG	NR/A/A	516,717	Pay Float/Receive Fixed
Russian Ruble	RUB 7.25% 05/17/2023	Credit Suisse Group AG	NR/A/A	516,770	Pay Float/Receive Fixed
Singapore Dollar	SGD 0.38% 03/28/2014	HSBC Holdings PLC	NR/A+/AA-	5,752,265	Pay Float/Receive Fixed
South African Rand	ZAR 7.42% 06/25/2018	Barclays Bank, PLC	A1-/A/A	1,223,297	Pay Float/Receive Fixed
South Korean Won	KRW 2.8575% 07/20/2013	HSBC Holdings PLC	NR/A+/AA-	1,926,695	Pay Float/Receive Fixed
Thailand Baht	THB 2.765% 07/23/2013	HSBC Holdings PLC	NR/A+/AA-	1,971,084	Pay Float/Receive Fixed
U.S. Dollar	USD 0.351% 12/14/2014	Citigroup Inc.	NR/A-/A	4,620,959	Pay Float/Receive Fixed
U.S. Dollar	USD 0.654260% 06/07/2016	JPMorgan Chase & Co.	Aa3/A/A+	10,562,085	Pay Float/Receive Fixed
U.S. Dollar	USD 0.93387% 08/31/2016	Credit Suisse Group AG	NR/A/A	16,898,124	Pay Float/Receive Fixed
U.S. Dollar	USD 1.442450% 11/15/2019	Credit Suisse Group AG	NR/A/A	3,635,796	Pay Float/Receive Fixed
U.S. Dollar	USD 1.498940% 11/15/2019	Citigroup Inc.	NR/A-/A	5,351,841	Pay Float/Receive Fixed
				<u>\$ 28,318,357</u>	

Totals may not add due to rounding. Figures are ASPRS and APERS combined.

The System had the following foreign currency swaps at June 30, 2013:

Country/Currency	Pay/Receive	Description	Maturity Date	Counterparty	Counterparty Credit Rating	Exposure
European Union Euro	Pay Float	EUR-USD Basis 3M Euribor -30.5bps	12/4/2014	Barclays Bank PLC	A1-/A/A	\$ (443,446)
European Union Euro	Pay Float	EUR-USD Basis 3M Euribor -25.75bps	1/17/2015	HSBC Holdings PLC	NR/A+/Aa-	\$ (156,675)
European Union Euro	Pay Float	EUR-USD Basis 3M Euribor -26bps	1/25/2015	Citigroup Inc.	NR/A-/A	\$ (6,181,794)
European Union Euro	Pay Float	EUR-USD Basis 3M Euribor -26bps	1/25/2015	HSBC Holdings PLC	NR/A+/Aa-	\$ (3,002,772)
Japanese Yen	Pay Float	JPY-USD 3M JPY LIBOR -32.75bps	5/2/2015	Citigroup Inc.	NR/A-/A	\$ (174,716)
Japanese Yen	Pay Fixed	JPY-USD 4.50% 06/08/2015	6/8/2015	Citigroup Inc.	NR/A-/A	\$ (214,363)
Japanese Yen	Pay Fixed	JPY-USD 4.50% 06/08/2015	6/8/2015	Citigroup Inc.	NR/A-/A	\$ (165,930)
Japanese Yen	Pay Fixed	JPY-USD Basis 3M JPY Libor -54bps	10/12/2016	Barclays Bank PLC	A1-/A/A	\$ (101,483)
Japanese Yen	Pay Fixed	JPY-USD 3.45 03/24/2017	3/24/2017	Citigroup Inc.	NR/A-/A	\$ (235,738)
European Union Euro	Pay Float	EUR-USD Basis 3M Euribor -31.75bps	9/27/2017	HSBC Holdings PLC	NR/A+/Aa-	\$ (327,882)
						<u>\$ (11,004,800)</u>

Country/Currency	Pay/Receive	Description	Maturity Date	Counterparty	Counterparty Credit Rating	Exposure
U.S. Dollar	Receive Float	EUR-USD Basis 3M Euribor -30.5bps	12/4/2014	Barclays Bank PLC	A1-/A/A	\$ 441,651
U.S. Dollar	Receive Float	EUR-USD Basis 3M Euribor -25.75bps	1/17/2015	HSBC Holdings PLC	NR/A+/Aa-	\$ 160,062
U.S. Dollar	Receive Float	EUR-USD Basis 3M Euribor -26bps	1/25/2015	Citigroup Inc.	NR/A-/A	\$ 7,552,221
U.S. Dollar	Receive Float	EUR-USD Basis 3M Euribor -26bps	1/25/2015	HSBC Holdings PLC	NR/A+/Aa-	\$ 6,303,621
U.S. Dollar	Receive Float	EUR-USD Basis 3M Euribor -26bps	1/25/2015	HSBC Holdings PLC	NR/A+/Aa-	\$ 3,053,894
U.S. Dollar	Receive Float	JPY-USD 3M JPY LIBOR -32.75bps	5/2/2015	Citigroup Inc.	NR/A-/A	\$ 175,105
U.S. Dollar	Receive Float	JPY-USD 4.50% 06/08/2015	6/8/2015	Citigroup Inc.	NR/A-/A	\$ 281,988
U.S. Dollar	Receive Float	JPY-USD 4.50% 06/08/2015	6/8/2015	Citigroup Inc.	NR/A-/A	\$ 204,993
U.S. Dollar	Received Fixed	JPY-USD Basis 3M JPY Libor -54bps	10/12/2016	Barclays Bank PLC	A1-/A/A	\$ 100,448
U.S. Dollar	Receive Float	JPY-USD 3.45 03/24/2017	3/24/2017	Citigroup Inc.	NR/A-/A	\$ 296,390
U.S. Dollar	Receive Float	EUR-USD Basis 3M Euribor -31.75bps	9/27/2017	HSBC Holdings PLC	NR/A+/Aa-	\$ 321,523
						<u>\$ 18,891,896</u>
						<u>\$ 7,887,095</u>

Foreign Currency Forward Contracts – A foreign currency forward is a contractual agreement between two parties to pay or receive specific amounts of foreign currency at a future date in exchange for another currency at an agreed upon exchange rate. Forward commitments are not standardized and carry credit risk due to the possible nonperformance by one of the counterparties. The maximum potential loss is the aggregate face value in U.S. dollars at the time the contract was opened. These transactions are entered into in order to hedge risks from exposure to foreign currency rate fluctuation and to facilitate trade settlement of foreign security transactions. Forwards carry foreign currency risk resulting from adverse fluctuations in foreign exchange rates.

On the next page, the System had the following foreign currency forwards at June 30, 2013:

Foreign Currency Forward Contracts

	Pay/Receive	Payable Market Value	Receivable Market Value	Receivable Unrealized Gain/ (Loss)
Australian Dollar	USD/AUD	\$ (10,188,437)	\$ 9,384,727	\$ (803,710)
Brazilian Real	USD/BRL	(911,000)	909,649	(1,351)
British Pound	USD/GBP	(3,861,300)	3,813,183	(48,117)
Canadian Dollar	USD/CAD	(7,022,662)	6,841,876	(180,786)
Chilean Peso	USD/CLP	(1,724,500)	1,701,405	(23,095)
Chinese Yuan Renminbi	USD/CNY	(2,915,700)	2,946,422	30,722
Columbian Peso	USD/COP	(567,800)	562,770	(5,030)
Czech Koruna	USD/CZK	(3,344,241)	3,297,306	(46,935)
European Union Euro	USD/EUR	(37,101,979)	3,664,997	(36,983)
Hungarian Forint	USD/HUF	(4,664,737)	4,695,038	30,300
Indian Rupee	USD/INR	(426,900)	414,303	(12,597)
Japanese Yen	USD/JPY	(6,243,201)	6,206,840	(36,365)
Malaysian Ringgit	USD/MYR	(381,200)	380,998	(202)
Mexican New Peso	USD/MXN	(8,314,453)	8,065,306	(249,147)
New Zealand Dollar	USD/NZD	(7,003,003)	6,603,433	(399,570)
Norwegian Krone	USD/NOK	(12,685,585)	12,176,631	(508,954)
Peruvian Nuevo Sol	USD/PEN	(311,100)	303,862	(7,238)
Philippine Peso	USD/PHP	(501,710)	499,692	(2,018)
Polish Zloty	USD/PLN	(4,823,670)	4,615,189	(208,481)
Russian Ruble	USD/RUB	(1,010,100)	978,181	(31,919)
Singapore Dollar	USD/SGD	(11,514,196)	11,277,821	(236,374)
Swedish Krona	USD/SEK	(9,938,885)	9,690,036	(248,848)
		<u>\$ (135,456,358)</u>	<u>\$ 99,029,663</u>	<u>\$ (3,026,699)</u>

	Pay/Receive	Payable Market Value	Receivable Market Value	Receivable Unrealized Gain/ (Loss)
Australian Dollar	AUD/USD	\$ 9,025,132	\$ 9,700,100	\$ 674,968
British Pound	GBP/USD	(1,008,081)	1,040,409	32,328
Canadian Dollar	CAD/USD	(6,287,426)	6,413,200	125,774
Chilean Peso	CLP/USD	(748,670)	735,200	(13,470)
Chinese Yuan Renminbi	CNY/USD	(2,169,439)	2,170,661	1,222
Czech Koruna	CZK/USD	(3,302,043)	3,327,800	25,757
European Union Euro	EUR/USD	(13,401,789)	13,680,703	278,913
Hungarian Forint	HUF/USD	(4,808,082)	4,776,800	(31,282)
Indian Rupee	INR/USD	(390,292)	387,000	(3,292)
Japanese Yen	JPY/USD	(28,755,010)	30,240,871	1,485,861
Mexican New Peso	MXN/USD	(6,199,754)	6,401,300	201,546
New Zealand Dollar	NZD/USD	(5,161,482)	5,398,700	237,218
Norwegian Krone	NOK/USD	(10,052,544)	10,397,176	344,631
Peruvian Nuevo Sol	PEN/USD	(647,820)	657,492	9,672
Philippine Peso	PHP/USD	(694,894)	686,738	(8,157)
Polish Zloty	PLN/USD	(4,235,960)	4,358,800	122,840
Russian Ruble	RUB/USD	(933,125)	928,700	(4,425)
Singapore Dollar	SGD/USD	(9,196,079)	9,340,155	144,076
Swedish Krona	SEK/USD	(7,501,438)	7,634,200	132,762
		<u>\$ (96,468,797)</u>	<u>\$ 118,276,004</u>	<u>\$ 3,756,941</u>
		<u>\$ (231,925,156)</u>	<u>\$ 217,305,667</u>	<u>\$ 730,242</u>

Totals may not add due to rounding. Figures are ASPRS and APERS combined.

Financial Futures – A financial future is an agreement to purchase or sell a specific amount of an asset at a specified delivery or maturity date for an agreed upon price. These derivative securities are used to improve yield, adjust duration of the portfolio, circumvent changes in interest rates, or to replicate an index. Futures contracts are standardized and traded on organized exchanges, thereby reducing credit risk.

The System had the following financial futures at June 30, 2013:

Futures Contracts	Expiration	Notional	Fair Value	Unrealized Gain/Loss
U.S. 2-year Treasury Note	September 2013	\$ (114,650,719)	\$ (114,620,000)	\$ 30,719
U.S. 5-year Treasury Note	September 2013	104,255,515	103,858,219	(397,297)
U.S. 10-year Treasury Note	September 2013	(19,325,012)	(18,098,438)	1,226,574
U.S. 30-year Treasury Bond	September 2013	(2,718,809)	(2,445,188)	273,621
U.S. Ultra Bond	September 2013	8,037,594	7,512,938	(524,656)
Euro BOBL	September 2013	(2,125,584)	(2,115,636)	30,754
Euro Schatz	September 2013	(3,988,421)	(4,016,459)	16,014
		<u>\$ (30,515,436)</u>	<u>\$ (29,924,563)</u>	<u>\$ 655,730</u>

The System had the following Mortgage-Backed TBA at June 30, 2013:

Mortgage-Backed TBAs	Cusip	Notional	Fair Market Value	Duration	Credit Rating
FNMA 4.50% 30YR 08/25/2043	F4513BA08	\$ 1,635,288	\$ 1,626,625	5.00	AA+/Aaa

Totals may not add due to rounding.
Figures are APERS and ASPRS combined.

Note 4: Legally Required Reserves

A description of reserve accounts and their balances for the year ended June 30, 2013 are as follows:

The Member Deposit Account (“MDA”) represents members’ contributions held in trust until member retirement, at which time contributions are transferred to the Retirement Reserve Account, described in the schedule below. The MDA Interest Reserve represents the accumulated interest paid on the Members Deposit Account held in trust until member retirement, at which time interest on member contributions is transferred to the Retirement Reserve Account. The Employers’ Accumulation Account accumulates employers’ contributions to be used in providing the reserves required for transfer to the Retirement Reserve Account as members retire or become eligible for disability benefits.

The Retirement Reserve Account is the account to which member contributions, interest on those contributions, and employer contributions are transferred upon member retirement. The DROP Reserve Account is the account established for the accumulation of balances paid to members who have been approved by the Board to participate in the DROP. Upon retirement, these amounts can be paid to members as a lump sum, transferred to an authorized account, or be received as an annuity. The Deferred Annuity Account is the account established to cover estimated retirement benefits to inactive vested members who are not currently receiving benefit payments. Outlawed Warrants Reserve is a cumulative total of warrants uncashed in prior years that have been outlawed. These amounts will be paid if members go through the claims commission and the commission approves payment.

