



Arkansas State Police Retirement System

Annual Financial Report as of June 30, 2014

Arkansas State Police Retirement System

A Pension Trust Fund of the State of Arkansas



Annual Financial Report

For the fiscal year ended June 30, 2014

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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LEADERSHIP

COURAGE

SERVICE

PROTECTION

HONOR

SECURITY



INTRODUCTION

A Brief History of ASPRS

System Highlights

Troop Headquarters

Letter of Transmittal

Board of Trustees

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Outside Professional Service Providers



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A Brief History of ASPRS

With the passage of Act 311 on March 19, 1951, the Arkansas General Assembly created the State Police Retirement System (ASPRS or the System). This System provides for the retirement of police officer employees of the Department of 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 Two Benefit Plan for the State Police Retirement System (Tier II) for all officers hired on or after April 3, 1997. Members of the plan in effect before April 3, 1997 (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 Board of Trustees of the Arkansas Public Employees Retirement System. Investment schedules contained herein reflect the market values accruing to each system.

This annual financial report, which covers the period from July 1, 2013 through June 30, 2014, provides comprehensive information about the System including a description of the retirement plan; investment policies and objectives; financial statements; an actuarial report; and historical and statistical information on active members, annuitants, and benefit payments.

INTRODUCTION

System Highlights

As of June 30, 2014

ACTIVE MEMBERS (EXCLUDES DROP PARTICIPANTS)

Tier I

Number	103
Average Age (yrs.)	48.7
Average Service (yrs.)	20.9
Average Annual Salary	\$ 65,474

Tier II

Number	368
Average Age (yrs.)	37.2
Average Service (yrs.)	8.3
Average Annual Salary	\$ 48,596

Inactive Vested Members

Number	59
--------	----

2014 RETIREES (INCLUDES DROP PARTICIPANTS)

	Age and Service	Disability
Retired Members	17	2
Average Age (yrs.)	52.88	42.50
Average Credited Service (yrs.)	28.06	10.00
Average Monthly Benefit	\$ 2,919.29	\$ 1,046.50

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

Retired Members	666
Average Monthly Benefit	\$ 3,032.01

INTRODUCTION

Troop Headquarters

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

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

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

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

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

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

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

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

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

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

Troop "K" 501-767-8550
200 Karen Street - Hot Springs, AR 71901
Captain Mark Allen - 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

December 15, 2014

Dear ASPRS Members:

The Arkansas State Police Retirement System (ASPRS or the System) is pleased to present the Annual Financial Report for the period ending June 30, 2014. 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 2014 revenue from employer contributions totaled \$6.4 million. This amount is \$222,166 more than the amount received in fiscal year 2013. Court fees and driver's license reinstatement fees for the fiscal year were \$2.66 million, an increase of \$546,382 from fiscal year 2013. In 2014, motor vehicle title fees totaling \$4.44 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 \$5.96 million from the insurance premium tax transfer during fiscal year 2014 and \$6.7 million in fiscal year 2013.

The System experienced a net investment gain of \$43.3 million in fiscal year 2014 after expenses of just over \$1 million, an increase of \$12.78 million from fiscal year 2013. Overall, the System's revenues increased \$12.8 million over fiscal year 2013.

Expenses

Benefit payments for fiscal year 2014 were \$21.69 million, which is \$2,029,264 less than fiscal year 2013. Administrative expenses were \$189,658, of which \$28,200 was for professional fees and \$151,294 was transferred to APERS for indirect administrative costs.

Funding

The System is funded through contributions from the state and from 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 the 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, 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 and the policies and respective guidelines of the APERS Board, but they are free to use full discretion within those policies 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 APERS Board are listed on page 16 of this report.

Professional Services

Professional services are provided to ASPRS by firms selected by the APERS Board to aid in the efficient and effective management of the System. A list of firms retained during the year can be found on page 16 of this report.

Acknowledgments

This report is the result of the combined efforts of the APERS staff under the direction of the Board of Trustees of the State Police Retirement System. 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.



Donnie Underwood
Chairman of ASPRS Board of Trustees



Gail H. Stone
Executive Secretary

Board of Trustees

Mr. Donnie Underwood, Chair - Marion, AR, Citizen-At-Large

Expiration of Term: July 1, 2021

Lt. Brant Tosh, Vice-Chair - Jonesboro, AR, ASPRS Tier II member

Expiration of Term: July 1, 2018

Mr. John W. Allison - Conway, AR, Arkansas State Police Commissioner

Expiration of Term: July 1, 2016

Mr. Richard Weiss - Little Rock, AR - Chief Fiscal Officer of the State
Director of the Department of Finance and Administration

Expiration of Term: Ex-Officio Member

Sergeant Ben Cross - Clarksville, AR, ASPRS Tier I member

Expiration of Term: July 1, 2022

Mr. Joe Miles - Mountain Home, AR, Citizen-At-Large

Expiration of Term: July 1, 2017

Mr. Carl "Ned" Hendrix - Winthrop, AR, Citizen-At-Large

Expiration of Term: July 1, 2019

ASPRS Senior Staff

Ms. Gail Stone

Executive Director

Ms. Michele Williams

Deputy Director

Mr. Jay Wills

Staff Attorney

Ms. Sheila Watts

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

Custodian Bank

The Bank of New York Mellon
Pittsburgh, PA 15258

Actuary

Gabriel, Roeder, Smith & Co.
Southfield, MI 48076

Investment Consultant

Callan Associates, Inc.
Chicago, IL 60602

Domestic Equity Investment Managers

CastleArk Management, LLC
Chicago, IL 60606

Golden Capital Management
Charlotte, NC 28262

Horrell Capital Management
Little Rock, AR 72211

INTECH
West Palm Beach, FL 33401

Lazard Asset Management
New York, NY 10020

Lombardia Capital Partners
Pasadena, CA 91101

Mellon Capital Management
Pittsburgh, PA 15258

SSI Investment Management
Beverly Hills, CA 90210

State Street Global Advisors
Atlanta, GA 30305

Stephens Investment Management Group
Houston, TX 77046

Wellington Management Company
Boston, MA 02210

Westwood Management Corp.
Dallas, TX 75201

Fixed Income Investment Managers

MacKay Shields
New York, NY 10105

Prudential Investments, Inc.
Newark, NJ 07102

Diversified Strategies Investment Managers

AQR Capital Management
Greenwich, CT 06830

Blackstone Alternative Asset Mgmt., LP
New York, NY 10154

Newton Capital Management
New York, NY 10166-0005

Real Assets Investment Managers

CastleArk Management, LLC
Chicago, IL 60606

Invesco Real Estate
Dallas, TX 75240

LaSalle Investment Management
San Francisco, CA 94111

Pinnacle Forest Investments, LLC
Little Rock, AR 72211

TA Associates Realty
Boston, MA 02109

International Equity Investment Managers

Artisan Partners
Milwaukee, WI 53202

Baillie Gifford Overseas Ltd.
Edinburgh, Scotland

Lazard Asset Management
New York, NY 10020

Manning & Napier Advisors
Dublin, OH 43017

Pyramis Global Advisors
Smithfield, RI 02917

LEADERSHIP

COURAGE

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SECURITY



FINANCIAL SECTION

Management's Discussion and Analysis

Basic Financial Statements

Statement of Plan Net Position

Statement of Changes in Plan Net Position

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Required Supplementary Information

Schedule of Funding Progress

Schedule of Employer Contributions

Schedule of Changes in the Net Pension Liability and Related Ratios

Schedule of the Net Pension Liability

Schedule of Investment Returns

Notes to Required Supplementary Information

Schedule of Administrative Expenses

Schedule of Investment Expenses

Payments for Professional Consultants



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Management's Discussion and Analysis

To help facilitate a better understanding of the financial condition of the Arkansas State Police Retirement System (ASPRS) as of June 30, 2014, the results of its operation for the fiscal year ended, and the fiscal policies that govern its significant business operations, management has prepared this narrative analysis. The 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 24.

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 Board of Trustees of the Arkansas Public Employees Retirement System (APERS Board) 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 assets held in trust for pension benefits as of June 30, 2014.

The basic financial statements contained in the Financial Section of the annual report consist of the following:

The *Statement of Plan Net Position* reports the pension trust fund's assets, liabilities, and resulting net position such that *assets – liabilities = net position* at the end of the fiscal year. It is a snapshot of the financial position of the pension trust fund at that specific time. Below is a summary of total assets, total liabilities, and resulting net position for fiscal years 2014 and 2013:

	2014	2013
Total Assets	\$ 316,722,228	\$ 264,601,912
Total Liabilities	39,520,261	28,331,477
Net Position	<u>\$ 277,201,967</u>	<u>\$ 236,270,435</u>

The *Statement of Changes in Plan Net Position* summarizes the pension trust fund's financial transactions that have occurred during the fiscal year such that *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 is a summary of the financial transactions of the trust fund for fiscal years 2014 and 2013:

	2014	2013
ADDITIONS		
Employer Contributions	\$ 6,405,887	\$ 6,183,721
Plan Member Contributions	37,492	118,170
Supplemental	5,957,541	6,703,097
Court	1,270,223	1,229,390
Driver's License Reinstatement Fees	1,387,728	882,180
Motor Vehicle Title Fees	4,442,806	4,356,659
Net Investment Income	43,307,745	30,531,555
Total Other Additions	7	0
TOTAL ADDITIONS	62,809,429	50,004,772
DEDUCTIONS		
Benefits	21,688,239	23,717,503
Administrative Expenses	189,658	97,181
TOTAL DEDUCTIONS	21,877,897	23,814,684
NET INCREASE (DECREASE)	40,931,532	26,190,088
NET POSITION		
Beginning of the Year	236,270,435	210,080,347
End of the Year	<u>\$ 277,201,967</u>	<u>\$ 236,270,435</u>

The *Notes to the Basic Financial Statements* is 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 Basic Financial Statements* provides 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, including information regarding membership and employers.

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

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

Note 4 provides information regarding legally required reserves.

Note 5 provides information regarding the System's net pension liability.

Note 6 describes the System's Deferred Retirement Option Plan.

The required supplementary information provides additional detail and historical information considered to be useful in evaluating the condition of the plan administered by APERS. The System provides certain required schedules and related note disclosures that collectively demonstrate the System's annual progress toward funding its actuarial accrued liability (e.g., the schedule of funding progress) and disclose the annual employer contributions required and the percentage contributed.

The other supplementary schedules summarize the major categories of administrative and investment expenses and detail the amounts paid to professional consultants.

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, 2014 by \$40.93 million. This increase can be attributed to an increase in the value of investments and their associated income.

System Investments as of June 30, 2014

The investments of the pension trust fund generated a 19.68 percent return for the fiscal year, which is an improvement from the prior year's return of 15.58 percent. The 19.68 percent placed APERS in the top 2 percent when compared with a median return of 16.11 percent for large public plans. Investment results over time are compared with the System's benchmarks in the *Schedule of Comparative Investment Results* located in the Investments Section of this annual report.

Domestic Equity

The combined systems had \$3.218 billion in U.S. domestic equity securities, which is approximately a 19.4 percent increase from fiscal year 2013. Domestic equity posted a return of 24.48 percent for the fiscal year. The benchmark used for the System posted a return of 25.01 percent.

International Equity

The combined systems had \$2.026 billion in international equity securities, which is approximately a 23.7 percent increase from fiscal year 2013. International equity posted a return of 24.43 percent for the fiscal year. The benchmark used for the System posted a return of 22.8 percent.

Fixed Income

The combined systems had \$1.227 billion in fixed income securities, which is approximately a 6.8 percent increase from fiscal year 2013. Fixed income posted a return of 7.03 percent for the fiscal year. The benchmark used for the System posted a return of 5.25 percent.

Diversified Strategies

The combined systems had \$361 million in diversified strategies, which is approximately a 13 percent increase from fiscal year 2013. Diversified strategies posted a return of 13.91 percent for the fiscal year.

Real Assets

The combined systems had \$921 million in real assets, which is approximately a 16.7 percent increase from fiscal year 2013. Real assets posted a return of 14.51 percent for the fiscal year. The benchmark used for the System posted a return of 6.07 percent.

Securities Lending

The System earns additional investment income by lending investment securities to broker-dealers. This is done by the System's custodian 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 2014, securities lending income to the System amounted to \$131,750.

Actuarial Valuations and Funding Progress

An actuarial valuation of the System is performed annually as of June 30. The funded status of the System is shown in the schedule of funding progress on page 60.

The actuarial accrued liability and actuarial value of assets of the System as of June 30, 2014, amounted to \$381.86 million and \$259.46 million, respectively.

As of June 30, 2014, the System experienced an increase in its funded status from 65 percent to 73 percent on a market value basis. On a funding basis, the System experienced an increase in its funded status from 65 percent to 68 percent.

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 Public Employees Retirement System, 124 W. Capitol, Suite 400, Little Rock, AR 72201.

Basic Financial Statements

STATEMENT OF PLAN NET POSITION

As of June 30, 2014

	2014	2013
ASSETS		
Cash and Cash Equivalents	\$ 14,823,010	\$ 13,376,624
Receivables		
Contributions & Retiree Receivables	25,578	757,483
Investment Principal Receivable	1,392,545	703,611
Accrued Investment Income Receivable	1,180,660	710,198
Total Receivables	2,598,783	2,171,292
Investments, At Fair Value		
Government Securities		
U.S. Government Securities	4,558,166	3,690,532
Futures	10,451	22,605
Government Agency Securities	4,201,470	4,821,236
Corporate Securities		
Collateralized Obligations	5,920,946	5,957,682
Corporate Bonds	19,901,362	17,569,835
Convertible Bonds	7,603,640	6,089,892
Convertible Preferred Stock	1,488,838	1,409,407
Common Stock	90,662,787	72,768,540
Equity Index Funds	23,318,529	19,675,749
Equity Commingled	2,944,485	2,312,753
High Yield Income Fund	2,176,252	1,991,055
International Securities		
Global Fixed Income Fund	350,135	384,561
Corporate Fixed Income	1,768,203	1,288,978
Equity Securities	42,266,057	25,541,344
Equity Pooled Fund Units	26,046,323	21,784,653
Global Equity Index Funds	0	10,575,455
Global Collateralized Obligations	37,923	195,696
Emerging Markets	1,181,645	934,577
Emerging Markets Collateralized Obligations	7,093	8,395
Forward Contracts	(6,763)	28,058
Interest Rate Swaps	(677)	151
Real Estate	11,330,164	9,267,932
Diversified Strategies	8,995,497	7,761,045
Timberland	6,027,538	7,312,846
Municipal Bonds	302,802	184,483
Commercial Loans	777,096	770,229
Total Investments	261,869,962	222,347,689
Securities Lending Collateral Investments, At Fair Value		
Repurchase Agreements	6,302,633	4,712,067
Asset Backed Floating Rate Notes	6,268,715	3,774,383
U.S. Agencies	0	396,428
Certificates of Deposit	1,217,927	1,537,454
Commercial Paper	1,810,685	2,513,824
Corporate Floating Rate Notes	17,299,021	10,388,005
Time Deposits	3,677,934	0
Fixed Rate Notes	853,558	0
Bank Obligations	0	3,384,146
Total Securities Lending Collateral Investments	37,430,473	26,706,307
TOTAL ASSETS	316,722,228	264,601,912
LIABILITIES		
Accrued Expenses and Other Liabilities	415,939	378,576
Investment Principal Payable	1,536,910	1,246,594
Securities Lending Liability	37,567,412	26,706,307
TOTAL LIABILITIES	39,520,261	28,331,477
NET POSITION RESTRICTED FOR PENSION BENEFITS	\$ 277,201,967	\$ 236,270,435

Totals may not add due to rounding. The schedule of funding progress is on page 60.
The ASPRS and APERS Combined Statement of Plan Net Position can be found on page 119.

Basic Financial Statements

STATEMENT OF CHANGES IN PLAN NET POSITION

For the year ended June 30, 2014

	2014	2013
ADDITIONS		
Contributions		
Employer	\$ 6,405,887	\$ 6,183,721
Plan Member	37,492	118,170
Supplemental	5,957,541	6,703,097
Court	1,270,223	1,229,390
Driver's License Reinstatement Fees	1,387,728	882,180
Motor Vehicle Title Fees	4,442,806	4,356,659
Total Contributions	19,501,677	19,473,217
Investment Income		
Interest	1,834,294	1,905,364
Dividends	3,280,102	2,636,028
Investment Gain/(Loss)	39,063,785	26,774,893
Security Lending Income	131,750	65,152
Total Investment Income	44,309,931	31,381,437
Less: Investment Expense	1,002,186	849,882
Net Investment Income	43,307,745	30,531,555
Other Sources		
Miscellaneous Additions	7	0
Total Other Additions	7	0
TOTAL ADDITIONS	62,809,429	50,004,772
DEDUCTIONS		
Benefits	21,688,239	23,717,503
Administrative Expenses	189,658	97,181
TOTAL DEDUCTIONS	21,877,897	23,814,684
NET INCREASE (DECREASE)	40,931,532	26,190,088
NET POSITION RESTRICTED FOR PENSION BENEFITS		
Beginning of Year	236,270,435	210,080,347
End of Year	<u>\$ 277,201,967</u>	<u>\$ 236,270,435</u>

Totals may not add due to rounding.

See Notes to Basic Financial Statements beginning on page 26.

The ASPRS and APERS Combined Statement of Changes in Plan Net Position can be found on page 120.

Basic Financial Statements

NOTES TO THE BASIC FINANCIAL STATEMENTS

Note 1: Plan Description

General Information

The Arkansas State Police Retirement System (ASPRS or the System) 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 Department of Arkansas State Police. The laws governing the operations of ASPRS are set forth in Arkansas Code Annotated (A.C.A.), 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.

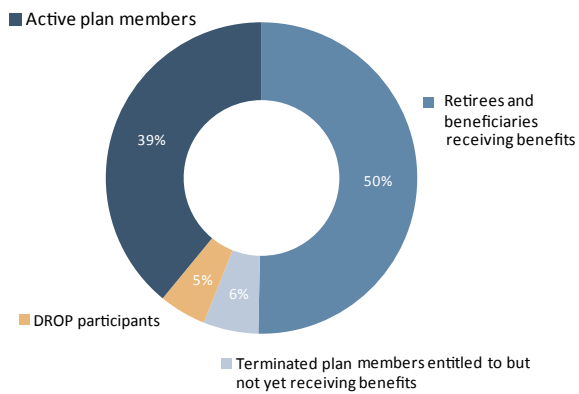
Effective July 1, 2009, Act 1242 of 2009 transferred the assets of ASPRS to the Arkansas Public Employees Retirement System (APERS) to hold in trust for ASPRS. Act 1242 also changed the composition of the Board of Trustees of the State Police Retirement System (ASPRS Board) and created the Arkansas State Police Officers' Tier II Deferred Retirement Option Plan (DROP). The ASPRS Board consists of seven trustees, who are listed on page 14 of this report. Arkansas Code Annotated section § 24-6-204 states that the ASPRS Board 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 or 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 that the assets of ASPRS and APERS shall be invested as determined by the Board of Trustees of the Arkansas Public Employees Retirement System (APERS Board).

Membership

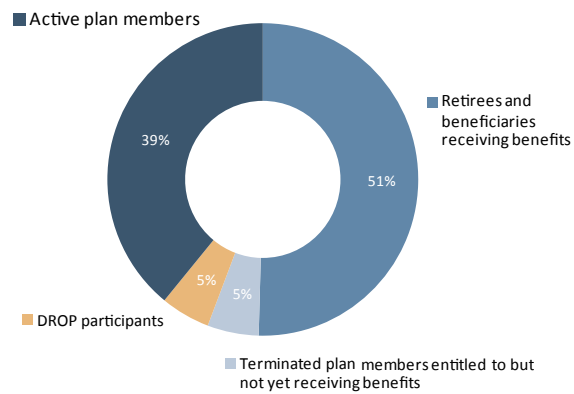
As of June 30, 2014 and 2013, membership was as follows:

	2014	2013
Retirees and Beneficiaries Receiving Benefits	607	598
Terminated plan members entitled to but not yet receiving benefits	69	63
DROP Participants	59	61
Active Plan Members (Excludes DROP Participants)	471	464
	<u>1,206</u>	<u>1,186</u>

Membership 2014



Membership 2013



Contributions

Contribution provisions are established by state law and may be amended only by the Arkansas General Assembly. As of June 30, 2014 and 2013, there were no contributory members of ASPRS. Plan member contributions presented in the financial statements are related to service purchase payments. For fiscal year 2014, the employer contribution rate was 22 percent 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 ASPRS fund). The ASPRS fund received \$5.96 million of Act 1071 funds in fiscal year 2014 and \$6.70 million in fiscal year 2013. Additional funds are collected from motor vehicle title fees in accordance with Act 718 of 2011. The ASPRS fund received \$4.44 million of Act 718 funds in fiscal year 2014 and \$4.36 million in fiscal year 2013.

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 after meeting the following minimum age and service requirements:

- under the Tier I contributory plan at age 50 with five years of actual service,
- under the Tier I non-contributory plan at age 52 with five years of actual service,
- under either the Tier I or Tier II plan at any age with 30 years of actual service, or
- under the Tier II plan at age 65 with at least five actual years of service.

The normal retirement benefit, paid on a monthly basis, is determined based on (a) the member's final average salary and (b) the number of years of service. Under the contributory plan, a member may retire with a reduced benefit after 20 years of service regardless of age. Under the non-contributory plan, a member may retire with a reduced benefit with at least five years of actual service if the member is within 10 years of normal retirement age.

Increases after Retirement

Retirees will receive a three percent cost of living adjustment (COLA) increase in their benefit each July 1. Eligibility for the COLA requires being retired from July 1 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):

Valuation Date June 30	(1) Actuarial Value of Assets	(2) Actuarial Accrued Liability (AAL)	(3) Unfunded (Excess) AAL (UAAL) (2) - (1)	(4) Funded Ratio (1)/(2)	(5) Annual Covered Payroll (Millions)	(6) UAAL (Excess) As Percentage of Covered Payroll (3)/(5)
6/30/14	\$ 259.46	\$ 381.86	\$ 122.40	67.9%	\$ 28.55	428.7%

Actuarial accrued liabilities (AALs) 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 AALs is calculated based on the entry age actuarial cost method with benefits based on projected salary increases. The Actuarial Section, which starts on "Actuary's Certificate Letter" on page 87, provides greater detail and information.

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

Actuarial Assumptions and Methods

The ASPRS Board engages an independent firm of actuaries to (1) estimate the present value of AALs and pension benefit obligations so they can then (2) determine the reserves and employer contribution rates that are required to meet the System's obligations to current and terminated participants, retired individuals, and beneficiaries. The assumptions and methods used in the latest actuarial valuation are listed below.

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Percent-of-Payroll
Remaining Amortization Period	25-Year Closed
Asset Valuation Method	4-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Projected Salary Increases	3.75% - 10.75%
Including Price Inflation at	3.75%
Cost-of-Living Adjustments	3.0% Annual Compounded 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 custodian bank into bank-sponsored commingled funds that are invested in U.S. 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 APERS. All authority over investment of the merged assets was granted to the APERS Board. Investment schedules reflect the market values accrued to each system.

Investments

Arkansas Code §§ 24-2-601 – 24-2-619 authorize the APERS Board to have full power to invest and reinvest monies of the System and to hold, purchase, sell, assign, transfer, or dispose of any of the investments or proceeds of the investments in accordance with the prudent investor rule. 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, custodial fees, and all other significant investment related costs.

Arkansas Code Annotated § 24-2-608 also states the System shall seek to invest not less than five percent nor more than 10 percent 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 stated in A.C.A. § 24-2-608 (d), "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 – 24-2-619."

The following presents the fair value of investments, by type, as of June 30, 2014:

Statement of Invested Assets

INVESTMENT TYPE	Fair Value*
GOVERNMENT SECURITIES	
U.S. Government Securities	\$ 131,368,755
Agency Debentures	4,812,944
Agency CMO	3,336,536
Agency Pooled	112,939,104
CORPORATE SECURITIES	
Collateralized Obligations	170,644,784
Convertible Bonds	219,140,919
Corporate Bonds	573,567,765
High Yield Income Fund	62,720,723
Common Stock	2,612,950,029
Conv Pref Stock	42,909,087
Equity Index Funds	672,052,335
Equity - Commingled	84,861,628
INTERNATIONAL SECURITIES	
Emerging Markets	34,055,625
Emerging Markets Collateralized Obligations	204,421
Global Collateralized Obligations	1,092,952
Global Corporate Fixed	50,960,543
Global Government Fixed	10,091,067
Global Equity	1,218,130,113
Global Commingled	750,668,802
Forward Contracts	(194,913)
FUTURES	301,202
DIVERSIFIED STRATEGIES	259,254,988
INTEREST RATE SWAPS	(19,514)
REAL ESTATE COMMINGLED	326,541,307
TIMBERLAND	173,716,824
COMMERCIAL LOANS	22,396,313
MUNICIPAL BONDS	8,726,906
	<u>\$ 7,547,231,245</u>
SECURITIES LENDING COLLATERAL	
Repurchase Agreements	181,645,216
Asset Backed Floating Rate Notes	180,667,686
Corporate Floating Rate Notes	498,566,929
Fixed Rate Notes	24,600,000
Commercial Paper	52,184,899
Certificates of Deposit	35,101,302
Time Deposits	106,000,000
	<u>1,078,766,032</u>
	<u>\$ 8,625,997,277</u>

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

Asset allocation guidelines have been established as follows:

MARKET VALUE EXPOSURE

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 39 reflects the fair value of investments.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of failure of the counterparty to a transaction, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investment securities are exposed to custodial credit risk if the securities are (a) uninsured, (b) not registered in the name of the government, and (c) 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, 2014, 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, 2014, these totals were \$21,216, \$786,184, and \$14,015,611 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, 2014, the System did not have any exposure to custodial credit risk. The foreign currency balance of \$214,002 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 the average credit quality of the overall portfolio.

The System's exposure to credit risk as of June 30, 2014, was as follows:

Moody's Credit Rating Dispersion Detail by Credit Rating

Investment Type and Fair Value	Aaa	Aa	A
Government Securities			
U.S. Government Securities	\$ 131,368,755	0	0
Agency Debentures	4,812,944	0	0
Agency CMO	3,336,536	0	0
Agency Pooled	112,939,104	0	0
Corporate Securities			
Collateralized Obligations	91,056,079	5,317,175	10,131,792
Convertible Bonds	0	0	4,689,200
High Yield Income Fund	0	0	0
Corporate Bonds	990,509	4,394,589	88,164,209
International Securities			
Emerging Markets	0	598,069	5,797,053
Emerging Markets - Collateralized Obligations	0	0	0
Global - Collateralized Obligations	642,999	0	0
Global Corporate Fixed	0	917,358	8,343,680
Global Government Fixed	0	343,925	0
Commercial Loans	0	0	0
Municipal Bonds	791,307	4,661,042	3,274,557
	345,938,233	16,232,158	120,400,491
Securities Lending Collateral	\$ 148,975,289	384,841,146	307,497,975

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

Investment Type and Fair Value	AAA	AA	A
Government Securities			
U.S. Government Securities	\$ 0	131,368,755	0
Agency Debentures	0	4,812,944	0
Agency CMO	0	3,336,536	0
Agency Pooled	0	112,939,104	0
Corporate Securities			
Collateralized Obligations	76,532,019	15,566,377	17,826,251
Convertible Bonds	0	0	14,560,888
High Yield Income Fund	0	0	0
Corporate Bonds	990,509	10,846,086	131,273,140
International Securities			
Emerging Markets	0	598,069	3,441,365
Emerging Markets - Collateralized Obligations	0	0	0
Global - Collateralized Obligations	642,999	0	0
Global Corporate Fixed	0	1,102,081	6,652,415
Global Government Fixed	0	343,925	0
Commercial Loans	0	0	0
Municipal Bonds	1,555,565	2,363,774	4,807,567
	79,721,092	283,277,651	178,561,626
Securities Lending Collateral	\$ 145,176,491	354,779,591	361,673,539

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

Baa	Ba	B	C or below	NR	Fair Value*
0	0	0	0	0	\$ 131,368,755
0	0	0	0	0	4,812,944
0	0	0	0	0	3,336,536
0	0	0	0	0	112,939,104
7,474,677	8,032,330	5,633,173	7,060,455	35,939,103	170,644,784
11,700,576	13,414,958	19,082,287	0	170,253,898	219,140,919
0	0	62,720,723	0	0	62,720,723
318,866,878	109,760,853	36,317,590	8,087,888	6,985,249	573,567,765
18,317,114	6,510,714	916,063	0	1,916,612	34,055,625
204,421	0	0	0	0	204,421
0	0	0	0	449,953	1,092,952
23,623,300	13,081,106	2,207,412	2,162,500	625,187	50,960,543
5,260,277	2,079,778	0	1,398,450	1,008,637	10,091,067
0	1,679,233	0	2,496,497	18,220,583	22,396,313
0	0	0	0	0	8,726,906
385,447,243	154,558,972	126,877,248	21,205,790	235,399,222	1,406,059,357
0	0	0	6,625,806	230,825,816	\$ 1,078,766,032
BBB	BB	B	CCC or below	NR	Fair Value*
0	0	0	0	0	\$ 131,368,755
0	0	0	0	0	4,812,944
0	0	0	0	0	3,336,536
0	0	0	0	0	112,939,104
15,261,038	5,051,213	1,422,763	7,290,793	31,694,330	170,644,784
29,674,943	50,784,790	39,546,593	0	84,573,705	219,140,919
0	0	62,720,723	0	0	62,720,723
266,924,428	118,469,486	21,554,922	9,183,125	14,326,069	573,567,765
16,153,681	8,653,112	1,651,400	0	3,557,998	34,055,625
204,421	0	0	0	0	204,421
0	0	0	0	449,953	1,092,952
29,291,896	8,750,918	4,369,912	0	793,321	50,960,543
2,671,600	0	1,398,451	0	5,677,091	10,091,067
0	970,922	888,223	3,708,909	16,828,259	22,396,313
0	0	0	0	0	8,726,906
360,182,007	192,680,441	133,552,987	20,182,827	157,900,726	1,406,059,357
0	4,396,271	0	6,625,806	206,114,334	\$ 1,078,766,032

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 or 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 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 percent 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, 2014, the System had the following debt security investments and maturities:

Investment Type	Fair Value*	Investment Maturity (In Years)			
		Less than 1	1 - 5	6 - 10	More than 10
GOVERNMENT SECURITIES					
U.S. Government Securities	\$ 131,368,755	\$ 0	\$ 40,348,067	\$ 52,672,775	\$ 38,347,913
Agency Debentures	4,812,944	0	2,832,085	1,980,859	0
Agency CMO	3,336,536	0	352,959	2,983,577	0
Agency Pooled	112,939,104	1,043,502	2,120,318	3,817,458	105,957,826
CORPORATE SECURITIES					
Collateralized Obligations	170,644,784	71,985,989	394,160	5,347,275	92,917,360
Convertible Bonds	219,140,919	19,704,117	118,141,658	21,142,995	60,152,149
Corporate Bonds	573,567,765	20,029,989	190,367,913	230,939,742	132,230,121
High Yield Income Fund	62,720,723	0	62,720,723	0	0
INTERNATIONAL SECURITIES					
Emerging Markets	34,055,625	0	16,971,994	10,587,085	6,496,546
Emerging Markets Collateralized Obligations	204,421	0	204,421	0	0
Global Collateralized Obligations	1,092,952	642,999	449,953	0	0
Global Corporate Fixed	50,960,543	322,443	6,962,976	24,617,732	19,057,392
Global Government Fixed	10,091,067	1,168,774	6,658,028	343,925	1,920,340
COMMERCIAL LOANS	22,396,313	0	22,213,474	182,839	0
MUNICIPAL BONDS	8,726,906	265,111	0	0	8,461,795
	\$ 1,406,059,357	\$ 115,162,924	\$ 470,738,729	\$ 354,616,262	\$ 465,541,442
SECURITIES LENDING COLLATERAL					
Repurchase Agreements	181,645,216	181,645,216	0	0	0
Asset Backed Floating Rate Notes	180,667,686	77,756,718	96,285,162	0	6,625,806
Corporate Floating Rate Notes	498,566,930	271,037,894	227,529,036	0	0
Fixed Rate Notes	24,600,000	24,600,000	0	0	0
Commercial Paper	52,184,897	52,184,897	0	0	0
Certificates of Deposit	35,101,303	35,101,303	0	0	0
Time Deposits	106,000,000	106,000,000	0	0	0
	\$ 1,078,766,032	\$ 748,326,028	\$ 323,814,198	\$ 0	\$ 6,625,806

*Principal only.

Figures are ASPRS and APERS 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 percent of the investment manager's respective portfolio.

The System's exposure to foreign currency risk on June 30, 2014, was as follows:

Currency	%	Fair Value*	Fixed Income	Equities	Cash	Forward Contracts
Australian Dollar	4.78	\$ 59,113,871	\$ 0	\$ 57,825,866	\$ 68,975	\$ 1,219,030
Brazilian Real	0.67	8,272,692	0	7,751,217	599	520,876
British Pound Sterling	26.88	332,265,861	4,039,777	328,642,156	1,142,323	(1,558,395)
Canadian Dollar	2.35	29,068,278	0	26,780,188	2,005	2,286,085
Chilean Peso	0.07	810,153	0	0	0	810,153
Chinese Yuan Renminbi	2.10	25,983,574	0	24,631,476	0	1,352,098
Columbian Peso	0.00	728	0	0	0	728
Danish Krone	3.14	38,792,433	0	38,792,433	0	0
Euro Currency	24.58	303,775,684	14,436,294	281,283,180	4,618,968	3,437,242
Hong Kong Dollar	1.64	20,213,120	0	20,172,562	40,558	0
Hungarian Forint	(0.02)	(199,499)	0	0	0	(199,499)
Indian Ruphia	0.42	5,243,227	0	5,243,227	0	0
Israeli Shekel	(0.01)	(82,367)	0	0	0	(82,367)
Japanese Yen	10.42	128,799,410	1,004,425	153,468,125	212,117	(25,885,257)
Malaysian Ringgit	0.07	835,723	0	0	0	835,723
Mexican New Peso	0.36	4,510,048	0	2,794,349	6,185	1,709,514
New Taiwan Dollar	0.41	5,036,045	0	5,036,045	0	0
New Zealand Dollar	0.77	9,500,329	0	7,692,418	(2)	1,807,913
Norwegian Krone	2.07	25,529,420	0	25,074,600	23,818	431,002
Papua New Guinea Kina	0.47	5,775,219	0	5,775,219	0	0
Peru Neuvo Sol	0.00	(13,718)	297,196	0	0	(310,914)
Philippines Peso	0.19	2,346,373	364,691	2,016,783	0	(35,101)
Polish Zloty	0.07	891,580	0	0	47,424	844,156
Russian Rubel	0.18	2,264,987	0	935,535	0	1,329,452
Singapore Dollar	0.61	7,522,318	0	6,502,954	3,285	1,016,079
South African Rand	1.29	15,931,632	0	14,773,043	0	1,158,589
South Korean Won	2.63	32,470,073	0	31,646,254	0	823,819
Swedish Krone	4.56	56,318,189	0	56,339,853	0	(21,664)
Swiss Franc	8.64	106,803,721	0	106,802,316	1,405	0
Thailand Baht	0.23	2,867,367	0	2,867,367	0	0
Turkish Lira	0.43	5,282,949	0	5,282,949	0	0
	100.00%	\$ 1,235,929,420	\$20,142,383	\$ 1,218,130,115	\$ 6,167,660	\$ (8,510,738)

* Principal only.

Figures are ASPRS and APERS combined.

Totals may not add due to rounding.

Mortgage-Backed Securities

The System does invest in mortgage-backed securities (MBSs), which are reported at fair value in the *Statement of Plan Net Position*. MBSs 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. An 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 an 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 and 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 MBSs. 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 MBSs.

A collateralized mortgage obligation (CMO) is an MBS that comprises classes of bonds created by prioritizing the cash flows of the underlying mortgage pool. This redistributes prepayment risk and 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 MBSs and CMOs for diversification and to enhance fixed income returns. MBSs 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 composed 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 (ABSs) 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, ABSs 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

Pooled funds are funds from many individual investors that are aggregated for the purposes of investment and benefit from economies of scale. 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 and ASPRS have approximately \$750 million invested in international pooled funds.

Securities Lending

Arkansas Code Annotated § 24-2-602 and the APERS Board's investment policy permit 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 is therefore 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 provides 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 percent 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 percent 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 of 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 because 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, 2014, the cash collateral investments had an average weighted maturity of 27 days whereas the weighted average loan maturity was three days. Investments with cash collateral were approximately \$1.082 billion.

Derivative Instruments

The System does adhere to Government Accounting Standards Board (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, 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. They primarily use forward foreign exchange contracts 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 procedures for monitoring exposure. 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 MBSs 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, thereby 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 swaps, including interest rate swaps, credit default swaps, and foreign currency swaps.

Interest Rate Swaps

An interest rate swap is 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 exposure to interest rate risk.