	June 30, 2013*		
	Tier I	Tier II	Totals
Member Deposit Account Reserve	\$ 343,709	\$ 181,498	\$ 525,208
MDA Interest Reserve	(82,168)	16,149	(66,019)
Employer Accumulation Account	(24,620,835)	35,539,374	10,918,539
Retirement Reserve Account	213,713,223	(73,346)	213,639,876
DROP Reserve Account	9,917,642	0	9,917,642
Deferred Annuity Reserve	1,334,094	0	1,334,094
Outlawed Warrants Reserve	1,095	0	1,095
Totals	<u>\$ 200,606,759</u>	<u>\$ 35,663,676</u>	<u>\$ 236,270,435</u>

*Before recommended reserve transfers

Required Supplementary Information

The following data on historical trends indicate the System's progress in accumulating sufficient assets to pay benefits when due.

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Entry Age AAL (b)	UAAL (b)-(a)	Funded Ratio (a)/(b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/(c)]
6/30/95	\$ 126.50	170.00	43.51	74.4%	18.14	239.9%
6/30/96	149.15	180.50	31.35	82.6%	18.43	170.1%
6/30/97	164.66	190.73	26.07	86.3%	18.98	137.4%
6/30/98	183.00	204.10	21.10	89.7%	19.65	107.4%
6/30/99	201.75	221.17	19.42	91.2%	20.94	92.7%
6/30/00	222.87	232.99	10.12	95.7%	21.31	47.5%
6/30/01	229.92	242.35	12.43	94.9%	21.86	56.9%
6/30/02	223.77	251.76	28.00	88.9%	20.76	134.9%
6/30/03	212.45	261.50	49.05	81.2%	20.50	239.2%
6/30/04	201.83	275.72	73.89	73.2%	22.36	330.5%
6/30/05 # @	200.10	281.28	81.18	71.1%	22.52	360.5%
6/30/06	210.34	291.17	80.82	72.2%	23.38	345.7%
6/30/07 @	233.13	307.66	74.53	75.8%	24.00	310.6%
6/30/08	238.04	320.10	82.06	74.4%	25.91	316.7%
6/30/09	228.60	334.01	105.42	68.4%	26.80	393.4%
6/30/09 # @	206.32	325.94	119.62	63.3%	26.80	446.4%
6/30/10	211.07	333.60	122.53	63.3%	28.51	429.7%
6/30/11	208.05	343.21	135.16	60.6%	28.06	481.6%
6/30/12	215.01	355.30	140.29	60.5%	28.43	493.5%
6/30/13	233.15	361.74	128.58	64.5%	28.01	459.1%
6/30/13 @	233.15	361.46	128.31	64.5%	28.01	458.1%

Note: Years prior to 1995 are not shown because such information is not available in accordance with the parameters of GASB 25.

@ After legislated changes in benefit provisions; # After changes in actuarial assumptions.

* Please note that differences between columns designated (a) and (b) may not add to UAAL due to rounding.

Required Supplementary Information (Continued)

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percent Contributed
1994	\$ 6,031,718	81.08%
1995	6,596,421	79.48%
1996	7,127,246	81.56%
1997	6,704,081	91.16%
1998	6,768,125	106.56%
1999	6,454,835	104.55%
2000	6,356,114	109.16%
2001	5,883,192	120.77%
2002	5,780,658	119.39%
2003	6,298,145	107.80%
2004	8,375,966	90.71%
2005	9,869,227	79.70%
2006	9,988,919	96.59%
2007	9,852,432	116.39%
2008	9,996,439	116.56%
2009	10,535,605	115.25%
2010	12,748,302	161.18%
2011	12,580,828	112.30%
2012	14,052,962	139.94%
2013	13,564,538	143.56%

Notes to Required Supplementary Information:

Schedule of Administrative Expenses

	<u>2013</u>	<u>2012</u>
Communications:		
Printing and Advertising	\$ 2,197	\$ 2,357
Services and Charges:		
Professional Fees and Services	40,600	26,100
Conference Fees and Travel	751	751
Bank and Federal Service Charges	<u>3,475</u>	<u>2,937</u>
Total Services and Charges	44,826	29,788
Transfer to APERS for Administrative Expenses	<u>50,158</u>	<u>48,697</u>
Total Administrative Expenses	<u><u>\$ 97,181</u></u>	<u><u>\$ 80,842</u></u>

Schedule of Investment Expenses

	<u>2013</u>	<u>2012</u>
Investment Consultant	\$ 2,051	\$ 9,477
Investment Managers	876,741	849,744
Custodian Bank	18,789	23,381
Other Investment Expenses	<u>(47,699)</u>	<u>(14,749)</u>
Total Investment Expenses	<u><u>\$ 849,882</u></u>	<u><u>\$ 867,853</u></u>

Schedule of Consultant Fee(s)

	<u>2013</u>	<u>2012</u>
Gabriel, Roeder, Smith & Company	\$ 40,600	\$ 26,100

Totals may not add due to rounding

Arkansas State Police Retirement System
124 West Capitol, Suite 400
Little Rock, AR 72201



ARKANSAS STATE POLICE RETIREMENT SYSTEM

124 West Capitol Suite 400 • Little Rock, Arkansas 72201

INVESTMENTS SECTION

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Chief Investment Officer's Report



Arkansas State Police Retirement System

124 West Capitol Avenue • Suite 400 • Little Rock, AR 72201

Dear Members,

On behalf of the ASPRS' Investments Department, it is my pleasure to present the *Investment Section* of the ASPRS' *Annual Financial Report* for the fiscal year ended June 30, 2013.

Performance and Stability

For fiscal year 2013, the ASPRS investment portfolio closed with investments of \$229.68 million. The investment return for the fiscal year was 15.58%. The second half of 2012 provided fiscal year 2013 with a nice start as global equity indices posted solid gains for the 3rd quarter of 2012, and the U.S. indices advanced 5-7% across the board.

During the fiscal year we saw the Dow Jones Industrial Average surpass its previous October 2007 all-time high of 14,198. But we also saw interest rates in the U.S. spike higher by over 100 basis points.

Fiscal Year 2013 Financial Market Recap

The third quarter of 2012 was dominated by macro events. The quarter started with the LIBOR fixing scandal and culminated with the Federal Reserve announcement of "open-ended" bond purchases, which was dubbed "QE3", or, "QE-Infinity", as the Fed displayed its intent to continue with quantitative easing. The Fiscal Cliff continued to loom; China's economy continued to slow; Iran and Israel continued to engage in an escalation of tension over nuclear capabilities; the European Central Bank continued to walk down a path of debt mutualization; and the U.S. Presidential election kicked into high gear.

With that background, domestic equities remained reasonably priced from a forward P/E perspective as the valuations remained at a discount to longer term averages. The same situation was also seen in the non-US equity markets. Despite, or perhaps due to, what appeared to be reasonable valuations, the S&P 500 index achieved a post-2008 high in mid-September. Strong corporate profit margins kept corporate earnings rising. Equity volatility remained fairly low. But the positives did not ease fears as equity mutual funds hemorrhaged capital. Investors worried about the possibility of another 2008-type market decline, or worse, a 1987-like collapse.

In the fixed income markets, the 10-year US Treasury opened and closed the third quarter with a yield of 1.60%, and stayed in a 50bp range, touching 1.39% in July and 1.90% in September. The 1.39% intraday low was the lowest reading in a generation. Concerns over a sputtering US economy coupled with woes in Europe caused rates to hit record lows in July before ECB President Mario Draghi made a bold proclamation to "do whatever it takes to preserve the Euro". In September, rates rose sharply after the Fed announced that it would spend \$40 billion per month to purchase mortgage securities, continue Operation Twist until the end of 2012, and keep rates low through mid-2015. The US central bank appeared committed to keeping the financial markets flush with liquidity while attempting to improve the labor markets. What was powerful about this stimulus was the fact that the Fed made their commitment open-ended. Interest rates fell going into quarter-end as concerns over the global economic slowdown mounted.

The fourth quarter of 2012 was not without its own events. The financial markets started the quarter on the upside as economic data indicated an improving U.S. economy. The combination of low mortgage rates, rising house prices, higher stock prices, and better employment gave a boost to housing and consumer confidence. However, there was the quadrennial Presidential election in November. The nation, and the world, continued its fixation on the “fiscal cliff”. Super storm Sandy slammed into the East Coast. The Fed implemented yet another round of quantitative easing by converting Operation Twist into outright purchases. The Fed also reaffirmed its pledge to keep interest rates “low for long” by removing the 2015 target date and adopting unemployment and inflation targets instead. The Fed basically suggested that the US unemployment rate would need to improve to 6.5% provided inflation remains below 2.5%. The fourth quarter ended on a downturn as the “Fiscal Cliff” turned into a fiasco which pushed investors to the sidelines as expectations for going over the cliff rose.

The U.S. economy was able to bounce back in the first quarter of 2013. An eleventh hour resolution of the fiscal cliff negotiations was agreed to. Concerns over the Federal sequestration (\$1.2 billion) remained front and center. However, consumer spending, exports, and investments in real estate all reported solid gains. The data showed that any drag to economic growth came from government, where the expected declines in spending continued. The fiscal squeeze in the last quarter of 2012 and the first quarter of 2013 was almost unprecedented, which made the continued economic growth even more remarkable. The drop in total government spending since October 2012 was the largest six-month contraction since the end of the Korean War in the mid-1950s. The decline in defense spending over those 2 quarters was greater than the drop following the withdrawal from Vietnam in 1972.

Europe continued to be a challenge in the first quarter. Much of the Euro-zone remained entrenched in a deep recession. Failed elections in Italy left that country without a government. The financial markets did not like Troika’s demands that Cyprus impose a levy on all bank deposits and a precondition to receiving bailout funds. In China, manufacturing slipped and equities retreated as the government looked to balance growth and inflation risks. In Japan, an aging population coupled with ineffective monetary and fiscal policies crimped consumer spending and failed to stimulate economic activity in any meaningful way. And lastly, tensions in the Korean peninsula were renewed later in the quarter with war rhetoric between the new leaders of the North and South, as well as the United States.

After reaching a new all-time high in May, global markets turned a hard corner in the June as better U.S. economic data brought a sudden change of stance by the Federal Reserve. When 2013 began, the combination of modest growth coupled with the Fed’s continued asset purchases kept U.S. interest rates low and credit spreads on a tightening track as investors reached for yield. But a surprisingly strong labor report, which included upward revisions to prior months, made the U.S. economy look even better. The stronger data and outlook pushed interest rates higher, and Fed officials threw fuel on the fire by suggesting for the first time that the decision to reduce asset purchases could come within a few months. At the Fed’s press conference after the June meeting Fed Chairman Bernanke outlined their base case plan for ending the third, and presumably final, QE program. If the economy remained on course, the Fed would begin to reduce its purchases later this year, tapering to zero around the middle of 2014. Bernanke reassured the markets that short term rates would remain highly accommodative for a considerable time after the asset purchase program ends. New York Fed President William Dudley reiterated this stance the next day. However, the markets dismissed any attempt by the Fed to taper its own rhetoric and technicals in the market quickly deteriorated.

The U.S. Treasury yield curve steepened to 213bps from the 2-year to the 10-year as the 10-year note yield rose 36bps during the month. As interest rates gapped higher, U.S. stocks reacted negatively.

The S&P Index fell -1.5% in June, and other equity indexes around the globe sold off. The greater impact was felt in asset classes that had become very independent on low interest rates: high yield debt, emerging market bonds, and commodities. Both stocks and bonds were able to rebound as the second quarter, and our fiscal year end came to a close.

Portfolio Thoughts

Since the fiscal year end has ended, interest rates have continued to take the lead. The benchmark 10-year U.S. Treasury note closed June 28, 2013 at roughly 2.52%. Since the end of June, it has reached 2.96%. Over the past few fiscal years APERS has lowered its exposure to fixed income (interest rates). APERS currently sits at 17.2% fixed income, which is lower than FY 2012's 18.9%, FY 2011's 19.7%, and FY 2010's 23.3%.

As I write this report, since the end of the fiscal year, there have been a few events that have given the financial markets some pause. In July, events in Washington, D.C. began to heat up again. The national economic fiscal year ends September 30th and Congress needs to pass either a 2014 budget or some form of continuing resolution authorizing government operations. At the same time, the debt ceiling is expected to be reached again sometime in October or November. In August, geopolitical risk intensified on news that the U.S. might engage in tactical military strikes against Syria. In September, the President's front-runner to succeed Chairman Bernanke withdrew his name from consideration. Fed Vice Chair Janet Yellen is now the favorite to succeed Chairman Bernanke. In addition, at the September 2013 Federal Reserve Federal Open Market Committee meeting, the Fed stated that the "Committee decided to keep the target range for the federal funds rate at 0 to 0.25% and currently anticipates that this exceptionally low range for the federal funds rate will be appropriate at least as long as the unemployment rate remains above 6.50%..." On that statement alone, interest rates moved lower quickly, from 2.89% to 2.67% in a single trading session.

Conclusion

I would like to thank each of the Board of Trustees, the ultimate fiduciaries of APERS, for embracing the current investment structure that allowed APERS to achieve strong results for our members and the Arkansas taxpayers. APERS' staff is committed to placing the system in the best position to continue to face the challenges of the global financial markets and to ensure that the APERS assets are positioned to provide long-term financial stability for you, the members.

Respectfully yours,



Carlos Borromeo
Chief Investment Officer

Investment Policy Summary

Investment Policies

The investment objective shall be:

- 1) the protection of the APERS' Fund (the "Fund") so that such assets are preserved for providing benefits to participants and their beneficiaries; and
- 2) to maximize total return - either in the form of income or capital appreciation or both - consistent with prudent risk taking on the amounts available to provide such benefits.