The System had the following interest rate swaps at June 30, 2014:

Country/Currency	Description	Counterparty	Counterparty Credit Rating	Pay/Receive	Market Value
Australian Dollar	AUD 4.7425% 03/07/2029	London Stock Exchange	Baa2/A-/NR	Pay Float/Receive Fixed	\$ 31,240
Australian Dollar	AUD 4.4225% 12/19/2032	Barclays Bank, PLC	A1/A-/A	Pay Fixed/Receive Fixed	2,954
Australian Dollar	AUD 4.42% 12/20/2032	Citigroup Inc	NR/A-/A	Pay Float/Receive Fixed	3,760
Australian Dollar	AUD Float 12/31/2014	Barclays Bank, PLC	P2/A2/F1	Pay Float/Receive Fixed	(790)
Brazilian Real	BRL DI OIS JAN 17	HSBC Holdings PLC	NR/A+/AA-	Pay Float/Receive Fixed	(48,432)
Brazilian Real	BRL DI OIS JAN 21	Deutsche Bank AG	Aa3/A/A+	Pay Float/Receive Fixed	38,845
Brazilian Real	BRL DI OIS JAN 17	Citigroup Inc	NR/A-/A	Pay Float/Receive Fixed	(58,058)
Brazilian Real	BRL DI OIS JAN 17	Barclays Bank, PLC	A1/A-/A	Pay Float/Receive Fixed	(54,007)
British Pound Sterling	GBP 0.68% 09/06/2014	Barclays Bank, PLC	P2/A2/F1	Pay Float/Receive Fixed	529
Canadian Dollar	CAD 1.276% 06/12/2015	HSBC Holdings PLC	P1/A1/F1+	Pay Float/Receive Fixed	(619)
Chilean Peso	CLP 4.63% OIS 07/24/2014	Barclays Bank, PLC	P2/A2/F1	Pay Fixed/Receive Float	585
Chilean Peso	CLP 5.24% 02/27/2024	Barclays Bank, PLC	A1/A-/A	Pay Float/Receive Fixed	5,393
Chinese Yuan Renminbi	CNY 3.82% 07/18/2014	Barclays Bank, PLC	P2/A2/F1	Pay Float/Receive Fixed	36
Chinese Yuan Renminbi	CNY 3.99% 10/23/2014	Barclays Bank, PLC	P2/A2/F1	Pay Float/Receive Fixed	1,631
Columbian Peso	COP 3.55% OIS 08/08/2014	Barclays Bank, PLC	P2/A2/F1	Pay Float/Receive Fixed	(2,126)
Columbian Peso	COP 5.29% OIS 11/20/2018	Deutsche Bank AG	Aa3/A/A+	Pay Float/Receive Fixed	(1,117)
Columbian Peso	COP 5.38% OIS 11/19/2018	Deutsche Bank AG	Aa3/A/A+	Pay Float/Receive Fixed	(404)
Czech Koruna	CZK 0.46% 09/18/2014	Barclays Bank, PLC	P2/A2/F1	Pay Float/Receive Fixed	560
European Union Euro	EUR 0.4025% 05/13/2015	London Stock Exchange	Baa2/A-/NR	Pay Float/Receive Fixed	684,929
European Union Euro	EUR 0.4025% 05/13/2015	London Stock Exchange	Baa2/A-/NR	Pay Float/Receive Fixed	(684,575)
European Union Euro	EUR-USD 3M Euribor 01/25/2015	Barclays PLC	A1/A-/A	Pay Float	(7,794,693)
European Union Euro	EUR 2.065% 12/13/2027	Barclays Bank, PLC	A1/A-/A	Pay Fixed/Receive Float	(22,948)
Hungarian Forint	HUF 4.34% 11/18/2018	CME Group	NR/AA-/NR	Pay Float/Receive Fixed	79,605
Hungarian Forint	HUF 2.85% 04/22/2015	Barclays Bank, PLC	P2/A2/F1	Pay Float/Receive Fixed	14,823
Hungarian Forint	HUF 5.94% 09/03/2023	HSBC Holdings PLC	NR/A+/AA-	Pay Float/Receive Fixed	41,494
Hungarian Forint	HUF 3.415% 10/14/2018	Barclays Bank, PLC	A1/A-/A	Pay Float/Receive Fixed	10,915
Israeli Shekel	ILS 2.163% 11/20/2018	Barclays Bank, PLC	A1/A-/A	Pay Float/Receive Fixed	60,758
Malaysian Ringgit	MYR 3.245% 07/23/2014	Barclays Bank, PLC	P2/A2/F1	Pay Float/Receive Fixed	(137)
Mexican Peso	MXN 5.48% 04/18/2019	CME Group	NR/AA-/NR	Pay Float/Receive Fixed	31,260
Mexican Peso	MXN 5.09% 12/02/2015	JPMorgan Chase & Co	Aa3/A/A+	Pay Float/Receive Fixed	18,285
Mexican Peso	MXN 5.10% 08/13/2018	Barclays Bank, PLC	A1/A-/A	Pay Float/Receive Fixed	(59,522)
Mexican Peso	MXN 6.02% 06/20/2018	Credit Suisse Group AG	NR/A-/A	Pay Float/Receive Fixed	60,836
Mexican Peso	MXN 6.54% 10/20/2023	Deutsche Bank AG	Aa3/A/A+	Pay Float/Receive Fixed	22,495
Mexican Peso	MXN 5.41% 11/09/2018	Deutsche Bank AG	Aa3/A/A+	Pay Float/Receive Fixed	31,318
New Zealand Dollar	NZD 3.79% 09/25/2022	Citigroup Inc	NR/A-/A	Pay Float/Receive Fixed	(21,012)
New Zealand Dollar	NZD 4.1425% 08/12/2018	Citigroup Inc	NR/A-/A	Pay Float/Receive Fixed	(3,649)
New Zealand Dollar	NZD 4.6475% 08/12/2023	Citigroup Inc	NR/A-/A	Pay Float/Receive Fixed	(4,002)
New Zealand Dollar	NZD 4.16% 08/13/2018	Citigroup Inc	NR/A-/A	Pay Float/Receive Fixed	(2,606)
New Zealand Dollar	NZD 4.73% 08/13/2023	Barclays Bank, PLC	A1/A-/A	Pay Float/Receive Fixed	(1,700)
New Zealand Dollar	NZD 4.2175% 08/13/2018	Barclays Bank, PLC	A1/A-/A	Pay Float/Receive Fixed	(2,174)
New Zealand Dollar	NZD 4.6675 08/13/2023	Citigroup Inc	NR/A-/A	Pay Float/Receive Fixed	(2,602)
New Zealand Dollar	NZD 4.845% 08/19/2023	Citigroup Inc	NR/A-/A	Pay Float/Receive Fixed	(161)
New Zealand Dollar	NZD 3.8575% 09/01/2015	Citigroup Inc	NR/A-/A	Pay Float/Receive Fixed	(10,108)
New Zealand Dollar	NZD 4.1725% 08/18/2016	Citigroup Inc	NR/A-/A	Pay Float/Receive Fixed	(1,714)
New Zealand Dollar	NZD 3.81% 09/03/2018	HSBC Holdings PLC	NR/A+/AA-	Pay Float/Receive Fixed	(7,422)
Norwegian Krone	NOK 1.6325% 02/03/2015	Barclays Bank, PLC	P2/A2/F1	Pay Float/Receive Fixed	(2,498)
Norwegian Krone	NOK 1.945% 09/16/2014	Barclays Bank, PLC	A1/A-/A	Pay Float/Receive Fixed	207
Polish Zloty	PLN 3.736% 06/28/2018	Citigroup Inc	NR/A-/A	Pay Float/Receive Fixed	71,022
Polish Zloty	PLN 3.985% 09/03/2018	HSBC Holdings PLC	NR/A+/AA-	Pay Float/Receive Fixed	75,834
Polish Zloty	PLN 2.825% 09/06/2014	Barclays Bank, PLC	P2/A2/F1	Pay Float/Receive Fixed	1,736
Russian Ruble	RUB 7.25% 05/17/2023	Credit Suisse Group AG	NR/A-/A	Pay Float/Receive Fixed	(53,674)
Russian Ruble	RUB 7.25% 05/20/2023	Credit Suisse Group AG	NR/A-/A	Pay Float/Receive Fixed	(53,803)
Russian Ruble	RUB 6.57% 09/13/2014	Credit Suisse Group AG	WR/NR/F1	Pay Float/Receive Fixed	(11,685)
Singapore Dollar	SGD 0.3275% 04/02/2015	Barclays Bank, PLC	P2/A2/F1	Pay Float/Receive Fixed	(2,976)
South African Rand	ZAR 8.19% 11/14/2023	CME Group	NR/AA-/NR	Pay Float/Receive Fixed	2,231
South African Rand	ZAR 7.20% 02/24/2016	London Stock Exchange	Baa2/A-/NR	Pay Float/Receive Fixed	7,494
South African Rand	ZAR 7.20% 03/04/2016	London Stock Exchange	Baa2/A-/NR	Pay Float/Receive Fixed	14,952
South African Rand	ZAR 7.42% 06/25/2018	Barclays Bank, PLC	A1/A-/A	Pay Float/Receive Fixed	2,779
South African Rand	ZAR 8.19% 11/14/2023	CME Group	NR/AA-/NR	Pay Float/Receive Fixed	3,221
South Korean Won	KRW 2.72% 07/24/2014	Barclays Bank, PLC	P2/A2/F1	Pay Float/Receive Fixed	92
Swedish Krona	SEK 1.326% 07/03/2014	Barclays Bank, PLC	P2/A2/F1	Pay Float/Receive Fixed	100
U.S. Dollar	USD 1.625% 11/30/2018	CME Group	NR/AA-/NR	Pay Fixed/Receive Float	(30,686)
U.S. Dollar	USD 2.375% 05/15/2021	CME Group	NR/AA-/NR	Pay Fixed/Receive Float	(194,049)
U.S. Dollar	USD 2.20% 12/13/2027	Barclays Bank, PLC	A1/A-/A	Pay Float/Receive Fixed	(51,339)
U.S. Dollar	USD 4.2475% 08/07/2023	Citigroup Inc	NR/A-/A	Pay Float/Receive Fixed	305,563
U.S. Dollar	USD 4.2825% 08/08/2023	Citigroup Inc	NR/A-/A	Pay Float/Receive Fixed	159,681
U.S. Dollar	USD 4.231% 08/09/2023	Citigroup Inc	NR/A-/A	Pay Float/Receive Fixed	148,964
U.S. Dollar	USD 1.334390% 11/15/2019	Citigroup Inc	NR/A-/A	Pay Float/Receive Fixed	193,298
U.S. Dollar	USD 1.17% 11/30/2017	Credit Suisse Group AG	NR/A-/A	Pay Fixed/Receive Float	(2,638)
					<u>\$ (7,058,499)</u>

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

Credit Default Swaps

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.

The System had the following credit default swaps at June 30, 2014:

Country/Currency	Description	Maturity	Counterparty	Counterparty Credit Rating*	Market Value Exposure	Pay/Receive
U.S. Dollar	CCP_CD. BP UL CDX.NA.IG.22_V1	06/19/2019	CME Group Inc/IL	AA-/NR/NR	\$ (495,621)	Pay Fixed/Receive Float
European Union Euro	ITRAXX_EUROPE_18_1	12/20/2017	Barclays PLC	A-/A1/A	(180,106)	Pay Fixed/Receive Float
European Union Euro	ITRAXX_EUROPE_18_1	12/20/2017	Deutsche Bank AG	A/Aa3/A+	(180,106)	Pay Fixed/Receive Float
					<u>\$ (855,834)</u>	

*Counterparty Credit Rating = Moody's/S&P/Fitch

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

Foreign Currency Swaps

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 foreign currency swaps at June 30, 2014:

Country/Currency	Pay/ Receive	Description	Maturity Date	Counterparty	M	S	F	Market Value Exposure
European Union Euro	Float/Float	EUR-USD Basis 3M EURIBOR +26 bps	1/25/2015	HSBC Holdings PLC	NR	A+	AA-	\$ (3,150,800)
European Union Euro	Float/Float	EUR-USD Basis 3M EURIBOR +25.75 bps	1/17/2015	HSBC Holdings PLC	NR	A+	AA-	(164,382)
European Union Euro	Float/Float	EUR-USD 3M EURIBOR -26 bps	1/25/2015	Citigroup Inc	NR	A-	A	(6,486,539)
European Union Euro	Float/Float	EUR-USD Basis 3M EURIBOR -31.75 bps	9/28/2017	HSBC Holdings PLC	NR	A+	AA-	(341,191)
European Union Euro	Float/Float	EUR-USD Basis 3M EURIBOR -30.5 bps	12/4/2014	Barclays PLC	A1 *-	A-	A	(465,652)
Japanese Yen	Float/Fixed	JPY-USD 4.50% 08/06/2015	8/6/2015	Citigroup Inc	NR	A-	A	(154,586)
Japanese Yen	Float/Fixed	JPY-USD 4.50% 06/08/2015	6/8/2015	Citigroup Inc	NR	A-	A	(203,341)
Japanese Yen	Float/Fixed	JPY-USD 3.45% 03/24/2017	3/24/2017	Citigroup Inc	NR	A-	A	(220,875)
Japanese Yen	Float/Float	JYP-USD Basis 3M JPY LIBOR -54 bps	10/12/2016	Barclays PLC	A1 *-	A-	A	(98,337)
Japanese Yen	Float/Float	JPY-USD Basis JPY LIBOR -32.75 bps	5/2/2015	Citigroup Inc	NR	A-	A	(169,325)
U.S. Dollar	Float/Float	EUR-USD Basis 3M EURIBOR +26 bps	1/25/2015	HSBC Holdings PLC	NR	A+	AA-	3,052,288
U.S. Dollar	Float/Float	EUR-USD Basis 3M EURIBOR +25.75 bps	1/17/2015	HSBC Holdings PLC	NR	A+	AA-	159,967
U.S. Dollar	Float/Float	EUR-USD Basis 3M EURIBOR +26 bps	1/25/2015	Citigroup Inc	NR	A-	A	6,300,306
U.S. Dollar	Float/Float	EUR-USD Basis 3M EURIBOR +26.5 bps	1/25/2015	Barclays PLC	A1 *-	A-	A	7,548,250
U.S. Dollar	Float/Fixed	JPY-USD 3.45% 03/24/2017	3/24/2017	Citigroup Inc	NR	A-	A	283,459
U.S. Dollar	Float/Fixed	EUR-USD Basis 3M LIBOR +333 bps	6/8/2015	Citigroup Inc	NR	A-	A	198,086
U.S. Dollar	Float/Fixed	JPY-USD 4.50% 06/08/2015	6/8/2015	Citigroup Inc	NR	A-	A	268,116
U.S. Dollar	Float/Float	EUR-USD Basis 3M EURIBOR -31.75 bps	9/28/2017	HSBC Holdings PLC	NR	A+	AA-	321,513
U.S. Dollar	Float/Float	EUR-USD Basis 3M EURIBOR -30.5 bps	12/4/2014	Barclays PLC	A1 *-	A-	A	441,551
U.S. Dollar	Float/Float	JYP-USD Basis 3M JPY LIBOR -54 bps	10/12/2016	Barclays PLC	A1 *-	A-	A	100,386
U.S. Dollar	Float/Float	JPY-USD Basis 3M JPY LIBOR -32.75 bps	5/2/2015	Citigroup Inc	NR	A-	A	175,022
								<u>\$ 7,393,916</u>

M = Mdys

S = S&P

F = Fitch

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

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 in order to hedge risks from 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.

The System had the following foreign currency forwards at June 30, 2014:

	Pay	Receive	Payable Market Value	Receivable Market Value	Payable Unrealized Gain/Loss
Australian Dollar	AUD	USD	\$ (5,179,677)	\$ 5,086,300	\$ (93,377)
Brazil Real	BRL	USD	(3,525,190)	3,482,396	(42,793)
British Pound	GBP	USD	(4,972,774)	4,890,339	(82,435)
Canadian Dollar	CAD	USD	(4,123,005)	4,007,300	(115,705)
Chinese Yuan Renminbi	CNY	USD	(3,471,661)	3,410,015	(61,646)
Columbian Peso	COP	USD	(2,493,044)	2,465,122	(27,922)
European Union Euro	EUR	USD	(9,223,375)	9,333,643	110,267
Hungarian Forint	HUF	USD	(2,935,236)	2,950,600	15,363
Israeli Shekel	ILS	USD	(82,367)	81,300	(1,067)
Japanese Yen	JPY	USD	(25,761,547)	25,466,418	(295,129)
Malaysian Ringgit	MYR	USD	(783,110)	775,700	(7,410)
Mexican New Peso	MXN	USD	(2,495,569)	2,477,800	(17,769)
New Zealand Dollar	NZD	USD	(2,543,752)	2,468,880	(74,872)
Norwegian Krone	NOK	USD	(2,786,965)	2,825,605	38,640
Peruvian Nuevo Sol	PEN	USD	(310,913)	309,351	(1,561)
Philippine Peso	PHP	USD	(644,487)	640,972	(3,515)
Polish Zloty	PLN	USD	(2,197,349)	2,187,000	(10,349)
Russian Ruble	RUB	USD	(1,137,291)	1,097,900	(39,391)
Singapore Dollar	SGD	USD	(3,192,709)	3,167,100	(25,609)
South African Rand	ZAR	USD	(2,093,418)	2,103,700	10,281
Swedish Krona	SEK	USD	(2,203,241)	2,229,500	26,258
			\$ (82,156,680)	\$ 81,456,944	\$ (699,747)

	Pay	Receive	Payable Market Value	Receivable Market Value	Receivable Unrealized Gain/Loss
Australian Dollar	USD	AUD	\$ (6,328,762)	\$ 6,398,708	\$ 69,945
Brazil Real	USD	BRL	(4,002,765)	4,046,066	43,301
British Pound	USD	GBP	(3,357,738)	3,414,380	56,642
Canadian Dollar	USD	CAD	(6,260,156)	6,409,091	148,935
Chilean Peso	USD	CLP	(813,800)	810,153	(3,647)
Chinese Yuan Renminbi	USD	CNY	(4,769,715)	4,823,760	54,044
Columbian Peso	USD	COP	(2,452,744)	2,493,773	41,028
European Union Euro	USD	EUR	(12,213,767)	12,166,570	(47,196)
Hungarian Forint	USD	HUF	(2,772,197)	2,735,738	(36,459)
Malaysian Ringgit	USD	MYR	(1,595,900)	1,618,833	22,933
Mexican New Peso	USD	MXN	(4,155,642)	4,205,083	49,441
New Zealand Dollar	USD	NZD	(4,229,600)	4,351,665	122,065
Norwegian Krone	USD	NOK	(3,333,290)	3,241,682	(91,608)
Philippine Peso	USD	PHP	(592,100)	609,387	17,287
Polish Zloty	USD	PLN	(3,074,552)	3,088,929	14,377
Russian Ruble	USD	RUB	(2,448,317)	2,466,744	18,427
Singapore Dollar	USD	SGD	(4,189,839)	4,208,789	18,950
South African Rand	USD	ZAR	(3,250,159)	3,252,007	1,848
South Korean Won	USD	KRW	(783,631)	823,819	40,188
Swedish Krona	USD	SEK	(2,217,000)	2,181,577	(35,423)
			\$ (72,841,674)	\$ 73,346,754	\$ 505,080
			\$ (154,998,365)	\$ 154,803,698	\$ (194,667)

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

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, 2014:

Futures Contracts	Expiration	Notional Value	Fair Value	Unrealized Gain/Loss
U.S. 2-year Treasury Note	Sept 2014	\$ (158,828,558)	\$ (158,766,281)	\$ 62,277
U.S. 2-year Treasury Note	Sept 2014	(234,381,379)	(234,306,531)	74,848
U.S. 2-year Treasury Note	Sept 2014	(1,977,187)	(1,976,344)	844
U.S. 5-year Treasury Note	Sept 2014	(26,203,471)	(26,161,945)	41,526
U.S. 5-year Treasury Note	Sept 2014	(51,674,430)	(51,607,125)	67,305
U.S. 5-year Treasury Note	Sept 2014	94,898,266	94,851,985	(46,281)
U.S. 10-year Treasury Note	Sept 2014	(61,498,719)	(61,584,563)	(85,844)
U.S. 10-year Treasury Note	Sept 2014	35,576,048	35,673,984	97,936
U.S. 10-year Treasury Note	Sept 2014	25,836,133	25,910,578	74,445
U.S. 30-year Treasury Bond	Sept 2014	(955,281)	(960,313)	(5,031)
U.S. 30-year Treasury Bond	Sept 2014	(8,597,531)	(8,642,813)	(45,281)
U.S. Ultra Bond	Sept 2014	10,865,500	10,945,438	79,938
U.S. Ultra Bond	Sept 2014	2,675,813	2,698,875	23,063
U.S. Ultra Bond	Sept 2014	(1,480,563)	(1,499,375)	(18,813)
		<u>\$ 375,745,359</u>	<u>\$ 375,424,430</u>	<u>\$ 320,932</u>

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

The System had the following mortgage-backed TBA at June 30, 2014:

Mortgage-Backed TBA	CUSIP	Notional	Fair Market Value	Duration	Credit Rating
FNMA 3.00% 07/01/2029	999ADT905	\$ 2,065,625	\$ 2,077,500	3.6	AA+/Aaa

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

Note 4: Legally Required Reserves

A description of reserve accounts and their balances for the year ended June 30, 2014, are as follows:

The Member Deposit Account (MDA) represents members' contributions held in trust until their retirement, at which time contributions are transferred to the Retirement Reserve Account.

The MDA Interest Reserve represents the accumulated interest paid on the MDAs held in trust. As members retire, the interest on their 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 ASPRS Board to participate in the DROP. When a member retires, these amounts can be paid to the member 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.

The 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 Arkansas State Claims Commission and the Commission approves payment.