For this purpose, short-term fluctuations in value shall be considered secondary to long-term investment results. The long-term return objective for the Fund shall be to achieve a real rate of return of 4%. This is the return over the rate of inflation (as measured by the Consumer Price Index). This objective is not to be a goal from year to year, but is intended as a long-term guideline to those involved in investing the Fund's assets. An additional overall investment objective will be to achieve a total fund return of at least the actuarial rate of 8.0%. The investments of the Fund shall be so diversified as to minimize the risk of large losses, unless under particular circumstances it is clearly prudent not to do so. Investments will be further diversified by hiring an appropriate number of managers whose investment styles are varied enough to provide a balance to the overall risk of the Fund.

Asset Allocation

To avoid extreme exposure to investment risk, the following percentages represent the minimum and maximum portion at market of the portfolio that may be invested by types:

Market Value Exposure		
Asset Class	Target	Range
Equities	37%	32% to 42%
International Equities	24%	19% to 29%
Fixed Income	18%	13% to 23%
Diversified Strategies	5%	0% to 10%
Real Assets	16%	11% to 21%

The Board of Trustees shall review its asset allocation at least annually to determine if the asset allocation is consistent with the level of risk and volatility acceptable to the Fund.

Review of Investment Process

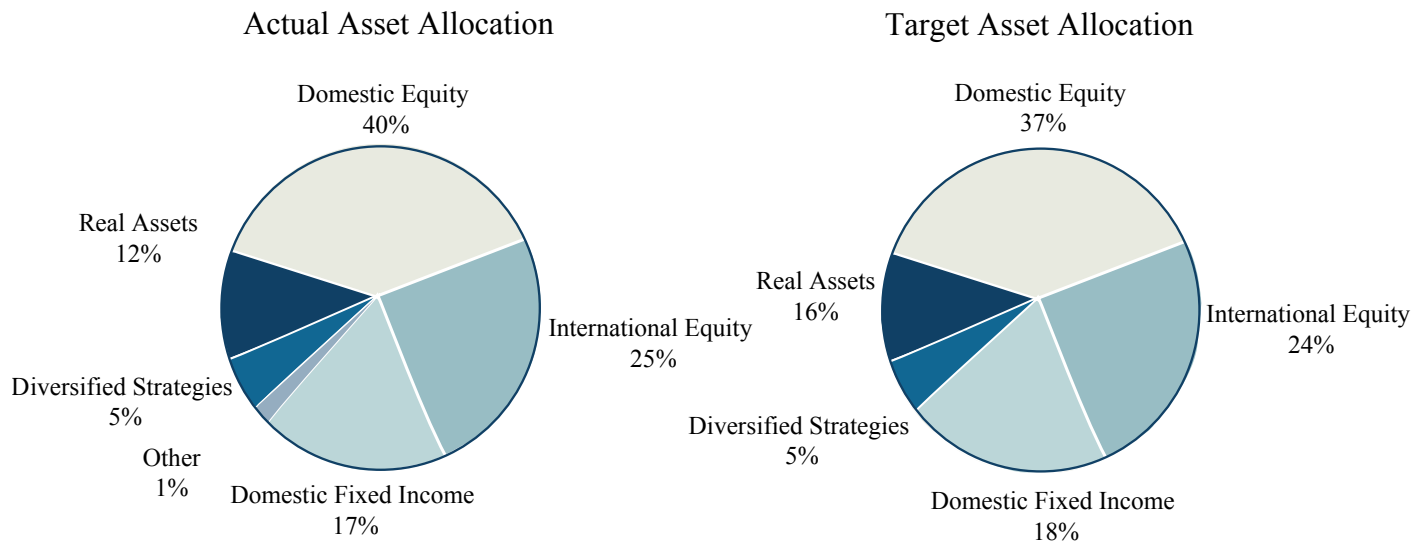
- A. On a timely basis, but not less than twice a year, the Board will review actual investment results achieved by each manager (with a perspective toward a three to five-year time horizon or a peak-to-peak or trough-to-trough market cycle) to determine whether:
 - a. The investment managers performed in adherence to the investment philosophy and policy guidelines; and
 - b. The investment managers performed satisfactorily when compared with the objectives set and other similarly managed funds.
- B. In addition to reviewing each investment manager's results, the Board will re-evaluate, from time to time, its progress in achieving the total fund, equity, fixed-income and international equity segments objectives.
- C. The periodic re-evaluation also will involve an evaluation of the continued appropriateness of:
 - a. The manager structure;
 - b. The allocation of assets among the managers; and
 - c. The investment objectives for the Fund's assets.
- D. The Board may appoint investment consultants to assist in the ongoing evaluation process. The consultants selected by the Board are expected to be familiar with the investment practices of other similar retirement plans and will be responsible for suggesting appropriate changes in the Fund's investment program over time.

Asset Allocation

Actual versus Target Asset Allocation as of June 30, 2013

Asset Allocation of Assets as of June 30, 2013

The previously approved Target Asset Allocation was implemented as of April 1, 2013. The current target and new target are as follows:

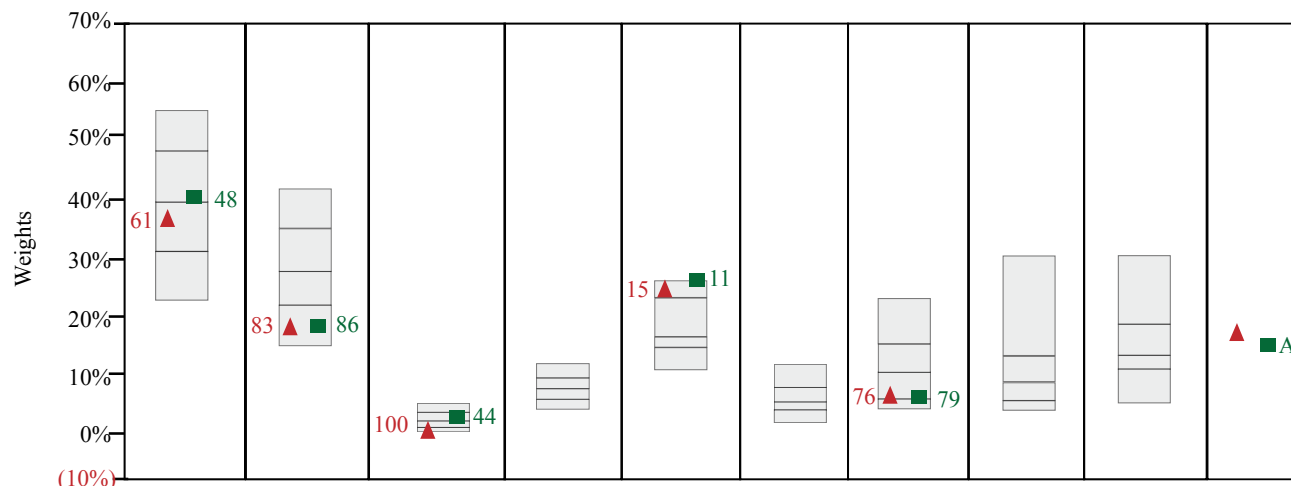


Asset Class	\$000s Actual	ASPRS	APERS	Actual	Target	Difference	\$000s Difference
Domestic Equity	\$ 2,693,966	\$ 92,869	\$ 2,601,097	40.4%	37.0%	3.4 %	\$ 228,793
International Equity	1,637,893	56,463	1,581,430	24.6	24.0	0.6	38,862
Fixed Income	1,148,750	39,601	1,109,149	17.3	18.0	(0.7)	(50,524)
Diversified Strategies	319,627	11,019	308,608	4.8	5.0	(0.2)	(13,504)
Cash	67,174	2,316	64,858	1.0	0.0	1.0	67,174
Real Assets	795,221	27,414	767,807	11.9	16.0	(4.1)	(270,800)
Total*	<u>\$ 6,662,631</u>	<u>\$ 229,681</u>	<u>\$ 6,432,950</u>	<u>100.0%</u>	<u>100.0%</u>		

* Totals may not add due to rounding.

The illustration below shows the average percentage of asset allocations by asset type for the Public Plan Sponsor Database. Due to different asset allocation of Public Plans, percentages will not equal 100%.

Asset Class Weights vs Public Fund Sponsor Database



	Domestic Equity	Domestic Fixed Income	Other	Real Estate	Intl Equity	Intl Fixed-Inc	Other Alternative	Global Balanced	Global Equity Broad	Real Assets
10th Percentile	54.60	43.15	4.93	12.29	25.17	13.99	25.58	29.63	30.20	-
25th Percentile	47.23	35.05	2.24	9.34	21.80	8.37	16.53	14.58	18.09	-
Median	40.08	27.11	0.81	7.46	16.70	5.00	11.34	8.51	11.24	-
75th Percentile	32.25	21.31	0.30	5.22	13.91	3.48	5.05	4.90	8.50	-
90th Percentile	23.65	14.92	0.06	3.47	9.46	1.12	3.18	3.31	3.80	-
Fund ■	40.43	17.24	1.01	-	24.58	-	4.80	-	-	11.94
Target ▲	37.00	18.00	0.00	-	24.00	-	5.00	-	-	16.00
% Group Invested	98.87%	98.87%	62.15%	55.37%	95.48%	18.64%	49.72%	16.38%	23.16%	0.00%

Schedule of Manager Distribution

ASPRS Manager Distribution for Period Ending June 30, 2013

Asset Allocation	Market Value (\$ Thousands)	Percent of Total	ASPRS
Domestic Equity (\$2,693,966,405; 40.43%)			
MCM S&P Index Fund	\$ 570,758,322	8.57%	\$ 19,675,752
CastleArk Mgmt.	344,316,365	5.17	11,869,618
Golden Capital Mgmt.	133,181,252	2.00	4,591,157
INTECH	278,757,399	4.18	9,609,604
Wellington Mgmt. Co.	260,744,110	3.91	8,988,632
Westwood Mgmt.	142,699,822	2.14	4,919,291
Lazard Asset Mgmt.	242,292,571	3.64	8,352,552
Lombardia Capital	143,723,090	2.16	4,954,566
SSI Investment Mgmt.	221,215,337	3.32	7,625,956
Horrell Capital Mgmt.	69,926,498	1.05	2,410,576
State Street Global Advisors	67,088,842	1.01	2,312,754
Stephens Inv. Mgmt. Group	219,262,796	3.29	7,558,646
International Equity (\$1,638,546,587; 24.59%)			
Lazard Asset Mgmt.	327,981,684	4.92	11,306,513
Artisan Partners	357,201,475	5.36	12,313,806
MCM ACWI ex-US Index	306,775,026	4.60	10,575,455
Transition Account	4,043,457	0.06	139,390
UBS Global - Tax Reclaim Receivables	653,239	0.01	22,519
Manning & Napier	314,678,943	4.72	10,847,927
Pyramis Global Advisors	327,212,763	4.91	11,280,006
Fixed Income (\$1,148,749,651; 17.24%)			
MacKay Shields	767,719,950	11.53	26,465,610
Prudential Investments	381,029,702	5.72	13,135,237
Real Assets (\$789,206,971; 11.85%)			
INVESCO Real Estate	265,422,100	3.98	9,149,896
INVESCO GLOBAL REITS	134,285,776	2.02	4,629,234
TA Associates Realty	6,014,212	0.09	207,328
CastleArk Mgmt. - AR Energy Fnd	62,382,586	0.94	2,150,515
CastleArk Mgmt. Global Energy Fnd	139,172,849	2.09	4,797,706
Pinnacle Forest Investments	187,943,660	2.82	6,478,982
Liquidation Account	24,188,921	1.18	833,865
Diversified Strategies (\$319,627,379; 4.80%)			
AQR Capital	94,240,680	1.41	3,248,759
Blackstone Alternative Asset Mgmt.	130,893,357	1.96	4,512,287
Newton Capital	94,493,342	1.42	3,257,469
Short-term Investment Fund	42,331,547	0.66	7,609,007
COMPOSITE FUND	<u>\$ 6,662,631,673</u>	<u>100%</u>	<u>\$ 235,830,613</u>

Totals may not add due to rounding.

Schedule of ASPRS and APERS Combined Manager Distributions can be found on page 85.

Portfolio Characteristics

Fiscal Years Ended June 30	2013	2012
Selected Bond Characteristics:		
Yield to Maturity (Market)	3.66%	3.79%
Current Yield	4.22	4.69
Average Coupon Rate	4.53	4.88
Average Maturity	7.35 Yrs.	6.86 Yrs.
Quality Breakdown:		
AAA (Includes Govts. & Agencies)	23.60%	26.10%
AA	2.80	3.90
A	14.30	14.90
BAA	27.70	29.30
BA	12.10	10.30
B	7.50	7.10
CCC Below & NR	1.50	1.60
*Cash	10.50	6.80
Selected Stock Characteristics:		
Average P/E Ratio	17.47x	14.64x
Estimated Earnings Growth Rate (Next 5 Years)	12.11%	14.60%
Current Yield	1.78	2.03

* Includes short term investment fund

Source: Callan Associates Inc.

Schedule of Comparative Investment Results

Fiscal Years Ended 2009 through 2013

Fiscal Years Ended June 30	2013	2012	2011	2010	2009
Total Fund:					
Arkansas Public Employees Retirement System	15.58%	(0.17)%	26.00%	11.95%	(20.89)%
Callan Total Public Fund Median	11.99	1.20	20.87	12.91	(17.13)
Inflation (Consumer Price Index)	1.75	1.58	4.06	1.36	(1.98)
Equities:					
Arkansas Public Employees Retirement System	20.99%	2.30%	33.64%	15.69%	(25.74)%
Callan Total Equity Database Median	22.91	0.46	34.22	16.87	(26.12)
Russell 3000 Index	21.46	3.84	32.37	15.72	(26.56)
International Equities:					
Arkansas Public Employees Retirement System	20.88%	(12.75)%	33.62%	7.04%	(32.31)%
Callan Total Non-US Equities Database Median	18.69	(12.53)	31.71	8.99	(30.99)
MSCI-EAFE Index	18.62	(13.83)	30.36	5.92	(31.35)
Fixed Income:					
Arkansas Public Employees Retirement System	3.51%	8.07%	8.15%	15.19%	2.70%
Callan Total Fixed Income Database Median	0.88	7.34	5.00	11.47	5.09
Barclays Capital Aggregate Index	(0.69)	7.47	3.90	9.50	6.05

Schedule of Comparative Investment Results

For the Current Year and the Preceding 3-Year and 5-Year Rates of Return

Fiscal Years Ended June 30	2013	Annualized 3-Year	5-Year
Total Fund:			
Arkansas Public Employees Retirement System	15.58%	13.28%	5.18%
Callan Total Public Fund Median	11.99	11.02	5.32
Inflation (Consumer Price Index)	1.75	2.46	1.34
Equities:			
Arkansas Public Employees Retirement System	20.99%	18.27%	7.28%
Callan Total Equity Database Median	22.91	18.72	7.98
Russell 3000 Index	21.46	18.63	7.25
International Equities:			
Arkansas Public Employees Retirement System	20.88%	12.11%	0.42%
Callan Total Non-US Equities Database Median	18.69	11.16	0.84
MSCI-EAFE Index	18.62	10.04	(0.63)
Fixed Income:			
Arkansas Public Employees Retirement System	3.51%	6.56%	7.43%
Callan Total Fixed Income Database Median	0.88	4.66	5.97
Barclays Capital Aggregate Index	(0.69)	3.51	5.19

Source: Callan Associates Inc. (Callan database contains returns of over 115 public retirement funds); returns are reported gross of fees.

Top Ten Largest Holdings

As of June 30, 2013

Domestic Fixed Income Holdings	Par	Market Value	ASPRS
U.S. Treasury 0.75% 03/31/2018	23,990,000	\$ 23,350,906	\$ 804,976
U.S. Treasury 3.125% 02/15/2043	14,915,000	13,922,258	479,942
U.S. Treasury 2.75% 08/15/2042	13,475,000	11,630,677	400,944
U.S. Treasury TIP 1.125% 01/15/2021	10,098,690	10,800,044	372,310
U.S. Treasury 3.625% 08/15/2019	9,345,000	10,408,741	358,821
Countrywide Financial Group 6.25% 05/15/2016	9,455,000	10,310,488	355,433
3-month LIBOR Floater 1.42% 11/30/2017	9,305,000	9,305,000	320,771
3-month LIBOR Floater 1.42% 11/30/2017	9,225,000	9,225,000	318,013
3-month EURIBOR Floater 01/25/2015	7,547,785	7,548,350	260,214
U.S. Treasury 1.75% 05/15/2023	7,955,000	7,450,335	256,835
Total		<u>\$ 113,951,799</u>	<u>\$ 3,928,260</u>

Domestic Equity Holdings	Shares	Market Value	ASPRS
Citigroup Inc.	641,125	\$ 30,754,766	\$ 1,060,209
Pfizer Inc.	886,632	24,834,562	856,122
Home Depot Inc.	314,324	24,350,680	839,441
Apple Inc.	50,912	20,188,135	695,946
Andarko Petroleum Corp.	214,840	18,461,201	636,413
Cisco Systems Inc.	678,405	16,508,986	569,114
Exxon Mobil Corp.	179,801	16,245,020	560,015
Unitedhealth Group Inc.	234,745	15,371,103	529,888
Gilead Sciences Inc.	265,700	13,622,439	469,606
Bank of America Corp.	1,035,600	13,317,816	459,105
Total		<u>\$ 193,654,708</u>	<u>\$ 6,675,859</u>

International Equity Holdings	Shares	Market Value	ASPRS
Tesco PLC	4,281,973	\$ 21,522,668	\$ 741,951
Compass Group	1,592,097	20,283,762	699,242
Novartis AG	264,700	18,772,256	647,136
TE Connectivity Ltd.	343,129	15,626,095	538,678
Ryanair Holdings PLC	298,791	15,396,700	530,770
AON Corp.	218,745	14,076,241	485,250
Arch Capital Group Ltd.	269,987	13,880,032	478,486
Schlumberger Ltd.	192,460	13,791,684	475,441
Unilever PLC	329,193	13,315,857	459,038
Lloyd's Banking Group PLC	13,102,758	12,551,757	432,697
Total		<u>\$ 159,217,052</u>	<u>\$ 5,488,689</u>

*by market value. Totals may not add due to rounding.

Schedule of ASPRS and APERS Combined Ten Largest Holdings can be found on page 86.

Schedule of Brokerage Commissions

Brokerage Firm	Number of Shares Traded	Total Commission	Commission Per Share	ASPRS
Credit Suisse First Boston	5,843,427	\$ 163,474	\$ 0.03	\$ 5,635
Barclays Capital Inc.	3,616,228	109,079	0.03	3,760
UBS Securities LLC	3,692,748	95,697	0.03	3,299
Investment Technology Group	4,219,139	94,629	0.02	3,262
J.P. Morgan Securities Inc.	1,762,537	89,624	0.05	3,090
Merrill Lynch Pierce Fenner Smith Inc.	4,539,659	83,394	0.02	2,875
Jefferies & Co.	4,950,514	74,588	0.02	2,571
Instinet Corp.	3,315,245	74,278	0.02	2,561
Liquidnet Inc.	2,646,835	71,948	0.03	2,480
Citigroup Global Markets Inc.	1,921,821	71,406	0.04	2,462
Goldman Sachs & Co.	3,319,541	67,850	0.02	2,339
Sanford C. Bernstein & Co.	2,245,028	59,888	0.03	2,065
Morgan Stanley & Co. Inc.	1,673,353	58,972	0.04	2,033
ISI Group Inc.	1,350,214	48,217	0.04	1,662
Deutsche Bank Securities Inc.	1,555,499	43,212	0.03	1,490
Capital Institutional Services Inc.	1,483,218	41,131	0.03	1,418
BTIG LLC	2,728,219	39,976	0.01	1,378
Rosenblatt Securities Corp.	1,339,740	37,562	0.03	1,295
William Blair & Co.	852,489	37,269	0.04	1,285
BNY Convergenx	2,034,853	35,317	0.02	1,217
Piper Jaffray & Co.	780,668	32,861	0.04	1,133
Weeden & Co.	983,950	32,198	0.03	1,110
Robert W. Baird & Co., Inc.	782,523	32,179	0.04	1,109
Citation Group	1,442,283	31,878	0.02	1,099
RBC Capital Markets LLC	643,947	27,111	0.04	935
Others (including 91 brokerage firms)	15,981,670	\$ 599,316	0.04	20,660
	<u>75,705,348</u>	<u>\$ 2,153,054</u>	\$ 0.03	<u>\$ 74,222</u>

Totals may not add due to rounding.

Schedule of ASPRS and APERS Combined Brokerage Commissions can be found on page 87.

Schedule of Investment Fees

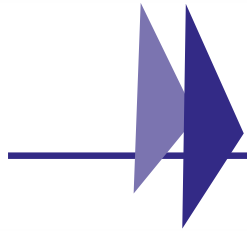
	Market Value	Fee	Basis Points	ASPRS Market Value	Fee
Equities					
SSI Investment Mgmt. - Convertible Securities	\$ 221,215,337	\$ 860,488	40	\$ 7,625,956	\$ 29,676
Lazard Asset Mgmt. - Value	242,292,571	677,741	30	8,352,552	23,373
Golden Capital Mgmt. - Growth	133,181,252	286,322	22.5	4,591,157	9,875
Westwood Mgmt. - SMID Cap	142,699,822	916,464	25	4,919,291	31,611
MCM S&P 500 Index Fund	570,758,322	124,217	3.5	19,675,752	4,284
INTECH - Growth	278,757,399	1,169,271	48	9,609,604	40,326
CastleArk Mgmt. - Growth	344,316,365	1,079,742	35	11,869,618	37,238
Wellington Mgmt. Co. - Value	260,744,110	757,869	30	8,988,632	26,138
Stephens Investment Mgmt. - Growth	219,262,796	1,403,535	77	7,558,646	48,405
State Street Global Advisors - 130/30	67,088,842	303,363	50	2,312,754	10,459
Lombardia Capital - Small Cap	143,723,090	895,680	70	4,954,566	30,889
Horrell Capital Mgmt.-AR Index Fund	69,926,498	175,791	27	2,410,576	6,062
Lazard Asset Mgmt. - Int'l Equity	327,981,684	957,677	65	11,306,513	33,026
Manning & Napier Advisors - Int'l Equity	314,678,943	1,564,996	50	10,847,927	53,971
Pyramis Global Advisors - Int'l Equity	327,212,763	1,149,536	20	11,280,006	39,639
UBS Global Asset Mgmt. - Int'l Equity - *	0	1,452,260	50	0	50,079
MCM ACWI ex-US Index Fund	306,775,026	2,732	6.5	10,575,455	94
Artisan Partners - Int'l Equity	357,201,475	1,875,999	55	12,313,806	64,696
	<u>\$ 4,327,816,295</u>	<u>\$ 15,653,683</u>		<u>\$ 149,171,612</u>	<u>\$ 539,841</u>
Diversified Strategies					
AQR Capital	\$ 94,240,680	\$ 676,726	72	\$ 3,248,759	\$ 23,340
Blackstone Alternative Asset Mgmt.	130,893,357	948,676	100	4,512,287	32,718
Newton Capital	94,493,342	599,288	70	3,257,469	20,640
	<u>\$ 319,627,379</u>	<u>\$ 2,224,690</u>		<u>\$ 11,018,515</u>	<u>\$ 76,698</u>
Fixed Income					
MacKay Shields - Core Plus I	\$ 377,454,708	\$ 755,987	20	\$ 13,011,996	\$ 26,072
MacKay Shields - Core Plus II	390,265,242	583,241	15	13,453,614	20,115
Prudential Investments - Core Plus	381,029,702	767,078	20	13,135,237	26,455
	<u>\$ 1,148,749,652</u>	<u>\$ 2,106,306</u>		<u>\$ 39,600,847</u>	<u>\$ 72,642</u>
Real Assets					
INVESCO Real Estate - Core & Global REITS	\$ 399,707,876	\$ 1,810,236	65	\$ 13,779,130	\$ 63,240
TA Associates Realty	6,014,212	140,766		207,328	5,028
CastleArk Mgmt. - AR Energy Fund	62,382,586	737,402	125	2,150,515	25,431
CastleArk Mgmt. - Global Energy Fund	139,172,849	1,164,889	100	4,797,706	40,174
Pinnacle Forest Investments – Timberland	187,943,660	1,555,032	90	6,478,982	53,632
	<u>\$ 795,221,183</u>	<u>\$ 5,408,325</u>		<u>\$ 27,413,660</u>	<u>\$ 187,505</u>
Other Investment Services					
Bank of New York Mellon (Custodian)		\$ 544,701			\$ 18,789
Callan Associates (Consultant)		237,952			2,051
Total Other Services		<u>782,653</u>			<u>20,840</u>
Total Investment Service Fees		<u>\$ 26,175,657</u>			<u>\$ 897,526</u>

* Manager Terminated

A Schedule of ASPRS and APERS Combined Schedule of Investment Fees can be found on page 88.

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Arkansas State Police Retirement System
124 West Capitol, Suite 400
Little Rock, AR 72201



ARKANSAS STATE POLICE RETIREMENT SYSTEM

124 West Capitol Suite 400 • Little Rock, Arkansas 72201

ACTUARIAL SECTION

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Actuary's Certification Letter



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November 12, 2013

The Board of Trustees
Arkansas State Police Retirement System
Little Rock, AR

Dear Board Members:

The basic financial objective of the Arkansas State Police Retirement System (ASPRS) as provided in the Arkansas Code is to establish and receive contributions which, expressed as percents of active member payroll, will remain approximately level from generation to generation of Arkansas citizens and when combined with present assets and future investment return will be sufficient to meet the financial obligations of ASPRS to present and future benefit recipients. The progress towards meeting this financial objective is illustrated in the Schedule of Funding Progress and the Schedule of Employer Contributions.

We performed an actuarial valuation and issued an actuarial valuation report for ASPRS as of June 30, 2013. The purpose of the June 30, 2013 annual actuarial valuation was to determine the contribution requirements for the fiscal year ending June 30, 2014, to measure the System's funding progress, and to provide actuarial information in connection with applicable Governmental Accounting Standards Board Statements. The valuation should not be relied upon for any other purpose. The valuation process develops contribution rates that are sufficient to fund the plan's normal cost (i.e., the cost assigned by the valuation method to the year of service about to be rendered) as well as to fund unfunded actuarial accrued liabilities as a level percent of active member payroll over a period of up to 30 years. The most recent valuations were completed based upon population data, asset data, and plan provisions as of June 30, 2013.

The ASPRS administrative staff provides the actuary with data for the actuarial valuation. The actuary relies on the data after reviewing it for internal and year-to-year consistency. The actuary summarizes and tabulates population data in order to analyze longer term trends.

The actuarial report included the following supporting schedules for use in the Comprehensive Annual Financial Report.