As of June 30, 2014*	Tier I	Tier II	Totals
Member Deposit Account Reserve	\$ 320,492	\$ 181,498	\$ 501,990
MDA Interest Reserve	(78,042)	22,079	(55,963)
Employer Accumulation Account	(7,402,386)	46,222,559	38,820,173
Retirement Reserve Account	225,748,736	(94,161)	225,654,575
DROP Reserve Account	10,496,429	0	10,496,429
Deferred Annuity Reserve	1,783,670	0	1,783,670
Outlawed Warrants Reserve	1,095	0	1,095
TOTAL	\$ 230,869,993	\$ 46,331,975	\$ 277,201,968

*Before recommended actuarial transfers. Totals may not add due to rounding.

Note 5: Net Pension Liability

The components of the net pension liability of the System at June 30, 2014 were as follows:

Total Pension Liability	\$ 385,645,392
Plan Fiduciary Net Position	\$ 277,201,967
Net Pension Liability	\$ 108,443,425
Plan fiduciary net position as a percentage of total pension liability	71.88%

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date	June 30, 2014
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Percent-of-Payroll
Remaining Amortization Period	25-Year Closed
Asset Valuation Method	4-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Projected Salary Increases	3.75% - 10.75%
Including Price Inflation at	3.75%
Post-Retirement Cost-of-Living Increases	3.0% Annual Compounded Increases
Mortality Table	RP-2000 Combined Healthy mortality table, projected to 2020 using Projection Scale BB, set-forward 2 years for males and 1 year for females

Investments

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for the 10-year period from 2014 to 2023 were provided by the plan's investment consultant. For each major asset class that is included in the pension plan's target asset allocation as of June 30, 2014, these best estimates, provided by the plan's investment consultant, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Fixed Income	9.00%	0.50%
Fixed Income Defensive	9.00	0.80
Large Cap Domestic Equity	20.00	6.65
Small/Mid Cap Domestic Equity	17.00	7.90
International Equity	12.00	7.00
Emerging Market Equity	12.00	9.20
Private Equity	2.50	11.30
Hedge Funds	2.50	3.19
Real Estate	16.00	5.10
TOTAL	100.00%	
Total Real Rate of Return		5.91%
Plus: Price Inflation - Actuary's Assumption		2.75
Less: Admin and Investment Expenses*		0.50
Net Expected Return		8.16%

*This may overstate the investment expense because the investment market assumptions are based upon passive management. Our assumption for investment expense includes the cost of active management.

The System's policy in regard to the allocation of invested plan assets was established by the Board and is reviewed at least annually to determine if the asset allocation is consistent with an acceptable level of risk and volatility.

For the year ended June 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 18.75 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

A single discount rate of 7.75 percent was used to measure the total pension liability. This single discount rate was based on the expected rate of return on pension plan investments of 7.75 percent. The projection of cash flows used to determine this single discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Net Pension Liability

The following presents the net pension liability of the System, calculated using the discount rate of 7.75 percent, as well as what the System's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.75 percent) or one percentage point higher (8.75 percent) than the current rate:

	1% Decrease 6.75%	Current Discount Rate 7.75%	1% Increase 8.75%
Net pension liability	\$ 151,865,200	\$ 108,443,424	\$ 71,889,568

Note 6: Deferred Retirement Option Plan

A Deferred Retirement Option Program (DROP) is available to members of the System, as authorized by A.C.A. §§ 24-6-301 through 24-6-307 and §§ 24-6-501 through 24-6-508. In lieu of terminating employment and accepting a retirement benefit under the System, any member who has at least 30 years of actual service in the System can elect to participate in the DROP. The DROP allows a member to defer the receipt of retirement benefits for a maximum of seven years. During that time, a percentage of a member's chosen benefit is deposited into an account that accrues interest at a rate of 3.25 percent annually. The System had a balance of \$10,496,429 in the DROP reserve as of June 30, 2014.

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

(dollars in millions)

Actuarial Valuation Date	Actuarial Valuation 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)]
6/30/05 # @	\$ 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 # @	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	361.46	128.31	64.5	28.01	458.1
6/30/14	259.46	373.03	113.58	69.6	28.55	397.8
6/30/14 @	259.46	381.86	122.40	67.9	28.55	428.7

After legislated changes in benefit provisions; @ After changes in actuarial assumptions or methods.
Please note that differences between columns designated (a) and (b) may not add to UAAL due to rounding.

SCHEDULE OF EMPLOYER CONTRIBUTIONS

As of June 30, 2014

Year Ended June 30	Annual Required Contribution	Percent Contributed
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
2014	13,956,098	139.74

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS

Last 10 Fiscal Years	2014
Total pension liability	
Service cost	\$ 4,866,199
Interest	28,558,511
Changes in benefit terms	-
Differences between expected and actual experience	(454,349)
Changes of assumptions	8,970,858
Benefit payments, including refunds of member contributions	(21,688,239)
Net change in total pension liability	20,252,980
Total pension liability, beginning of year	365,392,412
Total pension liability, end of year (a)	\$ 385,645,392
Plan fiduciary net position	
Employer Contributions	\$ 6,405,887
Employee Contributions	37,492
Pension Plan Net Investment Income	5,957,541
Court, driver's license reinstatement and motor vehicle fees	7,100,764
Net investment income	43,307,745
Benefit payments, including refunds of member contributions	(21,688,239)
Administrative expense	(189,658)
Net change in plan fiduciary net position	40,931,532
Plan fiduciary net position, beginning of year	236,270,435
Plan fiduciary net position, end of year (b)	\$ 277,201,967
Net pension liability, end of year (a) - (b)	\$ 108,443,425
Plan fiduciary net position as a percentage of the total pension liability	71.88%
Covered-employee payroll	\$ 28,548,873
Net pension liability as a percentage of covered-employee payroll	379.85%

SCHEDULE OF THE NET PENSION LIABILITY

FY Ending June 30,	Total Pension Liability	Plan Net Position	Net Pension Liability	Plan Net Position as a % of Total Pension Liability	Covered Payroll	Net Pension Liability as a % of Covered Payroll
2014	\$ 385,645,392	\$ 277,201,967	\$ 108,443,425	71.88%	\$ 28,548,873	379.85%

SCHEDULE OF INVESTMENT RETURNS

	2014
Annual money-weighted rate of return, net of investment expense	18.75%

Notes to Required Supplementary Information

SCHEDULE OF ADMINISTRATIVE EXPENSES

As of June 30, 2014

	2014	2013
COMMUNICATIONS		
Printing and Advertising	\$ 4,819	\$ 2,197
SERVICES AND CHARGES		
Professional Fees and Services	28,200	40,600
Conference Fees and Travel	465	751
Bank and Federal Service Charges	4,262	3,475
IRS Penalties	618	0
TOTAL SERVICES AND CHARGES	33,544	44,826
TRANSFER TO APERS FOR ADMINISTRATIVE EXPENSES	151,294	50,158
TOTAL ADMINISTRATIVE EXPENSES	<u>\$ 189,658</u>	<u>\$ 97,181</u>

SCHEDULE OF INVESTMENT EXPENSES

As of June 30, 2014

	2014	2013
Investment Consultant	\$ 8,575	\$ 2,051
Investment Managers	1,021,122	876,741
Custodian Bank	20,680	18,789
Other Investment Expenses	(48,191)	(47,699)
TOTAL	<u>\$ 1,002,186</u>	<u>\$ 849,882</u>

PAYMENTS FOR PROFESSIONAL CONSULTANTS

As of June 30, 2014

	2014	2013
Gabriel, Roeder, Smith & Company	\$ 28,200	\$ 40,600

LEADERSHIP

COURAGE

SERVICE

PROTECTION

HONOR

SECURITY



INVESTMENTS SECTION

Chief Investment Officer's Report

Investment Policy Summary

Asset Allocation

Schedule of Manager Distribution

Portfolio Characteristics

Schedule of Comparative Investment Results

Top Ten Largest Holdings

Schedule of Brokerage Commissions

Schedule of Investment Fees



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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,

Oh behalf of the ASPRS' Investment Department, it is my pleasure to present the Investments Section of the APERS' *Annual Financial Report* for the fiscal year ended June 30, 2014.

Performance and Stability

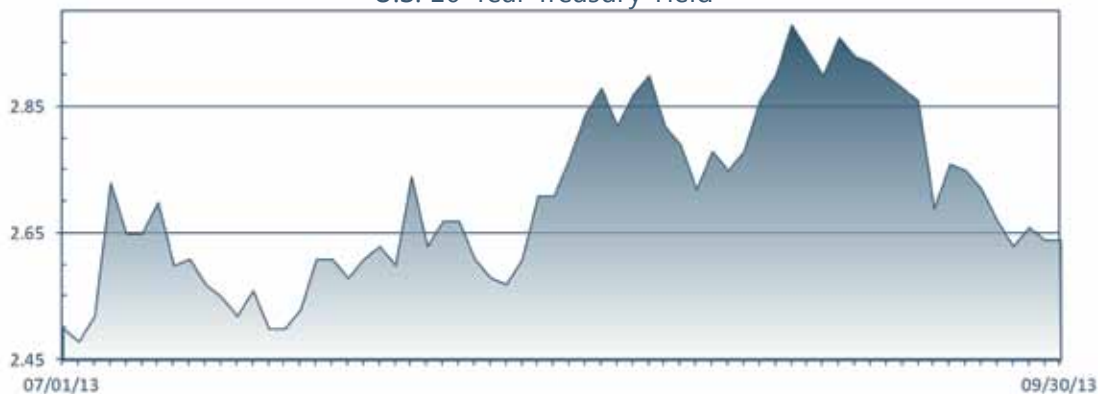
For fiscal year 2014, the ASPRS investment portfolio closed with investment assets of \$261,869,962. The investment return for the fiscal year was 19.68%. The second half of 2013 provided fiscal year 2014 with a nice start as global equity indices posted solid gains for the 3rd quarter of 2013, and the U.S. indices advanced across the board. The S&P 500 Index advanced 16.3% in the last half of 2013.

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 2014 Financial Market Recap

If I were going to sum up the third quarter of 2013, I would say that interest rates rose in anticipation of the Federal Reserve tapering its quantitative easing policy, that interest rates then rallied (went lower) after the Federal Reserve skipped the taper, and finally that the federal government shut down as the third quarter ended.

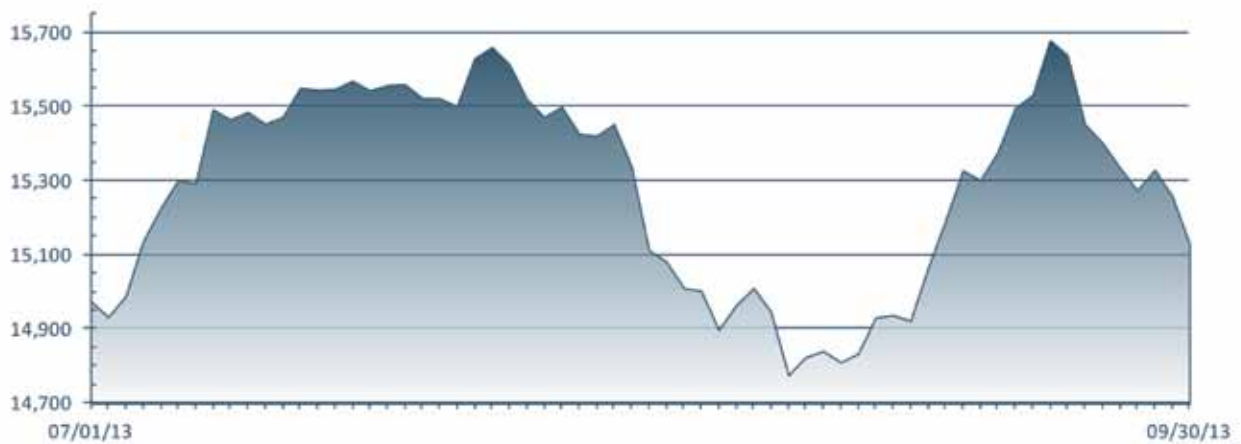
U.S. 10-Year Treasury Yield



Interest rates rose following the central bank's decision to maintain, rather than taper, the pace of its asset purchase program. The markets were clearly expecting a taper in stimulus, but Federal Reserve Chairman Bernanke cited slow growth and the rapid rise in interest rates over the previous few months as contributing factors in the committee's decision.

The third quarter also had a considerable degree of volatility, mostly in response to non-economic domestic developments. In July, events in Washington, D.C. began to heat up again. The national economic fiscal year ended on September 30 and Congress needed to pass either a 2014 budget or some form of continuing resolution authorizing government operations. At the same time, the debt ceiling was 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, which provided some assurance that the central bank will likely continue its accommodative monetary policies.

Dow Jones Industrial Average

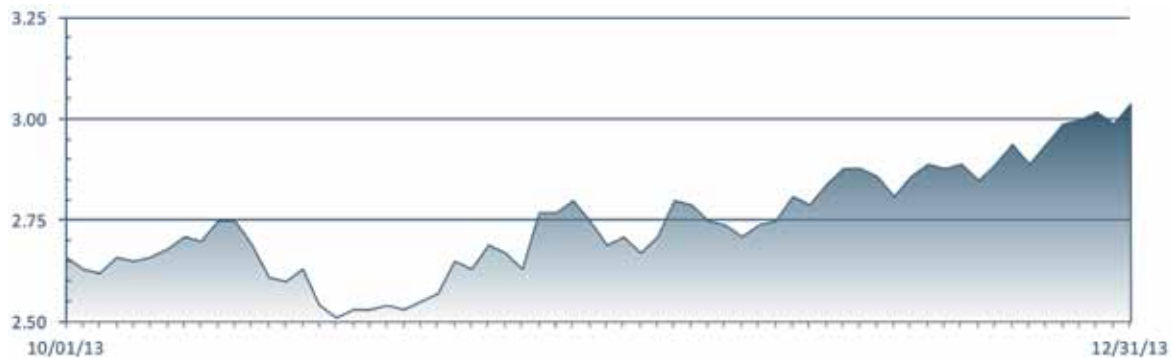


In Europe, German Chancellor Angela Merkel won a third term which is an important outcome for long term stability and preservation of the European Union. In Italy, the challenging path of recovery following the risk of a government collapse continued due to pressure by former Prime Minister Berlusconi's party. Greece remained in the headlines when certain parliament members were arrested and the Troika (composed of the International Monetary Fund, the European Union, and the European Central Bank) announced the temporary suspension of negotiations over the release of rescue funds

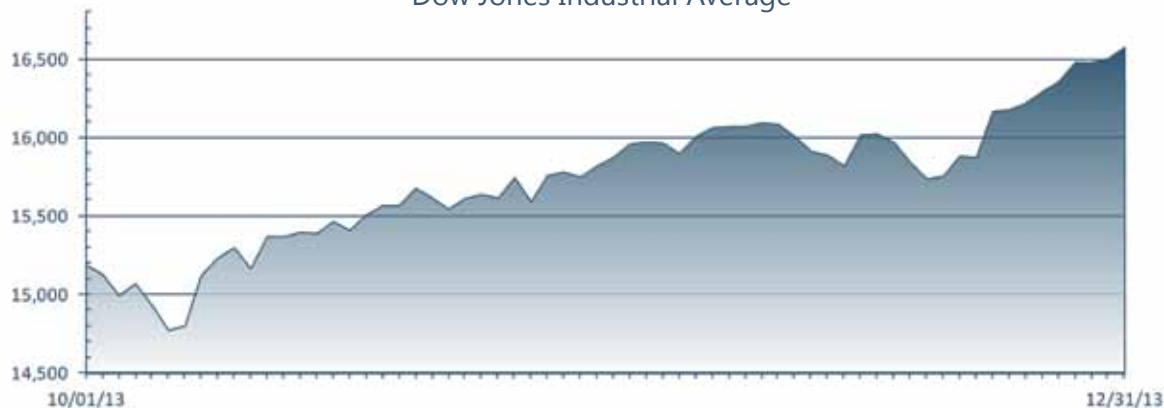
to the troubled country. In Japan, a consumption tax of 8% was levied (up from 5%), which was largely anticipated. Japan has shown much improved business conditions since the start of an aggressive stimulus package launched by Prime Minister Shinzo Abe. In conjunction with the announcement of the sales tax, the prime minister also unveiled a ¥5 trillion stimulus plan.

The fourth quarter of 2013 began on a strong note as the credit markets were supported by substantial global liquidity, strengthening U.S. economic data and the excellent health of the issue base. Both stocks and bonds performed well, with the S&P 500 returning 10.5% for the quarter, and the BAML High Yield Index delivering 3.5% for the quarter. The high yield sector was one of the best performers in the fixed income market with a total return of 7.4% for 2013. The benchmark 10-year U.S. Treasury note closed fiscal year 2013 at roughly 2.52%. It got as high as 3.04% on December 31, 2013.

U.S. 10-Year Treasury Yield



Dow Jones Industrial Average



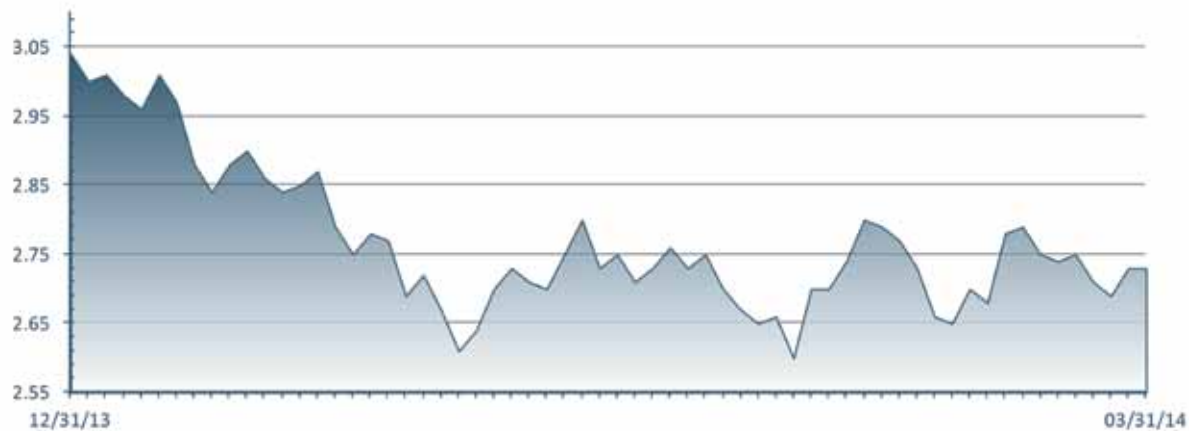
Slow and steady improvements in the labor market, along with the diminished downside posed by U.S. fiscal policy, gave the Fed confidence to announce a reduction in the asset purchase program beginning in January 2014. The Fed strengthened its forward guidance on short-term rates and reiterated that it remains “data dependent.” President Obama signed a bill in October to raise the debt ceiling and avert default. He subsequently signed a two-year bipartisan budget deal in late December, which shaves \$23 billion off the deficit and should minimize the risk of a government shutdown in the new year.

In Europe the deleveraging process continued to make strides and sovereign bond yields in the peripheral countries (Italy and Spain) reached multi-year lows. Low inflation data, tightening liquidity, and concerns about weak economic growth guided the ECB to cut its main refinancing rate by 25 bps to 0.25%. In China, the world’s second largest economy, growth did slow but still remained elevated relative to most other industrial countries. China is an important trading partner with the U.S. accounting for 14.5% of total trade of goods. Moreover, the U.S. exports roughly \$109 billion to China. Elsewhere around the globe, focus was on the economic slowdown in many of the emerging economies. GDP growth rates slowed from their previous robust levels, and inflationary pressures increased.

The first quarter of 2014 saw the U.S. economy’s growth trajectory slow. Outside the U.S., capital flows and a deterioration of investor confidence led to a devaluation of a number of emerging market currencies early in the quarter. Most of the volatility was relatively short lived. The exception was Ukraine and Russia, where political instability and the threat of war created uncomfortable tensions between the East and the West. The conflict remained unresolved by the end of the quarter.