Actuarial Section

- Summary of Assumptions Used
- Summary of Actuarial Methods and Assumptions
- Active Member Valuation Data
- Short Condition Test
- Analysis of Financial Experience
- Analysis of Financial Experience – gains and Losses by Risk Area

Financial Section

- Schedule of Funding Progress

The Board of Trustees
November 12, 2013
Page 2

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

Actuarial valuation are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. These assumptions are adopted by the Board after considering the advice of the actuary and other professionals. The assumptions and the methods comply with the requirements of Statement No. 25 of the Governmental Accounting Standards Board. Each actuarial valuation takes into account all prior differences between actual and assumed experience in each risk area and adjusts the contribution rates as needed. The June 30, 2013 valuations were based upon assumptions that were recommended in connection with a study of experience covering the period 2006-2012.

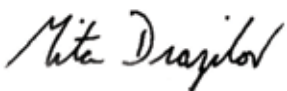
The computed employer contribution rate to satisfy the statutory funding requirements set forth in Section 24-6-209 of the Arkansas Code is 47.93% of covered payroll for the year beginning July 1, 2013. Actual revenues were greater than the statutory requirements for the last seven years. ASPRS' on-going ability to satisfy statutory funding requirements is dependent upon its access to sufficient annual transfers from the remainder of insurance premium taxes enumerated in A.C.A 19-6-301 (27) to finance unfunded actuarial accrued liabilities over a closed period of 26 years.

Future actuarial measurements may differ significantly from those presented in the annual valuations due to such factors as experience differing from that anticipated by actuarial assumptions, or changes in plan provisions, actuarial assumption/methods or applicable law. Due to the limited scope of the assignment, we did not perform an analysis of the potential range of future measurements.

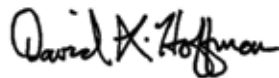
The signing actuaries are independent of the plan sponsor.

Mita Drazilov is a Member of the American Academy of Actuaries (MAAA) and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion contained herein.

Respectfully submitted,



Mita D. Drazilov, ASA, MAAA



David L. Hoffman

MDD:DLH:dj

Gabriel Roeder Smith & Company

Summary of Actuarial Assumptions

ECONOMIC ASSUMPTIONS

The investment return rate used in making the valuation was 8.00% per year, compounded annually (net after investment and administrative expenses). This rate of return is not the assumed real rate of return. The real rate of return is the portion of investment return which is more than the wage inflation rate. Considering the assumed wage inflation rate of 4.0%, the 8.00% investment return rate translates to an assumed net real rate of return of 4.0%. The wage inflation assumption was revised for the June 30, 2007 valuation and the investment assumption was revised for the June 30, 2009 valuation.

Pay increase assumptions for individual active members are shown on page 67. Part of the assumption for each age is for a merit and/or seniority increase, and the other 4.0% recognizes wage inflation. This includes a component for price inflation of 3.00% and a component for real wage growth at 1.00%. The pay increase assumption for individual active members was revised for the June 30, 2013 valuation.

Total active member payroll is assumed to increase 4.0% a year, which is the portion of the individual pay increase assumptions attributable to wage inflation.

The number of active members is assumed to continue at the present number.

NON-ECONOMIC ASSUMPTIONS

The mortality table used to measure retired life mortality was the RP-2000 Combined Healthy mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females. Related values are shown on page 66. Disability post-retirement mortality was assumed to be the same as standard post-retirement mortality set forward an additional 10 years. Based upon the experience observed during the most recent experience study, it appears that the current table provides for an approximate 14% margin for future mortality improvement. Pre-retirement mortality rates are assumed to be 50% of post-retirement mortality rates. The mortality assumption was revised for the June 30, 2013 valuation.

The probabilities of retirement for members eligible to retire are shown on page 68. The assumption was revised for the June 30, 2013 valuation.

The probabilities of withdrawal from service, death-in-service and disability are shown for sample ages on page 67. The assumption for death-in-service was revised for the June 30, 2013 valuation.

The individual entry-age normal actuarial cost method of the valuation was used in determining liabilities and normal cost.

Differences in the past between assumed experience and actual experience (actuarial gains and losses) become part of actuarial accrued liabilities.

Unfunded actuarial accrued liabilities are amortized to produce contribution amounts (principal and interest) which are level percent of payroll contributions.

Present assets (cash & investments) were valued on a market related basis in which differences between actual and assumed returns are phased-in over a four year period.

The data about persons now covered and about present assets were furnished by the System's administrative staff. Although examined for general reasonableness, the data was not audited by the Actuary.

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

Summary of Actuarial Methods

ASPRS Actuarial Methods and Assumptions

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest valuation date follows:

Valuation Date	June 30, 2013
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Percent-of-Payroll
Remaining Amortization Period	26-year closed
Asset Valuation Method	4-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	8.00%
Projected Salary Increases	4.0% - 11.0%
Including Wage Inflation at	4.00%
Cost-of-Living Adjustments	3.0% Annual Compound Increases
Retirees and Beneficiaries Receiving Benefits	598
Terminated Plan Members Entitled to but not yet Receiving Benefits	63
DROP Members	61
Active Plan Members	<u>464</u>
Total	1,186

Single Life Retirement Values

June 30, 2013

Sample Ages	Single Life Retirement Values			
	Present Value of \$1 Monthly for Life Increasing 3% Annually		Future Life Expectancy (Years)	
	Men	Women	Men	Women
50	\$ 184.55	\$ 193.75	31.13	34.64
55	170.25	180.99	26.58	29.98
60	153.88	165.93	22.23	25.44
65	135.67	148.87	18.14	21.14
70	115.71	130.29	14.35	17.16
75	94.91	110.69	10.95	13.56
80	74.32	90.48	8.02	10.35

Sample Attained Ages	\$100 Benefit Increasing 3% Yearly
55	\$ 100.00
60	115.93
65	134.39
70	155.79
75	180.60
80	209.36

Separations from Active Employment before Age and Service Retirement

June 30, 2013

Sample Ages	Percent of Active Members Separating Within the Next Year			
	Death			
	Men	Women	Disability	Other
20	0.02%	0.01%	0.06 %	5.50 %
25	0.02%	0.01%	0.09 %	5.50 %
30	0.03%	0.01%	0.19 %	5.50 %
35	0.04%	0.02%	0.31 %	4.18 %
40	0.06%	0.04%	0.43 %	2.64 %
45	0.08%	0.06%	0.55 %	1.43 %
50	0.13%	0.09%	0.67 %	0.55 %
55	0.22%	0.14%	0.79 %	0.00 %

Pay Increase Assumptions for Active Members

June 30, 2013

Sample Ages	Pay Increase Assumptions For Active Members		
	Merit and Seniority	Base (Economic)	Increase Next Year
20	6.29%	4.00%	10.29%
25	5.39%	4.00%	9.39%
30	4.01%	4.00%	8.01%
35	2.29%	4.00%	6.29%
40	1.50%	4.00%	5.50%
45	1.10%	4.00%	5.10%
50	0.80%	4.00%	4.80%
55	0.60%	4.00%	4.60%

Probabilities of Retirement for Members Eligible to Retire

Retirement Ages	Percent of Eligible Active Members Retiring Within Next Year		Years of Service	Percent of Eligible Active Members Retiring Within Next Year
	Tier One	Tier Two		Tier Two
47	2%			
48	2%			
49	2%			
50	6%	2 %	30	25 %
51	6%	2 %	31	15 %
52	10%	2 %	32	15 %
53	10%	6 %	33	20 %
54	10%	6 %	34	35 %
55	10%	25 %	35	40 %
56	10%	20 %	36 & Over	100 %
57	15%	18 %		
58	20%	18 %		
59	35%	20 %		
60	40%	25 %		
61	50%	30 %		
62	60%	100 %		
63	80%	100 %		
64	100%	100 %		
65	100%	100 %		

A member is assumed to be eligible to retire at age 52 (55 for Tier Two) with 17 years of service, or at any age with 30 years of service (Tier Two). A member is assumed to be eligible to retire early at age 47 (50 for Tier 2) with 17 years of service. For a Tier 2 member with 30 or more years of service at the beginning of a year, the percents shown for service based retirement (30 or more years) take precedence over the percents associated with age based retirement.

It was assumed that members eligible to enter the DROP will do so to maximize the value of their benefits.

Active Members in Actuarial Valuation Comparative Statement

June 30	No.	Group Averages		
		Age	Service	Pay
1994	480	42.8 yrs.	16.8 yrs.	\$ 34,934
1995	494	42.2	16.0	36,622
1996	513#	41.8	15.6	36,468
1997	503#	41.7	16.0	36,141
1998	564#	39.9	14.2	35,137
1999	565#	40.7	14.8	36,084
2000	542#	41.3	14.0	37,733
2001	558#	41.5	14.0	36,125
2002	510#	41.5	14.1	38,584
2003	495#	42.0	14.5	39,730
2004	477#	42.2	16.2	44,700
2005	488#	42.8	16.7	44,539
2006	527#	41.3	14.5	44,358
2007	536#	41.4	14.5	44,773
2008	555#	41.3	14.1	46,687
2009	539#	42.0	15.0	49,714
2010	545#	42.0	14.3	52,318
2011	530#	42.0	14.4	52,950
2012	534#	41.6	13.9	53,236
2013	525#	41.6	13.9	53,344

Includes DROP participants.

Tier One and Tier Two Participants as of June 30, 2013

	No.	Group Averages		
		Age	Service	Pay
Tier One	114	48.0 yrs.	20.0 yrs.	\$ 61,766
Tier One - DROP	61	55.9	36.7	73,395
Tier Two	350	37.0	7.9	47,106
Total	525	41.6	13.9	\$ 53,344

Short Condition Test

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

A short condition test is one means of checking a System's progress under its funding program. In a short condition test, the Plan's present assets (cash and investments) are compared with:

- 1) Member accumulated contributions;
- 2) The liabilities for future benefits to present retired lives;
- 3) The liabilities for service already rendered by active members.

In a system that has been following the discipline of level percent of payroll financing, active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by valuation assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) will be partially covered by the remainder of valuation assets. The larger the funded portion of liability 3, the stronger the condition of the system.

Valuation Date June 30	Entry Age Accrued Liability			Valuation Assets	Portion of Present Values Covered By Valuation Assets			
	(1) Active Member	(2) Retirees and	(3) Active Members (Employer Financed		(1)	(2)	(3)	Total
	Contr.	Benefits	Portion)					
(\$ in Millions)								
2004	\$ 0.58	\$ 144.61	\$ 130.53	\$ 201.83	100%	100%	43%	73%
2005 #@	0.54	144.30	136.44	200.10	100%	100%	41%	71%
2006	0.47	143.63	147.07	210.34	100%	100%	45%	72%
2007 @	0.51	158.34	148.81	233.13	100%	100%	50%	76%
2008	0.44	167.93	151.73	238.04	100%	100%	46%	74%
2009 #@	0.45	169.43	156.06	206.32	100%	100%	23%	63%
2010	0.35	179.38	153.87	211.07	100%	100%	20%	63%
2011	0.28	205.40	137.53	208.05	100%	100%	2%	61%
2012	0.31	217.64	137.35	215.01	100%	99%	0%	61%
2013	0.53	227.21	134.00	233.15	100%	100%	4%	64%
2013 @	0.53	227.80	133.13	233.15	100%	100%	4%	65%

After legislated changes in benefit provisions. @ After changes in actuarial assumptions and/or methods.

Derivation of Experience Gain/Loss

Year Ended June 30, 2013

Actual experience will not (except by coincidence) coincide exactly with assumed experience. Gains and losses often cancel each other over a period of years, but sizable year-to-year fluctuations are common. Detail on the derivation of the experience gain/loss is shown below.

(In \$1,000's)	
(1) UAAL* at start of year	\$ 140,292
(2) Normal cost from last valuation	5,759
(3) Employer contributions	19,473
(4) Interest accrual: $(1) \times 0.08 + [(2) - (3)] \times 0.04$	10,675
(5) Expected UAAL before changes: $(1) + (2) - (3) + (4)$	137,253
(6) Change for revised actuarial assumptions and/or valuation methods	(278)
(7) Change from benefit changes	0
(8) Expected UAAL after changes: $(5) + (6) + (7)$	136,975
(9) Actual UAAL at end of year	128,306
(10) Gain/loss: $(8) - (9)$	\$ 8,668
(11) Gain/loss as percent of actuarial accrued liabilities at start of year	2.4%

* Unfunded actuarial accrued liability

Gains and Losses by Risk Area

During the Period July 1, 2012 to June 30, 2013

Type of Risk Area	Gain/Loss in Period	
	\$ Millions	Percent of Liabilities
ECONOMIC RISK AREAS	\$ 2.6	0.7%
<i>Pay Increases.</i> If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.		
<i>Investment Return.</i> If there is greater recognized investment return than assumed, there is a gain. If less return, a loss.	5.4	1.5%
NON-ECONOMIC RISK AREAS		
<i>Age & Service Retirements.</i> If members retire at older ages or with lower final average pays than assumed, there is a gain. If younger ages or higher average pays, a loss.	(1.0)	(0.3)%
<i>Disability Retirements.</i> If there are fewer disabilities than assumed, there is a gain. If more, a loss.	0.0	0.0%
<i>Death-in-Service Benefits.</i> If there are fewer claims than assumed, there is a gain. If more, a loss.	0.0	0.0%
<i>Withdrawal.</i> If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	0.4	0.1%
Actuarial Gains/Loss	\$ 7.4	2.0%
<i>Other.</i> Gains and losses resulting from group size change, data adjustments, timing of financial transactions, and retire mortality.	1.3	0.4%
TOTAL GAIN (OR LOSS) DURING PERIOD	\$ 8.7	2.4%

Summary of Plan Provisions

(Last changed as of July 1, 2009)

The Non-Contributory Plan was created by Act 793 of 1977 and was effective January 1, 1978. All non-retired members are now covered by non-contributory benefits. Act 1071 of 1997 created a Tier Two benefit plan for all officers hired on or after April 3, 1997. Existing members of the plan in effect prior to this date (Tier One) had one year to elect coverage under Tier Two.

Voluntary Retirement

With a full benefit, after 30 years of actual service, regardless of age, or at age 65 with 5 actual years of service for Tier One and Tier Two. The age requirement is reduced by 1 month for every 2 months of Public Safety service credit, but not below age 52 for Tier One or age 55 for Tier Two members.

Public Safety service credit is granted at the rate of 1.5 months of credit for each month of actual Public Safety employment for Tier One. Service is credited at a rate of one for one in Tier Two.

With a reduced benefit, once a member's age is within 10 years of becoming eligible for full benefits. The reduction for Tier One is equal to 1/2 of 1% for each month retirement precedes Normal Retirement Age. The reduction for Tier Two is equal to 3/4 of 1% for each month retirement precedes Normal Retirement Age.

Final Average Pay (FAP)

Average of the highest 60 calendar months' pays for Tier One or 48 calendar months for Tier Two.

Full Age and Service Retirement Benefit

Tier One: 1.55% of FAP times years and months of credited service. Tier Two: 2.475% of FAP times credited service. If retirement is prior to age 62, an additional .322% of FAP times credited service will be paid until the retiree attains age 62 for Tier One or .513% of FAP times credited service for Tier Two.

Public Safety service credit is granted at the rate of 1.5 months of credit for each month of actual Public Safety employment for Tier One. Service is credited at a rate of one for one in Tier Two.

For Tier One, the portion of the SPRS benefit based on service before 1978 cannot be less than the amount provided by contributory provisions in effect at time of retirement; and if there is credited service for time prior to July 1, 1991, the benefit cannot be less than under the provisions in effect July 1, 1990, (using Social Security offset), plus increases granted since that date.

For Tier One, the minimum monthly benefit is \$150 minus any age and beneficiary option reductions.

Vested and Reduced Early Retirement Benefits

5 years of actual service, and leaving System-covered employment before full retirement age.

Deferred full retirement benefit, based on service and pay at termination, begins when full retirement age would have been reached by continuing covered employment.

In place of a deferred full benefit, a qualifying member may elect an immediate reduced benefit, provided the member is within 10 years of full retirement age. The reduced amount is the full amount reduced by 1/2 of 1% for Tier One and/or 3/4 of 1% for Tier Two for each month of difference in benefit commencement ages.

Death While in System Covered Employment

Member's accumulated contributions before 1978 are refundable.

If the deceased member has 5 or more years of service and has qualifying dependents, monthly benefits are payable instead. A surviving spouse receives a benefit as if the member had retired and elected the joint and 75% survivor option. Payment begins immediately if the member was eligible for a full age and service benefit or had 20 years of service; or payment begins at the spouse's age 50 if the member had 15 or more years of service; or payment begins at the spouse's age 62 if the member had less than 15 years of service.

If a member is killed while in the official line of duty and the surviving spouse is eligible for a deferred benefit, then the surviving spouse may elect to receive a reduced benefit immediately. The reduction of the benefit shall be 1/2 of 1% per month for each of the first 60 months that the benefit commences before when it would have otherwise commenced, plus; 1/4 of 1% per month for each month more than 60 months that the benefit commences before when it would have otherwise commenced. However, the total reduction shall not be more than 50%.

Each dependent child receives a benefit of 10% of annual pay (maximum of 25% of annual pay for all children).

Dependent parents' benefits are payable if neither spouse nor children's benefits are payable.

Total and Permanent Disability

Tier One eligibility: Disabled after 5 years of service.

Tier Two eligibility: Disabled after 5 years of service.

Amount is computed as an age and service benefit, based on service and pay to the time of disability.

Death after Retirement

Retiring member can provide protection for a beneficiary by electing an option which provides beneficiary protection by reducing the retired employee's benefit amount.

Under Tier One, if a straight life annuity is paid, upon the retiree's death, 50% of the retiree's benefit is continued to a surviving spouse. If the deceased retiree leaves children under age 18, 75% of the retiree's benefit is continued to the surviving spouse. If there is no surviving spouse, the 75% will be divided among the children under age 18.

Under Tier Two, if a straight life annuity is elected, no survivor benefit is payable.

Benefit Increases after Retirement

Annually, there is a cost-of-living adjustment equal to 3% of the current benefit amount.

Member Contributions

None.

ARKANSAS STATE POLICE OFFICERS DEFERRED RETIREMENT OPTION PLAN – TIER I (Act 967 of 1995)

Tier One members with 30 years of credited service and who are eligible to receive a service retirement pension may participate.

Participating members may continue in employment for up to 7 years and have their accrued monthly benefit (at date of participation) credited to an individual account in the Deferred Retirement Option Plan in lieu of any further benefit accruals.

The Deferred Retirement Option Plan accounts accumulate with interest and are paid to the member at termination of active membership in either a lump sum or as an annuity of equivalent value. Interest is credited annually at a rate established by the Board of Trustees.

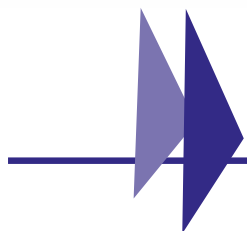
ARKANSAS STATE POLICE OFFICERS DEFERRED RETIREMENT OPTION PLAN – TIER II (Act 1242 of 2009)

Tier Two members with at least 30 years of actual service and are eligible to receive a service retirement pension may participate.

Participating members may continue in employment for up to 7 years and have seventy-two percent (72%) of their accrued monthly benefit (at date of participation) credited to an individual account in the Deferred Retirement Option Plan in lieu of any further benefit accruals.

The Deferred Retirement Option Plan accounts accumulate with interest and are paid to the member at termination of active membership in either a lump sum or as an annuity of equivalent value. Interest is credited annually to participant accounts at a rate established by the Arkansas State Police Retirement System Board of Trustees that shall not be greater than five percent (5%) nor less than one percent (1%) per annum.

Arkansas State Police Retirement System
124 West Capitol, Suite 400
Little Rock, AR 72201



ARKANSAS STATE POLICE RETIREMENT SYSTEM

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STATISTICAL SECTION

Schedule of Revenues by Source

Schedule of Expenses by Type

Schedule of Benefit Expenses by Type

Schedule of Retired Members by Type of Benefit Paid

Schedule of Average Benefit Payments

Statistical Graphs

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Schedule of Revenues by Source

Year Ending June 30	Employer Contributions	Court & Drivers License Reinst. Fees	Insurance Premium Tax	Motor Vehicle Title Fees	Investment Income	Other Income	Total
2004	\$ 5,357,153	\$ 2,240,366	\$ 433,487	\$ 0	\$ 30,817,439	\$ 60,993	\$ 38,475,951
2005	5,716,379	2,149,356	757,971	0	15,383,037	190,935	23,439,707
2006	7,349,063	2,299,058	2,031,014	0	19,651,079	95,817	29,395,017
2007	8,733,052	2,392,387	3,656,818	0	35,762,584	8,977	46,897,000
2008	8,942,134	2,656,777	3,128,234	0	(27,370,593)	52,494	(15,719,188)
2009	9,416,710	2,606,871	3,343,844	0	(50,964,780)	118,479	(38,822,720)
2010	20,547,457	2,682,529	5,285,153	0	15,965,604	63,621	39,259,211
2011	11,434,257	2,675,335	5,232,634	0	43,395,542	18,470	57,523,604
2012	6,525,196	2,525,594	6,250,117	4,246,637	(1,302,063)	118,334	18,363,815
2013	6,183,721	2,111,570	6,697,200	4,356,659	30,531,555	124,067	50,004,772

Note: Investment income includes investment gain calculated in accordance with GASB 25.

Schedule of Expenses by Type

Year Ending June 30	Benefit Payments ¹	Administrative Expenses	Refunds	Total
2004	\$ 13,940,448	\$ 94,399	0	\$ 14,034,847
2005	14,816,431	72,504	0	14,888,935
2006	16,063,960	75,400	0	16,139,360
2007	14,434,180	85,345	0	14,519,525
2008	19,087,918	87,020	0	19,174,938
2009	17,082,320	89,011	0	17,171,331
2010	20,319,683	79,878	0	20,399,561
2011	21,560,127	83,234	0	21,643,361
2012	21,649,158	80,842	0	21,730,000
2013	23,717,503	97,181	0	23,814,684

¹Includes DROP and PAW distributions.

Schedule of Benefit Expenses by Type *

Year Ended June 30	Age and Service		Death In Service	Disability	
	Retirees	Survivors		Retirees	Survivors
2004	9,667,320	905,916	212,160	748,368	55,140
2005	9,760,776	949,896	211,272	756,600	62,136
2006	11,068,308	1,088,844	212,208	762,312	79,584
2007	11,482,574	888,957	95,028	780,624	28,056
2008	12,336,918	884,153	86,316	859,164	34,476
2009	12,878,923	958,545	87,696	873,060	35,472
2010	13,646,899	1,113,108	90,312	910,452	35,940
2011	14,905,638	1,708,748	93,024	876,408	14,112
2012	16,106,010	1,803,169	91,092	876,516	12,756
2013	16,901,590	1,950,945	93,828	934,764	13,140

*Expenses are based on June 30 benefit amounts annualized.

Schedule of Retired Members by Type of Benefit Paid

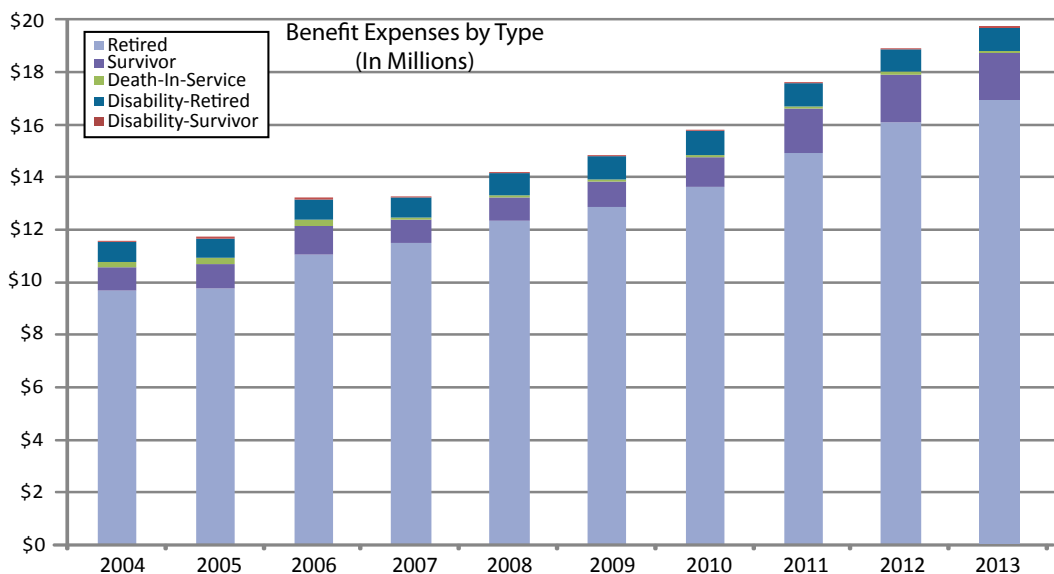
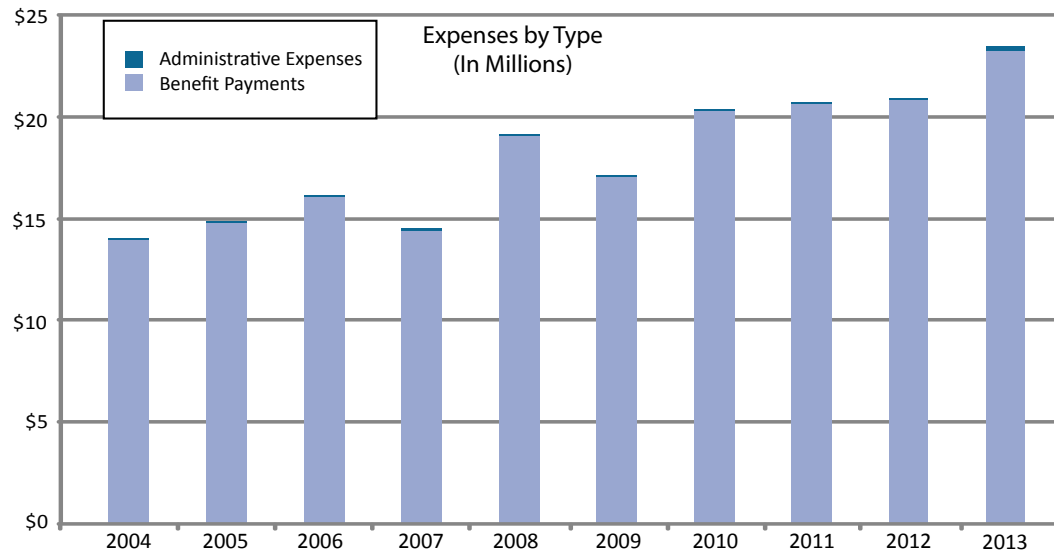
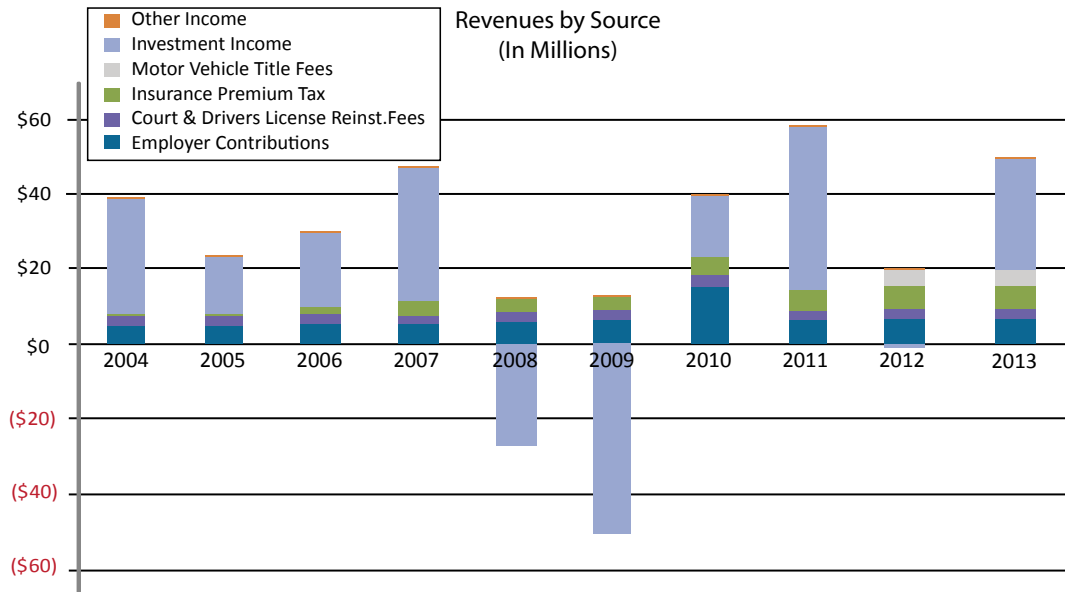
Type of Benefit Being Paid	Number	Annual Pensions	Actuarial Accrued Liability
Age and Service Retirees			
Life	83	\$ 2,821,944	\$ 25,818,521
B-50	319	13,751,017	161,938,111
B-75	14	328,629	4,074,560
Totals	416	16,901,590	191,831,192
Beneficiaries of Age & Service Retirees			
Life	11	164,062	1,790,209
B-50	90	1,763,891	16,615,395
B-75	2	22,992	315,259
Totals	103	1,950,945	18,720,863
Total Age & Service Retirees	519	18,852,535	210,552,055
Disability Retirees			
Life	15	251,616	2,765,371
B-50	22	679,440	7,807,076
B-75	1	3,708	63,021
Totals	38	934,764	10,635,468
Beneficiaries of Disability Retirees	2	13,140	160,179
Total Disability Retirees & Beneficiaries	40	947,904	10,795,647
Death-in-Service Beneficiaries	7	93,828	864,997
QDRO Alternate Payees	32	452,345	5,591,204
Total Retirees & Beneficiaries	598	20,346,612	227,803,903
DROP Participants (excluding DROP reserve)	61	3,273,420	41,029,897
Total Retirees, Beneficiaries and DROP Participants	659	\$ 23,620,032	\$ 268,833,800