Despite the tensions in the Ukraine, the financial markets discounted any further escalation. The S&P 500 Index rose 1.3% during the quarter, and high yield bonds climbed 3.0%. Short and intermediate U.S. Treasury securities did bounce off their lows in reaction to an exchange between new Fed Chairwoman Yellen and some reporters following her first Federal Open Market Committee meeting. A reporter asked if Ms. Yellen could define the “considerable period” between the end of the asset tapering and the first Fed Funds rate hike. Ms. Yellen responded “something on the order of six months, or that type of thing.” The Fed Chairwoman went on to clarify that conditions in the labor market and inflation gauges would factor into the decision. The markets interpreted her statements as a shift in forward guidance, with speculation that the first rate hike could occur as early as April 2015. As a result the stock markets fell and U.S. Treasury rates quickly moved higher. Later in the month, Ms. Yellen did soften her tone when she indicated that the central bank’s stimulus would likely be required for some time.

U.S. 10-Year Treasury Yield



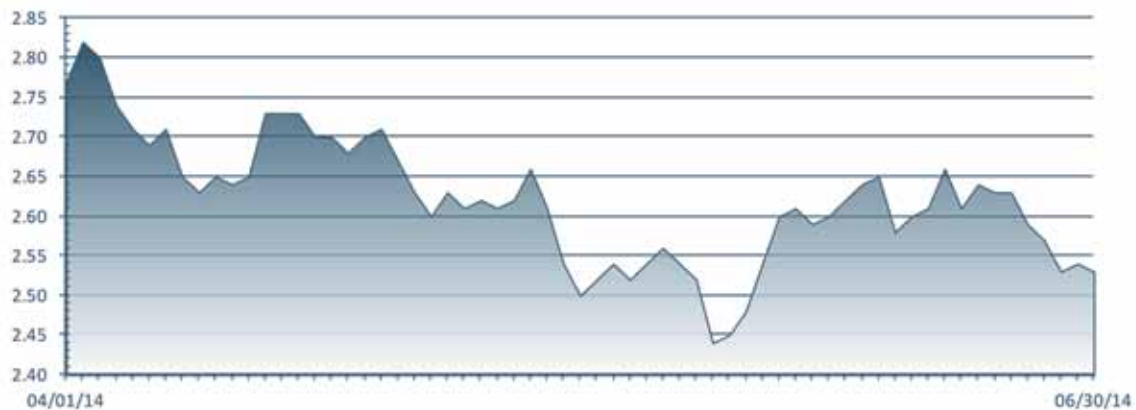
Dow Jones Industrial Average



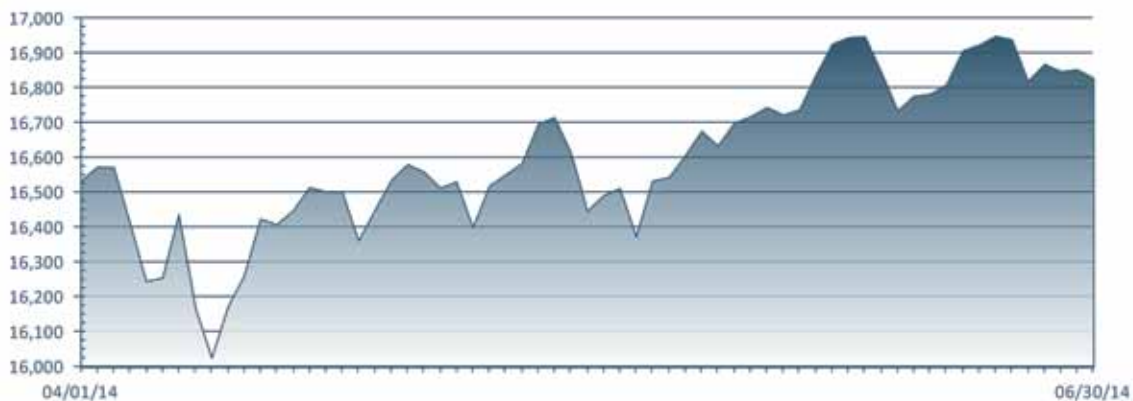
The second quarter of 2014 was just as unsettled in terms of geopolitics and economics which was good for the fixed income markets. Data releases suggested that the U.S. economy continued to recover from the extremely harsh winter. However, the markets seemed increasingly focused on the weak first quarter GDP figure, which was revised lower, sending economists scrambling to reduce their 2014 growth projections. Conversely, the U.S. job market did post solid gains, and inflation readings did rise towards the Federal Reserve's 2.00% target over the first half of the year as the Fed modestly pulled forward its timetable for raising short-term interest rates.

Despite the increase in the inflation readings, bonds rallied (lower interest rates.) The markets were concerned about a possible hard landing in China as well as the geopolitical events in the Middle East and Russia/Ukraine. Equities rallied and fixed income credit spreads compressed. The markets seemed to be able to either sail through or quickly recover from any disturbance. But will it continue going into fiscal year 2015? The bond markets seem to be repeating the 2004-2006 conundrum when long-term interest rates did not rise despite the Fed's 400 basis point rate hike cycle. Interest rates during that period remained range bound. Why are the bond markets repeating 2004-2006? The general hypothesis is simple: during economic recoveries the bond markets overreact to fears of Fed rate hikes. We saw it in 2004. We saw it again in the second half of 2013 as the bond markets responded to the Fed tapering its bond purchases. Long-term rates remained range bound.

U.S. 10-Year Treasury Yield



Dow Jones Industrial Average



As we began the 2015 fiscal year, the third quarter of 2014 presented some economic question marks surrounding the economic slowdown in China, the success or failure of Japan's Abenomics, and whether U.S. growth can continue accelerating.

Geopolitical events became a priority during the quarter, with western and middle-eastern countries coming to Iraq's aid with air strikes on Islamic State (IS). Hostilities continued in the Russia/Ukraine crisis as well amid rising sanctions from the West and signs of capital flight from Russia. Another important event was a management disjunction that cropped up at a major fixed income investment manager which caused a sudden increase in outflows from its funds and added to uncertainty in the fixed income markets.

As the quarter continued to progress it became apparent that growth in the Eurozone economies had stalled. Adding to the situation, inflation and inflation expectations fell further below target, which set off alarm bells at the European Central Bank (ECB). By the end of the quarter, the ECB had cut interest rates and was designing an asset backed and covered bond purchase program to ease credit conditions, boost growth, and help move inflation back up to target. The Eurozone bond markets decisively pushed down core European government bond yields. German bunds, which historically are near similar interest rate levels as U.S. treasuries, rallied to interest rate levels more comparable to Japanese government bonds.

Growth in the U.S. has bumped along at a pace of roughly 2%. The unemployment rate has continued to decline, bringing it to the upper range of the Fed's long-term normal range of 5-6%. The Fed has continued to taper their purchase program. At each meeting this year the Fed has modestly pulled forward their anticipated rate hike schedule.

Conclusion

I would like to thank each member of the Board of Trustees, the ultimate fiduciaries, for embracing the current investment structure that allowed the System to achieve strong results for our members and the Arkansas taxpayers. ASPRS 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 ASPRS 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 of the Arkansas Public Employees Retirement System (APERS) shall be:

1. to protect the Arkansas State Police Retirement System fund (the fund) so that its 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 - in a manner that is 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 four percent. 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 eight percent. 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 to loosen this restriction. 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 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%

The Board of Trustees of the Arkansas Public Employees Retirement System (the APERS Board) shall review its asset allocation at least annually to determine if the asset allocation is consistent with an acceptable level of risk and volatility.

Review of Investment Process

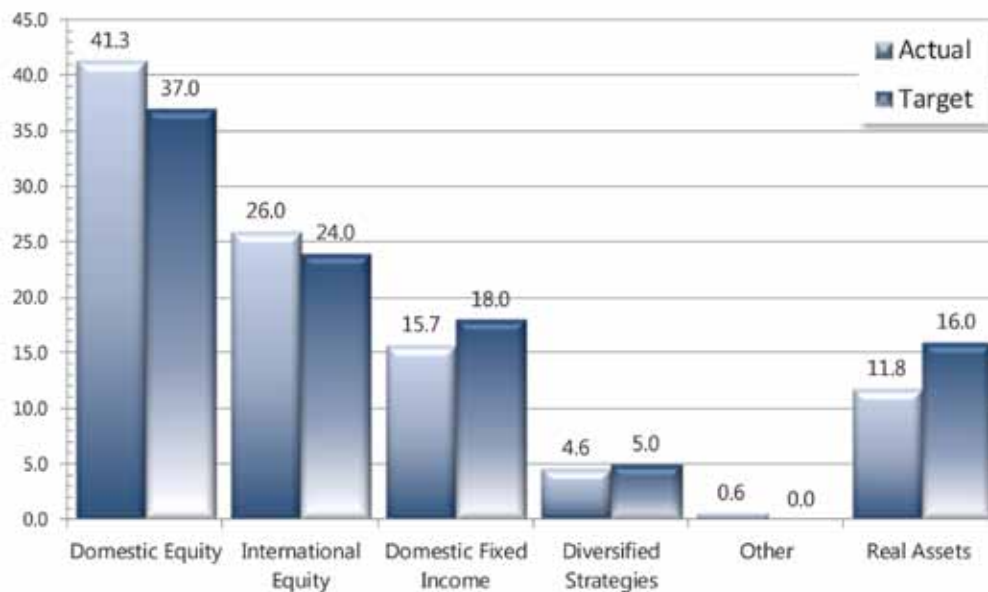
1. On a timely basis, at least twice a year, the APERS Board will review actual results achieved by each investment manager (with a perspective toward a three to five-year period or a peak-to-peak or trough-to-trough market cycle) to determine whether their performance
 - a. followed APERS' investment philosophy and policy guidelines,
 - b. achieved the investment objectives, and
 - c. compared satisfactorily with the performance of other similarly managed funds.
2. In addition to reviewing each investment manager's results, the APERS Board will periodically re-evaluate its progress in achieving its objectives for the total fund and its equity, fixed-income, and international equity segments.
3. The periodic re-evaluation will also consider the continuing appropriateness of
 - a. the manager structure,
 - b. the allocation of assets among the managers, and
 - c. the investment objectives for the fund's assets.
4. The APERS Board may appoint investment consultants to assist in the ongoing evaluation process. The consultants selected by the APERS 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.

INVESTMENTS

Asset Allocation

Actual versus Target Asset Allocation as of June 30, 2014

The previously approved Target Asset Allocation was implemented as of April 1, 2014. The current target and new target are as follows:

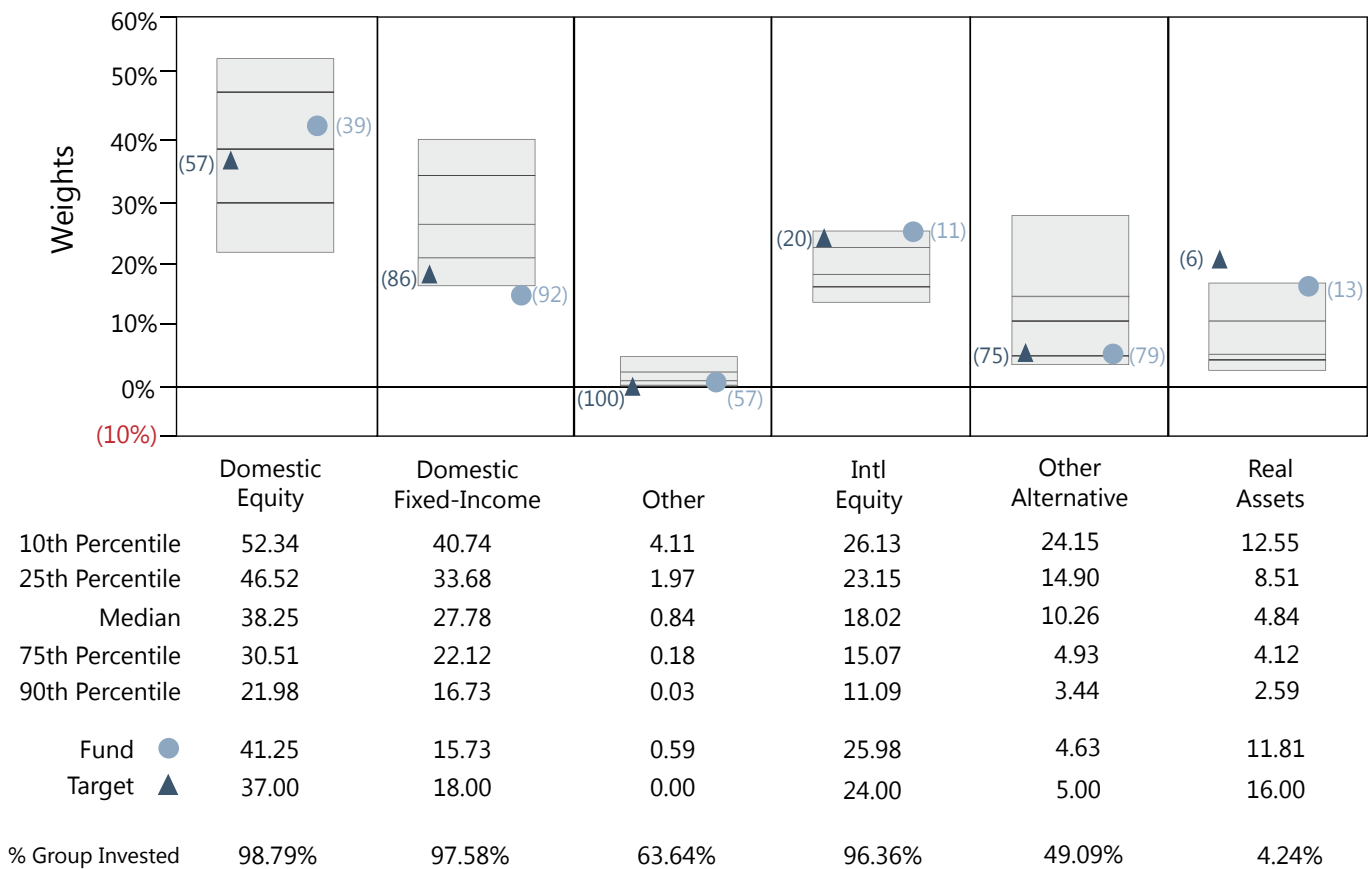


ASSET CLASS	\$000s Actual	ASPRS	APERS	Actual	Target	Difference	\$000s Difference
Domestic Equity	\$ 3,217,969	\$ 111,655	\$ 3,106,314	41.3%	37.0%	4.3%	\$ 331,861
International Equity	2,026,410	70,311	1,956,098	26.0	24.0	2.0	154,340
Fixed Income	1,227,355	42,586	1,184,768	15.7	18.0	(2.3)	(176,697)
Diversified Strategies	361,199	12,533	348,666	4.6	5.0	(0.4)	(28,815)
Other	46,282	1,606	44,676	0.6	0.0	0.6	46,282
Real Assets	921,076	31,959	889,116	11.8	16.0	(4.2)	(326,970)
TOTAL*	\$ 7,800,291	\$ 270,651	\$ 7,529,640	100.00%	100.0%		

* 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 allocations of public plans, percentages will not equal 100%.

Asset Class Weights vs Public Fund Sponsor Database

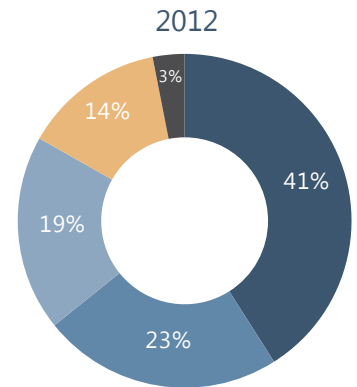
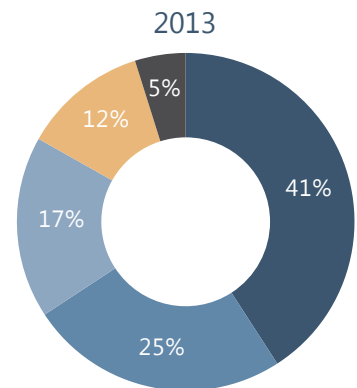
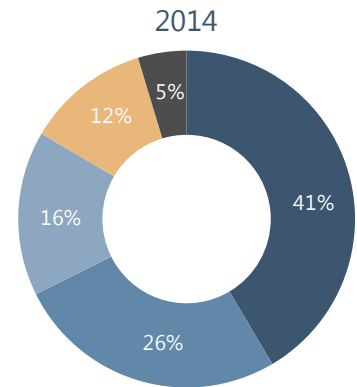


INVESTMENTS

Schedule of Manager Distribution As of June 30, 2014

Asset Allocation	Market Value (\$ Thousands)	Percent of Total	ASPRS
DOMESTIC EQUITY; 41.25%			
MCM S&P Index Fund	\$ 677,752,417	8.69%	\$ 23,516,308
CastleArk Management	398,464,064	5.11	13,825,703
Golden Capital Management	167,348,244	2.15	5,806,564
INTECH	348,432,598	4.47	12,089,737
Wellington Management Co.	304,644,376	3.91	10,570,395
Westwood Management	176,021,083	2.26	6,107,490
Lazard Asset Management	293,431,982	3.76	10,181,353
Lombardia Capital	172,104,428	2.21	5,971,592
SSI Investment Management	264,353,603	3.39	9,172,406
Horrell Capital Management	86,622,659	1.11	3,005,589
State Street Global Advisors	84,861,628	1.09	2,944,485
Stephens Inv. Mgmt. Group	243,932,037	3.13	8,463,829
	\$ 3,217,969,119	41.25%	\$ 111,655,451
INTERNATIONAL EQUITY; 25.98%			
Lazard Asset Management	\$ 412,667,283	5.29%	\$ 14,318,519
Artisan Partners	459,326,217	5.89	15,937,467
Baillie Gifford	372,752,876	4.78	12,933,589
Transition Account	4,495	0.00	156
Manning & Napier	380,663,285	4.88	13,208,061
Pyramis Global Advisors	400,995,959	5.14	13,913,553
	\$ 2,026,410,115	25.98%	\$ 70,311,345
FIXED INCOME; 15.73%			
MacKay Shields	\$ 818,307,381	11.53%	\$ 28,393,212
Prudential Investments	409,048,038	5.72	14,192,940
	\$ 1,227,355,419	15.73%	\$ 42,586,152
REAL ASSETS; 11.81%			
INVESCO Real Estate	\$ 293,258,205	3.76%	\$ 10,175,324
INVESCO GLOBAL REITS	153,219,722	1.96	5,316,340
TA Associates Realty	20,138,447	0.26	698,754
CastleArk Management - AR Energy Fund	85,013,944	1.09	2,949,770
CastleArk Management Global Energy Fund	179,702,249	2.30	6,235,217
Pinnacle Forest Investments	173,716,824	2.23	6,027,538
LaSalle Inc & Growth VI LP	16,026,940	0.21	556,095
	\$ 921,076,331	11.81%	\$ 31,959,037
DIVERSIFIED STRATEGIES; 4.63%			
AQR Capital	\$ 114,647,597	1.41%	\$ 3,977,984
Blackstone Alt. Asset Management	144,607,391	1.96	5,017,514
Newton Capital	101,944,265	1.42	3,537,210
	\$ 361,199,253	4.63%	\$ 12,532,707
SHORT-TERM INVESTMENT FUND*			
	\$ 46,281,684	0.59%	\$ 7,877,269
COMPOSITE FUND			
	\$ 7,800,291,921	100.00%	\$ 276,921,962

Manager Distribution Historical Comparison



- Domestic Equity
- International Equity
- Fixed Income
- Real Assets
- Diversified Strategies

* Includes National Timber Partners and UBS receivables.

Totals may not add due to rounding.

The ASPRS and APERS manager distribution - combined statement can be found on page 121.

Portfolio Characteristics

As of June 30, 2014

	2014	2013
SELECTED BOND CHARACTERISTICS		
Yield to Maturity (Market)	2.98%	3.66%
Current Yield	4.22%	4.22%
Average Coupon Rate	4.38%	4.53%
Average Maturity	7.61 yrs.	7.35 yrs.
QUALITY BREAKDOWN		
AAA (Includes Govts. & Agencies)	29.70%	23.60%
AA	2.00%	2.80%
A	14.30%	14.30%
BAA	32.10%	27.70%
BA	11.10%	12.10%
B	6.60%	7.50%
CCC Below & NR	1.70%	1.50%
Cash*	2.50%	10.50%
SELECTED STOCK CHARACTERISTICS		
Average P/E Ratio	19.88x	17.47x
Estimated Earnings Growth Rate (Next 5 Years)	12.91%	12.11%
Current Yield	1.65%	1.78%

* Includes short term investment fund.

Source: Callan Associates Inc.

INVESTMENTS

Schedule of Comparative Investment Results

As of June 30, 2014

Fiscal Years Ended 2010 through 2014

	2014	2013	2012	2011	2010
TOTAL FUND					
Arkansas Public Employees Retirement System	19.68%	15.58%	(0.17)%	26.00%	11.95%
Callan Total Public Fund Median	16.11	11.95	1.22	20.86	12.91
Inflation (Consumer Price Index)	2.04	1.75	1.58	4.06	1.36
EQUITIES					
Arkansas Public Employees Retirement System	24.48%	20.99%	2.30%	33.64%	15.69%
Callan Total Equity Database Median	25.29	22.83	0.46	34.22	16.87
Russell 3000 Index	25.22	21.46	3.84	32.37	15.72
INTERNATIONAL EQUITIES					
Arkansas Public Employees Retirement System	24.42%	20.88%	(12.75)%	33.62%	7.04%
Callan Total Non-U.S. Equities Database Median	22.88	18.67	(12.48)	31.71	8.99
MSCI-EAFE Index	23.57	18.62	(13.83)	30.36	5.92
FIXED INCOME					
Arkansas Public Employees Retirement System	7.03%	3.51%	8.07%	8.15%	15.19%
Callan Total Fixed Income Database Median	5.37	0.90	7.31	5.00	11.49
Barclays Capital Aggregate Index	4.37	(0.69)	7.47	3.90	9.50

Schedule of Comparative Investment Results

As of June 30, 2014

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

	2014	Annualized 3-Year	5-Year
TOTAL FUND			
Arkansas Public Employees Retirement System	19.68%	11.36%	14.26%
Callan Total Public Fund Median	16.11	9.70	12.54
Inflation (Consumer Price Index)	2.04	1.79	2.15
EQUITIES			
Arkansas Public Employees Retirement System	24.48%	15.50%	18.96%
Callan Total Equity Database Median	25.29	16.15	19.91
Russell 3000 Index	25.22	16.46	19.33
INTERNATIONAL EQUITIES			
Arkansas Public Employees Retirement System	24.43%	9.48%	13.42%
Callan Total Non-U.S. Equities Database Median	22.88	8.58	13.07
MSCI-EAFE Index	23.57	8.10	11.77
FIXED INCOME			
Arkansas Public Employees Retirement System	7.03%	6.19%	8.33%
Callan Total Fixed Income Database Median	5.37	4.63	6.22
Barclays Capital Aggregate Index	4.37	3.66	4.85

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

INVESTMENTS

Top Ten Largest Holdings *

As of June 30, 2014

DOMESTIC FIXED INCOME HOLDINGS	Par	Market Value	ASPRS
U.S. Treasury Note 0.75% 03/31/2018	23,990,000	\$ 23,570,175	\$ 817,826
U.S. Treasury Bond 2.875% 05/15/2043	25,475,000	23,277,781	807,681
U.S. Treasury Note 2.50% 05/15/2024	19,240,000	19,212,872	666,638
U.S. Treasury CPI Inflation 1.125% 01/15/2021	10,294,485	11,150,986	386,911
Countrywide Financial Corp. 6.25% 05/15/2016	9,455,000	10,317,485	357,991
U.S. Treasury Note 3.625% 08/15/2019	9,345,000	10,259,034	355,963
3-Month Euribor Variable Rate 01/25/2025	7,547,785	7,548,250	261,905
U.S. Treasury Note 2.50% 08/15/2023	7,295,000	7,338,332	254,622
Prudential Financial Inc. 7.375% 06/15/2019	5,400,000	6,687,360	232,035
3-Month Euribor Variable Rate 01/17/2015	6,299,918	6,300,306	218,605
TOTAL		\$ 125,662,581	\$ 4,360,176

DOMESTIC EQUITY HOLDINGS	Shares	Market Value	ASPRS
Apple Inc.	491,763	\$ 45,699,536	\$ 1,585,659
Union Pacific Corp.	304,624	30,386,244	1,054,326
Pfizer Inc.	799,817	23,738,569	823,669
Intel Corp.	644,770	19,923,393	691,292
Merck & Co. Inc.	333,240	19,277,934	668,896
Citigroup Inc.	402,375	18,951,863	657,582
Exxon Mobil Corp.	180,706	18,193,480	631,268
Advanced Auto Parts Inc.	132,436	17,868,265	619,984
Visa Inc.	84,325	17,768,121	616,509
Home Depot Inc.	213,941	17,320,663	600,984
TOTAL		\$ 229,128,068	\$ 7,950,169

INTERNATIONAL EQUITY HOLDINGS	Shares	Market Value	ASPRS
Tesco PLC	5,336,326	\$ 25,931,309	\$ 899,751
Novartis AG	267,936	24,261,683	841,820
Compass Group	1,331,562	23,154,764	803,412
Carlsberg	192,275	20,709,852	718,580
Baidu Inc.	104,138	19,454,020	675,006
Lloyds Banking Group PLC	14,935,523	18,961,597	657,920
Samsung Electronics Co. Ltd.	14,504	18,950,677	657,541
Kao Corp.	446,600	17,576,568	609,863
Reed Elsevier	1,078,686	17,337,278	601,560
TE Connectivity Ltd.	266,366	16,472,073	571,540
TOTAL		\$ 202,809,821	\$ 7,036,992

*by market value.

Totals may not add due to rounding.

The ASPRS and APERS ten largest holdings - combined statement can be found on page 122.

Schedule of Brokerage Commissions

As of June 30, 2014

BROKERAGE FIRM	Number of Shares Traded	Total Commission	Commission Per Share	ASPRS
Credit Suisse First Boston	5,304,197	\$ 153,123	\$ 0.03	\$ 5,313
Instinet Corp.	4,971,851	145,186	0.03	5,038
J.P. Morgan Securities Inc.	2,269,931	136,596	0.06	4,740
Jefferies & Co.	4,600,497	119,544	0.03	4,148
Deutsche Bank Securities Inc.	4,250,048	116,483	0.03	4,042
Citigroup Global Markets Inc.	3,038,415	115,035	0.04	3,991
UBS Securities LLC	3,561,051	113,432	0.03	3,936
Investment Technology Group	3,812,522	99,267	0.03	3,444
Goldman Sachs & Co.	4,097,421	95,194	0.02	3,303
Barclays Capital Inc.	2,657,793	89,693	0.03	3,112
William Blair & Co.	2,494,966	86,703	0.03	3,008
Liquidnet Inc.	3,068,486	85,328	0.03	2,961
Rosenblatt Securities Corp.	2,489,077	77,772	0.03	2,698
ISI Group Inc.	2,139,650	76,138	0.04	2,642
Merrill Lynch Pierce Fenner Smith Inc.	3,052,322	75,788	0.02	2,630
Simmons & Co. Int'l	1,788,532	66,079	0.04	2,293
Morgan Stanley & Co. Inc.	2,017,030	64,733	0.03	2,246
Bloomberg Tradebook LLC	1,768,550	63,962	0.04	2,219
Capital Institutional Services Inc.	2,244,595	59,454	0.03	2,063
Sanford C. Bernstein & Co.	2,381,039	52,984	0.02	1,838
Pickering Energy Partners, Inc.	1,339,325	52,101	0.04	1,808
Piper Jaffray & Co.	1,453,778	49,629	0.03	1,722
Robert W. Baird & Co. Inc.	1,173,553	43,748	0.04	1,518
Stifel Nicolaus & Co.	1,088,044	42,489	0.04	1,474
Scotia Capital (USA) Inc.	1,045,407	38,949	0.04	1,351
Others (including 95 brokerage firms)	22,573,573	688,363	0.03	23,884
	<u>90,681,653</u>	<u>\$ 2,807,771</u>	<u>\$ 0.03</u>	<u>\$ 97,423</u>

Totals may not add due to rounding.

The ASPRS and APERS brokerage commissions - combined statement can be found on page 123.

INVESTMENTS

Schedule of Investment Fees As of June 30, 2014

	Market Value	Fee	Basis Points	ASPRS Market Value	ASPRS Fee
EQUITIES					
SSI Investment Mgmt. - Convertible Securities	\$ 264,353,603	\$ 996,904	40	\$ 9,172,406	\$ 34,583
Lazard Asset Mgmt. - Value	293,431,982	826,371	30	10,181,353	28,667
Golden Capital Mgmt. - Growth	167,348,244	349,265	23	5,806,564	12,116
Westwood Mgmt. - SMID Cap	176,021,083	1,031,960	25	6,107,490	35,799
MCM S&P 500 Index Fund	677,752,417	142,604	4	23,516,308	4,947
INTECH - Growth	348,432,598	1,377,200	48	12,089,737	47,776
CastleArk Mgmt. - Growth	398,464,064	1,273,975	35	13,825,703	44,195
Wellington Mgmt. Co. - Value	304,644,376	861,257	30	10,570,395	29,878
Stephens Investment Mgmt. - Growth	243,932,037	1,690,043	77	8,463,829	58,628
State Street Global Advisors - 130/30	84,861,628	370,638	50	2,944,485	12,858
Lombardia Capital - Small Cap	172,104,428	1,122,265	70	5,971,592	38,932
Horrell Capital Mgmt.-AR Index Fund	86,622,659	210,520	27	3,005,589	7,303
Lazard Asset Mgmt. - Int'l Equity	412,667,283	1,229,998	65	14,318,519	42,669
Manning & Napier Advisors - Int'l Equity	380,663,285	1,862,457	50	13,208,061	64,610
Pyramis Global Advisors - Int'l Equity	400,995,959	1,121,102	20	13,913,553	38,890
Baillie Gifford - Int'l Equity	372,752,876	975,003	44	12,933,589	33,831
MCM EB ACWI ex-U.S. Index Fund ***	0	84,959	6	0	2,946
Artisan Partners - Int'l Equity	459,326,217	2,353,386	55	15,937,467	81,640
	<u>\$ 5,244,374,739</u>	<u>\$ 17,879,907</u>		<u>\$ 181,966,640</u>	<u>\$ 620,268</u>
DIVERSIFIED STRATEGIES					
AQR Capital	\$ 114,647,597	\$ 694,146	72	\$ 3,977,984	\$ 24,256
Blackstone Alternative Asset Mgmt.	144,607,391	1,396,449	100	5,017,514	48,363
Newton Capital	101,944,265	625,659	70	3,537,210	21,704
TOTAL DIVERSIFIED STRATEGIES	<u>\$ 361,199,253</u>	<u>\$ 2,716,254</u>		<u>\$ 12,532,707</u>	<u>\$ 94,324</u>
FIXED INCOME					
MacKay Shields - Core Plus I	\$ 401,080,796	\$ 770,103	20	\$ 13,916,497	\$ 26,715
MacKay Shields - Core Plus II	417,226,585	601,053	15	14,476,715	20,851
Prudential Investments - Core Plus	409,048,038	782,271	20	14,192,940	27,138
TOTAL FIXED INCOME	<u>\$ 1,227,355,419</u>	<u>\$ 2,153,427</u>		<u>\$ 42,586,152</u>	<u>\$ 74,704</u>
REAL ASSETS					
INVESCO Real Estate - Core & Global REITS	\$ 446,477,927	\$ 1,935,297	65	\$ 15,491,663	\$ 67,096
TA Associates Realty	20,138,447	319,919		698,754	11,095
LaSalle Inc & Growth VI LP	16,026,940	688,224		556,095	23,839
CastleArk Mgmt. - AR Energy Fund	85,013,944	942,408	125	2,949,770	32,693
CastleArk Mgmt. - Global Energy Fund	179,702,249	1,353,835	100	6,235,217	46,965
Pinnacle Forest Investments - Timberland	173,716,824	1,445,811	90	6,027,538	50,138
TOTAL ALTERNATIVES	<u>\$ 921,076,331</u>	<u>\$ 6,685,494</u>		<u>\$ 31,959,037</u>	<u>\$ 231,827</u>
OTHER INVESTMENT SERVICES					
		Fee			
Bank of New York Mellon (Custodian)		\$ 596,092			\$ 20,680
Callan Associates (Consultant)		247,470			8,575
TOTAL OTHER SERVICES		<u>843,562</u>			<u>29,255</u>
TOTAL INVESTMENT SERVICE FEES		<u>\$ 30,278,644</u>			<u>\$ 1,050,377</u>

*** Terminated Manager

The ASPRS and APERS investment fees - combined statement can be found on page 124.

LEADERSHIP

COURAGE

SERVICE

PROTECTION

HONOR

SECURITY



ACTUARIAL SECTION

Actuary's Certificate Letter

Summary of Actuarial Assumptions

Summary of Actuarial Methods

Single Life Retirement Values

Separations from Active Employment before Age and Service Retirement

Pay Increase Assumptions for Active Members

Probabilities of Retirement for Members Eligible to Retire

Active Members in Actuarial Valuation

Tier One and Tier Two Participants

Short Condition Test

Derivation of Experience Gain/(Loss)

Gains and Losses by Risk Area

Summary of Plan Provisions



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Actuary's Certificate Letter



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November 17, 2014

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

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, 2014. The purpose of the June 30, 2014 annual actuarial valuation was to determine the contribution requirements for the fiscal year ending June 30, 2015, to measure the System's funding progress, and to provide actuarial information in connection with Governmental Accounting Standards Board (GASB) Statement No. 27. The actuarial valuation report 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 thirty years. The most recent valuations were completed based upon population data, asset data, and plan provisions as of June 30, 2014. In addition, a separate report will be issued subsequent to the date of this letter to provide actuarial information for GASB Statement No. 67.

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 valuation report and GASB Statement No. 67 report contain the following supporting schedules for use in the Actuarial and Financial Sections of 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

The Board of Trustees
November 17, 2014
Page 2

Financial Section

- Schedule of Funding Progress
- Schedule of Changes in Net Pension Liability and Related Ratios
- Schedule of the Net Pension Liability
- Schedule of Contributions
- Notes to Schedule of Contributions

For actuarial valuation purposes, assets are valued on a market related basis that recognizes each year's difference between actual and assumed investment return over a closed four-year period.

Actuarial valuations are based upon assumptions regarding future activity in specific risk areas including the rates of investment return and payroll growth, eligibility for the various classes of benefits, and longevity among retired lives. 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 the Actuarial Standards of Practice. 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, 2014 valuations were based upon assumptions that were recommended in connection with a study of experience covering the period 2006-2012.

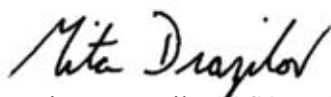
The computed employer contribution rate to satisfy the statutory funding requirements set forth in Section 24-6-209 of the Arkansas Code is 47.35% of covered payroll for the year beginning July 1, 2014. Actual revenues were greater than the statutory requirement for the last eight years. ASPRS' on-going 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 25 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.

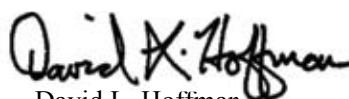
The signing actuaries are independent of the plan sponsor.

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:mdd

Gabriel Roeder Smith & Company

Summary of Actuarial Assumptions

ECONOMIC ASSUMPTIONS

The investment return rate used in making the valuation was 7.75% per year, compounded annually (net after administrative and investment expenses). The assumed real rate of return is the portion of investment return which is more than the wage inflation rate. Considering assumed wage inflation of 3.75%, the 7.75% investment return rate translates to an effective assumed real rate of return of 4.00%. The wage inflation assumption was revised for the June 30, 2014 valuation and the investment assumption was revised for the June 30, 2014 valuation.

Pay increase assumptions for individual active members are shown on page 93. Part of the assumption for each age is for a merit and/or seniority increase, and the other 3.75% recognizes wage inflation. The pay increase assumption for individual active members was revised for the June 30, 2014 valuation.

Total active member payroll is assumed to increase 3.75% a year, which is the portion of the individual pay increase assumptions recognizing wage inflation.

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

NON-ECONOMIC ASSUMPTIONS

The mortality tables used to measure retired life mortality were 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 92. 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 at the time of the study, 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 95. The assumption was revised for the June 30, 2013 valuation.

The probabilities of death-in-service, disability and withdrawal from service are shown for sample ages on page 93. 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 & 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 was 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, 2014
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level Percent-of-Payroll
Remaining Amortization Period	25-Year Closed
Asset Valuation Method	4-Year Smoothed Market
Actuarial Assumptions:	
Investment Rate of Return	7.75%
Projected Salary Increases	3.75% - 10.75%
Including Wage Inflation at	3.75%
Cost-of-Living Adjustments	3.0% Annual Compounded Increases

Retirees and Beneficiaries Receiving Benefits	607
Terminated plan members entitled to but not yet receiving benefits	69
DROP Members	59
Active Plan Members	471
TOTAL	1,206

Includes DROP participants.

Single Life Retirement Values

As of June 30, 2013

Sample Attained Ages	Present Value of \$1.00 Monthly for Life Increasing 3% Annually		Future Life Expectancy (Years)	
	Men	Women	Men	Women
50	\$ 189.86	\$199.70	31.13	34.64
55	174.68	186.08	26.58	29.98
60	157.43	170.13	22.23	25.44
65	138.40	152.20	18.14	21.14
70	117.68	132.83	14.35	17.16
75	96.25	112.51	10.95	13.56
80	75.15	91.71	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 As of June 30, 2014

Sample Ages	Percent of Active Members Separating Within the Next Year			
	Death		Disability	Other
	Men	Women		
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 As of June 30, 2014

Sample Ages	Percent Increase Assumptions For Active Members		
	Merit & Seniority	Base (Economic)	Increase Next Year
20	6.29%	3.75%	10.04%
25	5.39	3.75	9.14
30	4.01	3.75	7.76
35	2.29	3.75	6.04
40	1.50	3.75	5.25
45	1.10	3.75	4.85
50	0.80	3.75	4.55
55	0.60	3.75	4.35

Pay increase rates are age based only, and not service based.

Probabilities of Retirement for Members Eligible to Retire As of June 30, 2014

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 As of June 30, 2014

Comparative Statement

June 30	No.#	Group Averages		
		Age	Service	Pay
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
2014	530	41.6	13.9	53,866

Includes DROP participants.

Tier One and Tier Two Participants As of June 30, 2014

	No.	Group Averages		
		Age	Service	Pay
Tier One	103	48.7 yrs.	20.9 yrs.	\$ 65,474
Tier One - DROP	59	56.1	36.5	66,471
Tier Two	368	37.2	8.3	48,596
Total	530	41.6	13.9	\$ 53,866

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 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 valuation assets (cash and investments) are compared with:

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

In a System that has been following the discipline of level percent-of-payroll financing, active member contributions (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.

10-Year Comparative Statement, (\$ in Millions)

Entry Age Accrued Liability				Portion of Present Values Covered By Present Assets				
Valuation Date: June 30	(1) Active Member Contributions	(2) Retirees and Benefits	(3) Active Members (Employer Financed Portion)	Valuation Assets	(1)	(2)	(3)	Total
(\$ in Millions)								
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	227.80	133.13	233.15	100	100	4	65
2014	0.50	232.20	140.33	259.46	100	100	19	70
2014 @	0.50	237.17	144.19	259.46	100	100	15	68

After legislated changes in benefit provisions.