Also included in the valuation were 63 inactive members eligible to receive vested deferred benefits, commencing at normal retirement age, totaling \$596,678 annually.

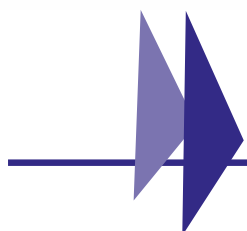
Schedule of Average Benefit Payments

	Years of Credited Service				
	10-14	15-19	20-24	25-29	30+
Retirement Effective Dates - 7/1/12 to 6/30/13					
Avg. Monthly Benefit	\$ 1,733.00			\$ 1,389.17	\$ 3,423.33
Avg. Monthly FAS	6,276.26			2,765.84	5,222.72
Number of Active Retirees	1			1	3
Retirement Effective Dates - 7/1/11 to 6/30/12					
Avg. Monthly Benefit	117.00			3,076.50	2,390.67
Avg. Monthly FAS	266.33			5,047.58	4,512.82
Number of Active Retirees	1			2	6
Retirement Effective Dates - 7/1/10 to 6/30/11					
Avg. Monthly Benefit	755.00		2,872.00	2,085.00	2,779.33
Avg. Monthly FAS	3,126.46		4,908.00	3,241.25	4,799.79
Number of Active Retirees	2		1	1	6
Retirement Effective Dates - 7/1/09 to 6/30/10					
Avg. Monthly Benefit	546.00	709.00	1,624.00		3,062.25
Avg. Monthly FAS	2,968.67	1,839.58	4,099.42		4,578.83
Number of Active Retirees	1	1	1		4
Retirement Effective Dates - 7/1/08 to 6/30/09					
Avg. Monthly Benefit	481.00				4,312.17
Avg. Monthly FAS	1,218.08				4,675.67
Number of Active Retirees	3				6
Retirement Effective Dates - 7/1/08 to 6/30/13					
Avg. Monthly Benefit	668.63	709.00	2,248.00	2,406.79	3,176.48
Avg. Monthly FAS	2,427.30	1,839.58	4,503.71	4,025.57	4,716.53
Number of Active Retirees	8	1	2	4	25

Statistical Graphs



Arkansas State Police Retirement System
124 West Capitol, Suite 400
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ARKANSAS STATE POLICE RETIREMENT SYSTEM

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APPENDIX SECTION

ASPRS & APERS - Plan Net Position

ASPRS & APERS - Changes in Plan Net Position

ASPRS & APERS - Manager Distribution

ASPRS & APERS - Ten Largest Holdings

ASPRS & APERS - Brokerage Commissions

ASPRS & APERS - Investment Fees

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ASPRS and APERS Combined Statement of Plan Net Position

As of June 30, 2013

	Combined	ASPRS	APERS
Assets			
Cash and Cash Equivalents	\$ 210,382,072	\$ 13,376,624	\$ 197,005,448
Receivables:			
Contributions	4,026,944	0	4,026,944
Dec 2004 Actuarial Liability Receivable	10,145,451	0	10,145,451
Investment Principal Receivable	20,410,505	703,611	19,706,894
Accrued Investment Income Receivable	20,601,556	710,198	19,891,358
Other Receivables	1,601,267	757,483	843,783
Total Receivables	56,785,722	2,171,292	54,614,430
Investments, At Fair Value			
Government Securities:			
U.S. Government Securities	107,055,728	3,690,532	103,365,196
Futures	655,731	22,605	633,126
Government Agency Securities	139,855,473	4,821,236	135,034,237
Corporate Securities:			
Collateralized Obligations	172,821,708	5,957,682	166,864,026
Corporate Bonds	509,669,452	17,569,835	492,099,617
Convertible Bonds	176,656,875	6,089,892	170,566,983
Convertible Preferred Stock	40,884,376	1,409,407	39,474,969
Common Stock	2,110,885,070	72,768,540	2,038,116,530
Equity Index Funds	570,758,268	19,675,749	551,082,519
Equity Co-Mingled	67,088,842	2,312,753	64,776,089
High Yield Income Fund	57,756,956	1,991,055	55,765,901
International Securities:			
Global Fixed Income Fund	11,155,432	384,561	10,770,871
Corporate Fixed Income	37,390,971	1,288,978	36,101,993
Equity Securities	740,908,655	25,541,344	715,367,311
Equity Pooled Fund Units	631,933,774	21,784,653	610,149,121
Global Equity Index Funds	306,775,026	10,575,455	296,199,571
Global Collateralized Obligations	5,676,810	195,696	5,481,114
Emerging Markets	27,110,423	934,577	26,175,846
Emerging Markets Collateralized Obligations	243,528	8,395	235,133
Forward Contracts	813,939	28,058	785,881
Interest Rate Swaps	4,389	151	4,238
Real Estate	268,846,113	9,267,932	259,578,181
Diversified Strategies	225,134,037	7,761,045	217,372,992
Timberland	212,132,581	7,312,846	204,819,735
Municipal Bonds	5,351,527	184,483	5,167,044
Commercial Loans	22,342,987	770,229	21,572,758
Total Investments	6,449,908,671	222,347,689	6,227,560,982
Securities Lending Collateral Investments, At Fair Value:			
Repurchase Agreements	136,688,623	4,712,067	131,976,556
Asset Backed Floating Rate Notes	109,488,095	3,774,383	105,713,712
US Agencies	11,499,653	396,428	11,103,225
US Governments	0	0	0
Certificates of Deposit	44,598,799	1,537,454	43,061,345
Commercial Paper	72,921,535	2,513,824	70,407,711
Corporate Floating Rate Notes	301,337,424	10,388,005	290,949,419
Bank Obligations	98,168,001	3,384,146	94,783,855
Total Securities Lending Collateral Investments	774,702,130	26,706,307	747,995,823
Prepays and Other Assets	29,640	0	29,640
Capital Assets, Net	44,592	0	44,592
Total Assets	7,491,852,827	264,601,912	7,227,250,915
Liabilities			
Accrued Expenses and Other Liabilities	8,178,240	378,576	7,799,664
Compensated Absences Payable	327,572	0	327,572
Other Post Employment Benefits	1,669,923	0	1,669,923
Investment Principal Payable	36,161,446	1,246,594	34,914,852
Securities Lending Liability	774,702,130	26,706,307	747,995,823
Due to Other Agencies	72,580	0	72,580
Total Liabilities	821,111,892	28,331,477	792,780,415
Net Position Restricted for Pension Benefits	\$ 6,670,740,935	\$ 236,270,435	\$ 6,434,470,500

Totals may not add due to rounding.

The ASPRS Statement of Plan Net Position can be found on page 22.

ASPRS and APERS Combined Statement of Changes in Plan Net Position

For the Year Ended June 30, 2013

	Combined	ASPRS	APERS
Additions			
Contributions			
Employer	\$ 255,245,907	\$ 6,183,721	\$ 249,062,186
Plan Member	44,668,082	118,170	44,549,911
Supplemental	8,567,089	6,703,097	1,863,992
Motor Vehicle Title Fees	4,356,659	4,356,659	0
Court Fees	1,229,390	1,229,390	0
Driver's License Reinstatement Fees	882,180	882,180	0
Total Contributions	314,949,306	19,473,217	295,476,089
Investment Income:			
Interest	54,021,970	1,905,364	52,116,606
Dividends	75,093,267	2,636,028	72,457,239
Investment Gain/(Loss)	776,318,572	26,774,893	749,543,679
Security Lending Income/(Loss)	1,841,468	65,152	1,776,316
Real Estate Income/(Loss)	0	0	0
Total Investment Income	907,275,277	31,381,437	875,893,840
Less: Investment Expense	24,823,031	849,882	23,973,149
Net Investment Income	882,452,246	30,531,555	851,920,691
Other Additions:			
Miscellaneous Additions	1,203,348	0	1,203,348
Transfers from Other Public Employees Retirement Systems	5,848,612	0	5,848,612
Total Other Additions	7,051,960	0	7,051,960
Total Additions	1,204,453,512	50,004,772	1,154,448,740
Deductions			
Benefits	420,324,630	23,717,503	396,607,128
Refunds of Contributions	8,446,701	0	8,446,701
Administrative Expenses	7,437,454	97,181	7,340,273
Total Deductions	436,208,786	23,814,684	412,394,102
Net Increase (Decrease)	768,244,726	26,190,088	742,054,638
Net Position Restricted for Pension Benefits			
Beginning of Year	5,902,496,209	210,080,347	5,692,415,862
End of Year	\$ 6,670,740,935	\$ 236,270,435	\$ 6,434,470,500

Totals may not add due to rounding.

See Notes to Financial Statements.

The ASPRS Statement of Changes in Plan Net Position can be found on page 23.