@ After changes in actuarial assumptions and/or methods.

Derivation of Experience Gain/(Loss)

As of June 30, 2014

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.

1.	UAAL* at Start of Year	\$ 128,306
2.	Normal Cost from Last Valuation	5,525
3.	Employer Contributions	19,502
4.	Interest Accrual: $(1) \times 0.08 + [(2) - (3)] \times 0.04$	9,705
5.	Expected UAAL Before Changes: $(1) + (2) - (3) + (4)$	124,036
6.	Change for Revised Actuarial Assumptions and/or Valuation Methods	8,820
7.	Change from Benefit Changes	0
8.	Expected UAAL After Changes: $(5) + (6) + (7)$	132,856
9.	Actual UAAL at End of Year	122,396
10.	Gain/loss: $(8) - (9)$	\$ 10,460
11.	Gain/loss as Percent of Actuarial Accrued Liabilities at Start of Year	2.9%

* Unfunded Actuarial Accrued Liability

Gains and Losses by Risk Area

During the Period July 1, 2013 to June 30, 2014

Type of Risk Area	Gain/Loss in Period	
	\$ Millions	Percent of Liabilities
ECONOMIC RISK AREAS		
Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	\$ (0.8)	(0.2)%
Investment Return. If there is greater recognized investment return than assumed, there is a gain. If less return, a loss	9.9	2.7
NON-ECONOMIC RISK AREAS		
Age & Service Retirements. 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.	(0.4)	(0.1)
Disability Retirements. If there are fewer disabilities than assumed, there is a gain. If more, a loss.	0.0	0.0
Death-in-Service Benefits. If there are fewer claims than assumed, there is a gain. If more, a loss.	0.0	0.0
Withdrawal. If more liabilities are released by other separations than assumed, there is a gain. If smaller releases, a loss.	0.2	0.1
Actuarial Gains/(Losses)	\$ 8.9	2.4%
Other. Gains and losses resulting from group size change, data adjustments, timing of financial transactions, and retiree mortality.	1.6	0.5
TOTAL GAIN (OR LOSS) DURING PERIOD	\$ 10.5	2.9%

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 One (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 Two (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.

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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

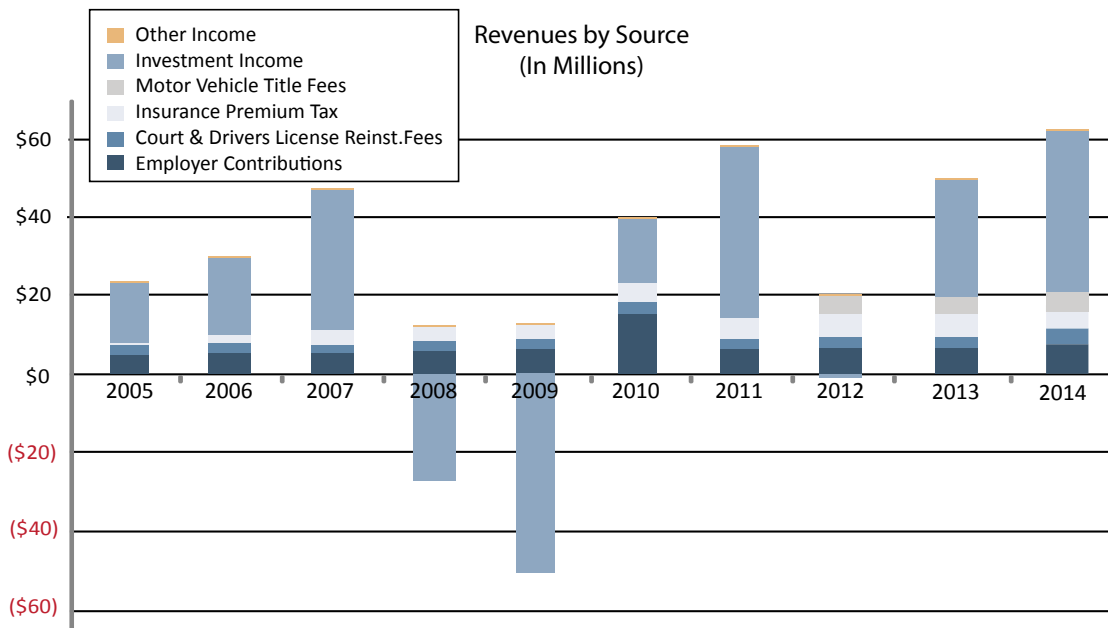
Statistical Graphs



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Schedule of Revenues by Source For the year ended June 30, 2014

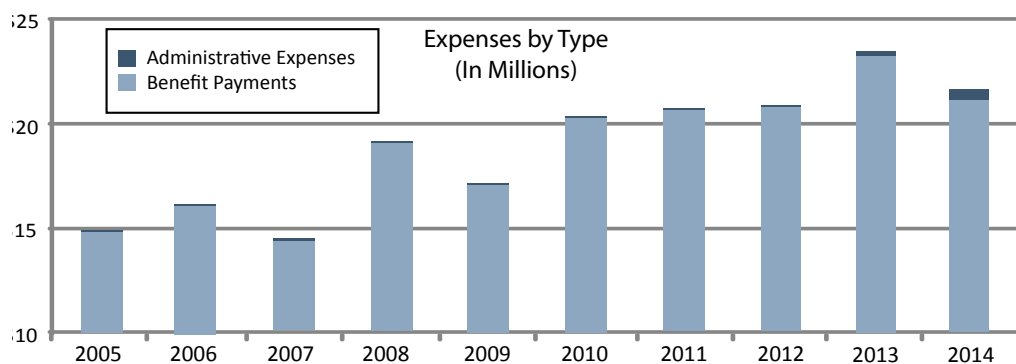
	Employer Contributions	Court & Driver's License Reinst. Fees	Insurance Premium Tax	Motor Vehicle Title Fees	Investment Income	Other Income	Total
2005	\$ 5,716,379	\$ 2,149,356	\$ 757,971	\$ 0	\$ 15,383,037	\$ 190,935	\$ 23,439,707
2006	7,349,063	2,299,058	2,031,014	0	19,651,079	95,817	29,395,017
2007	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
2014	\$ 6,405,887	\$ 2,657,952	\$ 5,957,541	\$ 4,442,806	\$ 43,307,745	\$ 37,499	\$ 62,809,430



Schedule of Expenses by Type For the year ended June 30, 2014

Year Ended June 30	Benefit Payments*	Administrative Expenses	Refunds	Total
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
2014	\$ 21,688,239	\$ 189,658	\$ 0	\$ 21,877,896

* Includes DROP and PAW distributions.

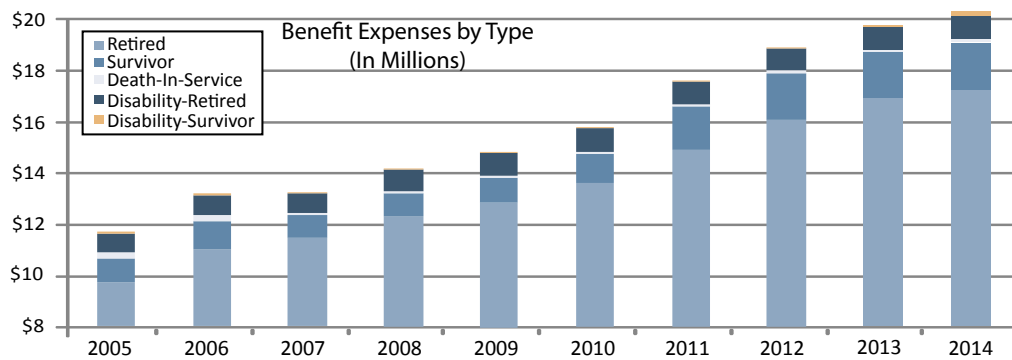


Schedule of Benefit Expenses by Type*

For the year ended June 30, 2014

Year Ended June 30	Age and Service		Death In Service	Disability	
	Retirees	Survivors		Retirees	Survivors
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
2014	17,368,858	2,034,215	74,640	988,140	13,524

* Expenses are based on annualized June 30 benefit amounts.



Schedule of Retired Members by Type of Benefit Paid As of June 30, 2014

Type of Benefit Being Paid	Number	Annual Pensions	Actuarial Accrued Liability
AGE & SERVICE RETIREES			
Life	90	\$ 2,994,756	\$ 28,124,120
B-50	321	14,036,449	167,271,112
B-75	14	337,653	4,183,502
TOTALS	425	17,368,858	199,578,734
BENEFICIARIES OF AGE & SERVICE RETIREES			
Life	10	162,954	1,728,435
B-50	91	1,847,621	17,657,689
B-75	2	23,640	325,978
TOTALS	103	2,034,215	19,712,102
TOTAL AGE & SERVICE RETIREES	528	19,403,073	219,290,836
DISABILITY RETIREES			
Life	17	285,312	3,217,772
B-50	22	699,012	7,992,512
B-75	1	3,816	66,330
TOTALS	40	988,140	11,276,614
Beneficiaries of Disability Retirees	2	13,524	164,214
TOTAL DISABILITY RETIREES & BENEFICIARIES	42	1,001,664	11,440,828
Death-in-Service Beneficiaries	5	74,640	747,004
QDRO Alternate Payees	32	462,263	5,693,700
TOTAL RETIREES & BENEFICIARIES	607	20,941,640	237,172,368
DROP PARTICIPANTS (EXCLUDING DROP RESERVE)	59	3,290,208	42,323,896
TOTAL RETIREES, BENEFICIARIES AND DROP PARTICIPANTS	666	\$ 24,231,848	\$ 279,496,264

Also included in the valuation were 69 inactive members eligible to receive vested deferred benefits, commencing at normal retirement age, totalling \$706,771 annually.

Schedule of Average Benefit Payments

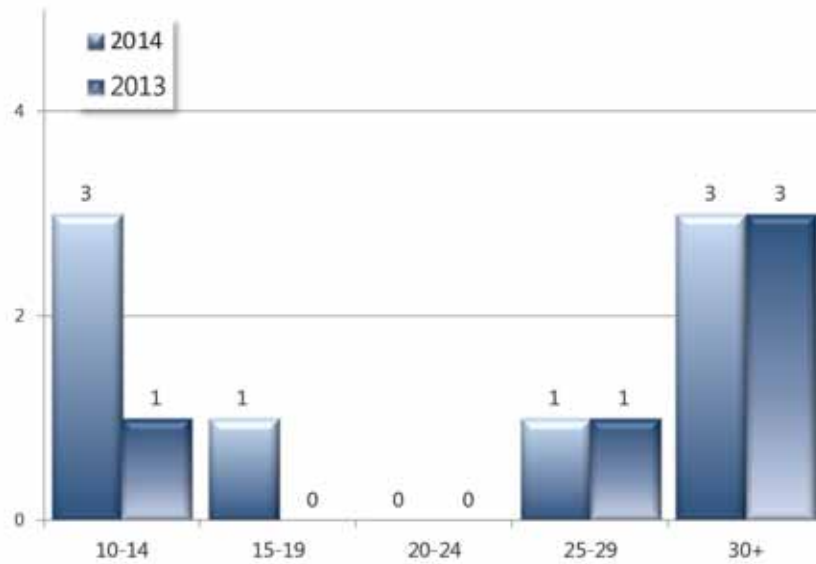
As of June 30, 2014

	Years of Credited Service				
	10-14	15-19	20-24	25-29	30+
Retirement Effective Dates					
July 1, 2013 to June 30, 2014					
Avg. Monthly Benefit	\$ 312.67	\$1,348.00		\$2,432.00	\$2,438.67
Avg. Monthly Final Average Salary	1,485.64	4,149.00		4,075.67	4,419.33
Number of Active Retirants	3	1		1	3
Retirement Effective Dates					
July 1, 2012 to June 30, 2013					
Avg. Monthly Benefit	1,089.00			1,423.17	3,491.00
Avg. Monthly Final Average Salary	6,276.26			2,765.84	5,222.72
Number of Active Retirants	1			1	3
Retirement Effective Dates					
July 1, 2011 to June 30, 2012					
Avg. Monthly Benefit	120.00			3,151.00	2,492.29
Avg. Monthly Final Average Salary	266.33			5,047.58	4,569.19
Number of Active Retirants	1			2	7
Retirement Effective Dates					
July 1, 2010 to June 30, 2011					
Avg. Monthly Benefit	771.50		2,938.00	2,139.00	2,792.38
Avg. Monthly Final Average Salary	3,126.46		4,908.00	3,241.25	4,678.95
Number of Active Retirants	2		1	1	8
Retirement Effective Dates					
July 1, 2009 to June 30, 2010					
Avg. Monthly Benefit	559.00	728.00	1,660.00		3,219.80
Avg. Monthly Final Average Salary	2,968.67	1,839.58	4,099.42		4,537.88
Number of Active Retirants	1	1	1		5

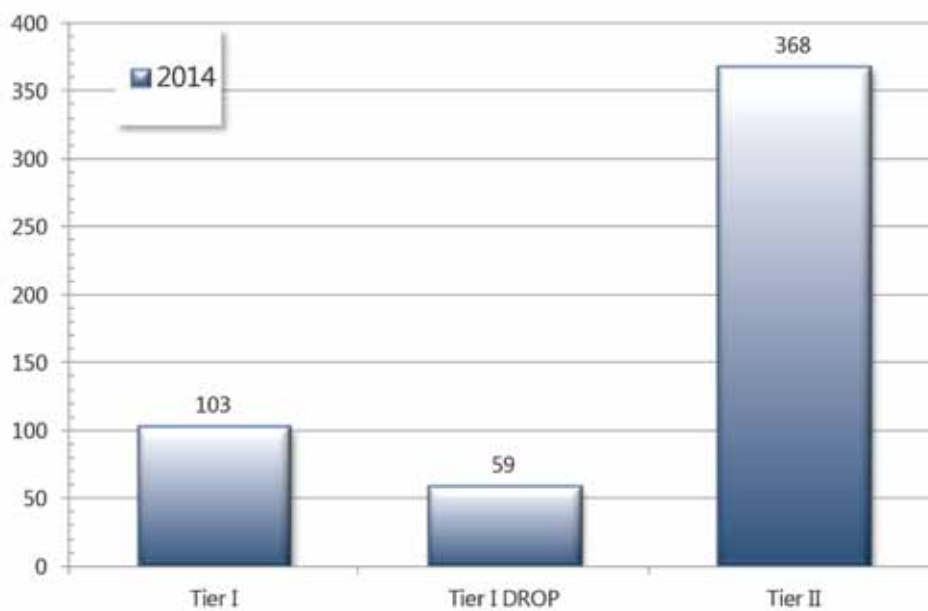
These figures reflect 2003 - 2008 data as originally presented in each year's respective annual report.
This data has changed since originally reported due to death, etc.

STATISTICAL GRAPHS

New Retirees by Years of Credited Service

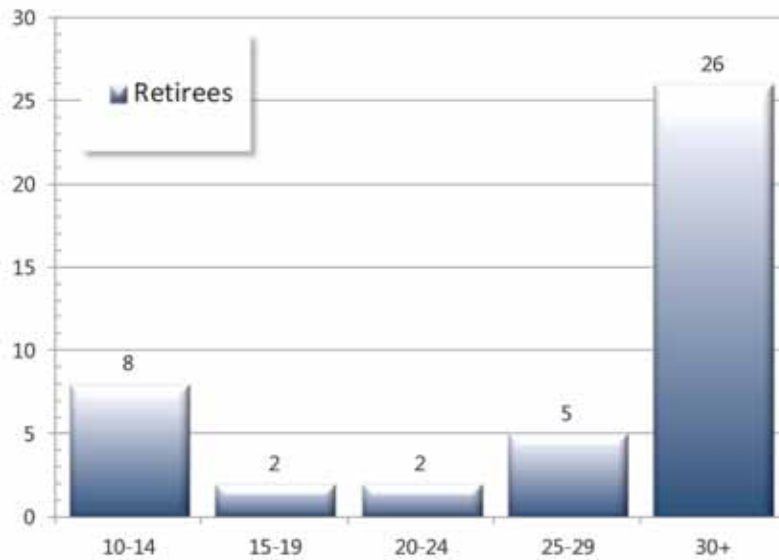


Total Number of Retirees by Tier

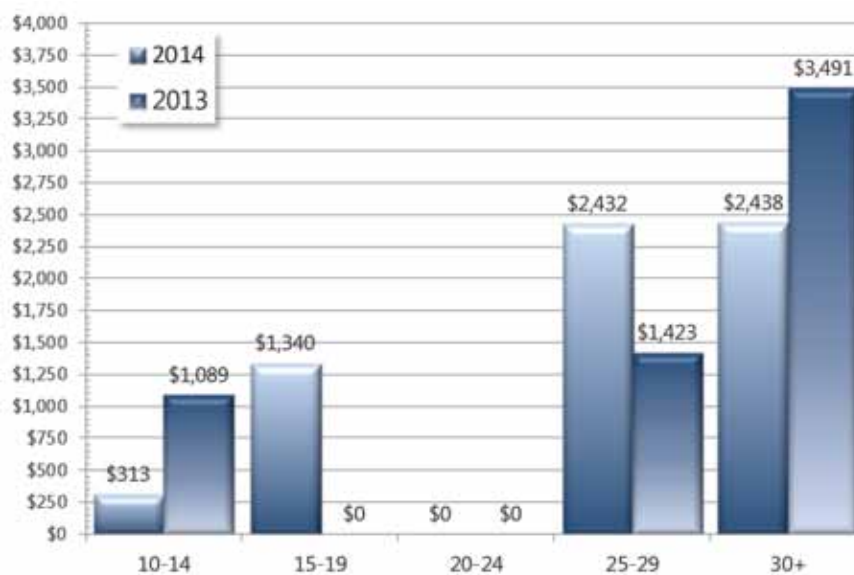


STATISTICAL GRAPHS

Retirees by Years of Credited Service
5 year summary



Average Monthly Benefit by Years of Credited Service



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APPENDIX SECTION

ASPRS & APERS - Statement of Plan Net Position

ASPRS & APERS - Statement of 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, 2014

	Combined	ASPRS	APERS
ASSETS			
Cash and Cash Equivalents	\$ 227,703,121	\$ 14,823,010	\$ 212,880,111
Receivables			
Contributions	4,136,658	25,578	4,111,080
Dec 2004 Actuarial Liability Receivable	9,612,705	0	9,612,705
Investment Principal Receivable	40,133,895	1,392,545	38,741,350
Accrued Investment Income Receivable	34,027,244	1,180,660	32,846,584
Other Receivables	0	0	0
Total Receivables	87,910,502	2,598,783	85,311,719
Investments, At Fair Value			
Government Securities			
U.S. Government Securities	131,368,755	4,558,166	126,810,589
Futures	301,202	10,451	290,751
Government Agency Securities	121,088,584	4,201,470	116,887,114
Corporate Securities			
Collateralized Obligations	170,644,784	5,920,946	164,723,838
Corporate Bonds	573,567,765	19,901,362	553,666,403
Convertible Bonds	219,140,920	7,603,640	211,537,280
Convertible Preferred Stock	42,909,086	1,488,838	41,420,248
Common Stock	2,612,950,029	90,662,787	2,522,287,242
Equity Index Funds	672,052,335	23,318,529	648,733,806
Equity Commingled	84,861,627	2,944,485	81,917,142
High Yield Income Fund	62,720,723	2,176,252	60,544,471
International Securities			
Global Fixed Income Fund	10,091,067	350,135	9,740,932
Corporate Fixed Income	50,960,543	1,768,203	49,192,340
Equity Securities	1,218,130,113	42,266,057	1,175,864,056
Equity Pooled Fund Units	750,668,802	26,046,323	724,622,479
Global Equity Index Funds	0	0	0
Global Collateralized Obligations	109,293	37,923	1,055,030
Emerging Markets	34,055,626	1,181,645	32,873,981
Emerging Markets Collateralized Obligations	204,421	7,093	197,328
Forward Contracts	(194,913)	(6,763)	(188,150)
Interest Rate Swaps	(19,514)	(677)	(18,837)
Real Estate	326,541,307	11,330,164	315,211,143
Diversified Strategies	259,254,988	8,995,497	250,259,491
Timberland	173,716,825	6,027,538	167,689,287
Municipal Bonds	8,726,907	302,802	8,424,105
Commercial Loans	22,396,313	777,096	21,619,217
Total Investments	7,547,231,248	261,869,962	7,285,361,286
Securities Lending Collateral Investments, At Fair Value			
Repurchase Agreements	181,645,216	6,302,633	175,342,583
Asset Backed Floating Rate Notes	180,667,686	6,268,715	174,398,971
Certificates of Deposit	35,101,302	1,217,927	33,883,375
Commercial Paper	52,184,899	1,810,685	50,374,214
Corporate Floating Rate Notes	498,566,929	17,299,021	481,267,908
Time Deposits	106,000,000	3,677,934	102,322,066
Fixed Rate Notes	24,600,000	853,558	23,746,442
Total Securities Lending Collateral Investments	1,078,766,032	37,430,473	1,041,335,559
Prepays and Other Assets	15,947	0	15,947
Fixed Assets, Net	5,959,437	0	5,959,437
TOTAL ASSETS	8,947,586,287	316,722,228	8,630,864,059
LIABILITIES			
Accrued Expenses and Other Liabilities	10,162,748	415,939	9,746,809
Investment Principal Payable	44,294,547	1,536,910	42,757,637
Other Post Employment Benefits	2,024,716	0	2,024,716
Securities Lending Liability	1,082,712,682	37,567,412	1,045,145,270
TOTAL LIABILITIES	1,139,194,693	39,520,261	1,099,674,432
NET POSITION RESTRICTED FOR PENSION BENEFITS	\$ 7,808,391,594	\$ 277,201,967	\$ 7,531,189,627

Totals may not add due to rounding. The ASPRS Statement of Plan Net Position can be found on page 24.

APPENDIX

ASPRS and APERS Combined Statement of Changes in Plan Net Position

For the year ended June 30, 2014

	Combined	ASPRS	APERS
ADDITIONS			
Contributions			
Employer	\$ 270,883,590	\$ 6,405,887	\$ 264,477,703
Plan Member	48,275,361	37,492	48,237,869
Supplemental	6,338,757	5,957,541	381,216
Court Fees	1,270,223	1,270,223	0
Driver's License Reinstatement Fees	1,387,728	1,387,728	0
Motor Vehicle Title Fees	4,442,806	4,442,806	0
Total Contributions	332,598,465	19,501,677	313,096,788
Investment Income			
Interest	52,916,956	1,834,294	51,082,662
Dividends	94,648,106	3,280,102	91,368,004
Investment Gain/(Loss)	1,129,256,468	39,063,785	1,090,192,683
Security Lending Income	3,804,168	131,750	3,672,418
Total Investment Income	1,280,625,697	44,309,931	1,236,315,766
Less: Investment Expense	28,887,458	1,002,186	27,885,272
Net Investment Income	1,251,738,239	43,307,745	1,208,430,494
Other Sources			
Miscellaneous Additions	717,308	7	717,301
Transfers from Other Public Employees Retirement Systems	5,433,053	0	5,433,053
Miscellaneous Transfers from State Agencies	255,251	0	255,251
Total Other Additions	6,405,612	7	6,405,605
TOTAL ADDITIONS	1,590,742,317	62,809,429	1,527,932,888
DEDUCTIONS			
Benefits	436,236,884	21,688,239	414,548,645
Refunds of Contributions	9,455,348	0	9,455,348
Administrative Expenses	7,399,427	189,658	7,209,769
TOTAL DEDUCTIONS	453,091,658	21,877,897	431,213,761
NET INCREASE (DECREASE)	1,137,650,659	40,931,532	1,096,719,127
NET POSITION RESTRICTED FOR PENSION BENEFITS			
Beginning of Year	6,670,740,935	236,270,435	6,434,470,500
End of Year	<u>\$ 7,808,391,594</u>	<u>\$ 277,201,967</u>	<u>\$ 7,531,189,627</u>

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 25.

ASPRS and APERS Manager Distribution - Combined Statement

As of June 30, 2014

Asset Allocation	Market Value (\$ Thousands)	Percent of Total	ASPRS	APERS
DOMESTIC EQUITY (\$3,217,969,119; 41.25%)				
MCM S&P Index Fund	\$ 677,752,417	8.69%	\$ 23,516,308	\$ 654,236,109
CastleArk Management	398,464,064	5.11	13,825,703	384,638,361
Golden Capital Mgmt.	167,348,244	2.15	5,806,564	161,541,680
INTECH	348,432,598	4.47	12,089,737	336,342,861
Wellington Mgmt. Co.	304,644,376	3.91	10,570,395	294,073,981
Westwood Mgmt.	176,021,083	2.26	6,107,490	169,913,593
Lazard Asset Mgmt.	293,431,982	3.76	10,181,353	283,250,629
Lombardia Capital	172,104,428	2.21	5,971,592	166,132,836
SSI Investment Mgmt.	264,353,603	3.39	9,172,406	255,181,197
Horrell Capital Mgmt.	86,622,659	1.11	3,005,589	83,617,070
State Street Global Advisors	84,861,628	1.09	2,944,485	81,917,143
Stephens Inv. Mgmt. Group	243,932,037	3.13	8,463,829	235,468,208
INTERNATIONAL EQUITY (\$2,026,410,115; 25.98%)				
Lazard Asset Mgmt.	412,667,283	5.29	14,318,519	398,348,764
Artisan Partners	459,326,217	5.89	15,937,467	443,388,750
Baillie Gifford	372,752,876	4.78	12,933,589	359,819,287
Transition Account	4,495	0.00	156	4,339
Manning & Napier	380,663,285	4.88	13,208,061	367,455,224
Pyramis Global Advisors	400,995,959	5.14	13,913,553	387,082,406
FIXED INCOME (\$1,227,355,419; 15.73%)				
MacKay Shields	818,307,381	11.53	28,393,212	789,914,169
Prudential Investments	409,048,038	5.72	14,192,940	394,855,098
REAL ASSETS (\$921,076,331; 11.81%)				
INVESCO Real Estate	293,258,205	3.76	10,175,324	283,082,881
INVESCO GLOBAL REITS	153,219,722	1.96	5,316,340	147,903,382
TA Associates Realty	20,138,447	0.26	698,754	19,439,693
CastleArk Mgmt. - AR Energy Fund	85,013,944	1.09	2,949,770	82,064,174
CastleArk Mgmt. Global Energy Fund	179,702,249	2.30	6,235,217	173,467,032
Pinnacle Forest Investments	173,716,824	2.23	6,027,538	167,689,286
LaSalle Inc & Growth VI LP	16,026,940	0.21	556,095	15,470,845
DIVERSIFIED STRATEGIES (\$361,199,253; 4.63%)				
AQR Capital	114,647,597	1.41	3,977,984	110,669,613
Blackstone Alternative Asset Mgmt.	144,607,391	1.96	5,017,514	139,589,877
Newton Capital	101,944,265	1.42	3,537,210	98,407,055
SHORT-TERM INVESTMENT FUND*	46,281,684	0.59	7,877,269	38,404,414
COMPOSITE FUND	<u>\$7,800,291,921</u>	<u>100.00%</u>	<u>\$ 276,921,962</u>	<u>\$ 7,523,369,958</u>

* Includes National Timber Partners and UBS receivables.

Totals may not add due to rounding.

The ASPRS schedule of manager distribution can be found on page 78.

ASPRS and APERS Ten Largest Holdings* - Combined Statement As of June 30, 2014

DOMESTIC FIXED INCOME HOLDINGS	Par	Market Value	ASPRS	APERS
U.S. Treasury Note 0.75% 03/31/2018	23,990,000	\$ 23,570,175	\$ 817,826	\$ 22,752,349
U.S. Treasury Bond 2.875% 05/15/2043	25,475,000	23,277,781	807,681	22,470,100
U.S. Treasury Note 2.50% 05/15/2024	19,240,000	19,212,872	666,638	18,546,234
U.S. Treasury CPI Inflation 1.125% 01/15/2021	10,294,485	11,150,986	386,911	10,764,075
Countrywide Financial Corp. 6.25% 05/15/2016	9,455,000	10,317,485	357,991	9,959,494
U.S. Treasury Note 3.625% 08/15/2019	9,345,000	10,259,034	355,963	9,903,071
3-Month Euribor Variable Rate 01/25/2025	7,547,785	7,548,250	261,905	7,286,345
U.S. Treasury Note 2.50% 08/15/2023	7,295,000	7,338,332	254,622	7,083,710
Prudential Financial Inc. 7.375% 06/15/2019	5,400,000	6,687,360	232,035	6,455,325
3-Month Euribor Variable Rate 01/17/2015	6,299,918	6,300,306	218,605	6,081,701
TOTAL		\$ 125,662,581	\$ 4,360,176	\$ 121,302,405

DOMESTIC EQUITY HOLDINGS	Shares	Market Value	ASPRS	APERS
Apple Inc.	491,763	\$ 45,699,536	\$ 1,585,659	\$ 44,113,877
Union Pacific Corp.	304,624	30,386,244	1,054,326	29,331,918
Pfizer Inc.	799,817	23,738,569	823,669	22,914,900
Intel Corp.	644,770	19,923,393	691,292	19,232,101
Merck & Co. Inc.	333,240	19,277,934	668,896	18,609,038
Citigroup Inc.	402,375	18,951,863	657,582	18,294,281
Exxon Mobil Corp.	180,706	18,193,480	631,268	17,562,212
Advanced Auto Parts Inc.	132,436	17,868,265	619,984	17,248,281
Visa Inc.	84,325	17,768,121	616,509	17,151,612
Home Depot Inc.	213,941	17,320,663	600,984	16,719,679
TOTAL		\$ 229,128,068	\$ 7,950,169	\$ 221,177,899

INTERNATIONAL EQUITY HOLDINGS	Shares	Market Value	ASPRS	APERS
Tesco PLC	5,336,326	\$ 25,931,309	\$ 899,751	\$ 25,031,558
Novartis AG	267,936	24,261,683	841,820	23,419,863
Compass Group	1,331,562	23,154,764	803,412	22,351,352
Carlsberg	192,275	20,709,852	718,580	19,991,272
Baidu Inc.	104,138	19,454,020	675,006	18,779,014
Lloyds Banking Group PLC	14,935,523	18,961,597	657,920	18,303,677
Samsung Electronics Co. Ltd.	14,504	18,950,677	657,541	18,293,136
Kao Corp.	446,600	17,576,568	609,863	16,966,705
Reed Elsevier	1,078,686	17,337,278	601,560	16,735,718
TE Connectivity Ltd.	266,366	16,472,073	571,540	15,900,533
TOTAL		\$ 202,809,821	\$ 7,036,992	\$ 195,772,829

* By market value.

Totals may not add due to rounding.

The ASPRS top ten largest holdings schedule can be found on page 82.

ASPRS and APERS Brokerage Commissions - Combined Statement

As of June 30, 2014

BROKERAGE FIRM	Number of Shares Traded	Total Commission	Commission Per Share	ASPRS Commission	APERS Commission
Credit Suisse First Boston	5,304,197	\$ 153,123	\$ 0.03	\$ 5,313	\$ 147,810
Instinet Corp.	4,971,851	145,186	0.03	5,038	140,148
J.P. Morgan Securities Inc.	2,269,931	136,596	0.06	4,740	131,856
Jefferies & Co.	4,600,497	119,544	0.03	4,148	115,396
Deutsche Bank Securities Inc.	4,250,048	116,483	0.03	4,042	112,442
Citigroup Global Markets Inc.	3,038,415	115,035	0.04	3,991	111,044
UBS Securities LLC	3,561,051	113,432	0.03	3,936	109,497
Investment Technology Group	3,812,522	99,267	0.03	3,444	95,822
Goldman Sachs & Co.	4,097,421	95,194	0.02	3,303	91,891
Barclays Capital Inc.	2,657,793	89,693	0.03	3,112	86,580
William Blair & Co.	2,494,966	86,703	0.03	3,008	83,694
Liquidnet Inc.	3,068,486	85,328	0.03	2,961	82,368
Rosenblatt Securities Corp.	2,489,077	77,772	0.03	2,698	75,073
ISI Group Inc.	2,139,650	76,138	0.04	2,642	73,496
Merrill Lynch Pierce Fenner Smith Inc.	3,052,322	75,788	0.02	2,630	73,159
Simmons & Co. Int'l	1,788,532	66,079	0.04	2,293	63,786
Morgan Stanley & Co. Inc.	2,017,030	64,733	0.03	2,246	62,487
Bloomberg Tradebook LLC	1,768,550	63,962	0.04	2,219	61,743
Capital Institutional Services Inc.	2,244,595	59,454	0.03	2,063	57,391
Sanford C. Bernstein & Co.	2,381,039	52,984	0.02	1,838	51,146
Pickering Energy Partners, Inc.	1,339,325	52,101	0.04	1,808	50,293
Piper Jaffray & Co.	1,453,778	49,629	0.03	1,722	47,907
Robert W. Baird & Co. Inc.	1,173,553	43,748	0.04	1,518	42,230
Stifel Nicolaus & Co.	1,088,044	42,489	0.04	1,474	41,014
Scotia Capital (USA) Inc.	1,045,407	38,949	0.04	1,351	37,597
Others (including 95 brokerage firms)	22,573,573	688,363	0.03	23,884	664,478
TOTAL	90,681,653	\$ 2,807,771	\$ 0.03	\$ 97,423	\$ 2,710,348

Totals may not add due to rounding.

The ASPRS schedule of brokerage commissions can be found on page 83.

APPENDIX

ASPRS and APERS Investment Fees - Combined Statement As of June 30, 2014

	Market Value	Fee	Basis Points	ASPRS Market Value	ASPRS Fee	APERS Market Value	APERS Fee
EQUITIES							
SSI Investment Mgmt. - Convertible Securities \$	264,353,603	\$ 996,904	40	\$ 9,172,406	\$ 34,583	\$ 255,181,197	\$ 962,321
Lazard Asset Mgmt. - Value	293,431,982	826,371	30	10,181,353	28,667	283,250,629	797,704
Golden Capital Mgmt. - Growth	167,348,244	349,265	23	5,806,564	12,116	161,541,680	337,148
Westwood Mgmt. - SMID Cap	176,021,083	1,031,960	25	6,107,490	35,799	169,913,593	996,161
MCM S&P 500 Index Fund	677,752,417	142,604	4	23,516,308	4,947	654,236,109	137,657
INTECH - Growth	348,432,598	1,377,200	48	12,089,737	47,776	336,342,861	1,329,425
CastleArk Mgmt. - Growth	398,464,064	1,273,975	35	13,825,703	44,195	384,638,361	1,229,781
Wellington Mgmt. Co. - Value	304,644,376	861,257	30	10,570,395	29,878	294,073,981	831,379
Stephens Investment Mgmt. - Growth	243,932,037	1,690,043	77	8,463,829	58,628	235,468,208	1,631,415
State Street Global Advisors - 130/30	84,861,628	370,638	50	2,944,485	12,858	81,917,143	357,780
Lombardia Capital - Small Cap	172,104,428	1,122,265	70	5,971,592	38,932	166,132,836	1,083,333
Horrell Capital Mgmt.-AR Index Fund	86,622,659	210,520	27	3,005,589	7,303	83,617,070	203,217
Lazard Asset Mgmt. - Int'l Equity	412,667,283	1,229,998	65	14,318,519	42,669	398,348,764	1,187,329
Manning & Napier Advisors - Int'l Equity	380,663,285	1,862,457	50	13,208,061	64,610	367,455,224	1,797,847
Pyramis Global Advisors - Int'l Equity	400,995,959	1,121,102	20	13,913,553	38,890	387,082,406	1,082,211
Baillie Gifford - Int'l Equity	372,752,876	975,003	44	12,933,589	33,831	359,819,287	941,173
MCM EB ACWI ex-U.S. Index Fund ***	0	84,959	6	0	2,946	0	82,013
Artisan Partners - Int'l Equity	459,326,217	2,353,386	55	15,937,467	81,640	443,388,750	2,271,746
	<u>\$ 5,244,374,739</u>	<u>\$ 17,879,907</u>		<u>\$ 181,966,640</u>	<u>\$ 620,268</u>	<u>\$ 5,062,408,099</u>	<u>\$ 17,259,640</u>
DIVERSIFIED STRATEGIES							
AQR Capital	\$ 114,647,597	\$ 694,146	72	\$ 3,977,984	\$ 24,256	\$ 110,669,613	\$ 669,890
Blackstone Alternative Asset Mgmt.	144,607,391	1,396,449	100	5,017,514	48,363	139,589,877	1,348,086
Newton Capital	101,944,265	625,659	70	3,537,210	21,704	98,407,055	603,954
TOTAL DIVERSIFIED STRATEGIES	<u>\$ 361,199,253</u>	<u>\$ 2,716,254</u>		<u>\$ 12,532,707</u>	<u>\$ 94,324</u>	<u>\$ 348,666,546</u>	<u>\$ 2,621,930</u>
FIXED INCOME							
MacKay Shields - Core Plus I	\$ 401,080,796	\$ 770,103	20	\$ 13,916,497	\$ 26,715	\$ 387,164,299	\$ 743,388
MacKay Shields - Core Plus II	417,226,585	601,053	15	14,476,715	20,851	402,749,870	580,202
Prudential Investments - Core Plus	409,048,038	782,271	20	14,192,940	27,138	394,855,098	755,134
TOTAL FIXED INCOME	<u>\$ 1,227,355,419</u>	<u>\$ 2,153,427</u>		<u>\$ 42,586,152</u>	<u>\$ 74,704</u>	<u>\$ 1,184,769,267</u>	<u>\$ 2,078,724</u>
REAL ASSETS							
INVESCO Real Estate - Core & Global REITS	\$ 446,477,927	\$ 1,935,297	65	\$ 15,491,663	\$ 67,096	\$ 430,986,264	\$ 1,868,200
TA Associates Realty	20,138,447	319,919		698,754	11,095	19,439,693	308,824
LaSalle Inc & Growth VI LP	16,026,940	688,224		556,095	23,839	15,470,845	664,385
CastleArk Mgmt. - AR Energy Fund	85,013,944	942,408	125	2,949,770	32,693	82,064,174	909,715
CastleArk Mgmt. - Global Energy Fund	179,702,249	1,353,835	100	6,235,217	46,965	173,467,032	1,306,870
Pinnacle Forest Investments - Timberland	173,716,824	1,445,811	90	6,027,538	50,138	167,689,286	1,395,674
TOTAL ALTERNATIVES	<u>\$ 921,076,331</u>	<u>\$ 6,685,494</u>		<u>\$ 31,959,037</u>	<u>\$ 231,827</u>	<u>\$ 889,117,294</u>	<u>\$ 6,453,667</u>
OTHER INVESTMENT SERVICES							
Bank of New York Mellon (Custodian)		\$ 596,092			\$ 20,680		\$ 575,412
Callan Associates (Consultant)		247,470			8,575		238,895
TOTAL OTHER SERVICES		<u>843,562</u>			<u>29,255</u>		<u>814,307</u>
TOTAL INVESTMENT SERVICE FEES		<u>\$ 30,278,644</u>			<u>\$ 1,050,377</u>		<u>\$ 29,228,269</u>

*** Terminated Manager

Totals may not add due to rounding.

The ASPRS schedule of investment fees can be found on page 84.

ARKANSAS STATE POLICE RETIREMENT SYSTEM

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