ASPRS and APERS - Manager Distribution - Combined Statement

APERS Manager Distribution for Period Ending June 30, 2013

Asset Allocation	Market Value (\$ Thousands)	Percent of Total	ASPRS	APERS
Domestic Equity (\$2,693,966,405; 40.43%)				
MCM S&P Index Fund	\$ 570,758,322	8.57 %	\$ 19,675,752	\$ 551,082,570
CastleArk Mgmt.	344,316,365	5.17 %	11,869,618	332,446,747
Golden Capital Mgmt.	133,181,252	2.00 %	4,591,157	128,590,095
INTECH	278,757,399	4.18 %	9,609,604	269,147,795
Wellington Mgmt. Co.	260,744,110	3.91 %	8,988,632	251,755,478
Westwood Mgmt.	142,699,822	2.14 %	4,919,291	137,780,531
Lazard Asset Mgmt.	242,292,571	3.64 %	8,352,552	233,940,019
Lombardia Capital	143,723,090	2.16 %	4,954,566	138,768,524
SSI Investment Mgmt.	221,215,337	3.32 %	7,625,956	213,589,381
Horrell Capital Mgmt.	69,926,498	1.05 %	2,410,576	67,515,922
State Street Global Advisors	67,088,842	1.01 %	2,312,754	64,776,088
Stephens Inv. Mgmt. Group	219,262,796	3.29 %	7,558,646	211,704,150
International Equity (\$1,638,546,587; 24.59%)				
Lazard Asset Mgmt.	327,981,684	4.92 %	11,306,513	316,675,171
Artisan Partners	357,201,475	5.36 %	12,313,806	344,887,669
MCM ACWI ex-US Index	306,775,026	4.60 %	10,575,455	296,199,571
Transition Account	4,043,457	0.06 %	139,390	3,904,067
UBS Global - Tax Reclaim Receivables	653,239	0.01 %	22,519	630,720
Manning & Napier	314,678,943	4.72 %	10,847,927	303,831,016
Pyramis Global Advisors	327,212,763	4.91 %	11,280,006	315,932,757
Fixed Income (\$1,148,749,651; 17.24%)				
MacKay Shields	767,719,950	11.53 %	26,465,610	741,254,340
Prudential Investments	381,029,702	5.72 %	13,135,237	367,894,465
Real Assets (\$789,206,971; 11.85%)				
INVESCO Real Estate	265,422,100	3.98 %	9,149,896	256,272,204
INVESCO GLOBAL REITS	134,285,776	2.02 %	4,629,234	129,656,542
TA Associates Realty	6,014,212	0.09 %	207,328	5,806,884
CastleArk Mgmt. - AR Energy Fnd	62,382,586	0.94 %	2,150,515	60,232,071
CastleArk Mgmt. Global Energy Fnd	139,172,849	2.09 %	4,797,706	134,375,143
Pinnacle Forest Investments	187,943,660	2.82 %	6,478,982	181,464,678
Liquidation Account	24,188,921	1.18 %	833,865	23,355,057
Diversified Strategies (\$319,627,379; 4.80%)				
AQR Capital	94,240,680	1.41 %	3,248,759	90,991,921
Blackstone Alternative Asset Mgmt.	130,893,357	1.96 %	4,512,287	126,381,070
Newton Capital	94,493,342	1.42 %	3,257,469	91,235,873
Short-term Investment Fund	42,331,547	0.66 %	7,609,007	34,722,540
COMPOSITE FUND	<u>\$ 6,662,631,673</u>	<u>100 %</u>	<u>\$ 235,830,613</u>	<u>\$ 6,426,801,060</u>

Totals may not add due to rounding.

A schedule of the ASPRS Manager Distribution can be found on page 54.

ASPRS and APERS -Ten Largest Holdings* - Combined Schedule

Domestic Fixed Income Holdings	Par	Market Value	ASPRS	APERS
U.S. Treasury 0.75% 03/31/2018	23,990,000	\$ 23,350,906	\$ 804,976	\$ 22,545,930
U.S. Treasury 3.125% 02/15/2043	14,915,000	13,922,258	479,942	13,442,316
U.S. Treasury 2.75% 08/15/2042	13,475,000	11,630,677	400,944	11,229,733
U.S.Treasury TIP 1.125% 01/15/2021	10,098,690	10,800,044	372,310	10,427,734
U.S.Treasury 3.625% 08/15/2019	9,345,000	10,408,741	358,821	10,049,920
Countrywide Financial Group 6.25% 05/15/2016	9,455,000	10,310,488	355,433	9,955,055
3-month LIBOR Floater 1.42% 11/30/2017	9,305,000	9,305,000	320,771	8,984,229
3-month LIBOR Floater 1.42% 11/30/2017	9,225,000	9,225,000	318,013	8,906,987
3-month EURIBOR Floater 01/25/2015	7,547,785	7,548,350	260,214	7,288,136
U.S.Treasury 1.75% 05/15/2023	7,955,000	7,450,335	256,835	7,193,500
Total		<u>\$ 113,951,799</u>	<u>\$ 3,928,260</u>	<u>\$ 110,023,540</u>

Domestic Equity Holdings	Shares	Market Value	ASPRS	APERS
Citigroup Inc.	641,125	\$ 30,754,766	\$ 1,060,209	\$ 29,694,557
Pfizer Inc.	886,632	24,834,562	856,122	23,978,440
Home Depot Inc.	314,324	24,350,680	839,441	23,511,239
Apple Inc.	50,912	20,188,135	695,946	19,492,189
Andarko Petroleum Corp.	214,840	18,461,201	636,413	17,824,788
Cisco Systems Inc.	678,405	16,508,986	569,114	15,939,872
Exxon Mobil Corp.	179,801	16,245,020	560,015	15,685,005
Unitedhealth Group Inc.	234,745	15,371,103	529,888	14,841,215
Gilead Sciences Inc.	265,700	13,622,439	469,606	13,152,833
Bank of America Corp.	1,035,600	13,317,816	459,105	12,858,711
Total		<u>\$ 193,654,708</u>	<u>\$ 6,675,859</u>	<u>\$ 186,978,849</u>

International Equity Holdings	Shares	Market Value	ASPRS	APERS
Tesco PLC	4,281,973	\$ 21,522,668	\$ 741,951	\$ 20,780,717
Compass Group	1,592,097	20,283,762	699,242	19,584,520
Novartis AG	264,700	18,772,256	647,136	18,125,120
TE Connectivity Ltd.	343,129	15,626,095	538,678	15,087,417
Ryanair Holdings PLC	298,791	15,396,700	530,770	14,865,930
AON Corp.	218,745	14,076,241	485,250	13,590,991
Arch Capital Group Ltd.	269,987	13,880,032	478,486	13,401,546
Schlumberger Ltd.	192,460	13,791,684	475,441	13,316,243
Unilever PLC	329,193	13,315,857	459,038	12,856,819
Lloyd's Banking Group PLC	13,102,758	12,551,757	432,697	12,119,060
Total		<u>\$ 159,217,052</u>	<u>\$ 5,488,689</u>	<u>\$ 153,728,363</u>

* by market value

Totals may not add due to rounding.

A schedule of the ASPRS Ten Largest Holdings can be found on page 57.

ASPRS and APERS - Brokerage Commissions - Combined Schedule

Brokerage Firm	Number of Shares Traded	Total Commission	Commission Per Share	ASPRS Commission	APERS Commission
Credit Suisse First Boston	5,843,427	\$ 163,474	\$ 0.03	\$ 5,635	\$ 157,839
Barclays Capital Inc.	3,616,228	109,079	0.03	3,760	105,319
UBS Securities LLC	3,692,748	95,697	0.03	3,299	92,398
Investment Technology Group	4,219,139	94,629	0.02	3,262	91,367
J.P. Morgan Securities Inc.	1,762,537	89,624	0.05	3,090	86,534
Merrill Lynch Pierce Fenner Smith Inc.	4,539,659	83,394	0.02	2,875	80,519
Jefferies & Co.	4,950,514	74,588	0.02	2,571	72,017
Instinet Corp.	3,315,245	74,278	0.02	2,561	71,717
Liquidnet Inc.	2,646,835	71,948	0.03	2,480	69,468
Citigroup Global Markets Inc.	1,921,821	71,406	0.04	2,462	68,944
Goldman Sachs & Co.	3,319,541	67,850	0.02	2,339	65,511
Sanford C. Bernstein & Co.	2,245,028	59,888	0.03	2,065	57,823
Morgan Stanley & Co. Inc.	1,673,353	58,972	0.04	2,033	56,939
ISI Group Inc.	1,350,214	48,217	0.04	1,662	46,555
Deutsche Bank Securities Inc.	1,555,499	43,212	0.03	1,490	41,722
Capital Institutional Services Inc.	1,483,218	41,131	0.03	1,418	39,713
BTIG LLC	2,728,219	39,976	0.01	1,378	38,598
Rosenblatt Securities Corp.	1,339,740	37,562	0.03	1,295	36,267
William Blair & Co.	852,489	37,269	0.04	1,285	35,984
BNY Convergenx	2,034,853	35,317	0.02	1,217	34,100
Piper Jaffray & Co.	780,668	32,861	0.04	1,133	31,728
Weeden & Co.	983,950	32,198	0.03	1,110	31,088
Robert W. Baird & Co., Inc.	782,523	32,179	0.04	1,109	31,070
Citation Group	1,442,283	31,878	0.02	1,099	30,779
RBC Capital Markets LLC	643,947	27,111	0.04	935	26,176
Others (including 91 brokerage firms)	15,981,670	599,316	0.04	20,660	578,656
	<u>75,705,348</u>	<u>\$ 2,153,054</u>	\$ 0.03	<u>\$ 74,222</u>	<u>\$ 2,078,832</u>

Totals may not add due to rounding.

A schedule of the ASPRS Brokerage Commissions can be found on page 58.

ASPRS and APERS - Investment Fees - Combined Schedule

				ASPRS		APERS	
	Market Value	Fee	Basis Points	Market Value	Fee	Market Value	Fee
Equities							
SSI Investment Mgmt. - Convertible Securities	\$ 221,215,337	\$ 860,488	40	\$ 7,625,956	\$ 29,676	\$ 213,589,381	\$ 830,812
Lazard Asset Mgmt. - Value	242,292,571	677,741	30	8,352,552	23,373	233,940,019	654,368
Golden Capital Mgmt. - Growth	133,181,252	286,322	22.5	4,591,157	9,875	128,590,095	276,446
Westwood Mgmt. - SMID Cap	142,699,822	916,464	25	4,919,291	31,611	137,780,531	884,853
MCM S&P 500 Index Fund	570,758,322	124,217	3.5	19,675,752	4,284	551,082,570	119,933
INTECH - Growth	278,757,399	1,169,271	48	9,609,604	40,326	269,147,795	1,128,946
CastleArk Mgmt. - Growth	344,316,365	1,079,742	35	11,869,618	37,238	332,446,747	1,042,504
Wellington Mgmt. Co. - Value	260,744,110	757,869	30	8,988,632	26,138	251,755,478	731,730
Stephens Investment Mgmt. - Growth	219,262,796	1,403,535	77	7,558,646	48,405	211,704,150	1,355,130
State Street Global Advisors - 130/30	67,088,842	303,363	50	2,312,754	10,459	64,776,088	292,903
Lombardia Capital - Small Cap	143,723,090	895,680	70	4,954,566	30,889	138,768,524	864,791
Horrell Capital Mgmt. - AR Index Fund	69,926,498	175,791	27	2,410,576	6,062	67,515,922	169,728
Lazard Asset Mgmt. - Int'l Equity	327,981,684	957,677	65	11,306,513	33,026	316,675,171	924,650
Manning & Napier Advisors - Int'l Equity	314,678,943	1,564,996	50	10,847,927	53,971	303,831,016	1,511,025
Pyramis Global Advisors - Int'l Equity	327,212,763	1,149,536	20	11,280,006	39,639	315,932,757	1,109,897
UBS Global Asset Mgmt. - Int'l Equity - *	0	1,452,260	50	0	50,079	0	1,402,181
MCM ACWI ex-US Index Fund	306,775,026	2,732		10,575,455	94	296,199,571	2,637
Artisan Partners - Int'l Equity	357,201,475	1,875,999	55	12,313,806	64,696	344,887,669	1,811,303
	<u>\$ 4,327,816,295</u>	<u>\$ 15,653,683</u>		<u>\$ 149,171,612</u>	<u>\$ 539,841</u>	<u>\$ 4,178,623,484</u>	<u>\$ 15,113,837</u>
Diversified Strategies							
AQR Capital	\$ 94,240,680	\$ 676,726	72	\$ 3,248,759	\$ 23,340	\$ 90,991,921	\$ 653,386
Blackstone Alternative Asset Mgmt.	130,893,357	948,676	100	4,512,287	32,718	126,381,070	915,958
Newton Capital	94,493,342	599,288	70	3,257,469	20,640	91,235,873	578,649
	<u>\$ 319,627,379</u>	<u>\$ 2,224,690</u>		<u>\$ 11,018,515</u>	<u>\$ 76,698</u>	<u>\$ 308,608,864</u>	<u>\$ 2,147,993</u>
Fixed Income							
MacKay Shields - Core Plus I	\$ 377,454,708	\$ 755,987	20	\$ 13,011,996	\$ 26,072	\$ 364,442,712	\$ 729,915
MacKay Shields - Core Plus II	390,265,242	583,241	15	13,453,614	20,115	376,811,628	563,126
Prudential Investments - Core Plus	381,029,702	767,078	20	13,135,237	26,455	367,894,465	740,623
	<u>\$ 1,148,749,652</u>	<u>\$ 2,106,306</u>		<u>\$ 39,600,847</u>	<u>\$ 72,642</u>	<u>\$ 1,109,148,805</u>	<u>\$ 2,033,664</u>
Real Assets							
INVESCO Real Estate - Core & Global REITS	\$ 399,707,876	\$ 1,810,236	65	\$ 13,779,130	\$ 63,240	\$ 385,928,746	\$ 1,746,996
TA Associates Realty	6,014,212	140,766		207,328	5,028	5,806,884	135,738
CastleArk Mgmt. - AR Energy Fund	62,382,586	737,402	125	2,150,515	25,431	60,232,071	711,971
CastleArk Mgmt. - Global Energy Fund	139,172,849	1,164,889	100	4,797,706	40,174	134,375,143	1,124,715
Pinnacle Forest Investments - Timberland	187,943,660	1,555,032	90	6,478,982	53,632	181,464,678	1,501,400
	<u>\$ 795,221,183</u>	<u>\$ 5,408,325</u>		<u>\$ 27,413,660</u>	<u>\$ 187,505</u>	<u>\$ 767,807,523</u>	<u>\$ 5,220,820</u>
Other Investment Services							
Bank of New York Mellon (Custodian)		\$ 544,701			\$ 18,789		\$ 525,912
Callan Associates (Consultant)		237,952			2,051		235,901
Total Other Services		<u>782,653</u>			<u>20,840</u>		<u>761,813</u>
Total Investment Service Fees		<u>\$ 26,175,657</u>			<u>\$ 897,526</u>		<u>\$ 25,278,127</u>

Totals may not add due to rounding.

*Manager terminated. A schedule of the ASPRS Investment Fees can be found on page 59.

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